

**Presale: Wachovia Bank Commercial Mortgage Trust  
2004-C15**

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## \$1.2 Billion Commercial Mortgage Pass-Through Certificates Series 2004-C15

This presale report is based on information as of Oct. 18, 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 Oct. 18, 2004 |                     |                         |                                |
|---|---------------------|-------------------------|--------------------------------|
| Class                                   | Preliminary rating* | Preliminary amount (\$) | Recommended credit support (%) |
| A-1                                     | AAA                 | 57,169,000              | 14.250                         |
| A-2                                     | AAA                 | 162,905,000             | 14.250                         |
| A-3                                     | AAA                 | 144,241,000             | 14.250                         |
| A-4                                     | AAA                 | 468,420,000             | 14.250                         |
| B                                       | AA                  | 33,309,000              | 11.375                         |
| C                                       | AA-                 | 14,482,000              | 10.125                         |
| D                                       | A                   | 21,723,000              | 8.250                          |
| A-1A                                    | AAA                 | 160,747,000             | 14.250                         |
| E                                       | A-                  | 11,585,000              | 7.250                          |
| F                                       | BBB+                | 14,482,000              | 6.000                          |
| G                                       | BBB                 | 13,034,000              | 4.875                          |
| H                                       | BBB-                | 15,930,000              | 3.500                          |
| J                                       | BB+                 | 7,241,000               | 2.875                          |
| K                                       | BB                  | 4,344,000               | 2.500                          |
| L                                       | BB-                 | 4,344,000               | 2.125                          |
| M                                       | B+                  | 2,896,000               | 1.875                          |
| N                                       | B                   | 2,896,000               | 1.625                          |
| O                                       | B-                  | 2,896,000               | 1.375                          |
| P                                       | N.R.                | 15,935,899              | 0.000                          |
| 175WJ                                   | B-                  | 55,000,000              | 0.000                          |
| 180ML                                   | B-                  | 69,500,000              | 0.000                          |
| X-P¶                                    | AAA                 | 1,122,660,000§          | 14.250                         |
| X-C¶                                    | AAA                 | 1,158,579,899§          | 14.250                         |

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

### Profile

Expected closing date: Nov. 8, 2004.

Collateral: 82 loans secured by 114 properties.

Underwriter: Wachovia Capital Markets LLC.

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

Master servicer: Wachovia Bank N.A.

Special servicers: Clarion Partners LLC and Wachovia Bank N.A. (for the 180 Maiden Lane loan only).

Depositor: Wachovia Commercial Mortgage Securities Inc.

Trustee: Wells Fargo Bank N.A.

### Rationale

The preliminary ratings assigned to Wachovia Bank Commercial Mortgage Trust's \$1.2 billion commercial mortgage pass-through certificates series 2004-C15 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, A-3, A-4 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 1.47, a beginning LTV of 90.2%, and an ending LTV of 79.5%.

Unless otherwise indicated, all calculations in this report, including weighted averages, do not include the subordinate B notes of 180 Maiden Lane and 175 West Jackson (Insurance Exchange Building), which are nonpooled assets in the trust supporting the class 180ML and 175WJ certificates, respectively. Furthermore, all calculations in this report, including weighted averages, do not include the subordinate B notes of the six additional A/B notes, which are not included in the trust: Coastal Grand, Torrington Commons, Chapel Park Apartments, Hampton Inn & Suites, Penn's Purchase, and ADG Portfolio.

## Strengths

The transaction exhibits the following strengths:

- Three of the top 10 loans (26.4% of the pool balance) have trust balances with credit characteristics consistent with obligations rated investment-grade by Standard & Poor's: 180 Maiden Lane ('A-', 8.0% of the pool balance); 175 West Jackson ('BBB-', 9.7%); and Coastal Grand ('BBB-', 8.6%);
- The economics of the top 10 loans are better than those of the overall pool, having a weighted average beginning LTV of 85.0%, compared with 90.2% for the pool, and a weighted average DSC of 1.59x, compared with 1.47x for the pool; and
- The weighted average quality score for the assets securing mortgages in the pool is 2.71, 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 64.2% of the mortgaged properties concentrated in seven states. The largest concentrations are in New Jersey (13.7% of the pool balance), Illinois (10.5%), California (10.2%), New York (9.6%), South Carolina (8.9%), Florida (6.3%), and Arizona (5.0%). The remaining assets are dispersed throughout 20 states and Washington, D.C., with no other state concentration exceeding 4.0% of the pool balance;
- The pool exhibits loan concentration, as the top 10 loans represent 50.7% of the pool balance, while the single largest loan exposure represents 9.7% of the pool balance. However, three of the top 10 loans (26.4% of the pool balance) have trust balances with credit characteristics consistent with obligations rated investment-grade by Standard & Poor's. Additionally, two of the top 10 loans (9.9% of the pool balance) are secured by portfolios comprising 29 properties;
- The pool has a concentration in office properties (47.1% of the pool balance). Mitigating this concern, two of these loans (17.7%) have trust balances with credit characteristics consistent with obligations rated investment-grade by Standard & Poor's: 180 Maiden Lane ('A-', 8.0% of the pool balance) and 175 West Jackson ('BBB-', 9.7%). 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
- Five of the loans in the pool (17.5% of the pool balance) are interest-only

loans. Mitigating this concern, one of these loans, 180 Maiden Lane (8.0% of the pool balance), has a trust balance with characteristics consistent with obligations rated 'A-' by Standard & Poor's.

## Pool Characteristics

### Transaction Structure

The certificates issued by the trust represent the beneficial ownership interest in the following:

- Seventy-three fixed-rate whole loans (66.2% of the pool balance);
- One senior pari passu note of an interest-only, fixed-rate loan (8.0%) that is structured as an A/B/C loan;
- One senior pari passu note of a fixed-rate loan (9.7%) that is structured as an A/B loan; and
- The senior interest in six fixed-rate loans (16.1%) that are structured as A/B loans.

The B notes related to the six A/B loans (16.1%) will not be assets of the trust. The B note related to the A/B/C loans (8.0%) will be a nonpooled asset of the trust and will support the class 180ML certificates. The B note related to the remaining A/B loan (9.7%) will be a nonpooled asset of the trust and will support the class 175WJ certificates.

### Collateral Description

The pool contains 82 conventional fixed-rate loans secured by liens on 114 properties. By property type, the pool has the following composition: office (47.1% of the pool balance), retail (28.2%), multifamily (17.2%), self-storage (4.5%), mobile-home park (3.6%), hotel (2.2%), industrial (1.5%), and land (0.2%). The pool includes six multiproperty portfolios (12.9%). Unless otherwise indicated, Standard & Poor's considered each portfolio to be one loan.

Lockboxes are in place for 32 loans, representing 60.9% of the total pool balance. Thirteen of those loans (38.5% of the pool balance) have hard lockboxes, 17 loans (9.3%) have springing lockboxes that are triggered after certain conditions are met, and two loans (13.1%) have soft lockboxes.

Monthly real estate tax escrows have been established for 62 loans (84.7% of the pool balance), monthly insurance premium escrows have been established for 57 loans (80.1%), and monthly capital reserves have been established for 63 loans (85.5%).

Reserves have been established for the remediation of existing deferred maintenance items for 22 loans (30.3% 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 24 loans (48.4% of the pool balance representing office, retail, and industrial properties).

Twenty-three loans (representing 15.5% of the pool balance) are secured by properties leased to single tenants. Of these loans, 19 (11.3% of the pool balance) have long-term leases that expire after the loan maturity, including 13 (8.6% of the pool balance) that are leased to investment-grade tenants: General Services Administration (GSA; 'AAA'), Walgreen's ('A+'), CVS ('A-'), and State of Washington ('AA').

### Geographic Diversity

The pool consists of properties located in 27 states and Washington, D.C. The largest

concentrations are in New Jersey (13.7% of the pool balance), Illinois (10.5%), California (10.2%), New York (9.6%), South Carolina (8.9%), Florida (6.3%), and Arizona (5.0%). The remaining assets are dispersed throughout 20 states and Washington, D.C., with no other state concentration exceeding 4.0% of the pool balance.

