# LCCM 2013-GCP Commercial Mortgage Pass-Through Certificates

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## PRELIMINARY RATINGS (AS OF: 3/5/13)

| CLASS | BALANCE/ NOTIONAL AMT | PRELIMINARY RATINGS | MORNINGSTAR DSC | MORNINGSTAR BLTV | CREDIT SUPPORT LEVELS |
|---|---|---|---|---|---|
| Class A-1 | $36,300,000 | AAA | 2.23x | 47.2% | 30.51% |
| Class A-2 | $154,795,000 | AAA | 2.23x | 47.2% | 30.51% |
| Class X-A[1] | $191,095,000 | AAA | N/A | N/A | N/A |
| Class X-B[1] | $83,905,000 | AAA | N/A | N/A | N/A |
| Class B | $42,703,000 | AA+ | 1.82x | 57.8% | 14.98% |
| Class C | $32,027,000 | A | 1.60x | 65.7% | 3.34% |
| Class D | $9,175,000 | A- | 1.55x | 68.0% | 0.00% |

*In determining the preliminary ratings on each class of securities issued by the Trust, Morningstar analyzed the property securing the loan as enumerated herein to determine its stabilized as-is net cash flow (NCF) and value based primarily on the direct capitalization approach. The loan along with its 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 the 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. Note 2: NR – Not Rated; N/A – Not applicable.*

*Estimated Closing Date: On or about March 21, 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 March 5, 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** | Fee simple interest in 1.0 million sf 39-story office tower and adjacent two-story retail building in NYC | **Mortgage Loan Seller** | Ladder Capital Finance LLC |
| **Notional Balance** | $275,000,000 | **Depositor** | Ladder Capital Commercial Mortgage Securities LLC |
| **Structure** | Sequential pay | **Lead Managers** | Deutsche Bank Securities and Ladder Capital Securities |
| **Morningstar U/W Current DSCR** | 1.98x | **Trustee** | Deutsche Bank Trust Company Americas |
| **Morningstar U/W Amort. DSCR** | 1.55x | **Certificate Administrator** | Wells Fargo Bank, National Association |
| **Morningstar U/W BLTV** | 68.0% | **Master Servicer[1]** | Wells Fargo Bank, National Association |
| **Morningstar U/W ELTV** | 58.5% | **Special Servicer[1]** | Wells Fargo Bank, National Association |

[1]The Morningstar operational risk assessment ("ORA") ranking for Wells Fargo, National Association., which is acting as both Master Servicer and Special Servicer, is 'MOR CS2/Favorable' and 'MOR CS2/Stable', respectively. For the full assessment reports and additional information, please access http:ratingagency.morningstar.com

# Transaction Overview

LCCM 2013-GCP is a $275-million single-property transaction secured primarily by one fixed-rate, first-lien whole mortgage loan on Grand Central Plaza, a class A office building and an adjacent two-story retail building in New York City. The $275 million mortgage loan is a 15-year, fixed rate, first-lien loan evidenced by a promissory note that is secured by a fee interest in the mortgaged property. The loan is scheduled to mature on the payment date in February 2028. There is also additional subordinate debt in the form of a $50 million mezzanine loan. The mortgage loan borrower is a special purpose entity controlled by Charles S. Cohen, the owner, president and chief executive officer of Cohen Brothers Realty Corporation (CBRC). CBRC owns and manages a portfolio of over 12 million square feet of office and design center properties in New York, Texas, Florida and Southern California. CBRC's New York portfolio includes eight class A office towers in midtown Manhattan.

The collateral property is located at 622 Third Avenue in New York City and consists of roughly 1.0 million square feet of space in a 39-story class A office building plus an adjacent two-story retail building. The 39-story tower has 38 office levels that sit atop ground floor retail; in the adjacent retail building there are two above-grade stories plus additional subterranean retail space. The office tower, which has 969,801 square feet of office space and 20,176 square feet of retail space, is located between Third and Lexington Avenues between 40th and 41st Streets. The retail building is located at the corner of Third Avenue and East 40th Street and has 17,000 square feet. As of February 2013, the property is 91.8% occupied by 22 tenants. Cohen Brothers Realty Corporation manages the property.

| Key Loan Metrics | | |
|---|---|---|
| First Mortgage Loan Amount | $275,000,000 | $273 PSF |
| Subordinate Debt | $50,000,000 | $50 PSF |
| **Total Mortgage Amount** | **$325,000,000** | **$323 PSF** |
| Mortgage Loan Term | 180 months | |
| Maturity Date | February 2028 | |
| Amortization | Partial IO (7 yrs.) | |
| First Mortgage Interest Rate | 5.1118% | |

Morningstar evaluated the property's rent roll and tenancy, lease rollover exposure, revenue, operating expenses and local market conditions, and estimated a NCF of $27.76 million, 8.5% below the issuer's underwritten NCF of $30.35 million. Our concluded value for the collateral property is $404.5 million ($402 per square foot), 35.8% lower than the appraiser's market value of $630.0 million ($625 per square foot).

| Analytical / UW Metrics | | |
|---|---|---|
| **Metric** | **Morningstar** | **Issuer** |
| EGI | $59,241,718 | $59,135,604 |
| NOI | $31,818,494 | $32,621,605 |
| Combined TI / LC | $3,801,767 | $2,021,398 |
| Capital Reserves | $251,847 | $251,847 |
| NCF | $27,764,880 | $30,348,360 |
| NCF Variance | -8.5% | - |
| Capitalization Rate (1) | 7.00% | 4.82% |
| Capitalized Value (1), (2) | $404,530,180 | $630,000,000 |
| Value Per Rentable SF | $402 | $625 |
| NCF DSCR (IO) | 1.98x | 2.13x |
| NCF Debt Yield | 10.1% | 11.0% |
| Beg. Loan-to-Value Ratio | 68.0% | 43.7% |

*(1) Issuer's Capitalized Value is the appraiser's estimate of value; issuer's capitalization rate is derived from issuer's NCF and appraiser's value.*

*(2) Morningstar Capitalized Value is adjusted for upfront reserves and the portion of the property management fee that is subordinate to the first mortgage.*

Morningstar determined the preliminary ratings for each class of LCCM 2013-GCP certificates by analyzing the loan and related collateral property, and subjecting our net cash flow (NCF) and capitalization rate to a variety of stresses in our proprietary CMBS Subordination Model.

Morningstar will perform on-going monitoring of the rating on each Class of Certificates on a subscription basis in accordance with Morningstar's policies and procedures.

**Credit Support Stresses**

Morningstar's concluded net cash flow and capitalization rate for the 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 property's cash flow to address the concentration risks inherent in a single-loan securitization. This is done separately to gauge the credit-worthiness of the loan during its term and at the balloon date. In the case of the latter, Morningstar additionally stresses the ability of the borrowers to refinance the loan at a higher loan constant. 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 the cash flow and property value declines after applying all of the stresses at each rating category. These are provided separately for the term default and balloon default analyses. For example, in assigning a rating of "AAA" to the Class A-1 and Class A-2 certificates, we subjected our concluded net cash flow to a weighted-average 36.0% decline and our concluded value to a weighted-average 52.1% decline in the term default analysis. In the balloon default analysis, these weighted-average declines were 36.0% and 52.1%, 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** |
| Morningstar NCF Decline (Term) | 36.0% | 33.0% | 30.0% |
| Morningstar Value Decline (Term) | 52.1% | 45.9% | 39.3% |
| Morningstar NCF Decline (Balloon) | 36.0% | 33.0% | 30.0% |
| Morningstar Value Decline (Balloon) | 52.1% | 45.9% | 37.5% |

**Morningstar Rating Characteristics**

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

# Grand Central Plaza

### Morningstar Perspective

The mortgage loan on Grand Central Plaza is secured by the fee simple interest in a 39-story class A office building plus an adjacent two-story retail building in Midtown Manhattan. Grand Central Plaza is an institutional-quality property given its large size, location, tenancy, and ownership. Built in 1974 and renovated beginning in 1998, the multi-tenant property has roughly 1.0 million square feet and includes 969,801 square feet of office space and 37,276 square feet of retail space. As of February 2013 the property is 91.8% occupied by 22 tenants, the largest of which is The Interpublic Group of Companies, Inc. (IPG). IPG is a conglomerate of advertising firms, the largest subsidiary being McCann Erickson, which has its headquarters in the building. The other major tenants are Cooper Square Realty, Third Avenue Holdings DE and TMP Worldwide. These four tenants represent 61.7% of the property's NRSF and 57.8% of the aggregate base rent. By square footage, the second largest tenant is Canadian Imperial Bank of Commerce (CIBC). The CIBC lease dates to October 2001, and was originally for 131,000 square feet. However, within just a few years of taking occupancy, the bank moved or began moving to a new building and began subleasing its space. Today, CIBC leases, but does not occupy, 116,429 square feet[1] under a lease that expires in September 2013.

