

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

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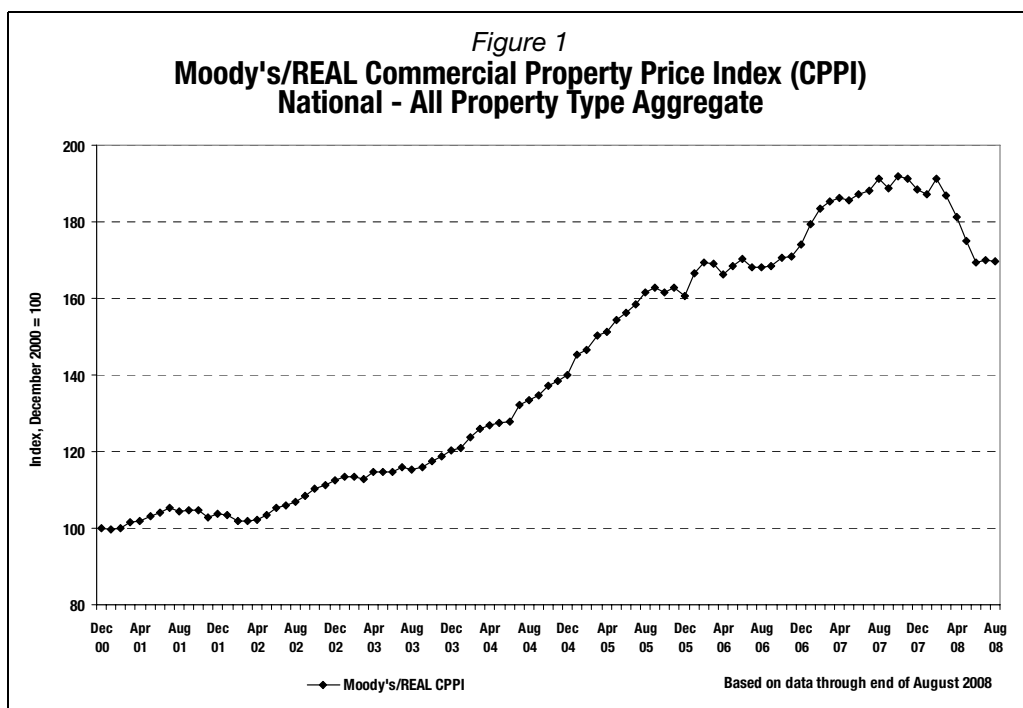
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OVERVIEW

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 In this report, based on data through August, Moody's/REAL CPPI measures 169.74. This represents a decrease of 0.1% over the previous month, a decrease of 11.2% from August of 2007, and is 11.5% below the peak in October 2007. The index now stands less than 1% higher than two years ago.



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.



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	169.74	-0.1%	-11.2%	0.9%
	Current Index ^Q	1 Quarter Earlier	1 Year Earlier	2 Years Earlier
National - Apartments	174.51	-7.1%	-10.2%	1.1%
National - Industrial	170.72	-9.3	-7.8	-2.3
National - Office	163.68	-5.9	-7.8	2.7
National - Retail	175.59	-4.6	-7.7	-2.7
Top 10 MSAs ¹ - Apartments	211.25	-2.9	-5.1	3.8
Top 10 MSAs - Industrial	187.53	-4.2	-3.0	1.5
Top 10 MSAs - Office	166.36	-2.2	-2.9	6.2
Top 10 MSAs - Retail	187.35	-4.4	-0.8	-0.8
West - Apartments	175.60	-10.9	-10.6	2.8
West - Industrial	170.86	-4.3	-2.5	2.1
West - Office	164.31	1.3	-1.1	8.0
West - Retail	188.90	-0.6	-1.9	-2.4
	Current Index ^A	1 Year Earlier	2 Years Earlier	
East - Apartments	194.10	-4.8%	2.1%	
East - Industrial	170.18	-3.0	3.8	
East - Office	173.92	-1.8	13.0	
East - Retail	196.32	-2.9	4.2	
South - Apartments	148.60	-8.0	-5.9	
South - Industrial	192.04	2.4	14.1	
South - Office	175.43	0.1	-0.8	
South - Retail	175.88	-3.0	2.2	
So. California - Apartments	206.22	-4.0	-2.3	
So. California - Industrial	197.25	-5.8	8.6	
So. California - Office	196.03	6.1	13.0	
So. California - Retail	256.22	5.1	12.6	
New York - Office	228.17	1.6	20.7	
San Francisco - Office	133.97	5.3	21.7	
Washington DC - Office	177.27	2.6	8.0	
Florida - Apartments	185.22	-14.1	-16.7	

M Monthly series. Most recent data is through August 31, 2008.

