

The Syracuse office market as a whole seems to have weathered the uncertain economic conditions of the past two and a half years relatively unscathed. While 2010 cannot be viewed as particularly active, the feel is that the bottom of the cycle has passed. Vacancy stands at approximately 21%, which is a very slight increase over 2009, but this is segment specific. The supply for large blocks of class A office in the CBD are plentiful but the same can't be said for the Suburban A market.

Due to the amount of available space on the market in step with the conservative stance of many companies we saw slight reductions in effective rental rates. Of interest, we found the institutional owners to be more aggressive in their efforts to retain existing tenants and secure new deals. Perhaps their macro view of the market on a National level, the size of their assets and their corresponding vacancies accounts for a large part of this stance. The few remaining local owners of major office buildings seem to have adopted the attitude that local ownership and management is worth a premium in today's market. Negotiations as a whole, were trending longer, tougher and more detailed, with increased due diligence on the part of the Tenant and their representatives.

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compared to the levels enjoyed prior to 2008. The financial markets are still somewhat unstable and the Lenders are unwilling to expose themselves to risk levels that only a few years ago were common. Quality assets still traded at attractive rates but the key was the level of quality of the building and tenant.

We forecast a slight rise in investor activity closing in 2011 with the reemergence of the CMBS market and investor appetite.

The Syracuse industrial market, currently at 12% vacancy in 4Q10, declined slightly from the 4Q09 final of 13.6% statistic. The total industrial inventory decreased during 2010, partially because of Carrier Corporation's decision to begin demolition of 1,296,000 +/- SF of former manufacturing and parts distribution space. Carrier announced in July that they plan to invest \$30 million in the remaining engineering, research and development components of their Dewitt campus.

The Carrier Dewitt (East Syracuse) campus serves as the company's largest research and development center. The redevelopment plan calls for an upgrade of some of the existing facilities, demolition of unused space, creation of more green areas and the donation of 24 acres to the Town of Dewitt for a public park.

In addition to a number of construction projects recently completed or planned for local schools, colleges, hotels and hospitals, there are other positive indicators that economic activity is increasing. Several local employers including Welch Allyn, SRC Tec, Sensis Corp., Anaren Microwave and Lockheed Martin have landed new, lucrative technology based or defense related contracts.

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	6,984,779	29%	\$16.84	\$15.56
SYR-North	3,889,219	14.5%	\$17.64	\$14.08
SYR-East	4,533,664	16.6%	\$16.68	\$14.43
SYR-West	1,294,464	22%	\$16.68	\$14.43
SYR-South	330,957	15.5%	NA	\$15.00
Total	17,033,083	21.6%	\$16.76	\$14.95

In part since the unemployment figures are not expected to fall anytime during the coming twelve months, we predict another year of relatively flat absorption, slight negative trending for rates overall and further erosion in the financial stability of the landlords whose buildings are deficient relative to the competition.

As in 2009, investor and user sales are down in 2010

INDUSTRIAL MARKET STATISTICS

MARKET/SUBMARKET	INVENTORY HT/MF/OS/WD	OVERALL VACANCY	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
		RATE	HT	MF	OS	W/D
SYR-North	18,535,601	7.03%	\$11.00	\$3.70	\$7.40	\$3.91
SYR-East	18,599,208	16.4%	\$11.00	\$3.50	\$6.39	\$3.35
SYR-South	1,592,690	4.6%	NA	NA	\$6.00	\$2.89
SYR-West	6,349,228	15.16%	NA	NA	\$6.00	\$2.74
TOTAL	45,076,727	11.97%	\$11.00	\$3.65	\$6.58	\$3.34

At present, current market demand for commercial industrial space in the Syracuse market is strongest for 5,000 to 10,000 ± SF of office service (flex) space and for 10,000 to 30,000 ± SF blocks of warehouse/distribution space. Landlords with high quality office service space and mid sized Class A warehouse space continue to see very low vacancy rates since the demand for quality mid-sized warehouse and flex space remains solid. Landlords with second and third generation space are eager to fill their vacant space and they are offering rent reductions or periods of free rent to entice tenants. Furthermore, rather than agreeing to fit up and build out costs, many Landlords are asking Tenants to be responsible for their own tenant improvements in exchange for other considerations.

Tenants actively looking within the Syracuse industrial market perceive that there is an over abundance of space, in part because there are large industrial facilities that remain vacant including the former John Deere, Ball Plastics, and Syracuse China. Asking rental rates remain flat and are attractive to Tenants, however one overlying issue remains: Tenants are looking to take advantage of the depressed market to upgrade their brand and image. A number of the large, former manufacturing facilities that are available for sale or lease suffer from functional obsolescence due to low ceiling heights or from the difficulty in demising the space into smaller units with separate utilities and docks. It remains difficult to meet some of the current demand because of the lack of functional, high quality space that portrays a Class A image.

2011 looks to be a promising year for the Greater Syracuse market retail sector. The boring stability of this tertiary trade area has been its savior during the recent recession. Home building continues with prices holding. Unemployment has remained below national and state averages with the Central NY economy seeing early stages of recovery and poised for slow steady growth. 'One gathers, what another spills' seems to be the retailer theme in a large majority of the open-air centers and freestanding buildings. As one company goes out, there are others waiting to backfill their empty spaces leading to increased absorption rates in well-located, well-maintained and well-marketed retail properties. Lease rates have gone down, though not drastically, with owners being more diligent and selective who they sign with even if they have to hold the space empty longer to make the right deal. Local, regional and national have been seizing economic opportunities to right size by giving up space, moving to larger space and adding new locations, depending on their financial fortunes. Notable examples include, Five Below, Party City, Plato's Closet, Stickley Furniture, Maine's, Famous Footwear, Dress Barn, Herb Philipson's Army & Navy, Ollie's Bargain Outlet, Sephora, Portrait Innovations and Natur-Tyme. Some taking over storefronts being vacated by Goldberg's Furniture, AJ Wright, Blockbuster, Borders, Sam's Club and Hollywood Video. Urban Outfitters lands in the trendy Downtown Armory Square District. Restaurant expansion sees Cicci's, Kyoto, MOE's, Subway, Coppertop Tavern, Pizza Hut, Five Guys and Friendly's on the move. Ground-up retail development is relatively non-existent save for specific end users such as Tim Horton's, Dunkin Donuts and Chipotle. Rather, owners focus on renovating existing properties to both attract and retain tenants, a prime example being Paradise Plaza that has become the driving retail catalyst for the eastern suburbs of Syracuse. Area enclosed mall properties seem to be beset with much higher vacancy rates as the pool of traditional anchors shrinks along with Syracuse lack of 'High Street' appeal to attract the big name department stores. Carousel Mall announces Forever 21 expanding eightfold size to become anchor, while recently added Ultimate Electronics files for bankruptcy. On a positive note, the malls are always full of opportunity. Barring a double-dip into the Great Recession deep end, the Syracuse SMSA should continue to see steady activity and overall moderate gains driving the retail trade.

RETAIL MARKET STATISTICS				
TYPE	INVENTORY	OVERALL VACANCY	LOW NNN RENTAL RATES psf/yr	HIGH NNN RENTAL RATES psf/yr
Downtown	773,000	18%	\$8.00	\$16.00
Neighborhood Service Centers	3,605,243	15.2%	\$7.00	\$24.00
Community Centers	3,039,634	17%	\$6.00	\$25.00
Power Centers	2,418,101	6.5%	\$10.00	\$30.00