

Manhattan Economic Indicators

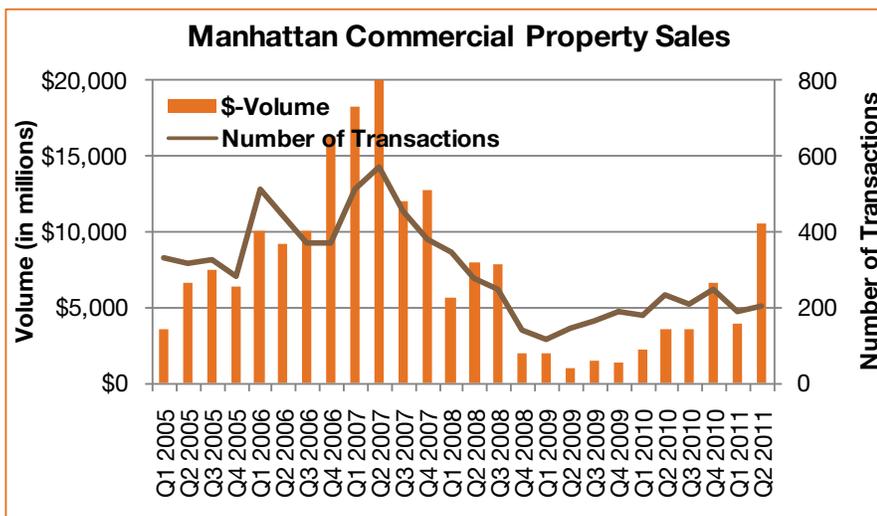
In the second quarter, the commercial property sales market recorded its highest quarterly sales volume since 2007, following a dismal first quarter, but the employment picture was mediocre as the city added only 11,300 jobs in the quarter. The office market statistics improved but not significantly, as much of the recent leasing activity shows that firms are moving around but not necessarily taking on more space. All in all, the commercial sales market seems to be leading the rest of the local economy as it struggles to navigate the ongoing uncertainty from the national debt talks and the European banking community.

As per Peter Hauspurg, Chairman and CEO, "We were pleased to see the return of sellers to the market as investor demand for Manhattan properties had far outstripped supply for several years. The current economic climate of a potential U.S. downgrade, the European financial crisis and dismal reports from Wall Street make me wonder how things will progress in the next quarter or two. But what has become even more apparent from this quarter's results vis-à-vis the rest of the national economy is that Manhattan real estate is still viewed as one of the safest places to invest money."

Property Sales Volume

After a slow first quarter, the property sales market came alive in the second quarter as over \$10.5 billion in transactions were closed. The jump was due to an increase in large transactions: 27 transactions of \$100 million or more closed in the quarter up from 11 in the first quarter.

The enclosed report shows how the property sales market fared by property type. Most of the results show a sharp increase in volume compared to last quarter.



Of the 27 sales of \$100 million or more, 16 were office buildings, four were multifamily sales, five were hotels and two were land or conversion sales.

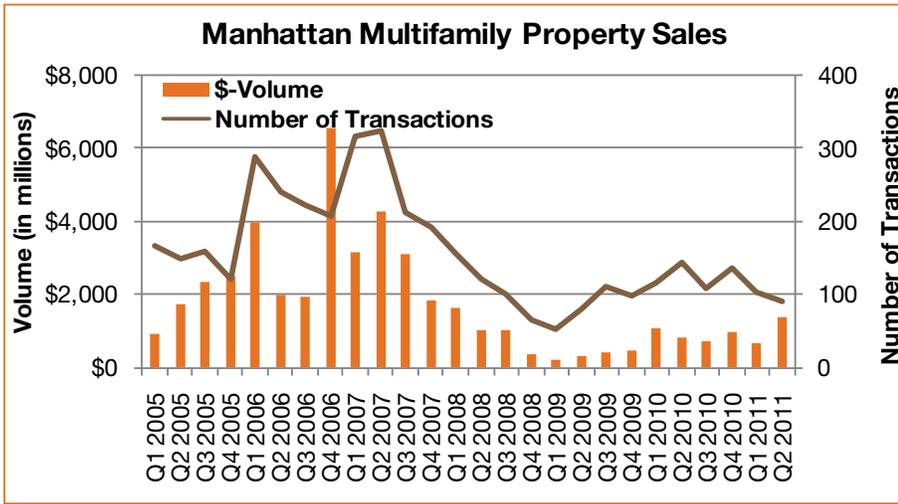
Despite the jump in dollar volume, the number of transactions climbed only slightly from 187 to 204 in the first quarter.