The Interpublic Group of Companies, Inc. (NYSE: IPG; Morningstar[2]: BB), one of the largest advertising and marketing services companies in the world, has been a tenant at the property since April 2000, but its lease expires in 2021 during the loan term. The tenant occupies 44.8% of the net rentable area and accounts for 43.2% of Morningstar's aggregate base rent. Mitigating some of the rollover risk is the fact that IPG is in the process of completing a $40 million renovation of its space in the property, and has renewal options for two additional ten-year terms (as well as three expansion options). Moreover, IPG's base rent of $48.99 per square foot is below market based on the appraiser's market-rent estimate of $55 per square foot, and there also is a springing full cash-flow sweep that will commence 24 months prior to IPG's lease expiration in the even the tenant has not given notice to extend its lease.

Cooper Square Realty is the largest residential property management company in New York City. Cooper Square Realty is a subsidiary of FirstService Residential Management, which is a subsidiary of FirstService Corporation, the largest manager of residential communities in North America, overseeing more than 5,600 properties and over 1.3 million residential units. Third Avenue Holdings DE is an asset management company with services to institutional and private clients. Third Avenue Holdings DE is owned by Affiliated Managers Group, (NASDAC: AMG; Morningstar: BBB-). TMP Worldwide, Inc. is an independent recruitment advertising agency headquartered in the subject property since February 2000. The global company has over 50 locations worldwide with major clients including ESPN, Wal-Mart, Verizon and the Department of Veteran Affairs.

As mentioned above, CIBC currently subleases all of its 116,429 square feet of space; some of the subleases at the property date to 2003. There is significant rollover risk, as the tenant's lease expires in September of this year, and its in-place base rent of $7.6 million is 15% of Morningstar's aggregate base rent for the property. In addition, CIBC's rental rate of $65.75 per square foot is well above the appraiser's market-rent estimate of $55. To account for some of the risk we marked CIBC's in-place rent on all of its space to $52 per square foot, resulting in a $1.6 million haircut to our aggregate underwritten base rent. On the positive side, the borrower recently executed a direct lease at $59 per square foot for 14,571 square feet of CIBC's space; this rent is well below CIBC's lease rental rate and below the appraiser's market rental rate. And, apparently the sponsor is actively marketing the remaining space to institutional tenants, and is in negotiations with three such tenants for spaces in the 60,000 to 159,000 square foot range. In the worst case, even if all of CIBC's space is underwritten as vacant, our amortizing NCF DSCR would be 1.30x.

An upfront $8 million TI/LC rollover reserve helps to mitigate some of the property's near-term rollover exposure. As part of our analysis we also underwrote substantial annual tenant improvements and leasing commissions of $4.3 million (but also gave credit for the upfront TI/LC reserve in our cash flow) to cover future re-leasing costs. In addition, the loan is structured with a full cash-flow sweep of all excess cash flow that commences in September 2019, 24 months prior to IPG's lease expiration date. (However, the borrower may also post cash or a letter of credit in lieu of the sweep.) Finally, we increased our cap rate stresses in our subordination model at the AAA, AA, and A classes to account for some of the rollover risk.

Morningstar's net operating income of $31.8 million is nearly $3.8 million, or 10.6%, below the property's NOI in the trailing 12-month period ended November 2012. The main source of the NOI variance is our treatment of the space that Marks Paneth & Schron is vacating this month (March). At the time of our analysis, the accounting firm was leasing 75,000 square feet (7.4% of NRA) at a rental rate of $50 per square foot; we underwrote the space as vacant. We also took an additional $1.6 million of vacancy on the property, which pushed our adjusted economic vacancy to 11.6%. Our underwritten economic vacancy is above both the submarket vacancy rate and property's long-term vacancy rate.

[1] CIBC leases 131,000 square feet under a lease that expires 9/30/2013; a tenant, C. McDermott, has signed a direct lease for 14,571 square feet of the square footage that CIBC subleases. C. McDermott's lease commences 10/1/13, and we are analyzing it as a separate lease. We are netting this space out of CIBC's 131,000-square-foot total.

[2] Morningstar credit ratings are not NRSRO credit ratings.

Despite paying interest only for the first seven years of the term, the loan has good credit metrics, as evidenced by Morningstar's beginning LTV, NCF DSCR and NCF debt yield of 68.0%, 1.98x (interest only, 1.55x on amortizing basis), and 10.1%, respectively. At the balloon date, our ending LTV is 58.5%. Based on these metrics, we think both the term credit risk and the refinance risk for the loan are relatively low.

We view the loan's sponsorship as a positive aspect of this transaction, even though we have not afforded any quantitative credit for it in our analysis. The sponsor, Charles S Cohen, is the President and CEO of Cohen Brothers Realty Corporation (CBRC), and has more than 50 years of real estate experience, and his company, a private real estate development and management firm, reportedly has real estate holdings of more than 12 million square feet. Its New York portfolio is comprised of eight class A office towers in Midtown Manhattan.

Morningstar toured the property on February 21, 2013. We observed parts of the 39-story building located on Third Avenue between 40th and 41st Street and the two-story building adjacent to the main building; in the two-story building, a restaurant occupies the first floor while the second floor is mezzanine space with a bar and kitchen. We were able to tour and observe the space(s) occupied by Interpublic, Cooper Square Realty (15th floor), the space vacated by Marks Paneth & Schron (7th floor) and the multi-tenant floor occupied by Mineral Technologies and Sparkle (38th floor). We also toured some of the building's mechanical rooms. Interpublic's space is very modern and the spaces housing their various business lines have very different build-outs and finishes. Overall the building's interior spaces are in good condition and the lobbies and the elevators are well maintained. Based on our evaluation, Morningstar assigned a quality score of 3 or "Average" to the property. Morningstar uses a scale of 1 to 5, with "1" being the highest quality. Factors including the property's age, location, and condition are considered in assigning the quality score. After assigning a quality score to the property, Morningstar then factors the score into the assignment of our capitalization rate.

**The Bears Say**

- Significant tenant exposure: The largest tenant, Interpublic Group of Companies, Inc. (IPG), accounts for 44.8% of the total square footage and 43.2% of Morningstar's total base rent, and has a lease that expires within the loan term in 2021. IPG, which has been in the building since 2000, is in the process of completing a $40 million renovation ($89 per square foot) of its space, and there is a full cash-flow sweep that begins 24 months prior to IPG's lease expiration (which the borrower can avoid by posting cash or a letter of credit). IPG's rent is below market.

- Major tenant vacating: Canadian Imperial Bank of Commerce (CIBC), a major Canadian bank which leases 116,429 square feet (131,000 square feet including the new direct lease to C. McDermott that commences 10/1/13), subleases all of its space and does not intend to renew its lease at expiration in September 2013. CIBC consolidated its U.S. regional operations in another building a few blocks away. CIBC accounts for 11.6% of the net rentable area (116,429 square feet) and 15% of the aggregate base rent. CIBC continues to make payments under the terms of its lease. Morningstar marked CIBC's in-place rent of $65.75 per square foot to the market rate of $52.00 per square foot.

- Smaller floor plates: Like many of the buildings in the Grand Central District, Grand Central Plaza is an older building with comparatively small floor plates, and these smaller floor plates (in the 22,600 to 30,000 square foot range) are a competitive disadvantage, according to the appraiser. Over the last few decades newer development along Park Avenue and Third Avenue has forced a movement of companies' headquarters toward the Plaza District to the north, where more modern buildings fulfill the technological needs of corporate tenants. However, the Grand Central District has remained competitive by offering tenants lower profile space that is both less expensive and conveniently located in Midtown. According to Reis, average asking rents in the Plaza submarket are $87 per square foot, compared to $65 in the Grand Central submarket.

- Interest-only period: The loan is interest only for the first seven years of the loan term and the lack of amortization early in the loan term may result in higher refinance risk at maturity. However, this risk is mitigated by the low Morningstar's low beginning and ending LTVs of 68.0% and 58.5%.

- Substantial return of equity to sponsor: Based on the $325 million financing ($275 million first mortgage plus $50 million mezzanine loan), there was roughly $65.3 million of proceeds available for a return of capital to the sponsors (20.1% of the total financing).

- Additional debt: This transaction includes a $50 million mezzanine loan.

**The Bulls Say**

- Central location: The property is located in the heart of the Grand Central District in Midtown Manhattan. It sits on the western side of Third Avenue between 40th and 41st Streets, steps from Grand Central Terminal and close to dozens of major corporate headquarters, the United Nations and Bryant Park.

- Proximity to Grand Central Terminal: The property's proximity to Grand Central Terminal is a key competitive advantage in the submarket. Grand Central Terminal serves a wide variety of travelers, including commuters from upstate New York and Connecticut, New York City residents from the outer boroughs, as well as local Manhattan residents. Grand Central Terminal is also a central hub for New York City's subway system and the Times Square shuttle operates between Times Square and Grand Central, and provides service for Manhattan's West Side subway riders and commuters arriving by bus from New Jersey.

