

Moody's/REAL Commercial Property Price Indices, February 2008

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OVERVIEW

The Moody's/REAL Commercial Property Price Indices (CPPI) measure the change in actual transaction prices for commercial real estate assets based on the repeat sales of the same assets at different points in time. In this February report, based on data through the end of December 2007, Moody's/REAL index measures 188.51, a decrease of 1.5% from the previous month, but an increase of 8.3% over the same period of the previous year, and 17.4% over two years.

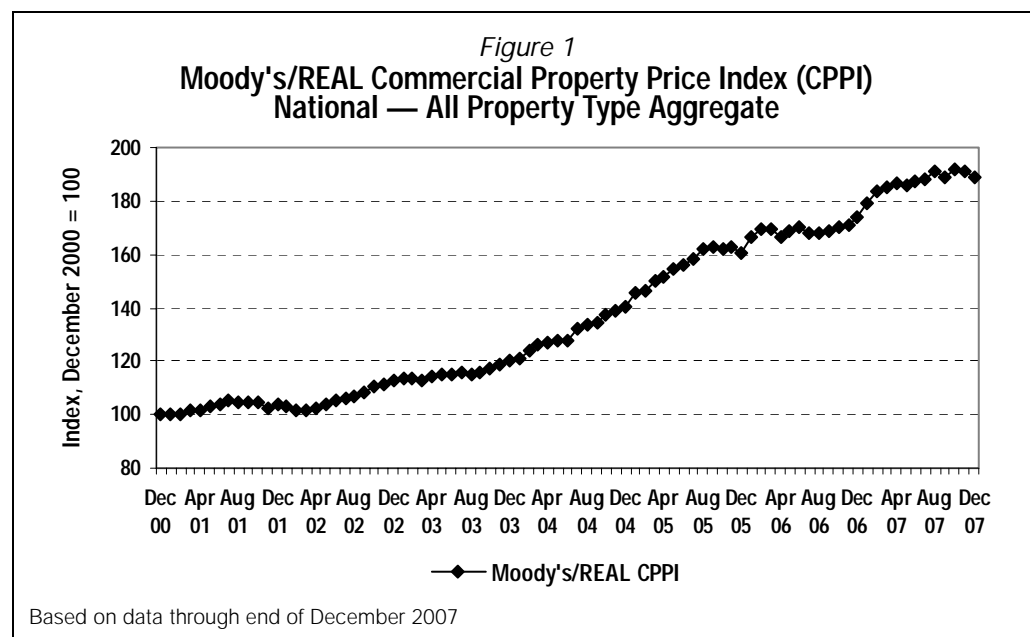


Figure 2
Current Moody's/REAL CPPI and Change from Earlier Periods

New This Period: National All Property Type Aggregate
New This Period: National - Four Property Types
Top 10 MSAs - Four Property Types
West - Four Property Types

Repeated: East - Four Property Types
 South - Four Property Types
 Southern California - Four Property Types
 MSA Office Markets - New York, San Francisco, and Washington DC
 MSA Apartment Market - Florida

	Current Index ^M	1 Month Earlier	1 Year Earlier	2 Years Earlier
National All Property Type Aggregate	188.51	-1.5%	8.3%	17.4%

	Current Index ^Q	1 Quarter Earlier	1 Year Earlier	2 Years Earlier
National - Apartments	182.96	-4.9%	-2.9%	2.6%
National - Industrial	192.51	1.0	10.2	21.7
National - Office	176.07	-0.4	8.6	21.7
National - Retail	188.31	-3.5	4.3	8.1
Top 10 MSAs ¹ - Apartments	214.98	-3.5	2.3	10.1
Top 10 MSAs - Industrial	200.32	1.2	7.9	20.8
Top 10 MSAs - Office	171.01	0.0	5.1	19.4
Top 10 MSAs - Retail	199.04	1.3	9.7	4.9
West - Apartments	196.67	2.8	5.5	15.6
West - Industrial	181.39	0.6	10.3	15.5
West - Office	171.01	-1.5	12.5	25.9
West - Retail	197.10	-0.8	5.8	9.4

	Current Index ^A	1 Year Earlier	2 Years Earlier
East - Apartments	219.34	14.1%	13.9%
East - Industrial	185.71	10.2%	15.0%
East - Office	193.60	16.1%	31.1%
East - Retail	210.56	11.9%	16.5%
South - Apartments	165.88	4.1%	-5.1%
South - Industrial	194.79	9.9%	29.4%
South - Office	180.68	3.3%	18.3%
South - Retail	184.97	8.8%	21.2%
So. California - Apartments	226.30	8.2%	18.0%
So. California - Industrial	220.76	16.4%	38.1%
So. California - Office	207.96	16.0%	24.5%
So. California - Retail	226.89	4.2%	21.6%
New York - Office	232.46	19.8%	39.6%
San Francisco - Office	137.39	18.4%	31.7%
Washington DC - Office	194.24	11.1%	25.4%
Florida - Apartments	220.51	-3.1%	4.9%

M Monthly series. Most recent data is through Dec. 31, 2007.

Q Quarterly series. Most recent data is through the end of the 4th quarter 2007. Analysis is based on data from that 4th quarter.

1 Top Ten MSAs refers to the ten MSAs with the most transactions by dollar volume, in each property type.

A Annual series. Most recent data is through the end of the 3rd quarter 2007. Analysis is based on data from four quarters (4Q06, 1Q07, 2Q07, and 3Q07). Given that the measure is of a rolling four-quarter period, data as of the end of the 3rd quarter can not be compared with that from the end of the previous quarter.

NATIONAL — ALL PROPERTY AGGREGATE INDEX DECLINES BUT VOLUME HOLDS UP

The National — All Property Type Aggregate is a monthly series, and this report is based on data through December 31, 2007.¹ As expected, the repeat-sales method is picking up on the softening in commercial real estate prices (refer back to *Figure 1* on page 1). This month's price changes represent an acceleration of last month's trends: the month-to-month decline of 1.5% is steeper than last month's decline of 0.2%, and the year-over-year increase of 8.3% is notably shallower than the 12.1% year-over-year increase registered in November.

