

# Moody's/REAL Commercial Property Price Indices, August 2009

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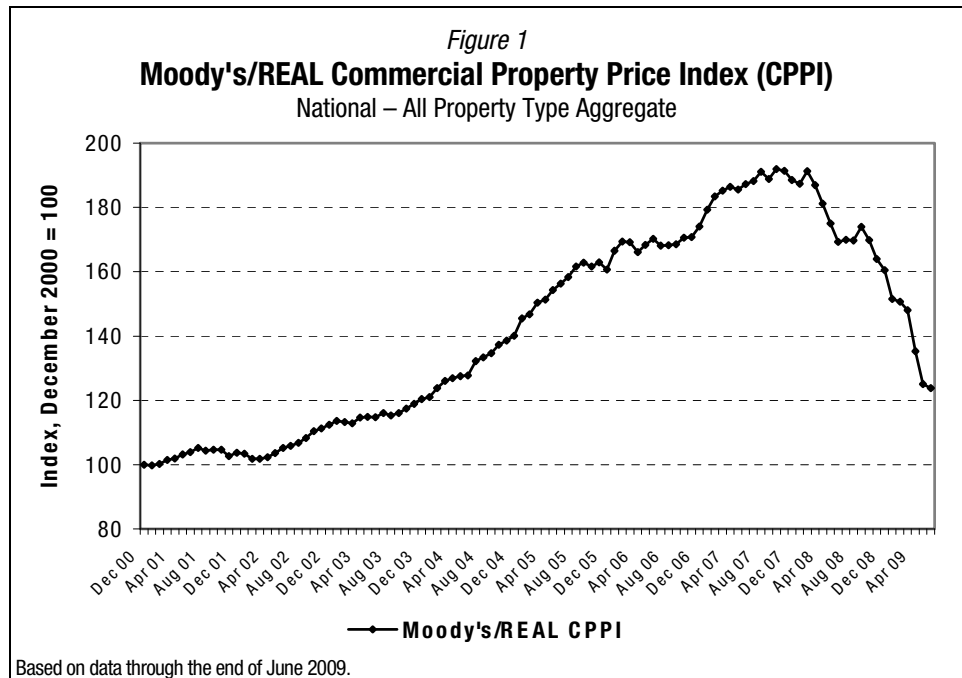
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**OVERVIEW**

The Moody's/REAL All Property Type Aggregate Index measures 123.82 in June, a drop of 1.0% from the month before. Commercial property prices are now 26.9% lower than one year ago and 33.9% below the level seen two years ago, as measured by the CPPI. Values on commercial property prices are now 35.5% below the peak seen in October 2007.



*Figure 2*  
**Current Moody's/REAL CPPI and Change from Earlier Periods**

<b>New This Period:</b>	<b>National All Property Type Aggregate</b>
	<b>National – Four Property Types</b>
	<b>Top 10 MSAs – Four Property Types</b>
	<b>West – Four Property Types</b>
<b>Repeated This Period:</b>	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

	<b>Current Index<sup>M</sup></b>	<b>1 Month Earlier</b>	<b>1 Year Earlier</b>	<b>2 Years Earlier</b>
National All Property Type Aggregate	123.82	-1.0%	-26.9%	-33.9%

	<b>Current Index<sup>Q</sup></b>	<b>1 Quarter Earlier</b>	<b>1 Year Earlier</b>	<b>2 Years Earlier</b>
National - Apartments	131.93	-16.3%	-24.4%	-32.1%
National – Industrial	131.30	-20.4	-23.1	-29.1
National – Office	128.96	4.1	-21.2	-27.4
National – Retail	138.30	-7.9	-21.2	-27.3
Top Ten MSAs <sup>1</sup> - Apartments	151.43	-17.2	-28.3	-32.0
Top Ten MSAs- Industrial	155.31	-16.3	-17.2	-19.7
Top Ten MSAs- Office	131.55	-10.4	-20.9	-23.2
Top Ten MSAs- Retail	155.76	-5.1	-16.9	-17.5
West – Apartments	153.73	-9.0	-12.5	-21.7
West – Industrial	140.47	-15.1	-17.8	-19.9
West – Office	112.98	-15.4	-31.2	-32.0
West – Retail	160.41	-8.9	-15.1	-16.7

	<b>Current Index<sup>A</sup></b>	<b>1 Year Earlier</b>	<b>2 Years Earlier</b>
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 June 30, 2009.

Q Quarterly series. Most recent data is through the end of the 2nd quarter 2009. Analysis is based on data from that 2nd 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.<sup>1</sup>

### **Notable Observations and Themes**

- The National — All Property Type Aggregate Index measured a mild 1.0% price decline in the month of June. Coming on the heels of two consecutive large monthly value drops, the index now stands 35.5% below the peak measured in October 2007.
- Overall market transaction volume saw an uptick in June as compared to May. 87 repeat sales transactions totaling \$1.1 billion were used in calculating the index, representing an almost 50% increase in the number of repeat sales transactions recorded in May and nearly two and a half times the total dollar volume measured in May.
- Office prices nationally saw a 4.1% increase in prices in the second quarter, the only gain measured in this report. On the other hand, the national industrial sector experienced a dismal 20.4% decline in value during the same period.
- Values in the Top Ten MSAs all measured declines in the second quarter of 2009. On a peak-to-trough basis, however, these indices are performing better than the nation as a whole.
- Office prices in the west experienced another large quarterly drop, falling 15.4% in the second quarter. This was the worst performing sector in the region.

