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THE WEEKLY UPDATE ON REAL ESTATE FINANCE AND SECURITIZATION **ALERT**

NOVEMBER 7, 2008

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THE GRAPEVINE

High-profile CMBS executive **Jeffrey Fastov** was among the casualties in a round of layoffs this week at **Goldman Sachs**. Fastov, a managing director, was head of the real estate lending group. He was co-head of the group with **Leo Huang** until Huang left in May. Fastov has served on the board of governors of the **Commercial Mortgage Securities Association**. Goldman cut its staff firmwide by 10%.

Robert Durand joined **KBS Realty** this week as vice president of financing and mortgage originations. He is responsible for developing lending relationships and negotiating and closing financings for the Newport Beach, Calif., lender. He will also be involved in sourcing, structuring, underwriting and closing first mortgages and mezzanine loan for two REITs operated by KBS. Durand was formerly a vice president in the CMBS group at **J.P. Morgan** and ran the bank's origination operation based in

See **GRAPEVINE** on Back Page

Lehman, Credit Suisse Top Writedown Tally

Lehman Brothers and **Credit Suisse** took the largest commercial real estate writedowns over the past year, according to a review by **Commercial Mortgage Alert**.

Lehman had \$4.8 billion of global net writedowns, followed by J.P. Morgan at \$2.6 billion (see table on Page 12).

Five other lenders had totals exceeding \$1 billion: **Bear Stearns** (\$2.2 billion), **Wachovia** (\$2.17 billion), **Deutsche Bank** (\$2 billion), **Citigroup** (\$1.6 billion) and **Merrill Lynch** (\$1.1 billion).

All told, a dozen major lenders took \$19.4 billion of net writedowns in the 12 months ending Sept. 30. That was equal to 9% of the 12 lenders' total \$215 billion net exposure to commercial real estate at the end of last year. Not included in that group is **J.P. Morgan**, which disclosed only combined commercial and residential writedowns.

Over the past year, 13 major lenders (including J.P. Morgan) reduced their net

See **WRITEDOWN** on Page 12

Green Park Eyes Stake in DUS Lender Column

Green Park Financial has tentatively agreed to buy a stake in **Credit Suisse's** agency-lending division, called **Column Guaranteed**.

The deal would align two of the 27 lenders that have licenses under **Fannie Mae's** "Delegated Underwriting and Servicing" program. Fannie's DUS lenders are pre-approved to originate multi-family loans for sale to the agency.

Industry consolidation is starting to reshape the DUS market. **Wells Fargo's** pending acquisition of **Wachovia** will merge two other players with DUS licenses. And so will **PNC's** acquisition of **National City**, which owns DUS lender **Red Mortgage Capital**.

Credit Suisse started looking for a partner for Column Guaranteed last year, according to market players. The talks with Green Park became serious recently. The size of the stake and price being discussed are unclear, but one market player said Green Park may end up with a controlling interest in Column Guaranteed. Credit

See **STAKE** on Page 9

JCR Lines Up Backer, Plans to Set Up Funds

JCR Capital, the finance firm led by commercial mortgage veteran **Jay Rollins**, is rolling out a high-yield debt and equity platform to serve property owners starved for capital by the credit crunch.

JCR expects to deploy up to \$500 million over the next few years via three commingled funds that will either originate bridge and mezzanine loans or make equity and preferred-equity investments. The funds will focus on property owners that need to refinance debt or raise equity to complete projects already under way, with an emphasis on distressed or opportunistic plays.

The lead investor in the funds will be **JAM Equity Partners**, which recently bought a 40% stake in Denver-based JCR. JAM is helmed by **Sy Jacobs**, founder of **Jacobs Asset Management**, a money management firm in New York with \$314 million of assets under management.

JCR will also seek to raise additional equity from outside investors. Rollins said

See **JCR** on Page 8



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Vornado Scuttles Project, Loan

A \$360 million syndicated loan that **Bank of Ireland** and **Bank of America** lined up for a **Vornado Realty** partnership went by the wayside last week when the group decided to pull the plug on the construction of a mixed-use tower in Boston.

The Vornado team apparently grew concerned because much of the planned 1.5 million-square-foot development, at One Franklin Street, had not been pre-leased. The \$700 million project would have encompassed 540,000 sf of office space, 297,000 sf of retail space, 225,000 sf of hotel space, 136 residential condominium units and a five-level underground garage with at least 300 spaces.

A couple weeks ago, the project appeared to be on track after changes were made to the financing package. The Vornado team initially sought a \$546 million loan, but there was not enough support from lenders for the full amount. The loan was then downsized over time by \$186 million, with the Vornado team agreeing to put up more equity to make up the difference. The 4-year loan was supposed to close Nov. 15. But then the Vornado group reversed itself.

The project site is an 89,000-sf parcel of land, covering an entire city block that's bordered by Franklin, Washington, Summer and Hawley Streets in Boston. It has been cleared over the last few months, leaving only the historic facades of a former Filene's Basement store and another retail building.

Filene's previously leased 121,000 sf of space there for its flagship store, and it plans to return when some project at the site is eventually completed. For now, the 127-year-old clothing chain has moved to Boston's Back Bay district.

