MOODY'S INVESTORS SERVICE

SPECIAL REPORT

Moody's/REAL Commercial Property Price Indices, January 2010

Table of Contents:

Analyst Contacts

Nick Levidy
Team Managing Director
1.212.553.4595
Nick.Levidy@moodys.com

Andrea M. Daniels
VP-Sr Credit Officer
1.212.553.4416
Andrea.Daniels@moodys.com

Connie Petruzziello
AVP-Analyst
1.212.553.4894
Concetta.Petruzziello@moodys.com

Seth Anspach
Senior Associate
1.212.553.7896
Seth.Anspach@moodys.com

ADDITIONAL CONTACTS:
Client Services Desk: 1.212.553.1653
Monitoring: Monitor.cmbs@moodys.com
Website: www.moodys.com

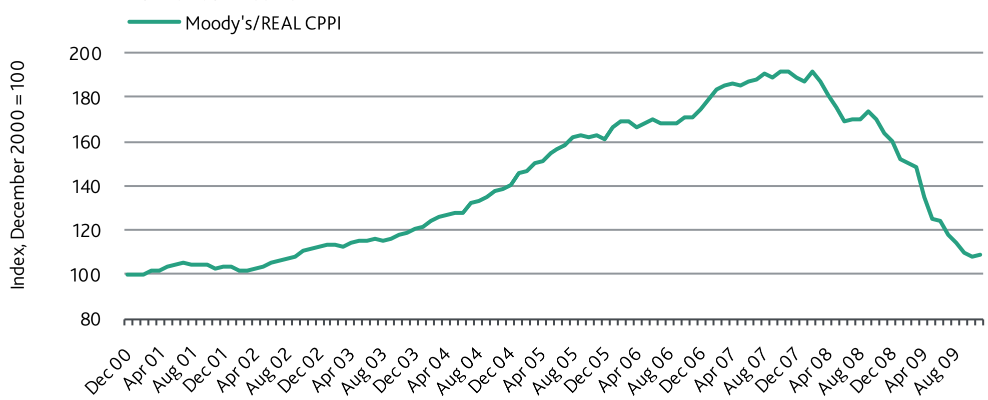
Overview

After 13 consecutive months of declining property values, the Moody's/REAL Commercial Property Price Index (CPPI) measured a 1.0% increase in prices in November. Prices began falling over two years ago and significant declines were seen throughout 2009, with several months experiencing 5%+ value drops. The 1.0% growth in prices seen in November is a small bright spot for the commercial real estate sector, which has seen values fall over 43% from the peak.

Figure 1

Moody's/REAL Commercial Property Price Index (CPPI)

National – All Property Type Aggregate



Based on data through the end of November 2009.

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	109.10	1.0%	-33.5%	-43.1%

	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	170.84	-13.2%	-22.1%
East – Industrial	140.66	-22.0	-24.3
East – Office	114.94	-37.3	-40.6
East – Retail	134.43	-31.9	-36.2
South – Apartments	77.38	-51.8	-53.3
South – Industrial	104.65	-39.7	-46.3
South – Office	114.36	-34.7	-36.7
South – Retail	157.82	-8.0	-14.7
So. California – Apartments	175.13	-15.9	-22.6
So. California – Industrial	157.00	-24.2	-28.9
So. California – Office	140.12	-27.8	-32.6
So. California – Retail	169.28	-22.9	-25.4
New York – Office	141.17	-38.1	-39.3
San Francisco – Office	102.88	-21.3	-25.1
Washington DC – Office	139.07	-27.0	-28.4
Florida – Apartments	110.08	-46.1	-50.1

M Monthly series. Most recent data is through November 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 3rd quarter 2009. Analysis is based on data from four quarters (4Q08, 1Q09, 2Q09 and 3Q09). Given that the measure is of a rolling four-quarter period, data as of the end of the 3rd 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 positive gain for the first time in more than a year. Values increased 1.0% in November, following several months of mild declines.

