

Syracuse, NY

2009-10

In spite of the severe financial crisis that has rocked the country as well as the commercial real estate industry, Syracuse had remained somewhat resilient. While 2009 can not be called robust in any sense, we were encouraged by the fact that new transactions have not resulted in significant downward pressure on rates.

While overall vacancy in the Syracuse office market continues to rise, currently standing at 20%, a large portion of this increase can be attributed to a few large moves either due to downsizing, (AXA, putting over 200,000 square feet on the market) or, ironically enough, new development in the CBD resulting in large blocks off quality space that had been occupied for decades. The relocation of Excellus to the suburban office market also contributed over 200,000 square feet of vacancy.

The one sector that has seen deterioration is in the renewal of existing tenants. Office Tenants have had the ability to negotiate lower rents for renewals in exchange for earlier renewal commitments. As a result, Landlords especially the institutional owners, are willing to grant this concession to maintain occupancy, perhaps due to a more macro view of the National real estate market which may not be as dire as the micro, local market.

Tenants in trying to reduce their operating expenses are attempting to reconcile their mission to obtain spaces that are more sustainable. This is being spearheaded by Federal, State and most Fortune 500 companies. Green is becoming mandatory. With this initiative come a few obvious issues within the Syracuse office market; an aging inventory and few newly built green buildings. Retrofitting existing space, unless on a large scale, to comply with the Green initiatives is typically seen as not feasible. Tenants in search of lower rates locally are running head on to the fact that while building rates have remained fairly stable, the operating expenses have risen. New construction rates have been competitive primarily due to use of federal and state tax credits.

Investor and user sales have slowed dramatically in 2009 in the Syracuse market. Lenders have reverted to the more stringent underwriting principles that have ruled the real estate market for decades. Deals, in essence, need to make sense. That being said, trepidation from some of the lenders in our market has resulted in some realistic transactions not closing.

The Syracuse Industrial Market continues to contract as we finish the 4th quarter of 2009. Manufacturers that have exited the market in 2009 include Syracuse China, Ball Plastics and Harland Clarke. Magna Powertrain is winding down its Syracuse manufacturing operations. However, Crucible Steel emerged from its' bankruptcy filed early in 2009 to be purchased by Crucible Industries LLC in an \$8 million buyout. Now named Crucible Industries, the new organization

began hiring back some of the previously laid off workforce and started up limited steel production in the 4th quarter of 2009. Compressor manufacturer Bitzer Scroll entered the Syracuse market as did Tyler Fire Equipment.

Despite current economic conditions industrial market rates have remained stable and we have not seen significant rental rate reductions for warehouse, manufacturing and flex space in the Syracuse market. In previous years, demand had been for 15,000 SF plus blocks of space, in today's current climate, the market is more conservative and companies are now seeking 5,000 to 10,000 SF blocks.

Overall, leasing activity slowed in 2009, however, quality flex space with drive-in doors and loading docks remains in demand, but supply is limited and vacancy rates for that product are low. Local developers can not justify the

OFFICE MARKET STATISTICS

MARKET	INVENTORY	OVERALL VACANCY	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE	DIRECT WTD. AVG. CLASS B GROSS RENTAL RATE
			psf/yr	psf/yr
SYR-CBD	6,762,944	26.1%	\$16.58	\$15.08
SYR-North	4,077,813	13.8%	\$19.05	\$13.83
SYR-East	4,472,869	17.0%	\$17.77	\$13.83
SYR-West	1,308,410	21.4%	\$19.05	\$13.83
SYR-South	335,810	9.7%	NA	NA
Total	16,957,846	20.1%	\$16.98	\$14.34

INDUSTRIAL MARKET STATISTICS

MARKET/SUBMARKET	INVENTORY HT/ME/OS/WD	OVERALL VACANCY RATE	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
		RATE	HT	MF	OS	W/D
SYR-North	10.5%	230,876	\$11.00	\$2.93	\$8.65	\$4.47
SYR-East	17.6%	167,100	\$11.00	\$3.67	\$6.03	\$3.63
SYR-South	9.1%	0	NA	\$4.00	\$6.00	\$2.61
SYR-West	12.7%	0	NA	\$3.25	\$6.00	\$2.89
TOTAL	13.7%	397,976	\$11.00	\$3.35	\$6.60	\$3.75

Syracuse, NY

2009-2010

construction costs to build new spec product. The rehabilitation, redevelopment cost and potential carrying costs also present obstacles to rehabbing larger, functionally obsolescent space that might fill this void. To retain tenants, some landlords are offering free rent, additional tenant improvements or renewals at lower rates, resetting or redefining the base year so that tenants pay lower escalations of property expenses.

