real estate finance & investment

The newsweekly of the commercial property and capital markets

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ANNALY EXPANDS INTO COMMERCIAL

Annaly Capital Management is expanding into commercial real estate and has hired **Kevin Riordan** to lead the effort. Until now, the New York-based mortgage real estate investment trust has focused on residential mortgage-backed securities. "[The expansion] is consistent with our strategy to build our asset management platform… We think there will be attractive opportunities in building a business in [the commercial real estate fixed income] asset class," said **Jay Diamond**, managing director.

Riordan, most recently a managing director in the commercial mortgage securities group

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PARTNERSHIP HASHING OUT FINANCING ON GM BUILDING

A **Boston Properties**-led partnership is hashing out the financing on its expected acquisition of the General Motors Building in New York and three or four other properties from **Macklowe Properties**. The partnership is expected to pay about $2.8 billion for the GM Building and another $1 billion for Two Grand Central Tower, 510 Madison, 540 Madison Ave. and 125 E. 55th St.

The partnership, which includes **Goldman Sachs** and **Kuwaiti Investment Authority** and **Qatari Investors**, is expected to assume a $1.3 billion first mortgage on the GM Building

(continued on page 11)

MERRILL DEAL GARNERS TIGHTEST PRICING THIS YEAR

A $948 million conduit deal from **Merrill Lynch** was priced at swaps plus 130 for the 10-year, triple A-rated, 30% subordination bonds—the tightest pricing for a new commercial mortgage-backed securities deal this year. The pricing was nearly 40 basis points tighter than the last deal to be priced.

In an unusual twist, **Goff Strategic Capital** acquired all of the bonds rated BBB and below, including the deal's b-piece. Although b-piece buyers generally acquire only a deal's non-investment-grade bonds, **Hillenbrand Partners** executed a similar strategy earlier this

(continued on page 12)

PUB FIRM PLOTS REIT CONVERSION

U.K. pub company **Mitchells & Butlers** intends to convert into a real estate investment trust. The move will require significant restructuring of its existing business, including separating its operating business from its real estate holdings, and refinancing debt, said **Tim Clarke**, ceo. It has not yet set a time frame for the conversion.

At least two other pub companies are planning to convert to REIT status, including **Enterprise Inns** and **Punch Taverns** (REFI, 5/19). Enterprise, unlike M&B and Punch, is expected to have an easier time converting into a REIT because its property and operating

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Check www.iirealestate.com during the week for breaking news and updates.

At Press Time

Finerman Talking To DivcoWest?

Mark **Finerman**, who headed the commercial real estate finance group at **RBS Greenwich Capital**, is said to be in talks to join **DivcoWest**, a San Francisco-based investment management company. There are also reports that Finerman is talking to other public and private players. Finerman, who left Greenwich last week, couldn't be reached and a spokesman for DivcoWest declined to comment.

Wachovia Financing Philadelphia Hotel Deal

Wachovia Bank has funded a $50 million loan that **Kimpton Hotels & Restaurants** will use to turn the Architects Building in Philadelphia into a boutique hotel.

Wachovia agreed to originate the loan in January and Kimpton was able to lock in pricing then. **Holden Lim**, senior director at **Cushman & Wakefield Sonnenblick-Goldman**, which arranged the financing, said that if the deal was done today, spreads would be 100 to 200 basis points wider. He declined to give specifics.

Lim said CWSG approached some 40 lenders and ended up with Wachovia, a relationship lender. Lim declined to comment on leverage levels but noted that Kimpton got historic preservation tax credits to finance the project, which helped lower leverage.

Kimpton wants to convert the building into a 230-unit boutique that will be known as The Hotel Palomar. The building, once the headquarters of a local chapter of **The American Institute of Architects**, is at 117 South 17th Street in the Rittenhouse Square section of town.

Kimpton officials would not comment on pricing or leverage. A spokesman at Wachovia declined to comment.

Brookfield: We're In Talks To Keep Merrill

Brookfield Properties is in active discussions with **Merrill Lynch** to extend its existing lease at Two World Financial Center in New York. **Melissa Coley**, a spokeswoman for Brookfield, said Brookfield and Merrill are discussing a five-year extension on its in-place lease, which would keep Merrill in 2WFC until 2018.

Brookfield has reportedly offered to build a 500,000-square foot "trading pavilion" to woo Merrill. Asked what Brookfield was planning in the event of Merrill's departure, Coley declined to comment. She also declined to comment on any plans Brookfield is executing to keep Merrill.

Merrill is also in talks with developer **Larry Silverstein** to move its headquarters to the World Trade Center site, a spokesman for Silverstein confirmed. The potential deal, first reported in *The Wall Street Journal*, would put Merrill in Silverstein's Tower 3, scheduled to be completed in 2013, when Merrill's lease expires at Two World Financial.

