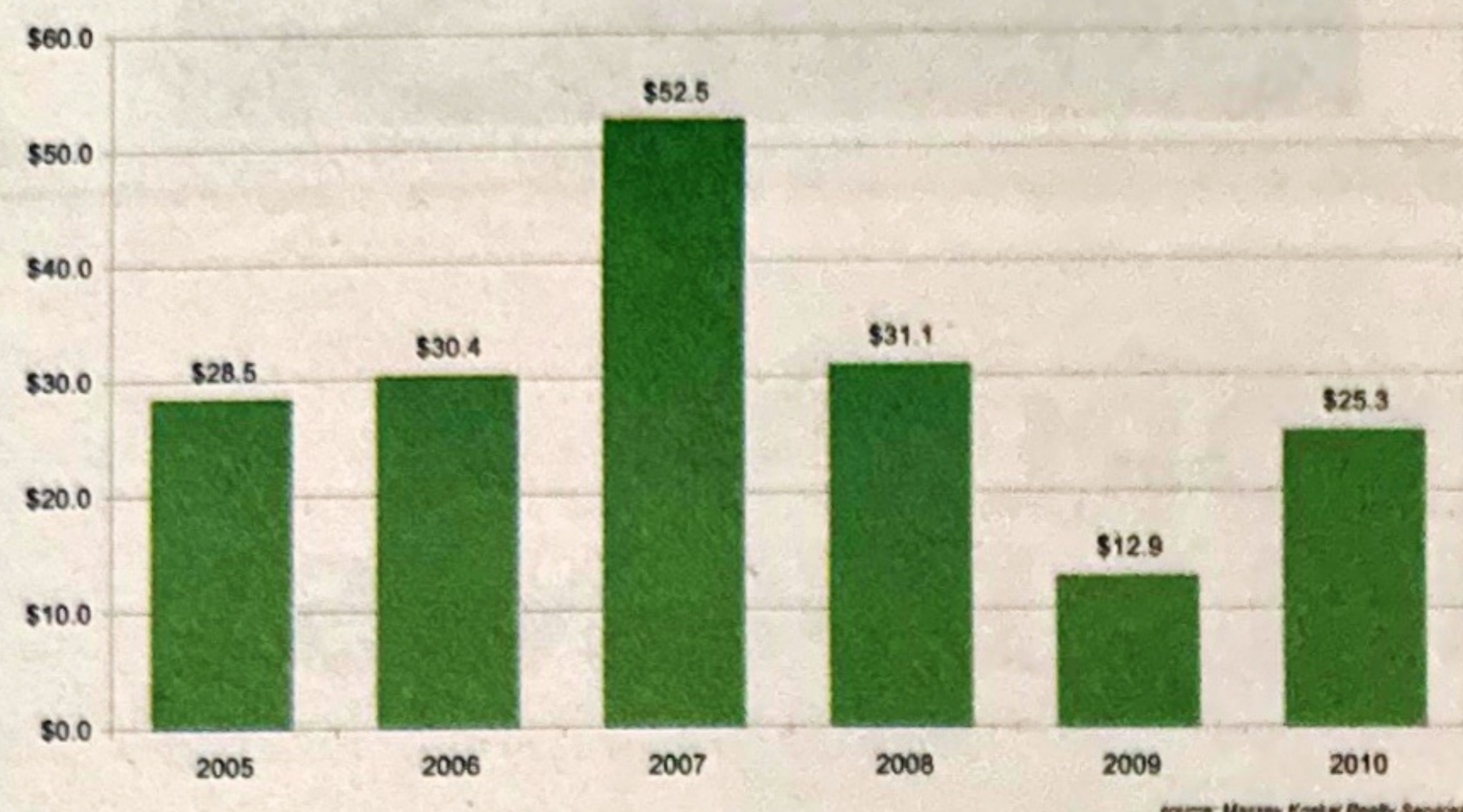
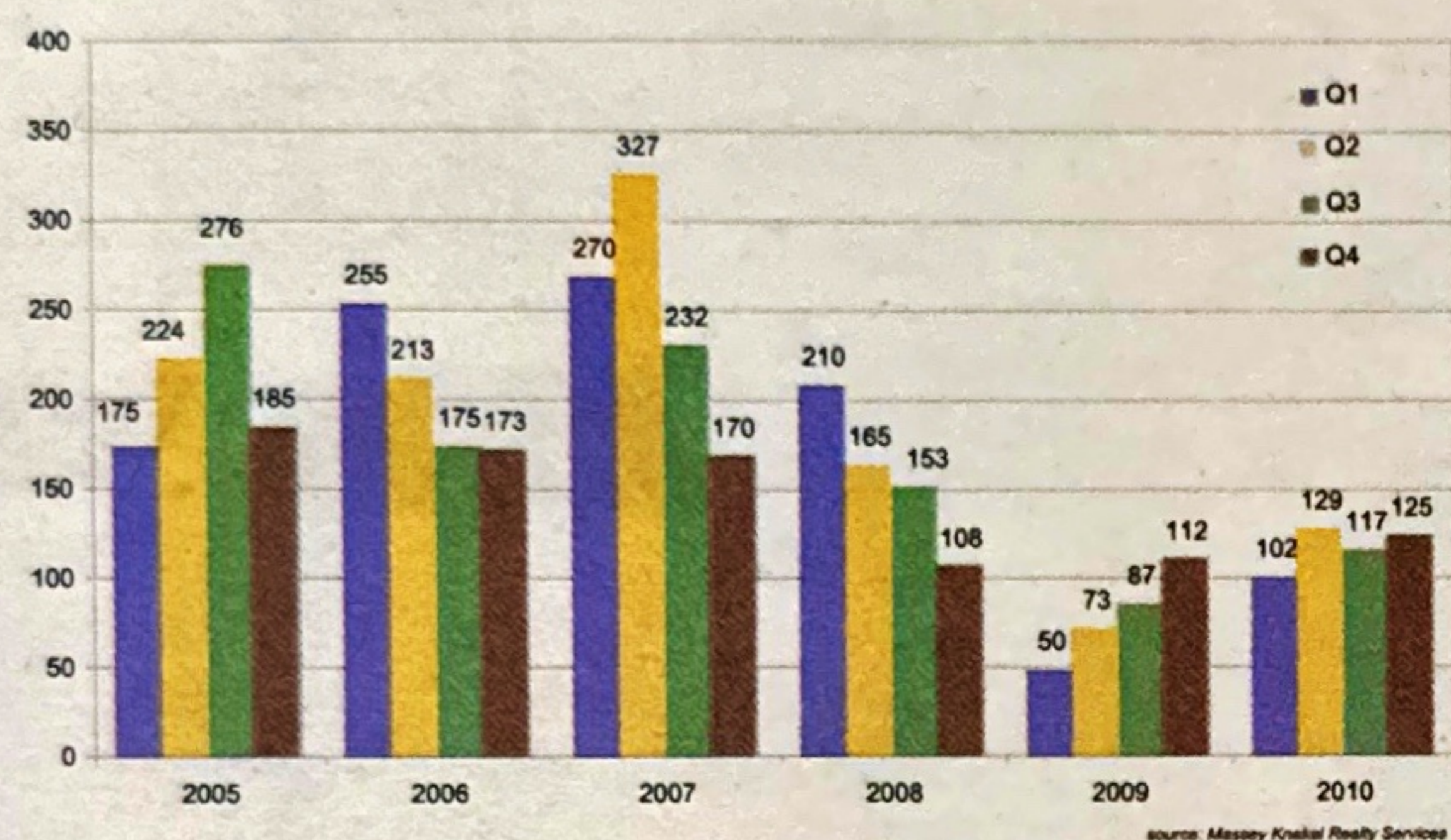


