

Moody's/REAL Commercial Property Price Indices, February 2009

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CONTENT

- Overview: Moody's/REAL Commercial Property Price Index
- National – All Property Type Aggregate Index: Prices Fell Almost 15% in 2008
- National – Property Type Indices: Three of the Four Major Property Types Experienced Double Digit Depreciation in 2008
- Top Ten MSAs – Property Type Indices: Retail Prices Relatively Strong in the Nation's Top Ten Cities
- Western Region – Property Type Indices: The West Outperforms Across the Board
- Appendix

OVERVIEW

In this report, the Moody's/REAL National All Property Type Aggregate Index for December measures 160.46, a decrease of 2.2% from the previous month. The index now stands 14.9% below the level seen a year ago, and is over 16% below the peak measured in October 2007. The index is 7.8% lower than it was two years ago. This report is based on data through the end of December.

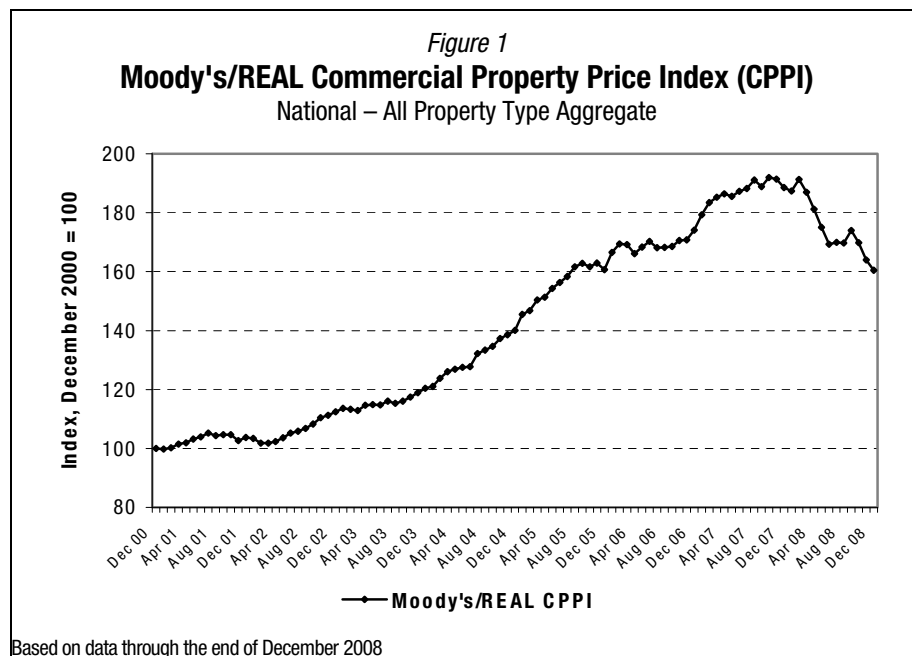


Figure 2
Current Moody's/REAL CPPI and Change from Earlier Periods

New This Period:	National All Property Type Aggregate
	National – Four Property Types
	Top 10 MSAs – Four Property Types
	West – Four Property Types
Repeated This Period:	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	160.46	-2.2%	-14.9%	-7.8%

	Current Index^Q	1 Quarter Earlier	1 Year Earlier	2 Years Earlier
National - Apartments	158.12	-11.5%	-13.6%	-16.1%
National - Industrial	165.66	-3.3	-13.9	-5.2
National - Office	152.22	-6.1	-13.5	-6.1
National - Retail	172.31	-2.0	-8.5	-4.6
Top Ten MSAs ¹ - Apartments	188.59	-11.2	-12.3	-10.3
Top Ten MSAs- Industrial	186.10	-1.6	-7.1	0.2
Top Ten MSAs- Office	157.66	-7.3	-7.8	-3.1
Top Ten MSAs- Retail	190.98	1.6	-4.1	5.2
West - Apartments	164.50	-9.0	-16.4	-11.7
West - Industrial	179.52	2.9	-1.0	9.2
West - Office	159.25	2.6	-6.9	4.8
West - Retail	187.70	0.8	-4.8	0.8

	Current Index^A	1 Year Earlier	2 Years Earlier
East – Apartments	196.72	-10.3%	2.3%
East – Industrial	180.34	-2.9	7.1
East – Office	183.26	-5.3	9.9
East – Retail	197.36	-6.3	4.9
South – Apartments	160.59	-3.2	0.8
South – Industrial	173.65	-10.9	-2.1
South – Office	175.16	-3.1	0.1
South – Retail	171.48	-7.3	0.9
So. California – Apartments	208.24	-8.0	-0.4
So. California – Industrial	207.05	-6.2	9.1
So. California – Office	194.04	-6.7	8.3
So. California – Retail	219.51	-3.3	0.8
New York – Office	228.02	-1.9	17.5
San Francisco – Office	130.79	-4.8	12.7
Washington DC – Office	190.58	-1.9	9.0
Florida – Apartments	204.19	-7.4	-10.2

M Monthly series. Most recent data is through December 31, 2008.

Q Quarterly series. Most recent data is through the end of the 4th quarter 2008. 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 2008. Analysis is based on data from four quarters (4Q07, 1Q08, 2Q08, and 3Q08). 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.

