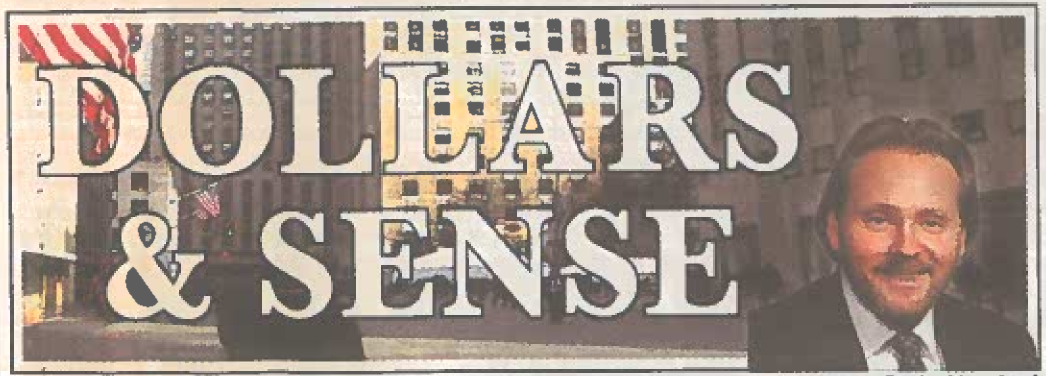

with Bob Knakal

2010: A year for hotels

Q: Which investment property type sector has bounced back best in the current cycle and how have the other sectors done?

A: It is clear, that on a relative basis, the hotel sector has performed best since the market bottom. For instance, in 2009, there were only two hotels sold in Manhattan south of 96th Street. This year, we expect the performance to show a multiple of that number, with the number of sales reaching 15 to 20 depending upon late fourth-quarter activity. Volume around the city has demonstrated similar trends.

The healthy performance in the hotel sector is not surprising given the nature of different product types within the investment sales arena. Properties with the shortest lease terms will typically see their values and activity levels fall more quickly as adverse market conditions appear and, conversely, values and activity levels rise more quickly as these adverse conditions change.

Leases in hotel properties are essentially on a day-to-day basis, therefore, their performance is highly reactive to market conditions. Multifamily properties have leases that are either one or two years so these properties react quickly to changes in market conditions, but not quite as quickly as hotels. We have, indeed, seen improvement within the multifamily sector.

When we transit to office and retail properties, we generally see leases that are five to ten years which, therefore, react more slowly to changes in market conditions. This is, of course, subject to the market exposure that these properties have with respect to their occupancy levels and lease expiration dates. For instance, within the office sector, we've seen a tremendous disparity between properties that have high vacancy and significant lease rollover in the short-term versus properties that had high occupancy levels with very little lease rollover for two or three years. The properties without market exposure were selling for as much as two to three times what properties with market exposure were selling for on a price per square foot basis.

Given that lease terms are generally the same in the office and hotel sectors, how they bounce back relative to each other will depend on different factors. The speed with which the office building market returns will be highly dependent upon job creation and growth while, in the retail sector, recovery will be more dependent upon consumer confidence and consumer spending.