Q Quarterly series. Most recent data is through the end of the 2nd quarter 2008. 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.

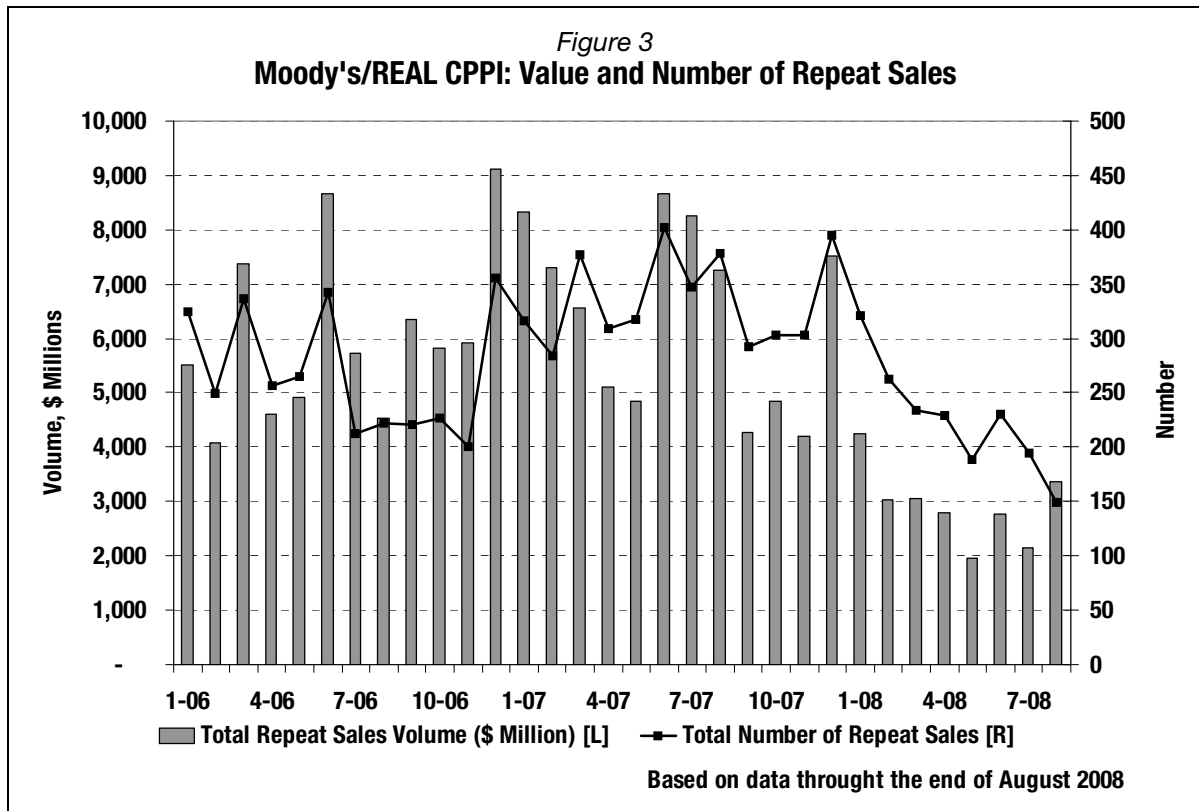
A Annual series. Most recent data is through the end of the 2nd quarter 2008. Analysis is based on data from four quarters (3Q07, 4Q07, 1Q08, and 2Q08). Given that the measure is of a rolling four-quarter period, data as of the end of the 2nd quarter can not be compared with that from the end of the previous quarter.

NATIONAL - ALL PROPERTY TYPE AGGREGATE INDEX EXPERIENCES A SECOND FLAT MONTH

The National - All Property Type Aggregate is a monthly series, and this report is based on data through August 2008. Refer back to *Figure 1*, page 1.

