NEW YORK CITY REAL ESTATE REPORT Q3 2009

9/1/2009

|Economic Outlook | Vacancies & Rents |Recent Transactions

Identifying trends, recent transactions & economic opportunities in the five boroughs of New York City.

KINGPENGUIN PROPERTIES

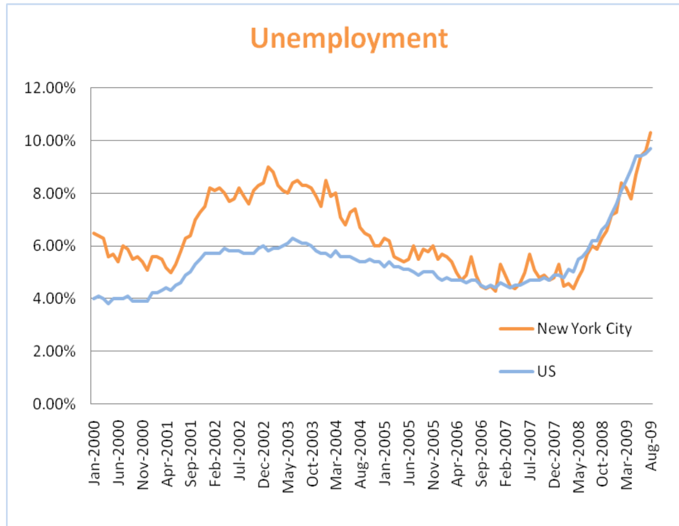
NEW YORK CITY ECONOMIC AND REAL ESTATE OVERVIEW

ECONOMIC OVERVIEW

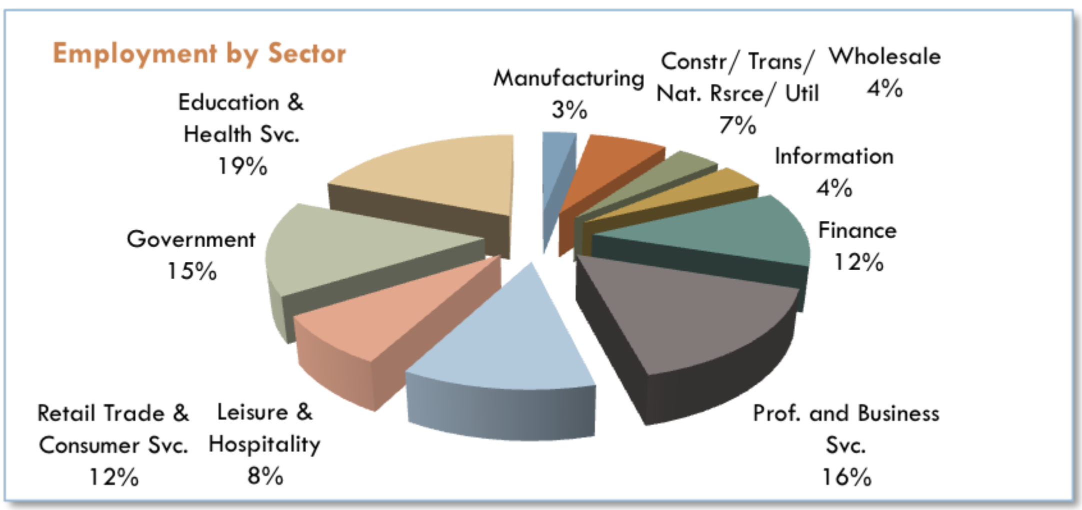
Unemployment, Employment and Household Income

New York City unemployment rates are historically higher than those of the greater US economy, and that trend continued through the third quarter. The national unemployment rate now stands at 9.7% while the New York City unemployment rate topped 10%. A record setting 415,800 residents are unable to find work.

Employment figures are down across all sectors except health care and education. June employment data from the New York State Department of Labor shows job losses in New York City are widespread. Construction losses could increase as the troubled capital markets limit new development and fiscal crises slow investment. According to REIS, new construction permits were down 48.5% from the same period last year to 720, and were down 69% from the first half of 2007, when the building boom was still in full force.



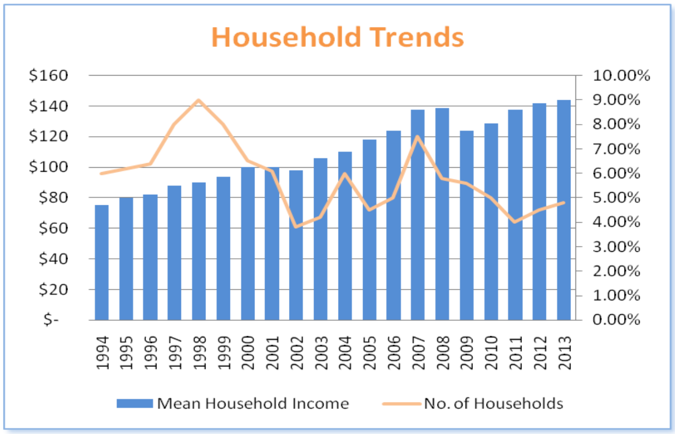
Source: NYS Department of Labor. Available Online at http://www.labor.state.ny.us/workforceindustrydata/index.shtm.



