

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

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OVERVIEW

The Moody's/REAL All Property Type Aggregate Index recorded a 3.9% value decline in the month of September, bringing the index level to 109.61. This puts the CPPI in line with prices seen seven years ago. Values have fallen 37.0% from the same time last year, and 42.0% from two years ago. The CPPI recorded peak prices in October 2007, and since then, values have fallen 42.9%.

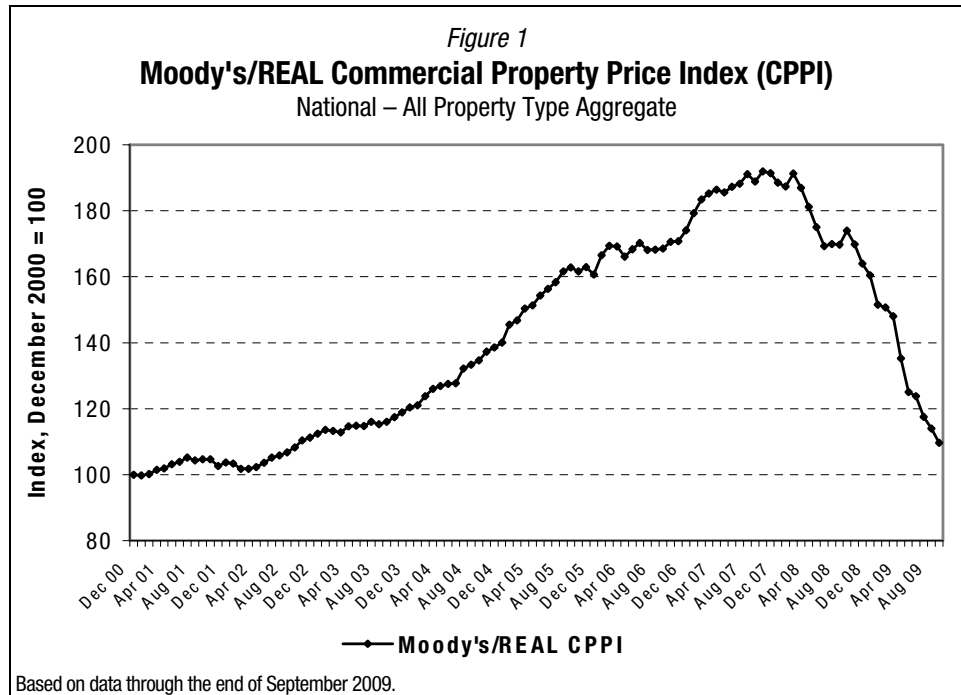


Figure 2
Current Moody's/REAL CPPI and Change from Earlier Periods

New This Period:	National All Property Type Aggregate			
	National – Four Property Types			
	Top 10 MSAs – Four Property Types			
	West – Four Property Types			
Repeated 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	109.61	-3.9%	-37.0%	-42.0%
	Current Index^Q	1 Quarter Earlier	1 Year Earlier	2 Years Earlier
National - Apartments	117.61	-10.9%	-34.1%	-38.9%
National – Industrial	120.60	-8.1	-29.6	-36.8
National – Office	113.24	-12.2	-30.1	-35.9
National – Retail	141.81	2.5	-19.4	-27.4
Top Ten MSAs ¹ - Apartments	145.72	-3.8	-31.4	-34.6
Top Ten MSAs- Industrial	139.19	-10.4	-26.4	-29.7
Top Ten MSAs- Office	106.15	-19.3	-37.6	-37.9
Top Ten MSAs- Retail	151.11	-3.0	-19.6	-23.1
West – Apartments	146.56	-4.7	-18.9	-23.4
West – Industrial	132.44	-5.7	-24.1	-26.6
West – Office	125.78	11.3	-19.0	-27.5
West – Retail	150.86	-6.0	-19.0	-24.0
	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 September 30, 2009.

Q Quarterly series. Most recent data is through the end of the 3rd quarter 2009. Analysis is based on data from that 3rd 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 recorded a 3.9% price decline in the month of September. The index now stands 42.9% below the peak measured in October 2007.
- Overall market transaction volume has consistently remained low throughout 2009, with transaction counts hovering below 400, and dollar volumes less than \$4 billion per month, on average.
- Prices on properties at the national level fared slightly better in the third quarter as compared to the second, but all property types have now seen values fall 25-40%.
- Office properties in the top ten MSAs saw a significant 19.3% drop in prices in the third quarter. Office is the only property type where overall value declines are larger in the top ten markets than in the nation as a whole.
- Retail prices are faring the best overall in the West, and no property type in this region has yet to see price declines crack the 30% threshold.