Moody's/REAL CPPI has measured a second month of virtually no movement in prices, with a decrease in prices of just 0.1%. This temporary break in the fall of prices comes after a decline of over 11% from February to June of this year.

There were 149 repeat sales transactions recorded in the month of August. That is 25% lower than last month, and less than half the volume seen at the start of the year. In fact, the number of transactions in August is the lowest the index has experienced since the end of 2004 (see *Figure 3*). That being said, transaction volume is still well above the minimum required to calculate the index.



A False Bottom

Although we have not seen a significant decline in prices since the June index, we believe it is premature to call a bottom at this time. Rather, the low transaction volume suggests that the flattening of prices is more likely the result of loss avoidance on the part of sellers. At some point, with increased pressure on sellers and more distressed assets in the marketplace, it is expected that volume will pick up and prices will continue to drop. The continuing upward adjustment of risk premiums generally will result in further increases in property cap rates and an ongoing deleveraging process will lead to lower loan proceeds for a given value. Both of these factors suggest that commercial real estate prices have further to fall.

Refinance Concerns

Given the current credit environment, much attention is focused on refinancing existing commercial real estate mortgage loans. As is shown in *Figure 4*, Moody's/REAL CPPI suggests that property values are essentially flat since 2006 and have increased by almost 9% since 2005 and by nearly 30% since 2004. On the other hand, property values have declined by about 10% since 2007. It is important to note, however, that less than 1% of securitized commercial mortgage loans originated in 2007 mature prior to 2010, somewhat mitigating refinancing risk, at least for now.

Year	Moody's/REAL Index Average for that Year	Change to August 2008 Index
2004	130.77	+29.8%
2005	156.02	+8.8
2006	169.17	+0.3
2007	187.26	-9.4

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 the next year (*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, 2008 - 2009

	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
	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

