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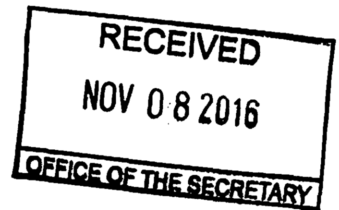

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-16349

In the Matter of BARBARA DUKA, Respondent.	DIVISION OF ENFORCEMENT'S PREHEARING BRIEF

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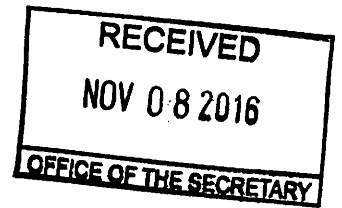

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I. Introduction

This case concerns a scheme to secretly alter the methodology by which Standard & Poor's Rating Services ("S&P") rated Commercial Mortgage Backed Securities ("CMBS") and related misstatements and omissions. Respondent Barbara Duka ("Duka"), then head of S&P's CMBS ratings group, directed a meaningful change to S&P's published CMBS ratings methodology. This change was made without following S&P's internal procedures, was not disclosed to investors, and was not adequately documented or disclosed internally. Duka's conduct resulted in S&P issuing significantly inflated ratings on the majority of the CMBS transactions rated between January and July 2011 and, once discovered, caused S&P to take the drastic step of withdrawing preliminary ratings on two CMBS transactions in July 2011.

As this Court previously held in ruling on the parties' cross-motions for partial summary disposition, many of the material facts concerning Duka's conduct are not in dispute. Critically, there is no dispute that Duka directed the change to the CMBS ratings methodology by altering key inputs to the CMBS ratings model—specifically, by switching from using the loan constants set forth in S&P's CMBS ratings methodology ("Criteria Constants")[1] to using a 50/50 blend of Criteria Constants and actual loan constants.[2] With respect to the Division's fraud claims, the main issues that remain in dispute are (i) whether Duka acted with scienter or negligently and (ii) whether Duka's failure to adequately disclose the change to the CMBS ratings methodology was material.

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[1] S&P's CMBS ratings methodology is sometimes referred to as "criteria."

[2] Criteria Constants are also at times referred to as Table 1 constants, stressed constants, Standard & Poor's Ratings Services loan constants, and S&P constants.

As detailed below, there is ample evidence that Duka's misconduct was intentional, and motivated by a desire to loosen S&P's published CMBS ratings methodology in order to attract more paid ratings business. But, at a minimum, Duka was reckless or negligent in directing a change to S&P's published CMBS ratings methodology without following S&P's established internal procedures, without adequately disclosing or documenting the change internally, and without disclosing the change to the investing public.

Duka has indicated that one of her primary defenses is that the numerous misstatements and omissions in S&P's "Presale reports"—the public disclosures of the methodology used to rate a CMBS transaction and the assigned ratings and credit enhancement levels—were not material to investors. To the contrary, the evidence will show that Duka's conduct resulted in significantly inflated ratings on the majority of the CMBS transactions rated by S&P in the first half of 2011, two of which S&P took the drastic step of withdrawing in July 2011, after S&P senior management learned of Duka's misconduct. Further, the Division's expert, actual investors in the CMBS transactions at issue, senior S&P management, and disinterested CMBS professionals are unanimous that Duka's alteration of S&P's published CMBS ratings methodology—and the concomitant impact on ratings—was a relevant fact to CMBS market participants.

II. S&P's CMBS Ratings Methodology

S&P's CMBS ratings methodology used loan constants to calculate debt service coverage ratios ("DSCRs") which, along with loan to value ("LTV") ratios, were the primary drivers of credit ratings and credit enhancement levels ("CE") for CMBS transactions. (*See* Duka Inv. Tr. at 139:1-7). Credit enhancement is a critical component of a credit rating; as a general rule, ratings

with higher levels of CE are more conservative and thus provide greater protection against potential losses.

S&P's 2009 CMBS ratings methodology contained a table of loan constants based on property type, each of which was referred to as Criteria Constants. (Joint Ex. 2, S&P CMBS ratings methodology, at 5). The Criteria Constants published by S&P were almost always higher than the actual loan constants derived from the payments required by the terms of the underlying loans. (*See* Expert Report of Peter Rubinstein, Ph.D. ("Rubinstein Report"), at 47). All else being equal, use of a higher loan constant results in lower DSCR and thus greater stress on the loans underlying CMBS and higher CE levels. (*See* Order Denying Division's Motion for Partial Summary Disposition ("Order Denying Div. Mot.") at 4; Answer at 18).

III. Undisputed Facts

As reflected in the Court's decisions on motions for summary disposition, many of the facts underlying the Division's claims are not in dispute. For ease of reference, the Division has prepared a chart outlining the relevant organizational structure within S&P during the relevant time period, marked as Exhibit A and timeline of key events, marked as Exhibit B. While the Division expects that the evidence adduced at the hearing will establish the relevant facts regarding the use and change of loan constants in S&P's methodology for rating CMBS transactions, Judge Elliot has already found in ruling on the Division's motion for partial summary disposition that many of those facts are supported by the undisputed record in this case. (Order Denying Div. Mot. at 4-8). Specifically, both Judge Elliot's ruling and the uncontroverted evidence, including Duka's Answer, establish that:

- "On or around June 26, 2009, S&P published new criteria entitled 'U.S. CMBS Rating Methodology and Assumptions for Conduit/Fusion Pools' ("Criteria Article"). The

Criteria Article contained information on how S&P rated conduit/fusion CMBS transactions and reflected changes to the methodology articulated in prior versions of the criteria." (*See* Order Denying Div. Mot. at 4; Joint Ex. 2, p. 5; Answer at 11, 18).

- On or about July 31, 2009, S&P management decided to use Criteria Constants to calculate DSCRs for purposes of rating CMBS transactions. (*See* Order Denying Div. Mot. at 5; Answer at 13).

- In March 2010, S&P's criteria committee voted to use the "higher of" Criteria Constants or actual loan constants. (*See* Order Denying Div. Mot. at 5; Answer at 13).

- "In or around mid-December 2010, the methodology for calculating the loan constant was changed again." (*See* Order Denying Div. Mot. at 5; Answer at 17-18). Duka attempts to deflect responsibility for this change by claiming that then-acting CMBS Criteria Officer, Frank Parisi, blessed the change (although the evidence will show that Parisi did not have the authority to do so, and Duka knew it). And, while there is dispute about what transpired at a Duka/Parisi meeting, there is no dispute that the CMBS new issuance team started applying the "blended constant" (an average of the actual and Criteria Constants) and further, that "Duka agreed to disclose the change[.]" (*See* Order Denying Div. Mot. at 5; Answer at 17, 18, 20).

- Between February and July 2011, S&P published Presale reports for each of the eight CMBS transactions where blended constants were used to calculate DSCRs and the resulting credit enhancement. (*See* Order Denying Div. Mot. at 6; Answer at 5, 21, 26: Joint Exhibits 22, 30, 37, 46,53, 60, 68, and 77). The explanatory Rationale section of all eight Presale reports prominently disclosed stressed DSCRs. Those Presales make reference to the "Standard & Poor's Ratings Services loan constant" – which is *not* the blended constant – and Judge Elliot noted in his opinion that Duka "[did] not dispute" that fact." (Order Denying Div. Mot. at 6 (citing Resp. Motion at 9-10)).

- All eight of the Presale reports for the blended constant CMBS transactions included the following sentence: "In determining a loan's DSCR, Standard & Poor's will consider both the loan's actual debt constant and a stressed constant based on property type as further detailed in our conduit/fusion criteria." (*See* Order Denying Div. Mot. at 7; Answer at 23). "Duka approved the inclusion of this sentence in each of the reports ... [and] further testified that ... she believed that to be an adequate disclosure of S&P's use of the blended constant, but she acknowledged that she could have said something a little clearer." (Order Denying Div. Mot. at 7; Duka Inv. Test. at 475-76).

Accordingly, the Division submits that there is a very narrow set of facts that will be disputed at the hearing. With respect to the Division's fraud claims, what is most meaningfully in dispute is whether the direct and circumstantial evidence shows that Duka acted with scienter

and/or negligently when she orchestrated the change in S&P's methodology for rating CMBS transactions. The evidence adduced at the hearing will demonstrate that Duka acted knowingly, recklessly, and/or negligently when she surreptitiously loosened the CMBS criteria to generate more business, and when she failed to disclose to investors both the change in S&P's methodology for rating CMBS and the materiality of that switch, *i.e.* the impact on both credit enhancement levels and on S&P's CMBS ratings. *See* Section IV, below.

IV. The Division's Fraud Claims

The Division alleges that Duka violated the antifraud provisions of the federal securities laws – Exchange Act Section 10(b) and Rules 10b-5(a) through(c) thereunder, and Securities Act Section 17(a)(1) through (3). (*See* OIP at 10-11).

Rule 10b-5, which implements Exchange Act Section 10(b), makes it unlawful for any person to use interstate commerce or the mails:

> (a) to employ any device, scheme or artifice to defraud;
> (b) to make any untrue statement of a material fact or omitting to state a material fact necessary to make the statements made, in light of the circumstances under which they are made, not misleading, or
> (c) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person,
> in connection with the purchase or sale of any security.

15 U.S.C. § 240.10b-5(a)-(c).

Section 17(a) of the Securities Act similarly makes it unlawful for any person, in the offer or sale of any security, to use interstate commerce or the mails

> (1) to employ any device, scheme or artifice to defraud, or
>
> (2) to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, or

(3) to engage in any transaction, practice or course of business which operates or would operate as a fraud or deceit upon the purchaser.

15 U.S.C. § 77q(a)(1)-(3).

The Division's fraud claims are of two types. First, the evidence will show that Duka's conduct resulted in material misstatements and omissions in S&P publications, specifically its Presale reports, in violation of Rule 10b-5(b) and Section 17(a)(2). Second, Duka's conduct in switching loan constants—across multiple CMBS transactions—without following mandated S&P procedures and without adequately disclosing the switch and its dramatic impact on credit enhancement levels constituted a scheme to defraud and/or deceptive practice under Rule 10b-5(a) and (c) and Section 17(a)(1) and (3).

The Division alleges that the eight Presales at issue in this case contained both material misstatements and material omissions in violation of Exchange Act Section 10(b) and Rule 10b-5(b) and Securities Act Section 17(a)(2).[3] (*See* OIP at ¶¶32-34, 43-44). Specifically, the Division alleges that, in 2011, S&P published Presales for eight CMBS transactions: (1) MSC 2011-C1, (2) FREMF 2011-K701, (3) JPMCC 2011-C4, (4) FREMF 2011-K11, (5) FREMF 2011-K13, (6) JPMCC 2011-C3, (7) GSMS 2011-GC4, and (8) FREMF 2011-K14. As set forth above, each Presale omitted the fact that Duka's team had switched from calculating the DSCR for the pool based on the higher of the actual or Criteria Constants, to using the more relaxed blended loan constants. Each Presale further omitted ***any*** disclosure about the impact of the switch to using blended loan constants on the requisite credit enhancement levels required to support the assigned

[3] The misstatements and omissions attributable to Duka are (i) conduct relevant to the Division's scheme liability claims against Duka and (ii) independently actionable under Rule 10b-5(b) and Securities Act Section 17(a)(2).

ratings. Each Presale also included numerous misleading references to the Criteria Constants, which created the impression that the Criteria Constants had been used to calculate the DSCR for the pool when they had not. (*See* February 4, 2011 S&P Presale for Morgan Stanley Capital I Trust 2011-C1) (highlighted version of Joint Ex. 22 attached hereto as Exhibit C). Indeed, none of the Presales mentioned or disclosed the blended constants, or contained DSCRs calculated using blended constants. In short, investors were led to believe that S&P had arrived at its ratings employing the methodology and Criteria Constants set forth in S&P's publicly-disclosed CMBS rating methodology and referenced throughout the Presales, when in fact the ratings were based on blended constants.

Second, Duka is charged with violating each of these provisions by drastically altering S&P's CMBS ratings methodology without following S&P's established internal procedures, without adequately disclosing or documenting the change internally, and without disclosing the change to the investing public. This is not simply a "misstatement and omissions" case. Rather, the OIP alleges that Duka also engaged in ***conduct***—apart from any related misstatements and omissions attributable to her—that violates the antifraud provisions. For example, as the Commission recently held in *In the Matter of Dennis J. Malouf*, "to employ a 'deceptive' device or to commit a 'deceptive' act is to engage in conduct that produces a false impression. Such conduct encompasses 'making' a misrepresentation; it also encompasses, among other things, drafting or devising a misrepresentation." *In the Matter of Dennis J. Malouf*, Release No.'s 33-10115, 34-78429, 2016 WL 4035575, at *6 (Comm'n Dec. July 27, 2016). Here, Duka's conduct created the false impression—both internally at S&P and externally in S&P's public disclosures—that S&P's CMBS ratings were based on S&P's published CMBS ratings

methodology. In particular, Duka's conduct created the false impression that the ratings were derived using S&P's published Criteria Constants, when in fact the ratings were based on a less-conservative and undisclosed methodology employing a 50/50 blend of Criteria and actual constants. Accordingly, that conduct alone—separate from the identified misstatements and omissions in the Presales—violated the securities laws.

A. Duka Acted With Scienter or Negligently.

1. Legal Standard

For the Division's claims under Section 10(b) of the Exchange Act, Rule 10b-5 thereunder, and Section 17(a)(1) of the Securities Act, the Division must show that Duka acted with scienter. Scienter is established by showing "an intent to deceive, manipulate, or defraud." *Dolphin and Bradbury, Inc. v. SEC*, 512 F.3d 634, 639 (D.C. Cir. 2008) (internal citations and quotations omitted). "[E]xtreme recklessness can satisfy this scienter requirement." *Id.* Extreme recklessness "is an extreme departure from the standards of ordinary care ... which presents a danger of misleading buyers or sellers that is either known to the defendant or is so obvious that the actor must have been aware of it." *Id.* A failure to correct misleading disclosures "demonstrates, at a minimum, a reckless disregard of the risk of misleading investors." *Malouf*, 2016 WL 4035575, at *16. Direct evidence of scienter is unnecessary, circumstantial evidence is sufficient. *See Herman & MacLean v. Huddleston*, 459 U.S. 375, 390 n.30 (1983) ("the proof of scienter required in fraud cases is often a matter of inference from circumstantial evidence. If anything, the difficulty of proving the defendant's state of mind supports a lower standard of proof. In any event, we have noted elsewhere that circumstantial evidence can be more than sufficient.").

For its claims under Sections 17(a)(2) and (3) of the Securities Act, the Division need only show that Duka acted negligently. *Malouf,* 2016 WL 4035575, at *17. Duka's negligence may be shown by either comparing her conduct to an applicable standard of care, or by adducing evidence as to what a "reasonably prudent" person in the defendant's position would have done. *SEC v. Dain Rauscher, Inc.*, 254 F. 3d 852, 857-58 (9th Cir. 2001); *SEC v. Goldsworthy*, 2008 WL 8901272, at *12 (D. Mass. June 11, 2008) (noting that "the SEC was not required to present evidence of an alternative standard of care [other than a reasonably prudent person] in order to support its claim of negligence"). The question is whether Duka acted improperly "in light of what [s]he knew or should have known ...[.]" *Id.*, at *12; *see also Hughes Capital*, 124 F.3d 449, 453 (3rd Cir. 1997) (defendant was negligent where she formulated and edited two press releases containing false statements that made the stock "appear more attractive to prospective purchasers").

Duka is also charged, alternatively, with aiding and abetting and causing S&P's violations of Securities Act Section 17(a) and Exchange Act Section 10(b) and Rule 10b-5 thereunder. (OIP at 10).

> To establish liability for aiding, abetting, and causing, the Division must show that: (1) a primary securities law violation was committed by S&P; (2) Duka acted with the requisite scienter; and (3) Duka provided substantial assistance to S&P, the primary violator. The scienter requirement for aiding-and-abetting liability may be satisfied by evidence that the respondent knew of, or was extremely reckless in disregarding, the wrongdoing and her role in furthering it. Negligence is sufficient to establish liability for causing a primary violation that does not require scienter.

(Order Denying Div. Mot. at 9 (internal citations omitted)).

2. Duka Acted With Scienter.

Here, the Division will adduce testimonial and documentary evidence at the hearing that Duka acted intentionally. First, the Division will present evidence of Duka's steadfast and deliberate refusal to meaningfully disclose, externally or internally, her switch to using blended constants. (*See*, *e.g.*, Adelson Inv. Tr. at 103:18-22 ("She said later on, you know, in my presence, that the reason she wasn't publishing the – the loan constants that she had used in certain deals she rated, was that she didn't want to have to explain what she was doing."); Div. Ex. 103 (July 11, 2011 e-mail in which Fisher asks Digney if Duka wants to disclose the blended constants and Digney responds: "I spoke with [Duka] and she wants to show both the dsc [debt service coverage] using stressed constant and the dsc using actual constant.")). Among other things, the Division will present evidence that the publication of DSCRs based on blended loan constants required Duka's CMBS group to run the models twice, once with the Criteria Constants to generate the DSCRs disclosed throughout the Presale and a second time with blended loan constants to generate the credit enhancement levels disclosed in the Presale. (*See* Rubinstein Report, at 47). As Dr. Rubinstein explains, "the new issue CMBS group started creating 'two sets of books,' one for reporting internally and to the public, and another for reporting back to issuers." (*Id.*).

Second, the Division will present evidence that Duka's purported disclosure of the blended constant in the Presales was mere obfuscation, designed to keep the investing public in the dark about the change to S&P's methodology for ratings. Among other things, Duka admitted that after her December 2010 discussion with Parisi, she "agreed to disclose the change in application of the methodology (from using criteria constants to using blended constants) in two documents produced by S&P during the process of rating a CMBS transaction—the Presale report and the Ratings

Analysis and Methodology Profile (RAMP)." (Order Denying Div. Mot. at 5). Yet, Duka's "disclosure" constituted a single sentence, buried midway through the Presale in the "Conduit/ fusion methodology" section, suggesting that S&P would "*consider* both the loan's actual debt constant and a stressed constant based on property type as further detailed in our conduit/fusion criteria." (*See, e.g.*, Ex. C, highlighted MS 2011-C1 Presale, at 18 (*emphasis added*)). As Duka well knew, no reasonable investor would have understood that ambiguous language to mean that S&P had effected a full-blown change to its CMBS rating methodology and no longer calculated debt service coverage based on the Criteria Constants published in the 2009 Criteria Article. (*C.f.*, Duka Inv. Tr. at 475-76 (noting that she "could have said something a little clearer.") This is especially true in light of the Presales' prominent and repeated disclosure of Criteria Constants and DSCR's derived therefrom. (*See* Ex. C, highlighted MS 2011-C1 Presale). Tellingly, S&P's RAMPs did not even include the vague non-disclosure found in the Presales. For example, the RAMP for Morgan Stanley Capital I Trust 2011-C1 represented that the CMBS loan pool had "a weighted average DSC of 1.20x based on a Standard & Poor's loan constant of 8.46%, which is in line with the archetypical pool." (*See, e.g.*, Joint Ex. 23). Presales and RAMPs for the other transactions involved in this case similarly included dozens of references to DSCRs calculated from Criteria Constants, but none calculated from blended constants used to rate the transactions.

Duka's efforts to obfuscate the changed methodology are potent evidence of intentional wrongdoing. *See e.g., Brown v. China Integrated Energy, Inc.*, 875 F. Supp. 2d 1096, 1124 (C. D. Cal. 2012) ("[E]vidence of concealment is strongly indicative of scienter.") (citation omitted). Duka's scienter is further shown through evidence showing her motivation to loosen S&P's ratings to get more business. While the Division need not prove motive to prove scienter, *see S.E.C. v.*

Egan, 994 F. Supp. 2d 558, 565 (S.D.N.Y. 2014) (quoting *Kalnit v. Eichler*, 264 F.3d 131, 142 (2d Cir. 2001)), Duka's own admissions establish that commercial motivation was a factor in the actions she took at S&P regarding blended constants. In her investigative testimony, Duka acknowledged that more conservative criteria made it harder to be retained to rate CMBS deals (Duka Inv. Tr. at 3:16:11-19), that S&P couldn't indefinitely employ analysts "who aren't busy and have no real prospect of being busy in the near term" (*id.* at 81:19-82:3), and that the CMBS group shrank from 50-60 people in 2007 to five people reporting to Duka in 2009 because of the limited number of CMBS deals (*id.* at 78:15-80:11). Duka's contemporaneous e-mails to her colleagues at S&P further illustrate her concern about the CMBS business pipeline. (*See*, *e.g.*, Div. Ex. 51 (June 15, 2010 e-mail to Kim Diamond, noting that JP Morgan had not retained S&P to rate a CMBS deal because it "deemed the combination of our model output criteria [*i.e.* credit enhancement levels] and business terms to be the least competitive."); Div. Ex. 54 (August 17, 2010 memo to David Jacob and Grace Osborne from Barbara Duka, noting that her group was "not asked to rate [JP Morgan's] first transaction, partly for criteria reasons."); Div. Ex. 56 (September 13, 2010 memo authored by Duka advising that "[Deutsche Bank] did not retain us to rate the transaction and indicated that we were more conservative than other agencies – Moody's/ Fitch will likely be retained to rate the deal."); Div. Ex. 57 (Duka e-mail observing that the Deutsche Bank deal was "lost because our feedback was much more conservative than the other agencies."); Div. Ex. 61 at 2 (December 13, 2010 Activity Report where Duka reported that S&P "lost the most recent Freddie 2011-K10 transaction due to criteria")).

3. Duka's Conduct Was Unreasonable.

As the evidence at the hearing will demonstrate, Duka acted improperly (and therefore violated Sections 17(a)(2) and (a)(3)) because a reasonable person in her position who oversaw the activities of the CMBS Group at S& P would know, or should have known, of the misinformation provided to prospective investors, as well as the need to follow established internal protocols for seeking to make methodology changes. The undisputed facts establish that Duka was well aware of (and indeed implemented) the use of blended constants to rate new CMBS issuances, when the investing public was in the dark about this change. The evidence will further reflect that S&P had a well-documented and established procedure for reviewing and approving exactly the type of methodology change made covertly by Duka. Duka was thus negligent in making this change to S&P's methodology for rating CMBS transactions without disclosing it to internal reviewers or to the investing public. *See Greebel v. FTP Software, Inc.*, 194 F. 3d 185, 199 (1st Cir. 1999) (complaint "alleged sufficient facts to draw an inference that the [defendant] knew, or should have known, that its public statements were inconsistent with the actual conditions then being reported to [it]").

B. The Misstatements and Omissions Attributable to Duka Were Material.

To be actionable under Rule 10b-5(b) or Section 17(a)(2), an alleged misstatement or omission must be material. *See* 17 C.F.R. § 240.10b-5(b); 15 U.S.C. § 77q(b). Information is material if "there is a substantial likelihood that a reasonable shareholder would consider it important" in making an investment decision. *See TSC Indus., Inc. v. Northway, Inc.,* 426 U.S. 438, 449 (1976); *Basic v. Levinson,* 485 U.S. 224, 231-32 (1988) (for a misleading statement to be material, "there must be a substantial likelihood that the disclosure of the omitted fact would have

been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available"). "'[M]ateriality depends on the significance the reasonable investor would place on the . . . misrepresented information.'" *Laurie Bebo*, Release No. 893, 2015 WL 5769700, at *61 (Oct. 2, 2015) (quoting *Basic*, 485 U.S. at 231-32, 238). "There is no bright-line test of materiality, and a finding of materiality is dependent on the facts and circumstances of each case." *Id.* (citing *Matrixx Initiatives v. Siracusano*, 131 S. Ct. 1309, 1318-21 (2011)).

Here, the materiality of Duka's switch from using Criteria Constants to blended constants is evident from the dramatic change in credit enhancement levels produced as a result of the switch. For the GSMS 2011-GC4 transaction, the triple-A credit enhancement level plummeted from 20.625% (which would have been required if S&P used Criteria Constants to rate the transaction) to only 14.875%—a change of 575 basis points. (*See* Rubinstein Report ¶ 87-89). The impact on the CE levels underlying the ratings of another six transactions[4] was similarly significant—ranging from 437 to 750 basis points:

[4] The CE level did not change for one transaction—FREMF 2011-K14. (*See* Rubinstein Report ¶ 90 n.137).

TABLE 4	CE required for AAA				
Deal Rated by S&P (Bloomberg Ticker)	Blended Constants	Criteria Constants	Difference (BP)	Percentage increase in CE	Rating Based on Criteria Loan Constants
MSC 2011-C1	23.29%	29.11%	582	24.99%	AA-
FREMF 2011-K701	14.59%	22.09%	750	51.41%	A+
JPMCC 2011-C3	16.42%	21.57%	515	31.36%	AA-
FREMF 2011-K11	12.03%	16.40%	437	36.33%	AA-
FREMF 2011-K13	10.00%	15.49%	549	54.90%	A+
JPMCC 2011-C4	18.83%	23.77%	494	26.23%	AA-

(Rubinstein Report ¶ 90). In other words, bonds that S&P rated triple-A by using blended constants would have obtained significantly lower ratings if S&P had followed its published CMBS ratings methodology and rated the bonds using Criteria Constants.

The Division respectfully submits that the misstatements and omissions at issue were material as a matter of law. A reasonable investor would consider it important to know that a bond's credit enhancement levels were lowered by Duka's departure from S&P's publicly-disclosed CMBS ratings methodology. Investors in a triple-A bond, for example, thought they were getting a bond that could withstand economic conditions similar to the Great Depression, as publicly touted by S&P (Joint Ex. 2, S&P CMBS Ratings Methodology, at 6) when, unbeknownst to investors, Duka had watered down the credit enhancement levels by as much as 750 basis points. While materiality is manifest under these circumstances, the Division also anticipates presenting the following evidence of materiality:

Expert Witness. The Division's expert, Dr. Rubinstein, has quantified the declines in credit enhancement levels caused by Duka's switch to blended constants—declines ranging from 437 to 750 basis points. This was by no means a trivial change. Duka admitted in sworn testimony that a change in credit enhancement as small as twenty-five to fifty (25-50) basis points could be material and that between fifty and seventy-five (50-75) basis points would be considered more conservative. (Duka Inv. Tr. at 292:14-24; 294:21-295:2). Dr. Rubinstein has also opined, based on his experience working in structured finance and the CMBS industry, that declines in credit enhancement levels of this magnitude are unquestionably material to market participants.[5] (Rubinstein Report ¶ 91).

