# Morgan Stanley Capital I Trust 2013-WLSR

**Presale Report**

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## PRELIMINARY RATINGS (AS OF: 2/12/13)

| CLASS | CERTIFICATE BALANCE/ NOTIONAL AMT | PRELIMINARY RATINGS | MORNINGSTAR DSCR | MORNINGSTAR BLTV |
|---|---|---|---|---|
| Class A | $119,538,000 | AAA | 4.64x | 42.8% |
| Class X-A[1] | $119,538,000 | AAA | N/A | N/A |
| Class X-B[1] | $41,220,000 | AAA | N/A | N/A |
| Class B | $20,610,000 | AA | 3.95x | 50.1% |
| Class C | $20,610,000 | A- | 3.45x | 57.5% |
| Class D | $20,610,000 | BBB- | 2.87x | 69.1% |
| Class E | $11,632,000 | NR | N/A | N/A |

*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 certificates are interest only certificates and will not be entitled to receive distributions of principal. Interest will accrue at the pass-through rate based on the corresponding national amount. NR – Not Rated; N/A – Not applicable; PR – Private Rating Issued.*

***Estimated Closing Date: Week of February 25, 2013***

*Solely to the extent and subject to the scope of review enumerated herein, this report and the preliminary ratings noted above address certain credit risks and the extent to which the payment stream of the collateral is adequate to make payments required under the certificates based on information identified as subject to review herein and to the extent provided to Morningstar Credit Ratings, LLC ("Morningstar") on the arranger's website for this transaction as of February 12, 2013. The below analysis, as well as Morningstar's ratings characteristics as described in Appendix C, further reflect the ratings analysis related to these preliminary ratings. Investors should be aware that the proposed transaction and certain documents related thereto are not finalized. Following Morningstar's receipt of final information and documentation, and the completion of Morningstar's review of such information and documentation, Morningstar may issue final ratings to certain subscribers. Such final ratings may differ from the preliminary ratings enumerated herein. Any final ratings will solely be available to Morningstar subscribers on a subscription basis. The preliminary ratings are provided on an arranger pay basis while any related surveillance and analysis is provided to subscribers on a subscription pay basis. For the avoidance of doubt, your receipt of this report does not, in and of itself, make recipient a subscriber of Morningstar. For further information on Morningstar's subscription service, please contact Joe Petro pursuant to the contact information above.*

***Ongoing Surveillance Statement***

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



## Transaction Spotlight

| | | | |
|---|---|---|---|
| **Collateral** | First-mortgage loan secured by fee and leasehold interests in 1-million SF office property in Los Angeles. | **Mortgage Loan Seller** | Morgan Stanley Mortgage Capital Holdings LLC |
| **Notional Balance** | $193,000,000 | **Depositor** | Morgan Stanley Capital I Inc. |
| **Structure** | Sequential pay | **Lead Manager** | Morgan Stanley & Co., Inc. |
| **Morningstar U/W Current DSCR** | 2.87x | **Co-Managers** | Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., and Drexel Hamilton, LLC |
| **Morningstar U/W Amort. DSCR** | 2.87x | **Trustee** | Citibank, N.A. |
| **Morningstar U/W BLTV** | 69.1% | **Master Servicer** | Berkadia Commercial Mortgage LLC[1] |
| **Morningstar U/W ELTV** | 69.1% | **Special Servicer** | Aegon USA Realty Advisors, LLC[1] |

[1]The Morningstar operational risk assessment ("ORA") ranking for Berkadia Commercial Mortgage LLC, which is acting as Master Servicer, is 'MOR CS1/Stable'. Morningstar does not rank Aegon USA Realty Advisors, LLC as a Special Servicer. For the full assessment reports and additional information, please access http:ratingagency.morningstar.com

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# Transaction Overview

MSC 2013-WLSR is a $193 million single-property transaction secured primarily by one fixed-rate, first-lien whole mortgage loan on Wilshire Courtyard, a class A office property in Los Angeles. The loan is non-recourse and evidenced by three promissory notes that are secured by the fee and leasehold interests in the collateral property. The seven-year loan has a principal balance of $193.0 million, pays interest only during its entire term, and is scheduled to mature on the payment date in January 2020. The borrower has secured additional subordinate debt in the form of a $42 million mezzanine loan.

The collateral property, Wilshire Courtyard, is a one-million-square foot, class A office campus comprised of two six-story office buildings and located at 5700 and 5750 Wilshire Boulevard in the Miracle Mile submarket of Los Angeles. Built in 1987 and situated on 8.7 acres that cover one city block, the property features an on-site park with jogging trail, outdoor patio seating, 125 private balconies, a fitness center, and two subterranean parking garages with 2,560 spaces. A key structural feature of the buildings is that they offer comparatively large floor plates in the 38,000 – 112,000 square-foot range. The property is 91.6% occupied by a variety of mainly media- and entertainment-related tenants.

The loan sponsors are a joint venture among affiliates of Tishman Speyer Properties (TSP), Public Sector Pension Investment Board (PSP) and Stichting Pensioenfonds, ABP (APG). TSP owns and operates more than 116 million square feet of commercial space worth over $50 billion. PSP is one of Canada's largest pension investment managers. APG oversees more than 30% of all collective pensions in the Netherlands, totaling over $300 billion.

| Key Loan Metrics | | |
|---|---|---|
| First Mortgage Loan Amount | $193,000,000 | $192 PSF |
| Subordinate Debt | $42,000,000 | $42 PSF |
| **Total Debt Amount** | **$235,000,000** | **$233 PSF** |
| Mortgage Loan Term | 84 months | |
| Maturity Date | January 2020 | |
| Amortization | None | |
| First Mortgage Interest Rate | 3.53031% | |

Morningstar evaluated the property's rent roll and tenancy, revenue, operating expenses and market conditions, and estimated a NCF of $19.6 million, 11.1% below the issuer's underwritten NCF of $22.0 million. Based on our NCF and a 7.00% cap rate, our concluded value for the collateral property is $279.5 million, 33.8% lower than the appraiser's "as-is" market value of $422.5 million. Our beginning and ending LTV is 69.1%.

| Analytical / UW Metrics | | |
|---|---|---|
| **Metric** | **Morningstar** | **Issuer** |
| EGI | $41,331,660 | $43,501,695 |
| NOI | $21,775,095 | $23,854,007 |
| Combined TI / LC | $1,899,167 | $1,582,289 |
| Capital Reserves | $310,970 | $251,825 |
| NCF | $19,564,958 | $22,019,892 |
| NCF Variance | -11.1% | - |
| Capitalization Rate (1) | 7.00% | 5.21% |
| Capitalized Value (1) | $279,499,395 | $422,500,000 |
| Value Per Rentable SF | $277 | $419 |
| NCF DSCR | 2.87x | 3.19x |
| NCF Debt Yield | 10.1% | 11.4% |
| Beg. Loan-to-Value Ratio | 69.1% | 45.7% |

*(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.*

Morningstar determined the preliminary ratings for each class of MSC 2013-WLSR certificates by subjecting our net cash flow (NCF) and capitalization rate to a variety of stresses in our proprietary CMBS Subordination Model.

## 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 borrower 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 certificates, we subjected our concluded net cash flow to a weighted-average 39.6% decline and our concluded value to a weighted-average 57.7% decline in the term default analysis. In the balloon default analysis, these weighted-average declines were 39.6% and 55.6%, respectively.