That Merrill is sniffing around town for new space is news to no one in the market. The firm was close to formalizing a plan with **Vornado Realty Trust** to move to the Hotel Pennsylvania last year, but that plan was killed by massive write-downs by Merrill and the departure of its former CEO **Stan O'Neal**.

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Institutional Investor NEWS
INTELLIGENCE FIRST

Property Markets

Hawaiian Retail Deal Shopped

A group of Asian landlords is testing the waters of Hawaii's retail market with the sale of eight properties. The properties total 386,000 square feet and include several Safeway-anchored shopping centers and retail centers near resorts. **Faris Lee Investments** and **CB Richard Ellis** are handling the sale.

The properties have been shopped for several months but **Rich Walter**, president of Faris Lee, said he expects a deal to be reached in the range of $300 million. The brokers are taking bids on single assets as well as the portfolio as a whole.

The properties were accumulated over a 10-year-period by current ownership, which is now selling for estate-planning purposes, Walters said. The brokers are pitching the deal as an opportunity to capitalize on national retailers expanding into Hawaii. One factor that makes the deal attractive—assumable debt at a rate of around 5.5%.

Tenants in the properties include **Longs Drugs, Roy's Restaurant, Denny's, Starbucks, Subway, Cold Stone Creamery** among others. The properties are on Maui, Oahu, Kauai and the Big Island.

JER Maps Latin American Expansion

J.E. Robert Companies is expanding into Latin America. The McLean, Va.-based investment manager is opening offices in Sao Paolo and Mexico City and has hired **Roberto Perroni** and **Sergio Hernandez** as the respective heads. The pair will be assembling teams to invest in the residential, retail, office and industrial markets.

Hernandez will hire two or three people for acquisitions as well as a few associates, analysts, a controller and an accountant. In Mexico, the focus will mostly be on residential and retail, with some build-to-suit industrial for export-oriented manufacturers. JER wants to invest in joint ventures with local operators and in mezzanine debt.

Mexico's construction financing market is liquid for loans that are 65% to 70% of the cost of the project. But the market for existing buildings is relatively illiquid, which makes it difficult to exit projects quickly. As a result, the group expects longer hold periods. JER expects to invest $150 million to $200 million over the next two to three years.

In Brazil, JER wants to do residential and office developments. With financing more available to homebuyers, sales of new residential projects increased by 50% from 2005 to 2007, Perroni said. Likewise, office vacancy rates have decreased from 20% to 7% over the same period in Sao Paolo. Vacancies in

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Rio are at 4%. Financing of 85% can be obtained for residential and office projects, although lending on office projects is newer and less certain.

"The opportunity to make partnerships with local players right now is very interesting because there many real estate companies that went public last year, and they got a lot of money," Perroni said. "They spent almost all the money buying land, and they need right now working capital."

Not-So-Happy Shopping At ICSC

The mood at the **International Council of Shopping Centers** convention in Las Vegas last week ranged from mordantly grim to stubbornly optimistic. Concerns about the health of the economy and soft tenant demand predominated, and there were concerns that major retailers would not be expanding.

The fear that American consumers would have less disposable income for some time was palpable. "Do you think the price of oil's going to come down anytime soon?" asked one developer. "Do you think the price of food's going to come down?" Concerns about the capital markets were also at the front of people's minds. "Capital markets? What capital markets?" another developer asked.

With energy prices in the stratosphere and the economy edging toward a recession, many of the sessions had a decidedly touchy-feely green and global slant. Transit-oriented development was highlighted in a session chaired by **Chris Leinberger**, a fellow at the **Brookings Institution**.

Official attendance numbers were not yet available but ICSC said it was hoping to get attendance in the 40,000 to 50,000 range.

Feil Buys N.J. Portfolio

The Feil Organization has bought a one million square foot portfolio of industrial, office and retail space the **Villa** family had been shopping in Northern New Jersey. Pricing could not be immediately learned and Feil executives were in Las Vegas for the **International Council of Shopping Centers** conference and were not available for comment. The portfolio had an asking price of $100 million (*REFI, 8/3*).

The transaction is one of the largest to have taken place in the tri-state area this year, said **Rich Mirliss**, managing director at **Newmark Knight Frank**, who was handling the offering. "I think it's a welcome piece of news for a community that's been spending too much of its time lately focused on the current turmoil in the credit markets," he added. Mirliss would not disclose pricing.

The portfolio was centered geographically around Clark, near the towns of Cranford and Westfield. Pitched as a core investment, the property was 97% leased at the time of the initial offering. Tenants included **L'Oreal**, **Shop Rite**, **Rite-Aid**, **A&P** and **Bally's**. About 819,000 square feet were industrial/office and the remainder was retail.

Capital Markets

Consultant Expands Risk Modeling Program

Consulting firm **Risk Integrated** has expanded its risk assessment software so that users can look at the value of equity investments as well as debt investments. **Chris Marrison**, ceo, said that the firm expanded the system in response to requests from clients, which include investment and commercial banks.

