

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

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OVERVIEW: FIRST YEAR-OVER-YEAR DECLINE IN PRICES

In this June report, Moody's/REAL Index measures 181.23, a decline of 3.0% from the previous month, and 2.8% below the same period of the previous year. Although the Moody's/REAL Commercial Property Price Aggregate Index (CPPI) has before posted declines from the previous month, this is the first time that the index was lower than in the same month of the previous year. Nonetheless, the CPPI still logs an increase of 9.1% over a two-year horizon. This report is based on data through the end of April for the monthly report and the end of the first quarter for the annual series.

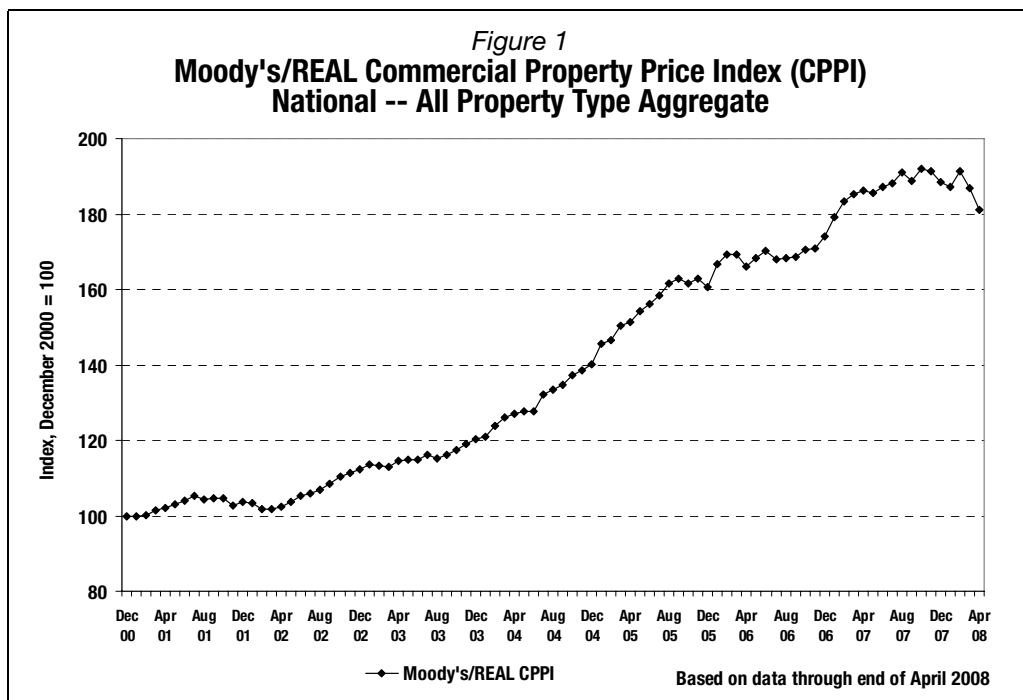


Figure 2

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

New 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	181.23	-3.0%	-2.8%	9.1%
	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	210.96	-0.6%	3.7%	
East - Industrial	190.43	9.3	20.6	
East - Office	202.55	14.3	30.4	
East - Retail	214.33	6.4	9.8	
South - Apartments	147.75	-8.0	-15.4	
South - Industrial	213.31	13.6	28.3	
South - Office	170.10	2.6	2.7	
South - Retail	195.28	6.6	12.5	
So. California - Apartments	227.84	1.6	3.6	
So. California - Industrial	199.70	3.3	16.3	
So. California - Office	200.99	10.3	16.8	
So. California - Retail	224.58	8.6	4.4	
New York - Office	240.68	12.2	32.6	
San Francisco - Office	130.30	11.7	16.5	
Washington DC - Office	190.23	10.8	16.9	
Florida - Apartments	197.98	-4.4	-11.0	

M Monthly series. Most recent data is through April 30, 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 1st quarter 2008. Analysis is based on data from four quarters (2Q07, 3Q07, 4Q07, and 1Q08). Given that the measure is of a rolling four-quarter period, data as of the end of the 1st quarter can not be compared with that from the end of the previous quarter.

Notable Observations and Themes

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

Monthly Series

- The monthly aggregate price index experienced the first year-to-year decline based on data through the end of April 2008.
- Although both the number and dollar value of repeat sales has fallen over the last few months, it is still more than ten times the level needed for a statistically valid calculation of the monthly index.

Annual Series

- In both the East and the South, apartment prices fell from the previous one-year time period. The fall was greater in the South, down by 8.0% from one year earlier and slightly more than 15% over two years.
- The other three property types all saw prices increase year-to-year in both the East and the South.
- The year-to-year price increase in offices in the East, 14.3%, was the strongest of any geography/property type combination in this report.
- Volume is holding up well in both the East and the South, as the number of repeat sales is notably higher than in the previous one-year block of time. In all property types the number of transactions is four to eight times greater than the pace necessary to calculate the index.
- Southern California property markets outperformed the national aggregate in all property types and greatly outpaced the West in the office and retail sectors.
- All three major office markets - New York, San Francisco, and Washington DC - experienced price increases of approximately 11%-12%, greatly outpacing the national office price gain of 1.8%. In addition, these gains far surpassed that seen in the Top 10 office market sector of 1.2% over the same time period.
- The Florida apartment sector saw prices fall by 4.4% for the time period covered in this report. That slightly underperforms the national apartment sector as a whole, but is better than the Southern apartment market overall.

