

# Moody's/REAL Commercial Property Price Indices, May 2009

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**OVERVIEW**

In this report, the Moody's/REAL National All Property Type Aggregate Index for March measures 148.07, a decrease of 1.7% from the previous month. The index now stands 20.8% below the level seen a year ago, and is 22.8% below the peak measured in October 2007. The index is 20.0% lower than it was two years ago. This report is based on data through the end of March.

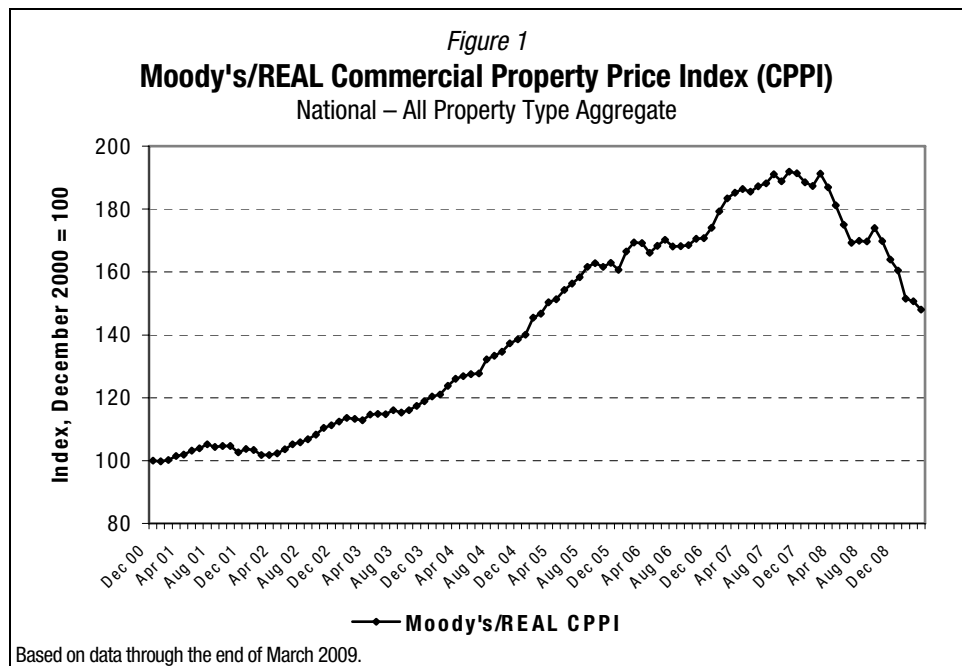


Figure 2

**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

	<b>Current Index<sup>M</sup></b>	<b>1 Month Earlier</b>	<b>1 Year Earlier</b>	<b>2 Years Earlier</b>
National All Property Type Aggregate	148.07	-1.7%	-20.8%	-20.0%
	<b>Current Index<sup>Q</sup></b>	<b>1 Quarter Earlier</b>	<b>1 Year Earlier</b>	<b>2 Years Earlier</b>
National - Apartments	157.56	-0.4%	-16.1%	-19.0%
National – Industrial	165.05	-0.4	-12.3	-9.6
National – Office	123.92	-18.6	-28.8	-27.5
National – Retail	150.09	-12.9	-18.5	-19.4
Top Ten MSAs <sup>1</sup> - Apartments	182.80	-3.1	-16.0	-17.8
Top Ten MSAs- Industrial	185.44	-0.4	-5.3	-3.3
Top Ten MSAs- Office	146.88	-6.8	-13.6	-12.6
Top Ten MSAs- Retail	164.15	-14.0	-16.3	-14.4
West – Apartments	168.98	2.7	-14.3	-12.3
West – Industrial	165.37	-7.9	-7.3	-4.3
West – Office	133.52	-16.2	-17.7	-14.5
West – Retail	176.13	-6.2	-7.3	-8.4
	<b>Current Index<sup>A</sup></b>	<b>1 Year Earlier</b>	<b>2 Years Earlier</b>	
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 March 31, 2009.

Q Quarterly series. Most recent data is through the end of the 1st quarter 2009. 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 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.<sup>1</sup>

### **Notable Observations and Themes**

- The National — All Property Type Aggregate Index measured a 1.7% value decline in March 2009. The index now stands 22.8% below the peak measured in October 2007.
- Looking at sales volume for the market overall (not just repeat sales transactions) shows that both total dollar value and number of sales are down about 75% over the same time last year.
- With a value drop of nearly 20% in the first quarter of 2009, national office prices have now fallen 30% from the peak. National retail properties saw values fall 13% in the first quarter, while apartment and industrial prices remained relatively flat.
- Retail in the top ten MSAs was the underperformer in this sector, with prices falling 14% in the first quarter of 2009.
- Western apartment prices saw a slight gain in the first quarter of 2.7%. Office was hardest hit in the West with values falling over 16% in the first quarter, the single largest drop to date for this sector.

<sup>1</sup> 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.