Investor Witnesses. The Division expects several investors[6] to testify that a change in methodology resulting in credit enhancement declines of the magnitude wrought by Duka's conduct would have factored into their investment decisions. The Division does not anticipate that

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[5] The Division notes that Duka's own expert concedes that many institutional investors are bound by investment guidelines requiring them to only invest in classes of bonds that receive specified ratings from one or more NRSROs. (Richard Report ¶ 35). Here, Duka's switch to blended constants meant that the credit enhancement levels were insufficient to support the assigned ratings under S&P's publicly-disclosed Criteria. It would unquestionably be important for investors who were required to buy triple-A bonds, for example, to know that the bonds they were buying did not actually earn a triple-A rating under S&P's Criteria. Duka's expert also notes at several places in his report how CMBS investors "use available data and information from various sources, including ... rating agencies" in making investment decisions. (Richard Report at ¶¶ 40, 45). He also notes in his report how credit enhancement levels – which are determined by issuers based on the credit rating agencies' reports – are an important factor CMBS investors consider. (*See id.* at ¶¶ 41, 42, 56).

[6] While the test for materiality is objective, the Court may consider the reaction of individual investors. *David J. Montanino*, Release No. 773, 2015 WL 1732106, at *32 n.37 (Apr. 16, 2015) (citation omitted). The focus, however, is on a "reasonable investor." There is "no authority in the statute, the legislative history, or [its] previous decisions, for varying the standard of materiality depending on" whether the information at issue was given to a sophisticated insider or to the general public, or otherwise based on the recipient. *Basic*, 485 U.S. at 240 and n.18.

these investors will testify that they relied ***solely*** on S&P's ratings or S&P's Presales in making their investment decision, but the claims against Duka do not require a showing of reliance by CMBS investors. The Division, unlike private plaintiffs who must show that they relied on particular statements to their detriment, is not limited to seeking redress only when individual investors claim that they were misled, and it need not prove loss or damages to any particular investor. Instead, materiality is based on industry standards and practices and whether a reasonable investor faced with the disclosures at issue would likely have found them to significantly influence the total mix of information available. *SEC v. Tambone*, 550 F.3d 106, 119 (1st Cir. 2008). Thus, if the omitted or misrepresented information altered that "total mix" it is material.

While Duka's expert asserted that investors perform their own due diligence before purchasing CMBS bonds, he acknowledged on several occasions that investors use rating agencies as one of their sources of information. Many reasons exist why a reasonable investor would consider ratings and rating agency disclosures as an important part of the "total mix" of information available to them. Among other things, rating agencies typically have much more time to analyze CMBS deals and the underlying loans than individual investors, often months as opposed to roughly a week. In addition, pricing of new issue CMBS is closely tied to ratings, with the highest rated tranches capturing the lowest interest rates. Thus, ratings provide a public benchmark against which investors can compare their individual analyses. An investor who performs its own due diligence may conclude that an issue is more or less risky than the level of risk implied by the ratings, and can take advantage of this information by trading at a price that it perceives to be advantageous.

CMBS Market Participants. At least two disinterested CMBS market participants questioned the low credit enhancement levels for bonds in the GSMS 2011-GC4 transaction. The Division expects Ethan Penner, a CMBS investor and pioneer in the CMBS field, to testify that the CE level on the triple-AAA bond was so low that he reached out to S&P's head of structured finance, David Jacob, stating "[w]e both know this cannot be true[.]" (Div. Ex. 106; *see also* Div. Ex. 105 (email from Morgan Stanley analyst stating that credit enhancement levels on GSMS 2011-GC4 are "stunning"). The fact that the decline in credit enhancement levels caused by Duka's conduct was so dramatic as to catch the attention of CMBS professionals underscores the materiality of the change in methodology.

Withdrawal of Ratings. S&P withdrew its preliminary ratings on the GSMS 2011-GC4 and FREMF 2011-K14 transactions after senior S&P management became aware of the switch to blended constants. (*See* Div. Ex. 116). S&P's decision to withdraw these two preliminary ratings, which was extensively reported in industry press, demonstrates that Duka's switch to blended constants undermined the integrity of the ratings, damaged S&P's reputation, and caused instability in the CMBS market. (*See, e.g.*, Div. Ex. 282 (Commercial Mortgage Alert, July 29, 2011 edition headline: "Ratings Fiasco Seen Taking Big Toll on S&P")).

Other Evidence of Materiality. The Division additionally expects several S&P witnesses to confirm that Duka's switch to blended constants, and the resulting declines in CE levels, were important both internally at S&P and externally to various CMBS market participants.

Importantly, while Respondent's counsel has indicated that one of Duka's primary defenses is that her misstatements and omissions were not material, materiality is ***not*** an element of a scheme liability claim under Exchange Act Section 10(b) and Rules 10b-5(a) and (c) or Securities

Act Sections 17(a)(1) and (3) based on conduct other than misstatements and omissions. "Section 17(a)(3)'s prohibition ... applies, for example, where, as a result of a defendant's negligent conduct, investors receive misleading information about the nature of an investment ...." *Malouf*, 2016 WL 4035575, at *12; *see also id.* at *10 (no requirement that conduct underlying Section 17(a) claim must itself be "manipulative or deceptive"). Thus, even if Respondent is correct in its materiality argument (which is not the case), the Division's scheme liability claims are largely unaffected. Likewise, the report of Respondent's expert, John Richard, which focuses on materiality, is thus irrelevant as to much of the conduct underlying the Division's scheme liability claims.

Finally, Duka's claim that S&P's ratings were not material is ironic given that her job at S&P entailed overseeing a group of professionals whose job it was to rate CMBS transactions. Her claim of immateriality is further belied by the fact that S&P was paid handsomely by issuers to rate their CMBS deals. (Rubinstein Report at ¶ 93, noting the S&P was paid between $1.5 and $2 million for rating non-agency CMBS deals and $710,000 for FREMF deals).

V. The Division's Other Claims[7]

In addition to Duka's fraud based violations, Duka also violated three other provisions of the federal securities laws. Nationally recognized statistical ratings organizations like S&P play an important role in the country's financial markets and it is critical that they not deviate from established procedures and methodologies in order to sell ratings, establish and maintain appropriate internal controls, and keep accurate books and records concerning the ratings they issue.

[7] The Division's claim under Rule 17g-2(a)(2)(iii) of the Exchange Act was dismissed.

A. Rule 17g-6(a)(2)

The evidence will show that S&P violated Rule 17g-6(a)(2)) [17 C.F.R. § 240.17g-6(a)(2)] by "issuing ... a credit rating that is not determined in accordance with the [NRSRO's] established procedures and methodologies for determining credit ratings, based on whether the rated person ... will purchase the credit rating ...." By reason of the conduct discussed above, Duka aided and abetted and/or caused S&P's violation.

B. Exchange Act Section 15E(c)(3)

Duka also aided and abetted and caused S&P's violation of Exchange Act Section 15E(c)(3) [15 U.S.C. § 78o-7(c)(3)], which provides:

> Each nationally recognized statistical rating organization shall establish, maintain, enforce, and document an effective internal control structure governing the implementation of and adherence to policies, procedures, and methodologies for determining ratings, taking into consideration such factors as the Commission may prescribe by rule.

15 U.S.C. § 78o-7(c)(3). By placing Duka in a position to influence the same criteria she was tasked with implementing, S&P undermined its own internal control structure. Further, Duka's failure to provide the MQR group with an accurate model, or to reflect an accurate model in S&P's RAMPs, contributed to S&P's failure to maintain, enforce, and document an effective internal control structure.

C. Rule 17g-2(a)(6)

Duka also aided and abetted and caused S&P's violation of Exchange Act Rule 17g-2(a)(6), which provides:

> (a) A nationally recognized statistical rating organization must make and retain the following books and records, which must be complete and current: ... (6) A record documenting the established procedures and methodologies used by

> the nationally recognized statistical rating organization to determine credit ratings.

17 CFR § 240.17g-2(a)(6). Duka's surreptitious change in loan constants used by S&P to rate CMBS transactions was, in effect, an improper amendment to S&P's CMBS ratings methodology without following S&P mandated procedures for making and documenting the change.

VI. Rabbit Holes and Straw Men

Duka's witness list and expert report indicate that she will defend her actions via straw man arguments and misleading diversions into areas that have no bearing on the Division's claims. For example, Duka's witness list includes several witnesses expected to testify as to the purported "analytical rationale supporting the use of a loan constant lower than the loan constants listed in the 2009 Criteria ('Table 1 Constants') to calculate debt service coverage ratios ('DSCRs') under the 2009 Criteria." (Respondent Barbara Duka's October 14, 2016 Witness List, descriptions of testimony of Duka, Pollem, Digney, Fisher, Chevance, DeFalco, Manzi, Gillis, Nelson, Snow). But the alleged analytical soundness of Duka's surreptitious change in loan constants is no defense. The Division is not, and indeed cannot, bring any charges against Duka for issuing bad ratings. *See* 15 U.S.C. § 78o-7(c)(2) (prohibiting the Commission from regulating the substance of credit ratings). Rather, the OIP alleges that Duka engaged in a scheme and deceptive conduct in changing S&P's CMBS ratings methodology to alter ratings, and providing misleading disclosures to purposely obscure that fact. Duka's "analytical rationale" argument should thus be given no weight.

Duka also argues that the performance of the CMBS and the commercial mortgage loans underlying them somehow absolve her of misconduct. That is, the lack of defaults in the CMBS deals Duka and her team rated means S&P's ratings were correct. Again, and for the same reason,

Duka's argument flies wide of the mark. There is no allegation that Duka and S&P improperly rated any CMBS at issue. Thus, it is of no matter whether the loans defaulted or performed.

Finally, Duka's Witness List includes numerous CMBS investors and an expert witness, John Richard, who focuses extensively on a reasonable CMBS investor's due diligence process. Moreover, Duka's Exhibit List encompasses 861 exhibits in addition to the 84 exhibits on the parties' joint exhibit list that pertain to the CMBS deals at issue, dozens if not hundreds of which appear to pertain to investor due diligence. But, as noted above, the SEC need not prove investor reliance. Thus, the fact that many CMBS investors conducted their own due diligence of CMBS deals is irrelevant. The question is whether Duka's scheme to covertly alter S&P's ratings methodology "encompasses, among other things, drafting or devising a misrepresentation." *Malouf*, 2016 WL 4035575, at *6.

VII. Remedies

The Division seeks a ruling under Section 8A of the Securities Act and Section 21C of the Exchange Act, ordering that Respondent Duka cease and desist from committing or causing or aiding and abetting violations of and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, Section 15E(c)(3) of the Exchange Act, and Exchange Act Rules 17g-6(a)(2), and 17g-2(a)(6), ordering Duka to pay a civil penalty pursuant to Section 8A(g) of the Securities Act and Section 21B(a) of the Exchange Act, ordering Duka to pay disgorgement pursuant to Section 8A(e) of the Securities Act and Sections 21B(e) and 21C(e) of the Exchange Act, and any further relief that is appropriate in the public interest pursuant to 15 U.S.C. § 78o-7(d)(1) and/or 15 U.S.C. § 80a-9(b).

Dated this 7th day of November, 2016.

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CERTIFICATE OF SERVICE

On November 7, 2016, the foregoing was sent to the following parties and other persons entitled to notice as follows:

Brent Fields, Secretary
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Securities and Exchange Commission
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Honorable James Grimes
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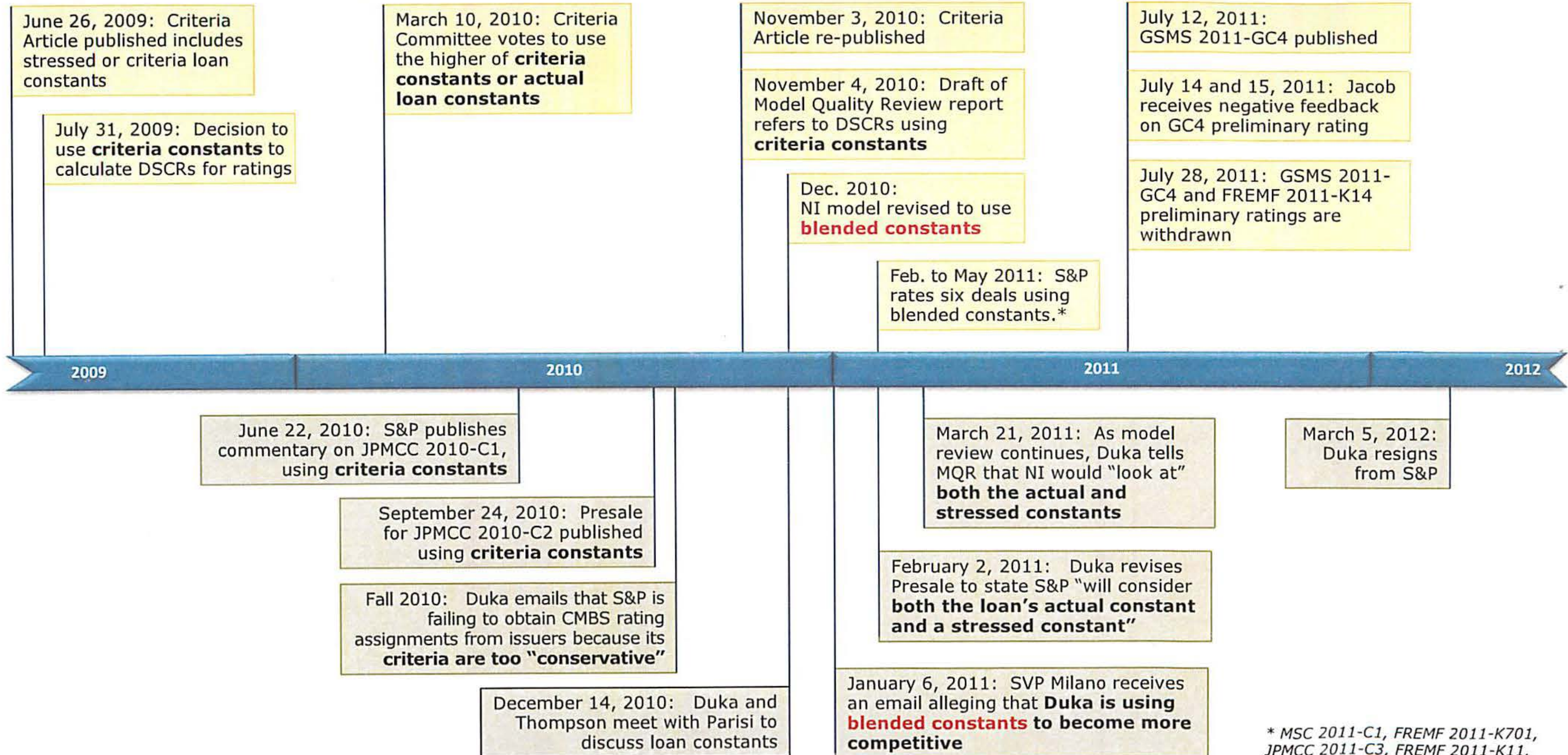
Contract Paralegal

CMBS Timeline

Division's Brief Exhibit
A
A.P. No. 3-16349



** MSC 2011-C1, FREMF 2011-K701, JPMCC 2011-C3, FREMF 2011-K11, FREMF 2011-K13, and JPMCC 2011-C4*

S&P Players

Division's Brief Exhibit
B
A.P. No. 3-16349

David Jacob
Head of Structured Finance
Mid-2008 to Jan. 2012

Patrick Milano
Executive Vice President of Operations
Dec. 2007 to Nov. 2011

Grace M. Osborne
Managing Director Cap Markets
Aug. 2010 to 2012
(previously Kim Diamond)

Mark Adelson
Chief Credit Officer
May 2008 to Dec. 2011

Neri Bukspan
Chief Quality Officer
2008 to 2013

Barbara Duka
Managing Director
CMBS
Oct. 2008 to Mar. 2012

Eric Thompson
Analytical Manager
CMBS Surveillance
2008 to Jan. 2011

CMBS Criteria Officer
Frank Parisi
Oct. 2009 to March 2012

Martin Goldberg
Senior Director
Apr. 2008 – Oct. 2013

Susan Barnes
Managing Director Risk
Management
2009 to Present

Kurt Pollem
Sr. Director New Issuance
Ratings Group, CMBS
April 2010 to July 2014

James Digney
CMBS Assoc./ Ratings Anlst:
Survl., *2005 to Mar. 2011*;
NI, *Mar. 2011 to present*

CMBS Criteria Officer
Majid Geramian
Dec. 2010 to Jan. 2013

Haixin Hu
Associate Director
July 2010 to Present

① **CMBS Ratings**

② **Criteria Group**

③ **Model Quality Review (MQR)**

④ **Quality Review**

Division's Brief Exhibit
C
A.P. No. 3-16349

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

February 4, 2011

Presale:

Morgan Stanley Capital I Trust 2011-C1

Primary Credit Analyst:
Brian Snow, CFA, New York (1) 212-438-3249; brian_snow@standardandpoors.com

Secondary Contact:
Kurt C Pollem, CFA, New York (1) 212-438-1852; kurt_pollem@standardandpoors.com

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Presale:

Morgan Stanley Capital I Trust 2011-C1

$1.55 Billion Commercial Mortgage Pass-Through Certificates Series 2011-C1

This presale report is based on information as of Feb. 4, 2011. 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 Feb. 4, 2011

Class	Preliminary rating*	Preliminary amount ($)	Recommended credit support (%)
A-1	AAA (sf)	87,863,000	22.875
A-2	AAA (sf)	597,153,000	22.875
A-3	AAA (sf)	105,120,000	22.875
A-4	AAA (sf)	404,067,000	22.875
X-A**	AAA (sf)	1,194,203,000***	N/A
X-B**	NR	354,197,430***	N/A
B	AA (sf)	60,001,000	19.000
C	A (sf)	89,033,000	13.250
D	BBB (sf)	85,162,000	7.375
E	BBB- (sf)	19,355,000	6.500
F	BB+ (sf)	13,548,000	5.625
G	BB (sf)	15,484,000	4.625
H	BB- (sf)	13,549,000	3.750
J	B+ (sf)	15,484,000	2.750
K	B (sf)	13,548,000	1.875
L	B- (sf)	9,678,000	1.250
M	NR	19,355,430	0.000
R	NR	N/A	0.000

*The rating on each class of securities is preliminary and subject to change at any time. **Interest-only class. ***Notional amount. NR--Not rated. N/A--Not applicable.

Profile

Closing date	Feb. 28, 2011.
Collateral	Thirty-seven loans that are secured by 79 properties.
Underwriter and mortgage loan seller	Banc of America Mortgage Capital Corp. (23.8% of the portfolio) and Morgan Stanley Mortgage Capital Holdings LLC (76.2%).
Depositor	Morgan Stanley Capital I Inc.
Master servicer	Bank of America N.A.
Special servicer	Midland Loan Services, a division of PNC Bank N.A.
Trustee	Wells Fargo Bank N.A.

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Rationale

The preliminary ratings assigned to Morgan Stanley Capital I Trust 2011-C1's (MSC 2011-C1's) $1.55 billion commercial mortgage pass-through certificates reflect the credit support provided by the subordinate classes of certificates, the liquidity provided by the trustee, and the underlying loans' economics, geographic diversity, and property type diversity. In our analysis, we determined that, on a weighted average basis, the pool has a debt service coverage (DSC) of 1.20x based on a weighted average Standard & Poor's Ratings Services loan constant of 8.46%, a beginning loan-to-value (LTV) ratio of 88.9%, and an ending LTV ratio of 78.5%.

To calculate the number of loans, we considered each group of cross-collateralized and cross-defaulted loans as one loan.

Strengths

This transaction exhibits the following strengths:

- As a whole, the transaction reflects economics that are comparable to the archetypical pool based on Standard & Poor's stressed beginning and ending LTV ratios of 88.9% and 78.5%, respectively, for the pooled trust. The beginning and ending LTV ratios based on appraisal values are 61.6% and 54.5%, respectively.
- The transaction has a weighted average DSC of 1.20x based on a Standard & Poor's loan constant of 8.46%, which is in line with the archetypical pool. Standard & Poor's DSCs range from 0.94x to 1.57x and are based on stressed loan constants ranging from 8.25% to 10.00%, depending on the property type.
- All of the loans in the pool except Promenade on Providence (2.0% of the pool balance) have borrowing entities that are structured as special-purpose entities (SPEs). In addition, loans representing 85.5% of the pool balance have borrowers that are structured as bankruptcy-remote SPEs with both a nonconsolidation opinion and at least one independent director, including all of the top 10 loans (71.8% of the pool balance).
- Three loans representing 18.0% of the pool balance are secured by multiple cross-collateralized and/or cross-defaulted properties. Each of these loans is collateralized by properties in more than one state. This is somewhat mitigated by one loan, W.P. Carey Portfolio (7.5% of the pool balance), that has a single tenant at multiple locations.
- The trust benefits from scheduled amortization, which reduces Standard & Poor's weighted average LTV ratio to 78.5% at maturity from 88.9% at issuance. Four loans (30.5% of the pool balance) feature partial interest-only payments through maturity and none of the loans features full-term interest-only payments. The partial-term interest-only loans have a weighted average beginning Standard & Poor's stressed LTV ratio of 80.3%.
- Lockboxes are in place for 33 loans (94.1% of the total pool balance). Twenty-three of these loans (84.1%) have a hard lockbox and 10 of these loans (15.9%) have a soft lockbox. In addition, two loans (2.0%) provide for springing lockboxes. Generally, soft and springing lockboxes are triggered by an event of default, the anticipated repayment date, the DSC conditions, or a specific tenant event.
- The transaction includes 64 properties (95.4% of the pool balance) that are located in metropolitan statistical areas (MSAs) covered by CB Richard Ellis Econometric Advisors (CBRE-EA). As opposed to secondary and tertiary markets, these markets are typically characterized by higher barriers to entry, which may constrain overbuilding during periods of economic growth.
- The average quality score for the properties securing the mortgages in the trust is 2.84, a slightly above-average

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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 loan concentration in that the 10 largest loans represent 71.8% of the pool balance. The largest loan represents 15.2% of the pool balance and the top three loans represent 38.1% of the pool balance. However, three of the top 10 loans (18.0%) are secured by multiple cross-collateralized properties. All of the top 10 loans except Hilton Times Square and Extra Space Storage Portfolio (11.3%) are structured with in-place hard lockboxes.
- The pool exhibits sponsor concentration in that the 10-largest sponsors represent 72.9% of the pool balance. The largest sponsor, Prime Property Fund/General Growth Properties Inc., accounts for 15.2% of the total pool balance. However, all of the top 10 loans are structured with SPE borrowers, nonconsolidation opinions, and independent directors. In addition, each is a bankruptcy-remote entity.
- One loan, Michigan Plaza (11.6% of the pool balance) has existing mezzanine debt. Six loans (14.7%) permit the borrower to incur future mezzanine debt. None of the other loans permits future additional mezzanine debt. The Baptist Medical Offices (1.9%) loan is not prohibited from incurring unsecured debt, subject to certain restrictions. The Station Place III loan (3.5%) is part of a loan combination comprised of four pari passu A-notes, two of which are not included in the trust. When accounting for all existing additional financing, Standard & Poor's beginning all-in LTV ratio is 92.7%. We also considered all existing and potential secondary debt in the subordination levels.
- The pool exhibits concentration in the retail sector, which comprises 43.6% of the pool balance. We believe that the weak housing and labor markets have taken a toll on the retail sector, as evidenced by the 7.2% delinquency rate for seasoned retail loans in commercial mortgage-backed securities (CMBS) transactions as of the end of fourth-quarter 2010. However, we expect that the retail sector will stabilize as the economy recovers due, in part, to the limited amount of new supply that is scheduled to come on line in 2010. We factored this concentration risk into our evaluation of the transaction.
- Relative to an archetypical pool that has a loan count of 100 and an effective loan count of 52, the pool exhibits high loan concentration with a loan count of only 37 and an effective loan count of 14. Standard & Poor's accounted for the loan concentration risk in its analysis.
- The pool exhibits geographic concentration in that 40.0% of the assets are located in the top three states: Delaware (15.2% of the pool balance), California (12.7%), and Illinois (12.1%). None of the remaining state concentrations exceeds 11.3% of the pool balance. We factored this concentration risk into our evaluation of the transaction.
- The transaction includes loans that are secured by 35 single-tenant properties that account for 10.7% of the trust balance by allocated loan amount. However, all of these properties have leases that will expire after the loan's maturity date. In addition, six of the properties (1.8% of the pool balance) are occupied by tenants that are rated investment-grade by Standard & Poor's. In addition, Standard & Poor's reviewed four of the nine loans containing one or more single-tenant properties (9.2% of the pool balance) and considered the market, tenant rating, lease term, loan structure, and the dark value when evaluating the loan.
- The cash management agreements for each of the top 10 loans (71.8% of the pool balance) provide for a cash flow sweep whereby the lender will retain excess cash flow if certain trigger events occur. However, the triggers

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for four of the top 10 loans (27.6% of the pool balance) are less robust, resulting in a cash sweep only after an event of default occurs and/or the DSC falls below 1.05x or 1.10x.

- Phase I environmental reports were completed for properties securing all loans in the pool and phase II reports were recommended for three properties (2.0% of the pool balance). A phase II report has not yet been completed for the W.P. Carey Bay City, Mich. property (0.2%), but a reserve of $2.23 million, the most conservative remediation estimate, was funded.

Pool Characteristics

Collateral description

The pool contains 37 conventional, fixed-rate loans that are secured by liens on 79 properties (see table 1 for the property types in the pool).

Table 1

Property Type Composition

Type	Trust balance ($)	% of pool	No. of loans	No. of properties
Office*	426,405,019	27.5	9	9
Retail malls	409,990,000	26.5	2	2
Retail anchored	212,014,136	13.7	7	8
Hotel	151,648,874	9.8	5	5
Industrial*	127,780,584	8.3	2	28
Self-storage	91,685,000	5.9	2	17
Mixed-use	75,710,910	4.9	2	2
Retail single tenant	37,210,113	2.4	7	7
Retail unanchored	15,955,793	1.0	1	1
Total	1,548,400,431	100.0	37	79

*Standard & Poor's balance for industrial and office varies by $7.8 million from the issuer because we classified the entire W.P. Carey Portfolio as industrial.

Loan sellers

Banc of America Mortgage Capital Corp. (23.8% of the pool balance) and Morgan Stanley Mortgage Capital Holdings LLC (76.2%) are the loan sellers for this transaction.

Loan origination dates

Loans representing 96.1% of the pool balance were originated in the past six months.

Collateral quality

Based on our analysis, the portfolio has a DSC of 1.20x on a weighted average Standard & Poor's loan constant of 8.46%. Standard & Poor's DSC reflects the adjustments that were made to the banker's underwritten net cash flow (NCF) of the properties based on the properties' historical and projected operating statements, third-party reports, and the assets' competitive positions in their respective markets.

On a weighted average basis, we decreased the portfolio's NCF by 4.8%. This decrease typically reflects adjustments to rental rates, occupancy levels, operating expenses, capital expenditure reserves, and tenant improvement and/or leasing commission (TI/LC) assumptions.

