

OFFICE MARKET ANALYSIS

Downtown Albany, NY

Submitted to:

Capitalize Albany Corporation

Submitted by:

W-ZHA, LLC

2014

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STUDY PURPOSE

This office market analysis was conducted to inform Capitalize Albany Corporation's Downtown Albany strategic planning process. The market analysis summarizes the Study Area's office market potential over the next 10 years. The market analysis summarizes the conditions that impede the Downtown's ability to capitalize on the market potential as well the steps necessary to capture the market opportunities.

DEFINITIONS

DOWNTOWN ALBANY STUDY AREA ("DOWNTOWN STUDY AREA")

For purposes of this analysis, the boundaries of Downtown Albany are illustrated on the map below. This area includes the traditional downtown core as well as the waterfront and the warehouse district to the east. The Downtown Study Area contains the largest concentration of office space in the Region. The Downtown Study Area also contains major public assembly anchors like the Times Union Center, Upstate New York's premiere sports and entertainment facility. The Times Union Center has an adaptable seating capacity between 6,000 and 17,500.

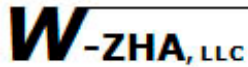
There are approximately 880 housing units in the Study Area and a number of retail and eating and drinking outlets. 200 more units are currently planned for the Downtown Albany Study Area.

Within the Study Area, in the block bounded by Eagle Street, Howard Street, Wendell Street, and the skywalk, there is an 85,000 square foot convention center planned. The convention center is scheduled to open in 2016. Together with the Times Union Center and Empire State, Albany will be able to offer 159,000 square feet of convention and meeting space. According to a market study by HVS, by 2019 the convention center (exclusive of Times Union Center and the Empire Plaza venue) will attract over 87,000 attendees to various events. A 204-room Renaissance Hotel is planned for the Dewitt Building at the corner of Eagle Street and State Street.

THE CITY OF ALBANY

The City of Albany is the capital of New York State and the 6th most populous city in the State of New York. In addition to state government, Albany has been a center for higher education and health care and, more recently, the high-technology sector.

The City is home to the The College of Nanoscale Science and Engineering (CNSE) of the University at Albany - State University of New York (SUNY). CNSE is a global education, research, development and technology deployment resource dedicated to preparing the next generation of scientists and researchers in nanotechnology. CNSE was the nation's first college devoted to nanoscale science and technology and it has evolved into an internationally recognized research and education center. According to an article in the Albany Business Review the Center has led to partnerships with 300



businesses and organizations including a \$4.4 billion investment by the world's largest computer chip businesses.¹

CAPITAL DISTRICT

The Capital District refers to the four counties surrounding the City of Albany: Albany County, Schenectady County, Rensselaer County and Saratoga County. As of 2012, the Capital District was home to 839,600 residents making it the 4th largest urban area in New York. The Capital District contains the cities of Albany, Troy, Schenectady and Saratoga Springs.

Historically, the Capital District was developed as a transportation, trade and industrial center. Today, however, it has evolved into a major center for government, finance, education, technology, health care, service and tourism for Upstate New York.

The Capital District contains more than 40 colleges and universities that offer opportunities in many fields of study including high-tech, engineering, business, medicine and law. These educational institutions attract domestic and international students and investment. They are the lynchpin to the Capital District's success as a high-technology hub.

In addition to an educated workforce, the Capital District offers prospective companies state-of-the-art telecommunications infrastructure. Fiber optic cable is available throughout the District.

ALBANY-SCHENECTADY-TROY METROPOLITAN STATISTICAL AREA

The Albany-Schenectady-Troy Metropolitan Statistical Area is comprised of five counties: Albany, Rensselaer, Saratoga, Schenectady and Schoharie counties. The Metro Area was home to approximately 872,000 residents in 2013. The Metro Area is the 59th largest MSA in the United States.

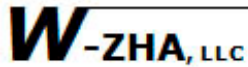
Albany and Schenectady Counties are relatively densely populated, while Rensselaer and Saratoga are more suburban in character. Schoharie County is rural.

TECH VALLEY

The Capital Region consists of seven counties: Warren, Washington, Saratoga, Schenectady, Rensselaer, Columbia, Greene and Albany. As noted by the New York State Department of Labor², the Capital Region is a near perfect transportation hub due to the confluence of east-west and north-south super-highway, rail, and water routes. The New York Thruway connects the Capital Region with New York City, the Massachusetts Turnpike (I-90) and western New York State. The Northway (I-87) links the Region with major destinations to the north like Montreal. Interstate-88 provides access to points south and the Pennsylvania market.

¹ Albany Business Review, "Albany Research Center is a National Model", September 13, 2013.

² New York State Department of Labor, "Significant Industries: A Report to the Workforce Development System, Capital Region, 2011".



The Albany International Airport serves the Capital Region and offers direct air-service to major markets. AMTRAK provides passenger rail service to the Region. The Albany-Rensselaer rail station is the 9th busiest station in the AMTRAK system.

ECONOMIC FRAMEWORK

DEMOGRAPHICS

Population Trends Select Areas 2000 -2013

Location	2000	2013	Change	
			#	%
New York State	18,976,400	19,560,700	584,300	3.1%
Tech Valley	1,029,900	1,079,100	49,200	4.8%
Albany-Schenectady-Troy MSA	825,900	872,000	46,100	5.6%
Capital District	794,300	839,600	45,300	5.7%

Source: Claritas, Inc.; W-ZHA

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Population growth in the Tech Valley, the Metro Area, the Capital District and the City exceeded the state-wide average from 2000 to 2013. Population growth in the Capital District accounted for 92 percent of the Tech Valley's population growth between 2000 and 2013.

Population Trends Capital District Counties 2000 -2013

County	2000	2013	Change	
			#	%
Rensselaer	152,500	159,300	6,800	4.5%
Schenectady	146,600	155,400	8,800	6.0%
Saratoga	200,600	222,300	21,700	10.8%
Albany	294,600	302,700	8,100	2.7%
Capital District	794,300	839,600	45,300	5.7%

Source: Claritas, Inc.; W-ZHA

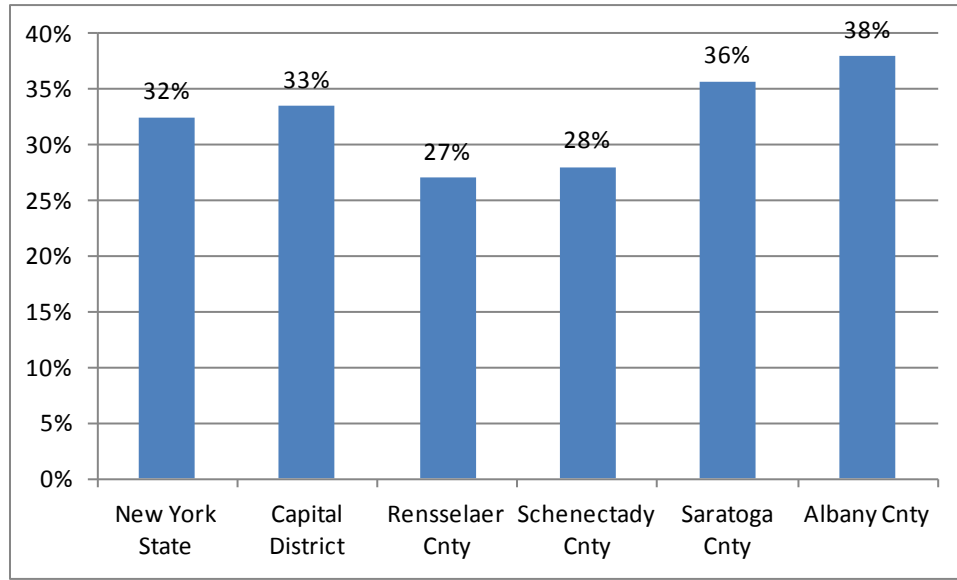
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Population growth in Saratoga County accounted for almost half of the Capital District's growth. Saratoga County's population grew by over 10 percent between 2000 and 2013. The GlobalFoundries



investment in Malta helped to fuel Saratoga County's growth. Albany County grew by less than 3 percent.

% of Residents 25+ Years Old with a Bachelor's Degree or Higher
Select Areas
2013



Source: Claritas, Inc.; W-ZHA

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The educational attainment among Albany County residents over 25 years of age is well above average. Almost 4 out of 10 Albany County adult residents have a bachelor's degree or higher.

Median Household Income
Select Areas
2013

Location	2013
New York State	\$55,840
Tech Valley	\$56,900
Albany-Troy-Schenectady MSA	\$58,460
Capital Dsitric	\$58,720

Source: Claritas, Inc.; W-ZHA

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Albany is New York State's most affluent Metro Area outside of New York City. The median income among the MSA's households is about \$58,500. The Capital District's median household income is slightly higher than the MSA average.

**Median Household Income
Capital District Counties
2013**

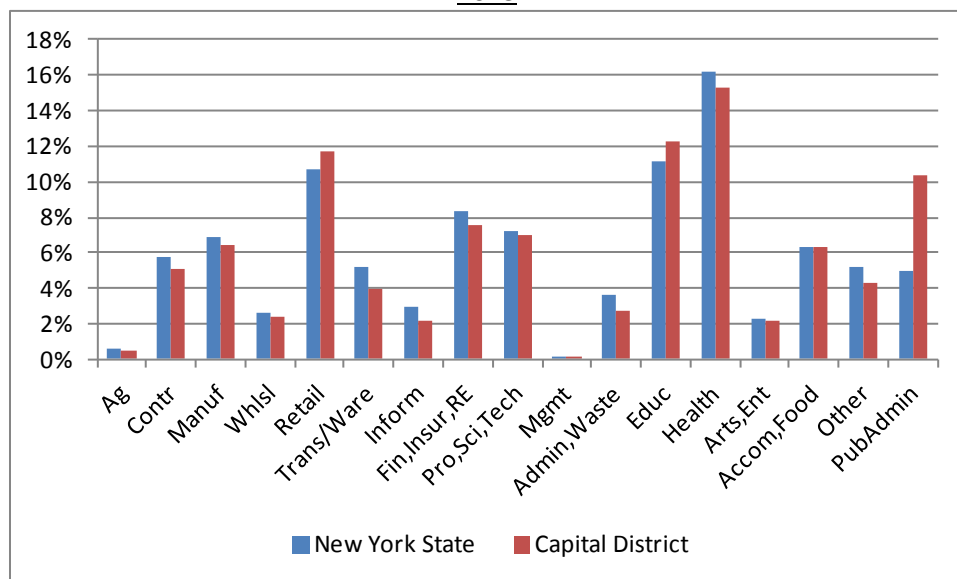
County	2013
Rensselaer	\$54,410
Schenectady	\$54,800
Saratoga	\$67,010
Albany	\$56,660

Source: Claritas, Inc.; W-ZHA

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High incomes in Saratoga County drive average household income up in the Capital District. In fact, Rensselaer and Schenectady County households have median incomes below the state average. Albany County's median income is only slightly higher than the state average.

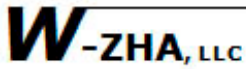
**Resident Occupation by Industry
New York State and the Capital District
2013**



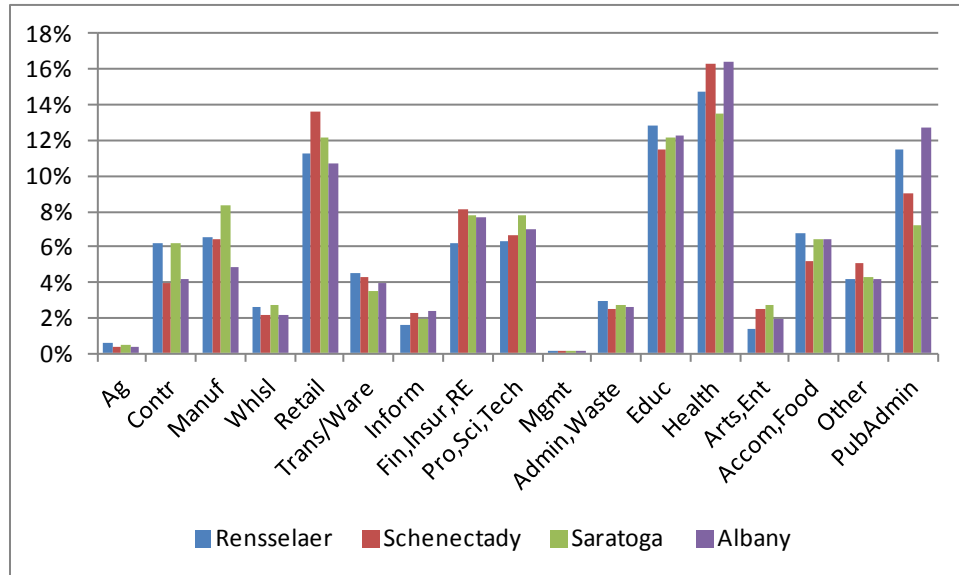
Source: Claritas, Inc.; W-ZHA

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The occupational profile of those employed in the Capital District is very similar to the occupational profile of the state, except that a higher share of Capital District residents are employed in public administration.



