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

AUTHORS:
Nick Levidy
Managing Director
(212) 553-4595
Nick.Levidy@moodys.com

Andrea Daniels
VP-Sr Credit Officer
(212) 553-4416
Andrea.Daniels@moodys.com

Connie Petruzziello
AVP-Analyst
(212) 553-4894
Concetta.Petruzziello@moodys.com

MOODY'S CLIENT SERVICES:
New York
+1-212-553-1653
Tokyo
+81-3-5408-4100
London
+44-20-7772-5454
Hong Kong
+852-3551-3077
Sydney
+61-2-9270-8100
Singapore
+65-6398-8308

WEBSITE:
www.moodys.com

CONTENT

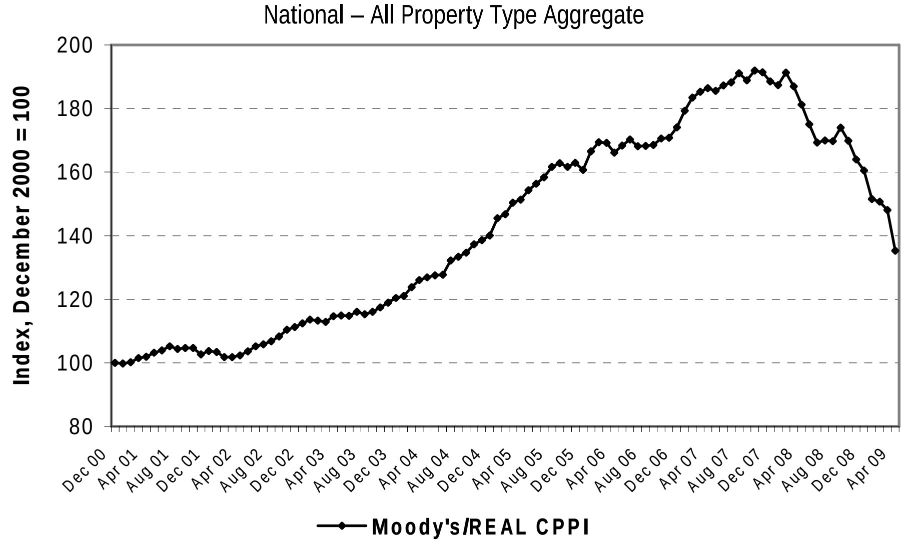
OVERVIEW

The Moody's/REAL National All Property Type Aggregate Index for April measures 135.31, a decrease of 8.6% from the previous month. The index now stands 25.3% below the level seen a year ago and 29.5% below the peak measured in October 2007. The index is 27.4% lower than it was two years ago. This report is based on data through the end of April.

Figure 1

Moody's/REAL Commercial Property Price Index (CPPI)

National – All Property Type Aggregate



Based on data through the end of April 2009.

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	135.31	-8.6%	-25.3%	-27.4%

	Current Index[Q]	1 Quarter Earlier	1 Year Earlier	2 Years Earlier
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[1] - 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

	Current Index [A]	1 Year Earlier	2 Years Earlier
East – Apartments	186.13	-11.8%	-12.3%
East – Industrial	160.18	-15.9	-8.1
East – Office	147.46	-27.2	-16.8
East – Retail	168.19	-21.5	-16.5
South – Apartments	116.61	-21.1	-27.4
South – Industrial	151.95	-28.8	-19.1
South – Office	127.49	-25.0	-23.1
South – Retail	149.72	-23.3	-18.3
So. California – Apartments	192.27	-15.6	-14.3
So. California – Industrial	179.63	-10.0	-7.0
So. California – Office	156.31	-22.2	-14.2
So. California – Retail	188.45	-16.1	-8.9
New York – Office	209.75	-12.9	-2.2
San Francisco – Office	103.87	-20.3	-10.9
Washington DC – Office	150.02	-21.1	-12.6
Florida – Apartments	153.46	-22.5	-25.9

M Monthly series. Most recent data is through April 30, 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 1st quarter 2009. Analysis is based on data from four quarters (2Q08, 3Q08, 4Q08, and 1Q09). Given that the measure is of a rolling four-quarter period, data as of the end of the 1st 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 an 8.6% decline in April 2009. The index now stands 29.5% below the peak measured in October 2007.

- Transaction volume continues to fall in both repeat-sales and the overall market. April's large price decline on the heels of a 5.5% monthly decline in January hints at an ongoing process of capitulation.

- The repeat sale transactions in the month of April for the first time showed more negative than positive annualized rates of return.

- Apartments are faring better than any other property type in the Eastern region, although all four types measured significant annual declines.

- The South was the worst performing region overall. All four property types saw annual value declines of more than 20%, with industrial measuring a decline of 28.8%.

- All four property types in Southern California underperformed the western market as a whole. Office was the worst performer with an annual value drop of 22.2%.

- The three major office markets measured significant annual declines. In the East, both New York and Washington DC outperformed the eastern office market, with annual declines of 12.9% and 21.1% respectively.

- The Florida apartment market, like the apartment market in the South on the whole, has experienced three straight years of falling prices. Florida apartment values are now down 31% from the peak.

[1] A summary or short version of the repeat sales methodology is available in a Moody's Special Report. US CMBS: Moody's Publishes the First Commercial Property Price Indices Based on Commercial Real Estate Repeat Sales Data. Sept. 19, 2007. This is available on Moodys.com > Structured Finance > Commercial MBS > CRE Indices. A very detailed and complete explanation of the methodology is available in a White Paper from MIT. David Geltner and Henry Pollakowski. *A Set of Indexes for Trading Commercial Real Estate Based on the Real Capital Analytics Transaction Prices Database*. MIT Center for Real Estate. Sept. 26, 2007.

