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## Presale: Wachovia Bank Commercial Mortgage Trust 2004-C14

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### \$1.1 Billion Commercial Mortgage Pass-Through Certificates Series 2004-C14

This presale report is based on information as of Aug. 5, 2004. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Preliminary Ratings as of Aug. 5, 2004			
Class	Preliminary rating*	Preliminary amount (\$)	Recommended credit support (%)
A-1	AAA	534,414,000	13.625
A-2	AAA	413,146,000	13.625
B	AA	28,797,000	11.000
C	AA-	13,713,000	9.750
D	A	17,827,000	8.125
E	A-	10,970,000	7.125
F	BBB+	12,342,000	6.000
G	BBB	12,342,000	4.875
H	BBB-	15,084,000	3.500
J	BB+	2,743,000	3.250
K	BB	4,114,000	2.875
L	BB-	6,856,000	2.250
M	B+	2,743,000	2.000
N	B	2,743,000	1.750
O	B-	2,743,000	1.500
P	N.R.	16,453,349	0.000
MAD	BBB-	13,555,555	N/A
PP	BBB-	39,958,978	N/A
X-C¶	AAA	1,097,030,349§	N/A
X-P¶	AAA	1,057,622,000§	N/A

\*The rating of each class of securities is preliminary and subject to change at any time.  
 ¶Interest-only class. §Notional amount. N/A—Not applicable.

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### Profile

Expected closing date: Aug. 25, 2004.

Collateral: 81 loans secured by 83 properties.

Underwriters: Wachovia Capital Markets LLC, Goldman, Sachs & Co., and Greenwich Capital Markets Inc.

Sellers: Wachovia Bank N.A. and Artesia Mortgage Capital Corp.

Master servicer: Wachovia Bank N.A. (the 11 Madison Avenue loan and its related companion loans will be serviced under the pooling and servicing agreement for the Wachovia Bank Commercial Mortgage Trust commercial mortgage pass-through certificates series 2004-C10 transaction).

Special servicer: Wachovia Bank N.A. (for the 11 Madison Avenue loan only) and Allied Capital Corp.

Depositor: Wachovia Commercial Mortgage Securities Inc.

Trustee: LaSalle Bank N.A.

Fiscal agent: ABN AMRO Bank N.V.

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## Rationale

The preliminary ratings assigned to Wachovia Bank Commercial Mortgage Trust's \$1.1 billion commercial mortgage pass-through certificates series 2004-C14 reflect the credit support provided by the subordinate classes of certificates, the liquidity provided by the trustee, the economics of the underlying loans, and the geographic and property type diversity of the loans. Classes A-1, A-2, B, C, and D are currently being offered publicly. Standard & Poor's Ratings Services' analysis determined that, on a weighted average basis, the pool has a debt service coverage (DSC) of 1.47x, a beginning LTV of 87.6%, and an ending LTV of 77.3%.

Unless otherwise indicated, all calculations in this report, including weighted averages, do not include the B notes of the three A/B loans: Park Place Mall, 11 Madison Avenue, and Pointe West Medical Office Building, which are not included in the trust, or the junior nonpooled component of the 11 Madison Avenue loan. The \$95.6 million 11 Madison Avenue pari passu A note piece that is included in the trust is further divided into an \$82.0 million pooled component that will be included in the report calculations and a \$13.6 million junior nonpooled component that will be excluded from any further report calculations.

## Strengths

The transaction exhibits the following strengths:

- Three of the top 10 loans (25.1% of the pool balance) have characteristics consistent with obligations rated investment-grade by Standard & Poor's: Park Place Mall ('BBB-', 13.7% of the pool balance); 11 Madison Avenue ('AAA', 7.5%); and Independence Plaza ('A', 4.0%);
- Seventy-nine loans (98.9% of the pool balance), collateralized by 81 properties, have borrowing entities

that are structured as single-purpose entities (SPEs). Additionally, seven of these loans (38.4% of the pool) have borrowers with nonconsolidation opinions and independent directors;

- The economics of the top 10 loans are better than those of the overall pool, having a weighted average beginning LTV of 84.2%, compared with 87.6% for the pool, and a weighted average DSC of 1.56x, compared with 1.47x for the pool; and
- The weighted average quality score for the assets securing mortgages in the pool is 2.58, an above-average score on Standard & Poor's scale of 1 (highest) to 5 (lowest).

### Concerns and Mitigating Factors

This transaction exhibits the following concerns and mitigating factors:

- The pool exhibits geographic concentration, with 58.3% of the mortgaged properties concentrated in seven states. The largest concentrations are in Illinois (16.6% of the pool balance); California (14.0%, including Southern California (10.9%) and Northern California (3.1%)); Arizona (13.7%); New York (9.1%); Colorado (6.7%); North Carolina (5.9%); and Georgia (5.0%). The remaining assets are dispersed throughout 18 states and Washington, D.C., with no other state concentration exceeding 5.0% of the pool balance;
- The pool exhibits loan concentration, as the top 10 loans represent 58.0% of the pool balance, while the largest loan exposure represents 13.7% of the pool balance. However, the economics of the top 10 loans are better than those of the overall pool, and three of the top 10 loans (25.1% of the pool balance) have characteristics consistent with obligations rated investment-grade by Standard & Poor's. Additionally, one of the top 10 loans (10.1% of the pool balance) is secured by a portfolio of 10 properties;
- The pool has a concentration in office properties (32.7% of the pool balance). However, two of these loans (11.5%) have characteristics consistent with obligations rated investment-grade by Standard & Poor's: 11 Madison Avenue ('AAA', 7.5% of the pool balance) and Independence Plaza ('A', 4.0% of the pool balance). The capital structure for both of these loans takes into account property type, and the credit support levels for the pool consider asset class concentrations; and
- Thirteen loans (representing 10.6% of the pool balance) are secured by properties leased to single tenants. Of these loans, 11 (10.4% of the pool balance) have long-term leases that expire after the loan maturity. In addition, seven loans (5.7% of the pool balance) are leased to investment-grade tenants: General Services Administration (GSA; 'AAA', two properties); Sears ('BBB'); Walgreens ('A+', three properties); and CVS ('A-').

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### Pool Characteristics

## Transaction Structure

The certificates issued by the trust represent the beneficial ownership interest in 76 fixed-rate whole loans (67.7% of the pool balance); two interest-only loans (10.5%); one pooled component of a senior pari passu note of one loan (7.5%) that is structured as an A/B loan; the senior interest in a fixed-rate loan (13.7%), structured as an A/B loan; and the senior interest in a fixed-rate loan (0.6%), which is also structured as an A/B loan. The B note related to one of the A/B loans (0.6%) will not be an asset of the trust. The B note related to one of the A/B loans (13.7%) will be an asset of the trust and will support the class PP certificates. The pooled component related to one of the A/B loans (7.5%) will be an asset of the trust and will support the class MAD certificates.

## Collateral Description

The pool contains 81 conventional fixed-rate loans secured by liens on 83 properties. By property type, the pool has the following composition: office (32.7% of the pool balance); retail (32.6%); multifamily (27.2%); self-storage (2.9%); mobile-home park (2.4%); mixed-use (1.2%); hotel (0.9%); and land (0.1%). The pool includes two multiproperty portfolios (10.8% of the pool). Unless otherwise indicated, Standard & Poor's considered each portfolio to be one loan.

