



Capital Markets Update

The Forces Transforming Markets

November 2007



The Past

December 2006 – April 2007
“The Height of the Market”

November 2007

Changes in Risk Tolerance

Spring 2007

- Rating Agencies Tighten Screws on CMBS
 - The widening in CMBS spreads occurred despite the excellent fundamental performance in commercial mortgages.

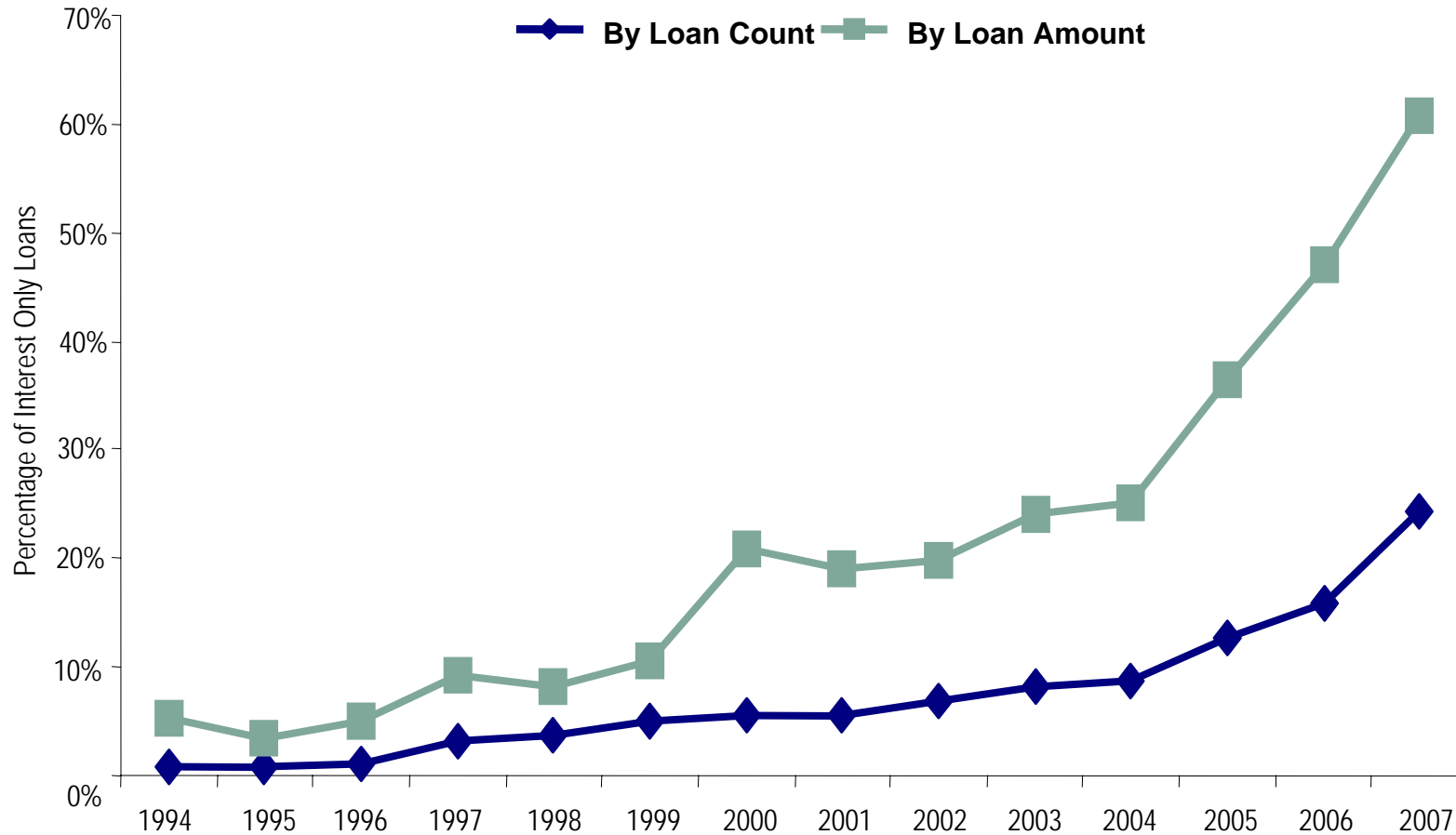
- Heat Turned Up on Securitization Programs
 - Subordination levels rose for commercial MBS deals- reversing a decade-long decline.

- Aggressive Pricing
 - Spreads near 100 bps

- Aggressive underwriting
 - Debt service coverage below 1.10
 - Future income versus in-place income

