



New York

Vol. 38

Second 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. 38



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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New York: Metropolitan Map/Market Definition

New York PMSA:

Bronx County
Kings County
New York County
Putnam County

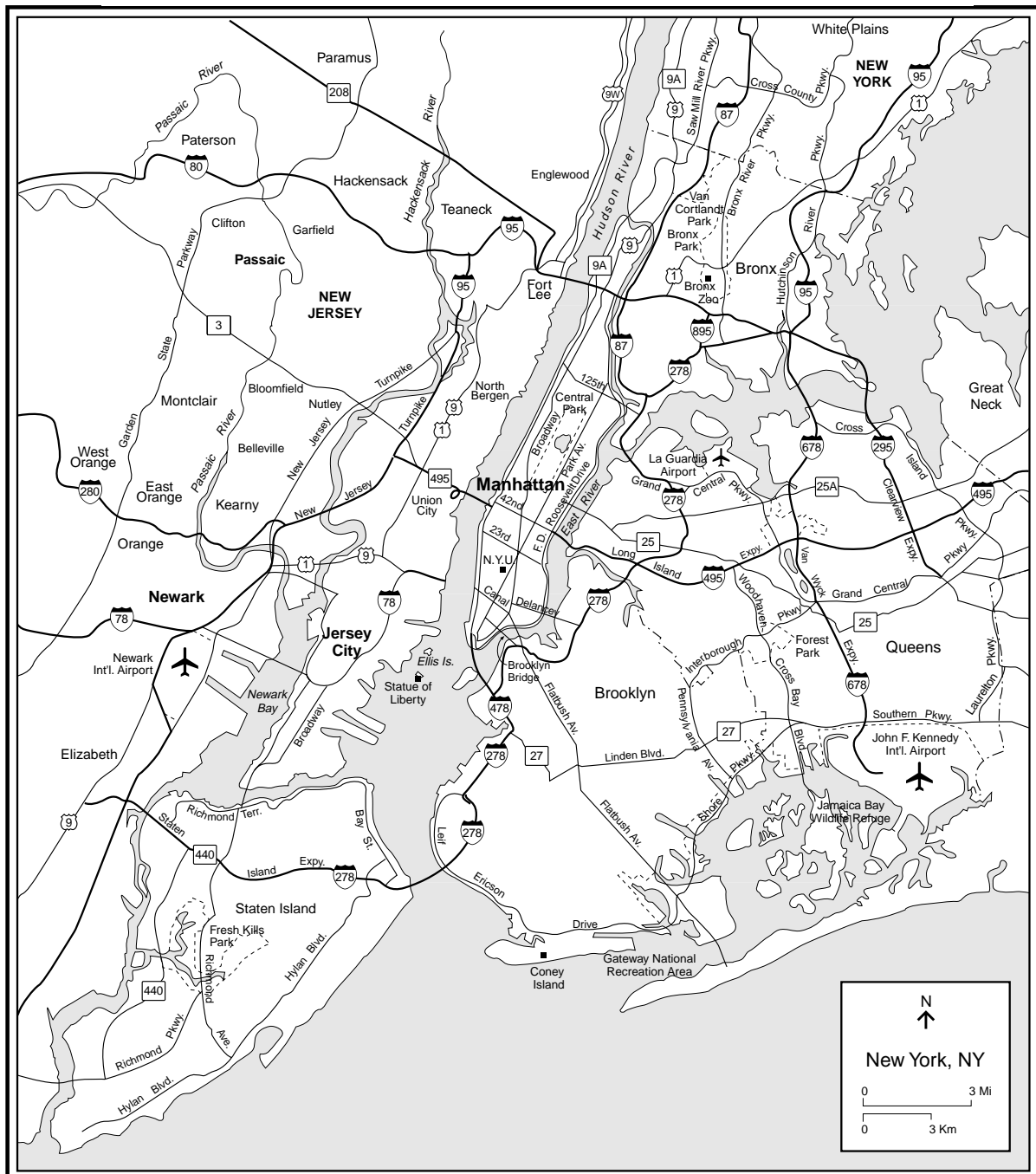
Queens County
Richmond County
Rockland County
Westchester County

