

SPECIAL REPORT

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

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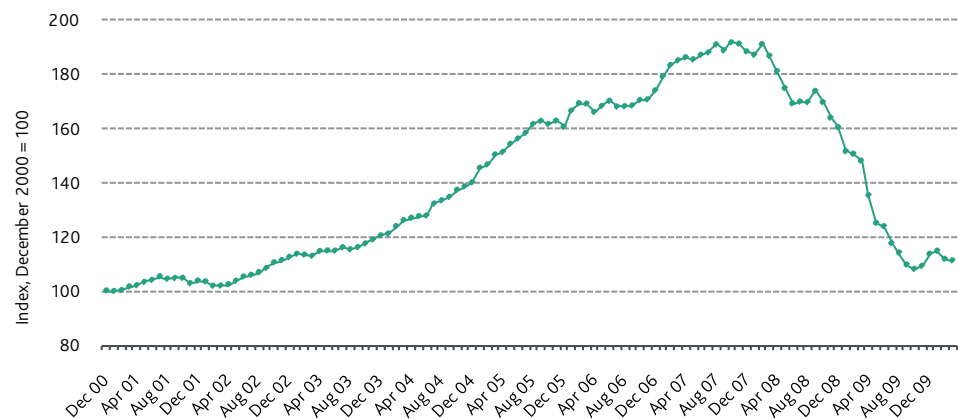
Overview

The Moody's/REAL All Property Type Aggregate Index measured a 0.5% price decline in March, marking a second month of falling values after a slight rebound reported earlier this year. The index now stands at 111.16, down 24.9% from a year ago and 40.5% from two years ago. Prices peaked in October 2007, and at their lowest point thus far in the downturn (October 2009) they had fallen 43.7%. As of the end of March, commercial property prices are down 42.1% 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 March 2010.

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	111.16	-0.5%	-24.9%	-40.5%
	CURRENT INDEX ^Q	1 QUARTER EARLIER	1 YEAR EARLIER	2 YEARS EARLIER
National - Apartments	130.01	3.3%	-17.5%	-30.8%
National – Industrial	128.33	0.8	-22.2	-31.8
National – Office	118.26	-3.2	-4.6	-32.0
National – Retail	133.01	-4.7	-11.4	-27.8
Top Ten MSAs ¹ - Apartments	148.48	4.1	-18.8	-31.7
Top Ten MSAs- Industrial	141.89	4.8	-23.5	-27.5
Top Ten MSAs- Office	124.90	-7.2	-15.0	-26.5
Top Ten MSAs- Retail	125.83	-19.3	-23.3	-35.8
West – Apartments	147.28	-0.2	-12.8	-25.3
West – Industrial	151.79	-0.2	-8.2	-15.0
West – Office	118.30	-0.2	-11.4	-27.1
West – Retail	141.20	-9.8	-19.8	-25.7
	CURRENT INDEX ^A	1 YEAR EARLIER	2 YEARS EARLIER	
East – Apartments	168.33	-15.1%	-26.7%	
East – Industrial	135.79	-22.3	-29.4	
East – Office	119.47	-29.6	-38.6	
East – Retail	169.32	-22.4	-28.4	
South – Apartments	77.33	-48.8	-51.8	
South – Industrial	126.12	-28.0	-39.1	
South – Office	119.28	-26.1	-33.7	
South – Retail	128.42	-29.3	-35.3	
So. California – Apartments	196.64	-8.8	-20.8	
So. California – Industrial	143.48	-24.9	-32.9	
So. California – Office	132.37	-24.8	-35.0	
So. California – Retail	199.22	-11.6	-18.7	
New York – Office	146.76	-32.7	-37.8	
San Francisco – Office	93.53	-23.4	-31.2	
Washington DC – Office	129.39	-26.0	-32.5	
Florida – Apartments	120.60	-38.0	-42.5	

M Monthly series. Most recent data is through March 31, 2010.

