

Perspective

MARKET

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Issue 2

Financing Matters

- CMBS spreads softened for the first time since late August. However, they remained near record tight levels despite a large 1Q issuance calendar.
- Forward-rate locks of three to six months continue to rise while the expectations for higher rates later in the year is luring borrowers to lock now.
- Lower going-in cap rates across all property types has enhanced the need for mezzanine financing.
- REIS and PPR report that multifamily completions declined in 2003. This coupled with a slight increase in employment and hopefully apartment demand suggests the possibility that net absorptions could increase somewhat in 2004. Few however expect to see this early in the year as multifamily demand lags employment gains.
- The Fannie Mae Extended Maturity program continues to be popular, with spreads 12-15 bps better than Yield Maintenance due to the yield curve. There are several large brokerage houses that are accumulating DUS mortgages to create "mega pools." Some are purchasing at spreads tight to the market.

CMBS Commentary

While CMBS spreads soften, spreads for 10 year AAA bonds in the secondary market backed up 2 - 3 bps in the last couple of weeks. Spreads have been driven out by recent mediocre performance in the corporate fixed-income sector and by anticipation of a wave of new issue of CMBS set to begin this week with the JP Morgan / Nomura deal. Price talk for the 10 AAAs is 28 - 29 bps over swaps, slightly wider than the previous new issue that came to market a couple of weeks ago. Spreads may continue to push wider by another 3 - 5 bps, but we would anticipate a wave of buying if AAA spreads were to reach the mid-30s.

Pru Fact

Prudential Asset Resources was ranked in the Mortgage Bankers Association of America's Largest Third-Party Commercial Mortgage Servicer listing for period ending 12/31/2003. We ranked 6th for Total Master and Primary Servicing Volume with \$35.543 Billion for 2003. Other notable rankings, Prudential is ranked in the top three for Life Company and Other Private Investors and FHA servicing volume, and in the top five for Fannie Mae servicing volume.

Market Trends

- *Treasuries* The yield on the 10-year fell from 4.27% on 12/31/2003 to 4.16% on 1/31/2004. Persistent weakness in the employment picture has caused investors to question the strength of the economic recovery.
- *Corporate Spreads* The Lehman credit index widened 2 bps on average in January. After the spectacular rally of 2003, most investors think spreads have little additional room to tighten. And fears of weakness in the employment picture are making investors a bit nervous about corporate prospects as well.

Key Indices	2/12/04	1/12/03	Change
<i>10-Yr Swaps</i>	40.5	36.8	▲
<i>Prime</i>	4.00%	4.00%	No Change
<i>DJIA</i>	10,614	10,485	▲
<i>LIBOR</i>			
30-Day	1.10%	1.10%	No Change
60-Day	1.11%	1.11%	No Change
90-Day	1.12%	1.12%	No Change
<i>Treasuries*</i>			
5-Yr	3.06%	3.04%	▲
10-Yr	4.06%	4.09%	▼
30-Yr	4.94%	4.97%	▼
<i>DUS Fixed Rates**</i>			
5-Yr	4.39%	4.42%	▼
7-Yr	4.89%	4.94%	▼
10-Yr	5.32%	5.44%	▼
<i>DUS ARM Rates**</i>			
5-Yr	3.05%	3.06%	▼
7-Yr	3.29%	3.32%	▼
10-Yr	3.57%	3.62%	▼

* On-the-run. **Tier 2 ++ levels. ARMS are non-convertible, 4.50 Cap.

On a Roll

Property Type	City, State	Capital Source	Deal Size
Retail	Chicago, IL	Conduit	\$61.5 Million
Medical Office	Cincinnati, OH	Conduit	\$6.4 Million
Apartments	Redmond, WA	FHA	\$2.6 Million
Retail	Rotterdam, NY	Conduit	\$5.2 Million
Affordable	Waldorf, MD	Fannie Mae	\$13.2 Million
Self-storage	Peoria, AZ	Conduit	\$2 Million
Office	Las Vegas, NV	Conduit	\$15 Million

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