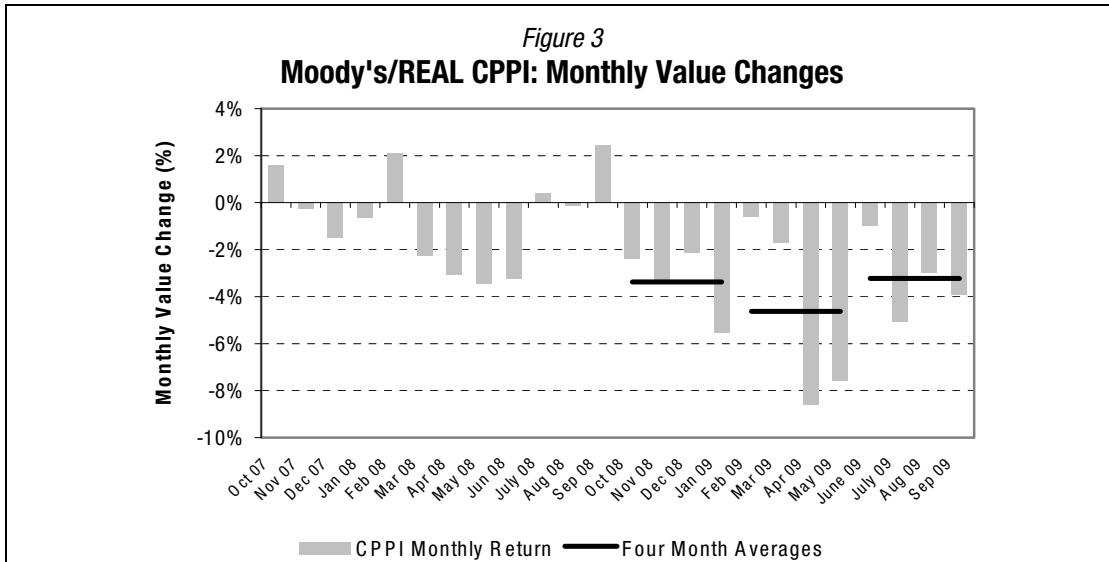
¹ A summary or short version of the repeat sales methodology is available in a Moody's Special Report. [US CMBS: Moody's Publishes the First Commercial Property Price Indices Based on Commercial Real Estate Repeat Sales Data](#). Sept. 19, 2007. This is available on Moodys.com > Structured Finance > 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 CONSISTENTLY LOW THROUGH 2009

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

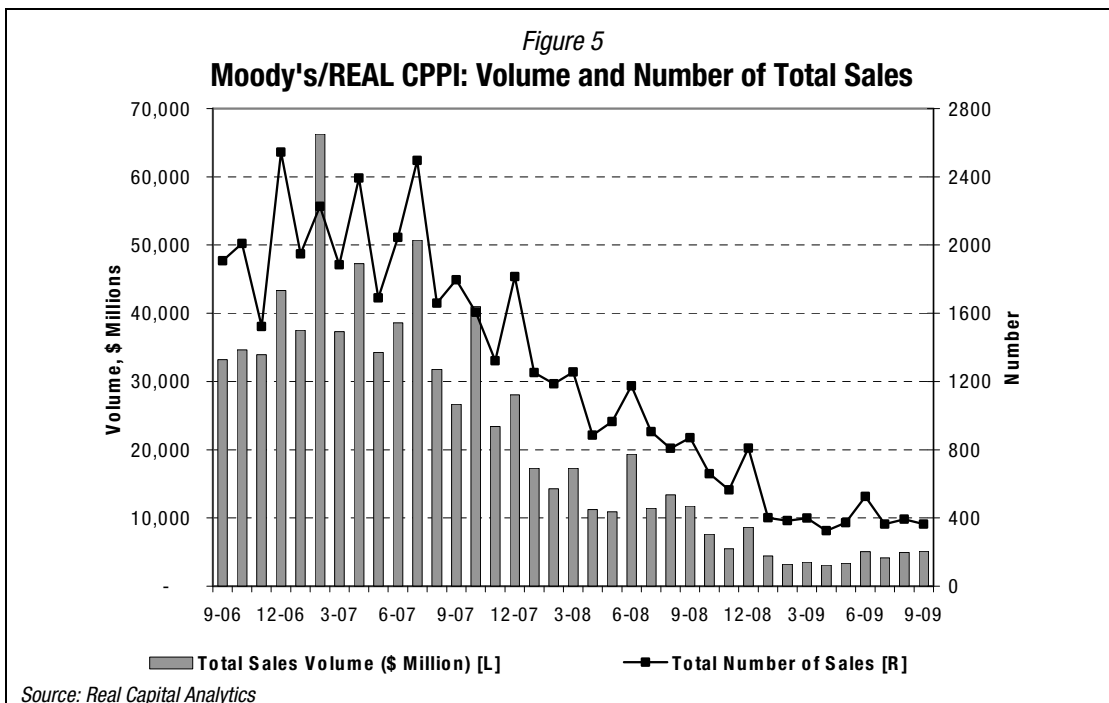
The National All Property Type Aggregate Index measured a 3.9% value decline in September as compared to August. This puts commercial property prices 37.0% below the level seen one year ago, 42.0% below that of two years ago, and 18.6% below five years ago. Prices peaked in October 2007 and have since fallen 42.9%.

Prices on commercial real estate have consistently fallen in each of the past twelve months. The rate of decline appears to be moderating in recent months, after values fell 7+% in both April and May. The four month time period spanning June through September 2009 saw prices fall on average 3.2%. The previous four months had value declines averaging 4.6%.



Transaction Volume

Overall transaction volume was slightly lower in September as compared to August by count, and slightly higher by dollar volume. There were 363 sales this month totaling over \$5.1 billion.



