

Moody's/REAL Commercial Property Price Indices, December 2007

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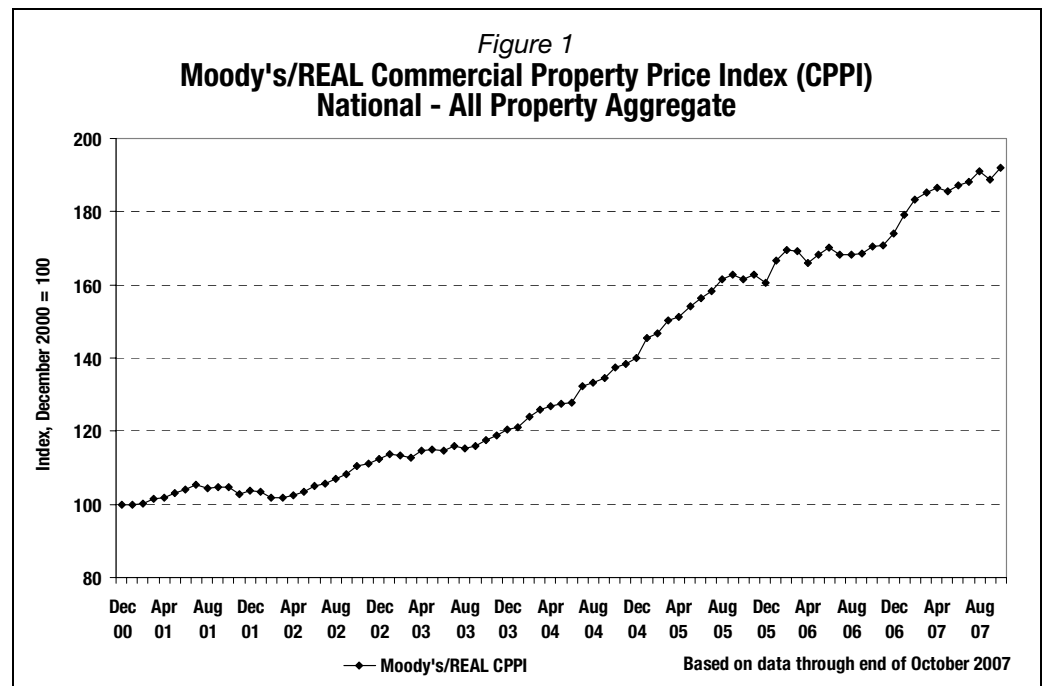
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OVERVIEW

The Moody's/REAL Aggregate Commercial Property Price Index (CPPI) experienced a small up-tick this month. Although this seems inconsistent with the credit crunch, actual markets are rarely smooth as they go through the price discovery process - and there is no reason that commercial real estate as an asset class should be an exception.



We continue to expect that the Moody's/REAL CPPI will experience more downs than ups over the coming months, despite intermittent "blips," due to continued dislocation in the capital markets as the direction of prices is captured in transaction activity. The decline in last month's index still stands as an early warning of more to come. We believe that the methodology for Moody's/REAL CPPI provides the best indicator of changes in actual market prices for commercial real estate over time.¹

The Moody's/REAL CPPI measures 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. In this December report, based on data through October 31, Moody's/REAL Aggregate CPPI measures 191.87, an increase of 1.6% over the previous month, 0.4% from two months ago, a 12.5% year-over-year increase, and an 18.7% increase over two years. This month's minimal increase could be an artifact of any of several factors, or a combination of several variables.

First, volatility at times like this is normal for a market in transition and is itself an indication of the changes transpiring relative to the immediately preceding period of smooth, steady growth. An unsettled capital market makes it more difficult for investors to determine appropriate pricing, as the market tries to find direction in the credit crunch. Particularly in this transitional environment, transaction based indices are highly valuable.

In addition, some strong price data might well reflect residual spill-over from transactions for which prices and financing were negotiated a few months ago, before the liquidity crunch. Also, those sales that are executed in an uncertain market can be motivated by sellers locking in gains, while the sales that fall through (and there is a growing number of broken deals) might disproportionately represent loss aversion, i.e., sellers not wanting to accept the price that comes with the new reality of higher debt costs. Indeed, completed transactions can represent the "winners," or assets that can sell (and be financed) more readily. However, this dynamic is likely to be reversed sooner rather than later as the supply of winners eventually starts to dwindle.

Finally, noise can emerge in transaction-based indices, particularly at market inflection points when fewer sales are completed; indeed, an increased level of noise can itself be an indicator of shifts in market dynamics. Even so, we believe this modest level of noise to be an acceptable trade-off for generally being a more timely and accurate method for capturing market price movements.

In addition to the national aggregate index, the other sub-indices for which new measures are reported here include the following:

- East - Four Property Types
- South - Four Property Types
- Southern California - Four Property Types
- MSA Indices - Three Major Office Markets: New York, San Francisco, and Washington DC
- MSA Indices - Florida Apartment Market

These are all annual indices updated each quarter, based on data through the end of the third quarter 2007. In other words, the analysis is based on data from four quarters (4Q06, 1Q07, 2Q07, and 3Q07). Given that the measure is of a rolling four-quarter period, data as of the end of the third quarter can not be compared with that from the end of the previous quarter.