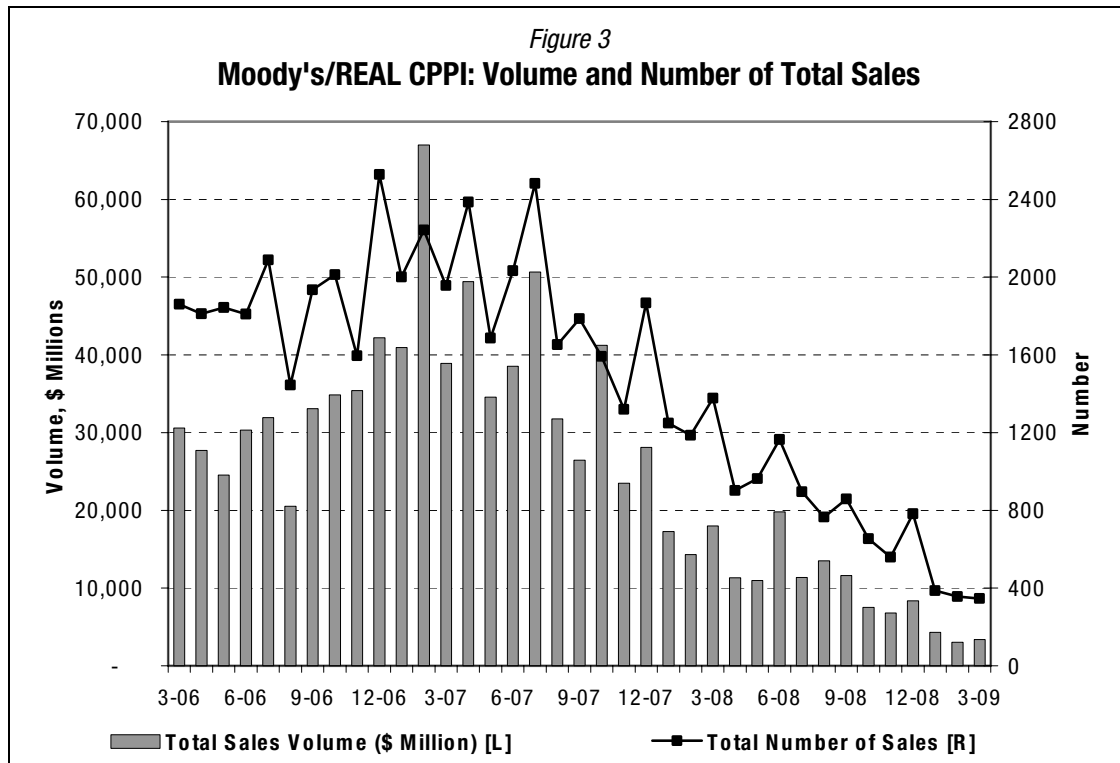
## NATIONAL – ALL PROPERTY TYPE AGGREGATE INDEX: TOTAL SALES VOLUME IN THE MARKET DOWN 75% YEAR-OVER-YEAR

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

Moody's/REAL CPPI measured a value decline of 1.7% in March as compared to February. The index now stands 22.8% below the peak measured in October 2007, and prices have declined in 14 of the 17 months since. We expect to see further price declines through 2009 and into 2010.

### Total Sales Activity in the Overall Market

The chart below represents the dollar volume and number of sales in the **overall market** (rather than tracking volume for repeat sales observations only, as seen in previous reports). The population of repeat sales observations, on which the indices are calculated, is a sample of the overall market. Reporting the numbers of repeat-sales observations gives readers an idea of how the sample sizes compare to the threshold requirements, while tracking total sales volume gives a better understanding of trends in the wider marketplace.

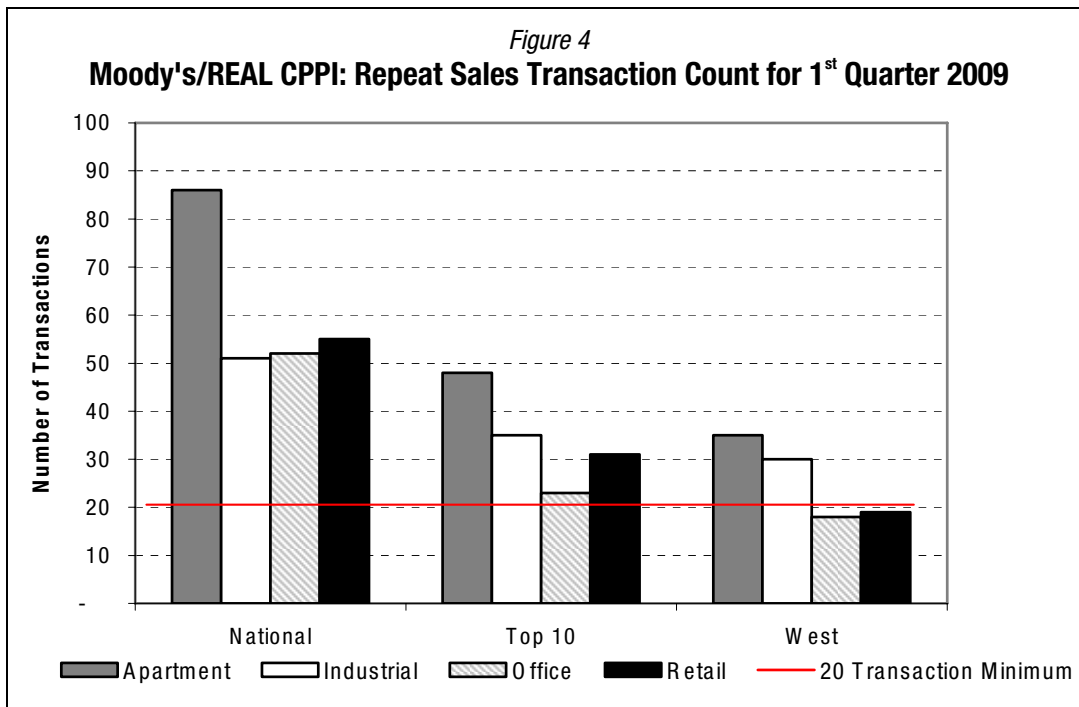


Although the total dollar volume of sales saw a slight uptick in March as compared to February, by count there were fewer sales recorded in March than the month before. There were 347 transactions in March totaling \$3.4 billion, as seen in *Figure 3*. Of those, 82 were repeat sales transactions with a dollar value of \$1.1 billion.

Total sales in March of 2009, by count and dollar, are 75-80% lower than the volume seen in March of last year. We expect continued weakness and possibly further declines in volume in the coming months.