The resultant credit support levels based on these stresses are then compared to the levels of the actual capital structure to determine the appropriate rating level for each class of securities.

| Morningstar Subordination Model NCF and Value Stresses | | | | |
|---|---|---|---|---|
| | AAA | AA | A | BBB |
| Morningstar NCF Decline (Term) | 39.6% | 33.0% | 30.0% | 27.0% |
| Morningstar Value Decline (Term) | 57.7% | 49.3% | 44.0% | 36.1% |
| Morningstar NCF Decline (Balloon) | 39.6% | 33.0% | 30.0% | 27.0% |
| Morningstar Value Decline (Balloon) | 55.6% | 47.9% | 42.4% | 36.1% |

## 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.

# Wilshire Courtyard

## Morningstar Perspective

The loan is backed by Wilshire Courtyard, a six-story, two-building, one-million-square-foot office complex in Central Los Angeles, California. The property is unique for its submarket in that it has large floor plates of up to 112,000 square feet, a large, open common area, and private exterior balconies. The large floor plates are attractive to users whose work requires collaboration among co-workers and therefore large, contiguous floor space. The property serves as the headquarters for the E! Entertainment Television Network (41.2% of the net rentable area). E! is owned by Comcast Corporation and operated under its NBCUniversal Cable division. Other entertainment tenants include Fox Animation (20th Century Fox), Oprah Winfrey Network, AEG Concerts and Entravision Communications. Entertainment tenants account for about 75% of the net rentable area. We consider the property's tenant concentration in the entertainment industry to be a strength given the industry's recent stability and the fact that it recovered faster than the Los Angeles-area office sector as a whole.

Morningstar underwrote net operating income of $21.8 million, 17.8% below the 2011 net operating income and 7.6% above the TTM NOI of $20.2 million. Our underwritten effective gross income is $41.3 million, 5.0% below the EGI in 2011 and 9.3% above the EGIO for the trailing 12 months ended October 31, 2012. Our variances on the income are driven mainly by our lower expense reimbursements and lower parking income. We have also underwritten lower occupancy than in 2011. Major expense variances include real estate taxes and insurance, both of which will increase following the property's acquisition. The Morningstar interest-only DSCR is 2.87x; if the loan had amortization, the DSCR would still be a healthy 1.87x. Our underwritten debt yield on the first mortgage is 10.1%, 8.3% on the all-in debt amount.

Our underwritten value of $279.5 million ($277 per square foot) results in a Morningstar loan-to-value ratio of 69.1% (based on the mortgage loan amount), substantially higher than the 47.3% LTV indicated by the appraised value. Our value reflects some of the longer-term risks associated with the property, namely the future of E! Entertainment as a tenant and the overall weakness of the Los Angeles office market.

During the loan term, lease rollover is relatively low with only one year, 2014, in which leases covering more than 10% of the space roll. However, although scheduled rollover is low, it's important note that the E! Entertainment lease has termination options in 2014 and 2016, with a final expiration in December 2021. At this time, we have no knowledge of plans to move the E! studios. In fact, with E! under NBCUniversal Cable, two of NBCUniversal's networks, Bravo and Oxygen, reportedly are taking some E!'s space at Wilshire Courtyard. Based on our analysis and discussions with a property representative during our site visit, we concluded that an early termination for E! in 2014 seems unlikely and that termination in 2016 also has a low probability of occurring. The network has invested over $30 million in the space, which houses not only offices, but also critical production studios and the main control center. Moreover, E! plans to invest another $8.0 million in its space over the next year. Relocation by E! likely would require the construction of a fully redundant facility to prevent the network from having to shut down operations and go off the air for a time.

However, this does not eliminate the risk entirely. One concern is that the E! operations could be consolidated into the NBCUniversal complex in Universal City much as the NBC Studios in Burbank were consolidated following the 2007 merger of NBC and Universal Studios. Should either termination option be exercised, the tenant would be required to pay a minimum of $15.3 million, an amount that would be impounded by the lender for re-tenanting costs. The loss of E! in 2016 could result in a below-breakeven DSCR and a paltry 3.7% NCF debt yield (based on the first mortgage balance and Morningstar's underwritten NCF net of E!'s current base rent and recoveries).

Though the Miracle Mile submarket, with its concentration in the entertainment industry, largely has been immune to the broader market decline, we cannot ignore the weakness of the greater Los Angeles office market. Office vacancy rates spiked to over 15% during the recent recession, and, unlike other markets, there has been virtually no recovery over the past two years. Tenants in financial services and aerospace have consolidated operations and surrendered space over the past several years, largely wiping out the gains from an improved economy.

In the neighboring Wilshire submarket, office vacancy is still near 25% while the Miracle Mile enjoys a more moderate 12.8%. In West Hollywood, the Red Building at the Pacific Design Center was delivered in 2012 completely vacant and un-leased. The owner of that property is reportedly seeking to lure entertainment tenants. However, the quoted rents for the Red Building are about 50% higher than asking rents at Wilshire Courtyard. If properties in the underperforming submarkets continue to languish, we may see attempts to lure tenants from the Miracle Mile area by offering low rent and generous concessions. Even if some tenants elect not to relocate, those lower rates could ultimately have a negative impact on the subject property.

Despite having some concerns about weakness in the broader office market, we think our conservative underwriting and property valuation account for much of the risk. Our NCF is based on in-place revenue and our property results in a LTV of 69.1%. Further, we have not underwritten any upside to the property's cash flow to account for rents that are below market in some cases.

## The Bears Say

- Tenant concentration: The largest tenant, E! Entertainment, leases 41.2% of the leasable area and accounts for 41.0% of base rent; E! has termination options in 2014 and 2016, though its final lease expiration is in 2021. Termination of the leases would result in a debt service coverage ratio near breakeven and would materially affect the borrower's ability to refinance the loan at maturity. With E!'s lease expiration date two years after the loan maturity, the borrower could face challenges refinancing the loan without an early renewal in place. However, E! has invested more than $30 million in its space over the course of its lease and intends to invest an additional $8.0 million in upgrades in each of its two main studios.

- E! Entertainment lease not guaranteed: E!'s parent company, Comcast, does not guarantee the E! Entertainment lease. A mitigating factor is that the network is very successful with nearly $300 million in EBITDA in 2011.

- Industry concentration: Tenants from the entertainment and media industries account for over 75% of the net rentable area and 83% of the property's base rent.

- No principal amortization: The loan is interest-only and therefore will not de-lever during the term; the lack of amortization may result in higher refinance risk at maturity. This risk is mitigated by the low Morningstar LTV of 69.1%

- Mortgage rate is low: While the low mortgage interest rate (3.53%) is credit neutral during the loan term, it may increase refinance risk at maturity, as there is a possibility rates will be significantly higher in the future. To account for this refinance risk, we apply higher interest-rate stresses at each rating category in our subordination model.

- Weak market conditions: Vacancy rates in Los Angeles are at their highest levels in years at 15.2%. Some submarkets, including the neighboring Wilshire Central submarket, are experiencing vacancy rates in excess of 20%. We are concerned that lower rents around the Miracle Mile could push rents down at the property. One 400,000-square foot office building was delivered vacant in 2012 in West Hollywood; and, the owner reportedly has plans to lure media and entertainment tenants. This building could become a formidable competitor if the building's owners lower asking rents.

## The Bulls Say

- Good location: The property is in the Miracle Mile submarket of Los Angeles, an area that has remained relatively healthy. The submarket is attractive for employees in the entertainment world as it provides good access to Beverly Hills, Hollywood and Hancock Park, as evidenced by a relatively low vacancy rate of 12.8% and a strong roster of entertainment-industry tenants. (See Market Overview section on page 14.)

- Limited new supply: Other than the aforementioned building that was delivered vacant, no new construction is planned for the submarket, and new supply in the Los Angeles area is forecast to be moderate.

- Asset quality: The subject is the only Class A, campus-style property in the submarket. The large floor plates (up to 112,000 square feet) make it an attractive option for companies that require large, contiguous space. Similar campus-style assets in Santa Monica and Burbank have considerably higher rents than the subject property.

- Below-market rents: While leases signed at the property over the past year have averaged about $36.00 per square foot, several tenants, including E! Entertainment, are paying lower rent. E! recently signed two smaller leases at $40.20 per square foot, suggesting the property's average rent may be slightly below market. While this represents some potential for higher cash flow as leases are rolled to market, Morningstar has not underwritten any upside into its analysis.

