

# Moody's/REAL Commercial Property Price Indices, December 2008

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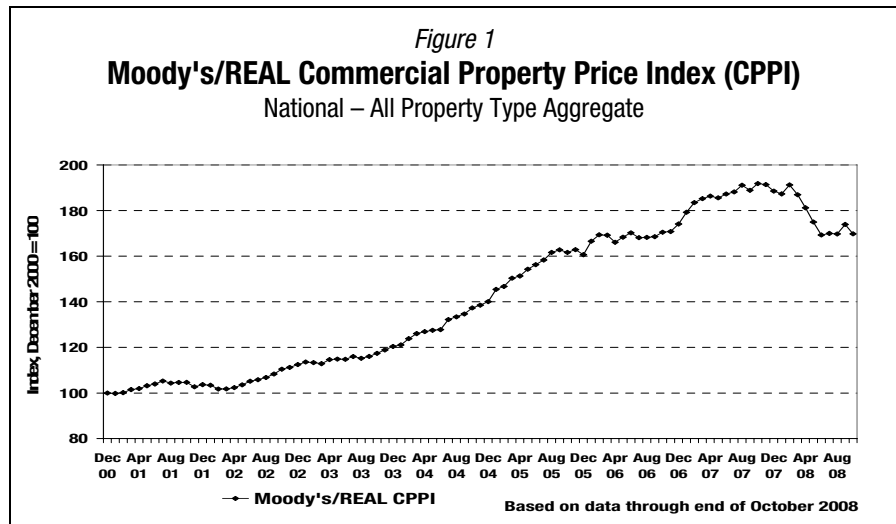
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## OVERVIEW

In this report, the Moody's/REAL National All Property Type Aggregate Index for October measures 169.76, a decrease of 2.4% over the previous month. The index now stands 11.5% below the level seen a year ago, October 2007, which represented the peak of commercial property prices. The index is 0.4% lower than it was two years ago. This report is based on data through the end of October.



December 19, 2008

*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 <sup>M</sup>	1 Month Earlier	1 Year Earlier	2 Years Earlier
National All Property Type Aggregate	169.76	-2.4%	-11.5%	-0.4%
	Current Index <sup>Q</sup>	1 Quarter Earlier	1 Year Earlier	2 Years Earlier
National - Apartments	178.57	2.3%	-7.2%	2.5%
National - Industrial	171.37	0.4	-10.1	0.6
National - Office	162.08	-1.0	-8.3	3.5
National - Retail	175.84	0.1	-9.9	-4.5
Top Ten MSAs <sup>1</sup> - Apartments	212.35	0.5	-4.7	7.5
Top Ten MSAs- Industrial	189.18	0.9	-4.4	4.3
Top Ten MSAs- Office	170.00	2.2	-0.6	7.9
Top Ten MSAs- Retail	188.01	0.4	-4.3	5.2
West - Apartments	180.72	2.9	-5.6	4.5
West - Industrial	174.50	2.1	-3.3	7.0
West - Office	155.20	-5.5	-10.6	7.8
West - Retail	186.25	-1.4	-6.2	-3.2
	Current Index <sup>A</sup>	1 Year Earlier	2 Years Earlier	
East – Apartments	196.72	-10.3%	2.3%	
East – Industrial	180.34	-2.9	7.1	
East – Office	183.26	-5.3	9.9	
East – Retail	197.36	-6.3	4.9	
South – Apartments	160.59	-3.2	0.8	
South – Industrial	173.65	-10.9	-2.1	
South – Office	175.16	-3.1	0.1	
South – Retail	171.48	-7.3	0.9	
So. California – Apartments	208.24	-8.0	-0.4	
So. California – Industrial	207.05	-6.2	9.1	
So. California – Office	194.04	-6.7	8.3	
So. California – Retail	219.51	-3.3	0.8	
New York – Office	228.02	-1.9	17.5	
San Francisco – Office	130.79	-4.8	12.7	
Washington DC – Office	190.58	-1.9	9.0	
Florida – Apartments	204.19	-7.4	-10.2	

<sup>M</sup> Monthly series. Most recent data is through October 31, 2008..

