EASTERN CONSOLIDATED™
Real estate investment services

Manhattan Economic Indicators

New York City ended 2011 on a negative note as commercial property sales volume in Manhattan fell 40% while employment declined as well. Office leasing activity was moderate at best. These results were not surprising given the ongoing debt situation in Europe and warnings from Wall Street that fourth quarter earnings would be weak and layoffs were likely. We believe these results look more like a snag in an otherwise upward moving yet slow and bumpy recovery. The analysis herein shows that small and midsize investors are still actively looking for properties, small and midsize companies are actively looking for office space and a number of industries are adding jobs.

Moreover, there is ample anecdotal evidence suggesting that the macro economy is on solid footing. First, the national economy has been growing steadily and across most sectors. Second, the stock market has recovered: the S&P 500 has climbed 20% since its October low and the volatility index dropped 20% in early 2012. Third, while the ongoing news from Europe changes by the week, the European Central Bank and a number of participants are working to resolve the crisis that is still centered on Greece.

The Manhattan Economic Indicators presents the fourth quarter findings and provides a thorough analysis of New York City's economy.

Property Sales Volume

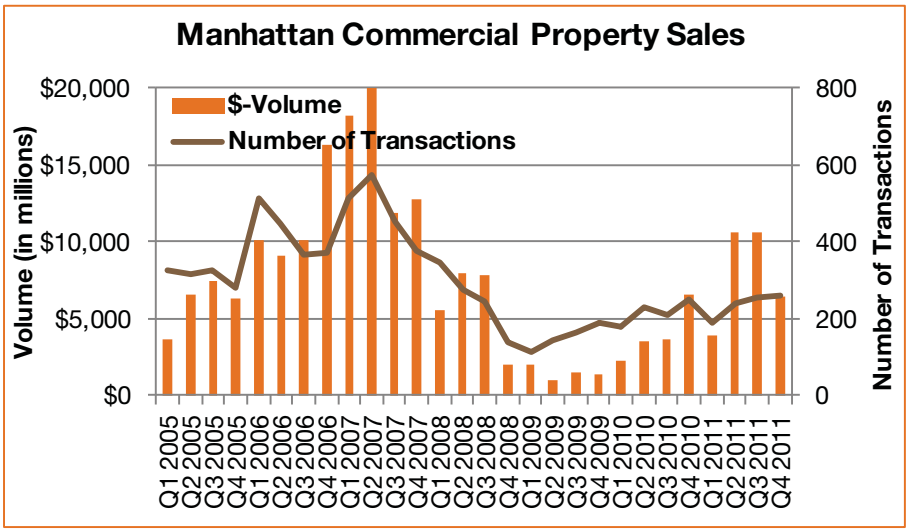
Commercial property sales volume fell by 40% in the fourth quarter to $6.5 billion. Nearly every property type outside of hospitality saw a decline, but the slowdown was most pronounced in multifamily and office property sales both of which registered half the volume that was traded in the third quarter.

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 billion. The total number of commercial transactions was unchanged as the small to mid-sized market remained healthy.

However, these lackluster fourth quarter results were indeed a casualty of the broader uncertainty from the European debt crisis that had escalated last fall. 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."

For the year, volume reached $31.5 billion which was nearly double the volume of 2010, $15.9 billion, and was five-times the volume of 2009. Still, it was half the level of 2007, which was the peak.



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

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

The total number of transactions was little changed at 260.