- Upfront rollover reserves: The borrower funded an upfront $8.0 million tenant improvement and leasing commissions rollover reserve to cover the costs of re-tenanting the space being vacated by CIBC (Canadian Imperial Bank of Commerce) and Marks Paneth & Schron.

- Cash-flow sweep: A full cash-flow sweep is to begin 24 months prior to IPG's lease expiration in 2021. In lieu of the cash flow sweep, the borrower may post reserves to the TI/LC rollover reserve such that the total funds on deposit are $31.5 million.

- Potential cash flow upside: According the borrower, they are in final negotiations with several institutional tenants for a lease or leases that would backfill the Marks Paneth & Schron space and a portion of the CIBC space. However, Morningstar did not given any credit for this potential income in its analysis. Should the space formerly occupied by Marks Paneth & Schron be re-leased at a market rate, the property would generate an additional $3.75 million in annual base rent.

- Below market rents: Average rents for tenants in floors 12-39 are below market according to the appraisal. Morningstar underwrote to the in-place base rent for these floors.

- Ongoing reserves: The loan is structured with ongoing monthly reserves for taxes, insurance, capital expenditures, and tenant improvements and leasing commissions.

- Significant building upgrades: After acquiring the property in 1998, the sponsor spent $80 million on a gut-renovation of the property; over the last three years the sponsor spent an additional $15.5 million in capital improvements and tenanting improvements.

# Property / Collateral Summary

The loan is secured by the fee simple interest in a 39-story class A office property located in Midtown Manhattan. The multi-tenant building has contains roughly 1.0 million square feet, including 969,801 square feet of office space and 37,276 square feet of retail space. The property, known as Grand Central Plaza, is located on the westerly block of Third Avenue between East 40th and East 41st Streets in the Grand Central District. The property was built in 1973, and beginning in 1998 underwent a complete redesign and repositioning from its original design to include the expansion of the lobby area and revitalized public spaces. The property has relatively small floor plates in the 26,000 to 32,000 square foot range.

The building is comprised of structural steel and concrete with a stainless steel and glass facade. Ceiling heights range from 35 feet in the lobby and 11 feet 6 inches in office areas with typical finished office ceiling heights of around 8 feet 6 inches. The property offers three points of entry, with the primary entry directly off Third Avenue and secondary entrances on 40th and 41st streets. The property features retail along 3rd Avenue, 40th Street, and 41st Street and offers a two-story elevated outdoor plaza that is a popular amenity.

The ground floor includes retail space and the lobby. The lobby opens to an open air public space that connects 40th and 41st Streets. The public area consists of an outdoor plaza and roof garden. The building is also designed with a lower level that includes storage areas available to tenants.

The largest retail space is located on the corner of Third Avenue and East 40th Street and six additional retail spaces are on East 40th and East 41st Street. The larger space contains 17,000 square feet and is leased to Zengo NYC, LLC on the mezzanine, grade and lower level. Zengo NYC is a contemporary Latin restaurant owned by famed chef Richard Sandoval. Sandoval owns 30 restaurants worldwide. The side-street retail is leased to Sterling National Bank, Public House NYC, Jason & Joseph Corp (Café O), and 16 For 8 Hospitality LLC (Num Pang sandwich shop).

### Tenant Overview

The table below shows property's top-10 direct tenants (based on leased area) and their base rent, according to a rent roll dated December 2012 (although the February 2013 occupancy is reportedly unchanged since December). The top-10 tenants account for 84.0% of the building's net rentable area and 84.0% of the total base rent.

| 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 |
| Interpublic Group of Cos. | 451,118 | 44.8% | $22,100,341 | $48.99 | 43.2% | Sep-21 |
| CIBC | 116,429 | 11.6% | $7,655,311 | $65.75 | 15.0% | Sep-13 |
| Cooper Square Realty | 66,500 | 6.6% | $2,660,000 | $40.00 | 5.2% | Mar-22 |
| Third Avenue Holdings DE | 52,000 | 5.2% | $2,340,000 | $45.00 | 4.6% | Aug-22 |
| TMP Worldwide | 52,000 | 5.2% | $2,496,000 | $48.00 | 4.9% | Sep-15 |
| Unicredit Bank, AG | 35,500 | 3.5% | $2,144,000 | $60.39 | 4.2% | Feb-15 |
| J. Frank Associates | 26,500 | 2.6% | $1,219,000 | $46.00 | 2.4% | Dec-23 |
| Zengo NYC | 17,000 | 1.7% | $775,000 | $45.59 | 1.5% | Sep-22 |
| Islamic Republic of Iran | 15,000 | 1.5% | $765,000 | $51.00 | 1.5% | Feb-13 |
| C. McDermott (Former CIBC) | 14,571 | 1.4% | $859,689 | $59.00 | 1.7% | Jul-17 |
| **Top 10 Subtotal** | **846,618** | **84.0%** | **43,014,341** | **$50.81** | **84.0%** | **Dec-19** |

### Major Tenants

*Interpublic Group of Companies, Inc* The Interpublic Group (NYSE: IPG, rated BB by Morningstar) is one of the world's largest advertising and marketing services companies, with hundreds of communication agencies around the world. Interpublic's largest agencies include McCann Worldgroup, Draft FCB Group, and Lowe Worldwide. IPG controls large media buyers, which include Initiative, MAGNA Global, and Universal McCann. Interpublic's agencies employ more than 40,000 people in more than 100 countries. The tenant represents 44.8% of the property's square footage and 43.2% of the subject's base rent. IPG is in the process of completing an approximately $40 million renovation of its space. Total revenue for fiscal year 2011 increased by 7.8 percent over the prior year to $7.0 billion. Net income for the year rose 96.1 percent to $552.0 million. Interpublic Group's net income growth from 2010 to 2011 was driven by its increase in revenues while keeping the growth of its operating expenses minimal. Recently, IPG reported $6.96 billion in revenues and $678.3 million in net income for fiscal year-end 2012 .

*Canadian Imperial Bank of Commerce (CIBC)* CIBC is one of Canada's chartered banks, fifth largest by deposits. The bank is headquartered at Commerce Court in Toronto, Ontario with international offices in the US. The bank consolidated its United States regional operations to another New York office buildings a few blocks away and is subleasing all of its space. Christopher McDermott, one of the sublease tenants, recently signed a direct lease for 14,571 square feet on the 35th floor. All of the remaining leases expire in September 2013.

*Cooper Square Realty* Cooper Square Realty is the largest residential property management company in New York City. The company is a full service property management company that provides property management, project management and energy management services for over 500 condominiums, co-ops and apartment buildings in the city. Cooper Square Realty also holds an interest in the concierge company Abigail Michaels Concierge, which serves more than 50,000 clients. In addition to property management, Cooper Square also offers project management and energy management services. Cooper Square Realty is a subsidiary of FirstService Residential Management (FSR), which is a subsidiary of the publicly traded FirstService Corporation. FSR is the largest manager of residential communities in North America, overseeing more than 5,600 properties and over 1.3 million residential units across 19 U.S. states and three provinces in Canada. Properties managed include low-, mid- and high-rise condominiums and co-operatives as well as large scale master-planned and active adult communities. In addition, it manages residential rental and REO properties for institutional and private equity clients. FirstService generates annual revenues of over $2.2 billion and employs more than 20,000 people around the world. Cooper Square was founded by David Kuperberg in 1987.

*Third Avenue Holdings DE* Third Avenue Holdings was founded by Martin Whitman and offers investment advisory services to institutional and private clients through a variety of investment funds. Including predecessor funds, Third Avenue has been in the asset management business since 1986. The firm manages five funds and offers separate account management to institutional investors. Third Avenue Holdings is owned by Affiliated Managers Group a publicly traded (Nasdaq: AMG, rated BBB- by Morningstar) global asset management company. Affiliated Managers Group owns stakes in a loosely affiliated group of small-to-midsize boutique asset managers. It typically buys a majority interest in these firms, and receives a fixed percentage of revenue in return. These affiliates operate independently, with AMG providing strategic, operational, marketing, and distribution support. Through these managers, AMG offers a wide variety of investment strategies to individual, institutional, and high net-worth investors. The company has a current market capitalization of $7.3 billion as of January 23, 2013.

*TMP Worldwide, Inc* TMP Worldwide was founded in 1967 and is an independent recruitment advertising agency specializing in tailoring employment messages for large corporations and creating consistent strategies to attract employees. In 2006 TMP was acquired from Monster.com by VSS Worldwide a 32-year old, private equity and mezzanine capital fund management company that focuses on media investments. TMP Worldwide went public in 1996 and remains headquartered in the subject property. The global company has over 50 locations worldwide including 18 locations in the United States. TMP's clients include ESPN, Wal-Mart, Verizon and the Department of Veterans Affairs.

