

Perspective

MARKET

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Financing Matters

- With 30-day LIBOR at 1.10%, a floating-rate loan provides a competitive option for those seeking flexibility and an attractive all-in rate. As well, borrowers have been requesting shorter fixed-rate loans – perhaps betting on better stabilized values in a few years.
- The US Commerce Department reported in February that 5+ Units Building Permits increased to 6.3%, Starts increased by 21.6%, and Completions were -11.6% in January (year over year rates).
- Many office markets appear positioned for a turn-around. One half of the 54 metropolitan office markets tracked in the PPR54 index showed improving vacancy rates in Q4.
- Hotel properties are anticipating considerable improvement in operating margins with the up-turn of the overall economy. Investor interest continues to increase, evidenced by a tightening in mortgage spreads of 15-25 bps over the last 90 days.
- While job growth is on the rise in many metropolitan areas, continued high levels of new construction and relatively low (and stable) mortgage rates for single-family housing are dampening the prospects of significant recovery in many multi-family markets. Despite these mixed signs of recovery, multi-family remains the most desired investment.

CMBS Commentary

As expected, February proved to be a busy month for fixed-rate CMBS issuance, as 7 deals totaling approximately \$8 billion of new issuance bonds were sold. Ten-year AAA spreads widened by as much as 7 bps to 33 bps over swaps in early February, but finished strongly as the last deals of the month tightened to 30 bps over swaps. We expect March issuance to be significant, but do not expect significant spread widening, absent broader market issues. We are currently riding a wave of spread compression in almost all fixed-income markets. Until such changes occur in the capital markets at large, or significant issues develop in the real estate markets, look for CMBS spreads to remain range-bound in a fairly narrow range.

Pru Fact

Prudential Mortgage Capital recently formed a partnership with Red Stone to enhance Affordable Housing financing options. The partnership combines Prudential's senior lending capacity with Red Stone's equity and mezzanine capital. Red Stone plans to focus on the credit enhancement of tax-exempt multifamily bonds.

Market Trends

- *Treasuries* With concern about the slow pace of job growth and Greenspan's statements that the Fed will continue to be patient before increasing rates, the yield on the 10-year Treasury declined from 4.15% on 1/31/2004 to 4.03% on 2/29/2004.
- *Corporate Spreads* Even with light supply, the corporate bond market has been range-bound. On the month, the Lehman Corporate Index saw spreads widen 3 bps.

Key Indices	3/9/04	2/12/04	Change
<i>10-Yr Swaps</i>	38.5	40.5	▼
<i>Prime</i>	4.00%	4.00%	No Change
<i>DJIA</i>	10,457	10,614	▼
<i>LIBOR</i>			
30-Day	1.09%	1.10%	▼
60-Day	1.10%	1.11%	▼
90-Day	1.11%	1.12%	▼
<i>Treasuries*</i>			
5-Yr	2.66%	3.06%	▼
10-Yr	3.72%	4.06%	▼
30-Yr	4.67%	4.94%	▼
<i>DUS Fixed Rates**</i>			
5-Yr	4.00%	4.39%	▼
7-Yr	4.54%	4.89%	▼
10-Yr	4.99%	5.32%	▼
<i>DUS ARM Rates**</i>			
5-Yr	2.95%	2.95%	No Change
7-Yr	3.19%	3.19%	No Change
10-Yr	3.47%	3.47%	No Change

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

On a Roll

Property Type	City, State	Capital Source	Deal Size
Anchored Retail	Coconut Creek, FL	Conduit	\$4.9 M
Healthcare	Colton, CA	FHA	\$4.6 M
Apartments	Albuquerque, NM	Fannie Mae	\$10.7 M
Industrial	Fairfield, NJ	Conduit	\$4.5 M
Affordable	West Covina, CA	Fannie Mae	\$3.8 M
Assisted Living	Dover, NJ	FHA	\$12.4 M
Apartments	San Antonio, TX	Conduit	\$10 M

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