

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

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OVERVIEW

In this July report, Moody's/REAL Index measures 174.97, a decline of 3.5% from the previous month, and 5.7% below the same period of the previous year. This represents three consecutive months of negative returns, and the largest one-month drop since the inception of the index. Nonetheless, the CPPI still logs an increase of 3.9% over a two-year time period. This report is based on data through the end of May.

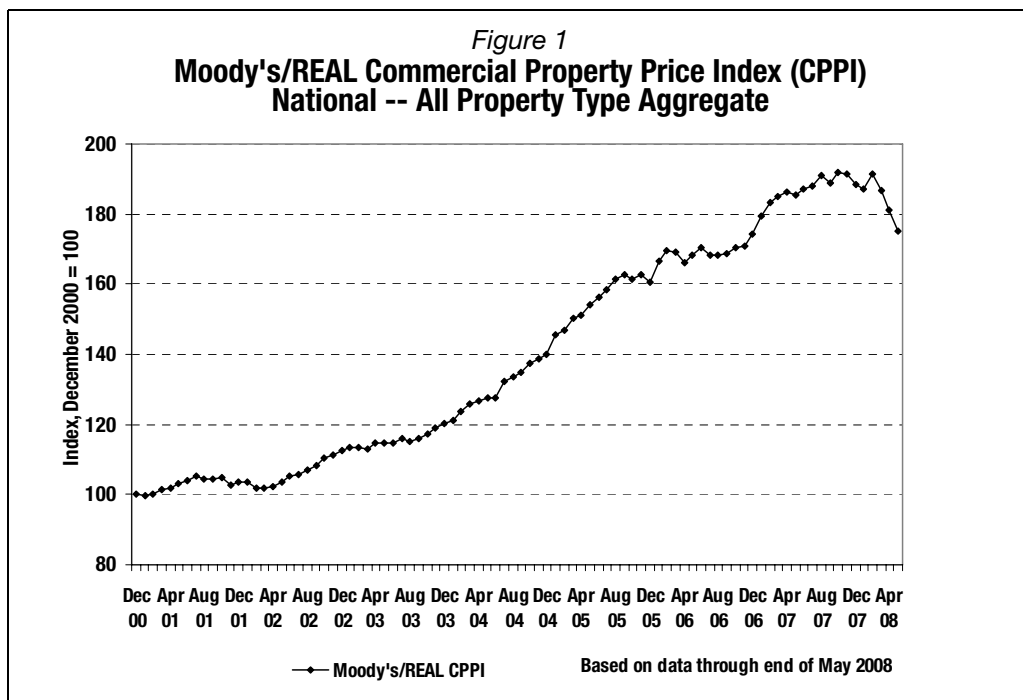


Figure 2

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
 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	174.97	-3.5%	-5.7%	3.9%

	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 May 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 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

- The May aggregate price index experienced its largest one-month decline since the inception of the index. This is the third month in a row that the CPPI has measured a negative return.
- The index now stands 8.8% below the peak in October 2007.
- Although monthly transaction volume continues to decrease, both in number and dollar value, it is still almost nine times the level needed for a statistically valid calculation of the monthly index.
- The holding period between repeat sales has extended over the last two years. Slightly longer holding periods mean more accumulated price appreciation, which may make owners of those assets more motivated to sell.
- Average transaction price is steadily falling as transaction activity continues to shift to lower priced assets.

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 STANDS 8.8% BELOW PEAK

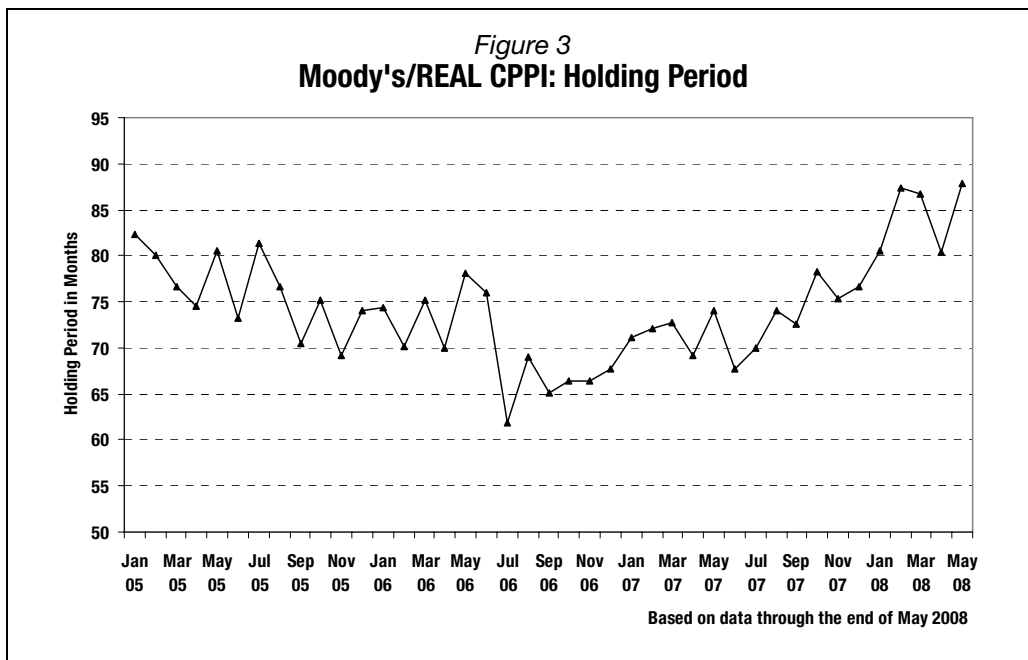
The National - All Property Type Aggregate is a monthly series, and this report is based on data through May 31, 2008. The index measure for May, 174.97, is below the level of the previous month (-3.5%) and below that of May of last year (-5.7%). (Please refer back to *Figure 1*, page 1.) Furthermore, the current index is 8.8% below the level in October 2007, the peak in the market as measured by the Moody's/REAL CPPI.

