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## PRELIMINARY RATINGS (AS OF: 4/8/13)

### OFFERED CERTIFICATES

| CLASS | BALANCE/ NOTIONAL AMT | PRELIMINARY RATINGS | MORNINGSTAR DSC | MORNINGSTAR BLTV | CREDIT SUPPORT LEVELS |
|---|---|---|---|---|---|
| Class A-1 | $71,825,000 | AAA | 2.00x | 65.92% | 30.00% |
| Class A-2 | $77,842,000 | AAA | 2.00x | 65.92% | 30.00% |
| Class A-SB | $82,273,000 | AAA | 2.00x | 65.92% | 30.00% |
| Class A-3 | $75,000,000 | AAA | 2.00x | 65.92% | 30.00% |
| Class A-4 | $203,430,000 | AAA | 2.00x | 65.92% | 30.00% |
| Class X-A[1] | $734,950,000 | AAA | N/A | N/A | N/A |

*In determining the preliminary ratings on each class of securities issued by the Trust, Morningstar analyzed the properties securing each loan as enumerated herein to determine their stabilized as-is net cash flow (NCF) and value based primarily on the direct capitalization approach. The loans along with their corresponding as-is NCF and property value were 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 X-A and Class X-B certificates will not have a Certificate Principal Amount and will not be entitled to receive distributions of principal. Interest will accrue at the respective pass-through rates based upon the corresponding Notional Amount. NR – Not Rated; N/A – Not applicable.*

***Estimated Closing Date: On or about April 23, 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 on the arranger's website for this transaction as of April 8, 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.*

*This report is an opinion and does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

*Morningstar publishes its current Form NRSRO and exhibits thereto at http:rating agency.morningstar.com. Morningstar maintains internal policies and procedures to manage conflicts which may include payment structures for ratings.*

## Transaction Spotlight

| | | | |
|---|---|---|---|
| **Collateral** | 59 fixed-rate loans secured by 87 commercial and multifamily properties | **Mortgage Loan Sellers** | Cantor Commercial Real Estate Lending, L.P., German American Capital Corporation, and KeyBank National Association |
| **Cut-off Date Balance** | $936,242,993 | **Depositor** | Deutsche Mortgage & Asset Receiving Corporation |
| **Structure** | Sequential | **Trustee** | Wells Fargo Bank, National Association |
| **Morningstar Current DSCR[1]** | 1.81x | **Master Servicer[2]** | Midland Loan Services |
| **Morningstar Amort. DSCR[1]** | 1.57x | **Special Servicer[2, 3]** | Situs Holdings, LLC |
| **Morningstar BLTV** | 84.0% | **Custodian** | Wells Fargo Bank, National Association |
| **Morningstar ELTV** | 70.5% | **Certificate Administrator** | Wells Fargo Bank, National Association |

*[1] Current debt service coverage reflects interest-only payments loans which are interest-only or which have a partial interest-only period. Amortizing debt service coverage includes full amortization payments for amortizing and partial interest only loans and interest only for full term interest only loans.*

*[2] The Morningstar operational risk assessment ("ORA") ranking for Midland Loan Services, the Master Servicer for the deal, is 'MOR CS1/Stable.' The ORA ranking for Situs Holdings LLC, which is acting as Special Servicer, is 'MOR CS2/Stable.' The full ORA assessment reports and additional information may be found at https://ratingagency.morningstar.com*

*[3] The special servicer for the Larkspur Landing Hotel Portfolio loan and Moffett Towers loan will be Wells Fargo Bank and Rialto Capital Advisors, LLC, respectively.*

**PRELIMINARY RATINGS (AS OF: 4/1/13)**

| Class | Balance / Notional Amount | Preliminary Ratings | Morningstar DSC | Morningstar BLTV | Credit Support Levels |
|---|---|---|---|---|---|
| Class A-1 | $70,456,000 | AAA | 2.00 | 65.92% | 30.00% |
| Class A-2 | $79,211,000 | AAA | 2.00 | 65.92% | 30.00% |
| Class A-SB | $82,273,000 | AAA | 2.00 | 65.92% | 30.00% |
| Class A-3 | $75,000,000 | AAA | 2.00 | 65.92% | 30.00% |
| Class A-4 | $203,430,000 | AAA | 2.00 | 65.92% | 30.00% |
| Class A-3FL | $75,000,000 | AAA | N/A | N/A | 30.00% |
| Class A-3FX | $0 | AAA | N/A | N/A | 30.00% |
| Class A-4FL | $70,000,000 | AAA | N/A | N/A | 30.00% |
| Class A-4FX | $0 | AAA | N/A | N/A | 30.00% |
| Class X-A[1] | $734,950,000 | AAA | N/A | N/A | N/A |
| Class X-B[1] | $93,625,000 | AAA | N/A | N/A | N/A |
| Class A-M | $79,580,000 | AAA | 2.00 | 65.92% | 21.50% |
| Class B | $58,515,000 | AA- | 1.86 | 71.20% | 15.25% |
| Class C | $35,110,000 | A- | 1.78 | 74.30% | 11.50% |
| Class D | $39,790,000 | BBB | 1.70 | 77.90% | 7.25% |
| Class E | $8,192,000 | BBB- | 1.68 | 78.60% | 6.38% |
| Class F | $9,362,000 | BB | 1.66 | 79.50% | 5.38% |
| Class G | $17,555,000 | B | 1.63 | 81.00% | 3.50% |
| Class H | $32,768,992 | NR | 1.57 | 84.00% | 0.00% |
| Class PEZ | $173,205,000 | A- | N/A | N/A | N/A |
| **Certificate Balance** | **$936,242,992** | | | | |

Note 1: Note (1): The Class X-A and Class X-B certificates will not have a Certificate Principal Amount and will not be entitled to receive distributions of principal. Interest will accrue at the respective pass-through rates based upon the corresponding Notional Amount. NR – Not Rated; N/A – Not applicable.

# Transaction Overview

The COMM 2013-CCRE7 Commercial Mortgage Trust Mortgage Pass-Through Certificates (COMM 2013-CCRE7) are supported by the payment streams from 59 fixed-rate mortgage loans secured by 87 commercial and multifamily properties. The priority of payments on the certificates is generally based on a sequential pay structure. The loans have an aggregate initial pool balance of approximately $936.2 million. The average initial principal balance is roughly $15.9 million, and the loans range in size from $1.75 million to $130.0 million. The majority of the loans—56 (79.4% by balance)—have a 10-year term. The mortgaged properties are distributed across 29 states, with the five largest concentrations (based on cut-off date balances) in California (17 properties, 36.2%), Florida (3 properties, 9.2%), Illinois (7 properties, 8.7%), North Carolina (4 properties, 7.5%), and Arizona (5 properties, 3.6%). Office is the largest property-type category by cut-off loan balance at 39.1%. Retail, hospitality and multifamily properties make up 23.7%, 22.3%, and 6.2% of the pool, respectively. The largest loan, Moffett Towers Phase II, is 13.9% of the overall trust portfolio. Four other loans, Lakeland Square Mall, Larkspur Landing Hotel Portfolio, One West Fourth Street, and North First Commons each represent 5.0% or more of the portfolio.

Morningstar determined the preliminary ratings for each class of COMM 2013-CCRE7 certificates by analyzing 30 of the 59 loans (82.6% by cut-off date balance) and subjecting the aggregate net cash flow and capitalization rates to a variety of stresses in our proprietary CMBS Subordination Model. To derive the Morningstar NCF for those loans that we did not directly analyze, we haircut the issuer's underwritten net cash flow by 4.5% to 6.5% depending on certain characteristics of the collateral property, including type, sub-type, location, and tenancy. 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.

All percentages shown herein are based on the cut-off date loan balances as a percentage of the aggregate cut-off date pool balance unless otherwise noted.

Asset Summary Reports detailing Morningstar's analysis of the top 20 loans as well as a Loan Analysis Summary Table that provides our final net cash flow, capitalization rate and value for each loan/property, along with key loan and property characteristics for all loans, are distributed along with this presale report on Morningstar's website at http://ratingagency.morningstar.com. Asset Summary Reports for the top 10 loans are included in this presale report.

## Morningstar Perspective

Based on the information provided on the arranger's website as of April 3, 2013 (the date on which Morningstar's analysis on the underlying loans and properties was completed), Morningstar's analysis of the loans yielded an aggregate net cash flow (NCF) of $135.8 million. The Morningstar NCF is lower than the issuer's underwritten NCF by 6.3%. Our NCF results in weighted-average current and amortizing DSCRs of 1.81x and 1.57x, based on the actual loan payment terms. The Morningstar NCF and DSCR, as well as certain other loan metrics and analytical assumptions for each loan are provided in the Loan Analysis Summary Table and are posted along with this presale report on Morningstar's website at http://ratingagency.morningstar.com.

Morningstar valued each of the properties using the direct capitalization method, with some adjustments made for upfront reserves and/or existing tax abatements or other tax incentives. Based on our combined NCF of $135.8 million and a portfolio weighted average cap rate of 8.01%, our aggregate pool value is nearly $1.70 billion, 26.9% lower than the reported aggregate appraised values. Based on the initial aggregate portfolio balance of $936.2 million and Morningstar's aggregate value for the 87 properties, Morningstar's beginning and ending portfolio loan-to-value ratios are 84.0% and 70.5%. The cap rates, values and LTV ratios for each loan are provided in the Loan Analysis Summary.

### *The Bears Say*

- Property-type concentrations: 40 of the 87 properties are either office (9 properties, 39.1%) or hospitality (31 properties, 22.3%) properties. Morningstar views these property types as having more cash flow volatility compared to anchored retail or multifamily properties. However, three of the largest four office properties (Moffett Towers Phase II, One West Fourth Street, and Moffett Towers) are class A assets that were either recently built or renovated and considered among the top office properties in their respective markets.
- High leverage of Top 10 loans: Nine of the 10 largest loans have a Morningstar beginning LTV[1] that exceeds 80%, including three that exceed 90%.
- Loan concentration: The largest loan, Moffett Towers Phase II, is 13.9% of the initial pool balance; the concentrations for the top 5 and top 10 loans are 38.6% and 54.3%, respectively.

[1] Morningstar's BLTVs and ELTVs are based on each loan's whole-loan balance and therefore include all pari passu A-notes held outside this trust.

- Loans structured with pari passu A-notes: Moffett Towers Phase II, Larkspur Landing Hotel Portfolio, and Moffett Towers each have additional pari passu A-notes that are held outside this trust. Also, only the Moffett Towers Phase II loan is lead-serviced under the this trust's pooling and servicing agreement; the other two loans are lead-serviced under the pooling and servicing agreements of two separate trusts.
- Subordinate debt: The related borrower(s) of the Moffett Towers Phase II, North First Commons, and Moffett Towers loans have pledged equity interests to obtain mezzanine financing.

***The Bulls Say***

- Distribution of Morningstar DSCRs: All loans have a Morningstar amortizing NCF DSCR[2] of 1.21x or better; 48 (87.1%) have an amortizing coverage of 1.41x or better, including 34 (57.2%) that exceed 1.50x coverage.
- Principal amortization: 51 of the 59 loans (74.5% by balance) have principal amortization over the full loan term; only one loan pays interest only for the full loan term and seven (23.7%) pay interest only for 12 to 72 months before amortization begins.

***Loans of Particular Interest***

- Moffett Towers Phase II (13.9%): The largest loan in the pool has an aggregate whole-loan balance of $245 million, divided among a $130.0 million A-note held in this transaction and two additional A-notes totaling $115 million that are held outside this trust. The A-note in this transaction represents the controlling note for the whole loan. The borrower also has pledged its equity interests to obtain a $55.0 million mezzanine loan. Moffett Towers Phase II has a high whole-loan beginning LTV of 87.3% (based on the Morningstar value), and though it amortizes during the term, the whole loan's ending leverage is still high at 79.6%. The property's largest tenant, Hewlett Packard, leases 58.2% of the property's NRA and accounts for nearly 60% of the base rent. HP's lease expires six months prior to the loan maturity date. However, HP's base rent is below market today, and the loan is structured with a cash flow sweep that begins two years prior to HP's lease expiration. Moreover, the property was built in 2010 and improved from 2011 to 2012, and is considered a class A asset in the Sunnyvale office market. The property is part of the 52-acre, two-million-square-foot Moffett Towers campus in Sunnyvale, California that was developed by the sponsor in 2008.
- Lakeland Square Mall (7.5%): The second largest loan is backed by the Lakeland Square Mall, an 883,290-square-foot regional mall in Lakeland, Florida. The borrower is in the process of spending nearly $10 million to renovate the space once owned and occupied by Dillard's Men's and Home in preparation for two new tenants—Cinemark NextGen and Sports Authority—that will occupy the reconfigured space later this year under long-term leases. The new tenants are expected to strengthen the mall's drawing power in the area.
- Larkspur Landing Hospitality Portfolio (6.4%): The third-largest loan in the pool is the only loan with a five-year term, and has an aggregate whole-loan balance of $140 million, split into a $60.0 million A-note held in this transaction and an $80 million A-note (the controlling note) held in COMM 2012-CCRE6. The 11 hotels backing the third-largest loan are of the extended-stay variety, and all carry a relatively unknown flag. In addition, the hotels are heavily dependent on corporate contracts for their revenues. In most cases, the hotels are located close to the offices or facilities of the firms they serve. For instance, the hotel in Hillsboro, Oregon is highly dependent on a single Intel facility. As long as those companies remain healthy and the facilities open and operating, the Larkspur Landing hotels should continue to perform well. The downside risk is that some of the corporate contracts could be in jeopardy if a company shutters a manufacturing facility and/or lays off employees. However, the performance of the 11 properties, which collectively have 1,277 rooms, has improved markedly over the last three years, with occupancy rates, ADR, and RevPAR substantially higher than in 2009. In fact, RevPAR increased by 48.6% between the end of 2009 and February 2013, to $85.97 from $57.85.
- Moffett Towers (4.3%): The sixth-largest loan in the pool has an aggregate whole-loan balance of $335 million, and is structured with three A notes: a $175.0 million A-1 note (the controlling note), a $120.0 million A-2 note (both held outside this trust) and a $40.0 million A-3 note held in this trust. There is also a $50 million mezzanine loan. Based on Morningstar's property value, Moffett Towers has a high whole-loan beginning LTV of 85.0%, and a whole-loan ending LTV of 73.1%. Three investment-grade tenants lease nearly 63% of the NRA and account for almost 71% of the property's base rental income; all three leases expire during the loan term; however, two of these tenants have invested significant capital in their related spaces. The loan is structured with a cash flow sweep that commences in mid-2017. This property was built as part of Phase I of the Moffett Towers campus.
- "North Dakota Hotel Crossed Portfolio"(2.1%): Three loans, Hampton Inn & Suites Williston, N.D. (#11), Microtel Inn & Suites Williston, N.D. (#12) , and Hampton Inn & Suites Dickinson, N.D. (#13), are cross-collateralized and cross-defaulted and collectively account for 2.1% of the pool balance. They are each backed by a single limited-service hotel in rural Western North Dakota. The three properties have 254 rooms, combined, and were built

[2] Morningstar's DSCRs are based on each loan's whole-loan debt service and our underwritten net cash flow.

within the last two years. Western North Dakota's economy has benefited tremendously since oil companies began extracting crude oil from the Bakken Shale Formation. Population growth in the North Dakota towns of Williston and Dickinson has been extraordinary over the last decade, growth that has caused a housing shortage and led to the construction of residential housing as well as hotels. And while the local market still is underserved today in terms of housing and hotel rooms, there is a risk that the current economic boom may lead to overbuilding during the loan term, causing hotel room supply to outpace demand. In fact, both Williston and Davidson have witnessed a substantial increase in the supply of hotel rooms in the last two years. There is also the risk of overdependence on a single industry. A downturn in the oil extraction business, whether through lower global crude oil prices—which could render shale oil extraction less profitable—or through aggressive government intervention in the form of new regulations, could result in a severe drop in area's economic output. Also, being new, the hotels have limited operating history, in an area that is unproven in terms of its long-term economic sustainability. On the positive side, there's plenty of oil left in the ground to extract, and technological developments are likely to make oil extraction from shale deposits more economical over the next decade. Further, the loans have low beginning leverage, but will have substantially lower leverage at maturity, as they amortize on a 10-year schedule for the first five years of their terms, and then on a 20-year schedule starting in year six.

**Property Site Visits**

Morningstar analysts visited 24 of the 87 properties (66.1% by loan balance) including those backing the largest 10 loans, and assigned property quality scores to each. Morningstar uses a scale of 1 to 5, with "1" being the highest quality. Factors such as 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 cap rates. We assigned a score of 2, "Good," to three properties, Moffett Towers Phase II (13.9%), One West Fourth Street (5.5%) and Moffett Towers (4.3%). We assigned average scores (score of 3) to the 21 other properties we toured. Morningstar's observations from the site visits are provided in the individual asset summary reports and the properties visited are noted in our Loan Analysis Summary Table.

**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-1 certificates, we subjected our concluded net cash flows to a weighted-average 47.5% decline and our concluded values to a weighted-average 64.9% decline in the term default analysis. In the balloon default analysis, these weighted-average declines were 41.7% and 60.7%, respectively. 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.

| Morningstar Subordination Model NCF and Value Stresses | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **AAA** | **AA** | **A** | **BBB** | **BB** | BB | CCC |
| Morningstar NCF Decline (Term) | 47.5% | 45.6% | 43.7% | 40.8% | 38.4% | 36.8% | 35.2% |
| Morningstar Value Decline (Term) | 64.9% | 61.9% | 59.4% | 52.9% | 49.7% | 46.5% | 43.7% |
| Morningstar NCF Decline (Balloon) | 41.7% | 40.3% | 38.9% | 37.3% | 36.3% | 34.9% | 33.5% |
| Morningstar Value Decline (Balloon) | 60.7% | 58.1% | 55.8% | 50.7% | 48.6% | 45.5% | 42.8% |

**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.

**Transaction Comparison**

The table below is a comparison of certain characteristics and metrics of the COMM 2013-CCRE7 transaction against the averages of other CMBS conduit deals that Morningstar has rated. The *COMM 2013-CCRE7 transaction is excluded from the averages presented*. Though this deal has more loans than the average of the comparison group, it has significantly fewer properties and a much smaller aggregate initial principal balance. The number-one loan in COMM 2013-CCRE7 accounts for a larger percentage of the aggregate pool than the average conduit we have rated, but the percentage that the Top 10 loans represents is smaller than the comparison group average. Also, COMM 2013-CCRE7 has a smaller percentage of loans that are full- or partial-term I/O loans (25.5% versus 32%).

The property-type composition of COMM 2013-CCRE7 is notably different from that of the other deals. In this deal, office properties account for 39.1% of the aggregate balance, much higher than the 26.3% average for the comparison group. Likewise, whereas hospitality properties make up 22.3% of this deal, they account for less than 10% on average in the other conduits we've rated.

Morningstar's cash flow variance—that is, the difference between our underwritten cash flow and that of the issuer—is slightly higher than the average for the cohort. Not surprisingly, COMM 2013-CCRE7's weighted average cap rate of 8.01% is below the cohort average, as cap rates for the main property types in many markets have become compressed over the last 24+ months. Morningstar's view is that cap rates for most property types will reverse course at some point in the intermediate term, and therefore we have established cap rate floors as well as made some conservative adjustments in our subordination model to attempt to account for this.

The Morningstar Value Variance—the difference between our underwritten property value and that of the appraiser—is higher for this deal than the average. This is partly attributable to the fact that appraisal cap rates have compressed more quickly than the cap rates we use for our underwriting analysis. Ultimately, the lower appraisal cap rates translate into higher appraised values, all things equal, and thus higher loan leverage, which is reflected in higher Morningstar beginning and ending LTVs.

| Characteristic / Metric | COMM 2013-CCRE7 | Average 2011-12* |
|---|---|---|
| **Portfolio Characteristics** | | |
| Portfolio Balance ( in $Millions) | $936.2 | $1,289.3 |
| Loan Count | 59 | 56 |
| Property Count | 87 | 124 |
| Number of Portfolio Loans | 7 | 9 |
| Top Loan (% of Portfolio) | 13.9% | 11.8% |
| Top 5 Loans (% of Portfolio) | 38.6% | 39.3% |
| Top 10 Loans (% of Portfolio) | 54.3% | 56.7% |
| WA Mortgage Rate | 4.395% | 5.460% |
| Loans With B-Notes (% of Portfolio) | 0.0% | 5.6% |
| Loans With Mezz Financing (% of Portfolio) | 23.5% | 7.8% |
| Loans Allowing for Future Mezz (% of Porfolio) | 7.0% | 8.2% |
| Full Term Interest Only Loans (% of Portfolio) | 1.8% | 11.0% |
| Partial Interest Only Loans (% of Portfolio) | 23.7% | 21.0% |
| **Property Type** | | |
| Retail | 23.7% | 42.2% |
| Office | 39.1% | 26.3% |
| Multifamily | 3.7% | 7.4% |
| Hospitality | 22.3% | 9.9% |
| Mixed-Use | 6.2% | 3.3% |
| Industrial | 1.4% | 4.5% |
| Self-Storage | 2.6% | 2.0% |
| Manufactured Housing | 1.0% | 3.7% |
| Leased Fee | 0.0% | 0.8% |
| Healthcare | 0.0% | 0.0% |
| Other | 0.0% | 0.0% |
| **Leverage Metrics** | | |
| Mstar Cash Flow Variance (%) | -6.3% | -4.1% |
| Mstar WA Cap Rate | 8.01% | 8.48% |
| Mstar Value Variance (%) | -26.9% | -24.4% |
| Issuer WA DSCR | 1.71x | 1.61x |
| MStar WA DSCR | 1.75x | 1.54x |
| Issuer WA BLTV | 63.8% | 63.0% |
| Issuer WA ELTV | 52.6% | 55.8% |
| Mstar WA BLTV | 84.0% | 81.6% |
| Mstar WA ELTV | 70.5% | 70.1% |
| **Capital Structure** | | |
| "AAA" Credit Support % | 21.50 | 19.25 |
| "AA+" Credit Support % | --- | 13.88 |
| "AA" Credit Support % | --- | 15.22 |
| "AA-" Credit Support % | 15.25 | 12.70 |
| "A+" Credit Support % | --- | 10.19 |
| "A" Credit Support % | --- | 11.38 |
| "A-" Credit Support % | 11.50 | 9.94 |
| "BBB+" Credit Support % | --- | 7.56 |
| "BBB" Credit Support % | 7.25 | 4.63 |
| "BBB-" Credit Support % | 6.38 | 5.93 |
| "BB+" Credit Support % | --- | 4.00 |
| "BB" Credit Support % | 5.38 | 4.43 |
| "BB-" Credit Support % | --- | 2.63 |
| "B+" Credit Support % | --- | 3.63 |
| "B" Credit Support % | 3.50 | 2.81 |

**Averages include only conduit transactions rated by Morningstar.*

# Loan Portfolio Summary

**General Loan Portfolio Characteristics**
The primary assets of the trust are 59 fixed-rate loans secured by first liens on 87 commercial and multifamily properties. The loans are generally non-recourse and their terms are from 60 to 240 months; with three exceptions, each was originated within 12 months of the securitization date.

***Loan Concentration***
The pool of 59 mortgage loans has an aggregate initial pool balance of roughly $936.2 million. The largest loan, Moffett Towers Phase II, is 13.9% of the total balance. Four other loans have a balance that exceeds 5.0% of the initial balance. The top ten loans comprise 54.3% of the portfolio. These 10 loans are backed by office (6), hospitality (17), and retail (1) properties. Some positive credit features of the top 10 are 1) at least partial amortization for all ten loans, and 2) amortizing DSCRs above 1.20x. On the negative side, nine of the ten loans have beginning Morningstar LTVs that exceed 80%, including three that are above 90%. All things equal, a higher LTV increases refinance risk at loan maturity and reduces potential recoveries if the loan defaults.

| Loan Name | Cut-off Balance | % of Cut-off Portfolio Balance | Morningstar Debt Yield | Morningstar Current DSCR | Morningstar Amortizing DSCR | Morningstar BLTV | Morningstar ELTV |
|---|---|---|---|---|---|---|---|
| Moffett Towers Phase II | $130,000,000 | 13.9% | 8.00% | 2.10 x | 1.43 x | 87.29% | 79.63% |
| Lakeland Square Mall | $70,000,000 | 7.5% | 9.65% | 1.65 x | 1.65 x | 79.80% | 63.24% |
| Larkspur Landing Hotel Portfolio | $59,781,151 | 6.4% | 10.62% | 1.66 x | 1.66 x | 85.70% | 78.65% |
| One West Fourth Street | $51,608,082 | 5.5% | 10.41% | 1.70 x | 1.70 x | 81.66% | 65.50% |
| North First Commons | $50,000,000 | 5.3% | 8.61% | 1.51 x | 1.51 x | 93.79% | 73.77% |
| Moffett Towers | $40,000,000 | 4.3% | 8.31% | 2.07 x | 1.45 x | 84.95% | 73.13% |
| PNC Center | $32,000,000 | 3.4% | 8.05% | 1.25 x | 1.25 x | 95.44% | 77.59% |
| 20 Church Street | $30,750,000 | 3.3% | 7.47% | 1.22 x | 1.22 x | 92.59% | 74.23% |
| Summit Hotel Portfolio II | $22,650,000 | 2.4% | 10.98% | 1.80 x | 1.80 x | 86.28% | 69.15% |
| Summit Hotel Portfolio III | $22,000,000 | 2.3% | 11.79% | 1.99 x | 1.99 x | 81.12% | 64.55% |
| **Subtotal Top 10 Loans** | **$508,789,234** | **54.3%** | **8.88%** | **1.88 x** | **1.51 x** | **86.06%** | **74.34%** |

***Amortization Characteristics***
All the loans require a final balloon payment at maturity. One loan (1.8%) pays interest only during its entire loan term and seven loans (23.7%) pay interest only for a period of 12 to 72 months from the loan origination date before amortization begins.

| Loan Name | Cut-off Balance | % of Cut-off Portfolio Balance | Morningstar Debt Yield | Morningstar Current DSCR | Morningstar Amortizing DSCR | Morningstar BLTV | Morningstar ELTV |
|---|---|---|---|---|---|---|---|
| Full Interest Only | 1.8% | 1 | 12.2% | 2.16 x | 2.16 x | 67.9% | 67.9% |
| Partial Interest Only | 23.7% | 7 | 8.4% | 2.11 x | 1.45 x | 85.1% | 74.6% |
| Amortizing | 74.5% | 51 | 10.4% | 1.65 x | 1.65 x | 83.5% | 67.1% |

***Pari-Passu Notes***

Three of the mortgage loans are whole loans structured with pari passu A-notes held outside this trust. This additional A-note debt was quantitatively factored into our subordination levels and ultimately reflected in our final ratings.

| Loan | Original A-Note Balance | Note Holder | Controlling Note |
|---|---|---|---|
| Moffett Towers Phase II | | | |
| A-1 Note | $130,000,000 | COMM 2013-CCRE7 | Yes |
| A-2 Note | $57,500,000 | GACC | No |
| A-3 Note | $57,500,000 | GACC | No |
| Total A-Note Debt | $245,000,000 | | |
| | | | |
| Larkspur Landing | | | |
| A-1 Note | $80,000,000 | COMM 2013-CCRE6 | Yes |
| A-2 Note | $60,000,000 | COMM 2013-CCRE7 | No |
| Total A-Note Debt | $140,000,000 | | |
| | | | |
| Moffett Towers | | | |
| A-1 Note | $175,000,000 | COMM 2013-LC6 | Yes |
| A-2 Note | $120,000,000 | COMM 2013-CCRE6 | No |
| A-3 Note | $40,000,000 | COMM 2013-CCRE7 | No |
| Total A-Note Debt | $335,000,000 | | |

***Subordinate Debt***

Two loans have subordinate debt in the form of mezzanine loans. This subordinate debt was quantitatively factored into our subordination levels and ultimately reflected in our final ratings.

| Loan | % of Initial Pool Balance | Type of Subordinate Debt | Initial Trust Balance | Initial Subordinate Debt Balance | Pari Passu Debt | Morningstar All-in BLTV |
|---|---|---|---|---|---|---|
| Moffett Towers Phase II | 13.9% | Mezzanine | $130,000,000 | $55,000,000 | $115,000,000 | 107.3% |
| Moffett Towers | 4.3% | Mezzanine | $40,000,000 | $50,000,000 | $295,000,000 | 96.9% |

***Originators***

The loans were originated by German American Capital Corporation, Cantor Commercial Real Estate Lending, L.P., KeyBank National Association, and Nationwide Life Insurance Company, and then acquired by the mortgage loan seller.

***Loan Purpose***
Forty-two loans (76.3%) were used to refinance existing debt and 12 (18.5%) were for the acquisition of mortgaged properties; the remaining loans were used for recapitalization or a combination of acquisition and refinancing.

| Financing Type | Number of Assets | % of Initial Pool Balance |
|---|---|---|
| Acquisition | 12 | 18.5% |
| Refinance | 42 | 76.3% |
| Acquisition/Refinance | 1 | 1.3% |
| Recapitalization | 4 | 3.9% |

***Related Borrowers***
Certain groups of the underlying mortgage loans were made to borrowers under common sponsorship. (See table below for the five largest groups.) Mortgage loans to a related borrower pose additional risks. For example, financial difficulty at one property could cause the owner to defer maintenance at another property in order to cover expenses at the troubled property or the owner could attempt to avert foreclosure on one mortgaged property by filing a bankruptcy petition that might have the effect of interrupting monthly payments for an indefinite period on all related mortgage loans. Despite the fact that the sponsors of several borrowers are related, borrowers are generally structured as a single purpose entity. There is an increased risk of consolidation with respect to affiliated entities upon a bankruptcy of a sponsor or principal.

A nonconsolidation opinion providing comfort over consolidation risks was not provided for all such loans. As a legal review (other than noted in the Scope of Analysis above) was not performed on all of the loans in the related borrower groups aggregating 5% or more of the pool we have assumed that the nonconsolidation opinions, organizational structure and organizational documents are in forms customary for a prudent lender. While nonconsolidation opinions were received for certain loans, there is no guarantee that an attempted consolidation would not be successful or that costs, fees and/or expenses would not be incurred. The five largest groups of loans with borrowers under common sponsorship are shown below.

Three of the underlying mortgage loans (collectively, 2.1%) are cross-collateralized and cross-defaulted with one another: Hampton Inn & Suites Williston, ND, Microtel Inn & Suites Williston, ND, and Microtel Inn & Suites Dickinson, ND.

| Loans with Common Ownership | Cut-off Date Principal Balance | % of Cut-off Pool Balance |
|---|---|---|
| Moffett Towers Phase II | 130,000,000 | 13.9% |
| Moffett Towers | 40,000,000 | 4.3% |
| **Total** | **170,000,000** | **18.2%** |
| Summit Hotel Portfolio II | 22,650,000 | 2.4% |
| Summit Hotel Portfolio III | 22,000,000 | 2.3% |
| **Total** | **44,650,000** | **4.8%** |
| Mariano's Vernon Hills | 17,701,280 | 1.9% |
| Mariano's Palatine | 14,736,800 | 1.6% |
| **Total** | **32,438,080** | **3.5%** |
| Rolling Hills Shopping Center | 9,737,825 | 1.0% |
| Lafayette Square | 8,389,511 | 0.9% |
| Highland Fair Shopping Center | 7,989,934 | 0.9% |
| Heritage Oaks Shopping Center | 5,652,932 | 0.6% |
| **Total** | **31,770,203** | **3.4%** |
| Springhill Suites SLC | 6,792,316 | 0.7% |
| TownPlace Suites Sierra Vista | 6,492,434 | 0.7% |
| Holiday Inn Express Phoenix | 5,690,891 | 0.6% |
| Springhill Suites Cedar City | 4,245,263 | 0.5% |
| **Total** | **23,220,903** | **2.5%** |

## Loan Portfolio Metrics

### *Debt Service Coverage Ratios*

Based on Morningstar's net cash flow, the portfolio has weighted-average current and amortizing DSCRs of 1.81x and 1.57x. All 59 loans have an amortizing coverage of 1.21x or better, and the majority (48 loans, 87.1%) has a coverage that exceeds 1.40x.

| Morningstar NCF DSCR | % of Initial Pool Balance | # Loans | Morningstar Debt Yield | Morningstar BLTV | Morningstar ELTV |
|---|---|---|---|---|---|
| < 1.00 | 0.0% | 0 | - | - | - |
| 1.00 - 1.10 | 0.0% | 0 | - | - | - |
| 1.11 - 1.20 | 0.0% | 0 | - | - | - |
| 1.21 - 1.30 | 8.4% | 4 | 8.08% | 92.43% | 72.88% |
| 1.31 - 1.40 | 4.5% | 7 | 8.27% | 90.85% | 71.89% |
| 1.41 - 1.50 | 29.9% | 14 | 8.37% | 87.10% | 75.32% |
| > 1.50 | 57.2% | 34 | 11.08% | 79.45% | 65.08% |

***Portfolio Leverage***

The Morningstar LTVs for the bulk of the loans fall in the 81% to 95% range (28 loans, 62.9%). Morningstar's beginning LTVs for 40 of the 59 loans (75.9%) are 81% or higher, while 23 (29.6%) are at least 91%, including five (3.6%) that are at least 101%.

| Leverage on Morningstar Value | % of Initial Pool Balance | # Loans | Morningstar Debt Yield | Morningstar Current DSCR | Morningstar Amortizing DSCR |
|---|---|---|---|---|---|
| < 70.0 | 7.9% | 9 | 15.67% | 2.31 x | 2.22 x |
| 70 - 75 | 4.4% | 5 | 12.68% | 2.08 x | 2.00 x |
| 76 - 80 | 11.7% | 5 | 9.95% | 1.67 x | 1.67 x |
| 81 - 85 | 16.6% | 8 | 8.85% | 1.99 x | 1.51 x |
| 86 - 90 | 29.8% | 9 | 9.25% | 1.82 x | 1.54 x |
| 91 - 95 | 16.5% | 11 | 8.73% | 1.47 x | 1.42 x |
| 96 - 100 | 9.4% | 7 | 8.86% | 1.45 x | 1.41 x |
| 101 - 105 | 2.4% | 3 | 8.89% | 1.47 x | 1.47 x |
| > 105 | 1.2% | 2 | 8.92% | 1.44 x | 1.44 x |

**Loan Structural Components**

***SPE and Bankruptcy Remoteness***

According to the loan seller representations and information provided by the arranger, the terms of most of the mortgage loans generally require that the borrowers maintain themselves as single-purpose entities limited in their activities to the ownership of only the related mortgaged property or properties and limited in their ability to incur additional indebtedness. However, in many cases the borrowers are not required to observe all covenants that may be typically required in order for them to be viewed under standard rating agency criteria as "special purpose entities." In addition, many of the borrowers and their owners, including most or all of the borrowers for mortgage loans with an original principal balance below $25 million, do not have an independent director whose consent would be required to file a voluntary bankruptcy petition on behalf of such borrower. Single-purpose and special-purpose covenants and conditions 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 related loan. One of the purposes of an independent director of the borrower (or of a special purpose entity having an interest in the borrower) is to avoid a bankruptcy petition filing which is intended solely to benefit an affiliate and is not justified by the borrower's own economic circumstances.

Although a borrower may currently be a single purpose entity, in certain cases the borrowers were not originally formed as single purpose entities, but at origination of the related mortgage loan (or related whole loan, as applicable) their organizational documents were amended. That borrower may have previously owned property other than the related mortgaged property and may not have observed all covenants that typically are required to consider a borrower a "single purpose entity."

Per the seller representations, nonconsolidation opinions, which provide certain legal comfort over consolidation risks, were generally required only for loans having a principal balance of $20 million or more. However per the arranger a nonconsolidation opinion was not provided for the 171 Madison loan. Per legal review, nonconsolidation opinions were provided for the Moffett Towers Phase II loan, the Lakeland Square Mall loan, the Larkspur Landing Hotel Portfolio loan, the Summit Hotel Portfolio II, and the Summit Hotel Portfolio III loan.

***Defeasance / Voluntary Prepayment***

All of the loans provide for certain restrictions and/or requirements with respect to prepayments during a portion of their respective loan terms. Fifty-six loans (97.0%) prohibit voluntary prepayment during a lock-out period; after the expiration of the lock-out period, the related borrowers are permitted to prepay the loans without penalty. Three of the loans (3.0%) allow voluntary prepayment at any time during their loan terms so long as the prepayment is accompanied by a yield maintenance charge. Forty-two loans (62.0%) permit defeasance after the second anniversary of the securitization closing.

***Property Releases / Substitutions***

Certain loans permit the release or substitution of a property or portion thereof as follows:

- Moffett Towers Phase II (13.9%): After the prepayment lockout expiration date, which is the earlier to occur of (i) two years after the closing date of the securitization which includes the last pari passu note to be securitized and (ii) May 6, 2016, the borrower may obtain the release of one or two of the three buildings at the mortgaged property in conjunction with a third party sale of such building, subject to certain conditions.

- Larkspur Landing Hotel Portfolio (6.4%): Commencing on the payment date in January 2015, the borrowers have the right to obtain the release of one or more individual mortgaged properties in connection with the bona fide sale to a third-party of an individual mortgaged property, subject to certain conditions.

- Moffett Towers (4.3%): The borrower has the right, after the date that is the earlier of (i) December 6, 2015 and (ii) two years after the securitization closing date in which the last pari passu note is securitized, to obtain a release of one or two of the three buildings at the Mortgaged Property in conjunction with a third party sale of such building, subject to certain conditions.

- Summit Hotel Portfolio II (2.4%): The borrower may obtain a release of a property after the lockout period, subject to certain conditions.

- Summit Hotel Portfolio III (2.3%): The borrower may obtain a release of a property after the lockout period, subject to certain conditions.

- Hampton Inn & Suites Williston, ND, Microtel Inn & Suites Williston, ND and Microtel Inn & Suites Dickinson, ND, (collectively, 2.1%): These three mortgage loans are cross-collateralized and cross-defaulted. Release of one or more of the mortgage loans from the cross is permitted in connection with the sale of an individual mortgaged property, subject to certain conditions.

- Marianos Vernon Hills (1.9%): In the event that a new tenant becomes the tenant of the mortgaged property (which could occur as a result of the prior tenant's (or its corporate parent's) bankruptcy or if the store occupied by the prior tenant goes dark), the borrower has the right to obtain the release of the portion of the mortgaged property consisting of a supplemental parking lot if the replacement tenant, leasing at least 90% of the store premises and paying at least 90% of the net rent under the original store lease, indicates that it does not intend to lease the supplemental parking lot (provided the parking lot lease is rejected as a result of the prior tenant bankruptcy or is terminated (with the lender's consent) as a result of the prior tenant going dark). The release is subject to certain other conditions.

- CSP Portfolio (0.8%): The borrower has the right to the release of one or more individual mortgaged properties, subject to certain conditions.

## Loan Features / Concerns

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

***Loans with Morningstar LTV > 100%***
Based on Morningstar's property valuations, five loans (3.6%) have a beginning LTV in excess of 100%. A loan with a high LTV has higher refinance risk and potentially lower recoveries in the event of a default, all things equal.

***Pari-Passu Notes***
Three of the mortgage loans (shown in the table above on page 10) are whole loans structured with pari passu A-notes held outside this trust. This additional A-note debt was quantitatively factored into our subordination levels and ultimately reflected in our final ratings.

Generally, all payments made on the pari passu debt are allocated among the pari passu notes related to the pari passu debt pro rata and pari passu such that each pari passu note is of equal priority. The presence of additional debt introduces risks such as:

- More complicated servicing arrangements as (i) lead servicing for the pari passu notes, including the pari passu mortgage loan in the trust, may take place under a separate servicing arrangement (the pari passu mortgage loan under such circumstance, a "Non-Serviced Trust Loan") or (ii) the master and special servicer for the trust under the pooling and servicing agreement may perform lead servicing for the pari passu mortgage loan in the trust (the pari passu mortgage loan under such circumstance, a "Serviced Trust Loan") along with servicing other pari passu notes.

- The pari passu note holders typically have certain rights and obligations among such holders enumerated in the related co-lender agreement.

- Potential lag or delay in servicing if the lead servicing of the Non-Serviced Trust Loan is no longer in place (i.e. if the lead serviced pari passu note is no longer in the lead serviced trust).

In this transaction, the Larkspur Landing Hotel Portfolio loan and Moffett Towers loan are Non-Serviced Trust Loans and are lead serviced under the COMM 2013 LC6 and COMM 2013 CCRE6 securitization pooling and servicing agreement, respectively. Morningstar did not rate the certificates issued under either of these securitizations at issuance and therefore, no legal review or analysis was performed with respect to such pooling and servicing agreements. The offering materials indicate that such pooling and servicing agreements provide for a servicing arrangement that is similar but not identical to the pooling and servicing agreement for this transaction. While Morningstar assumes these pooling and servicing agreements generally contain customary CMBS servicing provisions and requirements and such certificates issued under these securitizations have been rated by other rating agencies, these agreements may not include certain provisions customarily contained in Morningstar rated transactions such as Morningstar ranking requirements for servicers and special servicers and rating agency confirmation requirements or notifications to Morningstar of various items. In addition, Morningstar has assumed that the servicer, special servicer and/or trustee, as applicable, under the lead servicing pooling and servicing agreement is required to remit any and all payments on the Non-Serviced Trust Loans by a date to ensure timely payments of such amounts to the trust certificateholders. If these assumptions are not true, the ratings may be impacted.

The Moffett Towers Phase II loan is a Serviced Trust Loan and is lead serviced under the pooling and servicing agreement for this transaction. It is anticipated that all related pari passu loans will be included in other securitizations. The lead servicer typically makes all property protection advances for the entire loan while the servicer for each trust containing a pari passu note typically makes any p&i advances related to solely the pari passu note in the related trust. As lead servicer for the Moffett Towers Phase II loan, the master servicer, special servicer and/or trustee will be obligated to make property advances on the loan. Depending on costs, expenses and/or non-recoverable advances related to the loan, the master servicer, special servicer and/or trustee may be required to request and collect the pro rata portion of such amounts from the pari passu holders. If such amounts are not collected, losses (not allocable to the Serviced Trust Loan) could impact certificateholders.