## Repeat Sales Observations in the Quarterly Indices

Transaction volume in the quarterly indices has fallen significantly in the first quarter of 2009 as compared to the end of 2008. For the first time since the publication of this report, the repeat-sales transaction count for certain sub-indices has fallen below the minimum threshold necessary for calculating the index.



In the first quarter of 2009, both retail and office in the West have fallen slightly below the criterion sample size thresholds stipulated in the index production protocols, as seen in *Figure 4*. The criterion threshold for quarterly indexes is 20 observations, and in the first quarter of 2009 there were only 19 in West Retail and 18 in West Office. The procedure put in place by Moody's/REAL and outlined in the MIT white paper to handle this type of event is to combine the subject index with the same sector (property type) index at the next higher level of geographic scope (in this case National Retail or Office), weighting the subject index return in proportion to its number of observations relative to the threshold and the next higher index return in proportion to the number of observations required to fill in the threshold number of observations for the subject index.<sup>2</sup>

Thus, the western retail index was calculated in the following manner: Western Retail Return =  $(19/20) \times (\text{Original Western Retail Return}) + (1/20) \times (\text{National Retail Return})$ . The western retail return that results from this calculation becomes the official return and will be frozen in the history going forward. The official return for office in the West is calculated in the same way (only with the weights being 18/20 and 2/20).

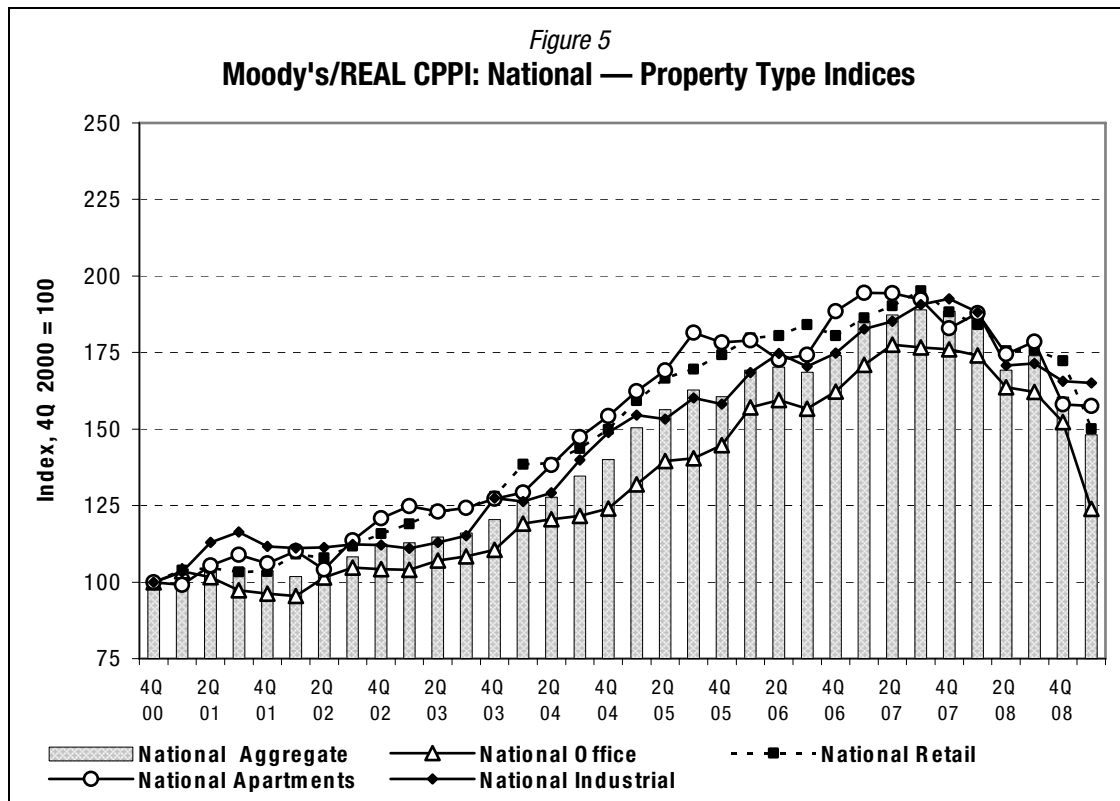
<sup>2</sup> Please see the MIT Methodology White Paper, Section 6.2, for further details. David Geltner and Henry Pollakowski. *A Set of Indexes for Trading Commercial Real Estate Based on the Real Capital Analytics Transaction Prices Database*. MIT Center for Real Estate. Sept. 26, 2007.

## NATIONAL – PROPERTY TYPE INDICES: OFFICE PRICES DOWN 30% FROM THE PEAK

The National – Property Type Indices for the four major property types are a quarterly series, and this report is based on data through the first quarter 2009.

On a national level, two of the four major property types experienced essentially no movement in prices, while the other two saw significant declines in the first quarter of 2009.

Apartment prices remained relatively flat in the first three months of 2009 in the nation overall, with a return of -0.4%. However, this relatively mild decline followed an almost 12% drop in prices seen last quarter, and the national apartment market is down over 16% since the same time last year.