- Stable occupancy: The property is 91.6% occupied today. Since 2006, annual occupancy has never fallen below 90%, and has averaged 92.9% for the past seven years.

- Good loan metrics: The Morningstar NCF DSCR, NCF debt yield, and LTV are 2.87x, 10.1%, and 69.1%, respectively.

- Equity contribution by sponsor: The sponsor recently acquired the property and has invested $187.5 million of new equity into the transaction.

## Property Site Visit

Morningstar visited the Wilshire Courtyard property on January 7, 2012. The campus is a class A office property located along Wilshire Boulevard in the Miracle Mile submarket of Los Angeles. The Miracle Mile neighborhood, sometimes called Museum Row, is roughly six miles west of the Los Angeles CBD and four miles east of the Century City area. The neighborhood has a large concentration of office buildings and museums on Wilshire, with affluent and densely populated residential areas on the side streets. Museums in the area include the Los Angeles County Museum of Art (LACMA), the Petersen Automotive Museum and the Page Museum at the La Brea Tar Pits.

While the property enjoys good visibility on Wilshire Boulevard, the courtyard is relatively secluded from the street. Exterior balconies on each floor are an additional amenity that few other buildings in the area offer. Some of the property's balconies have views of the Hollywood Hills and Holmby Hills. The configuration of the building, however, results in some irregularly shaped spaces with long walks to the elevator banks.

Based on our observations during the site visit, the property is in good condition. The manager indicated that a significant share of the planned $14.0 million capital budget would include upgrades to the courtyard space which likely would increase the overall usage of the space. The renovation could include reconfiguring the space to add more private areas, new tables and seating areas, and removal of the water features. Other items that may be addressed in the capital budget include replacing the green trim and planters on the exterior with a more contemporary look. These funds have not been reserved by the lender but will be paid directly by the borrower.

We visited the tenant spaces of E! Entertainment, Fox Animation, Oprah Winfrey Network and Interpublic. E! Entertainment maintains its studios and control center in the building. Though it would be possible for E! to relocate its technical equipment and studios to another property, a management representative at Wilshire Courtyard suggested that this would require construction of a fully redundant facility to prevent any broadcast outage. E!, which was brought into the now-merged company by Comcast, today operates under the NBCUniversal Cable Entertainment banner, which includes NBC's Bravo, Oxygen, Syfy and USA Network. During our visit, the management representative reported that E! would lease additional space to accommodate Bravo and Oxygen, a move that could cement the network's future at the property. E! has since leased the additional space but it remains to be seen whether Bravo and/or Oxygen would actually occupy it.

Morningstar assigned a score of "2" ("Good") to the Wilshire Courtyard property. Morningstar's scale is 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.

## Loan Collateral Summary

The loan is secured by the fee and leasehold interest in a 1,007,301-square-foot Class A office property in the mid-Wilshire area of Los Angeles. The property, known as Wilshire Courtyard, consists of two six-story buildings in a campus-style environment that features a courtyard, a small number of tables and chairs, artwork and water features. The two buildings have large floor plates of up to 112,000 square feet; there is also a three-level subterranean parking structure with 2,560 spaces. An additional amenity not found in the area's other building are the property's exterior balconies, which offer views of the Hollywood Hills and the Westside.

One building, 5750 Wilshire, is subject to a small ground lease that expires in 2066 with no extensions. The total size of the ground-leased parcel is 0.3 acres and the ground rent is increased every ten years by the Consumer Price Index.

The property is 91.6% leased to 16 tenants. Since 2010, average annual occupancy has ranged from 90.8% to 96.0%. Net cash flow at the property has been stable, though it dipped slight in 2010 to $16.97 million from $17.17 million in 2009. There is one tenant space known to be dark. A 26,939-square foot space leased to 20th Century Fox was to be used for a Fox Animation project that ultimately was cancelled. The space remains leased to Fox through February 2017, but there is a termination option (discussed below). The parent company of Meridian Sports Club, which leases 16,171 square feet on the ground floor, has filed for bankruptcy protection. A property representative reported that the company likely will be restructured and that other fitness tenants could take the space, should the tenant vacate. We have underwritten the space as occupied.

The Miracle Mile neighborhood is a one-mile stretch of Wilshire Boulevard six miles west of the Los Angeles CBD and four miles east of the Century City. The neighborhood has a large concentration of office buildings and museums on Wilshire, with affluent and densely populated residential areas on the side streets. Museums in the area include the Los Angeles County Museum of Art (LACMA), the Petersen Automotive Museum and the Page Museum at the La Brea Tar Pits. The Miracle Mile has a strong concentration of entertainment tenants. Some organizations relocated from Hollywood while others have selected the location due to its proximity to Beverly Hills, Hancock Park, and West Hollywood, where entertainment executives often reside. Major entertainment tenants in the area include The Screen Actors Guild and American Federation of Television and Radio Artists, CBS Radio, Clear Channel and the industry newspaper, Variety.

### 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 January 14, 2013. The top-10 tenants account for 83.4% of the net rentable area of the building and 90.3% 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** |
| E! Entertainment TV | 415,385 | 41.2% | $13,307,091 | $32.04 | 42.3% | Jun-21 |
| 20th Century Fox | 108,240 | 10.7% | $3,994,618 | $36.91 | 12.7% | 2014/2015/2017 |
| The Interpublic Group | 88,696 | 8.8% | $2,841,820 | $32.04 | 9.0% | Jul-23 |
| OWN LLC | 51,735 | 5.1% | $2,133,551 | $41.24 | 6.8% | Dec-14 |
| Clear Channel | 45,500 | 4.5% | $1,774,500 | $39.00 | 5.6% | Nov-23 |
| Entravision Communications | 45,024 | 4.5% | $1,674,893 | $37.20 | 5.3% | Oct-16 |
| AEG Concerts, LLC | 32,062 | 3.2% | $1,154,232 | $36.00 | 3.7% | Jan-16 |
| Prometheus | 27,040 | 2.7% | $835,536 | $30.90 | 2.7% | Jul-21 |
| Meridian Sports Club | 16,171 | 1.6% | $351,234 | $21.72 | 1.1% | Nov-15 |
| The Japan Foundation | 10,355 | 1.0% | $310,650 | $30.00 | 1.0% | Jun-17 |
| **Top 10 Subtotal** | **840,208** | **83.4%** | **$28,378,125** | **$33.78** | **90.3%** | |

*Rents in the table are presented as the amounts currently in effect. Morningstar's underwritten assumptions include contractual rent steps for 12 months for most tenants and 24 months for investment-grade tenants.

**Major Tenants**

*E! Entertainment Television* E! Entertainment was originally founded in 1987 as a joint venture of Comcast, Continental Cablevision, Cox Cable, TCI and Warner Cable. Since 2006, Comcast Corporation has owned the network, which produces content about the entertainment industry, reality television and other celebrity-oriented specials. Well known programs include Keeping Up with the Kardashians, The E! True Hollywood Story, The Soup and Chelsea Lately. Since Comcast's acquisition of NBCUniversal, the network has moved under the NBCUniversal Cable division which includes Bravo, Oxygen, USA Network and Syfy. According to financials submitted by the borrower, the network had $297.3 million in EBITDA on $666.9 million in revenue for fiscal year 2011. Comcast Corporation carries a credit rating of 'A-' from Morningstar. As it was signed before the acquisition of the network, the lease is not guaranteed by the parent.

*20th Century Fox* 20th Century Fox is the production arm of Fox Entertainment Group, a division of News Corporation. The studios at the property are leased to 20th Century Fox Film and 20th Century Fox Television. This property serves as the headquarters for Fox Animation and Seth MacFarlane's animation team, which produces Family Guy, American Dad and the Cleveland Show. Another space leased to Fox was to be used for a project that was cancelled by the network. That space remains dark but is leased through 2017 and could be used in the interim for other projects. News Corporation announced that it would be splitting into two companies, one with the newspaper and publishing assets and a second with the television and entertainment properties. This space would fall under the Fox Group entertainment division after the split. Morningstar's credit rating on News Corporation was withdrawn as a result of the announced split. The lease is not guaranteed by the parent.

