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

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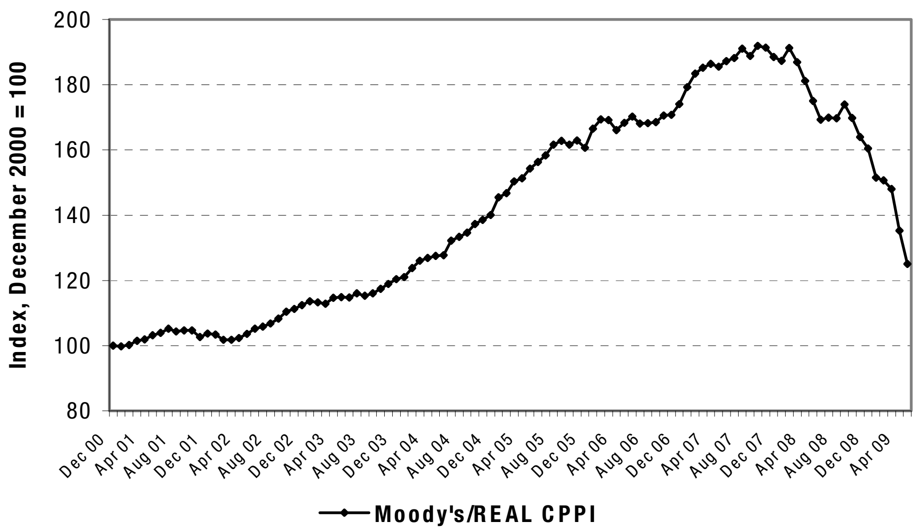
OVERVIEW

The Moody's/REAL National All Property Type Aggregate Index for May measures 125.04, a decrease of 7.6% from the previous month. The index now stands 28.5% below the level seen a year ago and 34.8% below the peak measured in October 2007. The index is 32.6% lower than it was two years ago. This report is based on data through the end of May.

Figure 1

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

National – All Property Type Aggregate



Based on data through the end of May 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
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	125.04	-7.6%	-28.5%	-32.6%

	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 May 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 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 a 7.6% decline in May 2009. The index now stands 34.8% below the peak measured in October 2007.
- Transaction volume in the overall market has fallen to its lowest level yet. There were 282 transactions in May and of those, 52 were repeat-sales transactions used in calculating the index.
- Large commercial real estate price declines in the last two months suggest that a bottom may be starting to form, although higher transaction volumes would be necessary in order to draw any more definitive conclusions.

[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: ANOTHER LARGE ONE-MONTH DROP

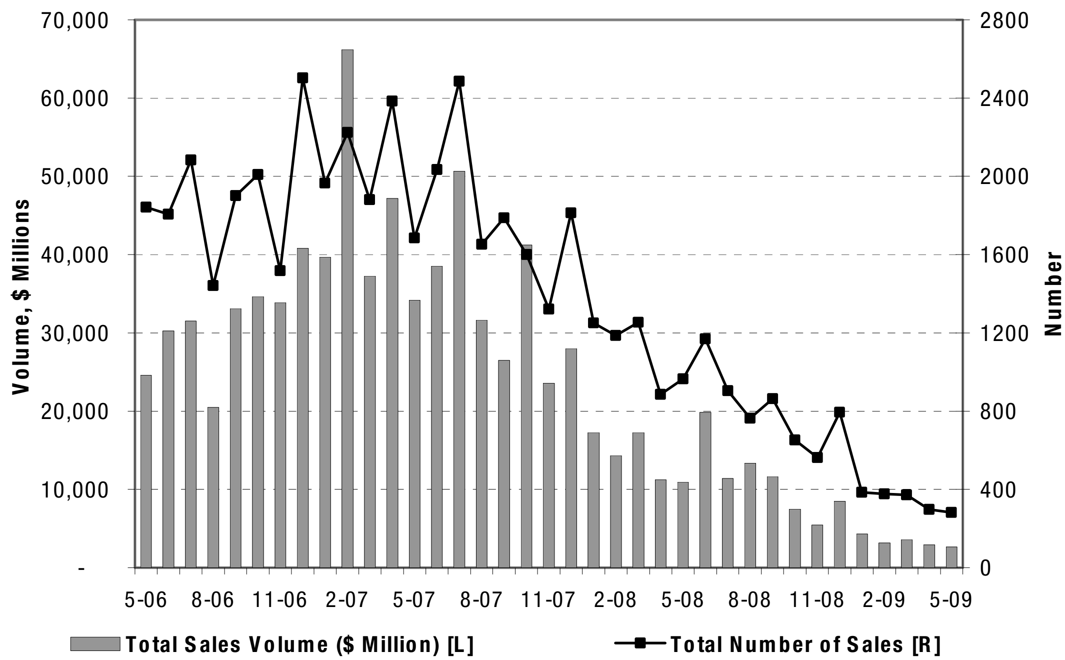
The National – All Property Type Aggregate Index is a monthly series, and this report is based on data through May 31, 2009. Refer back to *Figure 1*, page 1.