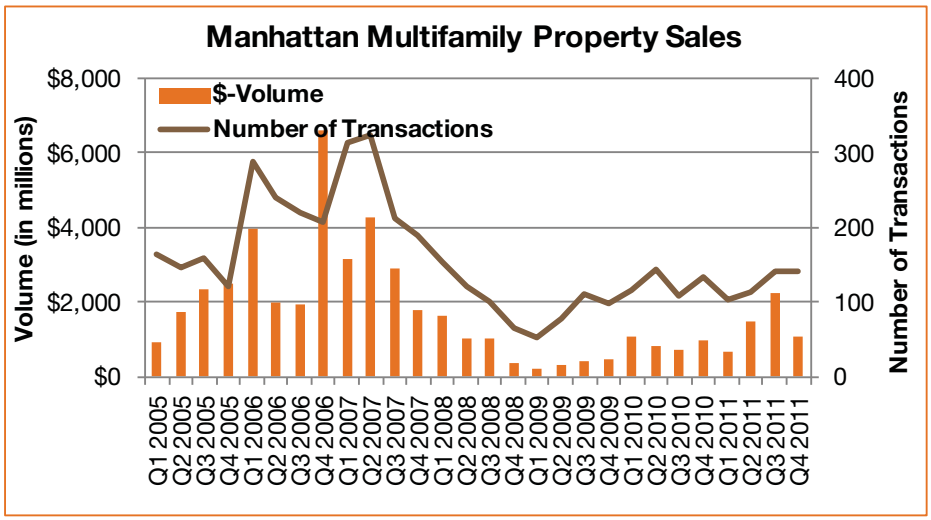
Sales volume in the fourth quarter of 2011 was well ahead of the first quarter volume but fell just below the volume in the fourth quarter of 2010. Sales had climbed that quarter due to the assumed expiration of the capital gains tax that never came to pass.

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 $1.08 billion in hotel sales was recorded on eight trades – three of which were for more than $100 million.

The charts below show how the market fared by property type.

Multifamily

Sales of **multifamily** properties slumped 53% in the fourth quarter to $1.0 billion from $2.2 billion in the third quarter and $1.5 billion in the second quarter. While five transactions of $100 million or more were signed in the third quarter, including the three bought by UDR, Inc. as mentioned above, only two sales for $100 million or more were signed in the fourth quarter.



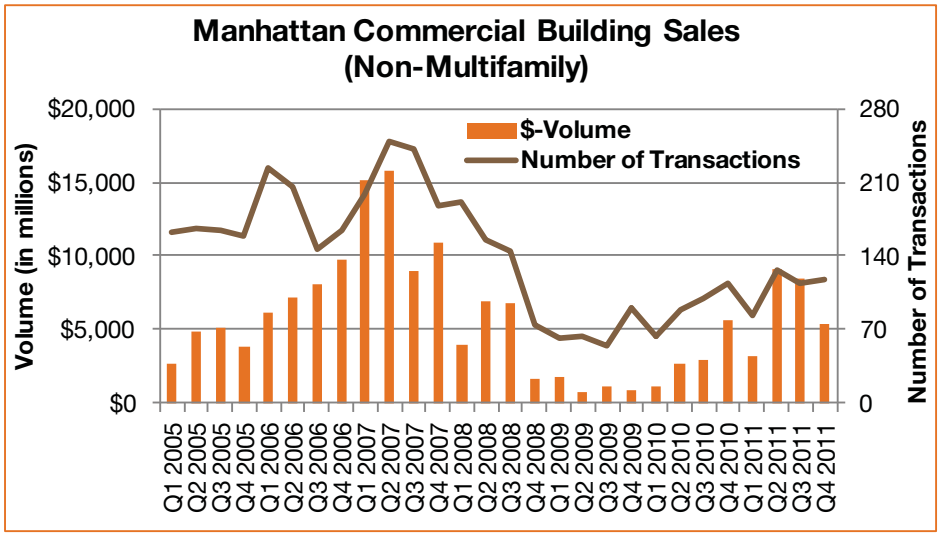
Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance

The average price per square foot fell from $550 per square foot in the third quarter to $350 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 was little changed at 140.