Q Quarterly series. Most recent data is through the end of the 1st quarter 2010. 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 2009. Analysis is based on data from four quarters (1Q09, 2Q09, 3Q09 and 4Q 09). Given that the measure is of a rolling four-quarter period, data as of the end of the 4th 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 0.5% decline in March. This is the second consecutive monthly decline after three months of price gains. Prices, however, are still 2.9% above the recession low recorded in October 2009.
- » The national property type indices had a mixed start to 2010. Two of the indices recorded small positive gains, while two of them recorded value declines.
- » The composition of the Top Ten Indices has been updated. Six MSAs are included in all four property type indices: Atlanta, Chicago, Los Angeles, New York, San Francisco and Washington DC.
- » Three of the four property types in the West saw virtually no price movement over the past quarter. The exception is retail, where values declined nearly 10%.

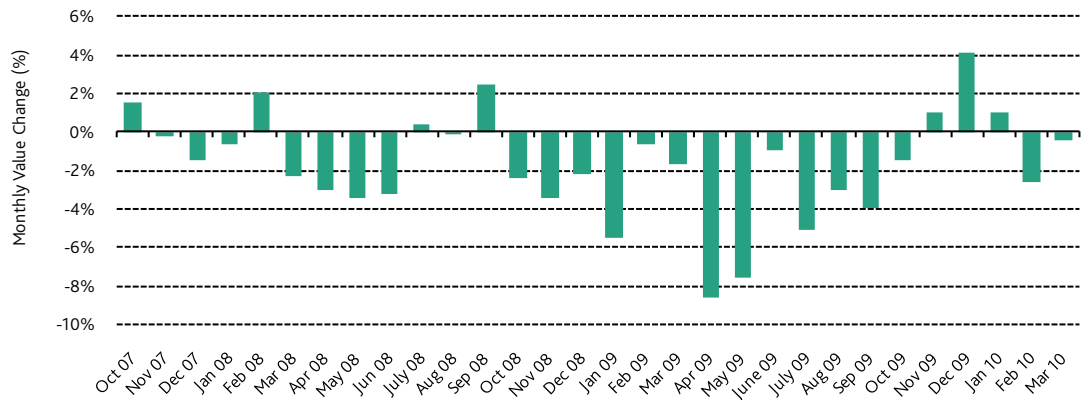
¹ A summary or short version of the repeat sales methodology is available in a Moody's Special Report. [US CMBS: Moody's Publishes the First Commercial Property Price Indices Based on Commercial Real Estate Repeat Sales Data](#). Sept. 19, 2007. This is available on Moodys.com > Research & Ratings > 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 March 31, 2010. Refer back to Figure 1.

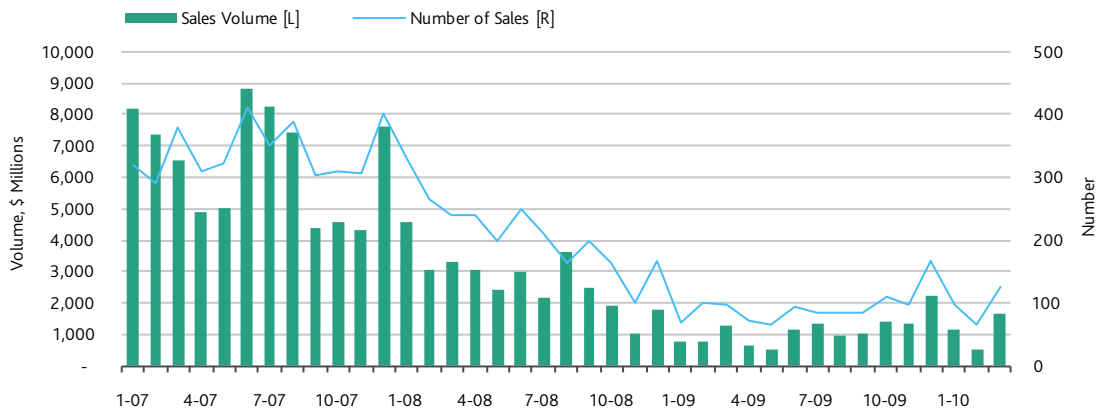
Commercial property prices have been hovering in a range 40-44% below peak levels for the past eight months. This month's 0.5% decline puts values 42.1% below the peak—the same level seen seven months ago in September 2009. Even though the price gains seen late last year and early this year were not sustained, the National—All Property Type Aggregate Index is still 2.9% above its recession low in October 2009.

