


New York

Vol. 30

Second Quarter 2001

Analyzes:

**CBD Office
Retail
Apartments
Suburban Office
Industrial
Local Economy**

Reports:

**Property Prices
Property Rents
Sector Forecasts
Demographic Highlights
Job Formation Trends
Economic Base Profile
Educational Achievement
Tax Structure
Quality of Life Factors**

A publication of the *National Real Estate Index*

Publisher: **CB  Richard Ellis**

New York

Vol. 30



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.

Report Format

This report is organized as follows. Section I provides a snapshot that highlights the key economic, demographic and real estate-related findings of the study. Sections II through IX provide an in-depth look (generally in a tabular format) at the key economic, demographic, public policy, and quality of life factors that can affect the demand for real estate.

In Section II, recent population trends are reported. Section III analyzes the local economic base and current labor force and job formation trends. Various educational costs and parameters are provided in Section IV. Local living costs are explored in Section V. Health care costs and availability are detailed in Section VI. A series of other important factors, including retail sales trends and international trade, are reported in Section VII. Local and

state fiscal policies, including taxes and federal spending, are highlighted in Section VIII. Several key quality-of-life considerations are summarized in Section IX.

In Section X, local market price, rent and capitalization rate trends for the preceding 12 months are reported. Section XI reports time series prices, rents and cap rates for the entire period (as far back as 1985 in some markets) for which the National Real Estate Index has compiled such data.

Section XII provides the most recent complete annual review, including analysis of the local economy, as well as in-depth analyses of the office, light industrial, retail and apartment sectors. In Section XIII, a sector-by-sector forecast and rating are provided.

NATIONAL REAL ESTATE INDEX

PUBLISHER

CB Richard Ellis

Richard Wollack
Editor-in-Chief

Daniel O'Connor
Market Research Director

EDITORIAL/PRODUCTION

Bridgett Novak
Managing Editor

Janet Laurain
Editor

Tamu Dawson
Senior Production Editor

Scott Steffens
Production Editor

Vincent San Pedro
Mailroom Supervisor

RESEARCH/ANALYSIS

Jack Doyle
Property Research Mgr.

Lance MacArthur
Property Systems Manager

Stephen Hurley
Analyst

Bianka MacMillan
Analyst

Axenia Velitchev
Analyst

ACCOUNTING

Monique Northington
Account Manager

Publisher/Copyright: Most data reported here appeared in (or were derived from) various NATIONAL REAL ESTATE INDEX publications, which are published quarterly by CB Richard Ellis, 505 Montgomery Street, 6th Floor, San Francisco, CA 94111, (415) 733-5300. Copyright © 2001 by National Real Estate Index.

Important: Metro Market Facts is sold with the understanding that neither the publisher nor the editorial advisor is engaged in rendering legal, tax, accounting, or other professional advice through this publication. No statement, ranking, or "score" in this issue is to be construed as a recommendation to buy or sell securities, or as investment advice to buy or sell properties. Real estate is generally a long-term, illiquid investment and requires careful consideration of financial objectives and independent research before investing.

Reasonable care has been exercised in compiling information and presenting it fairly and accurately. However, the publisher does not warrant its accuracy.

Reproduction, photocopying or incorporation into any information retrieval system for external or internal use is prohibited unless written permission is obtained beforehand from the publisher for each article. The subscription fee

New York: Metropolitan Map/Market Definition

New York PMSA:

Bronx County
Kings County
New York County
Putnam County

Queens County
Richmond County
Rockland County
Westchester County

Land Area of New York MSA: 1,147.6 sq. miles
Population Density (1999): 7,592 people per sq. mile

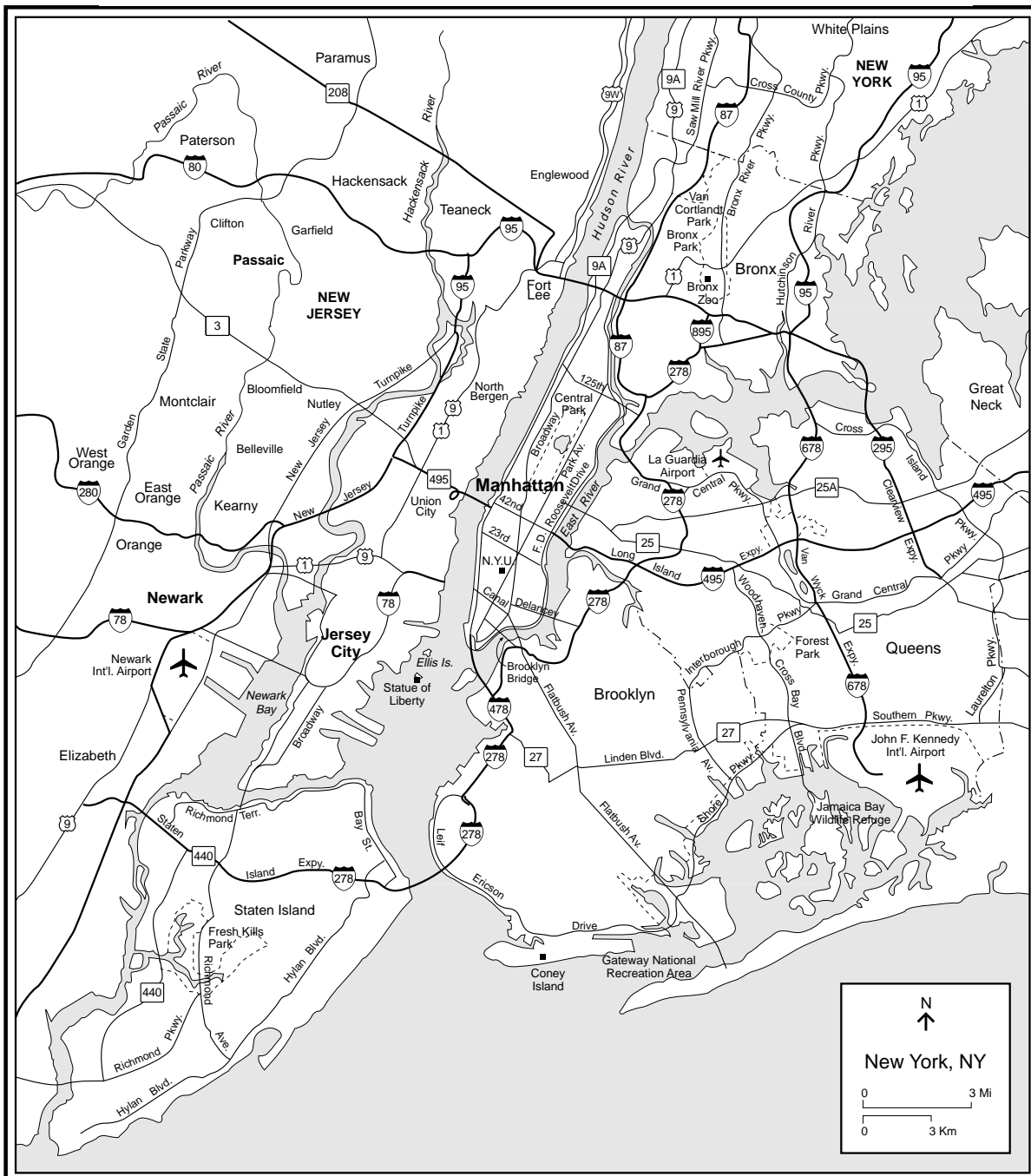


Table of Contents

I. Snapshot	8
II. Demographics	
A. Metro Population	10
B. County Population Growth	10
C. Area Cities With At Least 50,000 Residents	10
D. State Population Growth	11
E. Household & Population Composition	11
F. Metropolitan Population Gain	12
G. International Immigration to Metropolitan Areas	13
H. Domestic Migration to Metropolitan Areas	14
III. Job Trend Formation and Labor Costs	
A. Metropolitan Job Formation	15
B. Economic Base - Employment by Sectors	15
C. Metropolitan Total Employment Gain - Since 1990	17
D. Metropolitan Average Wages - Select Occupations	18
E. Production Wages & Union Membership	18
F. State Workers' Compensation Premiums	19
G. Minimum Wage/Overtime Status	19
IV. Education	
A. Educational Levels	20
B. Educational Expenditures and Salaries	20
C. College Tuition	21
D. Graduate Education	21
E. University R&D Expenditures	22
V. Housing & Related Costs	
A. Overall Cost of Living	23
B. Metropolitan Housing Permits	23
C. Homeownership	24
D. Single Family Home Costs	24
E. Local Utility Costs	25
F. Tourism & Entertainment Taxes	25
VI. Health Care Characteristics & Costs	
A. Hospitalization Costs	26
B. Health Insurance	26
C. State Health Rating	27
D. State Livability Index	27
VII. Other Economic Indicators	
A. Metropolitan Median Household Income	28
B. Poverty	28
C. Metropolitan Retail Sales Trends	29
D. Metropolitan Average Retail Sales	29
E. E-Commerce Retail Sales	30
F. High-Tech Industry Employment	30
G. Metropolitan Area Patents	31
H. Major Airport Activity	31

Table of Contents

VII. Other Economic Indicators *(Continued)*

I. International Trade	32
J. Area Exports	32
K. Gross State Product	33
L. Gross Metropolitan Product	33

VIII. Taxes and Expenditures

A. State Tax Rates/Employer Expenses	34
B. Comparative State Income Taxes	34
C. Local Commercial Property Taxes	35
D. Local Residential Property Taxes	35
E. State Tax Revenue	36
F. Federal Balance of Payment Per Capita	36
G. Federal Spending Per Capita – State	37
H. Federal Spending Per Capita – Leading Counties	37

IX. Quality of Life

A. Crime Rate	38
B. Child Welfare	38
B. Climate	39
C. Mode of Travel to Work	39
D. Daily Commute Time	40
F. Major Professional Athletic Franchises	40
G. Performing Arts	41

X. Current Prices, Rents, and Cap Rates

A. Class A Property Sectors	42
B. Other Property Classes	42
C. Local Market Rankings	43

XI. Price, Rent and Cap Rate History

A. Class A CBD Office	44
B. Class A Suburban Office	47
C. Class A Warehouse/Distribution	48
D. Class A Retail	49
E. Class A Apartment	50

XII. Market Analysis

A. Nassau–Suffolk Economic Overview & Major Property Sectors	51
F. Submarket Inventory/Vacancy	60

XIII. Market Analysis

A. New York Economic Overview & Major Property Sectors	61
F. Submarket Inventory/Vacancy	71

Methodology	72
--------------------	-----------

Sources	73
----------------	-----------

Other Metro Market Reports	73
-----------------------------------	-----------

I. New York: Snapshot

A. Economic Summary (See Sections II & III.)

Job Growth (Loss) 12 Months (Ending in June):	1.2%
Unemployment Rate (June):	4.7%
Metropolitan Population Growth (Loss), 1990–2000:	9.0%
Total Metropolitan Population, 2000:	9.3 million

B. Second Quarter 2001 Property Price and Rent Trends

	CBD Office			Suburban Office			Warehouse			Retail			Apartment		
	AVERAGE			AVERAGE			AVERAGE			AVERAGE			AVERAGE		
	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate
New York -- Downtown															
2nd Q. '01	\$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
1st Q. '01	307.06	49.13	8.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2nd Q. '00	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
New York -- Midtown															
2nd Q. '01	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
1st Q. '01	390.28	64.92	8.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2nd Q. '00	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

Source: National Real Estate Index's [Market Monitor](#).

