



## PCCP Market Commentary

### What Happens When the CDO Music Finally Stops?

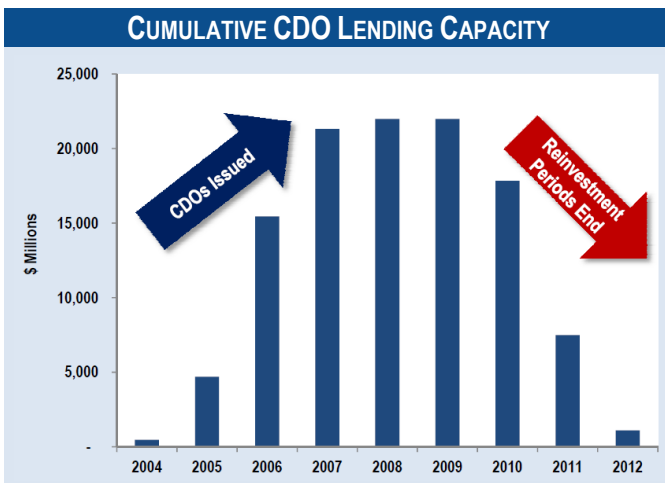
#### Second Quarter 2012

CDOs have been a four-letter word and poster child for the peak of the bubble. While it is easy to think CDOs were over in 2007, they have lived on for much longer. Managers have been able to recycle funds to originate new loans over the past five years. However, with the last reinvestment periods coming to an end in 2012 and 2013, the CDO music will finally stop, creating strong opportunities for lenders with capital.

Number of Whole Loan CDOs:	33
<b>Total Issuance (Millions):</b>	<b>\$21,984</b>
Average Life of Loan:	3 years
Reinvestment Period:	5 years
Number Times Each Dollar Invested:	Twice
<b>Annual Origination Capacity (Millions):</b>	<b>\$8,794</b>

Sources: Moody's, S&P, Fitch

CRE CDOs were financing vehicles for specialty lenders which allowed them to increase their origination capacity. Originators locked in five years of non-recourse financing at very favorable rates (~L+50 bps), giving them incredible flexibility to originate new bridge loans throughout the downturn.



Sources: Moody's, S&P, Fitch

With the short duration of these loans, managers could use each dollar at least twice before the reinvestment period ended.

Lending capacity increased as the CDO market boomed. However, as the five-year reinvestment period comes to an end, nearly \$9 billion of annual origination capacity will be removed from the system.

The information of who launched each CDO, how much they raised, and when the reinvestment period ends is publicly available. Therefore it will be evident which borrowers will need new lenders and / or need to be recapitalized, and which competitors may be sidelined. It is prime time for experienced managers in distressed debt. For these firms with capital, there is opportunity to earn strong returns with limited competition.

CRE CDOS					
CDO NAME	SPONSOR	ISSUE YEAR	ORIGINAL BALANCE (M)	APPROX. CURRENT SIZE (M)	REINVEST END
AMAC CDO Funding I	Centerline	2006	400	368	Nov-11
Arbor Realty Mortgage Securities 2004-1	Arbor Realty	2004	469	352	Apr-09
Arbor Realty Mortgage Securities 2005-1	Arbor Realty	2005	475	463	Apr-11
Arbor Realty Mortgage Securities 2006-1	Arbor Realty	2006	600	600	Jan-12
CAPMARK VII - CRE LTD.	Capmark	2006	1,000	641	Aug-11
Carbon Capital II Real Estate CDO 2005-1	Carbon Capital	2005	455	359	Sep-10
CRESS 2008-1, Ltd.	Centerline	2008	677	677	Mar-11
CW Capital Cobalt II	CWCapital	2006	700	603	Apr-11
FMC Real Estate CDO 2005-1	Five Mile Capital	2005	440	313	Aug-10
Gramercy Real Estate CDO 2005-1 Ltd.	Gramercy	2005	1,000	857	Jul-10
Gramercy Real Estate CDO 2006-1	Gramercy	2006	1,000	940	Jul-11
Guggenheim CDO 2005-1	Guggenheim	2005	507	118	May-10
Guggenheim CDO 2005-2	Guggenheim	2005	305	186	Aug-10
Hartford Mezz Investors I CRE CDO 2007-1, Ltd	Hartford	2007	500	410	Aug-12
Legg Mason Real Estate CDO I, Ltd.	Legg Mason	2006	532	529	Apr-11
Legg Mason Real Estate CDO II, Corp.	Legg Mason	2007	525	525	May-12
Marathon Real Estate CDO 2006-1, Ltd.	Marathon Asset Management	2006	1,000	987	May-11
Mesa West Capital CDO, Ltd. 2007-1	Mesa West	2007	600	600	Feb-12
Nomura CRE CDO 2007-2 Ltd.	Nomura	2007	901	896	Feb-13
N-Star REL CDO IV Ltd.	Northstar Realty Finance	2005	400	371	Jul-10
N-Star REL CDO VI Ltd.	Northstar Realty Finance	2006	450	450	Jun-11
N-Star REL CDO VIII Ltd.	Northstar Realty Finance	2006	900	847	Jan-12
Petra CRE CDO 2007-1, Ltd.	Petra Capital Management	2007	1,000	722	Jan-13
RAIT CRE CDO I, Ltd.	RAIT Financial	2006	1,020	985	Nov-11
RAIT Preferred Funding II. Ltd.	RAIT Financial	2007	833	828	Jun-12
Resource Real Estate Funding CDO 2006-1, Ltd.	Resource Real Estate	2006	345	299	Aug-11
Resource Real Estate Funding CDO 2007-1 Ltd.	Resource Real Estate	2007	500	469	Jun-12
RFC CDO 2006-1, Ltd	CBRE	2006	600	427	Apr-11
RFC CDO 2007-1, Ltd	CBRE	2007	1,000	834	Apr-12
ROCK 2006-1 CRE CDO	Prudential	2006	500	320	Dec-12
Sorin Real Estate CDO IV Ltd.	Sorin Capital Management	2006	400	337	Oct-11
Wachovia CRE CDO 2006-1	Wachovia	2006	1,300	1,300	Sep-11
Wrightwood Capital Real Estate CDO 2005-1	Wrightwood Capital	2005	650	630	Aug-10
<b>Totals</b>			<b>21,984</b>	<b>19,243</b>	

Note: The table above details managed CRE CDOs that had a substantial portion of collateral as whole loans, B notes, or mezzanine loans.

Source: Moody's, S&P, Fitch

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