FIGURE 3
Moody's/REAL CPPI: Monthly Value Changes



Repeat-sales transaction volume spiked in March after dipping to very low levels in February. The number of repeat-sales transactions nearly doubled, while the dollar volume of sales more than tripled. 127 repeat-sales observations totaling nearly \$1.7 billion were used in calculating the monthly index.

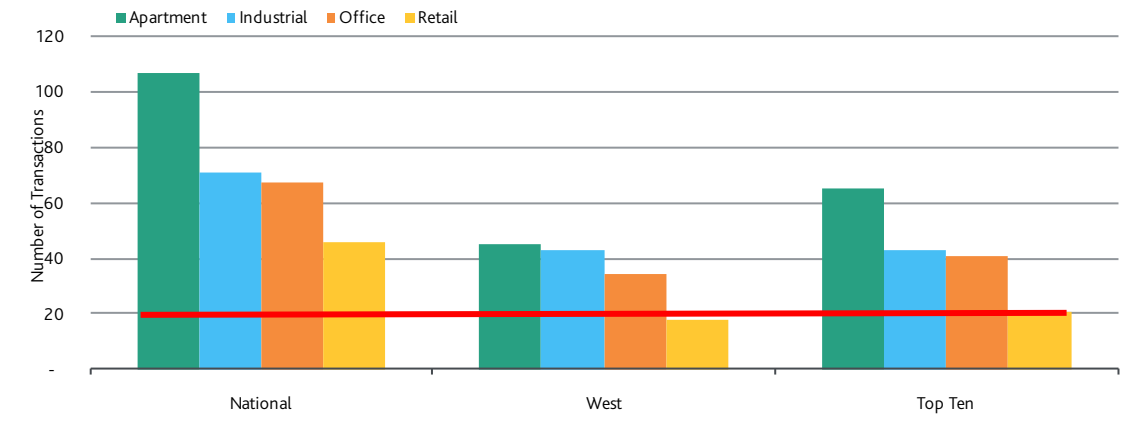
FIGURE 4
Moody's/REAL CPPI: Volume and Number of Repeat-Sales Transactions



Although March's sales numbers show signs of improvement, the repeat-sales transaction volume for the first quarter of 2010 dipped below the 20 observation threshold for one of the quarterly indices.

FIGURE 5

Moody's/REAL CPPI: Repeat-Sales Transaction Volume for the Quarterly Indices



The retail sector in the western region saw less than 20 repeat-sales in the first quarter of 2010. The procedure put in place by Moody's/REAL was discussed in the May 2009 report and is outlined in more detail in the MIT white paper.² The index return that results from this calculation becomes the official return and will be frozen in the history going forward.

² 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 Price Database*. MIT Center for Real Estate. Sept. 26, 2007.

Out-of-Bounds Phenomenon

As can be seen in Figure 2, the annual return for the aggregate index is -24.9%. Although they cover the same period of time, the annual returns on the national property type indices range from -4.6% to -22.2%. This out-of-bounds phenomenon has persisted through most of 2009 and now into 2010, and further analysis has uncovered the following explanation.

The out-of-bounds phenomenon is caused by the quarterly indices picking up and including some late-arriving sales observations not included in the monthly index, with those late-arriving observations tending to perform relatively better during the recent downturn. For the monthly return, there is always a six-week time period between the end of the month being calculated, and the date of calculation (for example, we calculated the January 2010 return in mid-March 2010). These index returns are frozen. If we gather information after mid-March on an additional sale which closed in January, it will be included in our dataset and used in the calculation of the quarterly index—since those indices were calculated in mid-May. That means that the quarterly indices will, by construction, always contain more repeat-sales observations for the three months in any given quarter than the monthly index will when calculated for the three individual months of that quarter.

