

# CAPITAL MARKETS UPDATE



January 25, 2011

## MARKET COMMENTARY

• Traders in secondary CMBS are reporting strong activity, and overall tightening in spreads (despite some backing up over the past week) in AAA bonds since the beginning of the year. This should be a happy harbinger for the market as the Street puts the finishing touches on \$7 - 9B of issuance slated to be priced in the next six weeks. Several issuers have announced advance deals with "b-piece" buyers in the hopes that they can avoid too many kicked-out deals and the loss of momentum/confidence that goes along with that.

• The mood at the National Multifamily Housing Conference in Palm Springs was upbeat. Economist reports presented at the conference consistently point to strong rental growth fueled by the lack of new supply in the industry over the next 2 - 3 years.

• Many of the MF equity players that chased the market throughout 2010 as cap. rates compressed 150 - 200 basis points have now re-calibrated in 2011 with the goal of

winning a few deals. The opp. funds that are active in the market are underwriting deals at 16 - 18% IRRs with equity multiples projected at 1.6 - 1.8x. Pension funds and REITs that need MF exposure but have been frustrated with the pricing in primary markets are now seriously looking at funding development. Based on our recent conversations, we expect to see real development investment activity in many core markets, and even the stronger secondary markets, during the first half of the year.

• Construction financing is likely to be the last bulwark against the building development pressure. Most banks continue to insist on personal guarantees for construction loans over 50-55% LTC, and they are looking very hard at the balance sheets of the people providing those guarantees. For the developers and their partners who do secure construction financing, expect the pricing to be L + 300 - 400, often with LIBOR floors at 1.0 - 2.0%.

### RECENT DEALS/CLOSINGS/QUOTES - DEBT

| Asset Type                | Type of Financing | Type of Lender | Rate/Return         | Loan-to-Value             | Term                    | Amortization/Comments    |
|---------------------------|-------------------|----------------|---------------------|---------------------------|-------------------------|--------------------------|
| Specialty Retail/Office   | Fixed             | CMBS           | S + 270 (min. 5.9%) | 65%                       | 10 years                | 30 Year                  |
| Retail - Strip            | Fixed             | CMBS           | S + 250             | 70%                       | 10 years                | 30 Year                  |
| Office                    | Fixed             | CMBS           | 5.43%               | 63%                       | 5 years                 | 30 Year                  |
| Multifamily               | Fixed             | Agency         | T + 245             | 80%                       | 5 years                 | 30 Year                  |
| Office                    | Fixed             | Life Company   | T + 145             | 40%                       | 10 years                | I/O                      |
| Office                    | Floating          | Debt Fund      | L + 450             | 65% plus 100% TI/LC Costs | 3+1+1                   | 1% fee                   |
| Office - Mezzanine        | Fixed             | Mezzanine Fund | 12.00%              | 65 - 85%                  | 5 years                 | I/O                      |
| Office                    | Fixed             | CMBS           | S + 205             | 65%                       | 10 years                | 25 year                  |
| Retail Condo              | Fixed             | Regional Bank  | 5.00%               | 70%                       | 3 years                 | I/O                      |
| Retail - Lifestyle Center | Fixed             | Life Company   | 5.30%               | 57%                       | 10 years                | 30 Year                  |
| Retail - Value Add        | Floating          | Bank           | L + 600             | 65%                       | 36 months plus one year | Partial Recourse; 1% fee |
| Multi-Family Construction | Fixed             | Bank           | 5.50%               | 70%                       | 2+1                     | I/O; Partial Recourse    |

### RECENT DEALS/CLOSINGS/QUOTES - EQUITY

| Asset Type               | Type of Financing | Type of Investor       | Target Return | Equity Contribution Levels | Comments                                    |
|--------------------------|-------------------|------------------------|---------------|----------------------------|---|
| Hotel                    | JV Equity         | Opportunity Fund       | 20%+ %        | 95%/5%                     | 20% above 12%, 30% above 30%                |
| Retail                   | JV Equity         | Opportunity Fund       | 20%           | 90%/10%                    | 15% above 10%, 30% above 16%, 40% above 22% |
| Multi-Family Development | JV Equity         | Opportunity Fund       | 20%           | 99%/1%                     | 20% above 12%                               |
| Industrial Development   | JV Equity         | Opportunity Fund       | 22%           | 80%/20%                    | 20% above 10%, 30% above 16%                |
| Hotel                    | JV Equity         | Private Equity         | 22%+          | 80%/20%                    | 20% above 15%                               |
| Office                   | JV Equity         | Life Insurance Company | 18%           | 98%/2%                     | 10% above 13% , 25% above 15%               |