A legal review was performed with respect to the co-lender agreements for the Non-Serviced Trust Loans and the Serviced Trust Loan. The co-lender agreements for the Non-Serviced Trust Loans provide for the servicing arrangements described above for the Non-Serviced Trust Loans. In addition, the co-lender agreements contain (i) certain consent and/or consultation rights among the note holders, and (ii) certain transfer restrictions and requirements related to the pari passu notes which could impact a sale of the Non-Serviced Trust Loans. Certain provisions of the co-lender agreements for the Non-Serviced Trust Loans are not preferred such as (i) a lack of Morningstar servicing ranking requirements for qualified servicers, (ii) a gross negligence standard (as opposed to a negligence standard) applicable to the lead servicer, and (iii) a lack of rating agency confirmation if the lead serviced note is not contained in a securitization. The co-lender agreement for the Serviced Trust Loan provides for the servicing arrangements described above for the Serviced Trust Loan. In addition, the co-lender agreement contains (i) certain consent and/or consultation rights among the note holders, and (ii) certain transfer restrictions and requirements related to the pari passu notes which could impact a sale of the Serviced Trust Loan.

***Additional Indebtedness and Preferred Equity***
Two loans have subordinate debt in the form of mezzanine loans. This subordinate debt was quantitatively factored into our subordination levels and ultimately reflected in our final ratings.

Though the payments on the additional debt are generally subordinated to the mortgage loan held by the trust, the presence of additional debt introduces risks to the senior debt including: 1) reduced borrower skin-in-the-game that may remove incentives to maintain or improve the competitiveness of the property resulting in lower rental streams; 2) the presence of additional debt increases the difficulty of refinancing a mortgage loan at the maturity date, and 3) the subordinate debt holder typically has certain rights such as (i) cure rights, (ii) purchase rights and (iii) various approval and/or consultation rights with the servicer and special servicer.

In the case of loans with subordinate debt, there may be an increase in the likelihood of default on the corresponding trust loan. Furthermore, while the subordinate debt holders typically enter into a co-lender agreement or intercreditor agreement with the holder of the senior debt to subordinate payments and allocate certain rights, it is not certain, upon a borrower bankruptcy, the impact of such subordinate debt (in particular, a two note structure) on the senior lender's rights in such bankruptcy. This may expose the trust loan to higher losses.

A legal review of the Moffett Towers Phase II mezzanine intercreditor agreement was performed. The Moffett Towers Phase II intercreditor provides the mezzanine lender with, among other rights, cure rights. For monetary defaults, the intercreditor agreement provides that the mezzanine lender shall have until five business days after the later of (i) the receipt by it from the senior lender of the senior loan default notice and (ii) the expiration of the borrower's cure period, if any, for such monetary default. If the default is of a non-monetary nature, the mezzanine lender shall have until 10 business days from the later of (A) the receipt by it of a senior loan default notice and (B) the expiration of the borrower's cure period, if any, for such default under the senior loan documents, to cure such non-monetary default, provided that the non-monetary cure periods may be further extended in certain circumstances as described in the intercreditor agreement. In addition, the Moffett Towers Phase II intercreditor agreement contains certain deviations favorable to the mezzanine lender that could have an adverse impact on the senior loan such as certain mezzanine holder consent rights and purchase option rights that could effectively delay senior lender's exercise of rights and remedies in connection with foreclosure, workout and/or loan modifications for 30 days (or such later period as provided in the intercreditor agreement) and certain rights 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 Moffett Towers Phase II intercreditor agreement may require the senior lender to waive non-monetary defaults which are not susceptible to cure by the mezzanine lender without a requirement that such defaults not have an adverse effect on the use, value or operation of the mortgaged property. This mandatory waiver of such a default would have the effect of leaving the senior lender without remedies in such a situation. This mandatory waiver and lack of remedies may adversely impact the property, the related loan and ultimately, the ratings.

In the case of loans with subordinate debt, there is an increase in the likelihood of default on the corresponding trust loan. Furthermore, while the subordinate debt holders typically enter into a co-lender agreement or intercreditor agreement with the holder of the senior debt to subordinate payments and allocate certain rights, it is not certain, upon a borrower bankruptcy, the impact of such subordinate debt (in particular, a two note structure) on the senior lender's rights in such bankruptcy. This may expose the trust loan to higher losses.

***Future Subordinate Debt***
With respect to eight loans, the direct and/or indirect equity owners of the borrower(s) are permitted to incur future mezzanine debt, subject to the satisfaction of conditions contained in the related loan documents, including, among other things, the combined maximum loan-to-value ratio and the combined minimum DSCR, as shown below. With respect to those loans whose borrowers are permitted to incur future mezzanine debt, such future mezzanine or similar debt may result in risks such as those noted above.

***Sponsors with Past Bankruptcy, Foreclosure, or Default***
The key principals or sponsors of the borrowers on certain loans in this portfolio have defaulted on one or more obligations in the past, which may mean they are more likely to declare default again in the future. There can be no assurance that such circumstances will not impact the sponsor's or borrower's ability to maintain the property or pay amounts due on the loan.

- 180 Hester Street (0.6%): One of the non-recourse carveout guarantors is a controlling member in an entity, Waterscape Resorts LLC, that filed for bankruptcy in April 2011 due to claims (including over $20,000,000 in mechanic’s liens) brought by the general contractor and its subcontractors in the development of the another property that is owned by an affiliate of the borrower. A reorganization plan including an $11,000,000 trust fund to pay any outstanding lien claimants was approved by the bankruptcy court in January 2012. The bankruptcy court determined that many of the general contractor and subcontractor claims were duplicative and should fall within the $11,000,000 trust.

In addition, in some cases, mortgaged properties securing certain of the mortgage loans previously secured other loans that had been in default, restructured or the subject of a discounted payoff, foreclosure or deed in lieu of foreclosure. For example:

- Forest Square (1.5%): The related sponsor of the mortgage loan acquired ownership of the related mortgaged property in 2008 when the prior mezzanine borrower defaulted on its mezzanine loan obligations to the sponsor. In addition, an affiliate of the mortgage borrower entered into a consensual deed-in-lieu in October 2012 after two unsuccessful loan modification requests regarding a securitized loan backed by two retail properties located in Long Grove, Illinois. In addition, an affiliate of the mortgage borrower has a current securitized airport parking structure loan in special servicing. In 2010, the sole tenant at the airport parking structure rejected its lease in bankruptcy. Subsequent to the lease rejection, the property was re-leased to a new tenant and the loan was restructured in March 2011; however, due to the decline in enplanements at the airport, the respective borrower is in discussion with the special servicer to further restructure the loan.

- Hilton Garden Inn Suffolk (0.8%): the mortgage loan paid off an existing loan at a discounted payoff.

***Sponsor or Borrower Litigation***
There may be pending or threatened legal proceedings against the borrowers and managers of the mortgaged properties and their respective affiliates related to the business of or arising outside the ordinary business of the borrowers, managers and affiliates, which litigation or proceedings could cause a delay or inability in the related borrower's or loan sponsor's ability to meet its obligations under the related mortgage loan or otherwise in respect of the related mortgaged property or threaten a loan sponsor's financial condition or control of the related borrower.

- Lakeland Square Mall (7.5%): The related borrower under such mortgage loan was part of the General Growth Properties, Inc. bankruptcy that was filed in April 2009. General Growth Properties, Inc. emerged from bankruptcy in November 2010 and subsequently spun off such borrower and the related mortgaged property to the current sponsor, Rouse Properties, Inc.

- Residence Inn San Diego (2.0%): Apple REIT Seven, Inc., the non-recourse carve-out guarantor for the mortgage loan, along with various other affiliated entities and their respective directors and officers, David Lerner and David Lerner Associates, Inc., are named defendants in a consolidated action known as In re Apple REITs in the United States District Court for the Eastern District of New York. The consolidated lawsuit alleges claims of, among others, breach of fiduciary duty, negligence, violations of federal, New Jersey, Connecticut and Florida securities laws and unjust enrichment. The consolidated action seeks, among other things, a certification of a putative nationwide class. On July 13, 2012, each of the defendants filed motions to dismiss the consolidated complaint. The motions to dismiss were granted with prejudice on April 3, 2013. The plaintiffs have 30 days to file an appeal.

- Rolling Hills Shopping Center, Lafayette Square, Highland Fair Shopping Center and Heritage Oaks Shopping Center (1.0%, 0.9%, 0.9% and 0.6%, respectively): Phillips Edison Limited Partnership, the common sponsor with respect to each mortgage loan, is named a defendant in U.S. Bank National Association, Successor-In-Interest to Bank of America, N.A., Successor by-Merger to LaSalle Bank National Association, as Trustee for the Registered Holders of LB-UBS Commercial Mortgage Trust 2007-C7 Commercial Mortgage Pass-Through Certificates, Series 2007-C7 v. Rosenberg Station LLC et al (Case 4:12-cv-03159, filed 10/23/2012). This litigation relates to loans (in the maximum principal amount of $15 million) unrelated to the mortgaged properties and borrowers under the Mortgage Loans: Rolling Hills, Lafayette, Highland, and Heritage. The principal remedy sought is the appointment of a receiver. The complaint alleges claims, among others, that Phillips Edison Limited Partnership is liable for losses due to the applicable borrowers' misapplication of rents, failure to pay tax and insurance escrows and failure to deliver financial statements. The counsel for the sponsor indicated that the maximum exposure for Phillips Edison Limited Partnerships would likely not exceed the loan amount, interest and fees thereon.

- Mariano's Vernon Hills and Mariano's Palatine (1.9% and 1.6%, respectively): The related loan documents permit the respective borrowers to transfer the mortgaged properties and the related mortgage loans to entities controlled by, among others, Inland American Real Estate Trust, Inc. (Inland REIT) and Inland Real Estate Investment Corporation (Inland REIT Parent, and collectively with Inland REIT, the Inland REIT Parties). The loan documents also permit the non-recourse carve-out guarantor to merge with certain entities, including the Inland REIT Parties. On or about March 21, 2013, investors in Inland REIT commenced a derivative action in the Circuit Court of Cook County, Illinois, naming, among others, the Inland REIT Parties as defendants. The plaintiffs allege breach of fiduciary duty against Inland REIT's business manager and Inland REIT Parent and unjust enrichment against Inland REIT

Parent. The claims arise from an allegation that the Inland REIT business manager, Inland REIT Parent and certain individual defendants caused Inland REIT to pay significant management fees and sales commissions to its business manager to which it was allegedly not entitled, related to the sale of additional shares of stock at artificially inflated prices. Plaintiffs also allege that the business manager was paid management fees to which it was not entitled based upon treating certain distributions to shareholders as returns on invested capital rather than as the return to such shareholders of their invested capital. Additionally, Inland REIT reported in its Form 10-K, filed March 13, 2013 (March 10-K), that it is currently under investigation by the United States Securities and Exchange Commission (SEC) in connection with its business management fees, property management fees, transactions with affiliates, timing and amount of distributions paid to investors and certain other matters. The March 10-K also disclosed certain demands by stockholders to conduct investigations regarding claims that the officers, the board of directors, the business manager, and the affiliates of the business manager breached fiduciary duties to stockholders in connection with the matters subject to the SEC's investigation. Inland REIT further disclosed that its board formed a "special litigation committee" to investigate the matters related to the SEC's investigation and the related stockholder demands.

***Purchase Options and Rights of First Refusal***

With respect to certain loans, certain parties, such as tenants, mezzanine holders and adjacent owners, may have a purchase option, right of first refusal and/or right of first offer to purchase all or a portion of the related property. In addition, the controlling class has a right to purchase a defaulted loan under certain circumstances. Such rights may impede a refinance, foreclosure, sale and/or marketability of the loan and/or property.

***Repurchase Obligation***

The mortgage loan sellers may be required to repurchase their respective mortgage loans (inclusive of any Non-Trust Serviced Loans and Serviced Trust Loans) from the trust due to a material breach of a representation or warranty or a document defect. Alternatively, in this transaction a mortgage loan seller may make a loss of value payment to the trust to compensate for the material breach or document defect or substitute a qualifying substitute mortgage loan. 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, provide such loss of value payment or substitute such loan. Also, such loss of value payment or substitute loan may not provide certificateholders with a remedy equivalent or comparable to such a repurchase.

***Properties Secured by a Leasehold Interest***

Three loans (3.5%) are secured by a mortgage on the borrower's leasehold or sub-leasehold interest or interests, which may be an air rights lease, in the related mortgaged property and not the related fee simple interest. Two these loans have unique ground lease provisions that may expose investors to greater risks of default and loss than the provisions in more standard ground leases:

- Hampton Inn Jekyll Island, GA (1.5%): The borrower holds a leasehold interest pursuant to a sublease from Jekyll Ocean Oaks, LLC, which is owned by an affiliate of the sponsor. The sub-lease expires on January 31, 2048. Jekyll Ocean Oaks, LLC, leases the mortgaged property and other land not included in the sub-lease from Jekyll Island State Park Authority. The borrower pays Jekyll Ocean Oaks, LLC 3% of gross income, which will escalate to 3.5% of gross income on January 1, 2018. The mortgaged property is restricted to use as a hotel.

- Hampton Inn & Suites Williston, ND (1.0%): The borrower holds a leasehold interest pursuant to a sublease from G&B Development, LLC, which expires on June 21, 2061. G&B Development, LLC leases the mortgaged property and other land not included in the sub-lease from Mercy Medical Foundation. The borrower pays G&B Development, LLC a fixed annual rent that will be adjusted on the tenth anniversary of the commencement of rent payment and every five years afterwards. The mortgaged property may not be used for any purpose other than as a flag hotel of a national chain without the master ground lessor's prior consent.

***Condominium Ownership***

In the case of condominiums, a board of managers generally has discretion to make decisions affecting the condominium and there is no assurance that the related borrower will have any control over decisions made by the related board of managers. Decisions made by that board of managers, including decisions regarding assessments to be paid by the unit owners, insurance to be maintained on the condominium and many other decisions affecting the maintenance of the condominium, may have an adverse impact on any underlying mortgage loans that are secured by condominium interests. There is no assurance that the related board of managers will always act in the best interests of the borrower under those mortgage loans. Further, due to the nature of condominiums, a default on the part of the borrower will not allow the applicable special servicer the same flexibility in realizing on the collateral as is generally available with respect to properties that are not condominiums. The rights of other unit owners, the documents governing the management of the condominium units and the state and local laws applicable to condominium units must be considered. In addition, in the event of a casualty with respect to a mortgaged real property which consists of a condominium interest, due to the possible existence of multiple loss payees on any insurance policy covering the mortgaged real property, there could be a delay in the allocation of related insurance proceeds, if any. Consequently, servicing and realizing upon a condominium property could result in greater delay, expense and risk than with respect to a mortgage loan secured by a property that is not a condominium.

The following mortgage loans are secured, in whole or in part, by the related borrower's fee simple ownership interest in one or more condominium units: 50 Dey Street (1.4%), Augusta Court (1.1%), and 180 Hester Street and (0.6%).

***Sub-servicing***
While Morningstar prefers the ranked special servicer to perform special servicing functions, inclusive of foreclosure and workout strategies, the pooling and servicing agreement allows the special servicer to utilize a sub-servicer to perform such functions with directing holder consent. As a mitigant, the pooling and servicing agreement requires the special servicer to remain obligated and primarily liable for the servicing and administering of the mortgage loans and serviced companion loans in accordance with the provisions of the pooling and servicing agreement without diminution of such obligation or liability by virtue of such sub-servicing agreements or arrangements.

***Ratings on Class A-3FL and Class A-4 FL Certificates***
Morningstar's rating(s) on the Class A-3FL and/or Class A-4FL certificates do(es) not represent any assessment of whether the floating interest rate on those certificates will convert to a fixed rate or any payment delays or risks related to such conversion. With respect to the Class A-3FL and Class A-4FL certificates, Morningstar is only rating to the receipt of interest up to the pass-through rate applicable to the Class A-3FL or Class A-4FL regular interest and is not rating the receipt of interest accrued at a rate based on LIBOR plus any applicable spread. The ratings on these classes do not constitute any rating with respect to the likelihood of the receipt of payments to be made by the swap counterparty or any interest rate reductions or increases contemplated in the swap agreement. In addition, the ratings do not address any shortfalls or delays in payment that investors in the Class A-3FL and/or Class A-4FL certificates may experience as a result of the conversion of the pass-through rate on those certificates from a rate based on LIBOR to a fixed rate. In addition the ratings do not address risks related to any exchanges of the Class A-3FL certificates or Class A-4FL certificates.

# Property / Collateral Summary

This section provides information on the mortgaged properties in the pool. Asset Summary Reports providing property details and Morningstar's line item analysis are available for the top 20 loans. Reports for the top 10 loans are included in this presale report. In addition, an overview of Morningstar's analysis for each property including the final net cash flow, capitalization rate and value is available in Excel format in our Loan Collateral Summary Table, which, along with all of the Asset Summary Reports, can be accessed through Morningstar's website at http://ratingagency.morningstar.com, in the Ratings Report section.

***Property-type Composition***

The pool's 59 loans are secured by first-mortgage liens on 87 commercial and multifamily properties. Office is the largest property type with nine properties and 39.1% of the initial pool balance. Other property-type concentrations are in retail (20 properties, 23.7%) and hospitality (31 properties, 22.3%). Morningstar views office and hospitality properties as having more cash flow volatility over time than retail or multifamily properties, and we have factored the transaction's property-type concentrations into our subordination levels and ratings.

| Property Type | Number of Assets | % of Initial Pool Balance | Morningstar Debt Yield | Morningstar Current DSCR | Morningstar Amortizing DSCR | Morningstar BLTV | Morningstar ELTV |
|---|---|---|---|---|---|---|---|
| Office | 9 | 39.1% | 8.50% | 1.88 x | 1.47 x | 85.97% | 73.68% |
| Hospitality | 31 | 22.3% | 12.07% | 1.81 x | 1.81 x | 79.07% | 65.45% |
| Retail | 20 | 23.7% | 9.82% | 1.71 x | 1.59 x | 82.14% | 66.01% |
| Multifamily/MHC | 8 | 4.7% | 9.08% | 1.53 x | 1.48 x | 85.13% | 68.14% |
| Senior Housing | 0 | 0.0% | - | - | - | - | - |
| Industrial | 1 | 1.4% | 10.06% | 1.53 x | 1.53 x | 86.98% | 71.07% |
| Self-Storage | 14 | 2.6% | 11.17% | 1.93 x | 1.74 x | 92.88% | 72.91% |
| Mixed Use | 4 | 6.2% | - | - | - | - | - |
| **TOTAL:** | **87** | **100%** | **9.52%** | **1.81 x** | **1.57 x** | **83.98%** | **70.45%** |

***Geographic Composition***

As the tables below show, the properties are concentrated on the West and East coasts, with the bulk of the properties in California. The properties securing four of the ten largest loans are in northern California.

| Morningstar Region | % of Cut-off Portfolio Balance | # of Properties |
|---|---|---|
| Mid-Atlantic Region | 7.6% | 4 |
| Midwest, Eastern Region | 13.4% | 15 |
| Midwest, Western Region | 4.6% | 7 |
| New England Region | 3.3% | 1 |
| Southern, Atlantic Region | 9.3% | 7 |
| Southern, East Coast Region | 12.1% | 7 |
| Southern, West Coast Region | 3.3% | 9 |
| Western, Mountain Region | 6.5% | 15 |
| Western, Northern Pacific | 39.9% | 22 |
| Western, Southern Pacific | 0.0% | 0 |
| Non-USA | 0.0% | 0 |

| State | % of Cut-off Portfolio Balance | # of Properties |
|---|---|---|
| California | 36.2% | 17 |
| Florida | 9.2% | 3 |
| Illinois | 8.7% | 7 |
| North Carolina | 7.5% | 4 |
| Arizona | 3.6% | 5 |
| **Top 5 Total** | **65.3%** | **36** |

***Property Quality***

Morningstar assigns a property quality score to every property in a pool of loans. We do this both for properties that we visit and those we do not. Factors such as the property's age, location, condition, and amenities are considered in assigning the quality score. For those properties we do not tour in person, we rely on the assessments and conclusions in the various related third party reports, as well as pictures and maps, to determine our quality score. Morningstar uses a scale of 1 to 5, with "1" being the highest quality. After assigning a quality score to each property, Morningstar then factors each score into the assignment of our cap rates.

| Morningstar Property Score | Property Quality |
|---|---|
| 1 | Excellent |
| 2 | Good |
| 3 | Average |
| 4 | Fair |
| 5 | Poor |

Morningstar analysts visited 24 of the 87 properties (66.1% by loan balance) including those backing the largest 10 loans, and assigned property quality scores to each. Morningstar uses a scale of 1 to 5, with "1" being the highest quality. Factors such as 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 cap rates. We assigned a score of 2, "Good," to three properties, Moffett Towers Phase II (13.9%), One West Fourth Street (5.5%) and Moffett Towers (4.3%). We assigned average scores (score of 3) to the 21 other properties we toured. Morningstar's observations from the site visits are provided in the individual asset summary reports and the properties visited are noted in our Loan Analysis Summary Table.

| Quality Score | # of Properties | % of Cut-off Balance |
|---|---|---|
| 1 | 0 | 0.0% |
| 2 | 3 | 23.7% |
| 3 | 84 | 76.3% |
| 4 | 0 | 0.0% |
| 5 | 0 | 0.0% |

***Ownership Interest***

Eighty-four of the 87 properties securing the loans have fee simple ownership; three properties are secured by a mortgage on the borrower's leasehold or sub-leasehold interest or interests: Hampton Inn Jekyll Island, GA (1.5%): Hampton Inn & Suites Williston, ND (1.0%), and Tifton Plaza (0.9%).

## 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.

***Property-type Concentration Risk***

The portfolio has a high concentration in office properties (39.1%). Morningstar believes office properties are subject to more cash flow volatility than are retail or multifamily properties. Morningstar quantitatively addresses this risk by applying higher stresses in its subordination model to the cash flows of loans backed by office properties.

***Single-tenant Properties***

Twelve properties (8.5%) are entirely leased to a single tenant. Each of those properties is generally subject to a single space lease, which in some cases has a primary lease term that expires on or after the maturity date of the related loan, but in other cases does not. In addition, certain of these leases may have termination options that are prior to the maturity date of the related loan.

***Environmental Concerns***

A Phase I Environmental Assessment was not conducted in the past five years for three loans: Waters Place Shopping Center (1.8%), Lowe's of Bellevue (0.9%), and Publix at Mountain Cave Crossing (0.3%). An environmental report was prepared for each of the other 84 properties securing a loan no more than 12 months prior to the cut-off date. In some cases, the environmental testing at the properties revealed the presence of asbestos containing materials, lead based paint, mold and/or radon, conditions not uncommon for certain types of commercial or multifamily properties. Some borrowers under the underlying mortgage loans may not have satisfied all post-closing obligations required by the related loan documents with respect to environmental matters.

The following loans are secured by properties that are either being monitored or remediated for historical environmental condition(s) or for which an historical environmental condition was indicated in the related Phase I environmental site assessment:

- 50 Dey Street (1.4%): The Phase I environmental site assessment indicates that the site is in the process of being monitored and remediated as a result of historical industrial use. Two remedial actions are underway. The first is the removal of excess historic fill and the second is active remediation of groundwater. According to the licensed site remediation professional (LSRP) who is monitoring and facilitating the remediation, the removal of the historic fill was completed in December 2012. The groundwater remediation is currently underway and will take approximately 2 years with a potential 2 additional years to complete. The total cost of this remediation was estimated by LSRP to be $120,000 and is the responsibility of the seller of the property, Corigan Real Estate Group. At closing, the lender held back $120,000 in connection with the remediation work. In addition, the loan documents require the sponsor to assume responsibility for the remediation and associated costs in the event Corigan Real Estate Group defaults on its remediation obligation. Due to residual concentrations of certain contaminants in the soil and groundwater at the site, certain parts of the mortgaged property cannot be used as residential property, child care facility, or schools unless further remediation is undertaken.

- Summit Hotel Portfolio II (2.4%): The Phase I environmental site assessment of the Hyatt Place – Old Town Scottsdale property indicated a portion of the related property is within the North Indian Bend Wash Superfund Site, which is associated with historic offsite industrial activities that contaminated underlying groundwater aquifers at depths from 70 to 100 feet below the ground surface and is a recognized environmental condition. The Phase I environmental site assessment states that no further action is recommended based on the information found on the United States Environmental Protection Agency's website, the depth of the contaminated groundwater and ongoing remedial actions being performed under the oversight of the United States Environmental Protection Agency since the 1980s.

# Securitization Trust Summary

**Priority of Payments on COMM 2013-CCRE7 Trust Certificates**

The priority of payments on the COMM 2013-CCRE7 Mortgage Trust Certificates generally follows a sequential-pay structure, as outlined below.

(1) Interest on the Class A-1, Class A-2, Class A-SB, Class A-3, Class A-4, Class X-A, and Class X-B Certificates, and the Class A-3FL and Class A-4FL Regular Interests, pro-rata;
(2) Principal paydown of the Class A-1, Class A-2, Class A-SB, Class A-3 and Class A-4 Certificates, the Class A-3FL Regular Interest and the Class A-4FL Regular Interest in reduction of the Certificate Balances thereof, in the following priority[3]:
   i) to the Class A-SB Certificates, until the balance has been reduced to the Planned Principal Balance;
   ii) then, to the Class A-1 Certificates;
   iii) then, to the Class A- 2 Certificates;
   iv) then, to the Class A-3 Certificates and the Class A-3FL Regular Interest, pro rata;
   v) then, to the Class A-4 Certificates and the Class A-4FL Regular Interest, pro rata;
   vi) then, to the Class A-SB Certificates;

(3) Reimbursement of unreimbursed realized loss amounts to the Class A-1, Class A-2, Class A-SB, Class A-3 and Class A-4 Certificates, the Class A-3FL Regular Interest and the Class A-4FL Regular Interest, pro-rata;
(4) Interest to the Class A-M and Class PEZ Certificates;
(5) Principal paydown of the Class A-M and Class PEZ Certificates;
(6) Reimbursement of unreimbursed realized loss amounts to the Class A-M and Class PEZ Certificates;
(7) Interest on the Class B Certificates and the Class PEZ Certificates, up to an amount equal to the Class B-PEZ Percentage Interest of the aggregate Interest Accrual Amount with respect to the Class B Trust Component, pro rata;
(8) Principal paydown of the Class B and Class PEZ Certificates until paid in full, up to the principal distribution amount;
(9) Reimbursements of unreimbursed realized loss amounts to the Class B and Class PEZ Certificates;
(10) Interest on the Class C Certificates and the Class PEZ Certificates, up to an amount equal to the Class C-PEZ Percentage Interest of the aggregate Interest Accrual Amount with respect to the Class C Trust Component, pro rata;
(11) Principal paydown of the Class C Certificates and the Class PEZ Certificates, until paid in full, up to the principal distribution amount;
(12) Reimbursements of unreimbursed realized loss amount to the Class C and the Class PEZ Certificates;
(13) Interest on the Class D Certificates;
(14) Principal paydown of the Class D Certificates until paid in full, up to the principal distribution amount;
(15) Reimbursements of unreimbursed realized loss amount to the Class D Certificates;
(16) Interest on the Class E Certificates;
(17) Principal paydown of the Class E Certificates until paid in full, up to the principal distribution amount;
(18) Reimbursements of unreimbursed realized loss amount to the Class E Certificates;
(19) Interest on the Class F Certificates;
(20) Principal paydown of the Class F Certificates until paid in full, up to the principal distribution amount;
(21) Reimbursements of unreimbursed realized loss amount to the Class F Certificates;
(22) Interest on the Class G Certificates;
(23) Principal paydown of the Class G Certificates until paid in full, up to the principal distribution amount;
(24) Reimbursements of unreimbursed realized loss amount to the Class G Certificates;
(25) Interest on the Class H Certificates;
(26) Principal paydown of the Class H Certificates until paid in full, up to the principal distribution amount;
(27) Reimbursements of unreimbursed realized loss amount to the Class H Certificates;
(28) To the Class R and Class LR Certificates as specified in the Pooling and Servicing Agreement.

[3] On or after the cross-over date, the Class A-1, Class A-2, Class A-SB, Class A-3 and Class A-4 Certificates, the Class A 3FL Regular Interest and the Class A-4FL Regular Interest receive principal pro rata. The cross-over date is the distribution date on which the certificate balance of the Class B, Class C, Class D, Class E, Class F, Class G, and Class H certificates is reduced to zero.

**Allocation of Losses on COMM 2013-CCRE7 Trust Certificates**
Losses on the Trust Certificates are generally allocated in a reverse sequential order -- *first*, to the Class H Certificates, *second*, to the Class G Certificates, *third*, to the Class F Certificates, fourth to the Class E Certificates, fifth to the Class D Certificates, sixth to the Class C Trust Component (and correspondingly, to the Class C Certificates and the Class PEZ Certificates, pro rata), seventh to the Class B Trust Component (and correspondingly, to the Class B Certificates and the Class PEZ Certificates, pro rata), eighth, , to the Class A-M Trust Component (and correspondingly, to the Class A-M Certificates and the Class PEZ Certificates, pro rata), and finally, pro rata, to the Class A-1, Class A-2, Class A-SB, Class A-3 and Class A-4 Certificates and the Class A-3FL Regular Interest and the Class A-4FL Regular Interest based on their respective Certificate Balances.

**Rated Final Distribution Date**
The rated final distribution date of each class of certificates is March 2046. 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 date.

**Representations, Warranties & Enforcement Mechanisms**

Pursuant to Rule 17g-7 and incorporated by reference into this presale report, is our report providing the representations, warranties, and enforcement mechanisms available to investors for this transaction and comparing them to the representations, warranties, and enforcement mechanisms available to investors for similar securities. This report titled, "Representations, Warranties & Enforcement Mechanisms – COMM 2013-CCRE7", appears on our website at http://ratingagency.morningstar.com under the "Ratings Reports" tab.

## Trust Structural Features/Concerns

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

***Rights of Subordinate Debtholders***
Pursuant to the terms of co-lender, participation and mezzanine intercreditor agreements, the applicable holder of the B note, junior participation and/or mezzanine lender may have certain cure rights, purchase option rights and certain consent and/or consultation rights with respect to the applicable loan. In addition, holders of B notes and junior participations may have rights to replace the special servicer for the related loan and appoint a replacement special servicer. These rights may impact the special servicer's workout strategy and/or the timing for modifications on the loan and a sale of the loan. In addition, such removal and appointment rights may create conflicts of interest with respect to the special servicer. However, the special servicer is required to act in accordance with the servicing standard without regard to such conflicts. Second mortgages may entail similar and/or additional risks.

***Pooling and Servicing Agreement***
While the pooling and servicing agreement provides that the certificate administrator and trustee shall not be responsible for the failure of realization in foreclosure resulting from the failure to properly file or record an assignment of mortgage, we assume that the certificate administrator, custodian, trustee and/or other party(ies) will comply with pooling and servicing agreement provisions requiring appropriate filings and/or related actions related to any foreclosure proceedings.

***Operating Advisor***
Park Bridge Lender Services LLC has or will be appointed the Operating Advisor. The Operating Advisor will be required to consult with the special servicer with respect to certain actions of the special servicer. The Operating Advisor is acting solely as a contracting party to the extent described in the pooling and servicing agreement. In addition, while there is an Operating Advisor with certain obligations in respect of reviewing the compliance of the special servicer with certain of its obligations under the pooling and servicing agreement, the Operating Advisor only has the limited obligations and duties set forth in the pooling and servicing agreement, and has no fiduciary or other duty to act on behalf of the certificateholders or the trust fund or in the best interest of any particular certificateholder. Any consultation of the Operating Advisor with the special servicer is on a non-binding basis and Morningstar relies on the master and special servicer to service the loans under the servicing standard enumerated in the trust and servicing agreement. Any Non-Serviced Trust Loans may have an operating advisor performing similar functions under the lead servicing pooling and servicing agreement for such loans.

***Directing Certificateholder***

With respect to each mortgage loan (other than Non-Serviced Trust Loans) or Serviced Trust Loans (and related pari passu notes), the directing holder will be the controlling class certificateholder (or a representative thereof) selected by more than 50% of the controlling class certificateholders, by certificate balance, as determined by the certificate registrar from time to time as provided for in the pooling and servicing agreement.

The controlling class will be the most subordinate of the Class E, Class F, Class G or Class H certificates then outstanding that has an outstanding certificate balance (as reduced or notionally reduced by any realized losses and any appraisal reduction amounts allocable to such class) that is equal to or greater than 25% of the initial certificate balance of that class, or if none, the class E certificates. No other class of certificates will be eligible to act as the controlling class or appoint a directing holder.

For so long as no Control Termination Event (as defined under Replacement of Special Servicer) has occurred, the directing holder has various consent rights. After a Control Termination Event but prior to a Consultation Termination Event (as defined under Replacement of Special Servicer), the directing holder has consultation rights. After a Consultation Termination Event, the directing holder will have no consent or consultation rights.

It is anticipated that an entity controlled by affiliated funds of Perella Weinberg Partners Asset Based Value Strategy will (i) purchase the Class E, F, G, and H certificates and (ii) be the initial directing holder for all mortgage loans and the Serviced Trust Loan.

In general, the lead servicing directing holder will have consent and consultation rights related to the Non-Serviced Trust Loans and the directing holder described in the preceding paragraph will have consent and consultation rights related to the Serviced Trust Loan. However, the Serviced Trust Loan related pari passu note holders (or the directing holder for the related trust) may have certain consultation rights.

Morningstar expects that any controlling class and/or directing certificateholder consent rights and rights with respect to information, such as workout information, are cut off any time the directing certificateholder and/or controlling class is a borrower or borrower affiliate. Per the arranger, the intent of certain clauses in the definitions of "Certificateholder" and "Privileged Person" (each as defined in the pooling and servicing agreement for this transaction) is to cut off controlling class and/or directing certificateholder consent rights and rights with respect to certain information at any time such certificates are held by a borrower or borrower affiliate (even if such directing holder is an affiliate of special servicer).

***Replacement of Special Servicer***

The special servicer may be removed (with respect to any trust mortgage loan serviced by it): (i) if a Control Termination Event has not occurred (or is no longer continuing), at the direction of the applicable directing holder, (ii) if a Control Termination Event has occurred and is continuing and among other things, at least 25% of the voting rights (taking into account appraisal reduction amounts) of the sequential pay certificates request a vote to replace the special servicer, then at the written direction of (x) holders of sequential pay certificates evidencing at least 75% of the aggregate voting rights (taking into account the application of any appraisal reduction amounts) of all sequential pay certificates on an aggregate basis or (y) holders of sequential pay certificates evidencing more than 50% of the aggregate voting rights of each class of non-reduced certificates (generally, those certificates for which the initial balance net of principal payments, appraisal reduction amounts and realized losses is at least equal to 25% of the initial balance minus principal payments); and (iii) if a Consultation Termination Event has occurred and is continuing, at the recommendation of the Operating Advisor and with a confirming vote by an affirmative vote of holders of sequential pay certificates evidencing at least a majority of the aggregate voting rights (taking into account the application of any appraisal reduction amounts) of all sequential pay certificates on an aggregate basis.

A "Control Termination Event will occur with respect to any mortgage loan (other than a Non-Serviced Trust Loan) or Serviced Trust Loan and related pari passu notes at any date on which no class E, F, G or H certificates exist that have a certificate balance (as notionally reduced by any appraisal reduction amounts allocable to such class) that is at least equal to 25% of the initial certificate balance of that class.

A "Consultation Termination Event" will occur with respect to any mortgage loan (other than a Non-Serviced Trust Loan) or Serviced Trust Loan and related pari passu notes at any date on which no class E, F, G or H certificates exist that have a certificate balance that is at least equal to 25% of the initial certificate balance of that class.

***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 pooling and servicing agreement or mortgage loan purchase agreement(s) and/or with respect to the Non-Serviced Trust Loans and loan documents and securitization documents related thereto. 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.

***Conflicts of Interest***

There are and/or may be various conflicts of interest among and between various parties to the transaction and the transactions related to the Non-Trust Serviced Loans and pari passu loans related to the Serviced Trust Loan. 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.

# Reserve Accounts

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

**Real Estate Tax Escrows**
Forty-eight of the 59 loans (89.0%) provide for monthly or upfront escrows to cover property taxes on the related properties. In the case of monthly escrows, borrowers are generally required to deposit on a monthly basis an amount equal to one-twelfth of the annual real estate taxes and assessments. The escrows are under the control of the master servicer.

**Insurance Escrows**
Thirty-one loans (29.2%) provide for monthly or upfront escrows to cover insurance premiums on the properties. Twenty-five loans (67.8%) are structured with springing-type insurance reserve accounts. In the case of monthly escrows, the related borrower is generally required to deposit on a monthly basis an amount equal to one-twelfth of the annual premiums payable on the insurance policies that the borrower is required to maintain. In most cases, the escrows will be under the control of the master servicer.

**Recurring Replacement Reserves**
These accounts cover the costs of capital replacements and repairs during the calendar year to keep each property in condition consistent with other properties in their respective market segment and locations. Forty-eight loans (82.7%) provide for monthly payments into reserve for replacement accounts. The borrowers for seven loans (14.1%) will be required to escrow for replacement reserves if the performance of the related property fails to meet certain thresholds. Disbursements from this account are made to the borrowers to cover the costs of replacements at the properties and are not for the costs of routine maintenance.

**Engineering Reserves**
These reserves are intended cover the deferred maintenance items that were identified in the related property condition assessments and which are required to be corrected within 12 months from loan origination. In a significant number of cases, the engineering reserve for a mortgaged property is less than the cost estimate in the related property condition report because the mortgage loan seller may not have considered various items cited in the report significant enough to require a reserve and/or various items have been corrected. In the case of several properties the engineering reserve was a significant amount and substantially in excess of the cost estimate set forth in the inspection report. Not all engineering reserves are required to be replenished. The balance of reserves in the escrow account will be about $2.76 million at the securitization closing date.

# Third Party Reports

**Appraisals**
Appraisal reports, prepared by an independent third-party appraisal firm within the last 12 months were received and reviewed as part of Morningstar's analysis for all of the properties except Waters Place Shopping Center (1.8%), Lowe's of Bellevue (0.9%) and Publix at Mountain Cave Crossing (0.3%). For the three loans that do not have a recent appraisal, the mortgage loan seller has obtained an opinion of value within the last 12 months.

**Property Condition Assessments**
Property condition reports, prepared by an independent third-party engineer within the last 12 months were received and reviewed as part of Morningstar's analysis for all of the properties except Waters Place Shopping Center (1.8%), Lowe's of Bellevue (0.9%) and Publix at Mountain Cave Crossing (0.3%). These reports identified deferred maintenance items and quantified long-term capital expenditure needs. Up-front reserves of $2.75 million were required to be deposited into an Engineering Reserve Account on the loan origination date to cover any deferred maintenance items at the properties. In addition, 48 loans (82.7%) require a monthly reserve for replacement account which can be used to repair or renovate the related properties as needed. Seven loans have springing-type replacement reserve accounts.

**Environmental Site Assessments**
Phase I environmental site assessments (ESAs) were prepared by independent third-party environmental consultants within the last 12 months for all the properties except Waters Place Shopping Center (1.8%), Lowe's of Bellevue (0.9%) and Publix at Mountain Cave Crossing (0.3%). These reports were reviewed as part of Morningstar's analysis for each of the properties. For several of the properties, the ESAs and other assessments recommend minor repairs, further investigation, requesting agency "no further action" determinations or cleanups. A Phase II site assessment was conducted the property securing the One West Fourth Street loan and the property securing the Highland Fair Shopping Center loan. Significant environmental concerns raised by the ESAs, if any, are noted in the related Asset Summary Reports.

**Seismic**
Twenty-two properties (39.7%) are in an earthquake-prone area (seismic zone 3 or 4). Probable Maximum Loss (PML) is used to estimate 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 all of these properties found that all properties have a probable maximum loss (PML) of less than 18.0%.

# Scope of Analysis

In evaluating the properties and determining Morningstar cash flows and values, we reviewed the following materials to the extent we deemed necessary for our analysis and as provided on the arranger's website for this transaction as of April 8, 2013 for every property: the offering materials (as applicable), the historical financial statements (for the most recent three years unless the property did not have three years of operating history available), issuer's underwriting and supporting analysis and notes, most recent available rent rolls, Reis Reports, when available, property appraisals, environmental site assessments, property condition assessments, and other market and property information as available. In certain cases, to the extent we deemed necessary for our analysis and as provided on the arranger's website for this transaction as of the date hereof, we also reviewed seismic reports, surveys, leasing brochures, photographs of the properties and maps of the surrounding areas.

While the arranger website may provide additional documentation, data and/or other information, Morningstar's review is generally limited to the information enumerated herein. Morningstar did not engage in discussions with any person or entity obligated to make payments under the loan.

A more detailed description of Morningstar's collateral analysis approach is enumerated below. For more detail on the reports and individual Morningstar analysis of certain properties, please refer to the Asset Summary Reports. Appendix C of this presale report contains general characteristics of Morningstar's rating of CMBS transactions as well as characteristics specific to this transaction.

