COMMENTARY – *Bob Knakal*

JANUARY 27, 2009

MASSEY KNAKAL Realty Services

Deja Vous - All Over Again
Volume of Sales Nears Historic Low

The sales volume of investment properties in New York City in the under $100,000,000 market is approaching its all-time low level. The two metrics we watch most closely are prices and the number of properties sold. This commentary will address the current trend in the volume of sales. The 2008 turnover rate (which is expressed as a percentage of properties sold out of the total stock of properties) was 1.8% of the total stock of buildings and we anticipate this turnover level dropping to 1.6%, or lower, in 2009. The statistical sample used for this analysis takes into consideration Class C, D, S and K properties, eliminating some segments of these classes which are not applicable, in the five boroughs of New York City. The total number of properties in this segment is approximately 125,000. The 2008 turnover rate of 1.8% results in approximately 2,250 properties trading hands. This total represents a 40% drop in the number of properties sold from 2007 to 2008 (in the over $100 million market turnover is down 70% to 85% depending upon the report quoted). Since the mid-'70s the turnover of the total stock of buildings has been lower than 1.8% on only three occasions. The volume of sales was 1.7% and 1.6% during the recessionary years of 1991 and 1992 respectively. It also hit 1.6% again in 2003 as we were emerging from the recession caused by the technology bubble bursting. We had always assumed that this 1.6% turnover level was a baseline rate of turnover; representing only those seller who had no choice but to sell. Death, divorce, taxes, partnership disputes, distress and insolvency were the motivations underpinning this baseline number. In the early 1990s, prices had fallen so precipitously that only those who had to sell, did. Interestingly, if you look at the chart on Page 2, you can see that sales volume decreases significantly during the recessionary periods as unemployment simultaneously spikes. The red unemployment line shows the increases in unemployment as the recessionary periods' progress. (Be mindful that you are not really comparing apples to apples looking at pre- and post-Clinton eras) 2008 finished with an unemployment rate of approximately 7.2%. It is projected that by the end of 2009 unemployment will be approaching 9%. While our projection for sales volume is 1.6% for 2009, we would not be surprised to see this volume dip to a new record of between 1.4% and 1.6% as we are in unprecedented times which could cause a new record low number of properties sold. The positive news is that even with an historically low