For most of 2009, transaction counts have hovered just below 400 sales per month, with dollar volume roughly in the \$4 billion range on average. The relatively tight range of transaction volume we've seen over the past year may mean that we have reached our bottom in terms of sales per month. However, we may see the market bouncing around this bottom for some time before a significant uptick in overall volume is recorded. Over the same time period in 2008, sales were averaging 1000 per month, at a value of about \$14 billion.

Of the 363 overall transactions, 76 were repeat sales observations used in calculating this month's index return. These 76 transactions totaled \$1.1 billion.

Out-of-Bounds Phenomenon

As can be seen from *Figure 2*, the annual return for the aggregate index is -37.0%. Although they cover the same period of time, the annual returns on the national property type indices range from -19.4% through -34.1%. 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.

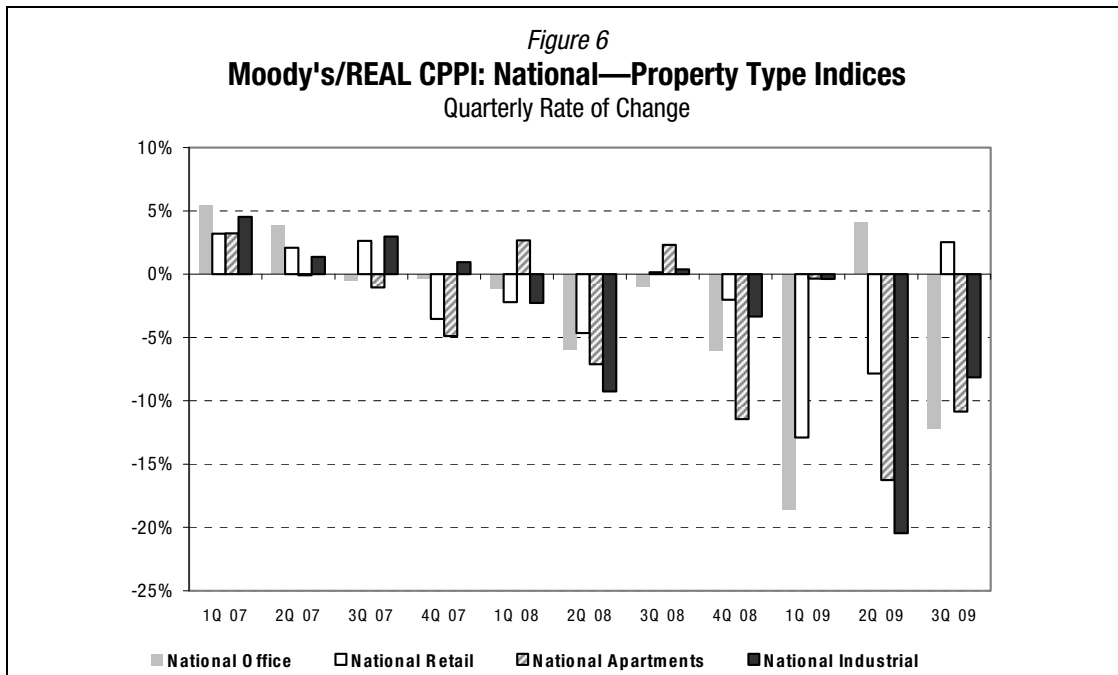
This makes it mathematically possible for the All-Property Type Index return to lie outside of the range of the sectoral returns in any given time span. Fundamentally, an out-of-bounds result can be viewed as an effect of statistical "noise". In a real estate index such noise derives fundamentally from the fact that individual property transactions are dispersed around the average market value as of the time of the transaction.² 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.

² 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: RETAIL POSTS MINOR GAIN

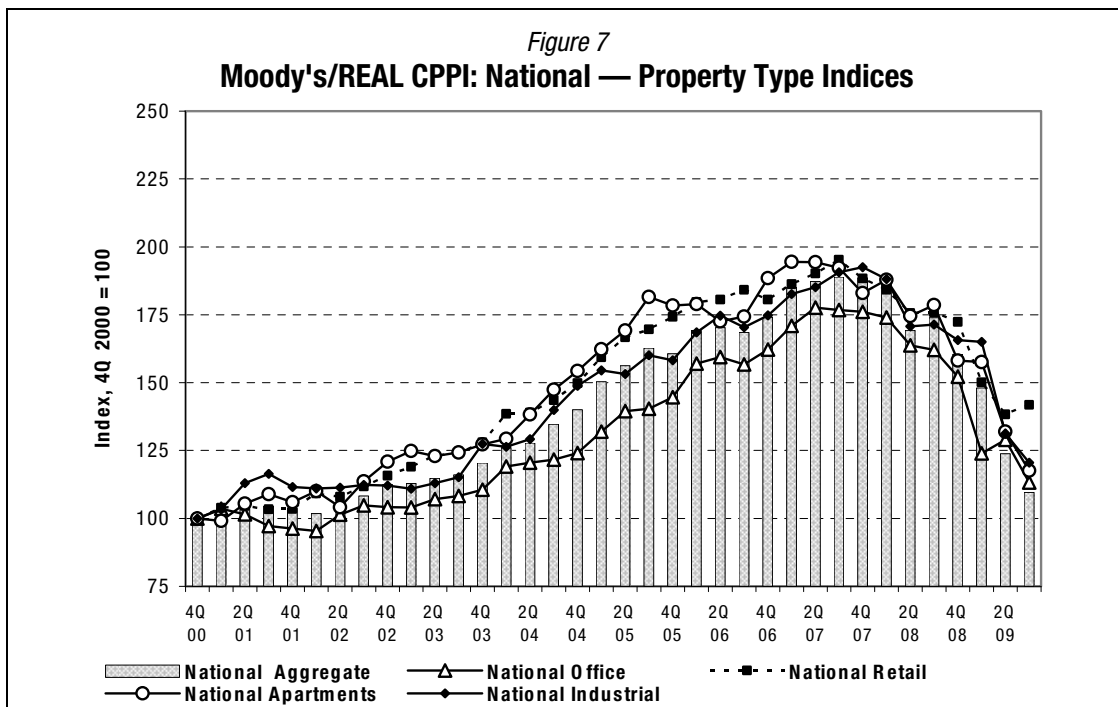
The National – Property Type Indices for the four major property types are a quarterly series, and this report is based on data through the third quarter of 2009.

