GS Mortgage Securities Corporation Trust 2013-KYO

MORNINGSTAR CONTACTS

Lead Analyst

Sheila Bjornstad | 646-560-4511
Sheila.Bjornstad@morningstar.com

New Issuance

Ken Cheng | 267-960-6017
Ken.Cheng@morningstar.com

CMBS Surveillance

Frank Innaurato | 267-960-6002
Frank.Innaurato@morningstar.com

Investor Relations

Joe Petro | 267-960-6004
Joe.Petro@morningstar.com

Greg Murdock | 301-309-0894
Greg.Murdock@morningstar.com

Website

http:ratingagency.morningstar.com

PRELIMINARY RATINGS (AS OF: 01/29/13)

CLASS	BALANCE/ NOTIONAL AMT	PRELIMINARY RATINGS	MORNINGSTAR DSCR	MORNINGSTAR BLTV	CREDIT SUPPORT LEVELS
Class A	$552,620,000	AAA	2.61 x	37.9%	32.38%
Class XA-1	$552,620,000	AAA	2.61 x	37.9%	32.38%
Class XA-2	$552,620,000	AAA	2.61 x	37.9%	32.38%
Class XAF-1	$552,620,000	AAA	2.61 x	37.9%	32.38%
Class XAF-2	$552,620,000	AAA	2.61 x	37.9%	32.38%
Class XB-1	$547,380,000	AAA	2.61 x	37.9%	32.38%
Class XB-2	$547,380,000	AAA	2.61 x	37.9%	32.38%
Class XBF-1	$547,380,000	AAA	2.61 x	37.9%	32.38%
Class XBF-2	$547,380,000	AAA	2.61 x	37.9%	32.38%
Class B	$158,980,000	AAA	2.61 x	37.9%	32.38%
Class C	$118,400,000	AA	2.25 x	43.8%	21.83%
Class D	$125,600,000	A	2.01 x	49.0%	12.53%
Class E	$144,400,000	BBB-	1.74 x	56.1%	0.0%

In determining the preliminary ratings on each class of securities issued by the Trust, Morningstar analyzed the properties securing the loan as enumerated herein to determine their stabilized as-is net cash flow (NCF) and values based primarily on the direct capitalization approach. The loan was then subjected to a series of economic and lending environment stresses in our proprietary CMBS Subordination Model to estimate their expected loss at each rating category. A description of this model is attached as Appendix A to this report.
Note:
1) The Class XA-1, Class XA-2, Class XAF-1, Class XAF-2, Class XB-1, Class XB-2, Class XBF-1 and Class XBF-2 Certificates will not have Certificate Balances and will not be entitled to receive distributions of principal. The Notional Amounts of the Class XA-1, Class XA-2, Class XAF-1 and Class XAF-2 Certificates will be equal to the Certificate Balance of the Class A Certificates, and the Notional Amounts of the Class XB-1, Class XB-2, Class XBF-1 and Class XBF-2 Certificates will be equal to the aggregate Certificate Balance of the Class B, Class C, Class D and Class E Certificates. Interest will accrue at the respective pass-through rates based upon the corresponding Notional Amount. NR – Not Rated; N/A – Not applicable; PR – Private Rating Issued.

Estimated Closing Date: February 15, 2013
Solely to the extent and subject to the scope of review enumerated herein, this report and the preliminary ratings noted above address certain credit risks and the extent to which the payment stream of the collateral is adequate to make payments required under the certificates based on information identified as subject to review herein and to the extent provided to Morningstar Credit Ratings, LLC ("Morningstar") on the arranger's website for this transaction as of January 29, 2013. The below analysis, as well as Morningstar's ratings characteristics as described in Appendix C, further reflect the ratings analysis related to these preliminary ratings. Investors should be aware that the proposed transaction and certain documents related thereto are not finalized. Following Morningstar's receipt of final information and documentation, and the completion of Morningstar's review of such information and documentation, Morningstar may issue final ratings to certain subscribers. Such final ratings may differ from the preliminary ratings enumerated herein. Any final ratings will solely be available to Morningstar subscribers on a subscription basis. The preliminary ratings are provided on an arranger pay basis while any related surveillance and analysis is provided to subscribers on a subscription pay basis. For the avoidance of doubt, your receipt of this report does not, in and of itself, make recipient a subscriber of Morningstar. For further information on Morningstar's subscription service, please contact Joe Petro pursuant to the contact information above.

Ongoing Surveillance Statement
Morningstar will monitor the ratings assigned to each Class of certificates on an on-going basis and publish monthly surveillance reports, Morningstar Dealviews, with respect to the trust on a subscription basis solely for subscribers. In addition, changes to ratings and related analysis with respect to each Class of certificates will be provided to subscribers on a subscription basis. Appendix B to this report provides details on our surveillance approach. Morningstar's ability to continually monitor this transaction is contingent on Morningstar's continued timely receipt of certain information and data regarding the collateral and transaction.

TRANSACTION SPOTLIGHT

Collateral	One loan secured by six full service hotels and resorts.	**Mortgage Loan Seller**	Goldman Sachs Mortgage Company
Notional Balance	$1,100,000,000	**Depositor**	GS Mortgage Securities Corporation II
Structure	Sequential	**Trustee**	Deutsche Bank Trust Company Americas
Morningstar Current DSCR (1)	2.55 x	**Servicer**	Wells Fargo Bank, National Association
Morningstar Maximum DSCR(2)	1.74 x	**Special Servicer**	Wells Fargo Bank, National Association
Morningstar U/W BLTV	56.1%	**Certificate Administrator**	Wells Fargo Bank, National Association
Morningstar All-In Current DSCR (3)	1.33 x		
Morningstar All-In UW BLTV(4)	94.3%		

Note:
(1) This loan is an interest only for the full term. Interest is calculated as a spread over 30-day LIBOR (which is subject to a LIBOR Floor of 0.5%). The Borrower has purchased a LIBOR rate cap equal to 1.0% through November 6, 2014, and 2.5%, thereafter. The Interest rate spread varies throughout the loan term; during the first three years the spread is 4.85%, during the fourth year the spread increases to 5.1%, and during the final year the spread is 5.35%. Morningstar has calculated Current DSCR to be the payment during the first year and has reflected the LIBOR floor of 0.50%.
(2) The Morningstar Maximum DSCR is calculated using the interest rate spread during the final year of the loan (5.35%) and Morningstar's assumed maximum LIBOR payable by Borrower equal to and not greater than 2.5%.
(3) The All-In Current DSCR includes the current Trust debt service and interest on the mezzanine loans paid on the full interest rate; the loan provides for a current pay and accrual interest payments, but this reduced pay rate has not been reflected. Please note that the All-Inn Current DSCR reflects only the current balance of the Mezzanine Loans and does not take into consideration any unpaid accrued mezzanine interest converted into capitalized interest.
(4) All in BLTV represents the total debt on the asset or portfolio including both the Trust Loan balance and the mezzanine loans. This does not take into consideration any unpaid accrued mezzanine interest converted into capitalized interest.

Table of Contents

Transaction Overview

The collateral for the GS Mortgage Securities Corporation Trust 2013-KYO is a $1.1 billion first mortgage loan (the "Trust Loan") which is secured by the fee simple and leasehold interests in the Sheraton Waikiki, Royal Hawaiian, Westin Moana Surfrider, and the Sheraton Princess Kaiulani all located in Waikiki Beach in Honolulu, The Sheraton Maui Resort, located in Maui, and The Palace Hotel located in downtown San Francisco. The properties are all operated under management agreements with Starwood Hotels and Resorts and are operated under one of the various Starwood brands. The loan is a five year loan with interest only payments through the term. This is a floating rate loan with interest payments calculated as a spread over 30-day LIBOR and is subject to a LIBOR floor of 0.5% and a LIBOR cap of 2.5%. Interest paid on the loan increases over time providing the Borrower with an incentive to refinance after three years.

Key Loan Metrics		
First Mortgage Loan Amount	$1,100,000,000	$213,137 per room
Subordinate Debt	$750,000,000	$145,321 per room
Total Debt	$1,850,000,000	$358,458 per room
Mortgage Loan Term	5 years	
Maturity Date	Nov-17	
Amortization	Interest-Only	
Interest Rate – Years 1-3	LIBOR + 4.85%	
Interest Rate – Year 4	LIBOR + 5.10%	
Interest Rate – Year 5	LIBOR + 5.35%	

Note: LIBOR is 30-day LIBOR and is subject to a floor of 0.5%. The Borrower has purchased a LIBOR rate cap equal to 1.0% through November 6, 2014, and 2.5%, thereafter.

Morningstar valued the properties using the direct capitalization method; our final aggregate value of approximately $1.962 billion was calculated using a 7.88% capitalization rate. The capitalized value is then further adjusted to reflect the additional value contributed by upfront reserves, escrows, and other miscellaneous items. The Morningstar value, which equates to $380,212 per room, is 28.5% lower than the appraised value of $2.746 billion. The Morningstar valuation resulted in a beginning weighted-average loan-to-value ratio of 56.1% and a debt yield of 13.8%.

Analytical & Underwriting Metrics		
Metric	**Morningstar UW**	**Issuer UW**
Occupancy	86.9%	88.4%
Average Room Rate	$254	$269
Rooms RevPAR	$221	$238
Net Cash Flow (NCF)	$152,165,649	$174,379,249
Variance to Issuer NCF	-12.7%	
Capitalization Rate	7.88%	6.35%
Capitalized Value/Appraised Value	$1,962,275,907	$2,746,500,000
Value Per Room	$380,212	$532,164
Variance to Appraisal	-28.6%	
Debt Yield on Net Cash Flow	13.8%	15.9%
Loan-to-value Ratio	56.1%	40.1%

Note: Issuer Capitalized Value is the appraiser's estimate of value; issuer's capitalization rate is the Issuer' underwritten net cash flow divided by the appraised value.

The following table presents a summary of the six assets which are collateral for the loan. Allocated loan amounts have been provided for this loan which is used as a basis for property release prices and debt service allocation. The following table presents a summary of allocated loan amounts, the Morningstar valuation, the appraised value, and pertinent metrics for each asset in the portfolio.

Portfolio Overview							
Asset Name	Sheraton Waikiki	Royal Hawaiian	Westin Moana Surfrider	Sheraton Princess Kaiulani	Sheraton Maui Resort & Spa	The Palace Hotel	Total Portfolio
Location	Oahu, HI	Oahu, HI	Oahu, HI	Oahu, HI	Maui, HI	San Francisco, CA	---
Number of Rooms	1,636	528	794	1,142	508	553	5,161
Mortgage Loan/Trust Loan	$381,844,262	$140,375,228	$260,102,914	$110,771,403	$113,586,521	$93,319,672	$1,100,000,000
Mezzanine Debt	260,348,361	95,710,383	177,342,896	75,525,956	77,445,355	63,627,049	750,000,000
Total All-In Debt	$642,192,623	$236,085,610	$437,445,811	$186,297,359	$191,031,876	$156,946,721	$1,850,000,000
Morningstar NCF	$57,418,270	$19,109,096	$37,938,106	$13,012,571	$16,281,852	$8,405,754	$152,165,649
Morningstar Value	$736,131,664	$244,988,417	$492,385,978	$196,777,959	$193,100,662	$98,891,227	$1,962,275,907
Morningstar Value/Room	$449,958	$463,993	$620,133	$172,310	$380,119	$178,827	$380,212
Morningstar Trust BLTV	51.9%	57.3%	52.8%	56.3%	58.8%	94.4%	56.1%
Morningstar All-In BLTV	87.2%	96.4%	88.8%	94.7%	98.9%	158.7%	94.3%
MSTAR Current DSCR (1)	2.77 x	2.51 x	2.69 x	2.17 x	2.64 x	1.66 x	2.55 x
MSTAR Current All-In DSCR (2)	1.44 x	1.30 x	1.40 x	1.13 x	1.37 x	0.86 x	1.33 x
Appraised Value	$953,400,000	$350,500,000	$604,400,000	$321,600,000	$283,600,000	$233,000,000	$2,746,500,000
Appraised Value/Room	$582,763	$663,826	$761,209	$281,611	$558,268	$421,338	$532,164
Appraised Trust BLTV	40.1%	40.0%	43.0%	34.4%	40.1%	40.1%	40.1%
Appraised All-In BLTV	67.4%	67.4%	72.4%	57.9%	67.4%	67.4%	67.4%

(1) Interest on the Trust Loan is calculated as a spread over 30-day LIBOR (which is subject to a LIBOR Floor of 0.5%). The Borrower has purchased a LIBOR rate cap equal to 1.0% through November 6, 2014, and 2.5% thereafter. The Interest rate spread varies throughout the loan term; during the first three years the spread is 4.85%, during the fourth year the spread increases to 5.10%, and during the final year the spread is 5.35% Morningstar has calculated Current DSCR based upon the payment during the first year and has reflected the LIBOR floor of 0.50%

(2) The mezzanine loan interest rates are broken up into "current pay" interest rates and "accrual interest rates"; in the event that there is insufficient NCF to pay the full interest rate, the Borrower may pay at the current pay rate and accrue the remaining interest at the accrual rate. The Current All-In DSCR reflects only the current pay portion of the mezzanine interest.

(3) The Current All-In DSCR reflects only the current balance of the Mezzanine Loans. These calculations do not take into consideration any unpaid accrued interest which has been converted to capitalized interest, and therefore, additional Mezzanine Loan principal.

Morningstar determined the preliminary ratings for each class of GSMS 2013-KYO certificates by subjecting our estimated net cash flow and value conclusion to a variety of stresses in our proprietary CMBS Subordination Model. Morningstar will perform on-going monitoring of the rating on each class of certificates on a subscription basis in accordance with Morningstar's policies and procedures.

The Morningstar operational risk assessment ("ORA") ranking for Wells Fargo Bank, National Association, which is acting as Servicer, is MOR CS2. For the full assessment reports and additional information, please access https://ratingagency.morningstar.com

Morningstar Perspective

The portfolio is secured by six luxury and resort hotels located in gateway destinations and superior locations. The properties are well maintained and, with the exception of the Palace Hotel, have undergone major renovations over the last decade enabling the hotels to maintain or improve their position within the competitive markets in which they operate. The hotels have reflected strong growth over the last several years recovering from declines during the economic downturn of 2008-2009. Although operations have reflected strong growth and may now be operating at optimal utilization, there is room for upside and revenue growth through increases in average room rates.

Overall this loan is considered to have strong coverage and very low leverage relative to other standalone deals. Morningstar has estimated the value of the portfolio to be $1.962 billion which equates to $380,212 per room. Our value conclusion is 28.6% lower than the appraised value of $2.75 billion. The loan reflects a beginning loan to value of 56.1% based upon the Morningstar valuation and 40.1% based upon the appraised value.

Morningstar's analysis of the loan, based on information provided on the arranger's website as of January 24, 2013, yielded a net cash flow of $152.2 million; this was 3.85% lower than the most recent reported net cash flow and 12.73% lower than the Issuer's underwritten net cash flow. The portfolio also reflects strong interest coverage throughout the term of the loan; current pay coverage (which is based on the estimated interest rate for the first 36 months of the loan) for the portfolio is 2.55x the Morningstar estimate of net cash flow for the portfolio. Coverage on the loan during the last year of the term (estimated to be the LIBOR cap of 2.5% plus the final year spread of 5.35%) is also strong reflecting 1.74x the Morningstar estimate of net cash flow.

The Bears Say

- Below Market Management Agreement - The hotels are operated by Starwood Hotels and Resorts under various Starwood brands including Sheraton, Westin, and the Luxury Collection. Starwood, or an affiliate or predecessor of Starwood, has been operating the hotels for more than 20 years. The six hotels are all subject to one management contract which provides for both base and incentive management fees and which extends through December 2020. During the trailing 12 months ending October, 2012, total base and incentive management fees paid to Starwood equated to 2.1% of total revenue for the portfolio. A more detailed description of the management fees and how they are calculated is provided on page 12 of this presale report. Typical management fees for chain operated hotels (which typically includes the rights to the brand) range from 4.0% to 6.0% of total revenue, and as such, the management fees paid by the Borrower are well below market. This below market rate is likely due to the fact that Starwood has certain efficiencies in the operation of the four hotels in Waikiki and one hotel in Maui. In addition, if the Borrower were to terminate the contract, it would be difficult for Starwood to secure comparable brand representation in the Waikiki area without significant investment. Based upon this factor, Starwood is likely willing to reduce its fees to what is perceived to be well below market terms. This risk is mitigated by the fact that although low as a percentage of sales, the total fees paid to the company, were $12.6 million during the trailing 12 month period ending October 2012.

- Ground Lease – two of the hotels located along Waikiki beach are subject to partial or full ground leases with the Bernice Pauahi Bishop Estate (also known as the Kamehameha School lease) and a trust involving 25 individuals (commonly referred to as the Robinson lease). Both leases were commenced in the 1960s and extend in excess of 60 years; the Bishop Estate lease extends through 2076 (64 years remaining) and the Robinson lease extends through 2101 (89 years remaining). Both of the leases provide for a base rental rate which is adjusted periodically and the Bishop Estate lease provides for percentage rent. All of the land underneath the Royal Hawaiian Hotel (which represents $244.9 million, or 12%, of the Morningstar value) is subject to the Bishop Estate. The land underneath the Sheraton Waikiki is a combination of fee simple (3.47 acres), lease with the Bishop Estate (1.137 acres), and the lease with the Robinson Estate (0.93 acres). The lease extensions executed in June 2012 documented changes that would result in an increase in percentage rent payments commencing January 2023 (which is five years after the maturity of this loan). A more detailed description of the terms of these ground leases is provided on page 11 of this presale report. This amendment could result in an increase in ground rent payments after 2022, particularly for the Royal Hawaiian Hotel, but since this impact is well beyond the maturity of the subject loan it is not expected to have an impact on the current value of the asset.

- The Sheraton Princess Kaiulani is in need of major renovation; management has strategic plans to redevelop this asset into a mixed use project which will include a much smaller hotel, time-share units, for sale condominiums, and retail space. Redevelopment plans have been underway for years but were delayed due to the economic recession and the decline in demand for condominiums. As a result, the Borrower has delayed commencing renovations and making additional on the existing property. Although the Sponsor continues to plan for redevelopment, the terms of the management agreement enable Starwood to pull the Sheraton brand from the hotel if renovations are not completed by July 2013. This risk is mitigated by the fact that the Borrower has funded $40 million into a renovation escrow account to fund such needed renovations if the redevelopment plans continue to be delayed. Because of the low rates offered by the hotel and the superior location one block from the beach and along Kalakaua Avenue and the shopping district, it is assumed that the hotel would be minimally impacted by the loss of the Sheraton brand if Starwood were to pull the brand. Morningstar has assumed no upside associated with the potential renovation in our underwriting and has assumed a slight decline in occupancy at the hotel.

- The Palace Hotel is in need of renovation – the hotel is showing signs of wear and tear and this factor has impacted management's ability to secure groups and higher rated business. According to information in the appraisal, management plans to invest more than $20 million over the next two years including renovation of guest rooms and corridors and modest renovations to the restaurants and retail space. Renovations are expected to commence in September 2013 and are expected to be completed within nine months of commencement; no funds were escrowed at closing to fund this renovation and will likely need to be funded by direct equity investment. Net operating income (before reserves for replacement deductions) at this hotel was $12.8 million during the trailing 12 month period and was estimated to be $11.2 mm by Morningstar. Combined mortgage and mezzanine debt service (calculated at the current pay rate) is estimated to be nearly $10 million and as such provides little available cash to fund the renovation. Morningstar has assumed no upside associated with the potential renovation in our underwriting.

- Geographic Concentration - five of the hotels, representing 95% of the Morningstar value, are located in resort destinations in the state of Hawaii. Four hotels, representing 85% of the Morningstar value are located within a four block radius on Waikiki. Three of the four Waikiki hotels are located along the oceanfront and compete indirectly with each other for tourist and leisure traveler demand to the area. Should demand for resort accommodation in the Waikiki area decline due to economic recession or dwindling demand for the destination, the risk would not be mitigated by geographic diversity. The concentration, on the other hand, does provide for operating and marketing efficiencies for the hotels including coordinated purchasing, as well as shared marketing and advertising costs.

- Japanese Travelers and Currency Risk - Over the last five years the weakening US dollar has resulted in increased purchasing power for Japanese travelers. Japanese wholesale and groups represent 47% of total room revenue reflected by the hotels which are located in Waikiki. Japanese travelers represent 58% of revenue at the Sheraton Waikiki, 28% of revenue at the Royal Hawaiian, 44% at the Westin Moana Surfrider, and 40% of the Sheraton Princess Kaiulani. Due to changes in currency valuation, purchasing power for Japanese tourists effectively increased at a compound annual rate of 5.8% between December 2006 and December 2011. This factor could have two potential impacts: 1) lower pricing could result in stronger Japanese demand for US lodging or 2) management of the hotels would be able to increase room rates without affecting the Japanese perception of the price value decision. During this period, occupied room nights generated by Japanese guests at the Waikiki hotels in the portfolio increased slightly but likely much of this growth is driven by a more positive outlook in the overall economy which enabled travelers to once again venture out on vacation and may also be attributed to a stronger penetration of this demand segment after completion of the renovations (which were conducted at the Waikiki hotels between 2005 and 2009). The average room rates paid by these guests increased 6.8% and 4.6% during 2011 and 2012, but this is well below the theoretical increase that would be supported by the strength of the currency. This strengthening trend has recently reversed as the dollar gained 7.7% against the Yen during 2012. It is difficult to evaluate the potential impact that the strengthening of the dollar will have on demand and pricing for this important demand sector. Because most wholesale rates and bookings are conducted 6-12 months in advance, it is likely that the results reflected for 2012 at the hotels do not yet integrate any change in pricing. It is possible that demand for room nights and average room price paid could decline in the future due to changes in purchase power. This risk is somewhat offset by the fact that other demand geographic demand sources, including the US and Canada are likely to reflect moderate to strong growth in demand and room rates in the near term which should offset any potential declines in Japanese revenue. Furthermore, this risk is also accounted for in our CMBS Subordination Model at each rating category which stresses cash flows at each rating level; the stresses for the hotel property type are significantly higher than that of other asset classes.

- Mezzanine Loan DSCR - based upon the Morningstar estimate of net cash flow and Trust Loan debt service at the current interest rate spread of 4.85% plus the LIBOR floor of 0.5%, there is sufficient funds to pay both the current pay and accrued interest due on the Mezzanine Loans; this however leaves very little cash flow for other uses such as renovations, improvements, or future investment. As a result it is likely that the borrower will not pay all or a portion of the accrued interest on the Mezzanine Loans which will result in the accumulation of capitalized interest over time. If the LIBOR rate increases, the interest due on the Trust Loan will increase resulting in fewer funds available to pay interest on the mezzanine debt. Furthermore, as indicated earlier, the interest on the Trust loan increases 25 basis points each year after the first 36 months of the loan. Based upon the Morningstar estimate of net cash flow and Trust Loan debt service at the maximum interest rate, which is calculated as 1) interest on the Trust Loan at the interest rate spread during the final year of the loan term plus the maximum LIBOR floor of 2.5%, and 2) the total aggregate interest rate on the Mezzanine Loans, coverage on the total financing is 0.94 x the Morningstar estimate of NCF which indicates that there is insufficient funds to pay the full mezzanine debt service at this time. It is important to note that this estimate of maximum interest is based upon the current balance of the Mezzanine Loans and does not factor in any increase to the outstanding principal balance of such loans due to accrued and unpaid interest which is then converted to capitalized interest, and therefore, additional principal balance on the Mezzanine Loans. We have accounted for this additional risk in our CMBS Subordination Model by applying additional net cash flow stresses and higher loan servicing costs at each rating category.

The Bulls Say

- Diverse demand base drives less volatility than other markets – US visitors account for 65% of visitor days to Hawaii while international destinations including Japan and Canada account for 34.4% of visitation. As a result of the location's draw and the diversity of the demand base, the Hawaii lodging market has reflected less volatility and stronger growth over the last several years than other US resort and other destinations. During the recent economic downturn, the Island of Oahu lodging market reflected lower declines and quicker, stronger returns that that of the overall US lodging industry. According to Smith Travel Research, occupancy in Oahu declined 1.8% during 2008 and 2.7% during 2009 and rebounded 5.9% during 2010 and has shown continued growth during 2011 and 2012. During the same period, occupancy at US luxury hotels and resort hotels reflected much higher volatility declining more than 3.5% during 2008 and 5.3% during 2009 and have reflected slower growth. Average room rates reflected similar patterns during the most recent economic downturn. The average room rate reflected by Oahu hotels declined 11.4% during 2009 and was flat during 2010; since then the average rate of the hotels on the Island of Oahu have reflected growth in excess of 10%. Average room rates at luxury hotels and resort hotels in the US reflected more moderate growth during 2011 and 2012.

- Location, location, location – all of the assets in the portfolio are situated in what could be considered irreplaceable locations. The four Waikiki hotels are located along Kalakaua Avenue, which is the premier shopping district in Waikiki area; three of the hotels are located along the Waikiki Beach. The Sheraton Maui is located on 23 acres along the beach front in the popular Kaanapali resort destination of Maui and The Palace Hotel is located in downtown San Francisco along Montgomery and Market Street. The strength of these locations has supported strong values and operating results for these hotels.

- Low leverage - based upon the Morningstar estimate of value, leverage on the Trust Loan is equivalent to 56.1%; based upon the appraised value, leverage is much lower at 40.1%. The debt yield on this loan, based upon the Morningstar estimate of net cash flow, is estimated to be 13.8%.

- Strong Coverage - current coverage on the loan is estimated to be 2.55x based upon the Morningstar net cash flow; for the purposes of this metric, debt service was calculated to be based upon the current interest rate spread of 4.85% and the LIBOR floor of 0.5%. Coverage on the loan during the last year of the term (spread of 5.35%) and the maximum LIBOR rate of 2.5% is also strong reflecting 1.74x based upon the Morningstar estimate of net cash flow.

- Strong Management and Marketing – the hotels have been operated by Starwood since 1974. Management has strong ties to the local community and convention and visitors bureau as well as has well-established relationships with Japanese wholesalers and marketing networks. Management is able to effectively market the Waikiki hotels as one package to wholesalers and group meeting planners provided a varying array of product types and experiences. Furthermore, the hotels offer a wide variety of pricing alternatives ranging from the higher end Westin Moana Surfrider and Royal Hawaiian to the budget-priced Sheraton Princess Kaiulani. There are extensive operating efficiencies associated with the combined operation of four hotels such as increased purchasing power for supplies and through shared marketing, advertising, and administrative costs.

- Past Renovation and Capital Investment – since 2005, the Borrower has invested more than $325 million upgrading and renovating the properties. Total investment during that period equated to $63,150 per room. The bulk of the renovations took place between 2007 and 2009 but continued throughout the following years. Management plans to invest additional funds in the properties over the near term particularly at the Palace Hotel and the Westin Moana Surfrider. A more detailed description of planned renovations at these hotels is provided in the Asset Summary reports at the end of this presale report.

Property Site Visits

Morningstar conducted a site visit of the assets between December 10 and 14, 2012. Each property tour included a tour of a sampling of guest room product types and a tour of public areas and amenities. Management took time to discuss the asset, market positioning, operating results, and any future strategic plans for each asset during the meeting. Based upon our evaluation, Morningstar assigned a property quality score of 2 to all of the properties with the exception of the Sheraton Princess Kaiulani. Morningstar uses a scale of 1 to 5, with "1" being the highest quality. Factors including the property's age, location, and condition are considered in assigning the quality score. After assigning a quality score to each property, Morningstar then factors each score into the assignment of our capitalization rates. Although most of the assets were considered to be in good to average condition at the time of our inspection, the hotels are considered to be in an irreplaceable location which contributes significant value to the asset. The Sheraton Waikiki, Royal Hawaiian, and Westin Moana Surfrider were all considered to be in good to average condition; however, the location along the oceanfront as well as along Kalakaua Avenue is considered to be a distinct competitive advantage for these assets. The Sheraton Princess Kaiulani was awarded a property score of 3 (average) despite the fact that the hotel is in fair condition and is in need of major renovation; the location of this asset along Kalakaua Avenue is superior to that of many hotels in the competitive environment. The Palace Hotel is located in downtown San Francisco proximate to the Union Square area; built in 1909 on the site of the original Palace Hotel which was destroyed by the fire/earthquake of the 1906, this property is considered a local landmark. Although the hotel is in average condition and is in need of renovations, the location and history of the asset contributes significant value to the hotel and based upon this we have awarded this property a 2 property score (good).

Credit Support Stresses

Morningstar's final net cash flow and capitalization rates for each property are matched with the corresponding loan characteristics and subjected to various stresses, including net cash flow declines, capitalization rate deterioration and default timing, in Morningstar's CMBS Subordination Model at each rating category. Additional stresses are applied to the cash flow of those properties contributing to portfolio level concentration risks. This is done separately to gauge the credit-worthiness of each loan during its term and at the balloon date. In the case of the latter, Morningstar additionally stresses the ability of the borrower to refinance the loan at higher loan constants. For instance, at the AAA level, Morningstar's analysis utilizes a stressed refinance loan constant of 12.0%.

The metrics shown below highlight the magnitude of cash flow and value decline after applying all of the stresses at each rating category. These are provided separately for the term default and balloon default analyses. By way of example, in assigning a rating of "AAA" to the Class A certificates, we subjected our concluded net cash flow to a weighted-average 53.2% decline and our concluded value to a weighted-average 64.7% decline in the term default analysis. In the balloon default analysis, these weighted-average declines were 43.9% and 35.0%, respectively. We should note that the balloon declines reflect the post-extension period improvement in those instances the stressed loan metrics allow for an extension at the balloon date. It should also be noted that these declines are applied to Morningstar's concluded net cash flow which in the overwhelming majority of cases is lower than the in-place net cash flow. These declines are weighted-average statistics. The declines applied to the individual properties differ and are a function of factors such as property type and concentration risks. In addition to the standard methodology, in the case of the Sheraton Princess Kaiulani, we applied additional net cash flow stress on the AAA, AA, and A rating levels to reflect the risk associated with the condition of the hotel and potential for loss of the Sheraton brand. The resultant credit support levels based on these stresses are then compared to the levels of the actual capital structure to determine the appropriate rating level for each class of securities.

	AAA	AA	A	BBB
Morningstar NCF Decline (Term)	53.2%	48.5%	43.9%	35.0%
Morningstar Value Decline (Term)	64.7%	59.9%	54.8%	45.8%
Morningstar NCF Decline (Balloon)	42.5%	38.8%	35.1%	31.5%
Morningstar Value Decline (Balloon)	58.6%	53.1%	48.3%	44.5%

Morningstar Rating Characteristics

Appendix C of this presale report contains general characteristics of Morningstar’s rating of CMBS transactions as well as characteristics specific to this transaction.

Collateral Summary

Loan Collateral Summary

The loan is secured by six hotels with a total of 5,161 rooms located in Honolulu, Maui, and San Francisco. Four of the hotels are located in Waikiki beach and are walking distance from each other and benefit from significant economies of scale in purchasing, marketing and advertising. Three of the Waikiki hotels are located along the beach offering a combined 1,370 linear feet of beachfront. One hotel, The Sheraton Maui Resort & Spa, is located in the popular Kaanapali beach resort section of Maui and offers 650 linear feet of beach/oceanfront. The last hotel is The Palace Hotel which is located in the Union Square district of downtown San Francisco. The following table presents a summary of pertinent information on each of the hotels in the portfolio.

Asset Name	# of Rooms	Island/City State	Property Location	Year Opened	Meeting Space (Sq. Ft.)		F&B Seats		Leased Retail/Rest. Space (Sq. Ft.)
					Indoor	Outdoor	Dining	Bar	
Sheraton Waikiki	1,636	Oahu, HI	Waikiki Beach	1971	44,290	450	855	139	43,006
Royal Hawaiian	528	Oahu, HI	Waikiki Beach	1927/1969	12,404	66,000	239	135	19,572
Westin Moana Surfrider	794	Oahu, HI	Waikiki Beach	1901/1952/1967	10,682	3,260	430	50	21,390
Sheraton Princess Kaiulani	1,142	Oahu, HI	Waikiki Strip	1955/1959/1970	11,256	n/a	650	185	34,304
Sheraton Maui Resort & Spa	508	Maui, HI	Kaanapali Beach	1963	12,330	27,979	282	216	6,682
The Palace Hotel	553	San Francisco, CA	Downtown	1875/1909	43,830	n/a	529	n/a	10,275

Note: the number of rooms is based upon the Issuer's historical and projected operated results for the hotels dated Jan 3, 2013 and may not match information presented in the Offering Circular and Term Sheet.

The hotels in the Waikiki area are located Kalakaua Avenue, which is considered the premier shopping and restaurant district in the Waikiki area. The Waikiki district is located between downtown Honolulu and the Diamond Head National Monument, along the southern coast of the island. Waikiki is primarily improved with tourism related development such as hotels, restaurants, and retail facilities, and high-rise condominium developments. The area has undergone significant redevelopment over the last 10 years, improving the visitor experience and ensuring that Waikiki maintains its status as a premier tourist destination. Recently completed projects include the $535 million Waikiki Beach Walk, the largest renovation project in Waikiki's history, the $115 million renovation (completed in 2008) of the Royal Hawaiian Center, one of Waikiki's premier shopping, restaurant, and entertainment destinations, and a nearly $16 million redevelopment of Kuhio Beach, Waikiki's main stretch of sand. The redevelopment of Kuhio Beach gave it a new sidewalk promenade with lush landscaping and fountains. Waikiki Beach Walk is a 8-acre collection of buildings located along Lewers Street site which were completely redeveloped and today features an outdoor entertainment plaza, 41 new retailers, six restaurants, and five hotels.

The Royal Hawaiian Center, which is located adjacent to the Sheraton Waikiki and the Royal Hawaiian hotels, is a four-level open-air retail complex with 310,000 square feet and more than 100 upscale shops and restaurants located along a three-block stretch of Kalakaua Avenue. The complex is home to one of the largest concentrations of flagship stores in Hawaii including Cartier, Hermes, Salvatore Ferragamo, Bvlgari, bebe, LeSportsac, Rolex Kaimama Kea, Kate spade, Tourneau, Juicy Couture, and Fendi.

Recent redevelopment of the immediate vicinity is expected to continue in the near term. The hotels are also located proximate to the International Market Place which is an old, aesthetically obsolete open air shopping center with tourist and trinket shops. The owner of the center, Queen Emma Land Co. and Taubman Centers are planning to redevelop the site with a 355,000 square foot, three-level open air retail center which would include historical, cultural, and educational features. This development is in the early stages of planning, but if completed would greatly improve the overall fabric of the surrounding area which could have a positive impact on nearby real estate. The development would involve the demolition of the Waikiki Town Center, the Miramar Waikiki Hotel, and the current International Center (located adjacent to the Sheraton Princess Kaiulani). Recent indications are that the project may receive development approvals during the first quarter of 2013 and demolition could get underway by end of the year.

Sheraton Waikiki

Royal Hawaiian

Westin Moana Surfrider

Sheraton Princess Kaiulani

Sheraton Maui Resort & Spa

The Palace Hotel

Market Segmentation and Demand

The hotels in Hawaii are predominately targeted to accommodate leisure travelers including both individual and wholesale/packages. Leisure travel represented 86.1% of total accommodated demand at the hotels in Waikiki and 79.6% of demand at the Sheraton Maui. The Palace Hotel, located in downtown San Francisco accommodates a large share of group demand including corporate groups (24.5% of total occupancy) and association groups (14.1% of total occupancy). The following table presents a summary of operating results and market segmentation for each of the properties; a more detailed description of market segmentation and demand drivers for each hotel is provided in the Asset Summary Report for each asset which is provided at the end of this presale report.

