Quarterly Market Report

Volume 64

NATIONAL REAL ESTATE INDEX

Regional Review

This QUARTERLY focuses on ten markets in the Northeast along the Atlantic seaboard. Raleigh-Durham and Charlotte led the region in population growth with respective gains of 38.9% and 29% between 1990 and 2000. Job growth in nine of these markets surpassed the 0.3% national average between the second quarters of 2000 and 2001. Washington, DC had the highest job gain (3.1%) and the lowest unemployment rate (2.8%). Philadelphia, on the other hand, saw virtually no jobs added during the year. Baltimore and Northern New Jersey had the highest unemployment rates at 4.8% each.

Downtown Manhattan reaped the highest appreciation in CBD office values with a 13% uptake between June 2000 and June 2001. Sadly, this market was dealt a traumatic blow, in terms of lives and property, with September's terrorist attack on the World Trade Center. An estimated 12 million square feet of office space was reduced to rubble in Downtown Manhattan. Current available space in greater Manhattan is sure to diminish as displaced tenants seek out alternative sites. The Washington, DC market recorded the next-highest 12-month uptake in CBD office space at 6.7%. The Pentagon was also attacked by terrorists. The extent to which these tragic events will impact the commercial market is currently unknown.

The National Real Estate Index extends its deepest sympathies and condolences to the victims of the World Trade Center, Pentagon and Pennsylvania tragedies and their families and friends. We would also like to extend our gratitude to the rescue workers, medical personnel and other professionals and citizens who have come to the aid of those affected by the situation.

Central New Jersey's proximity to New York contributed to a 6.8% annual increase in rents for CBD office space. Boston also saw a significant rental gain at 5.7%. Boston topped the list for suburban office value gains (9.1%) followed by Northern New Jersey (6%). Conversely, Philadelphia saw its suburban office space depreciate 4.4%. As for the industrial sector, no northeastern market registered a price gain at or above the annual 4% benchmark. Central New Jersey had both the highest value increase (3.3%) and rent gain (9.1%).

Retail prices depreciated in all northeastern markets with the exception of Washington, DC and Central New Jersey. The latter also scored the largest increase in retail rents (3.6%). Prices for Class A apartments increased 5.2% during the year in Baltimore; rents rose the most (3.5%) in Northern New Jersey.

You will find the specific market write-ups, including the Economic Overview and the Office, Warehouse, Retail, and Apartment analyses on the following pages, which you can advance to by clicking on the markets below.

Baltimore	3	Northern New Jersey	63
Boston	14	Philadelphia	74
Central New Jersey	26	Raleigh-Durham	85
Charlotte	35	Washington, DC	93
Nassau-Suffolk	44	Economic/Demographic Statistics	107
New York	53	Market Comparison	109

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FOCUS MARKETS REVIEW

Each *Quarterly Market Report* analyzes a number of metropolitan markets in-depth. Appearing in this issue are key markets in the Northeast U.S.

Property prices, rents, and cap rates in four sectors—office, warehouse, retail, and apartment—are reported. Please see Methodology on page 110 for more details.

MARKET AREA DEFINITIONS

Baltimore, MD (Baltimore MSA): Anne Arundel, Baltimore, Carroll, Harford, Howard, and Queen Anne's Counties.

Boston, MA (Boston MSA): Suffolk County, and portions of Bristol, Essex, Middlesex, Norfolk, Plymouth, and Worcester Counties; and a portion of Rockingham County in New Hampshire.

Central New Jersey (Middlesex-Somerset-Hunterdon and Trenton PMSAs): Hunterdon, Mercer, Middlesex, and Somerset Counties.

Charlotte, NC (Charlotte-Gastonia-Rock Hill MSA): Cabarrus, Gaston, Lincoln, Mecklenburg, Rowan, and Union Counties in North Carolina; York County in South Carolina.

Nassau-Suffolk, NY (Nassau-Suffolk PMSA): Nassau and Suffolk Counties.

Newark-Northern New Jersey (Newark, Bergen-Passaic, and Jersey City PMSAs): Essex, Morris, Sussex, Union, Warren, Bergen, Passaic, and Hudson Counties.

New York, NY (New York PMSA): Bronx, Kings, New York, Putnam, Queens, Richmond, Rockland, and Westchester Counties.

Philadelphia, PA (Philadelphia PMSA): Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties in Pennsylvania; Burlington, Camden, Gloucester, and Salem Counties in New Jersey.

Raleigh-Durham, NC (Raleigh-Durham-Chapel Hill MSA): Chatham, Durham, Franklin, Johnston, Orange, and Wake Counties.

Washington, DC (Washington MSA): District of Columbia; Calvert, Charles, Frederick, Montgomery, and Prince George's Counties in Maryland; Arlington, Clarke, Culpepper, Fairfax, Fauquier, King George, Loudoun, Prince William, Spotsylvania, Stafford, and Warren Counties, and Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas, and Manassas Park cities in Virginia; Berkeley and Jefferson Counties in West Virginia.

Baltimore

Economic Overview

Baltimore Posts Modest Growth

The Baltimore metropolitan area created 11,900 new jobs during the 12-month period ending in June, 2,600 more than were created during the same period one year earlier. This tied with Charlotte as the fourth-smallest absolute gain of the ten northeastern markets analyzed in this issue of the QUARTERLY. Baltimore's modest growth translated into a proportional gain of less than one percent, one of four northeastern markets to experience job growth of less than one percent (Central New Jersey, Northern New Jersey, and Philadelphia round out the group). The unemployment rate moved in the right direction—from 5.1% in June 2000 to 4.8% one year later.

Services and Transportation Sectors Add Most New Jobs: Only four of the eight major employment categories experienced job growth during the period. Services led the list with 11,300 new jobs. Transportation was second, adding 2,500 positions to its base. The local finance, insurance, and real estate (FIRE) sector and retail trade added 1,100 and 900 new jobs, respectively.

Transportation posted the largest proportional advance (4%), followed by services and a 2.5% expansion. FIRE grew by 1.5%, while retail trade expanded by less than one percent.

Four Employment Sectors Post Losses: The other four employment sectors experienced losses during the period. Manufacturing lost 1,600 positions, which translated into a 1.6% contraction of its base. Government followed, shedding 1,300 jobs (for a 0.6% contraction). Construction and wholesale trade shed 900 and 100 jobs, respectively. Construction's loss translated into a 1.2% contraction, while wholesale trade lost less than one percent of its base.

Employment in Services and Government Exceeds National Averages: The service sector employs the largest share of metropolitan Baltimore's workforce (35.9%), exceeding its national average of 31%. Despite the above-mentioned loss, government is the second-largest employment category, capturing 17.4% of the area's workers, versus 15.6% across the country. Retail trade is also a significant employer, capturing 17.1% locally, compared with 17.8% nationally. Manufacturing exhibits a significant disparity with its national figure. Locally, it accounts for just 7.6% of the labor pool, approximately half its national figure (13.4%). FIRE's share (5.9%) is very close to its national share (5.8%). Construction's local figure (5.7%) is slightly higher than its national norm (5.3%). Wholesale trade employs the same number here as nationwide—5.3%. Transportation is the smallest local sector, employing 5.1% here, just short of its national average of 5.4%.

Johns Hopkins Institutions are Area's Largest Employers: Johns Hopkins University is greater Baltimore's largest private sector employer with 20,500 employees. Johns Hopkins Health System (the parent corporation for the Johns Hopkins hospital and separate from the university) employs 13,200. Northrop-Grumman's Electronic Sensors and Systems Division has 6,700 on its local payroll, followed by Allfirst (financial services) with 6,000 in its ranks. Verizon (formerly Bell Atlantic) employs 5,500, followed by Bethlehem Steel Corp. with 5,100 local workers. Bank of America has a metropolitan roster of 4,100. Johns Hopkins Applied Physics Laboratory and General Motors Truck Group each employ 3,200. Other companies employing more than 2,000 here include McCormick & Co., Sweetheart Cup Co., Southwest Airlines, T. Rowe Price, and Black & Decker.

Low Tide in the Digital Harbor: Over the past two years or so, coinciding with the incredible boom in the high-tech industry, Baltimore's economic development officials sought to remake the Inner Harbor area as a "Digital Harbor". In addition to its actual geography, officials and developers were attempting to cultivate a state of mind (along the lines of Silicon Valley in California and Silicon Alley in New York) where young, educated high-tech professionals would want to live and work. The transformation of Locust Point into a tech mecca typifies these efforts. Formerly the home of Baltimore's heavy industry, the old factories and industrial sites have been slowly converted to other uses. The major player in this effort has been native Baltimorean Bill Streuver and his development company Streuver Bros. Eccles & Rouse.

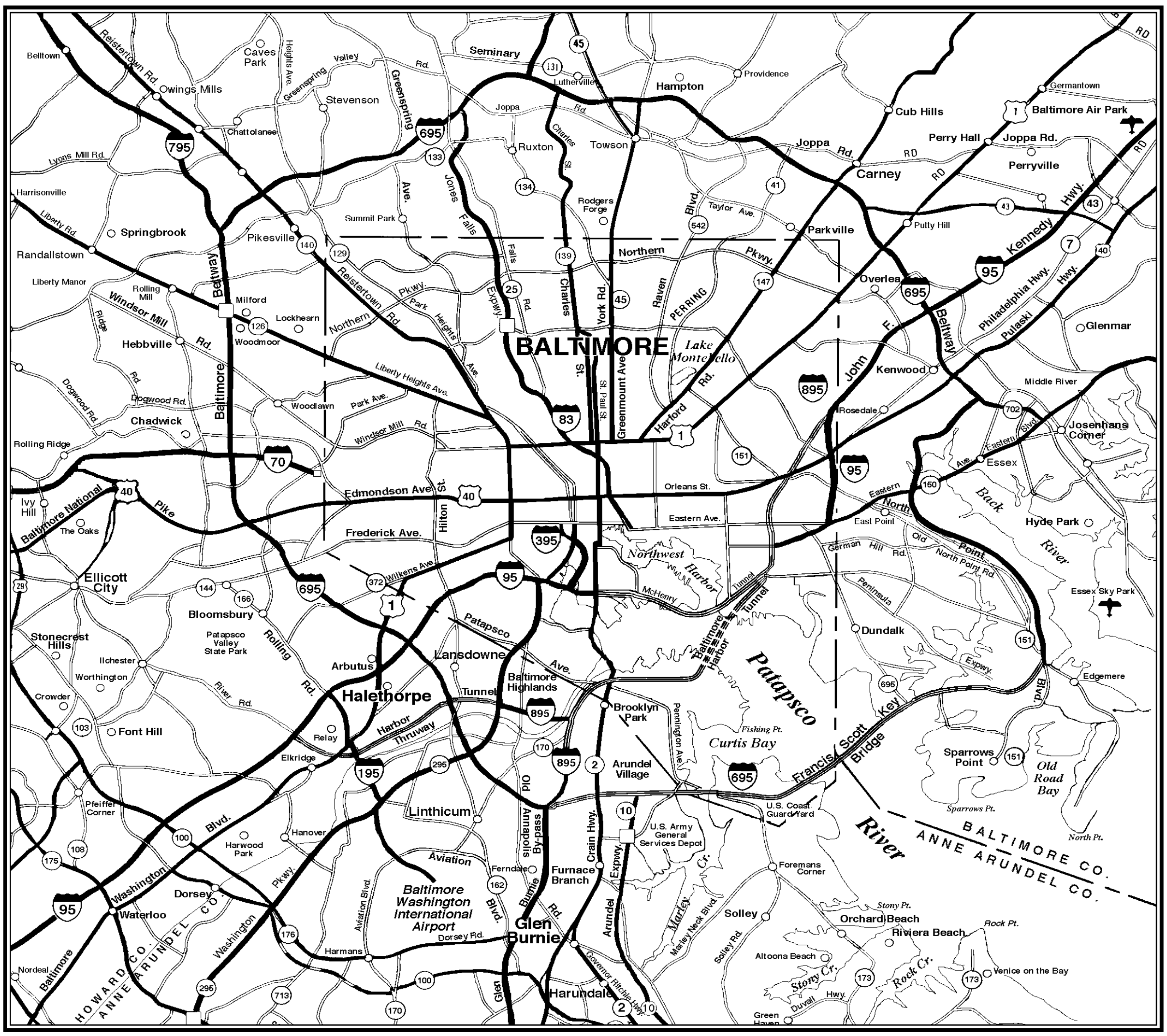
Streuver developed Tide Point, a 400,000 square foot complex that was formerly the site of Procter & Gamble factories. The buildings are named for P&G products (e.g., the Dawn building). Streuver recast them to draw fledgling start-ups and dot.coms. However, as the frenzy subsided and the economy began to soften, some of these small firms did not survive. For example, Tide Point Corp., an Internet firm with no formal relationship to Streuver's Tide Point complex, bit the dust after barely a year in business. Another tenant, Advertising.com, also folded and vacated its space. They have been replaced by more traditional firms such as the Board of Child Care, the University of Maryland, Baltimore County, Phoenix Engineering, and Blue Sky Factory. These companies are small though; together, they occupy just 50,000 square feet. Nevertheless, Streuver is considering building a new 80,000 square foot facility at Tide Point (south of the Joy building).

Streuver has several other redevelopment projects in the pipeline. He is transforming a portion of a former Coca-Cola syrup plant on Locust Point into a telecom hotel. Across the harbor in the Fells Point neighborhood, he is converting a former Allied Signal site into an office, retail, and apartment complex with waterfront views. In nearby Canton, Streuver is considering the future of the former National Brewery site, a vacant 200,000 square foot complex that once housed a brewery, bottling facility, and brew pub before closing in the 1970s.

Downtown Has Ups and Downs: CitiFinancial, the consumer credit arm of Citigroup, agreed to remain in downtown Baltimore after considering several other locales. Currently employing 530 here, the FIRE firm plans to add another 500 jobs. The company is the anchor tenant in the CitiFinancial building and occupies 266,000 square feet there. Lack of downtown parking caused the company to consider moving, but $3 million in state funding toward a new parking garage helped convince them to stay.

Groundbreaking of another downtown office project, Lockwood Place, has been delayed until the Fall. Under development by Pennsylvania-based Kravco Co., the project's first delay came when Kravco's partner, the Peter D. Liebowits Co., backed out of the deal. Since then, Kravco has secured a new partner (Trammell Crow) but the project is now in the hands of the city's Design Advisory Panel, which recommended eight changes to the design. The proposed 200,000 square foot tower has secured neither funding nor tenants.

Two firms are expanding in suburban Baltimore County. Black & Decker, a presence in Towson for 85 years, is constructing a 140,000 square foot building at its headquarters campus. The power tools company plans to add 340 jobs to its local workforce of 1,400. Black & Decker also operates a manufacturing facility in Easton (outside the metropolitan area and across the



Chesapeake bay in Talbot County) that employs 1,600. U.S. Can Corp. is expanding at the Marshfield business park (near Pulaski highway). The Illinois-company manufactures steel containers for household and industrial uses. The firm took 232,000 square feet for a warehouse adjacent to its existing manufacturing facility. U.S. Can will employ 450 there.

Mixed Messages in Anne Arundel: In addition to being home to the state capital (Annapolis), Anne Arundel County remains popular among a variety of firms due to its location midway between Washington DC and Baltimore, its historic charm and waterfront, and its proximity to the booming Baltimore-Washington International Airport (BWI). The county has not escaped the recent economic slowdown, though, as the fate of USInternetworking demonstrates.

Last year, USInternetworking, an applications service provider, announced plans for a five-building corporate campus in Annapolis. The firm went so far as to tailor the design of the buildings to blend in with the surrounding architecture. However, the company's fate was tied to the high-tech industry and, as of the first quarter of 2001, it had not broken ground on the first building (totaling 80,000 square feet). Since the beginning of the year, the company has laid off nearly 450 workers from its payroll of approximately 1,300.

The news is not all bad, however. Arbros Communications Inc., a Silver Spring-based firm (in Montgomery County) is expanding near BWI. The telecom firm took nearly 100,000 square feet for its network operations and customer service center at the Airport Square business park in Linthicum. Arbros will employ 100 there. In Odenton (also near the airport), Guardian Services Group doubled its space by leasing a building adjacent to another property it owns. The Baltimore logistics firm now occupies nearly 200,000 square feet there and has boosted its workforce by 120 jobs.

A Linthicum firm is expanding within the county. Ciena Corp., a fiber-optic equipment maker, leased 112,000 square feet on McCormick Drive in Glen Burnie (just south of BWI). It expects to initially employ 175 there with plans to ramp up to 1,500. The company already employs 900 at its headquarters.

Redevelopment of Navy Property to Begin this Fall: Annapolis Partners LLC, the developer selected by Anne Arundel County to convert the former David Taylor Research Center to civilian use, is expected to begin construction this Fall, despite neighborhood opposition. The U.S. Navy formally departed from the 46-acre facility in 1999 and entered into an agreement with Anne Arundel County last Summer regarding the center's conversion from military to civilian use. Redevelopment plans call for 730,000 square feet of office and high-tech flex space, as well as corporate amenities such as restaurants, day care facilities, a waterfront promenade (the site is located along the Severn River across from the U.S. Naval Academy at Annapolis), and jogging trails. Build-out is expected to occur over six to ten years. A number of smaller high-tech and defense-related companies have already taken space here, including Anteon Machinery Systems, International Industries (imaging equipment), Joint Spectrum Center (defense contractor), Maritime Applied Physics, and Noesis Inc. (defense procurement).

Outlying Counties Are Active, Too: Two outlying counties in the region, Harford and Howard, are also attracting development. In the case of Harford, its proximity to I-95 (the major transportation artery along the East coast) is a draw. St. Louis-based Telcobuy, an E-tailer of telecommunications equipment, took 300,000 square feet of distribution space on Perryman Road in Aberdeen. The company has two other distribution centers—in Plano, TX and Livermore, CA. Its clients include Verizon and Lucent Technologies. Environmental Technologies Group is relocating here from Towson. The defense contractor is building a 130,200 square foot facility on Lakeside Boulevard in order to be closer to its military clients at the nearby Aberdeen Proving Ground.

An optical networking firm relocated its headquarters from Israel to Columbia (in Howard County, west of Anne Arundel). Trellis Photonics is also building an 80,000 square foot manufacturing facility at the Columbia Gateway business park that is expected to employ 350. Trellis is developing a sophisticated optical switching technology that allows data to be transmitted as light pulses without conversion from electrons to photons. Other players in this complex industry include Corvis Corp. (also in Columbia) and Ciena Corp. in Anne Arundel County (mentioned above). Trellis expects the United States to comprise its biggest market and relocated here to tap into the workforce and be closer to potential customers.

Fortunes of Tech Firm Impact Baltimore's Sports Scene: In late May 2001, Virginia-based PSINet Inc. filed for bankruptcy. This has relevance for Baltimoreans, as the firm had agreed to pay $93.5 million over 20 years for the naming rights to the city's football stadium. For the past two years, the NFL's Baltimore Ravens have played in PSINet Stadium. Shortly after filing Chapter 11, some of PSINet's foreign holdings were bought by other companies but the fate of the naming rights agreement remains unclear.

In the meantime, the former home of the Ravens (who played there for two years), the Colts (the city's NFL team before their move to Indianapolis), and major league baseball's Baltimore Orioles (who have played at Camden Yards since the early 1990s) is slated to meet the wrecking ball. Memorial Stadium, which was built in 1954 as a tribute to military veterans, will become an affordable-housing and assisted-living facility for 500 senior citizens. Dubbed Stadium Place, a YMCA recreation center will also be located there. Until the 11th hour, preservationists worked to save the stadium but ultimately walked away with only an urn of soil that had been collected from veterans' cemeteries around the world and the stainless steel letters that once adorned the façade reading, "Time will not dim the glory of their deeds."

Inner Harbor Attractions Mull Expansion: In order to draw new visitors and keep locals coming back, several Inner Harbor attractions are either actively fundraising or planning capital campaigns to expand or renovate their offerings. For example, the 20-year-old National Aquarium plans to invest $88 million on a new entryway featuring a 50-foot waterfall, as well as a children's center, and an Australian river canyon exhibit. The aquarium is also eyeing property in south Baltimore for an aquatic life center. The Maryland Science Center is proposing a 60,000 square foot extension of its lobby (toward the harbor) to provide a new wing for earth science exhibits and a dinosaur hall. Plans are currently in the design stage. The Maryland Museum of African American History and Culture is scheduled to break ground early next year on the northeast corner of Pratt and President Streets.

Mega-Mall Debuts: Arundel Mills, a 1.3 million square foot shoppertainment center developed by the Mills Corp., debuted last November in Anne Arundel County (on Route 100 near I-95 in Hanover). Arundel Mills is the first new retail center built in the metropolitan area in ten years and is similar to other Mills projects such as Potomac Mills in Virginia and Sawgrass Mills in Florida.

Hotel Project is Stalled: An ostensibly smooth-sailing hotel/condominium project has run aground—at least until the Fall. A 225-room Ritz-Carlton was scheduled to break ground earlier this year along Key Highway in the historic Federal Hill area, but a legal dispute over the land purchase has delayed construction. In addition to the hotel, 97 condominiums are planned. Completion is expected two years after construction begins.

Two other properties have opened recently, though. A 208-room Marriott Courtyard opened in November 2000 at the Inner Harbor East, and the anticipated 750-room Marriott Waterfront opened in February 2001. The Marriott Waterfront is expected to help Baltimore's convention business which has lost meetings in the past few years because of the dearth of rooms.

In the meantime, just under a year after losing exclusive rights to build a convention hotel on Pratt Street (near Camden Yards), Baltimore Orioles owner Peter Angelos has selected a new location for a hotel. Angelos now plans to build on the site of a former McCormick & Co. spice plant (also near Camden Yards on Light and Conway Streets). He has tentatively selected the Hyatt hotel chain as operator since the property would be near an existing Hyatt on Light Street (and could be connected via some type of pedestrian walkway). However, the hotel chain is playing it cautious. Hyatt plans to track business at the recently-opened Marriott Waterfront. If Marriott does well, then Hyatt will likely proceed with the second property. If not, then Angelos will need to find another operator.

According to Smith Travel Research, in 2000, Baltimore's average hotel occupancy rate was 71%, a 2% increase over 1999. The average room rate increased 7% to $96. During the first four months of 2001, however, occupancy dropped 2.5% (compared to the same period in 2000) to 63%, while the average room rate rose 4% to $94.

Energy Costs Impact East Coast Hotels: Baltimore hotels have, like properties in other parts of the country, begun adding energy surcharges to their bills. Although Maryland is far from reaching the energy crunch that California has endured recently, costs have nevertheless increased. For example, at the Renaissance Harborplace hotel, operators attempted to recycle heat from dishwashers and laundry dryers before finally imposing a $3 per day surcharge in June. Host Marriott Corp. is imposing surcharges ranging from $1.50 per day to $5 per day in 16 of its markets (including Baltimore). The Holiday Inn Inner Harbor began adding $2.50 per day to room fees to defray energy costs in mid-April, however, it discontinued the fee in early June.

Extended-Stay Property Planned for Medical Center: Although extended-stay hotels are traditionally found in the suburbs, a 128-room MainStay Suites is planned across from the Johns Hopkins medical campus in Baltimore. The design features a mix of studio and one-bedroom units and will target patients and their families seeking treatment at Johns Hopkins (as well as tourists). Groundbreaking is expected by year-end 2001. In other extended-stay news, two properties are planned for SR-100 near Arundel Mills mall, including a 131-room Hampton Inn. It is scheduled to open in 2002. A 105-room Fairfield Inn debuted recently in Howard County.

BWI Begins Seven-Year Expansion: According to the Airports Council International, in 2000, Baltimore-Washington International Airport handled 19.6 million passengers, a 12% jump over 1999. Cargo volume increased as well—3%—to 232,000 metric tons. During the first quarter of 2001, the airport handled 4.8 million passengers, a 14% increase over the first quarter of 2000. Cargo activity, however, dropped 12% to 16,410 metric tons.

BWI is beginning a seven-year expansion that includes a host of capital projects. The $1.8 billion initiative calls for additional gates, increased parking, and road improvements such as widening lanes and pedestrian bridges. The first project (to be completed over the next 24 months) is the addition of 20 gates (16 for domestic flights and four for international flights). BWI also plans to add 12,000 parking spaces to the airport's existing 16,800 spaces. The most ambitious piece of the proposal is the construction of a rail loop (either an elevated train or monorail) that would connect the BWI train station with the Amtrak and Maryland rail lines. Currently, train passengers have to take a shuttle bus to the airport. Plans also call for a fifth runway, but officials are waiting for a recommendation from the FAA.

Southwest Airlines (the source of most of BWI's increased passenger activity) added service last year to a number of cities including Austin, Houston, Indianapolis, Las Vegas, Orlando, and Phoenix. MetroJet (US Airways' low-fare carrier) increased service to Hartford and Ft. Myers. Comair (Delta's regional carrier) began serving Cincinnati. United Airlines increased service to Los Angeles and Denver and Aer Lingus began serving Ireland's Shannon and Dublin airports.

The airport also opened the first building in the new Midfield Cargo Complex. Critics, however, argue that the 60,000 square foot building is already obsolete, claiming it is too small and too far removed from the other aircraft hangars. Additionally, while the complex can handle the relatively small amounts of cargo transported by passenger aircraft (along with luggage), it is not equipped to handle the cargo-only volume of Federal Express or UPS. The complex is slated to eventually add up to 665,000 square feet, but by the time that is accomplished, cargo carriers may have already established hubs elsewhere.

International Trade Activity is Steady: During 2000, the value of finished goods (both imports and exports) handled by the Baltimore Customs District increased 4.6% to $24.8 billion. Exports led the way, climbing 5.3% to $6.2 billion, while imports rose 4.4% to $18.6 billion. Trade activity continued upward during the first quarter of 2001—by 2%—to $6.4 billion. Exports increased 4% to $1.6 billion, while imports rose just 1.5% to $4.8 billion.

Port of Baltimore Secures New Business: Coming on the heels of a renovated Dundalk marine terminal, a Norwegian shipping company selected the Port of Baltimore as its North Atlantic hub for roll-on/roll-off cargo (i.e., cars, trucks, and heavy machinery). The 20-year agreement with Wallenius Wilhelmson Lines guarantees approximately 60,000 tons of Ro/Ro cargo annually and the addition of 1,000 maritime jobs. In terms of new construction, a 120,000 square foot facility will be built for Wallenius at the Dundalk terminal.

According to PIERS, a trade reporting service, during the first four months of 2001, waterborne cargo activity increased 4% to 93,000 20-foot equivalent units (TEUs). PIERS ranks Baltimore 14th of 55 ports surveyed.

Personal Income Tax Reduction Continues: The state of Maryland is in the fourth year of a five-year personal income tax reduction that began in 1998. For tax year 2001, the rate for the top income bracket ($100,000) is 4.8% (for those married filing jointly). It is scheduled to drop to 4.75% in tax year 2002. The city of Baltimore adds another 2.5% for a total personal income tax rate of 7.3%.

The corporate income tax rate is 7% on net income attributable to business transacted in Maryland. The state sales tax is 5% with no optional local levy. During the 1999 tax year, the state collected $58 per $1,000 of personal income compared with $66 across the country.

Commercial property tax rates vary widely throughout the metropolitan area. According to Vertex Inc., in 2000, commercial property was taxed at an effective rate of $2.41 per $100 valuation in Baltimore (ranking near the middle of 86 communities analyzed by the INDEX). The per-$100 rate was $1.31 in Annapolis. In 2000, residential property was taxed at an effective rate of $1.16 per $100 valuation in Baltimore, per Runzheimer International.

County's Crime Rates Move in Right Direction: Incidents of violent and property crime in Baltimore County are moving in a positive direction, although both remain above their national averages. According to the Baltimore County Police Department, in 1999, there were 838 incidents of violent crime per 100,000 residents, a slight (0.6%) drop from 1998. Nationwide, incidents of violent crime dropped 7% to 584 per 100,000 residents. Local property crimes have declined more significantly—11%—to 4,116 per 100,000 residents. Across the country, the metropolitan average was 4,016 per 100,000 (reflecting a decline of 7.6%).

Greater Baltimore's Residents are Well-Educated: The Baltimore region has a well-educated population and exceeds national averages in terms of both high school and college-level achievement. Of the area's adults (those over 25), 84.7% have graduated from high school, compared with 83.4% across the country. Post secondary-school achievement is even more noteworthy as 34.7% of the area's adults have earned at least a bachelor's degree from a four-year college or university, versus a metropolitan average of 25.2%.

Suburban Counties Fuel Growth: The Baltimore metropolitan area expanded by 7.2% during the 1990s for a mid-2000 population of 2.6 million. This is less than the pace established during the prior ten-year period when the region grew by 8.3%.

Baltimore is the largest of the six counties that comprise the metropolitan area. It has 754,300 residents, reflecting a 9% growth rate since 1990 (the slowest rate among the six counties). Anne Arundel County (state capital Annapolis is located here) is next with a population of 489,700. Anne Arundel has expanded nearly 15% since 1990. Howard is the third-largest county. Its population of 247,800 reflects a growth rate of just over 32% (the fastest-growing county in the region). Harford County and Carroll County follow with 218,600 and 150,900 residents, respectively. Queen Anne's County is the smallest with a population of 40,600.

Baltimore is the largest city in the metropolitan area, with 651,200 residents. However, it has lost 12% of its population base since 1990.

OFFICE MARKET**

(CBD)	YEAR*			QUARTER*	
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↔	↑

(Suburbs)	YEAR*			QUARTER*	
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↔	↑

Metropolitan Baltimore Takes a Breather

Rising vacancy rates and double-digit increases in available sublease space signal a cooling in greater Baltimore's office market. New construction also contributed to the increase in available space.

Metropolitan—Slack Pre-Leasing Causes Vacancy to Climb: During 2001's second quarter, 21 new multi-tenant buildings totaling more than 1.3 million square feet opened for occupancy as well as two single-tenant buildings containing a combined 62,000 square feet. Only 14% of the new multi-tenant space was pre-leased. This caused the overall vacancy rate to rise to 10.6% at the end of June 2001 from 8% a year earlier, despite a higher level of absorption. The first half of 2001 saw 883,000 square feet of absorption compared to 774,000 square feet during the first six months of 2000, but adjustments to data rather than occupancy accounted for more than a third of this year's absorption. CB Richard Ellis added about 327,000 square feet of fully-leased space to the office database during 2001's second quarter, resulting in positive absorption for the quarter.

Metropolitan Baltimore's inventory of office space expanded 11% to 44 million square feet during the 12 months ending in June 2001. More than 1.4 million square feet of new construction is expected to open before the end of this year, and another three million square feet is scheduled for delivery by the end of 2002. The 3.9 million square feet under construction or in planning at the end of 2001's second quarter exceeded the prior year's 3.3 million square feet; however, some of the projects are expected to be delayed or put on hold. Lenders are requiring a higher proportion of pre-leasing and larger equity participation by developers before releasing funds. For instance, financing problems have delayed groundbreaking for the 260,000 square foot Lockwood Place mixed-use project at Gay and Pratt Streets downtown.

Metropolitan Baltimore had a total of 4.7 million square feet of vacant space at the end of June 2001, a 43% increase since the end of the first quarter. The suburban submarkets saw sublease space increase 32% to 996,000 square feet between the first and second quarters of 2001, while sublease space in the Central Business District (CBD) jumped 44% to 383,000 square feet. Failing dot.coms returned space to the market and established companies scaled back expansion plans during the quarter. In a move that demonstrates the shift away from dot.com dependency, the developer of the Locust Point Technology Center on East Fort Avenue, a 270,000 square foot former Coca-Cola syrup factory, decided to change the project's name to the Cola Factory at Locust Point. The name change followed the developer's decision to market the building to biotech companies instead of relying primarily on dot.coms.

Central Business District—Stalwarts Stay Downtown: Traffic congestion, a lack of parking and limited availability of large blocks of contiguous space had several "stalwart companies" downtown planning moves to the suburbs. But leasing opportunities that opened during the year convinced several of the old-line companies to stay in the CBD. T. Rowe Price, a major investment firm, had planned to shift more of its employees to its operations center in Owings Mills, but a life insurance company vacated the second floor at the 28-story, 100 East Pratt office complex where T. Rowe Price has its headquarters.

* In each market throughout this report, the price and rent trend arrows refer to the past period's performance. They are not predictive of future periods. Increases (or decreases) as indicated by the quarter arrows represent a change in value greater than or equal to 1.0%. For changes less than 1.0%, performance is considered to have been "flat".

For the year arrows, increases or decreases of 4.0% or more over the preceding 12 months are considered significant. Changes of less than that magnitude are denoted by the arrows as flat.

Furthermore, please note that because the rent figures represent quoted rates (after concessions) on space currently available (rather than the rental income for all buildings surveyed), prices, rents, and cap rates may not appear "internally" consistent.

** For the office market, the *top* row of arrows reflect CBD office performance. The *bottom* row reflects performance in the suburban office sector.

OFFICE*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
Downtown	12,564,496	9.6%	(227,857)	547,286
LOWER SUBURBAN				
Annapolis	1,668,083	11.9%	9,755	0
BWI	3,893,063	8.3%	(42,376)	428,900
Columbia	6,894,089	6.2%	231,682	551,318
Ellicott City	273,442	10.1%	4,120	32,000
Route 2/3	758,610	14.9%	15,157	0
TOTAL Lower Sub.	**13,487,287**	**8.1%**	**218,338**	**1,012,218**
UPPER SUBURBAN				
Baltimore City	2,680,483	15.6%	327,760	1,951,997
E. Baltimore County	609,671	32.1%	1,527	0
Reisterstown Rd.	3,252,975	15.8%	(19,767)	75,000
Harford County	428,146	8.0%	30,104	50,532
Hunt Valley	2,925,001	11.0%	(48,655)	0
Towson/Timonium	6,520,098	9.8%	49,522	0
West Side	1,726,084	16.5%	(3,920)	253,765
TOTAL Upper Sub.	**18,142,458**	**13.3%**	**336,571**	**2,331,294**
MARKET TOTAL	**44,194,241**	**10.6%**	**327,052**	**3,890,798**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Baltimore).

The company canceled its plans to move and leased the 30,000 square foot floor, increasing its space in the building to 300,000 square feet. International accounting firm Ernst &Young had scouted 30 suburban properties, but its employees wanted the company to stay downtown, a sign that the city's urban revitalization program is taking hold. E&Y has pre-leased 31,000 square feet in a six-story building under construction next to the National Aquarium. The 132,000 square foot building, which opens in late 2002, may bear the accounting firm's name.

Consumer lender CitiFinancial received a loan from the state to renovate its 266,000 square foot, 20-story office tower at 300 St. Paul Place as an incentive to keep the company downtown. The $3 million loan will be used to build a 13-story, 519-space parking garage in the same block; 275 of the spaces have been promised to CitiFinancial. Corporate Healthcare Financing currently occupies space at the site of the proposed parking garage and is considering a move to the suburbs to accommodate expansion. However, increasingly available space downtown may convince the company to stay in the CBD.

To relieve parking problems, cited as one of the city's greatest impediments to business, the quasi-public Downtown Partnership of Baltimore is buying seven buses to link mass transit hubs and parking lots with the CBD. Moreover, a traffic study showed that the city originally patterned its one-way streets to accommodate a north-south traffic flow. Recent commercial expansion to the east and west of the CBD is channeling traffic in those directions, creating congestion. City traffic officials are now studying alternatives including changing one-way streets to two-way to eliminate downtown gridlock.

Net rentable inventory in the CBD increased a modest 4.1% to 12.6 million square feet during the 12 months ending in June 2001. The vacancy rate rose nearly two percentage points from 7.8% to 9.6%. Class B space recorded the highest vacancy rate increase during the year, rising from 7% to 9.9%. There was negative net absorption of 228,000 square feet downtown during the second quarter.

At the end of June 2001, 547,000 square feet of new construction was in progress downtown, essentially unchanged from the prior year's 548,000 square feet. During the second quarter, construction began on 750 East Pratt, the first Class A tower to go up downtown in more than a decade. Its developer successfully resolved pre-leasing and parking concerns by signing Constellation Energy Group as an anchor tenant in the building. The 338,000 square foot tower is being built above an electric power substation owned by Baltimore Gas & Electric Co., a Constellation subsidiary. The developer plans to add 650 parking spaces to the Harbor Park garage across the street and link it to the tower, which is scheduled to open in November 2002. A renovation of 230 West Lexington is also scheduled for completion in November 2002. Conversion of a 1.3 million square foot former Montgomery Ward warehouse off Monroe Street into office space is scheduled for completion during the third quarter. Its developer has pre-leased 262,000 square feet to the Maryland Department of the Environment and is marketing the remaining space to biotech and telecom companies.

More Inventory in Lower Burbs: By the end of 2001's second quarter, the region's Lower Suburban submarkets were having difficulty digesting the dramatic growth and activity experienced during the prior 24 months. Located mid-way between Washington D.C. and Baltimore, the Lower Suburban submarkets offer a less costly alternative for government agencies and private-sector firms seeking to locate or expand in the area. After a hot 1999-2000 spurt of activity, the 12 months ending in June 2001 saw net inventory in the Lower Suburban area grow another 18%, to 13.5 million square feet. As a result, the vacancy rate rose from 5.5% to 8.1%. The Lower Suburban submarkets absorbed 218,000 square feet of space during the second quarter.

Vacancy in Annapolis Takes a Leap: Office inventory in Annapolis expanded 36% to 1.7 million square feet, and the vacancy rate leaped from 1.6% in mid-2000 to 11.9% in June 2001. The second quarter 2001 saw 10,000 square feet of absorption. Annapolis is confronting parking problems similar to Baltimore's and this is constraining growth downtown. But a developer broke ground on a four-story, 135,000 square foot office building at 888 Best Gate Road, the largest speculative office project in downtown Annapolis in a decade. A proposal to redevelop the Navy's former David Taylor Research Center on Annapolis' waterfront into 13 office buildings with 730,000 square feet of space is meeting neighborhood opposition. Residents cite traffic congestion in their attempt to block rezoning of the land.

Columbia is Hottest Submarket: Columbia, the hottest submarket in the region, added more than one million square feet to its inventory during the year to total 6.9 million square feet, but its vacancy rate rose only modestly from 4.75% to 6.2%. Columbia's 17.9% growth rate allowed it to surpass Towson/Timonium as the region's largest suburban submarket in net rentable inventory. During 2001's second quarter, 345,000 square feet of new multi-tenant space and 62,000 square feet leased by single tenants opened for occupancy and the submarket recorded 232,000 square feet of positive absorption. Columbia had 551,000 square feet of new construction in progress in mid-2001, the second-most office space under construction of any submarket in the region (after Baltimore City). New construction includes the three-building, 375,000 square foot Gateway Exchange project.

Upper Suburbs Show Similar Trends: The Upper Suburban area, which grew 11.7% to 18.1 million square feet during the year ending in June, also saw vacancy increases in most submarkets. The area's vacancy rate rose from 9.9% to 13.3% during the year, while new construction rose to 2.3 million square feet compared to 1.2 million square feet at the end of 2000's second quarter. The Upper Suburban submarkets absorbed 337,000 square feet of office space during 2001's second quarter.

The popular Towson/Timonium area expanded its inventory by 6.8% to end June 2001 with 6.5 million square feet. But its vacancy rate rose from 6.8% in mid-2000, when 498,000 square feet of new construction was in progress, to 9.8% a year later. The second quarter of 2001 saw 50,000 square feet absorbed in Towson/Timonium and no new construction underway.

The Reisterstown Road submarket grew a modest 4.7% to 3.3 million square feet in June 2001, but the submarket's vacancy rate fell from 18.9% in mid-2000 to 15.8% at the end of 2001's second quarter. Construction on Reisterstown Road dropped from 256,000 square feet in mid-2000 to 75,000 square feet in June 2001. Reisterstown Road registered negative net absorption of 20,000 square feet during the second quarter.

Baltimore City Sees Most Absorption: Between mid-2000 and June 2001, Baltimore City expanded 58% to 2.7 million square feet and its vacancy rate more than doubled from 7% to 15.6%. Despite the uptake in vacancies, nearly two million square feet of new construction was in progress in Baltimore City at the end of 2001's second quarter, representing most of the construction occurring in the Upper Suburban region. Baltimore City also had the region's most absorption at 328,000 square feet.

The small Harford County submarket experienced a 33.8% growth spurt to 428,000 square feet. Its vacancy rate dropped from 11.3% to 8% during the 12 months ending in June 2001.

Price and Rent Trends: *The average value of Class A CBD office space in Baltimore decreased slightly to $158.18 per square foot in the second quarter of 2001 from $159.52 per square foot one year earlier. The effective gross lease rate increased from $25.95 per square foot to $26.17 during the same period. The cap rate inched up to 8.9%.*

The price of suburban office space fell from $132.92 per square foot in the second quarter of 2000 to an average of $129.84 per square foot in the second quarter of 2001. The effective gross lease rate dropped from $22.89 to $22.75 per square foot. The suburban cap rate rose to 9.5%. Class B suburban office space was valued at $105.95 per square foot in the second quarter. Class C suburban space sold for $80.85 per square foot.

INDUSTRIAL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↑	↑	↑

Vacancy Rates Rising

Vacancy rates are beginning to rise in greater Baltimore's industrial market. The 11.5% vacancy rate at the end of 2001's second quarter was the highest since 1999's fourth quarter. Slowing demand and sublet space being returned to the market are credited for nudging vacancy rates up. The overall vacancy rate for warehouse space decreased slightly between 2001's first and second quarters from 12.5% to 12.4%, but flex space vacancies rose from 8.2% to 8.8% during the period.

Metropolitan Baltimore's industrial inventory added 6.6 million square feet during the 12 months ending in June 2001, a 6.1% increase to 115 million square feet. The second quarter saw completion of nearly 1.7 million square

INDUSTRIAL*				
SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
Annapolis	1,899,047	6.7%	(5,084)	0
Baltimore City	28,685,762	14.1%	764,882	45,500
Baltimore County E.	11,073,890	16.5%	(65,416)	20,000
Baltimore S.W.	9,423,869	12.4%	(29,290)	115,200
Baltimore/Washington Corridor	46,462,244	9.6%	214,827	1,403,000
Harford/Cecil County	8,598,908	11.6%	22,590	120,000
Hunt Valley/Towson	6,264,468	6.9%	169,564	0
Owings Mills/ Reisterstown Road	2,604,701	5.2%	(8,559)	0
TOTAL	**115,012,889**	**11.5%**	**1,063,514**	**1,703,700**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Baltimore).

feet of new construction and absorption of 1.1 million square feet. This followed negative absorption of 88,000 square feet during 2001's first quarter. During June 2001, another 1.7 million square feet of industrial space (34% pre-leased) was under construction, a slight decrease from the 1.9 million square feet in progress 12 months earlier. Construction is slowing as developers monitor economic conditions and wait for demand to catch up with current supply. But industrial developers are having an easier time than office developers obtaining financing.

Baltimore-Washington Corridor Boom Continues: Despite the addition of more than 831,000 square feet of vacant space between 2001's first and second quarters, the Baltimore-Washington Corridor's vacancy rate rose to only 9.6% compared to 8.3% in June 2000. The corridor is popular because of its direct access to I-95 and proximity to the Baltimore-Washington International Airport. The largest industrial submarket in the region, the Corridor added 3.6 million square feet during the year, growing to 46 million square feet and it continues to lead in new construction. In June, 1.4 million square feet were under construction in the submarket, more than 82% of the region's new development total and an increase from one million square feet in progress 12 months earlier. But the submarket absorbed only 215,000 square feet during 2001's second quarter compared to 915,000 square feet during the prior year's second quarter.

During the year, the final 54,000 square foot flex building at the 450,000 square foot International Trade Center and 125,000 square feet of flex space at BWI technology park were completed. After signing its first anchor tenant, the University of Maryland, Baltimore County broke ground on the first 63,000 square foot building at its long-delayed 350,000 square foot R&D park in Catonsville. The Airport 100 business park has 321,000 square feet of warehouse space under construction; 208,000 square feet of flex/warehouse space is underway at Arundel Crossing West. Marley Neck industrial park along Fort Smallwood Road is planning two speculative warehouses totaling 505,000 square feet.

Baltimore City Stays Healthy: Baltimore City, the second-largest industrial submarket in the region, added only 230,000 square feet of inventory during the year to total 29 million square feet in June 2001. The submarket saw the largest quarterly vacancy rate decreases in greater Baltimore with flex space falling from 21.1% in March 2001 to 11% in June and warehouse vacancies dropping from 18.7% to 14.4%. For the 12 months ending in June 2001, the overall industrial vacancy rate fell from 16.3% to 14.1%. Leasing activity in Baltimore City contributed 765,000 square feet to the 1.1 million square feet absorbed in greater Baltimore during the second quarter. A modest 46,000 square feet of new space was under construction in the submarket at the end of June.

Baltimore County East Sees Dramatic Growth: Baltimore County East added more than two million square feet during the year to total 11 million square feet in June 2001, a 22.4% growth rate. Second quarter absorption was only 20,000 square feet. The submarket's vacancy rate more than doubled from 8.2% in mid-2000 to 16.5% in June 2001, when only 20,000 square feet of new construction was underway. Also in June, Warner Brothers announced the closure of its 400,000 square foot distribution center in White Marsh following its decision to close its nationwide retail stores. The building is available for sale or lease.

Price and Rent Trends: *Class A industrial space was valued at an average of $39.08 per square foot in the second quarter of 2001. This reflects a 3.1% decrease in 12 months. The cap rate increased to 9.3% in the second quarter of 2001.*

Class A industrial rents rose to an average of $4.78 per square foot in the second quarter of 2001, a slight increase from $4.74 per square foot during the same period one year earlier. Class C warehouse space sold for $19.81 per square foot. Class B flex space was valued at $65.13 per square foot.

RETAIL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↓	↓	↔	↓	↓	↑

Neighborhoods Chasing Same Retailers

Baltimore neighborhoods with revitalization projects are competing to attract the same large national retailers like the Gap, which is taking a wait-and-see attitude before committing to a lease. The quasi-public Downtown Partnership released a study that claims the city needs a unified strategy for attracting major retailers to its four key retail districts as projects in planning or under construction will nearly double the amount of retail space in the city.

For instance, the Inner Harbor retail/entertainment venue is expanding east toward the CBD. The developers of Inner Harbor East plan a “daily shopping experience” on Exeter Street with groceries, a dry cleaner and wine shop. Lifestyle shopping is planned on Aliceanna Street with stores like the Gap, Crate & Barrel, Williams-Sonoma, and Ann Taylor Loft, with two hotels and apartments further east. But the delayed Lockwood Place project is wooing the same retailers for its 120,000 square feet of retail space, as are revitalization projects on the West Side of the city, which include 400,000 square feet of retail space at Weinberg-Mews. It is not yet clear which of these will be the city’s next retail hot spot.

New Mall Attracts Development: Arundel Mills, a 1.4 million square foot super-regional mall in Anne Arundel County, has attracted more retailers to its periphery since opening in November. Wal-Mart and Costco are building 100,000 square foot big-box stores on property surrounding the mall. Development plans include an additional 300,000 square feet of retail, 300,000 square feet of office space and 476 residential units.

Sears announced plans to occupy the former Montgomery Wards store adjacent to Westfield Shoppingtown Annapolis, a 1.2 million square foot super-regional mall.

The city of Baltimore is home to the region’s other two super-regional malls, the 1.2 million square foot White Marsh mall and the one million square foot Security Square mall.

Ailing Shopping Centers to Get Makeovers: There is no shortage of interest in retail properties in the region. A developer who specializes in rescuing distressed shopping centers has purchased a 205,000 square foot shopping center at 2401 Erdman Avenue and plans to completely renovate the half-vacant complex. When the ailing Belvedere Square in North Baltimore went on the market in late 2000, three developers competed to buy the half-vacant shopping center despite neighborhood opposition to big-box development at the site.

Retail Sales Below National Average: According to Sales and Marketing Management’s *2000 Survey of Buying Power*, metropolitan Baltimore averaged $31,400 in retail sales in 1999. The national norm was $33,100. Annapolis posted the highest sales per household at approximately $57,400. The second-highest sales average was reported in Anne Arundel County at $37,200 per household, followed by Baltimore County with $37,000 per household. In the city of Baltimore, sales averaged just $19,600 per household.

The median income in greater Baltimore was $43,400 per household compared to the national norm of $37,200. Howard County posted the highest median household income at $61,800. This was followed by median incomes in Anne Arundel County ($50,300) and Carroll County ($47,300). The city of Baltimore reported a median income of $28,200 per household.

Price and Rent Trends: *The average value of Class A anchored, unenclosed retail space in Baltimore was $111.99 per square foot in the second quarter of 2001. This reflects a 4.8% decline from the second quarter of 2000. The triple net lease rate averaged $16.94 per square foot in the second quarter of 2001, down from $17.87 per square foot one year prior. The cap rate in the second quarter of 2001 increased to 9.1%.*

APARTMENT MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↑	↔	↔	↔	↔	↔

Downtown Bustling with Apartment Projects

During 2001’s second quarter, downtown Baltimore had seven apartment projects under construction that will increase multi-tenant housing in the city by 21%. Along with the 700 residential units under construction, another 2,500 units were in various stages of planning. Projects underway included the Harborview Dock building II at the Inner Harbor (249 units), 501 St. Paul Place (201 units) opening in the Summer of 2002, and a renovation of the former YMCA on Charles Street. The 59-unit Rochambeau on West Franklin Street and the 33-unit Wentworth on West Mulberry are undergoing renovations. The Atrium, the project that converted the former Hecht’s department store into 173 apartments, was completed in June.

Projects in planning include the Residences at the Ritz-Carlton Inner Harbor (97 condos), Centerpoint at Fayette and Howard Streets, and the Murray building on East Fayette Avenue. Projects in conceptual stages include Security Station on Greene Street, the Mayfair/Chesapeake Commons on Howard Street and Canton Crossing on Boston Street. An early 2001 study by the Johns Hopkins University Real Estate Institute found a 0.2% vacancy rate and a 16.5% growth rate for multi-family housing in the city of Baltimore.

Anne Arundel County Promotes Mixed-Use Housing: Anne Arundel County is encouraging developers to build mixed-use projects. The county required a developer of a 21,000 square foot office project in Annapolis to include an 80-unit apartment complex with first floor retail in an adjacent building. That is also why the master plan for the Arundel Mills project calls for 476 apartments and 300,000 square feet of office space.

Multifamily Permits Nearly Double: The number of multifamily permits (in buildings with 5+ units) issued in Baltimore during the first half of 2001 grew 97% to 697 compared to 12 months prior. In contrast, single-family permits decreased slightly from approximately 4,600 to 4,500 during the same period.

The median price for a single family home in the metropolitan area rose slightly (2.5%) between the second quarters of 2000 and 2001, to $155,100, according to the National Association of Realtors.

Price and Rent Trends: *Class A apartment space was valued at an average of $88.96 per square foot in the second quarter of 2001, representing a 5.2% increase from the $84.57 per square foot figure one year earlier. Average rents rose to $12.02 per square foot in the second quarter of 2001, a 2.6% increase in 12 months. The cap rate was 8.1% in the second quarter of 2001.*

Class B apartments (i.e., ten to 20 year-old complexes) were valued at $60.98 per square foot in the second quarter. Class C apartment space sold for $46.48 per square foot.

Boston

Economic Overview

Northeast's Third-Largest Job Gain

The Boston metropolitan area produced a net 27,600 jobs during the 12 months ending in June, the third-largest growth rate in the Northeast (behind Washington DC and New York). Reflecting greater stability than some other regions are demonstrating, this was just 10% less than the number of jobs created here during the previous 12-month period. The recent gain translated into a 1.3% proportional advance, the same as in Raleigh-Durham, and a full percentage point above the national growth rate. The area's unemployment rate moved up from 2.4% in June 2000 to 3.1% one year later.

80% of New Jobs in Services: The service sector added 22,000 jobs during the recent period. No other sector came even close. The second-largest gain—6,300 jobs—occurred in construction. It was followed by the addition of 2,700 new jobs in the finance, insurance and real estate (FIRE) sector. Transportation/public utilities (TPU) was next, with 1,000 new jobs. Retail trade (900 jobs) brought up the rear.

The largest proportional gain (8%) occurred in construction. Again, there was a big gap between first and second. Services' 2.7% gain was next. It was followed by FIRE (1.6%), TPU (1.1%), and retail trade (0.3%).

Losses in Three Sectors: Three of the eight major employment categories reported losses. The manufacturing base contracted by 1.6%, which translated into the loss of 3,500 jobs, relatively minimal compared to the production-related losses being reported in other metropolitan areas. There were also losses in wholesale trade (0.9%; 1,000 jobs) and government (0.3%; 800 jobs).

One of Nation's Service Leaders: The service sector employs 40.4% of greater Boston's labor force. This is well above the 31% norm nationwide, and makes Boston one of the ten-largest service economies in the country (Las Vegas and Orlando top the list). The second-largest sector here is retail trade, though at 15.6%, it falls short of the national norm (17.8%). Government accounts for one-in-nine workers here compared to one-in six nationwide. Manufacturing employment also falls short of the national average (10.2% versus 13.4%).

The biggest disparity occurs in FIRE. Financial service firms employ 8.4% of the metropolitan area's workforce while accounting for just 5.8% nationwide. Wholesale trade employs exactly the same proportion of the workforce here as it does nationally (5.3%). The next two sectors—TPU (4.4% versus 5.4%) and construction (4.1% versus 5.3%)—fall short.

FIRE Triumvirate Tops Employment List: Greater Boston is dominated by financial service firms. Fidelity Investments is the largest, with 13,000 employees in the metropolitan area. FleetBoston follows closely, with a roster of 12,300. State Street Corp. is next, with 11,700 workers. Verizon/Bell Atlantic employs 10,800 in the area. Raytheon and Lucent employ 8,500 and 6,400, respectively (though Lucent's numbers are declining as a result of the company's widespread layoffs). Putnam Investments has a local payroll of 5,400. GE Aircraft Engines employs 5,300 here and John Hancock Financial Services has 4,500 employees. Other private sector firms with 2,000 or more employees here include EMC, Lotus Development (now a subsidiary of IBM), Gillette, Nstar (formed by the merger of BEC Energy and Commonwealth Energy Systems), GTE Internetworking & Technology Organization, PricewaterhouseCoopers, Sun Microsystems, TJX (retailer), Bose, Sodexho (contract food service), and Agilent Technologies.

FIRE Firms Play Musical Chairs: State Street has decided to lease the entirety of the one million square foot One Lincoln Street office tower. The $350 million, 37-story tower is scheduled to open in mid-2003. The company's headquarters is currently located at 225 Franklin Street; it also leases space in the Lafayette Corporate Center and at International Place.

Fidelity Investments has put its name on space at 100 Summer Street (currently occupied by Blue Cross/Blue Shield) and One Federal Street. The latter space was vacated by FleetBoston after it acquired BankBoston and moved its headquarters to 100 Federal Street. Pioneer Group, a financial services company, has moved its customer service center from 60 State Street in Boston to 80,000 square feet in Medford. Zurich Scudder says it will move 100 jobs from its New York office to Boston.

Dousing the Flame: Putnam Investments, the fourth-largest U.S. mutual fund group, eliminated 256 positions in April, its second round of layoffs this year. Though a few of the cuts have hit the company's offices overseas, most have occurred in Boston, Andover, Franklin, and Norwood. FleetBoston, which recently merged with New Jersey-based Summit Bancorp, is also considering staff reductions. The Boston-based company plans to reduce expenses by as much as $700 million by the end of the year.

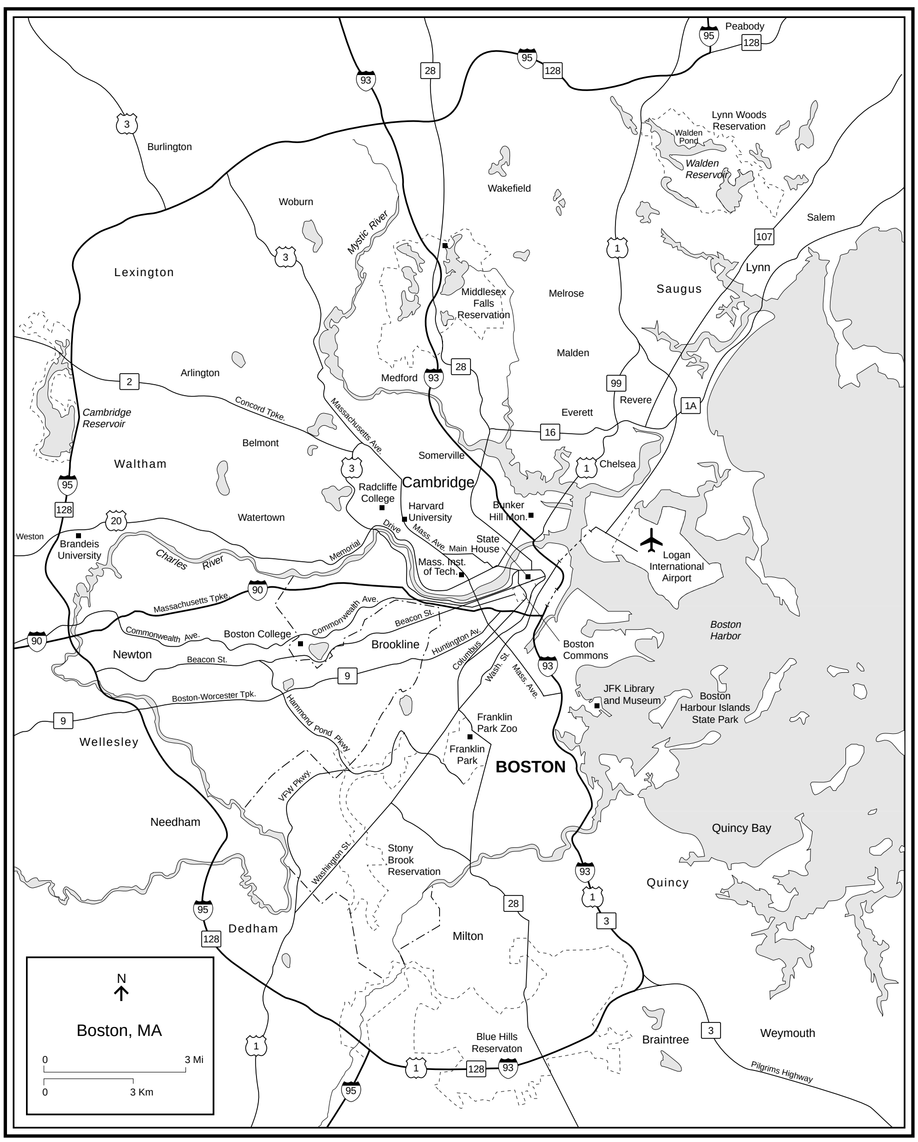
High-Tech Industry Continues to Diversify: Greater Boston is known as the Silicon Valley of New England, and though its high-tech economy was dominated by hardware manufacturers like Wang, Data General and Digital Equipment Corp. in the early days, it is now home to firms representing a much wider spectrum of the industry. In 1989, Massachusetts was home to 800 software companies with 46,000 employees. By 2000, there were 3,300 companies and 164,000 workers. Though there have been significant contractions here recently, some high-tech firms continue to grow.