The Vornado partnership is now thinking about building a low-level retail structure that would represent a big step back from its original project. But those plans are still in "the extremely early stages" and a more definitive proposal isn't expected for at least a year, one person familiar with the situation said. The Vornado group is discussing the possible change in plans with the city, which had fast-tracked numerous approvals for the original project.

A lender uninvolved in the project was unsurprised to hear that it was being shelved in the face of a weakening economy. "A lot of guys on the development side are re-evaluating their projects," he said "Having a hole in the ground is not necessarily the end of the world. In an environment like this, it can make sense to just hold on to the land and extend any loans you've got."

The Vornado partnership will pay Bank of Ireland and BofA an undisclosed amount for its work on the loan. But the other members of the loan syndicate — **Helaba Bank**, **HBOS** and **Capital One** — will go away empty-handed. Bank of Ireland and BofA took the assignment in April on a best-efforts basis, meaning they didn't have to follow through unless they rounded up enough commitments from other banks to raise the full amount of the loan, which would have been pegged to 275 bp over Libor. The deal's collapse is a disappointment for Bank of Ireland, which is trying to raise its profile after breaking into

the U.S. commercial real estate market only last year.

The lenders will presumably have the inside track when the Vornado team seeks financing for its scaled-back project. In addition to New York-based Vornado, the partnership also consists of **J.P. Morgan Investment**, developer **Gale International** of New York and **Mack-Cali Realty** of Edison, N.J. ❖

Centerline Layoffs Hit Senior Execs

Senior executives caught in this week's big round of layoffs at **Centerline Capital** included commercial-mortgage originators **Timothy Hallock** and **Yuri Kletsman**, along with B-piece underwriter **Don Vincent**.

Bill Hurt, a junior loan-closing specialist, was also among the roughly 100 staffers that Centerline let go on Monday. The New York lender and B-piece buyer is cutting expenses because it's struggling to pay off debt amid a sluggish commercial real estate market and a tight credit environment.

Although some senior executives received pink slips, most of those laid off were junior staffers. At this point, few administrative assistants and low-level staffers can be found on Centerline's roster of about 400 remaining employees, sources said.

The staffing cuts affected most of Centerline's business groups, such as affordable housing, agency lending, credit risk, special servicing and corporate debt. The firm also decided two weeks ago to suspend plans for moving its Manhattan headquarters from 625 Madison Avenue to 1095 Sixth Avenue.

Hallock and senior vice president **Gary Romaniello** were hired in April to expand Centerline's agency-lending division. At the time, the firm also laid off 37 mid-level and junior employees and reassigned a number of commercial MBS staffers to work on agency loans. But now both Hallock and Romaniello are gone. Romaniello left Centerline a few months ago to join the commercial real estate lending operation at **CIBC World Markets**.

Kletsman was a vice president in the agency-lending division.

The latest layoffs at Centerline didn't touch the 14-member team headed by **Mark Brown**, **Nomura's** former CMBS chief. He and the others came over from Nomura in June, when the bank sold Centerline its equity stakes in two real estate CDOs, which the team continues to manage. Brown's unit is also involved in a joint venture with **ZAIS Group**, of Red Bank, N.J., to buy high-yield CMBS and other debt securities.

The latest layoffs were tied to Centerline's struggles to pay off the balance of a term loan due to mature next month. The company promised its lenders last week that it would make a payment of about \$18.8 million by Nov. 21, but is negotiating to extend payments on the remaining \$50 million.

The deferment prompted Moody's to downgrade Centerline's unsecured debt rating to "B2" (from "B1"). That was only two weeks after the agency lowered the rating a notch (from "Ba3"), citing concerns about Centerline's ability to make its loan payments. ❖



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CMBS Spreads Start Widening Again

Commercial MBS spreads began widening again this week, signaling an end to the stabilization in bond values that was seen in the latter half of October.

Spreads on benchmark super-senior securities averaged 570-620 bp over swaps since Monday, up from last week's range of 520-560 bp. Average spreads haven't been that high since Oct. 15, when they peaked at 620 bp.

The values of super-senior bonds from the bellwether GG-10 deal have been hit particularly hard. Some of those securities were making the rounds this week in the secondary market at 650 bp, up from 500-525 bp a month ago. **Goldman Sachs** and **RBS Greenwich** floated the \$7.6 billion GG-10 deal in June 2007.

This week's drop in bond values renews a trend that rocked the market for about a month in late September and early October, following **Lehman Brothers'** bankruptcy filing and a number of other events that sent the financial markets into a tailspin. Like then, many CMBS investors appeared to be sticking to the sidelines this week.

"It's the same old story," one dealer said "There's more sellers than buyers and there is too much paper out there."

Another dealer attributed the latest swelling in spreads to "bad news about the economy that is coming out on a daily basis and taking a toll."

For example, government data released this week showed that the number of people receiving unemployment benefits has surged to its highest level since 1983. Those rolls are likely to grow in the near future, since Goldman just started laying off 3,200 staffers. **Citigroup** also moved forward with a previously announced plan to cut 9,100 employees, and **Hartford Financial** announced it's eliminating 500 jobs.

