



WELCOME



# PAST, *PRESENT*, & FUTURE OF CMBS

- WHAT WE **SAW, EXPERIENCED AND LEARNED** IN 2012
  - WHAT WE **PREDICT** WILL HAPPEN IN 2013
- WHAT CMBS BORROWERS CAN **EXPECT** IN 2013

# THE **PAST**



# Loans in Special Servicing

Special Servicing Universe



Source: Fitch

# History of CMBS Default Resolution

2009 = \$8.8 Billion

- Primarily kick the can further down the road

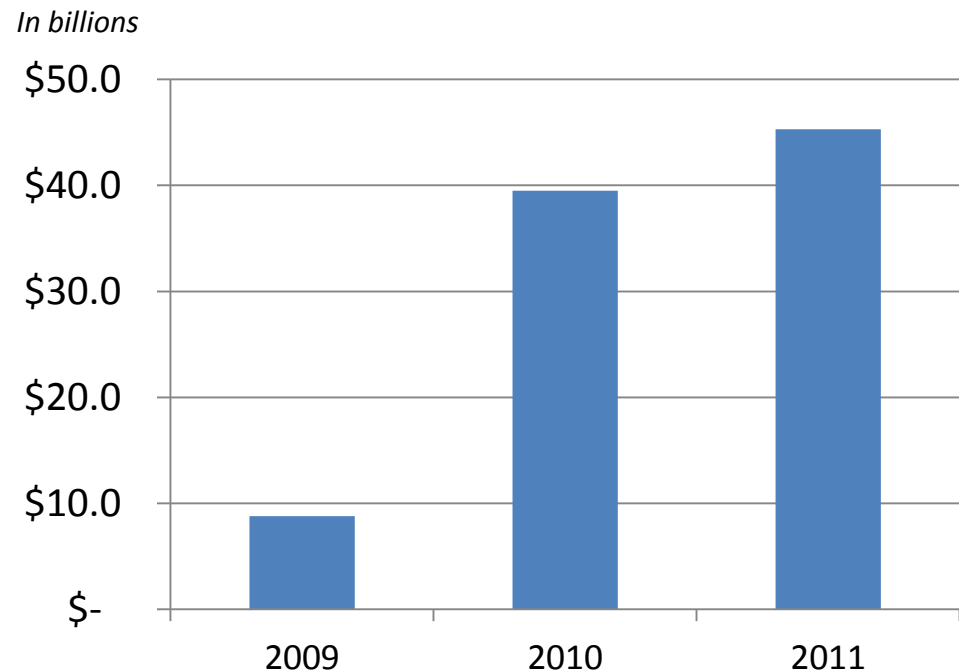
2010 = \$39.5 Billion

- Still pretend and extend

2011 = \$45.3 Billion

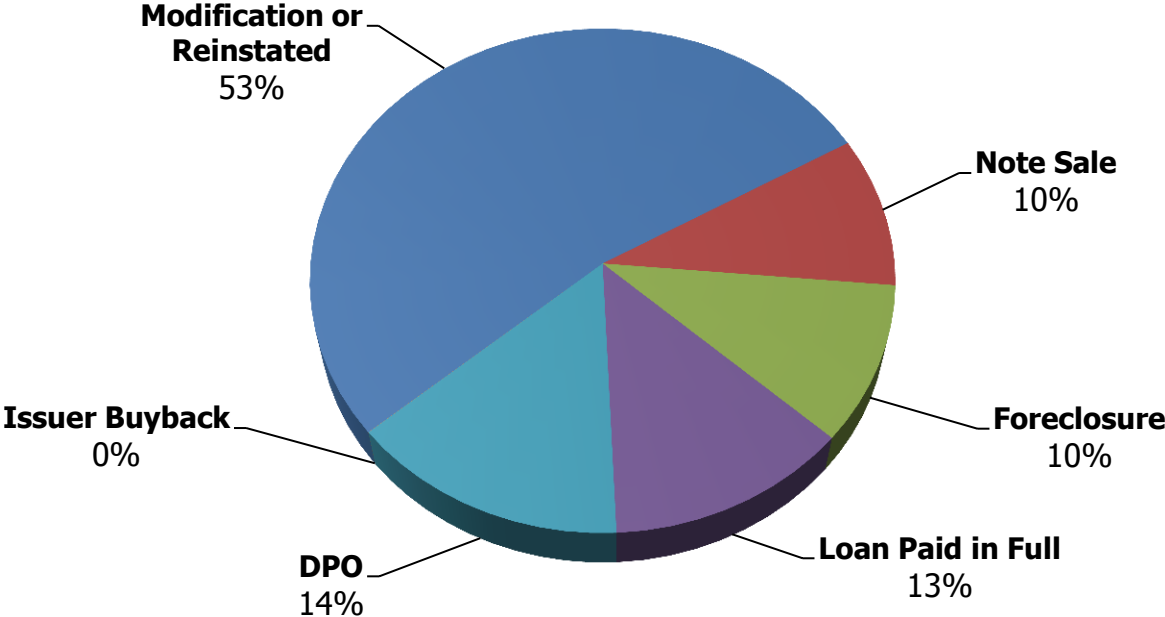
- First real restructures

Total = \$93.6 Billion



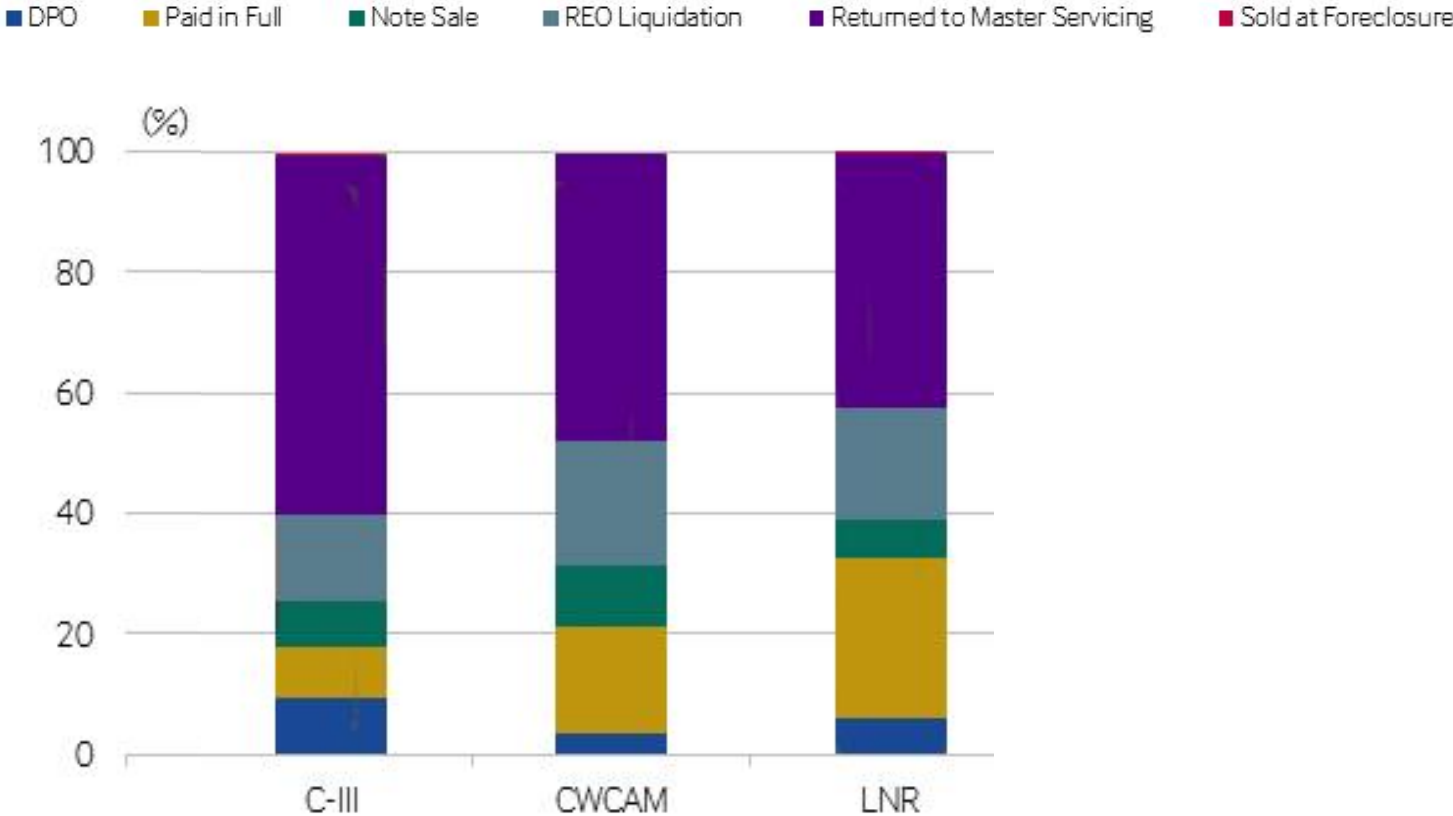
# How Did They Get Resolved?

