CONCRETE THOUGHTS

The Investment-Sales Market Going Forward

First-quarter stats provide pleasant surprises—no cliff-drop from 2010's artificially stimulated end

In the fourth quarter of 2010, the investment-sales market experienced a whopping $5.6 billion in sales activity. This was the highest quarterly total going back to the third quarter of 2008. Going into the fourth quarter of 2010 (4Q10), we were expecting sales volume to be very high given the motivation of banks and special servicers to clean up balance sheets by year's end, in addition to the tremendous activity stimulated by discretionary sellers rushing to sell before an anticipated capital-gains tax increase.

Robert Knakal

Many of these discretionary sellers put their properties on the market beginning in the summer of 2010, and the majority of these transactions closed in the fourth quarter before Congress extended the Bush-era rates. Others were under contract prior to the extension and sellers were unable to extract themselves from these commitments.

As is the case whenever there is some kind of external stimulus—such as the potential increase in capital-gains tax rates—that stimulus tends to "steal" activity from future periods. We saw the same scenario play out after the cash-for-clunkers program ended and auto sales fell off the table. Similarly, after the first-time home buyers tax credit expired, home sales plummeted nationwide. Because of these dynamics, we fully expected first quarter 2011 (1Q11) sales volume to plunge from 4Q10 levels.

Much to our pleasant surprise, while first-quarter volume was below fourth-quarter volume, the total of $3.9 billion in sales was much higher than expected and bodes extremely well for 2011 market performance. If we annualize this volume, we will end up at $15.5 billion in sales, or 7 percent higher than the 2010 total of $14.5 billion. Moreover, we believe that 1Q11 activity was still muted by the factors discussed above. We fully anticipate that sales volume in 2011 will be significantly higher than 2010 levels.

Of the $3.9 billion in sales volume in 1Q11, the overwhelming majority of that, or roughly $3.1 billion, occurred in the Manhattan market.

The biggest negative surprise in first-quarter activity was in the northern Manhattan market, with only $61 million of volume. If you annualize this total, 2011 is running at less than half the volume this submarket saw in 2010. We fully expect this trend will reverse significantly, as I will outline in our forecast below.

With respect to the number of sales, there were 433 buildings sold in the city in 1Q11. This figure was up 19 percent from 1Q10 and down just 5 percent from 4Q10's total of 466.

Annualizing the 433 properties sold in 1Q11 leads us to an annual turnover rate of 1.05 percent, up from the 1.01 percent turnover in 2010. That 1.05 percent is out of the total stock we track—approximately 165,000 properties citywide.

When we look at individual submarkets, the highest turnover was seen in the Manhattan market, with 137 sales. On an annualized basis, turnover here is running at 1.98 percent, up significantly from the 1.71 percent in 2010. Northern Manhattan was running at 1.44 percent, and the outer boroughs all showed a volume of sales of less than 1 percent.

The average price of a property sold in New York increased from last year's average of $7.2 million per property to a first-quarter average of $9 million. This increase was mainly fueled by larger transactions in the outer boroughs, particularly in Brooklyn and Queens, which saw their average sales prices rise from $1.8 million to $2.2 million and from $1.9 million to $3.7 million, respectively. In the Manhattan submarket, the average sales price of a property dropped from $25.3 million to $22.4 million; and in northern Manhattan the average dropped from $4 million in 2010 to just $2.4 million in 1Q11.

With respect to property values, last year we saw average prices per square foot drop by nearly 10 percent. This is counter to the general perception that values started to increase in the city last year.

Larger core transactions did see price appreciation. However, in 2010 there were only 49 transactions at a price level of $50 million or greater, and this represented just 3 percent of the 1,667 properties sold. If we look at all sales in the marketplace, average prices dropped by 8.4 percent.

The good news in that statistic is that as we moved through 2010, on a quarter-over-quarter basis, the rate of decline steadily slowed, and we fully expect that values across the board will appreciate in Manhattan this year. Value trends in 1Q11 support this position. Additionally, we have started to see values stabilize in the outer boroughs.

