

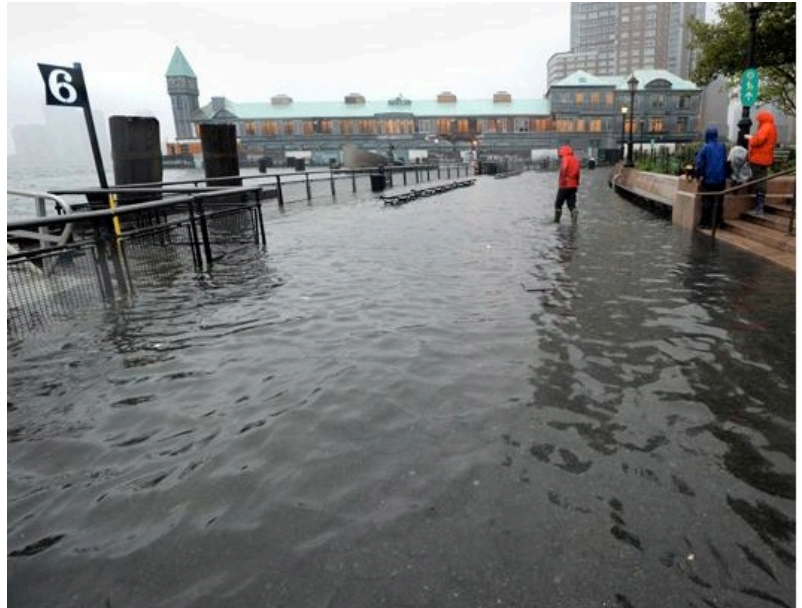
Real Estate Update

New York City vs. Mother Nature

New York City recently experienced two unexpected natural occurrences and luckily both were for the most part non-events. However, both likely will give insurance companies a good excuse to raise premiums next year.

As of late Friday, Kinetic Analysis Corp., which estimates the impact of natural and man-made hazards, was forecasting about \$7 billion in damages from Hurricane Irene, with insured losses being about half that. By comparison, Hurricane Katrina in 2005 resulted in \$62.2 billion in insured losses alone, according to Munich Re, a reinsurance company. However, 2011 was already shaping up to be an expensive one for insurance companies as the record amount and severity of tornados across the United States has taken its toll.

Property located in Zone A which are designated low-lying areas by the city of New York, received the majority of any flooding that occurred. Zone A properties are located in parts of Queens, and areas of Brooklyn on the waterfront such as Jamaica and Coney Island. Lower Manhattan also is at risk of flooding as are portions of the west side of Manhattan. Upper Manhattan usually is not as susceptible to flooding as it sits on higher ground vs. lower Manhattan.



None of the properties owned by King Penguin Properties in Manhattan sustained any damage during the recent events in New York City. Our focus area of Upper Manhattan is less susceptible to flooding vs other parts of lower Manhattan. We also pre-paid for 3 years of insurance coverage on two of our most recent purchases in New York City, which will insulate us against any increase in premiums almost certain to occur next year. We also insure against earthquake coverage for the majority of the buildings we buy even though they are located in New York City. The unprecedented earthquake that was felt in New York City also justifies the wisdom of being more cautious when purchasing insurance coverage for valuable New York City real estate.

AMERICAN HOMEOWNERSHIP RATES CONTINUE TO DECLINE

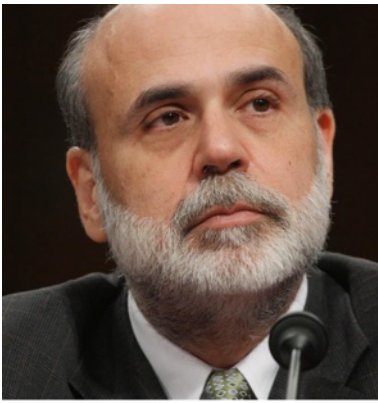
American Homeownership rates continued to decline and at the end of the 2Q stood at 66%. This is down from a record 69% during the 2Q 2004. The rate should continue to fall well below 65%.

Every 1% decline in the Homeownership rate represents the movement of 1 million households to rental units. This ongoing demand for rental housing has enabled landlords of multi-family buildings to raise rents drastically.