Lockboxes are in place for 52 loans, representing 78.1% of the total pool balance. Five of those loans (21.5% of the pool balance) have hard lockboxes, 42 loans (40.1%) have springing lockboxes that are triggered after certain conditions are met, and five loans (16.5%) have soft lockboxes.

Monthly tax escrows have been established for 67 loans (79.0% of the pool balance), monthly insurance premium escrows have been established for 53 loans (64.9%), and monthly capital reserves have been established for 60 loans (65.5%).

Reserves have been established for the remediation of existing deferred maintenance items for 32 loans (31.3% of the pool balance). Generally, the reserve established for each loan equals 125% of the amount recommended by the engineering report.

Monthly leasing and/or up-front leasing reserves have been established for 14 loans (22.3% of the pool balance representing office, retail, and industrial properties).

Thirteen loans (representing 10.6% of the pool balance) are secured by properties leased to single tenants. Of these loans, 11 (10.4% of the pool balance) have long-term leases that expire after the loan maturity. In addition, seven loans (5.7% of the pool balance) are leased to investment-grade tenants: GSA ('AAA', two properties); Sears ('BBB'); Walgreens ('A+', three properties); and CVS ('A-').

## Geographic Diversity

The pool consists of properties located in 25 states and Washington, D.C. The largest concentrations are in Illinois (16.6% of the pool balance); California (14.0%, including

Southern California (10.9%) and Northern California (3.1%); Arizona (13.7%); New York (9.1%); Colorado (6.7%); North Carolina (5.9%); and Georgia (5.0%). The remaining assets are dispersed throughout 18 states and Washington, D.C., with no other state concentration exceeding 5.0% of the pool balance.

### Loan Sellers

Wachovia Bank N.A. contributed 64 loans (90.6% of the pool balance) and Artesia Mortgage Capital Corp. contributed 17 loans (9.4%).

### Loan Origination Dates

Seventy-nine loans, representing 99.6% of the pool balance, were originated in the past 12 months and two loans, representing 0.4% of the pool balance, were originated more than three years ago.

### Agreed-Upon Procedures

Agreed-upon procedures were not performed for any of the loans.

### Hyperamortizing Loans

Forty loans (representing 46.2% of the pool balance) were structured as hyperamortizing loans. All of these loans are structured with some form of cash management.

### Interest-Only Loans

Two of the loans in the pool (10.5% of the pool balance) are interest-only loans.

### Collateral Quality

Based on Standard & Poor's analysis, the pool has a DSC of 1.47x on a weighted-average coupon of 5.61%. Standard & Poor's DSC reflects adjustments made to the net cash flow (NCF) of the properties based on the bankers' underwriting, historical, and projected operating statements and the assets' competitive positions in their respective markets.

On a weighted average basis, Standard & Poor's adjusted the NCF of the portfolio downward by 1.76%. This decrease reflects adjustments to rental rates, expense reimbursement ratios, occupancy levels, operating expenses, capital expenditure reserves, and tenant improvement and leasing commission (TI/LC) assumptions.

For the pool, Standard & Poor's weighted average beginning LTV is 87.6% and the ending LTV is 77.3%. The weighted average capitalization rate applied to Standard & Poor's NCF is 8.58%. Capitalization rates are a function of asset type, quality, tenancy, position in the competitive set, and current and future market conditions.

### Properties

Standard & Poor's inspected assets representing 64.0% of the total pool and re-underwrote cash flows and derived asset values for assets representing 68.2% of the pool. The weighted average quality score for the inspected properties was 2.58, an above-average score on Standard & Poor's scale of 1 (highest)

to 5 (lowest).

### Borrower Concentrations

The largest sponsor is General Growth Properties Inc., the sponsor of the Park Place Mall loan (13.7% of the pool). The five largest sponsors represent 41.8% of the pool balance and the 10 largest sponsors represent 58.0% of the pool balance. Six of the top 10 loans (37.0% of the pool balance) have bankruptcy-remote SPE borrowers with both a nonconsolidation opinion and an independent director. Three of the remaining top 10 loans (10.8% of the pool balance) have an SPE borrower with a nonconsolidation opinion but no provision for an independent director.

The largest loan in the pool is the Park Place Mall loan, representing 13.7% of the pool balance. The top five loans represent 41.8% of the pool balance and the top 10 loans account for 58.0% of the overall pool balance. The economics of the top 10 loans are better than those of the overall pool. The top 10 loans have a weighted average beginning LTV of 84.2% and a weighted average ending LTV of 76.5%. In addition, three of the top 10 loans (25.1% of the pool balance) have characteristics consistent with obligations rated investment-grade by Standard & Poor's: Park Place Mall ('BBB-', 13.7%); 11 Madison Avenue ('AAA', 7.5%); and Independence Plaza ('A', 4.0%). One of the top 10 loans (10.1% of the pool balance) is secured by a portfolio of 10 properties, which are cross-collateralized and cross-defaulted.

### Bankruptcy Issues

One of the loans (representing 1.1% of the pool) was made to a borrower with members or affiliates that have previously filed for bankruptcy. The bankruptcy was not filed in the 12-year period preceding August 2004. The borrower of this loan is structured as an SPE; however, the SPE does not have a nonconsolidation opinion or an independent director. The loan is structured with a soft lockbox for cash management.

### Leasehold Interests

Four loans (5.5% of the pool balance) are secured by a mortgage lien on the borrower's leasehold interest pursuant to a ground lease. All of these ground leases have ultimate terms that extend at least 20 years beyond the loan maturity and three of the ground leases (4.6%) afford the respective lenders notice and cure rights. With respect to one of the ground leases (0.9%), the mortgagee has no right to cure the fourth monetary default in any 24-month period. The loan documents provide that upon the occurrence of the first monetary default, the borrower must set up a ground lease payment escrow with the mortgagee for subsequent lease payments, and the mortgagee will make the payments directly to the lessor.

### Additional Indebtedness

Four loans, representing 3.6% of the pool, permit the related borrower to obtain future secondary secured debt. Either a subordination and standstill agreement or an intercreditor agreement is required.

Fourteen loans, representing 32.1% of the pool, permit the

borrower to incur future mezzanine debt, subject to DSC and/or LTV tests. With respect to all of these loans, a subordination and standstill agreement is required in connection with any additional mezzanine debt. Any additional indebtedness may only be secured by a pledge of the equity interest in the related mezzanine borrower.

One loan, representing 1.4% of the pool balance, permits the borrower to incur future secondary secured debt and/or future mezzanine debt, subject to the terms of a subordination and standstill agreement.

Two loans, representing 1.1% of the pool, permit the borrower to incur future unsecured debt or future mezzanine debt.

Two loans, representing 7.2% of the pool, currently have subordinate unsecured debt in place.

All additional debt was taken into account by Standard & Poor's when determining subordination levels.

#### **A/B Loans: Park Place Mall and Pointe West Medical Office Building**

The Park Place Mall loan (13.7% of the pool balance) has a whole-loan balance of \$189.8 million. The whole note has been split into a senior \$149.8 million component with credit characteristics consistent with investment-grade obligations rated 'BBB-' that will be included in the pooled portion of the trust, and a subordinate \$40 million component with credit characteristics consistent with investment-grade obligations rated 'BBB-' that will be included in the nonpooled portion of the trust.

The Pointe West Medical Office Building loan (0.6% of the pool balance) has a whole-loan balance of \$7.55 million. The whole loan has been split into an A note of \$7.11 million (1.0% of the pool balance), which will be contributed to the trust, and a nonpooled B note of \$444,941, which will be held outside of the trust.