These numbers are still preliminary, some transaction data comes in weeks after the quarter closes, but these results show that the market indeed accelerated in the quarter.

*Preliminary Estimates

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

Multifamily



The volume of multifamily property sales more than doubled from \$665 million last quarter to \$1.38 billion in the second quarter. Last year, the quarterly average volume was \$893 million.

Oddly, the number of transactions fell from 103 in the first quarter to 90.

*Preliminary estimates

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

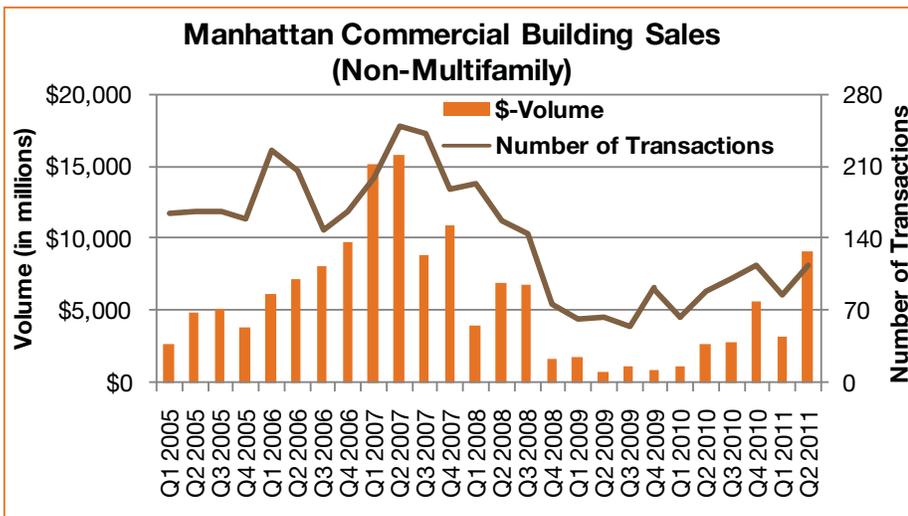
The average price paid for **multifamily** properties jumped to \$489 per square foot, up from \$380 last quarter and \$400 in the fourth quarter of 2010. The higher price was due to the larger sales.

The biggest sale in the quarter was **10 Hanover Square** that sold for \$259.8 million or \$533 per square foot. The Witkoff Group sold the building to UDR, Inc. Also, "The Corner" or **200 West 72nd Street** sold for \$209 million or \$1,029 per square foot. TIAA-CREF bought the residential-only portion of the building from Philips International and Rhodes Associates. Also on the Upper West Side, LaSalle Investment Management bought **601-615 Amsterdam Avenue**, "The Sagamore," for \$139.1 million square feet. In the first quarter, there was only one multifamily transaction of \$100 million or more.

Non-Multifamily Commercial Sales

As shown in the chart below, the volume of **non-multifamily** sales increased 184% in the second quarter from \$3.2 billion in the first quarter to \$9.1 billion.

The largest transaction in the quarter was the sale of **1633 Broadway**. Paramount Group purchased the remaining 49% interest that it had not owned from Bank of America and Morgan Stanley for \$980 million. Also Monday Properties transacted a \$750-million recapitalization and refinancing of the former Helmsley Building, **230 Park Avenue**, through INVESCO. The building had been co-owned by Monday Properties and Goldman Sachs.