Non-Multifamily Commercial Sales



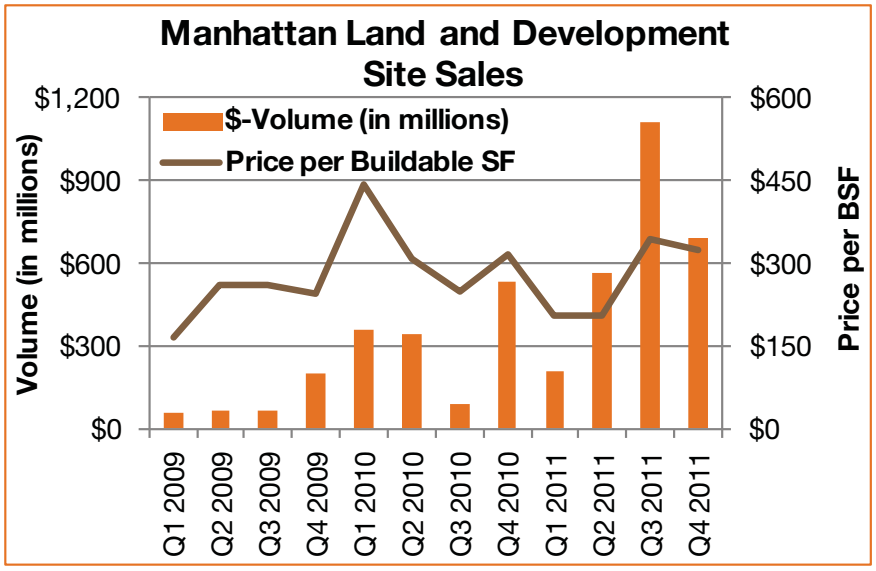
Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance

The volume of **non-multifamily** sales declined from $8.4 billion in the third quarter to $5.4 billion in the fourth quarter.

Office and land/ development site sales declined the most, by 47% and 38%, respectively, but retail 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 Companies and its investment partners had sold the retail portion of 666 Fifth Avenue to Inditex that owns the Zara retail stores.

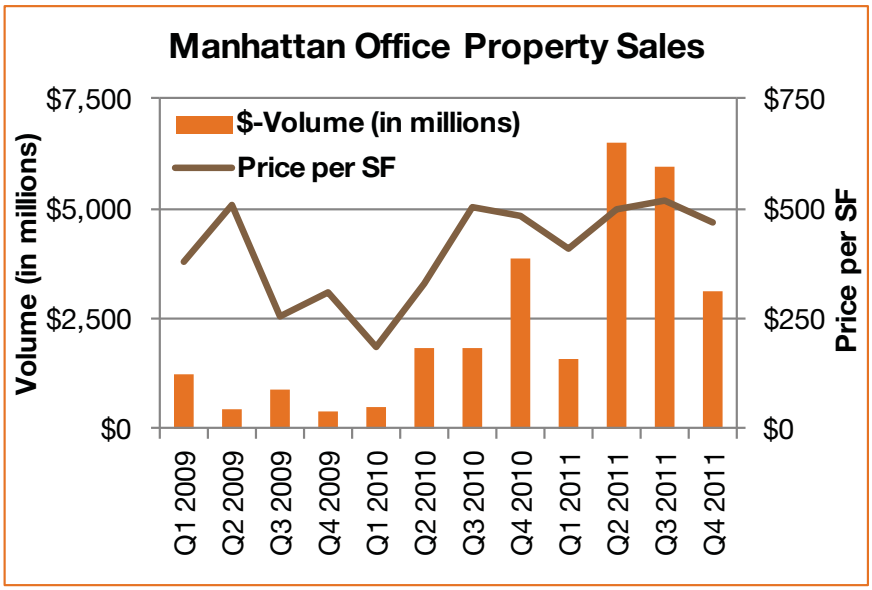
Further details by property type are shown below. Only hotel property sales volume held steady.



Development site sales fell from $1.1 billion in the third quarter to $705 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.