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 [Moody's.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 LOGS FIRST YEAR-OVER-YEAR DECLINE

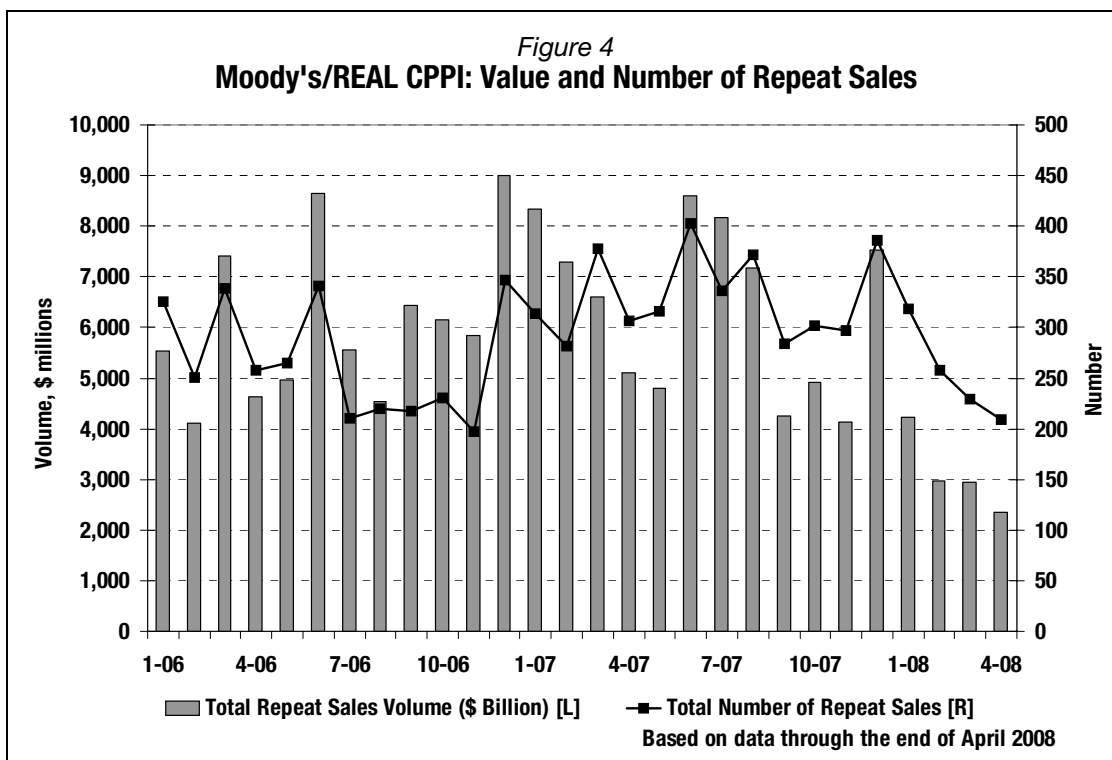
The National - All Property Type Aggregate is a monthly series, and this report is based on data through April 30, 2008. The index measure for this period, 181.23, is below the level of the previous month (-3.0%) and the same month of the previous year (-2.8%). (Please refer back to *Figure 1*, page 1.) Furthermore, the current index is 5.5% below the level of October 2007, the peak in the market as measured by the Moody's/REAL CPPI.

With the attention on refinancing existing mortgages on commercial real estate, the Moody's/REAL CPPI suggests that loans from 2004 have increased in value by nearly 39%, on average; those from 2005, 16%; and 2006 loans are still 7% above the average value for that year. However, for the second month in a row, average prices on 2007 loans have decreased relative to the most recent index (see *Figure 3*).

Figure 3
Difference Between Average of Moody's/REAL CPPI Index and Most Recent Monthly Index Measure

Year	Moody's/REAL Index Average for that Year	Change to April 2008 Index
2004	130.77	+38.6%
2005	156.02	+16.2
2006	169.17	+7.1
2007	187.26	-3.2

Unsurprisingly given the current credit environment, both the number and dollar value of repeat sales used in calculating the index have declined over the last few months (*Figure 4*). The number of transactions is the defining variable in the ability to calculate the index, and that number (209 repeat sales for the month) is still more than 10 times the 20 monthly sales required for a statistically reliable index computation.



