



## Executive summary

For this article we have conducted a market survey amongst several banks

We thought that there would be no better way to get a feel for what the debt markets were like at the moment than to conduct a brief market survey ourselves. Over the past few weeks we have held several interviews amongst various financial institutions to get first-hand information on how they see the current state of the markets. This article is a collection of the transcripts of such interviews. We believe that handling each bank's opinion with direct testimonials is probably the best way to reflect market sentiment.

We have interviewed 14 financial institutions

Meridia Capital has interviewed a total of 14 institutions, some of which have preferred to remain anonymous. Our questions were run through 7 investment banks, 5 commercial banks and 2 hotel consultancy firms.

Below we provide the list of people that we talked to (in alphabetical order):

### **AAREAL BANK**

- Helmut Mühlhofer (Managing Director, Real Estate Structured Finance)

### **ALLIED IRISH BANKS**

- Stuart Marshall (Head of Specialised Industries, Corporate Banking)
- Nazish Wali (Assistant Manager, Hotels & Leisure)

### **CALYON**

- Eric Gerner (Head of the Structured Finance Group)
- Barbara Levi (Senior Banker & International Business Development - Hotel and Real Estate Group)

### **CBRE**

- Natale Giostra (Director, EMEA Debt Advisory)

### **EUROHYPO**

- Gilles Castiel (Corporate and Investment Banking International, Head of Acquisitions France)

### **EUROPEAN COMMERCIAL REAL ESTATE FINANCING GROUP**

- Senior Director Europe, Risk Management Division
- Senior Director Europe, Middle East and India - Commercial Real Estate Origination
- Senior Associate, Europe

### **GOLDMAN SACHS**

- Ramón Camiña (Executive Director, Real Estate Banking Group)

### **GRUPO SANTANDER**

- Antonio García Méndez (Executive Director, Real Estate Structured Finance)
- Ángel Cañada Ruiz (Manager, Structured Finance, Catalonia)
- Miguel Morales Lobo (Associate, Real Estate Structured Finance)

**JONES LANG LASALLE HOTELS**

- Giorgio Manenti (Senior Vice President, Financing Division)

**JP MORGAN**

- Christian Jamison (Executive Director, Real Estate Finance)

**MERRILL LYNCH**

- Steve Willingham (Managing Director of Debt Markets – Head of European Commercial Mortgage Loan Origination)

**MORGAN STANLEY**

- Sanjoy Chattopadhyay (Vice President, Real Estate Investment Banking)

**US FINANCIAL SERVICES COMPANY**

- Managing Director, Fixed Income
- Real Estate Finance Securitisation

**US FINANCIAL SERVICES FIRM**

- Director, Global Real Estate Group

**Table 1: AAREAL BANK**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>When times were good, Aareal Bank only reached maximum LTVs of 75% (we have a conservative approach). Today, this would have come down to 60-70%.</p> <p>Spreads have come up by 50 to 70bp for assets located in key urban sites in Europe and even more in less attractive locations.</p> <p>Terms have hardly changed. Average period would be 5 years.</p> <p>This has not changed much either. The average deal size would be from €40-50million to around €75-100million. In any case, deals above the €75-100million threshold would be syndicated/clubbed.</p> <p>In order to share the risk, club deals are more frequent. This, however, complicates things as each bank tends to have its own demands and requisites.</p> <p>Tighter. Interest cover (IC) has gone up by around 20-30bp. Debt service coverage ratio (DSCR) has also increased by 10-15bp. Lower DSCR are accepted only if higher amortisation.</p> <p>Aareal Bank are non-recourse lenders. They generally ask for guarantees, although only in case of obvious shortfalls due to renovation, re-branding or ramp-up periods.</p> <p>This has increased. Banks (risk management) ask more questions today than 12 months ago.</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>A key issue. At Aareal Bank we are not deal hunters and do not look to finance <i>any</i> deal. We believe that a client's reputation and track record is of absolute importance. We consider whether that potential client is a player in the industry, with a well-known brand name, with a strong management team, etc. Although the transaction has to fit well within our strategy, what is important to us is the quality of the borrower.</p>
<p><b>3. Importance of location</b></p>	<p>Aareal Bank works in projects involving prime, good urban locations. This may differ when considering portfolios, where we sometimes also have assets in secondary locations.</p>

<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>Over the last couple of years, investors have entered the hotel sector given the yield differential with other real estate classes. Hotels would offer yields 50-100bp higher. In any case, Aareal Bank does not see any reason why hotels should no longer be an interesting asset class.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>Not at Aareal Bank. That said, we have seen some examples in the market of deals getting cancelled because of lack of financing.</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<ul style="list-style-type: none"> <li>▪ Arranger and lender for the 7-year US\$110million refinancing of the Radisson SAS Airport Hotel and the refinancing and partly development financing of Akaretler Properties (W Hotel) in Istanbul, Turkey.</li> <li>▪ Mandated lead arranger and agent for the 5-year recent take out financing of the Ritz-Carlton Moscow.</li> <li>▪ Lender for BRE/Hospitality Europe Holding B.V. for a 3-year loan facility of €100million for the acquisition financing of a portfolio of 9 hotels in Sweden, Czech Republic, the Netherlands, Germany, Belgium and France.</li> <li>▪ Arranger and lender for Rudyfel Investments B.V. for a 5-year loan facility of CAD40million for the refinancing of the Westin Prince in Toronto, Canada.</li> </ul>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>Three to six months ago the market thought that the current turmoil would not last more than 6 to 8 months. That has changed. The Central Banks' reactions and the negative newsflow about financing institutions around the world indicate that things will continue to be tough until mid or end of 2009. The economy in the US is already experiencing a slowdown (call it recession) and it is yet to be seen how deeply this will impact the rest of the world.</p>

