



New York

Vol. 37

First Quarter 2003

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. 37



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.

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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:

1,147.6 sq. miles

Population Density (2002):

8,201 people per sq. mile

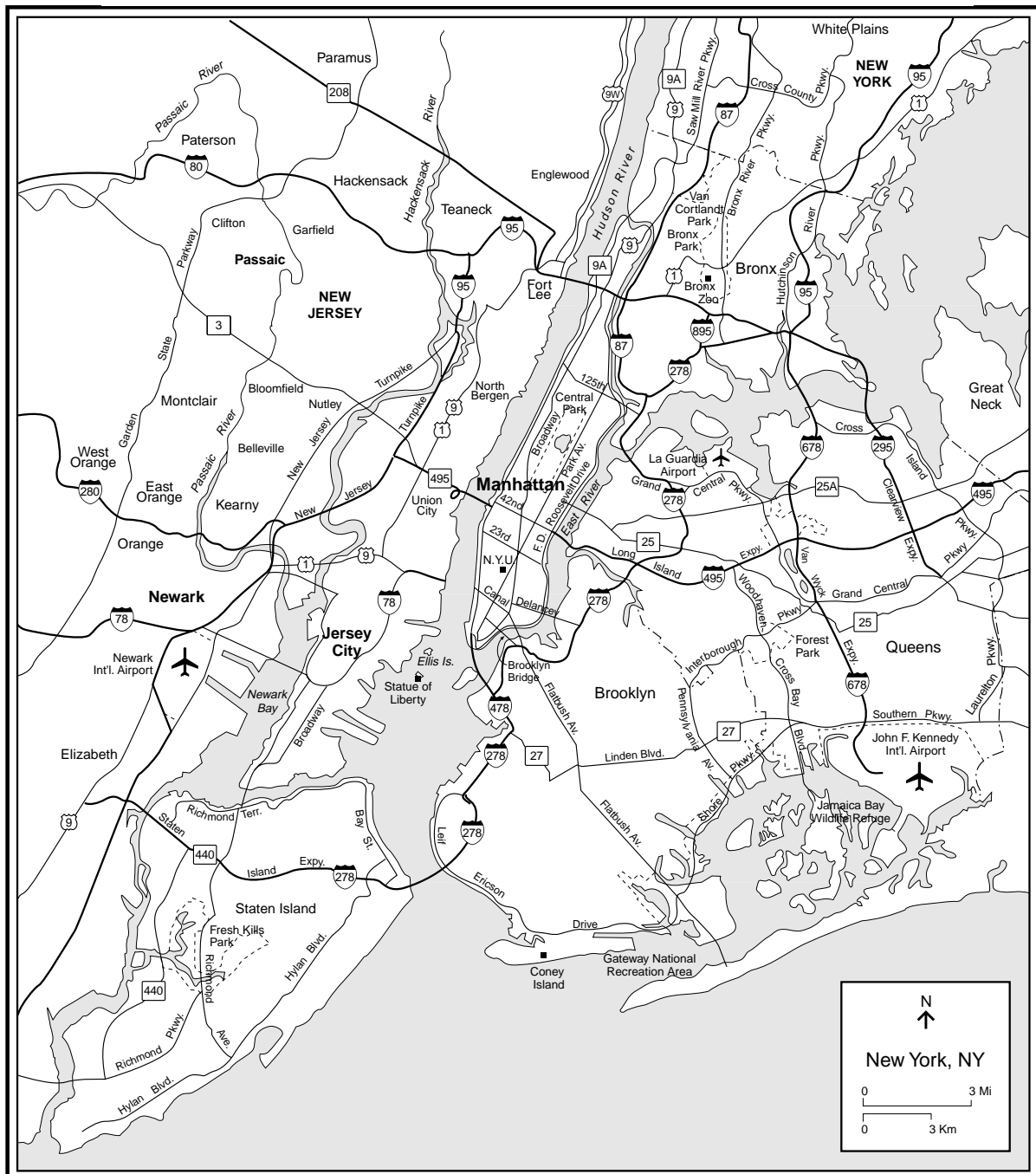


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I. New York: Snapshot

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

| | |
|---|-------------|
| Job Growth (Loss) 12 Months (Ending in March 2003): | (1.5%) |
| Unemployment Rate (March): | 7.9% |
| Metropolitan Population Growth (Loss), 1990–2002: | 10.1% |
| Total Metropolitan Population, 2002: | 9.4 million |

B. First Quarter 2003 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 | | | | | | | | | | | | | | | |
| 1st Q. '03 | \$286.20 | \$39.50 | 7.7% | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 4th Q. '02 | 283.28 | 40.69 | 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 |
| 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 |
| New York -- Midtown | | | | | | | | | | | | | | | |
| 1st Q. '03 | \$464.99 | \$53.56 | 6.5% | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 4th Q. '02 | 457.50 | 55.00 | 6.7 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 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 |

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 March 2003): | (0.4%) |
| Unemployment Rate (March): | 3.9% |
| Metropolitan Population Growth (Loss), 1990–2002: | 7.4% |
| Total Metropolitan Population, 2002: | 2.8 million |

B. First Quarter 2003 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 |
| 1st Q. '03 | \$156.38 | \$26.71 | 8.1% | \$149.51 | \$24.11 | 7.9% | \$50.75 | \$6.59 | 8.7% | \$141.19 | \$21.78 | 8.7% | \$130.55 | \$20.33 | 8.9% |
| 4th Q. '02 | 156.76 | 26.84 | 8.1 | 149.72 | 24.79 | 8.0 | 50.28 | 6.61 | 8.8 | 139.02 | 21.60 | 8.8 | 130.08 | 20.25 | 8.9 |
| 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 |

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 — 2002: | 9,411,700 | 2,803,500 | 288,368,700 |
| % Growth—2000–2002: | 0.9% | 1.5% | 2.2% |
| % 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>2002 Population</u> | <u>% Growth 1990-2000</u> | <u>% Growth 2000-2002</u> |
|----------------------|-------------------------------|--------------------------------------|--------------------------------------|
| Nassau | 1,334,900 | 3.8 | 0.6 |
| Suffolk | 1,458,700 | 7.8 | 2.4 |
| Bronx | 1,354,100 | 10.8 | 1.5 |
| Kings | 2,488,200 | 7.3 | 0.8 |
| New York | 1,546,900 | 3.5 | 0.5 |
| Putnam | 98,300 | 14.5 | 2.2 |
| Queens | 2,237,800 | 14.4 | 0.3 |
| Richmond | 457,400 | 17.6 | 2.7 |
| Rockland | 291,800 | 8.3 | 1.5 |
| Westchester | 937,300 | 5.8 | 1.2 |

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**

| | 2002 Population | Actual % Growth 1990-2002 | Ranking* | Projected % Growth 1995-2025 | Ranking* |
|---------------|----------------------------|--|-----------------|---|-----------------|
| New York | 19,157,500 | 6.5 | 42 | 9.3 | 46 |
| United States | 288,368,700 | 15.9 | N/A | 35.1 | 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: | 34.9 | 37.8 | 35.2 |
| % 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 (1990-2002)

Population Growth (% Gain/Loss, April 1990-July 2002)

| | | | |
|--------------------------|--------|------------------------|--------------|
| Las Vegas | 102.0% | Greenville-Spartanburg | 18.9% |
| Austin | 59.4% | Columbus | 17.7% |
| Phoenix | 56.4% | Oakland-East Bay | 16.9% |
| Atlanta | 48.2% | Central New Jersey | 16.7% |
| Raleigh-Durham | 47.7% | San Diego | 16.4% |
| Orlando | 43.1% | UNITED STATES | 15.9% |
| West Palm Beach | 37.9% | Oklahoma City | 15.7% |
| Dallas-Ft. Worth | 37.4% | Kansas City | 15.5% |
| Denver | 37.0% | Memphis | 15.2% |
| Charlotte | 36.4% | Chicago | 14.0% |
| Ft. Lauderdale | 36.1% | San Jose | 12.4% |
| Riverside-San Bernardino | 35.8% | Los Angeles | 10.6% |
| Houston | 33.1% | Cincinnati | 10.6% |
| Portland | 32.4% | New York | 10.1% |
| Nashville | 29.0% | Baltimore | 9.2% |
| Sacramento | 28.1% | Newark-No. New Jersey | 8.0% |
| Salt Lake City | 28.0% | Nassau-Suffolk | 7.4% |
| Jacksonville | 27.4% | Honolulu | 7.1% |
| Albuquerque | 25.2% | San Francisco | 6.9% |
| Washington, DC | 22.2% | Milwaukee | 6.0% |
| Orange County | 21.9% | St. Louis | 5.7% |
| Seattle | 21.4% | Boston* | 5.5% |
| Tampa-St. Petersburg | 20.4% | Detroit | 4.6% |
| Miami | 20.4% | Philadelphia | 4.6% |
| Minneapolis-St. Paul | 20.3% | Hartford* | 2.2% |
| Indianapolis | 19.9% | Cleveland | 2.2% |

*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: 1992–2002 (in 000s)

| | | | |
|--------------------------|---------|------------------------|------|
| New York/Nassau-Suffolk | 1,178.2 | Minneapolis-St. Paul | 68.6 |
| Los Angeles | 1,019.9 | West Palm Beach | 65.2 |
| Chicago | 468.6 | Orlando | 62.5 |
| Miami | 404.9 | Las Vegas | 60.3 |
| Newark-No. NJ | 315.4 | Tampa-St. Petersburg | 59.6 |
| Washington DC | 304.0 | Honolulu | 47.3 |
| Houston | 286.2 | Austin | 46.9 |
| Dallas-Ft. Worth | 270.8 | Baltimore | 42.6 |
| Orange County | 268.4 | Salt Lake City | 36.0 |
| San Jose | 194.0 | Raleigh-Durham | 34.8 |
| Boston* | 187.4 | St. Louis | 34.4 |
| San Diego | 186.2 | Charlotte | 31.5 |
| San Francisco | 182.5 | Hartford* | 30.6 |
| Oakland-East Bay | 167.8 | Kansas City | 25.9 |
| Riverside-San Bernardino | 145.5 | Cleveland | 25.3 |
| Atlanta | 140.3 | Columbus | 21.3 |
| Ft. Lauderdale | 119.9 | Oklahoma City | 21.1 |
| Phoenix | 118.3 | Milwaukee | 20.6 |
| Philadelphia | 111.6 | Nashville | 20.6 |
| Seattle | 105.4 | Jacksonville | 18.4 |
| Detroit | 93.8 | Albuquerque | 17.8 |
| Central New Jersey | 91.9 | Indianapolis | 17.0 |
| Denver | 81.9 | Cincinnati | 14.5 |
| Sacramento | 78.7 | Memphis | 12.0 |
| Portland | 69.2 | Greenville-Spartanburg | 10.8 |

*Migration/immigration data is not currently available for the Boston PMSA or the Hartford MSA. For these markets, the larger NECMA designations are used.

