

SPECIAL REPORT

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

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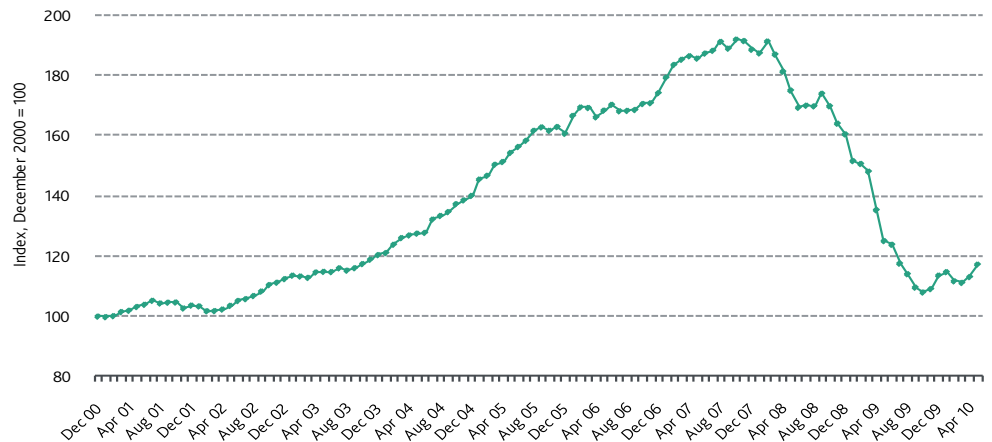
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Overview

The Moody's/REAL All Property Type Aggregate Index measured a 3.6% increase in commercial property prices in May. This is the second consecutive month of positive price returns. Prices are currently 38.9% below the peak that was recorded in October 2007, and have recovered 8.6% since the recession low that occurred in October 2009. In the past year, prices are down 6.3%, while in the past two years prices have dropped 33.0%.

FIGURE 1
Moody's/REAL Commercial Property Price Index (CPPI)
 National – All Property Type Aggregate



Based on data through the end of May 2010.

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	117.22	3.6%	-6.3%	-33.0%
	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	153.98	-17.3%	-27.0%	
East – Industrial	147.12	-8.1	-22.7	
East – Office	110.98	-24.7	-45.2	
East – Retail	175.85	4.6	-18.0	
South – Apartments	78.64	-32.6	-46.8	
South – Industrial	122.64	-19.3	-42.5	
South – Office	117.56	-7.8	-30.9	
South – Retail	126.92	-15.2	-35.0	
So. California – Apartments	188.39	-2.0	-17.3	
So. California – Industrial	130.58	-27.3	-34.6	
So. California – Office	135.52	-13.3	-32.6	
So. California – Retail	152.18	-19.2	-32.2	
New York – Office	159.72	-23.9	-33.6	
San Francisco – Office	92.71	-10.7	-28.8	
Washington DC – Office	124.72	-16.9	-34.4	
Florida – Apartments	107.59	-29.9	-45.7	

M Monthly series. Most recent data is through May 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 1st quarter 2010. Analysis is based on data from four quarters (2Q09, 3Q09, 4Q09 and 1Q10). 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 3.6% increase in May. This is the second consecutive month of positive returns for the index. The index is 8.6% above the recession low that occurred in October 2009.
- » We expect commercial real estate prices to remain choppy in the coming months. The positive news of increasing prices over the past two months is tempered by low transaction volumes, forecasts for slowing macroeconomic growth and the rising risk of a double dip recession.

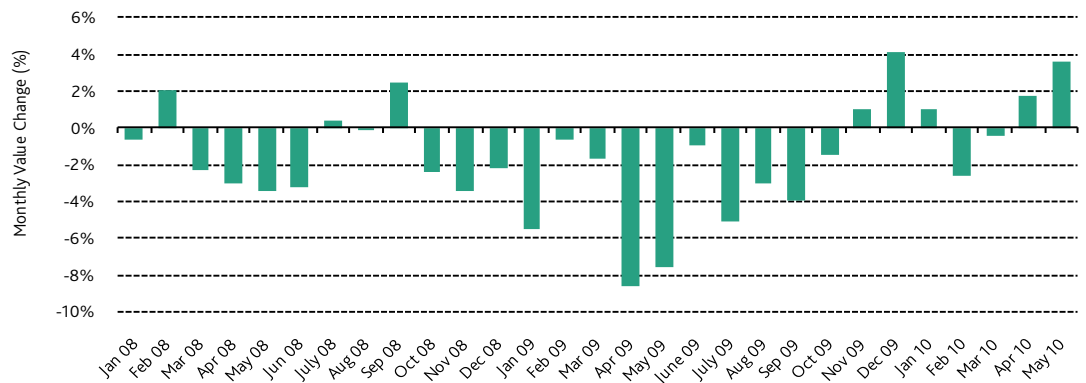
¹ A summary or short version of the repeat sales methodology is available in a Moody's Special Report. [US CMBS: Moody's Publishes the First Commercial Property Price Indices Based on Commercial Real Estate Repeat Sales Data](#). Sept. 19, 2007. This is available on Moodys.com > Research & Ratings >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