*UniCredit Bank, AG* UniCredit Bank AG is one of the largest banks in Germany, and operates as a subsidiary of the Italian financial services group UniCredit SpA. The parent company (which was formed through a large merger in 1998) works through the following divisions: retail banking (which includes UniCredit Bank AG, and banks in Italy, Austria, and Poland); a corporate and investment banking division; a private banking arm; and a Central and Eastern Europe division. UniCredit expanded quickly through mergers during the 2000s and was impacted heavily by the recession. UniCredit Bank AG is investment rated.

*J. Frank Associates* J. Frank Associates, LLC, also known as Joelle Frank or Joelle Frank, Wilkinson, Brimmer, Katcher, is a strategic communications firm headquartered in New York City. Joelle Frank provides its clients with counsel and support across the entire communications discipline, including public relations and investor relations. Founded in 2000, the firm employs 27 professionals at its New York City office. As a small private company, Joelle Frank does not publish detailed financial statistics nor is rated by any of the major credit agencies.

**Lease Expiration and Rollover**

Prior to 2021 lease rollover is relatively benign. In 2021, leases covering 47.0% of the net rentable space will roll, including that of the largest tenant, Interpublic Group of Companies, Inc., with accounts for 44.8% of the total NRA. Interpublic's rollover risk is mitigated by the fact that the tenant is in the process of completing a $40 million renovation of its space in the property. The remaining space rolling in 2021 consists of a small office tenant (Mineral Technologies - 14,113 square feet) and two small retail tenants totaling 8,116 square feet. Mineral Technologies has been at the property since April 2010.

In 2022, there are five tenants rolling for a total of 147,300 square feet (or 14.6% of the net rentable area). The majority of this space is comprised of office space leased by Cooper Square Realty (66,500 square feet), Third Avenue Holdings DE (52,000 square feet), and retail space leased by Zengo NYC (17,000 square feet).

| Year of Expiration | # of Tenants | Sq. Ft. Expiring | Cumulative Sq. Ft. Expiring | % of Total Sq. Ft. | Rent Sq. Ft. Expiring | Total In-place Base Rent Expiring | Cumulative Rent Expiring | % of Total Rent |
|---|---|---|---|---|---|---|---|---|
| MTM | 0 | 0 | 0 | 0.0% | - | $0 | $0 | 0.0% |
| 2013 | 3 | 119,441 | 119,441 | 11.9% | $65.62 | $7,837,243 | $7,837,243 | 15.3% |
| 2014 | 0 | 0 | 119,441 | 0.0% | - | $0 | $7,837,243 | 0.0% |
| 2015 | 3 | 96,860 | 216,301 | 9.6% | $51.52 | $4,990,000 | $12,827,243 | 9.7% |
| 2016 | 1 | 5,500 | 221,801 | 0.5% | $43.00 | $236,500 | $13,063,743 | 0.5% |
| 2017 | 6 | 50,433 | 272,234 | 5.0% | $51.17 | $2,580,639 | $15,644,382 | 5.0% |
| 2018 | 0 | 0 | 272,234 | 0.0% | - | $0 | $15,644,382 | 0.0% |
| 2019 | 1 | 4,979 | 277,213 | 0.5% | $58.50 | $291,272 | $15,935,654 | 0.6% |
| 2020 | 0 | 0 | 277,213 | 0.0% | - | $0 | $15,935,654 | 0.0% |
| 2021 | 4 | 473,347 | 750,560 | 47.0% | $49.17 | $23,275,566 | $39,211,220 | 45.5% |
| 2022 | 5 | 147,300 | 897,860 | 14.6% | $44.32 | $6,528,000 | $45,739,220 | 12.7% |
| 2023 | 1 | 26,500 | 924,360 | 2.6% | $46.00 | $1,219,000 | $46,958,220 | 2.4% |
| 2024+ | 0 | 0 | 924,360 | 0.0% | - | $0 | $46,958,220 | 0.0% |
| **Totals / Wtd Avg.** | **24** | **924,360** | **n/a** | **91.8%** | **$50.80** | **$46,958,220** | **n/a** | **91.7%** |

# Market Overview

Grand Central Plaza is located in Midtown Manhattan in the Grand Central District. This area of Midtown takes its name from the world famous transportation hub, Grand Central Terminal, or simply Grand Central. According to the appraisal, The Grand Central District is Midtown Manhattan's oldest office district, evidenced by the age of many of its well-known buildings, some of which date to the 1920s. The Grand Central District is bound by 32nd Street to the south and 47th and 49th Streets to the north and runs between Fifth Avenue and the East River.

Grand Central Plaza is close to Grand Central Terminal, which services a wide variety of travelers, including commuters from upstate New York and Connecticut, New York City residents from the outer boroughs, as well as local Manhattan residents. The Metro North Commuter Railroad is an extensive transportation network with three lines serving New York City's suburban population. The Hudson Line runs along the Hudson River and makes stops in Poughkeepsie, 80 miles north of New York City. The New Haven Line is the branch serving Connecticut's south shore through New Haven. The Harlem Line runs north of New York City, making stops in the Bronx, Westchester County, Putnam County, Dutchess County, and ending in Dover Plains.

Grand Central Terminal is also a central hub for New York City's subway system. Travelers on Manhattan's East Side utilize the IRT Lexington Avenue subway, which makes express and local stops at Grand Central. The IRT Flushing line provides service from Queens to Times Square on Manhattan's West Side, with stops at Grand Central. The Times Square shuttle operates between Times Square and Grand Central, and provides service for Manhattan's West Side subway riders and commuters arriving by bus from New Jersey.

According to the travel magazine Travel + Leisure's October 2011 survey, Grand Central Terminal is "the world's number six most visited tourist attraction", bringing in nearly 22 million visitors annually.

The Grand Central District contains a number of tourist attractions, including Grand Central Terminal, the New York Public Library, the Chrysler Building, the United Nations, and the Empire State Building. Hotels in the Grand Central District include the Grand Hyatt, the Roosevelt Hotel, the Doral Tuscany, Doral Park, the Helmsley Hotel, and the UN Plaza Hotel. Retail attractions close to the Grand Central District include Lord & Taylor, Macy's flagship store at Herald Square, and the Manhattan Mall at Greeley Square. Notable dining within the Grand Central District can be found at the famous Oyster Bar at Grand Central Terminal, the Ambassador Grill at the UN Plaza Hotel, and at two steak houses on 46th Street, Spark's and Christ Cella.

According to Reis, the property is located in the Grand Central submarket within the broader New York market. The submarket is bound by East River on the East, 51st Street to the north, 31st Street on the south and 6th Avenue on the west. Reis tracks 113.2 million square feet of office space in the submarket. The average asking rent in the submarket was $65.00 per square foot in the fourth quarter, the second highest among the submarkets, with effective asking rents of $53.64 per square foot. The mean vacancy rate in the submarket was 9.6%. As of the fourth quarter, asking rent for class A properties averaged $74.96 per square foot and Class B/C properties averaged $47.52 per square foot, according to Reis. These rents were markedly higher than those found in the broader New York market where mean asking rents were $59.30 per square foot in the fourth quarter. The overall vacancy rate in the broader market was 9.9% at year end.

According to Reis, the average New York asking rent increased 3.9% during the year to $59.30 per square foot in the fourth quarter, while the average effective rent rose 4.6% to $48.86 per square foot. The fourth quarter increase was 1.4% by both measures. The Class A asking average of $72.06 per square foot was up 3.8% over the year, while the Class B/C asking average of $42.93 per square foot was up 3.7%. In 2013, Reis predicts office rents in New York will rise by 3.8% for class A properties and 4.3% for B/C properties. Reis also expects average asking rents for office buildings to reach a new high in 2016 and effective rents to peak in 2017.

The vacancy rate fell 120 basis points in 2012 on 1.25 million square feet of positive net absorption. In the fourth quarter net absorption totaled 452,000 square feet and the vacancy rate fell 40 basis points. The year-end cyclical high was in 2009 when vacancy was 11.6% in the market and the prior low was 5.7% in 2007. Reis predicts the vacancy rate will continue to trend downward for the next few years, but at a very slow pace compared with past recoveries. It is forecasted to fall to 9.6% in the New York market by the end of 2013, and to 8.9% at the end of 2017. For the submarket, Reis is forecasting vacancy to fall another 40 basis points to 9.2% at the end of 2013 and another 70 basis points to 8.9% at the end of 2017.

Reis's prediction of higher asking rent and lower vacancy is noteworthy given the large amount of new space now under construction. Between 2013 and 2018 Reis expects upwards of 17.5 million of new supply, the largest addition to inventory since the late 1980s. Most of the new supply will be concentrated in the less prime Downtown and far West Side submarkets, with the World Trade Center site alone accounting for 9.2 million square feet of new space. Reis expects annual net absorption to average about 3.9 million square feet per year in the broader New York market. On the other hand, inventory losses will also be part of the overall equation, as a strong housing market may encourage more office space to be converted to apartments or condominiums.

In terms of property sales, the Grand Central submarket held the top spot in 2012 according to Reis, with aggregate sales of $1.8 billion, or an average of $605 per square foot.