For the pool, Standard & Poor's weighted average beginning LTV ratio is 88.9% and the ending LTV ratio is

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78.5%. The weighted average capitalization rate that was applied to our NCF is 9.00%. The capitalization rates are a function of each property's asset type, quality, tenancy, position in the competitive set, and current and future market conditions (see table 2 for more information on our analysis of the various property types' cash flow and valuation).

Table 2

Cash Flow Analysis And Valuation

Property type	% of pool	DSC (x)*	% NCF diff.**	Cap rate (%)	Beg. LTV ratio (%)	End. LTV ratio (%)	Value per sq. ft. ($)
Office	27.5	1.12	(3.3)	8.94	101.1	90.9	118
Regional mall	26.5	1.28	(5.1)	8.00	75.3	71.1	343
Retail anchored	13.7	1.22	(5.6)	8.93	88.5	71.4	118
Industrial	8.3	1.28	(9.8)	9.35	85.8	71.9	43
Hotel	9.8	1.13	(5.1)	10.96	95.4	80.6	130,544/unit
Self-storage	5.9	1.30	(2.1)	9.94	90.0	76.2	8,218/unit
Mixed-use	4.9	1.18	(5.3)	9.14	102.8	91.7	68
Retail single tenant	2.4	1.12	(3.3)	8.86	97.5	83.3	340
Retail unanchored	1.0	1.15	(4.8)	9.75	103.0	87.4	138
Total	100.0	1.20	(4.8)	9.00	88.9	78.5	-

*Based on a weighted average stressed Standard & Poor's loan constant of 8.46%. **The difference between Standard & Poor's estimated NCF and the underwriter's estimated NCF as a percentage of the underwriter's estimated NCF. DSC--Debt service coverage. NCF--Net cash flow. LTV--Loan-to-value.

Borrower/loan concentrations

Prime Property Fund/General Growth Properties Inc. (GGP) is the largest sponsor in the transaction in that it is the sponsor for Christiana Mall (15.2% of the pool balance) (see table 3 for the sponsor concentration).

Table 3

Sponsor Concentration

Borrower	Pooled trust balance (mil. $)	No. of loans	% of pool
Largest	235.0	1	15.2
Top five	798.6	5	51.6
Top 10	1,129.4	11	72.9

For a summary of the top 10 loans in the pool, see table 4.

Table 4

Top 10 Loans

Property name	Property type	% of pool	DSC (x)	% NCF diff.*	Cap rate (%)	Beg. LTV (%)	End. LTV (%)	Value per unit/sq. ft. ($)
Christiana Mall	Regional mall	15.2	1.41	(3.5)	8.00	68.7	63.6	786
Michigan Plaza	Office	11.6	1.21	0.0	9.00	96.4	90.4	97
Pearlridge Center	Regional mall	11.3	1.10	(7.7)	8.00	86.5	83.8	175
W.P. Carey Industrial Portfolio	Industrial/office	7.5	1.28	(10.4)	9.22	84.7	70.3	42
Hilton Times Square	Full-service hotel	6.0	1.10	(7.0)	10.75	94.8	78.3	211,498
Extra Space Storage Portfolio	Self-storage	5.3	1.30	(2.1)	9.96	89.9	76.0	7,969

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Table 4

Top 10 Loans (cont.)								
National Grocery Portfolio	Anchored retail	5.2	1.16	(7.2)	8.75	90.9	84.1	172
Murdock Plaza	Office	3.6	1.00	(2.8)	8.75	106.9	100.7	231
Station Place III	Office	3.5	1.03	3.8	8.25	102.6	84.1	357
Princeton Forrestal Village	Mixed-use	2.7	1.14	(7.3)	9.25	98.5	91.7	76
Total	--	71.8	1.22	(4.5)	8.81	87.7	79.3	--

*The difference between Standard & Poor's estimated NCF and the underwriter's estimated NCF as a percentage of the underwriter's estimated NCF only. DSC--Debt service coverage. NCF--Net cash flow. LTV--Loan-to-value.

Geographic diversity

The pool consists of properties located in 37 states and exhibits geographic concentration in that 40.0% of the assets are located in the top three states. The top five and top 10 state concentrations are 58.2% and 78.6%, respectively (see table 5 for the top five concentrations and table 6 for the largest concentration of properties by MSA).

Table 5

State Concentrations

State	% of pool
Delaware	15.2
California	12.7
Illinois	12.1
Hawaii	11.3
New Jersey	6.9
32 other states	41.8

Table 6

Metropolitan Statistical Area Concentrations

Metropolitan statistical area	% of pool
Wilmington, Del.	15.2
Chicago	12.0
Honolulu	11.3
Los Angeles	6.0
New York	6.0
Pittsburgh	4.1
Washington, D.C.	3.8
Philadelphia	3.1
Trenton, N.J.	2.7
Denver	2.4

As for specific markets, the pool is most concentrated in Wilmington, Del. retail (15.2% of the pool balance) (see table 7 for the pool's top market and property type concentrations).

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Table 7

Concentrations By Market And Property Type

Market	Property type	Exposure (% of pool)	Market vacancy*
Wilmington, Del.	Retail	15.2	14.3
Chicago	Office	11.6	13.7
Honolulu	Retail	11.3	7.7
New York	Hotel	6.0	15.9
Pittsburgh	Retail	4.1	N/A

*Based on third-quarter 2010 data from CB Richard Ellis Econometric Advisors. N/A--Not applicable.

Transaction Structure

Distributions and allocation of losses

The transaction structure includes two interest-only strips that reference different certificates. The class X-A certificate has a notional balance of $1,194,203,000, which will equal the class A-1, A-2, A-3, and A-4 certificates' aggregate balance. The class X-B certificate, as it is currently contemplated, will have a notional balance of $354,197,430, which will equal the class B, C, D, E, F, G, H, J, K, L, and M certificates' aggregate balance.

On each distribution date, assuming there are no trust adviser expenses, payments will occur in the following order of priority:

- To pay interest on the class A-1, A-2, A-3, A-4, X-A, and X-B certificates pro rata based on each class' respective entitlements; then
- Before the cross-over date, to pay principal sequentially to the class A-1, then A-2, then A-3, and then A-4 certificates until each class' certificate balance has been reduced to zero. On or after the cross-over date, to pay principal pro rata to the class A certificates until those certificates' principal balance has been reduced to zero; then
- To pay any deficits that resulted from realized losses, shortfalls, and unanticipated trust expenses that were previously allocated pro rata to the class A-1, A-2, A-3, and A-4 certificates until each class is paid in full; then
- To pay interest on the class B certificates; then
- Following the reduction of the class A certificate balances to zero, to pay principal to the class B certificates until those certificates' principal balance has been reduced to zero; then
- To pay any deficits that are allocated to the class B certificates until paid in full; then
- To pay interest on the class C certificates; then
- Following the reduction of the class A and B certificate balances to zero, to pay principal to the class C certificates until that class has been reduced to zero; then
- To pay any deficits that are allocated to the class C certificates; and then
- To pay interest, then principal, and then reimbursement for any deficits sequentially to the class D, E, F, G, H, J, K, L, M, and R certificates in the same way as noted above for the class B and C certificates.

Trust adviser expenses, which are separate from the trust adviser fee, may arise in certain circumstances and would most likely occur if there were indemnification obligations as a result of the trust adviser being sued. In the event that there are trust adviser expenses, those expenses will first be allocated in reverse sequential order to the distributable interest on the class E, then D, then C, and then B certificates. If the interest that is distributable to those classes is insufficient to pay all of the trust adviser expenses, the class E, then D, then C, and then B

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certificates' principal distribution amount will be used to pay those expenses and those classes' certificate balances will be reduced, in that order, until each class' balance is reduced to zero. After the class E, D, C, and B certificates' balance have been reduced to zero, any further reduction in the principal distribution amount to pay the trust adviser expenses will reduce the class A certificate principal balance, pro rata. None of the trust adviser expenses will be allocated to the control eligible certificates (see the Control Rights section below for more information).

Losses, other than those arising from trust adviser expenses, will be allocated in reverse sequential order beginning with the junior-most certificates. If the losses reach the class A certificates, the losses will be allocated pro rata among the class A-1, A-2, A-3, and A-4 certificates. The notional amount of the class X-A and X-B certificates will be reduced by the aggregate amount of the realized losses that are allocated to the certificates that are components of the class X-A and X-B certificates' notional amount, respectively. The final payment date for the preliminary rated securities will be in September 2047.

Trust adviser

This transaction is structured with a trust adviser that will review the special servicer's resolution and disposal practices for specially serviced loans and opine as to whether those practices meet the servicing standard put forth in the transaction's pooling and servicing agreement (PSA). The trust adviser will meet annually with both the special servicer and the directing certificateholder (if no control event has occurred) and review the special servicer's operational practices, such as the policies and procedures, the operational controls, the risk management systems, the technological infrastructure, the intellectual resources, and the special servicer's reasoning for believing that they are in compliance with the PSA.

If a control event has occurred, the trust adviser will also review asset status reports and consult with the special servicer regarding possible alternative courses of action. If there is no directing certificateholder, for the reasons outlined in the Control Rights section below, the trust adviser may recommend that the special servicer be replaced if it believes that the special servicer is not performing its duties as prescribed by the PSA or is not acting in accordance with the servicing standard. After a control event, the trust adviser is also required to verify the accuracy of the special servicer's calculation of any appraisal reduction or net present value calculations that are used in the special servicer's determination of what course of action to take in connection with the workout or liquidation of a specially serviced loan. The trust adviser will not be liable to any certificateholder for any actions taken or from refraining from any actions. In addition, the trust adviser will not be required or permitted to consult on major decisions with respect to the Station Place III pari passu mortgage loan.

The trust adviser will be entitled to a monthly fee that is calculated on the outstanding principal amount of each loan in the trust and will accrue on a loan-by-loan basis at a rate equal to 0.00135% per year. The trust adviser fee has already been factored into the transaction's structure and will not be deducted from the monthly distributions to the certificates. The trust adviser expenses, to the extent that they are incurred, will be taken from the monthly distributions to certain classes (see the Distributions and allocation of losses section above for more information).

TriMont Real Estate Advisors Inc. (TriMont) will be the trust adviser for this transaction. TriMont, located in Atlanta, is a corporation whose core services include primary asset management, special serviced asset management, real estate owned (REO) asset management, asset servicing, due diligence, underwriting services, and portfolio risk analysis. TriMont has approximately 300 employees among offices located in Georgia, California, and New York. TriMont manages approximately $53 billion of invested capital for clients with more than 2,700 assets and $123 billion in asset value. Standard & Poor's rates TriMont as a commercial mortgage special servicer (ABOVE

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AVERAGE), construction loan servicer (STRONG), and construction loan special servicer (ABOVE AVERAGE).

Control rights

The directing certificateholder will be the controlling class certificateholder that is selected by more than 50% of the controlling class of certificateholders (based on certificate balance). The controlling class will be the most subordinate class of control eligible certificates that has an aggregate certificate balance (including any notional reductions that result from any appraisal reductions allocable to that class) of at least 25% of the class' initial certificate balance. On the closing date, the class M certificates will act as the controlling class. H/2 Capital Partners LLC or one of its affiliates will be the initial directing certificateholder and one or more of its managed accounts will own 100% of the control eligible certificates as of the closing date.

The control eligible certificates will be any of the class F, G, H, J, K, L, and M certificates. The directing certificateholder will have certain consent and consultation rights, including the right to replace the special servicer until a "control event" occurs, which would happen if the class F certificates have a certificate balance (including any appraisal reductions that are allocated to that class) of less than 25% of the class' initial certificate balance. If the control eligible certificate class has a balance of at least 25% of the initial balance, but that balance falls below that threshold if the appraisal reductions were included, the directing certificateholder would not be able to replace the special servicer and would no longer have certain consent rights. It would, however, retain certain consultation rights, and the trust adviser will also have certain consultation rights. In the event that no class of control eligible certificates has a then-outstanding certificate balance of at least 25% of the class' initial balance, without regard to the application of any appraisal reductions, the directing certificateholder will also lose its rights under the PSA to consult with the servicer or special servicer. In this scenario, only the trust adviser would have certain consultation rights with the special servicer.

Servicing

Bank of America N.A. will act as the master servicer for this transaction. Standard & Poor's Servicer Evaluations ranking on Bank of America as a primary and master servicer is STRONG. The outlook for the ranking is stable.

Midland Loan Services (Midland), a division of PNC Bank N.A., will act as the special servicer for this transaction. Midland is a wholly owned subsidiary of PNC Bank N.A., which, in turn, is a wholly owned subsidiary of The PNC Financial Services Group Inc. ('A'; NYSE: PNC). Standard & Poor's Servicer Evaluations ranking on Midland as a primary, master, and special servicer is STRONG. The outlook for the ranking is stable.

Liquidity provider

Wells Fargo Bank N.A. (AA/Negative/A-1+) is the backup liquidity provider and is responsible for advancing the payments that are due under defaulted loans if the value of the collateral supports the advance. Wells Fargo Bank is obligated to advance payments if the servicer fails to perform this function. Wells Fargo Bank is also obligated to replace the servicer with a servicer on Standard & Poor's Select Servicer List in the event the servicer fails to perform any of its obligations under the transaction's documents.

Representations and warranties and exceptions

Banc of America Mortgage Capital Corp. and Morgan Stanley Mortgage Capital Holdings LLC, the sellers, have made representations and warranties to Morgan Stanley Capital I Inc., the depositor, concerning the mortgage loans. The typical representations and warranties include statements that the seller has good title to the mortgage loans being sold, there are no outstanding liens on the loans, the loan payments are no more than 30 days past due, the loans are not in default, and the mortgages securing the loans are not subject to prior liens. Other

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representations address typical property release provisions, the structure of ground leases, and the payment terms of the anticipated repayment date (ARD) loans. With respect to the actual properties, the representations typically reflect that the properties comply with zoning, are in physically good condition with limited deferred maintenance or reserves have been established to address deficiencies, and do not have significant environmental issues. The representations also reflect that the borrower has insured the properties for various risks and is not delinquent on real estate tax payments. On the borrower level, the representations address the borrower's previous bankruptcies and the existence of related borrowers.

We reviewed the representations and warranties and exceptions. The exceptions highlighted issues relating to property release provisions, insurer ratings, insurance deductibles, permission to obtain future debt, and certain tenants' rights of first refusal in the event the borrower wishes to sell the property. Except for deductions to Standard & Poor's derived value that were taken to account for high windstorm/flood deductibles at one property, Whole Foods Arabella Station (0.6% of the pool balance), we did not assess any value deductions or adjustments as a result of the exceptions noted in our analysis.

Ongoing surveillance and 17g-5

We rated this transaction under the SEC's Rule 17g-5 and, as a result, ongoing surveillance procedures will require additional trustee involvement. The trustee for this transaction will act as the 17g-5 provider and will be responsible for maintaining a Web site that is accessible by the rating agencies and will have loan and transaction level documents and other information relating to the mortgage pool. None of the depositor, servicer, special servicer, primary servicer, paying agent, trust adviser, certificate registrar, trustee, controlling class representative, or custodian is permitted to initiate communication with the rating agencies about issues relating to the loans or the deal. To the extent that a rating agency initiates communication or makes an inquiry of any of these parties, all responses must be in writing and the responding party must provide a summary to the trustee/paying agent of the information that was provided to the rating agency. The trustee must post this written summary on its Web site. If any of the depositor, servicer, special servicer, primary servicer, paying agent, trust adviser, certificate registrar, trustee, controlling class representative, or custodian is required under law to provide any information to or communicate with a rating agency, the trustee must upload any information or communication to its Web site. The trustee will also post the transaction's initial documents and monthly reports to its Web site, which is also accessible by the rating agencies.

Loan Characteristics

Borrower structure

Loans representing 98.0% of the pool balance are made to borrowers that are structured as SPEs. Loans representing 85.5% of the pool balance also have a nonconsolidation opinion and at least one independent director. One loan, Promenade on Providence (2.0% of the pool balance), is not an SPE. However, the loan has a 24.5-year amortization schedule and Standard & Poor's beginning and ending LTV ratios of and 88.7% and 47.9%, respectively.

Tenants-in-common

One loan, Walgreens Oakdale (0.3% of the pool balance), is owned by individuals or entities as tenants-in-common.

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Bankruptcy issue

One loan, Christiana Mall (15.2% of the pool balance), has a sponsor that was involved in a previous bankruptcy. The loan's sponsors are Prime Property Fund and GGP. GGP filed for Chapter 11 bankruptcy protection in April 2009 and emerged from bankruptcy in November 2010.

Interest-only loans

The loans in the pool are interest-only for all or some portion of the loan term (see table 8).

Table 8

Interest-Only Loans

	No. of loans	% of trust pool	Weighted avg. LTV ratio (%)
Interest-only loans	0	0.0	N/A
Partial interest-only loans	4	30.5	80.3

LTV--Loan-to-value. N/A--Not applicable.

Cash management and reserves

Lockboxes are in place for loans representing 96.1% of the pool balance (see table 9 for the types of lockboxes and their percentage of the pool balance, table 10 for the number of loans that require ongoing reserves, and table 11 for the loans that have collected upfront reserves). The soft lockboxes for this transaction generally require tenants and payors to pay rent to the borrower and/or the property manager, who then forward the funds to a lockbox account. After the funds are deposited into the lockbox, they are made available to the borrower or applied by the servicer of the lockbox according to the loan documents. For certain loans, if certain trigger events occur, the soft lockbox will convert to a hard lockbox. There is no lockbox account currently in-place for the transaction's springing lockboxes. If certain trigger events occur, the lockbox will be established.

Table 9

Lockboxes

Type	% of pool
Hard	79.1
Soft	15.0
Springing	2.0

Table 10

Monthly Reserves

Type	No. of loans	% of trust pool*
Taxes	26	81.5
Insurance	8	34.7
TI/LC*	10	20.9
CapEx	20	52.8

*The number of loans and percentages do not include springing reserves. For the TI/LC reserves, the percentage of the trust pool includes office, retail, industrial, and mixed-use properties. TI/LC--Tenant improvements/leasing commissions. CapEx--Capital expenditures.

Table 11

Upfront Reserves

Type	No. of loans	% of trust pool*
Taxes	22	80.2

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Table 11

Upfront Reserves (cont.)		
Insurance	7	23.4
TI/LC*	5	23.4
CapEx	2	4.3

*For the TI/LC reserves, the percentage of the trust pool includes office, retail, industrial, and mixed-use properties. TI/LC--Tenant improvements/leasing commissions. CapEx--Capital expenditures.

Additional indebtedness

One loan has existing additional debt (see table 12).

Table 12

Loan With Existing Additional Debt					
Property name	Pooled trust balance (mil. $)	% of pool	Junior participation balance (mil. $)	Mezzanine balance (mil. $)	Total debt (mil. $)
Michigan Plaza	179.5	11.6	0.0	30.0	209.5

The Michigan Plaza loan (11.6% of the pool balance) has additional debt in the form of a mezzanine loan. We believe that preferred equity and mezzanine debt pose a lower risk in the event of a bankruptcy because we would not view these forms of financing as separate creditor interests. However, we view any subordinate debt as carrying additional risk because there is more pressure on the property cash flow and less equity at risk for the borrower.

In addition, the Station Place III loan (3.5% of the pool balance) is part of a loan combination comprised of four pari passu A-notes, two of which are not included in the trust. The total pari passu loan balance is $185 million.

The Hilton Times Square (6.0% of the pool balance), Princeton Forrestal Village (2.7%), Deptford Landing (2.2%), Eastgate Shopping Center (1.6%), Citrus Marketplace (1.3%), and Marriott Resort Sand Key (1.0%) loans each permit the borrower to incur future mezzanine debt. In most cases, future debt is conditional on it meeting specific DSC and LTV ratio hurdles.

In addition, the borrower under the Baptist Medical Offices (1.9%) loan is not prohibited from incurring unsecured debt from its respective partners, members, or beneficiaries, as long as the lender receives a subordination agreement from the unsecured lender and obtains rating agency confirmation. Standard & Poor's evaluated and accounted for all existing and potential future debt in its analysis.

Properties

We inspected assets representing 77.7% of the total pool balance and evaluated cash flows and derived asset values for properties representing 90.9% of the total pool balance. For the loans we did not review, we extrapolated NCF haircuts and 'AAA' stress NCF decline estimates by property type and issuer. The weighted average quality score for the inspected properties was 2.84, a slightly above-average score on Standard & Poor's scale of 1 (highest) to 5 (lowest).

Properties with no operating history

Fourteen loans representing 24.8% of the pool balance did not report comparable historical net operating income (NOI) figures, either because they had just recently reached cash flow stabilization or because they are single tenant-occupied and pay only triple-net rent. For these 14 properties, we concluded NOI based on the current leases in place and the estimated operating expenses. In addition, we evaluated the appraiser's assumptions as well as comparables in the market to derive revenues and expenses.

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Leasehold interests

Seven loans representing 28.3% of the pool balance are secured by a full or a partial leasehold interest in the underlying property or properties. All of these loans' ground lease terms, including the extension options, extend more than 20 years past the stated maturity dates and have notice and cure rights.

Single-tenant properties

Thirty-five properties representing 10.7% of the pool balance by allocated loan amount are secured by properties that are leased to single tenants. All tenants at these properties have leases that will expire after the loan's maturity date. In addition, six of these properties (1.8% of the pool balance) are occupied by tenants that have an investment-grade rating from Standard & Poor's.

Third-Party And Insurance Reviews

Appraisal review

Appraisal reports, in conformance with Uniform Standards of Professional Appraisal Practice (USPAP) and the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA), were prepared for all of the loans in the pool.

Environmental review

Phase I environmental site assessments were prepared for all of the loans in the pool. A phase II assessment was performed for Remount Business Park (1.5% of the pool balance) and no further action was required. A phase II report was also required for two properties within the W.P. Carey Industrial Portfolio: Bangor, Maine (0.3% of the pool balance) and Bay City, Mich. (0.2%). W.P. Carey & Co. is the borrower for this property. Professional Services Industries Inc. estimated the cost to remediate these properties at $25,000 and $2.23 million, respectively, which was escrowed at closing. The phase II report for Bangor, Maine required no further action, while the phase II report for Bay City, Mich. has not yet been completed.

Structural review

Licensed, independent engineers prepared engineering reports for all of the loans. These reports identified both the deferred maintenance items to be corrected immediately and the long-term capital expenditure needs. The engineers identified deferred maintenance items totaling $1.3 million at 53 properties representing 51.6% of the pool balance and established up-front reserves of $817,910 for eight of these properties to complete these minor structural repairs. In general, the loan sellers' requirements for up-front, deferred maintenance reserves are 100%-125% of the recommended amount indicated in the reports. For the remainder of the properties that are shown to have deferred maintenance items but no upfront reserves collected, the loan seller generally requires the borrowers to make all necessary repairs within 12 months of the loan closing. If the required repairs are not completed in the time allotted, in most cases, this will be considered a violation of the loan agreement and trigger an event of default.

Timing of third-party reports

The dates that the third-party reports for the pool were completed are provided in table 13.

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Table 13

Third-Party Report Dates

Date prepared	Appraisal review (% of pool)	Phase I environmental review (% of pool)	Structural review (% of pool)
Less than six months before the cutoff date	84.8	84.8	84.8
Six to 12 months before the cutoff date	15.2	15.2	15.2

Seismic review

Twenty properties representing 16.9% of the total pool balance are located in seismic zones 3 or 4. Seismic studies were performed for all of these properties, and none of the properties was found to have a probable maximum loss greater than or equal to 20%.

Hurricane and flood review

All of the properties have wind damage insurance. Seventy-five properties representing 94.4% of the pool balance also have flood insurance. We reviewed the windstorm and flood coverage for the properties we analyzed, paying special attention to those states and areas with known hurricane or flood zones. We determined that the windstorm and flood insurance deductible was high for one property (0.6% of the pool balance) when compared with our criteria. We calculated the difference between the acceptable maximum deductible based on our criteria and the actual deductible, and we adjusted the value to account for the shortfall between these two metrics.

Terrorism insurance coverage

All of the loans have insurance coverage for acts of terrorism, contain express requirements that terrorism coverage be in place, or have coverage that does not specifically exclude acts of terrorism. The loan documents generally require the related borrower to maintain insurance against damage from terrorism and other acts of sabotage. However, the requirements may contain certain qualifications, such as the availability of insurance at commercially reasonable rates and the possibility of the expiration of the Terrorism Risk Insurance Act of 2002, which could prevent terrorism-related coverage from being obtained by the applicable borrower.

Approach

Rating methodology

Most CMBS transactions fall into three main categories: single-borrower or stand-alone transactions, large loan transactions, or conduit/fusion transactions.

Single-borrower or stand-alone transactions are generally the least diverse transactions. These transactions are normally very concentrated by borrower sponsor and property type and they may or may not be geographically diverse, which typically differs by transaction.

The conduit/fusion transactions are the most diverse. These transactions have historically consisted of 100 or more individual borrower sponsors and are much more diverse by sponsor, property type, and geographic location than the other two transaction types. On Nov. 3, 2010, we published a revised conduit/fusion criteria, "U.S. CMBS Rating Methodology And Assumptions For Conduit/Fusion Pools," that is meant to be applied to conduit/fusion transactions. We anticipated that earlier pools will likely be smaller until the issuer community becomes more

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comfortable warehousing or aggregating CMBS collateral. As such, the revised criteria essentially defined conduit pools as those that generally include 40 or more loans and are diverse by sponsor, property type, and geographic location.

Large loan transactions have historically consisted of 10 to 20 loans and were typically comprised of floating-rate loans that are secured by transitional properties. More recently, however, the diversity of smaller pooled transactions has generally been similar to the large loan pools but consist of fixed-rate loans that are secured by stabilized properties.

Conduit/fusion methodology

The key assumption of our CMBS conduit/fusion framework is the application of an incremental stress to the rental cash flow underlying our baseline 'BBB' NCF conclusion to produce the 'AAA' NCF. We chose the incremental declines based on the rental data published by CBRE–EA covering the period from 1980 to 2009. We applied our 'AAA' rent stresses based on the assumption that a 'AAA (sf)' rated CMBS tranche is generally expected to withstand a 40%-50% valuation decline for all collateral without defaulting, which is commensurate with our definition of an extreme stress for commercial real estate, as described in our Nov. 3, 2010, criteria update (for more information, see "U.S. CMBS Rating Methodology And Assumptions For Conduit/Fusion Pools," published Nov. 3, 2010).