<sup>1</sup> 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: MILD DECLINE THIS MONTH, BUT LARGE DROPS SEEN IN SECOND QUARTER OVERALL

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

After two consecutive months of greater than seven percent value declines, commercial property prices saw a relatively mild 1.0% decline in the month of June. Prices are now down 35.5% from the peak, with a 16.4% decline in the second quarter of 2009 alone. The index is now back to a level last seen in February of 2004.

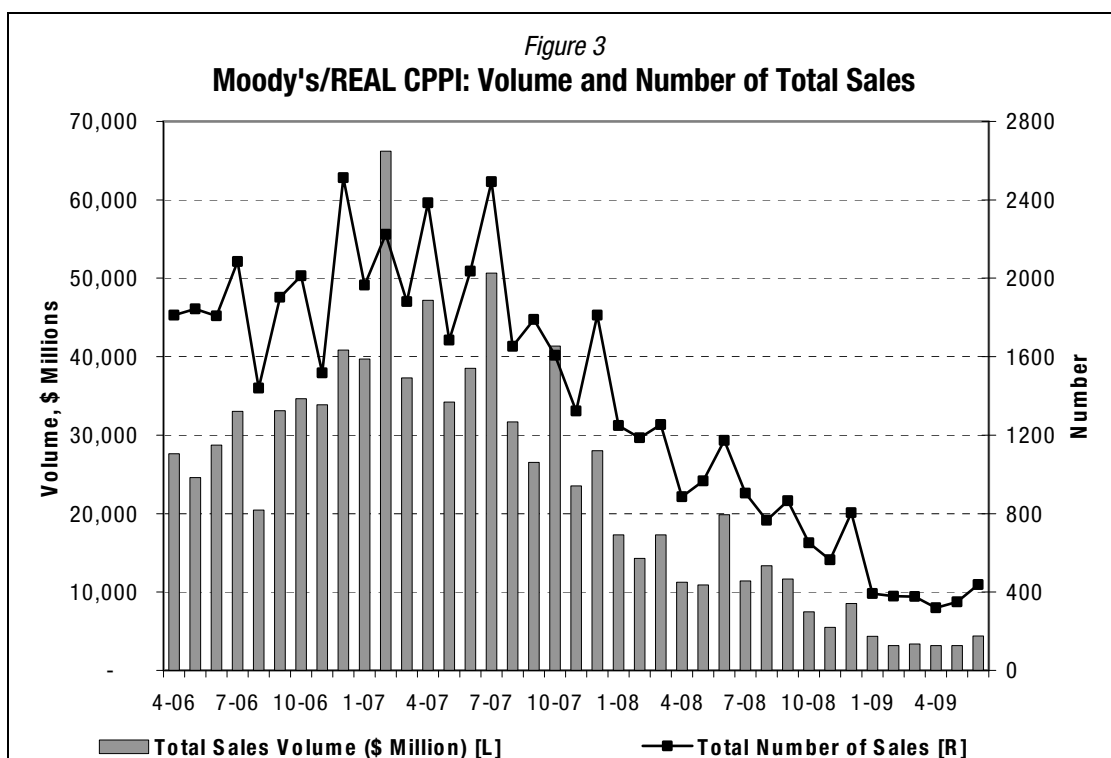
We last published the chart below in the April 2009 report, but with the dramatic declines seen in the past four months, the picture has changed significantly. Whereas based on the February 2009 index level properties purchased in 2004 had embedded price appreciation on average on the order of 15.2%, based on the June 2009 index level these properties have now seen values fall 5.3%.

	Moody's/REAL Index Average for that Year	Change to June 2009 Index	Change to February 2009 Index
2003	115.66	+7.1%	+30.2%
2004	130.77	-5.3%	+15.2%
2005	156.02	-20.6%	-3.5%
2006	169.17	-26.8%	-11.0%
2007	187.26	-33.9%	-19.6%
2008	174.90	-29.2%	-13.9%

Properties purchased from 2005 to 2008 have now seen prices drop by more than 20%. Price declines have been largest for properties purchased in 2007. These properties have seen values decline 33.9% on average.

Properties purchased in 2003 currently have positive embedded price appreciation. If values decline 40% peak-to-trough, however, those gains will be wiped out, putting values back to the average levels seen in 2003.

Overall market volume saw a slight uptick in June as compared to May. Total sales numbers were up 25%, to 437 transactions totaling \$4.4 billion. By dollar value, this represents a nearly 40% increase over May (see *Figure 3*).



Of those transactions in the overall market, 87 were repeat sales observations used in calculating the index. This represents an almost 50% increase from the number of repeat sales transactions recorded in May. The dollar value of these sales totaled \$1.1 billion, nearly two and a half times the total measured in May.

Nevertheless, with the low repeat sales transaction counts seen in the second quarter, two sub-indices saw volumes fall below the 20 count threshold required in the index protocols for a quarterly index. In the second quarter, Top Ten Retail had 14 observations, while West Retail had just 12 observations.

