

SPECIAL REPORT

Moody's/REAL Commercial Property Price Indices, February 2010

Table of Contents:

OVERVIEW	1
NATIONAL – ALL PROPERTY TYPE AGGREGATE INDEX	4
NATIONAL – PROPERTY TYPE INDICES	6
TOP TEN MSAS – PROPERTY TYPE INDICES	7
WESTERN REGION – PROPERTY TYPE INDICES	8
APPENDIX	10

Analyst Contacts

Nick Levidy
Team Managing Director
1.212.553.4595
Nick.Levidy@moodys.com

Andrea M. Daniels
VP-Sr Credit Officer
1.212.553.4416
Andrea.Daniels@moodys.com

Connie Petruzzello
AVP-Analyst
1.212.553.4894
Concetta.Petruzzello@moodys.com

Seth Anspach
Senior Associate
1.212.553.7896
Seth.Anspach@moodys.com

ADDITIONAL CONTACTS:

Client Services Desk: 1.212.553.1653
Monitoring: Monitor.cmbs@moodys.com
Website: www.moodys.com

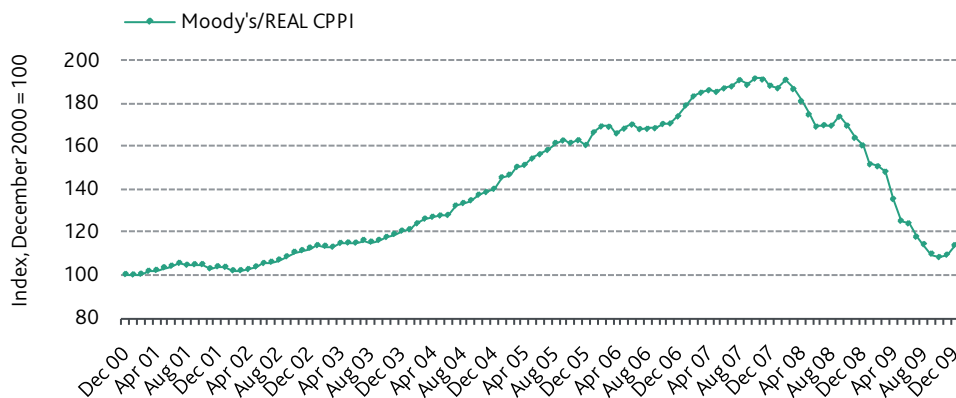
Overview

The Moody's/REAL All Property Type Aggregate Index measured a 4.1% increase in commercial real estate prices in December 2009. This marks two consecutive months of price gains, and is the largest monthly increase in the history of the Commercial Property Price Indices (CPPI). Prices are down 29.2% over a year ago, 39.8% over two years ago, and 40.8% from the peak.

FIGURE 1

Moody's/REAL Commercial Property Price Index (CPPI)

National – All Property Type Aggregate



Based on data through the end of December 2009.

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	113.58	4.1%	-29.2%	-39.8%
	CURRENT INDEX^Q	1 QUARTER EARLIER	1 YEAR EARLIER	2 YEARS EARLIER
National - Apartments	125.89	7.0%	-20.4%	-31.2%
National – Industrial	127.30	5.6	-23.2	-33.9
National – Office	122.15	7.9	-19.8	-30.6
National – Retail	139.61	-1.5	-19.0	-25.9
Top Ten MSAs ¹ - Apartments	142.67	-2.1	-24.4	-33.6
Top Ten MSAs- Industrial	135.33	-2.8	-27.3	-32.4
Top Ten MSAs- Office	134.65	26.8	-14.6	-21.3
Top Ten MSAs- Retail	155.83	3.1	-18.4	-21.7
West – Apartments	147.53	0.7	-10.3	-25.0
West – Industrial	152.05	14.8	-15.3	-16.2
West – Office	118.59	-5.7	-25.5	-30.7
West – Retail	156.54	3.8	-16.6	-20.6
	CURRENT INDEX^A	1 YEAR EARLIER	2 YEARS EARLIER	
East – Apartments	170.84	-13.2%	-22.1%	
East – Industrial	140.66	-22.0	-24.3	
East – Office	114.94	-37.3	-40.6	
East – Retail	134.43	-31.9	-36.2	
South – Apartments	77.38	-51.8	-53.3	
South – Industrial	104.65	-39.7	-46.3	
South – Office	114.36	-34.7	-36.7	
South – Retail	157.82	-8.0	-14.7	
So. California – Apartments	175.13	-15.9	-22.6	
So. California – Industrial	157.00	-24.2	-28.9	
So. California – Office	140.12	-27.8	-32.6	
So. California – Retail	169.28	-22.9	-25.4	
New York – Office	141.17	-38.1	-39.3	
San Francisco – Office	102.88	-21.3	-25.1	
Washington DC – Office	139.07	-27.0	-28.4	
Florida – Apartments	110.08	-46.1	-50.1	