The incremental rent decline amounts vary by property type and are applied uniformly across all property markets in the U.S. using the assumption that under Standard & Poor's definition of a 'AAA' stress, all markets experience a correlated drop in rents and NCF. Once the 'AAA' rental declines are applied and the resulting stressed value declines are determined, we use a relatively straightforward set of default tests to project losses and credit enhancement levels. The tests for term default are: if the loan's LTV ratio is greater than 100% and its DSC is less than 1.00x; or if the loan's LTV ratio is greater than or equal to 90% but less than or equal to 100%, and its DSC is less than or equal to the LTV ratio. The loans that pass the term default test are tested again at maturity, and the loans will default if the loans' LTV ratio under the 'AAA' stress is greater than 100% based on the amortized loan balance. These same default tests are applied to the in-place Standard & Poor's NCF and value conclusion to derive the 'BBB' credit enhancement levels and may be subject to other tests, including a floor test based on the tests' relative difference when compared with the 'AAA' credit enhancement levels. In determining a loan's DSC, Standard & Poor's will consider both the loan's actual debt constant and a stressed constant based on property type as further detailed in our conduit/fusion criteria.

We generally make adjustments in our conduit/fusion framework model for additional debt held outside the trust. One loan (11.6% of the pool balance) has existing mezzanine debt secured by equity interests in the parent of the related borrower. Additionally, six loans (14.7%) permit future mezzanine debt and one loan (1.9%) permits future unsecured debt. Standard & Poor's considers any additional debt to be a further stress on the ability of the underlying property's NCF to pay debt service, therefore increasing the risk of borrower default on not only the additional outside debt, but also the first mortgage in the trust. We may factor the additional debt into our DSC term default test, depending on its size as compared to the overall pool. If the resulting DSC is below 1.00x for the total debt after applying our 'AAA' rent decline stress and the 'AAA' stressed LTV is higher than 100% on the first mortgage debt in the trust, this can increase the expected credit enhancement levels. Standard & Poor's generally differentiates between secured subordinate debt and mezzanine debt by applying a smaller increase in credit

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enhancement levels if the additional debt is in the form of mezzanine debt financing.

When evaluating properties leased to highly rated investment-grade tenants subject to long-term leases or loans secured by unsubordinated ground leases, we may consider these loans as more favorable than the typical loan and adjust our default and loss assumptions to reflect this.

In cases where we believe a particular property in the pool exhibits in-place rents that are relatively high for the region but still appear to be at-market, we nevertheless may view the rent as unsustainable in a stressed economic environment and adjust our default and loss assumptions to reflect this. On the other hand, when evaluating certain properties that are operating well below a sustainable cash flow and value, we may adjust our default and loss assumptions to reflect this.

In situations where certain properties in the pool are subject to ground lease rent step-ups that occur during and after the loan term, Standard & Poor's in-place NCF generally assumes a higher ground rent than is currently in place. Similarly, for properties in the pool that may benefit from real estate tax abatements that decrease during and after the loan term, Standard & Poor's in-place NCF generally assumes a higher real estate tax payment. Our methodology is more fully described in "CMBS Property Evaluation Criteria: Ground Lease Requirements In CMBS Transactions" and "CMBS Property Evaluation Criteria: Commercial Property Cash Flow Analysis," both published Sept. 1, 2004. Oftentimes, these adjustments are made at the property level to capture the increased expense that a lender would consider at refinance. As such, when evaluating loans with operating expenses that are expected to increase based on contractual terms, we will consider what the actual credit risk profile of those loans is and may adjust our default and loss assumptions to more accurately reflect this.

As part of its rating process, Standard & Poor's evaluates select terms and conditions of various loans in considering adherence to legal criteria and general reasonable lending standards. For instance, in evaluating the borrower SPE provisions of the loans in a pool, we may conduct a more detailed analysis of select loans that individually compose 5% or more of the pool. In situations where we determine a loan's borrower SPE provisions deviate materially from our criteria, we may consider adjusting our default and loss assumptions for those loans.

The MSC 2011-C1 transaction has significant loan and sponsor concentration and, therefore, does not closely resemble the archetypical pool described in our conduit/fusion criteria. The MSC 2011-C1 transaction has a similar LTV ratio and DSC relative to the archetypical pool. Nonetheless, the MSC 2011-C1 transaction differs measurably in loan count, loan concentration, and geographic diversity (see table 14).

Table 14

Pool Comparison

	Standard & Poor's criteria minimum	Standard & Poor's archetypical pool	MSC 2011-C1
No. of loans	40	100	37
Loan concentrations (%)			
Top 5	N/A	25.0	51.6
Top 10	N/A	35.0	71.8
Top 20	N/A	45.0	90.0
Effective no. of loans	N/A	52.0	14.0
Effective no. of MSAs	N/A	22.0	14.6
Property mix (%)			
Retail	N/A	32.5	43.6

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Table 14

Pool Comparison (cont.)			
Office	N/A	32.5	27.5
Multifamily	N/A	15.0	0.0
Industrial	N/A	10.0	8.3
Lodging and other	N/A	10.0	20.6
Economics			
Standard & Poor's LTV ratio	N/A	90.0	88.9
Standard & Poor's DSC	N/A	1.20	1.20
Credit enhancement levels (%)			
AAA	10.0	19.0	22.875
BBB-	1.875	4.875	6.500
B	1.0	1.375	1.875

MSC 2011-C1--Morgan Stanley Capital I Trust 2011-C1. MSA--Metropolitan statistical area. LTV--Loan-to-value. DSC--Debt service coverage. N/A--Not applicable.

Scenario Analysis

Standard & Poor's NCF is 10.9% lower than the pool's most recently reported and/or estimated NOI, and 8.4% lower than pool's most recently reported and/or estimated NCF. The pool would generally have to experience operating performance declines approaching these amounts before we would consider taking negative rating actions.

Conversely, we would consider taking positive rating actions if we observed sustainable improvements in property performance that resulted in increases to NCF that were measurably better than 10.9%. However, if we observe that the pool has deleveraged significantly, we may consider upgrades despite smaller increases in the NCF.

We would conduct a comprehensive review of the transaction before taking rating actions. In our analysis, we would determine whether we believe the cash flow declines are temporary by reviewing new leasing activity, pending lease expirations, and general fundamentals in the relevant submarkets. We would also consider current loan leverage because any deleveraging could mitigate potential downgrades or, conversely, support potential upgrades.

To demonstrate the effects that a decline in the pool's actual in-place cash flow may have on the pool's economics, we started with the pool's most recent historical NOI. Sixteen loans backed by 43 properties representing 41.4% of the pool balance did not report comparable historical NOI figures, either because they had just recently reached cash flow stabilization or because they are single tenant-occupied and pay only triple-net rent. For these properties, we determined a NOI based on the current leases in place and the estimated operating expenses. For office, retail, industrial, and mixed-use properties, we then adjusted the NOI for the estimated normalized TI/LCs and capital expenditure reserves using the same assumptions we derived from our property analysis of the pool. The resulting NCF conclusion was 2.7% lower than the pool's weighted average estimated in-place NOI, but 3.7% higher than the issuer's underwritten pool NCF.

We then stressed each loan's NCF with the standard haircuts highlighted in table 15 below by comparing the NCF to each loan's actual in-place debt service. We applied the same capitalization rates by property type that we determined during our property analysis of the pool to arrive at stressed values. We assumed that loans with a DSC below 1.00x and an LTV ratio above 100% term default, and loans with an LTV ratio above 100% default at maturity. We calculated the principal losses for term defaults based on the difference between the outstanding

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beginning loan balance and the stressed value, plus two years lost interest and foreclosure expenses estimated at 5% of the stressed value. We calculated the principal losses for maturity losses based on the difference between the outstanding loan balance at maturity and the stressed value, plus foreclosure expenses estimated at 5% of the stressed value. (see table 15 for a summary of the loss severities that these stresses might produce given the assumptions outlined above).

Table 15

Stressed Scenario Analysis For MSC 2011-C1					
'AAA' credit enhancement level (%)	22.875	--	--	--	--
'BBB-' credit enhancement level (%)	6.500	--	--	--	--
'B' credit enhancement level (%)	1.875	--	--	--	--
NCF haircut assumption (%)*	(0)	(10)	(20)	(30)	(40)
DSC (x)	1.64	1.48	1.31	1.15	0.99
Trust pool loss (%)	(0.0)	(0.4)	(1.7)	(9.8)	(22.0)

*The NCF decline is compared with Standard & Poor's estimate of the pool's most recent NOI (adjusted for estimated TI/LCs and capital expenditure reserves). MSC 2011-C1--Morgan Stanley Capital I Trust 2011-C1. NCF--Net cash flow. DSC--Debt service coverage (based on the pool's actual debt service). NOI--Net operating income. TI/LCs--Tenant improvements and leasing commissions.

Credit Evaluation

Our analysis included the following:

- We conducted site inspections for 17 of the 79 properties, which secure 77.7% of the loan balance.
- We analyzed 23 of the 37 loans, representing 90.9% of the pool balance.
- Our loan level reviews included analyzing property level operating statements and rent rolls.
- We reviewed third-party appraisal, environmental, and engineering reports for each of the select properties.
- We reviewed legal matters that we believe are relevant to our analysis, as outlined in our criteria. We completed a legal review for eight of the loans (65.6% of the pool balance). We reviewed the current drafts of major transaction documents, including the offering circular, PSA, and other legal documents to verify compliance with Standard & Poor's criteria and to understand the mechanics of the underlying loans and the transaction.

For more information on our analysis of the cash flow and valuation of the various property types, the top 10 loan characteristics, and Standard & Poor's DSC and LTV ratio stratification ranges, see tables 16-18.

Table 16

Standard & Poor's DSC Range

DSC range (x)	No. of loans	Loan balance ($)	% of pool
Greater than 1.35	3	257,159,945	16.6
1.30 to 1.34	1	82,185,000	5.3
1.25 to 1.29	4	168,554,781	10.9
1.20 to 1.24	5	224,605,856	14.5
1.15 to 1.19	4	168,361,195	10.9
1.10 to 1.14	9	233,684,960	15.1
1.05 to 1.09	6	215,789,861	13.9
1.00 to 1.04	3	144,240,072	9.3
Less than 1.00	2	53,818,761	3.5

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Table 16

Standard & Poor's DSC Range (cont.)			
Total	37	1,548,400,431	100

DSC--Debt service coverage (based on Standard & Poor's constant).

Table 17

Standard & Poor's Beginning LTV Ratios

Beginning LTV ratio range (%)	No. of loans	Loan balance ($)	% of pool
Less than 80	3	257,159,945	16.6
81 to 85	1	116,880,584	7.5
86 to 90	4	292,903,212	18.9
91 to 95	9	321,421,545	20.8
96 to 100	8	296,705,135	19.2
Greater than 100	12	263,330,009	17.0
Total	37	1,548,400,431	100.0

LTV--Loan-to-value.

Table 18

Standard & Poor's Ending LTV Ratios

Ending LTV ratio range (%)	No. of loans	Loan balance ($)	% of pool
Fully amortizing	0	00	0.0
0 to 50	1	31,274,197	2.0
51 to 60	1	14,569,945	0.9
61 to 70	4	250,723,181	16.2
71 to 75	1	116,880,584	7.5
76 to 80	10	316,998,467	20.5
81 to 85	6	370,026,056	23.9
86 to 90	2	37,455,793	2.4
91 to 95	9	301,653,446	19.5
96 to 100	0	0	0.0
Greater than 100	3	108,818,761	7.0
Total	37	1,548,400,431	100.0

LTV--Loan-to-value.

Top 10 Loans

We analyzed the top 10 loans representing 71.8% of the pool balance and noted some common elements in each write-up. First, the pool balance as indicated within each loan write-up is as of the cutoff date, Feb. 1, 2011. The calculations relating to the DSC and LTV ratios are based on the cutoff balance. Second, physical and economic occupancy rates are based on Standard & Poor's calculations, which may result in discrepancies between what is reported by Standard & Poor's and what is reported in the issuer's offering materials. We generally assume vacant tenants as those that have expired leases, month-to-month leases, are dark, are in litigation, are bankrupt, etc. We also assume that tenants with lease termination options exercise their options, thereby causing those tenants' leases to roll earlier than their lease expiration dates would suggest. Last, the square footages as shown reflect the net

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rentable area (NRA) as determined by Standard & Poor's. In some cases, the issuer's NRA includes common area space or other space that cannot be rented. Our square footage figures do not include nonleasable space.

1. Christiana Mall

Table 19

Loan Profile

Loan summary		Collateral summary	
Trust amount	$234,990,000	**% of pool**	15.2%
Loan type	Fixed rate	**Originator**	Morgan Stanley Mortgage Capital Holdings LLC
Interest rate	5.10%	**Property type**	Regional mall
Amortization	30 years after the initial 60-month interest-only period	**Location**	Newark, Del.
Maturity date	Sept. 5, 2020	**Year built/renovated**	1978/2010
Sponsors	Prime Property Fund and General Growth Properties Inc	**Total mall NRA**	1,113,334 sq. ft.
Management	An affiliate of the sponsor	**Collateral NRA**	435,219 sq. ft.
Borrower SPE provisions	Bankruptcy remote with a nonconsolidation opinion and one independent director	**Physical occupancy as of Nov. 1, 2010**	94.0%
		Economic occupancy as of Nov. 1, 2010	94.0%
		Ownership	Fee/leasehold. A portion of the parking lot is subject to a ground lease

SPE--Special-purpose entity. NRA--Net rental area.

Table 20

Debt Structure

	Amount (mil. $)	Amount per sq. ft. ($)	S&P beginning LTV ratio (%)	S&P DSC*	Issuer DSC**
A	235.0	539.9	68.7	1.41x	1.85X
B	N/A	N/A	N/A	N/A	N/A
Total first mortgage	235.0	539.9	68.7	1.41x	1.85X
Mezzanine	N/A	N/A	N/A	N/A	N/A
Total	235.0	539.9	68.7	1.41x	1.85X

*Calculated based on a Standard & Poor's stressed constant of 8.25% and a 30-year amortization schedule. **Calculated based on the actual constant, a 30-year amortization schedule, and the issuer's NCF. LTV--Loan to value. DSC--Debt service coverage. NCF--Net cash flow. N/A--Not applicable.

Table 21

Structural Features

Lock box	Hard, in place.
Ongoing reserves	Monthly collections for real estate taxes.
Up-front reserves	$13,822,917 to fund tenant allowances due under leases with Nordstrom, California Pizza Kitchen, JB Dawson's, and Brio's Tuscan Grill.
Other	If certain trigger events occur, including an event of default or the DSCR falling below 1.2x, the issuer will deposit collections into a replacement reserve ($0.25 per sq. ft.), capped at $110,604, and a rollover reserve ($1.27 per sq. ft.), capped at $553,021.

DSCR--Debt service coverage ratio.

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Property And Loan Highlights

- The property is a 1.1 million-sq.-ft. enclosed super-regional shopping mall located in Newark, Del., approximately 7 miles from Wilmington, Del., and 32 miles from Philadelphia.
- The property was originally constructed in 1978, expanded in 1990, and is currently in the final stages of a $187.5 million renovation and expansion. The expansion included the construction of a wing that features a new food court, restaurant space, a Target, and a Nordstrom. Nordstrom is expected to open in April 2011.
- The mall has four anchor tenants, Macy's, JCPenney, Target, and Nordstrom, and one major tenant, Barnes & Noble. These five tenants represent 61% of the property's total square footage and are not part of the collateral.
- The mall has 129 retail tenants. The property's in-line sales for reporting tenants occupying less than 10,000 sq. ft. for at least one year, excluding kiosk and food court tenants and Apple, were $549 per sq. ft. as of the trailing 12-month period ended September 2010, reflecting an occupancy cost of 17.2%. Including Apple, the in-line sales were $837 per sq. ft., reflecting an occupancy cost of 11.3%. The weighted average base rent for the collateral is $60.20 per sq. ft.
- The loan sponsors are Prime Property Fund and GGP. Prime Property Fund was founded in 1973 and is a $1.7 billion diversified core real estate fund managed by Morgan Stanley Real Estate. Prime Property Fund's portfolio includes office, retail, multifamily, industrial, self storage, and hotel properties located in major U.S. real estate markets. GGP is one of the nation's largest real estate investment trusts and has been in the shopping center business for more than 50 years. GGP owns, develops, operates, and/or manages shopping malls in 43 states. The company's portfolio comprises approximately 200 million sq. ft. of retail space and includes more than 24,000 retail shops. GGP emerged from Chapter 11 bankruptcy on Nov. 9, 2010.

Tenant Summary

Table 22

Christiana Mall Anchor Tenants

Tenant	S&P rating	Occupied sq. ft.	% of collateral NRA	Base rent per sq. ft. ($)	Lease expiration	2009 sales per sq. ft. ($)
Macy's*	BB+	215,000	N/A	0.09	December 2028	251
JCPenney*	BB+	158,000	N/A	0.00	December 2028	215
Target*	A+	145,312	N/A	0.00	December 2036	N.A.
Nordstrom*	BBB+	123,000	N/A	0.00	December 2028	N.A.

*Not part of the collateral; anchor owned. NRA--Net rentable area. N/A--Not applicable. N.A.--Not available.

Table 23

Christiana Mall Junior Anchor Tenants And Major In-Line Tenants

Tenant	S&P rating	Occupied sq. ft.	% of collateral NRA	Base rent per sq. ft. ($)	Lease expiration	2009 sales per sq. ft. ($)
Barnes & Noble*	BB+	36,803	N/A	20.38	January 2020	N.A.
Forever 21	NR	27,300	6.3	54.95	January 2020	233
H & M	NR	20,160	4.6	36.00	January 2021	92
Express/Express Men	NR	12,330	2.8	46.80	January 2014	387
Anthropologie	NR	10,967	2.5	40.00	January 2021	81
Urban Outfitters	NR	10,000	2.3	29.50	January 2021	64

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Table 23

Christiana Mall Junior Anchor Tenants And Major In-Line Tenants (cont.)						
Pottery Barn	NR	9,771	2.2	33.39	January 2021	307
Abercrombie & Fitch	NR	9,471	2.2	30.37	January 2020	344
FYE	NR	9,373	2.2	65.00	February 2012	313
The Cheesecake Factory	NR	8,603	2.0	30.00	January 2031	738
Tilly's	NR	8,515	2.0	80.00	May 2020	128

*Not part of the collateral; tenant owned. NRA--Net rentable area. NR--Not rated. N/A--Not applicable. N.A.--Not available.

Table 24

Lease Rollover Schedule*

Year	No. of leases	NRA (sq. ft.)	% of sq. ft.	% of total base rent
2011	13	19,623	4.5	5.7
2012	11	30,928	7.3	6.6
2013	5	17,737	4.1	4.2
2014	10	39,527	9.1	8.3
2015	8	25,695	5.9	6.5
2016	12	19,546	4.5	6.8
2017	6	17,368	4.0	4.6
2018	10	12,609	2.9	4.4
2019	15	24,828	5.7	8.2
2020	26	110,631	25.4	23.7
2021 and beyond	12	90,452	20.8	15.3
Vacant	N/A	26,275	6.0	6.0

*As calculated by Standard & Poor's. We generally assume vacant tenants as those that have expired leases, month-to-month leases, are dark, are in litigation, are bankrupt, etc. NRA--Net rentable area. N/A--Not applicable.

Competitor Statistics

Table 25

Christiana Mall Primary Competitors

Property name	Owner	Year built/renovated	NRA (sq. ft.)	Distance from property (miles)	Occupancy (%)	Sales per sq. ft. ($)	Anchors
Concord Mall	Allied Properties	1969/1984	863,251	12 NE	98	450	Sears, Best Buy, and Barnes & Noble
Dover Mall	Simon Property Group	1982/1997	843,886	33 S	93	315	Boscov's, Macy's, JCPenney, Sears, and Carmike Cinema
King of Prussia Mall	Kravco-Simon	1962/2002	2,513,738	32 NE	99	600	Nordstrom's Bloomingdale's, Macy's, Lord & Taylor, Sears, JCPenney, and Neiman Marcus
Franklin Mills	Simon Property Group	1989/1998	1,437,685	46 N	95	290	Boscov's, Burlington Coat Factory, Marshall's, and Sam's Club

NE--Northeast. S--South. N--North.

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Historical Cash Flow And Standard & Poor's Cash Flow

Table 26

Cash Flows	2007	2008	2009	Appraiser	Issuer	S&P
Effective gross income ($)	27,588,747	27,631,963	26,899,133	36,399,621	37,857,656	37,673,304
Total operating expenses ($)	7,477,738	7,268,062	6,802,423	8,015,857	9,058,664	9,058,664
Total capital items ($)	0	0	0	0	445,593	1,259,086
Net cash flow ($)	20,111,010	20,363,901	20,096,711	28,383,764	28,353,399	27,355,553

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

- The revenue calculations were based on in-place rents and recently executed new leases and the vacant in-line space was grossed-up at market rents.
- A 6% vacancy rate was assumed, which is in-line with the property's current vacancy rate.
- The expense reimbursements were grossed-up to 98% of operating expenses, which is in-line with the property's historical performance.
- The percentage rent was based on estimated figures for 2011, accounting for the extensive expansion and renovation.
- The "other income" was calculated based on the property's historical performance and includes temporary tenant income, other rental income, and miscellaneous revenues.
- The operating expenses were based on the property's historical performance. The real estate taxes were based on the 2010 estimate, which was higher than the appraiser's assumption.
- A management fee of 5% of effective gross income (EGI) minus recoveries was assumed and capped at $1 million.
- The replacement reserves were estimated at $0.30 per sq. ft. of the collateral gross leasable area.
- No TI expenses were assumed for anchor tenants because the spaces are tenant-owned.
- The TI expenses for the major tenants were assumed to be $17.00 per sq. ft. for new leases and $8.50 per sq. ft. for renewal leases.
- The TI expenses for the in-line tenants were assumed to be $20.00 per sq. ft. for new leases and $10.00 per sq. ft. for renewal leases.
- The LC expenses were estimated at 4% for new leases and 2% for renewal leases.
- The TI/LC assumptions were based on the in-place weighted average lease term of 10 years for major tenants and 10 years for in-line tenants, with LC expenses capped at 10 years.
- A renewal probability of 65% was assumed for the major and in-line tenants.
- Based on these assumptions, Standard & Poor's overall NCF variance for this property was negative 3.5%.
- Standard & Poor's applied an 8.00% capitalization rate to the NCF, resulting in a Standard & Poor's value of $341.9 million ($786 per sq. ft. of collateral).
- The quality score for this asset is 2.75, an above-average score.

This loan exhibits the following strengths:

- The pooled trust balance exhibits credit characteristics that are consistent with investment-grade obligations rated 'BBB' by Standard & Poor's.
- The property benefits from strong in-line sales performance of $549 per sq. ft., or $837 per sq. ft. including

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Apple.
- The property is expected to benefit from a nearly complete $187.5 million renovation and expansion program that includes a new Nordstrom, Target, food court, and restaurant space.
- Christiana Mall is the dominant mall within its trade area. The property benefits from a diverse tenant mix of national anchor tenants and department stores.
- The loan benefits from a hard, in-place lockbox. However, according to the terms of the cash management agreement, there is no DSC trigger for the NCF sweep and all excess cash flow will be remitted to the borrower unless an event of default occurs.
- The property benefits from experienced management.

This loan exhibits the following concerns and mitigating factors:

- There will be significant rollover in 2020 as 26 leases representing 25.4% of the NRA will expire during the year. However, several of these leases were executed in 2009 and 2010 and, as such, reflect current market rental rates. In addition, as of September 2010, the average sales per sq. ft. of tenants with leases expiring in 2020 were more than $1,300 per sq. ft. (or more than $300 per sq. ft. if the recently opened Apple store is excluded).
- The collateral property includes a ground leased parcel that is not fully compliant with Standard & Poor's criteria. However, this ground lease parcel relates only to a portion of the parking lot that is not necessary for zoning compliance.
- The loan does not benefit from a guarantee with respect to the nonrecourse carve-outs. However, the borrower is required to cause GGP, GGP L.P., or an affiliate of GGP, at the lender's approval to deliver a limited nonrecourse carve-out guarantee with respect to the voluntary or collusive bankruptcy filing or the termination of a collateral ground lease resulting from insufficient parking at the property.
- The loan does not require rating agency confirmation with respect to a replacement property manager. However, any replacement property manager will be subject to the lender's approval and must be a reputable and experienced management organization with experience managing properties similar in size, scope, and value.
- The loan has an initial 60-month interest-only period. However, Standard & Poor's DSC and loan analysis was based on the debt service assuming a 30-year amortization schedule.
- There are no upfront or ongoing reserves for capital improvements or TI/LCs. However, if the DSC falls below 1.2x, monthly collections will commence, capped at $110,604 for capital expenditures and $553,021 for TI/LCs.
- The loan is sponsored by GGP, which filed for Chapter 11 bankruptcy protection on April 16, 2009. GGP emerged from bankruptcy in November 2010, marking the conclusion of one of the largest and more complex bankruptcy cases in U.S. corporate history.

2. Michigan Plaza

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Table 27

Loan Profile

	Loan summary		Collateral summary
Trust amount	$179,502,675	**% of pool**	11.6%
Loan type	Fixed rate	**Originator**	Morgan Stanley Mortgage Capital Holdings LLC
Interest rate	4.94%	**Property type**	Office, central business district, class A-/B+
Amortization	30 years	**No. of properties**	One
Maturity date	Nov. 5, 2015	**Location**	Chicago
Sponsors	Sir Joseph Hotung and Loeb Partners Realty LLC	**Year built/renovated**	1982 and 1985/2002
Management	MB Real Estate Services LLC	**Total NRA**	1,924,666 sq. ft.
Borrower SPE provisions	Bankruptcy remote with a nonconsolidation opinion and one independent director	**Physical occupancy as of Oct. 1, 2010***	78.4% leased and 71.8% occupied
		Economic occupancy as of Oct. 1, 2010*	75.8%
		Ownership	Fee simple

*As calculated by Standard & Poor's. SPE--Special-purpose entity. NRA--Net rental area.

Table 28

Debt Structure

	Amount (mil. $)	Amount per sq. ft. ($)	S&P beginning LTV ratio (%)	S&P DSC*	Issuer DSC**
A	179.5	93.3	96.4	1.21x	1.62x
B	N/A	N/A	N/A	N/A	N/A
Total first mortgage	179.5	93.3	96.4	1.21x	1.62x
Mezzanine	30.0	15.6	112.5	N/A	N/A
Total	209.5	108.9	112.5	0.87x	1.24x

*Calculated based on a Standard & Poor's stressed constant of 8.25% for the mortgage and the actual 11.3% constant on the mezzanine debt. **Calculated based on the actual constant and the issuer's NCF. LTV--Loan-to-value. DSC--Debt service coverage. N/A--Not applicable. NCF--Net cash flow.