Notable Observations and Themes

- All four asset classes in the East showed double-digit growth in prices over the last year, and three of the four outperformed the national aggregate for that property type (the exception was the industrial sector).
- In the South, all asset classes experienced only single-digit price increases over the last year, and only the retail sector outperformed the national norm for the asset class.
- Southern California is the only region where property prices have more than doubled in all asset classes since the inception of the index in 2000.

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.

- The New York office market maintained its first-place position in office price increases over a one-year horizon. San Francisco seems at last to be recovering from the slump in values from 2000 to 2004.
- The Florida apartment market departed significantly from the national aggregate for the sector, with a year-over-year decline in prices, in sharp contrast to the increase logged for US apartments as a whole.

Figure 2 lists the current score for each of the 29 components in the Moody's/REAL suite of indices. Moody's will customarily report all index numbers in each report for investors' convenience, even though not all indices are recalculated each month, as noted in earlier reports. Any index that is based on new data is marked in gray; all others are the same as last period. The schedule for updating each index is listed in the Appendix. Charts for the previously-published index measures are also included in the Appendix.

Figure 2

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

New This Period: National All Property Type Aggregate

Repeated: 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	191.87	1.6%	12.5%	18.7%
	Current Index ^Q	1 Quarter Earlier	1 Year Earlier	2 Years Earlier
National - Apartments	192.33	-1.0%	10.4%	6.0%
National - Industrial	190.68	3.0	11.9	19.1
National - Office	176.73	-0.5	12.8	25.9
National - Retail	195.19	2.6	6.0	15.1
Top 10 MSAs 1 - Apartments	222.82	0.1	12.8	12.9
Top 10 MSAs - Industrial	197.91	2.3	9.1	18.4
Top 10 MSAs - Office	171.06	-0.2	8.5	23.6
Top 10 MSAs - Retail	196.47	4.1	10.0	11.5
West - Apartments	191.38	-2.6	10.7	14.6
West - Industrial	180.40	2.9	10.6	16.3
West - Office	173.60	4.5	20.6	37.4
West - Retail	198.61	3.2	3.2	15.0
	Current Index ^A	1 Year Earlier	2 Years Earlier	
East - Apartments	219.34	14.1%	13.9%	
East - Industrial	185.71	10.2	15.0	
East - Office	193.60	16.1	31.1	
East - Retail	210.56	11.9	16.5	
South - Apartments	165.88	4.1	-5.1	
South - Industrial	194.79	9.9	29.4	
South - Office	180.68	3.3	18.3	
South - Retail	184.97	8.8	21.2	
So. California - Apartments	226.30	8.2	18.0	
So. California - Industrial	220.76	16.4	38.1	
So. California - Office	207.96	16.0	24.5	
So. California - Retail	226.89	4.2	21.6	
New York - Office	232.46	19.8	39.6	
San Francisco - Office	137.39	18.4	31.7	
Washington DC - Office	194.24	11.1	25.4	
Florida - Apartments	220.51	-3.1	4.9	

M Monthly series. Most recent data is through October 31, 2007.

Q Quarterly series. Most recent data is through the end of the 3rd quarter 2007. 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.

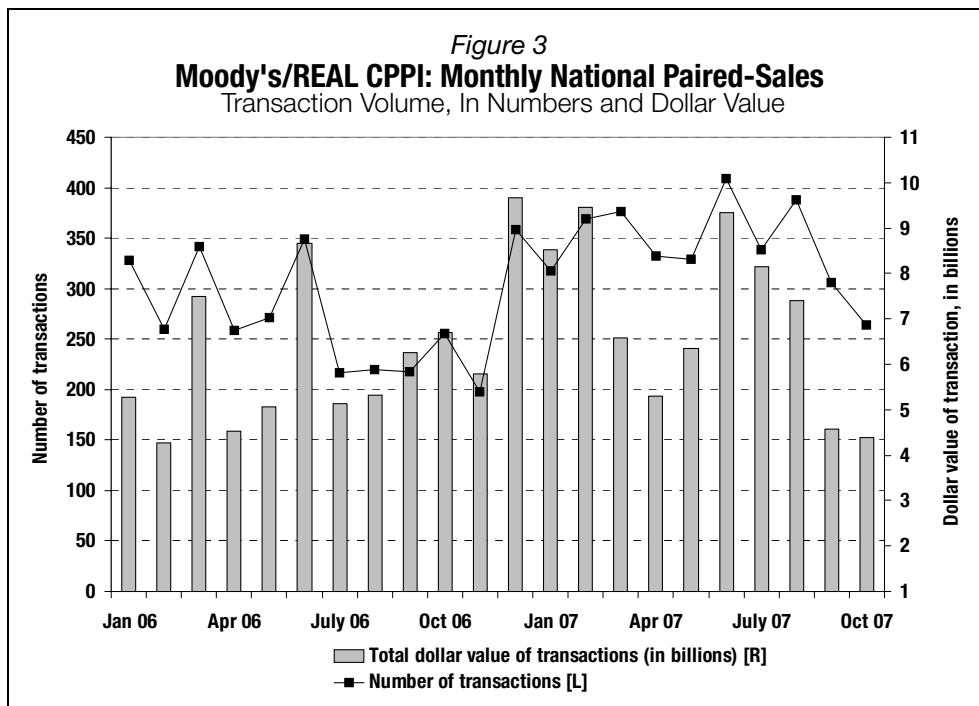
A Annual series. Most recent data is through the end of the 3rd quarter 2007. Analysis is based on data from four quarters (4Q06, 1Q07, 2Q07, and 3Q07). Given that the measure is of a rolling four-quarter period, data as of the end of the 3rd quarter can not be compared with that from the end of the previous quarter.