EASTERN REGION - PROPERTY TYPE INDICES LED BY THE OFFICE SECTOR

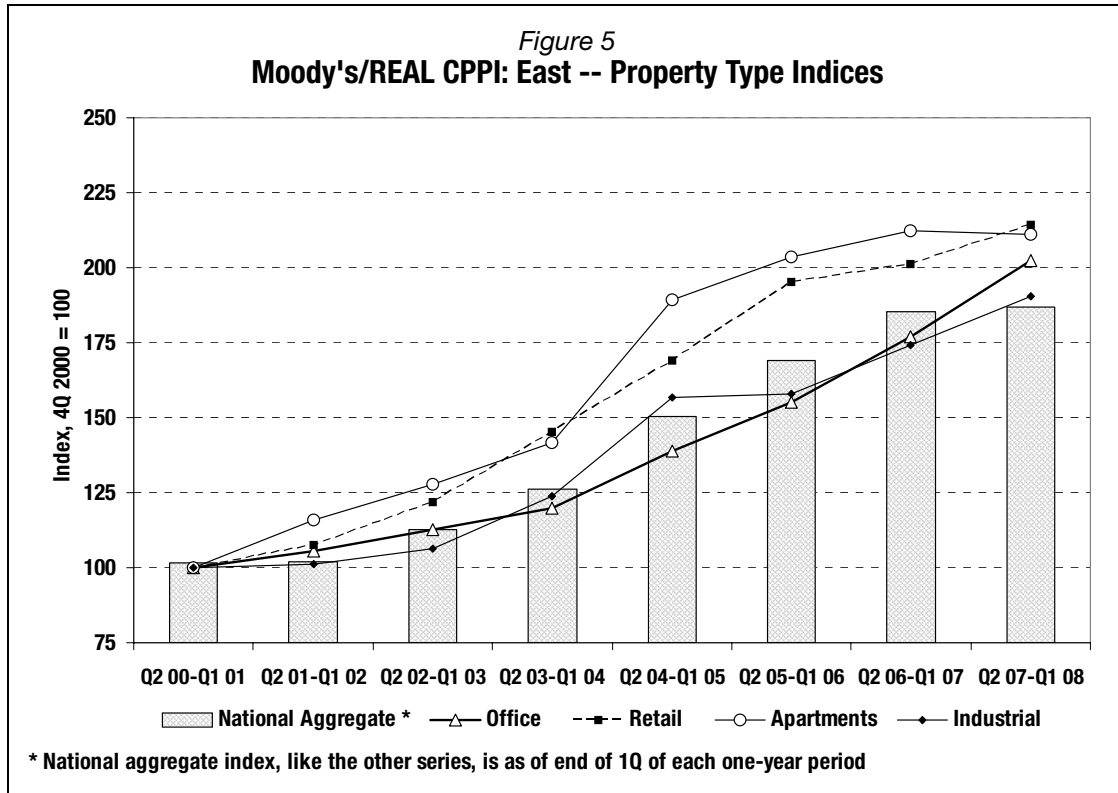
The Eastern Region - Property Type Indices for the four major property types is an annual series, based on one year of data on a rolling basis and updated each quarter. This index is based on data for the four quarters: 2Q 2007, 3Q 2007, 4Q 2007, and 1Q 2008, thus culminating with data through the end of the first quarter of 2008.

The leader in the East is clearly the office sector, where prices are up 14.3% over the last year. That is the largest one-year price gain of any asset type/region combination in this report. Industrial assets are not far behind, up 9.3% year-over-year, and retail asset prices increased 6.4% over the same time frame. The only laggard is the apartment sector where prices fell, albeit by a small amount, -0.6%, in the last year.

Volume is holding up well, as 972 transactions were tallied for the one-year period through 1Q 2008, up by nearly 15% from 847 in the previous discrete four-quarter block (2Q 2006, 3Q 2006, 4Q 2006, and 1Q 2007). The increases were posted by apartments, retail, and industrial, while the number of office transactions was basically flat compared to the previous period.

Importantly, the number of transactions remains multiples of the minimum number required to calculate the index - ranging from at least four times the number needed for retail properties to eight times the minimum requirement for apartments.

The total dollar value across all four property types was \$23.5 billion, down by 30% from the previous one-year time block. The dollar volume of repeat sales of office, retail, and industrial properties in the East declined, while the value of apartment sales increased.



SOUTHERN REGION - PROPERTY TYPE INDICES: VOLUME HOLDING UP WELL

The Southern Region - Property Type Indices for the four major property types is an annual series, based on one year of data on a rolling basis and updated each quarter. This index is based on data for the four quarters: 2Q 2007, 3Q 2007, 4Q 2007, and 1Q 2008, thus culminating with data through the end of the first quarter of 2008.