M Monthly series. Most recent data is through December 31, 2009.

Q Quarterly series. Most recent data is through the end of the 4th quarter 2009. 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 2009. Analysis is based on data from four quarters (4Q08, 1Q09, 2Q09 and 3Q09). Given that the measure is of a rolling four-quarter period, data as of the end of the 3rd quarter cannot 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 time.¹

Notable Observations and Themes

- » The National — All Property Type Aggregate Index measured a 4.1% increase in prices in December. Overall, prices are down 29.2% from a year ago and 40.8% from the peak.
- » As is typically the case for the last month of the year, transaction volume saw a significant increase in December. There were 716 transactions totaling \$9.0 billion recorded.
- » Although three of the four national property type indices recorded value gains in the fourth quarter of 2009, each declined within a range of 19.0%-23.2% for the full year of 2009.
- » Prices in the top ten cities for the fourth quarter of 2009 saw minor declines for apartments and industrial, a minor gain in retail, and a significant increase for office. Overall however, prices in all four property types have fallen 21.4%-36.0% from the peak.
- » With the exception of the office sector, prices in the West have fared better than the national property price index for full year 2009.

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 > Research & Ratings > By Market Segment > 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

The National – All Property Type Aggregate Index is a monthly series, and this report is based on data through December 31, 2009. Refer back to *Figure 1*.

Following a small gain in November, the Moody's/REAL CPPI recorded a large price increase in December (see *Figure 3*) on a sizeable uptick in volume (see *Figure 4*), offering a tantalizing hint that markets may be approaching a bottom. However, two months of positive returns and one month of higher transaction volume does not allow us to discern a trend just yet, particularly in light of the fact that year-end commercial real estate activity can distort the true condition of the markets. We will need to see data from the first few months of 2010 to develop a clearer picture of where things stand.

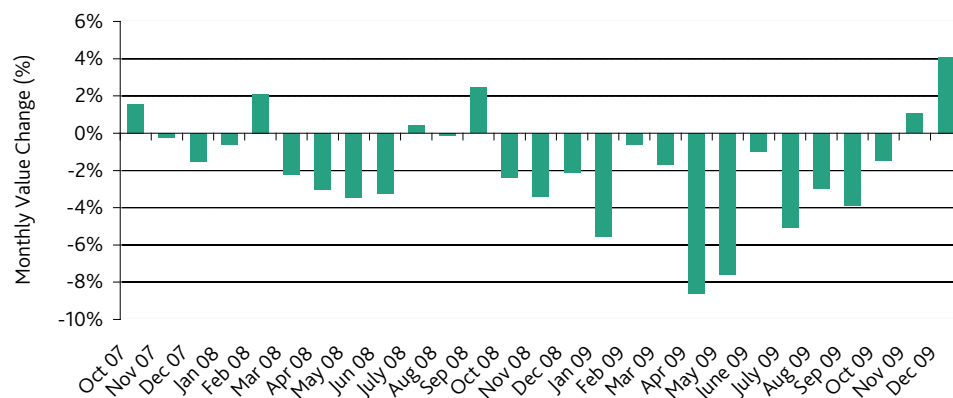
Although we are unable to conclude that the bottom is here, we do feel that the period of large price declines is over. Overall in 2009, commercial property prices fell 29.2%, with a significant portion of value declines occurring in the first half of the year. Price declines averaged 4.2% in the first six months of the year compared to 1.4% in the second half.