"About six months ago, we started to market a lot more in the U.S. Many of the investment banks have a mixed portfolio of debt and equity. With the market melting down, our clients were saying that they would like to see an overall picture of their debt and equity holdings," Marrison said.

Risk Integrated's system uses three sets of data to perform analysis—the probability of default on loans, the rate of return and the present value of a portfolio and the combined investment value of the debt and the equity within a deal or portfolio. "This will help our clients determine how to restructure deals, adding features like reserve accounts or new covenants, or buy interest rate or property derivatives," Marrison added.

Pricing on the system is determined on a sliding scale. The new features have a minor incremental cost, he added.

Trepp To Extend Daily Valuation Service

Trepp LLC is extending its offer of daily valuation of commercial mortgage-backed securities for investors who are members of the **Commercial Mortgage Securities Association**. Trepp, which began offering daily valuations on CMBS in March in response to illiquidity in the market, expects to continue offering this service through the end of June, said **Annemarie DiCola**, ceo.

"We have had an extensive CMBS valuation service in place for many years here," she said. "Given the slowdown in market activity in recent months, we thought it could be very helpful if more people were able to access these valuations."

Although spreads have tightened substantially, Trepp believes that providing the service is warranted, at least until the end of June. The service is provided via email at the end of each business day.

Raising $500M Fund

Fellows Launches Debt Management, Advisory Firm

Fred Fellows, a commercial real estate lending veteran, has launched **Basalt Capital**. Basalt will provide advisory and asset management in the commercial real estate debt sector. The firm has also launched a $500 million fund to invest in high-yield commercial mortgage-backed securities over the next three years.

The fund is securing commitments of $10 million to $20 million and higher from investors, including insurance companies and funds of funds. It expects to hold its first closing in the coming months.

Fellows launched Basalt after leaving **Southwest Securities**, where he was head of structured finance trading. He has had a long career in the commercial real estate debt markets, including heading CMBS trading at **Nomura Securities** in the late 1990s and founding **Cargan Investment Management**, a commercial real estate investment management firm. Basalt operates in both Chicago and Lake Forest, Ill., and has plans to open another office in Florida.

The name of the firm was inspired by a mountain town near Aspen.

Europe

U.K. CMBS Spreads Approach Turning Point

Secondary spreads on U.K. commercial mortgage-backed securities may see a period of tightening in the second half of 2008, following RMBS spread shrinkage. "These sectors do tend to follow each other. It's a relative value issue — if you can pick up AAA CMBS for 250 [basis points] compared to U.K. prime RMBS at 80 now, it becomes more compelling to investors," said **Hans Vrensen**, head of European securitization research at **Barclays Capital**.

The RMBS spread tightening is due in part to the **Bank of England**'s Special Liquidity Scheme. CMBS are not eligible for the scheme but still tend to track the movement of RMBS yields. The first signs of this were seen last month when CMBS spreads flattened at 250 basis points after a period of widening.

"It's important to keep in mind that intra-sector spreads are very wide across all sectors and we expect them to remain so for the rest of the year," Vrensen noted. He also added he expects any tightening to be more gradual than the sharp movement seen in RMBS spreads as CMBS fundamentals have not seen any improvement.

ING Acquires Paris, Bordeaux Offices

ING Real Estate has purchased office buildings in Paris and Bordeaux for a total of €70 million ($109 million), and a logistics centre north of Paris for €17 million ($26 million). The trio of properties were purchased by the firm's *ING Real Estate Office Fund*.

Leo Weidenaar, fund manager, said the acquisitions will help reinforce the firm's presence in France, which it sees as a key market. A joint venture between **Gazeley** and **CalEast Global Logistics** was the seller. Officials at the firms did not return calls by press time.

The 6,873-square-meter Le Millenium is in central Bordeaux and is let to six tenants. It also has 110 parking spaces. In Paris, the L'Open Building is comprised of 8,028 square meters of office space across eight floors and a six-level underground car park. The main tenant **CMP Medica** occupies 75% of the building. The two other tenants are **Oxya** and **APC**.

Meanwhile, Gazeley Canly is a Grade A logistics centre covering 23,819 square meters in Canly, Oise, north of Paris. The building has been fully let to **Recall France** and is a mix of logistics warehouses and office space. It also contains parking spaces for five heavy goods vehicles and a car park for more than 85 cars.

Strategies

Infinity Sees Strong Demand For Construction Loans

Infinity Funding Group is seeing strong demand for its core product, loans that combine pension fund and hedge fund capital. The Bohemia, N.Y.-based rescue lender and placement agent pairs up borrowers with pension fund lenders to provide the senior portion of a loan and hedge funds to provide the junior debt. It focuses mainly on commercial real estate construction projects.

The firm is also considering the launch of a fund that would lend to smaller borrowers. The fund could be as large as $1 billion and could provide financing in the $1 million to $5 million range, said **Paul Tantillo**, v.p.