Land Area of New York MSA:

1,147.6 sq. miles

Population Density (2002):

8,201 people per sq. mile



Nassau-Suffolk: Metropolitan Map/Market Definition

Nassau-Suffolk PMSA:

Nassau County
Suffolk County

Land Area of Nassau-Suffolk PMSA: 1,198 sq. miles
Population Density (2002): 2,340 people per sq. mile



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I. New York: Snapshot

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

Job Growth (Loss) 12 Months (Ending in June 2003):	(1.5%)
Unemployment Rate (June):	7.1%
Metropolitan Population Growth (Loss), 1990–2002:	10.1%
Total Metropolitan Population, 2002:	9.4 million

B. Second 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															
2nd Q. '03	\$287.79	\$38.92	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
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
2nd Q. '02	290.90	43.10	8.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
New York -- Midtown															
2nd Q. '03	\$478.08	\$52.60	6.3%	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. '03	471.38	53.56	6.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2nd Q. '02	430.62	58.72	7.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: National Real Estate Index's Market Monitor.

I. Nassau-Suffolk: Snapshot

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

Job Growth (Loss) 12 Months (Ending in June 2003):	0.3%
Unemployment Rate (June):	4.1%
Metropolitan Population Growth (Loss), 1990–2002:	7.4%
Total Metropolitan Population, 2002:	2.8 million

B. Second 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
2nd Q. '03	\$157.66	\$26.49	8.0%	\$148.39	\$23.75	7.9%	\$51.33	\$6.59	8.6%	\$143.01	\$21.84	8.6%	\$132.08	\$20.34	8.8%
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
2nd Q. '02	159.18	27.38	8.1	146.21	25.11	8.3	49.15	6.61	9.0	136.28	21.70	9.0	125.84	20.11	9.0

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

II. New York: Demographics

A. Metro Population

	New York PMSA	Nassau-Suffolk	United States
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

County	2002 Population	% Growth 1990-2000	% Growth 2000-2002
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

City	2002 Population	% Growth 1990-2000	% Growth 2000-2002
Hempstead	53,500	15.9	0.5
Mt. Vernon	68,600	2.1	0.2
New Rochelle	72,500	7.3	0.3
New York	8,084,300	9.5	0.8
Yonkers	197,200	4.4	0.4
White Plains	55,400	9.4	3.9

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 June):	(1.5%)
Total Number of Net New Jobs, 12 Months (Ending in June):	(63,300)
% Unemployed, June 2003:	7.1%
% Unemployed, 12 Months Before:	7.0%

National

Employment Growth (Loss)—% 12-Month (Ending in June):	(0.3%)
% Unemployed, June 2003:	6.5%
% Unemployed, June 2002:	6.0%

B. Economic Base—Employment By Sectors

Sector	12-Month % Growth Metro	% Growth National	% of Total Employment Metro	% of Total Employment National
Services	(0.4)	0.8	34.4	28.7
Business Services	(2.1)	(0.2)	14.8	12.3
Financial Activities	(2.9)	1.9	11.5	6.1
Government	(2.1)	(0.1)	15.9	16.4
Retail Trade	(0.5)	(0.6)	8.1	11.4
Wholesale Trade	(0.7)	(1.3)	4.2	4.3
Transportation/Public Utilities	(5.9)	(2.0)	3.2	3.6
Manufacturing	(7.3)	(4.2)	4.0	11.3
Construction	5.4	1.3	3.9	5.4

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".

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

A. Job Formation

Metropolitan Area

Employment Growth (Loss)—% 12-Month (Ending in June):	0.3%
Total Number of Net New Jobs, 12 Months (Ending in June):	3,600
% Unemployed, June 2003:	4.1%
% Unemployed, 12 Months Before:	4.3%

National

Employment Growth (Loss)—% 12-Month (Ending in June):	(0.3%)
% Unemployed, June 2003:	6.5%
% Unemployed, June 2002:	6.0%

B. Economic Base—Employment By Sectors

Sector	12-Month % Growth		% of Total Employment	
	Metro	National	Metro	National
Services	2.5	0.8	30.4	28.7
Business Services	(2.9)	(0.2)	12.2	12.3
Financial Activities	1.8	1.9	6.8	6.1
Government	1.4	(0.1)	16.3	16.4
Retail Trade	0.8	(0.6)	13.1	11.4
Wholesale Trade	(0.8)	(1.3)	5.8	4.3
Transportation/Public Utilities	(3.7)	(2.0)	2.9	3.6
Manufacturing	(5.2)	(4.2)	7.1	11.3
Construction	0.5	1.3	5.3	5.4

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".