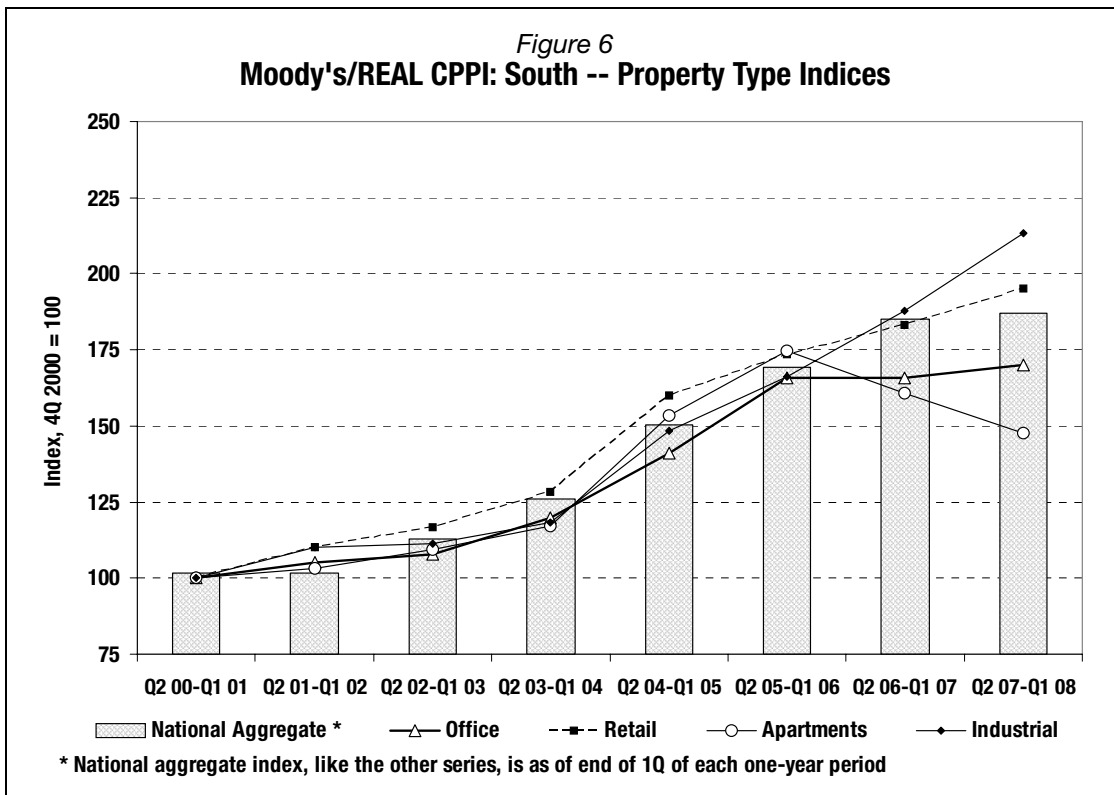
Of the major property types, apartment prices are the biggest laggard in the South, moving down by 8.0% from one year earlier and slightly more than 15% over two years. Although softness in the Florida apartment markets are a major contributor to this performance, in fact the declines for the South overall exceed those of Florida (down 4.4% for one year and 11.0% for two years), as will be discussed below.

The other three property types all saw prices increase over the past year. The leader was the industrial sector, where prices increased by 13.6%, followed by retail assets, where prices increased by 6.6%, and offices, 2.6%.

As in the East, the volume of transactions held up, increasing to 947 repeat sales, up 28.5% compared to the previous one-year block of time. The number of transactions increased in all property types by healthy amounts, ranging from growth of approximately 15% among apartments and offices to approximately 50% among retail and industrial assets.

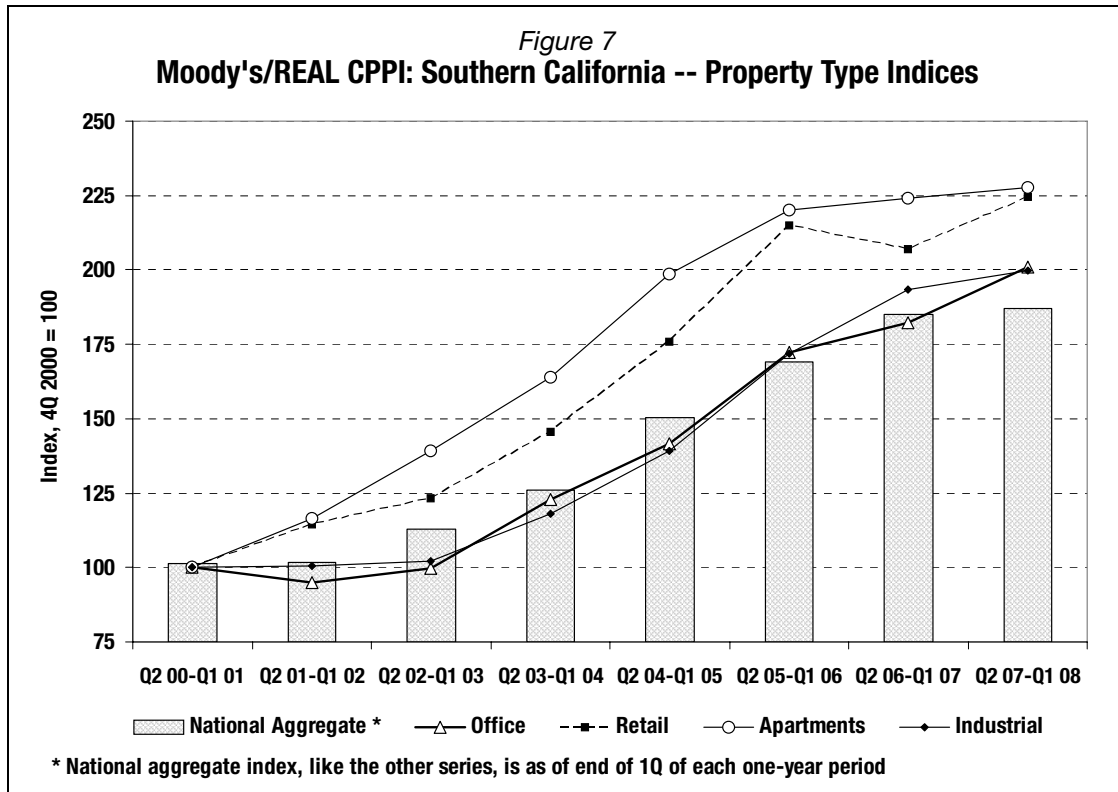
As noted above, the important point is that the number of transactions remains multiples of the minimum number required to calculate the index - ranging from approximately 4.5 times the number needed for industrial properties to 7.5 times the minimum requirement for apartments.