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 time¹

Notable Observations and Themes

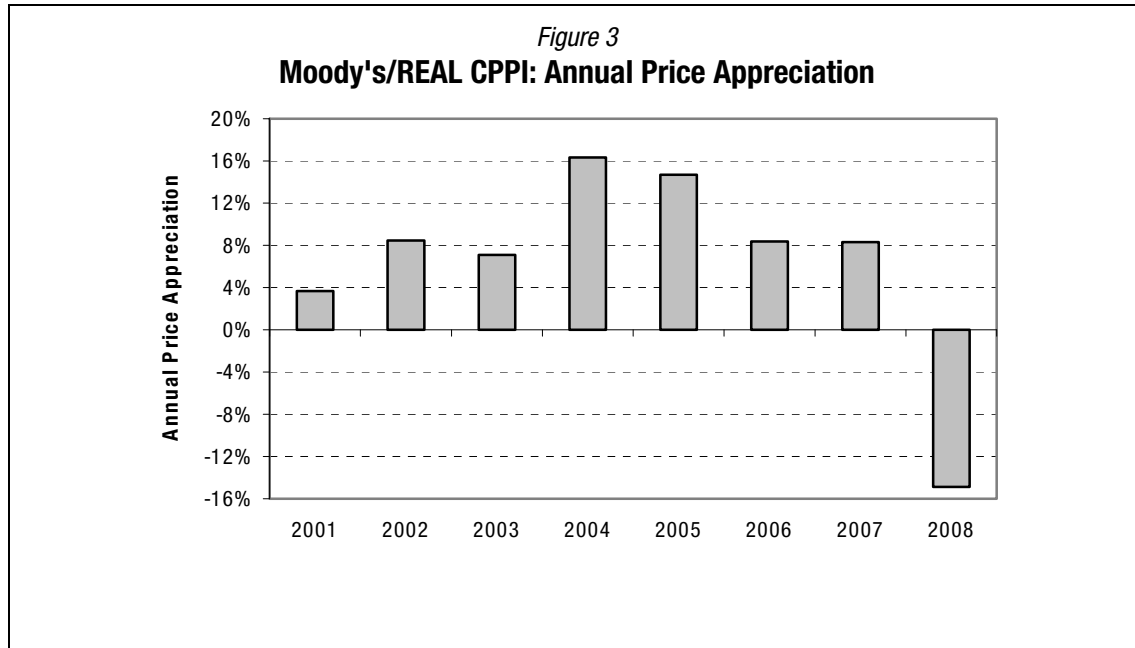
- Prices in the National Aggregate Index have declined in 11 of the last 14 months since the peak measured in October 2007. Values are now over 16% lower than at the peak. 2008 saw values depreciate nearly 15%.
- Transaction volume increased in the last month of the year from the lows seen in November. Still, the total dollar volume of repeat sales activity in 2008 was less than half that of 2007.
- Price depreciation for the fourth quarter was greatest in the national apartment market, with a decline of 11.5%.
- Values in the top ten cities fared slightly better than the nation for overall depreciation in 2008. Retail was the strongest sector here, with prices falling 4.1% over the last year.
- The western region outperformed in the last quarter of 2008, with three of the four property types posting price gains. Apartment prices in this sector, however, fell 9.0% in the fourth quarter, and are down over 16% for the year.

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.

NATIONAL – ALL PROPERTY TYPE AGGREGATE INDEX: PRICES FELL ALMOST 15% IN 2008

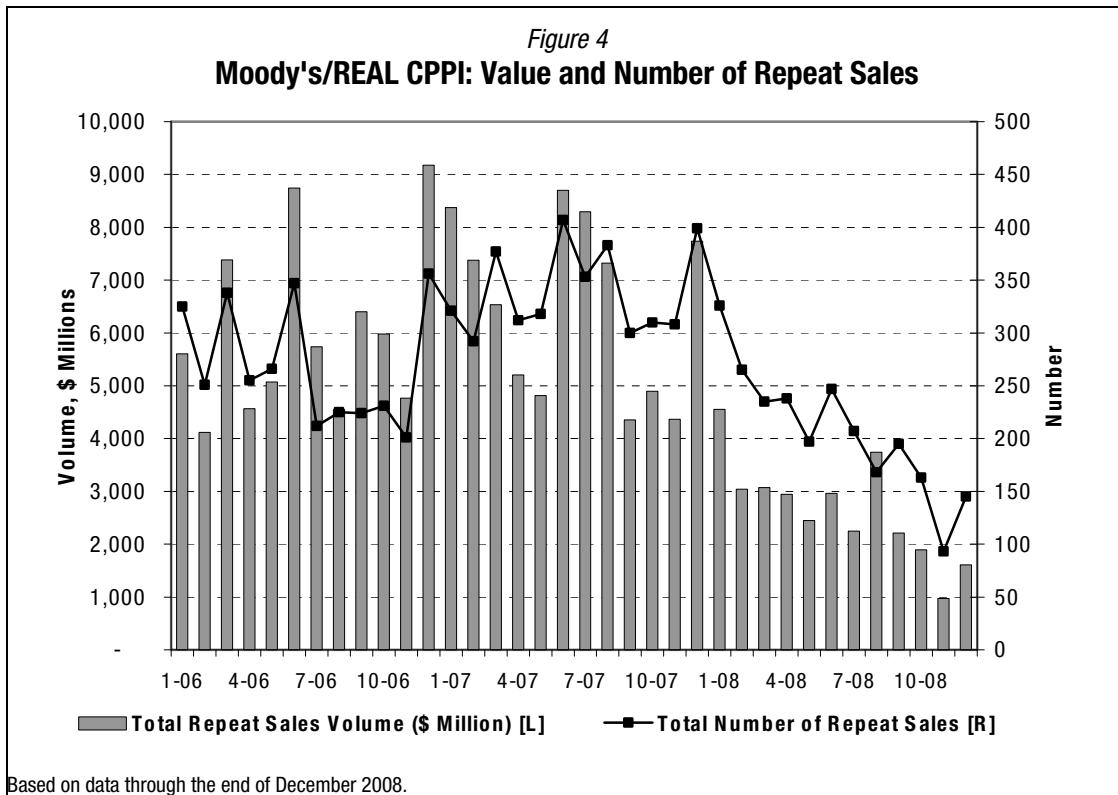
The National – All Property Type Aggregate is a monthly series, and this report is based on data through December 31, 2008. Refer back to *Figure 1*, page 1.

Moody's/REAL CPPI measured an almost 15% drop in prices in 2008. This is the first year in the history of the index to experience price depreciation. This value decline wipes out the gains experienced in 2006 and 2007, and puts prices back to 2005 levels.

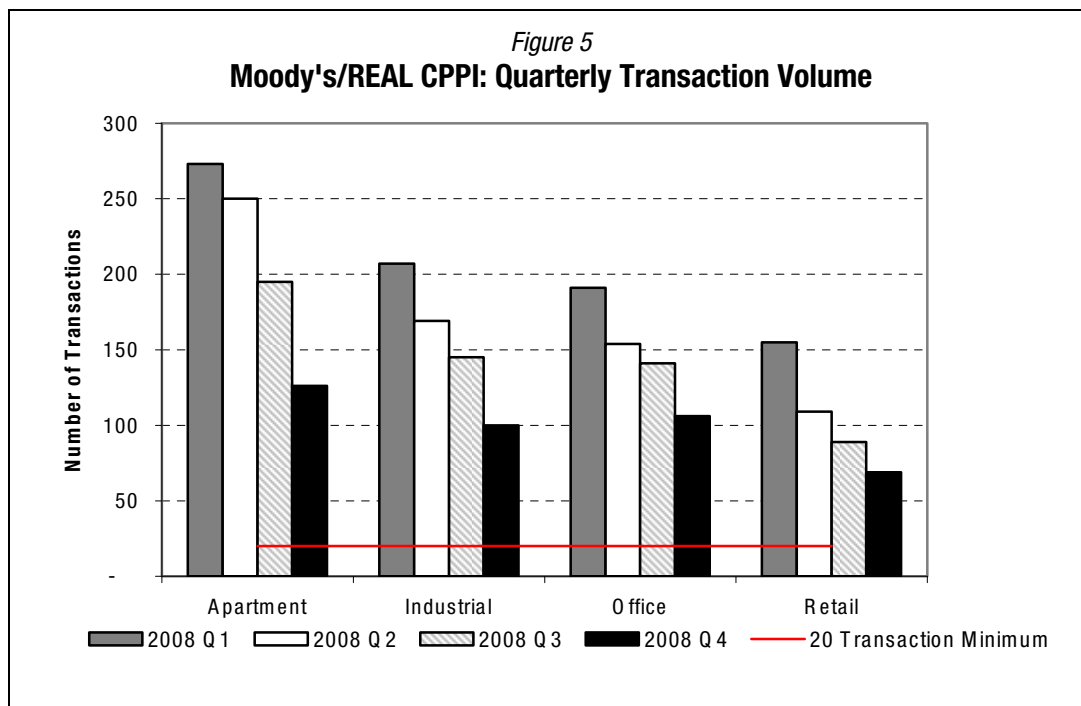


As seen in previous years, repeat sales transactions increased in the last month of the year. There were just under 150 transactions in the month of December, which represents a 50% increase over the previous month. Dollar volume bounced back somewhat from the low levels measured in November as well.