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 April 6, 2013 (except as otherwise specified in this paragraph): (i) the April 6, 2013 posted draft free writing prospectus, (ii) the following for the Moffett Towers Phase II loan: (a) loan summary for the Moffett Towers Phase II loan, (b) limited liability company agreement of MT Lot 3 EFG LLC dated as of March 18, 2013, (c) opinions of Richards Layton & Finger, P.A. dated March 18, 2013 regarding authority to file bankruptcy and DE LLC matters, (d) opinion of Manatt Phelps Phillips dated March 18, 2013 regarding nonconsolidation and (e) opinion of Manatt Phelps Phillips dated March 18, 2013 regarding enforceability and other matters, (iii) the following for the Lakeland Square Mall loan: (a) loan summary for the Lakeland Square Mall loan, (b) amended and restated operating agreement of Lakeland Square Mall, LLC dated March 6, 2013, (c) opinions of Richards Layton & Finger, P.A. dated March 6, 2013 and March 21, 2013 regarding authority to file bankruptcy and DE LLC matters, (d) opinion of Robinson & Cole dated March 21, 2013 regarding nonconsolidation, (e) opinion of Robinson & Cole dated March 21, 2013 regarding enforceability and other matters and (f) opinion by Stearns Weaver Miller Weissler Alhadeff & Sitterson, P.A. dated March 21, 2013 regarding Florida matters, (iv) the following for the Larkspur Landing Hotel Portfolio loan: (a) loan summary for the Larkspur Landing Hotel Portfolio loan, (b) amended and restated limited partnership agreement of LL Bellevue, L.P. dated as of December 31, 2012 (and we are assuming that the limited partnership agreements for each of the borrowers for the Larkspur Landing Hotel Portfolio loan are on the same forms (subject only to ministerial changes such as names)) and amended and restated limited liability company agreement of LL GP, L.L.C. dated as of December 2012, (c) opinion by Edwards Wildman Palmer LLP dated December 31, 2012 regarding nonconsolidation, (d) opinions of Garvey Schubert Barer dated December 31, 2012 regarding Oregon and Washington matters, (e) opinions of Paul Hastings LLP dated December 31, 2013 regarding enforceability and other matters and (f) opinions of Richards Layton & Finger, P.A. dated December 31, 2012 regarding authority to file bankruptcy and DE LLC matters, (v) the March 25, 2013 posted draft pooling and servicing agreement (and responses posted March 25, 2013), (vi) the April 1, 2013 posted draft mortgage loan purchase agreements, (vii) the April 5, 2013 posted draft co-lender agreement for Moffett Towers Phase II, (viii) the co-lender agreement dated as of January 30, 2013 for Moffett Towers, (ix) the co-lender agreement dated as of March 7, 2013 for larkspur Landing Hotel Portfolio and (x) the April 3, 2013 posted draft intercreditor agreement for the Moffett Towers Phase II loan.

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 loan 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 sellers 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 or matters that would materially adversely affect any borrower, property owner, property or the mortgagee's lien and security interest in any collateral for any loan. In addition, 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 Approach to Collateral Review

Morningstar utilizes a bottom-up analytical approach to rating CMBS issuances. We begin with a comprehensive review and analysis of the loan collateral in the trust, using the information provided on the arranger's website as of the date thereof and subject to the review enumerated herein.

**General Underwriting Approach**
While the idiosyncrasies of commercial real estate require that each loan be treated separately, an overview of the Morningstar property analysis methodology should be helpful in understanding how Morningstar arrived at its final cash flows and values. The methodology overview in this section is general in nature and only applies to the relevant property types.

**Third Party Data**
Morningstar uses third-party data from leading industry research companies to supplement its own proprietary information and information provided to us on the arranger's website as of the date thereof.

**Rents and Vacancies**
Current rents and vacancies are reviewed along with market information from third-party providers, appraisals and Morningstar proprietary data. Morningstar analyzes rents and vacancies for each category of tenant to best define the market rent and vacancy for that category. For more information on our analysis for any particular property, please see the Asset Summary Report for such property.

Morningstar analyzes the current rents and vacancies alongside the our final market rents and vacancies, and compares the subject and market net rents based on the subject property's tenant category mix, to determine whether the property is outperforming or underperforming the market. If it is determined that the property is underperforming the market, rents and vacancies are underwritten as-is, unless otherwise noted in the Asset Summary Report for that asset.

In cases where we determine that the property is performing above the expected market levels, Morningstar analyzes the expected rollover for the property. It is then assumed that as the leases roll, the property's rent and vacancy will move toward market levels. If actual rollover is low, a minimum amount of roll is assumed.

This process culminates with five scenarios, each moving the property closer to market. A weighted average is then calculated with the result being the Morningstar rent and vacancy, as reported in the Asset Summary Report.

**Historical Financial Statements**
Historical financial statements are reviewed and adjusted for one-time charges and non-cash items, such as depreciation, extraordinary capital repairs and interest expense.

Fixed expenses (i.e., taxes, insurance, and ground rent) are underwritten to actual numbers whenever available, and to the most recent year with a 3.5% inflation factor, whenever actual numbers are not available.

Other Income and Variable Expenses are generally underwritten as a percentage of Effective Gross Income, based on three years of operating results, with more weight given to the most recent year.

Tenant Reimbursements are calculated based on the historical recovery ratio, grossed up to take into account lost reimbursements due to vacancy, with more weight given to the most recent years.

**Capital Items**
Capital expenditures are generally underwritten to the reserves recommended in the engineer's report with an additional 10.0% cushion. In the event a property condition report is unavailable, Morningstar underwrites multifamily $250 per unit and student housing properties have a minimum reserve assumption of $250 per bed.

**Capitalization Rates**
Morningstar uses current market capitalization rates for each property in a transaction. The analysis begins with the analyst looking to Morningstar's current capitalization rate for a given property type within a given MSA. If the property is not in an MSA covered by Morningstar, Morningstar will look to either a higher regional capitalization rate or a proxy market that may better represent the market in which an individual property is located.

Morningstar then makes adjustments based on property sub-type and property score. In the case of retail properties, we rely on sales per square foot data, assuming a reliable number of tenants are reporting.

Morningstar compares this capitalization rate with the appraiser's capitalization rate and the capitalization rate of the sales comparables provided in the appraisal. Unless otherwise noted in the Asset Summary Report, Morningstar will use the highest of these three capitalization rates.

**Other Items**
Morningstar may consider reserves, legal issues and other special circumstances to determine if additional adjustments are required. Any adjustments should be noted in the related Asset Summary Report.

**Morningstar Value**
Morningstar then applies the capitalization rate to the Net Cash Flow to determine the value of the property. The capitalized value is then further adjusted to reflect the additional value contributed by upfront reserves, escrows, and other miscellaneous items.

Morningstar considers the above collateral analysis and the legal analysis in conjunction with Morningstar's subordination model (described at www.Morningstar.com) to determine the preliminary ratings.

**Morningstar Loan/Property Analysis Summaries**
Asset summary reports (ASRs) are included with this presale report for the top 20 loans and are available by accessing Morningstar's website, by going to the Ratings Report section. These reports provide the line-item analysis along with corresponding assumptions used by Morningstar.

# Moffett Towers – Phase II

**Analyst:** Ed Barrett 267-960-0530
**Analytical Manager:** Rob Grenda 267-960-6023

| Property Summary | | |
|---|---|---|
| **Property Type** | Office/Multi-Tenant | |
| **Location** | Sunnyvale, CA 94089 | |
| **Year Built** | 2009 | |
| **Year Renovated** | NAP | |
| **Net Rentable Sq. Ft. (Total)** | 676,598 | |
| **Net Rentable Sq. Ft. (Collateral)** | 676,598 | |
| **Occupancy (Tape)** | 91.40% | (as of 4/1/13) |
| **Ownership** | Fee Simple | |

| Loan Summary | | |
|---|---|---|
| **Loan Amount (Original Balance) (1)** | $130,000,000 | ($192 /sq. ft.) |
| **Loan Amount (Cut-Off Balance) (1)** | $130,000,000 | ($192 /sq. ft.) |
| **Loan Term (months)** | 126 | |
| **I/O Period (months)** | 72 | |
| **Amortization Term (months)** | 360 | |
| **Loan Seasoning (months)** | 0 | |
| **Interest Rate** | 3.80408% | |

| Morningstar Analysis | | |
|---|---|---|
| **Current DSCR** | 2.10 x | |
| **Amortizing DSCR** | 1.43 x | |
| **Beginning LTV** | 87.30% | |
| **Ending LTV** | 79.60% | |
| **Capitalization Rate** | 7.00% | |
| **Morningstar UW Occupancy** | 91.38% | |
| **Net Operating Income** | $20,988,217 | |
| **Net Cash Flow** | $19,577,597 | |
| **Value** | $280,674,235 | ($415 /sq. ft.) |
| **Debt Yield** | 8.00% | |
| **Morningstar Site Visit** | Yes | |
| **Property Score** | 2 (Good) | |

(1) Whole loan ($362 psf)

## *Capital Structure Table*

| Capital Structure Table | | | | | | |
|---|---|---|---|---|---|---|
| **Loan** | **Current Balance** | **Interest Rate** | **Current DSCR** | **DSCR Amortizing** | **BLTV** | **ELTV** |
| Subject Loan | $130,000,000 | 3.804% | 2.10 x | 1.43 x | 87.3% | 79.6% |
| A-2 Note | $57,500,000 | 3.804% | 2.10 x | 1.43 x | 87.3% | 79.6% |
| A-3 Note | $57,500,000 | 3.804% | 2.10 x | 1.43 x | 87.3% | 79.6% |
| **Total** | **$245,000,000** | **3.804%** | **2.10 x** | **1.43 x** | **87.3%** | **79.6%** |

DSCR and LTV are based on Morningstar NCF

## Morningstar Summary

### *Morningstar Perspective*

The Moffett Towers Phase II loan is a $130 million fixed rate loan secured by the borrower's fee simple interest in three Class A office buildings totaling approximately 676,598 square feet. The property is located in Sunnyvale, CA., one of the fastest improving markets in California. The $130 million first mortgage loan has a 10.5-year term and amortizes on a 30-year schedule after an initial 6-year interest only period. The loan accrues interest at a fixed rate equal to 3.804%. The Moffett Towers Phase II loan is comprised of the controlling Note A-1 portion of a $245.0 million whole loan that is evidenced by three pari passu notes. Only the A-1 note, with an original principal balance of $130.0 million, will be included in the COMM 2013-CCRE7 trust. The A-2 note, with an original principal balance of $57.5 million, and the A-3 note, with an original principal balance of $57.5 million, are not included in the COMM 2013-CCRE7 trust and are expected to be included in future securitizations.

Moffett Towers II is located in the heart of Silicon Valley in the Sunnyvale submarket, a submarket that since 2010 has been experiencing declining vacancy rates and substantial improvements in rental rates, both as a result of increased demand. The vast improvement in fundamentals is being driven by some of the most prominent names in the technology field, Google and Apple, who are actively searching for large amounts of office space and over the past two years have leased significant blocks of space in Sunnyvale, thus driving up rental rates.

The property also benefits from a strong sponsor, Jay Paul Company, who developed the greater than two million square foot Moffett Tower campus. Smart, sustainable design and landscaping are signature features of Jay Paul Company developments. Jay Paul has built projects for some of the world's top companies including Amazon, Boeing, Motorola, Philips Electronics, Microsoft, Hewlett Packard, Google, Rambus, Nokia, and DreamWorks. The Jay Paul portfolio consists of 3.1 million square feet that is approximately 92% occupied. The sponsor has spent approximately $44.1 million of tenant build-out with Hewlett Packard and an additional investment of approximately $25.7 million to create some of the area's most desirable and advanced office spaces. Major capital investments are a strong sign of the sponsor's commitment to the property and the region.

The property has only two tenants, Hewlett Packard and A2Z, a subsidiary of Amazon. Both tenants are investment grade and have recently signed long term leases that minimize term risk. Both tenants have below market rents allowing for upside in rates, when the leases come up for renewal. Morningstar underwrote rent steps through the first 24 months for both investment grade tenants. Morningstar's underwriting of the A-1 note produced interest only and amortizing DSCRs of 3.90x and 2.69x, respectively. The $245 million whole loan resulted in interest only and amortizing DSCRs of 2.10x and 1.43x, respectively. The Trust and whole loan have beginning LTVs of 46.3% and 87.3%. Given the class A, LEED Gold, trophy status of the property, strong sponsorship, excellent location, long-term leases to investment grade tenants and scheduled rent steps throughout the loan term, Morningstar expects the property to provide stable performance over the loan term.

There are certain risk factors associated with the loan that might negatively impact operating performance at maturity. Namely, large tenant exposure to Hewlett Packard, which accounts for 58.2% of the net rentable area and 59.6% of total rent, is a primary risk factor as the lease expires in March 2023, just prior to the September 2023 maturity. The Hewlett Packard leases commenced in April 2012, prior to the run up in market rents. The current weighted average base rent for Hewlett Packard is almost $9 per square foot below market, reducing some of the maturity risk associated with the loan. The loan is structured with a hard lockbox that is controlled by the lender and has a lease sweep period that begins on October 1, 2019, at which time, the borrower is required to deposit all excess cash on a monthly basis into the lease sweep reserve. In addition to the lease sweeps, the borrower is required to make monthly reserve deposits, these structural features will likely mitigate the refinancing risk associated with the Hewlett Packard lease. Morningstar has taken these and other risk factors, as outlined on the following pages, into account in our analysis of the loan. Overall, Morningstar expects the property to provide stable performance during the term. But will potentially encounter some maturity default risk.

### *The Bears Say*

- The loan is interest only for the first six years, reducing principal amortization. However, it amortizes over the remaining 4.5 years until maturity.
- Historical property performance and financial's are limited due to the property's recent construction (2009), improvements between 2011 and 2012 and initial lease-up period that began in April 2012. As of April 2013, the property is 91.4% leased by two investment grade tenants, Hewlett Packard (58.2% of net rentable area through March 2023, A-/Baa1/BBB+) and A2Z, an affiliate of Amazon.com (33.2% of net rentable area through February 2024, NR/Baa1/AA-)
- Hewlett Packard, currently representing 58.2% of net rentable area and 57.8% of base rent, presents rollover risk as all of Hewlett Packard's leases expire six months prior to maturity. Mitigating the risk is that Hewlett Packard's leases are all below market.

### *The Bulls Say*

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- Moffett Towers Phase II is a Class A office property built in 2009. The building holds a LEED Gold designation and is one of the most desirable properties in the area.
- Significant capital investment. The Sponsor has spent approximately $44.1 million ($71.37 per occupied square foot) on tenant build-out and Hewlett Packard additionally invested approximately $25.7 million ($65.34 per occupied square foot) to create some of the area's most advanced office spaces. Amazon's additional investment is unknown but is estimated to be in the same range as Hewlett Packard's.
- Below market rents. The April 2013 rent roll indicated a weighted average NNN base rent of $32.37 per square foot, the weighted average gross rent is $42.03 per square foot. The appraiser concluded that the appropriate current market rent for the property is $3.25 PSF per month triple net ($39.00 per square foot per year), and the property's leasing agent at Cornish & Carey estimates market rent between $3.25 and $3.35 per square foot per month triple net ($39.00 and $40.20 per square foot per year).
- Excellent location. The property is located in the heart of the Silicon Valley within a 10-minute drive of the renowned technology companies including Google, Facebook, Apple, Intel and Hewlett-Packard.
- The property offers good ingress and egress and has convenient access to several major airports including San Jose International (8 miles), San Francisco International (27 miles) and Oakland International (36 miles).
- Strong structural features. The Moffett Towers loan is structured with a hard lockbox and in place cash management. All tenants at the property deposit all rents and other payments into the lockbox account controlled by the lender.
- The loan is structured with a  lease sweep period that begins on October 1, 2019, at which time, the borrower is required to deposit all excess cash on a monthly basis into the lease sweep reserve.

### *Property Description*

Moffett Towers Phase II is comprised of three individual, eight-story office buildings totaling 676,598 square feet of trophy, LEED Gold, class A office space. The property is part of the greater than two million square foot Moffett Towers development (comprised of a Phase I and a Phase II) which spans a 52-acre site developed by the sponsor in 2010, and is reported to be 92% leased. The property includes rights to use its share of two separate parking structures and surface parking that totals 3,217 parking spots. The parking is shared by the other buildings on Phase II, including Building D. Tenants at Moffett Towers Phase II have access to The Moffett Towers Club, a world class, full service, 48,207 square foot fitness center, including outdoor lap pool, that is shared by (and for the exclusive use of) the tenants at Phase I and Phase II of the development and conveniently situated on Phase II of the Moffett Towers development.

Strategically located in Silicon Valley, the property is within a 10-minute drive of some of the world's largest and most recognized technology companies including Google, Facebook, Apple, Intel and Hewlett-Packard. The property also offers convenient access to several major airports including San Jose International (8 miles), San Francisco International (27 miles) and Oakland International (36 miles).

The property is 91.4% occupied by two investment grade tenants, Hewlett Packard (58.2% of NRA through March 2023, A-/Baa1/BBB+) and A2Z, an affiliate of Amazon.com (33.2% of NRA through February 2024, NR/Baa1/AA-).

### *Tenant Overview*

| Morningstar Tenant Overview Table | | | | | | |
|---|---|---|---|---|---|---|
| Tenant | Net Rentable Square Feet | % of Square Feet | Base Rent Amount | Base Rent $ Square Foot | % of Rent | Lease Expiration |
| Amazon | 224,492 | 33.2% | $8,324,163 | $37.08 | 41.1% | Feb-24 |
| HP BLDG F | 224,492 | 33.2% | $6,802,108 | $30.30 | 33.6% | Mar-23 |
| HP BLDG G 1-2-5-8 | 169,284 | 25.0% | $5,129,305 | $30.30 | 25.3% | Mar-23 |
| **Top Subtotal** | **618,268** | **91.4%** | **20,255,576** | **$32.76** | **100.0%** | |

***Lease Expiration and Rollover***

| Morningstar Lease Expirations by Tenant Category - Square Feet Expiring by Year | | | | | | | |
|---|---|---|---|---|---|---|---|
| | MTM | 2013 | 2014 | 2015 | 2016 | 2017 | After 2017 |
| Amazon | 0 | 0 | 0 | 0 | 0 | 0 | 224,492 |
| HP BLDG F | 0 | 0 | 0 | 0 | 0 | 0 | 224,492 |
| HP BLDG G 1-2-5-8 | 0 | 0 | 0 | 0 | 0 | 0 | 169,284 |
| **Total** | **0** | **0** | **0** | **0** | **0** | **0** | **618,268** |
| **% Roll** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **91.4%** |

***Tenant Overview***

**Hewlett Packard** Each of Hewlett Packard's initial leases commenced April 2012; they total 393,776 square feet of space in Building F (100% of net rentable area) and Building G (74% of net rentable area). 100% of the leased space is built out and occupied. The sponsor committed to approximately $29.5 million ($75.00 per square foot) on tenant build-out over warm shell space and Hewlett Packard independently invested an additional $25.7 million ($65.34 per square foot) in the space. Hewlett Packard has one 5-year option to extend at the greater of the existing base rent or 95% of fair market value with 6 months' notice. Hewlett Packard has the option to terminate both (but not one) of its leases on April 1, 2020 provided it delivers 12 months prior notice and a termination fee equal to the unamortized portion of all free rent and leasing costs paid by landlord. Assuming termination on April 1, 2020, the combined termination fee for terminating both leases would be $10,968,116 ($16.21 per square foot). Hewlett-Packard uses its space in Building F & G at Moffett II as its global headquarters for Software Design and Testing.

**Amazon** Amazon's initial lease for 224,492 square feet in Building E (100% of net rentable area) commenced February 2013. It built out and took occupancy of floors 1-4, and is expected to complete the build out on floors 5-8 in March. The sponsor committed to approximately $14.5 million ($65.00 per square foot) on tenant build-out over warm shell space. It is unknown how much Amazon independently invested in the space. Amazon has two 7-year options to extend at 100% of fair market value with 9 months notice. Amazon does not have an option to terminate early. Amazon uses its space in Building E at Moffett II for design and product development for the Kindle e-reader. Amazon is awaiting Jay Pay Company's delivery of Building D —an additional 357,381 square feet, which will bring its total presence at the Moffett Towers development to 581,973 square feet.

***Market Overview***

The Silicon Valley office market encompasses nearly 46.8 million square feet of office space. The Silicon Valley office market is comprised of 13 submarkets, located predominantly in Santa Clara County, and also includes the Newark and Fremont submarkets in southern Alameda County. The property is located in the Sunnyvale submarket close to Mountain View.

From mid-year 2012 to year-end, Sunnyvale's vacancy contracted 5.4 percentage points to 5.6%. Leasing activity during the second half of 2011 and first half of 2012 in Moffett Towers, which had been mostly vacant since it was completed in 2008, helped bring vacancy down in Sunnyvale. Mountain View's vacancy remains essentially unchanged at 3.6%, up slightly from 3.3% in second quarter 2012, and Cupertino's vacancy is a low 1.0%.

In second quarter 2012, Sobrato Development Company moved forward with their new Class A construction project that had been on hold since 2008, and completed two 153,540 square foot class A office buildings at the Campus at Lawson Lane in Santa Clara. A third building is planned for Phase II. Also under construction as of the second quarter 2012 are two buildings at 1133 Innovation Way in Sunnyvale totaling 636,000 square feet for Juniper Networks to serve as their headquarters. The buildings are scheduled for completion in fourth quarter 2013. Additionally, the Irvine Company began construction of Phase I of the Santa Clara Gateway Center, a three-building, 447,000 square foot speculative project scheduled for completion in mid-year 2013, 300,000 square feet of which has been leased to Dell Marketing LP and Arista Networks, Inc. for $3.00 per square foot per month triple net ($36.00 per square foot per year).

Strong demand and lower vacancy have been the driving factors behind the increases in the overall average asking rent in Silicon Valley. According to Cushman & Wakefield's Q4 Marketbeat report, fourth quarter 2012 class A asking rent was $33.96 per square foot per year (gross rent), up from $32.76 per square foot per year (gross rent) in the second quarter. The overall weighted average asking rates are artificially low due to the large amounts of available space being in the less desirable submarkets. Overall, rents in the stronger submarkets carry a premium to the rest of the broader market, and as of the third quarter, the average asking rent in the Sunnyvale and Mountain View submarkets were $45.12 per square foot per year (gross rent) and $55.20 per square foot per year (gross rent) respectively.

The Silicon Valley's average household income is $112,471, which is 67.0% above the national average. Additionally, about 44% of the Silicon Valley's population has a bachelor or advanced degree, compared to just 28.0% for the nation.

***Sponsorship/Management***

The borrower, MT Lot 3 EFG LLC, is a single purpose Delaware limited liability company structured to be bankruptcy-remote. The sponsor of the borrower and the nonrecourse carve-out guarantor is Joseph K. Paul (a/k/a Jay Paul) and the Jay Paul Revocable Trust, on a joint and several basis.

The property is managed by Jay Paul Holdings, Inc., a borrower affiliate.

## Morningstar Analysis

| | Morningstar Underwriting | Year End 2011 | Year End 2012 | 2013 Budget | Issuer Underwriting |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Gross Potential Rent | $23,108,557 | $0 | $0 | $17,439,189 | $25,577,626 |
| Less: Vacancy Loss (GPR) | (1,992,205) | 0 | 0 | 0 | (2,905,886) |
| Less: Concessions | 0 | 0 | 0 | 0 | 0 |
| Less: Collection Loss | 0 | 0 | 0 | 0 | 0 |
| Less: Vac Adj for Concess/Coll Loss | 0 | 0 | 0 | 0 | 0 |
| **Base Rent/Net Effective Rent** | **$21,116,352** | **$0** | **$0** | **$17,439,189** | **$22,671,740** |
| Expense Reimbursement | $5,927,150 | $0 | $0 | $5,739,693 | $5,969,573 |
| Percentage Rent | 600,660 | 0 | 0 | 586,300 | 600,660 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Less: Vacancy Other Incomes | 0 | n/a | n/a | n/a | n/a |
| **Effective Gross Income** | **$27,644,161** | **$0** | **$0** | **$23,765,182** | **$29,241,973** |
| **Expenses** | | | | | |
| Real Estate Taxes | $2,146,436 | $0 | $0 | $2,146,436 | $2,146,436 |
| Property Insurance | 978,423 | 0 | 0 | 978,423 | 978,423 |
| Utilities | 0 | 0 | 0 | 0 | 0 |
| Repairs and Maintenance | 0 | 0 | 0 | 0 | 0 |
| Contract services | 0 | 0 | 0 | 0 | 0 |
| Management Fees | 829,325 | 0 | 0 | 523,179 | 877,259 |
| Payroll & Benefits | 0 | 0 | 0 | 0 | 0 |
| Common Area Maintenance | 1,787,494 | 0 | 0 | 1,787,494 | 1,787,494 |
| Advertising & Marketing | 0 | 0 | 0 | 0 | 0 |
| Professional Fees | 0 | 0 | 0 | 0 | 0 |
| General and Administrative | 131,017 | 0 | 0 | 131,017 | 131,017 |
| Amenities Bldg Expenses | 824,400 | 0 | 0 | 824,400 | 824,400 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Market Expense Adjustment | 0 | 0 | 0 | 0 | 0 |
| **Total Operating Expenses** | **$6,697,095** | **$0** | **$0** | **$6,390,949** | **$6,745,029** |
| **Net Operating Income** | **$20,947,067** | **$0** | **$0** | **$17,374,233** | **$22,496,944** |
| **Capital Items** | | | | | |
| Leasing Commissions | $833,086 | $0 | $0 | $0 | $458,183 |
| Tenant Improvements | 503,079 | 0 | 0 | 0 | 458,183 |
| Capital Expenditure / Reserve | 169,150 | 0 | 0 | 0 | 135,320 |
| Extraordinary Capital Expenditures | 0 | | | | |
| - Credit For TI Reserve | 0 | | | | |
| - Credit For LC Reserve | 0 | | | | |
| - Credit For TI/LC Reserve | 0 | | | | |
| - Credit For Cap Ex Reserve | 0 | | | | |
| **Total Capital Items** | **$1,505,314** | **$0** | **$0** | **$0** | **$1,051,685** |
| **Credit for Upfront DSCR Escrow** | $94,694 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$19,536,446** | **$0** | **$0** | **$17,374,233** | **$21,445,259** |

## 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***

| | |
|---|---|
| Rent Per Unit Per Month | $34.15 |
| Vacancy (%) | 8.6% |

Historical property performance and financials are limited due to the property's recent construction (2010) and initial lease-up period that began in 2012. Therefore, the underwriting is heavily weighted by the borrower's budget and current rent roll. Gross potential rent was underwritten to the rent roll as of April 1, 2013. Rent steps were given through April 1, 2015 based on the investment grade tenancy. Vacancy was underwritten to the actual vacancy rate of 8.6%, per the April 2013 rent roll.

***Expenses***

Financial information was limited, therefore expenses were underwritten in-line with the borrower's budget. A management fee of 3% of effective gross income was underwritten.

***Capital Items***

A reserve for future capital expenditures is underwritten at $0.25/sq. ft., Morningstar's criteria capital reserve amount when the engineer's recommended reserve is significantly lower. Tenant improvements for the office space is underwritten to $15 per square foot for new leases and $5 per square foot for renewals, adjusted for credit tenancy. Leasing commissions are underwritten to 7.5% for new tenants and 3.75% for renewals. A renewal rate of 65% is assumed for the Hewlett Packard space and 75% for the A2Z space.

***Valuation Drivers***

Morningstar estimated the value of the asset based the income capitalization approach to value. Capitalization rates are estimated quarterly by Morningstar for the office 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 Morningstar capitalization rate for the Sunnyvale office market was 7.6%. This base capitalization rate was adjusted to reflect the relative location, quality, and condition of the subject asset relative to the overall market. Morningstar's concluded capitalization rate for this asset was 7.0% which resulted in a direct capitalization value of $280 million, or $414 per square foot.

# Lakeland Square Mall

**Analyst:** Howard Peterson 267-960-6024
**Analytical Manager:** Rob Grenda 267-960-6023



| Property Summary | | |
|---|---|---|
| **Property Type** | Retail/Regional Mall | |
| **Location** | Lakeland, FL 33809 | |
| **Year Built** | 1988 | |
| **Year Renovated** | 2004 | |
| **Net Rentable Sq. Ft. (Total)** | 883,290 | |
| **Net Rentable Sq. Ft. (Collateral)** | 535,937 | |
| **Occupancy (Tape)** | 93.60% | (as of 12/31/12) |
| **Ownership** | Fee Simple | |

| Loan Summary | | |
|---|---|---|
| **Loan Amount (Original Balance)** | $70,000,000 | ($131 /sq. ft.) |
| **Loan Amount (Cut-Off Balance)** | $70,000,000 | ($131 /sq. ft.) |
| **Loan Term (months)** | 120 | |
| **I/O Period (months)** | 0 | |
| **Amortization Term (months)** | 360 | |
| **Loan Seasoning (months)** | 0 | |
| **Interest Rate** | 4.17371% | |

| Morningstar Analysis | | |
|---|---|---|
| **Current DSCR** | 1.65 x | |
| **Amortizing DSCR** | 1.65 x | |
| **Beginning LTV** | 79.80% | |
| **Ending LTV** | 63.24% | |
| **Capitalization Rate** | 7.70% | |
| **Morningstar UW Occupancy** | 91.99% | |
| **Net Operating Income** | $7,259,560 | |
| **Net Cash Flow** | $6,754,285 | |
| **Value** | $87,717,989 | ($164 /sq. ft.) |
| **Debt Yield** | 9.65% | |
| **Morningstar Site Visit** | Yes | |
| **Property Score** | 3 (Average) | |

## *Capital Structure Table*

| Loan | Current Balance | Interest Rate | Current DSCR | DSCR Amortizing | BLTV | ELTV |
|---|---|---|---|---|---|---|
| Subject Loan | $70,000,000 | 4.174% | 1.65 x | 1.65 x | 79.8% | 63.2% |
| **Total** | **$70,000,000** | **4.174%** | **1.65 x** | **1.65 x** | **79.8%** | **63.8%** |

## Morningstar Summary

### *Morningstar Perspective*

Lakeland Square Mall is a ten-year, $70.0 million loan on an 883,290 square foot regional mall in Lakeland, Florida. Lakeland is located between Tampa and Orlando, along Interstate 4. The mall is anchored by JC Penney, Sears, Macy's, Dillard's and Burlington Coat Factory, however only JC Penney and Burlington Coat Factory are owned by the borrower. The total collateral consists of 535,937 square feet owned by the borrower. This includes a former Dillard's Home Store space that was recently acquired and which is currently under renovation to accommodate two new tenants, Cinemark Theaters and Sports Authority. The sponsor is investing $10.0 million into the renovation, with tenants expected to take occupancy in October 2013. The two new tenants represent an addition of $923,271 in base rent and are expected to help drive new addition traffic to the property.

Morningstar views Lakeland Square Mall as the dominant regional mall in its market, which is the only enclosed regional mall within a 30-mile radius. The property generates good in-line (< 10,000 square feet) mall sales of $339 per square foot (rolling twelve months ending January 2013). This is up from $281 per square foot in 2009, $301 per square foot in 2010, $312 per square foot in 2011 and $331 per square foot in 2012.

The leverage is relatively moderate with a Morningstar beginning loan to value of 77.07%, based on a 7.7% capitalization rate. The balloon loan to value is estimated at 61.6%. The appraised value is $95.0 million, equating to $177 per square foot on 535,937 square feet of owned collateral. Morningstar's concluded value of $87.58 million, or $163 per square foot (based on the same square feet), is more conservative at 7.8% lower than the appraised value. The loan's DSCR and debt yield are 1.65x and 9.63%, respectively, based on the Morningstar net cash flow of $6.74 million. Given the strong DSCR, debt yield, current performance, improving sales, and the addition of two new tenants, there is a high likelihood the loan will not only reach maturity, but will be able to secure take-out financing at the end of the term, absent unforeseen circumstances. Overall, Morningstar's analysis indicates that the property has relatively low leverage and strong coverage.

The property has been owned by Rouse Properties, Inc., a publicly traded REIT (NYSE: RSE) headquartered in New York City., Rouse is among the largest mall owners in the United States, with a portfolio of 32 regional malls encompassing approximately 22.5 million square feet of retail space across 19 states.

Morningstar inspected the property on March 19th, 2013, in the afternoon. The Lakeland Square Mall is a shopping mall located on the northern side of Lakeland, Florida off of I-4 between Tampa and Orlando. The shopping mall has five anchor stores, including the Burlington Coat Factory, Dillard's, JC Penney, Macy's and Sears. In addition, the mall is under construction at one end where it is adding a Sports Authority and a Cinemark. The mall appears to be well maintained, however, it has a dated appearance when compared to the newer life-style centers. In addition, the mall is a single level mall rather than the typical 2 or 3-story malls. Vacancy of in-line tenants did not appear to be an issue, and there were several higher-end in-line tenants. In addition, the mall had a fairly large food court. Based on the overall condition of the property, Morningstar gave this property a 3 property score (Average).

### *The Bears Say*

- Significant rollover risk in 2015 representing 22.3% of the total square footage and 15.7% of the total base rent. The risk is spread over nine leases, with JC Penney (JCP) representing the largest tenant to expire in 2015. JC Penney represents 104,113 square feet, or 19.4% of the NRA and 6.1% of the base rent. The tenant has been there since the property was built and has renewal options consisting of three 5-year periods at the same lease rates. JCP's 2012 sales of $146 per square foot compare closely to the chain's national average of $154 per square foot. In addition, the nearest other JCP stores are more than 25 miles away. In 2012, the store completed an interior remodel including a new floor plan, fixtures, tile, paint and lighting. With a low occupancy cost of 3.33% and sales relatively consistent with national averages, combined with the nearest other store, it seems likely that the tenant will exercise its remaining renewal options. Morningstar underwrote the lease to in-place, but did take a 6% vacancy on the space.
- Potential tenant risk with JC Penney. In February 2013, JC Penney reported that its loss for the fourth quarter ended 2/2/13 had widened further as the retailer's sales and margins continued to weaken. Although continued financial troubles have yet to prompt the company to announce a new round of store closures, Morninstar does have concerns about its ongoing viability of the business operations. As mentioned previously, this particular store seems to be performing relatively consistently with its national average. Combined with the low occupancy cost and the distance to other JCP stores, and the new tenants expected to strengthen the center's draw, this store seems an unlikely candidate for closure in the near term. In addition, it was recently reported that JC Penney gross sales for year-end 2012 have improved, up from $15.2 million ($146 PSF) for T-12 October 2012.
- According to the Bureau of Labor Statistics ("BLS"), the unemployment rate for Lakeland remained flat at 8.8%, slightly higher than the 7.9% rate shared with Florida and the nation. The unemployment rate in Lakeland peaked in November 2010 at 12.5% and is now 3.7 percentage points lower.

### *The Bulls Say*

- Two new leases executed for a combined 88,878 square feet. The former Dillard's Men's and Home anchor was acquired by the borrower for $3 million in March 2012, who is investing an additional $12.8 million ($3.0 million acquisition of Dillard's space, plus $9.8 million renovation cost) to add two junior anchor tenants as a replacement. New long-term leases with Cinemark NextGen and Sports Authority have been executed (15 years - $589,575/annually and 10 years - $333,696/annually, respectively). This represents 12.4% of the underwritten base rent. The two tenants are expected to strengthen the regional draw and add an important entertainment offering for the mall when they take occupancy in October 2013.
- The propety has shown strong leasing activity with a combination of new leases and a high tenant retention rate (6 of the 7 recent lease expirations were renewed at equal or higher rents).
- Mall sales continue to improve, reportedly reaching $339 per square foot as of January 2013, an 8.8% increase over 2011.
- The property is well situated off of Interstate-4 in Lakeland, Florida, about half way between Tampa and Orlando. The subject is the only enclosed regional mall in a 30-mile radius.
- The primary trade area within a 10-mile radius of the property is forecast to grow to 260,000 by 2015, which is an 8.7% increase over 2010. The local economy is supported by distribution and warehousing, as well as the citrus and tourism industries.
- Lakewood is home to Publix Supermarkets, which is Florida's largest private employer.

### *Property Description*

The property is an 883,290 square foot, single-story regional mall located in Lakeland, Florida. The property was originally constructed in 1988 and remodeled in 2004. The regional mall is comprised of 533,711 square feet of anchor space, 129,180 square feet of major tenant space and 220,399 square feet of in-line and food court space. The property is anchored by J.C. Penney and Burlington Coat Factory (both owned-collateral) and three shadow anchors which are not part of the collateral (Sears, Macy's, and Dillard's). Other major tenants include Old Navy, Rainbow, Footlocker, and two new tenants, Sports Authority and Cinemark Theater. Total owned collateral for the securitization is 535,937 square feet.

The two new tenants are the result of new space currently under construction. The borrower acquired a former Dillard's Home Store anchor space and is in the process of completing a total $9.8 million renovation. Dillard's consolidated into their remaining 90,000 square foot space and remains open. The renovation required the decommissioning of 4 in-line spaces totaling 15,755 square feet and that space has been excluded from the analysis. Both Sports Authority and Cinemark Theater are expected to take occupancy in October 2013. The Cinemark will contain 12 screens and feature its new NextGen concept, the first in Central Florida, which includes stadium-seating, a state-of-the-art viewing environment with wall-to-wall screens, 100% digital projection and enhanced sound systems equipped with higher quality speakers and 7.1 capable digital surround sound. Additionally, this theatre complex will contain an extremely popular Cinemark XD Extreme Digital Cinema auditorium and the lobby will be designed around one of Cinemark's innovative self-serve concession stands offering freshly-popped popcorn, fountain beverages and candy.

Lakeland Square Mall is the only enclosed regional mall within a 30-mile radius. As of the TTM (11/30/12) the mall had produced gross sales of over $110.9 million. Sales for in-lines (< 10,000 square feet) were $331 per square foot with an in-line occupancy cost of 12.7%. This was up 6.1% over 2011 ($312 per square foot) and 9.9% over 2010 ($301 per square foot). Sales in 2009 were $281 per square foot. Occupancy costs have gradually improved, from 15.7% in 2009, to 14.1% in 2010 and to 13.6% in 2011. Borrower has recently reported that January 2013 sales improved to $339 per square foot.

| SALES AND OCCUPANCY COST BREAKDOWN - IN-LINE SPACE | | | | |
|---|---|---|---|---|
| **Year** | **2009** | **2010** | **2011** | **TTM (Jan. 2013)** |
| Sales/sf (<10,000 sf) | $281.00 | $301.00 | $312.00 | $339.00 |
| % YoY Δ | | 7.1% | 3.7% | 8.7% |
| Occupancy Cost | 15.70% | 14.10% | 13.60% | 12.70% |
| % YoY Δ | | -10.2% | -3.5% | -6.6% |

*Based on borrower's historical sales and cost data for comparable in-line tenants*

As previously indicated, the property is anchored by Sears, Macy's, Dillard's, JC Penney and Burlington Coat. Three of the five anchor tenants have gross sales in line with or above their national chain averages. Sears's (non-owned collateral) gross sales of $17 million are significantly above the national average of $8.9 million and JC Penney's (owned collateral) sales of $15.2 million are above the national average of $12.9 million. Burlington Coat's (owned collateral) sales of $8.0 million are in line with the national average of $8.3 million. Macy's and Dillard's (non-owned collateral), with gross sales of $9 million and $10 million, respectively, are underperforming their respective national averages of $29 million and $20 million, however, Dillard's is a smaller format store (half the average size) and is in line with the national average on a per square foot basis ($111 versus national average of $119). Additionally, Dillard's sales are likely to increase as a result of the consolidation of the Dillard's Men's store into the single space, no longer splitting sales between the two boxes. Macys and Dillard's have similar customer profiles. While sales are underperforming relative to national averages, neither tenant is likely to close for the benefit of its competition. Further, because both anchors own their own boxes, their occupancy costs are negligible and the stores remain profitable. The Macy's/Dillard's wing of the mall also contains some of the mall's top grossing inline tenants, including Aeropostale ($2.0 million), Children's Place ($1.2 million), Body Shop ($1.2 million), Hollister ($2.3 million), and Foot Action ($1.1 million)

The closest competition is Lakeside Village, a lifestyle center located about 8 miles south of the property. The 470,535 square foot property was built in 2005 and includes a Belk, Kohl's and Cobb Theaters as its anchors. In terms of sales, Lakeland Square Mall significantly outperforms Lakeside Village in terms of sales, with Lakeside reportedly averaging $250 per square foot compared to Lakeland Square Mall's sales.

***Tenant Overview***

| Morningstar Tenant Overview Table (Top 10) | | | | | | |
|---|---|---|---|---|---|---|
| **Tenant** | **Net Rentable Square Feet** | **% of Square Feet** | **Base Rent Amount** | **Base Rent $ Square Foot** | **% of Rent** | **Lease Expiration** |
| JC PENNEY | 104,113 | 19.4% | $455,625 | $4.38 | 6.0% | Nov-15 |
| BURLINGTON COAT | 0 | 0.0% | $0 | n/a | 0.0% | Jan-18 |
| CINEMARK - Leased | 47,166 | 8.8% | $589,575 | $12.50 | 7.7% | Oct-28 |
| SPORTS AUTHORITY - Leased | 41,712 | 7.8% | $333,696 | $8.00 | 4.4% | Jan-14 |
| RAINBOW | 15,482 | 2.9% | $76,000 | $4.91 | 1.0% | Jan-18 |
| OLD NAVY (pay % rent) | 14,516 | 2.7% | $0 | $0.00 | 0.0% | Jan-14 |
| FOOT LOCKER/LADYFOOTLOCKER/KID | 10,304 | 1.9% | $54,096 | $5.25 | 0.7% | Jan-14 |
| FYE | 8,290 | 1.5% | $24,996 | $3.02 | 0.3% | Oct-17 |
| AMERICAN EAGLE OUTFITTERS | 7,218 | 1.3% | $202,104 | $28.00 | 2.6% | Jan-17 |
| TILLY'S | 6,890 | 1.3% | $165,360 | $24.00 | 2.2% | Jun-16 |
| **Top 10 Subtotal** | **255,691** | **47.7%** | **1,901,452** | **$7.44** | **24.9%** | |

**JC Penney -** JC Penney is one of the largest department store chains in the United States with more than 1,100 stores in 49 states and Puerto Rico. The department store offers quality products at value prices. The company sells family apparel and footwear, accessories, fine and fashion jewelry, beauty products, and home furnishings. It also provides various services, such as styling salon, optical, portrait photography, and custom decorating. JC Penney also manages a direct catalog and Internet business and has more than 154,000 employees. In January 2012, JC Penney announced it was eliminating positions associated with re-tagging merchandise and constructing temporary signs and displays in a strategy to replace the company's traditional sales and clearance events to offer everyday low prices. The reductions are said to affect employees at almost all of their locations. The company was founded in 1902 and is based in Plano, Texas. JC Penney Company, Inc. stock is traded on the NYSE under the ticker symbol "JCP" and Morningstar, Inc. assigns a rating of B- (Morningstar, Inc. ratings are not NRSRO ratings).

