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## Commercial Prices Roll Back to 2002 Levels

By Paul Bubny

NEW YORK CITY-Although the pace of decline has continued to slow in recent months, **commercial property prices have fallen nearly 44% since their peak two years ago**, and now look more like what the industry saw in 2002. So says Moody's Investors Service in its latest Moody's/REAL Commercial Property Price Index report, released Monday.

The report, which covers transactions through the end of October, shows a 1.5% dip in prices nationwide during the month. That compares to the 8.6% monthly decline six months earlier, followed in May by a 7.6% slide.

"The pace of declines has tapered off since the large drops measured in April and May; however, further declines are anticipated," the report states. With the 43.7% drop in the Moody's/REAL National All-Property Aggregate since the October 2007 peak, **"it is now necessary to look to properties purchased in 2002 to find positive price appreciation."**

In particular, the report notes the effects of price drops on loan to values are especially pronounced with more recent acquisitions. **"On average, loans originated at a 75% LTV in 2005 or later are now under water" with an average LTV today of 108%**, says the report. Although most of the loans will not mature for several years, thus giving values a chance to recover, "later vintage loans are in a deep hole" and face increasing risk of term default as property fundamentals continue to erode.

On a sector-by-sector basis, office, nationally, has seen the biggest quarterly index drop. The indices, which are compiled for Moody's by Real Estate Analytics using Real Capital Analytics data, show a 12.2% quarterly decline and a 30.1% year-over-year decline for office. Apartment's year-over-year slide was greater at 34.1% nationally but the sector's quarterly decline was smaller than that for office at 10.9%.

Helping to drag office down in the Eastern US, where it was the worst-performing of the major food groups, was the "poor performance" of the sector in New York City. The year-over-year decline of 38.1% for New York was slightly greater than the regional drop of 37.1% during the same time period.