

RETAIL EMERGING MARKETS CONTINUE TO OUTPERFORM
MATURE ECONOMIES IN GROWTH

COMMERCIAL PROPERTIES DOUBLE

52.5 LEASING VOLUME SURPASSED

MILLION SQUARE FEET
AT THE START OF 2010
2010 & 2011

CONFIDENCE LEVELS

STRENGTHENING

LONG TERM OUTLOOK

POSITIVE

INVESTMENTS STABILITY STARTS TO RETURN

STABILIZE • ASSESS • COMMIT

PBS ECONOMIC SNAPSHOT 2010-2011

RECOVERY • SHORT-LEASE TERMS • CAP RATES FALL
IN NYC, MODEST JOB GROWTH IN PROFESSIONAL AND BUSINESS SERVICES
BROUGHT THE UNEMPLOYMENT RATE TO 9.6%: A 16 MONTH LOW





Laura Pomerantz, Principal



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from our principals,

The year 2010 in commercial real estate could be summed up as a year of “demand recovery” with a trend in all sectors toward value.

The low international value of the dollar was beneficial to the Manhattan hospitality and retail industry’s as foreign tourist flocked to the city to shop. Value oriented brands prospered as consumer confidence returned but not enough for luxury brands to feel the benefits. Investment transactions were also bolstered by foreign investors, with the second most notable transaction being the sale of the McGraw Hill headquarters at 1221 Sixth Avenue, to the Canada Pension Plan Investment Board. In contrast to the rest of the United States, Manhattan office real estate showed signs of recovery due in part to 9.6% unemployment rate, a 16 month low. In investments, office and apartment properties saw the highest activity of the total \$11.6 billion of transactions in Manhattan in 2010.

Looking forward to 2011, the horizon looks brighter and we expect activity to increase in this coming year in all sectors. Office rents will rise as competition for space becomes more aggressive. Aspirational luxury and value retail brands (Tory Burch, Forever 21) will expand their locations to meet the demand of savvy consumers. Hotel RevPAR is also expected to rise with a further influx of European tourists. Foreign investors will continue to play a dominant role in the market as exchange rates roll in their favor.

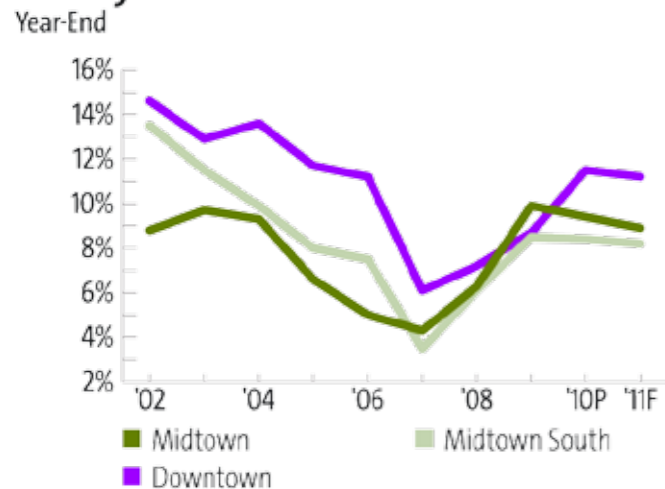
We hope you take the time to review the report in full and we look forward to working with you in 2011.

