EASTERN CONSOLIDATED
Real estate investment services

Manhattan Economic Indicators

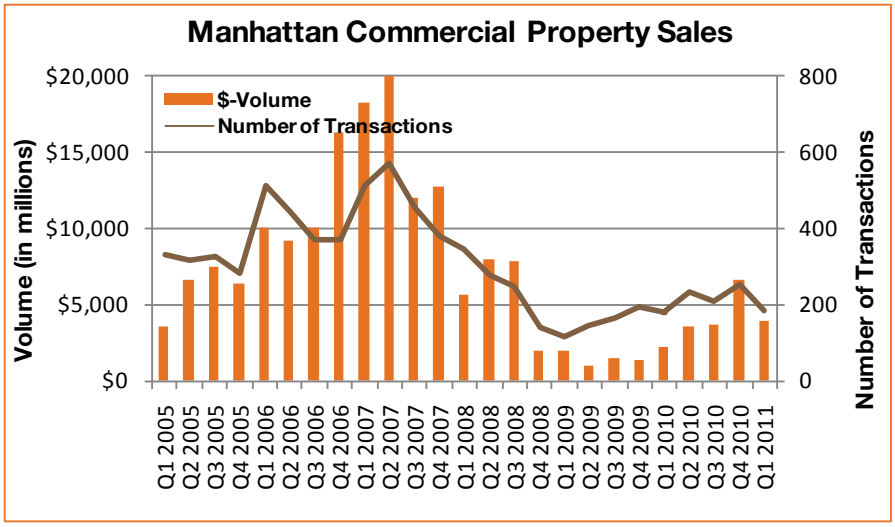
While commercial property sales volume dropped significantly in the first quarter, most of the other economic statistics for New York City showed promise as employment jumped in the quarter and office vacancy rates declined. Still a number of recent announcements from finance firms suggest that Wall Street is not out of the woods yet, and news from the national economy is underwhelming as well. The greatest uncertainty comes from abroad as fallout from Japan's earthquake has affected global trade and the crisis in the Middle East has sent oil prices through the roof. Nevertheless, the spattering of good news is enough to stay optimistic about the local economy in the near term.

As per Peter Hauspurg, Chairman and CEO, "Business slowed in the first quarter after a strong fourth quarter but there is enough in the pipeline to remain hopeful that 2011 will outpace 2010 for the year."

Property Sales Volume

The upward momentum in Manhattan's commercial property sales market slowed in the first quarter as $3.9 billion in sales were closed following over $6.6 billion in the fourth quarter of 2010. A number of investors rushed to close deals in the fourth quarter of last year for fear that the capital gains tax would jump in 2011. The capital gains tax was left unchanged but the tax bill was not signed until mid December by which time most closings were already in the works.

The enclosed report shows how the property sales market fared by property type. Most of the results show a downward tick compared to last quarter, but this is to be expected given the flurry of activity at the end of 2010.

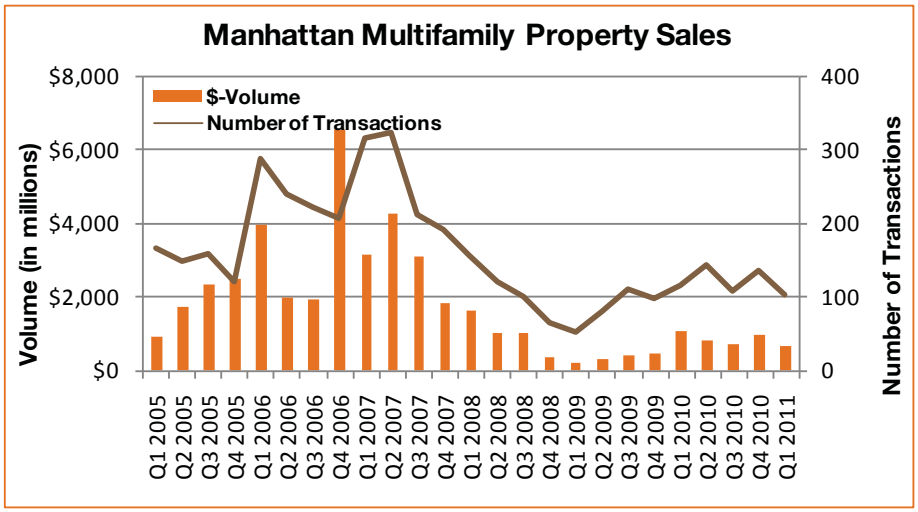


Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance

The fourth quarter 2010 volume was boosted by Google's $1.77 billion purchase of 111 Eighth Avenue. Had it not been for that sale, volume would have been $4.9 billion which was 26% higher than the first quarter 2011 volume of $3.9 billion.

