

MARKET COMMENTARY

• All things considered, it was a good year for the CMBS market. Issuance tripled from 2009's anemic \$5B to \$16.1B in 2010, with 40% of the year's issuance occurring in the last quarter of the year. Estimates for 2010 range from \$40-50 billion. Absent a spike in treasury rates, our sense is that the Street is so anxious to push this product, and investors are sufficiently interested in the yield premiums they're getting in CRE debt, that issuance will be at the high end of that range, or higher.

• A recent Wells Fargo report estimates that \$330 billion of CRE loans will come due in 2011, consisting of \$230B of bank loans, \$70B of CMBS (split evenly between fixed and floating rate) and \$30B of life co. loans. That report indicates that current lending liquidity will comfortably cover that requirement. Even more encouraging is the fact that the borrowing crunch that everyone was projecting for 2012-2014 has largely disappeared. During the past 18 months the REIT market has been on a balance sheet strengthening binge, refinancing or restructuring most of their debt. The next big CMBS bubble isn't until 2016 and 2017, when annual CMBS maturities bloom from \$40B in 2013 to roughly \$135B.

• The spread between cap rates and 10-year treasury rates has reached the same high levels that we saw in 2003, suggesting that either cap rates will continue to compress or Treasury rates will grow. Most likely we will see some combination of slowing cap rate compression and increased borrowing rates.

• AFIRE reports in a recent survey that the U.S. CRE market is the favored location for investment by offshore institutions, leading China by a significant margin. New York and Washington are expected to be the leaders in terms of deal volume for offshore investors, with Boston, SF, LA and Seattle rounding out the top rankings.

• Look in 2011 for Fannie and Freddie to play a less dominant role in multi-family financing than they did in 2009 and 2010. We are already seeing life company and CMBS quotes on top of the agencies, especially for moderate leverage loans, and we project that even another 20-30bps of tightening in CMBS spreads will make those lenders very competitive with the agencies at the higher LTV levels.

• One of 2010's big surprises was the complete absence of upward pressure on rates until the last six weeks of the year (which have subsided in the past two weeks). 30-day LIBOR traded in a very tight band, starting the year at 0.23% and ending the year at 0.27%, while Treasuries finished the year lower than they started despite the December pop in rates. Estimates for 2011 suggest that the 10-year Treasury will rise to between 3.5% and 4%, while LIBOR is expected to climb slowly to 0.625%. Inflation is still moribund – the y-o-y change in core CPI was 0.6% in October and 0.8% in November – and there is as much talk of deflationary risk as there is of inflation risk.

RECENT DEALS/CLOSINGS/QUOTES – DEBT

Asset Type	Type of Financing	Type of Lender	Rate/Return	Loan-to-Value	Term	Amortization/Comments
Retail - Strip	Fixed	CMBS	S + 250	70%	10 years	30 Year
Office	Fixed	Conduit	5.43%	63%	5 years	30 Year
Multifamily	Fixed	Agency	T + 240	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 + 225 - 325
Fixed Rate - 10 Years	60 - 70%*	1.30 - 1.50	T + 190 - 275
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%

10-YEAR FIXED RATE RANGES BY ASSET CLASS

	Maximum Loan-to-Value	Class A	Class B/C
Anchored Retail	60 - 70%	T + 230	T + 260
Strip Center	60 - 65%	T + 255	T + 280
Multi-Family (non-agency)	65 - 70%	T + 215	T + 240
Multi-Family (agency)	70 - 75%	T + 215	T + 235
Distribution/Warehouse	65 - 70%	T + 240	T + 260
R&D/Flex/Industrial	55 - 65%	T + 240	T + 270
Office	60 - 70%	T + 220	T + 265
Hotel	50 - 55%	T + 280	T + 340

* DSCR assumed to be greater than 1.35x

BASE RATES

	January 7, 2011	Two Weeks Ago	One Year Ago
30 Day LIBOR	0.26%	0.26%	0.23%
U.S. Treasury			
5 Year	2.02%	2.09%	2.59%
10 Year	3.39%	3.41%	3.83%
Swaps	Current Swap Spreads		
5 Year	2.24%	0.22%	
10 Year	3.47%	0.08%	

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