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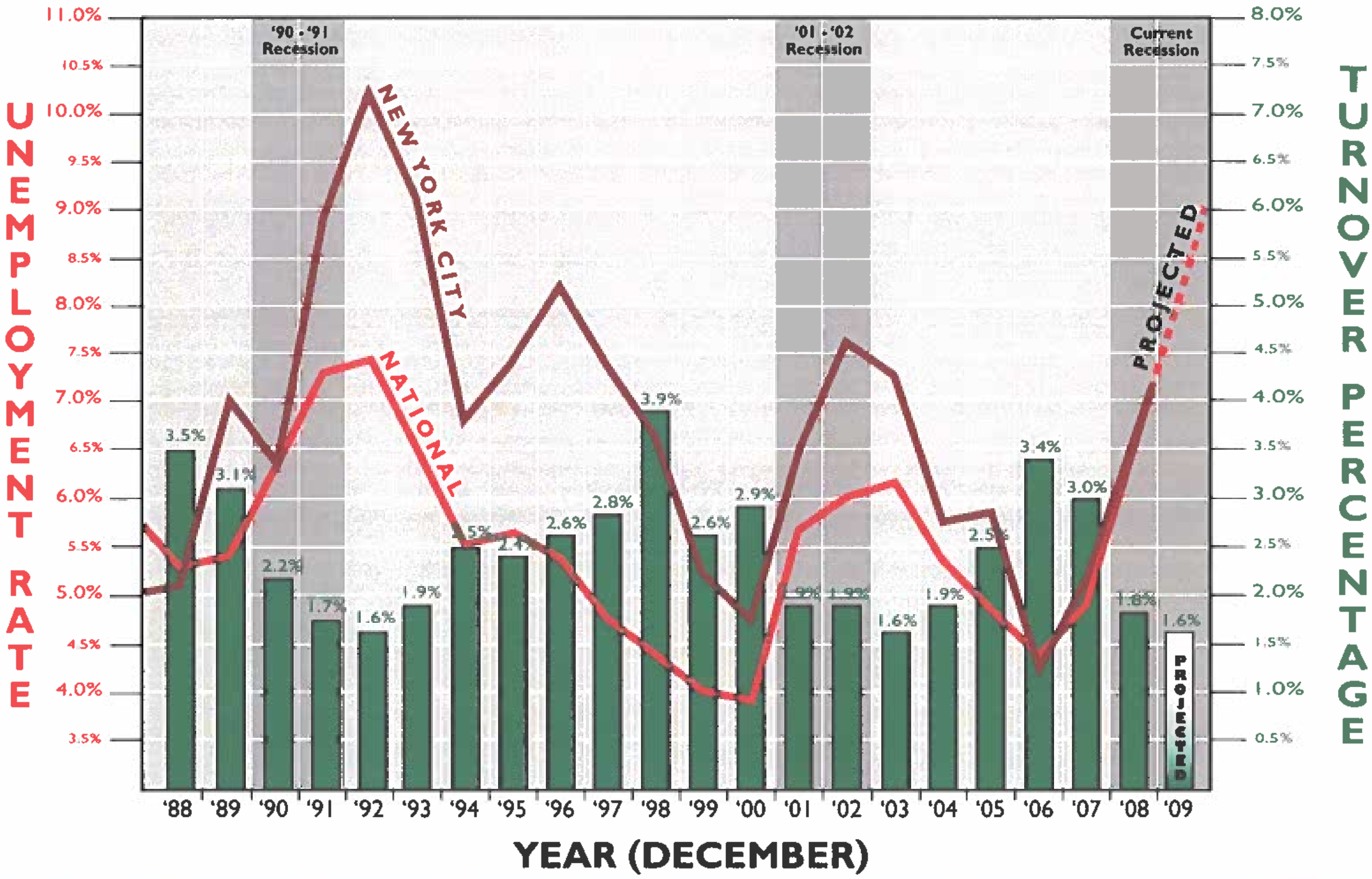
turnover of 1.6%, that still translates into approximately 2,00[illegible] sales in the New York City marketplace. When comparing 2009 t[illegible] the recession of the early '90s, a striking difference is that toda[illegible] there is a tremendous amount of patient capital waiting on th[illegible] sidelines eagerly awaiting buying opportunities. The reduction i[illegible] sales volume in the early '90s was primarily a function of lack [illegible] demand, as supply was significant. Today, the reduction in volum[illegible] is much more a function of supply constraint as all of the negativ[illegible] news about the economy and our market has many sellers feelin[illegible] as if they should not be voluntarily selling. Interestingly, price[illegible] particularly in the multi-family sector, are only off their peak b[illegible] about 10%. We are still regularly selling rent regulated assets at ca[illegible] rates ranging from 4.5%-5.5%. Other segments of the market, suc[illegible] as retail properties and office buildings, have experienced muc[illegible] greater upward pressure on capitalization rates driving those price[illegible] lower. We expect 2009 to be a challenging year as brokers compet[illegible] to sell the 2,000 (or fewer) properties that will sell this year.

Have a great wee[illegible]

Bob

NYC Investment Property Sales Volume
(Sales Under $100,000,000)



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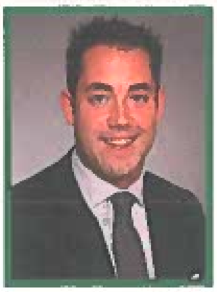
During Mr. Knakal's almost 25-year career, he has sold over 1,000 buildings having an aggregate market value of over $5 Billion. He was the top salesman, with partner Paul Massey, at Coldwell Banker Commercial (now CB Richard Ellis) in Ne York in 1986, 1987, and 1988 prior to forming Massey Knakal. In 1990, he was awarded Crain's New York Business "40 Unde 40" awarded annually to 40 business people under forty years of age for outstanding achievement in the New York busines community. In 2001, Mr. Knakal was named one of "The Top Dealmakers" by Real Estate New York Magazine. He has twic been the recipient of the Robert T. Lawrence Award in the Real Estate Board of New York's Most Ingenious Deal of the Yea Contest. First in 2002, for the assemblage of the easterly blockfront of Second Avenue between 54th and 55th Streets. The again in 2004 for the sale of the historic Gotham Book Mart at 41 West 47th Street.

ROBERT KNAKAL'S TRANSACTIONAL SUPPORT TEAM



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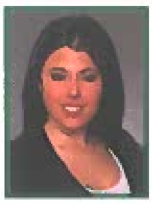

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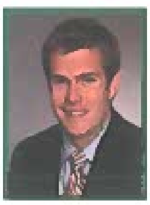

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