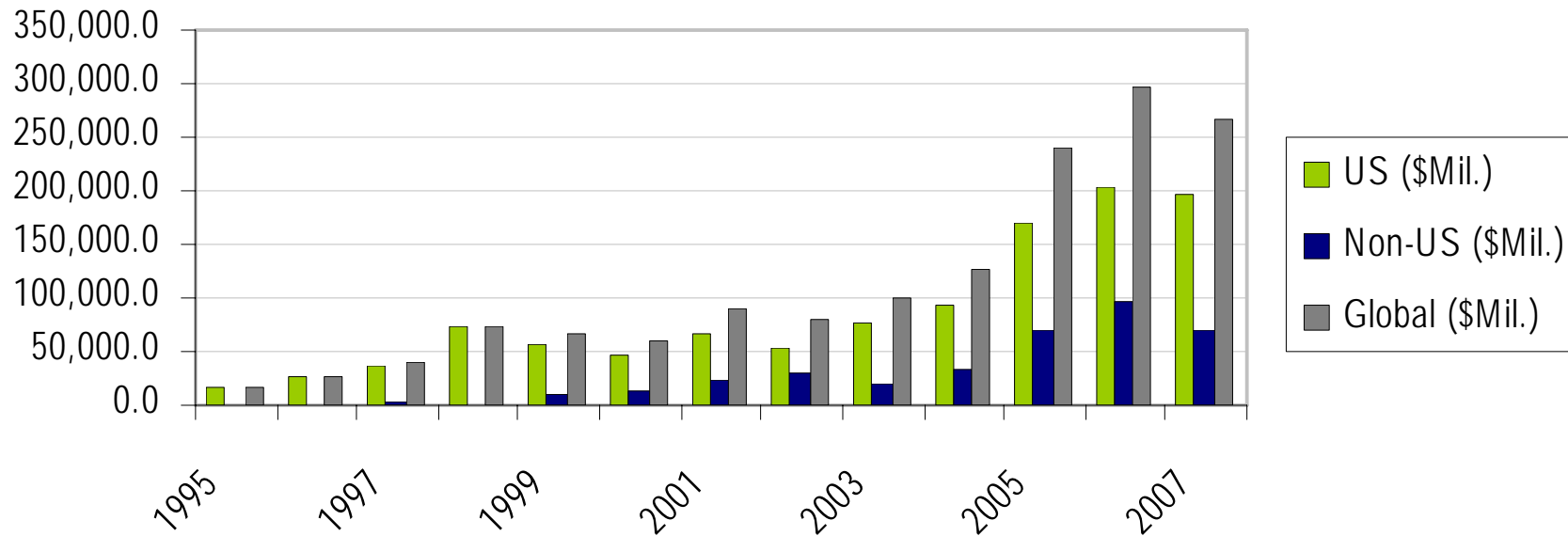
CMBS Underwriting Trends

Impact on Value % of IO Loans Has Skyrocketed



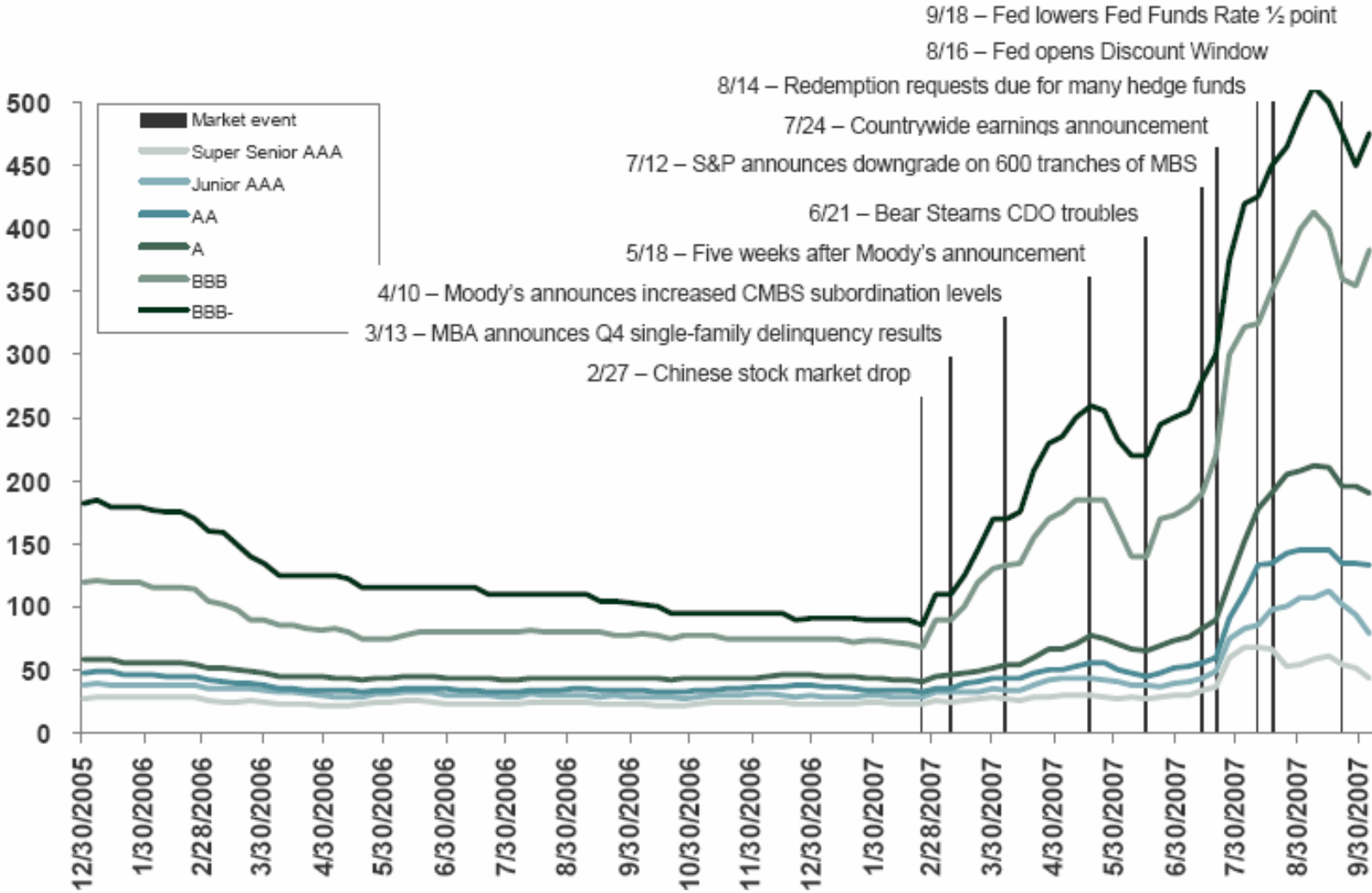
Source: Trepp

Historical CMBS Issuance



Source: Commercial Mortgage Alert 2007 through 3Q

CMBS Timeline





The Present

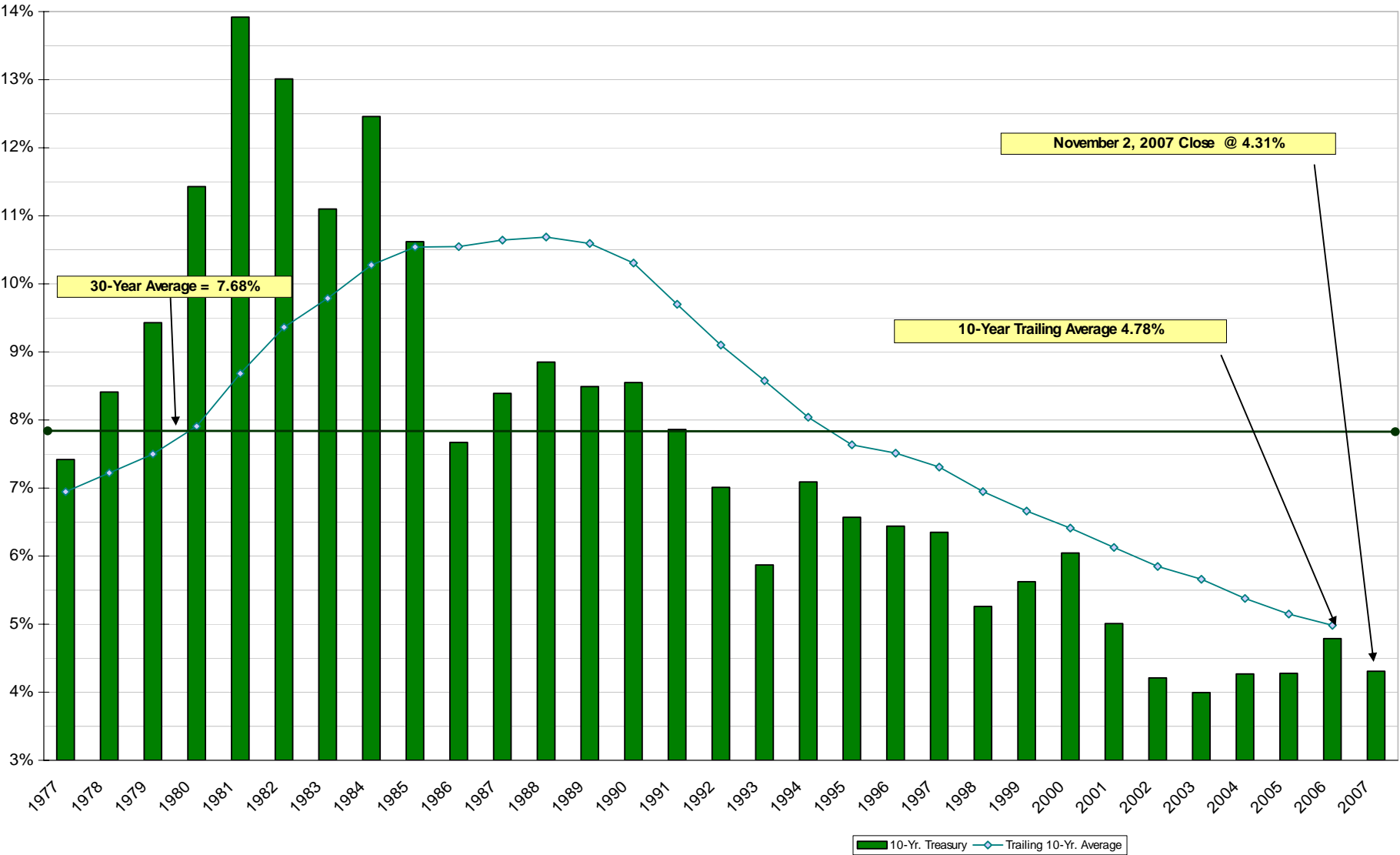
A “Mixed Market”

