



New York

Vol. 34

Second Quarter 2002

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*

New York

Vol. 34



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 provides a quarterly review, including analysis of the local economy, as well as analyses of the office, light industrial, retail, apartment, and hospitality sectors.

NATIONAL REAL ESTATE INDEX

PUBLISHERS

Global Real Analytics

Richard Wollack
Chairman & CEO

Daniel O'Connor
Managing Director—
Investment Forecasting/
Real Estate Research

Property & Portfolio Research

Susan Hudson-Wilson
Founder & CEO

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Bridgett Novak
Managing Editor

Janet Laurain
Senior Editor

Tamu Dawson
Senior Production Editor

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New York: Metropolitan Map/Market Definition

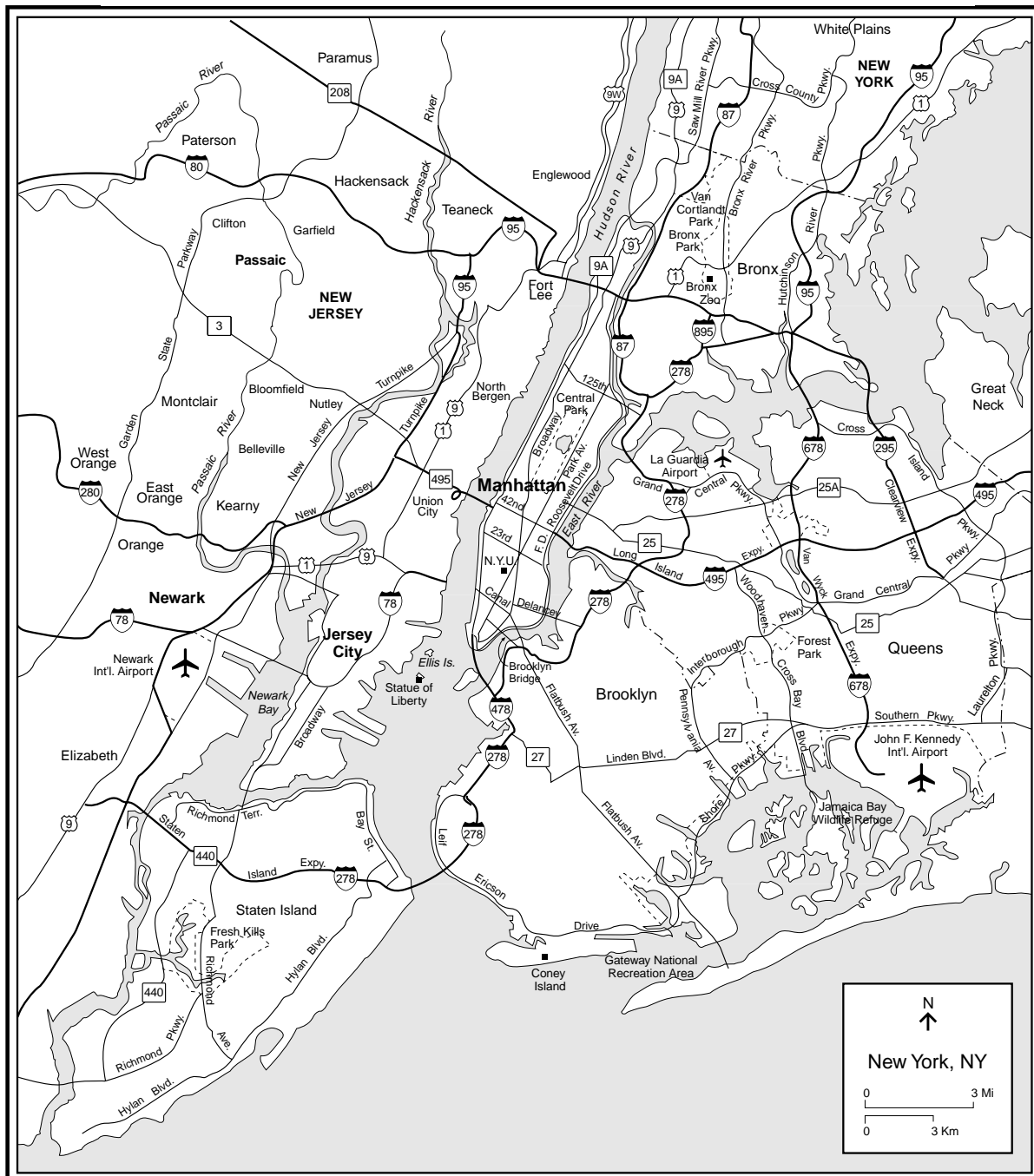
New York PMSA:

Bronx County
Kings County
New York County
Putnam County

Queens County
Richmond County
Rockland County
Westchester County

Land Area of New York MSA:
Population Density (2001):

1,147.6 sq. miles
8,133 people per sq. mile



Nassau-Suffolk: Metropolitan Map/Market Definition

Nassau-Suffolk PMSA:

Nassau County
Suffolk County

Land Area of Nassau-Suffolk PMSA:

1,198 sq. miles

Population Density (2001):

2,315 people per sq. mile



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I. New York: Snapshot

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

Job Growth (Loss) 12 Months (Ending in June 2002):	(2.3%)
Unemployment Rate (June):	7.0%
Metropolitan Population Growth (Loss), 1990–2001:	9.2%
Total Metropolitan Population, 2001:	9.3 million

B. Second Quarter 2002 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. '02	\$287.31	\$42.40	8.1%	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. '02	288.33	43.76	8.2	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. '01	328.41	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
New York -- Midtown															
2nd Q. '02	425.74	59.45	7.4	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. '02	425.43	60.16	7.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2nd Q. '01	397.24	64.18	8.4	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.

I. Nassau-Suffolk: Snapshot

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

Job Growth (Loss) 12 Months (Ending in June 2002):	0.3%
Unemployment Rate (June):	4.2%
Metropolitan Population Growth (Loss), 1990–2001:	6.3%
Total Metropolitan Population, 2001:	2.8 million

B. Second Quarter 2002 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
2nd Q. '02	\$159.18	\$27.38	8.1%	\$146.21	\$25.11	8.3%	\$49.15	\$6.61	9.0%	\$136.28	\$21.70	9.0%	\$125.84	\$20.11	9.0%
1st Q. '02	158.32	27.75	8.2	144.69	25.18	8.4	49.29	6.65	9.0	134.61	21.64	9.1	123.84	19.79	9.0
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

Source: National Real Estate Index's Market Monitor.

II. New York: Demographics

A. Metro Population

	<u>New York PMSA</u>	<u>Nassau-Suffolk</u>	<u>United States</u>
Population — 2001:	9,333,700	2,773,600	284,796,900
% Growth—2000–2001:	0.1%	0.5%	0.9%
% Growth—1990–2000:	9.1%	5.8%	13.4%
% Growth—1980–1990:	3.3%	0.1%	9.8%

B. County Population Growth

<u>County</u>	<u>2001 Population</u>	<u>% Growth 1990-2001</u>
Nassau	1,334,600	3.6
Suffolk	1,439,000	8.9
Bronx	1,337,900	11.1
Kings	2,465,300	7.2
New York	1,541,200	3.6
Putnam	97,200	15.8
Queens	2,224,500	14.0
Richmond	450,200	18.8
Rockland	288,600	8.7
Westchester	928,900	6.2

C. Area Cities With At Least 50,000 Residents

<u>City</u>	<u>2000 Population</u>	<u>% Growth 1990-2000</u>
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**

	2001 Population	% Growth 1990-2001	Ranking*	% Growth 1995-2025	Ranking*
New York	19,011,400	5.7	42	5.1	49
United States	284,796,900	14.5	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 (1990-2001)

Population Growth (% Gain/Loss, April 1990-July 2001)

Las Vegas	94.7%	Greenville-Spartanburg	17.8%
Austin	55.2%	Columbus	15.9%
Phoenix	51.2%	Oakland-East Bay	15.5%
Atlanta	44.0%	San Diego	14.6%
Raleigh-Durham	43.4%	UNITED STATES	14.5%
Orlando	39.4%	Central New Jersey	14.3%
West Palm Beach	34.9%	Kansas City	13.9%
Dallas-Ft. Worth	33.8%	Oklahoma City	13.9%
Denver	33.0%	Memphis	13.7%
Charlotte	33.0%	Chicago	12.6%
Ft. Lauderdale	32.9%	San Jose	11.4%
Riverside-SB	31.4%	Cincinnati	9.7%
Portland	29.7%	New York	9.2%
Houston	29.2%	Los Angeles	8.7%
Nashville	27.1%	Baltimore	8.0%
Salt Lake City	25.8%	San Francisco	7.3%
Jacksonville	24.8%	Newark-No. New Jersey	7.0%
Sacramento	24.4%	Nassau-Suffolk	6.3%
Albuquerque	22.8%	Boston*	5.5%
Seattle	20.0%	Honolulu	5.4%
Orange County	19.9%	Milwaukee	5.3%
Washington, DC	19.7%	St. Louis	5.0%
Minneapolis	18.8%	Detroit	4.3%
Tampa-St. Petersburg	18.5%	Philadelphia	4.0%
Indianapolis	18.3%	Hartford*	2.2%
Miami	18.2%	Cleveland	2.0%

*Updated populations are not yet available for Boston and Hartford. For these markets, changes are based on 2000 data.

Source: U.S. Census Bureau.