office - 2010 recap

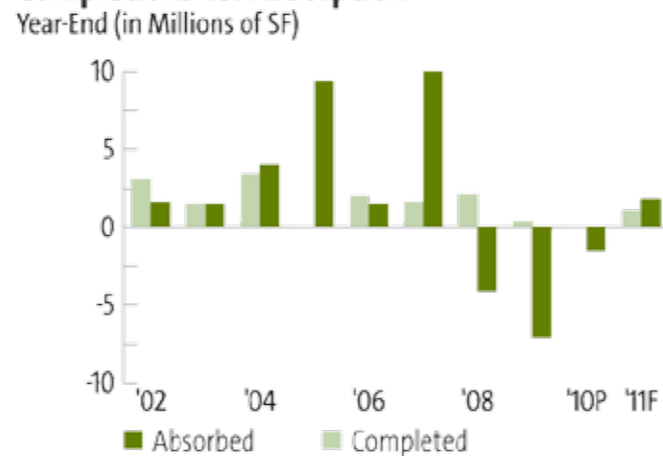
- With consumer confidence on the rise and over 52.5 million square feet of available space in the USA at the start of 2010, there were several options to explore and tenants capitalized on the reduced rates and generous concession packages landlords offered. As a result, by the close of 2010, **leasing volume surpassed 2008 and 2009 totals and was on par with the 13-year average of 29.5 million square feet.**
- By the end of 2010, **sublease space accounted for 24 percent of the available supply**—the smallest ratio since 2008.
- Of the 12 million square feet of sublease space available in Manhattan at year-end 2010, **2.1 million square feet had fewer than two years remaining on the term.** The short-lease terms may allow landlords to recapture the space, causing direct availability to rise slightly.
- In Manhattan modest signs of recovery allowed landlords to be slightly more aggressive in pricing and increase rents for the first time in two years. **Class A asking rents averaged slightly above \$64 per square foot and Class B slightly above \$46 per square foot.**
- In New York City, modest job growth in professional and business services brought the **unemployment rate to 9.6%, a 16 month low.**

Manhattan:

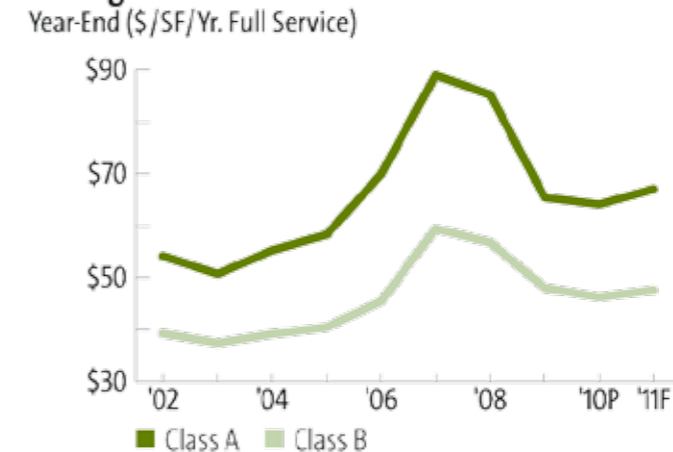
Vacancy Rate



Completions vs. Absorption



Asking Rental Rates



retail - 2010 recap

- Retail sales in Manhattan gained ground in 2010 over 2009 figures due in large part to a booming tourist trade.
- **Pent-up demand generated an uptick in activity** as tenants started to seize opportunities in the market and plan for the future.
- Landlords, who were aggressive in lowering rents in recent years started to **pull back on making further reductions, and rents began to stabilize.**
- Landlords are taking a short-term approach to leasing—compared to a strong market in which 10 to 15 years is the favorable lease term. **Now the landlords' target lease is seven to eight years with 10 years being the maximum. This allows landlords the option to renegotiate and reevaluate tenants in the future.**
- **Value oriented brands expanded their locations** in 2010. Most notably Target, H&M, Duane Reade, Forever 21, TJ Maxx and Century 21.