Sellers are starting to realize that their expectations and market reality have to come together. They generally have to lower asking prices to attract qualified buyers. Some bargains are there to be had but many prospects are waiting for prices to decrease further. It is difficult to get property assessments lowered even when properties are purchased for less than assessed values. Buyers are definitely taking the issue of assessed values and tax rates into consideration when deciding whether to purchase property or continue renting space.

The Syracuse Retail market has not seen a robust as well in 2009. As with many other areas in Upstate, NY, we have had our share of casualties, but we have also seen glimmers of hope as some retailers have taken an interest in the Syracuse market. The big news downtown, Urban Outfitters is slated to occupy a 3 story, historic building at 221 Walton Street in the Armory Square district. Developers are currently rehabbing the building and opening is expected to be early summer 2010. VIP Structures is re-developing four former offices buildings with over \$25 million of public and private financing commitments. The structures will be re-developed into 130,000 ± SF of apartments with 25,000 ± SF of retail space on the lower levels.

DestiNY USA, an expansion of the 1.5 million SF Carousel Center Mall, completed an 800,000 ± SF addition in 2009. Financer Citibank had halted financing, which is now in litigation, but has stalled the project from moving forward. DestiNY has yet to announce any tenants for the new addition.

To the north of Syracuse, specifically the Route 31 retail corridor, Sam's Club reported that they would close their Clay location stating poor sales to be the reason. Although they have announced a number of closings throughout the US, there has been speculation that this particular location could see an expansion of the Wal-Mart next door into a supercenter, as Wal-Mart has been looking to purchase additional property in that area for a number of years specifically for that purpose. .

Moving West toward Camillus and Fairmount, new retailers include Ulta Beauty with fragrance, makeup and salon beauty lines, taking approximately 10,000 ± SF in Fairmount Fair; Panera Bread opened its fifth Central New York location, in the former Hoffman Hot Haus building; Coppertop Tavern, opened its second location in the former Pennsabenes Restaurant.

In the Syracuse East Market, major news recently broke with the acquisition of the 180,000 ± SF former Hechinger Plaza by Paradise Development LLC on Erie Blvd. East in the Town of Dewitt. Multiple inline and anchor spaces are still available with a new concept taking an anchor spot, Paradise Markets, a unique, indoor marketplace that has multiple vendor spaces available for lease. New to the Syracuse market, Cici's Pizza, is slated to take the former Yukon Grill space at 3237 Erie Blvd. East near Bridge Street and Chilpolte Mexican Grille is looking at the sites on Erie Blvd. East near Shoppingtown Mall. New construction in the East market includes a 6,000 ± SF NAPA Auto Parts on Erie Blvd. East.

In late 2009 P&C Food Markets filed for Chapter 11 and bids were put out for the entire portfolio due in January 2010 with Tops Markets coming in with the top bid for \$85 million. Tops is still hashing out details, but has revealed that there will be closings in some of the non-performing P&C locations.

One area that has seen some growth is the hotel industry. Four new hotels went up in 2009 in the Syracuse market; Hampton Inn, Spring Hill Suites and two carrying the Holiday Inn Express flag.

RETAIL MARKET STATISTICS

TYPE	INVENTORY	OVERALL VACANCY	LOW NNN RENTAL RATES	HIGH NNN RENTAL RATES
			psf/yr	psf/yr
Downtown	937,400	11.4%	\$8.00	\$22.00
Neighborhood Service Centers	3,572,281	17%	\$7.00	\$24.00
Community Centers	3,088,634	18.5%	\$6.00	\$28.00
Power Centers	2,432,434	10%	\$10.00	\$30.00

No warranty or representation, express or implied, is made as to the accuracy of the information contained herein, and same is submitted subject to errors omissions, change of price, rental or other conditions, withdrawal without notice, and to any specific listing conditions, imposed by our principals.

