

MOODY'S

INVESTORS SERVICE

SPECIAL REPORT

Moody's/REAL Commercial Property Price Indices, April 2011

Table of Contents:

OVERVIEW	1
Notable Observations and Themes	3
NATIONAL – ALL PROPERTY TYPE AGGREGATE INDEX	4
FROM THE LAB	6
APPENDIX	7

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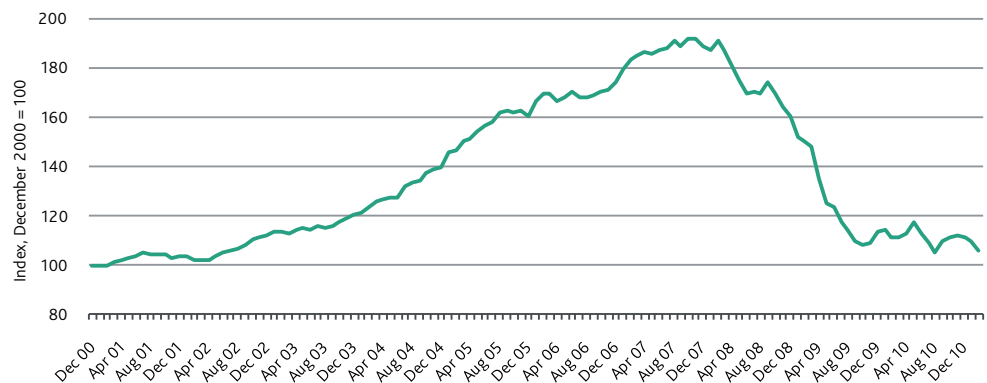
Overview

The Moody's/REAL National – All Property Price Index recorded its third consecutive decline in February, falling by 3.3% to a value of 106.22. National commercial real estate prices continue to struggle to move beyond the bottom. The CPPI now stands within 1% of its post peak low set in August 2010. Prices are down 44.6% from the peak, which occurred in October 2007.

FIGURE 1

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

National – All Property Type Aggregate



Based on data through the end of February 2011

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	Peak Date	Since Peak^P	Low Since Peak Date	Change from Low^L
National All Property Type Aggregate	106.22	-3.3%	October-07	-44.6%	August-10	0.8%
	Current Index^Q	1 Quarter Earlier	Peak Date	Since Peak^P	Low Since Peak Date	Change from Low^L
National – Apartments	140.78	3.6%	1Q 07	-27.6%	3Q 09	19.7%
National – Industrial	125.00	4.9	4Q 07	-35.1	3Q 10	4.9
National – Office	124.24	5.1	2Q 07	-30.0	3Q 09	9.7
National – Retail	135.85	8.4	3Q 07	-30.4	2Q 10	14.6
Top Ten MSAs ¹ – Apartments	165.15	9.5	3Q 07	-25.9	4Q 09	15.8
Top Ten MSAs- Industrial	133.50	6.1	4Q 07	-33.4	3Q 10	6.1
Top Ten MSAs- Office	133.84	3.5	2Q 07	-21.9	3Q 09	26.1
Top Ten MSAs- Retail	140.48	-0.3	4Q 07	-29.4	1Q 10	11.6
West – Apartments	144.72	2.7	1Q 08	-26.6	3Q 10	2.7
West – Industrial	160.70	2.6	4Q 07	-11.4	3Q 09	21.3
West – Office	117.54	3.3	3Q 07	-32.3	2Q 09	4.0
West – Retail	141.09	2.1	3Q 07	-29.0	2Q 10	4.6
	Current Index^A	1 Year Earlier	Peak Date	Since Peak^P	Low Since Peak Date	Change from Low^L
East – Apartments	198.40	17.9%	2007	-13.7%	2009	17.9%
East – Industrial	128.06	-5.7	2007	-33.4	2010	0.0
East – Office	160.39	34.2	2007	-17.5	2009	34.2
East – Retail	209.99	24.0	2007	-11.3	2009	24.0
South – Apartments	118.88	53.7	2005	-34.5	2009	53.7
South – Industrial	175.84	39.4	2007	-15.1	2009	39.4
South – Office	106.32	-10.9	2007	-40.9	2010	0.0
South – Retail	107.29	-16.5	2007	-45.9	2010	0.0
So. California – Apartments	204.71	4.1	2007	-17.5	2009	4.1
So. California – Industrial	154.51	7.7	2007	-27.7	2009	7.7
So. California – Office	109.89	-17.0	2007	-46.0	2010	0.0
So. California – Retail	189.07	-5.1	2007	-22.8	2010	0.0
New York – Office	195.04	32.9	2007	-17.3	2009	32.9
San Francisco – Office	84.31	-9.9	2007	-38.0	2010	0.0
Washington DC – Office	156.21	20.7	2007	-18.5	2009	20.7
Florida – Apartments	160.35	33.0	2005	-27.9	2009	33.0