C. Performance Forecast

Sector	Rating	New York Market Score	National Median Market Score
CBD Office (Manhattan Downtown)	Good	87	79
CBD Office (Manhattan Midtown)	Good	85	79
Suburban Office	Good	83	77
Warehouse	Good	80	78
Retail	Good	85	80
Apartment	Good	89	79
Hospitality	Good	86	76

Source: National Real Estate Index's [Market Score](#) – Vol. 34, Summer/2Q 2001. Ranked on six levels from “Extraordinary” to “Speculative.” An “extraordinary” grade is defined as a market that, relative to other markets nationwide, offers the greatest appreciation and total return potential over the succeeding two years, and has a corresponding “investment score” of 95 or above on a 100-point continuum. A “speculative” grade denotes those markets where the total return potential ranks near the bottom of markets analyzed for the foreseeable future. Their corresponding “investment score” is below 60. For more information on [Market Score's](#) market analyses and comparisons to other markets, call (415)733-5322.

I. Nassau-Suffolk: Snapshot

A. Economic Summary (See Sections II & III.)

Job Growth (Loss) 12 Months (Ending in June):	1.8%
Unemployment Rate (June):	3.0%
Metropolitan Population Growth (Loss), 1990–2000:	5.5%
Total Metropolitan Population, 2000:	2.8 million

B. Second Quarter 2001 Property Price and Rent Trends

	CBD Office AVERAGE			Suburban Office AVERAGE			Warehouse AVERAGE			Retail AVERAGE			Apartment AVERAGE		
	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate
2nd Q. '01	\$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%
1st Q. '01	154.79	27.88	8.4	144.53	25.30	8.4	51.18	6.69	8.7	135.22	21.35	9.0	116.17	19.09	9.2
2nd Q. '00	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

Source: National Real Estate Index's Market Monitor.

C. Performance Forecast

Sector	Rating	Nassau-Suffolk Market Score	National Median Market Score
CBD Office	Good	85	79
Suburban Office	Good	80	77
Warehouse	Good	81	78
Retail	Good	84	80
Apartment	Good	88	79
Hospitality	Good	85	76

Source: National Real Estate Index's Market Score – Vol. 34, Summer/2Q 2001. Ranked on six levels from “Extraordinary” to “Speculative.” An “extraordinary” grade is defined as a market that, relative to other markets nationwide, offers the greatest appreciation and total return potential over the succeeding two years, and has a corresponding “investment score” of 95 or above on a 100-point continuum. A “speculative” grade denotes those markets where the total return potential ranks near the bottom of markets analyzed for the foreseeable future. Their corresponding “investment score” is below 60. For more information on Market Score's market analyses and comparisons to other markets, call (415)733-5322.

II. **New York: Demographics**

A. **Metro Population**

	<u>New York PMSA</u>	<u>Nassau-Suffolk</u>	<u>United States</u>
Population — 2000:	9,314,200	2,753,900	281,421,900
% Growth—1990–2000:	9.0%	5.5%	13.2%
% Growth—1980–1990:	3.3%	0.1%	9.8%

B. **County Population Growth**

County	2000 Population	% Growth 1990-2000
Nassau	1,334,500	3.7
Suffolk	1,419,400	7.4
Bronx	1,332,700	10.7
Kings	2,465,300	7.2
New York	1,537,200	3.3
Putnam	95,700	14.1
Queens	2,229,400	14.2
Richmond	443,700	17.1
Rockland	286,800	8.0
Westchester	923,500	5.6

C. **Area Cities With At Least 50,000 Residents**

City	2000 Population	% Growth 1990-2000
Mt. Vernon	68,400	2.0
New Rochelle	72,200	7.1
New York	8,008,300	9.4
Yonkers	196,100	4.2

II. **Demographics (Cont.)**

D. **State Population Growth**

	2000 Population	% Growth 1990-2000	Ranking*	% Growth 1995-2025	Ranking*
New York	18,976,500	5.5	42	5.1	49
United States	281,421,900	13.2	N/A	23.7	N/A

*Ranking of all 50 states, plus the District of Columbia, with the #1 ranking representing the highest state population percentage growth.

Source: U.S. Census Bureau.

E. **Household & Population Composition**

	<u>New York Metro</u>	<u>Nassau-Suffolk</u>	<u>U.S. Metro</u>
Median Household Size:	2.7	3.0	2.7
Median Age:	36.9	38.0	35.4
% of Population Under 5	7.2	7.2	7.5
% of Population 35 - 54	29.4	29.4	28.0
% of Population Over 64	13.4	13.4	12.8

Note: Separate age breakouts are not available for the New York and Nassau-Suffolk PMSAs.

II. Demographics (Cont.)

F. Metropolitan Population Gain (1990-2000)

Population Growth
(% Gain/Loss, April 1990-April 2000)

Las Vegas	83.3%	Tampa-St. Petersburg	15.9%
Austin	47.7	Oakland-East Bay	14.9
Phoenix	45.3	Columbus	14.5
Atlanta	38.9	UNITED STATES	13.2
Raleigh-Durham	38.9	Central New Jersey	13.0
Orlando	34.3	Oklahoma City	13.0
West Palm Beach	31.0	Memphis	12.7
Denver	30.4	San Diego	12.6
Dallas-Ft. Worth	29.3	San Jose	12.4
Ft. Lauderdale	29.3	Kansas City	12.2
Charlotte	29.0	Chicago	11.6
Portland	26.6	New York	9.0
Houston	25.8	Cincinnati	8.9
Riverside-SB	25.7	San Francisco	8.0
Nashville	25.0	Los Angeles	7.4
Salt Lake City	24.4	Baltimore	7.2
Jacksonville	21.4	Newark-No. New Jersey	7.1
Sacramento	21.3	Boston	5.5
Albuquerque	21.0	Nassau-Suffolk	5.5
Seattle	18.8	Milwaukee	5.1
Orange County	18.1	Honolulu	4.8
Minneapolis	16.9	St. Louis	4.5
Washington, DC	16.6	Detroit	4.1
Indianapolis	16.4	Philadelphia	3.6
Miami	16.3	Cleveland	2.2
Greenville-Spartanburg	15.9	Hartford	2.2

Note: The 2000 census has revealed inconsistencies in earlier population data, primarily due to an underestimation of the number of immigrants entering the country. This is believed to be responsible for some unusual swings in the latest statistics.

Source: U.S. Census Bureau.

II. Demographics (Cont.)

G. International Immigration to Metropolitan Areas

Total International Immigration: 1990–1999 (in 000s)

New York/Nassau-Suffolk	1,045.4	Portland	48.0
Los Angeles	902.1	Minneapolis-St. Paul	46.0
Chicago	366.6	Orlando	44.9
Miami	337.2	Tampa-St. Petersburg	42.8
Newark-No. NJ	266.0	Honolulu	42.7
Washington DC	240.1	Las Vegas	36.1
Orange County	233.2	Baltimore	32.7
Houston	209.9	Austin	27.6
Dallas-Ft. Worth	177.0	St. Louis	25.3
San Francisco	165.3	Hartford	24.7
San Diego	164.0	Salt Lake City	20.9
San Jose	159.1	Cleveland	17.2
Boston	141.7	Raleigh-Durham	16.5
Oakland-East Bay	135.0	Kansas City	15.9
Riverside-San Bernardino	119.0	Charlotte	15.0
Philadelphia	91.7	Oklahoma City	14.5
Ft. Lauderdale	90.2	Albuquerque	13.8
Atlanta	82.5	Jacksonville	13.7
Seattle	79.4	Nashville	12.4
Central New Jersey	69.4	Columbus	12.2
Detroit	68.4	Milwaukee	12.1
Phoenix	62.3	Indianapolis	9.9
Sacramento	60.0	Cincinnati	9.4
Denver	51.0	Memphis	7.3
West Palm Beach	48.1	Greenville-Spartanburg	6.1

Immigration Per 1,000 Residents (1990–1999)

Local Market	Per 1,000	Ranking*
New York/Nassau–Suffolk	91.7	5

*Ranking of 50 metropolitan areas analyzed by the INDEX, with the #1 ranking representing the largest per capita immigration rate.

Source: U.S. Census Bureau.

II. Demographics (Cont.)

H. Domestic Migration to Metropolitan Areas

Total Domestic Migration: 1990–1999 (in 000s)

Atlanta	506.8	Albuquerque	22.9
Las Vegas	406.7	Oklahoma City	13.0
Phoenix	395.8	Salt Lake City	12.7
Dallas-Ft. Worth	240.9	Memphis	8.5
Denver	200.4	Central New Jersey	(33.2)
Orlando	177.9	Baltimore	(48.2)
Portland	176.2	Oakland-East Bay	(61.8)
Riverside-San Bernardino	172.1	Milwaukee	(71.5)
Austin	170.6	St. Louis	(72.2)
Tampa-St. Petersburg	163.0	Hartford	(81.4)
Charlotte	158.0	Cleveland	(102.3)
Raleigh-Durham	157.4	Honolulu	(112.7)
Ft. Lauderdale	151.9	Washington DC	(127.6)
West Palm Beach	128.2	San Diego	(135.8)
Nashville	108.9	San Francisco	(151.3)
Seattle	75.6	San Jose	(175.9)
Minneapolis-St. Paul	66.7	Orange County	(196.0)
Houston	61.4	Boston	(211.9)
Jacksonville	60.7	Miami	(236.1)
Greenville-Spartanburg	55.6	Detroit	(251.0)
Sacramento	50.3	Philadelphia	(279.3)
Indianapolis	48.2	Newark-No. NJ	(383.2)
Kansas City	36.3	Chicago	(527.8)
Columbus	34.6	New York/Nassau-Suffolk	(1,531.8)
Cincinnati	24.0	Los Angeles	(1,560.7)

Domestic Migration Per 1,000 Residents (1990–1999)

Local Market	Per 1,000	Ranking*
New York/Nassau-Suffolk	(134.4)	49

*Ranking of 50 metropolitan areas analyzed by the INDEX, with the #1 ranking representing the largest per capita migration rate.

Source: U.S. Census Bureau.

III. New York: Job Trend Formation and Labor Costs

A. Job Formation

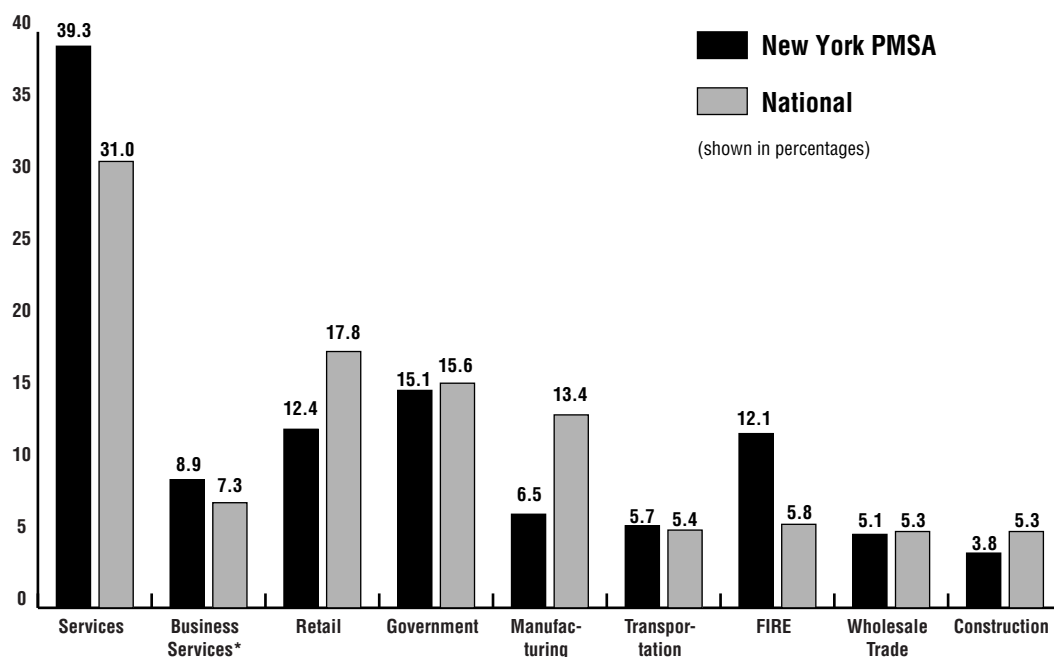
Metropolitan Area

Employment Growth (Loss)—% 12-Month (Ending in June):	1.2%
Total Number of Net New Jobs, 12 Months (Ending in June):	53,300
Leading Sector, <i>Construction</i> —% Employment Growth:	5.9%
Leading Sector, <i>Services</i> —Number of Net New Jobs:	50,700
% Employment Growth in Other Key Sectors	
Manufacturing:	(3.7%)
Business Services:	2.5%
% Unemployed, June 2001:	4.7%
% Unemployed, 12 Months Before:	5.0%

National

Employment Growth (Loss)—% 12-Month (Ending in June):	0.3%
% Unemployed, June 2001:	4.7%
% Unemployed, June 2000:	4.2%

B. Economic Base—Employment By Sectors



*Business Services is a subset of the Services category.