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

C. Metropolitan Total Employment Gain (1993-2003)

Job Growth			
(% Gain/Loss, June 1993-June 2003)			
Las Vegas	77.0	Oakland	18.8
Phoenix	49.3	Memphis	17.9
Austin	48.1	Minneapolis-St. Paul	17.9
Riverside-San Bernardino	46.3	Seattle	17.6
West Palm Beach	45.1	UNITED STATES	17.4
Orlando	39.1	Kansas City	16.0
Tampa-St. Petersburg	35.7	Miami	15.5
Sacramento	35.5	Baltimore	14.8
Atlanta	35.1	Nassau-Suffolk	14.6
Raleigh-Durham	34.1	Cincinnati	14.3
Fort Lauderdale	33.0	Indianapolis	14.2
San Diego	29.5	Philadelphia	13.3
Dallas-Ft. Worth	29.4	Boston	12.4
Salt Lake City	28.4	Detroit	10.9
Jacksonville	27.7	Newark-No. New Jersey	10.6
Charlotte	27.5	Chicago	10.0
Albuquerque	26.7	Greenville-Spartanburg	10.0
Denver	26.3	St. Louis	9.3
Houston	26.1	San Jose	8.9
Orange County	25.5	New York	8.1
Nashville	23.2	Los Angeles	8.0
Oklahoma City	20.8	Milwaukee	7.8
Washington	20.8	San Francisco	6.9
Columbus	20.2	Cleveland	5.9
Portland	19.9	Hartford	2.8
Central New Jersey	19.1	Honolulu	1.0

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

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

D. Metropolitan Average Wages—Select Occupations

Position	Average Annual Wage
Accountant	\$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</u> <u>Rating***</u>	<u>1999</u> <u>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	\$11,023	2	\$52,000	5	12.6	49
U.S. Average	\$7,548	--	\$44,683	--	15.9	--

These figures represent statewide (and national) averages and are based on actual enrollment. 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 2002*.

D. University R&D Expenditures

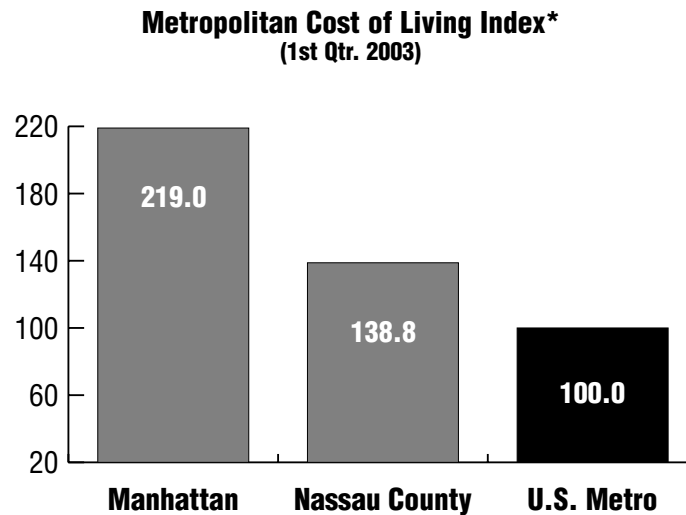
	Federal R&D Expenditures (\$\$ in mil.)	% of Leading School*	Total R&D Expenditures (\$\$ in mil.)	% of Leading School*
Columbia	\$137.1	63.8	\$158.4	59.1
City Univ. of NY	\$2.0	0.9	\$2.6	1.0
Fordham University	\$1.5	0.7	\$2.0	0.7
NY Medical College	\$9.5	4.4	\$12.1	4.5
NYU	\$73.1	34.0	\$97.5	36.4
Polytechnic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