Also, further price declines are likely even if markets are indeed approaching a bottom. As we saw at the top of the market, the additional volatility associated with a market in transition can translate into choppy index returns for several months. Eventually, however, higher transaction volumes will enhance the price discovery process, removing the uncertainties that have kept many potential buyers on the sidelines waiting for the bottom to arrive and many potential sellers hoping for better markets before committing to a sale. At that point we would expect to see more consistently flat to positive returns as a recovery takes hold.

An important caveat to the foregoing: Any recovery in commercial real estate depends on the continued recovery of the broader economy. A turn for the worse in macroeconomic trends, including sharply higher long-term interest and capitalization rates, would have adverse effects on commercial real estate values, likely leading to larger price declines and shrinking transaction volumes.

FIGURE 3

Moody's/REAL CPPI: Monthly Value Changes

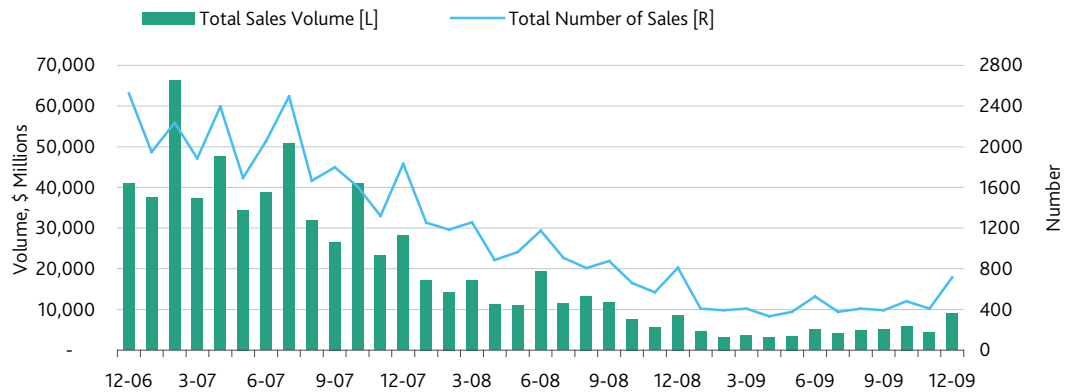


Overall Transaction Volume

Transaction volume in December was up over 75% by count and over 100% by dollar value from the prior month (see *Figure 4*). Higher sales volume is one sign that a market bottom may be near, but the last month of the year often records a large upswing in volume as both buyers and sellers push to close deals by year end. Last year was no exception, so we will have to wait for transaction volume data in coming months to determine if this represents a permanent turn in market activity.

FIGURE 4

Moody's/REAL CPPI: Volume and Number of Total Sales



Source: Real Capital Analytics

There were 716 transactions in December totaling \$9.0 billion. Of those, 162 were repeat-sales, with a value of \$2.2 billion.

In addition, although the transaction count was down about 10% from a year ago, December marks the first time in 2009 that the year-over-year transaction dollar volume growth was positive, at just under 5%. Roughly half the number of properties sold in 2009 as compared to 2008, at about 40% the dollar value of 2008.

Out-of-Bounds Phenomenon

As can be seen from *Figure 2*, the annual return for the aggregate index is -29.2%. Although they cover the same period of time, the annual returns on the national property type indices range from -19.0% through -23.2%.

This type of “out-of-bounds” result is a phenomenon that derives from the statistical procedure on which the indices are based. As described in more detail in the MIT white paper, the All-Property Type Aggregate Index is computed by a regression model that effectively treats the entire commercial property market as a single “population”. It is not constructed as a composite index, built up from the sectoral indices. Each of the sectoral indices is also calculated independently based on the repeat sales within each sector.

