

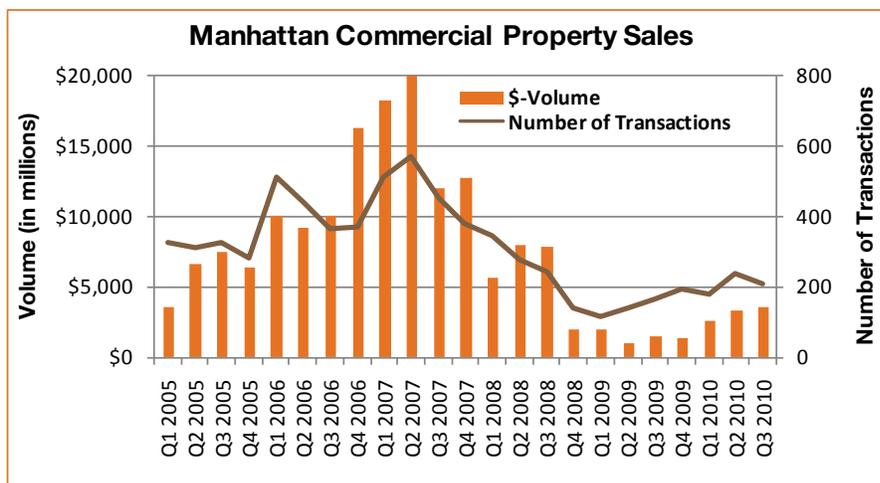
Manhattan Economic Indicators

The recent economic indicators continued to shed a favorable light on New York City's economy as commercial sales volume grew steadily, employment growth outpaced the U.S. and office rents turned the corner. No one is sounding the trumpets yet, but all indications suggest that New York City's economy is truly out of the woods. While there remains much uncertainty stemming from the upcoming elections, the likely expiration of lower tax rates, pending financial reforms and higher health insurance costs, New York's economy should withstand these potential headwinds and continue to add jobs through the remainder of 2010 and beyond. The stock market has surged since the end of the summer which has spurred some optimism, especially in the real estate market. But it should do little in the way of job growth for the securities industry which continues to trail the rest of the city's economy. In sum, the statistics tell a mixed story of modest growth in many parts of the economy tempered with stagnancy in a few others.

According to Chairman and CEO Peter Hauspurg, "At this time last year, we could barely see the light at the end of the tunnel, but this quarter's statistics confirm that we are now clearly out of the tunnel."

Commercial Property Sales Volume

The momentum in the Manhattan commercial property sales market continued on the upswing in the third quarter. The cumulative volume for the first three quarters of 2010 (\$9.4 billion) surpassed the total volume for all of 2009 (\$5.8 billion) by 62%. The preliminary data shows that with over \$3.5 billion in sales, volume climbed 5% over the second quarter (\$3.3 billion). Average prices climbed as well. The data confirms what many have conveyed in the market: the market continues to improve, little by little.



The chart at left shows the steady progression since the second quarter of 2009 when volume was just below \$1 billion.

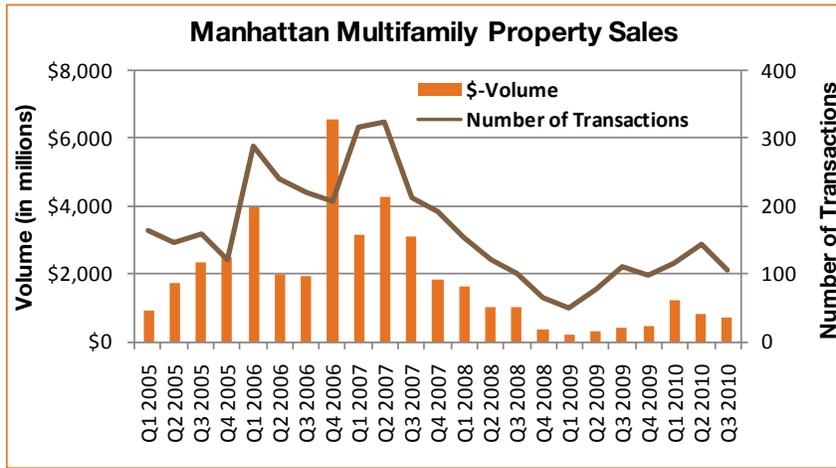
In the third quarter, 206 transactions closed, a slight decline from last quarter's 237 transactions which was the highest since the third quarter of 2008.