These bar graphs are updated every 6 months Last update: 2Q 2001.

III. Nassau-Suffolk: Job Trend Formation and Labor Costs

A. Job Formation

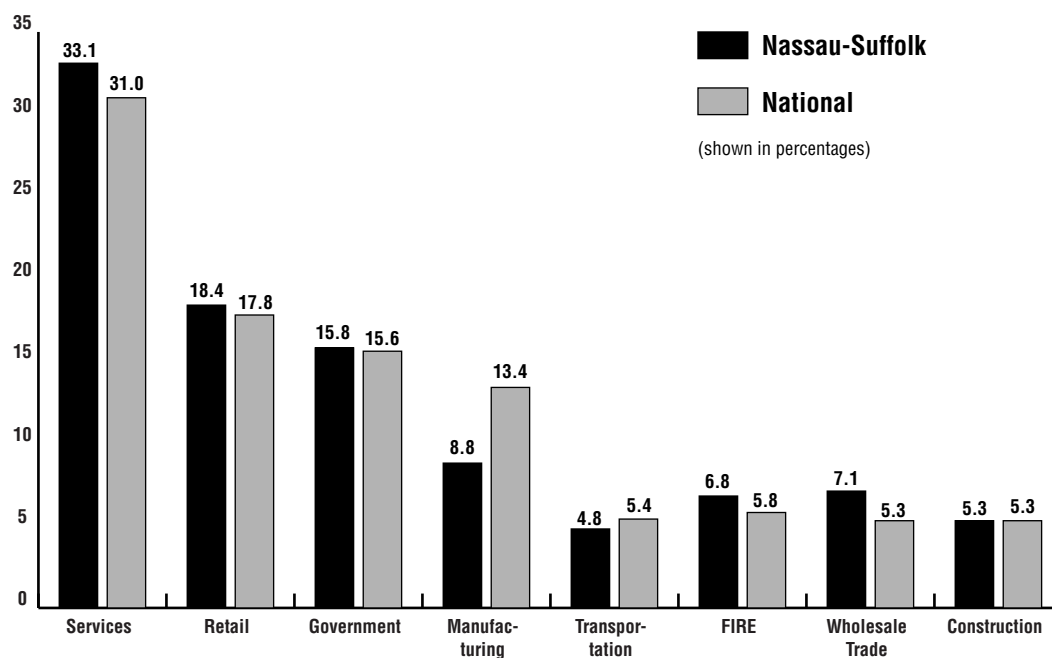
Metropolitan Area

Employment Growth (Loss)—% 12-Month (Ending in June):	1.8%
Total Number of Net New Jobs, 12 Months (Ending in June):	22,500
Leading Sector, <i>Transportation</i> —% Employment Growth:	3.6%
Leading Sector, <i>Services</i> —Number of Net New Jobs:	12,600
% Employment Growth in Other Key Sectors	
Manufacturing:	(2.0%)
Business Services:	N/A
% Unemployed, June 2001:	3.0%
% Unemployed, 12 Months Before:	3.0%

National

Employment Growth (Loss)—% 12-Month (Ending in June):	0.3%
% Unemployed, June 2001:	4.7%
% Unemployed, June 2000:	4.2%

B. Economic Base—Employment By Sectors



These bar graphs are updated every 6 months. Last update: 2Q 2001.

III. Job Trend Formation and Labor Costs (Cont.)

C. Metropolitan Total Employment Gain (1990-2001)

Job Growth (% Gain/Loss, December 1990-June 2001)			
Las Vegas	86.0	Oklahoma City	26.2
Austin	70.3	Indianapolis	25.1
Orlando	53.1	Memphis	23.8
Phoenix	53.1	Washington, DC	22.2
Raleigh-Durham	47.9	Central New Jersey	21.7
Atlanta	45.3	UNITED STATES	21.7
Denver	45.2	Greenville-Spartanburg	21.4
Salt Lake City	44.6	Orange County	21.4
Tampa-St. Petersburg	41.2	Oakland	19.5
Dallas-Ft. Worth	40.4	Miami	17.4
Riverside-San Bernardino	39.8	Cincinnati	16.9
Charlotte	38.4	Detroit	15.7
Nashville	37.8	Boston	15.5
West Palm Beach	37.7	Chicago	15.2
Albuquerque	36.2	San Francisco	15.1
Jacksonville	36.1	St. Louis	14.4
Fort Lauderdale	33.4	Milwaukee	13.9
Portland	31.5	Cleveland	12.0
Sacramento	29.5	Nassau-Suffolk	11.6
Houston	28.9	Baltimore	10.6
Seattle	28.8	Philadelphia	8.4
Kansas City	28.6	Newark-No. New Jersey	7.9
Columbus	26.5	New York	6.6
Minneapolis-St. Paul	26.4	Los Angeles	0.5
San Diego	26.4	Honolulu	(0.4)
San Jose	26.4	Hartford	(2.9)

Source: U.S. Government, Bureau of Labor Statistics.

III. Job Trend Formation and Labor Costs (Cont.)

D. Metropolitan Average Wages—Select Occupations

Position	Average Annual Wage
Accountant	\$52,478
Secretary	\$32,400
Computer Systems Analyst	\$74,872
Computer Programmer	\$57,593
Electrical Engineer	\$71,514
Machinist	N/A

Source: U.S. Dept. of Labor, *National Compensation Survey*: New York-Northern New Jersey-Long Island consolidated metropolitan area, April 2000.

E. Production Wages & Union Membership

	<u>Average Annual Wage*</u>	<u>National Rank</u>	<u>% Workers in Union</u>	<u>National Rank</u>
New York	\$26,936	22	28.2%	1
U.S. Average	\$26,874	--	16.2%	--

*Average annual wage is for production workers only. The #1 ranking represents the highest average wage and the largest percentage of unionized workers.

Source: U.S. Dept. of Labor and U.S. Census Bureau.

III. Job Trend Formation and Labor Costs (Cont.)

F. State Workers' Compensation Costs

Workers' Compensation Costs
—The average cost per \$100 of payroll—
(1999)

	<u>Rate*</u>	<u>Index**</u>	<u>1999 Rating***</u>	<u>1998 Rating</u>
New York	\$4.23	1.209	33	35

*This is the rate for a prototypical manufacturer, based on the manual rate, taxes and assessments, payroll distribution, premium discounts, experience rating, and any other weighted adjustments that were made in order to produce a non-biased countrywide comparison.

**The base rate (or national average) for this Index is \$3.50.

***The rating is based on an analysis of 44 states with #1 representing the lowest average rate.

Source: Actuarial & Technical Solutions, Inc. (516) 471-8655.

G. Minimum Wage/Overtime Status

Current Minimum Wage*	\$5.15
State Overtime Standard**	40-hour week

*The federal minimum wage increased to \$5.15 in September 1997. The federal rate sets the floor under which states cannot go. Some states, however, have lower rates for a minority of workers who are not covered by the Fair Labor Standards Act. Some states also have temporary lower rates and "subminimum wages" for certain groups of workers, e.g., minors and/or beginning employees.

**Federal law stipulates the payment of overtime to all private employees except supervisors, salaried professionals and unionized workers after 40 hours of labor in a given week.

Source: Bureau of National Affairs, *Payroll Administration Guide*.

IV. New York/Nassau-Suffolk: Education

A. Educational Levels

	% of Adults With Less Than 9th Grade Education	% of Adults Who Graduated From High School	% of Adults Who Graduated From 4-Year College/University
New York	10.4	76.4	29.0
Nassau-Suffolk	--	86.9	31.0
U.S. Metro Average	--	83.4	25.2

Source: U.S. Dept. of Commerce, and U.S. Dept. of Education, 1999.

B. Educational Expenditures and Salaries

	Per-Pupil Expenditures	Rank	Teacher Salaries	Rank	Student: Teacher Ratio	Rank
New York	\$8,860	3	\$49,437	3	14.1	45
U.S. Average	\$6,251	--	\$40,582	--	16.6	--

These figures represent statewide (and national) averages. The rankings include all 50 states, plus the District of Columbia. For expenditures and salaries, #1 represents the highest dollar amount; #1 also represents the highest student-teacher ratio.

Source: National Education Association, *Rankings of the States 1999*, based on 1998-1999 data.

IV. Education (Cont.)

C. College Tuition

	Tuition Only*	National Rank**	Annual Average*	National Rank**
New York	\$3,905	14	\$9,688	8
U.S. Average	\$3,226	--	\$8,018	--

*The tuition and annual average are based on in-state tuition, fees, and room and board for full-time students in public four-year institutions.

**Ranking of all states with the #1 ranking representing the highest tuition and annual average.

Source: U.S. Dept. of Education, based on 1999 data.

D. Graduate Education

Academic Rankings of Local Graduate Programs

University	Biological Sciences	Engineering	General Sciences/Other
Albert Einstein College of Medicine	Physiology (17)	--	--
Columbia	Biochemistry (11) Developmental Biology (19) Genetics (12) Neuroscience (6) Physiology (10)	Electrical (15)	Chemistry (7) Economics (12) Mathematics (10) Physics (12)
NYU	Pharmacology (14) Physiology (14)	--	Computer Science (17) Economics (17) Mathematics (8)
Rockefeller Univ.	Developmental Biology (2) Neuroscience (13)	--	--
SUNY-Stony Brook	Ecology (10)	--	Mathematics (20)

Source: National Academy of Sciences, *Research-Doctorate Programs in the United States*, 1995 (this report is updated every ten years). The NAS reviewed more than 3,600 doctoral programs in 41 fields at 274 universities for the 1993 academic year. Criteria included the academic quality of each school's faculty, the effectiveness of the school's teaching, and the level of its research. For programs that were ranked at 100 or more schools, we have listed the top 20 universities; for programs that were ranked at fewer than 100 schools, we have listed the top 10. The top universities are shown with their respective national ratings for each discipline. We have included 21 of 41 fields. Please note that the NAS did not include graduate business programs in its study.

IV. Education (Cont.)

E. University R&D Expenditures

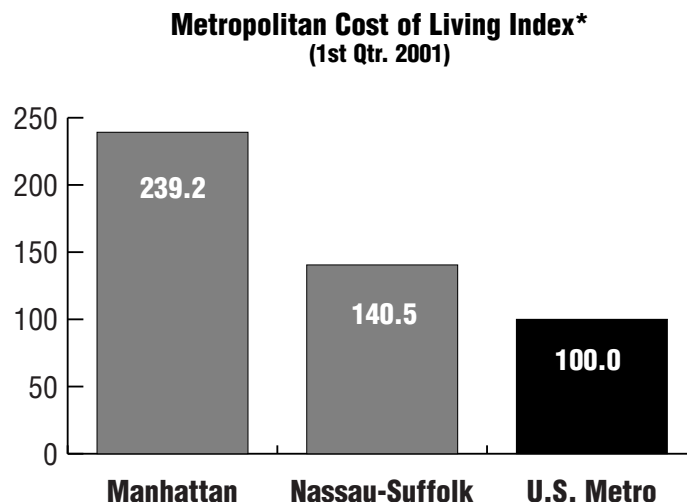
	Federal R&D Expenditures (\$\$ in mil.)	% of Leading School*	Total R&D Expenditures (\$\$ in mil.)	% of Leading School*
Columbia	\$137.1	63.8	\$158.4	59.1
City Univ. of NY	\$2.0	0.9	\$2.6	1.0
Fordham University	\$1.5	0.7	\$2.0	0.7
NY Medical College	\$9.5	4.4	\$12.1	4.5
NYU	\$73.1	34.0	\$97.5	36.4
Polytechnic University	\$5.9	2.7	\$8.9	3.3
Rockefeller University	\$34.9	16.2	\$65.6	24.5
SUNY-Health Sci. Ctr.	\$12.2	5.7	\$21.3	7.9
SUNY-Stony Brook	\$46.8	21.8	\$70.5	26.3
Yeshiva University	\$57.4	26.7	\$72.7	27.1

Source: National Academy of Sciences, *Research-Doctorate Programs in the United States*, 1995 (this report is updated every ten years). These amounts reflect the average annual expenditures from 1986 to 1992 (based on 1988 dollars).

