

Real Estate Forefront

Emerging Developments in the NYC Marketplace, #15

Development Site Sale Prices Return to 2007 High

Manhattan's Development Site Sales Expected to Continue Pace Set in 2010

March 2011

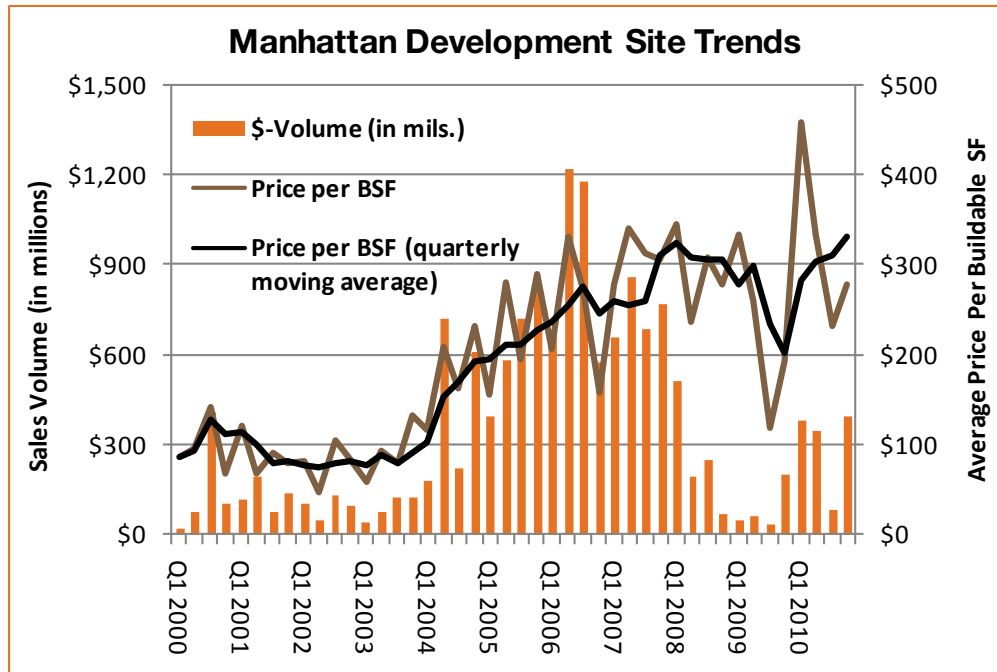


Real estate investment services

The prices paid for development sites in Manhattan accelerated from the start of the last decade through 2007. Development site prices then plummeted in 2009 as did the volume of transactions. In fact, the 2009 land sales correction was sharper than for nearly every other property type. However, while the volume of transactions improved somewhat in 2010, the average price paid per buildable square foot soared back to its highs of 2007-2008 as did the average transaction size.

Estimating the price for the right to develop in Manhattan can be elusive due to the varying nature of development site sales and the difficulty in tackling the buildable square footage. Eastern Consolidated compiled a comprehensive list of all development site sales – including major conversions and air rights – in Manhattan over an eleven year period. This analysis took three years to compile and captured over 1,050 transactions. The analysis shows that the price for the right to build escalated over the last decade from a low of \$75 per buildable square foot in 2002 to a high of \$321 per buildable square foot in the first quarter of 2008.

As shown in the chart below the average price for the right to build sank rapidly from that high to below \$200 per buildable square foot at the end of 2009 but then jumped to an average of \$330 per square foot in 2010. As per Peter Hauspurg, Chairman and CEO, “None of us here would have ever predicted in the dark days of 2009 that we would sell as many development sites in 2010 as we did and at prices seen as recently as 2008.”

