

Buffalo, NY

2010-2011

The Buffalo Niagara Region proves resilient to the national boom-and-bust cycle through the years because of several reasons: 1. the local housing market has been among the nation's strongest during the downturn; 2. although the area's job market suffered losses, it was less severe in comparison to the national level. According to a study performed by Brookings Institution, "Buffalo Niagara is one of the best-performing regional economies among the nation's 100 biggest metropolitan areas."

Overall vacancy rate for Buffalo's office market remains in the 10%-10.5% range. Almost every major building has multiple space opportunities in this very strong "tenants" market, resulting in downward pressure on rental rates. Landlords are offering more incentives to attract and maintain tenants. The year was marked by an increasing number of "blend & extend" transactions.

Buffalo's CBD market continues its revitalization. Medical office building development in the vicinity of the Buffalo Medical Campus continues. Ciminelli Development will construct an office building consisting of 500,000 sf anchored by a new ambulatory surgery center on Main at High Street.

In the suburban market Arista Development added 15,000sf of medical office space. Millard Fillmore Suburban Hospital plans construction of a 60,000 sf medical office building on its Amherst campus. New medical office projects in the Amherst market include a pediatric urgent care center, conversion of a restaurant into a 14,000-sf rheumatology practice, and expansion of two medical practices on Essjay Road.

"Tenants and landlords, without seeing any real 'light at the end of the economic tunnel', are realizing the necessity of making prudent decisions instead of postponing all decisions. This realization, and 'pent-up demand', will drive transaction velocity higher in 2011."

is shifting from a leased property in Amherst into a new campus on Millersport Highway, while also expanding its current campus in Orchard Park.

Buffalo's industrial market for 2010 can be classified as a buyer's market in which supply exceeded demand for buildings from 50,000-square feet (sf). Buildings in this size range sold for approximately \$12 to \$20/sf. As building sizes go down, the sale price per square foot went up, ie. 20,000 sf to 50,000 sf buildings sold for \$15 to \$30/sf; 10,000-sf building sold for \$35 to \$40/sf. Leasing rates remain stable at \$4/sf in the manufacturing sector, while office service/flex space range between \$4.70 to \$5.20 and warehouse/distribution space range from \$3.70 to \$5.50.

OFFICE MARKET STATISTICS

| MARKET | INVENTORY | OVERALL VACANCY RATE | YTD LEASING ACTIVITY | DIRECT WTD.AVG. CLASS A GROSS RENTAL RATE psf/yr |
|-----------------------|-------------------|----------------------|----------------------|--|
| Amherst/Williamsville | 9,987,738 | 6.7% | 353,843 | \$23.50 |
| Buffalo/CBD | 10,379,834 | 13.2% | 110,290 | \$22.00 |
| TOTAL | 20,367,572 | 10.0% | 464,133 | \$22.75 |

INDUSTRIAL MARKET STATISTICS

| MARKET/SUBMARKET | OVERALL VACANCY RATE | YTD LEASING ACTIVITY | DIRECT WEIGHTED AVERAGE NET RENTAL RATE* | | | |
|------------------|----------------------|----------------------|--|---------------|---------------|---------------|
| | RATE | HT | MF | OS | W/D | |
| C-BUFFALO | 10.7% | 7,000 | N/A | \$3.03 | \$4.00 | \$3.51 |
| N-NIAGARA | 18.4% | N/A | N/A | \$3.27 | \$6.00 | \$4.50 |
| S-TOWN | 11.6% | 2,700 | N/A | \$4.57 | \$5.42 | \$3.04 |
| SUB-EAST | 4.5% | 296,807 | N/A | \$5.36 | \$5.32 | \$3.86 |
| TOTAL | 11.5% | 306,507 | N/A | \$4.06 | \$5.19 | \$3.73 |

*Rental rates reflect \$psf/year

HT = High Tech MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

Eleven transactions in 2010 were over one million dollars proving larger players are still active and Buffalo's industrial market is rebounding. Among those transactions was the sale of the Arcelor Mittal Steel plant, also known as the former Bethlehem Steel site, located at 3175 Lakeshore Road, Lackawanna. Great Lakes Industrial Development/FFZ Holdings LLC purchased the 164 acre site, which contains approximately 1,300,000 sf of manufacturing space for \$5.5 million. The local investor intends to transform the site into a multi-tenanted business park with light manufacturing, warehouse and back office space. The second largest deal was the former Seneca Industrial Center located at 701 Seneca Street, Buffalo which was acquired by Seneca Larking 701 LLC for \$3.1 mil. The site is expected to be renovated in phases over the next five years. The 1.3 million-sf building will be converted into office, light manufacturing, and warehouse spaces. The redevelopment will appeal to tenants in need of large floor plates, up to 170,000 sf per floor. RR Donnelley & Sons of Chicago purchased 3125 Stanley Street former APP Pharmaceuticals the 64,719-sf former warehouse space on Grand Island for \$2.5 million. As part of new ownership agreement, the facility will be used to produce & distribute Williams-Sonoma, Pottery Barn Bed & Bath catalogs.

Activity in the retail market has been steady over the past year. Rosa's Home Stores, AJ Wright and International House Of Pancakes (IHOP) announced store closings in 2010. Recently Fuddrucker's pulled out of the area with the closing of two locations in Amherst and Cheektowaga. Most of the major submarkets saw a slight increase in vacancies for 2010.

The Boulevard Mall Retail corridor has a refreshed market with the appearance of Brick House Tavern & Tap, Joe's Crab Shack, Buffalo Wild Wings, Chipotle and MacGregor's Grill, Tap Room and Portrait Innovations. Construction at the former Hills/Ames Department Store site on Sheridan Drive at Bailey Avenue is well underway for Super Wal-mart to open in 2011.

In the Galleria Mall Retail corridor, Price Rite took over former Linens-N-Things on Walden Avenue. H&M & Anthropologie clothing stores announced their expected arrival to the Galleria Mall in 2011. After years of negotiations with the Town of Lancaster a down-scaled Super Wal-mart was completed in the third quarter of 2010. Niagara county approved plans for the Lockport Wal-mart store and the North Tonawanda site is moving forward at the former Melody Fair Theatre off of Niagara Falls Boulevard.

Dicks Sporting Goods Stores built a new 50,000 sf building at Quaker Crossing in the McKinley submarket. Buffalo Wild Wings renovated the former Eastern Mountain Sports location and Cheeburger Cheeburger opened up in the McKinley Mall just in time for the 2010 holiday shopping season.

The Buffalo Region expects a challenging year in 2011 due to the difficult credit markets, high unemployment, municipal budgetary concerns and property and income tax concerns. We are still cautiously optimistic about the New Year.

RETAIL MARKET STATISTICS

| TYPE | LOW NNN RENTAL RATES psf/yr | HIGH NNN RENTAL RATES psf/yr | EFFECTIVE AVERAGES psf/yr |
|------------------------------|--------------------------------------|---------------------------------------|---------------------------------|
| Downtown | N/A | N/A | N/A |
| Neighborhood Service Centers | \$6.00 | \$15.00 | \$12.50 |
| Community Centers | \$13.00 | \$25.00 | \$19.00 |
| Power Centers | \$15.00 | \$40.00 | \$22.50 |
| Approx Totals | \$12.00 | \$26.00 | \$18.00 |