

SPECIAL REPORT

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

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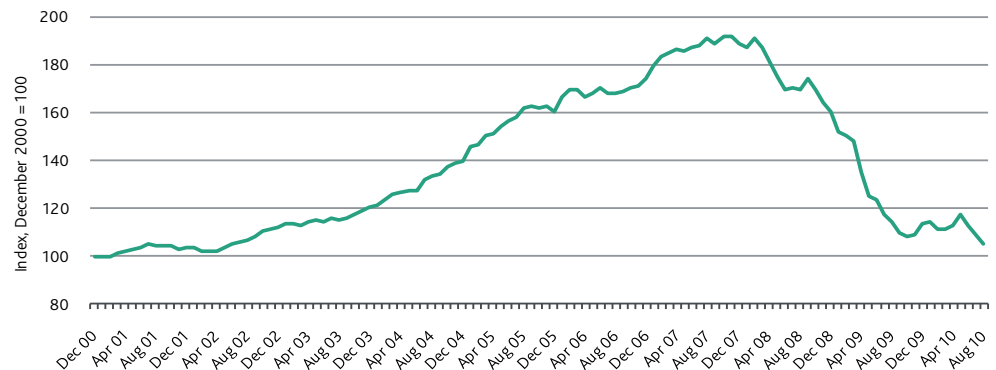
Overview

The Moody's/REAL All Property Type Aggregate Index measured a 3.3% decrease in August, bringing the index to 105.37. This is the lowest recorded result since the beginning of the downturn, surpassing the old recession level low of 107.98, which occurred in October 2009. National prices are 7.6% below the value recorded last year. Since the peak in October 2007, prices have fallen 45.1%.

FIGURE 1

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

National – All Property Type Aggregate



Based on data through the end of August 2010.

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^M	1 MONTH EARLIER	1 YEAR EARLIER	2 YEARS EARLIER
National All Property Type Aggregate	105.37	-3.3%	-7.6%	-37.9%
	CURRENT INDEX^Q	1 QUARTER EARLIER	1 YEAR EARLIER	2 YEARS EARLIER
National - Apartments	135.27	4.0%	2.5%	-22.5%
National – Industrial	124.57	-2.9	-5.1	-27.0
National – Office	122.86	3.9	-4.7	-24.9
National – Retail	118.58	-10.9	-14.3	-32.5
Top Ten MSAs ¹ - Apartments	157.39	6.0	3.9	-25.5
Top Ten MSAs- Industrial	139.69	-1.6	-10.1	-25.5
Top Ten MSAs- Office	118.26	-5.3	-10.1	-28.9
Top Ten MSAs- Retail	128.29	2.0	-17.6	-31.5
West – Apartments	144.06	-2.2	-6.3	-18.0
West – Industrial	171.33	12.9	22.0	0.3
West – Office	129.57	9.5	14.7	-21.1
West – Retail	134.83	-4.5	-15.9	-28.6
	CURRENT INDEX^A	1 YEAR EARLIER	2 YEARS EARLIER	
East – Apartments	195.44	7.1%	0.7%	
East – Industrial	124.18	-7.6	-27.0	
East – Office	130.36	7.3	-25.0	
East – Retail	155.35	12.9	-20.9	
South – Apartments	83.99	1.4	-43.5	
South – Industrial	157.87	17.2	-17.8	
South – Office	111.26	-5.6	-36.6	
South – Retail	103.36	-31.5	-41.2	
So. California – Apartments	182.61	2.9	-11.4	
So. California – Industrial	153.55	-7.9	-22.2	
So. California – Office	146.95	1.1	-25.0	
So. California – Retail	165.17	-15.0	-35.5	
New York – Office	162.62	-7.6	-28.7	
San Francisco – Office	103.73	6.1	-22.6	
Washington DC – Office	146.59	6.4	-17.3	
Florida – Apartments	123.58	10.8	-33.3	

M Monthly series. Most recent data is through August 31, 2010.

Q Quarterly series. Most recent data is through the end of the 2nd quarter 2010. Analysis is based on data from that 2nd 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 2010. Analysis is based on data from four quarters (3Q09,4Q09,1Q10 and 2Q10). Given that the measure is of a rolling four-quarter period, data as of the end of the 1st 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% price decline in August. The index is currently at a new recession low, 45.1% below the peak measured in October 2007.
- » Commercial property prices are currently 19% below the Consumer Price Index since December 2000. Over time we expect the CPPI to revert to a long term trend line close to that of the CPI.
- » The data suggest that the commercial real estate market has become trifurcated, with prices for larger trophy assets rising, prices for distressed assets declining sharply, and prices for smaller but healthy properties remaining essentially flat. One way to view index returns is by looking at the interplay of these three components of the overall market. The index again turned negative this month in part because large negative returns on distressed properties created a drag that outweighed the positive and flat results of the performing properties.