	Sheraton Waikiki		Royal Hawaiian		Westin Moana Surfrider		Sheraton Princess Kaiulani		Waikiki Hotels		Sheraton Maui		The Palace Hotel	
Description	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR
Premium Individuals	7.5%	$281	23.9%	$399	19.5%	$298	9.6%	$144	12.3%	$282	21.9%	$272	31.5%	$268
Discount Individuals	8.3%	$181	12.1%	$298	9.9%	$234	10.8%	$116	9.7%	$188	10.6%	$272	28.3%	$185
Japan Wholesale	50.3%	$256	28.6%	$329	40.4%	$326	36.2%	$123	42.0%	$243	1.8%	$252	---	---
Other Wholesale	15.9%	$213	25.0%	$305	24.1%	$249	29.0%	$112	22.2%	$195	45.4%	$229	---	---
Groups - Japan/Asia	9.4%	$240	2.2%	$324	1.0%	$294	6.9%	$130	6.3%	$211	---	---	---	---
Groups - Corporate	2.9%	$239	2.7%	$348	2.0%	$255	0.6%	$132	2.0%	$250	11.4%	$233	24.5%	$237
Groups - Association	3.3%	$252	2.3%	$355	0.9%	$249	0.8%	$142	2.0%	$254	3.9%	$220	14.1%	$236
Groups - Other	2.4%	$279	3.1%	$316	2.3%	$280	4.4%	$140	3.0%	$227	5.1%	$217	1.6%	$224
Airline Crew	---	---	---	---	---	---	1.8%	$98	---	---	---	---	---	---
Total	100.0%	$259	100.0%	$356	100.0%	$307	100.0%	$133	100.0%	$244	100.0%	$266	100.0%	$234
TTM 10/31/12 Results	93.7%	$259	79.1%	$356	89.9%	$307	90.0%	$133	90.0%	$244	88.3%	$266	80.4%	$234
YE 2011 Results	90.5%	$238	76.3%	$321	86.6%	$285	88.0%	$121	87.2%	$223	87.4%	$249	79.4%	$219
YE 2010 Results	90.0%	$209	61.5%	$291	83.6%	$256	86.2%	$112	84.0%	$198	84.5%	$231	77.9%	$202

Note: The total weighted average room rate includes miscellaneous other income which has not been allocated to a specific catgegory.

Collateral Features / Concerns

Based solely on a review of the materials enumerated herein, the following reflect highlights of certain material property features and/or concerns.

Reciprocal Easement Agreement

Certain of the properties are subject to easement agreements and covenants ("REAs) that benefit the respective properties. Per the arranger, the REAs run with the land and borrower covenants to comply with all material terms and conditions thereof. We assume such REAs or equivalent agreement(s) will remain in place to the extent necessary and/or desirable for the use and/or operation of the respective properties.

Ground Lease

Two of the hotels along Waikiki beach are subject to partial or full ground leases with the Bernice Pauahi Bishop Estate (also known as the Kamehameha School lease) and a lease involving a trust of 25 individuals (commonly referred to as the Robinson Lease).

Bernice Pauahi Bishop Estate Lease – also known as the Kamehameha School District Lease, this lease was originally executed in March 1969 extends through December 2076 (64 years remaining). The lease encompasses a total of 10.335 areas including 1.137 acres underneath the Sheraton Waikiki and all of the land underneath the Royal Hawaiian Hotel (9.198 acres). The landlord also owns the land underneath the Royal Hawaiian Center which is a shopping center located adjacent to the Sheraton Waikiki hotel. The lease provides for a combination of minimum rent which is a set payment that is adjusted every five years; according to an amendment executed in September 2012, this base rent will be $4,729,966 through December 2016. Percentage rent is paid at a sliding scale equal to 4.0% of adjusted gross revenue up to $29.5 million, 3.0% of adjusted gross revenue between $29.5 million and less than $50.0 million, and 2.5% of adjusted gross revenue in excess of $50 million. Based upon the trailing 12 months ending October 2012, total rent paid to the Bishop Estate was $7.2 million. In January 2017 the base rent will be increased to be equal to 94% of the average aggregate rent paid during the preceding five years (base plus percentage rent). If the average rent paid is equivalent to that of the trailing 12 month period ending October 2012, the minimum rent could increase to more than $6.75 million. During the trailing 12 month period ending October 2012, approximately $2.16 million was attributed to the Royal Hawaiian and $5.03 million was attributed to the Sheraton Waikiki.

The lease extension executed in June 2012 documented changes that would result in an increase is lease payments commencing January 2023 (which is five years after the maturity of this loan). As per the amendment, commencing 2023, percentage rent lease payments will be calculated for each hotel separately and will change the calculation methodology. Percentage rent for the Sheraton Waikiki shall be 3.81152% of the first $20.475 million of adjusted gross revenue, 2.85864% of the next $14.424 million of adjusted gross revenue, and 2.3822% of adjusted gross revenue in excess of $35 million. Percentage rent for the Royal Hawaiian Hotel shall be 5% of adjusted gross revenue up to $67.5 million and 7% of revenue in excess of $67.5 million. This amendment could result in a significant increase in ground rent payments, particularly for the Royal Hawaiian Hotel, but since this impact is well beyond the maturity of the subject loan it is not expected to have an impact on the near term value of the asset.

Robinson Lease – this lease was originally executed in January 1966 extends through December 2101 (89 years remaining). The lease encompasses a total of 0.93 areas underneath the Sheraton Waikiki. Current rent on this lease is a set fee of $3,759,115 per year and will be adjusted in January 2022 and at ten year intervals, thereafter. The lease rent will be adjusted to be the greater of 6% of the fair market value of the land, 85% of the annual rent paid for the immediately preceding year, or $2 million. The appraiser estimates that this lease payment will increase to $5.6 million in January 2022.

While per the arranger, the ground leases (and related documents) generally contain customary "financeable" ground lease provisions, there are certain restrictions on assignability, subletting and use and certain circumstances where casualty and/or condemnation proceeds may be provided to the ground lessor and not to the lender or borrower. In addition there are certain pre-approved amendments and modifications, particularly with respect to the Royal Hawaiian property. Per the arranger, the conditions to such pre-approved amendments and modifications are intended, among other things, to protect the interests of the lender and preserve the "financeability" of the ground lease.

Management Agreement

The hotels are operated by Starwood Hotels and Resorts under various Starwood brands including Sheraton, Westin, and Luxury Collection. Starwood, or an affiliate or processor of Starwood has been operating the hotel since 1974. The six hotels are all subject to one management contract which provides for a base and incentive management fee and the current management agreement extends through December 2020. Although the actual calculation is complex, in general the methodology provides for a base management fee of one percent of adjusted total revenue (which is roundly 92% of total revenue) and an incentive fee equal to 30% of basic earnings. For the purposes of calculation, basic earnings is gross operating profit less deductions for base management fee, ground rent, real estate taxes, insurance, reserve for replacement, miscellaneous corporate charges, an amortization of capital expenditures, and an owners priority return of 20% of Adjusted Gross Revenue. During the trailing 12 months ending October, 2012, total base and incentive management fees paid to Starwood equated to 2.1% of total revenue for the portfolio. Typical management fees for chain operated hotels (which typically includes the rights to the brand) range from 4.0% to 6.0% of total revenue, and as such, the management fees paid by the Borrower are well below market. This below market rate is likely due to the fact that Starwood has certain efficiencies in the operation of the four hotels in Waikiki and one hotel in Maui. In addition, if the Borrower were to terminate the contract, it would be difficult for Starwood to secure comparable brand representation in the Waikiki area without significant investment. Likely based upon this factor, Starwood has been willing to reduce its fees to what is perceived to be well below market terms. However, it is important to note that although low as a percentage of sales, the total fees paid to the company, were $12.6 million during the trailing 12 month period ending October 2012. Combined basic and incentive fees for the pool are capped at $17 million per year if only the five Hawaii properties are operated and $18 million per year if all six hotels are being operated by Starwood.

Based upon the Morningstar underwriting and the fee calculation methodology, we estimate that the combined calculated base and incentive management fee will equate to 2.1% of total revenue for the portfolio. For the purposes of our underwriting, Morningstar has assumed a more conservative management fee of 2.25% of total revenue. The contract provides for the allocation of fees between hotels such that some properties reflect a higher fee and other hotels may, in fact, reflect a fee a negative expense. For example at the Royal Hawaiian during the trailing 12 months ended October 2012, the incentive fees calculated reflected a negative $861,000 (acting as a credit to expense) while the incentive fee at the Sheraton Waikiki was $6.3 million; this variance is purely an allocation. Rather than impute this somewhat arbitrary allocation, Morningstar has assumed a flat management fee of 2.25% over all hotels to provide for a more stable and consistent valuation of each property.

As indicated earlier, the Borrower has plans to redevelop the Sheraton Princess Kaiulani into a mixed use asset containing a smaller hotel, condominium units, and retail space. Redevelopment plans have been delayed and, as a result, the Borrower has not commenced renovations required to bring the property in line with Sheraton brand standards. The terms of the management agreement enable Starwood to pull the Sheraton brand from the hotel if renovations are not completed by July 2013. In the event that, on or after July 12, 2013, there is still uncompleted work, the Starwood Manager will be free to exercise any rights and remedies it may have under the Starwood Management Agreement or applicable law with respect to such uncompleted work. The Borrower has the right to terminate the agreement with respect to the Sheraton Princess Kaiulani at any time up to and including December 2013 with 120 days and a payment of $500,000 termination fee. The agreement may also be terminated upon sale of the asset with the payment of a termination fee equal to the total management fees accrued for the hotel during the 12 month period preceding the termination.

Environmental Concerns

At the Sheraton Waikiki Hotel two 5,000-gallon diesel underground storage tanks ("USTs") were formerly located at the site. Although both of these USTs have been closed, the ground was contaminated by the release and monitoring wells were installed to determine the extent of groundwater contamination. Based on the current regulatory status and information discussed above, no further action or investigation is recommended regarding these historic USTs. The environmental consultant; however, recommends that the monitoring well associated with the two former USTs be properly abandoned.

Seismic

The Palace Hotel is located in earthquake-prone area (seismic zone 3 or 4) including California and Oregon. Probable Maximum Loss (PML) is used to characterize building damageability during a 475 year earthquake; if an asset has a PML of less than 20.0%, additional mitigation is not considered necessary. Seismic studies, conducted for this property identified the probable maximum loss (PML) of 19.0% for the hotel property and 24% for the parking garage. The seismic engineer indicated that the property has undergone various stages of seismic upgrading work, most recently between 1989 and 1991 and indicated that the hotel was found to be in good condition and no existing seismic related damage was reported or noted at the time of the inspection. The parking structure was found to be in fair structural condition. Concrete deterioration was noted including wall cracks and spalling along portions of the exterior elevations. Exposed steel reinforcement was also observed at the underside of the upper floor concrete slabs. The parking structure has not been seismically retrofitted and contains large ground floor openings at the street entrance, framed with non-ductile concrete. These conditions increase the risk of torsional (twisting) movement within the garage and increased levels of damage during a strong earthquake.

Hurricane and Earthquake Risk

The Borrower commissioned a natural hazards report for the properties which included estimates for earthquake and hurricane losses. The results of the current independent study prepared by Risk Management Solutions ("RMS") showed aggregate expected losses for all of the properties (Hawaii & San Francisco combined) as a result of windstorm damage (which includes storm surge and tsunami) of $295,000,000 for a 500-year return period. Further, the results of the report showed aggregate expected losses for all of the properties as a result of Earthquake damage of $204,000,000 for a 500-year return period. Property all risk insurance shall be in the amount equal to the full replacement cost of the properties and related furniture, fixtures, and equipment up to an aggregate limit of $1.8 billion (the HVS appraisals estimated the insurable value of the portfolio to be $1.46 billion). Deductibles for property coverage shall not be in excess of $250,000, except in the case of named storm which may not exceed 3% of the insurable value of the property, and shall not exceed 5% of the total insurable value of the property the case of earthquake coverage. The earthquake limit under the policy is $400 million per occurrence for the properties in Hawaii, the properties in Hawaii are located in a Seismic Zone 2A which is not an area with a high degree of risk. The earthquake coverage limit for San Francisco is $200 million per occurrence which is in excess of the insurable value for this asset.

Flood Risk

As indicated above, the results of the current independent study prepared by Risk Management Solutions ("RMS")showed aggregate expected losses for all of the properties (Hawaii & San Francisco combined) as a result of windstorm and flood damage (which includes storm surge and tsunami) of $295,000,000 for a 500-year return period. The majority of flood risk in the Hawaii area is from tsunamis produced by subduction earthquake events. The nearest seismic zones capable of a subduction event include Alaska, Japan and Chile which are more than 3,000 miles away from Hawaii. Most of the tsunamis observed from Oahu have been small with maximum run-up height of 0.1 meter or less. For all the Waikiki properties, the elevation of the developed first floor is approximately 3 feet above sea level. The largest tsunami observed in Honolulu was from the 1837 Concepcion, Chile earthquake. The reported maximum run-up was 2.4 meters. No major damage from the tsunami was reported. Most of the tsunamis observed from Maui have been small with maximum run-up height (amplitude) of 3 meters or less. For the Maui property, the elevation of the developed first floor is approximately 9 feet above sea level. According to information provided by the Issuer, there has been no tsunami or flood-related damage (including tsunami) at the property since 1979 and they have never filed a tsunami or flood claim on these properties. Flood insurance is required for each of the properties in Hawaii and for the Palace Hotel in San Francisco if determined to be within a 100 year flood plain, special hazard area or other area with high degree of risk. Flood insurance coverage has a limit of $400 million per occurrence with a deductible of $500,000 per occurrence. There is a $200 million sublimit for San Francisco; however, this property is not currently included in a special flood hazard area.

Market Area Overview

General Tourism Trends

The Island of Oahu accounted for 48.9% of total visitation to the State of Hawaii during 2012 according to information provided by the Hawaii Tourism Authority. Visitation to the State of Hawaii has remained relatively stable over the last 20 years increasing at a nominal compound annual rate of 1.2% between 1990 and 2010. Over the last several years, however, leisure demand has reflected strong growth increasing 16.4% between 2008 and 2012. The Island of Oahu has reflected the strongest growth increasing 20.2% between 2008 and 2012 with an increase of 10.7% during 2012 alone. The following table presents a summary of visitation by island. The outer islands, including Maui, Big Island, and Kauai, Island of Maui, have shown strong but slower growth over the last few years increasing 12.9% since 2008. The island of Maui, which has consistently accounted for 25% of total visitation to the State of Hawaii, remained relatively stable during the economic downturn reflecting only a nominal decline in travel during 2009.

Visitor Days by Island								CAGR	% Chng	% Chng	% Chng	% Chng
Location	**1990**	**2000**	**2008**	**2009**	**2010**	**2011**	**TTM 11/2012**	**1990-2010**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Hawaii	56,398,499	61,721,150	63,130,133	60,255,061	65,598,078	67,825,871	73,470,520	0.8%	-4.6%	8.9%	3.4%	8.3%
Oahu	30,215,944	31,077,256	29,920,873	29,318,351	31,918,530	32,477,385	35,967,195	0.3%	-2.0%	8.9%	1.8%	10.7%
Maui	13,249,503	15,305,826	16,262,552	15,186,964	16,886,015	17,540,085	18,448,029	1.2%	-6.6%	11.2%	3.9%	5.2%
Kauai	6,342,867	6,603,048	7,266,911	6,821,901	7,196,459	7,597,107	8,113,480	0.6%	-6.1%	5.5%	5.6%	6.8%
Big Island	6,094,858	7,990,225	9,092,338	8,469,606	9,102,156	9,690,668	10,421,218	2.0%	-6.8%	7.5%	6.5%	7.5%
Other Islands	495,327	744,795	587,459	458,239	494,918	520,626	520,598	0.0%	-22.0%	8.0%	5.2%	0.0%

Source: Hawaii Tourism Authority

Note: Statistics for Visitor Days is for arrivals by air.

Travelers from the US mainland remains the primary source of demand for the Hawaiian Islands accounting for 65.6% of total visitor days; the West Coast, particularly California, is the largest source of this demand representing 63% of total US visitation. As illustrated on the table below, travel from the U.S. west region remained stable throughout the downturn declining only 2.3% during 2009; since 2009, visitation from this region has increased 14.0%. Canada and other destinations, although representing only 23% of total visitation has shown the strongest growth over the last several years increasing 37.5% since 2008. Travelers from Japan account for only 11.7% of total visitors to the State of Hawaii; however the majority of these travelers visit only the island of Oahu. Japan accounted for 1.2 million arrivals to the island of Oahu.

Source of Visitor Days								CAGR	% Chng	% Chng	% Chng	% Chng
Location	**1990**	**2000**	**2008**	**2009**	**2010**	**2011**	**TTM 11/2012**	**1990-2010**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Total Visitors	56,398,499	61,721,149	63,130,133	60,255,061	65,598,078	67,825,871	73,470,520	0.8%	-4.6%	8.9%	3.4%	8.3%
U.S. West	20,739,823	23,978,995	26,649,336	26,027,984	28,306,801	28,768,587	30,380,077	1.6%	-2.3%	8.8%	1.6%	5.6%
U.S. East	18,197,294	17,673,291	17,586,975	16,271,465	17,039,909	17,178,727	17,787,498	-0.3%	-7.5%	4.7%	0.8%	3.5%
Japan	8,814,120	10,097,846	6,744,053	6,806,138	7,277,498	7,484,700	8,598,069	-1.0%	0.9%	6.9%	2.8%	14.9%
Canada	3,009,560	3,081,557	4,632,068	4,396,325	5,159,937	6,040,316	6,494,492	2.7%	-5.1%	17.4%	17.1%	7.5%
All Others	5,637,702	6,889,460	7,517,700	6,753,148	7,813,933	8,353,541	10,210,384	1.6%	-10.2%	15.7%	6.9%	22.2%

Source: Hawaii Tourism Authority

Note: Statistics for Visitor Days is for arrivals by air.

Due to the diversity of geographic sources of demand, the Hawaii lodging sector has been less volatile than that of other sectors in the United States. During the recent economic downturn, the Island of Oahu lodging market reflected lower declines and quicker, stronger returns that that of the overall US lodging industry. According to Smith Travel Research, occupancy in Oahu declined 1.8% during 2008 and 2.7% during 2009 and rebounded 5.9% during 2010 and has shown continued growth since. During the same period, occupancy at US luxury hotels and resort hotels reflected much higher volatility declining more than 3.5% during 2008 and 5.3% during 2009. Growth in these sectors has been slower than that of Oahu since. Average room rates reflected similar patterns during the most recent economic downturn. The average room rate reflected by Oahu hotels declined 11.4% during 2009 and was flat during 2010, since then the average rate of the hotels on the Island of Oahu have reflected growth in excess of 10%. The following table illustrates industry trends for the overall US, luxury hotels, resort hotels, and for the Island of Oahu.

Trends on Occupancy						
	2007	2008	2009	2010	2011	2012
US - All Hotels	62.8%	59.8%	54.6%	57.5%	59.9%	61.4%
% Change		*-3.0%*	*-5.2%*	*3.0%*	*2.4%*	*1.5%*
US - Luxury Hotels	72.5%	69.0%	63.6%	67.6%	71.0%	73.0%
% Change		*-3.5%*	*-5.4%*	*4.0%*	*3.4%*	*2.0%*
US - Resort Hotels	65.9%	62.1%	56.8%	59.4%	61.8%	63.3%
% Change		*-3.8%*	*-5.3%*	*2.6%*	*2.4%*	*1.5%*
Oahu Hotels	76.8%	75.0%	72.3%	78.2%	80.7%	84.7%
% Change		*-1.8%*	*-2.7%*	*5.9%*	*2.5%*	*4.0%*

Source: Smith Travel Research Lodging Review

Trends in Average Room Rate						
Sector	2007	2008	2009	2010	2011	2012
US - All Hotels	$104.32	$107.40	$98.07	$98.06	$101.85	$106.10
% Change		*3.0%*	*-8.7%*	*0.0%*	*3.9%*	*4.2%*
US - Luxury Hotels	$292.72	$292.58	$243.00	$247.20	$262.64	$274.51
% Change		*0.0%*	*-16.9%*	*1.7%*	*6.2%*	*4.5%*
US - Resort Hotels	$144.04	$146.59	$129.86	$129.30	$135.45	$141.60
% Change		*1.8%*	*-11.4%*	*-0.4%*	*4.8%*	*4.5%*
Oahu Hotels	$168.36	$169.44	$150.06	$149.67	$164.97	$183.51
% Change		*0.6%*	*-11.4%*	*-0.3%*	*10.2%*	*11.2%*

Source: Smith Travel Research Lodging Review

Japanese Travel and Currency Risk

Japan is an important component of the tourism economy to Oahu. Visitor expenditures from Japanese individuals represented $2.2 billion during 2011 according to the Hawaii Tourism Authority. The majority of the travel is leisure-driven as business travel represents only 4% of total Japanese arrivals to the State; of note during 2011 nearly 59% of the Japanese arrivals were repeat visitors. Hotel management indicated that the majority of Japanese travel is booked through travel wholesales including Japan Tourism Bureau ("JTB") and JAL Pak and tends to prefer the Waikiki destination for the access to shopping and entertainment. Most restaurants and shops in the Waikiki area are bilingual and provide for an easy and comfortable shopping experience for Japanese travelers. In addition, the large wholesalers provide free shuttle bus service in and around Waikiki; these services are not provided outside of the Waikiki area or on the outer islands. In addition to the proximity to shopping, most Japanese travelers are interested in activity-based tourism; according to the Hawaii Tourism Japan, 60% of the Japanese tourism dollars spent in Hawaii (not included hotel accommodations) is on group tours and activities. The wholesalers have established relationships with local operators and have tour desks in most major Waikiki hotels that assist in the coordination of these activities which are targeted to meet Japanese preferences.

Japanese wholesale and groups demand represented 48.3% of total occupied demand at the four hotels in the Waikiki area during the most recent trailing 12 month period. The following table presents a summary of historical demand and revenue generated by Japanese tourists at the Waikiki hotels (including the Sheraton Waikiki, Royal Hawaiian, Westin Moana Surfrider, and the Sheraton Princess Kaiulani) and illustrates the change in the value of the Yen during the same periods.

Evaluation of Japanese Travel to 4 Waikiki Hotels in the Portfolio							
Description	2006	2007	2008	2009	2010	2011	2012
Occupied Roomnights	581,265	555,569	469,967	436,512	537,250	565,762	652,316
% Change in Occupied Rmnts	---	-4.4%	-15.4%	-7.1%	23.1%	5.3%	15.3%
% of Total Occupied Demand	46.7%	45.6%	42.5%	39.5%	42.7%	43.3%	48.3%
Average Rate	224.81	229.52	233.91	221.14	213.67	228.19	238.68
% Change in Avg. Rate	---	2.1%	1.9%	-5.5%	-3.4%	6.8%	4.6%
Yen Coversion to $1 US - Year Average	116.35	117.77	103.38	93.60	87.75	79.71	79.81
% Change Value of Dollar	---	1.2%	-12.2%	-9.5%	-6.2%	-9.2%	0.1%
% Change Value of Yen		-1.1%	14.1%	10.3%	6.8%	10.0%	-0.2%
Yen Coversion to $1 US at Year End	117.32	112.45	91.28	89.95	83.34	77.80	83.79
% Change Value of Dollar	---	-4.2%	-18.8%	-1.5%	-7.4%	-6.6%	7.7%
% Change Value of Yen		4.3%	23.2%	1.5%	7.9%	7.1%	-7.2%

Over the last five years the weakening US dollar has resulted in increased purchasing power for Japanese travelers. Due to changes in currency valuation, purchasing power for Japanese tourists effectively increased at a compound annual rate of 5.8% between December 2006 and December 2011. This factor could have two potential impacts: 1) lower pricing could result in stronger Japanese demand for US lodging or 2) management of the hotels would be able to increase room rates by 5.8% without affecting the Japanese perception of the price value decision. During this period, occupied room nights generated by

Japanese guests at the Waikiki hotels in the portfolio increased slightly but likely much of this growth is driven by a more positive outlook in the overall economy which enabled travelers to once again venture out on vacation and may also be attributed to a stronger penetration of this demand segment after completion of the renovations (which were conducted at the Waikiki hotels between 2005 and 2009). The average room rate paid these guests increased 6.8% and 4.6% during 2011 and 2012, but this is well below the theoretical increase that would be supported by the strength of the currency. It is likely that hotel management was reluctant to push rates during this period seeking rather to bolster occupied rooms.

This strengthening trend has recently reversed as the dollar gained 7.7% against the Yen during 2012. It is difficult to evaluate the potential impact that the strengthening of the dollar will have on demand and pricing for this important demand sector. Because most wholesale rates and bookings are conducted 6-12 months in advance, it is likely that the results reflected for 2012 at the hotels do not yet integrate any change in pricing. It is possible that demand for room nights and average room price paid could decline in the future due to changes in purchase power. This risk is somewhat offset by the fact that other demand geographic demand sources, including the US and Canada, are likely to reflect moderate to strong growth in demand and room rates in the near term which should offset any potential declines in Japanese revenue. Furthermore, this risk is also accounted for in our CMBS Subordination Model at each rating category which stresses cash flows at each rating level; the stresses for the hotel property type are significantly higher than that of other asset classes.

Morningstar Analysis and Valuation

Morningstar evaluated the asset's historical cash flow, occupancy levels, operating expenses, fixed expenses, tenant improvements, leasing costs, and capital costs. Morningstar's estimates of revenue and expenses, as well as our analytical approach, are discussed below.

Morningstar Estimate of Net Cash Flow

Revenue

- Room Revenue – Morningstar evaluated the historical occupancy and average room at each property individually noting the impact that recent renovations and overall improvement in the economy had on the market segmentation and pricing for each hotel. The issuer provided market data produced by Smith Travel Research which evaluated the subject hotel's occupancy, room rate and penetration rates to that of identified primary competitive set. The issuer also provided appraisals which included a detailed analysis of the competitors and supply and demand trends in each respective market. Based upon these various sources of information, Morningstar prepared an estimate of occupancy and average room rate for each hotel. Our average room rate assumptions are significantly lower than that projected by the Issuer and the 2013 management budget; however our estimates are slightly higher than the results of the trailing 12 month period ending October 2012. Morningstar has evaluated the historical operating results, market segmentation, and market penetration of each hotel individually in our estimate of future market potential. Overall we have assumed that since the hotels have achieved stabilized operations, the operator will shift revenue strategy to focus on yield management (to reduce discounts and increase higher rated demand segments) which may result in a net decline in occupancy. Based upon our evaluation, the weighted average occupancy at the hotels is assumed to decline by two percentage points and room rates are assumed to increase by 3.6%. Overall, Morningstar's estimate of room revenue per available room has reflected 1.4% increase over that reflected during the trailing 12 months period.

	Occupancy			Average Rate			Rooms RevPAR		
	TTM Oct. 12	Issuer	MSTAR	TTM Oct. 12	Issuer	MSTAR	TTM Oct. 12	Issuer	MSTAR
Sheraton Waikiki	93.7%	92.4%	89.8%	$259.43	$288.14	$272.30	$243.03	$266.12	$244.56
Royal Hawaiian	79.1%	80.5%	79.1%	355.94	387.64	382.10	281.43	312.14	302.11
Westin Moana Surfrider	89.9%	86.7%	86.5%	306.92	331.62	311.36	275.77	287.60	269.21
Sheraton Princess Kaiulani	90.0%	90.6%	89.1%	132.82	148.05	137.31	119.54	134.18	122.34
Sheraton Maui Resort & Spa	88.3%	89.8%	88.6%	266.46	290.35	276.69	235.38	260.79	245.03
The Palace Hotel	80.4%	81.1%	80.7%	233.54	253.26	229.96	187.71	205.52	185.62
Combined Portfolio	88.8%	88.4%	86.9%	$245.39	$268.99	$254.19	$217.98	$237.92	$221.00

- Food & Beverage Revenue – were estimated based upon an evaluation of historical and projected food and beverage revenue per occupied room night. This estimate was applied to our estimate of normalized occupancy for each hotel.

- Other Operated Departments – were estimated based upon an evaluation of historical and projected revenue per occupied room night for each expense category including Telephone, Other Operated Departments, and Rentals and Other Income.

Departmental Expenses

- Rooms Departmental Expenses – were estimated based upon an evaluation of historical and budgeted expenses in this category on a per occupied room basis. This estimate was applied to our estimate of normalized occupancy for each hotel.

- Food & Beverage Expenses – were estimated based upon an evaluation of historical and budgeted expenses as a percentage of revenue in this department. This estimate was applied to our estimate of food and beverage revenue.

- Other Operated Departments – expenses for other operated departments such as retail shops, spa, parking, and other minor operated departments were evaluated a percentage of historical departmental sales. This estimate was applied to our estimated of other operated revenue.

Undistributed Operating Expenses

- General and Administrative Expenses – were estimated based upon an evaluation of historical expenses on a per available room basis and were compared to industry averages.

- Advertising and Marketing - this category are calculated based upon the expense reflected during the most recent trailing 12 month period which has been inflated by 3.5%. Additionally, we have increased this expense by $250,000 to account for the potential increase in advertising and marketing expenses during an economic downturn.

- Management Fees – based upon the Morningstar underwriting and the fee calculation methodology (discussed in more detailed on page 12 of this report, we estimate that the combined calculated base and incentive management fee will equate to 2.1% of total revenue for the portfolio. For the purposes of our underwriting, Morningstar has assumed a more conservative management fee of 2.25% of total revenue. The contract provides for the allocation of fees between hotels such that some properties reflect a higher fee and other hotels may, in fact, reflect a fee a negative expense. Rather than impute this somewhat arbitrary allocation, Morningstar has assumed a flat management fee of 2.25% over all hotels to provide for a more stable and consistent valuation of each property.

Fixed Expenses

- Real estate taxes are evaluated individually for each hotel based upon an evaluation of historical expenses as well as the assessment, mileage, and tax rates provided in the appraisal. The taxes estimated are in line with the management budget for calendar year 2013.

- Insurance expenses are estimated based upon the 2013 budget which reflects an increase in expenses planned by management to increase flood and hurricane coverage.

- Reserve for Replacement of FF&E - although the management agreement requires only a 3.5% reserve for replacement, Morningstar has assumed a 4.0% reserve for replacement which is our minimum standard for full service hotels and resorts.

Morningstar Valuation

Morningstar estimated the value of each asset based the income capitalization approach to value. Capitalization rates are estimated quarterly by Morningstar for the lodging sector in each region and major metropolitan area based upon a review of investor surveys including Real Estate Research Council, PWC Real Estate Investor Survey (Korpacz), as well as a review of research and comparable sales information provided by Real Capital Analytics. The following table presents a summary of the valuation of each asset; a more detailed discussion is provided in the individual Asset Summary Reports for each asset provided at the end of this report.

	Morningstar NCF	Morningstar NCF Adjusted	Capitalization Rate	Capitalized Value	Renovation Escrows	Maui Territory Fee	Final Value
Sheraton Waikiki	$57,418,270	$57,418,270	7.80%	$736,131,664	$0	$0	$736,131,664
Royal Hawaiian	19,109,096	19,109,096	7.80%	244,988,417	0	0	244,988,417
Westin Moana Surfrider	37,938,106	37,938,106	7.80%	486,385,978	6,000,000	0	492,385,978
Sheraton Princess Kaiulani	13,012,571	13,012,571	8.30%	156,777,959	40,000,000	0	196,777,959
Sheraton Maui Resort & Spa	16,281,852	14,281,852	7.80%	183,100,662	0	10,000,000	193,100,662
The Palace Hotel	8,405,754	8,405,754	8.50%	98,891,227	0	0	98,891,227
Combined Portfolio	$152,165,649	$150,165,649	7.88%	$1,906,275,907	$46,000,000	$10,000,000	$1,962,275,907

The loan agreement provided for the upfront escrow of $46 million for future renovations to two of the hotels including $6 million for the renovation of the Westin Moana Surfrider and $40 million for the renovation of the Sheraton Princess Kaiulani. We have also provided a value for the Maui Territory Fee which is earned at the Sheraton Maui Resort and Spa; the hotel earns an annual fee of $2 million from Starwood Hotels and Resorts for the right exclusive right to use certain guest information and databases of the Sheraton Maui Resort & Spa for the purposes of timeshare operations on Maui. We have not included this income stream in the NCF for the purposes of estimating the capitalized value of the asset (see Morningstar NCF Adjusted above), but have in turn valued five years of this income stream to be $10 million.

The table on the following page presents a summary of historical operating results for year end 2010 and 2011, the Trailing 12 Months Ending October, 31, 2012, the issuer's underwriting, and Morningstar's conclusions.

	Morningstar Underwriting	Year End 2010	Year End 2011	TTM 10/31/12	Issuer Underwriting
Number of Days	365	365	365	366	365
Number of Rooms	5,161	5,159	5,160	5,160	5,161
Available Roomnights	1,883,701	1,883,035	1,883,431	1,888,560	1,883,645
Occupied Roomnights	1,637,734	1,571,313	1,627,369	1,677,598	1,666,047
Occupancy Percent	86.9%	83.4%	86.4%	88.8%	88.4%
Average Room Rate	$254.19	$201.86	$225.57	$245.39	$268.99
Rooms RevPAR	$221.00	$168.44	$194.90	$217.98	$237.92
Departmental Revenue					
Room	$416,296,610	$317,180,744	$367,084,550	$411,664,662	$448,149,101
Food & Beverage	141,923,541	125,448,974	138,680,082	145,978,543	145,157,255
Telephone	2,974,247	2,859,782	2,925,840	3,084,719	3,083,069
Other Operated Departments	9,623,618	9,213,027	9,318,644	9,937,755	9,754,315
Palace Garage & Maui Territory Fee	2,570,078	2,448,490	2,499,732	2,569,059	2,679,346
Rentals and Other Income (Net)	21,365,482	17,568,408	19,526,761	21,453,975	21,453,975
Total Departmental Revenue	**$594,753,575**	**$474,719,425**	**$540,035,609**	**$594,688,713**	**$630,277,061**
Departmental Expenses					
Room	$120,326,345	$102,986,242	$116,972,705	$122,598,004	$128,588,292
Food & Beverage	123,454,720	112,157,108	120,756,246	126,914,229	126,184,442
Telephone	4,402,804	3,953,045	4,277,190	4,537,263	4,513,846
Other Operated Departments	8,433,444	8,241,212	8,674,706	8,672,860	8,489,145
Total	**$256,617,313**	**$227,337,607**	**$250,680,847**	**$262,722,356**	**$267,775,725**
Departmental Net Profit	**$338,136,262**	**$247,381,818**	**$289,354,762**	**$331,966,357**	**$362,501,336**
Undistributed Expenses					
General & Administrative	$36,865,674	$32,254,627	$34,176,096	$35,829,954	$36,575,991
Management Fees	13,381,955	4,310,100	4,908,100	5,434,000	5,773,511
Advertising & Marketing	25,334,934	20,901,561	21,923,181	23,028,922	24,608,210
Repairs & Maintenance	25,984,344	24,293,561	24,743,834	25,105,646	26,312,917
Utilities	23,081,053	17,476,669	21,238,104	22,300,534	23,258,892
Incentive Fees	0	0	954,300	7,190,300	11,594,534
Fixed Expenses					
Real Estate Taxes	$16,242,993	$15,899,200	$15,311,385	$15,712,074	$16,242,993
Property Insurance	10,365,067	5,986,217	6,545,869	7,413,890	10,365,067
Ground Rent	10,930,982	9,340,993	10,144,238	10,949,059	11,424,052
Other Fixed	0	0	(136,744)	0	0
Total Operating Expenses	**$418,804,315**	**$357,800,535**	**$390,489,210**	**$415,686,735**	**$433,931,892**
Net Operating Income	**$175,949,260**	**$116,918,890**	**$149,546,399**	**$179,001,978**	**$196,345,169**
Capital Expenditures / Reserve	23,783,611	16,545,180	18,831,247	20,724,188	21,965,920
Net Cash Flow	**$152,165,649**	**$100,373,710**	**$130,715,152**	**$158,277,790**	**$174,379,249**

Loan Summary

General Loan Terms

Sources and Uses of Funds

The loan is funded to refinance and pay-off existing mortgage debt of $1.132 million, to fund reserves and escrows, to pay closing costs, and to fund a distribution to the equity holders of the Borrower. The following table summarizes the sources and uses of funds for this transaction.