Overall for 2008 however, transaction activity was down 40% as measured by count, and 60% as measured by total dollar volume. This is no surprise, as 2007 was a banner year for transaction volume, and 2008 saw significant declines in an environment of constrained liquidity.



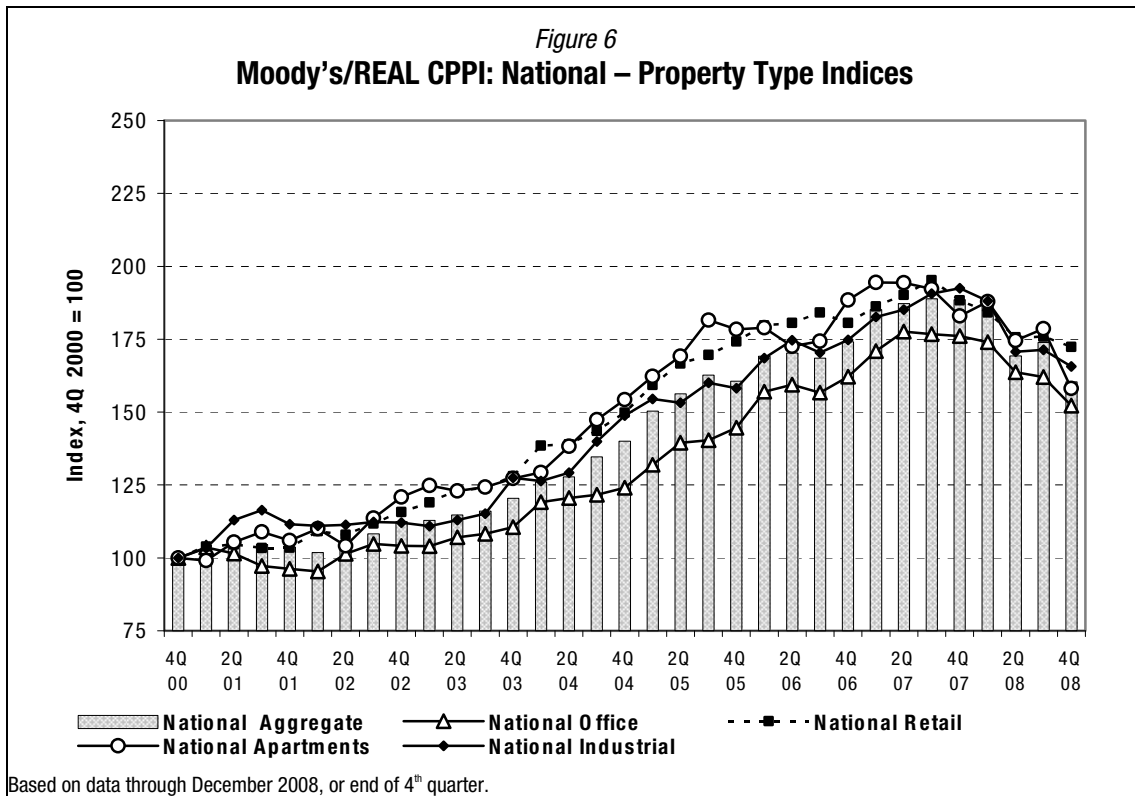
Transaction volume has fallen steadily over 2008 across all four property types. The National Quarterly Indices began 2008 with 150 or more transactions per property type in the first quarter. Volume was reduced by half by the end of the year. Although volume has fallen significantly, the number of transactions in the fourth quarter was at least three times the minimum threshold (20 observations) for calculating the quarterly indices.



NATIONAL – PROPERTY TYPE AGGREGATE INDICES: THREE OF THE FOUR MAJOR PROPERTY TYPES EXPERIENCED DOUBLE DIGIT DEPRECIATION IN 2008

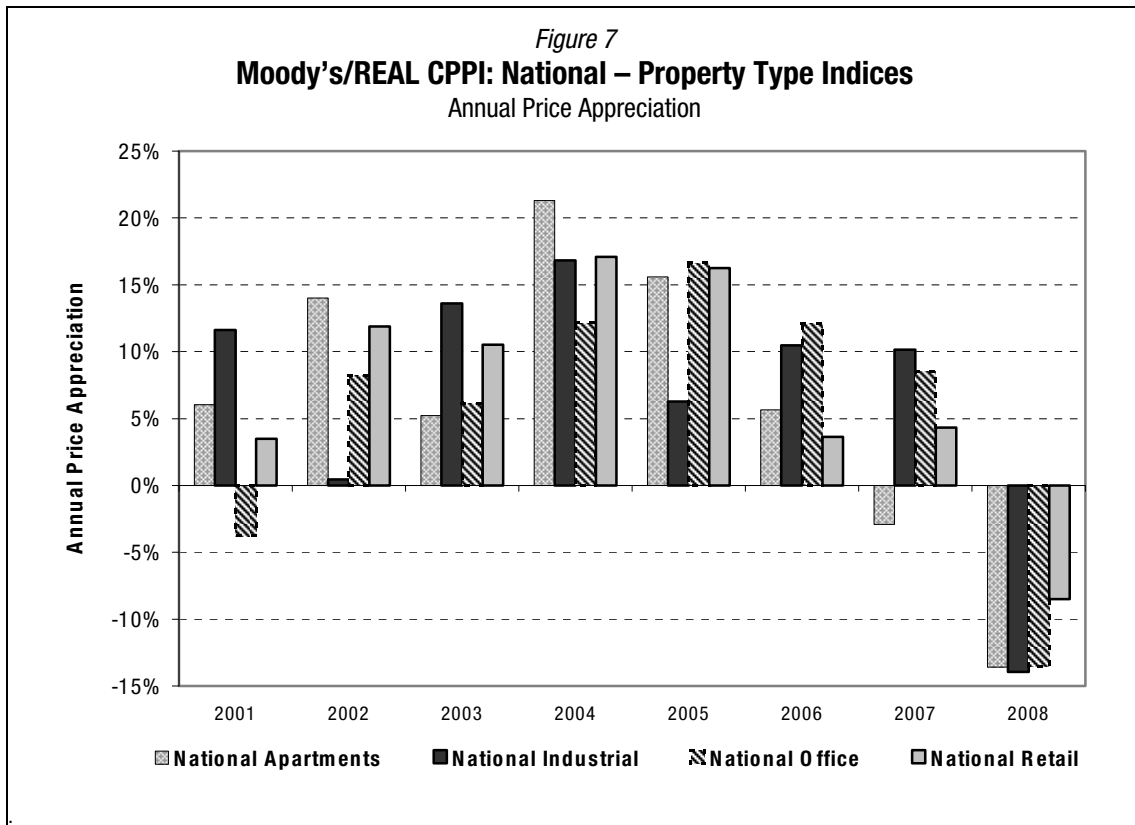
The National – Property Type Indices for the four major property types are a quarterly series, and this report is based on data through the fourth quarter 2008.