The number of transactions fell to 184, the lowest number since Q1 2010.

Multifamily



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

The volume of multifamily property sales was $676 million, down from $966 million last quarter and a quarterly average of $893 million in 2010.

The number of transactions fell to 103 from 134 in the fourth quarter of 2010.

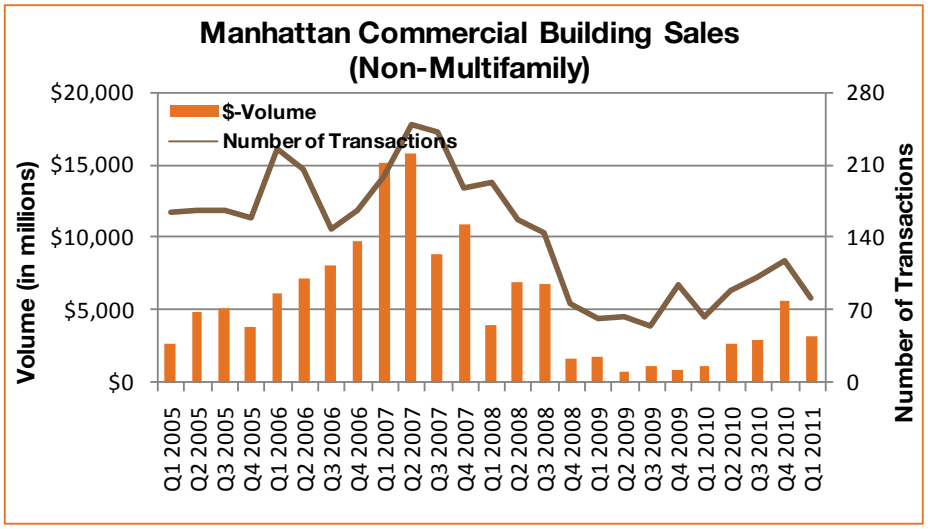
The average price paid for **multifamily** properties was $389 per square foot, down from $402 in the fourth quarter of 2010 but above every other quarter in 2009 and 2010.

The largest multifamily sale was INVESCO's purchase of 290 Third Avenue for $122.5 million. The sale that works out to $676 per square foot was the only multifamily transaction for more than $100 million in the quarter.

Non-Multifamily

As shown in the chart below, the volume of **non-multifamily** properties was $3.2 billion which was in line with the second and third quarters of 2010. The largest transaction in the quarter was the sale of 1 Park Avenue for $374 million. Vornado Realty Trust in a co-investment with its real estate fund acquired a 95% interest from Murray Hill Properties.

The other noteworthy acquisition was retail firm Inditex's purchase of a 38,750-retail condo at 666 Fifth Avenue. This former NBA space is one of the most coveted retail locations in the Plaza district. According to its press release, the user-buyer plans to open a flagship Zara retail clothing store in the space.

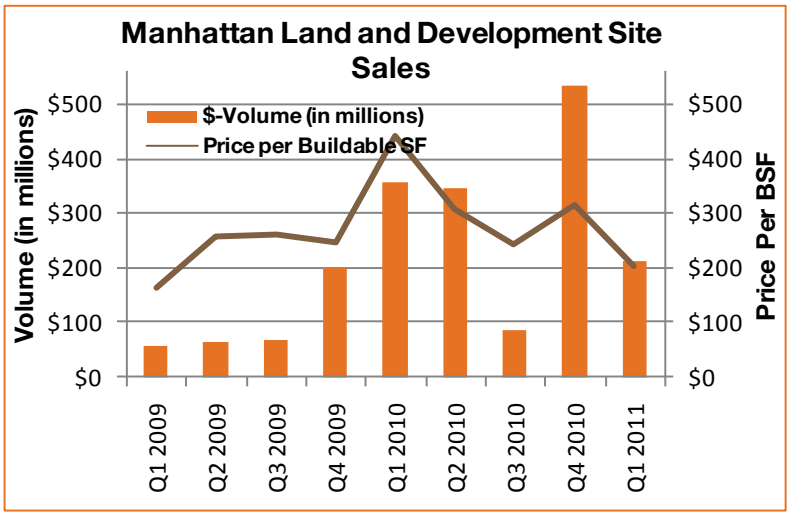


Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance

The number of transactions fell to 81 in the first quarter from 117 in the fourth quarter of 2010.