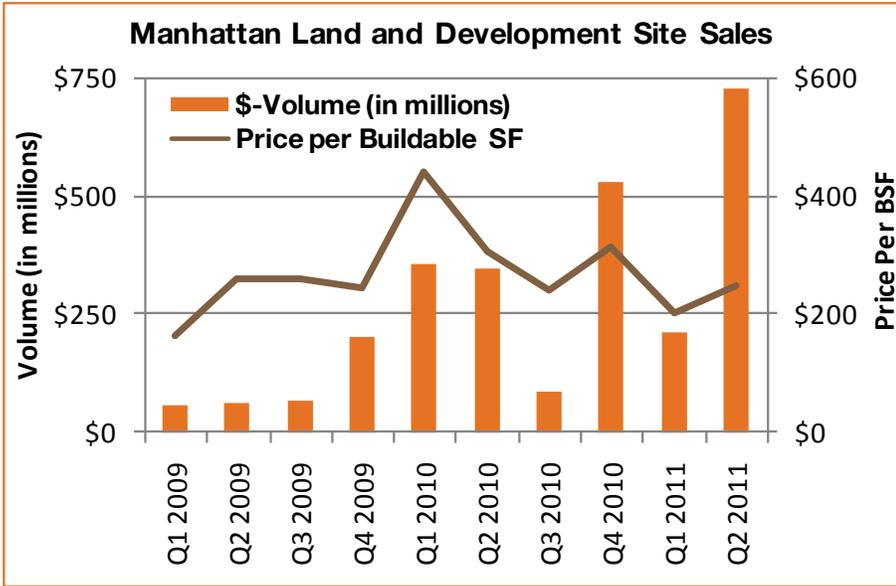
The number of transactions climbed from 84 in the first quarter to 114 in the second quarter.

The office market drove the gains in the second quarter, but development sites and hotels sales grew as well. Only retail saw a drop in activity.

*Preliminary estimates

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

The results by property type vary somewhat as shown below. The decrease in retail property sales volume in the second quarter was due to two significant sales in the first quarter.

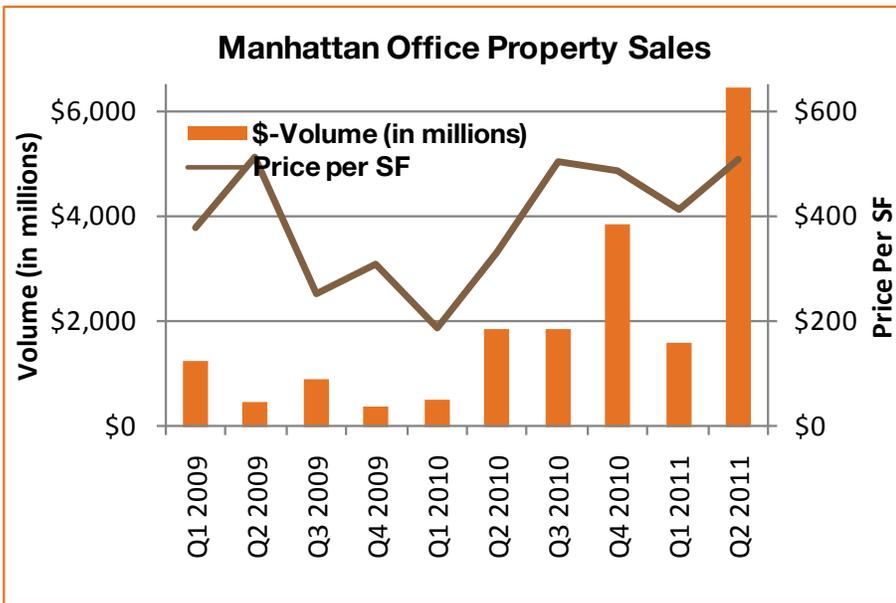


Development site sales jumped from \$212 million in the previous quarter to \$729 million. Volume was \$535 million in the fourth quarter of 2010.

These sales include two major conversion projects: Young Woo & Associates sold **70 Pine Street** to Metro Loft Management for \$205 million or \$186 per square foot, and the Toy building at **1107 Broadway** sold for \$190.8 million or \$588 per square foot. The Witkoff Group bought the building at auction and plans to convert it to residential condos.

The average price paid in the quarter increased from last quarter's average of \$204 to \$250 per buildable square foot.

