

OPPORTUNITIES EXPECTED IN FRINGE MANHATTAN NEIGHBORHOODS

Although layoffs have not been as severe as originally predicted, still-sizable job cuts have weakened apartment demand in Manhattan. With employers likely to continue thinning payrolls, developers have begun to alter plans in anticipation of declining residential demand. Multi-family permitting activity, an indicator of future supply, has dropped dramatically as a result. In February, for example, not one multi-family permit was filed in Manhattan. Alternately, lengthy planning and construction timetables have kept the pipeline of current projects full, though output is projected to wane starting in 2010. Apart from supply concerns, renter demand has fluctuated markedly depending on location. Leasing activity has been sturdiest in the West Village, SoHo and core Upper East Side neighborhoods. Rent cuts are expected in these areas going forward, however, due to the robust asking rent gains of the recent past. Rent-stabilized units, conversely, will afford owners some revenue stability, as the Rent Guidelines Board has approved a maximum increase of 3 percent on one-year leases and 6 percent on two-year agreements for units where the landlord pays for heat. For units where tenants pay for heat, allowable rent bumps are as much as 2.5 percent and 5.0 percent for one- and two-year terms, respectively. The ruling will take effect in the fourth quarter.

Apartment investment activity remains muted in Manhattan, as buyers are trying to gauge how falling revenues will impact values. Much like leasing trends, investment demand has cooled the most in fringe residential neighborhoods where renewal was slower to take shape and quicker to fade, such as Midtown and Upper Manhattan. Consequently, prices have dropped sharply in these areas so far in 2009, and with nearly 70 percent of all on-market properties located in these neighborhoods, values are expected to slip even further. Investors should note that while velocity is approaching or at a low point, so, too, are price barriers into the Manhattan apartment market, and opportunities could be missed while waiting for possible fire-sale prices.

2009 ANNUAL APARTMENT FORECAST



Employment: In all five boroughs, payrolls are projected to contract by 114,300 jobs in 2009. Manhattan employers will cut personnel levels by 2.9 percent, or 70,500 workers, after 27,800 positions were eliminated last year.



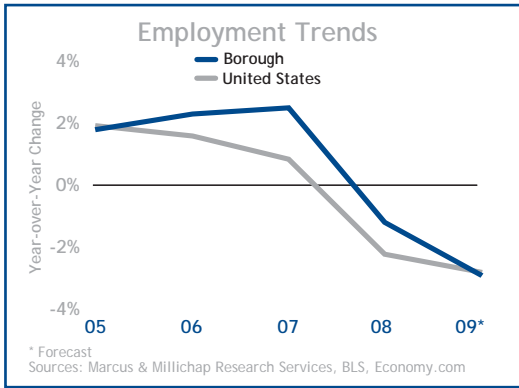
Construction: Manhattan's large, market-rate apartment inventory will expand by 3,180 units this year, the greatest supply addition since 2005. In 2008, 1,225 units were completed.



Vacancy: Vacancy in large, market-rate buildings is forecast to climb 140 basis points to 4 percent in 2009. Last year, vacancy increased 50 basis points.

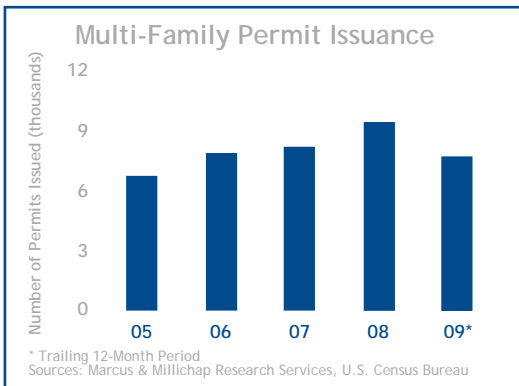


Rents: This year, asking and effective rents are projected to decrease 7.5 percent and 7.8 percent to \$3,446 per month and \$3,338 per month, respectively. Asking rents ticked 0.1 percent higher in 2008, while effective rents receded 0.1 percent.



ECONOMY

- ◆ Economic stresses and fallout from the financial services industry are accelerating job cuts. New York City employers have shed 104,000 positions in the last year, while Manhattan businesses have trimmed payrolls by 2.7 percent, or 66,200 workers.
- ◆ Although the construction and trade, transportation and utilities sectors have eliminated 11,000 jobs in the past 12 months, layoffs have been more severe among white-collar occupations. During the last year, the financial activities and professional and business services sectors have let go 44,900 employees, a 5 percent decline.
- ◆ Economic headwinds also are weighing on government payrolls, as the Metropolitan Transportation Authority laid off nearly 1,200 Manhattan employees in May.
- ◆ Unemployment in the borough has risen an average of 30 basis points each month since February. The second quarter rate of approximately 6.5 percent is 210 basis points higher than one year earlier and 170 basis points above the rate at year-end 2008.
- ◆ **Outlook:** In all five boroughs, payrolls are projected to contract by 114,300 jobs in 2009. Manhattan employers will cut personnel levels by 2.9 percent, or 70,500 workers, after 27,800 positions were eliminated last year.