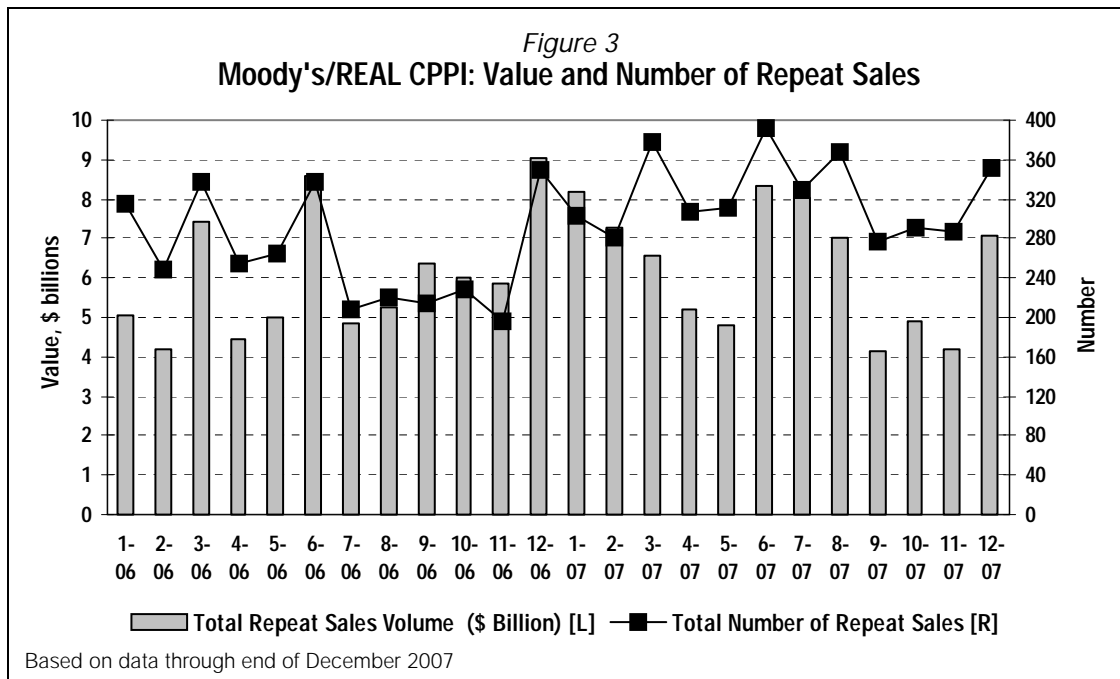
The last few months of the index have represented a bit of a plateau but one with more "down months" than "up months," as three of the last four months have witnessed some decline in prices. In fact, the decline in prices over the last two months was -1.8%, representing the price change from the peak at the end of October through December.

The scale of the monthly change in prices, -1.5%, is not the largest one-month drop in the history of the index. Three other months have measured a fall in prices of that scale or greater: November 2001 (-1.9%); April 2006 (-1.8%); and February 2002 (-1.6%). The November 2001 measure was likely a response to the uncertainty following the September 11 attacks and is therefore unique.

However, the asymmetry of the number of months when prices increased or decreased is still striking and clearly indicative of where we are in the real estate cycle. Of the 84 months of the Moody's/REAL CPPI, 19 saw price increases of 1.5% or more (22.6% of the months), while in only four months did prices decrease by the same order of magnitude (4.8% of all months). In short, in a bit over one-fourth of all monthly records, prices changed by 1.5% or more, in one or the other direction, but the distribution of price changes remains heavily skewed towards the upside.

Repeat Sales Transaction Volume Remains Robust

The number and total value of repeat sales supporting the Moody's/REAL CPPI in December remained above the average of the last two years (see *Figure 3*).

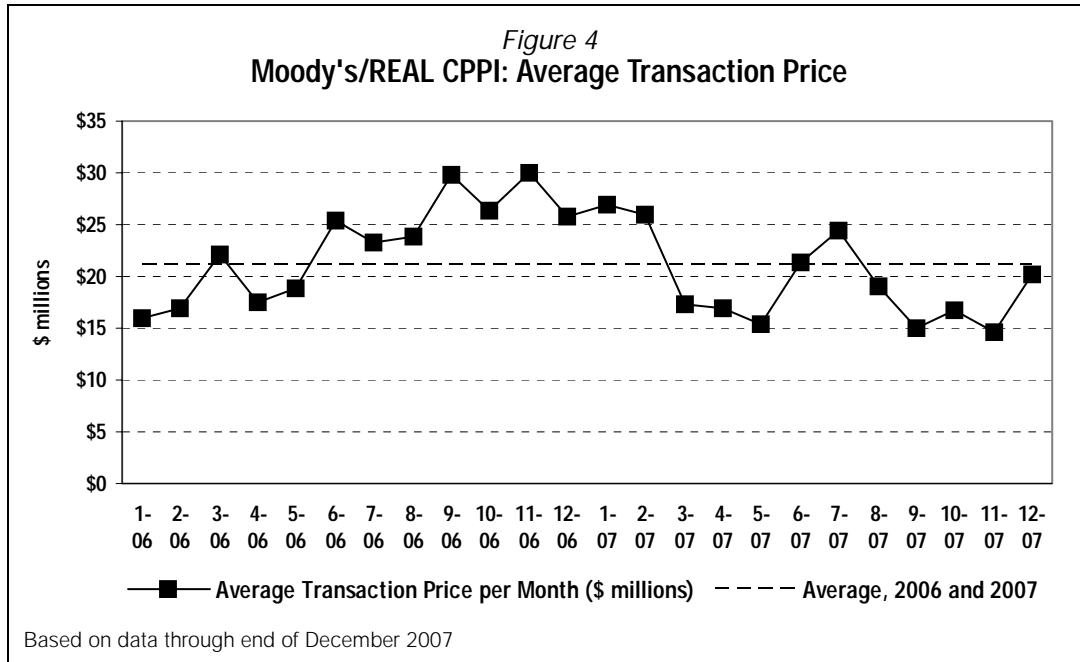


1 A summary or short version of the repeat sales methodology is available in a Moody's Special Report. [US CMBS: Moody's Publishes the First Commercial Property Price Indices Based on Commercial Real Estate Repeat Sales Data](#). Sept. 19, 2007. This is available on Moodys.com > Structured Finance > Commercial MBS > CRE Indices. A very detailed and complete explanation of the methodology is available in a White Paper from MIT. David Geltner and Henry Pollakowski. [A Set of Indexes for Trading Commercial Real Estate Based on the Real Capital Analytics Transaction Prices Database](#). MIT Center for Real Estate. Sept. 26, 2007.