<sup>Q</sup> Quarterly series. Most recent data is through the end of the 3<sup>rd</sup> quarter 2008. Analysis is based on data from that 3<sup>rd</sup> quarter.

<sup>1</sup> Top Ten MSAs refers to the ten MSAs with the most transactions by dollar volume, in each property type.

<sup>A</sup> Annual series. Most recent data is through the end of the 3<sup>rd</sup> quarter 2008. Analysis is based on data from four quarters (4Q07, 1Q08, 2Q08, and 3Q08). Given that the measure is of a rolling four-quarter period, data as of the end of the 3<sup>rd</sup> quarter can not 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 Moody's/REAL CPPI measured a 2.4% decrease in commercial property prices in the month of October. The index stands 11.5% below the peak of last October.
- Transaction volume continues to fall, in all property types and across all regions.
- For the first time, all annual indices experienced a negative growth in prices. The southern industrial sector saw the largest decrease of the annual indices, with prices falling almost 11% over the past four quarters.
- The three major office markets, San Francisco, New York, and Washington DC, all saw decreases in property prices, although prices in all three cities are up significantly over a two year time period.
- Apartment prices in Florida continue to fall from the peak measured two years ago.

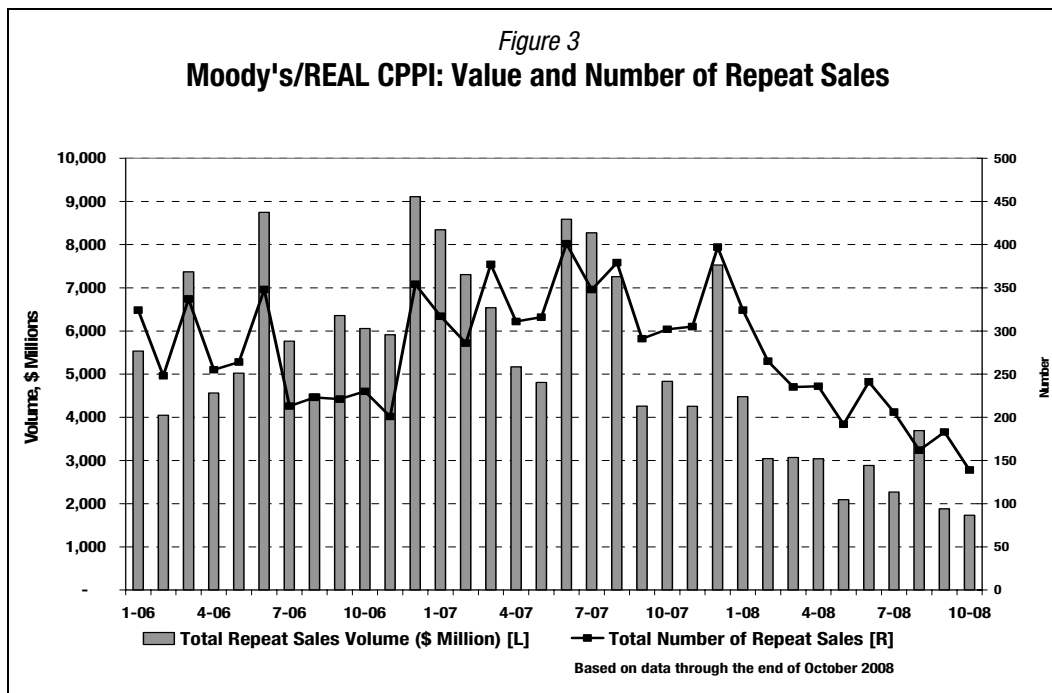
<sup>1</sup> A summary or short version of the repeat sales methodology is available in a Moody's Special Report. [US CMBS: Moody's Publishes the First Commercial Property Price Indices Based on Commercial Real Estate Repeat Sales Data](#). Sept. 19, 2007. This is available on Moodys.com > Structured 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 CONTINUES TO HOVER 11.5% BELOW THE PEAK

The National – All Property Type Aggregate is a monthly series, and this report is based on data through October 31, 2008. The decline this month of 2.4% offsets the positive gain experienced last month. For the past five months, the index has bounced around about 11.5% below the peak measured last year. Refer back to *Figure 1*, page 1.