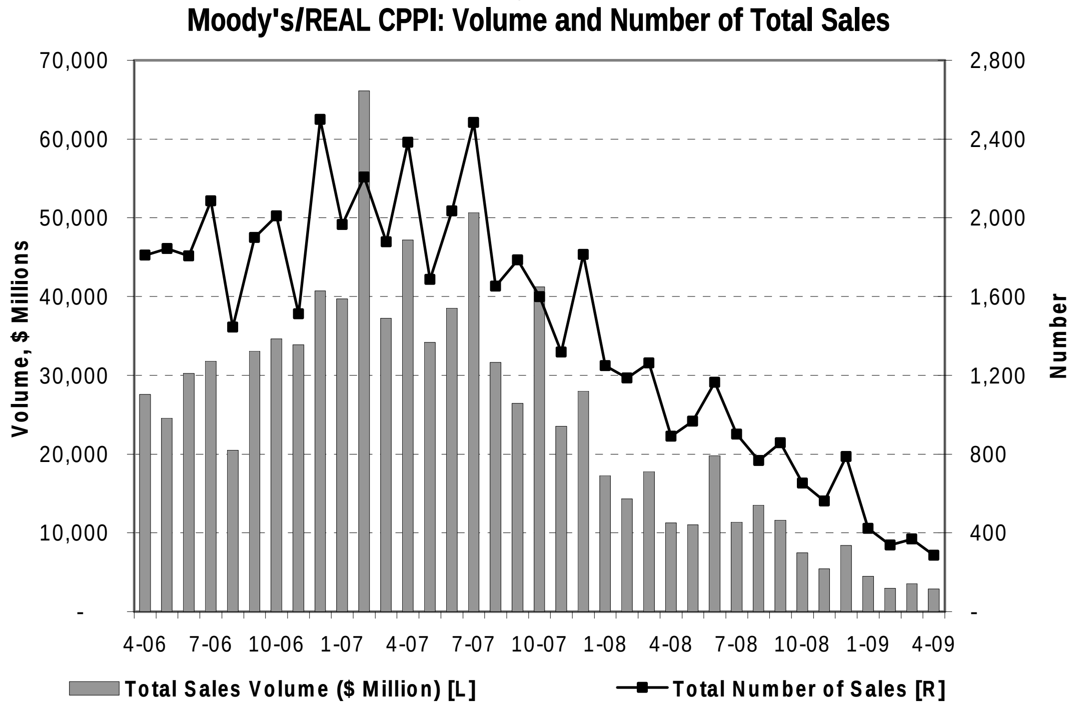
NATIONAL – ALL PROPERTY TYPE AGGREGATE INDEX: PRICES DOWN NEARLY 30% FROM PEAK

The National – All Property Type Aggregate Index is a monthly series, and this report is based on data through April 30, 2009. Refer back to *Figure 1*, page 1.

Moody's/REAL CPPI measured a value decline of 8.6% in April as compared to March. This represents the single largest one-month decline in the history of the index. The index now stands 29.5% below the peak measured in October 2007.

The chart below represents the dollar volume and number of sales in the overall market. Sales volume fell in April as compared to March, and by count, April had the lowest number of transactions since the inception of the index in late 2000.

Figure 3

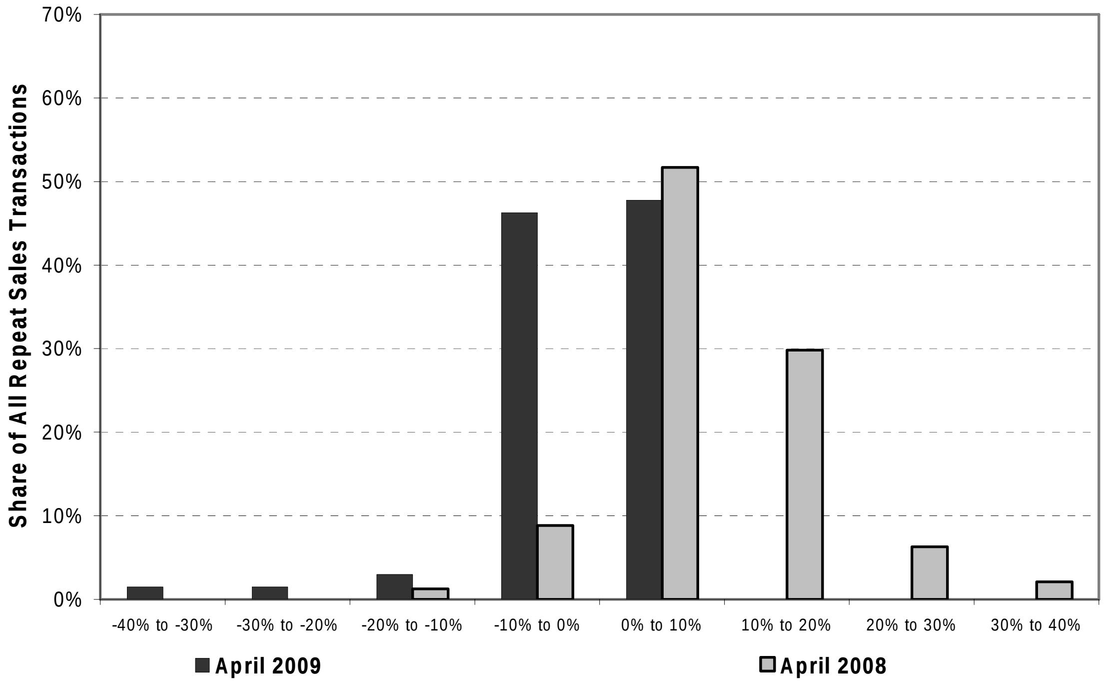


There were 285 transactions in April totaling $2.9 billion, as seen in *Figure 3*. 67 valid repeat sales transactions with a dollar value of $600 million were used in calculating the aggregate index.