*Interpublic Group* Interpublic is one of the largest advertising and public relations firms in the world. It is a holding company with a number of operating brands. The subject property is primarily leased to the McCann Worldgroup brand, with some other agencies occupying space. The company executed a lease renewal through July 2023, although the tenant gave up a portion of its space. In 2012, Interpublic earned net income of $532 million on $7.0 billion in revenue. 2012 was the second consecutive year of revenue growth for the company following the economic downturn. Interpublic carries a credit rating of 'BB' from Morningstar.

*Oprah Winfrey Network* Oprah Winfrey Network is a joint venture of Discovery Communications and HARPO Productions, and is controlled by television personality and entrepreneur, Oprah Winfrey. The network carries programming such as Oprah's Favorite Things, Dr. Phil, Rachel Ray and Home Made Simple. Discovery Communications guarantees the OWN lease at the subject property.

*Clear Channel* Clear Channel Communications is a mass media company specializing in radio broadcasting. The company owns 850 radio stations around the United States, an outdoor advertising company, Clear Channel Outdoors and the "I Heart Radio" internet platform. The company previously sold its television and concert promotion divisions. In 2007, the company was taken private by Bain Capital and Thomas H. Lee Partners for $26.7 billion. The company signed a lease at the property in early 2013 and will relocate its local operations from 6500 Wilshire to the subject property in 2013.

## Tenant Expiration and Lease Rollover

Lease rollover is relatively low during the loan term. In 2014, leases covering 12.0% of the net rentable area will roll. The largest block of space rolling in that year, 51,735 square feet (5.1% of the NRA), belongs to the Oprah Winfrey Network, who first took occupancy in 2009. The rollover risk for this tenant is a concern as there are no studios for the network at Wilshire Courtyard. E! Entertainment has 31,957 square feet rolling in 2014, though we believe that there is a good chance the tenant will renew the lease considering the network recently signed leases for an additional 28,124 square feet with an expiration date of 2021.

In 2014 and beyond, we are concerned about the status of some of the 20th Century Fox leases, especially because some of the space is now dark. In addition, AEG Concerts has 32,062 square feet that will expire in 2014 and 2015. The parent company, Anschutz Entertainment, announced that it would seek buyers for the company. Depending on the ultimate buyer, the sale could result in the tenant's relocation to another office.

After 2014, the rollover risk is relatively benign. The bulk of the E! Entertainment leases expire in 2021, two years after the loan maturity date.

| Morningstar Lease Expirations by Tenant Category - Square Feet Expiring by Year | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **MTM** | **2013** | **2014** | **2015** | **2016** | **2017** | **After 2017** |
| Office | 0 | 34,707 | 120,801 | 32,062 | 58,817 | 95,994 | 557,073 |
| Retail | 1,437 | 1,235 | 0 | 17,113 | 0 | 0 | 0 |
| Management | 0 | 0 | 0 | 0 | 0 | 0 | 3,800 |
| **Total** | **1,437** | **35,942** | **120,801** | **49,175** | **58,817** | **95,994** | **560,873** |
| **% Roll** | **0.1%** | **3.6%** | **12.0%** | **4.9%** | **5.8%** | **9.5%** | **55.7%** |

**Termination Options**

E! Entertainment has lease termination options in June 2014 and December 2016. The options require 14 months notice and a termination payment of $17.5 million in 2014 and $15.3 million in 2016. We believe that there is a low probability the network will terminate its leases, especially in light of its recent expansion. 20th Century Fox has a lease termination option on the 26,939 square feet that it leased in 2012 and which is currently dark. The option is for March 2015 with 12 months notice and a termination payment of $1.9 million, representing two years of base rent for the space. The space is dark and the option will likely be exercised if Fox does not identify another project to take the space.

All termination fees are to be impounded in the TI/LC reserve account to be used for future leasing.

# Third Party Reports

## Appraisal

An appraisal report was prepared by Cushman & Wakefield, an independent third-party appraisal firm. The report is dated November 29, 2012. The appraised "as-is" value of the collateral property is $422,500,000.

## Property Condition Report

A property condition report was prepared by Thornton Tomasetti, an independent third-party engineer. The report was dated December 14, 2012. The PCA identified no immediate repairs or significant problems with the condition of the property. The report recommended ongoing inflated reserves equivalent to $0.28 per square foot per year to provide sufficient funds to complete ongoing maintenance and repairs on the structure.

## Environmental Assessment

A Phase I Environmental Site Assessment was completed by Hillmann Consulting LLC on October 5, 2012. The report did not identify any Recognized Environmental Conditions. The consultant recommended an Operations & Maintenance Plan for three underground storage tanks and one aboveground storage tank and periodic inspections of the methane monitoring and venting system. The subject property is in a region of California that has natural oil and gas seeps from subsurface geologic strata. The ESA noted that naturally occurring tar seeps into the parking garage through the concrete walls and is collected in special containment systems and properly disposed of by a contracted servicer. Methane associated with the seeps is managed by venting systems at each building and interior air is sampled on a regular basis by specialists. No indoor air concerns were identified during recent sampling.

## Seismic

A Seismic Risk Assessment was prepared by Thornton Tomasetti on December 14, 2012. The probable maximum loss was estimated to the 12%. As this is less than 20%, earthquake insurance is not required.