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

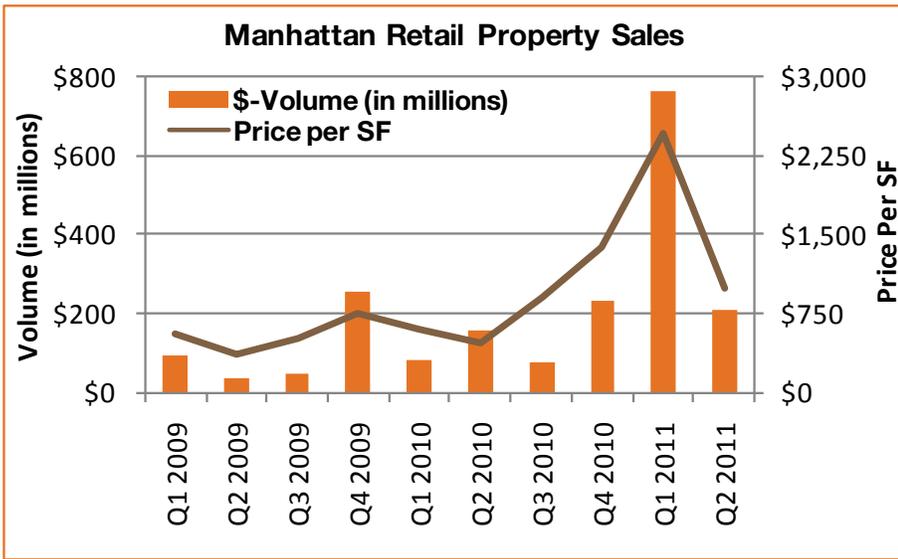


The volume of office transactions increased four-fold from \$1.6 billion in the first quarter to \$6.4 billion in the second quarter. It also outpaced the fourth quarter's volume of \$3.8 billion that included Google's \$1.77-billion purchase of **111 Eighth Avenue**.

The average price paid increased from \$410 per square foot in the first quarter to \$506 per square foot.

The number of transactions increased from 40 in the previous quarter to 54.

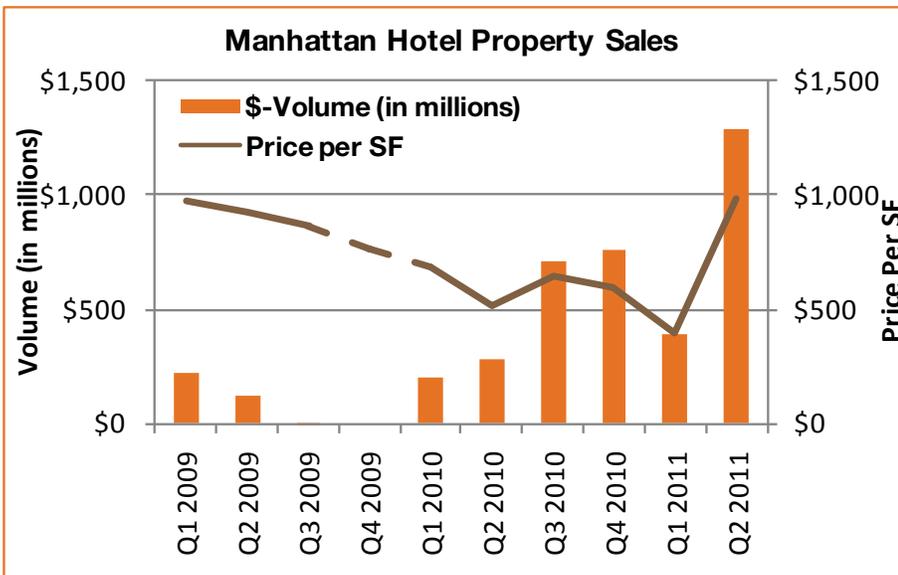
Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance



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The volume of retail property sales fell from \$766 million in the first quarter to \$213 million in the second quarter. The heavy volume in the first quarter was due to the retail condo at **666 Fifth Avenue**. This sale pushed the average price paid to \$2,469 per square foot. In the second quarter, the average price paid fell to \$992 per square foot.