*The percentage column reflects the amount spent by the local institution(s) relative to the amount expended at the top spending institution in each of the two categories.

V. New York/Nassau-Suffolk: Housing & Related Costs

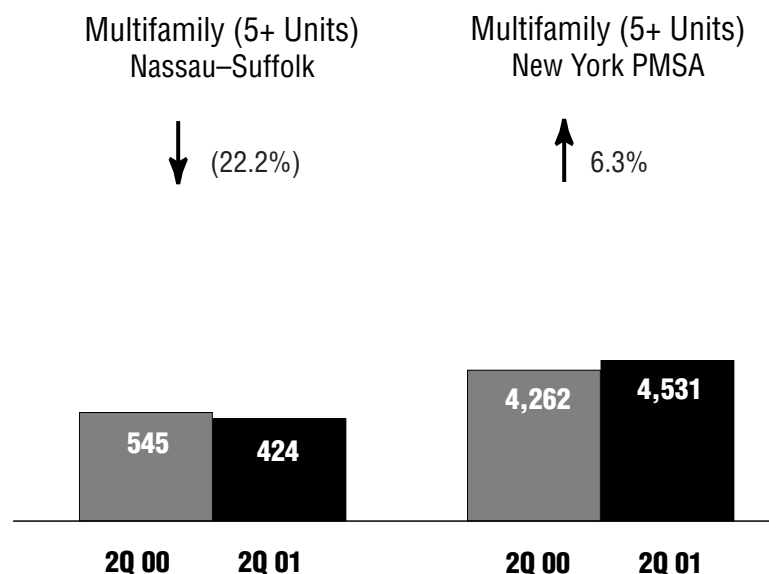
A. Overall Cost of Living



*The ACCRA Cost of Living Index measures relative prices for consumer goods and services in participating areas. Housing is an important component of the Index. The average for all participating areas is 100. Each area's number is read as a percentage of that average.

Source: ACCRA Cost of Living Index, Louisville, KY, (502) 897-2890.

B. Metropolitan Housing Permits



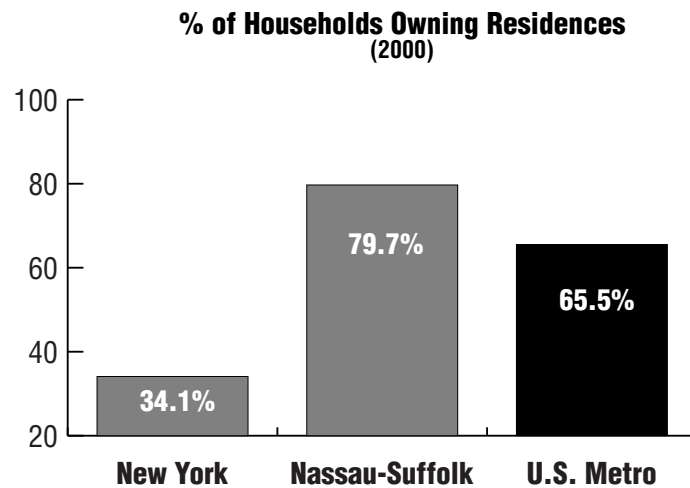
Local Data: Figures represent total permits granted during the second quarters of 2000 and 2001 in the New York and Nassau-Suffolk PMSAs.

U.S. Data: The percent change in multifamily permits nationwide was (2.5%).

Source: U.S. Census Bureau.

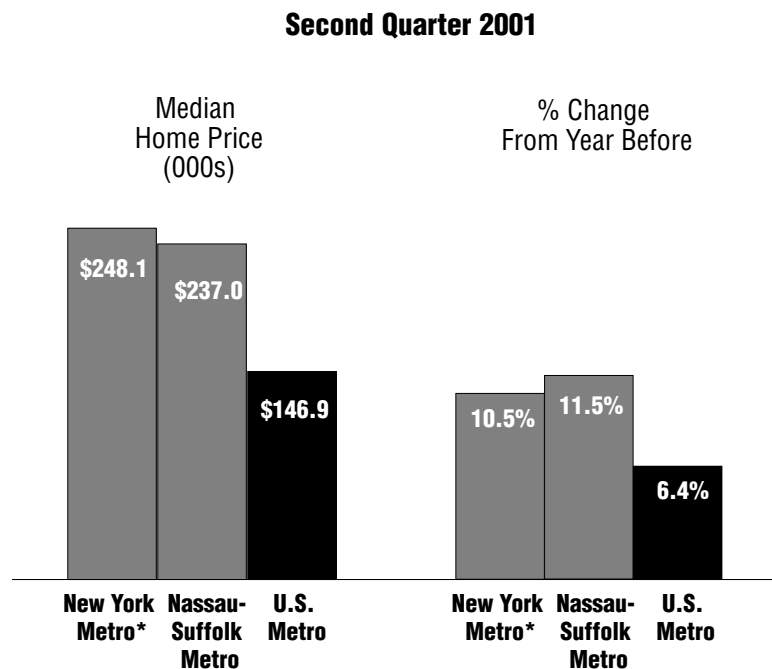
V. Housing & Related Costs (Cont.)

C. Homeownership



Source: U.S. Census Bureau. Homeownership rates represent metropolitan averages as of year-end 2000.

D. Single Family Home Costs



*Represents home prices throughout New York, Northern New Jersey, and Long Island.

Source: National Association of Realtors®.

V. **Housing & Related Costs (Cont.)**

E. **Local Utility Costs**

	<u>Commercial Electric</u> (30,000 kwh per mo.)	<u>Industrial Electric</u> (5,000 kw per mo.)	<u>Residential Electric</u> (1,000 kwh per mo.)
New York City	\$5,357	\$400,884	\$180
U.S. Average	\$2,300	\$135,829	\$84

These numbers reflect rates that were in effect July 2000.

Source: Edison Electric Institute, *Typical Bills and Average Rates Report*, Summer 2000.

F. **Tourism & Entertainment Taxes**

	Local Hospitality Taxes		
	<u>Hotel Tax</u>	<u>Restaurant Tax</u>	<u>Car Rental Tax</u>*
New York	13.25%	8.25%	8.25%
Average of 50 Surveyed Cities	12.36%	7.29%	8.40%

*This is the basic rate. It does not include applicable surcharges.

Source: Travel Industry Association of America, Washington, DC.

VI. New York/Nassau-Suffolk: Health Care Characteristics & Costs

A. Hospitalization Costs

Hospitalization Costs Per In-Patient Day

	<u>Costs</u>	<u>Index</u>
New York City	\$946.14	87.4
Nassau-Suffolk	\$890.62	82.3
U.S. Metro Average	\$1,082.06	100.0

Source: American Hospital Association, Chicago, IL.

B. Health Insurance

Health Insurance Coverage (1999)

	<u>% of Pop. Covered by HMO</u>	<u>Avg. Monthly Premium*</u>	<u>% of Pop. Uninsured</u>	<u>Rank**</u>
New York	33.5	\$198.00	17.3	35
Nassau-Suffolk	35.9	\$195.00	17.3	34

*Average charge for individual coverage in a traditional HMO plan.

**Ranking of 59 metropolitan areas with the #1 ranking representing the area with the smallest percentage of uninsured residents.

Source: InterStudy Publications, *Competitive Edge, Part III: Regional Market Analysis*, (800) 844-3351.

VI. **Health Care Characteristics & Costs (Cont.)**

C. **State Health Rating**

	<u>2001 Ranking*</u>	<u>2000 Rank</u>	<u>1999 Rank</u>
New York	34	42	43

*The 21 factors considered include teenage birth rate, infant mortality rate, childhood immunization rate, accessibility to health care, and health care expenditures.

Source: The Morgan Quitno Press, (800) 457-0724.

D. **State Livability Index**

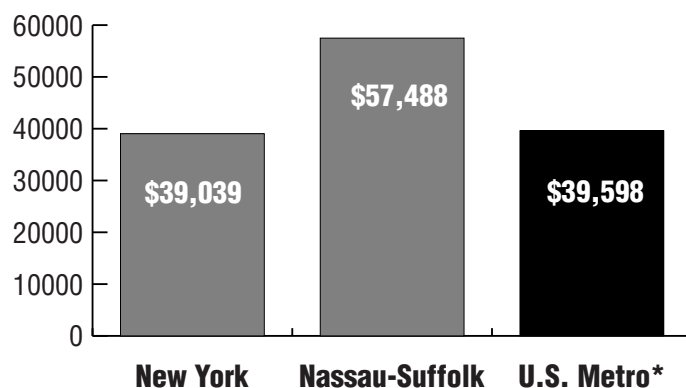
	<u>2001 Index Rating*</u>	<u>2001 Rank</u>	<u>2000 Rank</u>
New York	22.74	35	38

*The livability index rating is based on 43 categories including crime rate, unemployment rate, hazardous waste sites, quality of infrastructure (e.g., roads, bridges, etc.), high school graduation rate, spending on the arts, and tax burden. The highest possible score is 50.

Source: The Morgan Quitno Press, (800) 457-0724.

VII. New York/Nassau-Suffolk: Other Economic Indicators

A. 1999 Metropolitan Median Household Income



Market Rank*

New York	39
Nassau-Suffolk	3

*Ranking of 56 metropolitan areas, with the #1 ranking representing the highest median household income.

*The U.S. Metro figure represents the median income of 321 metropolitan areas; \$37,233 is the median income nationwide.

Source: Sales & Marketing Management: 2000 Survey of Buying Power.

B. Poverty

Total Residents & Children Living Below Official Poverty Level

	<u>% Total Residents</u>	<u>% Children (5-17)</u>
New York Metro		
Bronx County	30.2	42.8
Kings County	26.5	37.9
New York County	20.7	40.2
Putnam County	4.4	6.3
Queens County	17.0	26.2
Richmond County	9.7	15.2
Rockland County	9.7	15.8
Westchester County	9.3	14.6
Nassau-Suffolk Metro		
Nassau County	5.8	8.6
Suffolk County	7.6	10.8
National	13.3	18.4

Source: U.S. Census Bureau, *Income & Poverty Estimates*, 1997 (the most recent data available on a national level).

VII. Other Economic Indicators (Cont.)

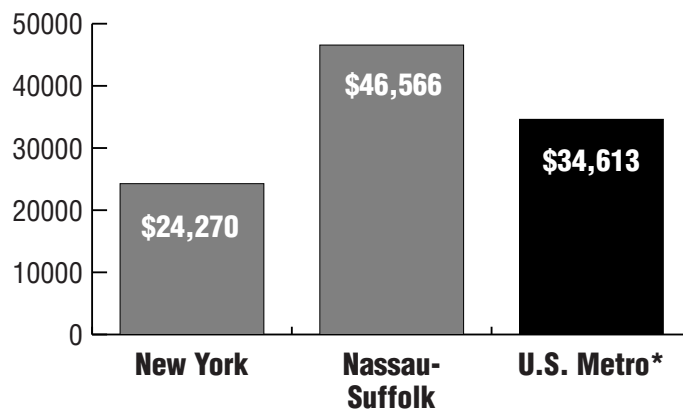
C. Metropolitan Retail Sales Trends

Metropolitan Retail Sales -- % Change (June 2000 - June 2001)

New York City	1.1%
National	2.4%

Source: TeleCheck Services, Inc., Houston, TX, (713) 599-7600.