retail - 2010 recap

December 2010 Retail Store Sales			Same-Store Sales Chg		Holiday Season Chg	
Company	Sales (1,000's)	YoY Chg	Dec-10	Dec-09	Sales	Same-Store
Abercrombie & Fitch	\$ 596,300	26.0%	15.0%	-19.0%	28.1%	17.4%
Aeropostale	\$ 474,700	3.0%	-5.0%	10.0%	4.3%	-3.6%
American Eagle	\$ 499,000	-6.0%	-11.0%	7.0%	-3.3%	-7.1%
BJ's Wholesale	\$ 1,247,601	7.3%	3.8%	4.8%	7.6%	4.3%
Bon-Ton	\$ 510,800	-0.1%	0.1%	-2.6%	1.0%	1.2%
The Buckle	\$ 161,800	10.0%	6.1%	6.6%	10.9%	6.7%
Cato	\$ 106,600	2.5%	0.0%	7.0%	4.1%	1.9%
Costco	\$ 9,190,000	11.3%	6.0%	9.0%	11.7%	7.3%
Destination Maternity	\$ 47,100	0.9%	0.4%	-1.2%	0.6%	2.1%
Dillard's	\$ 1,068,736	6.2%	7.0%	-7.0%	6.5%	7.3%
Duckwall-ALCO	\$ 69,400	7.3%	1.1%	-2.3%	7.7%	2.9%
Fred's	\$ 210,600	0.6%	0.2%	1.3%	2.7%	2.0%
Gap	\$ 2,020,000	0.0%	-3.0%	2.0%	2.6%	0.0%
Hot Topic	\$ 118,800	-0.2%	-1.7%	-10.9%	-0.7%	-1.8%
JC Penney	\$ 2,955,000	2.3%	3.7%	-3.8%	4.1%	5.8%
Kohl's	\$ 3,192,000	5.9%	3.9%	4.7%	6.8%	4.8%
Limited Brands	\$ 1,790,000	7.8%	5.0%	-2.0%	9.9%	6.7%
Macy's	\$ 4,619,000	4.5%	3.9%	1.0%	5.6%	4.6%
Neiman Marcus	\$ 583,000	4.9%	4.7%	4.5%	5.1%	5.0%
Nordstrom	\$ 1,394,000	11.8%	8.4%	7.4%	10.7%	7.2%
Rite Aid	\$ 2,081,000	-0.5%	0.6%	-1.8%	-1.4%	-0.4%
Ross Stores	\$ 1,008,000	7.9%	4.0%	12.0%	8.6%	4.8%
Saks	\$ 432,200	9.8%	11.8%	9.9%	7.6%	9.4%
Stage Stores	\$ 266,000	4.5%	1.9%	-2.2%	4.7%	2.1%
Stein Mart	\$ 166,300	-2.3%	-1.9%	-2.0%	-1.5%	-1.2%
Target	\$ 9,882,000	1.4%	0.9%	1.8%	3.0%	2.6%
TJX	\$ 3,030,000	5.9%	2.0%	14.0%	6.4%	2.4%
Walgreens	\$ 6,810,000	7.4%	2.8%	-0.3%	8.0%	3.0%
Wet Seal	\$ 79,400	4.7%	-2.1%	-4.6%	8.2%	1.4%
Zumiez	\$ 88,500	14.0%	9.2%	0.3%	17.6%	12.8%
Total Stores	\$ 54,697,837	5.5%	3.2%	3.0%	6.4%	4.1%

Median Household Income

2010 (in Thousands)



Average Asking Rent

Shopping Center Space, 2010 (\$/SF/Yr. Triple Net)



Average Asking Rent

Major Retail Corridors, 2010, (\$/SF/Yr.)



hospitality- 2010 recap

- Manhattan drew **48.7 million tourists last year** (an increase of almost 7% over 2009). This had an overwhelming effect on retail sales and hotel occupancy throughout 2010.
- Tourists visiting Manhattan, that had extra buying power against a weak dollar, flocked to the city's hotels, theaters and museums even though ticket prices and room rates were rising. **All told, tourists spent \$31 billion in the city last year, up about 10 percent from 2009.**
- The hospitality industry in Manhattan — hotels, restaurants, museums and attractions — added 6,600 jobs last year and now **employed more people than it ever had, about 320,000 workers.**
- The overall **occupancy rate for hotel rooms in Manhattan in 2010 was more than 85 percent**, up about 5 percent from the year before.
- Nine hotels opened in the first half of 2010 and 1633 rooms were added to the New York City hotel industry. During the second half of 2010, more NYC hotels were expected to be under development. **Starwood Hotels and Resorts, Inc. announced in July that they were increasing their New York portfolio by 50%.** Starwood stated that they would be opening more hotels in New York City in 2010 than anywhere else in the world.