**Resident Occupation by Industry
Capital District Counties
2013**

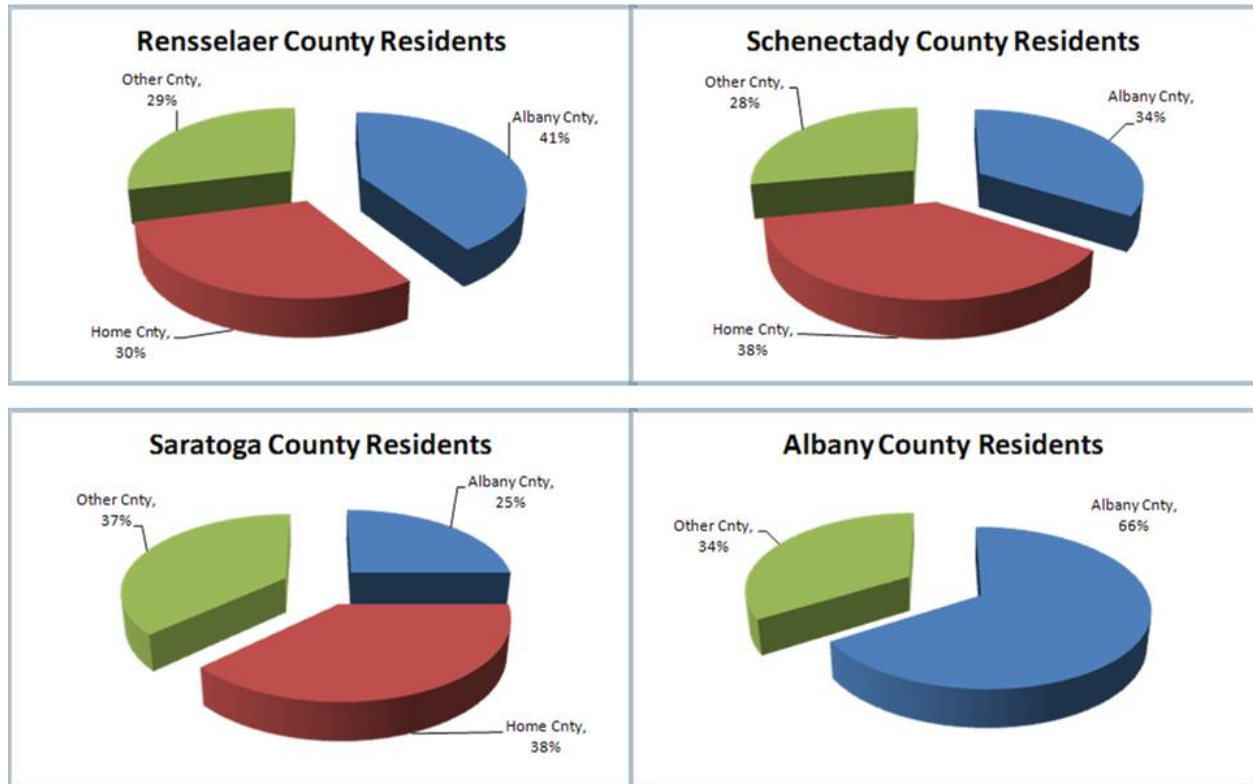


Source: Claritas, Inc.; W-ZHA

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Among the counties that comprise the Capital District most residents are employed in the health/social services industry and the education industries. As the State Capital, Albany County has a high concentration of jobs in public administration. With St. Peter's and Albany Medical Center, many people in Albany County are employed in the health and social service industries. With GlobalFoundries and others, Saratoga County has a relatively high share of its employment in manufacturing.

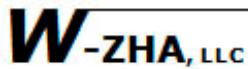
Where Employed Residents Work



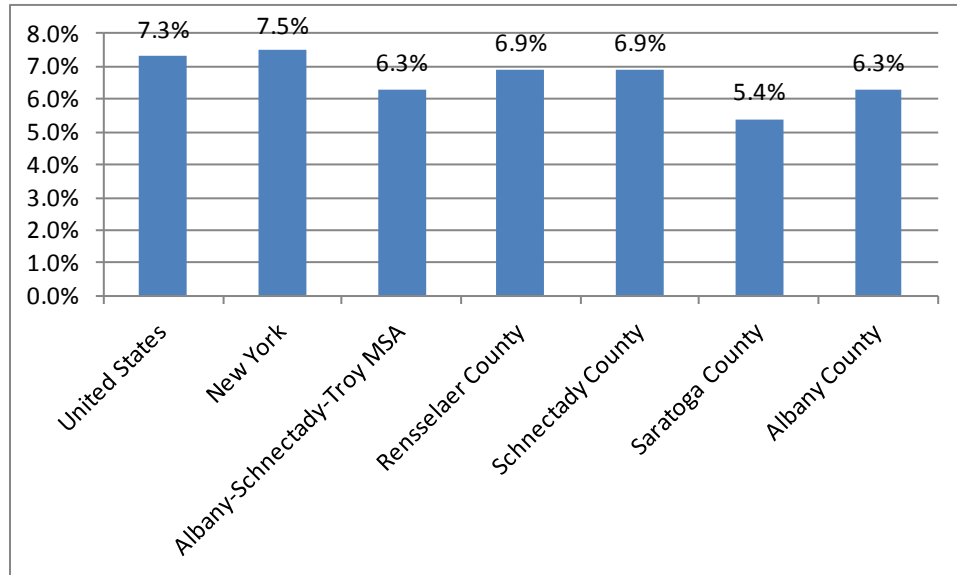
Source: US Census; W-ZHA

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A significant share of employed Capital District residents work in Albany County. Albany County is the economic engine of the Tech Valley Region.



**Unemployment Rates
United States, New York State, and Capital District Counties
August, 2013**



Source: New York Department of Labor; W-ZHA

REGIONAL JOBS

According to the State's Department of Labor, the Albany MSA is the State's 6th largest Metropolitan Area in terms of jobs. As of August 2013, the Albany Metropolitan Area's unemployment rate was below that of the state and country, but unemployment rates varied among the counties that comprise the Capital District.

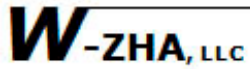
**Employment
Selected Areas
2012**

Location	2012
New York State	8,560,063
Tech Valley	498,871
Albany-Schenectady-Troy MSA	419,146
Capital District	410,792

Source: New York Department of Labor; W-ZHA

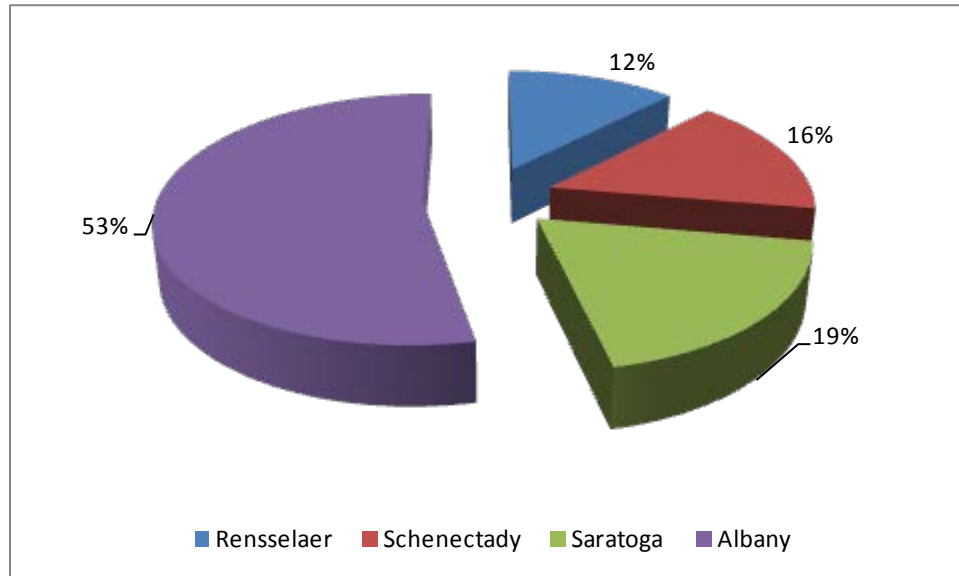
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New York State's Department of Labor produces at-place of employment statistics by county. 2012 is the most recent year for these statistics. According to New York State's Department of Labor, in 2012



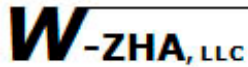
there were approximately half a million jobs in the Tech Valley. There were 410,800 jobs in the Capital District.

County Share of Capital District Jobs
2012

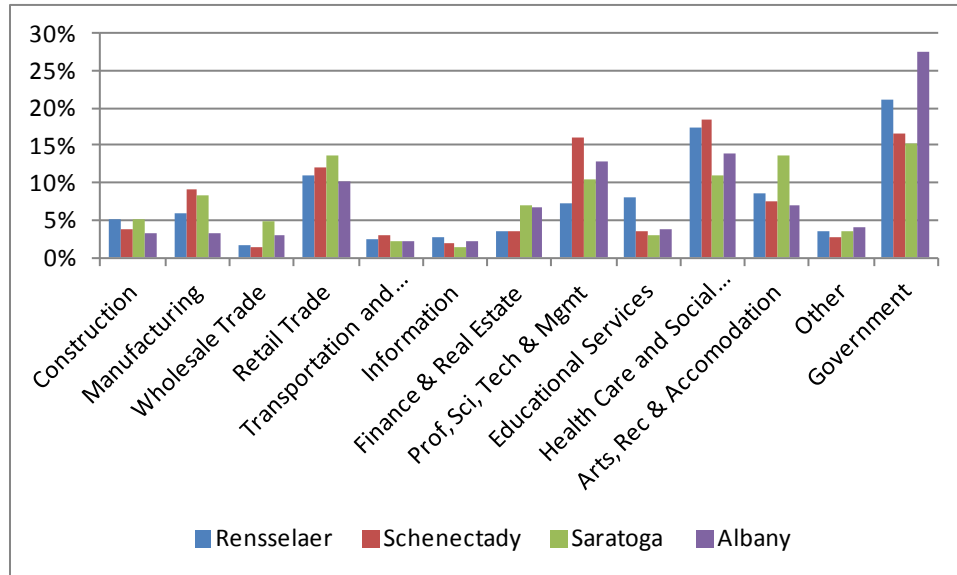


Source: New York State Department of Labor; W-ZHA

With approximately 219,000 jobs, Albany County is the economic driver of the region. Albany County contains 2.8 times the number of jobs in Saratoga County and over three times the number of jobs in both Rensselaer and Schenectady counties. Albany County contained over half of the Capital District's jobs and 44 percent of Tech Valley's jobs.

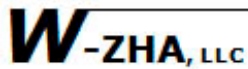


**Job Distribution by Industry
Select Counties
2012**



Source: New York State Department of Labor; W-ZHA

Each of the counties in the Capital Region has its own unique economic base. Rensselaer County has the smallest economy with industry concentrations in government and health care and social services. Schenectady County's economy has employment concentrations in professional, scientific, technical and management industries. Tourism contributes significantly to Saratoga County's employment with the retail and arts, recreation, and accommodations industries accounting for almost 30 percent of its jobs. As the State Capital, Albany County's economy is driven by government which accounts for over 25 percent of its jobs.