Meanwhile, staffing cuts on CMBS trading desks have been so severe this year that broker-deal-

ers will likely find it difficult to rebuild once the economy finally improves, seasoned insiders said. Still, many shops are bracing for more layoffs by yearend.

Trading volume picked up a bit in synthetic CMBX market this week. That's largely because many investors were using credit-default swaps to make bearish bets on the weakening commercial real estate market and the overall economy. On Thursday the triple-A tranche of the Series 5 index, the most-recent version, stood at 260 bp, up from 210.0 bp a week before. ❖

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Insurers Cite CMBS Value Declines

The market downturn is taking a toll on the commercial MBS portfolios of insurance companies.

Hartford Financial reported last week that the market value of its \$15.1 billion portfolio of CMBS and commercial real estate CDOs had declined by 18.4%, to \$12.3 billion, as of Sept. 30. That resulted in \$2.8 billion of unrealized losses, up from \$1.9 billion at June 30.

Meanwhile, **Prudential Financial** reported that unrealized losses on its \$8 billion CMBS portfolio had climbed to \$584 million on Sept. 30, from \$317 million three months earlier. The vast majority of Pru's portfolio — 94% — consists of triple-A securities.

Hartford Financial's portfolio is made up of \$9.8 billion of CMBS originally rated double-A or higher, \$1.9 billion of CMBS rated single-A or lower, \$1.8 billion of real estate CDOs and \$1.5 billion of interest-only strips. The double-A and higher bonds have declined in value by 12.6%, the single-A and lower bonds by 28.1%, the CDOs by 51% and the IO

strips by 3.4%.

The insurer "stresses" its portfolio to project the likelihood of losses under certain circumstances. In the third quarter, Hartford Financial increased its loss assumptions under a "severe recession scenario."

"For CMBS we are now using assumptions for defaults and severities that are approaching the worst commercial real estate environment recorded in the U.S. since 1980," chief executive **Ramani Ayer** said in a call to analysts discussing the firm's third-quarter earnings. That resulted in the recording of \$354 million of "impairments" on the CMBS and CDO portfolio in the quarter. It's unclear if those impairments translated to direct losses.

Despite the decline in market value of its holdings, the insurance company expressed confidence that a liquidity squeeze, rather than a drop in credit quality, was the main culprit. "We expect no loss of principal or interest on [CMBS] assets using our severe-recession-scenario test, and we have the ability and intent to hold these securities until they recover," said Ayer.

Ayer said that selling CMBS in the near term would not make sense. "It's not economically prudent or feasible to sell severely depressed assets at the height of market fear," he said. "Over time we will make prudent portfolio decisions that effectively optimize investment performance, capital and earning stability."

In his own call to analysts, Prudential chief executive **John Strangfeld** described his firm's CMBS portfolio as "well diversified by property type and by location" and expressed confidence in its long-term prospects. "Suffice to say, the quality of this portfolio is extremely high . . . with favorable loan-to-value and debt-service-coverage ratios, as well as high subordination," he said.

Accounting for CMBS values is a challenge for insurers in the current climate. "Since CMBS is so under water, it is hard to know how much of this is due to illiquidity in the market, and how much is due to a decline in fundamentals," an analyst said. "But gauging the decline in fundamentals is a moving target for insurers because of the growing economic problems."

Insurers have leeway in determining if a decline in value is prolonged or temporary. The general rule is that assets must be marketed to fair value if a decline is an "other than temporary impairment."

"But there are no specific guidelines to determine when an 'other than temporary impairment' should be recognized, and firms use different rules of thumb and management discretion to make these judgments," CMBS analyst **Darrell Wheeler** of **Citigroup** wrote in a September research piece. Some common rules of thumb include a 25% drop in market value for over nine months and a 20% decline for over six months. ❖

Hartford Financial's CMBS

	3rd Qtr. Impairment (\$Mil.)	Fair Value Cost 9/30/08 (\$Mil.)	Unrealized Loss 9/30/08 (\$Mil.)
Rated double-A or higher	\$0	\$9,817	-\$1,235
Rated single-A or lower	70	1,949	-549
CRE CDOs	225	1,834	-937
Interest-only strips	59	1,453	-50
TOTAL	354	15,053	-2,771

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Loan Sought on Mich. Portfolio

A developer is seeking a mortgage of up to \$70 million on an office portfolio in Michigan.

JFK Investments would use most of the proceeds to retire a \$60 million mortgage that matures in February. **Allstate** originated that 5-year loan, pegged to Libor plus 90 bp, which had an original balance of \$72 million.

The 1.3-million-square-foot portfolio encompasses 14 Class-A and -B buildings. Detroit-based JFK is seeking a fixed-rate loan, with a 5-year term, that would equal about 60% of the portfolio's value.

Marcus & Millichap is shopping the assignment to banks and insurers. JFK could favor lenders with which it has a relationship, including **Bank of America**.

The properties are spread across Michigan, but none are in Detroit. That could benefit JFK, because Detroit has been especially hard hit by the economic downturn, and lenders are wary of the market. ❖

JCR ... From Page 1

he expects to raise \$500 million in total for the funds, which won't use leverage. The goal is to generate returns ranging from 10% for loans on stabilized properties to 25% for equity investments.