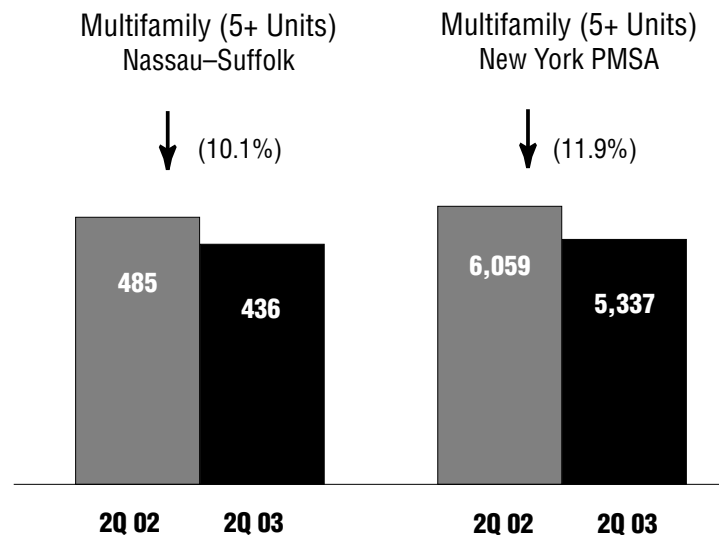
A. Overall Cost of Living



*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



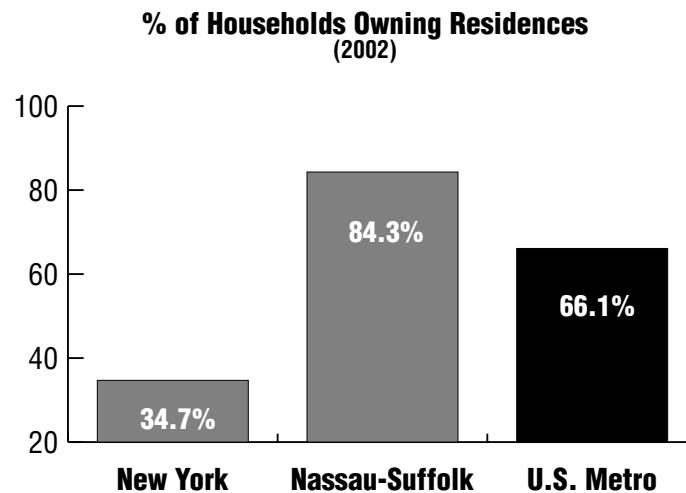
Local Data: Figures represent total permits granted year-to-date in the New York and Nassau-Suffolk PMSAs.

U.S. Data: The percent change in multifamily permits nationwide was (0.3%).

Source: U.S. Census Bureau.

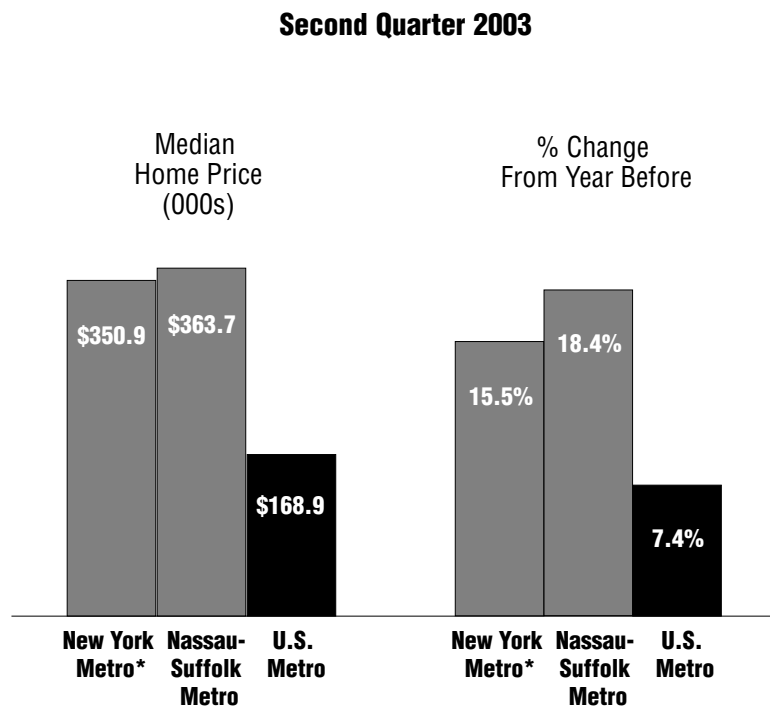
V. **Housing & Related Costs** (Cont.)

