Manhattan Commercial Property Sales Report

Fourth Quarter 2011

Manhattan Commercial Property Sales Volume Slows In Fourth Quarter

Far Fewer Large Transactions But Overall Number Of Sales Declines Only 5%

Commercial Property Sales Volume fell by more than 40% in the fourth quarter to $6.3 billion. Nearly every property type outside of hospitality saw a decline, but the slowdown was most pronounced in multifamily and office property sales which both registered half the volume that was traded in the third quarter.

To be sure, the decline was primarily due to a lack of large transactions. In the third quarter, one company, UDR, Inc., purchased three multifamily properties in Manhattan that, combined, amounted to $900 million – nearly the total dollar volume of multifamily sales recorded in all of the fourth quarter: $1.02 billion. The total number of commercial transactions only fell by 5% as the small to mid-sized market remained healthy. Moreover, an additional $500 million of sales contracts have been signed but were not closed on Manhattan commercial properties as of the end of the year.

However, these lackluster fourth quarter results were indeed a casualty of the broader uncertainty from the European debt crisis that had escalated at the end of last summer. Combined with other tepid economic conditions in the U.S. economy, the lack of resolution in Europe put off investors for the short term and also worried lenders from extending credit significantly. One office listing, 711 Third Avenue, was even removed from the market after disappointing initial bids. On a second listing, at 1211 Avenue of the Americas, the owners decided to seek an equity partner in lieu of a sale.

As per President, Daun Paris, “Our investors are still eager to buy in the current market despite the bad news from Europe –and maybe because of the conditions in Europe they are even more interested in buying in New York City. Still, we’re just not seeing as many large transactions as we had six months ago.”

Rare is the quarter in which the volume of Manhattan’s hotel sales surpasses the volume of multifamily sales but that is what happened in the fourth quarter: more than $1.03 billion in hotel sales were recorded on eight trades – three of which were for more than $100 million.

Sales volume in the fourth quarter of 2011 was well ahead of the first quarter volume but fell 4% below the volume in the fourth quarter of 2010. Sales had climbed that quarter due to the assumed expiration of the capital gains tax that never came to pass. The Manhattan Commercial Property Sales report shows how the property sales market fared by property type.

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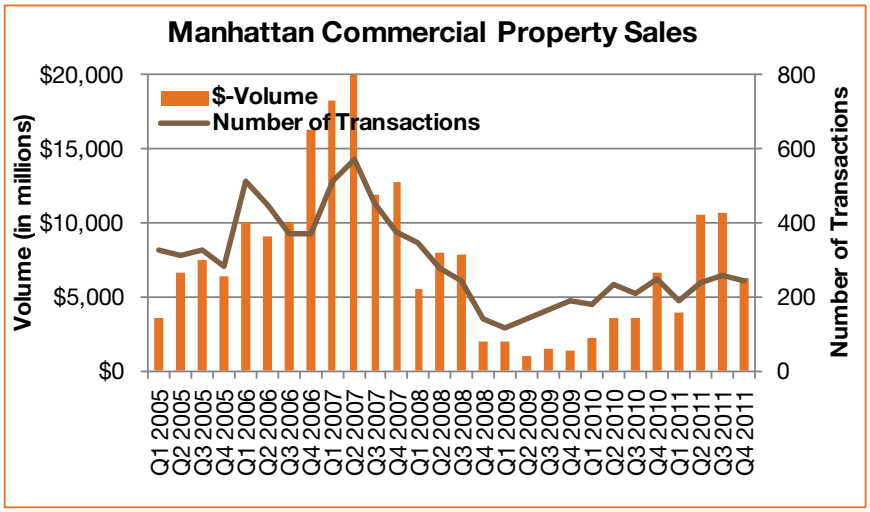


Source: Eastern Consolidated, Property Shark, CoStar and NYC Department of Finance

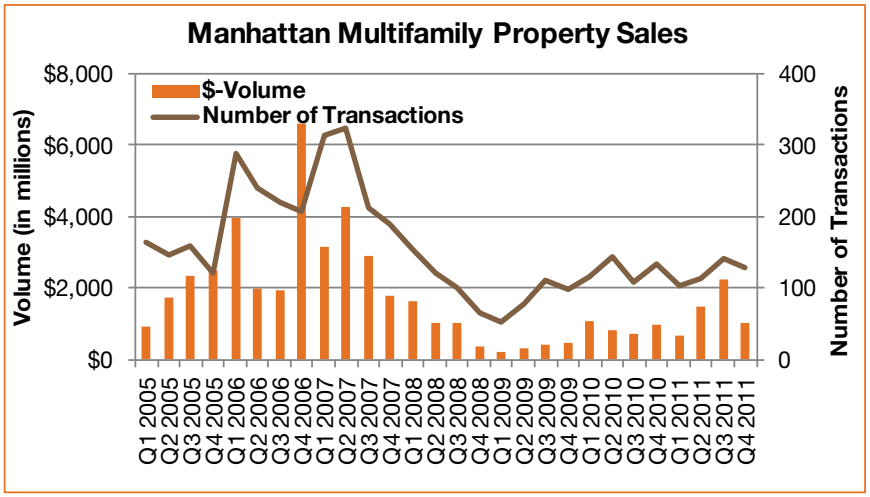
This quarter, there were only 15 sales of $100 million or more. Last quarter, there were 23 transactions of that magnitude, and in the second quarter, there were 27.