The large negative return for April likely reflects in part the fact that deals closed during that month were negotiated at the end of 2008 and in the first quarter of 2009, when securities markets and overall sentiment were plunging. The size of April's decline, following a 5.5% decline in January, also suggests that sellers are beginning to capitulate to the realities of commercial real estate markets. While loss aversion is no doubt still in play with many owners, more distressed sales appear to be occurring, resulting in more negative returns and causing larger drops in the index. Early in the cycle, the sale of assets with built-in gains prevented prices from sliding rapidly, but over the past year a growing portion of commercial property sales has generated negative returns.

Figure 4

Moody's/REAL CPPI: Distribution of Rates of Return April 2009 vs. April 2008



Indeed, looking at the distribution of rates of return for April of this year compared to last in Figure 4, it is evident that a substantially larger portion of sellers in April 2009 were willing to accept a price for their asset that was lower than the price at which they purchased it. Last April, although prices had been on the decline, the price appreciation imbedded in the assets that had been purchased several years earlier kept rates of return primarily in positive territory[2].

There are also some preliminary indications that transaction activity is increasing. Large price declines may act as a catalyst to cause the bid-ask gap to narrow, which in turn may lead to an increasing number of transactions. We expect that a bottom will begin to form when we see high transaction volumes coupled with flat or declining prices, indicating broad market acceptance of a new price equilibrium.

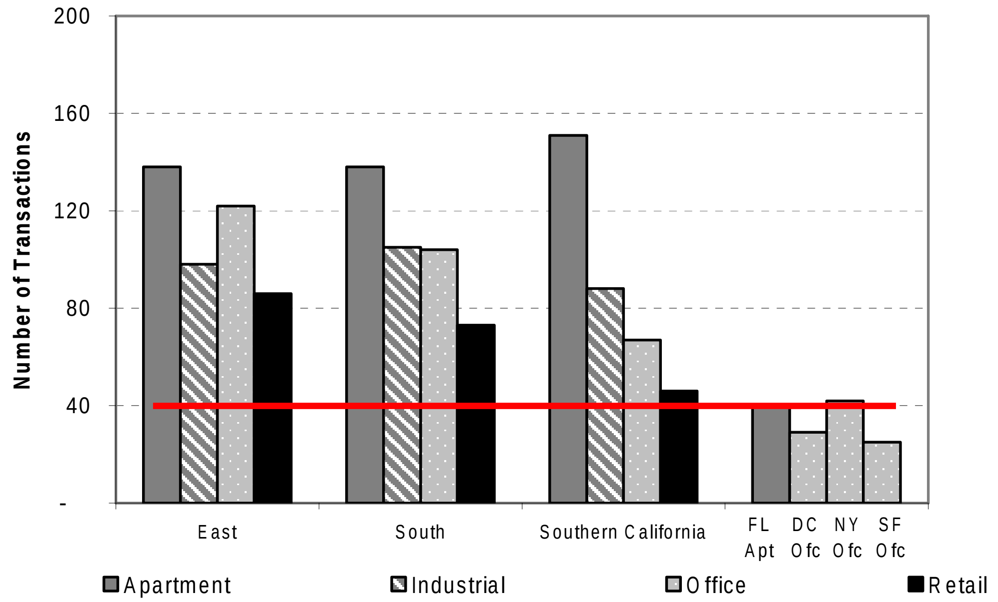
[2] Note that if a property is foreclosed, it is not treated as a valid sale and is therefore not included in the index calculation. However, once the former lender sells that property to a third party, it is a valid sale, and that sale price is paired with the sale price prior to the foreclosure, resulting in a repeat sale observation that could be included in the index.

Repeat Sales Observations in the Annual Indices

Transaction volume in the annual indices has fallen significantly in the past year (measured as the four quarters 2Q 08, 3Q 08, 4Q 08 and 1Q 09) as compared to the previous four quarters. For two of the annual sub-indices, the repeat-sales transaction count has fallen below the threshold of 40 transactions at which the index blending procedure applies.

Figure 5

Moody's/REAL CPPI: Repeat Sales Transaction Count for the Four Quarters 2Q 08, 3Q 08, 4Q 08, 1Q 09



As seen in *Figure 5,* over the past four quarters, both Washington DC Office and San Francisco Office have fallen below the criterion sample size thresholds required in the index production protocols. For an annual sub-index, the threshold is 40 repeat sales observations, and in the past four quarters, there were only 29 observations in Washington DC Office, and 25 in San Francisco Office. The procedure put in place by Moody's/REAL was discussed in last month's report and is outlined in more detail in the MIT white paper. Briefly, the subject index (DC Office or SF Office) is combined with the same sector (property type) index at the next higher level of geographic scope (East Office or West Office), weighted in proportion to the number of observations relative to the threshold and the next higher index in proportion to the number of observations required to fill in the count to meet the threshold.[3]

The Washington DC Office and San Francisco Office returns that result from this calculation become the official returns and will be frozen in the history going forward.