» Transaction volume fell in November. Overall, 362 total sales were recorded, with an aggregate value of $4.1 billion.

» We expect commercial real estate prices to decline further in the months ahead. Prices for properties with short term lease structures, such as multifamily, could show signs of a sustainable recovery later this year, while other property types will likely need longer to turn the corner.

[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 > Research & Ratings > By Market Segment > 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.

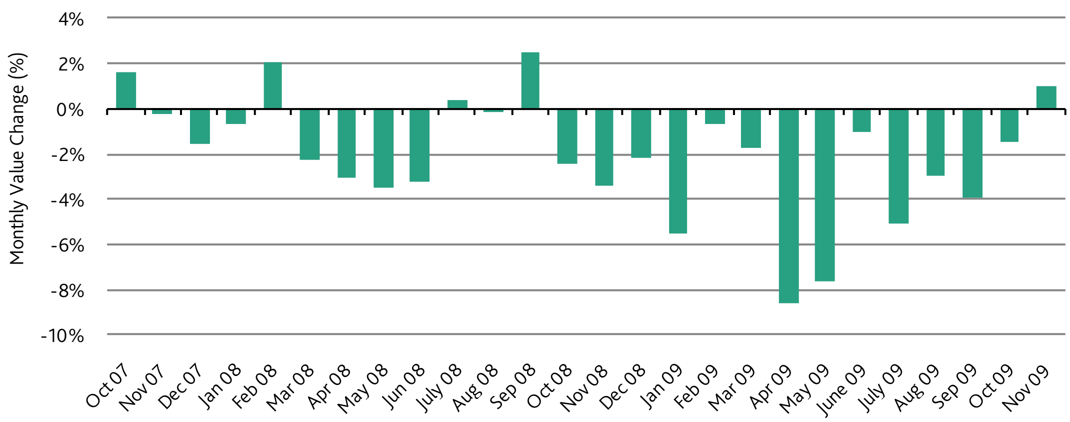
National – All Property Type Aggregate Index

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

After April's record 8.6% drop in values, price declines as measured by the CPPI have been moderating. This month's 1.0% increase is the first time in 2009 we have seen values move in a positive direction (see *Figure 3)*. However, this month's positive return should not be taken as the all-clear signal for commercial real estate. Overall, two years of generally falling prices have left property values 43% below the peak and we expect further declines in the aggregate CPPI in the months ahead.

FIGURE 3

Moody's/REAL CPPI: Monthly Value Changes



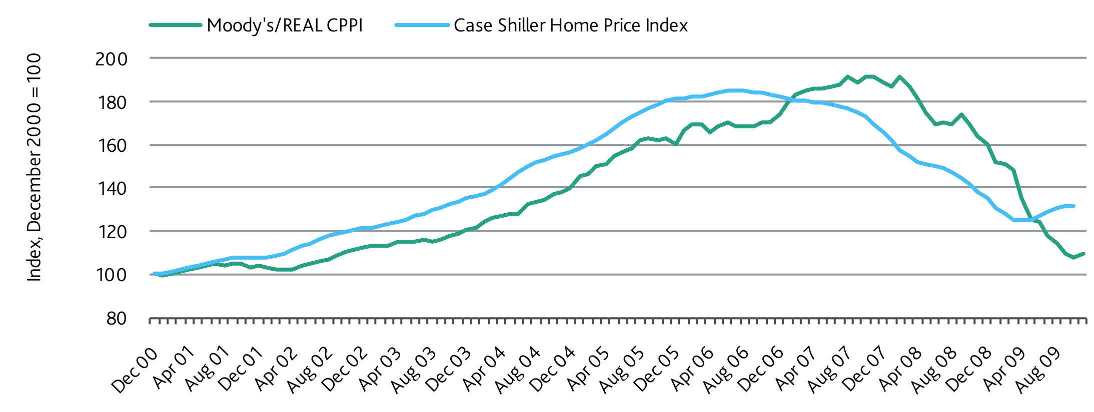
This month's rise brings aggregate prices up slightly, to 43% below the peak. We expect prices to remain well below peak values with no sustained upturn for several quarters. The CPPI may exhibit some choppiness as transaction volume picks up and a bottom begins to form, but the overall price trend will continue downward over the near term. On a more positive note, the price declines from here on will almost certainly be milder than the large monthly price drops seen in the middle of 2009.

