

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

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OVERVIEW

In this report, the Moody's/REAL National All Property Type Aggregate Index for February measures 150.63, a decrease of 0.6% from the previous month. The index now stands 21.2% below the level seen a year ago, and is 21.5% below the peak measured in October 2007. The index is 17.9% lower than it was two years ago. This report is based on data through the end of February.

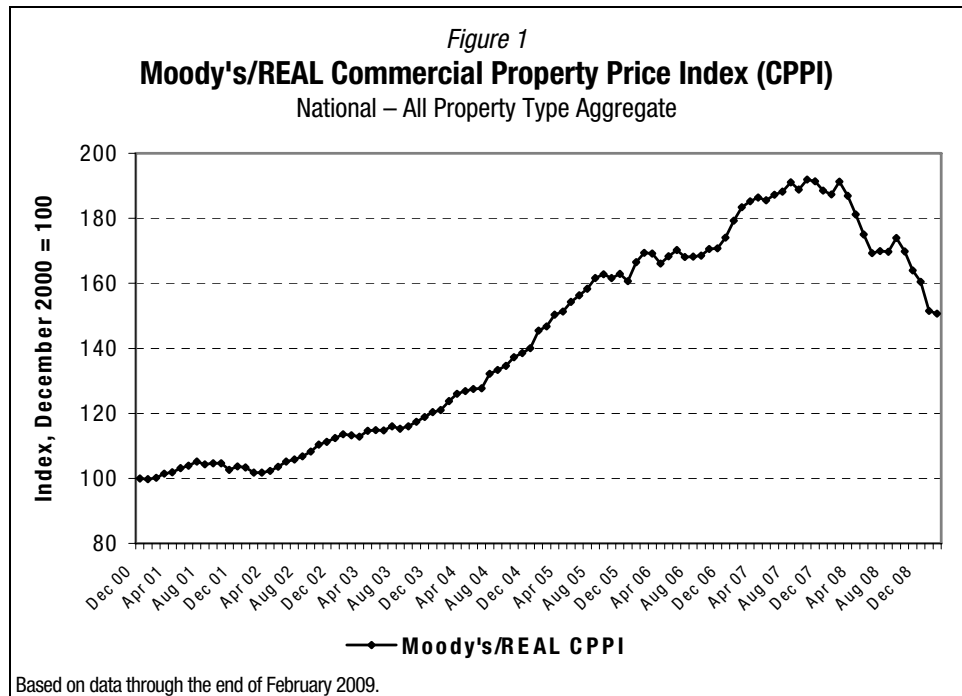


Figure 2
Current Moody's/REAL CPPI and Change from Earlier Periods

New This Period:	National All Property Type Aggregate
Repeated This Period:	National – Four Property Types Top 10 MSAs – Four Property Types West – Four Property Types 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	150.63	-0.6%	-21.2%	-17.9%
	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	198.35	-13.7%	-7.9%	
East – Industrial	174.79	-9.1	-0.7	
East – Office	169.82	-12.7	-3.6	
East – Retail	218.28	-7.8	3.2	
South – Apartments	151.09	-5.8	-8.7	
South – Industrial	175.07	-15.5	-3.8	
South – Office	161.44	-10.2	-3.2	
South – Retail	181.56	-8.5	0.5	
So. California – Apartments	215.60	-13.1	-8.5	
So. California – Industrial	191.11	-10.6	1.6	
So. California – Office	175.96	-13.6	-2.5	
So. California – Retail	225.32	-8.0	3.6	
New York – Office	218.21	-7.5	2.3	
San Francisco – Office	122.04	-10.2	-0.6	
Washington DC – Office	174.85	-8.8	-3.3	
Florida – Apartments	194.54	-7.3	-10.4	

M Monthly series. Most recent data is through February 28, 2009.

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 4th quarter 2008. Analysis is based on data from four quarters (1Q08, 2Q08, 3Q08, and 4Q08). Given that the measure is of a rolling four-quarter period, data as of the end of the 4th 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 time.¹