These numbers are often revised as transaction data is recorded sometimes weeks after the quarter closes, but these results show that the market indeed took a breather in most property types following a surge at the end of 2010.

While the first quarter was a sharp retreat following last quarter's growth, the pace of the recovery in 2011 is still expected to outpace that of 2010. The results by property type are mixed as shown below. Only retail property sales had an increase in volume in the first quarter.

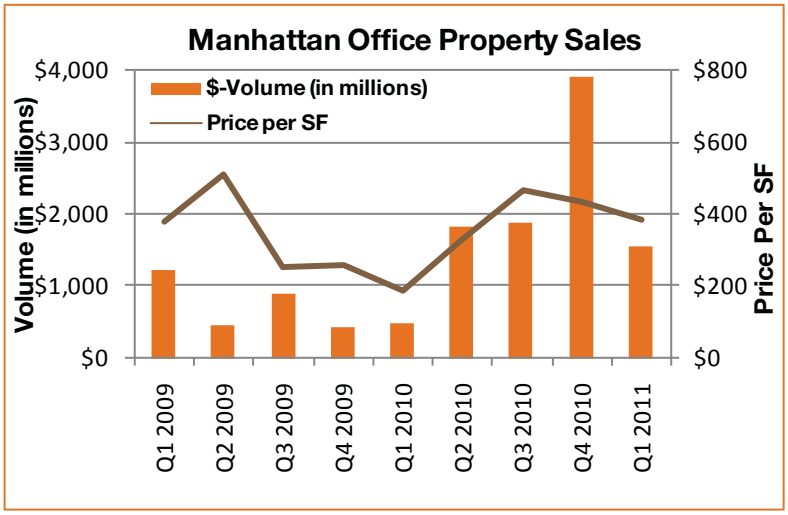


Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance

Development site sales fell to $212 million from over $500 million in the fourth quarter of 2010.

The largest sale in the quarter was the $125 million sale of 150-160 West 62nd Street. Glenwood Management bought the site to build a high-rise residential tower that is part of Fordham University's development program.

The average price paid in the quarter fell to $204 per buildable square foot from last quarter's average of $315. This was due to the location of the land sales; that is, more were in Upper and Lower Manhattan, fewer were in Midtown.

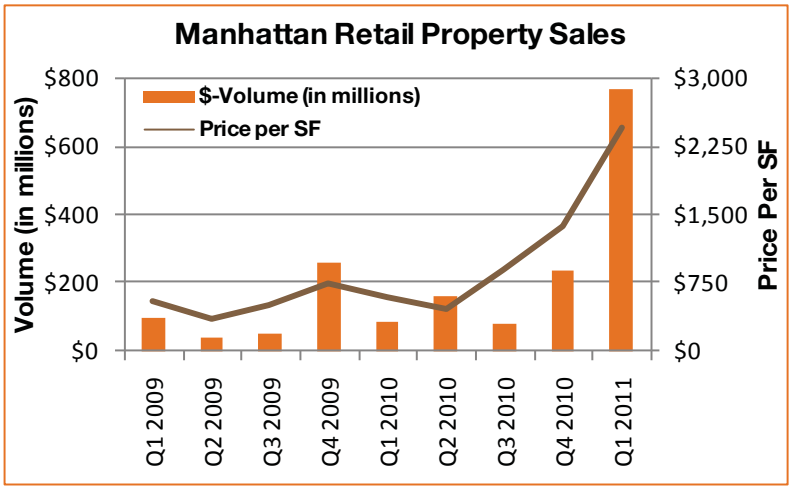


Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance

The volume of office transactions declined to $1.57 billion from $3.9 billion in the fourth quarter of 2010, but 45% of this fourth quarter volume was attributed to 111 Eighth Avenue. Netting out this transaction puts the first quarter volume 27% below the fourth quarter but in line with the second and third quarter numbers.

The average price paid was little changed at just under $400 per square foot.