Figure 6

(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 7

(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	

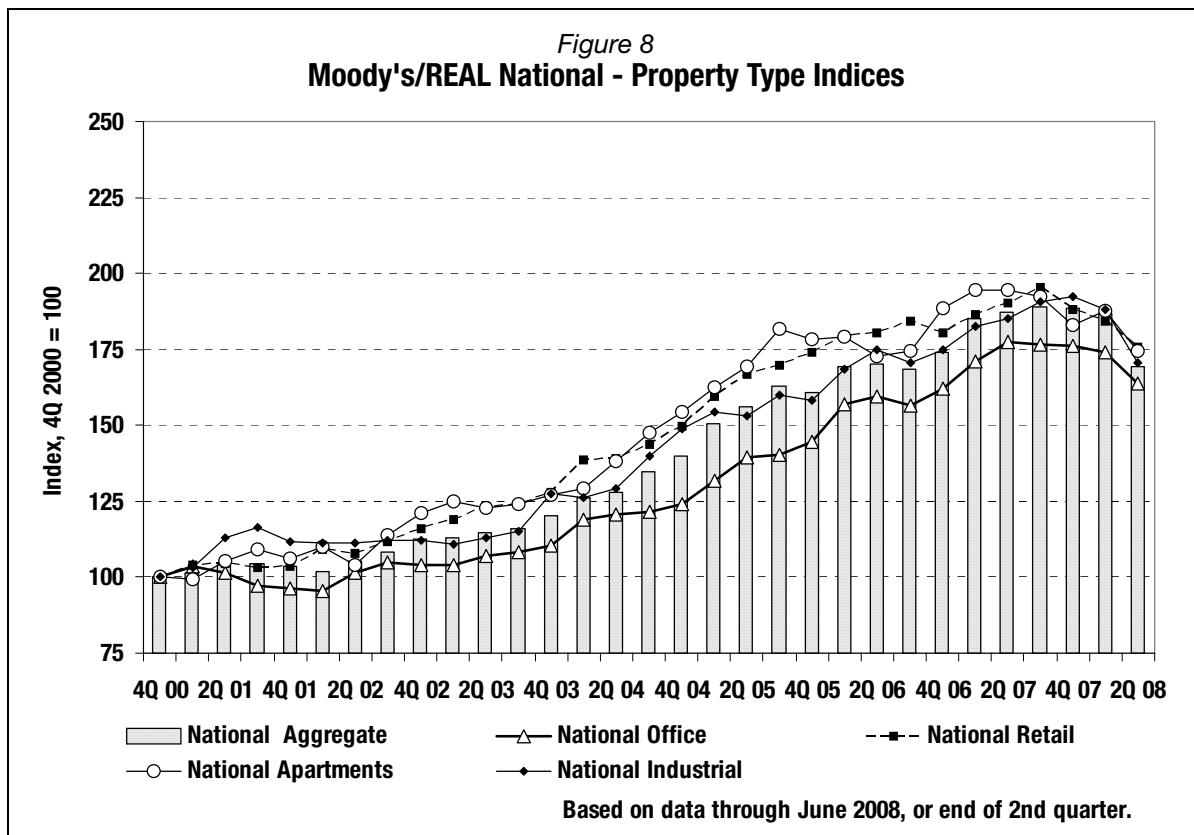


Figure 9