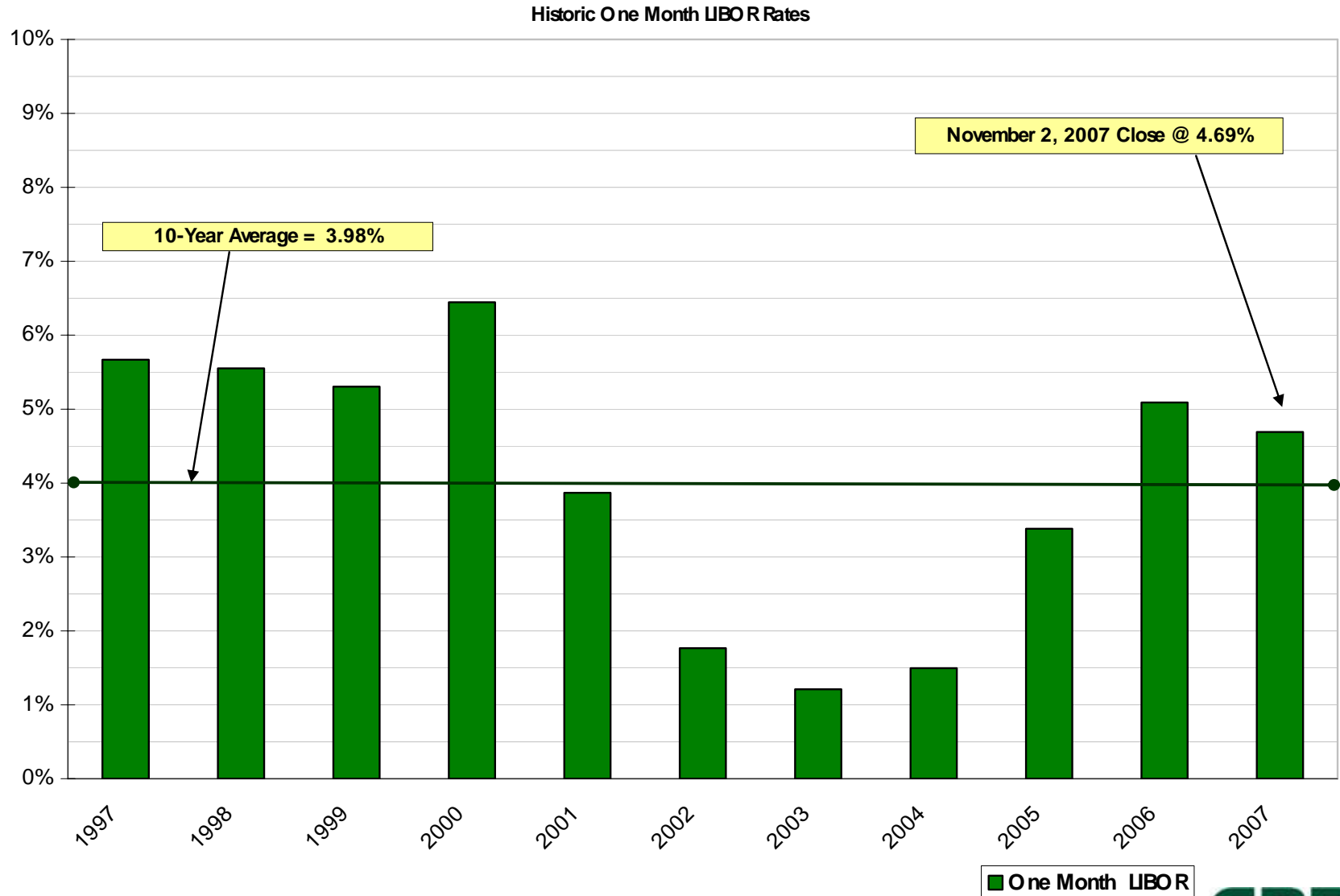
November 2007

The Lending Environment Changed

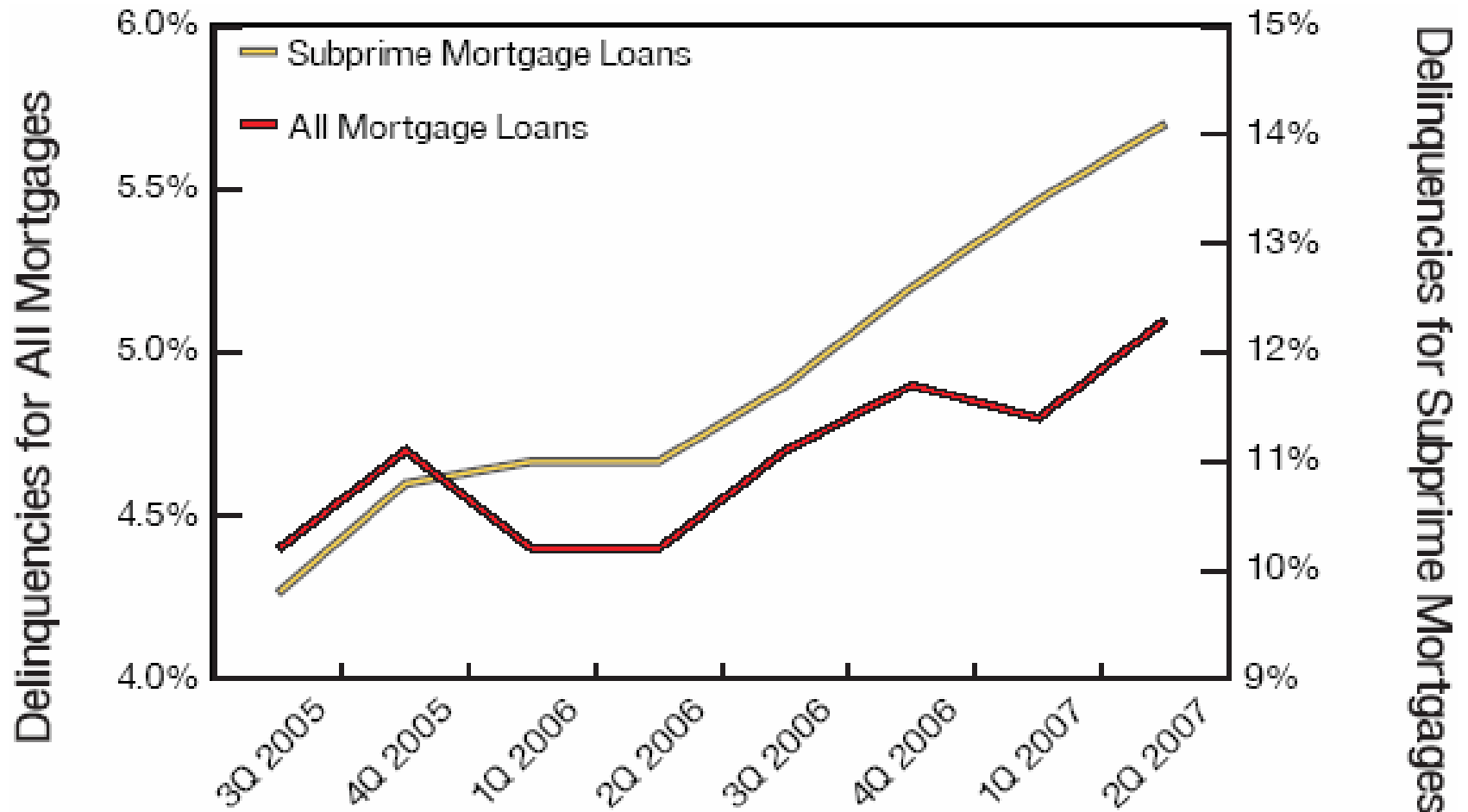
- Moody's April 10 declaration, underwriting gets conservative
- Residential loan market tumbles with sub-prime issues
- Commercial mortgage spreads widen
- CMBS deals fail to "sell-out", B buyers back in charge
- On-book lenders (life companies, Freddie Mac, Fannie Mae) regain prominence

Historic 10-Year Treasury

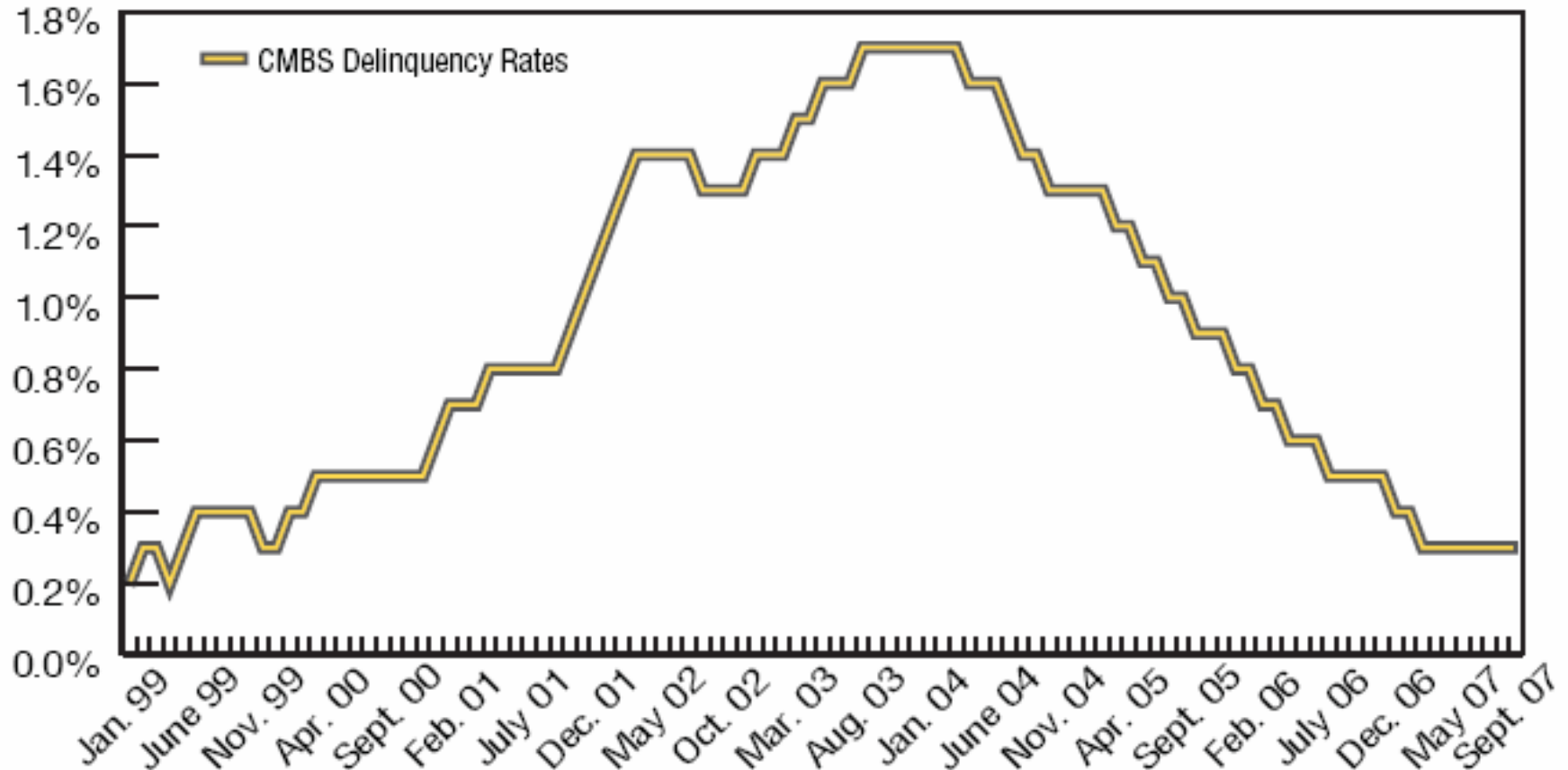




Home Mortgage Delinquency on Rise

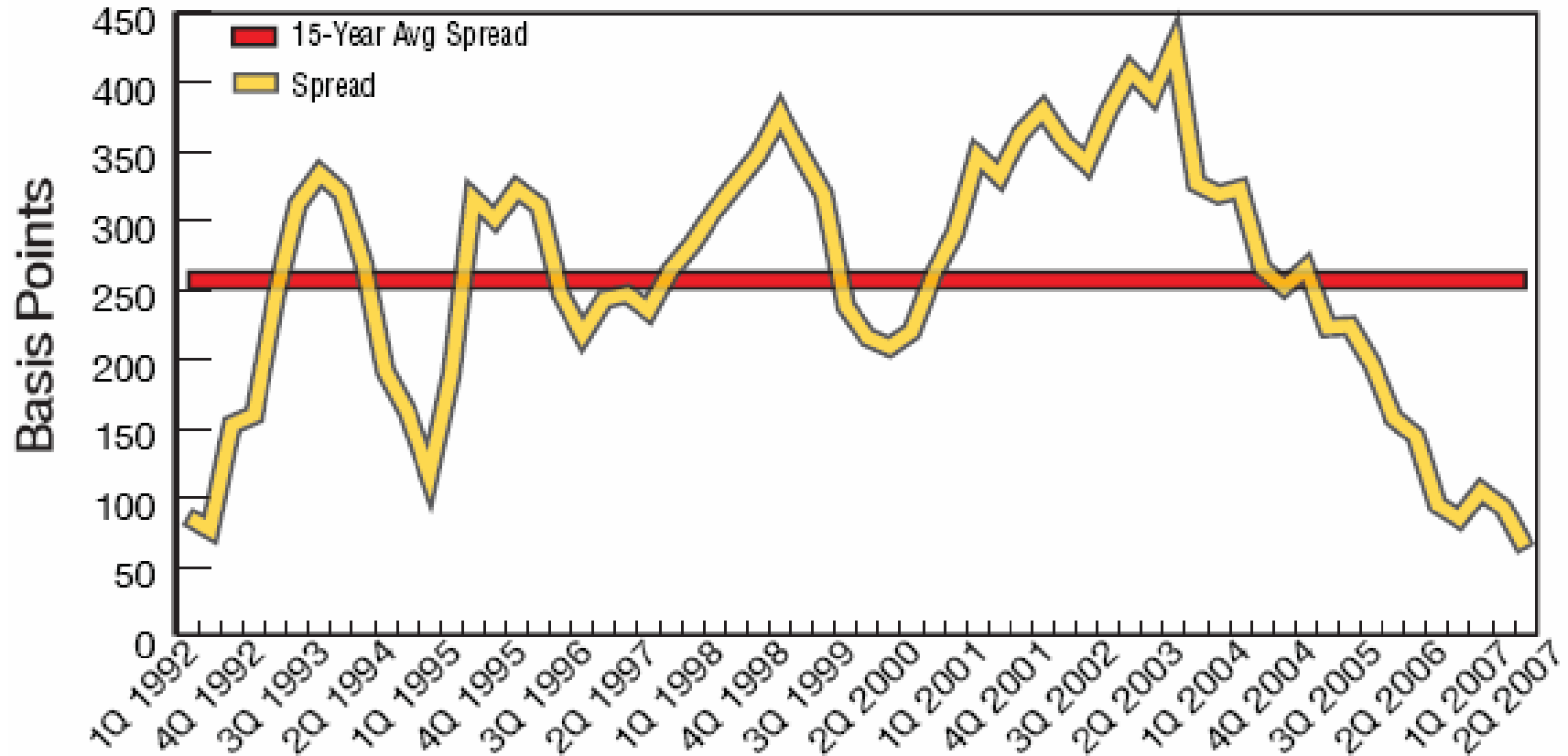


CMBS Delinquency Rates



Sources: Lehman Brothers, 3Q 2007 *Note delinquencies represent loans 60+days delinquent