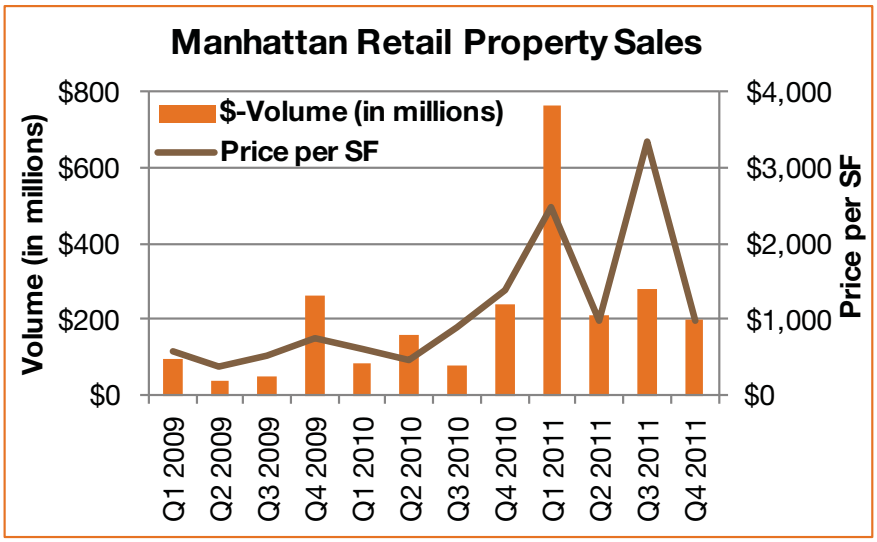


The volume of office transactions fell from $5.9 billion in the third quarter to $3.1 billion in the fourth quarter.

The average price paid fell from $520 per square foot in the third quarter to $475 per square foot in the fourth quarter.

The number of transactions was unchanged at 60.

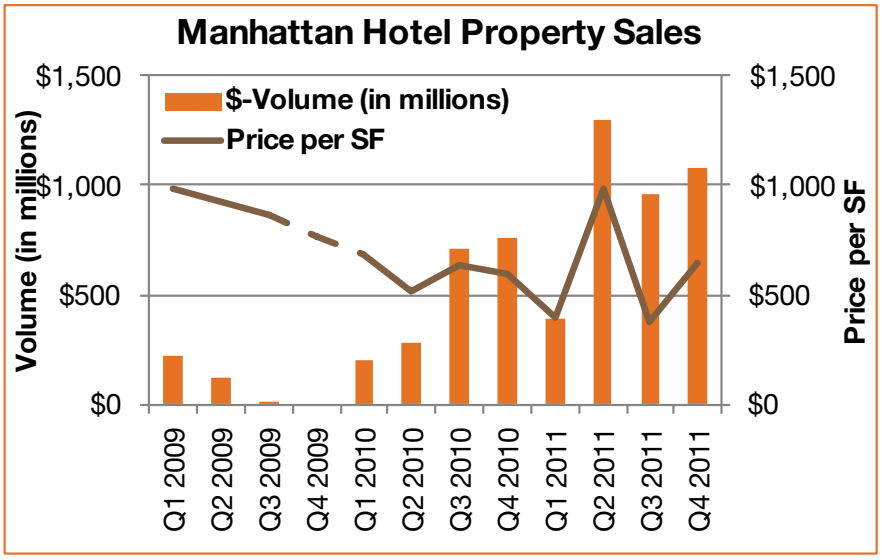
The number of large ($100 million or more) transactions fell from 11 in the third quarter to 8 in the fourth quarter.



The volume of retail property sales fell to $241 million from $282 million in the third quarter. The number of transactions was unchanged at 16. 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 $1,036 per square foot in the fourth quarter. Last quarter's high price was due to the sale of 1552 Broadway in Times Square.



The volume of hotel sales climbed 13% to $1.08 billion in the fourth quarter.