Source: U.S. Census Bureau.

II. Demographics (Cont.)

H. Domestic Migration to Metropolitan Areas

Total Domestic Migration: 1992–2002 (in 000s)

| | | | |
|--------------------------|-------|--------------------------------|------------------|
| Atlanta | 535.7 | Oklahoma City | 15.3 |
| Phoenix | 479.8 | Cincinnati | 11.7 |
| Las Vegas | 433.5 | Memphis | 6.0 |
| Dallas-Ft. Worth | 269.7 | Salt Lake City | (13.6) |
| Riverside-San Bernardino | 218.5 | Central New Jersey | (29.1) |
| Tampa-St. Petersburg | 202.5 | Baltimore | (47.2) |
| Orlando | 197.3 | Hartford* | (68.2) |
| Austin | 188.3 | St. Louis | (68.7) |
| Charlotte | 173.4 | Oakland-East Bay | (76.5) |
| Denver | 170.5 | Washington DC | (83.0) |
| Raleigh-Durham | 169.4 | Milwaukee | (83.2) |
| Portland | 168.6 | Honolulu | (111.2) |
| Ft. Lauderdale | 156.6 | Cleveland | (118.3) |
| West Palm Beach | 141.5 | San Diego | (136.3) |
| Nashville | 107.3 | Boston* | (161.2) |
| Sacramento | 91.5 | Orange County | (199.8) |
| Jacksonville | 78.1 | San Francisco | (202.2) |
| Minneapolis-St. Paul | 62.0 | San Jose | (240.3) |
| Greenville-Spartanburg | 59.7 | Philadelphia | (260.7) |
| Indianapolis | 49.7 | Detroit | (272.8) |
| Houston | 48.6 | Miami | (280.8) |
| Kansas City | 45.8 | Newark-No. NJ | (398.6) |
| Seattle | 40.2 | Chicago | (587.5) |
| Columbus | 29.3 | Los Angeles | (1,499.9) |
| Albuquerque | 25.9 | New York/Nassau-Suffolk | (1,592.9) |

*Migration/immigration data is not currently available for the Boston PMSA or the Hartford MSA. For these markets, the larger NECMA designations are used.

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 March): | (1.5%) |
| Total Number of Net New Jobs, 12 Months (Ending in March): | (61,200) |
| % Unemployed, March 2003: | 7.9% |
| % Unemployed, 12 Months Before: | 7.3% |

National

| | |
|--|--------|
| Employment Growth (Loss)—% 12-Month (Ending in March): | (0.3%) |
| % Unemployed, March 2003: | 6.2% |
| % Unemployed, March 2002: | 6.1% |

B. Economic Base—Employment By Sectors

| Sector | 12-Month % Growth Metro | % Growth National | % of Total Employment Metro | % of Total Employment National |
|---------------------------------|----------------------------|----------------------|--------------------------------|-----------------------------------|
| Services | 0.0 | 0.8 | 34.6 | 28.5 |
| Business Services | (3.5) | (0.2) | 14.7 | 12.2 |
| Financial Activities | (2.9) | 1.3 | 11.5 | 6.1 |
| Government | (1.9) | 0.5 | 16.0 | 17.0 |
| Retail Trade | 0.4 | (0.6) | 8.1 | 11.4 |
| Wholesale Trade | (0.1) | (1.3) | 4.3 | 4.3 |
| Transportation/Public Utilities | 0.7 | (1.6) | 3.4 | 3.6 |
| Manufacturing | (7.0) | (3.7) | 4.0 | 11.5 |
| Construction | (2.0) | (0.7) | 3.5 | 4.9 |

Note: The Department of Labor recently revised the industry classification system (from SIC to NAICS). One of the most significant changes was the establishment of "business services" as a separate category (instead of a sub-set of the "services" sector). In addition, the "FIRE" sector is now known as "financial activities".

The 12-month percent growth is updated every quarter; the percent of total employment is updated every 6 months (last update: 1Q 2003).

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

A. Job Formation

Metropolitan Area

| | |
|--|---------|
| Employment Growth (Loss)—% 12-Month (Ending in March): | (0.4%) |
| Total Number of Net New Jobs, 12 Months (Ending in March): | (5,400) |
| % Unemployed, March 2003: | 3.9% |
| % Unemployed, 12 Months Before: | 4.2% |

National

| | |
|--|--------|
| Employment Growth (Loss)—% 12-Month (Ending in March): | (0.3%) |
| % Unemployed, March 2003: | 6.2% |
| % Unemployed, March 2002: | 6.1% |

B. Economic Base—Employment By Sectors

| Sector | 12-Month % Growth | | % of Total Employment | |
|---------------------------------|-------------------|----------|-----------------------|----------|
| | Metro | National | Metro | National |
| Services | 1.2 | 0.8 | 29.7 | 28.5 |
| Business Services | (2.5) | (0.2) | 12.2 | 12.2 |
| Financial Activities | 1.6 | 1.3 | 6.9 | 6.1 |
| Government | (0.8) | 0.5 | 16.7 | 17.0 |
| Retail Trade | 2.2 | (0.6) | 13.3 | 11.4 |
| Wholesale Trade | (1.5) | (1.3) | 5.9 | 4.3 |
| Transportation/Public Utilities | (2.7) | (1.6) | 3.0 | 3.6 |
| Manufacturing | (6.0) | (3.7) | 7.3 | 11.5 |
| Construction | (1.7) | (0.7) | 4.9 | 4.9 |

Note: The Department of Labor recently revised the industry classification system (from SIC to NAICS). One of the most significant changes was the establishment of "business services" as a separate category (instead of a sub-set of the "services" sector). In addition, the "FIRE" sector is now known as "financial activities".

The 12-month percent growth is updated every quarter; the percent of total employment is updated every 6 months (last update: 1Q 2003).

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

C. Metropolitan Total Employment Gain (1992-2002)

| Job Growth (% Gain/Loss, December 1992-December 2002) | | | |
|--|------|------------------------|-------------|
| Las Vegas | 82.8 | Minneapolis-St. Paul | 20.9 |
| Austin | 53.4 | Greenville-Spartanburg | 20.7 |
| Phoenix | 53.2 | Miami | 20.5 |
| Riverside-San Bernardino | 46.0 | Oakland | 20.4 |
| Orlando | 43.6 | Memphis | 20.3 |
| West Palm Beach | 42.3 | Washington | 19.8 |
| Tampa-St. Petersburg | 39.4 | UNITED STATES | 19.5 |
| Raleigh-Durham | 38.9 | San Jose | 18.9 |
| Dallas-Ft. Worth | 35.2 | Indianapolis | 17.9 |
| Atlanta | 33.9 | Nassau-Suffolk | 17.6 |
| Jacksonville | 33.7 | Seattle | 17.6 |
| Charlotte | 32.8 | Boston | 16.1 |
| Salt Lake City | 32.5 | Baltimore | 15.2 |
| San Diego | 32.3 | Cincinnati | 14.9 |
| Denver | 31.6 | San Francisco | 12.6 |
| Sacramento | 31.4 | Detroit | 12.5 |
| Nashville | 30.9 | Philadelphia | 12.0 |
| Fort Lauderdale | 30.6 | Chicago | 11.8 |
| Houston | 28.3 | Milwaukee | 11.6 |
| Albuquerque | 27.7 | Newark-No. New Jersey | 11.4 |
| Orange County | 25.7 | New York | 10.5 |
| Portland | 25.6 | St. Louis | 10.1 |
| Kansas City | 23.9 | Cleveland | 9.1 |
| Oklahoma City | 23.4 | Los Angeles | 7.5 |
| Central New Jersey | 22.8 | Hartford | 1.8 |
| Columbus | 22.2 | Honolulu | (2.1) |

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 | \$63,200 |
| Secretary | \$31,040 |
| Computer Systems Analyst | \$74,560 |
| Computer Programmer | \$73,080 |
| Electrical Engineer | \$73,130 |
| Machinist | \$29,580 |

Source: Bureau of Labor Statistics, Occupational Employment Statistics, New York PMSA, 2001.

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 | \$27,780 | 24 | 25.3% | 1 |
| U.S. Average | \$27,600 | -- | 13.2% | -- |

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

Source(s): U.S. Dept. of Labor/wage figures (2001); U.S. Census Bureau/union membership (2002).

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

F. State Workers' Compensation Costs

Workers' Compensation Costs
—The average cost per \$100 of payroll—
(2002)

| | <u>Rate*</u> | <u>Index**</u> | <u>2002 Rating***</u> | <u>1999 Rating</u> |
|----------|--------------|----------------|---------------------------|------------------------|
| New York | \$4.06 | 1.277 | 38 | 33 |

*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 \$3.18.

***The rating is based on an analysis of 45 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 PMSA | 78.6 | 30.8 |
| Nassau-Suffolk | 91.5 | 32.3 |
| U.S. Average | 84.1 | 26.7 |

Source: U.S. Census Bureau, March 2002.

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 | \$10,481 | 2 | \$52,040 | 4 | 13.8 | 40 |
| U.S. Average | \$7,161 | -- | \$43,335 | -- | 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 2001*.

