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

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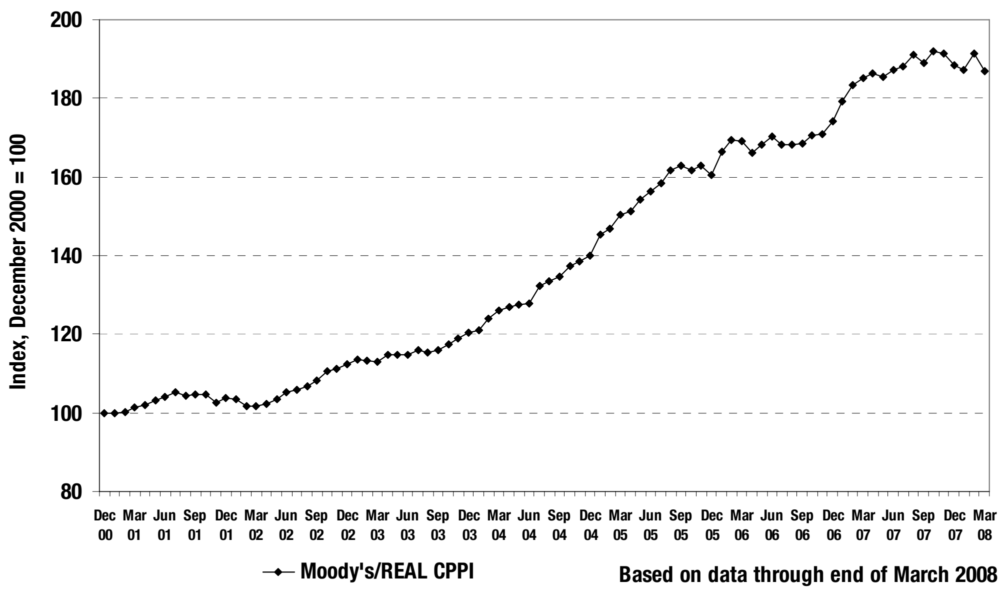
OVERVIEW

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 May report, based on data through the end of March, Moody's/REAL All Property Type Aggregate index measures 186.92, a decrease of 2.3% over the previous month, the largest one month decline since the inception of the index. The March index level, at 2.6% below the peak in October 2007, still represents an increase of 0.9% over the same period of the previous year, and 10.5% over two years.

Figure 1
Moody's/REAL Commercial Property Price Index (CPPI)
National -- All Property Type Aggregate



Based on data through end of March 2008

Notable Observations and Themes

- The March aggregate index experienced the largest one-month decline since the inception of the index. The aggregate index, now 2.6% off the peak of October 2007, is performing as befits a process of price discovery in a period of low liquidity - some ups, more downs, with a downward net bias over time.[1]
- Monthly transaction volume in March was down from the monthly average of last year, measured either in number (by about one-third) or dollar value (by about one-half). Nonetheless, the number of repeat sales was still eleven times greater than that needed to achieve the requisite degree of statistical reliability.
- In the aggregate, the distribution of transactions has drifted toward lower-priced assets over the last year.
- The national property-type series are on a quarterly basis, and all four products are down from their peak prices of 2007 (with peaks in different quarters of last year for different property types). Retail is down the most from its peak, -5.7%, while offices and industrial are down the least, by -2.0% and -2.3% respectively. Apartments are in the middle, with price declines of -3.4% since that asset type's peak a year ago in the first quarter of 2007.
- On a quarter-to-quarter basis, apartments prices increased from the fourth quarter of 2007 to the first quarter of 2008, but that appears to be a take-back of an unusually large drop between the third and fourth quarters of 2007.
- The composition of the Top Ten cities has been revised in this report. Once every two years, the list of the ten cities that are home to the most transactions by dollar volume in each property type is revisited and revised. In general, the last two years has seen more transactions in the Texas markets, so Dallas and Houston moved into the Top Ten in more property types. Conversely, several Sun Belt cities had fewer repeat sales in the 2006-2007 period than in the two years before that, including Orlando, Phoenix, Tampa, and South Florida.
- Historically the Top Ten cities have comprised approximately 50%-75% of all repeat sales. That share has dropped to the lower end of that band for all property types.
- The West had the dubious distinction of being home to the worst performing asset in the report - offices in the region - where prices dropped by 5.1% from the previous quarter, much steeper than the decline in the national office sector (-1.2%) or in the Top Ten cities (-0.6%).

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 Repeat Sales Methodology. 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.

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 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	186.92	-2.3%	0.9%	10.5%

	Current Index Q	1 Quarter Earlier	1 Year Earlier	2 Years Earlier
National - Apartments	187.88	2.7%	-3.4%	5.0%
National - Industrial	188.14	-2.3	3.0	11.7
National - Office	174.02	-1.2	1.8	10.8
National - Retail	184.15	-2.2	-1.2	2.5
Top 10 MSAs[1] - Apartments	217.50	1.2	-2.2	7.3
Top 10 MSAs - Industrial	195.79	-2.3	2.1	11.4
Top 10 MSAs - Office	170.04	-0.6	1.2	12.5
Top 10 MSAs - Retail	196.02	-1.5	2.2	6.3
West - Apartments	197.18	0.3	2.4	12.9
West - Industrial	178.49	-1.6	3.2	7.0
West - Office	162.20	-5.1	3.9	8.5
West - Retail	190.08	-3.6	-1.1	1.2

	Current Index A	1 Year Earlier	2 Years Earlier
East - Apartments	229.79	6.7%	8.1%
East - Industrial	192.29	9.3	18.5
East - Office	194.43	10.4	28.1
East - Retail	236.63	11.8	17.8
South - Apartments	160.40	-3.1	-11.6
South - Industrial	207.19	13.9	32.2
South - Office	179.80	7.8	14.3
South - Retail	198.38	9.8	15.8
So. California - Apartments	248.17	5.4	8.1
So. California - Industrial	213.74	13.6	30.2
So. California - Office	203.61	12.8	19.8
So. California - Retail	244.98	12.6	15.5
New York - Office	235.93	10.6	32.7
San Francisco - Office	135.96	10.7	22.0
Washington DC - Office	191.66	6.0	16.3
Florida - Apartments	209.82	-3.3	-5.7

M Monthly series. Most recent data is through March 31, 2008.
Q Quarterly series. Most recent data is through the end of the 1st quarter 2008. Analysis is based on data from that 1st 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 2007. Analysis is based on data from four quarters (1Q07, 2Q07, 3Q07, and 4Q07). 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.