All of these metrics bode very well for the investment-sales market in New York City moving forward.

Our forecast for the balance of the year includes the following projections and insights.

Dollar Volume of Sales

If we annualize the $3.9 billion of sales in 1Q11, we extrapolate to an annualized total of $15.5 billion. We expect the year will finish with $20 billion to $22 billion in sales volume, a 40 to 50 percent increase over the $14.5 billion achieved in 2010. It is not likely that we will reach the level of $25.3 billion seen in 2008, but we could come close. For the purpose of perspective, there were $62.2 billion in sales in 2007.

Number of Properties Sold

If we annualize the 433 properties sold in 1Q11, we arrive at a projected total of 1,732 sales. We expect the number of properties sold in the city to reach a range of 2,000 to 2,100 throughout the year, an increase of 20 to 25 percent above the 1,667 properties sold in 2010.

This projected total would still be substantially below the 3,144 sales in 2008 and the 5,018 sales in 2007. On a market-wide basis, we expect turnover to reach 1.2 percent of the total stock, and the rate should hit 2.2 to 2.3 percent of the total stock in the Manhattan submarket.

Inventory

We expect the number of properties available for sale to grow by 33 percent throughout the year. As it is difficult to obtain confirmed numbers with regard to total inventory on the market, I will look at Massey Knakal's numbers as a microcosm of general market conditions.

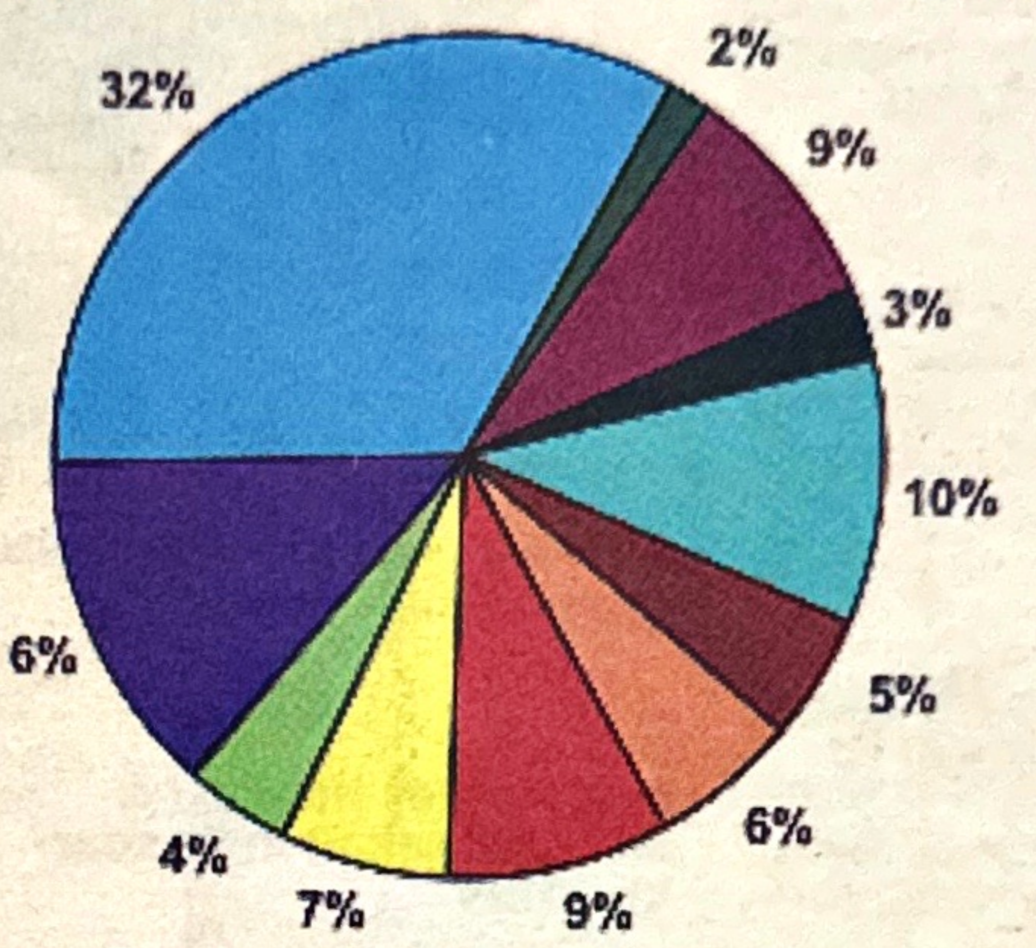
In 2007, when volume hit a peak of 3.9 percent of the total stock, we had approximately 750 exclusive listings throughout the year. At present, we have about 475 exclusive listings and expect this number to grow to 600 to 630 by year's end. This should provide investors with more opportunity to purchase properties.