**Employment Trends
Selected Areas
2000 - 2012**

Location	2000	2012	Change	
			#	%
New York State	8,471,278	8,560,063	88,785	1.0%
Tech Valley	492,492	498,871	6,379	1.3%
Capital District	407,729	410,792	3,063	0.8%

Source: New York Department of Labor; W-ZHA

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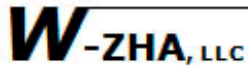
Overall, the Capital District managed to grow employment despite the Great Recession. The Capital District's employment growth rate was, however, below that of the State and Tech Valley.

**Employment Trends
Capital District Counties
2000 - 2012**

County	2000	2012	Change	
			#	%
Private-Sector Jobs				
Rensselaer	39,416	39,536	120	0.3%
Schenectady	51,530	52,974	1,444	2.8%
Saratoga	53,526	65,707	12,181	22.8%
Albany	163,394	159,118	-4,276	-2.6%
Total	307,866	317,335	9,469	3.1%
Government/Unclassified Jobs				
Rensselaer	10,811	10,759	-52	-0.5%
Schenectady	9,934	10,610	676	6.8%
Saratoga	11,551	11,930	379	3.3%
Albany	67,567	60,158	-7,409	-11.0%
Total	99,863	93,457	-6,406	-6.4%
Total				
Rensselaer	50,227	50,295	68	0.1%
Schenectady	61,464	63,584	2,120	3.4%
Saratoga	65,077	77,637	12,560	19.3%
Albany	230,961	219,276	-11,685	-5.1%
Total	407,729	410,792	3,063	0.8%

Source: New York Department of Labor; W-ZHA

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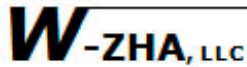
The performance of each County within the Capital District varied widely between 2000 and 2012. Not all of the counties in the Capital District experience job gains. In fact, Saratoga County was responsible for almost all of the growth in the Capital District.

Employment Trends By Industry Saratoga County 2000, 2006, 2012									
Industry	2000	2006	2012	Change					
				2000-06		2006-12		2000-12	
				#	%	#	%	#	%
Agriculture, Forestry, Fishing Hunting	217	286	368	69	31.8%	82	28.7%	151	69.6%
Mining	0	0	146	0	#DIV/0!	146	#DIV/0!	146	#DIV/0!
Utilities	266	233	221	(33)	0.0%	(12)	0.0%	(45)	0.0%
Construction	3,125	4,300	3,887	1,175	37.6%	(413)	-9.6%	762	24.4%
Manufacturing	6,760	5,299	6,450	(1,461)	-21.6%	1,151	21.7%	(310)	-4.6%
Wholesale Trade	2,829	3,545	3,763	716	25.3%	218	6.1%	934	33.0%
Retail Trade	10,022	11,940	10,694	1,918	19.1%	(1,246)	-10.4%	672	6.7%
Transportation and Warehousing	1,191	1,444	1,647	253	21.2%	203	14.1%	456	38.3%
Information	642	796	1,043	154	24.0%	247	31.0%	401	62.5%
Finance and Insurance	2,723	4,521	4,381	1,798	66.0%	(140)	-3.1%	1,658	60.9%
Real Estate and Rental and Leasing	937	1,125	1,088	188	20.1%	(37)	-3.3%	151	16.1%
Professional and Technical Services	3,381	3,736	4,453	355	10.5%	717	19.2%	1,072	31.7%
Management of Companies and Enterprises	613	725	861	112	18.3%	136	18.8%	248	40.5%
Administrative and Waste Services	4,477	4,375	2,870	(102)	-2.3%	(1,505)	-34.4%	(1,607)	-35.9%
Educational Services	1,277	2,005	2,241	728	57.0%	236	11.8%	964	75.5%
Health Care and Social Assistance	6,057	7,144	8,453	1,087	17.9%	1,309	18.3%	2,396	39.6%
Arts, Entertainment, and Recreation	1,119	1,845	2,388	726	64.9%	543	29.4%	1,269	113.4%
Accommodation and Food Services	5,500	6,819	8,132	1,319	24.0%	1,313	19.3%	2,632	47.9%
Other Services	2,390	2,527	2,621	137	5.7%	94	3.7%	231	9.7%
Total, All Government	11,442	12,238	11,816	796	7.0%	(422)	-3.4%	374	3.3%
Unclassified	50	235	114	185	0.0%	(121)	0.0%	64	0.0%
Total All Industries	65,077	75,224	77,637	10,147	15.6%	2,413	3.2%	12,560	19.3%

Source: New York Department of Labor; W-ZHA
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The number of jobs in Saratoga County increased by approximately 20 percent between 2000 and 2012. Over this time period, there were large job increases in Saratoga's arts, entertainment and recreation industries as well as the education and information industries.

Manufacturing employment also increased in Saratoga County between 2006 and 2012. In July, GlobalFoundries broke ground on a new 300mm semiconductor manufacturing facility at the Luther Forest Technology Campus in Saratoga County, NY. GlobalFoundries now employs 2,000 people and is projected to continue to grow as it builds-out its campus in Malta. In the fall of 2013, GlobalFoundries obtained town approvals to develop a second computer chip factory in Malta. While the investment is not guaranteed, the new factory would require another 1,650 employees in addition to the 3,100 employees expected to work at the GlobalFoundries campus by the end of 2014.



Employment Trends By Industry
Albany County
2000, 2006, 2012

Industry	2000	2006	2012	Change					
				2000-06		2006-12		2000-12	
				#	%	#	%	#	%
Agriculture, Forestry, Fishing Hunting	130	166	192	36	27.7%	26	15.7%	62	47.7%
Mining	66	119	0	53	80.3%	(119)	-100.0%	(66)	-100.0%
Utilities	0	0	0	0	0.0%	0	0.0%	0	0.0%
Construction	7,081	7,001	6,999	(80)	-1.1%	(2)	0.0%	(82)	-1.2%
Manufacturing	9,617	8,482	7,164	(1,135)	-11.8%	(1,318)	-15.5%	(2,453)	-25.5%
Wholesale Trade	9,780	7,860	6,692	(1,920)	-19.6%	(1,168)	-14.9%	(3,088)	-31.6%
Retail Trade	23,073	22,820	22,515	(253)	-1.1%	(305)	-1.3%	(558)	-2.4%
Transportation and Warehousing	6,000	5,674	4,698	(326)	-5.4%	(976)	-17.2%	(1,302)	-21.7%
Information	8,044	6,504	4,723	(1,540)	-19.1%	(1,781)	-27.4%	(3,321)	-41.3%
Finance and Insurance	12,256	11,969	11,684	(287)	-2.3%	(285)	-2.4%	(572)	-4.7%
Real Estate and Rental and Leasing	3,198	3,344	2,743	146	4.6%	(601)	-18.0%	(455)	-14.2%
Professional and Technical Services	12,966	14,207	15,077	1,241	9.6%	870	6.1%	2,111	16.3%
Management of Companies and Enterprises	4,395	3,890	3,881	(505)	-11.5%	(9)	-0.2%	(514)	-11.7%
Administrative and Waste Services	10,598	11,098	9,051	500	4.7%	(2,047)	-18.4%	(1,547)	-14.6%
Educational Services	6,254	6,928	8,047	674	10.8%	1,119	16.2%	1,793	28.7%
Health Care and Social Assistance	26,243	27,352	30,557	1,109	4.2%	3,205	11.7%	4,314	16.4%
Arts, Entertainment, and Recreation	1,801	1,521	1,651	(280)	-15.5%	130	8.5%	(150)	-8.3%
Accommodation and Food Services	12,409	13,477	13,696	1,068	8.6%	219	1.6%	1,287	10.4%
Other Services	8,601	8,961	8,843	360	4.2%	(118)	-1.3%	242	2.8%
Total, All Government	67,567	64,610	60,158	(2,957)	-4.4%	(4,452)	-6.9%	(7,409)	-11.0%
Unclassified	97	415	229	318	327.8%	(186)	-44.8%	132	136.1%
Total All Industries	230,961	226,975	219,276	(3,986)	-1.7%	(7,699)	-3.4%	(11,685)	-5.1%
<i>Total All Industries Without Government</i>	<i>163,394</i>	<i>162,365</i>	<i>159,118</i>	<i>(1,029)</i>	<i>-0.6%</i>	<i>(3,247)</i>	<i>-2.0%</i>	<i>(4,276)</i>	<i>-2.6%</i>

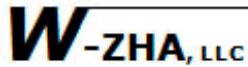
Source: New York Department of Labor; W-ZHA
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During the same period, Albany County lost 5 percent of its jobs. Over 60 percent of the job losses (7,400 jobs) were government jobs. As the State and County seat, most of these government job losses were experienced in the City of Albany. Albany County was the only county in the Capital District to lose private sector jobs between 2000 and 2012.

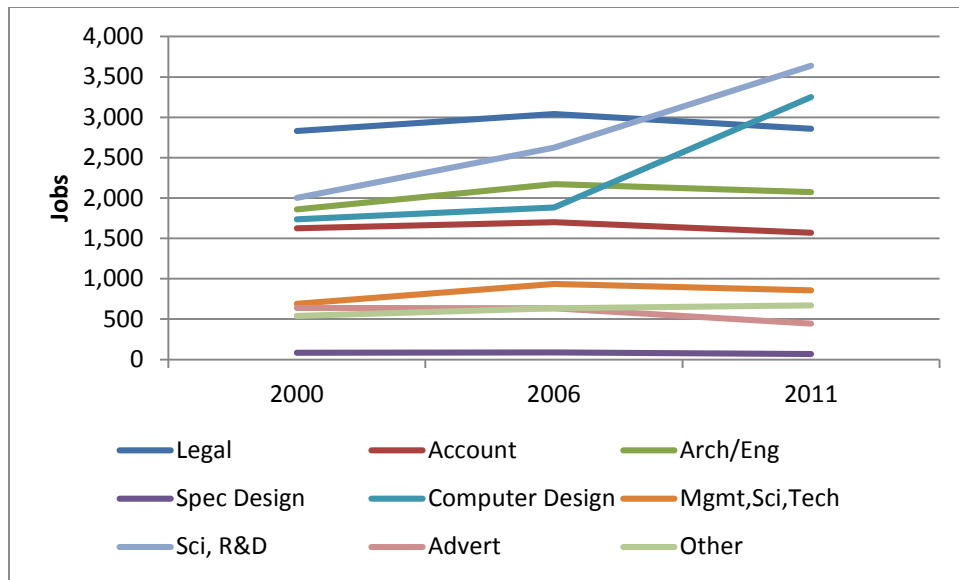
Where Albany did experience job growth was in the professional and technical industries. In Albany County, employment in professional and technical services grew by over 2,100 jobs, surpassing Saratoga County's growth of just over 1,000 jobs. These industries include legal services, accounting, architecture and engineering, specialized design services, computer systems design and related services, management and scientific and technical consulting, scientific research and development, advertising, and other professional scientific and technical services.

The New York State Department of Labor does not publish employment data for these specific professional and technical industry sub-sectors. However, another data source, County Business Patterns, does track employment for these industry sub-sectors.

County Business Patterns is a product of the United State Census. The County Business Patterns database offers at-place, private sector employment statistics for counties and metropolitan areas by six-digit NAICS code and firm size. 2011 statistics are the most recent data available.



Employment Trends for Industries within the Professional and Technical Industry Category 2000, 2006, 2011

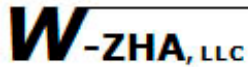


Professional, Scientific, & Technical Industry Employment Trends Albany County 2000, 2006, 2011

	2000	2006	2011	Change 2000-06		Change 2006-11		Change 2000-11	
				#	%	#	%	#	%
Professional, scientific & technical services	12,006	13,715	15,432	1,709	14%	1,717	13%	3,426	29%
Legal services	2,832	3,039	2,858	207	7%	-181	-6%	26	1%
Accounting, tax prep, bookkeep, payroll services	1,624	1,700	1,571	76	5%	-129	-8%	-53	-3%
Architectural, engineering & related services	1,859	2,173	2,075	314	17%	-98	-5%	216	12%
Specialized design services	82	88	68	6	7%	-20	-23%	-14	-17%
Computer systems design & related services	1,738	1,885	3,251	147	8%	1,366	72%	1,513	87%
Management, sci & tech consulting services	690	935	857	245	36%	-78	-8%	167	24%
Scientific R&D services	2,003	2,624	3,640	621	31%	1,016	39%	1,637	82%
Advertising & related services	640	635	443	-5	-1%	-192	-30%	-197	-31%
Oth professional, scientific, technical service	538	636	669	98	18%	33	5%	131	24%

Source: County Business Patterns; W-ZHA
f:\8000s, misc\81313 Albany\cbp pro tech sci breakdown 2011.xls\Sheet3

According to the County Business Patterns data, there were considerable job gains over the last decade in computer systems design and related industries and the scientific research and development industries. These job gains are likely a direct impact of CNSE. There were job losses in the legal, architecture and engineering, and advertising industries. These industries were generally hard hit by the recession.