Moody's/REAL Top Ten MSAs - Property Type Indices

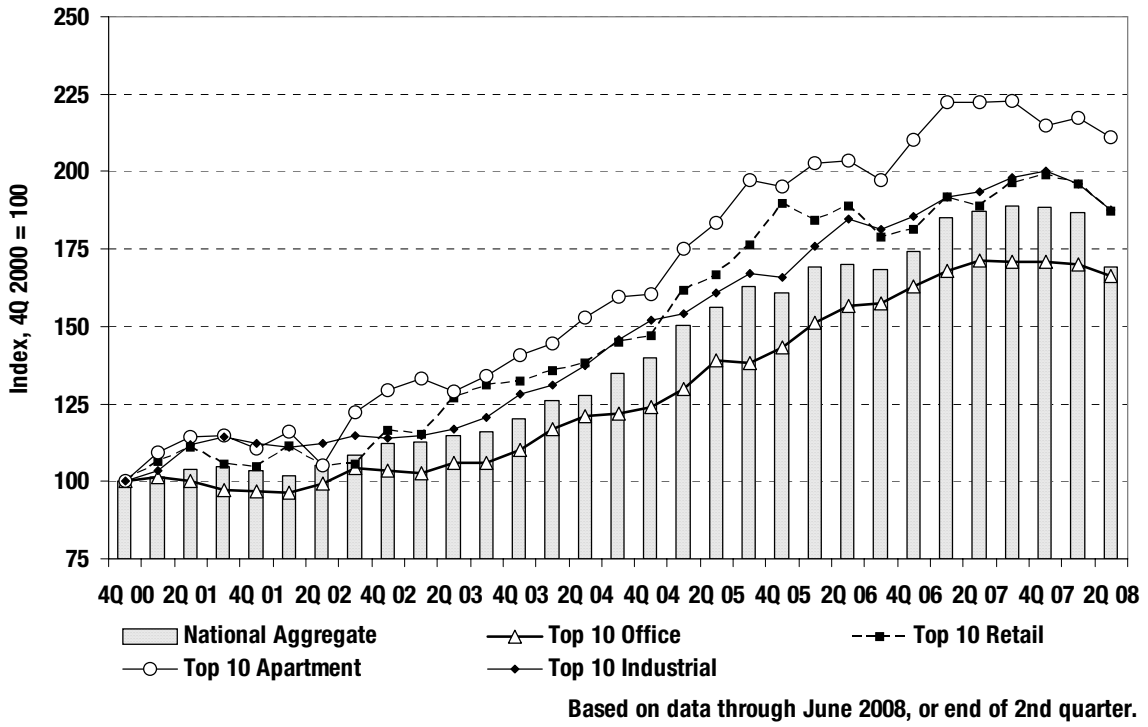


Figure 10
Moody's/REAL CPPI: West - Property Type Indices

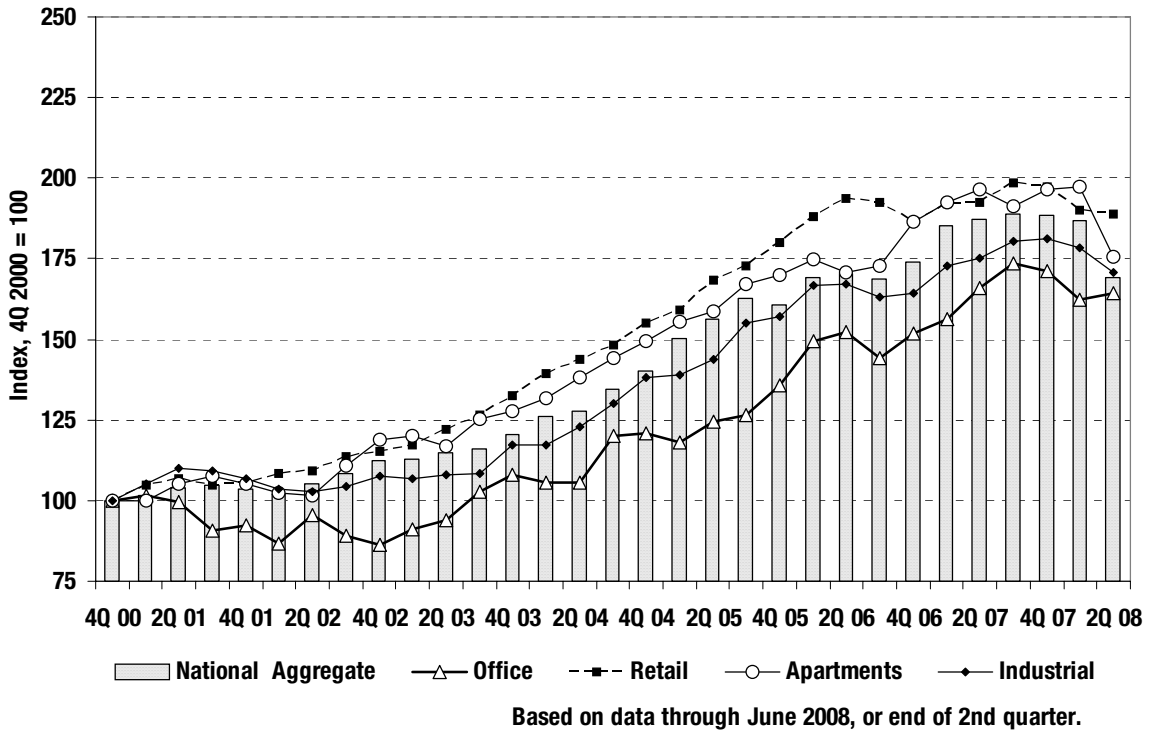


Figure 11
