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Presale: Wachovia Bank Commercial Mortgage Trust 2005-C17

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This presale report is based on information as of March 8, 2005. 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 March 8, 2005

Class	Preliminary rating*	Preliminary amount ($)	Recommended credit support (%)
A-1	AAA	133,240,000	20.000
A-2	AAA	290,000,000	20.000
A-3	AAA	82,400,000	20.000
A-PB	AAA	235,000,000	20.000
A-4	AAA	1,130,969,000	20.000
A-J	AAA	193,088,000	13.125
B	AA	77,236,000	10.375
C	AA-	24,574,000	9.500
D	A	49,150,000	7.750
A-1A	AAA	375,240,000	20.000
E	A-	28,086,000	6.750
F	BBB+	28,085,000	5.750
G	BBB	31,597,000	4.625
H	BBB-	38,618,000	3.250
J	BB+	7,021,000	3.000
K	BB	10,532,000	2.625
L	BB-	14,043,000	2.125
M	B+	7,021,000	1.875
N	B	7,022,000	1.625
O	B-	7,021,000	1.375
P	N.R.	38,618,258	N/A
X-P¶	AAA	2,701,179,000§	N/A
X-C¶	AAA	2,808,561,258§	N/A

*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. N/A—Not applicable.

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Profile

Expected closing date: March 2005.

Collateral: 177 loans secured by 291 properties.

Underwriter: Wachovia Capital Markets LLC, Citigroup Global Markets Inc., Countrywide Securities Corp., ABN AMRO Inc., Credit Suisse First Boston LLC, and Goldman Sachs & Co.

Sellers: Wachovia Bank N.A., Countrywide Commercial Real Estate Finance Inc., Citigroup Global Markets Realty Corp., and Artesia Mortgage Capital Corp.

Master servicer: Wachovia Bank N.A.

Special servicer: Allied Capital Corp.

Depositor: Wachovia Commercial Mortgage Securities Inc.

Trustee: Wells Fargo Bank N.A.

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Rationale

The preliminary ratings assigned to Wachovia Bank Commercial Mortgage Trust's $2.8 billion commercial mortgage pass-through certificates series 2005-C17 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. Class A-1, A-2, A-3, A-PB, A-4, A-J, 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 1.43, a beginning LTV of 94.7%, and an ending LTV of 81.2%.

Unless otherwise indicated, all calculations in this report, including weighted averages, do not include the subordinate B notes, which are not included in the trust for the following loans: Great Wolf Resorts, Cabrillo Palisades, Market Fair Shopping Center, Marathon Center, Firewheel Corners Shopping Center, Cadbury Schweppes, and Kmart Plaza Shopping Center.

Strengths

The transaction exhibits the following strengths:

- Five of the loans (15.3% of the pool) have trust balances with credit characteristics consistent with obligations rated investment-grade by Standard & Poor's: One & Two International Place ('BBB-', 7.7%); Tharaldson Pool I-B ('BBB+', 2.8%); Tharaldson Pool I-A ('AA+', 2.1%); Great Wolf Resorts ('AAA', 1.8%); and 200 Varick Street ('AAA', 1.0%);
- The economics of the top 10 loans are better than those of the overall pool, with a weighted average beginning LTV of 90.2%, compared with 94.7% for the pool, and an ending LTV of

74.6%, compared with 81.2% for the pool; and
- The weighted average quality score for the assets securing mortgages in the pool is 2.78, 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 56.9% of the mortgaged properties concentrated in five states and the District of Columbia. The largest concentrations are in Massachusetts (12.3%); California (10.1%, with 6.7% in Southern California and 3.4% in Northern California); New York (8.7%); Texas (8.0%); District of Columbia (6.3%); Virginia (6.1%); and Florida (5.4%). The remaining assets are dispersed throughout 32 states, with no other state concentration exceeding 5.0% of the pool balance;
- The pool exhibits loan concentration, as the top 10 loans represent 34.7% of the pool balance, while the single largest loan exposure represents 7.7% of the pool balance. However, three of the top 10 loans (12.6%) have trust balances with credit characteristics consistent with obligations rated investment-grade by Standard & Poor's. Additionally, five of the top 10 loans (15.8%) are each secured by portfolios of multiple cross-collateralized and cross-defaulted properties;
- The pool has a concentration in office properties (38.4%). Mitigating this concern, two of these loans (8.7%) have trust balances with credit characteristics consistent with obligations rated investment-grade by Standard & Poor's: One & Two International Place ('BBB-', 7.7%) and 200 Varick Street ('AAA', 1.0%). The capital structure for both loans takes property type into account, and the credit support levels for the pool consider asset class concentrations; and
- Ninety-two of the loans in the pool (62.5%) have IO periods, and of those, 10.7% of the pool balance are full-term interest-only (IO) loans and 52.1% of the pool balance have partial IO periods; however, two of these loans (8.7%) have trust balances with credit characteristics consistent with obligations rated investment-grade by Standard & Poor's: One & Two International Place ('BBB-', 7.7%) and 200 Varick Street ('AAA', 1.0%). Additionally, six of the loans that provide for IO payments (9.0%) are secured by multiple cross-collateralized and cross-defaulted properties.

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Structural And Legal Review

Transaction structure

The certificates issued by the trust represent the beneficial ownership interest in 167 fixed-rate whole loans (94.6%) and the senior interests of seven fixed-rate whole loans (5.4%), which are structured as A/B loans. The junior-interest B notes will not be included in the trust.

In modeling this transaction, foreclosure frequency was based on the entire first-mortgage balance LTV and DSC, but loss severity was calculated based on the interests included in the trust. The pool includes 15 loans that consist of related loans that are cross-defaulted and cross-collateralized with each other. For the purposes of this report, each of these loan groups is considered to be one loan. The rated final distribution date for all of the certificates will be March 2042.

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Pool Characteristics

Collateral description

The pool contains 177 conventional fixed-rate loans secured by liens on 291 properties. By property type, the pool has the following composition: office (38.4%), retail (24.9%), multifamily (15.5%), hotel (10.1%), self-storage (0.7%), mixed-use (5.2%), land (0.4%), special-purpose (garage and child care; 1.8%), and industrial (2.9%).

Lockboxes are in place for 110 loans, representing 58.2% of the total pool balance. Forty-seven of those loans (42.8%) have hard lockboxes, 56 loans (9.1%) have springing lockboxes that are triggered by certain conditions, and seven loans (6.3%) have soft lockboxes.

Monthly real estate tax escrows have been established for 133 loans (80.7%), and monthly insurance premium escrows have been established for 117 loans (68.7%).

Reserves have been established for the remediation of existing deferred maintenance items for 54 loans (7.6%). Generally, the reserve established for each loan equals 125% of the amount recommended in the engineering report.

Monthly leasing and/or up-front leasing reserves have been established for 45 loans (37.0%, representing office, retail, and industrial properties).

Forty-six loans (14.4%) are secured by properties leased to single tenants. Of these loans, 44 (11.5%) have long-term leases that expire after the loan maturity, and 37 (7.8%) are leased to investment-grade tenants: Walgreen's ('A+'), CVS ('A-'), Citibank ('AA'), Cadbury Schweppes ('BBB'), and Siemens ('AA-').

