STANDARD & POOR'S

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CMBS Presale Report

Hypo Real Estate Bank AG

€286.25 Million Floating-Rate Amortizing Credit-Linked Notes (ESTATE Pan-Europe 5)

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Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support (%)	Bank note-to-value ratio (%)	Interest	Expected final maturity	Legal final maturity
A1+	AAA	0.5	21.00	47.67	Three-month EURIBOR plus a margin	July 2014	July 2018
A2	AAA	70.15	15.85	50.78	Three-month EURIBOR plus a margin	July 2014	July 2018
B	AA	74.50	10.37	54.09	Three-month EURIBOR plus a margin	July 2014	July 2018
C	A	74.00	4.93	57.37	Three-month EURIBOR plus a margin	July 2014	July 2018
D	BBB	42.60	1.80	59.26	Three-month EURIBOR plus a margin	July 2014	July 2018
E	BBB	14.50	0.73	59.90	Three-month EURIBOR plus a margin	July 2014	July 2018
F	BB	10.00	N/A	60.34	Three-month EURIBOR plus a margin	July 2014	July 2018

**The rating on each class of securities is preliminary as of Dec. 19, 2007 and subject to change at any time. Initial credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion. Standard & Poor's ratings address timely payment of interest and payment of principal not later than the legal final maturity.*
N/A—Not applicable.

Key Transaction Participants	
Transaction name	ESTATE Pan-Europe 5
Originator and servicer	Hypo Real Estate Bank International AG, Stuttgart, Germany and Hypo Real Estate Bank AG, Munich, Germany
Issuer	Hypo Real Estate Bank AG
Lead manager and arranger	Hypo Public Finance Bank
Trustee	Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Dusseldorf, Germany
Custodian	Deutsche Bank Luxembourg S.A.
Note collateral provider	DEPFA ACS

Supporting Ratings	
Institution/role	Ratings
Hypo Real Estate Bank International AG as servicer	A/Stable/A-1
Hypo Real Estate Bank AG as servicer	A/Stable/A-1
Deutsche Bank Luxembourg S.A. as custodian	AA/Stable/A-1+

Transaction Key Features	
Expected closing date	December 2007
Number of loans	25
Number of properties	140
Securitized balance at cut-off date (Mil. €)	1,360.6
Geographic concentration of assets by open market value	Germany (38.96%), France (56.30%), and The Netherlands (4.73%)
Concentration of loans by pool balance at Day 1	Largest loan (14.01%) and largest seven loans (51.75%)
Concentration of assets by open market value	Largest property (13.53%), largest five properties (42.77%) and largest 10 properties (66.53%)
Concentration of tenants as percentage of gross rent	10 largest tenants (38.63%), five largest tenants (27.19%)
Concentration of asset types by open market value	Office (63.06%), retail (21.09%), residential (8.78%), and others (7.07%)
Bank's Day 1 weighted-average securitized LTV ratio (%)	60.34
Bank's projected weighted-average securitized LTV ratio at loan maturity (%)	59.35
Average securitized loan balance (€)	54,424,000
Loan size balance at Day 1 (€)	15,410,191 to 190,600,000
Weighted-average seasoning (months)	20.02
Bank securitized weighted-average ICR on Day 1 pool (x)	1.89
Bank securitized weighted-average DSCR on Day 1 pool (x)	1.72
Standard & Poor's average property score (1.0 is the highest and 5.0 is the lowest)	2.4

Transaction Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the €286.25 million floating-rate amortizing credit-linked notes to be issued by Hypo Real Estate Bank AG (Hypo AG) in its ESTATE Pan-Europe 5 transaction.

ESTATE Pan-Europe 5 is structured as a fully funded synthetic CMBS transaction, in which loss allocation to the noteholders is synthetically linked to the performance of a reference pool of 25 commercial mortgage loans. These loans have been originated by Hypo AG and Hypo Real Estate Bank International AG, Stuttgart (HI) under their standard origination procedures. All loans are secured on properties located in France, Germany, and The Netherlands by a comprehensive security package.

Realized losses in the pool will be allocated to each class of notes in reverse sequential order, starting with the class F notes, until the class balance is reduced to zero.

The notes will be secured against public credit-covered securities issued by DEPFA ACS (the note collateral) and there will be a direct credit link to the rating on the note collateral ('AAA'). Thus, the rating on the notes will be capped at the rating on the note collateral, and if the rating on the note collateral is lowered, the ratings on the notes will also be lowered.

As a result of principal prepayments, the reference pool may be replenished until 2012, subject to the satisfaction of certain conditions.

Strengths, Concerns, And Mitigating Factors

Strengths

- The weighted-average bank cut-off LTV ratio and exit LTV ratio are low, at 60.34% and 59.35%, respectively.
- The transaction benefits from a good weighted-average bank cut-off ICR and DSCR of 1.89x and 1.72x, respectively.
- All of the credit-linked notes will be secured by 'AAA' rated public credit covered securities of DEPFA ACS.
- The reference pool comprises of 25 loans secured by 140 properties in France, Germany, and The Netherlands. The largest loan comprises 14.01% of the Day 1 pool balance.
- The quality of the properties securing the reference loans is generally good.
- Tenant quality across the portfolio is considered average to good.

Concerns and mitigating factors

- 18 loans representing 74.68% of the Day 1 reference pool are secured by a single property. 27.11% of the loans have their rental income derived from only one tenant. This single property and single tenant exposure is subject to more stringent stresses within Standard & Poor's analysis and are reflected in the credit support levels.
- Of the reference loans, 64.70% are interest-only. This increases the exposure of the reference loan pool to greater refinance risk which is concentrated around the time period 2011 to 2013 during which 92.15% of the loans mature. 41.79% of the loans mature in 2013.
- Some of the loans have additional debt that either ranks equal or is subordinated. The relationship is not covered by an intercreditor agreement. Both aspects have been reflected in the credit ratings.
- The ratings on the notes will be capped at the rating on the note collateral. If the note collateral is downgraded, the notes will also be downgraded.
- This transaction is structured with replenishment features which may cause the characteristics of the underlying reference pool to change with the subsequent addition of loans. However, this replenishment is subject to certain conditions designed to restrict the characteristics of new loans added and to maintain the key attributes of the reference pool, including ICR and LTV ratio tests and confirmation by Standard & Poor's.