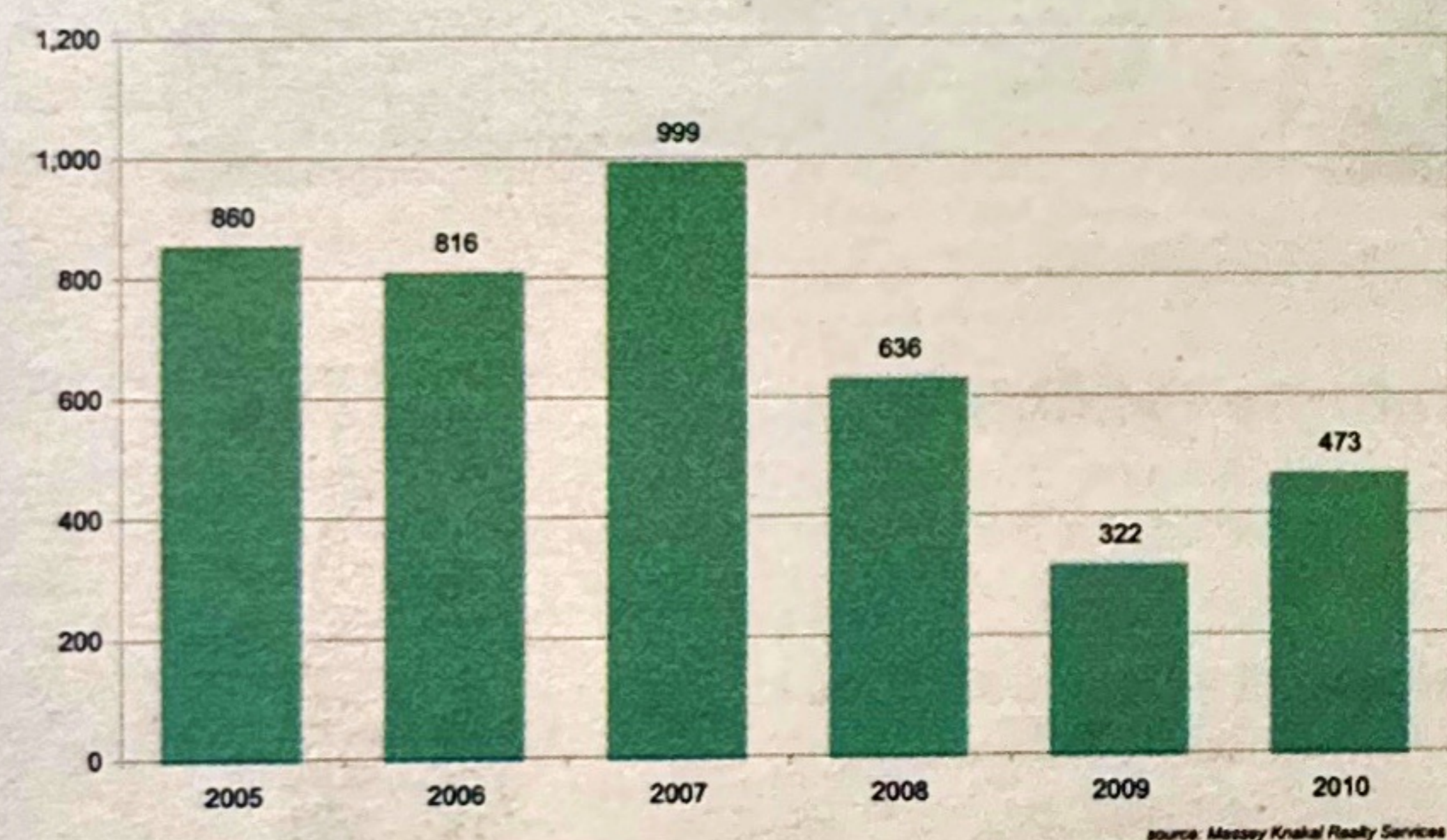
Average Price Per Property Sold (in Millions) Manhattan (south of 96th Street ES - south of 110th Street WS)



