

Perspective

MARKET

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Financing Matters

- In an effort to maintain yields and to address the ever encroaching competition from Wall Street, many portfolio lenders are willing to originate loans that are riskier by historical standards, and are also showing more flexibility and creativity in developing loan structures.
- Voracious lender appetites remain unabated, resulting in lenders taking a more aggressive stance on pre-stabilized and underperforming assets. To that end, certain lenders have been compelled to relax historic standards related to credit enhancements that they require from a borrower to carry the property through to stabilization.
- Wary borrowers, seeking to capitalize on heightened lender appetites, continue to request modifications to prepayment structures. This is occurring on both existing loans, with borrowers looking to refinance in the current low rate environment, as well as on new originations.
- The next few months should be a great time to borrow. With the Labor Day weekend behind us, the approaching election keeping rates stable and most lenders hitting the home stretch for meeting production goals, competition should be fierce and opportunities plentiful for those borrowers with attractive deals who are seeking financing.
- With the 10-year Treasury in the low 4% range, fixed-rate financing in today's environment is about as attractive as it has been since early this year when the Treasury Rate was less than 4%.

Market Trends

- *Treasuries* Amid some weakening in the economic reports, the 10-year Treasury yield slid from 4.48% to 4.12% in August. Despite that, most observers still think the Fed will march forward with rate hikes through the rest of this year. So far, the numbers show some weakening in growth, but they do not indicate that the economy is slipping backward. The Fed appears focused on letting measured growth continue while staying in front of inflationary pressures.
- *Corporate Spreads* The average spread in the Lehman Corporate Index tightened 2 bps in August, and only a bp YTD. Fixed rate issuance in 2004 is significantly lower than 2003, but floating issuance - mostly from banks and finance - is much higher. In the private market, spreads widened a bit as investors appear to have caught up with their volume targets and are being more selective about their purchases.

CMBS Commentary

The CMBS new issue market took a well-deserved 2-week break prior to Labor Day weekend, but now stands poised to return to full throttle for the next 90 days or so to finish out 2004. Spreads in the secondary market seem to be holding steady, but we should get a firm handle on new issue spreads as the transactions begin to price early next week. In any event, CMBS appear to be trading in a relatively narrow range and fair value when compared to alternative fixed income investments, and therefore, we don't look for any significant changes in spreads in the near term.

Key Indices	9/8/04	8/10/04	Change
<i>10-Yr Swaps</i>	45.3	48.0	▼
<i>Prime</i>	4.50%	4.25%	▲
<i>DJIA</i>	10,313	9,945	▲
<i>LIBOR</i>			
30-Day	1.74%	1.58%	▲
60-Day	1.78%	1.62%	▲
90-Day	1.86%	1.68%	▲
<i>Treasuries*</i>			
5-Yr	3.37%	3.51%	▼
10-Yr	4.17%	4.30%	▼
30-Yr	4.95%	5.07%	▼
<i>DUS Fixed Rates**</i>			
5-Yr	4.92%	4.97%	▼
7-Yr	5.31%	5.36%	▼
10-Yr	5.69%	5.75%	▼
<i>DUS ARM Rates**</i>			
5-Yr	3.66%	3.55%	▲
7-Yr	3.79%	3.72%	▲
10-Yr	3.97%	3.95%	▲

* 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	Northridge, CA	Fannie Mae	\$7 Million
Anchored Retail	Columbia, SC	Conduit	\$3.3 Million
Apartments	Arlington, VA	Fannie Mae	\$7 Million
Office	Newark, NJ	Conduit	\$42.5 Million
Anchored Retail	Miramar, FL	Conduit	\$5.5 Million
Affordable	Baton Rouge, LA	Fannie Mae	\$17.8 Million

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