Most Active Borough

In terms of sales volume, we expect northern Manhattan to be the most active submarket, notwithstanding its abysmal start to 2011.

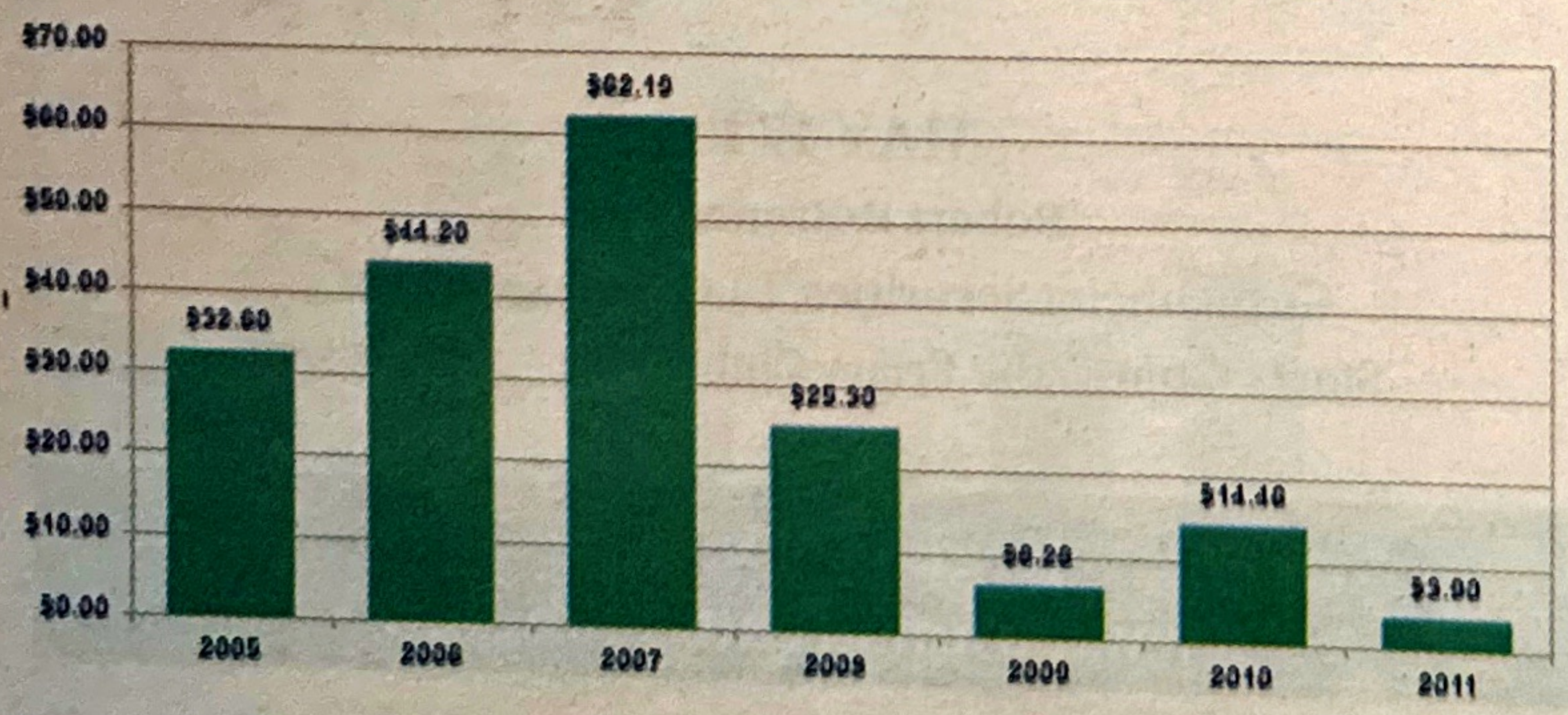
We were recently hired to sell three substantial portfolios of properties in the northern Manhattan submarket, and there are four more substantial portfolios we expect will come to market within the next few months. We believe that this activity, in addition to the other factors with-