The late-arriving “extra” observations in the quarterly indices have a higher proportion of smaller properties, and also include a high percentage of properties that tended to be purchased by users (as opposed to investors). Smaller properties and user-purchased properties tended to do better than the average CPPI property during the recent downturn. One probable reason is that smaller properties had greater liquidity than larger properties during the worst parts of the downturn, when the only financing available was from banks making relatively small loans to relationship borrowers. Such relatively favorable access to capital would have also applied to user-purchaser deals during the worst of the downturn. The out-of-bounds phenomenon did not manifest itself in any given quarter, but appeared in the cumulative annual returns due to statistical noise in individual sectoral quarterly returns. The noise in any one sectoral index caused a wider dispersion in returns across sectors within any given quarter but then tended to be corrected across adjacent quarters.

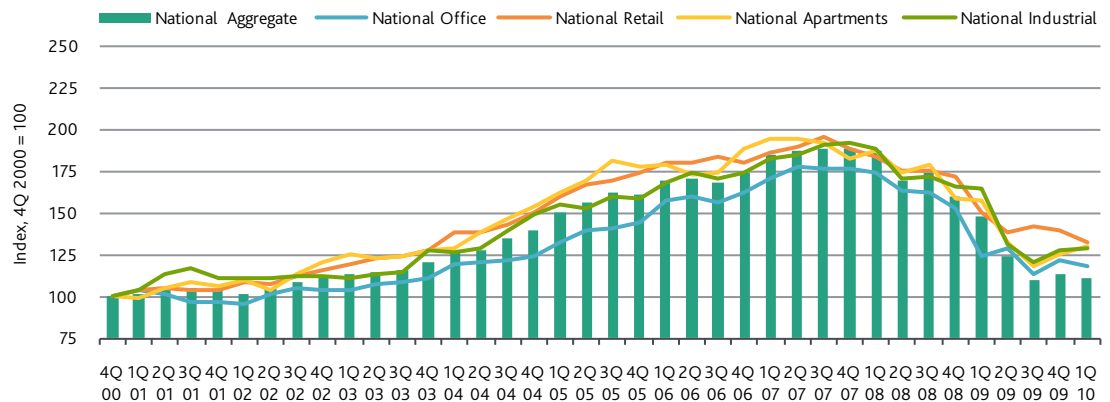
If we were to recalculate the monthly index using the late-arriving observations, the out-of-bounds phenomenon would most likely disappear (although it may sporadically pop up temporarily as it is in small part due to statistical noise in the individual sectoral returns).

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 first quarter of 2010.

The national property type indices had a mixed start to 2010. Two of the indices recorded small positive gains, while two of them recorded value declines. Interestingly, the two indices that recorded negative results in the first quarter have had the best performance of the four property types in the past year.

FIGURE 6
Moody's/REAL CPPI: National—Property Type Indices



Based on data through March 2010 or end of 1st quarter.

The national retail index had the largest decline of the four main property types in the first quarter, dropping 4.7%. In the prior three quarters, national retail had a minimal change in its index level. This change in the index is the largest movement since the decline that occurred in the second quarter of 2009. In the past year retail prices have fallen 11.4%.

Office, similar to retail, had a negative change in value this past quarter, falling 3.2%. Unlike retail, the office index had choppy returns in prior quarters, alternating between positive and negative price movements. In the past year, national office has been the best performing property type, with prices declining only 4.6%.

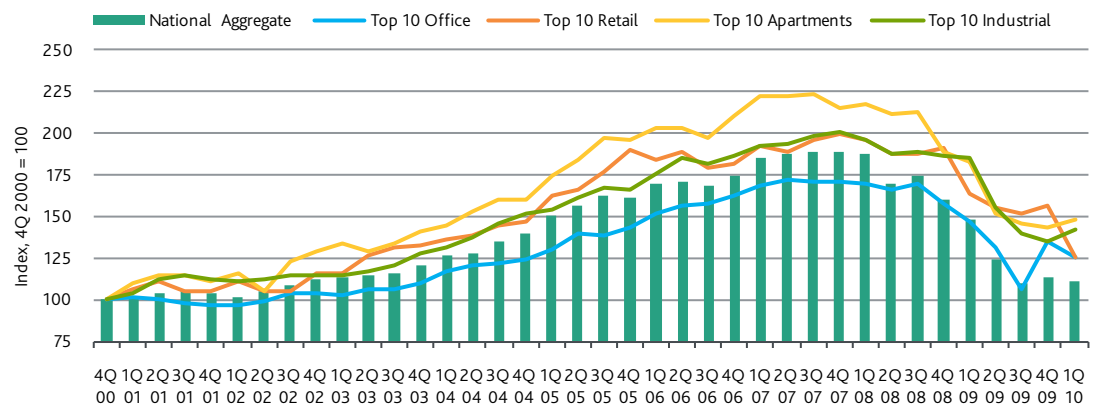
Apartment and industrial buildings, unlike the other two property types, both increased in value in the first quarter. In addition, this is the second consecutive quarter of price increases for both property types. In the past three months, industrial properties increased by 0.8% in value. However, in the past year, industrial is the worst performer of the major property types, declining 22.2%. Apartment buildings had the largest gain in value in the first quarter, increasing 3.3%. Even though it had the largest increase in the first quarter of 2010, apartment prices have had the second worst performance of the property types in the past year, dropping 17.5%.

