

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

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OVERVIEW

The Moody's/REAL All Property Type Aggregate Index measured 117.56 in July 2009. This represents a 5.1% value decline from the month before. With this month's decline, the index now stands 30.8% below the level seen one year ago, and 37.5% below the level seen two years ago. Commercial property prices have now fallen nearly 39% since the peak in October of 2007.

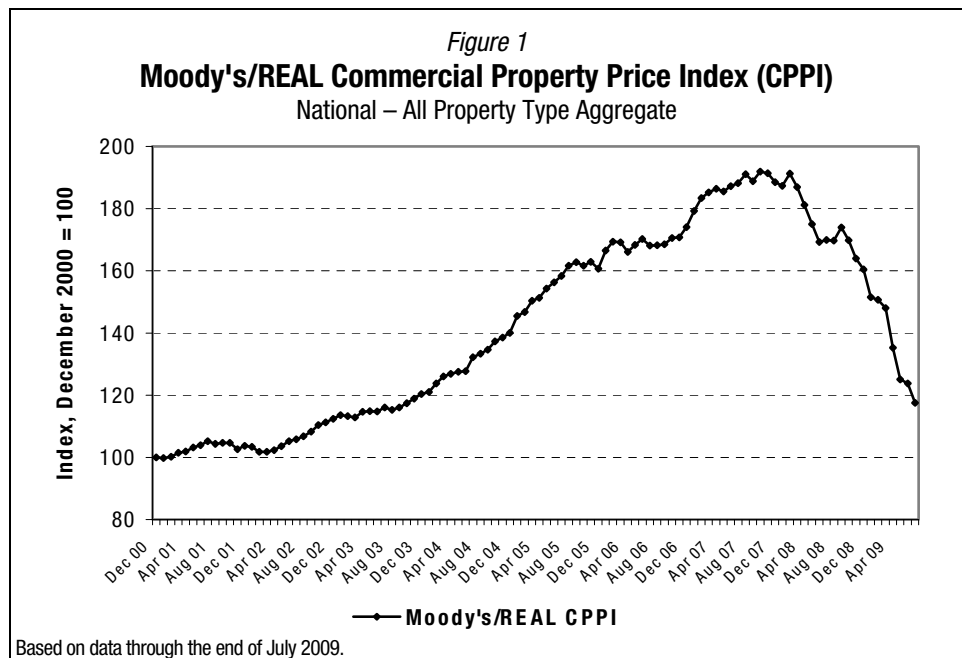


Figure 2
Current Moody's/REAL CPPI and Change from Earlier Periods

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	117.56	-5.1%	-30.8%	-37.5%
	Current Index ^Q	1 Quarter Earlier	1 Year Earlier	2 Years Earlier
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 ¹ - 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
	Current Index ^A	1 Year Earlier	2 Years Earlier	
East – Apartments	182.47	-6.0%	-10.5%	
East – Industrial	134.40	-21.0	-23.4	
East – Office	121.53	-30.1	-31.4	
East – Retail	137.60	-29.9	-31.9	
South – Apartments	82.86	-44.2	-48.7	
South – Industrial	134.70	-29.9	-28.2	
South – Office	117.88	-32.8	-32.8	
South – Retail	150.84	-14.2	-16.8	
So. California – Apartments	177.40	-14.0	-17.4	
So. California – Industrial	166.76	-15.5	-20.4	
So. California – Office	145.40	-25.8	-21.3	
So. California – Retail	194.27	-24.2	-20.3	
New York – Office	176.00	-22.9	-21.6	
San Francisco – Office	97.76	-27.0	-23.2	
Washington DC – Office	137.71	-22.3	-20.3	
Florida – Apartments	111.53	-39.8	-48.3	

M Monthly series. Most recent data is through July 31, 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 2nd quarter 2009. Analysis is based on data from four quarters (3Q08, 4Q08, 1Q09, and 2Q09). Given that the measure is of a rolling four-quarter period, data as of the end of the 2nd 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