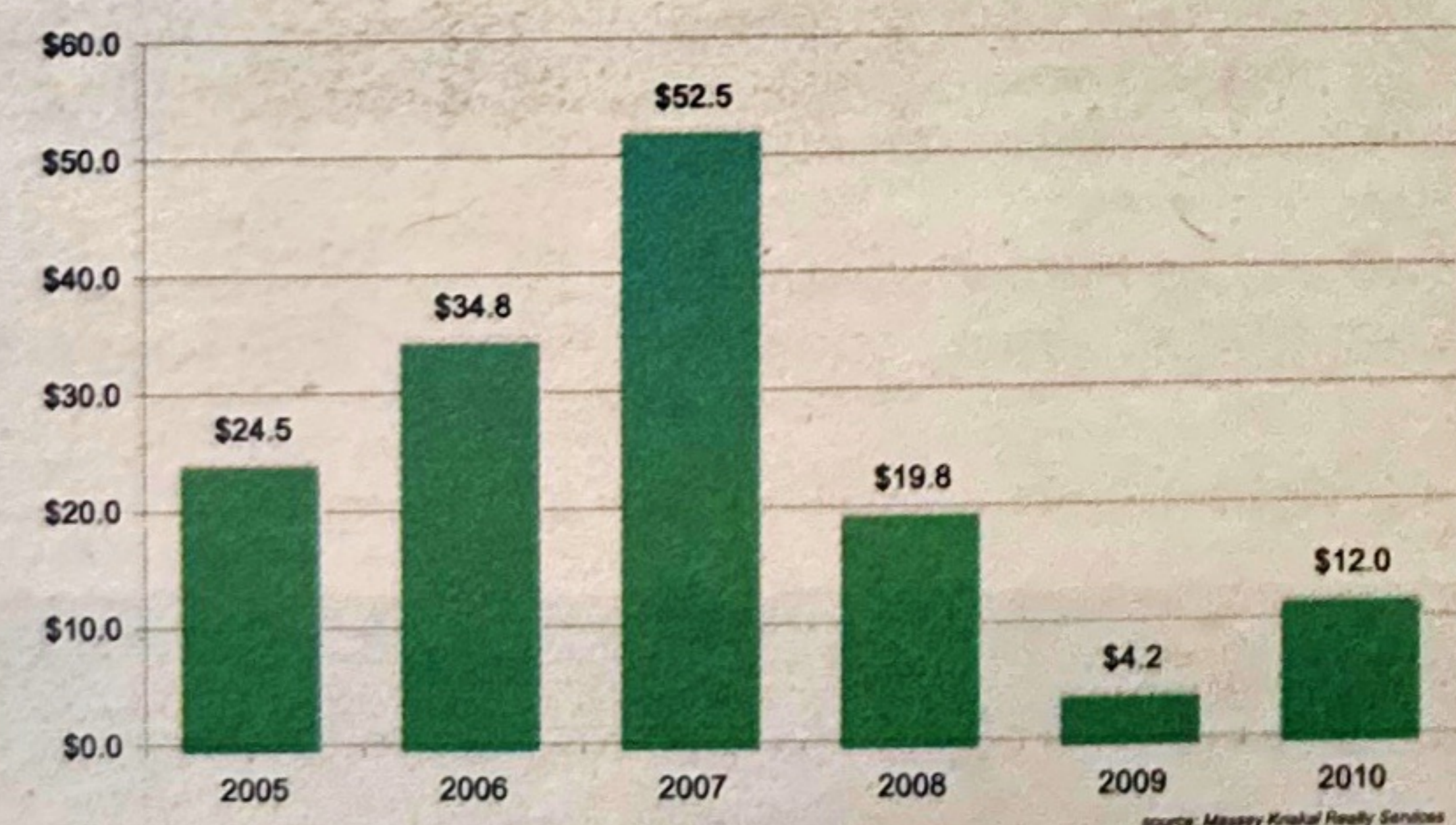
Total Buildings Sold Q1-Q4 Manhattan (south of 96th Street ES - south of 110th Street WS)