This makes it mathematically possible for the All-Property Type Index return to lie outside of the range of the sectoral returns in any given time span. Fundamentally, an out-of-bounds result can be viewed as an effect of statistical “noise”. In a real estate index such noise derives fundamentally from the fact that individual property transactions are dispersed around the average market value as of the

time of the transaction.² Because of its random nature, the noise component in any given index is different from that in any other index. As a result, it is possible for noise of the opposite direction in the All Property Type Index and in the sectoral indexes to result in the All Property Type Index return being beyond the range of the sectoral index returns.

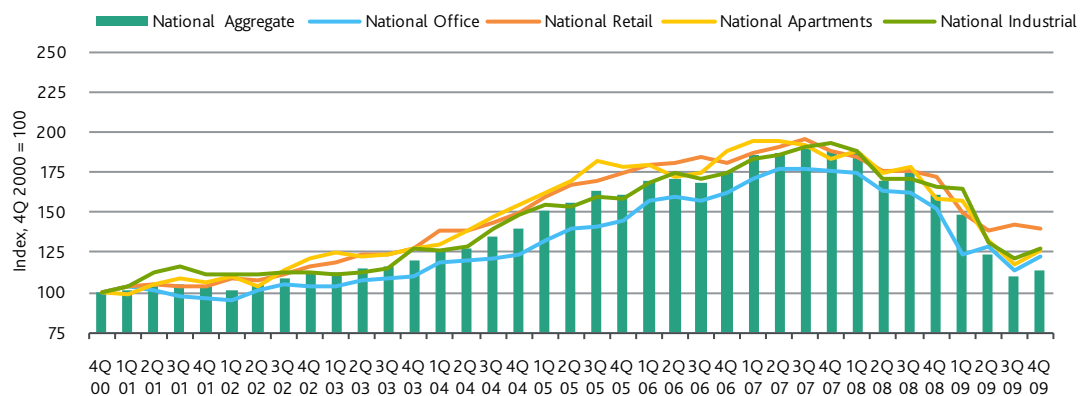
National – Property Type Indices

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 of 2009.

Three of the four property types recorded gains in the fourth quarter, with only retail showing a slight value decline. The positive performance over the past three months for the office, apartment and industrial sectors, however, is tempered by declines ranging from 19.0%-23.2% for all four property types over the past year.

FIGURE 5

Moody's/REAL CPPI: National — Property Type Indices



Based on data through December 2009, or end of 4th quarter.

Retail was the only one of the four property types with a value decline in the past quarter, 1.5%. Even though retail was the only property type to measure a decline this quarter, it was the best performing property type in 2009, with an annual price drop of 19.0%. Retail is also the best performing sector in comparison to its individual peak, which occurred in the third quarter of 2007 for an overall decline of 28.5%, the only decline less than 30%.

After declining by 12.2% in the third quarter, the largest drop of the four property types, office had the largest increase in the fourth quarter with a gain of 7.9%. In the past year office has fallen 19.8%, the second best performance during this period behind retail. Since the peak, office prices have fallen 31.2%.

Apartments put in the third best performance in the past year, declining 20.4%. In the past quarter, apartment prices improved 7.0%. Since the peak of the market for apartment buildings, which occurred in the first quarter of 2007, prices have fallen 35.3%, the most of the four property types.

² Any two properties transacting at the same time, even if identical in every way, are not likely to transact at exactly the same price, simply because the two parties negotiating the terms of each transaction will not see things exactly the same way and/or will not negotiate the deal in the same way. This imparts a fundamental random component into the observable property market transaction prices on which the indices are built.

Industrial was the worst performing property type in 2009, with a decline of 23.2% since the end of 2008. In the past quarter, however, industrial prices increased 5.6%. This was the first price increase for industrial nationwide since the third quarter of 2008. Industrial prices had the second largest drop from the peak, 33.9%.