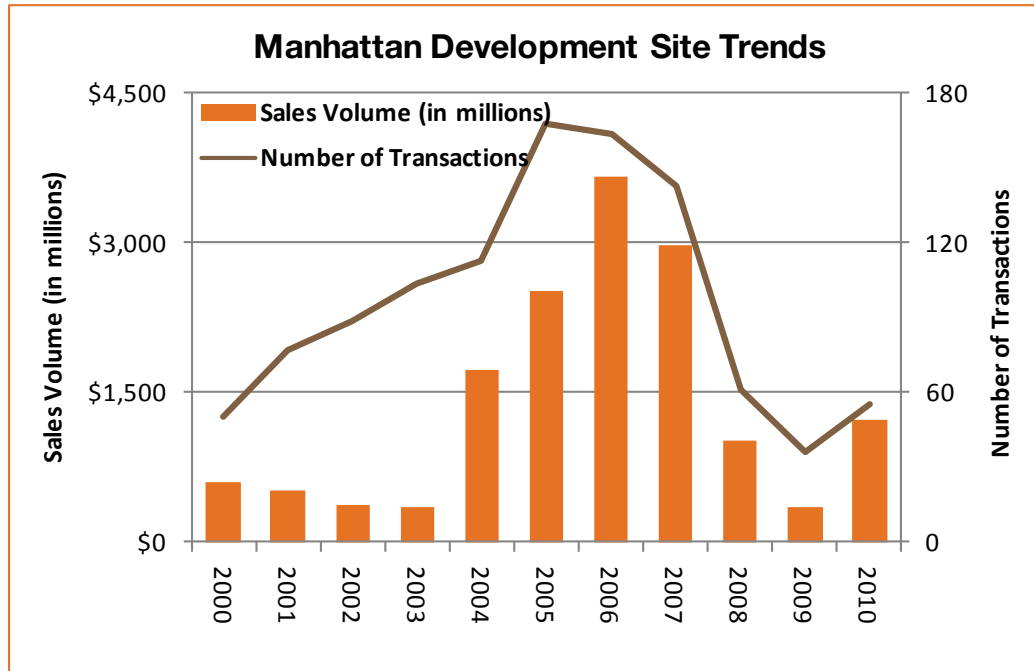


Source: Eastern Consolidated, CoStar, Property Shark and the NYC Department of Finance

It should be noted, however, that the average prices paid per buildable square foot in 2009 and 2010 were based on a smaller set of transactions that were in very different neighborhoods. That is, a handful of Upper Manhattan transactions weighed heavily in the lower 2009 average while a handful of larger transactions in the Plaza district weighed heavily in the higher 2010 average.

These include CIM Group’s purchase of the development site at 434 Park Avenue for \$305 million or \$509 per buildable square foot followed by their subsequent purchase of 46 East 57th Street for \$42.5 million. CIM Group, a frequent buyer of distressed property is assembling properties to build on what had been the Drake hotel site. Naturally this higher price was due to the site’s prime Plaza district location at the corner of East 57th Street and Park Avenue.

As seen in the chart below, the dollar volume of sales climbed more rapidly than the number of transactions. In other words, the average transaction size grew sharply over time. In 2000, the average transaction size was \$12 million but fell to \$3.5 million by 2003. By 2006 it had jumped to \$22 million but then fell below \$10 million in 2009. Then in 2010, it more than doubled to \$22.5 million.



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

Year	Sales Volume (In \$Millions)	Number of Transactions	Average Transaction Size
2000	\$612	50	\$12,244,400
2001	\$523	77	\$6,797,877
2002	\$375	89	\$4,212,428
2003	\$359	104	\$3,454,123
2004	\$1,732	113	\$15,323,677
2005	\$2,515	168	\$14,972,640
2006	\$3,661	164	\$22,322,443
2007	\$2,980	143	\$20,837,848
2008	\$1,022	61	\$16,757,187
2009	\$347	35	\$9,905,852
2010	\$1,204	54	\$22,296,676