**Burlington Coat Factory –** Burlington Coat Factory is a department store retailer of of clothes and shoes with over 500 stores in 44 states and Puerto Rico. The company operates under the Burlington Coat Factory Warehouse, MJM Designer Shoes, Cohoes Fashions, and Super Baby Depot banners. The company was founded in 1924 as a manufacturer of coats and outerware and later incorporated in 1972 when it began operating retail outlets. The company was taken private in 2006 with headquarters in Burlington Township, New Jersey.

**Cinemark Theaters -** Cinemark Holdings, Inc., together with its subsidiaries, engages in the motion picture exhibition business. The company operates in the United States, Brazil, Mexico, Argentina, Chile, Colombia, Peru, Ecuador, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, and Guatemala. As of December 31, 2012, it was reporting revenues of $2.47 billion, with 465 theatres and 5,240 screens. Cinemark Holdings, Inc. was founded in 1984 and is headquartered in Plano, Texas.

**Sports Authority –** Sports Authority is one of the largest sporting goods retailers in the United States. The company is private, with more than 460 stores in 45 US states. The company is headquartered in Englewood, Colorado.

***Lease Expiration and Rollover***

| Morningstar Lease Expirations by Tenant Category - Square Feet Expiring by Year | | | | | | | |
|---|---|---|---|---|---|---|---|
| | MTM | 2013 | 2014 | 2015 | 2016 | 2017 | After 2017 |
| Anchor | 0 | 0 | 0 | 104,113 | 0 | 0 | 82,245 |
| Major | 0 | 0 | 10,304 | 0 | 0 | 0 | 57,194 |
| In-Line | 0 | 2,525 | 25,813 | 12,174 | 13,636 | 47,254 | 52,830 |
| Food Court | 0 | 1,001 | 1,583 | 972 | 0 | 0 | 2,451 |
| Other Tenant | 0 | 16,883 | 11,377 | 2,086 | 0 | 120 | 0 |
| Jewelry | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pay % in Lieu | 0 | 0 | 14,516 | 0 | 0 | 0 | 0 |
| Theatre | 0 | 0 | 0 | 0 | 0 | 0 | 47,166 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **0** | **20,409** | **63,593** | **119,345** | **13,636** | **47,374** | **241,886** |
| **% Roll** | **0.0%** | **3.8%** | **11.9%** | **22.3%** | **2.5%** | **8.8%** | **45.1%** |

The property has 96 tenants borrower owned collateral spaces, but excludes 10 current vacant spaces. There is minor lease rollover occurring during 2013, consisting of 14 tenants. However, during 2014, rollover increases to 11.9% of the total owned leasable space. This represents 21 tenant spaces, including Old Navy, FYE, Lane Bryant representing 5.4% of the total owned leasable space. Leases ranged from 2-years to 18-years, with an average of almost 10-years. This is followed by 2015 with 22.3% lease rollover. The majority of the 119,345 square foot that rolls is with JC Penney with 104,113 square feet. The concern is mitigated by the relatively high sales of $15.25 million per year, or $146 per square foot.

***Market Overview***

The property is located in Lakeland, Florida within the Lakeland-Winter Haven metropolitan area, half-way between Tampa and Orlando, along Interstate-4.

The property is situated in Reis's Lakeland market. As of the 4th quarter 2012, non-anchor retail rents were $13.93 per square foot and anchor rents were 10.81 per square foot, with a mean vacancy of 14.3%. The appraiser provided market rents on a sub-tenant basis (ie anchors, majors, in-lines, food court, theater, kiosk). Average rents ranged from anchor rents at $5.00 per square foot to inline rents of $17.90 and kiosk space at $400 per square foot, with an average of $17.31 per square foot. The appraiser concluded a 4% vacancy rate. According to the appraiser, the subject's rents were on average 2.1% above market. Morningstar utilized a blend of both appraiser's estimates and in-place rents to arrive at an average rent of $13.13 per square foot for occupied space and $13.90 for total owned space.

According to information provided within the appraisal, the Lakeland Square Mall benefits by good regional and local accessibility, as well as the proliferation of peripheral draws. Major roadway proximity to the center provides the necessary access to more regional destinations throughout the region, while the property's anchor stores provide the necessary drawing power for the property. In addition, the property has a strong anchor tenant line-up. While this anchor line-up is well suited to the demographics of the area, it is duplicated in the competitive malls in Tampa and Orlando. The only unique anchor at Lakeland Square is Burlington Coat Factory, which is more typical of a power center. The addition of The Sports Authority and Cinemark Theater is expected to strengthen the regional draw and add an important entertainment offering for the mall.

***Sponsorship/Management***

The borrower is Lakeland Square Mall, LLC, a Delaware limited liability company. The entity is a single purpose, bankruptcy remote entity owned by Rouse Properties, Inc. The sponsor is Rouse Properties (NYSE:RSE), a publicly traded REIT headquartered in New York City. Rouse is among the largest mall owners in the United States. Rouse's geographically diversified portfolio spans 19 states from the northern coast of California to New Hampshire. The portfolio consists of 32 regional malls encompassing approximately 22.5 million feet of retail space. The sponsor has owned the property for over 15 years.

The property is managed by Rouse Properties, Inc., an affiliate of the sponsor.

## Morningstar Analysis

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 11/30/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Gross Potential Rent | $7,682,730 | $4,534,632 | $4,577,857 | $4,833,692 | $7,258,704 |
| Less: Vacancy Loss (GPR) | (780,550) | (14,924) | (48,040) | (180,152) | (767,590) |
| Less: Concessions | (368,300) | 0 | 0 | 0 | 0 |
| Less: Collection Loss | 0 | 0 | 0 | 0 | 0 |
| Less: Vac Adj for Concess/Coll Loss | 29,508 | 0 | 0 | 0 | 0 |
| **Base Rent/Net Effective Rent** | **$6,563,388** | **$4,519,708** | **$4,529,817** | **$4,653,539** | **$6,491,114** |
| Expense Reimbursement | $2,648,087 | $2,013,107 | $2,061,917 | $1,973,242 | $2,648,087 |
| Percentage Rent | 686,802 | 585,774 | 669,310 | 686,802 | 686,802 |
| Other Income | 1,384,555 | 1,505,715 | 1,472,960 | 1,384,555 | 1,358,846 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Less: Vacancy Other Incomes | (373,260) | n/a | n/a | n/a | n/a |
| **Effective Gross Income** | **$10,909,571** | **$8,624,304** | **$8,734,004** | **$8,698,138** | **$11,184,849** |
| **Expenses** | | | | | |
| Real Estate Taxes | $675,867 | $596,686 | $584,376 | $599,394 | $675,867 |
| Property Insurance | 188,586 | 112,153 | 146,394 | 113,171 | 188,586 |
| Utilities | 338,108 | 305,985 | 329,372 | 330,756 | 332,756 |
| Repairs and Maintenance | 470,918 | 247,283 | 284,319 | 510,275 | 470,918 |
| Contract services | 379,565 | 377,151 | 388,811 | 382,215 | 379,565 |
| Management Fees | 436,383 | 0 | 0 | 0 | 447,394 |
| Payroll & Benefits | 386,673 | 571,906 | 550,788 | 385,735 | 386,673 |
| Common Area Maintenance | 0 | 0 | 0 | 0 | 0 |
| Advertising & Marketing | 100,365 | 156,062 | 168,582 | 101,395 | 100,365 |
| Professional Fees | 378,726 | 373,666 | 386,685 | 382,351 | 378,726 |
| General and Administrative | 142,821 | 133,855 | 143,279 | 140,156 | 142,821 |
| Non-Reimbursable Expenses | 0 | 0 | 0 | 0 | 0 |
| Other | 151,999 | 139,401 | 164,260 | 178,965 | 151,999 |
| Market Expense Adjustment | 0 | 0 | 0 | 0 | 0 |
| **Total Operating Expenses** | **$3,650,011** | **$3,014,148** | **$3,146,867** | **$3,124,412** | **$3,655,670** |
| **Net Operating Income** | **$7,259,560** | **$5,610,156** | **$5,587,137** | **$5,573,726** | **$7,529,179** |
| **Capital Items** | | | | | |
| Leasing Commissions | $193,409 | $0 | $0 | $0 | $133,984 |
| Tenant Improvements | 193,409 | 0 | 0 | 0 | 133,984 |
| Capital Expenditure / Reserve | 118,457 | 0 | 0 | 0 | 107,187 |
| Extraordinary Capital Expenditures | 0 | | | | |
| - Credit For TI Reserve | 0 | | | | |
| - Credit For LC Reserve | 0 | | | | |
| - Credit For TI/LC Reserve | 0 | | | | |
| - Credit For Cap Ex Reserve | 0 | | | | |
| **Total Capital Items** | **$505,275** | **$0** | **$0** | **$0** | **$375,156** |
| **Credit for Upfront DSCR Escrow** | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$6,754,285** | **$5,610,156** | **$5,587,137** | **$5,573,726** | **$7,154,023** |

## 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*

| | |
|---|---|
| Rent Per Square Foot | $14.34 |
| Vacancy (%) | 10.2% |

As of the 12/10/12 rent roll, average occupied rents for the retail space were $14.04 per square foot and vacancy was 5.5%.  Morningstar underwrote the market rent based on a blend of appraisal estimates and actual in-place rents at $14.34 per square foot and vacancy at 11.8% based on a mean submarket vacancy of 14.3% according to Reis for the most of the space, except for jewelry stores, the theater and a couple of other tenant spaces.

Expense reimbursements were underwritten to the lower of the recovery ratios based on the historical cash flows, appraiser and issuer's underwriting. Morningstar underwrote to a recovery ratio of 72.6%, consistent with the issuer's 72.4%.

### *Expenses*

Expenses were underwritten based on either historical weighted averages or the most recent period with a slight increase for inflation.

Real Estate Taxes were underwritten based on the budgeted real estate taxes which are above most recent TTM due to the new major and theater space being developed.

Insurance was underwritten to the higher issuer's estimate, which was based on budget and in-line with historicals.

Management Fees were underwritten based on the property manager's contract fee of 4% of effective gross income ("EGI").

Overall, expenses were 34.5% of EGI, lower than the TTM (11/30/12) at 35.9%, but higher than the budget at 32.1% and issuer's underwriting at 32.7%.

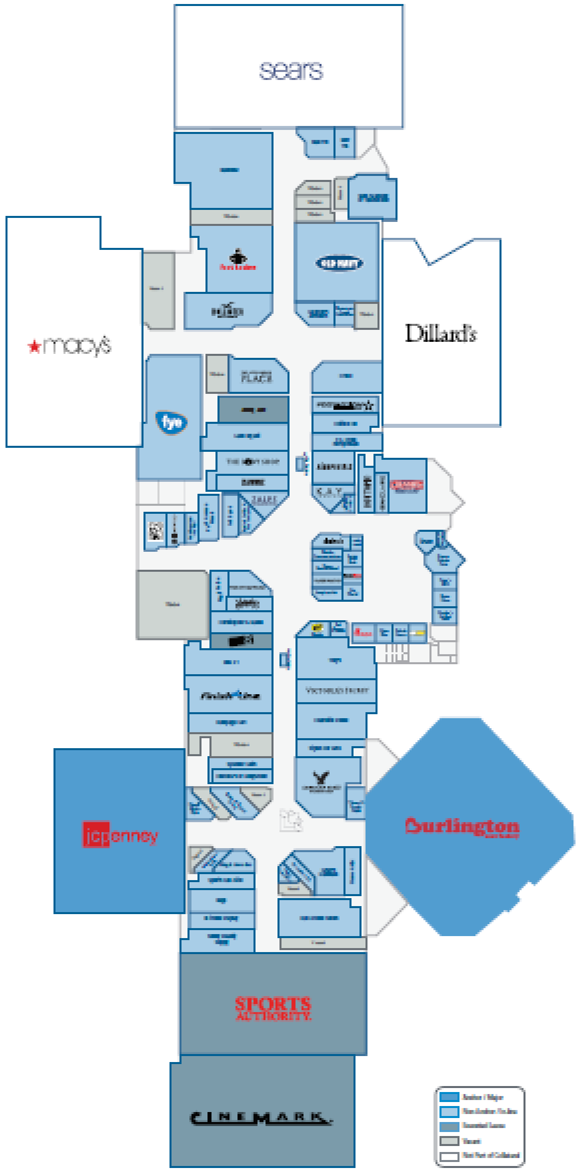
### *Capital Items*

A reserve for future capital expenditures is underwritten at $0.22 per square foot, a 10% increase over the engineer's recommended reserves of $0.20 per square foot.  Tenant improvements for retail  space is underwritten at 40% of the Morningstar concluded base rent for new tenants and 20% for renewals. Leasing commissions are underwritten at 4% for new tenants and 2% for renewals.  A renewal rate of 65% is assumed.

### *Valuation Drivers*

Morningstar's retail capitalization rate for the Lakeland area was a blend of Orlando at 7.5% and Tampa at 8.1%.  Based on the subject's proximity to both major markets, Morningstar blended the rates to 7.95%.  Adjustments were made to the capitalization rate for its regional mall property type with an average property score and adjusted for location in a secondary market.  The final adjusted capitalization rate was 7.7%.  This estimate is only slightly more conservative than the appraiser's capitalization rate of 7.1% and the capitalization rates from appraiser's sales comparables which averaged 7.95%.

***Site Plan***




Site plan based on information provided by the borrower.

# Larkspur Landing Portfolio

**Analyst:** Edward P. Dittmer (267) 960-6043
**Analytical Manager:** Rob Grenda (267) 960-6043

| Property Summary | |
|---|---|
| **Property Type** | Hotel/Extended-Stay |
| **Location** | Various |
| **Year Built** | Various |
| **Year /Renovated** | Various |
| **Net Rentable Room (Total)** | 1,277 |
| **Net Rentable Room (Collateral)** | 1,277 |
| **Occupancy (Tape)** | 79.60% |
| **Ownership** | Fee Simple |

| Loan Summary | | |
|---|---|---|
| **Loan Amount (Original Balance)** | $60,000,000 | ($109,632/room) |
| **Loan Amount (Cut-Off Balance)** | $59,781,151 | ($109,232/room) |
| **Loan Term (months)** | 60 | . |
| **I/O Period (months)** | 0 | . |
| **Amortization Term (months)** | 360 | . |
| **Loan Seasoning (months)** | 3 | . |
| **Interest Rate** | 4.95850% | . |

| Morningstar Analysis | | |
|---|---|---|
| **Current DSCR** | 1.66 x | . |
| **Amortizing DSCR** | 1.66 x | . |
| **Beginning LTV** | 85.17% | . |
| **Ending LTV** | 78.73% | . |
| **Capitalization Rate** | 9.07% | . |
| **Morningstar UW Occupancy** | 82.7% | . |
| **Net Operating Income** | $16,004,060 | . |
| **Net Cash Flow** | $14,871,316 | . |
| **Value** | $163,879,704 | ($128,332/room) |
| **Debt Yield** | 10.62% | . |
| **Morningstar Site Visit** | Yes | . |
| **Property Score** | 3 (Average) | . |

## *Capital Structure Table*

| Capital Structure Table | | | | | | |
|---|---|---|---|---|---|---|
| Loan | Current Balance | Interest Rate Rate | Current DSCR DSCR | DSCR Amortize | BLTV | ELTV |
| Subject Loan | $59,781,151 | 4.95850% | 1.66 x | 1.66 x | 85.2% | 78.7% |
| Pari Passu Note A-1 | $79,794,922 | 4.95850% | 1.66 x | 1.66 x | 85.2% | 78.7% |
| **Total** | **$139,576,073** | **4.9585%** | **1.66 x** | **1.66 x** | **2.3%** | **2.1%** |

## Morningstar Summary

### *Morningstar Perspective*

The collateral consists of 11 extended-stay hotels in the San Francisco Bay Area, Seattle, Sacramento and Portland, Oregon with a total of 1,277 keys. The 11 hotels operate as Larkspur Landing Home Suite Hotel, a brand that was founded in 1996. Although the chain is a relatively unknown name in the lodging industry, it is generally well known in its immediate markets. The chain has had a strong focus on corporate contract business, especially with technology companies. In most cases, Larkspur Landing hotels are in or near major business parks, or near major facilities for technology firms. Major corporate clients include Cisco, Intel and Boeing. The chain was acquired by the sponsors but will continue to be managed by the original developers.

Morningstar underwrote four of the properties representing 51% of the portfolio and extrapolated our results across the remainder of the portfolio. In most cases, the chain has experienced a strong rebound from the recession which significantly reduced the company's corporate contract business. As the properties are nearing the peak of the market, our approach was to use slightly lower room rates or occupancy. In addition, Morningstar included a 2.0% franchise fee even though the hotels currently do not pay a franchise fee. This is consistent with our approach for these types of hotels. Morningstar's loan-to value for the portfolio was 85.3% while the debt service coverage ratio was 1.66. Our variance from the total appraisal value was negative 19.9%.

We are concerned about the company's focus on corporate contracts as this tends to link the company to the fortunes of one firm, and in many cases, one facility of a firm. While the hotels in Silicon Valley have many different clients in the immediate area, the location in Hillsborough, Oregon is highly dependent upon a single Intel facility. The facility in question is a 2.5 million square foot business park and, while it is very unlikely to close, there is certainly an element of risk. The loss of this major client would be could result in a loss of 25% of revenue from this particular property in the near term. Other hotels with heavy reliance on one or two large clients are Bellevue and Folsom.

The hotels are currently experiencing a strong recovery from the recent recession. The portfolio net cash flow of $16.3 million for the trailing 12 months ending February 2013 was the highest since 2008 when the company had $13.9 million in net cash flow. Performance must be considered in conjunction with the weakness of the recession. Net cash flow dipped to $7.2 million in 2009, a level that would not cover the debt service of the current loan. Morningstar's underwriting has tried to strike a balance between current income levels and what could occur during periods of weakness. Our underwritten net cash flow of $14.9 million is conservative, but not punitive.

In site visits to four properties, Morningstar's analysts saw a very attractive collection of hotels that certainly stand out. None had significant near-term capital expenditure needs. Without a major brand, the properties may lose business from travelers who participate in frequent-guest programs.

### *The Bears Say*

- Low brand recognition: Larkspur Landing has only 11 hotels and operates in only four markets.
- Hotels are often reliant on one or two companies for a large percentage of their business.
- The hotels' performance is highly correlated with business travel. In 2009, net cash flow decreased 48% due to the recession, a decline that was consistent with the overall hospitality industry.

### *The Bulls Say*

- The company has a strong record of generating and maintaining corporate clients.
- The quality of the assets is a key in retaining extended-stay guests.
- Strong recovery since the end of the recession.

***Property Description***

The loan is secured by a portfolio of 11 extended-stay hotels with a total of 1,277 rooms. The hotels comprise the entire Larkspur Landing chain that was acquired by the sponsors. All of the hotels were built from 1997 to 2000 and have had some renovations in the past five years. Five of the properties are in the San Francisco Bay Area including three in San Jose's Silicon Valley. Three of the properties are in and around Sacramento. Two of the properties are in the Seattle area and one is in Portland, Oregon.

| Property | City | State | Keys | Year Built |
|---|---|---|---|---|
| Larkspur Landing Sunnyvale | Sunnyvale | CA | 126 | 1999 |
| Larkspur Landing Hillsboro | Hillsboro | OR | 124 | 1997 |
| Larkspur Landing Milpitas | Milpitas | CA | 124 | 1998 |
| Larkspur Landing Campbell | Campbell | CA | 117 | 2000 |
| Larkspur Landing S. San Francisco | S. San Francisco | CA | 111 | 1999 |
| Larkspur Landing Bellevue | Bellevue | WA | 126 | 1998 |
| Larkspur Landing Renton | Renton | WA | 127 | 1998 |
| Larkspur Landing Pleasanton | Pleasanton | CA | 124 | 1997 |
| Larkspur Landing Sacramento | Sacramento | CA | 124 | 1998 |
| Larkspur Landing Folsom | Folsom | CA | 84 | 1999 |
| Larkspur Landing Roseville | Roseville | CA | 90 | 1999 |

***Demand Drivers***

Most of the Larkspur Landing hotels are in or near corporate business parks. The chain has traditionally focused on corporate contracts rather than leisure or group business. The locations are generally less desirable for tourists and meeting space at the properties is usually minimal. Management at one location reported that on weekends or holidays, the hotels may make rooms available through channels such as Priceline or Hotwire when its corporate clients are not occupying rooms.

Larkspur Landing has had particularly strong success in contracting with technology firms, not only in its Bay Area home base, but in Seattle, Sacramento and Portland. In the Bay Area, the hotel has had success with a number of local technology firms including Cisco, eBay, Yahoo! and Genentech. For the Milpitas location, Cisco generated over 8,100 room nights over the past year. The Sacramento market has a mix of corporate, government and educational clients. Both the Folsom and Sacramento have strong technology clients while the Roseville location has a mix that includes more transient business. In Seattle, the chain has a location in Renton a few blocks from Boeing's Commercial Aircraft Group, while the Bellevue hotel is near technology giant, Microsoft. In Hillsborough, outside Portland, Larkspur Landing placed a hotel near a 2.5 million square foot Intel facility.

The benefit of these strong corporate relationships is clear in a strong economy. Of course, in a downturn, the lack of diversification can result in weak operating performance.

***Market Overview***

The portfolio is located in four major areas, the Bay Area, Sacramento, Seattle and Portland. The properties tend to outperform their respective competitive sets on occupancy, while they trail on average daily rate. The company's business model relies heavily on negotiated rates with local companies. Therefore, this tends to depress rates somewhat.

The majority of the properties are in and around office parks with a high percentage of technology companies. This is a particular strength of the firm's marketing. High technology firms weakened to a large extent during the recession and are in full recovery at this time. Therefore the performance of almost all the properties has increased sharply over the last 12 months. For example, the ADR of the largest property, Sunnyvale has increased 16.9% since 2010 while occupancy has increased 3.0% to the current 84.0%. At Hillsboro, ADR increased 15.1% to $100.87 while occupancy increased nearly 20 points to 83.4%.

| | Occupancy | | ADR | | RevPAR | |
|---|---|---|---|---|---|---|
| **Property** | **Subject** | **Comp Set** | **Subject** | **Comp Set** | **Subject** | **Comp Set** |
| **Bay Area** | | | | | | |
| Larkspur Landing Sunnyvale | 84.0% | 79.7% | $130.71 | $141.17 | $109.80 | $112.51 |
| Larkspur Landing Milpitas | 86.4% | 82.7% | $113.44 | $96.39 | $98.01 | $79.71 |
| Larkspur Landing Campbell | 83.9% | 78.8% | $110.57 | $113.99 | $92.77 | $89.82 |
| Larkspur Landing South San Francisco | 81.7% | 83.1% | $121.78 | $122.11 | $99.49 | $101.47 |
| Larkspur Landing Pleasanton | 75.8% | 76.5% | $90.54 | $96.15 | $68.63 | $73.55 |
| **Sacramento** | | | | | | |
| Larkspur Landing Sacramento | 70.0% | 54.5% | $100.14 | $83.64 | $70.10 | $45.58 |
| Larkspur Landing Folsom | 74.0% | 71.4% | $106.94 | $106.25 | $79.14 | $75.86 |
| Larkspur Landing Roseville | 69.1% | 71.6% | $86.38 | $82.31 | $59.69 | $58.93 |
| **Seattle** | | | | | | |
| Larkspur Landing Bellevue | 75.6% | 72.7% | $97.31 | $94.91 | $73.57 | $69.00 |
| Larkspur Landing Renton | 78.8% | 76.4% | $94.75 | $93.29 | $74.66 | $71.27 |
| **Portland** | | | | | | |
| Larkspur Landing Hillsboro | 83.4% | 81.3% | $100.87 | $104.59 | $84.13 | $85.03 |

Source: Smith Travel Reports

As the company relies heavily on corporate business rather than leisure, performance should be somewhat correlated to employment levels in the various markets. The table below presents changes in the unemployment rate as well as total employment prior to, during and after the recession. Although unemployment rates remain high, total employment in the Bay Area is now higher than pre-recession levels, indicating a recovery that is well underway. Sacramento, which has three of the assets, had a deeper recession and may experience slower growth going forward.

| | Unemployment | | | Change in Total |
|---|---|---|---|---|
| **MSA** | **2008** | **2010** | **January-13** | **Employment 2008-2013** |
| San Francisco | 5.7% | 10.3% | 7.7% | 42,414 |
| San Jose | 6.1% | 11.2% | 8.2% | 27,030 |
| Sacramento | 7.0% | 12.5% | 10.3% | -34,637 |
| Seattle | 4.9% | 9.7% | 7.1% | -12,107 |
| Portland | 6.0% | 10.5% | 8.5% | -28,821 |

Source: US Bureau Of Labor Statistics and Texas A&M Real Estate Center

***Sponsorship/Management***

The ownership structure for the Portfolio includes eleven co-borrowers (collectively, the "Borrower"), which include limited partnerships for at a property-level for each of the assets. The Borrower is comprised of the following entities: LL Bellevue LP; LL Campbell, LP; LL Folsom, LP; LL Hillsboro, LP; LL Milpitas, LP; LL Pleasanton, LP; LL Renton, LP; LL Roseville, LP; LL Sacramento, LP; LL South San Francisco, LP; and LL Sunnyvale, LP. The borrowers are all controlled by Starwood Capital.

Larkspur Hotel Management Company, LLC ("Property Manager"), an affiliate of Larkspur Hotels and Restaurants (the original developer of the hotels), manages the assets. The terms of the in-place management agreement includes a base management fee equal to 5.0% of gross revenues. Additionally, the Property Manager receives an incentive management fee equal to 10.0% of the amount by which the gross operating profit exceeds the sum of (i) the base fee, (ii) contributions to the reserves as [required by Lender], (iii) real and personal property taxes, insurance costs and rents and (iv) an amount equal to 10.0% of the Owner's Total Investment.

We do not estimate that an incentive management fee will be paid.

## Morningstar Analysis

Morningstar fully underwrote four of the collateral properties: Sunnyvale, Hillsborough, Milpitas and Campbell. The historicals and underwriting for the four assets are presented in the table below for comparison purposes. Morningstar's portfolio statistics are presented in the table on the following page.

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 2/28/2013 | Issuer Underwriting |
|---|---|---|---|---|---|
| Occupancy Percent | 82.7% | 73.9% | 83.6% | 84.2% | 83.4% |
| Average Room Rate | $114 | $100 | $105 | $117 | $115 |
| Rooms RevPAR | $94 | $74 | $87 | $98 | $96 |
| **Departmental Revenue** | | | | | |
| Room | $16,848,800 | $13,203,719 | $15,658,043 | $17,665,156 | $17,124,326 |
| Food & Beverage | 124,975 | 41,340 | 69,602 | 103,512 | 133,911 |
| Telephone | 25,715 | 35,048 | 31,281 | 25,342 | 22,804 |
| Other Departmental Revenue | 134,694 | 169,662 | 160,749 | 144,981 | 133,619 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 0 | 0 | 0 | 0 | 0 |
| **Total Departmental Revenue** | **$17,134,184** | **$13,449,769** | **$15,919,675** | **$17,938,991** | **$17,414,660** |
| **Departmental Expenses** | | | | | |
| Room | $3,358,744 | $3,099,361 | $3,245,548 | $3,547,501 | $3,394,569 |
| Food & Beverage | 25,180 | 16,064 | 24,738 | 31,859 | 26,533 |
| Telephone | 86,759 | 73,055 | 81,372 | 91,318 | 85,452 |
| Other Departmental Revenue | 48,930 | 20,342 | 27,934 | 84,294 | 72,882 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 0 | 0 | 0 | 0 | 0 |
| **Total Departmental Expenses** | **$3,519,613** | **$3,208,822** | **$3,379,592** | **$3,754,973** | **$3,579,436** |
| **Departmental Profit** | **$13,614,571** | **$10,240,947** | **$12,540,083** | **$14,184,018** | **$13,835,224** |
| **Undistributed Expenses** | | | | | |
| General & Administrative | $1,104,138 | $1,073,743 | $1,071,956 | $1,009,857 | $1,075,869 |
| Franchise Fees | 336,976 | 0 | 0 | 0 | 0 |
| Advertising & Marketing | 830,629 | 725,733 | 774,027 | 803,643 | 812,674 |
| Repairs & Maintenance | 603,675 | 558,597 | 572,619 | 631,945 | 601,345 |
| Utilities | 623,878 | 578,465 | 614,605 | 602,423 | 603,828 |
| Management Fees | 856,576 | 671,796 | 796,784 | 897,580 | 870,733 |
| **Fixed Charges** | | | | | |
| Real Estate Taxes | $566,622 | $611,813 | $557,376 | $560,550 | $554,322 |
| Property Insurance | 283,901 | 265,626 | 253,795 | 283,345 | 274,300 |
| Ground Rent | 0 | 0 | 0 | 0 | 145,133 |
| Other | 0 | 0 | 0 | 4,181 | 0 |
| **Total Operating Expenses** | **$5,206,395** | **$4,485,773** | **$4,641,162** | **$4,793,522** | **$4,938,204** |
| **Net Operating Income** | **$8,408,176** | **$5,755,174** | **$7,898,921** | **$9,390,495** | **$8,897,020** |
| **Capital Expenditures** | | | | | |
| Capital Expenditures / Reserve | $685,367 | $537,991 | $636,787 | $717,560 | $696,587 |
| 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 | 685,367 | 537,991 | 636,787 | 717,560 | 696,587 |
| Credit for Upfront DSCR Escrow | $90,249 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$7,813,057** | **$5,217,183** | **$7,262,134** | **$8,672,936** | **$8,200,434** |

***Portfolio Level Data***

| Asset Name | Keys | Cut Off Trust Loan Amount | Morningstar Net Cash Flow | Morningstar Cap Rate | Morningstar Value | Morningstar Value per Key | Appraised Value | Whole Loan Balance | Morningstar Whole Loan LTV |
|---|---|---|---|---|---|---|---|---|---|
| Larkspur Landing Hotel Portfolio | 1,277 | $59,781,151 | $14,871,316 | 9.07% | $163,879,704 | $128,332 | $204,500,000 | $139,781,151 | 85.3% |
| Larkspur Landing Sunnyvale | 126 | $9,266,078 | $2,456,730 | 9.30% | $26,258,779 | $208,403 | $30,800,000 | $21,666,078 | 82.5% |
| Larkspur Landing Hillsboro | 124 | $7,365,892 | $1,912,865 | 9.10% | $20,890,001 | $168,468 | $24,500,000 | $17,223,035 | 82.4% |
| Larkspur Landing Milpitas | 124 | $7,259,140 | $1,749,626 | 9.30% | $18,689,660 | $150,723 | $24,300,000 | $16,973,425 | 90.8% |
| Larkspur Landing Campbell | 117 | $6,618,627 | $1,693,836 | 9.30% | $18,100,658 | $154,706 | $21,900,000 | $15,475,770 | 85.5% |
| Larkspur Landing S. San Francisco | 111 | $6,277,021 | $1,567,772 | 8.90% | $17,615,418 | $158,697 | $21,000,000 | $14,677,021 | 83.3% |
| Larkspur Landing Bellevue | 126 | $5,363,223 | $1,296,673 | 8.70% | $14,904,287 | $118,288 | $18,200,000 | $12,540,366 | 84.1% |
| Larkspur Landing Renton | 127 | $4,910,595 | $1,159,119 | 8.70% | $13,323,211 | $104,907 | $16,800,000 | $11,482,023 | 86.2% |
| Larkspur Landing Pleasanton | 124 | $4,714,171 | $1,163,239 | 8.90% | $13,070,098 | $105,404 | $16,000,000 | $11,022,742 | 84.3% |
| Larkspur Landing Sacramento | 124 | $4,103,549 | $940,860 | 8.90% | $10,571,455 | $85,254 | $14,000,000 | $9,594,978 | 90.8% |
| Larkspur Landing Folsom | 84 | $3,040,299 | $710,817 | 8.90% | $7,986,704 | $95,080 | $10,500,000 | $7,108,870 | 89.0% |
| Larkspur Landing Roseville | 90 | $862,557 | $219,780 | 8.90% | $2,469,433 | $27,438 | $6,500,000 | $2,016,842 | 81.7% |

## 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***

On average, Morningstar's underwritten occupancy was 1.66% lower than in 2012. Our underwritten average daily rate was $1.85 lower than in the prior year.

***Expenses***

Expenses are underwritten in-line with historicals unless otherwise noted. Morningstar underwrote a franchise fee of 2.0%. The hotels do not, and have not historically, paid a franchise fee. There is the possibility that the hotels will be re-flagged during the loan term, resulting in the addition of a franchise fee.

***Capital Items***

A reserve for future capital expenditures is underwritten at 4% of gross revenue in line with industry averages for hotels. 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***

Capitalization rates for the portfolio are based on market hospitality cap rates for the respective markets in the portfolio. The portfolio cap rate is weighted by net cash flow.

# One West Fourth Street

**Analyst:** Matt Bendzlowicz 267-960-6025

**Analytical Manager:** Rob Grenda 267-960-6023

| Property Summary | | |
|---|---|---|
| Property Type | Office/Multi-Tenant | |
| Location | Winston-Salem, NC 27101 | |
| Year Built | 2002 | |
| Year Renovated | NAP | |
| Net Rentable Sq. Ft. (Total) | 431,465 | |
| Net Rentable Sq. Ft. (Collateral) | 431,465 | |
| Occupancy (Tape) | 84.2% | (as of 11/30/12) |
| Ownership | Fee Simple | |

| Loan Summary | | |
|---|---|---|
| Loan Amount (Original Balance) | $51,750,000 | ($120 /sq. ft.) |
| Loan Amount (Cut-Off Balance) | $51,608,082 | ($120 /sq. ft.) |
| Loan Term (months) | 120 | |
| I/O Period (months) | 0 | |
| Amortization Term (months) | 360 | |
| Loan Seasoning (months) | 1 | |
| Interest Rate | 4.55000% | |

| Morningstar Analysis | | |
|---|---|---|
| Current DSCR | 1.70 x | |
| Amortizing DSCR | 1.70 x | |
| Beginning LTV | 81.70% | |
| Ending LTV | 65.50% | |
| Capitalization Rate | 8.50% | |
| Morningstar UW Occupancy | 84.89% | |
| Net Operating Income | $5,523,589 | |
| Net Cash Flow | $5,371,997 | |
| Value | $62,317,613 | ($144 /sq. ft.) |
| Debt Yield | 10.41% | |
| Morningstar Site Visit | Yes | |
| Property Score | 2 (Good) | |

## *Capital Structure Table*

Capital Structure Table

| Loan | Current Balance | Interest Rate | Current DSCR | DSCR Amortizing | BLTV | ELTV |
|---|---|---|---|---|---|---|
| Subject Loan | $51,608,082 | 4.550% | 1.70 x | 1.70 x | 81.7% | 65.5% |
| **Total** | **$51,608,082** | **4.550%** | **1.70 x** | **1.70 x** | **81.7%** | **65.5%** |

## Morningstar Summary

### *Morningstar Perspective*

The One West Fourth Street loan is backed by a 431,465 square foot office property located in Winston-Salem, NC. The loan has moderate leverage with a loan to value of 74.8% based upon the appraised value but an elevated loan to value of 83% based on the Morningstar value. The loan has a stable debt service coverage of 1.72 times on an amortizing basis, based on the Morningstar net cash flow and a 10.4% debt yield.

The subject's occupancy has been somewhat soft and unable to gain traction in a submarket that has been sluggish for a prolonged period. One West Fourth Street has reported consistent occupancy levels around 84%-85% since 2009. From 2009 to the trailing twelve months ending November 30, 2012 average occupancy was 15.2%. Morningstar has underwritten the gross potential rent to $26.56 per square foot, reflecting rents that are in-line with contract rents. Mornigstar did however, take a large mark-to-market, which effectively reduces the net effective rent underwritten to $18.66 per square foot, which is inline with the overall submarket. Morningstar underwrote vacancy to 15%. The property is well located within an area that is generally reporting higher occupancy rates and above average demand when compared to the broader market. Given the occupancy characteristics of the competitive properties surveyed, as well as the current and historical occupancy at the subject, Morningstar believes this vacancy rate is well-supported. Gross potential rent has been improving at a small but steady pace year over year since 2009. The Morningstar underwritten NCF is 26.0% below the trailing twelve months ending November 30, 2012. Our underwriting is reflective of market conditions.

Morningstar toured the property on 03/21/2013. The property has a, modern, above-average appearance with concrete/granite facades. Exterior sidewalks/landscaping and general appearance are very good. This property is located directly in the downtown in what would be considered a very pedestrian friendly area. The property is adjacent to a Winston-Salem Transit Authority Bus Station and appears to have direct covered access via an elevated glass-enclosed bridge over North Liberty Street, which connects to the subject's attached parking garage. The building and attached garage occupy an entire downtown block. The atrium style lobby was well lit. The first floor is in the process of being renovated for additional retail tenants (in addition to the existing deli). Per the property manager, there will be new LED lighting added in the coming months and general upgrades to technology (bids are in process currently). The lobby has an operating security desk adjacent to six elevators. Floor plans throughout the building varied depending on the needs of the existing tenant. The building is an above-average quality asset with a strong location.

With minimal construction completions experienced during 2012 and Reis's forecast of minimal development during the next five years, we believe that the market conditions should help the property deal with the rollover of 76% of the rent roll at above market rental rates. Reis forecasts rental rates and vacancy levels to remain fairly consistent during the five year forecast, which could present some challenges for the subject property as it tries to achieve a stabilized level of operation.

The Morningstar underwriting which concludes a net cash flow that is 26.0% lower than the trailing twelve months should provide the necessary cushion while dealing with the lease expiration of Wells Fargo and Womble Carlyle, and the possible re-setting of inplace rents to a level closer to the the lower market levels.

### *The Bears Say*

- The Winston-Salem office market has been coping with a lack of job growth in recent years. However, the CBD office vacancy rate is 6.9% and no office development is planned. In Downtown Winston-Salem, a biotech park named Piedmont Triad Research Park is being developed which will be an employment center for the market. The overall Triad area office market is exhibiting below stabilized occupancy levels and soft rental rates. However, the local submarket is performing much better with Class A occupancy around 97%.
- The two largest tenants have less than five years remaining on their leases (Wells Fargo Bank, Morningstar rating of "A+" and Womble Carlyle) . There is a $5.3 million upfront TI/LC reserve and lease sweep reserves to retenant space if tenants should vacate. The reserve has a $1 million floor.
- The aforementioned two largest tenants have above market lease rates.
- The appraiser stated that Wells Fargo occupies a large amount of space in the submarket at lower occupancy costs, which could prompt a move at lease expiration.
- The appraiser determined that some of the vacant space at the subject does not have market appeal.
- Winston-Salem's recovery is in peril. Manufacturing payrolls and industrial production have been flat. Private services are doing reasonably well while the public sector remains a sore spot. Hiring has failed to broaden, keeping the job market vulnerable.
- The unemployment rate has declined recently, but at 8.8%, it remains above the national average.

### *The Bulls Say*

- The subject is 76.4% leased to two tenants: Wells Fargo Bank and Womble Carlyle.
- The subject is the newest Class A office building in the Winston-Salem CBD.
- The building has a parking garage.
- The building has the only large block of Class A space available in the CBD (9TH floor).

### *Property Description*

The subject is a Class A urban office building containing 431,465-rentable square feet located in Winston-Salem, North Carolina. The improvements include a thirteen story building plus a parking garage built in 2002 on 2.3-acres located between West Fourth and Fifth Streets, and Main and Liberty Streets. The building is 76.4% leased to Wells Fargo (Morningstar A+. Morningstar's corporate ratings are not NRSRO ratings) and law firm Womble Carlyle. The property is 84.2% leased and is considered to be in good overall condition.

The property is located in the Greensboro/High Point/Winston-Salem MSA (the Triad). Winston-Salem is the county seat of Forsyth County, and it is situated approximately 25 miles west of Greensboro, along the Interstate 40 corridor. Primary access to the subject neighborhood is provided by Business Interstate Highway 40 and Highway 52. Business 40 runs through Winston-Salem, traversing the neighborhood in an east-west direction and connects with Highway 52, the primary north/south highway in Winston-Salem. These two highways provide interchanges at major local roadways throughout Winston-Salem.

Demographic data per Nielson/Claritas forecasts population growth of 0.44% through 2017 and a current average household income of $53,858 within a five-mile radius of the subject.

### *Tenancy*

| Morningstar Tenant Overview Table | | | | | | |
|---|---|---|---|---|---|---|
| Tenant | Net Rentable Square Feet | % of Square Feet | Base Rent Amount | Base Rent $ Square Foot | % of Rent | Lease Expiration |
| Wells Fargo | 191,158 | 44.3% | $4,977,754 | $26.04 | 51.9% | Dec-16 |
| Womble Carlyle | 118,236 | 27.4% | $3,564,815 | $30.15 | 37.2% | Apr-17 |
| Goodman | 18,998 | 4.4% | $442,048 | $23.27 | 4.6% | Jan-16 |
| Womble Carlyle - Storage | 13,611 | 3.2% | $248,015 | $18.22 | 2.6% | Apr-17 |
| Wells Fargo - Storage | 6,736 | 1.6% | $122,595 | $18.20 | 1.3% | Dec-16 |
| US Bank | 5,758 | 1.3% | $127,194 | $22.09 | 1.3% | Oct-13 |
| Magnolia Construction | 4,731 | 1.1% | $88,612 | $18.73 | 0.9% | Jan-15 |
| Downtown Deli / Trihard | 4,000 | 0.9% | $18,000 | $4.50 | 0.2% | Jul-14 |
| **Top Tenants Subtotal** | **363,228** | **84.2%** | **9,589,034** | **$26.40** | **100.0%** | |

***Wells Fargo*** leases 197,894 sq. ft. or 45.9% of NRA, and accounts for 53.2% of base rent. Wells Fargo (rated AA-/A2/A+ by Fitch/Moody's/S&P) has operated at the property since 2002 (originally Wachovia until 2008 when Wells Fargo purchased Wachovia). Wells Fargo's operations consist of Private Wealth Management in addition to a Wells Fargo Community Bank. Included in the space, is a high net worth client branch of Abbot Downing located on the first floor of the Property. Wells Fargo recently announced the launch of Abbot Downing, a Private Wealth Management subsidiary that was created to focus clientele with high net worth. Wells Fargo leases their space through December 2016 and has three 5-year renewal options. Wells Fargo does not have an early termination option and has the right of first refusal to lease any vacant space or space that shall become vacant.

