BERKO & ASSOCIATES

2013 Mid-Year

Capital Markets Report

Summary

Sales of investment grade properties in New York City for the first half of 2013 totaled just shy of $18 billion across all commercial asset classes. This amount represents an increase of approximately 40% year-over-year.

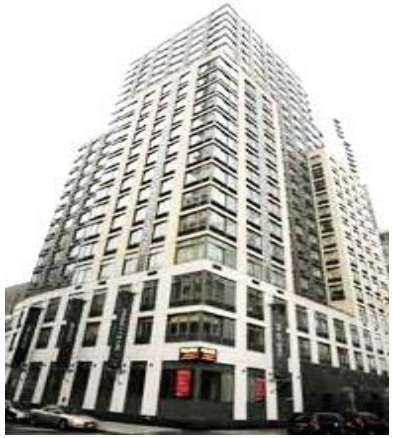
The key contributors to the flourishing NYC Sales Market: the lack of quality inventory, and the steady access to capital from both domestic and international lenders.

The driving force behind the numbers were the top trophy assets that traded in the first half, including 295 Madison Avenue, 444 Madison Avenue (both office buildings), The Monterey at East 96th Street, The Aldyn & Ashley at West 63rd and Riverside, and the massive sale of the Archstone Apartment Portfolio to Equity Residential. Although the market peak in 2007 drummed up over $65 billion in total activity, we believe that there will be a surge of activity in the second half of 2013. With prices jumping some 20% since that fourth quarter of 2007 and with over 25% increase in the average price per square foot for all asset classes since the 1st half of 2012.

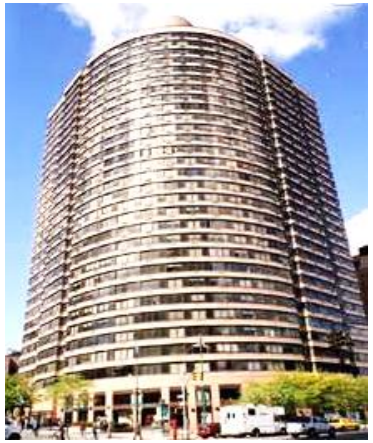
The Staggering Multi-Family Market

The price per square foot of properties below 96th Street increased an incredible 8.5% since the fourth quarter of 2012, with properties sold at an all-time high of $917/SF. The average price per square foot north of 96th Street also jumped up approximately 9% to $225.

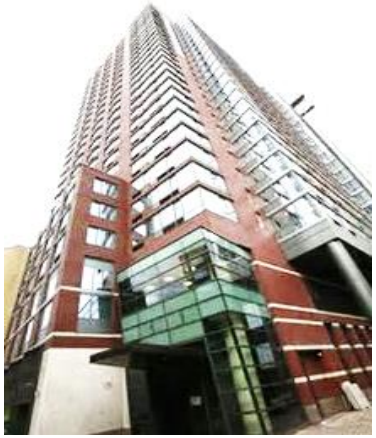
The Aldyn



The Ashley



The Monterey



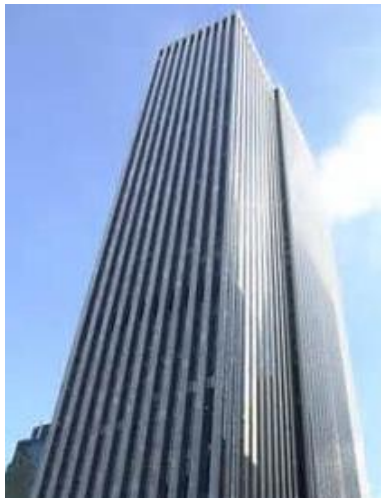
Archstone Clinton

Office Building Recovery

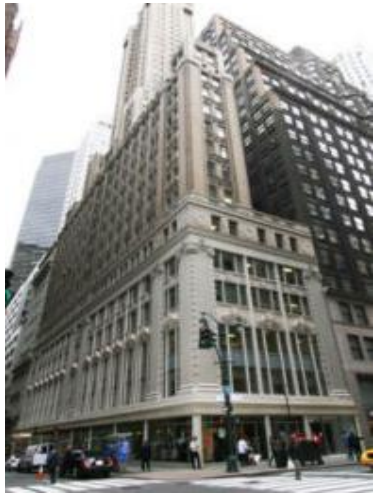
The strong Midtown market had the largest number of sales of Class A buildings in the first half of the year with eleven trophy property trades, as compared to only one in the Downtown Market. The average sales price recorded for Midtown Market in the first half of 2013 was $1,029/SF, approximately 8.6 percent above the previous peak for Midtown Class A average sales prices in 2007 when it reached $947 per square foot. There was a large gain in pricing in the second quarter due to the squeeze, where the upper echelon properties inked an average of $1,140 per square foot, up from $922 per square foot in the first quarter.