Source: NYS Department of Labor. Available Online at http://www.labor.state.ny.us/work forceindustrydata/index.shtm.

This downturn has not seen the dramatic decrease in self-employment as was predicted. According to REIS, the total number of self-employed residents of New York City is off just 75,000 (2.0%), far less than wage and salary employment in the city. Moreover, skilled workers continue to arrive, representing an increase of 83,900 (2.1%) year to date, which is more than in either of the previous 12-month periods. Moody's Economy.com predicts the population will grow by 57,000 (0.6%) this year, though growth is expected to slow thereafter.

Despite the better than expected employment figures, New York City still faces hard times and significant income losses. According to Moody's Economy.com, average NYC household income is down 5.2% year over year. Much of this is driven by falling wages and bonuses on Wall Street, and diminished investment income. In turn, this means less collected taxes, which will hurt the local economy in the coming years.



Source: REIS. REIS Observer: New York Apartment Market. August 25, 2009.

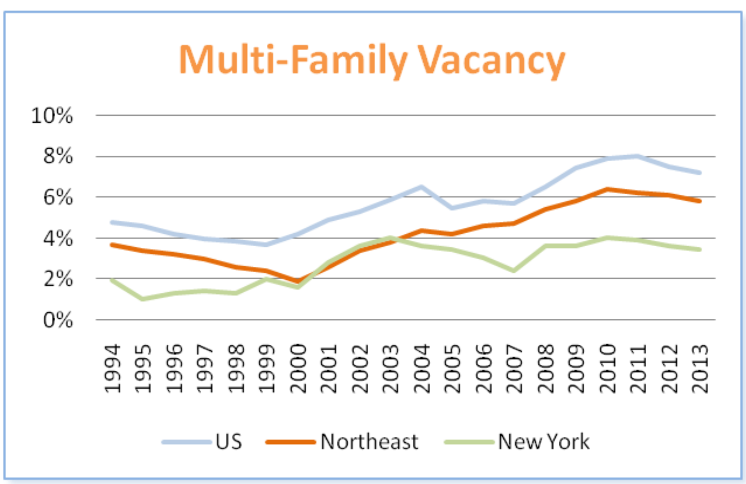
ECONOMIC OUTLOOK

The growing unemployment rate, decreasing tax revenues, as well as the continued struggles on Wall Street will hinder the local economy in the short term. Yet despite the negative indicators, Moody's Economy.com predicts that a loss of 158,000 jobs (4.0%) in 2009 will be followed by a loss of just 15,000 (0.4%) in 2010. They predict strong employment growth thereafter—the strongest since the late 1990s—is forecast to restore the job losses by 2013, much faster than in past downturns. Overall, the market is nearing its low-point and it is predicted to rebound smoothly over the next 4 years.

REAL ESTATE OVERVIEW

MULTI-FAMILY

While New York City's population continues to rise, real estate supply remains low. Accordingly, the city's market-rate investment-grade apartment market continued to feature the lowest vacancy rate among the top markets in Q2 2009. However, as household income falls, the spread between asking and taking rents will widen resulting in a decline in rent revenue. Furthermore, with the largest building boom since the 1960s just ending, new supply may also pressure rents downward over the next few years.



Source: REIS. REIS Observer: New York Apartment Market. August 25, 2009.

Apartment Vacancy Rates by Metro Area

Rank	Metro Area	Vacancy Rate
1	New York	2.90%
2	New Haven	3.20%
3	Central New Jersey	3.80%
4	Syracuse	3.90%
5	Long Island	3.90%
6	Rochester	4.00%
7	Minneapolis	4.40%
8	San Diego	4.70%
9	Northern New Jersey	4.80%
10	San Jose	4.80%

Source: REIS. REIS Observer: New York Apartment Market. August 25, 2009.

Apartment Rent Rates by Metro Area		
Rank	Metro Area	% Change
1	Palm Beach	-1.10%
2	Miami	-1.10%
3	New Haven	-1.10%
4	Las Vegas	-1.20%
5	Los Angeles	-1.20%
6	Orange County	-1.60%
7	Seattle	-1.60%
8	San Francisco	-1.80%
9	New York	-1.90%
10	San Jose	-2.60%

Source: REIS. REIS Observer: New York Apartment Market. August 25, 2009.