With the price decline of this month, the CPPI has now experienced three consecutive months of negative returns. Previously, the CPPI displayed three consecutive months of decline beginning in November of 2007, with the returns of November, December and January totaling -2.4%. The latest three consecutive month decline (March, April, May) represents an aggregate 8.8% decline. Prior to November of 2007, the CPPI had not experienced successive negative returns in any three month period.

Average Holding Period between Repeat Sales Increases

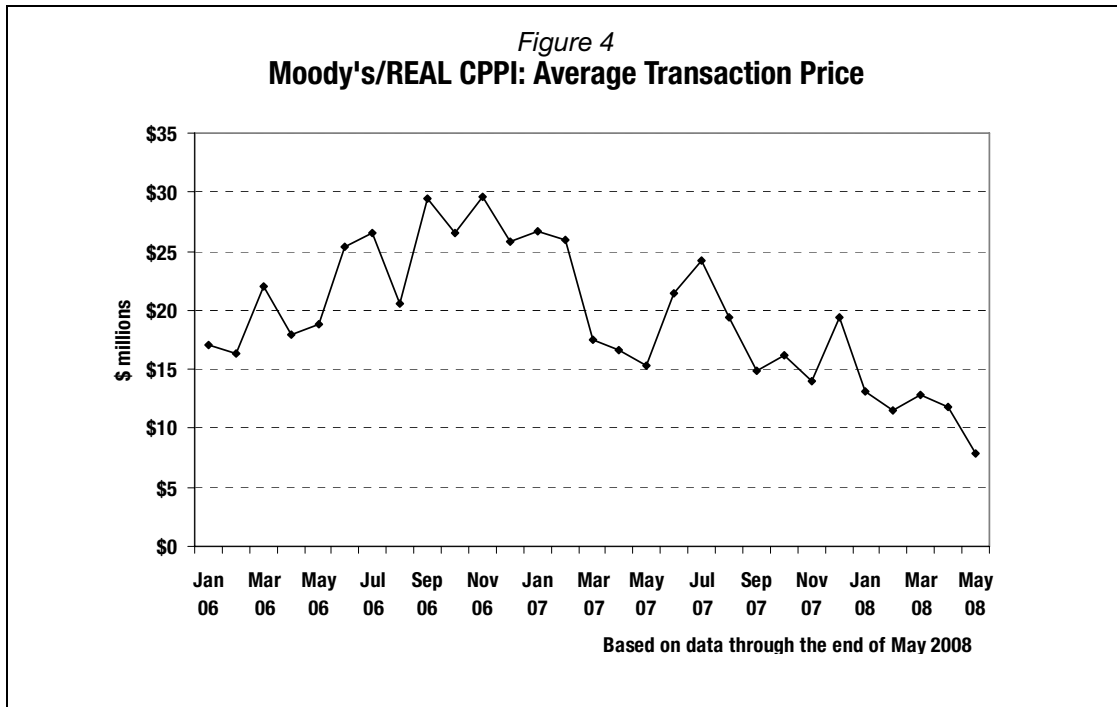
The average period of time between each member of the pair of repeat sales has increased over the last two years, from a low of 62 months, or just over five years, in July 2006 to a high of 88 months, or just over 7 years, in May 2008. (See *Figure 3*.)

In a weaker market, fewer owners are motivated to sell, and those that are motivated are the ones seeing a return on their investment. Owners who have held the property longer benefit from even more price appreciation and therefore would be less impacted by current price depreciation, as measured by the CPPI.