Commercial real estate values dropped 7.6% in the month of May according to Moody's/REAL CPPI. The index is down over 15% in the past two months alone. The large drop this month, on the heels of the 8.6% decline last month, puts prices 34.8% below the peak measured in October 2007.

Accompanying the large monthly drops is a decrease in both the transaction volume and dollar value of the sales. May marked a new low for both counts. There were only 282 transactions in May, passing the old low set in the early 2000's. The dollar value of sales was less than April 2009, the former lowest amount, with total sales dropping to $2.7 billion.

Figure 3

Moody's/REAL CPPI: Volume and Number of Total Sales



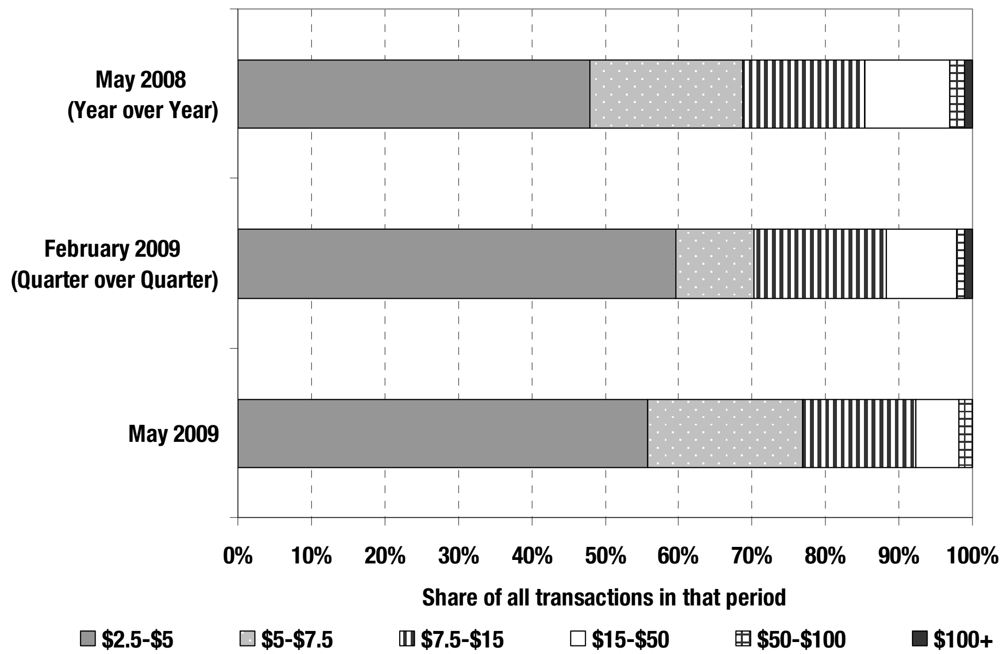
There were 52 repeat sales used to calculate the index. These repeat sales had a dollar value of $400 million, a value that last occurred in April 2002.

Distressed sales are almost certainly starting to exert downward pressure on the returns. In addition, mortgage interest rates have increased recently, which appears to have derailed or postponed some deal closings. The apartment sector felt the brunt of this effect, causing volume in this sector to decline more than for any other property type in the month of May.

This month also marks the first time that round-trip price-change returns on some properties have fallen below -40% per annum (that is, over the investment holding span between the buy and the sell dates). Two properties this month saw negative annual rates of return in the high 40s. One was an apartment property in southern Florida which was returned to the lender and sold thereafter to a third party. The other was an office building in Los Angeles owned by a company in financial distress, which contributed to the highly negative rate of return.