All property types at the national level saw slightly better performance relative to the second quarter, with the exception of the office sector (see *Figure 6*).



Office took back the small gain it recorded in the second quarter and then some, with a value decline of 12.2% this quarter. This puts the overall price decline for the national office sector at 36.2%.

Apartments recorded the second largest quarterly decline on a national level, with values falling 10.9% in the third quarter. National apartment prices have recorded declines in excess of 10% in three of the past four quarters, bringing the total peak-to-trough decline to 39.5% for the sector.



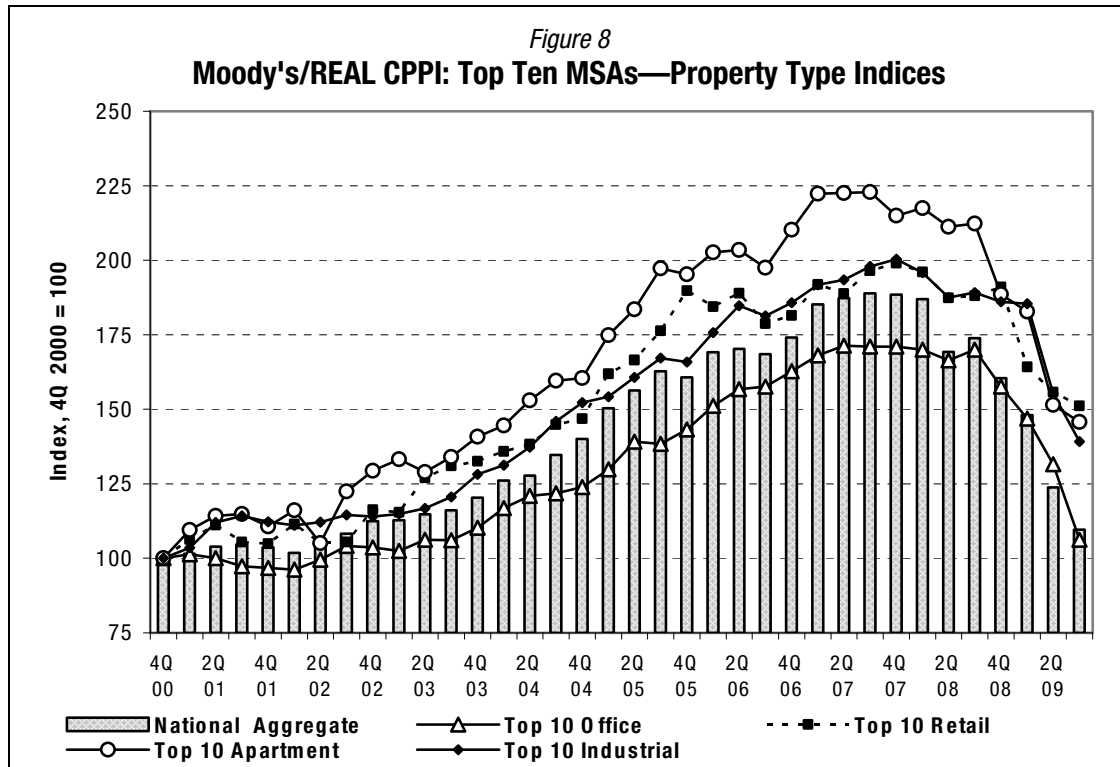
After a record making 20.4% decline in the second quarter (the largest national quarterly decline to date in this recession), the industrial sector saw a more modest 8.1% drop in prices in the third quarter. Industrial properties have seen values decline 37.4% peak-to-trough, on a national level.

After seven consecutive quarters of flat to negative price growth, retail properties saw values increase 2.5% in the third quarter on a national level. This minor gain comes after a nearly 20% value drop in the first half of the year, putting retail prices 27.4% below their peak.

TOP TEN MSAS – PROPERTY TYPE INDICES: OVERALL, BETTER THAN THE NATION, EXCEPT FOR OFFICE

This series is based on the ten MSAs which are home to the most transactions by dollar volume in each property type.³ 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 third quarter of 2009.