D. University R&D Expenditures

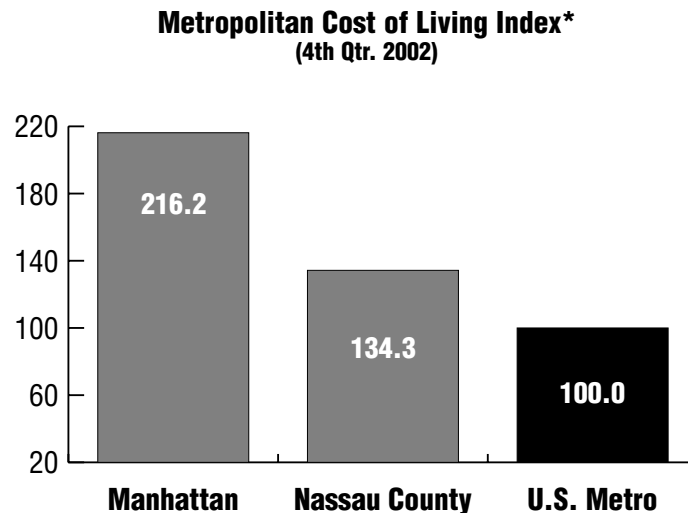
| | Federal R&D Expenditures (\$\$ in mil.) | % of Leading School* | Total R&D Expenditures (\$\$ in mil.) | % of Leading School* |
|------------------------|--|-------------------------------------|--|-------------------------------------|
| Columbia | \$137.1 | 63.8 | \$158.4 | 59.1 |
| City Univ. 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

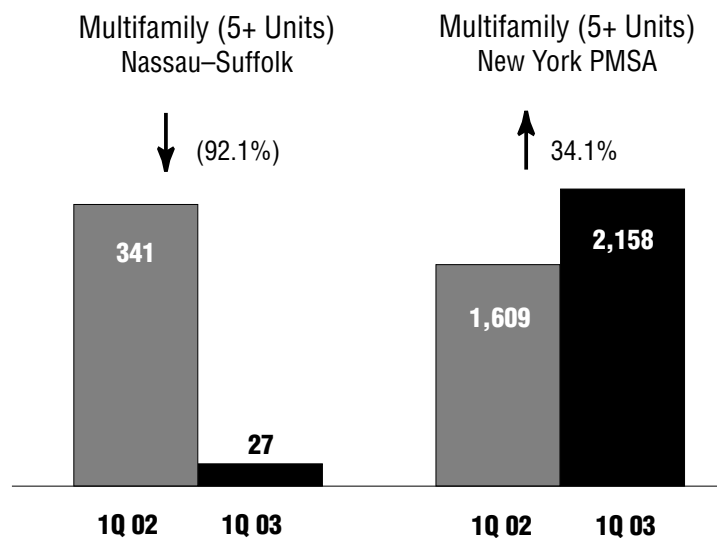
A. Overall Cost of Living



*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



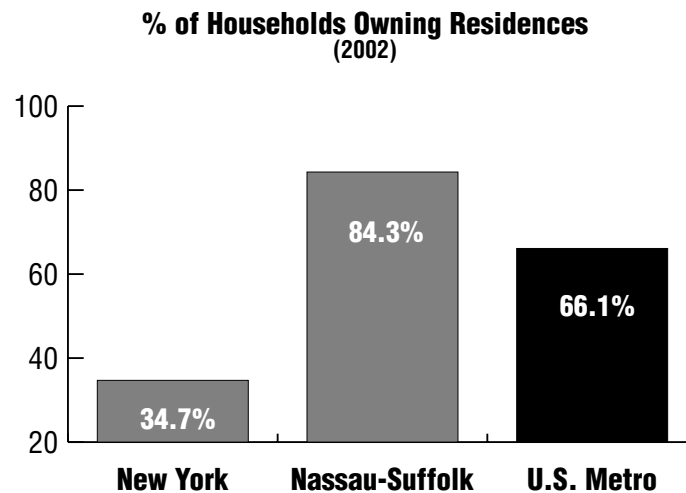
Local Data: Figures represent total permits granted year-to-date in the New York and Nassau-Suffolk PMSAs.

U.S. Data: The percent change in multifamily permits nationwide was 5.3%.

Source: U.S. Census Bureau.

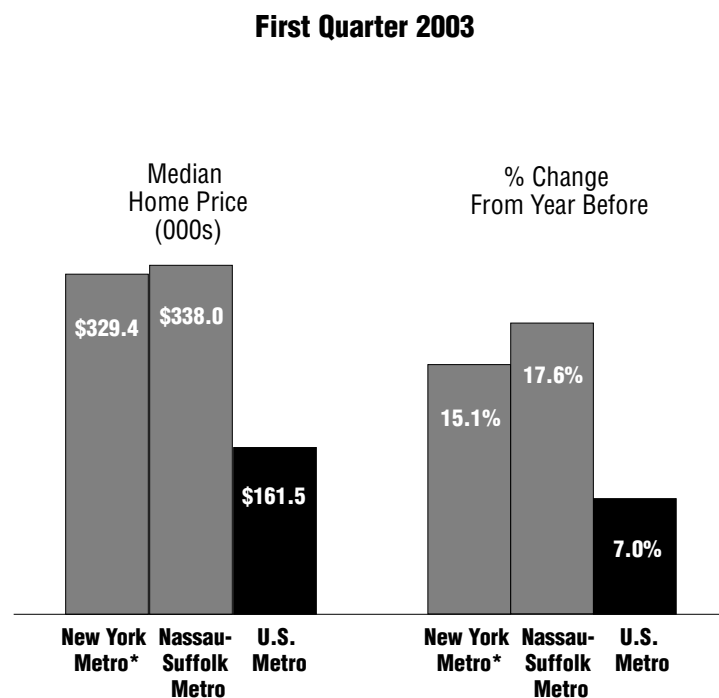
V. Housing & Related Costs (Cont.)

C. Homeownership



Source: U.S. Census Bureau. Homeownership rates represent metropolitan averages as of year-end 2002.

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> (10,000 kwh per mo.) | <u>Industrial Electric</u> (650,000 kwh per mo.) | <u>Residential Total</u> (1,000 kwh per mo.) |
|---------------|---|--|--|
| New York City | \$1,570 | \$71,472 | \$157 |
| U.S. Average | \$812 | \$34,657 | \$84 |

These numbers reflect the bundled rates (i.e., the combined cost of generation, transmission, delivery, and any transfer fees) that were in effect in January 2003. The kwh per mo. figures are based on consumption rather than demand.

Source: Edison Electric Institute, *Typical Bills and Average Rates Report*, Winter 2003.

F. **Health Insurance Coverage & Costs**

| | <u>% of Pop. Covered by Health Insurance</u> | <u>Rank</u> | <u>Annual Per Capita Health Care Expenditures</u> | <u>Rank</u> |
|----------|---|--------------------|--|--------------------|
| New York | 84.5 | 36 | \$4,706 | 3 |
| U.S. | 85.4 | -- | \$3,759 | -- |

The #1 ranking represents the highest percentage of population covered by health insurance and the highest per capita personal health care expenditures.

Source: Health Insurance: Bureau of Labor Statistics and U.S. Census Bureau (2001). Health Care Expenditures: Centers for Medicare and Medicaid Services (1998).

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

G. **Tourism & Entertainment Taxes**

Local Hospitality Taxes

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

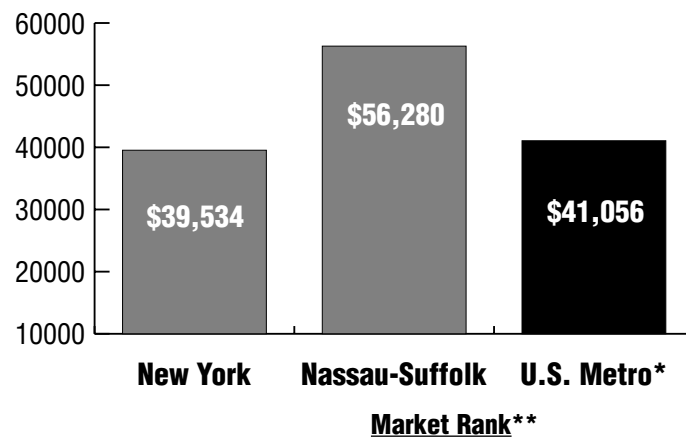
The above data reflects our best efforts. All recent changes at the local/state level may not have been captured.

*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. 2001 Metropolitan Median Household Income



New York
Nassau-Suffolk

45
4

*The U.S. Metro figure represents the median income of 323 metropolitan areas; \$38,365 is the median income nationwide.

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

Source: Sales & Marketing Management: 2002 Survey of Buying Power.

B. Metropolitan Retail Sales Trends

Metropolitan Retail Sales -- % Change (FYTD March 2003)

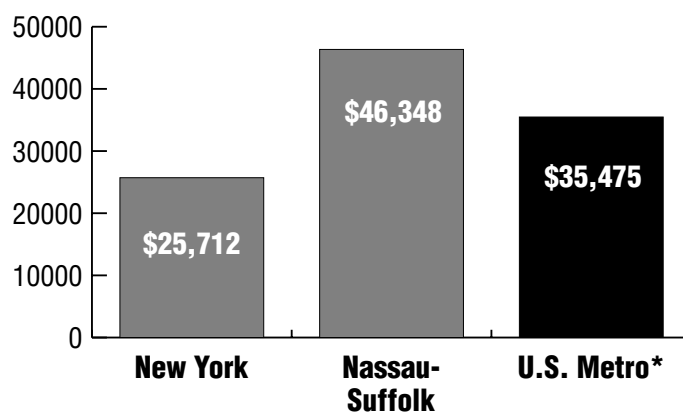
| | |
|------------------|--------|
| Greater New York | (8.0%) |
| National | (7.6%) |

This data reflects same-store sales at major department stores during the fiscal year to date compared to the same period one year ago.

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

VI. Other Economic Indicators (Cont.)

C. 2001 Metropolitan Average Retail Sales



Market Rank**

| | |
|----------------|----|
| New York | 56 |
| Nassau-Suffolk | 5 |

*The U.S. Metro figure represents the average retail sales per household of 323 metropolitan areas; \$33,662 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: 2002 Survey of Buying Power.

D. E-Commerce Retail Sales

Fourth Quarter 2002 (\$\$ in billions)

| | <u>Total</u> <u>Retail Sales</u> | <u>E-Commerce</u> <u>Retail Sales</u> | <u>% of Total</u> |
|---------------|-------------------------------------|--|-------------------|
| U.S. | \$869.6 | \$14.3 | 1.6 |
| Prior Quarter | \$827.5 | \$11.1 | 1.3 |
| Year Ago | \$856.3 | \$11.2 | 1.3 |

Source: U.S. Department of Commerce.