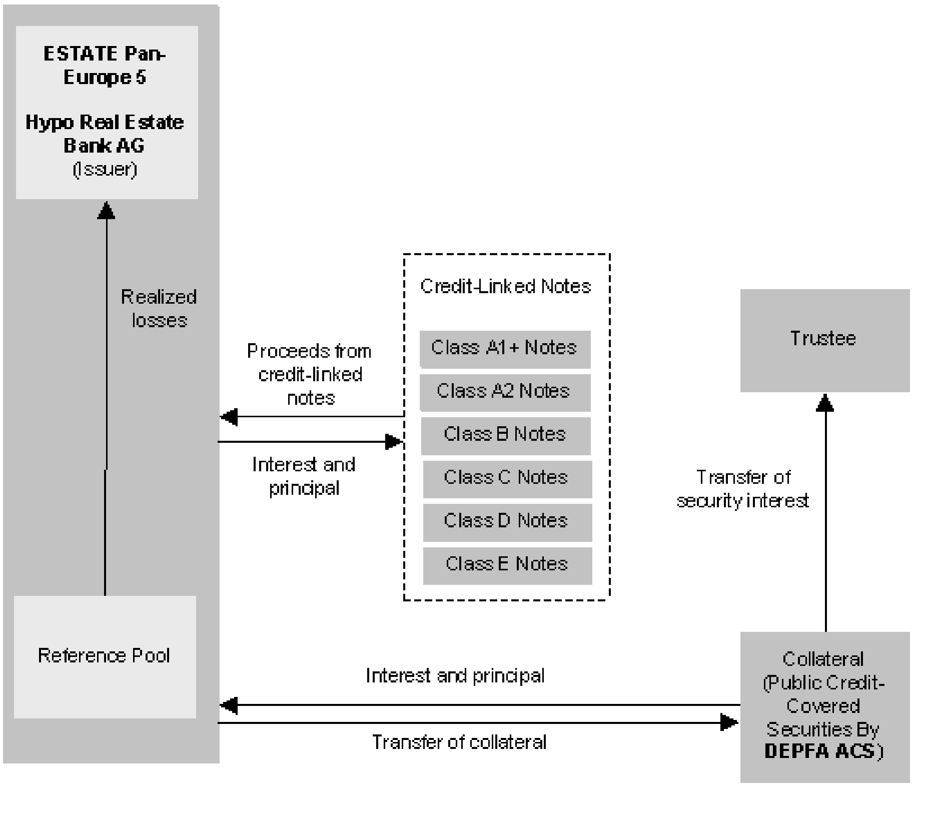
Transaction Structure

At closing, with the proceeds from issuing the credit-linked notes, the issuer will purchase public credit-covered securities issued by DEPFA ACS (note collateral) equal to the amount of the outstanding notes. This note collateral will be charged to the trustee as security for the noteholders.

The transaction will have a class A1 note. Anytime during the term of the transaction, the issuer is allowed to redeem the class A1 note in full and replace it with another instrument of credit protection, e.g., a CDS.

Chart 1 shows the structure of the transaction.

Chart 1: ESTATE Pan-Europe 5 Transaction Structure



Note collateral

The issuer will use the net proceeds at closing to purchase the 'AAA' rated note collateral from DEPFA ACS. The note collateral will be transferred to the trustee as security for the transaction noteholders and will secure the issuer's payments under the notes. The ratings on the credit-linked notes will be capped at the rating on the note collateral, and if the rating on the note collateral is lowered, the ratings on the notes will also be lowered.

The transaction documentation provides that if the rating on the note collateral is lowered below 'AAA', the issuer will within 30 days supplement and/or substitute the initial note collateral with supplementary collateral. Failure to supplement and/or substitute the note collateral will result in a downgrade of the notes to the rating on the note collateral.

The note collateral will be issued for this transaction so that the nominal amount and the maturity of the note collateral match the principal amount of the credit-linked notes. The collateral notes pay interest on the same dates and in the same amount as the interest to be paid on the notes.

The note collateral is expected to mature on the legal maturity date in July 2018.

The note collateral will be held by the trustee for security purposes, for the benefit of the noteholders. The trustee must keep the note collateral in an account with the custodian. If the short-term rating on the custodian falls below 'A-1', the trustee has 30 days to transfer the note collateral to a custodian with the required rating.

If a foreclosure event occurs, such as the assets of the issuer becoming insolvent, non-payment of the issuer or the noteholders exercising their right of early redemption, the trustee must:

- Sell the note collateral and redeem the notes; or
- If the proceeds from this sale are not sufficient to redeem the notes at their then current outstanding amount plus accrued interest, deliver the note collateral to the relevant noteholders as payment in kind.

Because of the particularities of the trust arrangements and the German trust law, in case of a simultaneous insolvency of both issuer and trustee, the noteholders may not be able to enforce the note collateral.

Replenishment

The outstanding amount of the reference pool may decline because of principal prepayments of individual loans. The issuer can replenish the reference pool until December 2012, subject to the satisfaction of certain conditions.

As a result of such replenishment, certain characteristics of the reference pool could potentially change. However, the addition of new loans is subject to certain criteria including:

- Any new loan in the pool must not have a bank ICR below 1.30x;
- The bank weighted-average LTV ratio of the loan pool must not exceed 62%;
- No reference loan must account for more than 15% of the initial pool balance;
- Each new mortgaged property must be located in the Eurozone; and
- No new reference loan may have a legal maturity longer than the longest maturity of any initial reference loan.

In addition, there are criteria limiting the jurisdictions and types of assets permitted to be added, and tests related to asset concentration and size. Replenishments will be subject to Standard & Poor's confirmation to the issuer and the trustee that the replenishment will not adversely affect the rating on the credit-linked notes. Finally, compliance with the replenishment criteria is a condition to loss allocation.

Terms And Conditions Of The Notes

Interest

Interest will be payable quarterly in arrears on all the notes at three-month EURIBOR plus a class-specific margin yet to be determined.

Redemption of the notes

Redemption will occur upon scheduled amortization of the reference loans and reference loan prepayments which will be applied to the notes sequentially. It is the obligation of the issuer to redeem the credit-linked notes because of scheduled amortization and prepayments of reference loans. At the same time, the note collateral will be reduced accordingly.

Unless any class of notes has been previously redeemed, all classes of notes are expected to be redeemed in July 2014 at their note principal amount, unless any reference loan has defaulted. The portion of notes relating to these defaulted reference loans will not be redeemed on the scheduled maturity date, and will remain outstanding until the losses have been allocated.

The notes will ultimately be repaid by the legal maturity date in July 2018. Losses for loans that have defaulted before the payment date immediately preceding the legal maturity date of the notes, but for which foreclosure procedures have not been finalized, will be appraised by the issuer. For this loss appraisal, the trustee will appoint two independent experts to calculate the expected recoveries for the defaulted reference loans. This loss appraisal must be finalized before the legal maturity date.

Early redemption

The issuer may redeem the notes before the scheduled maturity date in 2014 if:

- Certain legal, tax, or regulatory changes are imposed on the issuer; or
- The outstanding principal balance of the reference pool has been reduced to less than 10% of the principal balance of the reference pool at cut-off, i.e., 10% of €1,360.6 million; or
- The fifth anniversary of the issue date has occurred.