Agilent Technologies is leasing 175,000 square feet in Boxborough. Quantum Bridge has leased 105,500 square feet of office and lab space on Technology Drive in Andover. Gotham Networks has expanded its space in Acton, from 29,000 to 70,000 square feet. WaveSmith, an optical networking start-up in Acton, recently closed a $12 million round of financing, bringing total funding since its inception to $23 million. The company leased another 30,000 square feet and hopes to employ 150 (up from the current 65) by the end of the year.

While Cisco has shelved development plans all over the country since the recent high-tech downturn, it has earmarked land off I-495 in Boxborough for a new two million square foot East Coast headquarters. No specific timetable has been released for the site, though. 3Com, which is eliminating 4,200 workers worldwide, has put its 128-acre campus in Marlborough on the market. It intends to lease back the space it needs after the sale. There is currently 542,000 square feet of space at the site.

Meanwhile, Intel has shelved plans to pour $1 billion into its plant in Hudson. Though it will continue to convert the former Digital Equipment space into fabrication facilities, it has postponed construction of an additional 50,000 square feet of clean space. The company has reportedly invested $800 million in the plant since purchasing it in 1998.

It is interesting to note that most of the high-tech firms that helped fuel Boston's growth in the 1980s chose to locate along Route 128. However, I-495 is the epicenter for most of today's telecom companies and networking giants. Start-up companies located there include Quantum Bridge, Convergent Networks, and WaveSmith Networks.



Plenty of Telecom Hotels: Data centers are occupying quite a bit of space here. Level 3 Communications is opening a 400,000 square foot hosting facility in Needham this Fall. AT&T leased 201,400 square feet on Arsenal Street in Watertown for a Web-hosting facility. The building was formerly used by Boston Edison. Sprint's E-business unit has opened a 70,000 square foot data center in the Fenway area. It is the second of nine such facilities the company plans to open across the country this year. InterNap Network Services, an Internet services provider, has converted a 41,300 square foot building in Somerville into a telecom hub. The facility is on Inner Belt Road, where approximately 700,000 square feet of telecom hotels and facilities are now located.

Even though Massachusetts is not confronted with an energy crisis, developers requesting electrical hook-ups for high-tech buildings are being asked to make deposits to pay for lines, transformers, substations, and other infrastructure, minus a credit for the revenue the utility company will receive during the first year of operation. The risk is, thus, being shifted from the power company to the customer.

Several Downsizings: In May, Polaroid sold its office and manufacturing complex near the Cambridge reservoir in Waltham for approximately $70 million to the Davis Companies (in a joint venture with Prudential Real Estate Investors). The agreement includes a provision that allows Polaroid to share in proceeds from future development of the 56-acre site. Polaroid currently employs 750 at the facility, where it manufactures and assembles instant film; it will continue to lease space there. The campus includes four buildings totaling 536,000 square feet of space. In February, Polaroid announced plans to eliminate 950 jobs, 11% of its global workforce; in June, it said it would eliminate another 2,000 jobs.

Also in May, Polaroid and Spaulding & Slye Colliers sold two office and research buildings, totaling 99,300 square feet, at 770 and 790 Memorial Drive in Cambridge for $35.7 million. The buildings are scheduled for initial occupancy by the end of November 2001. The two companies plan to develop an adjacent two-acre parcel into approximately 120 residential units.

Corning is closing manufacturing plants in Natick, MA and Nashua, NH and cutting 1,000 jobs from its photonic technologies division. Cambridge Technology partners cut about 280 jobs in January; this follows the elimination of 400 positions last Fall.

Lucent acquired 12 high-tech start-ups in Massachusetts during the past few years. Now that the company is in a downward spiral, many of those jobs are vulnerable. In July, it announced plans to cut another 20,000 jobs. So far, 800 jobs have been eliminated at the company's fiber-optic facility in North Andover; at its peak, the plant employed 5,500. Lucent also has facilities in Cambridge, Foxboro, and Westford. It recently sold its 500-person plant in Sturbridge to Furukawa Electric of Japan. Sycamore Networks, a maker of fiber-optic telecommunications equipment, eliminated 140 jobs, 13% of its workforce. The Chelmsford-based company plans to consolidate two business units and delay plant expansions.

In February, EMC Corp., the largest maker of computer data systems, said it would be adding as many as 5,000 people in Massachusetts during the next 12 months. How soon things change. Now, the Hopkinton-based company plans to cut its worldwide workforce by 1,100. Sapient Corp., which builds software and Internet systems, announced plans to lay off 720, or 20% of its workforce, during the first quarter of 2001; then, in July, it said it would lay off another 390 workers. The Cambridge-based company's stock plunged 88% between August 2000 and March 2001. Teradyne, a Boston-based maker of semiconductor testing equipment, announced plans to lay off 650 workers in March. Then, in May, it laid off another 400, including 250 people in Nashua, NH; one month later, 180 more jobs were cut.

Two Boston-based Internet consulting firms have entered second rounds of downsizing. Viant Corp. eliminated 125 employees in December and just recently announced plans to lay off another 211 workers. Viant closed its Dallas office and plans to close facilities in Houston, San Francisco and Munich. Zefer Corp. laid off 100 workers in March, following the elimination of 120 employees earlier in the year. Ironbridge Networks of Lexington, developers of terabit router technology, filed for Chapter 7 bankruptcy in March; it laid off 170 of its 190 workers in January after failing to secure additional funding.

Gillette May Thwart City's Plans: Gillette plans to expand its world headquarters and manufacturing plant in South Boston. The company acquired ten acres near its current facility in the Fort Point Channel area. This is conflicting with the city's plans to use that land to connect the new convention center to the waterfront. The city may get its way, though, since Gillette recently announced plans to cut 600 jobs by the end of the year, citing falling currencies and stiffer competition for its Duracell batteries.

Center of Medical Research: According to a new study by Ernst & Young, New England has surpassed the San Francisco area and now has the largest number of biotech firms in the country. In addition, over 9% of Boston's workforce is employed in the health care profession. As an outgrowth of and companion to both these industries, there are several major hospitals here, including Brigham & Women's, Dana Farber Cancer Institute, New England Medical Center, Beth Israel Deaconess, and, the largest, Massachusetts General. And many of the local universities have major health care projects in the pipeline.

MIT is slated to break ground soon on a $350 million brain research institute. McLean Hospital (in Belmont) has a new $10 million wing devoted exclusively to brain research and scientists recently moved into the new $12 million Brudnick Neuropsychiatric Research Institute at the University of Massachusetts Medical Center in Worcester. Harvard Medical School has a 430,000 square foot research building under construction; completion is expected in 2003. Tufts University is building a 175,000 square foot Center for Biomedical and Nutrition Research on its Boston campus, where the school's medical and dental schools are located. The facility is scheduled to open in the Summer of 2002. The Massachusetts College of Pharmacy and Health Sciences opened a 60,000 square foot campus in Worcester last year and plans to expand its facility on Longwood Avenue in Boston.

On the commercial side of the business, a company has just relocated from New Jersey's pharmaceutical corridor to Easton, MA. Korsch America has leased 15,000 square feet in Easton; the company produces pill-making machines. Pfizer recently opened a research facility on Memorial Drive in Cambridge and Merck plans to open space in Boston (though the major neuroscience program it originally intended to locate there is now going to be in San Diego).

Biotech Firms Filling Gap: According to one analyst, biotech lab and office space make up about 23% of Cambridge's office market. Of the area's largest biotech firms (based on R&D spending in 2000), eight are located in Cambridge. This is largely due to the presence of research-oriented academic institutions like MIT and Harvard. Earlier this year, MIT purchased Technology Square, which consists of 541,000 square feet of existing space as well as four buildings under construction (totaling 617,000 square feet). Biotech firm Dyax is reportedly interested in leasing space there. Millennium Pharmaceuticals already leased 400,000 square feet at the University Park project in Cambridge. And completion is expected in November on a 100,000 square foot office-research complex on Memorial Drive.

Construction will be slowing soon, though. First, there was an 18-month building moratorium in East Cambridge. Then, in February, the city council passed a plan prohibiting commercial development in many Cambridge neighborhoods. It also requires a public review of any project exceeding 50,000 square feet. And, to encourage public transit, parking garages are now counted as part of the building's size.

Demand is pushing some firms outside of Cambridge. Genzyme, for instance, plans to construct a 300,000 square foot manufacturing plant in Framingham. It is scheduled to come on-line in 2004. GPC Biotech moved its operations from Cambridge to an 84,000 square foot facility in Waltham. In some cases, buildings that had been designed for high-tech companies are now being considered for biotech uses. For instance, in Brighton, the former Casey & Hayes building (412,000 square feet) was refurbished for a high-tech company, but is now being marketed for biotech tenants.

Universities Taking More Space: Harvard University purchased the renovated Watertown Arsenal site for $162 million after O'Neill Properties spent $110 million renovating it. Harvard plans to house the publishing division of its business school in the 754,000 square foot facility. MIT is building a 447,000 square foot Center for Computer Information and Intelligence Sciences to unite its electrical engineering and computer science programs; completion is expected in 2004. It also plans two new dormitories for about 1,000 students. Tufts is investing $10 million to re-wire its campus to prepare for the Internet2 project. The latter will hook up more than 180 universities and 60 companies to facilitate communication and speed development of new technologies.

Seaport District Continues to Grow: Foley, Hoag & Elliot developed a new 530,000 square foot office tower in Boston's Seaport district. It is part of the World Trade Center complex, which, when completed, will consist of three million square feet in five buildings, including the Seaport hotel.

Another set of plans has been submitted for the controversial Fan Pier project. The developer has eliminated the planned hotel due to FAA concerns and financing problems, while doubling the number of residential units (to 675).

Where Will the Red Sox Play?: Despite earlier visions of a new Fenway Park right next to the current one, locals are now recommending alternative sites for the new home of the city's major league baseball team. The latest site is right next to South Station; it currently houses a mail-sorting facility for the U.S. Postal Service. Other locations being considered include a 25-acre parcel along the water in South Boston and a racetrack in East Boston.

Meanwhile, the new home of the New England Patriots (NFL) and the New England Revolution (major league soccer) is scheduled to open in Foxboro in 2002. The $325 million, 68,000-seat facility will be adjacent to the existing stadium. It will feature 2,000 luxury suite seats and 6,000 club seats.

New Convention Center: There are several holes in the ground in Boston. One is known as the Big Dig. Another is the site of the future 1.7 million square foot Boston Convention & Exhibition Center (BCEC). Ground was actually broken for the $750 million project in May 2001. It will provide 600,000 square feet of contiguous exhibit space and 80 meeting rooms. The deadline for opening the center is the first quarter of 2004. If it is not open by then, the Massachusetts Convention Center Authority (MCCA) will be in a difficult position in terms of booked conventions and the planned convention hotel. In fact, the International Boston Seafood Show has booked the center for March 2004. As is true with the Big Dig, cost overruns are becoming commonplace—the latest figures show overruns as high as $100 million.

The city has not yet decided whether it will close the Hynes convention center once the BCEC opens. Currently, it envisions marketing both facilities. Closing the Hynes would likely create problems for the three hotels connected to the facility—the Marriott Copley Place, the Westin Copley Place, and the Sheraton.

Construction Underway on Convention Hotel: Starwood has signed on to build and operate the new convention hotel—a 1,120-room Sheraton. Construction began in April. This property will be key to providing a significant number of rooms within walking distance of the new convention center.

Other projects in the pipeline include the new 190-room Ritz-Carlton at Boston Common; it is scheduled to open in September. The hotel is part of a $514 million complex (aka Millennium Place) that will also feature 63 extended-stay apartments and 309 condominiums. A 400-room Hyatt Regency is due to open in December in Cambridge. However, plans for a new 236-room Hilton in Cambridge have apparently been abandoned due to financing problems. A 185-room Regent International hotel is scheduled to be part of the mixed-use Battery Wharf project, which is set to open in Spring 2003. The project will also include 99 luxury condominiums. The four-star, 150-room Hotel Commonwealth is slated to debut in the Spring of 2002 at Boston's Kenmore Square.

Loews hopes to open a $150 million, 25-story, 390-room hotel at Tremont and Stuart Streets in 2003. However, to reach that height, the area would have to be rezoned as an urban renewal district. Though delayed from its original opening, a 270-room Embassy Suites is scheduled to be built at Logan Airport.

Plans are also moving forward for a 168-room extended-stay property at Tudor Wharf in Charlestown. A 400-slip facility is planned adjacent to the property along with an 8,000 square foot pier and water taxi station. Development in this area has been facilitated by the Big Dig—i.e., the tearing down of the approaches to I-93, Route 1 and the Tobin bridge. Other projects planned on these CANA (Central Artery North Area) parcels include an office building and a 117-unit condominium complex.

A 114-room Courtyard by Marriott has been proposed for property along Route 128 in Waltham. It would sit next to a 159-room Holiday Inn Express (the former Suisse Chalet Inn). Waltham is Massachusetts' second-largest hotel market after Boston. This would be the city's tenth hotel.

New Hotels Run the Gamut: Approximately 1,050 hotel rooms were added to greater Boston's inventory in 2000. Recent openings include the 268-room Doubletree Club in the former Don Bosco high school and a 148-room Tage Inn in Somerville. In May, a 464-room Marriott opened along Route 93 in Quincy. A $16 million, 180-room Wyndham opened in Chelsea last Fall, the first new hotel to open in that city in decades. A 125-room Marriott Residence Inn has opened at Mass Pike and Route 9 in Framingham. The site is adjacent to Staples' new corporate campus. Marriott has opened several new Fairfield Inns in the area—in Milford, Tewksbury, Amesbury, and Middleborough. Hampton Inn opened a 227-room property on Route 1A in Revere and a 103-room property in Braintree; it plans to open in Cambridge in 2002.

Upgrades & Name Changes: In terms of upgrades, Westin-Copley Plaza just completed a $30 million renovation. The Regal Bostonian added 75 rooms and conference space as part of a $13 million renovation. The 273-room Ritz-Carlton on Arlington Street will close for a major restoration in January 2002. The $30 million job is designed to move the hotel from four to five-star status.

Fairmont has purchased a 50% stake in the Copley Plaza hotel. The company purchased the share from Saudi Prince Alwaleed Alsaud for $23 million and paid $3 million to continue to manage the hotel for the next 50 years. The 192-room Four Points in Leominster was purchased for $10.5 million. The buyers plan to spend $3 million renovating the property. The Ramada hotels in Rockland and Woburn will be converted to Radissons this Summer.

Some local hotels have joined their colleagues across the country, and are imposing energy surcharges. Downtown Boston hotels are also adding a rather steep CCF fee to help pay for the Big Dig. In 2000, 12.9 people visited the city, up 8.4% from 1999; they spent approximately $7 billion here.

According to Pinnacle Advisory Group, May 2001 occupancy was 74.9% in the Boston/Cambridge market, down from 84.1% one year ago. Several hoteliers say it was their worst May in over ten years, with corporate business down 40%. Year-to-date occupancy averaged 69% compared to 73.2% last year. The average room rate climbed 2% to $187. Pinnacle has revised its original projected occupancy rate for 2001 from 77% to 75%. It expects the daily room rate to grow by 3.5%, which would be the lowest increase since 1993. The two tightest times for Boston-area hotels are the Fall, when people converge on New England for leaf viewing, and May/June when graduations are held at the numerous universities.

The Big Dig is Taxing: The cost of the Big Dig, already the country's most expensive infrastructure project, has gone up again. The price tag is now reportedly $14.4 billion. A toll hike is scheduled to be implemented in January 2002 to help cover the additional costs. The demolition of the elevated Central Artery and preparation of the land underneath for parks and other construction is expected to cost approximately $440 million. The new ten-lane Charles River bridge, already under construction, will cost $100 million. The bridge's towers are inverted Y's with lines of white cable spread like fans up their 270-foot height.

Logan Encouraging Use of Other Airports: Boston's Logan Airport handled 27.4 million passengers in 2000, 1.3% more than in 1999. But, that is fine with Logan officials. In fact, they want people to use other airports in the area (see below).

Three billion dollars worth of projects are underway at Logan, with most of the work scheduled to be completed in 2005. However, the one project that airport officials say they need most is a new over-the-water runway. The 5,000-foot runway, first proposed in 1973, is being held up by the FAA, though, due to fierce resistance by local residents. The runway is the best way to reduce delays, according to airport officials. Through May 2001, 29% of Logan's flights were delayed 15 minutes or more, the fourth-worst record (in terms of number of flights) in the country. Most of the delays occur when winds force the use of just one or two of the airport's three runways. If approvals are received in 2001, the runway could be operational as early as 2003. A recent FAA report indicated that the new runway would actually lower airport emissions (by reducing the number of planes forced to idle on taxiways and circle overhead) and send 75,000 flights a year over Boston harbor instead of local neighborhoods. FAA approval is expected late this Summer; a judge will then have to lift a decades-old injunction against construction to allow the project to go forward.

Another problem at Logan is parking. Construction has reduced the number of spaces from a high of 14,000 to 11,200. This Fall, that number will fall even further—to 11,000. Work on new parking spaces is not expected to begin until 2002. There is, thus, an effort to encourage use of the underground train, airport shuttle buses and water taxis.

Area Airports Attracting Activity: Logan officials are taking the unusual step of encouraging area residents to use other airports. They are focusing on Worcester Regional (west of Boston), Manchester (in New Hampshire), and T.F. Green (in Rhode Island). The Massachusetts Port Authority, aka Massport (which operates Logan and the Port of Boston), took over operations at Worcester in January 2000. Since that time, the number of passengers has more than doubled. A new $16 million terminal opened there recently and $5 million worth of runway improvements are scheduled to be completed this Summer. Service from Worcester to Chicago began in July (via American Eagle). Delta ASA and Pan Am also offer service here. In addition to Chicago, there are flights to New York, Atlanta, and Orlando. Officials estimate Worcester can ultimately handle between 600,000 and 800,000 passengers a year. During the first half of 2001, passenger traffic at T.F. Green rose 6.8% compared to the same period last year.

The ultimate goal is to bill Logan as a long-haul airport for international and long domestic flights, while passengers use the smaller regional airports for shorter domestic hops. Massport is also pouring $1.4 million into Hanscom Field in Bedford, MA. Shuttle America, which filed for Chapter 11 bankruptcy protection in April, recently launched commercial service from Hanscom to Trenton, Buffalo, and Greensboro.

Increase in International Trade: The Boston Customs District had an impressive showing during the first quarter of 2001, moving $6.7 billion worth of goods, a 13% gain over the same period in 2000. Exports had the more dramatic gain, increasing 17% to $1.8 billion. Import value rose 11.5% to $4.9 billion. Massachusetts ranks ninth nationwide in merchandise exports.

Tracking just waterborne commerce, however, reveals a different story. Through June, the Port of Boston moved 32,800 containers (20-foot equivalent units, or TEUs), an 18% decline from the first half of 2000. The Port points to positive news, though—Beijing's China Ocean Shipping Co. (COSCO) signed an agreement in May to provide weekly steamship service from Boston beginning in early 2002. This should boost the cargo numbers considerably.

Amtrak Offers High-Speed Service: Meanwhile, Amtrak is increasing service in the Northeast corridor. The new Acela Express trains, which reach 150 miles per hour, debuted in December. The Acela trip between Boston and New York takes between three and three-and-a-half hours compared to five hours on the standard Amtrak line.

Personal Income Tax Is Lowered: Though still above the national norm, Massachusetts' overall tax burden has been reduced. The state corporate income tax remains high, at 9.5%. But, the personal income tax rate has been lowered. In 1999, it was 5.95%. State legislators approved a rollback that will take the rate down to 5% over the next three years. For tax year 2001, the rate is 5.6%. The sales tax is a moderate 5%, with no local levies. In 1999 (the most recent data available), residents paid $69 in state taxes per $1,000 in personal income, just above the $66 national average.

There have been recent increases for business owners, though. Massachusetts decided to increase the workers' compensation premium by 1% as of September 1, 2001. Commercial costs were also raised with the increase in the state's minimum wage to $6.75. That rate became effective in January 2001.

Commercial Property Taxes Are High: Commercial property in Boston was taxed at an effective rate of $3.42 per $100 valuation in 1999, according to Vertex Inc. Though down from $3.85 in 1998, it is still the ninth-highest rate of 86 markets surveyed by the INDEX. But the rate varies widely by jurisdiction. For instance, in Framingham, the 1999 rate was $2.93 per $100. Residential property tax rates are more competitive. Runzheimer International reports that the average for the metropolitan area was $1.32 per $100 in 2000.

Area Residents Are Well Educated: Greater Boston has one of the highest educational attainment rates in the country. Eighty-seven percent of the adult residents here (those over 25) have graduated from high school, well above the 83.4% national norm. The disparity is more dramatic when it comes to post-secondary education. Locally, 39% of the adults have obtained at least a bachelor's degree; the national average is 25.2%.

Crime Rates Fall Below National Norms: The area's violent crime rate fell nearly 4% between 1998 and 1999, to 468 per 100,000 residents, an impressive 20% below the national metropolitan norm. The disparity between the local and national property crime rates is even more extraordinary. The local per-100,000 rate of 2,579 reflects a 2% decline from the year before; the national rate fell by 7.6%, to 4,016.

Population Growth Twice That of 1980s: The population of the metropolitan area reached 3.4 million in 2000, a 5.5% increase from 1990. Though minimal compared to some other large urban areas, this is still more than double the 2.5% growth rate that took place here during the previous ten years.

Boston, along with Hartford and several other markets in the Northeast, are defined by the Census Bureau as NECMAs (New England Consolidated Metropolitan Areas), meaning their boundaries include portions of several counties. The largest county in the NECMA is Middlesex, with 1.2 million residents. The next largest are Suffolk (689,800) and Norfolk (645,900). The fastest-growing county has been Bristol, which expanded its population by 20% between 1990 and 2000, to 108,400.

The city of Boston's growth rate this past decade was 2.6%, for a 2000 total of 589,100. Other large communities here include Worcester (172,600), Lowell (105,200), and Cambridge (101,400). Of area locales with more than 50,000 residents, the fastest growers since 1990 have been Haverhill (15%), Taunton (12%), and Lynn (9.5%). Their populations, respectively, are 59,000, 56,000, and 89,100.

OFFICE MARKET

(CBD)	YEAR*			QUARTER*	
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↑	↔	↔	↓	↔

(Suburbs)	YEAR*			QUARTER*	
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↑	↑	↔	↓	↓	↔

Winds Shift South

The swift turnaround in Boston's office market from one year ago leaves no room for doubt that the economy is taking its toll on tenant demand and stifling growth. Several suburban submarkets saw their vacancy rates climb into the double digits. Despite this, a number of quality tenants remain in the market for space driven by lease expirations, disciplined growth and the search for that optimal long-term solution.

Metropolitan—Economic Slump Creates Dramatic Swings in Absorption/Vacancy: Net absorption (including sublease space) in the greater Boston office market plunged to a negative 7.9 million square feet in the second quarter 2001, according to Meredith & Grew-Oncor International. This represents a dramatic reversal from the positive 4.4 million square feet recorded in the same quarter last year. The overall vacancy rate (Meredith & Grew defines vacancy as office space that is physically vacant for which no rent is being paid and includes sublease space) climbed to 9.3% from just 4.1% during the same 12-month period. The metropolitan Boston office market expanded by approximately ten million square feet between the second quarters of 2000 and 2001 to a total of 171 million square feet of space.

The sublease market continues to represent the greatest change from 2000 to 2001 as it increased from 826,000 square feet at the end of the first quarter to 1.1 million square feet at the close of the second quarter. This latter figure represents four times the historical average for the last ten years. The suburban market had a total of 5.7 million square feet of office space under construction in the second quarter, of which approximately 50% was pre-committed.

The suburban market is comprised of approximately 105 million square feet of office and R&D space. In the second quarter, the vacancy rate (including sublease space) hit 10.1%, up from 6.4% at the end of March. By the end of June, this market had recorded a total of five million square feet of negative absorption. Consequently, most of the suburban submarkets realized vacancy rates in the double digits during the second quarter. A noteworthy exception is the tight Route 495 South market, which recorded the lowest vacancy rate at 3.1%.

OFFICE*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION
Boston	51,086,418	7.1%	(1,418,133)
Financial District (CBD)	30,000,000	5.9%	(1,200,000)
Cambridge	14,488,291	11.8%	(653,245)
Inner Suburbs	3,835,991	14.8%	(342,155)
North Shore	7,300,501	16.0%	(800,748)
Route 128-NW	19,363,412	10.1%	(1,334,143)
Route 128-Mass Pike	23,024,630	11.0%	(1,318,981)
South Shore	11,255,138	11.5%	(421,086)
Route 495-North	20,913,763	7.5%	(921,667)
Route 495-West	15,161,145	9.2%	661,636
Route 495-South	4,339,980	3.1%	8,100
TOTAL	**170,769,269**	**9.3%**	**(7,863,694)**

*Reported as of second quarter 2001. Absorption reflects the first half of 2001.

Source: Meredith & Grew-Oncor International (Boston).

Central Business District—Pace Softens Downtown: The Financial District, which is part of the larger Boston submarket, contains 30 million square feet and has set the tone for Boston's other submarkets with a second quarter 2001 vacancy rate of 5.9%, up 3.8 percentage points from the close of 2000's second quarter. Negative absorption of 1.2 million square feet at mid-year 2001 was largely due to the abundance of sublease space in the market. Construction continued into the second quarter on the one million square foot One Lincoln Street project at the edge of Chinatown. The big news this Summer was State Street's announcement that it would occupy this entire building. Other construction projects in the CBD included 600,000 square feet at 33 Arch Street and 330,00 square feet at 470 Atlantic Avenue.

Boston Submarket Struggles with Surplus Supply: The Boston submarket is comprised of the Financial District plus six districts on the periphery of downtown: the Back Bay, Charlestown, Fenway/Kenmore, North Station, South Boston Waterfront, and South Station. Combined inventory for the Boston submarket is 51.1 million square feet with a 7.1% vacancy rate and negative absorption of 1.4 million square feet at the end of June 2001. This submarket saw 4.5 million square feet of space recently completed or under construction at the end of June; another 5.5 million square feet are in the planning stages. The vacancy rate in the second quarter represents a five percentage point jump from the same quarter last year. Second only to the Financial District, the Back Bay is the second-largest district in the Boston submarket with nearly ten million square feet of space and a 6.4% vacancy rate in the second quarter.

Developments underway in the Boston submarket include 850,000 square feet at 111 Huntington Avenue in the Back Bay district, 530,000 square feet at Seaport Center West, 375,000 square feet at 131 Dartmouth Street, 220,000 square feet at 14-16 Greenbaum Street in the Seaport District, and 200,000 square feet at 226 Causeway Street in the North Station district. Most of these buildings are expected to be fully-leased before completion.

Tenants Flee to More Suitable Space: In late breaking moves to escape rapidly escalating rents or to accommodate their expansion needs, several companies (following along the same path as State Street Bank) hopped from one building to another. For instance Foley, Hoag & Eliot LLP plans to leave 1 Post Office Square to take up 230,000 square feet at the World Trade Center West when that building opens in 2002. Another law firm, Palmer Dodge LLP, is moving from 1 Beacon Street into the new 111 Huntington Avenue building.

In leasing activity, Nutter, McClennan & Fish decided to expand commitments at World Trade Center West for 2002, Mellon/Boston Company leased 272,000 square feet at 1 Boston Place and RMV took 130,000 square feet at 1 Copley Place.

Significant sales activity in the second quarter included the sale of 1 Federal Street and 1 Liberty Square, both in Boston, for $375 million and $48 million, respectively. Also, Arsenal on the Charles in Watertown was sold for $162 million, and the Polaroid campus in Waltham was sold for $70 million. In addition, 2 Batterymarch Drive in Quincy was sold for $18 million.

Cambridge Loosens its Grip: The Cambridge office submarket experienced a reversal of fortune during the year ending in 2001's second quarter as it loosened its grip on technology companies. By the end of June, the overall vacancy rate had escalated to 11.8%, a dramatic uptake from 0.3% at mid-year 2000. The technology retreat continued in the second quarter evidenced by midstream changes of plans by several companies. For instance, Akamai Technologies pulled back from its planned move into its new 125,000 square foot building at 600 Technology Square. The company put the entire building up for sublease. Art Technology Group and Palm Incorporated have also decided not to occupy their respective 120,000 square foot and 92,000 square foot buildings and have put both on the market for sublease. The base building for 300 Tech Square, which was completed during the quarter, will add another 105,000 square feet of vacant space to new supply.

Large construction projects in Cambridge during the second quarter included the 325,000 square foot Amgen Center, 260,000 square feet at 100 Technology Square, 208,000 square feet at 35 Landsdowne Street, and 200,000 square feet at 320 Bent Street.

Notable transactions during the quarter included Dyax Corporation's leasing of 90,000 square feet at 300 Technology Square, Genetics Institute leasing 26,000 square feet at 54 CambridgePark Drive, Stubbins Associates' 18,000 square foot lease at 1030 Massachusetts Avenue, and Biopure's sublease of 14,000 square feet at 58 Charles Street. Net absorption was a negative 653,000 square feet at the end of June. The slump in demand has also driven office rents down. However, rental rates for existing laboratory space and biotech-ready buildings have not fallen. Vacancy for biotech space continues to hover in the 2% to 4% range. But vacancies for biotech space may climb over the next two years as 1.5 million square feet is set to be delivered.

Route 128 Gives Ground: The Route 128/Mass Pike submarket is the second-largest office area in the Boston metropolitan market at 23 million square feet. This area saw its vacancy rate climb 6.3 percentage points between the second quarters of 2000 and 2001 to 11% at the end of June. Absorption fell to a negative 1.3 million square feet in the second quarter. Conversely, the Route 128/Mass Pike area experienced the highest level of construction (1.3 million square feet), or roughly equivalent to the negative absorption reported. Representing ten buildings, this new space will come on-line during the next six-to-nine months and was 20% committed in the second quarter.

The Route 128 Northwest submarket's vacancy rate increased by 7.2 percentage points between the second quarters of 2000 and 2001 to 10.1% at the end of June. In Burlington, the spike in sublease space forced the vacancy rate there to approximately 18%. Because Burlington has such a high concentration of technology companies, this area accounted for more than 620,000 square feet of the 1.3 million square feet of negative absorption recorded at the end of June. Velocity has remained flat with demand coming mostly from small companies requiring less than 10,000 square feet.

With space becoming readily available on a direct and sublease basis, Route 128 is quickly turning into a tenants' market. Although tenant activity has increased from the first quarter, companies are finalizing transactions at a snail's pace. New construction is still very much in demand, but development will probably slow over the next six-to-12 months.

Significant developments still in progress at the end of June surrounding Route 128 include 295,000 square feet on Jones Road in Waltham, 250,000 square feet in the Oracle building in Burlington, 189,000 square foot and 175,000 square foot projects on Royall Street in Canton, 160,000 square feet at 601 Edgewater Drive in Wakefield, and 145,000 square feet at 150 Presidential Way in Woburn.

False Starts & Stops: State Street Bank leased 235,000 square feet at 1200 Colony Drive near Route 128 South then put the entire space back on the sublease market. However, it is apparently reconsidering this decision. West of Boston just inside the I-495 loop, 3Com announced that it intends to sell its 542,000 square foot office park in Marlborough as it scales back. The company plans to eliminate about 4,200 positions worldwide. Once 3Com finds a buyer for the 128-acre park, it plans to lease back the space it needs. In the Route 495/Route 2 area, Cisco is cautiously moving forward with plans for a campus in Boxborough.

Price and Rent Trends: *The average value of Class A CBD office space in Boston rose 1.4% to $322.10 per square foot in the second quarter of 2001 from $317.79 per square foot during the same period one year earlier. The effective gross lease rate increased by 5.7% to $56.61 per square foot during the same period while the cap rate increased to 8.8%. Class B, C and D downtown office space sold for $247.46, $174.35 and $84.40 per square foot, respectively.*

The price of suburban office space increased 9.1% to an average of $235.94 per square foot in the second quarter of 2001. The effective gross lease rate rose from $40.27 per square foot in the second quarter of 2000 to $44.58 per square foot in the second quarter of 2001. The suburban cap rate fell to 9.1% . Class B and C suburban office space was valued at $165.16 and $116.71 per square foot, respectively.

INDUSTRIAL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↓	↓

Impact of Economic Downturn Emerges in 2001

The industrial markets of greater Boston remain stable with regional vacancy rates of less than 10% in 2001's second quarter. But 2001 saw the economic downturn slowly making its mark in the growing amount of sublease space available as well as falling absorption levels. The Metro West region is a prime example of this trend. Although the vacancy rate remains in the single digits, Metro West posted suburban Boston's highest availability rate (the availability rate includes sublease space) as it moved into the double digits at the end of the second quarter.

CB Richard Ellis is in the process of revising the way it reports Boston's industrial inventory. Consequently, this mid-year 2001 analysis compares the second quarter 2001 statistics to year-end 2000. At the end of June 2001, metropolitan Boston contained more than 140 million square feet of industrial space. The overall industrial market is broken down into two main areas of consideration: the Boston/Cambridge market and the Suburban market. The Boston and Cambridge areas are treated as distinct markets from each other as are the North, West, and South regions of the broader Suburban area.

Boston/Cambridge Area Sees Little Turnover: The Boston/Cambridge area represents the smaller of the two industrial markets. The combined inventory of the two cities totals just over 21 million square feet. Boston ended the second quarter with a vacancy rate of 9.8% and negative absorption totaling 256,000 square feet. The Cambridge area posted a vacancy rate of 4.1% with West and Mid-Cambridge showing the least amount of space on the market. Cambridge's absorption totaled a positive 200,000 square feet. During the height of the office space frenzy, the industrial buildings in these cities were viewed more as potential conversions than legitimate industrial space. Consequently, despite dramatic changes over the first half of 2001, the net change in combined absorption for these two cities was nominal.

Suburban Market Faces More Striking Changes: The Boston Suburban market contains 120 million square feet of industrial space and is divided into three distinct regions: Metro North, Metro West and Metro South. Positive absorption over the past seven years in suburban Boston has helped to bolster confidence in the stability of the area's industrial market and prevent overreactions to the recent decline in absorption rates. Between 1995 and 2000, Boston's suburbs saw 14.8 million square feet of industrial space absorbed. This averages out to roughly 740,000 square feet of positive absorption per quarter. But during the first half of this year, absorption took a markedly different course racking up a total of 1.2 million square feet of negative absorption, most of which occurred in the first quarter. During this same time frame, availability increased sharply.

Metro North Puts Best Foot Forward: The Metro North region experienced 652,000 square feet of positive absorption in the second quarter 2001, the only positive absorption reported by the three suburban regions. The North region also saw the smallest increase in its vacancy rate from 3.2% at the end of 2000 to 5% at mid-year 2001. One tenant that returned space to the market was E-grocer Webvan, which disposed of a 380,000 square foot distribution facility in Ayer.

West Sees Largest Uptake in Vacancy: The vacancy rate in the Metro West region rose by 5.2 percentage points to 8.6% over the first six months of this year.

INDUSTRIAL*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION
BOSTON/CAMBRIDGE			
Boston	16,298,633	9.8%	(256,000)
Cambridge	4,838,937	4.1%	200,000
Boston/Cambridge TOTAL	**21,137,570**	**8.5%**	**(56,000)**
SUBURBAN			
Metro North			
Close-In-Suburbs	9,477,642	5.3%	620,012
Route 128 North	17,979,738	4.7%	361,003
Route 495 Northeast	7,037,907	7.0%	51,479
Route 3 North	7,381,699	3.5%	(380,895)
Metro North TOTAL	**41,876,986**	**5.0%**	**651,599**
Metro West			
Route 128 West	3,710,060	0.9%	0
Framingham/Natick	2,347,991	7.5%	(39,400)
Route 495/Route 2 West	5,990,099	15.9%	7,120
Route 495/Mass Pike West	10,198,568	7.3%	(159,590)
Metro West TOTAL	**22,246,718**	**8.6%**	**(191,870)**
Metro South			
Route 128 South	30,579,111	9.0%	(256,841)
Route 495 South	25,353,338	8.5%	(305,379)
Metro South TOTAL	**55,932,449**	**8.8%**	**(562,220)**
Suburban TOTAL	**120,047,153**	**7.4%**	**(102,491)**

*Reported as of second quarter 2001.

Source: CB Richard Ellis/Whittier Partners (Boston).

This was the highest leap in vacancy reported by the three regions. As mentioned earlier, Metro West registered the highest availability rate (11.8%) in the second quarter. This region contains the least amount of industrial space in the Suburban market at 22.2 million square feet. Second quarter absorption totaled a negative 192,000 square feet compared to positive absorption of 453,000 square feet at the end of last year.

R&D/Flex Space Figures Prominently: A good example of the growing trend in which high-tech companies are withdrawing from the market was Globix Corporation's decision to back out of leasing Cabot, Cabot & Forbes' 425,000 square foot warehouse in Brighton, which is in the process of being converted into an Internet data center. Cabot is now looking to the biotech industry to fill the space. But the company must first obtain city approvals to reconfigure the project for biotech use.

R&D/flex properties are of growing importance in greater Boston. As an investment, these buildings command a premium price in the market because their amenities cater to a select group of tenants that tend to remain in place longer than other types of tenants. One major drawback, however, is that their profitability depends on the success of a narrow client base. Between 1999 and 2000, the total square footage of sales transactions increased 15% to 2.9 million square feet. Growth was spurred by such purchases as 65 Hayden Avenue in Lexington, a building designed for a pharmaceutical concern, which sold for $383 per square foot, and 176 Lincoln Street in Brighton, which sold for telecommunications use at $210 per square foot. But by year-end 2000, some developers were considering converting these buildings back to office use amidst growing concerns about the viability of the technology industry.

Notable sales activity included Berwind Property Group's $19 million purchase of a 325,000 square foot office/R&D park at 10 Centennial Drive in Peabody, 10-12 Beacon Street in Somerville, and 836 North Street in Tewksbury (750,000 square feet), which sold for $30 million.

Price and Rent Trends: *Class A industrial space was valued at an average of $56.35 per square foot in the second quarter of 2001, a 2.5% increase from the second quarter of 2000. The cap rate fell to 8.6% during the same timeframe. Class A industrial rents averaged $7.48 per square foot in the second quarter of 2001, a modest increase from $7.44 per square foot during the same period one year earlier.*

Class B warehouse space was valued at $41.31 per square foot. Class A, B and C flex space was valued at $106.43, $77.52 and $63.40 per square foot, respectively

RETAIL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↔	↑

Mild Softening Prompts Caution

Compared to other property categories that have experienced significant performance anxiety over the past year as the economy turned sour, the retail sector in greater Boston has escaped relatively pain free. Boston overall is a tight market driven by a median income that is 28% above the national norm.

Retailers who have been unable to execute their full expansion plans are still roving for space, according to Finard & Company. Big box retailers such as Home Depot, Kohl's, and Target, as well as local grocery chains continue to expand aggressively throughout Massachusetts. For example, Lowe's plans to open 25 stores in the greater Boston area. The first store opened in Danvers this Spring, a second store is underway in Brockton (to open this Summer), and stores are also in progress in Worcester and North Attleborough.

Finard & Company notes that the older tertiary markets remain a problem. These are the markets where space is not leased immediately and retailers are less willing to accept space if it is hindered in any way by such factors as parking or visibility. Consequently, the good quality shopping centers continue to fetch strong prices and rents, but the tier-two and tier-three shopping centers have softened.

Municipal Landfill to Undergo Metamorphosis: The municipal landfill in Reading appears to be headed for development as a $100 million mixed-use project proposed for the site received approval from the Reading Board of Selectmen. The development calls for a Jordan's Furniture, a 135,000 square foot Home Depot, a 180,000 square foot office building, a six-story hotel, and a 7,000 square foot restaurant. The Jordan's building will include a 300-seat Imax theater.

In sales activity, Connecticut-based Konover & Associates is in the process of selling its ten-state Northeast retail portfolio, which includes the 185,000 square foot Speedway Plaza in Westborough, the 158,000 square foot Sturbridge Plaza in Sturbridge, the 148,000 square foot campus Plaza in Hadley, the 136,000 square foot Plaza 44 in Taunton, the 125,000 square foot Fairview Plaza in Chicopee, and the 59,000 square foot Little River Plaza in Westfield.

Nine Super-Regional Malls in Greater Boston: Most of Boston's super-regional shopping centers (centers with at least one million square feet) are located north of the downtown area. The largest is the Northshore Mall in Peabody (1.6 million square feet). The next largest malls are Cross Point Center in Lowell (1.5 million square feet), South Shore Plaza in Braintree (1.4 million square feet), Burlington Mall in Burlington (1.3 million square feet), and Silver City Galleria in Taunton (1.2 million square feet). Natick Mall and Solomon Pond in Marlborough each contain 1.1 million square feet. The remaining super-regional malls are Emerald Square in Attleboro and Liberty Tree in Danvers, both measuring one million square feet.

The Mills Corporation plans to transform the former south Weymouth Naval Air Station into a 1.1 million square foot mall, which will include 325,000 square feet of office space. Mills hopes to have the mall open for business in 2003 or 2004.

High Household Incomes: Greater Boston's average retail sales were $39,100 per household during 1999. This is $6,000 above the national average. The area's median income per household was $47,900, significantly more than the $37,200 national norm, according to Sales and Marketing Management's *2000 Survey of Buying Power*. The highest retail sales were posted in Cambridge at $74,200. The next highest retail sales average per household was reported in Plymouth ($68,500), followed by Brockton ($46,500). The city of Newton had the highest median income at $70,800. Other areas with high median incomes include Middlesex County ($55,500) and Norfolk County ($55,300). The city of Boston had a median income of $35,800 per household.

Price and Rent Trends: *The average value of Class A anchored, unenclosed retail space in Boston was $135.67 per square foot in the second quarter of 2001. This reflects a 3.6% drop from the second quarter of 2000. The triple net lease rate averaged $20.36 per square foot in the second quarter of 2001, down from $20.50 per square foot one year prior. The cap rate rose to 9.3% between the second quarters of 2000 and 2001.*

APARTMENT MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↓	↑

Strict Zoning and Tight Financing Limit Supply

The lack of multifamily development in Boston is made worse by the city's strict zoning codes and the trend toward tighter financing in response to the recent economic slowdown. Beyond regulatory issues, the cost of construction is yet another major obstacle to development.

Bostonians will continue to pay high rents as long as multifamily housing remains scarce and vacancy rates stay low. Occupancy in Boston this Summer stood at 98.6%, according to Dallas-based M/PF Research, down slightly from its 99.3% peak in late 2000.

Talk of allowing Massachusetts cities and towns to reinstate rent control measures culminated in a bill filed by State Senator Dianne Wilkerson, which calls for rent controls under certain conditions. But opponents argue that rent control will not provide additional housing, which is what is needed.

Residential Units to Rise on Former Toxic Site: A 206-acre Superfund site and home of the former Nyanza Chemical Company in Ashland has been cleaned up and is finally ready for development. The MCL Development Corporation has waited 18 years while remediation of the land was underway to get the site to a point that was suitable for construction. MCL plans to break ground around the end of the year on a project that calls for 500 luxury apartments, 190 senior housing units, a retail complex, office space, a rail station, and a nine-hole golf course. Another major project in the pipeline is Boston Properties' planned 25-acre Prudential Center, which includes a hotel and 19-story apartment tower.

Building Permits Grow: According to government statistics, the 1,200 multifamily permits (in structures with 5+ units) approved in the first half of 2001 reflect a 22% increase over the number issued here during the first half of 2000. In contrast, the number of permits issued for single-family dwellings declined 9% to 2,303.

Median Home Price Climbs: The median price of a home in greater Boston climbed 7.8% to $356,200 between the second quarters of 2000 and 2001, according to the National Association of Realtors. The homeownership rate in Boston was 58.7% in 2000, well below the 65.5% national average.

Price and Rent Trends: *Class A apartment space was valued at an average of $160.94 per square foot in the second quarter of 2001, a 1.5% increase from the $158.57 per square foot figure one year earlier. Average rents rose to $25.65 per square foot, also reflecting a 1.5% increase in 12 months. The cap rate was 9% in the second quarter of 2001.*

Class B apartments (i.e., ten to 20 year-old complexes) were valued at $103.86 per square foot in the second quarter.

Central New Jersey

Economic Overview

Job Growth Slows to a Trickle

The Central New Jersey region (i.e., the Trenton/ Mercer County and Middlesex-Somerset-Hunterdon metropolitan areas) produced just 5,500 new jobs during the 12 months ending in June. This was 67% fewer than were created here during the previous 12-month period. This translated into a mere 0.6% expansion of the local employment base, though that is still above the 0.3% rate recorded nationwide. The unemployment rate for the region rose from 2.7% in June 2000 to 3.5% one year later.

Services and Government Add Most Jobs: The service sector added a net 5,400 positions. It was followed by the creation of 3,500 jobs in government. (Governor Christine Todd Whitman left office to become the new director of the Environmental Protection Agency; Donald DiFrancesco became the acting Governor; there is a heated race on for the next head of state.) Wholesale trade was next, with 1,700 new jobs. The construction and retail trade sectors both added 700 jobs during the recent period.

Government and wholesale trade actually tied in terms of percentage gain; both expanded their local bases by 2.6%. Construction's 2.4% gain was next, followed by services (1.8%) and retail trade (0.6%).

Losses in Three Sectors: As was true in the majority of metropolitan areas around the country, there were net job losses in the manufacturing sector. Here, it contracted by 4.8%, which translated into the loss of 5,400 jobs. The finance, insurance and real estate (FIRE) sector experienced a 1.1% decline (700 jobs). There were also losses in the transportation/public utilities (TPU) category. It lost 0.7% of its base (400 jobs).

Construction Employment Below National Norm: The service sector employs the largest share of the local (34%) and national (31%) workforce. Locally, government is next, capturing 15.6% of the area's workers, exactly the same percentage as nationwide. The third-largest labor category here is retail trade, though it falls short of the national norm (14% versus 17.8%). Manufacturing also employs a smaller share here than it does nationally (11.8% versus 13.4%).

The largest discrepancy occurs in wholesale trade. It employs 7.3% of the Central New Jersey workforce, while accounting for just 5.3% nationwide. Local FIRE employment (7%) also exceeds its national norm (5.8%), as does TPU (6.5% versus 5.4%). The second-largest disparity is in the construction sector. Here, it employs just 3.4% of the workforce; nationwide, it employs 5.3%.

Telecom Tops Employment List: Though employment numbers are not available at the local level, statewide employment is dominated by telecommunications firms. AT&T employs 24,500 throughout the state from its base in Basking Ridge. Lucent Technologies has approximately 21,000 New Jersey employees; Verizon follows closely with 18,000. Health care/pharmaceutical firms are another dominant category. Saint Barnabas Health Care System has a roster of 22,300 employees. Johnson & Johnson employs 13,000, followed by Merck with a statewide employment total of nearly 12,000. Wakefern Foods, Pathmark Stores and Federated Department Stores employ 35,000, 13,300 and 11,500, respectively, throughout the state.

Other employers with large New Jersey workforces that have their bases in the central part of the state include Princeton University, Merrill Lynch, Fleet New Jersey (which reflects the merger of FleetBoston and Summit Bancorp), Rutgers University, Bristol-Myers Squibb, Home Depot, and First Union.

First in Pharmaceuticals: In June 2000, there were 3,590 new products in clinical trials or awaiting FDA approval worldwide; nearly 30% were being developed by New Jersey-based companies. By the end of the year, nearly 40% of the FDA's approvals for new medicines had been awarded to companies headquartered here, ranking the state first in the nation (California was second; New York was third). Another impressive statistic: New Jersey companies were responsible for 44% of the pharmaceutical industry's R&D expenditures in 1999. More than one-third of all drugs sold worldwide come from companies based here. Worldwide sales of these products totaled $128 billion in 1999, 18% more than the year before.

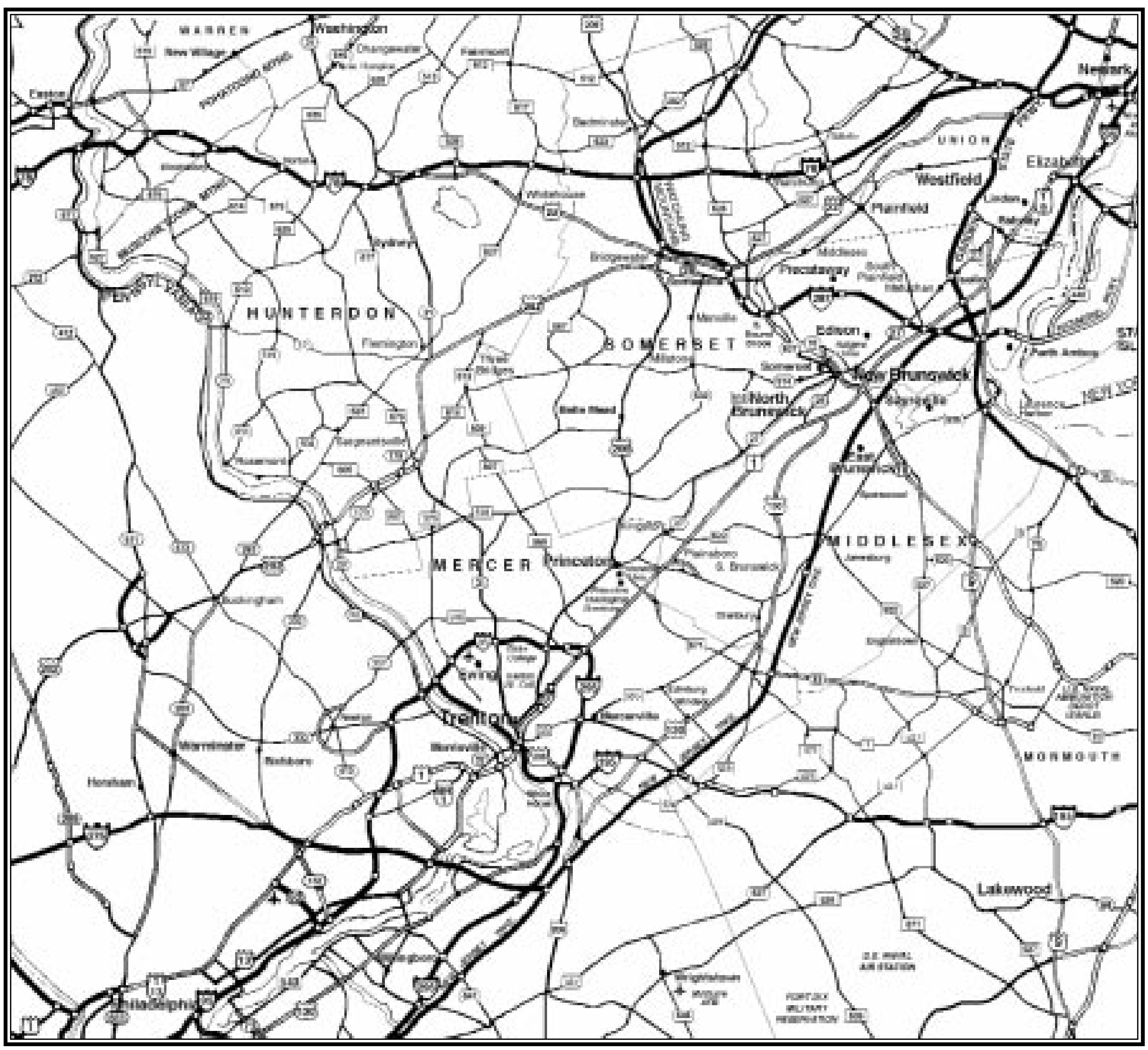
These companies are hungry for space. Schering-Plough purchased Novartis' 1.8 million square foot R&D/office facility in Summit last Summer. Though Novartis is scheduled to occupy the space through March 2003, Schering-Plough is already investing in renovations. Schering, which opened a new world headquarters in Kenilworth, NJ in October, plans to use the Novartis space for additional pharmaceutical research. The company has approximately 6,000 employees in eight locations throughout the state. Faulding Pharmaceutical of Elizabeth purchased the 125,000 square foot facility formerly occupied by Block Drug in Piscataway. 3-D Pharmaceuticals leased a 33,000 square foot building (with lab space) in Cranbury's Cedar Brook corporate park. Hovione, which is based in Portugal, has announced plans for a 30,000 square foot facility in East Windsor. It will house office and laboratory space as well as a technology transfer center. It is scheduled to open this Fall. The company manufactures active ingredients used in the early phases of drug development.

On a related note, a new 160,000 square foot hospital has opened in New Brunswick. The $62 million Bristol-Myers Squibb facility at Robert Wood Johnson University hospital is the first free-standing children's hospital in the state.

The Academic Connection: Several academic institutions in the area are helping prepare students for jobs in the "Cure Corridor". Rutgers University has launched a new pharmaceutical MBA. Several area companies—including Novartis, Pharmacia, Pfizer, Hoffman-La Roche, Bristol-Myers Squibb, and Johnson & Johnson—are funding fellowships for promising students in the program. The first class will graduate in the Summer of 2002. The New Jersey Institute of Technology now offers a Master's of Science degree in biomedical engineering. Students are taught to apply engineering, mathematics and computer science to solve problems of disease prevention, diagnosis and treatment.

The College of New Jersey in Ewing has crafted a Bachelor's of Science degree with an emphasis on pharmaceutical sales and marketing. Developed in conjunction with Pharmaceutica and Ortho-McNeil, two Johnson & Johnson subsidiaries, the program adds a marketing component to existing majors such as chemistry, biology and nursing. Students in the program participate in internships at Janssen, Bristol-Myers Squibb and Novo Nordisk. Even Mercer County Community College has gotten into the act. It now offers a certificate in drug development and clinical research. The program, which includes a course in the management of clinical trials, is taught by people working in the industry.

More Space for Technology Firms: In addition to academia, the state is getting involved in the promotion of the pharmaceutical industry (and other leading edge businesses) by providing work space. In fact, the state



currently has seven public incubators, including the Technology Enterprise Development Center at the New Jersey Institute of Technology and the Technology Centre of New Jersey in North Brunswick. The latest phase of construction has begun at the North Brunswick facility via the addition of 80,000 square feet of space. The Technology Centre currently hosts six tenants that employ 400 workers and occupy 190,000 square feet. The companies include Advanced Care Products, a subsidiary of Johnson & Johnson; Cambrex; and Celgro, an agro-chemical subsidiary of Celgene. The private sector is busy, too. For instance, the developer of Princeton Corporate Plaza is in the process of getting approvals for two more tech-oriented buildings—totaling 140,000 square feet.

All of the above may be dwarfed if construction moves ahead as planned at the Sarnoff campus. Sarnoff Corp. (which began as the original RCA Labs in 1941 and became part of SRI International in 1987) plans to transform its 335 acres on Route 1 in West Windsor into a technology campus with 12 buildings totaling 3.5 million square feet. Sarnoff works in the fields of biomedical, electronic and information technologies for government and commercial clients. In addition to the expansion, the company plans to launch nVention, an incubator for small technology businesses.

Siemens is expanding its campus in Woodbridge (Middlesex County). The electronics firm plans to raze its three-building 450,000 square foot facility and replace it with three new structures containing 712,000 square feet. Construction is underway on the first phase, which includes a 237,000 square foot building and 575 parking spaces. Completion is expected in December 2002.

Motorola Makes a Move: As noted in the employment section above, telecom firms play a major role in the state's economy. Motorola has moved its New Jersey offices seven miles east along the I-287 corridor. The company is leasing 232,000 square feet in South Plainfield (Middlesex County). Motorola's 145,000 square foot facility in Piscataway was sold in April for $10 million. It was purchased by Dendrite International, which designs software for the pharmaceutical industry. Dendrite will relocate from a 100,000 square foot building in Morristown.

The news is not so rosy for Lucent Technologies. The telecom giant, based in Murray Hill, announced a $2 billion cost-cutting plan in early 2001 that is expected to lead to the elimination of approximately 26,000 jobs worldwide. The same week, news came out that the company had invested $40 million to design and construct the new Hamilton Hill golf course in Bedminster. Originally envisioned as a private retreat for executives of 17 contributing corporations, the tony golf/country club was sold in July for $51 million.

Venture Capital Keeps Flowing: Nationally, the retraction in the high-tech industry has also impacted the amount of venture capital being poured into start-up firms. Statistics at the local level, however, show continued health through the end of last year. Thirty New Jersey companies received more than $643 million in the fourth quarter 2000, according to PricewaterhouseCoopers, bringing the state's annual total to $1.7 billion, up from just $557 million in 1999. Software and telecommunications companies received the bulk of the money. The leading recipients included Adir Technologies (develops network management software) in Newark and Everest Broadband Networks in Fort Lee. They received $140 million and $50 million, respectively.