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

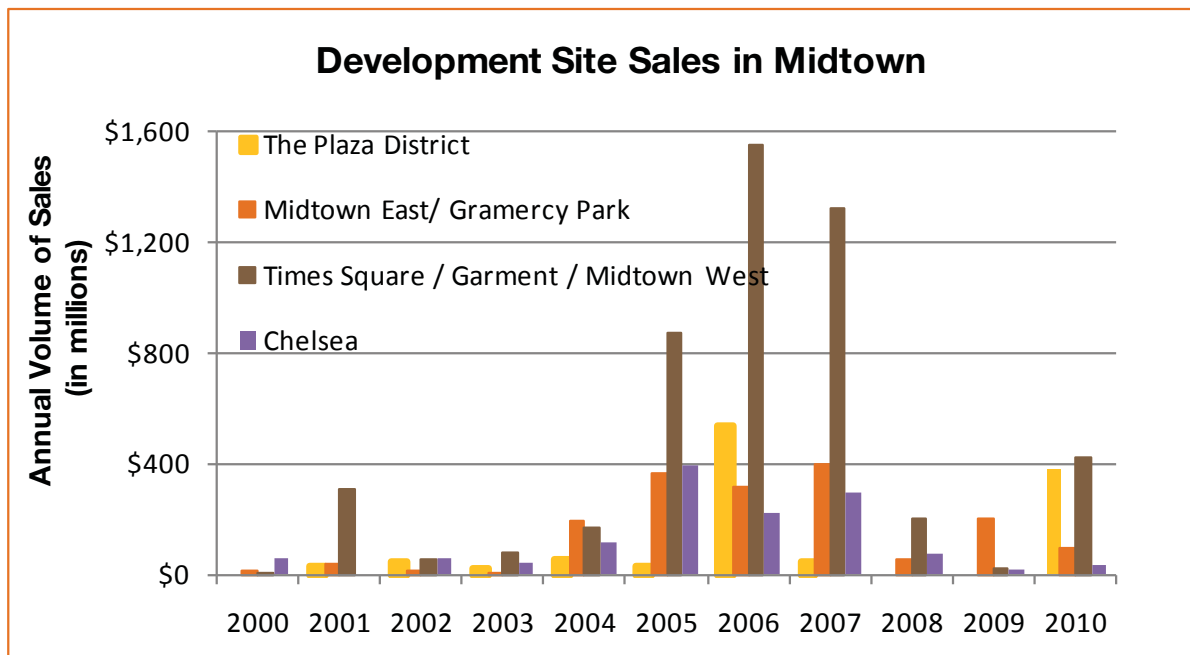
The average price per buildable square foot can vary considerably based on location. The enclosed analysis provides the numbers and shows that indeed the price paid for the right to develop property in Manhattan differed significantly by neighborhood.

Midtown

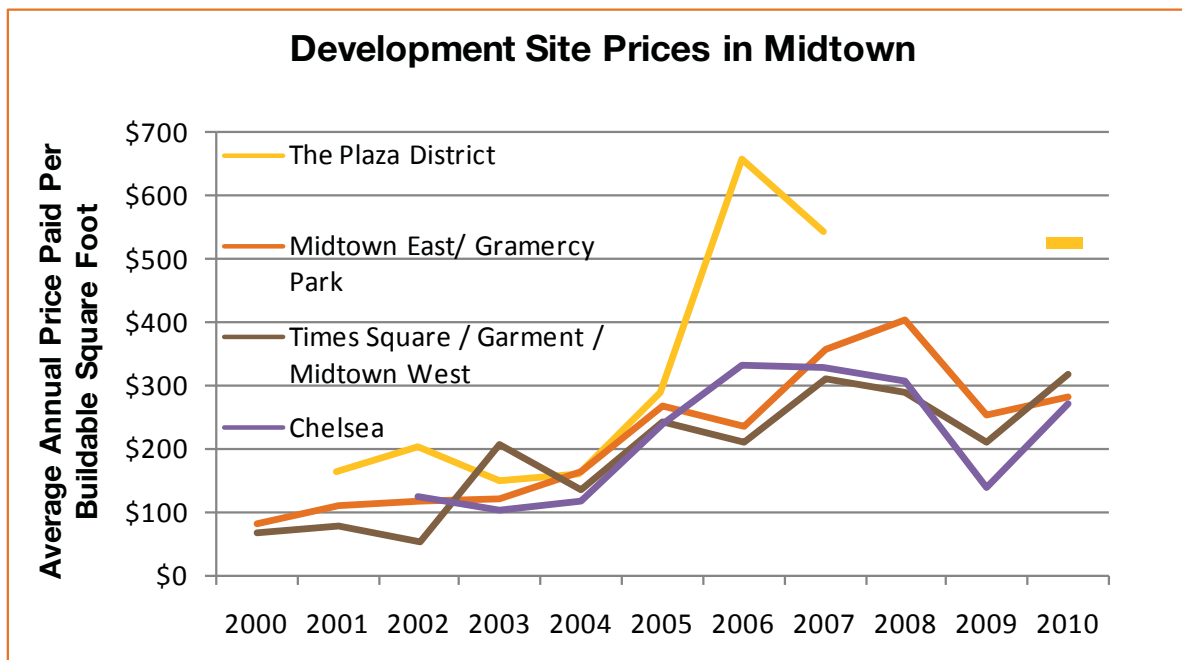
The Times Square / Midtown West sales volume jumped in 2006 due to the sale of 640 Eighth Avenue for \$306 million or \$275 per buildable square foot. The site is now known as 11 Times Square. Sales held steady in 2007 due to the closing of 38 transactions with an average volume of \$35 million per transaction, up from 36 sales at \$46 million per transaction in 2006. It climbed back somewhat in 2010 largely due to the sale of 855 Avenue of the Americas that Durst Fetner Residential bought from the Chetrit Group for \$105 million.