The 352 transactions totaling \$7.1 billion captured in December represented somewhat surprisingly strong numbers. As the credit crunch picked up steam after August, and assuming that a sale agreed upon even just before the capital markets tightened might not be consummated for a few months, we had started to become accustomed to a slower pace of transactions. Although December is often a more active month for transactions — note the spurt in that month of last year — as some borrowers and/or lenders are eager to close before year-end for one or another financial reason, the jump in volume in December of 2007 is likely to be atypical before a softer pace sets it.

Average Prices Drifting Down As Lower-Priced Assets Predominate Among Transactions

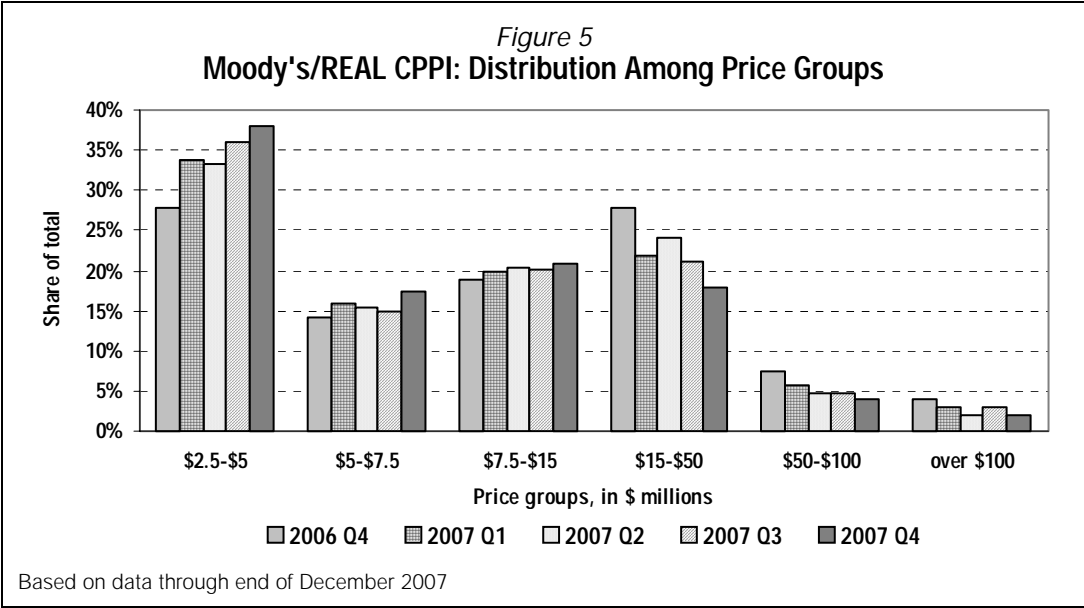
Although repeat-sales transaction volume held up in December, average transaction prices were higher than in the previous month but still slightly below the average for the last two years (see *Figure 4*). Some drag on average prices stemmed from a shift in transaction activity toward more lower-priced assets and fewer high-end and trophy properties, as discussed below.



Throughout 2007, repeat-sales transactions have increasingly occurred among more modestly-priced properties. In the fourth quarter of 2007, 38% of the transactions involved assets with values less than \$5 million, up from 28% in the same quarter of the previous year (see *Figure 5*).² Conversely, assets with prices greater than \$15 million comprised a smaller share of all transactions compared to a year ago — down from nearly 40% (39.2% of that quarter's total) to less than 25% (23.8% of the transactions in the fourth quarter of 2007).

The same pattern prevails among all the medium- and larger-sized price groups. In each group the fourth quarter 2007 share of all transactions was one-third or one-half that of the year earlier. In short, the capital crunch that picked up steam in the third quarter of 2007 seems to have put the greatest pressure on medium-sized and larger assets, as evidenced by the fact that the smaller ones constituted a progressively larger share of the repeat sales transactions by the end of 2007.

² Real Capital Analytics (RCA) records transactions greater than \$2.5 million, so that is the lower bound of sales in the Moody's/REAL CPPI data.

