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<u>CMBS MAKES A COMEBACK!!!!</u>- Investors are beginning to show an appetite for bonds backed even by the weakest real estate sector and no government support. The commercial mortgage bond securitization window that has been closed for nearly two years during this recession has reopened for business in the last few weeks and investors have lined up encouragingly to take advantage of a new round of CMBS offerings. Several investment banks have announced that they are firing up their conduit lending programs and will begin to originate and warehouse loans for multi-borrower securitizations, said Chris Moyer, an associate with Cushman & Wakefield Sonnenblick-Goldman in New York.

At least three have publicly announced, or are actively discussing, such programs, while others, have brought on senior managers who have experience building conduit-lending platforms. The active banks are Goldman Sachs, Bank of America and JPMorgan. Word on the street is that RBS and Deutsche Bank are also ramping up securitization activity. As CoStar reported recently, Developers Diversified Realty Corp. and Goldman Sachs Commercial Mortgage Capital got the ball rolling through a new $400 million securitization backed by bricks-and-mortar assets. That deal was driven in part by the availability of inexpensive funds from the federal government's Term Asset-Backed Securities Loan Facility (TALF), which the Federal Reserve initiated to help "jump-start" the securitization market. The DDR deal was significant in that even though it was backed by retail, one of the weakest performing properties in this recession, it demonstrated strong investor demand and set a benchmark for potential issuers considering similar transactions. In fact, since then, two new deals have either come to market or will shortly, but importantly, neither is relying on government support.

Next up is a new CMBS for the $500 million senior portion of a $625 million JP Morgan deal for Inland Western Retail Real Estate Trust Inc., which will also be issued without utilizing the TALF program and again is supported by retail property. Inland Western Retail obtained the newly secured loan from JPMorgan Chase Bank on a portfolio of 55 retail properties in 23 states in a joint venture owned by Inland Western and principals of The Inland Real Estate Group Inc. The portfolio contains 22 grocery-anchored centers (32.3% by allocated loan amount). "The closing of this non-recourse secured debt financing is a significant accomplishment, as we have now addressed virtually all of our 2009 maturing debt and a substantial portion of our debt maturing in 2010," said Steven Grimes, CEO of Inland Western.

All three new issues have involved single borrower entities, which have not made up the bulk of CMBS deals in the past. And single-borrower deals likely will be the case going forward, according to analysis by Standard & Poor's. "In the near term, we expect to see single-borrower transactions as the first ones to be securitized," S&P wrote in a recent report. "The underlying loans will likely be to REITs and institutional owners/operators with unencumbered assets or assets with low leverage. Other potential issuers include finance and insurance companies with real estate holdings and seasoned loan pools on their balance sheets, or the ability to leverage their balance sheets to originate new loans." "We expect the loans to be smaller than in the recent single-borrower transactions, with lower all-in leverage, little or no additional debt held outside the trust, five-year loan terms with 25- or 30-year amortization schedules, and terms and conditions that are more lender-friendly. The properties are likely to be underwritten more conservatively, with higher vacancy assumptions and in-place rents (without the projected upside that may have been factored into recent-vintage loans). In fact, it is possible that property values will reflect a downward trend or an expectation that rents and occupancies may fall further," S&P wrote.

Only time will tell whether these welcomed new transactions will mark a return to more normal levels of availability of credit for commercial real estate, and the timing could not be better with billions of dollars of CMBS maturing next year and beyond.

Excerpt from Thomas D Wood and Company, WEEKLY MARKET COMMENTARY - AS OF DECEMBER 14, 2009