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 August 31, 2010. Refer back to Figure 1.

Commercial real estate prices posted their third consecutive month of large declines, falling 3.3% in August. Prices have dropped three to four percentage points in each of the past three months. Consequently, the CPPI is at a new recession low, falling below the previous low that occurred in October 2009. Prices are again back to early 2002 levels. As noted in prior reports, we expect the index to remain choppy in coming months due to the uncertain macroeconomic environment and the small number of repeat sales transactions.

The commercial real estate market saw an increased price return differentiation in August. Of the repeat sales transactions, performing trophy properties in major markets and other non-distressed properties evidenced a slight positive or a flat rate of return, respectively. Distressed assets, however, had a large negative rate of return and their decline outweighed the positives of the non-distressed assets. This tug-of-war between performing and distressed properties contributes to choppy index results.

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

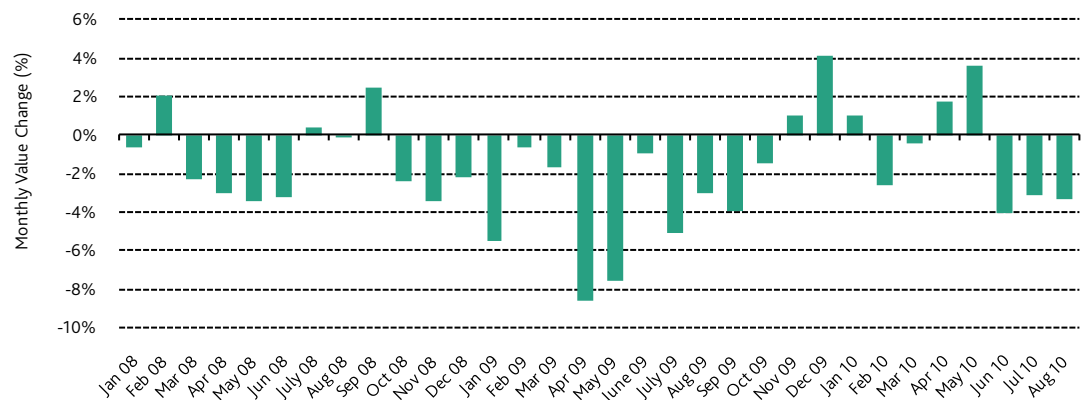
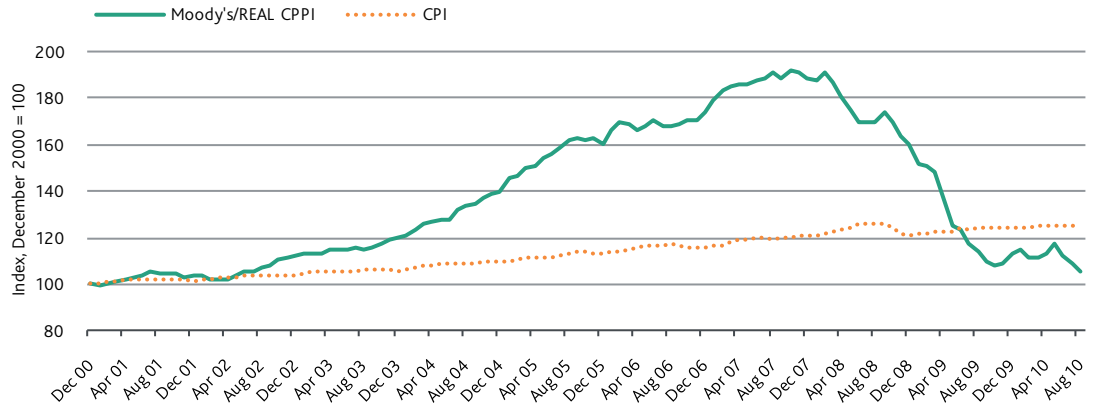


Figure 4 pegs the Consumer Price Index (CPI) to 100 in December 2000, the start of Moody's/REAL CPPI. From the start of the decade through the beginning of the economic downturn, commercial real estate prices grew much faster rate than inflation. In June 2009, as the recession gained steam, commercial real estate prices fell below the CPI and have not yet rebounded to that level. If commercial real estate prices had tracked the rate of inflation since December 2000, the CPPI would currently be 19% higher. Over time we expect the CPPI to revert to a long term trend line close to that of the CPI.