On a national level, all four property types experienced a decline in prices in the fourth quarter as compared to the third, and for three of the four property types, price depreciation in 2008 was in the double digits.



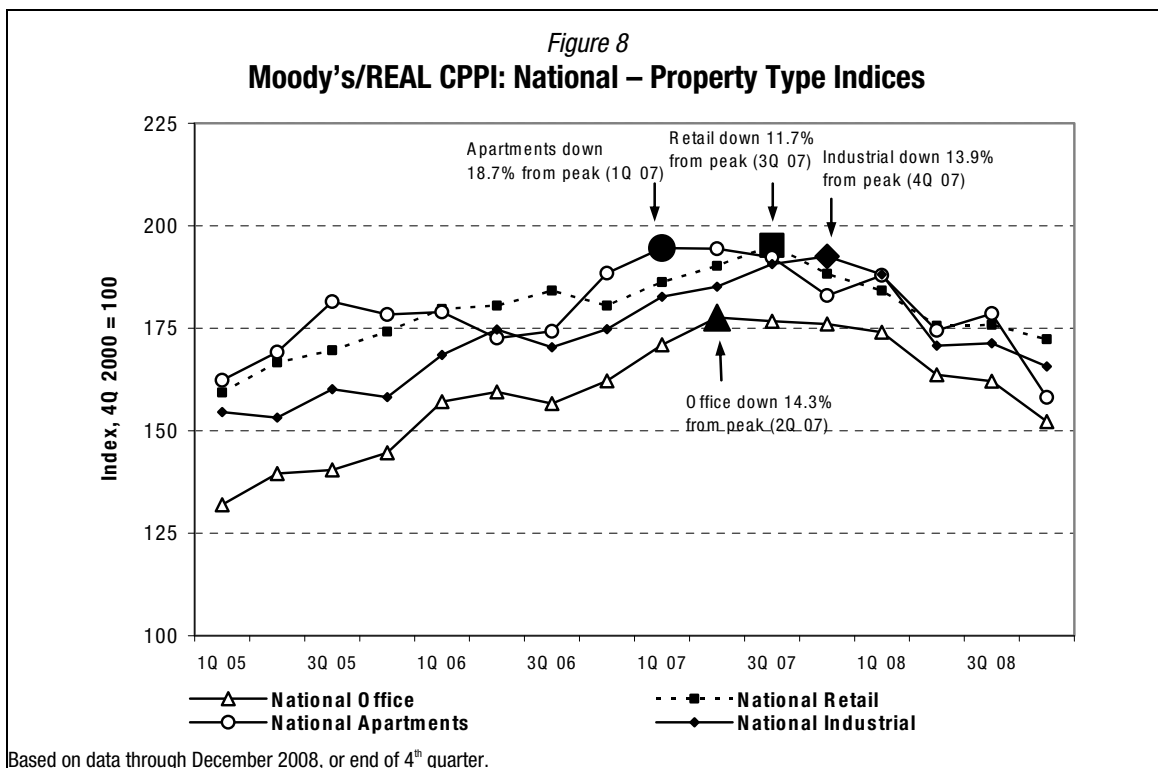
The national apartment market saw a decline in prices of almost 12% in the fourth quarter alone. However, due to the price appreciation the apartment market saw in the first and third quarters, the total value decline for 2008 was slightly less than 14%. This market is down almost 19% from the peak measured in the first quarter of 2007.

The national office sector experienced a 6.1% drop in prices in the fourth quarter as compared to the third, in spite of the relatively strong performance in the West, discussed below. Overall, national office prices depreciated 13.5% in 2008, and are down over 14% from the peak measured in the second quarter of 2007.



The industrial sector was the worst performer of the four national property types for 2008. Although the western region saw prices increase, on a national level prices were down over 3% in the fourth quarter. This property type peaked at the end of 2007 and has fallen nearly 14% since then.

Finally, the national retail market was the best performer of the four property types. Prices in this sector fell by 2% in the fourth quarter of 2008, and are down 8.5% for the year. National retail prices have depreciated almost 12% from the peak in the third quarter of 2007.