[3] 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.

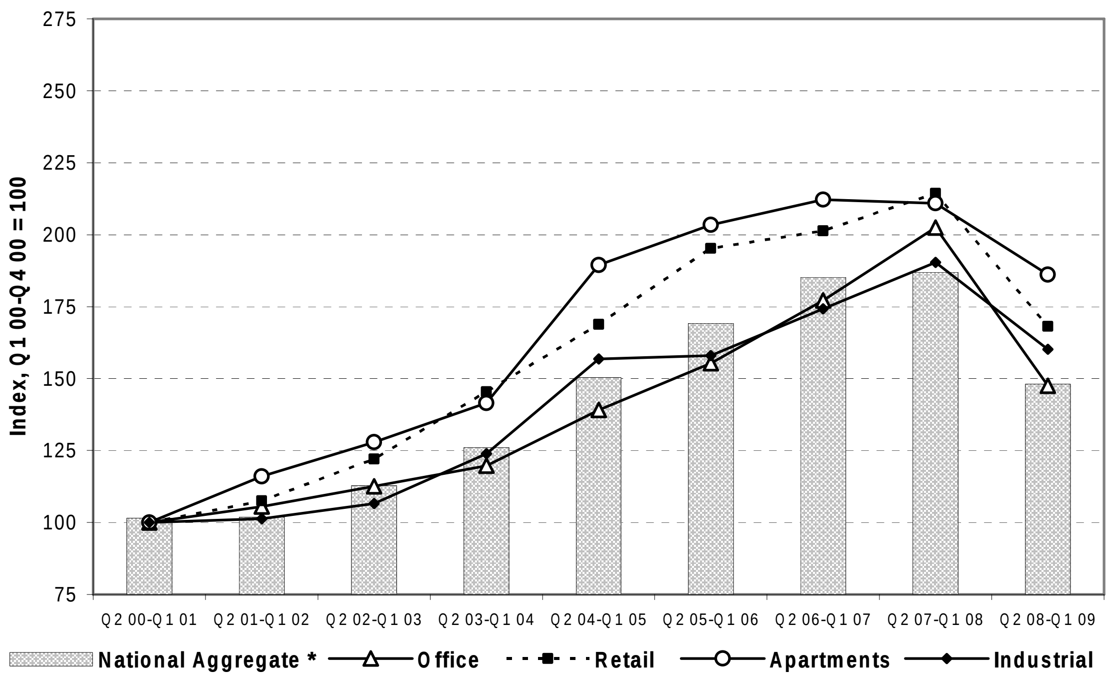
EASTERN REGION – PROPERTY TYPE INDICES: APARTMENTS HOLDING UP THE BEST

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 2008, 3Q 2008, 4Q 2008, and 1Q 2009, thus culminating with data through the end of the first quarter of 2009.

Apartments are holding up the best of the four property types in the eastern region with an annual value decline of 11.8%. Apartments had a gradual rise in prices from 2004 to 2006, and the decline measured in this report erases all of that gain. Eastern apartments outperformed the national apartment market overall, which saw a 16.1% drop in prices over the same time period.

Figure 6

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



Based on data through March 2009, or end of 1st quarter.

The Industrial sector was the second best performer in this region, although it underperformed the nation, with a 15.9% annual drop in prices, versus a 12.3% decline for the entire country. Retail in the East underperformed the nation as well. Retail properties had an annual value drop of 21.5%, while the nation saw prices fall 18.5% over the same time period.

Office properties fared the worst in the East. Although they benefited from two office markets that are faring better than the nation (New York and Washington DC, discussed below), eastern offices measured a 27.2% price decline over the past four quarters. This was mostly in line with the nation, which saw a 28.8% annual decline in value.