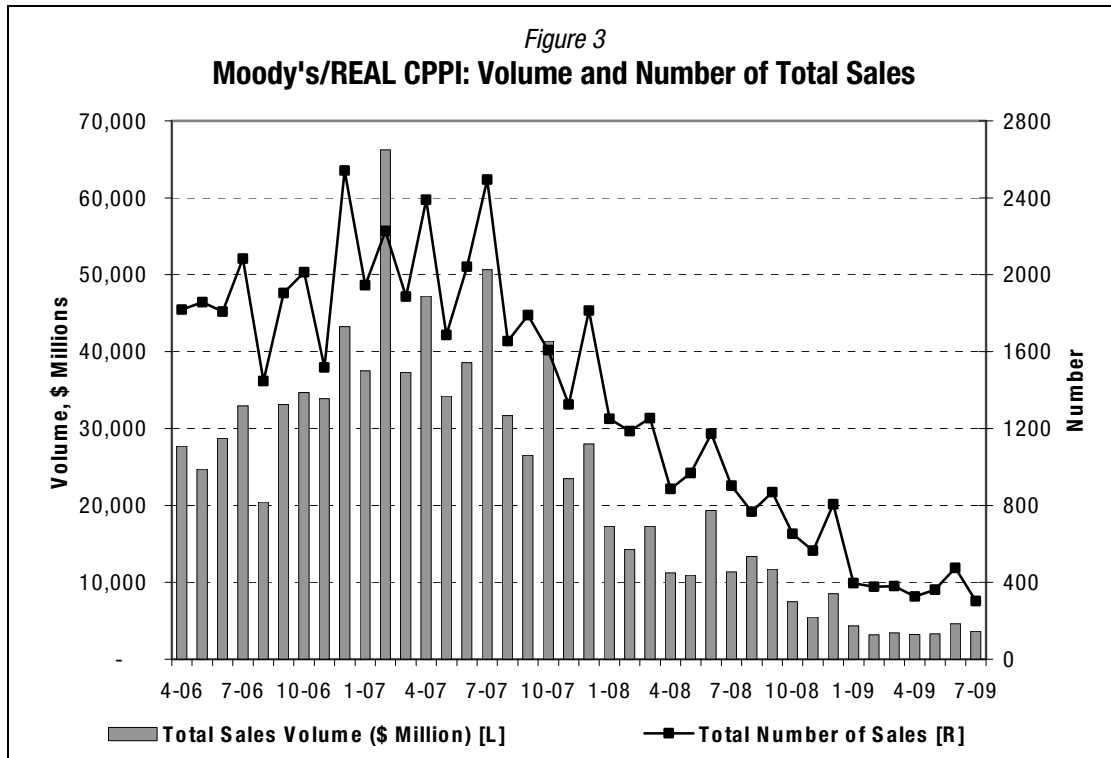
- The National — All Property Type Aggregate Index measured a 5.1% price decline in the month of July. The index now stands 38.7% below the peak measured in October 2007.
- Overall market transaction volume by count declined this month to a low not seen since 2001 following a slight uptick in the previous month. 74 repeat sales transactions totaling \$1.2 billion were used in calculating this month's index.
- Of the four property types, apartments are holding up the best in the eastern region with an annual drop of only 6.0%. In the same period, the national apartment index declined 24.4%.
- Southern apartments declined 44.2% in the past year. Apartment prices in this region are now at their lowest level ever recorded by the CPPI.
- Southern California saw large drops in the office and retail sector, with value declines of 25.8% and 24.2%, respectively. Both sectors are underperforming the nation.
- All three office markets saw prices fall more than 20% over the past year. San Francisco was the worst performer, declining 27.0%.
- Florida apartments, like the southern apartment market overall, saw a dramatic drop in prices over the past four quarters. With an annual decline of 39.8%, apartment prices in Florida have now fallen almost 50% 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: TRANSACTION VOLUME REMAINS LOW

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

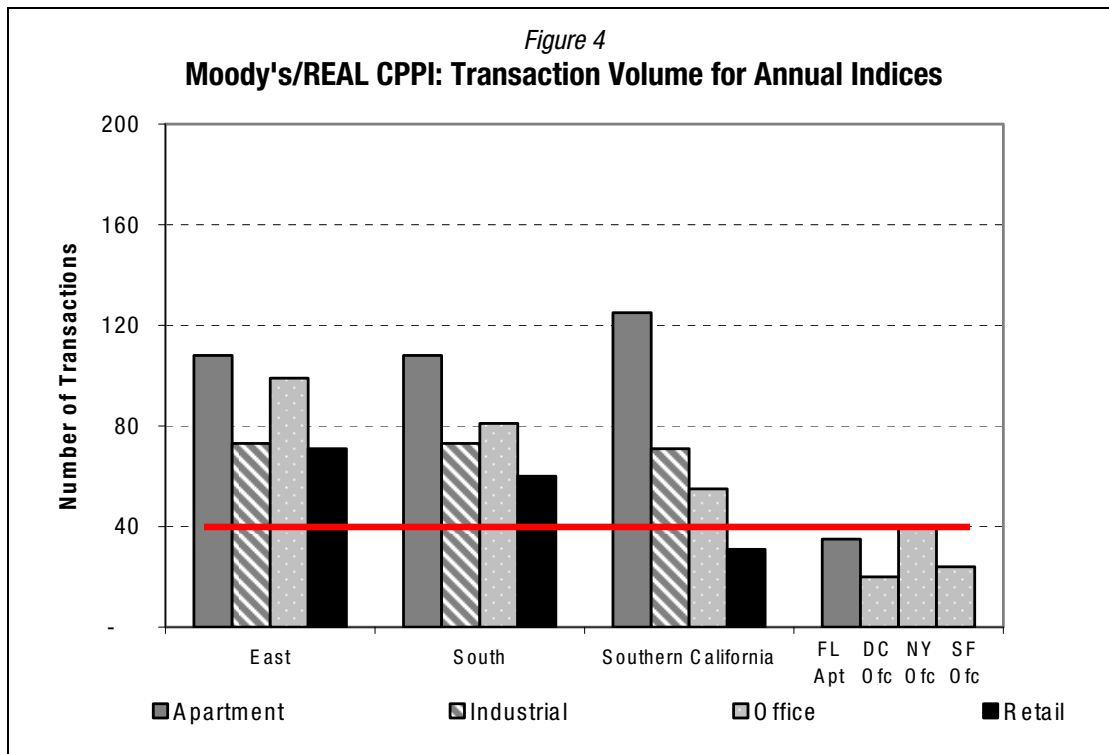
After a mild 1% decline in June, commercial property prices experienced over a 5% drop in July, putting values 38.7% below the peak measured in October of 2007. The number of sales in July declined from the previous month, with slightly more than 300 transactions recorded totaling \$3.6 billion.