Select Examples of Proposed Manhattan Hotels - September 2010 Onward

Hotel	Address	Type	Rooms	Date of Completion	Developer	Hotel	Address	Type	Rooms	Date of Completion	Developer
Andaz	485 Fifth Avenue	boutique	184	September 2010	Hyatt Hotels and Resorts	48Lex*	517 Lexington Avenue	boutique	116	Late 2010	Hersha /Hunter Roberts
Courtyard 181	181 Varick Street	mid-scale	122	September 2010	Ocean King LLC	Double Tree	8 Stone Street	full service	410	Late 2010	McSam Hotel Group
Sheraton 370	370 Canal Street	full service	368	September 2010	McSam Hotel Group	High Line Hotel	West 27th Street	boutique	56	Late 2010	Black House
The Setai	400 Fifth Avenue	luxury	214	September 2010	The Setai Group	Select-Service	99 Washington Street	mid-scale	370	Late 2010	McSam Hotel Group

investments - 2010 recap

- Sales of significant commercial properties in the domestic United States reached more than double the same period last year, **transaction volume in 2010 will easily surpass the \$100 billion milestone.**
- **\$11.6 billion worth of commercial real estate sales** (individually valued at \$5 million or more) took place in Manhattan last year. This Accounts for 11% of the dollar sum of all commercial deals in the USA. This is three times the amount of sales in 2009.
- **Office and apartment sectors exhibit the strongest headline trends;** hotel trends are choppy, and retail and industrial assets have measured healthy but more modest improvements in demand.
- The largest transaction has been the closed sale in December of **111 Eighth Avenue to Google as its New York headquarters. The property transacted for \$1.8 billion, or \$621 a square foot.** The next-largest transaction, the McGraw Hill headquarters at 1221 Sixth Avenue, a slightly smaller property, traded at \$1.28 billion.
- **Foreign buyers have played a very significant role.** In the case of 1221 Sixth Avenue, the buyer was the Canada Pension Plan Investment Board.

Manhattan:

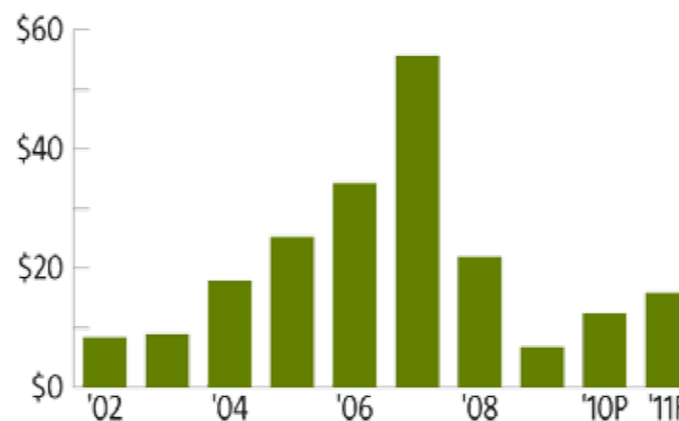
Average Capitalization Rates

Closed Sales



Property Sales Volume

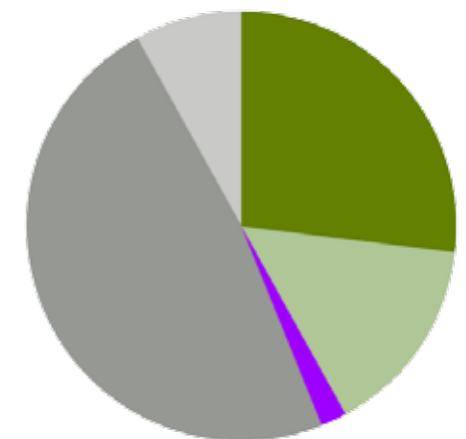
(in Billions)



