



Performance of the office and hotel markets in New York City skyrocketed in fourth quarter 2006, and is expected to continue its upward climb throughout 2007, likely hitting new record highs due to a tightening market and less available space. All of the other commercial real estate sectors in the New York City area remain healthy as well, and RERC expects to see little change in average capitalization rates and prices over the coming year.

## Demographics & Economy

### Population:

2006 (est.): 19.0 million

2011 (proj.): 19.6 million

### Unemployment Rate:

New York City - 3.7%

New York - 3.8%

National - 4.5%

## Office

- RERC's transaction analysis indicates the average price of office space in the New York City area is \$382 per square foot, which is dramatically higher than the East regional average of \$200 per square foot and the national average of \$167 per square foot.
- The average transaction-based capitalization rate for the New York City office market is 6.4 percent, lower than both the regional and national averages of 7.1 percent and 7.2 percent, respectively.

*With one of the country's largest and strongest office markets, the capitalization rate in the area is much lower than the national average, and as one would expect, the sale price per square foot is considerably higher. Although the properties are priced higher, the return vs. risk potential remains positive. Market vacancy is expected to continue to improve during 2007, and possibly even reach record-setting low levels, making investment in the New York City area office market even more attractive.*

## Industrial

- RERC's transaction analysis indicates that the average sale price of New York City industrial space is \$202 per square foot, more than twice the regional average price of \$84 per square foot and the national average price of \$83 per square foot.
- The average capitalization rate for the New York City industrial market is 6.7 percent, lower than the regional and national averages of 7.3 percent and 7.4 percent, respectively.

*With the low average capitalization rate, higher prices can be expected. Although there are some fears of overpricing, fundamentals should remain strong, keeping the capitalization rate and overall value stable.*

## Retail

- RERC's transaction analysis indicates the average sale price for New York City retail space is \$434 per square foot, more than double the East regional average of \$199 per square foot and the national average of \$169 per square foot.
- The average transaction-based capitalization rate for the retail sector in

the New York City area is 6.2 percent, slightly lower than the regional and national rates of 6.9 percent.

*The average capitalization rate for the area is lower than both the region and the nation, but the average price is dramatically higher – a sign of overpricing. However, fundamentals will remain constant, as demand for retail space in the area will remain steady over the coming quarters.*

## Apartment

- At \$176,632 per unit, the average price for apartment properties in the New York City area is substantially higher than the regional average of \$128,020 per unit and the national average of \$107,833 per unit, according to RERC's transaction analysis.
- The average capitalization rate for the New York City area apartment market is 5.8 percent, slightly lower than the regional average of 6.1 percent and the national average of 6.3 percent.

*The apartment market is one of the least risky sectors for investment. Transaction activity and investor demand indicates that landlord pricing power will continue in New York City.*

## National Transaction Breakdown (Jan. 1, 2006 – Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
<b>Volume (in millions)</b>						
<\$2 million	\$2,307	\$4,047	\$4,070	\$5,669	\$220	\$16,312
\$2-5 million	\$3,910	\$5,701	\$6,222	\$5,910	\$926	\$22,668
>\$5 million	\$155,131	\$32,581	\$50,896	\$87,663	\$33,689	\$359,961
All	\$161,348	\$42,328	\$61,188	\$99,242	\$34,835	\$398,942
<b>Unit Price Averages</b>						
<\$2 million	\$103	\$68	\$103	\$92,566	\$53,998	–
\$2-5 million	\$167	\$96	\$216	\$128,810	\$59,767	–
>\$5 million	\$209	\$104	\$250	\$126,410	\$137,649	–
All	\$167	\$83	\$169	\$107,833	\$110,713	–
Median of all	\$137	\$66	\$123	\$86,170	\$82,776	–
<b>Capitalization Rates (All)</b>						
Range	4.7 - 10.5	4.8 - 11	4.4 - 10.4	3.8 - 10.6	5.7 - 12.3	3.8 - 12.3
Average	7.2	7.4	6.9	6.3	8.7	7.3

## East Region Transaction Breakdown (Jan. 1, 2006 – Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
<b>Volume (in millions)</b>						
<\$2 million	\$452	\$789	\$817	\$888	\$28	\$2,974
\$2-5 million	\$881	\$1,080	\$1,264	\$1,749	\$146	\$5,119
>\$5 million	\$62,999	\$8,110	\$12,157	\$30,547	\$8,698	\$122,511
All	\$64,287	\$9,914	\$14,178	\$33,144	\$8,861	\$130,384
<b>Unit Price Averages</b>						
<\$2 million	\$95	\$56	\$98	\$81,790	\$54,731	–
\$2-5 million	\$157	\$97	\$239	\$158,133	\$48,372	–
>\$5 million	\$258	\$127	\$338	\$174,721	\$182,367	–
All	\$200	\$84	\$199	\$128,020	\$147,952	–
Median of all	\$146	\$57	\$124	\$87,004	\$94,017	–
<b>Capitalization Rates (All)</b>						
Range	4.7 - 10	4.8 - 9.9	4.7 - 10.4	4.2 - 9	5.9 - 11.5	4.2 - 11.5
Average	7.1	7.3	6.9	6.1	8.4	7.2