Geographic diversity

The pool consists of properties in 38 states and Washington, D.C. The largest concentrations are in Massachusetts (12.3%); California (10.1%, with 6.7% in Southern California and 3.4% in Northern California); New York (8.7%); Texas (8.0%); District of Columbia (6.3%); Virginia (6.1%); and Florida (5.4%). The remaining assets are dispersed throughout 32 states, with no other state concentration exceeding 5.0% of the pool balance.

Loan sellers

Wachovia Bank N.A. contributed 108 loans (64.3%), Countrywide Commercial Real Estate Finance Inc. contributed 14 loans (14.4%), Citigroup Global Markets Realty Corp. contributed 15 loans (13.3%), and Artesia Mortgage Capital Corp. contributed 40 loans (8.0%).

Loan origination dates

All of the mortgage loans in the pool were originated in the past 12 months except for one loan, Milestone Crossing (0.3%).

Agreed-upon procedures

Agreed-upon procedures were performed for two loans, Tharaldson Pool I-B and Tharaldson Pool I-A (4.9%).

Hyperamortizing loans

Thirty-eight loans (13.6%) were structured as hyperamortizing loans. Thirty-seven of these loans (13.1%) are structured with some form of cash management.

Interest-only loans

Ninety-two of the loans in the pool (62.8%) are IO loans, and of these, 10.7% of the pool balance are full-term IO loans, and 52.1% of the pool balance have partial IO periods. Mitigating this concern, two of these loans (8.7%) have trust balances with credit characteristics consistent with obligations rated investment-grade by Standard & Poor's: One & Two International Place ('BBB-', 7.7%) and 200 Varick Street ('AAA', 1.0%). Additionally, three of the loans that provide for IO payments (6.4%) are secured by multiple cross-collateralized and cross-defaulted properties.

Collateral quality

Based on Standard & Poor's analysis, the pool has a DSC of 1.43x on a weighted average coupon of 5.42%. 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.

Standard & Poor's adjusted the NCF of the portfolio downward by 5.6% on a weighted average basis. 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.

Standard & Poor's weighted average beginning LTV for the pool is 94.7%, and the ending LTV is 81.2%. The weighted average capitalization rate applied to Standard & Poor's NCF is 9.18%. 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 63.2% of the total pool and re-underwrote cash flows and derived asset values for assets representing 72.0% of the pool. The weighted average quality score for the inspected properties is 2.78, an above-average score on Standard & Poor's scale of 1 (highest) to 5 (lowest).

Borrower concentrations

The largest sponsor is Prudential Property Investment Separate Account (PRISA), the sponsor of the One & Two International Place loan (7.7%). The five largest sponsors represent 27.5% of the pool, and the 10 largest sponsors represent 38.3% of the pool. Eight of the top 10 loans (29.3%) have bankruptcy-remote, special-purpose-entity (SPE) borrowers with both a nonconsolidation opinion and an independent director. One of the remaining top 10 loans (2.3%) has an SPE borrower with a nonconsolidation opinion but no provision for an independent director. One loan (3.1%) does not have an SPE borrower.

The largest loan in the pool is the One & Two International Place loan (7.7%). The top five loans represent 23.8% of the pool, and the top 10 loans account for 34.7% of the pool. Three of the top 10 loans (12.6%) have trust balances with credit characteristics consistent with obligations rated investment-grade by Standard & Poor's: One & Two International Place ('BBB-', 7.7%); Tharaldson Pool I-B ('BBB+', 2.8%); and Tharaldson Pool I-A ('AA+', 2.1%). The economics of the top 10 loans are better than those of the overall pool. Five of the top 10 loans (15.8%) are secured by portfolios of multiple cross-collateralized and cross-defaulted properties: Digital Portfolio (six properties, 5.5%); Olympia Portfolio (23 properties, 3.1%); Tharaldson Pool I-B (13 properties, 2.8%); Residence Inn #1 Portfolio (10 properties, 2.3%); and Tharaldson Pool I-A (25 properties, 2.1%).

Bankruptcy issues

Six of the loans (9.7%) were made to borrowers with members or affiliates that have previously filed for bankruptcy. However, one of the borrowers for these loans is structured with a nonconsolidation opinion (0.8%), and two of these loans (0.7%) have a springing lockbox for cash management. One loan (7.7%) has a nonconsolidation opinion and a springing lockbox.

Leasehold interests

Six loans (3.4%) are secured by a mortgage lien on the borrower's leasehold interest pursuant to a ground lease. All six of the ground leases afford the respective lender notice and cure rights and have ultimate terms that extend at least 20 years beyond the loan maturity. Three of the loans (2.9%) are secured by both fee and leasehold interests. Two of the loans (2.6%) are pools of properties, of which some are secured by leasehold interests.

Additional indebtedness

The borrowers for four loans (8.5%) have incurred existing mezzanine debt. These mezzanine loans are subject to subordination and standstill agreements. One of these loans (1.0%) also has existing secured debt of $6.5 million.

One loan (0.8%) has existing unsecured debt with an original principal balance of $2.5 million. The loan is subject to the terms of a subordination and standstill agreement that generally conforms to Standard & Poor's criteria.

Seven loans (5.3%) are A/B loans. These loans include senior A notes that will be contributed to the trust and subordinate B notes that will be held outside of the trust.

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.

Twenty-three loans (11.6%) permit the borrower to incur future mezzanine debt, subject to the terms of subordination and standstill agreements.

Four loans (1.5%) permit the borrower to incur future secured subordinate debt, subject to certain DSC and LTV criteria, and are subject to the terms of a subordination and standstill agreement.

Pari passu loans

The largest loan in the pool, the One & Two International Place loan, has a trust balance of $216.0 million (7.7%) and a whole-loan balance of $432.0 million. The whole loan, with credit characteristics consistent with investment-grade obligations rated 'BBB-', has been divided into two pari passu pieces: the $216.0 million A-1 note that is included in this transaction, and a $216.0 million A-2 note that will be contributed to a future transaction.

The third-largest loan in the pool, the 450 West 33rd Street loan, has a trust balance of $132.5 million (4.7%) and a whole-loan balance of $265.0 million. The whole loan has been divided into two pari passu pieces: the $132.5 million A-1 note that is included in this transaction, and a $132.5 million A-2 note that will be contributed to a future transaction. In addition to the first mortgage, there is an $85.0 million mezzanine loan secured by equity interests of the borrower.

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. Thirty-eight properties (4.8%) do not have terrorism insurance. Thirty-one of these properties (3.3%) are self-insured by Walgreen's ('A+'), and the remaining seven loans without terrorism insurance make up 1.1% of the pool balance.

Appraisal reports

Appraisal reports, in conformance with USPAP and FIRREA, were prepared in the past 12 months for 98.5% of the pool balance. Two loans (1.2%) had an appraisal report prepared in the past 18 months, and one loan (0.3%) had an appraisal prepared in the past 24 months.

Environmental review

Phase I environmental studies were prepared for all of the properties. Of these reports, 287 were completed in the 12-month period before the cutoff date. One of the remaining reports (0.4%) was completed within 18 months before the cutoff date, and another two (0.5%) were completed within 24 months before the cutoff date.

A phase II assessment was recommended for two properties related to loans representing 1.9% of the pool balance. For one property, Cole Walgreens—Lawrence, KSA (0.1%), a phase II was recommended and performed for a subsurface investigation to evaluate if the subject site has been affected by a former onsite gas station, and no further action is required.

For another property, Eastmont Town Center (1.9%), a phase II investigation to address the potential release of contaminants from an onsite dry cleaning unit and inactive hydraulic lifts at the site from a former Eastmont Auto Space was recommended and completed, and no further action is required.