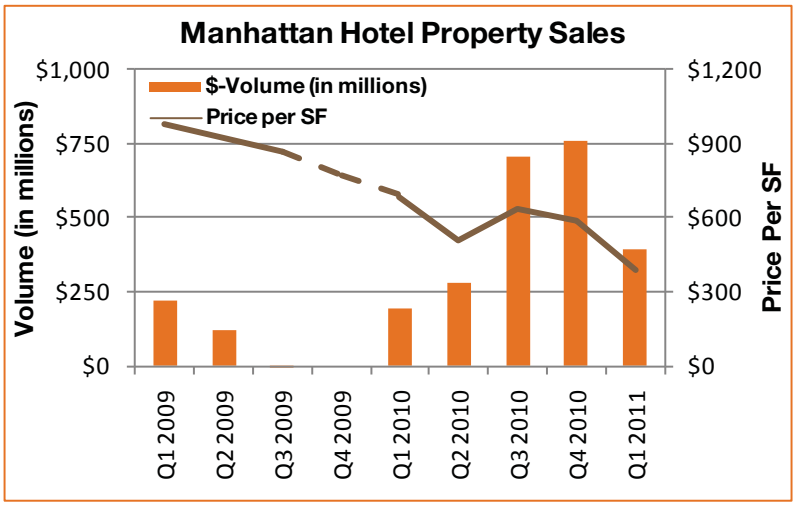
The number of transactions fell to 38 from 54 in the previous quarter.



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

The volume of retail property sales jumped in the quarter due largely to the retail condo at 666 Fifth Avenue. This sale pushed the average price paid to $1,754 per square foot in the quarter from $2,480 in the prior quarter.

In another significant transaction, Forest City Enterprises sold a 49% interest in their retail properties to Madison International Realty for $851.5 million. The 15-property portfolio is spread across New York City with two properties in Manhattan: 234 West 42nd Street, a prime retail building in the heart of Times Square, and Harlem Center at 125 West 125th Street.



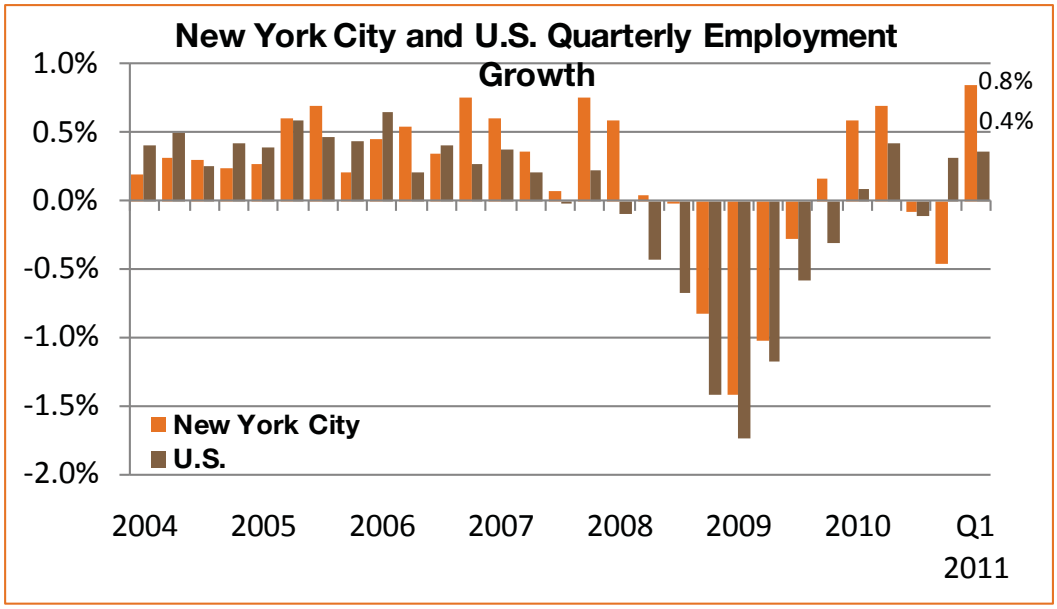
Source: Eastern Consolidated, Property Shark, CoStar and New York City Department of Finance

The volume of hotel sales fell to $395 million from $760 million in the fourth quarter of 2010 and $710 in the third quarter. The average price declined to $390 from just under $600 per square foot. A year ago, volume was $283 million.