HOUSING TRENDS

- ◆ Slower household creation due to economic stresses is eroding residential demand in Manhattan, as the number of multi-family permits requested has fallen 18 percent in the last 12 months to 7,630 units. Factoring out the surge in activity due to the 421a tax abatement expiration, the number of permits requested would have dropped to 2,140 units, a 75 percent year-over-year decline.
- ◆ Sales trends continue to moderate in Manhattan's condominium market. Reflecting both tepid demand and fewer sales at new developments, the median condo price has plummeted nearly 19 percent to \$999,000 per unit. Additionally, time spent on the market has increased more than 34 percent to six months. Ongoing job losses and the potential for oversupply indicate a soft for-sale market for the foreseeable future.
- ◆ Offering discounts nearing 50 percent, Africa Israel Investments and Mann Realty Associates are racing to sell condos at their converted Upper West Side property, the Aphorp. If 15 percent of the building's units are not sold by Sept. 15, the condo conversion will be negated, and the property would revert to rental housing.
- ◆ Under a new citywide pilot program that begins in the third quarter, a handful of distressed developers may receive assistance with stalled projects or unsold condos. Builders must offer the units at a significant discount, though the Housing Asset Renewal Program will broaden the buyer pool by offering subsidies to moderate- and middle-income households.
- ◆ **Outlook:** Roughly 3,800 for-sale units are expected to be delivered in the borough this year, including 460 condominiums in Upper Manhattan. Plummeting residential demand and prices will pose significant challenges to sales activity, however, and will likely push a number of new and converted properties into distress.

CONSTRUCTION

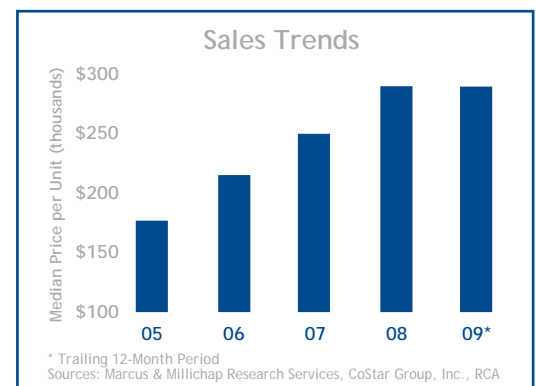
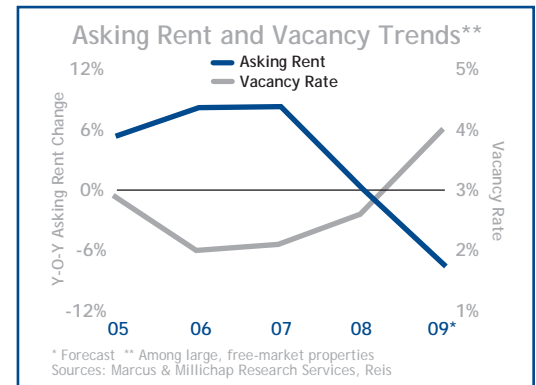
- ◆ Apartment development has slowed since the second quarter of 2008, as 630 units came online in major, market-rate developments. In the previous 12-month period, inventory expanded by 1,800 units.
- ◆ In contrast to the recent lull in construction activity, there are 4,400 apartment units under way in Manhattan, the majority of which will be finished before the end of the year.
- ◆ Forest City Ratner's Beekman Tower is one of the most notable developments under construction in the borough. Work came to a halt in March of this year, as the developer re-evaluated the cost of finishing the remaining 39 floors of the potentially 76-story building. Construction resumed in May, and delivery of the 900-unit tower is expected in the third quarter of 2010.
- ◆ A guarded economic outlook and limited construction capital are thinning the planning pipeline, as only 975 units are under consideration.
- ◆ **Outlook:** Manhattan's large, market-rate apartment inventory will expand by 3,180 units this year, the greatest supply addition since 2005. In 2008, 1,225 units were completed.