II. Demographics (Cont.)

G. International Immigration to Metropolitan Areas

Total International Immigration: 1991–2001 (in 000s)

New York/Nassau-Suffolk	1,136.5	West Palm Beach	54.6
Los Angeles	972.2	Minneapolis-St. Paul	53.2
Chicago	414.9	Orlando	50.6
Miami	378.7	Tampa-St. Petersburg	48.6
Newark-No. NJ	291.7	Las Vegas	45.7
Washington DC	270.8	Honolulu	45.7
Orange County	253.2	Baltimore	37.2
Houston	235.8	Austin	33.0
Dallas-Ft. Worth	206.4	St. Louis	28.3
San Francisco	179.4	Hartford	27.7
San Diego	176.6	Salt Lake City	25.8
San Jose	173.0	Raleigh-Durham	20.7
Boston	157.7	Cleveland	20.3
Oakland-East Bay	150.4	Kansas City	19.0
Riverside-San Bernardino	133.6	Charlotte	18.6
Ft. Lauderdale	102.5	Oklahoma City	16.7
Philadelphia	102.4	Albuquerque	15.3
Atlanta	97.7	Jacksonville	15.1
Seattle	89.2	Milwaukee	14.9
Detroit	80.2	Nashville	14.6
Central New Jersey	77.4	Columbus	14.3
Phoenix	76.7	Indianapolis	12.1
Sacramento	67.6	Cincinnati	9.0
Denver	62.3	Memphis	8.7
Portland	55.1	Greenville-Spartanburg	7.6

Source: U.S. Census Bureau.

II. Demographics (Cont.)

H. Domestic Migration to Metropolitan Areas

Total Domestic Migration: 1991–2001 (in 000s)

Atlanta	552.7	Oklahoma City	13.0
Phoenix	455.7	Cincinnati	4.5
Las Vegas	449.5	Memphis	3.3
Dallas-Ft. Worth	289.3	Salt Lake City	0.4
Denver	220.4	Central New Jersey	(36.8)
Riverside-San Bernardino	217.4	Baltimore	(50.7)
Orlando	201.2	Oakland-East Bay	(64.9)
Austin	198.5	St. Louis	(74.0)
Tampa-St. Petersburg	196.8	Hartford	(78.7)
Portland	189.4	Milwaukee	(81.5)
Charlotte	175.8	Washington DC	(99.6)
Raleigh-Durham	174.6	Cleveland	(115.4)
Ft. Lauderdale	165.2	Honolulu	(117.9)
West Palm Beach	144.2	San Diego	(142.0)
Nashville	110.6	San Francisco	(181.6)
Sacramento	86.6	Orange County	(210.1)
Jacksonville	75.9	Boston	(214.4)
Minneapolis-St. Paul	68.8	San Jose	(219.4)
Houston	65.7	Miami	(269.3)
Greenville-Spartanburg	61.3	Detroit	(274.9)
Seattle	58.6	Philadelphia	(289.8)
Indianapolis	52.4	Newark-No. NJ	(414.9)
Kansas City	42.3	Chicago	(587.1)
Columbus	33.9	Los Angeles	(1,616.3)
Albuquerque	24.2	New York/Nassau-Suffolk	(1,658.9)

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):	(2.3%)
Total Number of Net New Jobs, 12 Months (Ending in June):	(97,800)
% Unemployed, June 2002:	7.0%
% Unemployed, 12 Months Before:	5.0%

National

Employment Growth (Loss)—% 12-Month (Ending in June):	(1.1%)
% Unemployed, June 2002:	6.0%
% Unemployed, June 2001:	4.7%

B. Economic Base—Employment By Sectors

Sector	12-Month % Growth		% of Total Employment	
	Metro	National	Metro	National
Services	(1.5)	0.2	39.3	31.5
Business Services*	(5.9)	(2.7)	8.1	7.1
Retail Trade	(1.3)	(1.2)	12.5	17.8
Government	0.1	1.5	15.6	16.1
Manufacturing	(4.8)	(5.6)	6.4	12.8
Transportation	(6.0)	(4.4)	5.5	5.2
FIRE	(6.1)	0.2	11.8	5.9
Wholesale Trade	(0.8)	(1.6)	5.1	5.1
Construction	(1.9)	(2.2)	3.8	5.2

*Business Services is a subset of the Services category.

The 12-month percent growth is updated every quarter; the percent of total employment is updated every 6 months (last update: 2Q 2002).

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

A. Job Formation

Metropolitan Area

Employment Growth (Loss)—% 12-Month (Ending in June):	0.3%
Total Number of Net New Jobs, 12 Months (Ending in June):	3,800
% Unemployed, June 2002:	4.2%
% Unemployed, 12 Months Before:	3.6%

National

Employment Growth (Loss)—% 12-Month (Ending in June):	(1.1%)
% Unemployed, June 2002:	6.0%
% Unemployed, June 2001:	4.7%

B. Economic Base—Employment By Sectors

Sector	12-Month % Growth		% of Total Employment	
	Metro	National	Metro	National
Services	1.5	0.2	33.8	31.5
Business Services*	N/A	(2.7)	N/A	7.1
Retail Trade	0.7	(1.2)	18.6	17.8
Government	1.7	1.5	16.1	16.1
Manufacturing	(4.6)	(5.6)	8.3	12.8
Transportation	0.9	(4.4)	4.8	5.2
FIRE	(1.0)	0.2	6.6	5.9
Wholesale Trade	(2.7)	(1.6)	6.7	5.1
Construction	0.8	(2.2)	5.3	5.2

*Business Services is a subset of the Services category.

The 12-month percent growth is updated every quarter; the percent of total employment is updated every 6 months (last update: 2Q 2002).

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

C. Metropolitan Total Employment Gain (1992-2002)

Job Growth			
(% Gain/Loss, June 1992-June 2002)			
Las Vegas	86.4	Minneapolis-St. Paul	23.0
Austin	59.8	San Jose	22.6
Phoenix	54.2	Washington, DC	21.8
Orlando	45.1	Miami	21.5
Riverside-San Bernardino	44.9	Memphis	21.4
West Palm Beach	44.9	Oakland	21.4
Raleigh-Durham	42.0	Greenville-Spartanburg	20.7
Tampa-St. Petersburg	40.9	Indianapolis	20.6
Atlanta	38.5	UNITED STATES	20.5
Fort Lauderdale	37.8	Seattle	19.2
Dallas-Ft. Worth	37.2	Boston	18.3
Salt Lake City	36.6	Nassau-Suffolk	16.7
Jacksonville	35.0	Cincinnati	15.2
Denver	35.0	Detroit	14.9
Charlotte	34.0	Baltimore	14.4
Nashville	33.2	Chicago	14.3
Albuquerque	32.0	San Francisco	13.6
Sacramento	31.9	Philadelphia	12.4
San Diego	30.8	Milwaukee	12.1
Houston	29.1	St. Louis	12.1
Portland	28.0	Newark-No. New Jersey	11.3
Orange County	26.1	New York	10.5
Kansas City	25.7	Cleveland	10.1
Oklahoma City	24.4	Los Angeles	6.9
Central New Jersey	23.7	Hartford	2.6
Columbus	23.5	Honolulu	(1.0)

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	\$26,740	20	26.7%	1
U.S. Average	\$26,450	--	13.5%	--

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

Source(s): U.S. Dept. of Labor/wage figures (2000); U.S. Census Bureau/union membership (2001).

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</u> <u>Rating***</u>	<u>1998</u> <u>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 Who Graduated From High School	% of Adults Who Graduated From 4-Year College/University
New York	77.7	32.9
U.S. Average	84.1	25.6

Source: U.S. Census Bureau, 2000.

B. 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.)

C. Educational Expenditures and Salaries

	Per-Pupil Expenditures	Rank	Teacher Salaries	Rank	Student: Teacher Ratio	Rank
New York	\$9,371	3	\$49,437	3	14.0	40
U.S. Average	\$6,455	--	\$40,580	--	16.1	--

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 2000*.

D. University R&D Expenditures

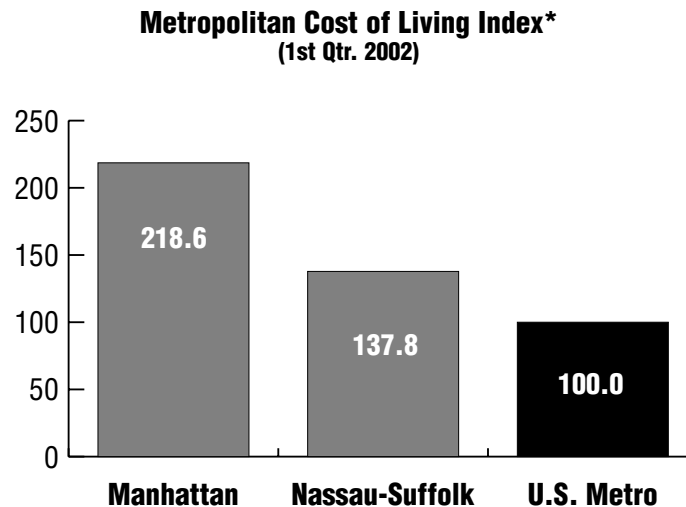
	Federal R&D Expenditures (\$\$ in mil.)	% of Leading School*	Total R&D Expenditures (\$\$ in mil.)	% of Leading School*
Columbia	\$137.1	63.8	\$158.4	59.1
City Univ. of NY	\$2.0	0.9	\$2.6	1.0
Fordham University	\$1.5	0.7	\$2.0	0.7
NY Medical College	\$9.5	4.4	\$12.1	4.5
NYU	\$73.1	34.0	\$97.5	36.4
Polytechnic 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