As the sales market was peaking in the late 2007-200 period, the GM building at 767 Fifth Avenue was sold with the transaction closing in the second quarter of 2008. That sale valued the building at $1,564 per square foot. This year, foreign investors purchased a 40% interest in the building and the estimated valuation for this asset was $1,889 per square foot, 20.8 percent higher than at the peak in the previous cycle.

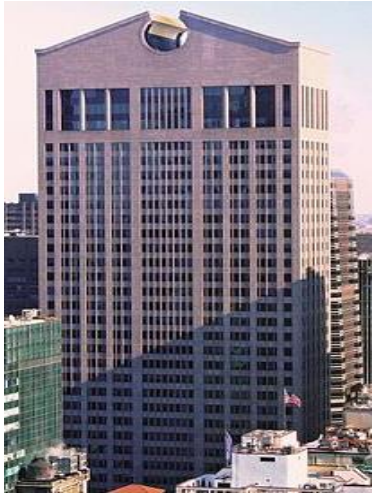
There were thirteen Class B transactions completed in the first half of 2013 for an average price of $645 per square foot. The previous peak level was reached in 2007, when the average for the year was $608 per square foot, a 6% increase.



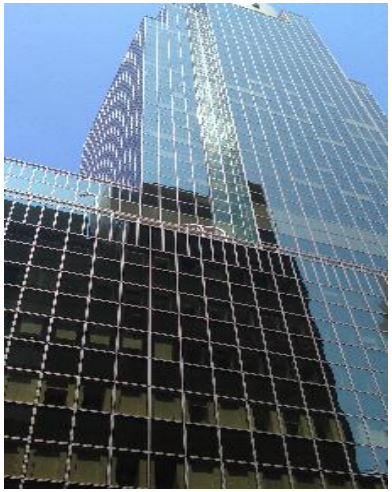
767 Fifth Ave



295 Madison Ave



550 Madison Ave



650 Madison Ave

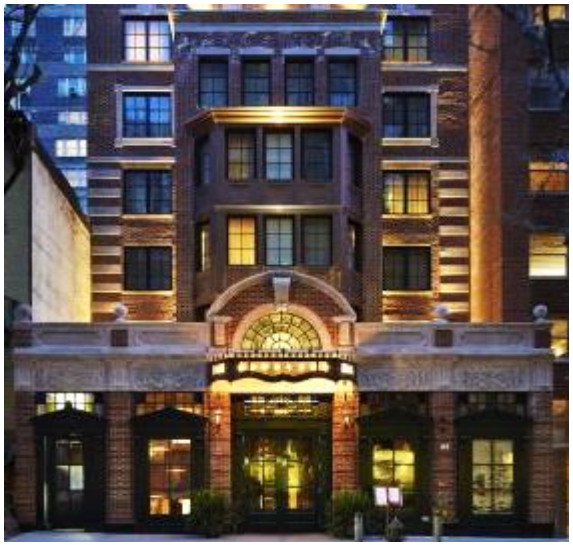
Hospitality Updates

The New York City hospitality sector declined greatly during 2012 and had a resurgence in 2013. As an answer to the previously stumbling luxury hotel market, 20 select service hotels are under construction and will have opened in New York City; Manhattan hotel occupancy is expected to reach a rate of at least 88% due to the influx of affordable accommodations and increased competition among hoteliers that leads to ADRs being driven downwards.

There were only 3 recorded sales of Manhattan hotels, but all were significant sales; two of the three trades were for more than $100 million and all involved hotels with over 100 or more rooms . The largest sale for the quarter was the Holiday Inn at 125 West 26th Street that traded for $113 million, at $500,000 per key.

Midtown South has experienced unprecedented growth in the with new renovations of existing rooms and the construction of new ones. Hotel rooms almost doubled, with the opening of the 113-room art deco styled Jade Hotel on West 13th Street and the 178-room Hyatt Union Square on 4th Avenue, just south of Union Square Park.

In Brooklyn, the median sale prices per room doubled, exemplifying what some savvy investors have thought all along, Brooklyn seems to be a “can’t miss”.



Retail, Revitalized

A major driving force behind retail acquisition is the re-born availability to finance large acquisitions of not only single properties but large portfolios of retail-heavy assets. Banks are now once again lending on retail, most likely due to the more optimistic outlook on leasing activity in and around the N.Y. Metro area. As trend-setting leases are inked, many institutional investors are seeing their opportunity to gain enormous exposure and secure their stance within the retail market.