Figure 4

Moody's/REAL CPPI: Distribution Among Price Groups



The distribution among price groups continues to drift towards lower priced assets. In May 2008, about 70% by count of all repeat sales transactions occurred in properties priced $7.5 million or below and in February 2009 the proportion was slightly higher. In May, nearly 80% of all repeat sales transactions occurred in properties price less than $7.5 million, and there were no properties that sold for more than $100 million.

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 5*, *6*, and *7*).

- 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 readers' convenience (*Figures 8 – 15*).

APPENDIX

Figure 5

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 6

(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 7

(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 8

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

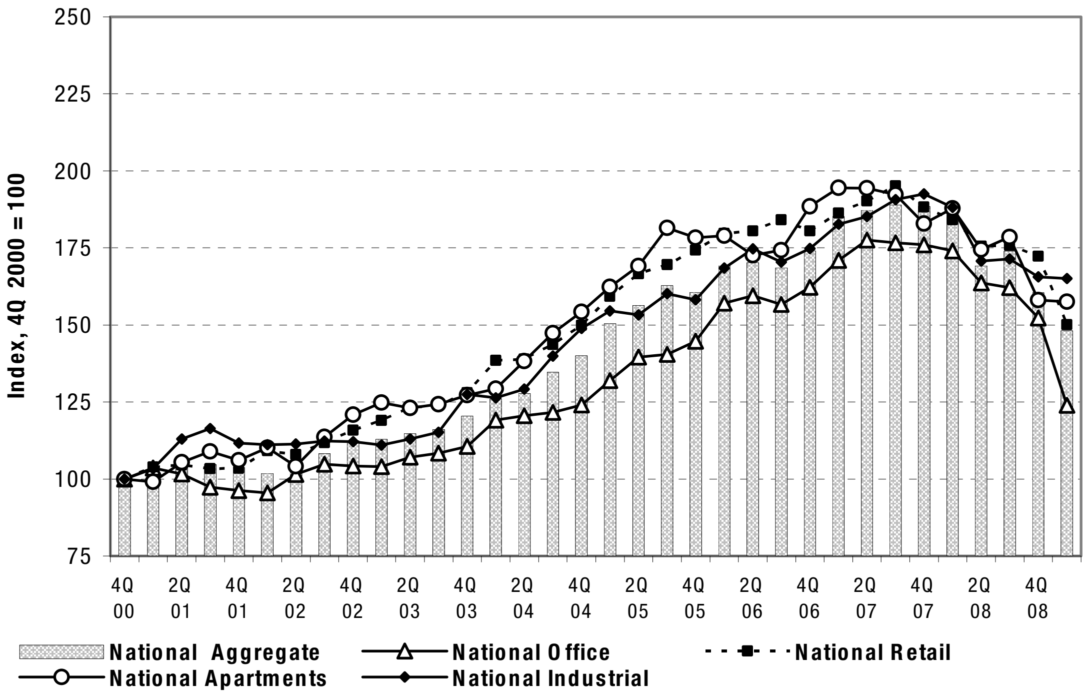


Figure 9

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

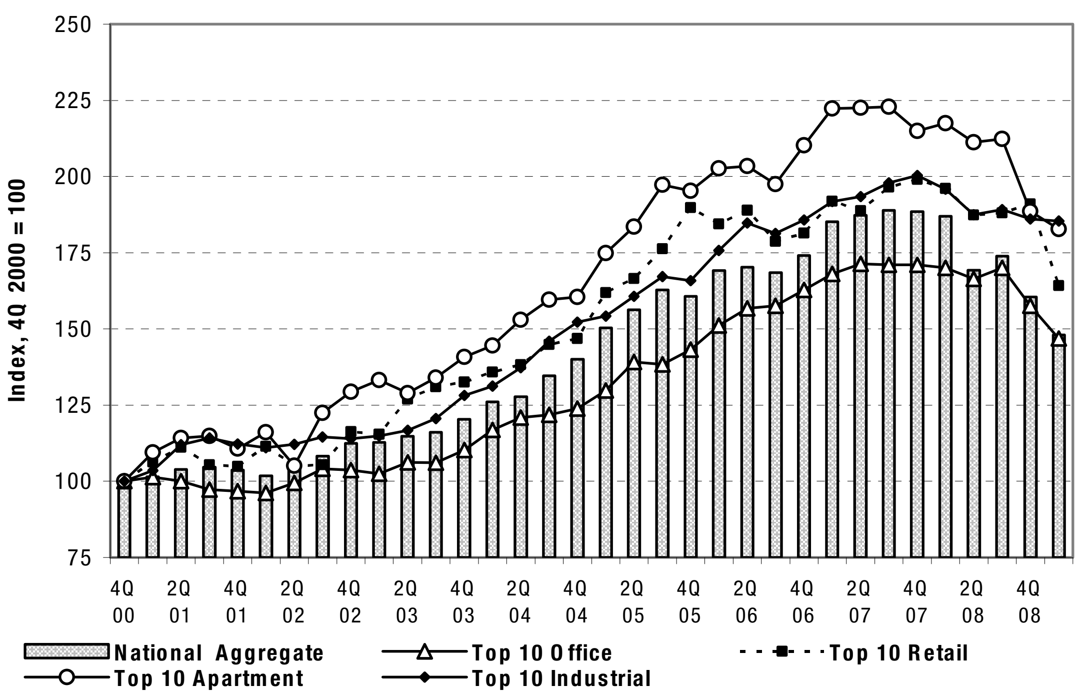


Figure 10

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

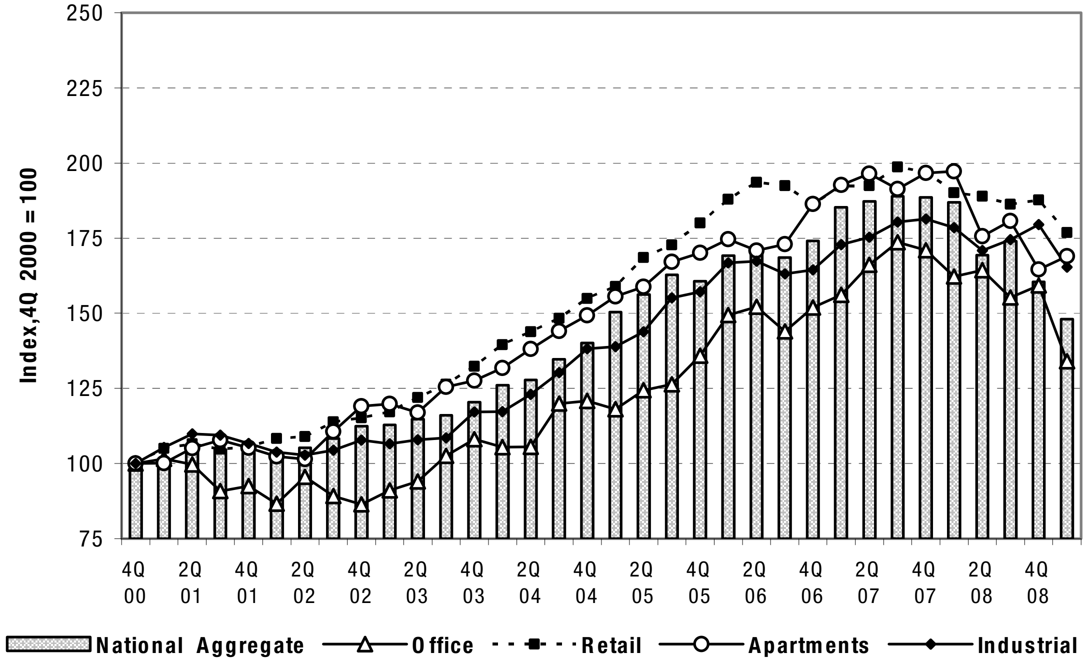
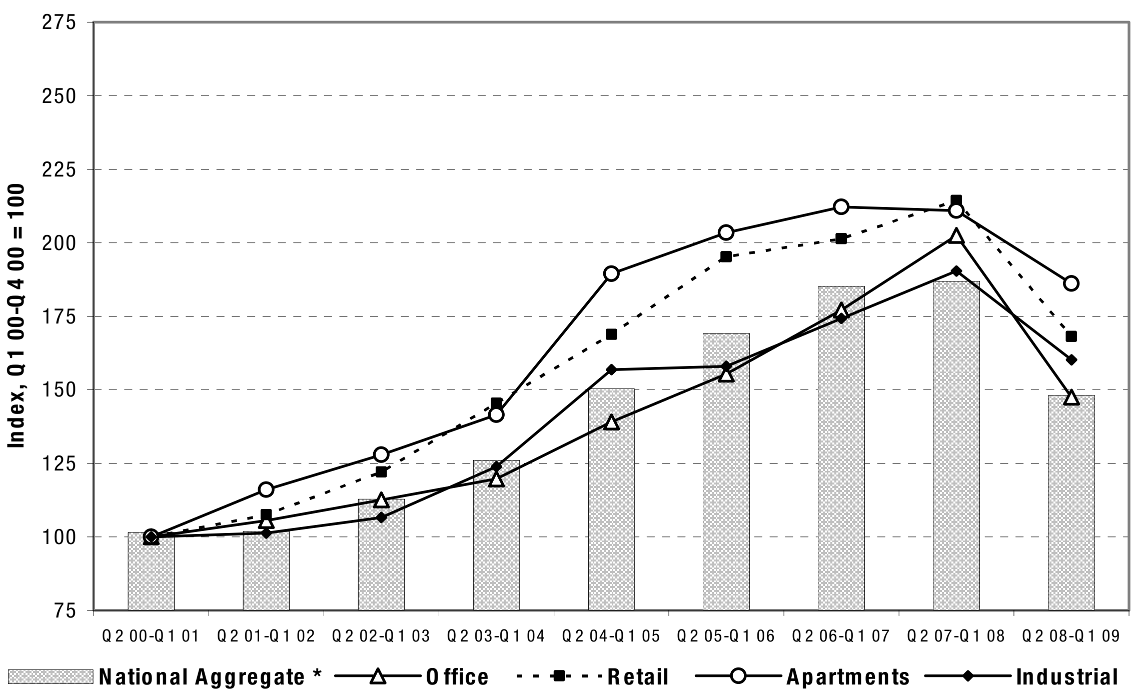