## Loan Sellers

Wachovia Bank N.A. contributed 57 loans (83.8% of the pool balance) and Artesia Mortgage Capital Corp. contributed 25 loans (16.2%).

## Loan Origination Dates

All of the mortgage loans in the pool were originated in the past 12 months.

## Agreed-Upon Procedures

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

## Hyperamortizing Loans

Twenty loans (representing 18.9% of the pool balance) were structured as hyperamortizing loans. All of these loans are structured with some form of cash management.

## Interest-Only Loans

Five of the loans in the pool (17.5% of the pool balance) are interest-only loans. One of these loans, the 180 Maiden Lane loan (8.0% of the pool balance), has a trust balance with credit characteristics consistent with obligations rated 'A-' by Standard & Poor's. Additionally, 30 loans (46.9%) include interest only, for periods ranging from 2-60 months.

## Collateral Quality

Based on Standard & Poor's analysis, the pool has a DSC of 1.47x on a weighted average coupon of 5.65%. 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 5.2%. 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 90.2% and the ending LTV is 79.5%. The weighted average capitalization rate applied to Standard & Poor's NCF is 8.91%. 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 64.2% of the total pool and re-underwrote cash flows and derived asset values for assets representing 70.9% of the pool. The weighted average quality score for the inspected properties is 2.71, an above-average score on Standard & Poor's scale of 1 (highest) to 5 (lowest).

## Borrower Concentrations

The largest sponsor is a partnership between SL Green Realty Corp. and The Gale Co. LLC, who together sponsor the Gale Office Pool loan (6.3% of the pool) and three other office building loans (5.1%). In total, this sponsor concentration represents 11.4% of the

pool. The five largest sponsors represent 42.2% of the pool balance and the 10 largest sponsors represent 57.2% of the pool balance. Four of the top 10 loans (30.4% of the pool balance) have bankruptcy-remote, special-purpose entity (SPE) borrowers with both a nonconsolidation opinion and an independent director. Four of the remaining top 10 loans (14.5% of the pool balance) have an SPE borrower with a nonconsolidation opinion but no provision for an independent director. One of the remaining top 10 loans (2.2% of the pool balance) has an SPE borrower but no provisions for either a nonconsolidation opinion or an independent director. The last remaining loan, ADG Portfolio (3.6% of the pool balance), consists of nine borrowers, none of which (except Great Lakes Wisconsin Apartments LLC) is an SPE. Although the organizational documents for most of these borrowers contain certain SPE provisions, they do not meet Standard & Poor's criteria, in part because some of the borrowers own other properties and are borrowers under other loans.

The largest loan in the pool is the 175 West Jackson (Insurance Exchange Building) loan, representing 9.7% of the pool balance. The top five loans represent 37.1% of the pool balance and the top 10 loans account for 50.7% of the overall pool balance. Three of the top 10 loans (26.4% of the pool balance) have trust balances with credit characteristics consistent with obligations rated investment-grade by Standard & Poor's: 180 Maiden Lane ('A-', 8.0% of the pool balance); 175 West Jackson ('BBB-', 9.7%); and Coastal Grand ('BBB-', 8.6%). The economics of the top 10 loans are better than those of the pool overall. Two of the top 10 loans (9.9% of the pool balance) are each secured by portfolios of multiple cross-collateralized and cross-defaulted properties: Gale Office Pool (four properties, 6.3%) and ADG Portfolio (25 properties, 3.6%).

## Bankruptcy Issues

Two of the loans (representing 2.0% of the pool) were made to borrowers with members or affiliates that have previously filed for bankruptcy. One of these bankruptcies (1.4% of the pool) was filed before the 10-year period preceding October 2004. The borrower for this loan is structured as a bankruptcy-remote SPE with both a nonconsolidation opinion and an independent director. However, the loan is not structured with a lockbox for cash management. The other bankruptcy (0.6% of the pool) was filed in the mid-1990s. The borrower for this loan is not structured with a nonconsolidation opinion or an independent director; however, the borrower is an SPE and the loan includes a springing lockbox for cash management.

## Leasehold Interests

Two loans (1.9% of the pool balance) are secured by a mortgage lien on the borrower's leasehold interest pursuant to a ground lease. One of

the ground leases (1.4% of the pool) affords the respective lender notice and cure rights and has an ultimate term that extends at least 20 years beyond the loan maturity. The remaining loan (0.5%) also has an ultimate term that extends at least 20 years beyond the loan maturity, though it is silent on the issue of notice and cure rights.

## Additional Indebtedness

One loan, Suntree Apartments (0.6% of the pool), permits the borrower to obtain future secondary subordinate debt secured by the property, subject to a subordination and standstill agreement. In addition, any future secondary debt is subject to lender consent and DSC and/or LTV tests.

Two loans, Dupont Place Apartments and Continental Plaza Office Building (combined 1.9% of the pool balance), permit the borrower to incur future mezzanine debt, subject to lender consent and DSC and/or LTV tests. In both cases, a subordination and standstill

agreement is required in connection with the mezzanine debt. Any additional indebtedness may only be secured by a pledge of the equity interest in the related mezzanine borrower.

One loan (0.9%), the One Chasewood loan, permits the borrower to incur future subordinate unsecured debt in an amount not to exceed \$850,000 or 5% of the then-current appraised value. This additional debt is subject to lender consent and a subordination and standstill agreement.

One loan, the Coastal Grand loan (8.6% of the pool balance), permits the borrower to incur future subordinate unsecured debt without lender consent. This loan permits affiliates of the borrower to make unsecured loans to the borrower in an amount up to \$5.0 million. A subordination and standstill agreement is required in connection with any additional mezzanine debt.

One loan, the 175 West Jackson loan (9.7% of the pool balance), permits the borrower to incur future mezzanine debt, subject to the terms of a subordination and standstill agreement.

The four loans sponsored by SL Green Realty Corp. (11.4% of the pooled trust balance) permit the borrower to incur mezzanine debt in the form of an existing \$25 million revolving line of credit that is secured by equity interests in the related borrower. This mezzanine debt will be used specifically for funding future TI/LCs across the entire loan portfolio, including 29 properties that are not part of the collateral securing these loans but secure the Gale Bellemead Portfolio floating-rate loan, which was securitized previously in Wachovia Commercial Mortgage Trust Series 2004-WHALE 4. This mezzanine debt is subject to subordination and intercreditor agreements. The mezzanine lender is afforded certain rights with respect to these four loans, including various consent rights, cure rights, purchase rights, and rights to remove and/or approve the related property manager.

One loan, the ADG Portfolio loan (3.6% of the pooled trust balance), currently has existing subordinate secured debt with an original principal balance of \$2.5 million. The debt is associated specifically with the Lannon Estates mortgaged property and is subject to the terms of a subordination and standstill agreement.

Four loans (10.3% of the pool balance) currently have existing subordinate unsecured debt in place. Three of these loans (0.9%) are subject to the terms of a subordination and standstill agreement. One of the remaining loans, 180 Maiden Lane (8.0%), is subject to a standard intercreditor agreement, which generally conforms to Standard & Poor's criteria. The remaining loan, the Bay Vista Office Building loan (1.4% of the pool), permits existing unsecured debt, not to exceed \$2.0 million. This additional debt, which was provided by affiliates of the borrower, is subject to the terms of a subordination and standstill agreement. Furthermore, a 10% guarantee from the principals is required until the total secondary debt has been reduced to not more than \$494,750. The right to incur this additional debt will expire within 30 days of closing or Nov. 1, 2004. Such additional indebtedness may only be secured by a pledge of the equity interest in the related mezzanine borrower.

## A/B Loans

The Coastal Grand loan (8.6 % of the pool) has been divided into three notes: a \$100 million A note that is included in this transaction and two equal pari passu subordinate B notes, B-1 and B-2, of \$9 million each. The pari passu B notes, which are not assets of the trust, are both held by affiliates of the borrower.

The Chapel Park Apartments loan (0.4% of pool balance) has a whole-loan balance of \$4.54 million. The whole loan has been split into a \$4.28 million A note that will be

contributed to the trust and a \$267,500 subordinate B note that will be held outside of the trust.

The Torrington Commons loan (1.2% of pool balance) has a whole-loan balance of \$14.50 million. The whole loan has been split into an A note of \$13.65 million, which will be contributed to the trust, and a subordinate B note of \$850,000, which will be held outside of the trust.