NATIONAL - ALL PROPERTY AGGREGATE INDEX: PAST THE PEAK IN TRANSACTION VOLUME

The National - All Property Type Aggregate is a monthly series, and this report is based on data through the end of October 2007. As noted above, the month-over-month measure increased, in contrast to the monthly decline experienced in the previous period (refer back to *Figure 1*, page 1). However, on a two-month basis, the index is up only 0.4%, which looks rather like a flattening at the peak of a cycle.

Generally across all property types and regions, paired sale transaction volume fell off in the most recent period from peak activity levels earlier in the year. For the aggregate index, transaction volume was down 13.7% from the previous month and 35.5% below the peak in the number of transactions in June of this year - which was itself a peak in volume for the entire series (see *Figure 3*). In dollar terms, October volume was 53.0% lower than in June of this year. However, the volume of repeat sales is well above the target levels identified in the methodology paper cited above.

Transaction volume has varied from month to month in other years. In fact, a dip in both the number and total dollar value of repeat sales also occurred in the summer of 2006. However, no recurring seasonal pattern is apparent in the broader series.



The pattern of declining volume generally prevailed across property types and regions. Apartments tended to experience their high point in sales somewhat earlier, in the first quarter of 2007, while other asset classes tended to peak in the second quarter. The drop-off in volume from the peak was highest in apartments (-10.3%) and office (-9.1%), followed by retail (-7.2%), with no fall-off in volume experienced in industrial space.

Furthermore, the same pattern broadly persisted across the country, with a peak in volume variously in the first or second quarter in all regions. The largest decrease was in the West (-13.9%), with a smaller decline in the East (-4.7%) and no drop in the South.

On a more granular level, the only region/property type pairings that departed from the norm were the apartment sector in the East and the industrial sector in the South, where transaction volume actually increased in the third quarter. In the latter case, the numbers showed a bit of a surge in the most recent period over typical transaction volume levels in this sector, which thus could represent simply a later peak than for other asset classes. Furthermore, the number of transactions for a specific property type/regional pairing is inevitably fewer and therefore can demonstrate more variability than for larger analytical groups.

Why Volume Matters

We expect variability in the index. As said before, **the Moody's/REAL CPPI lets the market be the market** - and actual market prices sometimes jump around. This methodology records actual, repeat sales of the same property at different points in time - for better or worse. In times like the present, the sales that did *not* occur can be telling, but ultimately, completed transactions best capture the overall movement in prices, and we believe that further softness in prices will increasingly show up in coming months.

Nonetheless, the most recent index measure is somewhat contrary to expectations of the change in prices being flat or down, and the clear decline in volume could be linked to this rather surprising result. When volume is lower, the impact of individual transactions is magnified.

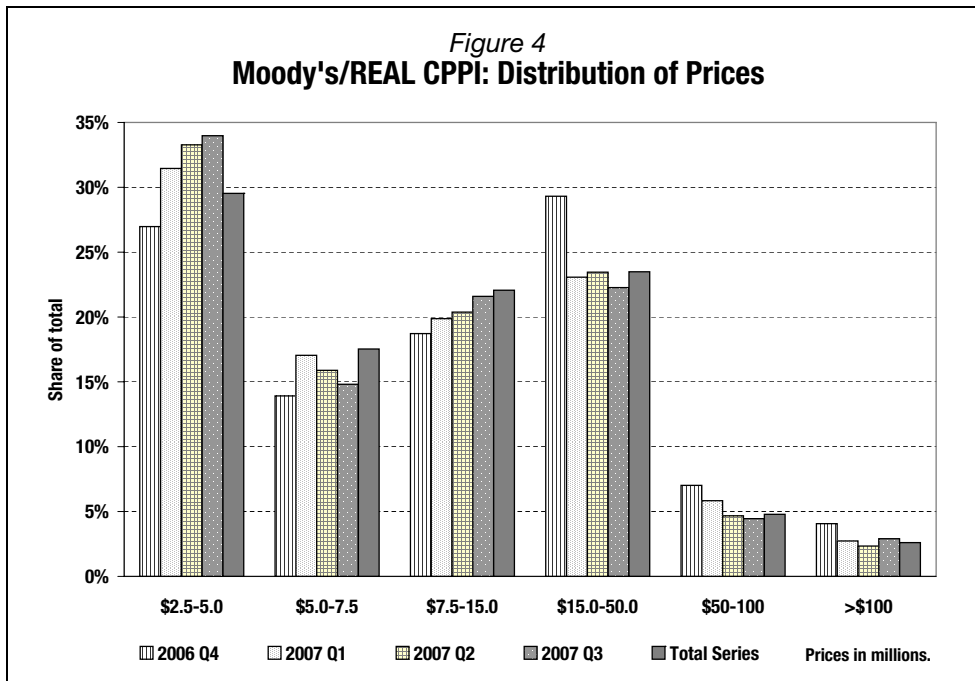
In fact, the current index performance could be consistent with a phenomenon that we have seen before, i.e., when markets are uncertain or capital is constrained, and consequently volume is down, for a time, sales can disproportionately represent winners taking profits off the table. Ultimately, all types of transactions are completed, and price discovery becomes more complete. At that time, the sales data - and accordingly the index - captures that change.