Of those, 74 repeat sales transactions with a market value of \$1.2 billion were used to calculate this month's returns.

The market has averaged about 375 sales per month for the seven month period ending July 31, 2009. Over the same period in 2008, sales were averaging nearly 1100 a month. Overall sales volume has dropped 66% in 2009 as measured by count, and 75% as measured by dollar volume, when compared to 2008.

With the low sales volume seen in the overall market, it is unsurprising that a few subindices did not meet the 40 repeat sales threshold required in the index protocols for an annual index. The latest results for the annual indices reported this month span the four quarters: Q3 2008, Q4 2008, Q1 2009, and Q2 2009, and in that time, Southern California Retail, Florida Apartment, Washington DC Office, and San Francisco Office each saw less than 40 repeat sales transactions.



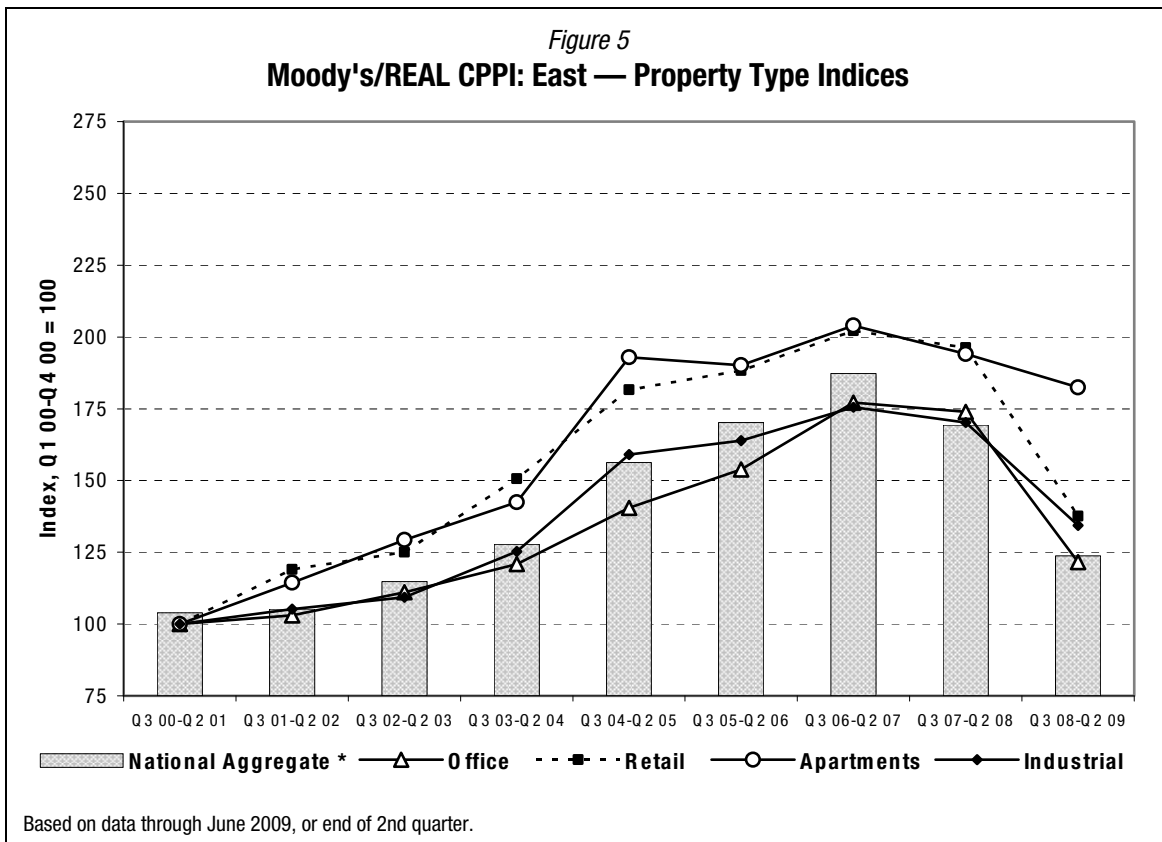
The procedure put in place by Moody's/REAL was discussed in the May report and is outlined in more detail in the MIT white paper.² The index returns that result from this calculation become the official returns and will be frozen in the history going forward.

² 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 BETTER THAN THE NATION

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: Q3 2008, Q4 2008, Q1 2009, and Q2 2009, thus culminating with data through the end of the second quarter of 2009.

Apartments in the Eastern region are performing significantly better than both the national apartment index and the other three property types within the East. Apartment prices have declined 6.0% in the past year, and 10.5% in the past two years. This two year decline is smaller than any other regional property type decline in the past year alone. The relatively small decline in Eastern apartments represents a significantly better performance than that of the national apartment sector, which had a 24.4% decline in the past year.



