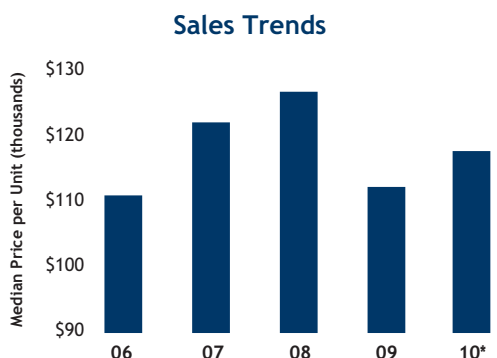
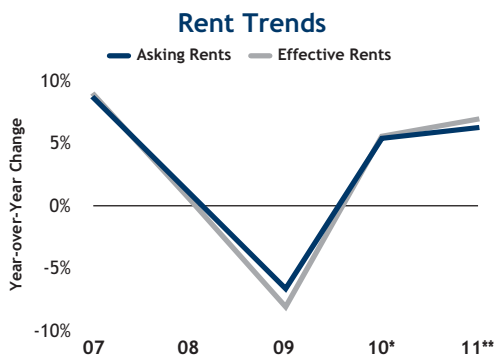
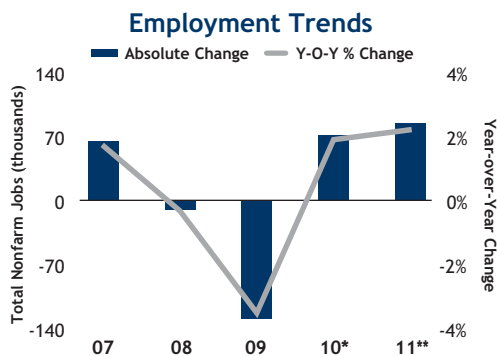


Institutions Eye Manhattan; Interest in Outer Boroughs Intensifies

Vacancy at large market-rate rental properties in New York City will decline in 2011 as tenant demand intensifies and construction activity subsides, following a substantial surge in completions last year. Historically, more than half of new market-rate properties delivered annually stabilize within the first year of operation, but the proportion fell to about 30 percent in 2010 as the pipeline of new units overwhelmed demand. Stronger job growth will accelerate the stabilization of new properties this year, contributing to a decrease in vacancy in each borough. In Manhattan, completions totaled more than 4,900 units last year but will fall to approximately 1,200 units in 2011, helping market-rate vacancy improve 120 basis points to 3 percent. Vacancy will decline 40 basis points and 20 basis points in Brooklyn and Queens, respectively, as construction slows and demand for less expensive rentals strengthens amid a recovering economy.

Investment activity in the city will continue to accelerate through the first half of 2011, fueled by the low cost of capital and healthy growth in the local economy. Institutions will increase their activity in Manhattan as large-property operations improve and the need to place cash intensifies. Average cap rates in the borough rose to the high-5 percent range last year, reflecting sales of smaller properties, but some compression is likely in 2011 as institutions and REITs aggressively value large assets. In the other boroughs, cap rates generally average from 6.0 percent to 6.5 percent for most stable and performing properties. Local investors, the dominant buyer group, will increase activity in these areas as financing capacity expands. Interest in rent-stabilized properties remains constant among less risk-tolerant investors. New guidelines for rent increases on these units will be issued at midyear and guide underwriting assumptions.



* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

2011 Market Outlook

- ◆ **2011 NAI Rank: 1, Up 2 Places.** The nation's lowest vacancy rate and strong forecast employment growth helped New York City claim the top spot in the 2011 NAI.
- ◆ **Employment Forecast:** This year, employers in the city will add 84,000 positions, a 2.3 percent gain and up from the creation of 71,000 jobs in 2010.
- ◆ **Construction Forecast:** The inventory of market-rate apartments in the city will expand 0.9 percent in 2011 with the completion of 1,450 units. Last year, 7,600 units were added, the most in the past decade.
- ◆ **Vacancy Forecast:** Vacancy at large properties will decline 80 basis points this year to 3 percent. The vacancy rate rose 90 basis points in 2010.
- ◆ **Rent Forecast:** In 2011, asking rents at large, market-rate complexes will advance 6.2 percent to \$3,010 per month, while effective rents will climb 6.9 percent to \$2,901 per month.
- ◆ **Investment Forecast:** Foreign ownership will increase in the city, as the low value of the dollar will enable well-capitalized investors from overseas to aggressively pursue high-quality, well-located properties.