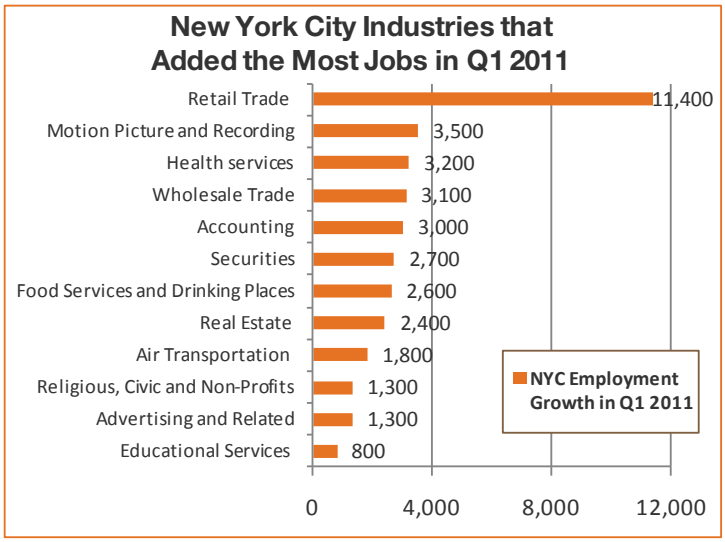
There were only four hotel sales in the quarter including the New York Helmsley Hotel at 212 East 42nd Street. The hotel that had been owned by the Helmsley Charitable Trust traded for $313.5 million or $624 per square foot.

New York City Employment

Driven by gains in retail, film and health services, New York City added 31,100 jobs in the first quarter, a growth rate of 0.8%. As shown in the chart below, this was the strongest rate of growth since 2008 and far exceeded the rate of growth at the national level, 0.4%. However, in last quarter's report we mentioned that New York City has consistently posted employment losses in the fourth quarter followed by gains in the first quarter, as it did this year. In this recent period, the net growth for the last two quarters was 13,900 jobs or 0.4%. The net employment growth rate for the U.S. for the last two quarters was 0.7%. With the exception of the fourth quarter 2010, New York City's employment growth rate exceeded that of the U.S. since the end of 2009. Likewise, its rate of loss during the recession was lower in every quarter starting in early 2007.



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

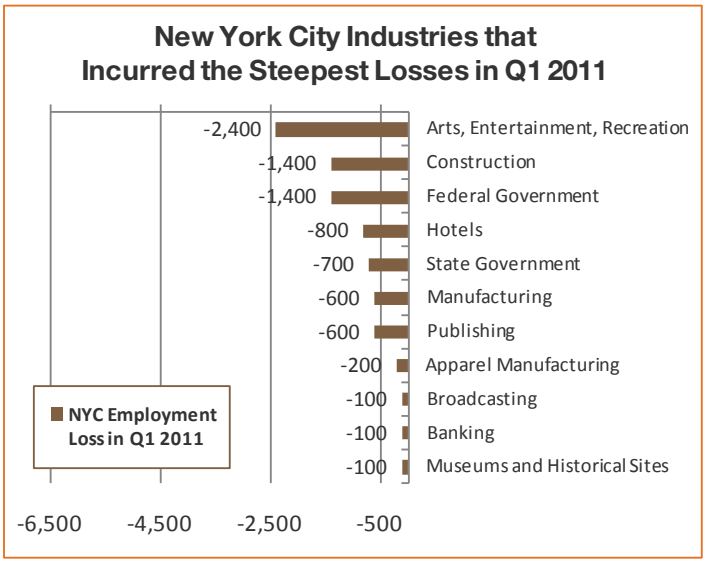


Source: Eastern Consolidated, NYS Department of Labor and the U.S. Bureau of Labor Statistics

More than one-third of the jobs added in the first quarter were retail jobs. This industry had already added back all of the jobs lost in the recession. Since April 2009, retailers have added 19,400 jobs, a growth rate of 7%.

A quick look at the recent tourism statistics for New York City reveals why retailers have grown. In 2010, New York City filled 25.67 million hotel rooms, a jump of 16.5% from 2005. The overall occupancy rate was 84.7% for the year and the average hotel room rate was $255 which was down from 2007 and 2008, but higher than that of 2009: $237.

Based on these statistics from NYC & Company, the total derived hotel room inventory was 83,026 in 2010, up from 70,250 in 2005, a growth of 18% in hotel rooms. Indeed, New York City has added more than 30 hotels over the last two years alone as developers have built boutique hotels as well as limited service hotel chains to fill this demand.