M Monthly series. Most recent data is through February 28, 2011.

P Change since the peak of the index. Discrepancies between the All Property and National sector indices may reflect different time spans as well as different repeat-sales data samples and differences in the mathematical procedures used to construct the indices.

L Change since the post peak low.

Q Quarterly series. Most recent data is through the end of the 4th quarter 2010. Analysis is based on data from that 4th 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 4th quarter 2010. Analysis is based on data from four quarters (1Q10, 2Q10, 3Q10 and 4Q10). 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 recorded a 3.3% decline in February. Prices are currently 0.8% above the post peak low, which occurred in August 2010.
- » This month's "From the Lab" section notes that while a six-city subset of the CPPI lagged the full CPPI during much of the valuation run up, it demonstrated an earlier and shorter bottom. The non-distressed six-city subset most likely benefitted from less leverage, strong sponsorship or both. The six-city series appears to support that while assets in top markets command the highest prices, the implied "insurance premium" for greater value preservation may have been money well spent.
- » Approximately 29% of the repeat-sales observations recorded in February were considered distressed. Nineteen of the last 20 months have seen distressed transactions account for 20% or more of the overall property sales volume, contributing to the length and volatility of the bottoming process. While some subsectors of the property market have pulled away from the bottom (major assets in major markets as reported last month), the overall market continues to suffer from the hangover caused by the liquidity binge of several 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 > 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.

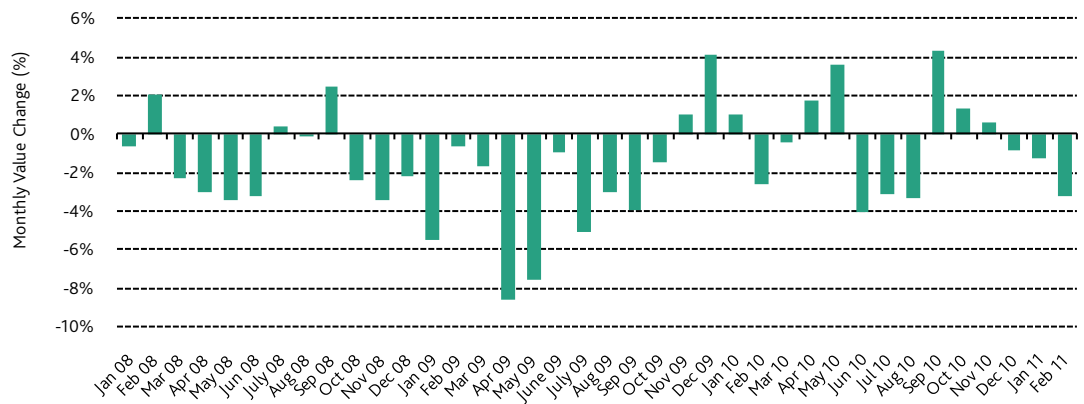
National – All Property Type Aggregate Index

The National – All Property Type Aggregate Index is a monthly series, and this report is based on data through February 28, 2011. The index history is shown in Figure 1.

Moody's/REAL National – All Property Type Aggregate Index recorded its third consecutive decline in February, dropping the index to a level that is only 0.8% above its post peak low. The index is down 4.9% from 12 months ago.