Including the above-mentioned items, escrows totaling $717,000 have been established for five properties (3.9%) 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 288 properties (98.0%). Engineering reports were not required for the two land loans, Horizon Center (Pad Leases; 0.2%) and 4 Ground Leased Parcels—Cranberry, Pa. (0.1%), or for the Cadbury Schweppes loan (1.3%). The reports identified both deferred maintenance items to be corrected immediately and long-term capital expenditure needs. Assets securing 53 loans (46.5%) were identified as needing immediate repairs, and escrows totaling $5.6 million 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 139 loans (97.7%) were completed in the 12-month period before the cutoff date. One report (0.3%) was completed within 24 months before the cutoff date.

Seismic review

Twenty-five loans (16.0%) are secured by properties in seismic zones 3 or 4. Seismic studies were completed for 24 of these properties. Two of the properties (0.8%) had a probable maximum loss in excess of 20%, and one of them (0.5%) has earthquake insurance in place.

Hurricane and flood review

Seventy-seven loans (13.6%) have properties that are 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.

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Top Seven Loans

One & Two International Place

The largest loan in the pool, the One & Two International Place loan, has a trust balance of $216.0 million (7.7% of the pooled) and a whole-loan balance of $432.0 million. The whole loan has been divided into two pari passu notes: the $216.0 million A-1 note that is included in this transaction, and a $216.0 million A-2 note that will be contributed to a future transaction. The 10-year, fixed-rate loan bears interest at rate of 5.205%, is IO for the first two years, amortizes on a 30-year schedule thereafter, and matures in January 2015.

The loan is collateralized by a first mortgage encumbering two class A office buildings totaling 1,852,501 sq. ft. in Boston, Mass. One International Place consists of a 46-story office tower built in 1987 containing 1,064,758 sq. ft. Two International Place consists of a 35-story office tower built in 1992 containing 787,743 sq. ft. Both buildings are connected by an enclosed, glass-covered courtyard containing retail space. The property is in the financial district of downtown Boston, with outstanding views of Boston Harbor. The property also is next to the new Rose Kennedy Greenway, a 25-acre urban park created in the aftermath of the "Big Dig" road construction project. A portion of the property's marble lobby will overlook this new green space, and the borrower plans to develop it for retail usage.

As of January 2005, the property was 89.6% physically leased and 68.7% occupied by 65 office tenants and 14 retail tenants. Office tenants pay an average base rent of $46.49 per sq. ft., and retail tenants pay an average base rent of $34.76 per sq. ft. Historically, the property has been well occupied at 99.5% in 2001 and 96.0% in 2002.

Table 1 lists the major office tenants at the property.

Table 1 — Major One & Two International Place Tenants

Tenant	Rating	Sq. ft.	Property NRA (%)	Base rent per sq. ft. ($)	Base rent (% of GPR)	Lease expiration
Deutsche/Scudder, Stevens	AA-	378,490	20.4	35.87	17.9	2009
Ropes & Gray	N.R.	322,754	17.4	44.30	18.8	2010
Choate, Hall & Stewart	N.R.	155,324	8.4	44.00	9.0	2015
PricewaterhouseCoopers	N.R.	88,279	4.8	36.50	4.2	2005
State Street Bank	AA-	62,076	3.4	40.96	3.3	2005, 2007

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

The sponsors of the bankruptcy-remote SPE borrower are Prudential Insurance Co. of America (Prudential; 90%) and The Chiofaro Co. (10%). Prudential is one of the largest life insurance companies in the U.S., and acquired a majority stake in the property through its real estate investment arm, Prudential Real Estate Investors (PREI). PREI provides global real estate investment management services in the U.S., Europe, Asia, and Latin America. The Chiofaro Co. is a privately held, independent firm engaged in development, investment, advisory, leasing, management, and ownership of real estate in the northeast U.S. The Chiofaro Co. manages the property. The loan is structured with a hard lockbox and a springing cash management feature.

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

- Standard & Poor's bifurcated the underwriting analysis because although the property is 89.6% leased, 88,279 sq. ft. (4.8% of net rentable area (NRA)) leased to PricewaterhouseCoopers is expiring in April 2005, when the tenant will vacate the premises. Also, overall, the property is leased below its stabilized historical occupancy. Cash flow was underwritten on 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 January 2005;
- For cash flow and DSC purposes, an in-place physical vacancy of 15.2% was assumed under the as-is approach; however, for valuation purposes, a 6% vacancy 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, higher expenses associated with a stabilized occupancy, and the appraiser's estimate of expense recoveries;
- Other income was based on the trailing 12 months (TTM) through July 2004 performance;
- As-is operating expenses, other than property taxes and insurance premiums, were based on the property's actual TTM through July 2004 expenses;
- Stabilized operating expenses, other than property taxes and insurance premiums, were based on the property's historical stabilized expenses during higher stabilized occupancy;
- Property taxes and insurance premiums were based on the property's current 2005 tax assessment and new insurance premium;
- 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 $15.00 per sq. ft. for new leases and $7.50 per sq. ft. for renewal leases;
- TI expenses for Deutsche/Scudder, Stevens were estimated at $14.00 per sq. ft. for new leases and $7.00 per sq. ft. for renewal leases;
- LC expenses were estimated at 4.0% for new space and 2.0% for renewal space;
- TI/LC assumptions were based on weighted average lease terms of 9.7 years and 9.1 years for office and retail tenants, respectively;
- A renewal probability of 70.0% was assumed, except for Deutsche/Scudder, Stevens, for which a 60% renewal probability was assumed;
- Based on these assumptions, Standard & Poor's overall NCF variance for the property was 14.3% based on the property's in-place NCF, and 3.1% based on the assumed stabilized occupancy of 94%;
- Standard & Poor's applied an 8.75% capitalization rate to the stabilized portion of NCF, and a 9.00% capitalization rate to the unstabilized portion of NCF, combining for a weighed average rate of 8.79%; subtracted new TI/LC costs and downtime NOI associated with leasing the vacant space, and gave credit for the present value of future rent bumps for the long-term investment-grade tenants. This yielded a value of $576.5 million, or $311 per sq. ft.; and
- The quality score for this asset is 2.25, an above-average score.

This loan exhibits the following strengths:

- The trust balance has credit characteristics consistent with investment-grade obligations rated 'BBB-';
- The property benefits from an excellent location in the Boston financial district, close to major mass transit hubs and newly created green space;
- The property is expected to benefit from new retail space in the ground floor lobby, including plans for an upscale

restaurant;
- The property benefits from a diversified tenant base, and approximately 37.2% of the property's NRA is occupied by tenants rated investment-grade by Standard & Poor's; and
- The property benefits from strong sponsorship and management.

This loan exhibits the following concerns and mitigating factors:

- The largest tenant at the property, Deutsche/Scudder, Stevens ('AA-') has vacated 79% of its space, which totals 16% of the property's NRA. The tenant's lease expires in 2009. However, Deutsche/Scudder, Stevens is paying rent of $34 per sq. ft. for the vacant space, which is considered below market, and intends to sublease this space; and
- The minority borrower sponsor, The Chiofaro Co., recently emerged from bankruptcy proceedings stemming from the default of the previous more highly leveraged mortgage loan encumbering the property. The new borrower sponsorship involving Prudential resulted from an agreement by The Chiofaro Co. to recapitalize the property, giving Prudential 90% controlling ownership of the property.

