

AFTER WORK SEMINARS

Industry Forums Covering Today's Hot Topics

January 29, 2008

No Asset is an Island: A Discussion of the Market Disruption – Its Context and Historical Comparison

Assets Don't Correlate Until They Do

Markets Are Liquid Until They're Not



**COMMERCIAL MORTGAGE
SECURITIES ASSOCIATION**



Moderator:

Sally Gordon,

Senior Vice President, Moody's Investors Service

Panelists:

Steven Cochrane,

Senior Managing Director, Moody's Economy.com

Robert Karner,

Executive Director, Morgan Stanley

Martha Peyton,

Managing Director, TIAA-CREF Global Real Estate



Table of Contents

- Property Markets
- Capital Markets: A Different Story
- How Did We Get Here?
- Price, Structure & Indices
- Where Do We Go From Here?



Property Markets



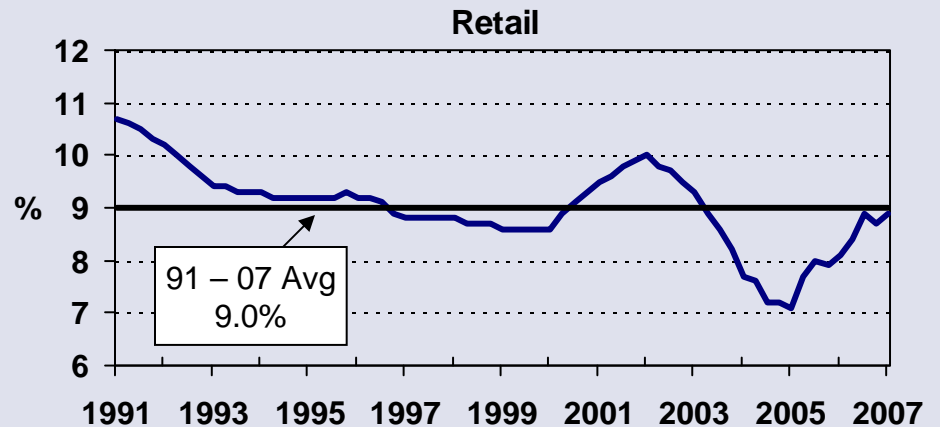
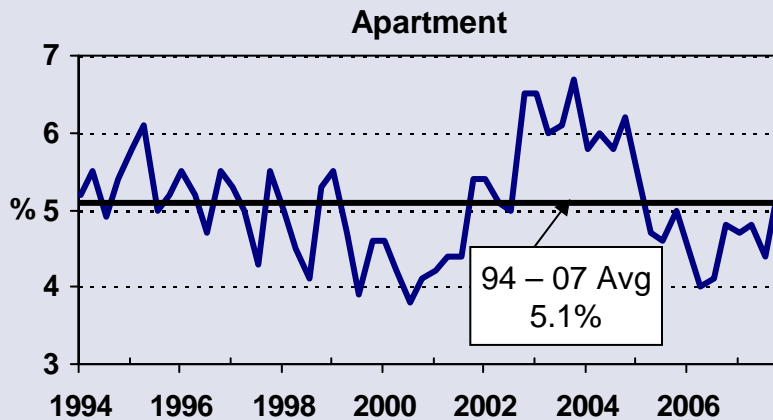
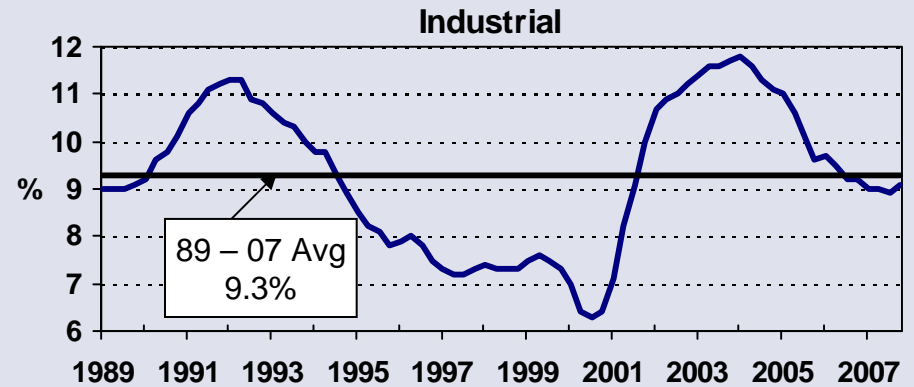
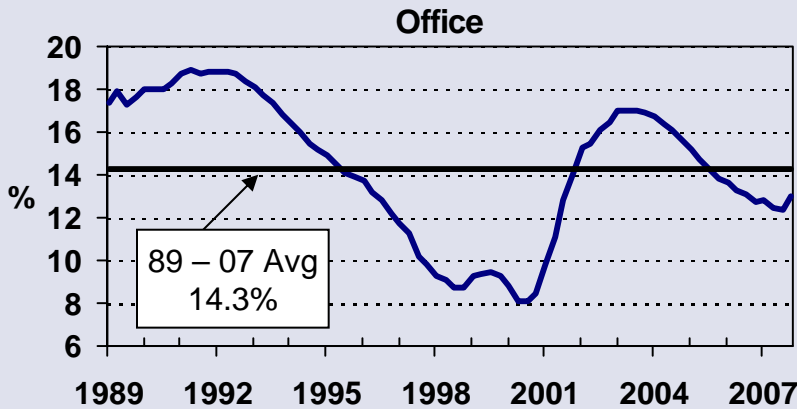
**COMMERCIAL MORTGAGE
SECURITIES ASSOCIATION**



**MORTGAGE
BANKERS
ASSOCIATION***
Investing in communities

Commercial Real Estate: Fundamental Balance

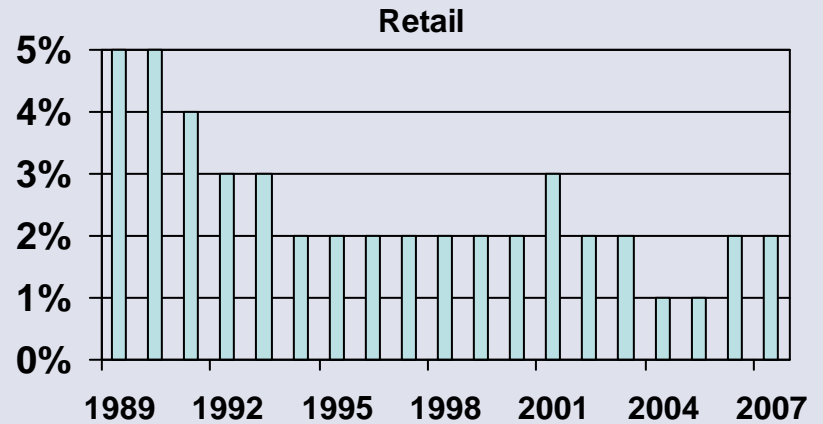
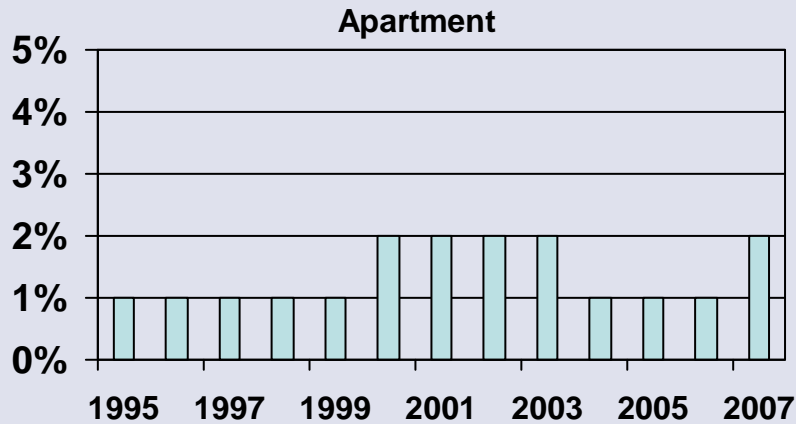
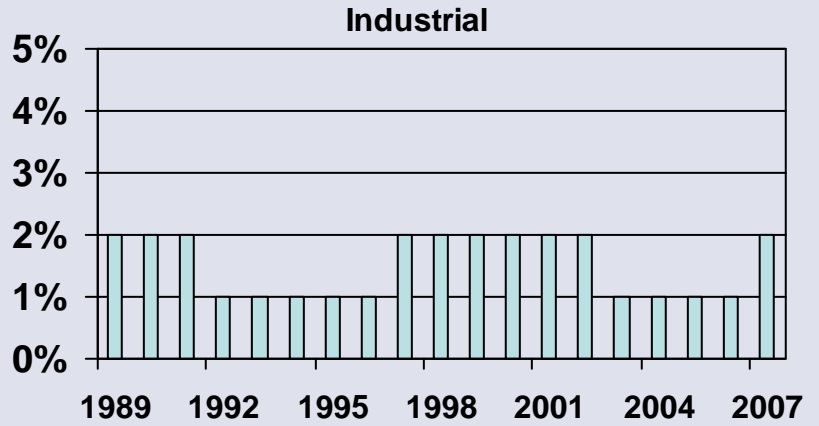
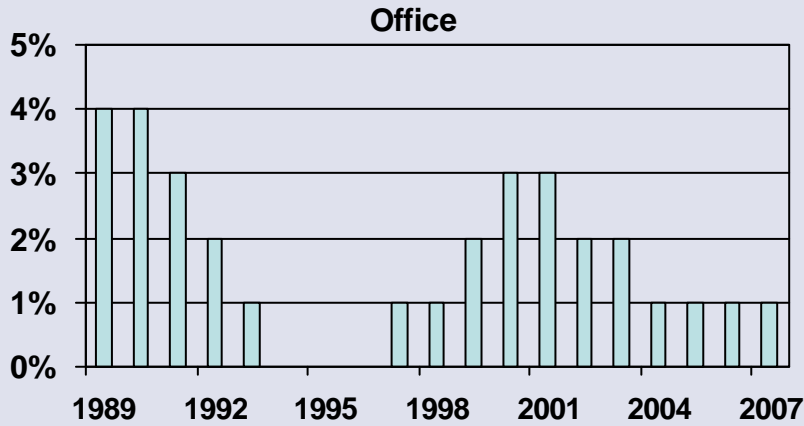
Vacancy