The procedure put in place by Moody's/REAL was discussed in the May report and is outlined in more detail in the MIT white paper. Briefly, the subject index (West Retail or Top Ten Retail) is combined with the same sector (property type) index at the next higher level of geographic scope (National Retail) 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.<sup>2</sup>

The Top Ten Retail and West Retail returns that result from this calculation become the official returns and will be frozen in the history going forward.

### **Out-of-Bounds Phenomenon**

As can be seen from *Figure 2*, the annual return for the aggregate index is -26.9%. Although they cover the same period of time, the annual returns on the national property type indices range from -21.2% to -24.4%. Similarly, the peak-to-trough decline in the aggregate index is larger than those of the individual property types.

This type of “out-of-bounds” result is a phenomenon that derives from the statistical procedure on which the indices are based. As described in more detail in the MIT white paper, the All-Property Type Index is computed by a regression model that effectively treats the entire commercial property market as a single “population”. It is not constructed as a composite index, built up from the sectoral indices. Each of the sectoral indices is also calculated independently based on the repeat sales within each sector.

This makes it mathematically possible for the All-Property Type Index return to lie outside of the range of the sectoral returns in any given time span. Fundamentally, an out-of-bounds result can be viewed as an effect of statistical “noise”. In a real estate index such noise derives fundamentally from the fact that individual property transactions are dispersed around the average market value as of the time of the transaction.<sup>3</sup> Because of its random nature, the noise component in any given index is different from that in any other index. As a result, it is possible for noise of the opposite direction in the All Property Type Index and in the sectoral indexes to result in the All Property Type Index return being beyond the range of the sectoral index returns. Experience suggests that the out-of-bounds phenomenon is relatively minor and short-lived.

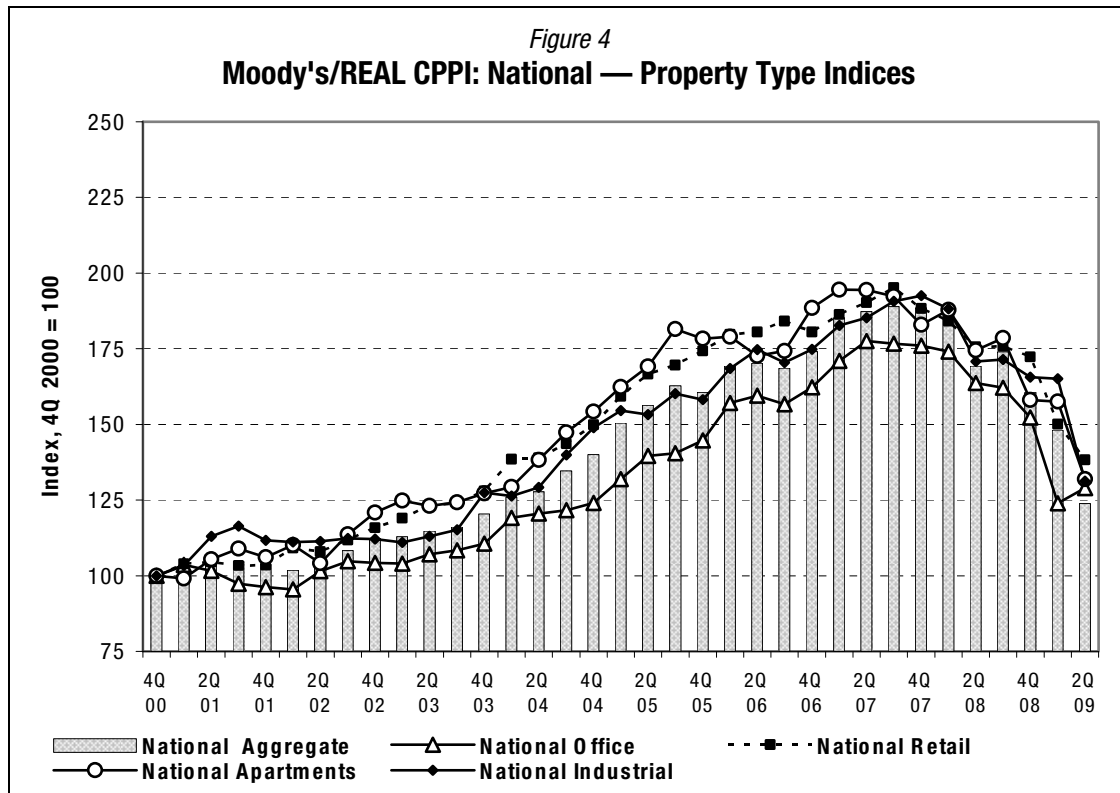
<sup>2</sup> Please see the MIT Methodology White Paper, Section 6.2, for further details. David Geltner and Henry Pollakowski. *A Set of Indexes for Trading Commercial Real Estate Based on the Real Capital Analytics Transaction Prices Database*. MIT Center for Real Estate. Sept. 26, 2007.

<sup>3</sup> Any two properties transacting at the same time, even if identical in every way, are not likely to transact at exactly the same price, simply because the two parties negotiating the terms of each transaction will not see things exactly the same way and/or will not negotiate the deal in the same way. This imparts a fundamental random component into the observable property market transaction prices on which the indices are built.