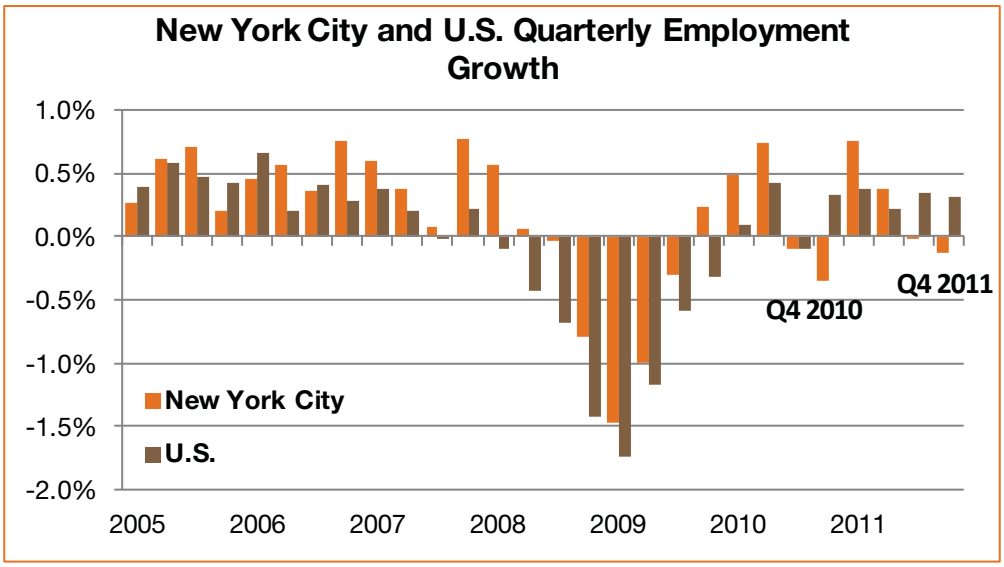
The largest sale was the Park Central at 870 Seventh Avenue that traded for close to $400 million. Also, RFR Realty purchased the Paramount Hotel at 135 West 46th Street for $275 million. Finally, Felcor Lodging bought the Knickerbocker Hotel at 1466 Broadway for $115 million.

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

These disappointing fourth quarter results that followed two strong quarters show that negative news affects the broader real estate market with a lag. That is, the seeds of global economic uncertainty had been planted last summer when the focus was on the stalled U.S. debt ceiling negotiations. Investors started to pull back interest then and signed contracts declined. But sentiment fell even further in the fourth quarter as Europe released reports of debt crises in several countries. All of this negative news yielded fewer closings last quarter. While the reports from Europe change by the day, we expect the U.S. economy to continue to improve steadily, which will yield higher sales volume in the quarters to come.

Employment

New York City lost 4,900 jobs in the final quarter of 2011, after adding 42,000 jobs in the first half of 2011 and no jobs in the third quarter. While these losses are disappointing, we had foretold this decline last quarter when the pattern of job growth in 2011 clearly started to resemble that of 2010: strong growth in the first two quarters, followed by a flat third quarter and then losses in the fourth quarter. While we seasonally adjust the raw employment data from the Labor Department to smooth out these seasonal patterns, we recognize that there may be other complications in the local data that we are unable to account for. Note how the city's quarterly growth/loss pattern contrasts the smoother U.S. growth trend in the chart below.



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

Oddly, the industry with the heaviest losses was private education that lost 5,700 jobs in the fourth quarter after adding 14,300 jobs in the first three quarters. We do not expect this industry to shed many more jobs in 2012 given how many universities, private schools and even preschools are expanding in the city.

Of greater importance is the loss of 3,000 securities jobs in the fourth quarter. With recent announcements of weak fourth quarter earnings and concerns with Europe, the securities industry could lose 5,000 or more jobs in 2012. Other industries with losses include real estate which lost 2,700 jobs in the fourth quarter, construction (-2,200 jobs), film and sound recording (-2,000) and commercial banking (-800). On a brighter note, retail trade added 2,800 jobs, social services added 2,200 jobs, arts/ entertainment/recreation services added 2,100 jobs and health services added 1,400 jobs.