Sources of Funds		Uses of Funds	
First Mortgage	$1,000,000,000	Repay Existing Debt	$1,132,500,000
Mezzanine Loans	750,000,000	Closing Costs	39,374,000
		Reserves/Escrows	69,000,000
		Equity Distribution	609,400,000
Total Sources	$1,850,000,000	Total Uses	$1,850,000,000

Note: figures are rounded.

Mortgage Loan/Trust Loan Terms

The $1.1 billion first mortgage loan (the "Trust Loan") is interest only for the full five year term. Interest on the loan is calculated as a spread over 30-day LIBOR and is subject to a LIBOR floor or 0.5%. The loan agreement required that the Borrower purchase a LIBOR rate cap of 1.0% until November 2014 and a cap of 2.5%, thereafter. The spread on the loan increases over time:

- during the first 36 months interest is calculated as a spread of 4.85% over LIBOR,
- during the 37th through the 48th months, interest is calculated as a spread of 5.10% over LIBOR, and
- during the 49th through the 60th months, interest is calculated as a spread of 5.35% over LIBOR.

Interest is generally calculated based upon LIBOR, but may be converted to a spread over the Prime rate; and if converted to Prime may be converted back to LIBOR. This feature is considered to be a standard mechanism in floating rate loans.

Morningstar does not rate the LIBOR Rate Cap provider; however, Morningstar's analysis is based upon a stressed LIBOR rate of 2.5% which is consistent with the existing LIBOR cap.

Based upon the Morningstar estimate of value, leverage on the Trust Loan is equivalent to 56.1%; based upon the appraised value, leverage is much lower at 40.1%. Current coverage on the loan is estimated to be 2.55x based upon the Morningstar net cash flow; for the purposes of this metric, debt service calculated to be based upon the current interest rate spread of 4.85% and the LIBOR floor of 0.5%. Coverage on the loan in the last year of the term (spread of 5.35%) and the maximum LIBOR rate of 2.5% is also quite strong reflecting 1.74x based upon the Morningstar estimate of net cash flow. The debt yield on this loan, based upon the Morningstar estimate of net cash flow, is estimated to be 13.8%.

Mezzanine Financing

As part of this transaction, certain equity owners of the Borrower have incurred mezzanine debt, subordinated to the Trust Loan, in the amount of $750 million. The mezzanine funding has been structured in four different loans (the "Mezzanine Loans") as detailed in the table provided below. Based upon the Morningstar valuation, the aggregate leverage (the "All-In" leverage) of the Trust Loan and the Mezzanine Loans is estimated to be 94.3%.

Summary of Mezzanine Loans					
Tranche	Loan Amount	Current Pay Rate	Accrual Interest Rate	Aggregate Mezzanine Interest Rate	Pay Rate on Capitalized Interest
Mezzanine Loan A	$150,000,000	7.500%	3.750%	11.250%	11.250%
Mezzanine Loan B	250,000,000	8.250%	4.500%	12.750%	12.750%
Mezzanine Loan C	200,000,000	6.500%	7.375%	13.875%	13.875%
Mezzanine Loan D	150,000,000	6.333%	10.167%	16.500%	16.500%
Total Mezzanine Debt	$750,000,000				

Note: the Aggregate Interest Rate is the combination of the current pay rate and the accrual interest rate. Interest rates are rounded.

Interest on the mezzanine loan is calculated under three separate components including current pay interest, accrued (or capitalized) interest, and aggregate interest (which is interest paid on the accrued or capitalized interest). The following summarizes the priority of payments of such interest:

- First, Current Pay Rate – interest is calculated based upon the outstanding loan balance for each mezzanine tranche and the current pay rates as detailed in the preceding table. Interest is paid for each of the tranches in sequential order. Failure to pay current pay interest on the Mezzanine Loans will not trigger a default on the Trust Loan, but will trigger a default on the Mezzanine Loans.

- Second - to the extent of available funds, interest shall be due to the Mezzanine A lender 1) interest on the net principal indebtedness (not including the capitalized interest) for the Mezzanine A tranche at a 3.75% accrued interest rate, and 2) interest on the capitalized interest for the Mezzanine A tranche at an 11.25% aggregate interest rate. Any unpaid accrued interest or interest on the capitalized interest shall become part of the principal indebtedness for the Mezzanine A loan as capitalized interest.

- Third - to the extent of available funds, interest shall be due to the Mezzanine B lender 1) interest on the net principal indebtedness (not including the capitalized interest) for the Mezzanine B tranche at a 4.5% accrued interest rate, and 2) interest on the capitalized interest for the Mezzanine B tranche at a 12.75% aggregate interest rate. Any unpaid accrued interest or interest on the capitalized interest shall become part of the principal indebtedness for the Mezzanine B loan as capitalized interest.

- Fourth - to the extent of available funds, interest shall be due to the Mezzanine C lender 1) interest on the net principal indebtedness (not including the capitalized interest) for the Mezzanine C tranche at a 7.375% accrued interest rate and 2) interest on the capitalized interest for the Mezzanine C tranche at a 13.875% aggregate interest rate. Any unpaid accrued interest or interest on the capitalized interest shall become part of the principal indebtedness for the Mezzanine C loan as capitalized interest.

- Fifth - to the extent of available funds, interest shall be due to the Mezzanine D lender 1) interest on the net principal indebtedness (not including the capitalized interest) for the Mezzanine D tranche at a 10.167% accrued interest rate, and 2) interest on the capitalized interest for the Mezzanine D tranche at a 16.5% aggregate interest rate. Any unpaid accrued interest or interest on the capitalized interest shall become part of the principal indebtedness for the Mezzanine D loan as capitalized interest.

As indicated above, current pay interest on the four mezzanine tranches shall be due at each payment date. If there is available cash flow, then funds shall be disbursed to pay accrued and capitalized interest. If available funds are not available, then the mezzanine borrowers may accumulate the accrued interest as capitalized interest; interest is also due and compounded monthly on any outstanding capitalized interest at the aggregate interest rate. An event of default for the Trust Loan will be triggered if the aggregate amount of the capitalized interest for the Mezzanine Loans exceeds $100 million at any time (however, the mortgage lender's remedies are subject to cure periods including those provided in the intercreditor agreement); effectively this means that the mezzanine borrowers (currently the equity owners) would have to fund cash equity to exercise their cure rights and reduce this balance.

Based upon the Morningstar estimate of net cash flow and Trust Loan debt service at the current interest rate spread of 4.85% plus the LIBOR floor of 0.5%, there is sufficient funds to pay both the current pay and accrued interest due on the Mezzanine Loans; this however leaves very little cash flow for other uses such as renovations, improvements, or future investment. As a result it is likely that the borrower will not pay all or a portion of the accrued interest on the Mezzanine Loans which will result in the accumulation of capitalized interest over time. If the LIBOR rate increases, the interest due on the Trust Loan will increase resulting in less funds available to pay interest on the mezzanine debt. Furthermore, as indicated earlier, the interest on the Trust loan increases 25 basis points each year after the first 36 months of the loan. Based upon the Morningstar estimate of net cash flow and Trust Loan debt service at the maximum interest rate, which is calculated as 1) interest on the Trust Loan at the interest rate spread during the final year of the loan term plus the maximum LIBOR floor of 2.5%, and 2) the total aggregate interest rate on the Mezzanine Loans, coverage on the total financing is 0.94 x the Morningstar estimate of NCF which indicates that there is insufficient funds to pay the full mezzanine debt service at this time. It is important to note that this estimate of maximum interest is based upon the current balance of the Mezzanine Loans and does not factor in any increase to the outstanding principal balance of such loans due to accrued and unpaid interest which is then converted to capitalized interest, and therefore, additional principal balance on the Mezzanine Loans.

SUMMARY OF CAPTALIZATION

						Current Interest Rates (1) (2)			Current DSCR (1)		Maximum DSCR (3)	
Type of Debt	Loan Amount	Debt Per Unit (# rooms)	MSTAR BLTV	Appraisal BLTV	Debt Yield	Mezz at Curr Pay	Mezz at Accrual	Mezz at Total Int.	Mezz at Current Pay	Mezz at Full Int. Rate	Mezz at Current Pay	Mezz at Full Int. Rate
Mortgage Loan/Trust Loan	$1,100,000,000	$213,137	56.1%	40.1%	13.8%	5.350%	5.350%	5.350%	2.55 x	2.55 x	1.74 x	1.74 x
Mezzanine Loan A	150,000,000	29,064	63.7%	45.5%	12.2%	7.500%	3.750%	11.250%	2.14 x	1.98 x	1.54 x	1.45 x
Mezzanine Loan B	250,000,000	48,440	76.4%	54.6%	10.1%	8.250%	4.500%	12.750%	1.65 x	1.39 x	1.27 x	1.11 x
Mezzanine Loan C	200,000,000	38,752	86.6%	61.9%	9.0%	6.500%	7.375%	13.875%	1.45 x	1.11 x	1.14 x	0.92 x
Mezzanine Loan D	150,000,000	29,064	94.3%	67.4%	8.2%	6.333%	10.167%	16.500%	1.33 x	0.94 x	1.07 x	0.80 x
Total All-In Debt	$1,850,000,000	$358,458	94.3%	67.4%	8.2%				1.33 x	0.94 x	1.07 x	0.80 x

Notes:
(1) The Trust loan is an interest only for the full term. Interest is calculated as a spread over 30-day LIBOR (which is subject to a LIBOR Floor of 0.5%). The Borrower has purchased a LIBOR rate cap equal to 1.0% through November 6, 2014, and 2.5%, thereafter. The Interest rate spread varies throughout the loan term; during the first three years the spread is 4.85%, during the fourth year the spread increases to 5.10%, and during the final year the spread is 5.35%. Morningstar has calculated Current DSCR to be the payment during the first year and has reflected the LIBOR floor of 0.50%.
(2) The mezzanine loan interest rates may be broken up into "current pay" interest rates and "accrual interest rates"; in the event that there is insufficient NCF to pay the full interest rate, the Borrower may pay at the current pay rate and accrue the remaining interest at the accrual rate.
(3) The Maximum DSCR is calculated using the interest rate spread during the final year of the mortgage loan (5.35%) and an Morningstar has assumed that the maximum LIBOR payable by Borrower is equal to 2.5%.
(4) Estimates of Current and Maximum All-In Debt service take into consideration only the initial principal balance of the Mezzanine Loans. These calculations do not take into consideration any unpaid accured interest which has been converted to capitalized interest, and therefore, additional Mezzanine Loan principal.

Borrowers and Sponsors

The borrower is Kyo-ya Hotels & Resorts, LP which is a Delaware Limited partnership indirectly owned and controlled by Kyo-ya Company, LLC, a Delaware limited liability company (the "Delaware Sponsor"), which is in turn an indirect wholly-owned subsidiary of Kokusai Kogyo Kabushiki Kaisha, a Japan Corporation (the "Japan Sponsor"), and a collection of funds or wholly-owned affiliates that are managed by Cerberus Capital Management, L.P. and Cerberus Real Estate Capital Management, LLC (the "CCM sponsor"). The Japan Sponsor is jointly owned by funds, accounts and other entities controlled or managed by the CCM Sponsor (55%) and Kokusai Kogyo Holdings K.K. (45%), an entity owned and controlled by Mr. Takamasa Osano and his family members and/or affiliated entities. The Delaware Sponsor, the Japan Sponsor, and the CCM Sponsor (together, the "Sponsors") are the non-recourse carve out guarantors. The Japanese Sponsor acquired its interest in the Portfolio between 1963 and 1974. Cerberus acquired a controlling stake in the portfolio through its 2004 acquisition of an interest in Kokusai Kogyo Kabushiki Kaisha, a Japan Corporation.

SPE and Bankruptcy Remoteness

The borrower and its general partner are required under the loan documents and their organizational documents to maintain themselves as special purpose entities generally limited in their activities to ownership and operation of the mortgaged property (or ownership of its interest in the borrower). The loan documents and borrower's organizational documents also include limitations on the borrower's ability to incur additional indebtedness and additional covenants regarding the borrower's separateness from other entities. While the borrower is generally limited in incurring additional indebtedness, the loan allows for broader and/or higher thresholds of permitted debt than may be customary for a transaction of this type and size. The borrower (or its general partner) is also required to have independent managers whose consent is required for certain bankruptcy matters. Although the loan documents and organizational documents require the borrower to comply with certain covenants relating to the borrower's separateness, and the borrower makes certain representations regarding its previous existence, the borrower (and its general partner) existed prior to the origination of the loan. While pre-existing entities present a higher risk than newly formed single purpose entities, a nonconsolidation opinion relating to the borrower (and the general partner of borrower) was provided. However the nonconsolidation opinion does not include certain preferred and/or customary pairings between the borrower (and/or the general partner of borrower) and certain affiliated entities, including Kyo-ya Management Company, Ltd.

While single purpose entity borrowers are intended to lessen the possibility that a borrower's financial condition would be adversely impacted by factors unrelated to the mortgaged property and the mortgage loan, there is no assurance that such borrowers will not nonetheless become part of a bankruptcy proceeding.

Property Releases

As long as no event of default under the mortgage loan is continuing, the Borrower may obtain the release of the Princess Kaiulani Hotel and the Moana Surfrider (each, a "Partial Release Property") from the liens of the loan documents under certain provisions. Each release requires that the borrower prepay a portion of the loan equal to the greater of 1) the applicable release price, 2) 100% of the net sales proceeds derived from the sale of the property to a third party purchaser, and 3) an amount such that the trailing 12-month debt yield with respect to the Trust Loan is no less than the greater of the trailing 12-month debt yield with respect to the Mortgage Loan immediately prior to release or on the origination date. With respect to the Princess Kaiulani Hotel, the lien on the hotel may be released on or after December 7, 2013 with the payment of a partial release price equivalent to 110% of the sum of the allocated loan amount for the Trust Loan and the allocated Mezzanine Loan amounts for the property; if the property is released prior to June 2014, then an additional release premium payment will also be required. With respect to Moana Surfrider, the lien on the hotel may be released on or after December 7, 2014 with the payment of a partial release price equivalent to 120% of the sum of the allocated loan amount for the Trust Loan and the allocated Mezzanine Loan amounts for the property; if the property is released prior to June 2015, then an additional release premium payment will also be required. The release price payment shall be distributed to the Trust Loan and Mezzanine Loans as follows: 1) 59.46% of the proceeds of a partial release will be applied to the outstanding principal balance of the mortgage loan, and 2) 40.54% of the proceeds will be applied to reduce the outstanding principal balances of the Mezzanine Loans, pro rata in accordance with their then outstanding principal balance (excluding capitalized interest); this prorate allocation is in line with the percentage allocation of the Trust Loan and Mezzanine Loan balances for each asset at closing. After the release price has been paid, the senior loan percentage of remaining proceeds are to be applied to reduce the mortgage loan and the mezzanine loan percentage of remaining proceeds are to be applied to reduce the mezzanine loans. With respect to the components of the mortgage loan, the release proceeds shall be applied in descending order of payment priority.

Voluntary Prepayment

The borrower may not prepay the loan prior to December 7, 2013 (the "lockout period"). After the expiration of the lockout period the borrower may prepay the loan prior to June 7, 2015 with payment of a prepayment premium or yield maintenance premium (other than in connection with certain casualty and/or condemnation or property releases). No prepayment premium is required after June 7, 2015. Voluntary prepayments (other than in connection with property releases described above) are applied pro rata. Pro rata allocation between the mortgage loan and mezzanine loans (as noted in partial releases section above) also applies in connection with a release of property resulting from a casualty with respect to which the lender did not make insurance proceeds available for restoration, but only to the extent of the amount prepaid (exclusive of any insurance proceeds applied to pay down the outstanding principal balance of the mortgage loan).

Loan Features / Concerns

Based solely on a review of the documents enumerated herein, the following reflect highlights of certain material loan features and/or concerns.

LIBOR Rate Cap

The loan has a floating interest rate based on LIBOR or prime rate, as applicable. To mitigate the borrower's exposure to increases in LIBOR (or the prime rate as applicable), the borrower entered into a rate cap agreement with a LIBOR strike rate equal to 1.0% until November 6, 2014, and 2.5% thereafter through and including the maturity date. The interest cap rate agreement is required to have a notional amount equal to or greater than the principal balance of the Trust Loan. Morningstar's analysis and estimate of CMBS subordination levels assumed a maximum interest rate of 7.85% payable by Borrower which equals: (1) an assumed cap on LIBOR of 2.5%, plus (2) the maximum interest rate spread of 5.35%. If this assumption is not true (whether due to expiration or termination of, or defaults with respect to, the rate cap agreement, rate cap payment mismatches, failure of rate cap provider to make timely payments and/or otherwise), Morningstar's ratings may be adversely impacted. In addition, any conversion of the applicable interest rate between LIBOR, prime rate or other such indexes could create delays and/or impact the interest payable by borrower. Morningstar's ratings do not asses the likelihood of any such conversion or any related impact. Morningstar does not rate the LIBOR Rate Cap provider; however, Morningstar's analysis is based upon a stressed LIBOR rate of 2.5% which is consistent with the existing LIBOR cap.

Cash Management

Pursuant to the loan documents, the borrower is required to establish and maintain a cash management account under the control of the lender. For so long as the approved management agreement in place as of the loan closing (the "Closing Date Management Agreement") is still in effect, the borrower is required to cause revenues from the properties to be deposited into manager accounts maintained by the approved manager at local eligible institutions. Amounts in the manager accounts in excess of (i) sums needed to fund operating expenses payable by the approved manager pursuant to the approved management agreement and (ii) other amounts reserved by the approved manager for property related expenses (in the case of (i) and (ii), to the extent the approved management agreement calls for the same to be so expended, reserved or applied) are to be deposited into the cash management account monthly.

If the Closing Date Management Agreement is no longer in effect with respect to any property, the borrower is required to cause all cash revenues relating to such properties (other than tenant security deposits required to be held in escrow accounts) to be deposited into a new qualified operating expense account subject to a control mechanism acceptable to the lender. Amounts in the qualified operating expense account in excess of operating expenses payable by the approved manager pursuant to the approved management agreement as well as amounts to be deposited into applicable reserves (for the then-applicable month) are to be deposited into the cash management account monthly.

During an event of default, unless the approved management agreement, the applicable control agreement and/or subordination of management agreement require otherwise, amounts in the manager accounts and/or qualified operating expense account are required to be remitted to the cash management account. However, approved management agreements and/or control agreements may not require certain amounts, such as operating expenses and other amounts, to be (a) remitted to the cash management account and/or (b) under lender control.

In the event that any property is not managed by an approved manager pursuant to an approved management agreement, all revenues from such properties are required to be deposited directly into the cash management account. After an event of default, the loan documents provide the lender with discretion to apply funds in the cash management account. Notwithstanding such post-event of default provisions, certain amounts, such as operating expenses, are not required to be remitted to the cash management account and therefore, may not be available to the lender for application.

As described above, while cash management mechanics are required to be in place, certain amounts and/or reserves may not be subject to lender control and/or available for application by lender.

Sponsor or Borrower Litigation

The financing associated with the Trust Loan and the Mezzanine Loans was approved by the Japan Sponsor as a result of an affirmative vote of (i) all the directors in relation to the Trust Loan and (ii) all of the directors of Kokusai Kogyo Co. Ltd. selected by shareholders controlled by the CCM Sponsor in relation to the Mezzanine Loans. The two board members of Kokusai Kogyo Co. Ltd., appointed by Kokusai Kogyo Holdings, Ltd., the entity holding 45% of the common shares in Kokusai Kogyo Co. Ltd. objected to, and thus did not vote to approve, the incurrence of the Mezzanine Loans, asserting that, among other things, they had not received a satisfactory explanation of the size of the loan or the use of proceeds.

There is currently litigation pending between the sponsors ("shareholder litigation") filed by Kokusai Kogyo Holdings, Ltd., on behalf of Kokusai Kogyo Co. Ltd., against one director and two former directors of Kokusai Kogyo Co. Ltd. appointed by shareholders controlled by the CCM Sponsor, alleging breach of their fiduciary duties to Kokusai Kogyo Co. Ltd. with respect to certain approvals made as directors of Kokusai Kogyo Co. Ltd. In addition, Kokusai Kogyo Holdings, Ltd. had previously petitioned for the appointment of an inspector to inspect the operations and assets of Kokusai Kogyo Co. Ltd., alleging, among other things, that the actions proposed to be taken by Kokusai Kogyo Co. Ltd. in connection with the Trust Loan and mezzanine financing are being done for the purpose of benefitting shareholders controlled by the CCM Sponsor. Such petition has since been withdrawn by Kokusai Kogyo Holdings, Ltd.

Per the arranger, the following are mitigants to the Shareholder Action: (i) approval by the board of Kokusai Kogyo Co., Ltd. of the financing, (ii) title insurance coverage covering the risk that corporate authority for the financing was not properly given, (iii) agreement by the title company not to raise exclusion from coverage based on the Shareholder Action, (iv) guarantor representation that the financing was properly authorized, and (v) a representation and warranty by borrower that to the borrower's knowledge, there is no fact, event or circumstance that could reasonably be expected to result in a material adverse effect. Despite these mitigants, there is still a possibility that the Shareholder Action and results thereof could impact the borrower, the loan, cash flows, the borrower's ability to repay the debt, and/or the overall financing and in such circumstances, there could be an adverse impact on the ratings.

Prior Default/Forebearance

The proceeds of the Mortgage Loan were used to repay the previous mortgage loan in connection with the 2006 Financing, as well as other costs, expenses and debt. The prior mortgage loan was transferred to a special servicer around April 2011 and was not repaid on its initial scheduled maturity date. We cannot assure you that the Mortgage Loan will not be restructured in connection with a future default.

Rights of Subordinate Debtholders

While most CMBS transactions do not provide for capitalization of interest on mezzanine loans or a senior loan event of default trigger resulting solely from capitalization of interest on a mezzanine loan, the senior loan documents, mezzanine loan documents and intercreditor agreement for this transaction provide for capitalization of interest on the mezzanine loans and a senior loan event of default trigger due to aggregate mezzanine capitalized interest exceeding $100 million. Until the cure, if any, of such senior loan event of default, the mezzanine capitalized interest may continue to accrue. The capitalization of interest on the mezzanine loans may increase the amount payable on the mezzanine loans and increase the possibility of default on the mezzanine loans and the senior loan.

The mezzanine loans are coterminous with the senior loan. Each mezzanine loan is subject to an intercreditor agreement. Though payments on the mezzanine debt are generally subordinate to the mortgage loan held by the trust, the presence of additional debt introduces risks to the senior debt including: i) reduced borrower skin-in-the-game that may remove incentives to maintain or improve the competitiveness of the properties resulting in lower income streams, and ii) the presence of additional debt increases the difficulty of refinancing a mortgage loan at the maturity date.

The mezzanine intercreditor agreement contains certain mezzanine lender rights, including, without limitation, cure rights, purchase option, consultation and certain consent rights. For monetary defaults (other than an excess capitalized interest default (resulting from the aggregate junior mezzanine capitalized interest exceeding $100,000,000), the intercreditor agreement provides the mezzanine lenders 10 business days after the later of (x) receipt of notice of the default and (y) the borrower's cure period. For an excess capitalized interest default, the intercreditor agreement provides the most senior mezzanine lender thirty days after the expiration of the cure period given to the preceding (in priority) mezzanine lender, provided that such cure periods may be extended in certain circumstances as described in the intercreditor agreement. For non-monetary defaults, the intercreditor agreement provides the most senior mezzanine lender until the later of (x) eight business days after receipt of notice that the junior mezzanine lender(s) failed to exercise its right to cure and (y) 34 business days after the expiration of borrowers' cure period, provided that the non-monetary cure periods may be further extended in certain circumstances as described in the intercreditor agreement.

The intercreditor agreement includes mezzanine lender (i) consent and/or consultation rights with respect to budget approvals, replacement of the property manager, operator and/or franchisor, alterations, leases and other property agreements, (ii) rights in connection with the determination of a trigger period under the senior loan and (iii) rights relating to ground lease defaults. Further, the intercreditor agreement includes certain provisions that could delay senior lender rights in bankruptcy proceedings of borrower for 30 days (or such later cure period as provided in the intercreditor agreement). In addition, the intercreditor agreement requires the senior lender to provide notice to mezzanine lenders and wait 41 business days prior to accepting a deed in lieu of foreclosure. Such consent, consultation, and other rights, including rights to delay certain senior lender remedies, may limit and/or delay senior lender's workout of the loan, remedies, the timing for modifications of the loan and a sale of the loan.

In general, the intercreditor agreement provides mezzanine lenders with broad rights, including lengthy cure rights. These rights may impact the special servicer's workout strategy, remedies, and/or the timing for modifications on the loan and a sale of the loan to a greater extent than an intercreditor agreement with more limited rights and stronger senior lender protections. In addition, multiple layers of debt can increase complexity and delays in workouts, resolutions, consents, approvals, actions and bankruptcy.

In addition, holders of mezzanine debt may be affiliated with the borrower(s). As a mitigant, the intercreditor places certain restrictions on consent rights, receipt of information and exercise of certain rights while the related mezzanine loan is held by a borrower affiliate. We have been informed by the arranger that the intercreditor is also intended to place such restrictions on the borrower (or otherwise prohibit the borrower from acquiring an interest in a mezzanine loan).

ERISA

Morningstar has not factored in or assessed any possible obligations, liabilities and/or impact of ERISA compliance on the borrower and/or any property.

Reserve Accounts

The following reserve and escrow accounts are funded at closing or on an-going basis.

Basic Carrying Costs Escrow Account

The loan agreement provides for the escrow of sufficient funds to meet ongoing costs including real estate taxes, personal property and other non-hotel taxes, insurance, and ground rent payments. The escrow requirements include: 1) $1/12^{th}$ of the real estate, personal property, and other non-hotel taxes estimated for the following 12 months; 2) $1/12^{th}$ of an amount equal to 110% of the expected ground rents that will be payable for the following 12 months; and 3) $1/12^{th}$ of the insurance premiums estimated to be paid for the following 12 months.

Recurring Replacement Reserves

This account covers the costs of ongoing repair and replacement of furniture fixtures and equipment at the hotels. Typically this fund is designed to set aside sufficient funds to provide for a periodic renovation of each hotel in order to meet brand standards and requirements and to maintain the quality and position of each hotel within its competitive environment. The management agreement and loan agreement both require that the Borrower reserve 3.5% of gross revenue to this escrow fund. For the purposes of our valuation, Morningstar has assumed a more conservative reserve for replacement deduction of 4.0% of revenue.

Deferred Maintenance Escrow

This account covers the deferred maintenance items that were identified in the property condition assessment reports prepared for each asset. The current balance of reserves in the escrow account was $0.9 million at the trust closing date.

PK Improvement Work Reserve Account

At closing $40 million was funded to this escrow account for the purpose of reserving for the amounts anticipated to be required for the performance of renovation work to be performed at the Sheraton Princess Kaiulani Hotel located in Waikiki. This upfront escrow was estimated to be sufficient funds needed to upgrade the hotel to the Sheraton brand standards. The loan agreement requires that the Borrower spend no less than $38 million in renovations to the hotel unless the property is sold or released as collateral for the loan.

Moana Surfrider Improvement Work Reserve Account

At closing $6 million was funded to this escrow account for the purpose of reserving for the amounts anticipated to be required for the performance of renovation work to be performed at the Westin Moana Surfrider Hotel located in Waikiki.

Securitization Trust Summary

Priority of Payments on Trust Certificates

The priority of payments on the Trust Certificates generally follows a sequential-pay structure. The following is a quick synopsis of this priority.

(1) Interest on the Class A Certificates, Class XA-1, Class XA-2, Class XAF-1, Class XAF-2, Class XB-1, Class XB-2, Class XBF-1, and Class XBF-2 certificates, pro rata, including unpaid interest shortfalls;
(2) Principal paydown of the Class A Certificates until paid in full, up to the principal distribution amount;
(3) Unreimbursed realized loss amounts to the Class A Certificates;
(4) Interest on the Class B Certificates, including unpaid interest shortfalls;
(5) Principal paydown of the Class B Certificates until paid in full, up to the principal distribution amount;
(6) Unreimbursed realized loss amounts to the Class B Certificates;
(7) Interest on the Class C Certificates, including unpaid interest shortfalls;
(8) Principal paydown of the Class C Certificates until paid in full, up to the principal distribution amount;
(9) Unreimbursed realized loss amounts to the Class C Certificates;
(10) Interest on the Class D Certificates, including unpaid interest shortfalls;
(11) Principal paydown of the Class D Certificates until paid in full, up to the principal distribution amount;
(12) Unreimbursed realized loss amounts to the Class D Certificates.
(13) Interest on the Class E Certificates, including unpaid interest shortfalls;
(14) Principal paydown of the Class E Certificates until paid in full, up to the principal distribution amount;
(15) Unreimbursed realized loss amounts to the Class E Certificates.
(16) To the Class A, Class B, Class C, Class D, and Class E Certificates, pro rata, any remaining amounts.

Note: The Class XA-1, Class XA-2, Class XAF-1, Class XAF-2, Class XB-1, Class XB-2, Class XBF-1 and Class XBF-2 Certificates will not have Certificate Balances and will not be entitled to receive distributions of principal. The Notional Amounts of the Class XA-1, Class XA-2, Class XAF-1 and Class XAF-2 Certificates will be equal to the Certificate Balance of the Class A Certificates, and the Notional Amounts of the Class XB-1, Class XB-2, Class XBF-1 and Class XBF-2 Certificates will be equal to the aggregate Certificate Balance of the Class B, Class C, Class D, and Class E Certificates.

Allocation of Losses on Trust Certificates

Losses on the Trust Certificates are generally allocated in a reverse sequential order:
(1) To the Class E Certificates,
(2) to the Class D Certificates,
(3) to the Class C Certificates,
(4) to the Class B Certificates,
(5) to the Class A Certificates.

Losses on the Trust Certificates are generally allocated in a reverse sequential order—first, to the Class E Certificates, second, to the Class D Certificates, third, to the Class C Certificates, fourth to the Class B Certificates, and then to the Class A Certificates, in each case until the Certificate Balance of that Class have been reduced to zero. The Notional Amount of the Class XA-1, Class XA-2, Class XAF-1, and Class XAF-2 Certificates will be reduced by the amount of Realized Losses allocated to the Class A Certificates. The Notional Amount of the Class XB-1, Class XB-2, Class XBF-1, and Class XBF-2 Certificates will be reduced by the aggregate amount of Realized Losses allocated to the Class B, Class C, Class D, and Class E Certificates.

Morningstar's ratings do not assess whether or not the LIBOR Floor will, at any time, exceed LIBOR. If the LIBOR Floor does not exceed LIBOR, the Class XAF-1, Class XAF-2, Class XBF-1, Class XBF-2 will not receive any payments. In addition, at any time the interest rate index is Prime, the Class XAF-1, Class XAF-2, Class XBF-1 and Class XBF-2 certificates will not be entitled to any payments. Morningstar's ratings do not assess any such conversion from LIBOR to Prime or vice versa.

Rated Final Distribution Date

The rated final distribution date of each class of certificates is the distribution date in November 2029. Morningstar's ratings on the certificates address the likelihood of the timely receipt by holders of all payments of interest to which they are entitled on each distribution date and the ultimate receipt by holders of all payments of principal to which they are entitled on or before the rated final distribution Securitization Trust Summary.

Trust Structural Features / Concerns

Based solely on a review of the documents enumerated herein, the following reflect highlights of certain material trust structural features and/or concerns.

Directing Certificateholder

There is no concept of a directing certificateholder or controlling class for this transaction and therefore no single class of certificates will have the right to make decisions with respect to the administration of the trust. These decisions are generally made, subject to the express terms of the Trust and Servicing Agreement, by the servicer, the special servicer and the trustee.

Replacement of Special Servicer

The special servicer can be terminated and replaced, with or without cause, upon, among other things, the written direction of at least 75% of the aggregate voting rights of all certificates whose holders exercise their right to vote, so long as at least 66 2/3% of the aggregate voting rights have been exercised by the certificateholders. The voting rights take into account the application of any appraisal reduction amounts to notionally reduce the certificate balances.

Trust Advisor

This transaction does not utilize the concept of a trust advisor which has been used in certain recent transactions to monitor the performance of the special servicer and provide certain oversight with respect to the special servicer. However, the master servicer and special servicer are required to perform servicing in accordance with the servicing standard.

Limited Rating Agency Confirmation/Notice

Rating agency confirmation may not be required over certain material loan amendments, modifications, borrower requests and/or material amendments to the trust and servicing agreement or mortgage loan purchase agreement. In addition, notice of such items may be provided to the rating agency after such items are effectuated. Because the rating agency may obtain knowledge of these various items later, surveillance activities and any related rating adjustments may occur later than if rating agency confirmation and/or prior notice of such items was provided.

Repurchase Obligation

The mortgage loan seller may be required to repurchase the mortgage loan from the trust due to a material breach of a representation or warranty or a document defect. However, there is no assurance that the holder(s) of such repurchase obligation will have sufficient assets at such time to fulfill its obligation to repurchase the loan.

Conflicts of Interest

There are and/or may be various conflicts of interest among and between various parties to the transaction. However, the special servicer and master servicer are required to service the asset without regard to such conflicts. Morningstar's analysis assumes the various parties comply with their duties.

Third Party Reports

Appraisals

Appraisal reports prepared by an HVS Consulting and Valuation Services, a third-party appraisal firm, were received and reviewed as part of Morningstar's analysis for all of the properties. The appraisal reports were dated September 2012, and as such, are less than four months old.

Property Condition

Property condition reports prepared by EMG Corp., an independent third-party engineer, were received and reviewed as part of Morningstar's analysis for all of the properties. The reports were dated October 2012, and as such, are less than three months old. These reports reviewed and identified any deferred maintenance items as well as quantified long-term capital expenditure needs. Any reserves set aside based upon the recommendations of this report are presented in the Reserve Account section on page 26 of this presale report. EMG also provided a Seismic Risk Assessment for The Palace Hotel in San Francisco which report was dated October 2012. Conclusions of this report are provided in the Collateral Features and Concerns section on page 13 of this presale report.

Environmental

Phase I environmental site assessments ("ESAs") were prepared by EMG Corp., an independent third-party environmental consultant. The reports were dated October 2012 and as such are less than three months old. Any environmental conditions or concerns are presented in the Collateral Features and Concerns section on page 11 of this presale report.