Digital Portfolio

The second-largest loan in the pool, the Digital Portfolio loan, has a trust and whole-loan balance of $154.3 million (5.5%). The fixed-rate, 10-year loan bears interest at a rate of 5.649%, amortizes on a 30-year schedule, and matures in November 2014.

The loan is secured by a first mortgage encumbering the fee interest in six cross-collateralized and cross-defaulted office and mixed-use properties. The properties contain 1,421,884 sq. ft.

The properties in the portfolio are listed in table 2, and the major tenants in the portfolio are listed in table 3.

Table 2 - Digital Portfolio

Property name	Location	Allocated loan amount ($)	Year built	Sq. ft.	% occupied as of January 2005
Hudson Corporate Center	Weehawken, N.J.	46,599,490	1950	311,950	87.4
Comverse Office Building (two buildings)	Wakefield, Mass.	36,144,476	1957/ 1999	388,000	99.7
Webb at LBJ	Dallas, Texas	34,352,188	1966	365,449	94.5
36 Northeast Second Street	Miami, Fla.	18,171,810	1925	162,140	81.2
Siemens Building	Dallas, Texas	11,152,015	1999	125,538	100.0
Brea Office Building	Brea, Calif.	7,915,939	1980	68,807	100.0
Total	—	154,335,917	—	1,421,884	93.6

Table 3 - Major Digital Portfolio Tenants

Tenant	Property	Rating	Sq. ft.	Property NRA (%)	Base rent per	Base rent (% of	Lease expiration

					sq. ft.	GPR)	
Comverse Technology Inc.	Comverse Office Park	BB-	367,033	94.59	18.46	95.77	2011
Savvis	Hudson Corporate Center	N.R.	234,570	75.19	26.00	86.87	2013
SBC Services Inc.	Webb at LBJ	A	141,663	38.76	23.00	58.59	2010
Siemens Subscriber Networks Inc.	Siemens Building	AA-	125,538	100.00	20.00	100.00	2010
Qwest Communications Corp.	36 Northeast Second Street	BB-	78,540	48.40	23.19	53.04	2013
Systems Management Specialists	Brea Office Building	N.R.	68,807	100.00	17.61	100.00	2014
NRA—Net rentable area. GPR—Gross potential rent. N.R.—Not rated.							

The borrowers are six newly formed, single-purpose, bankruptcy-remote entities sponsored by Digital Realty Trust L.P. and Digital Realty Trust Inc. (Digital). In November 2004, Digital completed its IPO. Digital is a newly formed publicly traded REIT that owns, acquires, repositions, and manages technology-related commercial real estate. Upon completion of the IPO, Digital owned 22 properties throughout the U.S. and one property in London totaling 5.6 million sq. ft. of NRA. Digital's portfolio is primarily in 11 major metropolitan areas, including Silicon Valley, Calif.; Dallas, Texas; San Francisco, Calif.; Boston, Mass.; Los Angeles, Calif.; New York, N.Y.; London, U.K.; Denver, Colo.; and Miami, Fla. Three of the properties are managed by CB Richard Ellis, the world's leading provider of diversified real estate services with 14,000 personnel in more than 250 offices in 48 countries. Two of the properties are managed by CAPSTAR, one of Dallas' premier commercial real estate service companies providing leasing and management, construction management, and due diligence services for office and technology properties for a growing list of institutional, corporate, and entrepreneurial clients. One of the properties is managed by Lincoln Property Co., a developer and manager of high-end residential communities, with 93 million sq. ft. currently under management. The loan has been structured with a hard lockbox for cash management.

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

- GPR was based on leases in place as of January 2005, with vacant space grossed up at market rents;
- Vacancy was underwritten to the greater of in-place or market;
- Expense reimbursements were underwritten based on the actual lease terms and historical recovery performance;
- Other income was based on contractual obligations;
- Operating expenses, other than property taxes and insurance premiums, were based on historical levels and the appraiser's estimates;
- Property taxes were based on the actual tax bills and insurance expenses were based on the actual premiums;
- A management fee of 3% of effective gross income (EGI) was

assumed for the properties that had less than five tenants, and a management fee of 4% of EGI was assumed for the remaining properties with five or more tenants;
- Replacement reserves ranged from $0.25 per sq. ft. to $0.30 per sq. ft. depending on the age, size, and use of the properties;
- Estimated TI expenses ranged from $8.00 per sq. ft. to $17.00 per sq. ft. for new space and $4.00 per sq. ft. to $8.50 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 ranging from 11.3-14.2 years with LC expenses capped at 10 years;
- The renewal probability ranged from 60.0% for near-term rolling tenants to 70.0% for investment-grade tenants;
- Based on these assumptions, Standard & Poor's NCF variance for the portfolio was 3.8%;
- Standard & Poor's capitalized NCF at capitalization rates ranging from 9.25%-9.75% for an overall weighted average rate of 9.47%, yielding a value of $114.6 million, or $114 per sq. ft.; and
- Quality scores for these assets range from 2.75-3.00, yielding a 2.82 weighted average score, an above-average score.

This loan exhibits the following strength:

- The loan is secured by six cross-defaulted and cross-collateralized properties showing geographic diversity across five states.

This loan exhibits the following concern and mitigating factor:

- Consistent with Digital's investment strategy, all of the properties are technology related, and furthermore, some of the properties are located in currently weaker markets. However, risk associated with the foregoing is mitigated by the proven performance of the properties, in part evidenced by the current overall occupancy rate of 93.7%. In addition, collectively the tenants at the property have invested approximately $260.0 million ($183 per sq. ft.) in capital improvements to outfit individual spaces.

450 West 33rd Street

The third-largest loan in the pool, the 450 West 33rd Street loan, has a trust balance of $132.5 million (4.7%) and a whole-loan balance of $265.0 million. The whole loan has been divided into two pari passu pieces: the $132.5 million A-1 note that is included in this transaction, and a $132.5 million A-2 note that will be contributed to a future transaction. In addition to the first mortgage, there is an $85.0 million mezzanine loan secured by equity interests of the borrower. The 10-year, fixed-rate loan bears interest at a rate of 5.10%, is IO for the first 36 months, amortizes on a 27-year schedule thereafter, and matures in March 2015.

The loan is secured by the first mortgage encumbering 450 West 33rd Street, New York, N.Y. The property consists of a 16-story class B office building totaling 1,672,237 net rentable sq. ft. that competes in the midtown Manhattan office market. The subject was originally constructed as a distribution center for the garment industry in 1969, but it was converted in 1990 to office space. The property offers large floor plates that range from 71,000 sq. ft. to 105,000 sq. ft. This has proven attractive for media organizations seeking large floor plates for centralized operations. The property also benefits from its close proximity to Penn Station. As of March 2005, the property was 84.5% leased by 21 tenants paying an average rent of $22.35 per sq. ft.

Table 4 lists the major office tenants at the property.