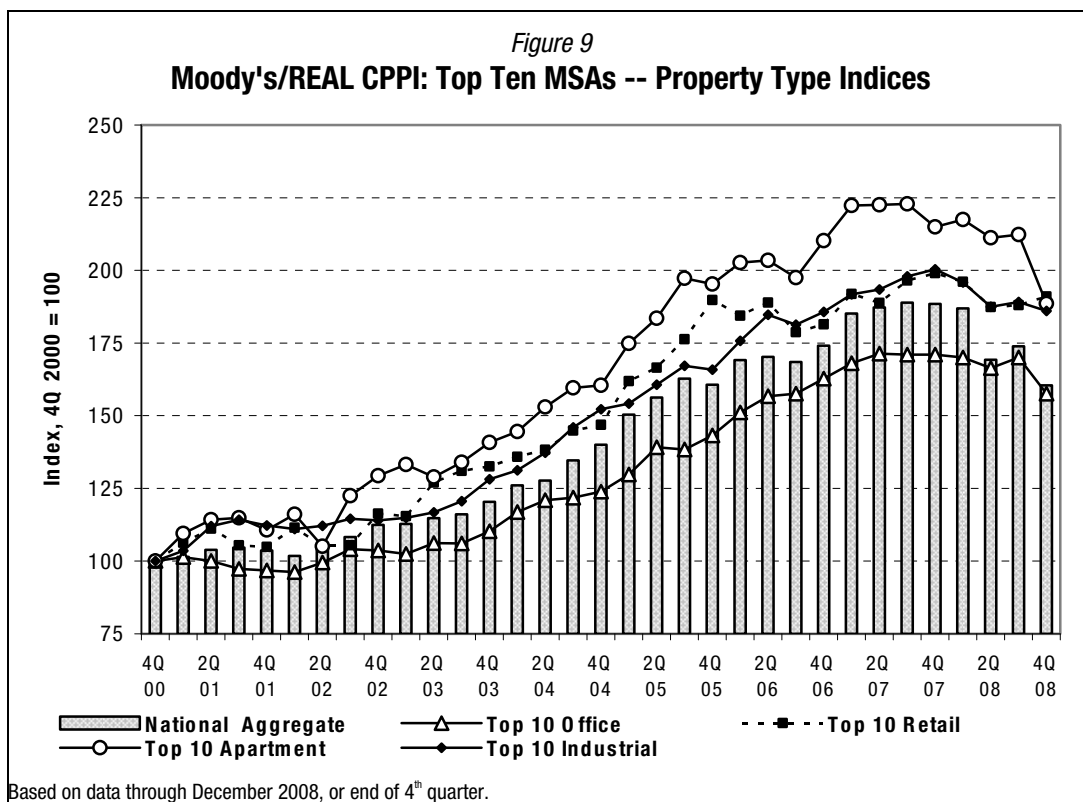


The decline in transaction volume in 2008 was shared fairly equally between the four property types on a national level. The number of repeat sales observations was down by roughly 40%, while the total dollar volume in 2008 was less than half that of 2007.

TOP TEN MSAS – PROPERTY TYPE INDICES: RETAIL PRICES RELATIVELY STRONG IN THE NATION’S TOP CITIES

This series is based on the ten MSAs which are home to the most transactions by dollar volume in each property type.² 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 of 2008.

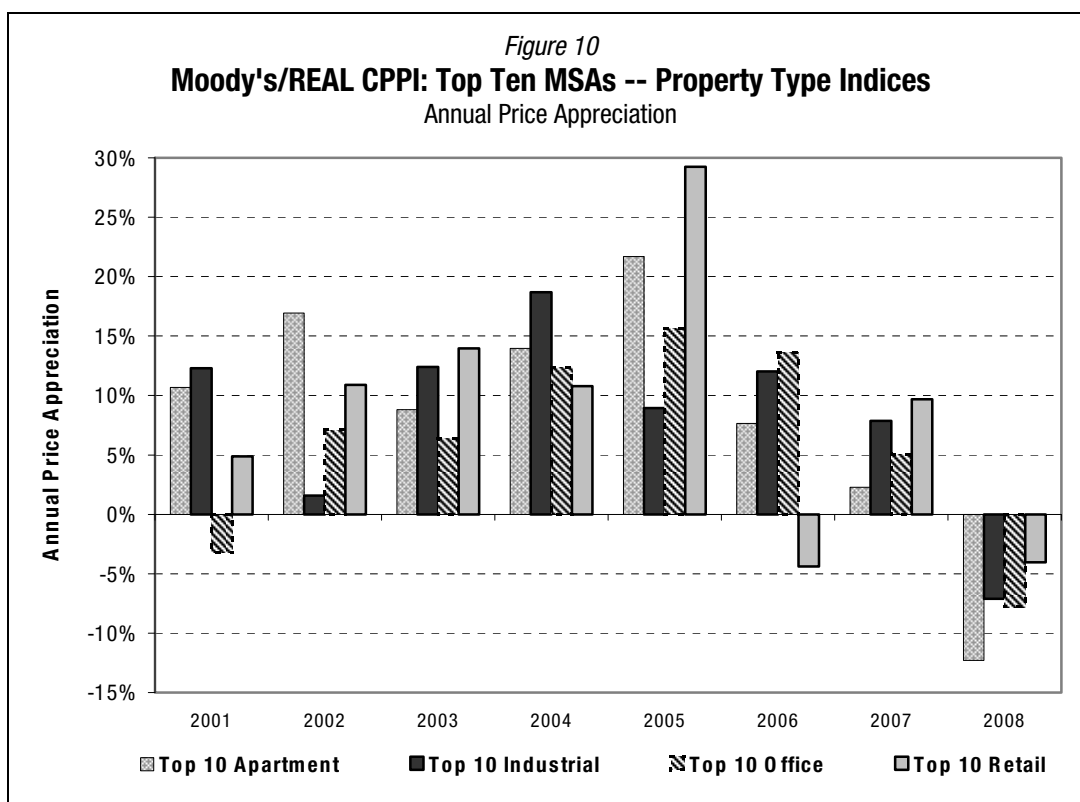
The retail market in the top ten cities outperformed the nation in the fourth quarter, measuring a price increase of 1.6%, while nationally prices decreased 2% over the same time period. Top 10 retail prices peaked in the last quarter of 2007, thus prices have depreciated 4.1% both from the peak and for the year.



Top 10 industrial experienced a price decline of 1.6% in the last quarter of the year. This sector, like retail, peaked at the end of 2007 and has thus far experienced an overall drop in prices of more than 7%.

Office prices in the Top 10 cities declined 7.3% in the fourth quarter alone. Although prices in this sector peaked the earliest of the four property types, halfway through 2007, they remained virtually flat for three consecutive quarters. Thus, most of the depreciation measured since the peak (-8.0%) occurred in late 2008 (-7.8%).

² A list of the top ten cities in each property type can be found in a Moody's Special Report. Moody's/REAL Commercial Property Price Indices, May 2008. May 19, 2008. This is available on Moodys.com > Structured Finance > Commercial MBS > CRE Indices.



The Top 10 apartment sector, as in the nation and the West, fared the worst of the four property types. Prices fell 11.2% in the top ten cities over the fourth quarter of 2008, and are over 12% below levels measured at the end of 2007. Prices in this sector peaked in Q3 2007 and have since fallen 15.4%.

