BACK TO THE FUTURE: A LOOK AT TODAY'S CMBS MARKET FROM THE YEAR 2000

CMBS returns can outperform those of other investment vehicles, as long as investors do not ignore demand and are able to make more accurate future forecasts.

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The year is 2000. A CMBS investor turns on his computer in the morning to survey the Bloomberg listings and pricings of 40 tranches of previously issued AAA securities and 10 tranches of B piece securities offered for sale. Most of these securities were issued from 1991 through 2000 and were rated by Fitch, Duff & Phelps, or Standard & Poor's. Our investor notices that 3 tranches were added overnight and 22 tranches reflect new market pricing, as a result of an overnight change in interest rates. His computer is preset to search and to beep whenever any unrated or rated CMBS pool offered for sale meets his investment parameters. As he scans the three highlighted tranches identified, one deal catches his eye: a $20 million piece of an AAA-rated tranche of a $300 million issue of which $50 million is rated single B. With the click of the mouse, a truckload of information is instantly downloaded to his computer right into the latest data directory of a new neural network software program called "CMBS Blood Test."

This "smart system test program" takes the downloaded information and performs a full-scale ratio and variance analysis based on sophisticated tests of CMBS relationships. The information is graphically and statistically illustrated and printed out when a significant investment opportunity has been identified. Seconds later, the displayed results indicate that this $20 million pool meets all of the investor's real estate investment and collateral-reasonability regression tests. The securities appear to be priced at a discount relative to the underlying assets. The investor places his order for the $20 million pool on his computer. Within seconds, the investor's

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