Jones Lang LaSalle publishes a report, the “United States High Technology Office Outlook”, which tracks office demand from high technology companies. Jones Lang LaSalle defines high tech service office users as those companies in the following industries:

- Electronic shopping and auctions;
- Software publishers;
- Data processing hosting and related services;
- Other information services; and
- Computer systems design and related services

Albany County employment data is spotty by sub-sector industry because of confidentiality issues.

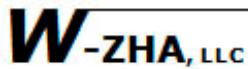
High Technology Service Employment Albany County 2000, 2006, 2011									
	2000	2006	2011	Change 2000-06		Change 2006-11		Change 2000-11	
				#	%	#	%	#	%
Electronic shopping and auctions	na	na	na	na	na	na	na	na	na
Software publishers	392	353	525	-39	-10%	172	49%	133	34%
Data processing hosting and related services	na	532	1,071	na	na	539	101%	na	na
Other information services	na	na	na	na	na	na	na	na	na
Computer systems design & related services	1,738	1,885	3,251	147	8%	1,366	72%	1,513	87%
						2,077			

Source: County Business Patterns; W-ZHA

f:\8000s, misc\81313 Albany\cbp pro tech sci breakdown 2011.xls\Sheet1

The data indicate that there has certainly been considerable growth in Albany County among the high tech sectors that demand office space. Between 2006 and 2011 (in the heart of the recession), over 2,000 jobs were generated by high tech service industries.

In terms of firm size, the exact number of jobs by firm is not provided on the County Business Patterns database. Instead, County Business Patterns provides the number of firms within a range of firm sizes. For instance, Albany County has 4,648 firms that employ 1 to 4 workers. For purposes of this analysis, to estimate small business employment, the mid-point of the range was applied to firms with 1 to 4 employees (estimate: 2 workers), 5 to 9 employees (estimate: 7 workers) and 10 to 19 employees (estimate: 15 workers).



**Small Firm Establishments and Estimated Employment
Capital District and Counties
2011**

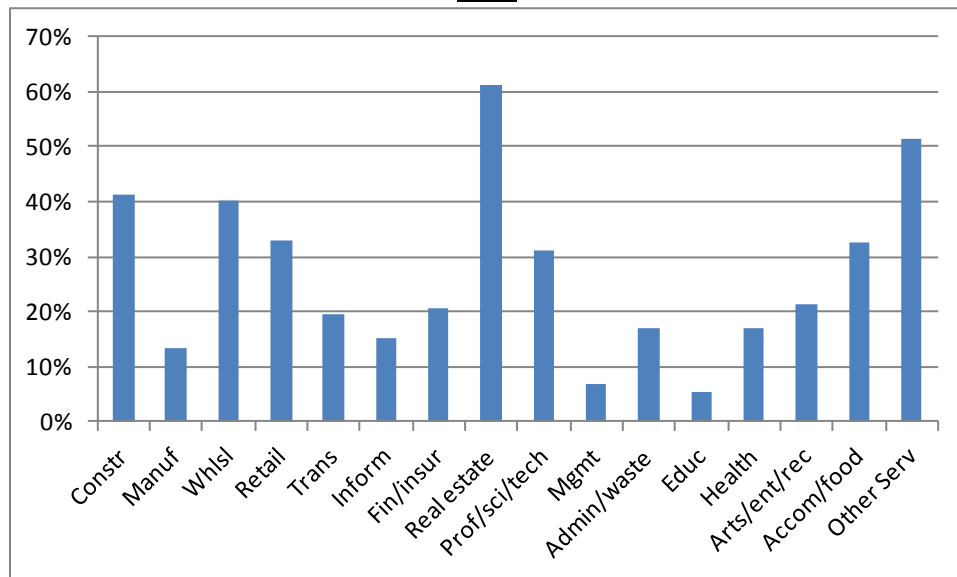
Firms with <20 Employees	Rensselaer	Schenectady	Saratoga	Albany	Capital District
Firms	2,616	2,658	4,397	7,871	17,542
% of All Firms	88%	87%	88%	83%	86%
Estimated Employment (Mid-Point)	13,200	13,700	22,100	43,000	92,000
Estimated % of All Private Employment ^{/1}	32%	28%	36%	25%	29%

1. County Business Patterns data excludes government employment, so percentage reflects small business' share of private employment only.

Source: County Business Patterns, 2011; W-ZHA
f:\8000s, misc\81313 Albany\emp firm size.xlsx]Sheet1

Given this methodology, it is estimated that almost 30 percent of the Capital District's jobs are in small businesses. Saratoga County has the highest share of its employment in small business (36 percent), while Albany has the lowest share of its employment in small business (25 percent). Albany County has more jobs in small businesses than any other county in the Capital District.

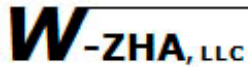
**Share of Employment in Firms with < 20 Employees by Industry
Albany County
2011**



Source: County Business Patterns; W-ZHA

firm size

As in the other counties, in Albany County small business employment is concentrated in the construction, wholesale, retail, real estate, professional/scientific/technical services, food service and other services industries.

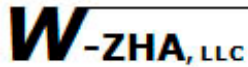


**Estimated Employment Firms with <20 Employees
Capital District
2000, 2006, 2011**

	2000	2006	2011	Change	
				Jobs	%
Agriculture, forestry, fishing and hunting	93	68	76	-17	-18%
Mining, quarrying, and oil and gas extraction	91	85	62	-29	-32%
Utilities	94	122	93	-1	-1%
Construction	8,079	9,067	7,914	-165	-2%
Manufacturing	2,593	2,396	2,374	-219	-8%
Wholesale trade	4,986	4,352	4,421	-565	-11%
Retail trade	16,629	16,662	16,013	-616	-4%
Transportation and warehousing	1,237	1,706	1,662	425	34%
Information	1,330	1,815	1,760	430	32%
Finance and insurance	5,171	5,840	5,583	412	8%
Real estate and rental and leasing	2,816	3,269	3,207	391	14%
Professional, scientific, and technical services	7,484	9,554	9,306	1,822	24%
Management of companies and enterprises	466	415	455	-11	-2%
Administrative and support and waste management	3,465	3,672	3,905	440	13%
Educational services	992	1,085	1,158	166	17%
Health care and social assistance	10,394	12,052	12,570	2,176	21%
Arts, entertainment, and recreation	1,119	1,659	1,584	465	42%
Accommodation and food services	7,533	9,026	10,846	3,313	44%
Other services (except public administration)	9,055	9,656	8,901	-154	-2%
Industries not classified	183	97	103	-80	-44%
Total for all sectors	84,380	92,598	91,993	7,613	9%

Source: County Business Patterns; W-ZHA
f:\8000s, misc\81313 Albany\[emp firm size.xlsx]district

Small business employment increased between 2000 and 2011 in the Capital District. Significant small business job gains occurred in the accommodation and food service industry, health care and social assistance and the professional, scientific and technical services industries. Small business growth in Saratoga County and Albany County drove small business growth in the Capital District.

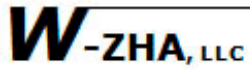


**Estimated Employment Private Firms with <20 Employees
Albany County
2000, 2006, 2011**

	2000	2006	2011	Change	
				Jobs	%
Agriculture, forestry, fishing and hunting	27	12	6	-21	-78%
Mining, quarrying, and oil and gas extraction	32	31	34	2	6%
Utilities	26	38	39	13	50%
Construction	3,274	3,244	2,897	-377	-12%
Manufacturing	1,041	1,061	997	-44	-4%
Wholesale trade	2,939	2,488	2,610	-329	-11%
Retail trade	7,745	7,322	7,075	-670	-9%
Transportation and warehousing	712	1,033	841	129	18%
Information	655	1,039	916	261	40%
Finance and insurance	2,721	2,842	2,743	22	1%
Real estate and rental and leasing	1,567	1,738	1,658	91	6%
Professional, scientific, and technical services	4,006	4,985	4,831	825	21%
Management of companies and enterprises	241	233	225	-16	-7%
Administrative and support and waste management	1,667	1,634	1,792	125	7%
Educational services	543	586	548	5	1%
Health care and social assistance	4,474	5,180	5,580	1,106	25%
Arts, entertainment, and recreation	419	690	581	162	39%
Accommodation and food services	3,676	4,099	4,898	1,222	33%
Other services (except public administration)	4,806	5,011	4,665	-141	-3%
Industries not classified	162	41	73	-89	-55%
Total for all sectors	40,993	43,307	43,009	2,016	5%

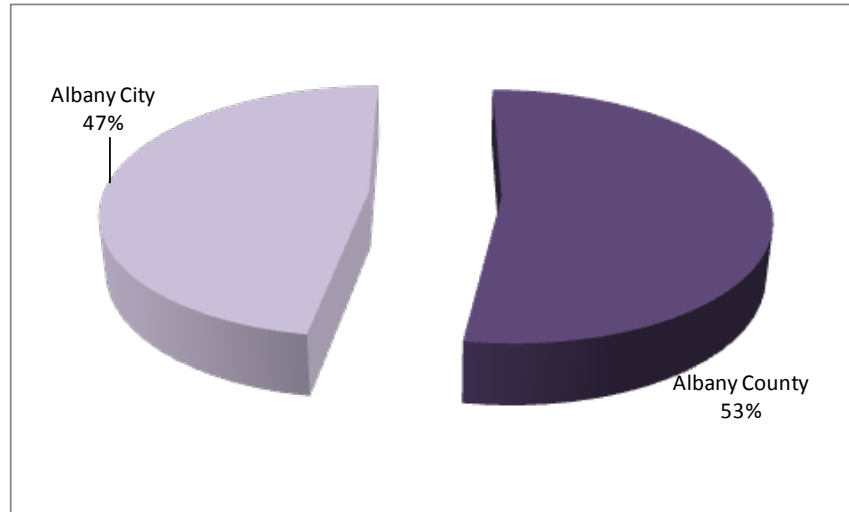
Source: County Business Patterns; W-ZHA
f:\8000s, misc\81313 Albany\[emp firm size.xlsx]albany

Thus, while overall Albany County jobs did not grow between 2000 and 2011, jobs in Albany County's small businesses grew by 5 percent. It is estimated that approximately one-third of Albany County's professional, scientific, and technical service employment is within firms of less than 20 employees. Small businesses, particularly in the professional, technical and scientific industries, often seek Downtown locations where there are urban amenities.