**Table 2: EUROHYPO**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>LTVs have clearly come down, not only for hotels but also for real estate in general. LTVs have been impacted by reverse trend in yield anticipation.</p> <p>These have increased by around 50% over the last 18 months (around 50-100bp). Liquidity and access to capital markets is now a problem.</p> <p>Terms longer than 5 years are today difficult to finance whilst before terms of 7 or 10 years were relatively common.</p> <p>Deals below the €100million threshold still find financing. Above, that, it gets difficult. There are now less banks in France with access to liquidity and therefore they prefer to do smaller deals.</p> <p>Although Eurohypo still does underwriting, banks today would rather participate in club deals and therefore more and more transactions are done under that scheme.</p> <p>Around 12 months ago transactions were done with very light covenants (even without LTV covenants). Today, banks request covenants on every single deal (nothing is done without covenants on LTV, DSCR, etc.).</p> <p>What has changed is mortgage financing. Before, you could finance an asset without giving a mortgage (for example, shell financing). Today, you cannot structure a deal without a mortgage. About corporate guarantees – in many cases we feel that they do not add much security, especially if they come from non-renowned groups.</p> <p>There is definitely more. Processes are slower. People think twice before giving the green light to a project. The amount of time spent has increased very substantially vs. 12 months ago.</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>Both are important. At Eurohypo we try to focus on sponsors that we know and that can show a track record. But the transaction itself is perhaps even more key to us. We are mortgage lenders and therefore the asset itself represents our first security. The sponsor will come in the second place. We would not do a deal with a good sponsor but with a bad asset.</p>

<p><b>3. Importance of location</b></p>	<p>We focus on primary locations only – part of Eurohypo’s strategy given the current situation. We would not focus on hotel assets located in secondary sites.</p>
<p><b>4. Will hotels lose the ‘accepted asset class’ status they have gained over the last few years because of the current downturn?</b></p>	<p>Hotels have been well perceived in France over the last 3-4 years and the market perspective is still good. We do not think that troubles in the capital markets will change this perception or view on the hotel sector. There is still appetite out there for hotel assets. In terms of financing, these have not seen any <i>specific</i> problems associated to them.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>Most of the time - delayed rather than cancelled. For instance, we had a large deal in France not long ago where the discussion between banks went on for around 9 months without reaching any conclusions.</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<p>N/A</p>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>Refinancing problems will still last 12-15 months. Balance sheet lenders like Eurohypo can finance through the covered bonds market rather than through securitisation (which has dried up). Many other banks will be able to do so as well but will need at least a year to have the right organisation for that in place.</p>

**Table 3: EUROPEAN CORPORATE AND INVESTMENT BANK**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>LTVs have gone down from 70-75% to 55-60%. It is important to notice that banks today finance on cash flow rather than on the value of the hotel itself.</p> <p>Around a year ago, spreads were 100bp with mortgage and around 150bp without mortgage. Today, this has increased to 150bp with mortgage and 200bp without.</p> <p>Banks obviously prefer short term rather than long term. Financing beyond 7 years gets difficult and expensive.</p> <p>Two to three banks are needed for deals above €50million, as many banks are looking for a low final take.</p> <p>For large amounts, only club deals are considered so far as syndication market remains without visibility.</p> <p>The amount of covenants obviously depends on the project itself but what is clear is that covenants are back on the scene again. DSCR or Debt/EBITDA are important again. In terms of Value/EBITDA, banks were lending 12-13x, which is very high. It is now rare to see that ratio going above 10x (5-7x would be more normal these days).</p> <p>Mortgage financing would be the preferred option.</p> <p>It is not really a question of bureaucracy. Before, term sheets were handed to the client knowing in advance that approval by the bank's committee would not be an issue. Today, that is no longer the case. Committees have more of a say than before.</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>This depends a lot on whether the financial institution is a recourse or non-recourse lender. In any case, we do not finance a "bad" project with a "good" borrower.</p>
<p><b>3. Importance of location</b></p>	<p>We have decreased our activity levels in those areas which we anticipate carry a higher risk, such as the US or Spain (with clear real estate market 'bubbles'). Within one market, our strategy is to finance only class A buildings in prime locations and with good sponsors. At the budget end of the hotel market we only consider portfolios – we do not look at that segment on an asset by asset basis.</p>