Scope of Analysis

Morningstar utilized external legal counsel to perform a legal review of certain items in the transaction relevant to Morningstar's ratings analysis. In this transaction, such counsel solely reviewed the following materials available on the arranger website as of January 28, 2013 (except as otherwise specified in this paragraph): (i) the January 28, 2013 posted draft offering circular, (ii) the January 27, 2013 posted draft trust and servicing agreement, (iii) the January 19, 2013 posted draft mortgage loan purchase and sale agreement, (iv) loan agreement dated as of November 9, 2012 and posted December 10, 2012, first amendment to loan agreement and omnibus loan modification agreement dated as of December 3, 2012 and posted January 9, 2013 and January 22, 2013 draft of second amendment to loan agreement and omnibus loan modification agreement, (v) leasehold and fee mortgage, security agreement, financing statement, fixture filing and assignment of leases, rents and security deposits dated as of November 9, 2012 regarding the Sheraton Waikiki hotel and posted December 10, 2012 (and per confirmation posted December 21, 2012 we are assuming that the mortgages/deeds of trust for the other properties are on the same form subject only to property specific/state specific changes), (vi) assignment of leases, rents and other rights dated as of November 9, 2012 regarding the Sheraton Waikiki hotel and posted December 10, 2012 (and we are assuming that the other assignments of leases and rents are on the same form subject only to property specific/state specific changes), (vii) promissory note dated November 9, 2012 and posted December 10, 2012, (viii) third amended and restated agreement of limited partnership of Kyo-Ya Hotels & Resorts, LP dated as of November 9, 2012, (ix) third amended and restated limited liability company agreement of Kyo-Ya USA, LLC dated as of November 9, 2012, (x) opinions of Richards Layton & Finger, P.A. dated November 9, 2012 regarding authority to file bankruptcy and DE LLC matters, (xi) opinions of Schulte Roth & Zabel LLP dated November 9, 2012 and December 3, 2012 regarding enforceability and other matters, (xii) opinion of Goodsill Anderson Quinn & Stifel dated November 9, 2012 regarding Hawaii matters, (xiii) opinion of Squire Sanders (US) LLP dated November 9, 2012 regarding California matters and (xiv) draft amended and restated intercreditor agreement posted January 24, 2013.

In addition, legal counsel intends to review the following documents upon posting of such documents on the arranger website prior to issuance of the final ratings: (i) true sale opinion(s) for the sale of the loans from the seller(s) to the depositor and from the depositor to the securitization trust, (ii) corporate and enforceability opinions of the servicer, special servicer, trustee, certificate administrator, depositor and loan seller(s) and the general deal level opinion related to certain tax matters and (iii) versions of the documents enumerated in the preceding paragraph posted as of the date of issuance of final ratings. Unless enumerated on the prior list, no external legal counsel review was performed with respect to any documents. Therefore, leases, including ground leases and subleases, hedges and related documents, contribution and/or allocation agreements, management agreements, estoppels, title reports, insurance contracts, environmental assessments, guarantees, indemnities, liens or related searches, financial statements, rent rolls, surveys, financing statements, easement agreements, intercreditor or subordination agreements (except as expressly enumerated in the preceding paragraph), among others, were not reviewed by external legal counsel. As legal review of title policies was not performed, Morningstar has assumed such policies do not contain any judgments, tax liens, or other issues that would materially adversely affect any borrower, property owner, property or the mortgagee's lien and security interest in any collateral for any loan. As legal review of local law opinions was not performed, Morningstar has assumed that local law opinion(s) were provided for all relevant jurisdictions, on customary forms and with rating agency reliance.

Morningstar Loan/Property Analysis Summaries

Asset summary reports (ASRs) are included with this presale report for all six assets and are available by accessing Morningstar’s website, by going to the Ratings Report section. These reports provide the line-item analysis along with the related assumptions used by Morningstar.

GS Mortgage Securities Corporation Trust 2013-KYO

Sheraton Waikiki

Analyst: Mike Magerman (267) 960-6022

Analytical Manager: Sheila Bjornstad (646) 560-4511

Property Summary	
Property Type	Hotel/Full-Service
Location	Honolulu, HI 96815
Year Built	1960/1970
Year Renovated	2005-2009
Net Rentable Room (Total)	1,636
Net Rentable Room (Collateral)	1,636
Occupancy (TTM 10/31/12)	93.68%
Ownership	Fee & Leasehold

Loan Summary		
Loan Amount (Original Balance)	$381,844,262	($233,401/room)
Loan Amount (Cut-Off Balance)	$381,844,262	($233,401/room)
Loan Term (months)	60	
I/O Period (months)	60	
Amortization Term (months)	0	
Loan Seasoning (months)	2	
Interest Rate (1)	5.35000%	

Morningstar Analysis		
Current DSCR	2.77 x	
Amortizing DSCR	n/a	
Beginning LTV	51.87%	
Ending LTV	51.87%	
Capitalization Rate	7.80%	
Morningstar UW Occupancy	89.8%	
Net Operating Income	$65,081,021	
Net Cash Flow	$57,418,270	
Value	$736,131,664	($449,958/room)
Debt Yield	15.04%	
Morningstar Site Visit	Yes	
Property Score	2 (Good)	

Note: (1) Interest is based upon the LIBOR floor of 0.5%plus the current spread of 4.85%

Capital Structure Table - Sheraton Waikiki

Loan	Current Balance	Morningstar BLTV	Current Pay Int. Rate (1) (2)	DSCR on Current Pay	Accrued/Unpaid Interest Rate	Maximum (3) Interest Rate
Trust Loan	381,844,262	51.9%	5.350%	2.77 x	n/a	7.850%
Mezzanine Loan A	52,069,672	58.9%	7.500%	2.33 x	3.750%	11.250%
Mezzanine Loan B	86,782,787	70.7%	8.250%	1.80 x	4.500%	12.750%
Mezzanine Loan C	69,426,230	80.2%	6.500%	1.57 x	7.375%	13.875%
Mezzanine Loan D	52,069,672	87.2%	6.333%	1.44 x	10.167%	16.500%
Total	**$642,192,623**	**87.2%**		**1.44 x**		

(1) Interest on the Trust loan is calculated as a spread over 30-day LIBOR (which is subject to a LIBOR Floor of 0.5%and a LIBOR Cap of 2.5%). The Interest rate spread varies throughout the loan term; during the first three years the spread is 4.85% during the fourth year the spread increases to 5.10% and during the final year the spread is 5.35% Morningstar has calculated DSCR on Current pay based upon the payment during the first year and has reflected the LIBOR floor of 0.50% The DSCR on Current Pay also includes only Current Pay interest rate for the Mezzanine loans; the accrual interest is not assumed to be paid for this calculation.

(2) The mezzanine loan interest rates are broken up into "current pay" interest rates and "accrual interest rates"; in the event that there is insufficient NCF to pay the full interest rate, the Borrower may pay at the current pay rate and accrue the remaining interest at the accrual rate.

(3) The Maximum Interest Rate for the Trust Loan is the interest rate spread during the final year of the Trust (5.35%) and the LIBOR cap rate of 2.5% The Maximum Interest Rate for the mezzanine loans is the full interest (including both current pay and accrued interest) on the mezzanine loans.

Morningstar Summary

Morningstar Perspective

With 1,636 rooms, the Sheraton Waikiki is the largest of the portfolio's six properties, and enjoys a prime location on Honolulu's Waikiki Beach. Heavily reliant on Asian vacationers for its market demand, the hotel suffered a fairly sharp drop in average daily rate in 2009 as international visitor volume declined from a recent peak in 2005. The number of international visitors to Hawaii peaked at more than 2.9 million in 1996, but remained flat at or below 2.1 million annually from 2001 through 2011. Japanese travelers have long dominated international hotel demand in Hawaii, with the largest share by far of any non-U.S. country. Japanese guest visits to the island of Oahu peaked at roughly two million annually in the late 1990s. The most recent data available for Oahu as of 2010 had 1.18 million Japanese arrivals, up from 1.13 million the prior year.

As the economy improved in 2010 and 2011, the property's occupancy recovered rather quickly while room rates took longer to gain traction. The most recent data show that the average daily rate for the 12 months ended October 31, 2012 increased 9.1% over calendar year 2011 and 24.0% over 2010. At the same time, occupancy continued to improve from 90.0% in 2010 and 90.5% in 2011, to 93.7% in the 12 months ended October 31, 2012. The increase in occupancy at the property is consistent with the wider pattern seen in the travel statistics. Overall arrivals to Hawaii increased by 8.5% to 7.8 million for the 12 months ended November 30, 2012, compared to calendar 2011. The international contribution to the increase was substantial, as arrivals grew by 17.9% to 2.4 million.

The property has undergone an extensive renovation program since 2005. This has modernized and repositioned the hotel as a premier destination resort. All of the hotel amenities were improved and updated, along with all the guestrooms and restaurants. The completion of this project in 2011 has enabled the achievement of substantially higher room rates and occupancy consistently at 90% or better, which should be sustainable as long as the domestic economy does not slide into another prolonged recession, and international demand remains at or near current levels.

Roughly 65% of room nights at the Sheraton Waikiki come from the wholesale business. Each year, as much as 75% of that number is driven by Asian demand coming from Japan, China and Korea. Historically, Asian wholesale room rates were somewhat higher than rates from other sources and helped to support the overall average. More recently, other rates have caught up with the Asian wholesale rates, which are now more reflective of the overall average rate.

Morningstar's analysis of the property concluded an average sustainable net cash flow of $57.42 million, which is 1.5% lower than that reported for the 12 months ended October 31, 2012. Morningstar's estimate reflects a strong debt service coverage ratio of 2.77 times based on the loan payment terms and the current pay interest rate of 5.35%. The loan presents low leverage; based on the appraised value of $953.4 million, the leverage on the loan is 40.0%. Morningstar valued the hotel using the direct capitalization approach and concluded a value of $736.1 million ($449,958 per room), indicating a loan-to-value of 51.9%. Morningstar's value is 22.8% lower than the appraised value.

Given the strengths of an excellent beach front location in a fully developed resort market with international appeal, as well as a greatly improved building, the property should be in position to maintain a high level of occupancy and steady room rate growth. As with all hotels, the property needs to be able to withstand unavoidable periods of decreased business due to economic conditions or the need to modernize the facilities. With a recent renovation completed, the property should be competitive in terms of amenities and appearance for at least the next 10 to 15 years. The local market is densely developed and little land remains for development; what does remain is very expensive. The appraisal reports that no new hotels are expected.

The Bears Say

- The property is more than 40 years old, and the design is somewhat aesthetically obsolete.
- The property does not have sufficient land for outdoor amenities other than the beach and swimming pools, though the Royal Hawaiian's adjacent land provides additional space.
- The property shares its outdoor amenities with the adjacent Royal Hawaiian Hotel, which adds demand from guests from up to 528 additional rooms.
- Infrastructure shared with the Royal Hawaiian may limit the owner's ability to sell the property separately.

The Bulls Say

- The property's location is a prime spot on Waikiki Beach, with about 650 feet of ocean front and 75% of rooms with full or partial ocean views, in one of the leading resort destinations in the Pacific region.
- An extensive renovation and updating program has repositioned the hotel to be more competitive. More than $150 million was spent between 2005 and 2012, positively impacting virtually every aspect of the property.

- ❖ Sponsor Kyo-Ya and manager Starwood benefit from economies of scale with four hotels in the Waikiki Beach market.
- ❖ Occupancy at the property has maintained at an average of 90% or better since the beginning of 2010, and average daily rate has increased by 27% from the 12 months ended in October 2010 to the same period ended in October 2012.
- ❖ The loan structure and property value make for a low loan-to-value and a high debt yield.

Property Description

The property is a 1,636-key resort hotel opened in 1960 on 5.537 acres on Waikiki Beach in Honolulu, Hawaii. The complex consists of two connected 30-story towers with a curved profile that gives the appearance of gull wings. The towers were built in 1970 around an existing seven-story Manor Wing that was built in 1960. The Manor Wing rooms were converted into office space in 2007. The property also includes a 901-space parking garage that it shares with the adjacent Royal Hawaiian Hotel. The property has roughly 650 feet of frontage along the beach facing the Pacific Ocean. Roughly 75% of the guestrooms have full or partial ocean views. Standard guestrooms range from 300 to 500 square feet, while larger luxury rooms are about 875 square feet. There are three levels of suites ranging from 1,100 to 2,200 square feet, all of which feature ocean views.

The property underwent a $156.5 million renovation program, or $95,680 per room, from 2005 through 2012. The bulk of the spending, $139.2 million, was completed between 2005 through 2009. The renovations touched nearly every aspect of the property including public areas, meeting space, recreational amenities including a new infinity-edge swimming pool, and all guestrooms and suites. All of the restaurants were repositioned with new themes and menus. There is 44,290 square feet of meeting space, all of which was renovated in 2008 and 2009.

Historical Capital Expenditures										
	2005	2006	2007	2008	2009	2010	2011	2012	Last 4 Years	2005-2012
Total Invested	22,782,000	25,678,000	25,685,000	39,739,000	25,278,000	7,890,000	3,658,000	5,823,000	42,649,000	156,533,000
Capex Per Room	13,925	15,696	15,700	24,290	15,451	4,823	2,236	3,559	26,069	95,680

The ownership's interests in the land parcels are a combination of fee simple and ground leased portions, with 62.7% owned in fee. The ground leased portions are comprised of all 0.93 acres of the Robinson Lease, which represents 16.8% of the property's total land, and the 1.137 acres which is 11% of the Bishop Estate Lease, and accounts for the remaining 20.5% of the property's land. The property includes three restaurants and two lounges, leased restaurant and coffee shop, 39,390 square feet of meeting space, three outdoor pools, two outdoor whirlpools, a fitness center, a Xerox Business Center, 24,800 square feet of leased retail space, leased day care center and leased spa.

- Sheraton Waikiki has 3.47 acres which are owned fee simple, 1.137 acres which are subject to the Bernice Pauahi Bishop Estate, and 0.93 areas which are subject to the Robinson lease.
- The Robinson lease rent is $3.76 million and the Bishop Estate lease rent is $5.03 million.

Bernice Pauahi Bishop Estate Lease – Also known as the Kamehameha School District Lease, this lease was originally executed in March 1969 extends through December 2076 (64 years remaining). The lease encompasses a total of 10.335 acres including 1.137 acres underneath the Sheraton Waikiki and 100% of the land underneath the Royal Hawaiian Hotel (9.198 acres). The landlord also owns the land underneath the Royal Hawaiian Center which is a shopping center located adjacent to the Sheraton Waikiki hotel. The lease provides for a combination of minimum rent, which is a set payment that is adjusted every five years, and percentage rent. According to an amendment executed in September 2012, this minimum will be $4,729,966 through December 2016. Percentage rent is paid on a sliding scale equal to 4.0% of adjusted gross revenue up to $29.5 million, 3.0% of adjusted gross revenue between $29.5 million and less than $50.0 million, and 2.5% of adjusted gross revenue in excess of $50 million. Based on the trailing 12 months ending October 2012, total rent paid to the Bishop Estate was $7.19 million. In January 2017 the base rent will be increased to be equal to 94% of the average aggregate rent paid during the preceding five years (base plus percentage rent). If the average rent paid is equivalent to that of the trailing 12 month period ending October 2012, the minimum rent could increase to more than $6.75 million. During the trailing 12 month period ending October 2012, approximately $2.16 million was attributed to the Royal Hawaiian and $5.03 million was attributed to the Sheraton Waikiki.

Robinson Lease – This lease was originally executed in January 1966 extends through December 2101 (89 years remaining). The lease encompasses a total of 0.93 areas underneath the Sheraton Waikiki. Current rent on this lease is a set fee of $3,759,115 per year and will be adjusted in January 2022 and at ten year intervals thereafter. The lease rent will be adjusted to be the greatest of 6% of the fair market value of the land, 85% of the annual rent paid for the immediately preceding year, or $2 million.

The property shares some infrastructure with the adjacent Royal Hawaiian Hotel, which has common sponsorship with the property. Shared facilities include the parking garage, a loading dock and receiving department, hot and chilled water systems, fire sprinkler system, and fiber optics for cable television. The two properties also share services such as engineering, housekeeping, security, accounting, marketing and public relations.

Morningstar conducted a site inspection of this hotel on Monday, December 10, 2012. The hotel was generally considered to be in average/good condition. Management indicated that prior to the renovation that was completed between 2005 and 2009, the hotel was in very poor condition. The extensive investment brought the property back to meet Sheraton brand standards and in line with expected quality of a typical upscale hotel. Many of the guest rooms are small compared to other hotels in the tourist class, but have been designed with minimalist furniture to provide for a more spacious feel. The lobby area and public amenities appear to be in good condition and well maintained. Despite the fact that hotel is considered to be in average/good condition, we have given the hotel a property score of 2 which rates the asset as good primarily due to its superior location on Waikiki beach and the proximity to area shopping and entertainment amenities.

Demand Drivers

The property is fairly close to some important local demand drivers. The International Market Place is about one-half mile to the east, and Ala Moana Center, Hawaii's largest regional mall, is 1.5 miles to the northwest. Honolulu International Airport is nine miles to the northwest, Pearl Harbor is 14 miles to the northwest, and the Dole Pineapple Plantation is 22 miles to the northwest.

Evaluation of Market Segmentation Trends

Segment Category	2006		2007		2008		2009		2010		2011		TTM 10/31/12		2013 Budget	
	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR
Premium Individuals	7.5%	242	7.9%	261	10.0%	245	10.6%	211	10.6%	224	8.0%	250	7.5%	281	8.6%	318
Discount Individuals	9.6%	160	9.3%	157	10.6%	173	13.4%	162	8.2%	171	8.9%	181	8.3%	181	7.1%	200
Japan Wholesale	45.9%	244	46.9%	250	43.7%	252	40.7%	225	46.4%	228	47.6%	245	50.3%	256	52.1%	286
Other Wholesale	10.5%	195	10.1%	206	13.2%	198	18.0%	152	17.2%	169	18.5%	189	15.9%	213	16.0%	239
Groups - Japan/Asia	11.5%	216	9.0%	220	9.5%	215	6.1%	201	8.9%	189	4.9%	227	9.4%	240	8.1%	265
Groups - Corporate	3.8%	186	5.4%	212	4.8%	218	2.1%	183	3.4%	158	4.5%	195	2.9%	239	3.2%	249
Groups - Association	8.8%	178	7.9%	193	4.4%	186	5.7%	196	3.5%	208	5.6%	226	3.3%	252	3.8%	217
Groups - Other	2.3%	158	3.5%	172	3.7%	180	3.4%	175	1.7%	167	1.9%	297	2.4%	279	1.2%	204
Total	100.0%	222	100.0%	228	100.0%	228	100.0%	199	100.0%	209	100.0%	238	100.0%	259	100.0%	288

Note: The total weighted average room rate includes miscellaneous other income which has not been allocated to a specific catgegory.

Much of the property's business is generated by Japanese wholesalers. For the 12 months ended October 31, 2012, the Japanese wholesale segment produced 50.3% of room revenue, while other wholesale business added another 15.9%. Group bookings collectively contributed 18.0% of revenue for the period, while individual bookings represented 15.8%, with slightly more of the individual business coming in the discount subsector compared to the premium subsector.

In addition to property specific demand drivers, two major redevelopment projects have been completed in 2009 and 2010 as part of the revitalization of Waikiki. The $700 million Outrigger Waikiki Beach Walk Project is located approximately two blocks from the subject site. The redevelopment project, located on approximately 7.9 acres, features an outdoor entertainment plaza, roundly 90,000 square feet of retail space with specialty retailers and restaurants, the Wyndham Vacation Ownership towers with 195 units, and four hotels (the Outrigger Reef Hotel, the Embassy Suites, the Trump Tower luxury condominium hotel, and a proposed luxury boutique hotel). With the exception of the proposed boutique hotel, whose construction was halted during the past recession, the Beach Walk redevelopment project is complete and has been acclaimed as a major success. The Royal Hawaiian Center, located along Kalakaua Avenue and just north of the subject site, completed a $115 million renovation that started in late 2004. The shopping center was designed in 1979 and was constructed primarily of concrete. The renovation was designed to create more open spaces, showcase the 100 year old banyan tree on the premises, and allow more direct access to the landmark Subject Property located beyond the shopping center along Waikiki Beach. The renovated shopping center contains 100 shops and restaurants ranging from fine designer apparel to quick-service restaurants. Shopping along Kalakaua Avenue is also an attraction of the Waikiki Beach area. The Avenue's 2100 block, which is just to the property's northeast, was recently renamed "Luxury Row". The block is home to eight of retail's most upscale brand stores including Tiffany, Coach, Gucci and Chanel, and totals 111,000 square feet. Rents for retail space along this stretch have approached $400 per square foot in recent months and vacancy in the area is just 3.5%, according to CBRE.

Market Overview

According to information provided by Smith Travel Research, the following table presents a summary of historical occupancy and average room rate for the competitive set in which the subject hotel competes. The indentified competitive set comprises 7,777 rooms including the property, and includes the following hotels: 1) Hyatt Regency Waikiki Resort & Spa, 2) Hilton Honolulu Hawaiian Village, 3) Prince Hotel Hawaii, 4) Marriott Waikiki Beach Resort & Spa, and 5) Ilikai Hotel & Suites.

The local submarket as defined by Smith Travel Research has shown clear improvement over the last three years. While occupancy took a small step backwards in the 12 months ended October 31, 2011, it pushed ahead strongly in the most recent available 12 month period, approaching 90%. At the same time, average daily rate increased 7.4% in the 2011 period and 11.0% in the 2012 period. The property's RevPAR penetration remained very solid, with room rates that are consistently about 25% higher than the submarket average.

Evaluation of Market Trends					
	Occupancy Rate	Average Rate	Rooms RevPAR	Occupancy Penetration	RevPAR Penetration
TTM 10/31/10	85.7%	$171.53	$146.95	104.2%	124.1%
TTM 10/31/11	84.3%	$184.17	$155.31	107.4%	135.7%
TTM 10/31/12	89.4%	$204.42	$182.66	104.8%	133.0%
Source: Smith Travel Research	.	.	.	.	

Historical information included in the appraisal uses a different competitive set than that discussed above. That history indicates that since 2000, the submarket's occupancy dropped to a low of 68.3% in 2001. Occupancy recovered gradually until reaching 84.7% in 2005. Then occupancy declined steadily and reached 75.6% by 2008. Following that cycle, the submarket's occupancy recovered to 89.4% for the 12 months ended October 31, 2012. Average daily rates hit cyclical lows of $159 in 2002 and 2003, and $175 in 2009. A cyclical high of $215 was reached in 2007 and 2008.

Morningstar Analysis

	Morningstar Underwriting	Year End 2010	Year End 2011	TTM 10/31/12	Issuer Underwriting
Occupancy Percent	89.8%	90.0%	90.5%	93.7%	92.4%
Average Room Rate	$272	$209	$238	$259	$288
Rooms RevPAR	$245	$188	$215	$243	$266
Departmental Revenue					
Room	$145,969,670	$112,438,853	$128,486,752	$145,520,418	$158,911,841
Food & Beverage	36,442,454	35,899,129	36,724,602	38,530,481	37,884,305
Telephone	604,662	504,366	598,643	633,540	622,915
Other Operated Departments	1,526,532	2,058,014	2,096,754	1,599,438	1,572,615
Garage and Parking	0	0	0	0	0
Rentals and Other Income	7,025,470	5,691,759	5,977,237	7,025,470	7,025,470
Total Departmental Revenue	**$191,568,788**	**$156,592,121**	**$173,883,988**	**$193,309,347**	**$206,017,146**
Departmental Expenses					
Room	$35,831,453	$32,006,118	$35,476,450	$37,759,871	$39,317,475
Food & Beverage	32,953,493	32,610,674	33,228,447	34,964,501	34,378,128
Telephone	1,219,486	1,053,719	1,218,876	1,286,646	1,265,068
Other Operated Departments	2,425,401	2,415,784	2,588,391	2,562,239	2,519,269
Garage and Parking	0	0	0	0	0
Rentals and Other Income	0	0	0	0	0
Total Departmental Expenses	**$72,429,833**	**$68,086,295**	**$72,512,164**	**$76,573,257**	**$77,479,940**
Departmental Profit	**$119,138,955**	**$88,505,826**	**$101,371,824**	**$116,736,090**	**$128,537,206**
Undistributed Expenses					
General & Administrative	$9,800,332	$8,658,735	$9,265,778	$9,468,920	$9,514,577
Management Fees	4,310,298	1,424,400	1,605,600	1,794,400	1,918,020
Advertising & Marketing	6,646,133	5,611,413	6,071,485	6,179,839	6,336,592
Repairs & Maintenance	7,914,086	7,197,907	7,275,560	7,646,460	8,112,445
Utilities	7,805,308	5,638,987	6,974,146	7,541,360	7,680,886
Incentive Management Fee	0	0	714,000	3,144,400	4,889,583
Fixed Charges					
Real Estate Taxes	$5,601,123	$5,481,142	$5,203,386	$5,305,026	$5,601,123
Property Insurance	3,190,378	1,219,257	1,464,558	1,811,853	3,190,378
Ground Rent	8,790,276	7,896,446	8,327,286	8,787,213	9,106,814
Other Fixed	0	0	(34,186)	0	0
Total Operating Expenses	**$126,487,767**	**$111,214,582**	**$119,379,777**	**$128,252,728**	**$133,830,358**
Net Operating Income	**$65,081,021**	**$45,377,539**	**$54,504,211**	**$65,056,619**	**$72,186,788**
Capital Expenditures					
Capital Expenditures / Reserve	$7,662,752	$5,480,724	$6,085,940	$6,765,827	$7,210,600
Extraordinary Capital Expenditures	0	0	0	0	0
- Credit For Cap Ex Reserve	0	n/a	n/a	n/a	n/a
Total Capital Expenditures	7,662,752	5,480,724	6,085,940	6,765,827	7,210,600
Credit for Upfront DSCR Escrow	$0	$0	$0	$0	$0
Net Cash Flow	**$57,418,270**	**$39,896,815**	**$48,418,271**	**$58,290,792**	**$64,976,188**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Average Room Rate	$272.30
Occupancy (%)	89.8%
Rooms RevPAR	$244.56

Morningstar has assumed that management will likely increase room rates through elimination of discounts and higher daily rates. We have assumed a rate increase of 5% in the first year, while lowering occupancy slightly from recent levels.

Management Fees

The hotel is operated by Starwood hotels and resorts under the Sheraton brand. Starwood, or an affiliate or predecessor of Starwood, has been operating the hotel since 1974. The six hotels in this portfolio are all subject to one management contract which provides for a base and incentive management fee. Although the actual calculation is complex, in general the methodology provides for a base management fee of one percent of adjusted house profit (which is roundly 92% of total revenue) and an incentive fee equal to 30% of basic earnings. For the purposes of calculation, basic earnings is gross operating profit less deductions for base management fee, ground rent, real estate taxes, insurance, reserve for replacement, miscellaneous corporate charges, an amortization of capital expenditures, and an owners priority return of 20% of Adjusted House Profit. Based upon the Morningstar underwriting and the fee calculation methodology, we estimate that the combined calculated base and incentive management fee will equate to 2.1% of total revenue for the portfolio. For the purposes of our underwriting, Morningstar has assumed a more conservative management fee of 2.25% of total revenue. The contract provides for the allocation of fees between hotels such that some properties reflect a higher fee and other hotels may, in fact, reflect a fee that is a negative expense. Rather than impute this somewhat arbitrary allocation, Morningstar has assumed a flat management fee of 2.25% over all hotels to provide for a more stable and consistent valuation of each property.

Marketing

Our estimate of Advertising and Market expenses is calculated based upon the expense reflected during the most recent trailing 12 month period which has been inflated by 3.5%. Additionally, we have increased this expense by $250,000 to account for the potential increase in advertising and marketing expenses after an economic downturn.

Reserve for Replacement

Although the management agreement requires only a 3.5% reserve for replacement, Morningstar has assumed a 4.0% reserve for replacement which is our minimum standard for full service hotels and resorts. The reserve for replacement is well above that recommended by the engineer in the property condition assessment. The engineer's recommendation amounts to $1,081 per room per year, or just 0.9% of Morningstar's gross revenue.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted. Property taxes are based on the budget for 2013 taxes. Property insurance is based on the budget for 2013 insurance premiums. Ground rent was based on a formula provided by the issuer; please refer to the ground lease summary on Page 3 and Page 4.

Valuation Drivers

The Morningstar base capitalization rate for Honolulu hotels is 8.8%. Deductions of 50 basis points each were made for a property score of '2' and for the hotel's status as a resort. The resulting capitalization rate is 7.8%.

GS Mortgage Securities Corporation
Trust 2013-KYO

Royal Hawaiian

Analyst: David A. Sondesky (267) 960-6032
Analytical Manager: Sheila Bjornstad (646) 560-4512

Property Summary	
Property Type	Hotel/Full-Service
Location	Honolulu, HI 96815
Year Built	1927 / 1961
Year /Renovated	2008-2011
Net Rentable Room (Total)	528
Net Rentable Room (Collateral)	528
Occupancy (TTM 10/31/12)	79.07%
Ownership	Leasehold

Loan Summary		
Loan Amount (Original Balance)	$140,375,228	($265,862/room)
Loan Amount (Cut-Off Balance)	$140,375,228	($265,862/room)
Loan Term (months)	60	
I/O Period (months)	60	
Amortization Term (months)	0	
Loan Seasoning (months)	2	
Interest Rate (1)	5.35000%	

Morningstar Analysis		
Current DSCR	2.51 x	
Amortizing DSCR	n/a	
Beginning LTV	57.30%	
Ending LTV	57.30%	
Capitalization Rate	7.80%	
Morningstar UW Occupancy	79.1%	
Net Operating Income	$22,494,618	
Net Cash Flow	$19,109,096	
Value	$244,988,417	($463,993/room)
Debt Yield	13.61%	
Morningstar Site Visit	Yes	
Property Score	2 (Good)	

Note: Interest is based upon the LIBOR floor of 0.5%plus the current spread of 4.85%

Capital Structure Table - Royal Hawaiian

Loan	Current Balance	Morningstar BLTV	Current Pay (1) Interest Rate	DSCR on Current Pay	Accrued/Unpaid Interest Rate	Maximum (3) Interest Rate
Trust Loan	140,375,228	57.3%	5.350%	2.51 x	n/a	7.850%
Mezzanine Loan A	19,142,077	65.1%	7.500%	2.11 x	3.750%	11.250%
Mezzanine Loan B	31,903,461	78.1%	8.250%	1.63 x	4.500%	12.750%
Mezzanine Loan C	25,522,769	88.6%	6.500%	1.42 x	7.375%	13.875%
Mezzanine Loan D	19,142,077	96.4%	6.333%	1.30 x	10.167%	16.500%
Total	**$236,085,610**	**96.4%**		**1.30 x**		

(1) Interest on the Trust loan is calculated as a spread over 30-day LIBOR (which is subject to a LIBOR Floor of 0.5%and a LIBOR Cap of 2.5%). The Interest rate spread varies throughout the loan term; during the first three years the spread is 4.85% during the fourth year the spread increases to 5.10% and during the final year the spread is 5.35% Morningstar has calculated DSCR on Current pay based upon the payment during the first year and has reflected the LIBOR floor of 0.50% The DSCR on Current Pay also includes only Current Pay interest rate for the Mezzanine loans; the accrual interest is not assumed to be paid for this calculation.

(2) The mezzanine loan interest rates are broken up into "current pay" interest rates and "accrual interest rates"; in the event that there is insufficient NCF to pay the full interest rate, the Borrower may pay at the current pay rate and accrue the remaining interest at the accrual rate.

(3) The Maximum Interest Rate for the Trust Loan is the interest rate spread during the final year of the Trust (5.35%) and the LIBOR cap rate of 2.5% The Maximum Interest Rate for the mezzanine loans is the full interest (including both current pay and accrued interest) on the mezzanine loans.

Morningstar Summary

Morningstar Perspective

The subject is a $140,375,228 (allocated loan amount), five-year floating rate mortgage loan secured by a first priority lien on the Royal Hawaiian Hotel. The subject property is part of a six-hotel portfolio composed of properties; including five properties in Hawaii, including the Sheraton Waikiki, Sheraton Princess Kaiulani, Sheraton Maui, and the Westin Moana Surfrider, along with the Palace Hotel in San Francisco, California.

According to a Smith Travel Research (STR) report from October 2012, for the trailing twelve month period ending October 31, 2012, the property had occupancy of 79.1% (100% penetration), ADR of $355.99 (109% penetration), and RevPAR of $281.55. These penetration levels indicate the degree to which the property has outperformed its competitive set over this time period. Overall Morningstar concludes that this property is well-run and exhibits strong potential for increases to room rates and revenue growth. The hotel benefits from an advantageous location overlooking the coast of Waikiki Beach, as well as an attractive exterior and grounds, and a well designed and recently refurbished interior. The only major disadvantage noted for the subject property include its small onsite pool and low number of guestrooms offering ocean views relative to its competitors. However, the subject's advantages are considered to overcome the subject's disadvantages. The Royal Hawaiian Hotel offers a highly attractive, first class, luxury product due to its recent significant renovation and refurbishment. Occupying a highly prominent position in the center of Waikiki Beach, the hotel offers direct beach access (one of only two hotels in Oahu with a private beach) and some of the only beachfront meeting space in Waikiki.

Morningstar's analysis of the property concluded an aggregate sustainable net cash flow of $19.11 million which is 3.7% lower than that reflected for the trailing-twelve-month period ending 10/31/12. Morningstar's estimate reflects a strong debt service coverage ratio of 2.51x based on the loan payment terms and the current interest rate. A detailed analysis of the net cash flow is provided at the end of this report. The loan presents low leverage; based upon the appraised value of $350.5 million, the leverage on the loan is 40.0%. Morningstar valued the hotel using the direct capitalization approach and concluded a value of $245 million, or $463,993 per room, which is 30.1% lower than the appraised value. This valuation results in a loan-to-value ratio of 57.3% based on the cut-off loan balance.

The property has performed well, and is said to be one of the highest quality offerings in the submarket. The average daily rate and occupancy has been growing at a strong pace since 2009, which is mainly attributable to the substantial rehab that the property has gone through over the last several years. The occupancy has increased each year since 2009 and is 30% above the 2009 level as of October 2012. The average daily rate has also realized a healthy increase since 2009, and as of the October Smith Travel data is 10.2% higher. The age/quality of the asset and the performance metrics put the subject in a strong foothold within its market, and should allow the property to do well in a stable environment and also provide insulation in the event of a weakening economy or a downturn in global tourism.

The Bears Say

- Shared infrastructure with the Sheraton Waikiki limits the ability of ownership to sell the hotels separately.
- The subject property amenity package is slightly lacking as it offers a small onsite pool and low number of guestrooms offering ocean views relative to its competitors.

The Bulls Say

- Property condition - The hotel has completed an extensive renovation project over the last few years which has significantly improved the product offering. Since 2006, more than $77 million has been invested in this property.
- Sponsor Kyo-Ya and manager Starwood benefit from economies of scale with four hotels in the Waikiki Beach market.
- The hotel offers direct beach access (one of only two hotels in Oahu with a private beach) and some of the only beachfront meeting space in Waikiki.

Property Description

The Royal Hawaiian Hotel is a full-service, luxury lodging facility containing 528 rentable units. The 16-story property opened in 1927/1969. The subject property is composed of two main structures, the historic building and the tower. The historic building was constructed in 1927 and contains 350 guestrooms and most of the subject property's public space. The tower building was constructed in 1969 on the east side of the subject site and contains the remaining 178 guestrooms. According to property ownership, the subject property received approximately $72 million in capital expenditures during a phased property-wide renovation and refurbishment between 2006 and 2011 (further discussed below). The subject property completely closed for the renovation in between June and December 2008. Prior to the subject's renovation, the subject property was branded as a Sheraton hotel. After reopening in January 2009, the subject property was rebranded as a member of the Luxury Collection with Starwood Hotels and Resorts.

The subject property offers a variety of guestroom types. As indicated previously, the subject property houses guestrooms within the Historic Building and the Tower Building. The Historic Building was originally constructed in 1927 and only about 26% of its guestrooms offer any kind of ocean view. The remaining guestrooms within the Historic Building offer city views of Waikiki or garden views of the Coconut Grove. To address the small number of guestrooms with ocean views, the Tower Building was constructed in 1969 with approximately 178 guestrooms, which all include a lanai and either a partial or full ocean view. With the addition of the Tower guestrooms, approximately 51% of the property's guestrooms offer some sort of ocean view. The subject's share of ocean view rooms is somewhat low compared to most of its competitors. However, the subject's historic reputation and beachfront location on Waikiki Beach adjacent to the Royal Hawaiian Shopping Center provides an advantage for the subject property.