New York City and U.S. Employment Changes in 2011 (Ranked By New York City Growth or Loss)									
Biggest Gainers In 2011					Biggest Losers In 2011				
Industry	New York City		U.S.		Industry	New York City		U.S.	
Retail Trade	13,300	4.5%	239,700	1.7%	Construction	-4,500	-4.2%	46,000	0.8%
Educational Services	8,600	4.9%	76,300	2.4%	Other Manufacturing	-2,800	-4.7%	228,700	2.0%
Food Services and Drinking Places	6,900	3.2%	230,400	2.4%	Federal Government	-2,100	-3.9%	-36,000	-1.3%
Accounting	5,700	13.3%	61,400	7.0%	Publishing	-2,000	-4.3%	-3,900	-0.5%
Advertising and Public Relations	3,900	7.2%	N/A		Securities	-2,000	-1.2%	-700	-0.1%
Management Consulting	2,800	8.5%	60,900	6.0%	Health Services	-1,200	-0.3%	314,700	2.3%
Wholesale Trade	2,500	1.8%	84,400	1.5%	Apparel Manufacturing	-1,100	-6.7%	-3,700	-2.3%
Social Services	2,500	1.5%	35,600	1.3%	State Government	-900	-1.9%	-63,000	-1.2%
Air Transportation	1,400	5.2%	5,000	1.1%	Telecommunications	-800	-3.8%	-44,600	-5.1%
Real Estate	1,300	1.1%	13,300	0.7%	Banking	-800	-0.9%	3,100	0.1%
Arts, Entertainment, Recreation	1,100	1.7%	-5,400	-0.3%	Insurance	-600	-1.1%	-8,600	-0.4%
Employment Services	1,000	1.5%	113,100	4.0%	Legal Services	-600	-0.8%	-2,700	-0.2%
Local Government	1,000	0.2%	-181,000	-1.3%	Broadcasting	-500	-1.8%	-3,000	-1.0%

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

Where New York City is diverging from the national trend is in construction, manufacturing and transportation—three solid blue collar industries that are still losing jobs in the city while they are adding jobs nationally. The national construction industry lost 5,000 jobs in the fourth quarter but added 46,000 jobs (net) in 2011. Combined, the manufacturing and transportation industries added nearly 100,000 *national* jobs in the fourth quarter and 300,000 jobs in 2011. In New York City, these two industries shed nearly 5,000 jobs in all of 2011.

While New York City's tourism industries had been adding jobs at a much faster rate than the U.S. over the last three years, the city's tourism rate of growth slowed in the fourth quarter. In fact, it appears that most of New York City's economy is growing at a slightly slower rate of growth than that of the U.S., which is in contrast to the city's status in 2007 through 2010. Moreover, there remains significant uncertainty for 2012 as many expect Wall Street to downsize which would have a ripple effect on a number of industries including commercial real estate.

Still there is much to be optimistic about given the progress made on the Mayor's selection of Cornell University to build an engineering campus on Roosevelt's Island. This new campus along with the expansion at Columbia University and New York University will attract both academics and students to New York to study, do research and start technology businesses. A number of technology-related businesses have already been sprouting in Manhattan's Flat Iron district and nearby as the leasing statistics below show.

As for the immediate outlook on jobs, we believe that job growth will remain positive in 2012 and that the city will track the national growth trend for most of the year.