### SENIOR & SUBORDINATE LENDING SPREADS

|                             | Maximum Loan-to-Value | DSCR        | Spreads           |
|-----------------------------|-----------------------|-------------|-------------------|
| Fixed Rate - 5 Years        | 65 - 70%*             | 1.30 - 1.50 | T + 230 - 320     |
| Fixed Rate - 10 Years       | 60 - 70%*             | 1.30 - 1.50 | T + 190 - 270     |
| Floating Rate - 5 Years     |                       |             |                   |
| Core Asset                  | <65%*                 | 1.30 - 1.50 | L + 200 - 300     |
| Value Add Asset             | <65%*                 | 1.25 - 1.40 | L + 300 - 450     |
| Mezzanine Moderate Leverage | 65 - 80%              | 1.05 - 1.15 | L + 700 - 1,000   |
| Mezzanine High Leverage     | 75 - 90%              |             | L + 1,100 - 1,300 |

\* 65 - 70% for Multi-Family (non-agency); Libor floors at 2-3%

### BASE RATES

|                      | January 25, 2011 | Two Weeks Ago               | One Year Ago |
|----------------------|------------------|-----------------------------|--------------|
| <b>30 Day LIBOR</b>  | 0.26%            | 0.26%                       | 0.23%        |
| <b>U.S. Treasury</b> |                  |                             |              |
| 5 Year               | 1.98%            | 1.98%                       | 2.39%        |
| 10 Year              | 3.38%            | 3.37%                       | 3.64%        |
| <b>Swaps</b>         |                  | <u>Current Swap Spreads</u> |              |
| 5 Year               | 2.22%            | 0.24%                       |              |
| 10 Year              | 3.47%            | 0.09%                       |              |

### 10-YEAR FIXED RATE RANGES BY ASSET CLASS

|                           | Maximum Loan-to-Value | Class A | Class B/C |
|---------------------------|-----------------------|---------|-----------|
| Anchored Retail           | 60 - 70%              | T + 215 | T + 245   |
| Strip Center              | 60 - 65%              | T + 230 | T + 270   |
| Multi-Family (non-agency) | 65 - 70%              | T + 220 | T + 240   |
| Multi-Family (agency)     | 70 - 75%              | T + 215 | T + 235   |
| Distribution/Warehouse    | 65 - 70%              | T + 235 | T + 260   |
| R&D/Flex/Industrial       | 55 - 65%              | T + 240 | T + 260   |
| Office                    | 60 - 70%              | T + 220 | T + 265   |
| Hotel                     | 50 - 55%              | T + 280 | T + 330   |

\* DSCR assumed to be greater than 1.35x

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**Christopher T. Moyer**  
Associate  
(212) 841-9220  
chris.moyer@cushwake.com

#### New York - HQ

1290 Avenue of the Americas  
8th Floor  
New York, NY 10104  
T 212 841 9200

#### Atlanta

55 Ivan Allen Jr. Blvd.  
Suite 700  
Atlanta, GA 30308  
T 404 875 1000

#### Boston

125 Summer Street  
Suite 1500  
Boston, MA 02110  
T 617 330 6966

#### Los Angeles

601 S. Figueroa St.  
Suite 4700  
Los Angeles, CA 90017  
T 213 955 5100

#### San Diego

4435 Eastgate Mall  
Suite 200  
San Diego, CA 92121  
T 858 452 6500

#### San Francisco

One Maritime Plaza  
Suite 900  
San Francisco, CA 94111  
T 415 397 1700

#### Washington, D.C.

2001 K Street, NW  
Suite 700  
Washington, DC 20006  
T 202 467 0600