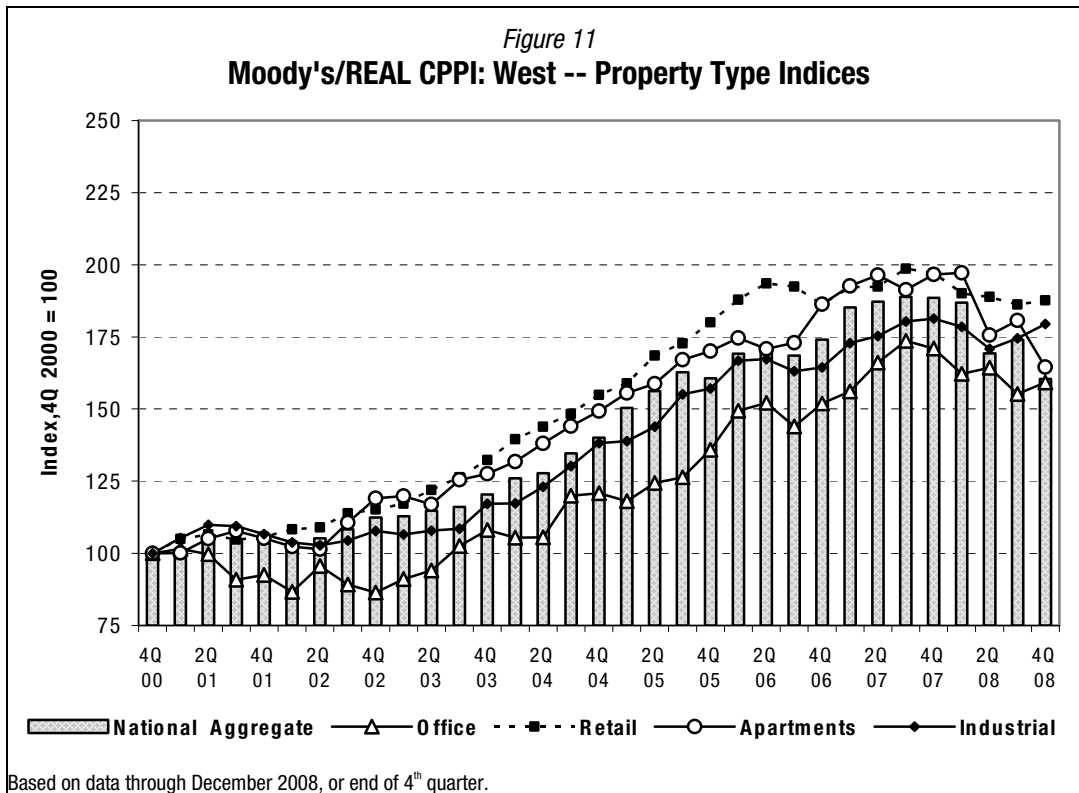
Transaction volume drop-off in the top ten cities was inline with that seen in the nation overall; volume in 2008 fell 40% as measured by count, and 60% as measured by dollar volume.

WESTERN REGION – PROPERTY TYPE INDICES: THE WEST OUTPERFORMS ACROSS THE BOARD

The Western Region – Property Type Indices for the four major property types are a quarterly series, and this report is based on data through the fourth quarter of 2008.³

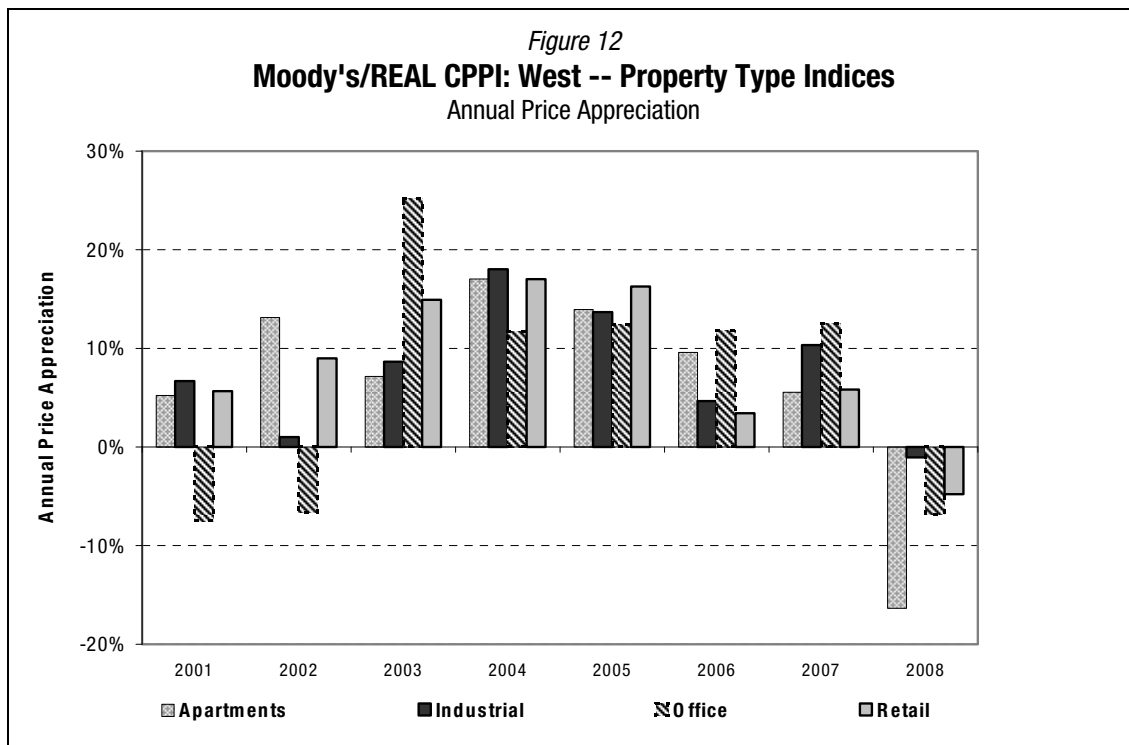
The four property types of the western region had a relatively strong performance in the fourth quarter, outpacing the nation in every sector and in most cases, experiencing value gains while nationally prices declined.

³ The regions are the same as those defined by NCREIF. A list 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.



The industrial market was the strongest sector in the West, with prices increasing 2.9% in the fourth quarter. The western industrial market experienced the mildest price depreciation of any sector in 2008. Price declines in the first half of the year coupled with gains measured in the second half resulted in an overall price depreciation of 1.0% in 2008.

Western offices also experienced price appreciation in the fourth quarter, with a positive gain of 2.6%. Over the year however, office prices in the West fell 6.9% and over 8% since the peak in the third quarter of 2007.



Retail prices in the western region saw a slight increase of 0.8% in the last quarter of the year. That small gain however, followed four consecutive quarters of price depreciation in the sector. Prices in the western retail sector finished 2008 almost 5% below the level measured at the end of 2007, and 5.5% lower than the peak in Q3 2007.

By far the worst performer of the western region was the apartment market, with a price drop of 9.0% in the fourth quarter of 2008. The peak in this region came a full year after the peak seen nationally (Q1 2008 versus Q1 2007) but due to significant value declines in the second and fourth quarters, overall apartment price depreciation in the West was 16.4% for 2008.

Transaction volume declines in the West for 2008 were similar in size to the nation overall, with a 35% drop as measured by count, and almost 60% lower as measured by dollar volume. The slowdown in activity in the West was shared fairly equally by the four property types, although the industrial sector did fare slightly better than the other three.

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 in 2009 (*Figures 13, 14, and 15*).
- 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 readers' convenience (*Figures 16 – 20*).