Rollins thinks JCR will have an advantage in competing for investments because traditional lenders are likely to face heightened regulation. "We believe we are entering an unprecedented age of financial regulation that ultimately produces two types of entities providing real estate capital: those who are highly regulated by the federal government, and those who are not," he said.

The fund platform will have a national scope, but will likely be focused on the Western region. It will create three vehicles, which will:

- Originate loans on stabilized properties with good cash-flow. Return goal: 10-11%.
- Originate high-yield debt on nonstabilized properties. Return goal: 13-17%.
- Provide equity and preferred equity for distressed and "special situation" assets and land. Return goal: 18-25%.

JCR has two principals in addition to Rollins: **Maren Steinberg** and **Guy Johnson**. Rollins and Steinberg are both former executives of **GMAC Commercial Mortgage**. Rollins worked there from 1999 to 2005, rising to the position of managing director. He ran the structured-products group, which funded more than \$1.5 billion of loans during that period. Rollins previously ran **Eastern Realty**, which bought more than \$400 million of assets from **Resolution Trust Corp.** in the early 1990s. Steinberg was vice president of operations at the GMAC unit. He worked with Rollins there and at Eastern Realty.

Johnson, meanwhile, is a principal of **Johnson Capital**, a mortgage bank based in Irvine, Calif. Johnson teamed up with Rollins in 2006 to launch JCR. ❖

Stake ... From Page 1

Suisse and Green Park, which is based in Bethesda, Md., declined to comment.

By aligning with Column Guaranteed, Green Park presumably would gain access to two other insured programs: **Freddie Mac's** Program Plus and the **FHA's** insured program. Unlike Green Park, Column Guaranteed is a member of both.

Green Park has been a more-active originator of DUS loans than Column Guaranteed. Green Park originated \$1.2 billion in 2007, versus \$466 million for Column Guaranteed, according to the **Mortgage Bankers Association**. The two firms have comparable servicing portfolios, each totaling roughly \$4.6 billion at midyear, according to the trade group.

Several firms expressed interest in investing in Column Guaranteed, according to one source familiar with the matter. Some bidders were attracted by the chance of gaining a DUS license. But Green Park and other DUS lenders were more piqued by Column Guaranteed's servicing portfolio.

"Clearly there's people that wanted it just for the servicing," one source said. "But [Credit Suisse is] not just selling the servicing. They're looking for a strategic alternative."

One executive familiar with the discussions said Credit Suisse is interested in selling a stake in Column Guaranteed because it has never become a leading DUS lender. The alignment with Green Park would presumably result in a consolidation that would provide economies of scale.

"It makes all the sense in the world" for another DUS lender to buy control of Column Guaranteed, the executive said. "You get some servicing, you get some production," he said. "Strategically, it makes sense on both sides."

Several people said they expect that Column's chief executive, **Kieran Quinn**, would remain if a deal is completed. Quinn, a prominent mortgage banker, also heads Column Financial, Credit Suisse's conduit operation. He did not return calls seeking comment.

The buzz is that **Beekman**

Advisors is serving as an advisor in the talks, although it's unclear whether the firm is representing Credit Suisse or Green Park, whose parent is mortgage bank **Walker & Dunlop**, also of Bethesda. Beekman, which is headed by veteran mortgage executive **Shekar Narasimhan**, advised another DUS lender, **Berkshire Mortgage**, on its 2004 sale to **Deutsche Bank**.

Credit Suisse entered the DUS universe in 2003, when it bought an 80% stake in a unit of **Standard Mortgage** of New Orleans. That gave the firm access to the Fannie, Freddie and FHA loan programs. Credit Suisse already originated apartment mortgages through its Column Financial unit, but the

See **STAKE** on Page 12

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Distressed Puerto Rico Loans for Sale

Banco Popular is offering \$43.2 million of distressed mortgages on commercial properties in Puerto Rico.

The bank's advisor, **Garnet Capital** of Harrison, N.Y., has divided the 56-loan portfolio into five pools, based on property type. About a third of the loans, by balance, are backed by retail properties. Other pools include loans on gas stations (18%), warehouse and manufacturing space (18%) and hotels (13%). The remaining pool contains 11 loans on resort, office and assisted-living properties.

The portfolio has a 7.62% weighted average interest rate and a weighted average loan-to-value ratio of 94%. Most of the loans were originated between 2003 and 2006. At least one payment was made on about 25% of the loans in the past six months.

The bidders are expected to include investors with interests in Puerto Rico, as well as hedge funds partnered with local players. The bidding deadline is Dec. 9. Investors can make offers on individual pools or the whole portfolio.

Banco Popular, the largest bank in Puerto Rico, is likely to offer other loans for sale in the coming months. The bank has suffered from the credit crunch, posting a \$541 million net loss in the first nine months of the year. Last month it announced a major pullback in the U.S. ❖

BofA, US Bank Back Kansas Project

Bank of America and **U.S. Bank** are co-leading a \$107.4 million syndicated construction loan for a lifestyle center near Kansas City.