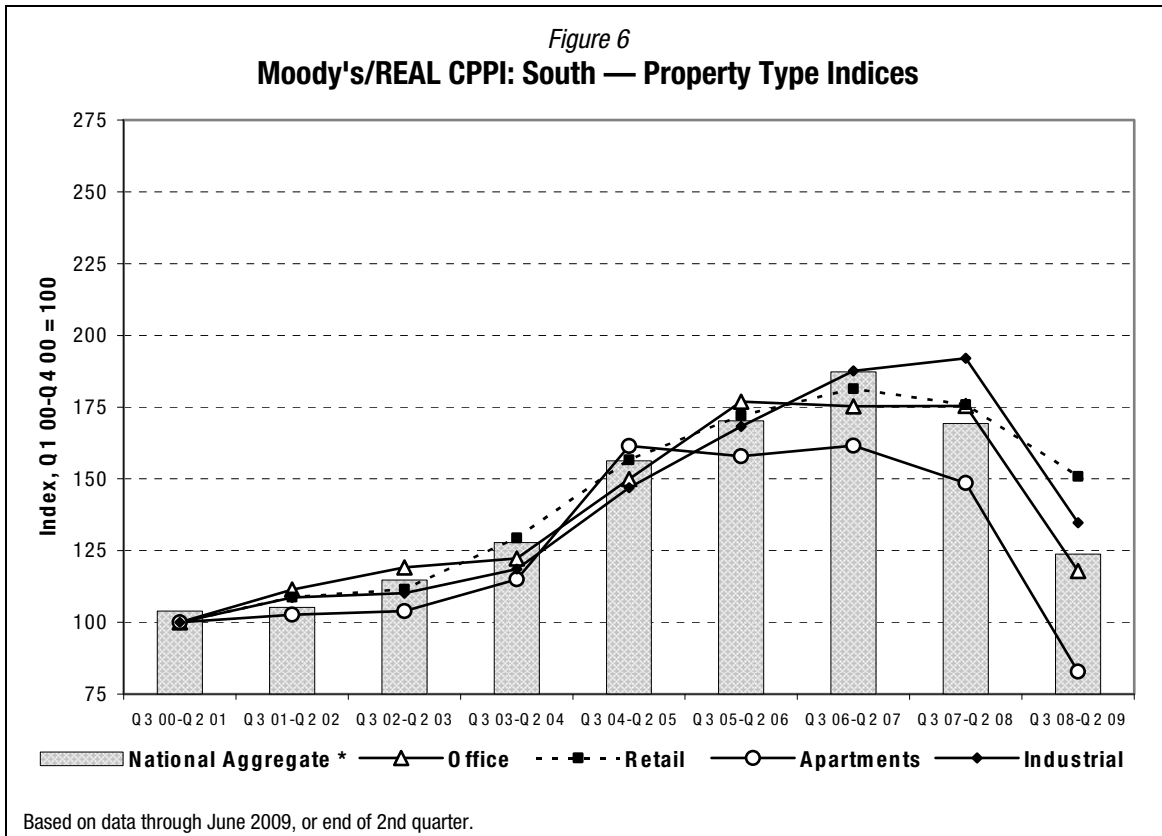
Industrial properties in the East have performed slightly better than the nation overall. Eastern industrial had a 21.0% drop in price in the last year, while the nation declined 23.1% over the same time period. In the past two-year period there has been an even greater differentiation between eastern industrial and the nation, with a 23.4% decline for the region and a 29.1% drop nationally.

Both the office and retail sectors in the East have underperformed the nation. These two property types had losses of about 30% over the past year, with an annual decline of 30.1% for office and 29.9% for retail. Nationally, prices of office and retail properties both decreased 21.2% in the past year. For eastern office this was a larger annual decline than in the two individually tracked MSAs on the East Coast, New York and Washington DC, which showed declines of 22.9% and 22.3% respectively in the past year.

SOUTHERN REGION – PROPERTY TYPE INDICES: APARTMENTS AT LOWEST RECORDED LEVEL

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: Q3 2008, Q4 2008, Q1 2009, and Q2 2009, thus culminating with data through the end of the second quarter of 2009.

Southern apartments are on the opposite end of the spectrum compared to apartments in the Eastern region. Apartment prices in the South dropped 44.2% in the past year, significantly more than the 6.0% decline in the East and the 24.4% decline than the nation. This brings the southern apartment index to its lowest value recorded, 17.1% lower than the value at the start of the index.



The office sector was the next worst performing property type for the region. Prices declined 32.8% in the past year versus a 21.2% decline for office in the country at large. Southern industrial also did poorly, with a 29.9% value decline in the past year. This annual decline is also worse than the nation as a whole, which had a 23.1% drop in industrial prices.