<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>Yes, we believe so. Investors have increased their investments in the lodging industry over the last few years but will soon realise that (i) it is not an easy sector and (ii) it is extremely cyclical, with profits being very sensitive towards a downturn in revenues. We foresee a step back in this regard.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>Yes. We saw that before the credit crunch, although now even more so. There are even some deals that we have ruled out because of our own liquidity problems. However, we have not seen any cancellations in deals where there was a previous commitment from our end.</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<ul style="list-style-type: none"> <li>▪ Arranger in the GBP111million financing of the Waldorf Hilton Hotel in London.</li> <li>▪ Sole lead arranger and administrative agent in the US\$394million senior secured construction loan facility for Hilton.</li> <li>▪ Co-documentation agent for the US\$950million senior secured acquisition facility of Four Seasons.</li> <li>▪ Mandated lead arranger for the US\$500million financing acquisition of 'all-inclusive' hotels for Barceló Hotels &amp; Resorts.</li> <li>▪ Mandated lead arranger in the €25million refinancing development financing of the Sheraton Hotel in Prague.</li> </ul>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>It is difficult to say. We do not know how the situation will pan-out.</p>

**Table 4: EUROPEAN COMMERCIAL REAL ESTATE FINANCING GROUP**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>It depends. What is clear is that there is less financing available and that banks tend to lend money to those projects that offer less risk together with higher returns. Lending at 90% was possible before but virtually impossible today, given the higher risk profile.</p> <p>Existing assets (i.e. not development finance) can now be financed at 125-150bp spreads.</p> <p>---</p> <p>Large deals are very difficult in a market with such liquidity problems.</p> <p>Syndication becomes necessary to finance deals above €500million, although you would have difficulties trying to find 10 banks that finance €50million each. Financing existing assets is already challenging, let alone development deals (almost impossible).</p> <p>---</p> <p>---</p> <p>It is not that banks now look at the detail whilst they did not before. Things are getting done in the same old way. The difference is that banks now need more time. Market conditions vary substantially from one day to the other so delaying a project in time often means having to review all deal variables back again. What would have taken you, say, 10 days before would take you longer today.</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>Although the transaction has to be "sustainable" by itself, it is really the borrower that is more important to us.</p>

<p><b>3. Importance of location</b></p>	<p>Real estate is a very local business so the geographical area you are in does make a difference. There are some markets like the US or Spain which are clearly more difficult at the moment but, even so, there are deals getting closed. Within a certain market, the difference between prime and secondary is important as long as we also consider the asset that we are financing. Each asset has to be in the right place <i>according to its nature</i>. It is important for a trophy hotel asset to be in a prime location but it is obviously less important if we are talking about an industrial park.</p>
<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>Real estate banks were uncomfortable with hotels before, as cash flows are more volatile and it is a less stable business. They did not fully understand it and, as a consequence, hotels were less highly geared than other real estate sub-sectors. Today, this has changed. Banks feel more confident towards the hotel business as there is a track record. We do not think that the 'accepted asset class' status will change because of the current economic downturn, although it is a bit soon to tell. What would really change banks' perception of hotels would be underestimating the sector's inherent risk.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>---</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<p>N/A</p>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>Bad news cannot last forever so we will see an upturn at some point. However, we are not there yet. Newsflow is still negative and, until that changes, liquidity problems will persist. Investors talked about a real estate 'bubble' in certain markets like the US, the UK or Spain – and something was expected to happen on that front. What people were not expecting was a crash in the global banking system. What we also need is de-leveraging the sector - there are various banks and investors registering losses today because of assets that were too highly geared in the past.</p>

**Table 5: ALLIED IRISH BANKS**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>LTVs have come down from 75-80% to 65-70%.</p> <p>Six to nine months ago we would have said that spreads were 100-110bp (or even below 100bp for LTVs sub 65%). Pricing continues to increase almost weekly and we can say now that a spread of 175bp is reasonable for a LTV ratio of 65% for an established property. If we assume a LTV of 70%, then another 15-25bp would need to be added.</p> <p>This has not changed much - still averaging 5 year tenors (although longer than this is now more of a challenge).</p> <p>For single assets we would be talking sub €75-100million.</p> <p>Underwriting is agreed on a much more selective basis. Our level of comfort with transactions needs to be greater to meet our risk profile. In excess of the figure mentioned above, a club deal would be needed.</p> <p>Covenants need to be appropriate for the underlying proposal and levels have definitely tightened. Covenants on LTV have clearly gone down; DSCR covenants have not changed that much and are around 1.1x (depending on the amortisation schedule); and ICR covenants have increased 1.5x.</p> <p>At AIB we would only ask for additional support (recourse) if we felt uncomfortable with the debt level or the underlying transaction/covenant.</p> <p>We do not think that the amount of paperwork has increased or that processes take longer as we have always had a very robust approach to credit/risk. For us, what determines speed is how we get the information from the borrower. If it is comprehensive enough, then the process tends to go faster altogether. However, there is more focus on the reasonableness of the valuations.</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>Quality and reputation of the borrower is a must and, to us, it is the most important factor.</p>