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

What contradicts this obvious growth in tourism is the reported loss of 800 hotel jobs in the first quarter as shown in the losses chart. In fact, hotels have only added 2,300 jobs since 2005. This lack of growth could be a data collection problem from the Labor department as tracking down new business hiring is difficult.

Losses in arts, entertainment and recreation also seem puzzling given the rise in tourism. In sum, we do not anticipate these losses to continue as the strength in tourism does not appear to be threatened in the near future.

Another industry that has issued conflicting reports is the finance and banking sector. In the same week that J.P. Morgan announced that its Chase Home Lending group plans to add 2,000 to 3,000 employees to "create a separate unit to handle troubled mortgages and strengthen its internal controls," Wells Fargo announced layoff plans of 4,500. Moreover, first quarter earnings were disappointing at most firms as trading revenues dropped from a year earlier. This suggests that growth in securities and banking employment should be slow for the year. Most new hires will likely be attributed to compliance concerns stemming from last year's Dodd-Frank Regulatory Bill that imposed stricter capital and other regulatory requirements on banking. The implementation of this bill has yet to be determined as regulatory agencies such as the SEC, Financial Industry Regulatory Authority (FINRA, formerly the National Association of Securities Dealers) and the FDIC work out the details of the program.

That said a number of anecdotal reports on the strength of the city's economy point to a number of industries that should continue to add jobs. Namely, film and sound recording has posted strong employment gains as more pilots have been shot on the city's sound stages. Likewise, technology-related firms from start-ups to powerhouses like Google have been expanding in the city. Finally, Bloomberg, Inc. has announced that it is adding lawyers to build a legal services platform and as many as 500 technology-related jobs.

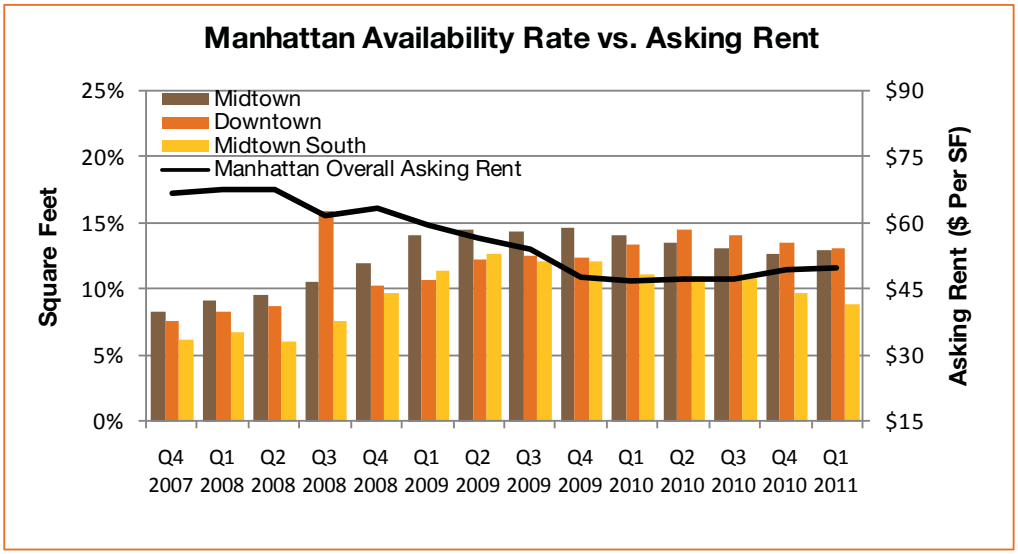
In sum, outside of government and the construction industry – the losses in which should be coming to an end soon – the city's economy is on solid footing. Growth may not be stellar for the year, but it should exceed 50,000 jobs.

Office

Following a strong fourth quarter, the Manhattan office market saw only moderate improvement in the first quarter as the overall availability rate declined from 12.4% to 12.3%. Only Midtown South saw a noticeable improvement in the quarter as its availability rate declined to 8.9% from 9.7%.

Availability declined in Downtown from 13.5% at the end of 2010 to 13.1% at the end of March. Few new listings were added to the market in the first quarter but two large leases were signed: WilmerHale, a law firm, leased 210,000 square feet in 7 World Trade Center and The Financial Industry Regulatory Authority (FINRA) subleased 204,000 square feet from Dow Jones that had moved to Midtown two years ago.