Top Ten MSAs — Property Type Indices

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 2010.

FIGURE 7

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



Based on data through March 2010 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 and white paper 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.

The 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 2010. In other words, the previous report of this series, released in February, was based on data through the fourth quarter of 2009 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 2010, is based on the “new” list.

Six MSAs are represented among the Top Ten in all property types: **Atlanta, Chicago, Los Angeles, New York, San Francisco** and **Washington DC** (see Figure 8). Previously, six cities were also included in all four property types, but that group included Dallas, which has since dropped out for the retail sector. Chicago can now be included in this list, since it was added into the apartment sector.

FIGURE 8

Top Ten Cities by Property Type

APARTMENT	INDUSTRIAL	OFFICE	RETAIL
Atlanta	Atlanta	Atlanta	Atlanta
Chicago	Boston	Boston	Chicago
Dallas	Chicago	Chicago	Denver
Houston	Dallas	Dallas	Houston
Los Angeles	Los Angeles	Houston	Los Angeles
New York	New York	Los Angeles	New York
Raleigh Durham	Phoenix	New York	Phoenix
San Francisco	San Francisco	San Francisco	San Francisco
Seattle	Seattle	South Florida	South Florida
Washington DC	Washington DC	Washington DC	Washington DC
NEWLY INCLUDED	NEWLY INCLUDED	NEWLY INCLUDED	NEWLY INCLUDED
Chicago	Boston	South Florida	Denver
Raleigh Durham	Phoenix		
DROPPED	DROPPED	DROPPED	DROPPED
Phoenix	San Diego	Seattle	Dallas
South Florida	South Florida		

Impact of Changing Composition of Top Ten Cities

The difference in the change in prices in the Top Ten cities as a group, represented by the “old” and “new” set of cities, showed more negative results due to the change in composition in three of the four property types. Most noticeably, in industrial it appears that the weak performance in Boston and Phoenix (both added to the Top Ten Industrial list) combined with relatively strong price performance in San Diego and South Florida (both dropped from the list), resulted in a milder increase in value for the first quarter of 2010.

FIGURE 9

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

	Q4 2009 TOP TEN SCORE*	OLD TOP TEN LIST		NEW TOP TEN LIST	
		Q1 2010	% CHANGE	Q1 2010	% CHANGE
Apartment	142.67	153.35	7.5%	148.48	4.1%
Industrial	135.33	156.93	16.0%	141.89	4.8%
Office	134.65	127.31	-5.4%	124.90	-7.2%
Retail	155.83	124.50	-20.1%	125.83	-19.3%

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

In the past several years, in any given quarter, 45%-75% of all repeat-sales transactions were located in the top ten cities. As the crisis began in 2007 and transaction volume began to fall, the share of transactions located in the top ten cities fell as well. As of the first quarter of 2010, for each of the four major property types, the share of all transactions in the ten largest cities ranges from 40% to 60%.

FIGURE 10

Moody's/REAL CPPI: Repeat -Sales in the Top Ten MSAs as % of Overall Repeat-Sales



Based on data through March 2010 or end of 1st quarter.