## NATIONAL – PROPERTY TYPE INDICES: OFFICE SEES SMALL PRICE BOUNCE-BACK

The National – Property Type Indices for the four major property types are a quarterly series, and this report is based on data through the second quarter of 2009.

Returns for the National – Property Type Indices for the second quarter varied widely, with office posting a small gain (see *Figure 4*). Overall however, all property types nationally are down roughly 30% from their respective peaks.



After declining 18.6% in the first quarter, national office values saw a small uptick in prices in the second quarter. The rise in value of 4.1% puts office prices down 27.4% from the peak measured in the second quarter of 2007. This was the only index in this report to post a price increase.

National retail saw prices fall 7.9% in the second quarter of 2009. On the heels of a 12.9% drop in the first quarter, national retail prices have fallen 29.1% from the peak measure in the third quarter of 2007.

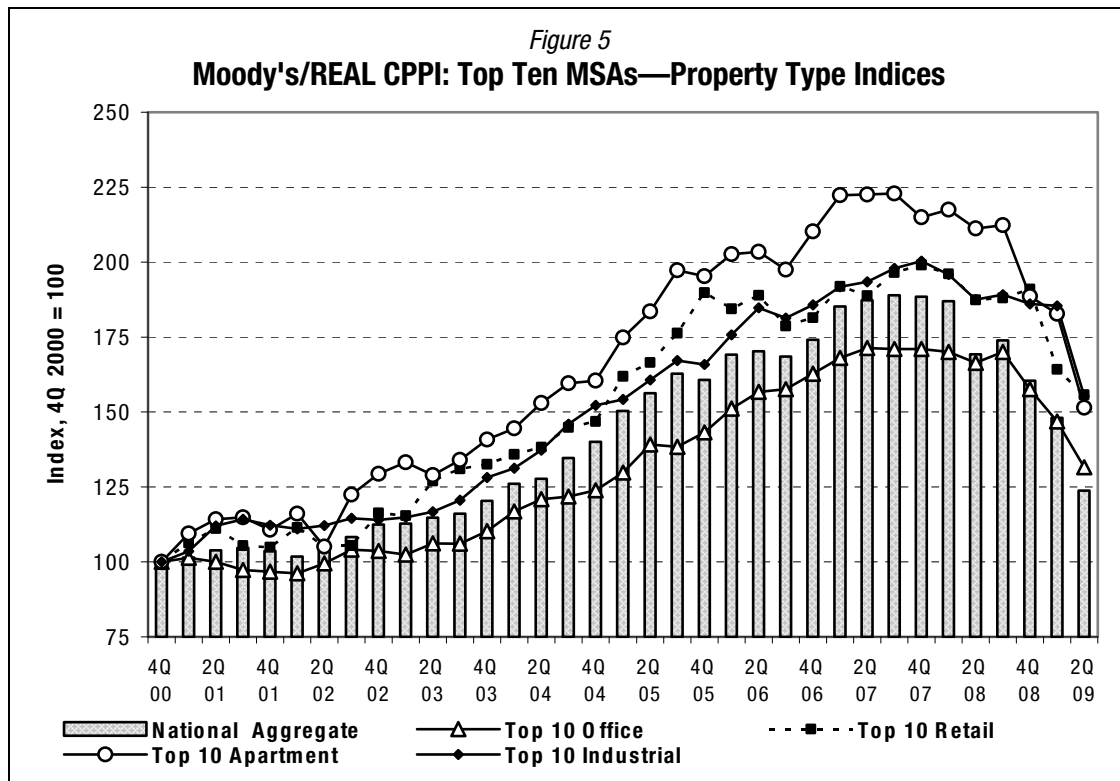
Both the apartment and industrial sectors saw prices fall just 0.4% nationally in the first quarter. The two property types did not fare so well in the second quarter, and are two of the worst performers in this report. National apartments tied for third place (along with Top Ten Industrial) in the fight for the highest drop in prices this quarter with a 16.3% decline. National apartment prices began falling first, in the first quarter of 2007, and have had the largest peak-to-trough decline at 32.2%.

National industrial topped the list as worst performer of the quarterly indices, with values falling 20.4% in the second quarter. Values have fallen 31.8% peak to trough for national industrial properties.

## TOP TEN MSAS – PROPERTY TYPE INDICES: DECLINES IN ALL SECTORS, STILL OUTPERFORMING THE NATION

This series is based on the ten MSAs which are home to the most transactions by dollar volume in each property type.<sup>4</sup> Approximately 50-80% of the national index is driven by the performance of assets in only ten cities, although the exact proportion varies by property type and over time. This is also a quarterly series, based on data through the second quarter of 2009.

All four of the property types in the top ten MSAs experienced declines in the past quarter. Unlike the national property type index for retail, top ten retail was the best performer with a slight decline of 5.1%. The top ten retail index has also been the best performing property sector when compared to prices at the peak of the market, declining 21.7% since the fourth quarter of 2007.



The top ten apartment index has declined roughly in line with the national apartment market. The index has the largest top ten property type decline, falling 17.2% quarter over quarter. Even though this decline is larger than the national drop, the overall decrease from the peak is slightly less than the national apartment index, with a top ten apartment index decline of 32.0% compared to 32.2% nationally.