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%

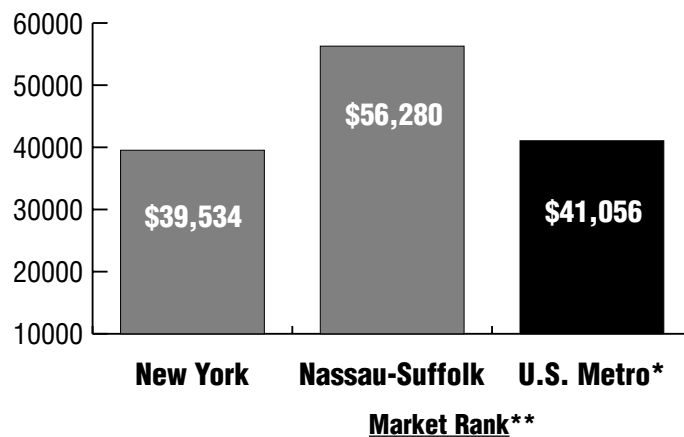
The above data reflects our best efforts. All recent changes at the local/state level may not have been captured.

*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

45

Nassau-Suffolk

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 June 2003)

Greater New York (4.9%)

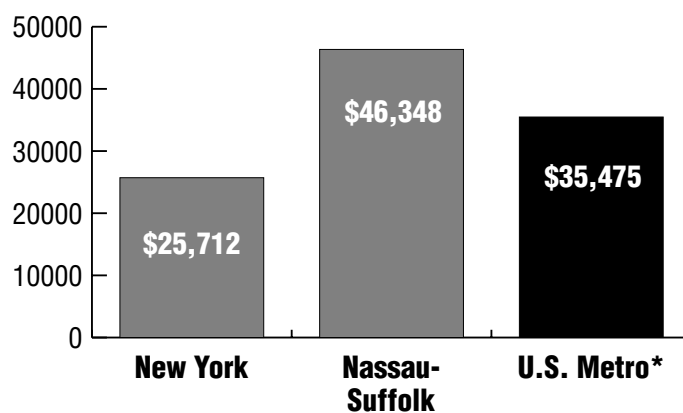
National (5.1%)

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

First Quarter 2003 (\$\$ in billions)

	<u>Total Retail Sales</u>	<u>E-Commerce Retail Sales</u>	<u>% of Total</u>
U.S.	\$772.2	\$11.9	1.5
Prior Quarter	\$864.7	\$13.8	1.6
Year Ago	\$740.0	\$9.5	1.3

Source: U.S. Department of Commerce.

VI. Other Economic Indicators (Cont.)

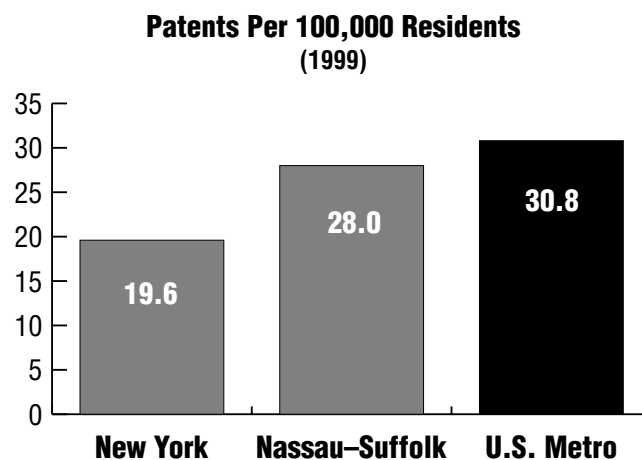
E. High-Tech Industry Employment

	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 132 national and 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-May 2003 (\$\$\$ in billions)	\$59.8	\$29.1	\$88.9
% Change (from year ago)	9.9%	5.2%	8.3%
Total U.S.			
January-May 2003 (\$\$\$ in billions)	\$503.5	\$292.8	\$796.3
% Change (from year ago)	10.6%	2.9%	7.6%

Source: Dept. of Commerce, Foreign Trade Division.