NATIONAL - ALL PROPERTY AGGREGATE INDEX EXPERIENCED THE LARGEST ONE-MONTH DROP SINCE INDEX INCEPTION

The National - All Property Type Aggregate is a monthly series, and this report is based on data through the end of March. (Refer back to *Figure 1* on page 1.) The aggregate index, now 2.6% off the peak of October 2007, is performing as befits a process of price discovery in a period of low liquidity - some ups, more downs, with a downward net bias over time. Furthermore, the increase in the index last month, based on data through the end of February, has been more than taken back in the March data.

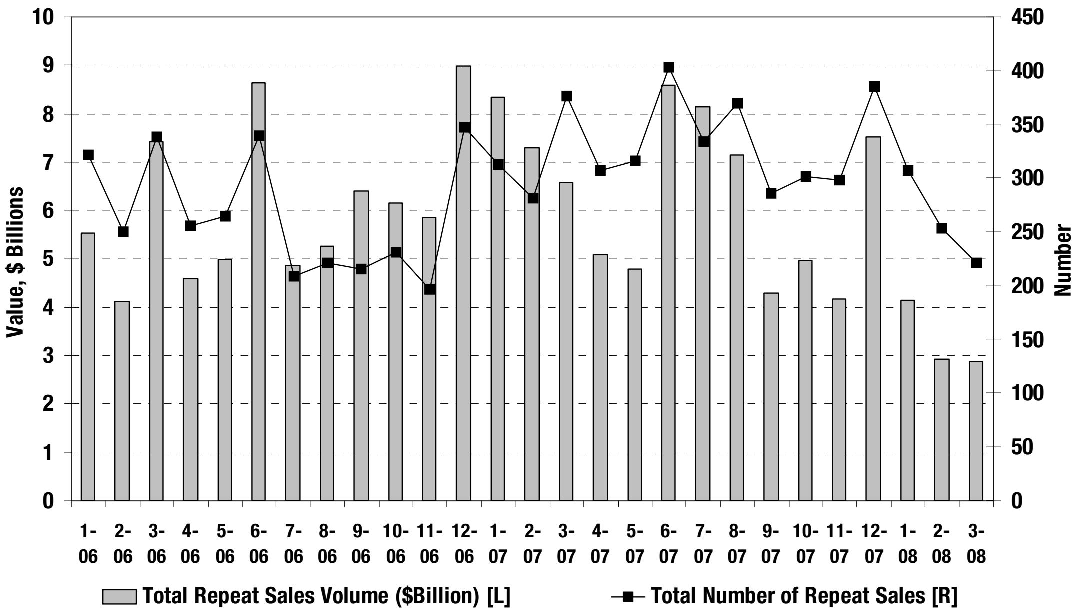
Number of Transactions Down by About One-Third, Dollar Value Down by About One-Half in March vs. Last Year

Unsurprisingly, transaction volume in March was down from the previous year (see *Figure 3*). Comparing the March volume to the monthly average for all of 2007, the number of repeat sales for the month was down by approximately one-third (-33.1%). Despite the fall-off in volume, the March data is still eleven times the level required to maintain the statistical viability of calculating the index and above the transaction pace of some months in the third and fourth quarters of 2006.

Similarly, the dollar volume was down by 55% overall in March compared to the monthly average for the previous year, although that level was about the same as the month before.

Figure 3

Moody's/REAL CPPI: Value and Number of Repeat Sales



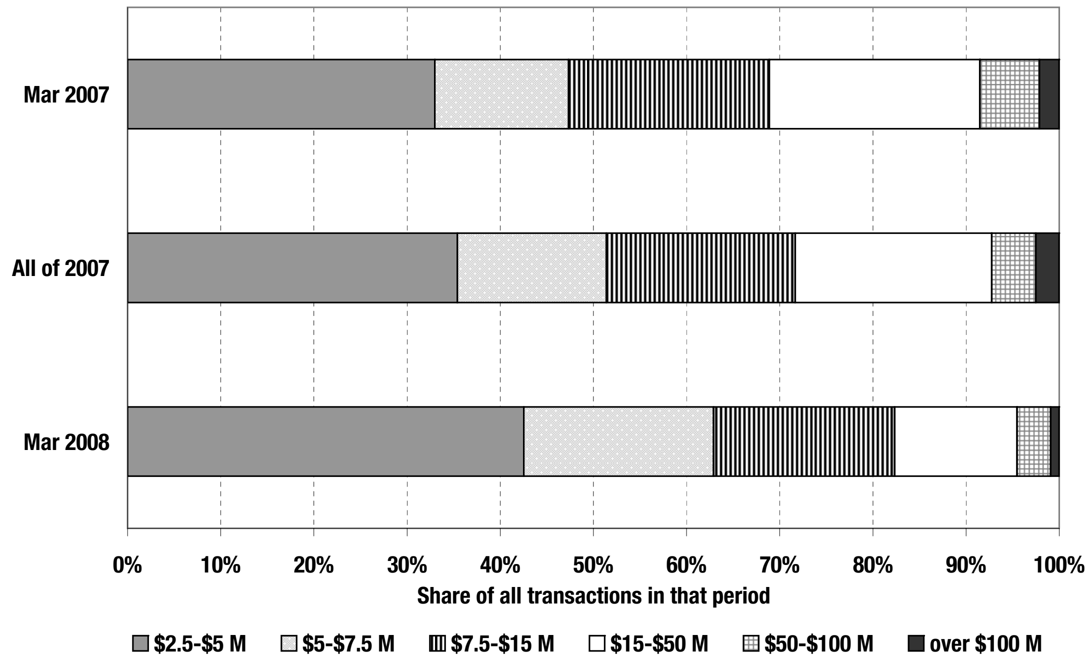
Based on data through end of March 2008

Distribution of Transactions Drifting to Lower End of the Price Spectrum Due to Credit Constraints