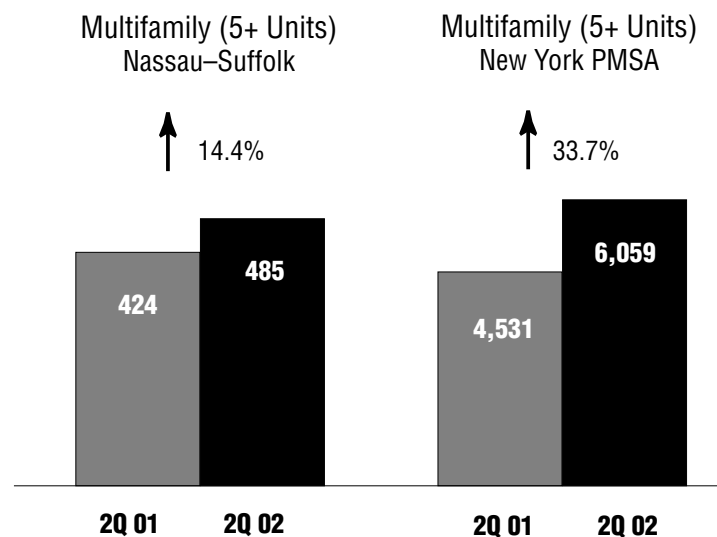
A. Overall Cost of Living



*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



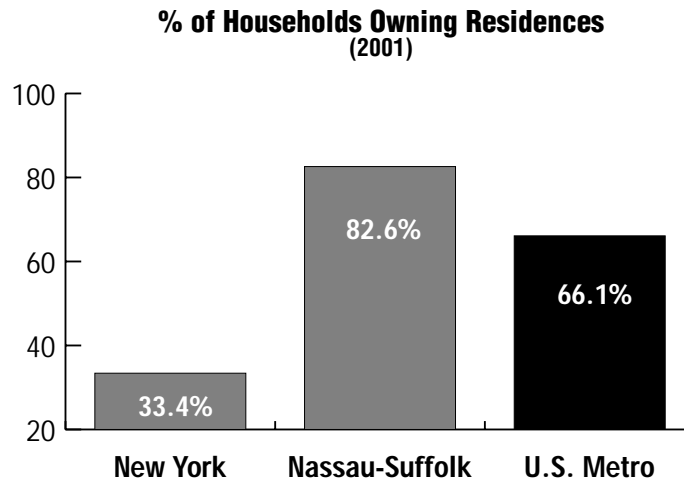
Local Data: Figures represent total permits granted year-to-date in the New York and Nassau-Suffolk PMSAs.

U.S. Data: The percent change in multifamily permits nationwide was (5.5%).

Source: U.S. Census Bureau.

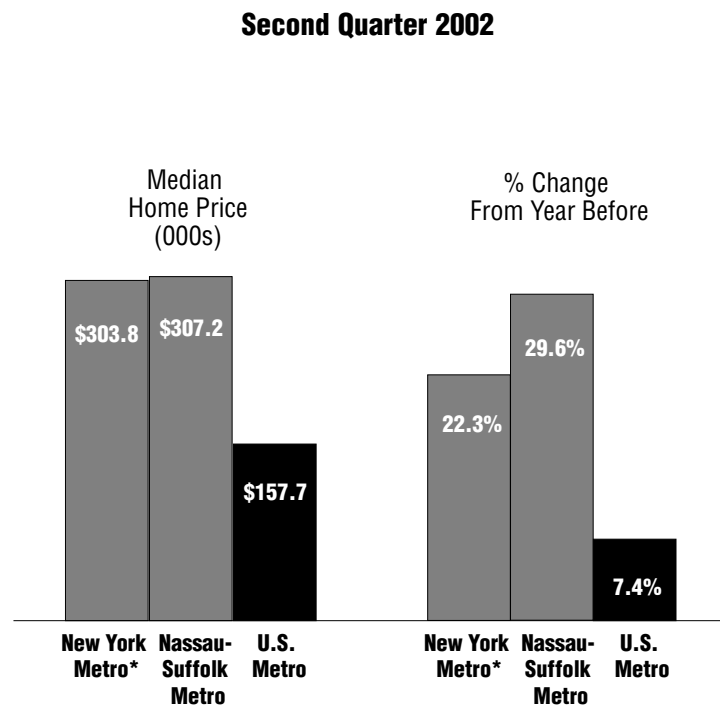
V. Housing & Related Costs (Cont.)

C. Homeownership



Source: U.S. Census Bureau. Homeownership rates represent metropolitan averages as of year-end 2001.

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. **Health Insurance**

	Health Insurance Coverage (1999)			
	% of Pop. Covered by <u>HMO</u>	Avg. Monthly Premium*	% of Pop. <u>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.

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

G. **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%

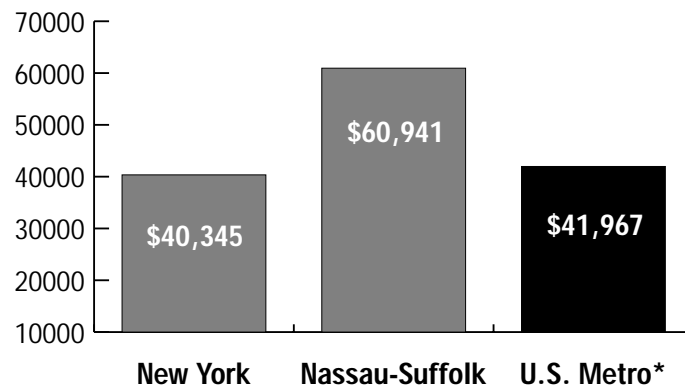
The above data reflects our best efforts. All recent changes at the local/state level may not have been captured.

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

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

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

A. 2000 Metropolitan Median Household Income



Market Rank**

New York	45
Nassau-Suffolk	3

*The U.S. Metro figure represents the median income of 323 metropolitan areas; \$39,129 is the median income nationwide.

**Ranking of 57 metropolitan areas, with the #1 ranking representing the highest median household income.

Source: Sales & Marketing Management: 2001 Survey of Buying Power.

B. Metropolitan Retail Sales Trends

Metropolitan Retail Sales -- % Change (May 2001 - May 2002)

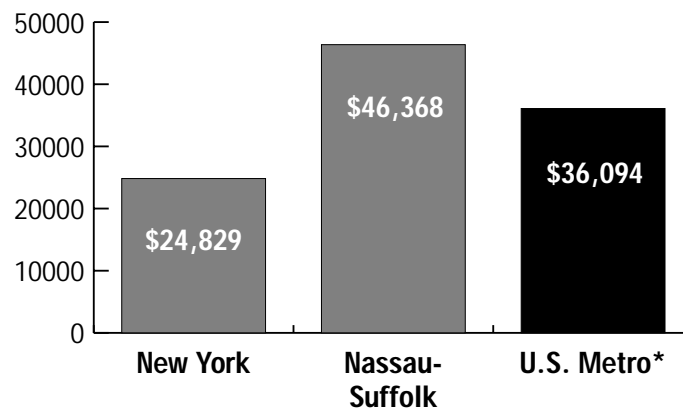
Greater New York	(8.5%)
National	(6.2%)

The above reflects same-store sales at major department stores.

Source: International Council of Shopping Centers, New York, NY.

VI. Other Economic Indicators (Cont.)

C. 2000 Metropolitan Average Retail Sales



Market Rank**

New York	56
Nassau-Suffolk	6

*The U.S. Metro figure represents the average retail sales per household of 323 metropolitan areas; \$34,450 is the average retail sales per household nationwide.

**Ranking of 57 metropolitan areas, with the #1 ranking representing the highest amount of retail sales per household.

Source: Sales & Marketing Management: 2001 Survey of Buying Power.

D. E-Commerce Retail Sales

First Quarter 2002 (\$\$ in billions)

	<u>Total Retail Sales</u>	<u>E-Commerce Retail Sales</u>	<u>% of Total</u>
U.S.	\$743.8	\$9.8	1.3
Prior Quarter	\$856.3	\$11.2	1.3
Year Ago	\$724.2	\$8.3	1.1

Source: U.S. Department of Commerce.

VI. Other Economic Indicators (Cont.)

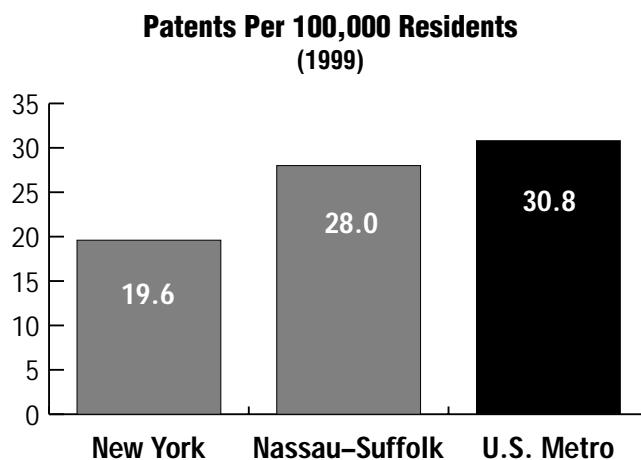
E. High-Tech Industry Employment

	Share of Total Employment	Rank	Number of Establishments	Rank	Number of Employees	Rank
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.

F. Metropolitan Area Patents



	Market Rank*
New York	40
Nassau-Suffolk	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.

VI. Other Economic Indicators (Cont.)

G. Major Airport Activity

	New York – JFK International			
	Total (2001)	% Change from 2000	National Rank*	World Rank*
Passengers (in millions)	29.4	(10.5%)	14	23
Cargo (in thousands–metric tons)	1,500.0	(16.9%)	5	9
New York – La Guardia				
Passengers (in millions)	21.9	(13.6%)	21	39
Cargo (in thousands–metric tons)	55.0	(23.4%)	61	153

*Ranking of 707 international airports, with the #1 ranking representing the largest number of passengers and the largest amount of cargo.