New York City is not the only market seeing resurgence in housing demand. In Miami home sales have risen by 16% from 2010 for their best selling season since 2007. People thought it would take a decade to get back to this point in Miami. This resurgence is being driven by foreign demand for units. Miami and New York City have 2 vital characteristics in common: They both have a lot of investment by foreign nationals into their real estate markets. Either for luxury units or for commercial property. Both of these great American cities stand to benefit from a weaker American Dollar in the manner of more tourists and more foreign nationals buying up real estate.



NEW YORK CITY UNEMPLOYMENT AND CENSUS UPDATE



Unemployment in metropolitan New York City is at 8.7% it remains below the national average of 9.2%. Here is the current breakdown of unemployment for each of the 5 NYC boroughs:

- Manhattan 7.1%
- Brooklyn 9.3%
- Queens 7.8%
- Bronx 11.7%
- Staten Island 7.8%

Over the last 10 years the census has found that blacks reported their first population loss since the Civil War with many of them relocating to the South and to the outer Suburbs. There continues to be a wide variation by borough in ethnic trends but what is evident is the white gentrification of Harlem and the upper Manhattan neighborhoods in Central Brooklyn, where younger families are gravitating to raise families given the less expensive housing costs.

The Hispanic community also made sizable gains in population over the last 10 year period. According to the 2010 census NYC was 33% non-Hispanic white, 29% Hispanic, 23% percent black, and 13% Asian

FOCUS ON THE NEW YORK CITY RENTAL MARKET

The NYC rental market remains very tight. The NYC vacancy rate remains below 1% while average asking rents across Manhattan continue to increase. NYC average rents increased 10% year-on-year. In Harlem average asking rents for Studios, One-Bedroom, and 2-Bedroom units are all up around 10%. Current average rents for units in Harlem are:

- Studio \$1303 per month
- One-Bedroom \$2530 per month
- Two-Bedroom \$3702 per month

Reasons that the NYC rental market is so tight: NYC continues to recover faster than the rest of the nation; supply of new housing stock remains very low, reluctance of residents to move from their current units, NYC population growth, and the inability for many to obtain loans to purchase units themselves.

NYC rents for Retail stores continue to rise. Vacant storefronts in prime NYC areas are filling up and many stores are now getting rents reminiscent of the 2007 pre-financial crisis. Current retail vacancy rates of 7.5% are lower than the 9% vacancy rate in 2009. Current retail rental rates across NYC and vacancy rates are as follows:

- **Prime Madison Ave:** \$667 to \$1,300 per foot (12.8% vacancy rate)
- **Lower Downtown NYC** \$75 to \$300 per foot (9% vacancy rate)
- **SoHo** \$425 to \$550 per foot (8.1% vacancy rate)
- **Upper Fifth Avenue NYC** \$2,000 to \$2,500 per foot (7.5% vacancy rate)
- **Times Square** \$1,300 to \$2,000 per foot (7.4% vacancy rate)
- **Lower Fifth Avenue NYC** \$400 to \$680 per foot (6.5% vacancy rate)
- **Brooklyn** \$150 to \$175 (4.3% vacancy rate)
- **Queens** \$135 to \$150 per foot (3.75% vacancy rate)



NYC OFFICE PROPERTIES

2Q Manhattan Office Sales Soar. A total of 12 properties traded for over \$4.3 Billion in transaction volume more than double the amount from last year. The market has roared back in the last 12 months. The price per a square foot went up 16% to \$460 per a foot and the average asking rents also went up by 4% to \$51.28 per a square foot.

Fueling this demand are the growth of office jobs in NYC. So far in 2011 a total of 25,500 NYC office jobs have been added. Topping the sales list was Paramount Group's purchase of the remaining 49% stake at 1633 Broadway at the corner of 50th street for \$980 million. The second largest deal was Broadway Partners' and Brookfield Office Properties' recapitalization of 450 West 33rd street valued at \$533 million.