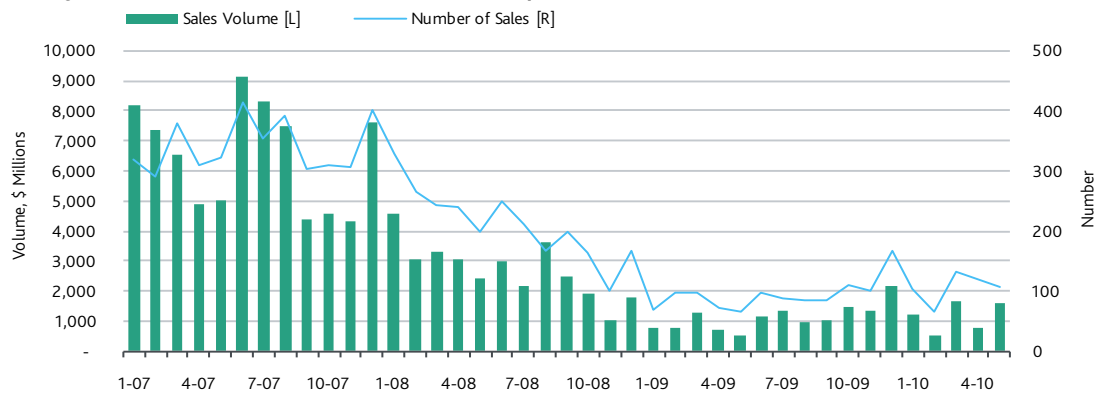
Commercial property prices have increased for the second consecutive month, with May registering a 3.6% return, the fourth largest positive return in the history of the index. Although prices have increased in five of the past seven months, commercial real estate markets continue to face substantial headwinds and, in our view, the CPPI is likely to remain choppy in the near term as the market struggles to establish a true bottom in a period of very low transaction volumes.

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



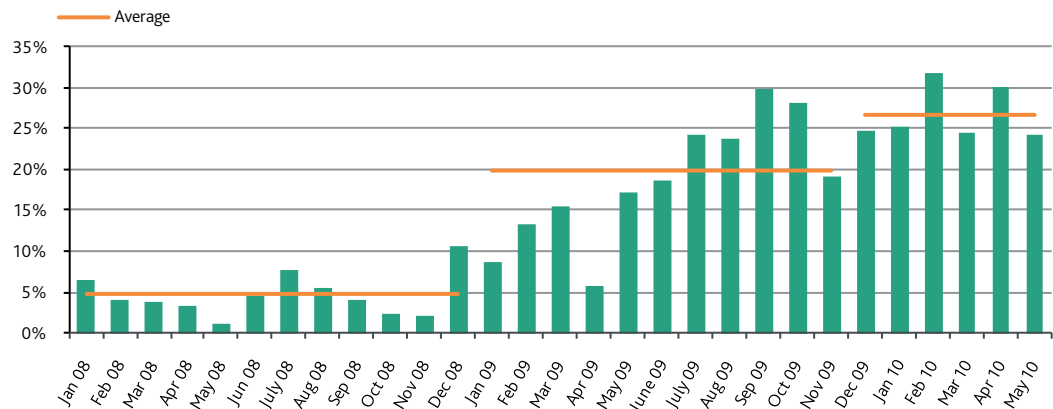
There were 107 repeat sales in May, down slightly from the 114 repeat sales that were recorded last month. By dollar volume, however, the amount of repeat sales almost doubled, going up to over \$1.5 billion in May, compared to less than \$800 million in April. The average repeat sale transaction increased to over \$14 million, from under \$7 million in the prior month.

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



The total number of repeat sales transactions has increased slightly since 2009, when only two months had over 100 repeat sales transactions. Four of the first five months of 2010 have surpassed that threshold. The number of repeat sales transactions, however, is still significantly below pre-recession figures.