The Hampton Inn & Suites loan (1.0% of pool balance) has a whole-loan balance of \$12.66 million. The whole loan has been split into an A note of \$11.82 million, which will be contributed to the trust, and a subordinate B note of \$845,000, which will be held outside of the trust.

The Penn's Purchase loan (1.3% of pool balance) has a whole-loan balance of \$15.59 million. The whole loan has been split into an A note of \$14.61 million, which will be contributed to the trust, and a subordinate B note of \$975,000, which will be held outside of the trust.

The ADG Portfolio loan (3.6% of the pool balance) has a whole-loan balance of \$44.82 million. The whole loan has been split into an A note of \$42.18 million, which will be contributed to the trust, and a subordinate B note of \$2.64 million, which will be held outside of the trust.

Before an event of default, with respect to the above-mentioned A/B loans, 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 above-mentioned A/B loans, 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.

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 the above-mentioned A/B loans.

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

### **Pari Passu and A/B Loan: 175 West Jackson**

The 175 West Jackson loan (9.7% of the pool) has a whole-loan balance of \$280 million. The whole loan consists of a \$225 million A note with credit characteristics consistent with investment-grade obligations rated 'BBB-' that has been divided into two pari passu pieces: a \$112.5 million A-1 note that is included in this transaction and a \$112.5 million A-2 note that will be contributed to a future securitization. In addition to the pari passu A notes, the mortgage is also evidenced by a \$55.0 million subordinate B note. The subordinate B note will provide credit support for the senior A-1 and A-2 notes. The A-1 note is pooled with the other trust assets in this transaction, while the subordinate B note is not pooled but is still held in the trust.

Before an event of default, payments and proceeds of accrued interest will be paid pro rata to the A-1 and A-2 notes, followed by scheduled payments of principal to the A-1 and A-2 notes. Accrued and unpaid interest will then be paid to the subordinate B note,

followed by scheduled payments of principal to the subordinate B note.

Following an event of default, the A-1 and A-2 notes will receive pro rata accrued and unpaid interest. Then, the A-1 and A-2 notes will receive scheduled pro rata payments of principal. The subordinate B note will then receive accrued and unpaid interest. The A-1 and A-2 notes will then receive any remaining principal payments, pro rata, until the principal balance has been reduced to zero. Finally, the subordinate B note will receive payments of principal until the principal balance has been reduced to zero.

### **Pari Passu and A/B/C Loan: 180 Maiden Lane**

The 180 Maiden Lane loan (8.0 % of the pool) has a whole-loan balance of \$292 million. The whole loan consists of a \$186 million A note with credit characteristics consistent with investment-grade obligations rated 'A-' that has been divided into two pari passu pieces: a \$93.0 million A-1 note that is included in this transaction and a \$93.0 million A-2 note that will be contributed to a future securitization. In addition to the pari passu A notes, the mortgage is also evidenced by two subordinate loans: a \$69.5 million subordinate B note that will be a nonpooled asset of the trust and a \$36.5 million subordinate C note that will be held outside of the trust. The subordinate B note and C note will provide credit support for the senior A-1 and A-2 notes. The A-1 note is pooled with the other trust assets in this transaction, while the subordinate B note is not pooled but is still held in the trust.

Before an event of default, payments and proceeds of accrued interest will be paid pro rata to the A-1 and A-2 notes, followed by scheduled payments of principal to the A-1 and A-2 notes. Accrued and unpaid interest will then be paid to the subordinate notes, in order of seniority, followed by scheduled payments of principal to the subordinate notes, in order of seniority.

Following an event of default, the A-1 and A-2 notes will receive pro rata accrued and unpaid interest. Then, the A-1 and A-2 notes will receive pro rata payments of scheduled principal. The subordinate notes will then receive accrued and unpaid interest, in order of seniority. The A-1 and A-2 notes will then receive any remaining principal payments, pro rata, until the principal balance has been reduced to zero. Finally, the subordinate notes, in order of seniority, will receive payments of principal until the principal balances of the subordinate notes 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. Sixteen loans (4.5% of pool balance) do not have terrorism insurance. Ten of these loans (2.8%) are self-insured by Walgreen's, three are self-insured by Eckerd (0.6%), one of the loans (0.2%) is secured by land, and the remaining two loans without terrorism insurance make up 0.9% of the pool balance.

### **Appraisal Reports**

Appraisal reports, in conformance with USPAP and FIRREA, were prepared in the past 12 months for all of the loans.

### **Environmental Review**

Phase I environmental studies for 81 loans, representing 99.6% of the pool balance, were completed in the 12-month period before the cutoff date. The one remaining report (0.4% of the pool balance) was completed within 13 months before the cutoff date.

A phase II assessment was recommended for three properties related to loans representing 2.2% of the pool balance. For University Marketplace (0.9% of the pool

balance), the consultant indicated the presence of groundwater contamination. The borrower has initiated remediation, for which the lender held back \$100,000 in escrow. In addition, the borrower has obtained an environmental insurance policy.

For the Continental Plaza Office Building loan (0.8% of the pool balance), the environmental consultant recommended that water infiltration into the building be remedied.

For the University Place Shopping Center loan (0.5% of the pool balance), the consultant recommended no further required action at the current time.

Including the above-mentioned items, escrows totaling \$470,791 have been established for eight properties (5.4% of the pool balance) to address actions that were recommended in the phase I and/or phase II environmental reports.

## Structural Review

Independent, licensed engineers prepared engineering reports for 81 properties (98.8% of the pool balance). An engineering report was not required for the one land loan, Edison Pad Sites (0.2%). These reports identified both deferred maintenance items to be corrected immediately and long-term capital expenditure needs. Assets securing 22 loans, representing 30.3% of the total pool balance, were identified as needing immediate repairs, and escrows totaling \$1,952,094 were established at closing to remedy these items. Generally, the loan sellers' requirements for up-front, deferred maintenance reserves are 100%-125% of the recommended amount indicated in the reports.

Engineering reports for 80 loans, representing 99.4% of the pool balance, were completed in the 12-month period before the cutoff date. The one remaining report (0.4% of the pool balance) was completed within 13 months before the cutoff date.

## Seismic Review

Ten loans, representing 15.1% of the pool balance, are secured by properties located in seismic zones 3 or 4. Seismic studies were completed for all of these properties. Of the properties for which seismic studies were conducted, two properties were determined to have a probable maximum loss (PML) in excess of 20%. Both properties are part of the Burlingame Industrial Portfolio loan (0.4% of the pool balance). Earthquake insurance was obtained for one of these two properties. For the other property (833 Mahler Road), which has a PML of 23%, the loan is structured with an up-front reserve to be used for seismic upgrades, which would reduce the PML to less than 20%. In addition, earthquake insurance was obtained for two other properties, even though neither has a PML above 20%.

## Hurricane and Flood Review

Eighteen loans, representing 9.6% of the mortgage pool balance, are located in Florida or Texas, states that have historically been at greater risk for hurricanes and tornadoes. Generally, the originators require wind insurance for all properties in coastal areas. The loans secured by properties in Federal Emergency Management Agency-designated flood zones are required to comply with flood insurance regulations.

## Top Seven Loans

### 175 West Jackson (Insurance Exchange Building)

The largest loan in the pool, the 175 West Jackson loan, has a pooled trust balance of \$112.5 million (9.7% of the pooled trust balance), an unpooled trust balance of \$55 million, and a whole-loan balance of \$280.0 million. The whole loan has been divided into three notes: the \$112.5 million A-1 note that is included in this transaction, a \$112.5

million A-2 note that will be contributed to a future securitization, and a \$55.0 million subordinate B note that will be contributed to the trust on a nonpooled basis. The A-2 note will be contributed to a future securitization. The A-1 note and the A-2 notes are pari passu, and the subordinate B note provides credit support for the A-1 and A-2 notes. The 10-year, fixed-rate loan bears interest at 5.860%, matures in September 2014, is interest-only for the first three years, and amortizes on a 30-year schedule thereafter.