Notable Observations and Themes

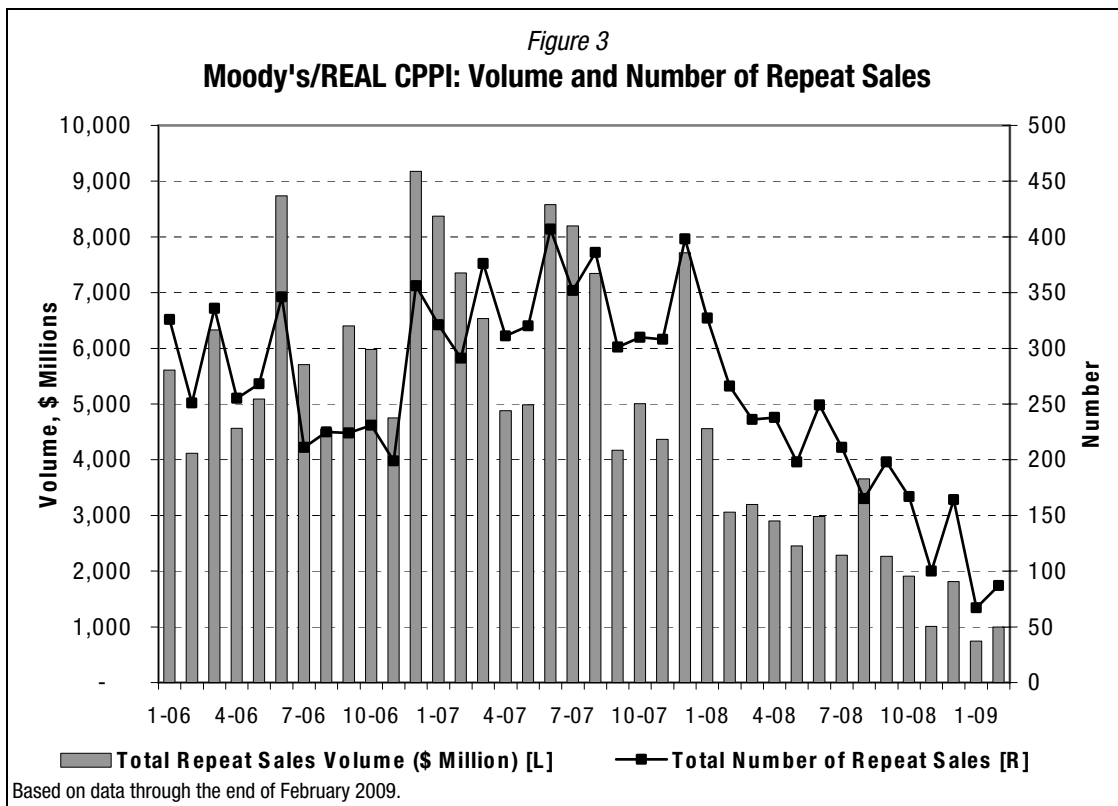
- The National — All Property Type Aggregate Index measured a 0.6% value decline in February 2009. The index now stands 21.5% below the peak measured in October 2007.
- There was a slight uptick in transaction volume this month compared to last, with 87 repeat sales transactions recorded in February. Monthly volume was down 67% over the same time last year.
- The past three years have seen a shift in sales from high priced assets to those under \$7.5 million.
- Refinancing concerns may grow for the 2006-2008 vintages, as the index shows loans originating in those years have now experienced price depreciation, on average. Fortunately, very few loans from these vintages will mature in the next two years.

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: MILD DECLINE CONTINUES DOWNWARD TREND

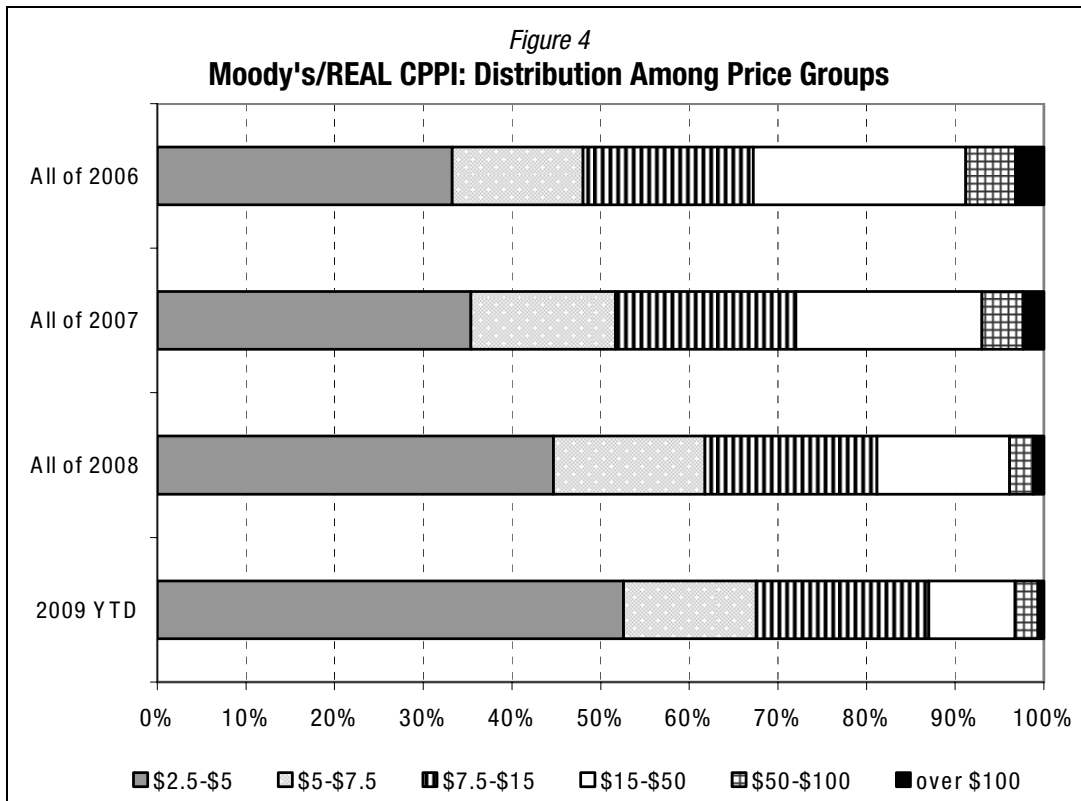
The National – All Property Type Aggregate Index is a monthly series, and this report is based on data through February 28, 2009. Refer back to *Figure 1*, page 1.