Before an event of default, with respect to both the Park Place Mall loan and the Pointe West Medical Building loan, payments and proceeds of accrued and unpaid interest will be paid to the A note, followed by a pro rata portion of scheduled payments of principal to the A note, then proceeds of accrued and unpaid interest to the subordinate B note, followed by a pro rata portion of scheduled payments of principal to the subordinate B note.

Following an event of a default, with respect to both the Park Place Mall loan and the Pointe West Medical Building loan, the A note will receive all accrued and unpaid interest. Then, the A note will receive all payments of principal until the principal balance has been reduced to zero. The subordinate B note will then receive all accrued and unpaid interest. Finally, the subordinate B note will receive all payments of principal until the principal balance has been reduced to zero.

It should be noted that Standard & Poor's believes the relative

rights in a bankruptcy are more favorable when an A/B loan is structured as a participation rather than with separate notes. Currently, the master and special servicer of this trust will service both the A and B notes for both the Park Place Mall loan and the Pointe West Medical Building loan.

These A/B loans are subject to intercreditor agreements, which generally conform to Standard & Poor's criteria. The A/B loan structure was factored into the sizing of the capital structures for the loans and subordination levels for the transaction.

#### Pari Passu and A/B Loan: 11 Madison Avenue Loan

The third-largest loan in the pool, the 11 Madison Avenue loan, has a whole-loan balance of \$515 million. The whole loan consists of a \$430 million A note with credit characteristics consistent with investment-grade obligations rated 'BBB' that has been divided into four pari passu pieces. The first piece, a \$143.3 million A1 note, was contributed to the Wachovia Bank Commercial Mortgage Trust 2004-C10 transaction. The second, an A2 note sized at \$95.6 million, was contributed to the Wachovia Bank Commercial Mortgage Trust 2004-C11 transaction. The third piece, A3, sized at \$95.6 million, was contributed to the Wachovia Bank Commercial Mortgage Trust 2004-C12 transaction. The fourth piece, the A4 note, sized at \$95.6 million, is being contributed to the current trust.

The A4 note has also been further split into a senior \$82.0 million component that has credit characteristics consistent with investment-grade obligations rated 'AAA' and will be included in the pooled portion of the trust, and a subordinate \$13.6 million component that has credit characteristics consistent with investment-grade obligations rated

'BBB-' and will be included in the nonpooled portion of the trust. In addition to the pari passu A notes, the mortgage is also evidenced by three subordinate loans: a \$10.0 million B note, a \$37.5 million C note, and a \$37.5 million D note. The subordinated notes are not assets of the trust. The servicer for the Wachovia Bank Commercial Mortgage Trust 2004-C10 transaction is responsible for servicing the whole loan and making principal and interest advances with respect to the A1, A2, A3, and A4 pari passu A notes of the loan. The servicers, on behalf of Wachovia Bank Commercial Mortgage Trust 2004-C10 Trust, will not be responsible for making principal and interest advances with respect to the subordinated notes.

Before an event of default, payments and proceeds of accrued and unpaid interest will be paid pro rata to the A1, A2, A3, and A4 notes, followed by scheduled payments of principal to the A1, A2, A3, and A4 notes. Accrued and unpaid interest will then be paid to the subordinate loans, in order of seniority, followed by scheduled payments of principal to the subordinate loans.

Following an event of a default, the A1, A2, A3, and A4 notes will receive pro rata accrued and unpaid interest. Then, the A1, A2, A3, and A4 notes will receive pro rata payments of principal until the principal balance has been reduced to zero. The subordinate loans will then receive accrued and unpaid interest, in order of seniority, until the principal balance has been

reduced to zero. Finally, the subordinate loans, in order of seniority, will receive payments of principal until the principal balances of the subordinated loans have been reduced to zero.

### Terrorism Insurance Coverage

The lenders' policies on terrorism insurance generally require every property to have terrorism coverage to the extent available at commercially reasonable rates. Six loans (1.8%) are secured by a retail property occupied by tenants (Walgreens, Eckerd, and CVS) that are permitted to self-insure.

### Appraisal Reports

Appraisal reports, in conformance with USPAP and FIRREA, were prepared for all of the loans. All such reports were completed in the past year, except for two reports (0.4% of the pool balance), which were completed more than 24 months ago.

### Environmental Review

Phase I environmental studies were conducted for assets representing 100% of the pool balance. A phase II assessment was not recommended for any of the collateral properties. For one loan, representing 0.6% of the pool balance, the related borrower has obtained an environmental insurance policy in lieu of providing an environmental indemnity.

Escrows totaling \$6,000 have been established for two properties (2.4% of the pool balance) to address actions that were recommended in the environmental reports, such as the establishment of asbestos operations and maintenance programs.

Phase I reports for 79 loans, representing 99.6% of the pool balance, were prepared in the 12-month period before the cutoff date. The remaining two reports (0.4% of the pool balance) were completed more than three years after the cutoff date.

### Structural Review

Independent, licensed engineers prepared engineering reports for all of the collateral properties. These reports identified both deferred maintenance items to be corrected immediately and long-term capital expenditure needs. Assets securing 32 loans, representing 31.3% of the total pool balance, were identified as needing immediate repairs, and escrows totaling \$1,350,233 were established at closing to remedy these items. Generally, the loan sellers' requirements for up-front, deferred maintenance reserves are 125% of the recommended amount indicated in the reports.

Engineering reports for 79 loans, representing 99.6% of the pool balance, were prepared in the 12-month period before the cutoff date. The remaining two reports (0.4% of the pool balance) were completed more than three years after the cutoff date.

### Seismic Review

Eighteen loans, representing 18.2% of the pool balance, are secured by properties located in seismic zones 3 or 4. Seismic

studies were completed for all properties in seismic zones 3 or 4. Two loans, representing 4.2% of the pool balance, have a probable maximum loss in excess of 20%. Both of these loans have earthquake insurance policies in place.

### Hurricane and Flood Review

Generally, the originators require wind insurance for all properties in coastal areas. The loans secured by properties located in Federal Emergency Management Agency-designated flood zones are required to comply with flood insurance regulations. The originators generally require the insurance for properties in the wind/flood prone areas.

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## Top Seven Loans

### Park Place Mall

The largest loan in the pool, the Park Place Mall loan, has a whole-loan balance of \$189.8 million. The whole note has been split into a senior \$149.8 million ('BBB-', 13.7% of the pool balance) component, which has credit characteristics consistent with investment-grade obligations rated 'BBB-' and will be included in the pooled portion of the trust, and a subordinate \$40 million component, with credit characteristics consistent with investment-grade obligations rated 'BBB-' and will be included in the nonpooled portion of the trust. The 5.5-year, fixed-rate loan bears interest at a rate of 5.15% and amortizes on a 30-year schedule through its maturity in January 2010.