Office in the top ten cities, unlike the national office market which experienced an increase since the first quarter of 2009, had a 10.4% decline quarter over quarter. Since the peak of the market, on the other hand, the top ten office MSAs are performing better than the national office figures with a decline of 23.2%, compared to a decline of 27.4% for the national office index over the same period.

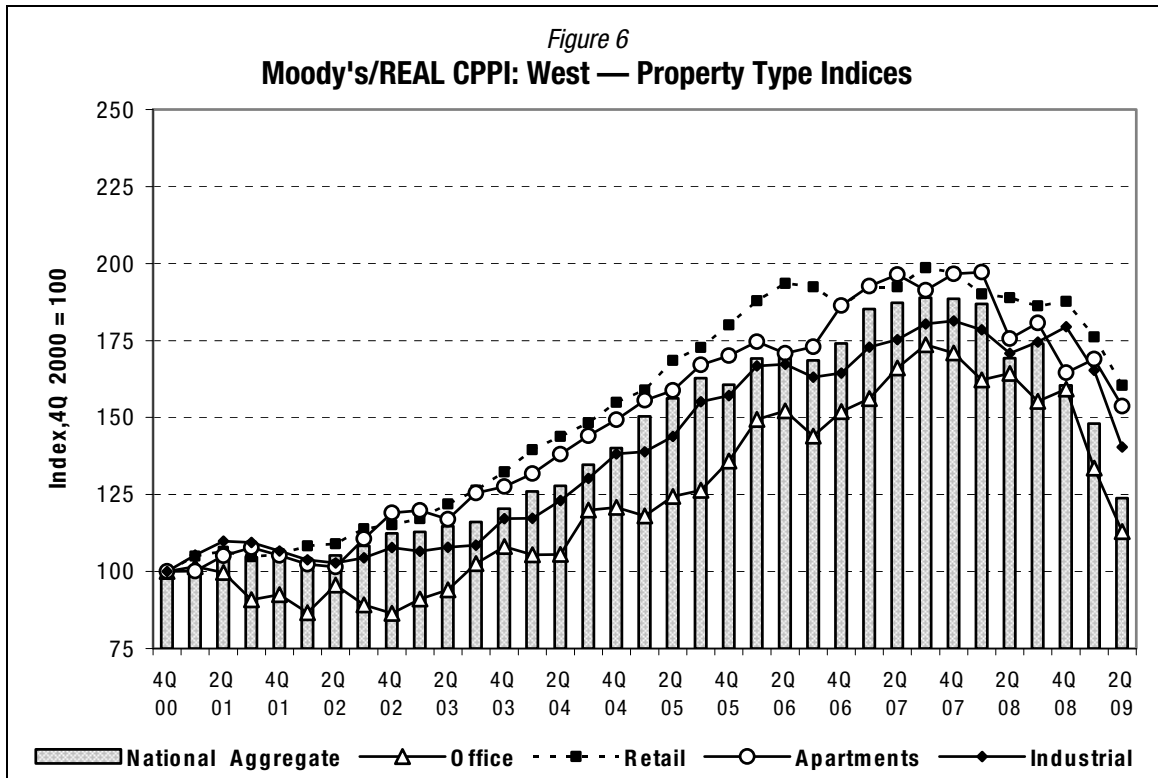
Industrial properties in the top ten MSAs had a significant decrease in the last quarter of 16.3%. This decline, however, is less than the national industrial drop during the same time period. In addition, the decline since the peak of 22.5% is less than the national decrease of 31.8%.

<sup>4</sup> A list of the top ten cities by property type can be found in the appendix of this report, *Figure 10*.

## WESTERN REGION – PROPERTY TYPE INDICES: OFFICE HAS ANOTHER DISAPPOINTING QUARTER

The Western Region – Property Type Indices for the four major property types are a quarterly series, and this report is based on data through the second quarter of 2009.

Western office, which was the worst performing sector in this region in the first quarter, again in the second quarter suffered the largest value decline, posting a drop of 15.4% during the period. The peak-to-trough decline has also been largest for office properties in the West, falling 34.9% since the third quarter of 2007.



Industrial properties in the West were the second worst performers, in terms of price declines in both the second quarter and peak-to-trough. Prices fell 15.1% in the western industrial sector for the second quarter, bringing the decline from the peak to 22.6%. Western industrial property prices peaked in the last quarter of 2007.

Western apartment prices, which saw a mild gain of 2.7% in the first quarter, did not fare so well in the second quarter, with a price decline of 9.0%. Prices peaked latest for this sector in the West, in the first quarter of 2008, and have since fallen 22.0%.

Finally, the retail sector has been the strongest performer in the region. Values in this sector fell 8.9% in the second quarter of 2009. Western retail property values have declined 19.2% since they peaked in the third quarter of 2007.

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 7, 8, and 9*).
- A listing of which cities fall in the top ten (*Figure 10*).
- 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 11 – 15*).