New York City Total Sale Dollar Volume 1st Quarter 2011

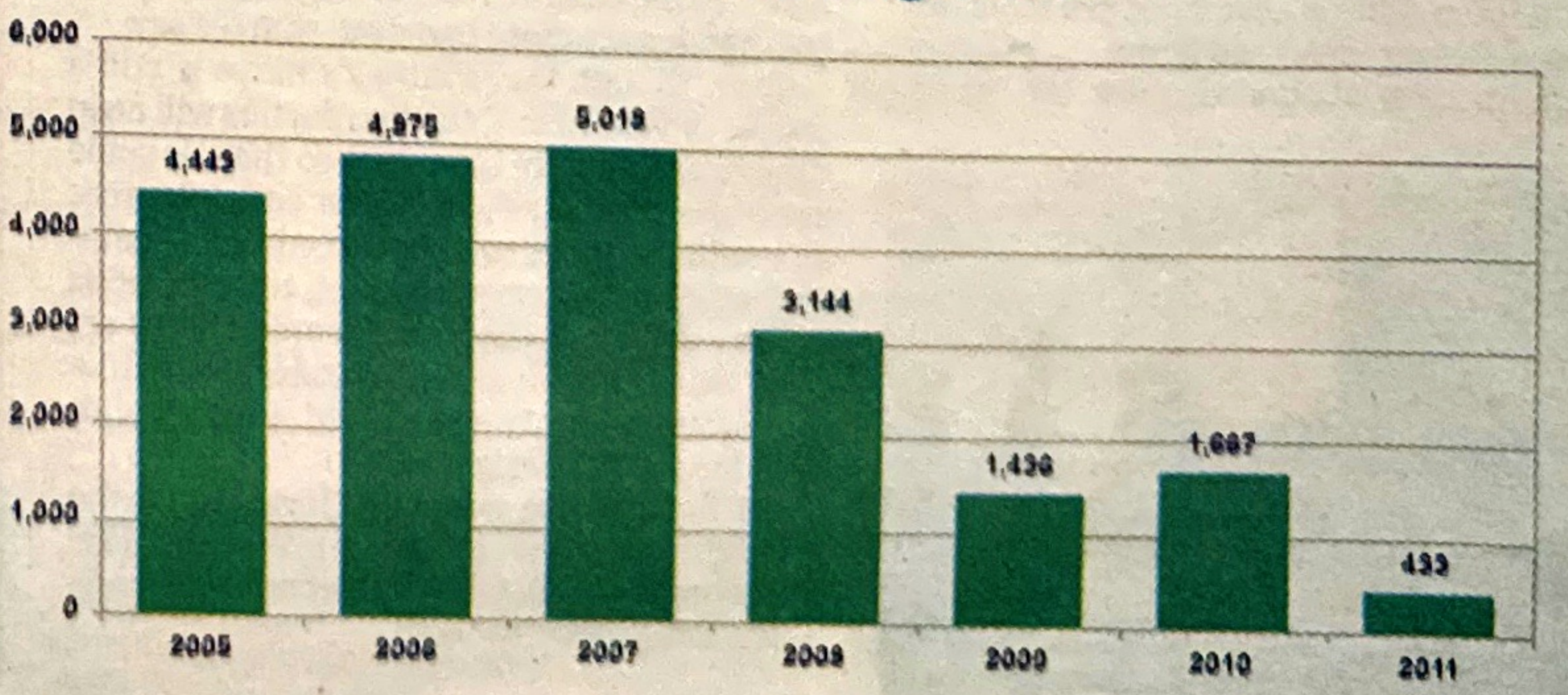


1-4 Family	$	230,597,000
Elevator	$	331,436,319
Walk-Up	$	259,511,362
Mixed-Use	$	165,298,596
Retail	$	513,413,773
Office	$	1,293,383,023