NCREIF Implied Cap Rates Relative to 10-Year Treasury Rates



Early 2007 Underwriting Standards Versus Recent Standards

| UNDERWRITING | EARLY 2007 STANDARDS | RECENT PARAMETERS |
|---------------------|--|--|
| Interest Only Loans | Commonly Offered | 30-yrs common, 1-2 yrs IO offered and additional IO at a substantial premium unless low leverage |
| Underwriting | Higher of market rent and rent contracts | Revert to in-place rent roll unless there are contractual lease steps by a long-term investment grade tenant |
| Loan to Value | 75 to 80% based on aggressive cap rates | 75-80% with adequate coverage (see DSCR below) |
| DSCR | Sub 1.0x based on no amortization and anticipated market improvement | 1.2 times being held firm based no tougher underwriting and amortization |
| Reserves | Frequently dropped in competition | All up-front and continuing reserves are now being funded |

CMBS Spreads, Swaps & Treasuries

| Fixed Rate (Conduit) | Avg. Life | Spread (bps) | | |
|-----------------------------------|--------------|--------------|-----------------|---------------|
| | | 10/31 | Week Earlier | 52-wk Avg. |
| AAA | 5.0 | S+75 | S+65 | +34 |
| | 10.0 | S+73 | S+64 | +39 |
| AA | 10.0 | S+150 | S+135 | +67 |
| A | 10.0 | S+240 | S+200 | +93 |
| BBB | 10.0 | T+513 | T+422 | +238 |
| BB | 10.0 | T+625 | T+575 | +375 |
| B | 10.0 | T+1,000 | T+950 | +776 |
| Floating Rate (Large-loan) | | | | |
| AAA | 5.0 | L+60 | L+55 | +20 |
| AA | 5.0 | L+125 | L+110 | +38 |
| A | 5.0 | L+175 | L+145 | +63 |
| BBB | 5.0 | L+300 | L+250 | +119 |

Source: Commercial Mortgage Alert, Morgan Stanley

CB Richard Ellis | Page 15

Key Rate Summary

| | 11/1/07 | 6 Months Ago | Year Ago |
|--------------------------|----------------|-------------------------|-----------------|
| Prime | 7.5% | 8.25% | 8.25% |
| 5-Yr US Treas. | 4.02% | 4.53% | 4.52% |
| 10-Yr US Treas. | 4.36% | 4.64% | 4.57% |
| LIBOR 3-mo. | 4.87% | 5.35% | 5.37% |
| Dow Jones Avg. | 13,567 | 12,382 | 12,031 |
| 10-Yr Swap Spread | 63bps | 53 bps | 55bps |



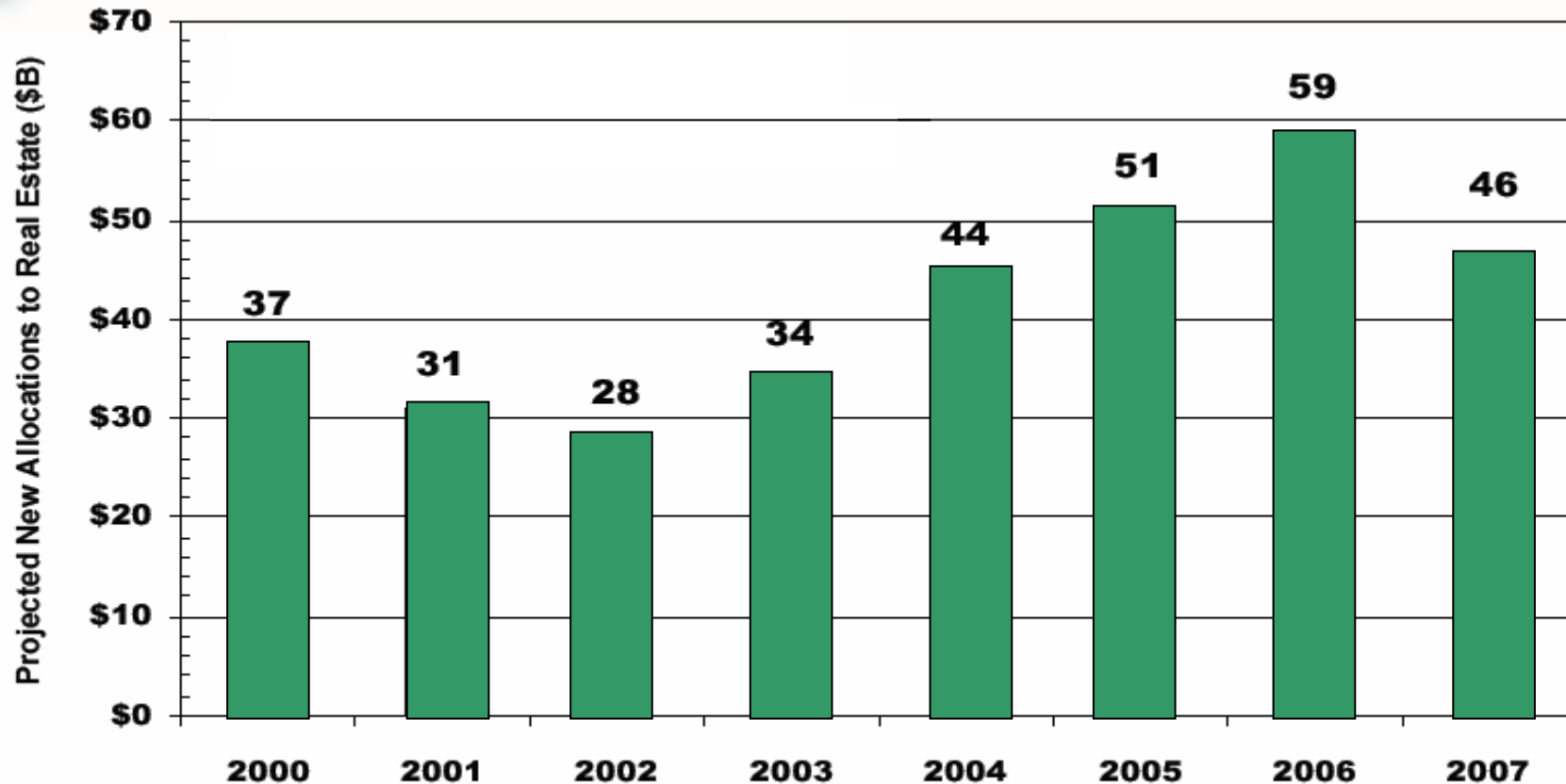
The Future

“Where Will Tomorrow Lead?”

November 2007

Expected Capital Flows to Real Estate

Non-Invested Capital Carryover From 2006: \$60 billion



Source: Institutional Real Estate, Inc. Kingsley Associates

Change in Availability of Capital for 2008



- Relative Strength
- Capital Cushion
- More Discipline
- Greater Caution
- Extended Pain

Source: Emerging Trends in Real Estate 2008 Survey, ULI

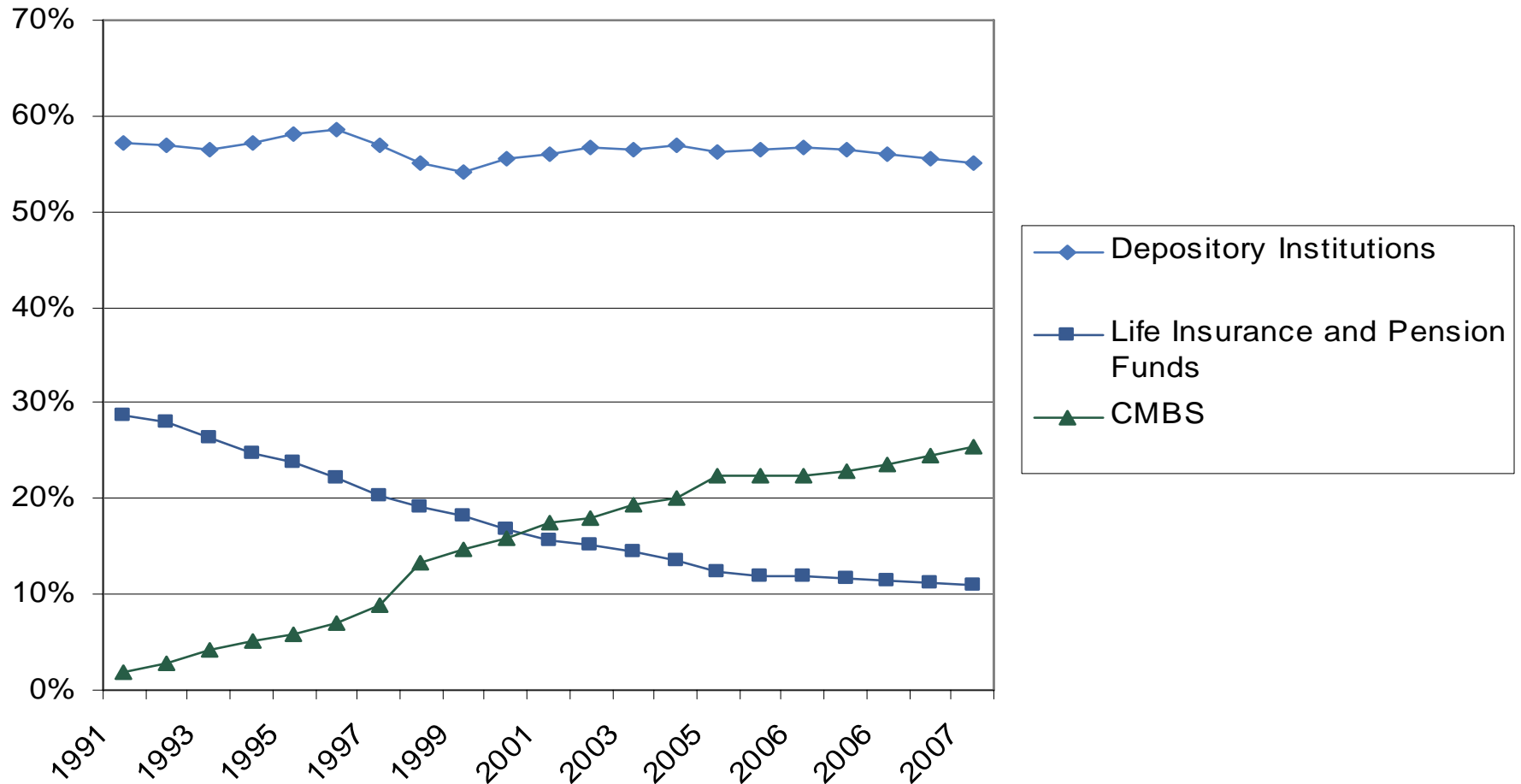
CMBS Deals in the Works

| NOVEMBER | Underwriter | Deal Type | Rate Type | Amount (\$Mil.) |
|---|--------------------------|------------------|------------------|------------------------|
| LB-UBS Brand (Lehman Brothers, UBS, KeyBank) | Lehman Brothers, UBS | Fusion | Fixed | \$3,500 |
| Bank of America, Bridger | Bank of America | Fusion | Fixed | 3,000 |
| Blackstone Group (La Quinta hotel portfolio) | Merrill, UBS, BofA | Single borrower | Floating | 3,000 |
| ML-CFC Brand (Merrill Lynch, Countrywide, Eurohypo, Natixis) | Merrill Lynch | Fusion | Fixed | 3,000 |
| CD Brand (Citigroup, Deutsche Bank, Artesia, CWCapital) | Citigroup, Deutsche Bank | Fusion | Fixed | 2,500 |
| IQ Brand (Morgan Stanley, GE, Principal, NCB, National City, RBC) | Morgan Stanley | Fusion | Fixed | 2,200 |
| UBS | UBS | Large loans | Floating | 2,000 |
| Deutsche Bank, Societe Generale | Deutsche Bank | Large loans | Floating | 1,800 |
| Countrywide | Countrywide | Small balance | Fixed | 500 |