Source: Torto Wheaton Research

Commercial Real Estate: Construction Well-Behaved

Completion as % of Stock



Source: Torto Wheaton Research

CMBS Delinquency

CMBS Delinquency Rate (%)*



Source: Morgan Stanley, Intex
*30+, Foreclosure, and REO
Through January, 2008

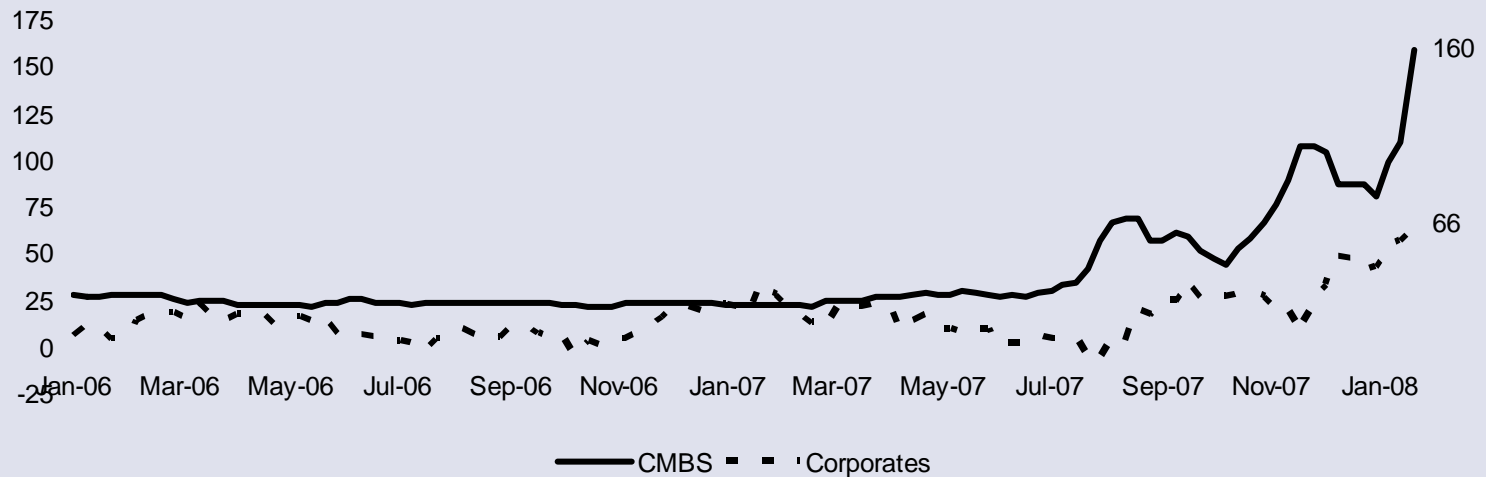


Capital Markets: A Different Story



Spreads

AAA CMBS* vs. AAA Corporate Industrial Spreads to Swaps (bps)

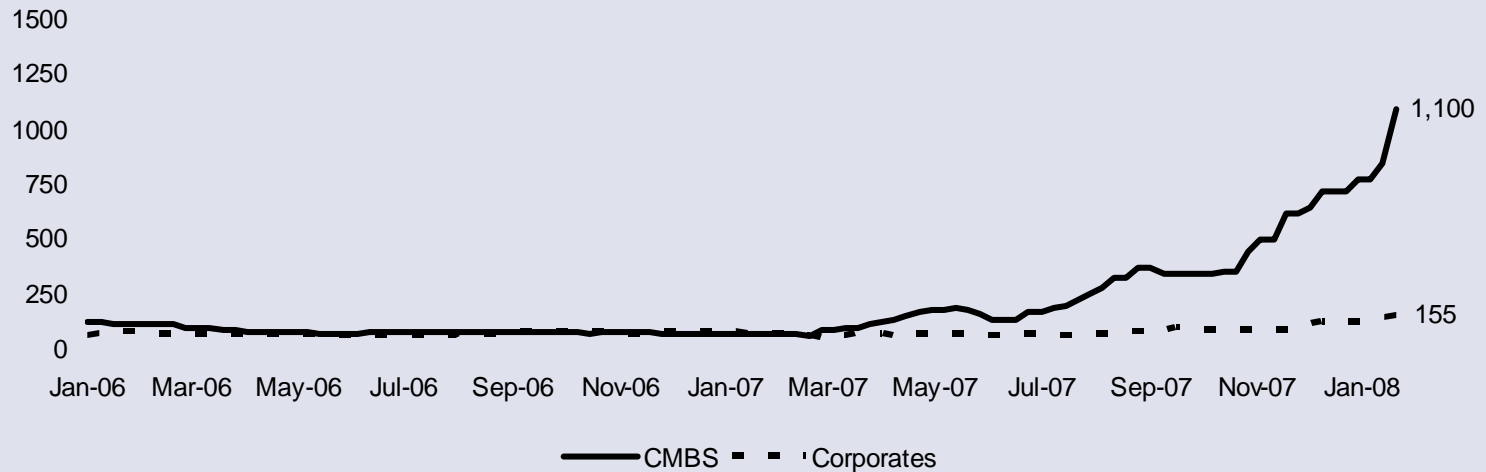


Source: Morgan Stanley, Bloomberg
*Super-Senior AAA CMBS Spreads to UST
Through January 23, 2008



Spreads

BBB CMBS vs. BBB Corporate Industrial Spreads to Swaps (bps)

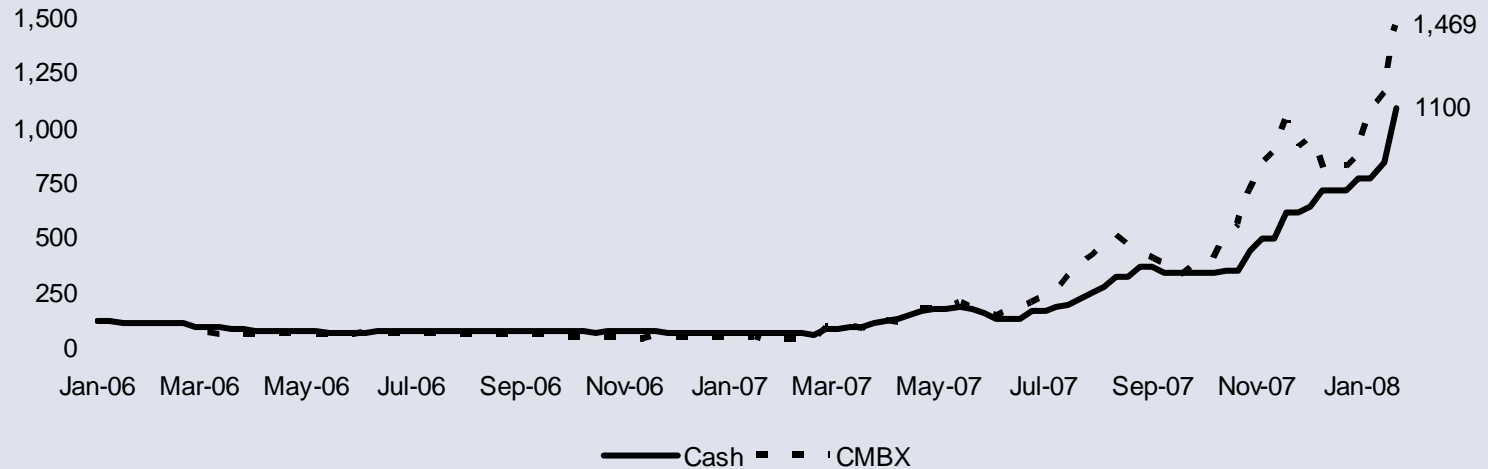


Source: Morgan Stanley, Bloomberg
Through January 23, 2008



Spreads

BBB CMBS Spreads to Swaps vs. OTR BBB CMBX (bps)



Source: Morgan Stanley
Through January 23, 2008



CMBX Markets

7 Msg:KEVIN NG

2<GO>REPLY, 3<GO>FWD, 11<GO>NEXT, 12<GO>PREV, 99<GO>MENU OF OPTIONS

From: •AHSIM KHAN, MORGAN STANLEY 1/22 16:18:47

Subject: CMBX UPDATE

Attachment(s): None Page 1/ 1

CMBX/CMBX/TRR/NCREIF W: 212.761.2106 M: 917.270.5916

SIZE	RATING	CMBX4 (07.2)	CMBX3 (07.1)	CMBX2 (06.2)	CMBX1 (06.1)
50MM	AAA	120/140 +10	115/130 +9.5	105/115 +11	100/110 +11
10MM	AJ	340/390 +40	330/380 +55	225/275 +40	185/235 +35
10MM	AA	450/500 +50	425/475 +50	325/375 +25	250/300 +25
10MM	A	700/775 +63	650/725 +63	500/550 +42	350/400 +50
10MM	BBB	1275/1375 +50	1200/1300 +50	825/925 +50	575/675 +25
10MM	BBB-	1575/1675 +75	1475/1575 +75	1075/1175 +25	775/875 +25

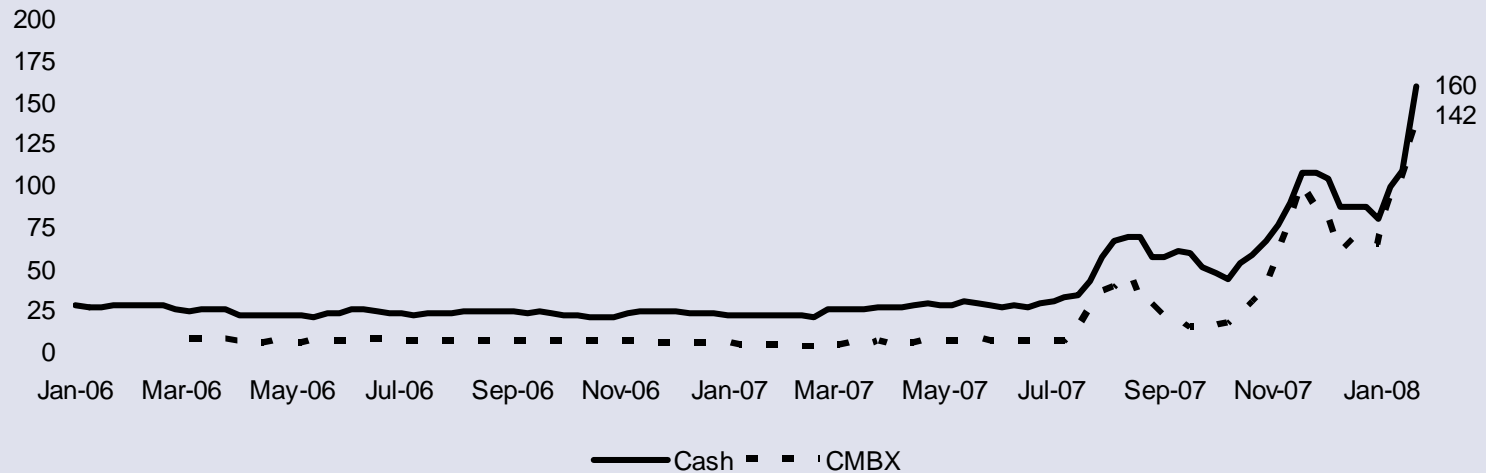
This is not research report and is not from MS Research but it may refer to a research analyst/research report. Please contact me for MS Research reports (plus important disclosures) or review the latest reports at <https://secure.ms.com>. Unless otherwise indicated, the views expressed are the author's and may differ from those of MS Research or others within Morgan Stanley. This material will not be updated, and we do not represent that it is accurate or complete. This is not an offer to buy or sell, or solicitation of an offer to buy or sell, the securities mentioned. MS may invest in or act as market maker for securities mentioned or may advise the issuers.