Figure 11

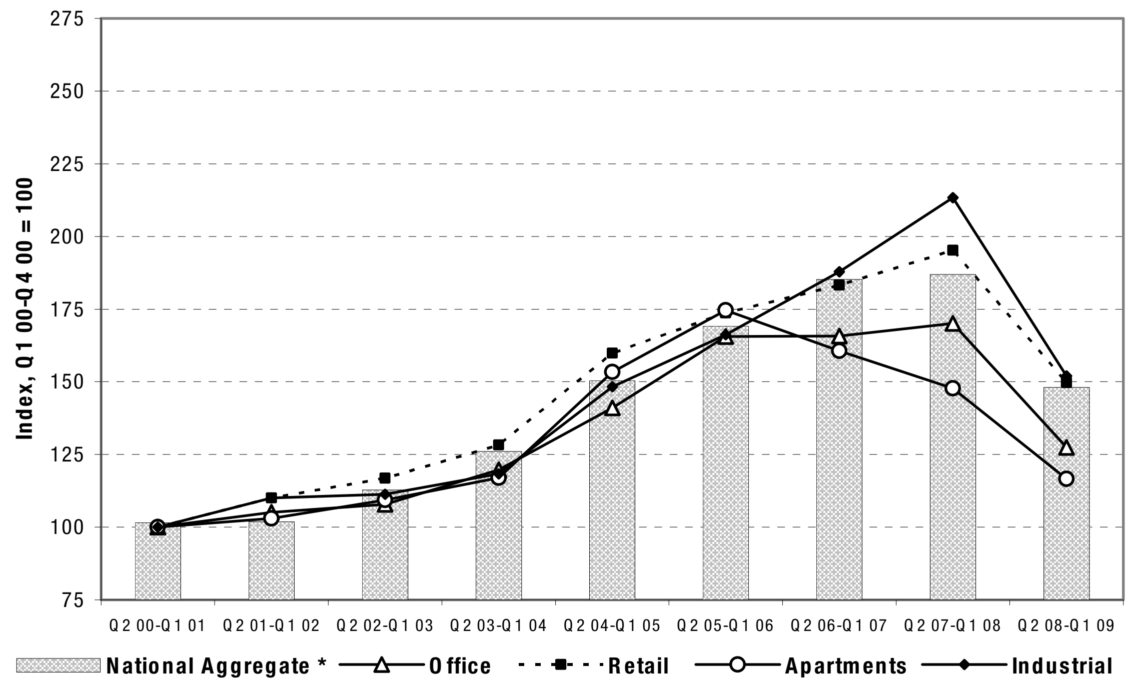
Moody's/REAL CPPI: East — Property Type Indices