Manufacturing Ups and Downs: There is good and bad news for the state's more traditional manufacturers. First, the good news. Warren Buffet's Berkshire Hathaway holding company placed a $2 billion order with General Dynamics/Executive Jet for 50 mid-sized jets with an option for 50 more. This will benefit the joint production team in Woodbridge. Berkshire Hathaway uses the planes in its NetJets timeshare program, which lets corporations own a share of an aircraft based on the number of hours they need to use it.

Volkswagen has signed a lease for 928,000 square feet of warehouse/distribution space at the Cabot distribution center in Cranbury. The building is under construction and scheduled to open in the Fall of 2002. About 150 workers will be moved from a smaller facility in South Brunswick.

On the negative side, Ford's recall of 13 million Firestone tires has caused the temporary shutdown of production at several Ford plants. For instance, the Ranger assembly plant in Edison suspended production for two weeks in May, so the company could divert tires that had been destined for new vehicles to those already on the road.

Multiple FIRE Mergers: Though not as dominant as in the northern part of the state, the financial services industry is also a major player in central New Jersey's economy. Lately, it has been marked by mergers. For instance, FleetBoston Financial acquired Princeton-based Summit Bancorp in March for $7.3 billion. Summit has 500 branches in New Jersey, eastern Pennsylvania and Connecticut. Fleet plans to close a total of 80 branches in New Jersey—47 Fleet banks and 33 Summit locations. The closures are expected to be completed by the end of the Summer. After the closures, Fleet will operate 446 branches in New Jersey, representing a 24% increase in branches for former Summit customers, and a 261% increase in branches for Fleet's New Jersey customers. The merger will create the seventh-largest financial holding company in the U.S. with $220 billion in assets.

In April, First Union announced a $13 billion merger with Wachovia. However, the marriage has been complicated by SunTrust's hostile attempt to buy Wachovia and the resulting lawsuits. Though both banks are based in North Carolina, First Union is New Jersey's second-largest banking presence, with 344 branches. It recently relocated many of its administrative jobs from west Trenton to Summit.

Staten Island Bancorp acquired New Jersey's First State Bank in early 2000, and then bought some branches from Unity Bank. The bank (now called SI Bank and Trust) now has branches throughout the state, including in Union and Middlesex Counties. Cherry Hill-based Commerce Bancorp is spreading its wings, too, and moving into northern New Jersey and Manhattan.

In May, Brunswick Bank & Trust started a new division called First Asian Bank on Plainfield Avenue across the street from the train station in Edison. The full-service financial operation will cater to the local Asian community, with a special focus on commercial real estate loans. United Heritage Bank, Chinatrust Bank, and Abacus Federal Savings are also targeting the town's Asian market. Thirty-three percent of Edison's population is Asian.

Utility Rate Hikes on the Way: The deregulation of New Jersey's electricity market, which took effect in 1999, gave users immediate rate reductions of 10% to 14% and froze basic rates until 2003. However, wholesale electricity prices have climbed by 60% since then. Deregulation legislation allows the utilities to recover those costs via rate hikes (beginning in 2003). This concerns consumers. The four New Jersey utilities—PSE&G, GPU, Conectiv, and Rockland—claim to have accumulated about $485 million in unrecovered costs. The New Jersey Board of Public Utilities (BPU) estimates this could rise to as much as $1.8 billion by 2003.

Meanwhile, the rate freeze and "shopping credit" parts of the plan have dissuaded competitors from entering the market. The shopping credit is set by the BPU and reflects the basic costs to generate electricity. Out-of-state companies are finding they cannot compete with the caps established by the state. This is what happened to Power Direct and Energy America, two out-of-state competitors that had been offering services to residential customers. Both companies withdrew from the state in January.

The state is in a better position than those that have stopped building power plants, though. New Jersey gets its supplies from the Pennsylvania-New Jersey-Maryland regional power grid (PJM). About 40,000 megawatts, representing 140 new projects, are scheduled to come on-line in the next few years. Thirty-one of those projects, totaling approximately 10,000 megawatts, have been proposed for New Jersey. One-third of this new power is expected to be available by 2003.

Some manufacturers are not waiting, though. Silver Line, one of the nation's largest producers of vinyl windows, has decided to escape the control of the state's power grid and install a gas-fired turbine generator at its 880,000 square foot plant in North Brunswick. A Florida company will build, run and maintain the generator, and then sell the resulting power to Silver Line. Estimates show that the company will save 20% annually on its energy costs.

Marriott Means Business: Marriott currently has more than 20 hotels under development in New Jersey. One is a 350-room Marriott at the junction of Routes 287 and 22 near the Bridgewater Commons mall; it is projected to open in the first quarter of 2002. The 197-room Marriott Conference Center in Trenton is scheduled to come on-line around the same time.

Hotel Indicators Run Counter to Rest of Country: According to Smith Travel, hotel occupancy in Middlesex and Hunterdon Counties averaged 72.4% in 2000, up 2.4% from the year before. The average room rate increased by about the same margin to $93. In direct contrast with what is happening in the nation's urban markets, indicators here were even healthier in the early part of 2001. Through April, occupancy increased 4.2% over the same period 12 months prior, to 67.5%. The average room rate increased an impressive 7% to $98. Smith Travel reports this led to an average revenue per room (Revpar) of $66, compared to $59 for the first four months of 2000. Rates in Somerset County were even more impressive. Occupancy averaged 67% through April, up 5% from a year ago, while the average room rate increased 10% to nearly $124.

The Princeton market has also demonstrated above-average performance this year. Occupancy averaged 65.6% during the first four months, a 5.5% gain from the same period in 2000. The room charge rose 3.6% to $110, which Smith Travel says led to a 9% gain in Revpar (to $72).

Airport Activity Shows Dramatic Gain: The Trenton-Mercer Airport handled 158,200 passengers in 2000, a 64% increase from 1999. Currently, commercial passenger service is provided by just one airline—Shuttle America. The airport does not tally commercial cargo.

The Philadelphia Customs District, which includes the central New Jersey region, showed significant growth in both import and export volume during the first quarter. The value of exports grew a whopping 40% between the first quarters of 2000 and 2001 to $2.1 billion. Nationwide, export volume grew a mediocre 5% during the same period. Imports also reported a double-digit gain, increasing 18%, to $7.8 billion.

Rail Service Being Considered: A Monmouth-Ocean-Middlesex rail line (M-O-M) has been proposed that would run on existing tracks from Lakehurst to Red

Bank, with a northwest leg to South Brunswick. The $400 million project is being fought by some Middlesex County residents, though, who believe the tracks come too close to their homes. Supporters say that in nine years, 25% of the state's population will live in these three counties, and that transit options must be increased. New Jersey Transit has commissioned a draft environmental impact statement on the plan; the study is expected to take two years.

Auto Insurers Abandon State: State Farm Indemnity in Wayne and American International Group (AIG) want out of New Jersey's highly-regulated auto insurance market, with its strict price controls. One of their biggest complaints has to do with the Automobile Insurance Cost Reduction Act of 1998, which required auto insurers to cut their rates by at least 15%. The law was also supposed to lower underwriting costs, but those changes have been delayed. State Farm is the largest auto insurer in New Jersey, covering more than 800,000 vehicles. It claims it loses $1.11 for every $1 it collects here. It says it has lost a quarter billion dollars since September 1999. The companies cannot leave the state without approval from the New Jersey Department of Banking and Insurance, though. The other complication is that the companies want to continue offering homeowners' and life insurance here, but the insurance commissioner could rescind those rights as part of their exit packages.

Most Taxes are Moderate; Property Rates are High: New Jersey's corporate income tax rate is 9%. The state sales tax is 6%. Personal income is taxed between 1.4% and 6.37%. The top rate becomes effective at income levels of $150,000 (for those married filing jointly). Residents paid a total of $60 in state taxes per $1,000 of income in 1999, $6 below the national average.

Property tax rates are another story, however. In Trenton, commercial property is taxed at an effective rate of $3.68 per $100 valuation, the seventh-highest rate of 86 communities analyzed by the INDEX. In Edison, the per-$100 rate is $2.49. According to Runzheimer International, residential property in Princeton is taxed at $2.53 per $100. This was the highest rate of 56 markets reviewed by the INDEX.

Educational Attainment Levels are High: Though statistics are not available at the metropolitan level, adult residents (those over 25) of New Jersey have surpassed the national norms when it comes to both high school and college graduation. Nationwide, 83% of adults have completed high school compared to the statewide average of 87%. The disparity at the post-secondary level is even more dramatic. Thirty percent of New Jersey's adults have graduated from a four-year college or university; the national metropolitan norm is 25%.

Crime Rate is Below National Norm: In 1999 (the most recent year for which comparative data is available), there were just 198 incidents of violent crime reported per 100,000 residents in the Middlesex-Somerset-Hunterdon metropolitan area, down 8% from 1998 and well below the national metropolitan norm of 584. The violent crime rate in the Trenton area (506 incidents per 100,000) also fell below the norm, but it reflected an increase of 8% from the year before.

Both metropolitan areas also fell below the national average when it came to property crimes. Nationally, there were 4,016 incidents reported per 100,000 residents. In Middlesex-Somerset-Hunterdon, the rate was 2,202; in greater Trenton, it was 3,489. The Trenton rate was basically the same as the number recorded in 1998, while the Middlesex-Somerset-Hunterdon data indicated a decline of nearly 11%.

Population Growth Mirrors National Pace: The population of the two metropolitan areas that make up Central New Jersey totaled 1.5 million in 2000, up 13% from 1990. Though this is slightly below the 15% gain recorded here between 1980 and 1990, it is right on par with the population growth recorded nationwide for the past decade.

The growth has been fairly well distributed. In fact, three of the four counties here scored double-digit expansions between 1990 and 2000. The fastest grower has been Somerset County, where the population grew 24% to 297,500. Double-digit growth also occurred in Hunterdon (13%) and Middlesex (12%) Counties, which have respective populations of 122,000 and 750,200. The only exception was Mercer (home of Trenton). Its population has grown 7.7% since 1990, for a total of 350,800.

The largest city in the region is Edison, with 97,700 residents. Woodbridge is close behind, with 97,200. There are four other communities with more than 50,000 inhabitants—Hamilton, Trenton, Old Bridge, and Piscataway. The fastest grower during the past ten years has been Edison, which has expanded its base 10%. Trenton is the only one of the six that has experienced a decline. It has lost 3.7% of its population base since 1990.

OFFICE MARKET

(CBD)	YEAR*			QUARTER*	
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↑	↔	↓	↔	↑

(Suburbs)	YEAR*			QUARTER*	
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↑	↑

New Year Signals Downturn

The Central New Jersey office market vacancy rate stood at just 6.5% at the end of 2000, the lowest rate recorded during that year. By the end of 2001's first quarter, the overall vacancy rate had risen to more than 9% and continued on its trek upwards in the second quarter.

Metropolitan—Only One Submarket Posts Positive Absorption: Though not as dramatic as the first quarter, the trend of negative absorption continued into the second quarter with Central New Jersey registering 729,000 square feet of negative absorption. In fact, Union County was the only area to report positive absorption. (CB Richard Ellis includes office properties in Hunterdon, Mercer, Middlesex, Monmouth, Somerset, and Union Counties as part of the Central New Jersey market.) The significant drop in absorption throughout the metropolitan area is partially the result of vacant space coming back onto the market. The sharp turnaround resulted in an elevated second quarter vacancy rate of 10.6%. Approximately 3.2 million square feet of new construction remained in progress at the end of June.

Central Business District—Princeton Softens: Princeton is the prime office area in the Central New Jersey market. Princeton has an office inventory of Class A properties totaling more than eight million square feet. Approximately 11% of this office space was available in the second quarter 2001, according to Julien J. Studley's second quarter 2001 "Market and Spacedata Report". Consolidations, mergers and cutbacks have left several Princeton office buildings with more than 45,000 square feet of sublet space available. Merrill Lynch contributed to a hike in Class B space this year by putting 157,000 square feet on the sublease market. RCN Corporation's downsizing and Summit Bank's merger with Fleet are other notable examples. Leasing activity represented only 106,000 square feet in the second quarter.

Despite the slowdown, some developers are moving ahead with new projects that will bring additional space to the Princeton market. For example, the new owner of College Park is planning to increase the office campus to more than one million square feet. If the approval process is completed, construction is expected to begin this Fall, adding two four-story office buildings and three single-story research buildings.

OFFICE*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
Hunterdon County	1,607,291	2.3%	(3,457)	0
Mercer County	10,615,940	11.0%	(23,840)	586,000
Middlesex County	16,807,085	9.1%	(150,391)	249,367
Monmouth County	4,454,221	8.2%	(180,582)	489,390
Somerset County	9,845,903	17.7%	(444,568)	1,159,714
Union County	5,284,278	6.4%	73,507	685,066
TOTAL	**48,614,718**	**10.6%**	**(729,349)**	**3,169,807**

*Reported as of the second quarter 2001.

Source: CB Richard Ellis (South Iselin).

Vacancy Rises with Development in Somerset County: Somerset County's vacancy rate has more than doubled since the end of last year rising from 6.8% to 17.7% at the end of June. At 9.8 million square feet, the Somerset County submarket is poised for growth with approximately 1.2 million square feet under construction, the highest level of development of the area's six submarkets. Negative net absorption totaled 445,000 square feet for the second quarter.

Several proposed projects are in the pipeline, but it remains to be seen whether or not they will be developed. The list includes a 500,000 square foot project on Lamington Road @ I-78 in Bedminster, a 500,000 square foot project at 765 Route 202 and a 344,000 square foot project on Frontier Road, both in Bridgewater.

Union County Bucks Trend: While other submarkets appear to be struggling, Union County has tightened during the year. Instead of seeing its vacancy jump like Somerset County, the Union County submarket saw its second quarter vacancy rate cut in half, falling from 12.7% at the end of June last year to just 6.4%. Developers had 685,000 square feet in progress here at the end of the second quarter while approximately 74,000 square feet were absorbed, the only positive absorption of these six counties.

Proposed Projects in the Queue: Elsewhere in the Central New Jersey region, proposed office projects are poised to fatten the stock of office space. New projects include 3.8 million square feet at Route 18 and Route 66 and 800,000 square feet on Jumping Brook Road in Monmouth County; 1.2 million square feet at Carnegie Center and 320,000 square feet on Hanover Street in Mercer County; and 300,000 square feet on Wood Avenue South in Middlesex County.

Companies on the Move: Dendrite International, a Morristown-based producer of automation software, bought 145,000 square feet in Piscataway for $10 million, space that was previously leased by Motorola.

Motorola then moved its New Jersey offices seven miles east along I-287 leasing 232,000 square feet at 1111 Durham Avenue in South Plainfield. Also, fiber-optic network designer Multiplex purchased approximately 202,000 square feet for its headquarters in South Plainfield and Dutch drug firm Organon took on 443,500 square feet in Roseland. In Mercer County, financial services firm Merrill Lynch is consolidating its state operations at its new 1.4 million square foot corporate campus in Hopewell.

Price and Rent Trends: *The average value of Class A CBD office space in Central New Jersey increased to $182.02 per square foot in the second quarter of 2001 from $180.37 per square foot during the same period one year earlier. The effective gross lease rate rose to $28.15 per square foot in the second quarter of 2001 from $26.35 per square foot 12 months prior. The cap rate rose to 8.6%.*

The price of suburban office space dropped to an average of $152.77 per square foot in the second quarter of 2001. The effective gross lease rate increased from $23.02 per square foot in the second quarter of 2000 to $23.54 per square foot in the second quarter of 2001. The suburban cap rate also increased to 8.6%. Class C suburban office space averaged $79.10 per square foot.

INDUSTRIAL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↑	↔	↔	↑	↑

Industrial Market Thriving

Although Central New Jersey's total net absorption of industrial space in 2001's second quarter represents a decrease from the same period last year, the availability rate managed to decrease 1.6 percentage points during the same timeframe. Strong second quarter leasing activity in the Monmouth County submarket and major leases signed in Middlesex and Hunterdon Counties during the first quarter are credited for the decline.

The Central New Jersey industrial market consists of 335 million square feet with just 5.7% of that space available at the end of June, representing a drop from the 7.3% availability rate recorded at the end of June one year ago. Second quarter net absorption totaled a negative 126,000 square feet, a significant downturn from the first quarter, but far better than Northern New Jersey's drastic deficit of approximately 900,000 square feet. The slide was moderated by more than one million square feet of net absorption reported in Monmouth County. And, this year started out on the right foot with more than one million square feet of positive net absorption in the first quarter, most of which occurred in Hunterdon County.

INDUSTRIAL*

SUBMARKET	INVENTORY	AVAILABILITY	ABSORPTION	CONSTRUCTION
Hunterdon County	2,518,345	17.1%	64,200	0
Mercer County	19,342,799	5.2%	49,248	87,000
Middlesex County	165,530,282	7.1%	(912,956)	5,381,383
Monmouth County	22,493,278	2.2%	1,226,233	162,000
Somerset County	37,386,205	5.3%	285,833	62,500
Union County	87,688,500	3.9%	(838,819)	100,000
TOTAL	**334,959,409**	**5.7%**	**(126,261)**	**5,792,883**

*Reported as of the second quarter 2001.

Source: CB Richard Ellis (South Iselin).

Developers Smitten with Largest Submarket: The largest industrial area in Central New Jersey at more than 166 million square feet, Middlesex County experienced the highest level of construction in the second quarter 2001 with approximately 5.4 million square feet underway in 18 buildings. This submarket also posted the greatest negative absorption at 913,000 square feet in the second quarter. But to put this in context, this follows on the heels of robust positive absorption of 1.2 million square feet just one quarter earlier. During the year ending June 2001, Middlesex County's availability rate decreased 1.5 percentage point to 7.1%.

Middlesex Bullish on Big-Box Warehousing: Ongoing construction in Middlesex attests to the strength of this submarket. For instance, development of the two million square foot ProLogis' Cranbury business park located at the New Jersey turnpike Exit 8A continued with groundbreaking on Building 5 (134,000 square feet) this Summer. ProLogis leased 154,000 square feet in Building 7 this Spring to air conditioning company Carrier. This left only 51,000 square feet vacant in the 501,000 square foot building. The company also pre-leased 68,000 square feet of the new 300,000 square foot Building 8 to GE Appliances early this year. The first four of eight planned buildings in the park were already filled by Spring 2001. Sales activity in the Cranbury business park includes Keystone Property Trust's recent purchase of an 813,000 square foot big box warehouse for $32 million, which is currently leased by Home Depot. Leasing activity was also strong in Keystone's 985,000 square foot Cranbury East-West complex. In Edison, Heller's 1.1 million square foot complex on Mill Road is underway. Other new developments in Middlesex include a 528,000 square foot warehouse on Englehard Drive and Opus East's 526,000 square foot Turnpike Crossing.

Costco's move to a new facility more than twice the size of its current space in Edison was another indication of the strength of this submarket. The company's relocation to nearby Monroe township, however, leaves 469,000 square feet available in Raritan Center. With its cargo handling capabilities and close proximity to the air, rail and seaports of Newark and Elizabeth, this property is expected to face little difficulty attracting tenants.

Monmouth Buttoned Up: The Monmouth submarket (22.5 million square feet) registered the lowest availability rate in Central New Jersey at 2.2%. This submarket also registered positive net absorption of 1.2 million square feet in the second quarter. These statistics put Monmouth in the number one position for the lowest vacancy rate and highest net absorption recorded during the quarter. Construction was restrained as a mere 162,000 square feet were in progress during this period. The high volume of net absorption stands in stark contrast to the 22,000 square feet recorded for Monmouth County in the first quarter, when tenants were fixated on the Hunterdon County submarket.

Massive High-Tech Park Underway: The high concentration of telecommunications and Internet businesses in Monmouth County has paved the way for the construction of a massive high-tech park in Neptune. In late August, developers broke ground on the first phase of the Garden State Hi-Tech Park, which developers estimate will take at least a decade to complete. Tenants targeted to fill the park include telecom and semiconductor companies, pharmaceutical firms, and government contractors. A hotel and conference center are also planned.

***Price and Rent Trends:** Class A industrial space was valued at an average of $50.41 per square foot in the second quarter of 2001, up from $48.79 per square foot one year prior. The cap rate was 9.1% in the second quarter of 2001. Class A industrial rents rose to an average of $6.94 per square foot in the second quarter of 2001 from $6.36 per square foot in 2000's second quarter. Class B warehouse space sold for $36.25 per square foot.*

RETAIL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↓	↑

Vacancy Remains Low

Vacancy rates for retail space remained low in Central New Jersey during 2000 because of the limited availability of land, despite chain store closings by Grand Union, Bradlees and Montgomery Ward. For instance, retail vacancy stood at just 3.2% at the end of 2000 in the Route 1 corridor, according to R.J. Brunelli & Company. Inventory is expected to grow entering 2001 as several new projects are slated to open. But rising bankruptcies, falling sales and economic uncertainty could moderate retail activity throughout New Jersey.

Residents Team with EPA to Fight Super-Regional Development: A coalition of Hamilton township residents has enlisted the services of an attorney from the EPA to help block the development of a 1.5 million square foot super-regional mall at Route 130 and Crosswicks-Hamilton Square Road. The Hamilton Planning Board recently granted approval for 560,000 square feet of the proposed mall. But opponents want to appeal the board's decision contending that the Hamilton Marketplace would destroy an historic site, old trees and fill wetlands. The appeal process could delay the project or force a more environmentally sensitive revision of the Hamilton Marketplace plan.

Woodbridge Technical Institute to Become Retail Center: A 320,000 square foot building that was previously home to DeVry Institute is being converted into the Woodbridge Crossing retail center. Tenants will include The Great Indoors, a Sears home decorating and supply store, Circuit City, Modell's Sporting Goods, and Linens 'n Things. In sales activity, Mainardi Management bought the 157,000 square foot Green Shopping Center on Route 1 South in West Windsor for $19.8 million.

Six Super-Regional Malls Serve Central New Jersey: The Bridgewater Commons mall (1.6 million square feet) is the largest super-regional mall in Central New Jersey. A super-regional mall must contain at least one million square feet of retail space. Other super-regional shopping centers in the area include the 1.5 million square foot Woodbridge Center, the 1.2 million square foot Menlo Park mall in Edison, the 1.2 million square foot Quaker Bridge mall in Lawrenceville, the 1.1 million square foot Monmouth mall in Eatontown, and the 1.1 million square foot Freehold Raceway mall.

Retail Sales Low, but Incomes Surpass National Norms: According to Sales & Marketing Management's *2000 Survey of Buying Power*, retail sales in the Middlesex-Somerset-Hunterdon (MSH) PMSA were $30,600 compared to the $33,100 national average. Hunterdon County led the area with average sales of $56,400 per household. Sales averaged $23,300 in Monmouth County, $21,900 in Union County and $44,600 in Trenton County. Hamilton township posted sales of $45,100 and Somerset registered $38,400 in household sales. The median household income of $60,600 in the Middlesex-Somerset-Hunterdon area and $53,600 in Trenton's PMSA far exceeded the national median of $37,200. Average household incomes were $51,600 in Monmouth County and $49,300 in Union County. The highest household incomes were posted in Hunterdon County ($72,000) and Somerset County ($72,400).

Price and Rent Trends: *The average value of Class A anchored, unenclosed retail space in Central New Jersey was $132.91 per square foot in the second quarter of 2001, an increase from $131.52 per square foot one year ago. The triple net lease rate averaged $18.56 per square foot in the second quarter of 2001, up from $17.91 per square foot in the second quarter of 2000. The cap rate at the end of June was 8.8%.*

APARTMENT MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↓	↓

Rising Home Prices Keep Rental Market Active

Even though interest rate cuts in 2001 have made homeownership more attainable, escalating home prices kept the rental market active at mid-year allowing average vacancy to hold at approximately 8.5%, according to Marcus & Millichap's July 2001 "Apartment Research Report". Although rents across New Jersey have continued to climb moderately, gains in home prices have outpaced these rental increases.

Rail Stations Attract Development: Two projects started last year demonstrate the trend to build residential units near commuter stations in Central New Jersey. The first was Hunterdon County's Cambridge Crossing (637 units), a townhouse and condominium project in Clifton that broke ground in late 2000. The second, a 290-unit luxury apartment project, is conveniently located near the Aberdeen-Matawan station, where the North Jersey Coast Line provides service to New York and Newark.

In 2001, Piscataway township approved development of 339 townhouses and condominiums near the Middlesex border helping Piscataway meet its affordable housing obligations. In Sayreville, developers will have to fight to win approval for a plan for 200 upscale apartment units on Ernston Road. Community residents argue that the project includes streets that are too narrow for fire and emergency vehicles and cite drainage problems. Meanwhile, Somerset County's 334-unit luxury Crystal Ridge Club at Wachtung received $53 million in construction financing. The complex will consist of 15, four-story buildings spread across a heavily-wooded 20-acre plot of land.

Multifamily Permits Tumble in 2001: Permits issued for multifamily structures (in buildings with 5+ units) fell by more than 27% between the first six months of 2000 and 2001 to just 273 units. This indicates a slow start for the year compared to the total for 2000 when approximately 1,600 permits were issued. Single-family permits decreased from 2,384 permits to 2,210 permits, a 7% decline.

Median Home Price Climbs: The median price of a home in the Middlesex-Somerset-Hunterdon PMSA rose from $212,800 in the second quarter 2000 to $238,900 in the second quarter 2001, a 12% increase. The relative affordability of homes here accounts for the 69.7% homeownership rate in 2000, which is higher that the 65.5% national average.

Price and Rent Trends: *Class A apartment space was valued at an average of $105.15 per square foot in the second quarter of 2001 compared to $101.82 per square foot one year earlier. Average rents rose to $15.61 per square foot in the second quarter of 2001 from $15.45 per square foot during the same period last year. The cap rate was 8.5%.*

Class B apartments (i.e., ten to 20-year-old complexes) were valued at $66.33 per square foot in the second quarter.

Charlotte

Economic Overview

Charlotte Posts Modest Job Growth

The Charlotte metropolitan area created a net 11,900 new jobs during the 12-month period ending in June, 1,200 fewer than were produced during the same period one year earlier. This translated into a 1.4% expansion of the local employment base. Though not very impressive, it was the third-highest proportional advance of the ten markets analyzed in this issue of the QUARTERLY. The region's unemployment rate was 4.4% in June, a full percentage point above the 3.3% rate posted one year ago.

Government and Retail Trade Lead Gainers: Government added the most new jobs during the period—5,600—followed by retail trade's net gain of 3,900. Services was close behind, expanding its payroll by 3,700 new hires. Wholesale trade and construction experienced net gains of 2,300 and 2,100, respectively. The local finance, insurance and real estate (FIRE) sector grew by 1,800 positions. The transportation sector expanded its base by just 100 new jobs.

Government also posted the largest proportional advance (5.6%). Wholesale trade and construction were next, each expanding by 3.8%. The local FIRE and retail trade sectors both grew by 2.7%. Services advanced by 1.6%, while transportation expanded by less than one percent.

Of the eight major employment categories, only manufacturing experienced a decline. It lost 7,600 jobs, which translated into a 5.6% contraction of its base.

Services and Retail Trade Employ Most Workers: Services captures the largest share of Charlotte's workforce (27.5%), although it falls short of its national share (31%). Retail trade is the second-largest employment category, but it also employs fewer locally (17.3%), than it does nationally (17.8%). Despite the above-mentioned contraction, manufacturing is still a significant employer. In Charlotte, it accounts for 14.9% of the labor pool, versus 13.4% across the country. Government employs 12.1% locally compared with 15.6% nationwide. FIRE moves in the opposite direction, employing 8% of the workforce, exceeding its national norm of 5.8%. Wholesale trade follows suit, capturing 7.2% locally, versus 5.3% nationally, as does construction (6.5% versus 5.3%). Transportation is the smallest employment category here (6.5%), although its local share exceeds its national share (5.4%).

FIRE, Health Care, and Energy Firms are Largest Employers: First Union Corp. is Charlotte's largest private sector employer with 17,000 on its payroll. The Carolinas HealthCare System is the second-largest with a workforce of 12,800. Bank of America follows with a roster of 12,000. Duke Energy Corp. has 10,000 in its ranks. US Airways is next with a payroll of 8,600, followed by retail giant Wal-Mart's local staff of 8,100. Delhaize America (Food Lion supermarkets) has a workforce of 7,200. Springs Industries (textiles) employs 7,000. The Ruddick Corp. (a holding company) has 6,900 employees. Winn-Dixie and Freightliner Corp. employ 6,000 and 5,000, respectively. Fieldcrest Cannon has a local roster of 4,700. Other companies with at least 2,000 employees in the metropolitan area include Corning Cable Systems, Solectron Technology, CommScope Inc. (fiber-optic equipment), BellSouth, Philip Morris, American and Efird Mills, Continental Tire, and IBM.

End of an Era at Bank of America: In April 2001, an era ended as Chairman and CEO Hugh L. McColl, Jr. retired after 41 years in the banking industry. A charismatic figure, the former Marine is legendary in financial circles for his aggressive, take-no-prisoners approach. He is also credited with making Charlotte the financial center it is today. McColl had indicated several years ago that he was considering retirement, but at the time, Nations Bank was in the process of merging with San Francisco's Bank of America and McColl committed himself to seeing the merger through. Although touted as a merger of equals, Nations Bank essentially took over, replacing B of A management with its own and maintaining the corporate headquarters in Charlotte (although the new company did assume the B of A name). The firm's board of directors named President and Chief Operating Officer Kenneth D. Lewis as McColl's successor.

New Day at First Union: April 2001 also marked the beginning of an era, as Charlotte's other dominant bank, First Union, announced a merger with Winston-Salem-based Wachovia Corp. Completion of the deal is expected in the third quarter of 2001. The new company will retain the Wachovia name but be headquartered in Charlotte. This announcement, too, is touted as a merger of equals, but may be somewhat more accurate as both banks have experienced troubles lately. In the case of First Union, its acquisitions of California's Money Store and Pennsylvania's CoreStates Financial weakened its standing in that institutional investors, analysts, and Wall Street felt that First Union overpaid for these companies. Assuming the Wachovia name may help First Union in the minds of customers and investors alike because while Wachovia has a solid regional presence, it is not widely known across the country. The combined entity will have $324 billion in assets and 19 million customers. In terms of deposit share, the firm will be the number one bank in South Carolina, Virginia, and Georgia, as well as number two in North Carolina, Florida and New Jersey. For the city of Charlotte, a name change may be the next order of business. First Union's three office towers dominate the city's skyline, and although no announcement has been made yet, it is likely that the One, Two, and Three First Union buildings will be renamed. The new Wachovia expects to eliminate approximately 7,000 jobs from the combined global workforce of 90,000, with half of those cuts coming through retirement and attrition.

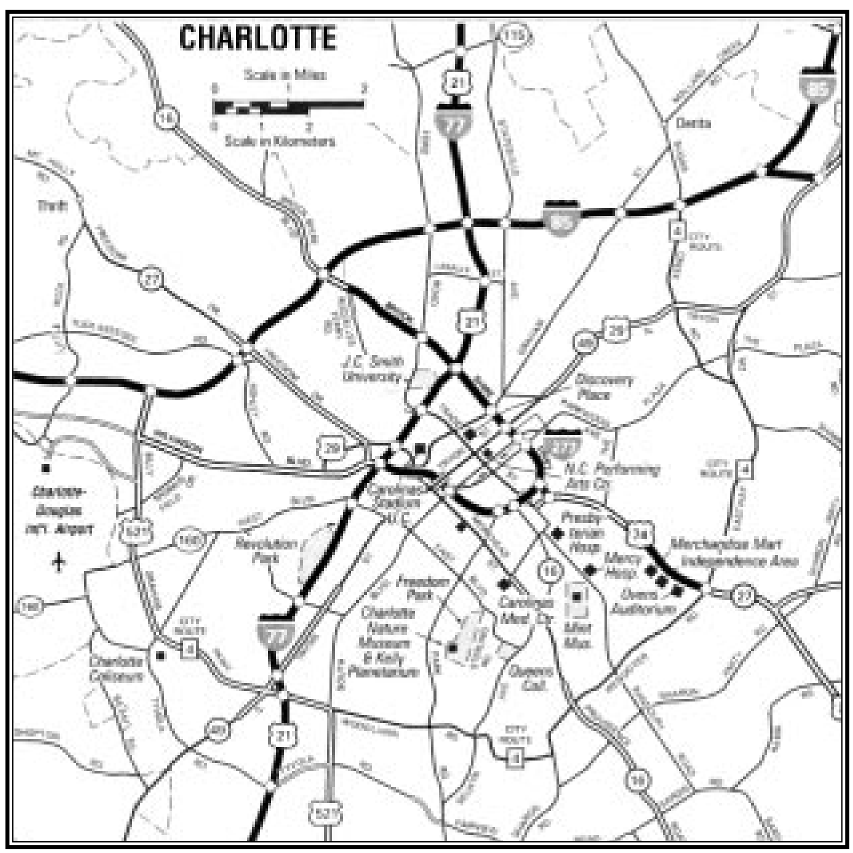
Energy Firm Poised to Establish Uptown Home: In terms of new uptown office projects, Duke Energy is poised to announce a major development. The energy company is proposing a 40-story office tower (the largest uptown office tower is the B of A corporate center at 60 stories) that could total one million square feet. The tower would house Duke's corporate headquarters and allay local fears that Duke might relocate to Houston (the company acquired Houston's PanEnergy Corp. in 1997). Meanwhile, the 850,000 square foot Hearst Tower (located at Fifth and North Tryon Streets) is scheduled to open by early 2002.

Charlotte Makes the Grade for TIAA-CREF: In other FIRE news, a 562,000 square foot service center for the Teacher's Insurance and Annuity Association and College Retirement Equities Fund opened in May at the University Research Park. TIAA-CREF has more than $290 billion in assets under management. The service center is expected to house 800 employees by year-end 2001 and 1,300 by year-end 2002. Construction of a second complex (totaling 367,000 square feet) is scheduled to begin this Summer.

UNC Hopes to Create High-Tech Hub: The University of North Carolina at Charlotte is seeking to boost its high-tech stature by developing a technology center. A 184,000 square foot School of Information Technology was scheduled to break ground in July as part of a seven-building expansion that would increase the campus' square footage from 1.2 million square feet to two million square feet. At the same time, architects have been selected to design the first building (totaling 70,000 square feet) at a new Charlotte Institute for Technology Innovation, a 100-acre campus off U.S. Highway 29. Construction is scheduled to begin in the Fall of 2002. At build-out, the institute may include up to one million square feet. UNC-Charlotte also partnered with Dell Computer, First Union, and Bank of America to establish a separate E-Business Technology Institute that may eventually become part of the technology innovation institute.

Expansions in Cabarrus County: Several corporate residents of Cabarrus County are expanding. Corning Cable Systems Inc. is increasing manufacturing capacity at its fiber-optic cable plant. The firm is building a 300,000 square foot facility and boosting its workforce by 1,000, bringing its local total to 5,000. Shoe Show Inc. is doubling the size of its Kannapolis distribution center to 510,000 square feet. The shoe retailer also plans to relocate 120 administrative personnel from Concord to Cabarrus County. Saddle Creek Corp., a third-party distributor, is expanding its operation with a 352,000 square foot facility but may eventually build out to one million square feet.

In Mecklenburg County, Wilton Connor Packaging broke ground in April on a 470,000 square foot distribution center at the Westlake business park. Completion is expected by year-end 2001. The new facility will add 300 new jobs to Wilton's local payroll of 600.



Electronic Data Systems, the Plano, TX-based company is boosting its Charlotte workforce. The firm is taking nearly 50,000 square feet at the University Research Park for an additional 200 employees. EDS already occupies a 102,000 square foot building here that employs 800.

Across the state line in York County, SC, Employee Benefit Services is relocating to Fort Mill as it builds a new headquarters. The benefits administration firm will employ 250 there, but plans to double its staff over the next few years. Austin International, a rebuilder of electric utility equipment, moved into a former Fruit of the Loom plant. The firm will employ 100 in the 213,000 square foot facility. Signature Distribution Services is building a 200,000 square foot facility outside of Fort Mill that will employ 150. The firm already employs 150 in a 160,000 square foot building there.

Losses in Manufacturing Sector Affect Variety of Firms: As noted above, the region's manufacturing sector experienced a significant contraction during the recent 12-month period and the losses were felt across a spectrum of companies. For example, two of the region's largest textile firms (based on number of employees) reduced their payrolls. Pillowtex, which is in bankruptcy proceedings, plans to close two plants here, which will result in the loss of nearly 600 jobs. KoSa Ltd. is also making cuts. The synthetic-fiber company reduced its 700-person workforce by 175 as it eliminated some product lines.

Among other manufacturing firms, Freightliner eliminated 2,300 positions last Fall at its Mount Holly, Gastonia, and Cleveland operations. In March 2001, Matsushita Electric Industrial laid off 530 at its plant in Mooresville. Metso Paper, a subsidiary of Finland-based Metso Corp., plans to close its Charlotte operation by the end of the year. The closure will result in the loss of 245 positions, although some Charlotte employees may be offered the chance to relocate to Metso's other facilities in Atlanta, Aiken, SC, or Columbus, MS. Citing decline in demand for one-way paging systems, Glenayre Technologies is shutting down its wireless messaging division and eliminating 700 positions (half its workforce). Across the state line, Celanese Acetate laid off 450 from its 700-person workforce in Rock Hill, SC.

NASCAR School in the Pipeline: Tapping into regional enthusiasm for auto racing as well as the proximity of the two-year-old Lowe's Motor Speedway, a Phoenix-based auto mechanics center plans to build a training institute affiliated with NASCAR to prepare students for jobs in the racing industry. Universal Technical Institute plans to construct a 145,000 square foot facility on 19 acres at the Talbert Point business park. As envisioned, the facility—to be called the NASCAR Technical Institute—may train up to 1,800 students annually. It is scheduled to open in the Spring of 2002. Speedway Motorsports, owner of the racetrack, broke ground in late 2000 on a three-building, 100,000 square foot office complex near the track. The company also wants to build a museum on the N. Tryon corridor dedicated to auto racing.

Fate of Hornets Up in the Air: Charlotte residents soundly rejected a June 2001 ballot measure calling for a new, publicly-funded basketball arena for the NBA's Charlotte Hornets. Had the measure passed, the funds would have paid for a new uptown arena for the team, a new baseball stadium for the minor league Charlotte Knights, and new homes for both the Mint Museum of Art and Discovery Place (an interactive science museum). The measure called for the 3% county portion of the area's hotel tax to be directed toward these projects when the funds become available in 2002. In place since 1983, the 3% county tax has been used to retire the debt of other public attractions. Without a new arena, it is likely the franchise will look for another home. The Hornets' contract to play in the Charlotte Coliseum ended this Spring but the franchise had conditionally agreed to play there through the 2003-2004 basketball season. However, prior to the June vote, franchise owner George Shinn filed the necessary paperwork with the National Basketball Association to relocate the team to Memphis. A relocation of the team would either have to take place during the off-season or not until Summer of 2002 at the earliest. Several of Charlotte's corporate movers and shakers (including retired B of A CEO Hugh McColl) tried to buy the team from Shinn, but were unable to arrange the necessary funding.

Convention Hotel Breaks Ground: Last Fall, a 700-room Westin hotel broke ground adjacent to the Charlotte Convention Center (at Stonewall and South College Street). The property features nearly 50,000 square feet of meeting space and a 1,650-space parking garage. Completion is scheduled for late 2002.

A Charlotte developer has announced plans to build a 150-room hotel off US-29 near Lowe's Motor Speedway, but has run into problems. The city of Concord, Cabarrus County, and the tourism authority already entered into a deal with John Q. Hammons Hotels to build a 300-room Embassy Suites and 80,000 square foot convention center off Speedway Boulevard. That property is slated for completion in the Fall of 2002.

Other hotel development has focused on the extended-stay market. Uptown, near the convention center, a 180-room Courtyard by Marriott opened on the corner of Third and Tryon Streets. A 150-room Residence Inn opened earlier this year on Mint Street near the Carolina Panthers' stadium. A 181-room Hilton Garden Inn and a

149-room Hampton Inn opened next to each other on the corner of Second and Caldwell Streets. Elsewhere, an 85-room Hawthorn Suites opened near the airport.

Hotel Statistics Are Slipping: According to Smith Travel Research, in 2000, the average hotel occupancy rate in Charlotte was 58%, a 7% drop from 1999. The average room rate rose less than one percent to $68. During the first four months of 2001, occupancy slid 7.6% from the same period one year earlier to 55%. The average room rate fell 3% to $66.

Passenger Activity Climbs at Airport: According to the Airports Council International, in 2000, Charlotte Douglas International Airport handled 23.1 million passengers, a 7.6% increase over 1999. Cargo volume dropped 1% during the year to 199,900 metric tons. During the first quarter of 2001, passenger activity rose 11% to 5.5 million. Cargo volume fell 3.6% to 54,300 tons.

Several projects are planned to expand the airport's passenger capacity, including the addition of four gates on concourse A, seven gates on concourse D, construction of a new 21-gate concourse E for regional aircraft, an expanded international arrivals area, and the purchase of 1,500 acres for a fourth runway.

Charlotte is part of the Wilmington, NC Customs District, and in 2000, the value of finished goods (both imports and exports) rose nearly 5% to $13.2 billion. Import activity accounted for the increase—climbing 8% to $10.7 billion—while exports fell 6.7% to $2.5 billion. Exports continued to slide during the first quarter of 2001, dropping 8.5% to $560 million. Imports rose nearly 20% during the same period to $3 billion.

Area's Property Taxes Are Low: In North Carolina, corporations are taxed at a rate of 6.9%. Businesses must also pay $1.50 per $1,000 of either: their capital stock, surplus and dividends; 55% of the appraised ad valorem tax value of their in-state property; or their actual investment in tangible property in North Carolina (whichever amount is higher). The personal income tax rate here ranges from 6% to 7.75% with the maximum taking effect on incomes of $100,000 or more (for those married filing jointly). The minimum rate is assessed on married couples with joint incomes between $4,000 and $21,250. The state sales tax is low at 4%, but counties may tack on additional assessments. For example, in Union County, the total sales tax is 5% (the additional levy funds school improvements). In Mecklenburg County, the rate is 6.5%. In 1999, North Carolina residents paid $74 in state taxes per $1,000 of personal income, exceeding the national average of $66.

Property taxes in the metropolitan area are competitive. In 2000, commercial property was taxed at an effective rate of $1.24 per $100 valuation in Charlotte and $1.50 in Gastonia, according to Vertex Inc. Charlotte's rate was the 24th-lowest rate of 86 markets analyzed by the INDEX. In 2000, residential property was taxed at an effective rate of $1.14 in Charlotte, per Runzheimer International.

Charlotte Residents Just Below National Averages in Education: Residents of the Charlotte metropolitan area fall just short of the national averages in both high school and college-level achievement. Of the area's adults (those over 25), 81% have received a high school diploma compared with 83.4% nationwide. The gap is even narrower when it comes to post-secondary school achievement, as 25.1% of the area's adults have received at least a bachelor's degree from a four-year college or university versus 25.2% nationwide.

Area's Crime Rate Declines: Incidents of both violent and property crime have declined in the Charlotte metropolitan area, but still remain above the national averages. In 1998 (the most recent data available for this metropolitan area), there were 947 incidents of violent crime per 100,000 Charlotte residents. This reflects a decline of 8% from 1997, but is still greater than the national average of 631 per 100,000. Incidents of local property crime dropped 2% to 5,684 per 100,000; the national metropolitan average was 4,345 per 100,000.

Outlying Counties Fuel Region's Growth: The Charlotte metropolitan area has grown 29% since 1990, for a mid-2000 population of 1.5 million. This significantly exceeds the pace established during the prior ten-year period when the region expanded by 19.6%.

Of the six North Carolina counties in the area, Mecklenburg is the largest with 695,500 residents. Mecklenburg (home of Charlotte) has expanded 36% since 1990. The second-largest county is Gaston, with a population of 190,400. Cabarrus County is third, with 131,100 residents, and a 32.5% growth rate since 1990. Rowan County is close behind with a population of 130,300, followed by Union County. The latter has been the fastest-growing county in the metropolitan area, expanding 47% since 1990, for a mid-2000 population of 123,700. The smallest county on the North Carolina side is Lincoln. It has 63,800 residents. The Charlotte region also includes York County, SC, which has a population of 164,600. York has expanded 25% since 1990.

The largest city in the region (and the state) is Charlotte, with a population of 540,800. Charlotte has grown 27% since 1990. Other large communities in the metropolitan area include Gastonia (66,300) and Concord (56,000).

OFFICE MARKET

(CBD)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↓	↔

(Suburbs)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↔	↔

The Slowdown Begins

In mid-2001, greater Charlotte started to show signs of a slowing market for multi-tenant office space. The region ended the second quarter with a 10.1% vacancy rate, up from 8% in June 2000. Second-quarter absorption was a healthy 424,000 square feet compared to 305,000 square feet in 2000's second quarter, but the six-month trend is downward. During the first half of 2000, greater Charlotte absorbed 956,000 square feet of office space, but in June 2001, the six-month total was 329,000 square feet. The first quarter of 2001 saw the region's first quarterly negative net absorption since 1996. More than two million square feet of new space has been under construction for the past 13 quarters, but here too the trend is downward. The 2.4 million square feet in progress in June 2001 is a slight decrease from the 2.7 million square feet in the prior year's second quarter. Pre-leasing is also down from 49% of construction in 2000 to 42% in 2001.

Metropolitan—Sublease Space Increases: Greater Charlotte's office inventory grew 7.9% to 29.8 million square feet during the year ending in June 2001. During the second quarter, four new buildings added 517,000 square feet to the market, but 26% of this space was still vacant at the end of June. As inventory grew, tenant relocations caused vacancies and sublease space to increase as well. At the end of 2000, Bank of America (B of A) completed the first phase of its mixed-use Gateway Village project. B of A vacated multi-tenant properties downtown to occupy the 650,000 square foot B of A Technology Center at Gateway Village, a single-tenant property excluded from inventory and absorption data. In the suburbs, Microsoft completed its single-tenant facility and vacated 55,000 square feet at Lakepointe Plaza in the I-77 Corridor.

Sublease space rose to more than one million square feet in March 2001, the most available on the market in 14 years. The trend is likely to continue into 2002, according to local real estate experts. The Hearst Corp. will leave 110,000 square feet at the Carillon when the new Hearst Tower is completed; B of A plans to occupy 380,000 square feet in the new tower.

Central Business District—New Product Stays Strong: Charlotte's Central Business District, ringed by the I-277 inner loop and locally called "uptown", dominates the region's office market with 12.2 million square feet of inventory. Its vacancy rate increased slightly during the year from 3.9% in June 2000 to 5.1% at the end of 2001's second quarter. Class B properties saw the most pronounced increase in vacancies as high quality, newly-built space was added to meet high demand. The Class A vacancy rate rose from 0.5% at the end of 2000 to 2.8% in March and to 3.6% at the end of 2001's second quarter. The Hearst Tower is nearly fully leased even though it is still under construction and the 450,000 square foot Gateway Village II building, which opened during the quarter, had only 71,000 square feet vacant in June. In contrast, Class B vacancies climbed steadily from 4.6% at the end of 2000 to 10% in June 2001. The renovated 67,000 square foot 800 West Hill Street building opened during the quarter, but 64,000 square feet was still vacant in June. Nevertheless, the CBD accounted for 407,000 square feet of the region's 424,000 square foot second-quarter net absorption.

With rising vacancies and increasingly available sublease space, construction in the CBD has declined substantially from the 1.6 million square feet underway in June 2000. Only the 886,000 square foot Hearst Tower was under construction uptown in June 2001. Charlotte developers are conservative and several proposed projects have been put on hold or canceled. The developer of Two Corporate Center, a 550,000 square foot companion tower to the B of A Corporate Center, is delaying construction until the market improves. Redevelopment of the city's former convention center was to include more than 500,000 square feet of office space, but its developer backed out after the City Council declined to provide more favorable repayment terms for the property.

Growth, Vacancies Moderate in Inner 'Burbs: Most office submarkets adjacent to the CBD, including Cotswold, South Park, and Park Road, saw single-digit vacancy rates in June 2001. The 1.5 million square foot Midtown area was the exception. The only inner suburban submarket to experience double-digit growth (13.9%) for the year, Midtown's vacancy rate rose from 10.9% to 15.1%. Morehead Square, 131,000 square feet at 200 E. Morehead, was completed in late 2000, but was still substantially vacant in June 2001. Midtown absorbed 20,000 square feet of office space during the first half of 2001, despite negative absorption in the second quarter. New construction in Midtown declined slightly from 318,000 square feet in the second quarter 2000 to 256,000 square feet in June 2001, with only 7% of the new construction pre-leased.

OFFICE*				
SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
Downtown	12,178,098	5.1%	407,070	886,259
Midtown	1,512,776	15.1%	(1,694)	256,400
Cotswold	304,987	3.1%	(4,580)	0
SouthPark	3,521,432	6.1%	(5,567)	0
Park Road	636,207	6.1%	(13,335)	0
I-77 Corridor	5,429,760	14.5%	(2,514)	207,000
Eastland	1,079,967	18.0%	(21,444)	0
51 Perimeter	2,088,591	14.2%	(4,297)	393,914
Matthews/Crownpoint	519,974	22.6%	5,263	0
Northeast/University	1,980,202	20.8%	69,571	240,103
North	544,558	19.9%	(4,083)	379,000
TOTAL:	**29,796,552**	**10.1%**	**424,390**	**2,362,676**

*Reported as of the second quarter 2001.

Source: CB Richard Ellis (Charlotte).

Projects in various stages of planning include 65,000 square feet at Morehead West, 62,000 square feet at Camden Square Village East and the 12,000 square foot 308 W. Palmer. A developer who proposed building an eight-story, 200,000 square foot office building at 200 W. Morehead has canceled the project due to market conditions.

The 3.5 million square foot South Park area remains strong. Vacancies fell from 6.4% to 6.1% during the year ending in June 2001. The submarket absorbed 28,000 square feet during 2001's first half, including negative absorption of 6,000 square feet in the second quarter. Construction activity has dropped from 100,000 square feet in June 2000 to zero at mid-2001. Projects in various stages of planning include a 122,000 square foot office building on Barclay Downs Drive and the 53,000 square foot Three South Executive Park.

Outer Belt Booms: Construction of the I-485 outer beltway has stimulated a development boom in the outlying suburban submarkets. With the exception of Eastland, where inventory stayed at 1.1 million square feet during the year, outer suburban submarkets had double-digit growth rates ranging from 10.7% in the I-77 Corridor to 30.1% in the small North area. Vacancies stayed in the double digits too, ranging from 14.2% in the 51 Perimeter area to 22.6% in Matthews/Crownpoint.

Vacancies in the 5.4 million square foot I-77 Corridor, the second-largest submarket in the region, rose from 12.9% to 14.5% during the year ending in June 2001. New construction declined from 290,000 square feet to 207,000 square feet, including the 116,000 square foot LakePointe V and the 70,000 square foot Forest Park VII. The area absorbed only 10,000 square feet of space during the first six months of 2001, but 70% of the new construction has been pre-leased and should increase absorption as it comes on-line.

The 51 Perimeter/Ballantyne area is so hot that vacancies declined during the year from 18.6% to 14.2% despite a 23% expansion of inventory to 2.1 million square feet. The submarket absorbed 13,000 square feet during the first half of 2001. But the pace of construction has more than doubled from 166,000 square feet in mid-2000 to 394,000 square feet in June 2001, with only 5% of the new space pre-leased. The 103,000 square foot Brixham Green III opened during the second quarter and still had 70,000 square feet vacant at the end of June. New construction includes the 103,000 square foot Ballantyne III, 99,000 square feet in Toringdon I, and five other buildings ranging in size from 30,000 square feet to 48,000 square feet.

Price and Rent Trends: *The average value of Class A CBD office space in Charlotte fell 1.1% to $148.99 per square foot in the second quarter of 2001 from $150.70 per square foot one year earlier. The effective gross lease rate decreased to $24.58 per square foot in the second quarter of 2001 from $25.11 per square foot during this period. The cap rate was unchanged at 8.8%.*

The price of suburban office space rose to an average of $127.56 per square foot in the second quarter of 2001. The effective gross lease rate decreased from $19.04 per square foot in the second quarter of 2000 to $18.90 per square foot in the second quarter of 2001. The suburban cap rate remained unchanged at 8.6%.

INDUSTRIAL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↓	↑

Industrial Market Trending Down

Charlotte's easy access to three interstate highways, main-line rail and an international airport has made it popular for distribution centers, warehouses and manufacturing. Norfolk Southern's plans to develop a new intermodal rail terminal adjacent to the airport could add sea transport via a rail link to Charleston, SC, one of the East Coast's three largest container ports. If approved, the intermodal terminal could open as early as 2003.

However, limited availability of industrial land is beginning to constrain development in the core region and many new projects are selecting sites in outlying areas. Cleveland County and the city of Shelby lured a 1.2 million square foot Wal-Mart distribution center by acquir-

INDUSTRIAL*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
Central	19,387,445	6.1%	(67,894)	0
East	8,249,037	3.9%	(42,798)	0
North	4,349,792	16.1%	20,400	0
Northeast	9,231,600	8.0%	(104,285)	0
Northwest	38,165,100	7.4%	(263,226)	142,880
Southeast	5,557,433	3.9%	8,078	0
Southwest	21,972,536	5.0%	(5,955)	1,111,630
West	2,274,344	15.6%	52,119	0
TOTAL:	**109,187,287**	**6.8%**	**(403,561)**	**1,254,510**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Charlotte).

ing the land for the project. Lowe's plans to add 260,000 square feet to its 960,000 square foot distribution center north of Statesville. In Lincoln City, where a third of the undeveloped land is zoned industrial, RSI Home Products plans to build a 320,000 square foot manufacturing facility. Furniture retailer Robb & Stucky plans to build a 180,000 square foot distribution center at the Lincoln County industrial park.

Metropolitan—Growth, Vacancy Stable but Absorption Plummets: In the year ending in June 2001, greater Charlotte's industrial inventory inched up 1.1% to 109 million square feet, and its vacancy rate also rose slightly from 6% to 6.8%. However, absorption has plummeted from record highs in the previous two years. During the first half of 2000, the region absorbed 1.4 million square feet of industrial space, but 2001 absorption totaled only 590,000 square feet by the end of June. The first quarter's 993,000 square feet of absorption was a 51% increase from 2000's first quarter and on track to set a new annual record, but 2001's second quarter total of negative 404,000 square feet turned the tide.

The 192,000 square foot International Airport Center II opened in the West submarket during the second quarter, and was 58% vacant in June 2001. New construction was up slightly to 1.3 million square feet from 1.1 million square feet 12 months prior. Nearly 23% of the current construction has been pre-leased.

Largest Submarket Reverses Course: Vacancy rates in the 38 million square foot Northwest submarket, the largest industrial area in the region, rose from 6.2% in the prior year to 7.4% in June 2001 despite a slight drop in inventory. But absorption shifted into reverse between the first and second quarters of 2001, affecting overall metropolitan performance. The Northwest area absorbed 388,000 square feet during the first half of 2001. But, it accounted for 263,000 square feet of the region's negative net absorption in the second quarter. Construction dropped from 234,000 square feet in June 2000 to 143,000 square feet 12 months later.

Developers hope an I-485 extension scheduled to open in 2003 will stimulate demand in the area. West Pointe business park plans to build a 435,000 square foot multi-tenant industrial facility. The first phase calls for a 200,000 square foot building scheduled to break ground in early Fall. Furniture retailer Rooms To Go is building a 450,000 square foot distribution center at I-85 and Freedom Boulevard. During the Summer, a developer plans to start the first 200,000 square feet of a 750,000 square foot business park at Sam Wilson Road and I-85.

Southwest Stays Strong: The Southwest submarket, second-largest in the region and home to the Charlotte-Douglas International Airport, grew 4.7% in the year ending in June 2001 to 22 million square feet; its vacancy rate dropped slightly from 5.5% to 5%. Net absorption for the first half of 2001 was 465,000 square feet, including a negative 6,000 square feet during the second quarter. Its comparatively healthy performance led to an increase in construction from 769,000 square feet in mid-2000 to 1.1 million square feet (23% pre-leased) in June 2001. However, the 39,000 square foot Lindbergh I, which opened during the second quarter, was still vacant at the end of June.

Major developments under construction include 470,000 square feet at Westlake and Steele Creek Road, 250,000 square feet at Westinghouse and General Drive, the 134,000 square foot Prologis III, the 120,000 square foot Crossings I, and four other buildings ranging from 12,000 to 79,000 square feet.

Auto Racing Brings in Tenants: Roush Motor Sports leased 97,000 square feet at Concord Airport business park; MBV Motorsports opened a 44,000 square foot headquarters and fab shop there in 2000. Eel River Racing is building a 70,000 square foot headquarters at Talbert Point in Mooresville. A closed textile mill there is being renovated into a 1.1 million square foot multi-tenant facility for racing teams. In Harrisburg, Hendrick Motorsports is adding 85,000 square feet to its 250,000 square foot complex and Action Performance, which markets NASCAR-related collectibles, plans to expand its facility to 225,000 square feet in order to relocate employees from Phoenix.

Price and Rent Trends: *Class A industrial space was valued at an average of $33.43 per square foot in the second quarter of 2001, a decrease from $34.03 per square foot one year prior. The cap rate was 8.8% in the second quarter of 2001. Class A industrial rents rose to an average of $4.19 per square foot in the second quarter of 2001 from $4.16 per square foot in 2000's second quarter. Class C warehouse space sold for an average of $17.19 per square foot between April and June 2001.*

RETAIL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↑	↑

SouthPark Expansion Approved

The 1.3 million square foot SouthPark mall is finally cleared to expand. Neighborhood opposition had delayed rezoning for the expansion for more than two years. Previously entitled to add 140,000 square feet for a Nordstrom and specialty shops, SouthPark's plans now also include a 120,000 square foot Saks Fifth Avenue, 92,000 square feet for boutiques, 123,000 to expand the existing Hecht's and Belk stores, and 85,000 square feet on out lots for restaurants and shops. The more than 500,000 square foot expansion will bring SouthPark to over 1.8 million square feet of gross leasable area (GLA), making it the largest super-regional mall in greater Charlotte. (A super-regional mall offers more than one million square feet of GLA.)