The largest sale in the quarter was the \$55-million sale of Loehman’s apparel store retail space at **101 Seventh Avenue**. Loehman’s lease expires in March 2016.



*Preliminary Estimates

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

The volume of hotel sales climbed from \$395 million in the previous quarter to \$1.29 billion. The average price jumped from \$390 per square foot last quarter to \$988 per square foot this quarter.

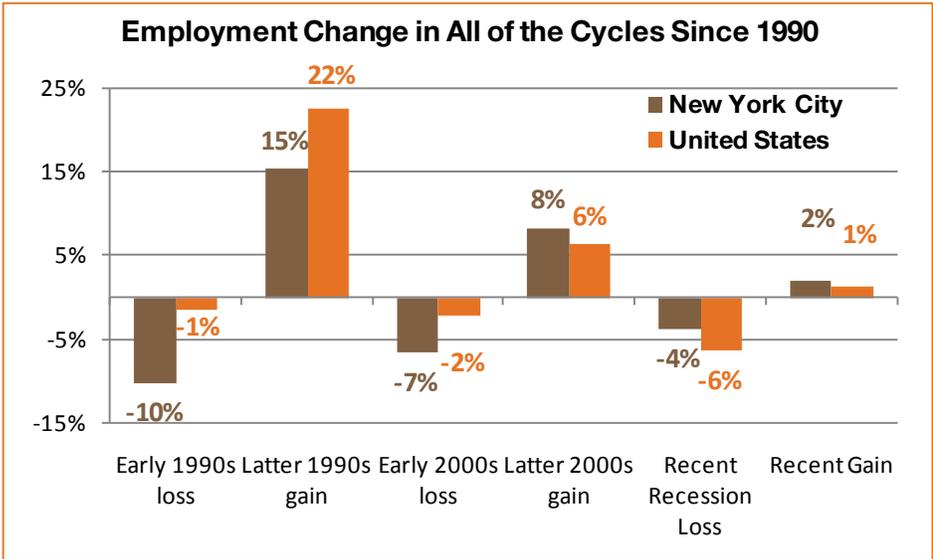
There were only seven hotel sales in the quarter, but all but one traded for more than \$100 million and five also traded for more than \$1,000 per square foot including the Yotel at **570 Tenth Avenue**, the Paramount Hotel at **235 West 46th Street**, the Radisson Hotel on Lexington and the Four Points by Sheraton in Times Square.

These second quarter results follow more than two years of anemic market conditions and an especially weak first quarter. Much of the growth was due to sellers coming to the market as well as an accommodating finance environment that has eased transaction costs.

Employment

New York City’s employment picture was mixed in the second quarter as 11,300 jobs were added in the quarter but nearly all of these were added in April. The private sector added 18,300 jobs as most industries added jobs. The noteworthy exceptions include securities which lost 2,900 jobs in the quarter, health services which lost 2,600 jobs in the quarter, retail which lost 1,700 jobs and film and sound recording which shed 1,500 jobs.

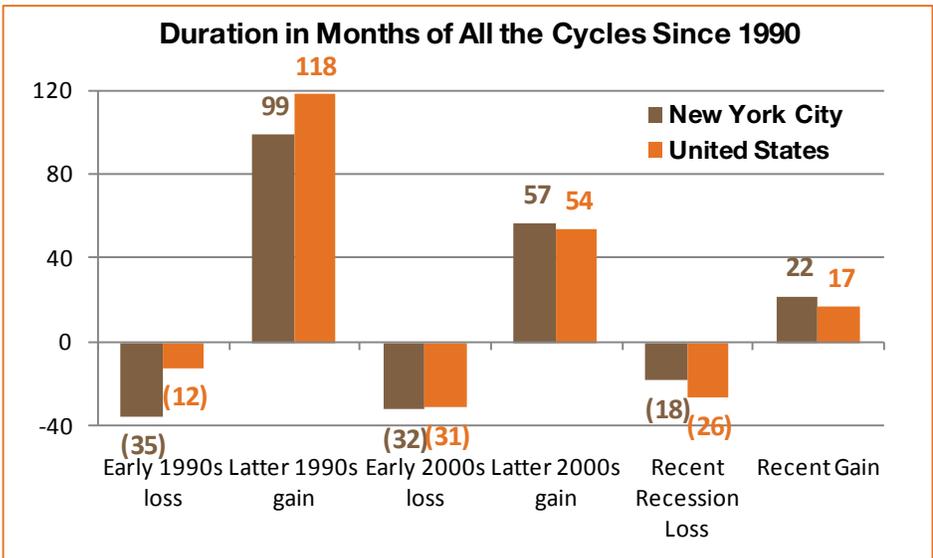
The lack of job growth over the last two months parallels that of the U.S. where 260,000 jobs were added in the quarter, or 0.2%. New York City’s job growth rate was 0.3%. Clearly the recovery is sputtering with little in the way of hope of when or how the economy will start to accelerate again.