The number of transactions declined to 245 from 255 in the third quarter.

While more transaction data will get recorded for the fourth quarter, the new data will likely not make a sizable difference in the overall picture that activity has stalled for large deals.

Multifamily

Sales of multifamily properties slumped 54% in the third quarter to $1.02 billion from $2.2 billion in the third quarter and $1.5 billion in the second quarter. While five $100-million+ transactions were signed in the third quarter, including the three bought buy UDR, Inc. as mentioned above, only two sales for $100 million or more was signed in the fourth quarter.



The average price per square foot fell from $550 per square foot in the third quarter to $370 per square foot in the fourth.

This price decrease was due to the lack of large deals. The five deals that traded for more than $100 million in the third quarter averaged $633 per square foot.

The number of transactions fell to 130 from 141 in the third quarter.

**Preliminary Estimates*
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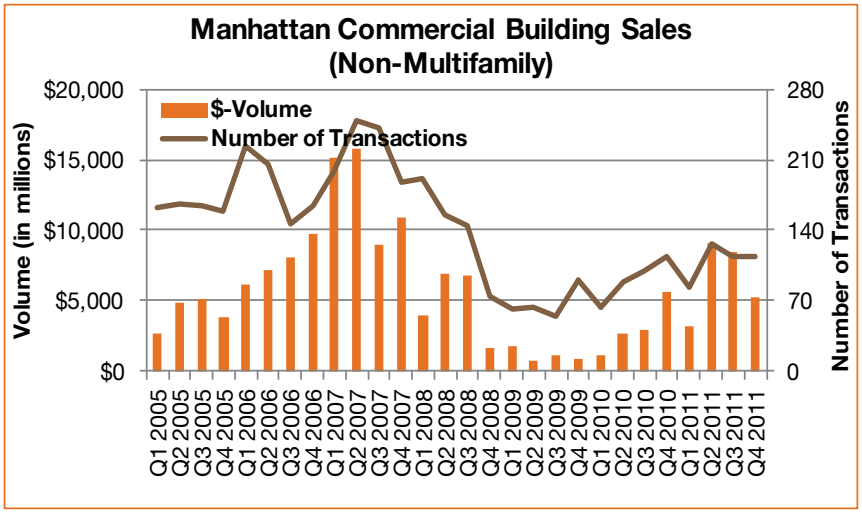
Non-Multifamily Commercial Sales



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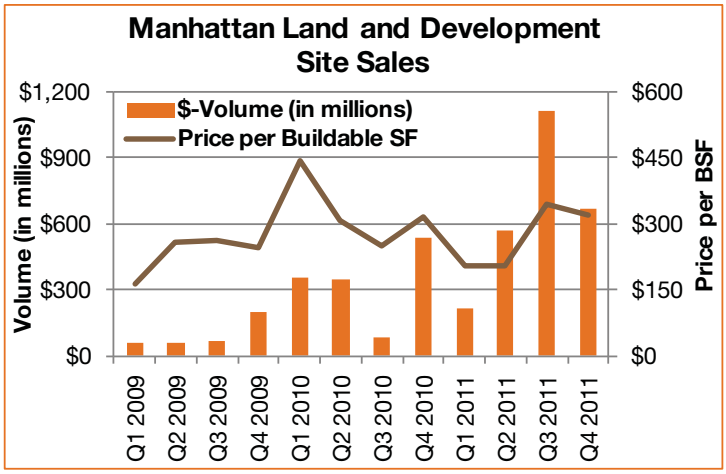
The volume of non-multifamily sales declined from $8.4 billion in the third quarter to $5.2 billion in the fourth quarter.

The number of transactions. However, was unchanged at 114 in the fourth quarter.

Retail property sales declined the most, by nearly 67%, but office and land/ development site deals declined as well.

The largest transaction in the quarter involved the recapitalization of the office portion of 666 Fifth Avenue. Kushner Companies brought in Vornado Realty Trust for 49.5% of the ownership. In March, Kushner and its investment partners had sold the retail portion of 666 Fifth Avenue to Inditex that owns the Zara retail stores.

The results by property type are shown below. Only hotel property sales volume held steady.



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Development site sales fell from $1.1 billion in the third quarter to $672 million in the fourth quarter.

The largest sale was for 70 Pine Street, the former office building that will be converted to residential. Metro Loft Management paid just over $200 million for the building. Also Toll Brothers bought 400 Park Avenue South for $134 million and plans a ground-up residential development.

The average price paid in the quarter was little changed at $320 per buildable square foot.