Over the last year, the share of all repeat sales transactions at various price levels has steadily drifted downward. In the most recent month, 62.9% of all sales were under $7.5 million, while a year earlier fewer than one-half of all repeat sales were similarly priced (47.3%). At the other end of the spectrum, sales of assets over $50 million in price have dropped from 8.5% of all sales in March 2007 to 4.5% a year later - a drop of nearly one-half (see *Figure 4*).

Figure 4

Distribution of Transactions by Price Group



Undoubtedly, in a credit-constrained environment, lower priced assets have less difficulty finding financing than do pricier ones, so a larger share of the completed transactions fall within the smaller price categories.

The same pattern generally prevails across all property types, with a larger share of lower-priced transactions in March 2008 compared to a year earlier and a smaller share of pricier repeat sales year-over-year.

NATIONAL - PROPERTY TYPE INDICES: PRICES ON ALL PROPERTY TYPES ARE BELOW 2007 PEAKS

The National - Property Type Indices for the four major property types are quarterly series, and this report is based on data through the first quarter 2008. The largest quarter-to-quarter price declines were in industrial properties (-2.3%) and the retail sector (-2.2%), with shallower softening among offices (-1.2%), as illustrated in *Figure 5*.

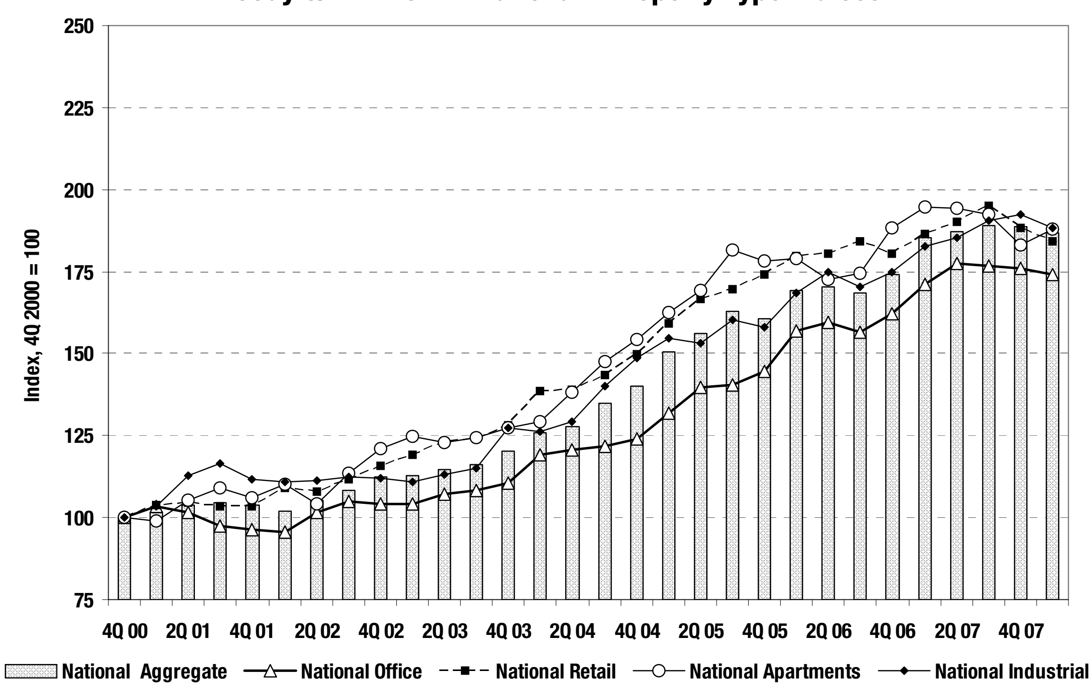
In an apparent anomaly, the apartment sector showed an increase in prices in the first quarter from the fourth quarter. However, the sector experienced an unusually large drop between the third and fourth quarters of 2007 (-4.9%), so this month's score could be taking back some of that adjustment and recouping or normalizing those losses.

Furthermore, price discovery in this sector is complicated by the participation of another player - and, more to the point, another source of liquidity. Although it might (or might not) *account for* pricing, a *contributory* factor could be the liquidity-driven current pricing support from the agencies, Fannie Mae and Freddie Mac. The supply of capital to the apartment market has this additional source that is in part political as well as financial, responding to issues in addition to supply of and demand for space and other market fundamentals.

In fact, the apartment sector saw the same kind of increase in the first quarter following above-average deterioration in the fourth in the other quarterly series as well, i.e., among the Top Ten MSAs and in the West. However, over a one-year horizon, apartments demonstrated the worst performance of any of these quarterly series (-3.4%).