Another big site in Midtown West was 400 Fifth Avenue that was purchased in two transactions for \$358 per buildable square foot (in 2005) and \$334 per buildable square foot (in 2006). Today, the site on the northwest corner of West 37th Street houses the 570,000-square-foot Setai Fifth Avenue Hotel and Residences that was completed in 2010.

The real estate market in Chelsea stands out from other neighborhoods as the area north of West 14th Street and south of West 30th Street west of Avenue of the Americas has some of the most desirable properties. From 2005 through 2007, the volume of development site sales in Chelsea was on par with all of Midtown East which includes Gramercy Park.



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



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The clear story from the Midtown charts above is how high a premium the Plaza district commands – especially in a frothy market. In 2006, the average price per buildable square foot climbed to more than \$600 per buildable square foot due to Macklowe Properties original purchase of the Drake site for \$419 million. Macklowe Properties purchased 44 East 57th Street in 2007, which propped up the average buildable square foot price that year as well. The 2010 premium was due to CIM Group’s purchase of the same Drake site.

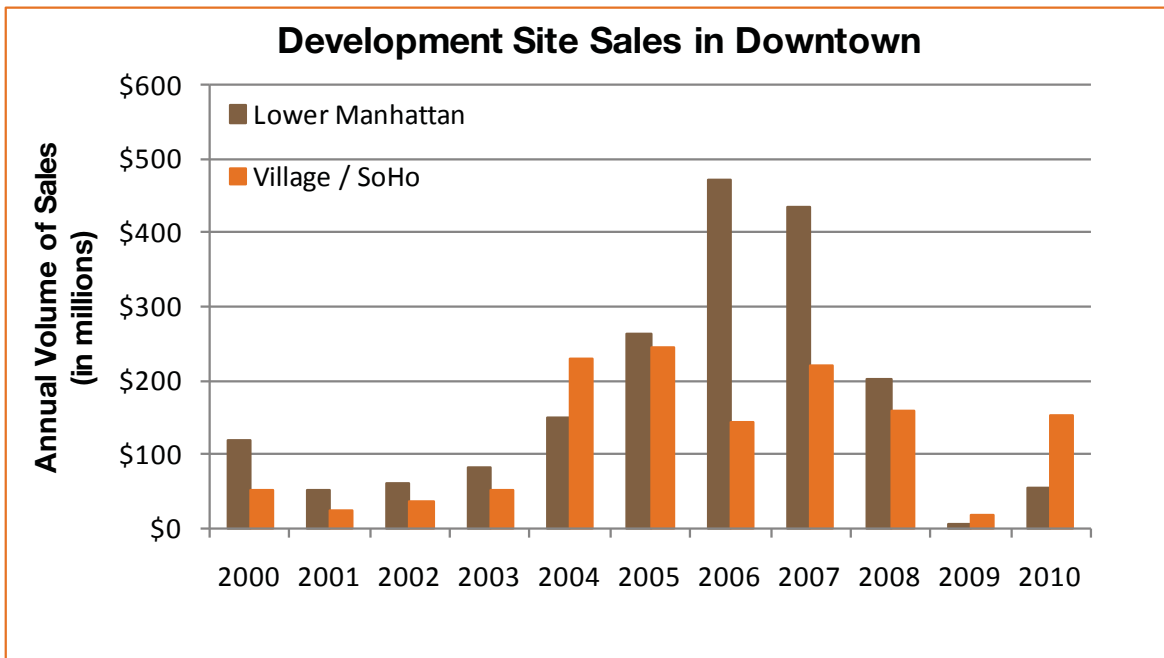
Remarkably, almost every year, the price for the right to build was nearly the same in Midtown East, Midtown West and Chelsea.