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

Figure 12

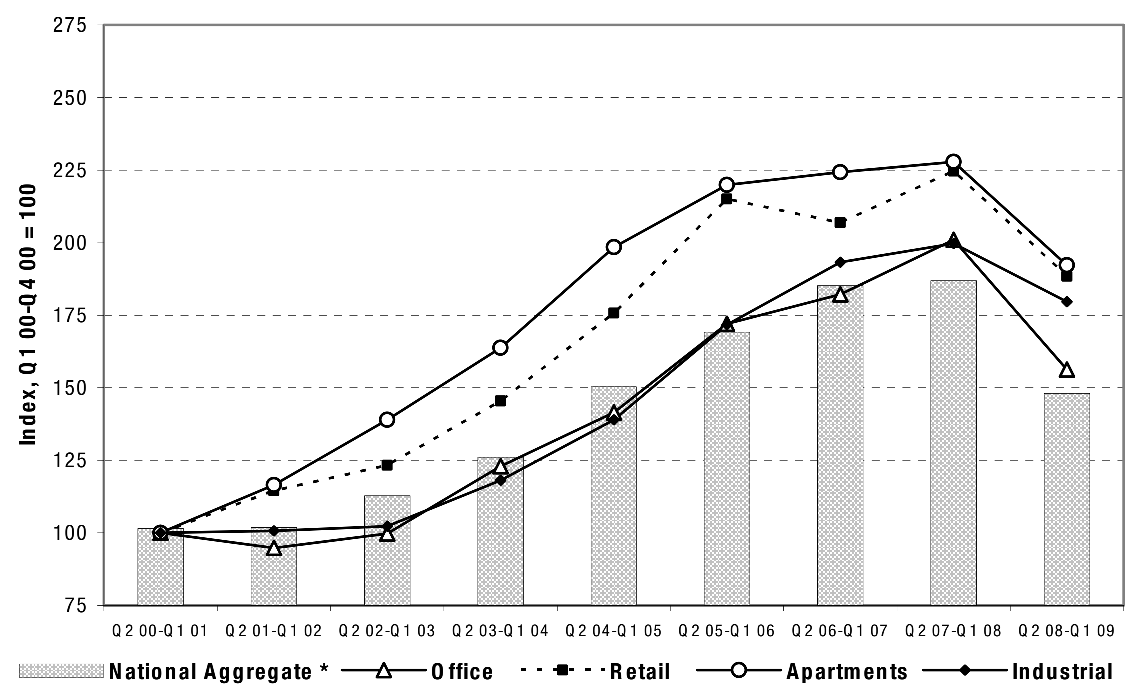
Moody's/REAL CPPI: South — Property Type Indices