Total Buildings Sold Annually Manhattan (south of 96th Street ES - south of 110th Street WS)



Total Sale Dollar Volume (in Billions) Manhattan (south of 96th Street ES - south of 110th Street WS)



Manhattan Investment Sales and the Lessons of the Two V's

Where value and volume are heading in New York City's barometer submarket

Participants in New York's commercial real estate market typically look at the Manhattan market as an indicator of shifts within the investment sales area. Manhattan has historically been the submarket that leads citywide recoveries out of downturns and it appears, in this cycle, this will be the case once again.

In 2010, there was approximately \$12 billion in investment sales activity in the Manhattan submarket, up approximately 187 percent from the \$4.2 billion of sales in 2009. While last year's dollar volume represented a significant, and welcome, increase, the \$12 billion in sales remains 77 percent below the \$52.5 billion in sales in 2007, and represents less than 50 percent of the \$24.5 billion in sales attained in 2005. (For the purposes of our analysis, we consider the Manhattan submarket to include all properties south of 96th Street on the East Side and south of 110th Street on the West Side.)

Interestingly, while the dollar volume of sales nearly tripled in 2010, the number of buildings sold revealed a much smaller yet impressive increase over 2009 totals. In 2010, there were 473 buildings sold, a 47 percent increase over the 322 sold in 2009. While this increase created a positive psychology within the market, the 473 buildings sold

was still 53 percent below the 999 buildings sold in 2007, and well below the 860 sold back in 2005.