Property Entrance and Courtyard

Property Entrance and Courtyard

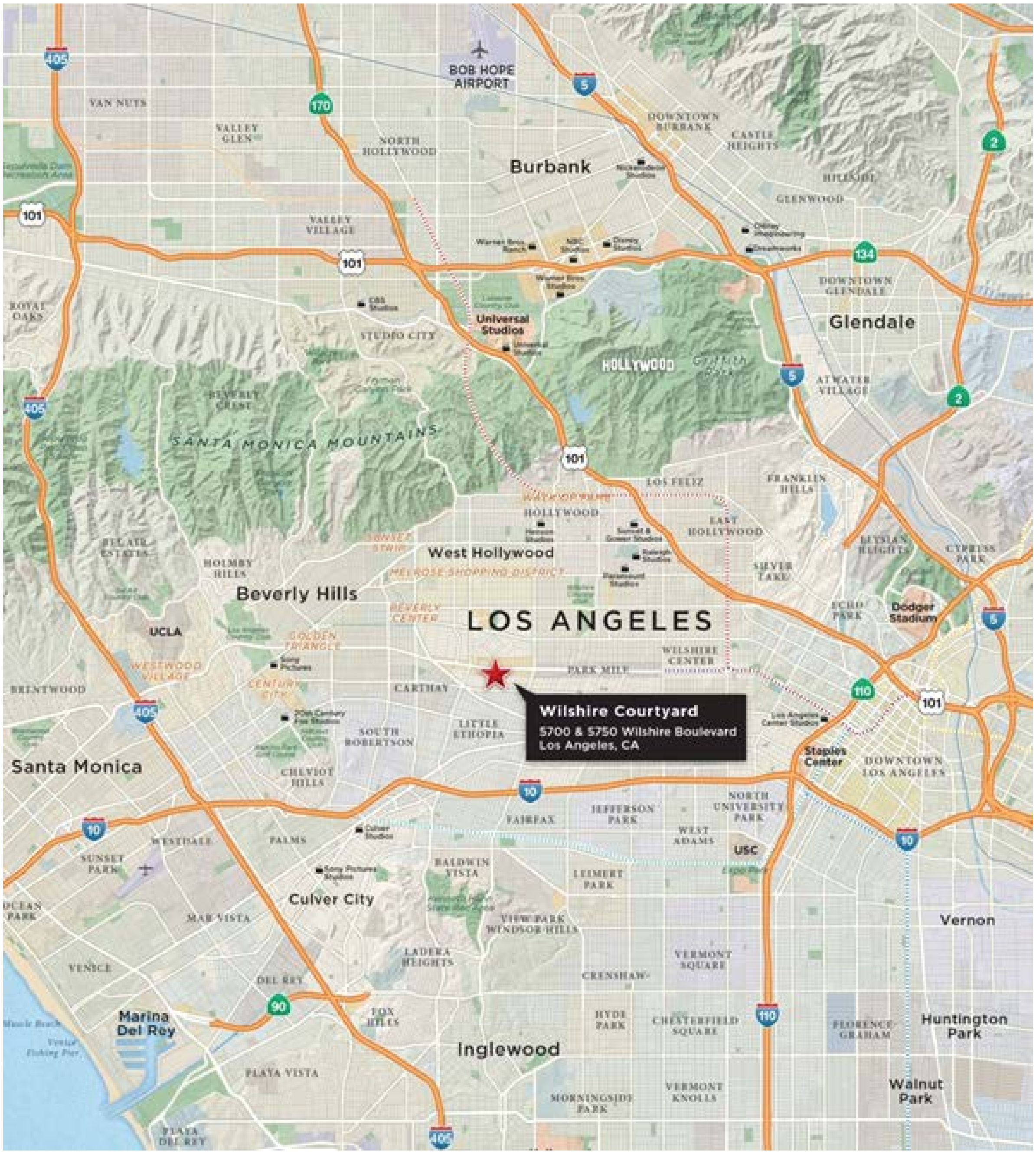
View from Wilshire Boulevard

View from Curson Avenue

5700 Lobby

Courtyard Seating

**Regional Map**



# Market Overview

Wilshire Courtyard is in Reis's Mid-Wilshire submarket within the broader Los Angeles market. The micro-market is more specifically designated as The Miracle Mile. On the one hand, a broad view of the Los Angeles market and the Mid-Wilshire submarket reveals an area whose recovery has been muted since the end of the recent recession. On the other hand, however, as one examines the submarkets in greater detail, a more positive impression emerges.

As of the third quarter of 2012, the vacancy rate for the Los Angeles MSA was 15.2% according to Reis, its highest level of the past five years. Vacancy is up six percent since 2007. Persistently high unemployment has been a major factor in the higher vacancy rates. In 2011 unemployment in the area peaked at over 13%, well above the national average at that time. Several sectors, financial and professional services prominent among them, have pulled back in the area, with consolidation reducing the need for office space. The aerospace industry is also reducing its office use as the government seeks to reduce its expenditures. As a result, submarkets such as the Los Angeles CBD and the South Bay have experienced chronically high vacancy.

Fortunately, there are signs of improvement. The unemployment rate in Los Angeles County fell to 9.8% in November 2012, the first time since 2009 that the rate dipped below 10%. The technology and entertainment sectors appear to be key contributors to this uptick in employment. According to Transwestern (a commercial real estate broker and services provider), Santa Monica, Burbank, and the Miracle Mile—with vacancy rates of 12.1%, 13.8%, and 12.8%, respectively—have proven to be more immune than other areas to the trend of employment loss and higher vacancy in other submarkets of Los Angeles. The relatively stronger performance in these areas is leading developers to seek opportunities for so-called "creative space" near the CBD and in Hollywood. Longer term, this would provide competition to the existing submarkets that are reliant on the creative-space users.

Another important positive trend is that of limited new supply. Over the next five years new supply in the market is expected to be limited to roughly 1.2 million square feet annually. In a market with more than 195 million square feet, the aggregate new supply amounts to slightly more than 3% of the existing office stock. This means that in the short run the office market's vacancy rate should continue to move gradually lower as long as employment growth continues.

The Mid-Wilshire office submarket has a total of 13.5 million square feet of space. The submarket's vacancy rate was 14.6% in the third quarter of 2012, according to Reis. Vacancy has fluctuated widely over the last five years as net absorption has been very inconsistent quarter to quarter. In the third quarter the average asking rent was $28.03 per square foot annually with an effective rent of $22.85 per square foot. Transwestern's Los Angeles Office Market report broke out the smaller submarkets of Mid-Wilshire showing the Miracle Mile at 12.8%, Wilshire Center at 24.2% and Park Mile at 36.6%. Park Mile and Wilshire Center are east of the Miracle Mile and have never gained traction with the entertainment and technology industries. Compounding the problem, neither submarket has managed to draw tenants away from West Los Angeles or the CBD where rents are more than 30% higher.

The Miracle Mile is a 1.5-mile stretch of Wilshire Boulevard from Fairfax Avenue to roughly La Brea or Highland Avenue. There is about 4.6 million square feet of office space in the submarket, with the Wilshire Courtyard property accounting for one million square feet. The north side of Wilshire is dominated by the presence of the Los Angeles County Museum of Art and the Page Museum at the La Brea Tar Pits. Some of the major entertainment tenants in the area are The Screen Actors Guild and American Federation of Television and Radio Artists, CBS Radio, Clear Channel and the entertainment industry newspaper, Variety. The area has good access to areas such as Beverly Hills, Hancock Park and West Hollywood where many people affiliated with the entertainment industry reside.

The appraiser cited five competitive properties in the submarket, but pointed out that several of these comps are of lower quality, and consequently, have lower rents. The property most comparable to Wilshire Courtyard, 6500 Wilshire, is just west of the Miracle Mile. The largest tenant at 6500 Wilshire, Cedars-Sinai Hospital, occupies from 45% to 60% of the space. Bloomberg is a tenant in the building along with ClearChannel, who is vacating to take space at Wilshire Courtyard. Museum Square is a class B property across from the subject property and is the home of the Screen Actors Guild and American Federation of Television and Radio Artists. 5670 Wilshire is a Class A office building, built in 1970, at the opposite corner of Wilshire and Hammelin Avenues and is the home of CBS Radio. 5900 Wilshire, now known as the Variety Building, is also a class A office property two blocks west of the subject. Both 5670 Wilshire and 5900 Wilshire have rents that are lower than those at Wilshire Courtyard.

One factor that differentiates Wilshire Courtyard is its large common area and courtyard. Few properties in central Los Angeles offer a campus-style property. The comparables in the submarket are all high-rise buildings with minimal common space. There are several campus-style complexes in Greater Los Angeles, namely The Water Garden and Yahoo! Center in Santa Monica, and Pinnacle and Pinnacle II in Burbank. While these properties are competitive in term of quality and condition, the rents are considerably higher than Wilshire Courtyard's.

We have some concerns about one new property in the market. The 400,000-square foot Red Building at the Pacific Design Center was delivered in 2012 with no leasing in place. The building is part of the 1.2-million-square-foot Pacific Design Center, a property that offers showroom space for the interior design industry in addition to office space. The owner of the Red Building has reportedly been seeking media and entertainment industry tenants and courted local talent agencies in Beverly Hills. To date, the building remains 100% vacant with asking rents reported to be as high as $60.00 per square foot. Our concern is that property could have some success attracting media tenants, and therefore could emerge as strong competition to the Miracle Mile set.

In sum, we think the immediate market has managed to remain relatively healthy thanks to its ability to attract tenants from the entertainment industry. That said, the Los Angeles office market continues to face headwinds. The overall market shows a relatively high vacancy rate and has not experienced any significant rent growth since the end of the recession. Moreover, we are concerned about nearby submarkets that seek to attract tenants away from the Miracle Mile area. The aforementioned Red Building already has plans to attempt to lure tenants from the entertainment industry. Park Mile and Mid-Wilshire also have high vacancy and could be tempted to decrease asking rents or re-configure space to more effectively compete for entertainment and technology tenants.

# Morningstar Analysis and Valuation

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

## Morningstar Estimate of Net Cash Flow

*Gross Potential Rent*

Gross potential rent is based on the rent roll dated January 14, 2013 and includes contractual rent increases through January 31, 2014. 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 concluded weighted average market rent was $36.39 per square foot, similar to the in-place rent at the property. According to the appraiser, the average asking rent for the property is $40.20 per square foot.