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

Figure 13

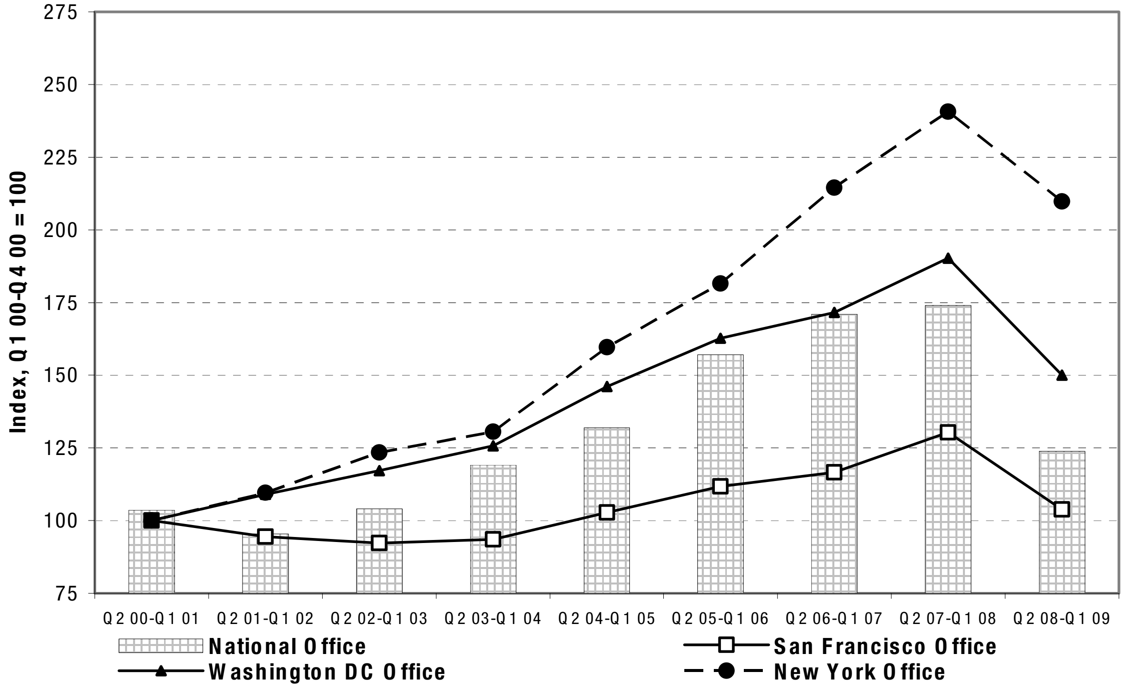
Moody's/REAL CPPI: Southern California—Property Type Indices



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

Figure 14

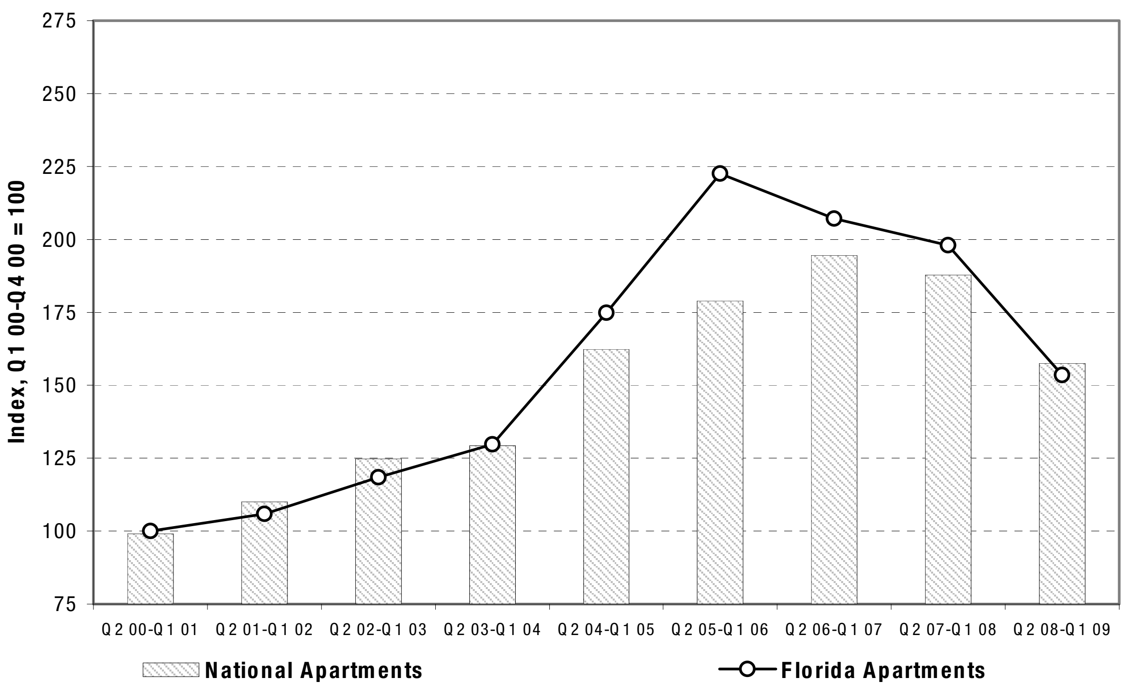
Moody's/REAL CPPI: Major Office Markets Indices



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

Figure 15

Moody's/REAL CPPI: Florida Apartment Index



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

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