

# Perspective

## MARKET

[www.prudential.com/mortgagecapital](http://www.prudential.com/mortgagecapital)

September 2003

Issue 7

### Financing Matters

- CMBS spreads (over swaps) widened during the month but remain near historically tight levels. A relatively full summer issuance calendar and spread widening in other fixed income products are the main reasons for the widening. More than \$6B of new deals slated for September.
- On a national basis, multifamily vacancy rates have risen over the last year as low mortgage rates have turned many renters into home owners. With yields on home mortgages up more than 1% since early June, we may see multifamily occupancy rates improve.
- The continued volatility of the Treasury markets has made the floating rate alternative a potentially more attractive option for some borrowers. Many lenders are offering a variety of terms and an expanded range of rate cap options.
- According to a survey by the MBA, commercial and multifamily originations in the second quarter increased by almost 30% compared to the same quarter in 2002; multifamily being the largest property class in the quarter.
- The NMHC reported that professionally managed apartment communities experienced a modest drop in vacancy during the second quarter. During the same period completions and starts leveled off but there was a slight increase in permits. Net absorption was positive.

### CMBS Commentary

Ten year AAA CMBS spreads moved out 3 - 5 basis points relative to swaps during the first three weeks of August, just as three conduit transactions priced during the third week of August. With that negative news, new issue securitizations shut down until just after Labor Day, but are back in full swing now with the typical rush to complete deals before the close of the 3rd quarter. Despite the fact that CMBS have underperformed corporates recently, we're not sure that the spread widening is over yet.

### Market Trends

- *Treasuries* While there was volatility, August ended with the 10-year Treasury's yield only 4 basis points higher. Yields appear poised to rise higher on each bit of favorable economic news.
- *Corporate Spreads* The rally in corporate spreads finally stalled a bit in August with the Lehman Index average showing only 1 basis point tighter. However, some previously out-of-favor sectors still saw further tightening.

### Pru Fact

Prudential Mortgage Capital recently launched a new loan program offering first mortgage bridge and mezzanine loans for unstabilized or "situational" properties that do not fit the parameters of conventional bridge or mezzanine lenders. For this program, we've already closed \$65 million in loans. The loans are being placed on behalf of institutional investors through the Prudential Real Estate Fixed Income Investors' new Preferred Income Joint Venture Fund.

Key Indices	9/11/03	8/11/03	Change
<i>10-YrSwaps</i>	43.5	47.0	▼
<i>Prime</i>	4.00%	4.00%	No Change
<i>DJIA</i>	9,460	9,217	▲
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<i>LIBOR</i>			
30-Day	1.12%	1.11%	▲
60-Day	1.13%	1.12%	▲
90-Day	1.14%	1.13%	▲
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<i>Treasuries*</i>			
5-Yr	3.24%	3.26%	▼
10-Yr	4.32%	4.36%	▼
30-Yr	5.21%	5.29%	▼
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<i>DUS Fixed Rates**</i>			
5-Yr	4.67%	4.65%	▲
7-Yr	5.25%	5.23%	▲
10-Yr	5.77%	5.82%	▼
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<i>DUS ARM Rates**</i>			
5-Yr	2.83%	2.82%	▲
7-Yr	3.06%	3.05%	▲
10-Yr	3.33%	3.32%	▲

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

### On a Roll

Property Type	City, State	Capital Source	Deal Size
Apartments	Tucson, AZ	Conduit	\$5.4 Million
Office	Daly City, CA	Portfolio	\$29 Million
Self-Storage	West Depford, NY	Conduit	\$6.4 Million
Apartments	Las Vegas, NV	Fannie Mae	\$15.1 Million
Retail	Houston, TX	Conduit	\$3.3 Million
Apartments	Brooklyn, NY	FHA	\$4.5 Million

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