Table 4 - Major 450 West 33rd Street Tenants

Tenant	Rating	Sq. ft.	Property NRA (%)	Base rent per sq. ft. ($)	Base rent (% of GPR)	Lease expiration
Associated Press	N.R.	290,752	17.4	27.85	24.9	2019
Thirteen/WNET public television	N.R.	204,791	12.2	21.95	14.2	2018
Lerner NY	BBB	163,093	9.8	27.00	13.8	2015
The Daily News	N.R.	140,950	8.4	18.42	8.2	2011
The City of New York	A	129,874	7.8	16.69	6.9	2016

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

The sponsors of the bankruptcy-remote SPE borrower are Jacob Chetrit and Arbor Realty Trust Inc. Jacob Chetrit is an experienced real estate developer with major holdings in New York, N.Y., and other cities around the country. The Chetrit Group has acquired and operated more than 4,500 apartment units and 10 million sq. ft. of office and industrial space over the past 10 years. Arbor Realty Ltd. is a specialized real estate finance company that invests in real estate-related bridge and mezzanine loans and preferred equity. The property is managed by Newmark and Co. Real Estate Inc., a full-service real estate company that manages and/or leases more than 50 million sq. ft. of commercial space. The loan has a hard lockbox in place for cash management.

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

- Standard & Poor's bifurcated the underwriting analysis due to the high vacancy at the subject. Cash flow was underwritten and DSC was derived following an as-is approach; however, Standard & Poor's used a stabilized approach to derive the ultimate value of the property;
- GPR was based on leases in-place as of March 2005;
- Expense reimbursements were based on the tenants' contractual obligations, the property's TTM performance, and the appraiser's estimate;
- Other income was based on historical performance and tenants' contractual obligations;
- An in-place vacancy rate of 15.5% was applied to determine in-place NCF, while a stabilized vacancy rate of 10.0% was applied to determine the property's stabilized NCF for purposes of deriving value, based on the projected future occupancy at the property. The stabilized vacancy factor is consistent with the property's submarket vacancy;
- Operating expenses were based on the property's historical

performance for in-place NCF, and for the stabilized NCF, operating expenses were based on the TTM property performance and the appraiser's estimates for stabilized expenses;
- A management fee of $1.0 million was assumed;
- TI expenses for office tenants were assumed to be $14.00 per sq. ft. for new leases and $8.00 for renewal leases based on in-place gross rents of $27.56 per sq. ft.;
- LC expenses were assumed to be 4.0% for new leases and 2.0% for renewals;
- TI/LCs assumptions were based on the in-place weighted average lease terms of 16.3 years, with LC expenses capped at 10 years;
- A renewal probability of 65.0% was assumed;
- Replacement reserves were assumed to be $0.35 per sq. ft. of collateral NRA;
- Based on these assumptions, Standard & Poor's NCF variance was 4.7% for in-place property NCF;
- Standard & Poor's derived a stabilized property value of $267.0 million ($160 per sq. ft.) by applying an 8.75% capitalization rate to the estimated future stabilized portion of NCF and an 8.50% capitalization rate to the in-place NCF, removing estimated downtime net operating income of 24 months, adding the present value of future rent steps for credit tenants, and including $2.8 million, a portion of the total $14.0 million TI/LC reserve, to offset new leasing expenses; and
- The quality score for this asset is 2.75, an above-average score.

This loan exhibits the following strengths:

- The property benefits from its location in the well-performing midtown Manhattan office submarket, close to the major New York transportation hub of Penn Station; and
- The property benefits from strong sponsorship and experienced management.

This loan exhibits the following concerns and mitigating factors:

- The loan has mezzanine financing of $85.0 million secured by a pledge of partnership interests in the borrowing entity. The mezzanine debt 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.

Olympia Portfolio

The fourth-largest loan in the pool, the Olympia Portfolio loan, has a trust and whole-loan balance of $85.7 million (3.1%). The 10-year, fixed-rate loan bears interest at a rate of 5.692%, with one of the loans in the portfolio having an interest rate of 5.30%. The loan is IO for the first six months, amortizes over a 25-year period thereafter, has an anticipated repayment date in February 2015, and a final maturity date in August 2040.

The loan is secured by a first mortgage encumbering the fee interest in 23 cross-collateralized and cross-defaulted properties in Florida (19 properties) and Georgia (four properties). Eighteen of the properties are stand-alone, single-tenant, Walgreen's properties. The remaining properties include one stand-alone Applebee's restaurant, one Publix anchored retail center, one two-building office portfolio, and two retail properties anchored by Walgreen's. Sales at the individual properties range from $198 per sq. ft. to $832 per sq. ft., and the portfolio contains a total of 409,058 sq. ft. The properties are listed in table 5.

Table 5 - Olympia Portfolio

Property Location	Property type	Major tenant	Rating	Allocated loan amount ($)	Year built	Sq. ft.	% occupied as of December 2004 (%)
Dunedin, Fla.	Retail (anchored)	Walgreen's	A+	7,062,000	1998	28,176	100.0
Temple Terrace, Fla.	Retail (supermarket anchored)	Publix	N.R.	6,000,000	1999	48,769	100.0
Sarasota, Fla.	Retail (single tenant)	Walgreen's	A+	5,211,000	1999	17,145	100.0
Temple Terrace, Fla.	Retail (single tenant)	Walgreen's	A+	4,418,000	1999	15,120	100.0
Brandenton, Fla.	Retail (single tenant)	Walgreen's	A+	4,305,000	1998	15,930	100.0
Merritt Island, Fla.	Retail (single tenant)	Walgreen's	A+	4,161,000	1998	15,120	100.0
Naples, Fla.	Retail (single tenant)	Walgreens	A+	4,093,000	1998	15,930	100.0
Lawrenceville, Ga.	Retail (single tenant)	Walgreen's	A+	4,078,000	2000	15,120	100.0
Brooksville, Fla.	Retail (single tenant)	Walgreen's	A+	3,965,000	2001	15,120	100.0
Sarasota, Fla.	Retail (single tenant)	Walgreen's	A+	3,625,000	1995	16,496	100.0
New Smyrna Beach, Fla.	Retail (single tenant)	Walgreen's	A+	3,550,000	1999	15,120	100.0
Tampa, Fla.	Retail (single tenant)	Walgreen's	A+	3,550,000	2001	15,120	100.0
Marietta, Ga.	Retail (single tenant)	Walgreen's	A+	3,546,500	2002	15,120	100.0
Lehigh Acres, Fla.	Retail (single tenant)	Walgreen's	A+	3,432,500	2002	15,120	100.0
Seminole, Fla.	Retail (single tenant)	Walgreen's	A+	3,399,000	1996	15,930	100.0
Decatur, Ga.	Retail (single tenant)	Walgreen's	A+	3,399,000	2001	13,905	100.0
Ocoee, Fla.	Retail (single tenant)	Walgreen's	A+	3,361,000	2001	15,120	100.0
Homosassa, Fla.	Retail (single tenant)	Walgreen's	A+	2,983,000	1997	15,930	100.0
Lake Wales, Fla.	Retail (single tenant)	Walgreen's	A+	2,832,000	1997	15,930	100.0
Oldsmar, Fla.	Retail (single tenant)	Walgreen's	A+	2,870,000	1998	15,120	100.0
Dunedin, Fla.	Office	Various	N.R.	2,402,000	1998	27,968	100.0
Daytona Beach, Fla.	Retail (anchored)	Walgreen's	A+	1,795,000	1990	21,226	65.1
Lithia Springs, Ga.	Retail (single tenant)	Applebee's	N.R.	1,662,000	2003	4,523	100.0
Totals	—	—	—	85,700,000	—	409,058	98.2

N.R.—Not rated.