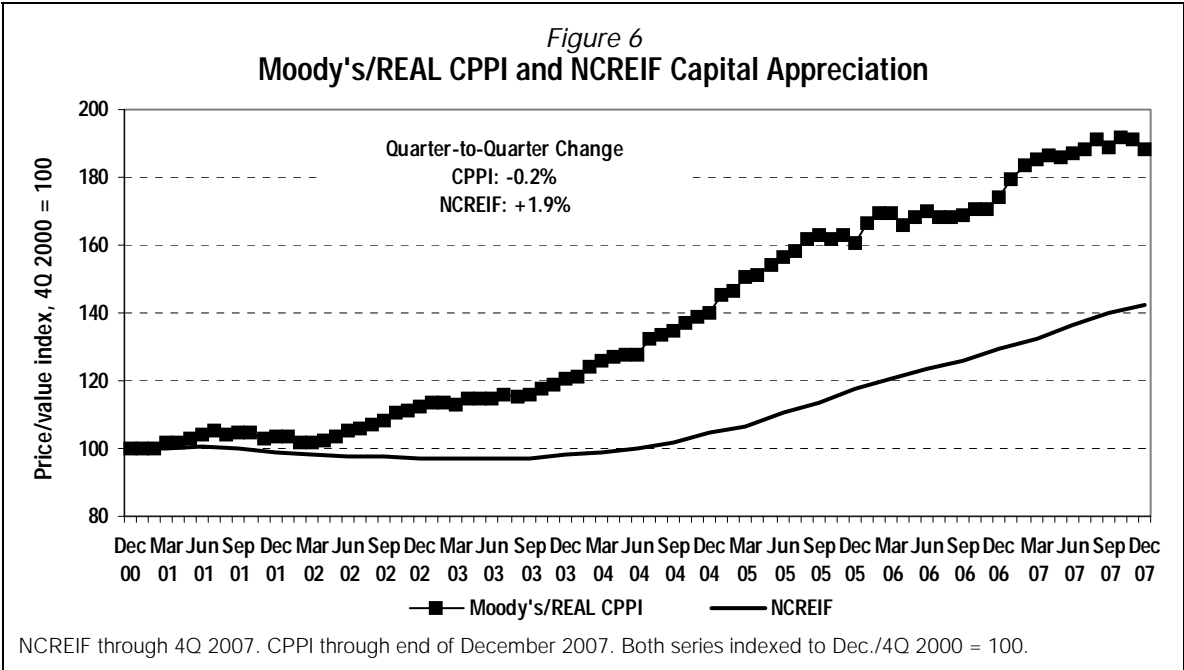


MOODY'S/REAL CPPI MOVES BEFORE NCREIF ON BOTH SIDES OF THE CYCLE

Following the recession of 2000-2001, the Moody's/REAL CPPI began to capture the recovery in commercial real estate prices within approximately six months after the end of the recession in the fourth quarter of 2001 (see *Figure 6*). However, the capital appreciation component of the NCREIF index did not demonstrate any material recovery for another 2 ½ years. Quite a lag.

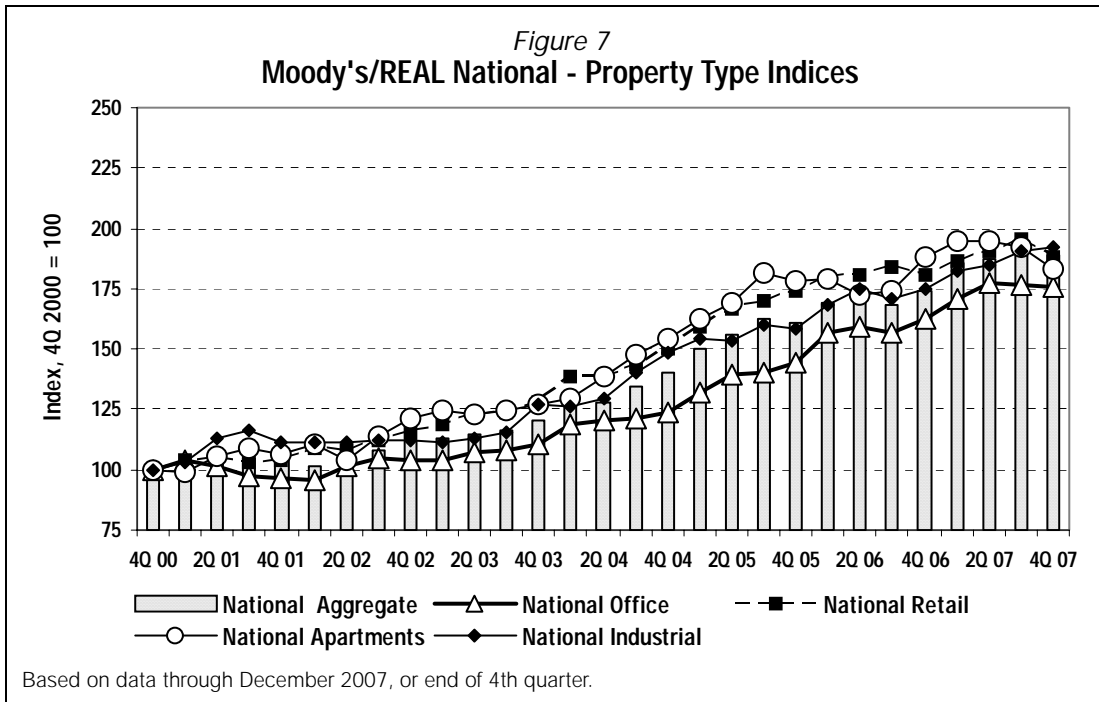
Now, on the down side of the cycle, the Moody's/REAL CPPI again seems to be more responsive to market changes, as the decline in prices that is clearly evident in the market is indeed being captured. Meanwhile, the NCREIF index of value continues its steady climb — up 1.9% from the previous quarter with no apparent interuption as yet.

Some economic or market measures are more responsive on one or the other side of the cycle, and tend to show greater sensitivity to improvement than deterioration, or the other way around. However, the Moody's/REAL CPPI exhibits no such asymmetry to date and appears to react to market changes with equal timeliness on either the upside or downside of the cycle.



NATIONAL — PROPERTY TYPE INDICES PICK UP WEAKNESS IN APARTMENTS AND RETAIL

The National — Property Type Indices for the four major property types is a quarterly series, and this report is based on data through the fourth quarter 2007.



The national apartment sector showed the largest decline of all indices covered in this report with a drop of 4.9% from the third to the fourth quarter of 2007 and 5.9% below the price peak in the first quarter of 2007. This is the largest one quarter drop in prices in multifamily housing in the last five years. Relative strength in the West, where prices were up 2.8%, was not sufficient to offset marked weakness in the South and, to a lesser extent, in the East.