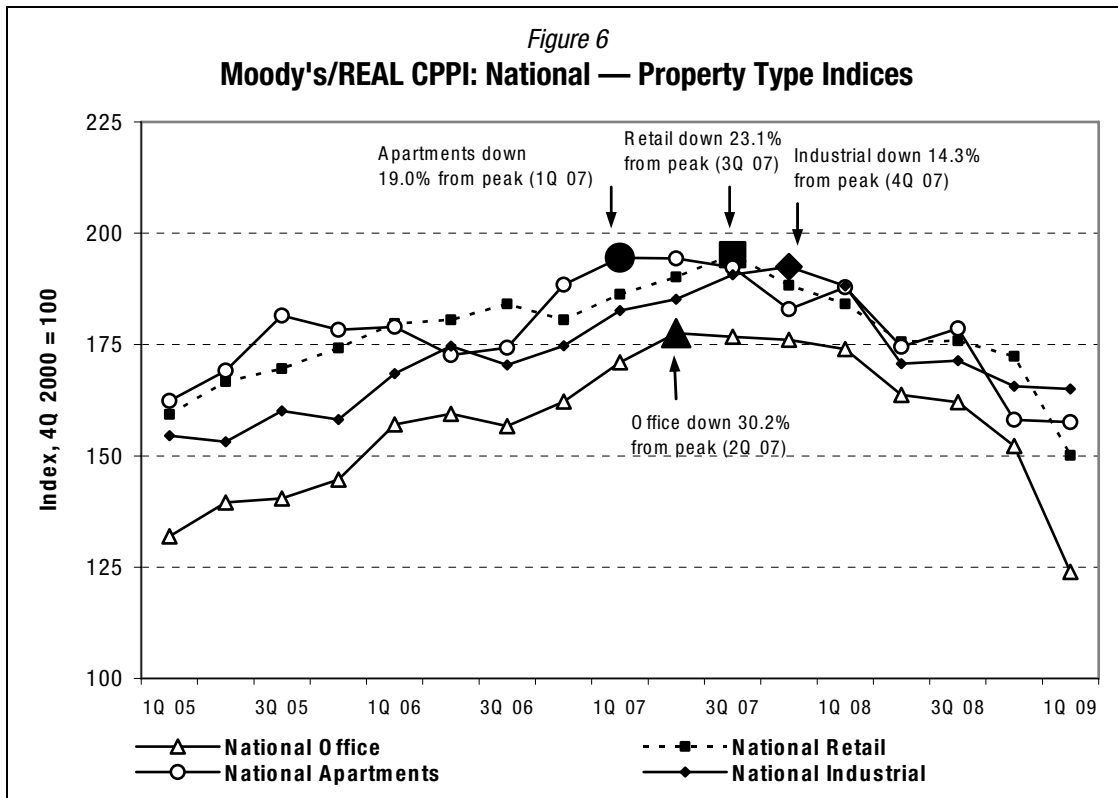


Industrial saw a 0.4% decrease in prices in the first quarter as well. While industrial did experience significant drops in 2008 and is down over 12% since last year, thus far it is faring the best in the nation of the four property types.

The national retail market saw a nearly 13% drop in prices in the first quarter of 2009. Coupled with the more mild declines seen in the past three quarters, the retail market is now down nearly 19% since the first quarter of 2008.

Office was the worst performing sector in the nation, and of all the quarterly indices covered in this report. Office property prices fell 18.6% in the first quarter of 2009. That brings the total value decline over the past year for national office properties to almost 29%.

With the large declines in value measured in this past quarter, office and retail are now the worst performers in the nation thus far, during this downturn.

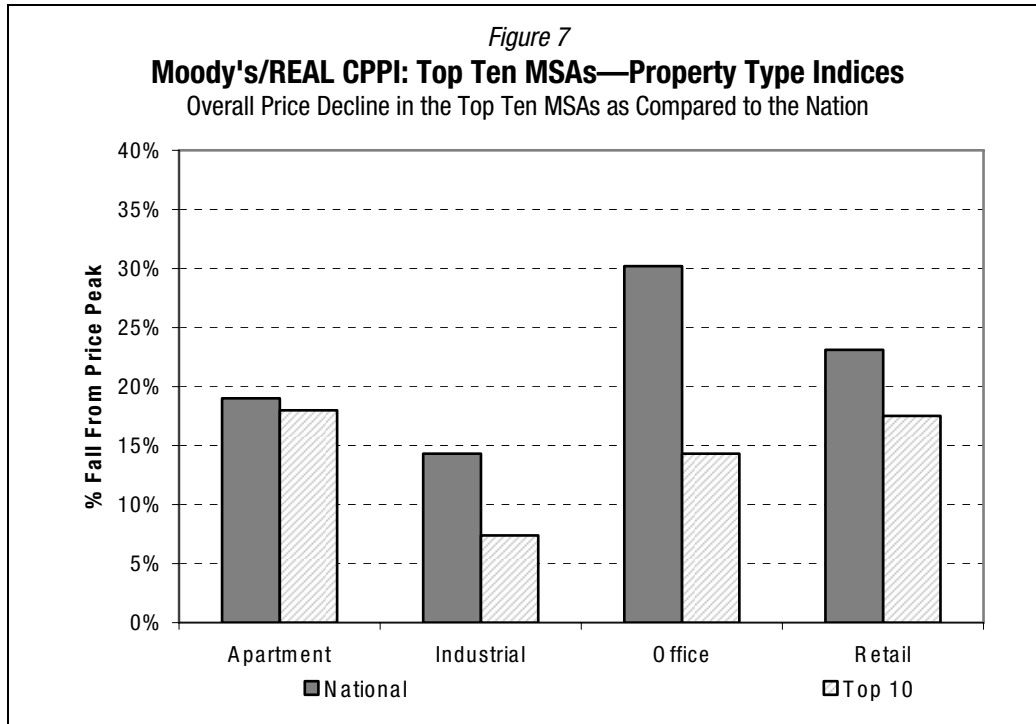


The run-up in prices from the beginning of 2005 to the peak was highest for office properties, and this sector has fallen furthest, with a value decline of over 30%, as seen in *Figure 6*. Retail prices in the nation have fallen over 23% from the peak. The national apartment market, which peaked earliest and has seen the most ups and downs of the four property types, has now declined 19% overall. Industrial prices were the last to peak in the nation. The best performer thus far, national industrial prices are down more than 14% from the peak.