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.
 6509-502-0 24-Jan-2008 08:23:52



Spreads

AAA CMBS* Spreads to Swaps vs. OTR AAA CMBX (bps)

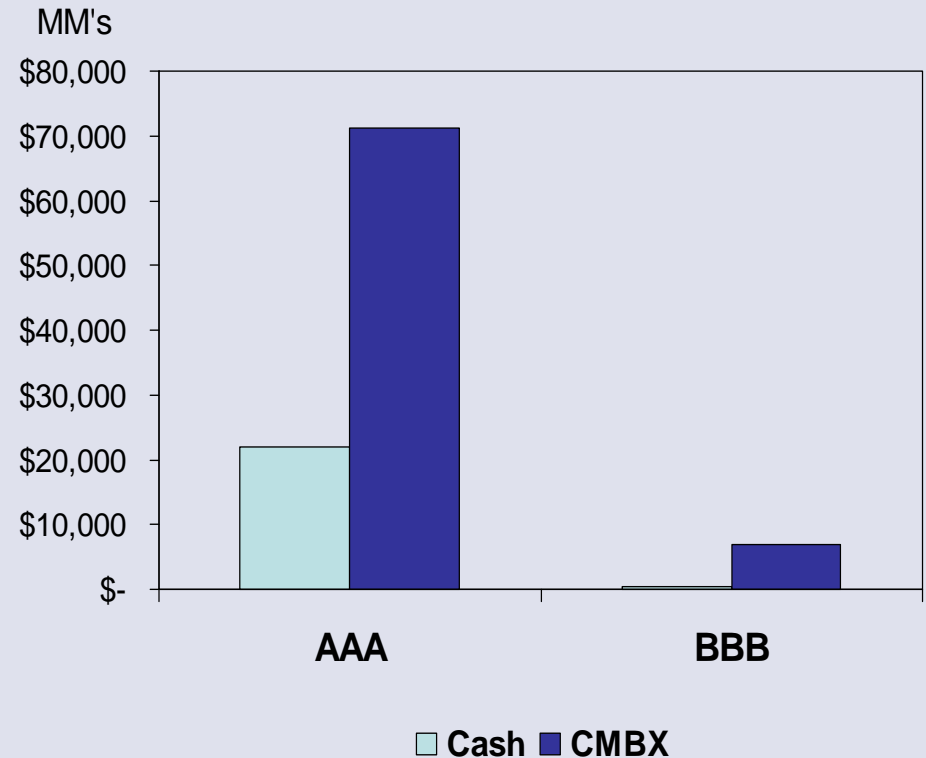


Source: Morgan Stanley
*Super-Senior AAA CMBS Spreads to Swaps
Through January 23, 2008



MS Secondary Trading in '06 & '07 Paper

- > 2007 and YTD 2008
- > Super Senior AAA's & BBB flats
- > AAA trading –
 - \$22.1 Bn Cash
 - \$71.2 Bn CMBX
- > BBB trading –
 - \$18.4 MM Cash
 - \$6.9 Bn CMBX

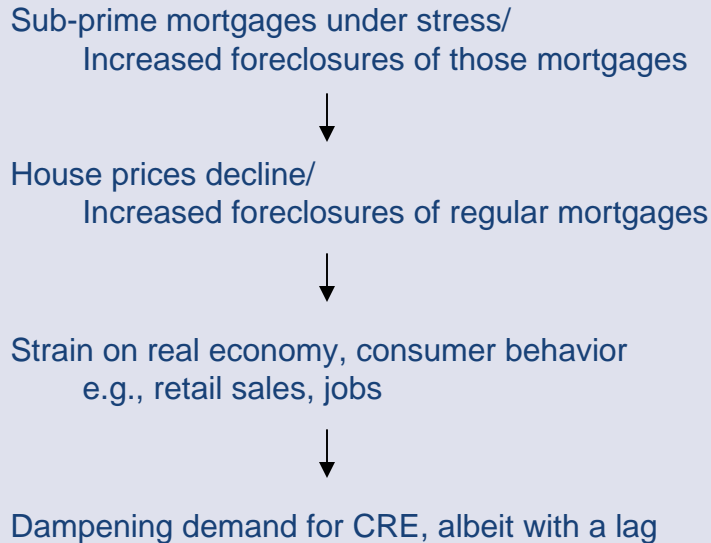


How Did We Get Here?

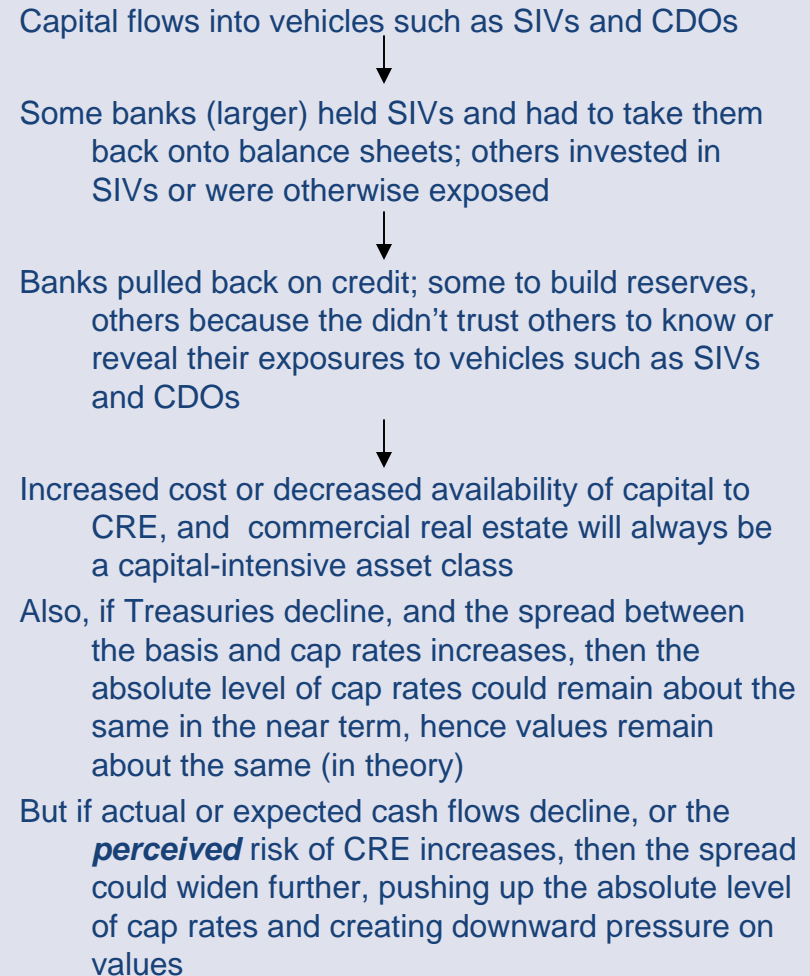


Pathways For Contagion of Single-Family Credit Problems on Commercial Real Estate