Table 29

Structural Features

Lock box	Hard, in-place.
Ongoing reserves	Monthly collections for debt service, real estate taxes, insurance, operating expenses, and replacement reserves ($0.25 per sq. ft. per year). Assuming no event of default has occurred, the mezzanine debt is funded at the bottom of the waterfall. Monthly reserves for TI/LCs ($241,011 per month) will be funded if the balance in the TI/LC reserve falls below $4.0 million and/or the property is less than 70% leased.
Up-front reserves	$15.0 million for tenant improvement allowance ($27.61 per sq. ft. of space that is vacant or dark); taxes: $6,059,068; and insurance: $45,743.

Property And Loan Highlights

- The property is a two-building, class A-/B+ office complex located in the East Loop submarket of Chicago's Central Business District (CBD). It is part of the Illinois Center complex, an enclosed retail concourse that is interconnected to the Hyatt Regency, the Swiss Hotel, other office buildings, and a 500-space indoor parking garage. The property has direct access to the Randolph Street METRA Metro Station, the South Shore commuter

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rail system, and is located within three blocks of the "EL" trains. In addition, the Michigan Plaza landlord provides its tenants with private shuttle service to the three major train stations with suburban commuter rail service.

- The property's two towers include 205 and 225 North Michigan Avenue, which together comprise 1,924,666 sq. ft. The 205 tower is a 44-story building constructed in 1982, and the 225 tower is a 25-story building constructed in 1985. The two towers share a contiguous floor plan from the common lobby through the 16th floor. There is 45,000 sq. ft. of retail space with tenants that include CVS, Starbucks, Hallmark, and Sweetwater Grill. The weighted average rent for the property is $30.82 per sq. ft. gross, as calculated by Standard & Poor's.
- The sponsor is Loeb Partners Realty LLC (Loeb), a privately held real estate services firm that has invested in and managed the asset on behalf of the Loeb family, private investment groups, pension funds, and institutional investors. As of January 2010, Loeb had 32 properties in 10 states with more than 1.5 million sq. ft. of space.
- The property is managed by MB Real Estate, a full-service real estate firm that provides facilities management, leasing, property development, and other related services. Based in Chicago, MB Real Estate was founded in 1982 and manages more than 16 million sq. ft. of primarily office, retail, and industrial properties.

Tenant Summary

Table 30

Major Michigan Plaza Tenants

Tenants	S&P rating/outlook	Sq. ft.	Property NRA (%)	Base rent per sq. ft. ($)	Base rent (% of GPR)	Lease expiration
Blue Cross & Blue Shield	NR	225,231	11.7	17.78	9.4	March 2024
Fox Television Station (News Corp.)	BBB+/Stable	84,909	4.4	20.44	4.1	December 2022
Unilever N.V.*	A+/Stable	77,383	4.0	24.60	4.5	July 2013
Omnicom Group	BBB+/Stable	77,059	4.0	14.12	2.6	May 2016
Cramer-Krasselt	NR	76,261	4.0	20.06	3.6	June 2018

*Unilever has vacated its space, but continues to pay rent. For the purposes of our analysis, we assumed a 0% renewal probability for this tenant. NRA--Net rentable area. GPR--Gross potential rent. NR--Not rated.

Table 31

Lease Rollover Schedule*

Year	No. of leases	NRA (sq. ft.)	% of sq. ft.	% of total base rent
2010	1	1,237	0.1	0.1
2011	12	32,287	1.7	2.6
2012	19	95,842	5.0	8.0
2013	19	148,615	7.7	11.5
2014	13	66,731	3.5	5.9
2015	12	52,338	2.7	4.1
2016	14	259,161	13.5	18.2
2017	1	67,562	3.5	4.0
2018	13	178,354	9.3	10.4
2019	7	124,980	6.5	9.4
2020	6	69,316	3.6	4.9
2021 and beyond	12	362,299	18.8	20.9

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Table 31

Lease Rollover Schedule* (cont.)				
Vacant (as of October 2010)	N/A	465,944	24.2	N/A

*As calculated by Standard & Poor's. We generally assume vacant tenants as those that have expired leases, month-to-month leases, are dark, in litigation, bankrupt, etc. The exception is Unilever ('A+', lease expires July 2013), for which we assumed a 0% renewal probability. NRA--Net rentable area. N/A--Not applicable.

Market And Competitor Statistics

Table 32

CoStar Chicago East Loop Market Data As Of Year-End 2010

Building class	Inventory (sq. ft.)	Overall vacancy (%)	Gross asking rent per sq. ft. ($)	YTD absorption (sq. ft.)	New construction (sq. ft.)
A	15,089,390	22.5	32.29	155,248	0
B	7,661,679	12.2	23.81	(97,516)	0
Blended A and B	22,751,069	19.0	29.43	57,732	0

YTD--Year-to-date.

Table 33

Appraiser Rent Comparable Data

Property name	Class	NRA (sq. ft.)	Year built	Stories	% leased	Lease date	Size (sq. ft.)	Initial rent per sq. ft. ($)*	Term (years)
150 North Michigan Ave	B	649,361	1984	41	68.2	June 2010	4,119	15.50	3
Two Illinois Center	B	980,362	1972	32	86.6	March 2010	7,032	14.00	10
One Illinois Center	B	1,002,950	1969	32	97.4	February 2010	99,204	13.50	11
One Illinois Center	B	1,002,950	1969	32	97.4	February 2010	5,810	12.85	1
Two Prudential Plaza	A	993,507	1990	64	86.2	January 2010	3,659	15.50	5
Two Illinois Center	B	980,362	1972	32	86.6	December 2009	184,042	15.50	10
Three Illinois Center	B	875,000	1980	30	66.9	August 2009	5,386	15.50	7.5
Two Prudential Plaza	A	993,507	1990	64	86.2	September 2009	4,119	15.50	10

*Leases are quoted net of taxes, utilities, and other operating expenses, which average $15.27 per sq. ft. NRA--Net rentable area.

Historical Cash Flow And Standard & Poor's Cash Flow

Table 34

Cash Flows

	2008	2009	TTM ended July 2010	Appraiser (year 1)	Issuer	S&P
Effective gross income ($)	45,283,928	43,198,987	44,722,206	47,144,139	46,302,775	43,303,191
Total operating expenses ($)	23,713,693	24,480,008	24,503,352	24,161,869	25,516,018	24,654,947
Total capital items ($)	18,388,041	9,694,342	9,492,459	1,902,119	2,810,013	3,238,492
Other adjustments*	--	--	--	--	--	2,564,859
Net cash flow ($)	3,182,194	9,024,637	10,726,395	21,080,151	17,976,744	17,974,859

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Table 34

Cash Flows (cont.)

*Standard & Poor's gave credit for the lesser of our assumed annual TI/LC reserves, or $3.0 million, which is the upfront $15.0 million leasing reserve normalized over the five-year loan term. TTM--Trailing 12 months. TI/LCs--Tenant improvements and leasing commissions.

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

- The underwritten revenues were based on gross rent of $28.50 per sq. ft., which is based on the appraiser's concluded market rents, the subject's mix of net and gross leases, and the estimated 2010 expense reimbursements of $8.41 per sq. ft. Our assumed mark-to-market to $28.50 per sq. ft. represents a 7.1% discount versus the in-place rents (net of concessions).
- Additional vacancy was applied to space that is dark, expired, or otherwise expected to become vacant within the next few months. Excluding the Unilever space ('A+', 77,383 sq. ft., 4.0% of NRA, 4.5% of base rents, expires July 2013), our total vacancy is 24.2% of NRA.
- The expense reimbursements were based on the tenants' contractual obligations.
- Parking income was based on the issuer's estimated income of $790,000 per year from a lease agreement with the operator, Central Parking Systems. Although the current lease payment equals $1 million per year, the operator has requested to terminate its lease due to a change in the garage facility's projected profitability.
- Other income was based on the property's historical performance and appraisal estimates.
- Operating expenses, other than insurance premiums, were based on the property's trailing 12-month performance as of July 2010.
- The insurance premium expense was based on the current actual premium.
- A management fee of $1.0 million was assumed, which is equivalent to 2.3% of EGI. Standard & Poor's typically caps management fees at the greater of $1.0 million or 1.5% of EGI for office buildings, unless a higher amount is warranted.
- Replacement reserves were assumed to be $0.35 per sq. ft.
- TI expenses were assumed to be $14.00 per sq. ft. for new leases and $7.00 per sq. ft. for renewal leases.
- LCs were calculated using a rate of 4.0% and 2.0% for new and renewal tenants, respectively.
- The TI/LC assumptions were based on an assumed average lease term of ten years.
- A 65% renewal probability was assumed for all tenants except Unilever, for which we assumed a 0% renewal probability.
- The loan includes a $15.0 million upfront leasing reserve, which equals $3.0 million annually over the five-year loan term. In deriving its NCF, Standard & Poor's gave credit for $2.5 million, which is the lesser of our assumed annual TI/LC reserve amount and $3.0 million.
- Based on these assumptions, Standard & Poor's NCF variance for this property is 0.0%.
- Standard & Poor's applied a capitalization rate of 9.00% to our unadjusted NCF, and added $15.0 million to value, which resulted in a Standard & Poor's value of $186.2 million ($97 per sq. ft.).
- The quality score for this asset is 2.75, an above-average score.

This loan exhibits the following strengths:

- The property is well-located in the East Loop of the Chicago CBD. Access is convenient with an "EL" station located adjacent to the property.
- The property benefits from its location within Illinois Center, a mixed-use development that includes full-service hotels, office towers, an athletic facility, below-grade parking, and an array of retail services.

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- The property benefits from a diverse tenant mix with more than 180 tenants, the largest of which comprises only 9.4% of base rents.
- The loan benefits from a hard lockbox with a meaningful trigger that is based on a first mortgage actual DSC of 1.44x or an all-in DSC of 1.10x, including the mezzanine loan at the actual constant. The current actual DSCs are 1.62x and 1.24x, respectively, based on Standard & Poor's NCF.
- The loan benefits from a $15 million upfront leasing reserve, which equals $25.22 per sq. ft. of vacant space.
- The property benefits from strong sponsorship and experienced management.

This loan exhibits the following concerns and mitigating factors:

- There is additional debt in the form of a $30.0 million mezzanine loan, which increases Standard & Poor's LTV ratio from 96.4% to 112.5%. Standard & Poor's took the loan structure and all additional debt into consideration when evaluating the loan and the deal.
- Although the property is 78.4% leased, physical occupancy is only 71.8% due to dark tenant spaces, including Unilever. This is partially mitigated by the $15.0 million upfront leasing reserve, which equals $27.61 per sq. ft. of vacant space. The Unilever ('A+') lease provides for $1.9 million in revenue per year through July 2013. Furthermore, the borrower has already invested approximately $13.7 million ($25.22 per sq. ft. of vacant space) in preparing vacant space for potential tenants, including a "speculative suite" program that enhances the borrower's ability to quickly accommodate new tenants. Standard & Poor's accounted for dark space in its analysis by assuming all non-investment-grade tenants were vacant, and by assigning a 0% renewal probability to the Unilever ('A+') space.
- The subject's submarket, Chicago's East Loop, has a total vacancy of 19% according to CoStar. With a significant overhang of available space, the leasing environment is highly competitive. However, the pipeline of new supply is minimal, and over the next five years, CBRE-EA is projecting modest growth in rents and declining vacancy levels. Standard & Poor's accounted for the weak market fundamentals by taking a mark-to-market adjustment to in-place rents. Furthermore, the property benefits from having low levels of annual lease expirations during the five-year loan term.

3. Pearlridge Center

SEC-STRS-E-0081916

Table 35

Loan Profile

Loan summary		Collateral summary	
Trust amount	$175,000,000	**% of pool**	11.3%
Loan type	Fixed rate	**Originator**	Morgan Stanley Mortgage Capital Holdings LLC
Interest rate	4.60%	**Property type**	Regional mall
Amortization	30 years after the initial 36-month interest-only period	**Location**	Honolulu
Maturity date	Nov. 1, 2015	**Year built/renovated**	1972/1996
Sponsors	Blackstone Real Estate Partners VI L.P. (parent: Blackstone Holdings ['A']) and Glimcher Realty Trust ('B+')	**Total mall NRA**	1,304,172 sq. ft.
Management	An affiliate of the sponsor	**Collateral NRA**	1,153,541 sq. ft.
Borrower SPE provisions	Bankruptcy remote with a nonconsolidation opinion and two independent directors	**Physical occupancy as of September 2010**	99.6%
		Economic occupancy as of September 2010	99.7%
		Ownership	Fee/leasehold; the property is subject to seven ground leases

SPE--Special-purpose entity. NRA--Net rental area.

Table 36

Debt Structure

	Amount (mil. $)	Amount per sq. ft. ($)	S&P beginning LTV ratio (%)	S&P DSC*	Issuer DSC**
A	175.0	152	86.5	1.10x	1.59x
B	N/A	N/A	N/A	N/A	N/A
Total first mortgage	175.0	152	86.5	1.10x	1.59x
Mezzanine	N/A	N/A	N/A	N/A	N/A
Total	175.0	152	86.5	1.10x	1.59x

*Calculated based on a Standard & Poor's stressed constant of 8.25% and a 30-year amortization schedule. **Calculated based on the actual constant, a 30-year amortization schedule, and the issuer's NCF. LTV--Loan to value. DSC--Debt service coverage. N/A--Not applicable. NCF--Net cash flow.

Table 37

Structural Features

Lock box	Hard, in place.
Ongoing reserves	Monthly collections for debt service, ground rent, taxes and insurance, and a TI/LC reserve ($1.45 per sq. ft. on 475,000 sq. ft.).
Up-front reserves	Taxes ($1,040,394) and outstanding TIs ($840,750).

TI/LCs--Tenant improvements and leasing commissions.

Property And Loan Highlights

- The property is a 1.2 million-sq.-ft. enclosed regional shopping mall located in Honolulu, on the island of Oahu. It is located within one mile of Aloha Stadium, several country clubs, and is less than three miles from Honolulu Airport.
- The property was constructed in phases and consists of two distinct structures with separate food courts and

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tenant mixes. The structures are within walking distance of one another and are connected by a monorail.

- The mall has two anchor tenants and four junior anchor tenants, each of which is part of the collateral. A third anchor, JCPenney, closed in January 2004. That anchor space was converted into interior mall shop space and two major tenant spaces: Border's Books and Price Busters, which are not part of the collateral.
- The mall has 279 tenants. Based on reporting tenants, the property's in-line sales for tenants occupying less than 10,000 sq. ft. for at least one year, excluding kiosk and food court tenants, were approximately $421 per sq. ft. as of September 2010, resulting in an occupancy cost of approximately 15%. Historical in-line sales for tenants occupying less than 10,000 sq. ft., including kiosk and food court tenants, as reported by the appraiser, were $498 in 2007, $504 in 2008, and $496 in 2009. The current in-place weighted average base rent for in-line tenants is $35.22 per sq. ft., whereas the weighted average base rent for all tenants is $17.27 per sq. ft.
- In addition to retail space, the property has been improved with 160,909 sq. ft. of office space, 9,909 sq. ft. of storage space, and a 54,149-sq.-ft. theater.
- The $175 million loan financed the $250 million acquisition of the subject property by Blackstone Real Estate Partners VI L.P. (Blackstone; parent: Blackstone Holdings ['A']) and Glimcher Realty Trust ('B+') in November 2010 (representing a 70% loan-to-cost ratio).
- Blackstone's real estate group was founded in 1992 and has raised a total of $29 billion since inception. Blackstone is a long-term holder of a diversified international asset pool, including office, hotel, healthcare, retail, and multifamily properties. In 2007, Blackstone completed its initial public offering, which totaled $7.6 billion and included a $3 billion investment by China Investment Co.
- Glimcher Realty Trust is a REIT based in Columbia, Ohio. It owns and/or manages 26 properties in 13 states with a total of 20.0 million sq. ft. Regional malls constitute the core of its portfolio.

Tenant Summary

Table 38

Pearlridge Center Anchor Tenants

Tenant	S&P rating	Occupied sq. ft.	% of collateral NRA	Base rent per sq. ft. ($)	Lease expiration	Sales per sq. ft. for the TTM ended September 2010 ($)
Sears	BB-	185,000	1.6	2.67	June 2029	219
Macy's	BB+	150,000	1.3	3.83	August 2014	279

NRA--Net rentable area.

Table 39

Pearlridge Center Junior Anchor And Major In-Line Tenants

Tenant	S&P rating	Occupied sq. ft.	% of collateral NRA	Base rent per sq. ft. ($)	Lease expiration	Sales per sq. ft. for the TTM ended September 2010 ($)
Bed Bath & Beyond	BBB	65,653	5.7	10.03	January 2021	N.A.
Longs Drug Store	BBB+*	26,500	2.3	3.26	February 2021	679
Toys "R" Us	NR	46,000	4.0	13.02	January 2029	368
Ross	NR	24,063	2.1	20.78	January 2014	460
Footlocker Triplex	NR	10,817	0.9	30.00	April 2018	301
Gap	BB+	17,616	1.5	20.00	November 2012	152

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Table 39

Pearlridge Center Junior Anchor And Major In-Line Tenants (cont.)						
Pearlridge Theater	NR	54,149	4.7	13.34	November 2012	110; $347,706/screen (as of 2009)

*The rating on the parent company, CVS Caremark Corp. NRA--Net rentable area. NR--Not rated. N.A.--Not available.

Table 40

Lease Rollover Schedule*

Year	No. of leases	NRA (sq. ft.)	% of	% of total base rent
2011	32	28,153	2.4	7
2012	28	126,633	11.0	12
2013	31	38,531	3.3	5
2014	28	256,640	22.3	12
2015	24	39,192	3.4	7
2016	20	68,325	5.9	10
2017	18	46,046	4.0	7
2018	23	115,571	10.0	16
2019	24	55,983	4.9	8
2020 and beyond	34	369,660	32.1	17
Vacant	N/A	8,807	0.8	N/A

*As calculated by Standard & Poor's. We generally assume vacant tenants as those that have expired leases, month-to-month leases, are dark, are in litigation, are bankrupt, etc. NRA--Net rentable area. N/A--Not applicable.

Competitor Statistics

Table 41

Pearlridge Center Primary Competitors

Property name	Owner	Year built	NRA (sq. ft.)	Distance from property (miles)	Occupancy (%)	Sales per sq. ft. ($)	Anchors
Ala Moana Center	General Growth Properties	1959/2004	2,370,000	10.5	99	1,125	Sears, Macy's, Neiman Marcus, and Nordstrom
Kahala Mall	N.A.	1967/1986	486,400	13.7	99	N.A.	Macy's, Barnes & Noble, Longs Drugs, and Whole Foods
Windward Mall	N.A.	1982/1994	508,167	14.4	100	N.A.	Macy's, Sears, Regal Cinemas, and Borders

NRA--Net rentable area. N.A.--Not available.

Historical Cash Flow And Standard & Poor's Cash Flow

Table 42

Cash Flows

	2008	2009	In-place 2010	Appraiser	Issuer	S&P
Effective gross income ($)	42,914,383	41,139,458	43,670,936	43,228,556	42,392,113	41,849,051
Total operating expenses ($)	23,463,428	22,734,804	23,580,440	23,546,839	23,494,668	25,330,884
Total capital items ($)	0	0	0	1,520,453	1,729,688	1,410,779
Net cash flow ($)	19,450,955	18,404,654	20,090,496	18,161,264	17,167,757	15,851,703*

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Table 42

Cash Flows (cont.)

*Standard & Poor's increased its NCF to account for the present value analysis of the ground rent expense. NCF--Net cash flow.

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

- The gross potential rent was based on leases in-place as of the October 2010 rent roll, with vacant spaces grossed up by the average in-place rent by tenant type.
- A market rate vacancy of 5.0% for retail space, 7.5% for office space, and 10.0% for storage space was assumed because the property's in-place occupancy rate is greater than the market rate.
- The expense reimbursements were based on the tenants' contractual obligations and the property's historical performance.
- The percentage rent was based on the property's historical performance.
- The "other income" was calculated based on the property's historical performance and includes miscellaneous income and fares for the onsite monorail.
- The operating expenses were based on the property's historical performance, with consideration given to the appraiser's estimates.
- A management fee of 5% of the EGI minus recoveries was assumed, but capped at $1 million.
- The replacement reserves were estimated at $0.30 per sq. ft. of the collateral gross leasable area.
- The TI expenses for the anchor tenants were assumed to be $2.00 per sq. ft. for new leases and $1.00 per sq. ft. for renewal leases.
- The TI expenses for the major tenants were assumed to be $10.00 per sq. ft. for new leases and $5.00 per sq. ft. for renewal leases.
- The TI expenses for the in-line tenants were assumed to be $12.00 per sq. ft. for new leases and $5.00 per sq. ft. for renewal leases;
- The TI expenses for the office tenants were assumed to be $23.00 per sq. ft. for new leases and $11.50 per sq. ft. for renewal leases.
- The TI expenses for the theater tenant were assumed to be $12.00 per sq. ft. for new leases and $5.00 per sq. ft. for renewal leases.
- The LC expenses were estimated at 4% for new leases and 2% for renewal leases.
- The TI/LC assumptions were based on lease terms of 10 years for the anchor, major, in-line, and office tenants, as well as for the theater tenant. Leasing commissions were capped at 10 years. With respect to lease terms, we may adjust our assumptions in certain situations, including instances where a tenant has an early termination option or the lease term that the borrower indicated for a particular tenant is unrealistically long and does not reflect a typical market lease term. In the latter case, the rent roll that the borrower submits may inadvertently include the original lease terms plus extensions and overstate current lease terms.
- A renewal probability of 65% was assumed for all tenants with the exception of the theater tenant, which was assigned a 60% renewal probability.
- Based on these assumptions, Standard & Poor's overall NCF variance for this property was negative 7.7%.
- Standard & Poor's applied an 8.00% capitalization rate to the NCF, resulting in a Standard & Poor's value of $202.2 million ($175 per sq. ft. of the total collateral).
- The quality score for this asset is 3.0, an average score.

This loan exhibits the following strengths:

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- The property has exhibited strong historical performance with occupancy of more than 99% since 2008 and current occupancy of 99.6%. This is generally in line with competing malls and evidence of the relatively strong Honolulu retail market.
- The property has a large mix of local and national anchor and in-line tenants, including Sears, Macy's, Bed Bath & Beyond (the first in Hawaii), Gap, Footlocker, and Toys "R" Us. The property exhibited in-line sales of $421 per sq. ft. as of September 2010, reflecting an occupancy cost of 15%.
- In the event that either Macy's or Pearlridge West Theaters fails to renew its lease within six months of lease expiration, and the borrower has not entered into new leases for the majority of the respective spaces, the borrower is required to make monthly TI/LC reserve payments of $333,333 per month for Macy's (up to $2.0 million) and/or $250,000 per month for Pearlridge West Theaters (up to $1.5 million).
- The loan is structured with a cash flow sweep upon an event of default or the DSC dropping below 1.20x, tested quarterly, based on the 12-month projected underwritten NCF and actual debt service. The current actual DSC is 1.47x based on Standard & Poor's NCF.
- The property benefits from strong sponsorship and experienced management by Blackstone (80% ownership) and Glimcher Realty Trust (20% ownership).

This loan exhibits the following concerns and mitigating factors:

- Due to the fact that the mall was constructed in phases, the layout is not typical of enclosed shopping centers. The mall has two separate interior mall buildings that are accessible by foot or monorail. However, each component has its own food court and mix of retail tenants.
- 22.3% of the leases representing 256,640 sq. ft. and 12% of potential gross income will expire in 2014. This is partially due to the expiration of the Macy's lease, which accounts for 150,000 sq. ft. and 13% of NRA. As a mitigant, the loan requires an additional monthly payment of $333,333 into the TI/LC reserve up to $2.0 million in the event that Macy's does not renew its lease or a suitable replacement tenant is not signed six months before the lease expiration. Furthermore, Macy's reported strong sales of $279 per sq. ft. as of October 2010.
- The loan has an initial 36-month interest-only period. However, Standard & Poor's DSC and loan analysis was based on the debt service assuming a 30-year amortization schedule.
- The property is subject to seven ground leases. Six of the leases are subject to a master lease through 2058, with renewal options through 2078. The seventh ground lease, on which the Territorial Savings & Loan Building is constructed, expires in 2031 with no renewal options. Furthermore, the lessor is not required to enter into a new lease with the lender if the ground lease is terminated for any reason, including rejection in bankruptcy. However, this portion of the subject property constitutes less than 1% of total gross leasable area and rental collections and is located on the periphery of the property away from the main mall structures.
- The borrower is permitted to sell the property and transfer ownership interests to a "qualified transferee" without obtaining rating agency confirmation or lender consent. The loan documents require that the transferee is a qualified experienced operator and that it satisfy SPE requirements.

4. W.P. Carey Industrial Portfolio

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Table 43

Loan Profile

Loan summary		Collateral summary	
Trust amount	$116,880,584	**% of pool**	7.5%
Loan type	Fixed rate	**Originator**	Morgan Stanley Mortgage Capital Holdings LLC
Interest rate	5.17%	**Property type**	Single-tenant, industrial warehouse; and single-tenant office class B
Amortization	30 years	**No. of properties**	20
ARD date	Jan. 5, 2021	**Location**	Various
Final maturity date	Jan. 5, 2041	**Year built/renovated**	Various
Sponsor	W.P. Carey & Co. LLC	**Total NRA**	3,259,821 sq. ft.
Management	Managed by the tenant unless an event of default occurs under the master lease	**Ownership**	Leased fee
Borrower SPE provisions	Bankruptcy remote with one independent director and a nonconsolidation opinion		

ARD--Anticipated repayment date. SPE--Special-purpose entity. NRA--Net rental area.

Table 44

Total Debt Structure

	Amount (mil. $)	Amount per sq. ft. ($)	S&P beginning LTV ratio (%)	S&P DSC*	Issuer DSC**
A	116.9	36	84.7	1.28	1.85
B	N/A	N/A	N/A	N/A	N/A
Total first mortgage	116.9	36	84.7	1.28	1.85
Mezzanine	N/A	N/A	N/A	N/A	N/A
Total	116.9	36	84.7	1.28	1.85

*Calculated based on a Standard & Poor's stressed constant of 8.50%. **Calculated based on the actual constant and the issuer's NCF. LTV--Loan to value. DSC--Debt service coverage. N/A--Not applicable. NCF--Net cash flow.

Table 45

Structural Features

Lock box	Hard, in-place.
Ongoing reserves	On-going monthly reserves for taxes, insurance, and capital expenditures are waived except upon an event of default or if the tenant is in material default, the master or replacement lease is not in full force, or evidence of tax or insurance payments is not provided. TI/LC collections will commence if a property is no longer occupied by the master tenant or an acceptable replacement tenant
Up-front reserves	$2,815,000 to cover potential environmental remediation.

TI/LCs--Tenant improvements and leasing commissions.

