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CMBS Presale Report

Hypo Real Estate Bank International AG

£113.68 Million Floating-Rate Amortizing Credit-Linked Notes (ESTATE UK-3)

Analyst: Jason Sunderland, London (44) 20-7176-3908, jason_sunderland@standardandpoors.com
Surveillance analyst: Carla Powell, London (44) 20-7176-3982, carla_powell@standardandpoors.com,
Group e-mail address: StructuredFinanceEurope@standardandpoors.com

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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	0.40	19.0	42.6	Three-month LIBOR plus a margin	March 2020	March 2022
A2	AAA	29.80	14.0	45.2	Three-month LIBOR plus a margin	March 2020	March 2022
B	AA	35.76	8.0	48.3	Three-month LIBOR plus a margin	March 2020	March 2022
C	A	24.56	3.9	50.5	Three-month LIBOR plus a margin	March 2020	March 2022
D	BBB	8.24	2.5	51.2	Three-month LIBOR plus a margin	March 2020	March 2022
E	BBB-	14.92	N/A	52.5	Three-month LIBOR plus a margin	March 2020	March 2022

**The rating on each class of securities is preliminary as of Feb. 8, 2007 and subject to change at any time. Final 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	
Issuer, originator, arranger, and servicer	Hypo Real Estate Bank International AG
Trustee	Deloitte & Touche Wirtschaftsprüfungsgesellschaft GmbH
Custodian	Deutsche Bank Luxembourg S.A.

Supporting Ratings	
Institution/role	Ratings
Hypo Real Estate Bank International AG as servicer (Standard & Poor's has not performed a formal servicer evaluation)	A-/Stable/A-2
Deutsche Bank Luxembourg S.A. as custodian	AA-/Positive/A-1+

Key Transaction Features	
Expected closing date	February 2007
Number of loans	13
Number of properties	110
Securitized balance (Mil. £)	596.1
Geographic concentration of assets by external open market value	England 87.7%; Wales 8.8%; and Scotland 3.5%
Concentration of loans by cut-off balance	Largest loan 29.5%; largest five loans 70.5%; and largest 10 loans 94.3%
Concentration of assets by open market value	Largest property 14.4%; largest five properties 46.8%; and largest 10 properties 65.8%
Concentration of asset types by open market value	Retail 36.1%; office 31.7%; other 20.9%; and mixed-use 11.3%
Weighted-average bank cut-off LTV ratio (%)	59.3
Weighted-average bank exit LTV ratio (%)	57.9
Weighted-average bank cut-off ICR (x)	1.87
Weighted-average bank cut-off DSCR (x)	1.66
Standard & Poor's property score of assets inspected*	2.6

**Where 1.0 is the highest and 5.0 is the lowest.*

Transaction Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the £113.68 million floating-rate amortizing credit-linked notes to be issued by Hypo Real Estate Bank International AG (HI) in its ESTATE UK-3 transaction. The ratings on the notes reflect the credit quality of the reference pool and HI's ability, as the servicer, to service the reference pool.

ESTATE UK-3 is structured as a partially funded synthetic CMBS transaction with a senior swap (£482.5 million) and a series of credit-linked notes (£113.68 million). The notes will be issued directly by HI, as issuer, with the payment of amounts due on the notes being conditional on the performance of 13 U.K. commercial mortgage real estate loans (together the real estate loans are referred to as the reference pool and individually a reference claim) originated and serviced by HI. The reference claims are secured by 110 commercial properties located across the U.K. HI originated the loans under its standard origination procedures and all are secured by first-ranking mortgages, or the equivalent in Scotland.

The payment obligations of the issuer under the notes will be secured by sterling-denominated floating-rate public sector Pfandbriefe of the issuer. In addition, the class A1+ and A2 notes will be collateralized with a cash deposit equal to 4% of the respective notes.

The senior expenses of the transaction, e.g., trustee fees, will be paid by HI.

There is no certainty that the noteholders will receive full payment of amounts due on the notes. Any realized losses incurred regarding the commercial mortgage real estate loans will be allocated in reverse sequential order to the notes.