The appraiser identified 29 buildings that compete with the property; many of the competitive buildings are located along Third Avenue and the surrounding streets. Of the 29 buildings surveyed, eight were considered directly competitive with the subject in terms of building classification, asking rents, rentable office area and current occupancy.

| Name - City | Total NRA | Occy | Asking Rent Low | Asking Rent High |
|---|---|---|---|---|
| Subject Building | 1,007,389 | 91.76% | - | - |
| 600 Third Avenue, NYC, NY | 495,000 | 94.00% | $62.00 | $62.00 |
| 605 Third Avenue, NYC, NY | 802,675 | 91.21% | $55.00 | $55.00 |
| 633 Third Avenue, NYC, NY | 925,000 | 93.00% | $45.00 | $45.00 |
| 655 Third Avenue, NYC, NY | 335,513 | 88.11% | $54.00 | $58.00 |
| 675 Third Avenue, NYC, NY | 265,411 | 87.11% | $54.00 | $60.00 |
| 708 Third Avenue, NYC, NY | 310,000 | 85.90% | $55.00 | $72.00 |
| 711 Third Avenue, NYC, NY | 546,299 | 95.67% | $53.00 | $57.00 |
| 730 Third Avenue, NYC, NY | 407,000 | 100.00% | N/A | N/A |
| **Total Excluding Subject** | **4,086,898** | **92.50%** | **$52.97** | **$55.79** |

Source: Cushman & Wakefield

The average asking rents for the eight buildings directly competitive with the subject range from $45.00 to $72.00 per square foot, gross. The average occupancy rate for these eight directly competitive buildings was 92.5% compared to all 29 of the competitive buildings. This compares favorably with the average office occupancy rate of 90.4% and 91.0% for Class A properties within the Grand Central submarket.

# Morningstar Analysis

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

## Morningstar Estimate of Net Cash Flow

### *Gross Potential Rent*

Gross potential rent is based on the rent roll dated December 18, 2012 and includes contractual rent increases through September 2013. Our concluded market rents are based on an analysis of recent leasing at the property, the appraiser's conclusions of market rent, and comparable rental information provided within the appraisal and other market sources. Morningstar's weighted average rent for the property was $49.10 per square foot, slightly lower than the in-place rent of $50.80 per square foot. The issuer underwrote average rent at $50.83 per square foot ($49.24 with the mark to market).

### *Vacancy and Concessions*

According to Reis and other market sources, as well as data provided by the appraiser, the market vacancy in the Grand Central submarket is 9.6%, slightly better than the 9.9% vacancy for the broader New York market. Our underwritten physical vacancy rate is 8.3% based on the current leasing and the rent roll. Our adjusted economic vacancy rate is 11.8%.

### *Other Income*

Expense Reimbursements – The majority of the leases are structured as modified-gross-plus-electric with a few structured as gross leases. Morningstar underwrote expense reimbursements based on the reimbursements in place on the rent roll dated December 18, 2012. Morningstar also backed out recoveries for CIBC and Marks Paneth & Shron (shown as $1.6 million under the line item Vacancy Loss Other Incomes).

Other Income– Morningstar underwrote other income based on the TTM (11/30/12) with the exception of Porters Wage Escalations and Electrical Income, which are based on the appraisal and takes into account future down time associated with the CIBC and Marks Paneth & Schron spaces, consistent with the issuer's underwriting.

### *Operating Expenses*

Morningstar's expenses are underwritten in line with the historical financials unless as noted below:

Real Estate Taxes – Morningstar underwrote real estate taxes based on the appraiser's estimate of 2013 taxes at $14,040,671, including business improvement district (BID) taxes of $178,301.

Management Fees – Morningstar underwrote management fees based on a 3-year weighted average of historical management fees, or 3.1% of the effective gross income (EGI) of the property. Morningstar typically assumes a management fee to be the higher of the actual contract and a minimum of 3% of EGI. The contract rate is 4.0% of the effective gross income and the property owner currently acts as managing agent for the property. The information initially provided by the arranger stated that all management fees in excess of $1.0 million per year would be subordinated to the first mortgage. However, just prior to securitization, we were given updated information that stated that management fees in excess of $1.25 million would be subordinated. Although the change did not have an impact on our underwritten management fee, it would have impacted our value slightly, but not our initial ratings. See Morningstar Valuation for a discussion of that analysis.

### *Capital Expenses*

Tenant Improvements – Morningstar underwrote new tenant improvements (TI) at approximately 75% of the base rent based on an analysis of recent comparable leasing packages provided in the appraisal. This is slightly more conservative than the appraiser's estimate of $50.00 per square foot for new office tenants and $25 for renewals, and $45.00 per square foot for new minor office tenants and $22.50 per square foot for renewal leases.

Leasing Commissions – Morningstar underwrote leasing commissions at 4% for new leases and 2% for renewal leases for all tenants assuming a 10-year lease term.

Capital Reserve – According to the Property Condition Report, the engineer's recommended reserves were $0.15 per square foot (inflated). Morningstar underwrote $0.25 per square foot per year.

## Morningstar Valuation

Morningstar estimated the value of the asset based the income capitalization approach to value. The Morningstar base capitalization rate for the New York office market was 7.40%; this base capitalization rate was adjusted to reflect the location, quality, and condition of the property relative to the overall market, resulting in an adjusted capitalization rate of 7.0%, and a value of $395.9 million. Morningstar's also considered the management fee, as well as the $8.0 million upfront reserves for TI/LC costs. At the time of our analysis we were under the assumption that all management fees in excess of $1.0 million per year would be subordinated to the first mortgage. Just prior to securitization, we were informed that management fees in excess of $1.25 million are subordinated. We calculated management fees based on historical expenses, estimating the fee to be $1.84 million. Based on our initial assumption, we estimated the non-subordinated management fee expense over $1.0 million to be $842,704. Because management fees are often reimbursable, Morningstar adjusted that by the reimbursement ratio of 36.7%. Therefore $525,566 was added back to the adjusted net cash flow and this adjusted NCF was capitalized at our adjusted 7.0% cap rate. Finally we added $8.0 million to our capitalized value to give credit for the upfront TI/LC reserves. Morningstar's final adjusted value is $404.5 million, or $402 per square foot. Our value would have been slightly lower had we relied on $1.25 million as the threshold for that portion of management fees that is subordinate to the mortgage. However, this would not have impacted our ratings.

Capitalization rates are estimated quarterly by Morningstar for the office market in each region and major metropolitan area based on 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.

| | Morningstar Underwriting | 2010 | 2011 | TTM 11/30/12 | Issuer Underwriting |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Gross Potential Rent | $49,459,974 | $43,825,389 | $43,497,982 | $47,591,502 | $49,600,657 |
| Less: Vacancy Loss (GPR) | (4,116,757) | 0 | 0 | 0 | (5,963,042) |
| 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** | **$45,343,217** | **$43,825,389** | **$43,497,982** | **$47,591,502** | **$43,637,615** |
| Expense Reimbursement | $10,320,286 | $8,314,140 | $7,558,436 | $8,325,890 | $10,320,286 |
| Percentage Rent | 0 | 0 | 0 | 0 | 0 |
| Other Income | 5,177,704 | 4,435,827 | 4,982,871 | 5,870,872 | 5,177,704 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Less: Vacancy Other Incomes | (1,599,488) | n/a | n/a | n/a | n/a |
| **Effective Gross Income** | **$59,241,718** | **$56,575,356** | **$56,039,289** | **$61,788,264** | **$59,135,604** |
| **Expenses** | | | | | |
| Real Estate Taxes | $14,040,671 | $13,188,807 | $12,056,437 | $12,129,772 | $13,791,583 |
| Property Insurance | 720,000 | 645,897 | 647,224 | 790,235 | 720,000 |
| Utilities | 4,632,440 | 5,058,984 | 4,911,448 | 4,632,440 | 4,632,440 |
| Repairs and Maintenance | 588,967 | 506,939 | 604,729 | 566,813 | 566,813 |
| Contract services | 1,203,725 | 1,145,169 | 1,061,702 | 1,158,446 | 1,158,446 |
| Management Fees | 1,842,704 | 1,702,614 | 1,686,331 | 1,984,444 | 1,250,000 |
| Payroll & Benefits | 3,647,195 | 3,317,354 | 3,829,240 | 4,177,990 | 3,647,195 |
| 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 | 747,522 | 704,993 | 879,463 | 747,522 | 747,522 |
| 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** | **$27,423,224** | **$26,270,757** | **$25,676,574** | **$26,187,662** | **$26,513,999** |
| **Net Operating Income** | **$31,818,494** | **$30,304,599** | **$30,362,715** | **$35,600,602** | **$32,621,605** |
| **Capital Items** | | | | | |
| Leasing Commissions | $1,541,354 | $0 | $0 | $0 | $623,781 |
| Tenant Improvements | 2,793,746 | 0 | 0 | 0 | 1,397,617 |
| Capital Expenditure / Reserve | 251,847 | 0 | 0 | 0 | 251,847 |
| Extraordinary Capital Expenditures | 0 | | | | |
| - Credit For TI Reserve | 0 | | | | |
| - Credit For LC Reserve | 0 | | | | |
| - Credit For TI/LC Reserve | (533,333) | | | | |
| - Credit For Cap Ex Reserve | 0 | | | | |
| **Total Capital Items** | **$4,053,614** | **$0** | **$0** | **$0** | **$2,273,245** |
| **Credit for Upfront DSCR Escrow** | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$27,764,880** | **$30,304,599** | **$30,362,715** | **$35,600,602** | **$30,348,360** |

# Loan Summary

### Loan Description

Ladder Capital Finance LLC funded on February 11, 2013 a 15-year, fixed-rate, first-lien mortgage loan that has a current principal balance of $275 million to 622 Third Avenue Company LLC. Interest on the outstanding principal balance of the loan accrues at a rate equal to 5.11180% per year. The loan is evidenced by a single promissory note and is secured by the borrower's fee simple interest in the collateral property. The loan is scheduled to mature on February 11, 2028.