In 2012, the number of closed transactions for retail properties sky-rocketed 20%, and total volume rose 7%. At the beginning of 2013, this number is still over ten percent lower than retail was being sold for at its peak. The largest sale this quarter was for the retail condominium at 20 Pine Street. The sale of the 32,760-square foot condo was for $19.4 million, $590 per square foot.

The vast majority of investors are still expressing very strong interest in retail, and the steady decline in CAP rates has not thwarted potential suitors, although research suggests that retail properties in default will soon be brought to the market by lending institutions and will help stabilize the market and make retail investment more attractive and accessible to a multitude of investors. In addition to delinquent loans on a variety of retail assets, class B and class C assets in Manhattan and the boroughs have come to the market, at higher CAP Rates, and have quietly convinced a handful of institutions to invest outside of Manhattan.

Development

New York City's Department of Buildings issued permits for10,612 apartments in for the first half of the year. The majority of the developments are geared towards condominiums. Development sites in the most desirable neighborhood have reached the $800 per buildable square feet mark, pushing pricing upward for the end user. With inventory at all time low in nearly in all neighborhood in New York City, developers are racing to offer a luxury product at record-breaking prices.

Development in Queens

Affordable and market rate housing is also being developed in Queens, especially in Long Island City and Hunters Point. Hunter's Point South is a proposed mixed-use, middle-income housing development situated on approximately 30 acres of prime waterfront property in Long Island City. The city is accepting proposals from numerous developers who intend to build up to 5,000 housing units, 60% of which will be affordable to middle income families. A notable project in the planning for Long Island City is Rockrose with 1,700 rental units to be built in three phases.

Development in Brooklyn

Some 14,000 units are in some stage of planning at the moment in Brooklyn. More than 3,500 market rate apartments, which include a 20% component for affordable units, are under development in Downtown Brooklyn, Gowanus, Williamsburg and Fort Greene by major developers.

A prime example of this is 1133 Manhattan Avenue, a mixed-use development by the Domain Cos, the $67 million project involves the remediation of a the current environmental issues and the construction of 210 apartments with ground floor retail along busy Manhattan Avenue.

Capital Markets Summary

2013's first half saw historically low rates, hovering below 3% from some of the more aggressive conventional lenders. This access to low-cost capital as well as lender sentiment realizing the strength of today's real estate market, has been the driving force behind the dramatic increase in sales prices this year. Savvy investors have taken advantage of the capital markets willingness to fund all types of deals, and have made the supply of trophy and opportunistic properties dwindle greatly due to the intense competition among *all* investors, from institutional to private.

Berko & Associates' Finance & Capital Markets Managing Director Michael Korine said of the first half, "Clearly, there has been a large increase in deal flow to the Group, as many clients wanted to take part in the surge, and we were able to procure creative financing solutions in order to make the deal favorable to our borrowers." Korine also noted that there has been an influx of new lenders to the market, backed by both domestic and international funds who see New York City as a safe haven for their investments.

The volatility seen over the past few weeks has seen a steady decline, and interest rates have begun to settle back at reasonable numbers in the mid-3% range for stable multi-family assets, and construction loan rates remain advantageous in the mid-4% range for seasoned sponsors.

Sales Transactions as Compared to 2007

Sector	2007	2012	2013 (1H)
Multi-Family	$11.99 Billion	$12.21 Billion	$5.25 Billion
Development Site	$4.39 Billion	$2.27 Billion	$0.90 Billion
Hospitality	$4.16 Billion	$2.23 Billion	$0.84 Billion
Industrial	$1.08 Billion	$1.48 Billion	$0.54 Billion
Office	$41.18 Billion	$14.48 Billion	$9.22 Billion
Retail	$2.66 Billion	$6.47 Billion	$1.22 Billion
Total	**$65.46 Billion**	**$39.24 Billion**	**$17.96 Billion**

Sources: Berko & Associates, PropertyShark, NYC Dept of Buildings, NYC Dept of Finance, The Real Deal

BERKO & ASSOCIATES

Dear Investor,

For nearly a decade, Berko & Associates has taken great pride assisting our clients achieve financial success through asset acquisitions, dispositions, equity and joint venture formations, and debt restructuring. We value our clients and have taken great care in the trust and friendships we have forged over the years.

Berko & Associates' investment bank mentality and sniper precision approach are the main attributes of our company's culture. A growing number of private equity funds, family offices, and public corporations are enjoying the confidential dedications of conducting business with our firm.

We understand that each transaction is unique as the people involved. The analysis of your assets and our strategic solutions are aligned with your investment philosophy and needs in order to achieve optimal results.