In short, the positive 1.0% return recorded in November represents a bit of good news for the commercial real estate market, but the sector is not yet out of the woods. Further deterioration in property fundamentals and increases in cap rates are anticipated, although the worst of the value declines is likely over.

Figure 4 plots the CPPI and the Case Shiller Home Price Index, and shows that although value declines began first in the residential sector, the overall declines have been larger in commercial real estate.

FIGURE 4

Moody's/REAL CPPI vs Case Shiller



Moody's/REAL CPPI data through November 2009. Case Shiller Home Price Index data through October 2009.

According to the Case Shiller Index, home prices peaked in August of 2006, more than one year before the peak in commercial real estate. Home prices then fell for more than two and a half years, bottoming out in April 2009, with nearly a one-third value loss. Since April, prices have rebounded slightly but have seen no significant growth in the last two months' returns.

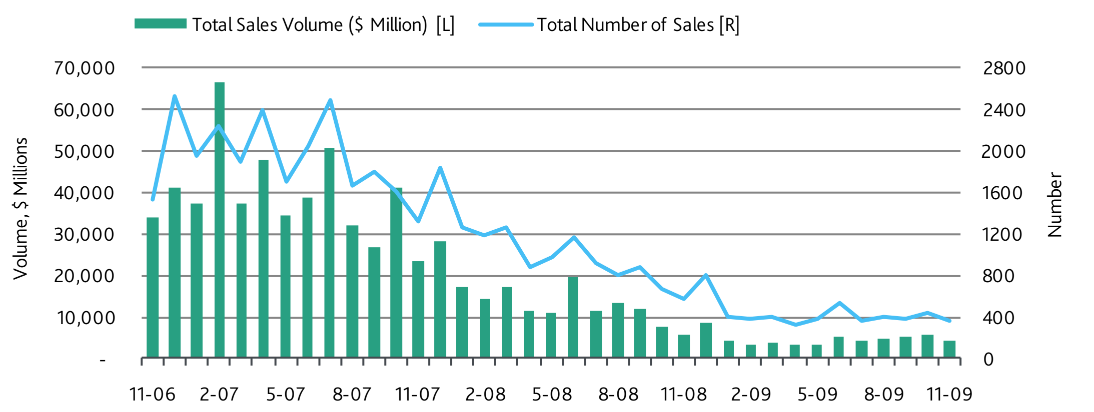
In contrast, commercial property prices fell further in a shorter amount of time. After two years of value declines, commercial real estate reached its lowest value yet in October 2009, nearly 44% below the peak level. Prices in the commercial sector will rebound off the bottom as markets recover but we expect that commercial property prices will ultimately flatten out for the longer term at levels 30% to 40% below the peak.

Overall Transaction Volume

Transaction volume has stayed relatively consistent in 2009, with November performance having a slight dip over the month before. Transaction volume is no longer in the freefall seen throughout 2009 and further large declines are unlikely (see *Figure 5*).