Moody's/REAL CPPI experienced a decline of 0.6% in February as compared to January. This month's drop in prices was much milder than recent declines; prices fell 2% or more for each of the past four months. The index now stands 21.5% below the peak measured in October 2007, and we expect to see a continued decline in commercial property prices in the coming months.



Transaction volume saw a modest uptick this month as compared to last, with 87 repeat sales transactions recorded in February, as seen in *Figure 3*. In dollar volume terms, total sales in February were just under \$1 billion. Sales in February, both by count and dollar, were one-third the volume of the same time last year.

The distribution among price groups has seen a significant shift to lower priced assets over the last three years, as seen in *Figure 4*.



In 2006, less than half of all repeat sales transactions occurred in properties valued under \$7.5 million dollars. In 2007, the proportion rose to just over half of all sales. In 2008, 60% of transactions were properties that sold for less than \$7.5 million. And although we have data for just the first two months of 2009, almost 70% of those sales were in lower priced assets, with nearly 90% falling under \$15 million. This phenomenon could be the result of several factors. Vacancies at smaller properties may ramp up more quickly due to lower tenant credit quality and shorter lease terms than are typically found in larger buildings. Also, owners of smaller properties are likely to have fewer financial resources available to them to weather the storm, so it is perhaps not surprising that they would be the first to succumb to the pressure to sell into a distressed market. Owners of larger properties, by contrast (and subject to certain recent notable exceptions), on average have greater staying power and may have decided (for now at least) to ride it out. In addition, although some anecdotal evidence suggests that the few commercial real estate lenders active in the market are looking for larger loans on trophy properties, smaller properties may appeal to speculators with ready cash prepared to invest equity in order to qualify for financing at current low lender LTV thresholds. As prices began to fall in late 2007, it may also be that sellers of higher priced assets were more averse to loss than were sellers of properties priced below \$7.5 million.

Refinance Concerns Extend Into Earlier Vintages

With the significant decrease in value experienced over the last several months, loan vintages back to 2005 are now seeing price depreciation, on average, in their underlying mortgage collateral.

	Moody's/REAL Index Average for that Year	Change to February 2009 Index	% of Vintage* Coming Due Before 2011
2004	130.77	15.2%	14.3%
2005	156.02	-3.5%	14.9%
2006	169.17	-11.0%	2.9%
2007	187.26	-19.6%	0.3%
2008	174.90	-13.9%	0.0%

* CMBS Loans Only: Conduit, Large Loan, Single Asset/Borrower, includes extensions

In the discussion that follows, the percentage of each vintage coming due in the next two years applies to loans in CMBS deals only. Although not necessarily representative of the broader commercial real estate loan market, it is worth noting that few CMBS loans maturing before 2011 are from vintages with more than 10% average price depreciation.

The 2004 loan vintage is the latest vintage whose collateral still has embedded price appreciation. Commercial property prices are up 15% since 2004, on average. A little more than 14% of the current outstanding balance of the 2004 CMBS loan vintage will mature in the next two years, so for now those loans have a relatively attractive LTV and would appear to have a good chance of refinancing at maturity.

The 2005-2008 vintages have all experienced price depreciation as compared to values at origination. The 2005 vintage has seen a relatively mild 3.5% drop in value. While its prospects for refinancing are not as strong as the 2004 and earlier vintages, loans from 2005 will most likely be above water when they mature, especially after factoring in any amortization.

On the other hand, loans from 2006 and 2007 will likely run into trouble when it comes time to refinance. Price depreciation for the 2006 vintage now stands at 11%, and values have fallen nearly 20% since the origination of the 2007 vintage. The combination of aggressive underwriting standards and price depreciation will cause loans from this period to experience significant refinance risk. The good news here with respect to CMBS is that only 3% of the 2006 CMBS vintage and less than 1% of the 2007 CMBS vintage will mature in the next two years.