FIGURE 5
Moody's/REAL CPPI: Distressed Sales as a Percentage of All Repeat-Sales



The proportion of repeat sales that are classified as distressed² has increased in the past two years. In 2008, only 4.7% of all repeat sales were considered distressed. In 2009, the share of repeat sales that were distressed increased to 19.9%. In the first five months of 2010, this share has grown to 26.8% of all repeat sales. May was slightly lower than the 2010 average, with distressed properties representing 24.3% of all repeat sales. The ability of distressed properties to transact in the marketplace is a positive sign for the market as the orderly establishment of market-clearing prices for troubled properties is a prerequisite for the formation of a firm market bottom.

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 6, 7, and 8).
- » A listing of the cities included in the Top Ten Indices (Figure 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 readers' convenience (Figures 10 – 17).

² A distressed sale involves an asset in which a notice of default, foreclosure proceeding, or bankruptcy of the owner has occurred.

Appendix

FIGURE 6
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 7

(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 8

(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	

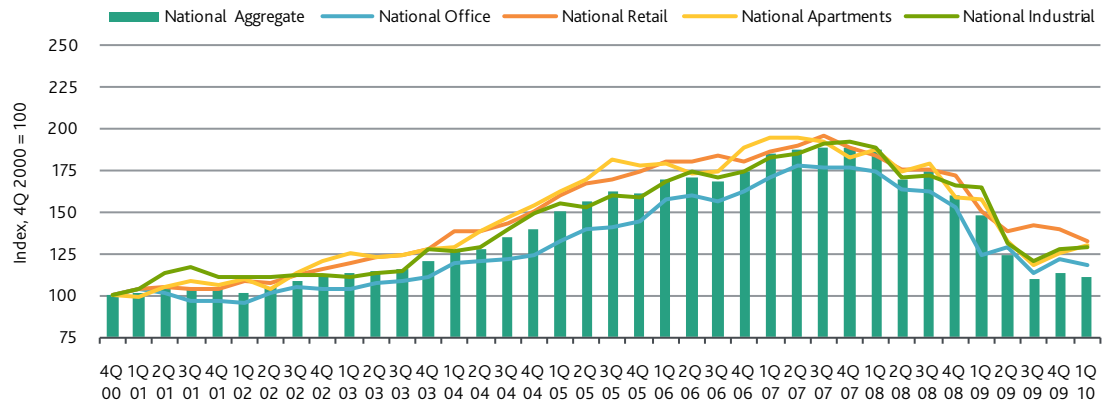
FIGURE 9

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

FIGURE 10

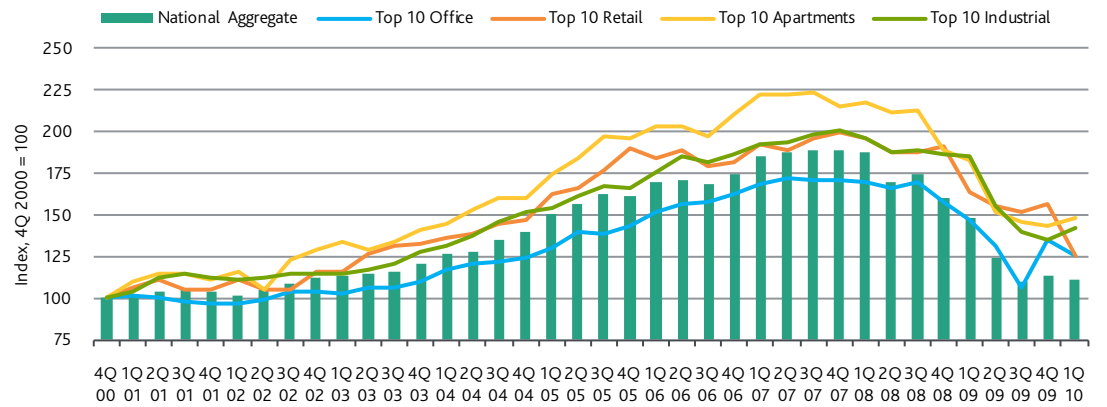
Moody's/REAL CPPI: National — Property Type Indices