Source: Airports Council International, Washington, DC.

H. International Trade

International Trade Volume			
	<u>Import</u>	<u>Export</u>	<u>Total</u>
New York City Customs District			
January-March 2002 (\$\$\$ in billions)	\$30.7	\$16.5	\$47.2
% Change (from year ago)	(16.8%)	(22.2%)	(18.8%)
Total U.S.			
January-March 2002 (\$\$\$ in billions)	\$260.7	\$166.5	\$427.2
% Change (from year ago)	(11.9%)	(15.1%)	(13.2%)

Source: Dept. of Commerce, Foreign Trade Division.

VI. Other Economic Indicators (Cont.)

I. Area Exports

Metropolitan Area Exports

	1999 Value (\$\$\$ in billions)	Rank*	% Change 1998–1999	% Change 1993–1999
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.

J. Gross State Product

	1990	2000	% Change 1990–2000
New York Ranking*	2	2	--
New York Total (\$\$\$ in billions)	\$593.4	\$774.3	30.5%
U.S. Total (\$\$\$ in billions)	\$6,630.7	\$9,314.3	40.5%

*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: Dept. of Commerce, Bureau of Economic Analysis.

VI. Other Economic Indicators (Cont.)

K. Gross Metropolitan Product

	GMP (\$\$ in billions)		
	<u>2000</u>	<u>Rank</u>	<u>% Change</u> (from 1999)
New York, NY	\$437.8	1	7.4%
Nassau-Suffolk, NY	\$106.8	16	7.0%

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

Source: U.S. Conference of Mayors.

L. Fortune 500 Companies

	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>New York</u>			
# of Fortune 500 Firms in Metro Area	44	46	45
Ranking*	1	1	1
<u>Nassau-Suffolk</u>			
# of Fortune 500 Firms in Metro Area	4	4	3
Ranking*	29	31	32

*Fortune 500 companies are those with the highest annual revenue in the U.S. The ranking shows how this metropolitan area compares to others across the country, with the #1 ranking indicating the metro with the largest number of Fortune 500 firms.

Source: FORTUNE 500, © 2002, Time Inc. Metro area totals compiled by Property & Portfolio Research, (617) 426-4446, www.ppr-research.com.

VII. 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

The above data reflects our best efforts. All recent changes at the local/state level may not have been captured.

*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. Local Residential Property Taxes

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

Location	Effective Rate	Ranking*
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.

VII. 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. State Tax Revenue

State Tax Revenue July 2001-March 2002 (\$\$ in millions)

	<u>Personal Income</u>	<u>Corporate Income</u>	<u>Sales</u>	<u>Total*</u>	<u>% Change from Year Ago</u>
New York	\$17,693	\$1,872	\$6,203	\$29,580	(8.0%)
U.S.	\$131,126	\$15,221	\$127,376	\$320,306	(4.7%)

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).

*Figures reflect total tax revenue reported for the state’s general fund.

Source: Nelson A. Rockefeller Institute of Government, *State Revenue Report*.

VII. Taxes and Expenditures (Cont.)

E. Federal Spending Per Capita

	<u>Total Federal Spending</u>	<u>National Rank*</u>	<u>% Change from Year Ago</u>
New York	\$6,132	31	5.5%
Nassau County	\$5,186	--	4.4%
New York City & County**	\$6,116	--	3.7%
Suffolk County	\$5,163	--	8.9%
Westchester County	\$5,011	--	5.1%
U.S. Average	\$6,268	--	9.2%

*Ranking based on all 50 states, plus the District of Columbia, with the #1 ranking representing the highest dollar amount.

**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 2001*.

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

A. State Livability Index

	2001 Index Rating*	<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.

B. Crime Rate

Crime Per 100,000 Inhabitants—2000

	<u>Violent</u>	<u>% Change from 1999</u>	<u>Property</u>	<u>% Change from 1999</u>
New York Metro	872.3	(7.8)	2,666.2	(8.3)
U.S. Metro Average	561.4	(3.8)	3,866.7	(3.7)

Source: U.S. Dept. of Justice, *Crime in the United States*.

VIII. Quality of Life (Cont.)

C. Climate

Average Temperature (Fahrenheit)

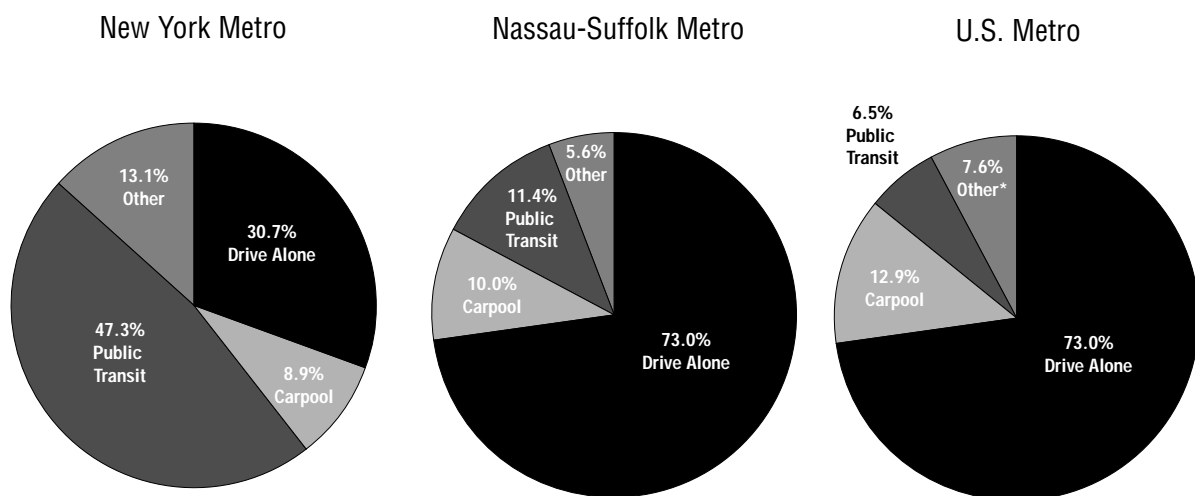
	<u>High</u>	<u>Low</u>
Winter	38	26
Spring	61	44
Summer	85	68
Autumn	66	50

Average Annual Precipitation: 44 inches

Elevation: 87 ft

% of Sunny Days Per Year: 58%

D. Mode of Travel to Work



*Includes those who work at home.

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

VIII. Quality of Life (Cont.)

E. Congestion Index

	Congestion Cost Total <small>(\$\$ in millions)</small>	Congestion Cost Per Person	Wasted Fuel Per Person <small>(gallons)</small>	Delay Per Person <small>(hours)</small>
New York-Northeast NJ	\$7,660.0	\$450	39	23
Current Ranking*	2	21	21	21
Previous Year's Ranking	2	20	20	20

*The ranking compares this city to the 74 others in the study, with the #1 rankings representing the highest cost, largest amount of fuel wasted, and longest delay. All data is annual and is for the year 2000. The "congestion cost" includes the value of the extra travel time as well as the wasted fuel costs. Significant ranking changes can occur due to the tight "bunching" of values among some metropolitan areas.

Source: Texas Transportation Institute, Texas A&M University, *2002 Urban Mobility Report*, (979) 845-1713, <http://mobility.tamu.edu>.

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

IX. 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	\$206.77	\$31.68	8.1%	\$175.98	\$24.46	7.9%	\$43.47	\$5.51	9.0%	\$120.18	\$17.54	9.2%	\$104.25	\$14.37	8.3%
Northeast Region	284.41	43.27	7.7	188.71	27.52	8.1	48.06	6.45	9.2	129.14	19.09	9.2	119.53	19.05	8.8
New York — Downtown															
2nd Q. '02	\$287.31	\$42.40	8.1%	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. '02	288.33	43.76	8.2	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. '01	328.41	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
New York -- Midtown															
2nd Q. '02	425.74	59.45	7.4	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. '02	425.43	60.16	7.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2nd Q. '01	397.24	64.18	8.4	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. '02	\$159.18	\$27.38	8.1%	\$146.21	\$25.11	8.3%	\$49.15	\$6.61	9.0%	\$136.28	\$21.70	9.0%	\$125.84	\$20.11	9.0%
1st Q. '02	158.32	27.75	8.2	144.69	25.18	8.4	49.29	6.65	9.0	134.61	21.64	9.1	123.84	19.79	9.0
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

B. Other Property Classes – Most Recent Period

Property Sector

Price Per SF

Manhattan Downtown

Class B CBD Office \$229.52

Manhattan Midtown

Class C CBD Office \$166.22

Nassau-Suffolk

Class B Apartment \$79.30

New York

Class A Urban Apartment \$259.75

Class C Urban Apartment \$91.75

Class D Urban Apartment \$47.23

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.

IX. Current Prices, Rents, and Cap Rates (Cont.)

C. Local Market Rankings

2nd Qtr. 2002 – 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	5	--	--	--	--	--
Rents	5	--	--	--	--	--
Manhattan Midtown						
Prices	1	--	--	--	--	--
Rents	1	--	--	--	--	--
Nassau–Suffolk						
Prices	19	26	15	10	9	10
Rents	15	11	12	6	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.

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.