*Preliminary estimates

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

With \$2.7 billion in sales in the first three quarters of 2010, the volume of **multifamily** sales has nearly doubled the total volume of 2009 (\$1.4 billion). The third quarter multifamily sales volume fell slightly to \$711 million from \$795 million last quarter and \$1.24 billion in the first quarter of 2010. In 2009, quarterly volume averaged just \$350 million.

The largest sale in the quarter was 752 – 758 West End Avenue, The Paris, that traded for \$72.4 million. The sale worked out to \$365 per square foot. Also, 555 Sixth Avenue traded for \$67.3 million (\$382 per square foot) at auction to SITQ, the Canadian pension fund that has an association with Stonehenge Partners. This 180,000-square-foot residential building had housed medical residents and other staff of St. Vincent's hospital. The complex included a parking garage and 20,000 square feet of retail space.



The first quarter data was heavily weighted by Macklowe Properties' \$475-million sale of three multifamily buildings to Equity Residential.

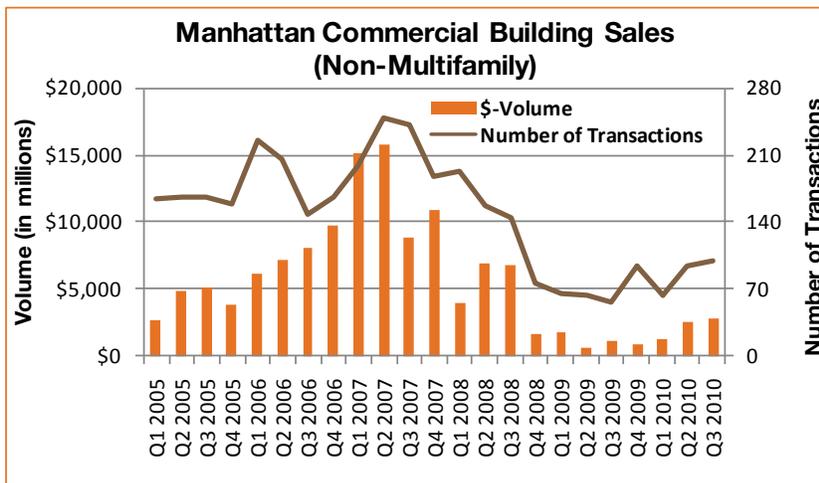
The chart shows that the number of transactions fell to 107 from 143 in the second quarter and 117 in the first quarter.

*Preliminary estimates

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

The average price paid per square foot for multifamily properties jumped to \$337 from \$275 last quarter. It was also the highest average since the first quarter of 2008.

The volume of **non-multifamily** property sales jumped to \$2.8 billion, up from \$2.5 billion last quarter and \$1.3 billion in the first quarter. In 2009, sales volume for non-multifamily properties averaged \$1.1 billion per quarter.



The chart at left includes office building sales volume of \$1.90 billion, up from \$1.85 billion in the second quarter.

The average price paid for office buildings jumped to \$467 per square foot, up from \$329 per square foot last quarter.

*Preliminary Estimates

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

The third quarter's numbers include six office building sales that exceeded \$100 million: 55 East 52nd Street (49% interest), 693 Fifth Avenue, 685 Third Avenue, 125 Park Avenue, 510 Madison Avenue and 19 West 44th Street. This matched the previous quarter's results in which six office properties of this magnitude traded. Two such office properties traded in the first quarter.

The biggest jump in the third quarter sales came in hospitality. Three hotels traded for more than \$100 million in the third quarter: The Wyndham at 152-158 West 26th Street, The Helmsley Carlton at 680 Madison Avenue and the W Union Square at 201 Park Avenue South. Only one hotel transaction of this size was recorded earlier in the year. No sizable hotel sold in all of 2009.