FIGURE 5

Moody's/REAL CPPI: Volume and Number of Total Sales



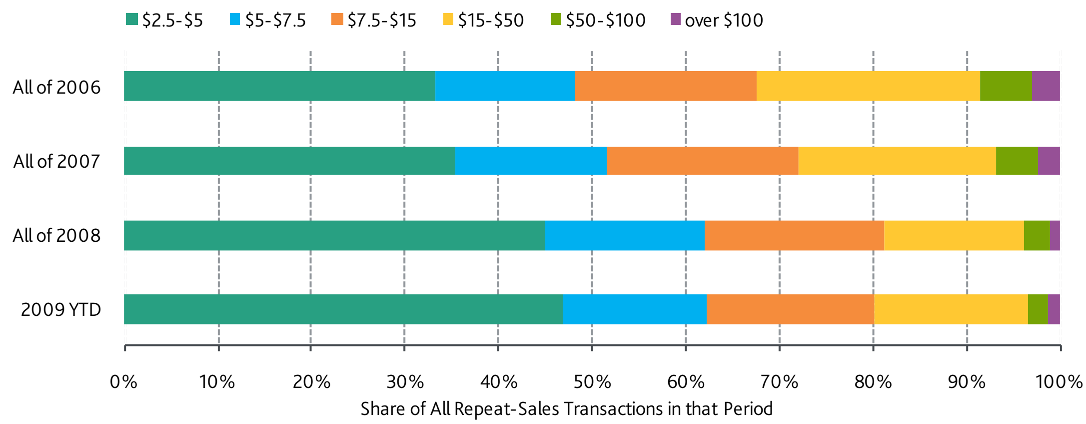
Source: Real Capital Analytics

There were 362 transactions in the overall market in November, with a total value of $4.1 billion. Of those transactions, 91 were repeat-sales used in calculating the CPPI. The 91 sales had a total value of $1.3 billion.

The movement towards a higher proportion of lower priced assets being sold in a given period has also moderated in 2009. In 2006, less than half of all repeat-sales transactions were between $2.5 and $7.5 million (see *Figure 6*). By 2007, that proportion had grown to slightly more than half of all properties sold. In 2008, however, as prices were falling significantly and transaction volume was drying up, the share of properties that sold for more than $2.5 million and less then $7.5 million grew to over 60%. In 2009, that proportion has not grown further.

FIGURE 6

Moody's/REAL CPPI: Distribution Among Price Groups



On the other end of the spectrum, whereas over 8% of properties sold for $50 million or more in 2006, that share dropped to just under 7% in 2007, and fell again to under 4% in 2008. In 2009, just under 3.5% of all properties sold were valued at $50 million and above.

The attached Appendix includes the following:

» A calendar summarizing the report cycle, i.e., which indices are updated in which month. The calendar also indicates the precise release dates for Moody's/REAL Indices in 2010 (*Figures 7*, *8*, and *9*).

» A listing of the cities included in the Top Ten Indices (*Figure 10).*

» 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 11 – 18*).

Appendix

FIGURE 7

CPPI: Report Release Cycle 2010

	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:		4th Quarter	4th 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
	JULY	AUGUST	SEPTEMBER
	July 19, 2010	Aug. 19, 2010	Sept. 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:		2nd Quarter	2nd Quarter
Based on data through:		June 30	June 30
	OCTOBER	NOVEMBER	DECEMBER
	Oct. 19, 2010	Nov. 22, 2010	Dec. 20, 2010
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 8