<b>3. Importance of location</b>	<p>We will look at assets in secondary and tertiary locations but always with a good operator/brand behind them. Also, these would generally be included within a larger portfolio together with other assets in prime locations (importance of risk diversification).</p>
<b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b>	<p>Hotels have now been accepted by the investment community. Their 'status' should not change materially. In this regard, what is especially important is that they can demonstrate that operating performance will hold up over the next 3-5 years.</p>
<b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b>	<p>There are various examples in the market, yes. However, we at AIB have not been directly involved.</p>
<b>6. What has your firm done recently in terms of hotel financing?</b>	<ul style="list-style-type: none"> <li>▪ Underwrote and arranged as MLA US\$120million syndicated credit facility for Orient Express Hotels.</li> <li>▪ Sole arranger and provider of funds to support the acquisition of the Crowne Plaza Amsterdam by Host.</li> <li>▪ Participant in GBP121million debt facilities for City Inn.</li> <li>▪ Participant in GBP235million syndicated credit facility for aAim Group Plc.</li> </ul>
<b>7. What are your expectations? How do you see the market going forward?</b>	<p>We remain cautiously optimistic on the hotel sector, although expect a further, possible material, deterioration in the UK economy. Although there are some signs of softening on the operational side, we do not expect a very serious downturn in hotel performance. Good operators in good markets should do well, although weaker operators in secondary markets are likely to suffer. Transaction volumes have come off but, if fundamentals remain reasonably strong, investors should see more opportunities in this sector.</p>

**Table 6: GRUPO SANTANDER**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>Institutions are now more conservative than they were before when it comes to financing hotel projects. LTVs were 75-80% before, whilst this has now come down to 65%.</p> <p>Before, we would do deals at 100-125bp. However, there is nothing we would do now below the 140-150bp threshold. About greenfield projects, we would not consider spreads south of 170bp.</p> <p>Terms have roughly remained the same despite the credit crunch.</p> <p>When a deal gets to a certain size, banks look to syndicate it as they do not want to keep such large amounts on their books. We would place the limit at around the €50million level.</p> <p>What we feel has changed substantially over the last few months is the level of difficulty when trying to syndicate a deal.</p> <p>Covenants, on the other hand, are something that we feel have not changed materially.</p> <p>We sometimes worked without a mortgage in place and that is no longer the case. More guarantees are now required by the lender from the borrower. Also, in those situations where cash flows are below our base case, we oblige the borrower to contribute with further equity so that the debt ratio stays the same and debt is, proportionately, reduced.</p> <p>In our view, bureaucracy has not increased. Today there is no additional paperwork or additional committees to go through. There are no additional formal requirements. In this respect, things were the same before and after the credit market meltdown.</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>When times get rough, Grupo Santander's focus is on clients, not deals. We believe in relationship banking and prefer a good client with a "medium" project than vice versa. That said, the nature of project finance makes us pay a lot of attention to every deal's feasibility – carrying out a detailed analysis on each project.</p>

<p><b>3. Importance of location</b></p>	<p>There are not huge differences according to the various geographical markets. In countries like Spain, however, access to credit has been more restricted than in other areas because of the fall down in the residential real estate sector. In places like Latin America, for instance, the market was not as aggressive in the first place and therefore the need to cut back has been less significant.</p> <p>Banco Santander would only finance deals in primary markets - we would look to avoid smaller cities or new developing tourist destinations. We like to focus on upmarket hotels, with quality sponsors and in prime locations.</p>
<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>We believe that, within real estate, hotels are not the sector that has suffered the most. Residential, for example, has been more seriously hit.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>No, we have not seen that at our end.</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<p>N/A</p>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>The current market downturn will still last a while longer. Grupo Santander's management team believes that difficult market conditions will persist in 2008 and for the whole of 2009. However, we regard this as an excellent opportunity to build an attractive portfolio at prices that we had not seen for some time.</p>

Table 7: US FINANCIAL SERVICES COMPANY

<p><b>1. Where are the following variables today versus 12 months ago?</b></p>	
<p><b>a. LTVs</b></p>	<p>Currently, we may be witnessing the reverse of the real estate upward cycle seen over the last few years. Asset values are softening, partly as a result of a liquidity crunch. In hotels, LTVs reached as much as 85-90% only a few months ago, although that is clearly no longer the case.</p>
<p><b>b. Spreads</b></p>	<p>Spreads are highly dependent on the project, deal size and security - but typically mortgage secured transactions in the 50-60% LTV range are in the 125bp range. Higher advance rates (above 70% LTV) would be difficult to obtain and would need a strong ICR story. Spreads for these higher LTV loans would be in the 250bp range.</p>
<p><b>c. Terms (timing)</b></p>	<p>Terms are set at 5 to 7 years.</p>
<p><b>d. Deal size</b></p>	<p>Deals above €300-400million are very difficult to do. Anything above that gets very complicated.</p>
<p><b>e. Club deals / syndication</b></p>	<p>There is a limited market today for syndication. The market appetite for transactions is difficult to forecast and hence underwritings are scarce. Market conditions are challenging as bank funding and capital is under stress due to the well publicised issues within the industry.</p>
<p><b>f. Covenants</b></p>	<p>During the first half of 2007 IC ratios sometimes stood below 1x (not our case). Today, this has moved up substantially, to 1.4-1.5x. IC ratios have also become more important in detriment of LTV covenants, which can sometimes be meaningless.</p>
<p><b>g. Guarantees</b></p>	<p>We would ask for guarantees in development financing especially. However, development deals are considered to carry a higher risk and have become more rare under current circumstances. In terms of existing, stabilised properties (seen as a safer option), aspects like who the borrower is, to cite an example, become now very important.</p>
<p><b>h. Lending bureaucracy</b></p>	<p>In some cases, processes may take longer as banks increase the degree of scrutiny. However, we would not say that the amount of lending bureaucracy has increased. It is probably the same as before.</p>