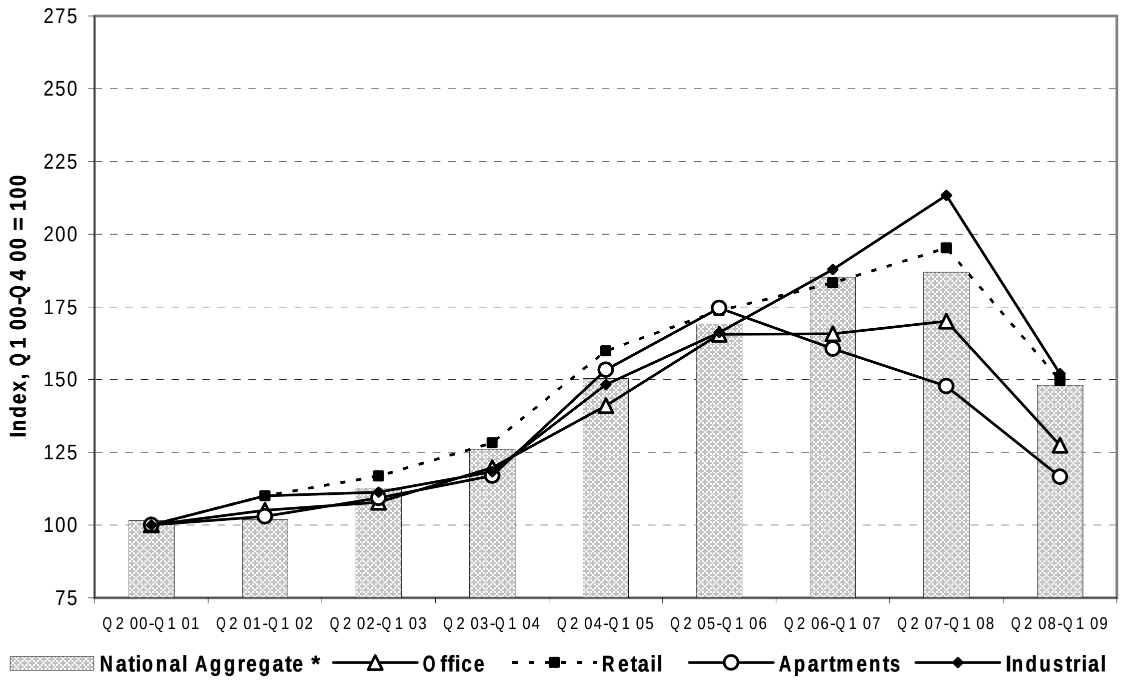
SOUTHERN REGION – PROPERTY TYPE INDICES: WORST PERFORMING REGION

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 2008, 3Q 2008, 4Q 2008, and 1Q 2009, thus culminating with data through the end of the first quarter of 2009.

The South was the weakest region overall, with price declines of more than 20% in each property type. The South underperformed the nation in three of the four property types. The southern apartment market saw an annual price decline of 21.1%. The apartment market peaked earliest in the South, and has been falling for the past three years.

Figure 7

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



Based on data through March 2009, or end of 1st quarter.

Retail properties in the South experienced an annual price decline of 23.3%. Southern office was right behind that, with a value decline of 25.0% over the same time period. This annual decline in office follows two years of virtually no movement in prices.

Industrial was the worst performing property type of the South, measuring a decline of 28.8%, the largest decline of any annual sub-index in this report. This was more than double the price drop measured in the nation for industrial properties overall for the past four quarters.

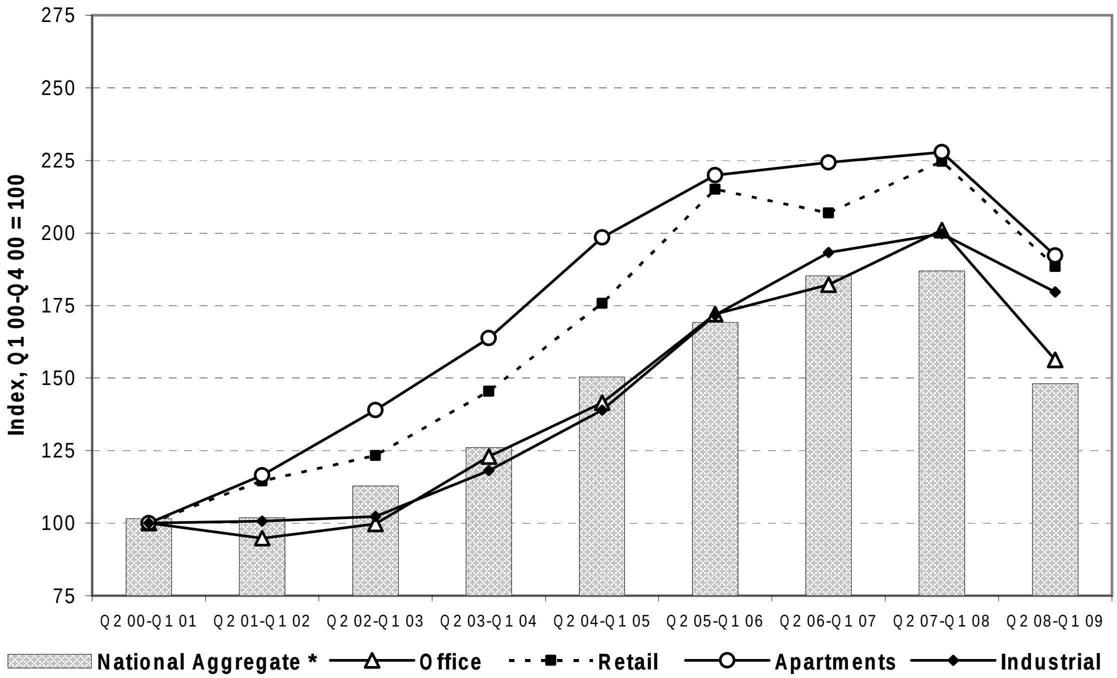
SOUTHERN CALIFORNIA – PROPERTY TYPE INDICES: UNDERPERFORMS THE WEST ACROSS THE BOARD

The Southern California – Property Type Indices[4] for the four major property types are 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 2008, 3Q 2008, 4Q 2008, and 1Q 2009, thus culminating with data through the end of the first quarter of 2009.

The annual value declines in Southern California were significantly larger than the value declines in the West market.

Figure 8

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



Based on data through March 2009, or end of 1st quarter.

Performance in the apartment sector was the most in line with the West, with an annual value decline of 15.6% in Southern California, compared to a 14.3% drop in the West. The Southern California industrial market was the best performer of the region. It measured a 10.0% decline in values, while the West overall saw a 7.3% drop.

Whereas the western retail market experienced a 7.3% drop in values as well, retail properties in Southern California saw a drop of more than twice that, 16.1%. Annual depreciation of the four property types was highest in office for both regions, with the West experiencing a 17.7% decline, and Southern California measuring a 22.2% decline over the same time period.

4 The Southern California sub-index is here defined as including four MSAs: Los Angeles, Orange County, Riverside County, and San Diego.