The individual quarterly returns for the four property types of the top ten cities were varied, but overall declines from the peak lay within a fairly tight band (-27.1% to -36.8%). Industrial properties saw the best return among the series, with prices increasing 4.8% this quarter over last. Industrial prices had fallen consistently over the past several quarters, and this is the first positive gain for this sector in the top ten cities since late 2008. Top Ten industrial prices are down 29.2% from the peak.

This is also the first increase in apartment prices in the top ten cities since late 2008. Apartment prices have moved along a similar path as industrial, although with some quarters of larger price declines, and are down 33.4% from the peak. Prices in apartments in the top ten cities grew 4.1% in the first quarter of this year.

The 7.2% decline in the top ten office values offsets part of the 25+% increase seen at the end of 2009. Overall, value declines have been mildest for offices as compared to the other property types in the top ten, falling 27.1% from peak.

Retail prices in the top ten cities have bounced up and down over the course of last year, with a minor 3% gain in Q4 2009 offsetting the 3% decline the quarter before, leaving retail prices relatively flat. This quarter however, prices have fallen 19.3%, the most of any quarterly index in this report. Combined with the flat movement in retail last year, the decline from the peak is in-line with the other property types, at 36.8%.

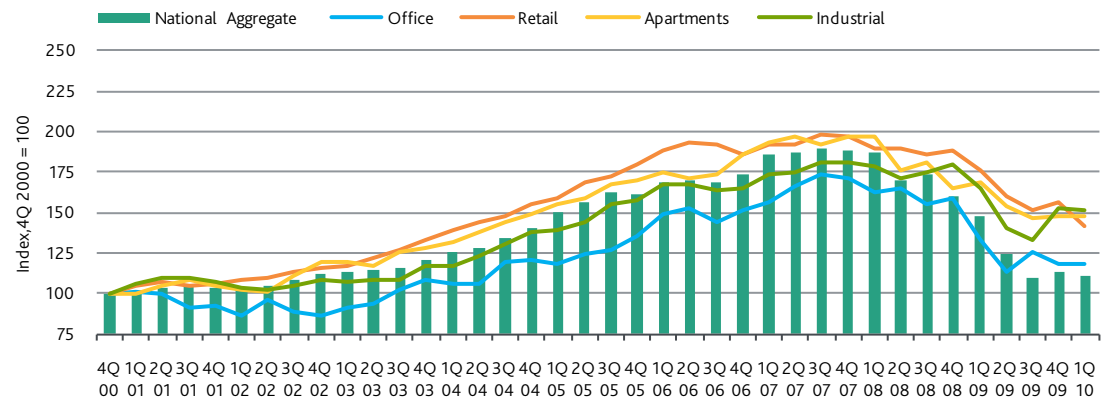
Western Region — Property Type Indices

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 first quarter of 2010.

Performance in the West, for the most part, was worse than each national property type index in the first quarter. However, in the past two years, all four property types in the West have performed better than their respective national counterpart.

FIGURE 11

Moody's/REAL CPPI: Western Region—Property Type Indices



Based on data through March 2010 or end of 1st quarter.

Western office was the only property type in the West that performed better than the nation in the first quarter of 2010. Office prices in the West dropped 0.2% compared to a 3.2% decline nationally. In the past two years, western office prices have declined 27.1% versus 32.0% for the office market as a whole.

Similar to office, both the apartment and industrial western indices fell 0.2% in the past quarter. These two declines in the western apartment and industrial indices contrasts with a price increase in the national apartment and industrial indices, which had gains of 3.3% and 0.8%, respectively. In the past two years, both apartments and industrial properties have performed better in the West than nationwide with western apartments dropping 25.3% compared to 30.8% nationally and the western industrial index declining 15.0% versus a 31.8% decrease nationally.

Retail properties measured the largest price decrease of the four property types in the West, falling 9.8%. This is a larger decline than the national retail prices, which dropped 4.7%. Similar to other property types in the West, retail has performed better than its respective national index in the past two years, with a western retail decline of 25.7% compared to 27.8% nationally.

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 for the next year (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 readers' convenience (Figures 15 – 19).

