

# Manhattan Economic Indicators

Spring is in the air and so is optimism. Even before the Labor Department reported positive job growth for March, the momentum seemed to have shifted in a positive direction in the first quarter. Optimism is a powerful force in the economy: it tends to follow the law of self-fulfilling prophecies. If enough people think that the worst is over, they will consume more, hire more and generally take on more risk which in turn will fuel growth. While it takes some time for the statistics to register this growth, the current data shows some promise, particularly in commercial real estate sales where volume has indeed increased by 63% in the quarter. New York City's employment growth was also positive in the first quarter, adding 37,100 jobs. Finally, Manhattan office availability rate fell to 13.4% from 13.7% at the end of 2010.

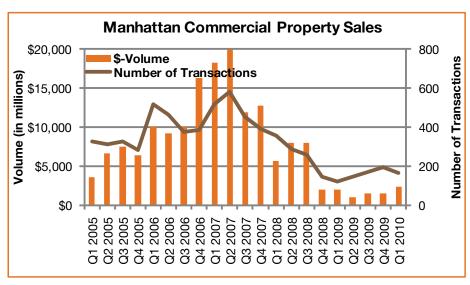
The enclosed report summarizes the first quarter economic statistics and provides an outlook on what is to come.

## **Property Sales Volume**

### **Commercial**

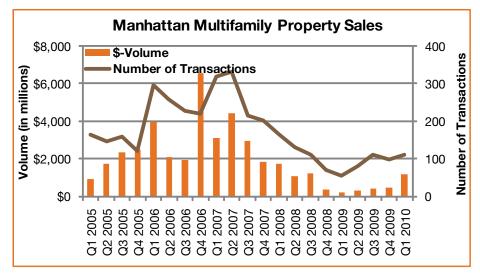
The Manhattan commercial property sales market showed considerable improvement in the first quarter. The total volume for the quarter was \$2.35 billion, up from \$1.4 billion and \$1.5 billion in the last two quarters of 2009. Though volume is still way off that of 2006 and 2007, it is more in line with that of 2001 and 2002 when volume averaged \$10 billion annually.

The chart below shows that the number of transactions declined in the quarter, but this was due to the unusual surge in office condominium sales in the fourth quarter of 2009. Most of those office condominium sales were small, averaging close to \$1 million or \$1,000 per square foot.



Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance

The volume of **multifamily** property sales more than doubled in the first quarter to \$1.15 billion, up from \$470 million in the fourth quarter of 2009.

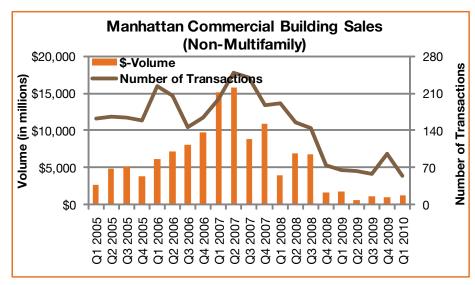


Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance

The number of transactions increased slightly to 108 from 98 last quarter which means that more large properties traded in the first quarter than in previous quarters. Indeed, five multifamily buildings traded for more than \$100 million in the first quarter, three of which were sold in one transaction from Macklowe Properties to Sam Zell's Equity Residential: 305 West 50th Street, 415 East 53rd Street and 777 Avenue of the Americas. These three buildings traded for \$475 million or \$500 per square foot. In 2009, not one multifamily property traded above \$100 million.

The average price paid per square foot for multifamily properties was \$270 which was in-line with previous quarters.

The volume of **non-multifamily** commercial sales was \$1.2 billion in the quarter, up from \$965 million in the fourth quarter of 2009 and \$1.1 billion in the third quarter.



Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance

The number of transactions decreased sharply to 55 from 95 last quarter due to the high volume of office condo sales in the fourth quarter.

The largest transaction of the quarter was CIM Group's purchase of the Drake Hotel development site at 434 Park Avenue for \$305 million. The loan on the site was in special servicing. Macklowe Properties had been the original developer.

The numbers convey what most have felt in the industry since the end of 2009: the market has turned the corner as a number of banks are starting to off-load properties and the gap between what sellers are seeking and buyers are willing to pay has narrowed somewhat. While volume will remain well below the levels seen from 2004 through early 2008, it is expected to increase throughout 2010 as more banks and owners of distressed properties consider shedding their inventory.