VI. Other Economic Indicators (Cont.)

I. Gross State Product

	<u>1991</u>	<u>2001</u>	<u>% Change 1991-2001</u>
New York Ranking*	2	2	--
New York Total (\$\$\$ in billions)	\$572.6	\$766.5	33.9%
U.S. Total (\$\$\$ in billions)	\$6,615.7	\$9,335.4	41.1%

*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.

J. Gross Metropolitan Product

	<u>GMP</u> (\$\$ in billions)		
	<u>2002</u>	<u>Rank</u>	<u>% Change (from 2001)</u>
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.

VI. Other Economic Indicators (Cont.)

K. Fortune 500 Companies

	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>New York</u>			
# of Fortune 500 Firms in Metro Area	46	45	46
Ranking*	1	1	1
<u>Nassau-Suffolk</u>			
# of Fortune 500 Firms in Metro Area	4	3	3
Ranking*	31	32	33

*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, © 2003, 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 2002-March 2003 (\$\$ in millions)

	<u>Personal Income</u>	<u>Corporate Income</u>	<u>Sales</u>	<u>Total*</u>	<u>% Change from Year Ago</u>
New York	\$16,882	\$1,896	\$6,447	\$29,811	(1.6%)
U.S.	\$128,979	\$16,979	\$130,824	\$326,037	1.9%

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	\$6,733	24	9.8%
Nassau County	\$5,360	--	3.4%
New York City & County**	\$6,545	--	7.0%
Suffolk County	\$5,278	--	2.2%
Westchester County	\$5,317	--	6.1%
U.S. Average	\$6,527	--	4.1%

*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 2002*.

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)

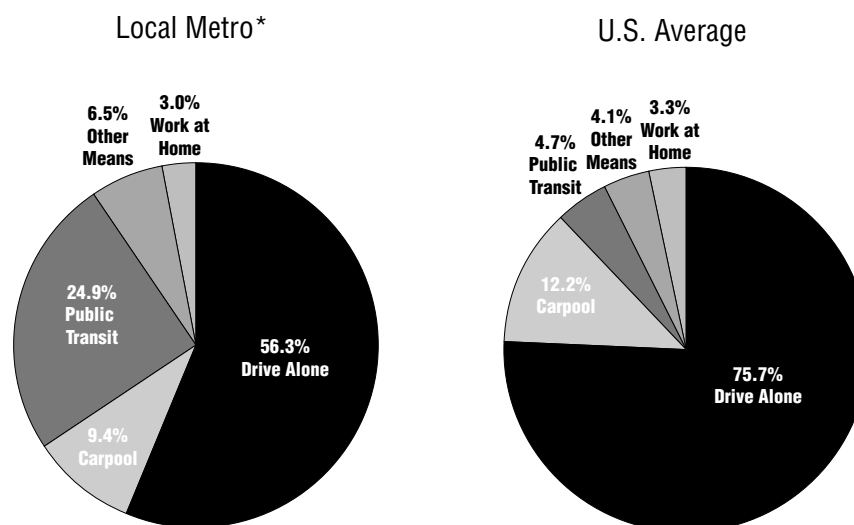
	<u>High</u>	<u>Low</u>
Winter	38	26
Spring	61	44
Summer	85	68
Autumn	66	50

