The ABCs of CDOs

The Buzz from the MBA Conference

Real Estate Finance Association
Members Only Luncheon
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CDO 101

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KeyBank
Real Estate Capital

Collateralized Debt Obligations

- What Is A CDO?
- Commercial Real Estate CDOs – Relevance
- Issuers and Investors
- CDO Benefits
- Case Studies

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What is a CDO?

- Collateralized Debt Obligations are vehicles for securitizing loans
- Loans are selected, pooled and used as collateral for the issuance of securities
- With the issuance of securities, credit risk is moved off issuer's balance sheet
- Commercial Real Estate CDOs consist of a wide variety of assets: Whole loans, B-pieces, mezzanine debt, preferred equity, CMBS, CTL, Trust Preferred and others

How do CDOs compare to CMBS?

CMBS
- Wide market acceptance
- Stabilized assets
- Longer term financing
- Fixed rate
- Most competitively priced execution
- Static collateral pools

CRE CDOs
- Newer platform, still evolving
- Transitional assets / bridge loans
- Able to hold non-mortgage assets
- Flexible terms, negotiable prepay
- Fixed or floating rate
- Spreads continue to tighten
- Assets can move in and out of the collateral pool

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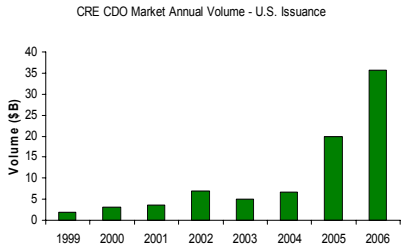
Commercial Real Estate (CRE) CDOs

Why are they relevant?

- **Market Activity**
  - The CRE CDO market has grown over the past several years at a 106% CAGR



  - CRE C ng 2006
  - The pr CDO – U.S. issuance
  - Basis for growth assumptions
    - New market participants (Aegon, PPM, Principal, Wells Fargo, other European banks expected)
    - Approximately 85% of the residential RE market is securitized, only 20% of commercial
    - Investor base is expanding/demanding access to product, including equity tranches

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Commercial Real Estate (CRE) CDOs

Why are they relevant?

- **Current Trends**
  - Continued growth: CDO's finance a wider variety of assets and offer structural flexibility
  - Benefits for the borrower, issuer and collateral manager
  - Whole loans have experienced the greatest YOY growth, now making up over 50% of underlying assets
  - Inclusion of transitional and synthetic assets
    - Construction, Conversions, Redevelopment, Repositioning, Credit Linked Notes, CDS
- **Asset Types**
  - Unregistered Securities (non-cusip assets)
    - Whole loans/A-Notes, B-Notes, Mezzanine debt, Preferred equity
  - Securities
    - CMBS (Conduit, Large Loans, Single Borrower), Credit Tenant Leases, Credit Default Swaps/Synthetic Securities, Residential Mortgage Backed Securities, other CRE CDO tranches
  - Corporate
    - Bridge Loans, Senior Unsecured debt, Real Estate Bank Loans, Trust Preferred
- **Market Participants**
  - Mortgage REITs (Gramercy, NorthStar, Guggenheim, Capmark)
  - Hedge Funds (CW Capital, Marathon, Five Mile)
  - Banks and insurance companies

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Issuers and Investors

Tranche / Class	Par Size ($MM)	Par %	C/E%	Spread Over LIBOR (bps)	Rating	PIK	WAL
A1	$675.0	67.5%	32.5%	26	AAA	Non-PIK	5.98
A2	$75.0	7.5%	25.0%	30	AAA	Non-PIK	7.10
B	$41.0	4.1%	20.9%	37	AAA	Non-PIK	7.25
C	$30.0	3.0%	17.9%	52	A+	PIK	7.28
D	$9.5	1.0%	17.0%	56	A	PIK	7.50
E	$10.5	1.1%	15.9%	70	A-	PIK	7.50
F	$19.0	1.9%	14.0%	100	BBB+	PIK	7.50
G	$13.0	1.3%	12.7%	120	BBB	PIK	7.50
H	$27.0	2.7%	10.0%	150	BBB-	PIK	7.50
Preferred Shares	$100.0	10.0%					
	$1,000.0	100.0%					