Property And Loan Highlights

- The collateral for the loan consists of the leased fee interest in 26 General Parts Internal Inc. (GPI) distribution centers and four office properties that are geographically diversified across 25 states.
- The loan funds the $225 million purchase of the portfolio (52% loan to cost). The properties were previously owned by an affiliate of GPI, and the sale involved a leaseback to an affiliate of GPI. The properties are currently

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operated by affiliates of GPI, including CARQUEST Auto Parts Inc. (CARQUEST).

- The aggregate square footage attributable to the distribution centers is 3,176,238 sq. ft. while the office buildings comprise 83,583 sq. ft. The four office properties are located within a single office park, and the GPI affiliates use them as their headquarters.
- There is one non-cancelable, triple-net lease (tenant pays all operating expenses, including real estate taxes and capital expenditures) covering all 30 properties with an initial term of 20 years expiring in December 2030. The lease provides for six five-year extension options. The current in-place rent is $5.21 per sq. ft. with rent escalations of 5% every five years. The lease allows the tenant to sublease up to 50% of the gross leasable area with no consent or approval of the landlord.
- The property transfer is a sale-leaseback agreement in which W.P. Carey & Co. LLC (W.P. Carey) negotiated to purchase the portfolio from GPI and lease the properties to the GPI affiliates. All of the facilities are considered to be critical to GPI's business operations, and the GPI affiliates are currently occupying all of the properties within the portfolio.
- GPI primarily operates as CARQUEST and is an international distributor of replacement products for cars, trucks, off-road equipment, buses, agricultural equipment, and recreational vehicles. CARQUEST operates primarily as a distributor to commercial customers (83% of sales) with 17% of sales to retail customers.
- The sponsor is W.P. Carey, an investment management firm that specializes in long-term sale-leaseback and build-to-suit financing for a global portfolio of companies. W.P. Carey was founded 37 years ago and has a portfolio of approximately $10 billion.

Unique Loan Features

- The loan provides for substitution of up to 14 of the 30 properties during the course of the loan with 60 days notice. Substitution is subject to rating agency confirmation, as well as a set of preconditions with respect to the quality of the property being substituted. There are no collateral release provisions, except for the aforementioned substitutions.
- The loan is an ARD loan. If the loan is not paid by the expected maturity date, the loan hyperamortizes and the interest rate on the loan will step up by a minimum of 5%.
- The loan is structured such that there is no cap on the trade payables and the trade payables are not limited to short-term debt obligations. However, trade payables are limited to debts incurred from managing the properties, and they are expected to be limited given the single-tenant nature of the portfolio.
- A partial cash flow sweep will be triggered if the loan hyperamortizes due to an expiration of the initial term; a material event of default occurs; the tenant or subtenant fails to occupy at least 75% of the property (as calculated based on allocated tenant rent); or tenant bankruptcy occurs.

Property And Market Details

Property summary

Table 46

Property Details

Property address	City	State	Site area (acres)	Total NRA (sq. ft.)	% of portfolio NRA	Year built/renovated	Ceiling height	No. of dock doors
4001 Hawkins NE	Albuquerque	New Mexico	4.5	70,000	2.15	1985/2000	20' - 26'	13

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Table 46

Property Details (cont.)									
4602 SE Delaware Ave	Ankeny	Iowa	10.7	111,125	3.41	1997	30'	19
34928 McMurtrey Ave.	Bakersfield	Calif.	10.4	148,061	4.54	2001	32'	25
155 Perry Road	Bangor	Maine	6.5	94,328	2.89	1967/1997	24'	12
2001 Oak Villa Boulevard	Baton Rouge	La.	9.1	125,371	3.85	2005	26'	23
508 McGraw St	Bay City	Mich.	8.3	162,481	4.98	1950/1974	14' - 25'	12
2635 Belknap Ave	Billings	Mon.	5.0	109,022	3.34	1956	20' - 25'	18
2830 Carquest Dr.	Brunswick	Ohio	9.6	122,814	3.77	2001	30'	19
10325 E. 49th Avenue	Denver	Colo.	10.8	126,591	3.88	2000	30'	21
1544 S. Girls School Rd.	Indianapolis	Ind.	7.6	103,648	3.18	1991	25'	20
7812 S 186th Place	Kent	Wash.	4.7	89,985	2.76	1995/2005	30'	19
21560 Grenada Ave	Lakeville	Minn.	11.9	137,614	4.22	1981/1996	30'	19
1991 Lakepointe Drive	Lewisville	Texas	9.8	149,500	4.59	2000	32'	16
1989 Georgetown Road	Lexington	Ky.	10.0	100,348	3.08	1995	25'	18
1906 N Peach Ave	Marshfield	Wisc.	13.7	134,603	4.13	1950	15' - 23'	15
3065 Selma Highway	Montgomery	Ala.	8.6	142,451	4.37	1993/2007	28'	18
417 Brick Church Park Drive	Nashville	Tenn.	6.6	81,599	2.50	1989	20'	13
1700 SW 38th Ave.	Ocala	Fla.	11.1	165,509	5.08	2001/2008	28'	25
802 S 51st Ave	Phoenix	Ariz.	8.3	95,362	2.93	1988	24'	16
14819 N Lombard St	Portland	Ore.	6.8	104,825	3.22	1996	26'	20
2635 East Millbrook Road	Raleigh	N.C.	12.7	149,115	4.57	1979/1997	26'	25
4721 Hargrove Road	Raleigh	N.C.	3.7	31,304	0.96	1997	N/A	N/A
4729 Hargrove Road	Raleigh	N.C.	5.5	36,296	1.11	1998	N/A	N/A
4709 Hargrove Road	Raleigh	N.C.	1.1	7,359	0.23	1987/2005	N/A	N/A
4705 Hargrove Road	Raleigh	N.C.	0.7	8,624	0.26	1995	N/A	N/A
795 Columbia Avenue	Riverside	Calif.	7.3	154,092	4.73	2004	30'	26
900 N Independence Blvd	Romeoville	Ill.	7.0	137,548	4.22	1994/2003	24'	20
7751 Nieman Road	Shawnee	Kan.	8.0	122,640	3.76	1999	24'	19
7337 Airways Blvd	Southaven	Miss.	10.5	111,143	3.41	1997	24'	19
3661 Valley Pike	Winchester	Va.	9.3	126,463	3.88	2000	30'	18
Total	N/A	N/A	239.8	3,259,821	100.00	N/A	N/A	N/A

NRA--Net rentable area. N/A--Not applicable.

Standard & Poor's reviewed market data provided by CoStar Group and CBRE-EA to develop an opinion of the markets in which the properties operate. In our market analysis, we looked at each property's submarket. Ten of the 30 properties are located outside of the MSAs that CBRE-EA tracks. The CoStar data presented in table 47 includes properties within a five-mile radius of the collateral property. The appraiser provided submarket vacancy rates, as

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well as vacancy rates for comparable properties.

Market statistics

Table 47

Market Data

Address	City	State	CBRE-EA submarket vacancy (%)	CoStar submarket vacancy (%)	Appraiser's submarket vacancy (%)	Appraiser's rent comparables vacancy (%)	Average CBRE-EA, CoStar, and appraiser (%)
4001 Hawkins NE	Albuquerque	New Mexico	12.40	6.70	9.00	11.10	9.80
4602 SE Delaware Ave	Ankeny	Iowa	N/A	4.70	1.50	0.00	2.07
34928 McMurtrey Ave.	Bakersfield	Calif.	N/A	3.90	N/A	43.20	23.55
155 Perry Road	Bangor	Maine	N/A	28.60	8.70	N/A	18.65
2001 Oak Villa Boulevard	Baton Rouge	La.	N/A	16.40	26.20	47.00	29.87
508 McGraw St	Bay City	Mich.	N/A	57.50	33.70	64.10	51.77
2635 Belknap Ave	Billings	Mon.	N/A	9.60	5.00	N/A	7.30
2830 Carquest Dr.	Brunswick	Ohio	11.40	6.00	7.50	26.50	12.85
10325 E. 49th Avenue	Denver	Colo.	14.80	7.10	N/A	N/A	10.95
1544 S. Girls School Rd.	Indianapolis	Ind.	17.10	7.70	11.30	6.40	10.63
7812 S 186th Place	Kent	Wash.	15.50	8.90	N/A	N/A	12.20
21560 Grenada Ave	Lakeville	Minn.	14.80	8.30	9.40	6.80	9.83
1991 Lakepointe Drive	Lewisville	Texas	19.10	20.20	N/A	10.40	16.57
1989 Georgetown Road	Lexington	Ky.	N/A	5.70	5.60	31.20	14.17
1906 N Peach Ave	Marshfield	Wisc.	N/A	N/A	15.00	0.00	7.50
3065 Selma Highway	Montgomery	Ala.	N/A	22.60	10.80	N/A	16.70
417 Brick Church Park Drive	Nashville	Tenn.	12.20	7.20	11.40	0.00	7.70
1700 SW 38th Ave.	Ocala	Fla.	N/A	7.50	10.90	36.30	18.23
802 S 51st Ave	Phoenix	Ariz.	22.10	16.80	10.80	19.20	17.23
14819 N Lombard St	Portland	Ore.	10.30	8.90	7.30	N/A	8.83
2635 East Millbrook Road	Raleigh	N.C.	12.30	12.00	34.60	2.70	15.40
4721 Hargrove Road	Raleigh	N.C.	13.60	13.70	22.60	8.50	14.60
4729 Hargrove Road	Raleigh	N.C.	13.60	13.70	22.60	8.50	14.60
4709 Hargrove Road	Raleigh	N.C.	13.60	13.70	22.60	8.50	14.60

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Table 47

Market Data (cont.)							
4705 Hargrove Road	Raleigh	N.C.	13.60	13.70	22.60	8.50	14.60
795 Columbia Avenue	Riverside	Calif.	17.30	18.70	10.00	28.50	18.63
900 N Independence Blvd	Romeoville	Ill.	16.80	13.80	13.80	0.00	11.10
7751 Nieman Road	Shawnee	Kan.	10.10	5.80	8.20	28.10	13.05
7337 Airways Blvd	Southaven	Miss.	26.20	10.50	16.40	10.90	16.00
3661 Valley Pike	Winchester	Va.	N/A	29.90	20.00	16.30	22.07

CBRE--C.B. Richard Ellis. CoStar--CoStar Group. N/A--Not applicable.

Historical Cash Flow And Standard & Poor's Cash Flow

Table 48

Cash Flows		
	Issuer	**S&P**
Effective gross income	16,128,178	19,141,029
Total operating expenses	509,311	5,359,488
Total capital items	1,422,536	1,064,001
Net cash flow	14,196,331	12,717,540

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

- The triple-net base rents were based on in-place contract rents adjusted downward by approximately $0.30 per sq. ft. to market rent levels.
- A weighted average vacancy was assumed at 10%, which we based on the submarket conditions for the properties in the portfolio. Standard & Poor's vacancy conclusion was also based on our assessment of each property's current and future market conditions.
- The leases are triple-net of expenses. Therefore, expense reimbursements were based on the tenant being responsible for all property-related operating expenses with the exception of management fees. Expense reimbursements equal the total expenses less management fees.
- The operating expenses were based on the appraiser's and Standard & Poor's market estimates, which equal $1.64 per sq. ft.
- A management fee of 3.0% of EGI was assumed;
- The TI expenses for the distribution centers were $3.00 per sq. ft. for new leases and $1.50 per sq. ft. for renewal leases.
- The TI expenses for the office buildings were assumed at $11.00 per sq. ft. for new leases and $5.50 per sq. ft. for renewal leases.
- The LCs were calculated using a rate of 4.0% and 2.0% for new and renewal tenants, respectively.
- The TI/LC assumptions were based on the master lease term of 20 years.
- A 65% renewal probability was assumed for each tenant lease.
- The replacement reserves were estimated at $0.15 per sq. ft. for industrial space and $0.30 per sq. ft. for office

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space.

- Based on these assumptions, Standard & Poor's NCF variance for this property is negative 10.4%.
- Standard & Poor's applied a weighted average capitalization rate of 9.22% to the NCF, which resulted in a Standard & Poor's value of $137.9 million, or $42 per sq. ft. Capitalization rates ranged from 9.00% to 9.50%, accounting for location, market, age, and other unique features.
- The weighted average quality score for these assets is 3.00, an average score.

This loan exhibits the following strengths:

- The loan is cross-collateralized and cross-defaulted by 30 properties that are geographically diversified across 15 MSAs.
- Approximately 62.2% of the portfolio by allocated loan amount (19 properties) is located within major MSAs, according to CBRE-EA data. The remainder of the portfolio (37.8% and 11 properties) is located within secondary and tertiary markets. However, the loan benefits from the geographic diversity of the assets, which are located across 23 states.
- The loan features a hard, in-place lockbox.
- The property benefits from W.P. Carey's sponsorship and experienced management.

This loan exhibits the following concerns and mitigating factors:

- The properties in the portfolio are leased to a single non-rated tenant. However, the collateral properties comprise 26 of the tenant's 29 distribution centers and are therefore deemed critical to the tenant's continued operations. The collateral also includes the tenant's office headquarters. In addition, a partial cash trap is triggered if the tenant occupies less than 75% of the portfolio by allocated tenant rent.There is limited historical operating data as the loan is acquisition financing. In addition, the property was previously owned and occupied by a GPI affiliate. However, the leases are absolute triple net, whereby the tenant pays all operating expenses, including real estate taxes, management fees, and capital expenditures.
- Based on an analysis of market rents provided by Costar and CBRE-EA, the portfolio's weighted average in-place rent appears to be slightly above the market average. As a result, Standard & Poor's decreased the in-place rents to market levels. Additionally, the master lease is a long term 20-year non-cancellable lease expiring in 2030, and the properties are identified as critical to GPI/CARQUEST's operations.
- The loan is structured such that there is no cap on the trade payables and they are not limited to short-term debt obligations. However, trade payables are limited to debts incurred from managing the properties, and these are expected to be limited given the single-tenant nature of the portfolio.
- Phase I environmental studies were completed by ATC Associates Inc. on Oct. 15, 2010, with findings and recommendations encapsulated in a post closing environmental obligations schedule (PCO). Failure to comply with the PCO will trigger an event of default according to the master lease. The cost to remediate has been estimated at $2.815 million by Professional Services Industries Inc. and a $2.815 million reserve was funded to account for this potential expense. Phase II environmental assessments were recommended for two properties: Bangor, Maine, and Bay City, Mich. The phase II environmental report for the Bangor property indicated that no further action was required. The phase I report for the Bay City property called for an investigation of contamination from former underground storage tanks (USTs), historical operations, and dumping of materials, to be completed within 30 days after acquisition of the property and has not yet been completed. However, $2.23 million of the reserve was allocated to this property.

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5. Extra Space Portfolio

Table 49

Loan Profile

	Loan summary		Collateral summary
Trust amount	$82,185,000	**% of pool**	5.3%
Loan type	Fixed rate	**Originator**	Banc of America Mortgage Capital Holdings LLC
Interest rate	5.85%	**Property type**	Self-storage
Amortization	30 years	**Location**	Various
Maturity date	Feb. 1, 2021	**Year built/renovated**	Various/various
Sponsor	Extra Space Storage Inc.	**Total NRA**	1,198,398 sq. ft.
Management	An affiliate of the sponsor	**Total units**	11,473
Borrower SPE provisions	Bankruptcy remote with a nonconsolidation opinion and one independent director	**Economic occupancy as of Jan. 1, 2011**	82.0%
		Physical occupancy as of Jan. 1, 2011	84.4%
		Ownership	Fee

SPE--Special-purpose entity. NRA--Net rental area.

Table 50

Total Debt Structure

	Amount (mil. $)	Amount per sq. ft. ($)	S&P beginning LTV ratio (%)	S&P DSC*	Issuer DSC**
A	82.2	68.6	89.9	1.30x	1.60x
B	N/A	N/A	N/A	N/A	N/A
Total first mortgage	82.2	68.6	89.9	1.30x	1.60x
Mezzanine	N/A	N/A	N/A	N/A	N/A
Total	82.2	68.6	89.9	1.30x	1.60x

*Calculated based on a Standard & Poor's stressed constant of 8.5%. **Calculated based on the actual debt service amount and the issuer's NCF. LTV--Loan to value. DSC--Debt service coverage. N/A--Not applicable. NCF--Net cash flow.

Table 51

Structural Features

Lock box	Soft, in place.
Ongoing reserves	Monthly collections for real estate taxes and replacement reserves.
Up-front reserves	Taxes ($761,495).

Property And Loan Highlights

- The loan is secured by the fee interests in 16 Extra Space self-storage properties consisting of 11,473 units totaling 1,198,398 sq. ft. The properties were constructed between 1980 and 2004, with an average age of approximately 15 years.
- The portfolio properties are spread across nine states. The top three state concentrations account for 58.3% of

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the units. The largest concentrations are in California (three properties, 25.9% of units), New Jersey (three properties, 21.0% of units), and Massachusetts (two properties, 11.4% of units).

- The properties range in size from 459 units to 1,636 units and total between 47,525 sq. ft. and 125,387 sq. ft. Physical occupancies range from 75.4% to 90.7%, with a weighted average portfolio occupancy of 84.4% as of Jan. 1, 2011.
- Twelve of the properties include climate-controlled storage units, with a percentage of units ranging from 12.8% to 100.0%. The portfolio's overall percentage of climate-controlled units equals 37.6%.
- The loan permits the release of individual properties based on a release price equal to 125% of the allocated loan amount, subject to a minimum DSC test for the remaining properties equal to the greater of the DSC immediately preceding release and 1.40x.
- The loan sponsor is Extra Space Storage Inc. (EXR). EXR is a REIT based in Salt Lake City and is the second-largest operator of self-storage facilities in the U.S. EXR's portfolio consists of approximately 770 self-storage properties situated across 33 states and Washington, D.C. The company's properties comprise approximately 500,000 units and more than 50 million sq. ft. of rentable space.

Portfolio Summary

Table 52

Extra Space Portfolio

Extra Space property location	State	Year built	Physical occupancy (%)*	Total units	Total sq. ft.	Climate-controlled units (%)	Allocated loan amount ($)
Hayward	Calif.	1980	75.4	1,636	125,387	0.0	8,900,000
Hazlet	N.J.	1987	87.3	1,164	117,825	24.1	8,100,000
Seattle	Wash.	1999	90.7	752	67,155	100.0	7,650,000
Beaverton	Ore.	1980	87.0	770	103,130	0.0	6,435,000
Stoneham	Mass.	2003	90.0	760	62,935	40.5	6,225,000
Plainville	Mass.	1998	84.9	551	69,811	31.4	5,250,000
Toms River	N.J.	1999	88.3	668	77,845	32.7	5,175,000
Richmond	Va.	2000	76.0	550	72,763	96.7	5,125,000
Richmond	Calif.	1984	78.0	745	62,205	0.0	4,750,000
Stafford	Va.	2004	85.1	679	74,835	41.8	4,600,000
Hawthorne	Calif.	1991	88.4	584	47,525	0.0	4,000,000
Linden	N.J.	1998	89.4	577	60,763	100.0	3,925,000
Charleston	S.C.	2000	86.9	459	49,034	100.0	3,650,000
Stone Mountain	Ga.	1998	85.1	483	72,120	28.8	2,975,000
Columbia	S.C.	2000	88.3	521	59,265	100.0	2,925,000
Crest Hill	Ill.	2003	80.8	574	75,800	12.8	2,500,000
Total	N/A	N/A	84.4	11,473	1,198,398	37.6	82,185,000

*Represents physical occupancy per the Jan. 1, 2011 rent roll. N/A--Not applicable.

Historical Cash Flow And Standard & Poor's Cash Flow

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Table 53

Cash Flows						
	2008	2009	TTM ended October 2010	Appraiser	Issuer	S&P
Effective gross income ($)	15,355,043	14,728,111	15,039,215	14,612,528	15,039,215	14,843,702
Total operating expenses ($)	4,796,007	4,780,150	4,845,390	5,197,039	5,555,756	5,554,598
Total capital items ($)	0	0	0	0	179,760	179,760
Net cash flow ($)	10,559,036	9,947,961	10,193,825	9,415,489	9,303,700	9,109,345

TTT--Trailing 12 months.

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

- The revenue calculations were grossed-up based on borrower-provided trailing 12-month net collections.
- An 18% economic vacancy rate was assumed, which is consistent with the borrower-provided trailing 12-month net collections.
- The "other income" was calculated based on the property's historical performance and included retail rental income, late fees, and merchandise sales.
- The operating expenses were based on the property's historical performance.
- A management fee of 5.0% of EGI was assumed.
- The replacement reserves were estimated at $0.15 per sq. ft. of the gross leasable area.
- Based on these assumptions, Standard & Poor's overall NCF variance for this property was negative 2.1%.
- Standard & Poor's applied a weighted average capitalization rate of 9.96% to the NCF, which resulted in a Standard & Poor's value of $91.4 million, or $76 per sq. ft. Capitalization rates ranged from 9.75% to 10.25%, accounting for location, market, age, climate control, and other unique features.
- The quality scores for these assets range from 2.75 to 3.25, resulting in a weighted average portfolio quality score of 3.00, an average score.

This loan exhibits the following strengths:

- The loan is secured by 16 cross-collateralized and cross-defaulted self-storage properties located in nine states.
- Approximately 91.5% of the portfolio's units are located within major MSAs, according to CBRE-EA data. The remainder of the portfolio is located within secondary and tertiary markets.
- The portfolio has exhibited relatively stable performance since 2008. The portfolio's weighted average occupancy level was 83.7% in 2008, 83.9% in 2009, and 84.4% as of the most recent trailing 12-month period.
- Approximately 37.6% of the units are climate-controlled, with four properties benefiting from 100% climate-controlled units.
- The loan benefits from strong release provisions requiring a release price equal to 125% of the allocated loan amount. In addition, release is subject to rating agency confirmation and the DSC after release must be at least equal to the greater of the DSC prior to release and 1.40x.
- The property benefits from EXR's sponsorship and experienced management.

This loan exhibits the following concerns and mitigating factors:

- Standard & Poor's considers self-storage facilities a relatively less-stable property type because of the limited barriers to entry. We considered the volatility of the assets by applying more conservative capitalization rates and capital structure assumptions.
- The loan is structured with only a soft lockbox whereby the borrower or manager deposits all property revenue

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into a lockbox account within five days of receipt. According to the terms of the cash management agreement, there is a cash flow sweep but it is only triggered upon a DSC of 1.10x, which we consider to be less robust. The cash trap period ends when the DSC equals or exceeds 1.20x for the immediately preceding six month period. The current actual DSC is 1.57x based on Standard & Poor's NCF.

- Self-storage performance is usually linked to the overall health of the residential market. However, the portfolio has exhibited relatively stable performance despite current weakness in the residential sector.

6. Hilton Times Square

Table 54

Loan Profile

Loan summary		Collateral summary	
Trust amount	$92,188,874	**% of pool**	6.0%
Loan type	Fixed rate	**Originator**	Banc of America Mortgage Capital Corp.
Interest rate	4.97%	**Property type**	Full-service hotel
Amortization	30 years	**Location**	New York
Maturity date	Nov. 1, 2020	**Year built/renovated**	2000/2007
Sponsor	Sunstone Hotel Partnership LLC	**No. of guest rooms**	460
Management	Interstate Hotels & Resorts	**Occupancy reforecast as of October 2010**	88.4%
Borrower SPE provisions	Bankruptcy remote with a nonconsolidation opinion and one independent director	**ADR reforecast as of October 2010**	$288.58
		RevPAR reforecast as of October 2010	$255.01
		Ownership	Leasehold

SPE--Special--purpose entity. ADR--Average daily rate. RevPAR--Revenue per available room.

Table 55

Debt Structure

	Total debt outstanding				
	Amount (mil. $)	**Amount per guest room ($)**	**S&P beginning LTV ratio (%)**	**S&P DSC***	**Issuer DSC****
A	92.2	200,411	94.8	1.10x	1.84x
B	N/A	N/A	N/A	N/A	N/A
Total first mortgage	92.2	200,411	94.8	1.10x	1.84x
Mezzanine	N/A	N/A	N/A	N/A	N/A
Total	92.2	200,411	94.8	1.10x	1.84x

*Calculated based on a Standard & Poor's stressed constant of 10.0%. **Calculated based on the actual constant and the issuer's NCF. LTV--Loan-to-value. DSC--Debt service coverage. N/A--Not applicable. NCF--Net cash flow.

Table 56

Structural Features

Lock box	Soft
Ongoing reserves	Replacement reserve equal to 4.0% of total revenue.

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Table 56

Structural Features (cont.)	
Up-front reserves	$3.45 million PIP reserve; $104,500 deferred maintenance; $499,238 tax reserve, which must be replenished if the taxes are not paid; and $188,032 ground rent.

PIP--Property improvement plan.

Property And Loan Highlights

- The property is located in New York City on 42nd Street between 7th and 8th Avenues in the heart of Times Square.
- The property was developed in 2000 and has 460 guest rooms. The hotel has a restaurant and bar, 5,749 sq. ft. of meeting space, a fitness center, and a business center. It is part of a mixed-use development containing a 25-screen AMC theater and various retail components.
- As of the October 2010 reforecast, which includes actual performance through October 2010 and projections for the remainder of 2010, the property achieved an occupancy rate of 88.4%, ADR of $288.58, and revenue per available room (RevPAR) of $255.01. Net cash flow was $10,380,787. The hotel's RevPAR penetration rate was 106.7% as of the trailing 12-month period ended October 2010.
- The property currently benefits from a PILOT program through 2019, whereby the hotel is subject to base and percentage rent in lieu of direct taxes. A second PILOT program will begin in 2020 through 2029 during which the hotel will be subject to full property tax payments as well as recapture obligations. In its analysis, Standard & Poor's accounted for the significant increase in property taxes that is expected to occur in 2020 when the initial PILOT program benefits expire.
- The property is subject to two ground leases that will expire in 2091 and 2095, respectively. The current ground rent payment is approximately $1.6 million, or 3.4% of total revenue. Ground rent increases by approximately 3.0% per year. However, in 2020, the base rent component will adjust to the higher of the previous year's base rent or 10% of the land's fair market value.
- In addition to the trust balance, additional debt in the form of a mezzanine loan is permitted, subject to a maximum LTV of 65%, a DSC ratio of 1.35X, and rating agency confirmation.
- The sponsor is Sunstone Hotel Investors Inc., a lodging REIT that has interests in 31 hotels. The property is managed by Interstate Hotels & Resorts, which manages and/or has ownership interests in 227 hotels.

The property has received approximately $2.6 million in capital expenditures since 2008. In addition, a $9.0 million ($19,565 per guest room) property improvement plan (PIP) is expected to be completed in 2012. The major components of the project will include guest bathroom upgrades; new guest room carpeting, mattresses, drapes, and lighting; some new guest room case goods; new corridor carpeting; and public area upgrades.