D. 1999 Metropolitan Average Retail Sales



Market Rank*

New York	54
Nassau-Suffolk	2

*Ranking of 56 metropolitan areas, with the #1 ranking representing the highest amount of retail sales per household.

*The U.S. Metro figure represents the average retail sales per household of 321 metropolitan areas; \$33,113 is the average retail sales per household nationwide.

Source: Sales & Marketing Management: 2000 Survey of Buying Power.

VII. Other Economic Indicators (Cont.)

E. E-Commerce Retail Sales

First Quarter 2001 (\$\$ in billions)

	<u>Total Retail Sales</u>	<u>E-Commerce Retail Sales</u>	<u>% of Total</u>
U.S.	\$765.2	\$7.0	0.9
Prior Quarter	\$856.3	\$8.7	1.0
Year Ago	\$747.9	\$5.2	0.7

Source: U.S. Department of Commerce.

F. High-Tech Industry Employment

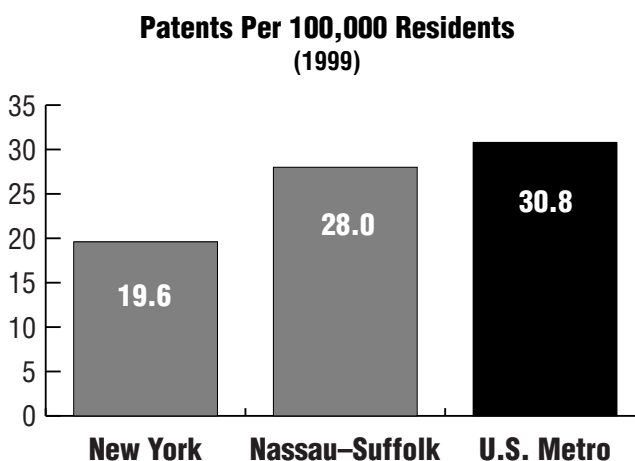
	<u>Share of Total Employment</u>	<u>Rank</u>	<u>Number of Establishments</u>	<u>Rank</u>	<u>Number of Employees</u>	<u>Rank</u>
Nassau–Suffolk	5.4%	47	3,043	18	61,769	20
New York	2.9%	117	4,905	4	115,532	8

Rankings are based on a comparison of 304 metropolitan areas for 1998, with the #1 ranking representing the highest amount in each category.

Source: *The High-Tech Industry: Clusters and Competition*, Dynamic Resource Solutions, Abington, PA.

VII. Other Economic Indicators (Cont.)

G. Metropolitan Area Patents



Market Rank*

New York
Nassau-Suffolk

40
31

*Ranking of 52 metropolitan areas, with the #1 ranking representing the largest number of per capita patents.

Source: Dept. of Commerce, Patent & Trademark Office, April 2000.

H. Major Airport Activity

New York – JFK International

	Total (2000)	% Change from 1999	National Rank*	World Rank*
Passengers (in millions)	32.8	3.5%	14	20
Cargo (in thousands–metric tons)	1,825.9	5.7%	4	7

New York – La Guardia

Passengers (in millions)	25.2	5.9%	19	34
Cargo (in thousands–metric tons)	71.1	(1.3%)	56	129

*Ranking of 672 international airports, with the #1 ranking representing the largest number of passengers and the largest amount of cargo.

Source: Airports Council International, Washington, DC.

VII. Other Economic Indicators (Cont.)

I. International Trade

International Trade Volume

	<u>Import</u>	<u>Export</u>	<u>Total</u>
New York City Customs District			
January-March 2001 (\$\$\$ in billions)	\$36.9	\$21.2	\$58.1
% Change (from year ago)	8.0%	8.9%	8.3%
Total U.S.			
January-March 2001 (\$\$\$ in billions)	\$295.9	\$196.2	\$492.1
% Change (from year ago)	4.6%	5.1%	4.8%

Source: Dept. of Commerce, Foreign Trade Division.

J. Area Exports

Metropolitan Area Exports

	<u>1999 Value</u> <u>(\$\$\$ in billions)</u>	<u>Rank*</u>	<u>% Change</u> <u>1998–1999</u>	<u>% Change</u> <u>1993–1999</u>
New York	\$24.5	4	(7.9%)	(13.2%)
Nassau-Suffolk	\$4.7	28	5.6%	67.2%
Total U.S.	\$692.8	N/A	1.8%	49.0%

These figures only measure local sales of finished goods leaving the country and exclude both components and raw materials that are ultimately incorporated into export products.

*Ranking of 53 metropolitan areas, with the #1 ranking representing the highest dollar value.

Source: Dept. of Commerce, International Trade Administration.

VII. Other Economic Indicators (Cont.)

K. Gross State Product

	<u>1989</u>	<u>1999</u>	<u>% Change 1989-1999</u>
New York Ranking*	2	2	--
New York Total (\$\$\$ in billions)	\$589.7	\$728.9	23.6%
U.S. Total (\$\$\$ in billions)	\$6,538.6	\$8,934.1	36.6%

*Ranking of all 50 states (including the District of Columbia), with the #1 ranking representing the highest dollar amount.

Note: While the dollar amounts are no longer inflation-adjusted, they are “chain-weighted” to make them comparable to the specified 1996 base period.

Source: U.S. Dept. of Commerce, *Gross State Product, 1977-1999*.

L. Gross Metropolitan Product

	GMP (\$\$ in billions)		
	<u>1999</u>	<u>Rank</u>	<u>% Change (from 1998)</u>
New York, NY	\$391.6	1	7.8%
Nassau-Suffolk, NY	\$96.4	16	9.5%

*Ranking of 100 metropolitan areas, with the #1 ranking representing the highest dollar amount.

Source: U.S. Conference of Mayors & OMB.

VIII. New York/Nassau-Suffolk: Taxes and Expenditures

A. State Tax Rates/Employer Expenses

Tax	Rate
Business Taxes:	
Corporate Income/Franchise	8.5%
Unemployment Insurance	5.4%
Individual Taxes:	
Sales/Use	4.0%
Maximum Local Levy	4.5%
Food Exemption	Yes
Cigarette Tax (per package)	\$1.11*
Personal Income Rates	4.0% to 6.85%
Beginning Income for Maximum Rate**	\$40,000
State Taxes Paid in 1999 Per \$1,000 Personal Income:	
Local: \$64	United States: \$66

*This rate became effective on March 1, 2000.

**For those married filing jointly.

Source(s): Tax Foundation; Federation of Tax Administrators; and INDEX research.

B. Comparative State Income Taxes

A Comparison of the State Income Tax Rate Assessed at the Local Median Income Level

	<u>Median Income</u>	<u>Marginal State Income Tax Rate</u>	<u>Metropolitan Ranking**</u>
New York	\$39,039	4.84%	40
Nassau-Suffolk	\$57,488	5.47%*	45

*For those with taxable incomes over \$40,000, a tax of \$1,946 plus 6.85% of the amount over \$40,000 is assessed.

**The state income tax ranking is based on a comparison of the 56 metropolitan areas covered by the National Real Estate Index. Markets are rated in ascending order (i.e., number 56 denotes the highest tax rate at the respective median household income in the study).

Note of Explanation: Simple marginal tax rates are not sufficient for comparing tax burdens across jurisdictions. A more useful measure is to compare what a median income household would likely be assessed in each jurisdiction.

Additional Local Income Tax

New York City (residents) 3.02% to 3.78%

Note: As a result of an April 2000 ruling by the New York State Court of Appeals, the city of New York's earnings tax has been eliminated for people living outside New York state. The tax was eliminated for New York state residents (except those living in New York City) in July 1999.

VIII. Taxes and Expenditures (Cont.)

C. Local Commercial Property Taxes

1999 Commercial Property Tax Rate (Per \$100 Valuation)

<u>City</u>	<u>Basic Rate</u>	<u>Effective Rate</u>	<u>Ranking**</u>
New York City*	\$10.37	\$4.67	86

*Commercial property is taxed at 45% of market value. Additional assessment ratios vary widely between jurisdictions.

**The commercial property tax ranking is based on a comparison of 86 communities analyzed by the National Real Estate Index. Markets are rated in ascending order. (Number 86 denotes the highest tax rate in the study.)

Source: Basic tax rates (and assessment ratios) were provided by Vertex Inc., Berwyn, PA, (800) 355-3500. The “effective” rates factor in the proportion of property value assessed for taxation purposes, and were calculated by the National Real Estate Index staff. Where a range of basic rates applied, the median was utilized.

Except where noted, inventory and intangible property are completely (or largely) exempt from taxation, and tangible personal property is taxed at rates and assessment ratios comparable to those for real property.

Important: Please be aware that because of the wide disparities in tax rates, assessment ratios, and assessment periods from jurisdiction to jurisdiction (even within some metropolitan areas), the rates reported represent approximations only. Actual tax assessments could vary substantially, depending on property class, age and location.

D. Local Residential Property Taxes

2000 Residential Property Tax Rate (Per \$100 Valuation)

<u>Location</u>	<u>Effective Rate</u>	<u>Ranking*</u>
New York City CMP	\$2.05	48
Long Island	\$2.52	55

* The residential property tax ranking is based on a comparison of 56 metropolitan areas analyzed by the National Real Estate Index. Markets are rated in ascending order. (Number 56 denotes the highest tax rate in the study.)

Source: Runzheimer International, Rochester, WI. Runzheimer International, a management consulting firm specializing in transportation, travel and living costs, provided the effective residential property tax rate. In large cities where a range of residential tax rates is applied, we have used Runzheimer’s composite tax rate (CMP). For more information on employee relocation, moving costs, and travel expenses, contact Runzheimer at 1-800-558-1702.

Important: Please be aware that because of the wide disparities in tax rates, assessment ratios, and assessment periods from jurisdiction to jurisdiction (even within some metropolitan areas), the rates reported represent approximations only.

VIII. Taxes and Expenditures (Cont.)

E. State Tax Revenue

State Tax Revenue* (\$\$ in millions)

	<u>Fiscal Year 1999</u>	<u>Fiscal Year 2000</u>	<u>% Change</u>
New York	\$37,069	\$39,958	7.8%
U.S.	\$429,780	\$467,092	8.7%

*Totals include revenue from a state's personal income, corporate income and sales taxes, only. The fiscal year begins on July 1 for all 50 states except Alabama (Oct 1), Michigan (Oct 1), New York (April 1), and Texas (Sept 1).

Source: SUNY Center for the Study of the States, *State Revenue Report*.

F. Federal Balance of Payment Per Capita

	<u>Federal Taxes Collected</u>	<u>National Rank</u>	<u>Balance of Payment*</u>	<u>National Rank</u>
New York	\$5,834	14	(\$890)	41

The national average of federal taxes collected is \$5,486. These national rankings are based on all 50 states, plus the District of Columbia, with number 1 representing the highest dollar amounts.

*The difference between federal spending received (see Chart G) and taxes collected is the "balance of payment" between each state and the federal government.

Source: Harvard University and the U.S. Senate, *The Federal Budget and the States, Fiscal Year 1999*.

VIII. Taxes and Expenditures (Cont.)

G. Federal Spending Per Capita – State

	<u>Salaries/ Wages</u>	<u>Procurement Contracts</u>	<u>Defense Spending</u>	<u>Total Federal Spending</u>	<u>National Rank*</u>
New York	\$415	\$364	\$294	\$5,814	21
U.S. Average	\$647	\$783	\$835	\$5,740	--

*This national ranking, which is based on all 50 states, plus the District of Columbia, is for total federal spending. Both salaries/wages and procurement contracts include all such expenditures. Defense spending includes only those procurement contracts and wages (and other expenditures) that relate to defense.