I-485 Sparks Retail Development: Anticipating increased residential development as sections of I-485 are completed, developers are planning a variety of mixed-use and retail developments along the outer beltway. Southeast of uptown, Carolina Place, a 1.2 million square foot super-regional mall in Pineville, is benefiting from one of the first I-485 interchanges to open. A third of the mall's leases (41 tenants) will expire during 2001, and it is seeking higher-end retailers to replace many of them. The mall also plans to add a major anchor on a newly-completed pad. Carolina Place marketers cite a dramatic increase in annual household income within five miles of the mall to lure upscale retailers. Carolina Place will also benefit from a light-rail terminal and park-and-ride lot scheduled to open at I-485 and Polk within six years. Nearby, the once troubled, 850,000 square foot Carolina Pavilion shopping center is now fully leased. Mathews Market, a 500,000 square foot power center at Independence Boulevard and Highway 51, is scheduled for completion in the Summer. Lowe's Home Improvement will occupy 150,000 square feet as an anchor tenant. Ayrsley, a mixed-use project planned for I-485 and South Tryon, will include 300,000 square feet of retail.

I-485 progress has encouraged proposals north of town, too. A developer is planning a mixed-use project with 51,000 square feet of retail between I-85 and I-77 just north of a segment of I-485 scheduled for completion in 2008. Groundbreaking is scheduled for the Fall. Another developer is planning a mixed-use project with 400,000 square feet of retail between Highway 73 and Rocky River Road. A 200,000 square foot shopping center has also been proposed at Highway 16 and Mount Holly-Huntersville Road.

Midtown Square to Get Retail Makeover: A developer is planning to redevelop the Midtown Square mall at South Independence and Kings Drive into a mixed-use project called Manchester. The project will include more than 130,000 square feet of retail space, including a Home Depot Expo Design Center and Target store.

Comings & Goings: To obtain Federal Trade Commission approval of its merger with Delhaize America, Hannaford Brothers divested its eight Charlotte stores. Delhaize is the majority owner of Hannaford competitor Food Lion. Each Hannaford store occupied about 50,000 square feet. Drug Emporium and Upton also closed all of their Charlotte stores. As a result of the closings, greater Charlotte saw record low retail absorption during 2000. Charlotte's planning commission is so concerned about vacant big-box stores that it formed a subcommittee called "Empty Boxes" to explore ways to fill empty retail space around the city.

Conversely, Shoe Show assumed the leases of 73 former Pic 'N Pay stores after the latter filed for bankruptcy in March 2000. Ross plans to open 50 clothing stores in the Carolinas and Georgia by 2004 along with a 1.3 million square foot distribution center in greater Charlotte. Each Ross store is typically 30,000 square feet.

Six Super Regional Malls in Region: Greater Charlotte boasts six super-regional malls. The 1.4 million square foot Concord Mills, currently the largest super-regional mall in the area, will drop to second place when SouthPark (1.3 million square feet) completes its expansion to 1.8 million square feet. But the developers of Concord Mills plan to build a 300,000 square foot power center called Market Place at Concord Mills on the other side of I-85. BJ's Wholesale Club will occupy 108,000 square feet.

The area's other super-regional malls include Franklin Square in Gastonia, which leases 1.2 million square feet, Eastland in Charlotte, Eastridge in Gastonia, and Carolina Place in Pineville. The last three have 1.1 million square feet each.

Retail Sales Balloon: According to Sales & Marketing Management's *2000 Survey of Buying Power*, retail sales in greater Charlotte averaged $37,100 per household during 1999, higher than the national average of $33,100 per household. Sales were highest in Mecklenburg County ($46,700 per household), followed by the cities of Charlotte ($44,900 per household) and Gastonia ($40,800 per household). Metropolitan Charlotte's median household income of $38,900 likewise exceeded the national median of $37,200.

Household incomes were highest in the county of Mecklenburg ($44,300), followed by the city of Charlotte ($42,000) and York County in South Carolina ($39,000).

Price and Rent Trends: *The average value of Class A anchored, unenclosed retail space in Charlotte was $105.19 per square foot in the second quarter of 2001, a decrease from $106.54 per square foot one year ago. The triple net lease rate averaged $16.67 per square foot in the second quarter of 2001, down from $16.72 per square foot in the second quarter of 2000. The cap rate in the second quarter was 9.1%.*

APARTMENT MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↓	↑

Uptown Revitalization Continues

Despite rising inventory and apartment vacancy rates climbing to the double digits, developers are still announcing new projects. Construction completions during the year included the first phase of the 424-unit Post Gateway Place, 283 units at First Ward Place, 266 units at Summit Grandview on Morehead, and 227 units at Post Uptown Place in the Fourth Ward. A developer is planning 299 units in twin four-story buildings at South Tryon and E. Palmer. In the Spring, a developer broke ground at Third and Church for a 380-unit apartment tower on 14 floors above an eight-story parking garage. Another developer plans to build a 305-unit mid-rise apartment complex at Fifth and Poplar.

Mixed-use projects are driving much of the multi-tenant development. Gateway Village will include 500 apartments and condos. The Midtown Square proposal includes 500 residential units. A mixed-use project at W. Morehead and South Tryon will include loft apartments. The second phase of the Grande Promenade at W.T. Harris and North Tryon will also include multi-tenant housing.

Apartment vacancy rates in greater Charlotte have risen from less than 6% in the first quarter of 2000 to 8.8% in March 2001, according to the Charlotte Apartment Report. Downtown had the most dramatic increase, rising from less than 6% in August 2000 to the mid-teens in February. The report predicts an increase of 3,100 to 4,600 units during the year, resulting in a vacancy rate of 8.5% to 11.6% in February 2002, depending on the actual number of units completed and absorbed.

Condos Converted to Apartments: Townhouses and condominiums comprised the bulk of residential construction downtown during the year. Demand was so strong that investors were buying units as soon as sales began and placing the residences on the market as soon as construction was completed. However, there have been some anomalies. For instance, Post Five West, 40 condos in Gateway Village, was converted into an apartment complex as a result of slowing demand. Another developer had planned to convert the historic Frederick apartments into condos, but will simply renovate it instead. Financing problems are delaying the Park condominiums, a 20-story, 106-unit project at Third and Caldwell. Conversely, a developer plans to demolish the 240-unit Park South apartments and the 140-unit Deeringplace apartments at Sharon and Colony Roads and replace them with 350 townhouses, condos and apartments. The project will begin in 2002.

I-485 Sparks Apartments: Mixed-use projects along the planned route of I-485 are also adding apartments in greater Charlotte's suburbs. The "booming northeast Mecklenberg County" and southern perimeter are particularly active. In the northeast area, a developer is planning to build a 356-unit apartment complex adjacent to University Research Park. In November, a 300-unit apartment complex opened behind Concord Mills in Concord. The area between I-485 and Charlotte is fairly built-out and most residential development, primarily single-family homes, is occurring south of I-485.

Housing Permits Plunge: Despite the high demand and limited supply of rental housing in greater Charlotte, permits for multifamily buildings (in structures with 5+ units) fell 38.6% from the same period last year. During the first half of 2001, building officials issued nearly 2,600 permits for multi-tenant housing compared to 4,200 during the first six months of 2000. Permits for single-family homes inched up from 9,100 during the first half of 2000 to 9,200 during the same period in 2001.

Median Home Price Increases: The price of a single-family home in greater Charlotte rose 5.5% to $145,900 during the 12 months ending in the second quarter 2001, according to the National Association of Realtors. The homeownship rate was 75.8% in 2000, significantly higher than the 65.5% national average.

Price and Rent Trends: *Class A apartment space was valued at an average of $69.78 per square foot in the second quarter of 2001 compared to $70.61 per square foot one year earlier. Average rents dipped to $9.31 per square foot in the second quarter of 2001 from $9.43 per square foot during the same period last year. The cap rate was 9.1%.*

Class B apartments (i.e., ten to 20-year-old complexes) were valued at $47.97 per square foot in the second quarter.

Nassau-Suffolk

Economic Overview

Slow but Steady Growth on Long Island

The Long Island metropolitan area (which comprises Nassau and Suffolk Counties) created 22,500 new jobs between June 2000 and June 2001, fewer than the 30,500 jobs created during the prior 12-month period, but still the fourth-largest absolute gain of the ten markets reported in this issue of the QUARTERLY. Nassau-Suffolk's recent gain translated into a 1.8% expansion of the local employment base, the second-highest proportional advance of the markets contained in this issue (behind Washington, DC). The unemployment rate was unchanged, at 3%.

Job Growth Across Most Employment Sectors: Among the eight major employment categories, six posted job growth during the period. Services led the list with 12,600 new jobs created. Retail trade added 4,100 new hires to its ranks, followed by government's net gain of 3,800. Transportation and construction expanded their payrolls by 2,100 and 1,900 jobs, respectively. Wholesale trade experienced a gain of 300.

Transportation posted the largest proportional advance (3.6%), followed closely by services and a 3.1% expansion. Construction grew by 2.9%. Government and retail trade advanced by 1.9% and 1.8%, respectively. Wholesale trade expanded by just 0.3%.

Two Sectors Post Losses: Two of the eight major employment categories experienced declines during the period. Manufacturing lost 2,200 jobs, which translated into a 2% contraction of its base. The local finance, insurance and real estate (FIRE) sector lost 100 jobs, a contraction of one-tenth of one percent.

Small Manufacturing Base: The service and retail trade sectors employ the lion's share of Nassau-Suffolk's workforce. Services captures 33.1% of the local workforce, slightly ahead of its national figure of 31%. Retail trade employs 18.4% locally, compared with 17.8% across the country. Government is also a significant employer here, with 15.8% of the workforce, slightly ahead of its national average of 15.6%. Moving in the opposite direction, manufacturing exhibits a significant disparity—employing 8.8% locally versus 13.4% nationally. Wholesale trade and FIRE employment head back the other way. On Long Island, their respective employment shares are 7.1% and 6.8%, ahead of their national shares of 5.3% and 5.8%. Construction employs exactly the same on Long Island as across the country—5.3%. Transportation is the smallest employment category here (4.8%). Nationwide, it employs 5.4%.

Variety Defines Area's Largest Employers: The North Shore Long Island Jewish Health System is Long Island's largest private sector employer. It employs 29,500 workers in ten area hospitals. The Diocese of Rockville Centre is the second-largest employer with 17,500 on its payroll. Keyspan Energy is third with a local workforce of 8,000. Chase Manhattan Bank is also a significant employer with 6,800 in its ranks. The Long Island Rail Road employs 5,900. Supermarket chain Waldbaum's is next with a local payroll of 5,000. King Kullen Grocery and Pathmark Stores each employ 4,500. Other private sector employers with more than 2,000 area workers include Macy's, Home Depot, Cablevision Systems, Sears, UPS, Brookhaven National Lab, Kmart, Newsday, Fortunoff (retail jeweler), Northrop Grumman, Estee Lauder, and Computer Associates International.

Technology Groups Merge: In early July, Long Island's two technology trade associations formally merged into one entity. The Long Island Software and Technology Network (LISTnet) and the Long Island Forum for Technology (LIFT) are now the Long Island Technology Network or TechNet. The two groups will, for now, retain some separate functions but will likely consolidate their two operations in the future. LISTnet was the better known of the two, and operates a high-tech software incubator at Briarcliffe College (near Bethpage in Nassau County). LIFT is located in Farmingdale (Suffolk County) and focuses on small computer hardware firms. By joining the two under one umbrella, economic development officials will have a more unified front for marketing Long Island's high-tech prowess (both in software and hardware).

In April, New York Governor George E. Pataki announced the creation of a new Center of Excellence in Information Technology on Long Island. The new center will be spearheaded by the State University of New York (SUNY) at Stony Brook. The center will bring together a wealth of private, academic, and scientific resources to build Long Island's strength in the high-tech and biotech industries. These resources include the university, Brookhaven National Lab, Reuters, and Computer Associates.

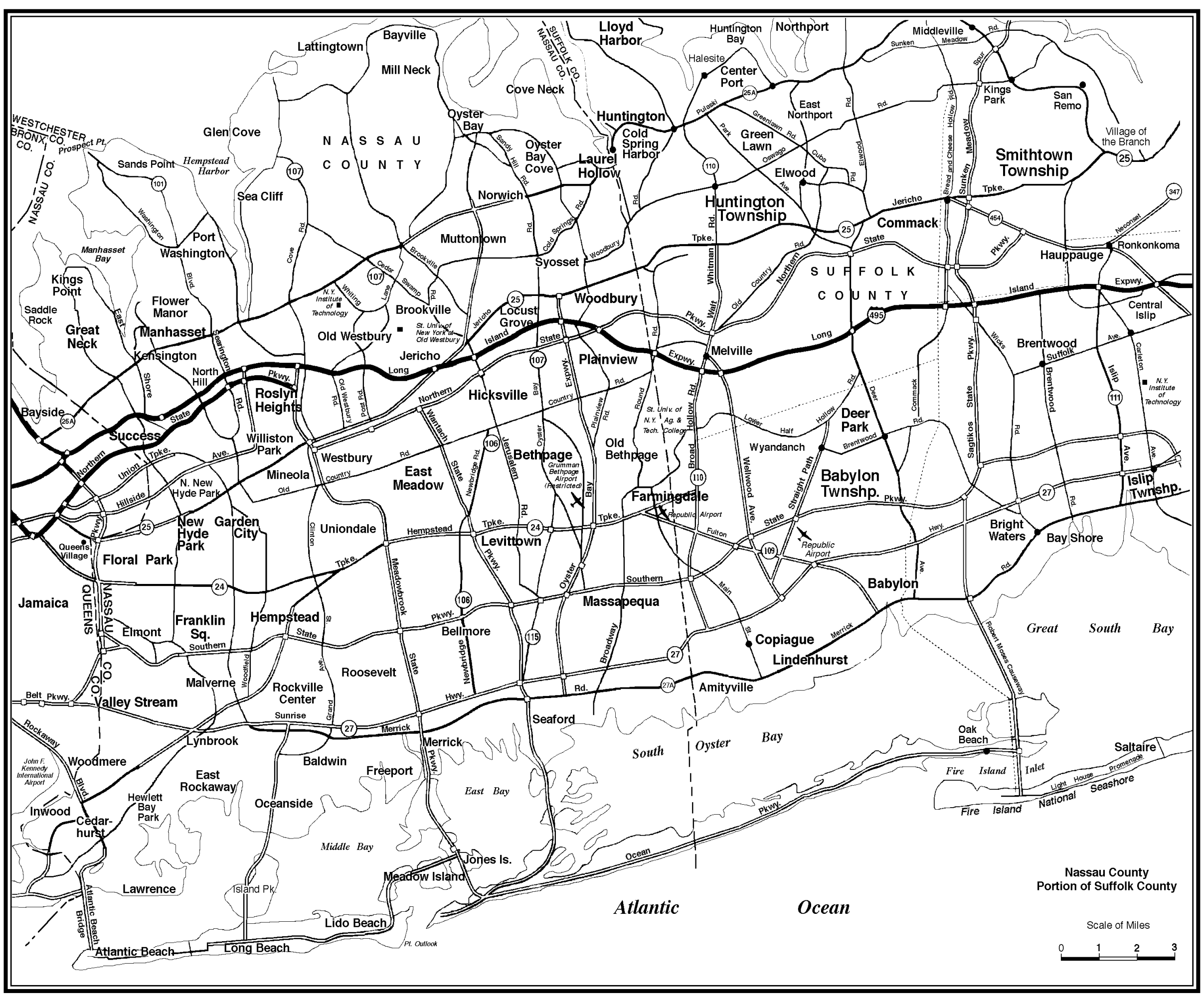
Speaking of SUNY Stony Brook, Computer Associates is funding a 100,000 square foot facility on the campus. Company founder Charles Wang (he also owns the NHL franchise New York Islanders) pledged $25 million for an Asian-American Center. The center will devote one-quarter of its space to fledgling software companies.

SUNY Stony Brook is also undertaking its first expansion off campus. The university leased 8,000 square feet at the Long Island Technology Center in Great

River (formerly the home of Northrop Grumman's electronic systems integration division). SUNY took the space in order to offer information technology classes and is the third academic institution to lease there—Briarcliffe College occupies 4,400 square feet and Polytechnic University plans to establish a Master of Arts program in Information Technology. Commercial tenants are also grabbing space. Galaxy Technology, a designer of data management software for the health care field, took 4,400 square feet. Other recent arrivals include LongIsland.com (relocating from Hauppauge into 2,500 square feet) and three other small tech firms. Integra Consulting and Computer Services, A+ Technology Services, and Advance Digital Data occupy a total of 4,100 square feet.

Long Island Suffers Minor Losses: Despite the above-mentioned initiatives and successes, Nassau-Suffolk has suffered the fall-out—albeit on a smaller scale—of the downturn in the high-tech sector and the overall softening economy. Long Island has never had a strong manufacturing base (particularly in semiconductors and other equipment) and the number of dot.coms here is relatively low. Therefore, layoffs are not having the same effect as they are in higher profile areas (e.g., Silicon Valley and San Francisco). The hits here have been smaller. For example, CosmoCom, a provider of on-line call center technology, laid off approximately 20 employees, reducing its payroll to 70. One of Long Island's success stories downsized recently as well. After ramping up to 150 employees at the end of 2000, FatWire Corp. (founded by two Oyster Bay residents in their parents' garage) laid off 40 employees in April. FatWire subsequently began a corporate restructuring and secured a round of venture funding from Syosset-based Topspin Partners. It is unclear whether the infusion of capital will enable FatWire to rehire its staff.

FIRE Firm to Consolidate in Melville: Traditional or "old economy" firms have not forgotten Long Island, though. A New Jersey-based credit services firm plans to consolidate offices from New York City, New Jersey, and Tennessee into a 200,000 square foot building in Melville. MSI (or Merchant Services Inc.) recently purchased the former Lambda Electronics building for the relocation. The FIRE firm already employs 120 on Long Island. The scheduled transfers will ultimately boost its Suffolk County payroll to 450. MSI will take a few years to occupy the entire building since Lambda Electronics



still occupies 65,000 square feet, and PL Development (a pharmaceutical packaging firm) signed on in June for 57,000 square feet. PL will employ 120 there.

Manufacturers Favor MacArthur Corridor: As noted above, Long Island has never had a strong manufacturing base but what it does have touches lots of different industries. Many of these firms favor the business centers of Suffolk County near the Long Island Expressway and MacArthur Airport (e.g., Hauppauge, Islip, and Ronkonkoma). An electronics manufacturer that already occupies nearly 200,000 square feet in Hauppauge plans to build a 120,000 square foot facility to expand its production capability. Miteq Inc.'s property is located at the Hauppauge industrial park; the new building will be constructed there as well. Miteq employs 600 in Suffolk County. Also in Hauppauge, Loop-Loc took 180,000 square feet for an expansion. The high-strength pool cover maker is relocating from a nearby 88,000 square foot facility. Loop-Loc is taking the space formerly occupied by Atkins Nutritionals, which relocated into 206,000 square feet in Ronkonkoma.

NBTY, a manufacturer and retailer of nutritional supplements, is poised to close on the purchase of a 100,000 square foot building in Islip. NBTY plans to expand its warehouse and distribution operations there. There was an abrupt contraction in Islip, too, as Dimac Direct laid off 225 of its nearly 400 Long Island employees and closed a 245,000 square foot plant. Dimac conducts direct mail campaigns for firms including Reader's Digest, AT&T, and Publisher's Clearinghouse. Dimac claims that AT&T's decision to reduce its spending with the firm was the catalyst for the downsizing.

In neighboring Farmingdale, Carousel Foods is expanding its Long Island workforce (from 40 to nearly 200 employees) and investing $1.5 million in additional space. The dessert manufacturer was founded in 1965 on Long Island and its products are sold under private labels. Sheet metal company Duro Dyne Corp. is relocating its operations from 71,000 square feet on Route 110 in Farmingdale to 130,000 square feet in Bayshore. The firm employs 150.

In Ronkonkoma, First Wireless Group, an electronics services company, is adding 100 new hires to its local payroll (for a total of 300). First Wireless refurbishes cellular telephones. Oaklee International boosted its local workforce earlier this year, too. The manufacturer of shrink-wrap film for tamper-resistant packaging (e.g., child-proof medicine bottles) brought its local ranks to 100. At the same time, Tellabs Inc. shed 125 jobs (it had employed approximately 225) as it restructures and changes its focus from production of telephone equipment to optical networking devices.

Lockheed Martin Campus Transformed: In Lake Success, a former Lockheed Martin campus has been reborn as i.park. Lake Success Holding Co. bought the 1.4 million square foot property in 1999 with plans to redevelop it primarily—but not exclusively—as a high-tech hub. I.park has already secured three tenants. Wired Environments was the first to arrive, taking 25,000 square feet. Wired Environments is an Internet affiliate of Datatone Communications (based in Garden City). In February, AXA Advisors, a financial consulting firm, signed on for 45,000 square feet. In March, the Sports Club Co., a Los Angeles-based developer of upscale health clubs, took 100,000 square feet. This will be the company's first club on Long Island; it is about to open its third facility in the New York City area. The Sports Club caters to the affluent health club member with large facilities ranging from 90,000 to 140,000 square feet, state-of-the-art equipment, and a wide range of customer services. The Sports Club will occupy a former Lockheed R&D building; the transformation into a fitness center is expected to take a year.

Proposals Abound at Calverton: In late 2000, developer Jan Burman submitted a proposal to redevelop the 472-acre industrial core of the former Grumman facility at Calverton. Burman's application came on the heels of a failed proposal by a Dutch film company to be the anchor tenant there. The industrial core is part of a state-sanctioned economic development zone, or Empire Zone, and the red tape and paperwork required for Berman's proposal may take up to nine months to complete.

As for the recreation area outside the core, numerous proposals ranging from the lowbrow to the pretentious are all on the table. Support for the different proposals varies depending on the nature of the project, financial backing, and the membership of local councils, zoning boards, and the like. Northeast Motorsports has proposed a NASCAR track and complex on 400 acres of the approximately 1,000-acre property. Local officials, though, are skeptical about the financial stability of the project. A Staten Island developer has proposed a golf course on 1,000 acres. This proposal would obviously conflict with the needs of the motorsports complex.

More recently, a unique investment group has announced plans to bid on the entire area, at the asking price of $25,000 per acre. Utopia Studios envisions a movie production studio, theme park, hotel, and ski mountain attraction. Utopia Studios is comprised of actress Kathy Moriarty, Francesca Hilton (daughter of Zsa Zsa Gabor), and a local Long Island socialite. Utopia also plans to renovate the Suffolk theatre in downtown Riverhead as part of the deal.

Finally, Palm Beach Holdings Co. has submitted a proposal for the entire area plus other available land (including one of the two runways Grumman used to test aircraft) for an equestrian center. As envisioned, Palm Beach Holdings would develop 175 luxury homes, six polo fields (there are four polo clubs on Long Island), three schooling rings, three paddocks, and stables to accommodate 1,000 horses. The runway would be used to fly in members of the horsey set, residents of the new homes, and guests.

Natural History Museum Breaks Ground on East End: At the eastern end of Long Island, groundbreaking occurred in April on a new South Fork Natural History museum and nature center. This 16,800 square foot facility will focus on the ecosystem of the 1,100-acre Long Pond greenbelt, home to many rare and endangered animal and plant species. In early July, New York Governor Pataki announced a $500,000 grant for the project. Completion is expected in April 2002.

In terms of other area attractions, the Cradle of Aviation museum in Nassau County is scheduled to reopen in December following renovations. Upon reopening, the museum will feature 70 air and spacecraft, an Imax theatre, and a visitors' center. The developer of the proposed Long Island Aquarium in Bayshore recently acquired two parcels of land that will allow for a large plaza at the aquarium's entrance and facilitate access to Bayshore's downtown area. The 100,000 square foot facility is scheduled to open in March 2005.

"Southwest Effect" Continues: Southwest Airlines arrived on Long Island in 1999, shortly after MacArthur Airport had completed a renovation. The airport has never looked back as Southwest's presence has raised the profile of Long Island as a viable alternative to New York's congested (in terms of both air and vehicle traffic) JFK and LaGuardia Airports. Southwest has single-handedly fueled double and triple-digit increases in the airport's passenger volume. In 2000, MacArthur Airport handled 2.3 million passengers, a 21% increase over 1999. During the first quarter of 2001, the airport handled 488,300 passengers (Southwest was responsible for 303,600), a 45% jump from the first quarter of 2000. Since launching service here, Southwest has also increased its number of daily flights from 15 to 22.

Southwest Airlines has offered to subsidize 90% of a proposed $39 million expansion at the airport. Expected to get underway this Fall, the project will add four gates (for a total of 23) and 2,400 parking spaces. Southwest plans to relinquish the three gates it currently uses and take the four new gates for its operations as well as increase its daily flights from 22 to 30. Completion is expected in early 2003.

Even More Extended-Stays: Recent hotel development has been focused on the extended-stay market—primarily in Suffolk County along the Long Island Expressway. A 133-room Holiday Inn Express debuted in March at Exit 56 of the LIE. Two similar properties are planned for Exits 63 and 68. Meanwhile, a 109-room Wingate Inn is under construction in Commack and a Hilton Garden Inn is planned for Ronkonkoma.

In terms of other hotel projects, the 145-room Inn at Fox Hollow is scheduled to open later this year near Jericho Turnpike (adjacent to the Fox Hollow country club). The Long Island Hotel Corp. plans to build a hotel on a nine-acre site near the recently-opened federal courthouse in Islip. A hotel operator has not been selected, but the facility will likely include 140 to 170 rooms. Tentative completion is scheduled for the Fall of 2002. The Holiday Inn MacArthur (near the airport) announced plans to add 100 rooms to its inventory. The new construction will bring the hotel's total to 387 rooms, making it the second-largest hotel on Long Island (based on number of rooms) behind the 608-room Long Island Marriott hotel and conference center in Uniondale.

According to Smith Travel Research, in 2000, the average hotel occupancy on Long Island was 76%, a drop of less than one percent from 1999. The average room rate was $117, a 9% increase over 1999. During the first four months of 2001, occupancy slid 2% to 67%, while the average room rate was unchanged.

Suffolk County Boosts Sales Tax: In July 2001, New York state's corporate income tax rate dropped to 7.5% (from 8%). Although the state sales tax rate is a low 4%, optional local levies bring the total to 8.5% in both Nassau and Suffolk Counties. The 8.5% rate just went into effect in Suffolk County in June 2001; previously, it was 8.25%.

The personal income tax rate ranges from 4% to 6.85%, with the highest rate in effect on incomes over $40,000 (for married couples filing jointly). In 1999, the amount of state taxes paid per $1,000 of personal income was comparable to the national level: it was $64 on Long Island versus $66 across the country.

Residential property tax rates vary depending on the jurisdiction. According to Runzheimer International, residential property in Nassau-Suffolk was taxed at an average rate of $2.52 per $100 valuation in 2000, while throughout the New York metropolitan area, the average rate was $2.05.

Double-Digit Decline in Long Island's Violent Crime Rate: Long Island's violent crime rate has experienced a double-digit decline while the property crime rate has increased. According to the New York State Division of Criminal Justice Services, in 1999, there were 386 incidents of violent crime per 100,000 residents, a 13% drop from 1998. Nationwide, incidents of violent crime fell 7.4% to 584 per 100,000 residents. Incidents of local property crime increased during the same period—5.6%—to 4,449 per 100,000 residents. The metropolitan average was 4,016 per 100,000 (reflecting a decline of 7.6%).

Long Island Residents Exceed National Educational Figures: The adult residents (those over 25) of both Nassau and Suffolk Counties are quite well educated. In fact, they exceed the national averages in terms of both high school and college level attainment. Of Long Island's adults, 87% have graduated from high school; across the country, only 83% have done so. The result is equally impressive when it comes to post-secondary school achievement. Of the area's adults, 31% have received at least a bachelor's degree from a four-year college or university, compared with 25% nationwide.

Suffolk County's Population Moves Ahead of Nassau's: The Long Island region is comprised of Nassau and Suffolk Counties. Since 1990, the metropolitan area has grown 5.5% for a mid-2000 population of 2.8 million. While less than the pace established by the New York City metropolitan area (which expanded by 9% during the same period), this is nevertheless an improvement over the prior ten-year period when Nassau-Suffolk grew by just one-tenth of one percent.

Suffolk County, on Long Island's eastern end, has moved ahead of Nassau County in terms of population. Whereas both had held steady at 1.3 million residents each, Suffolk has expanded 7.4% since 1990 for a population of 1.4 million, while Nassau County remains at 1.3 million residents (and a growth rate of 3.7% since 1990).

The village of Hempstead in Nassau County is the region's largest community. It has 57,000 residents, reflecting a 23% growth rate since 1990.

OFFICE MARKET

(CBD)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↓	↔

(Suburbs)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↔	↑

Measured Construction Keeps LI Balanced

Although Long Island has experienced a surge in speculative development over the past two years, the current level of construction is in response to current, not future demand and therefore should not contribute to large

OFFICE*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
NASSAU COUNTY				
Western Nassau	5,513,158	6.2%	(31,222)	0
Central Nassau	10,825,745	10.0%	(301,485)	0
Eastern Nassau	5,285,797	4.9%	(33,579)	121,000
Southern Nassau	1,109,330	5.9%	3,785	0
TOTAL Nassau	**22,734,030**	**7.7%**	**(362,501)**	**121,000**
SUFFOLK COUNTY				
Mid Suffolk	5,038,217	11.7%	(136,461)	458,000
Western Suffolk	7,654,348	10.4%	42,805	0
TOTAL Suffolk	**12,692,565**	**10.9%**	**(93,656)**	**458,000**
MARKET TOTAL	**35,426,595**	**8.8%**	**(457,157)**	**579,000**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Garden City, NY).

fluctuations in performance. Nevertheless, the impact of the economic downturn is translating into negative net absorption and rising vacancy rates.

Metropolitan—Absorption Dips, Sublease Space Swells: Much of the office space that has been placed back on the market is sublease space, although Long Island did have an increase of 397,000 square feet of direct available space added to the market in the first quarter 2001. Southern Nassau and Western Suffolk were the only submarkets to register positive absorption in the second quarter. The majority of negative absorption occurred in the Central Nassau submarket.

The combination of sublease space and direct space has resulted in an increase in the overall vacancy rate from 6.1% to 8.8% between the second quarters of 2000 and 2001. Nassau County saw the largest uptake in vacancy from 4% to 7.7% during this same 12-month period. Suffolk County saw the highest level of new construction, but its vacancy rate rose only 1.1 percentage points to 10.9% at the end of June. (The Suffolk County vacancy rate has traditionally been higher than Nassau County's.)

Unoccupied Space Doubles in Hauppage: Boasting the largest amount of new construction in the second quarter, the Hauppage submarket also saw its vacancy rate nearly doubled from 6.6% at the end of 2000's second quarter to 12.2% at the end of the second quarter 2001. The 408,000 square feet under construction here represents one office project being built by Tritec Real Estate Company. Upon its completion in October, 100 Motor Parkway will be the largest privately-owned office complex in Suffolk County. The development will feature twin six-story office towers located at the interchange of the Long Island Expressway (I-495) and the Sagtikos Parkway.

In redevelopment activity, the Courthouse Corporate Center (175,000 square feet) on Carleton Road was created from a former state hospital building. The hospital site will be transformed into a commercial and residential hub including a branch campus of the New York Institute of Technology. Associated businesses such as law firms are rapidly snuggling in around the courthouse. For example, the law firm Sinnreich & Safir recently signed for 5,000 square feet in the center joining Farrell Fritz, the Island's second-largest law firm. The new space will enable Sinnreich & Safir to expand and this new location puts it in close proximity to state and federal courts.

In addition, a Plainview developer has proposed a 45,000 square foot speculative office building on a site zoned for assisted living between Motor Parkway and the Long Island Expressway's Exit 55. The developer owns the site, but must apply for a zoning change, and obtain approval to proceed from the Town of Islip before construction can begin. The owner originally intended to build an assisted living facility on the site but subsequently decided that Long Island is becoming overbuilt in this category.

Reckson Executive Park Moves Forward: The Melville area in western Suffolk County tightened during the 12-month period ending in 2001's second quarter, despite new space coming on-line in the first quarter. Completion of the first phase of the Reckson Executive Park at 58 South Service Road brought 277,000 square feet of office space to Melville. The Hain Celestial Group, a manufacturer of natural foods, signed a two-year lease for 35,000 square feet in the new building. The company is moving its headquarters here from Uniondale. Other tenants taking space in the new building include consulting firm Drake Beam Morin, OSI Pharmaceuticals and Transamerica Real Estate Tax Service.

Another 85,000 square feet were added to the Melville market with the completion last Fall of the Melville Corporate Center at 6 Corporate Center Drive and the office/R&D conversion at Melville Technology Center made an additional 170,000 square feet available on Marcus Drive. This square footage was picked up quickly by Arrow Electronics, which is leasing the entire space. However, Arrow Electronics recently announced that it would cut 1,000 jobs this year. Also, Reckson Associates entered into contracts to sell two Long Island office facilities in its plan to shed its non-core assets. The properties it is divesting are a 99,000 square foot Class A office building at 125 Bayliss Road in Melville and a 351,000 square foot Class A office facility in Lake Success.

Furthermore, as a result of an industrial complex being converted to new office space on Maxess Road, an additional 150,000 square feet were added to the Melville market. Crawford Insurance leased 60,000 square feet in this building and Agilent Technologies took 4,200 square feet. In spite of the development, Melville's vacancy rate fell from 11% at the end of June 2000 to 9.9% one year later. And although Melville recorded negative absorption in the fourth quarter 2000 and the first quarter 2001, it ended this year's second quarter with a positive 46,000 square feet. No new construction projects were in progress here at the end of June.

Scarcity of Land in Nassau County Drives Builders East: At the close of this year's second quarter, four new buildings totaling 2.2 million square feet had been proposed in Nassau County, while in Suffolk County, 13 projects totaling three million square feet of office space were on the drawing boards.

Renovations continue to be the main focus in Nassau County. In the first quarter, Nassau had approximately 1.3 million square feet of space under renovation while Suffolk County had just 202,000 square feet. The trend toward a high number of renovation projects in Nassau attests to the scarcity of land available there for new construction. This is the main reason Suffolk County has emerged as the construction hub of Long Island.

College campuses and former industrial and institutional campuses are increasingly becoming hotbeds for development. One example is SUNY Farmingdale's Broad Hollow biosciences park, which recently landed OSI Pharmaceuticals as the anchor tenant for its first completed building. Meanwhile, the Stony Brook Technology Center continues to market a 300,000 square foot expansion to medical and technology spin-offs from the adjacent SUNY campus.

Price and Rent Trends: *The average value of Class A CBD office space in the Nassau-Suffolk market dropped slightly to $153.85 per square foot in the second quarter of 2001 from $154.60 per square foot during the same period one year earlier. The effective gross lease rate increased to $27.54 per square foot from $26.97 per square foot during this period. The cap rate rose to 8.4%.*

The average price of suburban office space dropped to $142.90 per square foot in the second quarter of 2001. The effective gross lease rate declined also from $25.23 per square foot in the second quarter of 2000 to $25.14 per square foot in the second quarter of 2001. The suburban cap rate increased to 8.5% during this period. Class C suburban office space averaged $89.12 per square foot at the end of June.

INDUSTRIAL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↔	↔

Signs of Softening but Market Still Stable

The Long Island industrial market has remained in equilibrium over the past year but indications of softening are evident in the three-percentage point hike in overall vacancy that occurred between the second quarters of 2000 and 2001 and the corresponding decline in absorption. Nevertheless, new supply to the market is generally committed and older stock in attractive locations is still being converted for office use.

INDUSTRIAL*

SUBMARKET	INVENTORY	VACANCY
Kings	33,405,121	6.4%
Nassau	22,197,076	7.2%
Queens	35,742,414	4.3%
Staten Island	300,000	100.0%
Suffolk	17,320,820	6.3%
MARKET TOTAL	**108,965,431**	**6.1%**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Garden City, NY).

Metropolitan Long Island contains 109 million square feet of industrial space. The vacancy rate for this space was 6.1% in the second quarter 2001, a substantial climb from just the 2.9% vacancy rate reported during the same quarter one year earlier. Net absorption totaled a negative 1.4 million square feet in the second quarter 2001 and a negative 704,000 square feet for the first six months of this year. This represents a huge reversal from the positive 394,000 square feet absorbed in the second quarter 2000.

Even in the midst of this downturn, tenants remain active on Long Island. For instance, MCI is taking 127,000 square feet of space at 60 Charles Lindbergh Boulevard in Uniondale. The company is consolidating its entire wireless division into space being vacated by Banc One's First Card division. Also, Federal Insurance Company has renewed a 49,000 square foot lease at 333 Earle Ovington Boulevard. Other leases include Arrow Electronics for 170,000 square feet (which includes a mixture of office and industrial space) at 50 Marcus Drive and Ruskin, Schlissel & Associates' lease of 62,000 square feet at EAB Plaza in Uniondale.

Industrial Stock Primed for Office Use: The growing trend of converting industrial buildings into office space is apparent in the number of such projects (approximately 500,000 square feet) that are planned or underway in the Melville market. Additionally, former defense plants are offering a mix of office and industrial space suitable for high-tech users, financial services firms, back offices, and light manufacturing companies that are looking for space. Examples include the 354,000 square foot Long Island Technology Center, a former Grumman facility in Great River, the 200,000 square foot former Hazeltine facilities in Greenlawn, and the 1.4 million square foot former Lockheed Martin plant in Lake Success.

Nassau Experiences Highest Vacancy: The Nassau submarket saw the second quarter's second-highest vacancy rate at 7.2% (second only to Staten Island) although this is a decrease from the 10.5% rate posted in 2000's second quarter. This submarket is the third-largest industrial area in the Long Island market at 22.2 million square feet, down from 22.9 million square feet one year earlier. This is partially the result of industrial space being converted into other uses.

Lake Success Succeeds in Nabbing Tenants: The redevelopment of a former Lockheed Martin campus into i.park has already attracted new tenants. One recent victory was The Sports Club lease of an entire 100,000 square foot facility at the i.park complex. Other newcomers include Wired Environments (25,000 square feet) and AXA Advisors (45,000 square feet). The redevelopment of the former R&D facility on the corner of Union and Lakeville Roads is expected to take up to a year to complete.

Straddling the Nassau/Suffolk county line, Duro Dyne Corporation is negotiating the purchase of a 130,000 square foot industrial facility in Bay Shore that was the former headquarters for Graham-Field Health Products. In addition, Ericsson Internet was considering the development of a new 123,000 square foot building in Jericho to consolidate its two existing facilities in Woodbury and more than double its current space on Long Island. The Nassau County Industrial Development Agency had already approved an economic incentive package for the project, but the plans have been put on hold until the first quarter 2002 as Ericsson recently announced that it would be cutting its staff by 10%.

Suffolk's Location an Advantage: The Suffolk submarket contains over 17 million square feet of industrial space, of which 6.3% was unoccupied in 2001's second quarter. This represents a 1.2 percentage point increase over the same period one year prior. Situated in close proximity to MacArthur Airport and the Long Island Expressway, this submarket continues to draw tenants to its business centers. For instance, Tower Fasteners acquired just under six acres of land in the

Sills Industrial Park on which it plans to build a new 60,000 square foot headquarters and distribution facility that will be nearly twice the size of its current location in Holtsville. The firm is in the process of applying for economic incentives from the town of Brookhaven's Industrial Development Agency. In Hauppauge, Miteq, a manufacturer of components for the microwave electronics industry, plans to build a 120,000 square foot facility adjacent to the company's headquarters and R&D operation at 100 Davids Drive.

LI's Doors Swing Both Ways: While some companies have yet to feel the pinch of the economic downturn, others are struggling to stay alive. The former is the case for pharmaceutical packaging firm PL Development, which has signed a five-year lease for 57,000 square feet at 515 Broadhollow Road, better known as the Lamba building. The new space will be for warehousing and distribution. Conversely, it is clear that St. Louis-based mass mailing company Dimac Direct is feeling the effects of the general slowdown in the economy as it recently announced that it would close its 245,000 square foot plant in Central Islip. Dimac pointed to the slowing economy and AT&T's decision to cut back its spending with the company as the main reasons for the plant closure.

In sales activity, First Industrial Realty Trust acquired the Montville Business Center, a 1.3 million square foot industrial park, for $83 million.

Price and Rent Trends: *Class A industrial space averaged $50.98 per square foot in 2001's second quarter, up slightly from $50.79 per square foot one year prior. The cap rate remained unchanged at 8.7%. Class A industrial rents rose to $6.64 per square foot in the second quarter of 2001 from $6.59 per square foot in 2000's second quarter.*

Class B flex space sold for $61.94 per square foot at mid-year 2001.

RETAIL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↓	↑

Oyster Bay Rejects Plans for Upscale Shopping Mall

In a 6-1 vote, Oyster Bay officials denied Michigan-based Taubman Company's controversial development proposal to build an upscale shopping mall on the old Cerro Wire factory site in Syosset. Taubman was hoping to construct a mall on a site on Robbins Lane with a special use permit. In an effort to appease residents who complained that the project would cause traffic problems and increase pollution, Taubman scaled down the mall from its original 960,000 square feet to 860,000 square feet, and in a last ditch effort that was dismissed, scaled it down again to 750,000 square feet. However, Oyster Bay residents remain unmoved in their opposition to the project.

In another thumbs down decision, the Suffolk County Planning Commission rejected a plan to add retail space to a proposed upscale housing development on Route 347 at Moriches Road in St. James. As part of its "smart growth initiative," the planning board stated that it opposes big-box retail and strip developments.

New Projects Announced: G&S Investors announced plans to develop a destination retail center on County Road 51 that could bring big-box tenants such as Home Depot, Target and Costco to Manorville. If G&S obtains approval for a zoning change from residential, up to 650,000 square feet of new retail space could be built. Just one week after Federated Department Stores announced it would close or retool its ten Long Island and Queens locations, Target said it will add a 144,000 square foot superstore in Commack. The Commack store has passed the planning board but still needs approval from officials of Smithtown.

Long Island is Home to Nine Super-Regional Centers: Five of Long Island's nine super-regional malls (shopping centers with at least one million square feet) are located in Nassau County. The largest is Roosevelt Field (2.1 million square feet) in Garden City. The next largest center is Green Acres mall (1.8 million square feet) in Valley Stream. Following in order of size are: Brookhaven town center (1.6 million square feet) in Yapshank, Broadway mall (1.5 million square feet) in Hicksville, Smith Haven mall (1.4 million square feet) in Lake Grove, Sunrise mall (1.3 million square feet) in Massapequa, and South Shore mall (1.2 million square feet) in Bay Shore. The last two are the Mall at Oyster Bay and the recently-expanded Walt Whitman mall (one million square feet each).

Sales/Income Soar Above National Norms: Retail sales in the Nassau-Suffolk market averaged $46,600 per household in 1999, according to Sales & Marketing Management's *2000 Survey of Buying Power*. This figure exceeds the national norm of $33,100 by a phenomenal $13,500. Sales were highest in Hempstead ($80,600), followed by Nassau County ($49,400) and Suffolk County ($43,800). Each of the markets analyzed in the survey posted median incomes above the $37,200 national norm. Nassau County had the highest median income at $58,000 per household. Suffolk County posted a median income of $57,000 per household, while the median income in Hempstead was $43,200.

Price and Rent Trends: *The average value of Class A anchored, unenclosed retail space in Nassau-Suffolk was $132.65 per square foot in the second quarter of 2001, a decrease from $133.95 per square foot one year prior. The triple net lease rate averaged $21.01 per square foot at mid-year 2001, down slightly from $21.15 per square foot in the second quarter of 2000. The cap rate rose to 9.1%.*

APARTMENT MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↔	↔

Demand for Housing Exceeds Supply

The demand for residential housing on Long Island remains high for both single-family and multifamily developments, but opposition from communities dominated by single-family homeowners makes approval of condominiums and apartment complexes an uphill battle. Upscale apartment complexes seem to be having some success, however. For instance, Spiegel Associates has won approval to build a luxury apartment complex of 200 units on Route 25 following a rezoning by the town of Brookhaven. Concern about too much retail was an initial concern, but both sides reached an agreement in which Speigel agreed to dedicate eight acres of environmentally sensitive land to the town and limit ingress and egress to Route 25.

More Luxury Projects Make Headway: In Port Jefferson, Fairfield Properties began development of a 77-unit, high-end rental complex called Fairfield at Port Jefferson Village. The upscale project began in March after receiving approval from the village of Port Jefferson. The complex will be located on Dark Hollow Road within walking distance of the village's downtown business district and harbor. Also, the Park Ridge Organization is pursuing approval from the town of Brookhaven for a 450-unit luxury apartment complex, an 18-hole public golf course and recreational space. Targeted for 225 acres at the intersection of Pine Road and County Road 83, Park Ridge plans to set aside 100 acres of parkland for baseball fields, other recreational uses, and open space. If the project is approved, Park Ridge hopes to begin construction early next year.

Multifamily Permits Decline: The number of permits issued for multifamily structures (in buildings with 5+ units) fell to 424 in the first six months of 2001, reflecting a 22% decline from one year earlier. Single-family permits declined 9% to 2,069 during the same period.

Median Home Price Climbs: The median home price in Nassau and Suffolk Counties rose 11.5% from the second quarter 2000 to $237,000 one year later. Approximately 79.7% of residents in the Nassau-Suffolk area owned their homes in 2000 compared to 65.5% nationwide.

Price and Rent Trends: *Class A apartment space was valued at an average of $116.72 per square foot in the second quarter of 2001 compared to $113.55 per square foot one year earlier. Average rents increased to $19.18 per square foot from $18.86 per square foot during the same period. The cap rate fell to 9.2%. Class B apartments (i.e., ten- to 20-year-old complexes) were valued at $76.50 per square foot in 2001's second quarter.*

New York

Economic Overview

Job Growth Falls to Fourth

Employment in the New York metropolitan area expanded by 53,300 positions during the 12 months ending in June, half the number produced here during the previous 12-month period, and pushing the region down to fourth nationwide (behind Washington DC, Dallas-Ft. Worth and Los Angeles). This translated into a 1.2% expansion of the local employment base. The area's unemployment rate moved in the right direction—from 5% to 4.7%.

95% of New Jobs in Services: The service sector added a net 50,700 jobs during the period; just 19% were in the business services sub-category. The retail trade sector had the second-largest gain (10,300 new jobs). Construction added 9,200 and transportation/public utilities (TPU) grew by a net 2,600 positions.

Construction produced the largest proportional gain (5.9%), followed by services (3.1%), retail trade (1.9%) and TPU (1.1%).

Losses in Four Sectors: There were net losses in four major employment categories. The biggest decline, by far, occurred in manufacturing. Its base contracted by 3.7%, which translated into the loss of 10,900 jobs. The public sector declined by a net 4,500 positions, for a 0.7% contraction. Wholesale trade lost 2,500 jobs (a 1.1% decline); the finance, insurance and real estate (FIRE) sector shrunk by a net 1,600 jobs (0.3% of its base).

Greatest Disparities in FIRE and Manufacturing: As is true for most metropolitan areas, services employs the largest percentage of the local workforce (39%); this is above the 31% norm nationwide. Government employs approximately the same proportion locally (15.1%) as it does across the country (15.6%). Despite New York's reputation for unique shopping experiences, retail trade employs just one-in-eight workers here compared to approximately one-in-six nationally. FIRE, on the other hand, accounts for 12% of the local workforce, dramatically above the 5.8% national norm (think Wall Street, investment firms, and the U.S. divisions/headquarters of several major banks).

The exact opposite is true when it comes to manufacturing. Just 6.5% of greater New York's labor force works on a production line compared to 13.4% nationwide. Local employment in the next two categories—TPU (5.7%) and wholesale trade (5.1%)—closely parallels their national norms (5.4% and 5.3%, respectively). Construction, however, falls short (3.8% versus 5.3%).

Merger Pushes Firm to Top of Employment List: The merger of JP Morgan and Chase Manhattan, which was finalized in January 2001, has made it the largest private sector employer in greater New York, with 32,100 on its payroll. New York Presbyterian Healthcare System and Citigroup are next—both employ approximately 27,000 here. Verizon has a local roster of 25,000. Mt. Sinai/NYU Health employs 16,300; Morgan Stanley Dean Witter has a local payroll of 13,400; another newly-merged entity—AOL Time Warner—employs 13,200; St. Vincent Catholic Medical Center has 12,900 workers in the area. Other private sector firms with more than 10,000 local employees include Federated Department Stores, Merrill Lynch, New York University, Consolidated Edison, Columbia University, North Shore-Long Island Jewish Health System, Goldman Sachs, and PricewaterhouseCoopers.

Big Leases by Financial Firms: The largest office leases signed during the first half of 2001 were in the financial services industry. CSFB Direct (Credit Suisse First Boston) leased 1.4 million square feet at 1 Madison Avenue in a relocation from Park Avenue. JP Morgan/Chase Manhattan took 1.3 million square feet at 270 Park Avenue (one of the buildings vacated by CSFB). Goldman Sachs leased the entire 541,000 square foot 77 Water Street, as well as 490,000 square feet at 140 Broadway.

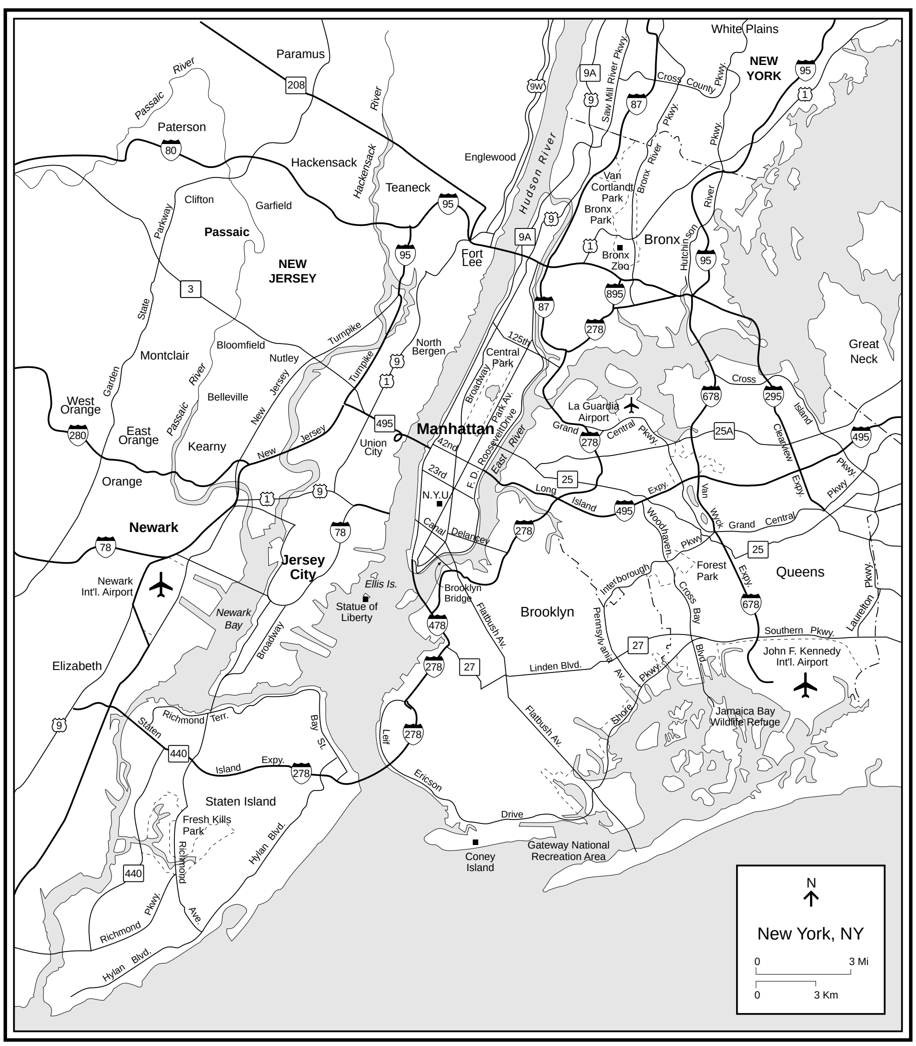
This early-in-2001 activity was fueled by record FIRE performances in 2000. In fact, bonuses paid to bankers and traders at year-end 2000 were, on average, 10% higher than the record amounts paid in 1999. And, with all the mergers in the industry, many people received special retention fees. This largesse caused many local companies and individuals to escape the negative economic news that began last Fall. At least, it took them longer to feel the ill effects. However, between September and March, New York's investment banks and brokerages eliminated nearly 10,000 positions. (See below for more layoff news.) And major cost-cutting plans have been announced. For instance, Citigroup says it will cut up to $2 billion in expenses this year; Morgan Stanley Dean Witter plants to cut $1 billion during the next two years. Even though securities firms employ just 5% of the City's workforce, they account for approximately 25% of the income.

Another example of the economic slowdown is evident in Boston Properties' recent experience. BP has two commercial projects in the pipeline at Times Square. Although the company signed Ernst & Young to a 20-year lease for virtually 100% of the first Times Square site almost two years ago, E&Y has now scaled back its needs and announced it would be subletting four of the floors. The latest rumors indicate that Arthur Andersen will be leasing 620,000 square feet in the 1.2 million square foot project. JP Morgan is marketing space in its headquarters building—60 Wall Street—as it plans to move some personnel to 277 Park Avenue to bunk with its merger partner, Chase Manhattan.

FIRE Firms Fly Across the River: Though Manhattan continues to be the nation's leading FIRE center, lower prices, financial incentives, and more space options are causing many top firms to expand/relocate across the Hudson River. JP Morgan/Chase Manhattan plans to begin moving 2,000 employees from New York City to 1.2 million square feet at the Newport complex beginning in January 2002. As indicated above, the bank will also maintain a sizable presence on Park Avenue and at 1166 Sixth Avenue. However, the newly-merged entity is expected to eventually pare up to 5,000 from its combined workforce.

ISO, a property and casualty insurance company that has been in New York for 30 years, moved its international headquarters to Jersey City in May. The company relocated 1,500 employees to the Newport World Business Center. The company says the move will result in annual savings of $6 million due to lower real estate costs, tax abatements and other incentives offered by the state. SBLI USA Mutual Life Insurance relocated 100 employees from New York City to a 30,000 square foot office on Broad Street in Newark.

Manufacturers Leave Manhattan: Manhattan is losing its manufacturers to Brooklyn and Queens. The Brooklyn trend began in 1992, when the Greenpoint Manufacturing & Design Center (GMDC) bought a 400,000 square foot rope mill and converted it into small shops and studios. Now, the GMDC is renovating buildings on Humboldt Street and Harrison Place. In the next two years, nearly two-thirds of the apparel industry's leases in the city's garment center are set to expire and GMDC wants to capture that business. Printers, the city's second-largest manufacturing sector, are also being forced out—approximately 110 are expected to lose their leases in the Hudson Square area in 2001. Several have already relocated to Long Island City (in Queens).



Another industry—biotech—is also rising in Brooklyn. ImClone Systems has decided to lease 10,000 square feet, as the main anchor of a new biotech center there. The center is a joint venture between Polytechnic University and SUNY Downstate Medical Center. ImClone is working with Memorial Sloan-Kettering Cancer Center on clinical trials. Sloan-Kettering wants to build a $100 million, 400,000 square foot biotech center, with incubation space as well as room for established companies, across the East River in Queens West. New York University's School of Medicine also has a proposal—for a $270 million, 600,000 square foot center on the grounds of Bellevue hospital. Currently, the city's only biotech incubator is Columbia University's

100,000 square foot Audubon Park, which has been full since it opened in 1995. In January, Governor George Pataki announced a $1 billion initiative to fund biomedical research in the state. It has not been decided how the money will be divided.

Downsizings Take a Bite out of the Apple: The contractions that have occurred in greater New York lately have hit a number of different industries. About 10,000 jobs were cut (mostly through attrition) following the Bell Atlantic/GTE merger, which created Verizon. CNBC.com recently reduced its workforce by 600. Internet consulting firm Xceed Inc. cut its staff of 600 by 15%. Razorfish, another Website consulting company, laid off 400 employees (20% of its staff). Barnesandnoble.com reduced its workforce by 350 (or 16%). Between April 2000 and April 2001, area Internet firms laid off more than 6,000 workers.

CNN laid off approximately 1,000 employees, following America Online's acquisition of its parent Time Warner. AOL Time Warner had already purged about 2,000 positions and closed its Warner Bros. retail stores (which was expected to lead to the elimination of another 3,800 jobs). At the same time, AOL Time Warner is proceeding with plans for a new $1.7 billion headquarters facility at Columbus Circle. The plan calls for a 2.7 million square foot mixed-use complex, complete with a retail mall, luxury hotel (scheduled to be the Mandarin Oriental), condominiums, and high-end restaurants. Jazz at Lincoln Center will have two performance halls, rehearsal space and offices on the grounds. The complex is expected to open in 2003.

As noted above, FIRE firms have also experienced major setbacks from the recent economic slowdown. Many firms experienced their biggest quarterly drop in earnings in over two years during the first quarter 2001. In addition to the aforementioned merger-related contractions, American Express announced plans to lay off up to 5,000 workers; Deutsche Bank AG plans to eliminate 2,600 jobs, including 500 in the Americas; Manhattan will bear the brunt of Salomon Smith Barney's 900 job cuts; Prudential Securities eliminated 600 positions; Bear Stearns let 400 employees go; Dime Bancorp plans to eliminate 400 jobs; and CSFB cut 150 jobs (10% of its U.S. workforce).

NYC Address Still Has Cachet: Not all the news is negative, though. Two publishers are expanding their Manhattan roots. McGraw-Hill just signed a deal for 58,800 square feet at 2 Penn Plaza, where the company already occupies more than 450,000 square feet. Dutch publisher VNU USA, which owns *Billboard* and *The Hollywood Reporter*, has leased another 51,100 square feet (in addition to the 465,000 square feet it already leases) at 770 Broadway. The New York Times Co. (which laid off 1,200 employees in June) and developer Forest City Ratner have come to terms with city and state officials over their plans to acquire land for the newspaper's new 51-story headquarters on Eighth Avenue. The city agreed to provide the Times with $29 million in tax breaks and incentives.