Morningstar will generally include a second contractual rent step for investment-grade tenants. Although the E! Entertainment lease is not guaranteed by Comcast Corporation, based on the division's financial reporting and the interests of the parent company in operating the network, we consider the tenant to have investment-grade characteristics and included a second contractual rent step in our analysis.

*Rental Vacancy and Concessions*

According to Reis and other market sources, as well as data provided by the appraiser, the market vacancy in the Miracle Mile submarket is 12.8%. Our underwritten vacancy rate is 8.6% based on the current leasing and the rent roll. Morningstar applied a concession of 8.0% of the base rent to account for an average of one month of free rent per lease year.

*Other Income*

Expense Reimbursements – Morningstar underwrote expense reimbursements based on the reimbursements in place on the rent roll dated January 2013 and the budgeted recovery ratio.

Other Income– Morningstar underwrote other income based on the 2011 financials.

*Operating Expenses*

Morningstar's expenses are underwritten in-line with the historical financials or the property's 2012 Budget unless as noted below:

Real estate taxes – Morningstar underwrote real estate taxes based on the 2013 budget. The assessed value is derived directly from the sale price of the property, per California law.

Management Fees – Morningstar underwrote management fees as 2.5% 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 2.5% of the effective gross income and the property is managed by an affiliate of the sponsor. Morningstar did not cap the management fee.

*Capital Expenses*

Tenant Improvements – Morningstar underwrote new tenant improvements (TI) at 50% of our underwritten base rent and renewal TIs at 25% of our based rent. A renewal probability of 75% was assumed.

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

Capital Reserve – Morningstar underwrote the capital reserve to 110% of the engineer's concluded reserves in the PCA, which were $0.43 per square foot.

## Morningstar Valuation

Morningstar estimated the value of the asset based the income capitalization approach to value. Capitalization rates are estimated quarterly by Morningstar for the office market in each region and major metropolitan area based 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. The Morningstar capitalization rate for the Los Angeles office market was 7.70%. This base capitalization rate was adjusted to reflect the location, quality, and condition of the subject asset relative to the overall market. Morningstar's concluded capitalization rate for this asset is 7.00%, resulting in a direct capitalization value of $279.5 million, or $277 per square foot.

The following table shows the historical operating results for 2010, 2011, the trailing 12 months ended October 31, 2012, the issuer's underwriting, and Morningstar's conclusions.

| | Morningstar Underwriting | Year End 2010 | Year End 2011 | TTM 10/31/2012 | Issuer Underwriting |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Gross Potential Rent | $36,265,547 | $33,436,430 | $33,405,424 | $29,695,362 | $32,675,325 |
| Less: Vacancy Loss (GPR) | (3,066,407) | 0 | 0 | 0 | 0 |
| Less: Concessions | (261,859) | 0 | 0 | 0 | 0 |
| Less: Collection Loss | 0 | 0 | 0 | 0 | 0 |
| Less: Vac Adj for Concess/Coll Loss | 21,905 | 0 | 0 | 0 | 0 |
| **Base Rent/Net Effective Rent** | **$32,959,186** | **$33,436,430** | **$33,405,424** | **$29,695,362** | **$32,675,325** |
| Expense Reimbursement | $1,156,182 | $2,704,372 | $2,586,657 | $1,492,176 | $1,161,569 |
| Percentage Rent | 0 | 0 | 0 | 0 | 0 |
| Parking | 5,764,185 | 5,592,030 | 6,071,911 | 5,208,932 | 5,397,124 |
| Straight-Line Adjustment | 0 | 0 | 0 | 0 | 1,721,670 |
| Mark To Market | 0 | 0 | 0 | 0 | 963,069 |
| Misc Income | 1,452,107 | 1,335,165 | 1,452,107 | 1,419,075 | 1,582,938 |
| Less: Vacancy Other Incomes | 0 | n/a | n/a | n/a | n/a |
| **Effective Gross Income** | **$41,331,660** | **$43,067,997** | **$43,516,099** | **$37,815,545** | **$43,501,695** |
| **Expenses** | | | | | |
| Real Estate Taxes | $5,421,948 | $4,513,643 | $4,277,182 | $4,259,523 | $5,440,932 |
| Property Insurance | 1,310,383 | 685,746 | 703,917 | 750,593 | 1,310,383 |
| Utilities | 3,320,972 | 3,119,045 | 3,232,886 | 3,275,274 | 3,327,796 |
| Repairs and Maintenance | 1,286,010 | 1,347,630 | 1,391,806 | 1,516,993 | 1,282,217 |
| Contract services | 1,889,364 | 0 | 0 | 0 | 1,889,364 |
| Management Fees | 1,033,291 | 984,631 | 969,180 | 849,043 | 1,000,000 |
| Payroll & Benefits | 3,187,544 | 1,098,512 | 1,126,354 | 1,438,450 | 3,187,544 |
| Common Area Maintenance | 0 | 3,685,971 | 3,839,510 | 4,046,668 | 0 |
| Advertising & Marketing | 0 | 0 | 0 | 0 | 0 |
| Professional Fees | 0 | 0 | 0 | 0 | 0 |
| General and Administrative | 129,136 | 0 | 0 | 0 | 136,000 |
| Non-Reimbursable Expenses | 468,023 | 0 | 0 | 0 | 492,901 |
| Parking Expense | 1,329,246 | 1,373,341 | 1,314,265 | 1,269,189 | 1,399,903 |
| Ground Rent | 180,648 | 165,699 | 180,774 | 180,780 | 180,648 |
| **Total Operating Expenses** | **$19,556,565** | **$16,974,218** | **$17,035,874** | **$17,586,513** | **$19,647,688** |
| **Net Operating Income** | **$21,775,095** | **$26,093,779** | **$26,480,225** | **$20,229,032** | **$23,854,007** |
| **Capital Items** | | | | | |
| Leasing Commissions | $844,074 | $0 | $0 | $0 | $567,911 |
| Tenant Improvements | 1,055,093 | 0 | 0 | 0 | 1,014,378 |
| Capital Expenditure / Reserve | 310,970 | 0 | 0 | 0 | 251,825 |
| Extraordinary Capital Expenditures | 0 | | | | |
| - Credit For TI Reserve | 0 | | | | |
| - Credit For LC Reserve | 0 | | | | |
| - Credit For TI/LC Reserve | 0 | | | | |
| - Credit For Cap Ex Reserve | 0 | | | | |
| **Total Capital Items** | **$2,210,137** | **$0** | **$0** | **$0** | **$1,834,114** |
| **Credit for Upfront DSCR Escrow** | $0 | $0 | $0 | $0 | $0 |
| **Net Cash Flow** | **$19,564,958** | **$26,093,779** | **$26,480,225** | **$20,229,032** | **$22,019,892** |

# Loan Summary

The mortgage loan was originated by Morgan Stanley Mortgage Capital Holdings LLC on December 18, 2012. As of the cut-off date the outstanding principal balance of the loan is $193,000,000. The seven-year fixed-rate whole loan is evidenced by three promissory notes and bears interest at a rate equal to 3.53031%. The scheduled maturity date is the payment date in January 2020. The loan is secured by the fee and leasehold interests in Wilshire Courtyard (the property). Morgan Stanley Mortgage Capital Holdings LLC also funded a $42,000,000 coterminous mezzanine loan that was placed with Prima Capital Advisors LLC. The issuer expects Prima to acquire the Class E Certificates and serve as the trust's controlling class representative.

The purpose of the loan was to facilitate the sponsors' acquisition of the property for $422,500,000. The loan sponsors will invest $187.5 million of cash equity.

**Borrower and Sponsor**

The mortgage loan borrower is Wilshire Courtyard, L.P., a Delaware limited partnership. The borrower is a special-purpose entity whose primary business is the performance of the obligations under the loan documents and the ownership and/or operation of the Wilshire Courtyard property. The borrower was organized for the primary purpose of acquiring, holding and/or operating the property, and will not have significant assets other than the Wilshire Courtyard property.