The dollar volume of the total transactions was off slightly, down nearly 3% from the previous one-year period. Mimicking the East, the decline in dollar value of repeat sales was greatest among offices.



SOUTHERN CALIFORNIA - PROPERTY TYPE INDICES OUTPERFORM THE NATIONAL AGGREGATE ACROSS ALL PROPERTY TYPES

The Southern California - Property Type Indices for the four major property types is also an annual series, based on one year of data on a rolling basis and updated each quarter. This index is based on data for the four quarters: 2Q 2007, 3Q 2007, 4Q 2007, and 1Q 2008, thus culminating with data through the end of the first quarter of 2008. Four MSAs are captured in the Southern California sub-index: Los Angeles, Orange County, Riverside County, and San Diego.



Southern California property markets have outperformed the national aggregate in all property types, and greatly outpaced the West in the office and retail sectors.

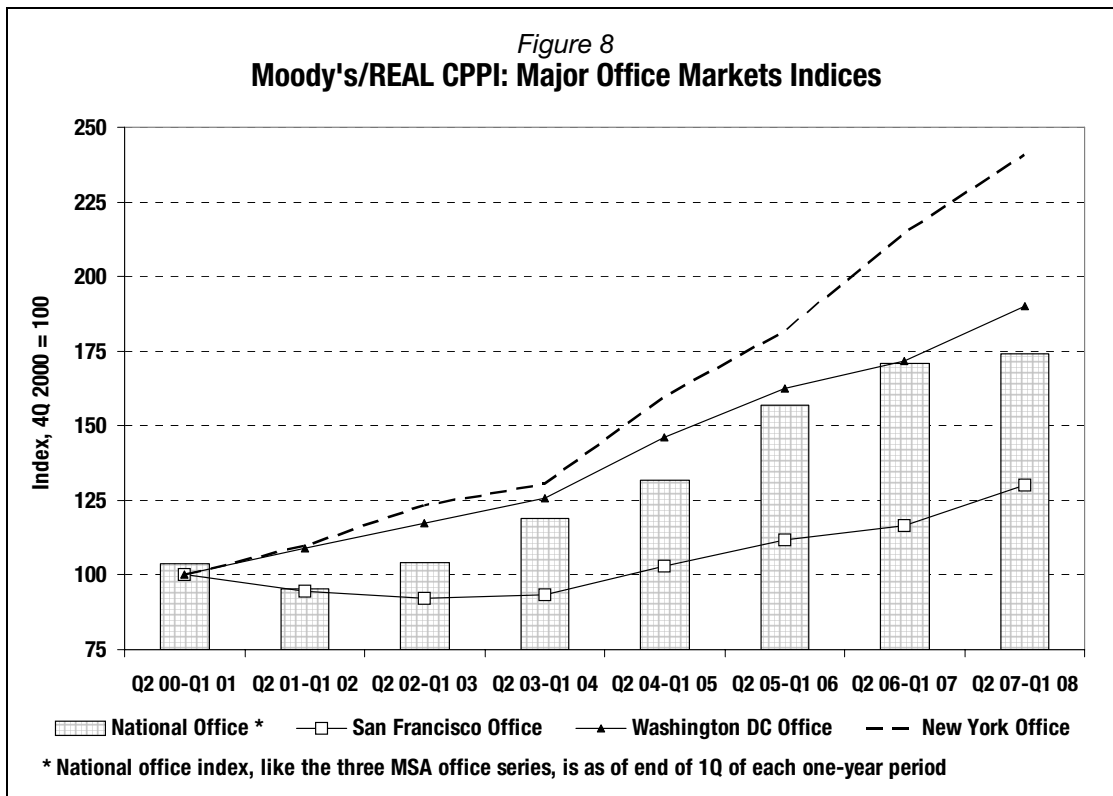
The apartment market in Southern California, although displaying the lowest increase in prices for the four property types at 1.6%, surpassed the national apartment market, which saw a 3.4% decrease in prices over the same time period. The Southern California industrial sector saw a modest 3.3% increase in prices, which was in line with the nation (3.0%).