While this can introduce some "noise" to the process from time to time and generate monthly blips in the index, we nonetheless believe that it is more informative to the market not to introduce undue smoothing by using rolling averages over several periods. Users can do that if they so choose in structuring derivative contracts.

Distribution of Prices Shows Strength in Bread-and-Butter Properties

The most recent period also saw slightly more transactions among the least expensive assets, with the distribution among price points slightly skewed toward bread-and-butter properties. Assets with prices between \$2.5 million and \$5.0 million typically comprise approximately 30% of all transactions, but in the third quarter that share reached a recent high of 34.0% (see *Figure 4*).

At the other end of the spectrum, properties with prices between \$50 million and \$100 million are approximately 5% of all properties, and those with prices in excess of \$100 million, approximately 3% of the total. The share of third quarter transactions in these most-expensive price groups was quite consistent with the overall series. In short, the high-end segment held its own.



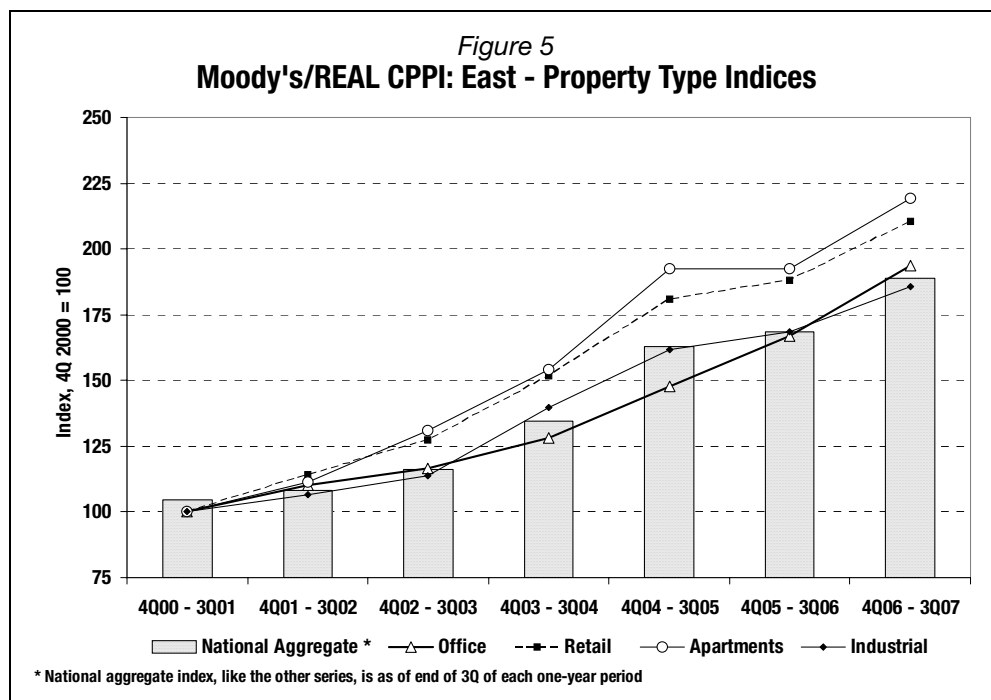
These data could represent somewhat of a shift in transactions from a broad range of assets to those that sell more readily in a capital-constrained environment as follows:

- **Small**, more bread-and-butter properties are easier to market and are still easier to finance, with more ready access to bank financing.
- **Medium**-sized assets could face more limited availability of capital.
- **Large** and more expensive assets, many of them of trophy-quality, still sell, illustrating a flight to quality. This segment also experiences a greater time lag, as recent transactions were undoubtedly arranged a few months ago, thus representing a slightly earlier credit environment. As a result, any drop-off in this part of the market could be delayed.

However, an index based on repeat sales of the same property at different points in time obviously controls for differences in the specific properties selling in consecutive periods, but we provide a description of this distribution here for background or informational purposes.