## Hotel

- The average sale price for hotels in the New York City market is \$351,547 per unit, more than twice the regional average of \$147,952 and more than three times the national average of \$110,713 per unit.
- The transaction-based capitalization rate of the New York City hotel sector is 8.4 percent, equal to the East regional average and slightly lower than the national average of 8.7 percent.

*With the amount of tourism and business travel in the New York City area, hotel demand is always strong and has increased the average sale price of hotel properties while decreasing the capitalization rate. However, the hotel market as a whole is greatly dependant on consumer confidence and is risky overall. The New York City hotel market saw significant improvement in the fundamentals during fourth quarter 2006, a trend that is expected to continue throughout 2007.*

New York City Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)						
	Office	Industrial	Retail	Apartment	Hotel	Total
<b>Volume</b>						
<\$5 million	\$167	\$265	\$423	\$1,655	-	\$2,510
>\$5 million	\$24,835	\$1,581	\$4,392	\$19,897	\$3,531	\$54,236
All	\$25,002	\$1,846	\$4,814	\$21,552	\$3,535	\$56,750
<b>Unit Price Averages</b>						
<\$5 million	\$197	\$144	\$253	\$139,312	-	-
>\$5 million	\$438	\$264	\$645	\$254,285	\$358,712	-
All	\$382	\$202	\$434	\$176,632	\$351,547	-
Median of all	\$287	\$132	\$301	\$115,000	\$172,406	-
<b>Capitalization rates (all)</b>						
Range	4.8 - 8	5 - 8.4	4.7 - 7.8	4.4 - 7.3	6.3 - 10.5	4.4 - 10.5
Average	6.4	6.7	6.2	5.8	8.4	6.7

NCREIF Real Estate Index Returns - 4Q 2006					
	Office	Industrial	Retail	Apartment	Average
<b>Total Returns:</b>					
1-Year Rate	38.30%	18.80%	18.80%	15.80%	28.30%
3-Year Rate	25.20%	19.40%	19.30%	18.80%	22.20%
5-Year Rate	19.70%	15.30%	20.20%	13.50%	17.90%
10-Year Rate	17.50%	14.40%	16.10%	-	16.40%
15-Year Rate	12.30%	-	-	-	11.50%
<b>Income Return</b>					
1-Year Rate	6.20%	7.00%	6.10%	4.80%	6.10%
3-Year Rate	6.60%	7.50%	6.60%	5.20%	6.50%
5-Year Rate	7.30%	7.40%	7.50%	5.80%	7.10%
10-Year Rate	7.60%	8.90%	8.60%	-	7.70%
15-Year Rate	8.10%	-	-	-	8.10%
<b>Allocation</b>					
	Office	Industrial	Retail	Apartment	Other
1-Year Average	54%	6%	15%	20%	6%
3-Year Average	57%	4%	17%	18%	4%
5-Year Average	62%	4%	14%	17%	4%
10-Year Average	72%	3%	11%	11%	3%
15-Year Average	76%	2%	8%	8%	6%

Sources: RERC and National Council of Real Estate Investment Fiduciaries

## Noteworthy Transactions

- The 538,000-square-foot office property located at 350 Park Ave. sold for around \$542 million, or about \$1,000 per square foot – more than twice the average of \$438 per square foot for office properties in the area selling for more than \$5 million.
- The Manhattan Mall, a 976,000-square-foot retail property located at 6th Avenue and 33rd Street, sold for \$689 million, or \$706 per square foot, above the average price of \$645 per square foot for retail properties in the area selling for more than \$5 million.
- The industrial property located at 400 Barretto St. and containing 19,300 square feet of space sold for around \$2.3 million, or \$119 per square foot, lower than the average price of \$144 per square foot for industrial properties selling in this price category.
- Peter Cooper Village and Stuyvesant Town, an 11,232-unit apartment complex, sold for \$5.4 billion, or \$480,770 per unit, much higher than the average of \$254,285 per unit for area properties selling for over \$5 million.
- The 770-room Crowne Plaza Times Square Hotel sold for \$362 million, or approximately \$470,130 per room, higher than the average price of \$358,712 per unit for hotel properties in the area selling for more than \$5 million.