## TOP TEN MSAS – PROPERTY TYPE INDICES: THE FOUR PROPERTY TYPES OUTPERFORM THE NATION OVERALL

This series is based on the ten MSAs which are home to the most transactions by dollar volume in each property type.<sup>3</sup> 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 first quarter of 2009.

Thus far into the downturn of the cycle, the top ten markets for each property type have not seen values fall as far as the nation overall, as seen in *Figure 7*.

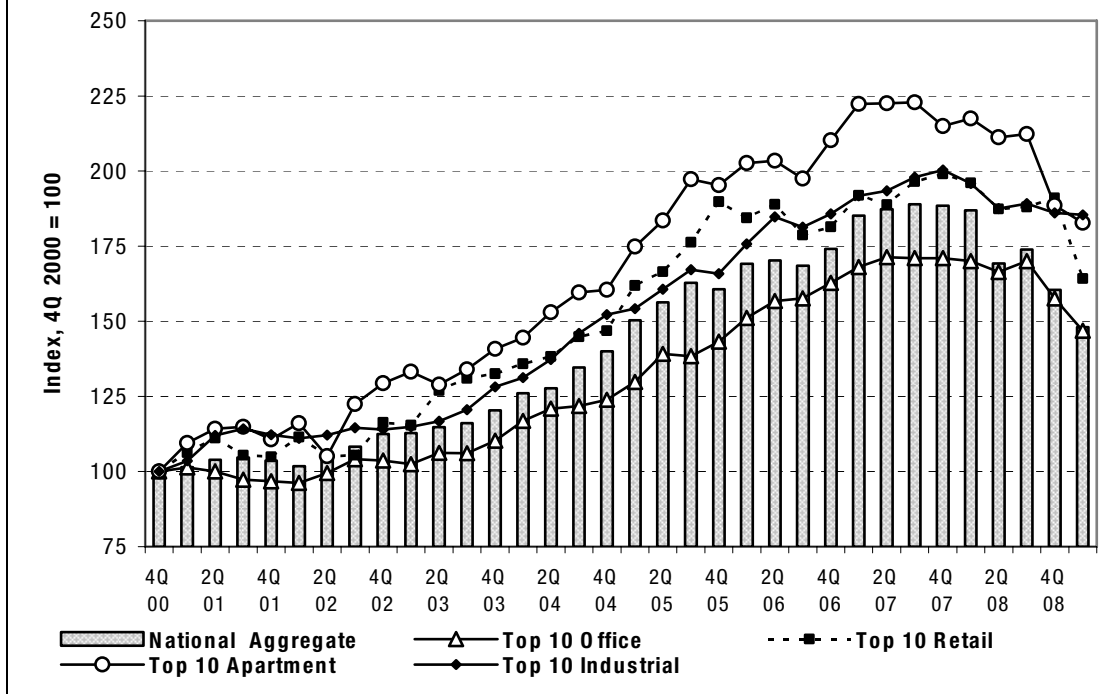


Industrial in the top ten cities was the strongest performing sector for the first quarter of 2009, with virtually no movement in prices. Industrial prices are down 5.3% over the same time last year, and 7.4% since the peak was measured in the fourth quarter of 2007. The industrial sector in the top ten cities is the strongest performer of the quarterly indices covered in this report, inasmuch as it has exhibited the lowest overall price decline since the beginning of the downturn.

Top ten office prices experienced a decline of 6.8% this quarter as compared to last, significantly outperforming the nation, which saw prices fall nearly three times as much over the same time period. Office prices in the top ten cities peaked at the same time as the nation, the second quarter of 2007, but thus far have fallen less than half as much, 14.3% as compared to 30.2% for the nation.

<sup>3</sup> 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 Moody's.com > Structured Finance > Commercial MBS > CRE Indices.

Figure 8  
**Moody's/REAL CPPI: Top Ten MSAs—Property Type Indices**



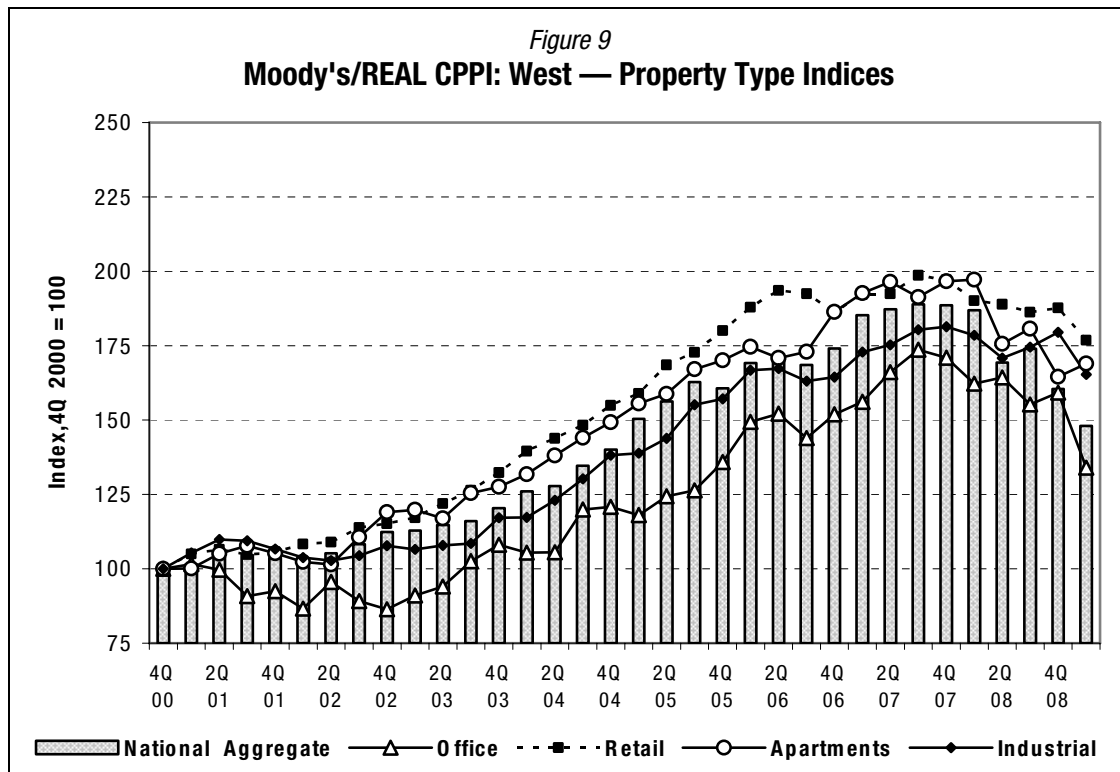
Top ten retail prices fell 14.0% in the first quarter of 2009, slightly underperforming the nation, which fell 12.9% over the same time period. The value of retail properties in the top ten cities peaked one quarter after the nation, in the fourth quarter of 2007. Whereas retail prices in the nation have now fallen 23.1% from the peak, top ten prices are faring better, with an overall decline of 17.5%.