The retail and office sectors were the strongest performers in Southern California. Retail saw an increase in prices of 8.6% compared to a 1.2% decrease in the nation, and a 1.1% decrease in the West. The office sector demonstrated the greatest growth of the four major property types in Southern California, 10.3%, compared to 1.8% increase in the nation, and 3.9% increase in the West.

Transaction volume was up in all property types except office this year as compared to last. ("This year" refers to the one year of rolling data ending with 1Q 2008.) The greatest increase was in the industrial sector, where transaction volume was up 55% when measured by dollar value, or 21% when measured by number. Apartments and retail also saw healthy increases, with approximately 20%-25% increases in volume as measured either by number or value in both sectors. The office sector lags behind, remaining virtually flat in transaction volume.

MAJOR OFFICE MARKET INDICES BEAT THE AGGREGATE OFFICE PRICE PERFORMANCE

Three major office markets consistently experience enough transactions to support at least an annual series for each of those cities: New York, San Francisco, and Washington DC. This index is based on data for the four quarters: 2Q 2007, 3Q 2007, 4Q 2007, and 1Q 2008, thus culminating with data through the end of the first quarter of 2008.



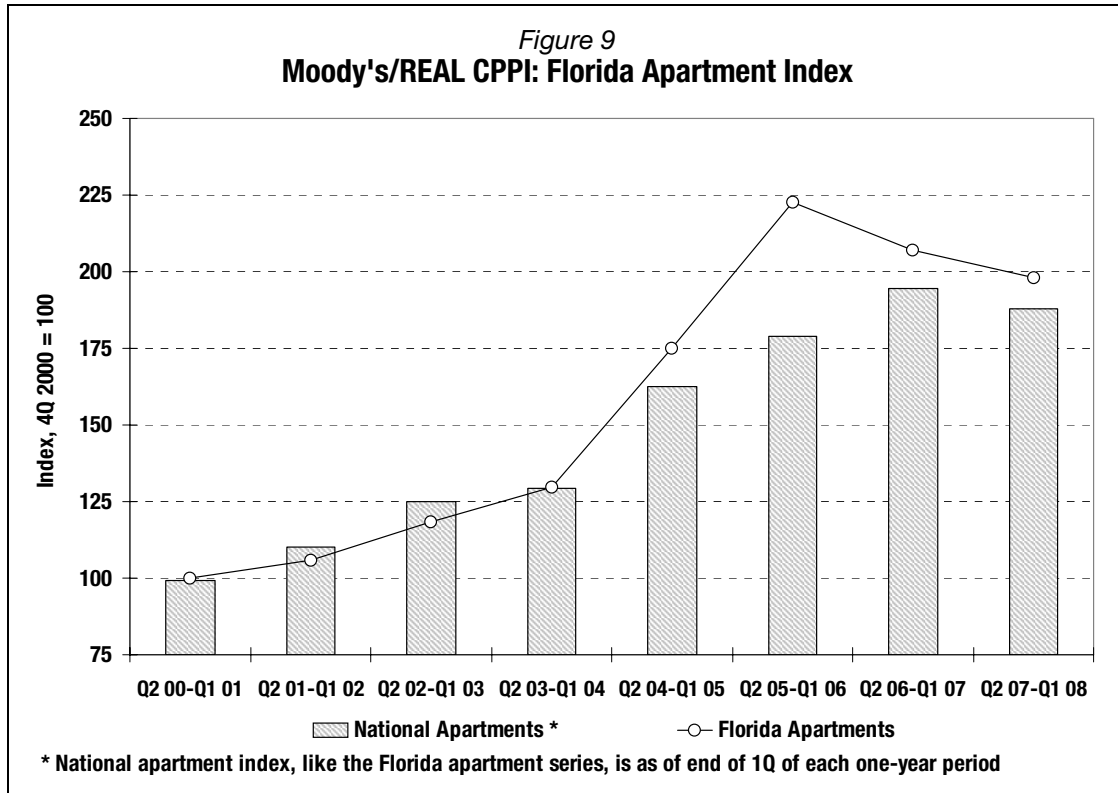
All three major office markets greatly outpaced the national office price gain of 1.8%. The New York office market showed the strongest gain in prices of 12.2%, but San Francisco and Washington DC were not far behind with gains of 11.7% and 10.8%, respectively. In addition, the 11-12% gains that these markets experienced far surpassed that of the Top 10 office market sector of 1.2% over the same time period.

Washington DC saw the greatest decrease in transaction volume, whether measured by number (-8.1%) or dollar (-32.6%), with a decrease in the average transaction price of over 25%. San Francisco saw an increase in volume both in terms of number (23.2%) and dollar value (10.5%) but a decrease in the average sale price of about 10%. And while New York saw an increase in the number of sales (31.5%), the dollar volume of sales was down 22.6%. This translates into a decrease in the average sale price of over 40%. However, this large drop in average transaction price can be attributed to an unusually high average price over the previous four quarters (ending with 1Q 07) rather than an exceptionally low average price for the current four quarters (ending with 1Q 08). In fact, the average price for the current four quarters is higher than the average seen two and three years ago.