IX. Current Prices, Rents, and Cap Rates (Cont.)

D. Price and Rent Growth

% Change from Year Ago

	<u>CBD Office</u>	<u>Suburban Office</u>	<u>Warehouse</u>	<u>Retail</u>	<u>Apartment</u>	<u>Class B Apartment</u>
<u>Manhattan Downtown</u>						
Prices	(9.4%)	n/a	n/a	n/a	n/a	n/a
Rents	(8.9%)	n/a	n/a	n/a	n/a	n/a
<u>Manhattan Midtown</u>						
Prices	(2.0%)	n/a	n/a	n/a	n/a	n/a
Rents	(8.5%)	n/a	n/a	n/a	n/a	n/a
<u>Nassau-Suffolk</u>						
Prices	2.3%	0.1%	(3.7%)	(0.5%)	6.6%	5.7%
Rents	(0.2%)	(0.5%)	(0.6%)	1.4%	4.3%	3.7%
<u>National</u>						
Prices	(6.5%)	(6.7%)	(4.0%)	(2.1%)	(1.7%)	(0.5%)
Rents	(8.6%)	(9.4%)	(3.5%)	(0.9%)	(1.3%)	(0.2%)

X. Nassau-Suffolk: Market Analysis

A. Nassau-Suffolk—Market Snapshot

Job Growth Continues

Long Island added 3,800 net positions during the 12 months ending in June 2002. This represents a slowdown, however, from the 6,500 jobs added during the 12 months ending in March 2002. The current increase represents a 0.3% expansion of the local employment base. Unemployment rose from 3.1% in June 2001 to 4.2% in June 2002.

Local Service Sector Remains Bullish: The local service sector continues to lead the area in employment gains with the addition of 6,100 positions. A distant second is government, which fueled 3,300 jobs. The retail sector added 1,500 to its payroll, while the construction and transportation sectors created 500 positions each.

The manufacturing sector continues to lag. It lost 5,000 jobs during the most recent 12 months. Wholesale trade eliminated 2,300 employees and finance, insurance, and real estate (FIRE) reduced its rolls by 800.

Long Island Takes a Hit from WorldCom: More than 430 WorldCom employees at the company's Uniondale facility are being terminated. WorldCom is closing that facility and its wireless resale call centers. About 230 workers have already been dismissed in Garden City. Headquartered in Clinton, MS, WorldCom announced in June a \$3.8-billion accounting overstatement that led to civil and criminal investigations, and put the telecommunications company in bankruptcy.

East Farmingdale Company to Add Jobs: The Curtiss-Wright Flow Control Corporation plans to spend \$9 million on an expansion that would add more than 100 jobs. The engineering firm, which is located in a 206,000 square foot facility in East Farmingdale, wants to expand by up to 25,000 square feet and build a second story on the office portion of its current building.

OFFICE

Leasing Picks Up

Long Island's office market tightened during the second quarter of 2002 as vacancy fell from 14.7% in the first three months of the year to 14% at the

end of June, according to CB Richard Ellis. In Nassau County, the two largest submarkets experienced decreases in vacancy while the two smallest office areas saw uptakes. The only submarket with significant construction underway was Western Nassau County, where construction has begun at 1999 Marcus Avenue in Lake Success. Western Suffolk saw its vacancy rate tighten 6.4 percentage points to 13.7% between the first and second quarters of 2002. Mid-Suffolk's vacancy rate increased 4.8 percentage points to 17.6%. Most analysts clock the amount of sublet space at just over 20% of the available office space on the market.

At mid-point 2002, Long Island's office sector recorded 69,000 square feet of positive absorption, bringing the total for the first half of the year to 172,000 square feet. Projects under construction totaled 444,000 square feet. Notable buildings under construction in the second quarter include a 38,000 square foot renovation at 333 North Broadway in Jericho and a 30,000 square foot building which was completed at 7550 Jericho turnpike in Woodbury (Eastern Nassau County).

The volatility of the stock market and corporate scandals are being blamed for the overly cautious real estate environment. The result is a stagnant market. But Long Island's diversity is helping it cope with the current business fluctuations. For instance, if WorldCom, which leases about 215,000 square feet of space on Long Island, decides to dump its Long Island space holdings, it will have a negative effect, but not a devastating one, because there is not a lot of direct office vacancy. The resilient nature of the local economy is being attributed, by some, to its service orientation. Long Island's vacancy rate has declined for the first time in six quarters and space is being absorbed.

In Hauppauge, Tritec Real Estate's recently-completed 204,000 square foot office development at 100 Motor Parkway has no tenants. However, leasing in other areas has picked up. One significant transaction in the second quarter was One Beacon Insurance's 85,000 square foot lease at 201 Old Country Road in Melville. The 209,000 square foot Class A office building is 95% occupied. Also, Geico Insurance took 30,000 square feet at 875 Merrick Avenue in Westbury.

X. Market Analysis

A. Nassau-Suffolk—Market Snapshot *(continued)*

Lake Success Earns its Name: In Lake Success, The New York Mercantile Exchange leads the list of four new tenants taking space at i.park, which is attracting significant interest despite current economic woes. The NYMEX has signed for 40,000 square feet of space at the former Sperry and Lockheed-Martin facility that once served as the temporary headquarters of the United Nations. The Exchange will use the space, which will be ready for occupancy by December, as a backup to its operations in lower Manhattan. MSW Research, which is relocating from its base of operations in Great Neck, will take 18,000 square feet at i.park. Its move (consisting of 75 employees) is scheduled for the second week of December. Law firm Abrams, Fensterman, Fensterman & Flowers is leasing 15,000 square feet of space at the park. The firm is currently located at 5 Dakota Drive in Lake Success. Also, biotech firm E-Z-EM Incorporated has leased 17,100 square feet that is currently being built out for its needs. The space will be ready for occupancy in November. Overall, the four leases amount to almost 100,000 square feet at the 1.4 million square foot complex. Other leases recently signed include the New York Times, which is taking 160,000 square feet, and Allstate, which is now in the process of moving into its 80,000 square foot space. As a result of the signing, Allstate will consolidate five of its claims locations in western Nassau and Queens as part of a cost-cutting plan. The popularity of i.park is being attributed to its location, availability, rates, and most importantly, to its size.

INDUSTRIAL

Long Island's industrial market claimed a 6.4% vacancy rate at the end of the second quarter of 2002, according to Grubb & Ellis. This is a slight decrease from 6.5% last quarter. Nassau County fared best with vacancy dipping from 6.3% to 4.9% between the first and second quarters. This is being credited to industrial conversions to Class B office buildings or R&D. In Suffolk, the vacancy rate rose from 6.6% to 7.4%.

Corporate consolidations are credited for the uptake in Suffolk County. For instance, Symbol Technologies announced in May that it was pulling

out of 200,000 square feet of industrial space at 110 Orville Drive and 1101 Lakeland Avenue. That space is now available for sublet. In addition, Tellabs returned 130,000 square feet in Ronkonkoma. Nevertheless, most analysts are not alarmed by these recent divestitures, claiming that large blocks of space, such as those above, always gain attention simply because they are so rare.

Businesses are looking to acquire space rather than lease. And while there is plenty of space for lease, there are not enough buildings for sale. This surge in demand has prompted companies such as Reckson Associates and Nu Rac to begin development of new space. Reckson is moving forward on the development of its fourth, and last, facility at the Reckson business park at Airport International Plaza. The new 72,000 square foot, mixed-use building will have 24,000 square feet of office space and 48,000 square feet of warehouse space. Meanwhile, Nu Rac is building a 28,500 square foot facility on Lakeland Avenue. Both Ronkonkoma projects are speculative and both are expected to be filled fairly quickly. Reckson had initially begun to build the site in late 2000 with an anticipated completion date in 2001. But the declining demand for space, coupled with the onset of the recession in March 2001 spurred the Island's largest landlord to place the development on hold. Apparently, the firm now feels confident in moving ahead.

Three "For Sale" Buildings Surface: Buyers may soon get what they've been asking for—a sale. Three American Tissue buildings with a combined 462,000 square feet of mostly industrial space have hit the Lake Success market in the wake of the company's bankruptcy filing last year. Roslyn Savings Bank, which holds the mortgages on the properties, recently received permission from the U.S. District Bankruptcy Court to sell them. The facilities are located at 135 Engineers Road and 45 Gilpin Road in Hauppauge, and 466 Mill Road in Coram. American Tissue, once the nation's fourth largest maker of toilet paper and other paper products, collapsed last Fall, closing factories in more than a dozen states. The company had four facilities on Long Island, all of which were put up as collateral for a loan. Foreclosure proceedings are underway for the fourth site, located at 1 Arnold Drive in Huntington. American Tissue had also leased 85

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A. Nassau-Suffolk—Market Snapshot *(continued)*

Nicon Court in Hauppauge, a 104,000 square foot space, from Reckson Associates, but it gave up that space following its bankruptcy filing. The company continues to operate with a staff of about 130 from its facility on Engineers Road.

Nanoscience Laboratory Approved: U.S.

Secretary of Energy Spencer Abraham has given the green light to a \$70-\$85 million nanoscience center at Brookhaven National Laboratory. Nanoscience involves the manipulation of materials at the atomic and molecular levels. Uses are projected in the fields of computing, medicine, and energy. The 78,000 square foot Center for Nanosciences would create 70 new positions and would have a \$20 million annual budget. Construction is expected to begin in two to three years.

Fabricade to Double in Size: Citing growing demand for its products, Fabricade will nearly double the size of its current operation when it relocates in December to a planned \$4 million headquarters facility on Veterans Memorial Highway. At present, Fabricade operates from 23,000 square feet of space it leases at 80 Orville Drive in Bohemia. The company intends to use the new site to expand its wholesale distribution of pre-made fabrics and millinery items. It will initially be leasing 40,000 square feet of the planned 52,000 square foot facility. Fabricade had shown interest in the 60,000 square foot speculative facility built by 4L Realty at the intersection of Veterans Highway and Knickerbocker Avenue. But GAC International, a provider of orthodontic products, leased that space, leaving Fabricade to hunt for a new location. The development has been approved for an economic incentive package from the town of Islip's Industrial Development Agency. The package includes exemptions from mortgage recording, sales, and real property tax abatements valued at \$4 million. In its application to the IDA, Fabricade predicted that by the end of the first year it would nearly double its employment to 40 full-time workers. By the end of the second year, that number is expected to increase to 45.