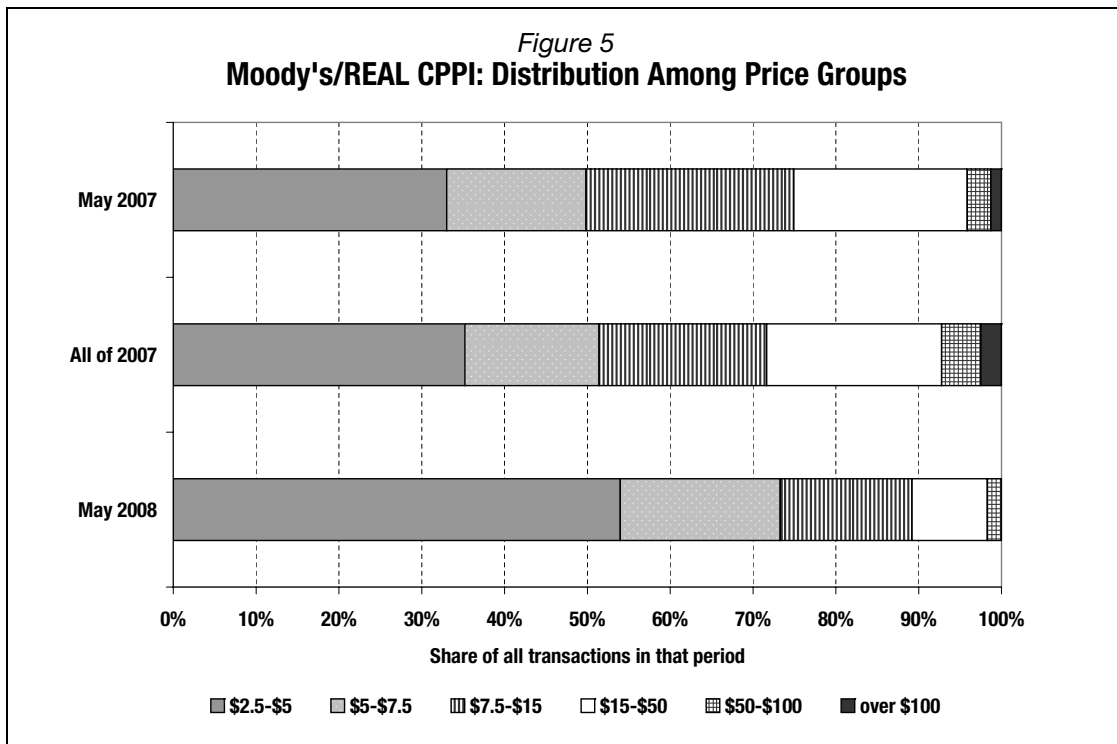
Average Transaction Price Declines

In addition to the decrease in the number of sales per month, the average transaction price declined in the past 12-18 months (see *Figure 4*). The drop in average transaction prices is fueled in part by a shift in transaction activity towards lower priced assets and fewer high-end and trophy properties.



In the past month, almost 75% of all transactions were on assets priced less than \$7.5 million, as compared to 50% in May of last year, and slightly over 50% in 2007 as a whole. (See *Figure 5*.)

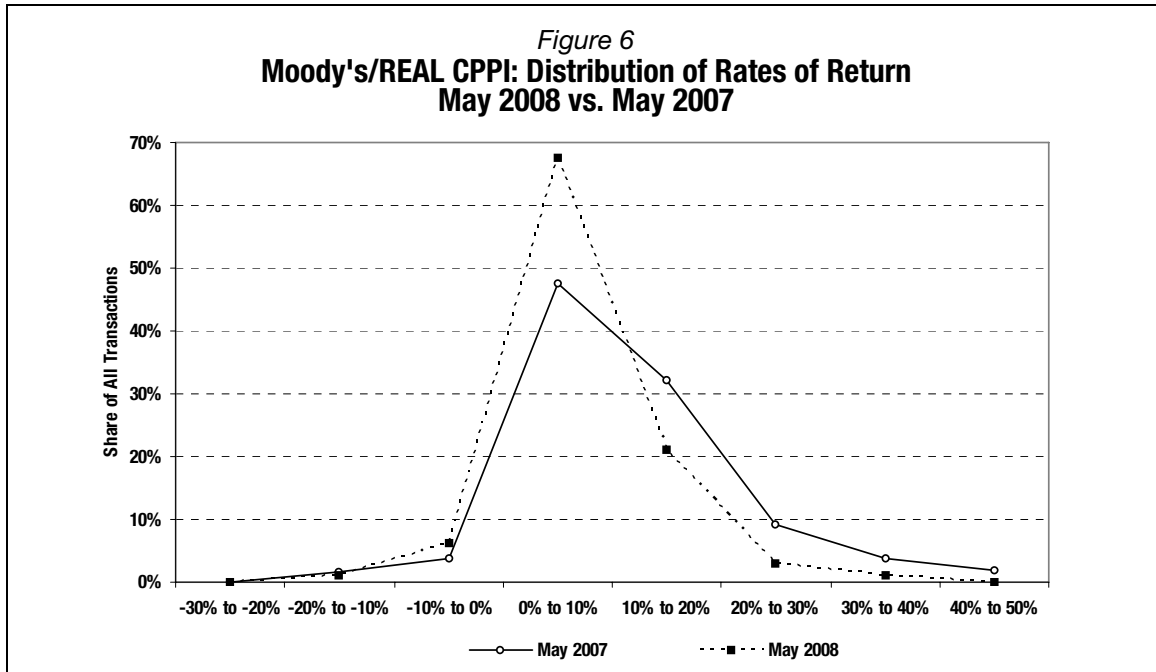
At the high end, slightly more than 1% of transactions in May of this year were in assets priced over \$50 million. In May of last year, over 5% of transactions were in sales of assets over \$50 million in price, and all of 2007 saw an over 7% share in transactions at that price level.