Office Condo	$	71,884,550
Development	$	345,425,333
Industrial	$	103,863,424
Hotel	$	383,387,555
Speciality Use	$	187,646,322
Total	**$**	**3,885,847,257**

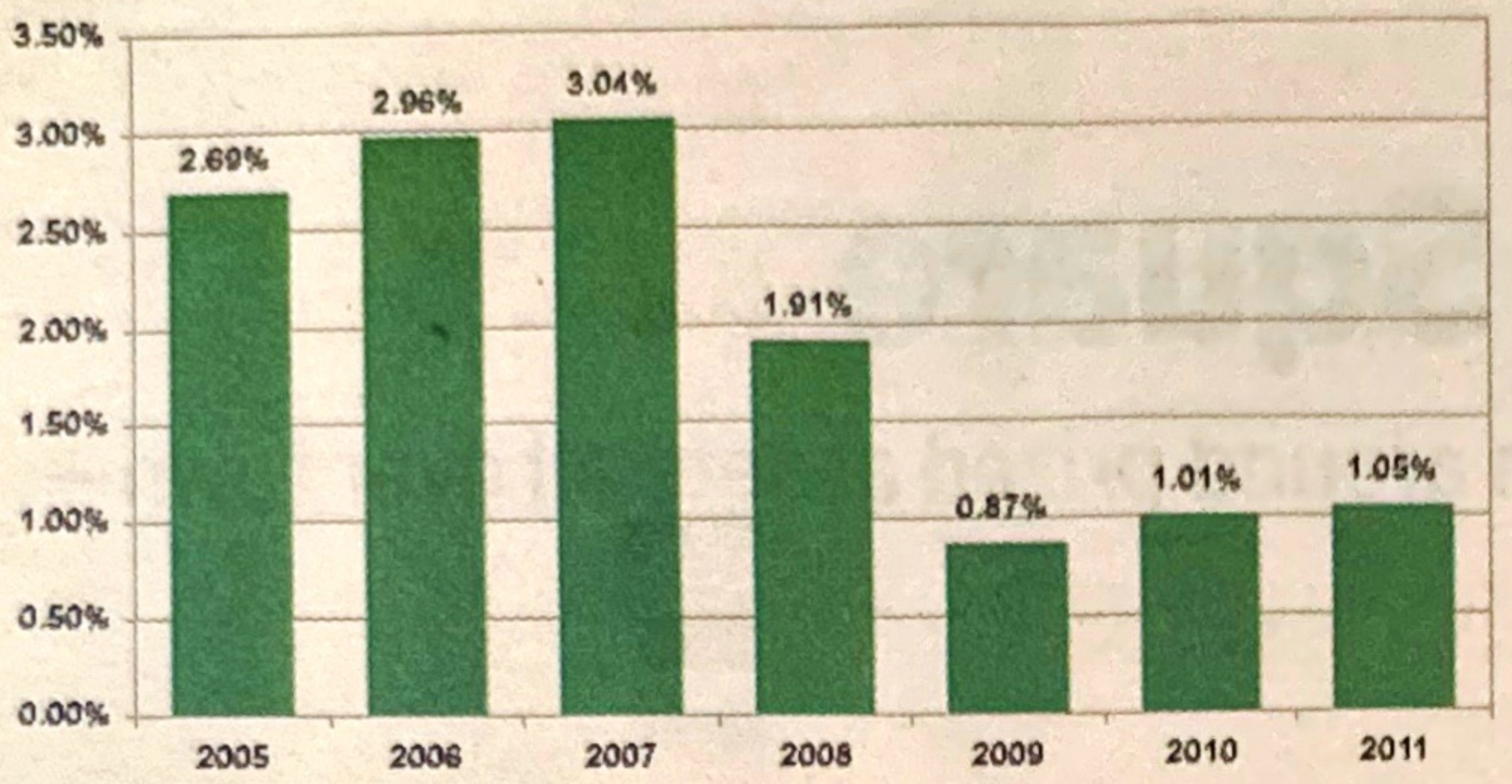
New York City Total Sale Dollar Volume (in Billions)