The non-SPE borrower is Olympia Development Group Inc., a real estate company focused on providing new stores for Walgreen's, both for sale and lease. Since the company's inception in 1990, it has developed over 875,000 sq. ft. of retail space with 823,000 sq. ft. of this space for Walgreen's. The sponsor of the borrower is Bill Touloumis. Mr. Touloumis is an experienced developer with ties to Walgreen's that date back to 1980. He was employed at the Walgreen's corporate office in Illinois for over 10 years, where he played an integral role in designing the prototype freestanding stores that Walgreen's has constructed over the past several years. Olympia Development Group Inc. also manages the properties. The loan is not structured with a cash management feature.

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

- GPR was based on leases in place as of January 2005;
- Vacancy was underwritten at 3% for the Walgreen's space, 6.2% for the Publix space, 12.0% for the Olympia Pool I Office building portfolio, and 7.50% for the Applebee's property;
- Expense reimbursements were underwritten based on the actual lease terms and historical levels;
- Operating expenses, other than property taxes and insurance premiums, were based on historical levels and the appraiser's estimate of expenses;
- Property taxes and insurance premiums were based on the actual expenses;
- A management fee of 3% of EGI was assumed;
- Replacement reserves ranged from $0.15 per sq. ft. to $0.20 per sq. ft. for retail space, and were $0.25 per sq. ft. office space;
- Estimated TI expenses ranged from $3.00 per sq. ft. to $8.00 per sq. ft. for new space and $1.50 per sq. ft. to $4.00 per sq. ft. for renewal space for retail tenants, and were $8.00 per sq. ft. for new space and $4.00 per sq. ft. for renewal space for office tenants;
- 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 ranging from 6.0-7.4 years with LC expenses capped at 10 years;
- A 70.0% renewal probability was assumed for the Publix space, and a 65.0% renewal probability was assumed for all of the remaining tenants;
- Standard & Poor's did not roll any of the Walgreen's space;
- Based on these assumptions, Standard & Poor's NCF variance for the portfolio was 4.0%;
- Standard & Poor's capitalized NCF at capitalization rates ranging from 8.75%-9.50% for an overall weighted average rate of 8.94%, yielding a value of $85.7 million, or $210 per sq. ft.; and
- Quality scores for these assets range from 2.75-3.00, yielding a 2.79 weighted average score, an above-average score.

This loan exhibits the following strengths:

- The loan is secured by 24 cross-defaulted and cross-collateralized properties, of which 23 are 100% occupied; and
- Twenty of the 24 properties are either single-tenant properties occupied by Walgreens ('A+'), or retail centers with Walgreens as the anchor/majority tenant, in each case on long-term leases.

This loan exhibits the following concern and mitigating factor:

- The loan allows other properties to be substituted as collateral for the loan. However, any substitute property must be occupied by a tenant that has as rating of at least 'A+' by Standard and Poor's, the DSC ratio of the property must be no less than 1.30 and the LTV of the property must be no more than 70% of appraised value. Additionally, there must be rating agency confirmation that the substitution would not result in a downgrade of the related certificates.

Tharaldson Pool I-B

The fifth-largest loan in the pool is the Tharaldson Pool I-B loan, with a whole-loan and trust balance of $79.8 million (2.8% of the pool). The 10-year, fixed-rate loan bears interest at a rate of 5.158%, and amortizes on a 20-year schedule until maturity in February 2015.

The loan is secured by a first mortgage encumbering the cross-defaulted and cross-collateralized leasehold interests in 13 extended-stay hotel properties. The hotels contain a total of 1,436 rooms and are in six states. Typical amenities include fitness facilities, tennis/basketball courts, meeting rooms, guest laundry, pools, and whirlpools. In addition, all have kitchens, which are fully equipped with a full-size refrigerator, an electric oven/range, a microwave, a coffee maker, and cooking utensils.

The loan is secured by the following 13 cross-collateralized, extended-stay and limited-service hotel properties (See table 6).

Table 6 - Tharaldson Pool I-B Limited-Service Properties

Flag	Location	Year built	No. of suites	TTM ADR ($)	TTM occupancy (%)	TTM RevPAR ($)
Residence Inn	Cheektowaga, N.Y.	2002	113	87.77	79.2	69.47
Residence Inn	El Paso, Texas	2003	96	90.00	89.8	80.85
Courtyard	Las Vegas, Nev.	2004	146	93.17	66.8	62.19
Fairfield Inn	Las Vegas, Nev.	2003	142	88.29	79.0	69.72
Holiday Inn Express	Las Vegas, Nev.	2003	139	84.94	73.7	62.60
Residence Inn	Las Vegas, Nev.	2004	160	96.89	74.0	71.73
Courtyard	North Wales, Pa.	2004	102	105.34	78.6	82.76
Courtyard	Palmdale, Calif.	2000	90	104.56	86.8	90.78
Residence Inn	Palmdale, Calif.	2001	90	114.66	91.5	104.92
Residence Inn	Tulsa, Okla.	2000	90	79.31	80.2	63.58
Springhill Suites	Tulsa, Okla.	2000	76	68.71	69.4	47.71
Residence Inn	Houston, Texas	2002	96	94.36	70.6	66.57
	Woodlands,					

Residence Inn	Texas	2002	96	94.36	70.1	66.15
Total/weighted avg.	—	—	1,436	87.92	75.6	71.67
TTM—Trailing 12 months. ADR—Average daily rate. RevPAR—Revenue per available room.						

There are 13 bankruptcy-remote SPE borrowers, which individually own the Tharaldson Pool I-B properties. The sponsor of the borrowers is Gary Tharaldson, the founder and president of Tharaldson Motels Inc. (TMI). TMI is the nation's largest independent hotel property management company, operating over 355 hotels in 36 states. The majority of TMI's properties are franchisees of Marriott, Hilton, and Choice Hotels. The properties are managed by an affiliate of the borrower. The loan is structured with a springing lockbox as a cash management feature for credit card receipts.

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

- Standard & Poor's underwritten rooms revenue was based on historical occupancies and average daily rates (ADR). On a poolwide basis, Standard & Poor's concluded an occupancy of 77.1% and an ADR of $73.56, yielding a revenue per available room (RevPAR) of $56.73;
- Departmental revenues were generally underwritten based on historical levels, on a per-occupied-room basis, with greater emphasis on data from the TTM through October 2004;
- Departmental expenses were generally underwritten based on the historical departmental profit margin level;
- Undistributed and fixed expenses are in line with historical expenses on an absolute and percentage basis;
- A furniture, fixtures, and equipment (FF&E) reserve was underwritten at 3.0% of total revenue. The properties are all of recent construction;
- Based on these assumptions, Standard & Poor's NCF variance was 9.6;
- Standard & Poor's capitalized NCF at capitalization rates ranging from 11.75%-12.25%, for an overall weighted average rate of 11.95%, resulting in a total value of $114.7 million ($79,863 per suite); and
- Quality scores for these assets ranged from 2.50 to 3.00, resulting in a weighted average score of 2.75, an average score.

This loan exhibits the following strengths:

- The loans are secured by 13 cross-collateralized and cross-defaulted properties;
- The hotels are well located, proximate to demand generators and major highways;
- The hotels benefit from strong and experienced management; and
- The hotels were recently constructed between 2000 and 2004.

This loan exhibits the following concerns and mitigating factor:

- Hotels are volatile assets compared with other property-types; the events of Sept. 11, 2001, and the general economic climate have greatly affected the overall performance of the lodging sector. Standard & Poor's underwriting and subordination levels reflect these concerns. The subject properties have performed significantly better over the past two years.