Distribution of Rates of Return Shifts Lower

The distribution of annualized rates of return has shifted downward in the May 2008 transactions as compared to May of last year.

In the most recent period, a larger share of all repeat sales transactions (over 65%) experienced annualized rates of return between zero and 10% as compared to less than 50% in the same month of the previous year (see *Figure 6*). Similarly the share of transactions that saw annualized rates of returns between 10% and 20% was lower in this month (slightly over 20%) than in May of 2007 (slightly over 30%).



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 and the first half of 2009 (*Figures 7, 8, and 9*).
- Charts for the 28 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 10 - 17*).

APPENDIX

Figure 7
CPPI: Report Release Cycle, 2008 - 2009

	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
	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

Figure 8

(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 9

(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	

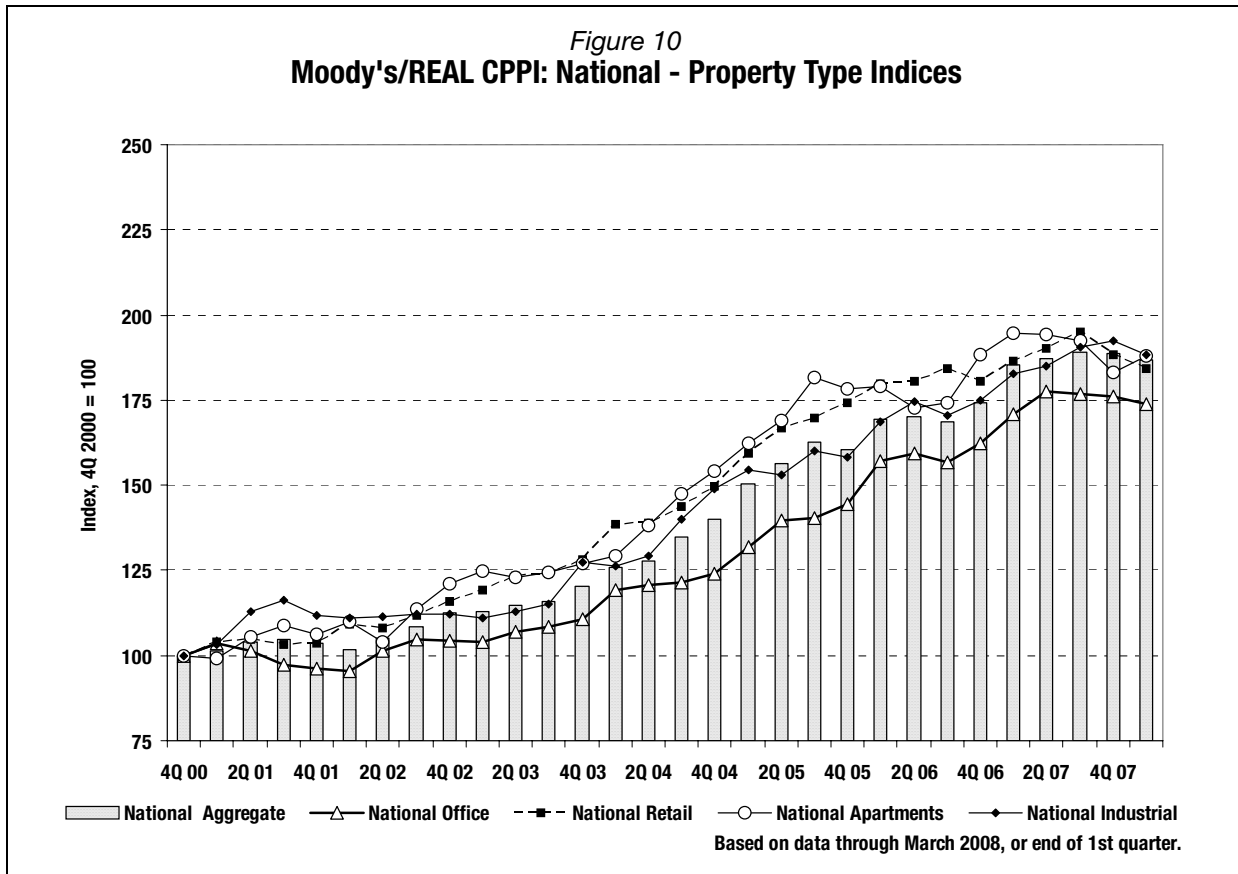


Figure 11
Moody's/REAL CPPI: Top Ten MSAs -- Property Type Indices

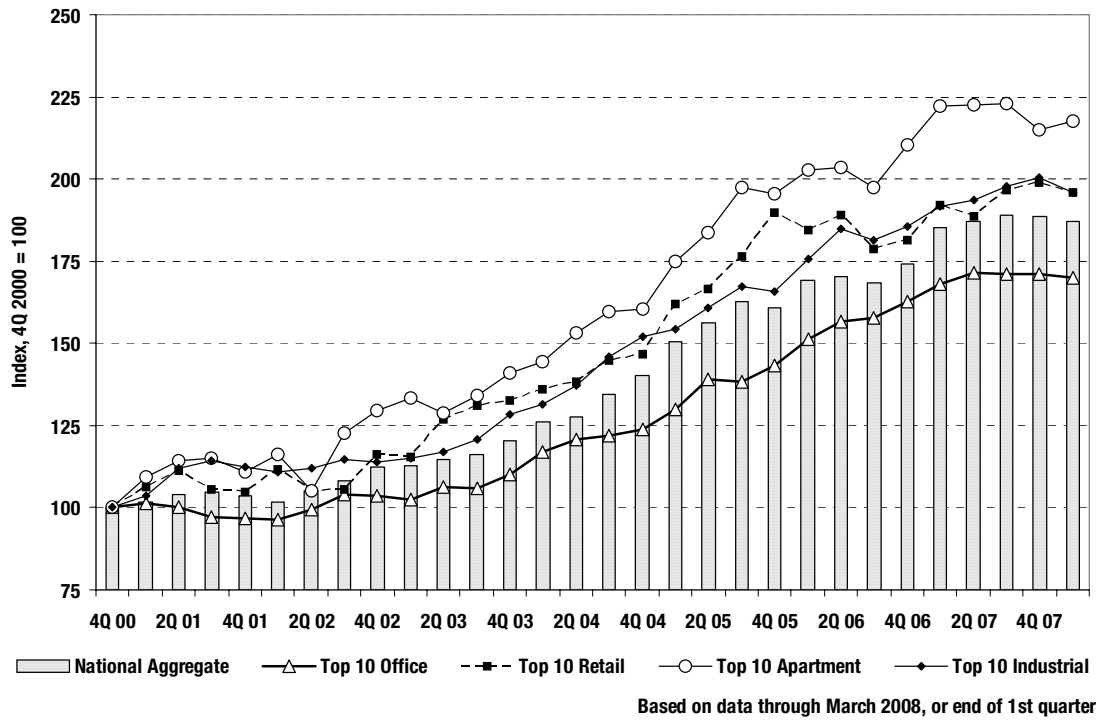


Figure 12
Moody's/REAL CPPI: West -- Property Type Indices

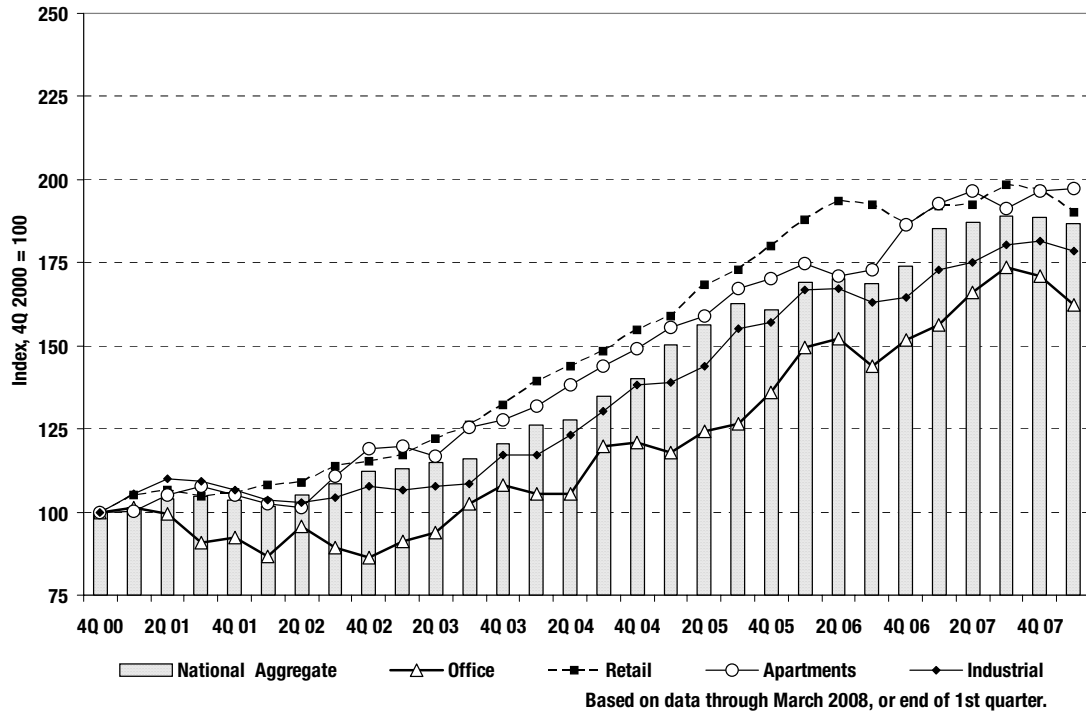
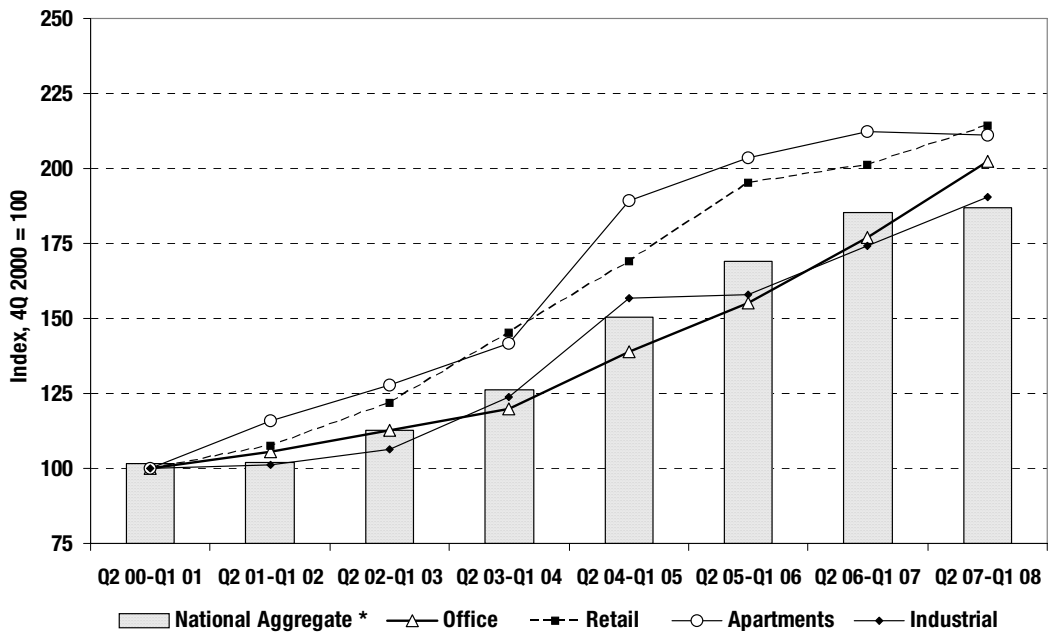
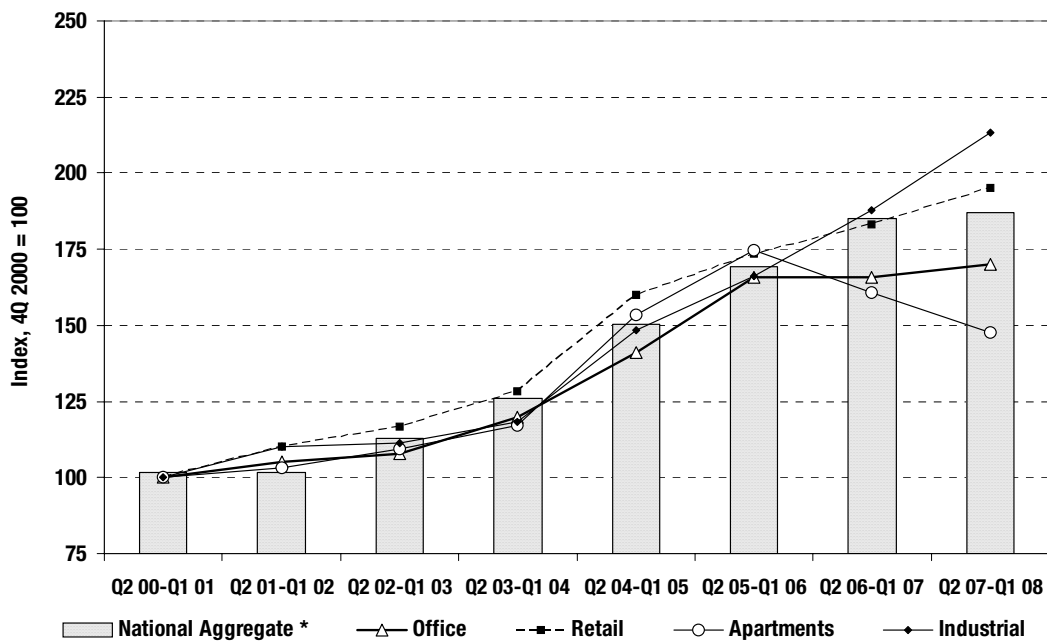


