

Against a backdrop of high unemployment, a slowly recovering housing market and exceptionally low consumer confidence-56% versus a national confidence level of 72.5%-Binghamton's commercial real estate market experienced negative absorption and depressed prices throughout 2009.

The industrial sector was particularly hard hit. Manufacturers continued to shed jobs over the year, and, relative to national trends, Binghamton's manufacturing employment is recovering at a slower pace. Overall industrial vacancy climbed to 13% at year end-up close to two percentage points over numbers reported in 2008. Industrial activity slowed across the board, as Lockheed Martin the area's largest employer reduced its workforce by 25%, or 1,000 jobs, in the aftermath of the US government's cancellation of the VH-71 presidential helicopter program; a large electronics manufacturer consolidated from multiple buildings into one; and a substantial book publisher closed its doors on 300,000 square feet at year end.

OFFICE MARKET STATISTICS

MARKET	INVENTORY	OVERALL VACANCY	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE psf/yr
BNG-CBD	2,247,435	19.2%	\$11.58
BNG-NE	98,383	3.7%	NA
BNG-NW	861,623	14.2%	\$20.13
BNG-SE	744,293	7.0%	NA
BNG-SW	893,361	2.5%	\$10.50
Total	4,845,095	13.0%	\$12.25

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It was a buyer's market and two manufacturing tenants in the 80,000 to 150,000 square foot range renewed at flat or favorable rates. A third manufacturing tenant vacated 235,000 square feet as its lease ended. Buyers of larger buildings, including two in the 80,000 square foot range and a third of 165,000 square feet were able to realize prices lower than already depressed averages over the previous ten years.

INDUSTRIAL MARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY HT/MF/OS/WD	OVERALL VACANCY RATE	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
			HT	MF	OS	WD
BNG-CBD	4,462,012	20.2%	NA	\$3.70	NA	\$5.66
BNG-NE	657,906	1.8%	NA	NA	NA	NA
BNG-NW	8,814,965	15.5%	NA	\$3.65	\$12.50	\$3.84
BNG-SE	5,167,435	4.9%	NA	\$5.50	NA	\$4.25
BNG-SW	1,165,124	6.3%	NA	\$4.50	\$6.50	\$8.21
TOTAL	20,267,442	13.0%	\$10.00	\$3.74	\$12.08	\$4.61

Drilling for natural gas in the Marcellus Shale formation that extends throughout the northern tier of Pennsylvania and the southern tier of New York has provided jobs, pumped up local economies and had a

positive impact on the absorption of industrial space to the south and west of Binghamton, but any immediate impact on the Binghamton market has been delayed by the moratorium on drilling currently imposed by New York State's Department of Environmental Conservation.

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The regional office market actually experienced increased activity, and vacancy rates were reduced by the closure of a 170,000 square foot office building, the largest multi-tenant building in the CBD. The growth in the CBD office market was negatively impacted as one substantial corporate tenant downsized and moved to the City periphery and a growing engineering business purchased a 30,000 square foot building in the suburbs. County government rehabbed a 50,000 square foot historic building in the CBD, but the return of several substantial county operations to the building left additional gaps in the commercial office sector.

A suburban tenant in search of 30,000 square feet in the CBD, instead chose to lease a new location in the suburbs. A 40,000 square foot suburban Class A building was acquired by aggressive new management that leased up the property over the year, and two large suburban back office operations of 55,000 and 70,000 square feet negotiated favorable renewals.

The availability of class A office buildings for sale continues to be tight. In addition to the distressed sale of the 40,000 square foot building, and the purchase of the 30,000 square foot retail building for conversion to office, in the City a 15,000 square foot former bank building sold at year end and a 12,000 square foot building went under contract soon after being put on the market.

Activity in the retail market was flat, but Binghamton fared better than contracting retail markets across the country. Only one national tenant was lost as Circuit City shuttered its stores. However existing vacancy was not absorbed, including land and vacant space along the area's most successful retail corridor on the Vestal Parkway. Land in the second most active retail strip on Upper Front Street was put under contract and received approvals for the development of a 65,000 square foot grocery store. The construction of a new 132,000 square foot Super Wal-Mart proceeded in Johnson City for a delayed opening in 2010.

The biggest news in the local retail and commercial real estate market was the sale of the thirteen-store, locally owned Giant Markets to Weis Markets of Sunbury, Pennsylvania. The real estate was retained by the local ownership and it was business as usual at all locations, with the exception of the undersized founding location in the City.

The investment sector was also not immune to national trends. Across all property types, investment activity was dampened by the unavailability of financing and by increasing vacancy. In addition, well financed buyers for apartments were frustrated by a lack of attractive opportunities. A distressed 110 unit sale closed and a sizable project over 250 units was put under contract, with closing expected in 2010. Toward year end activity in the smaller multi-families and student housing conversions picked up, and small investors began to show renewed interest in other types of income producing assets.

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