Properties backing loans from the 2008 vintage have already experienced almost 14% depreciation on average. However, CMBS issuance in 2008 was down 95% from the record levels of 2007, and no CMBS loans from this vintage mature before 2011.

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 the next 12 months (*Figures 5, 6, and 7*).
- Charts for the 28 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 8 – 15*).

APPENDIX

Figure 5
CPPI: Report Release Cycle, 2009 & 2010

	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
	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

Figure 6

(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 7

(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	

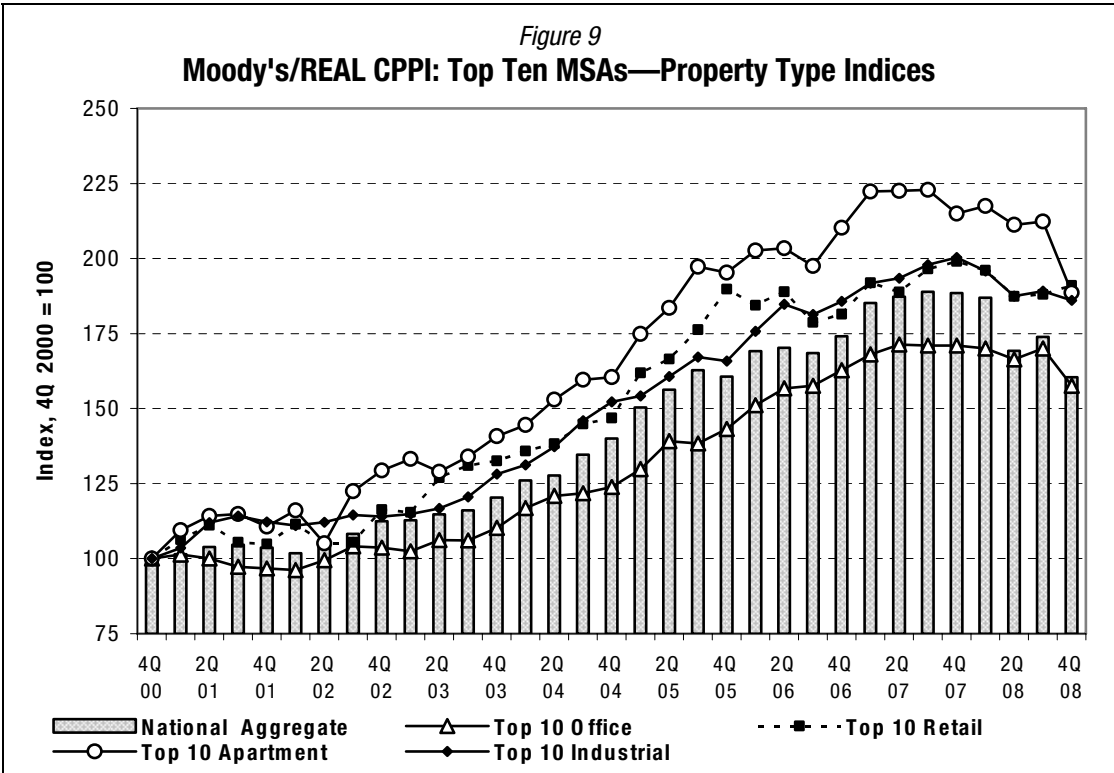
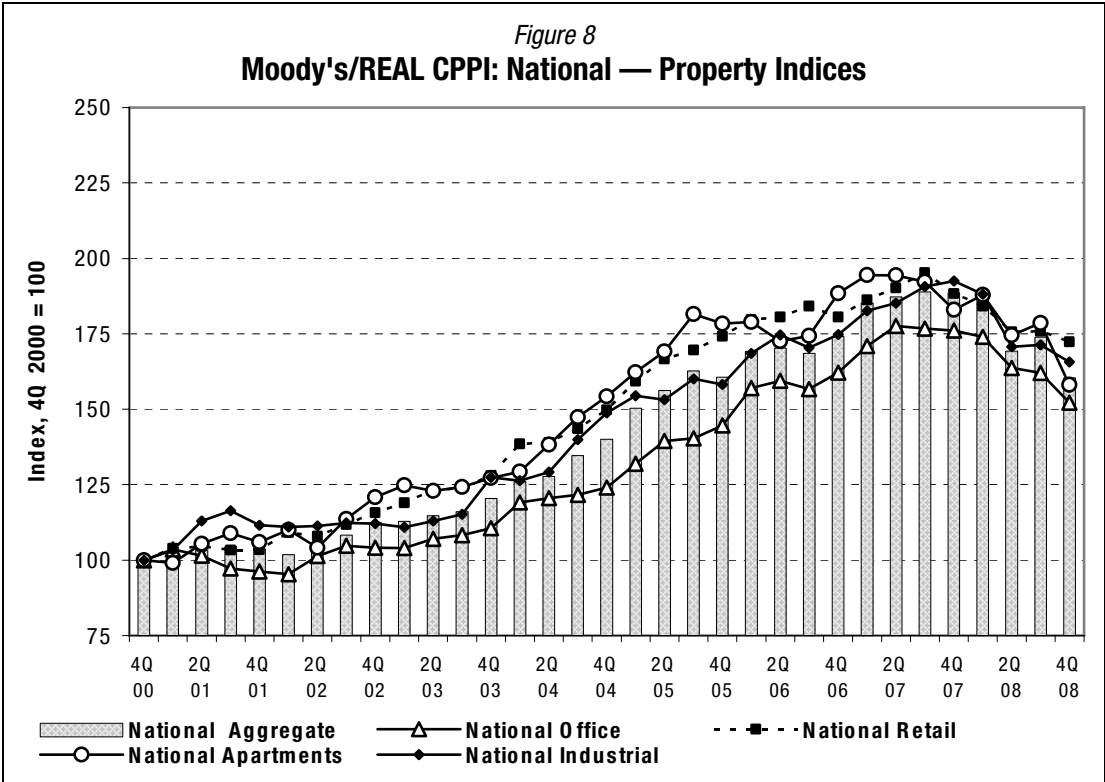