The loan is collateralized by the fee interest in a 1,449,067-sq.-ft., 22-story, class A office building located in Chicago, Ill. The property, formerly known as the Insurance Exchange Building, was built in phases between 1912 and 1932, and was designed by Daniel Burnham. Since purchasing the property from Helmsley in 1998, the borrower has spent more than \$87 million (\$60 per sq. ft.) and three years to completely renovate it.

The property is located at the western edge of the Central Loop office submarket, and it is adjacent to the Federal Reserve Building, the Chicago Options Exchange, and the Midwest Stock Exchange. The building occupies an entire city block with frontage on four streets, contains lobbies at the north and south ends of the building, and an expansive corridor that connects the lobbies and includes two enclosed atriums. The floor plates are some of the largest in Chicago, averaging nearly 68,000 sq. ft. Ground floor retail tenants include CVS/Pharmacy, Starbucks, Krispy Kreme Donuts, and several restaurant tenants. The building is serviced by 39 elevators and offers tenants a new 250-car subterranean parking garage with valet parking and auto-detailing service.

As of October 2004, the building was 90% leased and 81.1% occupied by approximately 35 office tenants and 13 retail tenants. Office tenants pay an average gross rent of \$29.27 per sq. ft., and retail tenants pay an average gross rent of \$59.77 per sq. ft.

Table 1 lists the major office tenants at the property.

| <b>Tenant</b>                        | <b>Rating</b> | <b>Sq. ft.</b> | <b>Property NRA (%)</b> | <b>Base rent per sq. ft. (\$)</b> | <b>Base rent (% of GPR)</b> | <b>Lease expiration</b> |
|--------------------------------------|---------------|----------------|-------------------------|-----------------------------------|-----------------------------|-------------------------|
| MHW Harza Energy and Infrastructure  | BBB-          | 139,067        | 9.6                     | 28.19                             | 11.1                        | 2015                    |
| AON Service Corp.                    | A-            | 135,029        | 9.3                     | 29.50                             | 11.2                        | 2012                    |
| Intell Management and Investment Co. | N.R.          | 129,473        | 8.9                     | 29.00                             | 9.6                         | 2014                    |
| SEC                                  | AAA           | 102,613        | 7.1                     | 32.20                             | 9.3                         | 2012                    |
| Navigant Consulting Inc.             | N.R.          | 72,817         | 5.0                     | 27.39                             | 5.6                         | 2004 and 2012           |

NRA—Net rentable area. GPR—Gross potential rent. N.R.—Not rated.

The sponsor of the bankruptcy-remote SPE borrower is Intel Management and Investment Co., a New York based national owner, developer, construction manager, and asset manager of office, retail, and multifamily properties. Intel is currently the owner and manager of a 20-property portfolio that encompasses more than 10 million sq. ft. in New York City, Chicago, Boston, and St. Louis, and is valued at \$1.5 billion. An affiliate of the borrower manages the property. The loan is structured with a hard lockbox for cash management.

The following section summarizes Standard & Poor's underwriting assumptions for this loan:

- Standard & Poor's bifurcated the underwriting analysis because although the

property is 90% leased, 129,473 sq. ft. (8.9% of net rentable area (NRA)) is subject to a collateralized master lease to the borrower. Cash flow was underwritten following an as-is approach; however, Standard & Poor's used a stabilized approach to derive the ultimate value of the building;

- Gross potential rent (GPR) was based on leases in place as of October 2004;
- For cash flow and DSC purposes, the in-place physical vacancy of 18.9% was assumed under the as-is approach; however, for valuation purposes, a vacancy of 10% was assumed on a stabilized basis;
- For the as-is approach, expense reimbursements were underwritten based on the actual lease terms and historical recovery performance. For the stabilized approach, expense reimbursements were based on the tenants' contractual obligations, a stabilized 90% occupancy, the borrower's 2005 budget, and the appraiser's estimate of expense recoveries;
- Other income was based on the trailing 12 months (TTM) through May 2004 performance;
- Operating expenses, other than property taxes and insurance premiums, were based on the higher of the property's actual TTM through May 2004 expenses and the appraiser's estimate of expenses once the property is leased up to a stabilized occupancy;
- Property taxes and insurance premiums were based on the appraiser's estimate of these expenses, which are higher than the property's actual historical expenses;
- The management fee was capped at \$1.0 million;
- Replacement reserves were underwritten at \$0.35 per sq. ft.;
- TI expenses for office space were estimated at \$15.00 per sq. ft. for new leases and \$7.50 per sq. ft. for renewal leases;
- TI expenses for retail space were estimated at \$12.00 per sq. ft. for new leases and \$6.00 per sq. ft. for renewal leases;
- LC expenses were estimated at 4.0% for new space and 2.0% for renewal space;
- Weighted average lease terms of 15.0 years and 33.7 years were assumed for office and retail tenants, respectively, for TI costs, and were capped at 10 years for LC costs;
- A renewal probability of 65.0% was assumed;
- Based on these assumptions, Standard & Poor's overall NCF variance for the property was 23.6% based on the property's in-place NCF without the benefit of the collateralized master lease to the borrower, and 2.0% based on the assumed stabilized occupancy of 90%;
- Standard & Poor's applied a weighted capitalization rate of 8.8% to NCF, subtracted new TI/LC costs and downtime net operating income (NOI) of three years associated with re-leasing the vacant space, but completely offset the subtracted downtime NOI with a \$20 million up-front cash reserve collected from the borrower at closing, and gave credit of \$8.4 million for the present value of future rent bumps for the long-term investment-grade tenants, yielding a value of \$319.7 million, or \$221 per sq. ft.; and
- The quality score for this asset is 2.50, an above-average score.

This loan exhibits the following strengths:

- The pooled senior portion of the A-1 note has credit characteristics consistent with investment-grade obligations rated 'BBB-';
- The property benefits from an excellent location in the Central Loop office submarket of Chicago, close to major mass transit hubs, popular retail stores, ample public parking, and the financial exchanges;
- The property underwent a complete three-year renovation costing more than \$60 per sq. ft., effectively making it a new class A office building that competes very well in the Central Loop submarket, as evidenced by its high-quality tenant roster and significant leasing activity since it reopened in 2001;
- The property benefits from a diversified tenant base, and approximately 25% of the building's NRA is occupied by investment-grade tenants; and
- The property benefits from strong sponsorship and management.

This loan exhibits the following concern and mitigating factor:

- New construction continues to be a concern in the Chicago central business district (CBD) office market, with three new class A office buildings nearing completion south of the subject property on South Wacker and Dearborn, totaling 3.35 million sq. ft. This, combined with the already soft CBD office market, presents a challenge for absorption of vacant space. The subject property is well positioned to compete in its submarket, as it offers an ideal mix of high-quality class A space, convenient access to mass transit and retail, and large rectangular 68,000-sq.-ft. floor plates that offer additional natural light through the two atriums on north and south sides of the building;
- There is 129,473 sq. ft. (8.9% of NRA) that is subject to a collateralized master lease to the borrower. All payments under the master lease flow through a cash management waterfall, and the lease is collateralized by an up-front \$20 million cash reserve for the initial five-year term. Any default under the master lease is a default under the loan, with the \$20 million subject to lender control;
- There are 18 tenants aggregating 944,000 sq. ft. (65% of NRA) that have early lease termination options. The tenants' options vary from tenant to tenant; however, the aggregate annual potential rent loss is more than offset by the associated termination fees, which will be captured by the lender;
- There are currently two tenants who sublease space: BEA Systems (2.4% of NRA) leases 85% of its space, and ING subleases all of its space (0.3% of NRA). These two tenants constitute a very small percentage of the building's occupied space. The property is leased predominately to tenants that occupy whole floor plates, and has only a few multitenanted floors; and
- The borrower is permitted to incur future mezzanine debt in the amount of \$54 million. This additional debt is subject to the terms of a subordination and standstill agreement. All additional debt was taken into consideration when sizing the capital structure for the loan and credit support levels for the deal.

## Coastal Grand Mall

The second-largest loan in the pool, the Coastal Grand Mall loan, has a trust balance of \$100.0 million (8.6% of the pool) and a whole-loan balance of \$118 million. In addition to the A note held in the trust, the property is also encumbered by an \$18.0 million subordinate B note that will be held outside of the trust. The B note is split into two equal pari passu pieces, B-1 and B-2. The 10-year, fixed-rate loan bears interest at a rate of 5.09% and amortizes on a 25-year schedule. The loan has a final maturity date in October 2014.