Apartment prices in the top ten cities also underperformed the nation in the first quarter, with a decline of 3.1%. Annually, prices have fallen 16%, with a total decline of 18% from the peak, measured in the third quarter of 2007. The overall price drop in the top ten cities tracks the movement of prices in the national market most closely for the apartment sector, as seen in *Figure 7*.

## WESTERN REGION – PROPERTY TYPE INDICES: LIKE THE NATION OVERALL, OFFICE MARKET IS HARDEST HIT

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 first quarter of 2009.<sup>4</sup>

Three of the four property types in the West saw prices fall in the first quarter of 2009. The western apartment market was the strongest performer with a value increase of 2.7%. This increase only minimally offsets the declines seen in previous quarters however, and overall apartment prices are down more than 14% from the peak. Apartment prices in the West peaked one full year after the nation as a whole, in the first quarter of 2008.



Price movement in industrial properties in the West has been quite volatile since its peak in the last quarter of 2007. After falling significantly for two quarters, prices managed to climb back nearly to the previous peak level in the following two quarters. The value drop of 7.9% in prices this month represents the largest one quarter drop for industrial prices in the West thus far. Although the West underperformed the nation in this sector this month, it outperforms relative to the overall measure of an 8.8% price decline from the peak.

Western retail outperformed the nation as well. In the first quarter of 2009 retail prices fell less than half as much in the West as in the nation overall, 6.2% as compared to 12.9%. Retail prices in the nation and in

<sup>4</sup> 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 West peaked in the third quarter of 2007, but where prices nationally are down 23% overall, prices in the West have held up better, falling only 11% thus far.

Office was the hardest hit sector in this region, with prices falling nearly 16% in the first quarter of 2009 alone. Western office peaked in the third quarter of 2007 and with an overall value decline of almost 23%, office properties are the worst performers in this market.

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 10, 11, and 12*).
- 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 13 – 17*).

## APPENDIX

*Figure 10*  
**CPPI: Report Release Cycle, 2009 & 2010**

	<b>APRIL</b>	<b>MAY</b>	<b>JUNE</b>
	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
	<b>JULY</b>	<b>AUGUST</b>	<b>SEPTEMBER</b>
	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
	<b>OCTOBER</b>	<b>NOVEMBER</b>	<b>DECEMBER</b>
	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
	<b>JANUARY</b>	<b>FEBRUARY</b>	<b>MARCH</b>
	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 11

