

Hot Office Market Driving Up Prices

Volume More Than Doubles, Prices Up 6%

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Sales of investment grade office buildings have been occurring at a blistering pace this year and prices have been skyrocketing.

Even when office building leasing was in the doldrums from 2001 through 2003, investors ran up the value of investment grade office buildings by more than 3% a year. Now that office leasing markets are picking up across the country, that pace has almost doubled in the first half of 2004.

Through the first half of the year, the average price per square foot paid for investment grade office properties has risen about 5.8% from the average paid last year, shows a preliminary analysis of first half COMPS by CoStar Group. A final report on first half sales and third quarter leasing market conditions will be published in CoStar Group's third quarter market overviews in early October.

CoStar Group looked at more than 420 office building deals that rang up a \$10 million or more sales price in the first six months of 2004. The volume of deals is almost double what it was through the first half of 2003. The total dollar value was even higher \$33.4 billion in the first six months of this year vs. \$13.19 billion in the same period last year.

Investors have been paying an average of \$193.71 per square foot this year. That is about \$10.50 more per square foot than paid in 2003.

At the same time that purchase prices were going up, the average cap rate continued its steady decline and average net incomes also dropped off.

Cap rates averaged 8.11% in the first half of the year, which is 6.25% lower than average in 2003.

The average net income per square foot for the office buildings that sold computed to about \$15.41, which is about 2.6% less than the average in 2003.

The three largest sales so far this year are as follows.

A New York-based investment group acquired the world-famous Sears Tower for \$840 million. The 110-story, 3.81 million-square-foot building is the most illustrious Class-A building in Chicago, and the tallest building in the United States. It sold for \$220.50 per square foot. At the time of sale the building was 88 percent leased. Large, long-term tenants include Unicare, The Chubb Group of Insurance and Bank of America, all occupying more than 100,000 square feet in the building.

Jamestown Properties and the New York State Common Retirement Fund completed an ownership restructuring and recapitalization 111 8th Ave. in New York City. The 2.8 million-square-foot building was recapped at \$775 million or about \$276.80 per

square foot. The building was about 86% occupied at the time of the sale, with Sprint leasing the largest amount space at 232,000 square feet.

One of the highest prices paid per square foot was American Financial Realty Trust's purchase of 1 Lincoln St. in Boston. American Financial paid a stunning \$705 million, or almost \$689 per square foot for the 1.024 million-square-foot building. State Street Corp. signed a lease to occupy the entire building for a term of 20 years. American Financial Realty Trust said the lease has a total value of more than \$1 billion.