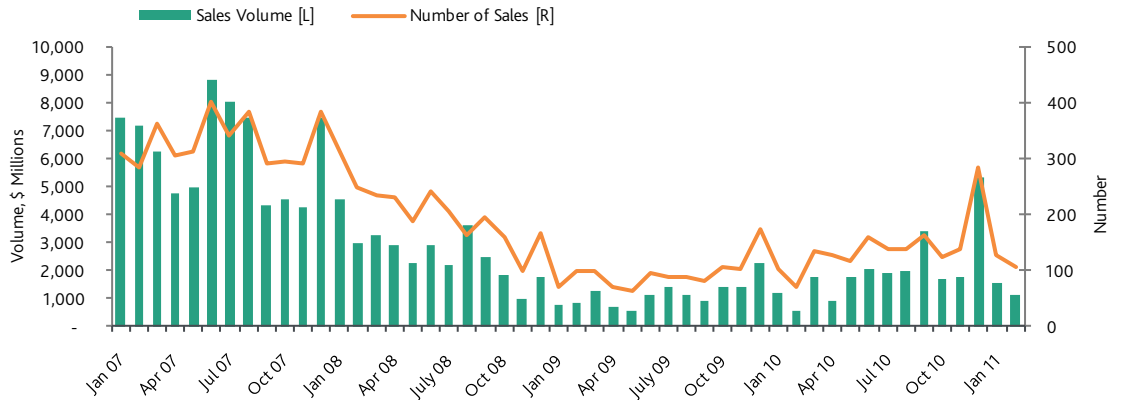
There has been a clear distinction between the level of volatility as the top was forming in 2007 and the current bottom. As the top was forming there was only a modest degree of price volatility, in large part due to ample repeat-sales transaction volume and few distressed sales. However, the bottoming process has been ongoing for over a year and a half. Unlike the market peak, there have been large monthly price swings. In contrast with the boom, the bottom has had few repeat-sales transactions, a high percentage of which are considered distressed (typically 20% or more), and greater uncertainty exists in the market.

FIGURE 3
Moody's/REAL CPPI: Monthly Value Changes



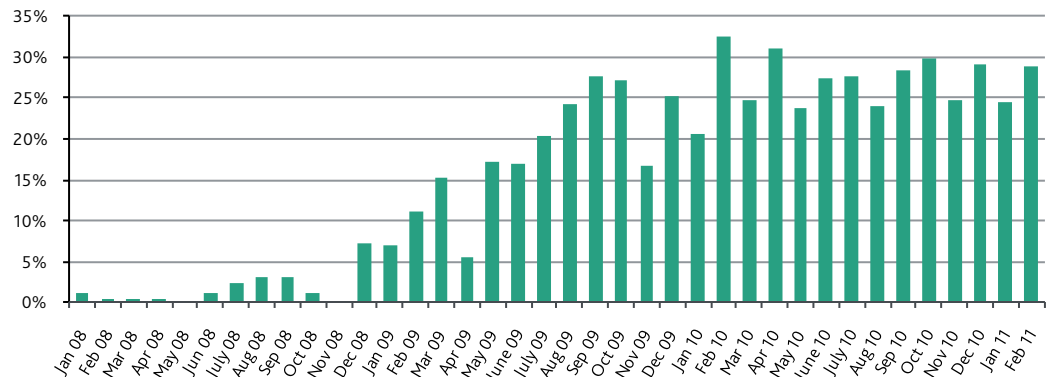
By both count and balance, the number and value of repeat-sales transactions in February was lower than those in January. In February, there were 107 repeat-sales transactions totaling \$1.1 billion. February 2011 saw the lowest number of repeat-sales transactions by count in the past year.

FIGURE 4
Moody's/REAL CPPI: Volume and Number of Repeat-Sales Transactions



The number of repeat-sales transactions that are considered distressed remains at an elevated level.² Approximately 29% of all repeat-sales transactions were considered distressed in February. Nineteen of the last 20 months saw distressed transactions account for more than 20% of overall repeat-sales transaction activity, contributing to the volatility of the bottoming process.