Each noteholder will be entitled to demand redemption of the notes held by it before the scheduled maturity date in 2014 if:

- The issuer fails to make, within 30 days from the relevant due date, any payment due to be made under the notes;
- The issuer or its assets become subject to, among other things, bankruptcy; or
- 30 business days have elapsed after the trustee has resigned for good cause and no successor trustee can be found.

Allocation of realized losses

Any realized losses on reference loans will be allocated to the notes in reverse sequential order.

Realized losses will include principal, accrued interest, and enforcement costs. Enforcement costs will exclude the internal costs, expenses of the servicer, and any costs associated with the refinancing register.

Compliance with the eligibility criteria, replenishment conditions, and servicing standards are a condition of the loss allocation. Only under certain limited circumstances, for example if such noncompliance did not result in a higher loss, will a breach of any of these conditions qualify for loss allocation.

Trustee

The trustee will have a major role in this transaction. The trustee will serve in a fiduciary capacity to protect the interests of the noteholders and senior swap counterparty. The trustee will, among other things, verify the determination and allocation of realized losses incurred in the reference pool to the noteholders. The issuer will pay the trustee a fee for its services and indemnify the trustee for any other costs incurred for its services including external valuers and other verification experts.

The trustee may resign at anytime for good cause. If the trustee resigns, the issuer will use all reasonable effort to appoint a successor trustee within 30 business days. If no successor trustee can be appointed, an early termination of the transaction will occur. In this case, the resigned trustee must assist with the early termination of the transaction and any outstanding loss allocation until all notes have been redeemed or all losses have been allocated.

Loan Origination And Servicing

Origination

Of the 25 loans, 21 were directly originated by HI and Hypo AG, and four were acquired from another mortgage bank by HI.

Borrowers

Except for five loans, the borrowers were all incorporated as limited-purpose entities (LPEs).

The other five loans have borrowers that are German open-ended funds.

Subordinated debt and intercreditor agreements

Two loans have pari passu ranking loans in form of a capex facility and three loans have subordinated debt which do not form part of the securitization (see table 1).

Table 1: Subordinated Debt Summary

Loan name	Whole-loan Day 1 balance (Mil. €)	Senior loan Day 1 loan balance (Mil. €)	Pari-passu ranking debt Day 1 balance (Mil. €)	Subordinated debt Day 1 balance (Mil. €)	Senior loan bank LTV ratio at Day 1 (%)	Whole-loan bank LTV ratio at Day 1 (%)
1002	199.00	190.6	0.0	8.40	62.49	65.25
1010¶	104.0	81.0	0.0	23.00	59.73	76.70
1011¶	79.5	75.44	0.0	4.06	54.87	67.78
1012§	47.95	37.95*	10.0	0.00	79.06	99.90
1022	73.858	69.358	4.5	0.00	65.26	69.49

*Of which €33.65 million will be securitized.
¶Both loans are cross-defaulted and cross-collateralized. In addition, an equity loan in the amount of €19.3 million was granted to the parent company which is cross-defaulted with loans 1010 and 1011, but which is not secured by a mortgage.
§This loan benefits from a LTV ratio covenant of 85% which will restrict further drawings.

There are no intercreditor agreements in place for any of the subordinated debt. On Day 1 the originators are holding all of the subordinated and pari passu ranking debt and will have to comply with the servicing standards.

Only a portion of the senior debt will be securitized in this transaction. The subordinated portion of the senior loan will rank subordinated to the securitized amount. This feature will apply to the loans in table 2.

Table 2: Synthetic split of senior debt

Loan name	Senior whole-loan Day 1 balance (Mil. €)	Securitized senior loan Day 1 loan balance (Mil. €)	Subordinated senior debt Day 1 balance (Mil. €)	Securitized senior loan bank LTV ratio at Day 1 (%)	Senior whole-loan bank LTV ratio at Day 1 (%)
1009	18.128	15.410	2.718	68.70	80.82
1012	37.950	33.650	4.300	70.10	79.06
1016	56.000	44.600	11.400	61.94	77.78
1017	30.419	28.769	1.650	77.54	81.99
1018	27.756	20.756	7.000	66.74	89.25
1019	36.950	32.050	4.900	67.90	78.28
1022	27.332	24.032	3.300	77.47	88.11
1023	64.350	55.950	8.400	64.53	74.22
1024	50.400	43.500	6.900	80.56	93.33
1025	29.501	25.801	3.700	67.02	76.63

Servicer

The issuer and HI will be the servicer for all of the loans. Both will be bound by the servicing standards.

The administration, collection, and enforcement of each reference claim, including enforcement of the reference collateral, will be performed by the respective servicer. For syndicated reference loans, the agent will perform these tasks if the servicer is not the servicing agent.

The servicing of the reference pool must be performed in accordance with the servicing standards. Under the servicing standards, among other things, a borrower may substitute properties subject to certain conditions.

Compliance with the servicing standards is a condition to the loss allocation. Only under certain limited circumstances will a breach of the servicing standards qualify for loss allocation.

Standard & Poor's carried out an originator and servicer review to ensure appropriate servicer credit procedures and systems were in place.

Insurance coverage

Each loan agreement contains provisions requiring the relevant borrower to insure its respective properties against the risk of damage and destruction on a full reinstatement basis and for at least 24 months' loss of rent.

All insurances must be in an amount and form and with an insurance provider that is acceptable to the lender.

The borrowers are not presently fully insured against acts of terrorism. However, Standard & Poor's CMBS ratings do not address acts of terrorism that result in an uninsured loss at the property. Several key risks, including biological or chemical attack and war, are not generally covered by any insurance policy and are also not addressed in the ratings.

Property valuations and environmental review

The originators require either independent property valuations or internal property valuations as part of the loan underwriting. Some of the valuations provided for this portfolio have been provided by the borrower's internal valuer. However, the originators have instructed all valuers on the requirements of the valuation.

Environmental reports or reports relating to the structure and construction of a property are not normally requested as part of HI's and Hypo AG's due diligence process. However, if the valuation report makes a specific reference, such reports may be requested.

German business tax reform 2008

The estimated impact of the forthcoming changes in the German tax law (namely those limiting the deductibility of interest payments) have been taken into account in Standard & Poor's rating analysis of the 14 German loans and are reflected in the rating level.

Loan Pool Characteristics

The characteristics of the mortgage pool are summarized in the "*Transaction Key Features*" table at the start of this report.

The reference pool comprises 25 commercial mortgage real estate loans (reference claims). The reference claims are secured by 140 commercial properties located across Europe. The largest reference claim represents 14.01% of the reference pool by cut-off balance. The seven largest reference claims represent 51.75% of the reference pool by cut-off balance.

The loan collateral comprises a mixture of offices, retail, residential and mixed use assets. The split of the reference pool by sector is shown in chart 2 which demonstrates a concentration in office property, representing 63.06% by open market value.