VACANCY AND RENTS

- ◆ Waning renter demand has accelerated vacancy increases in Manhattan's large, market-rate properties. So far this year, vacancy has climbed 90 basis points to 3.5 percent, compared with a 50 basis point rise during all of 2008.
- ◆ Asking rents in large, market-rate complexes have retreated 4.4 percent to \$3,559 per month over the past six months, while effective rents have declined 4.9 percent to \$3,444 per month. Last year, asking rents inched up 0.1 percent, and effective rents slipped 0.1 percent.
- ◆ **Outlook:** Vacancy is forecast to increase 140 basis points to 4 percent in 2009. Asking and effective rents are projected to fall 7.5 percent and 7.8 percent to \$3,446 per month and \$3,338 per month, respectively.

SALES TRENDS**

- ◆ Fears of declining revenues and tight credit markets continue to discourage investment in the Manhattan apartment market. In the past 12 months, the number of apartment sales has decreased 51 percent, compared with a 18 percent slowdown during the previous year.
- ◆ Despite falling transaction velocity, the median price has appreciated 15 percent in the last year to \$288,438 per unit. So far in 2009, however, prices have declined.
- ◆ Cap rates vary greatly depending on location. Initial yields have averaged in the low- to mid-5 percent range over the past 12 months, though properties currently coming on the market typically start at 6 percent.
- ◆ **Outlook:** Aggressive investors will likely look to Midtown and Upper Manhattan neighborhoods, where oversupply and waning renter demand will depress prices. More conservative buyers will remain focused on the smaller SoHo, West Village and core Upper West Side areas, as revenues in these locations will be the most stable, despite short-term rent reductions.



** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

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CAPITAL MARKETS

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- ◆ During the first quarter, multi-family mortgage originations were 61 percent below year-earlier levels and 79 percent lower than the late-2006 peak. Though considerable, the reduction in apartment originations remains less significant than declines among other core commercial property types, due largely to the availability of financing through Fannie Mae and Freddie Mac.
- ◆ Portfolio lenders are issuing apartment financing at all-in rates of 6.0 percent to 6.3 percent for three-year loans and up to 6.8 percent to 7.5 percent for a 10-year term. Loan-to-value requirements range from 55 percent to 75 percent.
- ◆ Agency lenders are offering five-year loans at all-in rates of 4.8 percent to 5.0 percent with 10-year mortgages available at rates averaging 5.35 percent and 5.7 percent, respectively. Maximum leverage among agency lenders ranges from 55 percent to 75 percent.
- ◆ Freddie Mac recently completed a \$1 billion securitization of multi-family debt, the first issuance to hit the market since last June. The securities, dubbed "K Certificates," vary from traditional CMBS in that buyers are provided a guarantee by Freddie Mac. In addition to the potential for another similar offering, government programs designed to increase credit flows into commercial real estate could be operational by late summer/early fall.

MANHATTAN SALES HIGHLIGHTS

Property Address	Sales Price	Number of Units	Price per Unit	Price per Square Foot
488 Seventh Avenue	\$45,300,000	95	\$476,842	\$510
125-127 Washington Place	\$9,250,000	30	\$308,333	\$523
110-112 Mulberry Street	\$6,500,000	36	\$180,556	\$350
313-315 W. 21st Street	\$6,250,000	36	\$173,611	\$305
659 W. 162nd Street	\$6,218,000	52	\$119,577	\$105
150 W. 84th Street	\$5,350,000	20	\$267,500	\$403
1969 Amsterdam Avenue	\$4,950,000	33	\$150,000	\$229
527 W. 46th Street	\$4,747,000	20	\$237,350	\$418
226-228 E. 59th Street	\$4,630,000	16	\$289,375	\$391
2722 Frederick Douglass Boulevard	\$4,625,000	27	\$171,296	\$282
304 W. 112th Street	\$3,900,000	12	\$325,000	\$401
493 Second Avenue	\$3,850,000	18	\$213,889	\$408
159 W. 73rd Street	\$3,703,333	10	\$370,333	\$637
81 Baxter Street	\$3,570,000	20	\$178,500	\$347
2140 Fifth Avenue (portfolio sale)	\$3,474,159	52	\$66,811	\$71
418 E. 78th Street	\$3,150,000	16	\$196,875	\$428
22 W. 88th Street	\$3,125,000	10	\$312,500	\$440
218 E. 84th Street	\$2,960,000	20	\$148,000	\$347
350 E. 89th Street	\$2,900,000	12	\$241,667	\$344
131 W. 80th Street	\$2,800,000	9	\$311,111	\$436
240 Seaman Avenue	\$2,480,000	26	\$95,385	\$121
542 W. 147th Street	\$1,750,000	15	\$116,667	\$112
160 E. 102nd Street	\$1,295,000	8	\$161,875	\$264
136 Manhattan Avenue	\$1,100,000	10	\$110,000	\$337
308 W. 113th Street	\$1,000,000	8	\$125,000	\$300
237 W. 131st Street	\$990,000	11	\$90,000	\$412