FIGURE 5
Moody's/REAL CPPI: Distressed Sales as a Percentage of All Repeat-Sales



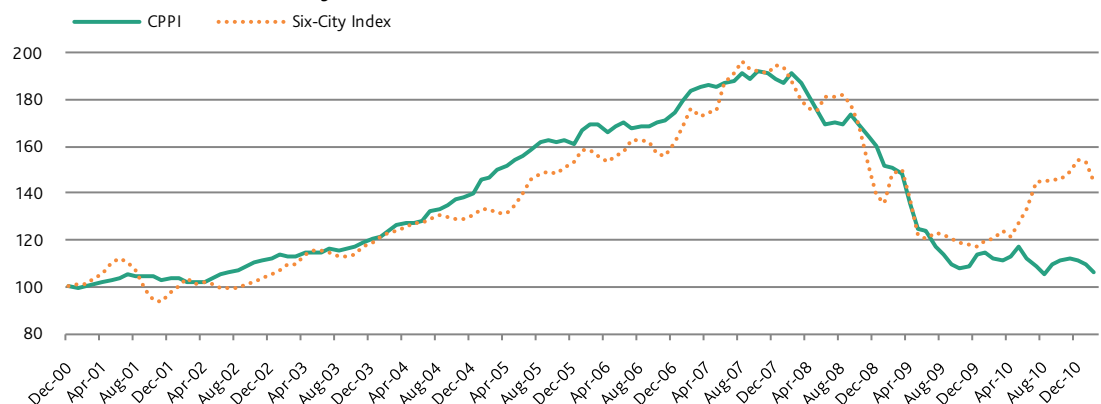
² A distressed sale involves an asset in which a notice of default, foreclosure proceeding, or bankruptcy of the owner has occurred.

From the Lab

In this edition of “From the Lab”, we examine how a subset of CPPI transaction data comprised of properties in six major cities³ with values greater than \$10 million performed relative to the CPPI since inception (December 2000). Last month we took a look at the performance of the same subset, but solely to examine its performance from the peak relative to that of distressed transactions.

Prior to the 2007 peak, the six-city subset lagged the CPPI during much of the valuation run up. The six-city subset peaked a little higher (by 3%) and slightly earlier (by two months) than the CPPI. However, the main story unfolds post peak. While the six-city subset tracked the broad market from the peak thru early 2009, there is a notable separation from that point. It appears not only did the six-city subset bottom earlier, but also that the bottom was meaningfully shorter (12 months for six-city versus 20 months and counting for the CPPI).

FIGURE 6
From the Lab: CPPI vs. Six-City Index



Based on data through February 2011

Source: Moody's Investors Service, Real Capital Analytics and Geltner Associates

It is important to note that the six-city subset does not include data from transactions known to be distressed. We would expect that a disproportionate share of the distressed transactions that had been excluded had been fully leveraged. The non-distressed six-city subset most likely benefitted from less leverage, strong sponsorship or both. The six-city series appears to support that while assets in top markets command the highest prices, their implied “insurance premium” for greater value preservation may have been money well spent.

³ The six cities consist of Boston, Chicago, Los Angeles, New York, San Francisco and Washington DC

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 for the next year (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 2011

	January	February	March
	Jan. 24, 2011	Feb. 22, 2011	March 22, 2011
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, 2011	May 23, 2011	June 22, 2011
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, 2011	Aug. 22, 2011	Sept. 22, 2011
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. 24, 2011	Nov. 21, 2011	Dec. 21, 2011
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	