VI. Other Economic Indicators (Cont.)

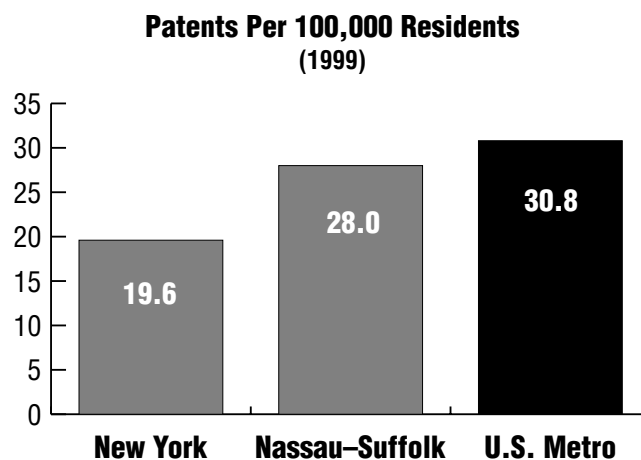
E. High-Tech Industry Employment

| | Number of Establishments (2000) | Rank | Number of Employees (2001) | Rank | High-Tech Employment Growth (2000-2001) | Rank |
|----------|--|-------------|---|-------------|--|-------------|
| New York | 16,729 | 2 | 367,887 | 3 | 0.7% | 27 |

The #1 ranking represents the highest amount in each category.

Source: *Cyberstates 2002*, American Electronics Association.

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 (2002) | % Change from 2001 | National Rank* | World Rank* |
| Passengers (in millions) | 28.9 | (1.8%) | 14 | 25 |
| Cargo (in thousands–metric tons) | 1,574.5 | (1.1%) | 5 | 10 |
| New York – La Guardia | | | | |
| Passengers (in millions) | 21.3 | (5.6%) | 21 | 39 |
| Cargo (in thousands–metric tons) | 21.3 | (36.1%) | 89 | 242 |

*Ranking of 747 international airports, with the #1 ranking representing the largest number of passengers and the largest amount of cargo.

Source: Airports Council International, Geneva, Switzerland.

H. International Trade

| International Trade Volume | | | |
|--|---------------|---------------|--------------|
| | <u>Import</u> | <u>Export</u> | <u>Total</u> |
| New York City Customs District | | | |
| January-February 2003 (\$\$\$ in billions) | \$23.3 | \$10.9 | \$34.2 |
| % Change (from year ago) | 15.6% | 4.5% | 11.8% |
| Total U.S. | | | |
| January-February 2003 (\$\$\$ in billions) | \$191.3 | \$110.6 | \$301.9 |
| % Change (from year ago) | 13.0% | 4.5% | 9.8% |

Source: Dept. of Commerce, Foreign Trade Division.

VI. Other Economic Indicators (Cont.)

I. Port Activity

Local Port Activity YTD March 2003 (in TEUs)

| | <u>Import</u> | <u>Export</u> | <u>Total</u> | <u>Rank*</u> | <u>% Change from Year Ago</u> |
|---------------|---------------|---------------|--------------|--------------|-----------------------------------|
| Port of NY/NJ | 472,015 | 188,443 | 660,458 | 3 | 16.1% |
| Total U.S. | 3,282,317 | 1,824,019 | 5,106,336 | N/A | 12.5% |

These figures reflect international containerized cargo only and are expressed in 20-foot-equivalent units (TEUs).

*Ranking of 78 U.S. ports, with the #1 ranking representing the highest total.

Source: P.I.E.R.S. Maritime Research Group, *Port Rankings*.

J. Gross State Product

| | <u>1990</u> | <u>2000</u> | <u>% Change 1990-2000</u> |
|-------------------------------------|-------------|-------------|-------------------------------|
| 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>2002</u> | <u>Rank</u> | <u>% Change</u> (from 2001) |
| New York, NY | \$451.8 | 1 | 1.3% |
| Nassau-Suffolk, NY | \$113.5 | 17 | 4.4% |

*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 | 7.5% |
| Unemployment Insurance | 4.1% |
| Individual Taxes: | |
| Sales/Use | 4.25% |
| Maximum Local Levy | 4.5% |
| Food Exemption | Yes |
| Cigarette Tax (per package) | \$1.50 |
| Personal Income Rates | 4.0% to 6.85% |
| Beginning Income for Maximum Rate* | \$40,000 |
| State Taxes Paid in 2001 Per \$1,000 Personal Income: | |
| Local: \$67 | United States: \$66 |

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

*For those married filing jointly.

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

B. Local Residential Property Taxes

2002 Residential Property Tax Rate (Per \$100 Valuation)

| Location | Effective Rate | Ranking* |
|-------------------|----------------|----------|
| New York City CMP | \$1.80 | 46 |
| Long Island | \$2.33 | 57 |

* The residential property tax ranking is based on a comparison of 58 metropolitan areas analyzed by the National Real Estate Index. Markets are rated in ascending order. (Number 58 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

2001 Commercial Property Tax Rate (Per \$100 Valuation)

| <u>City</u> | <u>Basic Rate</u> | <u>Effective Rate</u> | <u>Ranking**</u> |
|----------------|-------------------|-----------------------|------------------|
| New York City* | \$9.70 | \$4.36 | 84 |
| White Plains* | \$42.51 | \$19.13 | 85 |

*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 85 communities analyzed by the National Real Estate Index. Markets are rated in ascending order. (Number 85 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-December 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 | \$10,356 | \$1,145 | \$4,373 | \$18,521 | (1.8%) |
| U.S. | \$86,366 | \$10,903 | \$87,087 | \$215,397 | 2.2% |

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

| | 2002 Index Rating* | <u>2002 Rank</u> | <u>2001 Rank</u> |
|----------|-------------------------------|-------------------------|-------------------------|
| New York | 22.72 | 37 | 35 |

*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 best ranking is 1.

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

B. Crime Rate

Crime Per 100,000 Inhabitants—2001

| | <u>Violent</u> | <u>% Change from 2000</u> | <u>Property</u> | <u>% Change from 2000</u> |
|--------------------|----------------|-------------------------------|-----------------|-------------------------------|
| New York Metro | 773.7 | (11.3) | 2,400.8 | (10.0) |
| U.S. Metro Average | 504.4 | (0.4) | 3,656.1 | 1.0 |

Source: Federal Bureau of Investigation, *Crime in the United States*.

VIII. Quality of Life (Cont.)

C. Climate

Average Temperature (Fahrenheit)

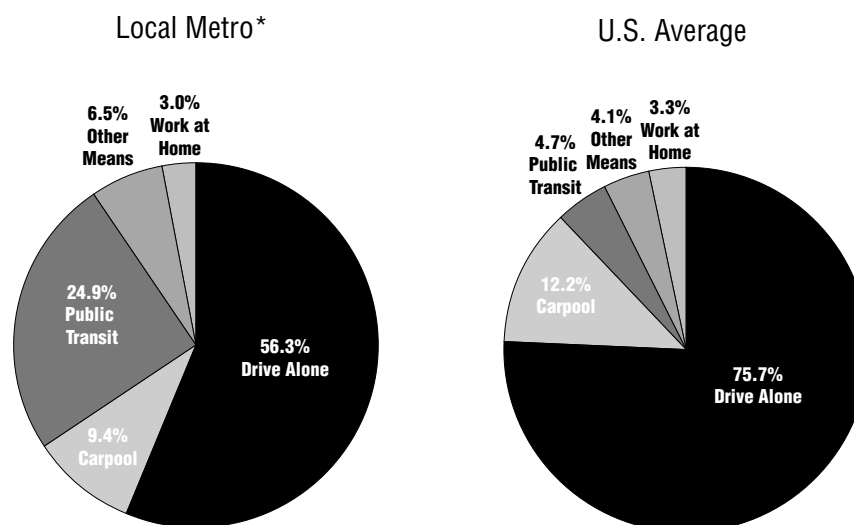
| | <u>High</u> | <u>Low</u> |
|--------|-------------|------------|
| Winter | 38 | 26 |
| Spring | 61 | 44 |
| Summer | 85 | 68 |
| Autumn | 66 | 50 |

Average Annual Precipitation: 44 inches

Elevation: 87 ft

% of Sunny Days Per Year: 58%

D. Mode of Travel to Work



*Data is for the New York-Northern New Jersey-Long Island CMSA.

Source: U.S. Census Bureau, American FactFinder: Journey to Work, 2000.

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 | \$210.86 | \$29.35 | 7.4% | \$178.71 | \$23.02 | 7.3% | \$44.24 | \$5.31 | 8.5% | \$124.40 | \$17.37 | 8.7% | \$107.35 | \$14.06 | 7.6% |
| Northeast Region | 293.28 | 40.54 | 7.2 | 195.08 | 26.01 | 7.3 | 48.65 | 6.24 | 9.0 | 133.49 | 19.06 | 8.9 | 126.17 | 18.73 | 8.1 |
| New York -- Downtown | | | | | | | | | | | | | | | |
| 1st Q. '03 | \$286.20 | \$39.50 | 7.7% | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 4th Q. '02 | 283.28 | 40.69 | 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 |
| 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 |
| New York -- Midtown | | | | | | | | | | | | | | | |
| 1st Q. '03 | \$464.99 | \$53.56 | 6.5% | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 4th Q. '02 | 457.50 | 55.00 | 6.7 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 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 |
| Nassau—Suffolk | | | | | | | | | | | | | | | |
| 1st Q. '03 | \$156.38 | \$26.71 | 8.1% | \$149.51 | \$24.11 | 7.9% | \$50.75 | \$6.59 | 8.7% | \$141.19 | \$21.78 | 8.7% | \$130.55 | \$20.33 | 8.9% |
| 4th Q. '02 | 156.76 | 26.84 | 8.1 | 149.72 | 24.79 | 8.0 | 50.28 | 6.61 | 8.8 | 139.02 | 21.60 | 8.8 | 130.08 | 20.25 | 8.9 |
| 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 |

B. Other Property Classes – Most Recent Period

| Property Sector | Price Per SF | Property Sector | Price Per SF |
|--------------------------|--------------|---------------------------|--------------|
| Manhattan Midtown | | Nassau-Suffolk | |
| Class B CBD Office | \$289.77 | Class B Apartment | \$82.85 |
| Class C CBD Office | \$232.46 | | |
| Class D CBD Office | \$126.90 | New York | |
| | | Class A Suburban Office | \$174.80 |
| | | Manhattan High-End Retail | \$597.10 |

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

| 1st Qtr. 2003 – 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 | 4 | -- | -- | -- | -- | -- |
| Manhattan Midtown | | | | | | |
| Prices | 1 | -- | -- | -- | -- | -- |
| Rents | 1 | -- | -- | -- | -- | -- |
| Nassau-Suffolk | | | | | | |
| Prices | 20 | 25 | 13 | 10 | 10 | 11 |
| Rents | 13 | 8 | 10 | 7 | 5 | 8 |

*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 | (11.4%) | n/a | n/a | n/a | n/a | n/a |
| Rents | (10.5%) | n/a | n/a | n/a | n/a | n/a |
| <u>Manhattan Midtown</u> | | | | | | |
| Prices | 8.4% | 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 | 3.5% | 2.3% | (3.6%) | 2.7% | 7.8% | 3.7% |
| Rents | (0.6%) | (0.1%) | (0.5%) | 3.3% | 4.9% | 1.7% |
| <u>National</u> | | | | | | |
| Prices | (2.3%) | (0.3%) | (3.0%) | 0.6% | (1.2%) | 0.0% |
| Rents | (9.2%) | (8.4%) | (4.4%) | (0.5%) | (1.8%) | (0.1%) |

X. Nassau-Suffolk: Market Analysis

A. Nassau-Suffolk—Market Snapshot

Employment Crumbles

Greater Long Island continues to see its employment base erode. Approximately 5,400 net jobs were eliminated during the 12 months ending in March 2003, indicating further softening compared to the 3,700 positions cut in 2002. However, the unemployment rate dropped from 4.2% in March 2002 to 3.9% in March 2003.