 Moody's/REAL CPPI: East - Property Type Indices

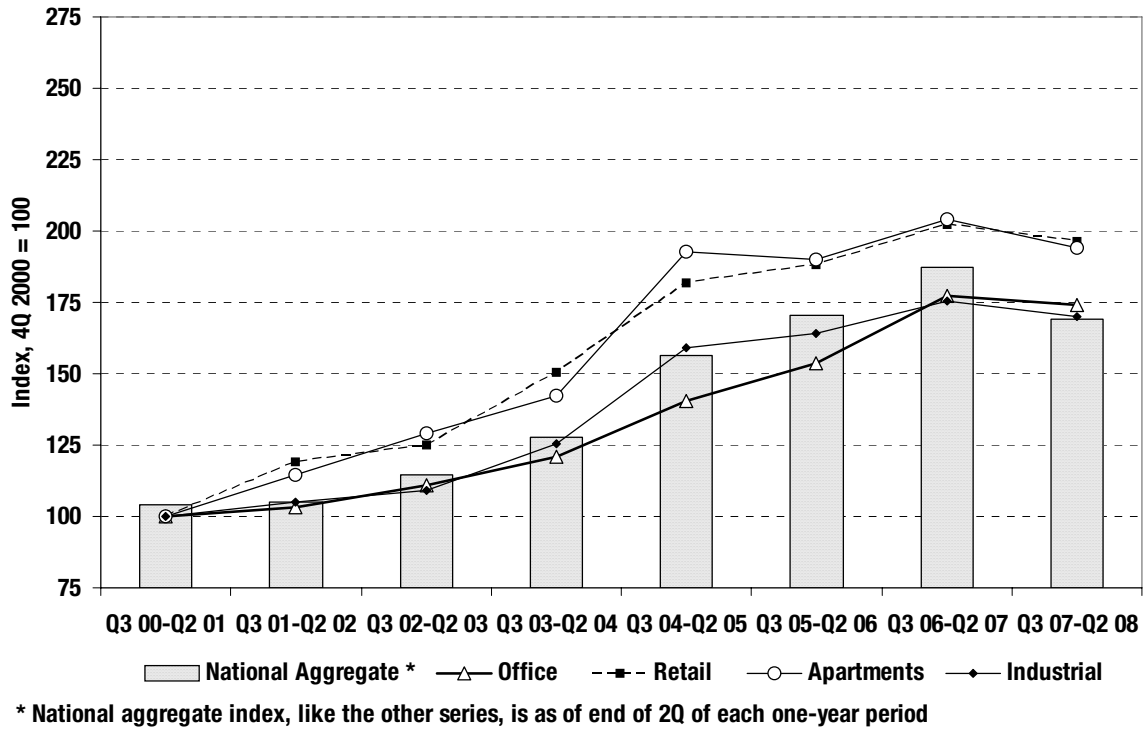


Figure 12
 Moody's/REAL CPPI: South - Property Type Indices

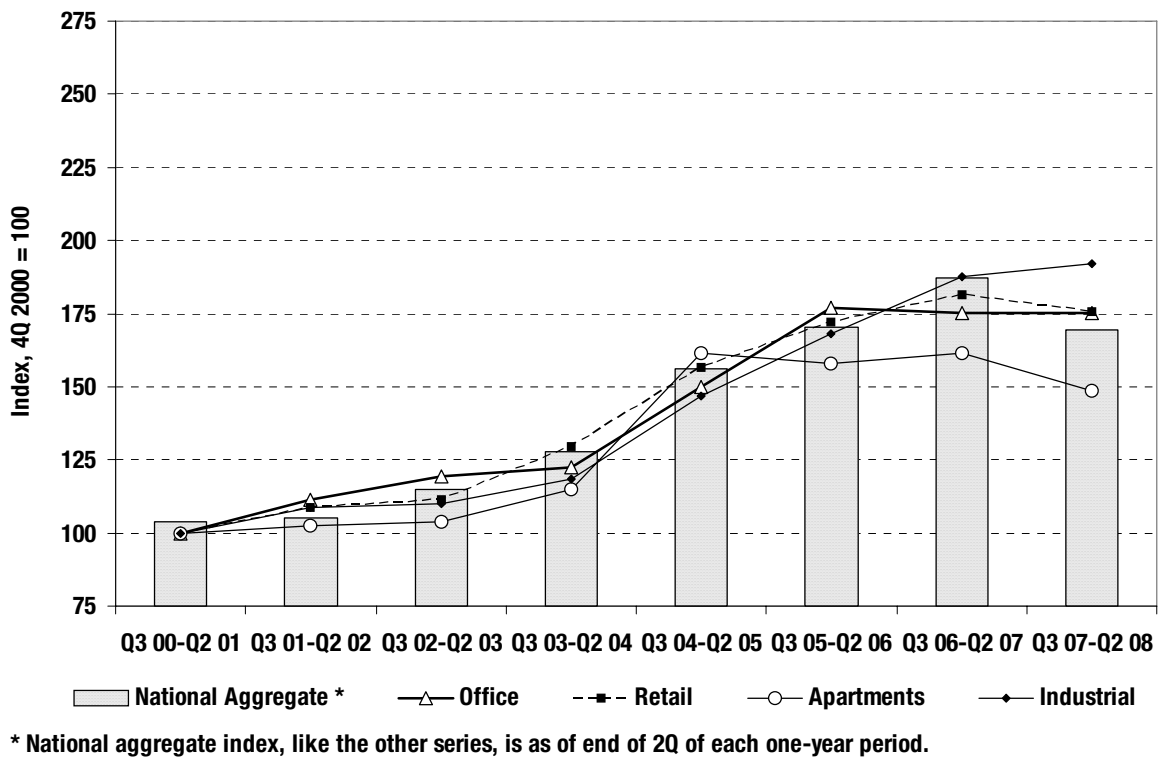