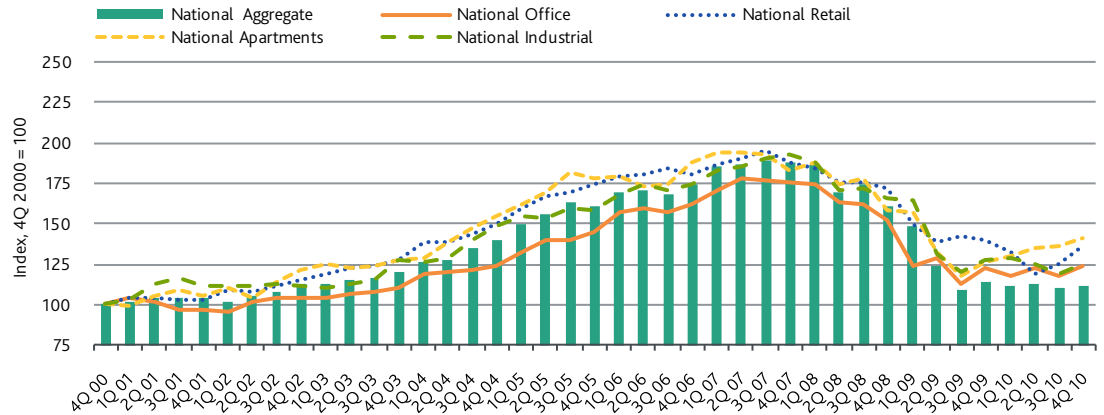
FIGURE 10

Top Ten Cities by Property Type

Apartment	Industrial	Office	Retail
Atlanta	Atlanta	Atlanta	Atlanta
Chicago	Boston	Boston	Chicago
Dallas	Chicago	Chicago	Denver
Houston	Dallas	Dallas	Houston
Los Angeles	Los Angeles	Houston	Los Angeles
New York	New York	Los Angeles	New York
Raleigh Durham	Phoenix	New York	Phoenix
San Francisco	San Francisco	San Francisco	San Francisco
Seattle	Seattle	South Florida	South Florida
Washington DC	Washington DC	Washington DC	Washington DC

FIGURE 11

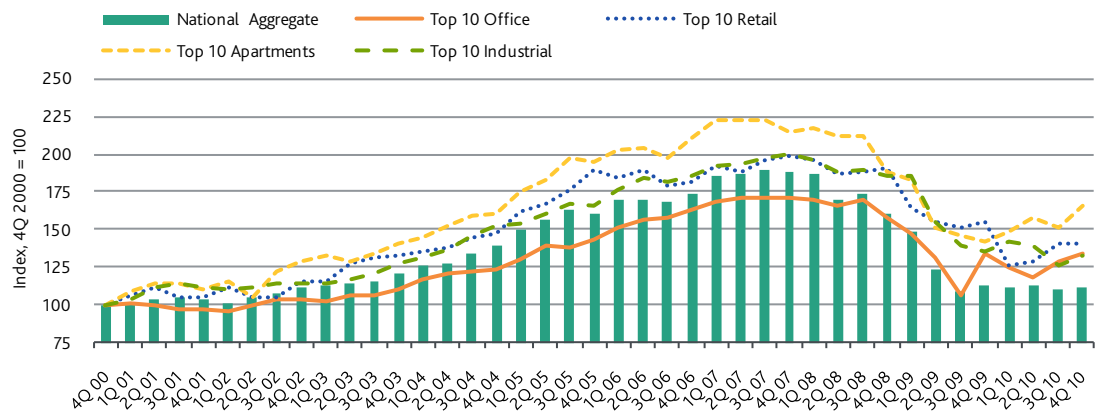
Moody's/REAL CPPI: National — Property Type Indices



Based on data through December 2010, or the end of the 4th quarter.

FIGURE 12

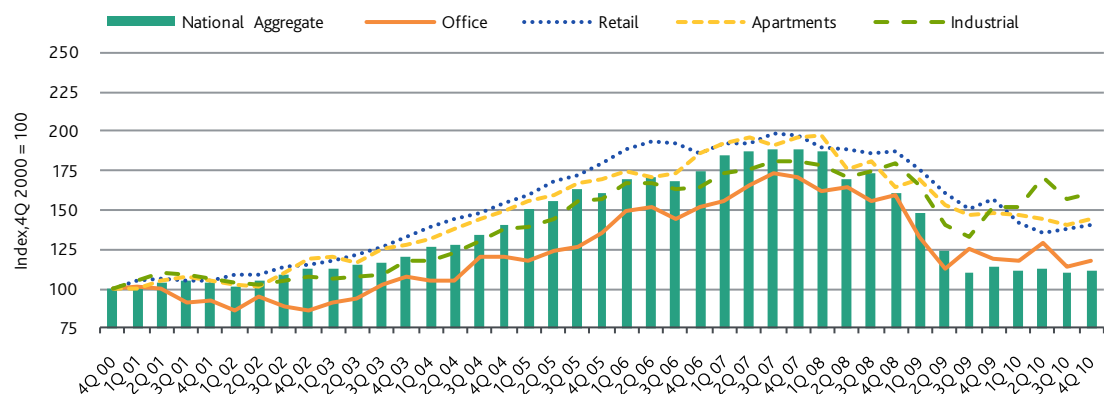
Moody's/REAL CPPI: Top Ten MSAs — Property Type Indices



Based on data through December 2010, or the end of the 4th quarter.