| DECEMBER | Underwriter | Deal Type | Rate Type | Amount (\$Mil.) |
|--|------------------------------|------------------|------------------|------------------------|
| J.P. Morgan, CIBC, Natixis, PNC | J.P. Morgan | Fusion | Fixed | \$2,300 |
| PWR Brand (Wells, Bear, Prudential, Principal, Nationwide) | Bear Stearns, Morgan Stanley | Fusion | Fixed | 2,000 |
| Goldman Sachs | Goldman Sachs | Large loans | Floating | 1,500 |

Source: Commercial Mortgage Alert 2007

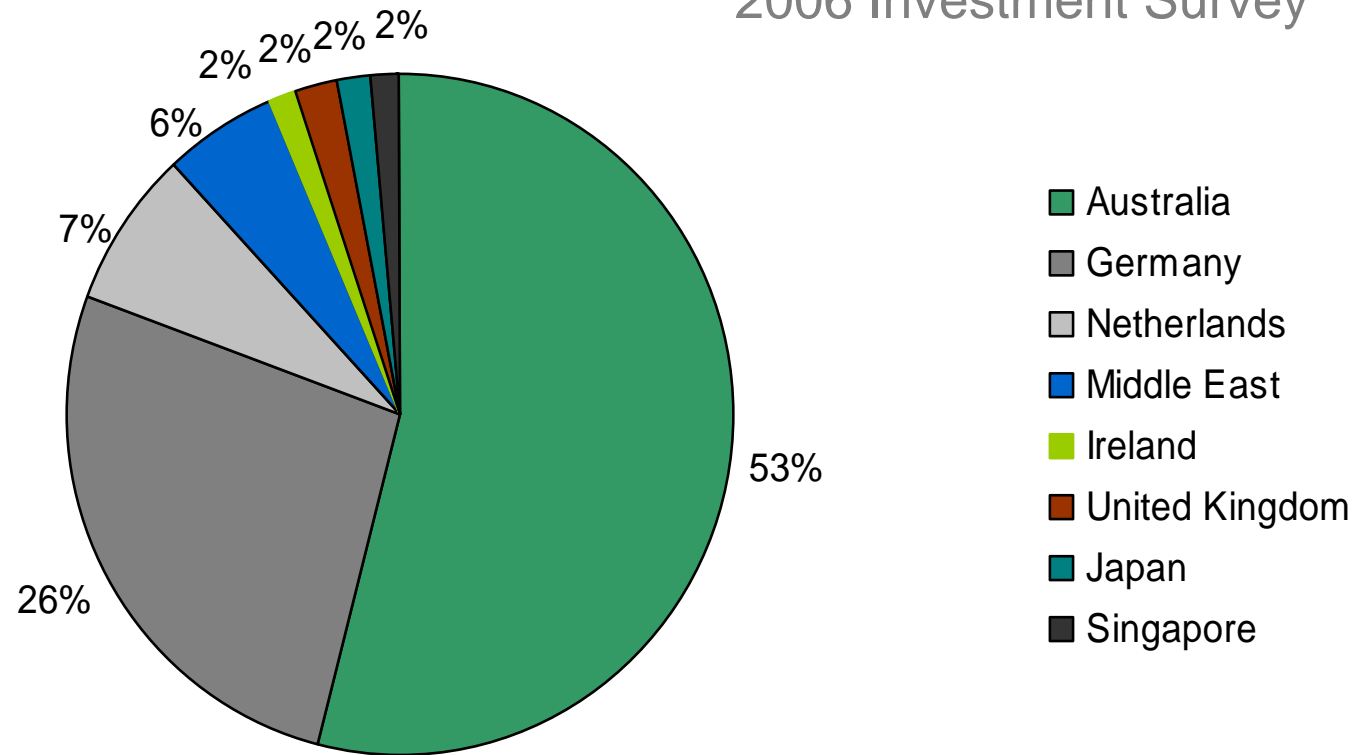
Holder of Commercial Mortgages



Source: CBRE Torto Wheaton Research

Most Active Foreign Buyers of U.S. Real Estate

2006 Investment Survey

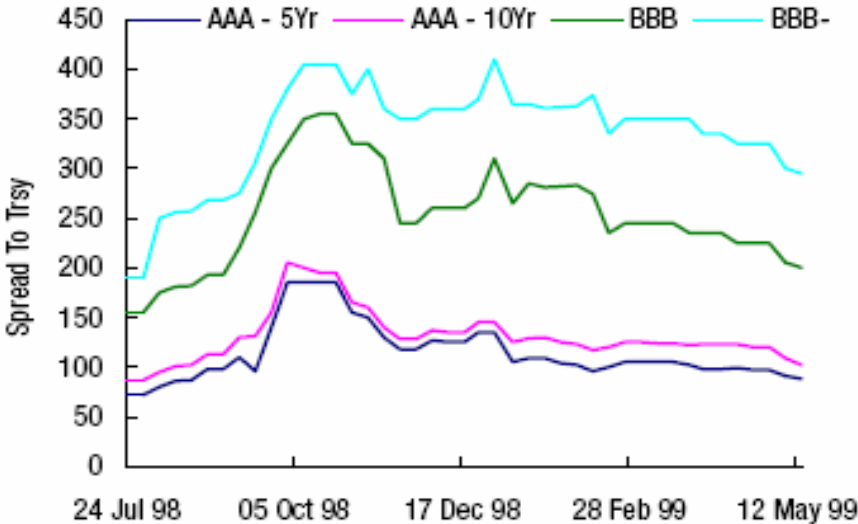


Source: Association of Foreign Investors in Real Estate, 2007

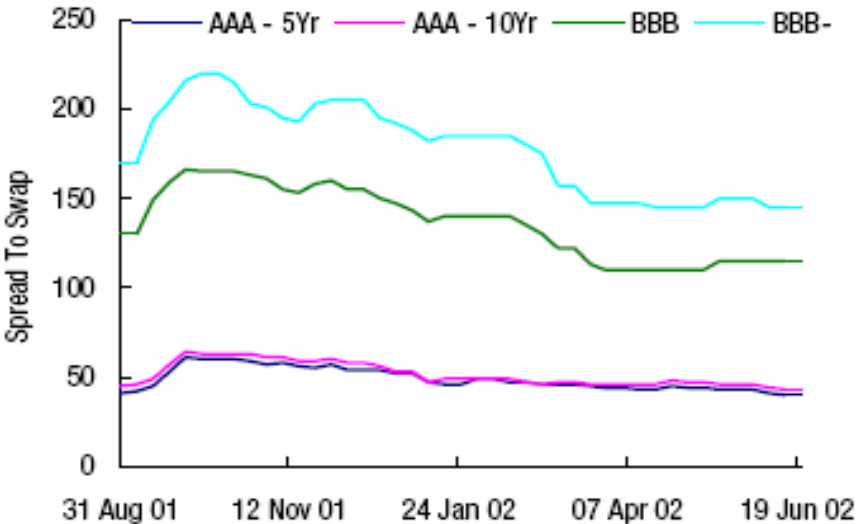
Is History Repeating Itself?