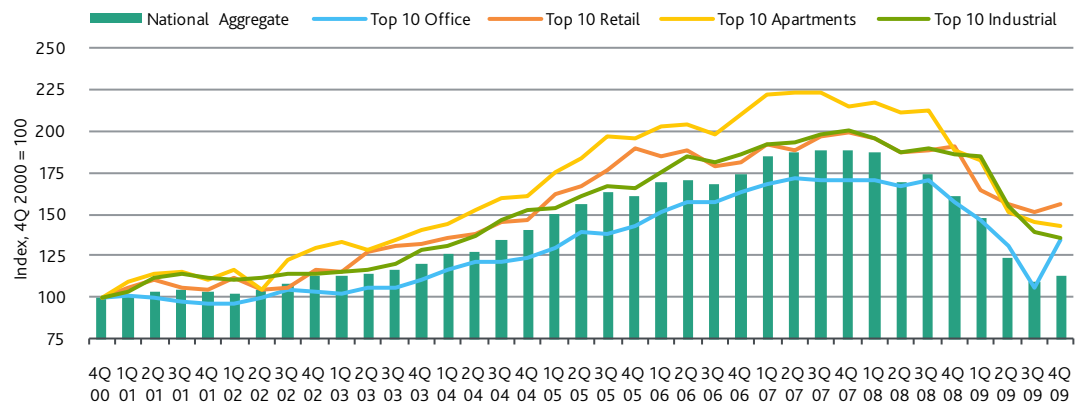
Top Ten MSAs – Property Type Indices

This series is based on the ten MSAs which are home to the most transactions by dollar volume in each property type.³ The exact proportion varies over time, but properties located in these MSAs generally account for about 50-80% of the transactions in the national property type indices. This is also a quarterly series, based on data through the fourth quarter of 2009.

Apartments in the top ten MSAs saw prices fall in the last quarter of 2009, leaving them down more than 35% from the peak. After three quarters of virtually no growth in 2007, apartment prices peaked in the third quarter of 2007. Apartment prices have seen some small quarterly increases over the past two years, but the majority of the quarterly returns have been significantly negative. Prices fell 2.1% in the fourth quarter of 2009, for an overall value decline of 36.0% from the peak. This is roughly in line with the national index for apartments, which is down 35.3% from the peak.

FIGURE 6

Moody's/REAL CPPI: Top Ten MSAs—Property Type Indices



Based on data through December 2009, or end of 4th quarter.

Top Ten Industrial peaked one quarter after apartments, at the end of 2007. Prices fell 2.8% in the fourth quarter of 2009, for an overall value decline of 32.4% from the peak. Like apartments, the value decline from the market top in Top Ten Industrial is in line with the value decline for national industrial, which fell 33.9% over the same time period.

The overall run-up in prices for office was not as large as for the other three property types in the top ten MSAs. Prices in this sector peaked mid-2007, at levels about 14% below that of the second lowest price peak, retail. Although top ten office prices starting falling from the lowest peak, the previous four quarters have measured large, significant declines. After more than a 10% decline in prices in the second quarter of 2009, and an almost 20% fall in the third quarter, office prices rebounded with a 26.8% increase at the end of the 2009. Overall, Top Ten Office prices are down 21.4% from peak, while nationally, office prices are down 31.2% from the peak.

³ A list of the top ten cities by property type can be found in the appendix of this report, *Figure 11*.

Retail in the top ten MSAs saw a price increase in the fourth quarter of 2009 as well. Values in this sector rose 3.1% at the end of last year. Overall, prices peaked in the last quarter of 2007, and are down 21.7% from that peak, compared to a 28.5% decline for national retail.