**APPENDIX**

*Figure 7*

**CPPI: Report Release Cycle, 2009 & 2010**

	<b>JULY</b>	<b>AUGUST</b>	<b>SEPTEMBER</b>
	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:		2 <sup>nd</sup> Quarter	2 <sup>nd</sup> Quarter
Based on data through:		June 30	June 30
	<b>OCTOBER</b>	<b>NOVEMBER</b>	<b>DECEMBER</b>
	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:		3 <sup>rd</sup> Quarter	3 <sup>rd</sup> Quarter
Based on data through:		September 30	September 30
	<b>JANUARY</b>	<b>FEBRUARY</b>	<b>MARCH</b>
	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:		4 <sup>th</sup> Quarter	4 <sup>th</sup> Quarter
Based on data through:		December 31	December 31
	<b>APRIL</b>	<b>MAY</b>	<b>JUNE</b>
	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

Figure 8

**(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 9

**(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 10

**Top Ten Cities by Property Type**

APARTMENT	RETAIL	OFFICE	INDUSTRIAL
<b>Atlanta</b>	<b>Atlanta</b>	<b>Atlanta</b>	<b>Atlanta</b>
<b>Dallas</b>	Chicago	Boston	Chicago
Houston	<b>Dallas</b>	Chicago	<b>Dallas</b>
<b>Los Angeles</b>	Houston	<b>Dallas</b>	<b>Los Angeles</b>
<b>New York</b>	<b>Los Angeles</b>	Houston	<b>New York</b>
Phoenix	<b>New York</b>	<b>Los Angeles</b>	San Diego
<b>San Francisco</b>	Phoenix	<b>New York</b>	<b>San Francisco</b>
Seattle	<b>San Francisco</b>	<b>San Francisco</b>	Seattle
South Florida	South Florida	Seattle	South Florida
<b>Washington DC</b>	<b>Washington DC</b>	<b>Washington DC</b>	<b>Washington DC</b>