VIA REAL ECONOMY

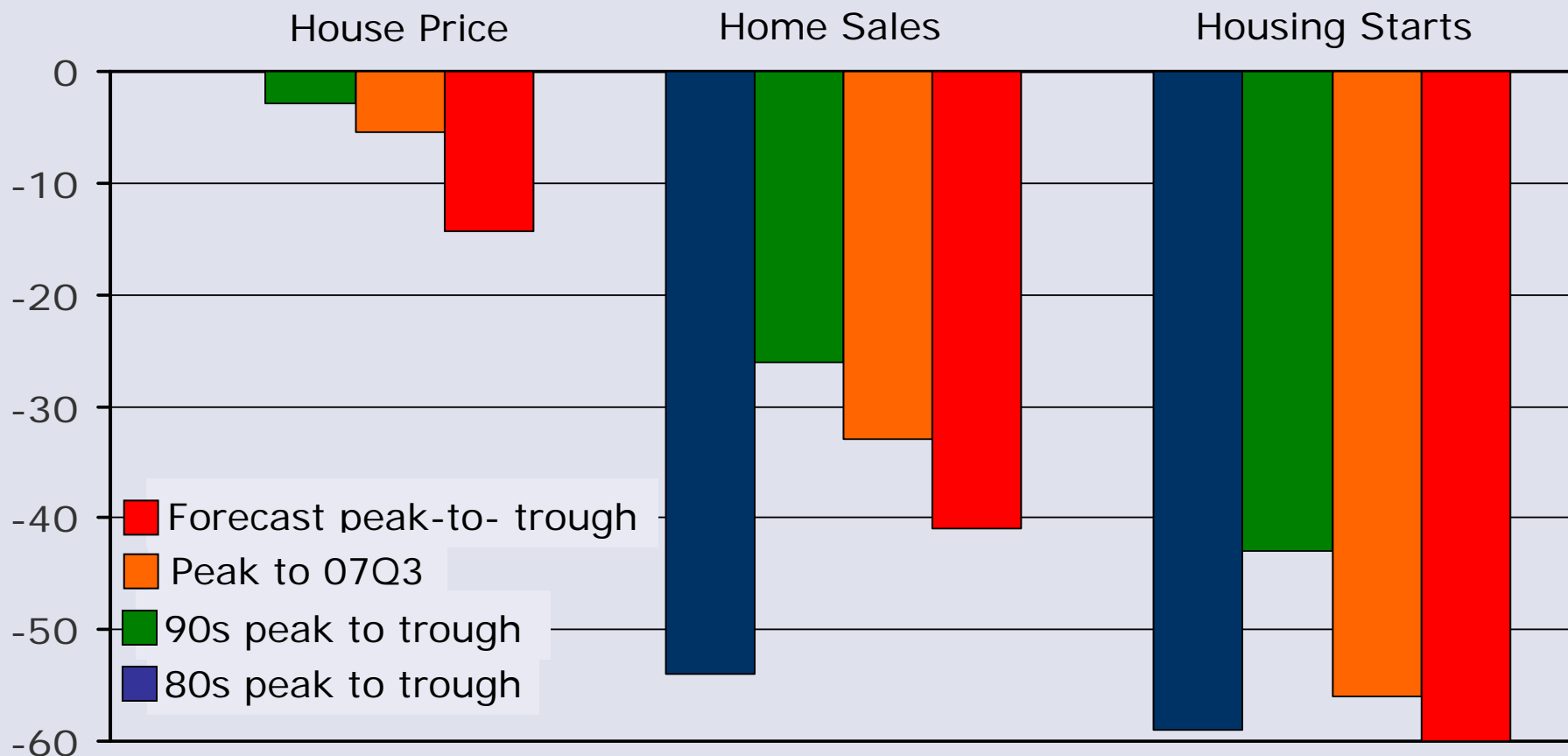


VIA FINANCIAL SYSTEM



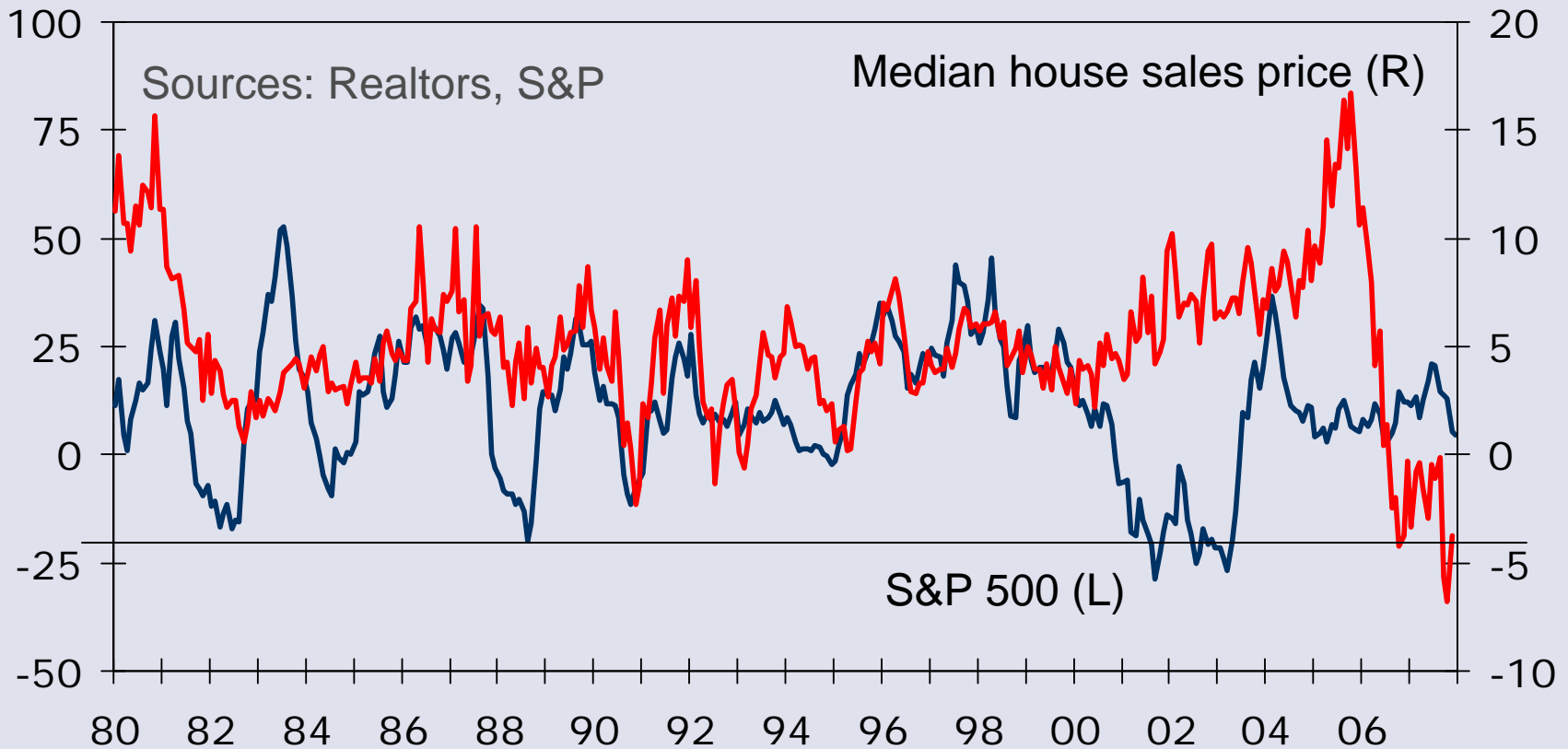
An Unprecedented Housing Downturn...

% change from peak, Sources: Fiserv Lending Solutions, Census, Moody's Economy.com