Spreads widened sharply then began to recover in 3 to 6 months

1998 Crisis



2001 Crisis



Source: Citi Research 2007

Spectrum of Possible Outcomes

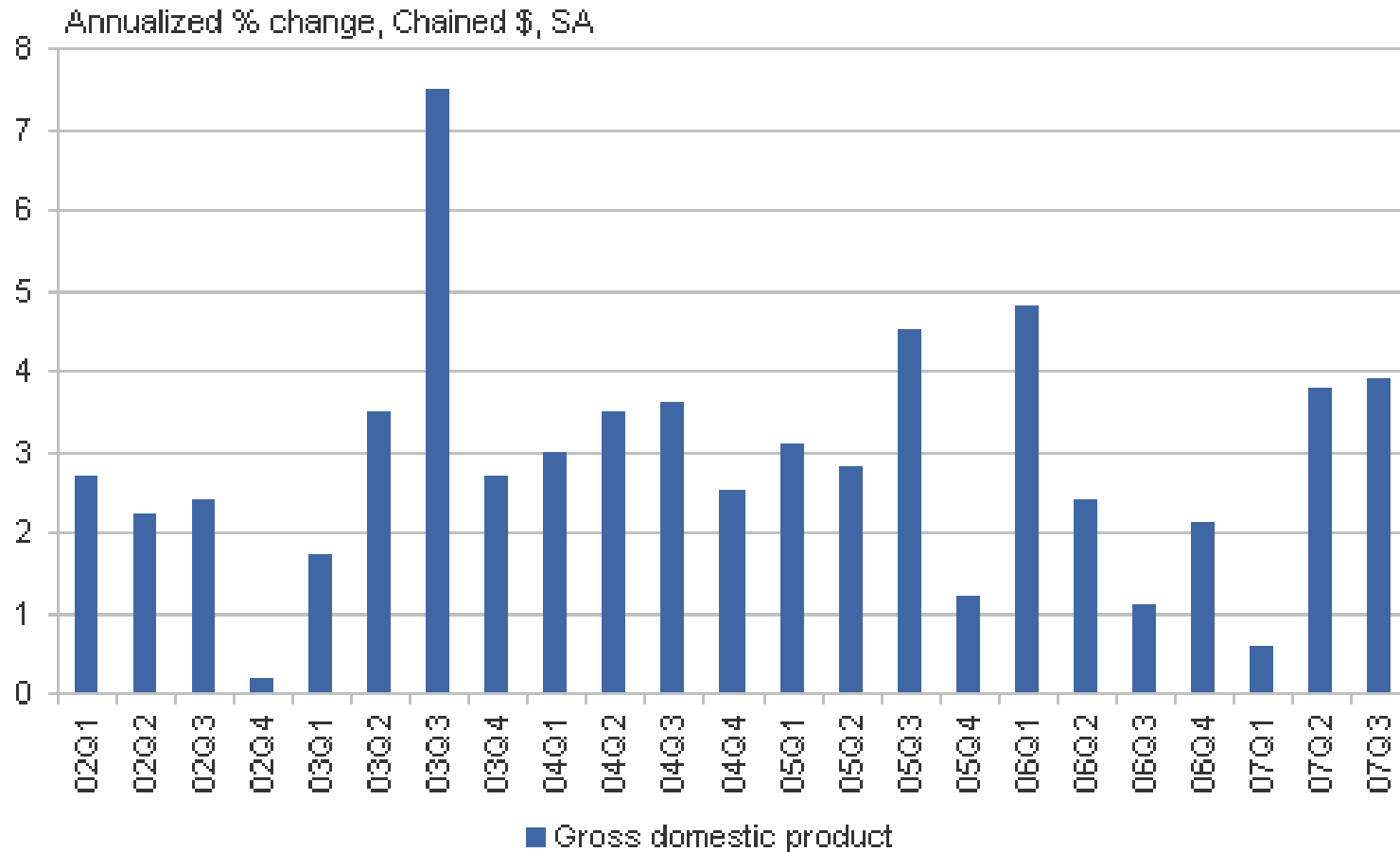
| | Return to Goldilocks | Soft Landing | Hard Landing | Prolonged Recession |
|-------------|---|---|--|--|
| Description | <ul style="list-style-type: none"> • Originations of leveraged loans, high-yield bonds, and CMBS resume on former terms • Availability of cheap capital fuels strong growth in domestic economy | <ul style="list-style-type: none"> • Backlog exhausted / debt markets find new equilibrium • Moderate domestic growth • Adequate fundamentals: consumer spending, interest rates, employment | <ul style="list-style-type: none"> • Liquidity crises catalyst for economic slowdown • Housing and consumer trends worsen • US troubles impact foreign economies | <ul style="list-style-type: none"> • Synchronized global recession • China bubble bursts • Housing meltdown • Central bank missteps |
| Probability | <ul style="list-style-type: none"> • Very Unlikely | <ul style="list-style-type: none"> • Most Likely | <ul style="list-style-type: none"> • Possible | <ul style="list-style-type: none"> • Very Unlikely |
| Evidence | <ul style="list-style-type: none"> • High-yield defaults remain at all-time lows ~1.5% in 2007 • Immense global liquidity likely to continue | <ul style="list-style-type: none"> • Strong global growth expected: 5.0% 2007E and 4.5% 2008E • Recent Fed actions; further 50 bps expected by 3Q 2008 • Low default rates ~1.5% • 46% and 30% of firms surveyed plan to increase CapEx and hiring • Large backlog of committed PE capital | <ul style="list-style-type: none"> • US forecasted real GDP growth only 2% until 2009 • Higher cost of borrowing • Tight labor market and increasing commodity prices threaten inflation • Residential investment projected to go down 16.2% in 2007 and 15.2% in 2008 • Unemployment projected to be 5.5% by 4Q 2008 | <ul style="list-style-type: none"> • Global growth projections downsized in light of liquidity issues: 4.6% 2008E • Political unrest in India and China may lead to slower than expected economic growth |