APPENDIX

Figure 13
CPPI: Report Release Cycle, 2009

	JANUARY	FEBRUARY	MARCH
	Jan. 20, 2009	Feb. 19, 2009	March 19, 2009
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:		4th Quarter	4th Quarter
Based on data through:		December 31	December 31
	APRIL	MAY	JUNE
	April 20, 2009	May 19, 2009	June 22, 2009
Report to be released:	Aggregate	Aggregate	Aggregate
For period:	February	March	April
Based on data through:	February 28	March 31	April 30
Report to be released:		12 Quarterly Indices (A)	16 Annual Indices (B)
For period:		1st Quarter	1st Quarter
Based on data through:		March 31	March 31
	JULY	AUGUST	SEPTEMBER
	July 20, 2009	Aug. 19, 2009	Sept. 21, 2009
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:		2nd Quarter	2nd Quarter
Based on data through:		June 30	June 30
	OCTOBER	NOVEMBER	DECEMBER
	Oct. 19, 2009	Nov. 19, 2009	Dec. 21, 2009
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:		3rd Quarter	3rd Quarter
Based on data through:		September 30	September 30

Figure 14

(A) 12 Quarterly Indices include the following:

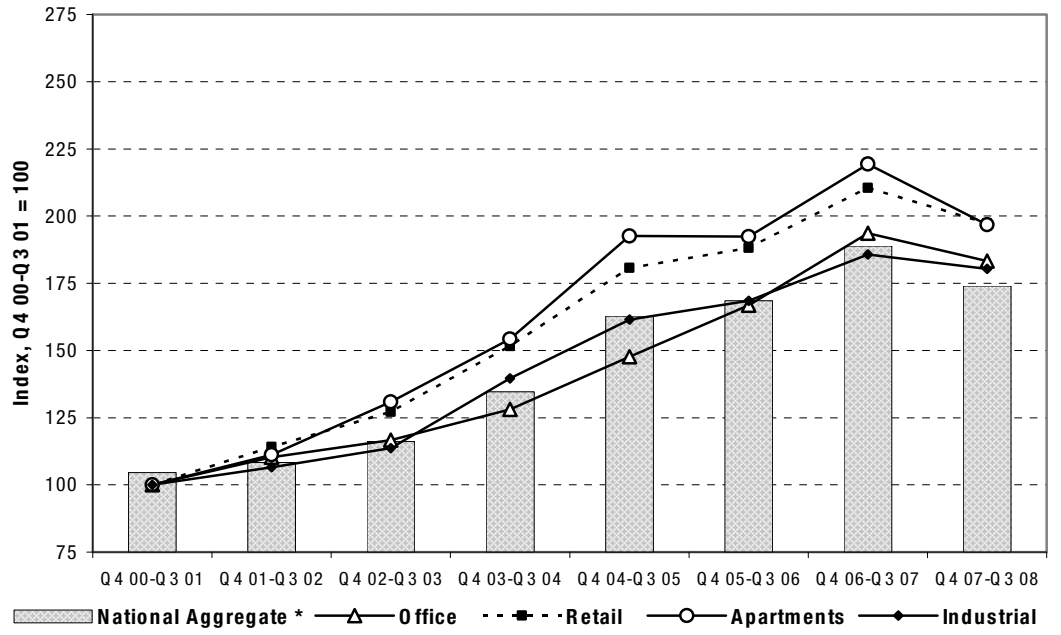
APARTMENT	RETAIL	OFFICE	INDUSTRIAL
National Apartment	National Retail	National Office	National Industrial
Top 10 MSAs Apartment	Top 10 MSAs Retail	Top 10 MSAs Office	Top 10 MSAs Industrial
West Apartment	West Retail	West Office	West Industrial

Figure 15

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

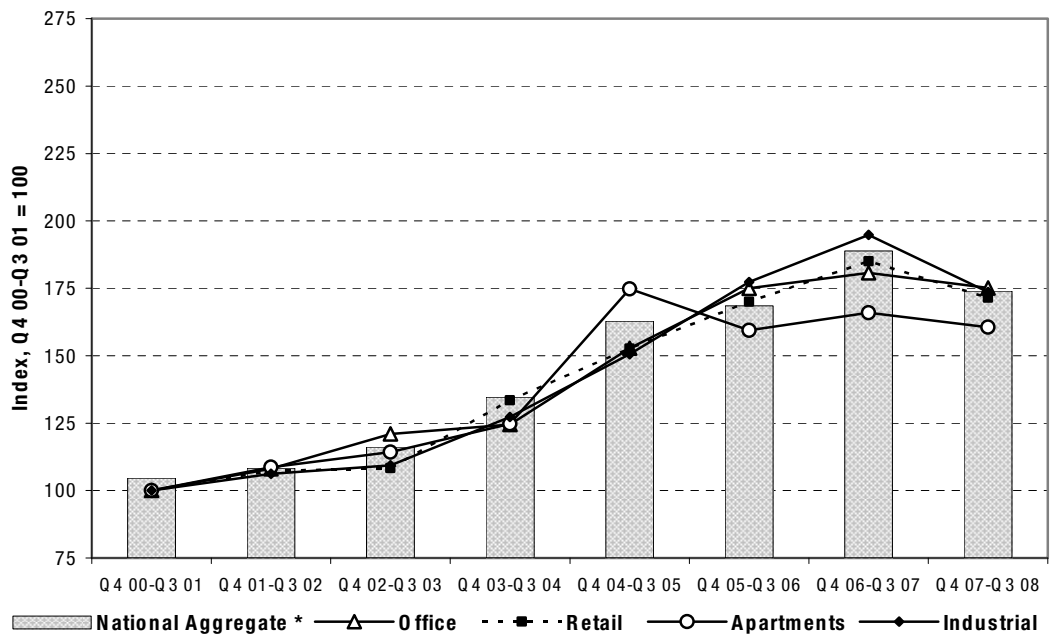
APARTMENT	RETAIL	OFFICE	INDUSTRIAL
East Apartment	East Retail	East Office	East Industrial
South Apartment	South Retail	South Office	South Industrial
So. California Apartment	So. California Retail	So. California Office	So. California Industrial
Florida Apartment		New York Office	
		San Francisco Office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