This drop in average transaction price is consistent with our analysis from last month of distribution of transactions by price group. In a credit constrained environment, lower priced assets have an easier time of finding financing than do higher priced ones, and it seems that, in New York in particular, a large share of completed transactions are happening at lower price points.

FLORIDA - APARTMENT INDEX UNDERPERFORMS APARTMENT AGGREGATE

An aggregation of several Florida MSAs provides a sufficient volume of apartment transactions to support a Florida - Apartment series at least on an annual basis: Orlando, Tampa, and the three metropolitan divisions of the Miami MSA - Fort Lauderdale, Miami, and West Palm Beach. Like the other annual series using data from a rolling four quarters, this series culminates with data through the end of the first quarter of 2008.



The Florida apartment sector saw a decrease in prices of 4.4% for the time period covered in this report. That slightly underperforms the national apartment sector as a whole, which saw a decrease of 3.4% in prices over the same time period. However, Florida apartments performed better than the Southern apartment market overall which had an 8.0% price decrease.

Transaction volume in this sector is down as well, whether measured by dollar value (-24.8%) or number (-12.4%), although the number of sales is still about two times the necessary threshold to calculate the index.

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 2008 (*Figures 10, 11, and 12*).
- Charts for the 12 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 13 - 15*).

APPENDIX

Figure 10
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 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	