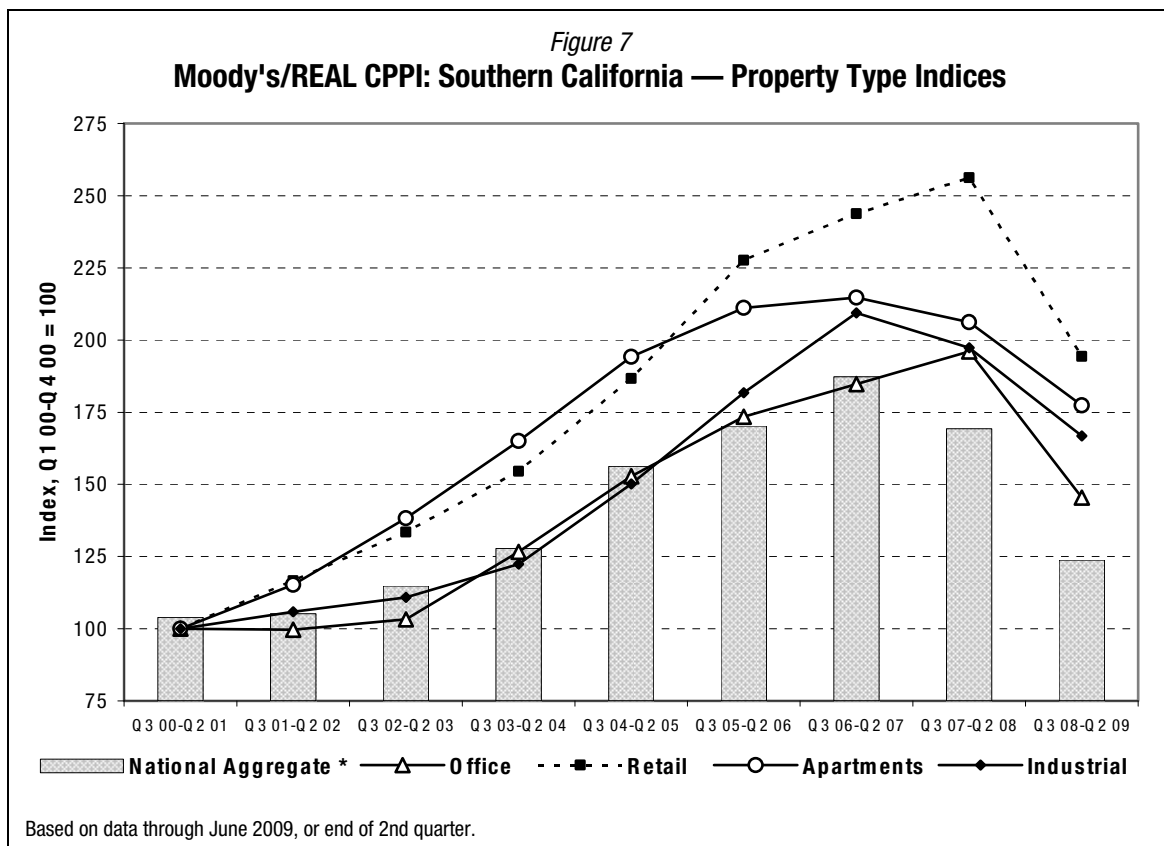
Retail was the best performing sector in the South, with prices declining 14.2% in the past year. This was the only property type in the region to perform better than the nation, which had a 21.2% value decrease in the same time period.

SOUTHERN CALIFORNIA – PROPERTY TYPE INDICES: RETAIL AND OFFICE PRICES DROP SHARPLY AFTER PEAK

The Southern California – 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: Q3 2008, Q4 2008, Q1 2009, and Q2 2009, thus culminating with data through the end of the second quarter of 2009.

Commercial property prices in the office and retail sector in Southern California have declined significantly after peaking in mid-2008.

Southern California retail, which saw the highest price appreciation of any subindex over the past seven years, 156%, saw values fall 24.2% over the last year. This just slightly underperformed the nation, which saw prices fall 21.2% over the same time period, and significantly underperformed retail properties in the West, which fell 15.1%.