The proceeds of the loan were used to refinance the existing $245.9 million mortgage encumbering the property, return roughly $65.3 million of equity to the property owner, fund various reserves accounts and pay closing costs.

| Sources & Uses | | | | | |
|---|---|---|---|---|---|
| Sources of Funds | Proceeds | % of Total Capitalization | Uses of Funds | Proceeds | % of Total Capitalization |
| First Mortgage Loan | $275,000,000 | 84.6% | Existing Debt | $245,867,129 | 75.7% |
| Mezzanine Loan | $50,000,000 | 15.4% | TI/LC Reserve | $8,000,000 | 2.5% |
| | | | Taxes & Insurance Reserves | $3,507,946 | 1.1% |
| | | | Closing Costs | $2,279,945 | 0.7% |
| | | | Return of Equity | $65,344,981 | 20.1% |
| **Total Sources** | **$325,000,000** | **100%** | **Total Uses** | **$325,000,000** | **100%** |

### Borrowers/Sponsors

The mortgage loan borrower is 622 Third Avenue Company LLC, a New York limited liability company and a special-purpose bankruptcy-remote entity whose primary business is the performance of its respective obligations under the loan documents and the ownership and/or operation of the mortgaged property. The borrower is required to observe certain single-purpose entity covenants.

The borrower is owned and controlled by Charles S Cohen, the President and CEO of Cohen Brothers Realty Corporation (CBRC). CBRC is a private real estate development and management firm with more than 50 years of experience. CBRC's real estate holdings encompass more than 12 million square feet. Its New York portfolio is comprised of eight class A office towers in Midtown Manhattan. In addition, CBRC owns class A properties in Los Angeles, Miami, Houston, and south Florida.

The property is managed by a borrower-affiliated entity called Cohen Brothers Realty Corporation at a contract rate of 4.0%. However, management fees in excess of $1.25 million per year are subordinated to the mortgage loan.

### Mezzanine Loan

The mezzanine loan agreement (dated February 11, 2013) is between 622 Third Property Company LLC (the mezzanine loan borrower) and Ladder Capital Finance Portfolio II LLC (the mezzanine lender). It is evidenced by a promissory note in the outstanding principal amount of $50 million. The mezzanine loan accrues interest at 5.9515% per year. The mezzanine loan is interest-only for the first seven years followed by eight years of amortization on a 360-month schedule. The entire principal balance of the mezzanine loan is due and payable on February 11, 2028.

The mezzanine borrower is permitted to prepay the mezzanine loan in whole but not in part on or after the prepayment lockout expiration date. Such payment must be accompanied with the payment of the yield maintenance premium if such prepayment occurs before the open prepayment date. The mezzanine borrower is permitted to make voluntary prepayments of the mezzanine loan without any obligation of the borrower to make voluntary prepayments of the mortgage loan.

## 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.

### Cash Management

The loan documents require borrower to establish a lockbox account and a cash management account both under the control of the lender. Borrower is required to deposit or cause to be deposited rents into the lockbox account. Funds in the lockbox account are to be transferred to the cash management account each business day. Funds in the cash management account are to be applied pursuant to the waterfall provided in the loan documents. While not preferred, the waterfall priorities do provide for certain portions of the management fee to be subordinate to mezzanine debt service payments. In addition, default interest and servicing fees are subordinate in priority to broad operating expense priorities. However, after an event of default, lender may apply funds in the cash management account in its discretion.

### Additional Indebtedness

Certain equity owners of the borrower have incurred mezzanine debt in the amount of $50 million. The mezzanine loan is coterminous with the senior loan, however, the mezzanine loan is pre-payable without a corresponding payment on the senior loan. The mezzanine loan is subject to an intercreditor agreement. Though payments on the mezzanine debt are generally subordinate to the mortgage loan held by the trust, the presence of additional debt introduces risks to the senior debt including:

- reduced borrower skin-in-the-game that may remove incentives to maintain or improve the competitiveness of the properties resulting in lower income streams;
- the presence of additional debt increases the difficulty of refinancing a mortgage loan at the maturity date;
- an incentive to use excess cash to prepay the mezzanine loan in lieu of property maintenance and improvements.

The mezzanine intercreditor agreement contains certain mezzanine lender rights, including, without limitation, cure rights, purchase option, consultation and certain consent rights. For monetary defaults, the intercreditor agreement provides the mezzanine lender until the later of (x) 5 business days after receipt of the senior loan default notice and (y) 10 business days after the expiration of the borrower's cure period. For non-monetary defaults, the intercreditor agreement provides the mezzanine lender until the later of (x) 10 business days after receipt of a senior loan default notice and (y) 20 business days after the expiration of borrower's cure period, provided that the non-monetary cure period may be further extended in certain circumstances as described in the intercreditor agreement.

The intercreditor agreement includes mezzanine lender consent and/or consultation rights with respect to budget approvals replacement of the property manager, alterations, leases and other property agreements. Further, the intercreditor agreement includes certain provisions that could delay senior lender rights in bankruptcy proceedings of borrower for 30 days (or such later cure period as provided in the intercreditor agreement). In addition, the intercreditor agreement requires the senior lender to provide notice to mezzanine lender and wait 5 business days prior to accepting a deed in lieu of foreclosure. Such consent, consultation and other rights, including rights to delay certain senior lender remedies, may limit and/or delay senior lender's workout of the loan, remedies, the timing for modifications of the loan and a sale of the loan.

### SPE and Bankruptcy Remoteness

The borrower (and its managing member) are required under the loan documents and their organizational documents, respectively, to maintain itself as a special purpose entity generally limited in its activities (with respect to borrower, to ownership and operation of the mortgaged property and with respect to managing member, to ownership of its interest in the borrower). The loan documents and borrower's (and its managing member's) organizational documents also include limitations on the borrower's (and its managing member's) ability to incur additional indebtedness and additional covenants regarding the borrower's (and its managing member's) separateness from other entities. The borrower (or its managing member) is also required to have independent managers whose consent is required for certain bankruptcy matters. Although the loan documents and organizational documents require the borrower (and its managing member) to comply with certain covenants relating to the borrower's separateness, and the borrower makes certain representations regarding its (and its managing member's) previous existence, the borrower (and its managing member) existed prior to the origination of the loan. While pre-existing entities present a higher risk than newly formed single purpose entities, a nonconsolidation opinion relating to the borrower (and its managing member) was provided.

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

**Repurchase Obligation**

The mortgage loan seller may be required to repurchase the mortgage loan from the trust due to a material breach of a representation or warranty or a document defect. Alternatively, in this transaction the mortgage loan seller may indemnify the trust for losses directly related to such material breach or document defect. However, there is no assurance that the holder(s) of such repurchase obligation (and/or any guarantor of any such obligation) will have sufficient assets at such time to fulfill its obligation to repurchase the loan or provide such indemnity. Also, such indemnity may not provide certificateholders with a remedy equivalent or comparable to such a repurchase.

## Reserve Accounts / Payments

**Upfront Reserves**

The borrower funded the following reserves at closing:

(1) Rollover reserve - $8.0 million for future leasing costs at the property;

(2) Tax reserve - $3,447,946 for taxes; represents three months of monthly escrows.

(3) Insurance reserve - $60,000 for insurance premiums; represents one-twelfth of the annual insurance cost.

**Ongoing Reserves**

The loan documents require the following ongoing monthly reserves:

(1) Taxes and insurance reserves – monthly reserves of one-twelfth of the annual costs for taxes and insurance;

(2) Replacement reserves – monthly reserves of $20,835;

(3) Rollover reserve – monthly reserve of $166,000.

# Third Party Reports

### Appraisal

An appraisal report was prepared by Cushman & Wakefield, an independent third-party appraisal firm. The report is dated January 28, 2013. The appraised "as-is" value of the collateral property is $630,000,000.