Economic Trends

November 2007

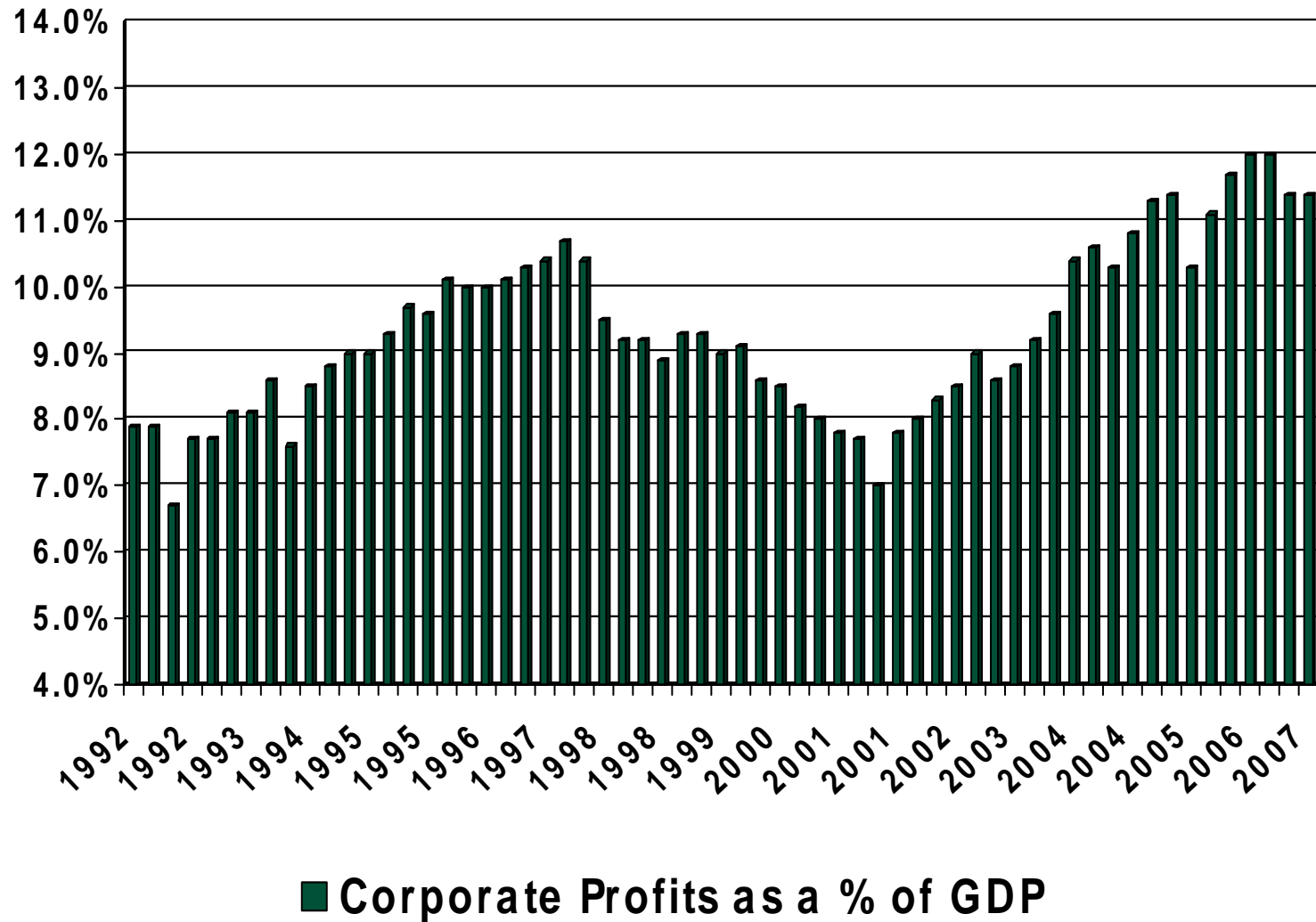
GDP 3Q Update



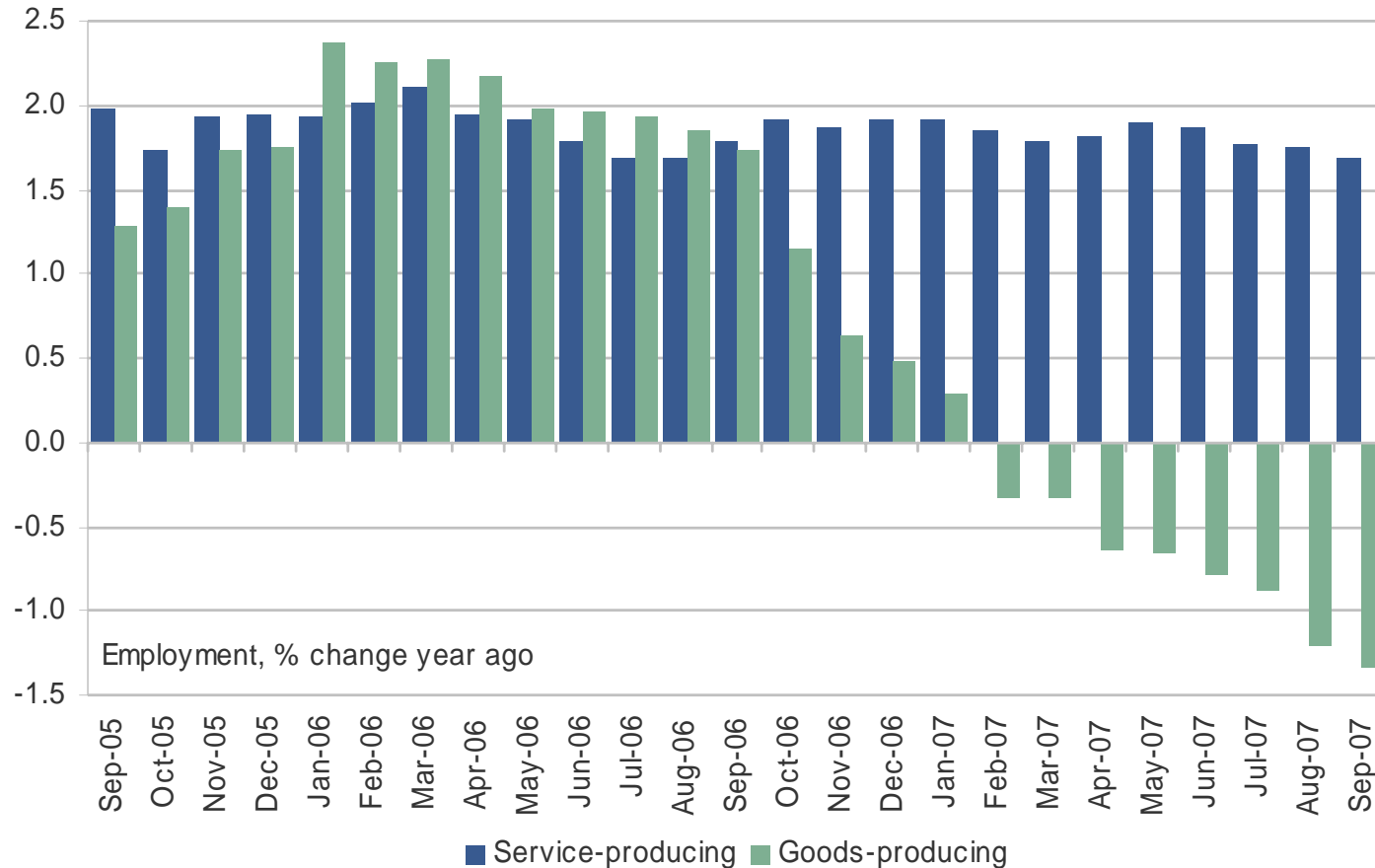
Source: BEA and Torto Wheaton Research

CB Richard Ellis | Page 26

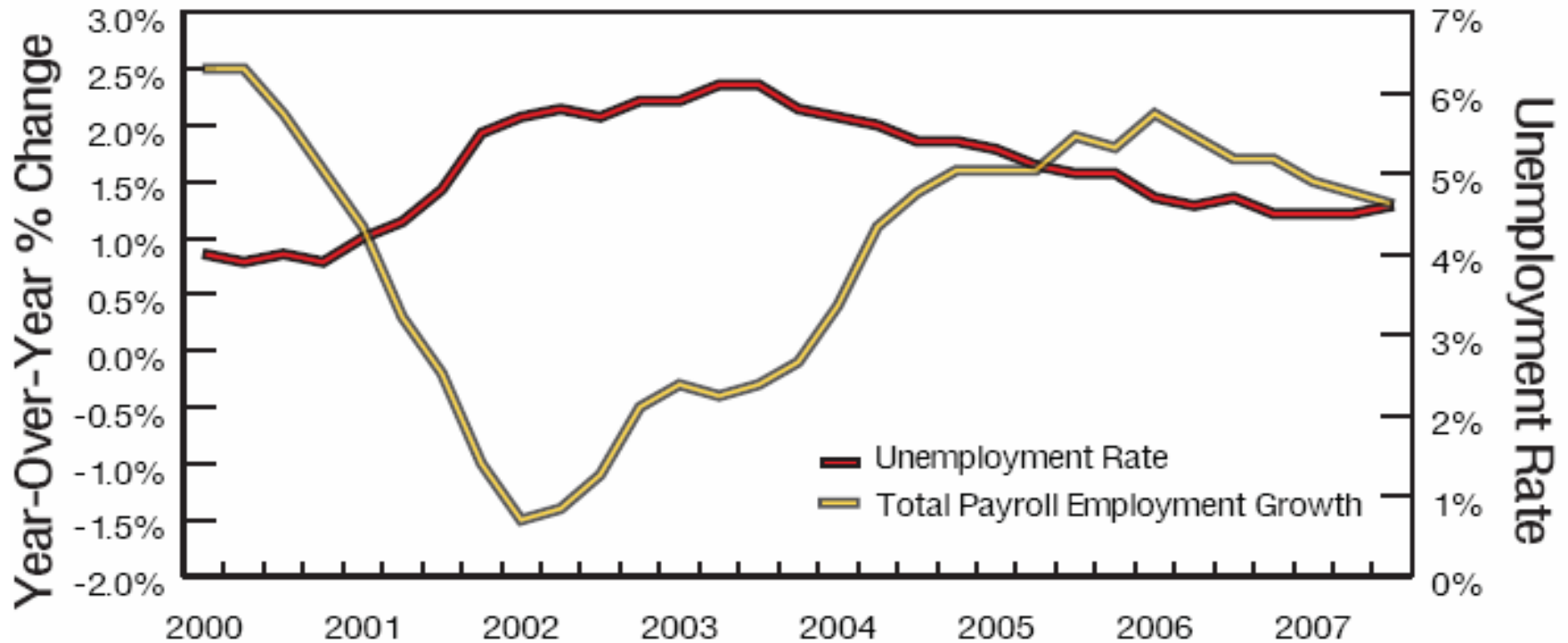
Business Has the Means to Continue the Expansion