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

The chart at left shows how unevenly the recoveries and recessions have affected the city and the U.S. since 1990: the last recession was harder on the U.S. than on New York City relative to previous recessions, but the current recovery is almost equally weak for both.

Note how the rate of job losses for New York over the last three recessions improved, while the rate of job loss for the U.S. declined from -1% to -6%.



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

The chart at left explains why the job growth has been so different in each cycle: the length of the recession or recoveries matters.

Remarkably, the recovery is already 22 months under way (40% of the duration of the last recovery) and yet the rate of job growth is only one-quarter the rate of growth of the previous (early 2000s) recovery which had started to accelerate after 22 months.

Historically, the industry that had fueled New York’s booms and busts was Wall Street. Securities has always been volatile but it had always been a “lead” indicator – adding or losing jobs before the other industries did so. One can only hope that the recent losses in the securities industry do not portend losses in the rest of the economy! This should not be the case as other industries have emerged as stable and steady job creators in New York City: private education, retail, tourism and health services.

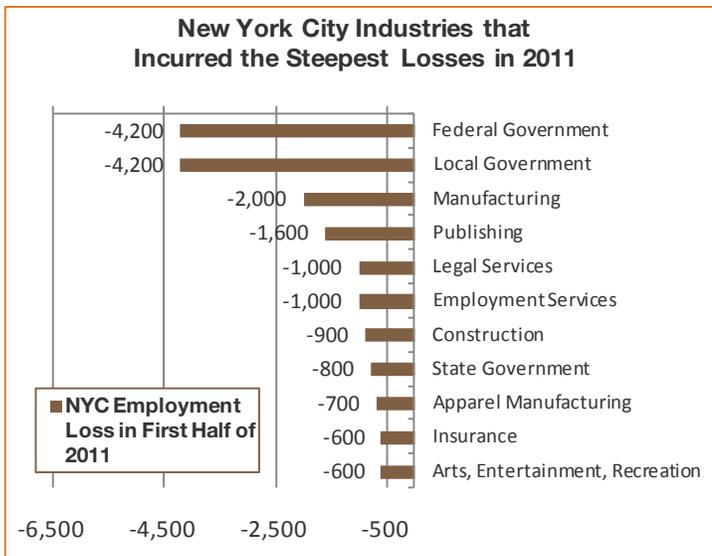


Source: Eastern Consolidated, NYS Department of Labor and the U.S. Bureau of Labor Statistics

The chart at left shows how private education has added 24,500 jobs, most of which were added in the second quarter. This industry includes higher institutions such as Columbia and NYU to preschools. New York City's popularity as a college setting has soared over the last decade and more families have chosen to stay and raise their children in the city raising demand for more schools.

Tourism-related jobs – retail, restaurants and hotels – continued to serve the economy well and should continue to add jobs at a steady rate.

The other positive development in the numbers is that more office-based industries are adding jobs at a steady if moderate rate including computer systems design, advertising and management consulting.



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

It is not surprising that the government is leading the job losses. The downsizing of federal jobs looks most threatening to New York as reports that the federal government's leasing at the new World Trade Center for the General Services Administration is approximately half of what it was originally estimated to be. It is not clear if the net GSA lease will be for new employees or relocated from other occupancies. It was also thought that the state's Office of General Services would lease space at **1 World Trade Center** as well, but they are not.