Park Place Mall, built in 1974 and renovated in 2001, is a 1,048,598-sq. ft. anchored retail property consisting of one two-story building located in Tucson, Ariz. General Growth Properties (GGP; 'BBB-') purchased the subject in 1996 for approximately \$50 million with the intent to redevelop the property from an antiquated shopping center built in 1974 to a modern, upscale shopping destination of choice. Between 1999 and 2001 the property was renovated for approximately \$100 million. Renovations made to the property included the opening of a new "street scene" of retailers along the north side of the mall, the addition of a new Dillard's anchor store, the completion of a food court, the construction of an exterior restaurant area, and the addition of a movie theater above the food court. The mall is anchored by Macy's (160,000 sq. ft., 'BBB+'); Sears (221,457 sq. ft., 'BBB'); Dillard's (200,000 sq. ft., 'BB'); and a 20-screen Century Theatre (73,280 sq. ft., 'N.R.'). With the exception of the Century Theatre, these spaces are anchor-owned and are not part of the collateral. The mall is 95.5% occupied by tenants that include Ann Taylor Loft ('BB-'), Banana Republic ('N.R.'), Gap ('BB+'), Old Navy ('N.R.'), and Bath & Body Works ('N.R.'), and pay an average rent of \$26.35 per sq. ft. Average mall shop sales and occupancy costs as of March 2004 were \$416 per sq. ft. and 10.9%, respectively.

The borrower is a single-purpose, bankruptcy-remote entity owned by GGP. GGP is a publicly traded REIT. As the second-largest regional mall REIT, GGP owns, develops, operates, and/or manages shopping malls in 41 states. As of March 2004, GGP had ownership interests in and/or management responsibility for more than 170 regional malls totaling more

than 150 million sq. ft. of retail space. The property is managed by an affiliate of the borrower. The loan is structured with a soft lockbox with springing cash management.

The following points summarize Standard & Poor's underwriting assumptions for this loan:

- Underwritten rents were based on the leases in place as of May 2004, with vacant space grossed up at the weighted average in-place rent per sq. ft. The subject property is currently 95.5% occupied;
- Reimbursements were underwritten based on historical levels;
- Other income items were underwritten based on historical levels;
- A vacancy rate of 5.0% was applied against the base rent, expense reimbursement income, and percentage rent;
- Operating expenses were based on historical levels;
- A management fee was assumed at 5.0% of estimated gross income (EGI) less reimbursements;
- Real estate taxes and insurance premium expense were based on the borrower's budget projections for 2004;
- TI/LCs were calculated using the in-place lease term of 10 years for the in-line tenants and a 65% retention ratio;
- TI allowances were estimated at \$12.00 per sq. ft. for new space and \$5.00 per sq. ft. for renewal space for in-line tenants;
- LCs were estimated at 4.0% and 2.0% for new tenants and renewals, respectively;
- Capital reserves were underwritten at \$0.25 per sq. ft. of collateral gross leasable area (GLA);
- Based on these assumptions, Standard & Poor's NCF variance was 1.1%;
- A property value of \$205.2 million (\$439 per sq. ft.) was derived by direct capitalization of the NCF using a capitalization rate of 7.75%; and
- The quality score for this asset is 2.50, an above-average score on Standard & Poor's scale of 1 (highest) to 5 (lowest).

This loan exhibits the following strengths:

- The trust balance exhibits a pooled senior note with credit characteristics consistent with a 'BBB-' rated obligation;
- Park Place Mall is considered the dominant mall in Tucson, with in-line sales of \$416 per sq. ft. and occupancy costs of 10.9% for the 12-month period ended March 2004;
- Between 1999-2001, the borrower spent approximately \$100 million on renovations to update and expand the property; and
- The property benefits from strong and experienced sponsorship and management.

This loan exhibits the following concern and mitigating factor:

- The property is 15.7% occupied by a 20-screen Century

Theatre. Century Theatre has exhibited extremely strong sales (\$711,000 per screen for the trailing-12-month period ending March 2004).

### BJB Portfolio

The second-largest loan in the pool, the BJB Portfolio loan, has a cutoff balance of \$111.2 million (10.1% of the pool balance). The portfolio consists of 10 separate fixed-rate, hyperamortizing loans that are cross-collateralized and cross-defaulted, have remaining terms ranging from 58-118 months (on original loan terms ranging from 5-10 years), bear interest at an average rate of 5.30%, amortize on a 30-year schedule, have anticipated repayment dates (ARDs) of June 2009, May 2011, and June 2014, and an ultimate maturity date of May 2034 or June 2034.

These 10 mortgage loans are secured collectively by first mortgages on 10 multifamily properties totaling 964 units, with a gross building area of 694,523 sq. ft., located in Chicago, Ill. Each property is summarized in table 1.

Property name	Year built	Occupancy (%)	Units	Allocated balance (\$)
4100 North Marine	1952	95	190	29,958,221
21-27 East Delaware Place	1926	95	146	20,143,496
451 West Wrightwood Avenue	1928	95	177	17,464,941
18 East Elm Street	1920	95	150	14,195,248
443 West Wrightwood Avenue	1928	95	176	14,153,380
1213-1229 West Diversey Parkway/2751-2753 North Magnolia Street	1928	96	46	5,988,013
1939 North Lincoln Avenue	1928	95	57	5,028,704
482-84 Deming Place	1890	100	6	1,746,078
507-509 West Wrightwood Avenue	1890	100	7	1,356,952
734-42 West Oakdale Avenue	1930	100	9	1,117,490
Total portfolio	--	95	964	111,152,524

The properties were built between 1890 and 1952 and have been renovated to replace or upgrade flooring, kitchens, and individual heating/cooling between 2002 and 2004. Renovation costs totaled approximately \$30 million. The property sizes range from 6-190 units, and the occupancies range from 95%-100%, with an average occupancy as of June 15, 2004, of 95%. Rents range from an average of \$815 per unit to \$2,095 per unit, with an overall weighted average rent of \$1,360 per unit. Some of the properties have amenities such as a fitness center and a mail and bike room. All of the apartment units have central heating and cooling.

The borrowers for all of the loans are structured as bankruptcy-remote SPEs. The sponsors of the borrowers are two principals of BJB Partners LLC. BJB Partners LLC owns and manages approximately 4,000 apartment units through the Chicago MSA. There is no cash management for this loan until the ARD, after which, if the loans are not repaid in full, tenants will deposit rent

directly into a lender-controlled lockbox account.

The following points summarize Standard & Poor's underwriting assumptions for this loan:

- Revenues were based on in-place leases as of June 2004, grossed up to full occupancy;
- Vacancy rates equal to the higher of actual vacancy or submarket and market vacancy averages were applied to gross potential rent (GPR);
- Operating expenses were based on historical levels;
- Real estate tax and insurance premiums were based on actual invoices;
- A management fee of 3.5% of EGI was assumed;
- Replacement reserves of \$225 per unit were assumed;
- Based on these assumptions, Standard & Poor's overall NCF variance for the portfolio was 0.0%;
- Standard & Poor's applied capitalization rates ranging from 8.25%-8.75% to NCF (resulting in a blended capitalization rate of 8.32%), yielding a value of \$110.1 million, or \$114,163 per unit; and
- Quality scores for these assets ranged from 2.50-2.75, resulting in a blended portfolio quality score of 2.54, an above-average score.

This loan exhibits the following strengths:

- The loan is secured by 10 cross-collateralized and cross-defaulted multifamily properties, a relatively stable asset type;
- The properties are well located in the Lakeview, Lincoln Park, and Near North areas of Chicago. These neighborhoods are all close to the parks along the Chicago lakefront, restaurants, and public transportation; and
- This portfolio benefits from strong local sponsorship and management.

This loan exhibits the following concern and mitigating factor:

- The properties' ages range from 52-114 years. In spite of their age, the collateral is in good condition and has been recently renovated with modern amenities at a total cost of approximately \$29.1 million (\$30,237 per unit).