Source: U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2000*.

H. Federal Spending Per Capita – Leading Local Counties

	<u>Salaries/ Wages</u>	<u>Procurement Contracts</u>	<u>Defense Spending</u>	<u>Defense Spending % Change from 1999</u>	<u>Total Federal Spending</u>
Nassau County	\$291	\$601	\$525	(8.5)	\$4,969
New York City & County*	424	219	76	(14.6)	5,898
Suffolk County	491	641	298	30.7	4,740
Westchester County	328	243	170	(36.6)	4,768
U.S. Average	\$647	\$783	\$835	(2.6)	\$5,740

Both salaries/wages and procurement contracts include all such expenditures. Defense spending includes only those procurement contracts and wages (and other expenditures) that relate to defense.

*The New York City & County listing includes Bronx, Kings, Queens, and Richmond Counties.

Source: U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2000*.

IX. New York/Nassau-Suffolk: Quality of Life

A. Crime Rate

Crime Per 100,000 Inhabitants—1999

	<u>Violent</u>	<u>% Change from 1998</u>	<u>Property</u>	<u>% Change from 1998</u>
New York Metro	946.4	(8.8)	2,907.1	(8.3)
Nassau-Suffolk	386.4	(13.0)	4,448.5	5.6
U.S. Metro Average	583.8	(7.4)	4,016.1	(7.6)

Source: U.S. Dept. of Justice, *Crime in the United States*. New York State Division of Criminal Justice Services.

B. Child Welfare

	<u>Overall Ranking*</u>	<u>Drop-Out Rate</u>	<u>Juvenile Crime</u>	<u>Teen Birth Rate</u>	<u>Immunization Rate</u>
New York	34	22	8	16	23

*The overall ranking is based on ten categories including child death rate, children in poverty, divorce rate, drop-out rate, infant mortality, teen birth rate, juvenile crime rate, and immunization rate. The highest possible ranking of all states (including Washington, DC) is 1.

Drop-Out Rate: The number one ranking represents the state with the lowest percentage of teenagers (16-19) who are high school drop-outs.

Juvenile Crime: The number one ranking represents the state with the lowest number of arrests of individuals under 18 divided by the population of the state.

Teen Birth Rate: The number one ranking represents the state with the lowest number of births for teenagers (15-19) per 1,000 births. (There are only 49 states ranked in this category.)

Immunization Rate: The number one ranking represents the state with the highest percentage of two-year-olds who have been immunized.

Source: Children's Rights Council, Washington, DC, July 1999.

IX. Quality of Life (Cont.)

C. Climate

Average Temperature (Fahrenheit)

	<u>High</u>	<u>Low</u>
Winter	38	26
Spring	61	44
Summer	85	68
Autumn	66	50

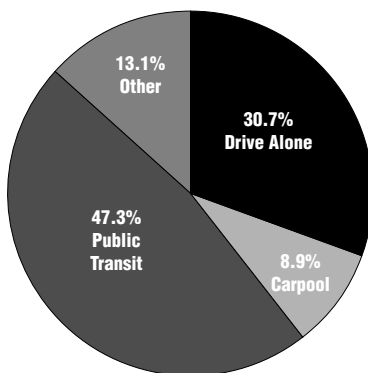
Average Annual Precipitation: 44 inches

Elevation: 87 ft

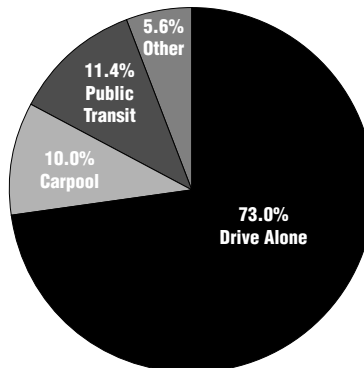
% of Sunny Days Per Year: 58%

D. Mode of Travel to Work

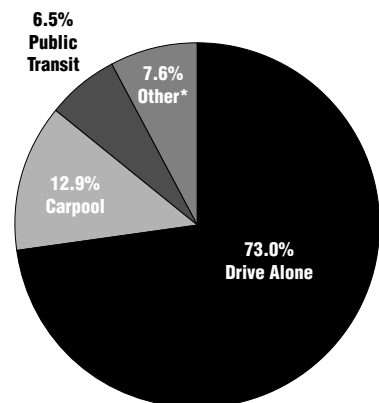
New York Metro



Nassau-Suffolk Metro



U.S. Metro



*Includes those who work at home.

Source: U.S. Census Bureau, *Journey to Work & Migration Statistics*.

IX. **Quality of Life (Cont.)**

E. **Daily Commute Time**

	One-Way Avg. Travel Time (Min.)
New York PMSA:	35.3
Nassau-Suffolk PMSA:	30.0
U.S. Metro Average:	23.2

Source: U.S. Census Bureau, *Journey to Work & Migration Statistics*.

F. **Major Professional Athletic Franchises**

National Football League

New York Jets, New York Giants
(co-tenants of Giants Stadium in New Jersey)

Major League Baseball

New York Yankees, New York Mets

National Basketball Association

New York Knicks

National Hockey League

New York Islanders, New York Rangers

G. Performing Arts

Symphonies

Bronx Symphony Orchestra
Brooklyn Philharmonic Orchestra
Long Island Philharmonic (Melville)
Manhattan Philharmonic
Manhattan Symphony Orchestra
New York Chamber Symphony
New York City Symphony
New York Philharmonic
New York Pops Orchestra
Queens Symphony Orchestra
Symphony for the United Nations
Symphony of Long Island (Uniondale)

Operas

Center for Contemporary Opera (New York)
Long Island Opera (West Hempstead)
Manhattan Opera Association
Metropolitan Opera Association (New York)
National Grand Opera (Garden City)
New York City Opera
New York Gilbert & Sullivan Players
New York Grand Opera Company
Queens Opera Association (Brooklyn)

Ballets

Alvin Ailey American Dance Theater (New York)
American Ballet Theater (New York)
Ballet Manhattan
Contemporary Ballet Company (Oyster Bay)
Dance Theatre of Harlem
Dance Theatre of Long Island (Port Washington)
Long Island Dance Company (Stony Brook)
Martha Graham Dance Company (New York)
New York City Ballet
New York Theatre Ballet

Source: *Musical America: International Directory of the Performing Arts*, New York, NY. Though many suburban communities have established symphonies and dance troupes, etc., this chart reflects the major, ongoing performing arts groups (in the above three categories) that are located in the central city and selected large communities of this metropolitan area.

X. New York/Nassau-Suffolk: Current Prices, Rents, and Cap Rates¹

A. Class A Property Sectors—National, Regional, Local

	CBD Office AVERAGE			Suburban Office AVERAGE			Warehouse AVERAGE			Retail AVERAGE			Apartment AVERAGE		
	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate
National	\$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%
Northeast Region	278.34	45.29	8.7	190.16	29.43	8.6	48.89	6.53	9.0	129.87	18.94	9.1	119.01	19.10	8.9
New York — Downtown															
2nd Q. '01	\$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
1st Q. '01	307.06	49.13	8.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2nd Q. '00	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
New York — Midtown															
2nd Q. '01	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
1st Q. '01	390.28	64.92	8.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2nd Q. '00	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															
2nd Q. '01	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
1st Q. '01	154.79	27.88	8.4	144.53	25.30	8.4	51.18	6.69	8.7	135.22	21.35	9.0	116.17	19.09	9.2
2nd Q. '00	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

B. Other Property Classes – Most Recent Period

Property Sector	Price Per SF	Property Sector	Price Per SF
Downtown		Nassau-Suffolk	
Class B CBD Office	\$216.28	Class C Suburban Office	\$89.12
Class C CBD Office	\$144.57	Class B Apartment	\$76.50
Midtown		Class B Flex Space	\$61.94
Class B CBD Office	\$279.79	New York	
Class C CBD Office	\$197.24	Class A Urban Apartment	\$311.87
Class D CBD Office	\$104.92	Class C Urban Apartment	\$87.94
		Class D Urban Apartment	\$41.11

¹ **Source(s):** NREI *Market Monitor*. For more information on this or other INDEX-surveyed metropolitan areas, contact the National Real Estate Index, (800) 992-7257.

X. **Current Prices, Rents, and Cap Rates (Cont.)**

C. **Local Market Rankings**

2nd Qtr. 2001 – Rankings*

	<u>CBD Office</u>	<u>Suburban Office</u>	<u>Warehouse</u>	<u>Retail</u>	<u>Apartment</u>	<u>Class B Apartment</u>
Manhattan Downtown						
Prices	3	--	--	--	--	--
Rents	3	--	--	--	--	--
Manhattan Midtown						
Prices	1	--	--	--	--	--
Rents	1	--	--	--	--	--
Nassau–Suffolk						
Prices	23	28	11	13	10	11
Rents	23	19	13	8	6	7

*Local market ranking among the 58 metropolitan areas (plus Manhattan Downtown and Midtown for CBD office) analyzed by the National Real Estate Index, with the #1 ranking representing the highest Class A price and/or rent per square foot for the noted time period.

XI. New York: Price, Rent, and Cap Rate History²

CLASS A CBD OFFICE*

Market Area Definition: **Downtown Manhattan**

Year/Quarter	Price per sq ft		Rent per sq ft		Capitalization Rate	
	Metro	National	Metro	National	Metro	National
1985/4	\$224.00	\$163.33	\$31.14	\$21.17	7.9%	8.3%
1986/2	232.15	167.18	31.80	21.19	7.8	8.3
1986/4	240.20	172.05	32.20	21.73	7.6	8.2
1987/2	248.70	177.18	32.71	22.47	7.5	8.2
1987/4	251.83	179.00	33.15	22.39	7.5	8.2
1988/2	259.16	181.00	33.57	22.61	7.4	8.2
1988/4	264.08	178.88	33.53	23.06	7.2	8.0
1989/2	254.40	180.18	33.78	23.55	7.6	7.9
1989/4	252.75	181.14	33.65	23.54	7.8	7.9
1990/2	240.27	174.46	31.98	23.45	8.0	8.4
1990/4	236.35	173.74	31.45	22.96	8.2	8.3
1991/2	224.73	170.22	29.88	22.37	8.2	8.5
1991/4	218.15	157.17	29.37	21.81	8.3	8.9
1992/2	208.28	148.83	29.02	21.38	8.6	9.2
1992/4	193.85	137.07	27.95	20.61	9.0	9.3
1993/2	183.10	131.68	27.65	20.14	9.4	9.2
1993/4	178.36	131.87	26.74	20.22	9.4	9.1
1994/2	182.55	135.28	27.66	20.70	9.5	9.1
1994/4	185.17	139.55	27.89	21.52	9.5	8.9
1995/2	188.66	138.69	29.03	21.91	9.4	9.1
1995/4	192.95	142.78	30.77	22.49	9.3	9.0
1996/2	193.08	144.78	30.78	23.10	9.3	9.1
1996/4	195.03	147.60	30.68	23.97	9.2	9.0
1997/2	202.20	157.09	31.16	25.38	8.7	8.9
1997/4	210.26	166.37	32.28	27.12	8.2	8.9
1998/2	240.95	185.66	37.50	29.11	8.2	8.7
1998/4	254.92	191.26	38.29	29.72	7.7	8.6
1999/2	262.78	198.95	38.64	30.86	7.7	8.6
1999/4	271.27	200.63	40.93	31.92	7.6	8.8
2000/2	289.08	209.81	46.92	33.82	7.9	8.7
2000/4	290.21	217.23	49.00	35.67	8.1	8.7

² **Source(s):** National Real Estate Index *Market History Reports* and *Market Monitor*. Reflects Class A properties, defined as buildings constructed or extensively renovated in the preceding ten years.

Explanation of Data: Average prices are reported. Stated rents reflect all occupancy costs, including rent concessions and operating cost chargebacks, if any. Reported rents are, therefore, effective gross rents. Capitalization rates are determined from actual net operating income, either from the properties actually sold or from representative prototypes.