Figure 5

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

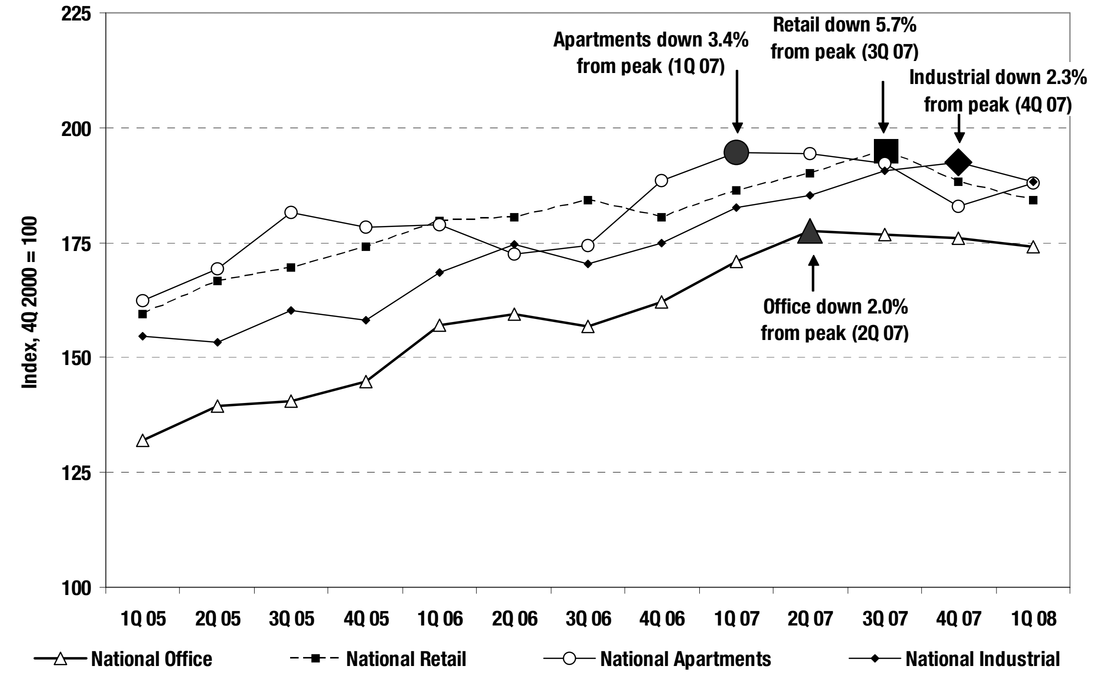


Based on data through March 2008, or end of 1st quarter.

All four products are off their peaks by amounts ranging from a low of -2.0% for offices (peak: 2Q07) and -2.3% for industrial (peak: 4Q07) to -3.4% for apartments (peak: 1Q07) and a high of -5.7% for retail (peak: 3Q07). In these peak-to-current calculations, note that the highest price adjustment to date - in retail - is not simply in the product that peaked the earliest and has therefore had a longer time period to lose value. Conversely, the lowest price adjustment to date - among offices - is not in the product that peaked the latest and has therefore had less time to lose value (see *Figure 6*).

Figure 6

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



Based on data through March 2008, or end of 1st quarter.

Dollar Volume and Number of Transactions Down Across the Board

Although a decline in transaction volume was experienced in all sectors, the degree varied from one property type to another. Offices experienced the greatest decline in transaction volume (measured either in number or value), and industrial, the least from the average quarterly pace in 2007. The lowest *level* of repeat sales is among retail assets, but that is still just under eight times the level required for statistical viability of the index.

Comparing the volume in the first quarter of 2008 to the quarterly average for all of 2007, the decline in the number of repeat sales for the quarter was greatest in offices (-32.8%), followed by apartments (-22.3%) and retail (-16.6%), with a smaller drop-off in industrial repeat sales (-9.8%).

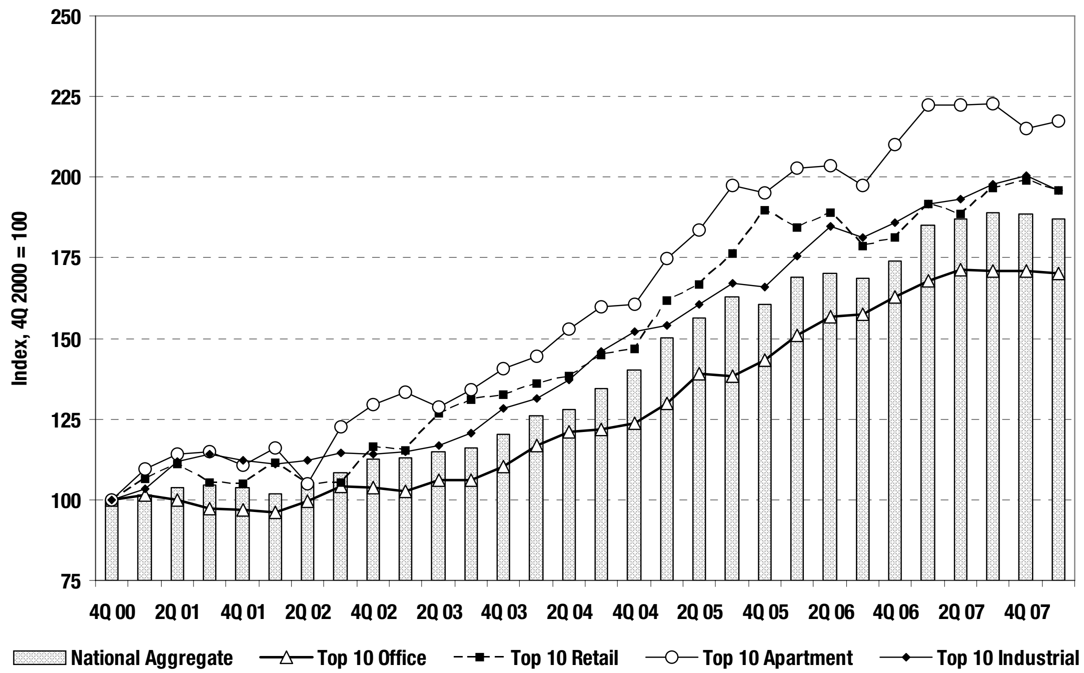
Likewise, the dollar volume deteriorated overall through March compared to the quarterly average for the previous year. That drop-off was greatest in offices (-59.6%) followed by retail (-43.6%) and apartments (-35.4%), with industrial again showing the smallest decline (-26.9%).

TOP TEN MSAs - PROPERTY TYPE INDICES: TOP TEN COMPRISING A SMALLER SHARE OF ALL REPEAT SALES

This series is based on the ten MSAs that are home to the most transactions by dollar volume in each property type. This is also a quarterly series, based on data through the first quarter 2008.