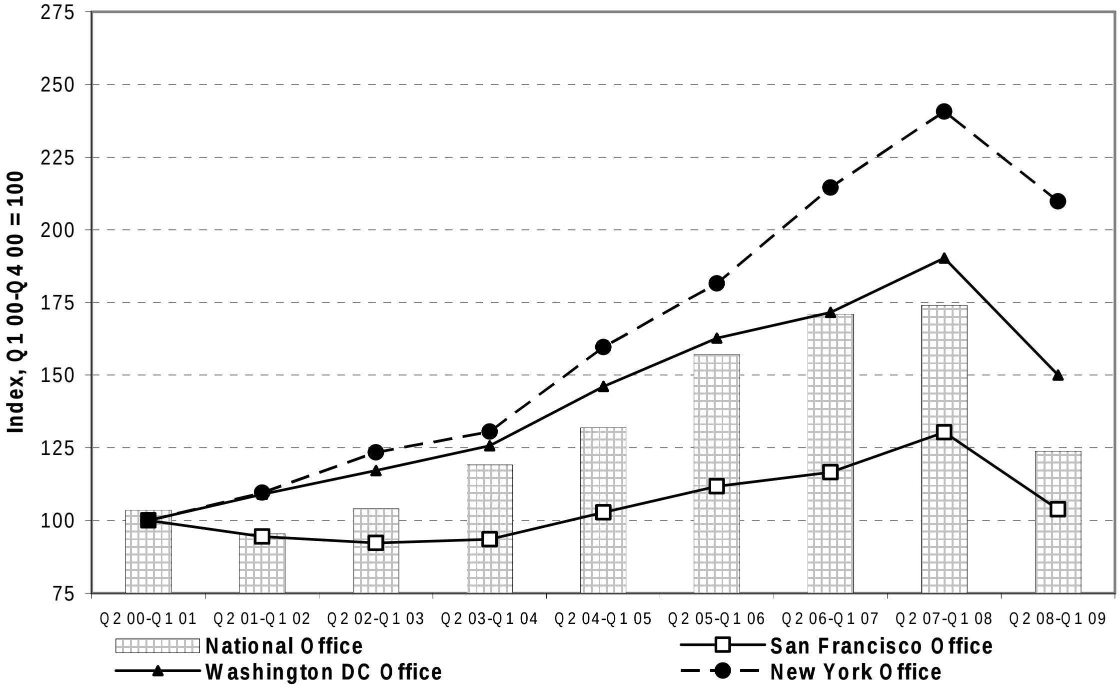
MAJOR OFFICE MARKET INDICES: ALL THREE MARKETS SUFFER LARGE ANNUAL DECLINES

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 quarters: 2Q 2008, 3Q 2008, 4Q 2008, and 1Q 2009, thus culminating with data through the end of the first quarter of 2009.

All three major office markets saw significant declines in value over the past four quarters. The San Francisco office market saw an annual value decline of 20.3%. This price drop was greater than that of the office market in the West overall, which saw a 17.7% decline over the same time period.

Figure 9

Moody's/REAL CPPI: Major Office Markets Indices



Based on data through March 2009, or end of 1st quarter.

Although Washington DC and New York measured large drops in office values over the past four quarters, both markets outperformed the East overall. The office market in the East saw prices fall 27.2%, while the annual value decline in Washington DC was 21.1%. New York fared better, with an annual value decline of 12.9%.

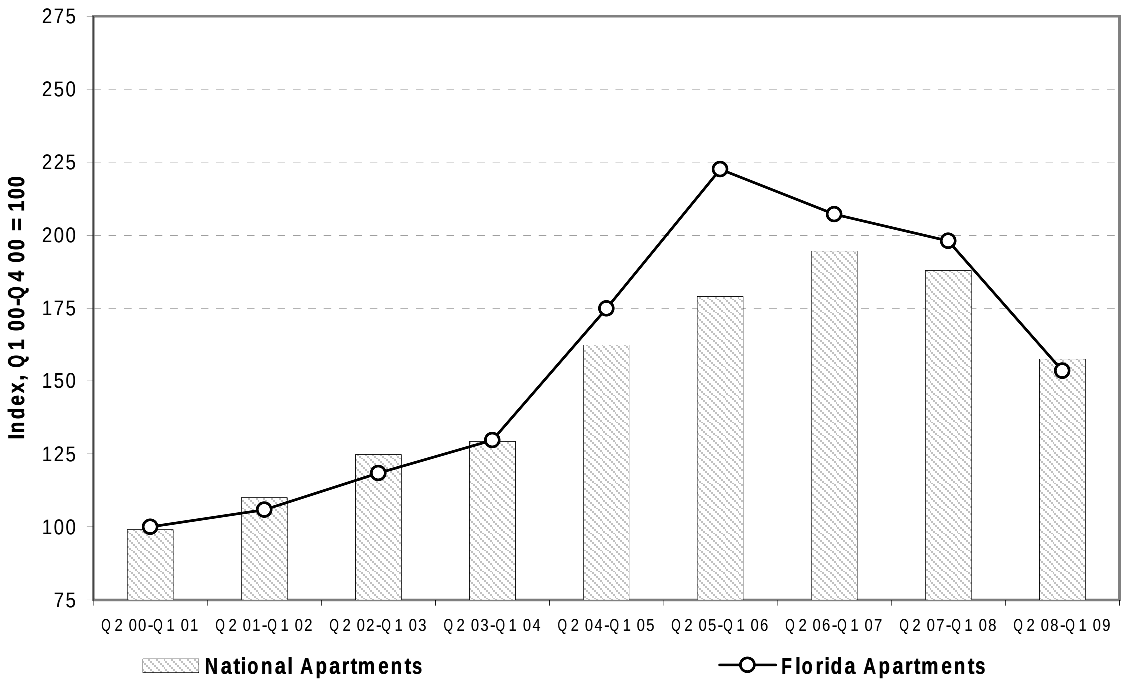
FLORIDA – APARTMENT INDEX: THIRD YEAR OF FALLING PRICES

An aggregation of several Florida MSAs provides sufficient volume of apartment transactions to support an annual Florida – Apartment series for 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 2009.