CITY JOBS

**City of Albany Share of Albany County Jobs
2011**

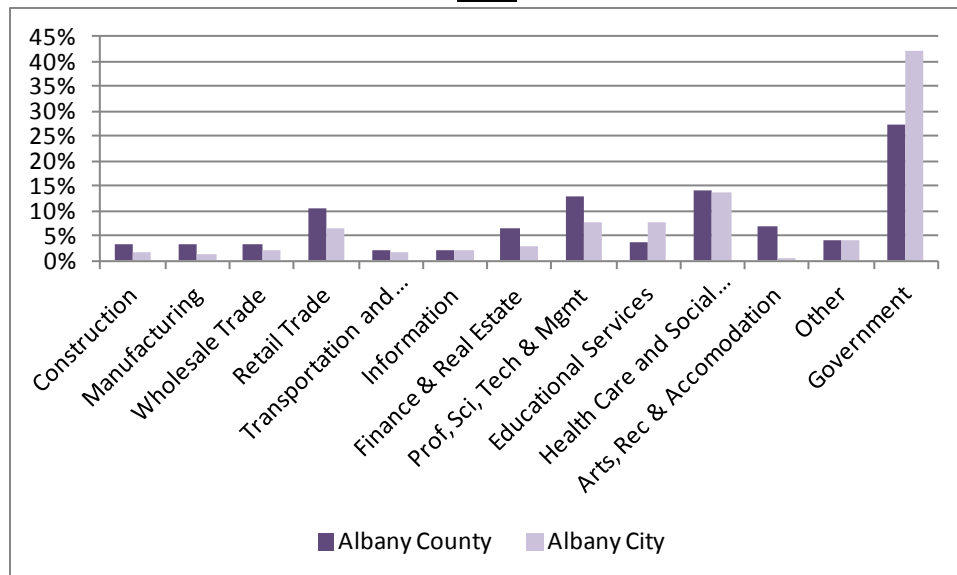


Source: ESRI

Emp trends

The New York Department of Labor does not publish employment data at the city-level of geography. ESRI, a supplier of geographic information software and geodata, estimates employment at the city-level with the most recent year being 2011. According to ESRI, the City contained 95,970 jobs in 2011 or 47 percent of all Albany County jobs.

**Albany County and City Job Distribution by Industry
2011**



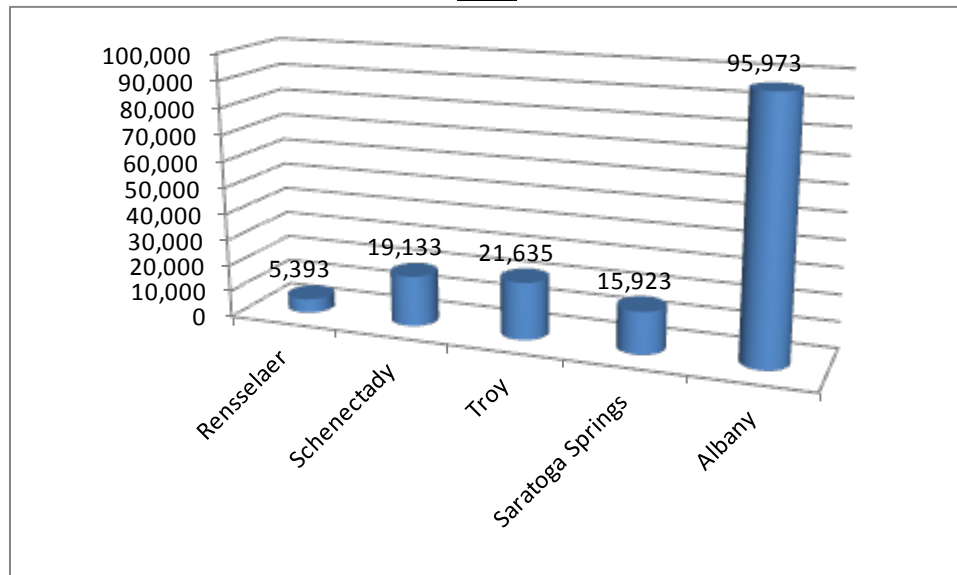
Source: New York Department of Labor; ESRI

Emp trends



Approximately 42 percent of Albany City's jobs are government-related. The University at Albany and State government are major government employers.

City Jobs
Employment in Capital District Cities
2011



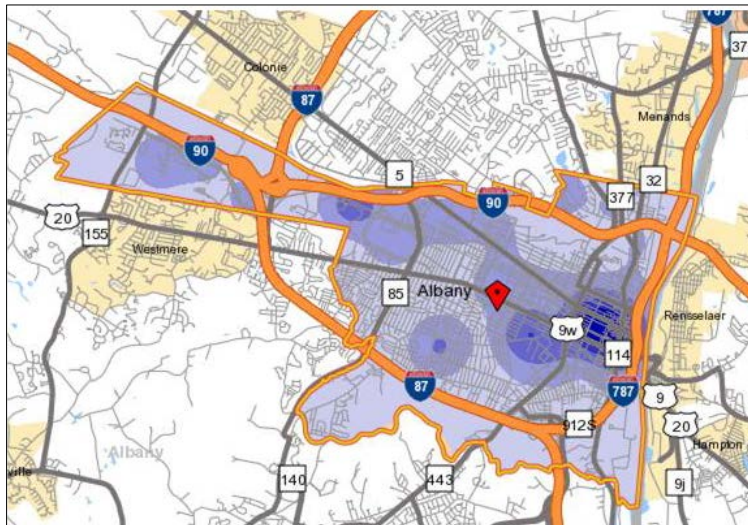
Source: ESRI

Emp trends

The City of Albany contains more jobs than all of the major Capital District cities combined. Troy has the second highest concentration of jobs with approximately 21,640 jobs.

The City is the home of the College of Nanoscale Science and Engineering, a \$17 billion research complex. CNSE's model is to combine state aid, private sector investments and academia to develop next generation technology. According to a representative from CNSE, the model is to have CNSE in Albany remain the research and development hub for nanoscience and engineering. As new technologies are developed, private industry is then encouraged to establish manufacturing plants in Tech Valley. Such spin-off investments have already occurred in Malta, Buffalo, Canandaigua, Rochester and Utica.

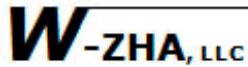
**Albany City Jobs Concentrations
2011**



Source: US Census; W-ZHA

emp map

As the map above illustrates job concentrations in the City are in the Central Business District at/near the Albany Medical Center and St. Peter's Hospital and at University at Albany and the Harriman Center. (CNSE jobs do not show up at the CNSE location because they are likely ascribed to the University at Albany.)



JOBS IN ALBANY'S CENTRAL BUSINESS DISTRICT

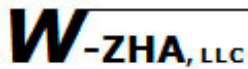
Albany Central Business Jobs by Industry 2013		
Industry	Jobs	
	#	%
Ag, For, Fishing	2	0%
Mining	0	0%
Utilities	0	0%
Construction	136	0%
Manufacturing	256	1%
Wholesale Trade	413	1%
Retail Trade	689	2%
Transportation and Warehousing	289	1%
Information	493	1%
Finance and Insurance	863	2%
Real Estate and Rental and Leasing	279	1%
Professional and Technical Services	2,861	7%
Management of Companies and Enterprises	9	0%
Administrative and Waste Services	401	1%
Educational Services	935	2%
Health Care and Social Assistance	1,222	3%
Arts, Entertainment, and Recreation	131	0%
Accommodation and Food Services	970	2%
Other Services	1,333	3%
Public Admin	31,137	73%
Total	42,419	100%

Source: ESRI; W-ZHA

F:\8000s, misc\81313 Albany\[esri emp cbre cbd.xlsx]Sheet2

According to ESRI, there are 42,420 jobs in Albany's Central Business District. The Central Business District is defined as Lark Street to the west, the Hudson River to the East, Livingston Avenue to the north and Madison Street to the south. The Central Business District contains 44 percent of the City's jobs. Over 70 percent of the jobs in the City's CBD are government-related.

The second highest concentration of jobs in the CBD is in the professional and technical services industry. According to the Downtown Albany Business Improvement District, the Downtown contains 9 out of the top 10 lobbying firms, 7 out of 10 of the top law firms, and 11 out of Albany's 20 largest stockbrokerage firms.



THE OFFICE MARKET

EXISTING CONDITIONS

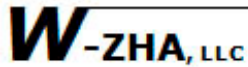
The source of the historic office market data is CB Richard Ellis (CBRE), a real estate brokerage firm with offices in Albany. Each quarter CBRE publishes a *MarketView* report that summarizes the state of the Albany Region's office market. The Albany Region's office market covers multi-tenant office space in the Albany, Saratoga, Schenectady, Troy and Glens Falls central business districts as well as suburban office locations in Albany, Colonie, Guilderland, Bethlehem, Clifton Park, Halfmoon, Glenville, Malta, Niskoyuna, East Greenbush, North Greenbush and Schodock. To support this research effort, CBRE provided year-end *MarketView* reports for all years back to 2000.

Office Market Statistics Albany Region Office Market 2013				
Market	Inventory	Available		Occupied
Albany CBD				
Class A	1,608,800	272,200	17%	1,336,600
Class B	3,505,100	780,900	22%	2,724,200
Class C	397,300	251,900	63%	145,400
Total	5,511,200	1,305,000	24%	4,206,200
Saratoga CBD	618,700	73,700	12%	545,000
Schnectady CBD	1,907,500	190,600	10%	1,716,900
Troy CBD	1,294,800	128,100	10%	1,166,700
Glens Falls CBD	1,130,000	215,200	19%	914,800
Suburban				
Class A	7,697,600	643,900	8%	7,053,700
Class B	7,760,600	1,113,900	14%	6,646,700
Class C	3,111,600	494,000	16%	2,617,600
Total	18,569,800	2,251,700	12%	16,318,000
Total Capital District	29,032,100	4,164,400	14%	24,867,700

Source: CBRE, "MarketView Report: 4th Qtr 2013"; W-ZHA

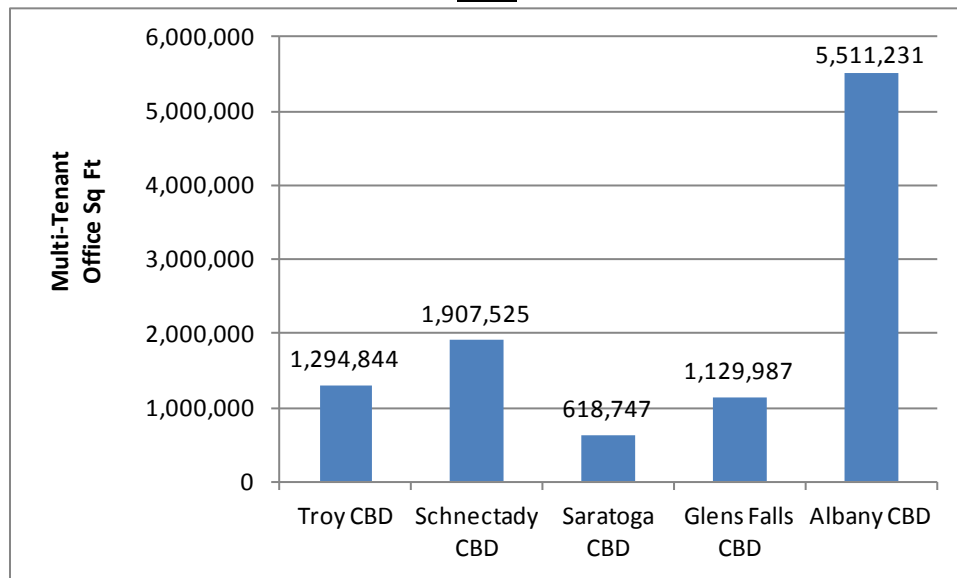
f:\8000s, misc\81313 Albany\office perf.xlsx]Sheet5

According to CBRE, at the end of 2013, there were approximately 29 million square feet of multi-tenant office space in the Albany Region. There were approximately 5.5 million square feet of multi-tenant office space in Albany's CBD. Albany's CBD contains almost one-quarter of all office space in the Albany Region.



Exclusive of the neighboring CBD's, today the suburbs contain more than three times the square feet of multi-tenant office space as compared to Albany's CBD. In 2000, the suburbs contained just over two times more.

**Multi-Tenant Office Space
Selected Central Business Districts
2013**



Source: CBRE, "MarketView Report: 4th Qtr 2013"; W-ZHA

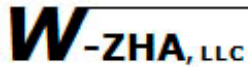
Albany's CBD contains more multi-tenant office space than the Troy, Schenectady, Saratoga, and Glens Falls CBDs combined. In addition to multi-tenant office space, interviews with brokers suggest that there are another four million square feet of owner occupied and public office space in Albany's Downtown. With an estimated 10 million square feet of office space, Albany is clearly the most substantial business center in the Region.

**Class A Office Space
Albany Region
2013**

	Sq Ft	Vacancy Rate	Asking Rent
Albany CBD	1,608,800	16.9%	\$21.89
Suburban	7,697,600	8.4%	\$18.46
Total	9,306,400	9.9%	

Source: CBRE, "MarketView Report: 4th Qtr 2013"; W-ZHA

f:\8000s, misc\81313 Albany\[office perf.xlsx]class a



The suburbs contain over 80 percent of the Class A space in the Region. The suburbs contain most of the newer Class A office supply. Class A space in the suburbs is almost fully leased, which is noteworthy given that most office markets in the country are still recovering from the Great Recession. It appears that the Albany Region's office market fared relatively well during the economic downturn.