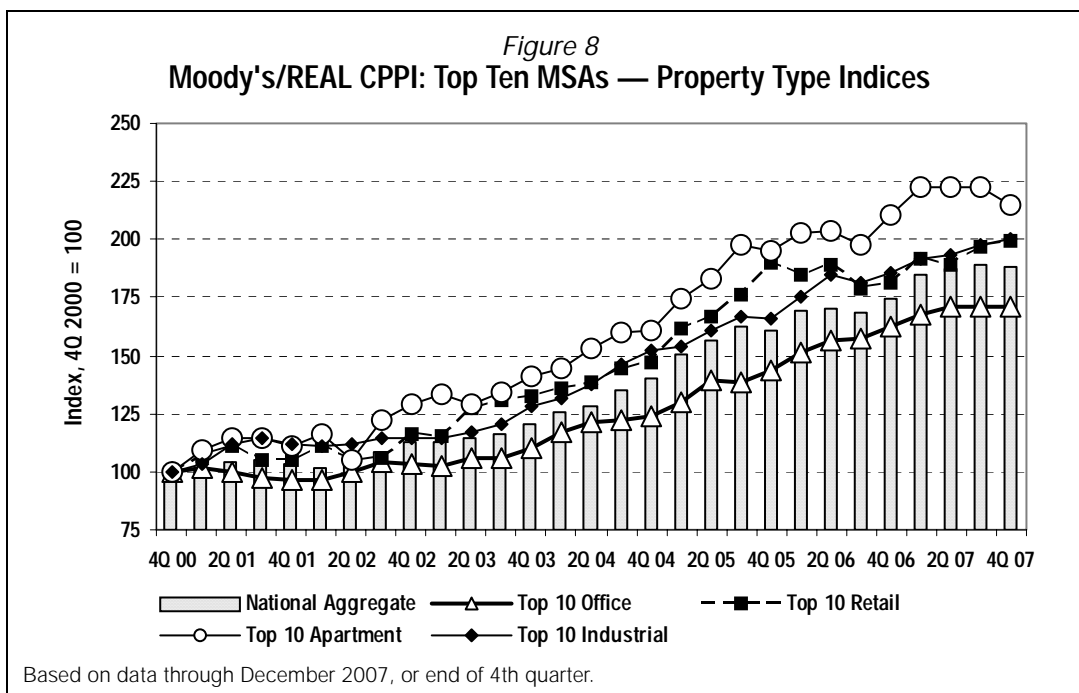
The national retail sector experienced a fall off of 3.5% from last quarter, the largest one quarter decline in retail prices in the history of the index. Only one other quarter in the past five years has demonstrated any price deterioration among retail properties: a 2% drop from third quarter to fourth quarter in 2006.

The decay in the national office sector was slight (-0.4%) and in line with the aggregate quarterly decline (-0.2%). The office sector seems to be displaying a more gradual softening in prices, as the 0.4% drop this quarter continues the 0.5% decline of last quarter.

Industrial was the only property type at the national level to show an increase, albeit a small one (up 1.0%). This was due in large part to strong price performance in Los Angeles, New York, South Florida, Phoenix, and Washington DC.

TOP TEN MSAs — PROPERTY TYPE INDICES: PRICES IN LARGEST CITIES OUTPERFORM NATION AS A WHOLE IN ALL ASSETS DESPITE DECLINE IN APARTMENT SECTOR

This series is based on the ten MSAs that are home to the largest number of transactions in each property type. Approximately 50%-80% of the national index is driven by the performance of assets in only ten cities, although that ratio varies by property type and over time. This is also a quarterly series, based on data through the fourth quarter 2007.



Apartments in the Top Ten cities saw prices decline for the quarter, albeit by less than for the nation as a whole. For the year, prices increased for the subset of the largest cities, in contrast to the decline in prices year-over-year in the nation.

Quarter - Top Ten: -3.5%; Nation: -4.9% Year - Top Ten: +2.3%; Nation: -2.9%

Industrial prices in the ten largest cities closely mirrored those in the nation, both for the quarter and the year.

Quarter - Top Ten: 1.2%; Nation: 1.0% Year - Top Ten: 7.9%; Nation: 10.2%

Office prices remained unchanged from the previous quarter in the Top Ten cities, although they declined a bit overall. Unusually, price increases in the largest cities lagged those of the nation generally on a yearly basis.

Quarter - Top Ten: 0.0%; Nation: -0.4% Year - Top Ten: 5.1%; Nation: 8.6%

Retail prices moved in the opposite direction in the largest cities compared to the nation as a whole for the quarter with prices increasing by 1.3% in sharp contrast to the national slump of 3.5%. The retail sector in the Top Ten cities outperformed the US composite for the year as well.

Quarter - Top Ten: 1.3%; Nation: -3.5% Year - Top Ten: 9.7%; Nation: 4.3%

Composition of Top Ten to Change

The "Top Ten" cities are those with the largest dollar value of transactions in the previous two-year period. As noted in the initial reports describing the calculation of Moody's/REAL CPPI, the identification of the ten cities with the most transactions will be recalibrated periodically. Specifically, we committed to revisiting this variable once every two years, in January of even-numbered years — which is now.

That new list of Top Ten cities has been generated and will be applied to the next calculation of the index. This constitutes advance notice of the change in the composition of the Top Ten list of cities. In other words, this report, based on data through the fourth quarter of 2007, is still based on the "old" or current list of cities. However, the next report of this set of indices, using data from the first quarter of 2008, will be based on the "new" list. That report will be released in May 2008, as previously scheduled and in the normal rhythm of releasing the

various indices. We anticipate that the difference in the change in prices in the Top Ten cities as a group, represented by one or the other set of cities, will not vary by more than 1% due to the change in composition.

Unsurprisingly, some shift has occurred in the cities most frequently represented in transactions relative to the two-year period before the most recent one (see *Figure 9*). Those cities which are newly included in the Top Ten list are noted below, as are those that were dropped in each property type. Dallas and Houston moved into the category in several property types, indicating increased transaction activity in the Texas markets in the last two years. Conversely, Phoenix and some Florida markets are apparently less frequently involved in transactions in the last two years than in previous periods.