The significant increases in the dollar volume of sales and the number of buildings sold have been very positive for the marketplace. In conjunction with these, we've seen the average price of a property sold in Manhattan nearly double, from \$12.9 million in 2009 to \$25.3 million in 2010. The 2010 average was slightly less than half of the \$52.5 million average in 2007, and was only slightly below the \$28.5 million average in 2005. Not surprisingly, the \$25.3 million average transaction size in 2010 is nearly four times the citywide average of just \$7.2 million.



Robert Knakal
Columnist

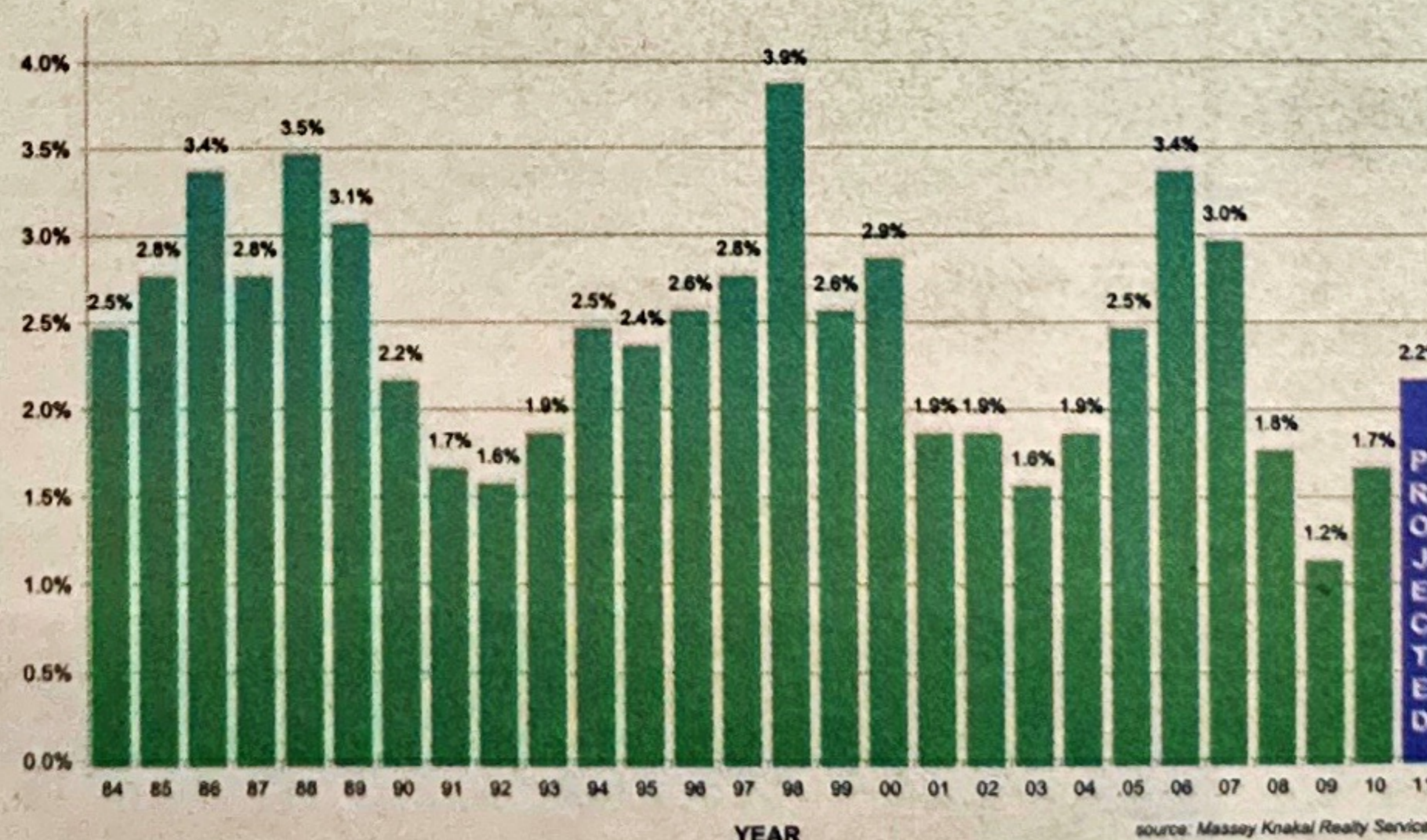
As you know, if you are a frequent reader of Concrete Thoughts, we tend to focus more on the number of properties sold as opposed to the dollar volume of sales, as a few very highly priced transactions can skew this metric significantly. In 2010, the 473 buildings sold in Manhattan represented approximately 28 percent of the 1,667 properties sold citywide. Contrastingly, the \$12 billion in sales represented approximately 83 percent of the \$14.5 billion in the dollar volume of sales citywide. Clearly, the largest trans-