*Please note that the rent figures represent quoted rates (after concessions) on space currently available (rather than the total rental income for all buildings surveyed). Consequently, prices, rents, and cap rates may not appear “internally” consistent for some periods.

XI. Price, Rent, and Cap Rate History

CLASS A CBD OFFICE*

Market Area Definition: **Midtown Manhattan**

Year/Quarter	Price per sq ft		Rent per sq ft		Capitalization Rate	
	Metro	National	Metro	National	Metro	National
1985/4	\$257.25	\$163.33	\$33.36	\$21.17	7.5%	8.3%
1986/2	263.80	167.18	33.82	21.19	7.5	8.3
1986/4	270.00	172.05	34.37	21.73	7.4	8.2
1987/2	285.00	177.18	36.58	22.47	7.3	8.2
1987/4	285.00	179.00	36.81	22.39	7.2	8.2
1988/2	290.00	181.00	37.70	22.61	7.2	8.2
1988/4	301.96	178.88	39.29	23.06	7.3	8.0
1989/2	316.42	180.18	40.47	23.55	7.1	7.9
1989/4	311.15	181.14	40.24	23.54	7.0	7.9
1990/2	295.59	174.46	38.02	23.45	7.4	8.4
1990/4	289.73	173.74	37.43	22.96	7.4	8.3
1991/2	279.95	170.22	35.79	22.37	7.5	8.5
1991/4	258.96	157.17	34.50	21.81	7.8	8.9
1992/2	241.13	148.83	33.36	21.38	8.1	9.2
1992/4	215.92	137.07	33.00	20.61	8.9	9.3
1993/2	205.18	131.68	31.72	20.14	9.0	9.2
1993/4	207.48	131.87	31.72	20.22	8.9	9.1
1994/2	212.25	135.28	33.18	20.70	9.1	9.1
1994/4	223.22	139.55	33.20	21.52	8.7	8.9
1995/2	223.64	138.69	33.51	21.91	8.7	9.1
1995/4	235.17	142.78	37.14	22.49	8.5	9.0
1996/2	241.03	144.78	38.63	23.10	8.5	9.1
1996/4	269.48	147.60	39.66	23.97	7.8	9.0
1997/2	283.65	157.09	39.89	25.38	7.5	8.9
1997/4	295.51	166.37	46.60	27.12	8.2	8.9
1998/2	426.00	185.66	51.95	29.11	6.5	8.7
1998/4	391.33	191.26	53.71	29.72	7.4	8.6
1999/2	398.31	198.95	54.86	30.86	7.3	8.6
1999/4	399.45	200.63	56.50	31.92	7.9	8.8
2000/2	419.55	209.81	62.17	33.82	7.9	8.7
2000/4	413.70	217.23	64.75	35.67	8.2	8.5

² **Source(s):** National Real Estate Index *Market History Reports* and *Market Monitor*. Reflects Class A properties, defined as buildings constructed or extensively renovated in the preceding ten years.

Explanation of Data: Average prices are reported. Stated rents reflect all occupancy costs, including rent concessions and operating cost chargebacks, if any. Reported rents are, therefore, effective gross rents. Capitalization rates are determined from actual net operating income, either from the properties actually sold or from representative prototypes.

*Please note that the rent figures represent quoted rates (after concessions) on space currently available (rather than the total rental income for all buildings surveyed). Consequently, prices, rents, and cap rates may not appear “internally” consistent for some periods.

XI. Price, Rent, and Cap Rate History

CLASS A CBD OFFICE*

Market Area Definition: Central Nassau County

Year/Quarter	Price per sq ft		Rent per sq ft		Capitalization Rate	
	Metro	National	Metro	National	Metro	National
1989/2	\$139.47	\$180.18	\$26.32	\$23.55	8.1%	7.9%
1989/4	139.83	181.14	26.29	23.54	8.2	7.9
1990/2	139.42	174.46	25.29	23.45	8.5	8.4
1990/4	135.94	173.74	24.94	22.96	8.8	8.3
1991/2	134.38	170.22	24.34	22.37	8.9	8.5
1991/4	122.04	157.17	22.90	21.81	9.1	8.9
1992/2	117.55	148.83	22.30	21.38	9.2	9.2
1992/4	114.91	137.07	21.88	20.61	9.5	9.3
1993/2	111.97	131.68	21.32	20.14	9.5	9.2
1993/4	111.94	131.87	21.54	20.22	9.6	9.1
1994/2	114.17	135.28	21.97	20.70	9.6	9.1
1994/4	119.67	139.55	22.55	21.52	9.4	8.9
1995/2	120.20	138.69	23.04	21.91	9.4	9.1
1995/4	122.29	142.78	23.77	22.49	9.5	9.0
1996/2	121.35	144.78	22.85	23.10	9.5	9.1
1996/4	125.09	147.60	24.58	23.97	9.3	9.0
1997/2	133.43	157.09	24.07	25.38	9.2	8.9
1997/4	138.48	166.37	24.84	27.12	9.0	8.9
1998/2	141.34	185.66	26.13	29.11	8.8	8.7
1998/4	140.35	191.26	26.71	29.72	8.9	8.6
1999/2	143.60	198.95	25.60	30.86	8.7	8.6
1999/4	146.38	200.63	26.00	31.92	8.6	8.8
2000/2	154.60	209.81	26.97	33.82	8.3	8.7
2000/4	156.40	217.23	27.78	35.67	8.3	8.7

² **Source(s):** National Real Estate Index *Market History Reports* and *Market Monitor*. Reflects Class A properties, defined as buildings constructed or extensively renovated in the preceding ten years.

Explanation of Data: Average prices are reported. Stated rents reflect all occupancy costs, including rent concessions and operating cost chargebacks, if any. Reported rents are, therefore, effective gross rents. Capitalization rates are determined from actual net operating income, either from the properties actually sold or from representative prototypes.

*Please note that the rent figures represent quoted rates (after concessions) on space currently available (rather than the total rental income for all buildings surveyed). Consequently, prices, rents, and cap rates may not appear “internally” consistent for some periods.

XI. Price, Rent, and Cap Rate History

CLASS A SUBURBAN OFFICE*

Market Area Definition:

Nassau-Suffolk PMSA: Nassau and Suffolk Counties.

Year/Quarter	Price per sq ft		Rent per sq ft		Capitalization Rate	
	Metro	National	Metro	National	Metro	National
1995/4	\$105.10	\$109.51	\$18.75	\$19.30	9.8%	9.6%
1996/2	107.94	115.70	19.33	20.16	9.6	9.3
1996/4	112.79	122.91	19.73	21.06	9.3	9.2
1997/2	127.18	133.91	20.58	22.19	8.9	9.0
1997/4	133.93	142.39	22.01	23.19	8.7	9.1
1998/2	137.83	153.23	22.64	23.95	8.5	8.8
1998/4	137.09	152.60	23.64	24.27	8.6	9.0
1999/2	140.68	157.24	23.95	24.66	8.4	8.9
1999/4	145.31	165.25	24.95	25.39	8.3	8.7
2000/2	147.89	172.89	25.23	26.74	8.2	8.7
2000/4	146.29	182.98	25.30	28.14	8.3	8.5

Explanation of Data: Average prices are reported. Stated rents reflect all occupancy costs, including rent concessions and operating cost chargebacks, if any. Reported rents are, therefore, effective gross rents. Capitalization rates are determined from actual net operating income, either from the properties actually sold or from representative prototypes.

*Please note that the rent figures represent quoted rates (after concessions) on space currently available (rather than the total rental income for all buildings surveyed). Consequently, prices, rents, and cap rates may not appear “internally” consistent for some periods.

XI. Price, Rent, and Cap Rate History

CLASS A WAREHOUSE/DISTRIBUTION*

Market Area Definition:

Nassau-Suffolk PMSA: Nassau and Suffolk Counties.

Year/Quarter	Price per sq ft		Rent per sq ft		Capitalization Rate	
	Metro	National	Metro	National	Metro	National
1989/2	\$46.11	\$37.30	\$5.97	\$4.70	8.6%	8.9%
1989/4	45.13	37.39	5.86	4.71	8.8	9.0
1990/2	45.13	37.44	5.86	4.65	9.0	9.1
1990/4	43.69	37.35	5.80	4.63	9.3	9.2
1991/2	41.04	36.48	5.39	4.55	9.4	9.3
1991/4	40.21	34.61	5.32	4.50	9.5	9.5
1992/2	38.14	33.85	5.10	4.39	9.6	9.5
1992/4	36.26	32.98	5.00	4.29	9.9	9.7
1993/2	35.46	32.34	4.89	4.28	9.9	9.6
1993/4	35.82	31.61	4.89	4.28	9.8	9.7
1994/2	37.09	32.02	4.96	4.36	9.6	9.6
1994/4	37.45	32.76	5.08	4.47	9.6	9.5
1995/2	38.04	33.55	5.26	4.55	9.5	9.4
1995/4	38.37	34.30	5.37	4.69	9.5	9.3
1996/2	38.54	35.21	5.49	4.79	9.5	9.2
1996/4	40.25	36.49	5.51	4.95	9.2	9.2
1997/2	43.24	37.45	5.73	5.06	8.7	9.1
1997/4	43.02	38.98	5.78	5.14	9.1	9.0
1998/2	45.75	41.31	6.17	5.26	9.1	8.9
1998/4	47.80	41.91	6.25	5.35	8.9	8.9
1999/2	48.96	42.58	6.35	5.46	8.8	9.0
1999/4	50.44	43.14	6.51	5.58	8.7	9.1
2000/2	50.79	44.69	6.59	5.72	8.7	9.0
2000/4	51.06	45.08	6.66	5.80	8.7	9.0

Explanation of Data: Average prices are reported. Stated rents reflect all occupancy costs, including rent concessions and operating cost chargebacks, if any. Reported rents are, therefore, effective gross rents. Capitalization rates are determined from actual net operating income, either from the properties actually sold or from representative prototypes.

*Please note that the rent figures represent quoted rates (after concessions) on space currently available (rather than the total rental income for all buildings surveyed). Consequently, prices, rents, and cap rates may not appear “internally” consistent for some periods.

XI. Price, Rent, and Cap Rate History

CLASS A RETAIL *

Market Area Definition:

Nassau-Suffolk PMSA: Nassau and Suffolk Counties.

Year/Quarter	Price per sq ft		Rent per sq ft		Capitalization Rate	
	Metro	National	Metro	National	Metro	National
1989/2	\$129.84	\$112.60	\$20.84	\$14.61	8.8%	8.7%
1989/4	129.68	113.90	21.14	14.97	9.0	8.8
1990/2	129.68	113.40	21.61	15.00	9.2	9.0
1990/4	125.51	111.67	21.27	14.83	9.4	9.1
1991/2	126.13	109.72	21.38	14.67	9.4	9.3
1991/4	124.27	103.45	21.38	14.53	9.5	9.7
1992/2	123.11	99.13	21.27	14.11	9.6	9.6
1992/4	122.38	96.34	21.27	13.80	9.9	9.7
1993/2	116.01	96.20	20.19	13.84	9.6	9.8
1993/4	116.01	96.24	20.19	13.74	9.6	9.7
1994/2	118.14	98.47	20.35	13.93	9.5	9.5
1994/4	117.62	99.63	20.73	14.14	9.6	9.4
1995/2	119.03	100.00	20.95	14.48	9.5	9.4
1995/4	115.36	100.20	20.97	14.72	9.8	9.4
1996/2	119.32	101.26	20.38	15.03	9.5	9.4
1996/4	122.79	104.76	20.25	15.42	9.4	9.3
1997/2	127.75	108.52	20.33	15.81	9.2	9.2
1997/4	128.73	113.46	20.00	16.32	9.1	9.2
1998/2	133.31	116.86	21.32	16.74	8.9	9.1
1998/4	131.13	117.31	20.77	16.91	9.0	9.1
1999/2	133.41	118.36	20.35	17.05	8.8	9.1
1999/4	134.00	120.45	20.53	17.31	8.8	9.0
2000/2	133.95	121.75	21.15	17.62	9.0	9.0
2000/4	135.22	122.23	21.35	17.80	9.0	9.1

Explanation of Data: Average prices are reported. Retail rents reflect in-lying small shop space and are triple net. Capitalization rates are determined from actual net operating income, either from the properties actually sold or from representative prototypes.

