

RE Lease

News for the Commercial Tenant and Buyer

Special Issue: Market Report 2007

Don't Lease Space Without Us.

Welcome to the inaugural issue of Conley Associates' Market Report 2007. At Conley Associates, our singular focus is in the representation of tenants and buyers in their real estate transactions. We thought it would be helpful to publish some key indicators for the Capital District area with regard to where we believe lease rates will trend over the next 12 months. Should your 2007 space needs include a renewal or expansion of your existing lease, a search for new lease space, or potentially include a need for acquisition or development of space, we hope that the following information will provide a helpful guide to you as you formulate your plan to address your specific need.

OFFICE MARKET OVERVIEW

The Capital District office market has always remained a stable market in comparison to most of the country where rates can fluctuate to great extremes. Our current balance has been derived from the stable employment brought about by our primary employer, the State Government. However, with the AMD announcement and the pending predicted microchip development surge, primary employment can change. Along with this

will come speculative development which will greatly affect occupancy ratios in the next five years.

Costs attributed to any building are broken into several categories. Depending upon your particular transaction you may, or may not be directly affected by these. We will individually address what we believe are the major components of most transactions. The categories are: base rent, operating expenses, utilities, insurance, and real estate taxes. Some leases, known as gross leases will only charge a tenant one number, classified as rent, but for the landlord this number is a blended rate of the above charges. Some leases (traditionally retail leases) will charge a base rent figure, and a 100% pass through to the tenant of all other charges; this is known as a triple net lease, or NNN. Most office leases are somewhere in between. The landlord and tenant typically agreed to a first year rent figure, which incorporates a "base year" figure for the taxes, operating expenses, and insurance costs; often times defined as the first year of actual occupancy. Thus the tenant will pay in year two the same base year and also pay the cost differential for taxes/operating/insurance from year one to year two.

It is normal to see a variety of sub-markets in any given area. In the Capital District we see eight. In the chart at right, we have indicated the base rental rate trends that tenants should expect to see for 2007 lease transactions.

Office Space – Base Rental Rate Trends from 2006 to 2007

	Class A	Class B	Class C	Development Prediction for '07
Albany CBD	Flat	Slight decline	Declining	No new product
Albany - Colonie Suburbs	Increasing	Slight increase	Flat	New product at a slow pace
Troy CBD	Increasing	Slight increase	Flat	No new product
Rensselaer Suburbs	Increasing	Slight increase	Flat	Some new product at a slow pace
Schenectady CBD	Flat	Increasing	Increasing	Continued redevelopment
Schenectady – Niskayuna Suburbs	Increasing	Increasing	Increasing	Some new product at a slow pace
Saratoga CBD	Slowing down to slight increase	Increasing	Increasing	Continued redevelopment along with new product
Saratoga County Suburbs	Increasing	Increasing	Increasing	Continued strong development

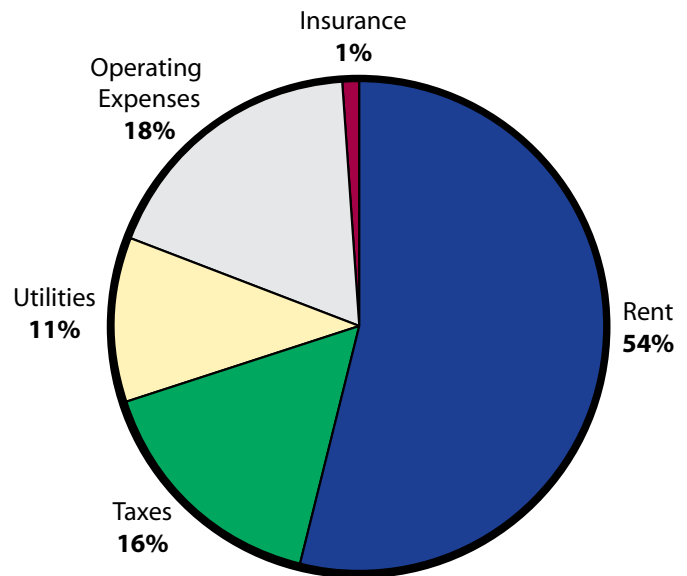
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OPERATING EXPENSES

Operating expenses typically include a management fee, general repair and maintenance, janitorial, waste removal, snow removal, landscaping, elevator maintenance, HVAC maintenance, and many other possible costs. Labor rates in the region are only increasing very slightly, so most cost increases attributed to operating expenses would be for materials and delivery of the services. For delivery reasons, we consider the operation of a CBD property to be slightly less expensive than a suburban office environment. The density of a traditional CBD property allows for better economies of scale. We predict only a 3-4% increases in 2007 operating costs.