111 Massachusetts Avenue

The sixth-largest loan in the pool, the 111 Massachusetts Avenue loan, has a trust and whole-loan balance of $75.0 million (2.7%). The 10-year, fixed-rate loan bears interest at a rate of 5.20%, is IO for the first 12 months, amortizes on a 30-year schedule thereafter, and matures in March 2015.

The loan is secured by a first mortgage encumbering an eight-story, 278,040-sq.-ft. office building with a 278-space below-grade parking garage in the Capitol Hill submarket of Washington, D.C., within two blocks of Union Station. The subject was built in 1983 for Union Labor Life Insurance Co. (ULLICO), which occupied the entire building until mid-2004. ULLICO vacated the building in 2004, but had leased floors one through four to the General Services Administration (GSA; 'AAA'). The GSA leases were subsequently renewed on a 10-year lease upon ULLICO's vacating. The building is 55.5% leased to the GSA (55.4% of NRA) and a small newsstand (0.1%). There are two GSA leases out for signature for the first and seventh floors (totaling 36,000 sq. ft. or 14.4% NRA). Due to the level of security at the building and the current tenant mix, it is anticipated that the GSA will occupy the remainder of the space. Approximately 30% of the tenant suites at the subject have been renovated as new leases with the GSA have been signed.

The borrower, Jemal's Darth Vader LLC, is structured as a bankruptcy-remote SPE with an independent director and a nonconsolidation opinion. The sponsor, Douglas Jemal, controls Douglas Development Corp., a development company formed in 1985, which currently has interests in over 140 properties totaling 6.8 million sq. ft. The subject property is managed by an affiliate of the borrower. At closing there was no cash management in place; however, to mitigate the risk associated with rollover in 2009, the loan provides for either a springing LOC in the amount of $1.8 million or a 100% cash flow sweep commencing January 2007 that would accumulate to $1.8 million. The escrow would be released at such time as the space expiring in 2009 is renewed or re-leased to a non-GSA tenant(s) and such tenant(s) is in and paying rent.

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

- Standard & Poor's bifurcated the underwriting analysis due to the temporary vacancy of nearly one-half of the building. Cash flow was underwritten and DSC was derived following an as-is approach; however, Standard & Poor's used a stabilized approach to derive the ultimate value of the property;
- GPR was based on leases in place per the rent roll as of February 2005;
- Reimbursements were underwritten based on the lease terms;
- For cash flow and DSC purposes, in-place physical vacancy of 44.5% was assumed under the as-is approach; however, for valuation purposes, a stabilized occupancy of 95.0% was assumed;

- Operating expenses were based on the appraiser's estimates;
- A management fee of 3% of EGI was assumed;
- TI allowances were estimated at $18.00 per sq. ft. for new space and $9.00 per sq. ft. for renewal space;
- LCs were estimated at 4% for new space and 2% for renewal space;
- A weighted average lease term of 7.1 years was assumed based on in-place leases;
- Based on the strong tenancy (GSA, 'AAA'), a renewal probability of 75% was assumed;
- Replacement reserves were underwritten at $0.30 per sq. ft.;
- Based on these assumptions, Standard & Poor's overall NCF variance was 51.55%. The majority of the variance is attributable to a comparison with the originator's underwritten cash flow, which assumed a lease-up of the vacant space;
- Standard & Poor's completed a stabilized analysis by grossing up the vacant space at a weighted average rent of $34.32 per sq. ft. per the appraiser's estimate for market rent for the vacant floors, the lower level, and the storage space. Twelve months of downtime associated with leasing the vacant space and new TI/LC costs were subtracted from the value and then offset by respective reserves. A capitalization rate of 8.50% was applied to the as-is NCF, and a capitalization rate of 8.75% was applied to the incremental portion of the stabilized NCF, which resulting in a total value of $76.1 million ($274 per sq. ft.); and
- The quality score for this asset is 2.75, an above-average score.

This loan exhibits the following strengths:

- The subject is well located within two blocks of Union Station and five blocks of the U.S. Capitol; and
- The GSA currently occupies 55.4% of the NRA, there are two pending leases for an additional 14.4% of the NRA, and the GSA is expected to occupy the remainder of the building.

This loan exhibits the following concern and mitigating factor:

- The subject is currently 55.5% leased. However, the GSA occupies 55.4% of the NRA and is expected to occupy the remainder of the building. In addition, two leases for the first and seventh floors (totaling 36,000 sq. ft.) are currently out for signature; when signed, occupancy at the subject will be 68.4%. Furthermore, the outstanding lease for the seventh floor provides for a 90-day option to lease the eighth floor (27,000 sq. ft.). The borrower deposited $8.0 million ($223 per sq. ft. of affected space) at closing into a reserve to serve as additional collateral for the pending leases on the first and seventh floors and an additional $718,000 ($20 per sq. ft. of affected space) for the TI/LC costs associated with the pending leases.

Residence Inn #1 Portfolio

The seventh-largest loan in the pool, the Residence Inn Portfolio #1 loan, has a whole-loan and trust balance of $65.9 million (2.3%). The 10-year, fixed-rate loan bears interest at a rate of 6.88% (IO for the first year), and amortizes on a 25-year schedule until maturity in November 2014.

The loan is secured by a first mortgage encumbering the cross-defaulted and cross-collateralized fee interests in 10 Residence Inn extended-stay hotel properties. The hotels contain a total of 1,139 suites and typical amenities such as fitness facilities, tennis/basketball courts, meeting rooms, guest laundry facilities, pools, and whirlpools. Suite amenities include telephones with voice messaging, free high-speed wireless internet access, televisions with on-demand videos, a hairdryer, an iron, and an ironing board. In addition, all of the rooms contain kitchens that are fully equipped with a full-size refrigerator, an electric oven/range, a microwave, a coffee maker, and cooking utensils.

The loan is secured by the following 10 cross-collateralized, extended-stay hotel properties (see table 7).

Table 7 -Residence Inn Portfolio #1's Limited-Service Hotel Properties

Location	Year built/renovated	No. of suites	TTM ADR ($)	TTM occupancy (%)	TTM RevPAR ($)
Las Vegas, Nev.	1989/2001	192	115.95	82.0	95.08
Santa Fe, N.M.	1986	120	91.99	77.2	71.02
Placentia, Calif.	1988/2003	112	90.59	79.8	72.29
Birmingham, Ala.	1986/2004	128	76.05	81.3	61.83
Akron, Ohio	1987/2003	112	79.93	80.9	64.66
Danvers, Mass.	1988/2003	96	90.49	79.4	71.85
Bossier, La.	1985	72	78.20	87.0	68.03
Kalamazoo, Mich.	1989	83	90.49	83.5	75.56
Jackson, Miss.	1986/2004	119	71.14	78.3	55.70
Memphis, Tenn.	1985	105	89.92	65.8	59.17
Total/weighted avg.	—	1,139	89.50	79.4	71.06

TTM—Trailing 12 months. ADR—Average daily rate. RevPAR—Revenue per available room.