While prices fell in the top ten MSAs for all property types in the third quarter, overall value declines have fared slightly better as compared to the nation, except for office.



Apartment prices in the top ten markets have consistently fallen over the past four quarters, with a decline of 3.8% in the third quarter of 2009. This puts peak-to-trough declines at 34.6% for this sector, as compared to 39.5% nationally.

Retail values saw a mild decline in the third quarter as well, with prices falling 3.0%. Although nationally retail prices increased 2.5%, the overall value decline in national retail prices beat out that of the top ten markets, 27.4% as compared to 24.1%. Like the nation overall, peak-to-trough value declines have been mildest in the retail sector for the top ten markets thus far in the downturn.

Property prices for the industrial sector fell 10.4% in the top ten MSAs in the third quarter. On the heels of a 16.3% decline last quarter, industrial prices as measured by this index have now fallen 30.5% overall. Nationally, prices on industrial properties have fallen 37.4% since the peak.

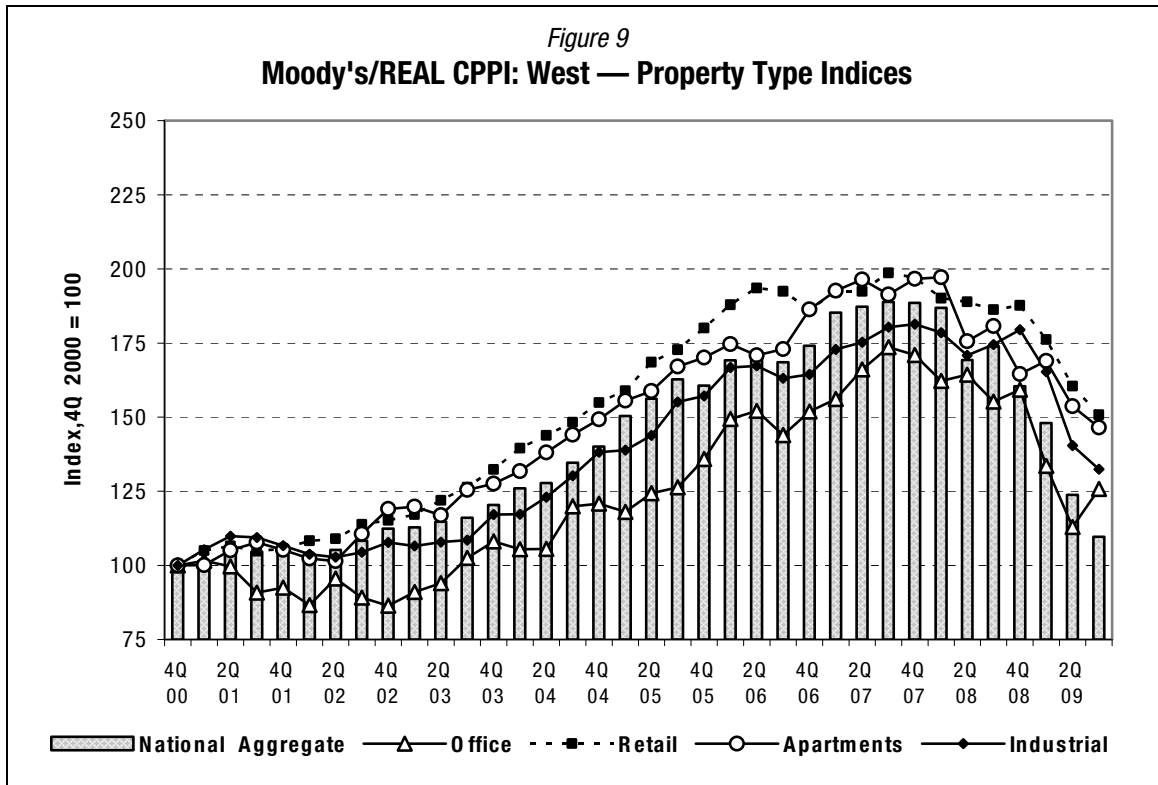
By several measures, the office sector is the worst performer in the top ten markets. Office had the largest value decline in the third quarter compared to the other sectors in the top ten MSAs, 19.3%. It has measured the largest overall price decline in the top ten as well, falling 38.1% thus far in the recession. Additionally, this property type has seen an overall decline in the top ten markets that is worse than the nation, where office property prices have fallen 36.2% peak-to-trough.

³ A list of the top ten cities by property type can be found in the appendix of this report, *Figure 13*.

WESTERN REGION – PROPERTY TYPE INDICES: VALUES FALL NEARLY 25% OR MORE FROM PEAK IN ALL PROPERTY TYPES

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 third quarter of 2009.

Apartments and industrial properties in the western region have seen prices fall similarly, both in the third quarter and overall. Western apartment prices declined 4.7% in the third quarter of this year. As can be seen in *Figure 9*, prices have bounced around more in this sector than any other in the West, with declines measured in three of the last five quarters. Overall, western apartment prices are down 25.7%.



The industrial sector in the West saw prices fall 5.7% over the past quarter. On the heels of a 15.1% decline in the second quarter, and a 7.9% decline in the first quarter, western industrial property prices now stand 27.0% below the peak.