The subject site directly fronts the Pacific Ocean, on the coast of Waikiki Beach, directly south of the intersection of Kalakaua and Royal Hawaiian Avenues. The site benefits from a prime oceanfront location in the middle of Waikiki Beach, with approximately 470 linear feet of frontage on the Pacific Ocean. The hotel is also situated in a prime area of Waikiki, adjacent to the area's most notable hotels and shopping centers. Primary vehicular access to the property is provided by Royal Hawaiian Avenue. In addition, the site includes a prime Waikiki Beach location on the coast of Waikiki Beach with easy access to Kalakaua Avenue to the north. Waikiki is primarily improved with tourism-related development such as hotels, restaurants, and retail facilities.

The hotel offers three dining facilities, which are all located on the south end of the Historic Building. The Azure Restaurant allows for daily dinner service with outdoor dining in beachside cabanas. The Surf Lanai, which is located east of the Azure Restaurant and adjacent to the subject's outdoor pool, is open for breakfast and lunch. The Mai Tai Bar is adjacent to the subject's outdoor pool allows for views of Diamond Head and Waikiki beach. The subject property also offers 24-hour room service for guests staying at the property and a popular and well known weekly luau and dinner show, referred to as Aha'aina. The subject property offers an outdoor pool and whirlpool facing Waikiki Beach with a private beach area for the property's guests. This is seen as a tremendous competitive advantage due to the fact that the subject property is only one of two hotels on the island of Oahu that offers a private beach area, and is located on a prime spot along Waikiki Beach. Other common area amenities include an exercise room, a business center, a leased spa and salon, a vending area, 11,800 square feet of meeting space and roughly 10,000 square feet of retail space. The subject property shares certain facilities with the adjacent Sheraton Waikiki Hotel. The properties share a loading dock and receiving department, located at the subject property, and an underground tunnel, that runs beneath the land of both hotels and connects both of the back-of-the-house areas operationally. Furthermore, the Sheraton Waikiki Hotel provides significant infrastructure for both hotels including the systems that provide hot and chilled water, steam, and water for the fire sprinkler system, as well as shared fiber optics for cable television to the subject property. According to property ownership, the Royal Hawaiian Hotel is currently billed by the Sheraton Waikiki Hotel for its portion of the shared services and HVAC and water systems. In addition, the subject shares a parcel of land with the Sheraton Waikiki Hotel that is subject to a ground lease agreement, referred to as the Bishop Estate Lease[1].

The Royal Hawaiian received approximately $72 million ($136,519/key) in capital expenditures during a phased property-wide renovation and refurbishment that began in 2007 and ended in March of 2011. The property completely closed for the renovation in between June and December 2008. The hotel reopened in January 2009 and was rebranded as a member of the Luxury Collection with Starwood Hotels and Resorts. Subsequently, beginning in 2010, the Sponsor renovated the Royal Hawaiian Tower between September 2010 and March 2011. The tower has ocean-facing rooms that are especially popular with Japanese guests.

The renovation focused on the following:

- Full guest room, suite, and corridor renovations in the Historic Building
- Complete upgrade to the food and beverage outlets (Azure Restaurant, Surf Lanai and Mai Tai Bar), the meeting facilities, lobby and arrival experience
- Completion of new adult pool
- Tower guest room renovation.

Historical Capital Expenditures										
	2005	2006	2007	2008	2009	2010	2011	2012	Last 4 Years	2005-2012
Total Invested	1,368,000	953,000	2,330,000	40,488,000	17,295,000	8,432,000	3,537,000	3,044,000	32,308,000	77,448,000
Capex Per Room	2,591	1,805	4,413	76,682	32,756	15,970	6,699	5,765	61,189	146,682

[1] Please see Ground Lease Summary section for additional detail.

Additionally, the Sponsor reportedly plans to renovate eight premium suites and the 440 room Surfrider Tower. The renovation is expected to be completed in March 2013. Sponsorship will renovate the Diamond Head Tower rooms between August and September 2013

Demand Drivers

Traditionally, the largest sources of visitation to Hawaii have been the U.S. mainland, especially California, and Asian countries, particularly Japan. The majority of demand comes from US feeder markets, particularly California. Domestic travel has fluctuated with economic trends but generally has been within the range of 4.5 to 5.5 million visitors for most of the last decade. International visitation has accounted an average of 25-28% of visitors over the past five years. Major international feeder markets include Australia, New Zealand, Japan, and China. Tourism from China is anticipated to be the largest source of new international visitation. Heavily reliant on Asian vacationers for its market demand, the Waikiki hotel market suffered a fairly sharp drop in average daily rate in 2009 as international visitor volume decreased considerably, mainly attributable to the global recession. The number of international visitors to Hawaii peaked at more than 2.9 million in 1996, but remained stuck at or below 2.1 million annually from 2001 through 2011. Japanese travelers have long dominated international hotel demand in Oahu, with the largest share by far of any non-U.S. country. Japanese guest visits to the island of Oahu peaked at roughly two million annually in the late 1990s. The most recent data available for Oahu as of 2010 had 1.18 million Japanese arrivals, up from 1.13 million the prior year.

The following table provides a breakdown of market segmentation at the subject property over the last seven years. As is typical with most Hawaiian hotels, wholesale travelers, and specifically Japanese wholesale travelers have historically been the primary demand generator. These two categories currently account for over 53% of the ADR. The Japanese wholesale demand segment has consistently been the demand segment leader with the exception of 2008 and 2009 when there was a considerable drop in Japanese tourism on Oahu.

Evaluation of Market Segmentation Trends

Segment	2006		2007		2008		2009		2010		2011		TTM 10/31/12		2013 Budget	
Category	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR
Premium Individuals	28.6%	292	27.6%	319	31.2%	294	30.4%	354	32.3%	327	25.1%	354	23.9%	399	25.2%	425
Discount Individuals	15.3%	230	16.6%	233	15.4%	239	21.5%	275	16.5%	236	14.0%	267	12.1%	298	11.3%	316
Japan Wholesale	24.9%	293	23.3%	294	16.8%	290	10.2%	415	12.0%	340	23.8%	311	28.6%	329	27.6%	362
Other Wholesale	18.2%	264	18.6%	262	18.8%	252	24.3%	287	26.4%	256	26.2%	275	25.0%	305	26.5%	326
Groups - Japan/Asia	1.8%	296	1.4%	274	1.6%	215	1.2%	258	1.8%	249	1.6%	291	2.2%	324	2.0%	344
Groups - Corporate	1.7%	265	4.2%	248	8.3%	211	7.7%	264	5.2%	250	3.3%	260	2.7%	348	4.5%	353
Groups - Association	4.3%	216	3.7%	238	4.4%	241	2.5%	252	2.4%	238	3.5%	323	2.3%	355	0.9%	314
Groups - Other	5.2%	222	4.6%	221	3.4%	237	2.3%	242	3.3%	250	2.4%	290	3.1%	316	2.0%	339
Total	100.0%	274	100.0%	282	100.0%	272	100.0%	323	100.0%	291	100.0%	321	100.0%	356	100.0%	388

Note: The total weighted average room rate includes miscellaneous other income which has not been allocated to a specific catgegory.

In addition to property specific demand drivers, two major redevelopment projects have been completed in 2009 and 2010 as part of the revitalization of Waikiki. The $700 million Outrigger Waikiki Beach Walk Project is located approximately two blocks from the subject site. The redevelopment project, located on approximately 7.9 acres, features an outdoor entertainment plaza, roundly 90,000 square feet of retail space with specialty retailers and restaurants, the Wyndham Vacation Ownership towers with 195 units, and four hotels (the Outrigger Reef Hotel, the Embassy Suites, the Trump Tower luxury condominium hotel, and a proposed luxury boutique hotel). With the exception of the proposed boutique hotel, whose construction was halted during the past recession, the Beach Walk redevelopment project is complete and has been acclaimed as a major success. The Royal Hawaiian Center, located along Kalakaua Avenue and just north of the subject site, completed a $115 million renovation that started in late 2004. The shopping center was designed in 1979 and was constructed primarily of concrete. The renovation was designed to create more open spaces, showcase the 100 year old banyan tree on the premises, and allow more direct access to the landmark Subject Property located beyond the shopping center along Waikiki Beach. The renovated shopping center contains 100 shops and restaurants ranging from fine designer apparel to quick-service restaurants.

Market Overview

The subject site is located in the Waikiki Beach tourist district of the city and county of Honolulu, the island of Oahu, and the state of Hawaii. The Waikiki district is located between downtown Honolulu and the Diamond Head National Monument, along the southern part of the island. The Waikiki district can be defined as the area bordered by the Ala Wai Canal to the north and west, the Pacific Ocean to the south, and Kapahulu Avenue to the east. Waikiki is primarily improved with tourism related development such as hotels, restaurants, and retail facilities, and high-rise condominium developments. The central business district of Honolulu and Honolulu International Airport are located roughly three and nine miles northwest of the subject property, respectively. The Oahu hotel market contains approximately 30,500 rooms, of which roughly 25,000 are located in the Waikiki area.

The increasing cost of oil in the beginning of 2008, the stock market meltdown of September 2008, and the official onset of a worldwide economic recession caused a dramatic decrease in travel to Hawaii. The stock market meltdown came at a time when travel to Hawaii was at its most expensive level within the past 20 years. In 2010, travel slowly began to return to the Hawaii, with the total number of visitors to the islands improving in every month in 2010 compared to the months in 2009. In 2011, total visitation to Hawaii rebounded, increasing by 11.5% compared to the previous year. The Hawaii State Department of Business, Economic, Development & Tourism (DBEDT) reported that arrivals from all major feeder markets, with the exception of Japan (due to the tsunami), increased year over year.

Based upon information provided by Smith Travel Research, the following table presents a summary of historical occupancy and average room rate for the competitive set in which the subject hotel competes. The indentified competitive set comprises 2,446 rooms and includes the following hotels: 1) Preferred Turtle Bay Resort, 2) Halekulani, 3) The Kahala Hotel & Resort, 4) JW Marriott Ihilani Ko Olina Resort & Spa, 5) Waikiki Parc Hotel, and 6) Royal Hawaiian Hotel.

Evaluation of Market Trends

	Occupancy Rate	Average Rate	Rooms RevPAR	Occupancy Penetration	RevPAR Penetration
TTM 10/31/10	72.3%	$285.55	$206.45	83.8%	85.5%
TTM 10/31/11	74.6%	$301.61	$225.00	98.1%	101.9%
TTM 10/31/12	74.2%	$325.38	$241.43	106.6%	116.6%

Source: Smith Travel Research

As evidenced in the table above, the property outperforms its competition in terms of both occupancy and RevPAR. ADR continues to grow, year-over-year, while occupancy remains stable in the 72%-74% range.

Ground Lease Summary

Bernice Pauahi Bishop Estate Lease – also known as the Kamehameha School District Lease, this lease was originally executed in March 1969 extends through December 2076 (64 years remaining). The lease encompasses a total of 10.335 areas including 1.137 acres underneath the Sheraton Waikiki and 100% of the land underneath the Royal Hawaiian Hotel (9.198 acres). The landlord also owns the land underneath the Royal Hawaiian Center which is a shopping center located adjacent to the Sheraton Waikiki hotel. The lease provides for a combination of minimum rent of which is a set payment that is adjusted every five years and percentage rent. According to an amendment executed in September 2012, this minimum will be $4,729,966 through December 2016. Percentage rent is paid at a sliding scale equal to 4.0% of adjusted gross revenue up to $29.5 million, 3.0% of adjusted gross revenue between $29.5 million and less than $50.0 million, and 2.5% of adjusted gross revenue in excess of $50 million. Based upon the trailing 12 months ending October 2012, total rent paid to the Bishop Estate was $7.19 million. In January 2017 the base rent will be increased to be equal to 94% of the average aggregate rent paid during the preceding five years (base plus percentage rent). If the average rent paid is equivalent to that of the trailing 12 month period ending October 2012, the minimum rent could increase to more than $6.75 million. During the trailing 12 month period ending October 2012, approximately $2.16 million was attributed to the Royal Hawaiian and $5.03 million was attributed to the Sheraton Waikiki. .

Morningstar Analysis

	Morningstar Underwriting	Year End 2010	Year End 2011	TTM 10/31/12	Issuer Underwriting
Occupancy Percent	79.1%	61.5%	76.3%	79.1%	80.5%
Average Room Rate	$382	$291	$321	$356	$388
Rooms RevPAR	$302	$179	$245	$281	$312
Departmental Revenue					
Room	$58,274,854	$34,489,751	$47,211,878	$54,385,310	$60,156,525
Food & Beverage	23,994,516	18,492,825	22,178,234	24,044,115	24,420,689
Telephone	181,064	221,754	194,926	181,404	184,245
Other Operated Departments	442,403	497,668	350,459	443,233	450,175
Garage and Parking	0	0	0	0	0
Rentals and Other Income	1,745,205	1,361,630	1,569,373	1,748,645	1,748,645
Total Departmental Revenue	**$84,638,043**	**$55,063,628**	**$71,504,870**	**$80,802,707**	**$86,960,279**
Departmental Expenses					
Room	$17,107,453	$12,217,990	$16,449,043	$17,146,102	$17,783,384
Food & Beverage	21,177,468	17,797,109	19,822,342	21,223,278	21,555,673
Telephone	488,821	409,666	459,179	489,925	497,598
Other Operated Departments	900,997	1,388,592	1,131,778	903,033	917,176
Garage and Parking	0	0	0	0	0
Rentals and Other Income	0	0	0	0	0
Total Departmental Expenses	**$39,674,739**	**$31,813,357**	**$37,862,342**	**$39,762,338**	**$40,753,831**
Departmental Profit	**$44,963,304**	**$23,250,271**	**$33,642,528**	**$41,040,369**	**$46,206,448**
Undistributed Expenses					
General & Administrative	$4,946,973	$4,116,072	$4,546,735	$4,779,684	$4,997,753
Management Fees	1,904,356	506,200	650,200	744,100	808,731
Advertising & Marketing	3,628,270	3,110,226	3,192,901	3,264,029	3,535,483
Repairs & Maintenance	2,769,639	3,482,715	2,803,570	2,675,980	2,977,311
Utilities	3,081,544	2,185,719	2,710,664	2,977,337	3,198,226
Incentive Fees	0	0	(2,791,700)	(1,630,700)	(839,298)
Fixed Charges					
Real Estate Taxes	$2,846,337	$2,598,386	$2,633,170	$2,752,019	$2,846,337
Property Insurance	1,150,860	472,424	572,519	666,998	1,150,860
Ground Rent	2,140,706	1,444,547	1,816,952	2,161,846	2,317,238
Other Fixed	0	0	(34,186)	0	0
Total Operating Expenses	**$62,143,425**	**$49,729,646**	**$53,963,167**	**$58,153,631**	**$61,746,472**
Net Operating Income	**$22,494,618**	**$5,333,982**	**$17,541,703**	**$22,649,076**	**$25,213,807**
Capital Expenditures					
Capital Expenditures / Reserve	$3,385,522	$1,927,227	$2,502,670	$2,828,095	$3,043,610
Extraordinary Capital Expenditures	0	0	0	0	0
- Credit For Cap Ex Reserve	0	n/a	n/a	n/a	n/a
Total Capital Expenditures	3,385,522	1,927,227	2,502,670	2,828,095	3,043,610
Credit for Upfront DSCR Escrow	$0	$0	$0	$0	$0
Net Cash Flow	**$19,109,096**	**$3,406,755**	**$15,039,033**	**$19,820,981**	**$22,170,197**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Average Room Rate	$382.00
Occupancy (%)	79.10%
Rooms RevPAR	$302.00

Underwritten ADR is 7.3% above the trailing-twelve-month average of $356. As support, the 2012 year-to-date ADR as of October is 10% higher than the 2011 year-to-date ADR (as of October). Occupancy is underwritten to the trailing-twelve-month average of 79.1%. Based on Morningstar's analysis, this is considered to be a stabilized level.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted. Address special assumptions and variances to the historical levels such as property taxes, insurance, management fee, etc.

- Management Fees - Starwood, or an affiliate or processor of Starwood, has been operating the hotel since 1974. The six hotels in this portfolio are all subject to one management contract which provides for a base and incentive management fee. Although the actual calculation is complex, in general the methodology provides for a base management fee of one percent of adjusted house profit (which is roundly 92% of total revenue) and an incentive fee equal to 30% of basic earnings. For the purposes of calculation, basic earnings is gross operating profit less deductions for base management fee, ground rent, real estate taxes, insurance, reserve for replacement, miscellaneous corporate charges, an amortization of capital expenditures, and an owners priority return of 20% of Adjusted House Profit. Based upon the Morningstar underwriting and the fee calculation methodology, we estimate that the combined calculated base and incentive management fee will equate to 2.25% of total revenue for the portfolio. The contract provides for the allocation of fees between hotels such that some properties reflect a higher fee and other hotels may, in fact, reflect a fee a negative expense. Rather than impute this somewhat arbitrary allocation, Morningstar has assumed a flat management fee of 2.25% over all hotels to provide for a more stable and consistent valuation of each property.
- Advertising and Marketing - our estimate of Advertising and Market expenses is calculated based upon the expense reflected during the most recent trailing 12 month period which has been inflated by 3.5%. Additionally, we have increased this expense by $250,000 to account for the potential increase in advertising and marketing expenses during an economic downturn.
- Property taxes are based on Kyo-Ya's budget for 2013 taxes. Property insurance is based on Kyo-Ya's budget for 2013 insurance premiums. Ground rent was based on a formula provided by the issuer.

Capital Items

Although the management agreement requires only a 3.5% reserve for replacement, Morningstar has assumed a 4.0% reserve for replacement which is our minimum standard for full service hotels and resorts. In additional to the structure repairs recommended by a property condition assessment, the capital reserve for replacement must provide for sufficient funds to conduct periodic replacement of soft goods and case goods in the hotel rooms and in the public spaces. As a result, the reserve for replacement is well above that recommended by the engineer in the property condition assessment.

Valuation Drivers

The base capitalization rate is 8.8% for Honolulu hotels. We have assigned this hotel a property score of 2 (good) , along with the resort asset classification results in a cap deduction of 100 basis points.

Westin Moana Surfrider

Analyst: Matt Bendzlowicz (267) 960-6025
Analytical Manager: Sheila Bjornstad (646) 560-4511

Property Summary	
Property Type	Hotel/Full-Service
Location	Oahu, HI 96815
Year Built	1901/1952/1967
Year /Renovated	2007-2008/2012
Net Rentable Room (Total)	794
Net Rentable Room (Collateral)	794
Occupancy (TTM 10/31/12)	89.85%
Ownership	Fee Simple

Loan Summary		
Loan Amount (Original Balance)	$260,102,914	($327,586/room)
Loan Amount (Cut-Off Balance)	$260,102,914	($327,586/room)
Loan Term (months)	60	
I/O Period (months)	60	
Amortization Term (months)	0	
Loan Seasoning (months)	2	
Interest Rate (1)	5.35000%	

Morningstar Analysis		
Current DSCR	2.69 x	
Amortizing DSCR	n/a	
Beginning LTV	52.83%	
Ending LTV	52.83%	
Capitalization Rate	7.80%	
Morningstar UW Occupancy	86.5%	
Net Operating Income	$42,480,951	
Net Cash Flow	$37,938,106	
Value	$492,385,978	($620,133/room)
Debt Yield	14.59%	
Morningstar Site Visit	Yes	
Property Score	2 (Good)	

Note: (1) Interest is based on the LIBOR floor of 0.5%plus the current spread of 4.85%

Capital Structure Table - Westin Moana Surfrider

Loan	Current Balance	Morningstar BLTV	Current Pay Int. Rate (1) (2)	DSCR on Current Pay	Accrued/Unpaid Interest Rate	Maximum (3) Interest Rate
Trust Loan	$260,102,914	52.8%	5.350%	2.69 x	n/a	7.850%
Mezzanine Loan A	35,468,579	60.0%	7.500%	2.26 x	3.750%	11.250%
Mezzanine Loan B	59,114,299	72.0%	8.250%	1.74 x	4.500%	12.750%
Mezzanine Loan C	47,291,439	81.6%	6.500%	1.53 x	7.375%	13.875%
Mezzanine Loan D	35,468,579	88.8%	6.333%	1.40 x	10.167%	16.500%
Total	**$437,445,811**	**88.8%**		**1.40 x**		

(1) Interest on the Trust loan is calculated as a spread over 30-day LIBOR (which is subject to a LIBOR Floor of 0.5%and a LIBOR Cap of 2.5%). The Interest rate spread varies throughout the loan term; during the first three years the spread is 4.85% during the fourth year the spread increases to 5.10% and during the final year the spread is 5.35% Morningstar has calculated DSCR on Current pay based upon the payment during the first year and has reflected the LIBOR floor of 0.50% The DSCR on Current Pay also includes only Current Pay interest rate for the Mezzanine loans; the accrual interest is not assumed to be paid for this calculation.

(2) The mezzanine loan interest rates are broken up into "current pay" interest rates and "accrual interest rates"; in the event that there is insufficient NCF to pay the full interest rate, the Borrower may pay at the current pay rate and accrue the remaining interest at the accrual rate.

(3) The Maximum Interest Rate for the Trust Loan is the interest rate spread during the final year of the Trust (5.35%) and the LIBOR cap rate of 2.5% The Maximum Interest Rate for the mezzanine loans is the full interest (including both current pay and accrued interest) on the mezzanine loans.

Morningstar Summary

Morningstar Perspective

The $260,102,914 ($327,585 per key) floating-rate first mortgage loan is secured by the fee simple interest in a 794-room, full-service hotel known as the Moana Surfrider Westin Resort & Spa. The property was appraised for $604,400,000, in September 12, 2012. The appraised value equates to $761,209 per room. The subject property is part of a six-hotel portfolio including five properties in Hawaii, including the Sheraton Waikiki, Sheraton Princess Kaiulani, Sheraton Maui, and the Royal Hawaiian, along with the Palace Hotel in San Francisco, California. The property is currently subject to a management agreement with Starwood Hotels & Resorts Management Company, Inc. The original agreement began in November 1990 and has been subject to several amendments, with the most recent being June 2011. The calculation of the incentive management fee for the property is tied to the combined performance of the four collateral hotels located in Waikiki.

According to a Smith Travel Research (STR) report from October 2012, for the trailing twelve month period ending October 31, 2012, the property had occupancy of 89.9% (116% penetration), ADR of $306.92, and RevPAR of $275.92 (164% penetration). These penetration levels indicate the degree to which the property has outperformed its competitive set over this time period.

The property has performed well, and is said to be one of the highest quality offerings in the submarket. The average daily rate and occupancy have been growing at a strong pace since 2009. The occupancy has increased each year since 2009 and is 17% above the 2009 level as of October 2012. The average daily rate has also realized a healthy increase since 2009, and as of the October Smith Travel data is 14% higher, with only a slight decline during 2010, which was reversed during 2011. The age/quality of the asset and the performance metrics put the subject in a strong foothold within its market, and should allow the property to do well in a stable environment and also provide insulation in the event of a weakening economy.

The Bears Say

- The small Banyan Wing guestrooms. The 1901 built wing offers a much smaller floorplan, but as a result allows the property to offer a lower per-room price point.
- The Diamond Head Wing has dated furnishings, which is to be remedied by a 2013 scheduled refurbishment.
- The total amount of meeting space to number of rooms ratio at the subject is small and considered to be a disadvantage in the market.

The Bulls Say

- The property benefits from an advantageous location directly on Waikiki Beach, as well as well-groomed grounds and a recently refurbished interior.
- The average daily rate and occupancy have been growing at a strong pace since 2009. The occupancy has increased each year since 2009 and is 17% above the 2009 level as of October 2012. The average daily rate has also realized a healthy increase since 2009, and as of the October Smith Travel data is 14% higher, with only a slight decline during 2010, which was reversed during 2011.

Property Description

The Property is located in Honolulu, HI. The property opened in 1901 (Banyan Wing) and was expanded in 1952 (Diamond Head Wing) and 1967 (Surfrider Tower). The hotel features 794 rooms, two restaurants, a lounge, 13,942 square feet of meeting space, an outdoor swimming pool, a fitness center, a full-service spa, 21,390 square feet of leased retail, office and concession space, and Waikiki Beach access. The subject is served by Honolulu International Airport, which is located about nine miles to the west.

The property features three food and beverage options. The Veranda is an indoor/outdoor dining venue that serves three meals daily. The Beach house restaurant is open for dinner only and in just two years has become one of Waikiki's top-rated restaurants. The Beach Bar is a wood-thatched bar that is adjacent to the Pacific Ocean. As part of the recent refurbishment, all three food and beverage outlets were completely upgraded and new concepts introduced.

The property features several indoor and outdoor meeting rooms that are located throughout the hotel. The indoor venues range from the large ballroom to the small boardroom and are able to host large dinners, meetings, and group events. The total amount of meeting space to number of rooms ratio at the subject is small and considered to be a disadvantage in the market. The various outdoor meeting venues are also popular for dinners and events. As part of the recent refurbishment, the meeting space received new soft goods and select hardwoods.

The subject's recreational amenities include an outdoor swimming pool, fitness center, and full-service spa. The outdoor swimming pool is located in the courtyard. The swimming pool is smaller than typically found at 700+-room resorts; however, with the subject being located directly on Waikiki Beach, this is not considered to be a disadvantage. The fitness center was added as part of the recent refurbishment. The subject's full-service Moana Lani Spa was added in 2008 at a cost of about $7.5 million. The entire spa is oriented towards the ocean and Waikiki Beach.

The property features 21,390 square feet of leased retail, office, and concession space. The space is split into many separate outlets, with some of the space adjacent to Kalakaua Avenue. Current tenants include Rimowa, Reyn's Menswear, and the Honolua Coffee Company. Most recently, a wedding venue consisting of a chapel and dining area was added to the property. The facility has both indoor and outdoor areas and has been leased to Arluis Weddings, who can reportedly accommodate up to seven daily weddings within the venue. Overall, the subject’s retail space benefits from its location adjacent to Kalakaua Avenue, which has a high amount of pedestrian and vehicle traffic. At the time of the Morningstar inspection, all of the retail outlets were leased.

The subject property's guestrooms are located throughout the three towers and the majority of the rooms were refurbished between 2006 and 2008. The guestrooms in the historic Banyan Wing are the smallest rooms at the property and, given that the building was constructed in 1901, the rooms have several different configurations. As part of the refurbishment, their furnishings were made more modular to enhance the floor space; however, by modern standards the guestrooms are small and represent an entry-level rate category. The guestrooms in the Surfrider Tower are more typical of guestrooms found in Waikiki hotels. The recent refurbishment upgraded all of these rooms to provide flat-panel televisions, dressers, a contemporary and tropical decor, and upgrades to the bathrooms such as granite vanities. Since 2006, property ownership has intended on redeveloping the portion of the subject site that is currently improved with the Diamond Head Wing. As of December 2010, conditional entitlements were obtained to replace the existing Diamond Head Tower with a 282-foot, 26-story tower with 60 hotel rooms and up to 200 whole-ownership residential units, with the entitlements for the residential portion being shared with entitlements granted for the Sheraton Princess Kaiulani site. As of September 2012, appeals from four environmental advocacy groups have delayed the granting of permanent entitlements and the development has been placed on hold pending the legal appeals, which are ongoing. Given the speculative nature of this redevelopment, Morningstar assumed that the subject would continue to operate in its existing configuration with 794 hotel rooms. Given the pending redevelopment of the Diamond Head Tower, these rooms received few upgrades as part of the recent refurbishment and appeared somewhat dated at the time of our site visit. The Diamond Head Tower is situated such that the rooms have some of the best views at the property and are closest to the beach; however, their bathrooms have not been upgraded in several years. The Morningstar analysis assumes that the redevelopment does not take place, and the property continues to operate as-is. That being said, upgrades for this wing and refurbishing is scheduled for early 2013.

The property is located in the Waikiki Beach district of Honolulu. The Waikiki district is located between downtown Honolulu and the Diamond Head National Monument, along the southern part of the island. Waikiki is primarily improved with tourism-related development such as hotels, restaurants, and retail options. The highest-rated full-service hotels are located on or near the ocean and have clear view corridors of the ocean. Waikiki reflects a diverse mix of development with luxury hotels, high-end boutique shops, along with mid-scale lodging and retail outlets. Virtually no vacant land is available within the Waikiki district and all of the prime beachfront locations are currently improved with large hotels.

The subject uses the parking structure at the adjacent Sheraton Princess Kaiulani Hotel which is across Kalakaua Street. Since both hotels share common ownership, there is no formal lease or allocation of spaces for the subject’s use.

Historical Capital Expenditures										
	2005	2006	2007	2008	2009	2010	2011	2012	Last 4 Years	2005-2012
Total Invested	1,125,000	1,839,000	17,968,000	10,877,000	3,273,000	474,000	616,000	7,891,000	12,254,000	44,062,000
Capex Per Room	1,419	2,319	22,658	13,716	4,127	598	777	9,951	15,453	55,564

Given the potential redevelopment of the Diamond Head Tower site, the guestrooms in this wing were not upgraded as part of the most recent refurbishment which took place between 2007 and 2009, only limited FF&E upgrades were conducted in the Diamond Head Tower. The 2007 through 2009 refurbishment included the guestrooms in the Banyan and Surfrider Towers, the addition of a full-service spa and fitness center, the food and beverage outlets were upgraded and re-concepted, the meeting space soft goods were upgraded, the lobby was refurbished and restored, and upgrades were completed to the hotel's technology and building systems. The total cost of this refurbishment was about $32 million, as presented in the previous table. The redevelopment has been placed on hold pending the entitlement appeals. The next round of upgrades/refurbishment is set to begin in early 2013. In addition to “catching up” the Diamond Head Tower, the Surfrider Wing will also be refurbished. Property ownership has budgeted this refurbishment at approximately $25.5 million.

Demand Drivers

Evaluation of Market Segmentation Trends																
Segment Category	**2006**		**2007**		**2008**		**2009**		**2010**		**2011**		**TTM 10/31/12**		**2013 Budget**	
	%	**ADR**	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**
Premium Individuals	16.8%	268	19.7%	300	23.2%	295	21.9%	255	22.1%	241	20.5%	276	19.5%	298	21.3%	313
Discount Individuals	11.2%	189	10.5%	211	11.9%	226	14.3%	198	13.5%	193	12.0%	207	9.9%	234	10.2%	248
Japan Wholesale	45.7%	285	44.4%	293	37.0%	309	43.8%	306	38.1%	302	39.9%	312	40.4%	326	40.6%	357
Other Wholesale	18.4%	224	19.2%	238	19.1%	247	14.1%	230	19.8%	212	20.1%	235	24.1%	249	23.5%	269
Groups - Japan/Asia	1.5%	246	0.9%	251	1.1%	293	0.4%	260	0.6%	240	0.6%	302	1.0%	294	1.4%	310
Groups - Corporate	2.3%	232	2.3%	267	4.2%	257	2.4%	250	1.7%	253	2.9%	245	2.0%	255	1.5%	286
Groups - Association	1.2%	217	0.8%	220	1.0%	211	1.2%	240	0.9%	234	1.2%	213	0.9%	249	0.2%	271
Groups - Other	2.9%	207	2.3%	225	2.5%	250	1.8%	227	3.3%	223	2.9%	263	2.3%	280	1.4%	253
Total	100.0%	258	100.0%	274	100.0%	282	100.0%	270	100.0%	256	100.0%	285	100.0%	307	100.0%	332
Note: The total weighted average room rate includes miscellaneous other income which has not been allocated to a specific catgegory.																

Japanese wholesale business comprises 40.4% of the hotel's demand throughout the trailing twelve month period ended October 2012. The average room rate for this segment is $326 per room. This demand segment has consistently been the largest source of occupancy for the hotel, and has remained high since 2006. In 2008, during the refurbishment, there was a slight dip in the international wholesale business, which has been attributed to Japanese travelers favoring higher floors with ocean views such as those located in the Surfrider Tower. The majority of other travel is generated by visitors from the mainland.

Through November 2012, the Hawaii Tourism Authority reports that 2012 visitor arrivals grew 10% and expenditures 19% to over $12.9 billion, already surpassing the all-time annual record of $12.6 billion set in 2007. The islands of Oahu and Maui are leading the way with Waikiki strengthened by a diversified, higher-spending visitor base from Japan, South Korea and China. General holiday sales reports are mixed but retail employment rose again to 180,300 jobs, falling just short of the record 182,750 set in 2007. Unprecedented tourism performance is fueling job growth and positive retail market performance across Hawaii.

Market Overview

According to Smith Travel Research, the following table presents a summary of historical occupancy and average room rate for the competitive set in which the subject hotel competes. The identified competitive set comprises 7,576 rooms (including the subject) and includes the following hotels: 1) Hyatt Regency Waikiki, 2) Hilton Honolulu, 3) Outrigger Waikiki, 4) Prince Hotel, 5) Marriott Waikiki, and 6) The Kahala.

Evaluation of Market Trends					
	Occupancy Rate	**Average Rate**	**Rooms RevPAR**	**Occupancy Penetration**	**RevPAR Penetration**
TTM 10/31/10	84.5%	$182.13	$153.85	69.5%	97.7%
TTM 10/31/11	83.5%	$195.95	$163.68	72.1%	102.6%
TTM 10/31/12	86.4%	$216.53	$187.13	77.7%	110.1%
Source: Smith Travel Research					

According to a Smith Travel Research (STR) report from October 2012, for the trailing twelve month period ending October 31, 2012, the property had occupancy of 89.9% (116% penetration), ADR of $306.92, and RevPAR of $275.92 (164% penetration). These penetration levels indicate the degree to which the property has outperformed its competitive set over this time period.