MULTI-FAMILY (Continued)

Overall, the New York multi-family segment has been a very low vacancy, high barrier to entry market. Vacancy rates in the 2% range are common. For comparison, shortly after the 9/11 attacks, the New York multi-family vacancy rate hit decade highs at 4%. These historically low vacancy rates indicate a shortage of rental housing throughout the five boroughs. REIS predicts vacancy for the market rate units will rise to 3.4% by year-end 2009 and 3.9% at year-end 2010 before leveling off and declining. While low by national standards, the rate will remain high for New York through 2013.

OFFICE

Manhattan Class-A office is normally used as an overall New York City office market indicator. Vacancy rates in this segment continued their quick rise through the third quarter. REIS reports that the vacancy rate closed at 12.5%, up from 11.8% in the second quarter.

Class A net absorption, remained sharply negative for the quarter (-2.2-mm-sf) and the year (-4.3-mm-sf).

	Vacancy Rates					
	Quarterly			Annually		
	2Q09	1Q09	YTD	1 Year	3 Year	5 Year
New York	10.80%	9.60%	10.20%	6.80%	7.50%	8.40%
Northeast	13.70%	13.00%	13.40%	11.50%	12.00%	12.90%
United States	15.90%	15.20%	15.60%	13.50%	13.80%	14.70%

Source: REIS. REIS Observer: New York Apartment Market. August 25, 2009.

	Asking Rent Growth					
	Quarterly			Annually		
	2Q09	1Q09	YTD	1 Year	3 Year	5 Year
New York	-4.10%	-4.30%	-4.20%	1.30%	13.30%	8.40%
Northeast	-2.80%	-2.80%	-2.80%	2.30%	9.10%	5.60%
United States	-1.40%	-1.40%	-1.40%	2.40%	6.30%	4.10%

Source: REIS. REIS Observer: New York Apartment Market. August 25, 2009.

REIS reports that asking rents for the quarter continued to move downward. Class-A Manhattan space dropped 5.8% to $65.57/sf. For all classes of space, the Manhattan average asking rent fell 5.0% to $52.78/sf.

RETAIL

New York City's retail market has suffered a substantial blow over the past 2 years. At the end of Q2, city-wide retail vacancy rates reached 6.5%-the highest rate since 2001-and in some neighborhoods, retail vacancy rates have topped 10%. According to The Real Deal, retail vacancies on prime strips of Madison Avenue in Manhattan now stand at 10.5% (See Exhibit Below) and taking rents have decreased nearly 10%.

Source: The Real Deal. Sept 2009.

	Rents			Vacancy Rates		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
Madison Avenue	$ 900	$ 1,150	$ 1,000	3.0%	5.0%	10.5%
Meatpacking District	$ 220	$ 350	$ 325	8.0%	10.0%	13.0%
Financial District	$ 150	$ 225	$ 200	6.0%	7.0%	9.0%
Lower East Side	$ 210	$ 220	$ 200	3.0%	4.0%	6.0%
125th Street	$ 125	$ 175	$ 150	1.0%	1.5%	3.0%

Overall, the New York City retail market remains one of the strongest in the country, but with new supply coming on-line this year, and even more expected over the next three years, retail rents should continue to decrease in the short-term before steadily rising over the next 4-6 years. The ancillary retail corridors will suffer the most as smaller, "mom and pop" businesses are better able to afford major retail strips. Some corridors throughout the five boroughs will remain strong as successful, city-financed development spurs retail demand, and major, world-class locations (i.e. 5th Avenue, Times Square, Brooklyn's Fulton Street, etc) will continue to thrive.

REAL ESTATE OUTLOOK

With demand decreasing and steadily increasing vacancy rates across all segments, market rents will remain stable or decrease in the short-term. Furthermore, as current tenants renegotiate their lease terms and landlords scramble to cover their debt service, the number of available properties for sale will increase through Q1 2010 further solidifying this as a true "buyers market." Employment will steadily improve over the next 12 months as government funding helps loosen the credit markets and businesses are once again able to expand. Ultimately, the NYC real estate market will continue to struggle through Q2 2010. Acquisition opportunities will emerge throughout all real estate sectors, which will drive market values down over the next 12-18 months. Thereafter, as employment rebounds and vacancy rates begin stabilizing, the local real estate market will begin a steady rise over a 4-6 year period.