Manufacturing Remains Depressed: The manufacturing sector experienced the largest decline in employment, shedding 5,600 net jobs. In March, Bristol-Myers Squibb announced plans to cut 350 jobs and to market its Garden City facilities. However, increased defense spending could trigger growth in defense-related manufacturing. Professional/business services (now a separate category, following recent revisions to the industry classification system) was next, shaving 3,800 positions. Government eliminated 1,700 jobs, and more cuts are on the way. In April, Nassau County notified its department heads to brace themselves for 642 layoffs. Wholesale trade eliminated 1,100 positions. The transportation/public utilities and construction sectors shed 1,000 jobs each.

The broader service sector saw the largest job gain, adding 4,100 to its payroll. Retail trade fueled 3,400 positions, and financial activities created 1,300 jobs.

The largest employers on Long Island are North Shore-Long Island Jewish Health System, SUNY at Stony Brook, the Diocese of Rockville Centre, Cablevision Systems, Pathmark Stores, and JP Morgan Chase & Co.

OFFICE

The Long Island office market saw its vacancy rate climb slightly from 12.5% in 2002's fourth quarter to 12.7% at the end of the first quarter 2003, according to CB Richard Ellis. The Mid-Suffolk submarket posted the highest vacancy rate (19.1%). West Nassau had the lowest rate (8.7%). Net absorption remained negative at 124,000 square feet, a trend that is credited to a number of large

spaces becoming available for sublease, including 330,000 square feet at 300 Jericho Quadrangle and 80,000 square feet at EAB Plaza.

Two major projects are currently under construction on Long Island. In the Western Suffolk town of East Farmingdale, developers are working on 770 Broad Hollow Road, a 500,000 square foot building due to complete in Fall 2003. The Granite buildings (260,000 square feet) on Marcus Avenue in Western Nassau County's Lake Success are slated to complete this Summer.

FIRE Industry Heats Up in Melville: A recent growth trend in the mortgage and lending sector sparked activity in the Melville-Route 110 corridor during the first couple of months of 2003. Preferred Empire Mortgage Company leased 9,000 square feet at a 70,000 square foot building on Broad Hollow Road; AEGIS Lending Corp., the borrowing division of AEGIS Mortgage Corp., took 3,000 square feet at 35 Pinelawn Road; and Radian Guaranty, a mortgage insurance provider, absorbed 1,400 square feet, also on Broad Hollow Road.

Credit card-processing giant First Data Corporation signed a letter of intent to consolidate its Long Island operations at a planned 250,000 square foot facility in Melville. Reckson is expected to build the new space on 19 acres it owns on Walt Whitman Road off the Long Island Expressway within the company's Melville Square corporate center. First Data's operations are now housed in two buildings—at 265 Broad Hollow and 80 Baylis Roads.

There were several lease renewals, too. The largest was a 90,000 square foot renewal by Travelers Property Casualty at 100 Baylis Road in Melville. Also, Phoenix Life Insurance extended its lease for 12,000 square feet at 50 Charles Lindbergh Boulevard in Uniondale. Smaller commitments include communication systems supplier Avaya's renewal for 10,000 square feet on Walt Whitman Road and law firm Dollinger Gonski & Grossman's 10,000 square foot lease at One Old Country Road.

Cablevision to Return Space: In Nassau County, Cablevision Systems is planning to return half of the 600,000 square feet it leased two years ago at Jericho Quadrangle. The space was used to consolidate the company's satellite offices in the eastern

X. Market Analysis

A. Nassau-Suffolk—Market Snapshot (continued)

part of the county, and for future expansion possibilities. But Cablevision's circumstances have changed recently. The company announced plans to lay off 7% of its workforce, not counting cuts related to the closing of 26 unprofitable Wiz stores. On November 1st, it agreed to sell its Jericho-based Bravo network to NBC for approximately \$1.3 billion. Overall, Cablevision owns or leases 1.5 million square feet of space on the Island.

Workforce reductions by local software firms continue to be a concern. Acclaim, which is marketing its 72,000 square foot headquarters in Glen Cove, may leave the Island. Also, Computer Associates is cutting 450 jobs from its North American operations, 50 of which are located here.

One of the largest office sales in the first quarter was Caspian Group's purchase of a 52,000 square foot building on Broad Hollow Road for \$6.2 million. In Garden City, Albanese Development and Castagna Realty acquired a 45,000 square foot building on Franklin Avenue for \$6 million. Casters, Wheels & Industrial Handling bought 8 Engineers Road (15,000 square feet) in Farmingdale for \$1.1 million.

INDUSTRIAL

Long Island's industrial market tightened between the fourth quarter of 2002 and the first quarter of 2003 as vacancy fell from 6.7% to 6%, according to CB Richard Ellis. Nassau County had the highest vacancy at 9.3%. King County posted the lowest rate at 2.3% (excluding Staten Island, which is 100% occupied). Suffolk County showed the most improvement, with vacancy falling from 12.1% at the end of 2002 to 8.8% at the end of 2003.

Defense Plant to Become Flex Space: An aging defense plant in Syosset will soon be re-tooled into a corporate flex building. The 205,000 square foot research facility, once the headquarters of Fairchild Camera and Instruments and now home to the optical systems division of British aerospace contractor BAE Systems, was recently sold to Blumenfeld Development Group for an undisclosed amount. Blumenfeld plans to remodel the interior and exterior of the building and put it on the market. It is located just north of the Long Island Expressway.

Blumenfeld, which is now headquartered in leased space at 6800 Jericho turnpike in Syosset, plans to move into 20,000 square feet when construction is completed this Summer. BAE will continue to lease space in the Syosset building for three months while it consolidates its Long Island operations in Greenlawn.

Del Laboratories Still Mulling Over Options:

This Spring, cosmetics manufacturer Del Laboratories dropped its plans to move to a new facility planned in Jericho. Nassau County had awarded Del an economic incentive package for the planned move, but the company is now back to weighing its options for other sites. In June, it announced that it is considering three options: staying in its 45,000 square foot space in EAB Plaza in Farmingdale, relocating elsewhere on Long Island, or moving to North Carolina. About 400 local jobs hang in the balance. Del has already moved some of its operations to North Carolina.

Northrop Grumman Plant to Stay Open:

Northrop Grumman announced that its Melville plant will remain open for the foreseeable future. Senator Hillary Clinton and Representative Steve Israel elicited the assurance from the company after rumors surfaced that the plant was slated for closure. Although the firm acknowledged that its business base continues to shrink, the plant, which employs about 100, will remain operational.

In leasing activity, direct mail company Access Direct Systems subleased 100,000 square feet of industrial space at 185 Price Parkway from JC Penney. The company will relocate from 85,000 square feet on Route 109 in Farmingdale. Broadband provider Alpha 1 took 16,000 square feet and Cardinal Logistics soaked up 12,000 square feet at 101 Carolyn Boulevard in Farmingdale.

Over and Back, a wholesaler of bake ware, is under contract to buy 6.9 acres at the Sills industrial park for an undisclosed amount, where it plans to build a new 92,000 square foot base of operations. The land has an asking price of \$225,000 an acre. Real estate holding company 175 Dixon purchased a 21,000 square foot industrial building at Dixon Avenue in Amityville for \$1.9 million.

X. Market Analysis

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

RETAIL

Local sources estimate that Long Island's retail vacancy hovered around 5% in the second half of 2002. The market is expected to remain fairly stable due to the lack of construction, partly the result of stiff community resistance to development. But vacancy is slowly creeping up with store closings and bankruptcies.

Big Boxes Push for More: Big box developers have managed to do quite well on the Island, though some of their plans have been blocked. Home Depot considers Long Island one of its strongest markets and is pushing to open more stores in the future. Target plans to build a 143,000 square foot super store on more than 16 acres in Medford. The retailer has signed a 20-year ground lease with Feldman Properties for the land, which lies between Horseblock Road and the North service road of the Long Island Expressway between Exits 64 and 65, just east of a Sam's Club. Target has also submitted plans for additional stores on the Island.

Vacated Space Finds Takers: In January, Kmart said that it plans to shut stores in Westbury, Syosset, Stony Brook, Fresh Meadows, and Brooklyn. However, local brokers do not expect the sites to stay vacant for long. Target, Kohl's, and Wal-Mart are among the top contenders for the space. All three chains have been aggressively expanding on Long Island, and many of the locations that Kmart abandoned are prime retail spots, including the stores in Fresh Meadows and Westbury. Kaufmann Realty Services recently bought and filled four former Office Depot sites that have sat empty for more than a year.

Smaller Center Proposed in Yaphank: Developers Wilbur Breslin and Allan V. Rose abandoned their plans to build an enclosed regional mall in Yaphank in favor of a more modest, open-air shopping center. The Brookhaven Town Center was first proposed as a 1.6 million square foot enclosed mall in 1989 along William Floyd Parkway, just north of the Long Island Expressway. The developers' latest proposal calls for an 850,000 square foot, open-air lifestyle center. The developers hope that the scaled-down scope will be more attractive to planning officials and long-time opponents, easing the way to approval on environmental and other issues.

More Twists in Oyster Bay Plan: In Nassau County's Syosset, Taubman's battle to begin construction on The Mall at Oyster Bay (750,000 square feet), slated for the site of the former Cerro Wire factory, faces another hurdle. Taubman is fighting a takeover bid from Simon Properties, which owns several Long Island malls that would have to compete with the new shopping center. If the takeover bid succeeds, the mall project is expected to die. However, in June, the Michigan legislature introduced a bill that would reverse a federal court ruling that prevents the Taubman family and friends from voting a 33.6% block of shares in Taubman Centers "unless a majority of disinterested shareholders approve voting rights for those shares." Without the voting block, Taubman's chances of preventing the Simon takeover are slim.