The hotel's demand is primarily generated by the commercial transient sector (70% of occupied room nights), with additional room nights generated by leisure travelers (20%) and meeting and group demand (10%). With the exception of the Renaissance Times Square, the Hilton has limited meeting space relative to most of its competitors and, therefore, generates the majority of its demand from corporate transient travelers (see table 57 for a summary of the hotel's primary competitive set based on the Smith Travel Research report we were provided).

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Figure 57

Hilton Times Square Competitive Set

	Year built/last renovated	No. of guest rooms	Meeting space (sq. ft.)
Hilton Times Square	2000/2006-07	460	5,749
Renaissance Times Square	1995/2007	310	1,730
Crowne Plaza Times Square	1989/2008	770	23,000
Millennium Broadway	1995/N/A	750	110,000
Westin Times Square	2002/N/A	863	34,000

N/A--Not applicable.

The hotel has outperformed the competitive set in both occupancy and ADR over the past three years and achieved a RevPAR penetration rate of 117.8%, 109.5%, and 106.7% in the trailing 12-month periods ending October 2008, 2009, and 2010, respectively (see table 58).

Figure 58

Hilton Times Square Penetration Versus Competitive Set

	Occupancy (%)	ADR (%)	RevPAR (%)
TTM October 2008	110.1	107.1	117.8
TTM October 2009	101.8	107.5	109.5
TTM October 2010	100.0	106.7	106.7

Source: Smith Travel Research. ADR--Average daily rate. RevPAR--Revenue per available room. TTM--Trailing 12 months.

In addition to the existing competitive set, the 547-guest room InterContinental Times Square opened in July 2010 and is fully competitive with the Hilton due to its location and full-service orientation. The hotel's general manager indicated that the Element Hotel by Starwood, which recently opened, will also be competitive due to its 418-guest room count and proximate location.

Due to the recent economic downturn, the U.S. hotel industry experienced unprecedented performance declines in 2009 as RevPAR decreased by 16.7%, the industry's largest-recorded single-year decline. RevPAR for hotels located in New York City declined by 26.4% during the same period. However, due to strengthened demand, particularly in the corporate transient sector, and limited supply growth in the U.S., the industry's overall performance improved significantly in 2010. In 2010, RevPAR for the U.S. hotel industry increased by 5.5%, while New York City RevPAR increased by 12.9%. Based on estimates from HVS, PKF, and Smith Travel Research, 2011 RevPAR growth for the U.S. is expected to range from 6% to 8%, while, according to CBRE-EA, Manhattan RevPAR growth is projected to increase by 8.2% in 2011 (see table 59 for a summary of the New York City hotel sector's performance).

Figure 59

New York City Hotel Sector Performance

	2007	2008	2009	2010
ADR ($)	269.74	276.02	216.07	232.29
Occupancy (%)	83.4	81.9	77.0	80.9
RevPAR ($)	224.93	$226.02	166.44	187.93
% change	N/A	0.5	(26.4)	12.9

Source: Smith Travel Research. ADR--Average daily rate. RevPAR--Revenue per available room. N/A--Not applicable.

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Historical Cash Flow And Standard & Poor's Cash Flow

Table 60

Cash Flows						
Year of operations	**2008**	**2009**	**October 2010 (reforecast)**	**Appraiser**	**Issuer**	**S&P***
ADR ($)	346.00	265.78	288.58	308.06	288.58	315.75
Occupancy (%)	89.7	85.8	88.4	89.0	88.4	86.0
RevPAR ($)	310.53	228.05	255.01	274.17	255.01	271.55
% change	N/A	(26.6)	11.8	7.5	0.0**	6.5
Net cash flow ($)	18,528,433	8,495,231	10,380,787	13,356,000	10,909,972	10,149,317
% change	N/A	(54.2)	22.2	28.7	5.1**	(7.0)
NCF margin (%)	31.9	19.8	21.7	26.1	22.8	20.1

*Standard & Poor's NCF includes a positive adjustment for the present value of ground rent and tax expense. **The issuer's percentage change is versus the October 2010 reforecast. ADR--Average daily rate. RevPAR--Revenue per available room. N/A--Not applicable. NCF--Net cash flow.

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

- Standard & Poor's underwritten rooms revenue was based on actual, historical, and projected occupancies and ADRs; historical penetration rates; and the subject's general market position relative to the competitive set.
- Departmental revenues were generally underwritten based on the property's historical performance, on a per-occupied-room basis.
- Departmental expenses were generally underwritten based on the property's historical departmental performance, on a per-occupied-room and percentage of revenue basis.
- Undistributed expenses were generally underwritten based on the property's historical expenses on a per-available-room basis.
- Franchise fees and management fees were based on contractual fees. The contractual management fees are capped at 1.5% of total revenue. Management, marketing, and franchise fees combined were 11.4%.
- Insurance expense was based on the appraiser's estimate.
- Property taxes were underwritten at $5.5 million, which was based on projected taxes at the conclusion of the PILOT program. However, the property currently benefits from the PILOT program, whereby actual property taxes are approximately $2.1 million. As such, Standard & Poor's increased its NCF by averaging the present value of the PILOT benefit over the nine years remaining in the initial PILOT program's term.
- Ground rent expense was $2.8 million, which is based on the estimated ground rent in 2030. The current ground rent expense is approximately $1.6 million. As such, Standard & Poor's increased its NCF by averaging the present value of the ground rent benefit over the next 20 years.
- A furniture, fixture, and equipment (FF&E) expense was underwritten at 4.0% of total revenue.
- Based on these assumptions, Standard & Poor's overall NCF variance for the loan was negative 7.0%.
- Standard & Poor's applied a capitalization rate of 10.75% to the property's adjusted NCF. The resulting value was increased as a present value analysis was completed to give credit for the difference between the current lower tax and ground rent expenses in place as compared to the estimated market plus recapture tax expense and ground rent expense that were underwritten, yielding a value of $97.3 million ($211,498 per room).
- The quality score for this asset is 2.75, an above-average score.

This loan exhibits the following strengths:

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- The property is well located in the heart of Times Square in New York City. Due to the short-term nature of hotel "leases," the New York City hotel market has rebounded rapidly with the improvement in the U.S. economy. In 2010, New York City hotel market RevPAR improved by 12.9% versus 2009. In addition, based on projections from CBRE-EA, the New York City full-service hotel market is expected to achieve RevPAR growth of 8.2% in 2011.
- The property has outperformed its competitive set with a RevPAR penetration rate of 117.8%, 109.5%, and 106.7% in the trailing 12-month periods ending November 2008, 2009, and 2010, respectively.
- The property will benefit from a $9.0 million PIP, which will be implemented in 2012. However, only $3.45 million of the renovation amount was reserved. The loan is structured with an NCF sweep with a meaningful trigger based on an actual DSC of 1.35x for the immediately preceding 12-month period. The current actual DSC is 1.71x based on Standard & Poor's NCF.
- The property benefits from experienced management from Interstate Hotels & Resorts, as well as its brand affiliation with Hilton Hotels.

This loan exhibits the following concerns and mitigating factors:

- Hotels are volatile assets compared to other property types due to the daily nature of the pricing structure and their high operating expense ratios. However, Standard & Poor's underwriting and subordination levels reflect these concerns.
- The property's NCF declined significantly to $8.5 million in 2009 from $18.5 million in 2008. However, performance has improved as NCF increased to $10.4 million in 2010 and is budgeted to increase by approximately 10% in 2011 according to management. In addition, based on projections from CBRE-EA, the New York City full-service hotel market is expected to achieve RevPAR growth of 8.2% in 2011 and the U.S. hotel industry's RevPAR growth is expected to range between 6% and 8%, based on estimates from HVS, PKF, and Smith Travel Research.
- In addition to the trust balance, additional debt in the form of a mezzanine loan is permitted, subject to a maximum LTV of 65% and DSC ratio of 1.35X. However, issuance of the additional debt is subject to rating agency confirmation.
- The property currently benefits from a PILOT program through 2019, whereby the hotel is subject to base and percentage rent in lieu of direct taxes. The current property taxes of $2.1 million are expected to increase significantly in 2020 (upon loan maturity) according to the PILOT program's terms. In its analysis, Standard & Poor's accounted for the significant increase in property taxes that is expected to occur in 2020 when the initial PILOT program benefits expire. In addition, the property will benefit from the currently reduced PILOT payments relative to market-level property taxes through 2019.

7. National Grocery Portfolio

SEC-STRS-E-0081935

Table 61

Loan Profile

Loan summary		Collateral summary	
Trust amount	$79,915,984	**% of pool**	5.2%
Loan type	Fixed rate	**Originator**	Banc of America Mortgage Capital Corp.
Interest rate	5.05%	**Property type**	Retail–anchored
Amortization	30 years	**Location**	Pennsylvania and Connecticut
Maturity date	Jan. 1, 2016	**Year built/renovated**	Milford Marketplace: 2007; Settlers Ridge: 2009
Sponsors	J.W. O'Connor & Co. and O'Connor Associates L.P.	**Total NRA**	511,846 sq. ft.
Management	The Wilder Companies Ltd.	**Physical occupancy as of September 2010**	Milford Marketplace: 97.6% leased; Settlers Ridge: 97.2% leased
Borrower SPE provisions	Bankruptcy remote with a nonconsolidation opinion and one independent director	**Economic occupancy as of September 2010**	94.9%
		Ownership	Settler's Ridge: fee; Milford Marketplace: ground lease

SPE--Special-purpose entity. NRA--Net rental area.

Table 62

Debt Structure

	Amount (mil. $)	Amount per sq. ft. ($)	S&P beginning LTV ratio (%)	S&P DSC*	Issuer DSC**
A	79.9	156	90.9	1.16x	1.59x
B	N/A	N/A	N/A	N/A	N/A
Total first mortgage	79.9	156	90.9	1.16x	1.59x
Mezzanine	N/A	N/A	N/A	N/A	N/A
Total	79.9	156	90.9	1.16x	1.59x

*Calculated based on a Standard & Poor's stressed constant of 8.25%. **Calculated based on the actual debt service and the issuer's NCF. LTV--Loan-to-value. DSC--Debt service coverage. N/A-Not applicable. NCF--Net cash flow.

Table 63

Structural Features

Lock box	Hard, in-place.
Ongoing reserves	Monthly collections for real estate taxes, replacement reserves ($0.12 per sq. ft. per year, up to $126,346), and TI/LCs ($6,000 per month capped at $225,000).
Up-front reserves	Tax: $402,601.

TI/LCs--Tenant improvements and leasing commissions.

Property And Loan Highlights

- The portfolio consists of two supermarket anchored retail properties. Settler's Ridge, located near Pittsburgh, Pa., is a 399,599-sq.-ft. center constructed in 2009. It is anchored by Giant Eagle, Barnes & Noble, Cinemark, LA Fitness, and REI, and has an additional 27 in-line tenants. It is 97.2% leased. Milford Marketplace, located in Milford, Conn., is an 112,247-sq.-ft. shopping center constructed in 2007. It is anchored by Whole Foods and has an additional 19 in-line tenants. It is 97.6% leased.

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- The sponsor is purchasing the portfolio for a contract price of $117.5 million (68% loan to cost), $94.9 million of which was allocated to Settler's Ridge and $22.6 million of which was allocated to Milford Marketplace.
- Milford Marketplace is subject to a 30-year ground lease with eight, five-year renewal options. The current ground rent payment is $1 million, or 7.9% of effective gross revenue. The next ground rent increase is in 2012, when it steps up to $1,052,804. The ground rent expense increases by 5.3% in 2012, 1.8% in 2013, 5.7% in 2017, 10.9% in 2022, and 10.8% in 2027.
- J.W. O'Connor & Co., the sponsor, is a privately owned real estate and development firm that has been in operation for more than 25 years. It has acquired or developed more than $15 billion of properties during its history.
- A phase II construction project at the Settler's Ridge property is nearing completion and is expected to open in spring 2011. It will consist of 78,000 sq. ft. of retail space, anchored by Ross Dress for Less and Michaels. The sponsor has pre-negotiated terms and rights to purchase Settler's Ridge Phase II after completion by the developer.

Tenant Summary

Table 64

Milford Marketplace And Settler's Ridge Anchor And Major Tenants

Tenant	Property	S&P rating	Occupied sq. ft.	% of collateral NRA	Base rent per sq. ft. ($)	Lease expiration
Whole Foods	Milford Marketplace	BB	30,162	5.9	21.55	November 2024
Barnes & Noble	Settler's Ridge	NR	30,105	5.8	11.63	March 2020
Cinemark	Settler's Ridge	B+	53,236	10.4	23.25	October 2024
Giant Eagle	Settler's Ridge	NR	150,000	29.2	12.03	November 2034
LA Fitness	Settler's Ridge	NR	38,000	7.4	20.00	November 2024
REI	Settler's Ridge	NR	26,177	5.2	19.75	February 2020

NRA--Net rentable area. NR--Not rated.

Table 65

Milford Marketplace And Settler's Ridge Major In-Line Tenants

Tenant	Property	S&P rating	Occupied sq. ft.	% of portfolio NRA	Base rent per sq. ft. ($)	Lease expiration	Sales per sq. ft. for the TTM ended August 2010 ($)	Occupancy cost for the TTM ended August 2010 (%)
Cadillac Ranch	Settler's Ridge	NR	10,000	2.0	24.00	November 2024	469	7.9
Five Below	Settler's Ridge	NR	8,422	1.6	15.00	April 2020	N/A	N/A
Saga Steak House	Settler's Ridge	NR	7,000	1.4	23.45	April 2020	N/A	N/A
Peoples Bank	Milford Marketplace	NR	6,400	1.3	37.50	October 2032	N/A	N/A
Tenga Asian Bistro	Milford Marketplace	NR	6,370	1.2	28.00	April 2023	N/A	N/A
PF Chang's China Bistro	Settler's Ridge	NR	6,316	1.2	22.83	September 2024	560	5.7
Coldwater Creek	Milford Marketplace	NR	6,000	1.2	30.00	October 2017	356	10.0
Banana Republic	Milford Marketplace	BB+	6,000	1.2	27.00	January 2013	458	7.3

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Table 65

Milford Marketplace And Settler's Ridge Major In-Line Tenants (cont.)

NRA--Net rentable area. TTM--Trailing 12 months. NR--Not rated. N/A--Not applicable.

Table 66

Lease Rollover Schedule*

Year	No. of leases	NRA (sq. ft.)	% of sq. ft.	% of total base rent
2011	0	0	0	0
2012	0	0	0	0
2013	3	14,000	3	4
2014	0	0	0	0
2015	9	16,511	3	5
2016	1	2,750	1	1
2017	1	6,000	1	2
2018	7	25,460	5	8
2019	6	20,012	4	6
2020	13	93,924	18	17
Post-2020	12	319,135	62	58
Vacant	N/A	14,054	3	N/A

*As calculated by Standard & Poor's. We generally assume vacant tenants as those that have expired leases, month-to-month leases, are dark, are in litigation, are bankrupt, etc. NRA--Net rentable area. N/A--Not applicable.

Competitor Statistics

Table 67

Milford Marketplace Primary Competitors

Property name	Owner	Year built/renovated	NRA (sq. ft.)	Distance from property	Occupancy (%)	Anchors
Westfield Connecticut Post Mall	Westfield Connecticut Post	1960/2005	1,412,600	1.0	90	JCPenney, Dick's, Macy's, Sears, and Target
Westfield Trumbull Mall	Westfield Group	1962/1999	1,196,300	12.6	96	Macy's, Lord & Taylor, JCPenney, and Target
Milford Crossing	Starwood Ceruzzi Mdws LLC	2007/N/A	316,157	1.0	89	Wal-Mart, Petco, and Staples

NRA--Net rental area. N/A--Not applicable.

Table 68

Settler's Ridge Primary Competitors

Property name	Owner	Year built	NRA (sq. ft.)	Distance from property (miles)	Occupancy (%)	Anchors
Mall at Robinson	Robinson Mall JCP Assoc. Ltd.	2001	860,000	3	96.3	Macy's, Sears, JCPenney, and Dick's
Plaza at Robinson Town Centre	Zamagias Properties	1989	453,990	1.5	97.7	Marshall's and TJ Maxx
Raceway Plaza	Raceway Plaza II 2006 L.P.	1979	164,793	13	98.6	Wal-Mart and Lowes

NRA--Net rentable area.

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Historical Cash Flow And Standard & Poor's Cash Flow

Table 69

Cash Flows

	September 2010-August 2011	Appraiser	Issuer	S&P
Effective gross income ($)	12,777,278	12,449,980	12,638,534	12,600,329
Total operating expenses ($)	3,719,611	3,605,976	4,005,283	4,660,905
Total capital items ($)	0	0	409,829	455,146
Net cash flow ($)	9,057,667	8,844,004	8,223,422	7,631,430*

*Standard & Poor's increased its NCF to account for the present value analysis of the ground rent expense. NCF--Net cash flow.

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

- The GPR was based on the rents in-place and vacant in-line space was grossed up at the average in-line rent for each respective property.
- A 7.22% vacancy rate was assumed, based on a market vacancy of 5% for Milford Marketplace retail space, a market vacancy of 7% for Settler's Ridge retail space, and a vacancy of 10% on the Settlers Ridge theater and gym anchors.
- The expense reimbursements were based on the tenants' contractual obligations and the property's historical performance.
- The other income was based on the 2010 budget.
- The operating expenses, including property taxes and insurance, were based on historical performance, accounting for the appraiser's estimates.
- Ground rent expense was approximately $1.4 million, which is based on the estimated ground rent in 2030. The current ground rent expense is $1 million. As such, Standard & Poor's increased its NCF by averaging the present value of the ground rent benefit over the next 20 years.
- A management fee of 4% of EGI was assumed.
- The replacement reserves were estimated at $0.20 per sq. ft. of retail gross leasable area.
- The replacement reserves were estimated at $0.25 per sq. ft. of theater and gym gross leasable area.
- The TI expenses for anchor tenants were assumed to be $4.50 per sq. ft. for new leases and $2.25 per sq. ft. for renewal leases.
- The TI expenses for in-line tenants were assumed to be $9.00 per sq. ft. for new leases and $4.50 per sq. ft. for renewal leases.
- The TI expenses for theater and gym tenants were assumed to be $7.50 per sq. ft. for new leases and $3.75 per sq. ft. for renewal leases.
- The LC expenses were estimated at 4% for new leases and 2% for renewal leases.
- The TI/LC assumptions were based on an average lease term of 20 years for anchor tenants, 11 years for in-line tenants, and 15 years for theater and gym tenants, with LCs capped at 10 years. With respect to lease terms, we may adjust our assumptions in certain situations, including instances where a tenant has an early termination option or the lease term that the borrower indicated for a particular tenant is unrealistically long and does not reflect a typical market lease term. In the latter case, the rent roll that the borrower submits may inadvertently include the original lease terms plus extensions and overstate current lease terms;
- A renewal probability of 60% was assumed for LA Fitness and Cinemark, and 65% was assumed for all other tenants.

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- Based on these assumptions, Standard & Poor's overall NCF variance for this property is negative 7.2%.
- Standard & Poor's applied a capitalization rate of 8.75% to the NCF, resulting in a Standard & Poor's value of $87.9 million ($171 per sq. ft.).
- The quality score for this asset is 2.50, an above-average score.

This loan exhibits the following strengths:

- The two properties in the portfolio were recently constructed in 2007 and 2009 and therefore are in above-average condition.
- The properties are leased to a variety of national anchor and major tenants, including Whole Foods, Barnes & Noble, Giant Eagle, REI, LA Fitness, and Cinemark. Each of the two properties, and the portfolio as a whole, are over 97% occupied.
- The loan is cross-collateralized and cross-defaulted by two properties, which may reduce the impact of an operating decline or tenant rollover at any individual property. Furthermore, the properties are geographically diversified and located in two different states.
- The loan is structured with a hard, in-place lockbox. In addition, the loan features a cash flow sweep with a trigger based on an actual DSC of 1.20x based on trailing six-month NOI. The cash sweep ends when the DSC exceeds 1.25x for the immediately preceding six-month period. The current actual DSC is 1.53x based on Standard & Poor's NOI.
- The properties are located in relatively strong suburban locations close to major MSAs. Settler's Ridge is located near Interstate 376 outside of Pittsburgh, Pa. There are an estimated 501,830 residents within a 10-mile radius of the property and the average household income is $81,489 within a three-mile radius. Milford Marketplace is located along Route 1, a heavily traveled commercial artery, in Milford, Conn. Milford has an estimated population of 54,040, with an average household income of $82,348.

This loan exhibits the following concerns and mitigating factors:

- Both of the portfolio properties were constructed within the past three years. As such, there is limited historical operating information and tenant sales data. Anchor and major tenants, with the exception of Cinemark and Barnes & Noble, are not required to report sales data.
- Thirteen tenants, representing 15% of gross potential rent (GPR), have termination options based on sales thresholds built into their leases. Based on 2009 reported sales, tenants representing 3.3% of GPR currently have the option to terminate their leases.
- The Settler's Ridge property is located just outside of the Pittsburgh MSA, an area that has been affected by a declining population base. The population within the Pittsburgh MSA decreased by 2.1% between 2000 and 2009 and is expected to further decline by 0.3% per year through 2014.

8. Murdock Plaza

SEC-STRS-E-0081940

Table 70

Loan Profile

Loan summary		Collateral summary	
Trust amount	$55,000,000	**% of pool**	3.6%
Loan type	Fixed rate	**Originator**	Morgan Stanley Mortgage Capital Holdings LLC
Interest rate	5.08%	**Property type**	Office, class A
Amortization	30 years after the initial 12-month interest-only period	**No. of properties**	One
Maturity date	Jan. 5, 2016	**Location**	Los Angeles
Sponsor	Kambiz Hekmat	**Year built/renovated**	1981
Management	An affiliate of the sponsor	**Total NRA**	222,768 sq. ft.
Borrower SPE provisions	Bankruptcy remote with a nonconsolidation opinion and two independent directors	**Physical occupancy as of Nov. 1, 2010**	84.2%
		Economic occupancy as of Nov. 1, 2010	83.8%
		Ownership	81% leased and 19% fee-owned

SPE--Special-purpose entity. NRA--Net rental area.

Table 71

Debt Structure

	Amount (mil. $)	Amount per sq. ft. ($)	S&P beginning LTV ratio (%)	S&P DSC*	Issuer DSC**
A	55.0	246.9	106.9	1.0x	1.31x
B	N/A	N/A	N/A	N/A	N/A
Total first mortgage	55.0	246.9	106.9	1.0x	1.31x
Mezzanine	N/A	N/A	N/A	N/A	N/A
Total	55.0	246.9	106.9	1.0x	1.31x

*Calculated based on a Standard & Poor's stressed constant of 8.25%, assuming a 30-year amortization period. **Calculated based on the actual constant, a 30-year amortization schedule, and the issuer's NCF. LTV--Loan to value. DSC--Debt service coverage. N/A--Not applicable. NCF--Net cash flow.

Table 72

Structural Features

Lock box	Hard, in-place.
Ongoing reserves	Monthly collections for real estate taxes, insurance, replacement reserves, and TI/LCs capped at $3.5 million.
Up-front reserves	Taxes: $817,598, Insurance: $52,207.

TI/LCs--Tenant improvements and leasing commissions.

Property And Loan Highlights

- The property is a 17-story, class A office building located in the Westwood submarket of Los Angeles at the intersection of Westwood and Wilshire Boulevards. The property is currently 84.2% occupied.
- The property was built in 1981 by David Murdock of Dole Foods. The building contains 211,553 sq. ft. of office space, 11,171 sq. ft. of ground floor retail space, and a six level parking garage. The top floor is leased to The Regency Club, a members-only private dining club founded by Murdock in 1981.

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- Approximately 81% of the property is situated on two ground leased parcels. Both ground leases expire in November 2076 with no extension options. The current ground lease payment is $730,498, which is approximately 7.2% of EGI. The payments are fixed until 2018, when the combined ground rent will reset to an amount equal to 8.0% of the then established fair market value of the land.
- The loan sponsor is Kambiz Hekmat, who founded Indivest Inc. in 1973 in Los Angeles. Indivest Inc. is a real estate development, investment, and management company. Mr. Hekmat has developed, constructed, and managed numerous residential and commercial properties in the greater Los Angeles area, including multiple class A office buildings in the Westwood submarket.
- The property is managed by an affiliate of the sponsor that has managed numerous commercial properties in the greater Los Angeles area.

Tenant Summary

Table 73

Murdock Plaza Tenants

Tenants	S&P rating	Sq. ft.	Property NRA (%)	Base rent per sq. ft. ($)	Base rent (% of GPR)	Lease expiration
Richardson & Patel	NR	23,019	10.3	48.59	10.4	October 2011
Castle & Cooke Inc.	NR	22,632	10.2	39.15	9.6	July 2015
The Regency Club	NR	18,282	8.2	27.68	5.5	June 2011
Family Office Financial Services	NR	17,968	8.1	50.09	9.3	July 2016
Wells Fargo Advisors	AA-	14,538	6.5	42.60	6.7	October 2016

NRA--Net rentable area. GPR--Gross potential rent. NR--Not rated.

Table 74

Lease Rollover Schedule*

Year	No. of leases	NRA (sq. ft.)	% of sq. ft.	% of total base rent
2011	15**	74,566	33.5	31.4
2012	3	7,870	3.5	4.0
2013	3	18,449	8.3	8.5
2014	2***	9,134	4.1	4.2
2015	4****	22,632	10.2	9.6
2016	4*****	37,910	17.0	18.5
2017	0	0	0.0	0.0
2018	1	14,538	6.5	7.6
2019	0	0	0.0	0.0
2020	0	0	0.0	0.0
2021	0	0	0.0	0.0
2022 and beyond	0	0	0.0	0.0
Vacant	N/A	37,669	16.9	N/A

*As calculated by Standard & Poor's. We generally assume vacant tenants as those that have expired leases, month-to-month leases, are dark, are in litigation, are bankrupt, etc. **Richardson & Patel has six leases and The Regency Club has two leases that expire in 2011. ***SSI Inc. has two leases that expire in 2014. ****Castle & Cooke has four leases that expire in 2015. *****Family Office Financial Services has two leases that expire in 2016. NRA--Net rentable area. N/A--Not applicable.

SEC-STRS-E-0081942

Market And Competitor Statistics

Table 75

CoStar Westwood Submarket Data As Of Fourth-Quarter 2010

Building class	Inventory (sq. ft.)	Overall vacancy (%)	Asking rent per sq. ft. ($)	New construction (sq. ft.)
A	5,736,353	15.7	39.27	25,500
B	1,018,963	7.4	27.45	27,000
Total/average	6,755,316	14.4	37.49	52,500

Table 76

Appraiser Rent Comparable Data

Property name	Class	NRA	Year built	Stories	Leased (%)	Lease date	Size (sq. ft.)	Effective rent per sq. ft. ($)	Term (years)
Center West	A	357,859	1990	23	70	July 2010	3,700	51.00	5
Westwood Place	A	194,884	1987	16	87	November 2010	2,500	36.00	5
AVCO Center	A	142,000	1972/1994	12	90	July 2010	3,876	31.80	5
Oppenheimer Tower	A	587,971	1970/1994	24	86	August 2010	13,539	38.40	8
10960 Wilshire Boulevard	A	595,600	1971	24	86	December 2010	50,337	39.60	10
One Westwood	A	201,923	1987	17	96	May 2010	3,000	34.20	5

NRA--Net rentable area.