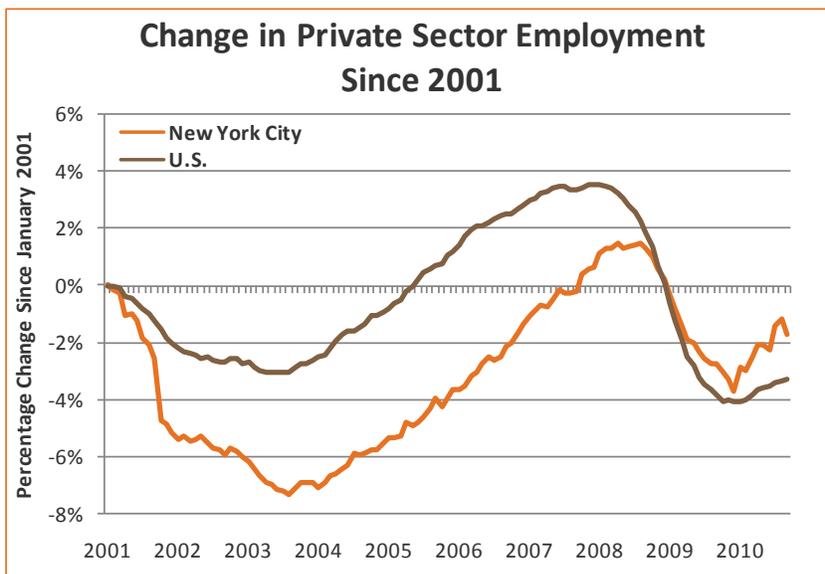
Land and development site sales totaled \$95 million, a decline from the previous quarter. The average price paid per buildable square foot fell to \$242 from \$307 last quarter. This change reflects the geographic differences in development deals in the two quarters.

Another consecutive quarter of positive growth demonstrates how steadily New York's real estate market is recovering. It is not growing by leaps and bounds, but it clearly has emerged from the depths of 2009. Volume is expected to increase throughout 2010 as more investors come back to the market and banks loosen their previously stringent lending standards. Moreover, the increase in the capital gains tax rate in 2011 should spur a number of owners to sell before the end of 2010.

New York City Employment

New York City added 19,000 private sector jobs in the third quarter. Government jobs declined by 9,800 in the same period which brought the net quarterly job gain to 9,200. The city's year-to-date net gain as of the end of September was 63,500 jobs, which was more than was added in all of 2007 when the gain was 63,200 jobs.

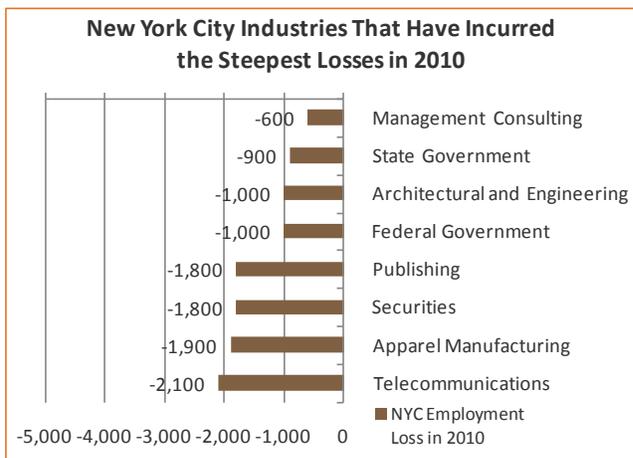
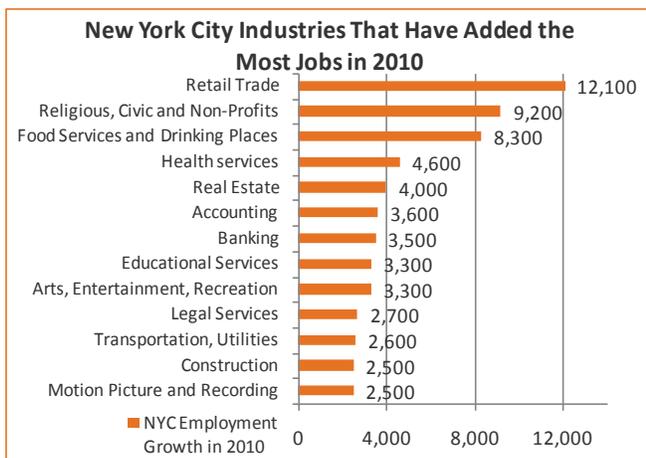
This positive news contrasts sharply to the national economic picture that shows that jobs have stagnated. The chart below illustrates this difference between the city's and the nation's recoveries since mid 2009. Note, however, that the net job growth over the last ten years is still negative for both: -3.3% for the U.S. and -1.7% for New York City. Finally, the chart shows how New York suffered considerably less in the recent recession compared to the U.S. in contrast to the 2001-2003 recession when New York lost significantly more jobs, especially after 9/11.