In May, Morris Realty Associates paid almost \$34 million for the completed portion of The Hub shopping center (248,000 square feet), the core of a revitalization program in downtown Hempstead. The former Caldor's shopping center (141,000 square feet) at the intersection of Montauk Highway and Sills Road in East Patchogue was purchased for \$4.8 million. The center is empty except for one tenant—Genovese Drugs. The investment group that bought the center plans to spend \$2 million or more renovating the property.

New Sales Tax Takes Effect: The state of New York has increased the sales tax from 4% to 4.25% as a result of recent legislation. The increase is in addition to the local sales and use taxes charged in various localities. For Nassau and Suffolk Counties, that translates into an 8.75% tax rate (which includes a .25% tax to help subsidize the Metropolitan Commuter Transportation District).

The state's sales tax exemption on clothing and shoes under \$110 ended on June 1. Those items will be taxed at the new rate until the end of May 2004. During that 12-month period, the sales tax will be lifted for two separate one-week periods, though: one at the end of August 2003 and one in mid-January 2004.

X. Market Analysis

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

APARTMENT

The vacancy rate for apartments on Long Island increased slightly from 6.3% to 6.4% between the fourth quarter 2002 and the first quarter 2003, according to Property & Portfolio Research. Multifamily construction here is limited by geographical constraints and staunch community activism opposing large developments. In addition, the homeownership rate on the Island is 84.3%, compared to 66.1% nationwide.

Typically, companies with deep pockets have the most success in pushing plans through the approval process. That could change soon, though, as costs for smaller developments were reduced earlier this year with the introduction of new building codes that increase the allowance for wood-frame commercial buildings from two to four stories. Contractors estimate that this could save them \$12 to \$20 per square foot. So far, this has not had a noticeable impact on development. In fact, just 27 multifamily permits (in buildings with 5+ units) were issued during the first three months of 2003, a 92% decline from the same period in 2002.

Trend Favors Senior Complexes: A high-end development for age 55-plus residents is under construction in Port Jefferson Station. However, unlike many of the new senior-oriented luxury complexes, these townhouses are for renters, not condo buyers. A total of 291 rental townhouses will be built on a 43-acre parcel on the corner of Route 347 and Old Town Road. The townhouses will be near BJ's, Wal-Mart, and other new stores. The first units began renting this Spring. Another large project underway in the metro is Avalon at Glen Cove South (256 units).

Trammell Crow has placed its Alexan at Brookhaven project on the market for approximately \$160 million. A total of 550 units of the 795-unit luxury apartment complex have been completed. The project sits on 117 acres near the intersection of Horseblock Road and Woodside Avenue in Bellport. Meanwhile, Trammell Crow has submitted a pre-application with Brookhaven for Alexan Miller Place. Plans call for 804 rental apartments, 208 single-family homes, 328 duplexes, and 210 rental and for-sale, age-restricted homes. The design also includes 180,000 square feet of office space and 20,000 square feet of retail space.

Three Garden City businessmen have proposed a 596-unit luxury retirement community. In addition to residential units, Heritage Square at East Moriches calls for a blend of retail and residential space. The project is targeted for 51 acres of land south of Sunrise Highway. However, some local groups are gearing up to fight this and a series of other planned retirement communities.

HOSPITALITY

The occupancy rate for hotels on Long Island decreased from 68.2% in the fourth quarter of 2002 to 67.8% in the first quarter of 2003, according to Smith Travel Research and Property & Portfolio Research.

Several Hotels to Open in 2003: Hotel development is strong on Long Island as several projects are underway and more are planned. Hotels slated to open in 2003 include a 157-room extended-stay Hilton Garden Inn at the intersection of Ocean Avenue and Veterans Memorial Highway in Ronkonkoma, a 120-room Holiday Inn & Suites in Shirley (Suffolk County), a 109-room Wingate Inn on Crooked Hill Road, and a Hampton Inn & Suites (85 rooms) near the Rockville Centre.

Plans to build two hotels at the Long Island Expressway and Round Swamp Road that were derailed by the 9/11 terrorist attacks are back on schedule. Melville Hospitality hopes to break ground in June on a 178-room Garden Inn and a 147-unit Homewood Suites.

Delta Express to Halt Service to MacArthur Airport: Delta Express plans to discontinue its service to Islip MacArthur Airport this Summer. Delta Airlines' new subsidiary, Song, will take over the majority of Delta Express' routes, but will not provide service to MacArthur. Delta's move comes in the midst of increasing dominance by Southwest Airlines in the regional market. Southwest was recently given clearance to begin construction of a \$42 million, 154,000 square foot concourse at the airport. The new concourse will add four gates that should be operational by April 2004.

X. Market Analysis

B. Nassau-Suffolk—Submarket Inventory/Vacancy

| OFFICE* | | | |
|---|-------------------|--------------|------------------|
| SUBMARKET | INVENTORY | VACANCY | ABSORPTION |
| West Nassau | 5,477,586 | 8.7% | 13,127 |
| Central Nassau | 10,123,069 | 10.6% | 81,650 |
| South Nassau | 1,399,131 | 10.1% | 14,022 |
| East Nassau | 5,973,390 | 13.5% | (270,550) |
| Mid Suffolk | 4,501,321 | 19.1% | 124,624 |
| West Suffolk | 7,262,266 | 14.9% | (87,236) |
| MARKET TOTAL | 34,736,763 | 12.7% | (124,363) |
| *Reported as of first quarter 2003. | | | |
| Source: CB Richard Ellis (New York). | | | |

| INDUSTRIAL* | | |
|---|--------------------|-------------|
| SUBMARKET | INVENTORY | VACANCY |
| King County | 31,455,604 | 2.3% |
| Nassau County | 17,617,354 | 9.3% |
| Queens County | 34,000,178 | 6.2% |
| Staten Island | 300,000 | 0.0% |
| Suffolk County | 19,961,135 | 8.8% |
| MARKET TOTAL | 103,334,271 | 6.0% |
| *Reported as of first quarter 2003. | | |
| Source: CB Richard Ellis (New York). | | |

X. New York: Market Analysis

C. New York—Market Snapshot

Freefall Continues

Greater New York lost a total of 61,200 net jobs during the 12 months ending in March 2003 for the largest decline in the nation. However, this is less than the 87,800 positions shed in 2002. The unemployment rate rose from 7.3% in March 2002 to 7.9% in March 2003.

Jobs Shrink in Business Services & FIRE:

Professional & business services (recently established as a separate labor category) slashed 21,400 positions. Financial activities (formerly known as FIRE, for finance, insurance and real estate) saw the second-largest decrease with the elimination of 14,200 jobs. In 2003, 23% of the nation's securities-industry jobs were based in New York, down from 24% in 2001 and from 36% in 1983, according to the Securities Industry Association (SIA). The number of Wall Street jobs in New York has fallen by 37,200 in the past two years. KPMG saw 2,100 jobs eliminated during the first four months of 2003. The cuts come amid a string of legal actions against the firm related to its tax advice. Goldman Sachs recently laid off 150 stock and options traders, salesmen, and other equities staff. UBS Warburg is cutting 70 equities-related jobs in New York and Stamford. New York Life Insurance is moving 1,000 of its 5,000 employees from 51 Madison Avenue to Mt. Pleasant Executive Center in Westchester in 2004.

Manufacturing eliminated 12,400 workers. Government lost 12,300 positions and is expected to lose many more due to budget cuts. Construction shaved 2,900 from its payroll, services cut 200 jobs, and wholesale trade reduced its workforce by 100. Verizon plans to shave around 1,300 unionized jobs throughout New York state in the coming months. In December, it eliminated 2,300 workers statewide.

Only two major employment sectors realized job gains: retail trade added 1,400 to its payroll and transportation/public utilities produced 900 positions.

Large employers in greater New York include New York Presbyterian Healthcare Network, JP Morgan Chase & Co., Citigroup, Verizon, and Continuum Health Partners.

Tax Increases Take Effect: New York City real estate taxes were increased by 18.5% in response to the city's budget deficit. The hike took effect in December and will be phased-in over a two-year period. It is among a number of new city taxes. Smokers got hit with an increase (for a new total tax of \$1.50 per packet), which means that each pack now costs about \$7. In addition, as of March 30, smoking was banned in nearly every public indoor space in the city. Bus and subway fares are expected to increase as well.

The legislature's budget plan also authorized a temporary surcharge on high-income residents. This surcharge is expected to produce about \$600 million annually.

State Gives Aid to NYC: In May, the state legislature approved a plan that gives New York City the \$2.7 billion in revenue options it had been seeking. At the same time, 3,000 municipal workers received pink slips. The city, which is facing a \$3.8 billion deficit, is likely to lay off another 1,400 workers in the coming months. Unions called on Mayor Michael Bloomberg to rescind the layoffs since the city received all of what it had asked for in state aid. However, the current cuts are less than the 10,000 originally projected by the mayor's office. Things are expected to get tougher, as the state struggles with its own \$11.5 billion budget gap.

OFFICE

The Manhattan office market softened slightly between the fourth quarter of 2002 and the first quarter of 2003, as vacancy climbed four-tenths of a percentage point to 10.7%, according to CB Richard Ellis. The downtown market tightened, but continued to record the highest vacancy rate (13.7%) of the three Manhattan markets. Midtown North saw the lowest vacancy rate at 8.9%.

Focus on WTC: The Downtown market posted 2,200 square feet of negative net absorption, down from 75,000 of positive absorption in the fourth quarter and the smallest deficit recorded among the three Manhattan office markets. No construction is underway here, but planning is revving up for the

X. Market Analysis

C. New York—Market Snapshot (continued)

reconstruction of the World Trade Center site. The blueprints call for a group of five shard-like glass buildings, containing about 8.5 million square feet of office space, with an 1,800-foot spire. The spire, which will feature a "Gardens of the World" exhibit at the top, will be the tallest building in the world, surpassing the Petronas towers in Malaysia by 293 feet. The five buildings will surround a memorial that will sit 30 feet below ground level where the twin towers stood. The buildings will be arranged so that on September 11th of each year, a ray of sunlight (weather permitting) will illuminate the site from 8:46 am until 10:28 am, in remembrance of the terrorist attacks. The plan also calls for a five-star hotel, a transportation hub, a memorial museum, and some cultural venues. The project is expected to take ten to 12 years to complete.