**(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 12

**(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 13  
**Moody's/REAL CPPI: East — Property Type Indices**

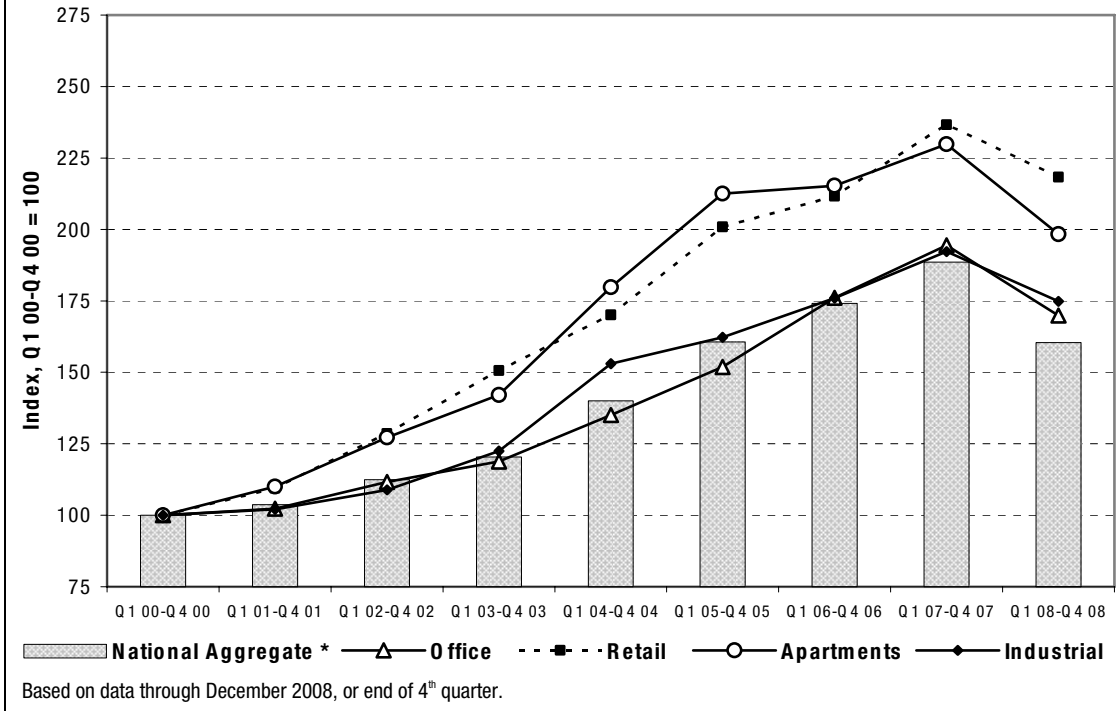


Figure 14  
**Moody's/REAL CPPI: South — Property Type Indices**

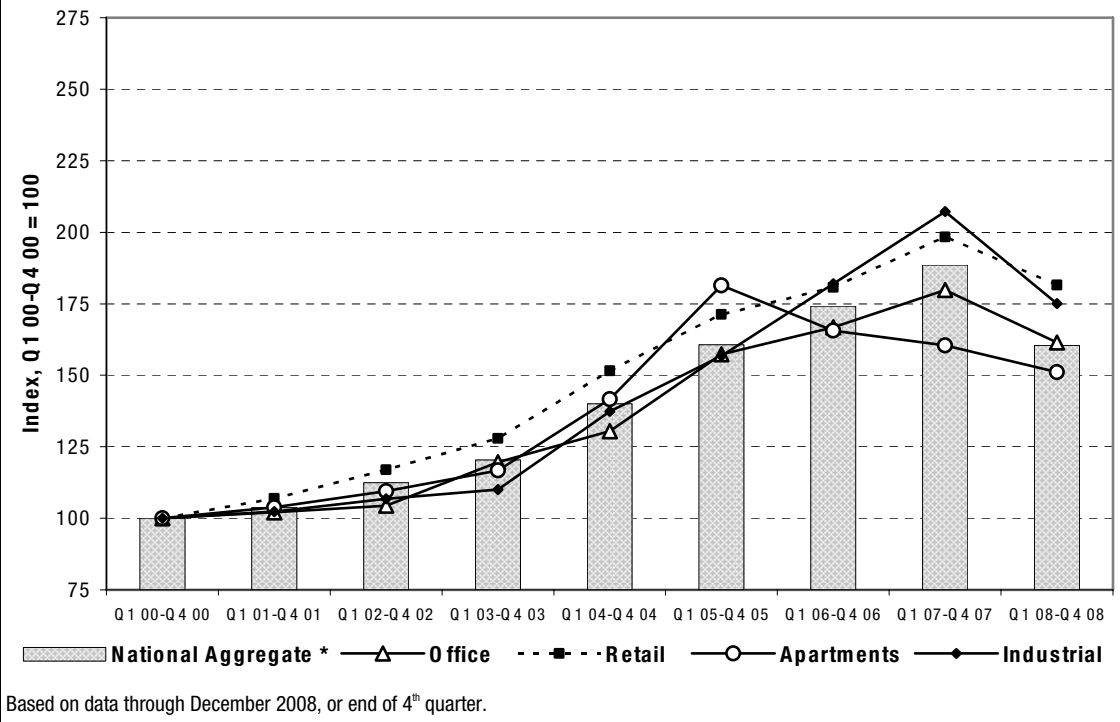


Figure 15  