EASTERN REGION - PROPERTY TYPE INDICES MOSTLY OUTPERFORM

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: 4Q 2006, 1Q 2007, 2Q 2007, and 3Q 2007, thus culminating with data through the end of the third quarter of 2007.

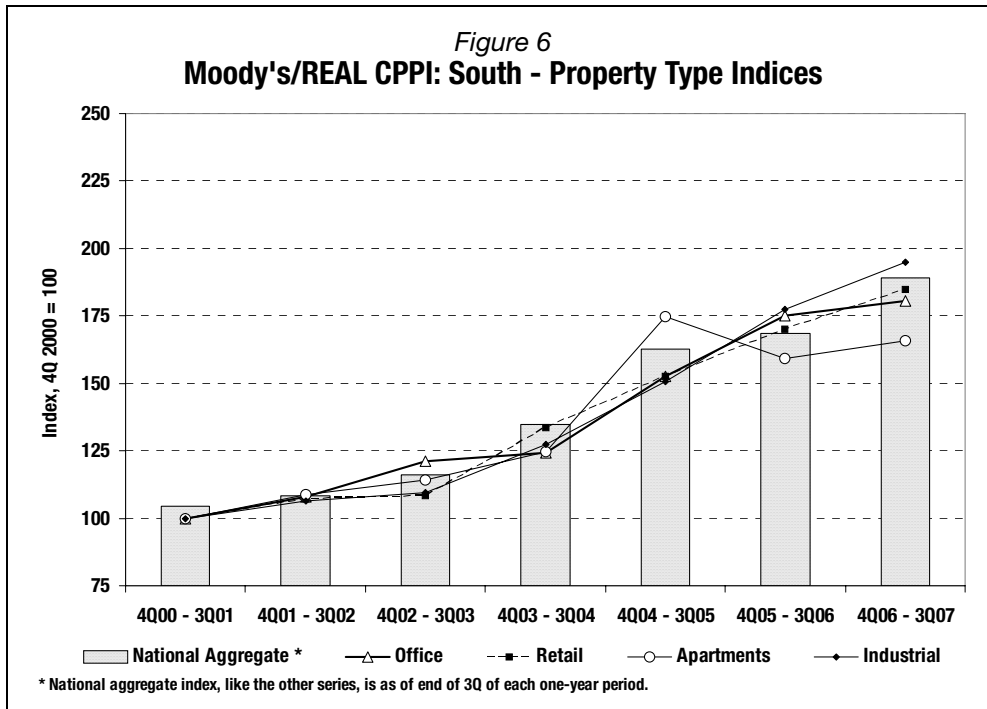


All four asset classes in the East showed double-digit growth in prices over the last year. Indeed, over both one-year and two-year horizons, three of the four property types in the East outperformed the national aggregate for that asset class (the exception was the industrial sector).

As in the nation as a whole, transaction volume in the East in three of the four property types was down from last quarter but ahead of the same quarter last year (the exception was the apartment sector). In each asset type, the peak in volume was either in the first quarter of this year (apartments and offices) or the second quarter (industrial and retail).

SOUTHERN REGION - PROPERTY TYPE INDICES: SINGLE-DIGIT INCREASES GENERALLY LAG THE NATION

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: 4Q 2006, 1Q 2007, 2Q 2007, and 3Q 2007, thus culminating with data through the end of the third quarter of 2007.



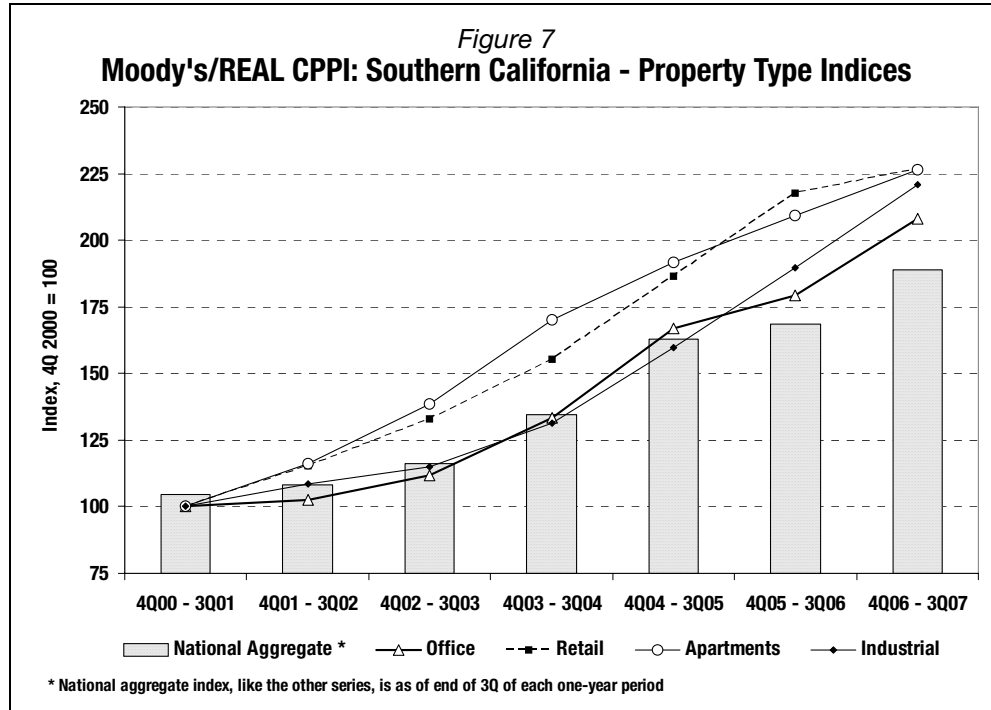
The apartment sector in the South suffered a decline in prices of 5.1% over a two-year time frame - the weakest performance in any geographical area/asset class pairing - but recovered somewhat over the last year, albeit not yet to the price level of two years ago.