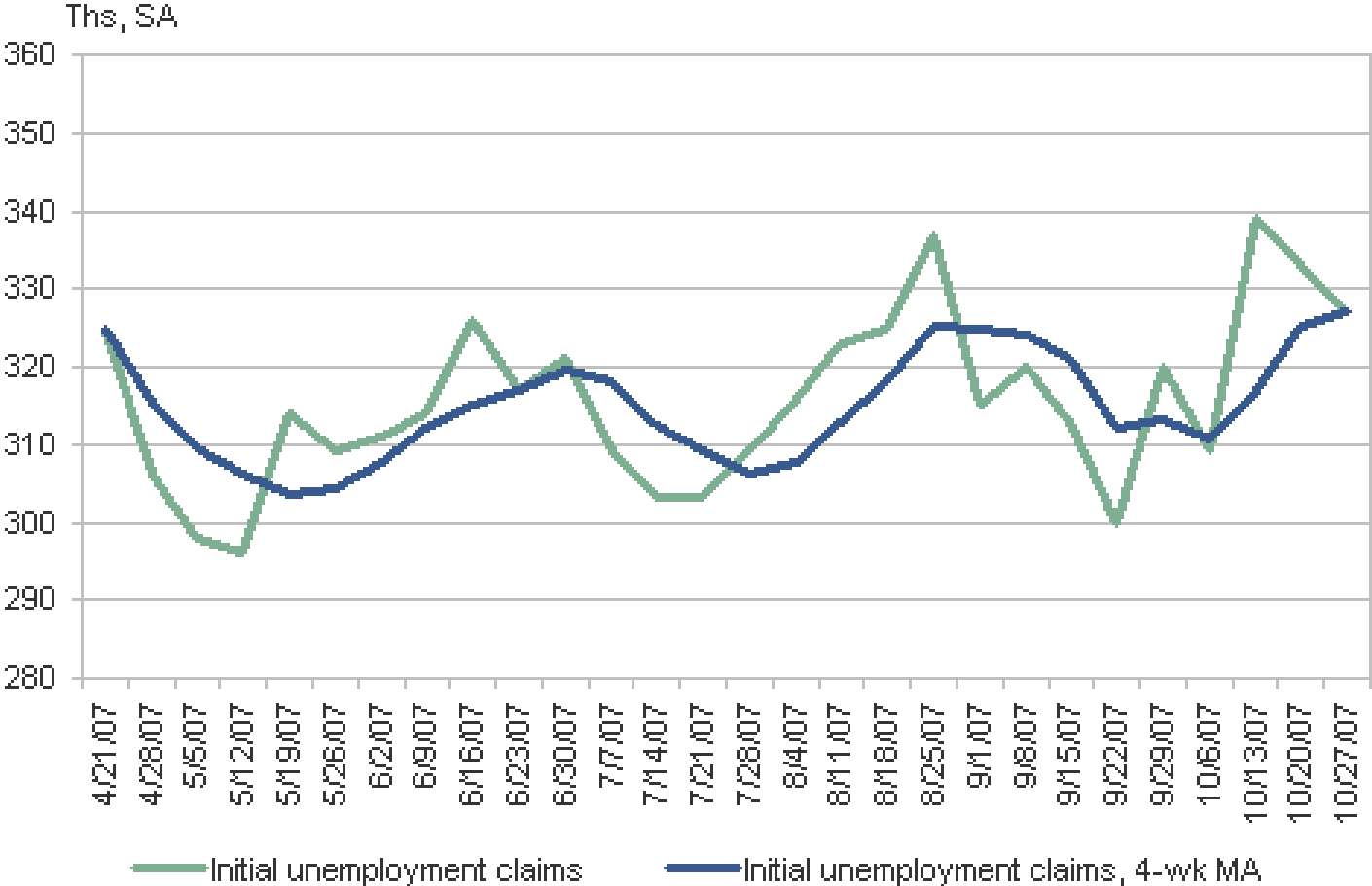
Employment Situation



Positive but Slowing Employment Growth

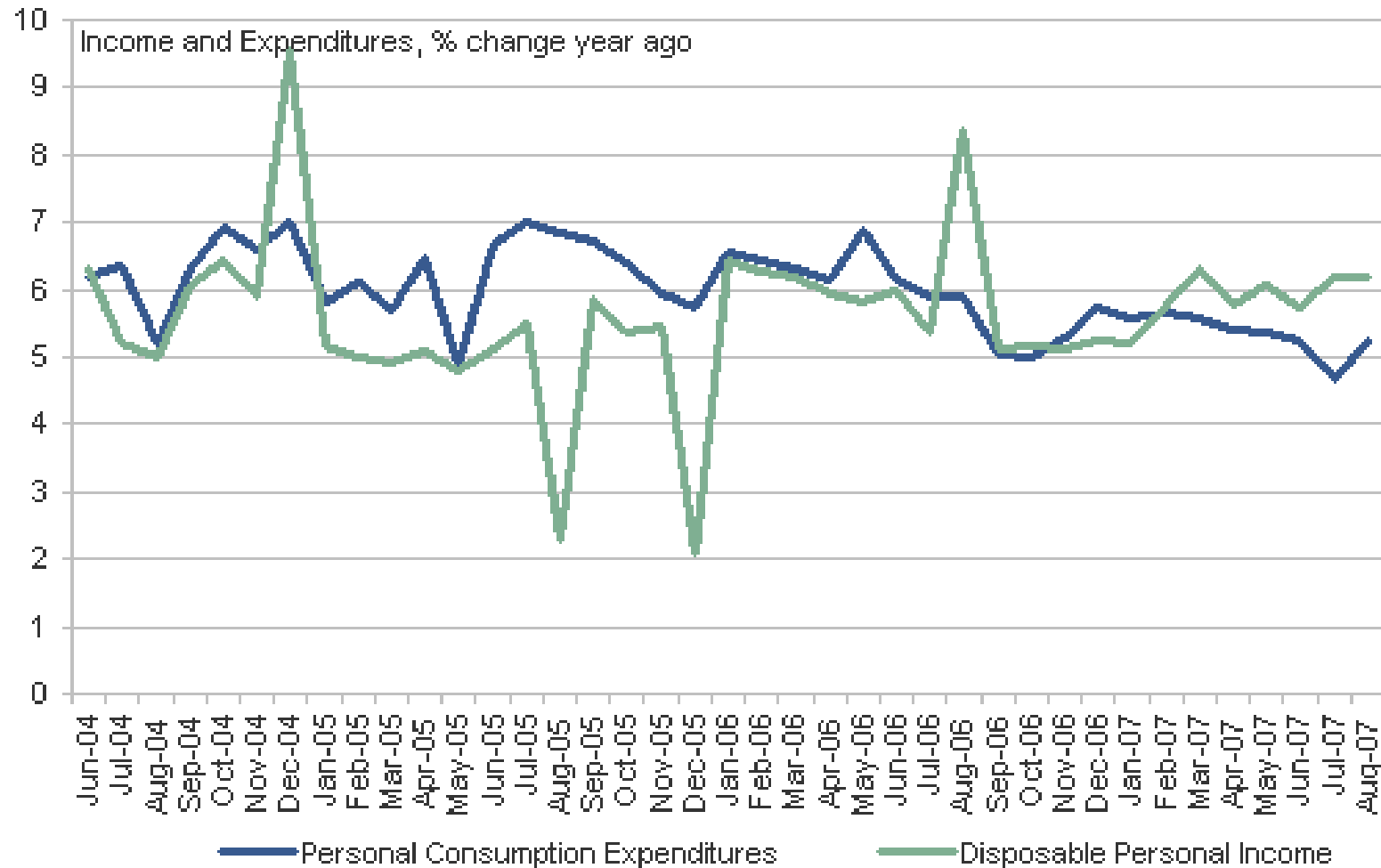


Jobless Claims



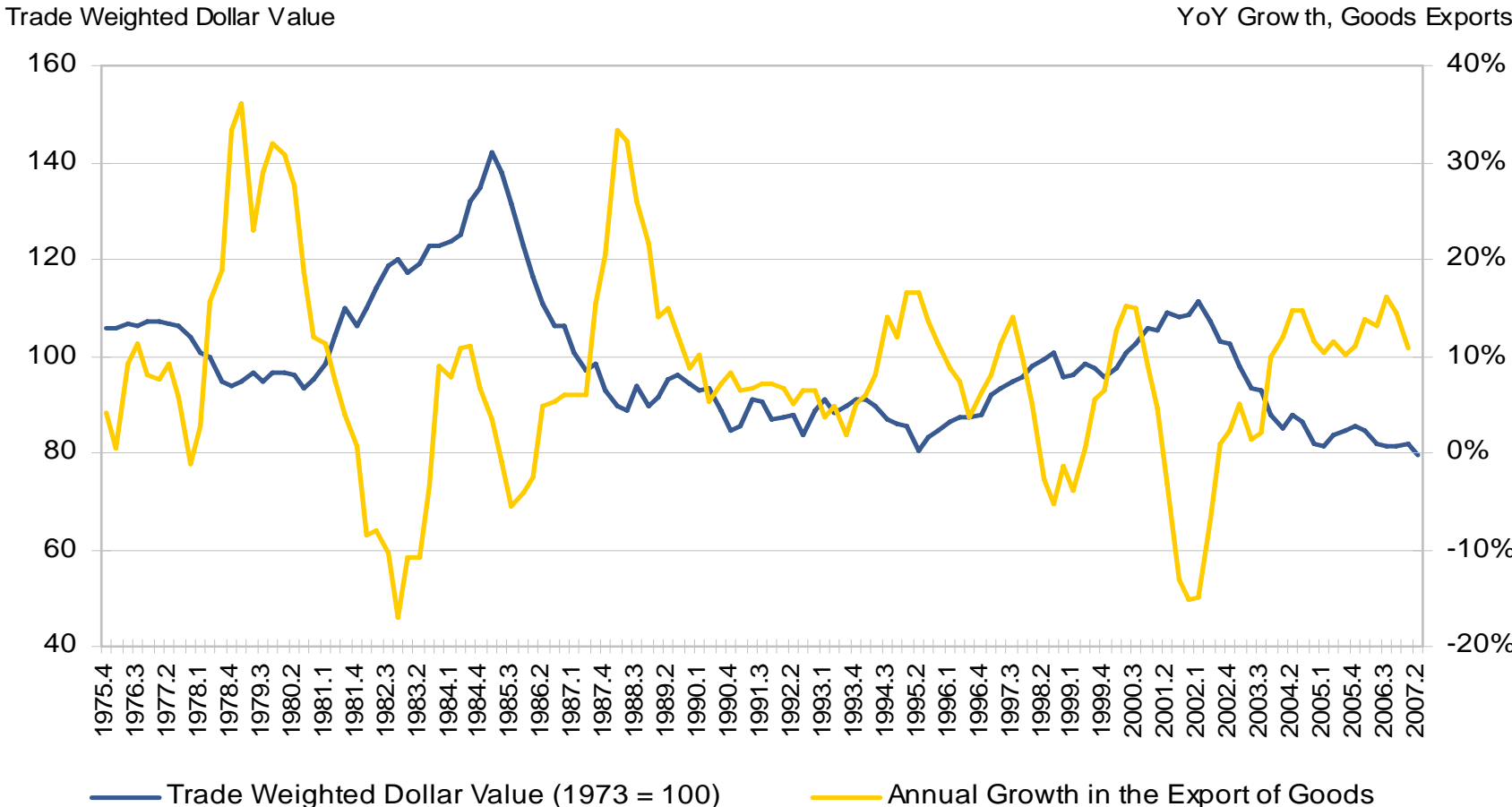
Source: BEA and Torto Wheaton Research

Personal Income



Source: BEA and Torto Wheaton Research

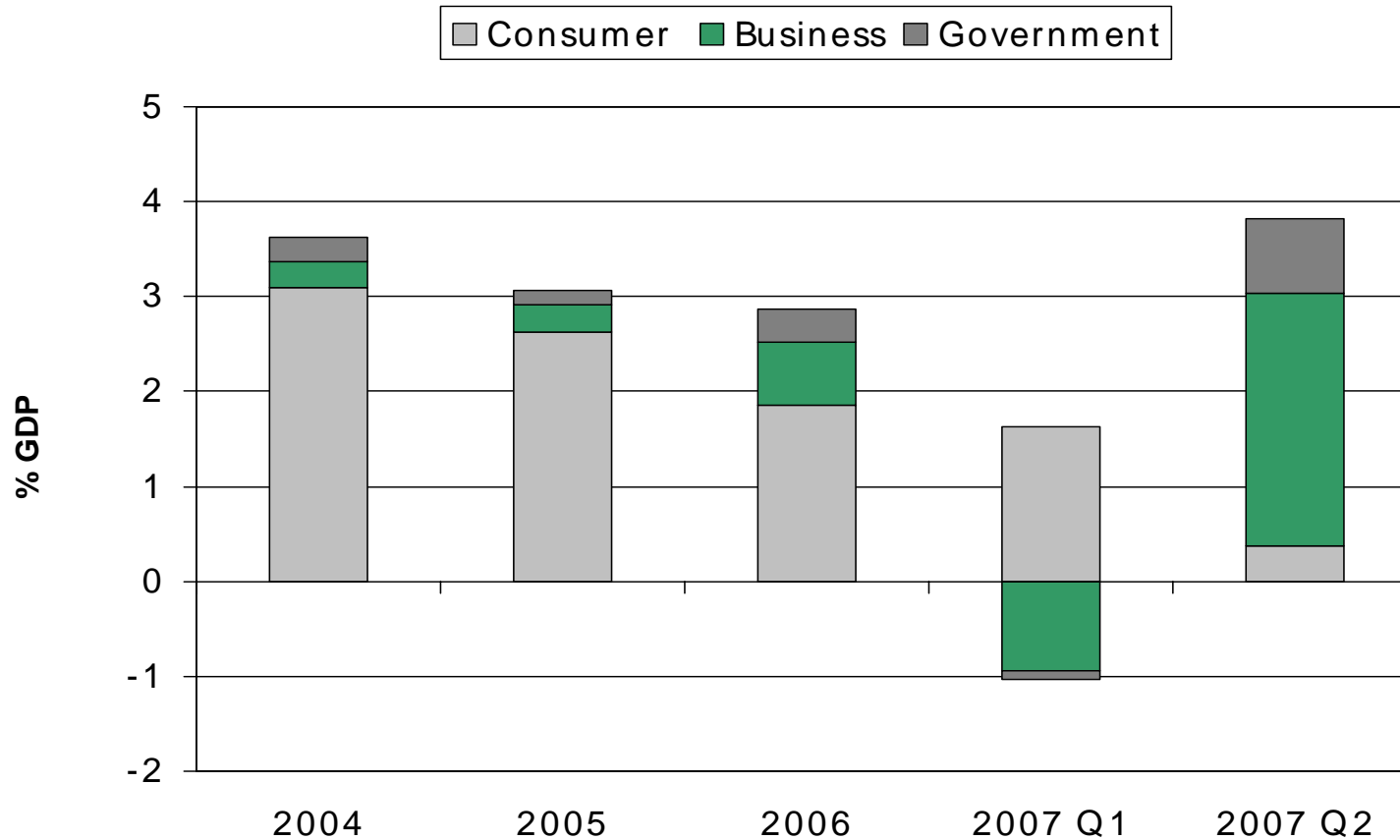
United States Exports are Growing



Source: BEA and Torto Wheaton Research
 CB Richard Ellis | Page 32



Moving Toward a Business Driven Economy



We Believe Future GDP Will Continue 2Q Trend of Positive Contributions from Business Investment & Trade

- Globalization has allowed emerging markets to more fully take advantage of their comparative economic advantages and contribute to the growth in the global economy.
- Due to a significant increase in the quality and quantity of their labor force, emerging markets have provided a significant global disinflationary force to counterbalance high global commodity prices and wage pressure in developed economies
- In addition, the forces of globalization have led to a significant increase in capital formation, especially in commodity-based and export-oriented economies.