Lower Manhattan

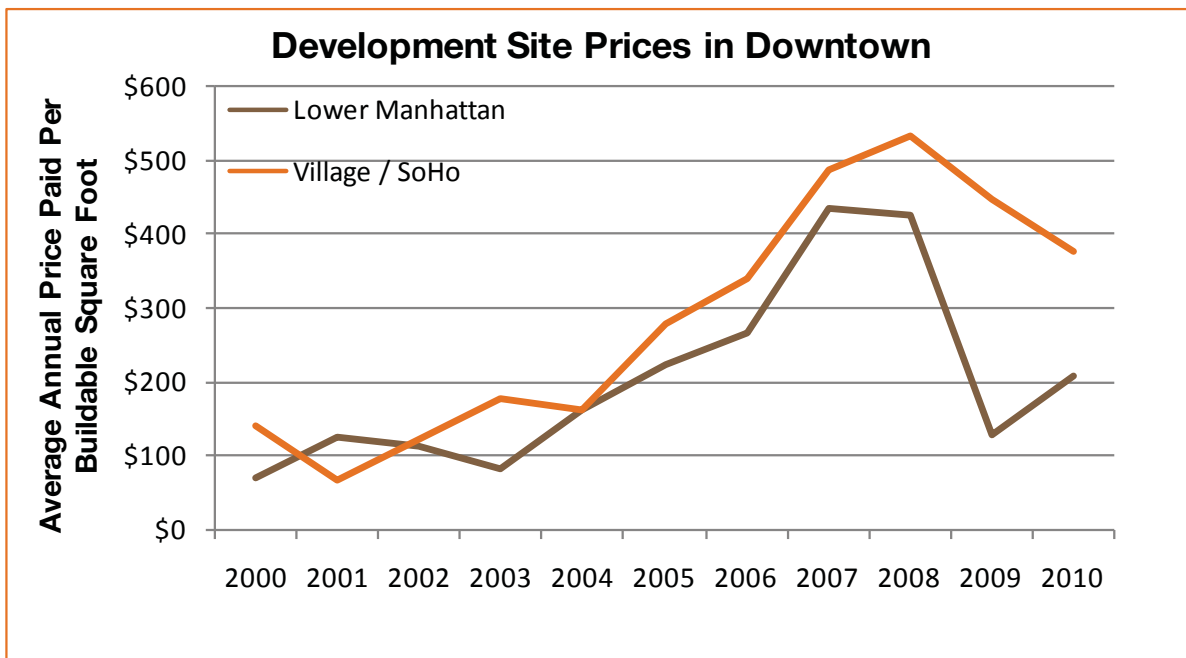
Just as in Midtown, development site sales jumped in Lower Manhattan in 2005 through 2007 but plummeted in 2009, more so than in most neighborhoods.

In Lower Manhattan, the volume peaked in 2006 with the sale of New York Law School’s \$136.5 million site at 240 Church Street for just less than \$300 per buildable square foot. While the volume of development site sales held steady in 2007 with steady price increases, no development site sale was closed between mid 2008 and mid 2009.

Likewise, in the Village, not one development site sold in all of 2009. Three small sites closed in SoHo in 2009. In 2010, eleven development site sales were closed in the Village and SoHo including the \$55 million sale of 122 West 12th Street that Rudin Management purchased from St. Vincent’s Hospital after it had closed its doors in early 2010.