Figure 7

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



Based on data through March 2008, or end of 1st quarter.

Composition of Top Ten Changed As Planned

The "Top Ten" cities are those with the largest total 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 at the beginning of even-numbered years.

As previously indicated in the February report, that new list of Top Ten cities has been generated and was applied to this calculation of the index based on data through the first quarter of 2008. In other words, the previous report of this series, released in February, was based on data through the fourth quarter of 2007 and was still based on the "old" list of cities. However, this report of this set of indices, using data from the first quarter of 2008, is based on the "new" list.

Unsurprisingly, some shift has occurred in the cities most frequently represented in transactions in the last two years (2006 and 2007) relative to the two-year period before the most recent one (2004 and 2005), as outlined in *Figure 8*. Those cities that 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 8*). 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 8

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

Impact of Changing Composition of Top Ten Cities Is Modest

The difference in the change in prices in the Top Ten cities as a group, represented by one or the other set of cites, varied by less than 1% in three of the four property types due to the change in composition (see *Figure 9*). The exception is in the retail sector, where the index declined by less with the new list of cities. It appears that relatively strong price performance in Atlanta and Dallas, new to the Top Ten retail list, in combination with the weaker performance in Denver and Seattle, dropped from that list, was sufficient to soften the severity of the price decrease for the sector.

Figure 9

Change in Moody's/REAL CPPI for Top Ten Cities: Impact of Update of Top Ten Composition

	4Q 07	Old Top Ten List		New Top Ten List	
	Top Ten Score *	1Q 08	% Change	1Q 08	% Change
Apartment	214.98	216.00	0.5%	217.50	1.2%
Industrial	200.32	194.97	-2.7%	195.79	-2.3%
Office	171.01	171.17	0.1%	170.04	-0.6%
Retail	199.04	190.33	-4.4%	196.02	-1.5%

Last quarter's score was calculated using the "old" Top Ten list of cities for each property type.

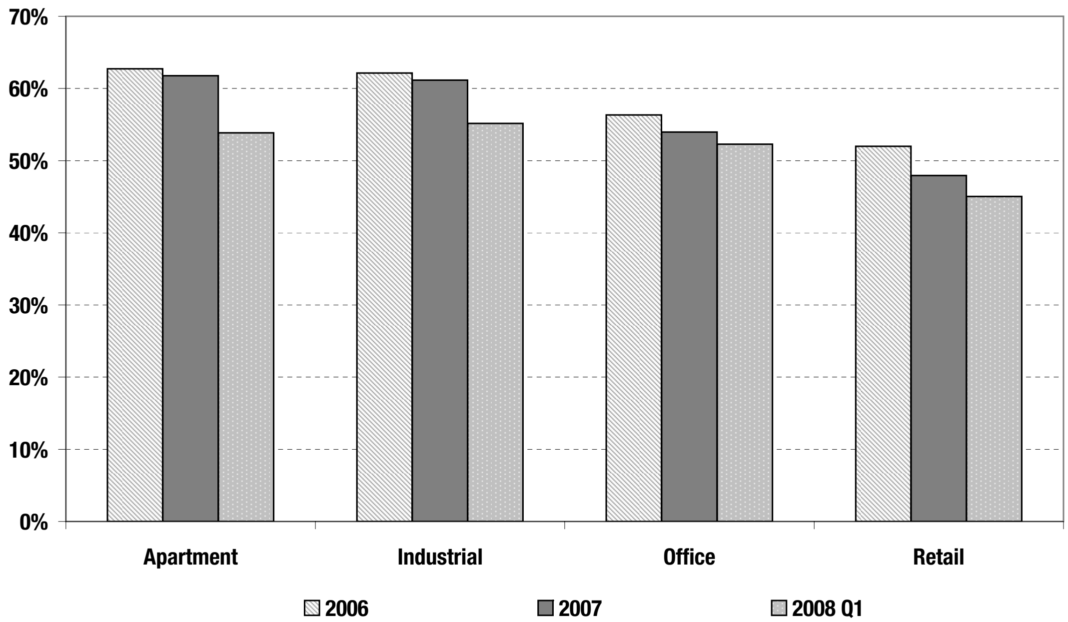
The Top Ten Index is defined and constructed in such a way that when we update the Top Ten cities list every two years, some “survivorship bias” is inherent. The returns in the new Top Ten cities will tend to be higher than what the returns would have been for the currrent quarter under the old Top Ten cities.

Role of Top Ten in Overall Index

Over several years, approximately 50%-75% of the national index has been driven by the performance of assets in the ten cities with the most transactions, although that ratio has varied by property type and from period to period. However, the share of all transactions concentrated in only ten cities has generally drifted down in the last three years (see *Figure 10*). At this time (as of the first quarter 2008), across each of the four major property types, the share of all transactions in the ten largest cities was typically 45%-55%.

Figure 10

Share of Transaction for the Top Ten Cities Drifts Downward



Based on data through end of March 2008.