An **Invesco Real Estate** partnership is building the 1.1 million-square-foot property, called Corbin Park, on a 96-acre site in Overland Park, Kan.

BofA and U.S. Bank each committed to fund \$28.2 million. The balance was divided among **Compass Bank, Regions Financial** and **Tier One Bank**.

The interest-only loan, pegged to Libor plus 275 bp, has a 3-year term, with two 1-year extension options. The loan-to-value ratio is 68%. **Holiday Fenoglio Fowler** arranged the loan.

Invesco is teaming up on the project with **Cormac Co.**, a development firm based in Omaha, Neb. Invesco is kicking in about \$38 million of equity.

Corbin Park broke ground last summer. Several anchor tenants have opened already stores, including Von Maur (142,000 sf) and Life Time Fitness (111,000 sf). Other tenants include Barnes & Noble, JC Penney, Sports Authority and several restaurants. Construction is expected to be finished by early 2010. ❖

CMBS, Fannie Mae, Freddie Mac and FHA/HUD Insurance Consulting

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Commercial Real Estate Writedowns by Major Lenders

	Commercial Real Estate Net Exposure (\$Bil.)				Change 12/07-9/08		Net Writedowns (\$Mil.)				TOTAL
	12/07	3/08	6/08	9/08	(\$Bil.)	(%)	4Q-07	1Q-08	2Q-08	3Q-08	
Lehman Brothers	\$38.9	\$36.1	\$29.4	\$24.0	-\$14.9	-38.3	\$900.0	\$1,000.0	\$1,300.0	\$1,600.0	\$4,800.0
Credit Suisse	22.9	19.5	14.7	11.4	-11.5	-50.0	340.0	850.0	470.0	900.0	2,560.0
Bear Stearns	15.2	15.0	15.0	13.4	-1.8	-11.6	450.0	150.0	0.0	1,600.0	2,200.0
Wachovia	7.6	3.0	0.8	0.6	-6.9	-91.4	1,088.0	521.0	209.0	347.0	2,165.0
Deutsche Bank	25.1	24.2	19.1	13.2	-11.9	-47.4	564.0	697.0	487.0	230.0	1,978.0
Citigroup	23.8	22.3	19.1	16.9	-6.9	-29.0	NR	573.0	545.0	518.0	1,636.0
Merrill Lynch	18.0	18.0	14.9	12.8	-5.2	-28.8	230.0	NR	37.0	854.0	1,121.0
Bank of America	15.8	11.9	9.2	8.2	-7.6	-48.2	134.0	191.0	263.0	182.0	770.0
Goldman Sachs	19.0	19.4	16.6	14.6	-4.4	-23.2	NR	0.0	375.0	325.0	700.0
Morgan Stanley	17.5	11.6	6.4	7.7	-9.8	-56.0	400.0	0.0	200.0	100.0	700.0
UBS	7.8	6.3	8.2	6.4	-1.4	-17.7	116.0	443.0	0.0	0.0	559.0
RBS	3.6	NR	2.9	NR	-0.6	-18.0	NR	NR	187.0	NR	187.0
J.P. Morgan	15.5	13.5	11.6	9.3	-6.2	-40.0	NR	NR	NR	NR	NR
TOTAL	230.6	200.8	167.9	138.6	-89.0	-38.6	4,222.0	4,425.0	4,073.0	6,656.0	19,376.0

Notes: NR means not reported. Bear's figures are estimated by Commercial Mortgage Alert. Credit Suisse and J.P. Morgan's exposure figures are on a gross basis. J.P. Morgan's writedowns aren't shown because the bank reported only combined writedowns for commercial and residential real estate. Lehman's writedown in 4Q-07 is actually for full-year 2007. Wachovia's 4Q-07 writedown includes \$488 billion taken in 3Q-07. Wachovia's exposure figures are for its trading account for CMBS and commercial mortgages. Royal Bank of Scotland reports figures semi-annually.

Writedown ... From Page 1

commercial real estate exposure by 39% via a combination of writedowns, asset sales and the runoff due to maturities. That curbed their exposure by \$89 billion, to \$138.6 billion from \$230.6 billion. The biggest reductions were made by Lehman (\$14.9 billion), Deutsche (\$11.9 billion), **Credit Suisse** (\$11.5 billion) and **Morgan Stanley** (\$9.8 billion).

The review was based on financial statements, company presentations to analysts and other sources. It tracked global holdings of both commercial mortgages and commercial MBS for the 13 big lenders.

While the figures are believed to present a broadly accurate view of industry writedowns and exposure, it's important to note that the data presented for individual lenders are subject to some inconsistencies. The companies didn't report commercial real estate data uniformly, and in some cases specific breakdowns for commercial real estate weren't provided. Totals for net writedowns and net exposure were sought, but occasionally only gross numbers were available. For Bear, Commercial Mortgage Alert estimated numbers based in part on information released by the **Federal Reserve**, which assumed \$30 billion of Bear assets in conjunction with J.P. Morgan's takeover of the investment bank.