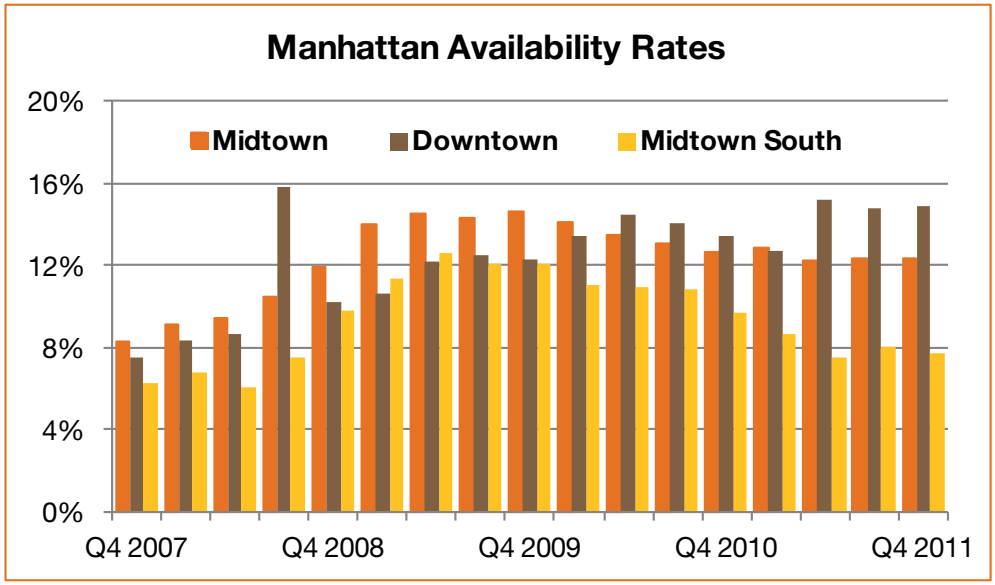
Office Leasing Market

Office leasing activity had started to slow in the second half of 2011 after two strong quarters. However, overall office availability declined in the fourth quarter from 12.3% to 12.2% due to lower availability in Midtown South.

The chart below shows how availability in Midtown South has dropped consistently over the last two years as more and more technology firms chose to lease space and expand in this area. Like financial firms, technology firms seem to move in herds or so the recent leasing activity of Tumblr, Foursquare and others that have leased space in Midtown South would suggest.

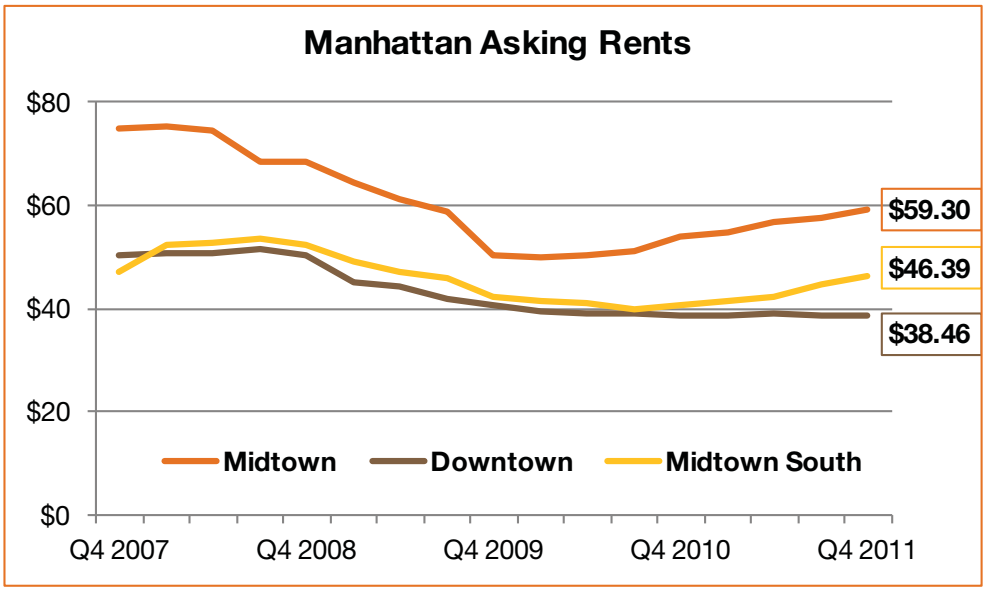
Many will remember the appeal that Midtown South had back in the late 1990s when dot-com firms started businesses there. While few of these early pioneers (Kozmo.com, for example) still exist, the appeal of the area to those entrepreneurs who prefer the older, loftier buildings to Downtown and Midtown's more corporate locales remains the same today. Moreover, Google's purchase of 111 Eighth Avenue more than a year ago seemed to have solidified this area as a tech hub.

While few Midtown South leases have been for more than 100,000 square feet, the activity has brought availability down to less than 8% in the area. This contrasts with Downtown where availability has stalled at more than 15% and Midtown where the availability rate was unchanged at 12.4%.



Source: Eastern Consolidated and CoStar

Given its popularity, Midtown South has seen rents climb in the last few quarters, but the average rent in Midtown increased also, to $59.30 from $57.50 per square foot at the end of the third quarter. The increase was due to the addition of premium space on the market, some of which is listed in the table below.



Source: Eastern Consolidated and CoStar

As shown in the table below, a number of new listings were placed on the market in Midtown, but absorption was highest there as well.

