



GLOBAL CMBS NEWSLETTER

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“The Future’s So Bright, We Gotta Wear Shades . . .”

As 1,600 industry participants from all over the world flock to Miami to share their outlooks for the CMBS industry in 2007, we are reminded of this one-hit-wonder song made popular in 1986 by Timbuk 3, “The Future’s So Bright, I Gotta Wear Shades.”

We agree, the future is bright. In looking at volume predictions for 2007, it appears that it will likely mimic the record-setting volume of 2006, with vast expansion in Canada as well as the European market. Continued growth is largely spurred by market efficiencies and continued spread tightening and stabilization, not to mention the artistic liberties that seem to be unquestioned in CMBS *underwriting*. The collective advantages have enabled CMBS lenders to consistently offer the highest proceeds, lowest cost of capital and least accountability; frequently outbidding the banks, life insurance companies and pension funds for the incremental transactions in 2006.

Continued growth will be reliant on the CMBS machine demonstrating an ability to complete the circle and refinance the maturing loans in existing pools. DBRS examined the refinance profile of the 10-year loans in 1997 and 1998 vintage CMBS transactions and five-year loans in the 2002 and 2003 vintage CMBS. As shown on the chart below, which profiles the loans maturing in 2007 and 2008, close to one third has already defeased. In order to identify refinancing concerns in the remaining loans, DBRS looked at the most recent servicer net cash flow (NCF), considered the current interest rate environment, and assumed loans can refinance at break-even 1.0x DSCR. Under those assumptions, we are left with a total of 81 loans maturing in 2007 and 177 loans maturing in 2008 that need closer examination. If the servicer NCF is accurate, these combined 258 loans may have some difficulty refinancing.

While the servicer cash flows are normalized, they may not be indicative of a stabilized net cash flow nor are they indicative of underwritten cash flow found in newly issued CMBS transactions. Therefore, these 258 loans may not look to be a “slam-dunk” when it comes to refinancing, but with today’s underwriting standards refinance is certainly not out of the question.

CMBS Maturity Profile (Vintage 97, 98, 02, 03)	2007	2008
No. of Loans Maturing in 2007	1,637	3,660
Balance of Loans Maturing in 2007	7,693,890,189	20,392,487,756
Balance of Defeased (270 loans)	2,405,237,412	5,529,087,529
Defeased Portion (%)	31.3%	27.1%
No. of Loans Needing to Refinance in 2007	1,367	2,925
Balance	5,288,652,777	14,863,400,227
WA Coupon	7.77%	6.64%
Current Mortgage Rates (Average)	6.08%	6.08%
No. Loans Below 1.0x	108	252
Balance of Loans Below 1.0x	486,338,516	1,371,565,382
% of Cohort	9.20%	9.23%
No. Loans Below 1.0x (Interest Only (IO) Refinance)	81	177
Balance of Loans Below 1.0x (IO Refinance)	380,289,257	1,005,208,460
% of Cohort	7.19%	6.76%
Implied Loss on Non-Refinanceable Debt	277,270,284	837,774,996
% Loss of Cohort	5.24%	5.64%

Source: Trepp LLC, DBRS

We will be following these 258 loans this year and will report on them at a later date to show exactly what happened to them. Discovering their true underwritten cash flow, new loan amount and what pools they end up in will certainly tell us more.

While the future is bright for 2007 and 2008 maturities, we cannot be “blinded by the light.” The deterioration of underwriting standards and high leverage within the marketplace leave room for long-term blinders in lieu of shades.

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