### Property Condition Report

A property condition report (PCA) was prepared by IVI Assessment Services, Inc., an independent third-party engineer. The report was dated January 16, 2013. The PCA identified immediate repairs in the amount of $25,000 and short term repairs of $834,500. Immediate repairs include $17,500 to investigate and repair chronic leak at the electrical switchgear room, $2,500 to repair Outside Screw and Yoke (OS&Y) valves at fire pump and $5,000 to utilize expeditor to clear open building code violations (mostly elevator) on file with the municipalities. Short term repairs (less than 1 year) include $800,000 for the completion of ongoing facade repair work. According to the report, the project is fully budgeted. The report recommended ongoing inflated reserves equivalent to $0.15 per square foot per year to provide sufficient funds to complete ongoing maintenance and repairs on the structure.

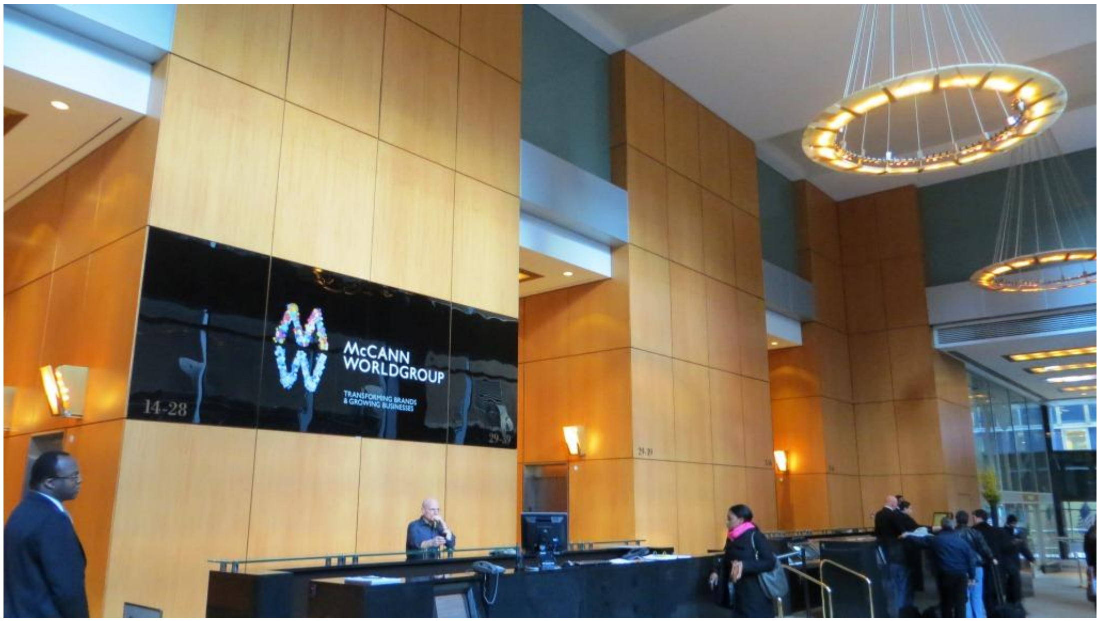
### Phase I Environmental Report

A Phase I Environmental Site Assessment was completed by IVI Assessment Services, Inc. on January 16, 2013. The report did not identify any Recognized Environmental Conditions. However, the consultant did identify an environmental concern with Asbestos-Containing Material (ACM). Spray-on fireproofing was observed on structural beams throughout the subject property. Samples were taken and the analysis did not identify any asbestos, however did have a material identified as containing 20% vermiculite. According to records, vermiculite obtained from certain mines in Montana prior to 1990 has the potential to have been contaminated with asbestos. Based on the results, the spray-on fireproofing may be considered to be ACM. Other samples were taken of suspect ACM but were determined to be non-ACM. However, additional hidden suspect ACM may exist above ceilings, behind walls and underneath flooring. Based on the foregoing, no further action is recommended, except for maintaining the materials in good condition under an Asbestos Operations and Maintenance (O&M) Program.

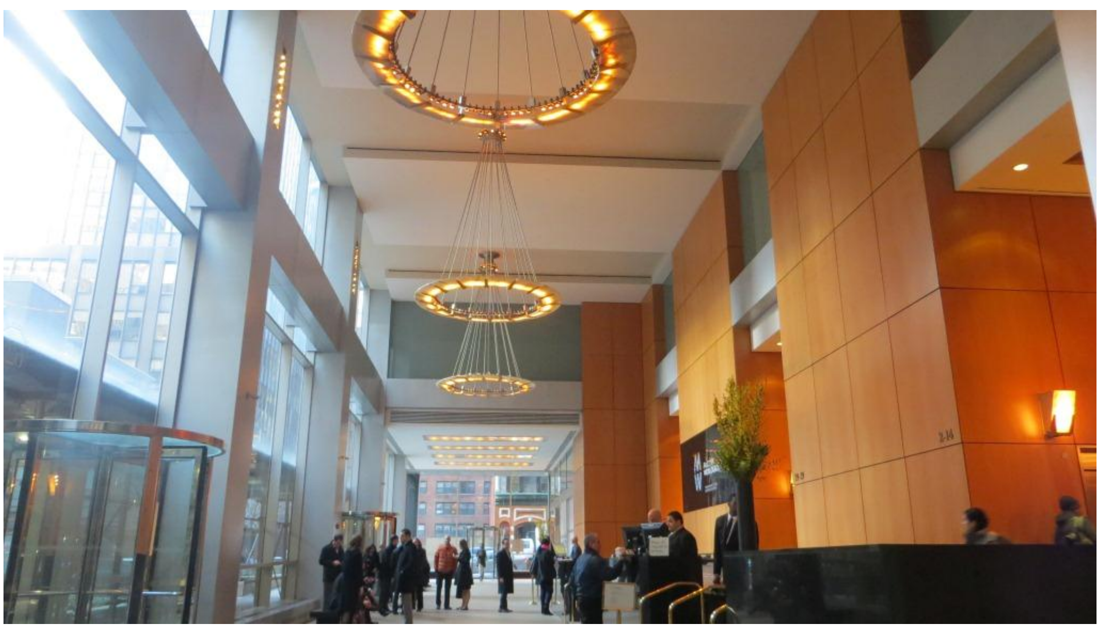
### Seismic

The property is located in a Seismic Hazard Zone 2A with a probable maximum loss estimated at less than 20% and therefore earthquake insurance is not required.