Figure 10
Moody's/REAL CPPI: West — Property Type Indices

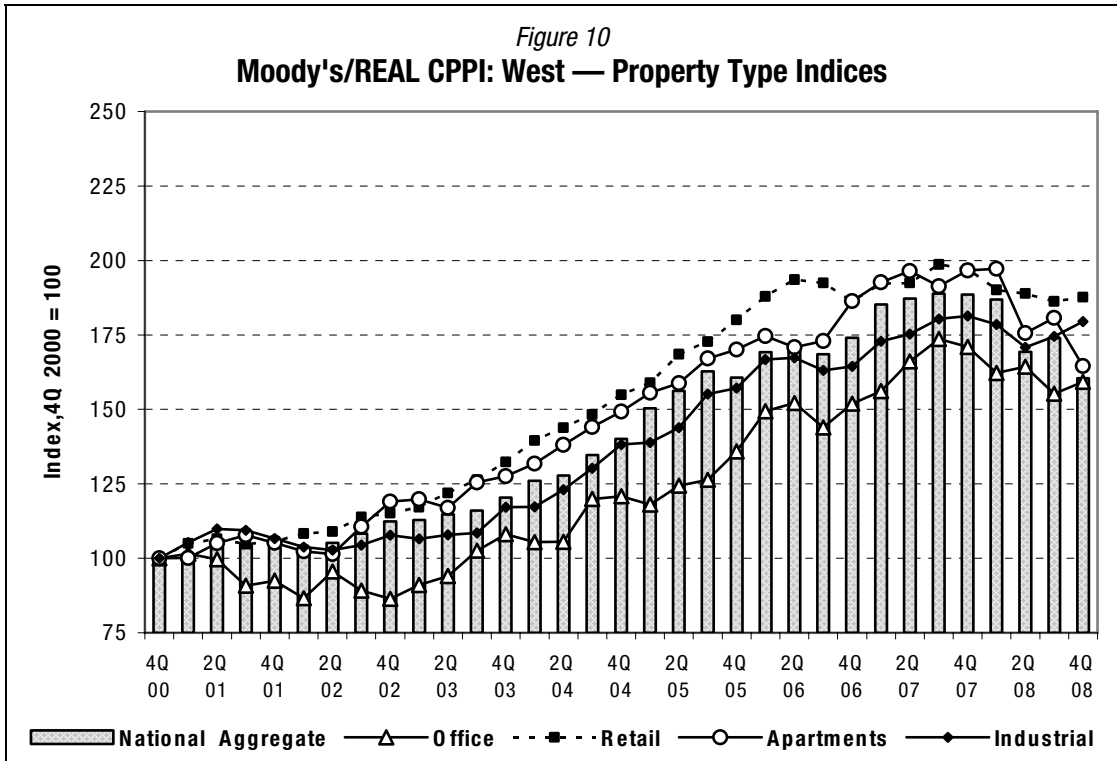


Figure 11
Moody's/REAL CPPI: East — Property Type Indices