Figure 16
Moody's/REAL CPPI: East -- Property Type Indices



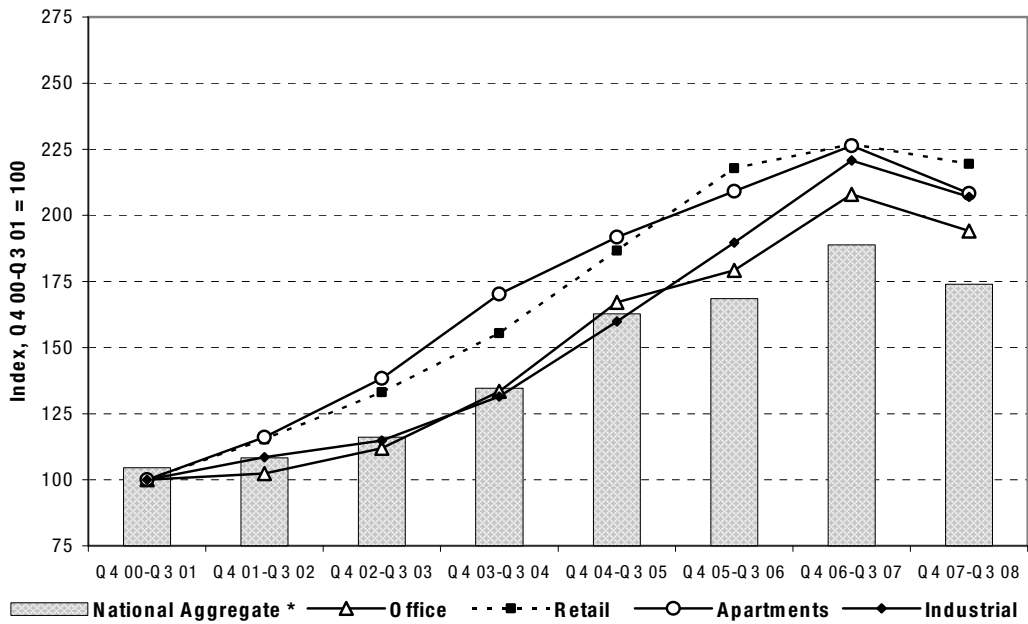
*National aggregate index, like the other series, is as of end of Q3 of each one-year period.

Figure 17
Moody's/REAL CPPI: South -- Property Type Indices



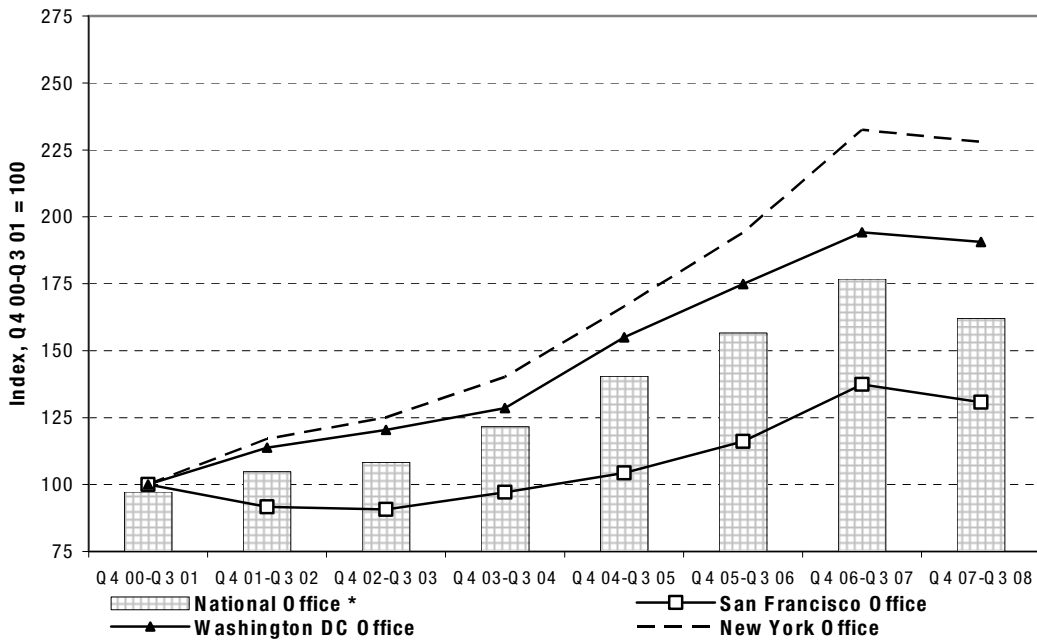
*National aggregate index, like the other series, is as of end of Q3 of each one-year period.

Figure 18
Moody's/REAL CPPI: Southern California -- Property Type Indices



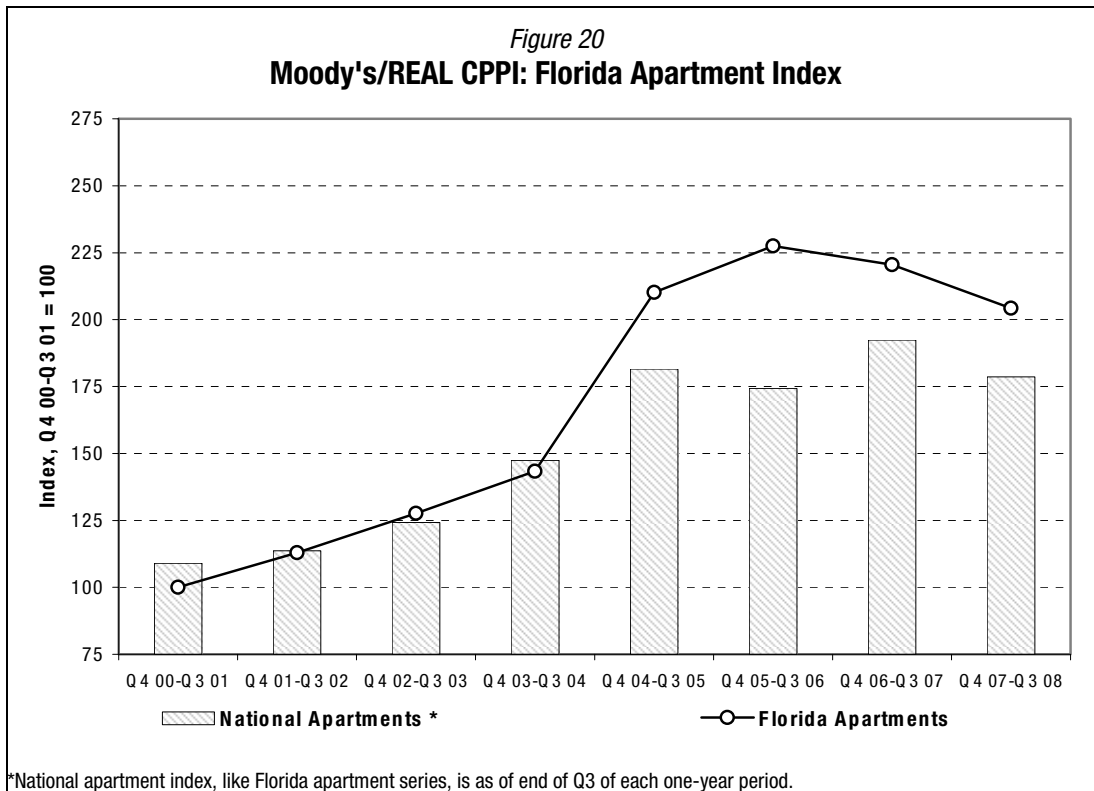
*National aggregate index, like the other series, is as of end of Q3 of each one-year period.

Figure 19
Moody's/REAL CPPI: Major Office Markets



*National office index, like the three MSA office series, is as of end of Q3 of each one-year period.

Figure 20
Moody's/REAL CPPI: Florida Apartment Index



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