The suburban office supply in and near Albany is located along the major highways and near anchors like CNSE, Albany Medical Center, and retail concentrations (Wolf Road, Crossgates Mall, Stuyvesant Plaza, etc.). The suburban office parks offer the advantages of easy access, free parking, and, in many cases, lower costs of occupancy due to lower taxes.

Near Albany, a good example of the suburban Class A product is Corporate Woods, where two to seven story buildings of 50,000 to 375,000 square feet offer tenants 25,000+ square foot floorplates. Built in the 1980's and 1990's, the buildings are in a park-like setting with a daycare on-site, but very few services within walking distance. Asking modified, full service rent is approximately \$20.00 per square foot with free parking (tenants pay their own utilities).

Although CBRE's data suggest that Albany's Central Business District contains approximately 20 percent of the Region's Class A office space, there are few buildings in the CBD that offer the same quality as the multi-tenant buildings in the premiere office parks like Great Oaks and/or Patroon Creek. Many of the CBD's Class A buildings are dated and are best classified as A- or B+.

Interviews suggest that there are really only a handful of Class A buildings in the Downtown and they are:

Class A

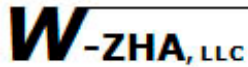
- 677 Broadway (180,000 square feet, approximately 5 years old);
- 80 State Street (210,000 square feet, over 25 years old);
- 30 South Pearl Street - Omni Bldg (202,500 square feet, 25 years old)

Class A-

- 54 State Street (150,000 square feet, over 30 years old); and,
- 540 Broadway (90,000 square feet; 18 years old)

Together the space in these buildings totals approximately 830,000 square feet. The two true Class A buildings (677 Broadway and 80 State) are reportedly fully occupied. 30 South Pearl, 54 State and 540 Broadway all have a significant amount of space available for-lease.

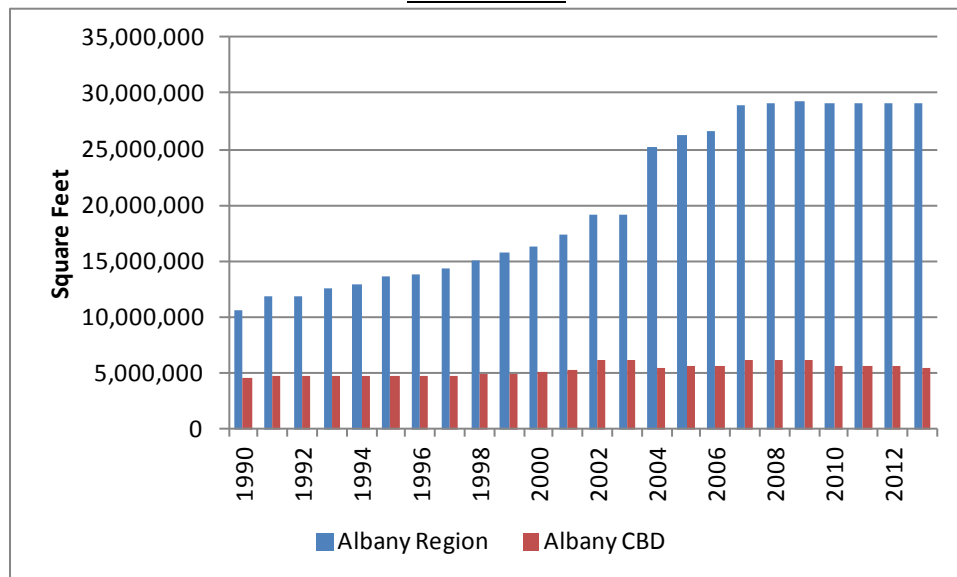
Built in 2007, 677 Broadway is the newest Class A multi-tenant office building in the Downtown. 677 Broadway's asking rent is \$22 per square foot plus common area maintenance charges plus parking expenses. The developer of the building reported the cost of occupancy (excluding parking) at \$26 per



square foot. 80 State Street's is also asking \$22 per square foot with the tenants paying utilities and parking.

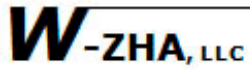
The other Class A buildings command rents comparable to premiere office space in the suburbs (\$19-\$21 per square foot), except Downtown rent excludes parking. Parking adds a \$3.00 to \$5.00 per square foot premium to the cost of occupancy in Downtown buildings. All in all, tenants pay a premium to occupy space in Downtown Albany. High Downtown vacancy may indicate that Downtown's high cost compromises its competitive position in the marketplace.

**Multi-Tenant Office Supply
The Albany Region and Albany's CBD
1990 to 2013**

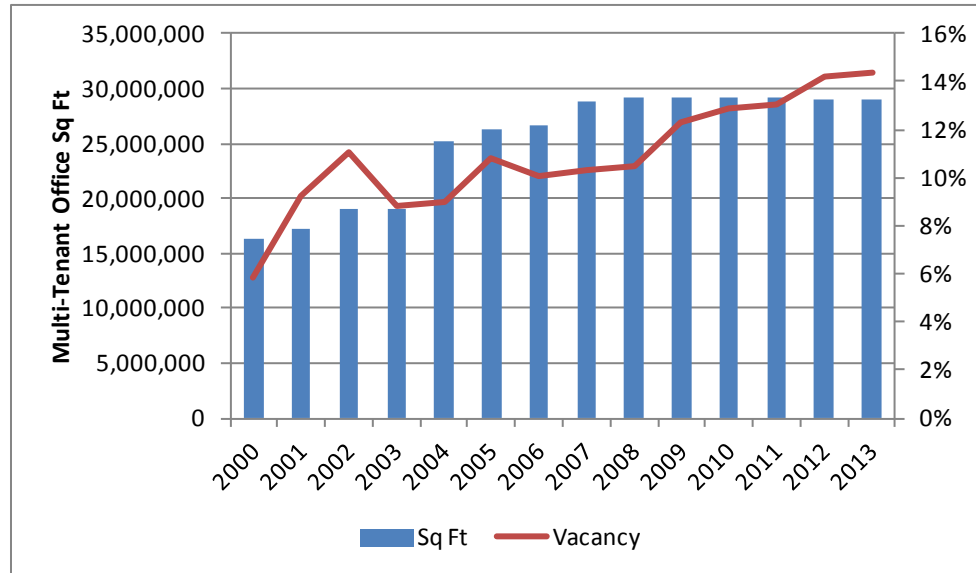


Source: CBRE, "MarketView Reports: 2000 - 4th Qtr 2013"; W-ZHA

Almost all of the growth in the Region's multi-tenant office inventory has occurred outside of Albany's CBD. In the Region, the increase in occupied multi-tenant office space since 1990 averaged 670,000 square feet per year. Albany's CBD has essentially the same amount of occupied multi-tenant space today as it had in 1990.



**Multi-Tenant Office Supply
Albany Region Office Market
2000–2013**

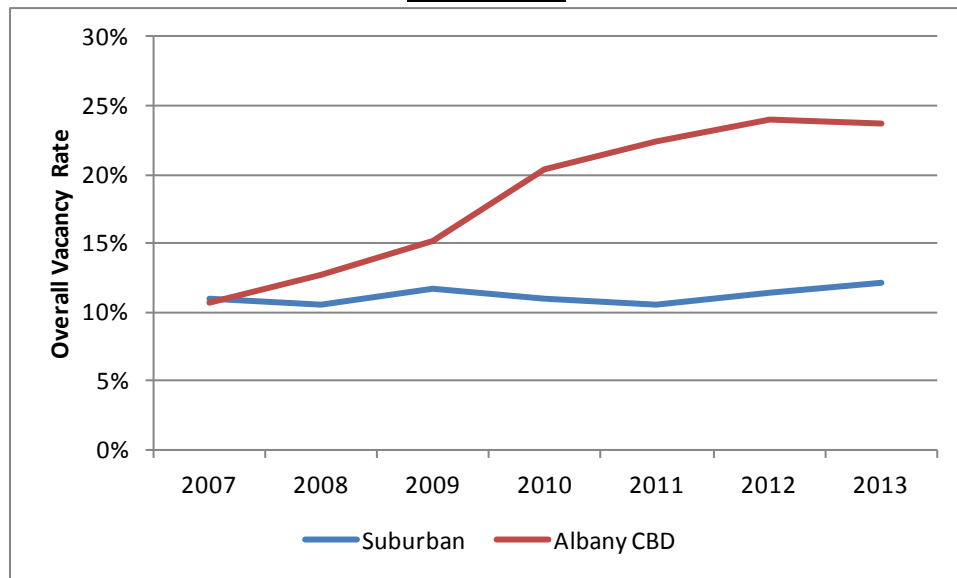


Source: CBRE, "MarketView Reports: 2000 - 4th Qtr 2013"; W-ZHA

The Albany Region's overall office vacancy rate is not bad at 14 percent. With all classes of space considered, a market is considered "stabilized" with a 10 percent vacancy rate. The suburban areas, characterized by low-rise, surface parked office parks have the lowest vacancy rates.



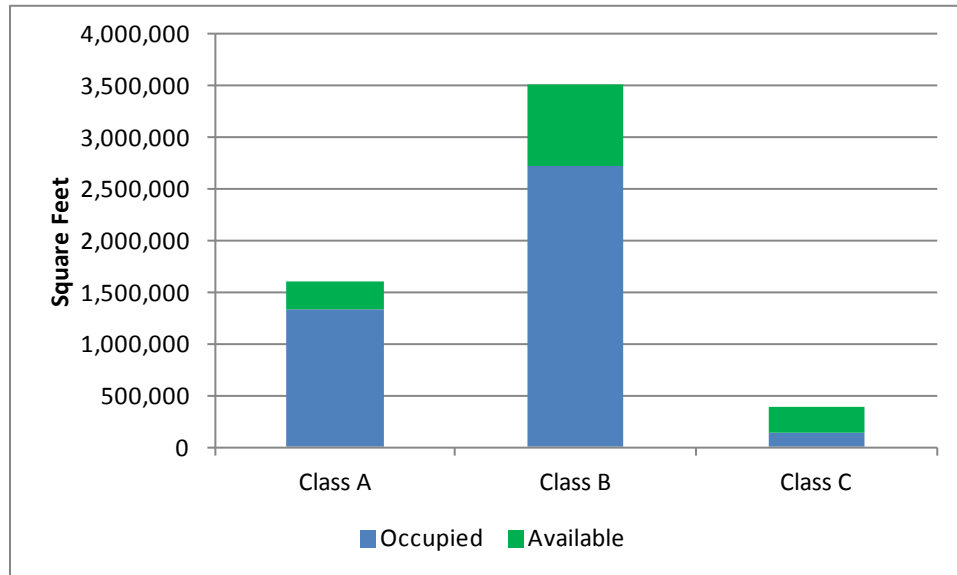
**Vacancy Rate in the Suburban Markets and Albany's CBD
2007 to 2013**



Source: CBRE, "MarketView Reports: 2000 - 4th Qtr 2013"; W-ZHA

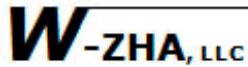
As the above chart illustrates, most of the increase in vacancy has been experienced in Albany's CBD. As was noted in the previous section, Albany County lost employment between 2000 and 2012 and this was largely due to government employment losses. According to CBRE, as of the 4th Quarter of 2013, Class A office space in Albany's CBD was 17 percent vacant. The overall vacancy rate in the CBD is 24 percent, which is high.