Chart 2: External Value By Sector

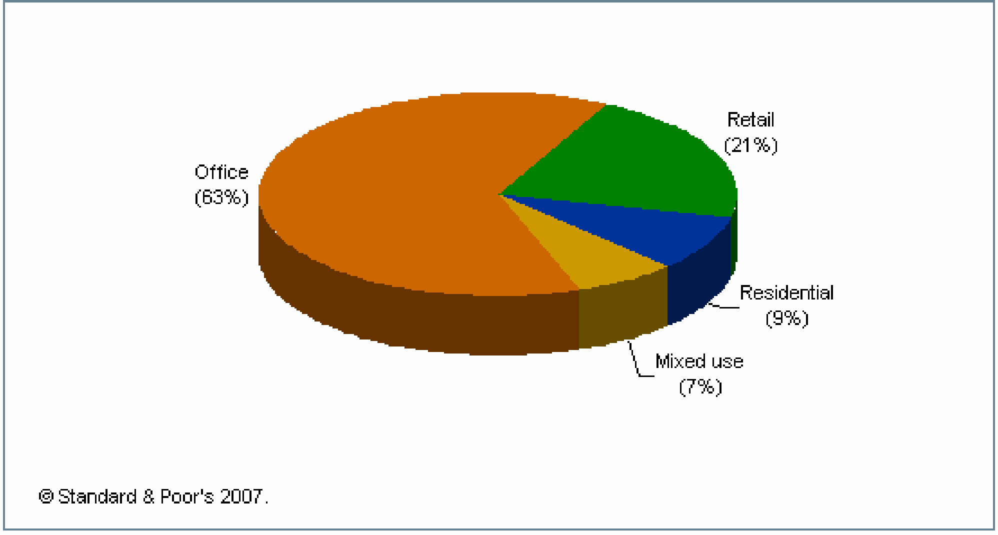
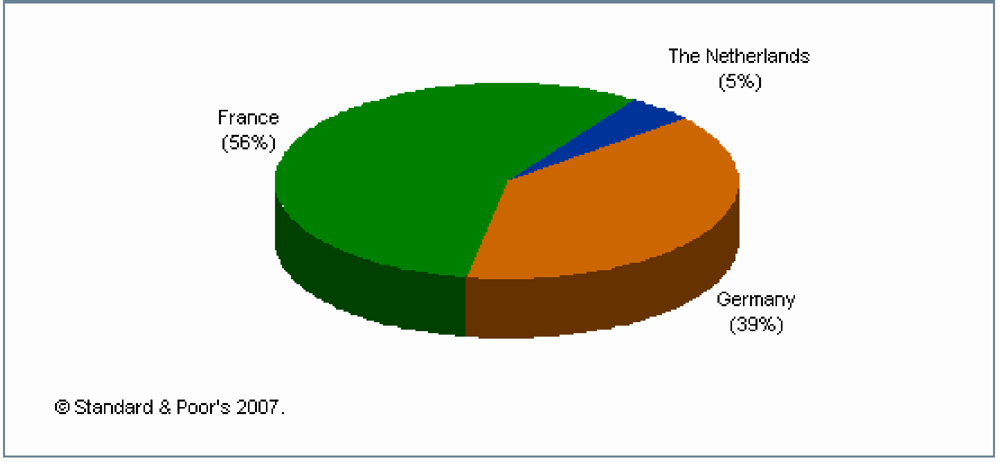


Chart 3 shows that the reference pool is concentrated in France, representing 56.30% by open market value.

Chart 3: External Value By Country



The weighted-average bank cut-off LTV ratio of the reference pool is 60.34% and the exit LTV ratio of 59.35%. In addition, the reference pool has a weighted-average bank cut-off A-note ICR ratio of 1.89x and a DSCR ratio of 1.72x. Furthermore, most reference loans benefit from LTV ratio and ICR/DSCR covenants. However, seven loans do not have a LTV ratio covenant and four loans have neither ICR nor DSCR covenants.

Table 3 shows that 64.70% or 13 reference pool are interest-only loans. Aggregate scheduled amortization (assuming no prepayments) is approximately 1.65% of the Day 1 securitized pool balance. All loans are therefore subject to bullet principal payments and so are exposed to refinance risk at loan maturity which for the large maturity of loans will be between 2011 and 2013. 41.79% of the loans based on the Day 1 securitized balance will be due for refinancing in 2013.

Table 3: Type Of Amortization

	Number of loans	Percentage of aggregate loan balance
Interest-only	13	64.70
Scheduled amortization	7	19.28
Cash sweep	5	16.02

Table 4 shows that the majority of loans have a term between five to 10 years.

Table 4: Loan term		
Years	Number of loans	Percentage of aggregate loan balance
0–5	3	6.79
5–10	19	78.47
10–15	3	14.74

Each loan in the pool will be secured by a comprehensive security package, typically but not invariably including first-ranking mortgages on the underlying assets, and a security interest for the relevant rental payments, or the nearest equivalent in the relevant jurisdiction. Four French loans are registered in the refinancing register in Germany as these loans were acquired from a third party which is still the beneficiary of the security package. To account for this structure enforcement, costs will exclude any costs associated with the refinancing register. In addition, one of the conditions for the loss allocation is an enforceable security package. For 17.43% of the pool by Day 1 securitized balance the security package does not include a pledge over the rental account and for 8.94% of the pool this also excludes an assignment of the rental income.

All loans either pay fixed interest rates or are hedged over the majority of the loan term. Except for one loan (1.55% of the reference pool) for which the hedging expires in December 2007. Most loans are hedged for 100% of the loan amount with the exception of two loans (5.08% of the reference pool) which only benefit from a hedging of minimum 76% of the loan amounts. However, the hedging arrangements do not comply with Standard & Poor's counterparty criteria and therefore may not survive a loan default. This has been taken into account in Standard & Poor's loan analysis.

Table 5 shows the type of interest rate on a loan-by-loan basis. It demonstrates that 80.77% are subject to borrower level hedging arrangements.

Table 5: Type Of Interest Rate		
	Number of loans	Percentage of aggregate loan balance
Floating rate with borrower-level hedging	20	80.77
Fully fixed	5	19.23

For most of the loans, all rental income is paid into a borrower account for which the borrower has sole signing rights. Minimum rating criteria for bank accounts vary widely for the individual reference loans. For most reference loans, no such minimum rating requirement is required.

Substitution of borrowers and properties is allowed for some loans. This substitution is subject to lender consent, which again is subject to the servicing standards. Property disposals are subject to a release premium ranging from 105% to 115%.

As part of Standard & Poor's credit process, approximately 68% of the reference pool by open market value was inspected, both independently of and together with members of HI. Standard & Poor's property score for assets inspected was 2.4, where 1.0 is the highest and 5.0 is the lowest. A sample of properties visited by Standard & Poor's is shown in images 1 and 2.