The credit crunch has opened the doors for Infinity. "Like a wildfire, we were getting institutional quality paper from across the country," Tantillo said. He believes the hotel sector is particularly lucrative and as an example of this, points to a South Carolina single-purpose hotel in need of construction financing. "[The developer] knows his business and it's a magnificent property…But nobody returns his calls from all the big banks. If you can't get someone to fund that, that shows you about the market," he said.

Infinity Funding typically makes loans on a 90% LTC basis, with pension funds contributing roughly 85% of the loan. Loan sizes range from $75 to $200 million. The remainder of the capital comes from hedge funds and from Infinity. Returns vary per lender, with one of Infinity's pension fund clients seeing a return of 14% and one hedge fund with a minimum return requirement of 25%. "They bring the equity, mezzanine and senior loan from all players…They've disassembled [CMBS] and brought it all together," said **Bill O'Connor**, partner at **Crowell & Moring**, who represents Infinity.

The firm's investments to date have centered on construction projects in the Mid West and the Bible Belt. "We're in very strong markets but are not afraid to look at other markets others fear to tread in," Tantillo said. Environmentally friendly projects are also key. "We want green. Green is in!" he added.

Cushman & Wakefield Sonnenblick Goldman's Commercial Mortgage Rate Spreads

Senior Mortgage Matrix May 23, 2008

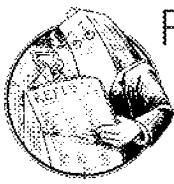
3-5 YEAR FLOATING-RATE MORTGAGES [1] INDEX: ONE-MONTH LIBOR				5-10 YEAR FIXED-RATE MORTGAGES [2 3] INDEX: EQUIVALENT MATURITY TREASURIES	
<65% LTV	>65% LTV	LENDER FEE	PROPERTY TYPE	<65% LTV	>65% LTV
			Residential		
225-250	250-350	75-100 bps	Apartments	200-240	250-300
			Retail		
225-275	300-350	75-100 bps	Malls	225-250	250-350
250-300	300-400	75-100 bps	Strip and Power Centers	250-300	300-450
			Industrial		
250-300	300-450	75-100 bps	Multi-tenant	250-300	300-500
			Office		
200-250	300-350	50-100 bps	CBD	225-325	300-450
200-250	350-400	75-100 bps	Suburban	250-350	350-500
			Hotel		
250-300	300-500	50-100 bps	Full-Service	300-400	350-500
250-300	300-500	50-100 bps	Limited-Service	300-450	400-500
1-Month LIBOR	2.47%* (2.82%*)		5-Year Treasury	3.02%* (3.14%*)	
3-Month LIBOR	2.66%* (2.87%*)		10-Year Treasury	3.78%* (3.86%*)	

[1]Assumes interest only
*Number as of May 23, 2008
[3]Assumes no lender fee

Mezzanine Financing Matrix May 23, 2008

DEBT PROVIDER	RATE	TERM	LTV RANGE (%)	LENDER FEE
Hedge/Opportunity Funds	11-18%	1-5 years	>65%	1-3%
Investment Banks	15-19%	1-5 years	>65%	1-2%
Insurance Companies	9-15%	3-10 years	>60-75%	1-2%
Private Sources	8-16%	Six months to 3 years	>70%	1-3%

Source: **Cushman & Wakefield Sonnenblick-Goldman, LLC**



Real Estate News Roundup

The Real Estate News Roundup is a summary of publicly reported real estate news briefs. The information has been obtained from sources believed to be reliable, but REFI *does not guarantee its completeness or accuracy.*

Carlton Launches $250M Distressed Debt Sale

The Carlton Group has been hired to sell $250 million of distressed debt and REO assets on behalf of two institutional clients. The debt is comprised of twenty-seven sub- and non-performing commercial loan assets. The debt is mostly first lien positions, with four REO assets. Assets include loans secured by completed and partially completed luxury town home developments and small balance commercial loans.

CMBS Delinquencies Rise In April

U.S. CMBS delinquencies rose by two basis points to 0.35% in April, according to **Fitch Ratings**' most recent loan delinquency index. The spike is related to one large newly-delinquent $127 million multifamily condominium loan that is is expected to be brought current. "CMBS delinquencies remain low with only 360 delinquent loans out of approximately 42,000 loans in Fitch-rated transactions," said **Susan Merrick**, managing director.