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

Strengths, Concerns, And Mitigating Factors

Strengths
• The reference claims are secured by 110 good quality commercial properties located across the U.K. • The tenant quality across the portfolio is considered good, with approximately 221 distinct tenants occupying the properties. This also implies good tenant diversity. • All of the borrowers have been structured as limited-purpose vehicles. • 'AAA' rated public sector Pfandbriefe of the issuer will secure all of the notes. In addition, the class A1+ and A2 notes will be collateralized with a cash deposit equal to 4% of the respective notes. • The weighted-average bank cut-off and exit LTV ratios are relatively low at 59.3% and 57.9%, respectively. • The transaction benefits from an attractive weighted-average bank cut-off ICR and DSCR of 1.87x and 1.66x, respectively.

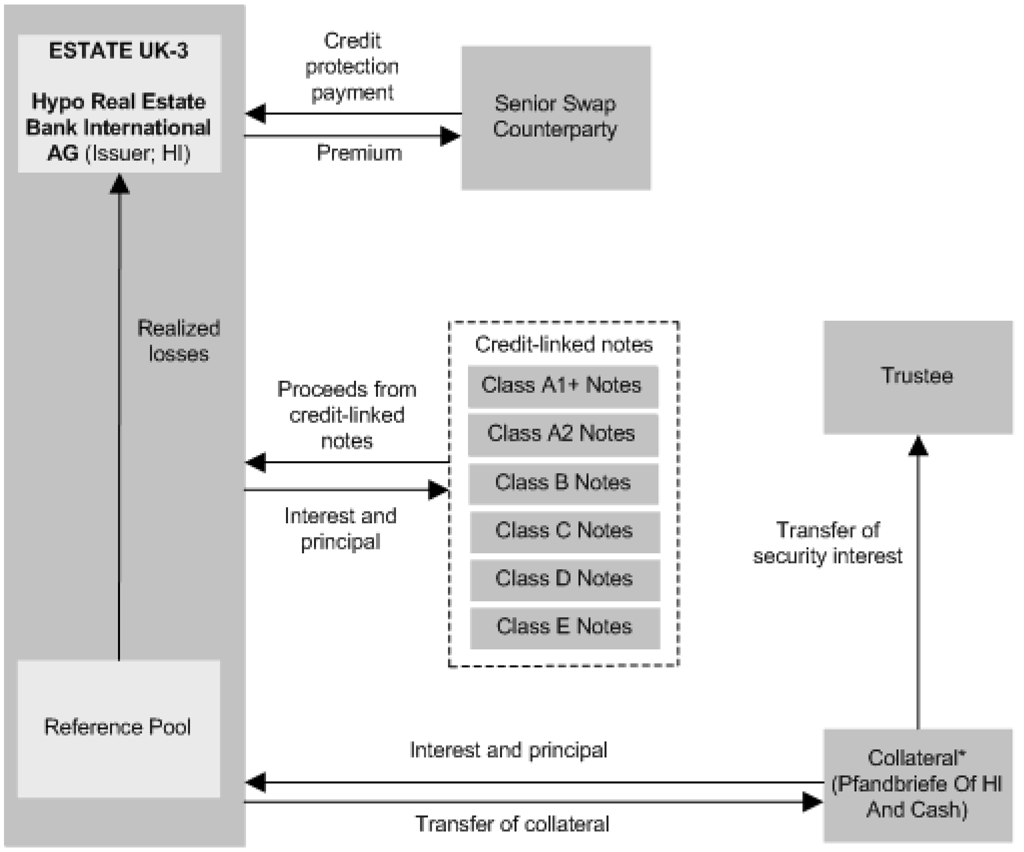
Concerns and mitigating factors
• HI provided limited information on the loan sponsors. This was done in an effort to protect the confidentially of its clients. However, based on this limited information, Standard & Poor's was able to get comfortable with the experience of the sponsors. • The largest reference claim is interest-only. This reference claim is exposed to greater refinance risk. The reference claim has a reasonable LTV ratio of 74.9%, given the type of real estate asset. • Some of the loans have additional debt outside this transaction that either ranks equal or is subordinated. The debt that ranks equal has been reflected in the credit rating.