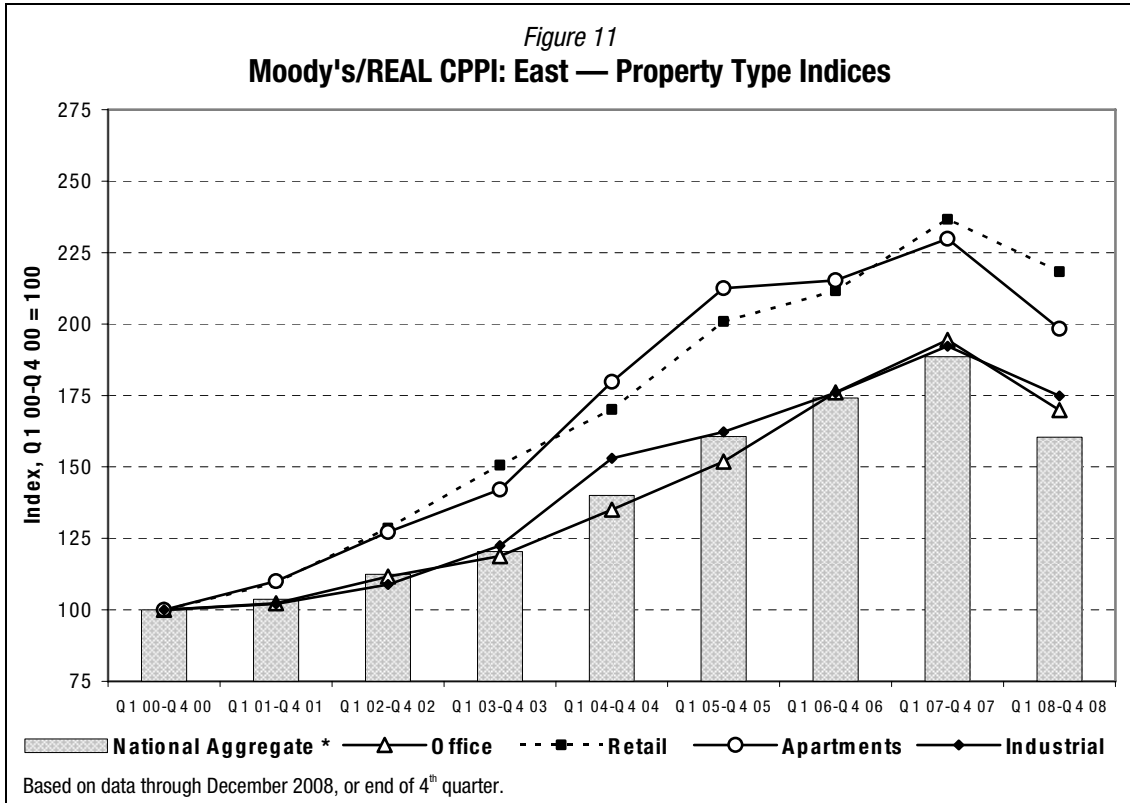


Figure 12
Moody's/REAL CPPI: South — Property Type Indices