GUEST COLUMN

Identifying Disproportionate Risk In CMBS, Part II

By **Erin Stafford**

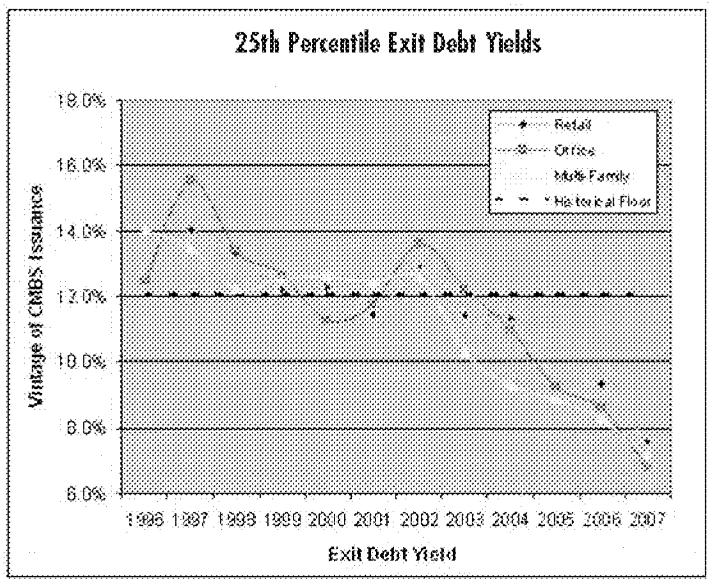
This week's column will explore the property types that may be more averse to a reversion to the mean or historical floor once the property markets bounce back. Retail, office and multi-family are the predominant property types within the last few years of CMBS, with a combined 69% by loan count and 79% by balance.

Debt yield (either entry or exit) provides a measure that looks specifically at a property's net operating income (NOI) and its ability to support the debt load on the property. The historical floor for both entry and exit debt yields has been 12%, based on observed **American Council of Life Insurers** (ACLI) data that date back to the 1960s. The data show that the median exit debt yield really plunged below the historical 12% floor for CMBS loans beginning in 2005 and continued its downward trend through 2007.

The chart below looks at the median exit debt yield for the 25th percentile of CMBS loans for retail, office and multifamily properties. With the exception of temporary dips to 11%, each property type followed the standard until 2003, when multifamily took a conspicuous dive. By 2005, 25% of the loans in all the major property types had crossed the 10% line; by 2007, more than half of the retail, office and multifamily loans had fallen below 10%.

So what happens if the loans need to refinance in an environment that is more discerning than the 2005–2007 environment? The measure of exit debt yield places a large reliance on a property's NOI, the interest rate or spread and the amortization environment that one would need to refinance in today's economy. If we assume all else is equal and we need to obtain a 12% exit debt yield, what type of NOI growth do we need?

For a loan currently exhibiting a 9% exit debt yield, one would require an average annual NOI growth rate of 3.3%. For the extreme exit debt yields that are close to 6%, that property would require an average annual NOI growth rate of



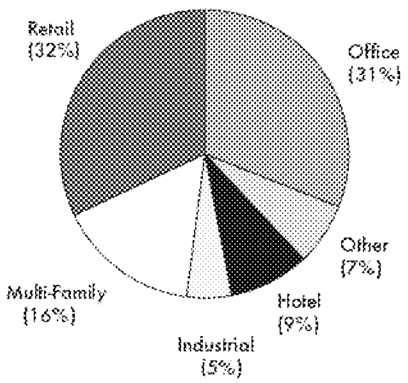
10%. Properties can and have achieved annual NOI growth rates in excess of 10%, but for properties with longer leases, an average annual growth rate of 10% is very difficult to consistently achieve.

Many of these loans were underwritten to projected revenue growth. For the most part, our data are based on the last year of reported borrower NOI, found in the Annex A of the CMBS prospectus, which is a factual number that should not include arbitrary revenue projections. Another hurdle in achieving higher annual average NOI growth rates is the fact that in the major property types (i.e. retail and office), the rental projections in the near future are muted.

Retailers are feeling the pressure and several new bankruptcies have caused retailers to completely liquidate or selectively close non-profitable locations, leaving vacancies in strip centers and malls. Office markets in general are expected to have slightly negative rental growth in the coming year, followed by 2% to 4% growth through 2012, according to the light recessionary scenario presented by **Property & Portfolio Research** (PPR). This projection does not get better when predictions indicate a longer U.S. recession.

The majority of low exit debt yields exhibited by properties are driven by the lack of amortization. And we know that today,

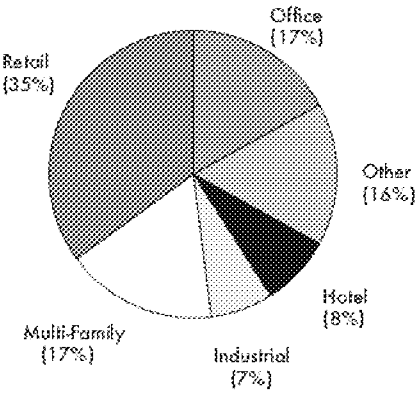
2005-2007 Vintage CMBS Property Type by Balance



interest-only (IO) loans are not readily available in the market, except in rare instances of extremely low leverage financing. While IO loans, in and of themselves, are not a problem, highly levered IO loans, with debt yields below 9.25%, are disproportionately reliant on income growth, cheap debt or both.