The loan is secured by a first mortgage on a 444,372-sq.-ft. regional mall located in Myrtle Beach, S.C. The center was newly built in 2004 and had its grand opening March 17, 2004. The center is anchored by Dick's (not rated, 11.7% of NRA, lease expires in 2020) and Bed, Bath & Beyond ('BBB', 5.7% of NRA, lease expires in 2015). In addition, there are three other anchors (totaling 448,754 sq. ft.), each of which owns its own store and is not part of the collateral: Belk ('A+'), Dillard's ('BB'), and Sears ('BBB'). The mall also contains a 14-screen Cinemark theater and 267,586 sq. ft. of in-line retail space, with in-line tenants including Express Men's ('BBB+'), Gap Kids ('BB+'), and Victoria's Secret ('BBB+'). As of August 2004, total mall occupancy was 90.2% and in-line occupancy was 61.2%. The initial months of operations indicate good sales productivity, and management estimates full-year in-line sales of \$350 per sq. ft. to \$400 per sq. ft.

The five anchor tenants and theater are detailed in table 2.

| Tenant                | Rating | Occupied sq. ft. | % of Total property NRA | Base rent per sq. ft. (\$) | Lease expiration | Collateral ownership |
|-----------------------|--------|------------------|-------------------------|----------------------------|------------------|----------------------|
| Dick's Sporting Goods | N.R.   | 52,000           | 11.7                    | 11.00                      | 2020             | Landlord             |
| Bed, Bath & Beyond    | BBB    | 25,121           | 5.7                     | 12.75                      | 2015             | Landlord             |
| Belk (140,000)        | A+     | N/A              | N/A                     | N/A                        | 2040             | Tenant               |
| Dillard's (155,648)   | BB     | N/A              | N/A                     | N/A                        | 2040             | Tenant               |
| Sears (153,106)       | BBB    | N/A              | N/A                     | N/A                        | 2040             | Tenant               |
| Cinemark              | B+     | 51,788           | 11.7                    | 17.00                      | 2019             | Landlord             |

N.R.—Not rated. N/A—Not applicable.

Land and improvements for Dick's and Bed, Bath & Beyond are part of the collateral, and Belk, Dillard's, and Sears own their land and improvements.

The top mall shop tenants are listed in table 3.

| Tenant              | Rating | Occupied sq. ft. | % of Total property NRA | Base rent per sq. ft. | Lease expiration |
|---------------------|--------|------------------|-------------------------|-----------------------|------------------|
| Limited Brands Inc. | BBB+   | 25,754           | 5.8                     | 23.16                 | 2015             |
| Books-A-Million     | BBB+   | 15,187           | 3.4                     | 11.05                 | 2014             |
| Gap/Gap Kids        | BB+    | 11,945           | 2.7                     | 15.26                 | 2010             |
| Abercrombie & Fitch | N.R.   | 7,024            | 1.6                     | 20.50                 | 2015             |
| Charlotte Russe     | N.R.   | 7,000            | 1.6                     | 20.00                 | 2009             |

N.R.—Not rated.

The borrower is structured as a bankruptcy-remote SPE with an independent director and a nonconsolidation opinion. The sponsor is a joint venture between CBL & Associates Properties Inc. (CBL) and Burroughs & Chapin Co. Inc. CBL, headquartered in Chattanooga, Tenn., is a self-managed, fully integrated REIT involved in the development, acquisition, leasing, and management of regional shopping malls located primarily in the Southeast and Midwest. As of September 2004, the company had assets of more than \$4.0 billion and a market cap of \$1.9 billion. CBL is one of the top five owners of shopping centers in North America and is the largest owner of malls and shopping centers in the Southeast. Burroughs & Chapin is a Myrtle Beach-based real estate firm that has conducted operations in the region for more than 100 years. The property is managed by CBL & Associates Management Inc. The loan has been

structured with a springing lockbox for cash management.

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

- Underwritten revenues were based on leases in place per the rent roll dated Aug. 23, 2004;
- Expense reimbursements were also based on leases in place;
- Percentage rent and specialty income were based on five months of historical figures and the 2005 pro forma estimate;
- Vacancy was based on the subject's physical vacancy of 10.8%;
- Operating expenses were based on five months of historical, appraiser, and budget estimates because the property is newly completed;
- A management fee of 5% less estimated gross income (EGI) was assumed;
- TI expenses for the anchor tenants were assumed to be \$5.00 per sq. ft. for new leases and \$2.50 per sq. ft. for renewal leases based on a weighted average in-place base rent of \$11.57 per sq. ft.;
- TI expenses for the mall shop tenants were assumed to be \$10.00 per sq. ft. for new leases and \$5.00 per sq. ft. for renewal leases based on a weighted average in-place base rent of \$28.29 per sq. ft.;
- TI expenses for the theater were assumed to be \$6.00 per sq. ft. for new leases and \$3.00 per sq. ft. for renewal leases, based on a weighted average in-place base rent of \$17.00 per sq. ft.;
- LC expenses were estimated at 4.0% for new space and 2.0% for renewal space;
- Renewal probabilities of 70.0% for anchor tenants, 60.0% for the theater tenant, and 65.0% for in-line tenants were assumed;
- TI/LC assumptions were based on the in-place weighted average lease terms of 8.4 years for mall shop tenants, 13.4 years for anchor tenants, and 15.1 years for the theater tenant;
- Replacement reserves were underwritten at \$0.25 per sq. ft. of collateral gross leasable area;
- Based on these assumptions, Standard & Poor's overall NCF variance for the center was 2.51%;
- Standard & Poor's applied a capitalization rate of 8.5% to NCF and deducted \$4.88 million for unfunded TIs, yielding a value of \$133.1 million, or \$299 per sq. ft.; and
- The quality score for this asset is 2.50, an above-average score.

This loan exhibits the following strengths:

- The subject property is the dominant mall in the Myrtle Beach MSA, having strong department store anchors and limited competition. The subject's primary competitors, Colonial Mall and Inlet Square Mall, are both located more than 10 miles from the subject and are considered inferior to the subject in terms of quality and tenant mix;
- The mall benefits from strong and experienced sponsorship and management; and
- Although the subject is not expected to fully stabilize until September 2005, the initial reports indicate strong in-line sales in the range of \$350 per sq. ft. to \$400

per sq. ft.

This loan exhibits the following concerns and mitigating factors:

- Because the property was completed in 2004, it does not have an operating history of longer than one year. However, the subject is well occupied by national retailers on long-term leases;
- The loan is encumbered by two additional subordinate B notes, totaling \$18.0 million. Standard & Poor's believes that the A/B loan structure poses a greater risk of a prolonged bankruptcy proceeding should one occur, due to the existence of multiple creditors. In addition, these B notes are held by an affiliate of the borrower. To mitigate this risk, intercreditor agreements contain more stringent provisions to protect the A noteholder. Standard & Poor's took the loan structure and all additional debt into consideration when sizing the loan's capital structure; and
- Affiliates of the borrower may make unsecured loans to the borrower of up to \$5.0 million for purposes of ensuring compliance of the mortgaged property with legal requirements, capital improvements, or equipment financing. A subordination and standstill agreement is required in connection with any additional debt. All potential future additional debt was taken into consideration when sizing the capital structure for the loan and credit support levels for the transaction.

## 180 Maiden Lane

The third-largest loan in the pool, the 180 Maiden Lane loan, has a pooled trust balance of \$93.0 million (8.0% of the pool), a nonpooled trust balance of \$69.5 million, and a whole-loan balance of \$292 million. The whole loan consists of an A note of \$186 million that is split into two equal pari passu pieces: a \$93.0 million A-1 note to be included in this transaction and a \$93.0 million A-2 note to be included in a future transaction. In addition to the A note, the property is encumbered by a \$69.5 million subordinate B note that will be a nonpooled asset of the trust, and a \$36.5 million subordinate C note that will be held outside of the trust. In addition to the A, B, and C notes, the loan has outstanding mezzanine debt totaling \$36.5 million. The five-year, fixed-rate loan bears interest only, at a rate of 5.41%, and matures in November 2009.