## 11 Madison Avenue

The third-largest loan in the pool is the 11 Madison Avenue loan, with a trust balance of \$95.6 million, including a \$82.0 million pooled component ('AAA', 7.5% of the pool balance) and a \$13.6 million subordinate nonpooled component ('BBB-') that will be sold as a separate rake bond. The whole loan totals \$515 million and consists of a \$430 million A note that has been divided into four pari passu pieces. The first piece, a \$143.3 million A1 note, was contributed to the Wachovia Bank Commercial Mortgage Trust 2004-C10 transaction. The second piece, A2, sized at \$95.6 million, was contributed to the Wachovia Bank Commercial Mortgage Trust 2004-C11 transaction. The third piece, A3, sized at \$95.6 million, was

contributed to the Wachovia Bank Commercial Mortgage Trust 2004-C12 transaction. The fourth piece, the A4 note, sized at \$95.6 million, is being contributed to the current trust. In addition to the pari passu A notes, the mortgage is also evidenced by three subordinate pieces: a \$10.0 million B note, a \$37.5 million C note, and a \$37.5 million D note, which are not assets of the trust. The 5.3043% fixed-rate A note, which is scheduled to mature Jan. 11, 2014, has a 10-year term and amortizes on a 30-year schedule.

The loan is secured by a first mortgage on 11 Madison Avenue, located on Madison Avenue between 24th and 25th Streets in Manhattan, N.Y. The property is a class A office building containing a total of 2,256,552 sq. ft. of space. The property was constructed in 1932 and substantially renovated in 1997. For the renovation, the former owner, MetLife, spent more than \$400 million (\$177 per sq. ft.) replacing the mechanical, electrical, and plumbing systems and all of the windows and the roof. The property offers floor plates ranging from 45,000 sq. ft. to 100,000 sq. ft.

The property serves as the world headquarters of Credit Suisse First Boston (CSFB; 'A'). CSFB occupies 85.2% of the net rentable area (NRA) and has leases for 64.2% of the NRA extending to 2017. CSFB began occupying 11 Madison Avenue in 1995 and invested \$300 million (\$133 per sq. ft.) in the property. The property's tower space consists of CSFB executive suites, including the office of the CEO. Other prominent tenants include IBM ('A+', 138,072 sq. ft., sublet from Aon); Omnicom ('A-', 95,557 sq. ft.); and Gould Paper ('N.R.', 46,318 sq. ft.). The property is currently 98.6% occupied, with tenants paying an average in-place rent of \$21.33 per sq. ft.

The sponsor of the bankruptcy-remote SPE borrower is Tamir Sapir, the owner of ZAR Realty Management Corp., which owns 4.0 million sq. ft. of New York properties. The property is managed by Cushman & Wakefield Inc. The loan has a hard lockbox for cash management.

The following points summarize Standard & Poor's underwriting assumptions for this loan:

- The analysis was bifurcated into a real estate component based on the value of the building at loan maturity and a credit-tenant component;
- Underwritten revenues in the real estate analysis were based on leases in place per the rent roll dated December 2003;
- Reimbursements in the real estate analysis were based on the tenant's contractual obligations;
- In the real estate analysis, percentage rent and other income were based on historical performance and the 2003 budget; the vacancy rate applied to the gross potential income for all tenants other than CSFB and Omnicom was 5.0%. A 1.0% vacancy rate was applied to the CSFB and Omnicom space. The property is currently 98.6% occupied;
- Reimbursement income was based on contractual obligations, including parking rental income;

- A management fee of \$1.0 million was assumed;
- Underwritten operating expenses were based on the historical numbers;
- Additional underwritten operating expenses were based on the appraiser's estimate of real estate tax and insurance expenses;
- TI expenses were assumed to range from \$7.00 per sq. ft. to \$10.00 per sq. ft. for new leases and \$3.50 per sq. ft. to \$5.00 per sq. ft. for renewal leases in the real estate analysis. The CSFB space, leased until 2017, was excluded from the roll;
- LCs were assumed to be 4.0% for new leases and 2.0% for renewals;
- The average lease terms were assumed to range from 11.0-20.0 years, based on the actual in-place lease terms in the real estate analysis;
- In the real estate analysis, a 65.0% renewal probability was assumed for non-CSFB tenants. A 80.0% renewal probability was assumed for 389,344 sq. ft. of CSFB space that expires in 2007;
- Capital reserves were assumed to be \$0.35 per sq. ft. in the real estate analysis;
- Based on these assumptions, Standard & Poor's stabilized NCF variance was 0.0%;
- Standard & Poor's capitalized stabilized NCF using an 8.00% overall capitalization rate to achieve a value of \$611.2 million (\$271 per sq. ft.);
- The difference between the original loan amount and the balloon balance due at maturity was analyzed as a credit-tenant loan using Standard & Poor's credit-tenant model. This analysis was combined with the analysis for the real estate component to determine the capital structure for the whole loan; and
- The quality score for this asset was 2.0, an above-average score.

This loan exhibits the following strengths:

- The pooled component of the trust balance exhibits credit characteristics consistent with an 'AAA' rated obligation, while the nonpooled component of the trust balance exhibits credit characteristics consistent with a 'BBB-' rated obligation. However, the credit characteristics of the loan are dependent on the rating of CSFB ('A'), the major tenant. Any changes to the rating of the tenant will affect the credit characteristics of the loan;
- The property has 64.2% of its space leased through 2017 to CSFB, a tenant rated 'A' by Standard & Poor's;
- The property's in-place average rents of \$21.33 per sq. ft. are significantly below market, as REIS Inc.'s second-quarter 2004 submarket report stated asking rents of \$29.59 per sq. ft.;
- The property has benefited from extensive renovation, as \$700 million (\$310 per sq. ft.) has been spent by former owner MetLife and its main tenant, CSFB, during the past nine years; and
- The property benefits from strong sponsorship and experienced management.

This loan exhibits the following concern and mitigating factor:

- CSFB has a termination clause that allows it to re-lease 528,730 sq. ft. of space in 2007. However, this risk is mitigated, as CSFB will have to pay a termination fee of \$32.0 million (\$14.18 per sq. ft.) if it terminates that space. In addition, CSFB invested \$133 per sq. ft. (equivalent to \$70.3 million for the cancelable space) to renovate the entire property in 1995. CSFB must give two years' notice before the termination date, and if it elects to terminate the space, the lender will begin to trap 100% of the cash flow until the space is re-leased. The current in-place rent of the terminated space is significantly below market.

#### 444 North Michigan Ave.

The fourth-largest loan in the pool, the 444 North Michigan Ave. loan, has a whole-loan and trust balance of \$71.5 million (6.5% of the pool balance). The 10-year, fixed-rate whole loan bears interest at a rate of 5.68% and is interest only through its maturity in July 2014.

The loan is collateralized by a first-mortgage lien on a 511,201-sq. ft. office building located on the southwest corner of North Michigan Avenue and Illinois Street in the "Magnificent Mile" submarket of downtown Chicago. Constructed in 1976 and renovated in 1991, 444 North Michigan Ave. is a 36-story office building with approximately 13,806 sq. ft. of ground floor retail space. The property was 85.8% leased to 62 tenants at a weighted average base rent of \$19.51 per sq. ft. as of May 2004. The largest tenants include: Shefsky & Froelich Ltd. ('N.R.', 43,612 sq. ft., 8.5% of NRA, leases expire in 2005); Gordon & Glickson LLC ('N.R.', 30,999 sq. ft., 6.1% of NRA, leases expire in 2007); TMP Worldwide Inc. ('N.R.', 30,816 sq. ft., 6.0% of NRA, leases expire in 2010); and PR 21 ('N.R.', 22,451 sq. ft., 4.4% of NRA, leases expire in July 2008).