Appendix

FIGURE 12
CPPI: Report Release Cycle 2010

	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
	JANUARY	FEBRUARY	MARCH
	Jan. 24, 2011	Feb. 22, 2011	March 22, 2011
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

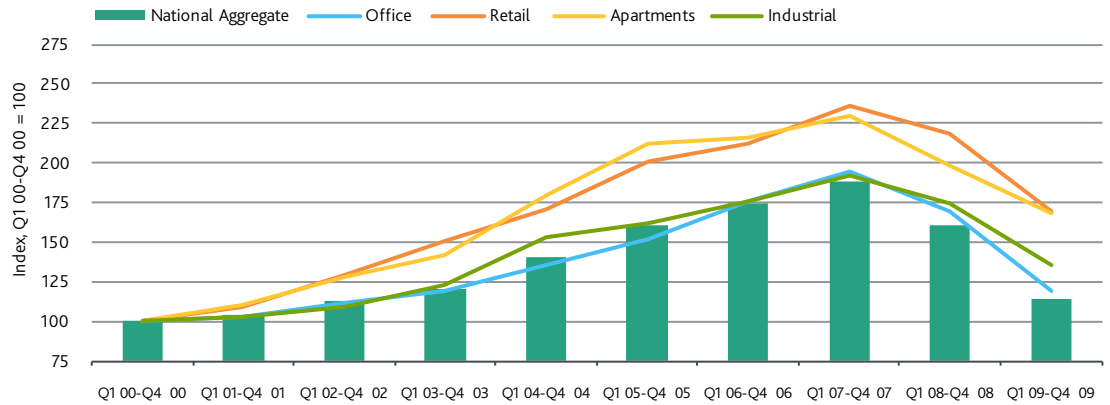
FIGURE 14

(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

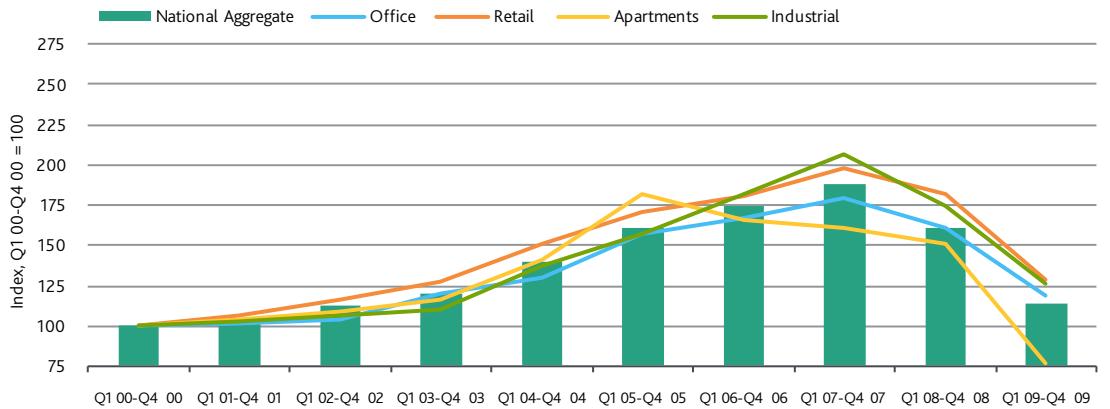
Moody's/REAL CPPI: East — Property Type Indices



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

FIGURE 16

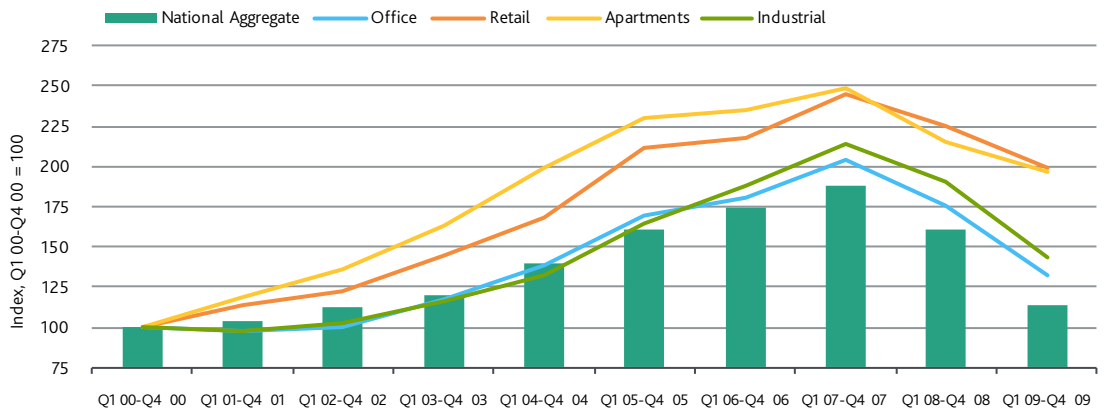
Moody's/REAL CPPI: South — Property Type Indices



