

Perspective

MARKET

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Financing Matters

- Various trade publications report that multifamily vacancies have increased in the second quarter, but the year-over-year average still shows some improvement. In particular, Fannie Mae multifamily delinquency rate improved in June, declining from .16% in May to .14%. This compares very favorably to conduit multifamily delinquency, which rose in June to 2.27% (external source).
- Conduit / fusion transactions include more full leverage, large loans > \$50M. In the past, CMBS appetite for large loans were limited to moderate and low leverage as proceeds eclipsed \$50M. This is no longer the case as 75% LTV, \$100M and above loans are being included in securitizations.
- Banks continue to emerge as a major player in the financing of risky, unstabilized properties. However, most loans made by banks on unstabilized properties appear to be both mis-priced and under-structured.
- With hotel fundamentals continuing to show signs of improvement, activity within the hotel sector remains high; investors and lenders are actively pursuing opportunities.
- Though there were numerous economic reports showing weakness, the Fed Funds Target Rate was increased 1/4 point during the June FOMC meeting. In response, the yield on the 10-year Treasury declined during July. However, Greenspan and others' explanation was that the drop in June was just a "blip," and the economy will continue to grow.

CMBS Commentary

"And the beat goes on....." As Sonny and Cher sang so many years ago, so it is for the CMBS market these days. Every week seems to bring another couple of new issue transactions, the market place swallows them up and we do it all over again the next week. That has been the case for most of this year and we see no reason for it to discontinue (excepting of course, events exogenous to the commercial real estate industry). Ten-year CMBS spreads now seem settled in the 33 - 35 bps over swaps range. CMBS issuance should slow down after the third week in August (vacations and the Republican convention in NYC will make it hard to find a bond buyer within 50 miles of the city), but we look for new issuance to pick back up in September.

Pru Fact

Prudential Mortgage Capital was ranked 3rd largest Fannie Mae DUS Lender based on 2003 lending volume as announced at the July 2004 Fannie Mae DUS Conference.

Market Trends

- *Treasuries* July's economic releases suggested that growth was continuing, but not at as high a pace as had been seen in prior months. Even with the Fed's 25 bps move at the end of June, the 10-year Treasury yield declined 11 bps to end the month at 4.48%.
- *Corporate Spreads* Corporate spreads have held in a narrow range most of this year, and July was no exception. Credit-friendly trends such as the continuation of strong earnings reports and balance sheet improvement were tempered by concerns about rising oil prices, rising interest rates, the sustainability of earnings growth and terrorism. Some see the prospect of greater volatility in the months ahead. There are low expectations of significant tightening.

Key Indices	8/10/04	7/7/04	Change
10-Yr Swaps	48.0	47.5	▲
Prime	4.25%	4.25%	No Change
DJIA	9,945	10,240	▼
<i>LIBOR</i>			
30-Day	1.58%	1.35%	▲
60-Day	1.62%	1.46%	▲
90-Day	1.68%	1.58%	▲
<i>Treasuries*</i>			
5-Yr	3.51%	3.63%	▼
10-Yr	4.30%	4.48%	▼
30-Yr	5.07%	5.22%	▼
<i>DUS Fixed Rates**</i>			
5-Yr	4.97%	5.12%	▼
7-Yr	5.36%	5.53%	▼
10-Yr	5.75%	5.94%	▼
<i>DUS ARM Rates**</i>			
5-Yr	3.55%	3.42%	▲
7-Yr	3.72%	3.69%	▲
10-Yr	3.95%	3.95%	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
Industrial	Randolph, NJ	Conduit	\$14 Million
Affordable	Redmond, VA	Red Stone	\$10.6 Million
Apartments	Ellicott, MD	Fannie Mae	\$9.1 Million
Retail	San Antonio, TX	Conduit	\$7 Million
Apartments	Placentia, CA	FHA	\$10.6 Million
Warehouse	Buffalo Grove, IL	Conduit	\$7.5 Million

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