Transaction Characteristics

Transaction structure

The chart below shows the structure of the transaction.

ESTATE UK-3 Transaction Structure



*Cash collateral only for the class A-1+ and A2 notes

Allocation of realized losses

Any realized losses regarding qualifying reference claims 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 and expenses of the servicer.

Compliance with the eligibility criteria, replenishment conditions and servicing standards are a condition to the loss allocation. Only under certain limited circumstances will a breach of any of these conditions qualify for loss allocation.

Pfandbriefe collateral

The payment obligations of the issuer under the notes will be secured by sterling-denominated floating-rate public sector Pfandbriefe of the issuer. In addition, the class A1+ and A2 notes will be collateralized with a cash deposit equal to 4% of the respective notes. The Pfandbriefe collateral is expected to be rated 'AAA' by Standard & Poor's. If the rating on the Pfandbriefe collateral is downgraded below 'AAA', the issuer will, within 30 days, supplement and/or substitute the Pfandbriefe collateral with supplementary collateral. Failure to supplement and/or substitute the Pfandbriefe collateral will result in a downgrade of the notes equal to the rating on the Pfandbriefe collateral.

The Pfandbriefe collateral will have the same rate of interest and same interest payment dates as the notes. On each payment date for the notes, the Pfandbriefe collateral will be released to the issuer in an amount equal to the amount of payments of principal on the notes.

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

If a foreclosure event occurs, including, among other things, the assets of the issuer became insolvent or the noteholders exercise the right of early redemption, the trustee will have to:

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

Senior CDS

The issuer will purchase credit protection relating to the class A1+ notes from a swap counterparty. The swap counterparty will then pay to the issuer amounts linked to any realized losses allocated to the class A1+ notes. The issuer will pay the swap counterparty a premium.

Trustee

Owing to the absence of a bankruptcy-remote SPE, 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 the 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.

The trustee may resign at any time for good cause. If the trustee resigns, realized losses cannot be allocated until a new trustee has been appointed. Under certain conditions, if the trustee resigns, each noteholder will be entitled to demand redemption of the notes they hold (see "*Early redemption by the noteholders*").

Servicing of the reference pool

The administration, collection, and enforcement of each reference claim, including enforcement of the reference collateral, will be performed by HI, as servicer. For syndicated reference loans, the agent will perform these tasks if HI 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 can 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.

Redemption

Unless previously redeemed, all classes of notes are expected to be redeemed on the scheduled maturity date in March 2020. There are, however, a number of situations where the notes could be redeemed early by either the issuer or the noteholders.

Early redemption by the issuer

The issuer may redeem the notes before the final scheduled payment date in March 2020 if:

- Certain legal, tax, or regulatory changes are imposed on the issuer;
- 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 £596.1 million; or
- The fifth anniversary of the issue date has occurred.

Early redemption by the noteholders

Each noteholder will be entitled to demand redemption of the notes they hold before the final scheduled payment date in March 2020 if:

- The issuer fails, within 30 days from the relevant due date, to make any payment due to be made under the notes;
- The issuer or its assets become subject to, among other things, bankruptcy; or
- Under certain conditions, the trustee resigns as trustee for good cause.

Reference Pool

Reference pool overview

The reference pool comprises 13 commercial mortgage real estate loans (reference claims). The reference claims are secured by 110 commercial properties located across the U.K. Approximately 221 distinct tenants occupy the properties.

The largest reference claim represents 29.5% of the reference pool by cut-off balance (cut-off date is Aug. 23, 2006). The five largest reference claims represent 70.5% of the reference pool by cut-off balance.

The reference pool is heavily concentrated in England, representing 87.7% by external open market value. The pool is also concentrated in retail property, representing 36.1% by external open market value.

The reference pool has a weighted-average bank cut-off LTV ratio of 59.3% and an exit LTV ratio of 57.9%. In addition, the reference pool has a weighted-average bank cut-off A-note ICR of 1.87x and a DSCR of 1.66x.

As part of Standard & Poor's credit process, approximately 45% of the reference pool by external open market value was visited. Standard & Poor's property score for assets inspected was 2.6, where 1.0 is the highest and 5.0 is the lowest.