(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 9

(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 10

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 11

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

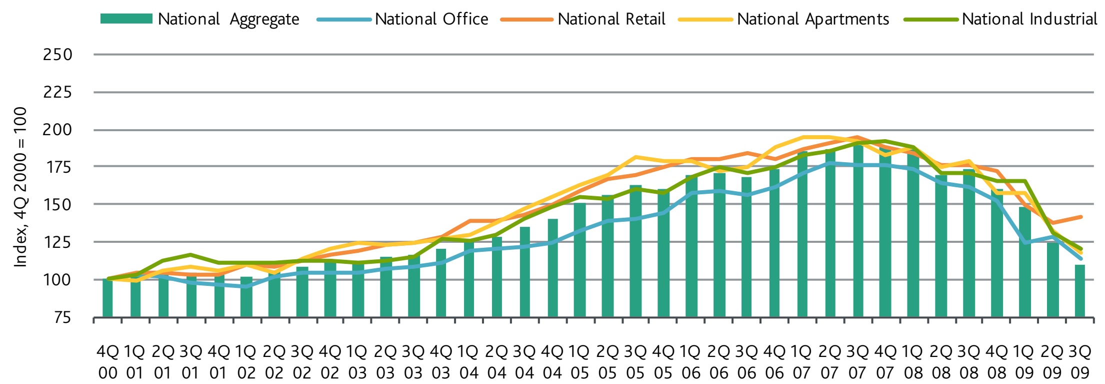


FIGURE 12

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