As we stated last year, markets are rarely smooth as they go through the price discovery process. We expected that the Moody's/REAL CPPI would experience more down months than up during this period, due to continued dislocation in the capital markets as the direction of prices was captured in transaction activity. Since the index first registered a decline in commercial property prices beginning in September of 2007, ten of the last 14 months have measured negative price returns, with half of those ten declining more than 2%.

Transaction volume also continues to fall. With upheaval and confusion in the marketplace, and prices falling over the last year, commercial mortgage lending is at a virtual standstill, contributing to sharply declining sales volume. As measured both by dollar value and number of transactions, repeat sales volume has fallen to levels not seen since 2004.

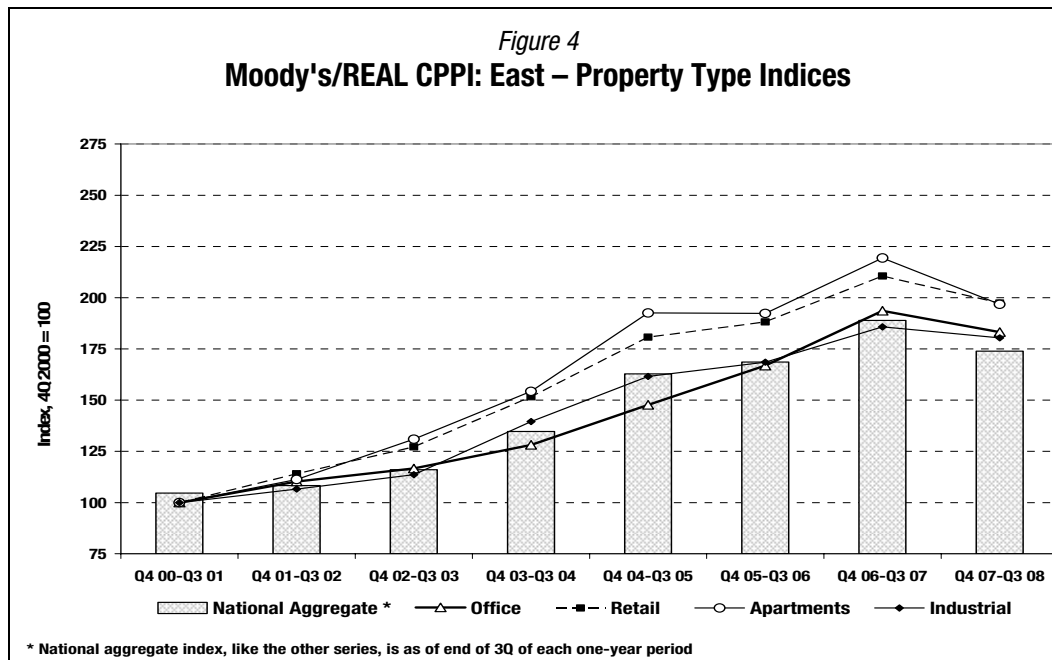


The drop in volume has been fairly even across all property types, although industrial is holding up slightly better than the other three types. Even at these low levels, volume is well above the minimum required to calculate the index.

## EASTERN REGION – PROPERTY TYPE INDICES: PERFORMANCE GAP NARROWS

The Eastern Region – Property Type Indices for the four major property types are 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 2007, 1Q 2008, 2Q 2008, and 3Q 2008, thus culminating with data through the end of the third quarter, 2008.

All four property types saw a drop in prices for the last four quarters as compared to the previous four quarters. Those property types which saw the highest run up in prices over the last few years measured the greatest drop in prices this year. See *Figure 4*.



Apartments suffered the most of any sector in the East during this period. Prices fell over 10% since the third quarter of 2007. Although growth in the eastern region apartment sector had outpaced the other property types consistently over the past several years, this year's decline has put the overall long term growth in apartment prices in line with the eastern retail market.

Retail saw the second largest decline in the East, measuring an annual price decline of 6.3%. Eastern offices were behind that; values declined 5.3% this year over last. The industrial sector in the East saw the mildest decline, with a price drop of just under 3% from a year ago.