Most lenders started taking writedowns on commercial real estate in last year's fourth quarter. Before that, figures on exposure and writedowns generally weren't reported. However, four lenders disclosed material reductions in exposure in last year's third quarter, indicating they were the earliest players to curb their risk. Morgan Stanley chopped its net exposure by a whopping 52% that quarter, to \$17.5

billion from \$36.2 billion. Wachovia cut its exposure by 28%, to \$7.6 billion from \$10.5 billion. Credit Suisse's exposure fell by 25%, to \$22.9 billion from \$30.5 billion. And **Bank of America** reduced its exposure by 14%, to \$15.8 billion from \$18.4 billion.

While the average writedown was equal to 9% of total exposure, some lenders had significantly lower rates. Notably, Morgan Stanley's \$700 million of writedowns in the 12 months ending Sept. 30 equaled only 1.9% of its total exposure at Sept. 30, 2007. **Goldman Sachs** also wrote down \$700 million over the year, equal to 3.7% of its exposure at yearend 2007. A relatively low writedown rate was also reported by BofA (4.2% of exposure at Sept. 30, 2007).

By contrast, relatively high writedown rates were reported by Wachovia (equal to 20.6% of exposure at Sept. 30, 2007) and Bear (14.5%). But Wachovia's exposure total measured only its trading account. Lehman's writedown rate was 12.3%, but that figure will rise substantially once its real estate assets are liquidated by a bankruptcy court. ❖

Stake ... From Page 9

acquisition of Standard Mortgage gave it capacity to originate agency loans.

Agency players noted that the rash of consolidation among DUS lenders is a result of external factors. Overall DUS activity and pricing is not expected to be affected materially.

In the first half of 2008, DUS lenders originated \$18.2 billion of multi-family loans, a 30% increase from a year earlier. That growth reflected the fact that private-sector lenders have pulled back from the market because of the credit crunch. ❖

Soaring Spreads Sap Loan Returns

Commercial mortgages produced a 1.42% gain in the third quarter, as a sharp spike in loan spreads more than offset the benefit of declining interest rates.

The return was down from a 1.97% increase in the second quarter, as measured by the Giliberto-Levy Commercial Mortgage Index. But mortgages performed well relative to most other fixed-income sectors.

Monthly payments by borrowers generated a 1.57% return from July through September. But that was undermined by the increase in spreads, which hit the highest aggregate level for the four main property types in at least 10 years.

The average spread over Treasuries at Sept. 30 was up sharply from June 30 for each of those property types: to 328 bp from 264 bp for office mortgages; to 297 bp from 246 bp for multi-family loans; to 327 bp from 263 bp for retail loans; and to 357 bp from 281 bp for industrial loans. Those figures apply to new long-term credits with a loan-to-value ratio of 65-70% on a weighted-average basis.

The ballooning spreads eclipsed a boost in mortgage values that resulted from declining Treasury yields. A September surge in volatility also prompted some lenders to suspend their usual practice of using Treasuries and swaps as pricing benchmarks. They demanded absolute yields instead, which is common in times of extreme volatility, said mortgage banker **John B. Levy**, who compiles the commercial-mortgage index with investment banker **Michael Giliberto**.

"It makes sense that we didn't do as well in the third quarter as we did in the second quarter," Levy added. "The dysfunctional markets in general made most things get worse."

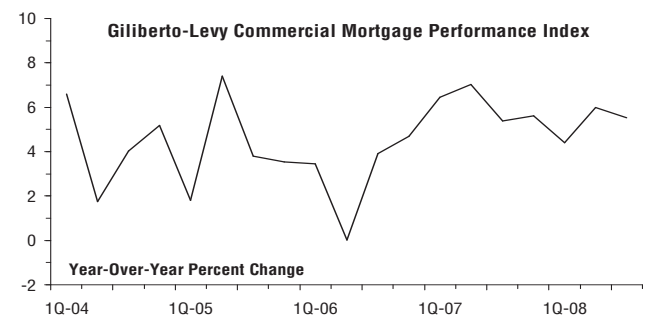
The performance of commercial mortgages lagged behind Treasuries, which posted a 2.57% return. But mortgages outperformed investment-grade commercial MBS, which logged a negative 6.22% return; junk-rated CMBS, which produced a negative 17.22% return; and triple-B corporate bonds, which weighed in at negative 3.4%.

Multi-family was the top-performing commercial mortgage sector, producing a 2.04% return during the third quarter. Multi-family mortgages tracked by the index are generally tied to high-quality apartment complexes, which have tended to weather the ongoing credit crisis better than other apartment

Mortgage-Performance Comparison

	Return 3Q-08 (%)	Return 12 mo. (%)	Duration (years)
Mortgages: All commercial	1.42	5.52	4.10
Office mortgages	1.46	5.79	3.91
Multi-family mortgages	2.04	5.86	3.93
Retail mortgages	1.16	5.77	4.46
Industrial mortgages	1.07	4.16	4.09
CMBS: Investment-grade	-6.22	-7.41	4.42
High-yield	-17.22	-22.73	3.54
Corporates: Lehman Bond Index	-7.80	-6.78	5.87
Triple-B (duration adjusted)	-3.40	-1.73	4.10
Treasuries (5-7 year)	2.57	10.22	5.03

Sources: Giliberto-Levy; Lehman Brothers



properties.