Losses in manufacturing and publishing are unique to New York, but not so for the legal industry that has seen a national decline of 4,900 jobs in 2011.

Now that the deadline has come, and the deal to stave off the debt crisis has been secured, the threats of a financial meltdown have subsided but the outlines of a deal to cut spending by at least \$2.4 trillion over 10 years will have a clear and consequential impact on the economy. Most of the cuts are to defense spending which on the surface appear to not affect New York City but nothing is clear yet. In the short run, "only" \$22 billion will be cut from 2012 spending, most of the cuts will not be felt until later. But it is not clear how else the government can cut spending when it has to increase spending on social security and Medicare costs as babyboomers age.

Already the impact from the uncertainty surrounding the deal to raise the debt ceiling has affected the economy in terms of slower job growth and negative earnings reports from Wall Street firms. Not only has Goldman Sachs announced job losses but so have HSBC, Credit Suisse and Morgan Stanley. Many of these cuts stem from the tighter regulatory environment outlined in the Dodd-Frank law passed a year ago, but these regulations have not been ironed out yet which means still more uncertainty for the foreseeable future.

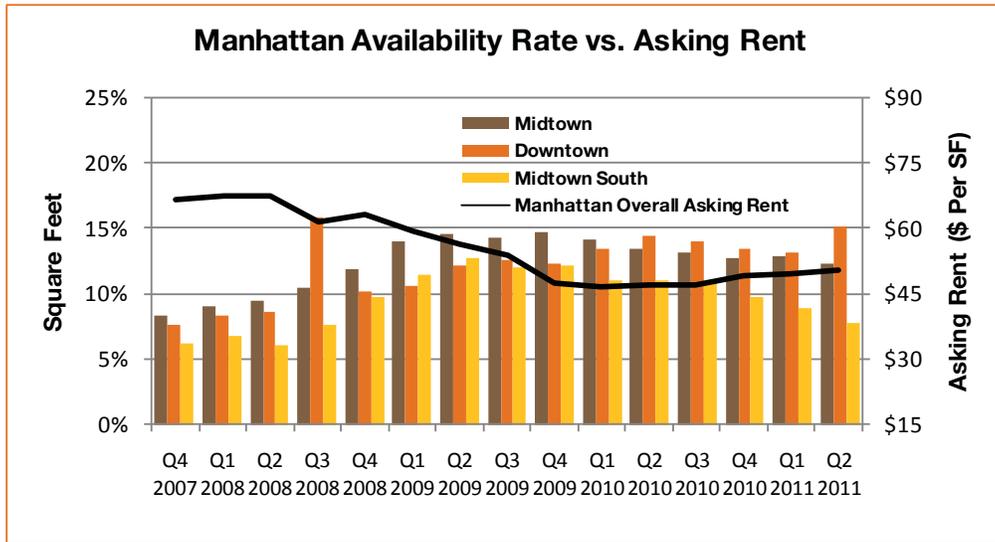
That said, the city has still managed to outperform the U.S. on job growth simply because it has diversified its economy over the last decade. The city's nascent industries – private education, tourism, film and technology-related businesses – should continue to add jobs this year and next.

Office Leasing Market

While leasing activity picked up in the second quarter, the overall office availability rate was little changed in the second quarter at 12.2% down from 12.3% at the end of the first quarter and 12.5% at the end of the 4th quarter. Likewise asking rents climbed a bit from \$49.80 in the first quarter to \$50.60 per square foot in the second quarter.

The reason why availability has not dropped in line with leasing activity is because availability jumped in Downtown from 13.1% at the end of the first quarter to 15.1%. Two significant listings were added to the market at the tail end of the second quarter: at **2 World Financial Center**, 1.86 million square feet was listed as available. Some of the available space is currently occupied by Nomura Holdings, Inc. which recently leased over 900,000 square feet of space at **825 Eighth Avenue**, Worldwide Plaza, where Nomura is relocating its North American headquarters. Just across the plaza, **4 World Financial Center** listed 1.23 million square feet. This space is currently occupied by Merrill Lynch (Bank of America).