West Side May Host Sports Facilities: Meanwhile, plans are being floated for a new commercial, residential and sports center on the far west side of Manhattan. The owner of the New York Jets would like a new football stadium there, and the city hopes the facility could also be used to accommodate overflow from the Jacob K. Javits Convention Center. The Jets' current lease at the Meadowlands expires in 2008.

Size limitations at the Javits are a growing problem. Mayor Rudolph Giuliani's office released a study showing that 43 groups were unable to hold their conventions here due to space limitations, which resulted in a loss of $200 million to the local economy. To correct this problem, the mayor has proposed that the city, state, and private sector partners commit to building a first-tier convention center, that, as stated above, could also serve as a football stadium. As part of the plan, the mayor has asked the MTA to extend the Number 7 subway line to the neighborhood.

Reform of City's Construction Policies: The first major re-write of the city's zoning regulations in nearly 40 years was approved in mid-2000 and revised in January 2001. Though the plan (aka the Unified Bulk Program) addresses many building features, it primarily affects height limits and setback rules.

A recent study showed that the cost of construction here was between 21% and 55% higher than in other cities (e.g., Los Angeles, Chicago and Dallas). The mayor has formed a task force to remove organized crime from the industry, re-zone vacant manufacturing land (e.g., parcels in Long Island City) for commercial and residential use, reform the building code and the Building Department, and streamline the approval process.

Of course, these programs are not going to end building problems here. Two major insurance companies that sell general liability policies to building contractors have left the state. The ones that remain have doubled (in some cases, tripled) their rates. Similar conditions exist in car leasing, auto insurance, and health care. For instance, the number of insurers offering liability coverage to rental car companies in the city has dropped from 23 to five in the last two years.

Demand for Dormitories: Due to a lack of residential space, an increasing number of post-secondary institutions in the city are leasing "unique" space for their students. The New School has leased a 144,000 square foot downtown office building on William Street which will be converted into apartments; Pace University has leased three floors on West Street; the School of Visual Arts has taken 600 beds at the George Washington hotel on East 23rd Street; and New York University has signed a lease for a property being developed on East 14th Street.

Times Square Has New Hotel: Several new hotels have joined the Manhattan scene lately (2,800 rooms were added to the city's inventory in 2000; another 2,400 are expected to come on-line in 2001). A 444-room Hilton opened on 42nd Street in Times Square. The hotel sits atop a 330,000 square foot retail-entertainment complex including an AMC theater complex and the planned Madame Tussard's Wax Museum. Other recent openings include a 463-room Embassy Suites and the 129-room Bryant Park on West 40th Street. The 1,000-room Henry Hudson opened in October near Central Park.

As a result of the enormous success of its 1,950-room Marquis (which enjoyed 94% occupancy in 2000), Marriott has plans for several more properties here (it currently operates ten). Plans call for a 420-room Residence Inn on Sixth Avenue and a Ritz-Carlton (with 298 rooms and 39 suites) in Battery Park (Marriott bought the upscale chain in 2000). The latter is scheduled to open in October. The 500-room Rihga Royal on West 54th Street has been reflagged as a JW Marriott (Thayer Lodging Group purchased the luxury property earlier this year). The New York Marriott Financial Center on West Street is also being converted into a JW Marriott, at a cost of $10 million. In 2002, a 324-room Ritz-Carlton is scheduled to debut in the former St. Moritz site at Central Park South. Marriott has also targeted New York for its latest new project—a hotel brand called Bulgari (which will be a joint venture between the hotel company and Italian luxury goods manufacturer). A Courtyard property opened at JFK Airport in April.

The new 504-room W Times Square is expected to debut this Fall. The 857-room E-Walk Westin is scheduled to open in 2002, at Eighth Avenue and 42nd Street. Construction has also begun on New York's first Mandarin Oriental. Completion is expected in late 2003. As mentioned above, the $200 million, 250-room luxury hotel is being developed as part of Manhattan's Columbus Circle project.

The city's hotel occupancy averaged 84.6% in 2000, the highest level in more than 50 years, according to PKF. The room rate averaged $237, also an all-time high. At year-end, many hotels were in the midst of multimillion-dollar improvements. How times can change. Summer 2001 found many local hoteliers, especially those in the luxury sector, cutting prices for the first time since the early 1990s. PKF reports that occupancy among the city's top-priced hotels averaged just 57.4% in July 2001, down 19% from 12 months prior. That was almost double the 11% drop (to 77%) for the city as a whole. According to PricewaterhouseCoopers, average daily room rates for the city's luxury hotels declined 8% in the second quarter, to $312. City-wide, the drop was approximately 4%, for an average of $210.

Just over 38,000 tourists visited the city in 2000; visitor spending hit $16.5 billion. The city is forecasting a modest 2.6% increase in visitors for 2001, despite the dramatic (up to 25%) declines being reported thus far in international travel.

Transit Improvements at JFK Airport: JFK International Airport handled 9.7 million passengers during the first four months of 2001, basically unchanged from the same period in 2000. It moved 536,000 tons of cargo, down 10% from the year before.

Delta Airlines plans to spend $1.6 billion to expand and revamp its terminals at JFK. The airline hopes to begin construction in mid-2002 and be completed in 2004. A new international terminal opened here in May. Meanwhile, construction continues on JFK's $1.9 billion Airtrain system, which will ultimately connect the airport to midtown Manhattan via an elevated light rail line. Airtrain will feature a 1.8-mile loop connecting the terminals, long-term parking and rental car locations, plus a three-mile Jamaica and 3.3-mile Howard Beach extension. The central terminal loop and Howard Beach sections should be ready in late 2002. The Jamaica segment is scheduled to open in 2003.

Fighting Delays at La Guardia: La Guardia International Airport handled 7.9 million passengers during the first four months of 2001, essentially the same number as handled January-April 2000. It moved 6,000 tons of cargo, down 15% from the year before.

Of the nation's regularly-scheduled domestic flights that had delays of 15 minutes or more at least 80% of the time between November 1999 and October 2000, nearly half involved La Guardia, ranking it as the most-delayed airport in the country. Nearly 16% of La Guardia's flights last year were delayed. (Newark had the second-worst record, with 8% of its flights delayed.) The main reason is that La Guardia has just two intersecting runways. Last year's AIR-21 legislation made things worse by adding new flights from La Guardia to many under-served areas. More than 200 new daily flights had been added as of November 2000, with 400 pending applications. In September 2000, La Guardia officials proposed a moratorium on new flights during peak hours. The FAA responded by limiting the number of new flights to 150 a day (which meant some flights that had already received approvals had to be cut). This was just a temporary solution, though, for the December-September 2001 period. However, the FAA has now proposed extending this plan through October 2002. In addition, higher landing fees may be imposed during peak hours. Officials expect demand at La Guardia to grow 17% over the next ten years.

Port Activity Increasing: Last year, the Ports of New York/New Jersey moved $82 billion worth of cargo, a 13% increase over 1999. This increased the Port's market share in the U.S. North Atlantic to 57.9%, up from 57.4% the year before. For the first time, container volume surpassed three million. Italy was the leading importer; China received the largest share of exports. In the first quarter of 2001, cargo volume at the Ports was up another 13%, to nearly 4.9 million metric tons, a value of $22 million. The New York Customs District (which also tracks activity in Northern New Jersey) handled $58 billion worth of goods through March, an 8% increase over the same period in 2000. Export volume increased by 9% to $21 billion, while imports grew by 8% to $37 billion.

The Ports are handling 60% more cargo than they did a decade ago, with the largest increases occurring in the last two years. The area's maritime cargo is expected to double by 2010. One of the ways the Port plans to expand capacity is to build more terminals at the former Procter & Gamble complex on Staten Island. The Port Authority acquired the 124-acre property and plans to either expand the adjacent Howland Hook container terminal or build a new terminal. Howland Hook now handles about 450,000 twenty-foot equivalent units (TEUs) a year, 80% of its capacity. The Port Authority hopes to expand Hook's current 186 acres to 340 by 2006.

Corporate Income Tax Comes Down: In July 2001, New York state's corporate income tax rate dropped to 7.5% (from 8%). Although the state sales tax rate is a low 4%, local levies bring the total to 8.5% in New York City. The personal income tax rate ranges from 4% to 6.85%, with the highest rate taking effect on incomes over $40,000 (for married couples filing jointly). New York City residents pay an additional 3%-3.8% local income tax. In 1999, the amount of state taxes paid per $1,000 of personal income was $64, just below the national level ($66).

Residential property tax rates vary depending on the jurisdiction. According to Runzheimer International, the average rate assessed on residential property in New York City was $2.05 per $100 valuation in 2000; the rate on Long Island was $2.52. The city's commercial property tax rate—$4.67 per $100—is the highest rate of 86 markets analyzed by the INDEX.

The City Council recently approved a $16 million reduction in the commercial rent tax, which affects 12,000 commercial lease holders south of 96th Street in Manhattan. The action (which raises the minimum taxable annual rent from $100,000 to $150,000) exempts 3,300 renters from the tax altogether. The reduction is retroactive to December 1, 2000. For 2002, the minimum rent will be increased to $250,000. The mayor had proposed a four-year elimination of the tax, but future reductions are not included in the current plan.

Property Crime Impressively Low: Though the metropolitan area's violent crime rate—946 incidents per 100,000 residents—exceeds the national average by 62%, it does reflect a 9% decline from the year before. The property crime rate also fell (by 8%), and to an impressive level. There were 2,907 incidents reported locally (per 100,000 residents), well below the national metropolitan norm of 4,016.

Mayor Giuliani has earmarked $4 million to add 600 new officers to the city's police force over the next six months. He also pledged $162 million to construct a DNA laboratory on the campus of Bellevue hospital.

Welfare Plan for Expirees: In December of this year, as many as 46,000 New Yorkers on public assistance will become the first welfare recipients whose eligibility will expire due to the five-year limit established by the 1996 federal welfare reform law. The mayor has announced several initiatives to address this issue, and to further advance the success of welfare reform. The city will provide the people who have reached their five-year limit with jobs—subsidized with existing federal welfare funds—for up to six months.

College Graduation Rate is High: Adult residents of the metropolitan area (those over 25) do not compare favorably with their peers across the country when it comes to secondary educational attainment. Just 76% of the adults here have graduated from high school compared to 87% nationwide. The tide turns when it comes to post-secondary education, though. Locally, 29% of the adults have obtained a degree from a four-year college or university; the national norm is 25%.

Population Passes Nine Million: The population of the metropolitan area reached 9.3 million as of mid-2000. This reflects a 9% expansion since 1990, nearly three times the growth that occurred here between 1980 and 1990.

And there has been growth in all eight counties. The fastest grower has been Richmond, which has expanded its population base by 17% in the last ten years, to 443,700. Other counties that experienced double-digit growth were Queens, Putnam and Bronx. The largest county in the metropolitan area is Kings (2,465,300), followed by Queens (2,229,400).

New York City's population was tallied at just over eight million in the 2000 census, a 9% increase from 1990. Three other communities here have more than 50,000 residents. They are Yonkers (196,100), New Rochelle (72,200) and Mt. Vernon (68,400). All three have expanded their bases since 1990.

OFFICE MARKET

Midtown Manhattan

(CBD)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↓	↔	↑	↔	↓	↓

Downtown Manhattan

(CBD)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↑	↔	↓	↑	↓	↓

Manhattan Shifts into Reverse

Sublease space returned to the Manhattan office market totaled nearly ten million square feet at the end of June 2001 causing the availability rate (which includes sublease space) to climb to 9%. Meanwhile, space abandoned in the wake of the economic downturn caused the vacancy rate to rise 113% and net absorption plunge into the red. Although the market remains healthy, landlords are finding it increasingly difficult to lease available space causing many of them to resort to deep discounts to attract tenants.

Metropolitan—Tenants on the Fence: The economic downturn has potential Manhattan tenants planted firmly on the fence waiting to see how low lease rates will go as more sublease space floods the market. Office space that would have been attractive just one year ago has become a financial drain for many firms.

The metropolitan Manhattan office market contains 361 million square feet, of which 5.1% was vacant at the end of June 2001. A 5% vacancy rate generally indicates a tight market. However, compared to just one year ago when the overall vacancy was a mere 2.4%, Manhattan has softened significantly. Net absorption fell to a negative 5.5 million square feet, an all-time low and in sharp contrast to the positive 5.1 million square feet posted one year earlier. In fact, companies leased just four million square feet of space in Midtown and Downtown in the first quarter this year, down by half from the eight million square feet rented in the first three months of last year. However, approximately 6.2 million square feet of new space remained in progress at mid-year 2001.

Central Business District—Downtown Does a 180-Degree Turn: Downtown Manhattan saw absorption plunge from a positive two million square feet in the first half of 2000 to a negative 2.4 million square feet in 2001's first half. In the second quarter alone, absorption fell to negative 1.5 million square feet. The Downtown submarket grew 1.5% to 105.7 million square feet between the second quarters of 2000 and 2001.

OFFICE—Manhattan*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
DOWNTOWN				
Battery Park	8,886,385	11.1%	(249,723)	0
City Hall	10,009,070	5.6%	(44,403)	0
Financial District	32,631,890	6.8%	(679,706)	0
Insurance District	19,606,854	5.4%	(224,903)	0
Greenwich Village	11,137,418	5.7%	(151,156)	0
World Trade Center	23,403,808	1.8%	(109,139)	0
Downtown TOTAL	**105,675,425**	**5.6%**	**(1,459,030)**	**0**
MIDTOWN NORTH				
Columbus Circle	17,847,170	4.0%	(304,809)	1,625,000
Grand Central/UN	40,592,242	4.5%	(705,165)	373,646
Madison Avenue	12,518,679	4.6%	(73,767)	1,200,000
Park/Lexington	27,018,329	2.5%	(267,466)	850,000
Plaza District	17,333,842	5.5%	(156,163)	0
Rockefeller Center	24,094,055	2.7%	(147,159)	1,035,180
Third Avenue	11,642,663	3.8%	(177,816)	0
Times Square/Theatre	20,185,700	3.8%	(366,427)	1,100,000
Midtown North TOTAL	**171,232,680**	**3.9%**	**(2,198,772)**	**6,183,826**
MIDTOWN SOUTH				
East Midtown South	37,096,688	6.6%	(954,363)	0
Garment District	28,093,797	8.8%	(475,615)	0
Penn Station	12,891,568	6.1%	(334,621)	0
West Midtown South	5,980,570	2.8%	(35,731)	0
Midtown South TOTAL	**84,062,623**	**7.0%**	**(1,800,330)**	**0**
Manhattan TOTAL	**360,970,728**	**5.1%**	**(5,458,132)**	**6,183,826**

*All figures are as of second quarter 2001.

Source: CB Richard Ellis (New York).

Approximately 8% of this office stock was available while 5.6% was vacant at the end of June, a 56% increase in vacancy from one year earlier.

Manhattan's Skyline Shattered: The biggest transaction downtown this year was the privatization of the World Trade Center. In April, the World Trade Center's twin towers, in addition to buildings four and five of the seven-building commercial complex and 425,000 square feet of retail space, were leased for 99 years to Silverstein Properties and Westfield America for more than $3 billion dollars. Both 110-story towers, which stood as icons of global commerce, were destroyed on the morning of September 11, 2001 in an apparent terrorist act against the United States. Later that afternoon, the two million square foot Seven World Trade Center collapsed as a result of structural damage caused by the second tower leaning against it prior to imploding.

The World Trade Center housed scores of corporations and offices. The biggest single tenant (with 3,500 employees) was financial services firm Morgan Stanley Dean Witter. A concentration of commercial forces from

OFFICE—Westchester County*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION
White Plains CBD	6,367,334	15.0%	(43,866)
East I–287 Corridor	11,323,536	11.3%	(73,133)
Southeast Westchester	2,006,472	5.3%	10,425
West I–287 Corridor	6,997,511	12.1%	71,216
Southwest Westchester	1,198,406	6.6%	20,192
Northern Westchester	5,673,351	7.6%	(20,099)
TOTAL	**33,566,610**	**11.0%**	**(35,265)**

*All figures are as of second quarter 2001.

Source: CB Richard Ellis (New York).

around the world also rented space in the buildings including investment companies from Asia, Europe, and South America. The World Trade complex represented one-tenth of all office space in lower Manhattan.

Midtown North Swamped with Sublease Space: Midtown North saw a total of 4.1 million square feet of sublease space become available in 144 buildings during the second quarter. The Midtown North submarket consists of more than 171 million square feet and was 8% available and 3.9% vacant at the end of June. The latter reflects a two percentage point increase from 2000's second quarter. This submarket also registered 2.2 million square feet of negative absorption in the second quarter 2001, the highest deficit recorded of the three Manhattan submarkets.

With new construction exceeding 1.6 million square feet, Columbus Circle saw the highest level of development in the second quarter. This consisted of one project at 10 Columbus Circle, slated for completion in 2003. The project is being designed as AOL Time Warner's new headquarters. The firm has committed to taking 879,000 square feet in the building. Vacancy in this submarket rose from 1.6% to 4% between the second quarters of 2000 and 2001.

Midtown Has Numerous Large Projects Underway: Other large projects under development in Midtown included 1.2 million square feet at 383 Madison Avenue and another 1.2 million square feet that will be the future home of the CIBC World Markets at 300 Madison Avenue. This project includes two trading floors, a data center floor and office space above a second-floor lobby and ground-level retail. CIBC has a 30-year lease to occupy the entire building. The company will relocate all 3,000 of its New York staff from four existing buildings into the new structure when it is finished in 2003. Early this year, Credit Suisse First Boston agreed to lease 1.3 million square feet at 1 Madison Avenue.

Approximately 1.1 million square feet were also in progress at Seventh Avenue and 42nd Street, aka 5 Times Square, scheduled for completion by the end of this year and another one million square feet were under construction at 1 Rockefeller Plaza West. The 850,000 square feet going up at 731 Lexington Avenue has a completion date of October 2004. Bloomberg, a financial information services and media company, has pre-leased 700,000 square feet in the new mixed-use tower to accommodate its projected growth over the next two years. In addition, there are 20 proposed buildings totaling just under 13 million square feet in seven different submarkets. The Times Square/Theater submarket has the most space in the proposal pipeline at just under four million square feet.

Developers Eye Long Island City: Elsewhere in the metropolitan area, efforts to transform the industrial section of Long Island City, Queens into office space are finally moving forward. Prominent Manhattan real estate developers are preparing plans to construct skyscrapers in the 37-block area near the Queensboro bridge once the area is rezoned. The City Council is expected to approve a proposal to allow greater commercial development in the neighborhood and developers are eager to build in the area because new incentives will allow their projects to compete with rival locations such as Jersey City. Companies coming to Long Island City from Manhattan or out-of-state will enjoy income tax cuts of $3,000 per employee per year for 12 years. The incentives are attracting big hitters such as Louis Dreyfus Property Group, which wants to build a four million square foot office campus on the corner of Jackson Avenue and Queens Boulevard. Trophy builders such as Minskoff Equities, which has a 555,000 square foot building on the drawing board for 30-30 Northern Boulevard, are also hoping to get in on the action.

Conditions Tighten in Westchester: The Westchester County office market actually tightened during the year ending June 2001. Vacancies declined in all of Westchester's submarkets producing an overall 11% vacancy rate in the second quarter. No new construction got underway here during the last 12 months. And this played a significant role in the declining vacancy rate. Demand also slowed during the first half of this year although not nearly as much as in New York. Activity is expected to increase here as it draws spill-over tenants from neighboring Fairfield County, CT. Fairfield's vacancy rate was 9.1% at the end of the second quarter and rents dropped during the past few months, but they are still significantly higher than in Westchester.

Office inventory in Westchester County totaled 33.6 million square feet at the end of June. There has been no new construction in the most recent 12-month period and net absorption fell to a negative 307,000 square feet in the first half of this year.

Price and Rent Trends: *The price of Class A CBD office space in Downtown Manhattan rose 13% from last year's second quarter to $326.62 per square foot in the second quarter 2001, a substantial uptake. The effective gross lease rate climbed 2.6% to $48.13 per square foot during the same period. The Downtown cap rate fell to 7.5%.*

Conversely, the average value of Class A CBD office space in Midtown Manhattan fell 7.3% to $389.00 per square foot in the second quarter of 2001 from $419.55 per square foot during the same period one year earlier. However, the effective gross lease rate showed an uptake to $64.18 per square foot in the second quarter of 2001 from $62.17 per square foot during the same quarter one year ago. The cap rate increased to 8.6%.

INDUSTRIAL MARKET**

Vacancies Decline Across the Board

The Westchester County industrial market tightened during the year ending in 2001's second quarter as tenants soaked up 663,000 square feet of space with construction at almost a standstill. Vacancies fell in every submarket with the Southwest Westchester area seeing the greatest drop (5.2 percentage points).

The Westchester County industrial market contains 24.9 million square feet of space, of which 6.8% was unoccupied at the end of June 2001. This represents a 2.8 percentage point drop from the second quarter 2000. Net absorption totaled 284,000 square feet during this year's second quarter aided by virtually a standstill in new construction—only one building was under development, a 20,000 square foot project on North State Street in the town of Briarcliff Manor in Northern Weschester County. No new buildings of significant size have been completed in Westchester County since 1998.

Submarket with Most Growth has Highest Vacancy: The Northern Westchester submarket grew only a modest 3.5% between the second quarters of 2000 and 2001 to four million square feet, but the increase was the most growth posted by any submarket. With no new construction in the county, this low pace of growth is not surprising. Northern Westchester also registered the county's highest vacancy rate at 20.2% in the second quarter, although this reflects a 2.5 percentage point decrease from one year earlier. Over the most recent 12-month period, Northern Westchester posted negative absorption in three out of four quarters.

INDUSTRIAL—Westchester County*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION
East I–287 Corridor	2,501,865	3.8%	(11,255)
Northern Westchester	4,037,089	20.2%	(27,461)
Southeast Westchester	6,092,989	7.7%	(56,500)
Southwest Westchester	7,653,875	2.8%	369,665
West I–287 Corridor	4,565,431	2.0%	9,243
TOTAL	**24,851,249**	**6.8%**	**283,692**

*All figures are as of second quarter 2001.

Source: CB Richard Ellis (New York).

Southwest Westchester Records Most Absorption: In 2001's second quarter, the Southwest Westchester submarket posted 370,000 square feet of net absorption, the highest level reported among the five surveyed submarkets. This caused a decline in the vacancy rate to 2.8% at the end of June from 8% in 2000's second quarter. The largest industrial area in Westchester County, this submarket contains 7.7 million square feet.

RETAIL MARKET**

Exodus of Big Name Retailers Takes Manhattan by Surprise

The recent retreat of big name retailers such as Guess, Lechters, Restoration Hardware, Warner Brothers, Wings, and The Gap took Manhattan by surprise as their retreat represents the reversal of an eight-year trend. Reasons cited include exorbitant rents, overexpansion and the recent cooling of retail sales. Many of the stores pulling out of Manhattan have only been there for a couple of years having jumped in at the height of the economic boom. Now that economic realities are sinking in, some retailers are finding it difficult to make a profit while paying such high rental lease rates. Brokers and owners predict that strong luxury retailers, banks, drugstores, and copy shops will fill some of the abandoned space.

Tenants Sign on at AOL Time Warner Center: Approximately 364,000 square feet of retail space is in progress at 10 Columbus Circle. The entire 2.7 million square foot mixed-use project, which will be known as the AOL Time Warner Center, is slated for completion in 2003. The latest retailer to lease space at the center, upscale shoe company Cole Haan, signed for a 5,000 square foot store. Cole Haan joins Hugo Boss and J. Crew as tenants who have reserved space in the new complex.

Large Suburban-Style Retail Center in Progress in Brooklyn: One of the largest suburban-style retail centers ever built in New York City is underway in the East New York section of Brooklyn. Gateway Center, a 640,000 square foot complex, is expected to lure some of the most successful retailers in the nation. The project is being built on properties acquired by the city and state of New York. Gateway Center is scheduled to open in Fall 2002.

Owner of Manhattan Mall Plans Remake: The owner of the Manhattan Mall is looking at options for transforming the retail emporium at Broadway and West 33rd Street into a more upscale venue with specialty stores, eateries, and office tenants. Rather than one large anchor tenant, the owner is considering carving up the 307,000 square feet that Sterns plans to vacate into multi-level segments of about 25,000 square feet. The lower level through the third floor would consist of retail or restaurants and the higher floors would be allocated to office space.

Four Super-Regional Shopping Centers in New York: New York has a total of four super-regional malls (shopping centers with at least one million square feet of space). The largest is the Palisades Center (1.9 million square feet) followed by Staten Island Mall and Cross County shopping center (1.2 million square feet each) and Kings Plaza Shopping Center & Marina (1.1 million square feet).

Retail Sales Remain Well Below National Average: Retail sales in the city of New York averaged only $21,900 in 1999 and only $24,300 in greater New York, well below the $33,100 national average, according to Sales & Marketing Management's *2000 Survey of Buying Power*. However, the sheer number of households (3.3 million) in metropolitan New York has more to do with these low figures than actual dollars being spent in this shopping mecca. The median household income in New York City was $36,500 and $39,000 in greater New York compared to the $37,200 national median. The highest per-household retail sales were reported in White Plains ($64,600) followed by Manhattan ($42,300). Rockland County saw average retail sales of $41,300 per household. Bronx County reported average retail sales of only $10,500. The highest median income was posted in Putnam County ($59,600). Westchester County reported the next highest median income at $58,000 and Rockland County posted a median income of $57,200 per household. The lowest median income was reported in Bronx County ($25,700).

APARTMENT MARKET**

Manhattan Apartment Market Still a Good Investment

Manhattan real estate has always been an attractive investment and that will continue to be the case this year with land constraints, low vacancy rates and declining interest rates. New York City has one of the tightest housing markets in the nation. According to Marcus & Millichap's Spring 2001 "Apartment Research Report," apartment vacancy rates averaged 5% in early 2001 for the second consecutive year. This is expected to keep sales volume strong.

The rent guidelines just approved for about 2.3 million tenants in rent-stabilized apartments will boost income streams for New York City owners. The Rent Guidelines Board endorsed 4% hikes for one-year lease renewals and 6% increases for two-year leases renewed between October 1, 2001 and September 30, 2002. At the same time, there has been a marked slowdown in the feeding frenzies and bidding wars that had been driving up prices and rents for luxury complexes and other non-controlled apartments.

Tight Conditions to Hold: Marcus & Millichap sees little change for the historically tight submarkets such as the Upper West Side, Upper East Side and Midtown, which had average vacancy rates of 1% to 2% early this year. According to the report, the West Village and SoHo/TriBeCa will see little more than turnover vacancy in 2001 and the north and south ends of Manhattan, where vacancies are typically higher, are in the midst of revitalization and redevelopment. New apartment units are being built in Battery Park to compete with similar products on the New Jersey side of the Hudson River. One large project to get underway in the city was the 20-story, 138-unit Post Luminaria in Manhattan's upscale Gramercy East neighborhood. Demolition of single-story retail shops on the site began this Summer and will be replaced with approximately 7,000 square feet of street-level retail.

Land Constraints Steer Developers to Underdeveloped Areas: Due to a limited amount of developable land, redevelopment of current properties is the primary focus of the local multifamily market in Manahattan. This has building owners and prospective buyers scouting out new opportunities in underdeveloped areas such as the West Side, where the city and property owners are having a 1.3-mile stretch of railroad track removed. Once the track is removed, openings for retail, office and housing product should emerge in this area where industrial properties and parking structures now stand. However, the brisk pace of multifamily construction in New York City over the past several years is forecast to slow somewhat in 2001. The slowdown in permits during the first half of 2001 seems to bear this out.

Rate of Multifamily Building Slides: According to government statistics, the number of permits issued for multifamily structures (in buildings with 5+ units) in the greater Manhattan area increased only 6.3% between the first half of 2000 and 2001 to 4,500. This represents a significant slowdown from the 43% uptake posted at mid-year 2000. Meanwhile, single-family permits declined 6% to 1,700 during the same period.

Several Large Complexes Sold Recently: Recent apartment transactions in New York City include a 92-unit luxury apartment building on 70th Street between Second and Third Avenues that sold for $20 million; three apartment buildings on East 69th Street totaling 51 units sold for just over $12 million. In addition, the Praedium Group expanded its portfolio with the purchase of 627 units for a total of $26 million. A 248-unit complex on the Upper East Side ($99 million), a 54-unit complex in Harlem/Morningside Heights ($5 million), and a 40-unit complex in Chelsea/Gramercy ($4 million) also sold. In Midtown, a 16-unit building on 1st Avenue sold for nearly $4.8 million.

Area Home Prices Still Climbing: The median price of a home in the New York/N. New Jersey/Long Island area rose 10.5% to $248,100 in the second quarter 2001, according to the National Association of Realtors. Although the median home price for this consolidated area is relatively affordable, the homeownership rate in the city of New York itself was only 34.1% in 2000 compared to the 65.5% national average.

**Because of the lack of representative properties, the INDEX does not report price and rent trend data for garden-style apartment, neighborhood/community shopping center or modern warehouse sectors for New York City.

Northern New Jersey

Economic Overview

Dramatic Slowdown in Job Creation

Northern New Jersey (i.e., the Newark, Bergen-Passaic and Jersey City metropolitan areas) put on the brakes in terms of job creation between June 2000 and 2001. It added just 13,000 new jobs, well below the 34,900 that were added here during the previous 12-month period. This translated into a mere 0.7% expansion of the local employment base. The unemployment rate moved up from 3.9% in June 2000 to 4.8% 12 months later.

Service Sector Carries the Show: There were 14,100 new jobs created in the service sector during the recent period, well above all other employment categories. The second-largest gain (5,000 jobs) occurred in the finance, insurance and real estate (FIRE) sector. Retail trade grew by a net 1,900 positions. Wholesale trade and construction both added 1,500 jobs. The transportation/public utilities (TPU) sector stayed absolutely flat.

The FIRE sector was responsible for the largest proportional advance (3.4%). Services' 2.3% gain was next, followed by construction (2%), wholesale trade (0.9%), and retail trade (0.7%).

Manufacturing Does Most Damage: Services' gain was almost totally offset by the loss in manufacturing. It contracted by 3.9%, which translated into the loss of 10,000 jobs. The public sector lost 1,000 positions, for a 0.4% decline.

Wholesale Trade & TPU Employment Exceed Norms: Services accounts for the largest share of Northern New Jersey's workforce, employing approximately the same here (32%) as it does nationwide (31%). The second-largest labor category locally (14.6%) and nationally (17.8%) is retail trade. Public sector employment is also relatively close—it accounts for one-in-seven workers here and one-in-six nationwide. The parity is even greater when it comes to manufacturing, which employs 12.5% of the local workforce compared to 13.4% nationally.

Dramatic disparities appear in the next four sectors. Wholesale trade, for instance, accounts for 8.4% of Northern New Jersey's labor force, while employing just 5.3% nationwide. Local TPU employment also exceeds the national norm (7.8% versus 5.4%). Local FIRE employment (7.6%) exceeds the national share (5.8%), too. The reverse is true for construction, which employs just 3.8% here compared to 5.3% nationwide.

Telecom Tops Employment List: Though employment numbers are not available at the local level, statewide employment is dominated by telecommunications firms. AT&T employs 24,500 throughout the state from its base in Basking Ridge. Lucent Technologies has approximately 21,000 New Jersey employees; Verizon follows closely with 18,000. Health care/pharmaceutical firms are another dominant category. Saint Barnabas Health Care System has a local roster of 22,300. Johnson & Johnson employs 13,000, followed by Merck with a statewide total of nearly 12,000. Wakefern Foods, Pathmark Stores and Federated Department Stores employ more than 10,000 each throughout the state.

Other companies with large New Jersey workforces that have their bases in the northern part of the state include Prudential Insurance, UPS, Great Atlantic & Pacific Tea Co., Continental Airlines, the University of Medicine & Dentistry of New Jersey, Public Service Enterprise Group (parent company of Public Service Electric & Gas), Sears, Schering-Plough, Cendant, Federal Express, Hackensack University Medical Center, and Telecordia Technologies.

Waterfront Sites are Hot: The biggest news in Northern New Jersey, and perhaps in the real estate industry nationwide, is the explosion of development along the waterfront in Hudson County. PaineWebber's parent, UBS AG, has agreed to become the sole tenant of a 1.2 million square foot building underway at the Newport complex in Jersey City (aka Wall Street West) that will be able to house 4,000 employees. Completion of Newport Center VII, as it is being called, is expected in late 2002. PaineWebber already occupies more than half of Newport Center III. Another FIRE firm, Chase Manhattan, plans to begin moving 2,000 employees from New York City to 1.2 million square feet at the Newport complex beginning in January 2002. The bank will maintain a presence at 270 Park Avenue and at 1166 Sixth Avenue, too. However, Chase, which merged with JP Morgan late last year, is now talking of paring 3,000 workers from its combined workforce.

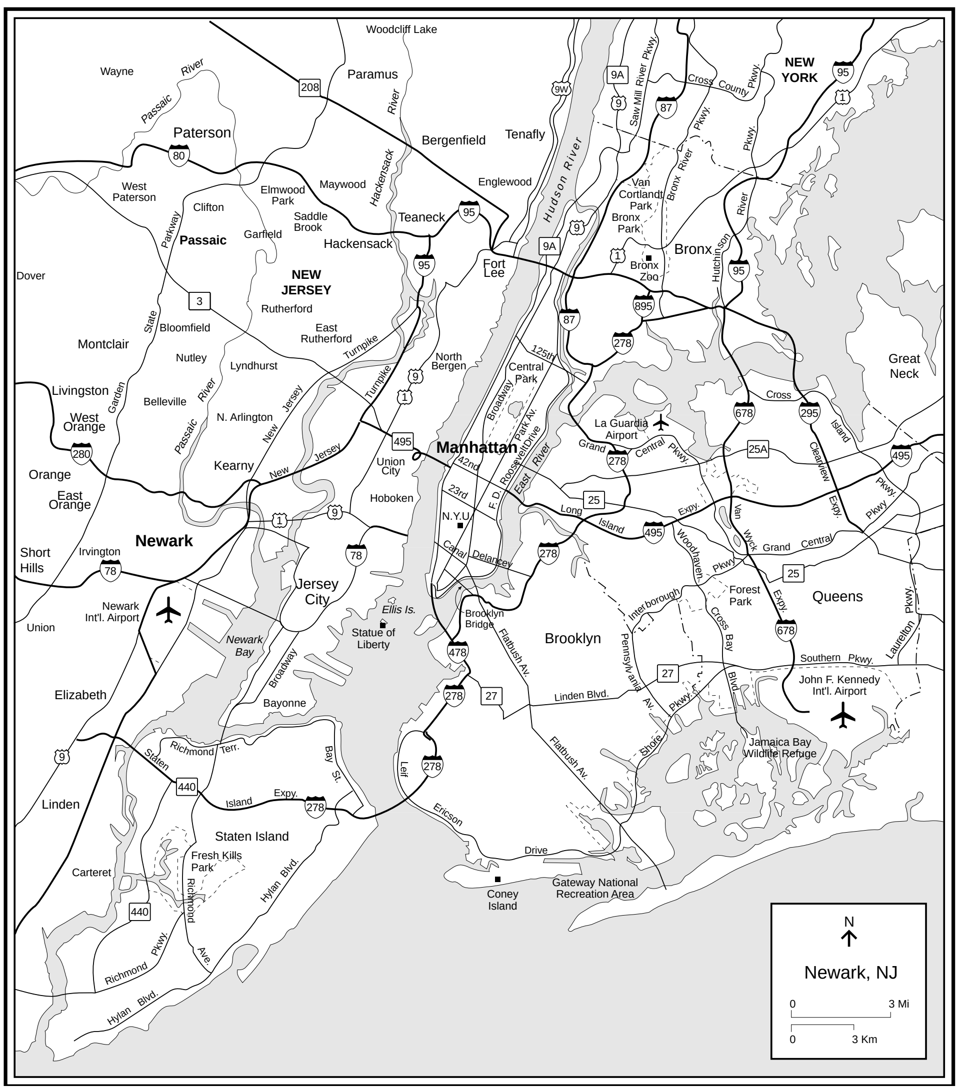
Equitable Life Assurance Society, a subsidiary of AXA Financial, is said to be eyeing 500,000 square feet, part of a 1.1 million square foot office tower Hartz Mountain plans to build in Jersey City. If the deal is consummated, Equitable would relocate employees from the 250,000 square feet it currently leases in Secaucus. In Hoboken, construction continues on the 1.1 million square foot Waterfront Corporate Center. Publisher John Wiley & Sons is the anchor tenant, having taken 400,000 square feet. The company will relocate 900 employees there from its midtown Manhattan office.

ISO, a property and casualty insurance company that has been in New York for 30 years, moved its international headquarters to Jersey City in May. The company relocated 1,500 employees to the Newport World Business Center. The company says the move will result in annual savings of $6 million due to lower real estate costs, tax abatements and other incentives offered by the state.

FIRE Firms Spread their Flames: The Hudson River waterfront is not the only location drawing firms, though. State Farm Insurance is building a 400,000 square foot regional headquarters facility on Kimball Drive in Parsippany. It will relocate there from Wayne. Completion is expected by year-end. MBNA, the world's largest credit card issuer, has leased 60,000 square feet of space in Newark. The office, at Washington and Market Streets, opened with 700 workers; the company plans to double the workforce by year-end. SBLI USA Mutual Life Insurance relocated 100 employees from New York City to a 30,000 square foot office on Broad Street in Newark.

High-Tech Demanding Space, Too: FIRE firms are competing for space in some locales. For instance, Gale & Wentworth has agreed to develop and lease the 1.1 million square foot building at 50 Dey Street in Jersey City to telecom tenants. The building will become known as the MetroNexus Technology Center. Approximately $100 million will be invested in the facility, which was originally an aluminum manufacturing plant and is still used by industrial tenants. One advantage: it already offers fiber-optic connectivity. Current tenants include AT&T and Looking Glass Network. Though Gale & Wentworth will oversee the redevelopment, the building is owned by MetroNexus North America, a subsidiary of Morgan Stanely Real Estate Funds. MetroNexus has other telecom centers in Montreal, Houston and Atlanta; it plans to open facilities in 40 cities by the end of 2002.

The Meadowlands area is also attracting telecom hubs. AT&T, for instance, created a co-location facility in a former warehouse, where servers can connect with AT&T's high-speed data lines. According to Thomas Reilly, a senior vice president in CB Richard Ellis' Paramus office, over one million square feet of space has been converted into data centers in the area. Most of the buildings are ideally suited for the job since they have high ceilings and heavy floor-load capacity. But AT&T isn't limiting itself to the Meadowlands area. It opened a 160,000 square foot Internet data and Web-hosting center in Secaucus in March. The $80 million facility is the largest of the 13 the firm has opened. So far, clients include IBM and Netilla Networks. AT&T plans to have 21 data centers open by the end of the year.



Taking the Ups with the Downs: There have been some high-tech and telecom losses, too. Lucent Technologies, based in Murray Hill, announced a $2 billion cost-cutting plan in early 2001, which the company says could lead to the elimination of 26,000 jobs worldwide. By April, the company had already slashed $100 million from its capital spending pool and eliminated 4,400 positions. In September, it spun off its enterprise networking arm into Avaya Communications (headquartered in Basking Ridge). The company hopes this as well as the sale of its fiber-optics unit in Georgia and two plants in Oklahoma and Ohio will help stem the flow of red ink. Meanwhile, Avaya has decided to close its customer service center in Parsippany, eliminating 350 local jobs. The operations will be moved to Atlanta and Oklahoma City.

There have been some contractions in the FIRE sector, too. CSFBdirect Inc. (Credit Suisse First Boston) plans to close its call center in Parsippany, terminating employment for 150. The company joins Ameritrade, Charles Schwab and Datek Online in reporting double-digit declines in trading volume for January and February 2001 compared to the same period in 2000. Schwab reported a 31% decline in customer trades for February compared to one year ago. The company is now considering subleasing half of Plaza 10 at Harborside Financial Center in Jersey City, after agreeing to lease the entire 575,000 square foot building. Plaza 10 is scheduled to be completed in the third quarter of 2002. Despite its trading decline, Datek has not changed its plans; this Spring, it began moving the first of 1,300 employees into 70 Hudson Street, also in Jersey City.

The merger of Fleet Bank and Summit Bank is pushing office space onto the market throughout the Northeast. In Hackensack, for instance, 115,000 square feet of space has been put on the market for sublease. The space is in four different locations in the downtown area.

Plethora of Pharmaceutical Firms: Northern New Jersey's economy is diverse, which is helping it weather the national downturn. In addition to high-tech and FIRE firms, there is a plethora of pharmaceutical companies. Statewide, the industry generates $11 billion a year and employs 60,000; it produces 12% of the new medical devices approved by the FDA.

Novartis is investing more than $100 million in the expansion of its East Hanover headquarters, including the construction of a 500,000 square foot research center. The company recently sold its 1.8 million square foot facility in Summit to Schering-Plough. The East Hanover expansion is scheduled to be completed in March 2003. Pharmaceutical manufacturer Organon purchased a 440,000 square foot office building on Livingston Avenue in Roseland from Prudential Insurance. The company plans to house up to 2,000 employees at the facility, while retaining its headquarters in West Orange.

In addition to acquiring Novartis' property in Summit, Schering-Plough opened its new world headquarters in Kenilworth (southwest of Newark) in October. The 163,000 square foot facility will accommodate 350 employees. It has underground parking and state-of-the-art video and teleconferencing capabilities. Schering-Plough will keep certain corporate functions in Madison; the company's consumer products unit will continue to be headquartered in Berkeley Heights. Schering-Plough has approximately 6,000 employees in New Jersey. Abbott Labs has leased 58,000 square feet at the Morris corporate center in Parsippany. The need was precipitated by Abbott's acquisition of the Knoll Pharmaceutical division of BASF and the need to move the company out of BASF's headquarters in Mt. Olive. Yamanouchi, the third-largest pharmaceutical company in Japan, plans to establish a U.S. headquarters in Paramus. It already has a 30-person R&D staff located there.

Distribution Centers Coming On-Line: The area's international trade facilities and access to key ports, airports and interstates is drawing an increasing number of distributors. Federal Express has opened a 435,000 square foot sorting and distribution facility in Woodbridge after nine years of negotiation and a brownfield clean-up. It is expected to employ 1,400. Harve Benard, designer/retailer of women's clothing, is building a 360,000 square foot headquarters and distribution facility in Clifton. About 250 employees are scheduled to be relocated there from Secaucus. Completion is expected in mid-2002. Tiffany & Co. plans to expand its 258,000 square foot office and distribution center in Parsippany by 90,000 square feet. The new space will accommodate about 500 employees. It is scheduled to open in the first half of 2002. A 215,000 square foot facility was recently completed for Allied Office Supply in Clifton. It is on the former Givaudan site being developed by the Morris Cos., as is the above-mentioned Harve Benard facility.

A&E Products Group has leased 136,000 square feet at the Port Jersey distribution building on Harbor Drive in Jersey City. The company, the world's largest manufacturer of garment hangers, will use the facility to consolidate operations from north Bergen and Long Island City, NY. Deltronic Crystal Industries/ISOWAVE has leased a 101,000 square foot building in Mount Olive. The company will relocate its headquarters and existing operations from Dover township. The company manufactures materials for the electronics and fiber-optic industries. Rathe Productions relocated its manufacturing and office operations (and 100 employees) from Manhattan to Jersey City. The company, which makes trade show exhibits and museum displays, leased 80,000 square feet of industrial space on Chapel Avenue.

New Arena Coming to Newark: The NBA Nets and the NHL Devils want a new home and downtown Newark wants a draw. Acting Governor Donald DiFrancesco's deal envisions a $355 million facility, with up to 20,000 seats. It would be owned by the state, but built and maintained by YankeeNets, which owns both New Jersey teams as well as the New York Yankees. Approximately $190 million would come from stadium-related state and federal taxes; YankeeNets would pay $115 million; the remaining $50 million would come from urban enterprise zone funds. The state has also agreed to finance $30 million worth of roadway improvements around the site. The teams are expected to sign 30-year leases. Developers envision an arena district that would also feature a parking garage, hotel, retail shops, and a TV-radio broadcast facility. The six-block site is currently occupied by a vacant warehouse and parking lot. Completion is expected in 2004. The two teams currently play at Continental Arena at the Meadowlands sports complex in East Rutherford.

Speaking of downtown Newark, a $100 million fund to attract new businesses to the city is being launched by the Newark Alliance, a consortium of local corporations including Prudential Insurance, Lucent Technologies and Verizon Wireless. And the New Newark Foundation has launched an effort to develop eight blocks near the New Jersey Performing Arts Center. The plan calls for 300 apartments, entertainment venues, and retail shops.

Mixed-Use Projects Gaining Momentum: Major development plans are also being formulated by the town of Harrison (Hudson County). The Advance Group's plan calls for two million square feet of office space, 600,000 square feet of retail space, and 2,500 housing units on a 135-acre site of former factories and warehouses. Two other developers—Roseland Property and Millennium Realty—have joined forces to push for construction of approximately 885,000 square feet of office, 100,000 square feet of retail, and 430 residential units on 31 acres along the Passaic River. The Pegasus Group is scheduled to build a hotel here, too.

Elsewhere, Roseland Property has received approvals to add approximately 1,630 residential units and 1.3 million square feet of office space to its Port Imperial project in Weehawken. This phase will also add some retail shops, a hotel, a new ferry terminal, and a connection to the new Hudson-Bergen light rail line. At build-out, the Port Imperial project, which extends into West New York and Guttenberg, will add 6,500 residences and two million square feet of commercial space to Hudson County's inventory.

The city of Paterson is also trying to get a new lease on life. Approximately one-third of the city has been designated an urban enterprise zone, which offers qualifying businesses breaks like a 3% sales tax rate, corporate employee tax credits, and unemployment tax rebates. City officials are also pushing for an extension of the new Hudson-Bergen light rail line with a stop at the main train station on Madison Avenue.

Guard Changes in Jersey City: An analysis of Jersey City government prepared by Arthur Andersen found that the city suffers from a lack of vision, poor departmental communication, and other bureaucratic and financial problems. The city was designated as a "distressed city" in 1999 and has received nearly $20 million in state aid in the past two years. Despite this, and all the development along its waterfront, it has operated at a deficit.

The Andersen report was also critical of the city's issuance of long-term tax abatements. During his two terms, Mayor Bret Schundler approved 64 tax abatements for commercial, industrial and residential projects. Nineteen abatements were granted in 2000 alone, primarily via the "payment in lieu of taxes" (PILOT) program, which allows developers to pay 2% of a project's cost over a five to 20-year period. Some believe the study was a political vendetta against Schundler by acting Governor Donald DiFrancesco, since both were running for governor. DiFrancesco, however, has since pulled out of the race because of alleged ethical misconduct when he was the attorney of Scotch Plains. Meanwhile, Glenn Cunningham was elected Jersey City mayor in June. During his campaign, he opposed granting liberal tax rebates to commercial real estate developers.

Mills Leaving Meadowlands: After many years, the Mills Corporation has agreed to look for an alternate site for their new mega mall, which they had hoped to build on 600 acres of wetlands in the Meadowlands. Now, acting Governor Donald DiFrancesco envisions converting the existing Meadowlands sports complex into a mixed-use village with a new football stadium for the NFL Giants, a NASCAR racetrack, new entertainment venues, restaurants, a hotel, office, and educational facilities. Legislation is being considered at the state level to designate the area as a Sports Entertainment District.

Several Hotels in the Pipeline: Mack-Cali is building a 350-room Hyatt Regency on the south pier of the Harborside office complex in Jersey City. Completion is expected in Fall 2002. The company also has a 300-unit residential tower underway on the north pier. A local developer estimates 6,000 new residential units have come on-line in Hudson County in the past three years, and more are in the pipeline.

A 200-room Marriott Springhill Suites is planned as part of the Highland Cross project in Rutherford. This mixed-use complex, which will also contain 900,000 square feet of office space, will be built adjacent to the Meadows office park near the intersection of Routes 3 and 17. Marriott is also building a 150-room Courtyard property adjacent to the Morris Corporate Center in Parsippany and a Courtyard and Residence Inn are scheduled to open in the second quarter of 2002 in Elizabeth.

Plans call for a 138-room Extended Stay America to be built at 1 Meadowlands Parkway on the Hackensack River in Secaucus. The hotel is being designed to include 15 marina slips, 157 parking spaces, and a walkway along the river with public access and a boat ramp. The three-acre site has been vacant since 1987.

Wyndham International bought the former Holiday Inn adjacent to Newark International Airport three years ago. The hotelier closed the 394-room property in early 2001 and is spending $32 million to turn it into an upscale hotel bearing the Wyndham name. The 190-room Holiday Inn near the Garden State Parkway in Montvale has been sold to a group of New York City investors. The purchase price was not disclosed.

For the year 2000, occupancy in the Bergen-Passaic hotel market averaged 75.7%, up a mere 0.9% from 1999. The room rate increased 6% to $109. Through April 2001, occupancy declined 2.5% to 66.6%; the average room rate increased 6% to $113. The same trends exist in greater Newark, which Smith Travel defines as including Jersey City. Occupancy there moved up 2% to 76.8% in 2000, while the average room rate ($119) reflected an increase of 7%. However, during the first four months of 2001, occupancy slipped by 3.5% to 68.1%; the room rate rose nearly 5% to $122.

Northeast's Busiest Airport: Newark International Airport has surpassed both JFK and La Guardia as the busiest airport in the Northeast. In 2000, it accommodated 34 million passengers, a 1.7% increase over 1999, just passing the 33 million handled at JFK. This made it the 12th-busiest passenger airport nationwide. Through April 2001, 10.6 million passengers moved through the Newark Airport, basically unchanged from the same four-month period in 2000. During the past ten years, the airport's passenger count has grown more than 60%. Cargo volume slipped slightly (1%) for the year 2000, to 1.1 million metric tons. It experienced a more precipitous drop—declining 15% to 309,000 tons—during the first four months of 2001.

Many Expansion Projects Underway: Continental Airlines has launched an $850 million terminal expansion at Newark Airport. A third concourse will be added with 12 wide-body gates, a new baggage-handling system, a 20,000 square foot President's Club, and a new customs area that will be able to process 1,500 passengers an hour. Completion is expected by the end of the year. This is part of $4 million worth of work scheduled to take place here by the end of 2003. For instance, a one-mile extension of the airport's monorail system is scheduled to open in the third quarter of 2001 that will extend the line to the Northeast corridor rail system, providing connections to Amtrak and New Jersey Transit. Three million people are expected to use the intermodal connection in its first full year of operation. In addition, two new parking garages are being built that will add 6,500 spaces to the airport's inventory.

Another increasingly popular airport is in Teterboro. The 827-acre facility handled 182,900 flights in 2000. The Port Authority spent $20.7 million in capital improvements there last year; another $92.5 million has been earmarked for 2001-2005, including the construction of a new administration building and terminal, as well as extensive sound proofing at area schools.

Port Activity Increasing: Last year, the Ports of New York/New Jersey moved $82 billion worth of cargo, a 13% increase over 1999. This increased the Port's market share in the U.S. North Atlantic to 57.9%, up from 57.4% the year before. For the first time, container volume surpassed three million. Italy provided the most imports; China received the largest share of exports. The Port is the nation's number one handler of automobiles, with an 8.8% increase over 1999, to 519,200 units. In the first quarter of 2001, cargo volume at the Ports was up more than 13%, to nearly 4.9 million metric tons, for a value of $22 million. There were increases in both imports and exports. The area's maritime cargo is expected to double by 2010.

The New York Customs District (which tracks air, water and rail activity in the region) handled $58 billion worth of goods through March, an 8% increase over the same period in 2000. Export volume increased by 9% to $21 billion, while imports grew by 8% to $37 billion.

Statewide, export volume increased 35% from $22.7 billion in 1999 to $30.6 billion in 2000. This was the greatest increase of the nation's top ten trading states and nearly tripled the growth rate for the nation (12.6%). As a result, New Jersey became the eighth-largest exporting state in the country, moving up a notch from the year before.

To keep up with the activity, the Port has embarked on a $1.8 billion, five-year construction program. The plan includes development of a 124-acre marine terminal at Howland Hook (Staten Island), completion of a 13-acre rail-car storage facility in Port Newark, and the demolition of warehouses in a 50-acre marine terminal at Maher to provide room for Maersk's planned terminal expansion. Maersk, which merged with Sealand, plans to build a 350-acre terminal facility here by 2003. The Port also plans to expand ExpressRail, its ship-to-rail transfer terminal. The new 70-acre facility is scheduled to open in 2003. In addition, the Port is dredging the channel to 45 feet and just received federal approval to deepen the harbor to 50 feet.

Brownfields Plan: The North Jersey Transportation Planning Authority (NJTPA) and the New Jersey Institute of Technology (NJIT) are studying the feasibility of redeveloping brownfields located within 35 miles of the Ports of Newark and Elizabeth for freight-related activities, such as warehousing, distribution and light manufacturing. Sites have already been designated in Kearny, Jersey City, and Elizabeth. This is part of a state and federal initiative to develop an international intermodal transportation corridor from Princeton to the George Washington bridge to accommodate the projected doubling of waterborne cargo in the next ten years.

Light Rail Line is Rolling: The first several legs of the 20.5-mile Hudson-Bergen light rail line opened in April 2000 with 12 stations, including 34th Street and 45th Street in Bayonne, as well as several stops in Jersey City (including West Side Avenue, Martin Luther King Drive, Essex Street, and Exchange Place). In November 2000, three additional stops were opened—Harborside, Harsimus Cove and Newport. Thus far, ridership has skyrocketed, rising 215% from the day the line opened. The system recorded its millionth rider in December 2000. Now, construction is underway on the leg between Newport and Hoboken, south from 34th Street to 22nd Street in Bayonne, and north from the Hoboken terminal to Tonnelle Avenue in north Bergen.

Meanwhile, New Jersey Transit is moving ahead with plans to restore passenger rail service between Scranton, PA and Hoboken, in hopes of relieving the daily grind on Route 80. The plan was recently facilitated by the state Department of Transportation's $21 million purchase of the Lackawanna cutoff, a 28-mile stretch of rails and real estate in western New Jersey. The entire project is expected to cost $200 million, including new rail stations in Warren and Sussex Counties. The federal government has pitched in $1 million for an environmental impact study. Completion is expected in 2006.

PATH Trains are Updated: In addition to the cargo-related activities listed above, the Port Authority has approved a $1 billion overhaul of the PATH system (i.e., the rail network that shuttles 260,000 people underneath the Hudson River every day). The plan calls for replacing or repairing all 340 of the system's rail cars. To help pay for the project, PATH fares were recently increased from $1 to $1.50, the first increase since 1987. This is expected to raise approximately $19 million annually. The Port Authority also raised tolls on its bridges and tunnels for the first time in ten years.

Auto Insurers Abandon State: State Farm Indemnity in Wayne and American International Group (AIG) want out of New Jersey's highly-regulated auto insurance market, with its strict price controls. One of their biggest complaints has to do with the Automobile Insurance Cost Reduction Act of 1998, which required auto insurers to cut their rates by at least 15%. The law was also supposed to lower underwriting costs, but those changes have been delayed. State Farm is the largest auto insurer in New Jersey, covering more than 800,000 vehicles. It claims it loses $1.11 for every $1 it collects here. It says it has lost a quarter billion dollars since September 1999. The companies cannot leave the state without approval from the New Jersey Department of Banking and Insurance, though. The other complication is that the companies want to continue offering homeowners' and life insurance here, but the insurance commissioner could rescind those rights as part of their exit packages.

Most Taxes are Moderate; Property Rates are High: New Jersey's corporate income tax rate is 9%. The state sales tax is 6%. Personal income is taxed between 1.4% and 6.37%. The top rate becomes effective on income levels of $150,000 (for those married filing jointly). Residents paid a total of $60 in state taxes per $1,000 of income in 1999, $6 below the national average.

Property tax rates are another story, however. In Newark, commercial property is taxed at an effective rate of $24.53 per $100 valuation. There is a major caveat, though. Properties here, and in several municipalities in New Jersey, have not been reassessed for more than 30 years. Therefore, these rates are being levied on very old values. But, even where properties have been reassessed, like Jersey City, the rates are still high. Commercial property in the Hudson County community is taxed at $4.46 per $100, the second-highest rate of 86 markets analyzed by the INDEX. Residential property throughout Northern New Jersey is assessed at $2.45 per $100, the third-highest rate of 56 markets reviewed by the INDEX.

The state legislature passed a $22.9 billion budget in June, boosting overall spending by $1.5 billion and providing $332 million in NJ Saver rebate checks for New Jersey homeowners. The budget will also return $11.6 billion to municipalities and local school districts.

Educational Attainment Rate is High: Adult residents (those over 25) of greater Newark and Bergen-Passaic have surpassed the national norms when it comes to both high school and college graduation. Nationwide, 83% of adults have completed high school compared to 87% locally. The disparity at the post-secondary level is even more dramatic. Thirty-five percent of greater Newark's adults have graduated from a four-year college or university; 32% have in Bergen-Passaic; just 25% have nationwide.

Handouts to Higher Education: The New Jersey Economic Development Authority is building a 190,000 square foot medical research facility (aka the International Center for Public Health) in conjunction with the University of Medicine and Dentistry of New Jersey and the Public Health Research Institute. It will bring together a team of doctors and scientists that will focus on infectious disease research. This is the first major construction project in the University Heights Science Park in Newark. Completion is expected by year-end.

William Paterson University in Wayne has received a $10.5 million donation, the largest in its history. The gift is from two alumni-Christos and Tami Costakos. He is the CEO of E*Trade, the on-line personal financial services company based in Menlo Park. The university will name its business school after him and create an E*Trade Financial Center, a simulated trading and financial floor where students will learn about investing.