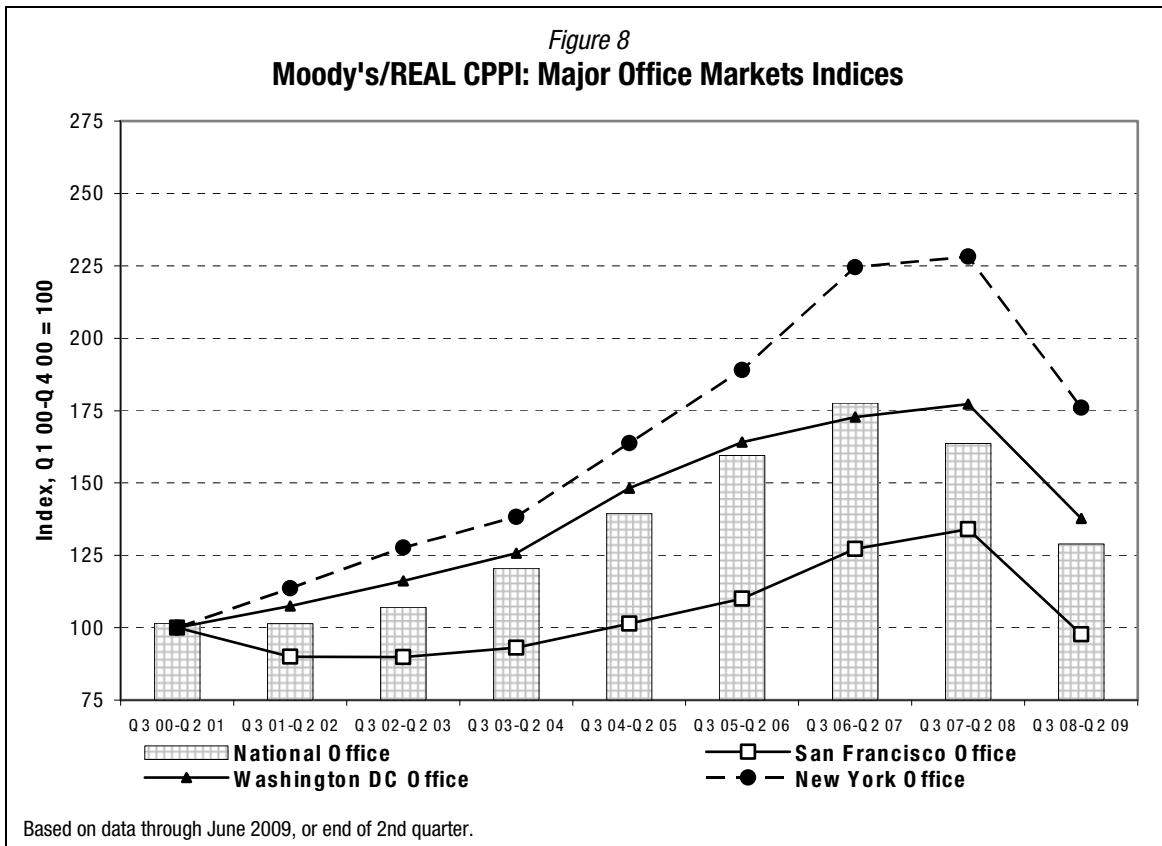
The office sector was the worst performer in Southern California over the past year, with values falling 25.8%. Like retail, office property prices peaked last year, after appreciating steadily for seven years.

Southern California apartments and industrial had similar performances, and both outperformed the nation. Both property types saw prices peak in mid-2007 and have experienced relatively mild annual price declines since. Apartment prices in Southern California saw prices fall 14.0% over the past year, for a total peak to trough decline of 17.4%. Industrial properties saw prices fall 15.5% since the same time last year, and overall have lost 20.4% of their value.

MAJOR OFFICE MARKET INDICES: ANNUAL DECLINES HIT SAN FRANCISCO HARDEST

Three major office markets typically 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: Q3 2008, Q4 2008, Q1 2009, and Q2 2009, thus culminating with data through the end of the second quarter of 2009.

All three office markets saw prices peak at the end of the second quarter of 2008, and have since seen values decline more than 20%.



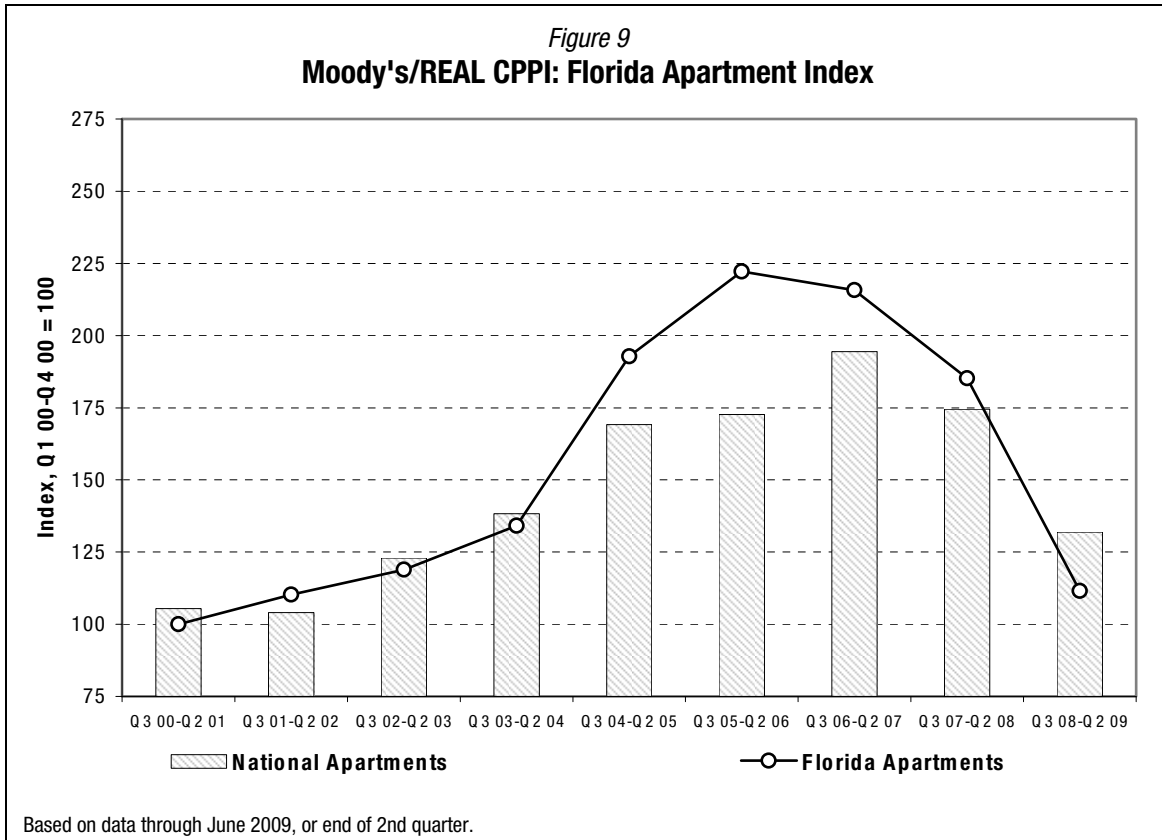
Office properties in New York and Washington DC performed similarly over the past year, declining 22.9% and 22.3%, respectively. Because the New York office market saw stronger value gains from 2004 through 2007, prices there are 27.2% higher than they were five years ago. Washington DC saw much milder value increases, leaving prices just 9.5% higher than five years ago.