Offices in the South, with an increase of only 3.3% in prices over the last year, were one of the weaker segments in all regions (with the notable exception of Florida apartments, to be discussed below). In fact, all asset classes in the South sported only single-digit price increases over the last year, and only the retail sector outperformed the national norm for the asset type.

In the South, volume departed from the national profile, as the number of repeat sales continued to increase through the third quarter.

SOUTHERN CALIFORNIA - PROPERTY TYPE INDICES: THE ONLY REGION WITH PRICES DOUBLING IN ALL ASSET CLASSES SINCE INDEX INCEPTION

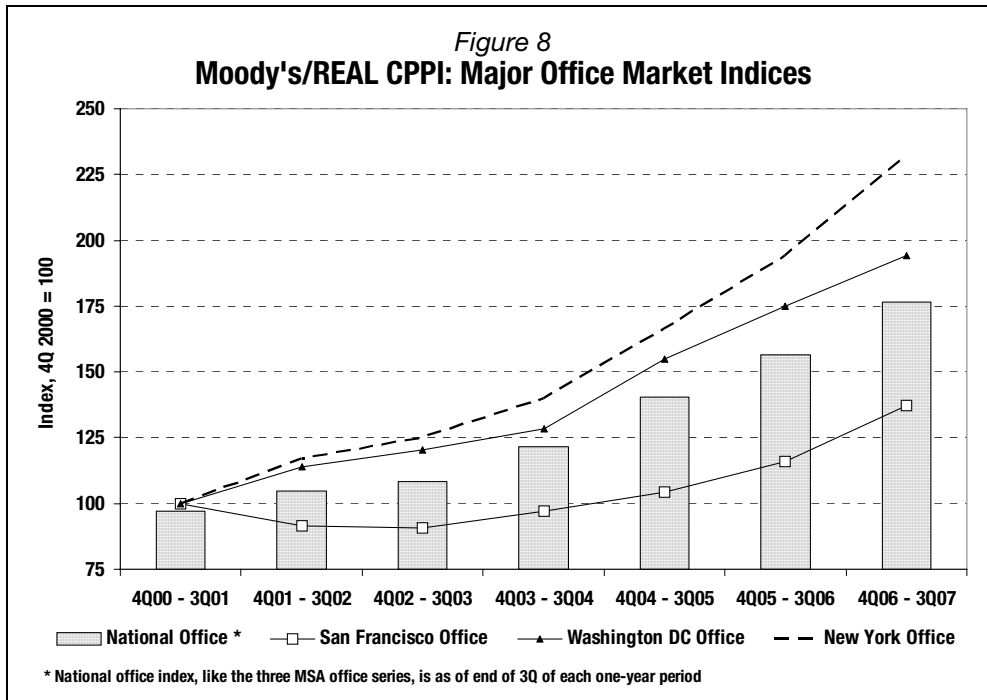
The Southern California - Property Type Indices for the four major property types is also an annual series, based on one year of data on a rolling basis and updated each quarter. This index is based on data for the four quarters: 4Q 2006, 1Q 2007, 2Q 2007, and 3Q 2007, thus culminating with data through the end of the third quarter of 2007. Four MSAs are captured in the Southern California sub-index: Los Angeles, Orange County, Riverside County, and San Diego.



Southern California is the only region where property prices have more than doubled in all asset classes since the inception of the index in 2000. However, in the last year, only offices and industrial space outperformed the national norm for those property types, while apartments and retail lagged their national benchmarks in price appreciation.

MAJOR OFFICE MARKET INDICES: NEW YORK PRICE GROWTH SUSTAINED

Three major office markets consistently experience enough transactions to support at least an annual series for each of those cities: New York, San Francisco, and Washington DC. Like the other annual series using data from four quarters 4Q 2006, 1Q 2007, 2Q 2007, and 3Q 2007, this series culminates with data through the end of the third quarter of 2007.