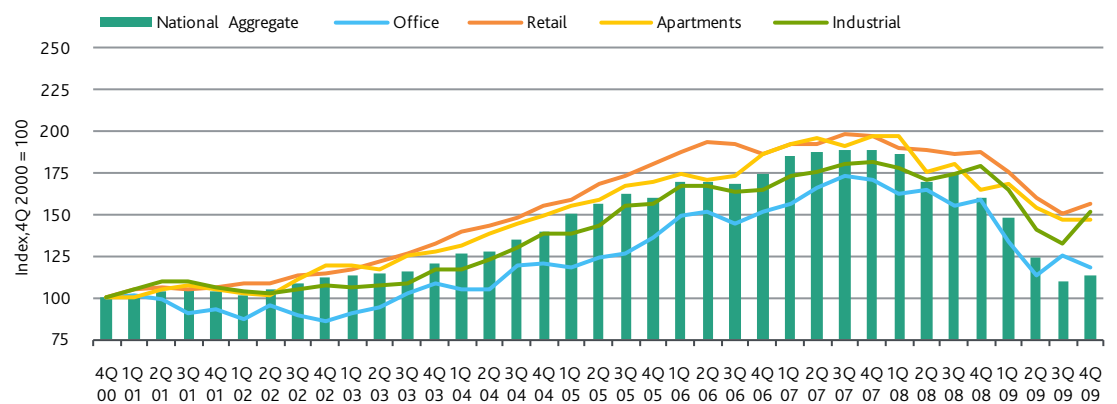
Western Region – Property Type Indices

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 2009.

Performance in the West was mixed, with the returns for two property type indices better than the national counterparts and two worse. In the past year, however, three of the four property types had smaller declines in value than their respective national index.

FIGURE 7

Moody's/REAL CPPI: West – Property Type Indices



Based on data through December 2009, or end of 4th quarter.

Western office is the exception, performing worse than the national office market in 2009. Western office prices fell 25.5% in 2009, compared to the national office annual decline of 19.8%. In the fourth quarter, western office values dropped 5.7%, the largest decline in the West and significantly lower than the 7.9% value increase in national office. This quarterly decline is on the heels of a large price increase in the prior quarter for western office.

Similar to office, apartments in the West performed worse than the national index in the fourth quarter, recording a slight increase of 0.7% while the national apartment index gained 7.0%. Even though prices for western apartments were worse than the national apartment index in the fourth quarter, over the full year 2009, prices for apartments in the West declined 10.3%, compared to a drop of 20.4% nationally.

Western industrial properties experienced a large gain in the fourth quarter, growing 14.8%, significantly more than the national industrial index, which increased 5.6% in the same time period. Even with the large gain this past quarter, industrial is only the second best performing region in the West in 2009, with an annual decline of 15.3%. This decline is less than the nation, which saw industrial prices fall 23.2% for the year.

Western retail had a modest 3.8% increase this past quarter and performed better than its national counterpart, which had a 1.5% decline in the fourth quarter. This increase in prices for western retail follows a 6.0% decline in the previous quarter. In 2009 retail prices in the West fell 16.6%, a slightly better performance than national retail's 19.0% decline.

The attached Appendix includes the following:

- » A calendar summarizing the report cycle, i.e., which indices are updated in which month. The calendar also indicates the precise release dates for Moody's/REAL Indices in 2010 (*Figures 8, 9, and 10*).
- » A listing of the cities included in the Top Ten Indices (*Figure 11*).
- » 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 12 – 16*).

Appendix

FIGURE 8

CPPI: Report Release Cycle 2010

	JANUARY	FEBRUARY	MARCH
	Jan. 20, 2010	Feb. 22, 2010	March 22, 2010
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 19, 2010	May 19, 2010	June 21, 2010
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 19, 2010	Aug. 19, 2010	Sept. 20, 2010
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, 2010	Nov. 22, 2010	Dec. 20, 2010
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 9

(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 10

(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 11

Top Ten Cities by Property Type

APARTMENT	RETAIL	OFFICE	INDUSTRIAL
Atlanta	Atlanta	Atlanta	Atlanta
Dallas	Chicago	Boston	Chicago
Houston	Dallas	Chicago	Dallas
Los Angeles	Houston	Dallas	Los Angeles
New York	Los Angeles	Houston	New York
Phoenix	New York	Los Angeles	San Diego
San Francisco	Phoenix	New York	San Francisco
Seattle	San Francisco	San Francisco	Seattle
South Florida	South Florida	Seattle	South Florida
Washington DC	Washington DC	Washington DC	Washington DC