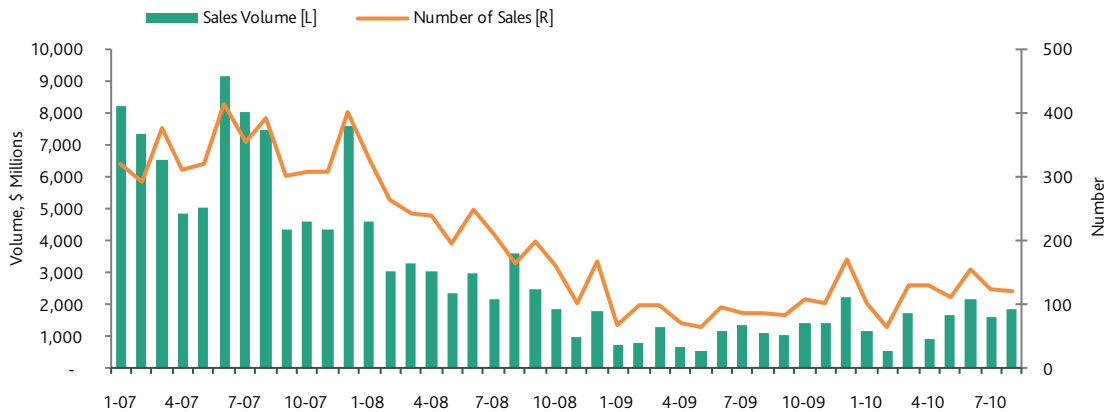
FIGURE 4
Moody's/REAL CPPI vs. Consumer Price Index



Based on data through August 2010
 Source: Bureau of Labor Statistics

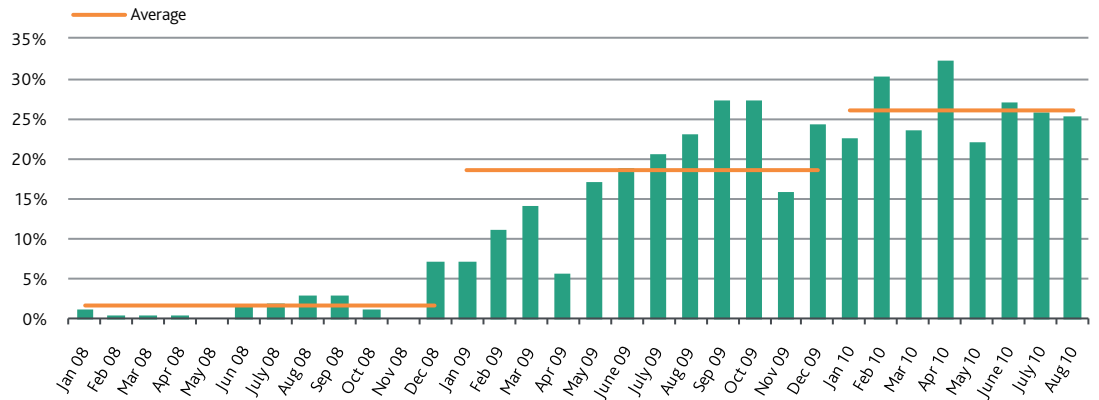
The number of repeat sales in August, 122, is close to the number of repeat sales in July. Even though the total number of sales was similar, the dollar amount of the repeat sales was slightly higher in August, totaling \$1.85 billion, compared to \$1.35 billion in July. However, the number of repeat sales remains significantly below the peak. When sales volume begins to rise some of the recent choppiness in the index will begin to subside.

FIGURE 5
Moody's/REAL CPPI: Volume and Number of Repeat-Sales Transactions



The percent of repeat sales transaction that are considered distressed remains high.² Slightly over 25% of all sales in August were considered distressed. This is similar to the yearly average for 2010 where 26% of all repeat-sales transactions have been distressed.

FIGURE 6

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

Prior to 2009 there were only a few distressed sales and the index was driven by performing properties. During the downturn, however, the number of distressed properties has increased, causing index returns to reflect a greater proportion of troubled asset sales with large negative rates of return. In fact, the data suggest that the commercial real estate market has split into three segments: larger trophy assets with prices that are rising, distressed properties with sharply declining prices, and smaller but healthy properties in the middle with prices that are holding steady. The greater proportion of index returns from distressed properties in recent months has tended to drag down the overall index, masking what is happening in each of the sub-segments.