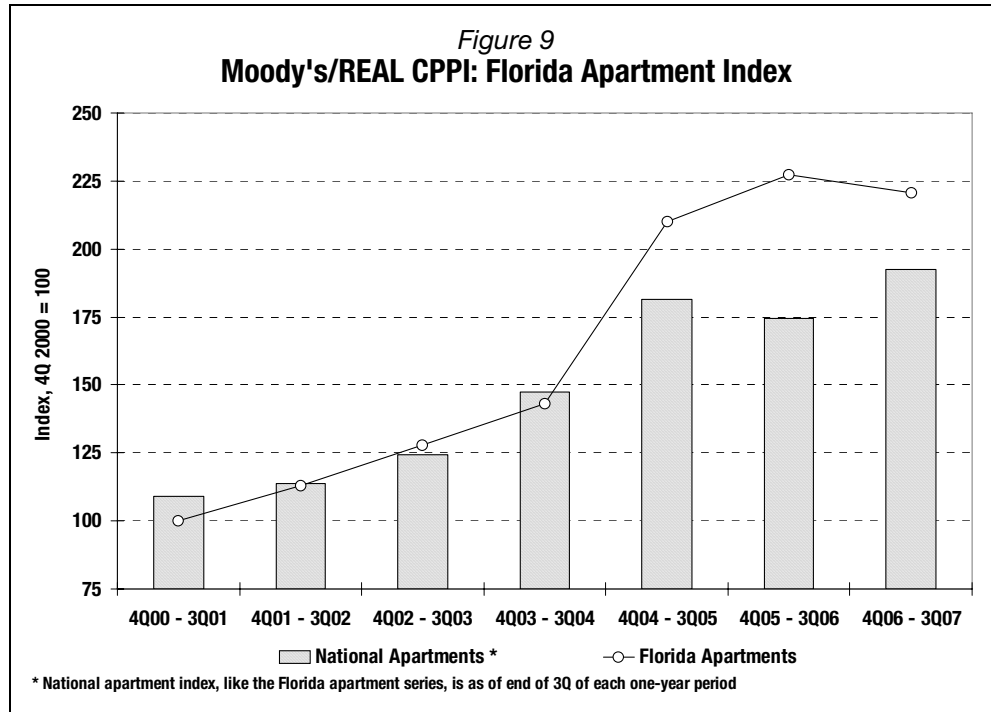
The New York office market maintained its first-place position in office price growth over a one-year horizon, as prices increased by 19.8% year-over-year in New York, followed closely by San Francisco's 18.4% growth rate. San Francisco clearly seems to be recovering from the slump in values from 2000 to 2004 driven by the dot-com bust.

Only in New York are average prices typically on the order of \$100 million, in contrast to averages closer to \$50 million in both San Francisco and Washington DC.

Washington DC continued to be the laggard, with an 11.1% annual change in prices - respectable enough, but slightly less than in offices overall (12.8%) or the other major office markets reported here. On the other hand, this is one of the very few markets where transaction volume maintained a steady pace through the third quarter, with no back-off, at least as yet. Washington DC might yet illustrate the slow-and-steady-wins-the-race syndrome.

FLORIDA - APARTMENT INDEX DROPS OFF

An aggregation of several Florida MSAs provides a sufficient volume of apartment transactions to support a Florida - Apartment series at least on an annual basis: 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 third quarter of 2007.



The Florida apartment market departed significantly from the national aggregate for the sector, with a year-over-year decline in prices of 3.1%, well below the 10.4% increase logged for the US as a whole. Over a two-year term, Florida experienced positive growth in prices but still lagged the nation, 4.9% to 6.0%.

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 2008.
- 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 investors' convenience (*Figures 13 - 15*).

APPENDIX

Figure 10
Moody's/REAL CPPI: Report Release Cycle, 2008

	JANUARY	FEBRUARY	MARCH
	Jan. 22, 2008	Feb. 19, 2008	March 19, 2008
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 21, 2008	May 19, 2008	June 19, 2008
Report to be released:	Aggregate	Aggregate	Aggregate
For period:	February	March	April
Based on data through:	February 28/29	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 21, 2008	Aug. 19, 2008	Sept. 22, 2008
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. 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