FIGURE 12
Moody's/REAL CPPI: East – Property Type Indices

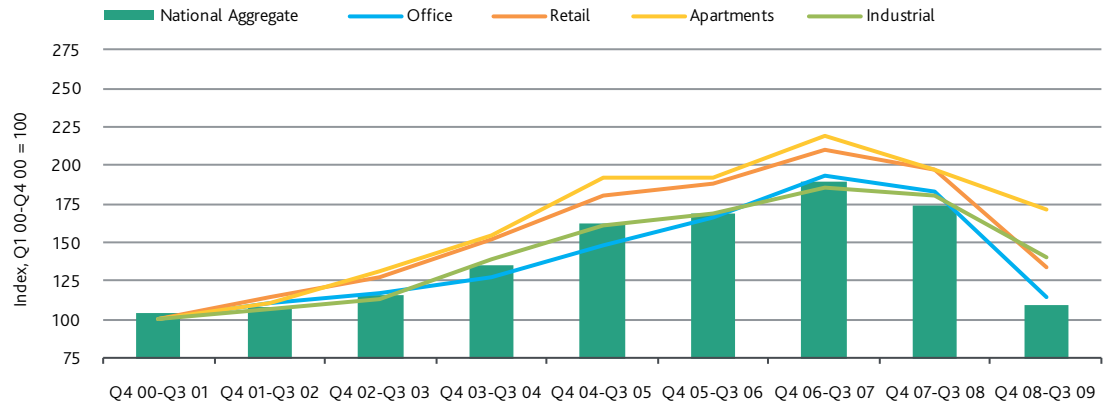


FIGURE 13
Moody's/REAL CPPI: South – Property Type Indices

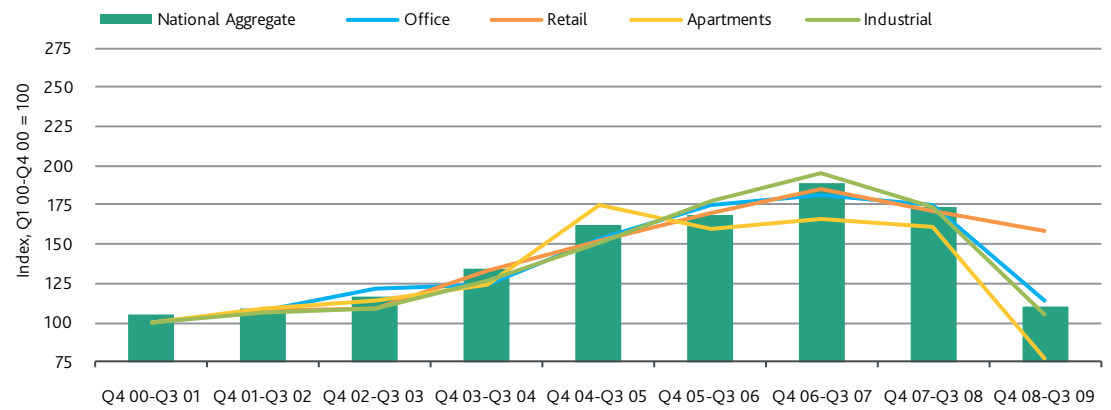


FIGURE 14
Moody's/REAL CPPI: Southern California – Property Type Indices

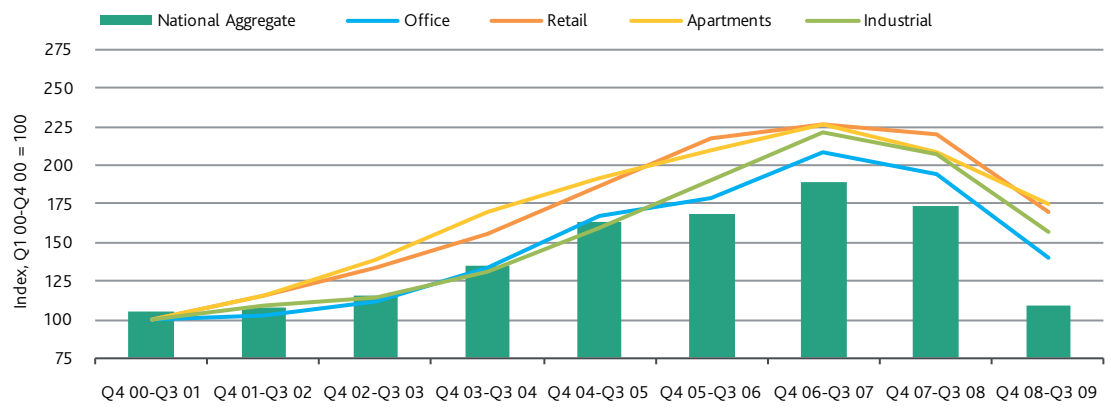