Crime Numbers are Down: The crime rates throughout the region have declined. In 1999 (the most recent year for which comparative data is available), there were 804 incidents of violent crime reported per 100,000 residents in Jersey City, down 2% from 1998. The rates in Bergen-Passaic (250 per 100,000) and greater Newark (614) also declined—by 4% and 8.6%, respectively. The national metropolitan norm was 584 incidents. The most dramatic decline in property crime rates occurred in greater Newark. Its rate fell 16.5% between 1998 and 1999 to 3,318 incidents per 100,000. All three local rates were below the national norm of 4,016.

Population Surpasses Four Million: According to the 2000 Census, the population of the three metropolitan areas that make up Northern New Jersey totaled four million, up 7% from 1990. This is a dramatic reversal from the 1.7% decline in the area's population experienced between 1980 and 1990.

The growth has been fairly well distributed. In fact, all eight of the counties here scored expansions between 1990 and 2000; double-digit growth was recorded in Warren, Morris, Hudson, and Sussex Counties. The largest county in Northern New Jersey is Bergen, with 884,000 residents; it is followed by Essex (793,600) and Hudson (609,000).

The largest city in the region is Newark (273,600), though Jersey City is advancing quickly. Its population has grown 5% during the last ten years, for a 2000 total of 240,100. The two other area cities with more than 100,000 residents are Paterson (149,200) and Elizabeth (120,600).

OFFICE MARKET

(CBD)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↓	↑

(Suburbs)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↑	↔	↔	↓	↔	↑

Migration from New York Continues to Bolster New Jersey

Despite—or perhaps because of—a general softening of the economy, Northern New Jersey continues to lure office tenants across the Hudson. Lower rents, reduced operating costs and tax incentives make New Jersey attractive to office users and developers.

Metropolitan—Sublet Space on the Rise: For the second consecutive quarter, the Northern New Jersey market saw an increase in the amount of sublet vacancy. The widespread decline in corporate profits has put pressure on companies to downsize and in some cases to reduce or consolidate their real estate holdings. The result has been to introduce more sublet space into the market. Indeed, most of the new vacancy added during the second quarter came from sublet space, with direct vacancy nearly unchanged.

CB Richard Ellis defines the Northern New Jersey office market as Bergen, Morris, Essex, Hudson, and Passaic Counties. Total inventory in this market at the end of June 2001 totaled 79.6 million square feet compared to 79.1 million square feet one year before. Vacancy increased for the second consecutive quarter—from 9.5% at the end of 2000 to 13.6% at the end of June. First quarter vacancy was 12.2%.

The increase in vacancy occurred in every submarket. In Bergen County, it rose from 7.3% a year ago to 9.6% last quarter, and to 11.4% as of June. Vacancy in Morris County rose from 8.3% a year ago to 17.8% last quarter, and to 19.8% in the second quarter.

Vacant sublet space had a dramatic effect on net absorption, driving the figure down to negative 998,500 square feet compared to a positive 522,000 square feet last year, a swing of approximately 1.5 million square feet. The end of the quarter saw almost 4.4 million square feet of new space under construction, more than the 3.1 million square feet underway at the same point last year.

CBD—Newark on the Rebound: Attractive lease rates, improvements to local infrastructure and good access to a major airport and highways have converged to bring Newark (Northern New Jersey's CBD) back as a viable business location. JEMB Realty plans to turn the

OFFICE*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
Bergen	20,907,668	11.4%	(500,525)	953,498
Essex	20,149,556	14.6%	(43,767)	118,347
Hudson	14,294,550	3.3%	(107,168)	1,680,647
Morris	19,892,327	19.8%	(185,089)	1,603,148
Passaic	4,254,157	24.4%	(161,928)	0
TOTAL	**79,561,258**	**13.6%**	**(998,477)**	**4,355,640**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Paramus).

Krementz building on Broad Street into a telecom hotel, making it the third Newark property to house equipment for telecommunications and Internet companies. Legal publishing firm Mathew Bender is moving its headquarters from Manhattan to Newark where it will take 88,000 square feet on three floors in the historic art-deco Newark National building at 744 Broad Street. The 650,000 square foot building has undergone a complete renovation, upgrading it to Class A space. Already located in Newark, Public Service Electric & Gas will expand its presence by taking two more floors at 80 Park Plaza. The new space will give PSE&G an additional 63,000 square feet. Claremont-Newark will build a 240,000 square foot office near the New Jersey Performing Arts Center. The FBI plans to occupy the entire structure; completion is set for Spring 2002.

Jersey City in Demand: Perhaps the hottest ticket in Northern New Jersey is the one that takes you to Jersey City. Situated directly across the Hudson from Manhattan's World Trade Center, Jersey City beckons with lower lease rates and tax abatements. Indicative of the confidence that developers have in this market is the Lefrak Organization's new Newport Office Center VII. Like four other office projects developed by Lefrak in Jersey City, this one is being built on spec. The 1.2 million square foot project is slated for completion in June 2002. Lefrak has leased more than three million square feet at its Newport complex and expects building VII to be fully-leased before its completion.

Mack-Cali has begun construction on two new office towers—Harborside Plaza 5, a 980,000 square foot office complex, and the 575,000 square foot Harborside Plaza 10. Both structures are scheduled for completion in the third quarter of 2003 and will complement Mack-Cali's four other Harborside Financial Center properties. The earlier properties, totaling more than two million square feet, were begun in the late 1990s. SunAmerica is reportedly ready to cross the Hudson, leaving its Manhattan office to take 70,000 square feet on two floors of the new Plaza 5 building.

In nearby Weehawken, Roseland Property Co. has nailed down final approvals for its Port Imperial project. In addition to office space, the complex will feature 1,630 residences and ferry service to New York City.

Jersey City's commercial real estate growth has been fueled in part by a program of tax abatements where developers provide a "payment in lieu of taxes" (PILOT) of 2% of the project's cost paid over five to 20 years. Nineteen such abatements were granted in the year 2000. Not surprisingly where taxes, politics and the use of public funds are involved, controversy has ensued with some arguing that the abatement program has cost the county and the schools too much in tax revenue. An independent study by Arthur Andersen, commissioned by the New Jersey Department of Community Affairs, claims that $26 million in tax revenue was lost from 14 abatements granted during the period 1997 to 2000.

Absorption Improves in Morris County: After a precipitous drop in absorption in the first quarter, Morris County numbers have improved appreciably. The county recorded a negative 1.2 million square feet of absorption in the first quarter. That improved to negative 185,000 square feet in the second quarter.

In Morris Plains, Atlantic Health Systems has agreed to take 100,000 square feet at Building 1000 of the Morris business campus. In Parsippany, Tiffany & Co. will build 90,000 square feet of office space adjacent to its customer service center. The project, which includes a four-story parking garage, is slated for completion by the second quarter of 2002. Also in Parsippany, Sankyo-Pharma has agreed to a long-term lease for 57,000 square feet of space at Two Hilton Court. About 36,000 square feet represent a lease renewal, with occupancy of the new area expected by the end of the year. Market Measures Interactive will leave its 32,000 square foot space in Livingston and move into 40,000 square feet at Eagle Rock IV in East Hanover. The company, which signed a long-term lease, conducts market research for the health care industry.

In Hanover township, WP Commercial plans to convert a former Channel Home Center distribution facility into Class A office space. The 150,000 square foot industrial building located on 33 acres will be transformed into the 300,000 square foot Crosspointe Technology Center. The building will provide multiple fiber carriers and dual power feeds, with spaces customized to tenants' needs.

Back in Parsippany, but this time on the sales front, Mack-Cali has purchased two office buildings from Lend Lease for $48 million. The buildings are located on 20 acres and combine to provide 295,800 square feet of space. Tenants include Nabisco and Prudential Insurance. In Rockaway, WP Commercial has acquired a vacant 93,000 square foot office building on Mount

Hope Avenue, near the Rockaway Town Square mall. The developer plans to spend about six months upgrading the property.

Bergen County Vacancy Up, Absorption Down: The largest submarket in Northern New Jersey at 20.9 million square feet, Bergen County has seen vacancy rise from 7.3% to 11.4% over the past year. During that same period, net absorption dropped from 63,000 to a negative 500,000 square feet.

In the Meadowlands section of Bergen County, however, vacancies have been miniscule. In Lyndhurst, Lincoln Properties purchased the former Raytheon building from Bass Associates for more than $7.5 million. They expect to spend about $9 million to renovate the property and transform it into Class A office space suitable for high-tech tenants. When completed, it will be renamed the Meadowview Technology Center.

Price and Rent Trends: *The average value of Class A CBD office space in Northern New Jersey dropped 1.2% to $134.22 per square foot in the second quarter of 2001 from $135.83 per square foot during the same period one year earlier. The effective gross lease rate decreased to $26.00 per square foot in the second quarter of 2001 from $26.83 12 months prior. The cap rate ended the period at 10.3%.*

The average price of suburban office space increased to $201.69 per square foot in the second quarter of 2001. The effective gross lease rate increased from $26.63 per square foot in the second quarter of 2000 to $27.00 per square foot in the second quarter of 2001. The suburban cap rate decreased to 7.7% over the 12-month period. Class C suburban office space commanded $110.70 per square foot in the second quarter.

INDUSTRIAL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↔	↑

INDUSTRIAL*

SUBMARKET	INVENTORY	AVAILABILITY	ABSORPTION	CONSTRUCTION
Bergen	119,055,156	6.4%	548,641	0
Essex	86,453,696	8.5%	(242,392)	0
Hudson	103,673,472	7.2%	(27,076)	77,000
Morris	40,278,083	6.1%	43,876	254,817
Passaic	56,761,208	9.8%	(1,214,058)	0
TOTAL	**406,221,615**	**7.5%**	**(891,009)**	**331,817**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Paramus).

Market Activity Slows in Second Quarter

The Northern New Jersey industrial market includes more than 406 million square feet of space in five submarket counties. Market activity was strong during the first quarter but slowed appreciably during the next three months. Availability rose from 7.1% at the end of March to 7.5% at the close of the second quarter. Absorption also declined to negative 891,000 square feet. Passaic experienced the roughest ride with 9.8% availability, up 1% from the previous quarter. The county reported negative absorption of 1.2 million square feet. In Bergen County, there was a mere 0.1% increase in availability and a strong absorption turnaround from negative 117,000 square feet last quarter to a positive 549,000 square feet in the current period.

Hartz Reaches a Meadowlands Milestone: Hartz Mountain Industries is writing the last chapter of a saga that began 34 years ago when Leonard Stern took a giant leap of faith. That's when Stern purchased 750 acres of marshland in an area of New Jersey more hospitable to mosquitoes and pig farms than to industrial development. Now Hartz has signed a build-to-suit deal with Corporate Express Office Products for a 339,000 square foot warehouse and distribution facility. The 18 acres that Corporate Express will occupy is particularly significant because it represents the last buildable parcel in the 750-acre Harmon Cove development. Overall, Harmon Cove encompasses more than 13 million square feet of industrial space, as well as office, retail, hotel, and residential uses.

Deals Go Forward in Hudson and Bergen Counties: Hartz Mountain has also been busy in Hudson County, where it will build a 175,000 square foot warehouse and distribution facility on a ten-acre site for Walong Marketing, distributors of Asian food products. The site, which lies within Jersey City's urban enterprise zone, offers good access to the New Jersey turnpike and the Hudson-Bergen rail line. Hartz also plans to construct a 77,000 square foot distribution facility in Kearny for Great Spring Waters of America, an affiliate of the Perrier Group. Hartz is reported to be planning another industrial center nearby—a 400,000 square foot multi-tenant complex.

In Bergen County, Federal Express has signed a long-term deal to lease a 127,000 square foot facility in south Hackensack. Located in a five-building, 600,000 square foot industrial park near the intersection of the New Jersey turnpike and Route 80, the site would serve as FedEx's new Northeast distribution center.

Price and Rent Trends: *Class A industrial space was valued at an average of $55.52 per square foot in the second quarter of 2001, up from $55.03 per square foot one year prior. The cap rate was 9% at the end of June. Class A industrial rents rose to $7.44 per square foot in the second quarter of 2001 from $7.31 per square foot in 2000's second quarter.*

Class C warehouse space sold for $28.27 per square foot while Class B and C flex space went for a respective $71.01 and $58.79 per square foot.

RETAIL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↔	↑

Retail Space Remains Tight

Affluent and densely-populated Northern New Jersey has proven to be fertile ground for retailers. The availability of retail space in this market has moved at a glacial pace from 2.6% in 1999 to just 2.7% in 2000, according to a study by R. J. Brunelli & Co. That availability could increase, though, due to the recent bankruptcies of Bradlees, which closed five stores in Northern New Jersey, and Grand Union, which closed two. Kohl's, Wal-Mart and Home Depot are likely to absorb the Bradlees' sites, while Shop-Rite and Stop & Shop appear interested in the Grand Union locations.

Mega-Mall Has Mega Problems: The 200-acre, 2.1 million square foot mall proposed by Virginia-based Mills Corp. continues to draw flak from every quarter. Meadowlands Mills, which the developer has been lobbying to build in the wetlands of Carlstadt, has attracted opposition from the acting governor, a local congressman, the Sierra Club, a coalition of business and environmental groups, and the EPA, which is recommending that the US Army Corps of Engineers deny a permit. Mills is now reportedly considering alternative sites.

New Projects Extend Retail's Reach: AIG Baker will take a giant step northwest in its move to a more rural venue, Mt. Olive. The developer plans a 528,000 square foot project, ITV Crossings, and already has lease commitments from Sam's Club and Wal-Mart. Discount department store Century 21 has signed a 20-year lease to take over the 130,000 square foot former Macy's building in Morristown. Century 21 has its primary store in lower Manhattan, with satellite stores in Brooklyn and Long Island. The building, part of the colonial-style Morristown Green, has been vacant since the early 1990s. Century 21 expects to open the new store in March 2002.

Sears plans to build a 140,000 square foot Great Indoors store in Paramus at the Bergen Mall. Great Indoors specializes in remodeling products for bathrooms, kitchens and bedrooms. The project must still clear zoning hurdles, though. It needs a variance from the 36-foot height limitation and the 100-foot buffer zone requirement. Plans now call for a 45-foot-high building situated within 50 feet of residential property.

Another project facing a challenge is Starwood Heller's $40 million, 35-acre center in Secaucus. The center needs public access via an 80-foot right-of-way through property owned by neighboring Hartz Mountain Industries. Hartz has not granted the right-of-way, so Starwood Heller is suing, asserting that the Hackensack Meadowlands Development Commission gave Hartz development permits on the condition that Hartz would grant public access for future projects.

Plans have been announced to redevelop 275 acres in Harrison along the Passaic River, directly across from downtown Newark. The mixed-use project will be turned over to several developers and is expected to have an eight- to ten-year build-out. Plans include 600,000 square feet of retail space, 3.4 million square feet of office, a hotel, and as many as 3,000 residential units.

Retail Sales Below, Median Incomes Above National Average: According to Sales & Marketing Management's *2000 Survey of Buying Power*, retail sales in Northern New Jersey, which, for this purpose, encompasses the primary metropolitan statistical areas (PMSAs) of Newark and Bergen-Passaic, were lower than the $33,100 national average per household. Several communities in densely-populated regions near large retail centers recorded retail sales above the national norm, however. For instance, Wayne township, where Willowbrook Mall is located, led the region with average retail sales of $51,000 per household, followed by Warren County at $39,300 and the Parsippany-Troy Hills area at $37,300. Retail sales in the Bergen-Passaic PMSA averaged $25,900 per household. Sales in the Newark PMSA were $23,100 per household. The cities of Passaic and Newark averaged retail sales of only $13,800 and $12,300, respectively. Overall, retail sales in New Jersey increased 3.9% in June compared to 12 months prior. That was well above the 2.4% gain recorded nationwide.

In contrast to the relatively low retail sales in Northern New Jersey, median household incomes in the two PMSAs were significantly higher than the $37,200 national median at $51,100 (Newark) and $50,700 (Bergen-Passaic). Household incomes were highest in Morris County ($64,700), Wayne township ($57,800) and the Parsippany-Troy Hills area ($57,500).

Price and Rent Trends: *The average value of Class A anchored, unenclosed retail space in Northern New Jersey was $143.46 per square foot in the second quarter of 2001, a decrease from $145.97 per square foot one year ago. The triple net lease rate averaged $22.29 per square foot in the second quarter of 2001, up slightly from $22.03 per square foot in the second quarter of 2000. The cap rate was 8.8% at the end of June.*

APARTMENT MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↑	↑	↔

Home Prices Climb

Housing costs have risen sharply in Northern New Jersey. The cost of living remains far more reasonable than in neighboring New York City, however, making New Jersey an attractive choice. According to the latest data from the National Association of Realtors, the median price of a single-family home in the Bergen-Passaic metropolitan area rose 17% from the second quarter of 2000 to $276,800 in the second quarter of this year. In Newark, prices climbed 8% to $261,400.

Residential Slowdown: Permit numbers thus far in 2001 are dramatically below last year. Through June, there were just 934 permits issued (in 5+-unit projects) throughout the Northern New Jersey region, a drop of 58% from the same period in 2000. Vacancy in the apartment sector has remained very low and should stay that way throughout 2001. Single family permits also declined (by 21%), to 2,340.

Rehabs Bolster Newark Residential Inventory: Rehabilitation projects lifted Newark's office sector during the past three years. Now similar proposals stand ready to do the same for Newark's residential market. The centerpiece promises to be the transformation of the former Hahne's department store and the adjacent Griffith Company building into at least 300 apartments and 100,000 square feet of street-level retail space. The buildings, across from the New Jersey Performing Arts Center, have been vacant for about 15 years. The non-profit New Newark Foundation has options on the properties and has narrowed the field to six possible developers. The Foundation has not yet determined if it will sell or lease the properties. Work will begin on the $150 million project in 2002; when completed, the apartments will rent for $1,200 to $1,800.

Also in Newark, developers will use low-interest loans awarded by the New Jersey Department of Community Affairs to rehab vacant buildings into apartments. Regan Development Corp. of Yonkers will take the former Union office building near the Arts Center and create 66 loft-style apartments renting from $800 to $1,350 per month. The second project involves the Coleoni building in the Lincoln Park section. The completed renovation will provide 18 two-bedroom loft apartments renting for about $1,250 per month.

New Units Eyed in Jersey City: Elsewhere in the Northern New Jersey market, SmithKline Beecham has purchased the Block Drug Company and is expected to dispose of Block's Jersey City headquarters sometime during the next two years. The building is located on Cornelison Avenue, not along the waterfront. Still, several developers have expressed an interest in the property, including Panepinto Properties. Panepinto recently began work on a 306-unit apartment complex which is part of Columbus Plaza, a 1.5 million square foot mixed-use project in Jersey City. The developer also plans a 350-unit apartment project on Washington Boulevard and a 200-unit building on the site of the former State Theater.

Price and Rent Trends: *Class A apartment space averaged $134.34 per square foot in the second quarter of 2001 compared to $130.04 per square foot one year earlier. Average rents rose to $23.32 per square foot from $22.54 per square foot during the same period. The cap rate was 9.2%. Class B apartments (i.e., ten- to 20-year-old complexes) were valued at $78.71 per square foot in 2001's second quarter.*

Philadelphia

Economic Overview

Job Growth Slows to a Crawl

The Philadelphia metropolitan area created just 2,800 net new jobs during the 12 months ending in June, the smallest advance of the ten markets analyzed in this issue of the QUARTERLY and a dramatic turnaround from the 53,700 new jobs created during the prior 12-month period. The recent gain translated into a minuscule 0.1% expansion of the local employment base. The area's unemployment rate moved up from 4.1% to 4.5%.

Expansions in Services & Construction: The service sector added the most new jobs during the period (6,300), for a 0.7% gain. The next-largest absolute gain occurred in the construction industry. It added 3,800 jobs, for a 3.7% expansion of its base. Transportation/ public utilities (TPU) grew by 2,300 positions, a 2% gain. Wholesale trade and the finance, insurance and real estate sector (FIRE) added 600 and 500 jobs, respectively. Both translated into gains of less than 1%.

Biggest Loss in Manufacturing: There were losses in three major employment categories. Manufacturing suffered a 2.4% contraction, which translated into the loss of 7,200 jobs. It was followed by retail trade (2,400 jobs, which represented a 0.6% decline) and government (1,100 jobs; 0.4%).

FIRE Differs Most from National Norm: The service sector employs 37% of greater Philadelphia's workforce, above its national norm (31%). The second-largest sector here is retail trade, with 16.3% of the workers. This, however, falls short of the national average (17.8%). The public sector is also comparatively small, employing one-in-eight workers here compared to one-in-six nationwide. Manufacturing is closer to its national norm (12.2% versus 13.4%). The largest disparity occurs in financial services. It accounts for 7% of the local labor force compared to 5.8% nationally. Wholesale trade employs approximately the same here (5.6%) as it does nationwide (5.3%). The next two sectors fall short of their national norms—TPU (4.8% versus 5.4%) and construction (4.4% versus 5.3%).

Education & Health Care Top Employment List: The University of Pennsylvania is the largest private sector employer in the metropolitan area, with 18,100 on its payroll. Jefferson Health System is next, with a roster of 16,100. Bell Atlantic follows, with 10,200 employees. Merck has 9,800 on its local payroll. Aetna employs approximately 8,800 here. Tenet Healthcare and the Vanguard Group both employ 8,200 in the greater Philadelphia area. Other private sector firms with more than 4,000 local employees include Crozer-Keystone Health System, Peco Energy Co., PNC Financial Services, Comcast Corp., Genesis Health Ventures, Boeing, SmithKline Beecham, Mercy Health System, the Albert Einstein Healthcare Network, and Virtua Health.

Some Coups for the Keystone State: Though the above list may make it appear that greater Philadelphia is dominated by health care companies, it is attracting an increasingly diverse group of industries. For instance, SAP, a German-based developer of business software, announced some big news in late 2000. The company, which already employs 1,500 at its campus in Newtown Square, says it intends to acquire 150 additional acres for the construction of 700,000 square feet of office space to house another 600 workers. The plan calls for three distinct facilities: the Global Solution Center, the Partner E-Business Center, and the Institute for Innovation and Development.

Other high-tech firms are attracted here. In fact, the February 2001 issue of *Industry Standard* magazine gave Philadelphia's Route 202 high ratings for its large number of well-educated high-tech engineers, green, rolling hills, affordable houses, and good schools. Companies located there include Vishay Intertechnology, Vanguard, Internet Capital Group, and Systems & Computer Technology. The latter, which employs 900 at its headquarters in Malvern, supplies software to academic institutions, governments and utility companies.

Shooters Post & Transfer has relocated to Philadelphia from Cherry Hill, NJ. It leased 20,000 square feet in the Curtis building on Independence Square West. The film/video post-production company's business has more than doubled over the past few years.

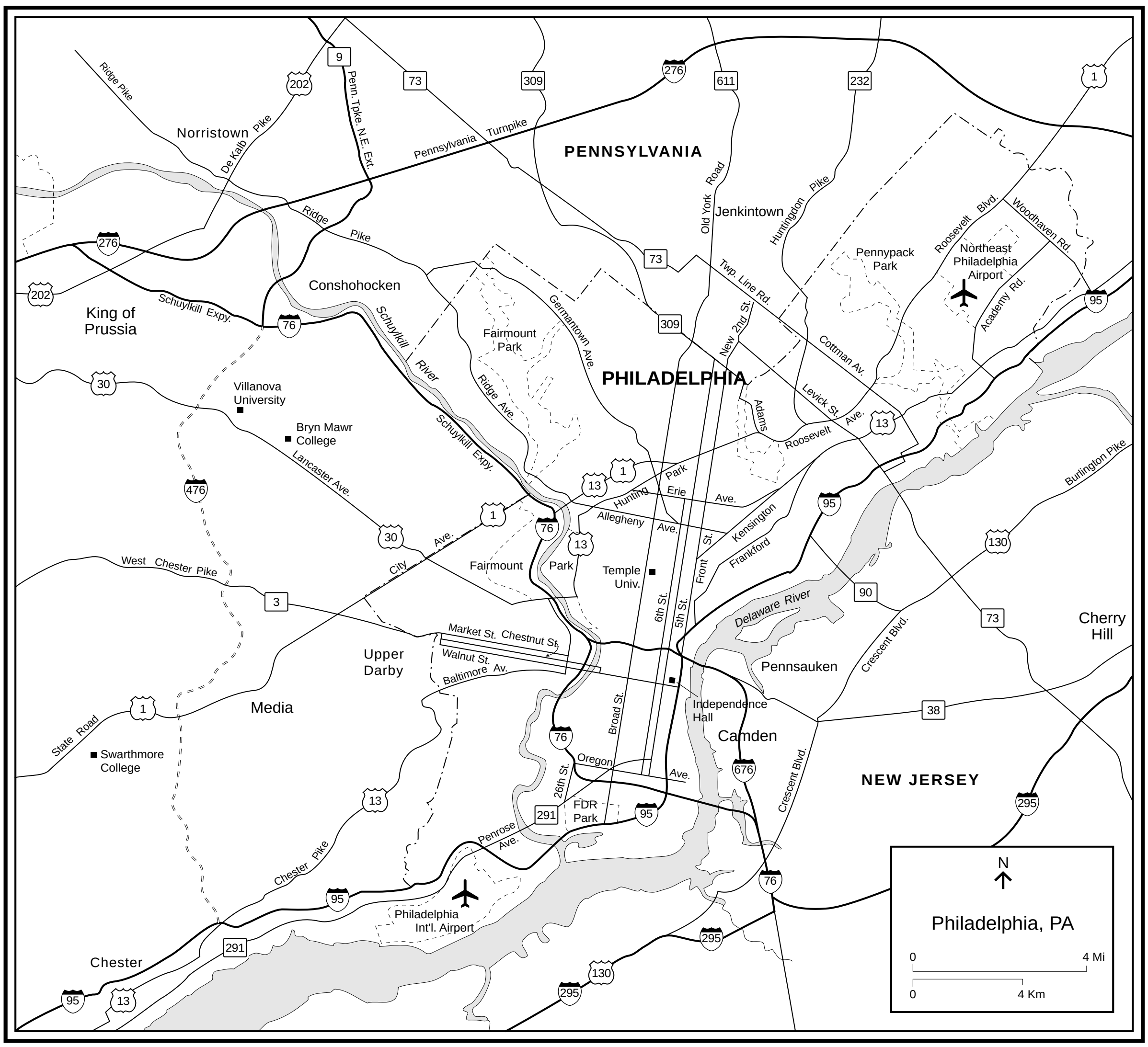
Incentives Lure Industrial Projects: The Philadelphia Industrial Development Corp. (PIDC) is helping draw more companies here. Copi-Quik, Inc., a wholesale distributor of office machines, is building a 62,300 square foot facility in the Byberry East industrial park, which is part of a Keystone Opportunity Zone. The $4.5 million project received $1.7 million in public financing from the PIDC. Thackray Crane Rental, which warehouses and distributes rental construction equipment, is acquiring a 137,000 square foot industrial building—also in the Byberry East park. The firm is adding 50 jobs (for a total of 120). A PIDC loan is also assisting Fibermatics Inc. which is constructing a 65,000 square foot addition to its operation on W. Stokley Street in Hunting Park. And the PIDC has agreed to sell Sysco Food Services 11 acres of city-owned land in the Food Distribution Center in South Philadelphia. Sysco, the largest food service marketing and distribution firm in North America, plans to build 180,000 square feet of office and warehouse space there.

Competing Offers from New Jersey: Pennsylvania is facing stiff competition from across the border, though. New Jersey has increased its incentive pool to try to attract more (and larger) firms. Belgium's Pastridor, a baked goods company, opened a $17 million automated plant in Vineland, NJ in July. The company was attracted by the dual financial benefits of locating in an urban enterprise zone and an empowerment zone, the availability of workers, and the location—midway between its two biggest markets, Boston and Washington DC.

However, not all doors are open for businesses in New Jersey. For instance, in Camden, the St. Laurence Cement Co. recently completed construction of a new $60 million processing plant. But lawsuits from neighbors have delayed it from going on-line. The Camden neighborhood in which the plant is located—i.e., the Waterfront South area—is already home to two Superfund sites, a power plant and a sewage treatment plant. The residents do not want another industrial operation and have challenged the plant's air emission permit and operating certificate. A district court judge has requested an "environmental justice" analysis.

Wyeth Ayerst Property Being Chopped Up: Wyeth Ayerst is in the midst of moving from its 1.5 million square foot campus in Radnor to the former Rhone-Poulenc Rorer facility in Collegeville (Montgomery County). The Rubenstein Co. is expected to buy the Radnor property. In the meantime, it is offering space in some of the buildings there. For instance, it is marketing a 215,000 square foot R&D facility and three office buildings (totaling 176,000 square feet), as well as a 164,000 square foot office building on another portion of the campus.

Biotech Supporters Want State Help: Despite the large number of health care and biomedical research firms here, many claim the state is not doing enough to make these companies feel welcome, and they point to recent departures to prove it. ValiGen, a Bucks County biotechnology firm, is moving its headquarters to Princeton, NJ.



Though the company says the move was prompted by the desire to be closer to other biotech firms and the home of its new president/CEO, it prompted cries from biotech supporters for changes in state tax policies. Pennsylvania's R&D tax credit is capped at $15 million and has a $2 million limit on net operating loss carry-forwards (which allows companies to use current debt to offset future earnings). In addition to raising the caps, the Pennsylvania Biotechnology Association wants the state to allow start-ups to trade or sell their net operating losses and tax credits. New Jersey has already done it. Last year, the state approved a plan for companies to trade their tax credits; Connecticut allows firms to sell their tax credits back to the state.

The good news is that the area is starting to recover from the hemorrhaging of health care jobs that occurred here in the 1990s. In fact, Children's Hospital plans to spend $650 million to add 1.2 million square feet of space over the next five years. The plan will nearly double the hospital's size and is in response to increased patient visits and a proposed expansion of its research programs. The project, which will be done in three phases, is expected to lead to the creation of 1,000 health care jobs at the hospital (for a total of 6,000).

FIRE Firms Fill Space: Financial services and law firms as well as companies with connections to the health care industry are making sure that space downtown does not sit empty too long. First Union vacated 289,000 square feet in Penn Mutual towers following its merger with CoreStates. But, the building has attracted medical publisher Lippincott Williams & Wilkins (for 135,000 square feet) and Beneficial Savings Bank (for 90,000 square feet). Reed Smith Shaw & McClay took 110,500 square feet at One Liberty Place (the law firm plans to shorten its name to Reed Smith later this year). Outside of downtown, Mellon Financial Corp. is consolidating its Montgomery County offices and 230 employees into 50,000 square feet in a new building on Chemical Road in Plymouth Meeting. The building will be named Mellon Gateway Center.

Distributors Like the Location: The city's geographic location continues to attract major distribution facilities. BJ's Warehouse has leased a 630,000 square foot building at Whitesell Haines' distribution center in Burlington County. BJ's relocated from 300,000 square feet in Bristol (Bucks County), where it employed 175. It plans to employ 350 at the new facility. National Distribution Centers has leased 508,000 square feet of warehouse/distribution space in the same park. GATX Logistics took 600,000 square feet on Cabot Drive in Hamilton, NJ. GATX will use the space to distribute Colgate-Palmolive products. General Motors is building a 394,500 square foot warehouse/distribution center in Falls (Bucks County) to replace an older, less efficient 500,000 square foot facility in Bensalem.

Merck Medco is taking 260,000 square feet of warehouse space in the new mixed-use Willingboro Town Center (the former Willingboro Plaza) along Route 130 in Burlington County. The $11 million facility will house 800 employees for the processing of mail order prescriptions. The Pottstown Distribution Co. leased 142,000 square feet at the Pottstown industrial complex. The company will use the space to warehouse and distribute fertilizers and salts. ESPN leased 106,000 square feet of warehouse space in a former seaplane hangar at the Philadelphia Naval Business Center. ESPN will store equipment for its X Games there. The Games relocated from San Francisco to Philadelphia for 2001 and 2002. Sony Electronics is leasing a 48,000 square foot flex building in the Keystone business park in Bristol, in addition to the 28,000 square foot facility it already occupies across the street. The company will use the space for repair and distribution operations.

Two companies have signed leases at the former Naval Air Warfare Center in Warminster. LTD Logistics leased 70,000 square feet of warehouse/distribution space and Pierce Aluminum took 46,800 square feet in a former airplane hangar. So far, 37 people are working on the property, down dramatically from the 2,400 employed here by the military. The 272-acre base has been divided into two districts. Pierce and LTD are occupying space on the west side, which is now known as the North American Technology Center. This side offers 1.3 million square feet of office, industrial, distribution, and flex space. The east side has been zoned for up to 1.6 million square feet of office and flex space. A portion has been designated as a Keystone Opportunity Zone, which offers tax breaks to businesses locating there.

Downsizings & Departures: The slowing economy is affecting firms in the metropolitan area. Staffing at CDNow's Fort Washington offices will fall by more than 200 workers as the company moves management and other key operations to New York and Indianapolis. That will leave just 70 to 90 technical jobs at the online music retailer's facility along the Pennsylvania turnpike. CDNow employed 400 in Fort Washington a year ago, when it was sold to the German media conglomerate Bertelsmann AG. U.S. Interactive, an Internet infrastructure company in King of Prussia, has decided not to lease 90,000 square feet in the Five Tower office building in Conshohocken. The company is in the midst of reducing its staff by 15%.

Two New Sports Fields on the Way: The Philadelphia Eagles (NFL) and the Philadelphia Phillies (major league baseball) currently play their home games in Veterans Stadium, but they both want a field of their own. In November 2000, Mayor John Street announced plans for a Sports Complex with new venues for both teams along Pattison Avenue between 11th and Darien Streets just east of the existing stadium. In December, the City Council approved a $1 billion plan for construction. The funding breakdown is as follows: the Eagles, $314 million; the Philadelphia Authority for Industrial Development, $304 million; the Phillies, $196 million; the state, $180 million; and the Delaware River Port Authority, $14 million.

The new football stadium will have 66,000 seats and 117 suites. It will also feature a 100,000 square foot plaza with a high-definition video/sound system, multiple stage areas for bands, interactive exhibits, and a team store. Construction is scheduled to wrap up in August 2003. The Phillies' new baseball park will offer 43,000 seats and 72 suites. It is scheduled to open in 2004.

Disney Project Dies Downtown: Plans for a Disney-Quest entertainment center in downtown Philadelphia have died and left a gaping hole in the ground at 8th and Market Streets. No work has been done on the site for over a year. Developer Ken Goldenberg was unable to find replacement tenants after Disney departed, apparently due to competitive offers being made by Penn's Landing, which is in the pipeline a few blocks away. The city has decided to spend $12 million to gain control of the 8th and Market site, though future development plans have not been finalized.

Penn's Landing may be attracting tenant interest, but it, too, is having problems. It is two years behind schedule, and just now appears close to breaking ground. As currently envisioned, the $190 million project will feature 740,000 square feet of retail-entertainment space. Thus far, tenants include an AMC-20 theater complex, a 30,000 square foot flagship FAO Schwarz, Jillian's, Ann Taylor Loft, Versace, Borders Books, Pottery Barn, a 130,000 square foot Please Touch children's museum, six or seven sit-down restaurants, and a 4,000-seat amphitheater.

Another project that has been seriously delayed is the Sundance Cinema, destined for the west side of the University of Pennsylvania campus. Planned as part of a $35 million complex—a 750-space garage and supermarket have already opened—the theater complex has encountered design problems and cost overruns. The plan calls for seven screens, a full restaurant/bar, video library, and large public spaces. Meanwhile, a competing proposal has surfaced. The Zoning Board of Adjustment recently approved plans for an eight-screen Ritz theater project at Rittenhouse Square that would include a café, bookstore and video library. Speaking of theaters, Regal Cinema's Marketplace 24 in Oaks (Montgomery County) has come up with a novel way to deal with declining dollars. It is renting out theater space during off hours. One regular tenant is Christ's Church of the Valley, which decided to use the theater space for its services instead of building a church.

The city of Philadelphia, already home to the Philadelphia Museum of Art and the Rodin Museum, is about to have a new arts attraction. The Calder Museum will house the work of three generations of the sculptor family, including Philadelphia-born Alexander Calder. The $50 million, 35,000 square foot museum will be built on the southeast corner of the Benjamin Franklin Parkway and 22nd Street. And a new $70 million, 300,000 square foot museum about the U.S. Constitution is being built in Independence National Historical Park mall. The museum, part of an overall revitalization of the mall, is scheduled to open in the Summer of 2003.

Camden's Coming Attractions: The USS New Jersey will not be moved to its final berth on the Camden waterfront on Labor Day as planned. Due to bad weather, the contractor was unable to install mooring piles for the battleship by the original deadline. Plans call for opening the 887-foot ship to the public within two weeks of its arrival at the new wharf. Meanwhile, a new minor league, 6,500-seat baseball stadium is under construction nearby. It will be the home of the Atlantic League's Camden Riversharks.

Also in Camden, developers are talking about putting residential units into the former RCA facility, converting the 480,000 square foot Nipper building (named after RCA's mascot dog) into a high-tech R&D facility, and building a $50 million museum (called SoundWave) honoring the innovations developed by RCA. And the Delaware River Port Authority is still talking about constructing a $26 million aerial tram to link the Philadelphia and Camden sides of the river. The Authority hopes to open the line in 2003.

Group Wants to Expand Convention Center: The Pennsylvania Convention Center Authority (PCCA) has established an Expansion Advisory Committee to help publicize the need and raise funds for expanding the center. Current plans call for adding one million square feet (for a total of 2.3 million square feet). The preliminary design calls for 500,000 square feet of contiguous exhibit space, a 60,000 square foot ballroom overlooking City Hall and the Avenue of the Arts, and a 1,000-seat theater/lecture hall. Obtaining the estimated $464 million in funding is the next step. The PCCA will look to the city and state for funding. A 1% increase in the local hotel tax will help offset the city's portion. The center currently hosts approximately 55 conventions and trade shows and over 300 miscellaneous events a year. The PCCA estimates this expansion will increase those numbers by approximately 50%, and make it the eighth-largest convention center in the country.

New Hyatt on the Waterfront: Philadelphia has added 4,300 business class hotel rooms downtown over the past four years. The new $66 million, 350-room Hyatt Regency, which opened along the waterfront in December, is the latest. The Hyatt and the aforementioned Penn's Landing complex are seen as the magnets for many other projects in the area. For instance, construction is already underway just south of the Hyatt on the Dockside project, which will bring 242 residential units to Pier 30. There is also a plan for 36 high-end townhouses on Pier 25.

Actor Will Smith (whose real estate/construction business is known as Treyball Development Corp.) has proposed building a $63 million W hotel at the New Market Pavilion at Headhouse Square. The project has received $8.9 million in tax incentives from the city, but design disputes are holding up construction.

Despite some rumors that downtown Philadelphia's business hotels did well in the early months of 2001, PKF reports that metro-wide occupancy fell 3.6% to 53.7% during the first quarter. The average room rate also slipped—by 6.6%—to $127.

Philadelphia County adds a 7% tax onto hotel bills (on top of the 6% state occupancy/sales tax and 1% local sales tax), for a total room tax of 14%. The county portion helps fund the convention center, the Greater Philadelphia Marketing Corp. and the Convention & Visitors Bureau. In Montgomery County, the total amounts to just 9%.

Airport Hits New Heights: Philadelphia International Airport handled 12.5 million passengers during the first half of 2001, a 4% increase from the same period the year before. Cargo activity reached 278,000 tons, a 3% gain. These figures continue last year's trends. The airport served 24.9 million passengers in 2000, up 5% from 1999. And a record volume of cargo (616,700 tons) passed through the airport last year, making it the 15th-busiest cargo airport in the country.

A new 38-gate terminal F opened in June 2001. The $100 million, 190,000 square foot facility accommodates commuter, turbo-prop and regional aircraft and has become the main home for US Airways Express, which operates 150 flights a day here. The terminal is adjacent to the new 5,000-foot regional runway which opened in late 1999.

A new 785,000 square foot international terminal is scheduled to open in Summer 2002. The $325 million project will include 12 wide-body gates, ticketing and baggage claim areas, new concessions, and larger federal inspection stations. The airport's newest international service was introduced in May—US Airways now offers flights to Belgium. Another 4,000 parking spaces are also being added (for an airport total of 15,800).

Despite the record air cargo, the Port of Philadelphia moved just 42,900 containers (20-foot equivalent units or TEUs) of waterborne commerce during the first six months of 2001, a slight 1% decline from the same period the year before.

New Ships to be Built at Shipyard: Kvaerner officials announced in June that they had received a letter of intent from the Keystone Shipping Company to construct four double-hulled tanker ships at the Philadelphia shipyard for a total of $240 million. This will go a long way towards ensuring that production and employment continue at the shipyard into the near future. The state provided $227 million in grants and other funds to help Kaverner convert the former naval property into a commercial shipyard. It is the first new yard to be built in this country in more than 60 years and is considered the most technologically advanced ship-building facility in the world. The 725-foot-long Philadelphia CV 2600 will be the first ship to be built at the yard in more than 35 years; the work is expected to employ 1,000.

Overall Tax Burden Close to Norm: Although Pennsylvania's corporate income tax is a high 9.9%, the last two years have seen reductions in the gross receipts tax and the unemployment insurance rate. And in 2000, the capital stock/franchise tax was lowered by 2 mills (to 8.99 mills). It was lowered another 1.5 mills in 2001. This tax is scheduled to be reduced by one mill each year, until it is eliminated, which will occur in January 2009. The state sales tax is 6%, with a 1% local levy; Philadelphia assesses the entire 7%. Personal income is taxed at a flat (and very competitive) 2.8%. However, the city assesses an additional income tax of 4.6% on residents and 4% on non-residents. Residents paid $64 in state taxes per $1,000 of personal income in 1999, two dollars below the national average.

According to Vertex Inc., commercial property here is taxed at an effective rate of $2.39 per $100, close to the middle of 86 communities analyzed by the INDEX. Residential property tax rates are not quite as competitive. Runzheimer International reports that the average assessment in the Philadelphia metropolitan area is $1.73 per $100 valuation, the 13th-highest rate of 56 surveyed markets.

Average Educational Attainment: Adult residents (those over 25) of greater Philadelphia approximate the national norms when it comes to educational attainment. Just under 86% of the adults here have graduated from high school; the average nationwide is 83.4%. The locals have more bragging rights at the post-secondary level. Twenty-eight percent of the area's adults have a degree from a four-year college or university compared to 25% across the country.

Educational Experiment: The city of Philadelphia and the University of Pennsylvania opened a new public elementary school in September. This is part of Penn's plan to help revitalize the west Philadelphia neighborhood around its campus. The school, not yet named, is being funded and overseen by the university and the Philadelphia School District. The university has promised to contribute $1,000 per student and lend the expertise of its faculty. The curriculum is progressive and the classes are small. Currently housed in temporary quarters, the district is spending $21 million to build a new facility at 42nd and Locust Streets. Already, property values have increased in the area, and some say the school is a major reason. However, other factors have contributed to the boost in values. For instance, Penn offers financial incentives to employees who purchase homes in the neighborhood, new cultural and entertainment venues have opened, and safety patrols have been increased.

Property Crime is Down: Throughout the metropolitan area, the number of reported property crimes fell to 3,454 per 100,000 residents in 1999. Not only was this a 7% decline from the year before, it also pushed the local statistic 14% below the national metropolitan norm. The news was less favorable on the violent crime front. There were 678 incidents of violent crime reported (per 100,000). This was 2% more than in 1998, and was 16% above the average nationwide.

Population Surpasses Five Million: The population of the metropolitan area reached 5.1 million in 2000, a 3.6% increase over 1990. Though not very dramatic, it was more than the 2.9% gain recorded here during the previous ten-year period.

The Philadelphia PMSA is made up of nine counties—five in Pennsylvania; four in New Jersey. Of these, only two suffered declines in their populations between 1990 and 2000. They were Philadelphia County, which lost 4% of its base, for a total of 1.5 million, and Salem County, NJ. The latter contracted by 1.5% for a population of 64,300. The fastest growers since 1990 have been Chester County, PA, Gloucester County, NJ, and Montgomery County, PA. They have grown by 15%, 10.7% and 10.6%, respectively. The largest of the three is Montgomery, with 750,100 residents.

The city of Philadelphia consists of the entirety of Philadelphia County. The next-largest community in the metropolitan area is Upper Darby, with 81,800 inhabitants. It is followed by Camden, NJ (79,900) and Cherry Hill, NJ (70,000). Among area cities/townships with more than 50,000 residents, the fastest grower between 1990 and 2000 was Gloucester, NJ. It increased its population by nearly 20%, to 64,400. The biggest decline during the period took place in Camden, which lost nearly 9% of its base.

OFFICE MARKET

(CBD)	YEAR*			QUARTER*	
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↓	↑

(Suburbs)	YEAR*			QUARTER*	
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↑	↔	↔	↓	↔	↑

Flood of Space Raises Concern

Nearly twice as much space was under construction in greater Philadelphia during 2001's second quarter than during the same period last year. Moreover, a slew of space is about to be returned to the market. But so far, the market is weathering the storm with vacancy up just slightly in the second quarter.

Metropolitan—Suburban Philly and Delaware Expanding: Development was focused in the Philadelphia Suburban and Delaware submarkets in the second quarter with three million square feet and one million square feet under construction, respectively. The remaining two submarkets, Philadelphia Downtown and Southern New Jersey, saw no new development during this same period.

Office space delivered to the Philadelphia Suburban submarket totaled 709,000 square feet through the first half of 2001. Of this total, approximately 27% was preleased. In greater Philadelphia, year-to-date absorption totaled just 172,000 square feet. The metropolitan area consists of 109 million square feet of office space, of which 8.1% was vacant at the end of 2001's second quarter, a slight increase from 2000's second quarter.

Central Business District—Downtown Philly Tightens: One year ago, downtown Philadelphia posted a vacancy rate of 10.3%, nearly two percentage points higher than the 8.6% rate posted in 2001's second quarter. The city experienced 66,800 square feet of positive absorption during the second quarter bringing year-to-date absorption to approximately 170,000 square feet. No new projects were under construction at the end of June. However, the new owner of the top seven floors of downtown Philadelphia's Strawbridge and Clothier's building is planning to turn more than 350,000 square feet of space into office accommodations.

The downtown Philadelphia market has been able to maintain its stability but that could soon change as more space, such as that in the Strawbridge building, comes on-line and additional space is vacated. Space that is scheduled to become available in the coming months includes 400,000 square feet at Three Parkway, which Reliance Insurance is selling and vacating, and 350,000 square feet at 801 Market Street as well as

150,000 square feet at 811 Filbert Street that Preferred Real Estate Investments is renovating. Other space coming on-line includes 210,000 square feet in the United Engineers building where the Washington Group is downsizing and 180,000 square feet at 1818 Market, which Delaware Investments will vacate next Spring.

With more than one million square feet expected to hit the Center City office market, doubts are being raised about Liberty Property Trust's proposed new office tower getting underway next May as scheduled. Downtown brokers are not yet including the project in their calculations. By next Spring, leases for tenants occupying approximately seven million square feet of space in the city's premier buildings will be up for renewal.

Suburban Philadelphia Weakens: The Philadelphia Suburban submarket contains 44.5 million square feet, of which 8.9% was vacant in 2001's second quarter. This represents a 2.8 percentage point increase from the same period 12 months earlier. New construction in the second quarter totaled a whopping three million square feet which accounts for the rise in vacancy. The suburbs posted 65,000 square feet of negative absorption in the first quarter, but by the end of June, net absorption had reached a positive 154,000 square feet.

King of Prussia Continues to Spread: Philadelphia's largest suburban district is King of Prussia at 14.7 million square feet and growing. More than 1.2 million square feet were underway here in the second quarter compared to 753,000 square feet at the end of June 2000. Consequently, the vacancy rate rose from 5.7% to 9.4% between the second quarters of 2000 and 2001, an increase of nearly four percentage points. Net absorption was a negative 131,000 square feet in the first half of 2001, the greatest deficit recorded in the metropolitan area.

Large projects under construction in King of Prussia include 239,000 square feet on Moore Road, 152,000 square feet on Atwater Drive, 145,000 square feet on Renaissance Boulevard, and 130,000 square feet on Berwyn Park.

Conshohocken Wins Some, Loses Some: Conshohocken also saw significant development with 822,000 square feet underway at the end of June. The largest projects in progress here include 345,000 square feet on Washington Street, 290,000 square feet on Conshohocken State Road, and 122,000 square feet at Elm & Lee Streets. Concurrent with these new developments, at least two high-tech firms have pulled or delayed their expansion plans in Conshohocken. U.S. Interactive decided not to move into 90,000 square feet in Oliver Tyrone Pulver Corporation's 224,000 square foot Five Tower office building. Additionally, Covad Communications Group is considering delaying construction of its 56,000 square feet of space on Elm Street.

OFFICE*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
DOWNTOWN PHILADELPHIA				
Market West	24,178,983	7.0%	206,067	0
Market East	8,703,490	11.5%	5,141	0
Independence Hall	5,028,764	11.0%	(41,524)	0
Total Downtown	**37,911,237**	**8.6%**	**169,684**	**0**
SUBURBAN PHILADELPHIA				
Bala Cynwyd	2,900,175	3.4%	53,749	0
Conshohocken	2,172,900	7.5%	147,000	822,000
Delaware County	3,747,655	12.4%	(44,473)	50,000
Exton/West Chester	2,421,025	16.5%	94,325	196,809
Fort Washington	3,556,843	3.9%	12,358	115,000
Horsham/Willow Grove	3,781,741	8.3%	88,140	0
King of Prussia/ Valley Forge	14,685,048	9.4%	(130,728)	1,278,638
Main Line	2,893,861	8.4%	(50,321)	53,000
Plymouth Mtg/ Blue Bell	4,243,816	9.6%	1,067	312,902
Trevose/I-95	2,892,840	8.4%	15,530	219,489
Upper Main Line	1,220,441	9.7%	(60,683)	0
Total Philadelphia Sub.	**44,516,315**	**8.9%**	**153,991**	**3,047,838**
NEW CASTLE COUNTY, DELAWARE				
Sub. New Castle Co.	6,886,985	6.0%	20,364	321,200
Wilmington CBD	5,095,198	6.6%	(87,216)	678,000
Total Delaware	**11,982,183**	**5.0%**	**(66,852)**	**999,200**
SOUTHERN NEW JERSEY				
Burlington County	8,506,820	6.6%	(19,500)	0
Camden County	6,308,883	7.4%	(72,940)	0
Gloucester County	186,402	5.4%	7,910	0
Total So. New Jersey	**15,002,105**	**6.9%**	**(84,530)**	**0**
TOTAL	**109,411,840**	**8.1%**	**172,293**	**4,047,038**

*Inventory, Vacancy, and Construction as of second quarter 2001. Absorption represents the first half of 2001.

Source: CB Richard Ellis (Philadelphia).

Preferred Real Estate Investments reached a purchase agreement in October for 63 acres and a PECO power plant on the Delaware River. Preferred plans to turn the plant into office space, save 20 acres for a power substation, and donate seven acres to Chester for a park and boat launch area. The site has Enterprise Zone status, giving the developer tax abatements/credits on corporate income, personal income, and sales taxes through 2010. Another developer is transforming more than 17 acres of former industrial property along the Schuylkill River into a mixed-use development that will have office, retail and residential components in addition to an ice-skating rink, boathouses and an amphitheater.

Tight Conditions in Delaware: Philadelphia's smallest submarket is New Castle County, Delaware with only 12 million square feet of office space. This area had the second quarter's lowest vacancy at 5%, a decrease from the 5.7% rate reported one year earlier. During the first half of 2001, approximately 67,000 square feet of negative absorption was reported here. One million square feet of new office space remained in progress at the end of June. Most of this new space will come on-line at the end of this year in the Nemours building in downtown Wellington (680,000 square feet). Also, 154,200 square feet were underway in North New Castle, 75,000 square feet in South New Castle, and 100,000 square feet in West New Castle.

Exton/West Chester Feels Weight of Slowdown: The fringe area of Exton/West Chester is taking the brunt of the downturn in the economy; it has the highest vacancy rate in greater Philadelphia at 16.5%. The trend of tenants flocking to the fringe markets for cheaper rents and space is apparently reversing itself as the overall market softens. The same companies that were looking for space on the fringes can now find comparable prices in the inner submarkets as more companies scale back. As a consequence, areas like Exton have weakened. Adding to the problem, several new buildings in suburban Philadelphia have come on-line with fewer tenants than expected. Examples of buildings with less than ideal occupancies include 102 Pickering Way (80,000 square feet) and Welshpool Road (40,000 square feet). Lackluster leasing has raised concerns about projects now underway.

Pennsylvania-Based REIT Fattens Portfolio: Brandywine Realty Trust recently swapped properties in Northern Virginia with the Dallas-based Prentiss Properties Trust in a $440 million deal that adds 30 buildings to Brandywine's holdings in Pennsylvania, New Jersey and Delaware. The trust also sold a 206,000 square foot building in King of Prussia for $50 million to De Lage Landen Financial. JFR Global Investments of Brooklyn, along with several partners, acquired an office portfolio totaling 728,000 square feet in the South Jersey area for $57 million. The purchase represents one of the first acquisitions by JFR Global in this region.

Price and Rent Trends: *The value of Class A CBD office space in Philadelphia fell to an average of $154.91 per square foot in the second quarter of 2001 from $160.57 per square foot during the same quarter one year earlier. The effective gross lease rate decreased slightly to $27.36 per square foot during the same period and the cap rate rose to 9.4%. Class B and C office space in the CBD sold for $118.55 per square foot and $84.41 per square foot, respectively.*

The price of suburban office space decreased by 4.4% between the second quarters of 2000 and 2001 to an average of $174.07 per square foot. The effective gross lease rate slipped from $25.83 per square foot to $25.30 per square foot during the same period. The cap rate climbed to 8.1%. Class B and C suburban office space was valued at a respective $132.76 and $86.09 per square foot in the second quarter of 2001.

INDUSTRIAL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↑	↑

Philadelphia's Industrial Market Shines

The metropolitan Philadelphia industrial market had another excellent period, tightening for the seventh time in the last eight quarters. Construction remains robust with several projects in the pipeline.

The greater Philadelphia industrial market totaled 286 million square feet in the second quarter 2001 in buildings with at least 100,000 square feet or more. (Statistics used in last year's QUARTERLY included industrial buildings as small as 10,000 square feet.) The vacancy rate was just 6.3% at the end of June 2001. Construction of these larger buildings has slowed somewhat from last year's 4.3 million square feet of development, but remains strong at 3.5 million square feet. Moreover, an additional ten million square feet are in the planning stages. Second quarter net absorption outpaced construction at 4.7 million square feet.

Developers Latch Onto Lehigh Valley: Lehigh Valley had the second-highest amount of new industrial space in progress at the end of June 2001 at one million square feet. On an annual basis, this area saw a steady stream of projects underway. One of the largest projects to break ground this Spring was Arcadia/Prudential's 500,000 square foot building at Arcadia West in Kutztown. In addition, 297,500 square feet were under construction in Allentown, 120,000 square feet in Breinigsville, and 104,000 square feet in Easton.

Lehigh Valley saw its vacancy rate rise more than two percentage points to 12.1% at the end of June. Net absorption totaled 897,000 square feet in this year's second quarter. Lehigh Valley ended 2000 with a robust 3.7 million square feet of net absorption.

New Space Coming to Bucks County: The highest amount of development in the second quarter occurred in Bucks County where approximately 1.5 million square feet were underway. However, this submarket saw a significant slide in net absorption at a negative 620,000

INDUSTRIAL*

SUBMARKET	INVENTORY	AVAILABILITY	ABSORPTION	CONSTRUCTION
Bucks, PA	29,024,362	4.8%	(619,832)	1,501,946
Chester, PA	31,423,312	3.4%	22,000	0
Delaware, PA	24,656,905	3.9%	112,459	0
Lehigh Valley, PA	26,145,575	12.1%	896,861	1,021,000
Montgomery, PA	41,104,865	7.0%	605,940	136,000
Philadelphia, PA	69,241,779	8.2%	1,704,958	0
New Castle, DE	16,978,085	6.9%	131,823	226,000
Burlington, NJ	16,696,036	2.4%	903,947	543,077
Camden, NJ	28,560,837	3.7%	565,750	0
Gloucester, NJ	17,719,542	5.6%	326,594	100,000
TOTAL	**286,038,857**	**6.3%**	**4,650,500**	**3,528,023**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Philadelphia).

square feet in the second quarter. In fact, it was the only industrial submarket to report negative absorption in greater Philadelphia. Over the previous three quarters, Bucks County had posted more than one million square feet of positive net absorption. Although the 4.8% vacancy rate in the second quarter represents an increase from the first quarter, this rate is 1.2 percentage points lower than the rate recorded in 2000's second quarter.

Several large projects were in progress during the second quarter in Bucks County. New developments consisted of several projects in Warminister including 417,000 square feet on Cardinal Lane, 246,000 square feet on Hawk Road, and 432,000 square feet in two projects on Jacksonville Road.

Strong Absorption in Philadelphia: Philadelphia is the largest industrial submarket in the metropolitan area at a total of 69 million square feet. This submarket saw the second quarter's highest net absorption as tenants soaked up more than 1.7 million square feet of space. No new construction was in progress during this period, but the first quarter ended with one million square feet under construction. The vacancy rate fell 2.6 percentage points between the second quarters of 2000 and 2001 to 8.2% at the end of June.

In sales activity, Berwind Property Group has entered an agreement to buy an 850,000 square foot distribution center in Montgomery County. The site is believed to carry a $20 million price tag.

Price and Rent Trends: *Class A industrial space was valued at an average of $41.26 per square foot in the second quarter of 2001. This reflects a 1.2% increase from the second quarter of 2000. The cap rate ended the period at 9.2%. Class A industrial rents rose slightly to an average of $5.46 per square foot in the second quarter of 2001 from $5.42 per square foot during the same period one year earlier.*

Class B flex space sold for an average of $74.83 per square foot in the second quarter.