Sales by Property Type

2010

Apartment	27%
Hotel	15%
Industrial	2%
Office	48%
Retail	8%





office - 2011

- **Expect activity to increase in the coming year** as tenants act before the economy returns to a period of material sustained growth. However, as companies look to reduce real estate costs, tenants may lease less space and operate more efficiently with the same workforce.
- **As competition increases for space, rents will continue to rise.** Landlords will become more selective before signing a lease with a tenant; even owners with high-vacancy rates can afford to let space remain vacant as the market improves.
- 70% of Class A midtown buildings were built prior to 1975, with less than half renovated since then—lack of new product could be a detriment to the market. As technology constantly evolves, **owners of these buildings will need to address the buildings' mechanical capabilities and impact on the environment in order to keep their assets relevant.**
- The midtown manhattan market will experience the most marked recovery, with the **vacancy rate expected to drop below 9% by the end of 2011.**



Hollister SoHo



4Q 2010 - Hollister's Second NYC Location Opens on 5th Ave.

retail - 2011

- **Value retailers including Uniqlo and Urban Outfitters are moving up to Fifth Avenue**, introducing a younger, more contemporary consumer to the area.
- **Look for a continued transformation of 34th Street.** Recent leases by Timberland, Desigual, Who A.U. and JC Penney are reinvigorating this longtime shopping destination, with the likes of Uniqlo and other contemporary retailers looking to follow suit.
- **Times Square is becoming a dynamic shopping area.** Forever 21, Aeropostale and Disney are leading the charge as retailers look to capitalize on New York's most visited tourist destination.
- **The Upper West Side will continue to prosper**, as the entrance of big box retailers such as Century 21 and EMS will drive additional traffic to the area.
- **Madison Avenue will offer a new retail mix.** Traditionally known as a destination for jewelry, retailers ranging from UGG to Michael Kors are creating a new reason to shop the area.
- **Expect new retail locations from aspirational brands.** Savvy consumers are turning away from luxury and towards aspirational brands like Tory Burch and David Yurman, which will continue to expand with new real estate locations in NY in 2011.
- **An infusion of international retailers will bring new excitement to the New York market.** The success of retailers such as Topshop, Ted Baker, All Saints and Desigual is paving the way for others to expand their U.S. presence.



hospitality - 2011

- **Businesses are moving to smaller office space**, as technology enables employees to work remotely. By taking smaller leases, companies can reduce real estate costs, while maximizing operating efficiency within the same size workforce.
- **Older buildings will need to renovate to address the latest technological advancements and environmental concerns.** With 70% of Class A office space built prior to 1975, owners need to adapt to remain relevant, as the focus on technology and the environment have become an everyday requirement.
- As a decline in vacancy rates and a lack of new developments fuel demand for space, **expect a continued rise in office rental rates through 2014.** Class A office space, which has risen to \$70.80 in 2011, may reach as high as \$84.10 by 2014.
- **The midtown Manhattan market will experience the most marked recovery**, with vacancy rates expected to drop below 9% by the end of this year.



investments - 2011

- Whether in primary markets or further afield, the **positive trends in headline transaction volume will continue into 2011**, barring a serious reversal in the underlying economic and labor market recovery.
- In measuring this recovery, **investors will have to remain vigilant**, particularly as concerns the complex, nonlinear relationship between broad interest rates and cap rates.
- In the realms of public and private markets, and at their juncture, **significant risks will continue to exert drags on consumer and business confidence** in a way that is material for the commercial property outlook.
- **Foreign investments will continue to play an increasing role** in Manhattans stability.

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