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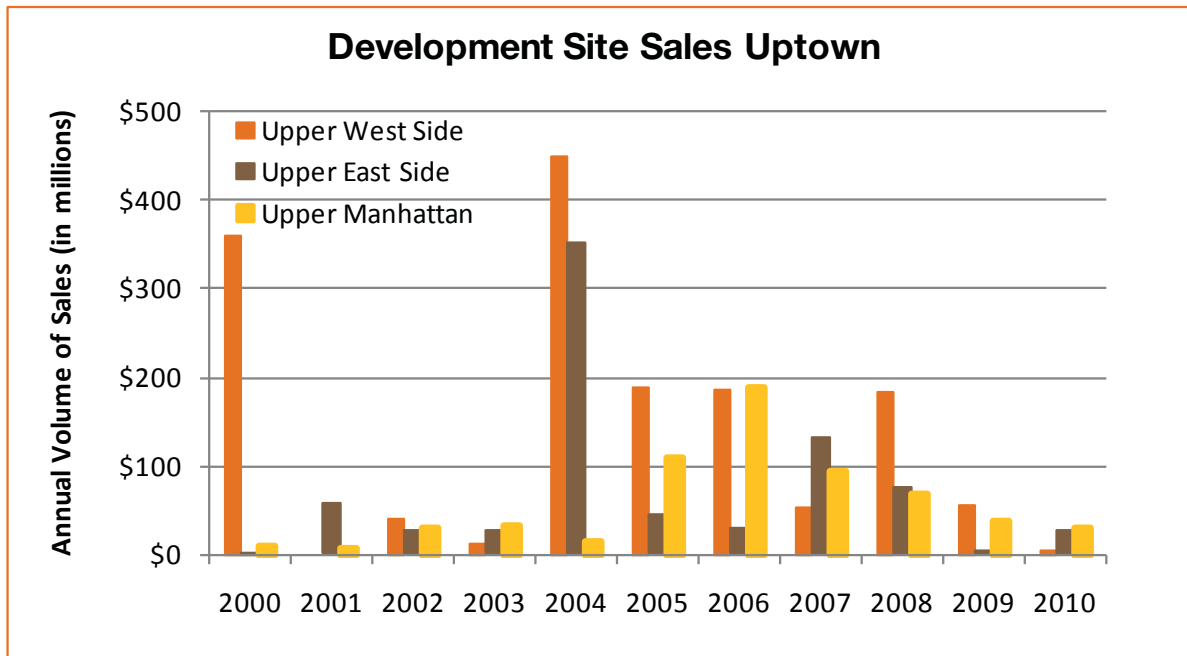
As shown above, the prices paid per buildable square foot climbed more rapidly in Lower Manhattan than in Midtown. At more than \$400 per buildable square foot, the Lower Manhattan average exceeded the composite Midtown West and Midtown East averages in 2007 and 2008. This is largely due to the fact that a number of the Midtown West sales were on the far west side, many of the Midtown East sales were in Murray Hill, and most of the Lower Manhattan sales were in Tribeca during those years. The sharp drop in the price paid in 2009 was based on the sale of two small parcels Downtown.

The highest price paid per buildable square foot was in 2008 for the sale of 841 Washington Street in the heart of the Meatpacking District for \$45 million or \$874 per square foot. This same site later sold in 2010 for \$20.1 million or \$390 per buildable square foot.