RETAIL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↓	↔	↔	↓	↔	↑

Slowdown Anticipated

The cautious attitude sweeping the retail industry is expected to slow development in Philadelphia. Projects are not embraced without signed leasing contracts. One major project now on hold is Simon Property Group's Penn's Landing, slated for downtown Philadelphia. Penn's Landing was initially expected to get underway in early 2001. Another project that has been delayed is a 1.1 million square foot mixed-use development that a New York City developer plans to build on a 137-acre site adjacent to Route 38 and I-295. Expected to take three to four years to complete, the project has stalled due to litigation between the developer and Mount Laurel township over traffic volume. Blueprints for the project consist of a 750,000 square foot destination center, a 220-room full-service hotel and a 250,000 square foot office campus. Ancillary pad sites will also be included.

Power Plant Live Opens: The Cordish Company recently opened Power Plant Live, a 300,000 square foot entertainment complex at 34 Market Place. The project includes an outdoor plaza with a café surrounded by 23 bars and restaurants.

One Shopping Center Set, One Shelved: In Chester, the second major revitalization project in the area has received the green light to move forward. Kramont Realty Trust plans to construct a 150,000 square foot neighborhood shopping center called The Shops at Wellington Ridge. But the Bridesburg section of Philadelphia will not see a new 500,000 square foot power center built at the Frankford Arsenal. PREIT, a real estate investment trust, has shelved its plans for the retail center for unspecified reasons. Almost all of the trust's shopping center deals are driven by tenant interest.

In the second half of 2000, the Mills Corporation announced that it would sell its entire community shopping center portfolio for $169 million. The 11-center portfolio includes Liberty Plaza in Philadelphia and Cooper's Plaza in Voorhees, N.J.

Greater Philadelphia Boasts Ten Super Regional Malls: Greater Philadelphia is home to the three million square foot Strawbridge entertainment complex which includes the two million square foot King of Prussia Plaza and the 963,000 square foot Court at King of Prussia shopping center. The region boasts nine other shopping centers with at least one million square feet of retail space (the benchmark for the super-regional category). Franklin Mills has 1.8 million square feet. At 1.3 million square feet are Philadelphia's Gallery at Market East, Cherry Hill in New Jersey, Montgomery mall in Montgomeryville, and Oxford Valley mall in Langhorne. Granite Run mall in Media, PA, offers 1.2 million square feet. The Echelon mall in Voorhees, NJ provides 1.1 million square feet. Plymouth Meeting mall in Plymouth and Nashaminy mall in Bensalem both measure one million square feet.

Retail Sales Lag National Average: Greater Philadelphia averaged retail sales of $31,800 per household in 1999, according to Sales & Marketing Management's *2000 Survey of Buying Power*. This lags the national norm of $33,100 per household. However, some Philadelphia areas reported much higher retail sales. For instance, Bensalem, where the Nashaminy super-regional mall is located, posted retail sales of $87,400 per household, the highest level recorded. Middletown township reported a household sales average of $86,100; Abington township's average was $60,800. The city of Philadelphia reported average sales of $20,200 per household.

The median household income in metropolitan Philadelphia, at $47,200, was $10,000 above the national norm. Median household incomes were highest in Chester ($68,600), followed by Washington township ($62,000) and Haverford ($60,200). Philadelphia proper posted a median income of $31,600 per household.

***Price and Rent Trends:** The average value of Class A anchored, unenclosed retail space in Philadelphia was $120.58 per square foot in the second quarter of 2001. This reflects a 4.6% decrease from the second quarter 2000. The triple net lease rate averaged $16.63 per square foot in the second quarter of 2001, down from $17.10 per square foot one year prior. The cap rate in the second quarter of 2001 was 9.4%. Class B and C anchored shopping center space averaged $91.27 and $60.13 per square foot, respectively.*

APARTMENT MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↔	↑

Mayor Launches Five-Year Revitalization Plan for the City

Philadelphia's Mayor John Street launched an initiative this Spring to turn around blighted neighborhoods and stop the exodus of residents from the city. The initiative calls for 16,000 new housing units, 14,000 demolitions and 2,500 "encapsulation" procedures to preserve vacant buildings until they can be renovated. Approximately 6,000 of the new housing units will carry market-rate price tags. The plan is also designed to create a Philadelphia Land Bank, clean 31,000 vacant lots and reform city delivery systems. The Mayor's plan also seeks to attract commercial and retail development to the city, but it doesn't specify how.

Multifamily Developers Cash in on Conversion Ordinance: Several projects on the drawing board will take advantage of a 1997 ordinance which provides a ten-year property tax abatement for developers that transform old Class B and Class C office buildings into apartments. For instance, the After Six formal wear factory on West Market Street is being converted into luxury loft apartments. The eight-story building will go under the name of its address, 2121 Market Street, and will contain 168 units. The After Six building is undergoing interior demolition and is expected to have its first renters by Fall. This conversion will compete with similar developments such as the INA building, Forest City's Bell Atlantic building at 19th and Arch, and the Left Bank across the Schuylkill River in University City.

Since the 1997 tax abatement ordinance was passed, 16 properties have been converted into approximately 1,400 apartment units, according to the Central Philadelphia Development Corporation. Seven projects with a total of roughly 710 apartments were underway in Spring 2001.

Historic Site in Marlton Transformed: The newly-completed garden apartment complex Woodview at Marlton (288 units) opened in July. Woodview was developed on the site of the historic Troth Farm and preserves the Troth family farmhouse, a local landmark. It is located near the intersection of Routes 70 and 73 in Burlington County. Another noteworthy project that includes a housing component is the first phase of a multi-use development that will replace Garden State Park, an aging racetrack in Cherry Hill, NJ. Phase one will consist of townhouses and apartment buildings for a total of 738 units. The residential component is being dubbed "active adult housing". Other components of the project include 575,000 square feet of retail space and possibly more than one million square feet of office space, plus a hotel and restaurant. The entire development is expected to take ten years to complete.

In New Britain township, two Philadelphia area firms want to add a mixed-use development of office space and apartment units to their 107-acre New Britain Corporate Center along Route 202 and County Line Road. The residential component, which calls for 270 luxury apartments, will require a zoning change before it can proceed.

Apartment Sales Strong in Metropolitan Philadelphia: Apartment sales activity in Philadelphia is strong. Properties seldom come on the market and when they do, they are snapped up quickly. Between June 2000 and June 2001, 116 apartment transactions were recorded, according to Marcus & Millichap.

One of the largest transactions occurred in East Goshen with the sale of the 200-unit Treetops at Chester Hollow, which carried a record-setting price tag of $101,000 per unit.

Stonington Court Apartments at 1800 Laurel Road in Lindenwold, NJ was sold for $12 million. Occupancy was 93% at the time of the sale. Two out-of-state companies joined forces to buy Cedarbrook Hill Apartment Homes, a 40-acre complex in Wyncote. The new owners plan to renovate the nearly 40-year-old complex from a Class B to Class A property.

Housing Permits on the Decline: Greater Philadelphia issued 986 multifamily permits (in buildings with 5+ units) in the first six months of 2001, a 12% decrease from the 1,122 permits issued during the same period last year. Single-family permits also declined nearly 12% (to 5,990) during the same timeframe.

Median Home Price Inches Up: The median price of a home in greater Philadelphia inched up 0.8% to $127,000 between the second quarters of 2000 and 2001, according to the National Association of Realtors. The homeownership rate was 74.7% in 2000, considerably higher than the 65.5% national average.

Price and Rent Trends: *Class A apartment space averaged $94.38 per square foot in the second quarter of 2001, representing a modest increase from the $94.04 per square foot figure one year earlier. Average rents fell to $14.86 per square foot, reflecting a slight decrease during this 12-month period. The cap rate was 8.7% at the end of June.*

Class B apartments (i.e., ten- to 20-year-old complexes) were valued at $65.06 per square foot in the second quarter. Class C and D apartment space was valued at $46.17 per square foot and $33.65 per square foot, respectively.

Raleigh-Durham

Economic Overview

Triangle's Job Growth Slows

The Raleigh-Durham metropolitan area (aka the Triangle) created a net 9,100 new jobs during the 12-month period ending in June 2001, 3,600 fewer jobs than were produced during the prior 12-month period. The Triangle's recent growth was the third-smallest absolute gain of the ten markets reported in this issue of the QUARTERLY (ahead of Central New Jersey and Philadelphia) and translated into a 1.3% expansion of the local employment base. The local unemployment rate moved up a full percentage point during the year, from 2% to 3%.

Most New Jobs Occur in Services and Manufacturing: The local service sector produced the greatest number of new jobs during the period (10,500). Manufacturing was a distant second with a net gain of 1,200. Construction was close behind, adding 1,100 new hires to its ranks. Transportation expanded its payroll by 800 positions.

Services also experienced the largest proportional advance (4.6%). Construction was next, expanding its base by 2.6%. Transportation grew by 2.5%, followed by manufacturing's 1.4% advance.

Four Employment Sectors Post Losses: Four of the eight major employment categories experienced declines during the period. Government shed 2,000 jobs, followed by retail trade and a net loss of 1,800. These two sectors each contracted by 1.6%. Wholesale trade lost 500 positions, which also translated into a 1.6% contraction. The local finance, insurance and real estate (FIRE) sector lost 200 jobs (for a contraction of 0.6%).

Services and Government Garner Large Share of Triangle's Workforce: The service sector employs the largest share of Raleigh-Durham's workers—33.9%—exceeding its national share of 31%. Despite the above-mentioned contraction, government is also a significant employer here and its local average (18%) also exceeds the national norm (15.6%). Local employment in the next two sectors—retail trade (15.9%) and manufacturing (12.6%)—falls short of their respective national averages (17.8% and 13.4%). Construction moves in the opposite direction, employing 6.1% locally versus 5.3% nationally. Employment among the three remaining categories (transportation, FIRE, and wholesale trade) is evenly distributed—4.7%, 4.5%, and 4.3%, respectively. Each falls below their corresponding national levels of 5.4%, 5.8%, and 5.3%.

Academic Institution is Triangle's Top Employer: Duke University is the area's largest private sector employer with a workforce of 21,300. IBM is the Triangle's second-largest employer with 13,000 workers. Nortel and pharmaceutical giant GlaxoSmithKline (Glaxo Wellcome merged with SmithKline Beecham in late 2000) are next, with 7,100 and 6,000 area employees, respectively. Health care company WakeMed and Food Lion each employ 5,000 locally. SAS Institute (business software) has 3,800 workers while Rex Healthcare employs 3,500. Progress Energy (formerly Carolina Power & Light) and Cisco Systems employ 3,400 and 3,200, respectively. Blue Cross/Blue Shield of North Carolina has 2,600 workers in the Triangle, followed by Kroger and a payroll of 2,500. Worldcom has 2,200 workers. Other Triangle employers with more than 1,000 local employees include Wal-Mart, Winn Dixie, American Airlines, Verizon, retailer Harris Teeter, and UPS.

Lucent Shuts the Door: Lured to the Triangle by the reputation of the optical networking department at North Carolina State University (NCSU), and the signature tenant at its Centennial Campus, Lucent Technologies was unable to fulfill its commitment to the research park. The struggling telecom company employed approximately 100 in its 120,000 square foot building there, well short of the 1,000 employees it had projected. In late August, Lucent decided to close the Centennial Campus location as part of its global restructuring. Lucent also predicted it would employ 500 at another 120,000 square foot facility in Cary that currently employs just 156.

Centennial Campus is NCSU's vision of the future—a 1,300-acre "technopolis" comprised of academic, commercial, and government interests—as well as a competitor to its better-known neighbor Research Triangle Park (RTP). Clusters of buildings are centered around five multidisciplinary themes: advanced communications, biotechnology, advanced materials, environmental technologies, and pre-college education. By 2002, Centennial Campus hopes to have 2,300 corporate and government employees, 1,400 university staff, and 2,500 students. At build-out, it is anticipated that the campus will hold 12,500 corporate and government employees, as well as 12,500 academic staff. Plans also call for an executive conference center, golf course, and 250-room hotel (by 2003), followed by the relocation of the university's College of Engineering (in 2005).

Cisco Suffering, Too: Considered the bellwether among high-tech companies just a year ago, Cisco Systems has suffered a reversal of fortune recently and has delayed its ambitious expansion plans in RTP. Cisco currently occupies nine buildings on its 313-acre campus here (totaling 1.3 million square feet), and is building six more, each with 200,000 square feet. Cisco plans to complete the three buildings currently under construction, but has postponed the subsequent phase (buildings 13, 14, and 15).

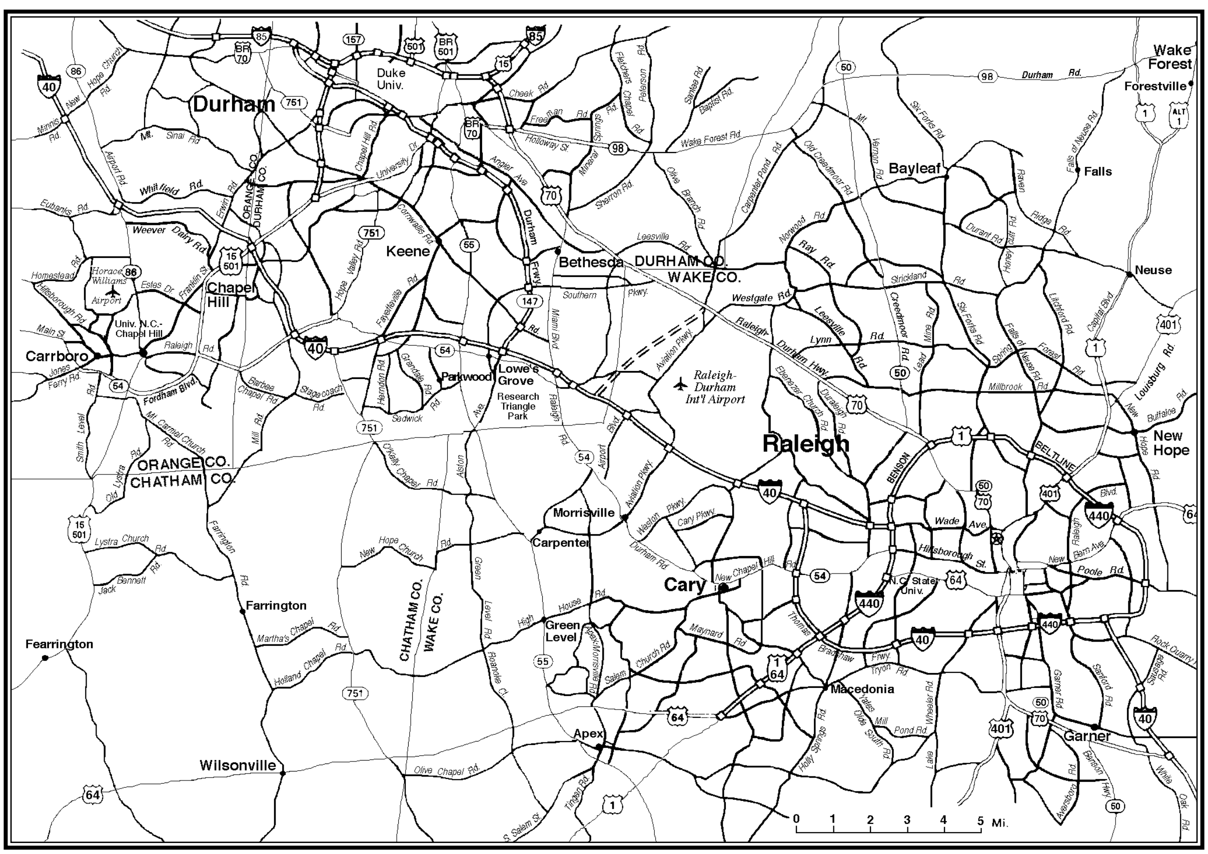
Earlier this year, the company announced plans to eliminate 8,500 jobs from its global workforce, beginning with contract and temporary employees. During the second quarter of 2001, the company cut nearly 400 positions, as well as 150 temporary jobs. It is unknown how many of Cisco's 3,200 Triangle employees will ultimately be affected.

Other well-known Triangle companies are feeling the effects of the softening economy. Citing slow sales, French telecom firm Alcatel plans to lay off half of its Raleigh workforce of 1,450. The move will essentially stop production of components for switches and routers at the firm's local manufacturing plant. Alcatel is relocating most of those operations to a plant in Nogales, AZ. Nortel Networks laid off 100 employees from its digital subscriber line (DSL) division and Acterna eliminated nearly 100 from its Durham workforce of 250 as part of a corporate restructuring. Acterna manufactures computer network testing equipment.

Biotech Firm Moves Forward on Expansion: Not all the news is bad in the Triangle. Covance Biotechnology Services Inc. (CBSI) is reviving plans for an RTP expansion following its acquisition by Dutch pharmaceutical firm Akzo Nobel. Formerly a division of New Jersey-based Covance Inc., the biomanufacturer had announced an expansion earlier this year. As planned, the company may add up to five buildings, including two manufacturing facilities, as well as a tank farm to store and mix liquid products. Three of the five buildings would house administrative workers and warehouse space. CBSI currently operates a 109,000 square foot plant, a 25,000 square foot office complex, and a 30,000 square foot laboratory. Currently employing 560 here, CBSI expects to add another 40 workers by the end of the year.

Two other significant projects are close to completion in RTP. The Environmental Protection Agency is building a one million square foot facility that is slated for completion this year. Biogen is expected to occupy a 250,000 square foot facility later this year or in early 2002. In Durham, A.W. North Carolina, a Japanese automotive parts manufacturer, is building a 313,000 square foot plant in Durham that will employ 250. Sun Microsystems plans to double its local payroll to 140 as it boosts its sales division.

British Invasion Hits Raleigh-Durham: Several area firms headquartered in Great Britain are expanding their local presence. Spirent Communications moved into its new home earlier this year. The British telecom equipment analyzer occupies 26,000 square feet here and employs 35. The company hopes to boost employment to 75 by year-end 2001. Internet firm Cable and



Wireless is locating its global network monitoring headquarters to Cary. The firm purchased Internet protocol assets from MCI in 1998, and already occupies 20,000 square feet here. The company plans to add another 28,000 square feet and double its workforce to 300. Although not yet a household name in the United States, Cable and Wireless hosts Websites for such well-known companies as Barnes & Noble, the Gap, and Procter & Gamble. Another British firm is boosting its Raleigh-Durham workforce as it consolidates operations from Wisconsin. Invensys Power Systems plans to add 100 new jobs (for a total of 1,900) at its local electronics manufacturing operation.

A Swedish firm is eyeing the Triangle, too. Erg-o-Sitter AB, a manufacturer of ergonomic equipment including chairs and vehicle seats, is considering Raleigh-Durham for the site of its U.S. manufacturing operations. If Erg-o-Sitter selects the Triangle, it may bring up to 1,200 jobs to the region.

John Deere Campus Underway in Cary: Illinois-based John Deere broke ground last year on a 65-acre campus in Cary. The first building (totaling 160,000 square feet) is scheduled for completion in October and will house 400 employees. Future plans call for four additional buildings (at 160,000 square feet each) to accommodate up to 2,000 workers. Deere also operates a 40,000 square manufacturing facility in Fuquay-Varina that employs 400.

Another Cary firm is boosting its workforce. Siemens Medical Systems plans to ramp up from 300 to 500 employees as it expands its customer service operation. This Siemens operation fields calls from physician's offices nationwide regarding problems with computers and medical software.

New Performing Arts Center Debuts: In February, the BTI Center for the Performing Arts debuted in Raleigh. The BTI center is a three-theatre complex attached to Memorial Auditorium and part of the overall Raleigh Convention and Conference Center complex (which includes the 130,000 square foot Raleigh Convention Center as well as the 2,300-seat Memorial Auditorium). The new facility features the 1,700-seat Meymandi concert hall (which is the new home of the North Carolina Symphony), as well as the 600-seat Fletcher Opera Theater for dance productions. The Kennedy Theatre will showcase innovative or "off Broadway" productions. A 270-seat Imax theatre is scheduled to open in November at the Exploris children's museum in Raleigh.

Extended-Stay is the Name of the Game: Three extended-stay properties have opened in Raleigh-Durham so far this year and more are on the way. A 122-room Candlewood Suites debuted on Leadmine Road in Raleigh, a 100-room Staybridge Suites opened near the airport in Morrisville, and a 66-room Comfort Suites opened on Corporation Parkway near Highway 64.

A 79-room Best Western Suites is scheduled to open this Fall at I-440 and Highway 64. A 90-room Holiday Inn Express is also expected to open later this year on U.S. 1 near Wakefield. A 118-room Quality Inn and Suites is planned for 2002 in Morrisville, while a 186-room Marriott Renaissance is in the pipeline for 2003 in Cary. Thirty-one extended-stays have opened here since 1998.

According to Smith Travel Research, in 2000, Raleigh-Durham's average hotel occupancy rate was 65%, a 1.4% increase over 1999. The average room rate was $72, a 3% gain over the prior year. During the first four months of 2001, the average occupancy rate was 63%, a negligible increase over the same period one year earlier, while the average room rate rose 4% to $74.

Rapid Growth in Air Passengers: Raleigh-Durham International Airport handled 10.4 million passengers in 2000, a 16.8% increase over 1999. Cargo volume also increased, rising 7% to 117,800 metric tons. During the first six months of 2001, Raleigh-Durham handled 5.3 million passengers—a 6% increase over the first six months of 2000. Cargo volume was virtually unchanged at 64,300 tons.

Interim Terminal Opens: An interim terminal opened at the airport in June. It will serve passengers while a permanent expansion is underway. The temporary facility offers five gates and is expected to be in service for five years. When completed, the expanded terminal will offer more than 35 gates and up to one million square feet of space. RDU has also begun construction of a series of parking garages that will eventually accommodate 17,000 vehicles. A 2,700-space garage has already been completed, and construction of a 6,150-space garage began this year. In terms of new service to and from RDU, America West began serving Phoenix and Midway Airlines plans to add Ft. Lauderdale, Jacksonville, Orlando, Miami, and Tampa as well as New Orleans to its routes.

Raleigh-Durham is part of the Wilmington, NC Customs District and during the first quarter of 2001, the value of finished goods (both imports and exports) rose 14% over the same period one year earlier (to $3.6 billion). Imports fueled the gain, increasing nearly 20% to $3 billion, while exports dropped 8.5% to $561 million.

State Taxes Create Above-Average Burden: In North Carolina, corporations are taxed at a rate of 6.9%. Businesses must also pay $1.50 per $1,000 of either: their capital stock, surplus and dividends; 55% of the appraised ad valorem tax value of their in-state property; or their actual investment in tangible property in North Carolina (whichever amount is highest). The personal income tax rate here ranges from 6% to 7.75% with the maximum taking effect on incomes of $100,000 or more (for those married filing jointly). The minimum rate is assessed on married couples with joint incomes between $4,000 and $21,250. The state sales tax is low at 4%, but counties may tack on additional assessments. For example, in both Wake and Durham Counties (home of Raleigh and Durham, respectively), the total sales tax rate is 6%. In 1999, North Carolina residents paid $74 in state taxes per $1,000 of personal income, exceeding the national average of $66.

Extremely Low Property Taxes: Property taxes in the metropolitan area are extremely low. In 2000, commercial property was taxed at an effective rate of $1.01 per $100 valuation in Raleigh and $0.99 in Cary, according to Vertex Inc. Raleigh's rate was the fourth-lowest rate of 86 markets analyzed by the INDEX. Residential property was taxed at an effective rate of $1.09 per $100 valuation in Raleigh, per Runzheimer International.

State Educational Achievement Falls Short of National Averages: Although the federal government does not report educational statistics for the Raleigh-Durham area, statewide figures are available. Among the state's adult residents (those over 25), 79.8% have graduated from high school. The national metropolitan norm is 83.4%. Of the state's adults, 23.9% have received at least a bachelor's degree from a four-year college or university, compared with 25.2% nationwide.

Violent Crime Down; Property Crime Up: Incidents of violent crime in the metropolitan area have declined; the number is now just below the national average. In 1999, there were 544 incidents of violent crime per 100,000 local residents, a 3% decline from 1998. Across the country, the metropolitan average was 584 per 100,000 (for a 7.4% drop). However, the number of local property crimes has increased slightly—2.5%— to 5,279 incidents per 100,000 residents. Nationwide, there were 4,016 incidents per 100,000 residents.

1990's Growth Pace Surpasses 1980's: The population of the metropolitan area has grown 39% since 1990, for a mid-2000 population of 1.2 million. This exceeds the pace set during the previous decade when the region grew by 29%. In fact, between 1990 and 2000, Raleigh-Durham was the fifth fastest-growing region in the country. Las Vegas was number one, followed by Austin, Phoenix, and Atlanta.

Of the six counties that comprise the region, Wake is the largest with 627,800 residents. Wake has increased its population by 48% since 1990. Durham County is second, with a population of 223,300. Johnston County follows, with 122,000 residents. Johnston is the fastest-growing county in the metropolitan area—posting a 50% growth rate since 1990. Orange County has 118,200 residents. Chatham and Franklin Counties round out the group. Their respective populations are 49,300 and 47,300.

Raleigh is the largest city in the metropolitan area. It has 276,100 residents, and has expanded by 25% since 1990. Durham is the second-largest community with a population of 187,000. Cary has 94,500 residents and has posted the most impressive growth rate since 1990—increasing its population by a whopping 108%.

OFFICE MARKET

(CBD)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↔	↑

(Suburbs)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↔	↔	↑

Telecom Bust Trips the Triangle

The concentration of high-tech companies in greater Raleigh, particularly telecom firms in the I-40/Research Triangle Park (RTP) area, has been a major contributor to the region's healthy growth since the early 1960s. But 2001's economic slowdown, collapse of the new economy dot.coms and dramatic reversals in the telecommunications industry are adversely impacting real estate in the Triangle.

The year ending in June 2001 saw the overall vacancy rate for office space grow from 6.5% to 9.8%, according to Karnes Research, which monitors real estate conditions in North and South Carolina. The second quarter of 2001 saw 914,000 square feet completed in 15 new buildings with only 429,000 square feet absorbed, down 31% from the 620,000 square feet absorbed in the prior year's second quarter.

During the year, Teligent filed for bankruptcy and shuttered its Raleigh office. Larscom, a California network equipment manufacturer, closed its Durham operations. Sun Microsystems, which has three new buildings under construction at its RTP campus, canceled plans for three more buildings. The telecom bust has seen layoffs at Alcatel, Acterna, BTI, Ericsson's Digital Wireless Group, Fujitsu's network communications facility, IBM's Tivoli Systems, and Nortel Networks. Shortly before press time, Lucent Technologies announced it was closing its 120,000 square foot facility at Centennial Campus and laying off employees. Karnes Research expects the metropolitan vacancy rate will reach at least 10% and perhaps as high as 12% by

OFFICE*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
Cameron Village	761,383	5.9%	5,533	0
Cary	3,786,314	12.7%	136,926	373,950
Downtown Durham	1,108,468	5.2%	1,762	0
Downtown Raleigh	2,813,271	5.2%	(33,538)	0
I-40/RTP	5,852,070	9.9%	71,513	248,996
North Durham	912,279	5.0%	2,630	0
North Wake	4,562,119	12.0%	18,601	55,000
Northeast Wake	1,688,826	9.7%	54,722	179,000
Northwest Wake	1,883,058	11.6%	69,439	158,114
Orange County	818,309	7.4%	52,177	317,034
South Durham	954,933	13.0%	5,886	54,000
South Wake	383,631	24.5%	373	105,000
West Wake	3,298,453	7.7%	42,616	32,724
TOTAL	**28,823,114**	**9.8%**	**428,640**	**1,523,818**

*Reported as of second quarter 2001.

Source: Karnes Research Company (Raleigh-Durham).

June 2002. Local sources peg office and flex space available for sublease in June 2001 at between 1.2 and 1.6 million square feet.

Metropolitan—Construction Slows: Office inventory in the Triangle expanded by nearly three million square feet in the year ending in June 2001, growing more than 11% to 28.8 million square feet. Rising vacancy, falling absorption and a growing pool of sublease space are leading developers to delay or cancel projects. A 650,000 square foot office building at Aerial Center in RTP was scheduled to break ground in June, but is now on hold. Ravinia, a mixed-use project in Durham with 250,000 square feet of office space, was canceled. Grading began in February for 500,000 square feet of offices adjacent to the Streets at South Point mall, but the developer has decided to delay construction until the market improves. New construction has fallen 32% from 2.2 million square feet in June 2000 to 1.5 million square feet in mid-2001. While 37% of new construction was pre-leased in January 2001, pre-leasing had dropped to 21% by July. Not all of the 3.6 million square feet in various stages of planning will move forward.

Central Business Districts—Vacancies Drop Downtown: With only 14% of the regional inventory, downtown Raleigh and Durham do not impact the market as dramatically as most other Central Business Districts. During the 12 months ending in June 2001, downtown Raleigh added no new space to its 2.8 million square feet, while Durham saw 3% growth to 1.1 million square feet. The vacancy rate in downtown Raleigh fell from 5.4% to 5.2%, while Durham's vacancy rate dropped from 7.4% to 5.2%. Downtown Raleigh was the only area in the region to register negative absorption (33,500 square feet) during 2001's second quarter. Durham's CBD absorbed only 1,800 square feet during 2001's second quarter.

Nearly 14,000 square feet of space opened unleased at West Village. No new space was under construction in mid-2001, but proposals to renovate the American Tobacco campus and the Diamond View project will add 567,000 square feet if they move forward.

Cary Stays Active: Cary dominated the region's activity with a 26% spurt in inventory to 3.8 million square feet during the year ending June 2001. More than 530,000 square feet of new space opened during the first six months of 2001, which saw 227,000 square feet of absorption. Although it was the highest year-to-date absorption in the region, vacant space in new product caused Cary's vacancy rate to soar from 6.3% in June 2000 to 12.7% in mid-2001. Park West I and II and Millpond Village, which total 192,000 square feet, opened 50% leased, and CentreGreen Park opened with only 20% of its 97,000 square feet under contract.

Cary's vacancy rate should continue to rise through mid-2002 as new construction is completed. Nearly 374,000 square feet were under construction in June 2001, the most of any area in the Raleigh-Durham office market and nearly 500,000 square feet of new projects were in various stages of planning. Major developments underway include the 108,000 square foot Crescent Lakeside I and another 97,000 square feet at CentreGreen Park.

I-40/RTP Drives the Region: As the largest, fastest-growing area in the region, trends in the I-40/RTP corridor impact the overall market. I-40/RTP added 14% more inventory during the year to total 5.9 million square feet in June 2001. New construction added 335,000 square feet of office product during 2001's second quarter, but only 72,000 square feet were absorbed, compared to 178,000 square feet of absorption during the prior year's second quarter. As a result, this year's second quarter ended with a 9.9% vacancy rate compared to 5.4% in the prior year. This vacancy rate does not include sublease space, an ample amount of which is available in the area due to the downturn in the high-tech and telecommunications industries.

The softening has triggered a considerable slowdown in development in the corridor. Only 249,000 square feet of new construction was underway in June 2001, compared to 1.1 million square feet in mid-2000. Keystone Park accounts for 152,000 square feet of the new construction. Another 1.1 million square feet is in various stages of planning, 30% of the new development proposed for the region.

Price and Rent Trends: *The average value of Class A CBD office space in the Raleigh-Durham market fell 3.4% to $124.57 per square foot in the second quarter of 2001 from $128.94 per square foot during the same period one year earlier. The effective gross lease rate increased to $18.42 per square foot from $18.25 per square foot during the same timeframe. The cap rate rose to 7.9%.*

The price of suburban office space dropped to an average of $136.99 per square foot in the second quarter of 2001. The effective gross lease rate increased from $20.71 per square foot in the second quarter of 2000 to $21.16 per square foot in the second quarter of 2001. The suburban cap rate increased to 8.3%. Class B suburban office space was valued at $100.00 per square foot

INDUSTRIAL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↑	↔	↔	↑	↔

INDUSTRIAL*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
WAREHOUSE				
Cary	168,031	1.1%	(600)	0
Durham	1,537,065	0.4%	19,000	0
I-40/RTP	8,632,372	13.5%	(355,505)	260,784
Northeast Wake	3,626,142	13.9%	78,070	0
Northwest Wake	648,450	3.9%	0	0
Orange County	260,000	2.6%	0	0
South Wake	1,716,558	18.3%	31,380	194,000
TOTAL	**16,588,618**	**12.2%**	**(227,655)**	**454,784**
FLEX SPACE				
Cary	852,251	12.4%	11,619	0
Durham	170,944	0.0%	0	0
I-40/RTP	5,173,794	8.8%	(40,757)	221,400
Northeast Wake	2,442,203	13.7%	20,870	149,000
Northwest Wake	241,114	11.9%	20,960	0
South Wake	498,584	25.8%	31,368	228,981
West Wake	397,425	8.0%	(25,600)	0
TOTAL	**9,776,315**	**11.1%**	**18,460**	**599,381**

*Reported as of second quarter 2001.

Source: Karnes Research Company (Raleigh-Durham).

I-40/RTP Paces the Market

The I-40/RTP corridor contains more than half the industrial space in greater Raleigh. The heavy concentration of high-tech and telecommunications companies in the corridor makes its health dependent on the strength of these two related industries. When high-tech and telecom went bust during the year, greater Raleigh's industrial market saw increasing vacancy, lower absorption and slowing development.

According to Karnes Research, which surveys multi-tenant industrial properties larger than 20,000 square feet, the Triangle was home to 16.6 million square feet of warehouse space in June 2001. Flex space, which Karnes surveys separately, comprised 9.8 million square feet. The technology slump caused the warehouse vacancy rate to rise from 10.1% in the prior year to 12.2% in June 2001, and flex vacancy to increase from 9.6% to 11.1%.

Metropolitan—Absorption Down, Construction Stable: The dramatic drop in industrial absorption in greater Raleigh has had only a slight impact on development. During the second quarter of 2000, the Triangle absorbed 540,000 square feet of warehouse space and 260,000 square feet in flex buildings. However, 2001's second quarter saw negative 228,000 square feet of warehouse absorption, and only 18,000 square feet absorbed in flex buildings. No new warehouses were completed during the second quarter, but seven flex projects totaling 301,000 square feet opened for occupancy. New warehouse space under construction dropped to 455,000 square feet in June 2001 compared to 560,000 square feet in the prior year, but flex space underway has increased from 515,000 square feet to 599,000 square feet. Local real estate professionals note that rising land prices and traffic congestion at the core of the region are causing warehouse development to shift to outlying areas not included in the market surveys.

I-40/RTP Slides: The I-40/RTP corridor saw warehouse inventory increase more than 10% to 8.6 million square feet in the year ending in June 2001 while inventory in other areas stayed the same or dropped slightly. The warehouse vacancy rate rose from 10.6% to 13.5%. Flex space increased a modest 7% to 5.2 million square feet and the flex vacancy rate rose slightly during the year from 7.5% to 8.8% in June 2001. I-40/RTP reported 356,000 square feet of negative warehouse absorption during the second quarter. In addition, two flex buildings totaling 110,000 square feet opened in the corridor without substantial leasing activity. An estimated 400,000 square feet of sublease space is available in the corridor.

The I-40/RTP submarket has 261,000 square feet of warehouse space under construction, 57% of the region's total, and 221,000 square feet of flex space underway. Another 448,000 square feet of warehouse and 322,000 square feet of flex space are in various stages of planning here.

Space Underway in South Wake: The small South Wake area is experiencing a relatively large amount of industrial development. Warehouse inventory remained flat during the year at 1.7 million square feet, and warehouse vacancies rose from 14.9% to 18.3% in June 2001. But South Wake absorbed 31,000 square feet of space in this category during the second quarter and another 194,000 square feet were under construction in June 2001, second only to I-40/RTP. Flex space grew 57% to 499,000 square feet, vacancy dropped during the year from approximately 37% to 26% in June 2001, and the second quarter experienced 31,000 square feet of positive absorption. South Wake had the most flex space under construction in greater Raleigh—229,000 square feet—at the end of the quarter.

Price and Rent Trends: *Class A industrial space was valued at an average of $33.15 per square foot in the second quarter of 2001, a slight increase from $32.98 per square foot one year prior. The cap rate was 9.1% at the end of June. Class A industrial rents rose to an average of $4.41 per square foot in the second quarter of 2001 from $4.23 per square foot in 2000's second quarter.*

Class B flex space averaged $69.14 per square foot in the second quarter 2001

RETAIL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↑	↑	↔

RETAIL*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
Cary	6,376,275	4.8%	144,240	83,000
Central Raleigh	705,505	2.5%	(6,185)	0
Chapel Hill	1,479,757	1.3%	14,480	68,238
East Wake	1,355,268	3.5%	5,275	0
Hillsborough	304,053	3.9%	2,000	0
North Durham	3,427,925	2.9%	27,638	150,000
North Wake	3,018,085	4.8%	12,228	100,000
Northeast Wake	3,140,207	2.5%	170,823	1,842,423
Northwest Wake	3,383,532	5.6%	50,201	773,967
South Durham	3,252,229	3.6%	3,702	1,274,778
South Wake	2,117,437	7.0%	(121,738)	146,000
West Wake	816,242	6.6%	13,395	0
TOTAL	**29,376,515**	**4.2%**	**316,059**	**4,438,406**

*Inventory and vacancy are for July 2001. Absorption and construction are for the first half of 2001.

Source: Karnes Research Company (Raleigh-Durham).

Raleigh Sends Mixed Signals

Developers proposed a 400,000 square foot shopping center on Capitol Boulevard in Northeast Wake where an I-540 interchange is coming, but Raleigh's planning commission said no because the project did not fit their vision for mixed-use development. Since then, the commission received a proposal for the Oberlin, a 1.2 million square foot office, residential and retail project in central Raleigh. The project met heavy neighborhood opposition despite the developer's concession to scale the mixed-use project back to 900,000 square feet. City planners referred the final decision to the City Council, which supported the neighbors despite criticism that their attitude toward mixed-use development was arbitrary. The developer is now considering selling parcels in the project area for office development, for which it is zoned.

The developer of North Hills mall in Hillsborough also wants to develop a mixed-use project called North Hills Plaza nearby, but is meeting similar opposition. Several city governments in the region are refusing to rezone areas with retail potential, and are placing strict restrictions on retail development in areas like Morrisville, Wake Forest and Fuquay-Varina where residential construction is booming.

Retail Booms in Cary: Cary's 6.4 million square feet of multi-tenant retail space comprises 22% of the region's 29.4 million square feet of shopping centers (in centers with at least 15,000 square feet), according to Karnes Research. During the first half of 2001, 223,000 square feet of new retail space opened in Cary, about 48% of the 467,000 square feet of new retail product delivered in the region. Absorption in the first half of 2001 totaled 144,000 square feet, the second-highest absorption in the region. Newly completed but unoccupied space caused the vacancy rate to climb during the year from 3% to 4.8% in June 2001. Cary also has the most new space in planning, nearly 1.3 million square feet.

Residential development has attracted retail activity to Cary, but the city has run out of water treatment capacity and is limiting building permits.

New Malls Spark Renovations: Competition from two new super-regional malls slated to open in 2002 has sparked a wave of renovations at local shopping centers. Developers of older properties see tenants like Belk and J.C. Penney leaving South Square mall to lease space at the Streets of South Point, which is still under construction, and realize they must revitalize their centers. University mall in Chapel Hill has attracted new tenants following renovation into a more upscale venue. North Hills mall and plaza is undergoing redevelopment, but a proposed expansion is meeting neighborhood opposition. Northgate mall in North Durham and Triangle Plaza, which is across the street from a planned supermall, are also being renovated.

The two new super-regional malls are the 1.3 million square foot Streets of South Point in South Durham and the 1.2 million square foot Triangle Towne Center in northeast Wake. The region's existing super-regional malls are the 1.3 million square foot Crabtree Valley mall in Raleigh and the 1.1 million square foot Cary Town Center in Cary.

Retail Sales, Income Higher Than National Norms: Retail sales per household in the Raleigh-Durham-Chapel Hill area averaged nearly $39,000, according to Sales & Marketing Management's *2000 Survey of Buying Power*. This is significantly higher than the national norm of $33,100 per household. Continuing to buck the trend in most metropolitan areas, the core city of Raleigh registered the highest retail sales at $58,100 per household. Sales per household were also high in Wake County ($48,200) and Chapel Hill ($40,000). The median income in the Raleigh-Durham-Chapel Hill area at $40,300 also exceeded the national norm of $37,200. Household incomes were highest in the city of Cary ($58,600), Wake County ($45,600) and the city of Raleigh ($39,300). The city of Durham reported average household income at nearly $35,000.

Price and Rent Trends: *The average value of Class A anchored, unenclosed retail space in Raleigh-Durham was $107.14 per square foot in the second quarter of 2001, a slight decrease from $108.35 per square foot one year ago. The triple net lease rate averaged $18.04 per square foot in the second quarter of 2001, just one cent higher than the figure reported one year earlier. The cap rate stood at 8.7% at the end of June.*

APARTMENT MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↓	↔

Vacancies Rising to Double Digits

Signs offering deposit waivers or free rent in front of Triangle apartment buildings indicate that vacancies are rising. Developers completed 3,700 new units during the last six months of 2000, and only 2,600 units were absorbed. According to Carolinas Real Data, if the 6,000 units under construction during 2001's first quarter are completed during the year, the Triangle apartment vacancy rate could rise to 12%. New construction is concentrated in south Durham and north, northwest and southwest Wake County.

The 240-unit apartment complex Heritage Wake Forest, the first of five multi-family projects in Wake Forest, is moving forward. A developer is planning a 386-unit complex behind the Wakefield Commons shopping center. In northwest Wake County, the 410-unit Terraces at Brier Creek complex opened during the year; the 450-unit Caswyck Brier Creek complex and 374-unit Ashley Park apartments are under construction.

But the developers of Ravinia, a mixed-use project with 1,380 apartments in south Durham County, canceled the project when Durham planners refused a zoning request that would have allowed auto dealerships on the property. The same developers backed out of another mixed-use project with 500 apartments when Durham officials required them to extend a city street through the development.

Morrisville Rejects More Development: Morrisville's proximity to RTP has sparked the development of more than 3,000 apartment units, and now its residents are attempting to shut the door. Community sentiment led the city to amend its zoning to prohibit any multifamily development with more than eight units per acre. Apartment developers must apply for special-use permits. While discouraging multifamily development, city officials are encouraging single-family development.

Durham Promotes Lofts: The 95% occupancy at West Village, a 240-unit loft renovation of five former tobacco warehouses in downtown Durham, has spurred city officials to promote further development in the area. They are lobbying state officials for building code revisions that would facilitate and lower the cost of renovations. City officials are also changing one-way streets to two-way to improve traffic flow. West Village developers are negotiating to acquire more warehouses to redevelop for residential use.

Multifamily Permits Increase Slightly: The 3,630 multifamily permits (in structures with five or more units) issued in the first six months of 2001 represent a mere 2.3% increase from the number issued in 2000's first half. Single-family permits showed a more substantial increase of 22% to 8,017 during that same period.

Median Home Price Climbs: The median price of a home in the Raleigh-Durham area increased 9.2% from the second quarter 2000 to $167,000 as of June 2001. The 65.6% homeownership rate in Raleigh-Durham-Chapel Hill is just slightly higher than the 65.5% national average.

Price and Rent Trends: *Class A apartment space was valued at an average of $75.73 per square foot in the second quarter of 2001 compared to $76.11 per square foot one year earlier. Average rents slipped to $10.13 per square foot in the second quarter of 2001 from $10.17 per square foot during the same period last year. The cap rate was unchanged at 8.1%. Class B apartments (i.e., ten to 20-year-old complexes) were valued at $56.89 per square foot in the second quarter.*

Washington

Economic Overview

Nation's Top Job Generator

The Washington, DC job machine churned out 85,500 new jobs during the 12-month period ending in June, the largest absolute gain in the country. This translated into a 3.1% expansion of the local employment base, the highest proportional advance of the ten QUARTERLY markets reported in this issue, and the sixth-highest nationally. The metropolitan area's unemployment rate was 2.8% in June 2001, basically unchanged from one year ago. For just the District of Columbia, the unemployment rate was 6.4% in June 2001, a full percentage point above the rate posted one year earlier.

Services' Gain Leaves Others in its Wake: By far, the local service sector created the greatest number of new jobs during the period—46,900—with the business services sub-category contributing 15,800 of those new positions. Government was a distant second, with a net gain of 11,600, followed by construction and 10,500 new jobs. Retail trade added 6,200 to its ranks, while transportation expanded its payroll by 5,800. The local finance, insurance and real estate (FIRE) sector experienced a net gain of 5,000.

Construction posted the largest proportional advance—6.8%—followed by transportation and a 4.3% expansion. Services grew by 4.1%. FIRE experienced a 3.3% advance. Government and retail trade expanded by 1.9% and 1.5%, respectively.

Two of the eight major employment categories suffered declines during the period. Wholesale trade lost 400 jobs, followed by manufacturing's loss of 100 positions. These losses translated into respective contractions of 0.5% and 0.1%.

Three Employment Sectors Capture 75% of Area's Workforce: Three of the eight major employment sectors capture 75% of greater Washington's workforce. Services has the largest share—41.3%—far ahead of its national average of 31%. As is no surprise in the nation's capital, government is the second-largest employer (21.5%), also exceeding its national norm of 15.6%. Although retail trade is also a significant employer, its local share (14.6%), falls short of its national share (17.8%). Employment in the next three sectors—construction (5.8%), FIRE (5.4%), and transportation (4.9%)—falls closer to their respective national averages of 5.3%, 5.8%, and 5.4%. Manufacturing exhibits a significant disparity, employing 3.5% locally, far short of its national metropolitan average of 13.4%. Wholesale trade is the area's smallest sector, employing 3% here versus 5.3% nationwide.

Grocery Chain Remains Largest Employer: The region's largest private sector employer is Giant Food. Based in Landover, MD, it employs 21,400 throughout the metropolitan area. (Virginia-based Mars Inc., maker of snacks, pet food and electronics, employs 43,000 company-wide although its exact local total is unavailable.) Restaurant chain McDonald's employs 19,000 locally followed by Marriott with 15,000 on its payroll. Verizon employs 14,000 here while Inova Health System and Safeway each employ 11,000. Lockheed Martin employs 9,000 regionally, followed by department store chain Hecht's with 8,000 employees. WorldCom and AT&T employ 7,500 and 5,800 workers, respectively.

Other private sector firms with over 2,500 local employees include AOL, Raytheon, Shoppers Food Warehouse, Dyncorp, UPS, TRW Inc., and the Washington Post.

District Gets a Clean Bill of Health: Five years after the District of Columbia was on the verge of a financial meltdown, the D.C. Financial Control Board (put in place by Congress to oversee the financial governance of the city) declared that the city was poised to meet the federal requirements regarding fiscal management. This paves the way for the Control Board to cease operation at the end of September 2001.

Earlier this year, the District began marketing a new package of incentives designed to lure high-tech firms to the city. Known as the New E-conomy Act, the incentives apply city-wide (as opposed to existing federal incentives that promote development in poverty zones). The most attractive part of the plan is a five-year waiver of corporate income taxes for firms that locate within one of 12 designated high-tech zones. Other companies would pay a corporate income tax of 6% (the same as Virginia), still a discount from the District's current 9.975% rate. Since launching the plan, two small tech firms have located here. MassLight.com, a software development firm, settled in the trendy Dupont Circle neighborhood. Bethesda-based Intellispark (learning software) also moved to the District.

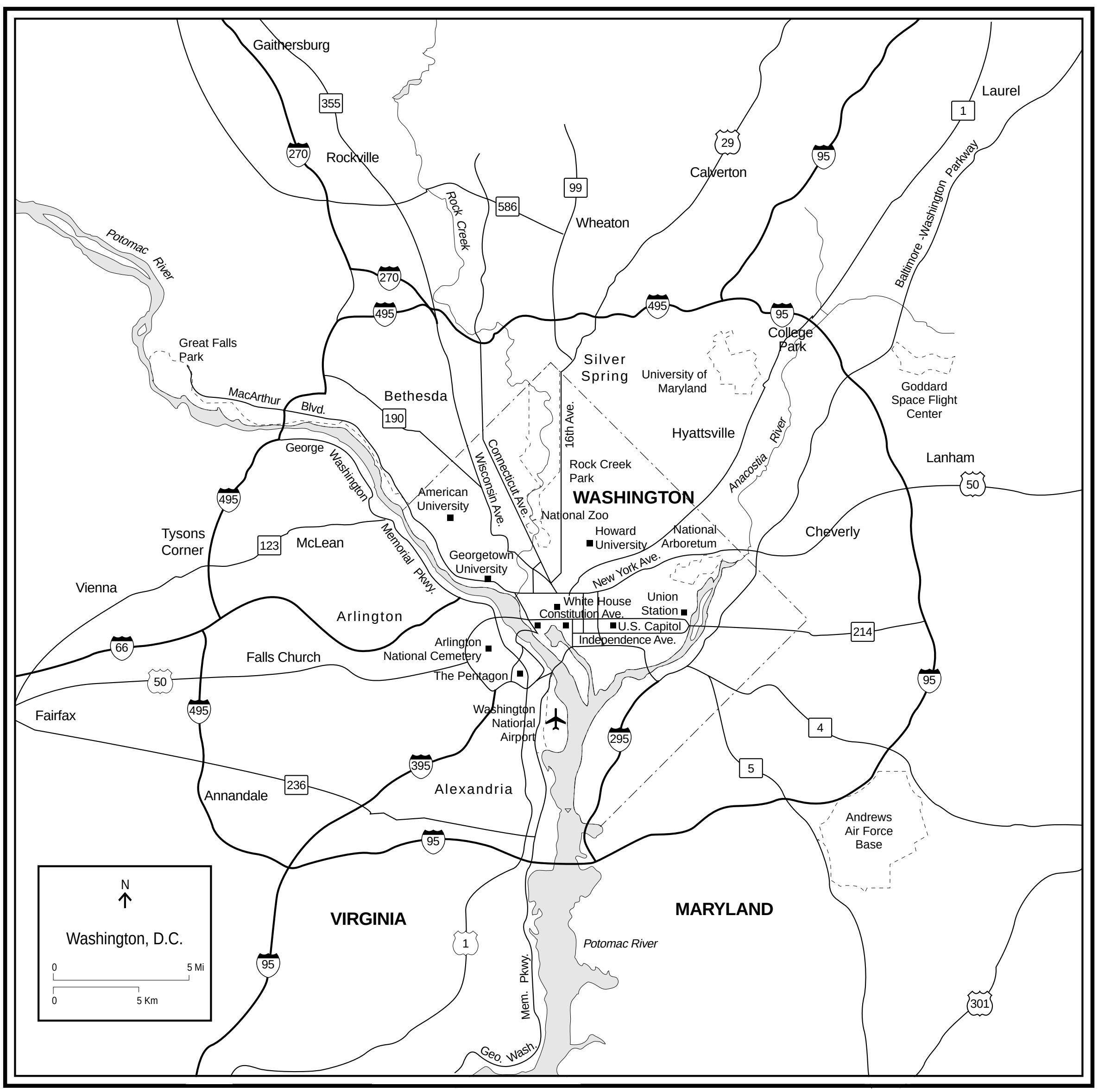
NoMa Reborn as Technology District: The city formally introduced its redevelopment plans for the area north of Massachusetts Avenue NE (or NoMa area) in May 2001, although several developments there were already underway (mentioned below). City planners have divided NoMa into two, triangular-shaped areas: the Mount Vernon triangle (bounded by Massachusetts, New York and New Jersey Avenues) and the Arts, Media and Technology Zone (bounded by North

Capitol Street, New York Avenue and the railroad tracks). Plans call for redeveloping the Mount Vernon triangle into 750,000 to 1.5 million square feet of office space, 200,000 to 250,000 square feet of street-level retail, and up to 3,000 residential units. The Arts, Media and Technology Zone would retain a more industrial feel in terms of the buildings' appearance but could still include up to 1,500 housing units, up to six million square feet of office space, and 130,000 square feet of retail space.

XM Satellite Radio Holdings is poised to purchase the three-story building where its headquarters is located at 1500 Eckington Place NE (formerly a printing plant). In 1998, it was redeveloped and Qwest Communications took 100,000 square feet for a switching station. XM leased the top two floors for its operations. XM's purchase signifies a commitment to the NoMa corridor as does the planned new headquarters for the Bureau of Alcohol, Tobacco, and Firearms. Construction of the ATF's new headquarters is expected to begin next year.

Another new arrival will be the District's Department of Employment Services (DOES), which was displaced from its current headquarters because the property was sold to the Freedom Forum's Newseum. The DOES will take 100,000 square feet in the Washington Gateway, a new 350,000 square foot building on the site of a former drugstore warehouse. The DOES will initially move 300 of its 500 employees there.

Meanwhile, in the Northwest quadrant (near the MCI Center), a much-anticipated plan to secure Macy's as the anchor tenant in the former Woodward and Lothrop building on F Street fell through. At issue were incentives requested by Macy's to open a second District location in the Friendship Heights area. This affluent



neighborhood's retail offerings already include the Mazza Gallerie and upscale Chevy Chase Pavilion and city officials felt no incentives were needed there. Developer Doug Jemal has approached other retailers about the F Street site. Discounters Wal-Mart, Kmart, and Lord & Taylor have reportedly expressed interest. Currently, the only downtown retail anchor is Hecht's.

Northern Virginia Takes a Hit: After California's Silicon Valley, Northern Virginia's technology sector probably ranks second in terms of high-profile downturns. A recent example is Cisco Systems, considered a bellwether among technology firms. In early March, Cisco announced plans to establish a one million square foot campus in Northern Virginia. The company already occupies approximately 500,000 square feet here and was scouting both Fairfax and Loudoun Counties for an expansion. One month later, in the face of financial difficulties and company-wide layoffs, Cisco announced it was ending its search for available land.

A host of other firms have downsized as well. Telecom giant WorldCom laid off 400 from its Washington, DC operations in March. The firm also halted construction of a 600,000 square foot expansion in Virginia (WorldCom already occupies 1.3 million square feet here). WinStar Communications declared bankruptcy in the Spring. The eight-year-old telecom firm was building a 156,000 square foot facility in Herndon, but has since backed out of the deal. MicroStrategy, a maker of intelligence software, eliminated 600 jobs at its Vienna headquarters as part of a corporate restructuring. Telecom firm Teligent laid off 100 workers last Fall. OneSoft Corp., a McLean software firm, eliminated 165 workers—half its local payroll. MicroStrategy, a data-analysis firm, shed 234 jobs last year in the face of declining sales. American Management Systems (AMS) laid off 250 employees at its Fairfax headquarters. 2nd Century Communications shed 150 jobs.

In addition, several well-known tech residents are shopping around their data center space. Intel is looking for tenants to occupy its 73,000 square foot center in Chantilly. Amazon.com is looking for tenants for a 65,000 square foot data center.

An old economy firm is relocating from Reston to southern Virginia. USAA, a FIRE firm geared toward the military, is closing its metropolitan area operation and moving 500 jobs to Norfolk. The company will relocate any employees who want to move and offer severance packages to the rest. The firm cited lower costs as the reason for the move. USAA already employs 1,000 in Norfolk, which has a sizable U.S. Navy presence.

AOL Merges with Time Warner: In January 2001, the merger of America Online and Time Warner was completed. The new entity, known as AOL Time Warner, employs 85,000 worldwide. The new company's headquarters are now in New York while AOL remains in Virginia where it employs approximately 4,400. There have been layoffs, though, associated with the recent economic slowdown as well as the merger. So far this year, AOL Time Warner has eliminated nearly 800 jobs. However, last October, AOL announced plans to build a 240,000 square foot data center in Prince William County. The facility is expected to house computer equipment for the company's Internet services and employ 175. It is scheduled to open in the Fall. AOL also plans to add two buildings at its Loudoun County headquarters that will eventually employ 1,200. Although the plans have not been formally submitted, some details are available. As envisioned, the first building would be a 200,000 square foot "Creative Center" to house staff employed in the on-line division.

There are other positive reports, too. Virginia-based VeriSign plans to add up to 500 new employees by year-end 2001, bringing its local payroll to approximately 1,500. VeriSign is a registrar of Internet domain names and Web addresses. Canadian telecom firm Teleglobe boosted its local workforce to 1,000 employees and announced plans to relocate the firm's headquarters from Montreal to Reston. General Dynamics is adding 400 jobs to its operation in Prince William County. It was recently awarded a contract to build land and amphibious combat systems for the U.S. military.

Arlington County Holds On: The Mills Corp. flirted briefly with the idea of moving its corporate headquarters from Rosslyn (in Arlington County) across the Potomac River to Montgomery County. Mills' executives reportedly wanted to be closer to their homes, but the majority of the rank-and-file employees live in Virginia. In the end, Mills decided to stay in Rosslyn. Mills employs 350 in Arlington County.

One of Mills' high profile-neighbors in Rosslyn has delayed its move to Fairfax County, citing dissatisfaction with its new quarters. Gannett News/USA Today announced a relocation to Tysons Corner two years ago. The media firm's new campus (totaling 820,000 square feet) will offer a helicopter pad, basketball and tennis courts, and a softball field. The employees will also have use of a 19,000 square foot health club. Other amenities include a 20,000 square foot conference and training center, an 8,000 square foot auditorium, and a 20,000 square foot dining center. Employees were scheduled to start moving in June, but that has been delayed until the Fall. Gannett employs 1,800 in Arlington County, where it occupies 530,000 square feet.

Biotech is Booming in Maryland: Although Montgomery County officials would love to have a piece of Northern Virginia's technology pie, they are enjoying success in the biotech sector. The ongoing economic difficulties in the technology sector make recent expansions in the area's I-270 biotech corridor all the sweeter. MedImmune, a Gaithersburg firm, is building a new headquarters facility on Quince Orchard Drive and Great Seneca highway. Although approvals are in for up to 750,000 square feet, MedImmune plans to construct the new campus in phases. The first phase, scheduled for completion in late 2002, is comprised of a 210,000 square foot complex with a 60,000 square foot R&D facility and 150,000 square feet of office space. At build-out, the complex will house 2,200 workers. MedImmune specializes in developing products in the fields of infectious diseases, immune regulation, and cancer. The company currently has five products on the market and six in development.