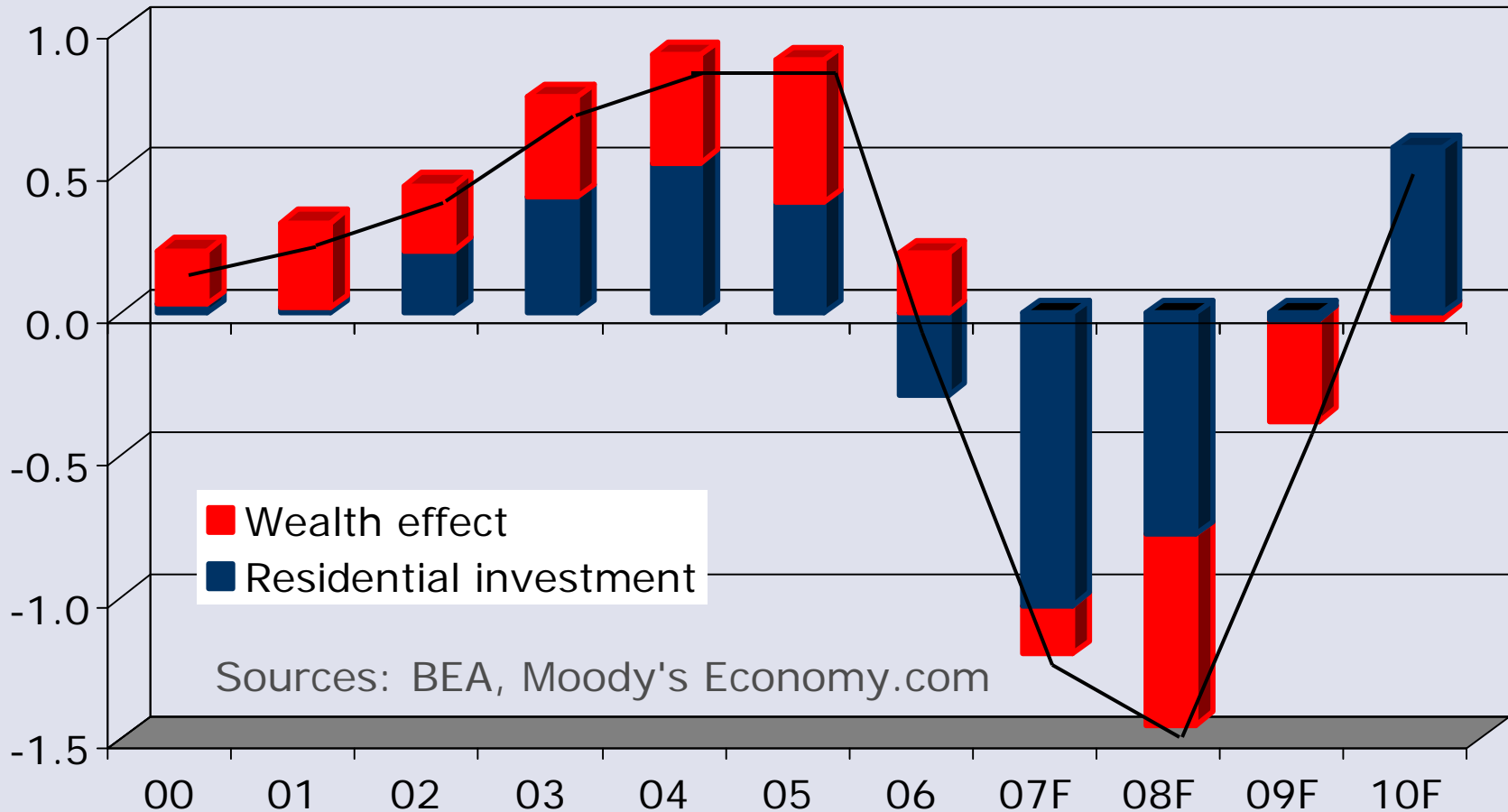
...And Housing Leads the Cycle Today

Equities and house prices, % change year ago



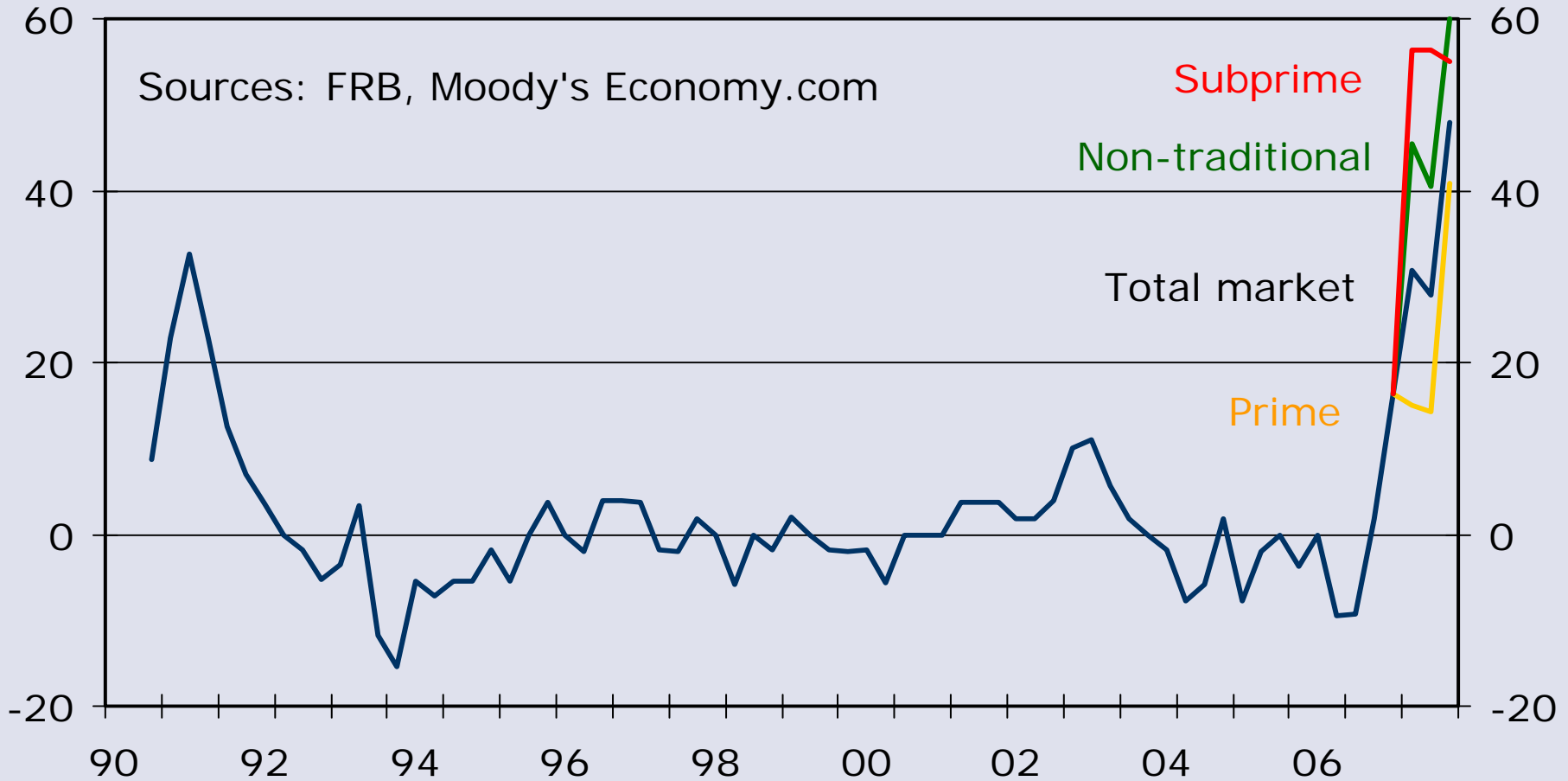
...That is Weighing Heavily on Growth

Contribution to real GDP growth, percentage points



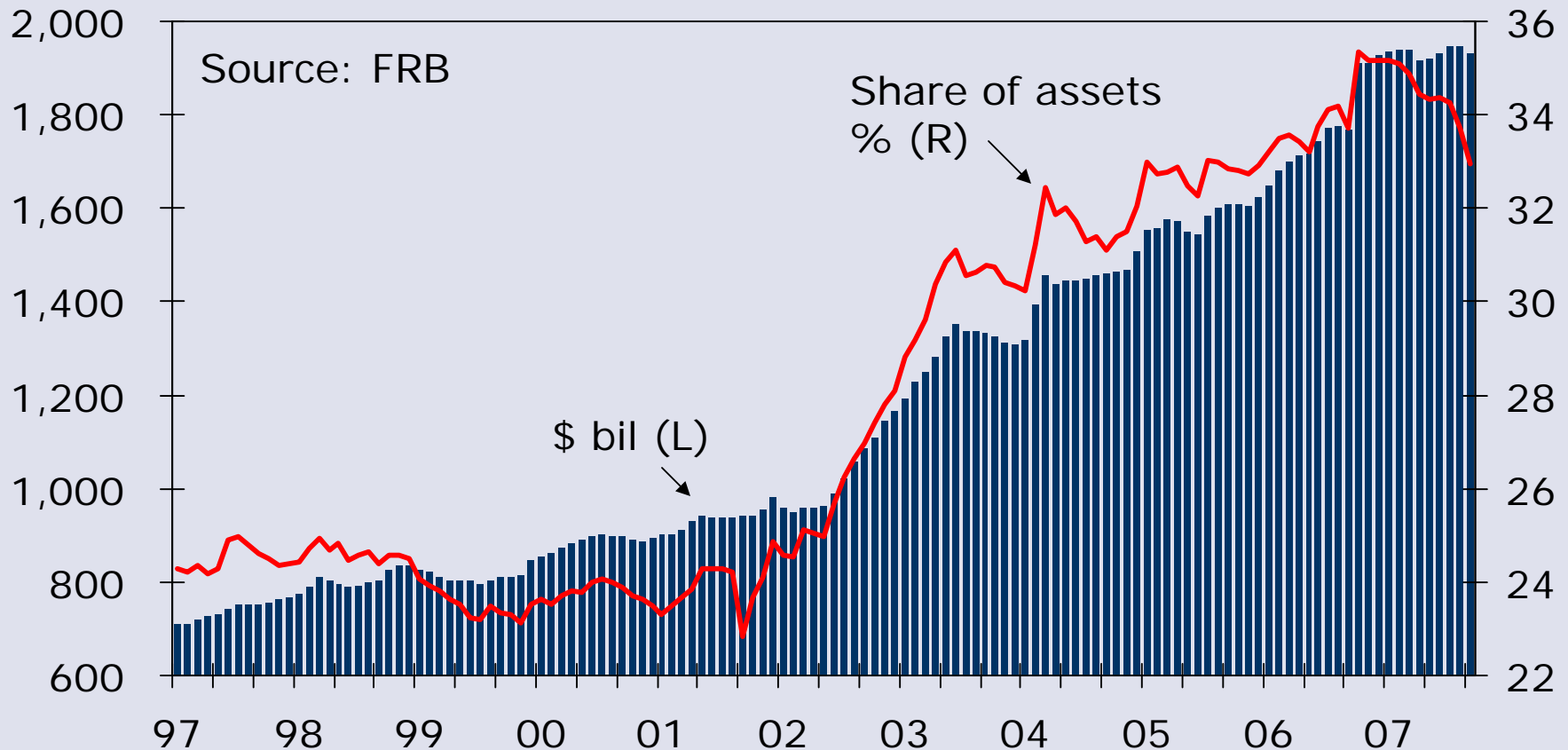
A More Severe Mortgage Lending Crunch Today