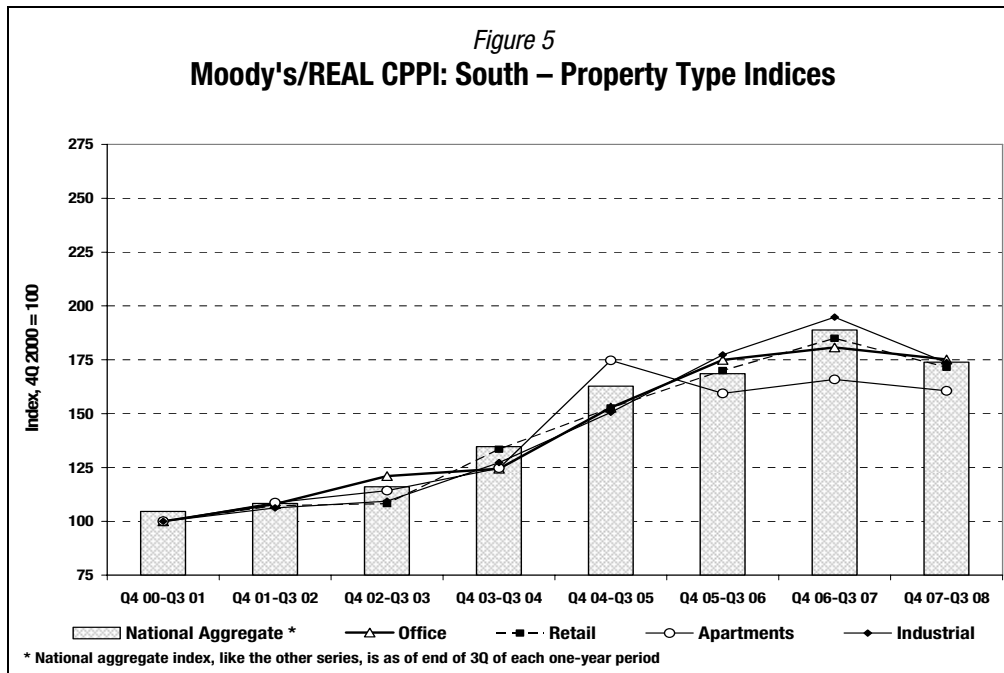
Although growth in apartment and retail prices had pulled ahead since the beginning of the index, the gap in the overall growth of prices has narrowed over the past year.

Transaction volume is down 50% in the East, as measured in dollars, and 30% as measured by number of transactions. This fall off in transaction volume has affected all property types in the East fairly evenly, although the drop off in volume was slightly greater in office, down 60% by dollar value and almost 40% by transaction count.

## SOUTHERN REGION – PROPERTY TYPE INDICES: INDUSTRIAL PRICES EXPERIENCE LARGEST DROP OF THE ANNUAL INDICES

The Southern Region – Property Type Indices for the four major property types are 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 2007, 1Q 2008, 2Q 2008, and 3Q 2008, thus culminating with data through the end of the third quarter of 2008.

All four property types in the South experienced price declines over the last year. As was the case in the East, the index levels for the four property types, which had spread out over the last several years, are now converging and closing that gap.



The industrial market in the South had seen the largest growth in prices of this sector. This year, the southern industrial sector saw the largest decline of any annual index, with a price drop of almost 11% over the last four quarters. See *Figure 5*.