## Grand Central Plaza – Map & Pictures

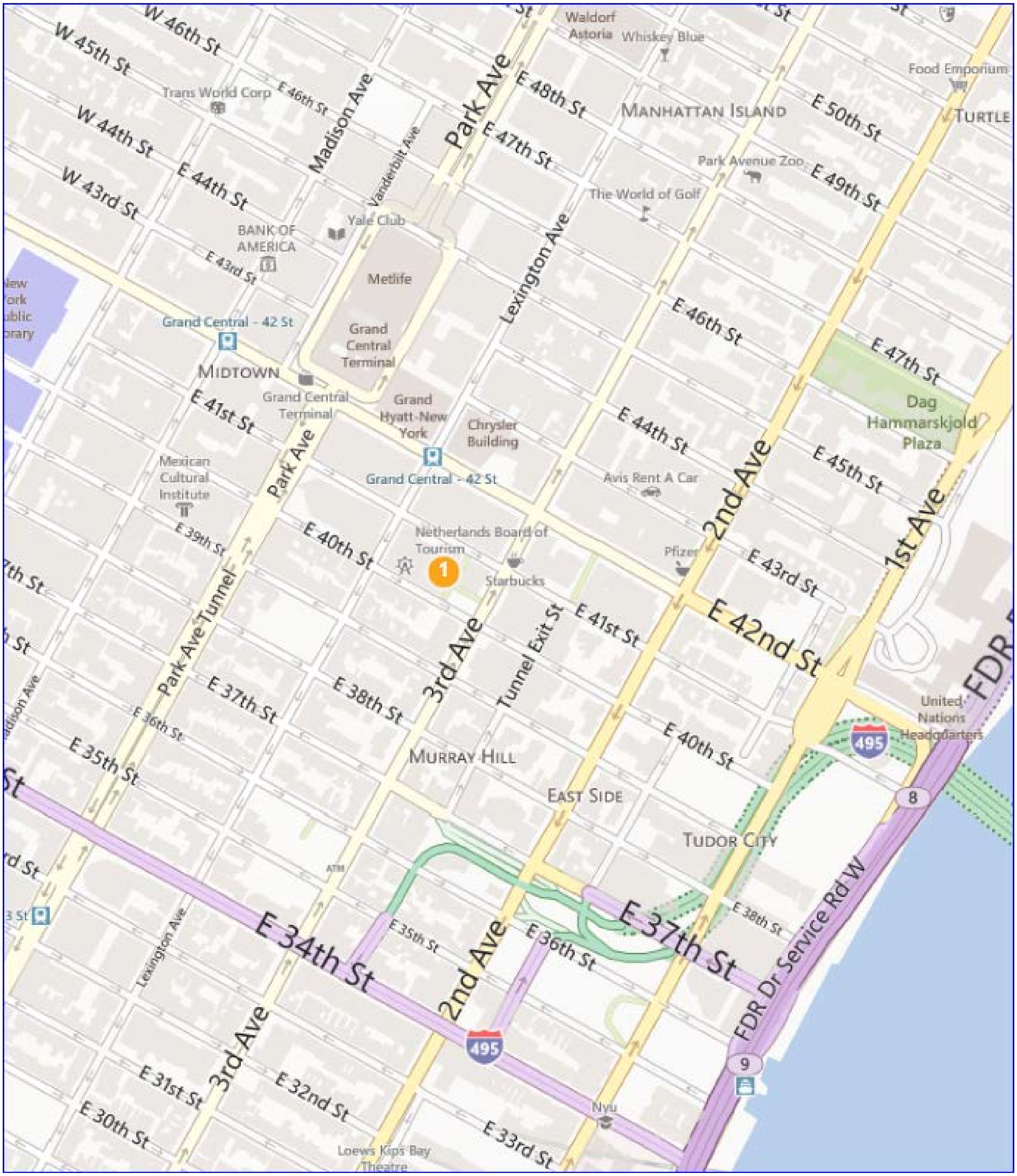


Lobby – Grand Central Plaza


Lobby – Grand Central Plaza

Street Level Picture – Public Plaza

Street Level Retail – Public Plaza


W 46th St
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Trans World Corp
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E 44th St
Madison Ave
Vanderbilt Ave
Park Ave
E 48th St
E 47th St
Waldorf Astoria
Whiskey Blue
Manhattan Island
Park Avenue Zoo
The World of Golf
E 50th St
E 49th St
Food Emporium
Turtle
Yale Club
Bank of America
E 43rd St
Metlife
Grand Central Terminal
Lexington Ave
Grand Central - 42 St
Midtown
E 41st St
Grand Central Terminal
Grand Hyatt-New York
Chrysler Building
E 46th St
E 47th St
Dag Hammarskjold Plaza
E 44th St
E 45th St
Avis Rent A Car
2nd Ave
1st Ave
Mexican Cultural Institute
E 39th St
E 40th St
Netherlands Board of Tourism
Starbucks
Pfizer
E 43rd St
1
E 41st St
E 42nd St
Park Ave Tunnel
Tunnel Exit St
3rd Ave
E 37th St
E 38th St
E 36th St
E 35th St
Murray Hill
East Side
E 40th St
United Nations Headquarters
495
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Tudor City
E 37th St
E 38th St
E 34th St
E 35th St
E 36th St
2nd Ave
FDR Dr Service Rd W
Lexington Ave
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Loews Kips Bay Theatre

# Securitization Trust Summary

**Priority of Payments on Trust Certificates**

The priority of payments on the trust certificates generally follows a sequential-pay structure. The following is a synopsis of this priority.

(1) Interest on the Class A-1, Class A-2, Class X-A, and Class X-B Certificates, pro-rata, including unpaid interest shortfalls;
(2) Principal paydown of the i) Class A-1 Certificates up to the principal distribution amount and then ii) Class A-2 Certificates, up to the principal distribution amount, until the certificate balance of both the Class A-1 and Class A-2 Certificates is paid in full;
(3) Unreimbursed Realized Loss Amounts to the Class A-1 and Class A-2 Certificates, pro rata;
(4) Interest on the Class B Certificates, including unpaid interest shortfalls;
(5) Principal paydown of the Class B Certificates until paid in full, up to the principal distribution amount
(6) Unreimbursed Realized Loss Amounts to the Class B Certificates;
(7) Interest on the Class C Certificates, including unpaid interest shortfalls;
(8) Principal paydown of the Class C Certificates until paid in full, up to the principal distribution amount;
(9) Unreimbursed Realized Loss Amounts to the Class C Certificates;
(10) Interest on the Class D Certificates, including unpaid interest shortfalls;
(11) Principal paydown of the Class D Certificates until paid in full, up to the principal distribution amount;
(12) Unreimbursed Realized Loss Amounts to the Class D Certificates;
(13) To the Class R and Class LR, any remaining amounts.

**Allocation of Losses on Trust Certificates**

Losses on the Trust Certificates are generally allocated in a reverse sequential order—first, to the Class D Certificates, second, to the Class C Certificates, third, to the Class B Certificates, and then to the Class A-1 and Class A-2 Certificates, pro rata, in each case until the Certificate Balance of that Class has been reduced to zero. The Notional Amount of the Class X-A Certificates will be reduced by the aggregate amount of principal distributions and realized Losses allocated to the Class A-1 and A-2 Certificates. The Notional Amount of the Class X-B Certificates will be reduced by the aggregate amount of principal distributions and realized Losses allocated to the Class B, Class C, and Class D Certificates.

**Rated Final Distribution Date**

The rated final distribution date of each class of certificates is the distribution date in February 2036. 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 – "LCCM 2013-GCP", 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.

**Directing Certificateholder**

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

### Replacement of Special Servicer

The special servicer can be terminated and replaced, with or without cause, if: (a) at least 25% of the aggregate voting rights of all principal balance certificates (taking into account appraisal reduction amounts) request a vote to replace the special servicer and (b) in addition to satisfaction of other conditions, receipt of either (x) the affirmative vote of at least 75% of the aggregate voting rights of the principal balance certificates (taking into account appraisal reduction amounts) or (b) the affirmative vote of at least 50% of voting rights of each class of non-reduced certificates (generally calculated as those principal balance certificates that have not been reduced (by appraisal reductions and realized losses) to less than 25% of (i) their initial certificate balance minus (ii) any principal payments).

### Trust Advisor

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

### Limited Rating Agency Confirmation/Notice

Rating agency confirmation may not be required over certain material loan amendments, modifications, borrower requests and/or material amendments to the trust and servicing agreement. 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. 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.

# Scope of Analysis

In evaluating the properties and determining Morningstar concluded 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 March 5, 2013 for the 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 roll, the appraisal, environmental site assessment, property condition assessment, 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 photographs of the properties and maps of the surrounding areas.

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 March 5, 2013 (except as otherwise specified in this paragraph): (i) the March 5, 2013 posted draft offering circular, (ii) the March 5, 2013 posted draft trust and servicing agreement, (iii) loan agreement dated as of February 11, 2013 and posted February 20, 2013 and first amendment to loan agreement and omnibus amendment to loan documents dated as of March 5, 2013 and posted March 5, 2013, (iv) consolidated, amended and restated mortgage, assignment of leases and rents and security agreement dated as of February 11, 2013 and posted February 20, 2013 and first amendment to consolidated, amended and restated mortgage, assignment of leases and rents and security agreement dated as of March 5, 2013 and posted March 5, 2013, (v) consolidated, amended and restated promissory note dated as of February 11, 2013 and posted February 20, 2013 and second amended and restated promissory note dated as of March 5, 2012 and posted March 5, 2013, (vi) amended and restated operating agreement of 622 Third Avenue Company LLC dated as of February 11, 2013, (vii) restated certificate of incorporation of 622 Third Management Corp. dated as of February 2013, (viii) opinion of Farrell Fritz, P.C. dated February 11, 2013 regarding enforceability and other matters, (ix) opinion of Farrell Fritz, P.C. dated February 11, 2013 regarding nonconsolidation, (x) the March 5, 2013 posted draft intercreditor agreement and (xi) the March 5, 2013 posted draft mortgage loan purchase and sale agreement.

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

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.

**Historical Financial Statements**

Historical operating results 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 strives to use 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 when additional adjustments are required. These adjustments will then be made and noted in the Asset Summary Report.

**Morningstar Value**

Morningstar applies our capitalization rate to our 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 http:ratingagency.morningstar.com) to determine the preliminary ratings.

# 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, prepayment fees or penalties, assumption fees, modification fees, penalty charges, default interest or post-anticipated repayment date additional interest, (d) the likelihood of experiencing prepayment interest shortfalls, an assessment of whether or to what extent the interest payable on any class of rated certificates may be reduced in connection with any prepayment interest shortfalls, or of receiving compensating interest payments, (e) the tax treatment of the certificates or effect of taxes on the payments received, (f) the likelihood or willingness of the parties to the respective documents to meet their contractual obligations or the likelihood or willingness of any party or court to enforce or hold enforceable, the documents in whole or in part, (g) an assessment of the yield to maturity that investors may experience, (h) the likelihood, timing or receipt of any payments of interest to the holders of the rated certificates resulting from an increase in the interest rate on any underlying mortgage loan in connection with a mortgage loan modification, waiver or amendment, (i) excess interest or additional interest amounts or any remaining or excess funds or (j) other non-credit risks, including, without limitation, market risks or liquidity.

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

As indicated herein, the Class X certificates consist only of interest. If the mortgage loan were to prepay in the initial month, with the result that the holders of the Class X certificates receive only a single month's interest 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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