Net % of banks tightening mortgage loan standards



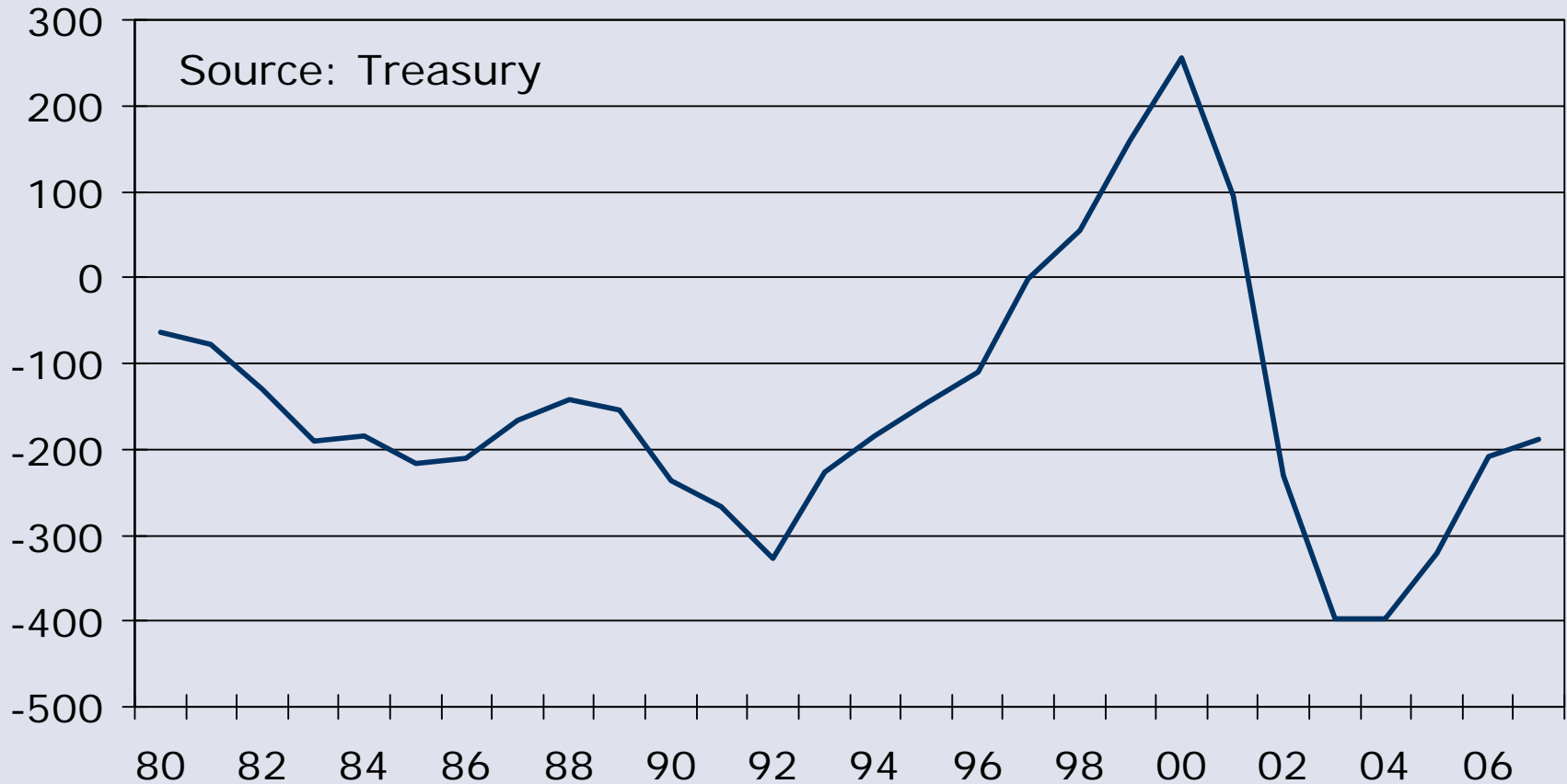
Banking System More Exposed to Housing

Residential RE assets of large commercial banks



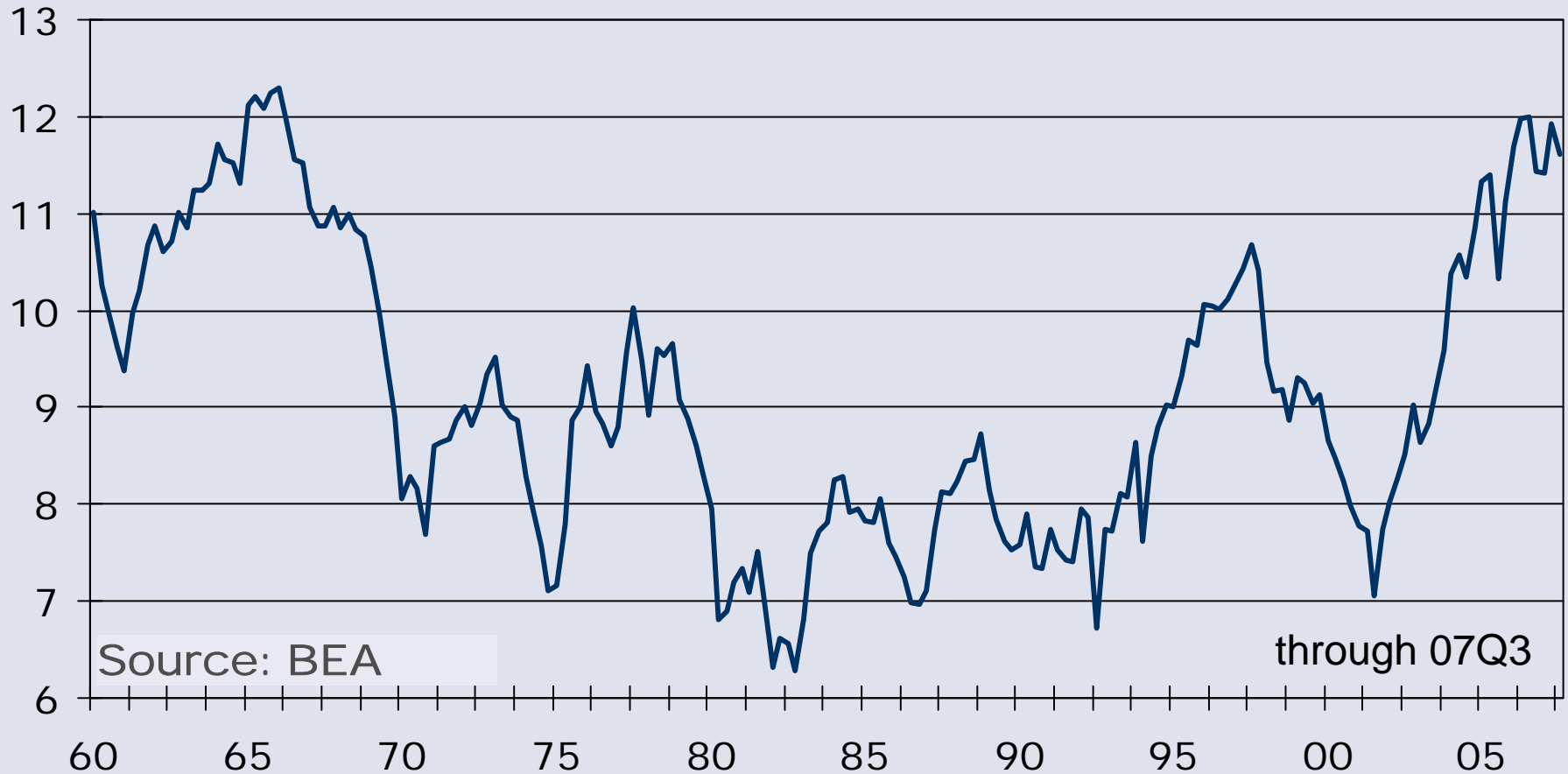
Massive Fiscal Stimulus After 2001 Recession

Federal Surplus or Deficit, \$bil



Corporate Profit Margins Near Record Highs...