The sponsors are a joint venture among affiliates of Tishman Speyer Properties (TSP), Public Sector Pension Investment Board (PSP) and Stichting Pensioenfonds, ABP (APG). TSP owns and operates more than 116 million square feet of commercial space worth over $50 billion. PSP is one of Canada's largest pension investment managers. APG oversees more than 30% of all collective pensions in the Netherlands, totaling over $300 billion. The Wilshire Courtyard property is managed by TSP.

**Reserve Accounts**

*Initial Reserves*

At the origination of the mortgage loan, the borrower funded a TI/LC reserve in the amount of approximately $7,343,016 to pay for outstanding tenant improvement and leasing commission obligations relating to previously executed leases, $1,911,000 in connection with the execution of the Katz Communications, Inc. lease and $1,218,195 in connection with tenant improvements and leasing commissions related to the lease extension with E! Entertainment Television, Inc.

*Ongoing Reserves*

The borrower is required to deposit on a monthly basis the following amounts:

- Real Estate Taxes - 1/12th of projected annual real estate taxes;
- Insurance - 1/12th of projected annual insurance premiums; this escrow requirement will be waived if the property is covered by satisfactory blanket policies;
- Ground Rent Account - 1/12th of the annual ground rent payable under the ground lease provided that in the event a Cash Management Sweep Period is not in effect, such amount shall be released to borrower for the payment of such ground rent;
- Capital Expenditure Reserve Account - a monthly amount equal to $20,980;
- TI/LC Reserve Account - a monthly amount equal to $125,875.
- In the event the debt yield falls below 7.0%, all excess cash will be trapped until the debt yield achieves 7.25%.

## Loan Features / Concerns

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

*Ground Lease*

Part of the property (0.35 acres, 4.0% of the total acreage) is subject to a ground lease. The ground lease (and related documents) generally contains customary "financeable" ground lease protections, however, there may be a transfer fee in an amount equal to one year's ground rent in connection with transfers and/or assignments of the ground lease. According to the arranger, such transfer fee is not payable in connection with a mortgage foreclosure or a deed in lieu of foreclosure. This could impact the financeability of the ground leases and/or the ability to sell and/or transfer the applicable property.

*SPE and Bankruptcy Remoteness*

The borrower and its general partner are required under the loan documents and their organizational documents to maintain themselves as special purpose entities generally limited in their activities to ownership and operation of the mortgaged property (or ownership of its interest in the borrower). The loan documents and borrower's organizational documents also include limitations on the borrower's ability to incur additional indebtedness and additional covenants regarding the borrower's separateness from other entities. While the borrower is generally limited in incurring additional indebtedness, the loan allows for broader and/or higher thresholds of permitted debt than may be customary for a transaction of this type and size (as discussed further herein). The borrower (or its general partner) is also required to have independent managers whose consent is required for certain bankruptcy matters. In addition, a nonconsolidation opinion relating to the borrower (and the general partner of borrower) was provided.

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

*Permitted Debt*

The loan documents include provisions (i) allowing the borrower to incur broad permitted debt not subject to typical limitations (such as a limit of 5% of the outstanding loan balance on all permitted debt (exclusive of the loan)) and (ii) expressly permitting the borrower to incur potentially unlimited affiliate loans and contributions. However, per the arranger, the documents are not intended to permit unlimited affiliate loans, rather they are intended to permit unlimited capital contributions. Broad and uncapped permitted debt and/or loans are not preferred and may adversely impact borrower's ability to make payments on the loan, cash flows, and/or borrower's ability to pay its obligations as they become due from borrower's own funds. In addition, to the extent borrower relies (or other entities rely) on affiliates of borrower to pay (or make loans or contributions to pay) borrower's obligations, such activities may impact borrower's compliance with certain separateness covenants which may increase bankruptcy and/or consolidation risk. Despite the preceding risk, a nonconsolidation opinion relating to the borrower was provided and such opinion referenced a review of the loan documents (which includes provisions related to permitted debt and affiliate contributions/loans) in rendering such opinion.

If the borrower were to incur debt in excess of amounts supported by cash flows from the property, the borrower's ability to (a) make payments under the loan, (b) pay its obligations from its own funds, (c) maintain compliance with separateness covenants,, and/or (d) maintain the use, maintenance and operation of the property, may be adversely impacted and therefore, the ratings on the certificates may be negatively impacted.

*Mezzanine Debt*

Certain equity owners of the borrower have incurred mezzanine debt in the amount of $42 million.

The mezzanine loan is coterminous with 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.

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 5 business days after the later of (x) notice of the default and (y) the borrower's cure period. For non-monetary defaults, the intercreditor agreement provides the mezzanine lender 10 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 10 business days prior to accepting a deed in lieu of foreclosure. Such consent, consultation and other rights, including rights to delay certain senior lender remedies, may limit and/or delay senior lender's workout of the loan, remedies, the timing for modifications of the loan and a sale of the loan.

In addition, holders of mezzanine debt may be affiliated with the borrower. As a mitigant, the intercreditor places certain restrictions on consent rights and exercise of certain rights while the mezzanine loan is held by a borrower affiliate.

In addition, holders of the mezzanine debt are anticipated to be the controlling class representative. While such a relationship may create conflicts of interest, there are mitigants to such conflicts. Such mitigants include: (i) regardless of any consent rights of the controlling class representative, the servicer may disregard any approval or disapproval or other direction of the controlling class representative if such approval or disapproval or other direction violates the servicing standard and (ii) as discussed below under directing certificateholder, the consent rights of the controlling class do not survive an acceleration or foreclosure of the mezzanine loan.

*Cash Management*

The loan documents require rents to be deposited into the restricted account. If borrower or property manager receive any rents, such amounts are required to be deposited into the restricted account within 2 business days of receipt. Amounts in the restricted account are required to be swept into the deposit account (after deduction of a minimum retained balance of $5,000.00 and amounts permitted to be deducted by the bank such as bank fees, costs of uncollectible drafts, amounts deposited in error or necessary to correct processing errors) each business day. The restricted account and deposit account are both required to be eligible accounts under lender control. Amounts in the deposit account are required to be disbursed pursuant to the waterfall set forth in the loan documents. After an event of default, the lender has discretion to apply funds in the account, provided, however, that ground rent is required to be paid.

# Securitization Trust Summary

## Priority of Payments on Trust Certificate

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

(1) Interest on the Class A, Class X-A and Class X-B Certificates, pro-rata.
(2) Unreimbursed Interest shortfalls on the Class A, Class X-A and Class X-B Certificates, pro-rata
(3) Principal paydown of the Class A Certificates until paid in full, up to the principal distribution amount.
(4) Unreimbursed realized loss amounts of the Class A Certificates until all realized losses are paid in full.
(5) Interest on the Class B certificates
(6) Principal paydown of the Class B Certificates until paid in full, up to the principal distribution amount.
(7) Unreimbursed realized loss amounts of the Class B Certificates until all realized losses are paid in full.
(8) Interest on the Class C certificates
(9) Principal paydown of the Class C Certificates until paid in full, up to the principal distribution amount.
(10) Unreimbursed realized loss amounts of the Class C Certificates until all realized losses are paid in full.
(11) Interest on the Class D certificates
(12) Principal paydown of the Class D Certificates until paid in full, up to the principal distribution amount.
(13) Unreimbursed realized loss amounts of the Class D Certificates until all realized losses are paid in full.
(14) Interest on the Class E certificates
(15) Principal paydown of the Class E Certificates until paid in full, up to the principal distribution amount.
(16) Unreimbursed realized loss amounts of the Class E Certificates until all realized losses are paid in full.
(17) Any remaining available distribution shall be paid to the Class R Certificates.