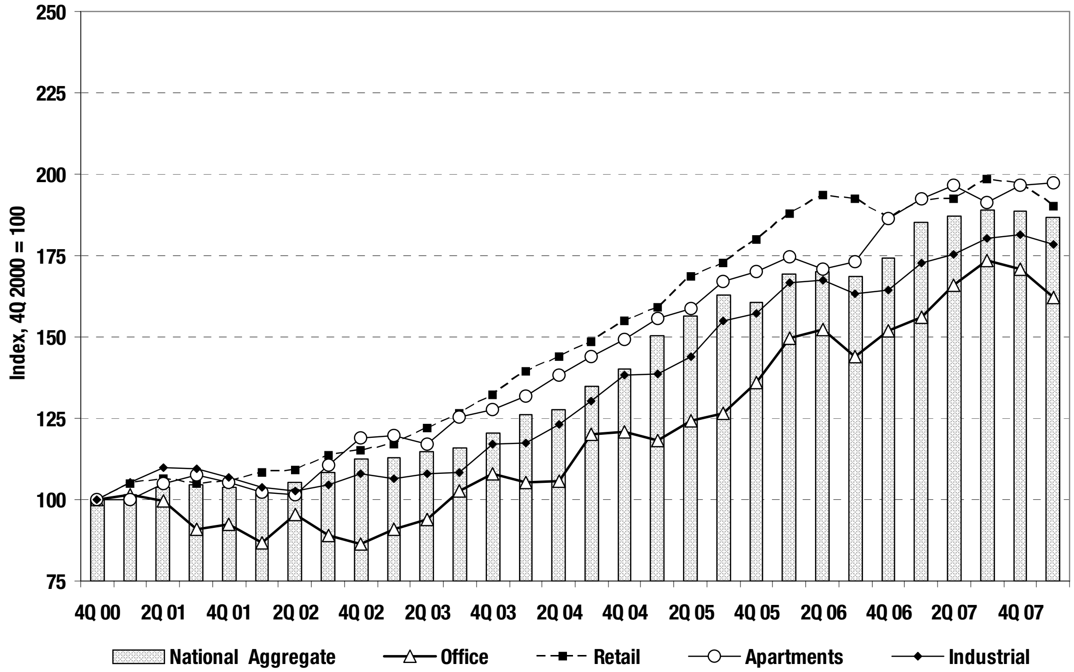
In the same way that the distribution of transactions by price groups has drifted away from higher-priced assets, transactions also seem to be drifting away from the largest cities. Financing is potentially easier to obtain for more bread-and-butter assets and more difficult for larger, more trophy-quality products which predominate in the largest cities. As capital flows return to commercial real estate, the largest cities might again comprise a larger share of all repeat sales.

WESTERN REGION - PROPERTY TYPE INDICES: OFFICES PROVIDE THE GREATEST DISAPPOINTMENT

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 first quarter 2008.[2] Three of the four property types saw a decline in prices in the first quarter of 2008, while the fourth, apartments, remained virtually flat.

Figure 11

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



Based on data through March 2008, or end of 1st quarter.

The apartment sector in the West saw a slight increase in prices (0.3%), but it underperformed the national apartment sector, which saw an increase of 2.7%. However, apartments in the West had not experienced the sharp drop in the fourth quarter that the national sector did, therefore had no need to "recoup" losses and "normalize" price levels.

The Western office market was the worst performing sector in this report, with a decline of 5.1% from last quarter. That decline was significantly greater than the nation as a whole, where prices decreased by 1.2%.

The sharp decline in prices in office properties in the West is explained by the combination of a larger proportion of transactions occurring in the cities with weaker rates of return, while those cities with stronger returns comprised a somewhat smaller proportion of all repeat sales this period.

Approximately 80%-85% of all office transactions in the West occur in six cities: Denver, Los Angeles, Phoenix, San Diego, San Francisco, and Seattle. Rates of return were more modest in the first quarter compared to the quarter before in five of those six cities - the exception was San Francisco.

2 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.

If the mix shifts - with an increase in the share of transactions in those cities with the shallowest returns (i.e., Denver, Phoenix, and Seattle) and fewer transactions occurring in those cities with stronger returns (i.e., Los Angeles and San Francisco), then the regional composite drifts down. Consider the following combinations affecting the mix of transactions recorded in the first quarter:

- The share of transactions in Denver increased from 9% in the fourth quarter to 13% in the first quarter. However, the rate of return on Denver offices declined from 11% to 8% over the same time frame.
- Conversely, Los Angeles showed one of the stronger return profiles in the region (12%), but the share of all repeat sales in Western offices that occurred in Los Angeles declined from 24% of the total in the fourth quarter to 18% in the first quarter.
- Similarly, San Francisco, where returns actually increased quarter-to-quarter from 11% to 14%, was the source of a slightly smaller share of all transactions, 20% vs. 18%.

In short, a shift in the mix of transactions in the higher- or lower-return markets accounted for some downward pressure on the regional aggregate.

The Western retail sector saw a decline (-3.6%), and although the West underperformed the national retail sector (-2.2%), it did so more mildly than office.

Industrial was the only sector in the West to outperform the nation. The decline in the Western industrial sector (-1.6%) was not as severe as the decrease in prices seen in the nation overall (-2.3%).

In terms of transaction volume in the West, offices have seen the largest decline, with almost 20% fewer transactions this quarter as compared to last. However, transactions in the national office sector are down almost 29%, so the transaction volume in the office sector is softening less in the West than in the nation at large. In fact, the downturn in transaction volume is milder in the West for all property types than in the nation as a whole. Overall, transaction volume is down 9% in the West this quarter, while the nation saw a decrease of almost 21%.

In terms of the level of repeat sales, the smallest number is again in the retail sector, but there are still more than three times the requisite number of transactions to reliably calculate the index. The other property types all have larger multiples over the minimum as follows: offices, four times; industrial, five times; and apartments, nearly seven times.

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 remaining three quarters of 2008 and the first quarter of 2009 (*Figures 12*, *13*, and *14*).
- 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 15 - 19*).