Corporate profit margin as a share of GDP



...And Unlike Households, Have Sizable Cash Hoard

Ratio of liquid assets to short-term liabilities, Nonfinancial corporations

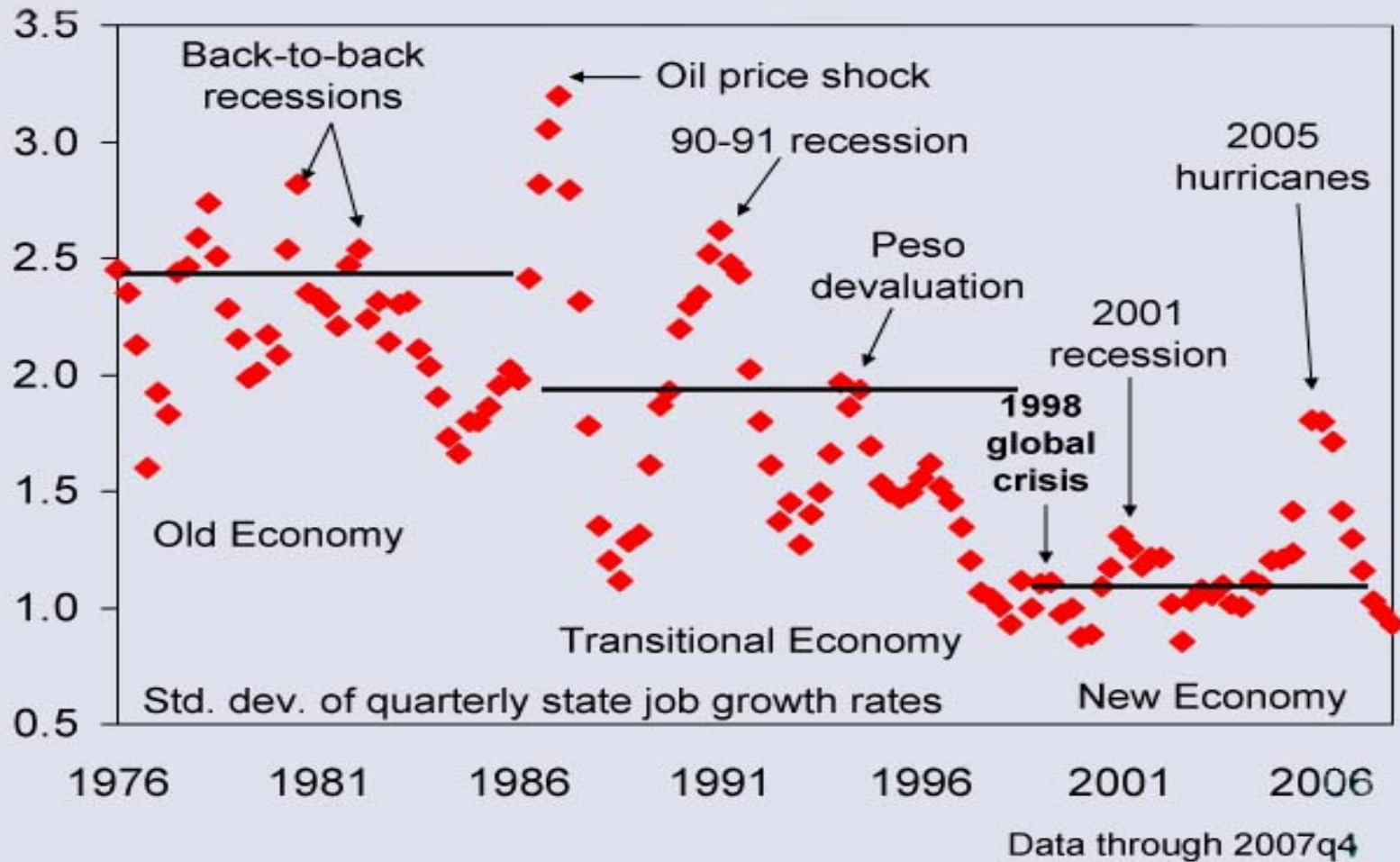


Source: Federal Reserve Board

Through 07q3

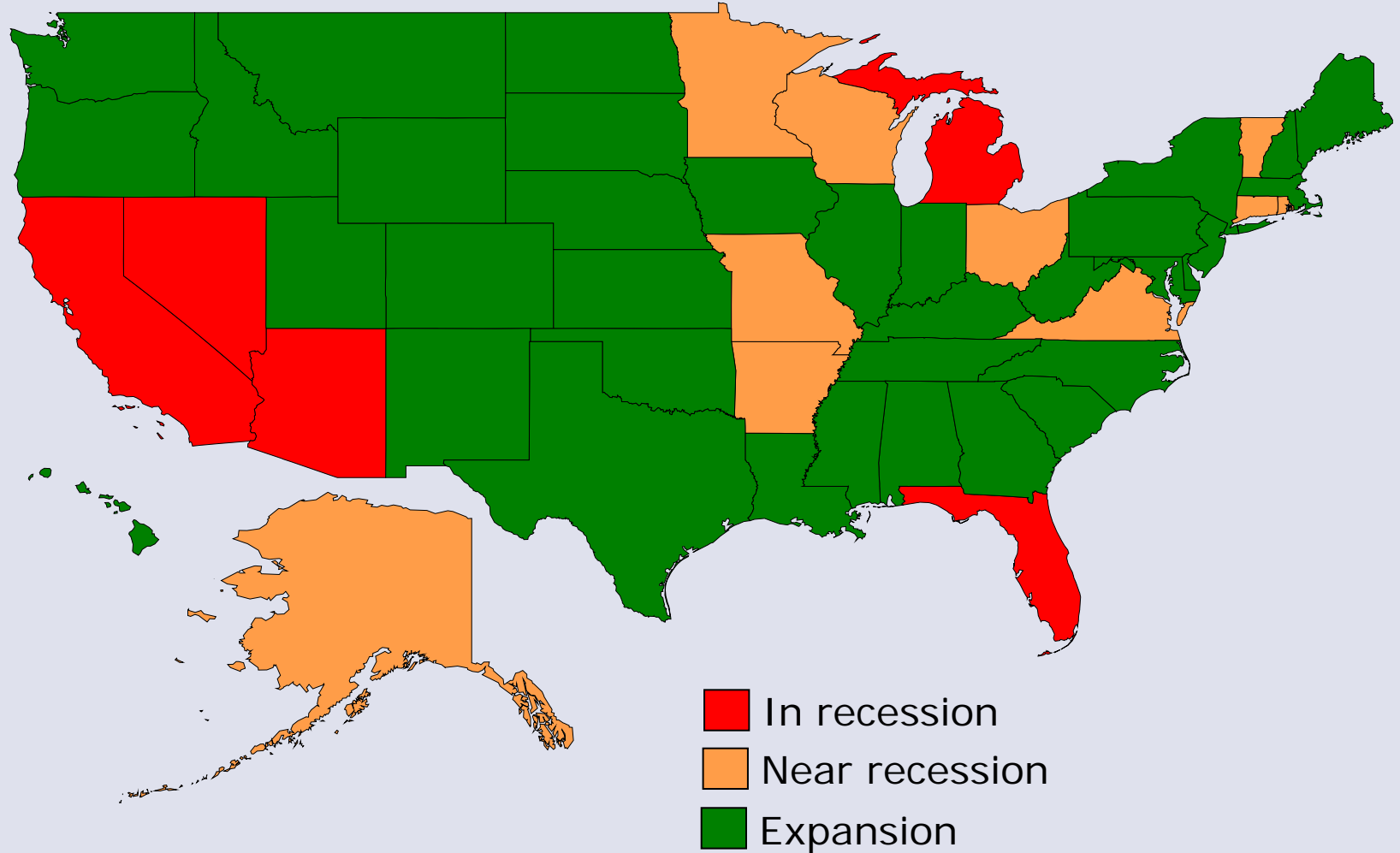


Regional Economies Behave More Similarly

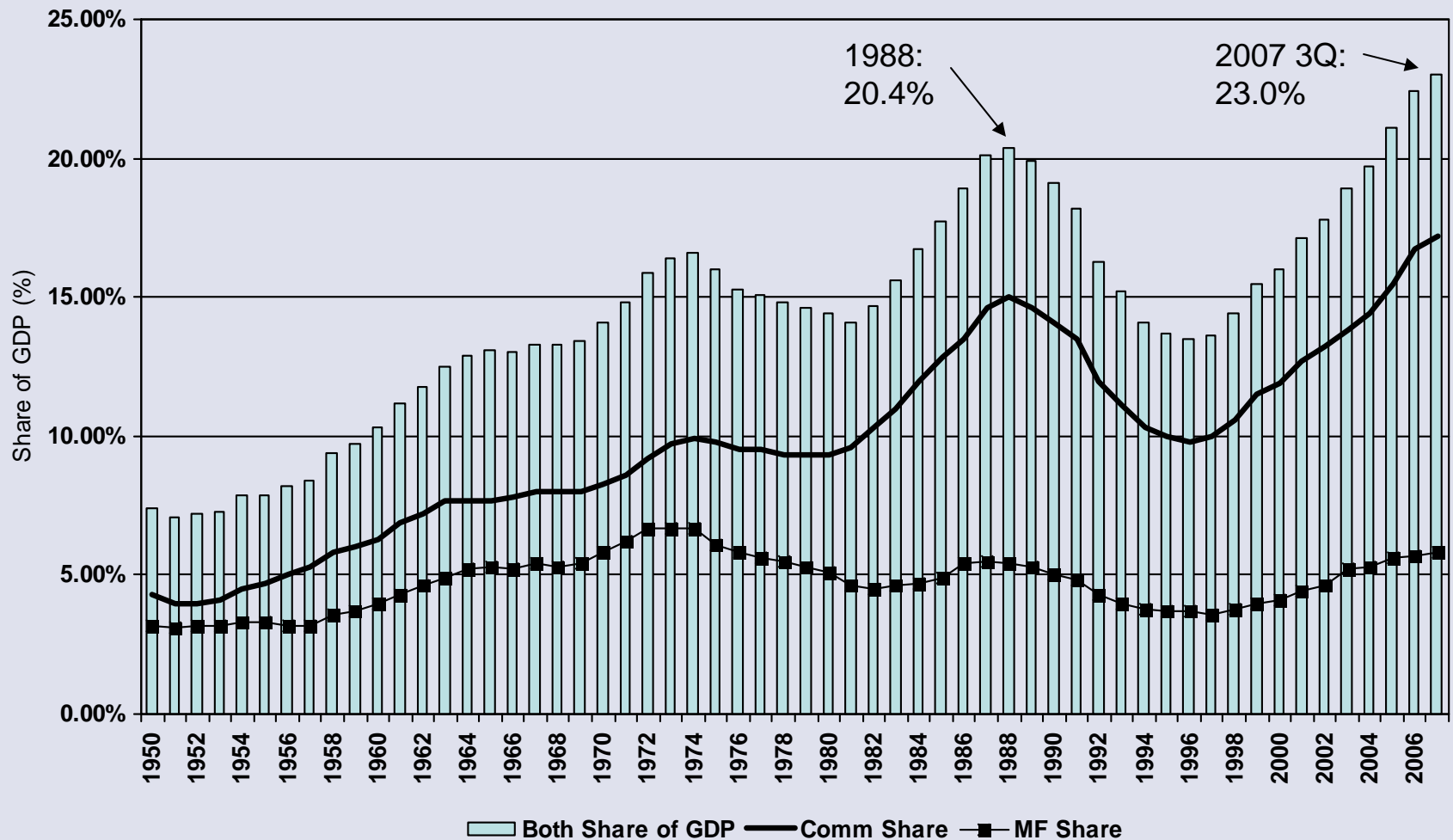


Weakness Spreads Across Many Parts of the Country

December 2007



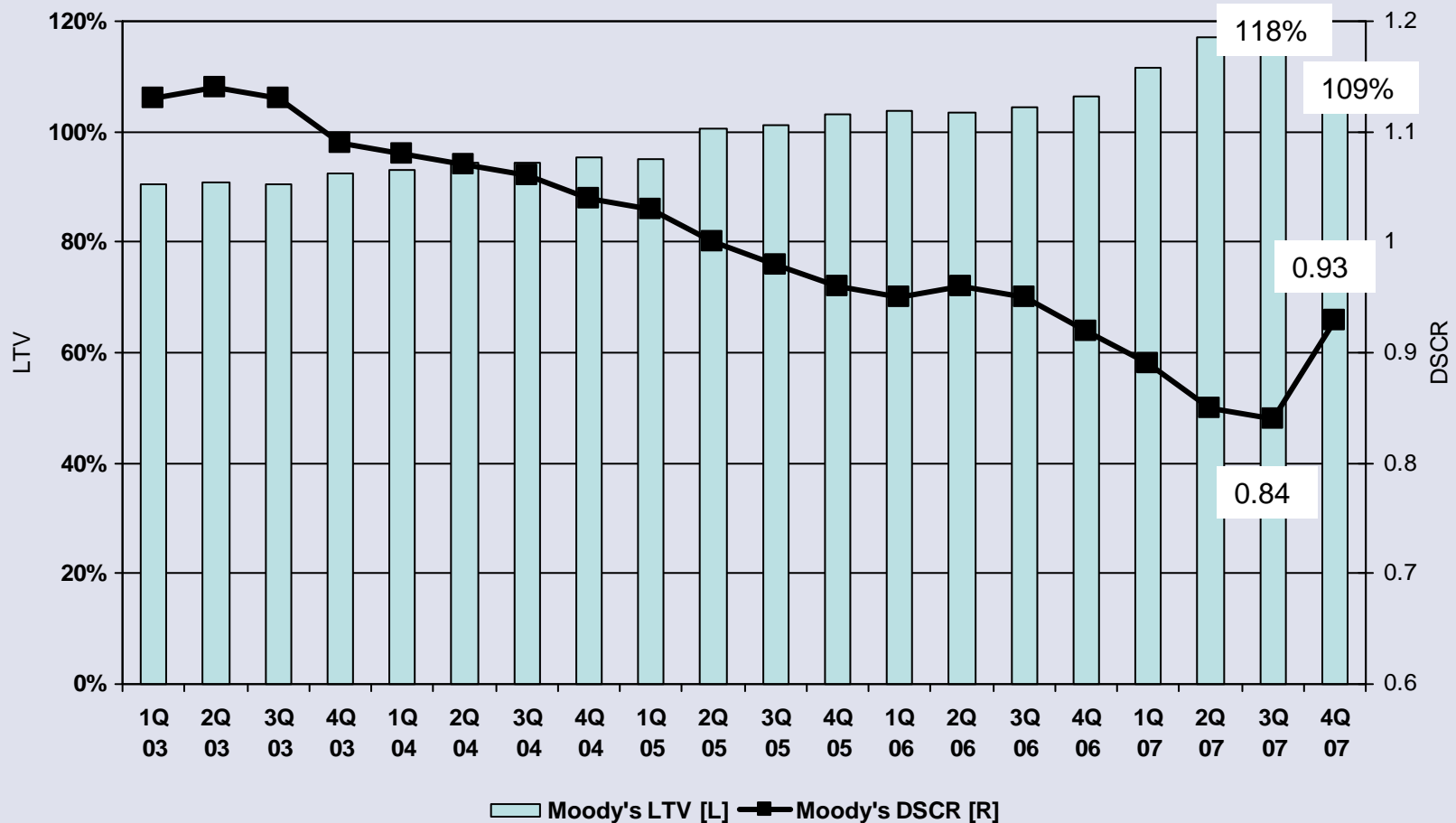
Commercial and Multifamily Mortgages As a Share of GDP



Source: Federal Reserve Flow of Funds Data through 3Q 2007



Moody's LTVs and DSCRs



Moody's LTVs and DSCRs calculated on the basis of Moody's sustainable cash flows and cap rates; not underwritten calculations.