Meanwhile, quarterly returns slipped to 1.46% for office, 1.16% for retail and 1.07% for industrial mortgages. The returns in those sectors were dented by falling loan prices and other factors.

Levy and Giliberto predicted that commercial mortgage returns will be even more depressed in the first quarter of 2009. "There is no doubt in our minds that the U.S. is in recession and that property operating income and values are under pressure," the pair wrote in a report this week.

The index tracks a \$212.1 billion pool of loans with a 4.1-year average remaining term, a 6.4% average coupon and a 67.2% average loan-to-value ratio. ❖

CALENDAR

Main Events

Dates	Event	Location	Sponsor	Information
Jan. 12-14, 2009	CMSA Investors Conference	Miami	CMSA	www.cmbs.org
Feb. 8-11	CREF/Multifamily Housing Convention & Expo	San Diego	MBA	www.mbaa.org
June 8-10	CMSA Annual Convention	New York	CMSA	www.cmbs.org
Jan. 11-13, 2010	CMSA Investors Conference	Miami	CMSA	www.cmbs.org
June 14-16	CMSA Annual Convention	New York	CMSA	www.cmbs.org
June 13-15, 2011	CMSA Annual Convention	New York	CMSA	www.cmbs.org

To view the complete conference calendar, visit [The Marketplace](http://TheMarketplace.com) section of CMAAlert.com



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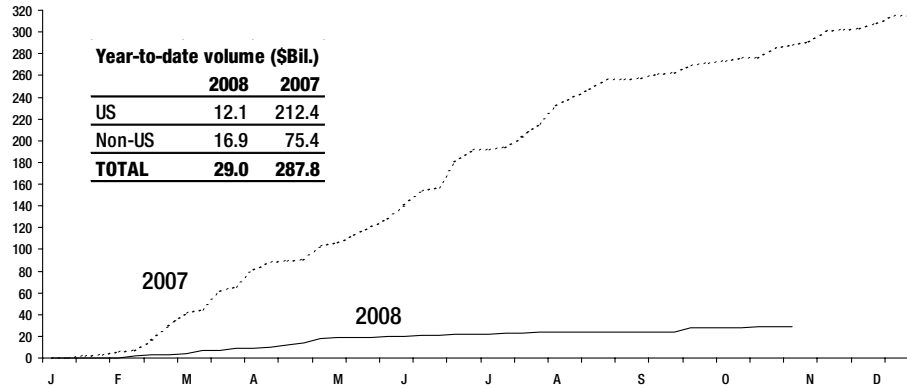
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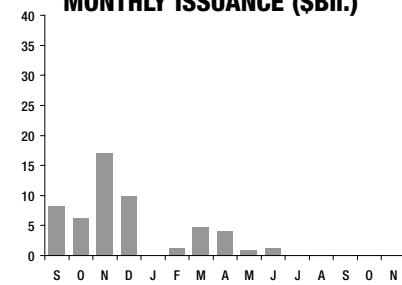
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WORLDWIDE CMBS



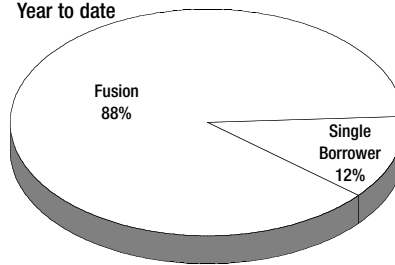
US CMBS

MONTHLY ISSUANCE (\$Bil.)



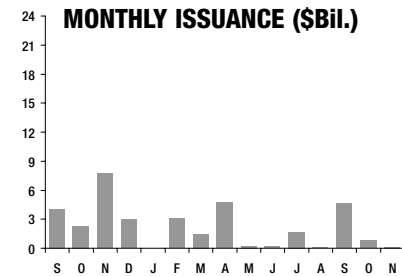
DEAL TYPE

Year to date



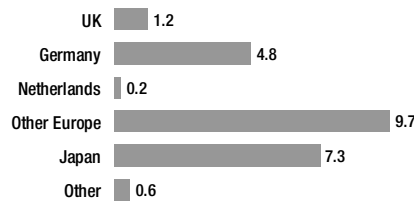
NON-US CMBS

MONTHLY ISSUANCE (\$Bil.)



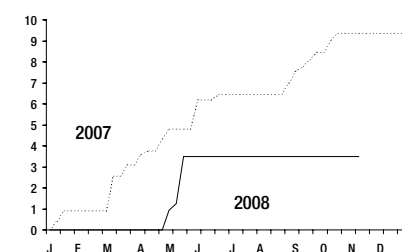
COLLATERAL LOCATION

Past 12 months (\$Bil.)

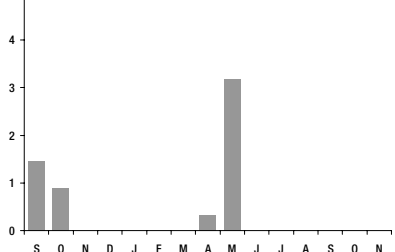


REIT BOND ISSUANCE

UNSECURED NOTES, MTNs (\$Bil.)