If we assume the lending industry has learned its lesson with the preponderance of IO loans and they will not make a comeback, the loans that are below the historical floor will be subject to greater uncertainty of refinance at maturity. We have actually seen that happen in today's market. Recently, it is rumored that a loan having $200 million of floating-rate debt was able to secure a first mortgage in the amount of $125 million, the remainder of which was funded through mezzanine debt and additional cash equity brought into the deal by the borrower. Not all borrowers will have access to large pieces of

2005-2007 Vintage CMBS Property Type by Loan Count



more expensive mezzanine debt nor will they be able to fuse in an additional 10% or more of equity to bring the debt yield into line with historical norms.

It seems logical that one would look at exit strategy, but empirical CMBS data does not really consider exit strategy. One reason is that most CMBS loans have not hit maturity until this year; therefore, there is not a large sample to review. In fact, if we look at loans maturing in 2008 and early next year, a large number of them have already defeased and those that have not have exit debt yields in excess of 10% on what would be considered stressed NOI. While some of these loans are taking longer to refinance in today's market, if the property's cash flow is stable, reflecting higher occupancy without a lot of immediate roll, it is likely that there will be a lender to take them out.

Data shows that most defaults occur within the first six years of a CMBS transaction and according to **Morgan Stanley** research, the 2005 to 2007 vintages seem to be tracking those of the earlier vintages in terms of delinquency and defaults. However, the transfers to special servicing in these vintages are a combination of property issues (e.g., lost tenants) and not meeting pro forma underwriting. Many of the loans subject to the pro forma underwriting have IO terms, although borrowers and sponsors with a debt yield of 12% or higher are likely to maintain significant equity in the asset.

In such instances, the loss of a tenant or the failure to achieve pro forma revenue targets seldom results in default. The same cannot be said of borrowers and/or sponsors when the debt yield is 7%. Overlay an increasing cap rate environment and the borrower and/or sponsor is likely to be under water even after the tenant has been replaced and/or pro forma achieved. Thus, these vintages may not continue to track delinquencies and the losses could be higher.

*This week's guest column was written by **Erin Stafford**, senior v.p. of CMBS surveillance at **DBRS**. Part one was published in the May 19th issue.*

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- Behringer Harvard REIT I
- First Industrial Realty Trust

Fund of the Year
- The Blackstone Group
- Guggenheim Structured Real Estate III
- Broadway Partners
- KTR Capital Partners

Developer of the Year
- Taconic Investment Partners, Square Mile Capital
- Youman Properties
- DSF Group

Bank of the Year
- Goldman Sachs
- Morgan Stanley
- Bear Stearns

Green Giant of the Year
- Principal Global Investors
- Morgan Stanley, Recurrent Energy
- CB Richard Ellis

Advisory Firm of the Year
- Realpoint
- Midland Loan Services
- Helmsley-Spear

Investment Firm of the Year
- H/2 Capital Partners
- Shorenstein Properties
- Wrightwood Capital

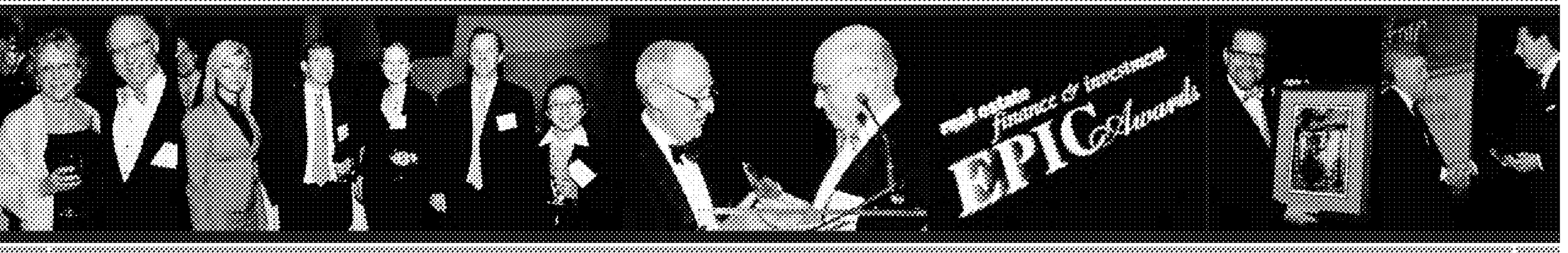
Innovator of the Year
- Lehman Brothers, Bank of America
- Moody's Investors Service, Real Estate Analytics
- GFI Group

CDO Manager of the Year
- CWCapital Investments
- Legg Mason
- Centerline Capital Group