Morningstar Analysis

	Morningstar Underwriting	Year End 2010	Year End 2011	TTM 10/31/12	Issuer Underwriting
Occupancy Percent	86.5%	83.6%	86.6%	89.9%	86.7%
Average Room Rate	$311	$256	$285	$307	$332
Rooms RevPAR	$269	$214	$246	$276	$288
Departmental Revenue					
Room	$78,040,029	$62,064,669	$71,344,454	$80,038,551	$83,313,990
Food & Beverage	25,780,102	21,451,436	24,937,783	27,725,148	26,709,930
Telephone	290,115	356,474	313,101	302,929	291,837
Other Operated Departments	4,789,244	4,072,829	4,450,851	5,002,528	4,819,349
Garage and Parking	0	0	0	0	0
Rentals and Other Income	4,671,634	2,823,244	4,016,145	4,671,634	4,671,634
Total Departmental Revenue	**$113,571,124**	**$90,768,652**	**$105,062,334**	**$117,740,790**	**$119,806,740**
Departmental Expenses					
Room	$19,161,209	$16,339,085	$18,960,096	$20,079,888	$20,292,825
Food & Beverage	21,993,451	19,132,835	21,417,514	23,690,349	22,822,874
Telephone	647,942	604,243	623,741	687,829	662,643
Other Operated Departments	4,218,715	3,704,975	4,108,164	4,342,599	4,183,585
Garage and Parking	0	0	0	0	0
Rentals and Other Income	0	0	0	0	0
Total Departmental Expenses	**$46,021,317**	**$39,781,138**	**$45,109,515**	**$48,800,665**	**$47,961,927**
Departmental Profit	**$67,549,807**	**$50,987,514**	**$59,952,819**	**$68,940,125**	**$71,844,813**
Undistributed Expenses					
General & Administrative	$6,237,947	$5,369,126	$5,747,294	$6,237,947	$6,158,887
Management Fees	2,555,350	842,800	961,100	1,082,900	1,104,618
Advertising & Marketing	4,321,846	3,535,340	3,812,737	3,934,151	4,194,539
Repairs & Maintenance	4,063,992	3,371,631	3,597,537	3,926,562	4,028,258
Utilities	3,380,112	2,510,032	3,036,908	3,265,809	3,296,501
Incentive Mgmt Fee	0	0	3,217,200	4,431,500	4,895,213
Fixed Charges					
Real Estate Taxes	$2,619,011	$2,601,072	$2,493,438	$2,519,669	$2,619,011
Property Insurance	1,890,597	773,264	921,483	1,103,833	1,890,597
Ground Rent	0	0	0	0	0
Other Fixed Expenses	0	0	(34,186)	0	0
Total Operating Expenses	**$71,090,173**	**$58,784,403**	**$68,863,026**	**$75,303,036**	**$76,149,551**
Net Operating Income	**$42,480,951**	**$31,984,249**	**$36,199,308**	**$42,437,754**	**$43,657,189**
Capital Expenditures					
Capital Expenditures / Reserve	$4,542,845	$3,176,903	$3,677,182	$4,120,928	$4,193,236
Extraordinary Capital Expenditures	0	0	0	0	0
- Credit For Cap Ex Reserve	0	n/a	n/a	n/a	n/a
Total Capital Expenditures	4,542,845	3,176,903	3,677,182	4,120,928	4,193,236
Credit for Upfront DSCR Escrow	$0	$0	$0	$0	$0
Net Cash Flow	**$37,938,106**	**$28,807,346**	**$32,522,126**	**$38,316,826**	**$39,463,953**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Average Room Rate	$311
Occupancy (%)	86.5%
Rooms RevPAR	$269

The Morningstar analysis reflects some upside in rate due to renovations which will take place in Q1 2013. We assume management will reduce occupancy in order to support rate growth by eliminating discounts.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted.

Management Fees

The hotel is operated by Starwood hotels and resorts under the Westin brand. Starwood, or an affiliate or processor of Starwood, has been operating the hotel since 1974. The six hotels in this portfolio are all subject to one management contract which provides for a base and incentive management fee. Although the actual calculation is complex, in general the methodology provides for a base management fee of one percent of adjusted house profit (which is roundly 92% of total revenue) and an incentive fee equal to 30% of basic earnings. For the purposes of calculation, basic earnings is gross operating profit less deductions for base management fee, ground rent, real estate taxes, insurance, reserve for replacement, miscellaneous corporate charges, an amortization of capital expenditures, and an owners priority return of 20% of Adjusted House Profit. Based upon the Morningstar underwriting and the fee calculation methodology, we estimate that the combined calculated base and incentive management fee will equate to 2.1% of total revenue for the portfolio. For the purposes of our underwriting, Morningstar has assumed a more conservative management fee of 2.25% of total revenue. The contract provides for the allocation of fees between hotels such that some properties reflect a higher fee and other hotels may, in fact, reflect a fee a negative expense. Rather than impute this somewhat arbitrary allocation, Morningstar has assumed a flat management fee of 2.25% over all hotels to provide for a more stable and consistent valuation of each property.

Marketing

Our estimate of Advertising and Market expenses is calculated based upon the expense reflected during the most recent trailing 12 month period which has been inflated by 3.5%. Additionally, we have increased this expense by $250,000 to account for the potential increase in advertising and marketing expenses after an economic downturn.

Reserve for Replacement

Although the management agreement requires only a 3.5% reserve for replacement, Morningstar has assumed a 4.0% reserve for replacement which is our minimum standard for full service hotels and resorts.

Valuation Drivers

The Morningstar base capitalization rate for Honolulu hotels is 8.8%. Deductions of 50 basis points each were made for a property score of "2" and for the hotel's status as a resort. The resulting capitalization rate is 7.8%. Morningstar added the value of the $6 million renovation to the value after applying a direct capitalization rate on net cash flow.

Sheraton Princess Kaiulani

Analyst: Rob Grenda 267-960-6023
Analytical Manager: Sheila Bjornstad 646-560-4511

Property Summary	
Property Type	Hotel/Full-Service
Location	Honolulu, HI 0
Year Built	1955/1959/1970
Year /Renovated	n/a
Net Rentable Room (Total)	1,142
Net Rentable Room (Collateral)	1,142
Occupancy (TTM 10/31/12))	90.00%
Ownership	Fee Simple

Loan Summary		
Loan Amount (Original Balance)	$110,771,403	($96,998/room)
Loan Amount (Cut-Off Balance)	$110,771,403	($96,998/room)
Loan Term (months)	60	
I/O Period (months)	60	
Amortization Term (months)	0	
Loan Seasoning (months)	0	
Interest Rate (1)	5.35000%	

Morningstar Analysis		
Current DSCR	2.17 x	
Amortizing DSCR	n/a	
Beginning LTV	56.29%	
Ending LTV	56.29%	
Capitalization Rate	8.30%	
Morningstar UW Occupancy	89.1%	
Net Operating Income	$15,788,006	
Net Cash Flow	$13,012,571	
Value	$196,777,959	($172,310/room)
Debt Yield	11.75%	
Morningstar Site Visit	No	
Property Score	3 (Average)	

Note: Interest is based upon the LIBOR floor of 0.5% plus the current spread of 4.85

Capital Structure Table - Sheraton Princess Kaiulani

Loan	Current Balance	Morningstar BLTV	Current Pay Int. Rate (1) (2)	DSCR on Current Pay	Accrued/Unpaid Interest Rate	Maximum (3) Interest Rate
Trust Loan	110,771,403	56.3%	5.350%	2.17 x	n/a	7.850%
Mezzanine Loan A	15,105,191	64.0%	7.500%	1.82 x	3.750%	11.250%
Mezzanine Loan B	25,175,319	76.8%	8.250%	1.40 x	4.500%	12.750%
Mezzanine Loan C	20,140,255	87.0%	6.500%	1.23 x	7.375%	13.875%
Mezzanine Loan D	15,105,191	94.7%	6.333%	1.13 x	10.167%	16.500%
Total	**$186,297,359**	**94.7%**		**1.13 x**		

(1) Interest on the Trust loan is calculated as a spread over 30-day LIBOR (which is subject to a LIBOR Floor of 0.5%and a LIBOR Cap of 2.5%). The Interest rate spread varies throughout the loan term; during the first three years the spread is 4.85% during the fourth year the spread increases to 5.10% and during the final year the spread is 5.35% Morningstar has calculated DSCR on Current pay based upon the payment during the first year and has reflected the LIBOR floor of 0.50% The DSCR on Current Pay also includes only Current Pay interest rate for the Mezzanine loans; the accrual interest is not assumed to be paid for this calculation.

(2) The mezzanine loan interest rates are broken up into "current pay" interest rates and "accrual interest rates"; in the event that there is insufficient NCF to pay the full interest rate, the Borrower may pay at the current pay rate and accrue the remaining interest at the accrual rate.

(3) The Maximum Interest Rate for the Trust Loan is the interest rate spread during the final year of the Trust (5.35%) and the LIBOR cap rate of 2.5% The Maximum Interest Rate for the mezzanine loans is the full interest (including both current pay and accrued interest) on the mezzanine loans.

Morningstar Summary

Morningstar Perspective

We believe the Sheraton Princess Kaiulani's net cash flow will remain stable in the near term, and will grow modestly over the intermediate term. The hotel is currently achieving its highest average occupancy levels since 2007—90% in the trailing 12 months ended October 2012—driven by an upswing in hotel demand primarily from Japanese, South Korean and Chinese travelers. However, we think occupancy probably has stabilized in the short run and therefore have underwritten it at 89%. As for the hotel's room rates, we think there's some room for growth in the short term for several reasons. First, with the 2008-09 financial crisis and its economic aftermath behind us, many countries are back on a path of slow but steady economic growth that appears sustainable in the short run. This means that Hawaiian tourism and related spending should remain strong. Second, there is limited hotel room supply growth forecast in the Waikiki market, which will ensure stable, if not strong, demand among the exisiting properties. Third, the Princess Kaiulani's location in Waikiki has important benefits, as the area has undergone a major revitalization over the last several years. The various redevelopment projects have helped maintain the area as an exciting and inviting destination for millions of international tourists and local residents alike. The most recent visitor numbers and tourism-related expenditures are evidence of the area's appeal and vitality. Fourth, hotel demand and tourism expenditures in Waikiki are driven by a diversified base that includes countries with a large and well established middle class, such as Japan and South Korea. China, whose middle class is growing rapidly, is also a rich source of tourism dollars. Lastly, the hotel's average daily rate (ADR) in the T12 period was $133, still below the pre-recession peak of nearly $138 recorded in 2007-08; our underwritten ADR of $137 is on par with historical rates and just 3.3% above the T12 room rate. Our occupancy and ADR translate into a total underwritten room revenue of $51.0 million, which is 2.1% above the T12 room revenue but still 4.8% below the appraiser's estimate.

As the fifth largest hotel in Waikiki the Sheraton Princess Kaiulani is a popular destination for visitors to Honolulu. The hotel is very well located along Kalakaua Avenue, in the heart of Waikiki's vibrant beach-resort, shopping and entertainment district. Compared to the other Waikiki hotels in the Kyo-ya portfolio, the Sheraton Princess Kaiulani's average ADR and RevPAR are at the low end of the spectrum. Whereas other Waikiki hotels in this portfolio are driving average room rates in excess of $230 per room, the Sheraton Princess Kaiulani's average annual (or trailing-12-month) ADR has never broken the $140 mark. The reason is the hotel's owners have not invested the requisite capital in the property's structures to maintain its competitiveness among the true resort hotels in the market. The sponsor has been planning an extensive renovation and repositioning of the asset for years, but a detailed plan and timeline have yet to materialize. The result is that since 2005 capital improvements total less than $6,000 per room. We consider the property's renovation/redevelopment speculative and have underwritten the property based on current operations and physical configuration.

Morningstar toured the property on December 10, 2013, and though the property is in need of a comprehensive renovation, it was clean and well maintained. Guestroom bathrooms are out of date and case goods and soft goods in the guest rooms are in need of replacement. The public space, function rooms, restaurants, and guest corridors are all showing signs of deferred maintenance and are in need of immediate attention. The borrower has funded an upfront escrow of $40 million to cover the cost of a potential renovation should redevelopment be deferred. Unless the renovation is started in the near term, it is likely that the hotel will lose the Sheraton brand. Despite this risk, the hotel's location is a distinct competitive advantage and the average room rate of $132 offers excellent value relative to other hotels in the Waikiki area. Over the near term the hotel should be able to perform well with or without the Sheraton brand. Morningstar assigned this property a score of 3 (average) even though the condition of the property could be considered fair. The hotel's location one block from Waikiki beach and its proximity to shopping, restaurants and entertainment is a key consideration for our property score and value.

The sponsors, intentionally or not, have positioned the Sheraton Princess Kaiulani as a mid-price hotel, a niche in which the property is performing very well. So despite the paltry capital investment in the unrenovated property over an extended period—not to mention the horrific tsunami of March 2011 that devastated parts of northeastern Japan—the hotel's performance metrics are all trending strongly positive. As noted above, occupancy reached 90% in the trailing 12 months ended October, up from 86% in 2010. In 2011, ADR increased 8.2% over 2010, from $112 to $121, then rose by another 9.3% to nearly $133 in the TTM period ended October 2012. Naturally, the combination of higher occupancy and average daily rate has led to solid RevPAR and room revenue gains. From 2010 through the trailing 12 months, RevPAR is up 23.5%. In the TTM period, total reported room revenue reached $50 million, up from $40.3 million in 2010, a 24% gain. The United States's and Asia's major economies are expanding at a slow but sustainable rate, boosting demand for rooms in Waikiki over the last 18-24 months or so. Should this trend continue, there is every reason to think that the Sheraton Princess Kaiulani with experience relatively stable occupancy and slow but steady growth in room rates.

The revenue from the hotel's retail space and kiosks is substantial, a testament to the prime location on Kalakaua Avenue, Waikiki's main thoroughfare and home to a wide range of retailers, from souvenir shops selling T-shirts and hats to high-end boutiques offering luxury brands and the latest fashions. As of September 2012, the retail component was generating sales of $1,800 per square foot and nearly $5.8 million in revenue, roughly 8% of the total reported revenue for the property. Given the hotel's location on Kalakaua Avenue and the upward trend in tourism, sales should continue to grow, driving strong demand for retail space at the hotel.

Although we are projecting some upside in the hotel's ADR and RevPAR, our underwritten NOI is very conservative at $15.8 million. While this is 11% higher than in 2011, it is 9.6% lower than the T12 NOI (TTM 10/31/12), 11% below the budgeted NOI and nearly 22% below the appraiser's estimated NOI. Our adjusted capitalized value of $196.8 million ($172,310 per room) is 39% below the appraised value of $321.6 million ($282,611 per room).

The Bears Say

- Lack of capital investment: The sponsor has been planning a massive redevelopment of the property for many years and has invested limited capital in the hotel's current structures and rooms. Consequently, the condition of the hotel, while not poor, is generally inferior both to other similar properties in the market and to its competitive set.
- Cash flow highly dependent on tourism: Tourism dollars are the primary driver for Oahu and Waikiki's economy and declines in visitor arrivals and/or expenditures can have a direct negative impact on the operations of the area's hotels.
- No direct beach access and obstructed views: Hotel guests do not have direct access to Waikiki Beach, but must walk east and cross Kalakaua Avenue to get to the beach. Moreover, rooms with south-facing windows have views that are at least partially obstructed by the hotels located directly on the beach.
- Total debt on the subject hotel, including mezzanine loans, is $186.3 million. Morningstar's total debt LTV is 94.7%.

The Bulls Say

- Premier tourist destination: the Hawaiian Islands are natural wonders and a popular tourist destination. They offer a wide range of entertainment and recreational activities, and will continue to attract millions of visitors from around the world. Wailkiki in particular is one of the world's top vacation and tourist destinations.
- Very good location: The hotel fronts Kalakaua Avenue, the main thoroughfare in Waikiki and home to a wide range of shopping venues, restaurants and lodging accommodations. Moreover, Kalakaua Avenue is only one block off Waikiki Beach.
- Waikiki benefits from a more diversified and higher-spending visitor base from Japan, South Korea, and China, than do other areas of Oahu and Maui.
- Positive trends in tourism and spending: The Hawaii Tourism Authority reports that 2012 visitor arrivals (through November) are up 10% and expenditures 19% over 2011 levels. Tourism expenditures in 2012 reached $12.9 million, surpassing the annual record of $12.6 million set in 2007.
- Revitalization of Waikiki: The Waikiki area has undergone an expensive renovation over the last several years, ensuring that it will remain a vibrant and inviting destination for millions of tourists and local residents for many years.
- Good loan metrics: Based on an allocated loan balance of $110.8 million and Morningstar's value of $196.8 million, the property has a Morningstar beginning loan-to-value of 56.3% and a NCF debt yield of 11.7%.

Property Description

The Sheraton Princess Kaiulani is a 1,142-room full-service resort hotel on the island of Oahu in Honolulu, Hawaii. It sits on a 4.15-acre site at 120 Kaiulani Avenue in Honolulu, one block off Waikiki Beach. It originally opened with one wing (the Princess Wing) in 1955 and was expanded with the addition of a second wing (the Kaiulani Wing) in 1959 and then a third (the Ainahau Wing) in 1970. Today, the Sheraton Princess Kaiulani's is the fifth largest hotel in Waikiki. The hotel features a restaurant, an indoor lounge, an outdoor swimming pool, a pool-side lounge, a fitness center, a business center, 13,088 square feet of meeting space, and 34,907 square feet of retail, office and concession space. The property's total square footage is 707,530 square feet. There is a parking structure with 582 spaces. Common ownership of the parking structure is shared with the Westin Moana Surfrider Hotel and there is no formal lease or allocation of spaces for the subject hotel's use.

The sponsor is planning, and has obtained entitlement for, a complete redevelopment of the Sheraton Princess Kaiulani property. The redevelopment, apparently in the works for many years, will renovate and retain as a hotel the existing 666-room Ainahau Tower, demolish the Princess and Kaiulani Towers, and add a new mixed-use tower with 100 residential units and 144 two-bedroom timeshare units. The retail components will be expanded to roughly 80,000 square feet. Importantly, the sponsor must release the asset from the current mortgage to commence the redevelopment plan. The borrower, subject to the satifsfaction of certain conditions, may obtain a release of the subject hotel beginning in December 2013. If the hotel is not released by July 2014, the borrower must begin a $40 million renovation, which must be substantially completed by November 9, 2016. Such renovation would focus on upgrades to the guest rooms and improvements to the public areas. As of January 2013, a detailed redevelopment program and timeline for the Sheraton Princess Kaiulani site was unknown. Therefore the appraiser and Morningstar considered the redevelopment speculative and assumed that the subject hotel continues to operate as a 1,142-room hotel in its current configuration.

Because of its redevelopment plans for the Sheraton Princess Kaiulani, the sponsor has invested limited capital in the hotel in recent years. Since 2005, the sponsor has spent $6.64 million in capital expenditures ($5,814 per key). Over the last four years, capital items totaled just under $2 million ($1,685 per key), an annual average of roughly $481,000 or $421 per key. As a result, the hotel's physical condition and aesthetic qualities are inferior to those of its competitive set. While not in bad or neglected condition, the hotel's physical condition is perhaps best described as "tired" and "dated."

Historical Capital Expenditures										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Last 4 Years**	**2005-2012**
Total Invested	1,216,000	626,000	1,650,000	1,224,000	264,000	293,000	854,000	513,000	1,924,000	6,640,000
Capex Per Room	1,065	548	1,445	1,072	231	257	748	449	1,685	5,814

The property's retail component consists of two one-story buildings with 20,152 square feet of space combined. The buildings, which contain 15 leased spaces and three kiosks, front Kalakaua Avenue, the main retail corridor running through Waikiki. Kalakaua Avenue is home to a wide variety of retail shops and shopping centers, including International Market Place (adjacent to Sheraton Princess Kaiulani on the north side), Royal Hawaiian Center (a 10-minute walk north), and Luxury Row, a 111,000-square-foot-center located at 2100 Kalakaua Avenue, one mile north of the subject hotel. Known as the "elegant block" in Waikiki, it is home to luxury boutiques such as Tiffany & Co., Gucci, Yves Saint Laurent, Chanel, Bottega Veneta, and Hugo Boss.

The Sheraton Princess Kaiulani is easily accessible from points both within and outside Honolulu. Regional access is provided by State Highway 1 (H-1), which originates in the city of Kapolei to the far west (southwestern corner of the island) and ends in Waialae, just east of the Diamond Head volcano (southeastern corner of the island). H-1 traverses Honolulu's north boundary and is the primary access road from the airport, located nine miles to the west of the property. The hotel's neighborhood is served by several local roads, but primary vehicular access to the hotel is via Kalakaua Avenue, the main thoroughfare in Waikiki.

Not surprisingly, beach access is an important differentiating factor for Waikiki hotels. Located one block off the beach on the north side of Kalakaua Avenue, the Sheraton Princess Kaiulani does not have direct beach access. To get to the beach, hotel guests have to proceed southeast along Kalakaua Avenue to Uluniu Avenue, where they can turn right and cross Kalakaua Avenue. It's a relatively short walk along a wide, tree-lined sidewalk. Among the five hotels in the subject hotel's competitive set, none has direct beach access. However, the guests who stay at the Aston Waikiki Beach and Pacific Beach Hotel have a shorter walk to the beach than those who stay at the Sheraton Princess Kaiulani, and have better ocean views. The other three hotels in the competitive set, Hilton Waikiki Beach, Holiday Inn Resort Waikiki Beachcomber, and Ohana Waikiki East, are farther from the beach and/or have inferior views.

The Sheraton Princess Kaiulani is in the Waikiki Beach district of Honolulu, located between downtown Honolulu and the Diamond Head National Monument, near the southeastern part of the island of Oahu. Waikiki is Oahu's main hotel and resort area, attracting millions of tourists from around the world each year. The main thoroughfare, Kalakaua Avenue, is home to world-class shopping, dining, entertainment, and resorts. The Sheraton Princess Kaiulani is located in the heart of what is a vibrant area for tourists and shoppers. The area has undergone significant redevelopment over the last 10 years or so, improving the visitor experience and ensuring that Waikiki maintains its status as a premier tourist destination. Recently completed projects include the $535 million Waikiki Beach Walk, the largest renovation project in Waikiki's history, the $115 million renovation (completed in 2008) of the Royal Hawaiian Center, one of Waikiki's premier shopping, restaurant, and entertainment destinations, and a nearly $16 million redevelopment of Kuhio Beach, Waikiki's main stretch of sand. Waikiki Beach Walk's nearly 8-acre site was completely rebuilt and today features an outdoor entertainment plaza, 41 new retailers, six restaurants, and five hotels. The Royal Hawaiian Center (built in '79) is a four-level open-air retail complex with 310,000 square feet and more than 100 shops and restaurants located along a three-block stretch of Kalakaua Avenue. The complex is home to one of the largest concentrations of flagship stores in Hawaii including Cartier, Hermes, Salvatore Ferragamo, Bvlgari, bebe, LeSportsac, Rolex Kaimama Kea, Kate spade, Tourneau, Juicy Couture, and Fendi. The redevelopment of Kuhio Beach gave it a new sidewalk promenade with lush landscaping and fountains.

Demand Drivers

Leisure travel is the number-one demand driver for the Sheraton Princess Kaiulani. The hotel's demand mix is weighted heavily toward wholesale and transient demand, with these segments representing roughly 65.2% and 20.4%, respectively. Much of the remaining demand comes from the group contract segment which is nearly 13% of the total. This demand mix is comparable to that for the competitive set, where the distribution is 61% wholesale, 24% transient, and 14% group contract. Tourism and tourism-related spending drive the local Waikiki economy and are ultimately what drive room demand and rates at the Sheraton Princess Kaiulani. The hotel's location one block from Waikiki beach and its proximity to shopping, restaurants and entertainment, in combination with its comparatitvely low room rates and limited near-term supply growth in the area, should help maintain occupancy in the mid-80 percent to low-90 percent range.

Evaluation of Market Segmentation Trends																
Segment	**2006**		**2007**		**2008**		**2009**		**2010**		**2011**		**TTM 10/31/12**		**2013 Budget**	
Category	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**	**%**	**ADR**
Premium Individuals	11.3%	147	10.0%	147	14.3%	141	16.7%	119	14.5%	126	12.4%	127	9.6%	144	9.7%	168
Discount Individuals	5.5%	121	6.7%	120	9.4%	120	11.4%	102	11.7%	107	10.5%	108	10.8%	116	9.3%	131
Japan Wholesale	31.3%	145	30.4%	153	26.5%	157	26.7%	131	30.0%	119	33.8%	117	36.2%	123	34.1%	136
Other Wholesale	16.4%	124	20.5%	125	22.6%	127	21.8%	102	22.8%	98	31.5%	101	29.0%	112	26.1%	129
Groups - Japan/Asia	9.8%	133	10.3%	139	8.7%	142	5.6%	124	6.1%	115	5.2%	121	6.9%	130	6.9%	140
Groups - Corporate	0.7%	137	0.1%	128	1.4%	100	0.9%	111	0.8%	128	0.9%	124	0.6%	132	0.6%	137
Groups - Association	2.2%	130	2.1%	138	1.3%	132	1.2%	144	1.1%	150	1.5%	128	0.8%	142	0.7%	155
Groups - Other	10.7%	119	7.2%	135	5.6%	140	4.1%	131	2.4%	115	4.2%	145	4.4%	140	2.0%	142
Airline Crew	12.2%	95	12.6%	104	10.4%	107	11.7%	93	10.6%	86	0.0%	85	1.8%	98	10.6%	119
Total	100.0%	131	100.0%	137	100.0%	138	100.0%	116	100.0%	112	100.0%	121	100.0%	133	100.0%	148
Note: The total weighted average room rate includes miscellaneous other income which has not been allocated to a specific catgegory.																

Market Overview

Waikiki is essentially its own self-contained market. With roughly 26,000 hotel rooms serving the demand in the local area, the lodging accommodations range from five-star luxury properties overlooking the beach to older motels located off the beaten path. In some parts of Waikiki the hotels are situated two to three blocks back from the beach. The Sheraton Princess Kaiulani, based on its physical condition and accommodations, location, amenities, and demand generators, competes with a set of both independent and branded, full-service, moderately-rated and moderately-priced hotels in Waikiki. Smith Travel Research includes five properties with 3,020 rooms in the Sheraton Princess Kaiulani primary competitive set: Aston Hotel Waikiki Beach, Hiltion Waikiki Beach, OHANA Waikiki East, Pacific Beach Hotel, and Holiday Inn Resort Waikiki Beachcomber. The hotels in this competitive set have between 440 and 840 rooms, and were built between the late 1960s and early 1980s.

Competitive Set	**No. of Rooms**	**Year Opened**
Aston Hotel Waikiki Beach	645	1970
Hilton Waikiki Beach	601	1980
OHANA Waikiki East	441	1972
Pacific Beach Hotel	837	1969
Holiday Inn Resort Waikiki Beachcomber	496	1971
Total	**3,020**	
Subject: Sheraton Princess Kaiulani	1,142	1955
Total Comp Set + Subject Hotel	**4,162**	

The table below shows the average historical occupancy and average room rate for the trailing 12 months ended October 2010, 2011, and 2012 for the competitive set with which the subject hotel competes. The data clearly show an improving local hotel market, with sizable annual gains in occupancy, ADR and RevPAR. This improvement in hotel operating performance is consistent with the meaningful improvement in tourism-related statitics over the last 18 months.

Evaluation of Market Trends					
	Occupancy Rate	**Average Rate**	**Rooms RevPAR**	**Occupancy Penetration**	**RevPAR Penetration**
TTM 10/31/10	73.8%	$114.32	$84.37	115.5%	112.3%
TTM 10/31/11	80.3%	$123.10	$98.85	110.0%	106.7%
TTM 10/31/12	87.1%	$137.88	$120.09	103.3%	99.5%
Source: Smith Travel Research					

Historically, the subject hotel has generated RevPAR greater than or equal to that of its competition, mainly because it has significantly outperformed in terms of average occupancy rates, despite having lower average room rates. In the most recent TTM period, however, the hotels in the competitive set caught up to and actually exceeded the RevPAR of the subject hotel, mainly as a result of a significant improvement in average occupancy at the hotels in the comp set.

Morningstar Analysis

	Morningstar Underwriting	Year End 2010	Year End 2011	TTM 10/31/12	Issuer Underwriting
Occupancy Percent	89.1%	86.2%	88.0%	90.0%	90.6%
Average Room Rate	$137	$112	$121	$133	$148
Rooms RevPAR	$122	$97	$107	$120	$134
Departmental Revenue					
Room	$51,013,635	$40,280,612	$44,534,552	$49,965,277	$55,929,520
Food & Beverage	10,297,588	9,295,547	9,724,921	10,297,588	10,341,194
Telephone	363,882	249,104	331,248	368,796	370,358
Other Operated Departments	2,043,400	1,813,921	1,647,293	2,070,993	2,079,763
Garage and Parking	0	0	0	0	0
Rentals and Other Income	5,831,137	5,248,516	5,590,996	5,917,608	5,917,608
Total Departmental Revenue	**$69,549,641**	**$56,887,700**	**$61,829,010**	**$68,620,262**	**$74,638,443**
Departmental Expenses					
Room	$21,481,436	$18,045,606	$19,887,192	$20,855,763	$22,475,921
Food & Beverage	9,712,438	8,555,585	8,965,514	9,429,551	9,469,481
Telephone	868,591	712,439	793,958	843,292	846,863
Other Operated Departments	802,327	656,286	762,645	778,958	782,257
Garage and Parking	0	0	0	0	0
Rentals and Other Income	0	0	0	0	0
Total Departmental Expenses	**$32,864,791**	**$27,969,916**	**$30,409,309**	**$31,907,564**	**$33,574,522**
Departmental Profit	**$36,684,851**	**$28,917,784**	**$31,419,701**	**$36,712,698**	**$41,063,921**
Undistributed Expenses					
General & Administrative	$5,981,090	$5,236,672	$5,394,033	$5,778,831	$5,795,885
Management Fees	1,564,867	493,100	536,200	599,800	657,565
Advertising & Marketing	2,689,079	2,153,912	2,243,077	2,356,598	2,518,863
Repairs & Maintenance	3,902,684	3,447,730	3,561,266	3,770,709	3,892,873
Utilities	3,662,579	2,481,081	3,281,069	3,538,724	3,680,551
Incentive fee	0	0	(230,200)	620,800	1,422,220
Fixed Charges					
Real Estate Taxes	$2,015,957	$1,977,531	$1,910,907	$1,924,808	$2,015,957
Property Insurance	1,080,588	477,017	548,165	651,785	1,080,588
Ground Rent	0	0	0	0	0
Other Fixed	0	0	(34,186)	0	0
Total Operating Expenses	**$53,761,635**	**$44,236,959**	**$47,619,640**	**$51,149,619**	**$54,639,024**
Net Operating Income	**$15,788,006**	**$12,650,741**	**$14,209,370**	**$17,470,643**	**$19,999,419**
Capital Expenditures					
Capital Expenditures / Reserve	$2,775,436	$1,991,070	$2,164,015	$2,401,709	$2,612,345
Extraordinary Capital Expenditures	0	0	0	0	0
- Credit For Cap Ex Reserve	0	n/a	n/a	n/a	n/a
Total Capital Expenditures	2,775,436	1,991,070	2,164,015	2,401,709	2,612,345
Credit for Upfront DSCR Escrow	$0	$0	$0	$0	$0
Net Cash Flow	**$13,012,571**	**$10,659,672**	**$12,045,355**	**$15,068,934**	**$17,387,074**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Average Room Rate	$137.31
Occupancy (%)	89.1%
Rooms RevPAR	$122.34

Performance of Waikiki hotels, including the subject hotel and its closest competitors, has been buoyed by strong visitor arrivals and tourism expenditures. We expect this trend to continue. The subject hotel's performance is consistent with that of its competitive set (as defined in the appraisal). Average occupancy at the subject hotel peaked at 90% in the TTM period. We think this level generally is sustainable over the intermediate term and have underwritten occupancy at 89%. The hotel's average occupancy since 2005 is 87.5%; it troughed in 2009 at 81.8%. Our average daily rate of $137 represents a 3.3% increase over the TTM ADR, and is on par with the pre-recession peak of $138. In our view, given the limited supply growth in Waikiki hotel rooms and the upswing in tourism, there is room for growth in room rates in the near and intermediate term.

Expenses

Expenses are underwritten in-line with historical expenses unless otherwise noted.

Real Estate Taxes – Underwritten to the taxes paid in the trailing 12 month period, plus 3.5% inflation.

Insurance – Underwritten to the issuer's insurance expense. This is significantly higher than the budgeted insurance expense, the appraiser's estimate, and the reported in each historical period.

Repairs & Maintenance - Underwritten to the average of the 2013 and 2014 forecast, which is higher than the expense in all prior periods.

Management Fees - The hotel is operated by Starwood hotels and resorts under the Sheraton brand. Starwood, or an affiliate or processor of Starwood, has been operating the hotel since 1974. The six hotels in this portfolio are all subject to one management contract which provides for a base and incentive management fee. Although the actual calculation is complex, in general the methodology provides for a base management fee of one percent of adjusted house profit (which is roundly 92% of total revenue) and an incentive fee equal to 30% of basic earnings. For the purposes of calculation, basic earnings is gross operating profit less deductions for base management fee, ground rent, real estate taxes, insurance, reserve for replacement, miscellaneous corporate charges, an amortization of capital expenditures, and an owners priority return of 20% of Adjusted House Profit. Based upon the Morningstar underwriting and the fee calculation methodology, we estimate that the combined calculated base and incentive management fee will equate to 2.1% of total revenue for the portfolio. For the purposes of our underwriting, Morningstar has assumed a more conservative management fee of 2.25% of total revenue. The contract provides for the allocation of fees between hotels such that some properties reflect a higher fee and other hotels may, in fact, reflect a fee a negative expense. Rather than impute this somewhat arbitrary allocation, Morningstar has assumed a flat management fee of 2.25% over all hotels to provide for a more stable and consistent valuation of each property.

Marketing - Advertising and Market is based on the expense reported in the trailing-12-month period (10/31/12) plus 3.5% for inflation plus an additional $250,000 to account for the potential increase in advertising and marketing expenses during an economic downturn.

Capital Items

The management agreement requires a 3.5% reserve for replacement reserve, but Morningstar has assumed a 4.0% replacement reserve, our minimum standard for full-service hotels and resorts.

Valuation Drivers

Morningstar's base cap rate for the Honolulu MSA is 8.80%. We gave credit for the subject hotel's good location in the heart of Waikiki by adjusting the base cate rate down by 50 bps, for a final cap rate of 8.3%. This translates into a capitalized value of $156.8 million. After adjusting for $40.0 million of upfront reserves (which we add directly to our capitalized value), our final adjusted capitalized value is $196.8 million, or $172,310 per key. The appraised value is $321.6 million, or $281,611 per key.

GS Mortgage Securities Corporation
Trust 2013-KYO

Sheraton Maui Resort & Spa

Analyst: Howard Peterson (267) 960-6024
Analytical Manager: Sheila Bjornstad (646) 560-4511

Property Summary	
Property Type	Hotel/Full-Service
Location	Lahaina, Maui, HI 96761
Year Built	1963
Year /Renovated	1996 / 2011
Net Rentable Room (Total)	508
Net Rentable Room (Collateral)	508
Occupancy (TTM 10/31/12)	88.33%
Ownership	Fee Simple

Loan Summary		
Loan Amount (Original Balance)	$113,586,521	($223,596/room)
Loan Amount (Cut-Off Balance)	$113,586,521	($223,596/room)
Loan Term (months)	60	
I/O Period (months)	60	
Amortization Term (months)	0	
Loan Seasoning (months)	0	
Interest Rate (1)	5.35000%	

Morningstar Analysis		
Current DSCR	2.64 x	
Amortizing DSCR	n/a	
Beginning LTV	58.82%	
Ending LTV	58.82%	
Capitalization Rate	7.80%	
Morningstar UW Occupancy	88.6%	
Net Operating Income	$18,889,106	
Net Cash Flow	$16,281,852	
Value	$193,100,662	($380,119/room)
Debt Yield	14.33%	
Morningstar Site Visit	Yes	
Property Score	2 (Good)	

Note: (1) Interest is based upon the LIBOR floor of 0.5% plus the current spread of 4.85%

Capital Structure Table - Sheraton Maui Resort and Spa

Loan	Current Balance	Morningstar BLTV	Current Pay Int. Rate (1) (2)	DSCR on Current Pay	Accrued/Unpaid Interest Rate	Maximum (3) Interest Rate
Trust Loan	113,586,521	58.8%	5.350%	2.64 x	n/a	7.850%
Mezzanine Loan A	15,489,071	66.8%	7.500%	2.22 x	3.750%	11.250%
Mezzanine Loan B	25,815,118	80.2%	8.250%	1.71 x	4.500%	12.750%
Mezzanine Loan C	20,652,095	90.9%	6.500%	1.50 x	7.375%	13.875%
Mezzanine Loan D	15,489,071	98.9%	6.333%	1.37 x	10.167%	16.500%
Total	**$191,031,876**	**98.9%**		**1.37 x**		

(1) Interest on the Trust loan is calculated as a spread over 30-day LIBOR (which is subject to a LIBOR Floor of 0.5% and a LIBOR Cap of 2.5%). The Interest rate spread varies throughout the loan term; during the first three years the spread is 4.85% during the fourth year the spread increases to 5.10% and during the final year the spread is 5.35% Morningstar has calculated DSCR on Current pay based upon the payment during the first year and has reflected the LIBOR floor of 0.50% The DSCR on Current Pay also includes only Current Pay interest rate for the Mezzanine loans; the accrual interest is not assumed to be paid for this calculation.