Figure 11  
**Moody's/REAL CPPI: East — Property Type Indices**

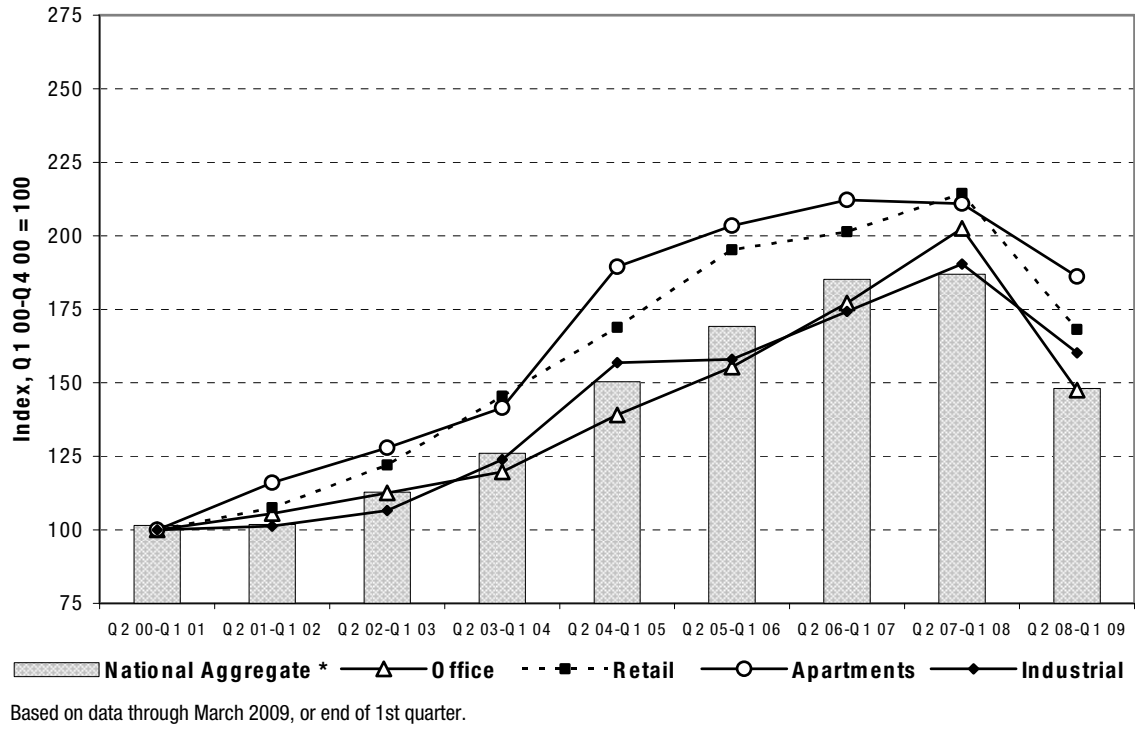


Figure 12  
**Moody's/REAL CPPI: South — Property Type Indices**

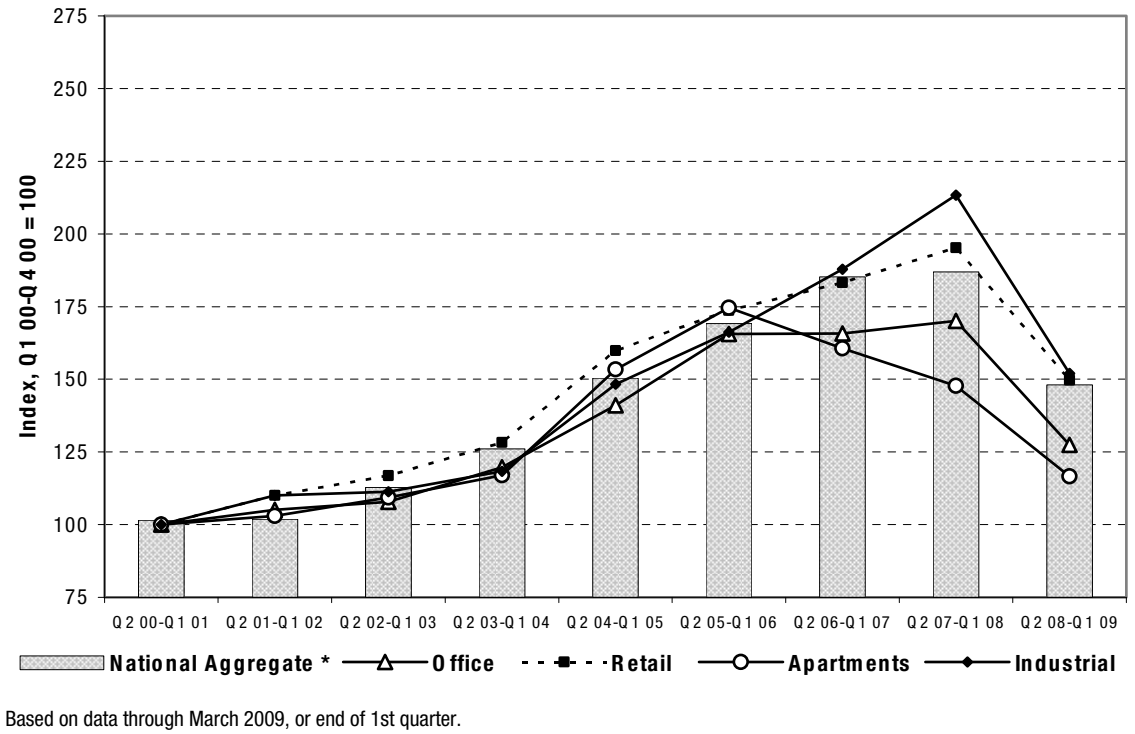


Figure 13  
**Moody's/REAL CPPI: Southern California—Property Type Indices**

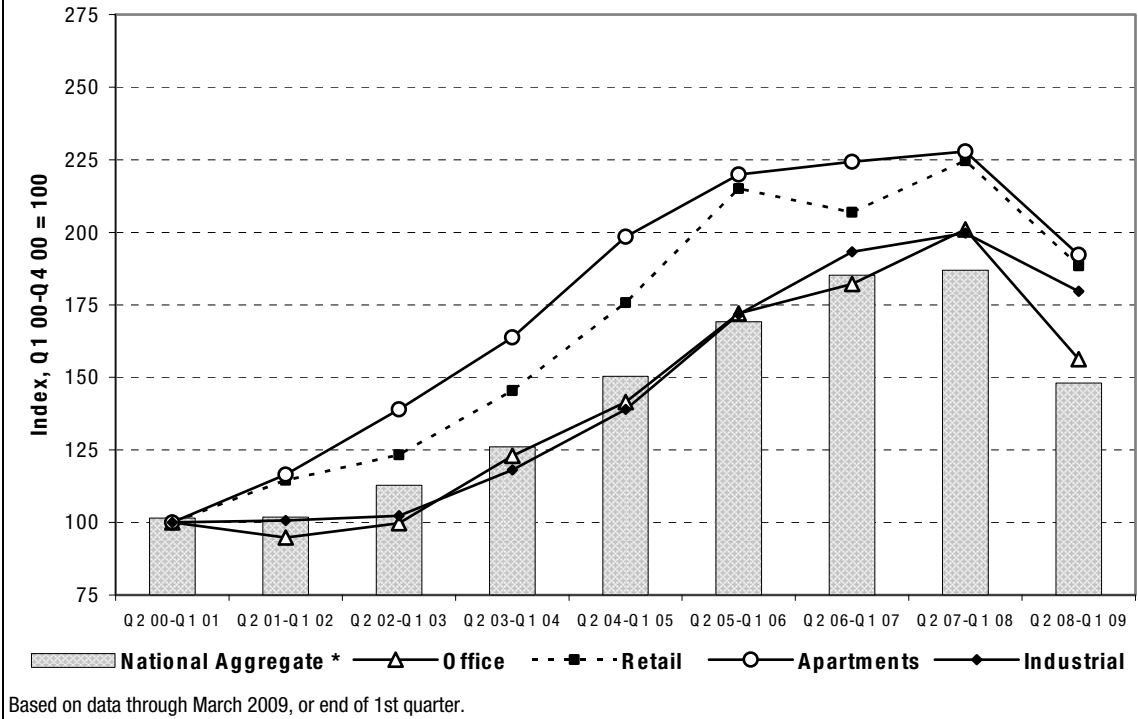