Image 1

Source: Standard & Poor's.

Image 2

Source: Standard & Poor's.

Table 6 shows key features of the reference pool such as number of properties securing the loan, number of tenants, net rent and open market value.

Table 6: Key Features Of The Reference Pool (€)								
Reference claim	Property type, country	Number of properties	Number of tenants	Sq. m.	Net rent (Mil. €)	% of net rent	Bank open market value (Mil. €)	% of open market value
1001	Office, France	1	7	24,438	6.593	5.2	124.000	5.5
1002	Office, France	1	31	67,719	15.766	12.4	305.000	13.5
1003	Office, France	1	1	14,412	3.733	2.9	46.800	2.1
1004	Office, France	1	1	9,147	7.987	6.3	116.000	5.1
1005	Office, France	1	1	9,927	3.011	2.4	45.400	2.0
1006	Office, The Netherlands	1	1	27,100	5.014	3.9	84.300	3.7
1007	Office, France	1	11	28,593	13.203	10.4	282.400	12.5
1009	Retail, The Netherlands	4	38	6,296	1.253	1.0	22.430	1.0
1010	Office, France	1	1	15,938	6.709	5.3	135.600	6.0
1011	Office, France	1	1	14,292	6.303	5.0	117.300	5.2
1012	Retail, Germany	1	79	31,833	3.870	3.0	48.000	2.1
1014	Multi family, Germany	8	613	35,026	1.150	0.9	19.077	0.8
1015	Multi family, Germany	39	2,007	118,224	7.866	6.1	101.603	4.5
1016	Multi family, Germany	12	1,018	61,848	3.676	2.9	72.000	3.2
1017	Office, Germany	1	17	19,736	2.618	2.1	37.100	1.6
1018	Office, Germany	1	1	10,630	1.936	1.5	31.100	1.4
1019	Office, Germany	1	3	16,489	2.599	2.0	47.200	2.1
1021	Retail, Germany	1	105	43,201	6.477	5.1	106.280	4.7
1022	Office, Germany	1	14	14,125	1.974	1.6	31.020	1.4
1023	Office, Germany	2	23	38,192	5.283	4.2	86.700	3.8
1024	Multi family, Germany	8	912	61,493	3.145	2.5	58.045	2.6
1025	Multi family, Germany	2	447	29,124	2.085	1.6	38.500	1.7
1026	Retail, Germany	1	36	23,806	4.031	3.2	87.000	3.9
1027	Retail, Germany	48	1	57,538	6.998	5.5	114.860	5.1
1028	Retail, France	1	46	12,816	3.821	3.0	97.000	4.3
Total						100.0	2,254,715	100.0

Table 7 illustrates the reference pool with cut-off balance, projected balance at loan maturity, cut-off LTV ratio, exit LTV ratio, Day 1 bank ICR, and DSCR.

Table 7: Key Features of the Reference Pool (€)								
Reference claim	Cut-off balance	% of pool	Projected balance at maturity	% of projected balance at maturity	Cut-off bank LTV ratio (%)	Exit bank LTV ratio (%)	Bank ICR (x)	Bank DSCR (x)
1001	77,765,625	5.72	73,434,375	5.48	62.80	59.22	1.65	1.38
1002	190,600,000	14.01	190,600,000	14.23	62.49	62.49	1.64	1.64
1003	21,043,500	1.55	20,916,000	1.56	44.96	44.69	4.50	4.50
1004	57,000,000	4.19	57,000,000	4.26	49.14	49.14	2.76	2.76
1005	22,000,000	1.62	22,000,000	1.64	48.46	48.46	2.54	2.54
1006	40,000,000	2.94	40,000,000	2.99	47.44	47.45	2.89	2.89
1007	121,600,000	8.94	121,600,000	9.08	43.06	43.06	1.25	1.25
1009	15,410,191	1.13	14,634,566	1.09	68.70	65.25	1.77	1.35
1010	81,000,000	5.95	81,000,000	6.05	59.73	59.73	1.93	1.00
1011	75,437,500	5.54	75,437,500	5.63	64.31	64.31	1.77	1.00
1012	33,650,000	2.47	31,700,000	2.37	70.10	66.04	1.75	1.22
1014	16,809,099	1.24	16,128,419	1.20	86.90	84.54	1.65	1.00
1015	85,000,000	6.25	85,000,000	6.35	83.66	83.66	1.98	1.98
1016	44,600,000	3.28	44,600,000	3.33	61.94	61.94	1.76	1.76
1017	28,768,750	2.11	27,141,250	2.03	77.54	73.16	1.74	1.27
1018	20,755,699	1.53	20,755,699	1.55	66.74	66.74	1.79	1.79
1019	32,050,364	2.36	29,305,273	2.19	67.90	62.09	1.61	1.02
1021	69,357,985	5.10	69,357,985	5.18	65.00	65.26	2.23	2.23
1022	24,032,223	1.77	24,032,223	1.79	77.47	77.47	1.57	1.38
1023	55,950,000	4.11	55,950,000	4.18	64.53	64.53	1.82	1.82
1024	43,500,000	3.20	43,500,000	3.25	74.94	74.94	1.54	1.54
1025	25,801,000	1.90	25,801,000	1.93	67.02	67.02	1.74	1.74
1026	52,200,000	3.84	52,200,000	3.90	60.00	60.00	1.64	1.64
1027	72,668,064	5.34	72,668,064	5.43	63.27	63.27	2.66	2.66
1028	53,600,000	3.94	44,488,000	3.32	55.26	45.86	1.32	1.32
Total	1,360,600000	100.0	1,339,250,354	100.0	58.39	58.19	1.95	1.77

Seven largest reference claims

The seven largest reference claims, which account for 51.75% of the reference pool by cut-off balance, are briefly discussed below. We have been asked by HI to keep the identity of the borrowers, properties, and tenants anonymous.

Reference claim 1002: cut-off balance: €190.6 million (14.01% of the reference pool)

This interest-only floating-rate seven-year loan has a Day 1 loan balance of €190.6 million, all of which will be securitized. The loan was granted to a French LPE to acquire an office building in Nanterre, Paris. The loan was structured with a capex facility in the amount of €8.4 million, which is subordinated to the securitized loan. The loan benefits from a collar hedging strategy which caps the maximum interest rate.

The Day 1 bank LTV ratio including the capex facility is 65.25%. The loan also benefits from a strong whole-loan bank ICR of 1.64x. This loan does not have a LTV ratio covenant but benefits from an ICR covenant of 1.30x.

Borrower

The borrower is a LPE registered in France whose parent is an established French real estate company.