Summary Of Changes In Availability By Submarket	
Added Space In Downtown	271,300 Square Feet (Direct) At 55 Water Street 170,400 Square Feet (Direct) At 1 World Financial Center
Absorption In Downtown	127,300 Square Feet (Direct) At 26 Broadway 157,500 Square Feet (Direct) At 40 Wall Street 132,100 Square Feet (Direct) At 156 William Street
Added Space In Midtown	536,600 Square Feet (Direct) At 1221 Avenue Of The Americas 216,300 Square Feet (Direct) At 9 West 57th Street
Absorption In Midtown	185,100 Square Feet (Sublet From Li & Fung) At 1359 Broadway 209,400 Square Feet (Direct) At 452 Fifth Avenue 183,250 Square Feet (Direct And Sublet) At 330 Madison Avenue
Added Space In Midtown South	124,760 Square Feet (Direct) At 3 Columbus Circle 198,000 Square Feet (Direct) At 28 West 23rd Street
Absorption In Midtown South	125,000 Square Feet (Sublet) At 105 East 17th Street 65,200 Square Feet (Sublet) At 150 Fifth Avenue

Conclusion

With all of the hysteria in the market last summer and early fall, it was inevitable that the economy would downshift a bit. The commercial property sales data shows that the appetite for large buildings was tepid in the fourth quarter as a number of investors are waiting until some clearer resolution in Europe. Still, activity for small and midsize sales was just as strong in the fourth quarter as it was in the two prior quarters and leasing activity for midsize firms, especially those in technology-related sectors, was robust as well.

While on the surface, the decline in employment would normally raise concerns that New York City could be headed for the dreaded “double dip” recession, we see the recent losses as further evidence of an erratic job growth pattern that we had seen last year as well.

Moreover, recall that when 2011 started, many were concerned that the unrest in the Middle East would push up oil prices that would derail the global as well as the national recovery. The earthquake in Japan was also foremost on many people’s minds because few knew what impact it would have on international trade. Yet in the ensuing six months, the city added 42,000 jobs. A year later, those concerns seem very remote while uncertainty about Europe has increased, and the city’s job growth has stalled.

In other words, anything could happen in the next few months. If Greece, the European Central Bank and European banks agree to the bail-out now under discussion, many investors along with Wall Street will likely breathe a sigh of relief that the crisis has been contained and investment and other economic activity could accelerate. There are many solid signs that the national economy will continue to improve and New York City’s will too if the news from Europe remains quiet.

Indeed, New York City’s investment market could benefit from the European crisis and, likely, already has. The Wall Street Journal reported that in the past two weeks, $6.4 billion of global investor money has flowed into U.S. stock funds, as European stock funds have seen a $1.5 billion decline. This trend, reported by EPFR Global, had started in early December. This suggests that other investors are shifting focus away from European real estate and towards the U.S. including New York City.

The biggest outstanding issue that will keep a lid on financial services job growth in New York City remains the Dodd-Frank regulations that have yet to be implemented as so many are lobbying the cause on both sides. Already the regulations seem complicated and opaque which is counterproductive to the original purpose of the law which was not only to rein in complex proprietary trading but to create transparency for borrowers and consumers. It is unclear at this point when Dodd-Frank will be finalized and what it will look like. The lack of clarity will continue to hinder the recovery.

That said, we do not subscribe to the bleak forecast that others have expressed for New York City. It is important to note that many who have aired a negative forecast for New York City in 2012-2013, claiming that securities could lose as many as 10,000 jobs, also claimed dire forecasts after Lehman Brothers crashed in 2008. Some asserted that Wall Street would lose 50,000 jobs in 2009-2010, but the city lost less than 30,000 Wall Street jobs. Their pessimism then was unfounded as it is again today.

In short, New York City’s economy is in a holding pattern. We expect the city to add jobs in 2012, but at a similarly uneven rate as it did in 2011, while commercial property sales volume should remain healthy, especially for the small and mid-size investor.

— Barbara Byrne Denham, Chief Economist, Eastern Consolidated