Both the western office and retail sectors saw volumes dip below the 20 observation threshold, invoking the back-up procedure outlined in the Moody's white paper⁴ and summarized in the May 2009 Moody's/REAL CPPI report⁵. In the third quarter, there were 13 office transactions and 14 retail transactions recorded in the western region. Low transaction volume can result in noisiness in the index returns.

The positive West office return number, 11.3% for the third quarter, is likely an example of the noise that the mathematics of the repeat-sales regression process can produce when data is scarce. We judge it likely that the West office market did not generally rise in the manner suggested by the index return this period, and we feel it is likely that the West Office index in next quarter's return may offset or "correct" the

⁴ 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.

⁵ Please see the Moody's Special Report: [Moody's/REAL Commercial Property Price Indices](#), May 2009. May 19, 2009.

uptick this period as this sort of statistical noise generally corrects with time. Office property prices in the West have now fallen 27.5% thus far into the downturn.

West retail saw prices decline 6.0% in the third quarter, using the same back-up method applied in the West office due to low transaction volumes. Overall for retail properties in the West, prices have fallen 24.0% peak-to-trough.

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 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 14 – 18*).

APPENDIX

Figure 10
CPPI: Report Release Cycle, 2009 & 2010

	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:		1 st Quarter	1 st Quarter
Based on data through:		March 31	March 31
	JULY	AUGUST	SEPTEMBER
	July 19, 2010	August 19, 2010	September 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:		2 nd Quarter	2 nd Quarter
Based on data through:		June 30	June 30

Figure 11

(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 12

(B) 16 Annual Indices with Quarterly Releases include the following:

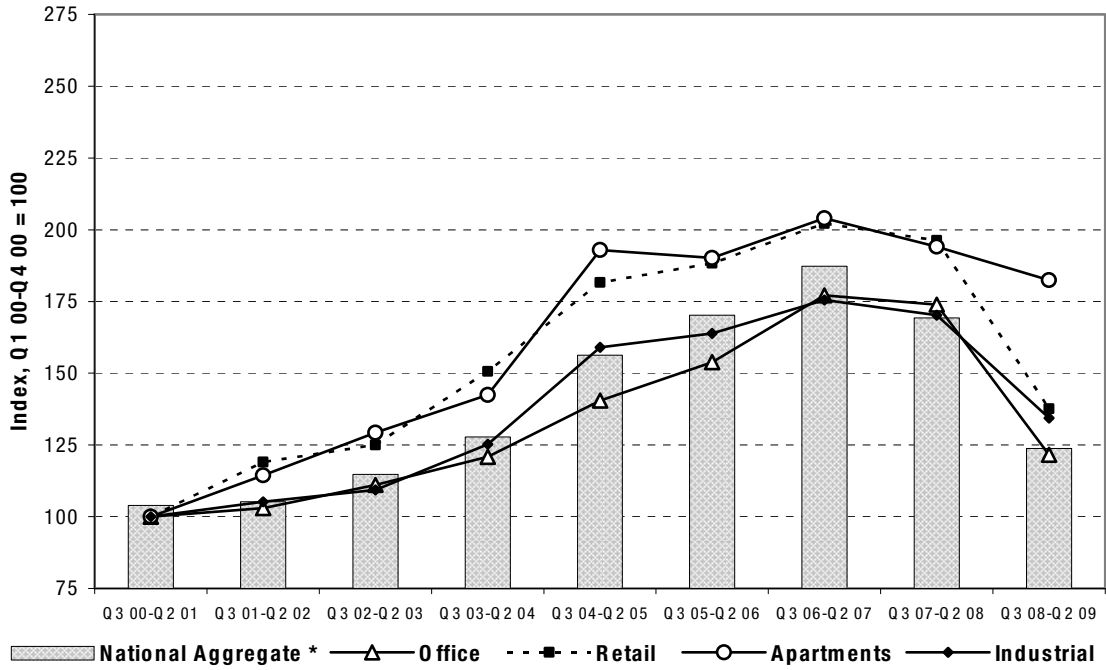
APARTMENT	RETAIL	OFFICE	INDUSTRIAL
East Apartment	East Retail	East Office	East Industrial
South Apartment	South Retail	South Office	South Industrial
So. California Apartment	So. California Retail	So. California Office	So. California Industrial
Florida Apartment		New York Office	
		San Francisco Office	
		Washington DC Office	