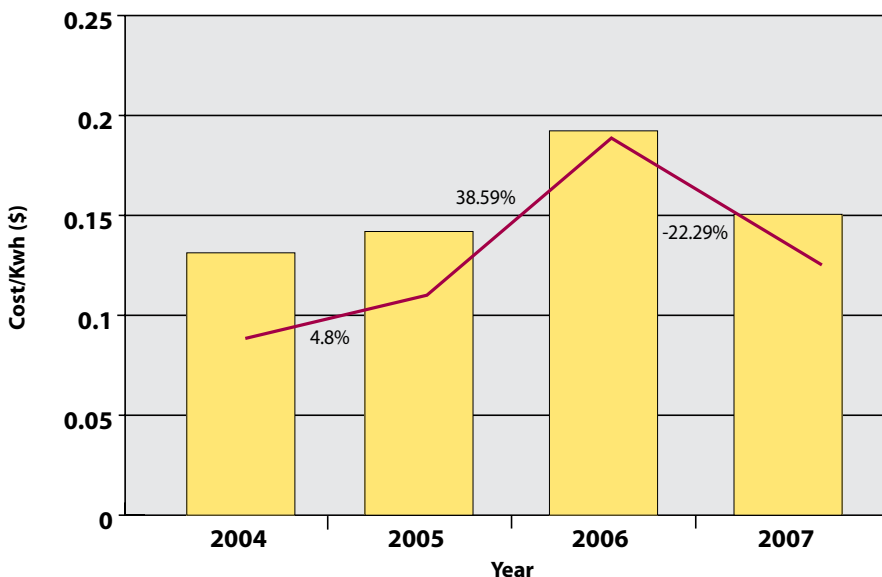
2007 Lease Cost Breakdown



INSURANCE

In the Capital Region, none of our defined sub-markets have a different exposure to outside conditions that affect insurance rates, i.e. Clifton Park is not more susceptible to weather conditions than is the Albany CBD. The insurance market is currently soft, and underwriters are aggressively writing policies for lower premiums than in 2006. All of this is of course dependant on any particular landlord's prior claim experience rate, their management practices, and current conditions of the prospective building. We are predicting a 5% decline in insurance costs in 2007.