The borrower is structured as an SPE with a nonconsolidation opinion, but no independent director. The sponsor of the borrower is Apple Hospitality Two Inc., a Virginia corporation and REIT. In January 2003, Apple Hospitality Two Inc. merged with Apple Suites Inc. to form one of the largest private lodging REITs in the U.S., which now owns 66 extended-stay hotels across the country. Of its 66 hotels, Apple owns 49 Residence Inns by Marriott consisting of 5,947 suites, and 17 Homewood Suites by Hilton consisting of 1,922 suites. Residence Inn by Marriott Inc., a wholly owned subsidiary of Marriott International Inc., manages the subject properties. Marriott International operates or franchises nearly 2,600 lodging properties in 50 states and 63 countries and territories. The loan is not structured with a cash management feature.

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

- Standard & Poor's underwritten rooms revenue was based on historical occupancies and average daily rates (ADR). On a

poolwide basis, Standard & Poor's concluded an occupancy of 77.8% and an ADR of $91.68, yielding a revenue per available room (RevPAR) of $71.29;
- Departmental revenues were generally underwritten based on historical levels, on a per-occupied-room basis, with greater emphasis on data from the TTM through December 2004;
- Departmental expenses were generally underwritten based on the historical departmental profit margin level;
- Undistributed and fixed expenses are in line with historical expenses on an absolute and percentage basis;
- A FF&E reserve was underwritten at 5.0% of total revenue;
- Based on these assumptions, Standard & Poor's NCF variance was 1.10%;
- Standard & Poor's capitalized NCF at capitalization rates ranging from 11.50%-12.00%, for an overall weighted average rate of 11.82%, resulting in a total value of $65.9 million ($57,829 per suite); and
- Quality scores for these assets ranged from 2.75 to 3.00, and resulted in a weighted average score of 2.94, a slightly above-average score.

This loan exhibits the following strengths:

- The loans are secured by 10 cross-collateralized and cross-defaulted properties;
- Six of the 10 hotels have undergone extensive renovations over the past two years, and the remaining four have upcoming renovations planned;
- The hotels are well located, proximate to demand generators and major highways; and
- The hotels benefit from strong and experienced management.

This loan exhibits the following concern and mitigating factor:

- Hotels are volatile assets compared with other property-types; the events of Sept. 11, 2001, and the general economic climate have greatly affected the overall performance of the lodging sector. Standard & Poor's underwriting and subordination levels reflect these concerns and the subject properties have all performed significantly better over the past two years.

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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.

Table 8 - Cash Flow Analysis and Valuation

Property type	% of pool	DSC (x)	% NCF diff.*	Cap rate (%)	Beg. LTV (%)	End. LTV (%)	Value per unit/sq. ft. ($)
Multifamily	15.5	1.33	1.3	8.23	96.7	88.1	91,271
Retail—anchored	22.6	1.38	2.0	8.94	99.6	84.5	162
Office	39.3	1.39	9.4	8.94	93.6	82.0	189
Industrial	3.0	1.27	5.7	9.33	102.1	87.6	35
Self-storage	0.7	1.07	0.4	10.00	112.7	97.5	181

Hotel	10.1	2.03	4.6	11.85	77.0	55.8	86,597
Mixed	4.5	1.18	11.5	9.07	101.7	87.1	89
Parking garage	1.5	1.30	5.9	10.14	114.3	95.6	96
Retail (unanchored)	2.6	1.46	0.1	9.13	90.4	66.9	170
Special purpose child care	0.1	1.75	1.1	13.00	99.5	76.1	132
Total	100.0	1.43	5.6	9.18	94.7	81.2	—

*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.

Table 9 - Top 10 Loans

Property name	Property type	% of pool	DSC (x)	% NCF diff.*	Cap rate (%)	Beg. LTV (%)	End. LTV (%)	Value per unit/sq. ft. ($)
One & Two International Place	Office (CBD)	7.7	1.52	14.30	8.75	74.94	65.17	311
Digital Portfolio	Office (various)	5.5	1.50	3.76	9.47	94.99	80.04	114
450 West 33rd Street	Office (CBD)	4.7	1.16	4.7	8.50	99.25	85.43	160
Olympia Portfolio	Retail (anchored)	3.1	1.20	4.00	8.94	99.90	78.16	210
Tharaldson Pool I-B	Hospitality limited service	2.8	2.13	9.57	11.95	69.57	44.22	79,863
111 Massachusetts Avenue	Office (CBD)	2.7	0.65	¶	8.50	98.61	83.74	274
Residence Inn #1 Portfolio	Hospitality extended stay	2.3	1.41	1.10	11.82	99.99	82.39	57,829
Tharaldson Pool I-A	Hospitality limited service	2.1	2.00	4.36	11.91	74.00	47.04	71,386
MetroPlace III & IV	Office (suburban)	2.0	1.03	8.47	8.83	103.87	90.35	156
Eastmont Town Center	Mixed use office/retail	1.9	1.01	22.90	9.11	93.40	68.74	97
Total/weighted avg.	—	34.7	1.39	11.56	9.51	89.26	72.84	0

*Difference between Standard & Poor's estimated NCF and underwriter's estimated NCF as a percentage of underwriter's estimated NCF. ¶The majority of the 51.55% variance in NCF is attributed to the variation of the as-is NCF compared to the stabilized NCF. Standard & Poor's underwrote the as-is NCF and the originator underwrote a stabilized NCF. DSC—Debt service coverage ratio. NCF—Net cash flow. CBD—Central business district.

Table 10 - Standard & Poor's DSC Range

DSC range (x)	No. of loans	Loan balance ($)	% of pool
>1.65	38	394,711,179	14.1
1.55 to 1.65	6	50,973,767	1.8
1.50 to 1.54	13	325,624,972	11.6
1.45 to 1.49	2	182,267,708	6.5
1.40 to 1.44	14	209,405,254	7.5

1.35 to 1.39	9	80,095,014	2.9
1.30 to 1.34	19	140,496,472	5.0
1.25 to 1.29	17	264,339,073	9.4
1.20 to 1.24	34	511,777,876	18.2
1.15 to 1.19	19	436,699,221	15.5
1.10 to 1.14	0	0	0.0
1.05 to 1.09	2	16,170,724	0.6
1.04 to 1.00	2	108,000,000	3.8
0.00 to 1.00	2	88,000,000	3.1
Total	177	2,808,561,259	100.0
DSC—Debt service coverage.			

Table 11 - Standard & Poor's Beginning LTV

Beginning LTV range (%)	No. of loans	Loan balance ($)	% of pool
<50	1	2,500,000	0.1
50 to 60	2	53,743,594	1.9
61 to 70	7	129,692,880	4.6
71 to 75	12	299,167,772	10.7
76 to 80	16	56,919,506	2.0
81 to 85	9	71,520,682	2.5
86 to 90	13	63,212,681	2.3
91 to 95	23	427,475,606	15.2
96 to 100	38	833,000,093	29.7
>100	56	871,328,444	31.0
Total	177	2,808,561,259	100.0

Table 12 - Standard & Poor's Ending LTV

Ending LTV range (%)	No. of loans	Loan balance ($)	% of pool
Fully amortizing loans	6	26,215,109	0.9
0 to 50	5	193,974,392	6.9
51 to 60	5	15,046,570	0.5
61 to 70	16	359,872,857	12.8
71 to 75	21	111,287,410	4.0
76 to 80	25	252,286,663	9.0
81 to 85	32	544,886,521	19.4
86 to 90	24	411,425,881	14.6
91 to 95	20	343,221,691	12.2
96 to 100	14	329,314,419	11.7
>100	9	221,029,746	7.9
Total	177	2,808,561,259	100.0

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