Tables 1 and 2 set out the key reference pool metrics. In terms of net rent and open market value, this is the amount that contributes to the transaction, as some loans have additional debt outside this transaction that either ranks equal or is subordinated.

Table 1: Key Features Of The Reference Pool								
Reference claim	Property type	No. of properties	No. of tenants	Sq. ft	Net rent (£)	% of net rent	Open market value (£)	% of open market value
1	Retail	2	139	348,189	11,828,458	19.2	234,500,000	20.7
2	Retail/office	1	23	99,101	5,816,780	9.4	117,950,000	10.4
3	Retail/showrooms	85	1	1,625,692	8,259,785	13.4	126,378,023	11.1
4	Office	1	1	362,476	3,544,616	5.7	69,666,667	6.1
5	Retail	3	29	543,280	8,693,905	14.1	200,595,241	17.7
6	Office	6	2	584,968	4,865,039	7.9	91,550,000	8.1
7	Retail	1	9	244,671	5,737,850	9.3	80,835,000	7.1
8	Office/mixed	5	17	157,300	2,696,219	4.4	51,950,000	4.6
9	Office/mixed	2	11	509,318	1,844,529	3.0	27,800,000	2.5
10	Office	1	1	146,136	4,698,000	7.6	73,100,000	6.4
11	Office	1	3	48,084	1,035,433	1.7	17,500,000	1.5
12	Office	1	1	86,901	1,314,715	2.1	20,700,000	1.8
13	Office	1	1	47,500	1,412,924	2.3	22,200,000	2.0
Total		110		4,803,616	61,748,251	100.0	1,134,724,931	100.0

Table 2: Key Features Of The Reference Pool								
Reference claim	Cut-off balance (£)	% of pool	Projected balance at maturity (£)	% of projected balance at maturity	Cut-off LTV ratio (%)	Exit LTV ratio (%)	ICR (x)	DSCR (x)
1	175,665,000	29.5	175,665,000	32.3	74.9	74.9	1.22	1.22
2	68,300,000	11.5	54,000,000	9.9	57.9	45.8	1.44	1.21
3	62,917,045	10.6	39,549,971	7.3	49.8	31.3	2.38	1.77
4	57,053,239	9.6	55,414,688	10.2	81.9	79.5	1.10	1.02
5	56,200,000	9.4	56,200,000	10.3	28.0	28.0	2.86	2.86
6	42,871,615	7.2	42,061,326	7.7	46.8	45.9	2.13	2.05
7	29,812,500	5.0	28,187,500	5.2	36.9	34.9	3.51	3.04
8	28,964,500	4.9	26,764,500	4.9	55.8	51.5	1.78	1.41
9	20,905,081	3.5	19,305,081	3.6	75.2	69.4	1.47	1.11
10	19,591,731	3.3	17,137,319	3.2	26.8	23.4	4.45	3.61
11	12,811,822	2.1	12,811,822	2.4	73.2	73.2	1.36	1.36
12	12,563,805	2.1	10,292,973	1.9	60.7	49.7	1.61	1.04
13	8,471,218	1.4	6,245,618	1.1	38.2	28.1	3.04	2.34
Total	596,127,557	100.0	543,635,798	100.0	59.3	57.9	1.87	1.66

Four largest reference claims

The four largest reference claims, which account for 61% of the reference pool by cut-off balance, are briefly discussed below. HI has requested that the identity of the borrowers, properties, and tenants remain anonymous in an effort to protect the confidentially of its clients.

Reference claim 1—cut-off balance: £175,665,000 (29.5% of the reference pool)

The key features of the property are:

- The largest loan in the pool is secured by two covered shopping centers. One center is in Wales and the other in Yorkshire and Humberside.
- One property was constructed in predominately 1983/84 and the other was constructed in 1990 and refurbished and reconfigured in 1998/99.
- Both properties were inspected by Standard & Poor's and appear to have been well-maintained.
- Overall, the properties are subject to approximately 139 leases.
- Tenant rollover during the term of the loan is 35.2%.
- The leases have a weighted-average unexpired lease term to first break of 7.2 years and to expiry of 8.1 years.
- The top 10 tenants account for 38.2% of gross rent.
- The occupancy rate is approximately 97.1%.