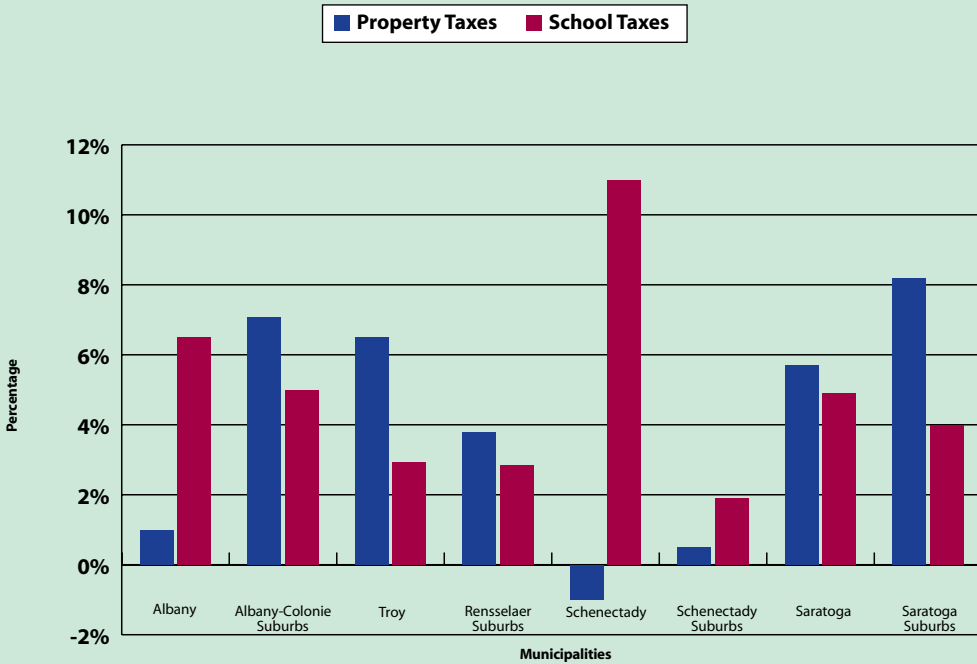
Utility Cost Trend 2004 Through 2007



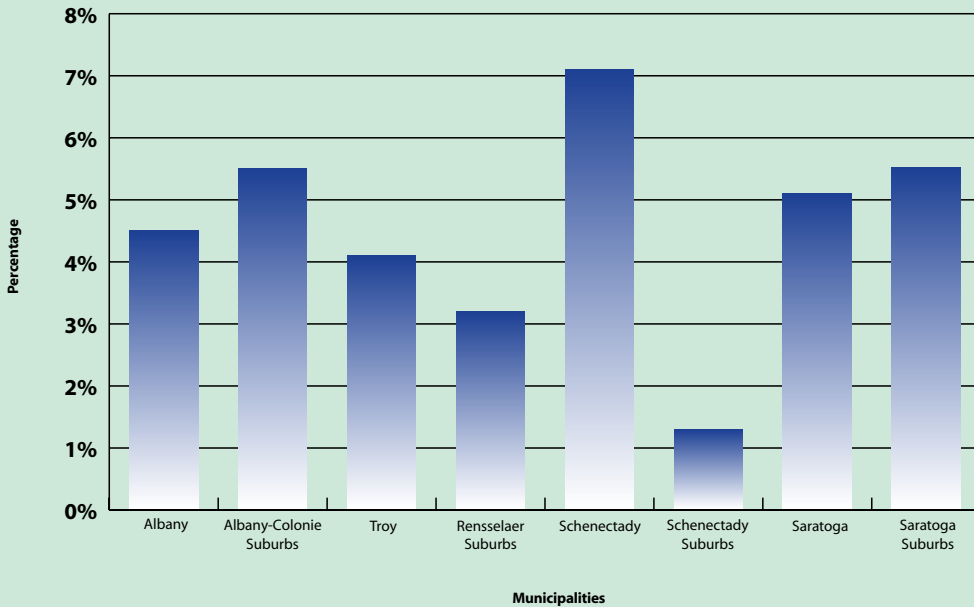
UTILITIES

In 2006 utility costs spiked 35-40% due to the national effect of Hurricane Katrina and the disruption of the natural gas supply in and around the New Orleans region. Natural gas delivery was damaged, reserves were spread thin, and alternate deployment of electric over the national grid all affected the charges paid for utilities. By the end of 2006 however the rates once again stabilized and declined back to near 2005 rates. We therefore predict a 30% reduction in the 2007 utility pass-through costs to tenants.

Capital Region Cities and Suburban Property Tax Increase from 2006-2007 and School Tax Increase from 2005/2006 - 2006/2007



Aggregated Property and School Taxes (Weighted Average)



REAL ESTATE TAXES

Property taxes and school taxes are the essential components of the aggregate real estate taxes billed to any property. As these taxes increase over a base year charge, the additional expense is typically passed onto the tenant through higher rent. Generally, the taxes within the Capital Region have escalated. It has been a challenge for municipalities with the inflating energy costs, increase in health care and the overall cost of living. Currently the property taxes in the Central Business Districts have increased an average of 2.93% in the last year and suburban property taxes have increased an average of 4.75% in the last year.

The Central Business Districts property taxes were projected based on a percentage increase from the rates of 2006 and 2007. Suburban property tax was calculated by averaging the percent increases of each suburb within our predefined sub-markets. Each school district within a municipality was averaged based on the percent increase from 2005/2006 and 2006/2007.



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A vertical advertisement for Conley Associates. On the right side, there is a photograph of a smiling male doctor in light blue scrubs and a surgical cap, with his arms crossed. The text is on the left side of the ad.

You graduated from Medical School...
What did they teach you about

LEASE NEGOTIATIONS?

*Do you understand fair market rates?
Have you researched your options?*

Conley Associates understands that as a professional, you want to operate from a position of strength. Whether you end up staying right where you are or relocating, you will get a competitive price and an office that is uniquely yours.

Make the sensible choice and have Conley Associates collect the information, analyze the data and provide you with a professional financial analysis of your options.

When landlords compete, you win.

The logo for Conley Associates, featuring a green octagonal shape and the text "CONLEY ASSOCIATES".

Don't lease space without us.
COMMERCIAL, TENANT AND OFFICE REPRESENTATIVES

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