<p><b>2. Importance of borrower versus transaction</b></p>	<p>The most important thing to us is client relationship. Quality of the sponsor is key (who it is, track record, etc.). We might have experienced a small change to this respect, considering our previous focus on pricing (a result of buoyant markets).</p>
<p><b>3. Importance of location</b></p>	<p>In terms of the different countries, the US is without a doubt the most affected market.</p> <p>Within each country, we would prioritise asset financing on prime locations. We would tend to avoid secondary and tertiary markets, although there may be some exceptions to this.</p>
<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>It is all a matter of supply and demand. As long as hotels continue to offer good returns, investors will remain interested in the sector. If hotels offer premium returns, then they will continue to generate interest amongst the investment community.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>Yes. We have seen several examples out there, although not in our firm.</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<p>N/A</p>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>We believe that the worst might be over. However, we do expect another 12 months of high market volatility. Although there should be a recovery further down the road, we do not envisage anything happening before mid 2009.</p>

**Table 8: US INVESTMENT BANKING AND FINANCIAL SERVICES CORPORATION**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>Our perspective is more that of a corporate financier that of a hotel lender. That said, on average LTVs have probably gone from 80% to around 65%.</p> <p>These have move up very substantially. Deals that were done at spreads below 50bp may be closed today at spreads above 200bp.</p> <p>---</p> <p>Three or four months ago deals of €400-500million were achievable. Nowadays you would have difficulty reaching €200million.</p> <p>Today, the CBMS market has dried up totally whilst the market for syndicate loans has shrunk to minimum levels.</p> <p>The emphasis is now placed on cash flow related covenants rather than LTV covenants.</p> <p>We have gone from a borrowers market to a lenders market and therefore guarantees have become more important.</p> <p>---</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>Solid, reliable clients can still get financing. For such entities, the corporate market is still open and strategic deals are still on.</p>
<p><b>3. Importance of location</b></p>	<p>The US has been more seriously hit by the credit crunch than other markets. There were certain mega-deals, like the Blackstone acquisition of Hilton, that were reasonably successful whilst done in already challenging circumstances. Since then, the situation has only got worse.</p>

<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>We may see that trend reverting, but not to the levels seen in the past. There may be a minor correction but, as long as a yield gap exists vs. other forms of real estate, hotels will continue to attract investors. Those who fully understand this industry will be able to take advantage of arbitrage opportunities.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>---</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<p>N/A</p>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>We expect to see certain stabilisation during the fourth quarter of 2008. We do not think that there will be a recovery until 2009. That, of course, assuming that the downturn stays a capital markets problem rather than a fundamentals issue.</p>

**Table 9: US FINANCIAL SERVICES FIRM**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>We have gone from LTVs of 85-90% to a range of 60-75%. Even so, a level of 75% can only be reached if it is a 'class A' type of asset and if the deal size is relatively small. Other than that, it gets very complicated.</p> <p>Spreads are very dependent on the amount of the transaction. If a deal is very large, then spreads will increase as a result of the lender taking more risk. In markets like Western Europe and in a good location, spreads that were 100-125bp a few months ago have gone up to 170-200bp or easily above 200bp depending on size, cash flow, asset type, covenants and borrower.</p> <p>Terms have not changed much. We are still seeing 3, 5 or 7 year loans.</p> <p>Deals above €150-200million need a group of 3 or 4 banks underwriting it together.</p> <p>When considering large transactions, club deals are now a requirement.</p> <p>Covenants are more important than before. ICR for stabilised assets have gone from 1.10-1.15x to 1.5-1.7x. DSCRs have gone to 1.4x plus. Worth mentioning as well that there is even a greater focus on historic / trailing numbers vs. proforma figures.</p> <p>Guarantees are increasingly required by lenders, especially if we are talking of development financing or assets that must undergo a major refurbishment / repositioning.</p> <p>Investors are now more risk averse. With risk being repriced, there is more scrutiny out there. In addition to this, the fact that club deals have now become the norm makes processes take longer, as there are more parties to agree.</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>Investment banking relies heavily on relationship banking. A quality sponsor and a high level of trust are relevant issues - so we would perhaps stress the importance of the borrower rather than the transaction. A strong sponsor with a proven track record in the industry is key. In any case, that does not mean that banks do not focus on transactions. Simply, there has been a flight to quality and banks now tend to focus on very strong assets only.</p>