Source: Eastern Consolidated, NYS Department of Labor and the Bureau of Labor Statistics

The story of New York City's employment bounce in 2010 is just starting to get the attention it deserves as the 63,500 added jobs represent a growth rate of 1.8%. At this pace, the city could add more than 80,000 jobs this year -- a feat not seen since the dotcom bubble of 2000. However, the pace of growth is not likely to stay this strong as fall-out from the national economy is likely to curtail job growth through the last quarter of this year.

New York's economy has thrived this year because of a number of factors, the most noteworthy of which is tourism which has boosted employment in retail, restaurants and arts and entertainment industries. Health services and private education have grown as well. All of these industries are dependent on consumer demand as opposed to business demand which propels growth in accounting, legal, securities and advertising industries. These latter industries that are more office-based than the consumer-oriented ones did not grow as much this year and some even incurred losses. This stagnant growth explains why the office leasing market has not performed as well this year.



*Includes private sector industries only
Source: Eastern Consolidated and New York State Department of Labor

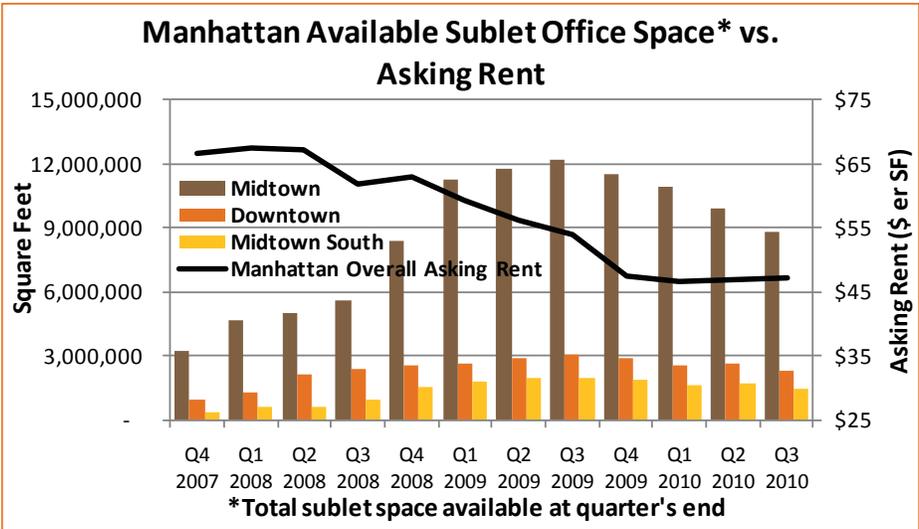
The securities industry losses in the previous chart tell an interesting story. New York City's bellwether industry has historically been a "lead" indicator. It is the first industry to add jobs in a recovery and the first to lose jobs in a recession. Clearly, the current recovery is defying this trend as the securities industry has lagged all year. This may have something to do with the delayed expiration of severance packages, or it may reveal something about how securities firms are responding to the recently passed Dodd-Frank Financial Reform legislation. What it does convey is the sense that few on Wall Street think that the industry will be returning to its glory days anytime soon. The industry awaits both the election and the decision on the expiration of the Bush tax cuts that could raise both income taxes as well as the capital gains tax. Until more certainty appears on the horizon, the securities industry is not likely to add a significant number of jobs, especially this year.

Office Market

The office availability rate declined again in the third quarter to 13.0% from 13.3% in the second quarter and 13.5% in the first quarter. So far in 2010, 3.4 million square feet has been absorbed, 1.5 million square feet was absorbed in the third quarter alone.

The biggest story of 2010 has been the sublease market: since the end of 2009, the availability of sublease space has declined by 3.6 million square feet. Offsetting this somewhat, availability of direct space has increased by 300,000 square feet. In other words, net absorption of sublease space accounted for 107% of the total absorption. Moreover, the sublease absorption was positive in all three submarkets, the largest of which was in Midtown where 1.1 million square feet of sublease space was absorbed in the third quarter.