Figure 13

Top Ten Cities by Property Type

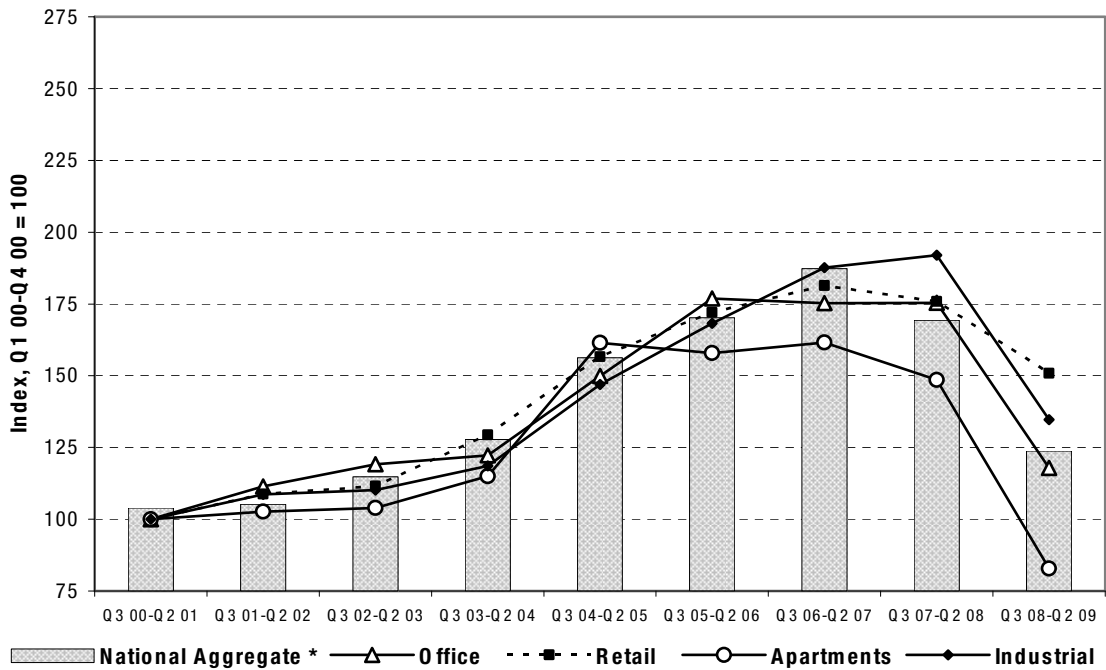
APARTMENT	RETAIL	OFFICE	INDUSTRIAL
Atlanta	Atlanta	Atlanta	Atlanta
Dallas	Chicago	Boston	Chicago
Houston	Dallas	Chicago	Dallas
Los Angeles	Houston	Dallas	Los Angeles
New York	Los Angeles	Houston	New York
Phoenix	New York	Los Angeles	San Diego
San Francisco	Phoenix	New York	San Francisco
Seattle	San Francisco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

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



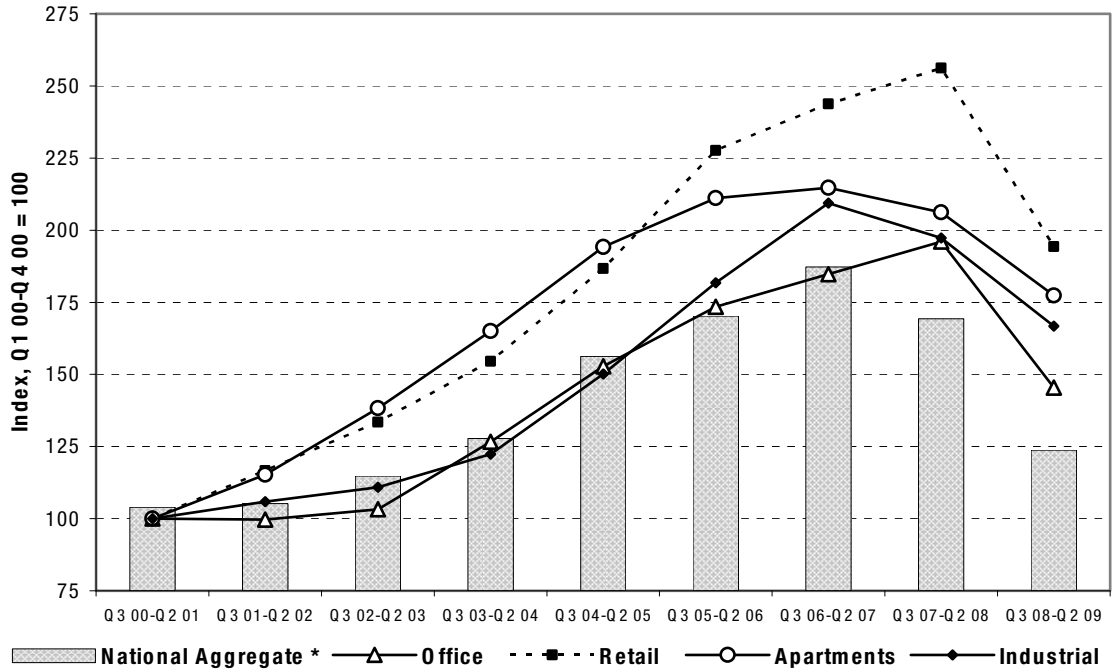
Based on data through June 2009, or end of 2nd quarter.