On behalf of Berko & Associates I would like to thank you for considering our services and look forward to successfully completing your next transaction.

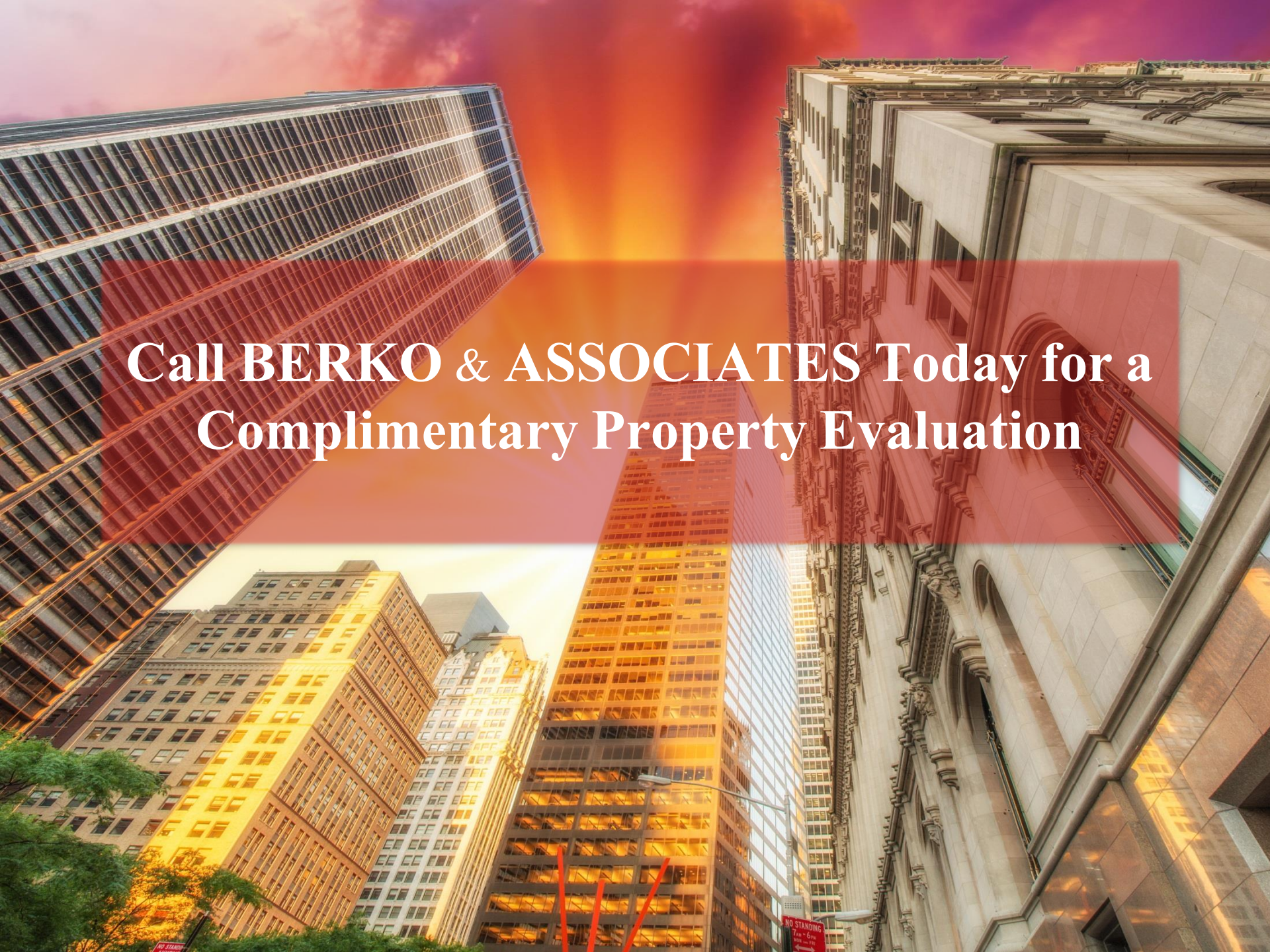
Joe Berko
President
jberko@berkoassociates.com
212-687-0777 X 101

Michael Korine
Director, Capital Markets
mkorine@berkoassociates.com
212-687-0777 X 103

Agustin Peña
Director, Investment Sales
apena@berkoassociates.com
212-687-0777 x 111

Abraham Farig
Director, Investment Sales
afarig@berkoassociates.com
212-687-0777 x 122

Lee Silpe
Senior Analyst
lsilpe@berkoassociates.com
212-687-0777 X 108



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