*Please note that the rent figures represent quoted rates (after concessions) on space currently available (rather than the total rental income for all buildings surveyed). Consequently, prices, rents, and cap rates may not appear “internally” consistent for some periods. Retail space refers to **anchored unenclosed shopping centers**.

XI. Price, Rent, and Cap Rate History

CLASS A APARTMENT*

Market Area Definition:

Nassau-Suffolk PMSA: Nassau and Suffolk Counties.

Year/Quarter	Price per sq ft		Rent per sq ft		Capitalization Rate	
	Metro	National	Metro	National	Metro	National
1989/2	\$78.41	\$59.17	\$12.79	\$8.99	8.7%	8.6%
1989/4	80.01	59.25	12.90	9.30	8.6	8.7
1990/2	79.17	60.48	12.90	9.37	8.7	8.7
1990/4	78.06	60.66	12.87	9.46	8.8	8.9
1991/2	77.88	59.66	12.84	9.54	8.8	9.1
1991/4	72.68	58.78	12.80	9.52	9.4	9.2
1992/2	70.42	56.51	12.76	9.62	9.6	9.5
1992/4	70.03	56.15	12.90	9.67	9.8	9.7
1993/2	69.03	57.47	13.04	9.85	9.9	9.6
1993/4	68.76	58.22	12.99	10.01	9.9	9.6
1994/2	71.09	61.50	13.48	10.26	9.8	9.4
1994/4	73.52	62.62	13.80	10.48	9.7	9.3
1995/2	75.28	64.20	14.13	10.63	9.7	9.2
1995/4	77.58	66.71	14.11	11.10	9.4	9.1
1996/2	80.82	70.12	14.39	11.47	9.2	8.9
1996/4	81.47	73.92	14.35	11.71	9.3	8.9
1997/2	87.23	77.82	14.84	12.00	9.1	8.9
1997/4	90.39	81.18	15.21	12.21	9.2	8.9
1998/2	93.36	85.37	16.53	12.68	9.7	8.8
1998/4	98.49	89.48	17.55	13.03	9.7	8.8
1999/2	106.89	91.88	18.50	13.28	9.5	8.8
1999/4	109.26	95.88	18.34	13.62	9.4	8.6
2000/2	113.55	100.97	18.86	14.20	9.3	8.6
2000/4	113.31	104.53	18.82	14.57	9.3	8.4

Explanation of Data: Average prices are reported. Stated rents reflect all occupancy costs, including rent concessions and operating cost chargebacks, if any. Reported rents are, therefore, effective gross rents. Capitalization rates are determined from actual net operating income, either from the properties actually sold or from representative prototypes.

*Please note that the rent figures represent quoted rates (after concessions) on space currently available (rather than the total rental income for all buildings surveyed). Consequently, prices, rents, and cap rates may not appear “internally” consistent for some periods.

XII. Nassau-Suffolk: Market Analysis³

A. 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.

³ Source(s): National Real Estate Index *Quarterly Market Report*; Volume 64, September 2001.

XII. Market Analysis

A. Economic Overview (continued)

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.

XII. Market Analysis

A. Economic Overview (continued)

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.

XII. Market Analysis

A. Economic Overview *(continued)*

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%).

XII. Market Analysis

A. Economic Overview (continued)

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.

not future demand and therefore should not contribute to large 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 Hauppauge: Boasting the largest amount of new construction in the second quarter, the Hauppauge 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

B. OFFICE MARKET

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

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

XII. Market Analysis

B. Office Market (continued)

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.

XII. Market Analysis

C. 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.

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

XII. Market Analysis

C. Industrial Market (continued)

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.

D. 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

XII. Market Analysis

D. Industrial Market (continued)

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 Yaphank, 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%.*

E. 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 com-

plexes 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 Spiegel 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.*

XII. Market Analysis

F. Submarket Inventory/Vacancy

OFFICE*				
SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
<u>NASSAU COUNTY</u>				
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
<u>SUFFOLK COUNTY</u>				
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).				

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).		

A. 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 cate-

gories—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;

³ Source(s): National Real Estate Index *Quarterly Market Report*; Volume 64, September 2001.

XIII. Market Analysis

A. Economic Overview *(continued)*

Morgan Stanley Dean Witter plans 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

XIII. Market Analysis

A. Economic Overview (continued)

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.

XIII. Market Analysis

A. Economic Overview *(continued)*

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

XIII. Market Analysis

A. Economic Overview (continued)

year's AIR-21 legislation made things worse by adding new flights from La Guardia to many underserved 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 billion. 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

XIII. Market Analysis

A. Economic Overview *(continued)*

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.

B. OFFICE MARKET

Midtown Manhattan

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

Downtown Manhattan

(CBD)			YEAR*			QUARTER*		
PRICE	RENT	CAP RATE	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

XIII. Market Analysis

B. Office Market

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. 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 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

XIII. Market Analysis

B. Office Market (continued)

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%.

C. 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 Westchester 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.

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.

XIII. Market Analysis

D. 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, over-expansion 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 under-way 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 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 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 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).

E. 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.

XIII. Market Analysis

E. Apartment Market (continued)

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, re-development of current properties is the primary focus of the local multifamily market in Manhattan. 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.

XIII. Market Analysis

F. Submarket Inventory/Vacancy

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).				

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).			

Methodology

Metro Market Facts is based on property transaction and supplemental data compiled by the National Real Estate Index.

Property Prices, Rents, and Cap Rate Data

The National Real Estate Index (INDEX) reports data on large income-producing properties bought and sold nationwide. The primary market makers include pension plans, real estate investment trusts, banks, savings and loans, commercial real estate brokers, appraisers, and investment program sponsors. The properties analyzed in the INDEX include office buildings, warehouse/distribution properties, retail centers, apartments, and hotels.

Mean Prices: The INDEX *Market Monitor* compiles and reports average transaction prices, rents, capitalization rates for Class A properties in local and regional markets throughout the United States, as well as prices for lower quality properties in many markets. All transactional data is calculated at the point of purchase/sale, reflecting values based on arm's length negotiations.

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*. *Warehouse* rents reflect lease rates for *warehouse space only*.

Capitalization Rates: Cap rates are determined from reported **actual net operating income**, either from property sales or from representative properties.

Important: Please note that because the rent figures represent quoted rates (after concessions) 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. Reported price and rent trends are moderated by independent market surveys conducted by the INDEX research staff. Where there are too few transactions to constitute a statistically-significant sample or the underlying data for the transactions are incomplete, the performance of prototype properties is used to supplement the transaction data in deriving average values and cap rates.

BUILDING NORMS: In order to maintain quality data and monitor rental rate trends, specific "prototype" or "tracked" properties that conform to the norms discussed below 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, stabilized with modest vacancy, and ten years old or less. *Norms* for specific property types (and local market *prototypes*) reported in the INDEX are as follows:

Office: Ten stories or greater size, steel frame (or other high quality) construction, and a high quality modern exterior finish and glass application. Properties are located in the Central Business District (CBD) or, where noted, 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 18 feet. No more than 20% of the total space is office build-out. The buildings have a minimum of 50,000 square feet and are located in a quality industrial park or other superior location.

Retail: A "neighborhood" or small 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%–50% of the space in prototype retail centers is occupied by anchor tenants. All construction is single story and of modern design, with a 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 contain 100–300 units and have amenities appropriate for the geographic region. Amenities usually include a pool, tennis courts and/or health/fitness rooms. Tenants have covered parking for at least one car per apartment unit. Class B apartments are defined as properties built or substantively renovated from 1980 through 1989.

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*, 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 over the long-term.

Market Forecast and Rating

The National Real Estate Index has created a proprietary model for analyzing the real estate investment potential in 65 metropolitan markets nationwide. As reported in Section XI, this model evaluates the potential performance of CBD and suburban office, warehouse, unenclosed shopping center, apartment, and limited service hotel properties for a two-year horizon based on key econometric and real estate-related data, portions of which are derived from our proprietary property database.

Investment Potential Ratings: The investment potential is expressed both on a six-point continuum (i.e., "Rating") and on a numerical scale, generally 60–100, (i.e., "Score") that reflect our view of the **comparative total return potential of properties in the respective sector/market for the succeeding two years**. The investment score is based, first and foremost, on the rental prospects, as well as on a number of documentable (but not necessarily quantifiable) variables that impact the prospects for future price appreciation of real estate in local markets. Potential rental changes are formulated using a proprietary model of documentable and quantifiable economic, demographic, and real estate trends. Naturally, the variables employed vary from property sector to sector, but among the variables included are vacancy, construction, current rental trends, job growth and related absorption, the distribution of employment within local markets, population and household growth, and household income.

Among the "clusters" of factors that supplement the rental prospects in the total return calculus are: (1) obstacles to construction; (2) corporate location preferences; (3) labor costs and quality; (4) the relationship between government and business, as well as corporate taxes; (5) the quality of life; (6) infrastructure and market access; and, finally, (7) current property values.

These factors are assessed weights in the overall model based on their relative importance and the extent to which they characterize the respective market in question. The continuum for investment prospects are shown below. The "rating" and "score" columns correspond as follows:

Investment Potential

Rating	Score
Extraordinary	95+
Excellent	90–94
Good	80–89
Fair	70–79
Poor	60–69
Speculative	59 and below

General Observations and Model Limitations: As is appropriate for any comprehensive market analysis and rating, a clarification as to what the data purports to measure, as well as the potential pitfalls, is in order. First and foremost, the investment performance ratings reported are comparative. That is, we are attempting only to identify those markets that offer superior total return potential relative to other real estate markets. What absolute level of return will be achieved, or how the performance of any local real estate market will compare to that of financial assets such as stocks and bonds, is not analyzed here.

Second, like other analysts, we cannot forecast major exogenous events that may impact performance. The model's emphasis on analyzing comparative rather than absolute returns, however, should mitigate somewhat the prospective impact of major external macroeconomic or political events, should they occur.

Third, we have purposely chosen to emphasize documentable data, thereby largely eschewing forecasts (especially long-term ones) from third parties. We acknowledge that our emphasis on documentable trends may cause some readers to perceive a conservative bias in our strategic model. Consequently, all 64 markets are ranked and "scored" each quarter.

Nonproprietary Data Sources

Sources: In reporting property transaction prices, rents, and cap rates, CB Richard Ellis 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. The National Real Estate Index recognizes the following distinguished firms, publications, and individuals for their contributions in these areas.

Marcus & Millichap (New York – Apartment)

Sales & Marketing Management—Survey of Buying Power (Income and Retail Sales)

Other Metro Market Facts Reports

Albuquerque	Honolulu	Orlando
Atlanta	Houston	Philadelphia
Austin	Indianapolis	Phoenix
Baltimore	Jacksonville	Portland
Boston	Kansas City	Raleigh-Durham
Central New Jersey	Las Vegas	Riverside-San Bernardino
Charlotte	Los Angeles	Sacramento
Chicago	Memphis	Salt Lake City
Cincinnati	Miami	San Diego
Cleveland	Milwaukee	San Francisco
Columbus	Minneapolis-St. Paul	San Jose
Dallas-Ft. Worth	Nashville	Seattle
Denver	Newark-No. New Jersey	St. Louis
Detroit	New York-Nassau Suffolk	Tampa-St. Petersburg
Fort Lauderdale	Oakland-East Bay	Washington, D.C.
Greenville-Spartanburg	Oklahoma City	West Palm Beach
Hartford	Orange County	

Call 800.992.7257 to order.