(2) The mezzanine loan interest rates are broken up into "current pay" interest rates and "accrual interest rates"; in the event that there is insufficient NCF to pay the full interest rate, the Borrower may pay at the current pay rate and accrue the remaining interest at the accrual rate.

(3) The Maximum Interest Rate for the Trust Loan is the interest rate spread during the final year of the Trust (5.35%) and the LIBOR cap rate of 2.5% The Maximum Interest Rate for the mezzanine loans is the full interest (including both current pay and accrued interest) on the mezzanine loans.

Morningstar Summary

Morningstar Perspective

The subject loan is a five-year, $113.59 million ($223,596/room) floating rate loan secured by a first priority lien on the Sheraton Maui Resort and Spa, located on the island of Maui, Hawaii. The subject property is part of a $1.1 billion financing of a six-hotel portfolio composed of five properties in Hawaii, including the Sheraton Waikiki, The Royal Hawaiian, Westin Moana Surfrider, Sheraton Princess Kaiulani, and Sheraton Maui Resort & Spa (the subject), along with The Palace Hotel in San Francisco, California. The property is a 508-room, Sheraton Maui Resort & Spa, full-service hotel, located on Ka'anapali Beach in Lahaina on the Island of Maui. Maui is the second largest island in Hawaii. The luxury resort is situated on 23.3 acres and was built in 1963 (200 rooms) and reopened in 1996 following a $160 million redevelopment and expansion. Amenities include the oceanfront site, snorkeling off Black Rock, a resort-style swimming lagoon, approximately 40,000 square feet of indoor and outdoor meeting space, five restaurants/lounges, three lighted tennis courts and the Black Rock Spa, along with 535 parking spaces. The property is reporting occupancy of 88.33% as of the trailing twelve months (TTM) ending 10/31/12, with average daily rate (ADR) of $266.46/room and RevPAR of $235.38/room.

The property was appraised on September 12, 2012 for $283.6 million ($558,268/room), indicating low leverage with a loan to appraised value of 50.95% based on the allocated loan amount of $113.59 million. Morningstar valued the hotel using the direct capitalization approach and concluded a value of $193.1million, or $380,119 per room, which is 31.9% lower than the appraised value. This valuation results in a loan-to-value ratio of 58.91% based on the cut-off loan balance. Morningstar's evaluation of revenue and expenses and the valuation of the hotel can be found in the Property and Collateral Summary section of this report. The Sheraton Maui Resort & Spa is heavily reliant on tourism and its setting along Ka'anapali Beach on the Island of Maui is one of its prime attributes. With more than 80% of the guestrooms having ocean views, the property also includes a meandering raft pool and whirlpool, spa pool, tennis courts, fitness center, dining facilities, three retail shops, business center and guest laundry facilities. The location also provides good access to the retail and dining attractions at nearby Whaler's Village and to 36 hole of golf at the Ka'anapali Golf Course.

According to a Smith Travel Research (STR) report for the trailing twelve months ending October 31, 2012, the property had occupancy of 88.3%, average daily rate (ADR) of $266.46 and revenues per available room (RevPAR) of $235.28. Based on the subject's competitive set of hotels as of the same period, occupancy was 80.5%, ADR was $280.29 and RevPAR was $225.63. This translates to an occupancy penetration level of 110% and rooms revenue penetration of 104% which indicates the degree to which the property has performed relative to its competitive set. Overall, the property has performed consistently well since 2005, in terms of occupancy and rooms revenue penetration.

The Bears Say

- The subject property will be 50 years old in 2013. This risk is mitigated by the fact that the hotel was completely redeveloped in 1996.
- While tourism and more specifically the Asian tourist play a vital role in the Hawaiian Islands' economy, this segmentation is not a major driver in the islands outside of Oahu. Most of the demand has been from wholesalers that deal with U.S., Canadian, Australian, European and South American tourism, which tends to venture more to some of the outer islands like Maui, as well as the domestic traveler and internet. As of October 31, 2012, the wholesale category accounted for 45.4% of the occupied rooms. This is slightly down from highs of 51.7% and 52% during 2010 and 2011, respectively but nearly on target for 2013 Budget.

The Bulls Say

- High barriers to hotel development. The subject property is located Ka'anapali Beach on the northwest side of the Island of Maui, with beachfront access facing the Pacific Ocean with more than 80% of the guestrooms having ocean-views. Not many hotels can enjoy this level of amenity.
- A property condition report dated October 8, 2012 indicated there were no immediate repairs needed and only $29,250 in short term repairs related to ADA accessibility needs. The report further indicates replacement reserves of $1.47 million are necessary over the next 7-years on an inflated basis. That estimate equates to $412 per room per year. Morningstar has assumed a 4.0% reserve for replacement which is our minimum standard for full service hotels and resorts.
- Although the hotel is Ka'anapali's oldest resort, a $160 million renovation in the mid 1990's and another $13.7 spent between 2007 through 2011, have injected new life in the resort. In 2013, the hotel will celebrate its 50th anniversary.
- According to the Hawaii Tourism Authority, the report through November 2012 indicates visitor arrivals grew 10% and expenditures 19% to over $12.9 billion, already surpassing the all-time annual record of $12.6 billion set in 2007. The islands of Oahu and Maui are leading the way with Waikiki strengthened by a diversified, higher-spending visitor base from Japan, South Korea and China. General holiday sales reports were mixed but retail

employment rose again to 180,300 jobs, falling just short of the record 182,750 set in 2007. Unprecedented tourism performance is fueling job growth and positive retail market performance across Hawaii.

- Overall, the property has performed consistently well since 2005, in terms of occupancy and rooms revenue penetration. During the economic downturn, occupancy at the hotel declined but remained above 80.1%. As of the TTM ending 10/31/12, the property had an occupancy penetration level of 110% and rooms revenue penetration of 104%.

Property Description

The property is a 508-room, Sheraton Maui Resort & Spa, full-service hotel, located on Ka'anapali Beach in Lahaina on the Island of Maui. Maui is the second largest island in Hawaii. The luxury resort was built in 1963 (200 rooms) and reopened in 1996 following a $160 million redevelopment and expansion. The property consists of a six main buildings that are one to six stories containing approximately 486,326 gross square feet on a 23.3 acres site in the Ka'anapali resort master-planned development and provides good access to the retail and dining attractions at Whaler's Village and to 36 hole of golf at the Ka'anapali Golf Course. Amenities include oceanfront site, snorkeling off Black Rock, a resort-style swimming lagoon, approximately 40,000 square feet of meeting space, five restaurants/lounges, three lighted tennis courts and the Black Rock Spa, along with 535 parking spaces.

Almost all of the public space is housed in Hale Aloha (the main building). The open-air lobby is large and features a view of the ocean and the pool area. On-site amenities consist of an outdoor swimming pool with a meandering raft pool and whirlpool, spa pool, tennis courts, fitness center, two restaurants, one lounge, three retail shops, a spa center, business center and guest laundry facilities. In addition, there is a rental car center and a doctor's office. Additionally, the hotel was extensively renovated in 1996.

The two restaurants include Black Rock Steak and Seafood and Teppan-yaki Dan, both open for dinner only. Both restaurants reportedly have a good reputation for service and food quality. In addition, there is an open-air casual dining room called Keka'a Terrace that serves breakfast and lunch and there are additional lounges that serve light lunches and dinners, as well as cocktails and a coffee bar that serves breakfast.

The resort was completely renovated and expanded between January 1994 and November 1996 at a cost of $160 million. Within the period between 2007 through 2011, Kyo-ya spent $13.7 million on capital upgrades. The major capital items included new furniture in the lobby and restaurants, the replacement of several buildings' roofs, new meeting-room carpet and a guestroom refurbishment, including softgoods and casegoods, carpet, mattresses, curtains, and wallpaper. The following is a breakdown of the historical capital expenditures.

Historical Capital Expenditures										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Last 4 Years**	**2005-2012**
Total Invested	3,319,000	2,124,000	2,367,000	1,993,000	1,387,000	1,446,000	6,488,000	1,104,000	10,425,000	20,227,000
Capex Per Room	6,533	4,181	4,659	3,923	2,730	2,846	12,772	2,173	20,522	39,817

Beginning in 2008, the market exhibited a downward trend as a result of the most recent recession. Between 2007 and 2011, the hotel performed its latest renovation program and it wasn't until 2011 that demand resumed growth. During the period 10/31/10 to 10/31/11, the identified competitive set improved 6.8% in ADR to $266.64 and 4.5% in occupancy to 79.7%. During this time frame, the subject's occupancy grew 3.9% to 87.1% and ADR grew 8.3% to $247.24. In 10/31/12, the competitive set occupancy improved 1.0% to 80.5% while the subject's occupancy grew 1.4% to 88.3% and the comp set ADR grew 5.1% to $280.29 while the subject's ADR grew 7.8% to $266.46. This translated to an occupancy penetration of 110% and rooms revenue of 104% to the competitive set.

The property was appraised for $283,600,000 as of September 12, 2012. This $558,268/room "as is" value assumes the property is encumbered with and subject to the existing management agreement with Starwood Hotels & Resorts Management Company, Inc. The value also includes personal property of $12.2 million.

The property was inspected on December 10, 2012. The property grounds and resort feel of the subject is much better than the comparable properties. The comparable properties are much taller buildings perched right up on the beaches whereas the subject has more resort/sprawling feel. The property offers a great beach and lovely sunsets and snorkeling along the Black Rock which abuts the hotel is reportedly some of the best on the island because of the black volcanic rock formations. The property shows well from the exterior and the interior grounds and landscaping are well maintained. The units are well maintained, however although the bathrooms look fine, there were not part of the recent renovations and could benefit in upgrading. Management indicated upgrading of bathrooms possibly in 2015. Based on the overall condition of the property, Morningstar gave this property a Good property rating score.

Demand Drivers

Tourism is the heart of Hawaii's economy as the state is a very popular vacation destination U.S. residents. Tourism in Hawaii in 2005, 2006, and 2007 reached levels never before seen as total visitation reached more than seven million visitors. With record-high oil prices in the spring and summer of 2008 contributing to declining airlift to the islands and increased travel costs, and the worldwide economic slowdown that accelerated in September 2008, the Hawaiian tourism industry in 2008 and 2009 suffered significant declines. In 2010, visitation rebounded and, in 2011, visitation continued to recover. Robust increases in international visitation from Canada, China, and South Korea, and the expectation that domestic visitation will continue to increase as the domestic economy continues to recover, bode well for the islands' hotels. The Hawaii Department of Business, Economic Development & Tourism ('DBEDT') expects visitation to increase every year through 2015, with more than 7.9 million visitors to Hawaii by then.

The submarket of hotels has had only one significant supply change during the past decade. In 2007, the 548-room Ritz-Carlton Kapalua Resort closed for a property-wide renovation including reducing the room count to 463 and combining others to create for-sale condominiums.

The subject property is a popular leisure destination with the market's demand mix dominated by Leisure demand (83%), followed by Meeting and Group (17%). The following is a breakdown of historical market segmentation trends.

Evaluation of Market Segmentation Trends

Segment Category	2006		2007		2008		2009		2010		2011		TTM 10/31/12		2013 Budget	
	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR
Premium Individuals	27.7%	303	27.5%	347	27.0%	312	22.5%	254	19.5%	268	18.1%	278	21.9%	272	22.3%	286
Discount Individuals	9.7%	236	10.6%	265	9.7%	243	10.1%	208	10.6%	215	9.3%	243	10.6%	272	10.2%	294
Japan Wholesale	1.7%	290	1.4%	312	0.7%	326	0.4%	287	0.8%	205	1.2%	162	1.8%	252	1.9%	273
Other Wholesale	37.9%	268	39.0%	285	43.2%	251	51.2%	190	51.7%	193	52.0%	213	45.4%	229	46.9%	254
Groups - Japan/Asia	0.1%	257	0.3%	251	0.1%	245	0.0%	258	0.1%	177	0.0%	-	0.0%	-	0.0%	-
Groups - Corporate	14.8%	246	12.0%	261	12.6%	274	7.3%	250	9.5%	214	11.0%	230	11.4%	233	10.5%	244
Groups - Association	3.5%	225	3.9%	238	1.6%	250	3.7%	254	2.5%	222	3.5%	209	3.9%	220	2.7%	232
Groups - Other	4.7%	204	5.2%	219	5.2%	242	4.8%	228	5.3%	205	4.8%	215	5.1%	217	5.6%	220
Total	100.0%	282	100.0%	300	100.0%	294	100.0%	236	100.0%	231	100.0%	249	100.0%	266	100.0%	290

Note: The total weighted average room rate includes miscellaneous other income which has not been allocated to a specific catgegory.

Unlike the other Hawaiian island hotels, the Japanese Wholesale segment does not play a major demand role for the Sheraton Maui Resort & Spa. Based on the table above, most of the demand has been from Other Wholesale, which is net of Japanese, Chinese and Korean tourists. This category includes the wholesalers that deal with U.S., Canadian, Australian, European and South American tourism, which tends to venture more to some of the outer islands like Maui, as well as domestic and internet. As of October 31, 2012, this category accounted for 45.4% of the room revenues. This is slightly down from highs of 51.7% and 52% during 2010 and 2011, respectively but nearly on target for 2013 Budget. The Premium Individuals category accounts for the second highest market segment. This includes the individual that typically books a room for its amenities or during high demand periods, regardless of any discounts. California and U.W. West Coast are the largest sources of individual leisure. In addition, because of the hotel's beachfront location with lots of grounds and outdoor public space available, the hotel tends to market this property after incentive meetings and Association events that are less than 100 rooms.

According to the most recent Hawaii Tourism Authority report as of November 2012, increased daily spending (14.4% to $188 per person) and arrivals (8.1% to 180,002 visitors) contributed to a 21.4 percent growth in Maui's total visitor expenditures to $273.8 million over November 2011. There was growth in arrivals from U.S. West (11.4% to 95,043), U.S. East (5.3% to 41,558), Canada (8.5% to 22,122) and Japan (10.9% to 5,280) compared to November 2011. The report also indicates that a total of 2.1 million visitors went to Maui in the first 11 months of 2012, an increase of 5.8 percent from the same period last year. Total visitor expenditures rose 19.4 percent to $3.3 billion.

Market Overview

The 508-room Sheraton Maui Resort & Spa is located in Lahaina, on the island of Maui, Hawaii. The property is approximately 27 miles west of Kahului Airport and just off of Highway 30, one of the main thoroughfares on the island. Maui offers an array of lodging facilities, the majority of which are considered destination resorts that offer a full complement of facilities and amenities. In addition to the resorts, accommodations are also available in timeshare developments and through condominium rental programs. Most of these facilities are concentrated in three principal clusters: Kapalua, Ka'anapali, and Wailea. Ka'anapali is the oldest and most densely developed submarket, and is situated on the western coast of the western portion of the island. The properties in this area include destination resorts, as well as timeshare and condominium complexes; in addition, the Ka'anapali area offers an extensive array of shops and restaurants supplementing the facilities available at the local hotels. Located about ½ mile south of the property is The Whaler's Village shopping center, with more than 90 stores offering local stores, designer boutiques, fashion art and restaurants.

According to the appraisal, Lahaina, once the royal capital of Hawaii, was a sailing port during the heyday of the whaling industry. It also served as the port of arrival of 19th-century missionaries to Maui. The report goes on to indicate that today Lahaina offers vintage buildings, shops, restaurants, cafés, and 55 acres of historic districts. Lahaina is also one center of the art world in Maui. Numerous art galleries are located in Lahaina, where the works of world famous artists can be purchased. Open-air art displays and exhibits take place at select times during the year, and on various weekdays.

By virtue of the quality of the facilities, the location, the array of amenities, and the upscale service, the Sheraton Maui Resort & Spa competes with the upscale and luxury destination resorts located in the three Maui submarkets. To a certain extent, the hotels on Maui (including the subject) also compete with similar hotels on the other islands. However, the vast majority of the clientele that patronize the higher-end resorts in the islands select a specific island or a combination of islands to visit, and then make their lodging choices.

The indentified competitive set comprises 3,080 rooms and includes the following hotels: 1) Hyatt Regency Maui Resort with 806 rooms, 2) Marriott Wailea Beach Resort & Spa with 544 rooms, 3) Ritz-Carlton Kapalua with 463 rooms, 4) Westin Maui Resort & Spa Kaanapali with 759 rooms.

Evaluation of Market Trends

	Occupancy Rate	Average Rate	Rooms RevPAR	Occupancy Penetration	RevPAR Penetration
TTM 10/31/2010	76.3%	$249.61	$190.47	109.8%	100.5%
TTM 10/31/2011	79.7%	$266.64	$212.60	109.3%	101.3%
TTM 10/31/2012	80.5%	$280.29	$225.54	109.7%	104.3%
Source: Smith Travel Research	.	.	.	.	.

The proposed Andaz Resort is located in Wailea and was formerly operated as a Renassaince, Intercontinental, and Outrigger. The resort closed in 2007 and a redevelopment into a mixed-use hotel and condominium commenced; however, it was halted shortly thereafter due to deteriorating hotel and for-sale real estate market conditions. In October 2010, Hyatt Hotels formed a joint venture with Starwood Capital to purchase the property and redevelop the hotel into an Andaz-branded hotel and residences. The Andaz Resort is expected to contain 220 guestrooms and suites, a three-meal restaurant, an outdoor swimming pool complex, a 15,000 square foot spa and fitness center, a specialty restaurant, and some meeting space. When completed in March 2013, the new hotel in Wailea is not considered to be direct competition, but will add some rooms to Maui overall.

Morningstar Analysis

	Morningstar Underwriting	Year End 2010	Year End 2011	TTM 10/31/12	Issuer Underwriting
Occupancy Percent	88.6%	84.5%	87.4%	88.3%	89.8%
Average Room Rate	$277	$231	$249	$266	$290
Rooms RevPAR	$245	$195	$218	$235	$261
Departmental Revenue					
Room	$45,480,047	$36,175,136	$40,362,860	$43,762,879	$48,355,007
Food & Beverage	15,171,860	13,414,758	15,110,059	15,176,458	15,389,360
Telephone	591,261	567,293	572,637	656,700	665,912
Other Operated Departments	727,647	688,427	686,530	727,363	737,567
Maui Territory Fee	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Rentals and Other Income	1,210,114	1,063,903	1,144,816	1,210,061	1,210,061
Total Departmental Revenue	**$65,180,930**	**$53,909,517**	**$59,876,902**	**$63,533,461**	**$68,357,907**
Departmental Expenses					
Room	$13,051,203	$11,722,010	$12,844,999	$13,064,229	$13,640,304
Food & Beverage	13,096,259	11,679,090	13,052,877	13,099,318	13,283,081
Telephone	460,541	475,597	486,122	512,223	519,409
Other Operated Departments	33,124	29,560	35,722	33,157	33,622
Maui Territory Fee	0	0	0	0	0
Rentals and Other Income	0	0	0	0	0
Total Departmental Expenses	**$26,641,127**	**$23,906,257**	**$26,419,720**	**$26,708,927**	**$27,476,416**
Departmental Profit	**$38,539,803**	**$30,003,260**	**$33,457,182**	**$36,824,534**	**$40,881,491**
Undistributed Expenses					
General & Administrative	$4,214,804	$3,821,065	$3,872,507	$4,072,274	$4,219,489
Management Fees	1,466,571	488,100	544,400	578,100	622,437
Advertising & Marketing	3,740,430	3,025,827	3,027,468	3,372,396	3,754,344
Repairs & Maintenance	4,367,548	4,034,965	4,447,539	4,219,853	4,180,679
Utilities	3,433,426	2,859,878	3,320,384	3,317,320	3,571,965
Incentive Mgmt Fee	0	0	45,000	624,300	1,226,816
Fixed Charges					
Real Estate Taxes	$1,231,662	$1,499,201	$1,311,043	$1,288,151	$1,231,662
Property Insurance	1,196,256	513,973	585,333	747,802	1,196,256
Ground Rent	0	0	0	0	0
Other Fixed	0	0	0	0	0
Total Operating Expenses	**$46,291,824**	**$40,149,266**	**$43,573,394**	**$44,929,123**	**$47,480,064**
Net Operating Income	**$18,889,106**	**$13,760,251**	**$16,303,508**	**$18,604,338**	**$20,877,843**
Capital Expenditures					
Capital Expenditures / Reserve	$2,607,255	$1,816,833	$2,025,692	$2,153,671	$2,322,527
Extraordinary Capital Expenditures	0	0	0	0	0
- Credit For Cap Ex Reserve	0	n/a	n/a	n/a	n/a
Total Capital Expenditures	2,607,255	1,816,833	2,025,692	2,153,671	2,322,527
Credit for Upfront DSCR Escrow	$0	$0	$0	$0	$0
Net Cash Flow	**$16,281,852**	**$11,943,418**	**$14,277,816**	**$16,450,667**	**$18,555,316**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Average Room Rate	$276.69
Occupancy (%)	88.56%
Rooms RevPAR	$245.03

Occupancy and average rate was estimated on an asset by asset basis based upon a review of historical results (2003 through TTM 10/31/12); the extent of renovations conducted over the past five years, and overall market trends. In some cases, we have normalized vacancy as we feel that the hotels may have reached their peak and most revenue growth going forward is expected in the average room rate.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted.

Management Fees - The hotel is operated by Starwood hotels and resorts under the Sheraton brand. Starwood, or an affiliate or processor of Starwood, has been operating the hotel since 1974. The six hotels in this portfolio are all subject to one management contract which provides for a base and incentive management fee. Although the actual calculation is complex, in general the methodology provides for a base management fee of one percent of adjusted house profit (which is roundly 92% of total revenue) and an incentive fee equal to 30% of basic earnings. For the purposes of calculation, basic earnings is gross operating profit less deductions for base management fee, ground rent, real estate taxes, insurance, reserve for replacement, miscellaneous corporate charges, an amortization of capital expenditures, and an owners priority return of 20% of Adjusted House Profit. Based upon the Morningstar underwriting and the fee calculation methodology, we estimate that the combined calculated base and incentive management fee will equate to 2.1% of total revenue for the portfolio. For the purposes of our underwriting, Morningstar has assumed a more conservative management fee of 2.25% of total revenue. The contract provides for the allocation of fees between hotels such that some properties reflect a higher fee and other hotels may, in fact, reflect a fee a negative expense. Rather than impute this somewhat arbitrary allocation, Morningstar has assumed a flat management fee of 2.25% over all hotels to provide for a more stable and consistent valuation of each property.

Franchise Fees - Franchise Fees have not been imputed for this underwriting; our view is that Starwood is highly likely to renew the management contract at similar terms due to the cash flow potential of the contract, the need for strong chain/brand representation in Hawaii and San Francisco. We have increased Sales and Marketing for each hotel slightly to account for this risk.

Advertising and Marketing – Morningstar's estimate of Advertising and Market expenses is calculated based upon the expense reflected during the most recent trailing 12 month period which has been inflated by 3.5%. Additionally, we have increased this expense by $250,000 to account for the potential increase in advertising and marketing expenses after an economic downturn.

RE Taxes – Real estate taxes were underwritten based on the borrower's 2013 budget. This is slightly lower than the TTM 10/31/12 and the appraiser's estimate of $1.365 million. Taxes have been trending down due to successful tax appeals, most recently in 2011/2012.

Insurance – Insurance was underwritten based on the borrower's 2013 budget. This is higher than the TTM 10/31/12 and the appraiser's estimate of $725,000, but consistent with the Issuer's underwriting.

Overall, expenses were 70.8% of revenue, consistent with the most recent period of 70.7%, but slightly higher than the borrower's budget of 69.6% and the appraiser's estimate of 39.6%. The higher operating expenses were primarily due to the higher allocated management fees underwritten.

Capital Items

Although the management agreement requires only a 3.5% reserve for replacement, Morningstar has assumed a 4.0% reserve for replacement which is our minimum standard for full service hotels and resorts. In additional to the structure repairs recommended by a property condition assessment, the capital reserve for replacement must provide for sufficient funds to conduct periodic replacement of soft goods and case goods in the hotel rooms and in the public spaces. As a result, the reserve for replacement is well above that recommended by the engineer in the property condition assessment.

Valuation Drivers

Morningstar's hospitality capitalization rate for the Hawaii area is 8.8%, adjusted 50 basis points downwards for Resort location attributes and another 50 basis points downward for Good property score. This was more conservative than the appraiser's derived capitalization rate of 7.76%.

The Palace Hotel

Analyst: Ed Barrett 267-960-0530
Analytical Manager: Sheila Bjornstad 646-560-4511

Property Summary	
Property Type	Hotel/Full-Service
Location	San Francisco, CA 94105
Year Built	1875
Year /Renovated	2001
Net Rentable Room (Total)	553
Net Rentable Room (Collateral)	553
Occupancy (TTM 10/31/12)	80.38%
Ownership	Fee Simple

Loan Summary		
Loan Amount (Original Balance)	$93,319,672	($168,752/room)
Loan Amount (Cut-Off Balance)	$93,319,672	($168,752/room)
Loan Term (months)	60	
I/O Period (months)	60	
Amortization Term (months)	0	
Loan Seasoning (months)	2	
Interest Rate (1)	5.35000%	

Morningstar Analysis		
Current DSCR	1.66 x	
Amortizing DSCR	n/a	
Beginning LTV	94.37%	
Ending LTV	94.37%	
Capitalization Rate	8.50%	
Morningstar UW Occupancy	80.7%	
Net Operating Income	$11,215,556	
Net Cash Flow	$8,405,754	
Value	$98,891,227	($178,827/room)
Debt Yield	9.01%	
Morningstar Site Visit	Yes	
Property Score	2 (Good)	

Note: (1) Interest is based upon the LIBOR floor of 0.5% plus the current spread of 4.85%

Capital Structure Table - Palace Hotel

Loan	Current Balance	Morningstar BLTV	Current Pay Int. Rate (1) (2)	DSCR on Current Pay	Accrued/Unpaid Interest Rate	Maximum (3) Interest Rate
Trust Loan	93,319,672	94.4%	5.350%	1.66 x	n/a	7.850%
Mezzanine Loan A	12,725,410	107.2%	7.500%	1.39 x	3.750%	11.250%
Mezzanine Loan B	21,209,016	128.7%	8.250%	1.08 x	4.500%	12.750%
Mezzanine Loan C	16,967,213	145.8%	6.500%	0.94 x	7.375%	13.875%
Mezzanine Loan D	12,725,410	158.7%	6.333%	0.86 x	10.167%	16.500%
Total	**$156,946,721**	**158.7%**		**0.86 x**		

(1) Interest on the Trust loan is calculated as a spread over 30-day LIBOR (which is subject to a LIBOR Floor of 0.5% and a LIBOR Cap of 2.5%). The Interest rate spread varies throughout the loan term; during the first three years the spread is 4.85%, during the fourth year the spread increases to 5.10%, and during the final year the spread is 5.35%. Morningstar has calculated DSCR on Current pay based upon the payment during the first year and has reflected the LIBOR floor of 0.50%. The DSCR on Current Pay also includes only Current Pay interest rate for the Mezzanine loans; the accrual interest is not assumed to be paid for this calculation.

(2) The mezzanine loan interest rates are broken up into "current pay" interest rates and "accrual interest rates"; in the event that there is insufficient NCF to pay the full interest rate, the Borrower may pay at the current pay rate and accrue the remaining interest at the accrual rate.

(3) The Maximum Interest Rate for the Trust Loan is the interest rate spread during the final year of the Trust (5.35%) and the LIBOR cap rate of 2.5%. The Maximum Interest Rate for the mezzanine loans is the full interest (including both current pay and accrued interest) on the mezzanine loans.

Morningstar Summary

Morningstar Perspective

Within the San Francisco hotel market, the recovery in lodging demand that began in 2010 has continued throughout 2012. Occupancy rates have improved and room rates are increasing. Within the Palace Hotel's downtown submarket, the recovery has been most evident in luxury upscale hotels, where occupancy rates are approaching historical levels. Daily room rates have increased as well. However, these metrics still haven't reached the peaks of the last cycle, which speaks to the depth of the recession. Smith Travel's near-term outlook for demand and revenue within the subject's submarket remains positive, although how much and for how long are squarely dependent on the performance of the economy. Morningstar's outlook for 2013 remains positive but growth expectations have been tempered as Group travel, while positive, has not recovered as well as other demand generators and managers are expecting expenses to continue to rise with no abatement in sight.

Contrary to what's going on in the broader market, Morningstar's meetings with the hotels management indicate that Group bookings at the Palace are ahead of schedule with average daily room rates 6% above weighted average 2012 rate of $232.93 and hotel management's expectation is that bookings and rates will increase when the hotel rolls out its newly redesigned guest rooms in February 2013. Due to the greater than $20 million in planned renovations that will take place in late 2013 and early 2014, management expects rates to increase in excess of 9% for 2014 bookings and expects they will continue to achieve an above-market level average room rate going forward.

According to a Smith Travel Research (STR) report for the year-to-date period ending October 31, 2012, the property had occupancy of 80.4% (94.9% penetration), ADR of $233.54 (98.1%) and RevPar of $187.71 (93.1%). These penetration levels indicate the degree to which the property has performed relative to its competitive set. The property has performed consistently well since 2004, capturing nearly 94% or above in all measurable penetration categories and expects to improve on that with the commencement of a $20 million scheduled renovation to the property.

The Palace Hotel benefits greatly from its favorable location in the market and offers an appropriate complement of amenities to sustain its high level of competitiveness. The hotel is well positioned to grow its RevPar and occupancy penetration during the ongoing market recovery given its location, planned improvements and its line of full-service product offerings. The broader hotel market forecast has begun to show a movement from growth to stable for many markets compared to a year ago, when the recovery in the hotel sector was accelerating, Morningstar believes that The Palace Hotel San Francisco is still in its growth phase and has strong potential for improved performance.

The Bears Say

- The penetration rate of all measurable categories, ADR, occupancy and RevPar of the Palace Hotel are underperforming its competitive set. This is attributed to the aging condition of the property; however, planned renovations should increase the competitive ability of the Palace Hotel.
- The property was built in 1875. However, the property was well maintained and is in good condition.
- The future performance of the Palace Hotel is directly tied to San Francisco's and the United States economy.

The Bulls Say

.

- The property is in the Downtown area and well located within the area's primary generators of hotel demand.
- The property's $20 million in planned renovations and refurbishments are relatively substantial and expected to assist the subject in achieving above-market average rate growth once completed.
- Smith Travel forecasts are for occupancy to remain fairly stable with more robust growth in average rate.
- The subject is experiencing a strong future group booking pace for 2013 and 2014 and is forecasting stronger gains through 2015. Bookings for 2013 at the subject are ahead of schedule with room rates 6% above 2012 rates.

Property Description

The $93,319,672 ($168,752 per key) 5-year, floating-rate first mortgage loan is secured by the fee simple interest in a 553-room, full-service hotel known as the Palace Hotel in San Francisco, California. The property was appraised for $233,000,000, as of October 03, 2012. The appraised value equates to $421,338 per room. The subject property is part of a six-hotel, $1.1 billion portfolio. The remainder of the portfolio is comprised of five properties in Hawaii, including the Westin Moana Surfrider, Sheraton Waikiki, Sheraton Princess Kaiulani, Sheraton Maui, and the Royal Hawaiian.

The Palace Hotel is a full service luxury hotel with 553 guest rooms, 32 of which are suites. The guestrooms are located throughout the nine-story building on a 2.17 acre parcel in downtown San Francisco. The hotel offers three restaurants, a lounge, 43,830 square feet of meeting space, an indoor pool, an indoor whirlpool, a spa, a fitness center, a business center, retail shops, a gift shop, and includes a multi-story, 188-space parking garage directly across the street from the property. Parking revenues are generated by hotel guests as well as by daily and monthly patrons. The parking garage is valet only and operated by hotel management. Parking charges are $59 for overnight guests.

The Palace Hotel is conveniently located at Two New Montgomery Street, near 2nd and Market, in the heart of downtown San Francisco. The location is ideal for leisure and business travelers as it is within walking distance of the Moscone Convention Center, Chinatown and Union Square, and is adjacent to the financial district and the South of Market district, known for its museums, art scene and growing office environment. The hotel is also adjacent to the McKesson Plaza, the headquarters for McKesson Corporation. The Palace Hotel is well located and has a strong base of stable demand generators. Another benefit of the Palace's location is its proximity to the Montgomery Street BART station, which is directly outside the hotel's doors and offers guests a historical, convenient and inexpensive mode of transportation throughout the area and to points of interest such as Fisherman's Wharf, the Golden Gate Bridge and AT&T Park. Near-term benefits to the hotel are that San Francisco is hosting the 34th America's Cup sailing event between September 7th and 22nd which is expected to bring in over 2 million guests to the Bay Area in 2013. As well as hosting the Louis Vuitton Cup from July 4th through September 1st and the Red Bull Youth America's Cup in August and September.

The property offers 43,830 square feet of meeting and event space. The space is divided into 23 rooms, including three ballrooms, four executive boardrooms, and the Garden Court. The property offers three restaurants. The historic Pied Piper Bar and Grill, which will undergo renovations in 2013 and the famed Garden Court Restaurant which is open for breakfast and lunch daily and serves afternoon tea on the weekends. And a third restaurant space, formerly occupied by Kyo-Ya sushi, that management is in the process of finding a replacement tenant that will complement the existing restaurant tenants.

The Palace Hotel has eight retail outlets with top tier tenants such as Ghirardelli's, Rafael's, SEE and Mulholland. The hotel's retail outlets, which measure a total of 10,275 square feet, are located on the first floor and are only accessible from separate, exterior entrances. The hotel offers a gift shop and a business center. The business center features four workstations, office technology, and good quality furnishings. The hotel is currently working with a spa tenant to fill ground floor space.

The property is scheduled to undergo a massive renovation. The sponsor plans to renovate The Palace Hotel beginning in September 2013 at a total cost of more than $20.0 million ($36,166 per room). The initial phase of the renovation is expected to take nine months and will focus on upgrades to the rooms soft and case goods, modest upgrades to the bathrooms, restaurants and retail. The sponsors are in the initial stages of completing a model room an expect to have it ready by February 2013 to assist with future Group bookings. The Pied Piper restaurant will be updated and the Garden Court will be reconfigured to allow for a bar and common gathering area.

Historical Capital Expenditures										
	2005	2006	2007	2008	2009	2010	2011	2012	Last 4 Years	2005-2012
Total Invested	711,000	602,000	1,985,000	1,163,000	669,000	1,050,000	1,593,000	2,785,000	6,097,000	10,559,000
Capex Per Room	1,286	1,089	3,590	2,103	1,210	1,899	2,881	5,036	11,025	19,094

History

The property originally opened in 1875. After sustaining considerable damage as a result of the earthquake of 1906, which devastated much of downtown San Francisco, the Palace Hotel closed its doors for renovation, reopening three years later in 1909. The basic structure of the hotel remained relatively unchanged until 1989, at which time the hostelry once again closed for a major renovation and expansion. The Palace Hotel reopened in its current configuration in 1991, at which time the Palace Hotel became affiliated with Starwood's The Luxury Collection. Most recently, the hotel underwent a significant refurbishment of its guestrooms and public spaces that was completed in 2004, the total cost of which is estimated at roundly $7 million, or approximately $12,700 per guestroom. The guestrooms and public spaces have received only minor refurbishments since 2004 and are in need of upgrade

Demand Drivers

Year after year, San Francisco is one of the top tourist destinations in the world, and is renowned for its weather, rolling hills, extensive mix of architecture, and landmarks including the Golden Gate Bridge, cable cars, Alcatraz Island, and its Chinatown district. It is also a primary banking and finance center. The area is a leader in technology and trade with the San Francisco financial district recognized as the financial capital of the west coast. Thus making San Francisco one of the best hotel markets in the world due to the confluence of corporate, leisure, and group demand. The effects of the recent recession resulted in just a 1.8% occupancy decline in 2009, evidence of the strength of the local market.