San Francisco is a different story. Office prices declined from mid-2001 to mid-2003 and did not gain back those losses until mid-2005, then followed three years of mild price increases, which the 27.0% decline in values seen over the last year have completely wiped out. Prices now stand slightly below the level at which the index began measuring, in mid-2001, and where they were again in 2005 after a mild recovery.

FLORIDA – APARTMENT INDEX: STILL DROPPING

An aggregation of several Florida MSAs generally 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 second quarter of 2009.

Florida apartments saw one of the largest value declines over the past year of any annual index. Prices fell 39.8%, bringing the total peak to trough value decline to 49.8%.



Apartment values in Florida peaked in the middle of 2006 and have been falling steadily for the past three years. Florida apartments saw a very high run up in prices in the two years previous to 2006, so value declines in recent years have put values at levels last seen in 2002.

In contrast, apartments in the southern region overall have suffered a worse fate, as discussed above. Apartments in the South saw a milder run up in prices over a shorter time period, peaking in mid-2005. Thus, the value declines have left apartment prices in the South well below values seen in 2001, which is the first time period the index measures.

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 10, 11, and 12*).
- A listing of which cities fall in the top ten (*Figure 13*).
- Charts for the 12 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 10

CPPI: Report Release Cycle, 2009 & 2010

	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:		2 nd Quarter	2 nd 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:		3 rd Quarter	3 rd 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:		4 th Quarter	4 th Quarter
Based on data through:		December 31	December 31
	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