Figure 15
Moody's/REAL CPPI: South — Property Type Indices



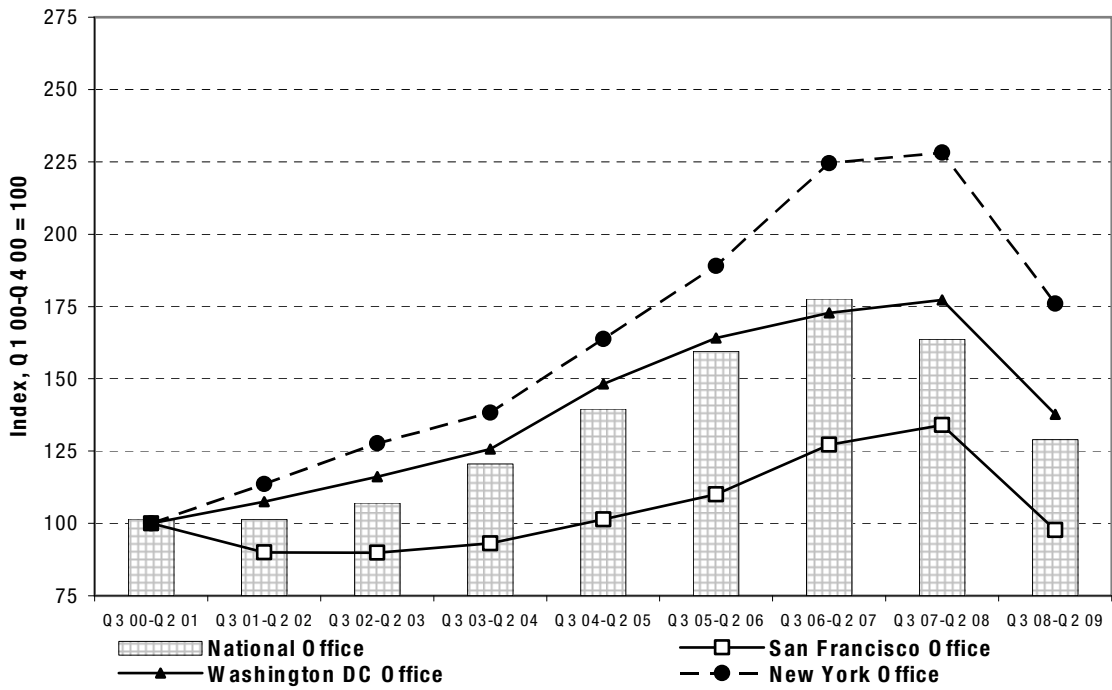
Based on data through June 2009, or end of 2nd quarter.

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



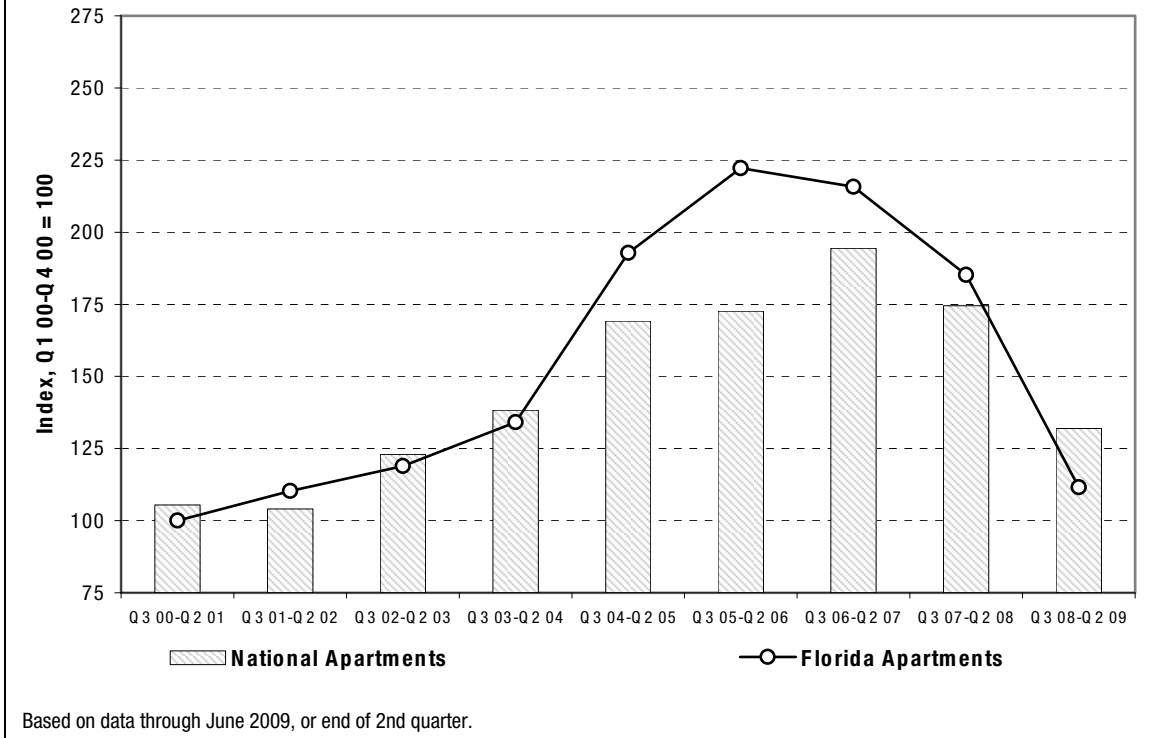
Based on data through June 2009, or end of 2nd quarter.

Figure 17
Moody's/REAL CPPI: Major Office Markets Indices



Based on data through June 2009, or end of 2nd quarter.

Figure 18
Moody's/REAL CPPI: Florida Apartment Index



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