

# 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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