## Allocation of Losses on Trust Certificates

Realized Losses on the mortgage loan will be allocated first, to the Class E Certificates, second, to the Class D Certificates, third, to the Class C Certificates, fourth, to the Class B and fifth, on a pro rata and *pari passu* basis, to the Class A Certificates, 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 amount of Realized Losses allocated to the Class A Certificates. The Notional Amount of the Class X-B Certificates will be reduced by the aggregate amount of Realized Losses allocated to the Class B and Class C Certificates.

To the extent any Realized Losses are subsequently recovered, the amount of such recovery will be reimbursed to the Certificateholders in the following order: first, on a pro rata and pari passu basis, to the Class A Certificates, second, to the Class B Certificates, third, to the Class C Certificates, fourth to the Class D Certificates and fifth, to the Class E Certificates, in each case up to the amount of any Realized Losses, if any, that have been allocated to such Class of Certificates

## Rated Final Distribution Date

The rated final distribution date of each class of certificates is the distribution date in January 2032. 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

## Trust Structural Features / Concerns

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

*Repurchase Obligation*

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

*Lack of Emergency Advances*

Unlike other recent CMBS transactions, the trust and servicing agreement does not permit any advancing of nonrecoverable advances by the servicer in emergency situations (i.e. to avoid a lapse in insurance coverage). Instead, no advancing for such items is permitted unless such advance is recoverable.

*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 their respective compensation arrangements. Morningstar's analysis assumes the various parties comply with their duties.

*Directing Certificateholder*

The controlling class is Class E. No other class of certificates will be eligible to act as the controlling class or appoint a controlling class representative. The controlling class representative will be the controlling class certificateholder or representative selected by more than 50% of the controlling class certificateholders. An investor client of Prima Capital Advisors, LLC is anticipated to be the initial controlling class representative.

During a Subordinate Control Period, the controlling class representative will have certain consent and consultation rights under the trust and servicing agreement with respect to certain major decisions and other matters. During any Senior Consultation Period, the controlling class representative will not have any consent or consultation rights, except with respect to any rights that expressly survive during such Senior Consultation Period pursuant to the trust and servicing agreement. Generally, all consent rights of the controlling class representative are subject to a servicing override.

A Subordinate Control Period occurs when (i) the certificate balance of the Class E Certificates (taking into account the application of appraisal reduction amounts to notionally reduce the certificate balance of such certificates) is at least 25% of the initial certificate balance of the Class E Certificates and (ii) when (a) the borrower is not the holder of 100% of the controlling class or (b) the controlling class representative is not the owner of any interest (whether legally, beneficially or otherwise) in the mezzanine loan or, if the controlling class representative is the owner of any such interest in the mezzanine loan, the mezzanine loan has not been accelerated nor have foreclosure proceedings been initiated with respect to the mezzanine loan.

A Senior Consultation Period occurs when (i) the certificate balance of the Class E Certificates (taking into account the application of appraisal reduction amounts to notionally reduce the certificate balance of such certificates) is less than 25% of the initial certificate balance of the Class E Certificates or (ii) a period when (a) the borrower is the holder of 100% of the controlling lass or (b) the controlling class representative is the owner of any interest (whether legally, beneficially or otherwise) in the mezzanine loan and the mezzanine loan has been accelerated or foreclosure proceedings have been initiated with respect to the mezzanine loan.

*Trust Advisor*

During a Subordinate Control Period, the trust advisor will have access to any final asset status reports but will not have any approval or consultation rights. During a Senior Consultation Period the trust advisor will have certain rights with respect to certain major decisions and will have additional monitoring responsibilities on behalf of the entire trust. Generally, all approval or consultation rights of the trust advisor are subject to a servicing override.

The trust advisor will initially be Park Bridge Lender Services LLC. Such entity may be entitled to certain fees, expenses and indemnity prior to distributions on the certificates.

*Replacement of Special Servicer*

During a Subordinate Control Period, the special servicer may be replaced at any time by the controlling class representative. During a Senior Consultation Period, the holders of at least 25% of the voting rights of the certificates may request a vote to replace the special servicer. The subsequent vote may result in the termination and replacement of the special servicer if, among other things, (a) at least 75% of the voting rights of the certificates , or (b) more than 50% of the voting rights of each class of non-reduced certificates, vote affirmatively to so replace.

During a Senior Consultation Period, if the trust advisor determines that the special servicer is not performing its duties in accordance with the servicing standard, the trust advisor may recommend the replacement of the special servicer resulting in a solicitation of a certificateholder vote. The subsequent vote may result in the termination and replacement of the special servicer if, among other things, the holders of more than 50% of the voting rights of the certificates (on an aggregate basis) vote to so replace.

### *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.

# Scope of Analysis

In evaluating the properties and determining Morningstar cash flows and values, we reviewed the following materials to the extent we deemed necessary for our analysis and as provided on the arranger's website for this transaction as of February 11, 2012, the offering materials (as applicable), the historical financials (for the most recent three years unless the property did not have three years of operating history available), issuer's underwriting and supporting analysis and notes, most recent available rent rolls, Reis Reports (to the extent the property was within a covered market), appraisals, environmental site assessments, property condition assessments, and other market and property information as available. In certain cases, to the extent we deemed necessary for our analysis and as provided on the arranger's website for this transaction as of the date hereof, we also reviewed seismic reports, surveys, leasing brochures, photographs of the properties and maps of the surrounding areas. All of the third party reports were completed within 12 months of the securitization date.

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 February 12, 2013 (except as otherwise specified in this paragraph): (i) the February 11, 2013 posted draft offering circular (together with responses posted February 11, 2013), (ii) the February 12, 2013 posted draft trust and servicing agreement (together with responses posted February 11, 2013), (iii) loan agreement dated as of December 18, 2012 and posted January 11, 2013 and draft omnibus amendment to loan documents (mortgage loan) posted February 12, 2013, (iv) fee and leasehold deed of trust, assignment of leases and rents, security agreement and fixture filing dated as of December 18, 2012 and posted January 11, 2013, (v) promissory note A-1, promissory note A-2 and promissory note A-3, each dated December 18, 2012 and posted January 11, 2013 and draft amended and restated promissory note posted February 12, 2013, (vi) limited partnership agreement of Wilshire Courtyard, L.P. dated as of December 18, 2012, (vii) limited liability company agreement of Wilshire Courtyard GP, L.L.C dated as of December 18, 2012, (viii) opinions of Richards Layton & Finger, P.A. dated December 18, 2012 regarding authority to file bankruptcy and DE LLC and DE LP matters, (ix) opinion of Richards Layton & Finger, P.A. dated December 18, 2012 regarding nonconsolidation, (x) opinion of Gibson Dunn & Crutcher LLP dated December 18, 2012 regarding enforceability and other matters, (xi) the February 11, 2013 posted draft intercreditor agreement and (xii) the February 12, 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, depositor and loan seller(s) and the general deal level opinion related to certain tax matters and (iii) versions of the documents enumerated in the preceding paragraph posted as of the date of issuance of final ratings. Unless enumerated on the prior list, no external legal counsel review was performed with respect to any documents. Therefore, leases, including ground leases and subleases, hedges and related documents, contribution and/or allocation agreements, management agreements, estoppels, title reports, insurance contracts, environmental assessments, guarantees, indemnities, liens or related searches, financial statements, rent rolls, surveys, financing statements, easement agreements, intercreditor or subordination agreements (except as expressly enumerated in the preceding paragraph), among others, were not reviewed by external legal counsel. As legal review of title policies was not performed, Morningstar has assumed such policies do not contain any judgments, tax liens, or other issues that would materially adversely affect any borrower, property owner, property or the mortgagee's lien and security interest in any collateral for any loan. As legal review of local law opinions was not performed, Morningstar has assumed that local law opinion(s) were provided for all relevant jurisdictions, on customary forms and with rating agency reliance.

*As of the time of the writing of this report Morningstar had not been provided with the Mortgage Loan Purchase Agreement (MLPA). Our preliminary analysis and ratings are based on the assumption that the MLPA will be customary and reasonable.*

# 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.

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

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

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