The key features of the loan are:

- The loan was made to refinance the acquisition of the properties.
- The seven-year loan has a floating rate of interest (85% hedged) and is interest-only.
- The loan can amortize through cash sweep payments. Until 2010, the cash sweep mechanism applies if the ICR is less than 1.20x and thereafter 1.25x.
- The loan covenants include an LTV ratio default covenant of 80% and an ICR default covenant of 1.10x. The loan allows the borrower to remedy a breach of these covenants by either prepaying the loan (as far as necessary to remedy this breach) or by posting a similar amount to the deposit account.
- The release pricing is at 110% and 120%.

Reference claim 2—cut-off balance: £68,300,000 (11.5% of the reference pool)

The key features of the property are:

- The second-largest loan in the pool is secured by a mixed-use office and retail property in central London.
- The first and original part of the property dates from the early 1900s and further additions were made to the property in the late 1970s and mid-1990s.
- The property appears to have been well maintained, but it is starting to show signs of its age. Standard & Poor's inspected this property.
- The property has 23 tenants.
- Tenant rollover during the term of the loan is 71.4%.
- The leases have a weighted-average unexpired lease term to first break of 10.8 years and to expiry of 12.0 years.
- The top 10 tenants account for 89.0% of gross rent, Boots accounting for 37.9%.
- The occupancy rate is 100.0%.

The key features of the loan are:

- The loan is a syndicated 79.8% senior tranche of a £85.6 million debt facility originated by HI. HI holds the senior portion of the whole loan and is the facility agent.
- The loan was made to refinance the property.
- The 13-year loan has a fixed rate of interest and is partly amortizing.
- The loan has a reserve account. Due to the shortfall (insolvency of a tenant) a one-year cash reserve was built up to cover the DSCR of the total loan. The cash will be released once a new tenant is in place. Currently the space is still being marketed.
- The loan covenants include an LTV ratio covenant at 75% and an ICR covenant at 1.10x.

Reference claim 3—cut-off balance: £62,917,045 (10.6% of the reference pool)

The key features of the property are:

- The third-largest loan in the pool is secured by 85 properties spread through the U.K. and occupied by a single tenant.
- The majority of the properties are in good locations and are generally purpose-built.
- Of the properties, 70% have been constructed within the past four years.
- The portfolio is let in its entirety to a single occupier for a term of 25 years from October 2003 on FRI terms. The tenant is considered to be of good quality.
- There is no tenant rollover during the term of the loan.
- The lease has a weighted-average unexpired lease term to first break and expiry of 22.2 years.

The key features of the loan are:

- HI holds an 86% senior tranche of a £146.5 million debt facility initially originated by another bank. HI will securitize 50% of its portion. HI's unsecuritized portion will rank equal. The 14% portion of the senior loan held by another bank ranks equal to HI's portion.
- The borrower has additional debt of £98.6 million. A third-party bank provides this debt and it is fully subordinated to the senior loan.
- The other bank that is financing the subordinated debt is the facility agent.
- The loan was made to refinance the acquisition of the property.
- The 14-year loan has a floating rate of interest (100% hedged) and is partly amortizing.
- The loan allows for substitution of property. In the case of disposals, the borrower may, subject to the facility agent's consent, deposit sale proceeds for up to 12 months for the purpose of acquiring substitution property. This is limited to an aggregate of 7.5% of the total liabilities (including senior and subordinated debt) and subject to certain criteria to the facility agent's satisfaction. Otherwise, the disposal proceeds will be applied in repayment of the senior loan (60% of the respective value), and then, if there is a surplus, to repay the subordinated debt.
- The loan covenants include an LTV ratio default covenant that increases up to 70% until 2014 and thereafter will be at 65% and an ICR default covenant that increases from 1.87x to 3.5x over the life of the loan. The loan does allow the borrower to remedy such breach by either prepaying the loan (as far as necessary to remedy this breach), or by posting a similar amount to the rectification account.