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

FIGURE 11

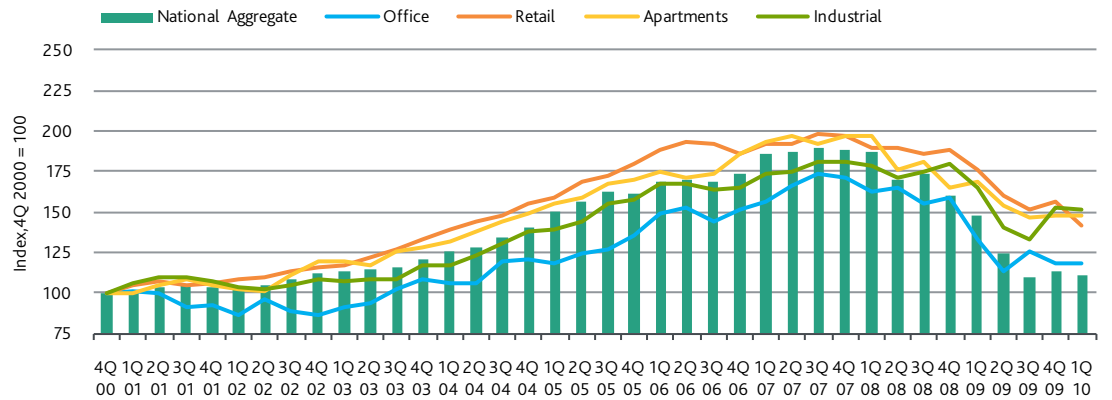
Moody's/REAL CPPI: Top Ten MSAs — Property Type Indices



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

FIGURE 12

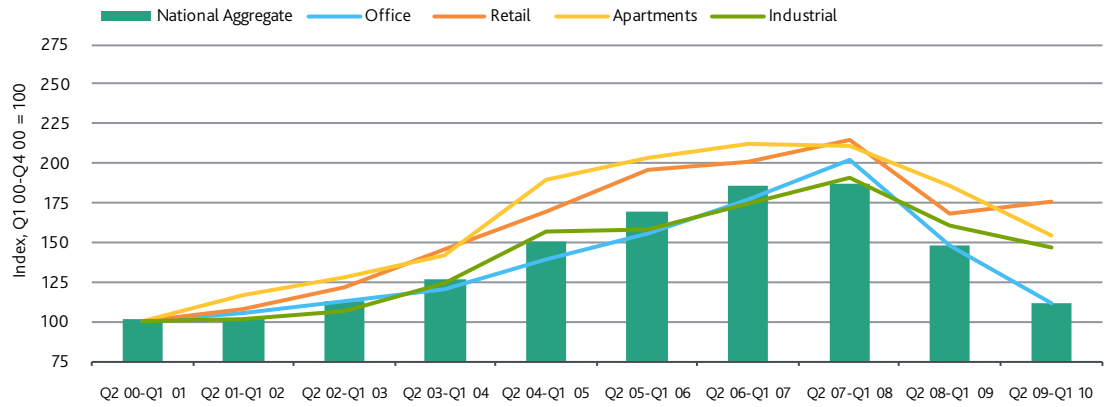
Moody's/REAL CPPI: West — Property Type Indices



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

FIGURE 13

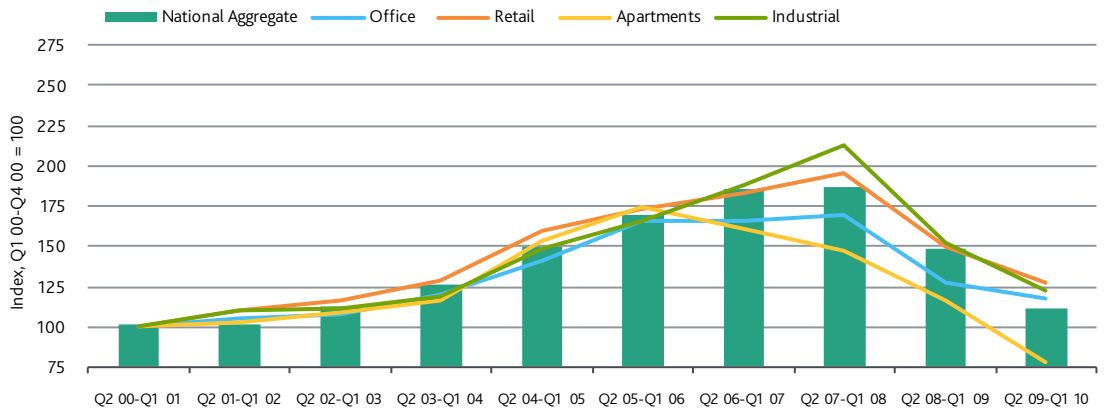
Moody's/REAL CPPI: East—Property Type Indices