Pool Characteristics

- **Asset size**
  - Typically $5 - 60mm asset sizes (based on a $500 - 750mm pool size)
  - Ability to tranche large, complex deals (effectively no size limit)
- **Asset type distribution**
  - Whole Loan / A-Note
  - B-Note / C-Note
  - Mezzanine loans
  - Preferred Equity
- **Property type distribution**
  - Multifamily, Retail, Office and Industrial
  - Hospitality, Healthcare, Manufactured Housing and Self-Storage
- **Development lifecycle**
  - Bridge / reposition, transitional assets
  - Some include construction loans
- **LTV / DSCR**
  - Up to 90% LTC. Average leverage for the pool is expected to be around 80%
  - Rate caps at asset level sufficient to maintain 1.0x DSCR
  - May capitalize interest in the budget for transitional assets0

CDO Benefits

- **Flexibility**
  - Primarily non-recourse financing
  - Floating or fixed-rate
  - Flexible loan terms, negotiable prepayment
  - Transitional assets
- **Competitive Pricing**
- **Yield for investor with many investment options depending on risk appetite**

Case Study

Apartment Portfolio Acquisition – Atlanta, GA

Scenario
The Sponsor's acquisition of a four-property, 1,400 unit apartment portfolio in the Atlanta MSA. Due to mismanagement and deferred maintenance, the assets were significantly underperforming the market. At closing, the buildings were 89% occupied, achieving rents 5 – 20% below market levels. The Sponsor's turnaround plan for the portfolio included renovations averaging $14,000 per unit and the introduction of an experienced, local management team.

Financing Request
$78,138M (97.8% LTC) in financing was required to fund acquisition and rehabilitation costs.

Solution
The Sponsor contributed $1,750M in equity, with the remainder of the capital stack financed via:

Senior Loan – CDO
- $62,383M (78.1% LTC)
- Non-Recourse
- LIBOR + 195
- Interest-only payments
- 36 month term, w/ 12-month lockout

Bridge - Conduit - Mezzanine - B Piece - HUD - Fannie Mae

REFA
CDO Presentation:
The CWCapital Experience
2005 - 2007

Presented by Michael Berman, President
March 15, 2007

CWCapital | Getting it done.

CWCapital Overview

Founded as a Regional, HUD Multifamily Lender in Boston in 1972

Became National Conduit and HUD Lender in 1991

Management Buyout from Continental Wingate in 2002 With Caisse de dépôt et placement du Québec

The Caisse: $200 Billion Pension Fund Manager in Montreal

- Largest in Canada; AAA Rated
- Significant allocation to high and moderate yield RE debt

CWCapital

CWCapital Overview

Today's Unique Vertical Integration Platform

- 350 Employees in 15 Offices Nationwide

Lending Platform

- $4 Billion Estimated in 2007
- Conduit, Bridge, Mezz, FannieMae, FreddieMac, HUD
- Service $8 Billion in 48 States

Investment Platform

- $8 Billion
- CMBS B Pieces, B Notes, Moderate to High Yield Mezz

Special Servicing Platform

- $108 Billion in 11,000 loans

CDO's Executed in 2005 by CWCapital

COBALT I – May 2005

- $451.1 Million
- Lightly Managed CDO- Replenishment (But No Ramp)
- Subordinate CMBS, Synthetic CMBS, B Notes, Whole Loans
- First CRE CDO to Include "BIG" (Below Investment Grade) Synthetic CMBS
- One of the first CRE CDOs to Mix Floating Rate Loans With Bonds
- Cadim Retained All Classes Below BBB

ACT 2005 RR – October 2005

- $1.1 billion Re-Remic/Re-Securitization
- Static CDO
- Vintage Subordinate CMBS Mostly Rated Single B and Non Rated
- Served as a Financing Vehicle For Allied Subordinate B-Piece Acquisition (43 B Pieces on CMBS Pools)
- 70% of Collateral Was NR; 50% of CDO Received a AAA Rating From the Rating Agencies
- Cadim Retained All Classes Below AAA (Approximately $500 million)

CDO's Executed in 2006 by CWCapital

COBALT II – May 2006

- $700 Million ($550 Million Specified and $150 Million Ramp)
- Fully Managed CDO
- Floating Rate Whole Loans, Synthetic CMBS, B Notes
- $150 Million of Pay Down and Replenish in First Year Plus $150M Ramp-= $300M New Loans in First Year

COBALT III – November 2006

- $500 Million
- Static CDO
- 100% Synthetic CMBS - Credit Default Swaps- 50 Separate Credits
- Assets Comprised of 90% BBB- and 10% BB+ Bonds
- Constructed Specifically For Large Portfolio Manager in Light of Balance Sheets Needs and Equity Returns

CWCapital