Collateral description

The collateral is a 1990s freehold-owned building complex of 67,719 sq. m. used principally as office premises in Nanterre (close to the office area La Defense in Paris). The surrounding is characterized by low-quality social housing apartment blocks with a mix of older, but also recently constructed office properties. Although this area is recognized as a direct suburb of La Defense, there is a lack of good-quality public transport in the immediate proximity of the property. However, a free shuttle bus for employees operates regularly between the asset and La Defense.

The property is a five-storey building with 55,849 sq. m. office/mixed-use space, 1,957 sq. m. retail, 2,079 sq. m. storage, 7,834 sq. m. common space, and 1,058 parking units. The specifications are generally good, e.g., a large atrium, air conditioning, a staff restaurant, a cafeteria, and 24-hour surveillance. The office space is characterized by large open spaces. The property is in a good state of repair. However, the borrower is finalizing a capex program to improve common areas in the building. The estimated costs are €15 million.

The property is currently let to 31 tenants, which occupy 91% of the space. The leases are characterized, among other things, by triple net leases (apart from the structural works), annual indexation, subleases not permitted without the prior consent of the lessor, and standard notice periods of six months. The weighted-average lease term is 3.1 years (to first-break option) and 6.3 years (to lease expiry). Last year, more than 6,200 sq. m. were let (10% of the lettable spaces), which reduced the vacancy rate by more than 50% to the current figure.

Each tenant represents only 3.25% of the income. However, the top five tenants, which include large corporations, represent 45% of the income. The overall gross rent at cut-off is €16.3 million. Standard & Poor's adjusted net operating income (NOI) is €14.8 million, resulting in an exit yield on debt (EYoD) at loan maturity of 7.75%. Standard & Poor's considered various factors including the microlocation of the asset and tenant profiles, and concluded that the property is located in a secondary office location. No credit was given for any uplift to market rents or letting of the currently vacant space. A small deduction was assumed for nonrecoverable costs associated with management, structural vacancy, letting fees etc.

The loan exhibits the following strengths:

- The whole-loan bank LTV ratio is low at 65.25%, resulting in an estimated sponsor equity of in excess of 30%.
- The property is well let, albeit on standard 3/6/9 lease terms.
- The top 10 tenants, accounting for 45% of the income, are established companies the majority of which have ratings above 'BBB', resulting in a stable rental cash flow.

The loan exhibits the following concerns and mitigating factors:

- The asset is in a secondary office location in Paris and is not well served by public transport. However, a shuttle bus is provided for the employees.
- The weighted-average lease term is shorter than the remaining loan term. However, the borrower has demonstrated its ability to let the asset with the letting of 10% of the lettable space in 2006.
- The loan is interest-only, resulting in a refinancing risk. This has been taken into account in Standard & Poor's credit analysis.

Reference claim 1007: cut-off balance: €121.6 million (8.59% of the reference pool)
The second-largest reference claim is a 10-year interest-only fixed-rate loan. The Day 1 loan balance is €121.6 million. The loan was granted to a German open-ended fund to acquire an office building in the ninth arrondissement in Paris. The Day 1 bank LTV ratio is 43.06%. The loan has a bank ICR of 1.25x. The loan does not benefit from covenants such as ICR and LTV ratios.

Borrower
The borrower is a well-known German open-ended fund.

Collateral description
The loan is secured on an eight-storey office building located in the ninth arrondissement in Paris, near the opera and Saint-Lazare station. The accessibility by public transport is very good. The property features a total net lettable floor area of 28,593 sq. m., of which 26,330 sq. m. are offices, 1,977 sq. m. archive space, and 286 sq. m. a fitness centre. The asset also benefits from 225 parking spaces (let for €2,200 per year).

The 19th-century-built asset was refurbished in 1998/1999 and again in 2005/2006 to an excellent standard. All floors have suspended ceilings and are fully air-conditioned.

From the completion of the refurbishment in May 2006 to date the sponsor has been able to let 73.5% of the available space. However, some of the remaining vacant space is the less attractive space (mezzanine floors). The current vacancy rate of 26.5% compares with a market vacancy rate of approximately 5.20%.

The weighted-average lease term to first-break option is 2.83 years, and to lease expiry 7.9 years. The total gross rent is €13.2 million, which is derived from 12 tenants. Most tenants are well established French companies. The main tenant, a state-owned insurance company, accounts for 32.33% of the gross rental income. Standard & Poor's adjusted NOI is €11.8 million, resulting in an EYoD at loan maturity of 9.71%. As part of Standard & Poor's analysis, various factors including the microlocation of the asset and tenant profiles were considered. It was concluded that the asset is located in a strong office location. However, no credit was given for any letting of the currently vacant space, given that this space has been vacant since May 2006. A deduction was assumed for nonrecoverable costs associated with management, structural vacancy, letting fees etc.

The loan exhibits the following strengths:

- The Day 1 bank LTV ratio is low at 43.06%.
- The loan collateral is an office building in a prime location in Paris which provides modern office accommodation.
- The rental income is derived from 12 well established tenants, resulting in a strong cash flow profile. In addition, the main tenant, accounting for one-third of the rental income, is a state-owned insurance company.

The loan exhibits the following concerns and mitigating factors:

- The asset exhibits a larger-than-average vacancy rate of 26.5%. This has been taken into account in Standard & Poor's analysis.
- The weighted-average lease term is shorter than the remaining loan term. However, given the location and quality of the asset, it should attract interest from various tenants if space becomes vacant.

Reference claim 1015: cut-off balance: €85 million (6.01% of the reference pool)
This reference claim is a seven-year interest-only floating-rate loan. The Day 1 loan balance is €85 million. The loan was granted to a Swedish LPE to acquire 39 multi-family assets across Germany. The Day 1 bank LTV ratio is 83.66%. The loan has a good bank ICR of 1.98x. It also has an LTV covenant of 85% and an ICR covenant of 1.25x.

Borrower
The borrower is an LPE established in Sweden.

Collateral description
The portfolio comprises 39 multi-family properties spread across Germany with 38% in North-Rhine Westphalia, 28% in Bavaria, 27% in Hesse, and 7% in Lower Saxony. Most of the assets are in average locations, with some in good and some in below-average locations.

The portfolio is quite granular; with the top 15 assets accounting for 73.10% by open market value and the remaining 24 assets for 26.90%. Properties were constructed between 1935 and 1981. The assets are in an average to below-average state of repair.

The portfolio is very mixed with regard to the size of the assets. Some are smaller buildings with only 10 units, whereas some assets are 12– to 13–storey buildings with 50 units. Most assets are three– to five–storey buildings. Some properties have commercial units. However, the percentage of income derived from commercial tenants is small.

The sponsor is planning to invest approximately €1.5 million per year for the medium term, which is €13/sq. m. This amount is normally sufficient for a substantial refurbishment.