The results were better in Midtown where availability dropped from 12.9% in the first quarter to 12.2%. A year ago, it was 13.5%. The leasing at **825 Eighth Avenue** accounted for the majority of the drop in Midtown availability but availability also dropped at **1221 Avenue of the Americas**, **2 Park Avenue** and **200 Park Avenue**.



Source: Eastern Consolidated and CoStar

Rents increased in every submarket but with Downtown’s higher availability, the Downtown average rent weighed more heavily in the overall average which yielded a more moderate increase for the Manhattan average rent.

	Available Sublease Space		Total Available Sublease Space As A% of Total		Total Availability Rate		Asking Rent	
	Q2 2011	Q2 2010	Q2 2011	Q2 2010	Q2 2011	Q2 2010	Q2 2011	Q2 2010
Midtown	34,260,307	37,482,439	23%	26%	12.2%	13.5%	\$56.76	\$51.22
Downtown	15,153,260	14,601,983	10%	18%	15.1%	14.5%	\$39.13	\$39.18
Midtown South	4,997,749	7,041,611	18%	25%	7.8%	11.0%	\$43.15	\$41.34
Manhattan	54,411,316	59,126,033	19%	24%	12.2%	13.3%	\$50.60	\$47.07

Source: Eastern Consolidated and CoStar

The chart above shows not only how the availability rate has declined over the last year from 13.3% to 12.2%, but that the percentage of available space that is sublease has dropped even more from 24% a year ago to 19%. This decline in sublease space is a positive indicator that fewer firms are looking to downsize space.

When the sublease availability declines, it also puts upward pressure on asking rents because sublease space charges a lower asking rent than direct space, on average. Although, it is noteworthy that Midtown still has the highest proportion of sublease space. Midtown rents have climbed more rapidly than the other submarkets as its availability has shrunk more rapidly. But with the higher proportion of sublease space, Midtown rents may not jump as sharply as they would if there were not as much sublease availability.

Moreover, Condé Nast's vacating of its **4 Times Square** occupancy will create new availability of approximately 600,000 square feet as will the building of **250 West 55th Street** where Morrison & Foerster has signed a letter of intent to occupy 200,000, roughly doubling its current occupancy at **1290 Avenue of the Americas**. In sum, most leases signed of late have not yielded significant net absorption. Until they do, the rate of rent growth will stay low.

Conclusion

For the third quarter in a row the commercial property sales and employment statistics have see-sawed: commercial sales volume accelerated while employment growth was minimal whereas last quarter the statistics were the reverse. This proves once again that this recovery is anything but smooth. What is worse, the news from the national and international economies provides little assurance that this pattern will improve anytime soon.

Recall that last quarter's biggest news was the fear of higher oil prices and inflation from turmoil in the Middle East. The reports on the European debt crisis were less prominent in March and the debt ceiling talks were not even on the radar screen. Three months later the Middle East trouble has settled down as have oil prices, but the European debt crisis has stirred more fears of default and the U.S. federal debt ceiling discussion has distracted all of Washington. In the meantime, the U.S. unemployment rate has gone up and the tepid rate of national job growth has reversed consumer sentiment leading many to question whether or not the national economy is truly on the mend.

It is easy to get swept into the negative news from the national economy. After all, it dominates the media especially since the election season is getting started. But as we have reiterated in this and other market reports for more than a year: New York City's economy has been beating to a different drum.

Not only has the tourism helped the city's economy, as we have repeated periodically, but the growth in private education has added significant jobs and has followed the changing demographics in the city; that is, more school age kids. Further evidence of this trend can be found in the media's coverage of over-crowding in the city's public schools across the city. This means that the local government will have a hard time cutting jobs if more services are required not only from education but health care, which is why the cuts in local government jobs will likely be less severe in New York than in the rest of the U.S.

In sum, while the news on the economic front looks bleak in nearly every direction, the city's economy should continue to weather the ongoing uncertainty and the commercial sales market should stabilize yielding similar volume trends as was recorded in this last quarter.

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