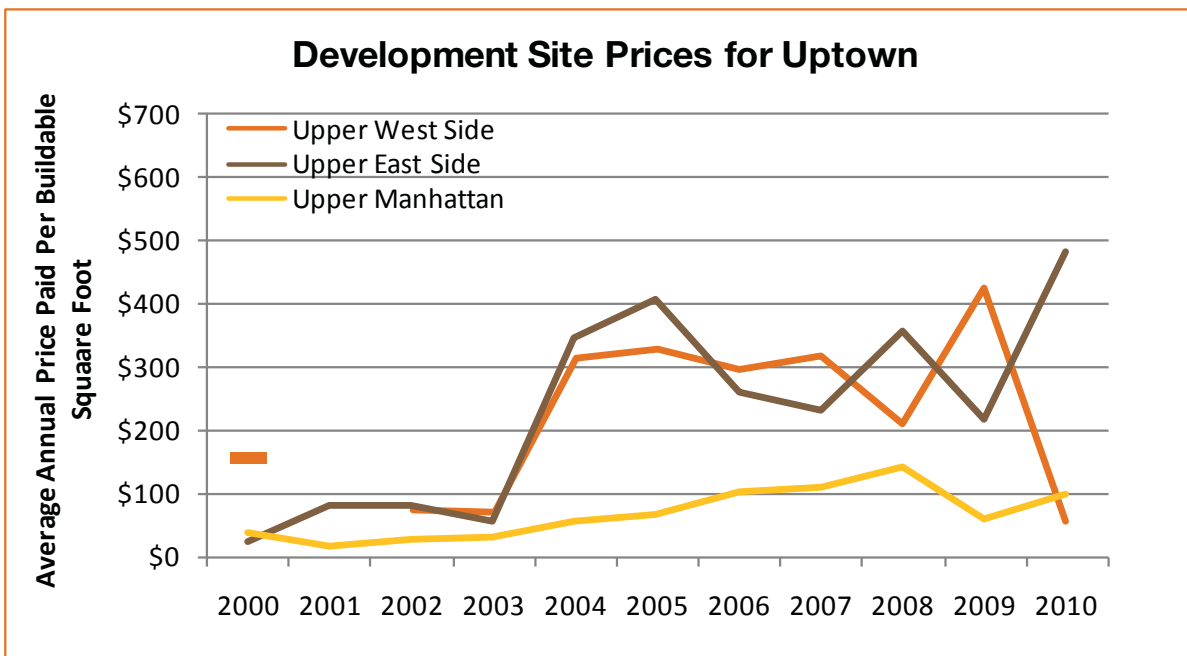
Upper Manhattan

The two Upper West Side transactions that dominate the chart below are 10 Columbus Circle (2000) that sold for \$357 million or \$170 per buildable square foot and 15 Central Park West (2004) that sold for \$401 million or \$453 per buildable square foot.

The more significant story found in the uptown numbers is the interest in development site sales in Upper Manhattan where the number of transactions did not change as dramatically as the average transaction size: it jumped from approximately \$1 million per transaction in 2002 through 2004, to \$4.6 million and \$4 million, respectively, in 2006 and 2007.



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



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The increase in the average price paid per buildable square foot in Upper Manhattan does not look very sharp but in fact, this average price increased more than four-fold between 2003 (\$33 per buildable square foot) and 2008 (\$143 per buildable square foot). Oddly, the Upper East Side and the Upper West Side's trends look like mirror images of each other from 2007 through 2010, but the changes were based on a handful of transactions in those years.

Conclusion

Tackling the price of a development site sale is akin to pinning down a cloud. For a number of sites, the assemblage takes years to accumulate, air rights are bought separately and/or are sold to another developer, and a number of properties are traded in distressed situations or are subsidized by the government. That said, we believe the analysis above gives an accurate and compelling picture of Manhattan's gyrating real estate values over the last decade.

Not only did the volume of sales balloon in 2006 and 2007, but the average size per transaction jumped as well as did the price paid per buildable square foot. When Manhattan's real estate market declined as a whole in 2008 – 2009, the sales of development sites fell even more than the rest of commercial sales in those years. And yet the prices paid for the right to build roared back in 2010 along with the average transaction size. This suggests a sharp compression of the real estate cycle in Manhattan.

The 2010 data was influenced by a handful of sales. Removing the two Drake site sales pushes the average price per buildable square foot in 2010 down to \$287 which is not far off of the peak of 2007 (\$310). This still effectively renders the development site market "corrected" back to its peak. The sales volume is not likely to return to its 2006 high of \$3.6 billion per year in the near future, but with the number of deals that closed in early 2011, the market is expected to continue to improve this year and next.



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