Manhattan Commercial Property Sales Report

Second Quarter 2012

Manhattan Commercial Property Sales Volume Holds Steady In 2nd Quarter

Demand Is Strong – Especially For Retail Properties – But Limited Supply Is Constraining Market

Manhattan commercial property sales volume was little changed in the second quarter. At $5.8 billion, it fell just below the volume of the first quarter, $5.9 billion, and was half the volume of the second quarter of 2011 when 16 large office transactions closed for more than $100 million along with five $100 million+ hotels. This past quarter, only 11 office transactions of this size traded. In fact, the bulk of the deals closed in the second quarter were below $50 million.

Highlights of the enclosed report include the following:

- Commercial owners held on to properties despite overwhelming demand from buyers.
- Retail condo market volume more than tripled in the quarter.
- Despite uncertainty in Europe and on Wall Street, New York City's economy continues to thrive due to growth in retail, tourism and tech firms.

Once again, the market stayed quiet in the second quarter due to a lack of available properties. Sellers have been reluctant to put their buildings on the market despite the considerable interest from buyers, strong prices and low interest rates. Even the capital gains tax is currently in sellers' favor because the tax rate could go up in 2013. Yet sellers express some concern that they might not be able to obtain a 1031 exchange that would offer a better opportunity than what they currently own. Moreover, cashing out and putting their money in the stock market is not very appealing given the ongoing situation in Europe. In short, the gap between sellers' supply and buyers' demand has widened and could continue to do so for the rest of the year unless the decision to raise the capital gains tax is made in the next quarter.

As per Peter Hauspurg, Chairman and CEO, "our investor base is aggressively seeking to place money in New York City real estate and is willing to accept the extremely low cap-rate environment. That said, it is unusually difficult this year to uncover quality assets, though some deals are still getting done."

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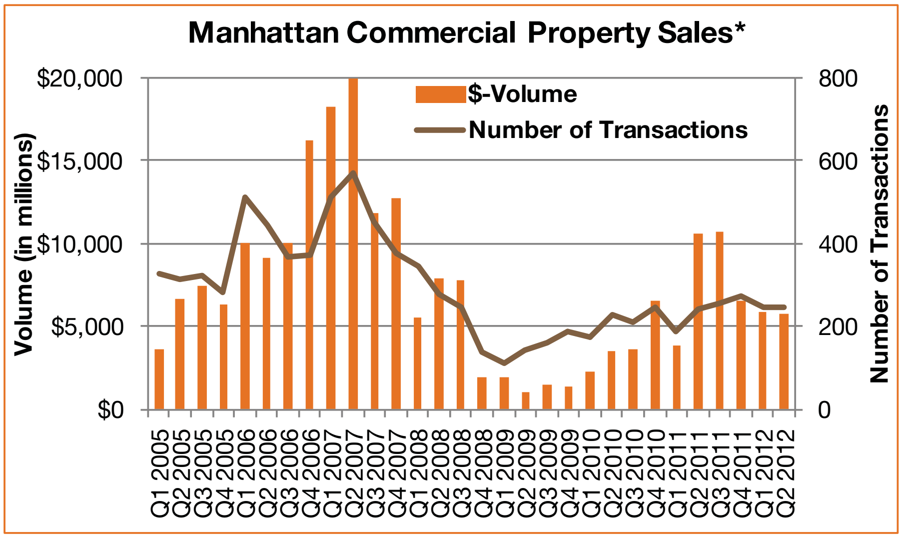

**Preliminary Estimates*
Source: Eastern Consolidated, Property Shark, CoStar and NYC Department of Finance

The total commercial property sales volume fell from $5.9 billion in the first quarter to $5.8 billion in the second quarter, and the number of transactions was little changed at 246.

Prices held steady in nearly every property category. In a few property types, prices increased due to the competition of buyers bidding on listings.