***Womble Carlyle Sandridge & Rice*** leases 131,847 sq. ft. or 30.6% of NRA, and accounts for 39.8% of annual base rent. Womble Carlyle is headquartered at the Property and has operated there since 2002. Established in Winston-Salem, NC, in 1876, Womble Carlyle has 550 lawyers in 14 offices and primarily focuses on business law. At the Property, Womble Carlyle occupies the top four floors which are a unique space within the market. The 13th Floor has 20 foot high ceilings and is built out as conference and event space. In addition Womble has a partial floor dedicated to a mock courtroom where its attorneys practice for cases and train junior staff. Womble's buildout cannot currently be replicated within the Winston-Salem market. Womble leases their space through April 2017 and has three 5 year extension options. Womble does not have an early termination option.

***Market Overview***

According to Reis, One West Fourth Street is in the Winston-Salem CBD submarket. Within this submarket, the average asking rental rate was $21.97 for properties built between 2000-2009. The overall average asking rental rate of $16.98 per square foot represents a decrease of 0.2% from the prior year. The weighted average rent at the subject was $26.45 per unit and as of 10/31/12. The appraiser concluded an average market rent of $21.23 per square foot. Morningstar underwrote rents based on the in-place contract rents and then applied a general mark-to-market adjustment to yield a net-effective rent of $18.66, which is closer to current market levels. Reis predicts rents will increase 2.6% by 2017.

Within this submarket, the vacancy rate was 14.0% as of fourth quarter 2012 with a vacancy rate of 11.1% for properties built between 2000-2009. The annualized vacancy rate in this submarket has been 13.6% during the past 12 months. Reis forecasts vacancy rates for the next five year period at 13.3% for the submarket. The appraiser identified a competitive set of five properties with a weighted average occupancy of 96.5% compared to 84.2% at the subject. The appraiser concluded a market vacancy rate of 5.0%. Morningstar underwrote vacancy at the property based on the October 2012 rent roll of 15.8%.

Office construction has been sluggish in the Greensboro/Winston-Salem CBD submarket. No inventory has been delivered in 2012 and nothing of any significance is scheduled in the foreseeable future.

## Morningstar Analysis

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 11/30/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Gross Potential Rent | $11,461,839 | $8,608,679 | $8,629,370 | $9,331,752 | $10,997,445 |
| Less: Vacancy Loss (GPR) | (1,758,003) | 0 | 0 | 0 | (1,408,412) |
| Less: Concessions | 0 | 0 | 0 | 0 | 0 |
| Less: Mark-to-Market | (1,652,247) | 0 | 0 | 0 | (1,652,247) |
| Less: Vac Adj for Concess/Coll Loss | 0 | 0 | 0 | 0 | 0 |
| **Base Rent/Net Effective Rent** | **$8,051,588** | **$8,608,679** | **$8,629,370** | **$9,331,752** | **$7,936,786** |
| Expense Reimbursement | $231,706 | $85,454 | $161,828 | $263,656 | $231,706 |
| Rent Steps | 0 | 0 | 0 | 0 | 17,326 |
| Parking Income | 450,000 | 450,000 | 478,392 | 463,491 | 450,000 |
| Other Rental Income | 43,087 | 50,016 | 61,046 | 37,794 | 44,724 |
| Gross Up Vacant space | 0 | 0 | 0 | 0 | 0 |
| Less: Vacancy Other Incomes | (74,504) | n/a | n/a | n/a | n/a |
| **Effective Gross Income** | **$8,701,878** | **$9,194,149** | **$9,330,636** | **$10,096,693** | **$8,680,542** |
| **Expenses** | | | | | |
| Real Estate Taxes | $801,520 | $745,008 | $756,972 | $639,469 | $725,412 |
| Property Insurance | 62,756 | 61,867 | 52,122 | 51,091 | 62,756 |
| Utilities | 525,179 | 490,233 | 476,459 | 509,883 | 525,179 |
| Repairs and Maintenance | 403,538 | 386,607 | 415,223 | 391,784 | 403,538 |
| Contract services | 241,992 | 222,100 | 227,705 | 234,944 | 241,992 |
| Management Fees | 348,075 | 229,744 | 233,160 | 251,733 | 347,222 |
| Payroll & Benefits | 0 | 0 | 0 | 0 | 0 |
| Common Area Maintenance | 0 | 0 | 0 | 0 | 0 |
| Advertising & Marketing | 0 | 0 | 0 | 0 | 0 |
| General and Administrative | 178,527 | 167,509 | 169,075 | 173,327 | 178,527 |
| Non-Reimbursable Expenses | 151,122 | 156,731 | 174,802 | 151,122 | 155,656 |
| Janitorial | 465,579 | 421,227 | 435,942 | 440,607 | 465,579 |
| Market Expense Adjustment | 0 | 0 | 0 | 0 | 0 |
| **Total Operating Expenses** | **$3,178,288** | **$2,881,026** | **$2,941,460** | **$2,843,960** | **$3,105,861** |
| **Net Operating Income** | **$5,523,589** | **$6,313,123** | **$6,389,176** | **$7,252,733** | **$5,574,681** |
| **Capital Items** | | | | | |
| Leasing Commissions | $262,674 | $0 | $0 | $0 | $189,338 |
| Tenant Improvements | 281,052 | 0 | 0 | 0 | 231,445 |
| Capital Expenditure / Reserve | 107,866 | 0 | 0 | 0 | 86,293 |
| - Credit For TI/LC Reserve | (500,000) | | | | (500,000) |
| - Credit For Cap Ex Reserve | 0 | | | | |
| **Total Capital Items** | **$151,592** | **$0** | **$0** | **$0** | **$7,076** |
| **Net Cash Flow** | **$5,371,997** | **$6,313,123** | **$6,389,176** | **$7,252,733** | **$5,567,605** |

## 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***

| | |
|---|---|
| Rent Per Square Foot | \$26.56 |
| Vacancy (%) | 15.1% |

Morningstar's analysis of the property resulted in an NCF of \$5.37 million, which is 3.5% lower than the issuer's underwritten NCF. Morningstar underwrote vacancy based on the inplace level from the most recent rent roll dated November 30, 2012. Morningstar underwrote rents based on the contract rate at the property. A mark-to market adjustment of \$1.65 million was taken based on the the degree to which the rent roll contains above market rents. Morningstar's value for the property is \$62.3 million, a 9.7% variance from the appraised value.

Rent steps were underwritten 12-months into the future.

Parking income is underwritten based on the lease with Central Parking, which has been in place since 2001. The lease expired March 31, 2013 (No update as of this writing).

***Expenses (\$ per unit)***

Morningstar underwrote real estate taxes to the higher issuer level. The real estate taxes underwritten are 13% above the TTM. Morningstar underwrote management fees to 4% of effective gross income based on the historical expense and the borrower's budget. Morningstar underwritten expenses are 11.8% higher than the trailing twelve month period.

***Capital Items***

Tenant Improvements are underwritten to the Morningstar criteria of 40% of concluded rent for new tenants and 50% of that level for renewals. Leasing commissions are underwritten to 4% for new and 2% for renewals. Credit was given for a \$5 million TI/LC reserve at 1/10$^{th}$ or \$500,000 per year.

A reserve for future capital expenditures is underwritten at \$0.25 per foot, compared to the issuer's \$0.20 per square foot.

***Valuation Drivers***

The appraiser's capitalization rate analysis is based upon the rates of recent comparable apartment sales and market surveys. The appraiser concluded that the estimated capitalization rate for the subject is 11.0% based on the short remaining lease terms on 76% of the building and well above-market rents. The sales comparables included in the comparison resulted in a 7.94% capitalization rate. Morningstar's base office capitalization rate for the south region 8.60%. We did not take our standard property quality reductions as a result of the high rollover at the property. We felt this would artificially reduce the risk, despite being an attractive property. Morningstar concluded a cap rate of 8.5%.

# North First Commons

**Analyst:** Edward P. Dittmer 267-960-6043
**Analytical Manager:** Rob Grenda 267-960-6043

| Property Summary | | |
|---|---|---|
| Property Type | Office/Multi-Tenant | |
| Location | San Jose, CA 95131 | |
| Year Built | 2001 | |
| Year Renovated | NAP | |
| Net Rentable Sq. Ft. (Total) | 249,832 | |
| Net Rentable Sq. Ft. (Collateral) | 249,832 | |
| Occupancy (Tape) | 100.00% | (as of 3/6/13) |
| Ownership | Fee Simple | |

| Loan Summary | | |
|---|---|---|
| Loan Amount (Original Balance) | $50,000,000 | ($200 /sq. ft.) |
| Loan Amount (Cut-Off Balance) | $50,000,000 | ($200 /sq. ft.) |
| Loan Term (months) | 120 | |
| I/O Period (months) | 0 | |
| Amortization Term (months) | 360 | |
| Loan Seasoning (months) | 0 | |
| Interest Rate | 3.95000% | |

| Morningstar Analysis | | |
|---|---|---|
| Current DSCR | 1.51 x | |
| Amortizing DSCR | 1.51 x | |
| Beginning LTV | 93.80% | |
| Ending LTV | 73.80% | |
| Capitalization Rate | 8.25% | |
| Morningstar UW Occupancy | 91.86% | |
| Net Operating Income | $4,925,580 | |
| Net Cash Flow | $4,306,682 | |
| Value | $55,188,735 | ($221 /sq. ft.) |
| Debt Yield | 8.61% | |
| Morningstar Site Visit | Yes | |
| Property Score | 3 (Average) | |

## *Capital Structure Table*

| Capital Structure Table | | | | | | |
|---|---|---|---|---|---|---|
| Loan | Current Balance | Interest Rate | Current DSCR | DSCR Amortizing | BLTV | ELTV |
| Subject Loan | $50,000,000 | 3.95000% | 1.51 x | 1.51 x | 93.8% | 73.8% |
| Mezzanine (1) | $40,463,660 | | | | | |
| **Total** | **$50,000,000** | **3.950%** | **1.51 x** | **1.51 x** | **93.8%** | **73.8%** |

(1) Mezzanine note is held by an affiliate of the borrower. No debt service is required under the note, except for 80% of excess cash flow to the borrower after payment of operating expenses. The note is subject to subordination and standstill agreements.

## Morningstar Summary

### *Morningstar Perspective*

The subject is a 249,832-square foot office property in the Golden Triangle region in northern San Jose. The area is known for its high concentration of technology firms and has enjoyed a recovery in recent years as technology hiring has improved. The property was originally leased to Sun Microsystems, now Oracle Corporation, which has since vacated the property. eBay, which has a 535,000-square foot facility one mile south of the subject, has been in need of additional space and subleased two of the four buildings at the property. eBay has signed a direct lease for three buildings at the property, expanding its space to 187,272 square feet. Amdocs, which subleased space beginning in 2008, signed a direct lease for three years. Amdocs has further subleased 29,052 square feet to Vormetrics for three years. However, there is some uncertainty at the property that we have accounted for in our assessment of this loan.

Both tenants, eBay and Amdocs, have leases that will expire during the loan term. eBay has invested $40.00 per square foot in its current space and intends to make an additional investment once it expands into the third building. However, eBay does have the option to terminate the expansion if the borrower is unable to deliver this building prior to September 2013. A subtenant in that building now has stated that it intends to vacate and would like to leave prior to lease expiration in May 2013. We believe that eBay will take the expanded space and that they are likely to remain through the term of the lease. Although there is a five-year renewal option, this is overflow space that the firm may or may not need once the lease expires.

Amdocs may be a greater concern. The company only signed a three-year lease and continues to sublease the space. It is our understanding that the sublease was only put in place to enable common usage of building amenities. Should the subtenant, Vormetrics, default on its lease, Amdocs could terminate the sublease and return the space to the borrower, with a corresponding reduction in rent. Therefore, we must consider Vormetrics a tenant in its own right. Should Amdocs vacate at lease expiration, we believe that the debt service coverage could fall below breakeven.

As the property's financials reflect the prior lease from Sun Microsystems at above-market rents, a comparison of our underwriting to historicals is not meaningful. We have underwritten a higher economic vacancy rate of 8.1% than our usual minimum of 5.0% for a fully-occupied building. In addition, we increased the capitalization rate to 8.25% to account for the balloon risk at maturity.

### *The Bears Say*

- Leases for both tenants expire during the loan term. eBay's lease is seven years with one five-year renewal option. Amdocs' lease is only three years with no options. eBay, however, has invested $5.5 million ($40.00 per square foot) in its space in addition to the $2.7 million ($20.00 per square foot) invested by the landlord and has a right of refusal on the Amdocs building should Amdocs vacate. There is also an ongoing TI/LC reserve and a lease sweep reserve if the tenants vacate.
- If one of the two tenants vacates, Morningstar estimates that the DSCR could fall below break-even.
- eBay has the right to terminate its expansion into one of the three buildings if the landlord is unable to deliver the building in "as-is" condition by September 1, 2013. That building's tenant has indicated that it would like to vacate earlier than required.
- Existing mezzanine debt of approximately $40.5 million will remain in place. The debt was put in place by an affiliate of the sponsors for tax purposes. The mezzanine lender entered into a standstill agreement that bars it from exercising rights or remedies.

### *The Bulls Say*

- The Silicon Valley economy has been in recovery and total employment now exceeds its peak in 2008.
- The property is on North First Street inside San Jose's "Golden Triangle" which has a high concentration of technology firms.
- eBay, which occupies 75% of the space, is considered to be investment-grade by Morningstar.

## *Property Description*

The loan is secured by the fee interest in a 249,832-square foot office complex in San Jose, California. The collateral consists of four buildings located on North First Street in San Jose six miles north of Downtown San Jose and 1.5 miles northeast of the San Jose International Airport. The neighborhood is within the San Jose "Golden Triangle", which is bounded by Interstate 880, California 237 and US 101. Within this area, there are a number of high technology firms with both office and research and development space.

The property was developed in 2001 as a build-to-suit property for Sun Microsystems ("Sun") through May 2013. Sun, now part of Oracle, vacated the property and subleased two buildings to eBay and two buildings to Amdocs. Amdocs subleased 80,840 square feet to two other tenants. Upon expiration of the original lease, both companies executed new, direct leases at the property. eBay will lease 187,272 square feet on a seven-year lease while Amdocs will lease 62,560 square feet. Amdocs will, in turn, continue to sublease 29,052 square feet to Vormetrics, its current subtenant.

A Property Condition Assessment dated February 28, 2013 did not identify any immediate repairs. The engineer recommended replacement reserves of $0.35 per square foot.

A Phase I Environmental Assessment, dated March 7, 2013, identified no recognized environmental conditions.

The property is located in Seismic Zone 4. The engineer defined the probable maximum loss at 12%, below the threshold at which earthquake insurance is required.

## *Tenant Overview*

eBay, Inc. is the largest tenant at the property with 187,272 square feet or 75% of the net rentable area. The lease is for seven years with one five-year renewal option. The company has a debt rating of "A+" from Morningstar. This rating, however, is not provided by a division covered by the NRSRO license. eBay is one of the largest online marketplaces with millions of transactions in over 30 countries. eBay also owns PayPal, one of the largest online payment companies in the world. eBay is headquartered in San Jose and has a 535,000 square foot campus one mile from the subject. Its headquarters is eight miles south of the subject near Campbell, California. Both properties are owned by eBay and are space constrained.

Amdocs is a software company focused on the communications, media and entertainment industries with 62,560 square feet or 25% of the net rentable area. The company is headquartered in Chesterfield, Missouri, near St. Louis. The company began subleasing space in 2008 and has executed a three-year, direct lease at the property. The space is purely for research & development needs. Amdocs subleases 29,052 square feet to Vormetric, an unrelated data encryption company. Although Amdocs is the direct tenant, they will bear no responsibility for the space should Vormetrics default on its lease. Terminating Vormetrics lease would result in the space being recaptured by the borrower and Amdocs rent will be reduced by a corresponding amount. Vormetrics is effectively a separate tenant with the sublease in place to ease the use of common areas.

**Morningstar Tenant Overview Table (Top 10)**

| Tenant | Net Rentable Square Feet | % of Square Feet | Base Rent Amount | Base Rent $ Square Foot | % of Rent | Lease Expiration |
|---|---|---|---|---|---|---|
| Ebay | 187,272 | 75.0% | $4,097,966 | $21.88 | 75.7% | May-20 |
| Amdocs | 33,508 | 13.4% | $703,668 | $21.00 | 13.0% | May-16 |
| Vormetrics (1) | 29,052 | 11.6% | $610,092 | $21.00 | 11.3% | May-16 |
| **Top 10 Subtotal** | **249,832** | **100.0%** | **$5,411,726** | **$21.66** | **100.0%** | |

(1) Amdocs ultimately bears no financial responsibility for Vormetrics sublease. Should the subtenant default, Amdocs may terminate the sublease, revert the space back to the landlord and reduce rent by a corresponding amount. For this reason, we have listed Vormetrics on its own.

### *Lease Expiration and Rollover*

| Morningstar Lease Expirations by Tenant Category - Square Feet Expiring by Year | | | | | | | |
|---|---|---|---|---|---|---|---|
| | MTM | 2013 | 2014 | 2015 | 2016 | 2017 | After 2017 |
| Ebay | 0 | 0 | 0 | 0 | 0 | 0 | 187,272 |
| Amdocs | 0 | 0 | 0 | 0 | 33,508 | 0 | 0 |
| Vormetrics | 0 | 0 | 0 | 0 | 29,052 | 0 | 0 |
| **Total** | **0** | **0** | **0** | **0** | **62,560** | **0** | **187,272** |
| **% Roll** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **25.0%** | **0.0%** | **75.0%** |

### *Market Overview*

The subject is in the Reis Airport/Milpitas submarket of the San Jose MSA. In the fourth quarter of 2012, the average office rent was $22.07 per square foot and the average vacancy was 21.7%. The submarket is now in recovery after several weak years during the recession. From 2007 through 2010, rents decreased 14% while vacancy spiked to 24% from 13%. Prior to the recession, the market had just begun to digest the oversupply of the dotcom years. By 2006, rents had finally started to creep higher. In hindsight, that recovery was more fragile than initially thought as small startups were unable to continue operations and established companies froze new hiring. Class B properties bore the initial brunt as tenants were able to take Class A space at competitive rents, but the Class A market eventually saw availability rise.

Since 2010, employment has picked up in the technology sector and vacancy rates have moved lower. The unemployment rate, which was 11.2% in 2010, was only 8.5% at the end of 2012. Total employment was 22,000 jobs higher than in 2008. Rents, which had fallen to $21.51 per square foot in 2010, increased 2.6% to the current level. Reis is forecasting additional rent growth through 2017; however, this is speculative and relies upon supply growth remaining low and employment to continue increasing.

### *Sponsorship/Management*

The borrower is 2525 North First Street Realty LLC, a Delaware limited-liability company.

The property manager is LPC WEST LLC, a borrower-affiliated management company. The contractual management fee is the greater of 3.0% of the base rent or $5,000 per month. Management fee recovery is capped at 2.0%.

## Morningstar Analysis

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 12/31/2013 | Issuer Underwriting |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Gross Potential Rent | $5,526,966 | $12,902,679 | $13,354,272 | $13,821,672 | $5,633,446 |
| Less: Vacancy Loss (GPR) | (449,757) | 0 | 0 | 0 | (328,662) |
| Less: Concessions | 0 | 0 | 0 | 0 | 0 |
| Less: Collection Loss | 0 | 0 | 0 | 0 | 0 |
| Less: Vac Adj for Concess/Coll Loss | 0 | 0 | 0 | 0 | 0 |
| **Base Rent/Net Effective Rent** | **$5,077,210** | **$12,902,679** | **$13,354,272** | **$13,821,672** | **$5,304,784** |
| Expense Reimbursement | $915,940 | $276,727 | $284,872 | $300,477 | $939,798 |
| Percentage Rent | 0 | 0 | 0 | 0 | 0 |
| Contractual Rent Increases | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Less: Vacancy Other Incomes | (74,535) | n/a | n/a | n/a | n/a |
| **Effective Gross Income** | **$5,918,615** | **$13,179,406** | **$13,639,144** | **$14,122,149** | **$6,244,582** |
| **Expenses** | | | | | |
| Real Estate Taxes | $453,082 | $0 | $0 | $0 | $453,082 |
| Property Insurance | 112,098 | 83,164 | 83,164 | 91,915 | 112,098 |
| Utilities | 28,387 | 0 | 0 | 0 | 32,253 |
| Repairs and Maintenance | 26,335 | 0 | 0 | 0 | 27,785 |
| Contract services | 105,507 | 0 | 0 | 0 | 111,318 |
| Management Fees | 177,558 | 193,540 | 200,314 | 207,325 | 187,337 |
| Payroll & Benefits | 49,680 | 0 | 0 | 0 | 52,416 |
| Common Area Maintenance | 0 | 0 | 0 | 0 | 0 |
| Advertising & Marketing | 0 | 0 | 0 | 0 | 0 |
| Professional Fees | 0 | 0 | 0 | 0 | 0 |
| General and Administrative | 40,388 | 707 | 1,405 | 1,248 | 42,613 |
| Non-Reimbursable Expenses | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Market Expense Adjustment | 0 | 0 | 0 | 0 | 0 |
| **Total Operating Expenses** | **$993,035** | **$277,411** | **$284,883** | **$300,488** | **$1,018,901** |
| **Net Operating Income** | **$4,925,580** | **$12,901,995** | **$13,354,261** | **$13,821,661** | **$5,225,681** |
| **Capital Items** | | | | | |
| Leasing Commissions | $145,694 | $0 | $0 | $0 | $0 |
| Tenant Improvements | 376,105 | 0 | 0 | 0 | 299,798 |
| Capital Expenditure / Reserve | 97,099 | 0 | 0 | 0 | 74,950 |
| Extraordinary Capital Expenditures | 0 | 0 | 0 | 0 | 0 |
| - Credit For TI/LC Reserve | 0 | n/a | n/a | n/a | n/a |
| - Credit For Cap Ex Reserve | 0 | n/a | n/a | n/a | n/a |
| **Total Capital Items** | **$618,898** | **$0** | **$0** | **$0** | **$374,748** |
| **Credit for Upfront DSCR Escrow** | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$4,306,682** | **$12,901,995** | **$13,354,261** | **$13,821,661** | **$4,850,933** |

## 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***

| | |
|---|---|
| Rent Per Unit Per Month | $22.12 |
| Vacancy (%) | 8.1% |

The underwritten rent includes rent steps for eBay, which is an investment grade tenant. The market rent for the space is $22.07 according to Reis, which is slightly below the in-place rent of $22.15. The property is 100% leased; however, Morningstar adjusted vacancy higher to account for the additional risk of the loan.

***Expenses***

Most expense items have been underwritten based on the budget, rather than historicals. The prior tenant had a triple-net lease and was responsible for payment of expenses.

***Capital Items***

A reserve for future capital expenditures is underwritten at $0.39 per square foot, a 10% increase over the engineer's recommended reserves. Tenant improvements for retail and commercial space are underwritten to $15.00 for new tenants and $5.00 for renewals. Leasing commissions are underwritten to 4% for new tenants and 2% for renewals. A renewal rate of 65% is assumed for eBay and 30% for Amdocs.

***Valuation Drivers***

Morningstar added a 105 basis point premium to its San Jose market office capitalization rate of 7.20% to account for additional risk of the shorter-term leases.

# Moffett Towers

**Analyst:** Ed Barrett 267-960-0530
**Analytical Manager:** Rob Grenda 267-960-6023

| Property Summary | | |
|---|---|---|
| **Property Type** | Office/Multi-Tenant | |
| **Location** | Sunnyvale, CA 94089 | |
| **Year Built** | 2008 | |
| **Year Renovated** | NAP | |
| **Net Rentable Sq. Ft. (Total)** | 951,498 | |
| **Net Rentable Sq. Ft. (Collateral)** | 951,498 | |
| **Occupancy (Tape)** | 88.79% | (as of 1/1/13) |
| **Ownership** | Fee Simple | |

| Loan Summary | | |
|---|---|---|
| **Loan Amount (Original Balance) (1)** | $40,000,000 | ($42 /sq. ft.) |
| **Loan Amount (Cut-Off Balance) (1)** | $40,000,000 | ($42 /sq. ft.) |
| **Loan Term (months)** | 120 | |
| **I/O Period (months)** | 36 | |
| **Amortization Term (months)** | 360 | |
| **Loan Seasoning (months)** | 4 | |
| **Interest Rate** | 4.01194% | |

| Morningstar Analysis | | |
|---|---|---|
| **Current DSCR** | 2.07 x | |
| **Amortizing DSCR** | 1.45 x | |
| **Beginning LTV** | 84.90% | |
| **Ending LTV** | 73.10% | |
| **Capitalization Rate** | 7.00% | |
| **Morningstar UW Occupancy** | 88.79% | |
| **Net Operating Income** | $28,756,828 | |
| **Net Cash Flow** | $27,826,486 | |
| **Value** | $394,348,022 | ($414 /sq. ft.) |
| **Debt Yield** | 8.30% | |
| **Morningstar Site Visit** | Yes | |
| **Property Score** | 2 (Good) | |

(1) Whole loan (352 psf)

## *Capital Structure Table*

| Loan | Current Balance | Interest Rate | Current DSCR | DSCR Amortizing | BLTV | ELTV |
|---|---|---|---|---|---|---|
| Subject Loan | $40,000,000 | 4.012% | 2.07 x | 1.45 x | 84.9% | 73.1% |
| A1 Pari Passu | 175,000,000 | 4.012% | 2.07 x | 1.45 x | 84.9% | 73.1% |
| A2 Pari Passu | 120,000,000 | 4.012% | 2.07 x | 1.45 x | 84.9% | 73.1% |
| **Total** | **$335,000,000** | **4.012%** | **2.07 x** | **1.45 x** | **84.9%** | **73.1%** |

DSCR and LTV based on Morningstar NCF

## Morningstar Summary

### *Morningstar Perspective*

The Moffett Towers loan is a $40 million fixed rate loan secured by the borrower's fee simple interest in three Class A office buildings totaling approximately 951,498 square feet. The property is located in Sunnyvale, CA, one of the fastest improving office markets in California. The $40 million first mortgage loan has a 10 year term and amortizes on a 30-year schedule after an initial three year interest only period. The loan accrues interest at a fixed rate equal to 4.40% and is one part of a $335 million whole loan. The loan was structured as three pari passu notes: an A-1 note with an original principal balance of $175.0 million, an A-2 note with an original principal balance of $120.0 million and an A-3 note with an original principal balance of $40.0 million.

Moffett Towers is located in the heart of Silicon Valley in the Sunnyvale submarket, a submarket that since 2010 has been experiencing declining vacancy rates and substantial improvements in rental rates, both as a result of increased demand. The vast improvement in fundamentals is being driven by some of the most prominent names in the technology field who over the past two years have leased significant blocks of space in Sunnyvale, thus driving up rental rates. Reportedly, both Google and Apple are actively searching for large amounts of office space in the area.

The property also benefits from a strong sponsor, Jay Paul Company, who developed the greater than two million square foot Moffett Tower campus. Smart, sustainable design and landscaping are signature features of Jay Paul Company developments. Jay Paul has built projects for some of the world's top companies including Amazon, Boeing, Motorola, Philips Electronics, Microsoft, Hewlett Packard, Google, Rambus, Nokia, and DreamWorks. Today, the Jay Paul portfolio consists of 3.1 million square feet that is approximately 92% occupied. The sponsor and tenants have spent approximately $137.8 million on tenant build-outs to create some of the area's most advanced office spaces thus showing a strong commitment by the sponsor and tenants.

The property has six tenants currently occupying 88.8% of the net rentable space. Three of the tenants are investment-grade and comprise 62.5% of net rentable area and 70.6% of total in-place base rent. Major tenants include Motorola Mobility LLC, Microsoft Corporation and Rambus Inc. The entire subject's tenant base has, as recently as 2011, signed long term leases that minimize term risk. However, all the leases expire just prior to maturity. All the existing tenants have below market rents allowing for upside in rates and somewhat lessening the maturity risk. The loan is structured with a hard lockbox that is controlled by the lender and has a lease sweep period that begins on June 6, 2017, at which time, the borrower is required to deposit all excess cash on a monthly basis into the lease sweep reserve. In addition to the lease sweeps, the borrower is required to make monthly reserve deposits, these structural features will likely mitigate the refinance risk..

Given the class A, LEED Gold, trophy status of the property, long term leases to credit tenants, strong sponsorship and its excellent location, Morningstar expects the property to provide stable performance during the term, but we have concerns about refinance risk.

### *The Bulls Say*

- The property has three credit rated tenants leasing 62.5% of net rentable area and contributing 70.6% of total in-place gross rent at the property. Motorola (33.3% of net rentable area through June 2021), Microsoft (24.9% of net rentable area through December 2021), Rambus (16.4% of NRA through June 2020, and Plaxo (4.3% of NRA through February 2019).
- Moffett Towers is a Class A office property built in 2008 by the sponsor. The building holds a LEED Gold designation and is one of the most desirable properties in the area.
- The sponsor and tenants have cumulatively invested approximately $137.8 million on tenant build-out to preserve the property's status as one of the area's most advanced office spaces.
- The weighted average triple net base rent per the January 2013 rent roll is $32.80 per square foot; the weighted average gross rent is $40.44 per square foot. The appraiser concluded that the appropriate current market rent for the property is $3.25 per square foot, per month, triple net ($39.00 per square foot per year. Vacant space at the property is being marketed at $39 per square foot on a triple net basis.
- The property is strategically located in the heart of the Silicon Valley close to a host of renowned high technology companies including Google, Facebook, Apple, Intel and Hewlett-Packard. Smaller technology firms that often do business with such firms desire space close to the renowned firms thus broadening the tenant base at the subject.
- The property offers good ingress and egress from the nearby major freeways and has convenient access to several major airports including San Jose International, San Francisco International and Oakland International.
- The Moffett Towers loan is structured with a hard lockbox and in place cash management. All tenants at the property deposit all rents and other payments into the lockbox account controlled by the lender.

## *The Bears Say*

- All of the property's current leases expire during the term. However, several of the tenants, including Motorola, Microsoft, Rambus and Financial Engines have made significant improvements totaling $70.8 million to their respective spaces and rents at the subject are below market.
- The loan is interest only for the first 36 months reducing amortization, however, it amortizes for the seven years thereafter.
- The Sunnyvale submarket's near-term outlook for demand remains positive, however, the submarket has historically seen bouts of volatility. The volatility can return to the submarket as demand is squarely dependent on the performance of the U.S. economy and heavily weighted to technology.
- The loan was structured as three pari passu notes: an A-1 note with an original principal balance of $175.0 million, an A-2 note with an original principal balance of $120.0 million and an A-3 note with an original principal balance of $40.0 million. The pari-passu structure presents potential issues that could hinder resolution in a timely and cost effective manner should the loan default.

## *Property Description*

The property, Moffett Towers Phase I, collectively consists of three individual, 8-story suburban office buildings located in Sunnyvale, California, and is part of a roughly two million square foot Moffett Towers campus which spans a 52-acre site developed by the sponsor in 2008. Moffett Towers Phase I has a total of 951,498 square feet of net rentable area with each individual building containing 317,166 square feet of net rentable area. The Class A buildings are designated LEED Gold. The property contains two separate parking garages that provide a total of 2,885 parking spots, which also serve as collateral for the loan. Tenants at Moffett Towers Phase I have access to The Moffett Towers Club, a full service, 48,207 square foot fitness center, including outdoor lap pool, that is shared by the tenants at Phase I and Phase II of the development. The Moffett Towers club is not collateral for the loan.

The property is 88.8% leased as of January 1, 2013 by six tenants, including three credit rated tenants making up 62.5% of net rentable area and 70.6% of total in-place gross rent at the property. Major tenants include Motorola (33.3% of net rentable area through June 2021), Microsoft (24.9% of net rentable area through December 2021), Rambus (16.4% of NRA through June 2020, and Plaxo (4.3% of NRA through February 2019).

The sponsor has invested approximately $67 million on tenant build-out while, tenants,  Motorola, Microsoft, Rambus and Financial Engines made an additional investment totaling approximately $70.8 million to their respective spaces, establishing the site as one of the area's most advanced office spaces. The weighted average NNN base rent is $32.80 per square foot, the weighted average gross rent is $40.44 per square foot, and the average remaining lease term is approximately 8.1 years.

## *Tenant Overview*

Six tenants currently occupy 88.8% of the space in the property, including three investment-grade tenants comprising 62.5% of net rentable area and 70.6% of total in-place base rent. Major tenants include Motorola Mobility LLC, Microsoft Corporation and Rambus Inc.

Motorola's initial lease commenced June 2011 and the tenant expanded into an additional 80,669 square feet under a lease that began January 2012. The sponsor committed to approximately $23 million on tenant build-out over warm shell space and Motorola independently invested an additional $25.1 million in the space. Motorola has two 5-year options to extend at fair market value with 6 months notice and no termination options.

Microsoft's initial lease commenced January 2012 and Microsoft currently occupies 237,121 square feet of space in building B. The lease allows for a $75.00 per square foot tenant allowance, of which approximately $15.5 million has been spent by the borrower to date on tenant build-out over warm shell space, and Microsoft has independently invested approximately an additional $33.4 million in the space. Microsoft has a one-time right to terminate on December 31, 2018 with 12 months notice and a termination fee equal to $12,421,800.

Rambus has been at the property since March 2012. The sponsor committed to approximately $11.9 million on tenant build-out over warm shell space and Rambus independently invested an additional $10.9 million in the space. Rambus has a one-time right to terminate on June 30, 2017 with nine months notice and a termination fee equal to the unamortized portion of all free rent and leasing costs paid by landlord. Assuming termination notice is given by September 30, 2016, the termination fee would be $8,846,734.

### *Tenant Overview*

| Morningstar Tenant Overview Table (Top 10) | | | | | | |
|---|---|---|---|---|---|---|
| Tenant | Net Rentable Square Feet | % of Square Feet | Base Rent Amount | Base Rent $ Square Foot | % of Rent | Lease Expiration |
| Motorola Mobility, Inc | 317,166 | 33.3% | $11,146,505 | $35.14 | 39.1% | Jun-21 |
| Microsoft Corporation | 237,121 | 24.9% | $7,697,787 | $32.46 | 27.0% | Dec-21 |
| Rambus Inc | 156,173 | 16.4% | $5,119,128 | $32.78 | 17.9% | Jun-20 |
| Financial Engines, Inc. | 80,995 | 8.5% | $2,750,590 | $33.96 | 9.6% | May-20 |
| Plaxo Inc. | 40,448 | 4.3% | $1,325,076 | $32.76 | 4.6% | Feb-19 |
| Level 10 Construction Inc. | 12,944 | 1.4% | $494,331 | $38.19 | 1.7% | Feb-19 |
| **Top 10 Subtotal** | **844,847** | **88.8%** | **28,533,418** | **$33.77** | **100.0%** | |

Base rent includes scheduled rent increases through 2015

### *Lease Expiration and Rollover*

| Morningstar Lease Expirations by Tenant Category - Square Feet Expiring by Year | | | | | | | |
|---|---|---|---|---|---|---|---|
| | MTM | 2013 | 2014 | 2015 | 2016 | 2017 | After 2017 |
| Motorola | 0 | 0 | 0 | 0 | 0 | 0 | 317,166 |
| Microsoft | 0 | 0 | 0 | 0 | 0 | 0 | 237,121 |
| Office – NNN | 0 | 0 | 0 | 0 | 0 | 0 | 290,560 |
| **Total** | **0** | **0** | **0** | **0** | **0** | **0** | **844,847** |
| **% Roll** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **88.8%** |

### *Market Overview*

The Silicon Valley office market encompasses nearly 46.8 million square feet of office space. It is comprised of 13 submarkets, located predominantly in Santa Clara County, and also includes the Newark and Fremont submarkets in southern Alameda County. The property is located in the Sunnyvale submarket close to Mountain View.

From mid-year 2012 to year-end, Sunnyvale's vacancy dropped 5.4 percentage points to 5.6%. Leasing activity during the second half of 2011 and first half of 2012 in Moffett Towers, which had been mostly vacant since it was completed in 2008, helped bring vacancy down in Sunnyvale. Mountain View's vacancy remains essentially unchanged at 3.6%, up slightly from 3.3% in second quarter 2012, and Cupertino's vacancy is a low 1.0%.

In the second quarter 2012, Sobrato Development Company moved forward with their new class A construction project that had been on hold since 2008, and completed two 153,540 square foot class A office buildings at the Campus at Lawson Lane in Santa Clara. A third building is planned for Phase II. Also under construction at second quarter 2012 are two buildings at 1133 Innovation Way in Sunnyvale totaling 636,000 square feet for Juniper Networks to serve as their headquarters. The buildings are scheduled for completion in fourth quarter 2013. Additionally, the Irvine Company began construction of Phase I of the Santa Clara Gateway Center, a three-building, 447,000 square foot speculative project scheduled for completion in mid-year 2013, 300,000 square feet of which has been leased to Dell Marketing LP and Arista Networks, Inc. for $3.00 per square foot per month triple net ($36.00 per square foot per year).

Strong demand and lower vacancy have been the driving factors behind the increases in the overall average asking rent in Silicon Valley. According to Cushman & Wakefield's Q4 "Marketbeat" report, fourth quarter 2012 class A asking rent was $33.96 per square foot per year (gross rent), up from $32.76 per square foot per year (gross rent) in the second quarter. The overall weighted average asking rates are artificially low due to the large amounts of available space being in the less desirable submarkets. Overall, rents in the strongest submarkets carry a premium to the rest of the broader market, and as of the third quarter, the average asking rent in the Sunnyvale and Mountain View submarkets were $45.12 per square foot per year (gross rent) and $55.20 per square foot per year (gross rent) respectively.

The Silicon Valley's average household income is $112,471, which is 67.0% above the national average. Additionally, about 44% of the Silicon Valley's population has a bachelor or advanced degree, compared to just 28.0% for the nation.

***Sponsorship/Management***

The borrower, MT SPE, LLC, is a single purpose Delaware limited liability company structured to be bankruptcy-remote. The sponsor of the borrower and the nonrecourse carve-out guarantor is Joseph K. Paul and the Jay Paul Revocable Trust, on a joint and several basis. Jay Paul Co.'s was founded in 1975; Jay Paul has developed and/or acquired more than 6.5 million square feet of Class A suburban office properties, focusing mainly on the Sunnyvale market. Jay Paul's portfolio consists of 3.75 million sq. ft. that is approximately 94% occupied.

The property is managed by Paul Holdings, Inc., a borrower affiliate.

## Morningstar Analysis

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | 2013 Proforma | Issuer Underwriting |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Gross Potential Rent | $32,885,701 | $0 | $0 | $30,232,656 | $34,455,641 |
| Less: Vacancy Loss (GPR) | (3,770,113) | 0 | 0 | 0 | (4,387,658) |
| Less: Concessions | 0 | 0 | 0 | 0 | 0 |
| Less: Collection Loss | 0 | 0 | 0 | 0 | 0 |
| Less: Vac Adj for Concess/Coll Loss | 0 | 0 | 0 | 0 | 0 |
| **Base Rent/Net Effective Rent** | **$29,115,588** | **$0** | **$0** | **$30,232,656** | **$30,067,983** |
| Expense Reimbursement | $6,453,981 | $0 | $0 | $6,829,980 | $6,453,981 |
| Percentage Rent | 735,868 | 0 | 0 | 855,935 | 735,868 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Less: Vacancy Other Incomes | (82,482) | n/a | n/a | n/a | n/a |
| **Effective Gross Income** | **$36,222,955** | **$0** | **$0** | **$37,918,571** | **$37,257,832** |
| **Expenses** | | | | | |
| Real Estate Taxes | $3,115,471 | $0 | $0 | $3,115,471 | $3,115,471 |
| Property Insurance | 1,222,232 | 0 | 0 | 1,222,232 | 1,222,232 |
| Utilities | 454,078 | 0 | 0 | 454,078 | 454,078 |
| Repairs and Maintenance | 521,194 | 0 | 0 | 521,194 | 521,194 |
| Contract services | 0 | 0 | 0 | 0 | 0 |
| Management Fees | 1,086,689 | 0 | 0 | 888,769 | 1,000,000 |
| Security | 83,368 | 0 | 0 | 83,368 | 83,368 |
| Common Area Maintenance | 0 | 0 | 0 | 0 | 0 |
| General & Administrative (Non-Reimb) | 110,726 | 0 | 0 | 110,726 | 110,726 |
| Landscaping | 168,553 | 0 | 0 | 168,553 | 168,553 |
| Amenities Bldg. Expense | 568,042 | 0 | 0 | 568,042 | 568,042 |
| Cleaning | 135,775 | 0 | 0 | 135,775 | 135,775 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Market Expense Adjustment | 0 | 0 | 0 | 0 | 0 |
| **Total Operating Expenses** | **$7,466,128** | **$0** | **$0** | **$7,268,208** | **$7,379,439** |
| **Net Operating Income** | **$28,756,828** | **$0** | **$0** | **$30,650,363** | **$29,878,393** |
| **Capital Items** | | | | | |
| Leasing Commissions | $757,005 | $0 | $0 | $0 | $754,341 |
| Tenant Improvements | 675,878 | 0 | 0 | 0 | 529,014 |
| Capital Expenditure / Reserve | 237,875 | 0 | 0 | 0 | 190,300 |
| Extraordinary Capital Expenditures | 0 | | | | |
| - Credit For TI Reserve | 0 | | | | |
| - Credit For LC Reserve | 0 | | | | |
| - Credit For TI/LC Reserve | (740,416) | | | | |
| - Credit For Cap Ex Reserve | 0 | | | | |
| **Total Capital Items** | **$930,341** | **$0** | **$0** | **$0** | **$1,473,655** |
| **Credit for Upfront DSCR Escrow** | $0 | $0 | $0 | $0 | $1,019,845 |
| **Net Cash Flow** | **$27,826,486** | **$0** | **$0** | **$30,650,363** | **$29,424,583** |

## 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*

| | |
|---|---|
| Rent Per Unit Per Month | $33.73 |
| Vacancy (%) | 11.2% |

The property was completed in 2008 and the initial lease up did not begin until 2010, with much of it occurring in the later part of 2011 and 2012, primarily due to market conditions. As a result, 2010 and 2011 operating results did not reflect the property's recent performance; therefore, the underwriting is heavily weighted by the borrower's budget and current rent roll.