A Shady Grove biotech firm is consolidating its operations in Frederick. Life Technologies, which occupied 237,000 square feet in Shady Grove, was purchased by Invitrogen last year. Invitrogen decided to move Life's corporate offices to San Diego and consolidate 400 other employees in Frederick. Life already operated a distribution center there and will renovate a 50,000 square foot warehouse to accommodate the new arrivals.

German biotech conglomerate Qiagen is building a North American R&D campus of up to 400,000 square feet. Qiagen expects to occupy the building in mid-2002 and employ 300 there. The firm has three other locations in the U.S. The Germantown facility will serve as a distribution center for the firm's East coast clients and enable the company to remain in close contact with its German parent and other European offices. Qiagen selected Montgomery County's I-270 corridor because of its wealth of corporate and academic resources.

Bumps in the Road of Revitalization: Late last year, Discovery Communications, the linchpin in the revitalization of Silver Spring, announced it was scaling back its planned expansion there. Headquartered in Bethesda, Discovery is best known for its cable channels Discovery and Animal Planet—as well as Discovery Channel retail stores—and announced two years ago that it would relocate to Silver Spring. Discovery still plans to construct a 350-foot-tall headquarters building on Colesville Road and Georgia Avenue as well as occupy the nearby Caldor building. However, the company will not be leasing a 320,000 square foot building on Eastern Avenue that formerly housed a post office. The firm laid off 80 of its 200 online employees as it scaled back its Web expansion plans and canceled its initial public offering.

In the meantime, Silver Spring has secured some new business to offset Discovery's downturn. Social and Scientific Systems (SSS) is consolidating its Montgomery County offices and moving to Georgia Avenue. SSS plans to relocate 280 employees from offices in Bethesda, Rockville, and Gaithersburg. The firm provides biomedical research services for clients such as the National Institute of Allergy and Infectious Diseases, the Small Business Administration, and the National Cancer Institute. Montgomery College is buying a former Giant Food bakery site as part of its future plans. The college plans to incorporate the bakery site into its Silver Spring/Takoma Park campus by 2005. Giant Food sold the property at less than market value in return for naming rights to the building.

PG County Gets a Second Look: Around the Beltway, Prince George's County (aka PG County) is enjoying an increase in corporate activity. Geographically, the county is as close to the District as Montgomery County, offers metrorail service, but has lower costs than either Montgomery or Northern Virginia. Verizon Communications (formerly Bell Atlantic) opened a high-speed Internet service operations center in Largo and brought 800 new jobs to the county. Verizon's 70,000 square foot center is located near the US Airways Arena. Verizon selected PG County because of its proximity to the Beltway, available workforce and low costs.

Several other firms have made a commitment here recently, including Computer Sciences Corp., which plans to occupy a 325,000 square foot building under construction near the New Carrollton Metro station. Computer Sciences secured a long-term contract to modernize the computer systems of the Internal Revenue Service, and the new facility will be across the street from an IRS office. CSC expects to employ 1,200 there. Completion is scheduled for May 2003. Other arrivals include The National Center for Health Statistics (200,000 square feet at the Prince George's Plaza metro center) and Macro International (91,000 square feet in Beltsville). Speaking of Beltsville, a logistics company plans to take 107,000 square feet of a former FedEx distribution center there. The Kane Co. will employ 70 in the building (built by FedEx in 1999 but never used).

World War II Memorial Breaks Ground: Along the National Mall, construction has begun on a planned World War II memorial. Although a ceremonial groundbreaking was held late last year, the project stalled due to controversy over its site, design, and approval process. As planned, the memorial will be located near the Rainbow Pool, a seldom-visited site just east of the Lincoln Memorial. However, the location is within the Mall's "core" a cross-shaped area extending from the White House to the Jefferson Memorial and from the Lincoln Memorial to the Washington Monument. The three commissions charged with approving site locations and designs are concerned that the space will become cluttered with statuary. Although the design of the WWII memorial was scaled back, opponents argued that its presence would destroy the vistas available from both the Lincoln Memorial and Washington Monument. Recently, President George W. Bush signed legislation barring further judicial review of the matter and a federal judge dismissed a pending lawsuit to halt construction. With construction beginning this year, completion is expected in 2004, 59 years after the war ended.

At Pennsylvania Avenue and Sixth Street NW, the Newseum completed the purchase of the city's Department of Employment Services building. The Newseum plans to relocate its headquarters and exhibits from the USA Today building in Rosslyn. Founded just five years ago by the Freedom Forum, the Newseum is an interactive museum about the news business. The Freedom Forum plans to tear down the existing building and replace it with a 476,000 square foot complex including offices, residence, a restaurant, and the Newseum.

In Virginia, groundbreaking occurred last Fall on a new museum at Dulles International Airport. The 176-acre site will house a 760,000 square foot annex of the Smithsonian's Air and Space Museum. It will have the capacity to display more than 200 aircraft and 100 space artifacts. The majority of the Air and Space Museum's collection is currently kept in storage due to lack of display space. The annex is scheduled for completion in 2003—to coincide with the 100th anniversary of the Wright brothers' historic first flight at Kitty Hawk, NC.

New Convention Center Weathers Storm: Construction continues on the new Washington, DC Convention Center and despite a wind storm in April that destroyed approximately 16,000 square feet of the 750,000 square foot roof, the center is still on track to open in March 2003. The accident occurred at night and there were no injuries. A subsequent investigation determined that inadequate bracing in one area made the roof vulnerable to weather conditions such as strong winds. In the meantime, city officials are trying to decide the fate of the city's existing convention center. Several proposals are on the table. All that is known for sure is that the old center will be demolished, leaving a vacant site of just over ten acres. Among the plans under consideration are a headquarters hotel for the new convention center, a high-end hotel property, 400 to 700 residential units, a museum, an opera hall, a theatre, and retail space.

Proposals Coming in for Headquarters Hotel: As mentioned above, city officials are keeping the current convention center site as a possible backup location for a new 1,000-room convention center hotel (since the plan calls for the hotel to be built within a half-mile radius of the new center and available sites are few). Several developers have submitted proposals including the Hilton Hotel Corp., Onyx International, and Marriott. Currently, the only other 1,000-room hotels in the District are the Washington Hilton and Towers and the Marriott Wardman Park—both in northwest Washington and a taxicab ride away from the new convention center. Final selection of a site and a developer is expected in December.

The much-anticipated 300-room Ritz-Carlton opened at 22nd and M Streets NW last October. The luxury property features a 34,000 square foot Japanese garden with bamboo, weeping willow trees, and a 30-foot waterfall.

In Virginia. a 195-room Sheraton is planned for the Dulles Airport corridor. Completion of the six-story property is expected in 2003. Several extended-stays have opened in the area, too. They include: a 229-room Courtyard by Marriott in McLean, a 136-room Springhill Suites in Centreville, a 133-room Candlewood Suites in Herndon, a 130-room Wingate Inn in Chantilly, and a 128-room Residence Inn in Vienna. A 189-room Hilton Garden Inn is planned for Courthouse Road in Arlington. A 336-room Marriott is underway in Ballston. Several Hampton Inns are now dotting the landscape in PG County (e.g., in College Park, Columbia, Waldorf, and Laurel).

Marriott announced in August 2001 that it would end the energy surcharges it began imposing in some of its hotel properties due to a stabilization in energy costs. The surcharge, which ranged from two to five dollars per night, will remain in effect at Marriott hotels in New York and California, though.

Five Boutique Hotels in the Pipeline: Although Washington, DC is not known for having hip or trendy hotels, San Francisco's Kimpton Group hopes to change that as it opens five boutique hotels in the District. Kimpton's signature style is to take an unusual building (e.g., a former Masonic Temple in New Orleans is now a Hotel Monaco) in an up-and-coming area and convert it into a signature hotel featuring luxurious appointments and unusual services such as private yoga rooms and in-lobby massage. First up, Kimpton is redeveloping the former U.S. Tariff Commission building at Seventh and F Streets NW into a 180-room Hotel Monaco. A former Quality hotel on 16th Street NW is slated to become a 135-room Hotel Rouge (with décor in red, of course). The former Canterbury hotel on N Street NW (near Dupont Circle) will become the 100-room Topaz hotel. Details and color schemes are still being worked out for two more Kimpton projects—a former Clarion hotel on New Hampshire Avenue between 20th and N Streets NW and a Howard Johnson hotel on Rhode Island Avenue (between 14th and 15th Streets NW).

Another boutique hotel project has fallen through, though. Starwood Hotels and Resorts had teamed with Miami's Peebles Atlantic Development to build a 146-

room W hotel on F Street NW (between 9th and 10th Streets), but the project fell through when Peebles could not secure additional tax-increment financing to boost the room count to 250.

According to Smith Travel Research, in 2000, the average hotel occupancy rate in the Washington, DC metropolitan area was 73%, a 3% increase over 1999. The average room rate rose 6% to $116. During the first four months of 2001, the average occupancy rate slipped insignificantly (one-tenth of one percent) to 70%, while the average room rate rose 9% to $126.

New Lowfare Carrier Arrives at Dulles: Dulles International Airport (DIA) handled 19 million passengers during the 12-month period ending in June 2001, a 7.5% drop from the same period one year earlier. Cargo volume was unchanged during the period at 377,000 metric tons.

In terms of new service to and from Dulles, JetBlue Airways—the New York-based discount carrier—plans to begin serving Long Beach and Oakland, CA in October, and New York's JFK Airport next year. Air Jamaica added service to Montego Bay. United Airlines will add service to Oakland in October.

Major Expansion to Accommodate Growth: Last year, the airport announced a $3.4 billion investment in capital projects to address its future growth. Two parking garages totaling 8,400 spaces are already under construction and scheduled for completion in 2002. By 2003, the airport hopes to complete a long-term parking lot with 6,100 spaces. The airport plans to open a permanent 44-gate concourse in 2004 to replace the temporary C/D concourse that serves United Airlines. By 2005, the airport hopes to replace its signature, but lumbering, mobile lounges that ferry passengers between the main terminal and the outer concourses with a subway system that will operate in a loop between all the terminals. Replacement of the mobile lounges has been on the drawing board for some time, but the recent financial commitment has allowed it to move beyond the planning stage. Other projects include a fourth runway and control tower as well as baggage-handling systems. The airport authority is currently requesting proposals for a number of the above-mentioned projects, including the fourth runway.

Increase in Flights Boosts Passenger Count: Ronald Reagan Washington National Airport (aka National) handled 15.2 million passengers during the 12-month period ending in June 2001, an 8% increase over the prior 12-month period. Cargo volume dropped by approximately 2% to 38,100 metric tons.

National's passenger count was boosted by additional service as several carriers added new cities to their routes; legislation that had prohibited flights beyond a 1,250-mile radius was lifted increasing the number of flights in and out of National by 24. The prohibition affected mainly carriers with routes in the West, although several airlines added service within the perimeter. America West now flies to Las Vegas and Phoenix; TWA added service to Los Angeles. Delta now has connections to Ft. Lauderdale and Boston. Alaska Airlines will begin serving Seattle in September.

Robust Trade Activity: In 2000, the value of finished goods handled by the Washington, DC Customs District rose 16% over 1999 to $5.4 billion. Imports fueled the growth, climbing 31% to $2.6 billion, while exports rose 5% to $2.8 billion. The area's healthy trade activity continued into 2001, jumping 31% during the first quarter to $1.4 billion. Exports led the way during the period, jumping 37% over the first quarter of 2000, to $826 million. Imports also posted an impressive gain, increasing 24%, to $617 million.

Metrorail Continues to Grow: In January 2001, the remaining two metrorail stations in the city's original transportation plan opened on the system's Green line, 32 years after the project began. These new stations (Congress Heights and Branch Avenue) connect the Southeast quadrant of the city with Prince George's County in Maryland. Meanwhile, groundbreaking occurred on a new station on the system's Red line. The New York Avenue NE station is the first station to be built on an existing line and is scheduled to open in 2004. Elsewhere on the route, construction began on a $434 million project to extend the Blue line to Largo, MD—less than a mile from FedEx Field (home of the NFL's Washington Redskins). Preliminary environmental studies have begun on a plan to extend the Blue line to the Tysons Corner area of Virginia as well as Dulles Airport.

High Speed Train Debuts: Acela, Amtrak's new high-speed train service between Washington, DC, New York City and Boston, debuted in December 2000. The sleek French and Canadian designed trains (with a seating capacity of 304) are expected to reach speeds of 150 miles per hour. However, speed restrictions along rail lines south of New Jersey, as well as aging bridges and tunnels throughout the Northeast, will keep the trains cruising at well under 100 miles per hour. Acela (a combination of the words acceleration and excellence) was scheduled to debut two years ago, but design problems delayed the project.

Corporate Tax Cut Planned for District: The District of Columbia's corporate income tax rate is 9.5% versus 6% in Virginia and 7% in Maryland. The District's rate is scheduled to drop to 9% in tax year 2003. The District's personal income tax rate is also burdensome. It ranges from 6% to 9.5% with the top rate taking effect on incomes over $20,000 (for those married filing jointly). Virginia's individual income tax ranges from 2% to 5.75%; Maryland's top rate is 4.8%.

The sales tax rate in the District is 5.75% compared with 4.5% in Virginia and 5% in Maryland. The District also imposes a per-package tax of 65 cents on cigarettes; Maryland's levy is 66 cents, while Virginia's cigarette tax is just 2.5 cents. District residents paid $145 in "state" taxes per $1,000 of personal income in 1999, more than twice the national average ($66).

According to data provided by Vertex, Inc., in 2000, commercial property in Washington, DC was taxed at an effective rate of $2.15 per $100 valuation, which ranked in the middle of 86 communities analyzed by the INDEX. Commercial property in Alexandria, VA was taxed at an effective rate of $1.07 per $100 valuation. Tangible personal property in the District is taxed at the higher rate of $3.40. Residential property was taxed at an average rate of $1.01 per $100 throughout the metropolitan area in 2000, according to Runzheimer International.

Impressive Education Levels: The Washington, DC area has an extremely well-educated populace. Of the area's adults (those over 25), 89.2% have graduated from high school versus a national average of 83.4%. Post-secondary school achievement is even more impressive. Over 41% have received a degree from a four-year college or university, exceeding the national average by more than fifteen percentage points.

In terms of K-12 statistics, Washington, DC has the 12th-highest per-pupil expenditure in the country ($7,065). The national average is $6,251. The area's teachers rank sixth when it comes to their average salaries ($47,150) versus $40,582 nationally.

Region's Crime Rate Heads in Right Direction: The overall crime rate in the Washington, DC metropolitan area continues to head in the right direction. In 1998 (the most recent data available from the Department of Justice for this metropolitan area), local incidents of violent crime declined 9% from 1997 to 527 per 100,000 residents. Nationwide, there were 631 incidents per 100,000 (and a decline of 8%). Local property crimes dropped as well (by 7%), to 3,990 incidents per 100,000 residents. Across the country, there were 4,345 per 100,000 (reflecting a decline of 6%).

Outlying Counties Fuel Growth: The metropolitan area has increased its population by nearly 17% since 1990, for a mid-2000 total of 4.9 million. The lion's share of the increase is due to growth in outlying areas. The District of Columbia, on the other hand, has lost 6% of its population base since 1990, for a mid-2000 total of 572,100 residents.

Of the counties that comprise the metropolitan area (11 in Virginia, five in Maryland, two in West Virginia, plus the District of Columbia), Fairfax (along the Dulles corridor in Virginia) is the largest with 969,700 residents. Prince William (south of the District along I-395) is the second-largest county in Virginia with a population of 280,800. These two counties have increased their populations by 18.5% and 30%, respectively, since 1990. Arlington County, VA (just across the Potomac River from the District) has seen its population expand by only 11% since 1990, for a mid-2000 total of 189,500. Outlying Loudoun County, with 169,600 residents, has expanded by a whopping 97% since 1990.

On the Maryland side, Montgomery County (northwest of the District and along the Virginia border) is the largest with 873,300 residents. The second-largest Maryland county, Prince George's (immediately east of the District), has 801,500 residents and the lowest growth rate (10% since 1990) on the Maryland side. The two counties on the Maryland side with the most impressive growth rates are Frederick (30%) and Calvert (45%). Their respective populations are 195,300 and 74,600.

The largest cities on the Maryland side include Frederick (52,800), Gaithersburg (52,600), and Bowie (50,300). Of these, Gaithersburg and Bowie have expanded the most (33% and 32%, respectively) since 1990; Frederick is close behind with a 30% growth rate. On the Virginia side, the city of Alexandria has 128,300 residents, reflecting a ten-year growth rate of 15%.

OFFICE MARKET

(CBD)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↑	↑	↔	↔	↓	↔

(Suburbs)	YEAR*		QUARTER*		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↓	↔

Diverse Tenant Base Buoys Metropolitan Washington

Compared to similar metropolitan areas in the nation with a significant technology presence, the greater Washington, DC area fared well through the recent economic downturn. The District of Columbia (The District) was essentially unaffected while Suburban Maryland saw its vacancy rate actually decline during the year ending June 2001. The recent shake-up of the technology sector was most acute in the higher value markets of southern Montgomery County such as Bethesda and Rockville. Northern Virginia also followed the national softening trend, due to the preponderance of technology firms in the area.

OFFICE—District of Columbia*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
CBD	31,905,136	3.6%	(143,603)	1,885,072
Capitol Hill	7,153,014	6.3%	269,605	1,723,512
East End	30,197,094	3.8%	(15,319)	2,224,817
Southwest	8,577,333	8.9%	(2,149)	0
Uptown	4,645,327	3.9%	(22,214)	0
West End/Georgetown	5,747,204	2.7%	(60,845)	0
TOTAL	**88,225,108**	**4.4%**	**25,475**	**5,833,401**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Washington).

Metropolitan—Northern Virginia Unwinds: The downturn that began to affect the Northern Virginia office market in early 2001 slowed the pace of speculative development in the second quarter. But the remnants of enthusiastic building in 2000 are clearly visible in the 8.4 million square feet of new office space that remained underway here at the end of June. Roughly 40% of this space was pre-leased. Of course, the setbacks experienced by the technology industry are largely responsible for the flood of sublease space that totaled in excess of seven million square feet at the end of June. This resulted in an increase in total availability to 10.5% in Washington, DC's largest region.

The sluggish economy has led many tenants to re-evaluate their space requirements and sublet existing space. Though not reflected in the direct absorption calculations, sublease space is allowing prospective tenants to find more affordable options than they would otherwise find in Washington's direct market. Prime lease rates have dropped significantly from their highs late last year, but the lower lease rates still meet or exceed proforma in greater Washington. Northern Virginia has an office base of 125 million square feet, of which 4.6% was vacant in the second quarter. Net absorption was a modest 411,000 square feet during this quarter compared to 1.5 million square feet in the second quarter 2000.

District Development Higher this Year: The District's economy remains fundamentally stable with most market indicators ahead of the rest of the country. Office inventory grew nearly two million square feet between the second quarters of 2000 and 2001 to its current 88.2 million square feet. Dominated by law firms, financial institutions, trade associations, and federal government agencies, the District saw essentially no change in its 4.4% vacancy rate during the 12-month period ending in June. However, the effects of a weakened economy are more readily visible in the second quarter's 6.2% availability rate (which includes sublease space). Regardless, the District experienced a higher level of development (5.8 million square feet) in this year's second quarter than during the same quarter last year. At press time, pre-lease commitments accounted for 70% of this space. Net absorption was a modest 25,500 square feet between March and June.

Vacancy Dips in Suburban Maryland: Development activity in Suburban Maryland in this year's second quarter was also high with 4.5 million square feet of new construction in progress outstripping the 3.4 million square feet recorded at the close of June 2000. With 48.6 million square feet, Suburban Maryland actually saw its vacancy rate decline slightly to 6.4% between the second quarters of 2000 and 2001, although second quarter net absorption barely made it to positive levels at just 29,000 square feet compared to 633,000 square feet last year. Still, this area was much less affected by the softening economy than neighboring Northern Virginia as it provides an escape from its cousin's higher rents.

Central Business District—Faith in Downtown Remains Strong: Vacancy in the District's CBD tightened from 4.1% to 3.6% during the year ending in 2001's second quarter. Approximately 1.9 million square feet were in progress at the end of June outpacing the quarter's 144,000 square feet of negative net absorption. The CBD has an office base totaling 31.9 million square feet, the largest amount of space in the District of Columbia.

OFFICE—Northern Virginia*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
Tysons Corner	23,772,104	3.8%	(98,469)	1,564,754
Rosslyn-Ballston Corridor	17,406,623	2.5%	42,141	899,634
Crystal City/Pentagon City	11,492,700	4.9%	(81,881)	0
Reston	14,408,450	2.3%	326,670	1,422,608
Fairfax	9,436,365	1.6%	(34,480)	125,000
Old Town Alexandria	7,904,883	5.0%	52,614	30,000
Dulles South	7,254,481	9.7%	(92,530)	817,185
Merrifield	6,942,008	4.4%	7,118	779,889
Herndon	7,485,645	8.6%	26,769	1,019,503
I-395 Corridor	6,777,643	7.4%	260	656,551
Dulles North	5,747,264	5.3%	30,267	711,716
Undesignated**	6,134,130	2.6%	284,394	353,617
MARKET TOTAL	**125,055,413**	**4.6%**	**410,535**	**8,380,457**

*Reported as of second quarter 2001.
**Space in outlying areas of Northern Virginia that does not belong in any designated submarket

Source: CB Richard Ellis (Tysons Corner).

OFFICE—Suburban Maryland*				
SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
MONTGOMERY COUNTY				
Bethesda/Chevy Chase	7,797,746	2.5%	(19,221)	933,223
North Bethesda	7,365,335	3.1%	(114,808)	310,660
Rockville	5,575,247	3.7%	17,951	682,361
North Rockville	5,943,690	4.6%	(69,124)	1,251,721
Silver Spring	4,395,621	10.2%	17,419	600,000
Gaithersburg	2,579,965	5.7%	88,712	61,342
Germantown	912,042	9.7%	17,783	255,102
Kensington/Wheaton	855,010	3.0%	14,317	0
North Silver Spring/Rt 29	795,927	6.9%	54,695	103,500
Total	**36,220,583**	**4.6%**	**(27,842)**	**4,197,909**
PRINCE GEORGE'S COUNTY				
Greenbelt	2,254,872	10.7%	(2,807)	0
Landover/Largo	2,468,168	5.6%	42,703	0
College Park	2,114,002	22.0%	39,418	0
Laurel/Bowie	1,436,018	7.3%	(4,048)	0
Beltsville/Calverton	1,212,994	6.7%	(26,411)	0
Branch Avenue Corridor	567,906	30.9%	(11,226)	0
Lanham	746,104	12.8%	30,179	0
Oxon Hill/Ft. Washington	685,524	11.0%	2,506	0
Total	**11,485,588**	**12.0%**	**70,314**	**0**
FREDERICK COUNTY				
Frederick County Total	**852,937**	**7.9%**	**(13,453)**	**285,368**
MARKET TOTAL	**48,559,108**	**6.4%**	**29,019**	**4,483,277**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Tysons Corner).

Large construction projects in progress in the CBD during the second quarter included 375,000 square feet at 1625 Eye Street, NW, the 371,000 square foot Investment building at 1501 K Street, NW, 170,000 square feet at 1875 K Street, NW, and 112,000 square feet at 1750 H Street, NW. In build-to-suit activity, 750,000 square feet were underway at 2025 E Street, NW.

Shortly after the second quarter closed, telecommunications company Level 3 Communications backed out of a $25 million land purchase. The land was zoned for up to one million square feet of office/light industrial space.

The largest lease signed in the District in more than a decade will result in a 650,000 square foot office building behind Union Station, nearly three times the size of an average downtown DC building. The Securities and Exchange Commission plans to move into the new space at Second and F Streets, NW in December 2003 when its lease expires at its current headquarters at 450 Fifth Street, NW. Other leases include Comcast's taking of 150,000 square feet in the redeveloped 350,000 square foot building at 77 P Street Gateway in northeast Washington. The Department of Employment Services also leased 100,000 square feet in the building.

In sales activity, the 560,000 square foot Warner building at 1299 Pennsylvania Avenue was sold for $224 million. In addition, the ten million square foot Potomac Yard project south of the Potomac River was sold in March. Buyer Crescent Resources intends to follow the zoning and design of the previous owner, Commonwealth Atlantic Properties. The project calls for the creation of 3.7 million square feet of office space, two hotels, 2,700 residential units, and 235,000 square feet of retail space. Other sales included Reston Executive Park for $109 million, 1801 K Street for $104 million, Tysons Dulles Plaza for $103 million, and the Newseum site for $100 million.

East End Continues to See Rampant Growth: The East End submarket remains the most intensely active area in the District since the opening of the MCI Arena in 1997. And developers are still flocking to the area, which at the end of June boasted a 3.8% vacancy rate, down from the 4.7% rate posted one year earlier. Approximately 2.2 million square feet were underway here in the second quarter, a slight increase from two million square feet in 2000's second quarter. The East End is the second-largest submarket in the District at 30.2 million square feet. Net absorption was negative at 15,000 square feet in the second quarter.

Large developments in progress in the East End included the 356,000 square foot Presidential building at 1111 Pennsylvania Avenue, NW, 352,000 square feet at 500 5th Street, NW, the 349,000 square foot Edison Place (build-to-suit) at 701 9th Street, NW, 272,000 square feet at 1201 Eye Street, NW, 201,000 square feet at 799 9th Street, NW, 143,000 square feet at the Atlantic building in the 900 block of F Street, NW, and 135,000 square feet at 1310 L Street, NW.

Largest Submarket Expanding in Northern Virginia: The Tysons Corner submarket with 23.8 million square feet is the largest submarket for office space in the Northern Virginia region and also saw the largest amount of new space being built in 2001's second quarter. Moreover, most of the 2.5 million square feet delivered to the Northern Virginia office market in the second quarter was concentrated in the Tysons Corner and Reston-Herndon submarkets. Not including sublease space, the pre-lease rate for this newly-completed space was 70%, although that rate drops to 50% when sublease space is included.

The Tysons Corner submarket experienced a 2.8 percentage point uptake in its vacancy rate to 3.8% between the second quarters of 2000 and 2001. At the end of June 2001, a total of 1.6 million square feet were under construction. Large projects in progress included 570,000 square feet in the 7000 block of Colshire Drive, the 400,000 square foot Bedford building at 1525 Park Run Drive, and 320,500 square feet in the 8000 block of Towers Crescent Drive.

Herndon Slammed with Sublease Space: The Herndon submarket got slammed the hardest with sublease space returned to the market in the second quarter forcing the availability rate (which includes sublease space) into the low teens. This area also saw its vacancy rate climb 6.3 percentage points to 8.6% during the year ending June 2001. Just over one million square feet of new space were in production in the second quarter. Net absorption totaled a modest 27,000 square feet during this period.

Large office projects under development in the second quarter included the 400,000 square foot Waterview 1 on Centreville Road @ Dulles Toll Road, the 229,000 square foot Monument IV @ Worldgate, the 201,000 square foot Presidents Park building three at 2525 Network Place, and the 190,000 square foot Dulles Executive Plaza II at 13560 Dulles Technology Drive.

In a move that is a welcome relief to locals, America Online (AOL) apparently has no intention of moving from its Dulles campus. In fact, AOL Time Warner plans to add two buildings totaling 400,000 square feet to its campus in Loudoun County. The two new buildings would come close to building out the company's Dulles campus, which totals more than 1.3 million square feet. AOL is also building a second operations center in Prince William.

Maryland's Montgomery County Steams Ahead: Montgomery County (36 million square feet) demonstrated that it still has plenty of steam with a vacancy rate that barely budged between the second quarters of 2000 and 2001 to its current 4.6% rate. Almost all (4.2 million square feet) of Suburban Maryland's new construction in the second quarter occurred in Montgomery County.

Two of the largest construction projects underway here at the end of June were the 692,000 square foot Chevy Chase Bank building on Wisconsin Avenue, which is scheduled for completion this year and the 600,000 square foot Discovery Communications development on Georgia Avenue @ Colesville Road, slated to open in 2002. Other projects in progress include 284,000 square feet on Washingtonian Boulevard, 263,000 square feet on Wootton Parkway, 250,000 square feet on Old Georgetown Road, and 241,000 square feet on Willard Avenue.

Mills Corporation to Remain in Arlington: At the end of March, the Mills Corporation announced that it would keep its headquarters in Arlington rather than move to a new office building in Friendship Heights. The move would have relocated 350 jobs to the Chase Tower under construction just across the DC line in Montgomery County. But many of Mill's employees live on the Virginia side of the Potomac, which played a big part in the decision not to move.

Price and Rent Trends: *The average value of Class A CBD office space in Washington, DC rose 6.7% to $323.10 per square foot in the second quarter of 2001 from $302.89 per square foot during the same period one year earlier. The effective gross lease rate increased by 5.5% to $47.05 per square foot in the same timeframe. The cap rate slipped to 8.3%. Class B CBD office space sold for $233.12 per square foot and Class C CBD office space sold for $176.86 per square foot in the second quarter.*

The price of suburban office space decreased minimally (0.5%) during the year to an average of $220.82 per square foot. The effective gross lease rate was essentially unchanged--slipping from $31.80 per square foot in the second quarter of 2000 to $31.76 per square foot in the second quarter of 2001. The suburban cap rate rose to 8.7% during the period. Class B and C suburban office space was valued at $165.41 and $115.83 per square foot, respectively.

INDUSTRIAL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↑	↔	↑	↑	↔

Data Center Slump Hits Northern Virginia

Firms have stopped leasing flex space for data centers and much of the newly-delivered space currently sits empty as high-tech companies that were clamoring for this type of space just one year ago have either downsized or closed. This has caused the vacancy rate for flex space to move into the double digits, effectively masking the growth in demand from non-technology companies for space in the western submarkets.

Scaled-back plans by such data center companies as Sprint, InfoCrossing, Broadwing, and Cable & Wireless have left more than one million square feet of vacant server space on the Northern Virginia market. And the situation is about to get worse with Sprint and Cable & Wireless putting major expansions on hold. The speculative build-out of these data centers has had a far-reaching effect on the local economy. Landlords are left with buildings that were built for single use and will be expensive to convert to regular office space. However, as non-tech firms become more technically savvy, they are showing interest in increasing their data capacity.

INDUSTRIAL—Northern Virginia*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
FLEX				
Dulles South	5,726,334	8.3%	(45,072)	323,601
Springfield/Newington	5,412,418	7.3%	72,242	111,480
Dulles North	5,913,773	22.6%	(106,146)	1,246,747
Herndon/Reston	2,363,693	2.5%	31,298	0
Manassas/Gainesville	2,341,730	18.1%	(216,511)	109,989
I-495 Corridor	1,000,262	2.2%	92,572	0
I-395 Corridor	1,296,571	26.6%	(66,726)	0
Woodbridge/I-95 Corridor	923,090	16.8%	(7,500)	0
Fairfax	539,396	2.7%	(796)	0
TOTAL	**25,517,267**	**12.6%**	**(309,235)**	**1,791,817**
WAREHOUSE				
Springfield/Newington	12,722,246	4.6%	(158,698)	0
I-395 Corridor	6,856,607	4.1%	(57,610)	0
Manassas/Gainesville	6,673,370	2.2%	138,352	0
Dulles North	6,061,712	5.0%	68,078	657,089
Dulles South	3,946,320	6.6%	(119,056)	82,188
I-495 Corridor	2,635,739	0.8%	73,036	0
Woodbridge/I-95 Corridor	2,446,543	2.6%	(3,875)	0
Fairfax	465,883	2.6%	(11,884)	0
Herndon/Reston	310,775	0.0%	1,772	0
TOTAL	**42,119,195**	**3.9%**	**(69,855)**	**739,277**
MARKET TOTAL	**67,636,462**	**7.2%**	**(379,120)**	**2,531,094**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Tysons Corner).

As a result, data centers are becoming a more viable option for them.

The Northern Virginia industrial market contains 67.6 million square feet of space and accounts for 42% of the Washington, DC metropolitan area's industrial market, which also includes the District of Columbia and Suburban Maryland. (CB Richard Ellis does not track industrial space in the District due to the limited amount of inventory there.) Overall, the industrial vacancy rate in Northern Virginia in the second quarter 2001 was 7.2%, a significant increase from the 3.4% rate posted during the same quarter one year ago. Net absorption was a negative 379,000 square feet while 2.5 million square feet of new space was underway.

Dulles North Sees Flex Vacancy Spike to Double Digits: The Dulles North submarket in Northern Virginia contains nearly 12 million square feet of industrial space of which 51% is warehouse space and 49% is flex space. The big news here is the spike in flex space vacancy from 8.2% in 2000's second quarter to 22.6% in 2001's second quarter. In contrast, warehouse space posted just a 5% vacancy rate in the second quarter, although even this rate represents an increase from the 1.9% vacancy rate recorded during last year's second quarter. Net absorption fell into the red 38,100 square feet. However, Qwest Communications is one company in the area that is still moving ahead with expansion plans. Qwest leased another 153,000 square feet of data center space in two buildings at Dulles International Park. Construction on the buildings is expected to be completed in October. AboveNet is also building a 265,000 square foot data center in the park. It is expected to open this Summer.

Suburban Maryland Sustained by Warehouse Demand: In Suburban Maryland, demand for industrial space in both Prince George's and Montgomery Counties remains strong, especially for bulk warehouse space. And since bulk warehouse represents approximately 66% of the total industrial space in these two counties, net absorption remained at positive levels in both areas.

INDUSTRIAL—Suburban Maryland*

SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
MONTGOMERY COUNTY				
Gaithersburg	6,338,155	5.3%	(196,297)	117,000
Rockville	5,509,293	4.7%	(459,194)	0
North Rockville	4,269,994	5.5%	570,315	0
North Silver Spring/Rt. 29	1,670,022	9.0%	(5,225)	0
Germantown	1,637,388	19.2%	321,215	463,469
North Bethesda	1,240,748	12.6%	180,249	0
Silver Spring	1,139,146	3.8%	102,656	0
TOTAL	**21,804,746**	**6.9%**	**513,719**	**580,469**
PRINCE GEORGE'S COUNTY				
Landover/Largo	14,111,172	9.4%	319,017	0
Beltsville/Calverton	8,703,692	5.6%	212,181	388,080
Capitol Heights	5,997,341	9.2%	58,778	0
Bowie	3,175,027	3.0%	2,315	0
College Park	2,621,442	12.1%	(305,023)	0
Lanham	2,782,463	11.2%	3,065	55,757
Pennsylvania Ave Corridor	2,943,988	10.9%	(69,608)	0
Laurel	2,741,471	8.3%	(65,558)	334,550
Branch Ave Corridor	2,248,973	27.7%	37,904	0
Greenbelt	540,101	29.4%	0	0
Upper Marlboro	534,815	4.1%	153,930	0
TOTAL	**46,400,485**	**9.6%**	**347,001**	**868,387**
FREDERICK COUNTY				
Frederick County Total	**9,327,103**	**11.4%**	**(179,014)**	**344,727**
MARKET TOTAL	**77,532,334**	**9.1%**	**681,706**	**1,793,583**

*Reported as of second quarter 2001.

Source: CB Richard Ellis (Tysons Corner).

The Suburban Maryland industrial market is composed of Montgomery, Prince George's and Frederick Counties for a total of 77.5 million square feet. Approximately 9.1% of this space was vacant in 2001's second quarter. Vacancy was lowest in Montgomery County at 6.9%. Ironically, the vacancy rate for flex space here decreased a full percentage point from 8.2% in the first quarter to 7.2% in the second quarter. Most of the new development in Suburban Maryland took place in Prince George's County, which had 868,000 square feet under construction. Of the three counties in Suburban Maryland, Frederick County experienced the highest vacancy rate at 11.4%. New construction here is comprised of several smaller projects, most of which are under 100,000 square feet.

Following the close of the second quarter, construction began on the expansion of Montgomery County's flagship Center for Advanced Research in Biotechnology (CARB). The expansion will add a 140,000 square foot building to the existing center at the University of Maryland's Shady Grove campus in Rockville.

Price and Rent Trends: *Class A industrial space was valued at an average of $50.73 per square foot in the second quarter of 2001, a slight increase from $49.49 per square foot in the second quarter of 2000. The cap rate rose to 9% during this period. Class A industrial rents rose to $7.11 per square foot in the second quarter of 2001 from $6.68 per square foot during the same quarter one year earlier.*

Class B and C warehouse space was valued at an average of $37.79 per square foot and $26.85 per square foot, respectively. Class A, B and C flex space sold for $116.46, $86.21 and $67.28 per square foot, respectively.

RETAIL MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↔	↑

Washington's Retail Market Prospering

Washington's high incomes and growth rate combined with low development have combined to produce a stable retail market. Going into 2000, the region-wide vacancy rate was approximately 2.2% with grocery-anchored shopping centers experiencing the best market conditions in two decades, according to Marcus & Millichap.

Despite the improvements, this sector has been underfavored by investors since 1998. Uncertainty over the impact of E-tailing is being credited for the chill. Online grocers are opening centers in the Washington area while others are disappearing off the radar screen. For instance, HomeRuns.com opened a 145,000 square foot fulfillment center in Landover, MD in December and Peapod.com, partner with Giant Food, also opened a center recently. Combined, these two companies plan to serve over one million households by 2001. Meanwhile, E-grocer Webvan has closed its electronic doors.

Revitalization Projects Abound in the District: New opportunities for inner-city development are evident in the District as several retail projects and revitalization efforts have been launched. For instance, in the 14th Street Corridor, several large retail developments are in progress or planned. In addition, Gallery Place, a 1.5 million square foot project in the Chinatown section of the District, and the Golden Triangle Business Improvement District, where over 600 retail and service businesses have benefited from improved public services, are raising the retail presence in the city.

But retailers scouting out space in the District are having a difficult time, as adequate space for large stores simply does not exist, particularly in the most desired parts of town. Despite this, several large leases were completed in 2000 including Eastern Farmers Market and two Lowe's Home Centers (165,000 square feet each). Retailers also took space at Westview Mall (131,000 square feet), Fair Lakes Center (125,000 square feet) and Fairfax Corner (109,000 square feet). In addition, Target has purchased Montgomery Ward's Virginia locations in Springfield and Falls Church.

Bowie Town Center to Open in Fall: Developers are putting up walls for the 550,000 square foot Bowie Town Center in Prince George's County, an area generally regarded as long under-served by retail. A Safeway-anchored project with 106,000 square feet of retail is being built on the same site and the Shoppes at Bowie Town Center, a 90,000 square foot project, is in the pipeline. Both the town center and the Safeway project are slated to open this Fall. The Shoppes hopes to start construction next Spring for opening late 2002 or early 2003.

Magic Johnson Cancels Plans for Movie Theater in Prince George County: Basketball legend Magic Johnson canceled plans to open a 16-screen movie theater at the planned retail project at US Airways Arena citing problems in the theater business. Cordish Companies of Baltimore, which is developing the Landover site into upscale restaurants and retail shopping, says it now plans to raze the former home of Washington's professional basketball and hockey teams.

Retail Sales Below National Average Despite High Incomes: Average retail sales in metropolitan Washington, DC totaled $32,600 per household in 1999, according to Sales & Marketing Management's *2000 Survey of Buying Power*. This figure is slightly below the $33,100 national average. Sales were highest in the Virginia cities of Fairfax ($193,300), Fredericksburg ($102,500) and Falls Church ($73,900). The metropolitan area's $54,100 median income was well above the $37,200 national norm. Incomes were highest in Fairfax County ($71,800), Falls Church ($65,300) and Fairfax ($63,100).

Twelve Large Malls in Metropolitan Washington: Greater Washington is home to twelve super-regional malls (shopping centers that contain a minimum of one million square feet). The largest is Tysons Corner Center in McLean, VA (1.9 million square feet), followed by Potomac Mills in Prince William County (1.7 million square feet). The next largest centers are FairOaks shopping center, Dulles Town Center, and Springfield Mall—all measuring roughly 1.4 million square feet. The Landover Mall contains 1.3 million square feet. Montgomery Mall in Bethesda, Wheaton Plaza in Wheaton, MD, and Ballston Common Mall in Arlington, VA all contain 1.2 million square feet. Lakeforest shopping center in Gaithersburg, MD contains 1.1 million square feet, followed by Beltway Plaza mall in Greenbelt, MD and Fair Lakes Center in Fairfax, VA, with one million square feet each.

Price and Rent Trends: *The average value of Class A anchored, unenclosed retail space in Washington, DC was $153.08 per square foot in the second quarter of 2001. This reflects a 3.6% increase from the second quarter of 2000. The triple net lease rate averaged $20.20 per square foot in the second quarter of 2001, up from $20.03 per square foot one year prior. The cap rate in the second quarter of 2001 was 8.6%.*

APARTMENT MARKET

YEAR			QUARTER		
PRICE	RENT	CAP RATE	PRICE	RENT	CAP RATE
↔	↔	↔	↓	↓	↑

Demand Bullish Going into 2001

Vacancy rates for apartments in the greater Washington, DC area were less than 1% in 2001's first quarter due to supply constraints and high demand. This reflects a slight increase from 0.9% at the end of March 2000. Although deliveries outpaced absorption for the year ending in March, the gap was not enough to experience a significant rise in vacancies. According to Delta Associates in Alexandria, VA, including projects in active lease-up, the overall vacancy rate for the Washington metropolitan area inched up to 7.1% from 6.8% between the first quarters of 2000 and 2001. Deliveries totaled more than 8,000 units during this timeframe, the highest rate in the last dozen years.

Apartment Vacancies Rise in Technology Hubs: Most of the new projects in the Northern Virginia market are concentrated near the region's employment nodes, such as Reston/Herndon and Eastern Loudoun. But the Reston/Herndon area, with its concentration of technology companies, has seen its vacancy rates climb from a consistent 1% to between 5% and 6% during the year ending in the first quarter. Alexandria is also seeing a lot of new product entering the pipeline. Despite the signals of a slowdown, Northern Virginia as a whole continues to lead the Washington metropolitan market.

District Remains Tight: The District is constrained in all types of housing. In 2001's first quarter, the Class A apartment vacancy rate was 1.8% with waiting lists for many projects. Even tighter, the Class B market has a scant 0.9% vacancy rate. But if all the projects in the pipeline at the beginning of 2001 are completed, the overall vacancy here is expected to rise.

One of the projects that moved forward in the District is Avalon at Gallery Place (203 units), an upscale apartment complex in the District's Chinatown neighborhood. It is expected to act as an anchor for other developments in the area. Completion is slated for mid-2003. Other projects in various stages of development include a 405-unit luxury complex on the corner of Seventh and E Streets, NW, a project at 12th Street and Massachusetts Avenue, and another on the 900 block of E Street.

In addition, the Redevelopment Land Council issued a request for proposals to redevelop the former National Wax Museum site east of the new Washington Convention Center into as many as 1,000 residential units plus retail stores. The project calls for at least 20% of the residential development to be affordable housing with proposals exceeding that threshold gaining points in the bidding process.

Meanwhile, Suburban Maryland continued to perform well through 2000 as a large number of deliveries were absorbed without the need for concessions. The vacancy rate for this region was just 0.9%, down from 1.8% in March 2000. Vacancies are extremely low in Gaithersburg and Prince George's County.

Building Permits Climb: According to government statistics, the number of permits issued for multifamily structures (in buildings with 5+ units) grew nearly 30% to approximately 5,000 permits issued in the second quarter 2001. During the same period, the number of permits issued for single-family homes fell 2% to roughly 15,000.

Median Home Price Moves Up: The median price of a home in greater Washington DC was $206,700 in the second quarter 2001, an 18.6% jump from the median price one year ago, according to the National Association of Realtors. The homeownership rate in the metropolitan area was 67.1% in 2000 exceeding the 65.5% national average.

Price and Rent Trends: *Class A apartment space was valued at an average of $109.69 per square foot in the second quarter of 2001, a 2.3% increase from the $107.19 per square foot figure one year earlier. Average rents rose to $16.09 per square foot in the second quarter of 2001, reflecting a 1.2% increase in 12 months. The cap rate was 8.6% at the end of June. Class B apartments (i.e., ten to 20-year-old complexes) were valued at $80.46 per square foot in the second quarter.*

ECONOMIC AND DEMOGRAPHIC STATISTICS

	POPULATION			EMPLOYMENT				UNEMPLOYMENT	
Market	Total 2000 ('000)[a]	% Gain 1990-2000[a]	% Gain 1980-1990[a]	Absolute Growth 6/00-6/01[b]	% Growth 6/00-6/01[b]	Leading Growth Sector (% Gain) 6/00-6/01[b]		Current 6/01[c]	Last Year 6/00[c]
U.S.	**281,421.9**	**13.2%**	**9.8%**	**416,000**	**0.3%**	**Const.**	**3.3%**	**4.7%**	**4.2%**
Baltimore	2,553.0	7.2%	8.3%	11,900	0.9%	TPU	4.0%	4.8%	5.1%
Boston	3,406.8	5.5	2.5	27,600	1.3	Const.	8.0	3.1	2.4
Central New Jersey	1,520.4	13.0	15.1	5,500	0.6	Govt. & Wh. Trade	2.6	3.5	2.7
Charlotte	1,499.3	29.0	19.6	11,900	1.4	Govt.	5.6	4.4	3.3
Nassau-Suffolk	2,753.9	5.5	0.1	22,500	1.8	TPU	3.6	3.0	3.0
Northern NJ	4,015.1	7.1	(1.7)	13,000	0.7	FIRE	3.4	4.8	3.9
New York	9,314.2	9.0	3.3	53,300	1.2	Const.	5.9	4.7	5.0
Philadelphia	5,100.9	3.6	2.9	2,800	0.1	Const.	3.7	4.5	4.1
Raleigh-Durham	1,187.9	38.9	28.7	9,100	1.3	Services	4.6	3.0	2.0
Washington, DC	4,923.2	16.6	21.4	85,500	3.1	Const.	6.8	2.8	2.7

Note: The above employment and unemployment numbers are preliminary and not seasonally adjusted.

[a] As reported by the U.S. Census Bureau.

[b] Figures as reported by the U.S. Department of Labor. The eight major employment categories reported by the Dept. of Labor at the metropolitan level are construction; manufacturing; transportation and public utilities (i.e., TPU); retail trade; wholesale trade; finance, insurance, and real estate (i.e., FIRE); services; and government.

[c] As reported by the U.S. Department of Labor, Bureau of Labor Statistics.

	HOUSEHOLD INCOME, RETAIL SALES				CONSTRUCTION	
	METROPOLITAN INCOME/RETAIL SALES		MEDIAN HOME PRICES			
Market	Median After-Tax Household Income[d]	Retail Sales Per Household[d]	Actual (Existing Homes) 2Q 2001[e]	% Change from 2Q 2000[e]	Number of 5+ Multifamily Units Permitted YTD 2Q 2001[f]	% Change from 2Q 2000[f]
U.S.	**$37,200**	**$33,100**	**$146,900**	**6.4%**	**161,300**	**(2.5%)**
Baltimore	$43,400	$31,400	$155,100	2.5%	697	96.9
Boston	47,900	39,100	356,200	7.8	1,205	22.2
Central New Jersey	60,600 (M-S-H) 53,600 (T)	30,600 (M-S-H) 44,600 (T)	238,900 (M-S-H) 164,200 (T)	12.3 N/A	273	(27.2)
Charlotte	38,900	37,100	145,900	5.5	2,573	(38.6)
Nassau-Suffolk	57,500	46,600	237,000	11.5	424	(22.2)
Northern NJ	50,700 (B-P) 51,100 (N) 38,300 (H)	25,900 (B-P) 23,100 (N) 15,600 (H)	276,800 (B-P) 261,400 (N) N/A (H)	17.0 8.2 N/A	934	(58.5)
New York	39,000	24,300	248,100	10.5	4,531	6.3
Philadelphia	47,200	31,800	127,000	0.8	986	(12.1)
Raleigh-Durham	40,300	38,900	167,000	9.2	3,630	2.3
Washington, DC	54,100	32,600	206,700	18.6	4,962	29.8

[d] Sales & Marketing Management, *2000 Survey of Buying Power*. The U.S. figures represent the median nationwide. The U.S. metro figures ($39,598 income; $34,613 retail sales) represent the median of 321 metropolitan areas.

Abbreviations for New Jersey are as follows: M-S-H= Middlesex, Somerset, and Hunterdon Counties; T= Trenton (Mercer County); B-P= Bergen & Passaic Counties; N= Newark (Essex, Morris, Sussex, Union, and Warren Counties), H= Jersey City (Hudson County).

[e] National Association of Realtors. (The New York figures reflect data for the New York/Long Island/Northern New Jersey area.)

[f] U.S. Department of Commerce and Census Bureau, “Housing Units Authorized by Building Permits.”

Focus Area Market Summary Comparison—Data

Reporting 2nd Quarter 2001

	CBD Office			Suburban Office			Warehouse			Retail			Apartment		
	PRICE	RENT[1]	CAP RATE[1]	PRICE	RENT[1]	CAP RATE[1]	PRICE	RENT[1]	CAP RATE[1]	PRICE	RENT[1]	CAP RATE[1]	PRICE	RENT[1]	CAP RATE[1]
NATIONAL AVERAGE															
2Q 2001	$213.10	$34.52	8.8%	$181.69	$27.08	8.5%	$45.10	$5.76	9.0%	$120.41	$17.61	9.2%	$104.81	$14.53	8.4%
2Q 2000	211.31	34.09	8.7	175.89	27.19	8.6	44.69	5.72	9.0	121.77	17.63	9.0	101.36	14.29	8.6
MAJOR MARKETS															
Baltimore	158.18	26.17	8.9	129.84	22.75	9.5	39.08	4.78	9.3	111.99	16.94	9.1	88.96	12.02	8.1
	159.52	25.95	8.8	132.92	22.89	9.3	40.34	4.74	9.0	117.61	17.87	8.9	84.57	11.75	8.4
Boston	322.10	56.61	8.8	235.94	44.58	9.1	56.35	7.48	8.6	135.67	20.36	9.3	160.94	25.65	9.0
	317.79	53.56	8.7	216.35	40.27	9.3	54.96	7.44	8.8	140.72	20.50	9.0	158.57	25.28	8.8
Central NJ	182.02	28.15	8.6	152.77	23.54	8.6	50.41	6.94	9.1	132.91	18.56	8.8	105.15	15.61	8.5
	180.37	26.35	8.4	154.75	23.02	8.4	48.79	6.36	8.9	131.52	17.91	8.7	101.82	15.45	8.6
Charlotte	148.99	24.58	8.8	127.56	18.90	8.6	33.43	4.19	8.8	105.19	16.67	9.1	69.78	9.31	9.1
	150.70	25.11	8.8	127.40	19.04	8.6	34.03	4.16	8.9	106.54	16.72	9.0	70.61	9.43	9.1
Manhattan	326.62	48.13	7.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Downtown	289.08	46.92	7.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Manhattan	389.00	64.18	8.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Midtown	419.55	62.17	7.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nassau-Suffolk	153.85	27.54	8.4	142.90	25.14	8.5	50.98	6.64	8.7	132.65	21.01	9.1	116.72	19.18	9.2
	154.60	26.97	8.3	147.89	25.23	8.2	50.79	6.59	8.7	133.95	21.15	9.0	113.55	18.86	9.3
Northern NJ	134.22	26.00	10.3	201.69	27.00	7.7	55.52	7.44	9.0	143.46	22.29	8.8	134.34	23.32	9.2
	135.83	26.83	10.3	190.36	26.63	7.8	55.03	7.31	9.0	145.97	22.03	8.6	130.04	22.54	9.1
Philadelphia	154.91	27.36	9.4	174.07	25.30	8.1	41.26	5.46	9.2	120.58	16.63	9.4	94.38	14.86	8.7
	160.57	27.54	9.1	182.14	25.83	7.8	40.79	5.42	9.3	126.37	17.10	9.1	94.04	14.97	8.8
Raleigh-Durham	124.57	18.42	7.9	136.99	21.16	8.3	33.15	4.41	9.1	107.14	18.04	8.7	75.73	10.13	8.1
	128.94	18.25	7.7	140.40	20.71	8.0	32.98	4.23	9.0	108.35	18.03	8.6	76.11	10.17	8.1
Washington, DC	323.10	47.05	8.3	220.82	31.76	8.7	50.73	7.11	9.0	153.08	20.20	8.6	109.69	16.09	8.6
	302.89	44.61	8.4	221.86	31.80	8.6	49.49	6.68	8.9	147.75	20.03	8.6	107.19	15.90	8.7

Figures highlighted in green denote averages from the previous year (for the quarter ending June 30, 2000).

Current 2nd quarter 2001 averages are shown in black.

Note: The table above highlights the second quarter 2001 price, rent, and cap rate trends for Class A properties in the metropolitan markets reported in this *Quarterly Market Report.* Figures highlighted in green are for the second quarter 2000.

[1] Except for retail, reported rents are **effective gross** rents. *Retail* rents are *triple net* for in-lying small shop space. Cap rates are based on **actual** net operating income. Because the rent figures represent quoted rates (after concessions) on space currently available (rather than the total income for all space surveyed), prices, rents, and cap rates may not always appear internally consistent.

METHODOLOGY

The National Real Estate Index (INDEX) reports data on income-producing properties bought and sold by approximately 150 Primary Real Estate Market Makers, representing the nation's largest buyers and sellers of real estate, plus other publicly-reported transactions. The properties analyzed in the INDEX include office buildings, warehouse/distribution properties, retail centers, and apartments.

Mean Prices: The INDEX tracks transaction prices, rents, and capitalization rates for investment properties in local and regional markets throughout the United States, as well as prices for lower-quality properties in many markets. Furthermore, anticipated rehabilitation costs are added to the purchase prices when identified.

Effective Gross Rents: Except for retail, stated rents reflect all occupancy costs. Because reported rents include rent concessions and operating cost chargebacks, if any, reported rents are therefore **effective gross rents**. Reported *retail* rents include in-lying small shop space only and are *triple net*. Reported *warehouse* rents reflect the *warehousing space* only. Rates for office build-out (if any) are not factored in.

Capitalization Rates: Cap rates are determined from reported **actual net operating income.** All transactional data is calculated at the point of purchase/sale, reflecting values based on arm's length negotiations.

Important: General price and rent trends reported from transactions are moderated by independent market surveys conducted by the INDEX research staff. Where there are too few transactions to constitute a statistically-significant sample, the performance of prototype properties is used to supplement the transaction data in deriving average values, rents, and cap rates.

Furthermore, please note that because the rent figures represent quoted rates (after rental concessions, if any) on space currently available (rather than the total rental income for all buildings surveyed), prices, rents, and cap rates may not always appear "internally" consistent.

BUILDING NORMS: In order to maintain quality data, specific "prototype" or "tracked" properties that conform to the property categories reported have been identified in each market. All tracked properties have no leases that are significantly higher or lower than the market rates for similar space. Buildings are of high quality, have current construction materials and techniques, and are aesthetically modern and attractive. The buildings are representative of local conditions and were constructed in the past ten years. *Norms* for specific property types (and local market *prototypes*) reported in the INDEX are as follows:

Office: For CBD markets, properties are ten stories or greater in size, steel frame (or other high quality) construction, and have a high quality modern exterior finish and glass application. For suburban markets, properties are generally mid-rise or high-quality campus-style, and located in a submarket recognized as a primary office location.

Warehouse/Distribution: The INDEX employs space originally designed and used for true warehouse/distribution or storage as the property norm. Buildings are usually of tilt-up concrete construction, with flat roofs and a clear space span of at least 14 feet. Up to 20% of the total space may be office build-out. The buildings have a minimum of 75,000 square feet and are located in a quality industrial park or other superior location.

Retail: A "neighborhood" or community center, rather than an enclosed mall, is the property norm for shopping centers. The typical center is 75,000–225,000 square feet and contains at least one major anchor tenant, usually a high quality national or regional grocery store. Generally, 30%–35%, but not more than half, of the space in prototype retail centers is occupied by anchor tenants. All construction is single story and of modern design, with an approximate 3.5:1 parking-lot-to-developed-space ratio. Properties are located in established neighborhoods.

Apartment: Apartments are garden- or campus-style. Construction is standard stud frame with a stucco or other high quality exterior. Some decorative facia is applied, usually of brick, and the peaked roof is built on prefabricated trusses of material other than blacktop buildup. There is quality landscaping with some mature trees and shrubbery. Prototype apartment communities generally contain 100–300 units and have amenities appropriate for the geographic region. Amenities usually include a pool, tennis courts and/or health/fitness rooms. In most communities, tenants have covered parking for at least one car per apartment unit.

Note: As for most statistical data services, previously-reported data is revised as needed to reflect the receipt of new data. Specifically, because a number of property transactions for any given quarter are reported too late to be included in that quarter's issue of the MARKET MONITOR or QUARTERLY MARKET REPORT, the INDEX revises data released in prior issues if the values previously reported have changed significantly. We believe this approach helps assure the most reliable data.

ACKNOWLEDGEMENT OF NONPROPRIETARY DATA SOURCES

In reporting property transaction prices, rents, and cap rates, the National Real Estate Index relies primarily on proprietary data sources, including an extensive property database.

The publishers supplement the proprietary property transaction data with non-proprietary information and background material in the areas of property stock, absorption, and vacancy trends. CB Richard Ellis (the publisher) recognizes the following distinguished firms, publications, and individuals for their contributions in these areas:

Carolinas Real Data
(Raleigh-Durham - Apartment; Charlotte - Apartment)

Delta Associates
(Washington, DC - Apartment)

Finard & Company
(Boston - Retail)

Johns Hopkins University Real Estate Institute
(Baltimore - Apartment)

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Marcus & Millichap
(Central New Jersey - Apartment; New York - Apartment; Washington, DC - Retail)

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R.J. Brunelli & Company
(Central New Jersey - Retail)

Sales & Marketing Management
(Income and Retail Sales)

Various Local Apartment Associations and Chambers of Commerce