In Midtown, Bloomberg, Inc. signed a 325,000 square foot lease at 120 Park Avenue. But availability went up as 612,000 square feet was recently added to the market at 685 Third Avenue. Pfizer had occupied the space but is consolidating its real estate holdings. TIAA-CREF had purchased the building from Pfizer in August 2010 for $190 million, but in March it sold a 49% interest in the building to Australia-based Future Fund Board of Guardians for $100,332,537 or $307 per square foot.



Source: Eastern Consolidated and CoStar

The overall asking rent increased to $49.81 per square foot from $49.16 per square foot. The increase was largely due to the rent change in Midtown South from $41.20 to $42.27 per square foot. Midtown and Downtown posted a marginal increase in rent.

	Available Sublease Space		Total Available Sublease Space As A% of Total		Total Availability Rate		Asking Rent	
	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010
Midtown	35,903,185	39,296,388	22%	28%	12.9%	14.1%	$55.15	$50.15
Downtown	13,274,908	13,557,421	13%	19%	13.1%	13.4%	$38.66	$39.56
Midtown South	5,761,539	7,054,666	19%	23%	8.9%	11.0%	$42.27	$41.42
Manhattan	54,939,632	59,908,475	20%	25%	12.3%	13.5%	$49.81	$46.73

Source: Eastern Consolidated and CoStar

The chart above shows how the availability rate has declined considerably over the last year from 13.5% to 12.3%. Likewise, the asking rent has increased by 6.6% to just under $50 per square foot. While leasing was strong in the fourth quarter, it has slowed thus far in 2011. A number of leases are in negotiations and a few large tenants are in the market for new or expanding space. Still, the news from Wall Street suggests that it will not be leasing aggressively in the next year. Office employment is starting to grow but at a very tepid pace and most of the growth is in temporary employment which can be very ambiguous. In sum, we expect the office market to continue to improve but at a slow pace.

Conclusion

Last quarter we reported strong commercial property sales and employment losses. This quarter, the statistics flipped: employment growth was strong but the commercial sales market sank. The office market held steady but decelerated, while tourism soared and has nearly carried the city out of the recession. All of this suggests that New York City's economy has emerged from the recession but it has been and will continue to be a bumpy ride.

What will continue to be a drag on the city's economy is not only the slow rate of growth at the national level but stronger headwinds from the global economy. Last quarter the biggest concerns stemmed from Europe's financial crisis, but now the worst news includes continued turmoil in the Middle East that has pushed oil prices up more than 20% since the start of the year and the Earthquake and Tsunami in Japan that has disrupted supply chains.

The impact from the tragedy in Japan has been difficult to estimate on a macro level, but higher oil prices will put pressure on both inflation and interest rates. This will not only reduce consumer confidence but will forestall the already slow national recovery underway. Higher interest rates are especially bad for the banking sector as banks are forced to pay higher rates on deposits and other interest bearing accounts while at the same time, consumer demand for mortgages and other loan products declines as borrowing becomes more expensive.

In short, the clouds of uncertainty have gotten thicker since last quarter, but there still remains enough positive news in the local economy to stay optimistic. First, tourism should continue to thrive in New York City. Higher oil prices could actually be positive for New York as higher airline prices could shift travelers' plans from elsewhere to New York. Despite fears that healthcare reform would hurt the health services industry, it continues to add jobs nearly every month. Finally, while local government jobs had declined by more than 10,000 from 2008 through the end of 2010, they have held steady since then. Federal and State government employment is down 5,500 and 3,800 jobs, respectively, from their peak of two years ago.

The brightest news in New York City's economy is the projected growth in higher education. Both New York University and Columbia are working on multi-year (and multi-acre) expansion plans. And the city's economic development officials are trying to woo an engineering graduate program to Brooklyn, Roosevelt Island, Governors Island or Staten Island. Already Stanford University has expressed a strong interest in building a program on Roosevelt Island, but local institutions are interested in securing this free land from the city to expand their own program as well. The hope is that these engineering programs will spur new high-tech development in New York City just as Stanford University's engineers started Silicon Valley and MIT and Harvard have generated new technology companies in Boston.

These plans will take years to materialize but they instill hope that New York City's economy will continue to grow despite uncertainty from Wall Street and the global economy.

— Barbara Byrne Denham, Chief Economist, Eastern Consolidated