Morning underwrote gross potential rent based on the borrower's January 1, 2013 rent roll, additional credit was given to rent steps through January 2014 and vacancy was grossed up at Morningstar's concluded rent of $33.73 per square foot. The appraiser estimated market rents of $39 per square foot.

All the leases are on a triple net basis, therefore reimbursements were underwritten based on a full pass-through of the Morningstar underwritten expense,

Vacancy was underwritten based on the actual in place rate of 11.2%, slightly below the appraiser's estimate of the direct submarket vacancy of 12.9%, but above the estimate of the Class A market rate of 5%.

### *Expenses*

Historical property expenses are limited due to the property's recent construction and initial lease-up period that began in 2011. Therefore, the expenses were largely underwritten to the borrower's budget.

Real estate taxes and insurance were underwritten to the actual current amounts.

The management fee was underwritten to 3% of effective gross income in accordance with the contractual management fee of 3% of base rent. The management fee is fully subordinated to the loan.

### *Capital Items*

A reserve for future capital expenditures is underwritten at $0.25/sq. ft., Morningstar's criteria capital reserve amount when the engineer's recommended reserve is significantly lower. The engineer's inflated estimate was $0.10 per square foot. Tenant improvements for the commercial space are underwritten to $15 per square foot for new leases and $5 per square foot for renewals, adjusted for credit tenancy. For second-generation space, the appraiser estimated $15 per square foot for new leases and $10 per square foot for renewal leases. Given the length of the in place leases, the credit tenant's and management marketing the vacanct space at $39 per square foot, the lower rates are warranted. Leasing commissions are underwritten to 7.5% for new tenants and 3.75% for renewals. Morningstar gave $740,416 of credit to the $8 million upfront Microsoft tenant improvement and leasing commission reserve. A renewal rate of 65% is assumed.

### *Valuation Drivers*

Morningstar estimated the value of the asset based the income capitalization approach to value. Capitalization rates are estimated quarterly by Morningstar for the office 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 Morningstar capitalization rate for the Sunnyvale office market was 7.6%. This base capitalization rate was adjusted to reflect the relative location, quality, and condition of the subject asset relative to the overall market. Morningstar's concluded capitalization rate for this asset was 7.0% which resulted in a direct capitalization value of $384.9 million, or $405 per square foot.

# PNC Center

**Analyst:** Chandan Banerjee 646-560-4512
**Analytical Manager:** Rob Grenda 267-960-6023


*Source: Integra Realty Resources Appraisal*

| Property Summary | | |
|---|---|---|
| **Property Type** | Office/Multi-Tenant | |
| **Location** | Pittsburgh, PA | |
| **Year Built** | 1982 | |
| **Year Renovated** | 2006 | |
| **Net Rentable Sq. Ft. (Total)** | 337,378 | |
| **Net Rentable Sq. Ft. (Collateral)** | 337,378 | |
| **Occupancy (Tape)** | 89.50% | (as of 3/21/13) |
| **Ownership** | Fee Simple | |

| Loan Summary | | |
|---|---|---|
| **Loan Amount (Original Balance)** | $32,000,000 | ($95 /sq. ft.) |
| **Loan Amount (Cut-Off Balance)** | $32,000,000 | ($95 /sq. ft.) |
| **Loan Term (months)** | 120 | |
| **I/O Period (months)** | 0 | |
| **Amortization Term (months)** | 360 | |
| **Loan Seasoning (months)** | 0 | |
| **Interest Rate** | 4.98300% | |

| Morningstar Analysis | | |
|---|---|---|
| **Current DSCR** | 1.25 x | |
| **Amortizing DSCR** | 1.25 x | |
| **Beginning LTV** | 95.44% | |
| **Ending LTV** | 77.59% | |
| **Capitalization Rate** | 7.65% | |
| **Morningstar UW Occupancy** | 89.50% | |
| **Net Operating Income** | $3,084,012 | |
| **Net Cash Flow** | $2,576,769 | |
| **Value** | $33,521,030 | ($99 /sq. ft.) |
| **Debt Yield** | 8.05% | |
| **Morningstar Site Visit** | Yes | |
| **Property Score** | 3 (Average) | |

### *Capital Structure Table*

| Loan | Current Balance | Interest Rate | Current DSCR | DSCR Amortizing | BLTV | ELTV |
|---|---|---|---|---|---|---|
| Subject Loan | $32,000,000 | 4.983% | 1.25 x | 1.25 x | 95.4% | 77.6% |
| **Total** | **$32,000,000** | **4.983%** | **1.25 x** | **1.25 x** | **95.4%** | **77.6%** |

## Morningstar Summary

### *Morningstar Perspective*

The PNC Center City loan is a ten-year, $32.00 million ($95 per square foot) fixed-rate financing to refinance the sponsor's existing debt on a 337,378 square foot, 22-story, class-A office building and two-level, 150-space, below grade parking garage in Pittsburgh, Allegheny County, Pennsylvania. The loan represents a 74.9% loan-to-appraised value ratio. Developed in 1982 and renovated upon the sponsor's acquisition in 2006, the property was 89.5% occupied as of March 21, 2013. Historical occupancy has averaged 90.5% since 2010. In the same period, the property has reported net cash flow (NCF) of $2.78 million, $2.73 million and $2.95 million in 2010, 2011 and 2012, respectively. The property is occupied by 17 tenants and the top five tenants account for 69.1% of the net rentable area and 66.5% of the total base rent. The largest tenant is PNC Bank, which occupies 109,710 square feet (32.5% of the net rentable area) through December 2017. The property is well maintained; the property condition report (PCA) identified only $40,000 of immediate repairs and the phase I environmental report did not identify any issues of immediate concern.

Morningstar's analysis of the property resulted in a NCF of $2.58 million, which is 8.2% lower than the issuer's underwritten NCF. Morningstar underwrote to the in-place average rent and vacancy at the property. Based on the appraiser's estimated market rents, the in-place rents at the property are below market. However, Morningstar did not underwrite any upside potential. The property also faces concentrated lease rollover in 2017 when the PNC Bank lease is scheduled to expire and in 2019 when the second largest tenant, Reed Smith (54,772 square feet; 16.2% of the net rentable area) is scheduled to roll. The issuer has escrowed $500,000 in a general up front rollover reserve and will sweep excess cash flow 18 months prior to the PNC Bank roll and 12 months prior to the Reed Smith roll, if those tenants indicate that they will not renew their leases. Morningstar's concluded value of the property is $33.52 million, which is 21.5% lower than the appraised value. The resulting Morningstar LTV ratio and DSCR (amortizing) are 95.4% and 1.25x respectively.

Morningstar visited the site on Monday, April 1, 2013 and observed some of the typical tenant spaces, vacant spaces and building mechanical systems. Based on our observations, the property seemed to be generally well maintained and Morningstar saw no obvious deferred maintenance issues. Morningstar assigned the property a score of 3 (average).

### *The Bears Say*

- Concentrated Lease Roll: The two largest tenants in the building, PNC Bank and Reed Smith, have leases expiring within the loan term, in 2017 and 2019, respectively. The PNC Bank roll represents 109,710 square feet (32.5% of the net rentable area) and Reed Smith represents 54,772 square feet (16.2% of the net rentable area). The PNC Bank space is occupied by its Healthcare Services Group, which administers employee healthcare plans and the Reed Smith space is occupied by its Global Customer Center. PNC is a developing a 700,000 square foot office building in the Pittsburgh CBD, which is scheduled for completion in 2015 and which it will reportedly fully occupy. Reed Smith also has an office within a half mile of the property. In order to mitigate the impact of the rollover, the issuer has escrowed $500,000 in a general rollover reserve and will sweep excess cash flow 18 months prior to the PNC Bank roll and 12 months prior to the Reed Smith roll, if those tenants indicate that they will not renew their leases.
- High Leverage: Based on Morningstar's value of the property, the loan has a 95.4% LTV ratio. The high leverage is mitigated partially by the fact that the property has historically averaged over 90% occupancy and has had very stable cash flows. In addition, based on the appraiser's estimated market rents, the property has below market in-place rents. To the extent the property's leases are below market, there is some upside in the cash flow when leases roll.

### *The Bulls Say*

- Rollover Reserves: The loan is structured with a $500,000 upfront holdback that will be held in the general rollover reserve account, and $1 per square foot in ongoing TI/LC's which for the first four years will be allocated solely for PNC's expiration. In addition, there will be a cash flow sweep 18-months prior to PNC's expiration and a cash flow sweep 12-months prior to Reed Smith's expiration. There will be approximately $3.25 million allocated for PNC by their lease expiration ($30 per square foot).
- Below Market In-Place Rents: Based on the appraiser's estimated market rents of $22.50 per square foot for general office space and $24.50 per square foot for the PNC and Reed Smith space, the in-place rents at the property are between 16-22% below market. This represents upside potential for which Morningstar has not given any credit.
- Experienced Sponsorship and Property Management - David Stern Management has been in existence for over 20 years with Mr. David Shemano as the principal of the Company. The company controls and manages more than 25 properties in the Tri-State area, Pennsylvania, and Texas, David Stern

Management has an extensive portfolio of retail, office, and multi-family properties. The current portfolio contains over 2.5 million square feet of office and retail space and approximately 1,500 multifamily units.

- Good Location: The property is located in the Pittsburgh CBD and benefits from easy access to major thoroughfares like I-279 and I-376. It is located close to retail, restaurants, and the new Rivers Casino. The property has excellent visibility and the tower floors of the property enjoy expansive views of the Monongahela River and downtown Pittsburgh.

***Property Description***

PNC Center is a 22-story, 337,378 square foot class-A office building located in the Pittsburgh CBD. Situated on a 0.68-acre site, the property includes a 10,540 square foot PNC Bank branch, 940 square feet of retail space and a two-level parking garage with 150 parking spaces. The property was built in 1982 and since acquiring it in 2006, the sponsor has spent $9.3 million in capital expenditures, tenant improvements, and leasing commissions. Capital improvements include upgrades to the lobby, interior corridors, restrooms, and HVAC. The property is currently 89.5% occupied by 17 tenants.

The property benefits from its location in the Pittsburgh CBD, an area of approximately 0.5 square miles bound by the Allegheny, Monongahela, and Ohio rivers on the north, south and west, and by I-579 (Crosstown Boulevard) to the east. The major land use within the CBD is commercial and is dominated by large office complexes including the US Steel Building, One Mellon Center, PPG Place, One Oxford Center, and Fifth Avenue Place. According to Reis, the Pittsburgh CBD has an inventory of 22.64 million square feet of office space across 132 buildings. Retail use in the CBD is primarily confined to the first floors of office buildings. According to the appraiser, there is very little stand-alone retail in the Pittsburgh CBD and only one department store, Macy's.

The Pittsburgh CBD is easily accessible by several major highways, including the Parkway West (I-279), Parkway East (I-376), Crosstown Boulevard (I-579), PA 28/East Ohio Street, East Street, and Carson Street (PA 837). The property is located 15 miles west of the Pittsburgh International Airport and 13 miles west of the Pennsylvania Turnpike. Publics transport access is available through the Port Authority Transit of Allegheny County, which provides bus and light rail connectivity to the CBD.

The property is generally in good condition. EBI Consulting, a third party consultant, provided Property Condition Assessment (PCA) and Environmental Site Assessment (ESA) reports for the property. The PCA identified only one immediate repair item, HVAC repairs, at a cost of $50,000. The ESA did not find any Recognized Environmental Conditions (REC) but did recommend the preparation and implementation of an asbestos operations and maintenance plan at a cost of $500.

***Tenant Overview***

The following table is a summary of the top-10 direct tenants at the property and the rent generated by each tenant, according to a rent roll dated December 31, 2012. The top-10 tenants account for 82.8% of the property's net rentable area and 81.1% of the total base rent.

| Tenant | Net Rentable Square Feet | % of Square Feet | Base Rent Amount | Base Rent $ Square Foot | % of Rent | Lease Expiration |
|---|---|---|---|---|---|---|
| PNC Bank | 109,710 | 32.5% | $2,142,440 | $19.53 | 32.5% | Dec-17 |
| Reed Smith | 54,772 | 16.2% | $861,872 | $15.74 | 13.1% | May-19 |
| ParenteBeard | 36,082 | 10.7% | $793,804 | $22.00 | 12.0% | Jul-23 |
| CBS Corporation | 18,041 | 5.3% | $324,738 | $18.00 | 4.9% | Jun-16 |
| Caroselli Beachler McTiernan & Conboy, L.L.C. | 14,700 | 4.4% | $264,600 | $18.00 | 4.0% | Oct-18 |
| Smithfield Trust Co. | 13,852 | 4.1% | $277,040 | $20.00 | 4.2% | May-17 |
| DFL Legal | 10,997 | 3.3% | $230,937 | $21.00 | 3.5% | Feb-16 |
| Hartford Fire Insurance Co. | 7,504 | 2.2% | $170,716 | $22.75 | 2.6% | Jul-16 |
| Chemrisk | 6,934 | 2.1% | $152,548 | $22.00 | 2.3% | Feb-17 |
| DiBella Geer McAllister Best, P.C. | 6,933 | 2.1% | $131,727 | $19.00 | 2.0% | Mar-16 |
| **Top 10 Subtotal** | **279,525** | **82.8%** | **5,350,421** | **$19.14** | **81.1%** | |

*PNC Bank*: Founded in 1852 as the Pittsburgh Trust and Savings Company, the PNC Financial Services Group, Inc. (NYSE: PNC) is a financial service company. As of December 31, 2011, PNC's corporate legal structure consisted of one domestic subsidiary bank, including its subsidiaries, and approximately 141 active non-bank subsidiaries. PNC has businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking, providing its products and services nationally and others in its markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, Kentucky, Florida, Washington, D.C., Delaware, Virginia, Missouri, Wisconsin and Georgia. With over 2,900 branches, they are ranked by Barons as the 6th largest bank-held wealth manager and by Family Wealth Alliance as the 6th largest ultra-affluent provider. PNC provides deposit, lending, cash management and investment services to more than 5 million consumer and small business customers. As of September 2012, PNC Bank had approximately $112 billion in assets under management with $222 billion of assets under administration. PNC, which occupies 109,710 square feet (32.5% of the net rentable area), has been a tenant in the building since 1998 and their current lease expires in December of 2017. PNC's space at the property is occupied by its Healthcare Services Group, which administers its employee healthcare plans.

*Reed Smith LLP:* Reed Smith was founded in Pittsburgh in 1877 and is a law firm that represents many of the world's leading companies in complex litigation and other high-stakes disputes, cross-border and other strategic transactions, and crucial regulatory matters. Reed Smith counsels 13 of the world's 15 largest commercial and savings banks; 8 of the world's 15 largest oil and gas companies; and the world's three largest pharmaceutical distribution and wholesale companies. More than 250 lawyers comprise the law firm's Pittsburgh office, making it the largest law office in the city and the largest Reed Smith office in the United States. Pittsburgh also is home to the firm's Global Customer Center, which provides service to Reed Smith's attorneys and offices around the world. Reed Smith, which has been a tenant at the property since 2009, currently occupies 54,772 square feet (16.2% of the net rentable area) through May 2019.

*ParenteBeard LLC:* Headquartered in Philadelphia and with over 1,000 professionals, ParenteBeard has offices in Pennsylvania, New York, New Jersey, Maryland, Delaware and Texas. The firm has clients in nearly every state in the U.S. and has access to international clients through its membership in Baker Tilly International, a global network of 149 independent accounting and business services firms located throughout 125 countries. In addition to audit, tax and accounting services, ParenteBeard provides forensic accounting and business consulting services to corporations and closely held businesses. Its industry groups include construction, education, financial services, government and nonprofit, healthcare, manufacturing, small and family owned businesses, retail, technology, life sciences and wholesale and distribution. In 2012, Accounting Today ranked ParenteBeard as the 23rd-largest accounting firm in the U.S. by revenue. In its latest fiscal year, the firm booked $170 million in revenues. ParenteBeard occupies 36,082 square feet (10.7% of the net rentable area) at the property through July 2023 and has been a tenant since August 2012.

*CBS Corporation:* CBS Corporation (NYSE: CBS.A and CBS) is a mass media company that creates and distributes industry-leading content across a variety of platforms to audiences around the world. The Company has businesses with origins that date back to the dawn of the broadcasting age as well as new ventures that operate on the leading edge of media. CBS owns the most-watched television network in the U.S. and one of the world's largest libraries of entertainment content, making its brand – "the Eye" – one of the most recognized in business. The Company's operations span virtually every field of media and entertainment, including cable, publishing, radio, local TV, film, outdoor advertising, and interactive and socially responsible media. CBS's businesses include CBS Television Network, The CW (a joint venture between CBS Corporation and Warner Bros. Entertainment), Showtime Networks, CBS Sports Network, Smithsonian Networks, Simon & Schuster, CBS Television Stations, CBS Radio, CBS Outdoor, CBS Television Studios, CBS Global Distribution Group, CBS Interactive, CBS Consumer Products, CBS Home Entertainment, CBS Films and CBS EcoMedia. CBS Corporation occupies 18,041 square feet (5.3% of the net rentable area) at the property through June 2016 and has been a tenant since 2009.

*Caroselli Beachler McTiernan & Conboy, L.L.C.:* Founded in 1972, Caroselli Beachler McTiernan & Conboy, L.L.C. (CMBC) is a personal injury law firm with practices in the areas of workers' compensation, personal injury, medical malpractice, asbestos litigation and social security. We also pursue bad faith insurance claims, toxic torts and class action lawsuits. CMBC has been a tenant at the property since 2008 and occupies 14,700 square feet (4.4% of the net rentable area) through October 2018.

***Tenant Expiration and Lease Rollover***

The lease rollover at the property during the term of the loan averages 6.3% of the net rentable area per year. However, the lease rollover is concentrated in certain years, particularly in 2017 when 130,992 square feet or 38.8% of the net rentable area is scheduled to expire. The following table summarizes the tenant expiration and lease rollover during the term of the loan.

| Tenant Expiration and Lease Rollover Schedule | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year of Expiration | # of Tenants | Sq. Ft. Expiring | Cumulative Sq. Ft. | % of Total Sq. Ft. | Rent/ Sq. Ft. Expiring | Total Rent Expiring | Cumulative Rent | % of Tot Rent |
| MTM | 1 | 1,176 | 1,176 | 0.35% | $22.00 | $25,872 | $25,872 | 0.45% |
| 2013 | 3 | 5,834 | 7,010 | 1.73% | 18.44 | 107,579 | 133,451 | 1.88% |
| 2014 | 1 | 940 | 7,950 | 0.28% | 16.60 | 15,604 | 149,055 | 0.27% |
| 2016 | 4 | 43,475 | 51,425 | 12.89% | 19.74 | 858,118 | 1,007,173 | 15.01% |
| 2017 | 3 | 130,992 | 182,417 | 38.83% | 19.59 | 2,566,133 | 3,573,306 | 44.88% |
| 2018 | 2 | 21,954 | 204,371 | 6.51% | 16.06 | 352,581 | 3,925,887 | 6.17% |
| 2019 | 2 | 61,507 | 265,878 | 18.23% | 16.22 | 997,644 | 4,923,531 | 17.45% |
| 2023+ | 1 | 36,082 | 299,331 | 10.69% | 22.00 | 793,804 | $5,717,335 | 13.88% |
| Totals / Weighted Avg. | 17 | 299,331 | | 88.72% | $18.94 | $5,717,335 | | 100.00% |
| Vacant Space | | 35,418 | | 10.50% | | | | |
| Management Space | | 2,629 | | 0.78% | | | | |
| Total Rentable Area | | 337,378 | | 100.00% | $18.94 | $5,717,335 | | 100.00% |

The rollover in 2017 is predominantly attributable to PNC Bank, which is the largest tenant in the building, and occupying 109,710 square feet (83.8% of the scheduled rollover). PNC Bank has been a tenant in the building since 1998 and currently its space is occupied by its Healthcare Services Group, which administers employee health plans. According to the issuer, PNC plans to relocate an additional 140 employees to this location. However, PNC's space, which is situated on the top floors of the property, is arguably underutilized. In addition, PNC has broken ground on a 33-story, 700,000 square feet office building in the Pittsburgh CBD, scheduled for completion in 2015. There is also lease rollover concentration in 2019 when the second largest tenant, Reed Smith (54,772 square feet; 89.0% of the scheduled rollover) is scheduled to roll. The Reed Smith space at the property is occupied by its Global Customer Center, which provides 24/7 customer support to Reed Smith clients worldwide. Reed Smith also has offices less than a half mile from the property.

PNC and Reed Smith occupy the top eight floors of the property and according to the issuer and per the appraiser's concluded market rents, their in-place rents are below market. The issuer will sweep excess cash flow starting 18 months prior to the PNC expiration and 12 months prior to the Reed Smith expiration, if those tenants do not provide notice of renewal.  Further, the issuer has an upfront reserve of $500,000 to be held in a general rollover reserve account.

***Market Overview***

The property is located in Pittsburgh's CBD, an area known as the 'Golden Triangle.' The total land area of the CBD is approximately 300 acres and almost 100% of the land is being utilized predominantly for commercial use. The Pittsburgh CBD located 15 miles from the Pittsburgh International Airport and is easily accessible by seven major highways/ state routes as well as public transport provided by the Port Authority of Allegheny County including bus and light rail service.

According to Reis, the Pittsburgh metro office market has an inventory of approximately 50 million square feet, of which the CBD submarket is the largest with 22.6 million square feet (45% of total inventory). The average asking rent in the CBD as of Q4 2012 was $22.88 per square foot and the average vacancy was 13.7%. For class-A buildings, the average asking rent was $25.96 per square foot and the average vacancy was 9.2%. Overall asking rents have been stable with only a $0.16 per square foot increase since year-end 2011. However, vacancy has decreased by 1.2% in the same period and is down 2.8% since its peak in 2007. Reis predicts the effective average will rise 2.6% in 2013 and 3.2% to 3.7% over the next three years. According to the appraiser, the property's competitive market includes eight buildings with a combined 5.75 million square feet of net rentable area. The overall vacancy in the directly competing buildings is 89.6% and the asking rents range from $19.75 to $26.50 per square foot.

According to the appraiser, office buildings constructed recently in downtown Pittsburgh have been primarily owner occupied (Mellon and PNC Services Centers) or government related (David L. Lawrence Convention Center and City Courts Building). Privately funded, for profit-developmen typically requires a subsidy of some form to make the development feasible. Significant new additions to the CBD office inventory include the 752,000 square foot office building completed by PNC Financial Services in 2009, with 28 luxury condominium units, a 185-room Fairmont Hotel, as well as 320,000 square feet of office space, most of which has been leased to Reed Smith, which also occupied space in the subject property. Piatt Place, an 180,000 square foot, 3-story office building was also recently completed and is reportedly 92% leased.

PNC is also developing an 800,000 square foot, 30-story office building known as Tower at PNC, scheduled to completed in 2015 and, reportedly, to be fully occupied by PNC. A speculative development, The Gardens at Market Square, was announced by Millcraft Industries. Scheduled for completion in 2014, the project will reportedly comprise 125,500 square feet of office space, 198 hotel rooms and 12,000 square feet of retail space.

The appraiser analyzed five recent lease comparables in the CBD as well as recent leasing at the property to estimate a market rent of $22.50 per square foot for general office space in the building. The appraiser estimated a rent of $24.50 per square foot for the top six floors of the building, which command premium views and can be matched by only a few buildings in the Pittsburgh CBD.

***Sponsorship/Management***

David Stern Management Corp. is a multi-faceted commercial real estate firm based in Brooklyn, New York, and has been in existence for 20 years. The Principal of the company, Mr. David Shemano controls and manages more than 25 properties, including office, retail, and multi-family. Currently their office and retail portfolio consists of approximately 4 million square feet and their multi-family portfolio consists of an estimated 1,500 units in New York, New Jersey, and Pennsylvania.

The Sponsor has been active in the market over the past few years selling 2.5 million of office buildings in Paramus, NJ, Mountainside, NJ, and Tallahassee, FL. They also sold a major data center in Atlanta, GA. David Stern Management also recently purchased 800 North Pearl in Albany, NY; West Mall office Center in Albany, NY; Tek Park in Lehigh Valley, PA; and two office buildings in Houston, TX.

## Morningstar Analysis

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 12/31/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Gross Potential Rent | $6,400,900 | $5,265,455 | $5,277,414 | $5,496,307 | $6,593,502 |
| Less: Vacancy Loss (GPR) | (724,532) | 0 | 0 | 0 | (867,741) |
| **Base Rent/Net Effective Rent** | **$5,676,369** | **$5,265,455** | **$5,277,414** | **$5,496,307** | **$5,725,761** |
| Expense Reimbursement | $261,940 | $317,785 | $254,729 | $240,679 | $254,773 |
| Other Income | 210,422 | 244,624 | 167,151 | 206,323 | 206,220 |
| **Effective Gross Income** | **$6,148,730** | **$5,827,864** | **$5,699,293** | **$5,943,309** | **$6,186,754** |
| **Expenses** | | | | | |
| Real Estate Taxes | $761,950 | $753,368 | $737,326 | $767,605 | $748,851 |
| Property Insurance | 86,236 | 77,365 | 80,232 | 79,788 | 79,788 |
| Utilities | 607,372 | 680,631 | 606,180 | 586,833 | 587,281 |
| Repairs and Maintenance | 764,745 | 684,918 | 735,475 | 738,885 | 736,971 |
| Management Fees | 188,245 | 181,917 | 171,713 | 182,695 | 185,603 |
| Payroll & Benefits | 480,748 | 491,928 | 471,852 | 478,464 | 478,464 |
| General and Administrative | 161,461 | 156,271 | 154,351 | 151,136 | 151,136 |
| Other | 13,961 | 17,651 | 11,693 | 12,775 | 12,775 |
| **Total Operating Expenses** | **$3,064,718** | **$3,044,049** | **$2,968,821** | **$2,998,181** | **$2,980,869** |
| **Net Operating Income** | **$3,084,012** | **$2,783,815** | **$2,730,472** | **$2,945,128** | **$3,205,885** |
| **Capital Items** | | | | | |
| Leasing Commissions | $153,789 | $0 | $0 | $0 | $167,029 |
| Tenant Improvements | 319,098 | 0 | 0 | 0 | 167,031 |
| Capital Expenditure / Reserve | 84,357 | 0 | 0 | 0 | 65,801 |
| - Credit For TI/LC Reserve | (50,000) | | | | |
| **Total Capital Items** | **$507,243** | **$0** | **$0** | **$0** | **$399,861** |
| **Credit for Upfront DSCR Escrow** | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$2,576,769** | **$2,783,815** | **$2,730,472** | **$2,945,128** | **$2,804,184** |

## 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***

| | |
|---|---|
| Rent Per Unit Per Month | $18.97 |
| Vacancy (%) | 10.5% |

Morningstar underwrote rents and vacancy based on the in-place average rent and vacancy at the property. Morningstar underwrote expense reimbursements in line with the issuer's reimbursement ratio, and other income based on the historical average. Although the in-place rents at the property are arguably below market according to the appraiser's estimates of market rent, Morningstar did not give credit for the upside potential, especially in light of the concentrated lease rollover in 2017 and 2019.

***Expenses***

Expenses are underwritten in-line with historicals unless otherwise noted. Morningstar underwrote real estate taxes based on the appraiser's estimate of the full real estate taxes, and underwrote insurance based on the borrower's budget. Morningstar underwrote utilities and repair & maintenance expenses based on an inflationary increase of 3.5% over the most recent reported expenses. Management fees were underwritten at 3.0% of the effective gross income.

***Capital Items***

A reserve for future capital expenditures is underwritten at $0.25/sq. ft. based on Morningstar's minimum requirement, compared to $01.4 recommended in the PCA. Tenant improvements for the space occupied by PNC and Reed Smith were underwritten to $15/ $5 per square foot for new/ renewing leases; they were underwritten to $30/$5 for the remainder of the office space and $5/ $0 for the retail space for new/ renewing leases. Leasing commissions were underwritten at 4% for new tenants and 2% for renewals. A renewal rate of 65% was assumed.

***Valuation Drivers***

Morningstar estimated the value of the asset based on the income capitalization approach to value. Capitalization rates are estimated quarterly by Morningstar for the office market 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 Morningstar capitalization rate for the Pittsburgh office market was 7.8%, which was adjusted down by 25 basis points to reflect the property's CBD location. The resulting adjusted capitalization rate of 7.65% resulted in a direct capitalization value of $33.5 million, or $99 per square foot.

# 20 Church Street

**Analyst:** Mike Magerman 267-960-6022
**Analytical Manager:** Rob Grenda 267-960-6023


| Property Summary | | |
|---|---|---|
| Property Type | Office/Multi-Tenant | |
| Location | Hartford, CT 06103 | |
| Year Built | 1981 | |
| Year Renovated | 2006 | |
| Net Rentable Sq. Ft. (Total) | 404,015 | |
| Net Rentable Sq. Ft. (Collateral) | 404,015 | |
| Occupancy (Tape) | 82.00% | (as of 2/28/13) |
| Ownership | Fee Simple | |

| Loan Summary | | |
|---|---|---|
| Loan Amount (Original Balance) | $30,750,000 | ($76 /sq. ft.) |
| Loan Amount (Cut-Off Balance) | $30,750,000 | ($76 /sq. ft.) |
| Loan Term (months) | 120 | |
| I/O Period (months) | 0 | |
| Amortization Term (months) | 360 | |
| Loan Seasoning (months) | 0 | |
| Interest Rate | 4.53450% | |

| Morningstar Analysis | | |
|---|---|---|
| Current DSCR | 1.22 x | |
| Amortizing DSCR | 1.22 x | |
| Beginning LTV | 92.59% | |
| Ending LTV | 74.23% | |
| Capitalization Rate | 8.00% | |
| Morningstar UW Occupancy | 82.07% | |
| Net Operating Income | $2,845,408 | |
| Net Cash Flow | $2,296,967 | |
| Value | $33,212,086 | ($82 /sq. ft.) |
| Debt Yield | 7.47% | |
| Morningstar Site Visit | Yes | |
| Property Score | 3 (Average) | |

## *Capital Structure Table*

| Loan | Current Balance | Interest Rate | Current DSCR | DSCR Amortizing | BLTV | ELTV |
|---|---|---|---|---|---|---|
| Subject Loan | $30,750,000 | 4.535% | 1.22 x | 1.22 x | 92.6% | 74.2% |
| **Total** | **$30,750,000** | **4.535%** | **1.22 x** | **1.22 x** | **92.6%** | **74.2%** |

## Morningstar Summary

***Morningstar Perspective***

20 Church Street is a 405,015-square foot office tower in downtown Hartford, Connecticut. The $30.75 million first mortgage loan is secured by a 23-story office tower, which includes 4,602 square feet of ground floor retail. There is a $4.5 million holdback that is dependent on leasing performance over the loan's first three years, with specific performance benchmarks including an actual signed lease, taking possession of space, and meeting the required debt service coverage of 1.45 times and debt yield of 9% for the new higher loan amount following the additional funding. The loan is highly leveraged, at 75.0% loan-to-value based on the full first mortgage amount and the appraisal's stabilized February 2015 value of $41 million (or 87.8% based on the appraisal's as-is value of $35 million and inclusive of the earnout). The leverage is higher based on Morningstar's value, which indicates a loan-to-value of 92.6% based on the full loan amount. Based on Morningstar's net cash flow, the loan provides adequate debt service coverage of 1.22 times on the full loan amount, and a debt yield of 7.5%.

20 Church Street is a multi-tenant property with its largest spaces leased to law firms, the U.S. Department of Housing and Urban Development, Marsh & McLennan and CareCentrix, a benefits management company. CareCentrix signed a new lease in December 2012; the company moved its headquarters to the property in January 2013 and is anticipating adding more Hartford-based employees over the next five years. Near term expirations are relatively light, as the eight largest tenants' leases, accounting for 79% of in-place rents, run to at least 2020.

At the time of the current sponsor's acquisition of the property in 2006, the property was only 18% occupied. The current ownership has been successful in attracting and retaining good tenants, and occupancy has recovered to 82% as of February 28, 2013.

The property has been extensively renovated since 2006, with total expenditures of about $30 million, and is among the best office buildings downtown Hartford has to offer. Given its improved position and recent track record of increased occupancy, the property should be able to maintain occupancy in excess of 80% and command average rents that are at least in the normal range of Class A rents in the submarket, if not quite at the average Class A level.

***The Bears Say***

- Though several law firms lease space at the property, the location is not best situated for access to the state courthouse, which is one mile away.
- Hartford's office market has been plagued by high vacancy for years.
- The local office market is highly concentrated in state and local government and insurance.
- Four properties in the submarket were taken back by lenders or special servicers in 2012.

***The Bulls Say***

- The tenant base is well diversified in terms of industries represented, as well as contribution to total base rent; only two tenants account for more than 10% of base rent and no single tenant accounts for more than 18%.
- The property is one of only a small number of buildings considered to be Class A in this market. There is some potential upside in rents from future leases, as the Class A average rent for downtown Hartford is estimated to be above $24.00 per square foot, while in-place office rent at the property averages $21.52.
- Occupancy has recovered well since the current ownership purchased the property when it was just 18% occupied in 2006.
- As the state capital, Hartford will always have demand for space from government agencies and professional firms that perform essential government business functions.
- One of the predecessor firms of Edwards Wildman Palmer LLP, a law firm that leases 28,154 square feet, was awarded the Silver Leadership in Energy and Environmental Design (LEED) CI 2.0 Certification from the U.S. Green Building Council in January 2010.
- A possible expansion of CareCentrix to take a currently vacant floor, plus a letter of intent pending with a prospective tenant for 15,000 square feet, could boost occupancy to 91.8%.

***Property Description***

The property is a 23-story office tower built in 1981, with 399,413 square feet of office space and 4,602 square feet of ground floor retail space. The total gross building area is 454,894 square feet. The parking garage below the building is owned by the City of Hartford and is not part of the collateral. The property is located on the northern side of the Hartford CBD office market, immediately south of I-84 and about one-quarter mile west of I-91. The location is also convenient to the Northeast Corridor rail system, just three blocks from Hartford's Amtrak station.

The lobby was fully renovated by the current ownership since 2006, including new stone floors, accent walls of wood and acrylic, all new seating in multiple configurations, Wi-Fi and a new concierge/reception station. Elevators were completely refurbished. Corridors in multi-tenant floors were refurbished with new high-quality lighting, flooring, wall coverings, glass tiling and bathroom fixtures. All of the exterior surfaces below the tower were refreshed with new paint and stucco. New entrances were built, providing access to the main elevator lobby from the parking garage. A new 3,500-square foot fitness center with a full range of strength and cardio equipment was built, including lockers, showers and a towel service. New conference facilities including three conference rooms and one large training room were added. The conference facilities feature new teleconferencing equipment with large flat screen monitors and Smart Boards.

Some tenants at 20 Church Street were cited in the appraisal's market discussion as evidence of improving leasing activity in 2012, including Cantor Colburn, EXL Services, and CareCentrix. It was also noted that four properties in the submarket were taken over by lenders or special servicers in 2012, an indication of the market's weakness in the recent past. Two of those properties had occupancy reported at 48% and 65%.

Morningstar visited the property on March 20, 2013. The property has undergone a series of renovations since 2006. It was confirmed that the mezzanine area that was previously occupied by a news station (Fox 61) is in the early stages of a total renovation. The management plans to develop marketing ideas before building out this space. This bi-level space has little natural light and would require a large expenditure to add windows and reconfigure into office space. The property is independent of the City of Hartford's utility infrastructure, resulting in some cost savings. With its own underground parking garage and adjacent municipal lots, the property's parking access is superior to most of the other office buildings nearby.

***Tenant Overview***

The top ten tenants represent 69.8% of leasable space and 87.6% of total in-place rent. The largest contributors to rent are described below.

**Morningstar Tenant Overview Table (Top 10)**

| Tenant | Net Rentable Square Feet | % of Square Feet | Base Rent Amount | Base Rent $ Square Foot | % of Rent | Lease Expiration |
|---|---|---|---|---|---|---|
| Cantor Colburn LLP - (19th, 21st, 22nd) | 60,612 | 15.0% | $1,216,116 | $20.06 | 17.8% | Dec-25 |
| Care Centrix, Inc. (11th & 12th + ROFR) | 49,294 | 12.2% | $985,880 | $20.00 | 14.4% | Nov-23 |
| Edwards Wildman Palmer LLP | 28,154 | 7.0% | $643,158 | $22.84 | 9.4% | Feb-22 |
| Hinckley Allen & Snyder LLP | 24,647 | 6.1% | $529,911 | $21.50 | 7.7% | May-22 |
| Marsh USA Inc. | 24,647 | 6.1% | $517,587 | $21.00 | 7.6% | Apr-21 |
| TyMetrix, Inc. | 24,647 | 6.1% | $529,911 | $21.50 | 7.7% | Oct-20 |
| U.S. Dept. of Housing and Urba | 24,647 | 6.1% | $592,514 | $24.04 | 8.7% | Feb-20 |
| SH Smith and Company | 21,000 | 5.2% | $472,500 | $22.50 | 6.9% | Sep-20 |
| Catlin Specialty Ins Co | 13,222 | 3.3% | $297,495 | $22.50 | 4.3% | Nov-17 |
| Trumbull Services, L.L.C. | 11,265 | 2.8% | $214,035 | $19.00 | 3.1% | Nov-18 |
| **Top 10 Subtotal** | **282,135** | **69.8%** | **$5,999,106** | **$21.26** | **87.6%** | |

Cantor Colburn LLP (60,612 square feet): Established in 1969, Cantor Colburn employs nearly 300 professionals and specializes in intellectual property law. The firm's main office is at the property, and both co-managing partners have their offices at the property.

CareCentrix (49,294 square feet): CareCentrix is a leading benefits management company specializing in management of home-based care. In January 2013, CareCentrix announced that it is moving its corporate headquarters to 20 Church Street from its previous location in Tampa, Florida. The number of Hartford-based employees has grown from 65 in 2008 to 240 by January 2013, and the company plans to add 100 more employees at 20 Church Street.

Edwards Wildman Palmer LLP (28,154 square feet): In 2011, Edwards Angell Palmer & Dodge LLP merged with Wildman, Harold, Allen & Dixon LLP to form Edwards Wildman Palmer LLP. Edwards Wildman is an American Lawyer 100 Firm, with 625 lawyers in the U.S., U.K. and Asia. The firm works across several practices, including private equity, venture capital, corporate finance, litigation, insurance and intellectual property. The firm contributed more than one-half of the $135 per square foot that was spent on its buildout at the property, which received Silver LEED status in 2010 for energy efficient design.

### *Lease Expiration and Rollover*

| Morningstar Lease Expirations by Tenant Category - Square Feet Expiring by Year | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **MTM** | **2013** | **2014** | **2015** | **2016** | **2017** | **After 2017** |
| Cantor Colburn | 0 | 0 | 0 | 0 | 0 | 0 | 60,612 |
| CareCentrix | 0 | 0 | 0 | 0 | 0 | 0 | 49,294 |
| Office – Gross | 0 | 0 | 7,307 | 2,129 | 1,752 | 30,195 | 164,865 |
| Retail | 0 | 0 | 0 | 2,578 | 0 | 0 | 0 |
| Antenna/ATM | 0 | 0 | 1 | 1 | 0 | 0 | 50 |
| **Total** | **0** | **0** | **7,308** | **4,708** | **1,752** | **30,195** | **274,821** |
| **% Roll** | **0.0%** | **0.0%** | **1.8%** | **1.2%** | **0.4%** | **7.5%** | **68.0%** |

### *Market Overview*

20 Church Street is in the Hartford CBD submarket as defined by Reis. Within this submarket, the average asking rent was $22.69 per square foot as of fourth quarter 2012. The overall average asking rental rate of $22.69 per square foot represents a 1.2% increase from the prior quarter and a 1.6% increase from one year earlier. For Class A properties within the submarket, the average asking rent was $24.16 per square foot, up 1.3% from the third quarter and up 1.5% from a year earlier. The appraisal's market rent for office space was $21.00 per square foot. The weighted average office rent at the subject property is $21.52 per square foot as of March 2013, and includes rent steps through March 2014. Morningstar underwrote office rents at an average of $21.66 per square foot, reflecting the property's advantages in the market, such as parking and other amenities. Reis predicts that overall submarket rents will increase at an average annual compound rate of 3.1% through 2017.

Retail rent was underwritten at the in-place average of $19.98 per square foot.

The submarket's overall vacancy rate was 24.1% as of fourth quarter 2012. From 2007 through the first quarter of 2012, vacancy in the submarket rose from 18.3% to 24.9%. There was a slight improvement in the second and fourth quarters of 2012. Reis forecasts vacancy to decline very slowly, to 23% by 2017. Morningstar underwrote vacancy to 18.4%, which is close to the property's most recent reported vacancy of 18.0%, and reflects a combination of treatments for Cantor Colburn and CareCentrix as headquarters locations, and general office space as part of a market with 22% vacancy for Class A space.