The borrower, Kan Am 444 North Michigan Avenue L.P., is structured as a bankruptcy-remote SPE with a nonconsolidation opinion and an independent director. The sponsors of the borrower are The Kan Am Group (Kan Am) and The Andalex Group. Kan Am is one of Germany's largest private syndicators and asset managers of real estate, with current investments of approximately 28 million sq. ft. of commercial real estate projects, approximately 86% of which are in the U.S. Andalex is a New York-based full-service real estate organization that specializes in the acquisition, development, asset management, and leasing of office space. The property is managed by an affiliate of the borrower. The loan is structured with a hard lockbox for cash management.

The following points summarize Standard & Poor's cash flow analysis assumptions for this loan:

- Revenues were based on in-place rents as of May 2004;
- Reimbursements were underwritten based on the lease terms;
- No additional vacancy was assumed;
- Operating expenses were based on historical levels;

- A management fee of 4.0% of EGI was assumed;
- Replacement reserves were underwritten at \$0.35 per sq. ft.;
- TI allowances for the office space were estimated at \$16.00 per sq. ft. for new space and \$8.00 per sq. ft. for renewal space, based on weighted average net rents of \$17.28 per sq. ft. TI allowances for the retail space were estimated at \$20.00 per sq. ft. for new space and \$10.00 per sq. ft. for renewal space, based on weighted average net rents of \$87.97 per sq. ft.;
- LCs were estimated at 4.0% for new space and 2.0% for renewal space;
- A weighted average lease term of 9.8 years was assumed for the office space based on in-place leases, and a weighted average lease term of 14.0 years was assumed for the retail space based on in-place leases;
- A renewal probability of 65% was assumed;
- Based on these assumptions, Standard & Poor's overall NCF variance was 0.0%;
- Standard & Poor's applied a capitalization rate of 9.00% to NCF, yielding a value of \$81.1 million, or \$159 per sq. ft.; and
- The quality score for this asset is 2.75, an above-average score.

This loan exhibits the following strengths:

- The property benefits from strong sponsorship and experienced management; and
- The property benefits from an excellent location, at the corner of North Michigan and Illinois Street in Chicago's Magnificent Mile.

This loan exhibits the following concern and mitigating factor:

- There is significant near-term rollover risk with the largest tenant, Shefsky & Froelich Ltd. (8.5% of NRA), and an additional 4.3% of NRA rolling in 2005. The borrower is currently in negotiations with Shefsky & Froelich, which has been in occupancy at the subject since 1990. In addition, there is an ongoing annual TI/LC reserve of \$638,750 (\$1.25 per sq. ft.) to address any potential re-tenanting costs.

### Independence Plaza

The fifth-largest loan in the pool, the Independence Plaza loan, has a whole-loan balance of \$44.0 million ('A', 4.0% of the pool balance). The five-year, fixed-rate, interest-only loan bears interest at a rate of 5.06% and matures in August 2009.

The loan is collateralized by a first mortgage on a 561,957-sq. ft. office building located in the Denver, Colo., central business district (CBD). The property was built in 1971 and renovated in 1995. The property consists of a 25-story high-rise office building, a two-story office building, and a three-story office building, all of which are interconnected with ground-level enclosed retail and a second-level outdoor plaza. As of June 2004, the subject was 87.7% occupied by 60 tenants paying a weighted average rent of \$20.83 per sq. ft. Prominent office

tenants include: AT&T ('BBB', 59,940 sq. ft., 10.7% of NRA, lease expires in 2008); Questar ('A+', 38,333 sq. ft., 6.8% of NRA, lease expires in 2007); and Kennedy, Christopher, Foggs & Child ('N.R.', 30,302 sq. ft., 5.4% of NRA, lease expires in 2010). Retail tenants include Rock Bottom Brewery ('N.R.'), Paradise Bakery ('N.R.'), and Genghis Grill ('N.R.').

The borrower, Amstar-ARA Denver LLC, is structured as an SPE that is not bankruptcy remote. The sponsor of the borrower is Amstar Group, which is headquartered at the subject property. Amstar acquired the subject in 1993, and its portfolio includes 29 commercial properties, consisting primarily of hospitality, multifamily, and office. The property is managed by Transwestern Mile High Commercial Services, which oversees the management and leasing of more than 500 properties totaling more than 150 million sq. ft. nationwide. Cushman & Wakefield is the third-party leasing agent and is in negotiation to take over the property management. The loan is structured with a springing lockbox for cash management.

The following points summarize Standard & Poor's underwriting assumptions for this loan:

- Revenues were based on in-place rents as of June 2004;
- Reimbursements were underwritten based on historical levels and contractual lease terms;
- No additional vacancy was assumed, as the property is currently 87.7% occupied, which is in line with the market;
- Operating expenses were based on historical levels;
- A management fee of 4% of EGI was assumed;
- Replacement reserves were underwritten at \$0.30 per sq. ft.;
- TI allowances were estimated at \$7.00 per sq. ft. for new space and \$3.50 per sq. ft. for renewal space for the office space and \$5.00 per sq. ft. for new space and \$2.50 per sq. ft. for renewal space for retail space;
- LCs were estimated at 4.0% for new space and 2.0% for renewal space;
- A weighted average lease term of 5.8 years was assumed for the office space and 4.0 years was assumed for the retail space;
- A renewal probability of 65% was assumed for all space, with the exception of AT&T, for which a 70% renewal probability was assumed;
- Based on these assumptions, Standard & Poor's overall NCF variance was 4.4%;
- Standard & Poor's applied a capitalization rate of 9.50% to NCF, yielding a value of \$65.9 million, or \$116 per sq. ft.; and
- The quality score for this asset is 3.00, an average score.

This loan exhibits the following strengths:

- The trust balance exhibits credit characteristics consistent with a 'A' rated obligation;
- The property is well located in the Denver CBD, with direct access to the Pedestrian Mall;
- The property tenancy is well diversified, as the three

largest tenants occupy only 22.9% and no other tenant occupies more than 5.0% of NRA; and

- The property benefits from strong and experienced management.

This loan exhibits the following concern and mitigating factor:

- The subject is located in the Denver office market, which is one of the weaker markets nationally. However, the CBD submarket has performed better than the overall Denver market, with a vacancy of 14.7% compared with 21.7%, as a majority of the new space has been delivered to the suburbs. The Denver CBD has not had a major development since the 1980s. Furthermore, the property is currently 87.7% occupied, with leases out for signature/negotiation that would bring the total occupancy to over 93%. The loan is also structured with a cash trap for a 100% cash flow sweep if the DSC falls below 2.25x.

### FBI Field Office

The sixth-largest loan in the pool is the FBI Field Office loan, with a whole-loan and trust balance of \$41.9 million (3.8% of the pool balance). The nine-year, fixed-rate, ARD loan bears interest at a rate of 6.24% and provides for fixed payments of principal and interest for the first 12 months of its term on a 20-year amortization schedule, with interest-only payments for the next 24 months, and, thereafter, fixed principal and interest payments on a 30-year amortization schedule. The loan has an ARD in August 2013 and an ultimate maturity in August 2034.