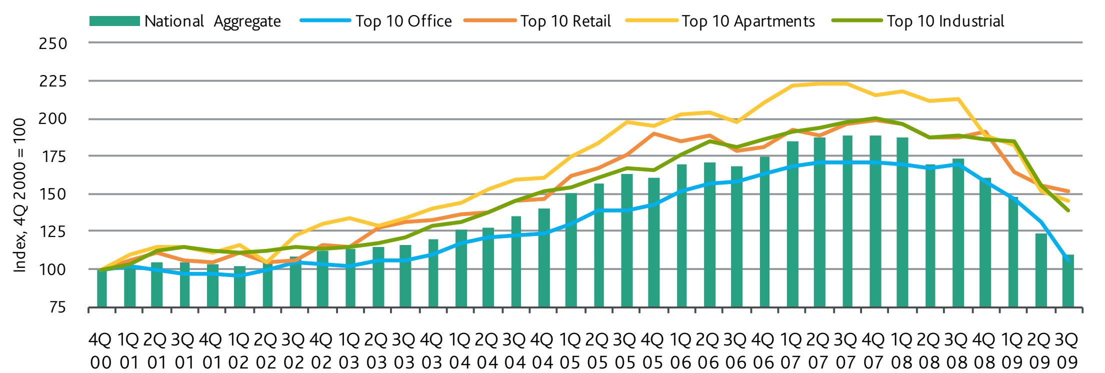


FIGURE 13

Moody's/REAL CPPI: West – Property Type Indices

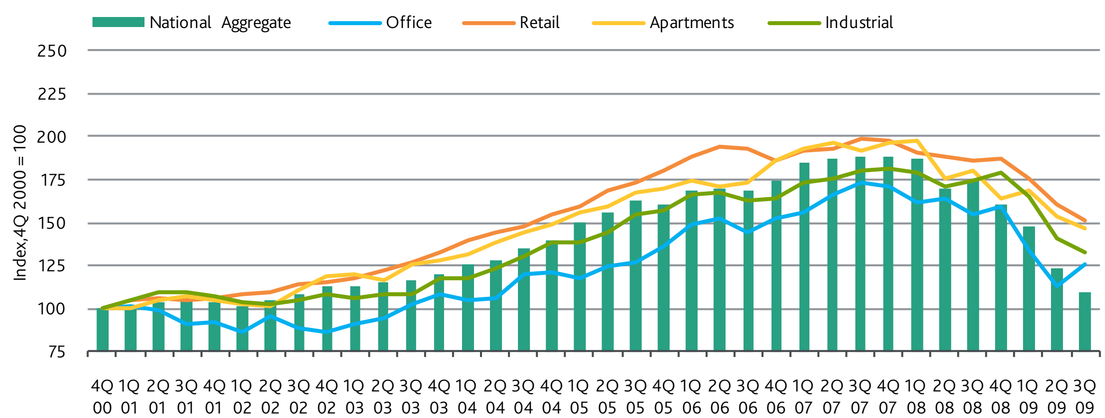


FIGURE 14

Moody's/REAL CPPI: East – Property Type Indices

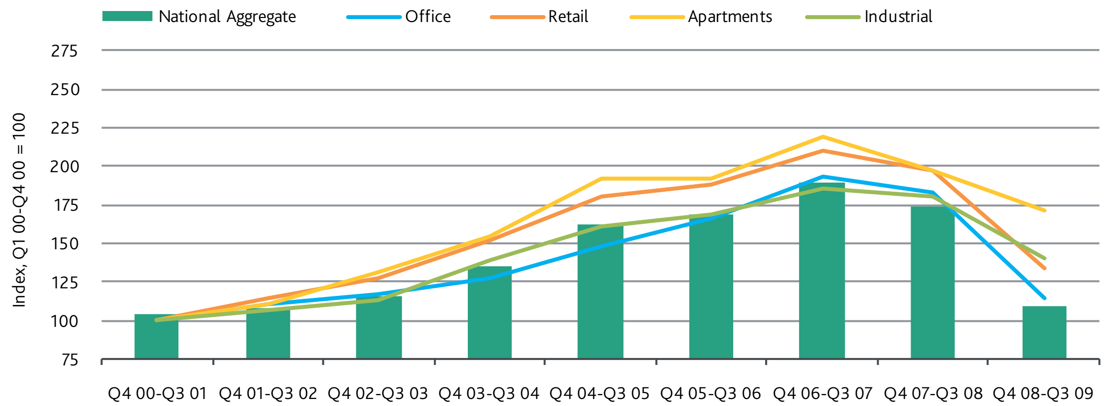


FIGURE 15

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

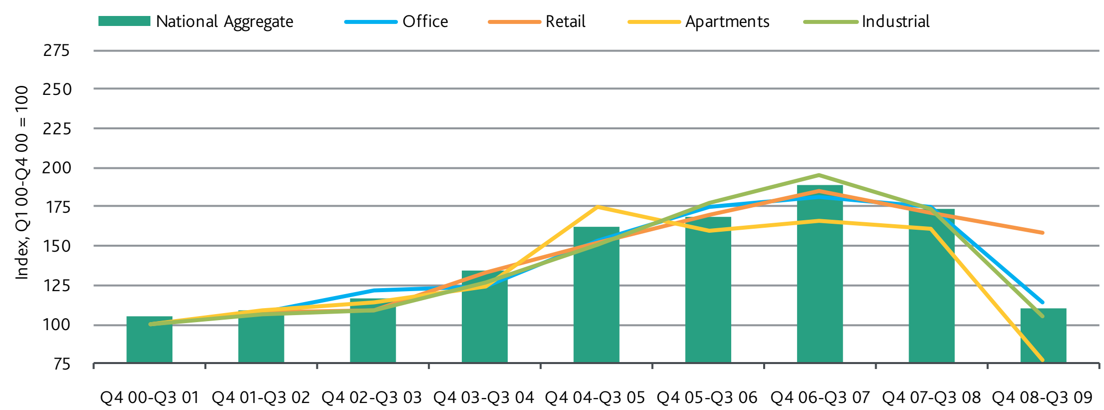


FIGURE 16