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	

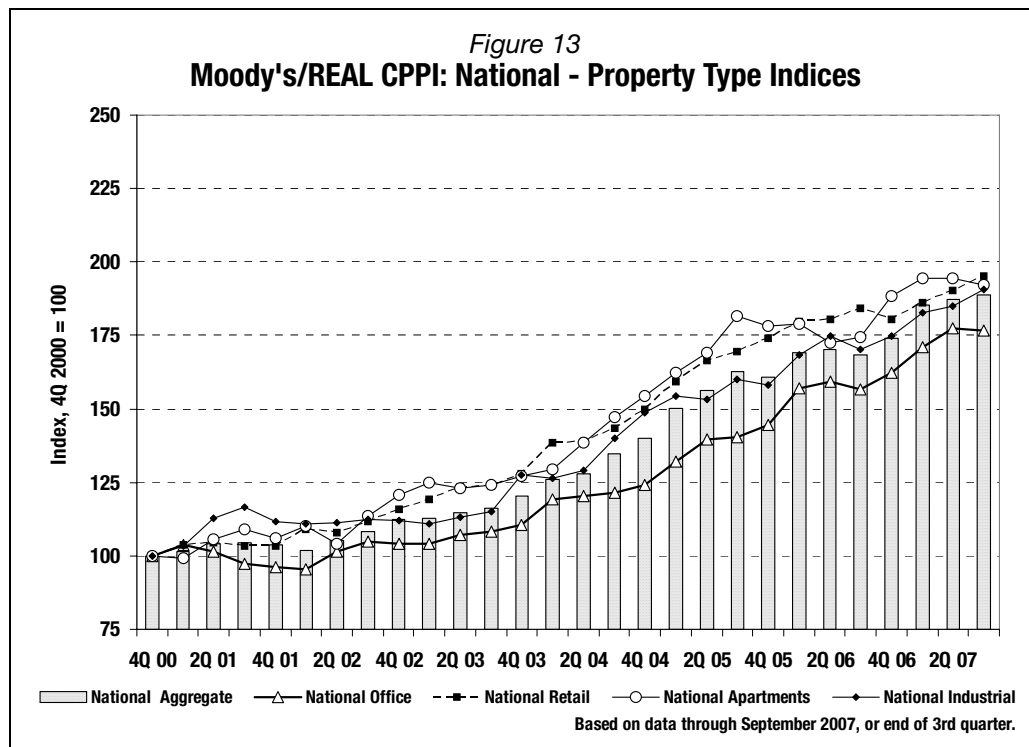


Figure 14
Moody's/REAL CPPI: Top Ten MSAs - Property Type Indices

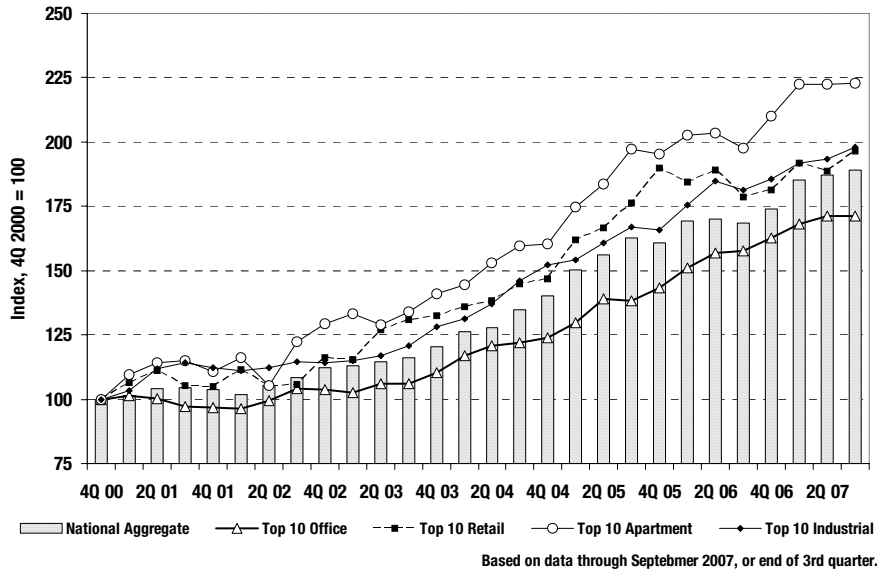
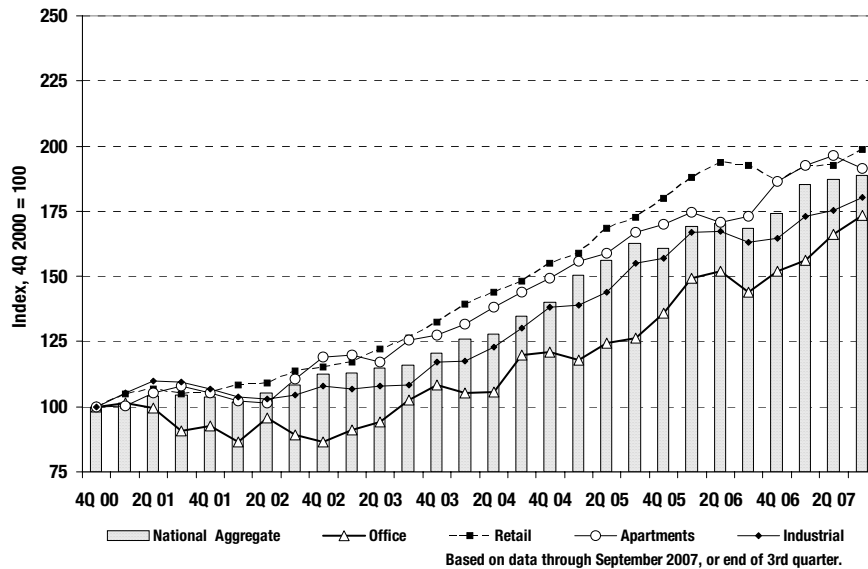


Figure 15
Moody's/REAL CPPI: West - Property Type Indices



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