As of the trailing twelve months ending October 2012, the subject's segmentation is weighted toward the meeting and group segment, which accounted for roundly 40% of the total accommodated demand and leisure demand accounted for nearly 60%. The subject's large complement of meeting space, at 43,830 square feet, gives it a comparative advantage in penetrating the meeting and group segment. The subject is located in an area where both leisure and commercial travelers are proximate to Union Square and the Financial District. As the market continues to recover, the hotel is expected to improve its penetration of the group and commercial market while reducing the number of leisure room nights, as indicated by the borrower's budget shown in the chart below. .

As a result of the recession, commercial, meeting and group demand bottomed out at year-end 2009 when it hit a low of 33.5%, however, demand was quickly replaced with leisure travelers. This led to a decline in overall average rates with a modest decline in occupancy. As the economy continues to recover, commercial, meeting and group demand is making a comeback and replacing leisure demand and this trend is forecast to continue as the market continues to experience gains in average rate. In fact, commercial segment demand has reached 40.3% as of the trailing twelve months ending October 2012 and budgeted to reach 40.7% by year-end 2013. Occupancy is forecast to remain fairly stable with more robust growth in average rate. The planned renovations and refurbishments are relatively substantial and are expected to assist the subject property achieve above-market average rate growth once completed.

Evaluation of Market Segmentation Trends

Segment Category	2006		2007		2008		2009		2010		2011		TTM 10/31/12		2013 Budget	
	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR	%	ADR
Premium Individual	26.2%	245	26.6%	265	21.3%	283	29.5%	219	31.2%	220	29.9%	245	31.5%	268	35.6%	287
Discount Individual	24.1%	172	29.7%	183	34.8%	179	36.9%	141	30.9%	162	27.7%	181	28.3%	185	23.8%	202
Groups - Corporate	30.2%	221	28.6%	239	27.4%	247	19.9%	217	22.6%	213	24.8%	220	24.5%	237	26.0%	246
Groups - Association	17.3%	220	12.9%	234	14.8%	248	11.6%	238	13.8%	215	16.5%	226	14.1%	236	12.8%	261
Groups - Other	2.2%	196	2.3%	217	1.7%	218	2.0%	183	1.5%	200	1.1%	197	1.6%	224	1.9%	213
Total	100.0%	218	100.0%	232	100.0%	234	100.0%	194	100.0%	202	100.0%	219	100.0%	234	100.0%	253

Note: The total weighted average room rate includes miscellaneous other income which has not been allocated to a specific catgegory.

Market Overview

The 553-room Palace Hotel San Francisco is located in San Francisco, California. The subject property is located in an area where Union Square, the Financial District, and SoMa meet and is competitive with hotels in all of downtown San Francisco, particularly the mid-sized hotels in Union Square and Financial District markets.

In the year-to-date period through October 31, 2012, the subject's average daily rate of $238.08 is an increase of 7.5% over the same period in 2011. All indications are that growth in average rates is being driven by the return of high-rated corporate transient demand which has reached 40.3% as of the trailing twelve months ended October 31, 2012.

Occupancy within the subject's market started its recovery in 2010 when it reached 80.9% as of the year-to-date period ending October 2010 and that trend continued in 2011 when occupancy reached 81.4% as of the year-to-date period ending October 2011. In the year-to-date period through October 2012, occupancy levels show further increases over the prior year to 84.7%, driven primarily by the return of corporate transient demand to the area. According to Smith Travel Research, the subject was 80.4% occupied as of the trailing twelve months ending October 2012 while the competitive set was 84.9% occupied.

Occupancy in the subject's market spikes from July through October, reaching the high-80 percentile range, and bottoms out in December and January, falling to the mid-60 to low-70 percentile range. Market wide occupancy intensifies in the summer months due to the pleasant weather conditions, and the reverse happens in the winter months. Market wide average rate follows a similar pattern as occupancy; rates in July to October reach their peak. As of the trailing twelve months ending October 2012, the Smith Travel Research report indicated that the subject posted an average daily rate and RevPar of $233.54 and

$187.71, respectively, versus the competitive set at $238.08 and $201.56, respectively. The San Francisco markets occupancy levels began to recover from the recession in August of 2009 with average rate beginning to recover in May of 2010.

As with all markets, as fundamental improvements in market conditions persist, the risk of increased competition increases. There are potentially 2,202 rooms that could be added to the San Francisco hotel market over the next few years. Of the 2,202 rooms, 1,068 are considered to be of sufficient size to be considered competitive with the subject. These properties have not broken ground and, due to their speculative nature, do not pose an immediate supply risk to the subject. That said, demand exceeds supply and overall demographics are favorable. Overall, the market is exhibiting the signs of a sustainable recovery. And as a result of the planned renovation and refurbishment, the subject property's penetration will in all likelihood improve going forward. The subject had an average occupancy penetration rate of 94.8% as of the trailing twelve months ending October 2012.

Based upon information provided by Smith Travel Research, the following table presents a summary of historical occupancy and average room rate for the competitive set in which the subject hotel competes. The identified competitive set comprises 4,855 rooms and includes the following hotels: 1) Grand Hyatt San Francisco, 2) Fairmount San Francisco, 3) InterContinental Mark Hopkins San Francisco, 4) Westin San Francisco Market Street, 5) Hotel Nikko San Francisco, 6) JW Marriott San Francisco Union Square, 7) Le Meridien San Francisco, 8) W Hotel san Francisco, and 9) Omni San Francisco Hotel.

Evaluation of Market Trends

	Occupancy Rate	Average Rate	Rooms RevPAR	Occupancy Penetration	RevPAR Penetration
TTM 10/31/10	80.9%	$186.05	$150.51	95.8%	102.6%
TTM 10/31/11	81.1%	$213.50	$173.15	98.8%	100.5%
TTM 10/31/12	84.7%	$238.08	$201.65	94.9%	93.1%
Source: Smith Travel Resea					

Traditionally, room rate increases in the hospitality industry lag improvement in occupancy, as operators typically do not focus on average rate increases until there is substantial compression in a market. There has been strong occupancy growth since the beginning of 2009, and in many markets, hotels are beginning to experience higher average rate levels through the return of a broad base of travelers and decreased reliance on more price-sensitive booking channels. The subject property achieved an average rate of $233.54 as of the trailing twelve months ending October 2012, continuing the growing ADR trend. While the subject lags the competitive set at a 94.9% penetration rate, this is merely a tradeoff to maintain occupancy until the hotel completes its planned renovation, which the Palace's management expects to equate to higher occupancy and RevPar that will ultimately outperform the competitive set. Average rate at the property increased by 8.8% from 2010 to 2011 and is on track to show an increase from 2011 to 2012 of 6.5% or more. Occupancy rate at the property increased by 1.9% from 2010 to 2011 and is on track to show an increase from 2011 to 2012 of 1.35% or more. RevPar at the property increased by 10.8% from 2010 to 2011 and is on track to show an increase from 2011 to 2012 of 7.7% or more.

Site Inspection:

Morningstar visited the Palace Hotel on December 13, 2012 and the property manager provided a thorough site inspection of both the front and back of the house facilities of the hotel. Based upon our review, Morningstar assigned a property quality score of 2 (Good) to this hotel. Morningstar uses a scale of 1 to 5, with a "1" being the highest quality. Factors including age, location and condition are considered in assigning the quality score. In turn, the quality score factors into the assignment of the capitalization rate.

Morningstar Analysis

	Morningstar Underwriting	Year End 2010	Year End 2011	TTM 10/31/12	Issuer Underwriting
Occupancy Percent	80.7%	77.9%	79.4%	80.4%	81.1%
Average Room Rate	$230	$202	$219	$234	$253
Rooms RevPAR	$186	$157	$174	$188	$206
Departmental Revenue					
Room	$37,518,375	$31,731,723	$35,144,054	$37,992,227	$41,482,218
Food & Beverage	30,237,021	26,895,279	30,004,483	30,204,753	30,411,777
Telephone	943,262	960,791	915,285	941,350	947,802
Other Operated Departments	94,391	82,168	86,757	94,200	94,846
Garage Parking Department	570,078	448,490	499,732	569,059	679,346
Rentals and Other Income	881,922	1,379,356	1,228,194	880,557	880,557
Total Departmental Revenue	**$70,245,049**	**$61,497,807**	**$67,878,505**	**$70,682,146**	**$74,496,546**
Departmental Expenses					
Room	$13,693,591	$12,655,433	$13,354,925	$13,692,151	$15,078,383
Food & Beverage	24,521,611	22,381,815	24,269,552	24,507,232	24,675,205
Telephone	717,423	697,381	695,314	717,348	722,265
Other Operated Departments	52,880	46,015	48,006	52,874	53,236
Garage Parking Department	0	0	0	0	0
Rentals and Other Income	0	0	0	0	0
Total Departmental Expenses	**$38,985,505**	**$35,780,644**	**$38,367,797**	**$38,969,605**	**$40,529,089**
Departmental Profit	**$31,259,543**	**$25,717,163**	**$29,510,708**	**$31,712,541**	**$33,967,457**
Undistributed Expenses					
General & Administrative	$5,684,528	$5,052,957	$5,349,749	$5,492,298	$5,889,400
Management Fees	1,580,514	555,500	610,600	634,700	662,140
Advertising & Marketing	4,309,176	3,464,843	3,575,513	3,921,909	4,268,389
Repairs & Maintenance	2,966,395	2,758,613	3,058,362	2,866,082	3,121,351
Utilities	1,718,083	1,800,972	1,914,933	1,659,984	1,830,763
Incentive Fee	0	0	0	0	0
Fixed Charges					
Real Estate Taxes	$1,928,903	$1,741,868	$1,759,441	$1,922,401	$1,928,903
Property Insurance	1,856,388	2,530,282	2,453,811	2,431,619	1,856,388
Ground Rent	0	0	0	0	0
Other Fixed	0	0	0	0	0
Total Operating Expenses	**$59,029,492**	**$53,685,679**	**$57,090,206**	**$57,898,598**	**$60,086,423**
Net Operating Income	**$11,215,556**	**$7,812,128**	**$10,788,299**	**$12,783,548**	**$14,410,123**
Capital Expenditures					
Capital Expenditures / Reserve	$2,809,802	$2,152,423	$2,375,748	$2,453,958	$2,583,602
Extraordinary Capital Expenditures	0	0	0	0	0
- Credit For Cap Ex Reserve	0	n/a	n/a	n/a	n/a
Total Capital Expenditures	2,809,802	2,152,423	2,375,748	2,453,958	2,583,602
Credit for Upfront DSCR Escrow	$0	$0	$0	$0	$0
Net Cash Flow	**$8,405,754**	**$5,659,705**	**$8,412,551**	**$10,329,590**	**$11,826,521**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Average Room Rate	$229.96
Occupancy (%)	80.7%
Rooms RevPar	$185.62

The subject property isn't quite operating at near peak occupancy levels last seen at the peak in 2008; however, the increased occupancy is allowing management to increase rates. With the increase in rates, demand will moderate as some consumers are priced out of the market. The San Francisco area is forecast to continue its positive economic trend. Despite the positive future outlook for the subject and the San Francisco market, we have underwritten occupancy to a more sustainable level on par with that being achieved in 2012.

The subject's average rate has historically met or outperformed the market, which, in all likelihood, affected occupancy as occupancy penetration has typically been just below market levels in recent periods. In 2011 and the year-to-date period through October 2012, although average rates continue to show strong growth, average rate penetration has failed to outpace the competitive set. This is attributed to the aging condition of the property; however, planned renovations should increase the competitive ability of the Palace Hotel.

Morningstar underwrote an ADR of $229.96 which is lower than the trailing twelve months ending October 2012 ($233.54) and slightly lower than where it had been at the peak in 08 ($234.30). Morningstar underwrote occupancy at 80.7% - in line with T12 of 80.4%. The subject achieved an 82.3% occupancy rate in 2008. Morningstar's underwritten RevPar of $185.62 is lower than that achieved in 2008 ($192.81) and the trailing twelve months ended October 2012 of $187.71. The appraiser underwrote occupancy, ADR and RevPar of 82%, $243.61 and $199.76, respectively.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted.

- Undistributed expenses were underwritten based on the trailing twelve months expenses inflated by 3.5%.
- Real estate taxes and insurance were underwritten based on 2013 Kyo Ya budget estimates.
- Management Fees - the hotel is operated by Starwood hotels and resorts under the Palace Hotel – Luxury Collection brand. Starwood, or an affiliate or processor of Starwood, has been operating the hotel since 1974. The six hotels in this portfolio are all subject to one management contract which provides for a base and incentive management fee. Although the actual calculation is complex, in general the methodology provides for a base management fee of one percent of adjusted house profit (which is roundly 92% of total revenue) and an incentive fee equal to 30% of basic earnings. For the purposes of calculation, basic earnings is gross operating profit less deductions for base management fee, ground rent, real estate taxes, insurance, reserve for replacement, miscellaneous corporate charges, an amortization of capital expenditures, and an owners priority return of 20% of Adjusted House Profit. Based upon the Morningstar underwriting and the fee calculation methodology, we estimate that the combined calculated base and incentive management fee will equate to 2.1% of total revenue for the portfolio. For the purposes of our underwriting, Morningstar has assumed a more conservative management fee of 2.25% of total revenue. The contract provides for the allocation of fees between hotels such that some properties reflect a higher fee and other hotels may, in fact, reflect a fee a negative expense. Rather than impute this somewhat arbitrary allocation, Morningstar has assumed a flat management fee of 2.25% over all hotels to provide for a more stable and consistent valuation of each property.
- Advertising and Marketing - our estimate of Advertising and Market expenses is calculated based upon the expense reflected during the most recent trailing 12 month period which has been inflated by 3.5%. Additionally, we have increased this expense by $250,000 to account for the potential increase in advertising and marketing expenses after recovery from an economic downturn.

Capital Items

A reserve for future capital expenditures is underwritten at 4.0% of gross revenue in line with industry averages for hotels. Although the management agreement requires only a 3.5% reserve for replacement, Morningstar has assumed a 4.0% reserve for replacement which is our minimum standard for full service hotels and resorts. In additional to the structure repairs recommended by a property condition assessment, the capital reserve for replacement must provide for sufficient funds to conduct periodic replacement of soft goods and case goods in the hotel rooms and in the public spaces. As a result, the reserve for replacement is on par with that recommended by the engineer in the property condition assessment.

Valuation Drivers

The Morningstar base capitalization rate for San Francisco is 8.9%. Deductions of 50 basis points each were made for a property score of '2' and for the hotel's downtown location while an increase of 60 basis points was made for much needed renovations. The resulting capitalization rate is 8.5%.

Appendix A: Morningstar CMBS Subordination Model

This Appendix provides a brief description of Morningstar's proprietary CMBS Subordination Model. A publication entitled, "Guide to the Morningstar CMBS Subordination Model", provides a more comprehensive overview of the model's framework as well as details of the model's main features. It can be found on Morningstar's website at http://ratingagency.morningstar.com, by going to the Ratings Report Section.

Overview
Morningstar uses its CMBS Subordination Model to determine the required credit enhancement levels of both conduit and large-loan CMBS transactions. In addition to determining the initial enhancement levels, this model is an integral part of the on-going surveillance of such transactions. This approach allows Morningstar to maintain ratings consistency across CMBS transactions throughout their lives.

Morningstar's underwritten NCF and cap rate for each property, along with the corresponding loan characteristics, are subjected to defined sets of stresses in this CMBS model to arrive at the required credit enhancement levels at each rating category. Each set of stresses gauges the likelihood of each loan to default, as well as the loss severity given default, during the loan's term and at its balloon date.

Each set of stresses include:

- NCF declines during the term of the loan and at the balloon date that reflect worsening economic conditions,
- Cap rate increases that reflect deteriorating demand for CRE investments,
- Balloon loan constants to reflect more restrictive lending conditions when the existing loan needs to get re-financed,
- Time to default assumptions that limit the credit to loans which amortize,
- Loan liquidation time assumptions that impact the aggregate special servicer fees and accrued interest on P&I advances, and
- Interest rate assumptions on interest due the servicer for P&I advances.

These stresses are tiered by rating category with the most onerous commensurate with the highest rating category to reflect extremely stressed economic, CRE market and lending environments. The stresses associated with the lowest rating category, while substantially less dramatic than that at the highest rating level, still reflect declines. The model therefore fully discounts historically-observed positive performances. Many of these stresses also differ across property types.

The model also quantitatively accounts for portfolio-level concentration risks (loan size, property type and geography) by applying additional NCF stresses on those loans that contribute to each such risk.

Term Default Analysis
The model determines the likelihood of a term default for each loan by:

1. First subjecting Morningstar's underwritten NCF for the loan to an NCF haircut that simulates the potential decline in net effective rent over the term of the loan. The magnitude of this decline represents the maximum decline in NCF on the property during the term of the loan.
2. The Morningstar underwritten NCF is then further reduced by a series of additional NCF haircuts to address portfolio concentration risk concerns (loan size, property type and geography).
3. The resultant stressed NCF and the terms of the loan are then used to determine the loan's stressed DSCR.
4. The loan's probability of default during the term of the loan is then derived by translating this "low-point" DSCR into a probability of default ("PD") based on a Morningstar empirical study of the correlation between DSCR and PD.

The loss severity of the loan given a default event is then determined by looking at its two components -- lost principal and special servicer costs.

> Lost principal is calculated as the difference between the outstanding loan balance at the time of default and the stressed property value. The model computes the loan balance based on empirically-based time-to-default assumptions and the terms of the loan. The stressed property value is arrived at using the stressed NCF and a ratings adjusted cap rate.
>
> Special servicer costs include the fees earned by the special servicer while the loan is specially-serviced, interest on any P&I advances that the servicer makes, and the liquidation fees due the special servicer for selling the foreclosed property. The special servicer fee is dependent upon the period of time the loan is specially serviced. The model uses assumptions of this time period tiered by rating category.

Balloon Default

The overwhelming majority of loans backing CMBS deals to date do not fully amortize by the loan's maturity date. As such, most loans have a balloon balance that is due upon maturity. Borrowers are required to secure take-out financing for the remaining principal balance by this date. Failure to do so triggers a default event and the loan becomes specially-serviced. Balloon default is therefore a binary event.

The model tests the ability of each loan to be refinanced at its balloon date by comparing the loan's refinance DSCR and LTV ratios to assumed take-out financing threshold requirements. Morningstar stresses the underwritten NCF and cap rate, and then applies a stressed refinance loan constant to arrive at the loan's refinance DSCR and LTV ratios. If these DSCR and LTV metrics pass this test, the loan is taken out in whole (PD equals zero and there is no loss).

If either test is not met, the model assumes that the loan becomes specially serviced and the special servicer takes one of two actions. If the existing loan's DSCR[1] is greater than an assumed special servicer loan extension threshold, the model assumes that the special servicer extends the loan. Otherwise the model assumes the special servicer will initiate foreclosure proceedings and the property is eventually sold. An assumed timeframe, tiered by rating category, from the balloon date to the date of liquidation is used for calculating the special servicer fees incurred. The model also calculates any needed P&I advances and the liquidation fee. The liquidation price is the stressed value calculated for the property commensurate with the rating category.

In the loan extension scenario, the model typically assumes some limited growth in NCF generated by the property, better loan conditions and an improved CRE market as manifested in a lower refinance loan constant and cap rate during the extension period. At the conclusion of the extension period, the model again tests whether or not the loan gets refinanced. The improved DSCR and LTV ratios are once again compared to the assumed take-out financing threshold requirements. If both tests are passed, the loan is taken out in whole. There is no principal loss but losses are incurred in the form of special servicer costs (special servicer fee, interest on P&I advances and workout fee).

If the loan is still not able to be refinanced, the model assumes the special servicer initiates foreclosure proceedings and the property is eventually sold. Losses in this scenario include a likely principal loss along with special servicer costs (interest on P&I advances, special servicer fee, and liquidation fee).

[1] Note that the existing loan DSCR differs from the loan's refinance DSCR. The latter is calculated at an assumed stressed loan constant and the former is based on the actual terms of the existing loan.

Appendix B: Morningstar Rating Surveillance

Morningstar has historically performed and continues to perform ongoing monthly surveillance on publically-issued and outstanding US CMBS transactions on a subscription basis for investors. As a result of such, Morningstar publishes to its subscriber base a monthly credit analysis report for each CMBS trust entitled the "Morningstar Dealview", outlining the most recent performance trends for each.

Morningstar's analysis is best described as a bottom-up approach. At its core, it is driven by the performance of the underlying commercial real estate loan collateral. Analysts first evaluate, using qualitative and quantitative analysis, the credit risk characteristics of the collateral pool backing any given securitization trust. The credit protections are then evaluated as part of Morningstar's opinion of the risk profile of any given security. Morningstar applies a surveillance model described at http://ratingagency.morningstar.com, to produce suggested credit ratings and rating outlooks for each class of a given CMBS transaction.

Any surveillance activities described herein are conditioned on Morningstar's receipt of certain information to enable Morningstar to perform surveillance. The degree of surveillance performed depends largely on the scope of review performed by Morningstar and enumerated in the related surveillance report and the availability of information. The degree and scope of review and information considered is generally enumerated in the Morningstar surveillance report for the respective transaction and should be considered when evaluating and comparing ratings.

Any surveillance performed by Morningstar is available solely to Morningstar subscribers on a subscription basis under Morningstar's policies and procedures. Therefore, if recipient is not a subscriber, recipient will not have access to or receive any ratings information following Morningstar's issuance of a rating, including any information related to changes to the ratings post issuance.

For further information and a description of Morningstar's surveillance activities, please see http://ratingagency.morningstar.com, including "Morningstar CMBS Surveillance Rating Opinions: Procedures and Methodologies".

Appendix C: Morningstar Rating Characteristics

The preliminary ratings provided in this report address the likelihood of the timely receipt of distributions of interest by certificateholders to which they are entitled and, the ultimate distribution of principal by the Rated Final Distribution Date.

The preliminary ratings are based solely on the scope of review enumerated in this report and the information related thereto provided to Morningstar through the arranger website as of the date hereof or as expressly enumerated herein which we believe to be reliable. Unless otherwise in accordance with Morningstar's policies and procedures, Morningstar does not audit or verify the truth or accuracy of any such information.

These preliminary ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by Morningstar. In addition, these ratings do not address: (a) the likelihood, timing, or frequency of prepayments (both voluntary and involuntary) and its impact on interest payments or the degree to which such prepayments might differ from those originally anticipated, (b) the possibility that a certificateholder might suffer a lower than anticipated yield, (c) the likelihood of receipt of yield or spread maintenance charges, prepayment charges, yield or spread maintenance premiums or penalties, yield maintenance default premiums, yield maintenance non-default premiums, prepayment premiums, spread maintenance payments, release spread maintenance premiums, prepayment fees or penalties, assumption fees, modification fees, penalty charges, default interest or post-anticipated repayment date additional interest, (d) the likelihood of experiencing prepayment interest shortfalls, an assessment of whether or to what extent the interest payable on any class of rated certificates may be reduced in connection with any prepayment interest shortfalls, or of receiving compensating interest payments, (e) the tax treatment of the certificates or effect of taxes on the payments received, (f) the likelihood or willingness of the parties to the respective documents to meet their contractual obligations or the likelihood or willingness of any party or court to enforce or hold enforceable, the documents in whole or in part, (g) an assessment of the yield to maturity that investors may experience, (h) the likelihood, timing or receipt of any payments of interest to the holders of the rated certificates resulting from an increase in the interest rate on any underlying mortgage loan in connection with a mortgage loan modification, waiver or amendment, (i) excess interest or additional interest amounts or any remaining or excess funds or (j) other non-credit risks, including, without limitation, market risks or liquidity.

Morningstar's preliminary ratings take into consideration certain credit risks, and the extent to which the payment stream of the mortgage loan is adequate to make payments required under the offered certificates based on information identified as subject to review herein and to the extent provided to Morningstar on arranger's website for the transaction as of the date hereof. However, as noted above, the ratings do not represent an assessment of the likelihood, timing or frequency of principal prepayments (both voluntary and involuntary) by the borrowers, or the degree to which such prepayments might differ from those originally anticipated. In general, the ratings address credit risk and not prepayment risk. In addition, the ratings do not represent an assessment of the yield to maturity that investors may experience or the possibility that the certificateholders of the Certificates might not fully recover their initial investment in the event of delinquencies or defaults or rapid prepayments on the mortgage loan (including both voluntary and involuntary prepayments) or the application of any realized losses. In the event that holders of such certificates do not fully recover their investment as a result of rapid principal prepayments on the mortgage loan, all amounts "due" to such holders will nevertheless have been paid, and such result is consistent with the ratings assigned to such certificates.

As indicated herein, the Class X certificates consist only of interest. If the mortgage loan were to prepay in the initial month, with the result that the holders of the Class X certificates receive only a single month's interest (or with respect to certain Class X certificates, no interest) and therefore, suffer a nearly complete (or with respect to certain Class X certificates, total) loss of their investment, all amounts "due" to such holders will nevertheless have been paid, and such result is consistent with the ratings received on the Class X certificates. The notional amounts of the Class X certificates on which interest is calculated may be reduced by the allocation of realized losses and prepayments, whether voluntary or involuntary. The ratings do not address the timing or magnitude of reductions of such notional amounts, but only the obligation to pay interest timely on the notional amounts as so reduced from time to time. Therefore, the ratings of the Class X certificates should be evaluated independently from similar ratings on other types of securities. In addition, Morningstar's ratings do not assess whether or not the LIBOR Floor will, at any time, exceed LIBOR or related risks. If the LIBOR Floor does not exceed LIBOR, the Class XAF-1, Class XAF-2, Class XBF-1, and Class XBF-2 certificates are not entitled to payments. In addition, at anytime the interest rate index is Prime, the Class XAF-1, Class XAF-2, Class XBF-1 and Class XBF-2 certificates will not be entitled to any payments. Morningstar's ratings do not take into account any conversion between LIBOR and Prime or any payment delays related to any conversion. Instead, as previously noted and subject to the prior general discussion of Class X ratings, Morningstar's ratings on the Class XAF-1, Class XAF-2, Class XBF-1, and Class XBF-2 certificates solely address the obligation, if any, to pay interest timely on the relevant outstanding notional amount.

While Morningstar may issue ratings solely on asset backed securities, Morningstar does not (i) issue short-term ratings, or (ii) rate, assess or review corporate entities, credit support providers, seller(s), guarantors, servicers, trustees, certain accounts or investments, insurers, liquidity providers, hedge providers or other similar entities or items, unless consideration of a review and/or assessment is otherwise enumerated in Morningstar's pre-sale report and/or surveillance reports related to the transaction. Therefore, Morningstar's ratings and analysis do not take into consideration such characteristics of the transaction referenced in clauses (i) and (ii) of the preceding sentence unless consideration of a review and/or assessment is otherwise enumerated in Morningstar's pre-sale report and/or surveillance reports related to the transaction. In addition, Morningstar's ratings and analysis do not take into consideration any potential or actual risk of repudiation, receivership or other ramifications related to FDIC administration and/or enforcement of FDIC rights and remedies with respect to any entity involved in the transaction including a bank or subsidiary of a bank. In addition, Morningstar's ratings do not take into consideration an assessment of the arranger(s), originator(s) and/or prior holder(s) of the loan(s) included in the respective transaction. Additionally, for the avoidance of doubt, Morningstar does not rate obligors, managers or issuers. Further, the ratings do not assess whether any exchange of certificates may occur or any delays or disruptions in payment due to such exchange or method of holding certificates.

Morningstar's ratings analysis assumed a maximum interest rate payable by the borrower of 7.85% which is the 5.35% interest rate spread for the final year of the loan term added to an assumed LIBOR rate of 2.5%. In the event this assumption is not true (whether due to expiration or termination of, or defaults with respect to, the rate cap agreement, rate cap payment mismatches, failure of rate cap provider to make timely payments and/or otherwise), Morningstar's ratings may be adversely impacted.

As the ratings herein are preliminary ratings, such ratings may be subject to change during surveillance. As provided herein, surveillance analysis and ratings are solely provided to Morningstar subscribers on a subscription basis.

In conjunction with evaluating any Morningstar ratings, please also see "Morningstar Definitions and Descriptions of CMBS (i) Letter-Grade Credit Ratings, (ii) Rating Outlooks and (iii) Surveillance" at http://ratingagency.morningstar.com.

TERMS OF USE

MORNINGSTAR GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall Morningstar, its affiliates and its third party licensors be liable for any direct, indirect, punitive, special or consequential damages in connection with subscriber's or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third party of information or software is terminated.

Analytic services provided by Morningstar are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Morningstar's New Issue/Valuation Services Group. Other divisions of Morningstar may have information that is not available to Morningstar's New Issue/Valuation Group. Morningstar has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Morningstar typically receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities, third parties participating in marketing the securities, or certain subscribers or investors pursuant to Morningstar's policies and procedures. Morningstar receives payment for Research and Surveillance Services. Additional information about our ratings fees is available at http://ratingagency.morningstar.com.

Any person or entity in receipt of this report is deemed to acknowledge and agree that such report and any data and/or information herein is further subject to the terms of use on Morningstar's website at http://ratingagency.morningstar.com. In addition, any person or entity in receipt of this report ("Recipient") is deemed to agree and acknowledge the following:

(a) any information described in this report that is provided by third parties (collectively, "Third Party Information") and used by Morningstar to determine and/or provide any ratings or analysis, is: (i) the sole responsibility of the third party provider of such information (ii) not endorsed or recommended by Morningstar, (iii) not verified by Morningstar, and (iv) PROVIDED "AS IS" WITHOUT ANY REPRESENTATION, WARRANTY OR GUARANTY OF ANY KIND. Morningstar has no responsibility, liability or control over Third Party Information and provides no warranty, guaranty, representation for or with respect to such Third Party Information or any results derived from it. In addition, Third Party Information may be outdated, unreliable or inaccurate and Morningstar has no obligation to update, correct or verify any Third Party Information;

(b) any ratings, analysis related thereto and/or this report is (i) solely for informational purposes, (ii) for use only by the Recipient of this report and may not be used or relied upon by any other person, (iii) subject to applicable laws, regulations and rules and Recipient shall reasonably cooperate with Morningstar if needed to comply therewith, (iv) mere opinions the provision of which does not result in Morningstar waiving any protections, privileges or defenses available under applicable laws, rules or regulations, including, without limitation, the First Amendment of the Constitution of the United States of America, and (v) not guaranteed to be accurate, complete or timely and are not intended to predict or guaranty future performance or results;

(c) Morningstar has not consented to, and will not consent to, (i) being named an "expert" under the federal securities laws including, without limitation, Section 7 of the Securities Act of 1933, or (ii) the integration, publication, inclusion or reference of any ratings, analysis or other information pertaining to Morningstar and/or the ratings in any prospectuses or registration statements or otherwise integrated or used in a manner that could impede (i) or (ii) of this provision;

(d) this report and all information contained herein are solely for Recipient's internal use. Morningstar retains all right, title and interest in this report and all information contained herein, as well as in any enhancements, modifications or derivative works thereof, and in any other Morningstar intellectual property used in conjunction with the herewith or otherwise provided by Morningstar. No work performed hereunder by Morningstar or its agents shall be deemed "work for hire," as such term is defined at 17 U.S.C. § 101, on behalf of Recipient or any other party. Unless expressly permitted by Morningstar in writing, Recipient may not modify, copy, reproduce, distribute, redistribute, transfer, transmit, retransmit, disseminate, sell, license, publish, display, broadcast, circulate, recompile, decompile, reverse engineer, alter, archive, create any derivative, resell, or provide substantially similar services, in each case, with respect to this report or information or analysis contained therein. Recipient may only use this report for internal use and at all times, in compliance with the restrictions on use contained herein. This report and the content hereof is property owned by or licensed to Morningstar and is protected by copyright, trademark, service mark and other applicable intellectual property laws. Any unauthorized use thereof is strictly prohibited and all rights are reserved by Morningstar; to the maximum extent permitted by applicable law, Recipient agrees to indemnify, defend and hold harmless Morningstar and its directors, officers, employees, agents, consultants and other representatives from and against any and all claims arising from or related to any breach or violation by Recipient (or anyone Recipient has granted access to this report) of the terms of use, this report or any content herein or any use or purpose that is unlawful or otherwise prohibited by the terms of use. Morningstar reserves the right to assume the control and defense of any such matter. In the event that Morningstar shall assume the control and defense of any such matter, Recipient shall cooperate with Morningstar in this regard including, without limitation, in the assertion of defenses and mandatory counterclaims therein;

(e) to the maximum extent permitted by applicable law, Recipient agrees to indemnify, defend and hold harmless Mprningstar and its directors, officers, employees, agents, consultants and other representatives from and against any and all claims arising from or related to any breach or violation by Recipient (or anyone Recipient has granted access to this report) of the terms of use, this report or any content herein or any use or purpose that is unlawful or otherwise prohibited by the terms of use. Morningstar reserves the right to assume the control and defense of any such matter. In the event that Morningstar shall assume the control and defense of any such matter, Recipient shall cooperate with Morningstar in this regard including, without limitation, in the assertion of defenses and mandatory counterclaims therein;

(f) Recipient assumes sole responsibility for evaluating the merits and risks associated with any investment and Morningstar shall have no liability to the Recipient with respect to any claims or damages that may arise from or relate to any decision of the Recipient based on this report, any Third Party Information or any other information made available hereunder;

(g) this report and/or any Third Party Information shall not create or constitute a fiduciary relationship between Morningstar and Recipient. This report, any Third Party Information, and any information provided, including any ratings, shall not constitute a "market" rating or a recommendation, solicitation, endorsement or offer by Morningstar, or any of its directors, officers, employees, agents, consultants or other representatives or anyone else, to buy, hold or sell securities, financial instruments or any investment. Morningstar is not acting as an investment, financial or other advisor to Recipient and Recipient should not and cannot rely upon this report, Third Party Information, and any information provided, including any ratings,as investment, legal, tax or financial advice;

(h) THIS REPORT AND CONTENT ARE PROVIDED "AS IS" AND NOT SUBJECT TO ANY WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE;

(i) in no event shall Morningstar be liable for any incidental, special, indirect, consequential, reliance, punitive or other exemplary damages, including any loss of profits, data, savings or interest, any penalties or assessments imposed under laws or otherwise, even if Morningstar has been advised of the likelihood thereof;

(j) this report, including any information or analysis contained herein, may be provided by Morningstar to any other person or entity as determined in Morningstar's sole discretion. In addition, Morningstar may perform and provide services, analysis or other work product related to the transaction not contemplated hereunder ("Additional Services") to another person or entity and shall have no duty or liability to provide any such items to Recipient. In conjunction therewith, Morningstar is expressly permitted to use all available advertising or marketing
channels or media that Morningstar deems appropriate to promote any services and this report including any information or analysis contained herein, and any Additional Services; and

(k) Morningstar publishes its current Form NRSRO and exhibits thereto at http://ratingagency.morningstar.com. Recipient agrees that such materials, the qualifications and limitations enumerated in this report and Morningstar's website, http://ratingagency.morningstar.com, are integral to understanding Morningstar's credit ratings and related analysis.

The Recipient's rights, obligations and terms of use are further set forth and subject to any related contract outstanding between Recipient and Morningstar. Morningstar maintains all rights thereunder.

To reprint, translate, or use the data or information other than as provided herein, contact Joe Petro (267-960-6004) or by e-mail to: joe.petro@morningstar.com.