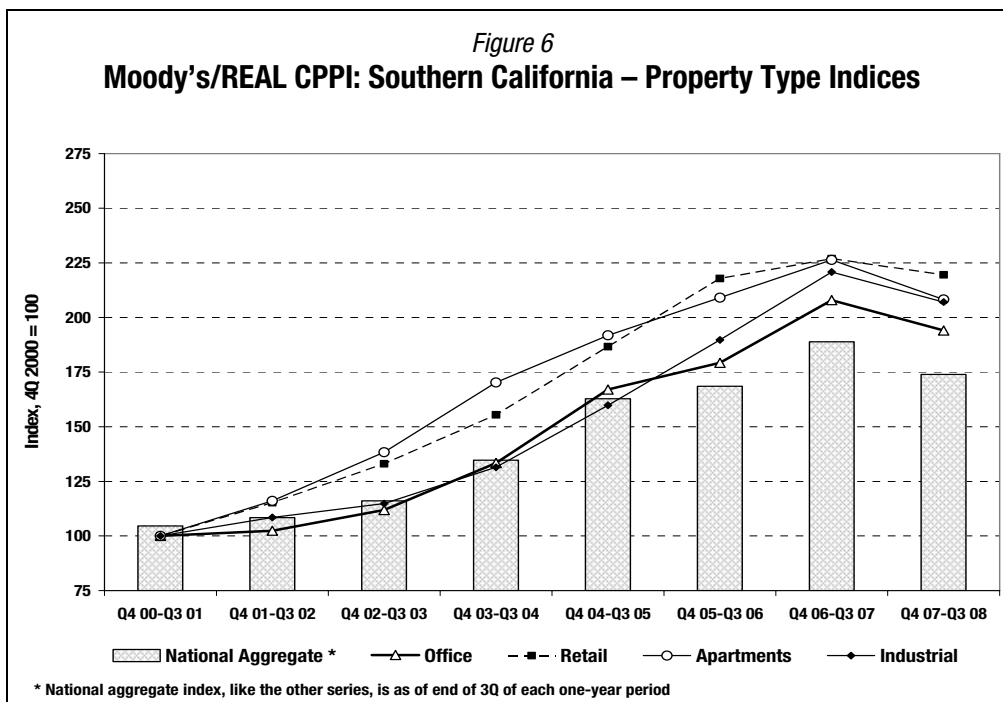
Retail was the second worst performer in the South, with a price drop of over 7% from a year ago. Southern apartments and offices experienced annual price declines of 3.2% and 3.1% respectively.

Transaction volume in the South was down for all property types. Overall, repeat sales activity fell 50% as measured by dollar, and 30% as measured by number. The volume in the industrial sector has held up the best, with only a 9% drop in the number of transactions.

## SOUTHERN CALIFORNIA – PROPERTY TYPE INDICES: APARTMENT MARKET SUFFERING

The Southern California – Property Type Indices<sup>2</sup> for the four major property types are 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 2007, 1Q 2008, 2Q 2008, and 3Q 2008, thus culminating with data through the end of the third quarter of 2008.

As in the other annual indices, all four property types in the Southern California market experienced declines in value. Apartments were the worst performer in the region with a value decline of 8% from a year ago, putting prices back to the levels seen at the end of 2006.



Offices in this region fared slightly better, with a 6.7% drop in prices this year over last. However, prices in the office sector are still over 8% higher than they were two years ago. Similarly, the Southern California industrial market experienced a price decline of 6.2%, but it is up over two years by 9.1%.

Retail fared the best in Southern California during this period, with a decline in value of 3.3%. And although this drop in value puts retail prices back to 2006 levels, retail is still faring better than the other three property types in Southern California in this latest downturn.

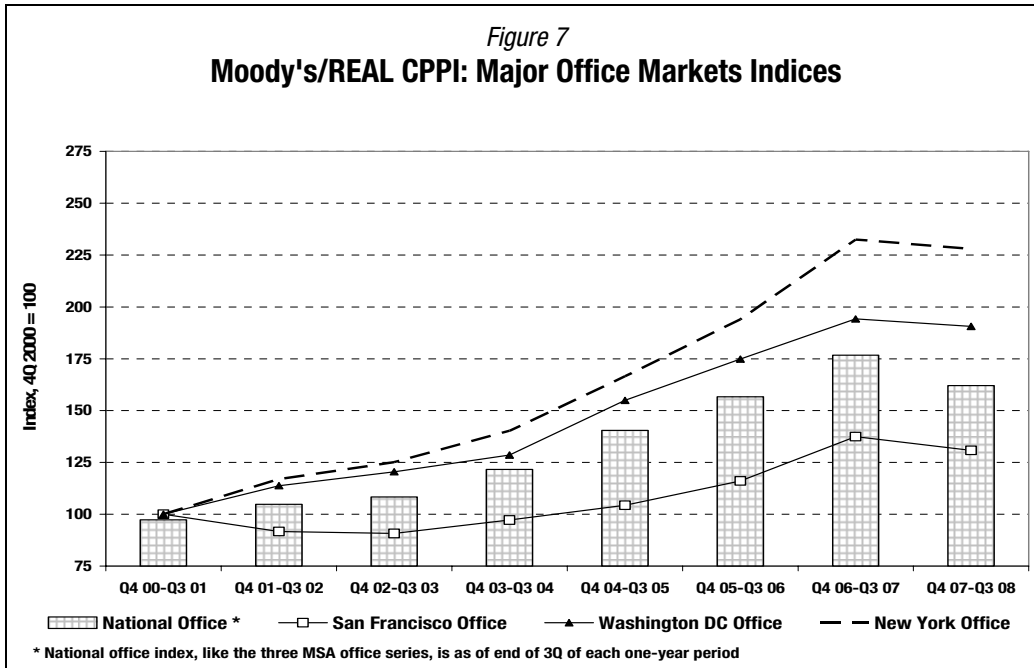
Transaction volume has held up slightly better in Southern California than in the other annual indices. Volume is down 45% by dollar value, and only 14% by transaction count. However, this cut in volume has not been shared equally by property type. Office and retail have seen a larger share in the drop in volume, outpacing the sector as a whole. Industrial and apartment are faring the best of the annual indices, with transaction count falling only 7% and 5%, respectively.