The total net lettable area is 118,224 sq. m. There are currently 2,007 units producing a gross rental income of €10.6 million, with an aggregate occupancy rate of 91.15%. Vacancy has increased to 9% in 2007 from 6.2% in 2006. The sponsor plans to improve the occupancy rate by refurbishing any vacant flats, and to improve the overall quality of assets. Standard & Poor's adjusted NOI is €7.866 million, resulting in an EYoD at loan maturity of 9.25%. Given the locations and quality of the properties, the Day 1 occupancy rate and gross rental income was assumed for this analysis. Due to the limited cost analysis information, Standard & Poor's made its own assumptions in deducting for management costs, ongoing maintenance and capex, and other nonrecoverable costs including credit loss from tenant rollover. These deductions reflected the quality of the assets and are in line with costs attributable to similar portfolios.

The loan exhibits the following strengths:

- The collateral is a very well diversified pool with residential assets across Germany.
- The cash flow profile is granular given the residential nature of the assets, and stable because of the current occupancy rate of 91.15%.
- Most assets are medium-size multi-family buildings (average of three– to five–storey buildings).
- The largest five assets are in average to good locations in strong cities.

The loan exhibits the following concerns and mitigating factors:

- Most assets are in average locations and will require active asset management to maintain current occupancy levels.
- The Day 1 bank LTV ratio is high at 83.66%.
- The loan is interest-only, resulting in a refinancing risk at loan maturity. This has been taken into account in Standard & Poor's analysis.

Reference claim 1010: cut-off balance: €81 million (5.95% of the reference pool) and Reference claim 1011: cut-off balance: €76.091 million (5.54% of the reference pool)
Reference claim 1010 and 1011 are cross-defaulted and cross-collateralized with each other and junior ranking loans in the aggregate amount of €46,362,658 of which €19.3 million is equity financing which was granted to the sponsoring company of both borrowers. These loans were provided to two separate LPE borrowers which belong to the same sponsor. Because of the cross-default and the cross-collateralization both loans are described together in this section.

Both loans are five-year interest-only floating-rate loans which benefit from a borrower level swap. The Day 1 loan balance of reference claim 1010 is €81.000 million and of reference claim 1011, €76.091 million. Key characteristics of other loans individually and on a whole-loan basis are shown in table 8.

Table 8: Key Characteristics Of Other Loans

Loan name	Whole-loan Day 1 balance (Mil. €)	Senior loan Day 1 loan balance (Mil. €)	Subordinated debt Day 1 balance (Mil. €)	Senior loan bank LTV ratio at Day 1 (%)	Whole-loan bank LTV ratio at Day 1 (%)
1010	104.00	81.00	23.00	59.73	76.70
1011	79.50	75.44	4.06	64.31	67.78
Whole loan	183.5	156.44	27.06	61.86	72.56
Equity financing at sponsor level*	19.30	0.00	19.30	N/A	N/A

**Unsecured additional indebtedness at sponsor level.*

The Day 1 standalone bank LTV ratio for loan 1010 is 59.73% and the bank ICR 1.93x. The Day 1 standalone bank LTV ratio for loan 1011 is 64.31% and the bank ICR 1.77x. The aggregate whole-loan Day 1 bank LTV ratio including the subordinated debt is 72.56%. The loans benefits from a cash sweep of the rental income of 100% for the first three years and at least 50% for the remaining loan term. The reduction of the cash sweep is subject to an LTV ratio covenant test.

Borrower
The reference claims were granted to two different borrowers which are both LPEs. The borrowers belong to the same sponsor entity.

Collateral description
Reference claim 1010 is secured on an office property located close to La Defense in Paris. The property comprises ground, mezzanine, 12 upper floor, and five basement levels which are used as a car park. The total net lettable floor area is 15,938 sq. m. of which 11,734 sq. m. are office, 1,359 sq. m. warehouse, 1,991 sq. m. other space and 854 sq. m. are currently used as a staff restaurant.

The asset was originally constructed in 1971, but was fully refurbished in 2004. It therefore offers modern office accommodation. Of the total area, 13.2% is dedicated to IT usage, but the tenant would have to convert this space back to office space if the lease were terminated.

The current total gross rent is €6.8 million with the lease expiring in September 2015. The tenant must give 12 months' notice. The property is 100% let to one tenant which is a subsidiary of a 'AA-' rated parent company.

Reference claim 1011 is secured on an office property located near the previously described property. The property comprises a ground floor and nine upper floors. The total net lettable area is 14,292 sq. m. The asset also benefits from 218 parking spaces.

Built in 1985, the asset has recently been partially refurbished by the current tenant (lifts and lobby). The total gross rent is €6.3 million with the lease expiring in October 2012. The tenant needs to give 12 months notice. The property is 100% let to one tenant which is another subsidiary of the aforementioned 'AA-' rated parent company.

Standard & Poor's adjusted NOI for loan 1010 is €6.71 million and for loan 1011 €4.69 million, resulting in an EYoD at loan maturity of 9.45% and 6.40% respectively. Standard & Poor's analysis of the EYoD gave credit to the cash sweep as previously explained. It was assumed that the tenant of loan 1011 will vacate at lease expiry. The market rent as stated in the valuation was therefore considered for the time of refinancing. A small deduction was assumed for nonrecoverable costs associated with management, structural maintenance etc.

The cross-collateralized and cross-defaulted loans no 1010 and 1011 exhibit the following strengths:

- The collateral of both loans provide modern office accommodation in a good location in Paris.
- Both properties are 100% let to subsidiaries of a AA- rated parent company.
- Both loans benefit from a cash sweep mechanism during the loan term which will reduce under the most conservative assumptions the exit LTV ratio for loan 1010 to 52.38% and loan 1011 to 62.48% (based on Day 1 bank values).

The loan exhibits the following concerns and mitigating factors:

- The lease for loan 1011 expires approximately six months after loans maturity. This may result in difficulties in refinancing this loan. However, as the loan is cross-defaulted and cross-collateralized with loan 1010 which benefits from a much longer lease this risk is partly mitigate. The aggregate exit LTV ratio for both loans is 57.07%.
- Both loans have no loan covenants in place. However, there is a cash sweep mechanism during the loans term.

Reference claim 1001: cut-off balance: €77.8 million (5.72% of the reference pool)

Reference claim 1001 is a seven-year amortizing floating-rate loan. The Day 1 loan balance is €77,765,625 million. The loan was granted to a French LPE to acquire an office building in Clichy la Garenne, Paris. The Day 1 LTV ratio is 62.80% which will reduce to 59.22% at loan maturity. The loan also benefits from a reasonable ICR of 1.65x. The loan benefits from a collar hedging strategy which caps the maximum interest rate.

Borrower

The borrower is an LPE established in France whose parent is an established French real estate company.

Collateral description

The collateral is in Clichy la Garenne. This town was initially dedicated to residential accommodation, but it today houses a number of recently or newly constructed office buildings. Although this area is recognized as a suburb of La Defense, there is a lack of public transport links.