## **New York City Employment**

New York City added 37,100 jobs in the first quarter including 14,000 jobs in March. The table below shows the industries that captured the highest share of growth. Some of the added jobs were induced by the warmer weather in March, which means these gains may be temporary. But the gains in accounting, film and computer system design look more permanent. Even manufacturing and banking added jobs in the quarter. Far more industries posted gains in the quarter then losses. Nevertheless, some did have losses as listed below.

| Industries with the Largest Gains in the First Quarter | Gain Industries with the Largest Losses in the<br>First Quarter | Loss    |
|--|---|---------|
| Retail Trade   | 11,600 Securities   | (3,900) |
| Health services  | 7,900 Transportation, Warehousing, Utilities                    | (1,900) |
| Food Services and Drinking Places                      | 5,200 Telecommunications  | (1,400) |
| Accounting, Tax Preparation                            | 3,600 Construction  | (900)   |
| Motion Picture and Sound Recording                     | 2,800 Publishing Industries                                     | (900)   |
| Arts, Entertainment, Recreation                        | 2,700 Advertising and Public Relations                          | (900)   |
| Real Estate  | 2,400 Apparel Manufacturing                                     | (700)   |
| Computer Systems Design                                | 2,000 Management and Technical Consulting                       | (600)   |
| Other Services   | 1,900 Educational Services                                      | (300)   |
| Manufacturing  | 1,700 Architectural and Engineering                             | (100)   |
| Banking  | 1,600 Hotels  | (100)   |

Source: Eastern Consolidated and New York State Department of Labor

The continued losses in securities may be indicative of further consolidation in some of the big firms such as Bank of America with Merrill Lynch, or they could just reflect the expiration of severance packages that kept employees on the books. See the conclusion for the outlook on securities, New York City's critical industry.

The other industry to watch is health services. This industry has had a steady growth streak throughout the recession, but this may come to an end in the next few months given the closing of St. Vincent's Hospital.

While it would be premature at this point to declare the recession over, this positive report should spur further optimism in other industries as many may conclude that the worst is in the past. Assuming this does mark the end of job losses for New York City, it would put the city in step with the rest of the country on its recovery which is remarkable given that New York City entered the recession much later than the U.S. and consistently incurred fewer job losses overall.

Some industries in New York City did suffer more than others in the recent recession, especially when viewing losses vis-à-vis the U.S. job losses. The table below shows that New York City's office-based industries were hit the hardest, a pattern that is consistent with previous recessions. The table ranks industries by the rate at which New York City's losses exceeded those incurred at the national level. The second table ranks the New York City industries that outperformed the U.S. over the last 19 months. These include tourism-related industries, construction and a handful of others.

Industries in Which New York City Incurred Greater Net Losses Than the U.S. Since Their Respective Peaks

|                                     | Job Loss Since<br>NYC Peak<br>(August 2008) | Job Loss Since<br>NYC Peak %<br>(August 2008) | Job Loss Since<br>US Peak<br>(December 2007) | Job Loss Since<br>US Peak %<br>(December 2007) | Difference<br>In % |
|-------------------------------------|---|---|--|--|--------------------|
| Securities*                         | -31,066                                     | -16.4%  | -69,500                                      | -8.1%  | 8.3%               |
| Architectural and Engineering       | -5,900                                      | -19.2%  | -166,300                                     | -11.5%   | 7.7%               |
| Management and Technical Consulting | -2,500                                      | -7.7%   | -7,900                                       | -0.8%  | 6.9%               |
| Museums and Historical Sites        | -800  | -6.6%   | -1,800                                       | -1.4%  | 5.2%               |
| Apparel Manufacturing               | -5,200                                      | -23.9%  | -40,700                                      | -19.5%   | 4.4%               |
| Legal Services                      | -6,900                                      | -8.1%   | -64,700                                      | -5.5%  | 2.6%               |
| Local Government                    | -13,400                                     | -2.9%   | -63,000                                      | -0.4%  | 2.5%               |
| Wholesale Trade                     | -13,100                                     | -8.8%   | -468,600                                     | -7.8%  | 1.1%               |
| Banking                             | -7,900                                      | -8.6%   | -229,100                                     | -8.2%  | 0.4%               |

<sup>\*</sup>Since January 2008

Source: Eastern Consolidated, New York State Department of Labor and U.S. Bureau of Labor Statistics

## Industries in Which New York City Outperformed the U.S. Since Their Respective Peaks

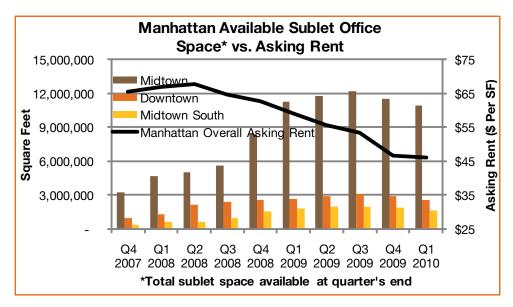
|                                 | Job Loss / Gain<br>Since NYC Peak<br>(August 2008) | Job Loss / Gain<br>Since NYC Peak<br>% (August 2008) | Job Loss / Gain<br>Since US Peak<br>(December 2007) | Job Loss / Gain<br>Since US Peak %<br>(December 2007) | Difference<br>In % |
|---------------------------------|--|--|---|---|--------------------|
| Motion Picture and Recording    | 2,900  | 7.4%   | -36,000   | -9.5%   | 16.9%              |
| Construction                    | -20,200  | -15.1%   | -1,899,000  | -25.4%  | 10.3%              |
| Employment Services             | -7,100   | -10.9%   | -714,900  | -20.9%  | 9.9%               |
| Real Estate                     | -1,300   | -1.1%  | -202,100  | -9.4%   | 8.3%               |
| Broadcasting                    | 0  | 0.0%   | -22,000   | -6.9%   | 6.9%               |
| Air Transportation              | -900   | -3.3%  | -49,100   | -9.8%   | 6.5%               |
| Hotels                          | -1,200   | -2.9%  | -158,200  | -8.4%   | 5.5%               |
| Accounting                      | -300   | -0.6%  | -55,900   | -5.8%   | 5.2%               |
| Retail Trade                    | -7,500   | -2.5%  | -1,134,100  | -7.3%   | 4.8%               |
| Food Services & Drinking Places | 3,400  | 1.7%   | -250,900  | -2.6%   | 4.3%               |