Prices in the Florida apartment market began to decline three years ago, and are now down over 31% from their peak values.

Figure 10

Moody's/REAL CPPI: Florida Apartment Index



Based on data through March 2009, or end of 1st quarter.

Florida apartment values dropped 22.5% over the past four quarters. That is in line with the 21.1% decline measured in the southern apartment market overall, but significantly underperforms the 16.1% value decline seen nationally over the same time period.

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 and 2010 (*Figures 11*, *12*, and *13*).
- 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 14 – 16*).

APPENDIX

Figure 11

CPPI: Report Release Cycle, 2009 & 2010

	APRIL	MAY	JUNE
	April 20, 2009	May 19, 2009	June 22, 2009
Report to be released:	Aggregate	Aggregate	Aggregate
For period:	February	March	April
Based on data through:	February 28	March 31	April 30
Report to be released:		12 Quarterly Indices (A)	16 Annual Indices (B)
For period:		1st Quarter	1st Quarter
Based on data through:		March 31	March 31
	JULY	**AUGUST**	**SEPTEMBER**
	July 20, 2009	Aug. 19, 2009	Sept. 21, 2009
Report to be released:	Aggregate	Aggregate	Aggregate
For period:	May	June	July
Based on data through:	May 31	June 30	July 31
Report to be released:		12 Quarterly Indices (A)	16 Annual Indices (B)
For period:		2nd Quarter	2nd Quarter
Based on data through:		June 30	June 30
	OCTOBER	**NOVEMBER**	**DECEMBER**
	Oct. 19, 2009	Nov. 19, 2009	Dec. 21, 2009
Report to be released:	Aggregate	Aggregate	Aggregate
For period:	August	September	October
Based on data through:	August 31	September 30	October 31
Report to be released:		12 Quarterly Indices (A)	16 Annual Indices (B)
For period:		3rd Quarter	3rd Quarter
Based on data through:		September 30	September 30
	JANUARY	**FEBRUARY**	**MARCH**
	Jan. 20, 2010	Feb. 22, 2010	March 22, 2010
Report to be released:	Aggregate	Aggregate	Aggregate
For period:	November	December	January
Based on data through:	November 30	December 31	January 31
Report to be released:		12 Quarterly Indices (A)	16 Annual Indices (B)
For period:		4th Quarter	4th Quarter
Based on data through:		December 31	December 31

Figure 12

(A) 12 Quarterly Indices include the following:

APARTMENT	RETAIL	OFFICE	INDUSTRIAL
National Apartment Top 10 MSAs Apartment West Apartment	National Retail Top 10 MSAs Retail West Retail	National Office Top 10 MSAs Office West Office	National Industrial Top 10 MSAs Industrial West Industrial

Figure 13

(B) 16 Annual Indices with Quarterly Releases include the following:

APARTMENT	RETAIL	OFFICE	INDUSTRIAL
East Apartment South Apartment So. California Apartment Florida Apartment	East Retail South Retail So. California Retail	East Office South Office So. California Office New York Office San Francisco Office Washington DC Office	East Industrial South Industrial So. California Industrial