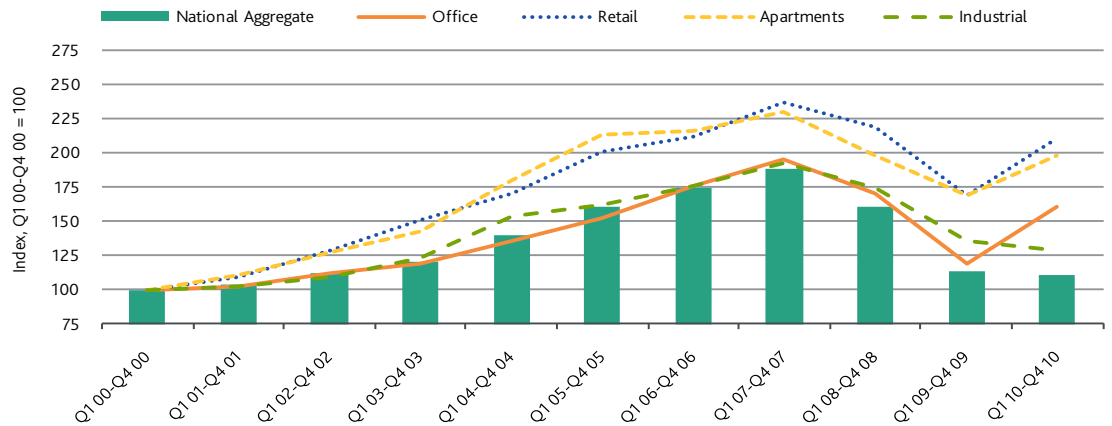
FIGURE 13

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



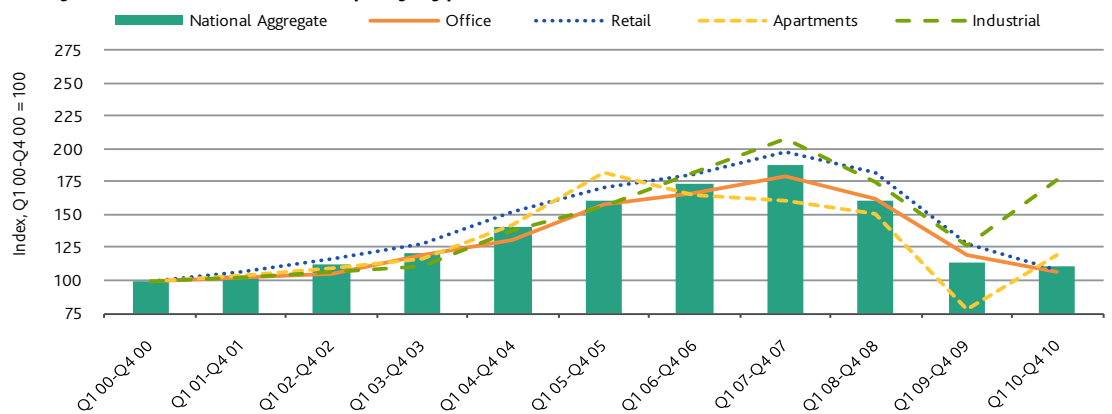
Based on data through December 2010, or the end of the 4th quarter.

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



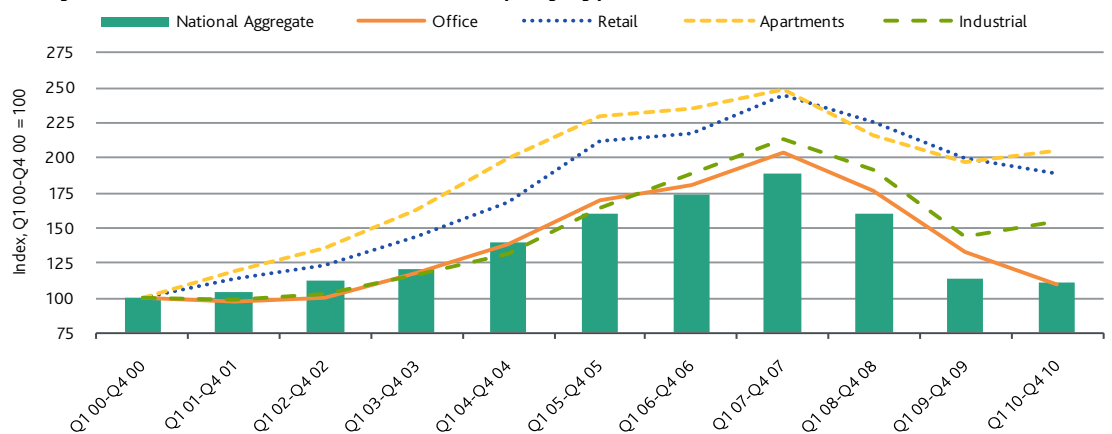
Based on data through December 2010 or end of the 4th quarter.