RETAIL

Islanders Still Spending: Consumers on Long Island continue to spend like there is no recession. For instance, PC Richard & Son, a Farmingdale-based electronics chain, is on track to record the best year in the company's 92-year history. Also, the Queens-based Greater New York Automobile Dealers Association reports that it expects 437,000 car registrations in the metropolitan area, the third-highest volume in the region's history. Home Depot calls Long Island one of its strongest markets in the country. It has 18 locations and is pushing to open more stores on the Island. Walt Whitman Mall in Huntington is reportedly seeing a steady increase in foot traffic at its one million-plus square foot center.

As some see it, Long Island's retail health is due to its lack of stores. Not every retailer makes it here, though. The Cablevision plans to close six of eight of The Wiz stores on the Island. However, analysts expect the strong market to quickly absorb those vacancies, just as the shuttered Caldor's stores several years ago were quickly filled by Kohl's. Sales tax revenue for Nassau and Suffolk in the first seven months of 2002 is up 7.4% compared to last year, according to the Long Island Association, Incorporated (LIA). But consumer confidence, which has been waning as the economic recovery has lost momentum, could slow things down by the end of the year.

Oyster Bay's Rejection of Mall Overturned: The town of Oyster Bay in Syosset faced a serious setback this Summer in its fight against Taubman's proposal to build an 860,000 square foot mall on the former Cerro Wire property. State Supreme Court Judge James Catterson overturned the town board's decision to reject Taubman's application for a special use permit. The site is currently zoned for industrial use. In his decision, Catterson found all but one of the 15 findings on which the town board based its denial as "arbitrary and capricious". Taubman wants to develop a retail center on the 39-acre site that would be anchored by upscale retailer Neiman-Marcus. On July 9th, the town had yet to make a determination as to whether it will appeal or accept the court's decision.

Wal-Mart Expands: Wal-Mart has broken ground on its seventh Long Island store, a 127,500 square foot facility on the north side of Route 347, next to

X. Market Analysis

A. Nassau-Suffolk—Market Snapshot *(continued)*

BJ's Wholesale Club. The Setauket store, scheduled to open in October, is part of Wal-Mart's aggressive national expansion plan for fiscal year 2003. That plan also includes a new store in Islandia scheduled to open in November. Wal-Mart signed a deal in December to anchor the 380,000 square foot Islandia Shopping Center and will occupy a 129,000 square foot store there, replacing the now defunct Pergament Home Center and Gap. Wal-Mart also has a ninth store planned for Massapequa, but has not disclosed a specific location.

Approximately 36,000 square feet of new and former retail space is being repositioned on two 4.5-acre parcels that formerly housed Holbrook Commons shopping center. Anchors for the new center are CVS Drug Store and an Outback Steak House restaurant. Dubbed Main Street Centre, the project is scheduled to wrap up by December. AVR Realty is working on a site plan to develop the Brookhaven Town Center regional mall in Yaphank. The town is currently reviewing the one million-plus square foot project.

APARTMENT

Apartment vacancy rates remain low in both Nassau and Suffolk Counties, according to the Hauppauge-based Long Island Builders Institute. The chronic lack of new development and strong in-migration continues to fuel housing demand of all kinds on Long Island.

New Rules May Allow for More Affordable

Housing: Multifamily development is desperately needed across Long Island, according to the Regional Planning Board. Furthermore, the need is in the thousands of units. The affordable segment of the market requires the most attention. Despite the tremendous pent-up demand for moderately priced units, developers have failed to act claiming prohibitive building costs and density rules discourage them from such projects. Help may be on the way. In March, Governor George Pataki announced new fire prevention and building codes that allow for wood frame construction of commercial buildings (including multifamily structures) up to four stories. Under the old rules it was two stories. This will

reduce construction costs and may encourage apartment construction. Local builders estimate that this could save \$12 to \$20 per square foot over brick-and-mortar costs.

Luxury Complexes Get Built: In the meantime, developers have been focusing on high-end projects. Fairfield Properties has started construction on Fairfield Hills South, a 202-unit, luxury rental complex in Farmingville. This development will complement Fairfield Hills North, a 169-unit complex on Bicycle Path. The company also has plans to build a 300-unit, 55-and-over apartment complex along Route 347 in Port Jefferson Station.

Continuing its expansion in the area, Fairfield Properties paid \$6 million for two properties in Suffolk County, adding 75 apartment units to its portfolio. With these latest acquisitions, Fairfield Properties now owns more than 4,000 residential units at 37 locations on Long Island.

The Beechwood Organization recently broke ground on an 88-unit housing complex in Smithtown. A total of 65 of the homes are spoken for. The same pattern is occurring at projects in Miller Place and Dix Hills.

Home Buying Frenzy Continues: In the single-family arena, three national trends have fed the voracious appetite for homes on the Island: low mortgage rates, aggressive lending practices, and the belief that homes are a better investment than the volatile stock market. The National Association of Home Builders forecasts that mortgage rates will begin edging up to 7.3% by the end of the year. While this may cool Long Island's home market a bit, it remains a region with close to three million people and not enough new product.

HOSPITALITY

The sluggish economy, along with a spate of new hotel openings, lowered the hotel occupancy rate in Long Island during the first quarter of 2002. The occupancy rate for Nassau County and Western Suffolk County came in at 63% for the first quarter, compared to 68% for the same period last year, according to Island-Metro Publications in Farmingdale.

X. Market Analysis

A. Nassau-Suffolk—Market Snapshot (continued)

Despite this, Long Island is adding 772 new rooms in 2002 to an existing inventory of 10,000 in Nassau and Western Suffolk Counties. During the last major economic downturn in the early 1990s, ten hotels went bankrupt and two others closed permanently. Overbuilding is becoming a concern again. So much so that Long Island town officials are considering a moratorium on approving new hotel permits, pending an analysis of the impact recent hotel openings have had on the local market. Meanwhile, there are at least two dozen new hotel projects on the drawing board, with developers of six of the projects considering breaking ground in 2002.

Openings this year include a 161-room Hampton Inn in Farmingville, the 145-room Inn at Fox Hollow in Woodbury, and a 100-room Residence Inn on Veterans Memorial Highway in Hauppauge.

X. Market Analysis

B. Nassau-Suffolk—Submarket Inventory/Vacancy

OFFICE*				
SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
<u>NASSAU COUNTY</u>				
W. Nassau County	6,836,026	21.4%	78,841	250,000
Cen. Nassau County	10,878,495	10.7%	204,295	0
E. Nassau County	5,520,933	8.2%	(36,680)	0
S. Nassau County	1,094,230	12.3%	(41,119)	68,000
Nassau County	24,329,684	13.2%	205,337	318,000
<u>SUFFOLK COUNTY</u>				
W. Suffolk County	7,838,335	13.7%	(72,644)	87,500
Mid-Suffolk County	5,436,620	17.6%	(63,310)	0
Suffolk County	13,274,955	15.3%	(135,954)	87,500
MARKET TOTAL	37,604,639	14.0%	69,383	443,500
*Reported as of second quarter 2002.				
Source: CB Richard Ellis (Garden City).				

INDUSTRIAL*		
SUBMARKET	INVENTORY	VACANCY
Nassau County	54,975,630	4.9%
Suffolk County	83,050,920	7.4%
MARKET TOTAL	138,026,550	6.4%
*Reported as of second quarter 2002.		
Source: Grubb & Ellis (Melville, NY).		

X. New York: Market Analysis

C. New York—Market Snapshot

Losses Remain Deep

The employment base in metropolitan New York will take a long time to recover from the devastating losses heaped upon it by the terrorist attacks. However, signs of hope are on the horizon as job declines have slowed. A dramatic 97,800 positions were lost during the most recent 12 months ending in June 2002. Though this is the largest job deficit in the nation, it is a notable decrease from the 135,000 jobs lost in the 12 months ending in March. The recent decline equates to a 2.3% drop in the local workforce. The unemployment rate increased from 5% in June 2001 to 7% in June 2002.

Finance and Service Sectors Still Struggling: The finance, insurance, and real estate (FIRE) and service industries are driving the decline with job losses of 32,400 and 25,900, respectively.

Transportation cut 14,700 slots and manufacturing eliminated 13,600 from its employment rolls. Retail shed 7,000 positions, construction shaved 3,100 jobs, and wholesale trade reduced the size of its payroll by 1,700.

Government stood alone as the only sector to post a gain, adding 600 jobs.

OFFICE

New York's office market remained flat through the second quarter 2002 with no significant change from the beginning of the year. The vacancy rate crept up slightly to 9.4%, according to CB Richard Ellis. However, the Downtown submarket realized a modest vacancy drop for the first time since the end of 2000. Local market experts predict that the cyclical bottom is near, citing a decrease in new starts on top of the removal of thirteen million square feet last September. Nevertheless, the market is not expected to pick up measurably until early next year—provided that companies resume hiring.