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

FIGURE 17

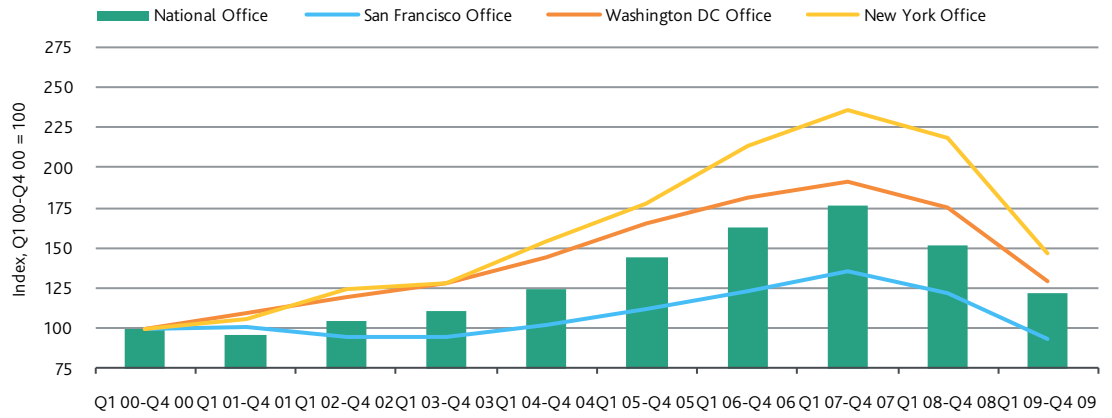
Moody's/REAL CPPI: Southern California — Property Type Indices



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

FIGURE 18

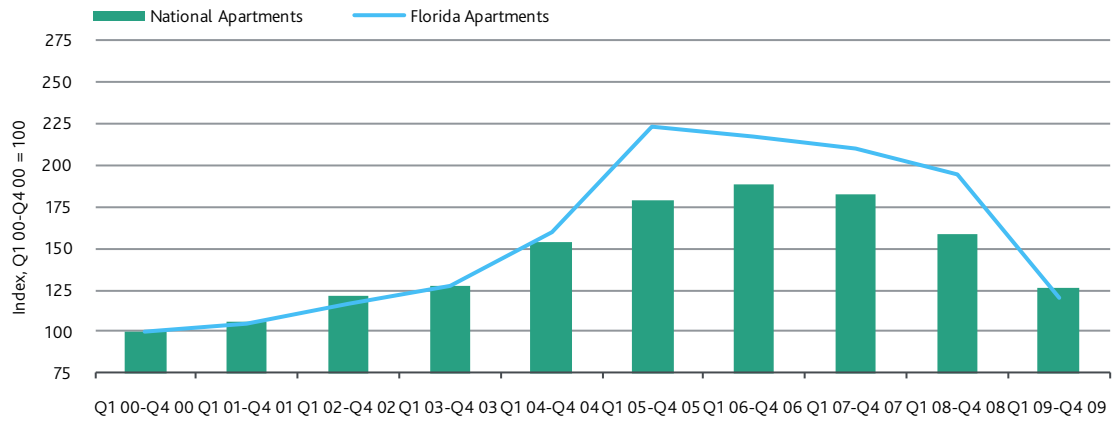
Moody's/REAL CPPI: Major Office Markets Indices



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

FIGURE 19

Moody's/REAL CPPI: Florida Apartment Index



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

Report Number: SF204760

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