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



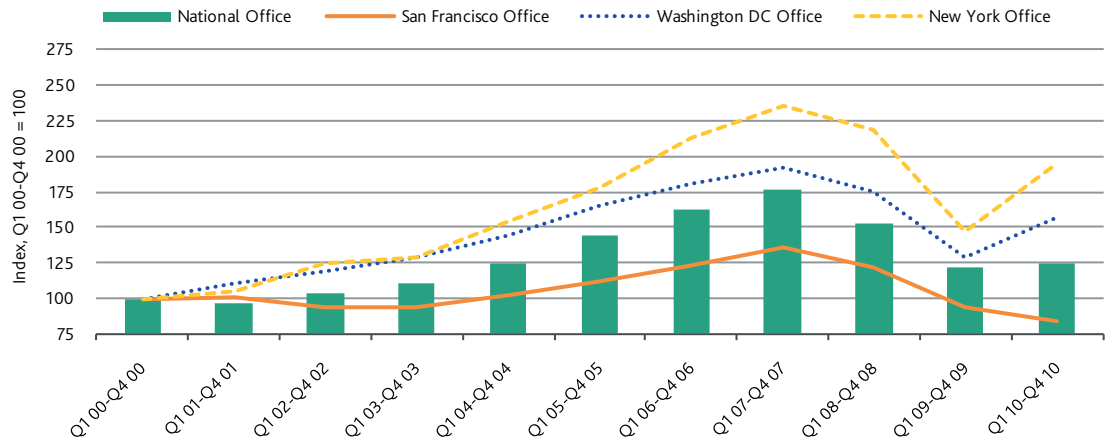
Based on data through December 2010 or end of the 4th quarter.

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



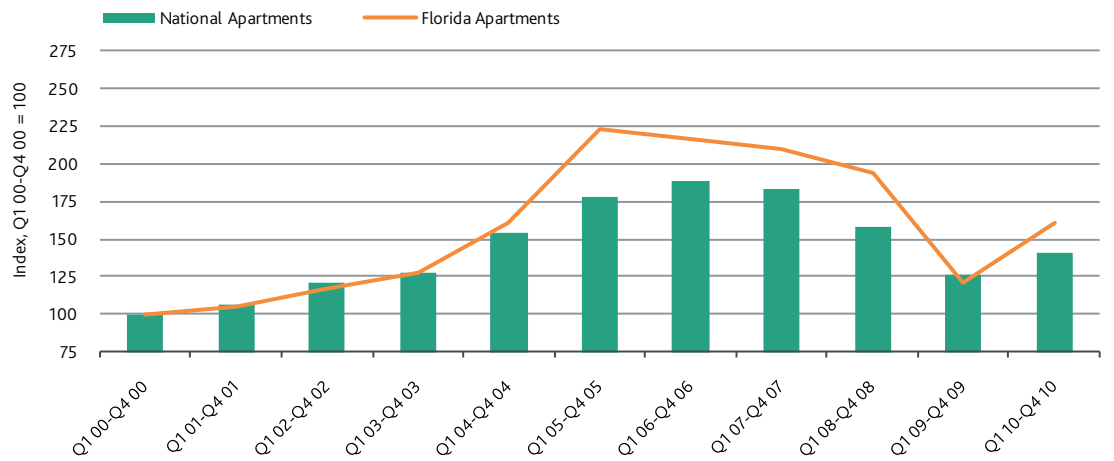
Based on data through December 2010 or end of the 4th quarter.

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



Based on data through December 2010 or end of the 4th quarter.

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



Based on data through December 2010 or end of the 4th quarter.

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