Manhattan office leasing volume hits 13-year highs. During the 1H of 2011 17.6 million square feet of office space has been leased the best 6-month performance in 13 years and a 40% surge from last year. Conde Nast's lease of 1.1 million square feet downtown at 1 World Trade center was the largest deal. Downtown NYC is now competing more with midtown with lots of new high quality office space inventory.

In King Penguin's Corner - Upper Manhattan

Northern Manhattan 2011 First Half commercial property sales stood at \$259 million 34% in dollar volume vs the first half of the year in 2010. Multifamily assets made up nearly 80% of this number. About \$207 million or a total of 59 transactions took place among the Multi-family asset class in Northern Manhattan with buildings trading at an average Gross Rent Multiplier of 7.7 times while the average price per a square foot was at \$182 still much lower from the 2007 highs of \$239 per a square foot.

The Rent Guidelines Board voted 5 to 4 to raise rents for 1.1 million NYC rent stabilized units by 3.75% for one-year lease renewals and by 7.25% for two-year renewals. These hikes will take effect October 1st and are bigger than similar increases over the last two years. Last year the Board agreed to only a 2.25% increase for one-year lease renewals on rent stabilized units.

The New York State legislature also approved legislation that increases the minimum monthly rent under which a landlord can convert a rent-stabilized apartment to free market rent. That monthly rent has been moved to \$2,500 from \$2,000. This increase was widely expected as the prior \$2,000 rate had been in place for over 5 years. State lawmakers

also increased the income cutoff threshold from \$175,000 to \$200,000, meaning that tenants of rent stabilized housing that earn \$200,000 a year or more will no longer be entitled to the rent stabilized unit.

Development in Harlem continues at a brisk pace. Two sites in Harlem that have been vacant for more than three decades are to be developed. A \$100 million project will turn the former Taystee Bakery complex on 125th Street and Amsterdam Ave into a 328,000 square foot office and industrial space dubbed the CREATE @ Harlem Green. The Harlem Brewing Co. plans to move their production facility from Saratoga Springs, NY to the site in Harlem. In another large development project, Artimus will spend \$16 million to rehabilitate the former Corn Exchange Building on Park Ave and 125th Street into a complex to include 22,000 square feet of office space and 9,000 square feet of retail space. When cities across the country are struggling to attract new development to have Harlem announce two major developments on the same day speak to the revitalization of the community. These projects will create 530 new permanent jobs and 570 temporary construction jobs.

The owner of Harlem's Lenox Terrace, the Olnick Organization, is in preliminary stages for a massive redevelopment of the large complex which was constructed in 1958 and sits in three square blocks between Fifth and Lenox Avenue from 132nd to 135th Streets. To move forward the project will still need City Council approval. The new massive plan would create over 1,000 new retail jobs alone. The preliminary model of the redevelopment includes new tall and mid-size buildings of up to 28 stories, gleaming glass towers, upscale restaurants, and landscaped parks.

A distressed note is currently being sold from a JV deal between Apollo Real Estate and Vantage Properties to acquire 466 residential units in 8 buildings in Upper Manhattan. The note should sell at its current face value of \$70 million. The loan special servicer has hired Eastern Consolidated to handle the sale of the note. The properties included in the sale are 3885, 3900, 3915 and 4455 Broadway, 66-72, 80, and 86 Fort Washington Ave, and 884 Riverside Drive.

NYC Monitored Transactions

This 40 unit residential 5 story walk-up building contains many rent stabilized units with rents currently well below free market. KPP would seek to acquire this property at under a 9x Gross Rent Roll.

This property would generate over a 6% capitalization rate on purchase with upside in income generation over time. This property is located in a highly desirable area on 176th Street that is West of Broadway in close proximity to Columbia Presbyterian Hospital.



This small 10-unit building (on left) presents significant upside as 2 of the 10 units are rent controlled with the remaining rent stabilized units all well below free market rental rates. There exists good potential for upside in income generation, but based on current income this property would still be acquired by KPP at under a 6.5x Gross Rent Roll and at around a 7% capitalization rate.

Adding significantly to the net income generation of this property, there is a mobile phone antenna with a 5-year corporate lease in place in the roof of the building. This property is located in East Harlem a block away from the primary Harlem retail corridor on 125th Street.



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