<p><b>3. Importance of location</b></p>	<p>It is difficult to treat Europe, for instance, as <i>one</i> market. The US may be treated as a single market but Europe encompasses very different countries. The situation in Western Europe differs from that in Eastern Europe. On the Eastern side, banks continued to remain quite active only until recently, when they started to see more constraints in their financing sources.</p> <p>Within one same market, primary vs. secondary location is a relative game. Senior financing tends to prefer and feels more comfortable with assets in prime locations.</p>
<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>Hotels in the US have been an accepted asset class for a long time now. In Europe, we are moving more and more towards that. Europe eventually follows the US cycle and fundamentals should soften at some point. However, the downturn should not be as severe as in past recessions. A benign supply environment should lead to a soft landing scenario.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>Not directly by ourselves but yes, we have seen that happening in the market. In some cases, covenants have tightened so much that deals simply cannot go ahead. Precisely because of that, there is a trend whereby deals with assumable debt are reaching better yields.</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<p>Not very much. Generally speaking, not much has been done in the market. And those deals that have been closed have generally been funded by commercial / balance sheet lenders (not capital markets players).</p>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>We do not really see the securitisation market opening again this year. If we were optimistic, we could say that the situation might start to improve in early 2009. Even so, we do not think that the high levels of debt and cheap credits seen in the recent past will be achieved again.</p>

**Table 10: US WEALTH MANAGEMENT, CAPITAL MARKETS AND ADVISORY FIRM**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>Although emerging markets like Russia saw relatively low figures, in developed economies LTVs were normally within the 70-75% range (reaching 75-80% in many cases). Over the last twelve months, however, this has gone to around 65%.</p> <p>Spreads are now at around 150-200bp - much higher than before.</p> <p>Terms are now closer to 3-5 years than 7-10.</p> <p>Twelve months ago transactions were relatively frequent in the €80-800million range. Today, deals above €200million are quite uncommon.</p> <p>Nowadays club deals are necessary for deals above €200million. Before, the limit would have been closer to €500million. With a 'dead' securitisation market, club deals have become more popular.</p> <p>We believe in imposing appropriate relevant covenants that allow the lender to exercise control if necessary.</p> <p>---</p> <p>---</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>Quality of the sponsor is paramount. Sponsor must have good track record. It is important to see how the borrower performed during past recessionary periods - not only its performance within a buoyant environment.</p>

<p><b>3. Importance of location</b></p>	<p>The various geographical markets are performing quite differently. Europe may soon be hit by a lack of Americans coming over due to strength of the Euro vs. the US\$. However, there are markets like Germany, for instance, which are more resilient due to its dependence on domestic travel. There are other markets which we view as particularly interesting, such as Moscow (leaving political risk aside), Dubai or Tokyo. On others, like Warsaw and other places in Central and Eastern Europe, we would be more sceptical. What is very important to note as well is that supply will not increase substantially, and less after the <i>subprime</i> debacle.</p> <p>In terms of prime vs. secondary markets: the world will most likely be a different place three years from now – and when there are difficult times ahead, people go to quality (hence the importance of prime locations).</p>
<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>Hotels have now become part of the core business. But it is possible that investors take a step back – they may now attach higher risk premiums to hotels vs. other real estate asset classes given the higher operational risk within the sector.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>Yes, we have witnessed several sales processes being postponed and several properties being taken off the market. However, agreed deals have not been cancelled.</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<p>---</p>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>The market still has much to recover from. Important hotel lenders out there have gone through a recapitalisation exercise, which is important for the sector. In terms of the outlook, we are probably on the bearish side. We see a recovery in Summer 2009 <i>at the earliest</i>.</p>

**Table 11: US INVESTMENT BANKING, SECURITIES AND INVESTMENT MANAGEMENT FIRM**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>LTVs have decreased from as high as 85% to around 75%. Even 75% can be considered aggressive under current circumstances.</p> <p>For a stabilised asset, spreads today would be closer to 200bp than to 100bp. Before, spreads of 100-120bp would have been considered "normal". The increase in spreads probably averages around 100bp for LTVs of 75%.</p> <p>This is something that has not changed much. 5-year terms were used 12 months ago and now. The only difference perhaps is that banks may ask for 3+1+1year terms rather than simply 5 years, depending on whether covenants are respected or not.</p> <p>The threshold has moved down to around €500million.</p> <p>Nowadays you need more institutions to finance deals that would have involved one bank only not that long ago. In order to reduce its risk exposure, banks are now more ready to share fees with other market participants. We could have assumed the risk of financing a €2-3billion deal a few months ago but would not do so now.</p> <p>It is actually good to see that the <i>subprime</i> crisis has brought some discipline to the overall markets. Without proper LTV and ICR covenants, nothing gets done. This was not the case during the booming years. It is also worth highlighting that market flex clauses have become absolutely important given the changing environment.</p> <p>---</p> <p>Internal approval procedures have been prolonged. You now need much more time than before to get a deal approved.</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>In current markets, there is no such thing as a "good deal" with a "bad borrower". Importance lies in the sponsor: who it is, track record, etc. Things were rather different 12 months ago.</p>