The loan is secured by the fee interest in a 155,755-sq. ft. office building in Baltimore, Md., that was completed in June 2004 and accepted by the tenant July 2, 2004. The building is 100% leased to the U.S. Government ('AAA'). The building was built specifically for the U.S. Federal Bureau of Investigation (FBI) as one of 56 field offices located in major cities throughout the country. The FBI lease calls for annual rent of \$6.2 million, or \$40.01 per sq. ft., and expires in June 2014.

The borrower, Maryland Funding LLC, is structured as a non-bankruptcy-remote SPE that has a nonconsolidation opinion but no independent director. The sponsors of the borrower are Anthony Hai, Christopher Penrose, and NGP Capital Partners III LLC (NGP). NGP has an option to purchase all of the shares of the borrower's sole member, Baltimore Assets LLC, between the 12th and 18th months after completion of the improvements. NGP focuses on acquiring properties leased to the U.S. Government's GSA, Canadian governmental authorities, and other properties with leases to investment-grade tenants. The manager of the property will be Real Assets Management Co. LLC, an affiliate of the sponsors. The loan is structured with a hard lockbox for cash management.

The following points summarize Standard & Poor's underwriting assumptions for this loan:

- Standard & Poor's bifurcated the underwriting analysis

because the in-place rent of \$40.01 per sq. ft. is above the calculated average for the comparables. DSC was based on the in-place rent, giving full credit to the GSA lease that extends approximately 10 months beyond the term of the loan; however, Standard & Poor's used a stabilized approach to derive the ultimate value of the building. Furthermore, Standard & Poor's added to value the present value of the above-market rent during the nine-year loan term, since such payments come from an 'AAA' rated tenant;

- GPR was based on the in-place lease for DSC purposes. For valuation purposes, an average rent of \$34.00 per sq. ft. was assumed. This figure was based on an adjusted rent range for comparable buildings determined by the appraiser to be between \$26.51 per sq. ft. and \$44.85 per sq. ft. The assumed market rent was slightly higher than the \$32.90 per sq. ft. average for the comparables, owing to the subject property's new construction;
- Vacancy for both cash flow and valuation purposes was assumed to be 4.5%. This figure is higher than the 1% commonly assumed for 'AAA' rated tenants, but lower than the 12.6% market vacancy. Full vacancy credit for the GSA lease was not given because it does not extend a minimum of five years beyond the term of the loan;
- A management fee of 3.0% of EGI was assumed for both cash flow and valuation purposes;
- Additional underwritten operating expenses were based on estimates made by the appraiser, because there is no operating history for the newly constructed subject property;
- For cash flow purposes, TI expenses were assumed to be \$20.00 per sq. ft. for new leases and \$10.00 per sq. ft. for renewal leases, based on an in-place rent of \$40.01 per sq. ft. and an average in-place lease term of 10 years. For valuation purposes, TI expenses were assumed to be \$10.00 per sq. ft. for new leases and \$5.00 per sq. ft. for renewal leases, based on a market rent of \$34.00 per sq. ft. and an average lease term of 10 years;
- LCs were assumed to be 4.0% for new leases and 2.0% for renewals;
- A 70.0% renewal probability was assumed for both cash flow and valuation purposes;
- Capital reserves were assumed to be \$0.30 per sq. ft. of collateral GLA;
- Based on these assumptions, Standard & Poor's NCF variance was 3.8% based on the in-place rent scenario;
- Standard & Poor's capitalized stabilized NCF using a 9.25% overall capitalization rate and then added the present value of the \$4.4 million above-market, in-place rent over the term of the loan. The resulting adjusted value was \$42.2 million (\$271 per sq. ft.); and
- The quality score for this asset was 2.75, an above-average score.

This loan exhibits the following strengths:

- An investment-grade tenant occupies 100% of NRA; and
- The subject building is in excellent condition due to its

new construction.

This loan exhibits the following concern and mitigating factor:

- The in-place GSA lease, which expires in 2014, 10 months after the ARD calls for rent that is significantly higher than the market average. To mitigate this concern, Standard & Poor's bifurcated the analysis for cash flow and valuation purposes, considering a building value based on stabilized, market-based rent. Furthermore, a TI/LC reserve of \$7 million, or \$44.94 per sq. ft, is required to be funded by the ARD. In addition, the lease rollover risk is further mitigated by the build-to-suit nature of the building, including many state-of-the-art security features that would be hard to replicate at an alternate location. Finally, the FBI has also invested \$3.8 million (\$24.40 per sq. ft.) of its own money in TIs, reducing its likelihood to vacate.

## Barneys New York

The seventh-largest loan in the pool, the Barneys New York loan, has a whole-loan and trust balance of \$37.0 million (3.4% of the pool balance). The 10-year, fixed-rate loan bears interest at a rate of 5.78% and amortizes on a 30-year schedule through its maturity in August 2014.

The loan is secured by the leasehold interest in the Barneys New York luxury department store located in Beverly Hills, Calif. Built in 1993, the 114,978-sq. ft. five-story building serves as one of three flagship locations for Barneys New York ('B'). On-site, below-grade parking is available, providing 309 spaces, or 2.69 spaces for every 1,000 sq. ft. Barneys occupies 100% of the property, subject to a full triple-net lease with a base rent of \$29.80 per sq. ft. and an expiration date of January 2019, with three 10-year extension options. Located along Wilshire Boulevard one block west of Rodeo Drive, the property lies in the most exclusive luxury shopping destination in Southern California. Within a five-mile radius of the property, the average household income is estimated to be \$80,301. Although Barneys is not required to report sales, the store verbally represented that sales are in the range of \$700 per sq. ft. This translates into an occupancy cost of approximately 7.4% when factoring in Barneys' triple-net expense obligations. The property is subject to a subordinated ground lease that runs through 2088. An up-front, \$1.8 million LOC (\$15.66 per sq. ft.) was provided to offset future potential re-tenanting costs.

The sponsors of the bankruptcy-remote SPE borrower are members of the Cayre family. The Cayre family is an active investor in large real estate projects and has been an equity investor in several prominent New York properties, including 568-578 Broadway and 660 Madison Ave. The property is managed by Jenel Management Corp., an affiliate of the borrower. The loan has a hard lockbox in place for cash management.

The following points summarize Standard & Poor's underwriting assumptions for this loan:

- GPR was based on the lease in place as of June 2004;
- The lease in place is fully triple-net in nature, with full pass-through of expenses;
- A vacancy of 5% was assumed. The average retail vacancy in the property's market is estimated to be 3.5%;
- Due to the full triple-net structure of the lease, operating expenses and management fees were not considered;
- TI expenses were assumed to be \$5.00 per sq. ft. for new leases and \$2.50 per sq. ft. for renewal leases, based on the in-place rent of \$29.80 per sq. ft.;
- LC expenses were assumed to be 4.0% for new leases and 2.0% for renewals;
- TI/LC assumptions were based on the in-place weighted average lease term of 21 years, with LC expenses capped at 10 years;
- A renewal probability of 70.0% was assumed;
- Replacement reserves were assumed to be \$0.20 per sq. ft. of collateral NRA;
- Based on these assumptions, Standard & Poor's NCF variance was 4.0%;
- Standard & Poor's derived a value of \$40.3 million (\$350 per sq. ft.) by applying a 8.25% capitalization rate to the NCF and adding \$1.8 million to give credit for an up-front LOC to the capitalized value; and
- The quality score for this asset is 2.50, an above-average score.