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

FIGURE 14

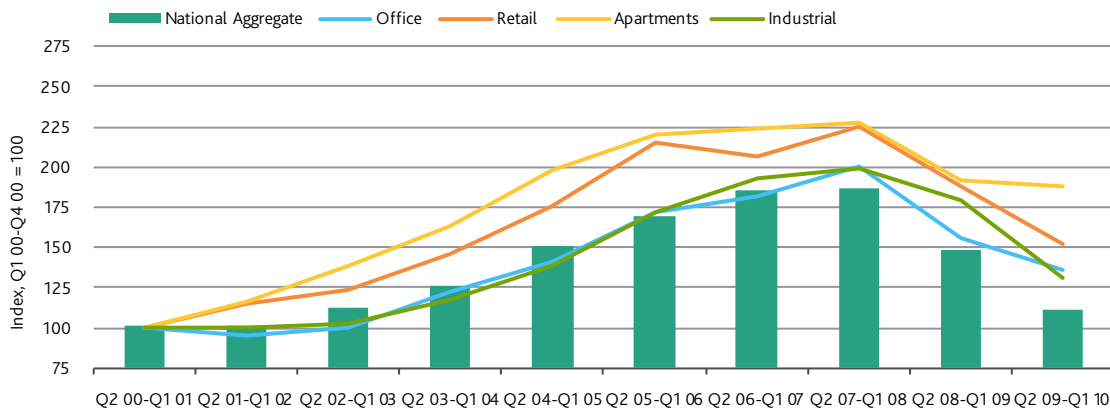
Moody's/REAL CPPI: South—Property Type Indices



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

FIGURE 15

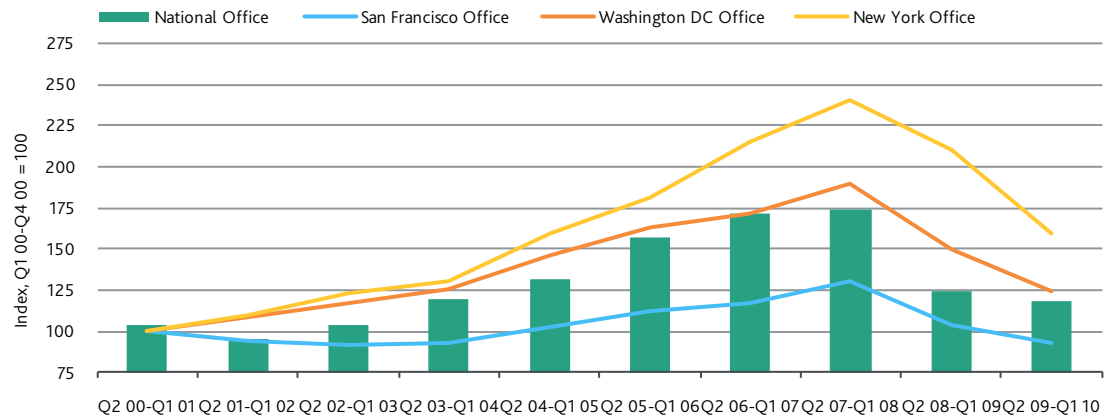
Moody's/REAL CPPI: Southern California—Property Type Indices



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

FIGURE 16

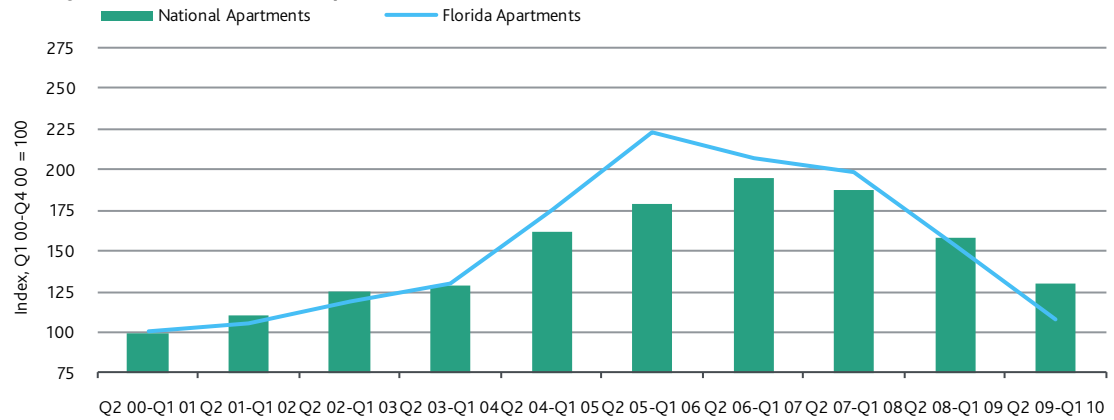
Moody's/REAL CPPI: Major Office Markets Indices



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

FIGURE 17

Moody's/REAL CPPI: Florida Apartment Index



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

Report Number: SF211033

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