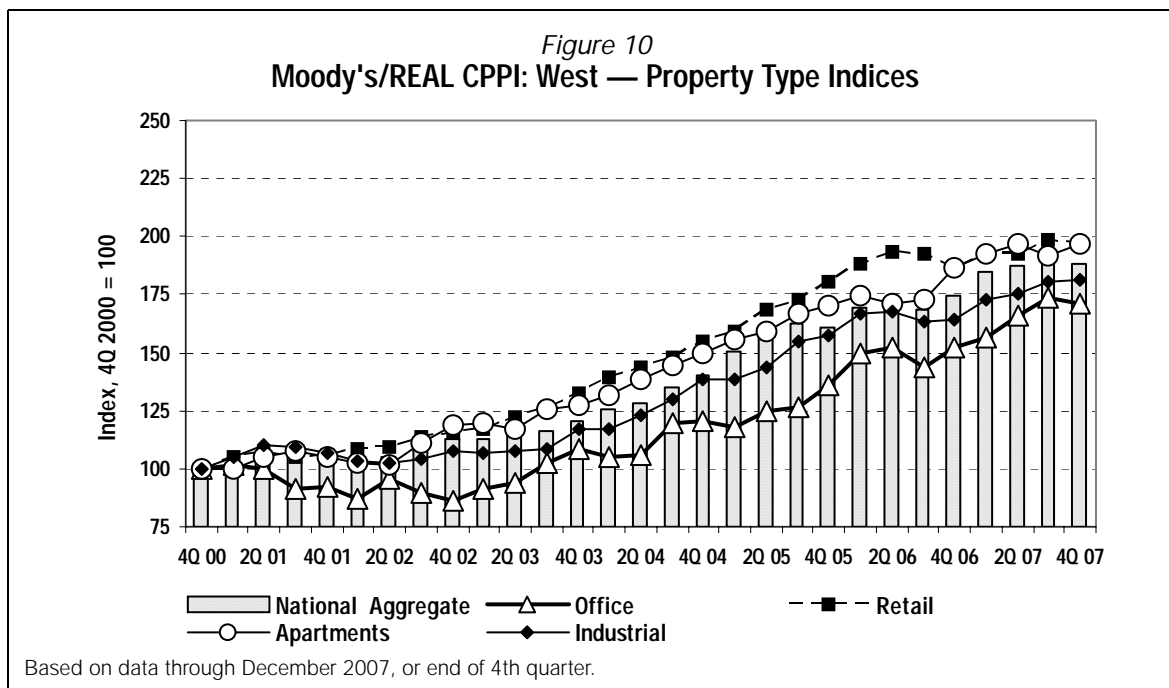
Six MSAs are represented among the Top Ten in all property types: Atlanta, Dallas, Los Angeles, New York, San Francisco, and Washington DC (represented in bold in *Figure 9*). Previously, six cities were also represented in all four property types, but that group included Phoenix and South Florida, while the "new" set of cities represented in the Top Ten in all property types now includes Atlanta and Dallas.

Figure 9

Cities Included in Top Ten MSAs in Each Property Type			
APARTMENT	INDUSTRIAL	OFFICE	RETAIL
Atlanta	Atlanta	Atlanta	Atlanta
		Boston	
	Chicago	Chicago	Chicago
Dallas	Dallas	Dallas	Dallas
Houston		Houston	Houston
Los Angeles	Los Angeles	Los Angeles	Los Angeles
New York	New York	New York	New York
Phoenix			Phoenix
	San Diego		
San Francisco	San Francisco	San Francisco	San Francisco
Seattle	Seattle	Seattle	
South Florida	South Florida		South Florida
Washington DC	Washington DC	Washington DC	Washington DC
NEWLY INCLUDED	NEWLY INCLUDED	NEWLY INCLUDED	NEWLY INCLUDED
Dallas	Dallas	Houston	Atlanta
Houston		Seattle	Dallas
DROPPED	DROPPED	DROPPED	DROPPED
Orlando	Phoenix	Phoenix	Denver
Tampa		South Florida	Seattle

WESTERN REGION — PROPERTY TYPE INDICES: APARTMENTS OUTPERFORM NATION

The Western Region — Property Type Indices for the four major property types is a quarterly series, and this report is based on data through the fourth quarter 2007.³ Western office and retail sectors saw a decline in prices in the fourth quarter of 2007. The industrial sector saw a slight improvement, while the apartment sector returned to the peak it reached in the second quarter of 2007.



The industrial sector in the West (up 0.6%) moved in line with that of the nation (up 1.0%). Similarly, the changes in the Western office and retail market prices followed the same downward trajectory as that of the nation as a whole. However, the decline in the retail sector in the West (-0.8%) was milder than the decline of the national retail sector (-3.5%), whereas the decline in West office (-1.5%) was more severe than the national office market (-0.4%).

The biggest divergence between the West and the nation was in the apartment sector. Apartments in the West (up 2.8%) significantly outperformed national apartments, which saw the biggest monthly decline of any index in this report (-4.9%). In fact, the 2.8% increase seen in the West apartment sector for the fourth quarter reversed the decline of 2.6% it experienced in the third quarter. On a year-over-year basis, while price changes of retail, office and industrial space in the West paralleled the nation, Western apartments dramatically outperformed the nation, with prices increasing by 5.5% from the previous year, compared to a decline, -2.9%, in the US as whole for the same time frame.

The attached Appendix includes the following:

- A calendar summarizing the report cycle, i.e., which indices are recalibrated in which month. The calendar also indicates the precise release dates for Moody's/REAL Indices for 2008 (*Figures 11, 12, and 13*).
- Charts for the 16 sub-indices that were not recalculated for this report. These are repeated from the previous report so that both data and charts for all indices, whatever the most recent calculation, are included here in one document for investors' convenience (*Figures 14 - 18*).

³ The regions are the same as those defined by NCREIF. A list of each of the states included in each region is provided in the CPPI Primer: *Moody's Publishes the First Commercial Property Price Indices Based on Repeat Sales Methodology*.