Figure 13
Moody's/REAL CPPI: Southern California - Property Type Indices

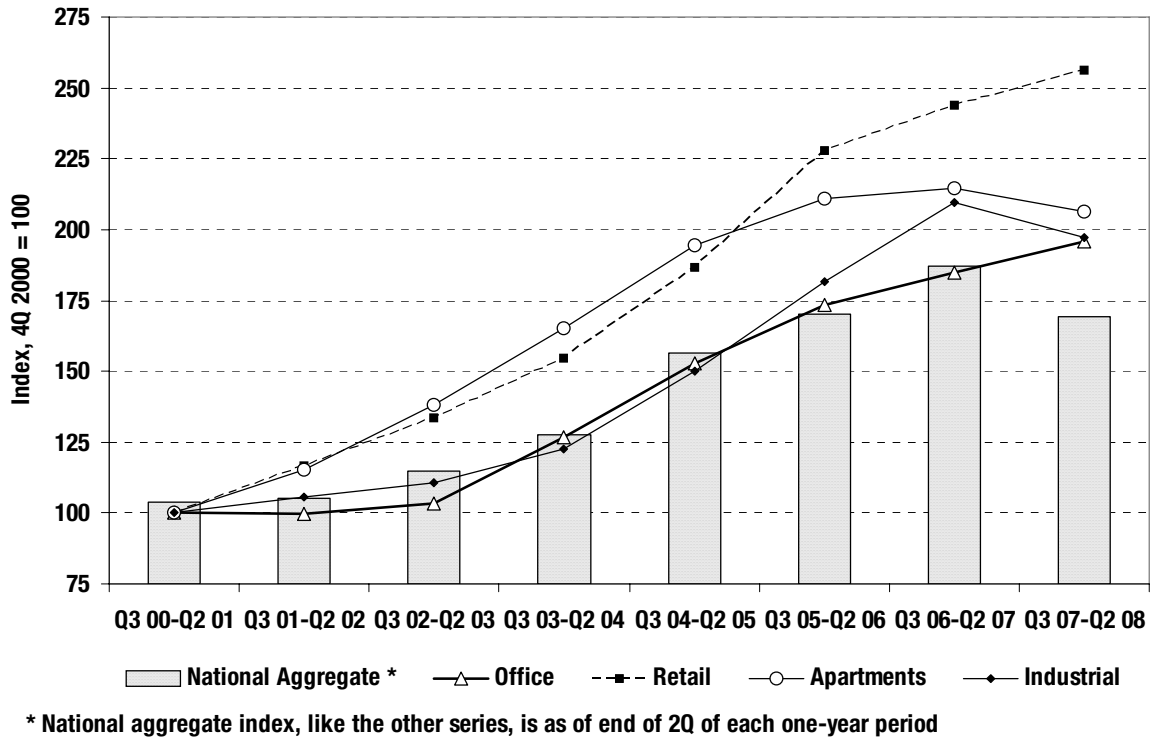


Figure 14
Moody's/REAL CPPI: Major Office Markets Indices