CMBS Deal of the Year
- GS Mortgage Securities 2007-EOP
  Underwriters: The Blackstone Group, Goldman Sachs, Bear Stearns and Bank of America
- Wachovia Bank Commercial Mortgage Trust, 2007-C30
  Underwriter: Wachovia
- Greenwich Capital Commercial Funding Corp., 2007-GG9
  Underwriters: RBS Greenwich Capital, Goldman Sachs

Deal of the Year
- 388-390 Greenwich Street Acquisition
  Underwriters: SLGreen, PB Capital, Westdeutsche ImmobilienBank
- Archstone-Smith Privatization
  Underwriters: Tishman Speyer Properties, Lehman Brothers, Bank of America
- Hilton Hotels Privatization
  Underwriters: The Blackstone Group, Bear Stearns, Bank of America, Morgan Stanley

Law Firm of the Year
- Cadwalader, Wickersham & Taft
- Dechert
- Morrison & Foerster



If you would like to recommend a nominee in one or more of the above categories please contact [illegible], Managing Editor of REFI at [illegible].
For information on sponsoring or attending the awards dinner and ceremony please contact [illegible], Awards Director at [illegible].

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CMBX 5 Debuts

CMBX 5, the latest iteration of the commercial mortgage-backed securities index—was rolled out last week after a month-long delay. The index, which was designed to roll over twice a year and include 25 new CMBS deals, had been postponed as a result of low volume in the new issue market (*REFI*, 5/5). "The early perception is that it looks a lot like [series] four. It's trading pretty much close on top of CMBX.4," said one senior trader. Spreads on the AAA class closed at 104, while the BBB- class closed at 1,617 following the first day of trading.

Initial pricing had intentionally been set to mirror those of CMBX.4. "If you have vastly different coupons it adds to the volatility...They made the coupons close to series 4 so there's more continuity and more liquidity," said the trader. Trading officially began on Thursday but, as has occurred in previous rolls, some dealers began trading the index earlier on a when-issued basis.

CMBX5 is comprised of seven deals that were a part of CMBX 4 and 18 newly referenced deals. The overlap of new and old deals is unprecedented in the index's two-year history. "We anticipate the price discovery phase of the roll to take longer than in the past," said **Andy Day**, a CMBS analyst at **Morgan Stanley**. Day predicted the A-rated classes will trade in line with similar bonds on CMBX 4, while the B-rated classes will trade at comparatively tighter spreads. The anticipated tightening would be due to the series' relatively better underwriting standards, marked by higher subordination levels, fewer interest-only loans and lower loan-to-value ratios.

The next series of the CMBX index, scheduled to be released in late October, could see similar problems. "With conduit loan origination at a standstill and dealer inventories winding down, we do not anticipate enough new issue CMBS deals in 2008 to support another CMBX roll this year," Day added.

PARTNERSHIP HASHING

(continued from page 1)

and use a mix of debt and equity to finance the remainder. One debt analyst estimated that the remaining financing would be a 60-40 debt to equity split. Goldman is expected to arrange the debt.

But assuming the first mortgage on the GM Building won't be a simple process given the many layers of debt in place on the property. "It won't be a straight, simplistic assumption. There will be some complexity," one servicing executive said. There is also $600 million of junior debt on the building. **James Feldman**, an analyst at UBS who covers Boston Properties, said that Macklowe needs to retain a stake in the property for the debt to be assumed.

Boston Properties is expected to rely on its partners to provide the lion's share of the equity needed. "[Boston Properties'] motive is to put as little cash as possible and get management fees out of it," one senior banking executive noted. That being said, one REIT analyst noted that Boston Properties has a fair amount of cash on its balance sheet and lines of credit.

Feldman said that if Boston Properties completes the acquisition, he would prefer it to limit its equity stake to less than 20%. "This would limit pricing and balance sheet risk, improve leasing flexibility and control in Midtown and put Boston Properties' name on the doors of GM Building," he said. A price of $2.8 billion works out to $1,430 per square foot or a cap rate of about 3.5%. Macklowe acquired the building in 2003 for $1.4 billion.

Billy Macklowe declined to comment. Officials at Boston Properties and Goldman Sachs did not return calls. —*S.G.*

PUB FIRM

(continued from page 1)

businesses are already separate.

Clarke said that conditions in the financial markets will make it more difficult for M&B to take on REIT status, largely because of the costs associated with the conversion and lack of funding availability for the necessary debt restructuring requirements. But the company wants to go ahead with the conversion to tap into the tax advantages available to REITs.

M&B, which owns U.K. pub chains **All Bar One** and **O'Neills**, has £2.4 billion ($4.7 billion) of securitized debt at a rate of 5.7%. "We want to migrate that debt into the REIT [via refinancing], but the debt market climate needs to be more liquid," a spokeswoman said.

In the interim, M&B is considering the sale of some individual sites as well as some sites that have strong redevelopment potential, but the spokeswoman said that this initiative is distinct from its plans to convert into a REIT. "This is more about getting value from the properties—we've been doing it for a while, and have raised about £54 million ($106 million)," she said.