<sup>2</sup> The Southern California sub-index is here defined as including four MSAs: Los Angeles, Orange County, Riverside County, and San Diego.

## MAJOR OFFICE MARKET INDICES: ALL SHOW FIRST DROP IN VALUE

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 2007, 1Q 2008, 2Q 2008, and 3Q 2008, this series culminates with data through the end of the third quarter of 2008.

For the first time since we began publishing the indices, the major office markets are showing signs of a downturn, albeit a milder one than that seen in the nation overall. See *Figure 7*.



Although the growth in prices over the past several years was more moderate in San Francisco than it was in the other two office markets, San Francisco office values have fallen the furthest over this period, down almost 5% this year compared to last. Office prices in San Francisco are 12.7% higher than they were two years ago.

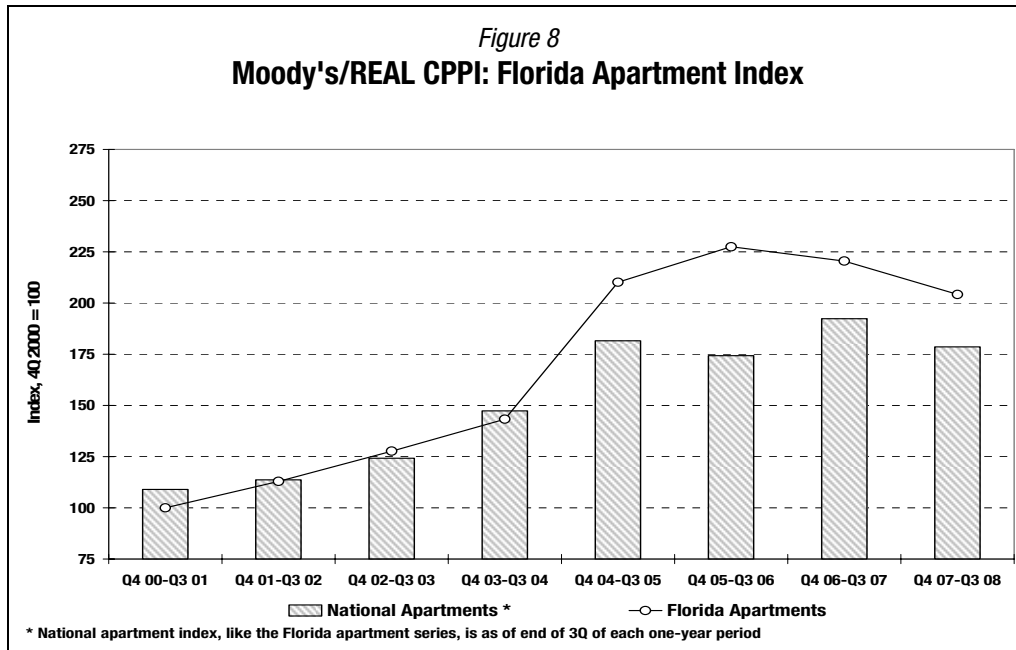
Washington DC and New York both saw prices decrease 1.9% over the same one year period. DC office prices stand 9.0% above the levels seen at the end of 2006, while New York office values are almost 18% higher than two years ago.