**Moody's/REAL CPPI: Southern California—Property Type Indices**

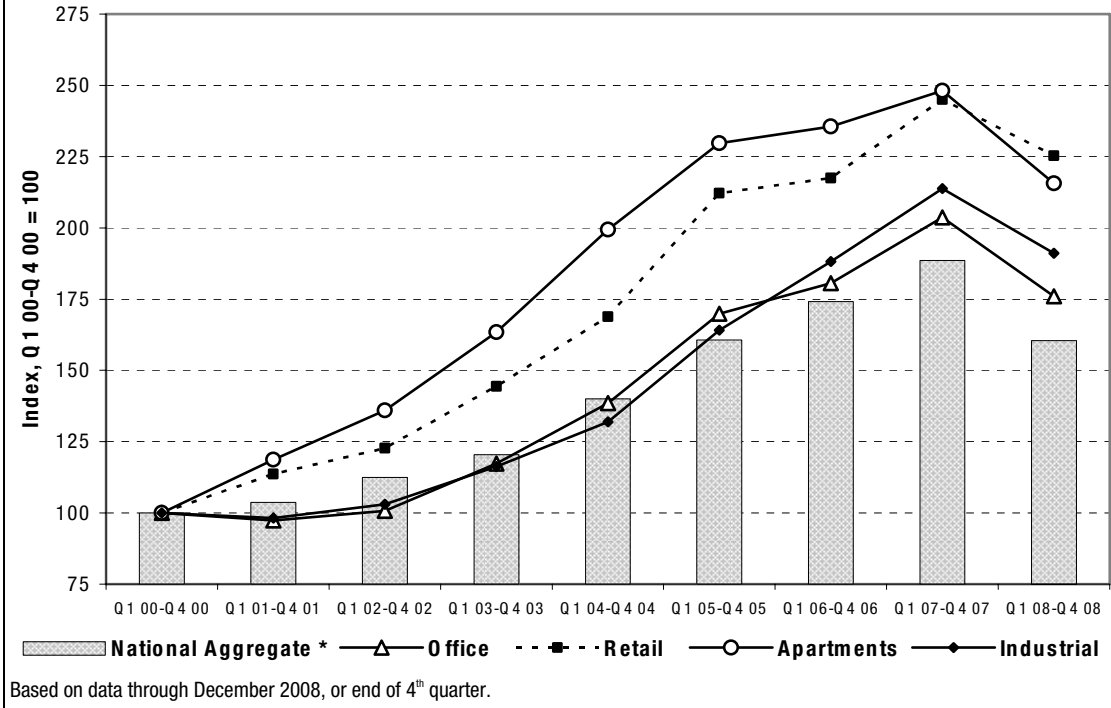


Figure 16  
**Moody's/REAL CPPI: Major Office Markets Indices**

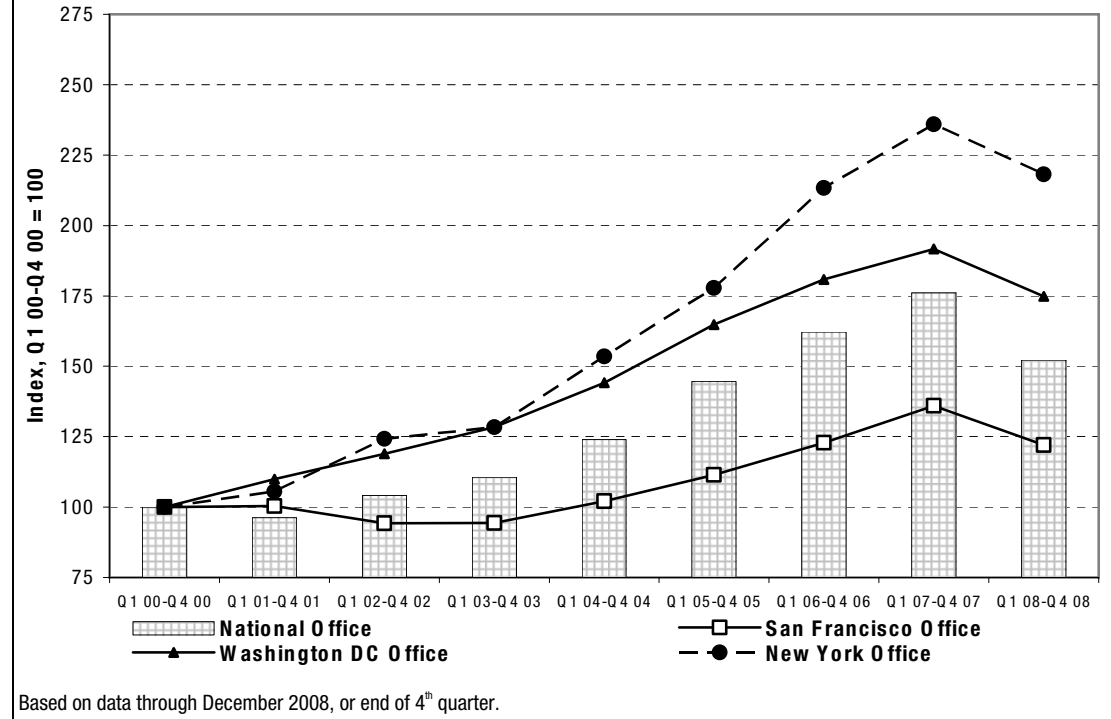
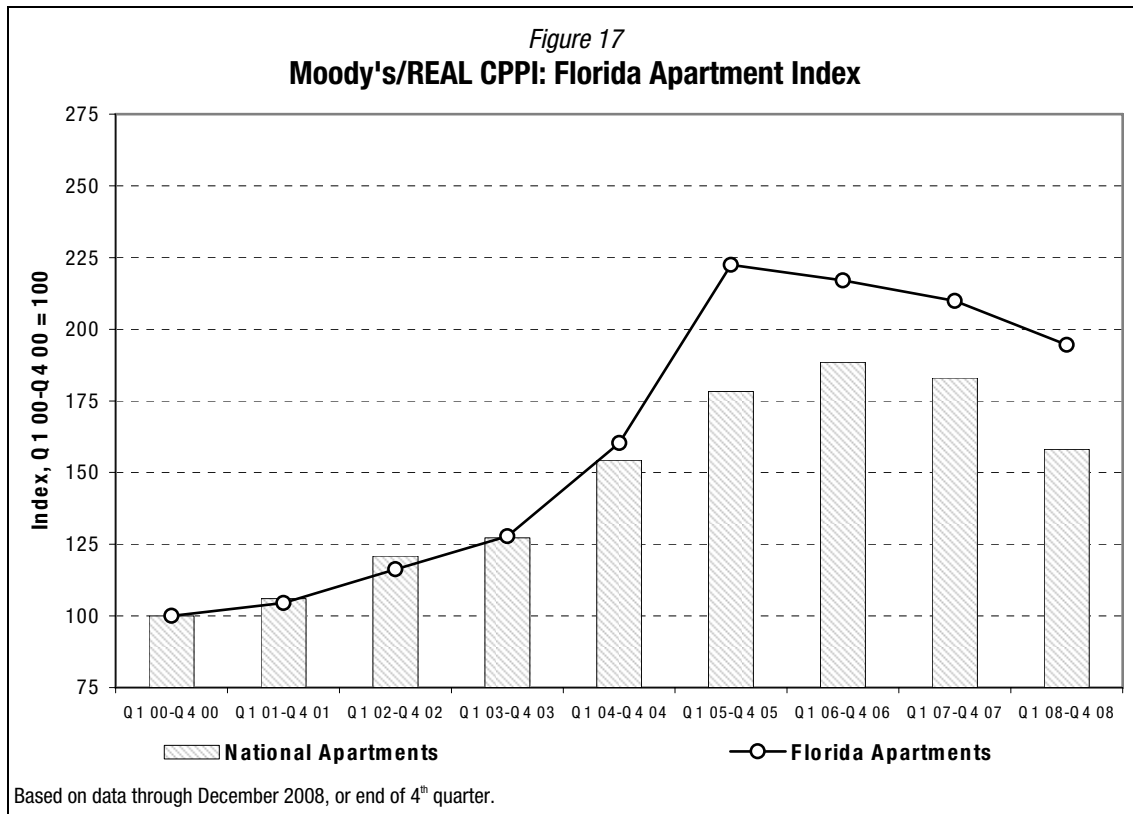


Figure 17  
**Moody's/REAL CPPI: Florida Apartment Index**



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