NYC RECENT TRANSACTIONS UNDER $5 MILLION

Source: The Real Deal, Sept 2009

Address	Size	Buyer	Seller	Notes
30-46 Steinway Street (Queens)	1 Story Retail Bldg	n/a	n/a	The property sold for $2.5mm, which represented a capitalization rate (Cap rate) of 8.4%. The space is currently occupied by T-Mobile.
5725 Foster Ave (Brooklyn)	19,000 SF Industrial Bldg	473 E. 92nd St LLC	Metro Industrial	The property sold for $2.2mm, or $116 per square foot to an appliance-rebuilding company.
407 Avenue P and 766 Flatbush Ave (Brooklyn)	2 Mixed-use Bldgs for a total of 5,559 SF	n/a	Michael Guttman, Tosewood Realty Group	The properties sold $2.2mm, which represents a capitalization of 8%.
229 Lenox Ave (Manhattan)	4-Story, 8.344 SF Mixed-use Bldg	n/a	n/a	The property sold for $1.8mm.
76-0723 Jamaica Ave (Queens)	1-Story, 4,298 SF retail Bldg	n/a	n/a	The property sold for $1.1mm, which represents a capitalization rate of 7%.
3039 Wallace Ave (The Bronx	6-Story Multi-Family w/ 59 Units	n/a	n/a	The elevator building sold for $4.6mm, which represents a gross rent multiplier (GRM) of 7.1.
1275 Edward L. Grant Highway (The Bronx)	6-Story Multi-Family w/ 61 Units	n/a	Anlovi Corp	The elevator building sold for $3.63mm, which represents a GRM of 6.5.
121 Ludlow Street (Manhattan)	3-Story, 4,485 SF retail Bldg	n/a	n/a	The property sold for $3.45mm, which represents a cap rate of 4.4%.
35 Walker Street (Manhattan)	3-Story, 6,000 SF Mixed-use Bldg	Local Investor	n/a	The property sold for $2.3mm.
2632 East 14th St (Manhattan)	2-Story, 7,250 SF Office Bldg	Accord Business Administration	n/a	The property sold for $1.78mm.
3379-3381 Shore Parkway (Brooklyn)	2 Commercial Bldgs, 7,144 SF	Local User	n/a	The property sold for $1.67mm.
21 Greenpoint Ave (Brooklyn)	3-story, 3,500 SF Multi-family Bldg	n/a	n/a	The property sold for $1.32 million.
21-03 Cornaga Ave (Queens)	2-story, 11,500 SF mixed-use Bldg	n/a	John Simpson	The property sold for $1.26 million, or $109 per square foot. The price represents a capitalization rate of 9.4%.
1150 President St (Brooklyn)	4-story apt. Bldg, 16 units total	n/a	Local Investor	The rent-stabilized walk-up property sold for $1.05 million.
145 6th Avenue (Manhattan)	3,400 SF comm. Condo	Russel Roberts	n/a	Undisclosed Price

1585 White Plains Rd (The Bronx)	6-story, 63,750 SF apt. Bldg, 59 units total	Jomike Realty Co. LLC	Parkash Realty	The elevator building sold for $4.6 million. The price represents a capitalization rate of 8.3 percent and a gross rent multiple of 7.1.
533-543 West 158th St	Three 6-story apt. Bldgs, 77 units total	Vigor Realty LLC	Private investor	The adjacent walk-up buildings totaling 49,500 square feet sold for $4.55 million. The price represents a capitalization rate of 7 percent, a gross rent multiple of 6.5
26-01/26-15 4th St (Queens)	1-story, 50,000 SF warehouse	AA Holding	26-01/26-15 4th Street LLC	The property sold for $4.3 million, or $86 per square foot.
2550-52 University Ave (The Bronx)	5-story, 46,875 SF apt. Bldg, 54 units total	n/a	The Morgan Group	The prewar walk-up building sold for $4 mm, which represents a capitalization rate of 9 percent, a gross rent multiple of 6.4.
25 McLean Ave (The Bronx)	6-story, 30,328 SF apt. Bldg, 36 units total	n/a	n/a	The multifamily property sold for $3.4 million.
143-28 Cherry Ave (Queens)	4-story, 12,915 SF apt. Bldg	n/a	n/a	The corner walk-up building sold for $1.83 mm, which represents a capitalization rate of 6.5.
2307 Beaumont Ave (The Bronx)	5-story, 20,920 SF apt. Bldg, 25 units total	n/a	n/a	The multifamily building sold for $1.64 million.
1341 Garrison Ave (The Bronx)	1-story, 15,155 SF garage	n/a	n/a	The building sold to an end user for $1.6 million.
585 Wales Ave (The Bronx)	5-story, 250,000 SF warehouse	n/a	n/a	The property sold for $1.3 million.
462 East 137th St (The Bronx)	5-story, 21,875 SF apt. Bldg	Local Investor	n/a	The walk-up building sold for $1.23 million.
211-217 Cook St (Brooklyn)	10,000 SF development site	n/a	n/a	The corner industrial site sold for $1.15 million.
245 East Mosholu Pkwy North (The Bronx)	34,250 SF development site	Promesa Systems Inc.	n/a	The lot sold for $1.0mm. The site has been approved for an 11-story apartment building with 35 units. 100% financing was provided by the New York City Affordable Housing Acquisition Loan Fund.

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