APPENDIX

Figure 12

CPPI: Report Release Cycle, 2008 - 2009

	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:		1st Quarter	1st 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:		2nd Quarter	2nd 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:		3rd Quarter	3rd Quarter
Based on data through:		September 30	September 30
	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

Figure 13

(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

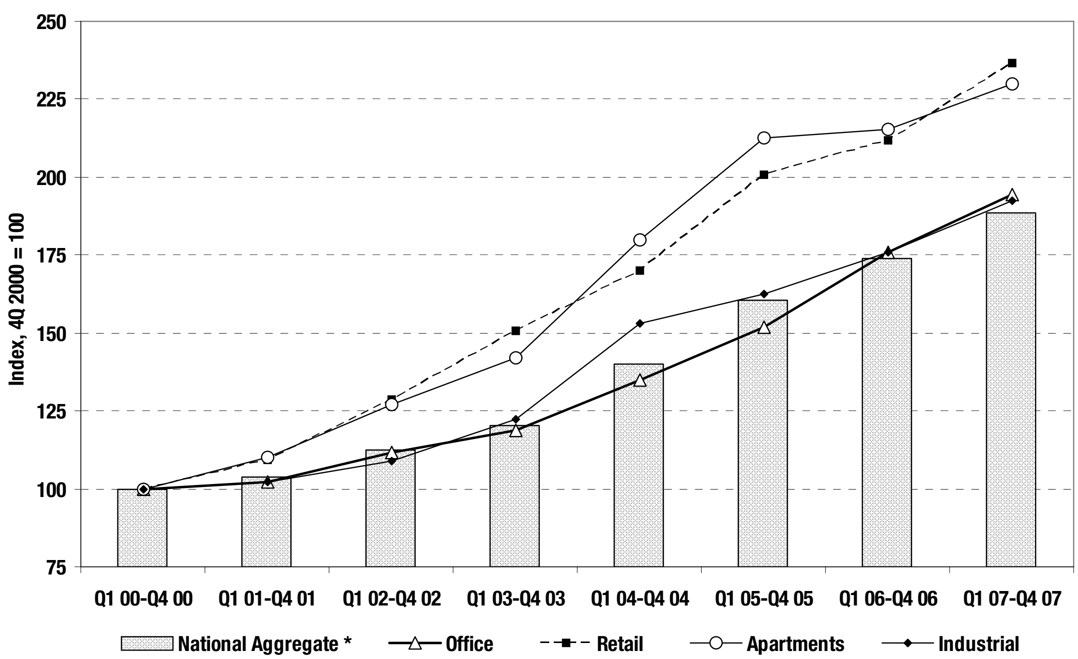
Figure 14

(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

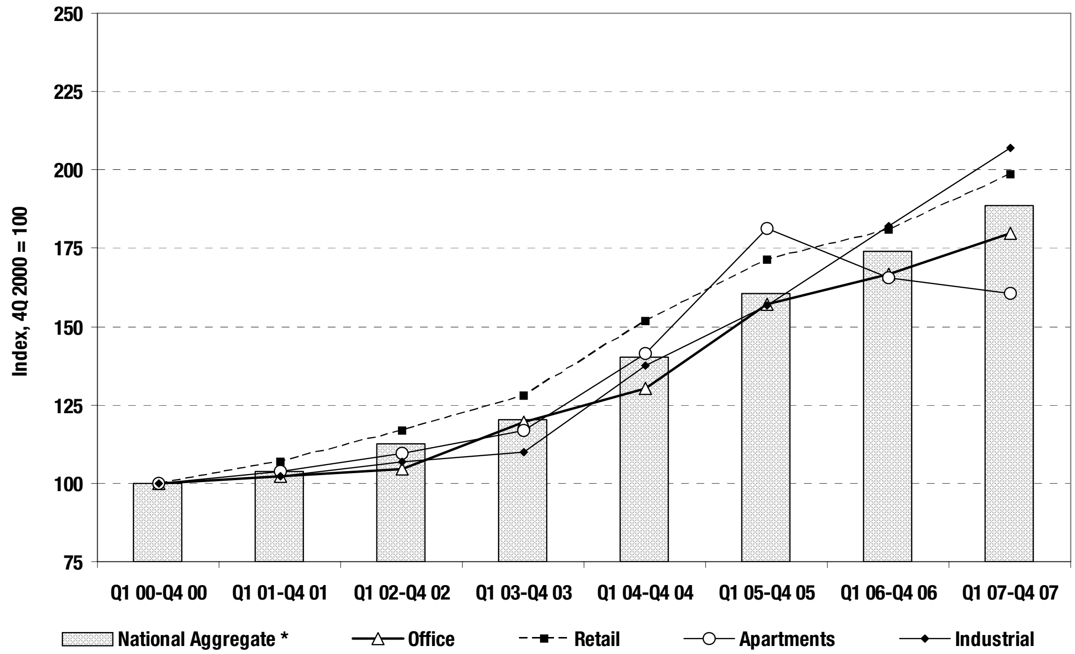
Moody's/REAL CPPI: East -- Property Type Indices



* National aggregate index, like the other series, is as of end of 4Q of each one-year period

Figure 16

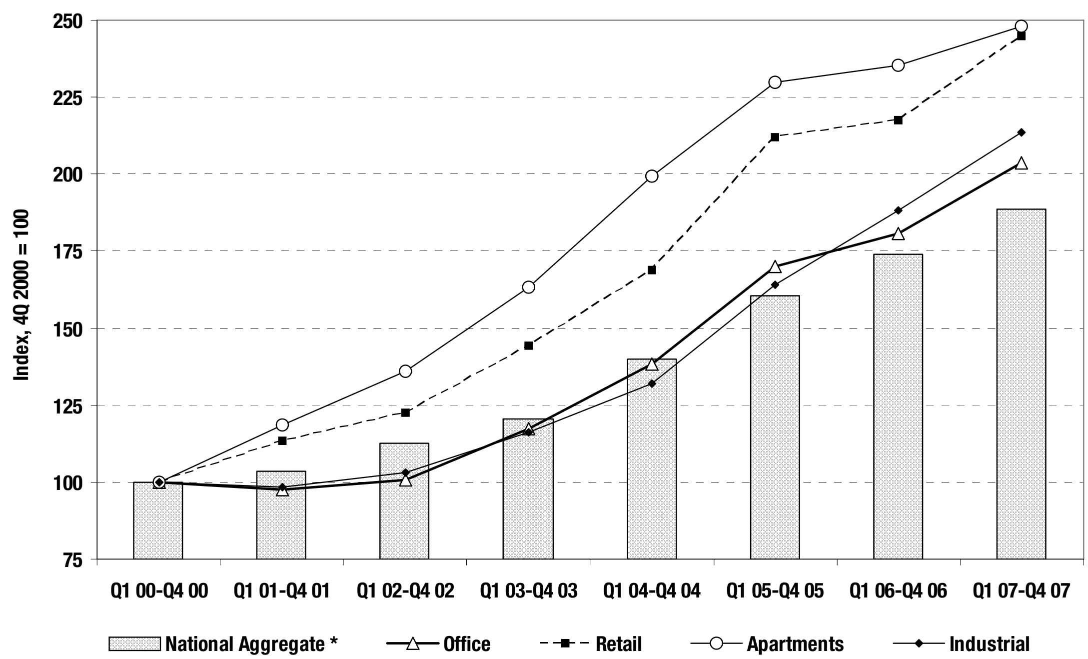
Moody's/REAL CPPI: South -- Property Type Indices