Figure 14

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

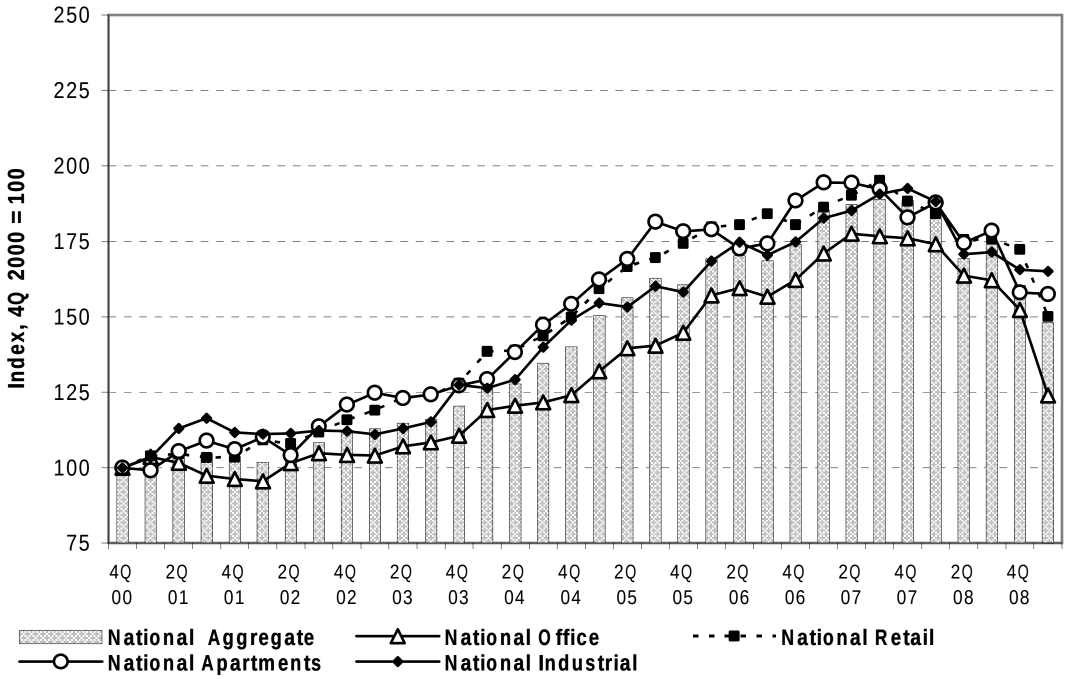


Figure 15

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

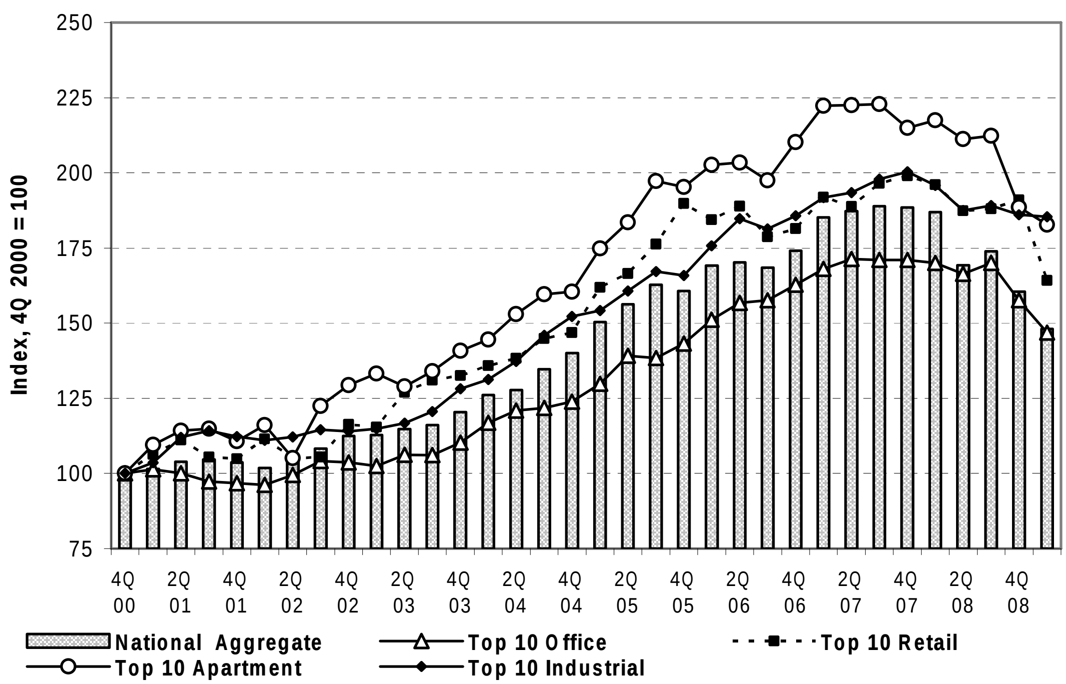
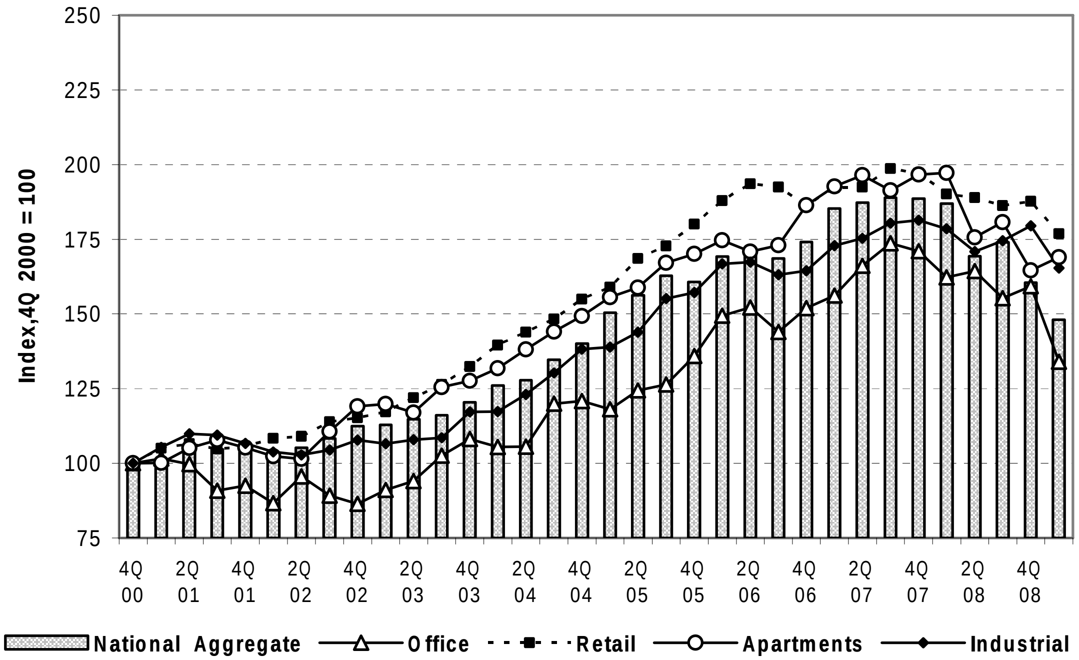


Figure 16

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



SF 170642