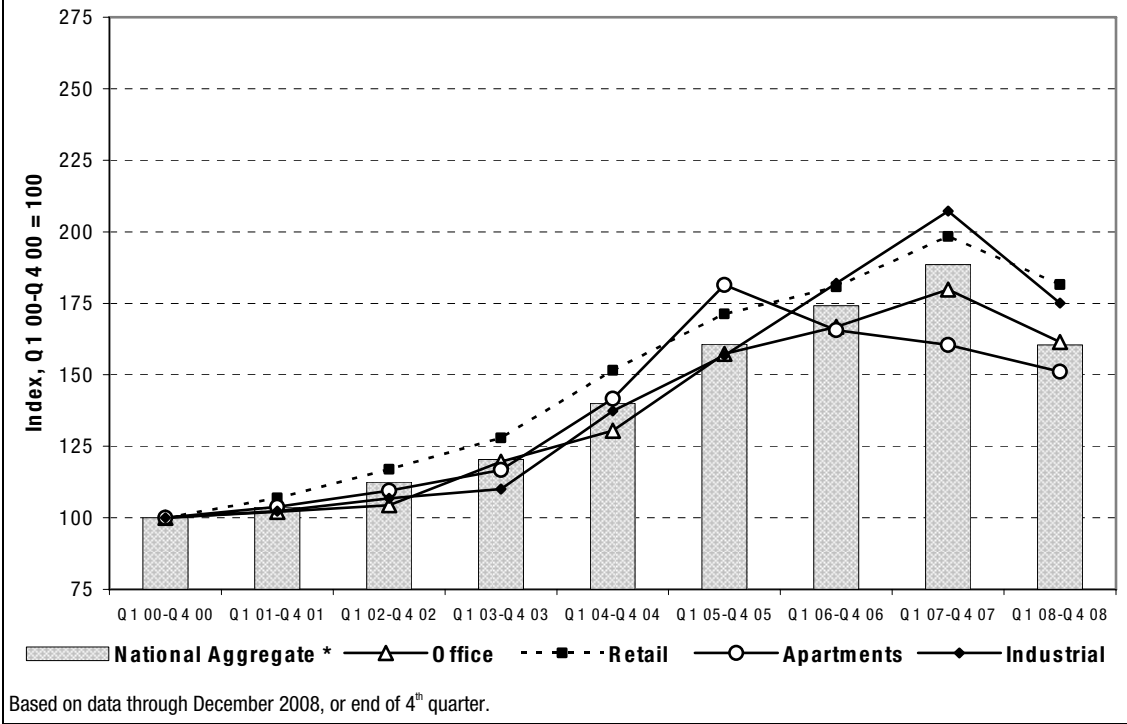
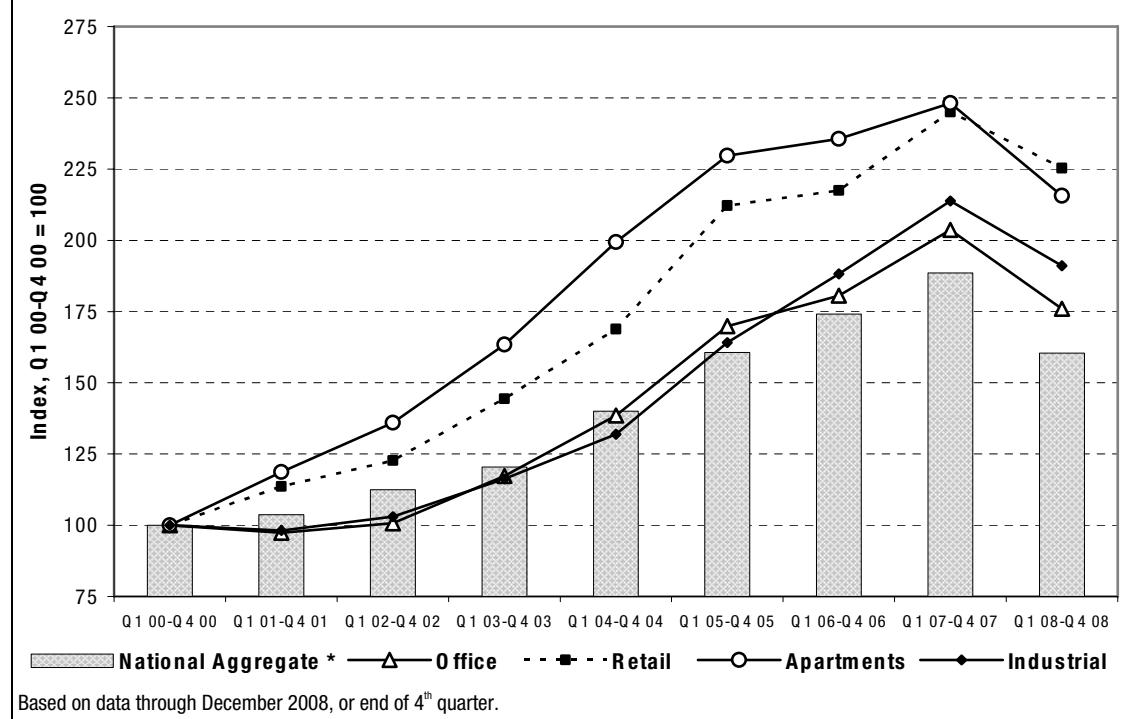
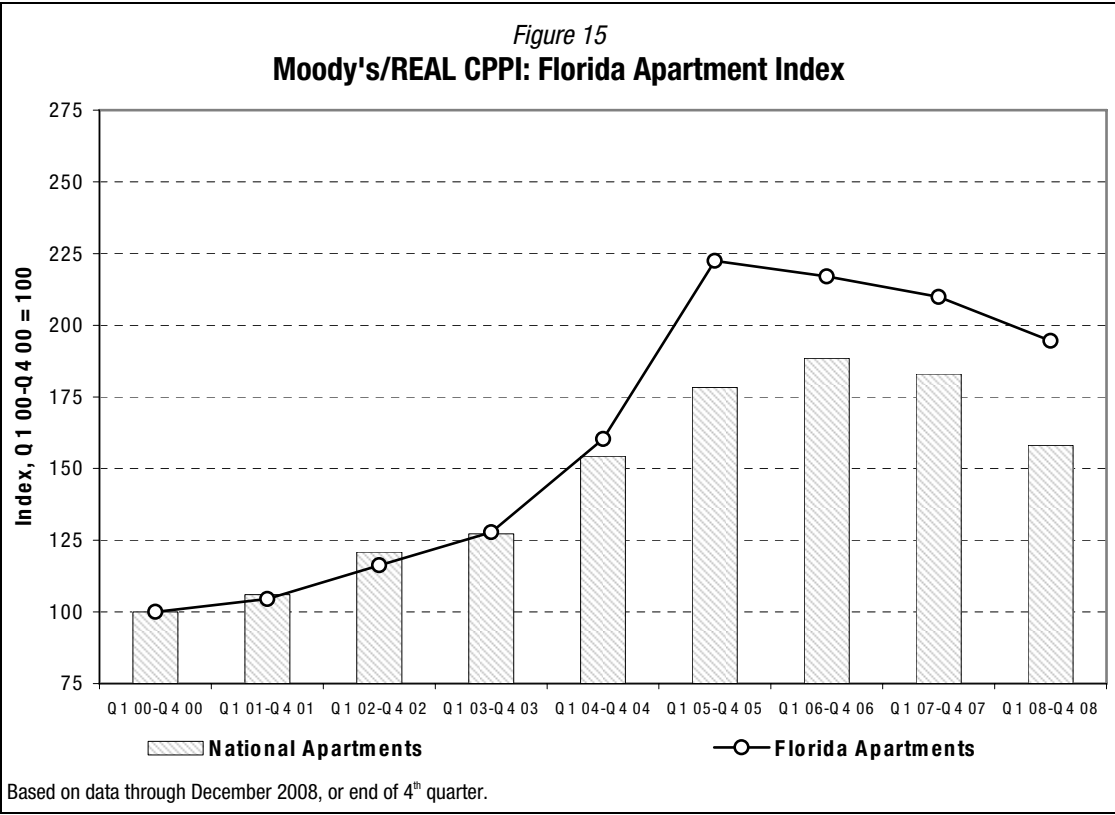
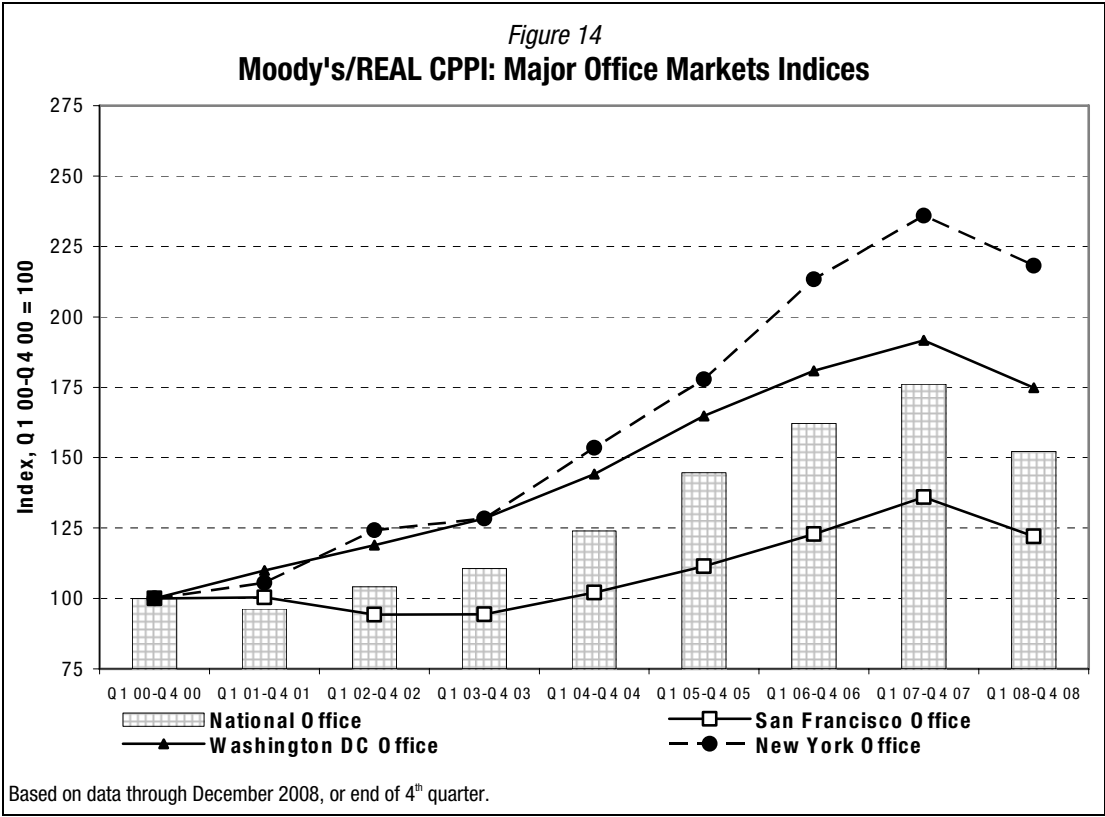


Figure 13
Moody's/REAL CPPI: Southern California — Property Type Indices





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