



COMMERCIAL LOAN STRESS EXAMPLES

1. Office Building Example:

Sponsor acquired this well located, two building office complex in a downtown east coast city in December of 2003. They purchased the property for \$94 million with a \$75 million CMBS loan or 80% leverage. The loan came due January 1, 2009 and is currently in an extension period through March 1, 2009. The property is 100% occupied and is 94% leased to a large financial institution with an A+ credit rating that is very well positioned relative to its peers in the current economic environment. There is minimal lease expiration until 2015 and 2017 when the major tenant's space will be up for renewal. The sponsor is willing to inject \$10 million of new cash equity into the deal and refinance their \$75 million CMBS loan with a new \$65 million loan. Multiple life company sources were solicited and the sponsor selected one to negotiate and commit to a loan. The life company's offer was subject to loan participation and they withdrew very late in the game after the participating lender was unable to close, leaving the sponsor with limited options in the market. Certainty of execution is of critical importance to the sponsor as they seek to refinance during the next 45 days, while pricing and loan structure are secondary.

2. Industrial Portfolio Example:

Sponsors developed, acquired, and repositioned this 14 million square foot property, 98% occupied industrial portfolio over a period of 10 years through a successful joint venture program totaling over \$1.3 billion in

value. There are currently 39 properties in the portfolio that are encumbered with \$177 million of life company debt that is due in early 2009. The sponsors have approached thirteen life company lenders seeking to refinance 24 of the properties with \$230 million of new amortizing, long term debt at 55% LTV. Only one life company candidate responded with loan terms for a 7 year, \$166 million loan or 40% LTV, at an 8.5% fixed rate of interest with 30 year amortization and minimum debt service coverage of 1.5x's. This offer was \$11 million below the needed refinance amount and had a 130 bps higher interest rate than the current rate of 7.2%. Obviously the sponsors did not accept this offer as it was simply too expensive, leaving them with only one real option, which was to return to the original lender and seek a 12 to 24 month extension of the existing loan.

3. Hotel example:

A Southern California waterfront hotel was purchased for \$60 million with \$60 million more invested in a complete renovation. A third party appraisal dated 12/31/08 by Integra Realty Resources reflects a \$127 million value. The \$65 million loan has a 2x debt service coverage and became part of a CMBS with a January 2009 maturity. The Servicer has expressed no interest in negotiating an extension under any terms (i.e., principal pay down, higher interest rate, rollover fee, etc.). We contacted over 70 capital providers and only one was interested in providing a 1st mortgage – which was for \$40 million at LIBOR plus 600. We are faced with the prospect of putting in another \$25 million in equity or losing the property. The hotel is in its first year of operations post renovation and, while the current economy is challenging, it is performing consistent with our expectations relative to its competitive set. We have a strong partnership group and have decided to retire the first mortgage (the CMBS position) when due next week. Fortunately, the resources are available to resolve this issue without waiting to see what this uncooperative servicer decides to do.

4. Client owns a 30,000sf Office Building in Florida. Building is 100% leased to Credit Tenant (S&P AA-) for 12 years with increases. Borrower wants 60% LTV loan, 5 year term with 25 year schedule. No lender wants to touch it!

5. A regional mall in California anchored by Macy's, Sears and Gottschalk's. \$60mm loan request, 50% LTV, 1.54X Debt Service Coverage. Borrower will provide recourse. Dominant mall in its trade area. No lender.
6. Grocery/Drug anchored retail center, 52% loan to cost, 1.30X DSC. Searching for 10 to 12 year permanent financing in the amount of \$15 million. No returned calls.
7. Significant borrower with \$450 million of assets is in the market for 70% loan to acquisition cost, 7 year permanent financing in the amount of \$7.81 million. The security consist of a state of the art 250,400 sf industrial building 100% leased to 3 tenants with staggered lease expirations and under market rents. The borrower is under contract to purchase the property for \$11,150,000 (\$45/sf) which equates to a 9.25% cap and is substantially below replacement cost. No takers to provide the acquisition financing
8. 77,000SF recently completed retail center, shadowed anchored by Kohls and WalMart. Subject center/collateral has Office Max, Dress Barn, Michaels and various national/local tenants in shop space. Center is 97% leased. Request is 55% loan to cost. Most life companies are out and those that are in the market, are in are not interested in this product. Borrower is willing to provide recourse, short to mid-term.
9. 50% LTC acquisition deal in Pacific Northwest. 784,000 SF of primarily flex space with some office and some industrial. Most lenders we talked to turned it down due to the flex nature of the improvements. \$65 million deal; \$130 million sale price.
10. Construction/bridge on regional mall in California. \$60 million deal. Not a lot of lenders that have any interest at all.
11. Class A asset in Southern California. \$123MM purchase price. Seeking 50 to 60% LTV options. No takers. Deal size is the primary hurdle.
12. Almost every closed-end and open-end real estate fund in existence is hoarding cash for fear that it will be unable to refinance future debt maturities. While some of this is warranted given the current state of the economy, the concern over the lack of liquidity in the commercial

real estate debt markets has led to a significant increase in the amount of cash held by the funds and/or requiring funds to call cash from investors simply to protect against the lack of liquidity in the debt markets. This creates a vicious cycle as it reduces the amount of liquidity at the investor level, which, by example, include many public pension funds who are already stressed for funding levels, putting increased stress on local and state level governments.

13. We are in the process of refinancing a Class A, institutional quality retail center in a suburban Denver. We own the property in one of our commingled funds that consist of large institutions (insurance companies and public pension plans) and high net worth investors. The property is currently 90% leased and the net income is higher than when we initially put on the existing financing. The initial acquisition loan totaled \$43 million. We have contacted 60 lenders and have one viable candidate at a loan amount of \$23 million. But for the fact that we have undrawn capital in the fund that owns this property, we would not be able to invest the additional amount necessary to refinance this loan.

14. We have had a very difficult time refinancing a downtown (prime corner retail location) office/retail building. This asset is 100% leased with minimal turnover the next two years. We are seeking 62%+/- LTV and the DSCR is at 1.25. We started our refinance efforts in June of last year and we received 7 term sheets. We selected a lender in late July and were moving along to close the loan in September. The bank we were working with was a German based bank. Two days before closing, we received a call from the banker stating they were out of funds and would not show up at closing. We went back to the other 6 banks that submitted term sheets. None of them would commit to moving forward so we went back to the market. Four months later, we have finally landed a healthy bank based in the US. However, given the changes in the capital market, this bank will not hold the entire loan (\$44M) and we are in the process of trying to find one or two syndicate banks to close the gap. Again, this is a stabilized (at market rents) asset in a great location within a great city. Very painful.