The biggest story in the second quarter was the retail condominium market where volume more than tripled to $710 million from $222 million in the first quarter. Most of this volume was attributed to the Westfield Corporation's acquisition of the 365,000-square-foot retail component of the World Trade Center site that is due to be completed in 2015. The sale was for $612.5 million or $3,356 per square foot.

Our recent Real Estate Forefront report on Manhattan's retail renaissance highlighted how strong the retail market has been in Manhattan. Retail employment growth has fueled New York City's economy over the last two years, helping it emerge from the recession much faster than the U.S. economy. Much of this retail growth can be attributed to tourism growth as more than 50 million visitors came to New York in 2011. The Mayor started to broaden the City's tourism marketing campaign a few years ago, setting up tourism offices in Europe, Canada, Asia and Australia. These efforts have paid off and should continue to do so over the next few years as more people choose to visit New York and shop in stores throughout the City. This influx of travelers will continue to raise retail property values throughout Manhattan and elsewhere in the City.

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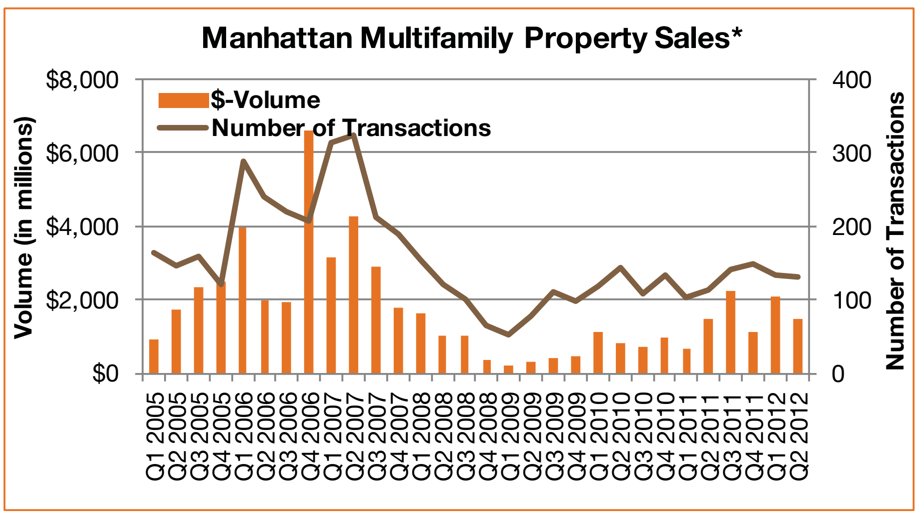
Multifamily

Sales of multifamily properties fell from $2.1 billion in the first quarter to $1.5 billion. The number of transactions was little changed at 135. Fewer large transactions -- those of $100 million or more – were closed in the second quarter. In the first quarter, UDR, Inc. had inked the $630 million sale of Columbus Square that accounted for 30% of the total volume then. The largest multifamily sale in the second quarter involved the sale of the residential portion of 105 West 29th Street for $280 million. Equity residential bought this top half of the building from J.D. Carlisle Development Corp. and DLJ Real Estate Capital Partners. The price works out to just over $1,000 per square foot. This property on a prime Chelsea corner had been built in 2010.



**Preliminary Estimates*
Source: Eastern Consolidated, Property Shark, CoStar and NYC Department of Finance

The average price declined from $440 per square foot in the first quarter to $380 in the second quarter. The higher price in the first quarter was due to UDR's Columbus Square deal. Moreover, most of the transactions closed in the second quarter were in Upper Manhattan where sales prices are generally lower. In fact, the second largest trade in the quarter was for 630 Lenox Avenue -- The Savoy Park. The sale was for $210 million that works out to less than $200 per square foot.

The demand for multifamily properties is at an all-time high as vacancies have plummeted and rents continue to increase in every corner of the City. The projected tax changes slated to take effect in January 2013 could change the market considerably. But until these decisions are made, the market is not likely to accelerate.