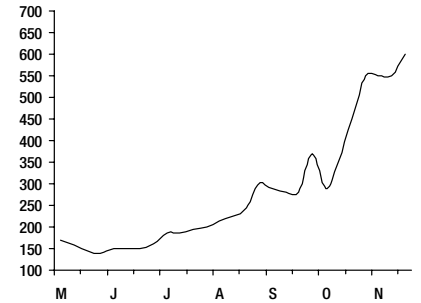


MONTHLY ISSUANCE (\$Bil.)



CMBS SPREADS

10YR, AAA SPREAD OVER SWAPS



Fixed Rate (Conduit)	Avg. Life	Spread (bp)		
		11/5	Week Earlier	52-wk Avg.
AAA	5.0	S+650	S+575	+250
AA	10.0	S+600	S+550	+224
A	10.0	S+2,000	S+1,750	+905
BBB	10.0	T+2,741	T+2,748	+1,586
BB	10.0	T+3,200	T+3,200	+2,057
B	10.0	T+3,700	T+3,700	+2,410
Markit CMBX 05-1				
AAA		+240	+211	+163
AA		+1,243	+1,029	+733
A		+1,721	+1,472	+1,092
BBB		+2,566	+2,189	+1,739

Sources: Morgan Stanley, Markit

CMBS TOTAL RETURNS

CMBS INDEX

As of 11/5	Avg. Life	Total Return (%)		
		Month To Date	Year to Date	Since 1/1/97
Inv.-grade	5.5	1.4	-17.1	73.5
AAA	5.4	1.8	-14.6	78.5
AA	5.9	-2.9	-36.3	34.7
A	5.9	-3.4	-43.9	14.9
BBB	6.0	-4.6	-48.7	-2.1

Source: Lehman Brothers

SPREADS

10/31	Maturity	Rating (M/S)	Amount (\$Mil.)	Spread (bp)	CDS (bp)
Kimco	5/17	Baa1/A-	300	T+860	775
Simon Property	5/18	A3/A-	800	T+790	495
Equity Residential	6/17	Baa1/BBB+	650	T+700	420
Prologis	5/18	Baa1/BBB+	600	T+1,340	1,660
AvalonBay	9/16	Baa1/BBB+	250	T+675	420
Duke Realty	1/18	Baa1/BBB+	300	T+925	885
Boston Properties	4/15	Baa2/A-	300	T+650	440
Health Care Property	1/18	Baa3/BBB	600	T+1,000	700
Regency Centers	6/17	Baa2/BBB+	400	T+750	
Liquid REIT Average		Baa1/BBB+	467	T+854	724

Source: Wachovia

Data points for all charts can be found in The Marketplace section of CMAAlert.com

THE GRAPEVINE

... From Page 1

Newport Beach, overseeing both balance-sheet and securitized loans. Before that he spent 10 years at **Babson Capital**.

Benjamin Herman, a vice president and loan syndicator with **Lehman Brothers** for six years, has joined the New York office of German lender **LBBW** as a marketing officer. Herman, who reports to senior executive **Len Cran**, will originate senior commercial real estate loans and handle portfolio management.

Peter Hansell, formerly head of CMBS for the European unit of **Lehman Brothers**, has joined **Cairn Capital**, a fund- and asset-management firm based in London. Hansell, whose title has not yet been determined, will manage a fund that acquires B-notes and mezzanine debt on European commercial properties. The vehicle will be launched by yearend with an

unspecified amount of equity from institutional investors. Hansell joined Lehman in 2003 after stints at **HVB Group** and **S&P**, where he was a CMBS rating analyst.

J.P. Morgan's decision to pull the plug on proprietary trading across the firm leaves in limbo trader **Marc Dolfman**, who had been responsible for proprietary CMBS trading. No decision has yet been made about whether he will stay on in another post. J.P. Morgan evidently decided to halt proprietary trading because there was too much risk, given the current market volatility.

Erik Dowling has left the New York office of **Holliday Fenoglio Fowler**, where he was one of seven members of the broker's debt-placement group. Dowling, who joined HFF in January, previously was head of capital markets for **Antares Investment Partners** in Stamford, Conn. Before that he had stints at **National Australia Bank**, **Wells Fargo** and **Donaldson Lufkin and Jenrette**. The buzz is Dowling is work-

ing independently to source debt for a handful of private clients.

Nancy Coyle has been named chief financial officer of **Potomac Realty Capital**. She previously was senior vice president and chief financial officer of **Capital Crossing Bank**, which was acquired by **Lehman Brothers**. She spent 12 years at Capital Crossing, of Needham, Mass. At Potomac, Coyle oversees the accounting and finance departments, co-manages the firm's Treasury and banking functions, and holds a seat on the credit committee. She will also play a role in Potomac's equity-raising efforts.

The average yield on junior triple-A commercial MBS rose to a record 16% this week, according to **RBS Greenwich**. The bonds, which typically have a 10-14% subordination level, traded at yields as low as 6% in the summer of 2007, before the credit crunch became full blown. The yields have climbed sharply in recent weeks, from 10.5% on Sept. 1 to 12.3% on Oct. 3 to this week's 16%.

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