Historical Cash Flow And Standard & Poor's Cash Flow

Table 77

Cash Flows

	2008	2009	TTM ended November 2010	Appraiser	Issuer	S&P
Effective gross income ($)	10,791,466	10,882,170	10,678,430	11,184,679	10,337,908	10,076,806
Total operating expenses ($)	5,760,848	5,256,655	4,956,384	4,900,222	4,808,583	4,962,037
Total capital items ($)	0	0	0	0	848,578	685,842
Net cash flow ($)	5,030,618	5,625,515	5,722,046	6,284,457	4,680,746	4,547,764*

*Standard & Poor's increased its NCF to account for the present value analysis of the ground rent expense. TTM--Trailing 12 months. NCF--Net cash flow.

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

- We based the underwritten revenues on the in-place leases as of November 2010, and vacant space was grossed up at market rent levels.
- A vacancy rate of 17.6% was applied to the office space based on current submarket data.
- The expense reimbursements were based on the tenants' contractual obligations.
- The other income was based on the property's historical performance.
- Our operating expenses were based on the property's historical performance and budget projections.
- The ground rent was based on the future ground rent expenses assuming no land value growth. Standard & Poor's ground rent expense was $0.89 million, which is based on the estimated ground rent in 2018. The current ground rent expense is approximately $0.73 million. As such, Standard & Poor's increased its NCF by averaging

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the present value of the ground rent benefit over the next seven years.

- A management fee equal to 4.0% of EGI was assumed.
- The replacement reserves were assumed to be $0.35 per sq. ft.
- The TI expenses for the office tenants were assumed to be $21.00 per sq. ft. for new leases and $10.50 per sq. ft. for renewal leases.
- The LCs were calculated using a rate of 4.0% and 2.0% for new and renewal tenants, respectively.
- The TI/LC assumptions were based on the in-place weighted average lease terms of seven years.
- A 65% renewal probability was assumed for all tenants.
- Based on these assumptions, Standard & Poor's NCF variance for this property is negative 2.8%.
- Standard & Poor's applied a capitalization rate of 8.75% to the NCF. The resulting value was increased as a present value analysis was completed to give credit for the difference between the current lower ground rent expense and the future estimated ground rent expense that was underwritten, yielding a value of $51.5 million ($231 per sq. ft.).
- The quality score for this asset is 2.75, an above-average score.

This loan exhibits the following strengths:

- The property is well located at the intersection of Wilshire and Westwood Boulevards, two of the main arteries running through the Westwood submarket of Los Angeles. The property is also approximately 0.5 miles from Interstate 405 (San Diego Freeway) and less than three miles from Interstate 10 (Santa Monica Freeway).
- The property has a diverse tenant mix including law firms, financial institutions, private venture capital firms, film production companies, a nonprofit foundation, an executive search firm, and a private members-only dining club. The largest tenant occupies only 10.3% of the NRA.
- The loan benefits from a hard, in-place lockbox. However, according to the terms of the cash management agreement, the triggers for the NCF sweep are less robust at only 1.05x DSC or an event of default. All excess cash flow will be remitted to the borrower until a trigger event occurs.

This loan exhibits the following concerns and mitigating factors:

- The property exhibits near-term rollover risk. Leases representing 33.5% of the NRA expire in 2011 due mainly to the rollover of Richardson & Patel LLP (10.3% of NRA) and The Regency Club (8.2% of NRA). The Regency Club, a members-only private dining club, has occupied the building since inception and has received visits from every U.S. President. In addition, the property serves as Richardson & Patel's west coast headquarters, and the tenant has expanded its space within the building multiple times. There are no upfront TI/LC reserves; however, there are ongoing TI/LC reserves of $64,973 per month capped at $3.5 million. In addition, if the DSC falls below 1.05x, the borrower must deposit the difference between $3.5 million and the current balance.
- The loan has an initial 12-month, interest-only period; however, Standard & Poor's DSC and loan analysis was based on the debt service assuming a 30-year amortization schedule.
- The loan has a high Standard & Poor's LTV ratio of 106.9%. Compared to the issuer's NCF, Standard & Poor's NCF was adjusted downward by 2.8%. However, the appraiser's value of $95.0 million, or $427 per sq. ft., reflects an implied cap rate of 4.9% based on the issuer's NCF. Standard & Poor's utilized a stabilized cap rate of 8.75%, resulting in a value of $51.4 million, or $231 per sq. ft., which reflects a 45.8% variance to the appraised value. After evaluating the appraiser's assumptions, we determined that the appraiser's 10% stabilized vacancy assumption differed from the historical performance of both the subject and the submarket. Furthermore, the CBRE-EA baseline forecast for the subject's Westwood submarket calls for only a modest decline in vacancy over

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the next five years.

9. Station Place III

Table 78

Loan Profile			
	Loan summary		**Collateral summary**
Trust amount	$54,740,072	**% of pool**	3.5%
Loan type	Fixed rate	**Originator**	Morgan Stanley Mortgage Capital Holdings LLC
Interest rate	5.245%	**Property type**	Office, central business district, class A
Amortization	30 years	**No. of properties**	One
Maturity date	Oct. 5, 2020	**Location**	Washington, D.C.
Sponsors	Fisher Brothers and Louis Dreyfus Property Group	**Year built/renovated**	2009
Management	An affiliate of the sponsor	**Total NRA**	505,402 sq. ft.
Borrower SPE provisions	Bankruptcy remote with a nonconsolidation opinion and two independent directors	**Physical occupancy as of July 1, 2010**	98.8%
		Ownership	Fee

SPE--Special-purpose entity. NRA--Net rental area.

Table 79

Debt Structure	Amount (mil. $)	Amount per sq. ft. ($)	S&P beginning LTV ratio (%)	S&P DSC*	Issuer DSC**
A-1	100.0	366	102.6	1.03x	1.31x
A-2	30.0	366	102.6	1.03x	1.31X
A-3	30.0	366	102.6	1.03x	1.31x
A-4	25.0	366	102.6	1.03x	1.31x
Total first mortgage	185.0	366	102.6	1.03x	1.31x
Mezzanine	N/A	N/A	N/A	N/A	N/A
Total	185.0	366	102.6	1.03x	1.31x

*Calculated based on a Standard & Poor's stressed constant of 8.25% on the full pari passu loan amount of $185.0 million. **Calculated based on the actual constant on the full pari passu loan amount and the issuer's underwritten NCF. LTV--Loan-to-value. DSC--Debt service coverage. N/A--Not applicable. NCF--Net cash flow.

Table 80

Structural Features	
Lock box	Hard, in-place.
Ongoing reserves	Monthly collections for real estate taxes and springing for insurance and TI/LC reserves. Following the seventh anniversary of the closing date, $250,000 per month for rollover reserve funds ($1.50 per sq. ft. not leased to the U.S. Securities and Exchange Commission).
Up-front reserves	$22,670,782 for TI/LC reserves and $300,000 for a service reserve fund.

TI/LCs--Tenant improvements and leasing commissions.

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Property And Loan Highlights

- The property is a newly constructed, class A office building located in Washington, D.C., adjacent to Union Station. The subject is part of an office complex that consists of three interconnected buildings with 1.6 million sq. ft. on 5.5 acres.
- The subject property contains 514,211 sq. ft. of office space, with three levels of underground parking containing 307 parking spaces.
- The sponsors of the bankruptcy-remote SPE borrower are Louis Dreyfus Property Group and Fisher Brothers. Louis Dreyfus Property Group has developed, acquired, and managed office buildings in North America and Europe for more than 35 years. Within the Washington, D.C. real estate market, it developed and owns 1101 New York Avenue NW (393,000 sq. ft.), the Four Seasons in Georgetown, and 2001 K Street, and is currently developing Lafayette Tower (801 Seventeenth St.). Fisher Brothers was founded in 1915 and is a privately held partnership that manages real estate properties, investment portfolios, and other businesses. It presently owns, manages, and leases more than 6 million sq. ft. to major corporate tenants.
- The property is managed by an affiliate of the sponsor.

Unique Loan Features

- The Station Place III loan is part of the Station Place III loan combination evidenced by four pari passu notes with an aggregate original principal balance of $185.0 million. Standard & Poor's analysis is based on the full loan amount of $185.0 million.

Tenant Summary

Table 81

Major Station Place III Tenants

Tenants	S&P rating/outlook	Sq. ft.	Property NRA (%)	Base rent per sq. ft. ($)	Base rent (% of GPR)	Lease expiration
Kaiser Foundation	A+	205,682	40.7	35.36	38.1	June 2024
U.S. Securities and Exchange Commission	AAA	201,998	40.0	33.00	34.9	January 2021
American Chemistry Council	NR	91,783	18.2	56.00	26.9	December 2025

NRA--Net rentable area. GPR--Gross potential rent. NR--Not rated.

Table 82

Lease Rollover Schedule

Year	No. of leases	NRA (sq. ft.)	% of sq. ft.	% of total base rent
2011	0	0	0.0	0.0
2012	0	0	0.0	0.0
2013	0	0	0.0	0.0
2014	0	0	0.0	0.0
2015	0	0	0.0	0.0
2016	0	0	0.0	0.0
2017	0	0	0.0	0.0

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Table 82

Lease Rollover Schedule (cont.)				
2018	0	0	0.0	0.0
2019	0	0	0.0	0.0
2020	0	0	0.0	0.0
2021 and beyond	14	499,463	98.8	100.0
Vacant	N/A	5,939	1.2	N/A

NRA--Net rentable area. N/A--Not applicable.

Market And Competitor Statistics

Table 83

Capitol Hill Submarket Data As Of Fourth-Quarter 2010

Building class	Inventory (sq. ft.)	Overall vacancy (%)	Asking rent per sq. ft.	YTD absorption (sq. ft.)	New construction (sq. ft.)
A	24,204,753	19.0	51.65	2,962,260	414,029
B	7,286,508	10.0	42.03	(274,892)	0
C	1,546,921	5.8	36.39	(2,914)	0
Overall submarket	33,038,182	16.4	49.79	2,684,454	414,029

YTD--Year-to-date.

Table 84

Appraiser Rent Comparable Data

Property name	Class	NRA	Year built	Stories	Tenant	Lease date	Size (sq. ft.)	Initial rent per sq. ft.	Term (years)
Constitution Center	A	1,400,000	1979	10	SEC	August 2010	900,000	32.00	10.0
300 New Jersey	A	255,692	2009	10	Novak Druce & Quigg	March 2010	26,317	32.00	6.1
300 New Jersey	A	255,692	2009	10	Comcast	June 2010	20,000	45.00	9.6
The McPherson Building	A	239,174	1988	12	Booz Allen Hamilton	July 2010	67,617	38.00	7.0
The McPherson Building	A	239,174	1988	12	Chicago School of Professional Psychology	February 2010	16,000	30.00	10.0
City Center	A	345,772	1992	12	Dept of Treasury	August 2010	59,309	30.50	10.0
Columbia Center	A	385,500	2007	12	Natural Resource Defense Council	July 2010	29,000	31.00	10.0
Victor Building	A	319,257	2000	10	Board Source	May 2010	15,840	33.00	11.7

NRA--Net rentable area.

Historical Cash Flow And Standard & Poor's Cash Flow

Table 85

Cash Flows

	2010 projection	2011 projection	Appraiser	Issuer	S&P
Effective gross income ($)	5,650,734	27,592,819	26,494,637	26,630,492	25,086,647
Total operating expenses ($)	7,340,730	9,342,621	8,663,995	9,822,471	9,976,457

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Table 85

Cash Flows (cont.)					
Total capital items ($)	0	0	0	1,694,680	1,449,874
Net cash flow ($)	(1,689,996)	18,250,198	17,830,642	15,113,341	15,685,852*

*Standard & Poor's net cash flow includes normalized rents for Kaiser and the U.S. Securities and Exchange Commission.

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

- The underwritten revenues were based on the in-place leases as of July 2010.
- The expense reimbursements were based on the tenants' contractual obligations.
- We estimated vacancy at market for noncredit tenants and according to our criteria for investment-grade tenants. We calculated a Kaiser ('A+') credit vacancy of 4.0% and used 8% for the remaining space, yielding a weighted average vacancy of 6.5%. As of July 2010, actual physical occupancy was 98.8%. Standard & Poor's calculated an economic vacancy of 6.5% versus the issuer's vacancy assumption of 6.2%.
- Other income was based on the property's projected performance, the appraiser's estimates, and comparable buildings in the market.
- The operating expenses were based on the property's projected performance, the appraiser's estimates, and comparable buildings in the market.
- A management fee of 3.0% of EGI was assumed.
- The replacement reserves were assumed to be $0.35 per sq. ft.
- The TI expenses were assumed to be $30.00 per sq. ft. for new leases and $15.00 per sq. ft. for renewal leases.
- The LCs were calculated using a rate of 4.0% and 2.0% for new and renewal tenants, respectively.
- The TI/LC assumptions were based on the in-place weighted average lease terms of 12.7 years, with LC expenses capped at 10.0 years.
- A 65% renewal probability was assumed for all tenants.
- Based on these assumptions, Standard & Poor's NCF variance for this property is 3.8%.
- Standard & Poor's applied a blended capitalization rate of 8.25% to the NCF and added the value of the U.S. Securities and Exchange Commission and Kaiser rent steps, which resulted in a Standard & Poor's value of $180.3 million ($357 per sq. ft.).
- The quality score for this asset is 2.75, an above-average score.

This loan exhibits the following strengths:

- The property is well-located in Washington, D.C. and is adjacent to Union Station, which provides Metro access, Amtrak train service, and retail outlets. In addition, the property is located five blocks from the U.S. Capitol.
- Investment-grade tenants comprise 80.7% of the building's total NRA and generate 73.1% of total GPR. Each of the three tenants has a lease term of 10 years or longer. As such, there is no rollover during the loan term.
- Since construction was completed in June 2009, the property has been 98.8% leased to three tenants: Kaiser Permanente ('A+', 40.7% of NRA through 2024), the U.S. Securities and Exchange Commission ('AAA'; 40.0% of total NRA through 2021), and The American Chemistry Council (18.2% of NRA through 2025).
- The loan benefits from a hard, in-place lockbox. However, according to the terms of the cash management agreement, the triggers for the NCF sweep are less robust at only 1.05x DSC or an event of default. All excess cash flow will be remitted to the borrower until a trigger event occurs.

This loan exhibits the following concerns and mitigating factors:

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- The lease with the U.S. Securities and Exchange Commission (40.0% of the NRA and 34.9% of the GPR) expires in January 2021, three months after the loan maturity. Since 2004, the U.S. Securities and Exchange Commission has leased more than 1 million sq. ft. of space in Station Place I and Station Place II, its headquarters. In the event it does not extend its lease, the loan documents require the borrower to deposit $250,000 per month for the final 36 months of the loan term, resulting in a reserve balance of $9 million (nearly $45 per sq. ft. of the U.S. Securities and Exchange Commission space) at maturity to be used for TI/LC costs associated with re-tenanting the space.
- CoStar's fourth-quarter 2010 class A office vacancy rate for the Washington, D.C. Capitol Hill area is 19.0%. In addition, the appraiser cites vacancy rates at comparable buildings at an average of 19.9%. However, as of July 2010, the in-place vacancy at the property was 1.2%, which is well below the market vacancy levels and the vacancy rates at competitive properties, as identified by the appraiser. Since construction was completed, the property has been 98.8% occupied by three tenants on long lease terms. Furthermore, there is no rollover during the loan term.
- The property has no historical operating data because it was recently constructed in 2009. Standard & Poor's evaluated the appraiser's assumptions as well as comparables in the market to evaluate the property.

10. Princeton Forrestal Village

Table 86

Loan Profile

Loan summary		Collateral summary	
Trust amount	$41,210,910	**% of pool**	2.7%
Loan type	Fixed rate	**Originator**	Morgan Stanley Mortgage Capital Holdings LLC
Interest rate	5.475%	**Property type**	Mixed use, office, and retail
Amortization	30 years	**Location**	Princeton, N.J.
Maturity date	Jan. 5, 2016	**Year built/renovated**	1987-2010
Sponsor	Investcorp	**Total NRA**	549,336 sq. ft.
Management	Lincoln Equities Group LLC	**Physical occupancy as of Sept. 14, 2010**	89.3%
Borrower SPE provisions	Bankruptcy remote with a nonconsolidation opinion and two independent directors	**Economic occupancy as of Sept. 14, 2010**	90.1%
		Ownership	Leasehold

SPE--Special-purpose entity. NRA--Net rental area.

Table 87

Debt Structure

	Amount (mil. $)	Amount per sq. ft. ($)	S&P beginning LTV ratio (%)	S&P DSC*	Issuer DSC**
A	41.2	75	98.5	1.14x	1.49x
B	N/A	N/A	N/A	N/A	N/A
Total first mortgage	41.2	75	98.5	1.14x	1.49x
Mezzanine	N/A	N/A	N/A	N/A	N/A
Total	41.2	75	98.5	1.14x	1.49x

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Table 87

Debt Structure (cont.)
*Calculated based on a Standard & Poor's stressed constant of 8.25%. **Calculated based on the actual constant and the issuer's NCF. LTV--Loan-to-value. DSC--Debt service coverage. N/A--Not applicable. NCF--Net cash flow.

Table 88

Structural Features	
Lock box	Hard, in-place.
Ongoing reserves	Monthly collections for real estate taxes, insurance, replacement reserves, and TI/LCs (starting January 2012).
Up-front reserves	Taxes: $276,769; insurance: $22,080; replacement reserves: $859,017; TI/LCs: $604,271; outstanding TI/LC reserves: $1,238,528; and deferred maintenance: $238,920.

TI/LCs--Tenant improvements and leasing commissions.

Property And Loan Highlights

- Princeton Forrestal Village is a mixed-use development comprised of five office/retail buildings and one stand-alone office building (81.0% of the NRA), a stand-alone health club (11.3% of the NRA), two restaurants (5.9% of the NRA), and a day school (1.8% of the NRA).
- The property sits on a 41.9-acre campus that also includes the separately owned Westin Hotel and Conference Center and The Eden Institute, a school for autistic children and adults. These two properties are not part of the collateral.
- The property is located southeast of Princeton University and just north of the 2,200-acre Princeton Forrestal Center, Princeton University's corporate office and research complex. The property is located just off of Route 1.
- The weighted average rent for the office space is $23.59 per sq. ft. gross, and the weighted average rent for the retail space is $11.50 per sq. ft. The weighted average rent for the property overall is $19.27 per sq. ft., as calculated by Standard & Poor's.
- The loan sponsor is Investcorp US Real Estate LLC, which is wholly owned by Investcorp US Real Estate Ltd., a Cayman Islands company owned by Investcorp Bank B.S.C. It was formed to invest in and acquire commercial and residential real estate in the U.S. and serves as a guarantor for investments made by certain related Investcorp entities.
- The property is managed by Lincoln Equities Group LLC, based in Rutherford, N.J. The company currently operates a commercial real estate portfolio of more than 4 million sq. ft. of office and commercial facilities located in the metropolitan region.

Tenant Summary

Table 89

Major Princeton Forrestal Village Tenants

Tenants	S&P rating	Sq. ft.	Property NRA (%)	Base rent per sq. ft. ($)	Base rent (% of GPR)	Lease expiration
CAN DO Fitness	NR	60,385	11.0	15.00	8.6	December 2026
Reed Smith	NR	47,822	8.7	25.00	11.3	January 2020
Comag Marketing Group	NR	26,200	4.8	24.00	5.9	July 2016
North American Electric	NR	23,315	4.2	25.00	5.5	May 2013
Delval Acquisitions Sub LLC	NR	23,254	4.2	25.00	5.5	April 2014

NRA--Net rentable area. GPR--Gross potential rent. NR--Not rated.

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Table 90

Lease Rollover Schedule*

Year	No. of leases	NRA (sq. ft.)	% of sq. ft.	% of total base rent
2011	18	48,385	8.9	8.1
2012	11	37,903	7.0	8.3
2013	6	50,325	9.3	11.0
2014	13	59,500	11.0	11.7
2015	11	37,180	6.8	7.4
2016	6	35,325	6.5	8.0
2017	3	23,580	4.3	3.5
2018	0	0	0.0	0.0
2019	4	21,925	4.0	4.9
2020	2	60,250	11.1	12.6
2021	0	0	0.0	0.0
2022 and beyond	11	105,772	19.5	13.8
Vacant	N/A	63,226	11.6	N/A

*As calculated by Standard & Poor's. We generally assume vacant tenants as those that have expired leases, month-to-month leases, are dark, are in litigation, are bankrupt, etc. NRA--Net rentable area. N/A--Not applicable.

Market And Competitor Statistics

Table 91

CBRE-EA Baseline Winter 2011 Forecast Data As Of Third-Quarter 2010

Year	Mercer County office estimated availability rate (%)	Mercer County office rent index ($ per sq. ft.)	New Brunswick office estimated availability rate (%)	New Brunswick office rent index ($ per sq. ft.)
2007	18.5	24.06	15.8	20.80
2008	13.7	24.38	19.1	20.07
2009	15.5	24.11	20.3	19.33
2010	14.1	24.37	20.8	18.95
2011	14.3	25.53	21.8	18.63
2012	13.9	26.67	20.8	18.77
2013	12.9	27.85	18.5	19.31
2014	12.3	28.83	16.3	20.03
2015	12.1	29.66	14.7	20.88

Note: This property falls in-between two CBRE-EA submarkets. CBRE-EA--CBRE Econometric Advisors.

Historical Cash Flow And Standard & Poor's Cash Flow

Table 92

Cash Flows

	2008	2009	TTM ended July 2010	Appraiser	Issuer	S&P
Effective gross income ($)	11,196,873	12,152,256	11,930,863	12,291,543	11,489,109	11,200,028
Total operating expenses ($)	6,055,063	6,435,343	6,458,176	6,521,264	6,498,710	6,548,456
Total capital items ($)	0	0	0	0	813,017	837,248
Net cash flow ($)	5,141,810	5,716,913	5,472,687	5,770,279	4,177,381	3,874,324

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Table 92

Cash Flows (cont.)

TTM--Trailing 12 months.

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

- The underwritten revenues were based on the in-place rents as of September 2010.
- A vacancy rate of 12.0% was applied based on market trends in the submarket.
- The expense reimbursements were based on the tenants' contractual obligations.
- The other income was based on appraiser's projections.
- The operating expenses, other than the insurance premium, were based on the property's historical performance and budget projections.
- The insurance premium expenses was based the actual premium amount.
- A management fee of 4.0% of the EGI was assumed.
- The replacement reserves were assumed to be $0.30 per sq. ft.
- The TI expenses for the office tenants were assumed to be $11.00 per sq. ft. for new leases and $5.50 per sq. ft. for renewal leases.
- The TI expenses for the restaurant tenants were assumed to be $9.00 per sq. ft. for new leases and $4.50 per sq. ft. for renewal leases.
- The TI expenses for the gym/spa were assumed to be $7.00 per sq. ft. for new leases and $3.50 per sq. ft. for renewal leases.
- The TI expenses for the day school were assumed to be $5.00 per sq. ft. for new leases and $2.50 per sq. ft. for renewal leases.
- The LCs were calculated using a rate of 4.0% and 2.0% for new and renewal tenants, respectively.
- The TI/LC assumptions were based on the in-place weighted average lease terms of eight years the office tenants, 15 years for the restaurant tenants, 19 years for the gym/spa, and 20 years for the fitness center, with LC expenses capped at 10 years.
- A 65% renewal probability was assumed for office tenants, while a 60% renewal probability was assumed for all the other tenants.
- Based on these assumptions, Standard & Poor's NCF variance for this property is negative 7.3%.
- Standard & Poor's applied a capitalization rate of 9.25% to the NCF, which resulted in a Standard & Poor's value of $41.8 million ($76 per sq. ft.).
- The quality score for this asset is 2.75, an above-average score.

This loan exhibits the following strengths:

- The Princeton Forrestal Village campus is well-located directly off of Route 1, a major artery that leads to I-287, I-295, the New Jersey Turnpike, and the Garden State Parkway.
- The loan features a hard, in-place lockbox. In addition, the loan is structured with a cash flow sweep with a meaningful trigger based on a debt yield falling below 10%, tested quarterly. The current debt yield is 11.3% based on Standard & Poor's NOI.
- The property benefits from strong sponsorship and experienced management.

This loan exhibits the following concerns and mitigating factors:

- The property's retail space (188,198 sq. ft. and 24% of the collateral NRA) is poorly occupied compared to the

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office space and management noted that historically it has had difficulty trying to lease the retail space. Management has converted some of the retail space to offices and has been successful in leasing the converted space. Despite the weak retail occupancy, overall the property has had consistent occupancy of approximately 90% over the past three years and has an evenly distributed rollover schedule.
- In addition to the trust balance and only in connection with the borrower's exercise of its option to purchase the land covered by its ground lease for $8.0 million, which expires in June 2017, additional debt in the form of a mezzanine loan is permitted subject to a maximum loan to cost ($5.2 million) of 65%. The aggregate of the first mortgage plus the future mezzanine loan cannot exceed 80% LTV and the DSC ratio cannot be less than 1.20x.

Related Criteria And Research

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- Principles-Based Rating Methodology For Global Structured Finance Securities, published May 29, 2007.
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- U.S. CMBS Legal And Structured Finance Criteria: Appendix II: Eligible Investment Criteria For 'AAA' Rated Structured Transactions, published May 1, 2003.
- U.S. CMBS Legal And Structured Finance Criteria: Appendix III: Revised Article 9 Of The Uniform Commercial Code: New Standard & Poor's Criteria, published May 1, 2003.
- U.S. CMBS Legal And Structured Finance Criteria: Appendix IV: Standard & Poor's Defeasance Criteria For U.S. CMBS Transactions, published May 1, 2003.
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- U.S. CMBS Legal And Structured Finance Criteria: Appendix VI: Intercreditor Agreement, published May 1, 2003.

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- U.S. CMBS Legal And Structured Finance Criteria: Appendix XIII: Revised Legal Criteria For Multi- And Single-Member LLCs, published May 1, 2003.
- U.S. CMBS Legal And Structured Finance Criteria: Appendix XV: Typical Factors Considered By Courts In Determining Existence Of A True Sale, published May 1, 2003.
- U.S. CMBS Legal And Structured Finance Criteria: Appendix XVI: Select Specific Opinion Criteria/Language, May 1, 2003.

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