



OUT OF BOX LENDING: SUPPORTING MATERIALS

Mortgage Bankers Association Roundtable Discussion

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Some Out of Box Alternatives

- ❑ Synthetic leases
- ❑ “On balance sheet” synthetic leases
- ❑ Debt as a cheap equity substitute
- ❑ Ownership and leasing: structural alternatives for borrowers



Synthetic Leases—Still Alive and Still Kicking

Synthetic leasing remains active, although at levels less than 50% of late '90s

- ❑ Due to media hype, most business people think synthetics are dead
- ❑ New FASB accounting rules had significant impact, but off balance sheet synthetic leases remain very viable
- ❑ Sarbanes-Oxley did not terminate synthetics
- ❑ Financial institutions were substantial “borrowers” (as opposed to lenders) on synthetic leases in 2004
- ❑ Financial reporting of synthetics is improved



An “On Balance Sheet Synthetic Lease”?

An “on balance sheet” synthetic lease retains all the synthetic lease benefits (except off balance sheet treatment)

- interest only financing
- 100% of project cost is borrowed
- corporate credit strength drives a low interest rate
- tax benefits are retained
- any property appreciation is captured

For a “credit” tenant, this is likely the least expensive way to occupy real estate for a long term. With this alternative, any off balance sheet synthetic lease “baggage” is avoided.

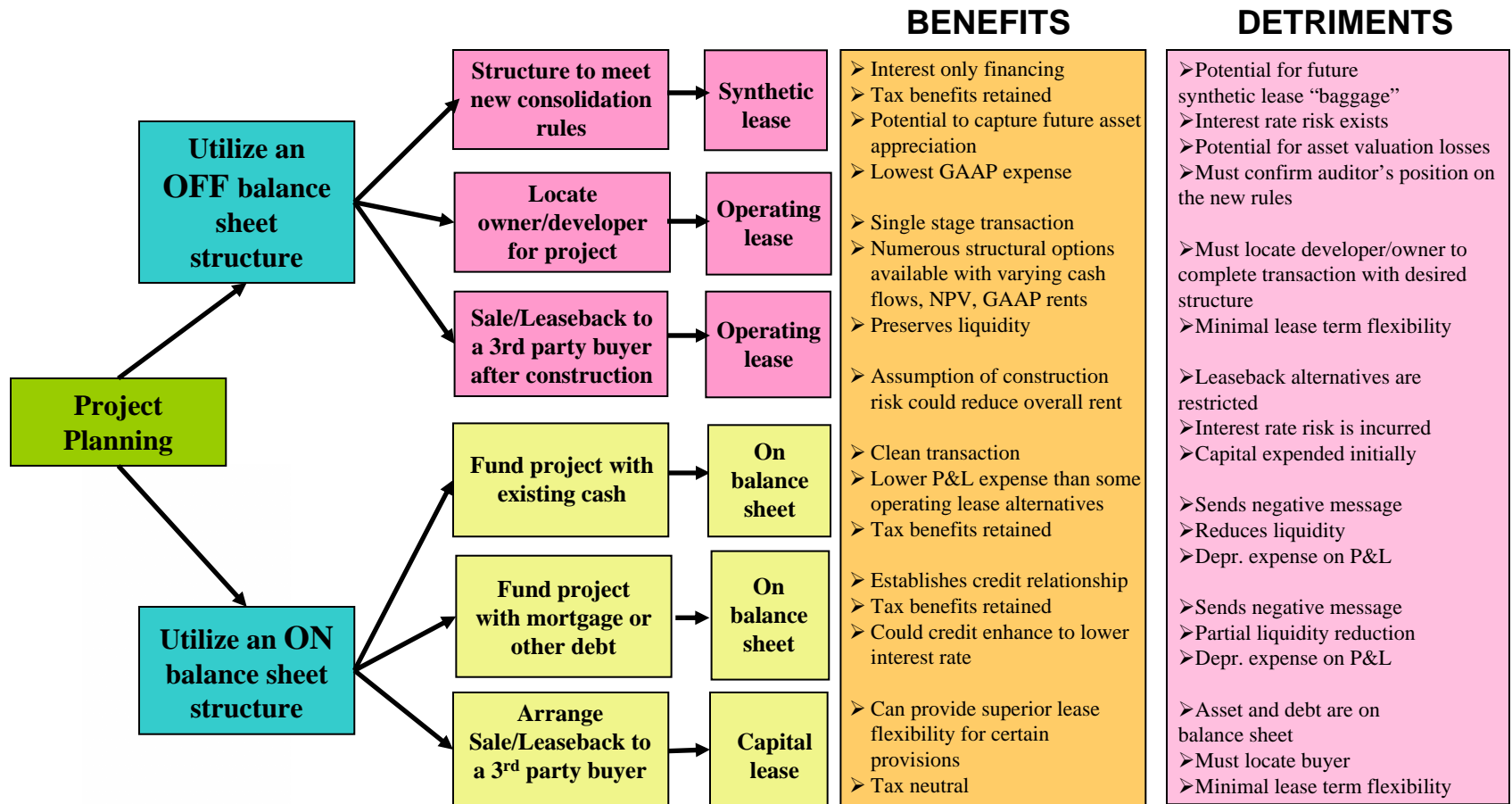


Using Debt as a Cheap Equity Substitute

Low interest rates and competition among lenders combine to make mezz debt a cheap substitute for equity

- 80 to 85% LTV tranche can price at 10% to 13%
- 85% to 90% LTV tranche can price in the mid to high teens
- this compares favorably to the equity costs of many deals, even in today's environment of lower yields on equity
- of course, the deal must be able to support the additional debt

Structural Alternatives for a Real Estate Construction/Acquisition Financing



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Career Summary

Greg Greene joined the Dallas office of L.J. Melody & Company in February 2003 after nearly five years at Ernst & Young. At Ernst & Young, and now at Melody, he specializes in structuring and negotiating large real estate financings for corporate clients, REITs and real estate investors. Greg has structured and financed nearly \$2 billion in real estate transactions over the last five years.

His clients are spread throughout the United States and include Blue Cross and Blue Shield, Citrix Systems, Dell, Genzyme, Medical Properties Trust, HealthSouth, Immunex, JDS Uniphase, American Medical Buildings, Vignette, St. Vincent's Hospital and numerous others.

Greg is a CPA and brings over twenty years experience in the areas of real estate finance and accounting. This experience includes real estate advisory at CPA firms, real estate lease representation, and the Chief Financial Officer position for a privately held group of real estate companies. Greg is a frequent author and speaker on various real estate transaction structuring and finance topics.

Specialty

Structuring and financing real estate-based and credit-enhanced on and off balance sheet transactions to generate positive economics and mitigate ownership risks.

Education

MBA - University of Texas
BS - Accounting - University of Alabama