<p><b>3. Importance of location</b></p>	<p>There is little geographic difference. Things have worsened everywhere. That said, there are certain markets like Spain, the UK or Ireland that have been more hardly hit from a real estate point of view. Markets like Germany or France may prove more resilient, we will see. Emerging economies, like Russia or Turkey for instance, are regarded as interesting opportunities.</p> <p>There is, however, a big difference when it comes to prime vs. secondary. That has actually changed considerably and even more within the hotels universe. Banks focus on prime.</p>
<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>We may go back to differentiating hotel from non-hotel investors. Hotels carry a higher risk than other real estate subsectors like offices, for instance, and that is something that becomes more evident under a recessionary scenario.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>We have seen some deals in the market get cancelled, yes. However, we have not been directly involved in any hotel transaction that has been called off because of financing issues.</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<p>Not much since the start of the <i>subprime</i> crisis we are afraid.</p>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>Investors that rushed into the sector and bought at 4.5% yields with a 90% LTV will clearly suffer. LTVs will remain lower for some time and lenders will become more conservative. It will be more difficult to secure financing in a deal but, on the other hand, cap rates should also increase. The worst may be over, although that would only apply to the capital markets. The hit in the so called 'real economy' is still very much being felt at the moment, as there is always a time lag between both. We will see how everything pans out after the summer.</p>

**Table 12: US INVESTMENT BANKING, FINANCIAL SERVICES AND ASSET + WEALTH MANAGEMENT FIRM**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>---</p> <p>Spreads have doubled over the last few months. Same applies to upfront fees.</p> <p>---</p> <p>Nowadays it is difficult to find banks that would be willing to underwrite deals above GBP100million on their own. We, on the other hand, are still considering deals above GBP200million.</p> <p>Above GBP200-250million, the syndication model starts to make sense.</p> <p>There is now much scrutiny on ICRs. Lenders are not looking to close any deal with an ICR below 1.5x at the moment. For us in particular, making sure that fixed costs are covered is important.</p> <p>---</p> <p>---</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>Relationship is key. Banks are not really looking to expand their client network at the moment. Rather, they are using their balance sheets for existing clients. Banks are increasingly focusing on the quality of the sponsor – they differentiate much more amongst the different borrowers.</p>
<p><b>3. Importance of location</b></p>	<p>Having exposure to the US market is a 'minus' at the moment, given the weak US\$ and the poor macroeconomic indicators. Other markets, like Spain, have clearly been seriously hit.</p>
<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>Rather than changing their perception on hotels as an asset class, we believe that what investors should be worried about is the underlying operating performance.</p>

<b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b>	Yes, there are quite a few examples out there – some of which have seen the public light.
<b>6. What has your firm done recently in terms of hotel financing?</b>	We might have pools of liquidity that others may not have. There are other banks selling their loan portfolios to us and, surprisingly, we are busier than ever.
<b>7. What are your expectations? How do you see the market going forward?</b>	The debt markets are suffering at the moment but there are still pockets of liquidity out there, coming mainly from equity providers. On the other hand, going back to the basics and re-focusing on real estate fundamentals is something that was much needed and probably a healthy thing to do after all.

**Table 13: CB RICHARD ELLIS**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>LTVs are at 60-65% vs. 65-75% 12 months ago.</p> <p>From swap+90/125bp we have moved to swap+170/230bp.</p> <p>Terms are now 5 years maximum (5 to 10 years before).</p> <p>The average has moved from €150million to less than €50million.</p> <p>Not many months ago there was no need for club deals. However, they are today highly requested.</p> <p>DSCR have increased from 1.25x to 1.45x.</p> <p>Reserves are now required, as well as prepayment. Before the <i>subprime</i> crisis, no prepayment was needed during the first 3 years of the loan.</p> <p>We have gone from minimal fundamental analysis to very detailed processes.</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>For financial institutions, sponsor solvency is always a key issue in determining and creating quality when underwriting a loan. Financing institutions consider the quality of sponsors as a financing key driver. Key sponsors with an excellent international track-record are essential. The transaction will also determine the project's financial structure and if the assignment will go live or not.</p>
<p><b>3. Importance of location</b></p>	<p>The debt market still has appetite for prime quality products, mainly business hotels located in core locations within the top 10 European cities, including Moscow. While most of the lenders are attracted by the aforementioned properties, several want to focus on refinancing budget hotels - a new niche market. Due to current market conditions, the majority of the financial institutions in this sector are rather opportunistic.</p>