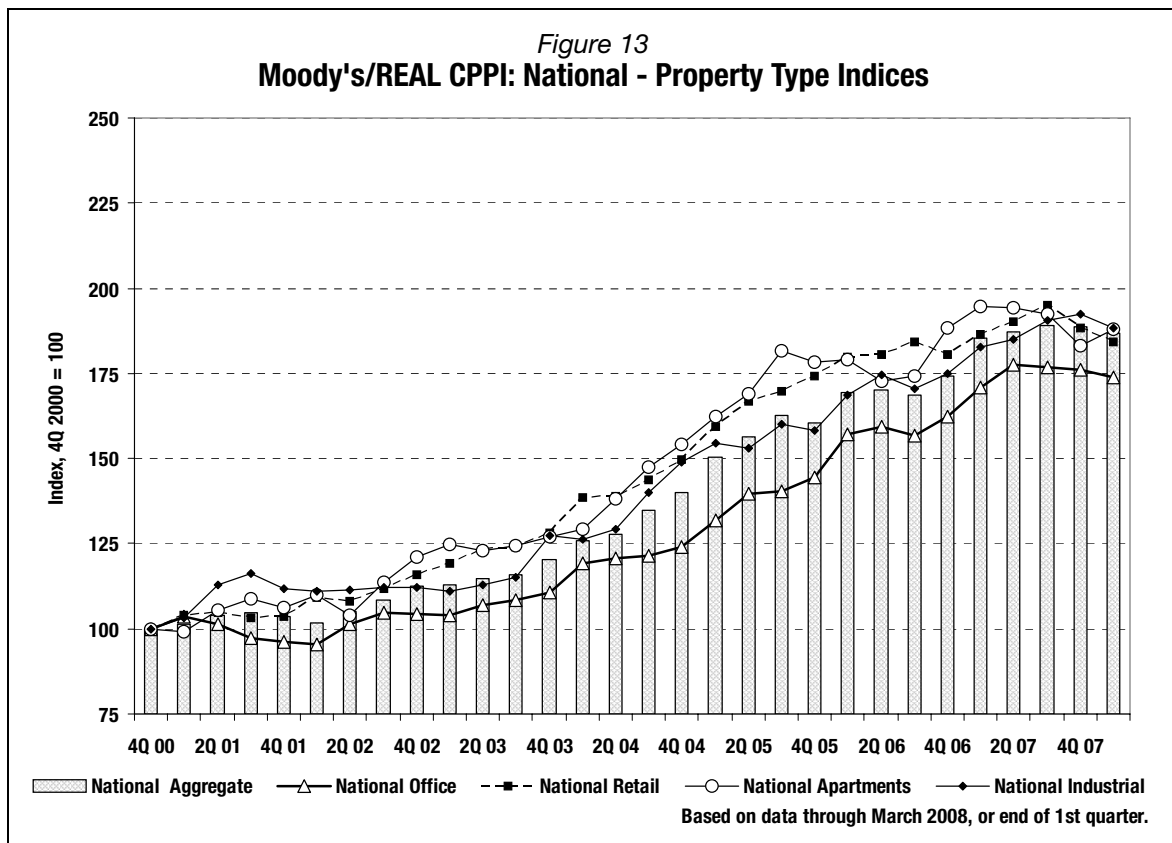


Figure 14
Moody's/REAL CPPI: Top Ten MSAs -- Property Type Indices

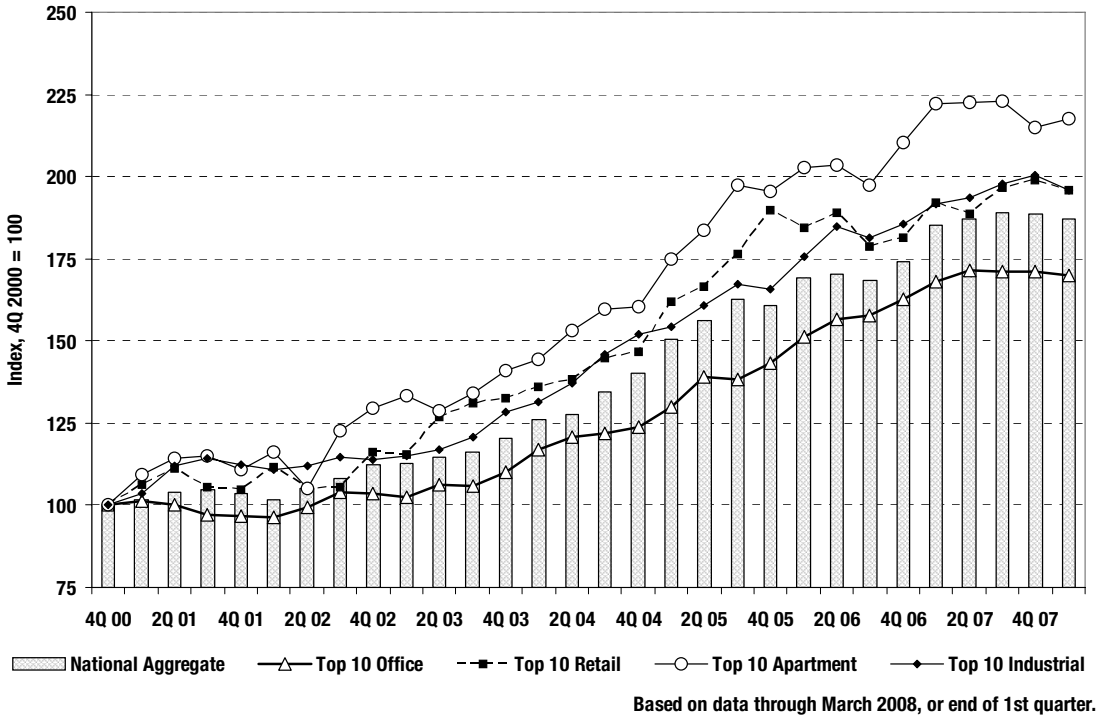
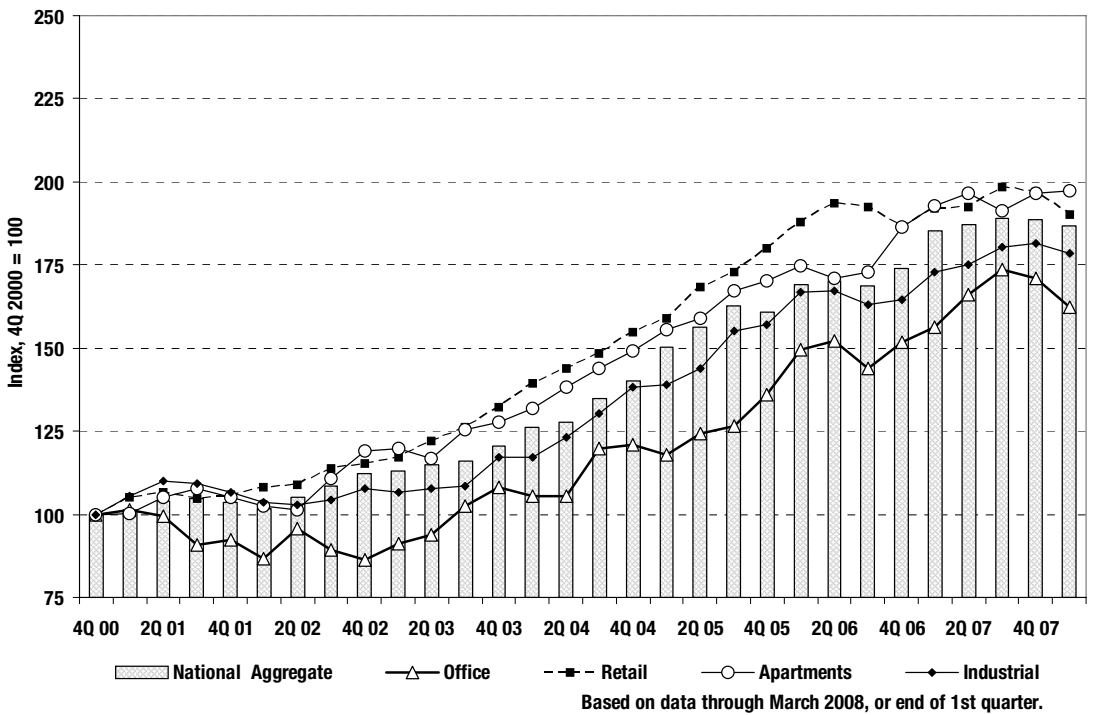


Figure 15
Moody's/REAL CPPI: West -- Property Type Indices



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