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

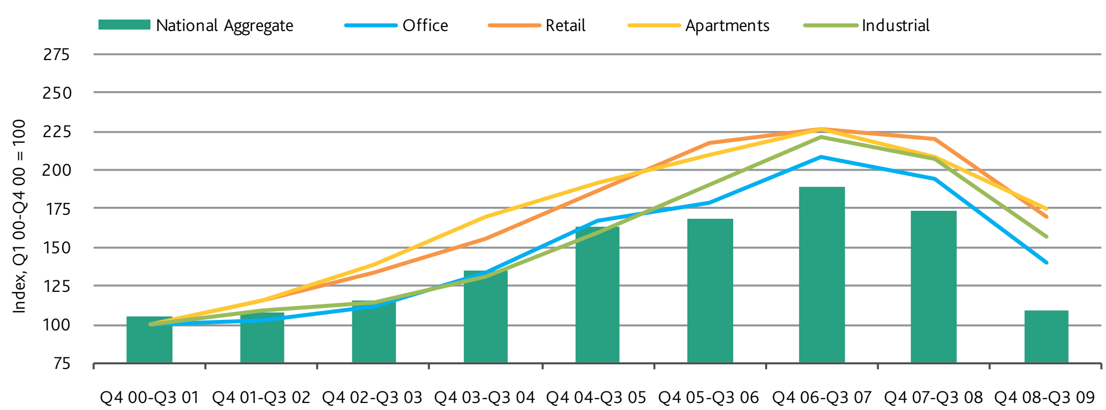


FIGURE 17

Moody's/REAL CPPI: Major Office Markets Indices

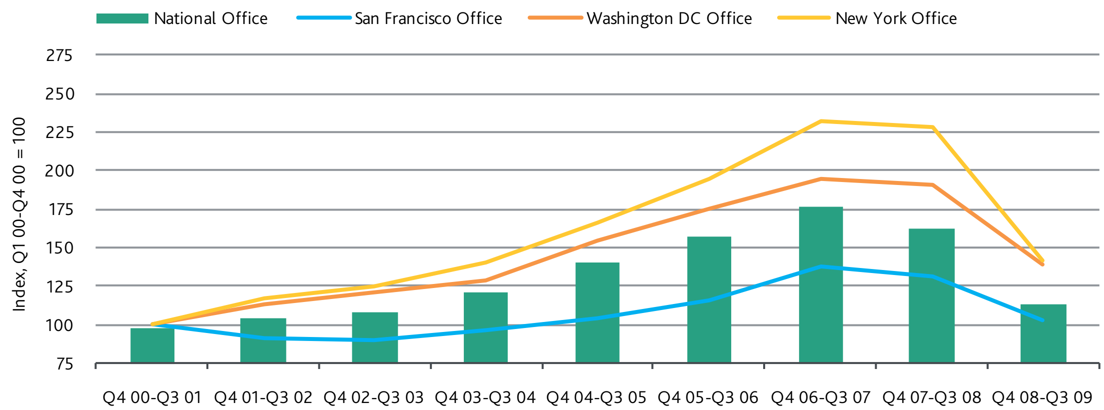
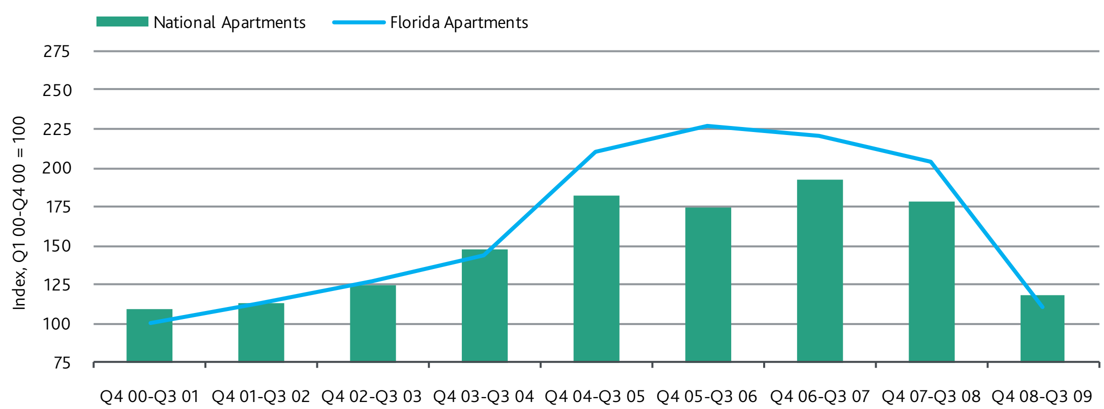


FIGURE 18

Moody's/REAL CPPI: Florida Apartment Index



Report Number: SF191126

MOODY'S INVESTORS SERVICE