A closer look at the buildings where absorption was greatest reveals that some of this sublease space was simply removed from the market, presumably by the tenant that likely felt more confident about needing the space in the future. The evidence of this trend can be found in a handful of the buildings that posted a significant decline in sublease space in the third quarter but listed few if any transactions.



Source: Eastern Consolidated and CoStar

Despite this positive absorption, rents have changed very little since the end of 2009. At \$47.27 per square foot, the overall asking rent is slightly higher than first quarter's average of \$46.71 per square foot and just \$0.20 below the average at the end of 2009.

The table below shows how much the ratio of space available as a sublease to total available space has declined. At the end of the third quarter it was 22% of the total, a year ago it was 29% of the total.

¹ The top capital gains tax rate will rise to 20% from 15% and to nearly 24% in 2013.

	Available Sublease Space		Total Available Sublease Space as a % of Total		Total Availability Rate		Asking Rent	
	Q3 2010	Q3 2009	Q3 2010	Q3 2009	Q3 2010	Q3 2009	Q3 2010	Q3 2009
Midtown	36,309,177	40,039,179	24%	31%	13.1%	14.3%	\$51.89	\$59.26
Downtown	14,267,239	12,491,362	16%	24%	14.0%	12.5%	\$38.91	\$41.91
Midtown South	7,008,760	7,753,969	21%	25%	10.8%	12.1%	\$40.34	\$46.21
Manhattan	57,585,176	60,284,510	22%	29%	13.0%	13.6%	\$47.27	\$53.99

Source: Eastern Consolidated and CoStar

Still, there does not appear to be much upward pressure on rents, especially given the recently added space at 85 Broad Street and 11 Times Square. The momentum in the office market is moving in a positive direction, but like the growth in office-based jobs as mentioned above, it is moving at a very slow pace.

Conclusion

The analysis above could lead one to believe that we have a tale of two cities: one that is adding jobs at a robust pace (retail, tourism and education) and one that is in a wait-and-see mode (office-based industries).

This is an unusual set of circumstances because office-based industries tend to lead the growth in retail and restaurants, rarely do the consumer-oriented industries grow ahead of the business-oriented ones. But New York's economy has been on a paradigm shift for many years. Not only have tourism statistics soared over the last ten years but population statistics have grown as well. From July 2008 through July 2009, the city lost 100,000 jobs, yet its population grew by 45,000. Moreover, the city has enjoyed the addition of a number of big box retail centers including East River Plaza in East Harlem and Columbus Center on the Upper West Side.

The tourism growth is also unprecedented. A recent report by the Manhattan Lodging Index showed that as many as 28 new hotels opened in 2009 with more than 5,000 hotel rooms and 20 are slated to open this year with 4,000 more rooms. According to tourism bureau NYC & Company, hotel room nights were higher in the first quarter of 2010 than in the same quarter in 2007 and 2008 before the recession hit.

Another industry that is quietly adding jobs is film as the new HBO series, Boardwalk Empire, has a full soundstage operating in the Brooklyn Navy Yard that has directly or indirectly added a few thousand jobs.

What the above three paragraphs indicate along with the employment gains in private education, health services and residential real estate is that New York City is still a very desirable place to live, work and go to school. This has not escaped the attention of investors who have started to pay as much as \$300 per buildable square foot for development sites, \$700 per square foot for prime office buildings and more than \$1,000 per square foot for prime multifamily buildings. These prices should continue to climb even as parts of the economy continue to lag.

At some point, the city's traditional job engines – Wall Street, publishing and advertising – will catch up. As we mentioned last quarter, it is still too early to tell how deeply the new financial reforms passed will impact Wall Street because the firms are still trying to figure out how to comply with the new reforms. On top of this, the industry is bracing for higher taxes although this has not been decided yet. It is likely that growth in these industries will lag throughout the rest of 2010, but will start to pick up in 2011.

At the same time, the likely increase in capital gains taxes could boost the property sales market in the fourth quarter but reduce volume in the first quarter of 2011. The net result, as stated above, should yield a continued overall improvement in the economy but at a steady, subdued pace.

– **Barbara Byrne Denham, Chief Economist, Eastern Consolidated**