The loan is collateralized by a first mortgage on a 41-story, 1,088,763-sq.-ft. office building located on the east side of Downtown Manhattan, adjacent to the Brooklyn Bridge and South Street Seaport. The subject was built in 1984, renovated in 2000, and has been actively maintained with significant infrastructure upgrades.

The building is 100% leased to 10 office tenants, with two primary tenants, Goldman Sachs ('A+', 803,223 sq. ft, 74% of NRA, lease expires in 2014, with an option to terminate in 2009) and Stroock & Stroock & Lavan (not rated, 231,932 sq. ft, 21% of NRA, lease expires in 2013).

The borrower, Almah LLC, is structured as a bankruptcy-remote SPE with an independent director and a nonconsolidation opinion. The sponsor, Joseph Moinian, has extensive real estate experience and currently owns and controls a portfolio of properties that exceeds 10 million sq. ft. of office, industrial, residential, retail, and hotel properties throughout the U.S. and abroad. The subject property is managed by Cushman & Wakefield. Cushman & Wakefield manages more than 6,000 properties. The loan has been structured with a hard lockbox for debt service and basic carrying costs and a springing lockbox for other expenses and replacement reserves.

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

loan:

- Revenues were based on in-place rents as of August 2004;
- Expense reimbursements were based on tenants' contractual obligations and the property's historical performance;
- Other income was based on TTM figures;
- A vacancy rate of 1.0% was assumed for the Goldman Sachs and Stroock space and 7.5% was assumed for the remainder;
- Operating expenses, including real estate taxes and insurance premiums, were based on the borrower's 2004 budget, TTM figures, and historical performance;
- A management fee of \$1.0 million was assumed;
- Replacement reserves were underwritten at \$0.35 per sq. ft.;
- TI allowances were estimated at \$12.00 per sq. ft. for new leases and \$4.00 per sq. ft. for renewal leases, based on a weighted average in-place rent of \$22.36 per sq. ft.;
- LCs were estimated at 4% for new space and 2% for renewal space;
- Based on these assumptions, Standard & Poor's overall NCF variance was 1.9%;
- Standard & Poor's applied a capitalization rate of 8.75% to NCF, yielding a value of \$294.1 million, or \$270 per sq. ft.; and
- The quality score for this asset is 2.5, an above-average score.

This loan exhibits the following strengths:

- The pooled trust balance exhibits credit characteristics consistent with investment-grade obligations rated 'A-' by Standard & Poor's;
- An investment-grade tenant accounts for 73.8% of NRA and 78.5% of GPR; and one of the nation's 10 most prestigious law firms, Stroock, accounts for 21.3% of NRA and 18.5% of GPR;
- The property is above average in quality, with a quality score of 2.5; and
- The property benefits from experienced sponsorship and management.

This loan exhibits the following concerns and mitigating factors:

- The loan is exposed to rollover risk, as Goldman Sachs ('A+', 73.8% of NRA, lease expires in April 2014) has the option to terminate its lease in November 2009. The date of this termination option coincides with the anticipated completion date of a \$1.8-billion, 2-million-sq.-ft., headquarter building that Goldman is planning to construct in Battery Park City. To mitigate this risk, if Goldman Sachs decides to exercise its option, the company is required to pay a termination fee of \$24.7 million (\$30.75 per sq. ft.) and give 18 months' notice. In addition, when notice has been given, the borrower will trap 100% of the property's cash flow to be used as an escrow to re-tenant the space; and
- There is a \$36.5 million mezzanine loan secured by a pledge of the borrower's equity interests. The mezzanine debt is subject to a standard intercreditor agreement that generally conforms to Standard & Poor's criteria. The mezzanine financing was taken into consideration when sizing the capital structure for the loan.

Gale Office Pool

The fourth-largest loan in the pool, the Gale Office Pool loan, has a trust and whole-loan balance of \$73.0 million (6.3% of the pool). In addition to the first mortgage, there is a \$25.0 million revolving line of credit secured in part by equity interests in the borrower. The 10-year, fixed-rate loan bears interest at a rate of 6.26%, is interest-only for the first two years, and amortizes on a 30-year schedule thereafter. The loan is scheduled to mature in August 2014.

The loan is secured by a first mortgage encumbering the fee interest in a portfolio of four cross-collateralized and cross-defaulted suburban class A and B office properties. The properties were constructed between 1983 and 1988 and are located in Northern New Jersey. Totalling 573,877 net rentable sq. ft., the portfolio is 95.8% leased by 27 tenants. The largest tenants include Lowenstein (82,107 sq. ft., 14.3% of net rentable area (NRA)); Connell Foley (68,999 sq. ft., 12.0%); Torre Lazur (54,379 sq. ft., 9.5%); One Call Medical (41,735 sq. ft., 7.3%); and American Management (37,019 sq. ft., 6.5%). The property sizes range from 94,402 sq. ft. to 226,142 sq. ft, with occupancies between 92% and 100%.

The properties in the Gale Office Pool are listed in table 4.

| <b>Property name</b> | <b>Location</b>                          | <b>Allocated loan amount (\$)</b> | <b>Net rentable area (sq. ft.)</b> | <b>Year built</b> | <b>Occupancy (%)</b> | <b>W.A. rent per sq. ft. (\$)</b> |
|----------------------|--|-----------------------------------|------------------------------------|-------------------|----------------------|-----------------------------------|
| 20 Waterview         | 20 Waterview Boulevard, Parsippany, N.J. | 27,683,817                        | 226,142                            | 1988              | 96.7                 | 23.11                             |
| 6 Becker Farm        | 6 Becker Farm Road, Roseland, N.J.       | 15,958,906                        | 128,786                            | 1983              | 92.9                 | 24.10                             |
| 75 Livingston        | 75 Livingston Avenue, Roseland, N.J.     | 12,213,449                        | 94,402                             | 1984              | 92.0                 | 24.93                             |
| 85 Livingston        | 85 Livingston Avenue, Roseland, N.J.     | 17,098,828                        | 124,547                            | 1985              | 100.0                | 24.26                             |
| Total portfolio      | --                                       | 72,955,000                        | 573,877                            | --                | 95.8                 | 23.85                             |

W.A.—Weighted average.

The borrower is structured as a bankruptcy-remote SPE with a nonconsolidation opinion but no independent director. The sponsors of the borrower are SL Green Realty Corp. and the Gale Co. LLC. SL Green Realty Corp. is a publicly traded REIT solely engaged in owning, managing, leasing, acquiring, and repositioning office properties in Manhattan. The Gale Co. LLC owns and/or manages more than 50 million sq. ft. of commercial space, and specializes in New Jersey office investment. An affiliate of one of the sponsors, Gale Management Co., will manage the properties. 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 leases in place as of July 2004, with vacant space grossed up at the weighted average in-place rents;
- The greater of market or actual vacancy was assumed;
- Other income was based on the three-year historical performance;
- Operating expenses were based on the greater of historical or current levels;

- A management fee of 4% of EGI was assumed;
- Replacement reserves were underwritten at \$0.25 per sq. ft.;
- TI expenses were estimated at \$12.00 per sq. ft. for new space and \$6.00 per sq. ft. for renewal space;
- LC expenses were estimated at 4.0% for new space and 2.0% for renewal space;
- TI/LC assumptions were based on in-place weighted average lease terms of 12.9 years and in-place rent of \$23.85 per sq. ft.;
- A renewal probability of 65% was assumed;
- Based on these assumptions, Standard & Poor's overall NCF variance for the portfolio was 5.1%;
- Standard & Poor's applied a capitalization rate of 9.50% to the portfolio's combined NCF, yielding a value of \$68.2 million, or \$119 per sq. ft.; and
- The quality scores for these assets average 3.00, an average score.

This loan exhibits the following strengths:

- The loan is secured by four properties that are cross-collateralized and cross-defaulted;
- The loan benefits from a diverse rent roll of 27 tenants, with no one tenant representing more than 16% of revenues; and
- The property benefits from strong sponsorship and experienced management.

This loan exhibits the following concern and mitigating factor:

- The loan permits mezzanine financing of \$25.0 million secured by a pledge of partnership interests in the borrowing entity. The mezzanine financing is in the form of a line of credit and is subject to an intercreditor agreement. Standard & Poor's took the loan structure and all additional debt into consideration when sizing the loan's capital structure.