New York City Total Buildings Sold



Percentage of Total Stock Sold



in northern Manhattan, will lead it to have a higher turnover rate than any other in the city.

Best-Performing Asset Class

With regard to value, we expect the best performing asset class will be retail properties in Manhattan. Based upon recent leasing activity we have seen in the retail sector and the demand for retail properties, we expect to see value per square foot increase by 30 percent in 2011 over 2010 levels. Consumer confidence and consumer spending are bolstering fundamentals in this sector.

Best-Performing Submarket

In terms of value, we believe that Manhattan will be 2011's best-performing submarket, with an average appreciation rate of about 12 percent on a price-per-square-foot basis.

This is due to Manhattan's prominence within the metro area. Manhattan has always led the city out of recessions, and we expect this recovery to be no different. History has taught us that the best properties in the best locations always lead the way.

Cap Rates

In the multifamily sector, we expect to see cap rates compress by 50 to 75 basis points from 2010 levels, as investors start to look at elevator properties from a condo-conversion perspective once again. This will be particularly true in Manhattan and better locations in Queens and Brooklyn.

Development Sites

The development market has been a very interesting one. In the Manhattan submarket, surprisingly, we have seen the average price per buildable foot stay at elevated levels throughout this downturn. What has changed significantly is the number of transactions—they fell to extraordinarily low levels.

We expect to see the volume of development sales increase substantially, with values remaining relatively flat from 2010 levels. Flat value is typically indicative of a lackluster market. However, given the increase in site sales, and the elevated levels of those pieces of land that did sell in 2009 and 2010, we believe that this will be a very positive trend for the market.

Office Buildings

In the Manhattan office sector, we expect to see prices appreciate, on a price-per-square-foot basis, 20 percent in 2011 over 2010 levels as fundamentals firm and leasing activity picks up across the board.

Interest Rates

Interest rates are perhaps our biggest concern for the marketplace. There have been two factors that have really fueled the investment-sales marketplace: One is the acute supply-demand imbalance, with more people looking to buy than properties available for sale; the second is the extraordinarily low interest-rate environment we have been operating in, which is at or close to historic lows.

Given the doubling of the money supply and the tripling of the Fed's balance sheet, we believe that a good case can be made that interest rates will rise more quickly and to a greater extent than economists are predicting.

The impact on value could be significant. Clearly, as interest rates rise, mortgage rates rise. As mortgage rates rise, cap rates will rise, and as cap rates rise, downward pressure is exerted on value, which would be harmful to our sector's recovery.

All in all, market dynamics have been very positive thus far in 2011, and we look forward to continued encouraging performance metrics throughout the year.

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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.

Average Price Per Property Sold (in Millions)