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).

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

Appendix

FIGURE 7
CPPI: Report Release Cycle 2010

	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
	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

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	

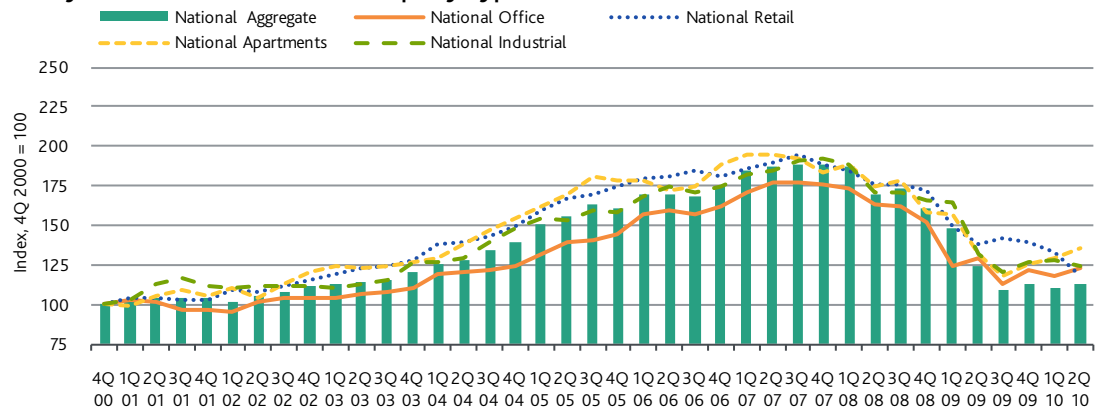
FIGURE 10

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

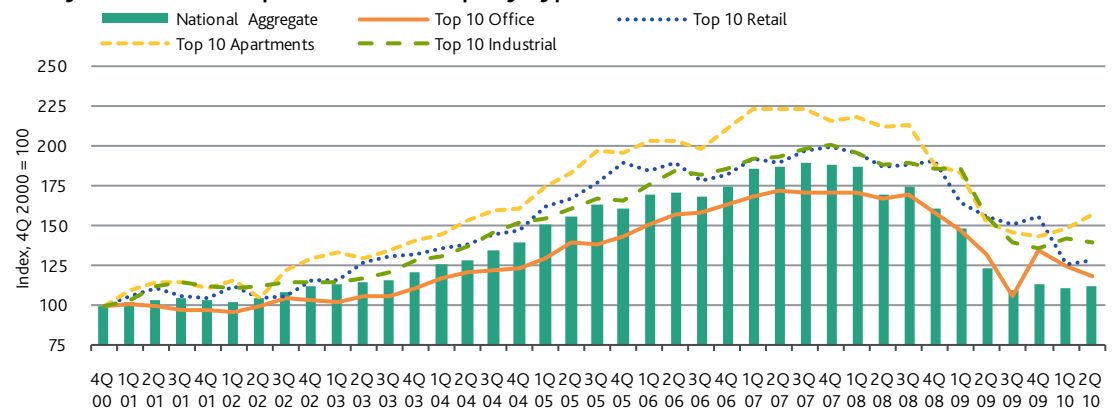
Moody's/REAL CPPI: National — Property Type Indices



Based on data through June 2010, or the end of the 2nd quarter.

FIGURE 12

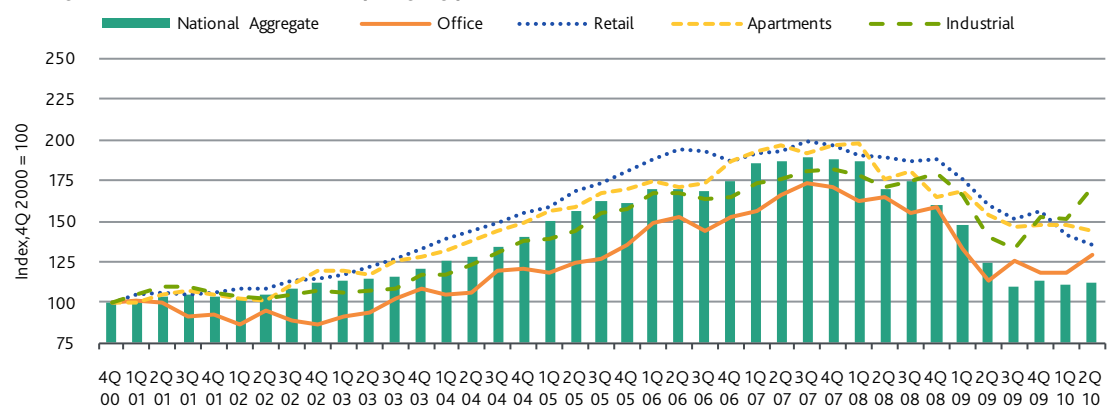
Moody's/REAL CPPI: Top Ten MSAs — Property Type Indices



Based on data through June 2010, or the end of the 2nd quarter.

