

The Buffalo, New York Central Business District (CBD) office market saw an overall increase in its Class A vacancy rate with newly developed space coming onto the market. Vacancy rate is 14.2% consisting of primarily functionally obsolete space. The suburban Submarket has an overall vacancy rate of 8.2%, which includes a 130,000 square feet (sf) short term sublet on Main Street in Williamsville and 110,000sf of spec space built by Uniland Development.

| OFFICE MARKET STATISTICS |                   |                 |                      |  |
|--------------------------|-------------------|-----------------|----------------------|--|
| MARKET                   | INVENTORY         | OVERALL VACANCY | YTD LEASING ACTIVITY | DIRECT WTD.AVG. CLASS A GROSS RENTAL RATE psf/yr |
| Amherst/Williamsville    | 9,854,557         | 8.2%            | 162,539              | \$22.00  |
| Buffalo/CBD              | 10,279,834        | 14.2%           | 224,310              | \$24.00  |
| <b>Total</b>             | <b>20,134,391</b> | <b>11.2%</b>    | <b>386,849</b>       | <b>\$22.73</b>                                   |

North Forest Office Providers is branching out into the Southtowns. A new office complex is under construction at 4535 Southwestern Blvd in Hamburg consisting of 8 single story brick office buildings totaling 117,490 sf. An expansion in the medical sector is underway the Largo Group will expand the Dent Tower located at 3980 Sheridan Drive, Amherst by adding an additional 12,000 sf for University at Buffalo Neurosurgery Group.

Uniland Development has spent the past sixteen months transforming the former Dulski federal building into a state-of-the-art mixed use facility. Two hundred Delaware Avenue has been gutted, restructured and re-skinned into the newly named Avant building expected to be complete in the summer of 2009. The 400,000 sf building will consist of class "A" office space, luxury residential condominiums and an Embassy Suites Hotel. One of the areas largest local law firms Damon & Morey will occupy the 11<sup>th</sup> and 12<sup>th</sup> floors consisting of roughly 51,000 sf.

The overall outlook for 2009 Western New York Office Market is stable. The Western New York market has continued to react on a smaller scale toward national projections in comparison to other markets that are experiencing dramatic increases and decreases. More space is projected to become available as tenants re-evaluate their space needs increasing the overall and the sublet inventories. As for 2010 the Canadian Consulate General has announced it will double its space at the HSBC Center in Buffalo's Central Business District. The long term lease commences in June of 2010 consisting of the towers entire 30<sup>th</sup> floor and part of the 31<sup>st</sup> floor approximately 35,700 sf.

Overall the industrial vacancy rate dropped slightly due to Sonwil's newest 300,000 sf building being fully leased. Food industry giant General Mills leased approximately eighty five percent – roughly 255,000 sf of warehouse/distribution center for cereal products. Dyson Vacuum Cleaners has leased the remaining 45,000 sf for its North American distribution center. A second 300,000 sf building has been proposed for the 51-acres at Sonwil Distribution center making them the largest industrial park landowners.

The NFTA Port Terminal buildings need new tenants due to the transformation of Buffalo's Waterfront. Terminal "A" is the larger of the two consisting of two stories and 548,000 sf. The building was constructed for Ford Motor Co back in late 1940's. NanoDynamics leases 46,000 sf of office and manufacturing space.

For additional information, contact us at:

1900 Rand Building  
Buffalo, NY 14203 • 716-852-7500  
[www.pyramidbrokerage.com](http://www.pyramidbrokerage.com)

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The first floor consists of 360,000 sf with ceiling heights maxing out at 15 feet. Two working cranes: one 10-ton and one five-ton crane come with the space, along with 54 docks doors and two active rail lines serviced by CSX Railroad. Terminal "B" has 95,000 sf on one floor which is primarily occupied by Sonwil Distribution Center.

400 Riverview Parkway project at Riverview Commerce Park added 104,000 sf of Class "A" flex/office warehouse space which was the largest speculative project of 2008. One of Buffalo's own assembler and seller of boxed packages and gift baskets CityMade Inc. occupies 12,000 sf and only 8,000 sf remains available. The construction of 600 Riverwalk Parkway is complete. Approximately 32,000 sf of office space and 72,000 sf of warehouse space is now available.

Benderson's Broadway Development Park recently constructed is already 84% occupied. This premier warehouse and office space was quickly absorbed because of its convenient location. It sits adjacent to New York State Thruway (I-90), just minutes to Buffalo/Niagara International Airport, Downtown Buffalo and the Peace Bridge into Canada. In summary, as of the last quarter in 2008 not much activity has occurred but overall for 2009 there will be more action as the alternative energy industry grows.

In the retail sector, the City of Buffalo saw the biggest decrease in vacancy due to former Ames on Delaware Avenue being demolished and making way for Kohl's department store to open April 1<sup>st</sup>, 2009. Krispy Kreme has left the area completely, allowing Dunkin Doughnuts and Tim Hortons to expand further. Tops Markets plan to bring Tim Hortons outlets to all of its supermarket locations. Two of the newest locations have opened at 2101 Elmwood Avenue and 425 Niagara Street both of which are situated in Buffalo.

Grocery store competitor Price Rite has come onto the scene at the end of the first quarter of 2009. Its first location is now open at the Stuyvesant Plaza on Delaware Avenue in Buffalo and the second is scheduled to open within the second quarter of 2009 in Kenmore. Aldi's has announced their expansion within the Buffalo market.

Due to the economic downturn car dealerships have taken a hit forcing some major area locations to close such as the former Kane Doyle site on Delaware Avenue in Kenmore. The site was acquired by Iskalo Development Corporation in which they received \$8.6 million to tear down and restructure the former dealership into a mixed-use complex of office and retail space.

The Southtowns market showed a decrease in vacancy rate with the blossoming of Quaker Crossings near the McKinley Mall. The plaza has twenty-five stores, anchored by Regal Cinemas, Target, Kohl's, PetSmart and Boarders Books. The newest national restaurant additions are Red Robin, Buffalo Wild Wings and Cold Stone Creamery. Others include Marshalls, Foot Locker, Ashley Furniture Home Stores and Orville's have recently opened at Quaker Crossing.

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Retail sales dropped but not as bad as feared. Some national closings such as Circuit City, Linens-N-Things, Montana's and Roadhouse Grill have affected the overall vacancy rate to decline in the Buffalo market. Locally Steve & Barry's a major big box clothing store closed their locations at the Galleria and Summit Malls. Pizza Hut has closed some of its local locations that were underperforming and intend to reposition them in better markets.

Overall there has been very little development within the retail market but Coffee Culture has announced their arrival and is expected to open three new locations. Everything for a Dollar Store sites are popping up adding competition to Dollar Tree and Dollar General. A few new credit unions such as Summit Federal Credit Union and Lakeshore Savings Bank are expanding their branches within the Buffalo area.

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