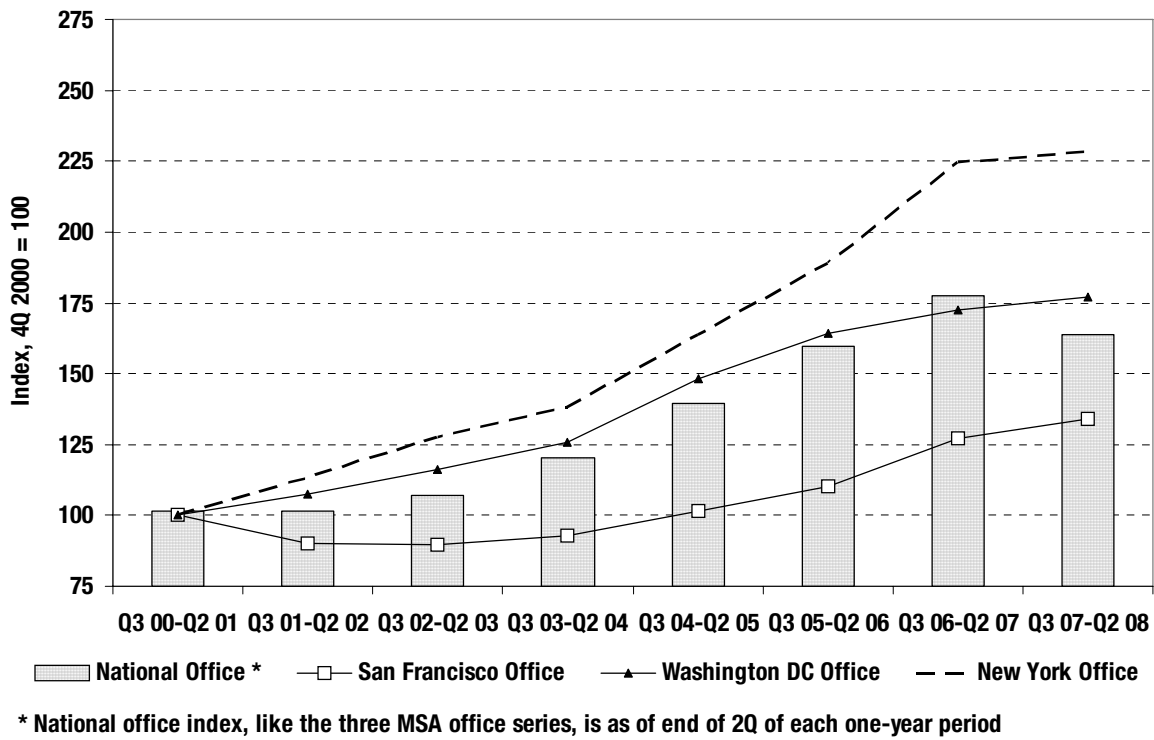
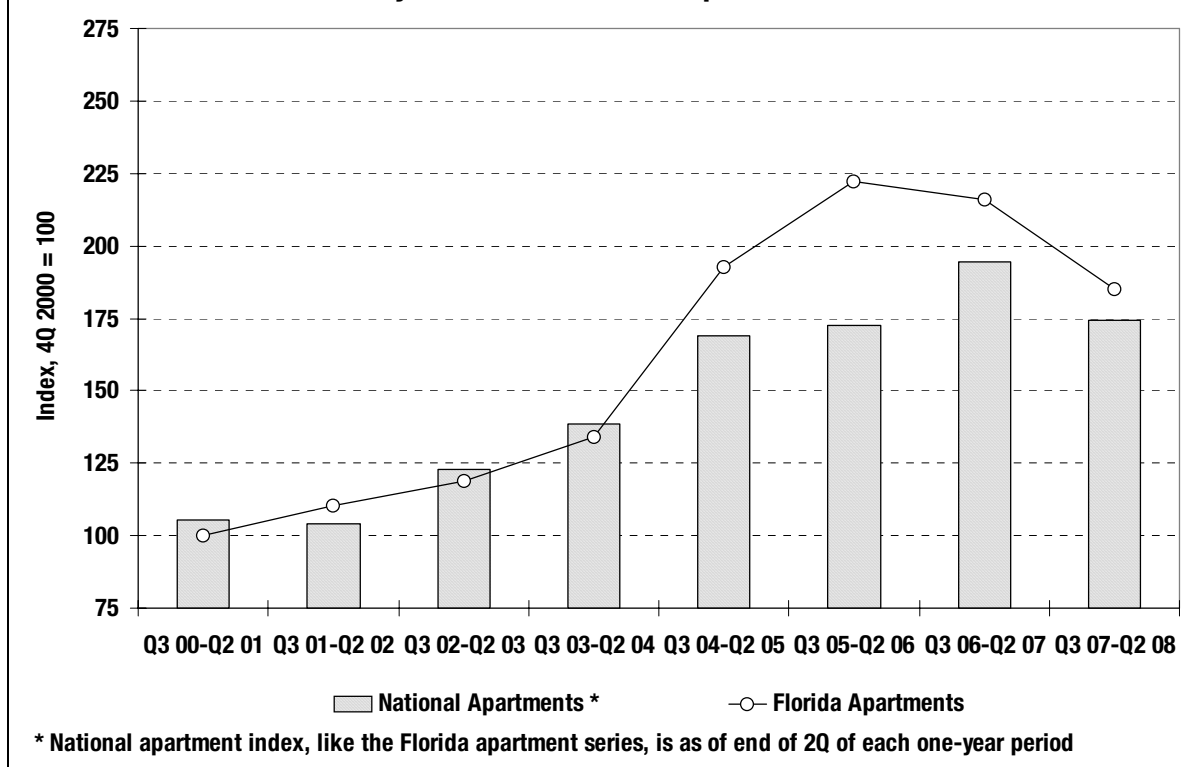


Figure 15
Moody's/REAL CPPI: Florida Apartment Index



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