FIGURE 13

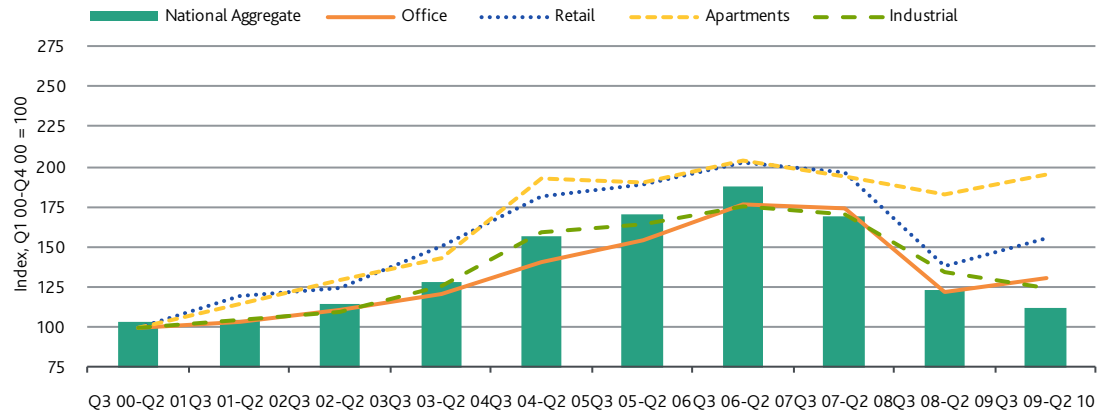
Moody's/REAL CPPI: West — Property Type Indices



Based on data through June 2010, or the end of the 2nd quarter.

FIGURE 14

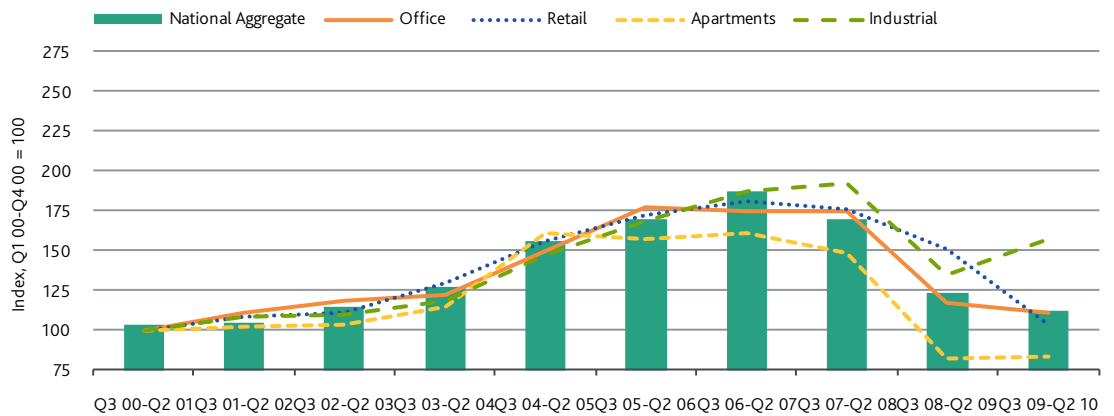
Moody's/REAL CPPI: East—Property Type Indices



Based on data through June 2010 or end of the 2nd quarter.