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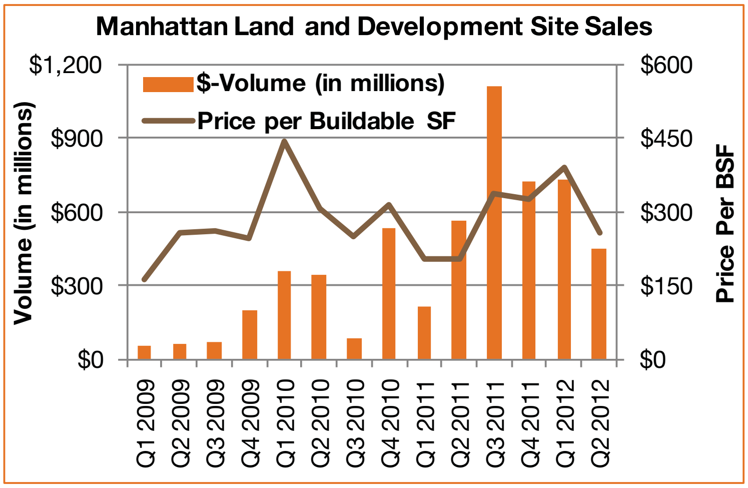
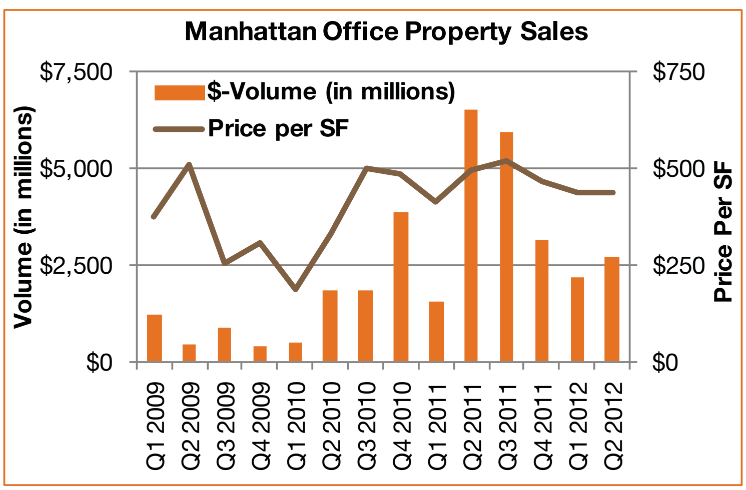


All Q2 2012 Data Is Preliminary
Source: Eastern Consolidated, Property Shark, CoStar and NYC Department of Finance

Development site sales fell from $730 million in the first quarter to $450 million in the second.

The largest sale involved the joint venture to build 7 Bryant Park between Hines Interests LP and Pacolet Milliken Enterprises. The price was $106 million.

Outside of this, only 25 transactions closed in the quarter, down from 30 transactions in the first quarter. The average price paid per buildable square foot declined in the quarter, but this number varies considerably quarter by quarter depending on where sales occur.



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Source: Eastern Consolidated, Property Shark, CoStar and NYC Department of Finance

The volume of office transactions increased from $2.2 billion in the first quarter to $2.7 billion in the second quarter.

The average price paid was unchanged at $440 per square foot.

The number of transactions increased from 50 to 58 in the quarter. The largest sale was for 14 Wall Street that sold for $300 million or just over $300 per square foot. Roza 14W LLC bought the building from Capstone Equities.

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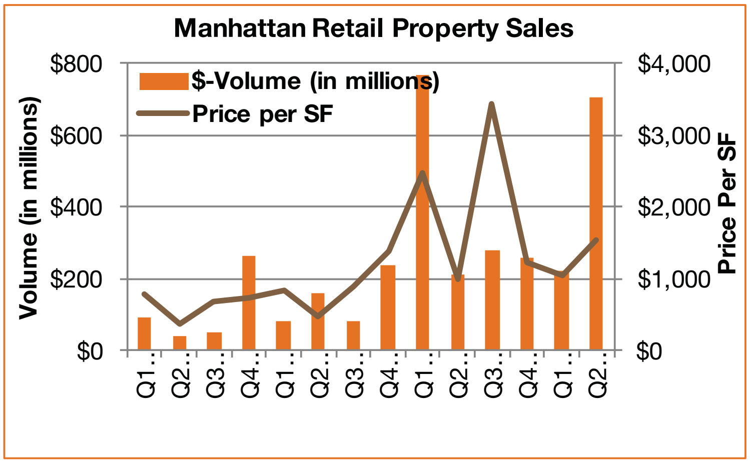