Early Renewals Help Downtown: A trend that is helping to keep downtown on its feet is the wave of companies renewing early to lock in low rents. For instance, AIG renewed for 540,000 square feet and Cahill Gordon & Reindel for 250,000 square feet at 80 Pine Street. Cap Gemini Ernst & Young renewed its lease for 30,000 square feet at 55 Broad Street. By staying put, tenants can avoid moving costs and are eligible for a number of government incentives allocated for Downtown tenants. In new leasing activity, law firm Clifford Chance subleased 380,000 square feet from Deutsche Bank at 31 West 52nd Street. On the negative side, Goldman Sachs paid \$40 million to break its lease at 10 Hanover Square. The firm will vacate 532,000 square feet there by September 2004. The property's owner plans to convert the building into apartments.

Midtown North Sees Large Defections: In Midtown North, CIBC, originally slated to take the entire building at 300 Madison Avenue when it is completed at the end of this year, decided it would occupy only 375,000 square feet and sublet the remaining 825,000 square feet. This market received more bad news in February when Philip Morris announced its decision to vacate its long-time headquarters just one block east of 300 Madison. The defection will dump more than 700,000 square feet back into the Midtown market. More sublease space is expected to come to market in 2003 from firms that delayed listing with brokers

to avoid showing a loss on their books in 2002. Bertelsmann AG's conversion of 1540 Broadway from owner-occupied to multi-tenant use added 184,000 square feet to the market.

These blows to Midtown North were somewhat offset by large leases signed in the first quarter. For instance, O'Melveny & Meyers took 207,000 square feet at 7 Times Square to anchor that building. In addition, law firm Pillsbury Winthrop took 179,000 square feet at 1540 Broadway in a relocation from 1 Battery Park Plaza downtown; Warnaco signed a 108,000 square foot lease at 501 Seventh Avenue; and Microsoft took 100,000 square feet of former Deutsche Bank space at 1290 Avenue of the Americas. Law firm Bryan Cave/Robinson Silverman renewed and expanded its lease in the latter building from 129,000 square feet to 209,000 square feet.

In Midtown South, first quarter net absorption totaled a negative 1.2 million square feet, down from 492,000 square feet of positive absorption in the fourth quarter 2002. The Flatiron and Penn Plaza Station areas saw several blocks of space returned to the market, including 100,000 square feet at 675 Avenue of the Americas and 73,000 square feet at 450 West 33rd Street (offered for sublease by DoubleClick).

The actual situation is probably even worse in Midtown. Market observers contend that shadow space (space that is un-marketed, but available) could account for another three to eight million square feet of surplus inventory. The majority of this space is in the banking and securities sectors.

Construction Continues on Large Developments: There are four large buildings under construction in Manhattan, all of them in the Midtown North submarket. The largest project is the AOL Time Warner headquarters building at 60 Columbus Circle (1.9 million square feet). This two-tower, 53-story complex is slated to open in stages beginning in September. In April, fire damaged four floors of the new structure, but no delay in its opening has been announced. Also underway are 300 Madison Avenue (1.2 million square feet) in the Grand Central/UN submarket, which is expected to complete in the third quarter 2003, 7 Times Square (1.2 million square feet) and 731 Lexington Avenue

X. Market Analysis

C. New York—Market Snapshot (continued)

(900,000 square feet). The latter two are slated for completion in 2004. Additionally, the first Class A office building to be built in the Bronx in over a decade, Hutchinson Metro Center (460,000 square feet), is expected to open for business this Summer. Visiting Nurse Service of New York has pre-leased 50,000 square feet there.

In May, Pfizer announced plans to invest up to \$560 million to purchase and renovate the 634,000 square foot 685 Third Avenue building and other facilities at its 42nd Street corporate headquarters. Pfizer assumed Aon Corporation's 275,000 square foot lease in the Third Avenue location. The pharmaceutical company plans to add 1,000 jobs in Manhattan over the next year.

Westchester County Flatlines: The Westchester County office market continued to see flat sales and leasing activity in the first three months of 2003. The vacancy rate remained unchanged at 13.2%. White Plains posted the highest vacancy rate at 18.9%. Northern Westchester had the lowest rate at 6%. Overall net absorption fell into the red by a negative 130,000 square feet, down from 198,000 square feet of positive absorption in the fourth quarter 2002. Despite the lackluster statistics, there was some leasing and sales activity here. Ameriquest Mortgage signed for 118,000 square feet at 333 Westchester Avenue in February. Also, New York Life Insurance Company bought the 383,000 square foot Mt. Pleasant Executive Center in Westchester for an undisclosed price. The company hopes to shift 1,000 from its New York City headquarters to its new digs by Spring 2004.

INDUSTRIAL

The Westchester industrial market saw its vacancy rate climb from 9.1% to 9.9% between the fourth quarter of 2002 and the first quarter of 2003, according to CB Richard Ellis. The East I-287 Corridor had the highest vacancy rate (12.7%). The West I-287 Corridor posted the lowest rate (5.1%). Net absorption fell to a 120,000 square foot deficit in the first quarter, compared to 406,000 square feet of positive absorption in the fourth quarter 2002. (Most of the year-end absorption was due to the removal of a 462,000 square foot property from the lease market.) This quarter's negative absorption is mainly attributed to increased vacancy in several

buildings in Mt. Vernon and to a 150,000 square foot vacant building at 999 Central Park Avenue in Yonkers. No new industrial construction is underway or in planning for Westchester County.

Most of Westchester County's warehouse properties cater to local businesses. Consequently, large lease transactions are uncommon. However, Diam International, which provides retail merchandising solutions (like point-of-purchase/counter displays and retail fixtures) is negotiating with Qwest Communications to sublease the entire 435,000 square foot distribution center at 555 Tuckahoe Road, where the telecommunications giant once planned to establish a \$100 million Internet-hosting center. Diam is seeking to consolidate five locations it has in the Tri-state area to the Yonkers site. The facility was last used six years ago as a distribution center for Saks Fifth Avenue.

Warehouse Space Likely to Shrink with Conversions: Infill areas, such as Brooklyn, Queens, and parts of Manhattan, are expected to see a decrease in warehouse inventory as conversions to residential, retail, and other uses mount. New York's mayor is pushing to rezone Brooklyn's predominantly industrial waterfront as part of a housing initiative. Also, developers in New York are starting to gravitate toward these warehouse conversions to take advantage of the increased real estate and resident taxes they generate.

Post Office to Become New Penn Station: New York Governor George Pataki and the U.S. Postal Service have agreed to let the state buy New York city's landmark post office building and turn it into a new, glass-covered Pennsylvania Station. The neo-classical structure occupies two city blocks across from the existing Penn Station, which would still be used. The \$230 million project could take about five years to complete and would serve 500,000 daily riders of Amtrak, the Long Island Rail Road, New Jersey Transit, and city subways. The building's famous front facade will not be altered. It bears the inscription: "Neither snow nor rain nor heat nor gloom of night stays these couriers from the swift completion of their appointed rounds." The Port Authority of New York and New Jersey has committed \$145 million to buy the building. The rest will come from state bonds, Amtrak, the Metropolitan Transportation Authority, and private sources.

X. Market Analysis

C. New York—Market Snapshot (continued)

Seaport and Rail Expansions Announced: The value of total exports handled by the New York Customs District (which includes all air, rail, and seaports in the area) increased 5% to \$11 billion during the first two months of 2003. Imports grew 16% to \$23 billion. In terms of just waterborne cargo, the seaport terminals in New York handled approximately 660,000 container units (TEUs) from January through March 2003, according to the Port Authority. This is a 16% increase from the 569,000 TEUs handled during the same period in 2002. To better handle the increasing volume, the Port Authority recently announced two expansion projects. A major wharf expansion at the Howland Hook marine terminal is in the planning stages. In addition, the Port hired a contractor to build a larger ExpressRail system to improve efficiency and allow shippers to get their goods to market faster.

RETAIL

The New York retail market will see its vacancy rate climb from 6.2% in 2002 to 6.4% in 2003, according to Marcus & Millichap. Low levels of construction are expected to keep supply and demand in balance. Completions are projected to average 1.8 million square feet annually between 2003 and 2007, versus 2.5 million square feet annually between 1998 and 2002.

Retail Component Larger in WTC Plan: In Manhattan, most retail projects are a part of larger office or residential buildings. The rent for the retail portion of these office projects is often ten times more than for the office space. The World Trade Center plan calls for substantially more shopping space than in the original complex. The Twin Towers housed approximately 600,000 square feet of retail, and was one of the highest producing projects on a square foot basis in the world, posting sales of over \$900 per square foot in mid-2001, just before the terrorist attacks. The new plan calls for 880,000 square feet of retail space—about half of it below ground and the other half at street level. The increasingly residential nature of the financial district and surrounding areas will aid in the project's success. The retail component is likely to be phased-in over time, as the office towers are projected to take five years to build.

SoHo Floats to Earth: Several high-end retailers have deserted SoHo in recent months, creating a gaping hole in one of New York's most prestigious shopping districts. Vivienne Westwood is just one of the luxury retailers to leave empty space behind. The decline in business following September 11th is blamed for the defections. SoHo is starting to take steps to reinvent itself, though, making a painful shift toward lower rents and less affluent tenants. The arrival of Bloomingdale's at 502-504 Broadway is expected to boost pedestrian traffic and leasing on the less gentrified end of that street. In the meantime, Bisou's at 474 West Broadway is asking \$150 per square foot while other sites on the street are being marketed for \$200 to \$250 per square foot. The vacancy rate on West Broadway is estimated at about 25%. Cartier's former space at 133 Prince Street has been re-priced at \$225 per square foot, 25% below what the retailer had been paying. The lowered rents are already beginning to fuel interest. Big box stores such as Bed, Bath & Beyond are reportedly looking at sites on Broadway.

Elsewhere in New York, Utopia Center, a 113,000 square foot retail and office complex, is under construction near St. John's University in Queens. Whole Foods is opening a 36,000 square foot store in White Plains in Spring 2004. The fresh food grocer also signed a lease recently for 58,000 square feet in the AOL Time Warner Center.

In sales activity, a partnership between the California Public Employees Retirement System (CalPERS) and MacFarlane Partners has purchased a stake in the AOL Time Warner headquarters underway on Columbus Circle. The team will acquire nearly 50% of the 349,000 square feet of retail space, the 504-car garage, and the non-AOL Time Warner office space (211,000 square feet) in the complex. In addition, MacFarlane Partners is investing in a fund that will own and operate two showcase restaurants and an upscale lounge bar at the center.