## Deer Valley Village Apartments

The fourth-largest loan in the pool (representing 4.4% of the pool balance) is the Deer Valley Village Apartments loan, with a trust and whole-loan balance of \$51.15 million. The interest-only loan is structured with a fixed 5.03% rate and matures in October 2009.

The loan is secured by the fee interest in a 832-unit, garden-style multifamily complex located in Phoenix, Ariz. The improvements were constructed in two phases in 1996 and 2000. As of June 2004, the subject was 94.7% occupied. Unit amenities include electric ranges and ovens, dishwashers, microwaves, laundry rooms, balconies, and cable TV hookups. Amenities at the property include three swimming pools, two in-ground hot tubs, a playground, a business center, two onsite exercise rooms, three spas, and an onsite leasing office.

The borrower is structured as a bankruptcy-remote SPE with a nonconsolidation opinion but no independent director. The sponsor of the borrower is Secured California Investments Inc. (SCI). SCI is an integrated investment company that acquires and manages investment properties primarily in California and Nevada. The subject is managed by Alliance Residential LLC, which currently manages more than 120 apartment communities containing approximately 28,000 units. The loan is structured with a springing lockbox for cash management.

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

- GPRs were based on the June 2004 rent roll;
- As current occupancy is 94.7%, a rate that is lower than the market occupancy, no additional vacancy was assumed;
- Operating expenses were based on historical levels;
- A management fee of 3.5% of EGI was assumed;
- Replacement reserves were underwritten at \$250 per unit;
- Based on these assumptions, Standard & Poor's NCF variance was 1.78%;
- Standard & Poor's applied a capitalization rate of 8.50% to NCF, yielding a value of \$47.3 million, or \$56,904 per unit; and
- The quality score for this asset is 2.65, an above-average score.

This loan exhibits the following strengths:

- The property is of newer construction and is in excellent physical condition;
- The subject is well located in Phoenix, with good access to highways and retail services; and
- The property benefits from strong management.

This loan exhibits the following concern and mitigating factor:

- Market weakness is evident from the presence of concessions in the form of free rent, reduced security deposits, and flexible lease terms. However, the subject is similar in age and condition to competitive properties in its submarket, and it is superior to the competition in terms of location and accessibility.

## IRS Fresno

The sixth-largest loan in the pool, the IRS Fresno loan (4.0% of the pool), has a trust and whole-loan balance of \$46.0 million. The five-year, fixed-rate loan bears interest only, at 5.570%, and has an anticipated repayment date in November 2009, after which the loan hyperamortizes until the ultimate maturity date in November 2034.

The loan is collateralized by a first-mortgage lien on a 180,481-sq.-ft., six-story, class A office building with a six-story parking garage located in Fresno, Calif. The property was completed in 2003 and is occupied entirely by the Internal Revenue Service (GSA, 'AAA') pursuant to a 15-year lease expiring in November 2018, with one option to terminate in November 2013. The lease calls for a modified gross rent of \$34.00 per sq. ft. for the entire term of the lease; however, the operating expense component of the rent (\$7.50 per sq. ft) is adjusted for inflation annually. The first floor of the building consists of the lobby area, tenant cafeteria, a shipping and receiving area, building management offices, meeting/training rooms, mechanical/electrical rooms, and some tenant offices. Floors 2-6 consist primarily of offices around the perimeter and cubicles, file storage rooms, a break room, and restrooms around the interior area of each floor.

The sponsors of the bankruptcy-remote SPE borrower are Alex S. Palmer and Dale A Holmer. Mr. Palmer is president of Alex S. Palmer and Co., and has spent more than 20 years in real estate finance, syndication, and development. Mr. Holmer is CFO of Alex S. Palmer & Co. The subject is managed by Manco Abbott Inc., a Fresno-based real estate firm with more than 7.0 million sq. ft. of commercial space under management. The loan is structured with a hard lockbox for cash management.

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

- Underwritten base rental revenue was based on the lease in place as of October 2004;
- Given the quality of the tenant and the term of the lease, a 3.0% vacancy was assumed;
- Expense reimbursements were based on the tenants' contractual obligations;
- Property taxes and insurance premiums were based on the appraiser's estimate and the borrower's 2005 budgeted expenses;
- Other operating expenses were based on historical levels and the appraiser's estimates;
- A management fee of 3% of EGI was assumed;
- Replacement reserves were underwritten at \$0.35 per sq. ft.;
- Given the quality of the tenant and the term of the lease, no TI/LC costs were assumed;
- Based on these assumptions, Standard & Poor's overall NCF variance for the property was 2.6%;
- Standard & Poor's derived a property value of \$47.4 million (\$262 per sq. ft.) by direct capitalization of the NCF using a capitalization rate of 9.00%; and
- The quality score for this asset is 2.75, an above-average score.

This loan exhibits the following strengths:

- The subject is leased to an investment-grade tenant (GSA) rated 'AAA' for a term of 15 years; and
- The property is one of only two class A office buildings in the Fresno CBD.

This loan exhibits the following concern and mitigating factor:

- The tenant has an option to terminate the lease at the end of the 10th year of the term. The termination option was negotiated by the tenant to comply with the government's scoring system, which encourages shorter term leases. However, the IRS has consolidated its staff into the building, it is fully occupied, and Standard & Poor's believes it is unlikely the IRS will terminate in the 10th year.

## ADG Portfolio

The seventh-largest loan in the pool, the ADG Portfolio loan, has a trust balance of \$42.2 million (3.6% of the pool balance) and whole-loan balance of \$44.8 million. The whole loan is split between the \$42.2 million A note that is included in this transaction and four subordinate B notes, totaling \$2.6 million, that will be held outside of the trust. The portfolio consists of four separate, 10-year, fixed-rate loans that are cross-collateralized and cross-defaulted, bear interest at an average rate of 5.61%, amortize on a 30-year schedule after a two-year interest-only period, and have a maturity date in October 2014.

These four mortgage loans are secured collectively by first mortgages on 23 mobile-home parks totaling 1,920 pads and two multifamily properties totaling 144 units, located in Wisconsin (23 properties), Michigan (one property), and Maryland (one property). Each loan is summarized in table 5.

| Table 5 - ADG Portfolio                       |            |               |       |                        |
|---|------------|---------------|-------|------------------------|
| Property/pool name                            | Year built | Occupancy (%) | Units | Allocated balance (\$) |
| ADG mobile-home park pool one (22 properties) | 1950-1975  | 92.4          | 1,754 | 30,480,000             |
| ADG - Lannon Estates                          | 1970       | 89.8          | 166   | 5,832,000              |
| ADG - Cedar Crossing Apartments               | 1986       | 94.5          | 109   | 4,640,000              |
| ADG - Forest Down Apartments                  | 1988       | 88.6          | 35    | 1,232,000              |
| Total portfolio                               | --         | 90.9          | 2,064 | 42,184,000             |

The properties were all built between 1950 and 1988. The property sizes range from 6-190 units, and the occupancies range from 72%-100%, with an average occupancy as of July 31, 2004, of 90.9%. Rents range from an average of \$135 per pad to \$350 per pad for the mobile-home parks and \$540 per unit to \$745 per unit for the multifamily properties. Some of the properties have amenities such as fitness centers and a mail and/or bike room. All of the apartment units have central heating and cooling.

The portfolio is secured by nine borrowers, none of which (except the Forest Down Apartments borrower, Great Lakes Wisconsin Apartments LLC) is an SPE. Although the organizational documents for most of these borrowers contain certain SPE provisions, they do not meet Standard & Poor's criteria, in part because some of the borrowers own other properties and are borrowers under other loans. The sponsors of the borrowers are Bruce Arbit, James A. Reitzner, Jerry Benjamin, and M. Nicol Padway. Mr. Arbit is the chairman of Asset Development Group Inc. (ADG) and has served on the board of ADG for 19 years. Mr. Reitzner is the president of ADG, with more than 30 years of experience in the manufactured-housing industry, and has served on the Wisconsin Manufactured Housing Association's board of directors for more than 19 years. The properties are managed by ADG, an affiliate of the borrower. ADG currently manages 56 manufactured-home communities with a total of approximately 6,000 home sites and three multifamily properties. There is no cash management for this loan.