Figure 14  
**Moody's/REAL CPPI: Major Office Markets Indices**

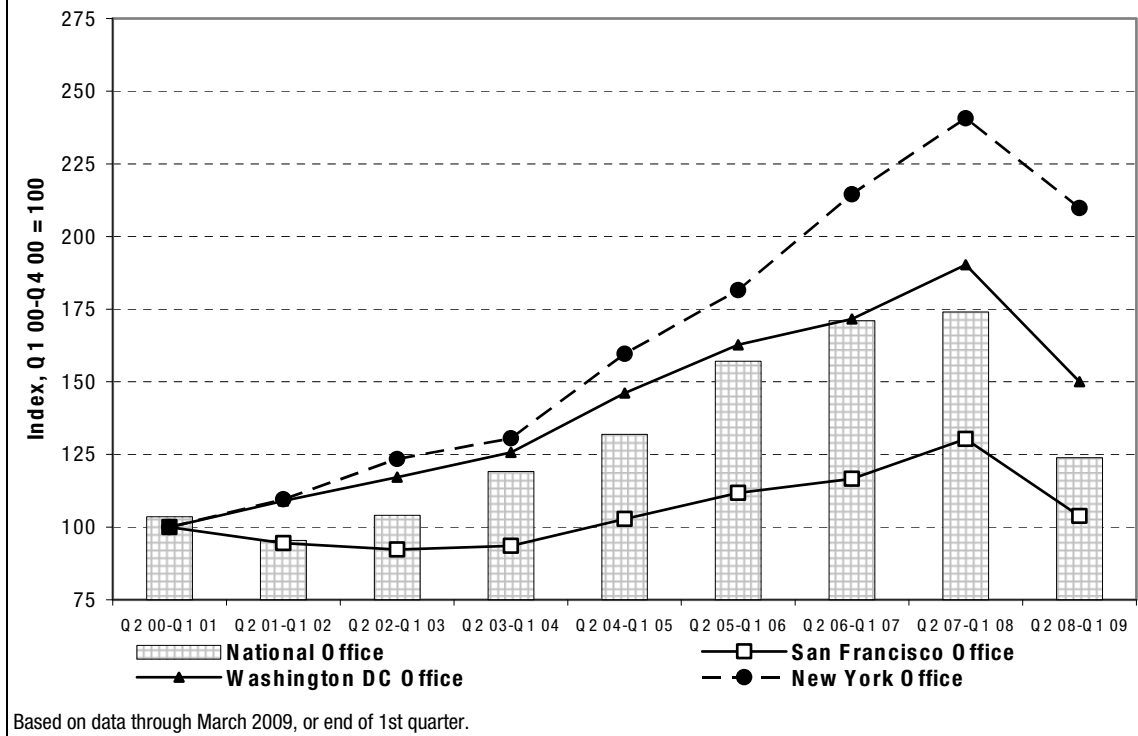
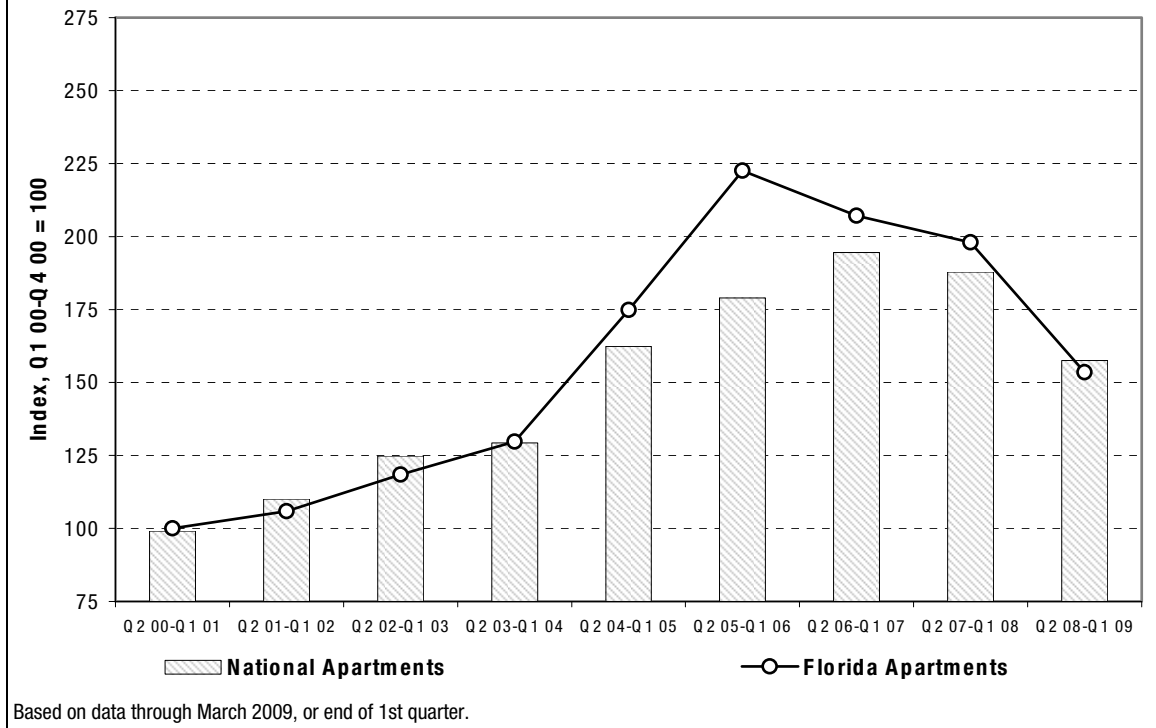


Figure 15  
**Moody's/REAL CPPI: Florida Apartment Index**



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