This loan exhibits the following strengths:

- The property benefits from its location in the exclusive high-end shopping district in and around Rodeo Drive in Beverly Hills; and
- Barneys experienced positive sales momentum in the first quarter of 2004, with comparable-store sales increasing 22%. Barneys verbally represented that sales at the subject property were approximately \$700 per sq. ft.

This loan exhibits the following concerns and mitigating factors:

- Single-tenant risk exists, in that Barneys occupies 100% of the property. On July 1, 2004, Standard & Poor's placed its ratings on Barneys New York Inc., including the 'B' corporate credit rating, on CreditWatch with developing implications. This rating action followed the company's announcement that it has hired advisers to explore strategic alternatives, including a potential sale of the company. To resolve the CreditWatch listing, Standard & Poor's will review any proposed transaction and its impact on the company's credit quality. Positive sales momentum in the luxury sector continued into the first quarter of 2004, with comparable-store sales increasing 22%. Improved expense leverage led to significant margin improvement in the quarter. Adequate financial flexibility, brand name strength, and vendor relationships provide rating stability, while significant geographic concentration and a small store base limit upside potential. It is important to note that the credit quality of Barneys New York was not factored in the

overall real estate analysis of this loan;

- The property competes with a Saks Fifth Avenue luxury department store, situated adjacent to it along Wilshire Boulevard, as well as many of the individual designer stores along Rodeo Boulevard. Barneys' overall sales have trended upward in the first quarter of 2004, and sales at the subject property were reported to be approximately \$700 per sq. ft.; and
- There is a springing TI/LC escrow if Barneys' net worth drops below \$80 million. Monthly escrows of \$25,000 per month, up to \$1.0 million, will be captured until Barneys' net worth rises above the \$80 million threshold.

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### Credit Evaluation

The following tables provide further analysis of the cash flow and valuation of the various property types, the top 10 loan characteristics, and Standard & Poor's DSC and LTV stratification ranges.

Property type	% of pool	DSC (x)	% NCF difference*	Capitalization rate (%)	Beginning LTV (%)	Ending LTV (%)	Value per unit/sq. ft. (\$)
Office	32.7	1.68	1.99	8.82	82.2	73.6	202
Retail	32.7	1.44	2.06	8.17	82.4	72.3	291
Multifamily	27.2	1.23	1.22	8.39	98.9	88.1	81,597
Self-storage	2.9	1.67	2.59	10.75	86.6	66.8	11,687
Mobile-home park	2.4	1.27	0.15	8.75	100.2	84.0	42,452
Mixed-use	1.2	1.26	2.40	9.50	102.2	87.3	113
Hotel	0.9	1.67	0.00	12.00	83.7	66.4	63,324
Total	100.0	1.47	1.76	8.58	87.6	77.3	--

\*Difference between Standard & Poor's estimated NCF and underwriter's estimated NCF as a percentage of underwriter's estimated NCF. DSC—Debt service coverage ratio. NCF—Net cash flow.

Property name	Property type	% of pool	DSC (x)	% NCF diff.*	Cap rate (%)	Beg. LTV (%)	End. LTV (%)	Value per unit/sq. ft. (\$)
Park Place Mall	Retail (anchored)	13.7	1.62	1.15	7.75	73.04	66.96	439
BJB Portfolio	Multifamily (conventional)	10.1	1.23	0.00	8.32	101.00	90.24	114,163
11 Madison Avenue	Office (CBD)	7.5	1.81	0.00	8.00	60.41	55.96	271
444 North Michigan Ave.	Office (CBD)	6.5	1.69	0.00	9.00	88.20	88.20	159
Independence Plaza	Office (CBD)	4.0	2.82	3.97	9.50	66.49	66.49	118
FBI Field Office	Office (suburban)	3.8	1.37	3.79	9.25	99.33	88.12	271
Barneys New	Retail							

York - Beverly Hills	(shadow anchored)	3.4	1.22	3.98	8.25	91.84	77.37	350
1750 H Street	Office (CBD)	3.2	1.19	5.43	8.50	95.92	75.31	331
Aylesbury Farms Apartment Homes	Multifamily (conventional)	3.0	1.17	3.57	8.50	97.69	83.52	88,891
Kennedy Ridge Apartments	Multifamily (conventional)	2.7	1.22	0.85	8.50	99.65	92.93	31,363
Weighted avg.	--	58.0	1.56	1.55	8.39	84.18	76.52	--

\*Difference between Standard & Poor's estimated NCF and underwriter's estimated NCF as a percentage of underwriter's estimated NCF. DSC—Debt service coverage ratio. NCF—Net cash flow. CBD—Central business district.

DSC range (x)	No. of loans	Loan balance (\$)	% of pool
>1.65	9	228,450,000	20.8
1.55 to 1.65	4	172,988,014	15.8
1.50 to 1.54	2	7,183,665	0.7
1.45 to 1.49	6	48,205,083	4.4
1.40 to 1.44	3	12,755,058	1.2
1.35 to 1.39	7	69,623,628	6.3
1.30 to 1.34	8	55,735,393	5.1
1.25 to 1.29	10	92,729,283	8.5
1.20 to 1.24	24	275,595,802	25.1
1.15 to 1.19	7	115,779,382	10.6
1.10 to 1.14	1	17,985,042	1.6
1.05 to 1.09	0	0	0.0
1.04 to 1.00	0	0	0.0
0.00 to 1.00	0	0	0.0
<b>Total</b>	<b>81</b>	<b>1,097,030,350</b>	<b>100.0</b>

DSC—Debt service coverage ratio.

Beginning LTV range (%)	No. of loans	Loan balance (\$)	% of pool
<50	0	0	0.0
50 to 60	1	1,700,000	0.2
61 to 70	8	138,589,300	12.6
71 to 75	2	159,696,169	14.6
76 to 80	2	22,300,000	2.0
81 to 85	5	25,987,235	2.4
86 to 90	18	181,843,818	16.6
91 to 95	9	95,437,259	8.7
96 to 100	17	270,249,784	24.6
>100	19	201,226,785	18.3
<b>Total</b>	<b>81</b>	<b>1,097,030,350</b>	<b>100.0</b>

Ending LTV range (%)	No. of loans	Loan balance (\$)	% of pool
<50	0	0	0.0
50 to 60	1	1,700,000	0.2
61 to 70	8	138,589,300	12.6
71 to 75	2	159,696,169	14.6
76 to 80	2	22,300,000	2.0
81 to 85	5	25,987,235	2.4
86 to 90	18	181,843,818	16.6
91 to 95	9	95,437,259	8.7
96 to 100	17	270,249,784	24.6
>100	19	201,226,785	18.3
<b>Total</b>	<b>81</b>	<b>1,097,030,350</b>	<b>100.0</b>

Ending LTV range (%)	No. of loans	Loan balance (\$)	% of pool
Fully amortizing loans	3	7,294,137	0.7
0 to 50	1	6,993,523	0.6
51 to 60	5	88,995,163	8.1
61 to 70	9	254,230,779	23.2
71 to 75	13	68,306,317	6.2
76 to 80	10	129,243,861	11.8
81 to 85	15	157,766,654	14.4
86 to 90	20	197,174,261	18.0
91 to 95	4	172,025,654	15.7
96 to 100	1	15,000,000	1.4
>100	0	0	0.0
Total	81	1,097,030,350	100.0

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