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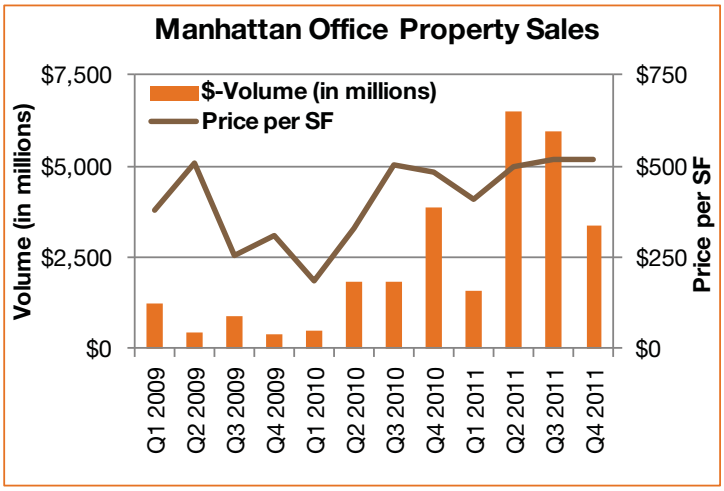

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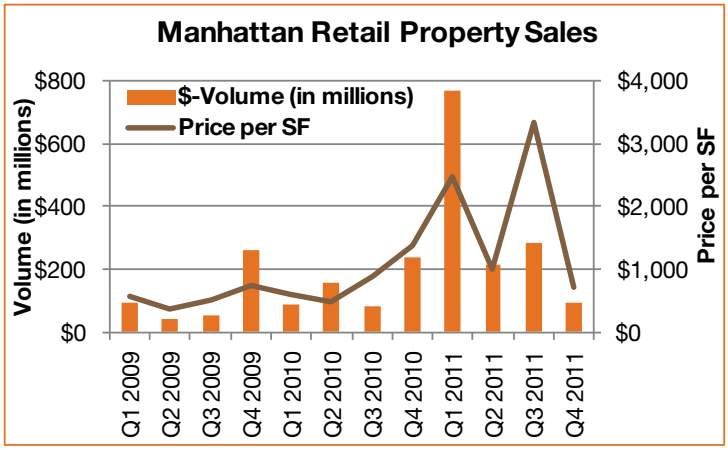
The volume of office transactions fell from $5.9 billion in the third quarter to $3.4 billion in the fourth quarter.

The average price paid was unchanged at $520 per square foot.

The number of transactions fell from 61 in the third quarter to 57 in the fourth, although the data is subject to revision showing more closings in the quarter.



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The volume of retail property sales plummeted to $96 million from $281 million in the third quarter. The number of transactions fell from 17 to 1 in the fourth quarter. Nearly all of these were retail condominiums

The largest deal was for the retail portion of 156-160 Bleecker Street. The buyer paid $30.6 million or more than $1,000 per square foot for the property. The average price per square foot fell to $780 per square foot in the quarter which is in line with most quarters. Last quarter's high price was due to the sale of 1552 Broadway in Times Square.

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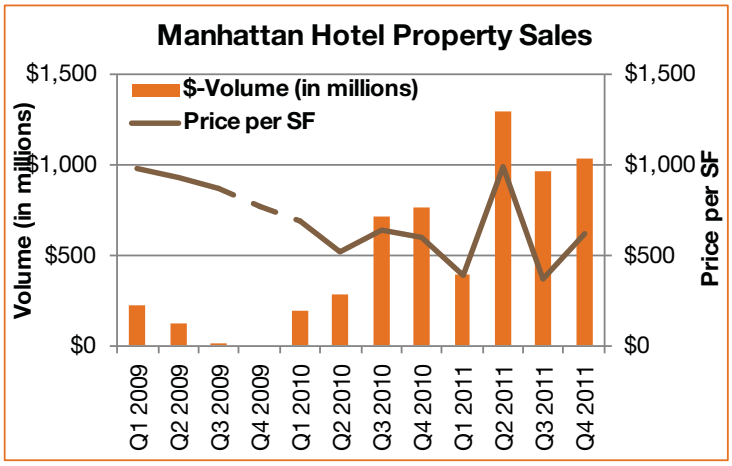

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The volume of hotel sales climbed 8% to $1.03 billion in the fourth quarter.

The largest sale was the Park Central at 870 Seventh Avenue that traded for close to $400 million. Also, RFR Realty purchased the Paramount Hotel at 135 West 46th Street for $275 million. Finally, Felcor Lodging bought the Knickerbocker Hotel at 1466 Broadway for $115 million.

These disappointing results follow two strong quarters, but the seeds of uncertainty had been planted last summer when activity started to slow following the negotiations on the U.S. debt ceiling. Sentiment fell even further in the fourth quarter as Europe released more reports of debt crises in several countries. While S&P's downgrade of many European countries last week cast more clouds on the outlook, Manhattan's investment market will likely benefit as investors shift funds away from the troubled continent and towards the U.S. We expect the U.S. economy to continue to improve steadily, which will yield higher sales volume in the quarters to come.

— Daun Paris, President, Eastern Consolidated

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