The most similar properties described in the appraisal all have recent rents in a range from $20 to $25 gross per square foot, for leases with terms from five years to 12 years. Leases signed within the last two years are noted at City Place I and II, built in 1983 and 1989, respectively. Other properties in the local area are State House Square, built in 1987, One Constitution Plaza built in 1963, One Financial Plaza built in 1974 and 100 Pearl Street built in 1989.

CBRE's summary of similar property leases shows eleven buildings with a total of 4.99 million square feet. The eleven buildings have an average rent of $23.59 and aggregate occupancy of 83.9%. This analysis excludes the 556,000-square foot Connecticut River Plaza, which has been 100% vacant since 2010. Connecticut River Plaza is under contract to be purchased by the State of Connecticut for relocation of state workers. When the sale is completed, the amount of vacant Class A space in the submarket will be reduced by about 35%.

### *Sponsorship/Management*

The sponsor is Hampshire Companies, a privately held fully integrated real estate firm based in Morristown, New Jersey. The company owns and operates a large national property portfolio. The borrower is a sponsor-affiliated single-purpose New Jersey limited liability company. The property manager is a borrower-affiliated company which is a partnership with CBRE.

## Morningstar Analysis

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 12/31/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Gross Potential Rent | $8,586,976 | $4,922,268 | $5,512,726 | $5,186,406 | $8,522,234 |
| Less: Vacancy Loss (GPR) | (1,584,192) | 0 | 0 | 0 | (1,456,266) |
| Less: Concessions | 0 | 0 | 0 | 0 | 0 |
| Less: Collection Loss | 0 | 0 | 0 | 0 | 0 |
| Less: Vac Adj for Concess/Coll Loss | 0 | 0 | 0 | 0 | 0 |
| **Base Rent/Net Effective Rent** | **$7,002,785** | **$4,922,268** | **$5,512,726** | **$5,186,406** | **$7,065,968** |
| Expense Reimbursement | $251,574 | $426,917 | $398,407 | $201,688 | $251,147 |
| Percentage Rent | 0 | 0 | 0 | 0 | 0 |
| Other Income | 5,736 | 11,125 | 65,173 | 40,678 | 5,736 |
| Less: Vacancy Other Incomes | 0 | n/a | n/a | n/a | n/a |
| **Effective Gross Income** | **$7,260,095** | **$5,360,310** | **$5,976,306** | **$5,428,772** | **$7,322,851** |
| **Expenses** | | | | | |
| Real Estate Taxes | $1,014,917 | $1,746,387 | $1,692,653 | $1,329,872 | $1,014,917 |
| Property Insurance | 174,364 | 127,465 | 133,644 | 168,468 | 185,314 |
| Utilities | 1,311,800 | 1,338,051 | 1,307,379 | 1,049,787 | 1,311,800 |
| Repairs and Maintenance | 1,525,120 | 1,255,636 | 1,441,582 | 1,347,512 | 1,525,120 |
| Contract services | 0 | 0 | 0 | 0 | 0 |
| Management Fees | 224,328 | 160,870 | 175,144 | 175,112 | 219,686 |
| Payroll & Benefits | 0 | 0 | 0 | 0 | 0 |
| Common Area Maintenance | 0 | 0 | 0 | 0 | 0 |
| Advertising & Marketing | 0 | 0 | 0 | 0 | 0 |
| Professional Fees | 0 | 0 | 0 | 0 | 0 |
| General and Administrative | 58,535 | 33,601 | 50,213 | 45,788 | 43,815 |
| Non-Reimbursable Expenses | 0 | 0 | 0 | 0 | 0 |
| Other | 105,622 | 0 | 0 | 0 | 106,535 |
| Market Expense Adjustment | 0 | 0 | 0 | 0 | 0 |
| **Total Operating Expenses** | **$4,414,687** | **$4,662,010** | **$4,800,615** | **$4,116,539** | **$4,407,187** |
| **Net Operating Income** | **$2,845,408** | **$698,300** | **$1,175,691** | **$1,312,233** | **$2,915,665** |
| **Capital Items** | | | | | |
| Leasing Commissions | $182,254 | $0 | $0 | $0 | $129,780 |
| Tenant Improvements | 305,585 | 0 | 0 | 0 | 272,606 |
| Capital Expenditure / Reserve | 60,602 | 0 | 0 | 0 | 60,602 |
| Extraordinary Capital Expenditures | 0 | | | | |
| - Credit For TI Reserve | 0 | | | | |
| - Credit For LC Reserve | 0 | | | | |
| - Credit For TI/LC Reserve | 0 | | | | |
| - Credit For Cap Ex Reserve | 0 | | | | |
| **Total Capital Items** | **$548,441** | **$0** | **$0** | **$0** | **$462,988** |
| **Credit for Upfront DSCR Escrow** | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$2,296,967** | **$698,300** | **$1,175,691** | **$1,312,233** | **$2,452,677** |

## 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*

| | |
|---|---|
| Rent Per Square Foot | $21.25 |
| Vacancy (%) | 18.4% |

Morningstar underwrote office rents at $21.66 per square foot, representing the in-place average office rent of $21.52 marked slightly higher due to Morningstar's underwriting of vacant office space at a slightly higher rent; the appraisal's market rent is $21.00. Retail rent was underwritten to in-place. Morningstar's analysis of the property resulted in net cash flow of $2.30 million, which is 6.3% lower than the issuer's underwritten net cash flow. Morningstar underwrote vacancy at 18.4%, slightly higher than the in-place vacancy of 18.0%. Morningstar's physical vacancy is 17.9%.

### *Expenses*

Expenses are underwritten in-line with historicals unless otherwise noted. In the case of this property, utilities expense and repairs and maintenance had to be adjusted to the issuer's number, since 2012 levels for those expenses were lower than usual due to that year's reduced occupancy. Morningstar underwrote real estate taxes based on the most recent tax bill showing a greatly reduced tax obligation, which was the result of a recent reassessment. Morningstar underwrote management fees at the historical average of 3.09% of effective gross income, or slightly higher than the issuer's 3%, which was also used in the appraisal.

### *Capital Items*

A reserve for future capital expenditures is underwritten at $0.15 per square foot, a 50% increase over the engineer's recommended reserves. Tenant improvements for office space are underwritten to $20 per square foot for new tenants and $5 per square foot for renewals, as per the appraisal; for retail space, $5 per square foot for new tenants only. Leasing commissions are underwritten to 4% for new tenants and 2% for renewals. A renewal rate of 70% is assumed for office and retail space.

### *Valuation Drivers*

The appraisal's capitalization rate analysis is based on the rates of recent comparable office building sales and market surveys. The appraisal concluded that the direct capitalization rate for the subject is 8.0%. Most of the sales included in the comparison were too old to consider in the analysis. Morningstar's base capitalization rate for Hartford is 8.1%. Morningstar adjusted the capitalization rate lower by 25 basis points for the property's CBD location, resulting in a final capitalization rate of 7.85%. Morningstar defaults to the higher direct capitalization rate used by the appraisal, or 8.0%.

# Summit Portfolio II

**Analyst:** Howard Peterson 267-960-6024
**Analytical Manager:** Rob Grenda 267-960-6023


*Inspection Pictures for Hyatt Place - Scottsdale*

| Property Summary | | |
|---|---|---|
| Property Type | Hotel/Extended-Stay/Select-Service | |
| Location | Various | |
| Year Built | Various | |
| Year /Renovated | Various | |
| Net Rentable Room (Total) | 385 | |
| Net Rentable Room (Collateral) | 385 | |
| Occupancy (Actual) | 75.50% | TTM 12/31/12 |
| Ownership | Fee Simple | |

| Loan Summary | | |
|---|---|---|
| Loan Amount (Original Balance) | $22,650,000 | ($58,831/room) |
| Loan Amount (Cut-Off Balance) | $22,650,000 | ($58,831/room) |
| Loan Term (months) | 120 | |
| I/O Period (months) | 0 | |
| Amortization Term (months) | 360 | |
| Loan Seasoning (months) | 0 | |
| Interest Rate | 4.52000% | |

| Morningstar Analysis | | |
|---|---|---|
| Current DSCR | 1.80 x | |
| Amortizing DSCR | 1.80 x | |
| Beginning LTV | 86.28% | |
| Ending LTV | 69.15% | |
| Capitalization Rate | 9.47% | |
| Morningstar UW Occupancy | 75.5% | |
| Net Operating Income | $2,975,869 | |
| Net Cash Flow | $2,486,316 | |
| Value | $26,251,259 | ($68,185/room) |
| Debt Yield | 10.98% | |
| Morningstar Site Visit | Yes, see ASR | |
| Property Score | 3 (Average) | |

## *Capital Structure Table*

Capital Structure Table

| Loan | Current Balance | Interest Rate Rate | DSCR Current | DSCR Amortizing | BLTV | ELTV |
|---|---|---|---|---|---|---|
| Subject Loan | $22,650,000 | 4.520% | 1.80 x | 1.80 x | 86.3% | 69.1% |
| **Total** | **$22,650,000** | **4.520%** | **1.80 x** | **1.80 x** | **86.3%** | **69.1%** |

## Morningstar Summary

### *Morningstar Perspective*

The subject loan is a ten-year $22.65 million ($58,831 per key) loan secured by three hotels acquired in October 2012 at a cost of $32.81 million. The loan provides for principal and interest payments on a 30-year amortization schedule. The properties were purchased from Hyatt, which serves as property manager for all three hotels. The properties are in three states (Denver, CO, Phoenix, AZ and Baltimore, MD) and have a combined appraised value of $34.8 million ($90,390 per key). The subject loan represents a 65.1% loan-to-appraised value.

The borrower will escrow at closing for an ongoing FF&E reserve (4% of total gross reserves annually), and escrow $239,738 into an immediate repair reserve, and $3.73 million ($9,687/key) into a PIP reserve, which equates to 125% of budgeted items through 2014.

The three-property portfolio generated $3.05 million in net cash flow for the trailing twelve months (TTM) ending 12/31/12. The portfolio's weighted average occupancy, average daily rates (ADR) and revenue per available room (RevPAR) is based on a combined 75.5% occupancy level, ADR of $102.96 per room and RevPAR of $77.74. RevPAR is slightly down from 2011 with RevPAR of $708.79, but well ahead of 2010 at $73.28 for all three combined properties. Some of this can be attributed to a decrease in rooms revenue at the Hyatt Place – Scottsdale property, which removed about 5% of its rooms, or 4,310 room nights, from its earnings potential while it performed a $1.03 million renovation of the property.

Morningstar's analysis yielded a combined occupancy rate of 75.5%, ADR of $102.64 per room and RevPAR of $77.49 per room. Morningstar's analysis yields a DSCR, LTV and value of 1.80x, 86.3% and $26.25 million ($203,413 per room).

### *The Bears Say*

- Property-type concentration: The loan is backed by three hotels. This is mitigated by the fact that the properties are in three different markets, Denver, Phoenix and Baltimore.
- Morningstar's combined value of $26.25 million results in a high LTV of 86.3%. The properties continue to perform well and are leaders in their perspective competitive sets with good occupancy and room revenue penetrations.

### *The Bulls Say*

- All of the properties have recently undergone renovations (either during 2007 or more recently in 2012) and all have Property Improvement Plans (PIP) in place to be completed within the next couple years. The borrower will provide and upfront escrow for 125% of the outstanding PIP amounts. In addition, the completed PIP's are expected to improve the overall value of the properties.
- The properties are located in the suburban areas of three larger metro areas. This may reduce cash flow volatility should one of the areas experience an unexpected economic or physical/natural disaster.
- There is no new supply anticipated that would have any material impact on the continued performance of the properties.
- The properties are either extended-stay (Hyatt House) or select-service hotels(Hyatt Place), which tend to be a positive attribute in their respective markets.

### *Property Description*

The properties are one extended stay (Hyatt House – Denver Tech Center) and two select-service properties (Hyatt Place – Old Town Scottsdale and Hyatt Place – Owings Mills. The two select-service hotels carry the Hyatt Place flag and the extended stay hotel carries the Hyatt House flag. The properties were previously owned by Hyatt, which will be retained as property manager under a new 20-year management and franchise agreement which expires October 31, 2032. The management agreement allows for two additional five-year extensions.

| Asset Name | # of Rooms | City | State | Year Built | Renovated | Original Balance | Appraised Value | Appraisal LTV |
|---|---|---|---|---|---|---|---|---|
| Hyatt House - Denver Tech Center | 135 | Englewood | CO | 1997 | 2007 | $8,900,000 | $13,700,000 | 65.0% |
| Hyatt Place - Old Town Scottsdale | 127 | Scottsdale | AZ | 1998 | 2012 | $7,000,000 | $10,700,000 | 65.4% |
| Hyatt Place - Owings Mills | 123 | Owings Mills | MD | 2000 | 2012 | $6,750,000 | $10,400,000 | 64.9% |
| Total - Summit Portfolio II | 385 | | | | | $22,650,000 | $34,800,000 | 65.1% |

In regards to the branding, Hyatt House offers a range of amenities and services, including indoor and outdoor social spaces, a lounge and social sectional. Additional amenities include a happy hour with extended hours. The brand typically provides guests with more extensive food and beverage options than the traditional extended-stay hotel. Hyatt House offers multiple room plans including studios, one and two-bedroom kitchen suites and den guestrooms. Hyatt House is an upscale extended-stay brand with an average of 125 to 200 suites per property and are located in airport and suburban destinations. Hyatt House caters primarily to mid- to upper-income transient and interim individual guests looking for spacious accommodations and the comforts and conveniences of a space that allows them to live like they were in a home.

The Hyatt Place brand offers a range of amenities and services, such as free wi-fi and complimentary breakfast. Property sizes typically range from 125 to 200 rooms and are located in urban, airport and suburban areas. There are more than 165 Hyatt Place hotels in operation in the U.S., with more than 35 announced hotels under development throughout the U.S., China, Europe, India, Latin America and the Middle East.

The following is a description of the three properties.

**Hyatt House – Denver Tech Center:** The Hyatt House in Englewood is an extended-stay hotel built on a 5.73 acre site in 1997 and improved with one, three-story building containing 135 spacious and contemporary one and two-bedroom, two bath suites guest rooms. Hotel facilities and amenities include a complimentary full breakfast, evening Manager's reception, a lobby, 1,100 square feet of meeting space, a business center, a fitness center, a 24-hour sundries shop, and a seasonal outdoor swimming pool and whirlpool. Guest suites feature a fully equipped kitchen with full-size refrigerator, microwave oven, dishwasher and four burner stove; a full living room and separate bedroom. Suite amenities include a flat panel televisions, DVD player, complimentary high-speed internet access and Hyatt Grand Beds. Complimentary parking is provided on-site for 139 vehicles. The property underwent a complete renovation when it was converted to a Hyatt House in 2007, including rooms, hard goods, soft goods, and common areas. From 2008 through 2011, $251,850 was spent on capital expenditures at the property and $2,030,735 ($15,042 per room) is expected to be spent over the next two years under the property improvement plan. Based on the appraisal dated November 27, 2012, the property was valued at $13.7 million, or $101,481 per room.

**Hyatt Place – Old Town Scottsdale:** The Hyatt Place in Scottsdale is a select-service hotel built in 1998 on a 2.3 acre site and improved with one, six-story building containing 127 guestrooms (69 King Suites and 58 Double). A renovation of the property's guestrooms was completed in September 2012 at a cost of $1,005,000 ($7,913/room). The renovation included new soft goods including carpeting, reupholstery of sofas, new artwork, and bedding. Guestroom bathrooms were also renovated, which included new tiling, granite countertops, tubs, showers and sinks. Based on the November 19, 2012 appraisal, the property was valued at $10.7 million, or $84,252 per room.

**Hyatt Place – Owings Mills:** The Hyatt Place in Owings Mills is a select-service hotel built on a 3.43 acre site in 2000 and improved with one, six-story building containing 123 spacious and contemporary guestrooms (73 King Suites, 42 Double, and 8 Handicap accessible rooms), a lobby, 975 SF of meeting space, a business center, a fitness center, breakfast room, snack bar, lounge, a 24-hour sundries shop, and an indoor swimming pool and whirlpool. Guestrooms feature divided living and sleeping areas, a king or two double beds, a state-of-the-art media and work center with flat panel HDTV, two telephones with voicemail, iron and ironing board, an oversized sleeper sofa, wet bar, mini refrigerator, bathtub and bathroom vanity with granite tops and complimentary Wi-Fi throughout the hotel. Hotel facilities and amenities include a complimentary hot breakfast, the Bakery Café offering Starbucks coffee, premium beers and wines, the 24/7 Guest Kitchen and complimentary on-site parking for 157 vehicles. Based on the December 1, 2012 appraisal, the property was valued at $10.4 million, or $84,553 per room.

An on-site inspection was performed on The Hyatt Place – Old Town Scottsdale property on March 22, 2013. The property is situated within the downtown tourism district of Old Town adjacent to a full service Marriott Hotel and a small business park. The property receives much of its business via business travelers during the week and receives seasonal tourism throughout weekends due to its proximity to nightlife and the San Francisco Giants spring training site. Amenities at the property include a small gated pool, two conference rooms, a small fitness facility, and a café in the lobby that serves breakfast. A PIP (Property Improvement Plan) is scheduled to occur in the near future. In addition, the borrower also will update the hotel's Wi-Fi network at a cost of about $35,000. To gain more traction in the local area, the borrower is looking to work with the Old Town regarding moving their signage from the 4th floor to the top of the 8th floor to potentially attract more walk-in guests. Overall, the property shows well from the exterior and appears to be well maintained. Based on the overall condition of the property, Morningstar gave this property a 3 property score (Average).

***Demand Drivers***

Demand drivers within a specific market can be broken down into three primary demand classifications, transient, meeting & group and extended-stay segments.

**Transient** demand is comprised of two sub-segments, commercial/corporate demand and leisure demand.

> **Commercial/Corporate** demand arises from individuals who are conducting business and visiting various firms in the subject's market area. Commercial travelers generally are not rate sensitive and represent a very desirable and lucrative market that provides a consistent level of demand at relatively high room rates. Commercial demand is a subject's market area is generated primarily by the wide variety of corporate tenants in the surrounding area.
>
> **Leisure** demand segment consists of individual tourists and families visiting the attractions of a local market and/or passing through en route to other destinations. Leisure travelers tend to be the most price-sensitive segment in the lodging market and typically demand extensive recreational facilities and amenities. Ease of highway access and proximity to vacation-related attractions are important hotel locational considerations. In a subject's market area, most leisure demand is generated by people who are visiting friends and relatives or those who are taking advantage of the numerous recreational opportunities, and tourist attractions available in the area. These people may be traveling alone, or with families or tour groups.

**Meeting & Group** demand includes groups who reserve blocks of rooms for meetings, seminars, trade association shows, and other similar gatherings of ten or more persons. Group meetings and convention demand is typically strongest during the spring and fall months, while summer months represent the slowest period for this market segment. Winter season demand varies by location. Meeting and group demand is generally quite profitable for hotels and resorts. Although room rates are sometimes discounted for large groups, a hotel benefits from use of meeting space and the inclusion of in-house banquet rooms and cocktail receptions.

**Extended-Stay** demand properties are hotels which cater to guests requiring accommodations for five nights or longer. The primary distinction between extended-stay and traditional transient hotels is that extended-stay properties typically offer rooms with defined living and sleeping areas, kitchens, limited guest services and few, if any public areas. Extended-stay hotels generally have higher operating margins, lower occupancy break-even thresholds, and returns on capital than traditional hotels.

| Market Segmentation | Transient | Meeting & Group | Leisure | Extended-Stay | Total | Total Meeting Space (sq. ft.) |
|---|---|---|---|---|---|---|
| Hyatt House - Denver Tech Center | 35% | 10% | 0% | 55% | 100% | 1,100 |
| Hyatt Place - Old Town Scottsdale | 50% | 17% | 33% | 0% | 100% | 900 |
| Hyatt Place - Owings Mills | 60% | 15% | 20% | 5% | 100% | 975 |
| Average | 48% | 14% | 17% | 21% | 100% | 2,975 |

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**Hyatt House – Denver Tech Center:** The largest generators of commercial demand in the Englewood area reportedly include companies like Oracle, New Mount Mining, Sprint, Verizon, IBM, EcoStar/Dish Network, Comcast, CH2M Hill, TriZetto, and Jeppesen. Most of the leisure demand includes attractions in the area like Invesco Field at Mile High, Denver Broncos Training Facility, Coors Field, Coors Brewery, Denver Zoo, The Wildlife Experience, University of Denver and the Denver Tech Center. The appraiser is forecasting nominal growth of 1.0% for all demand groups, except for extended-stay, where the appraiser has dropped growth to 0.5% beginning in 2014 and each year thereafter.

**Hyatt Place – Old Town Scottsdale:** Commercial demand in the subject's market area is generated primarily by the wide variety of corporate tenants in the surrounding area. The largest generators of commercial room night demand in the Scottsdale area reportedly include: Mayo Clinic, Republic Services, APL, Henkel, Sumco, JDA Software, CVS/Caremark, and a variety of smaller companies that as a whole generate commercial room night demand for the market. Leisure demand is typically strongest from mid-October through April when visitors enjoy the winter months and the variety of activities including golf, tennis, spa, shopping and various other leisure activities. In addition, the area is close to Salt River Fields, the spring training facility to the Arizona Diamondbacks and Colorado Rockies, as well as Westworld, a nationally recognized equestrian center and event facility, and Scottsdale Fashion Mall, a large regional mall anchored by Barney's New York, Nordstrom's, Dillard's and Macy's. Growth within the commercial, meeting group and leisure segments is expected to only increase 1.0% beginning 2013 and each year thereafter according to the appraiser's estimate.

**Hyatt Place – Owings Mills:** The largest generators of commercial room night demand in the Owings Mills area reportedly include companies like Legg Mason, Blue Cross/Care First, T Rowe Price, AON, McCormick, Johns Hopkins, ADP, Metro Centre at Owings Mills and University of Maryland Health Systems. Leisure demand includes attractions like Harborplace, a festival marketplace in downtown Baltimore, the Pratt Street Pavilion and Light Street Pavilion, National Aquarium in Baltimore, Maryland Science Center, Holocaust Memorial, Camden Yards, M&T Bank Stadium and Owings Mill Town Center. The appraiser is forecasting nominal growth of 1.0% for all demand groups, except for extended-stay, where the appraiser has dropped growth to 0.5% beginning 2014 and each year thereafter.

***Market Overview***

All of the properties positioned to compete well within their respective competitive sets. As evidenced by the Smith Travel Research Reports for each property, overall demand generally increased notably in the last three years.

The Englewood (Colorado) property is about 15 miles southeast of downtown Denver. Overall demand for the Englewood property translated into higher average occupancy and ADR. The subject property has continually performed well ahead of its competitive set with occupancy and rooms revenue penetrations ranging from 134% to 153%, respectively, in 2008 and from 119.9% to 127.8% for the most recent TTM ending 12/31/12.

| Englewood (Denver) Market Trends | | | | | |
|---|---|---|---|---|---|
| | Occupancy Rate | Average Rate | Rooms RevPAR | Occupancy Penetration | RevPAR Penetration |
| **TTM 12/31/10** | 67.1% | $86.35 | $57.94 | 121.2% | 129.9% |
| **TTM 12/31/11** | 67.5% | $87.92 | $59.35 | 125.3% | 139.1% |
| **TTM 12/31/12** | 71.7% | $93.39 | $66.96 | 119.9% | 127.8% |
| *Source: Smith Travel Research* | | | | | |

The Scottsdale property is located in the heart of Old Town Scottsdale, approximately 12 miles east of downtown Phoenix and 11 miles northwest of Mesa. The Old Town is characterized by pedestrian orientated streets, old fashion stores, restaurants, nightlife and western art galleries. The property has historically performed above its competitive set. However in 2012, occupancy dropped causing a decrease in RevPAR. The occupancy penetration had ranged around 114% to 115% and then dropped to 97% in 2012. This was attributable to renovations that were taking place during 2012. Last year, the property underwent a $1.03 million ($8,110/key) renovation which resulted in the removal of approximately 4,310 room nights, or approximately 5% of the rooms. Rooms revenue penetration continued to improve up through 2011 at 115%, then in 2012 fell to 106%.

| Scottsdale (Phoenix) Market Trends | | | | | |
|---|---|---|---|---|---|
| | Occupancy Rate | Average Rate | Rooms RevPAR | Occupancy Penetration | RevPAR Penetration |
| **TTM 12/31/10** | 65.0% | $96.15 | $62.50 | 108.2% | 110.9% |
| **TTM 12/31/11** | 67.1% | $98.61 | $66.17 | 108.2% | 115.4% |
| **TTM 12/31/12** | 66.5% | $99.64 | $66.26 | 96.7% | 105.8% |
| *Source: Smith Travel Research* | | | | | |

The Owings Mills property is located about 13 miles northwest of downtown Baltimore and 30 miles north of Washington DC. The property is more specifically located south of Interstate 795 at Painters Mill Road and Red Run Boulevard and south of the Owings Mills Metro Subway Station. The Hyatt Place property has also historically performed above its competitive set. Most recently, the property has begun to lose ground with occupancy penetration, had been holding strong at 111% - 124.9% for past four years from 2008. Rooms revenue penetration continued to improve up through 2010 at 115.8%, then during 2011, both the subject and its competitive set occupancy started to fall, with the competitive set recovering in 2012 at the expense of much lower ADR's, while subject held ADR at the expense of slightly lower occupancy.

| Owings Mills (Baltimore) Market Trends | | | | | |
|---|---|---|---|---|---|
| | Occupancy Rate | Average Rate | Rooms RevPAR | Occupancy Penetration | RevPAR Penetration |
| TTM 12/31/10 | 59.1% | $109.94 | $64.97 | 125.2% | 115.8% |
| TTM 12/31/11 | 59.0% | $113.48 | $66.95 | 124.9% | 115.1% |
| TTM 12/31/12 | 62.0% | $104.52 | $64.80 | 116.9% | 118.6% |
| *Source: Smith Travel Research* | | | | | |

There were no directly competitive properties that were either proposed or under construction that would have a significant impact to the subject properties, except for possibly Owings Mills. There is a new Metro Centre at Owings Mills slated to include a 250-room hotel. However, no developer has been named and the project is considered somewhat speculative at this time.

***Sponsorship/Management***

The borrowing entity is a single purpose entity with Summit Hospitality XV, LLC (0.01%) as the managing member and Summit Hotel OP, LP (99.9%) as operating partner.

Summit Hotel OP, LP is made up of Summit Hotel Properties, Inc. (REIT) (83.8%), Executive Officers (4.1%) and Unaffiliated Partners (12.1%). The Executive Officers are predominately made up of Summit's Executive Chairman, Kerry Boekelheide with 65% interest with the remaining 35% made up of executive officers and independent board members. The Unaffiliated Limited Partners consist of 600 legacy (prior to IPO) investors that have not yet converted their operating partnership units into common shares. No Unaffiliated Limited Partners have an ownership interest in Summit Hotel OP, LP greater than 10%.

Summit focuses primarily on acquiring and owning premium-branded, select-service hotels in the upscale and upper midscale segments of the U.S. Lodging industry. Their current portfolio consists of 91 hotels with a total of 10,309 guestrooms located in 22 states. Summit was formed in early 2004 and is headquartered in Sioux Falls, South Dakota.

Summit's core brands include Marriott (39.3% of their portfolio), Hilton (23.9%), Hyatt (18.1%) and InterContinental (11.3%). The company's investment strategy is to focus on "beltway" markets, which include cities with the top 10-50 metro areas, which offer better relative value than "gateway" markets. Summit also concentrates on select-service brands which offer higher amenity packages to their customers, including Wi-Fi, luxury mattresses, fitness centers and free parking.

***Property Management/Franchise Agreement***

The property is managed by Select Hotels Group, LLC, an affiliate of Hyatt. The company manages all three properties under separate 20-year management/franchise agreements which expire October 5, 2032. The agreements provide for two, five-year renewal options. The Agreement stipulates (i) a Basic Fee equal to 5.0% of Gross Receipts during the first 12 months of the Term; 6.0% of Gross Receipts during the second 12 months of the Term and 7.0% of Gross Receipts during remainder of the Term (ii) an incentive fee payable on behalf of all Portfolio Hotels (includes the 4 subject properties plus 7 others properties defined in the management agreement) equal to ten percent (10%) of the amount, if any, by which the Portfolio Adjusted Profit (NCF calculation defined in the management agreement) exceeds the Portfolio Owner's Priority (Baseline- $12,908,560.61) for each Fiscal Year; (iii) a contribution to a fund created by Select or its affiliates for Marketing, Central Reservations and Technology equal to three and one-half percent (3½%) of the Hotel's Gross Rooms Revenue during the preceding month. This cost was allocated in the Sales/Marketing expense line-item.

***Partial Release of Properties***

The Summit Hotel Portfolio II Loan documents permit the borrower to obtain a release of a property from the lien of the related mortgage after the lockout period, subject to, among other things, (i) no event of default has occurred and is continuing under the loan documents; (ii) delivery of defeasance collateral in an amount greater than 125% of the allocated loan amount or 80% of the proceeds from the sale of the applicable property; (iii) the debt service coverage ratio for the remaining Summit Hotel Portfolio II properties based upon a trailing 12 month period being no less than the greater of (a) the debt service coverage ratio prior to release and (b) the debt service coverage ratio existing at loan closing; (iv) the loan to value ratio for the remaining Summit Hotel Portfolio II properties shall be no greater than the lesser of (a) the loan to value existing at loan closing and (b) the loan to value prior to release as determined by any commercially reasonable method; and (v) the debt yield for the remaining Summit Hotel Portfolio II properties shall be no less than the greater of (a) the debt yield prior to release and (b) the debt yield existing at loan closing.

## Morningstar Analysis – Summit Portfolio II (Combined Rollup)

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 12/31/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| Occupancy Percent | 75.5% | 75.3% | 77.2% | 75.5% | 75.5% |
| Average Room Rate | $102.64 | $97.30 | $102.09 | $102.96 | $102.96 |
| Rooms RevPAR | $77.49 | $73.28 | $78.79 | $77.74 | $77.74 |
| **Departmental Revenue** | | | | | |
| Room | $10,889,896 | $10,297,152 | $11,071,554 | $10,953,678 | $10,923,750 |
| Food & Beverage | 398,628 | 402,328 | 452,161 | 399,338 | 398,246 |
| Telephone | 13,600 | 22,995 | 16,768 | 13,621 | 13,583 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 55,102 | 76,497 | 88,009 | 55,193 | 55,042 |
| **Total Departmental Revenue** | **$11,357,227** | **$10,798,972** | **$11,628,492** | **$11,421,829** | **$11,390,622** |
| **Departmental Expenses** | | | | | |
| Room | $3,368,408 | $3,226,996 | $3,279,957 | $3,375,324 | $3,366,102 |
| Food & Beverage | 386,788 | 336,394 | 397,924 | 387,529 | 386,471 |
| Telephone | 94,182 | 81,177 | 80,716 | 94,375 | 94,117 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 0 | 0 | 0 | 0 | 0 |
| **Total Departmental Expenses** | **$3,849,378** | **$3,644,567** | **$3,758,597** | **$3,857,229** | **$3,846,690** |
| **Departmental Profit** | **$7,507,849** | **$7,154,405** | **$7,869,895** | **$7,564,600** | **$7,543,932** |
| **Undistributed Expenses** | $0 | $0 | $0 | $0 | $0 |
| General & Administrative | $1,010,981 | $1,052,222 | $1,121,857 | $1,013,751 | $1,010,981 |
| Franchise Fees | 0 | 226,550 | 0 | 0 | 0 |
| Advertising & Marketing | 901,475 | 632,960 | 918,486 | 903,945 | 901,475 |
| Repairs & Maintenance | 657,113 | 675,353 | 666,500 | 658,913 | 657,113 |
| Utilities | 533,940 | 508,003 | 550,904 | 535,403 | 533,940 |
| Management Fees | 795,006 | 250,000 | 818,002 | 748,904 | 797,344 |
| **Fixed Charges** | $0 | $0 | $0 | $0 | $0 |
| Real Estate Taxes | $539,205 | $604,000 | $577,031 | $580,735 | $541,415 |
| Property Insurance | 82,000 | 68,000 | 90,407 | 64,004 | 82,000 |
| Ground Rent | 0 | 0 | 0 | 0 | 0 |
| Other | 12,260 | 16,000 | 11,899 | 12,260 | 12,260 |
| **Total Operating Expenses** | **$8,381,358** | **$7,677,655** | **$8,513,683** | **$8,375,144** | **$8,383,218** |
| **Net Operating Income** | **$2,975,869** | **$3,121,317** | **$3,114,808** | **$3,046,685** | **$3,007,403** |
| **Capital Expenditures** | $0 | $0 | $0 | $0 | $0 |
| Capital Expenditures / Reserve | $489,553 | $0 | $0 | $0 | $455,625 |
| 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 | 489,553 | 0 | 0 | 0 | 455,625 |
| Credit for Upfront DSCR Escrow | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$2,486,316** | **$3,121,317** | **$3,114,808** | **$3,046,685** | **$2,551,778** |

## Morningstar Analysis – Hyatt House – Denver Tech Center

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 12/31/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| Occupancy Percent | 86.0% | 81.3% | 84.6% | 86.0% | 86.0% |
| Average Room Rate | $98.76 | $92.60 | $97.58 | $99.60 | $99.60 |
| Rooms RevPAR | $84.94 | $75.25 | $82.59 | $85.67 | $85.67 |
| **Departmental Revenue** | | | | | |
| Room | $4,191,361 | $3,707,885 | $4,069,572 | $4,232,853 | $4,221,288 |
| Food & Beverage | 95,267 | 62,886 | 83,411 | 95,436 | 95,176 |
| Telephone | 4,579 | 11,894 | 8,429 | 4,585 | 4,573 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 13,281 | 17,925 | 31,870 | 13,303 | 13,267 |
| **Total Departmental Revenue** | **$4,304,487** | **$3,800,590** | **$4,193,282** | **$4,346,177** | **$4,334,303** |
| **Departmental Expenses** | | | | | |
| Room | $1,280,634 | $1,207,047 | $1,225,942 | $1,283,264 | $1,279,758 |
| Food & Beverage | 34,982 | 16,859 | 46,879 | 35,049 | 34,953 |
| Telephone | 32,156 | 33,858 | 35,266 | 32,222 | 32,134 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 0 | 0 | 0 | 0 | 0 |
| **Total Departmental Expenses** | **$1,347,772** | **$1,257,764** | **$1,308,087** | **$1,350,535** | **$1,346,845** |
| **Departmental Profit** | **$2,956,715** | **$2,542,826** | **$2,885,194** | **$2,995,643** | **$2,987,458** |
| **Undistributed Expenses** | | | | | |
| General & Administrative | $368,260 | $354,816 | $383,195 | $369,269 | $368,260 |
| Franchise Fees | 0 | 102,969 | 0 | 0 | 0 |
| Advertising & Marketing | 350,508 | 219,227 | 353,373 | 351,469 | 350,508 |
| Repairs & Maintenance | 230,869 | 224,564 | 232,213 | 231,501 | 230,869 |
| Utilities | 168,629 | 156,714 | 164,551 | 169,091 | 168,629 |
| Management Fees | 301,314 | 0 | 293,566 | 284,404 | 303,401 |
| **Fixed Charges** | | | | | |
| Real Estate Taxes | $209,998 | $273,000 | $258,857 | $222,225 | $212,318 |
| Property Insurance | 28,000 | 26,000 | 40,186 | 12,637 | 28,000 |
| Ground Rent | 0 | 0 | 0 | 0 | 0 |
| Other | 4,671 | 5,000 | 4,457 | 4,671 | 4,671 |
| **Total Operating Expenses** | **$3,010,021** | **$2,620,054** | **$3,038,485** | **$2,995,801** | **$3,013,501** |
| **Net Operating Income** | **$1,294,466** | **$1,180,536** | **$1,154,797** | **$1,350,376** | **$1,320,802** |
| **Capital Expenditures** | | | | | |
| Capital Expenditures / Reserve | $172,179 | $0 | $0 | $0 | $173,372 |
| 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 | 172,179 | 0 | 0 | 0 | 173,372 |
| Credit for Upfront DSCR Escrow | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$1,122,287** | **$1,180,536** | **$1,154,797** | **$1,350,376** | **$1,147,430** |

## Morningstar Analysis – Hyatt Place – Old Town Scottsdale

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 12/31/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| Occupancy Percent | 64.5% | 70.3% | 72.6% | 64.5% | 64.5% |
| Average Room Rate | $108.49 | $98.61 | $105.21 | $108.85 | $108.85 |
| Rooms RevPAR | $69.96 | $69.29 | $76.35 | $70.19 | $70.19 |
| **Departmental Revenue** | | | | | |
| Room | $3,247,474 | $3,212,067 | $3,539,242 | $3,262,545 | $3,253,631 |
| Food & Beverage | 166,936 | 187,558 | 193,944 | 167,233 | 166,776 |
| Telephone | 2,200 | 5,034 | 4,280 | 2,203 | 2,197 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 9,794 | 24,466 | 20,903 | 9,810 | 9,783 |
| **Total Departmental Revenue** | **$3,426,404** | **$3,429,125** | **$3,758,369** | **$3,441,792** | **$3,432,388** |
| **Departmental Expenses** | | | | | |
| Room | $1,111,603 | $1,021,842 | $1,075,832 | $1,113,885 | $1,110,842 |
| Food & Beverage | 172,113 | 134,077 | 157,867 | 172,443 | 171,971 |
| Telephone | 31,341 | 25,981 | 23,129 | 31,405 | 31,319 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 0 | 0 | 0 | 0 | 0 |
| **Total Departmental Expenses** | **$1,315,056** | **$1,181,900** | **$1,256,829** | **$1,317,733** | **$1,314,133** |
| **Departmental Profit** | **$2,111,348** | **$2,247,225** | **$2,501,540** | **$2,124,059** | **$2,118,255** |
| **Undistributed Expenses** | | | | | |
| General & Administrative | $333,012 | $346,481 | $379,380 | $333,925 | $333,012 |
| Franchise Fees | 0 | 64,116 | 0 | 0 | 0 |
| Advertising & Marketing | 291,887 | 215,486 | 300,546 | 292,687 | 291,887 |
| Repairs & Maintenance | 205,038 | 174,853 | 195,328 | 205,599 | 205,038 |
| Utilities | 158,285 | 151,145 | 156,868 | 158,719 | 158,285 |
| Management Fees | 239,848 | 0 | 267,047 | 225,184 | 240,267 |
| **Fixed Charges** | | | | | |
| Real Estate Taxes | $194,229 | $183,000 | $188,559 | $214,287 | $194,229 |
| Property Insurance | 21,000 | 20,000 | 16,078 | 23,615 | 21,000 |
| Ground Rent | 0 | 0 | 0 | 0 | 0 |
| Other | 6,995 | 8,000 | 7,442 | 6,995 | 6,995 |
| **Total Operating Expenses** | **$2,765,350** | **$2,344,981** | **$2,768,078** | **$2,778,744** | **$2,764,845** |
| **Net Operating Income** | **$661,054** | **$1,084,144** | **$990,291** | **$663,048** | **$667,543** |
| **Capital Expenditures** | | | | | |
| Capital Expenditures / Reserve | $154,188 | $0 | $0 | $0 | $137,296 |
| 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 | 154,188 | 0 | 0 | 0 | 137,296 |
| Credit for Upfront DSCR Escrow | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$506,866** | **$1,084,144** | **$990,291** | **$663,048** | **$530,247** |

## Morningstar Analysis – Hyatt Place – Owings Mills

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 12/31/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| Occupancy Percent | 75.3% | 74.0% | 73.7% | 75.3% | 75.3% |
| Average Room Rate | $101.88 | $101.67 | $104.60 | $101.96 | $101.96 |
| Rooms RevPAR | $76.76 | $75.22 | $77.13 | $76.82 | $76.82 |
| **Departmental Revenue** | | | | | |
| Room | $3,451,061 | $3,377,200 | $3,462,741 | $3,458,280 | $3,448,831 |
| Food & Beverage | 136,425 | 151,884 | 174,806 | 136,668 | 136,294 |
| Telephone | 6,822 | 6,067 | 4,059 | 6,832 | 6,813 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 32,027 | 34,106 | 35,237 | 32,080 | 31,992 |
| **Total Departmental Revenue** | **$3,626,336** | **$3,569,257** | **$3,676,841** | **$3,633,860** | **$3,623,931** |
| **Departmental Expenses** | | | | | |
| Room | $976,171 | $998,107 | $978,183 | $978,176 | $975,503 |
| Food & Beverage | 179,693 | 185,458 | 193,178 | 180,038 | 179,546 |
| Telephone | 30,685 | 21,338 | 22,320 | 30,748 | 30,664 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 0 | 0 | 0 | 0 | 0 |
| **Total Departmental Expenses** | **$1,186,550** | **$1,204,903** | **$1,193,681** | **$1,188,961** | **$1,185,713** |
| **Departmental Profit** | **$2,439,786** | **$2,364,354** | **$2,483,161** | **$2,444,899** | **$2,438,219** |
| **Undistributed Expenses** | | | | | |
| General & Administrative | $309,709 | $350,925 | $359,281 | $310,558 | $309,709 |
| Franchise Fees | 0 | 59,465 | 0 | 0 | 0 |
| Advertising & Marketing | 259,080 | 198,247 | 264,567 | 259,790 | 259,080 |
| Repairs & Maintenance | 221,207 | 275,936 | 238,959 | 221,813 | 221,207 |
| Utilities | 207,026 | 200,144 | 229,485 | 207,593 | 207,026 |
| Management Fees | 253,843 | 250,000 | 257,389 | 239,316 | 253,675 |
| **Fixed Charges** | | | | | |
| Real Estate Taxes | $134,978 | $148,000 | $129,616 | $144,222 | $134,868 |
| Property Insurance | 33,000 | 22,000 | 34,143 | 27,752 | 33,000 |
| Ground Rent | 0 | 0 | 0 | 0 | 0 |
| Other | 595 | 3,000 | 0 | 595 | 595 |
| **Total Operating Expenses** | **$2,605,988** | **$2,712,620** | **$2,707,121** | **$2,600,599** | **$2,604,873** |
| **Net Operating Income** | **$1,020,348** | **$856,637** | **$969,720** | **$1,033,261** | **$1,019,059** |
| **Capital Expenditures** | | | | | |
| Capital Expenditures / Reserve | $163,185 | $0 | $0 | $0 | $144,957 |
| 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 | 163,185 | 0 | 0 | 0 | 144,957 |
| Credit for Upfront DSCR Escrow | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$857,163** | **$856,637** | **$969,720** | **$1,033,261** | **$874,102** |

## Analytical Assumptions - Overall

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 | $102.64 |
| Occupancy (%) | 75.5% |
| Rooms RevPAR | $77.49 |

Morningstar's analysis was based on a blending of historical performance, the borrower's budget, Morningstar's projections over the next several years and a stabilized occupancy and ADR in today's dollars. This resulted in ADR and occupancy being fairly consistent with the TTM period (ending 12/31/12).