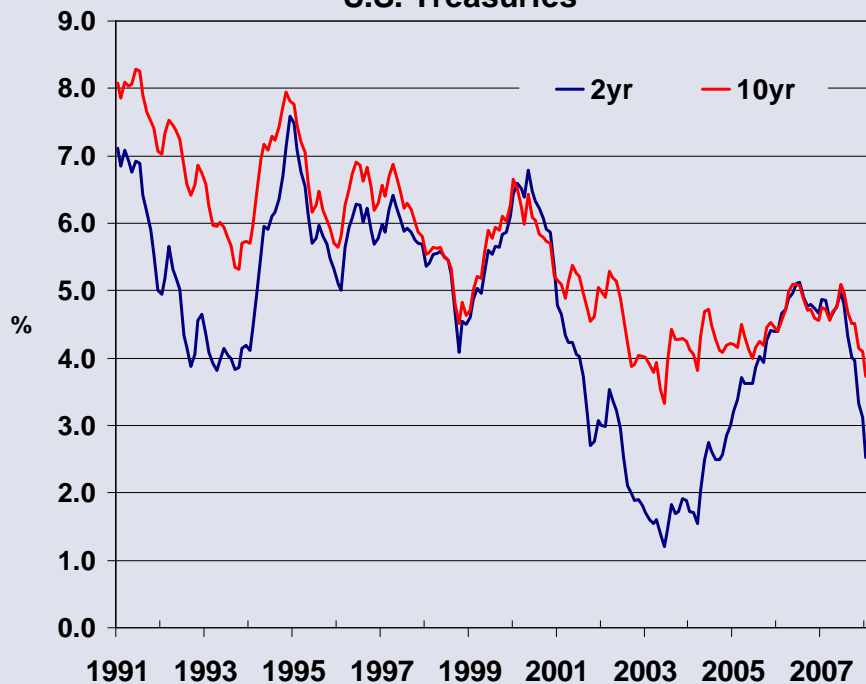
Price, Structure & Indices



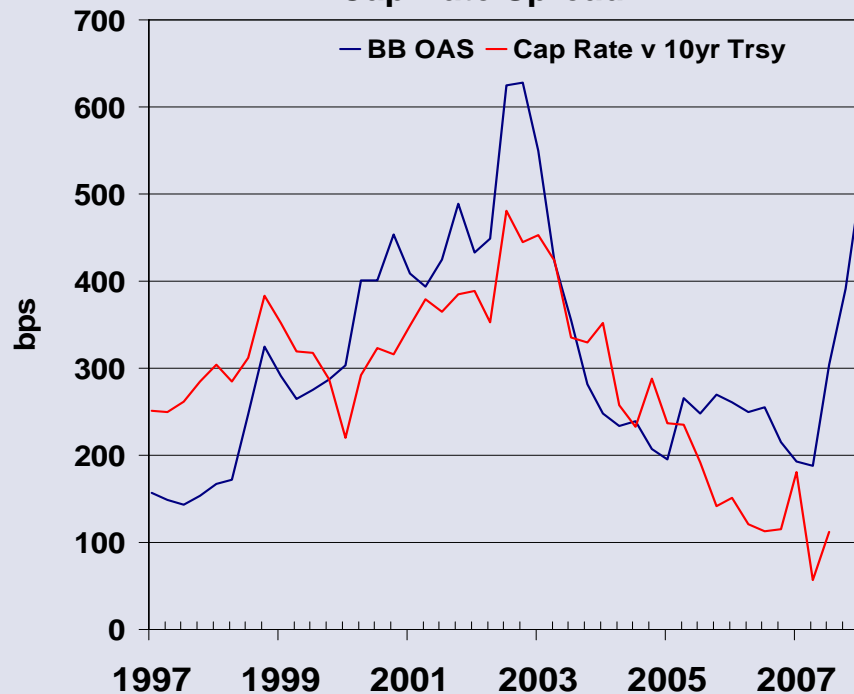
Financial Markets: Treasuries Down, Risk Up

- Real estate cap rates are influenced by the slope of the Treasury curve, corporate bond spreads, and financial market volatility

U.S. Treasuries



Corporate BB Bond Spread vs. Cap Rate Spread



Source: Bloomberg: U.S. Govt Treasuries and Merrill Lynch U.S. Corporate Bond Index



CMBX Markets

7 Msg:KEVIN NG

2<GO>REPLY, 3<GO>FWD, 11<GO>NEXT, 12<GO>PREV, 99<GO>MENU OF OPTIONS

From: •AHSIM KHAN, MORGAN STANLEY 1/22 16:18:47

Subject: CMBX UPDATE

Attachment(s): None Page 1/ 1

CMBX/CMBX/TRR/NCREIF W: 212.761.2106 M: 917.270.5916

SIZE	RATING	CMBX4 (07.2)	CMBX3 (07.1)	CMBX2 (06.2)	CMBX1 (06.1)
50MM	AAA	120/140 +10	115/130 +9.5	105/115 +11	100/110 +11
10MM	AJ	340/390 +40	330/380 +55	225/275 +40	185/235 +35
10MM	AA	450/500 +50	425/475 +50	325/375 +25	250/300 +25
10MM	A	700/775 +63	650/725 +63	500/550 +42	350/400 +50
10MM	BBB	1275/1375 +50	1200/1300 +50	825/925 +50	575/675 +25
10MM	BBB-	1575/1675 +75	1475/1575 +75	1075/1175 +25	775/875 +25

This is not research report and is not from MS Research but it may refer to a research analyst/research report. Please contact me for MS Research reports (plus important disclosures) or review the latest reports at <https://secure.ms.com>. Unless otherwise indicated, the views expressed are the author's and may differ from those of MS Research or others within Morgan Stanley. This material will not be updated, and we do not represent that it is accurate or complete. This is not an offer to buy or sell, or solicitation of an offer to buy or sell, the securities mentioned. MS may invest in or act as market maker for securities mentioned or may advise the issuers.

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.
 6509-502-0 24-Jan-2008 08:23:52



CMBX Markets

Message EquityMSG
 1<GO>DEL, 2<GO>REPLY, 3<GO>FWD, 11<GO>NEXT, 12<GO>PREV, 99<GO>MENU OF OPTIONS
 From: •AHSIM KHAN, MORGAN STANLEY 1/25 10:35:17
 Subject: CMBX UPDATE
 Attachment(s): None Page 1/ 1

CMBX/CMBX/TRR/NCREIF W: 212.761.2106 M: 917.270.5916

SIZE	RATING	CMBX4 (07.2)	CMBX3 (07.1)	CMBX2 (06.2)	CMBX1 (06.1)
50MM	AAA	100/110 -13	95/105 -10	87/97 -11	80/90 -3
10MM	AJ	265/315 -25	240/290 -20	200/250 -10	150/190 -30
10MM	AA	350/400 -35	325/375 -35	250/300 -30	200/250 --
10MM	A	575/625 -38	550/600 -38	375/425 -38	250/300 -25
10MM	BBB	1175/1250 -88	1100/1200 -75	750/850 -13	475/575 -13
10MM	BBB-	1375/1475 -100	1325/1425 -50	975/1025 -50	650/750 -38

This is not research report and is not from MS Research but it may refer to a research analyst/research report. Please contact me for MS Research reports (plus important disclosures) or review the latest reports at <https://secure.ms.com>. Unless otherwise indicated, the views expressed are the author's and may differ from those of MS Research or others within Morgan Stanley. This material will not be updated, and we do not represent that it is accurate or complete. This is not an offer to buy or sell, or solicitation of an offer to buy or sell, the securities mentioned. MS may invest in or act as market maker for securities mentioned or may advise the issuers.

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.
 6509-502-0 25-Jan-2008 10:36:53



How will modest market corrections be portrayed?

Page 95<GO> for Search Settings Msg:K.SHEEHAN

Search **FITCH** Settings Results From 11/17/2007 - 01/25/2008

Keyword Match: **Partial** Search In: **Body & Sender/Recipient** Page 3

- 1) 1/18 14:36←NLRT ALERT/Fitch Withdraws iStar Asset Services Inc.'s CMBS Servi
- 2) 1/18 12:41←NLRT ALERT/Fitch Affirms Bear Stearns 2006-PWR14
- 3) 1/18 12:30←NLRT ALERT/Fitch Affirms Bear Stearns Series 1999-WF2
- 4) 1/18 12:26←NLRT ALERT/Fitch Affirms Bear Stearns 2006-PWR14
- 5) 1/18 12:15←NLRT ALERT/Fitch Affirms Bear Stearns Series 1999-WF2
- 6) 1/17 16:21←NLRT ALERT/*NEWCASTLE INVESTMENT'S U.S. CRE CAM OUTLOOK NEGATIVE
- 7)✓ 1/17 16:20←NLRT ALERT/*FITCH AFFS NEWCASTLE INVESTMENT'S U.S. CRE CAM RATING
- 8) 1/17 16:20←NLRT ALERT/Fitch Affs Newcastle Investment's U.S. CRE CAM Rating
- 9) 1/17 11:27←NLRT ALERT/Fitch: Modest Climb for U.S. CMBS Delinquencies in 200
- 10)✓ 1/17 11:04←NLRT ALERT/*US CMBS DELINQUENCIES 'LIKELY' TO DOUBLE BY '08 END,
- 11)✓ 1/17 11:04←NLRT ALERT/*U.S. CMBS DELINQUENCIES 'LIKELY' TO DOUBLE, FITCH SAY
- 12)✓ 1/17 10:55←NLRT ALERT/Fitch: Modest Climb for U.S. CMBS Delinquencies in 200
- 13) 1/16 20:01←NLRT ALERT/Fitch To Hold Teleconference on Aust. Structured Finan
- 14) 1/16 18:10←NLRT ALERT/Fitch May Cut \$8 Billion of Commercial-Mortgage CDOs (
- 15) 1/16 14:16←NLRT ALERT/Fitch Ratings Affirms GMAC Series 1999-C3
- 16) 1/16 14:15←NLRT ALERT/Fitch May Cut \$8 Billion of Commercial-Mortgage CDOs (
- 17) 1/16 14:08←NLRT ALERT/Fitch Ratings Affirms GMAC Series 1999-C3
- 18) 1/16 13:40←NLRT ALERT/Fitch Affirms All Classes of Entertainment Props Trust
- 19) 1/16 13:25←NLRT ALERT/Fitch Affirms MSDW 2003-HQ2
- 20) 1/16 13:00←NLRT ALERT/Fitch Affirms TimberStar Trust I, Series 2006-1

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.
6509-502-0 25-Jan-2008 10:42:50



Where Do We Go From Here?