All three major office markets have suffered losses in transaction volume as well. Volume in New York saw the largest decreases, down almost 60% as measured by dollar value, and 35% as measured by count. San Francisco and Washington DC saw transaction volume as measured by count drop 20% and 25%, respectively, this year over last.

## FLORIDA – APARTMENT INDEX: VALUES CONTINUE TO DECLINE

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 the third quarter of 2008.

After peaking in 2006, apartment prices in Florida have been falling for two years. The index fell over 7% this year, bringing Florida apartment values 10.2% below their peak. This outpaced the fall in apartment prices in the South overall, which declined 3.2% over the last four quarters.



Transaction volume in Florida apartments fell the most of any annual index covered in this report, down 60% as measured by dollar value, and 50% as measured by count. In terms of the number of transactions, repeat sales activity in the Florida apartment market is down almost 75% from the high seen two years ago.

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 9, 10, and 11*).
- 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 12 – 14*).

## APPENDIX

*Figure 9*  
**CPPI: Report Release Cycle, 2008 - 2009**

	<b>OCTOBER</b>	<b>NOVEMBER</b>	<b>DECEMBER</b>
	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
	<b>JANUARY</b>	<b>FEBRUARY</b>	<b>MARCH</b>
	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
	<b>APRIL</b>	<b>MAY</b>	<b>JUNE</b>
	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
	<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:		2nd Quarter	2nd Quarter
Based on data through:		June 30	June 30