The company launched strategic review after a joint venture with **R20**—an investment vehicle run by M&B shareholder **Robert Tchenguiz**—fell apart as a result of the credit crunch. M&B lost £274 million ($533 million) after tax from the collapse of the venture. "We'd taken out inflation hedges and interest rate hedges—which you'd do normally for any deal like this—but we kept them open because we thought that markets would stabilized," the spokeswoman said.

—*Hugh Leask*

CMBS Trading Matrix MAY 21, 2008

Conduit
Newly Originated Mortgage Collateral, Balloon, Call-Protected, Multiple Borrowers, Zero Delinquencies, Par, 5 yr AAA is narrow window, 10 yr AAA is senior AAA

Rating	5-yr Fixed	10-yr Fixed	5-yr Float (uncapped)
AAA	S+183	S+146	L+310
AA	NA	S+505	L+380
A	NA	S+700	L+500
BBB	NA	S+1340	L+700
BBB-	NA	S+1640	L+900
BB	NA	T+2350	NA

Outstanding CMBS
One week and four week returns and excess returns for four classes of CMBS included in Banc of America Securities' CMBS index.

Rating	One Week Return	Excess Return	Four Week Return	Excess Return
AAA (10 yr)	+1.80%	+90.4	+2.04%	+239.0
AA	+2.86%	+198.8	+8.37%	+869.7
A	+3.11%	+225.7	+6.73%	+705.5
BBB	+0.42%	-36.4	+12.07%	+1237.6

U.S. Swap Spreads
Premium to swap fixed-rate CMBS to floating-rate bonds, based on three-month LIBOR

	5 year	10 year
Current Spread	+76	+58
1-Week Change	-1	-2
4-Week Change	-8	-8
12-Month Change	+30	+4

Source: Banc of America Securities

ANNALY EXPANDS

(continued from page 1)

at TIAA-CREF, is also chair of the government relations committee of the **Commercial Mortgage Securities Association.** "[Riordan] is well known in the commercial real estate industry, particularly on the securities and lending side," Diamond said.

Annaly will invest in AAA-rated CMBS as well as in other areas that provide high risk-adjusted returns. It is in the early stages of mapping out an investment fund but Diamond said it was too early to elaborate on details. He noted, however, that the fund will be capitalized separately and will be independent of Annaly's balance sheet.

Riordan's duties at TIAA-CREF were filled by **Stephen Kraljic.**

—Sarika Gangar

FROM THE REPORTER'S PENTHOUSE

Knock On Wood

For the first time since January, *REFI* has more stories about people being hired or planning to hire than the other way around. Our headlines have words like "turning point" and "strong demand."

This was a nice change. It really starts to wear on you after the fifth consecutive month of being the one who calls and says:

We hear that you are laying off your entire staff and shutting down the group. We know we called about that last week and the week before too but we keep hearing it.

Lots of people are saying that no one wants to buy the building you're marketing for that price and that you should just stop trying.

The investors say they made you cry at the road show you had for your deal when they laughed and pointed at some of the collateral. Is that true?

It was kind of like being the Grim Reaper.

But this week was different. Maybe it was just spring fever. But we detected, across the board, a sense that things might be picking up.

We'll keep our fingers crossed.

Comments? Email reporterspenthouse@iinews.com.

MERRILL DEAL

(continued from page 1)

year on a **Credit Suisse** deal (*REFI*, 3/24). Calls to the firm were not returned by press time.

The deal was likely bolstered by the fact that other than a $1.1 billion securitization of loans originated by **LaSalle Bank** that is being completed by **Bank of America** and an offering from **Morgan Stanley**'s IQ shelf, there is no CMBS in the pipeline. "People are seeing that they need to buy," one trader said.

In addition to Merrill, **Dexia, PNC Bank, Bank of America, GE Real Estate** and **Capmark** contributed collateral.

—S.G.

Quote Of The Week

"We're in very strong markets but are not afraid to look at other markets others fear to tread in." **—Paul Tantillo**, *v.p. of* ***Infinity Funding****, on the firm's investment strategy (see story, page 8).*

One Year Ago In Real Estate Finance & Investment

The Blackstone Group paid down about $1.2 billion of mezzanine debt from its acquisition of **Equity Office Properties Trust**, miffing some investors...The securitization of the debt from Blackstone's EOP acquisition was launched, a $7.41 billion floating-rate deal...Interest rate reserves were getting more popular...**Barclays Capital** hired veteran traders **Jeff Lewis** and **John Caputo** from **Citigroup**.

Five Years Ago

Kennedy Wilson was planning to launch an almost $600 million distressed fund, its second largest fund ever...**Morgan Stanley** and **Lehman Brothers** were each working on all-cash, multi-borrower, pan-European CMBS deals, an innovation for the growing European markets...The SARS outbreak was expected to have little impact on the Asian market...Vacancy rates were expected to increase in Chicago.