**Vacant Space by Class of Building
Albany CBD
2013**

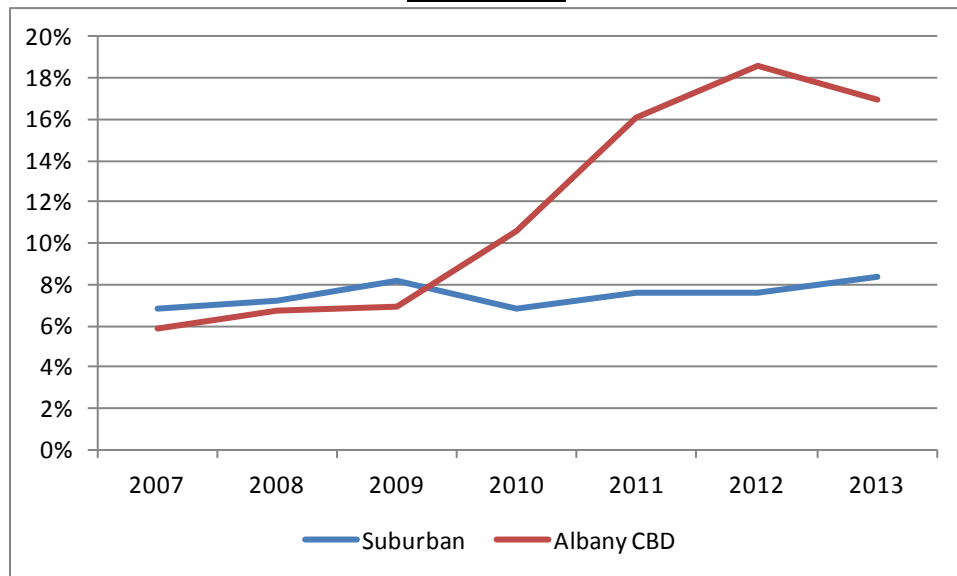


Source: CBRE, "MarketView Report: 4th Qtr 2013"; W-ZHA

Vacancy in Class B and C space Downtown is particularly severe. Almost one-of-four square feet of Class B multi-tenant office space is available and, while not a lot of space, half of the Class C multi-tenant office space is available for-lease. It is difficult to market Class C buildings; they often have small floorplates and obsolete mechanical systems. In addition to these physical challenges, Class B and C office tenants are also faced with high parking costs and high taxes. For those buildings suitable, adaptive re-use to residential may now be their highest and best use, not office.



**Class A Office Vacancy Rate in the Suburban Markets and Albany's CBD
2007 to 2013**



Source: CBRE, "MarketView Reports: 2000 - 4th Qtr 2013"; W-ZHA

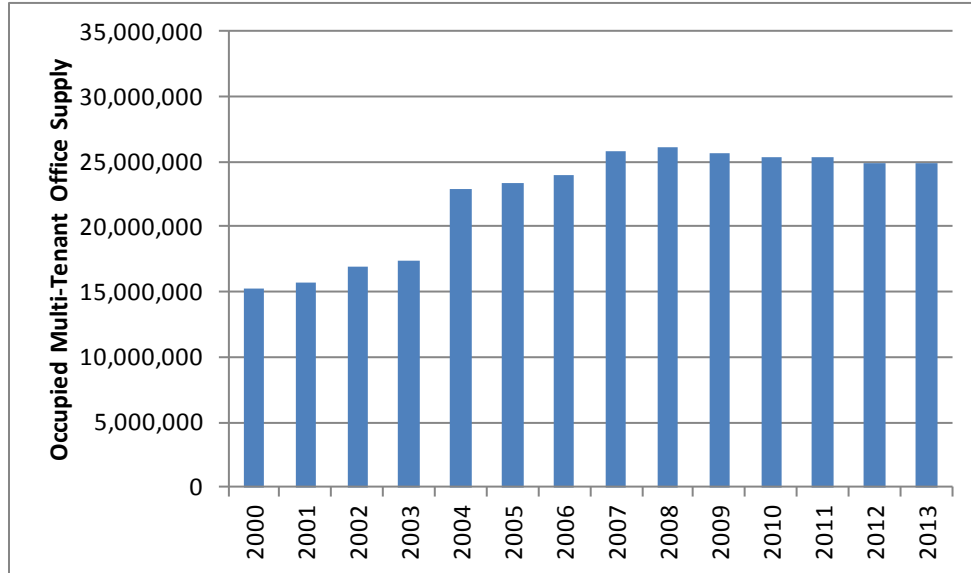
Among Class A buildings, the Suburban locations have maintained a relatively stable vacancy rate, while the Downtown has experienced a sharp increase in vacancy. The vacancy spike coincides with the Governor's re-stacking program that moves State workers from rented, privately-owned office space to State-owned buildings.

In some cases re-stacking has created vacancy Downtown such as the NYS Office of Temporary Disability vacating 50,000 square feet at 67 North Pearl Street. In other cases, re-stacking has brought employees into the Downtown as was the case with the Division of Criminal Justice which brought 725 workers to the Alfred E. Smith building Downtown. Overall, re-stacking has been difficult on Downtown property owners because New York State vacancies will take years to absorb which, in turn, places more pressure on landlords to retain existing tenants by offering attractive lease terms. As a result of this cycle rents remain depressed.

It is important to note, that among those brokers interviewed for this research, most indicated that re-stacking is not the only factor contributing to the weakness in the CBD's office market. Instead, it is the high cost of occupying space Downtown that negatively impacts its marketability. Today, the benefits of walkability and the urban setting Downtown are not perceived as worth the premium necessary to occupy space Downtown.

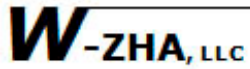


**Occupied Multi-Tenant Office Space
Albany Region Office Market
2000–2013**



Source: CBRE, "MarketView Reports: 2000 - 4th Qtr 2013"; W-ZHA

Thus, even with investments in the nanotechnology economy, occupied multi-tenant office space today remains the same as what it was in 2007. In fact, there has been a slight contraction in occupied office space. While the commercial brokers interviewed for this study indicated that there has been a slight up-tick in high tech firms, there was general consensus that the biotechnology economy has had little impact on the multi-tenant office market, particularly in Albany's CBD.

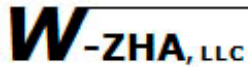


**Class A Office Rental Rates
Suburban and Albany CBD
2000 - 2013**

Year	Suburban				CBD			
	Low	High	Mid	Avg	Low	High	Mid	Avg
2000	\$17.00	\$19.50	\$18.25		\$20.50	\$23.00	\$21.75	
2001	\$17.00	\$19.50	\$18.25		\$19.50	\$23.00	\$21.25	
2002	\$15.25	\$20.50	\$17.88		\$19.00	\$22.50	\$20.75	
2003	\$15.25	\$20.50	\$17.88		\$19.00	\$22.50	\$20.75	
2004				\$18.06				\$20.65
2005	\$13.00	\$21.00	\$17.00		\$19.75	\$24.00	\$21.88	
2006	\$15.00	\$21.00	\$18.00		\$18.50	\$25.00	\$21.75	
2007	\$12.00	\$20.50	\$16.25		\$18.50	\$25.00	\$21.75	
2008	\$12.00	\$24.50	\$18.25		\$18.50	\$26.00	\$22.25	
2009				\$18.73				\$20.78
2010				\$17.57				\$21.56
2011				\$17.67				\$21.79
2012				\$19.13				\$21.56
2013				\$18.46				\$21.89

Source: CBRE, "MarketView Reports: 2000 - 4th Qtr 2013"; W-ZHA
f:\8000s, misc\81313 Albany\[office perf.xlsx]Sheet10

Office rental rates are essentially the same today as they were in 2000. Given that a dollar today is worth \$0.74 in 2000 dollars, office rents have actually decreased over time.



MARKET PROSPECTS

Moody's Analytics' *economy.com* projects employment by industry for counties and metropolitan areas.

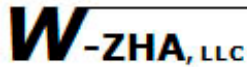
Job Projections Albany Metropolitan Area 2013 - 2023									
	2013	2018	2023	Change					
				2013 - 2018		2018 - 2023		2013 - 2023	
				#	%	#	%	#	%
Natural Resources & Mining	540	490	440	-50	-9%	-50	-10%	-100	-19%
Construction	17,690	20,790	22,080	3,100	18%	1,290	6%	4,390	25%
Manufacturing	23,250	24,000	22,340	750	3%	-1,660	-7%	-910	-4%
Wholesale Trade	13,440	13,070	12,290	-370	-3%	-780	-6%	-1,150	-9%
Retail Trade	47,000	48,490	47,860	1,490	3%	-630	-1%	860	2%
Transportation, Warehousing, & Utilities	12,030	11,490	10,970	-540	-4%	-520	-5%	-1,060	-9%
Information	8,190	9,430	10,270	1,240	15%	840	9%	2,080	25%
Financial Activities	25,280	27,170	27,410	1,890	7%	240	1%	2,130	8%
Professional & Business Services	52,050	59,080	61,790	7,030	14%	2,710	5%	9,740	19%
Educational Services	26,990	28,960	29,980	1,970	7%	1,020	4%	2,990	11%
Health Care and Social Assistance	64,650	72,320	78,110	7,670	12%	5,790	8%	13,460	21%
Leisure & Hospitality	37,100	41,310	43,390	4,210	11%	2,080	5%	6,290	17%
Other Services (except Public Administration)	17,960	19,370	19,890	1,410	8%	520	3%	1,930	11%
Government	101,310	103,830	102,990	2,520	2%	-840	-1%	1,680	2%
Total	447,480	479,800	489,810	32,320	7%	10,010	2%	42,330	9%

Source: Moody's Analytics, *economy.com*; W-ZHA
f:\8000s, misc\81313 Albany\employment economy.com.XLS]proj

Moody's projects that the number of jobs in the Metropolitan Area will increase by 9 percent by 2023. Most of the job gains are projected to be in health care and social assistance and professional and business services industries.

Job Projections Albany County 2013 - 2023									
	2013	2018	2023	Change					
				2013 - 2018		2018 - 2023		2013 - 2023	
				#	%	#	%	#	%
Natural Resources & Mining	120	100	90	-20	-17%	-10	-10%	-30	-25%
Construction	7,550	8,830	9,310	1,280	17%	480	5%	1,760	23%
Manufacturing	7,300	7,480	6,900	180	2%	-580	-8%	-400	-5%
Wholesale Trade	7,200	6,960	6,490	-240	-3%	-470	-7%	-710	-10%
Retail Trade	22,100	22,690	22,250	590	3%	-440	-2%	150	1%
Transportation, Warehousing, & Utilities	6,640	6,320	6,010	-320	-5%	-310	-5%	-630	-9%
Information	4,600	5,290	5,740	690	15%	450	9%	1,140	25%
Financial Activities	14,960	16,000	16,030	1,040	7%	30	0%	1,070	7%
Professional & Business Services	28,640	32,390	33,680	3,750	13%	1,290	4%	5,040	18%
Educational Services	13,030	13,930	14,340	900	7%	410	3%	1,310	10%
Health Care and Social Assistance	32,210	35,920	38,610	3,710	12%	2,690	7%	6,400	20%
Leisure & Hospitality	15,690	17,370	18,100	1,680	11%	730	4%	2,410	15%
Other Services (except Public Administration)	10,400	11,170	11,420	770	7%	250	2%	1,020	10%
Government	63,300	64,710	63,960	1,410	2%	-750	-1%	660	1%
Total	233,740	249,160	252,930	15,420	7%	3,770	2%	19,190	8%

Source: Moody's Analytics, *economy.com*; W-ZHA
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Over 19,000 net new jobs are projected for Albany County by 2023. Like the Metropolitan Area most of the jobs gains are projected to occur in the health care and social assistance and professional and business services.

The industry categories that typically occupy office space (“office-inclined industries”) are information, financial activities, professional and business services, and religious/grantmaking/civic/professional organizations.

Office-Inclined Industry Job Projections Albany Metropolitan Area 2013 - 2023									
	2013	2018	2023	Change					
				2013 - 2018		2018 - 2023		2013 - 2023	
				#	%	#	%	#	%
Information	8,190	9,430	10,270	1,240	15%	840	9%	2,080	25%
Finance and Insurance	20,480	22,100	22,480	1,620	8%	380	2%	2,000	10%
Real Estate and Rental and Leasing	4,800	5,070	4,930	270	6%	-140	-3%	130	3%
Professional, Scientific, and Technical Services	29,990	33,470	34,560	3,480	12%	1,090	3%	4,570	15%
Management of Companies and Enterprises	6,790	7,080	7,010	290	4%	-70	-1%	220	3%
Administrative, Support, Waste Management, & Remediation Services	15,270	18,530	20,220	3,260	21%	1,690	9%	4,950	32%
Religious, Grantmaking, Civic and Professional Organizations /1	9,768	10,544	10,834	777	8%	290	3%	1,067	11%
Total	95,288	106,224	110,304	10,937	11%	4,080	4%	15,017	16%

1. This industry sub-sector is within the "Other Services" industry.

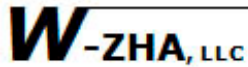
Source: Moody's Analytics, *economy.com*; W-ZHA
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For the Albany Metropolitan Area, Moody's projects that jobs in those industries that typically occupy office space will grow by 15,000 between 2013 and 2023. This level of growth will demand millions of office square feet.