Figure 13
Moody's/REAL CPPI: East -- Property Type Indices



* National aggregate index, like the other series, is as of end of 1Q of each one-year period

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



* National aggregate index, like the other series, is as of end of 1Q of each one-year period

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

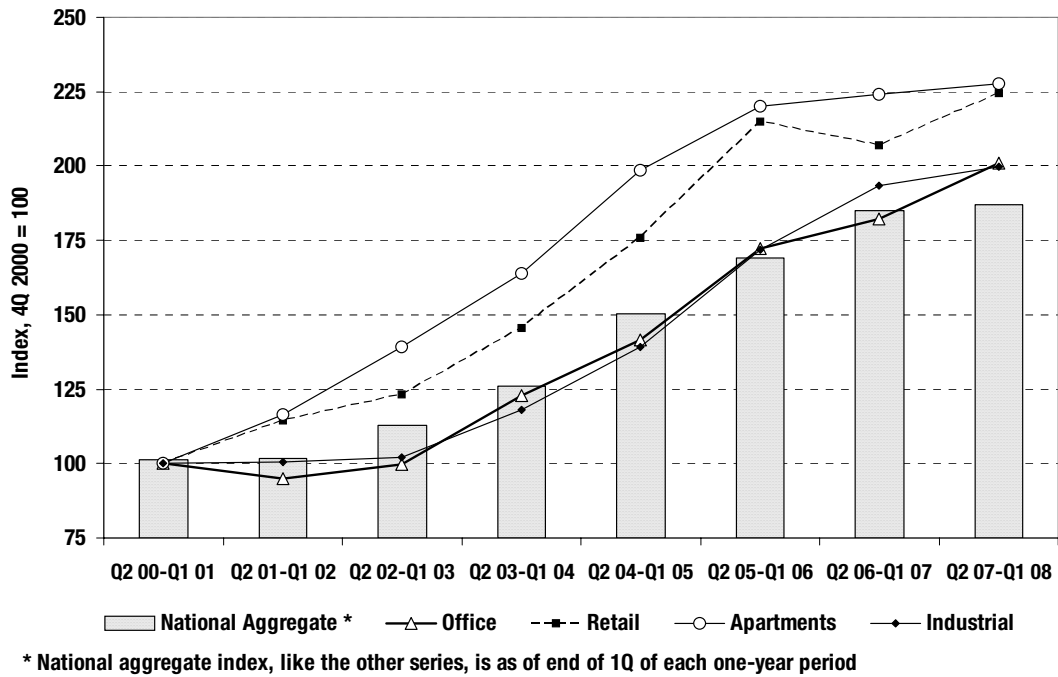


Figure 16
Moody's/REAL CPPI: Major Office Markets Indices

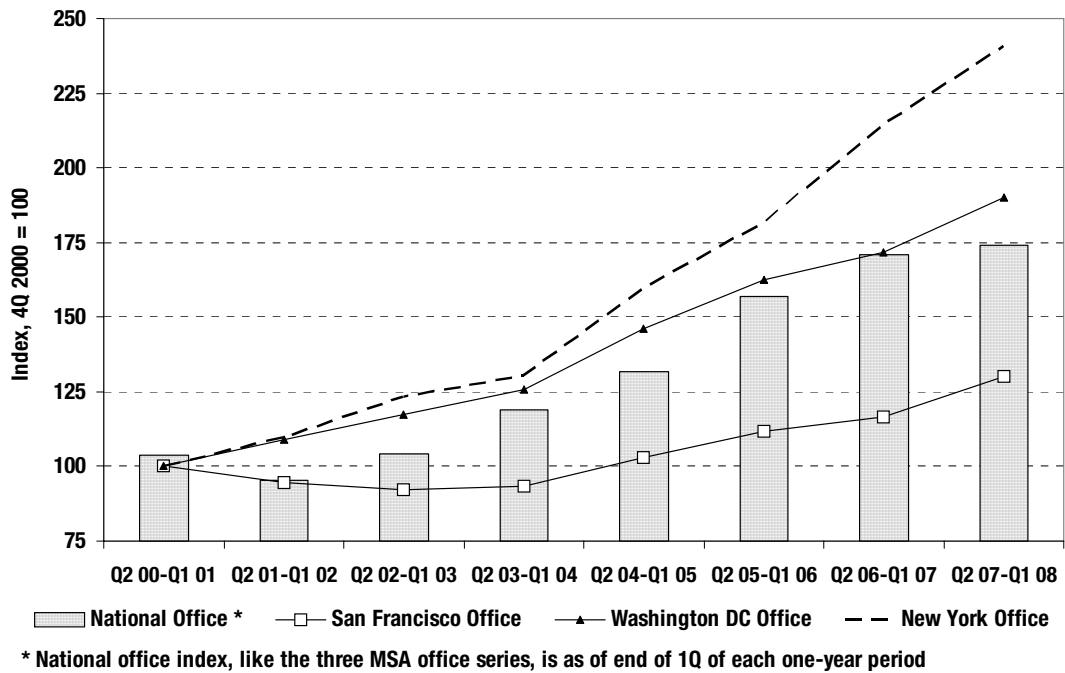
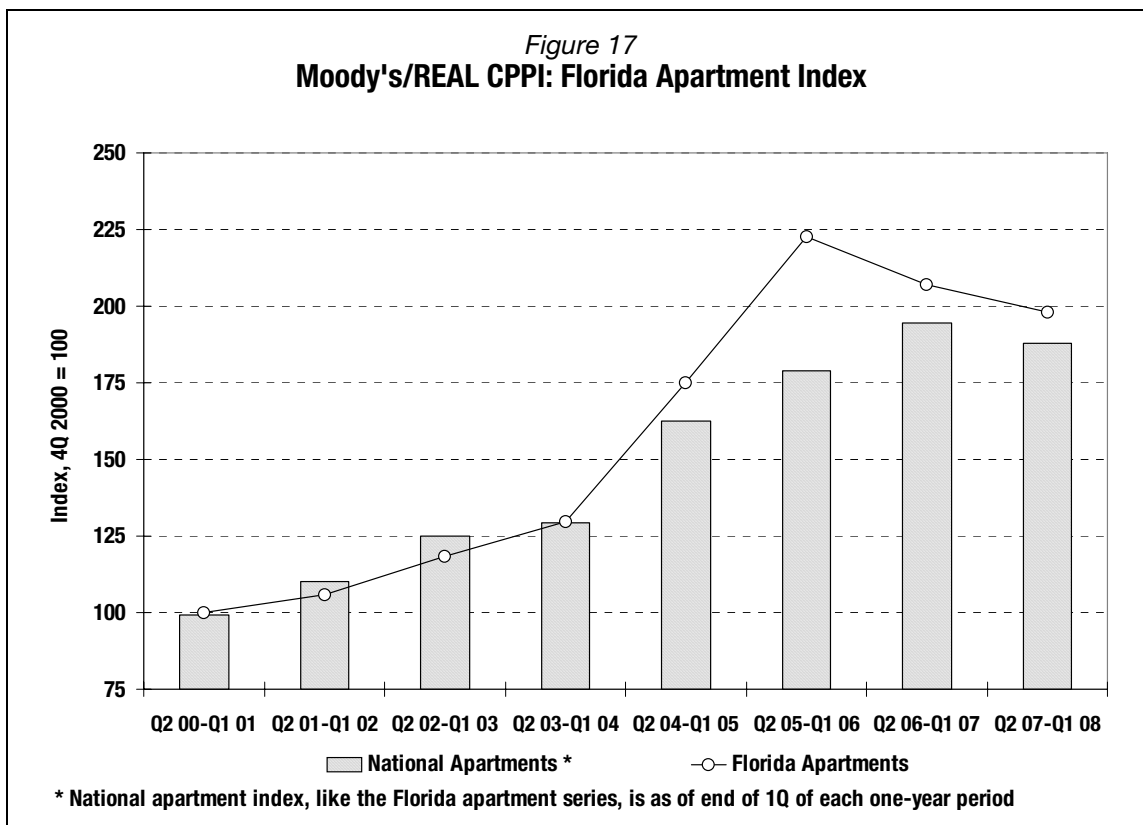


Figure 17
Moody's/REAL CPPI: Florida Apartment Index



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