Figure 10

**(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 11

**(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	

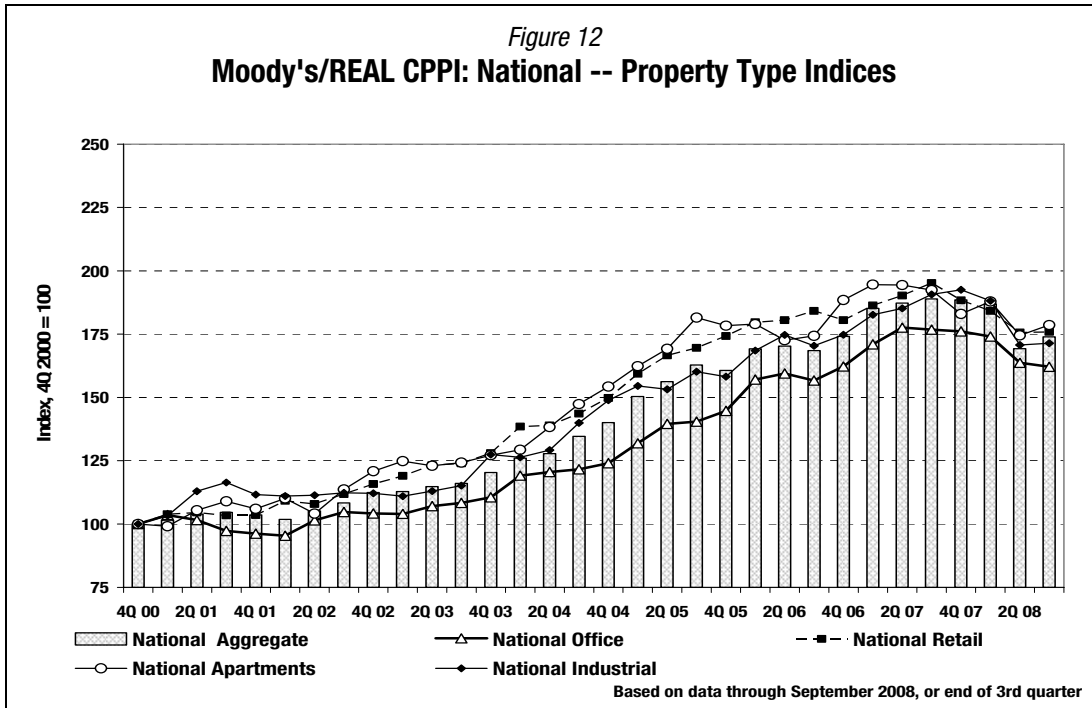


Figure 13  
**Moody's/REAL CPPI: Top Ten MSAs -- Property Type Indices**

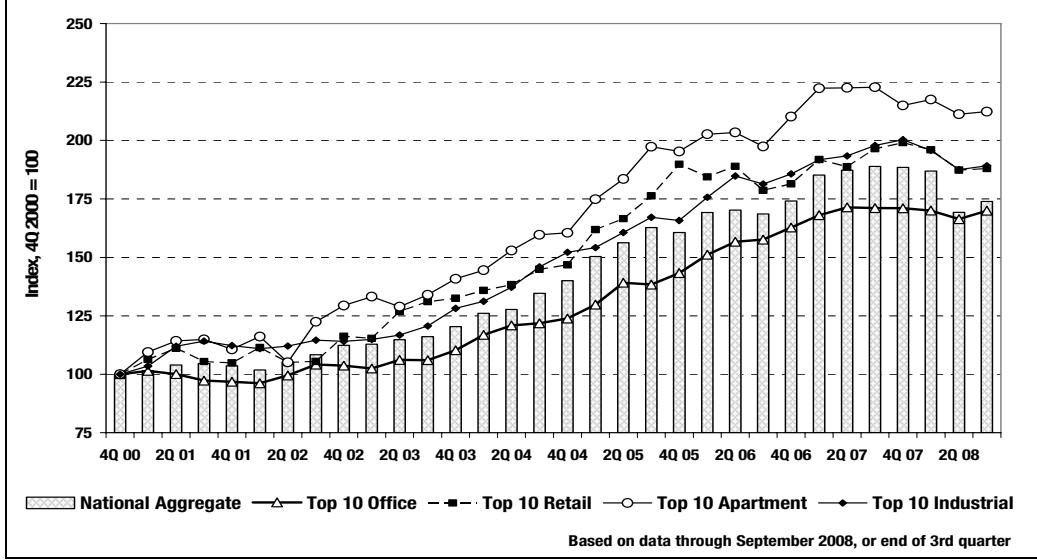
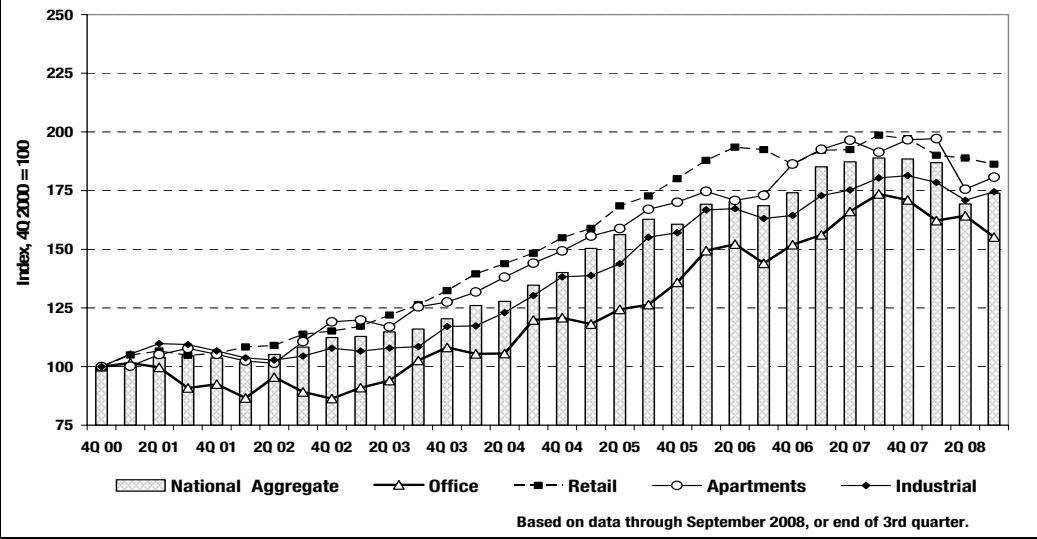


Figure 14  
**Moody's/REAL CPPI: West -- Property Type Indices**



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