APPENDIX

Figure 11
CPPI: Report Release Cycle, 2008

	JANUARY	FEBRUARY	MARCH
	Jan. 22, 2008	Feb. 19, 2008	March 19, 2008
Report to be released:	Aggregate	Aggregate	Aggregate
For period:	November	December	January
Based on data through:	November 30	December 31	January 31
Report to be released:		12 Quarterly Indices (A)	16 Annual Indices (B)
For period:		4 th Quarter	4 th Quarter
Based on data through:		December 31	December 31
	APRIL	MAY	JUNE
	April 21, 2008	May 19, 2008	June 19, 2008
Report to be released:	Aggregate	Aggregate	Aggregate
For period:	February	March	April
Based on data through:	February 28/29	March 31	April 30
Report to be released:		12 Quarterly Indices (A)	16 Annual Indices (B)
For period:		1 st Quarter	1 st Quarter
Based on data through:		March 31	March 31
	JULY	AUGUST	SEPTEMBER
	July 21, 2008	Aug. 19, 2008	Sept. 22, 2008
Report to be released:	Aggregate	Aggregate	Aggregate
For period:	May	June	July
Based on data through:	May 31	June 30	July 31
Report to be released:		12 Quarterly Indices (A)	16 Annual Indices (B)
For period:		2 nd Quarter	2 nd Quarter
Based on data through:		June 30	June 30
	OCTOBER	NOVEMBER	DECEMBER
	Oct. 20, 2008	Nov. 19, 2008	Dec. 22, 2008
Report to be released:	Aggregate	Aggregate	Aggregate
For period:	August	September	October
Based on data through:	August 31	September 30	October 31
Report to be released:		12 Quarterly Indices (A)	16 Annual Indices (B)
For period:		3 rd Quarter	3 rd Quarter
Based on data through:		September 30	September 30

Figure 12

(A) 12 Quarterly Indices include the following:

APARTMENT	RETAIL	OFFICE	INDUSTRIAL
National Apartment	National Retail	National Office	National Industrial
Top 10 MSAs Apartment	Top 10 MSAs Retail	Top 10 MSAs Office	Top 10 MSAs Industrial
West Apartment	West Retail	West Office	West Industrial

Figure 13

(B) 16 Annual Indices with Quarterly Releases include the following:

APARTMENT	RETAIL	OFFICE	INDUSTRIAL
East Apartment	East Retail	East Office	East Industrial
South Apartment	South Retail	South Office	South Industrial
So. California Apartment	So. California Retail	So. California Office	So. California Industrial
Florida Apartment		New York Office San Francisco Office Washington DC Office	

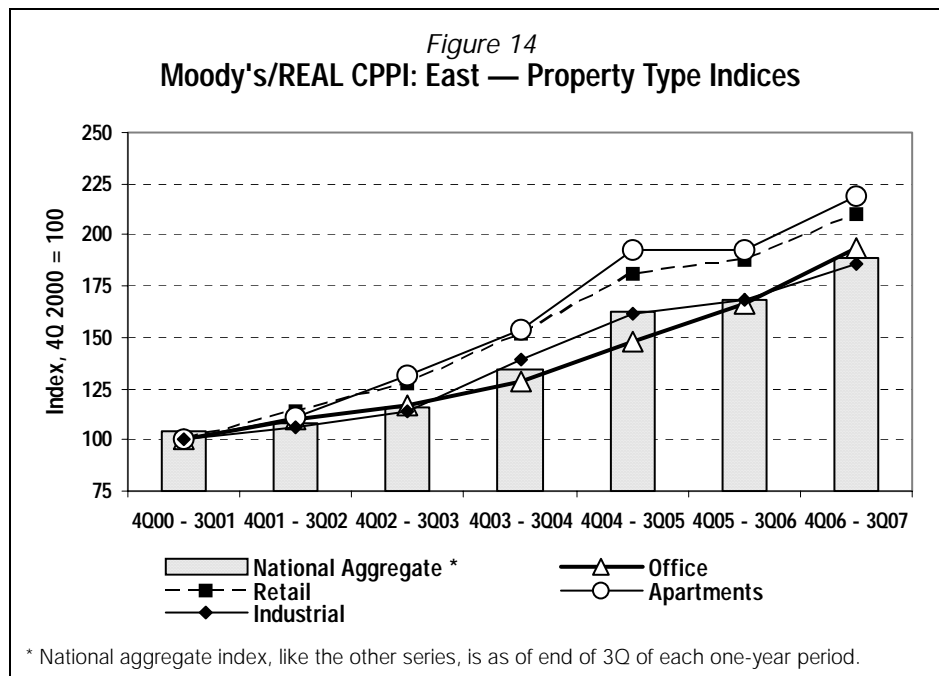
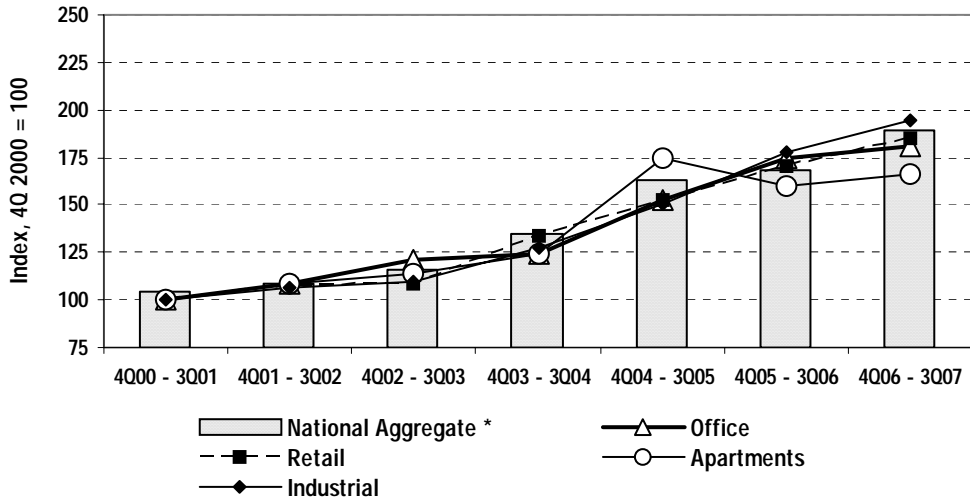
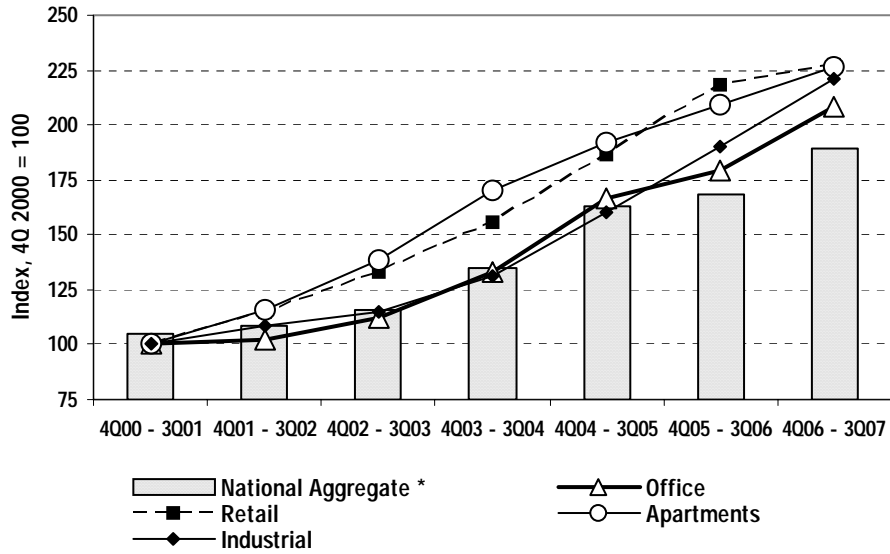