***Expenses***

*Management Fees* – Morningstar assumed a 7.0% management fee. The properties were previously owned by Hyatt, which will be retained as property manager under a new 20-year management and franchise agreement that expires October 5, 2032. The management agreement also allows for two 5-year extensions. The management fee is equal to 5% of gross operating revenues for the first year from the sale date, 6% for the second year and 7% each year thereafter. In all years, as long as Select Hotels Group continues to manage the property, there will be no franchise payment to Hyatt.

*Real Estate Taxes* – Underwritten to actual tax bills.

***Insurance*** – Underwritten to either the higher of the expense reported in the TTM or the allocation to this property of its share of a blanket insurance policy premium.

Otherwise, expenses are underwritten in-line with historicals

***Capital Items***

A reserve for future capital expenditures is underwritten at either 4.0% of gross revenue for extended stay hotels or 4.5% of gross revenue for select-service hotels which are in line with industry averages. In addition 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.

***Valuation Drivers***

Morningstar's hospitality capitalization rate is based on a blend of rates for Denver, Phoenix and Baltimore. Each of the properties were adjusted for property condition, property type and location. The overall blended capitalization rate was 9.47%.

# Summit Portfolio III

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*Hyatt Place - Orlando Convention Center (top) and Hyatt Place - Orlando Universal Studios (Bottom)*

| Property Summary | | |
|---|---|---|
| **Property Type** | Hotel/Select-Service | |
| **Location** | Various | |
| **Year Built** | Various | |
| **Year /Renovated** | Various | |
| **Net Rentable Room (Total)** | 426 | |
| **Net Rentable Room (Collateral)** | 426 | |
| **Occupancy (Actual)** | 81.19% | TTM 12/31/12 |
| **Ownership** | Fee Simple | |

| Loan Summary | | |
|---|---|---|
| **Loan Amount (Original Balance)** | $22,000,000 | ($51,643/room) |
| **Loan Amount (Cut-Off Balance)** | $22,000,000 | ($51,643/room) |
| **Loan Term (months)** | 120 | |
| **I/O Period (months)** | 0 | |
| **Amortization Term (months)** | 360 | |
| **Loan Seasoning (months)** | 0 | |
| **Interest Rate** | 4.30000% | |

| Morningstar Analysis | | |
|---|---|---|
| **Current DSCR** | 1.99 x | |
| **Amortizing DSCR** | 1.99 x | |
| **Beginning LTV** | 81.12% | |
| **Ending LTV** | 64.55% | |
| **Capitalization Rate** | 9.56% | |
| **Morningstar UW Occupancy** | 81.2% | |
| **Net Operating Income** | $3,163,131 | |
| **Net Cash Flow** | $2,593,987 | |
| **Value** | $27,119,646 | ($63,661/room) |
| **Debt Yield** | 11.79% | |
| **Morningstar Site Visit** | Yes, see ASR | |
| **Property Score** | 3 (Average) | |

## *Capital Structure Table*

| Loan | Current Balance | Interest Rate Rate | DSCR Current | DSCR Amortizing | BLTV | ELTV |
|---|---|---|---|---|---|---|
| Subject Loan | $22,000,000 | 4.300% | 1.99 x | 1.99 x | 81.1% | 64.6% |
| **Total** | **$22,000,000** | **4.300%** | **1.99 x** | **1.99 x** | **81.1%** | **64.6%** |

## Morningstar Summary

### *Morningstar Perspective*

The subject loan is a ten-year $22.00 million ($51,643 per key) loan secured by three hotels acquired by the sponsor in January 2013 at a cost of $36.13 million. The loan provides for principal and interest payments on a 30-year amortization schedule. The properties were purchased from Hyatt, which serves as property manager for all three hotels. The properties are in two states (Orlando, FL and Chicao, IL) and have a combined appraised value of $40.8 million ($95,775 per key). The subject loan represents a 53.9% loan-to-appraised value.

The borrower will escrow at closing for an ongoing FF&E reserve (4% of total gross reserves annually), and escrow $218,875 into an immediate repair reserve, and $3.07 million ($7,203/key) into a PIP reserve, which equates to 125% of budgeted items through 2014.

The three-property portfolio generated $3.28 million in net cash flow for the trailing twelve months (TTM) ending 12/31/12. The portfolio's weighted average occupancy, average daily rate (ADR) and revenue per available room (RevPAR) is based on a combined 81.2% occupancy level, ADR of $95.71 per room and RevPAR of $77.71. The average combined RevPAR for the properties increased in each of the last two years.

Morningstar's analysis yields a DSCR, LTV and value of 1.99x, 81.1% and $27.12 million ($188,244 per room).

### *The Bears Say*

- Property-type concentration: The loan is backed by three hotel properties. This is mitigated by the fact that the properties are located in two different markets, Orlando and Chicago.
- Morningstar's combined value of $27.12 million results in a high LTV of 81.1%. The properties continue to perform well and are leaders in their respective market, with good occupancy and rooms revenue penetrations.

### *The Bulls Say*

- All of the properties have recently undergone renovations (either during 2011 or 2012) and all have Property Improvement Plans (PIP) in place to be completed within the next couple years. The borrower will provide an upfront escrow for 125% of the outstanding PIP amounts. In addition, the completed PIP's are expected to improve the overall value of the properties.
- The properties are located in the suburban areas of two larger metro areas. This may reduce cash flow volatility should one of the areas experience a downturn or softening of demand.
- The properties are select-service hotels which tend to be a positive attribute in their respective markets.

### *Property Description*

The properties consist of three select service properties carrying the Hyatt Place flag. The Hyatt Place brand offers a range of amenities and services, such as free wi-fi and complimentary breakfast. Property sizes typically range from 125 to 200 rooms and are located in urban, airport and suburban areas. There are more than 165 Hyatt Place hotels in operation in the U.S., with more than 35 announced hotels under development throughout the U.S., China, Europe, India, Latin America and the Middle East.

The properties were previously owned by Hyatt, which will be retained as property manager under a new 20-year management and franchise agreement which expires January 22, 2032. The management agreement allows for two additional five-year extensions.

| Asset Name | # of Rooms | City | State | Year Built | Renovated | Original Balance | Appraised Value | Appraisal LTV |
|---|---|---|---|---|---|---|---|---|
| Hyatt Place - Orlando Convention Center | 149 | Orlando | FL | 1998 | 2011 | $8,100,000 | $15,000,000 | 54.0% |
| Hyatt Place - Orlando Universal Studios | 151 | Orlando | FL | 2000 | 2011 | $7,800,000 | $14,500,000 | 53.8% |
| Hyatt Place - Hoffman Estates | 126 | Hoffman Estates | IL | 1997 | 2012 | $6,100,000 | $11,300,000 | 54.0% |
| Total - Summit Portfolio III | 426 | | | | | $22,000,000 | $40,800,000 | 53.9% |

**Hyatt House – Orlando Convention Center:** The Hyatt Place Orlando Convention Center is a select-service hotel built on a 2.84-acre site in 1998 and improved with one seven-story building containing 149-guestrooms, a lobby, 925 SF of meeting space, a business center, fitness center, Kitchen Skillet breakfast room, Grab n' Go case, a 24-hour sundries shop and an outdoor swimming pool and whirlpool. Guestrooms feature divided living and sleeping areas, a king or two double beds, a state-of-art media and work center with flat panel HDTV, two telephones with voicemail, an oversized sofa-sleeper, iron and ironing board, mini refrigerator, AM/FM clock radio with MP3 connectivity, bathtub and bathroom vanity with granite tops and complimentary Wi-Fi throughout the property. There is on-site parking for 148 vehicles. The property underwent a complete renovation when it was converted from an AmeriSuites to a Hyatt Place in 2007; the renovation included guestrooms, hard goods, soft goods and common areas. The following was spent on capital expenditures over the past six years: 2007 - $52,514; 2008 - $49,802; 2009 - $101,032; 2010 - $51,722; 2011 - $115,003. When the property was converted from an AmeriSuites to a Hyatt Place, the previous owners left three guestroom bays unfinished that currently act as GM/Sales offices. One of these rooms will be finished, bringing the property's room inventory to 150 rooms. Based on the appraisal dated February 8, 2013, the property was valued at $15.0 million, or $100,671 per room.

**Hyatt Place – Orlando Universal Studios**: The Hyatt Place Orlando Universal Studios is a select-service hotel built on a 3.18 acre site in 2000 and improved with one seven-story building containing 151 guestrooms, a lobby, 840 square feet of meeting space, a business center, fitness center, Kitchen Skillet breakfast room, Grab n' Go case, a 24-hour sundries shop and an outdoor heated swimming pool and whirlpool and on-site parking for 139 vehicles. In addition, the collateral currently includes a 3.18-acre unimproved parcel, which can be released during the loan term. A renovation of the property's guestrooms was completed in 2007 when it was converted from an AmeriSuites to a Hyatt Place. Fromn 2008 through 2011 $253,804 was spent on capital improvements at the property and another $944,375 ($6,254 per room) is expected to be spent over the next two years under the PIP. During this period, the breakfast area will be reconfigured, which will result in the removal of one room from the property's supply. Based on the appraisal dated February 8, 2013, the property was valued at $14.5 million, or $96,026 per room.

**Hyatt Place – Hoffman Estates:** The Hyatt Place Chicago/Hoffman Place is a select-service hotel built on a 2.72-acre site in 1997 and improved with one, six-story building containing 126 guestrooms, a lobby, 1,100 square feet of meeting space, a business center, fitness center, Kitchen Skillet breakfast room, Grab n' Go case, a 24-hour sundries shop and an indoor swimming pool and whirlpool. Guestrooms feature divided living and sleeping areas, a king or two double beds, a state-of-art media and work center with 42-inch flat panel HDTV, two telephones with voicemail, an oversized sofa-sleeper, iron and ironing board, mini refrigerator, AM/FM clock radio with MP3 connectivity, bathtub and bathroom vanity with granite tops and complimentary Wi-Fi throughout the property. Hotel facilities and amenities include a complimentary hot breakfast, the Bakery Café offering Starbucks coffee, premium beers and wines, the 24/7 Guest Kitchen featuring the new Gallery menu with made-to-order snacks and entrees, on-site parking for 136 vehicles and complimentary shuttle service within a three-mile radius of the property. The property is located in Hoffman Estates, IL approximately 30 miles northwest of downtown Chicago. Based on the March 1, 2013 appraisal, the property was valued at $11.3 million, or $89,683 per room.

We toured the Hyatt Place – Orlando Convention Center property on March 19, 2013. The property is situated just off of Interstate-4 between the Sand Lake Road intersection and the Bee Line Expressway (Highway 528). While the address is International Drive, the property is closer to Universal Blvd (where the signage for the property lies). It is part of a cluster of a hotel complexes and retail/shopping centers. Overall, the property shows well from the exterior and appears to be well maintained. Based on the overall condition of the property, Morningstar gave this property a 3 property score (Average).

We toured the Hyatt Place – Orlando Universal Studios property on March 19, 2013. The property is located in Orlando, across Route 435 from Universal Studios, near Interstate-4 and the Florida Turnpike. The hotel is situated in an area considered to be a major tourist corridor with SeaWorld, Universal Studios and the Orange County Convention Center nearby. Disney World is just southwest of the property. The hotel appears to be well kept and maintained. The property was easily accessed off of Route 435 (Kirkman Rd). There is a Holiday Inn & Suites directly adjacent to the Hyatt that provides direct competition. Based on the overall condition of the property, Morningstar gave this property a 3 property score (Average).

***Demand Drivers***

Demand drives within a specific market can be broken down into three primary demand classifications, transient, meeting & group and extended-stay segments.

**Transient** demand can be further broken down into two sub-segments, commercial/corporate demand and leisure demand.

> **Commercial/Corporate** demand arises from individuals who are conducting business and visiting various firms in the subject's market area. Commercial travelers generally are not rate sensitive and represent a very desirable and lucrative market that provides a consistent level of demand at relatively high room rates. Commercial demand is a subject's market area is generated primarily by the wide variety of corporate tenants in the surrounding area.

**Leisure** demand segment consists of individual tourists and families visiting the attractions of a local market and/or passing through en route to other destinations. Leisure travelers tend to be the most price-sensitive segment in the lodging market and typically demand extensive recreational facilities and amenities. Ease of highway access and proximity to vacation-related attractions are important hotel locational considerations. In a subject's market area, most leisure demand is generated by people who are visiting friends and relatives or those who are taking advantage of the numerous recreational opportunities, and tourist attractions available in the area. These people may be traveling alone, or with families or tour groups.

**Meeting & Group** demand includes groups who reserve blocks of rooms for meetings, seminars, trade association shows, and other similar gatherings of ten or more persons. Group meetings and convention demand is typically strongest during the spring and fall months, while summer months represent the slowest period for this market segment. Winter season demand varies by location. Meeting and group demand is generally quite profitable for hotels and resorts. Although room rates are sometimes discounted for large groups, a hotel benefits from use of meeting space and the inclusion of in-house banquet rooms and cocktail receptions.

**Extended-Stay** demand properties are hotels which cater to guests requiring accommodations for five nights or longer. The primary distinction between extended-stay and traditional transient hotels is that extended-stay properties typically offer rooms with defined living and sleeping areas, kitchens, limited guest services and few, if any public areas. Extended-stay hotels generally have higher operating margins, lower occupancy break-even thresholds, and returns on capital than traditional hotels.

Tourism is one of the key components of Orlando's economic base, and Orlando has more than its share of popular tourist attractions, including Walt Disney World (Magic Kingdom Park, EPCOT, Disney's Hollywood Studios, Typhoon Lagoon, Downtown Disney, Blizzard Beach, Wide World of Sports and Animal Kingdom), Universal Orlando Resort (Universal Studios Florida and Universal's Islands of Adventure), SeaWorld, Aquatica, and Discovery Cove.

| Market Segmentation | Transient | Meeting &Group | Extended-stay | Total | Total Meeting Space |
|---|---|---|---|---|---|
| Hyatt - Orlando Universal Studios | 77.0% | 23.0% | 0.0% | 100% | 925 |
| Hyatt Place - Orlando Convention Center | 90.0% | 10.0% | 0.0% | 100% | 840 |
| **Total** | **83.0%** | **17.0%** | **0.0%** | **100%** | **1,765** |

**Hyatt Place – Orlando Convention Center:** Lodging demand in the area is primarily driven by corporate clientele connected with companies in the area, leisure travelers visiting the many tourist attractions and attendees of events at the Orlando/Orange County Convention Center, which is located three blocks from the Property. The leisure demand segment consists primarily of foreign and domestic visitors to the Orlando metropolitan area attractions, including Walt Disney World, Universal Studios and Islands of Adventures, and SeaWorld. Leisure demand is strongest on Friday and Saturday nights, holiday periods and the summer months. Commercial demand arises from individuals who are conducting business and visiting various films in the subject's market area. Commercial demand in the subject's market is generated by a variety of corporate tenants in the surrounding area. The largest generators of room nights in Orlando are reportedly, Cap Gemini Consulting, Hewlett Packard, Accenture, Brambles (Chep), AT&T, Darden Restaurants, Harcourt, Tupperware HQ, Southland Corporation/Publix, GSK, Athletic Business, PGA of America, Golf Channel/Comcast and Lockheed Martin among others. The site is situated in an area of Orange County that is considered to be a major tourist corridor with SeaWorld Orlando, Universal Studios Orlando and the Orlando/Orange County Convention Center (OCCC) as the main attractions. The appraiser forecasts growth in transient demand of 2.0% in 2013, 1.0% in 2014, and 0.5% each year thereafter.

**Hyatt House – Orlando Universal Studios:** Transient demand among the competitive hotel properties is comprised of two sub-segments: leisure demand and commercial/corporate demand. The leisure demand segment consists primarily of foreign and domestic visitors to the Orlando metropolitan area attractions, including Walt Disney World, Universal Studios and Islands of Adventures, and SeaWorld. Leisure demand is strongest on Friday and Saturday nights, holiday periods and the summer months. Commercial demand arises from individuals who are conducting business and visiting various films in the subject's market area. Commercial demand in the subject's market is generated by a variety of corporate tenants in the surrounding area. The largest generators of room nights in Orlando are reportedly, Cap Gemini Consulting, Hewlett Packard, Accenture, Brambles (Chep), AT&T, Darden Restaurants, Harcourt, Tupperware HQ, Southland Corporation/Publix, GSK, Athletic Business, PGA of America, Golf Channel/Comcast and Lockheed Martin among others. The appraiser concluded growth in demand of 5.0% in 2013, 3.0% in 2014, and 1.0% each year thereafter. Meeting and group demand is generated by groups who reserve blocks of rooms for meetings, seminars, trade association shows, and other similar gatherings of 10 or more persons. Group meeting demand accruing to the subject market area consists of overflow convention center demand, as well as small corporate groups conducting meetings and seminars.

| Market Segmentation | Commercial | Meeting & Group | F.I.T. / Leisure | Extended-Stay | Total | Total Meeting Space (sq. ft.) |
|---|---|---|---|---|---|---|
| Hyatt Place - Hoffman Estates | 50% | 10% | 35% | 5% | 100% | 1,100 |
| Average | 50% | 10% | 35% | 5% | 100% | 1,100 |

**Hyatt Place – Hoffman Estates:** The property benefits from good access because of its location along a major roadway, favorable visibility and convenient access to Interstate-90. Commercial demand arises from individuals who are conducting business and visiting firms in the subject's area. Commercial demand is strongest Monday through Thursday nights, with a typical length of stay of one to three nights. The largest generators of commercial room nights within Hoffman Estates include Sears, AT&T, IBM, Ernest & Young, Motorola, Sprint and others. Based on growth trends in the local and national economies, the appraiser forecasts that commercial hotel demand within the subject market will grow by 2.0% in 2013 with accelerated demand occurring in 2014 as the local economy continues its recovery. The property's location near Central Hoffman Estates and a wide variety of demand generators, as well as good access to major roadways and highways should enable the property to continue to be competitive in the marketplace.

### *Market Overview*

All of the properties are well positioned within their respective competitive sets. As evidenced by the Smith Travel Research Reports for each property, overall demand generally increased notably in the three TTM periods ending 12/31/10, 12/31/11 and 12/31/12.

The Orlando Convention Center property is about 13 miles southwest of downtown Orlando. Overall demand for the Orlando Convention Center property continues with its competitive edge with improving occupancies combined with increasing ADR's. The subject property has continually performed well ahead of its competitive set with occupancy and rooms revenue penetrations ranging from 102% to 106.2%, respectively in 2008 and from 106.2% to 118.6% for the most recent TTM ending 12/31/12.

| Evaluation of Market Trends (Orlando Convention Center) | | | | | |
|---|---|---|---|---|---|
| | Occupancy Rate | Average Rate | Rooms RevPAR | Occupancy Penetration | RevPAR Penetration |
| **TTM 12/31/10** | 72.0% | $84.73 | $61.01 | 107.1% | 117.3% |
| **TTM 12/31/11** | 71.9% | $86.96 | $62.52 | 105.8% | 119.0% |
| **TTM 12/31/12** | 75.8% | $92.25 | $69.93 | 106.2% | 118.6% |
| *Source: Smith Travel Research* | | | | | |

The Orlando Universal Studios property is located about ten miles southwest of downtown Orlando. The property has historically out-performed the selected competitive set both in terms of occupancy and ADR by a significant margin. The property is achieves the second highest yield penetration within the selected competitive set. Overall the occupancy penetration was 111.7% and rooms revenue penetration was 118.6% as of TTM 12/31/12.

| Evaluation of Market Trends - Orlando Universal Studios | | | | | |
|---|---|---|---|---|---|
| | Occupancy Rate | Average Rate | Rooms RevPAR | Occupancy Penetration | RevPAR Penetration |
| **TTM 12/31/10** | 69.4% | $81.27 | $56.40 | 123.2% | 126.5% |
| **TTM 12/31/11** | 72.3% | $87.13 | $62.99 | 111.9% | 117.5% |
| **TTM 12/31/12** | 75.4% | $88.86 | $67.00 | 111.7% | 118.4% |
| *Source: Smith Travel Research* | | | | | |

The Hoffman Estates property is located about 13 miles northwest of downtown Chicago. The property has historically out-performed the selected competitive set both in terms of occupancy and ADR by a significant margin. The property is the market leader in terms of ADR and overall RevPAR and achieves the second highest occupancy level within its selected competitive set. Overall the occupancy penetration was 136.8% and rooms revenue penetration was 120.0% as of the TTM 12/31/12.

| Evaluation of Market Trends (Hoffman Estates) | | | | | |
|---|---|---|---|---|---|
| | Occupancy Rate | Average Rate | Rooms RevPAR | Occupancy Penetration | RevPAR Penetration |
| **TTM 12/31/10** | 53.2% | $92.18 | $49.04 | 138.0% | 121.5% |
| **TTM 12/31/11** | 57.0% | $94.81 | $54.04 | 129.3% | 114.4% |
| **TTM 12/31/12** | 57.3% | $101.20 | $57.99 | 136.8% | 120.0% |
| *Source: Smith Travel Research* | | | | | |

There were no directly competitive properties that were either proposed or under construction that would have a significant impact to the subject properties.

***Sponsorship/Management***

The borrowing entity is a single purpose entity with Summit Hospitality 19, LLC (0.01%) as the managing member and Summit Hotel OP, LP (99.9%) as operating partner.

Summit Hotel OP, LP is made up of Summit Hotel Properties, Inc. (REIT) (83.8%), Executive Officers (4.1%) and Unaffiliated Partners (12.1%). The Executive Officers are predominately made up of Summit's Executive Chairman, Kerry Boekelheide with 65% interest with the remaining 35% made up of executive officers and independent board members. The Unaffiliated Limited Partners consist of 600 legacy (prior to IPO) investors that have not yet converted their operating partnership units into common shares. No Unaffiliated Limited Partners have an ownership interest in Summit Hotel OP, LP greater than 10%.

Summit focuses primarily on acquiring and owning premium-branded, select-service hotels in the upscale and upper midscale segments of the U.S. Lodging industry. Their current portfolio consists of 91 hotels with a total of 10,309 guestrooms located in 22 states. Summit was formed in early 2004 and is headquartered in Sioux Falls, South Dakota.

Summit's core brands include Marriott (39.3% of their portfolio), Hilton (23.9%), Hyatt (18.1%) and InterContinental (11.3%). The company's investment strategy is to focus on "beltway" markets, which include cities with the top 10-50 metro areas, which offer better relative value than "gateway" markets. Summit also concentrates on select-service brands which offer higher amenity packages to their customers, including Wi-Fi, luxury mattresses, fitness centers and free parking.

***Property Management/Franchise Agreement***

The property is managed by Select Hotels Group, LLC, an affiliate of Hyatt. The company manages all three properties under separate 20-year management/franchise agreements which expire January 22, 2033. The agreements provide for two, five-year renewal options. The Agreement stipulates (i) a Basic Fee equal to: 5.0% of Gross Receipts during the first 12 months of the Term; 6.0% of Gross Receipts during the second 12 months of the Term and 7.0% of Gross Receipts during remainder of the Term (ii) an incentive fee payable on behalf of all Portfolio Hotels (includes the 4 subject properties plus 7 others properties defined in the management agreement) equal to ten percent (10%) of the amount, if any, by which the Portfolio Adjusted Profit (NCF calculation defined in the management agreement) exceeds the Portfolio Owner's Priority (Baseline- $12,908,560.61) for each Fiscal Year; (iii) a contribution to a fund created by Select or its affiliates for Marketing, Central Reservations and Technology equal to three and one-half percent (3½%) of the Hotel's Gross Rooms Revenue during the preceding month. This cost was allocated in the Sales/Market line-item.

***Partial Release of Properties***

The Summit Hotel Portfolio III Loan documents permit the borrower to obtain a release of a property from the lien of the related mortgage after the lockout period, subject to, among other things, (i) no event of default has occurred and is continuing under the loan documents; (ii) delivery of defeasance collateral in an amount greater than 125% of the allocated loan amount or 80% of the proceeds from the sale of the applicable property; (iii) the debt service coverage ratio for the remaining Summit Hotel Portfolio III properties based upon a trailing 12 month period being no less than the greater of (a) the debt service coverage ratio prior to release and (b) the debt service coverage ratio existing at loan closing; (iv) the loan to value ratio for the remaining Summit Hotel Portfolio III properties shall be no greater than the lesser of (a) the loan to value existing at loan closing and (b) the loan to value prior to release as determined by any commercially reasonable method; and (v) the debt yield for the remaining Summit Hotel Portfolio III properties shall be no less than the greater of (a) the debt yield prior to release and (b) the debt yield existing at loan closing

## Morningstar Analysis – Summit Portfolio III (Rollup)

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 12/31/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| Occupancy Percent | 81.2% | 79.0% | 77.1% | 81.2% | 81.2% |
| Average Room Rate | $95.36 | $86.02 | $91.50 | $95.71 | $95.71 |
| Rooms RevPAR | $77.44 | $67.98 | $70.53 | $77.71 | $77.71 |
| **Departmental Revenue** | | | | | |
| Room | $12,041,663 | $10,570,904 | $10,966,385 | $12,116,198 | $12,083,093 |
| Food & Beverage | 548,655 | 569,495 | 575,537 | 549,529 | 548,027 |
| Telephone | 16,131 | 30,260 | 18,822 | 16,153 | 16,109 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 41,206 | 69,118 | 65,116 | 41,264 | 41,151 |
| **Total Departmental Revenue** | **$12,647,655** | **$11,239,777** | **$11,625,860** | **$12,723,143** | **$12,688,380** |
| **Departmental Expenses** | | | | | |
| Room | $3,714,129 | $3,312,991 | $3,442,034 | $3,721,285 | $3,711,117 |
| Food & Beverage | 593,498 | 553,489 | 558,758 | 594,558 | 592,934 |
| Telephone | 94,519 | 83,662 | 81,821 | 94,700 | 94,441 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 0 | 0 | 0 | 0 | 0 |
| **Total Departmental Expenses** | **$4,402,146** | **$3,950,142** | **$4,082,613** | **$4,410,543** | **$4,398,492** |
| **Departmental Profit** | **$8,245,509** | **$7,289,635** | **$7,543,247** | **$8,312,600** | **$8,289,888** |
| **Undistributed Expenses** | $0 | $0 | $0 | $0 | $0 |
| General & Administrative | $1,064,596 | $983,816 | $990,234 | $1,067,513 | $1,064,596 |
| Franchise Fees | 0 | 0 | 0 | 0 | 0 |
| Advertising & Marketing | 934,170 | 816,814 | 882,933 | 936,729 | 934,170 |
| Repairs & Maintenance | 774,052 | 744,222 | 744,881 | 776,173 | 774,052 |
| Utilities | 543,346 | 526,079 | 546,290 | 544,834 | 543,346 |
| Management Fees | 885,375 | 787,113 | 813,880 | 890,660 | 888,187 |
| **Fixed Charges** | $0 | $0 | $0 | $0 | $0 |
| Real Estate Taxes | $662,385 | $613,101 | $685,575 | $595,062 | $662,385 |
| Property Insurance | 198,705 | 201,864 | 157,178 | 198,705 | 198,705 |
| Ground Rent | 0 | 0 | 0 | 0 | 0 |
| Other | 19,749 | 12,523 | 11,873 | 19,749 | 19,749 |
| **Total Operating Expenses** | **$9,484,524** | **$8,635,674** | **$8,915,457** | **$9,439,968** | **$9,483,681** |
| **Net Operating Income** | **$3,163,131** | **$2,604,103** | **$2,710,403** | **$3,283,175** | **$3,204,698** |
| **Capital Expenditures** | $0 | $0 | $0 | $0 | $0 |
| Capital Expenditures / Reserve | $569,144 | $0 | $0 | $0 | $507,535 |
| 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 | 569,144 | 0 | 0 | 0 | 507,535 |
| Credit for Upfront DSCR Escrow | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$2,593,987** | **$2,604,103** | **$2,710,403** | **$3,283,175** | **$2,697,163** |

## Morningstar Analysis – Hyatt Place – Orlando Convention Center

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | Year End 12/31/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| Occupancy Percent | 80.5% | 77.1% | 76.1% | 80.5% | 80.5% |
| Average Room Rate | $102.23 | $92.78 | $97.76 | $103.00 | $103.00 |
| Rooms RevPAR | $82.31 | $71.58 | $74.42 | $82.93 | $82.93 |
| **Departmental Revenue** | | | | | |
| Room | $4,482,734 | $3,892,629 | $4,047,579 | $4,522,590 | $4,510,233 |
| Food & Beverage | 185,924 | 195,896 | 177,387 | 186,255 | 185,746 |
| Telephone | 8,102 | 15,835 | 10,244 | 8,114 | 8,092 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 8,171 | 20,528 | 19,917 | 8,184 | 8,162 |
| **Total Departmental Revenue** | **$4,684,930** | **$4,124,888** | **$4,255,127** | **$4,725,143** | **$4,712,233** |
| **Departmental Expenses** | | | | | |
| Room | $1,366,906 | $1,212,200 | $1,265,050 | $1,369,713 | $1,365,971 |
| Food & Beverage | 215,870 | 198,519 | 195,658 | 216,284 | 215,693 |
| Telephone | 34,846 | 30,567 | 30,394 | 34,918 | 34,823 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 0 | 0 | 0 | 0 | 0 |
| **Total Departmental Expenses** | **$1,617,623** | **$1,441,286** | **$1,491,102** | **$1,620,915** | **$1,616,486** |
| **Departmental Profit** | **$3,067,307** | **$2,683,602** | **$2,764,025** | **$3,104,228** | **$3,095,747** |
| **Undistributed Expenses** | | | | | |
| General & Administrative | $389,188 | $325,014 | $325,755 | $390,254 | $389,188 |
| Franchise Fees | 0 | 0 | 0 | 0 | 0 |
| Advertising & Marketing | 359,718 | 305,221 | 368,061 | 360,704 | 359,718 |
| Repairs & Maintenance | 299,339 | 255,121 | 270,779 | 300,159 | 299,339 |
| Utilities | 223,646 | 193,849 | 220,157 | 224,259 | 223,646 |
| Management Fees | 327,969 | 288,839 | 297,905 | 330,784 | 329,856 |
| **Fixed Charges** | | | | | |
| Real Estate Taxes | $183,706 | $160,051 | $169,836 | $181,497 | $183,706 |
| Property Insurance | 72,268 | 79,940 | 67,525 | 72,268 | 72,268 |
| Ground Rent | 0 | 0 | 0 | 0 | 0 |
| Other | 11,505 | 4,636 | 3,968 | 11,505 | 11,505 |
| **Total Operating Expenses** | **$3,484,962** | **$3,053,957** | **$3,215,088** | **$3,492,345** | **$3,485,713** |
| **Net Operating Income** | **$1,199,968** | **$1,070,931** | **$1,040,039** | **$1,232,798** | **$1,226,520** |
| **Capital Expenditures** | | | | | |
| Capital Expenditures / Reserve | $210,822 | $0 | $0 | $0 | $188,489 |
| 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 | 210,822 | 0 | 0 | 0 | 188,489 |
| Credit for Upfront DSCR Escrow | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$989,146** | **$1,070,931** | **$1,040,039** | **$1,232,798** | **$1,038,031** |

## Morningstar Analysis – Hyatt Place – Orlando Universal Studios

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | Year End 12/31/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| Occupancy Percent | 84.2% | 85.5% | 80.9% | 84.2% | 84.2% |
| Average Room Rate | $93.76 | $83.48 | $91.48 | $94.24 | $94.24 |
| Rooms RevPAR | $78.96 | $71.41 | $73.97 | $79.36 | $79.36 |
| **Departmental Revenue** | | | | | |
| Room | $4,358,013 | $3,935,870 | $4,077,060 | $4,386,004 | $4,374,020 |
| Food & Beverage | 210,175 | 221,040 | 220,676 | 210,549 | 209,974 |
| Telephone | 5,292 | 7,844 | 3,793 | 5,300 | 5,286 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 19,632 | 33,328 | 28,001 | 19,665 | 19,611 |
| **Total Departmental Revenue** | **$4,593,112** | **$4,198,082** | **$4,329,530** | **$4,621,517** | **$4,608,890** |
| **Departmental Expenses** | | | | | |
| Room | $1,363,570 | $1,181,790 | $1,257,453 | $1,366,370 | $1,362,637 |
| Food & Beverage | 242,915 | 229,821 | 230,197 | 243,380 | 242,715 |
| Telephone | 33,161 | 28,969 | 24,436 | 33,229 | 33,138 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 0 | 0 | 0 | 0 | 0 |
| **Total Departmental Expenses** | **$1,639,645** | **$1,440,580** | **$1,512,086** | **$1,642,979** | **$1,638,490** |
| **Departmental Profit** | **$2,953,467** | **$2,757,502** | **$2,817,444** | **$2,978,538** | **$2,970,400** |
| **Undistributed Expenses** | | | | | |
| General & Administrative | $316,990 | $300,108 | $315,275 | $317,858 | $316,990 |
| Franchise Fees | 0 | 0 | 0 | 0 | 0 |
| Advertising & Marketing | 298,841 | 263,432 | 264,526 | 299,660 | 298,841 |
| Repairs & Maintenance | 281,435 | 278,991 | 280,682 | 282,206 | 281,435 |
| Utilities | 201,141 | 208,404 | 198,691 | 201,692 | 201,141 |
| Management Fees | 321,616 | 293,998 | 303,087 | 323,605 | 322,622 |
| **Fixed Charges** | | | | | |
| Real Estate Taxes | $203,657 | $183,490 | $193,837 | $200,520 | $203,657 |
| Property Insurance | 88,714 | 80,527 | 76,763 | 88,714 | 88,714 |
| Ground Rent | 0 | 0 | 0 | 0 | 0 |
| Other | 5,143 | 4,940 | 4,903 | 5,143 | 5,143 |
| **Total Operating Expenses** | **$3,357,182** | **$3,054,470** | **$3,149,850** | **$3,362,377** | **$3,357,033** |
| **Net Operating Income** | **$1,235,930** | **$1,143,612** | **$1,179,680** | **$1,259,140** | **$1,251,857** |
| **Capital Expenditures** | | | | | |
| Capital Expenditures / Reserve | $206,690 | $0 | $0 | $0 | $184,356 |
| 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 | 206,690 | 0 | 0 | 0 | 184,356 |
| Credit for Upfront DSCR Escrow | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$1,029,240** | **$1,143,612** | **$1,179,680** | **$1,259,140** | **$1,067,502** |

## Morningstar Analysis – Hyatt Place – Hoffman Estates

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | Year End 12/31/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| Occupancy Percent | 78.4% | 73.5% | 73.7% | 78.4% | 78.4% |
| Average Room Rate | $88.6 | $81.2 | $83.9 | $88.8 | $88.8 |
| Rooms RevPAR | $69.5 | $59.6 | $61.8 | $69.6 | $69.6 |
| **Departmental Revenue** | | | | | |
| Room | $3,200,917 | $2,742,405 | $2,841,746 | $3,207,604 | $3,198,840 |
| Food & Beverage | 152,555 | 152,559 | 177,474 | 152,725 | 152,307 |
| Telephone | 2,737 | 6,581 | 4,785 | 2,739 | 2,732 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 13,403 | 15,262 | 17,198 | 13,415 | 13,378 |
| **Total Departmental Revenue** | **$3,369,613** | **$2,916,807** | **$3,041,203** | **$3,376,483** | **$3,367,257** |
| **Departmental Expenses** | | | | | |
| Room | $983,653 | $919,001 | $919,531 | $985,202 | $982,510 |
| Food & Beverage | 134,713 | 125,149 | 132,903 | 134,894 | 134,525 |
| Telephone | 26,511 | 24,126 | 26,991 | 26,553 | 26,480 |
| Minor Operated Departments | 0 | 0 | 0 | 0 | 0 |
| Insert Description | 0 | 0 | 0 | 0 | 0 |
| Rentals and Other Income | 0 | 0 | 0 | 0 | 0 |
| **Total Departmental Expenses** | **$1,144,878** | **$1,068,276** | **$1,079,425** | **$1,146,649** | **$1,143,516** |
| **Departmental Profit** | **$2,224,735** | **$1,848,531** | **$1,961,778** | **$2,229,834** | **$2,223,741** |
| **Undistributed Expenses** | | | | | |
| General & Administrative | $358,419 | $358,694 | $349,204 | $359,401 | $358,419 |
| Franchise Fees | 0 | 0 | 0 | 0 | 0 |
| Advertising & Marketing | 275,610 | 248,161 | 250,346 | 276,365 | 275,610 |
| Repairs & Maintenance | 193,278 | 210,110 | 193,420 | 193,808 | 193,278 |
| Utilities | 118,558 | 123,826 | 127,442 | 118,883 | 118,558 |
| Management Fees | 235,790 | 204,276 | 212,888 | 236,271 | 235,708 |
| **Fixed Charges** | | | | | |
| Real Estate Taxes | $275,022 | $269,560 | $321,902 | $213,045 | $275,022 |
| Property Insurance | 37,723 | 41,397 | 12,890 | 37,723 | 37,723 |
| Ground Rent | 0 | 0 | 0 | 0 | 0 |
| Other | 3,101 | 2,947 | 3,002 | 3,101 | 3,101 |
| **Total Operating Expenses** | **$2,642,380** | **$2,527,247** | **$2,550,519** | **$2,585,246** | **$2,640,936** |
| **Net Operating Income** | **$727,233** | **$389,560** | **$490,684** | **$791,237** | **$726,321** |
| **Capital Expenditures** | | | | | |
| Capital Expenditures / Reserve | $151,633 | $0 | $0 | $0 | $134,690 |
| 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 | 151,633 | 0 | 0 | 0 | 134,690 |
| Credit for Upfront DSCR Escrow | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$575,600** | **$389,560** | **$490,684** | **$791,237** | **$591,631** |

## 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 | $95.36 |
| Occupancy (%) | 81.2% |
| Rooms RevPAR | $77.44 |

Morningstar's analysis was based on a blending of historical performance, the borrower's budget, Morningstar's projections over the next several years and a stabilized occupancy and ADR in today's dollars.

***Expenses***

*Management Fees* – Morningstar assumed a 7.0% management fee. The properties were previously owned by Hyatt, which will be retained as property manager under a new 20-year management and franchise agreement that expires January 22, 2033. The management agreement also allows for two 5-yr extensions. The management fee is equal to 5% of gross operating revenues for the first year from the sale date, 6% for the second year and 7% each year thereafter. In all years, as long as Select Hotels Group continues to manage the property, there will be no franchise payment to Hyatt.

*Real Estate Taxes* – Underwritten to actual tax bills.

*Insurance* – Underwritten to either the higher of the expense paid in the TTM period or the expense allocated to this property for it share of a blanket insurance policy premium.

Otherwise, expenses are underwritten in-line with historicals

***Capital Items***

A reserve for future capital expenditures is underwritten at 4.5% of gross revenue for select-service hotels which are in line with industry averages. In addition 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 sufficient to that recommended by the engineer in the property condition assessment.

***Valuation Drivers***

Morningstar's hospitality capitalization rate is based on a blend of rates for Orlando and Chicato. Each of the properties were adjusted for property condition, property type and location. The overall blended capitalization rate was 9.56%.

# 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, extension fees, prepayment fees or penalties, assumption fees, modification fees, penalty charges, default interest or post-anticipated repayment date additional interest, excess interest or post-ARD 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 or reimbursement of any prepayment interest shortfalls, (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, (j) the CCRE strips, or (k) 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 loans 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 loans (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 loans, 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 loans 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 and therefore, suffer a nearly complete 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.

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The ratings do not assess whether any exchange of certificates may occur, any delays or disruptions in payment due to such exchange or method of holding certificates, or any costs or expenses related to such exchange. Therefore, the ratings do not address the risks enumerated in the preceding sentence as such risks may relate to exchanges of the Class A-M, B, C and/or PEZ certificates. Upon any exchange, the payments, entitlements to distributions and rating characteristics of the Class A-M, B and/or C certificates, as applicable, will apply to the Class PEZ certificates (or portion thereof) exchanged. In addition, the ratings do not address risks described in this paragraph related to any exchanges of the Class A-3FL certificates or Class A-4FL certificates.

A rating on the Class A-3FL and/or Class A-4FL certificates does not represent any assessment of whether the floating interest rate on those certificates will convert to a fixed rate or any payment delays or risks related to such conversion. With respect to the Class A-3FL and Class A-4FL certificates, Morningstar is only rating to the receipt of interest up to the pass-through rate applicable to the Class A-3FL or Class A-4FL regular interest and is not rating the receipt of interest accrued at a rate based on LIBOR plus any applicable spread. The ratings on these classes do not constitute any rating with respect to the likelihood of the receipt of payments to be made by the swap counterparty or any interest rate reductions or increases contemplated in the swap agreement. In addition, the ratings do not address any shortfalls or delays in payment that investors in the Class A-3FL and/or Class A-4FL certificates may experience as a result of the conversion of the pass-through rate on those certificates from a rate based on LIBOR to a fixed rate.

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.

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