actions in the city are concentrated in the Manhattan submarket. In fact, of the 1,667 properties sold citywide, there were 49 that traded for prices in excess of \$50 million. All but two of these properties were located in Manhattan.

The 473 properties sold in Manhattan in 2010 represented a turnover ratio of approximately 1.7 percent of the total stock of 27,649 buildings in the submarket. If we look at historical figures in the Manhattan submarket, we see that the average turnover ratio, going back to 1984, is 2.6 percent of the total stock of the market. Prior to 2009, the lowest turnover ratio that we had ever seen was 1.6 percent in 1998 and in 2003. These were both years at the end of recessionary periods and were also both years in which we hit peaks in cyclical unemployment. In 2009, volume dropped to what we believe is an all-time low of 1.17 percent. (We are currently researching 1975 and 1976, when the city almost went bankrupt, to determine sales volume during that period.)

When asked where we are in this cycle, is very important to differentiate between the two main sale metrics, as they do not necessarily move in tandem. These metrics are what we refer to as the "Two V's"—volume and value. With respect to the volume of sales, we are clearly past the bottom, which was very obviously occurred during the second quarter

Turnover Percentage Manhattan (south of 96th Street ES - south of 110th Street WS)



Sources:
Massey Knakal
Realty Services

2009; we are now well off of that bottom. And even with the substantial increases we saw in 2010, fortunately, there's still a long way to go in terms of the volume of sales to get back to the long-term trend lines. We expect that the turnover ratio will increase in 2011 into the range of 2 percent to 2.2 percent, which would represent about a 25 percent increase in the number of properties sold, but would still be well below the historic trend of 2.6 percent. We also expect the 2011 dollar volume of sales to increase into the \$18 billion to \$20 billion range. If this occurs, it would represent about a 50 percent increase in dollar volume.

With respect to value, contrary to popular opinion, it is not clear that we have hit an absolute bottom yet. In fact, in 2010, our statistics showed that the average price per square foot of properties sold in the Manhattan submarket dropped approximately 8 percent from 2009 levels. This is very different from the general perception within the market that prices are increasing. We believe the reason for this is that there is a significant divergence today between core, or institutional,

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assets and the rest of the market. In 2010, there were 32 sales which took place at prices in excess of \$100 million. Each of the sales was widely reported in the media. It is clear that upward pressure has been exerted on pricing in this core sector. However, in the non-core sector, stresses placed on fundamentals continued to exert downward pressure on value. Reduced rent levels, along with slightly increasing capitalization rates, have placed downward pressure on value per square foot.

If we look at different property types in Manhattan last year, almost all of them suffered reductions in value per square foot. Mixed-use properties bucked the trend and performed well, showing the biggest value increases of approximately 8 percent. Office condominiums also performed well, showing an increase in value of about 2 percent to \$850 per square foot; office buildings remained unchanged at \$533 per square foot. All other product types, including elevator and walk-up apartment buildings, retail properties, development sites, hotels and specialty-use properties, saw values drop.

While these statistics were surprising, and to some degree alarming, all of the news on the value front was not negative in 2010. Perhaps the most interesting dynamic on the value side is that the rate of decline in value per square foot slowed significantly in the second half of 2010,

with more product types turning positive, although not all of them. Based upon this data, we believe that later on in 2011, we will be able to retrospectively look back at the marketplace and determine that value in Manhattan bottomed out in either the third or fourth quarter of

2010 or in the first quarter of 2011. If this occurs, the other submarkets are sure to follow in time.

While we seem to be bouncing along a rocky bottom, there is clearly a light at the end of the tunnel. Let's hope the tunnel is not too long.

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Robert Knakal is the chairman and founding partner of Massey Knakal Realty services and in his career has brokered the sale of more than 1,125 properties, having a market value in excess of \$7 billion.



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