FIGURE 15

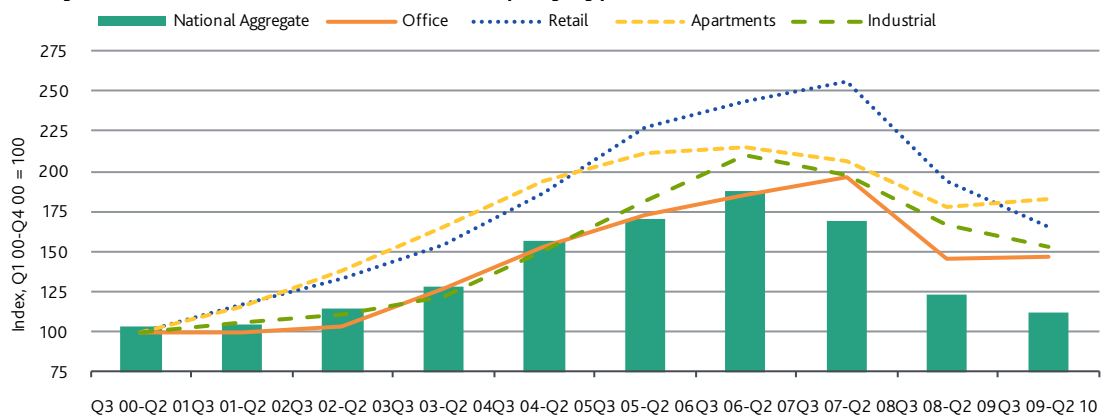
Moody's/REAL CPPI: South—Property Type Indices



Based on data through June 2010 or end of the 2nd quarter.

FIGURE 16

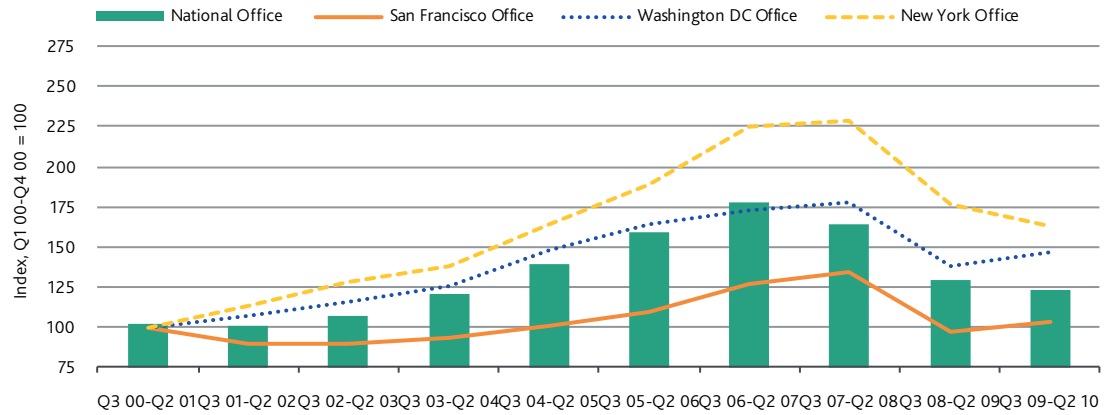
Moody's/REAL CPPI: Southern California—Property Type Indices



Based on data through June 2010 or end of the 2nd quarter.

FIGURE 17

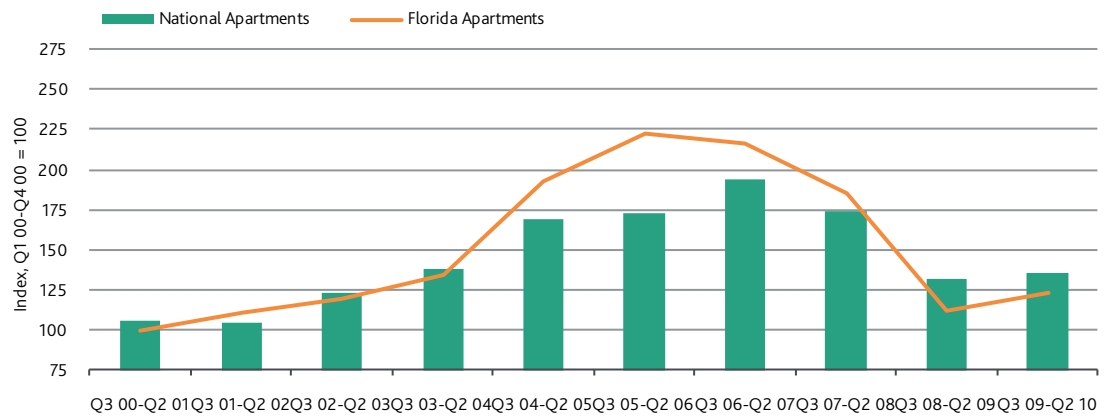
Moody's/REAL CPPI: Major Office Markets Indices



Based on data through June 2010 or end of the 2nd quarter.

FIGURE 18

Moody's/REAL CPPI: Florida Apartment Index



Based on data through June 2010 or end of the 2nd quarter.

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