Office-Inclined Industry Job Projections Albany County 2013 - 2023									
	2013	2018	2023	Change					
				2013 - 2018		2018 - 2023		2013 - 2023	
				#	%	#	%	#	%
Information	4,605	5,290	5,739	686	15%	448	8%	1,134	25%
Finance and Insurance	12,125	13,020	13,158	896	7%	138	1%	1,034	9%
Real Estate and Rental and Leasing	2,834	2,976	2,877	141	5%	-99	-3%	42	1%
Professional, Scientific, and Technical	15,309	16,972	17,390	1,663	11%	417	2%	2,081	14%
Management of Companies and Enterprises	4,002	4,144	4,079	142	4%	-66	-2%	76	2%
Administrative, Support, Waste Management, & Remediation Services	9,332	11,268	12,213	1,936	21%	945	8%	2,881	31%
Religious, Grantmaking, Civic and Progressional Organizations	6,262	6,735	6,890	473	8%	155	2%	628	10%
Total	54,469	60,407	62,346	5,938	11%	1,938	3%	7,876	14%

Source: Moody's Analytics, *economy.com*; W-ZHA
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Moody's projects that Albany County's office-inclined employment growth will also be robust. The County's office-inclined employment is projected to increase by 7,880 jobs between 2013 and 2023.



NATIONAL OFFICE MARKET TRENDS

According to Cushman & Wakefield's publication, "Supply-Side Risk in the New Age of Work", tenants are now highly focused on the efficiency and design of the workplace. The company's office space is not only needed infrastructure, but a brand for which the organization can accomplish broader business goals. There are five key goals that today's office tenant is seeking to address via their space:

1. **Productivity.** The ability of the workplace to enhance and increase worker productivity.

Landlords are not selling space, but productivity; more productive space will get more money. A 2013 survey by Gensler, an architecture and design firm, notes that over 95 percent of the companies surveyed believe that the design of the workplace has a direct impact on worker productivity. Employees today work anytime and anywhere, so the environment outside of the office has become increasingly important. In fact, in the Urban Land Institute's "Emerging Trends in Real Estate", they say that "Investors must focus more than ever on location. 'That means urban, dense, vibrant places.'"

2. **Flexibility.** The adaptability of the space to changing corporate demands.

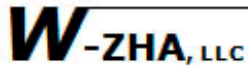
Tenants are not only focused on how space will meet their current needs, but also how adaptable the space is should business needs change. This can be challenging for older buildings with smaller floorplates and vertical columns that break up the space.

3. **Cost Control.** Companies are increasingly targeting a more efficient use of space.

The quantity of office space required per employee is declining. Where five years ago an individual was allotted 175 square feet of private work space, the current demand is 130 square feet of space. Partially offsetting that decrease is a dramatic increase in common space designed for collaboration, interaction and socializing. All in all, the common average of 250 square feet of office space per employee has dropped to approximately 175 square feet per employee. Even more efficiency is projected for the future.

With more people in less space, shared workstations, and telecommuting, businesses are utilizing space differently these days. Shrinking space utilization rates mean that a broader tenant pool is needed for lease-up. There is also a trend that with less real estate space required, tenants are trading quantity for quality. They are willing to pay more per square foot for the "right" space than less per square foot for more space.

This trend is not just happening in the high tech office industry. In 2013, Cushman & Wakefield surveyed 286 U.S. law firms and most were in a real estate downsizing mode. The survey



indicated that downsizing was not a function of fewer employees, but that law firms had an overabundance of office space.³

This trend has significant impacts on landlords as more employees fit into less space. Building infrastructure such as mechanical systems, bathrooms, and adequate storage space for bikes and personal items must be in place to support the higher density demands. Additionally, concerns about employee privacy, data security, and productivity need to be managed. These issues are easier to tackle when dealing with new construction, but present a bigger challenge when older buildings are modernized to accommodate new demand.

4. **Employee Recruitment.** The work environment is becoming increasingly important to recruiting and retaining talent.

To remain relevant in the competitive marketplace, companies are responding to the preferences of the young workforce and changing attitudes about how space is used. Corporations are attracting talent by promoting their real estate as much as their business.

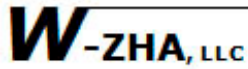
The young workforce tends to value collaboration and interaction. As such, offices for high tech companies now provide 60 to 80 percent of the office space for collaboration and interaction and 20 to 40 percent for individual work space. The old rule for corporate office space was 20 percent of the space was collaborative, and 80 percent of the space was for private offices.

From an interior design perspective, companies competing for young talent want column free spaces to enable line-of-site interaction and high ceilings for natural light and to enable the use of indirect light. Buildings are incorporating showers, lockers and bike storage to accommodate their employees' active lifestyles. Locations near bike trails and paths, popular restaurants, and public transportation are all desired amenities.

5. **Sustainability.** Energy management and social responsibility are valued by more and more tenants.

Most large corporations have corporate-wide sustainability policies, regardless of the size of the office or the location. Small and medium-size tenants competing in the knowledge economy know that demonstrating social responsibility can assist with tenant recruitment, investor perception and overall public image.

³ According to Cushman & Wakefield, law firms occupy two to three times more square footage than most other office-inclined industries.



TARGET INDUSTRIES AND OFFICE POTENTIAL IN DOWNTOWN ALBANY

The industries most likely to demand office space in a Downtown environment are:

- Grantmaking, civic and professional organizations;
- Legal services;
- Information;
- Other Knowledge-based industries, and,
- Finance and insurance

As the political and business “hub” of the Region and the State Capital, Downtown Albany is a natural location for grantmaking, civic, and professional organizations. Downtown Albany should be able to capture a significant amount of the growth projected in this industry sector. It is estimated that over half of the employment in this industry sub-sector is in businesses with less than 20 employees. In other words, there are many small tenants in this industry sub-sector.

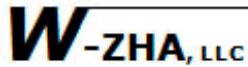
As political and business “hub” of the Region, Downtown Albany is also a natural location for law firms. As reported by the Downtown Albany BID, nine out of the ten largest law firms in the Region are located in Downtown Albany. While regional economic growth should help to fuel the legal industry in the future, this may not translate into significant office demand for the reasons highlighted in the previous section (space efficiency).

While finance and insurance companies have traditionally been Downtown anchors, a large portion of the employment growth in these industries will likely follow the consumer and locate offices in places convenient to households. The same is true for the real estate industry; offices will locate in places that are convenient to residents/employers.

Companies in the information industry, particularly media, are often found in Downtown locations. Typically, Downtown is the center of the action and a Downtown office provides convenience and cache to these kinds of companies. County employment in the information industry is projected to grow by 25 percent in the County over the next 10 years.

Knowledge-based industries are often attracted to a Downtown location because knowledge-workers often demand an urban, mixed-use environment with an 18-hour cycle of activity. Knowledge-workers are in all industries, but they tend to cluster in the information and the professional, scientific, and technical industry sectors. The specific industry sub-sectors that typically locate in a Downtown environment include: legal services; architecture and engineering; specialized design; computer systems design and related services; management science and technology consulting services; scientific research and development; and, advertising.

It is important to note, that while there are Downtowns that are destinations for scientific research and development companies, these Downtowns typically have a university presence Downtown. Albany’s



CBD does not have such a university anchor. In fact, employment in the scientific research and development industry grew by 1,640 jobs (82 percent) in Albany County between 2000 and 2011, and very few of these jobs came Downtown. Leveraging CNSE's investment in Kiernan Plaza could make Downtown more competitive for these types of companies.

In 2011, employment in the target knowledge-based industries accounted for 85 percent of Albany County's professional, scientific, and technical industry jobs. With the exception of the scientific research and development sub-sector which tends to have larger companies, approximately 40 percent of the employment in these target industries is estimated to be in firms with less than 20 employees, meaning they likely occupy less than 5,000 square feet.

Employment projections are not available for industry sub-sectors. However, if 2000 to 2011 employment trend data can be used as a proxy for the future, in Albany County most of the growth projected for the professional, scientific, and technical industry sector will occur in the high-tech service industries like software publishing, data processing and hosting, computer systems design and other information services.

DOWNTOWN OFFICE POTENTIAL

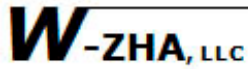
Downtown Office Potential 2013 - 2023							
	New Jobs	Downtown Capture		Jobs		Square Feet ¹	
		Low	High	Low	High	Low	High
Information	1,134	15%	25%	170	284	29,750	49,620
Finance and Insurance	1,034	15%	20%	160	207	28,000	36,180
Real Estate and Rental and Leasing	42	5%	10%	0	4	0	740
Prof, Sci, Tech w/out Scientific R&D	1,087	25%	35%	270	380	47,250	66,560
Estimated Scientific R&D	994	5%	15%	50	149	8,750	26,100
Management of Companies and Enterprises	76	10%	20%	10	15	1,750	2,670
Administrative, Support, Waste Management, & Remediation Services	2,881	5%	5%	140	144	24,500	25,210
Religious, Grantmaking, Civic and Professional Organizations	628	30%	40%	190	251	33,250	43,950
Total	7,876			990	1,434	173,250	251,030

1. Assumed 175 square feet per employee.

Source: Moody's Analytics, *economy.com*; W-ZHA
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Given employment projections for the target industries, we conclude that the Downtown's office market potential is between 173,000 and 250,000 square feet over the next 10 years. We estimate that high tech service industries will account for approximately half of the office space potential Downtown. These industries will demand either "Coolspace" or newly constructed state-of-the-art office space.

Coolspace is office space located in older buildings that are either architecturally distinct and/or a unique state-of-the art office space that is within walking distance to Downtown amenities. Coolspace tenants are willing to pay a premium to occupy distinctive space. Once renovated, Kiernan Plaza will be an example of Coolspace.



To appeal to the high tech office sector, new construction would have to incorporate the design features these types of companies demand. The office building would have to be centrally located within easy walking distance to cafes, restaurants, greenways, and other service amenities. New office space would need to be LEED certified, offer state-of-the-art building systems, and provide a floorplate of sufficient size (20,000 square feet-plus) to allow for contemporary office layouts.

The remainder of the office potential will likely occupy existing available office space in the Central Business District.

CHALLENGES

There are significant barriers to Downtown realizing its office potential. The most significant barrier to capitalizing on the high tech industry's office potential is the lack of a high tech cluster in the Downtown. To attract companies a cluster needs to be established. A sufficient cluster is three or four companies in a similar industry. A cluster allows for efficient interaction and generates market momentum. It will be difficult to establish a cluster incrementally; it will likely require a concerted effort with CNSE cooperation.

Even with a high tech cluster, most of Albany's office supply is not well-suited for high-tech office. There are many older office buildings with small floorplates, small windows, and old systems that may not be able to accommodate the space needs of a high tech company. Furthermore, absentee landlords that were once accustomed to government tenants may not have the development and management expertise to address the needs of the contemporary office market.

Another significant competitive disadvantage facing Downtown office is the high cost of occupancy. The cost to occupy Downtown office space is significantly more than the suburbs and neighboring CBD's. The City's high property taxes and the cost to park, place the Downtown at a competitive disadvantage. For many tenants, the urban benefit is not worth the Downtown premium.

A strategy is necessary to make a Downtown location worth its premium. Downtown's urban amenity package must be improved. The new convention center and hotel should help to extend the cycle of activity Downtown. A critical mass of new Downtown housing should help to support goods and services Downtown. These strategies plus Kiernan Plaza and three or four high visibility, high-tech companies Downtown should help to evolve the Downtown's market position from the State Capital to the urban center of Tech Valley.