* National aggregate index, like the other series, is as of end of 4Q of each one-year period

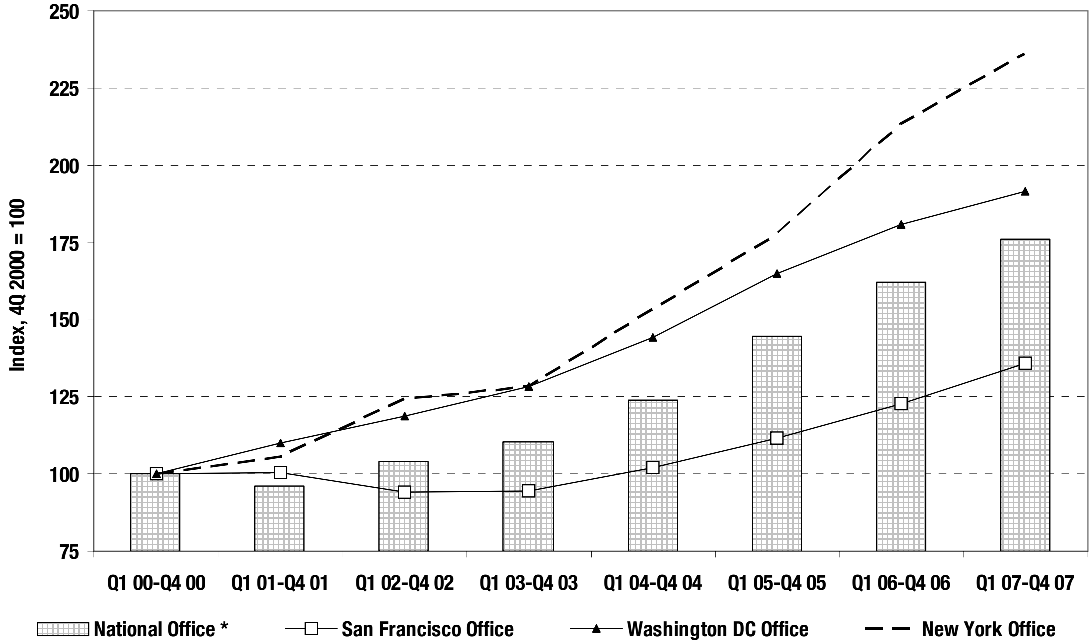
Figure 17

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



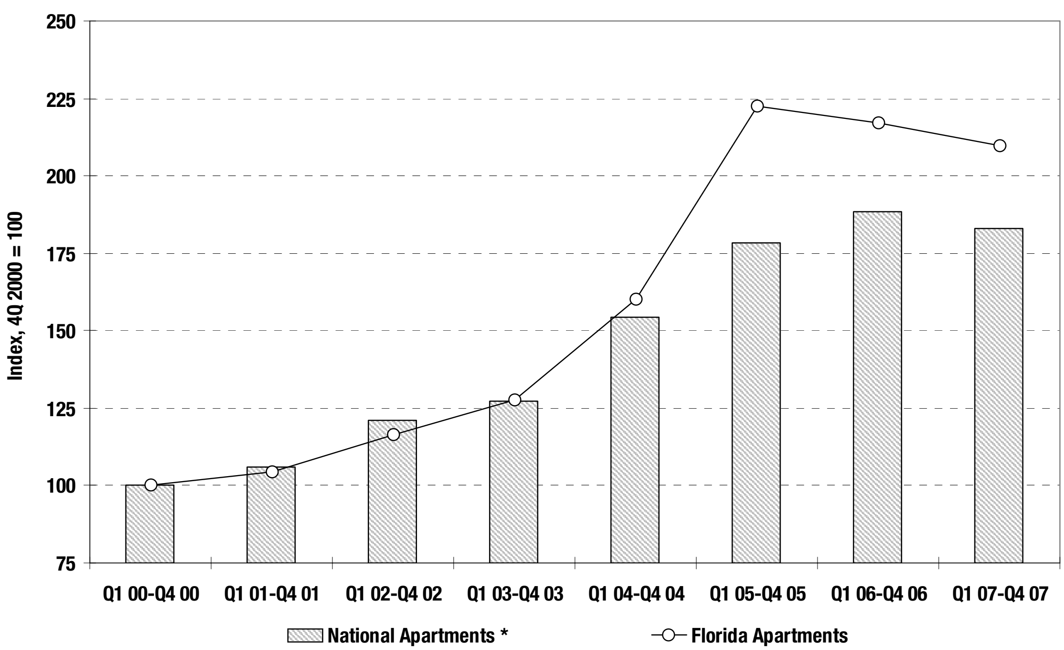
* National aggregate index, like the other series, is as of end of 4Q of each one-year period

Figure 18
Moody's/REAL CPPI: Major Office Markets Indices



* National office index, like the three MSA office series, is as of end of 4Q of each one-year period

Figure 19
Moody's/REAL CPPI: Florida Apartment Index



* National apartment index, like the Florida apartment series, is as of end of 4Q of each one-year period

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