Source: Eastern Consolidated, New York State Department of Labor and U.S. Bureau of Labor Statistics

#### Office Market

More than 1.1 million square feet of sublease space was removed from Manhattan's office market in the first quarter. Because sublease space is added or removed from the market by individual tenants outside of their scheduled lease expirations, changes in sublease space availability can be a significant indicator of how firms feel about future space needs. Hence this recent drop bodes well for the near future. Indeed, this second quarterly drop in sublease availability was spread quite evenly across Manhattan.

Total available space declined by 1.05 million square feet which means that the availability in direct space increased slightly in the quarter.



Source: Eastern Consolidated and CoStar

Despite the drop in available space, asking rents continued to decline in the first quarter. The Manhattan average rent fell to \$46.03 per square foot from \$46.76 last quarter. Asking rents declined in all three submarkets.

The table below shows the current statistics versus those of one year ago. While overall availability is only slightly worse than it was a year ago, rents remain significantly lower than in early 2009. As mentioned in last quarter's report, a number of buildings listing available space do not list an asking rent as they had throughout most of 2009. Because most of the buildings that dropped a listed asking rent are located in the Plaza district, the statistics are skewed a bit toward a lower average than would be the case had more buildings listed a rent.

|               | Available Sublease<br>Space |            | Available Sublease<br>Space as a % of Total |         | Total Availability Rate |         | Asking Rent |         |
|---------------|-----------------------------|------------|---|---------|-------------------------|---------|-------------|---------|
|               | Q1 2010                     | Q1 2009    | Q1 2010                                     | Q1 2009 | Q1 2010                 | Q1 2009 | Q1 2010     | Q1 2009 |
| Midtown       | 10,932,377                  | 11,272,488 | 28%   | 29%     | 14.1%                   | 14.0%   | \$49.08     | \$64.58 |
| Downtown      | 2,566,039                   | 2,676,024  | 19%   | 25%     | 13.3%                   | 10.6%   | \$39.56     | \$45.11 |
| Midtown South | 1,597,597                   | 1,822,591  | 23%   | 26%     | 11.0%                   | 11.4%   | \$41.45     | \$49.48 |
| Manhattan     | 15,096,013                  | 15,771,103 | 25%   | 28%     | 13.4%                   | 12.9%   | \$46.03     | \$59.08 |

Source: Eastern Consolidated and CoStar

#### Conclusion

While it is difficult to qualify current economic conditions as a "rebound," New York City's economy is definitely on the mend. Commercial sales volume growth is unambiguous and the decline in availability is reassuring as well. But much in the economy is driven by job growth, and the outlook for the City's employment remains mixed at best. Positive developments in the national economy especially the jump in retail sales, including car sales, residential real estate sales and even the stock market should propel further job growth nationally. Retail sales is not reported at the city level, but the pick-up in New York's residential real estate sales seems to be tracking the employment trend, although most would attribute New York's residential turnaround to the recent banner Wall Street bonus season.

Yes, in New York City, it always comes back to Wall Street. Few dispute New York's City's economic reliance on Wall Street, yet Wall Street's outlook remains mired in controversy. Recent developments stemming from allegations that Goldman Sachs may have committed fraud should dampen both the stock market indices and possibly hiring in the near term. Not only could potential law suits cloud the firm's prospects, but the allegations and subsequent investigations will likely shift the political wave towards more regulatory reform instead of less which will crimp hiring across the industry as firms ride out the uncertainty for the next quarter or so.

Notwithstanding this uncertainty, the current optimism in the economy is justified given the positive news on the national economy and improvement in the commercial sales market. Those in the real estate industry sense that the momentum has shifted as demonstrated by the statistics herein. Office availability should continue to improve as jobs are added, but asking rents are not likely to rebound until availability declines significantly. In sum, the gains in both jobs and the real estate market should hold steady over the next few quarters, we believe, at relatively subdued levels.

- Barbara Byrne Denham, Chief Economist, Eastern Consolidated