Reference claim 4—cut-off balance: £57,053,239 (9.6% of the reference pool)

The key features of the property are:

- The fourth-largest loan in the pool is secured by an office building on the Canary Wharf Estate, London.
- The building was constructed in 1991 to grade A specifications. The property appears to have been well maintained for its age. Standard & Poor's inspected the property.
- The property is let in its entirety to a single occupier for a term of 20 years from November 1998 on FRI terms.
- There is no tenant rollover during the term of the loan.
- The lease has a weighted-average unexpired lease term to first break and expiry of 12.1 years.

The key features of the loan are:

- HI holds a 50% senior tranche of a £171.2 million debt facility initially originated by another bank. HI will securitize 67% of its portion. HI's unsecuritized portion will rank equal. The 50% portion of the senior loan held by another bank ranks equal to HI's portion.
- The other bank is the facility agent. The facility agent may act as it considers to be in the best interest of the senior lenders, but will be in accordance with any instructions given by the majority (66.6%) of the senior lenders.
- The original purpose of the loan was for the acquisition of the property.
- The 4.5-year loan has a floating rate of interest (100% hedged) and is partly amortizing.
- The loan covenants include an LTV ratio default covenant at 82.06% and an ICR default covenant that will increase from 1.06x to 1.15x over the life of the loan.

Replenishment

As a result of principal prepayments, the issuer may, without the consent of the trustee, add new reference claims to the reference pool until February 2012, if certain conditions are satisfied. These conditions include, among other things, that the sum off all new reference claims added to the reference pool do not exceed £370 million.

Although certain characteristics of the reference pool could potentially change during the first five years of the transaction, Standard & Poor's will be required to confirm to the issuer and the trustee that the replenishment will not adversely affect the rating on any note existing before replenishment. Therefore, the credit quality of the reference pool should be preserved during the replenishment period.

Finally, compliance with the replenishment conditions is a condition to loss allocation.

Credit Evaluation

Each loan in the reference pool was individually analyzed with a focus on initial leverage, the sufficiency of rental cash flow to cover interest and scheduled amortization, and the refinancing prospects for the underlying properties at or before loan maturity.

For each property, current income and rental rates were compared to what was considered to be market rental levels to establish a sustainable gross rental value. This figure was then adjusted to take account of irrecoverable borrower costs of ownership, as well as the rollover risk inherent in the short-term occupational leases present in some of the properties.

Standard & Poor's adjusted property cash flow was then tested against the debt service requirements of the loan to establish the robustness of the loan cash flows, likelihood of default, and outstanding principal balance at the point of default.

Losses in the event of default of individual loans were calculated in accordance with the loss allocation formula set out in the terms and conditions of the notes.

In addition to analyzing each loan, Standard & Poor's reviewed the overall reference pool to ensure the subordination levels reflected the characteristics of the reference pool.

Standard & Poor's visited approximately 45% of the reference pool by external open market value. Standard & Poor's property score for assets inspected was 2.6, where 1.0 is the highest and 5.0 is the lowest.

Surveillance Details

Continual surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports will be analyzed in an ongoing review of the properties securing the loans. Supporting ratings will also be monitored, and regular contact will be made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

Key performance indicators for this transaction include:

- General performance of the loans and loan collateral during the term of the transaction;
- Trends in the general state of the U.K. property market; and
- Supporting ratings in the transaction.

Criteria Referenced

- "*European CMBS Loan Level Guidelines: Updated Loan Level Questionnaire*" (published on July 14, 2006).
- "*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 Outlook 2007—A Year Of Continued Progress*" (published on Jan. 22, 2007).
- "*European CMBS Refinance Risk Part I: Storing Up Trouble For The Future*" (published on July 15, 2006).
- "*European CMBS Ratings In 2005: More Prepayments, More Upgrades?*" (published on Jan. 20, 2006).
- "*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).
- "*A/B Structures Have An Effect On European CMBS Subordination Levels*" (published on July 14, 2005).
- "*Impact of Purchase Price in European Real Estate Financings*" (published on Jan. 5, 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.