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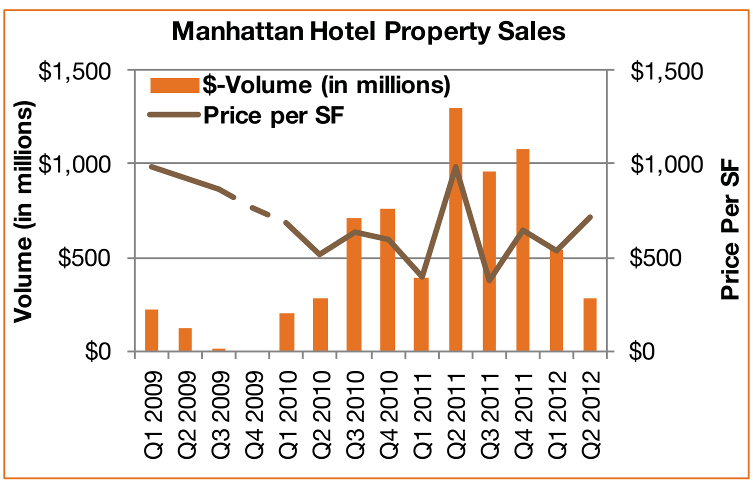
As mentioned above, retail property sales tripled from $222 million in the first quarter to $708 million in the second quarter. The number of transactions was little changed at 20. The average price paid increased from $1,060 per square foot in the first quarter to $1,520 in the second quarter, mainly due to the World Trade Center sale.

Outside of the World Trade Center, no sizable retail property traded in the quarter.



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The volume of hotel sales declined from $540 million in the first quarter to $280 million in the second. The number of transactions, however, was unchanged at 7.

The average price paid increased from $540 per square foot in the first quarter to $710 per square foot in the second.

The largest sale in the first quarter was for the Lola Hotel at 29 East 29th Street on a prime Flatiron District block. The Chetrit Group bought the hotel from Rockpoint Group. The price was $116 million which worked out to just over $800 per square foot.

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Conclusion

The sales market statistics have tracked the office leasing statistics, almost quarter by quarter. But the underlying fundamentals in both markets are polar opposite. Leasing has been flat because of the overall economic uncertainty much of which stems from the situation in Europe. This uncertainty as well as the ongoing regulatory developments and confusion from the Dodd-Frank legislation have kept Wall Street and most other industries from expanding. The lack of leasing demand and slow rent growth should be keeping demand for office properties low, but investors are just as eager to buy office buildings as they are multifamily.

New York City's economy has been stellar of late; job growth has been stronger over the last five months than in any period since the late 1960s. Yet the news from Europe dominates the headlines. In most of the last quarter, the bad news from Europe increased by the week until another temporary respite emerged when Greece elected a new prime minister, Antonis Samaras, in June. This news quelled the market because Samaras was favored by other European leaders since he was widely considered to be pro-reform. Prior to his election, many had feared that Greece might elect to exit the Euro which would have wreaked havoc on a global scale.

The uncertainty from Europe has become more of a constant than a variable, and it should remain so for the next year or so. This should not detract from the positive news in the City's economy which is that tourists continue to visit here, technology firms are expanding here and students from around the world want to study here driving job growth in a number of industries. The outlook for New York's commercial real estate market remains favorable, but the flat overall sales statistics clearly do not convey this.

— Daun Paris, **President, Eastern Consolidated**

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