New Sales Tax Takes Effect: The state sales tax has been increased from 4% to 4.25% as a result of recent legislation. This is in addition to local sales and use taxes charged in various localities. For New York City, that translates into an 8.63% total tax rate (including the .25% Metropolitan Commuter Transportation District tax, the recently-increased

X. Market Analysis

C. New York—Market Snapshot (continued)

city tax—from 4% to 4.13%, and the state sales tax). The city's recent sales tax increase is projected to generate up to \$120 million annually.

In addition, the state's exemption on clothing and shoes under \$110 ended on June 1. Those items will be taxed at the new rate until the end of May 2004. During that 12-month period, the sales tax will be lifted for just two separate one-week periods: one at the end of August 2003 and one in mid-January 2004.

APARTMENT

The vacancy rate for apartments in greater New York stood at 4.9% in the first quarter of 2003, unchanged from the fourth quarter of 2002, according to Property & Portfolio Research. Limited supply is credited for both high rents (the Census Bureau estimates that a quarter of all New York households pay more than half of their income in rent) and low vacancies.

Moreover, rents have just increased. In June, the New York City Rent Guidelines Board approved rent increases for the city's one million rent-stabilized apartments. One-year leases rose 4.5% and two-year leases increased 7.5%. The hikes affect leases renewed between October 1, 2003 and September 30, 2004. This is the city's largest rent increase since 1989. Landlords say the higher rents are needed to cover the cost of increased property taxes, fuel, and insurance.

State Backs Plan for Affordable Housing: The state will give New York City \$60.7 million in additional tax-free borrowing capacity to help create rent-subsidized housing units in Manhattan, Brooklyn, and the Bronx. The securities are to be sold this year by the city Housing Development Corp. (Because bond buyers accept lower yields on tax-exempt debt, the proceeds can be loaned to developers at below-market rates, enabling them to offer lower rents.) The bonds will help finance 454 new housing units, at least 300 of which will be reserved for low- or moderate-income families. The projects include the construction of 104 units of mixed-income housing on Manhattan Avenue in Harlem, 130 units of low-income housing on Washington Avenue in the Bronx, a 136-unit mixed-income project in downtown Brooklyn, and the

conversion of an abandoned theater in Brooklyn into low-income housing. New York's mayor praised the move as a step toward achieving his recently-announced five-year plan of creating and preserving 67,000 units of affordable housing in the city.

Developer Chosen for Hell's Kitchen Project:

The city's Department of Housing Preservation and Development has selected the Dermot Company to develop a major mixed-use project on 10th Avenue in Hell's Kitchen. In a nod to the neighborhood's gentler nickname, Clinton Green will feature 60 mixed-income housing units, 12,000 square feet of retail, 29,000 square feet of community facility space, open space, and parking. Dermot will develop Clinton Green in a joint venture with the AFL-CIO Housing and Building Investment Trust. Funding will be arranged through the AFL-CIO's \$750 million New York City Community Investment Initiative. Groundbreaking is slated for Spring 2005. The development will incorporate "green building" principles. It is Dermot's second New York City project. The company recently broke ground on 475 Ninth Avenue, a 259-unit new apartment building in Midtown Manhattan near the Lincoln tunnel.

New market-rate developments in planning include Forest City's proposed 330-unit apartment building at 111 Worth Street in the Tribeca district. World Wide Group recently completed a 390-unit loft-style project at 50 Murray Street, also in this area.

Prudential and Claret Group have announced plans to develop \$500 to \$700 million of condominium and rental projects, with an emphasis on Manhattan, but will include possible development in the outer boroughs on an opportunistic basis. If project costs average \$350,000 per unit, this initiative could add 2,000 units to the market.

Huge Mixed-Use Project Planned in Westchester:

In Westchester, developers hope to turn the 96-acre former General Motors' assembly plant site on the Hudson River shoreline into a mixed-use project. Blueprints call for 1,560 residential units, including rental and senior housing, plus condominiums and townhouses. The developers also envision 185,000 square feet of retail space and 95,000 square feet of office space, as well as a 150-room hotel. The proposal reserves 21 townhouse units for municipal workers and stipulates over 20% of the site's area as open space.

X. Market Analysis

C. New York—Market Snapshot *(continued)*

In March, a 12-building multifamily portfolio changed hands for \$109 million. The Manhattan buildings are on West End Avenue, Cathedral Parkway, West 113th Street, West 140th Street, and West 163rd Street. In the Bronx, the portfolio includes buildings on Wallace and Barnes Avenues. In February, the Brusco family purchased a 53-unit apartment complex on West 75th Street on the posh Upper West Side for \$7.5 million.

HOSPITALITY

The occupancy rate for Manhattan hotels decreased 9.6% to 72.6% during the week ending March 22, 2003, compared to the same period in 2002, according to Smith Travel Research. The average daily room rate was \$195, down from \$201. Conditions may be improving, though, at least among the leisure travel trade. The week ending March 30, 2003 attracted 541,000 more people to Broadway shows than the same period in 2002, according to the League of American Theatres and Producers.

Hotels under construction in New York City include Residence Inn by Marriott (414 rooms) on West 39th Street & Avenue of the Americas, Courtyard by Marriott (380 rooms) on West 54th Street & Broadway, Mandarin Oriental hotel (250 rooms) at Columbus Circle, Hampton Inn LaGuardia Airport (220 rooms), Hotel Gansevoort (187 rooms) on Ninth Avenue, and Sheraton Four Points (158 rooms) on West 25th Street, to name a few.

Millennium Hilton Re-Opens: The Millennium Hilton, a 55-story downtown hotel, which was damaged on 9/11, re-opened in May after a \$30 million renovation. The facility is just east of where the twin towers once stood. Most of the hotel's 565 rooms have a view of the trade center site.

Air Travel Growing: According to the Port Authority of New York & New Jersey, domestic air travel at JFK International Airport was up 15% for the 12 months ending in March 2003 to 14 million passengers; commuter traffic (represented by regional carriers) increased 10% to 1.1 million passengers. The number of international passengers was basically unchanged, at 15 million. At LaGuardia International Airport, domestic travel

was down 3% to less than 18 million and international traffic rose 0.8% to just over one million. However, commuter traffic jumped 38% to more than three million passengers.

X. Market Analysis

D. New York—Submarket Inventory/Vacancy

| OFFICE—Manhattan* | | | | |
|---|--------------------|--------------|--------------------|------------------|
| SUBMARKET | INVENTORY | VACANCY | ABSORPTION | CONSTRUCTION |
| <u>DOWNTOWN</u> | | | | |
| Battery Park | 7,026,934 | 19.2% | (88,395) | 0 |
| City Hall | 10,053,215 | 11.6% | (145,084) | 0 |
| Financial District | 32,787,618 | 14.0% | (98,513) | 0 |
| Insurance District | 19,456,854 | 8.9% | 101,955 | 0 |
| Greenwich Village | 12,381,022 | 12.3% | 125,670 | 0 |
| World Financial Ctr. | 10,521,456 | 21.9% | 102,173 | 0 |
| Downtown | 92,227,099 | 13.7% | (2,194) | 0 |
| <u>MIDTOWN NORTH</u> | | | | |
| Columbus Circle | 18,584,198 | 8.9% | 624,900 | 1,875,851 |
| Grand Central/UN | 40,459,729 | 8.8% | (548,499) | 1,200,000 |
| Madison Ave | 13,632,334 | 10.8% | (63,293) | 0 |
| Park/Lexington | 26,859,092 | 7.5% | (581,894) | 900,000 |
| Plaza District | 17,434,041 | 13.0% | (4,186) | 0 |
| Rockefeller Center | 24,091,645 | 5.9% | (164,243) | 0 |
| Third Ave | 11,457,298 | 14.0% | (306,025) | 0 |
| Times Square | 21,406,186 | 6.7% | (374,031) | 1,226,927 |
| Midtown North | 173,924,523 | 8.9% | (1,417,217) | 5,202,778 |
| <u>MIDTOWN SOUTH</u> | | | | |
| East Midtown South | 38,653,190 | 11.2% | (659,432) | 0 |
| Garment District | 28,254,248 | 11.1% | (457,367) | 0 |
| Penn Station | 12,857,868 | 9.1% | 109,806 | 0 |
| West Midtown South | 8,680,570 | 12.6% | (220,086) | 0 |
| Midtown South | 88,445,876 | 11.6% | (1,227,078) | 0 |
| MIDTOWN TOTAL | 262,370,399 | 9.6% | (2,644,295) | 5,202,778 |
| MARKET TOTAL | 354,597,498 | 10.7% | (2,646,489) | 5,202,778 |
| *Reported as of first quarter 2003. | | | | |
| Source: CB Richard Ellis (New York). | | | | |

| OFFICE—Westchester County* | | | |
|---|-------------------|--------------|------------------|
| SUBMARKET | INVENTORY | VACANCY | ABSORPTION |
| White Plains | 6,320,821 | 18.9% | (108,147) |
| East I-287 | 11,273,536 | 13.6% | 34,245 |
| Southeast Westchester | 1,891,472 | 6.8% | (23,371) |
| West I-287 | 7,041,825 | 14.7% | (21,473) |
| Southwest Westchester | 1,285,406 | 15.6% | (9,240) |
| Northern Westchester | 5,687,143 | 6.0% | (1,779) |
| MARKET TOTAL | 33,500,203 | 13.2% | (129,765) |
| *Reported as of first quarter 2003. | | | |
| Source: CB Richard Ellis (Stamford, CT). | | | |

| INDUSTRIAL—Westchester County* | | | |
|---|-------------------|-------------|------------------|
| SUBMARKET | INVENTORY | VACANCY | ABSORPTION |
| East I-287 Corridor | 2,526,755 | 12.7% | (119,863) |
| Northern Westchester | 4,456,200 | 6.1% | 4606 |
| Southeast Westchester | 6,607,621 | 12.3% | (42,300) |
| Southwest Westchester | 8,897,170 | 11.6% | 71,000 |
| West I-287 Corridor | 4,663,792 | 5.1% | (33,518) |
| MARKET TOTAL | 27,151,538 | 9.9% | (120,075) |
| *Reported as of first quarter 2003. | | | |
| 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–Nassau-Suffolk, Westchester County)

Marcus & Millichap (Retail)

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