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

- Revenues were based on in-place leases as of July 2004, grossed up to full occupancy at the weighted average in-place rents;
- A vacancy rate of 10.6% was applied to GPR;
- Operating expenses were based on historical levels;
- Real estate tax and insurance premiums were based on actual invoices;
- A management fee of 5.0% of EGI (per the management agreement) was assumed;
- Replacement reserves of \$50 per pad site and \$250 per apartment unit were assumed;
- Based on these assumptions, Standard & Poor's overall NCF variance for the portfolio was 1.0%; and
- Standard & Poor's applied an overall capitalization rate of 8.75% to the NCF, yielding a value of \$44.2 million, or \$21,398 per pad/unit.

This loan exhibits the following strength:

- The loan is secured by 25 cross-collateralized and cross-defaulted mobile-home parks and multifamily properties, a relatively stable asset type.

This loan exhibits the following concerns and mitigating factors:

- The properties range from 16-54 years of age. Despite their age, the collateral are in good condition and have performed competitively in their respective markets; and
- Eight of the nine borrowers are not structured as SPEs. This is mitigated partially by the strength and expertise of the sponsor. Furthermore, this fixed-rate amortizing loan has a balloon LTV of 83.9%, which is based on a stressed cap rate of 8.75% and zero appreciation over the 10-year term.

## 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 diff.* | Cap. rate (%) | Beg. LTV (%) | End. LTV (%) | Value per unit/sq. ft. (\$) |
|------------------|-----------|---------|--------------|---------------|--------------|--------------|-----------------------------|
| Multifamily      | 17.2      | 1.39    | 0.7          | 8.51          | 98.7         | 89.7         | 56,071                      |
| Retail           | 28.2      | 1.44    | 4.8          | 8.66          | 88.2         | 73.4         | 211                         |
| Office           | 47.1      | 1.53    | 7.8          | 9.09          | 87.4         | 79.3         | 198                         |
| Industrial       | 1.5       | 1.53    | 1.6          | 9.07          | 86.9         | 74.0         | 81                          |
| Mobile-home park | 3.6       | 1.31    | 1.0          | 8.75          | 97.5         | 86.2         | 22,466                      |
| Hotel            | 2.2       | 1.45    | 1.2          | 11.50         | 98.6         | 78.1         | 111,329                     |
| Land retail      | 0.2       | 1.50    | 0.0          | 9.75          | 92.1         | 77.7         | 289                         |
| Total            | 100.0     | 1.47    | 5.2          | 8.91          | 90.2         | 79.5         | --                          |

\*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. (\$) |
|--------------------------------|----------------------------|-----------|---------|--------------|--------------|--------------|--------------|-----------------------------|
| 175 West Jackson               | Office (CBD)               | 9.7       | 1.32    | 23.06        | 8.75         | 70.38        | 63.43        | 221                         |
| Coastal Grand Mall             | Regional Mall              | 8.6       | 1.61    | 8.79         | 8.25         | 72.21        | 53.63        | 311                         |
| 180 Maiden Lane                | Office (CBD)               | 8.0       | 2.56    | 1.86         | 8.75         | 63.24        | 63.24        | 270                         |
| Gale Office Pool               | Office (suburban)          | 6.3       | 1.18    | 7.04         | 9.50         | 106.91       | 95.30%       | 119                         |
| Deer Valley Village Apartments | Multifamily (conventional) | 4.4       | 1.59    | 0.00         | 8.50         | 106.23       | 106.23       | 57,871                      |
| IRS Building - Fresno, Calif.  | Office (CBD)               | 4.0       | 1.66    | 2.55         | 9.00         | 97.11        | 97.11        | 262                         |
| ADG Portfolio                  | Mobile-home park           | 3.6       | 1.33    | 1.02         | 8.75         | 95.52        | 83.89        | 21,398                      |

| Property name                 | Property type     | % of pool | DSC (x) | % NCF diff.* | Cap rate (%) | Beg. LTV (%) | End. LTV (%) | Value per unit/sq. ft. (\$) |
|-------------------------------|-------------------|-----------|---------|--------------|--------------|--------------|--------------|-----------------------------|
| Slatten Ranch (Western Phase) | Retail (anchored) | 2.2       | 1.33    | 0.00         | 9.00         | 99.93        | 89.50        | 220                         |
| 1900 L Street                 | Office (CBD)      | 2.0       | 1.20    | 2.15         | 9.00         | 109.36       | 103.27       | 201                         |
| 10 Independence Boulevard     | Office (suburban) | 1.8       | 1.20    | 4.45         | 9.50         | 99.94        | 80.93        | 174                         |
| Weighted avg.                 | --                | 50.7      | 1.59    | 7.60         | 8.80         | 84.99        | 76.85        | --                          |

\*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         | 10           | 182,464,000       | 15.7      |
| 1.55 to 1.65  | 3            | 163,705,386       | 14.1      |
| 1.50 to 1.54  | 1            | 2,397,905         | 0.2       |
| 1.45 to 1.49  | 5            | 49,256,078        | 4.3       |
| 1.40 to 1.44  | 9            | 84,370,207        | 7.3       |
| 1.35 to 1.39  | 7            | 27,494,327        | 2.4       |
| 1.30 to 1.34  | 10           | 240,193,033       | 20.7      |
| 1.25 to 1.29  | 12           | 122,770,859       | 10.6      |
| 1.20 to 1.24  | 15           | 119,955,184       | 10.4      |
| 1.15 to 1.19  | 7            | 149,738,376       | 12.9      |
| 1.10 to 1.14  | 2            | 12,348,600        | 1.1       |
| 1.05 to 1.09  | 0            | 0                 | 0.0       |
| 1.04 to 1.00  | 0            | 0                 | 0.0       |
| 0.00 to 1.00  | 1            | 3,885,946         | 0.3       |
| Total         | 82           | 1,158,579,900     | 100.0     |

DSC—Debt service coverage ratio.

| Beginning LTV range (%) | No. of loans | Loan balance (\$) | % of pool |
|-------------------------|--------------|-------------------|-----------|
| <50                     | 0            | 0                 | 0.0       |
| 50 to 60                | 1            | 2,290,256         | 0.2       |
| 61 to 70                | 5            | 129,791,597       | 11.2      |
| 71 to 75                | 3            | 214,362,385       | 18.5      |
| 76 to 80                | 2            | 10,264,083        | 0.9       |
| 81 to 85                | 1            | 14,611,158        | 1.3       |
| 86 to 90                | 12           | 66,166,116        | 5.7       |
| 91 to 95                | 9            | 62,358,654        | 5.4       |
| 96 to 100               | 25           | 308,829,760       | 26.7      |
| >100                    | 24           | 349,905,891       | 30.2      |
| Total                   | 82           | 1,158,579,900     | 100.0     |

| Ending LTV range (%)   | No. of loans | Loan balance (\$) | % of pool |
|------------------------|--------------|-------------------|-----------|
| Fully amortizing loans | 1            | 3,186,932         | 0.3       |
| 0 to 50                | 1            | 2,290,256         | 0.2       |
| 51 to 60               | 4            | 121,441,039       | 10.5      |
| 61 to 70               | 7            | 242,368,027       | 20.9      |
| 71 to 75               | 6            | 44,202,365        | 3.8       |
| 76 to 80               | 16           | 113,353,674       | 9.8       |

| <b>Table 10 - Standard &amp; Poor's Ending LTV</b> |                     |                          |                  |
|--|---------------------|--------------------------|------------------|
| <b>Ending LTV range (%)</b>                        | <b>No. of loans</b> | <b>Loan balance (\$)</b> | <b>% of pool</b> |
| 81 to 85   | 15                  | 147,081,716              | 12.7             |
| 86 to 90   | 14                  | 152,482,935              | 13.2             |
| 91 to 95   | 6                   | 67,112,556               | 5.8              |
| 96 to 100  | 7                   | 174,911,855              | 15.1             |
| >100   | 5                   | 90,148,544               | 7.8              |
| <b>Total</b>                                       | <b>82</b>           | <b>1,158,579,900</b>     | <b>100.0</b>     |

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