2010 & 2011



# Resolution Type by Special Servicer

Resolution Types by Unpaid Principal Balance  
(YTD 2012)



# What Drives a Special Servicer's Decision

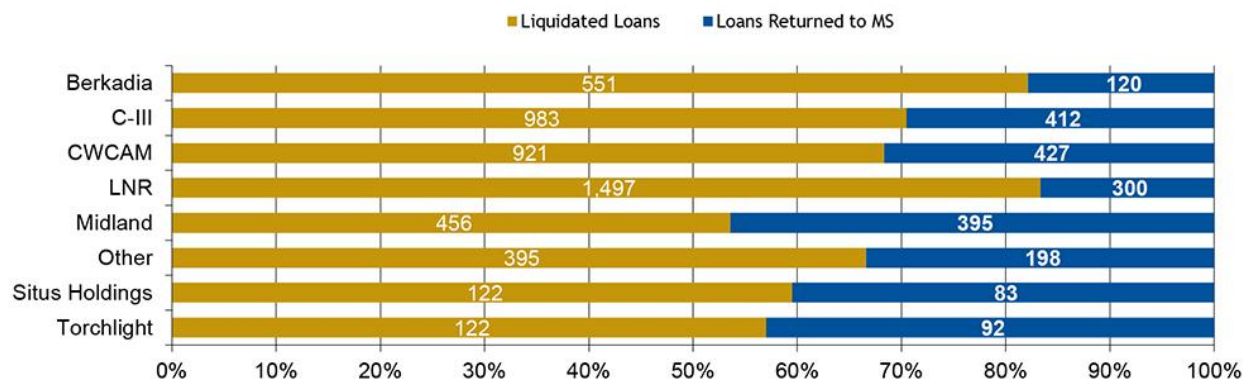
A CMBS special servicer's first decision once the property, sponsor, and market have been evaluated is whether to liquidate or modify

- **Liquidate:**

- DPO
- Note Sale
- Foreclosure
- Paid in Full

- **Modify:**

- Return to master
- Reinstated



Resolution strategies are based on:

- The real estate securing the loan
- Circumstances of the default
- And maximization of the recovery on a net present value to investors

# Who is Overseeing All of This?

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# Recap of 2012

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Loans ARE getting modified!

Losses are being passed thru the pools

- Controlling Class Certificate holders are changing
- Special Servicers are changing
- “No man’s land” for borrowers
- Losses are starting to hit investment grade bond holders

Senior bond holders voices and concerns are getting louder

Regulatory changes happening in CMBS

- Risk retention
- Operating advisors

# THE **PRESENT**



# Case Study of Recent Restructures We Have Closed

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Note Sale / Auction

Discounted Payoff

A/B Loan Bifurcation

Assumption

# THE **FUTURE**



# What to Expect in 2013

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## More uncertainty and chaos than ever

- Much more controlling class certificate holder changes as losses pass thru the pools

## LNR – Starwood Acquisition

Third party capital sources and special servicer expectations finally meet!

## More regulatory changes to CMBS

- Role of the operating advisor
- Borrower and senior bond holder protection on future deals

## More note auctions

- Faster resolution
- Market pricing

Modifications will still be a reasonable outcome for borrowers

# Modifications Will Still be a Reasonable Outcome for Borrowers, If:

1. Have new capital (NEW skin in the game)
2. Understand the net present value of the special servicer's alternative option of foreclosure and REO
3. Present your modification plan to the special servicer TIMELY (within 30 days of transfer)
4. Remit all net cash flow monthly
5. Be completely transparent with the special servicer
6. Have an advocate on your side that KNOWS the special servicer requirements and can guide you through the rough terrain (including the possible transfer between special servicers during the process)

# How Rated Operating Advisors Will Affect CMBS

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# The Future of Note Auctions

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# More Controlling Class Certificate Holder Changes

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