Public Rejects WTC Proposals: In July, the Lower Manhattan Development Corporation and the Port Authority of New York and New Jersey unveiled six potential site-plan options for the World Trade Center (WTC) redevelopment. The plans were designed for 11 million square feet of office space, a 600,000 square foot hotel, and

600,000 square feet of retail space. Each draft also included a permanent memorial, a transportation hub, off-site residential options, and cultural and civic institutions. Public open space and a rebuilt St. Nicholas Greek Orthodox Church completed the criteria. But all six options were rejected by the public for being too commercial. Intensive commercial development was ostensibly part of the terms of the Port Authority's lease with developer Larry Silverstein and his partner Westfield America. The Port Authority is now re-examining its agreement. The September deadline for narrowing the six plans to three, and December deadline for choosing a final land-use plan, will undoubtedly change given the public's response.

Comings & Goings Downtown: The Bank of New York's 101 Barclay Street Technology and Operations center (800,000 square feet) re-opened in July. The building was damaged by the collapse of the adjacent 7 WTC. Approximately 2,500 employees have already moved back into the space; another 4,000 workers are expected to return over the next several weeks. Meanwhile, Sidley Austin Brown & Wood is taking permanent residence at the Equitable Center at 787 Seventh Avenue in West Midtown. Ten months ago, the firm was in the midst of outfitting several additional floors in the north tower of the WTC when the planes struck. Now, 1,000 New York employees (including more than 440 lawyers) will occupy 340,000 square feet in the Equitable Center. The merger last Spring of Sidley & Austin with New York's Brown & Wood positions it as the fourth-largest law firm in the U.S.

Construction Pipeline Alive in Midtown North: The Midtown North submarket is the only section of Manhattan that still has construction underway. The largest project is 10 Columbus Circle (aka AOL Time Warner Center) at 1.6 million square feet. Times Square Tower (1.2 million square feet) is scheduled to complete in 2004. Not surprisingly, Arthur Andersen has opted out of its agreement to occupy 650,000 square feet in the tower. The troubled accounting firm had signed a lease in October 2000 to move its New York operations to the 42nd Street building. Another 1.2 million square foot office project, 300 Madison Avenue, is on schedule and on budget. Substantial completion of the core and shell is slated for August 2003. This 35-story

X. Market Analysis

C. New York—Market Snapshot (continued)

office tower will include a glass atrium, two trading floors, a training facility, and extensive conference space. It will serve as the U.S. headquarters of investment banking firm CIBC.

Hearst's Headquarters Proposal Being Reviewed:

The Hearst Corporation has proposed adding a 36-story tower above its existing six-story headquarters building (the Hearst Magazine building) at 959 Eighth Avenue. The city's Department of Planning released a Draft Environmental Impact Statement on the plans in September. The new headquarters would measure approximately 859,000 square feet. The New York City Landmarks Preservation Commission approved the proposed addition, the master plan, and the restoration work, and issued a Certificate of Appropriateness in March 2002. However, it will also require approval by the City Planning Commission. This would allow Hearst to accommodate 17 magazines and 2,000 employees currently scattered across five sites in Manhattan.

Biotech has Project Planned in Lower Manhattan:

ImClone, the company whose former CEO is under indictment, says it will proceed with plans to convert 325 Spring Street, a four-story, former truck terminal into its new corporate headquarters and research facility. The company signed a 22-year lease for the building last Spring. The sublease gives ImClone 75,000 to 100,000 square feet of space, with the possibility of expansion. The facility is four blocks from ImClone's current headquarters at 180 Varick Street.

Largest Building Sale Since 9/11: This Summer, S.L. Green Realty and SITQ Immobilier acquired the 1.8 million square foot office building at 1515 Broadway for \$484 million. S.L. Green holds a 55% interest, while SITQ Immobilier has the remaining 45%. The 54-story office building (aka One Astor Plaza) was built in 1972 on the former site of the Astor Hotel. The property was 98% leased at the time of sale. In addition, 1370 Avenue of the Americas was sold to Normandy Real Estate Partners for \$148 million. Also known as Continental Tower, the 339,000 square foot office building was built in 1971.

Law Firms Fill Big Shoes: Law firms are usurping investment banks as the leading lessors in Manhattan. An industry that actually thrives in almost all economic conditions, the first five months

of 2002 saw the legal community soak up more than 550,000 square feet of space in Manhattan. Others continue to look for space in the range of 100,000 or more. Big renewals are also pumping up the market. For instance, law firm Simpson Thacher & Bartlett renewed its lease for 425,000 square feet at 425 Lexington Avenue and may take another 100,000 square feet for expansion.

Long-Term Leasehold Completed: The

Shorenstein Company has completed its acquisition of the 80-plus year leasehold on 450 Lexington Avenue, a 911,000 square foot office tower atop the Grand Central Post Office. The transaction had a reported price tag of around \$300 million. The US Postal Service owns the building. A small but significant player, the NASDAQ Stock Market signed a 53,000 square foot lease to relocate its headquarters to 1500 Broadway. The move will leave behind vacant space subleased from its parent, the National Association of Securities Dealers, at One Liberty Plaza. The 22-year deal entitles the NASDAQ to occupy several floors, including the top three floors.

Westchester Absorption Heads South: Net

absorption of office space in Westchester County reversed itself between the first and second quarters of 2002, falling from a positive 266,000 square feet to a negative 228,000 square feet. The market got a boost last quarter with Morgan Stanley's purchase of the former Texaco headquarters in Harrison. Several transactions this quarter were offset by pockets of space returned at 287 Bowman Avenue (40,000 square feet) in Purchase, 4 Gannet Drive (32,000 square feet) in West Harrison, and 925 Westchester Avenue in White Plains (21,000 square feet). This yielded a slight increase in vacancy from 13.2% to 13.9%. Sublease space continues to grow totaling nearly 1.1 million square feet this quarter, the highest amount in Westchester County's history. Metropolitan Life Insurance is about to place its twin-tower, 750,000 square foot White Plains Plaza office complex on the market. In addition, Reckson Associates Realty has its 235 and 245 Main Street office properties, totaling more than 160,000 square feet, up for sale. These latter buildings reportedly have a prospective buyer lined up.

In the largest lease transaction to occur in Westchester County during the last two years, Fuji Photo Film U.S.A. has announced that it will be

X. Market Analysis

C. New York—Market Snapshot (continued)

moving its headquarters to Valhalla in Westchester County. The company signed a ten-year lease for approximately 164,000 square feet in the 250,000 square foot building at 200 Summit Lake Drive at Reckson Summit. The lease begins in April 2003.

INDUSTRIAL

Industrial Space Tightens

The vacancy rate for industrial space in Westchester County fell nearly one percentage point from the first quarter 2002 to 9.6% in the second quarter, according to CB Richard Ellis. Net absorption increased from a negative 398,000 square feet to a positive 178,000 square feet at the end of June. Construction continues on a 105,000 square foot building in Bedford Hills, the only new development in progress. Northern Westchester posted the highest vacancy rate at 19.6%. West I-287 had the lowest vacancy at 4.5%.

Westchester Offers Cash for Tenants: The Westchester County Industrial Development Agency (IDA) is waiting to see if two possible deals will come to fruition: a potential 50,000 square foot lease by New York City law firm Skadden, Arps, Slate, Meagher & Flom in White Plains and the possible acquisition of additional space by Taro Pharmaceuticals, USA in Hawthorne. The IDA offered Taro \$1.2 million to purchase property to expand its R&D laboratories and office space at 3 Skyline Drive. Skadden, Arps was offered \$1.1 million to set up its backup data center and administrative operations in the Reckson Metro Center in White Plains.

Port Clocks Growth Despite Economy: The Ports of New York and New Jersey (which are jointly operated) posted an increase of 8.7% in containerized cargo from 2000 to 3.3 million twenty-foot equivalent units (TEUs) in 2001. The New York-New Jersey ports outperformed all other North Atlantic ports combined, which reported an overall cargo tonnage decline of 1.3%. The New York-New Jersey ports saw growth in virtually every sector—containerized cargo, bulk, breakbulk, and rail activity. ExpressRail, the Port Authority's on-dock rail terminal, set another

record in 2001, handling more than 200,000 containers for the year. New automobile imports and exports were down 2.9%, but the export of iron and steel rose dramatically.

Despite the 2001 increase in waterborne commerce, the area's overall cargo has shown slippage thus far this year. The value of imports handled by the New York City Customs District (which includes all rail, air, and seaports in the area) decreased by 16.8% to \$31 million from January through March 2002. Exports decreased 22% to \$16 million.

RETAIL

Retailers Trickle into Lower Manhattan

While the retail market in New York City has yet to regain its pre-September 11th strength, retailers and shoppers are slowly returning. Banks and wireless phone chains have slipped into small spaces that have been vacated. Some retailers such as Lechters and Cosmetic Plus filed bankruptcy. Those who held on are bouncing back. Last Summer, Modell's sporting goods was close to leasing space at 55 Chambers Street, six blocks from the WTC. The company is back, having recently opened a 15,000 square foot spot at the same location. Others that have returned include Au Mandarin, which returned to the WTC, and Brooks Brothers, which is expected to open at 1 Liberty, across from WTC this September. Duane Reade recently opened a store on the corner of Broadway and Chambers. However, some retailers, such as Lechters and Cosmetic Plus, have filed bankruptcy.

The amount of available retail space in lower Manhattan has climbed since the terrorist attacks, but a new report by the Real Estate Board of New York found that the financial district's situation has improved notably. The rate at which space is coming onto the market has slowed and new leases are being signed, according to the real estate group.

The report paints a less enthusiastic picture of areas just north of Ground Zero, however. Many smaller retailers, particularly on the side streets of SoHo and in Chinatown, have closed and remain empty. In the end, brokers are seeing some hopeful signs, but remain cautiously optimistic.