FIGURE 15

Moody's/REAL CPPI: Major Office Markets Indices

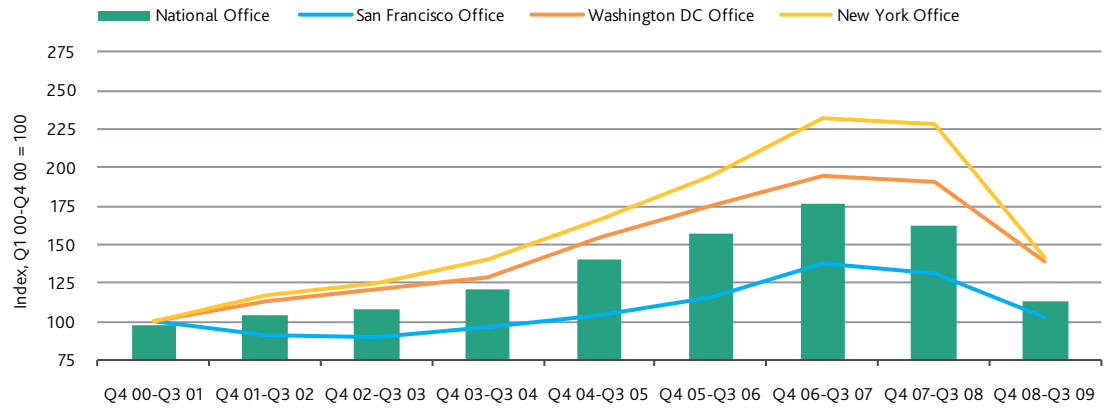
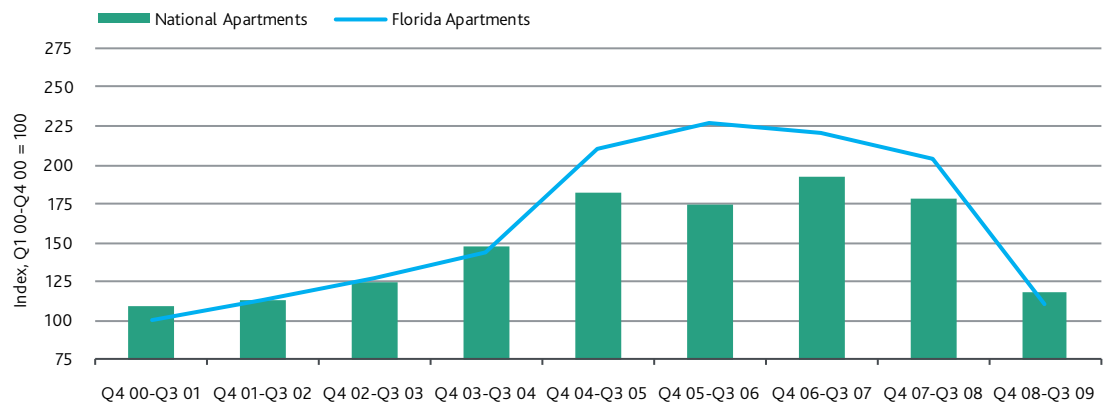


FIGURE 16

Moody's/REAL CPPI: Florida Apartment Index



Report Number: SF195130

© 2010 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."