The property was constructed in 2002 and comprises four inter-connected buildings. It offers circa 24,438 sq. m. of lettable area (17,777 sq. m. office and 5,428 sq. m. light industrial) of lettable area, an intra company restaurant (1,253 sq. m.), and 360 parking spaces.

There are currently seven tenants in place, which occupy 90% of the lettable space. All leases provide for an annual indexation and extra rents for the restaurant and parking spaces. The weighted-average remaining lease term is relatively short with 1.8 years (to first break option) and 3.9 years (to leases expiry) compared to the loan duration of 5.7 years.

The top three tenants account for 84% of the rental income. They are nationally and internationally established companies.

The overall gross rent at cut-off is €6.8 million. The 10% remaining vacant spaces comprises mainly light industrial space in the basement which is more challenging to let.

Standard & Poor's adjusted NOI is €6.044 million, resulting in an EYoD at loan maturity of 8.23%. Various factors including the microlocation of the asset and tenant profiles were considered. It was concluded that the asset is located in an average office location, and the characteristics of the currently vacant space were considered. No credit was given for any letting of the currently vacant space given the immediate microlocation of the asset. A deduction was assumed for nonrecoverable costs associated with management, structural vacancy, letting fees etc.

The loan exhibits the following strengths:

- The loan benefits from a low Day 1 LTV ratio of 62.80%, which will reduce to 59.22% at loan maturity due to the scheduled amortization.
- 85% of the rental income is derived from strong tenants resulting in a stable cash flow profile.

The loan exhibits the following concern and mitigating factor:

- All leases have either a break option or their expiry before loan maturity. This will require an active asset management to either keep the existing tenants or the relet any vacant space.

Reference claim 1027: cut-off balance: €72.7 million (5.34% of the reference pool)

Reference claim 1027 is a six-year interest-only floating-rate loan which benefits from a borrower level swap. The Day 1 loan balance is €72,668,064. The loan was granted to two German LPEs to acquire 48 discount supermarket stores located across Germany. The Day 1 LTV ratio is 63.27%. The loan has an ICR of 2.66x.

Borrower

The borrowers are LPEs established in Germany.

Collateral description

The collateral for this loan comprises 48 discount supermarket stores located throughout Germany with the majority of assets being located in Western Germany, for example 22.64% in Baden-Wuerttemberg, 18.06% in North-Rhine Westphalia, and 10.99% in Schleswig-Holstein. Only 14.61% of the collateral is located in Eastern Germany.

10 of the stores are still in the process of being constructed. The construction is undertaken by the tenant, which will operate the stores going forward. The purchase price for all additional assets has already been reserved on a cash account. No construction risk is being taken by the borrowers.

The stores are generally constructed in the tenant's "standard" supermarket construction style, i.e., as a single-storey prefabricated reinforced concrete construction with rendered façade. The buildings have a pitched roof covered with clay brick shingles. The customer entrance to the supermarket is from the parking area. Floors are covered with glazed tiles, walls are of painted concrete, and ceilings are suspended. Major non-sales areas comprise food storage space and non-food storage space. The average lettable area is approximately 1,200 sq. m.

All 48 stores are already let to a well known German discount retailer. The weighted-average remaining lease term is 12 years, with only 30% of the leases expiring about five years after loan maturity.

The overall gross rent assuming occupancy of all 48 assets is €7.44 million. Standard & Poor's adjusted NOI is €6.998 million, resulting in an EYoD at loan maturity of 9.63%. Various factors including the microlocation of the assets, tenant strength, and lettability of the assets to third parties have been considered. A small deduction was assumed for nonrecoverable costs associated with management, structural maintenance etc.

The loan exhibits the following strengths:

- The collateral currently comprises 38 retail discount stores, which are located across Germany with no geographical concentration. The portfolio will increase to 48 assets over the next couple of months.
- There are long leases in place for all of the assets with 30% expiring five years after loan maturity.
- Most of the assets are in good and central locations, either close to main roads or to medium-size residential areas.
- The Day 1 LTV ratio is relatively low at 63.27%, and there is a strong ICR of 2.66x.

The loan exhibits the following concerns and mitigating factors:

- The cash flow depends on one tenant only, which is a major retailer in Germany.
- Assets are purpose built for the tenant and may not be suitable for other occupiers. In Standard & Poor's analysis we have assumed that the asset could be acquired by another retailer given the asset locations.
- This loan is interest-only, which is partly mitigated by the relatively low LTV ratio.

Credit Evaluation

Standard & Poor's visited approximately 68% of the properties in the loan pool by open market value.

Standard & Poor's primary focus is to establish a level of net operating income for each of the property portfolios and to assess the credit risk inherent in the underlying reference loan pool and ultimately the transaction.

In analyzing underlying property cash flows and establishing individual property values, Standard & Poor's compared current in-place rents to market rents, making adjustments where necessary. Leases were generally terminated at the first available break or expiration. Vacant space, where appropriate, was relet at the lower of in-place or market rents after a suitable void period.

Standard & Poor's net operating income for each collateral property was aggregated at the loan level and compared to the cash flow required to meet debt-service payments under the terms of the loans. Analysis of the refinance prospects for each loan, both before and at loan maturity was also completed. This analysis principally focuses on the amount of exit debt and the exit yield on debt. Both debt-service and refinance analysis were completed in a variety of stressed scenarios. The weighted-average exit yield on debt for the securitized loan portfolio was calculated at approximately 8.78%.

Standard & Poor's analyzed a number of prepayment scenarios to assess both the availability of interest receipts and the magnitude of the subordination available to each class of notes.

Key Performance Indicators

Key performance indicators for this transaction will include:

- The ratings on the note collateral;
- The general performance of the loan and loan collateral during the term of the transaction;
- The trends in occupancy levels, market rental levels, lease expiry profiles, and capitalization rates;
- The financial covenant tests, i.e., ICR, DSCR, and LTV ratios;
- Refinance interest rates as the loans mature; and
- Trends in vacancy levels.

Criteria Referenced

- "*European Legal Criteria For Structured Finance Transactions*" (published on March. 23, 2005).
- "*European CMBS Loan Level Guidelines*" (published on Sept. 2, 2004).

Related Articles

- "*European CMBS Performance Review 2006: Spotlight On Germany And Lower Prepayments*" (published on Jan. 8, 2007).
- "*European CMBS Outlook 2007—A Year Of Continued Progress*" (published on Jan. 22, 2007).
- "*Technical Challenges In European CMBS Structures*" (published on Feb. 16, 2006).
- "*The Impact Of Repayments On European CMBS Subordination Levels*" (published on Sept. 13, 2005).
- "*Impact of Purchase Price in European Real Estate Financings*" (published on May 1, 2005).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.