Figure 15
Moody's/REAL CPPI: South — Property Type Indices



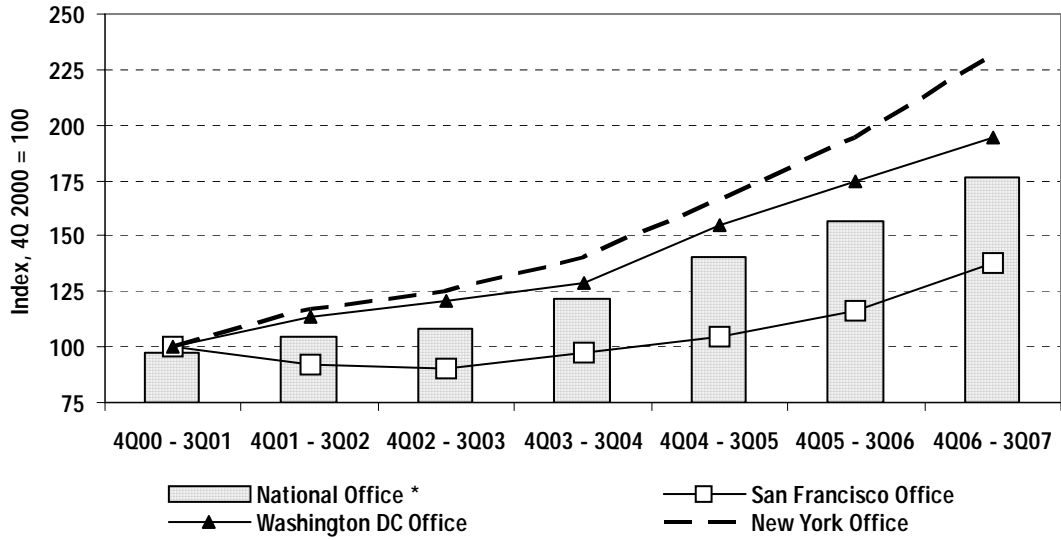
* National aggregate index, like the other series, is as of end of 3Q of each one-year period.

Figure 16
Moody's/REAL CPPI: Southern California — Property Type Indices



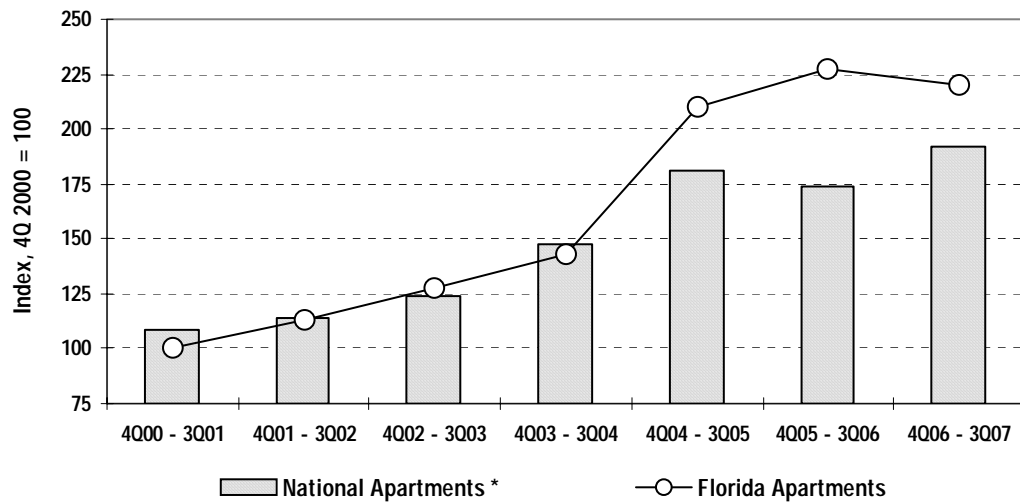
* National aggregate index, like the other series, is as of end of 3Q of each one-year period.

Figure 17
Moody's/REAL CPPI: Major Office Markets Indices



* National office index, like the three MSA office series, is as of end of 3Q of each one-year period.

Figure 18
Moody's/REAL CPPI: Florida Apartment Index



* National apartment index, like the Florida apartment series, is as of end of 3Q of each one-year period.

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