<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>So far, the hotel market has been only slightly affected by the current downturn. EBITDA figures continue to be at the same levels that we saw last year – and even growing in some countries. Spain grew +3% in Q108, with the increase coming mainly from central European countries. Nonetheless, asset values will be affected by the current market situation due to increased market risk.</p> <p>The hotel industry is increasingly being understood. Management contracts are significantly better accepted by financial institutions compared with a few years ago. As a guarantee, lenders prioritise contracts with key sponsors ('Big 5' hotel operators), thus ensuring a yearly income. Hotel leases, on the other hand, are currently seen as higher risk. Many financial institutions trust the large hotel companies (now keener on management contracts), as they believe that they can manage the business better through difficult times. Contrarily, a midsized company with a lease contract might be more affected by the crisis and may possibly not be able to meet the rent requirements.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>The market is clearly divided between those who enjoy a solid financial situation and those in need to sell off their assets in order to cope with the debt payments. Currently, sellers do not consider it appropriate to drop prices whilst buyers are waiting for this to happen. Apart from a few transactions, the hotel market may be frozen until September.</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<p>Despite the current market situation, EMEA Debt Advisory is currently under final agreements to close a re-financing hotel portfolio in Italy. Total loan amount is €60million.</p>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>The market is coming to accept the new standards, dictated by the financial institutions' different perception of risk. The overall situation is unlikely to improve before the end of this year. We might start seeing some signs of recovery in the CMBS market next year. This should increase liquidity in the medium to long term. Also, in order to properly assess the different risks, stricter cash flow and fundamental analysis will be required in each transaction.</p>

**Table 14: JONES LANG LASALLE HOTELS**

<p><b>1. Where are the following variables today versus 12 months ago?</b></p> <p><b>a. LTVs</b></p> <p><b>b. Spreads</b></p> <p><b>c. Terms (timing)</b></p> <p><b>d. Deal size</b></p> <p><b>e. Club deals / syndication</b></p> <p><b>f. Covenants</b></p> <p><b>g. Guarantees</b></p> <p><b>h. Lending bureaucracy</b></p>	<p>LTVs have come down to 65-70% maximum from an average above 75% before.</p> <p>Spreads for stabilised assets have moved from 125bp to 140-180bp. In development deals, from 150bp to 185-250bp.</p> <p>5 year term would be the most common.</p> <p>Club deals are arranged for loans over €70million.</p> <p>Not many syndicated deals at the moment. Club deals are more frequent, with each bank sharing the risk.</p> <p>Much tougher than before. ICRs have gone from 1.2x to 1.5x and above. Sensing the environment, credit committees reverted back to a more cautious approach with an emphasis on past trading performance and the strategic relevance of the potential borrower. The lack of confidence in exit cap rates has also led to an increase of the amortisation schedule which coupled with higher Debt Service Cover Ratios put a limit on the loan proceeds negatively affecting the LTV's.</p> <p>Unless the leverage is conservative, only seldom do we see full non-recourse mortgages in the market like we used to before.</p> <p>The information requested by lenders has probably not changed that much. The difference lies in the time it takes these institutions to review such documentation – it simply takes them longer. Also, a number of deals get called off when they hit the binding stage.</p>
<p><b>2. Importance of borrower versus transaction</b></p>	<p>Quality of the sponsor is more relevant nowadays, unless we are talking of an exceptional trophy asset that can provide certain 'status' to the bank. Track record, asset management capabilities – it all becomes important. REITs, for example, tend to have very good operations people and, when times get tough, this becomes important for the lenders.</p>
<p><b>3. Importance of location</b></p>	<p>Whilst urban hotels are still getting financing, resort projects are struggling. Within the hotel (non-resort) segment, there are still some secondary and tertiary locations that are performing strongly. However, lenders would still apply higher spreads to these properties vs. prime locations (premiums of around 50bp).</p>

<p><b>4. Will hotels lose the 'accepted asset class' status they have gained over the last few years because of the current downturn?</b></p>	<p>Although institutional investors get naturally concerned about future projections and exit multiples, they have gone through a learning curve within the hotels sector that is unlikely to disappear at this stage.</p> <p>Banks, on the other hand, are only now beginning to fully understand management contracts but, still, they prefer guarantees. Banks used to feel more comfortable with leases as opposed to management contracts. However, that not always gave them access to the asset's underlying operating performance – and they now require such info. Leases were only interesting if there was a guarantee behind. If not, management contracts are starting to be the preferred option as long as there are some performance tests in place, minimum guarantees, etc.</p>
<p><b>5. Has your firm seen hotel deals get cancelled lately because of financing problems?</b></p>	<p>Yes. There is a clear gap at the moment between buyers and sellers. We believe that pricing expectations have been unrealistic. Investors have been slower to react than lenders.</p> <p>Raising senior debt in Europe for hotel real estate has become a challenging proposition since the 'credit crunch' took hold in August last year. Since Mortgage Backed Securities were the trigger of the sub prime crisis, the securitisation market is effectively on hold. This eliminated a large number of 'conduit lenders' from the lending environment and there is no clear sign of appetite for securitisation returning in 2008.</p> <p>Balance sheet lenders, on the other hand, continue to maintain they are open for business and interested in looking at new opportunities. However, the high demand for loan facilities and the limited credit lines available have tightened the pre requisite criteria for funding.</p>
<p><b>6. What has your firm done recently in terms of hotel financing?</b></p>	<p>---</p>
<p><b>7. What are your expectations? How do you see the market going forward?</b></p>	<p>We do not think that we will see any improvement between now and the end of the year. Things have actually worsened over the last couple of months. We have not bottomed out yet. This difficult situation will persist during the whole of 2008. A stagnant trading environment will create nervousness and lending conditions are unlikely to improve under that scenario. Activity should pick up towards the end of this year / beginning of 2009. However, when that happens, terms will be very different from what we were used to.</p>

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