C. New York—Market Snapshot (continued)

Mixed-Use Formats Viewed as Prime

Opportunities: Retail space in new mixed-use office buildings such as the Time Warner Center, has fueled the highest boost in supply. Tenants have soaked up 80% of the Warner Center's 364,000 square foot retail gallery. Leasing had slowed there after the terrorist attacks, but upscale retailers are now snapping up opportunities at the 2.8 million square foot location. As many as 25 million people a year are expected to visit the center. Consequently, other high-end tenants are negotiating for the remaining spots in the seven-level complex. At the edge of SoHo, a Crate and Barrel store will open in November at 611 Broadway. The company will take 40,000 square feet or the equivalent of three floors.

Fortunoff, the Long Island-based jewelry and home furnishings retailer, broke ground in June on its new 250,000 square foot retail center located at 100 Bloomingdale Road in White Plains. The Source at White Plains is being built at the site of the former Saks Fifth Avenue store, which closed late last year. The center will consist of a 180,000 square foot Fortunoff store and 70,000 square feet of retail space, plus a parking garage.

Same-Store Sales are Down: Year-to-date same-store sales in the greater New York area fell 1.9% through May 2002, according to the International Council of Shopping Centers.

APARTMENT

New York Restocks

Greater Manhattan is already starting to rebuild its residential supply as permits increased significantly in the first half of 2002 to 6,060. This represents a 34% rise from the 4,500 permits issued during the same period in 2001.

Rental Buildings Rise in East Harlem: New York began construction this Summer on the first of five market-rate rental buildings in East Harlem. About 20% are affordable units set aside for families chosen by lottery. Two more so-called 80/20 buildings are to get underway soon. Several developers are working on the complexes, which will produce more than 1,000 new apartments in the area between 96th and 103rd Streets and Lexington and First Avenues.

The first of the projects to get underway is a 211-unit apartment building at 1500 Lexington Avenue, between 96th and 97th Streets. When completed next April, it will also hold 17,500 square feet of retail space. Ground is expected to break soon on a 232-unit building on First Avenue between 102nd and 103rd Streets. It is going up on city-owned land under the Department of Housing and Urban Development's Cornerstone program, intended to encourage construction in areas where the city has made substantial investments and private market forces have taken hold. The third rental, at 1510 Lexington Avenue, between 97th and 98th Streets, is expected to have some 300 units. Another 232-unit Cornerstone building, by a joint venture of BFC Partners of Manhattan and L&M Equity of Larchmont, is planned for a site on First Avenue between 100th and 101st Streets. Also, the Related Companies of Manhattan has an 80/20 project in mind for a site on 96th Street between Second and Third Avenues, east of the Islamic Cultural Center of New York.

Harlem Goes Green: Developers began construction this Summer on what is being called the nation's largest affordable and environmentally sustainable condominium. The \$40 million "green" building will be located at 1400 Fifth Avenue in Harlem. Full Spectrum Building and Development, a Harlem-based real estate firm, is behind the 1400 on 5th project. HRH Construction LLC is the general contractor. The development is designed specifically for middle-income residents, (85 of the building's 128 units are reserved for buyers with annual incomes between \$53,000 and \$103,000). The condominium will be the first affordable urban mid-rise to qualify for the New York State Green Building Tax Credit. The project's green-building criteria include the use of recycled or renewable resources for 70% of the building and filtration and mechanical systems that maximize fresh air and remove allergens. Energy use will be 35% below New York State Energy Code standards and 70% lower than many comparable multifamily properties. Fossil fuels will be minimized through reliance on geothermal energy for heating and air conditioning.

IRS Building Morphs into Apartments: The non-descript office building at 120 Church Street, formerly home to the Internal Revenue Service, will soon become apartments along with its next-door

X. Market Analysis

C. New York—Market Snapshot (continued)

neighbor. The two buildings are being transformed into 388 rental lofts by the World-Wide Group, which has redeveloped a handful of other properties in Lower Manhattan. The site is bordered by Church, West Broadway, Murray Street, and Park Place. Planning for the conversion began more than three years ago, and construction started in October 2000. At that time, it was to be finished by December 2001. After the terrorist attacks, World-Wide thought about turning the vacant buildings back into offices, but chose to go ahead with the lofts on the belief that there was a dearth of residential space downtown. Since then, government incentives have been proposed for renters. With or without subsidies, the renters at 50 Murray will pay less than they would have a year ago. Rents are now advertised from \$2,200 to \$7,500. Before September 11th, they were between \$2,500 and \$11,000.

Archstone-Smith (REIT), the nation's seventh-largest apartment company, purchased a 506-unit high-rise, upscale apartment building on the Upper West Side for \$209 million.

hotel rooms under one roof, and others are scrapping hotel plans altogether in favor of apartment units. For instance, Donald Trump is transforming the Hotel Delmonico at Park Avenue and East 59th Street into luxury apartments. Having bought the 193-room property for \$115 million in February, Trump says he "thought about keeping it a hotel for about fifteen minutes."

Hotelier Andre Balazs has shelved plans to build a hotel in a parking lot that he co-owns at 204 Lafayette Street in SoHo and is considering apartments instead. However, he is moving forward on another SoHo project, a 168-room luxury hotel on Grand Street between Broadway and Mercer Street. He expects to break ground in early 2003. Many hoteliers are leaning toward condominiums because they only have to sell them one time, rather than hotel rooms, which require a new sale every night.

The Westin New York at Times Square (858 rooms) is scheduled to complete construction this Fall.

HOSPITALITY

Back to Business

Business and leisure travel has steadily increased since the beginning of this year. Hotel occupancy rates in New York stood at nearly 74% in May 2002 compared to 76% during the same month in 2001, according to Smith Travel Research. With occupancy rates in the city reaching an increased level of stabilization, hotel managers have become more confident. Average daily rates are expected to rebound, albeit at a slower pace when compared to occupancy.

With limited new supply on the books for 2002 and 2003, the near-term outlook for New York City's lodging market is looking brighter. Investors seem to be preparing to pounce as domestic and foreign interests in New York hotels is gaining steam, even though product availability remains low.

Developers Mix it Up: Keen survival instincts have prompted some hotel developers to improvise and/or implement novel approaches to their projects. Some are adding condominium apartments, some are building hybrids with apartments and

X. Market Analysis

D. New York—Submarket Inventory/Vacancy

OFFICE—Manhattan*				
SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
<u>DOWNTOWN</u>				
Battery Park	8,927,020	17.2%	34,716	0
City Hall	10,053,215	12.2%	(122,434)	0
Financial District	32,744,890	10.9%	609,195	0
Insurance District	19,456,854	8.6%	(164,154)	0
Greenwich Village	12,349,141	12.8%	(181,524)	0
World Trade Center	10,521,456	11.6%	273,905	0
DOWNTOWN TOTAL	94,052,576	11.5%	449,704	0
<u>MIDTOWN NORTH</u>				
Columbus Circle	18,584,198	8.4%	(393,540)	2,153,342
Grand Central/UN	40,451,786	9.2%	182,515	1,200,000
Madison Ave	13,667,334	9.3%	(318,883)	0
Park/Lexington	26,826,166	4.4%	(6,874)	850,000
Plaza District	17,418,821	8.9%	(89,177)	0
Rockefeller Center	24,094,055	4.6%	(279,464)	0
Third Ave	11,383,695	10.5%	15,995	0
Times Square	21,389,186	6.2%	(231,876)	1,252,035
Midtown North	173,815,241	7.4%	(1,121,304)	5,455,377
<u>MIDTOWN SOUTH</u>				
East Midtown South	38,653,190	9.9%	156,777	0
Garment District	28,148,868	11.8%	(153,599)	0
Penn Station	12,857,868	12.8%	(100,387)	0
West Midtown South	8,180,570	10.7%	22,763	0
Midtown South	87,840,496	11.0%	(74,446)	0
MARKET TOTAL	355,708,313	9.4%	(746,046)	5,455,377
*Reported as of second quarter 2002.				
Source: CB Richard Ellis (New York).				

OFFICE—Westchester County*			
SUBMARKET	INVENTORY	VACANCY	ABSORPTION
White Plains CBD	6,367,334	20.2%	40,443
East I-287	11,323,536	14.4%	(189,494)
Southeast Westchester	2,006,472	5.0%	6,683
West I-287	7,041,825	13.5%	(43,579)
Southwest Westchester	1,435,406	29.8%	(30,814)
Westchester	5,665,143	5.7%	(11,616)
MARKET TOTAL	33,839,716	13.9%	(228,377)
*Reported as of second quarter 2002.			
Source: CB Richard Ellis (Stamford, CT).			

INDUSTRIAL—Westchester County*				
SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
East I-287	2,574,865	5.0%	1,583	0
Northern Westchester	4,261,101	19.6%	51,168	105,000
Southeast Westchester	6,317,807	8.0%	86,500	0
Southwest Westchester	8,225,822	10.0%	(15,400)	0
West I-287	4,729,662	4.5%	54,500	0
MARKET TOTAL	26,109,257	9.6%	178,351	105,000
*Reported as of second quarter 2002.				
Source: CB Richard Ellis (Stamford, CT).				

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 ten to twenty years ago.

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.

Nonproprietary Data Sources

Sources: In reporting property transaction prices, rents, and cap rates, the National Real Estate Index relies primarily on proprietary data sources, including an extensive property database.

The publishers supplement the proprietary property transaction data with non-proprietary information and background material in the areas of property stock, absorption, and vacancy trends. The National Real Estate Index recognizes the following distinguished firms, publications, and individuals for their contributions in these areas.

CB Richard Ellis (Office–Nassau-Suffolk, Manhattan, Westchester County; Industrial–Westchester County)

Grubb & Ellis (Industrial–Nassau-Suffolk)

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