Figure 11

(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 12

(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 13

Top Ten Cities by Property Type

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

Figure 14
Moody's/REAL CPPI: National — Property Type Indices

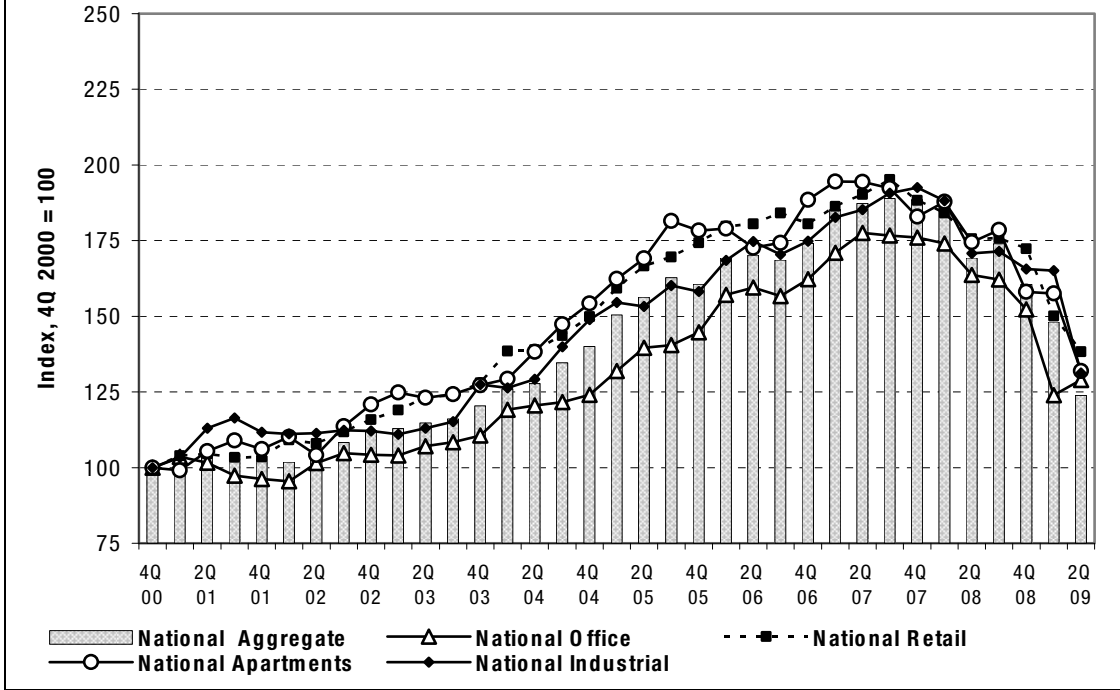


Figure 15
Moody's/REAL CPPI: Top Ten MSAs—Property Type Indices

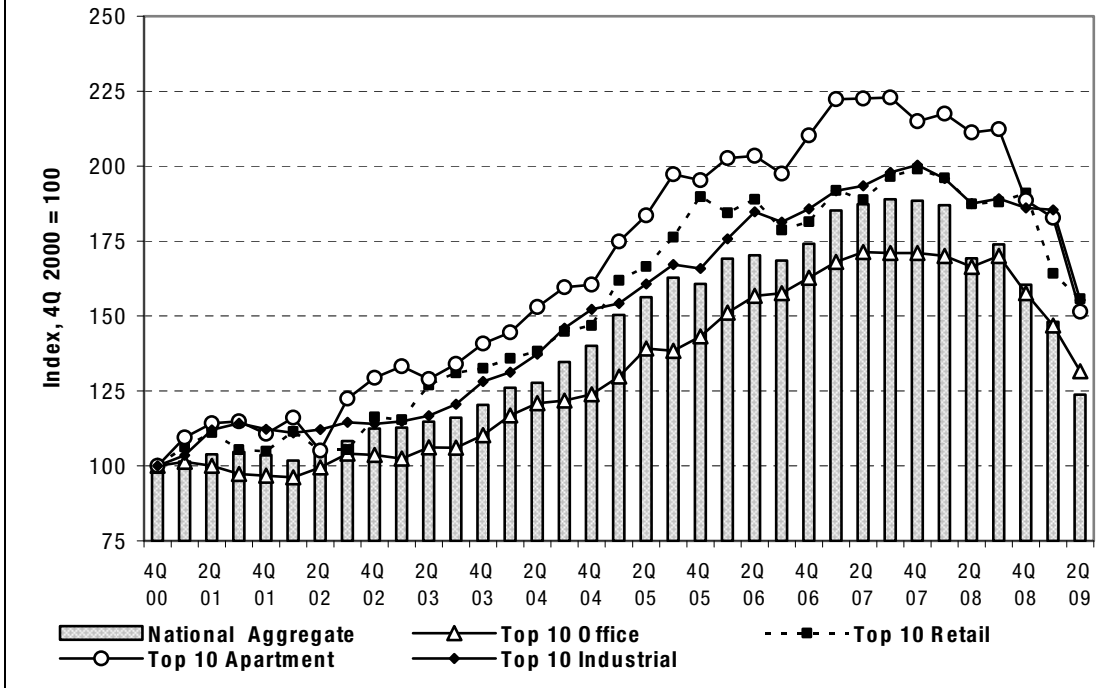
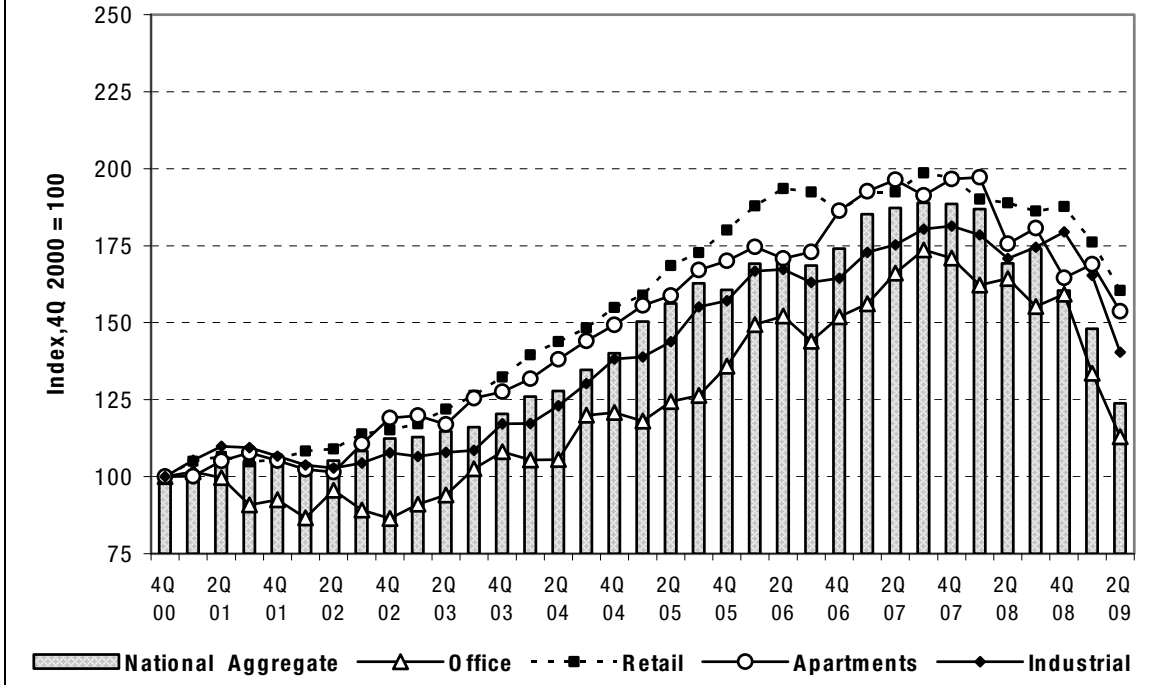


Figure 16
Moody's/REAL CPPI: West — Property Type Indices



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