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			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
National	\$211.12	\$28.79	7.8%	\$179.66	\$22.57	8.0%	\$44.93	\$5.28	8.6%	\$126.56	\$17.43	8.5%	\$108.47	\$14.01	7.5%
Northeast Region	294.01	39.79	7.4	198.66	25.44	7.7	49.51	6.24	8.8	136.19	19.21	8.8	128.75	18.80	8.0
New York -- Downtown															
2nd Q. '03	\$287.79	\$38.92	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
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
2nd Q. '02	290.90	43.10	8.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
New York -- Midtown															
2nd Q. '03	\$478.08	\$52.60	6.3%	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. '03	471.38	53.56	6.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2nd Q. '02	430.62	58.72	7.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nassau—Suffolk															
2nd Q. '03	\$157.66	\$26.49	8.0%	\$148.39	\$23.75	7.9%	\$51.33	\$6.59	8.6%	\$143.01	\$21.84	8.6%	\$132.08	\$20.34	8.8%
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
2nd Q. '02	159.18	27.38	8.1	146.21	25.11	8.3	49.15	6.61	9.0	136.28	21.70	9.0	125.84	20.11	9.0

B. Other Property Classes – Most Recent Period

Property Sector	Price Per SF	Property Sector	Price Per SF
Manhattan Downtown		Nassau-Suffolk	
Class D CBD Office	\$80.45	Class B Apartment	\$84.31
Manhattan Midtown			
Class B CBD Office	\$289.77		
Class C CBD Office	\$231.44		
Class D CBD Office	\$124.58		

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

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

C. Local Market Rankings

2nd Qtr. 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	26	14	10	10	11
Rents	13	8	10	7	5	7

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

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

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

D. Price and Rent Growth

% Change from Year Ago

	<u>CBD Office</u>	<u>Suburban Office</u>	<u>Warehouse</u>	<u>Retail</u>	<u>Apartment</u>	<u>Class B Apartment</u>
<u>Manhattan Downtown</u>						
Prices	(1.1%)	n/a	n/a	n/a	n/a	n/a
Rents	(9.7%)	n/a	n/a	n/a	n/a	n/a
<u>Manhattan Midtown</u>						
Prices	11.0%	n/a	n/a	n/a	n/a	n/a
Rents	(10.4%)	n/a	n/a	n/a	n/a	n/a
<u>Nassau-Suffolk</u>						
Prices	(1.0%)	1.5%	4.4%	4.9%	5.0%	6.3%
Rents	(3.3%)	(5.4%)	(0.3%)	0.6%	1.1%	1.9%
<u>National</u>						
Prices	0.6%	(0.5%)	2.5%	4.4%	2.5%	3.2%
Rents	(8.1%)	(7.4%)	(4.0%)	(0.6%)	(2.5%)	(1.4%)

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

X. Nassau-Suffolk: Market Analysis

A. Nassau-Suffolk—Market Snapshot

Jobs Gain Steam

Greater Long Island saw job growth return during the 12 months ending in June 2003 with the addition of 3,600 positions. This is a great improvement from the 5,400 net jobs eliminated during the 12 months ending in March. The unemployment rate dropped slightly from 4.3% in June 2002 to 4.1% in June 2003.

Services Sees Largest Growth: The local service sector experienced the greatest job gain, adding 9,100 employees. Government was next, generating 2,700 positions. Ironically, Nassau County notified department heads in April to prepare to lay off 642 workers, including 278 employees of the county police department, by September 1st. Financial activities created 1,500 jobs, retail trade fueled 1,300 positions, and construction added 300 to its payroll.

Four major employment categories experienced losses. Manufacturing eliminated 4,800 workers. Arrow Electronics recently announced its decision to close its 90,000 square foot Yaphank warehouse, the firm's last operational facility on Long Island. The shutdown will cause the loss of 130 jobs by early 2004. Professional/business services cut 4,500 jobs, transportation/public utilities shed 1,400 positions, and wholesale trade shaved 600 employees.

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

Greater Long Island saw its vacancy rate increase from 12.7% in the first quarter of 2003 to 13.7% in the second quarter, according to CB Richard Ellis. However, the current rate represents a decrease from 14% in the second quarter of 2002. Net absorption totaled a negative 27,000 square feet in the second quarter of 2003, an improvement from the 124,000 square foot deficit posted last quarter.

Two projects were under construction on Long Island in the second quarter. Phase II (150,000 square feet) of 1999 Marcus Avenue in Western

Nassau County's Lake Success is due to complete soon; 50 Republic Drive (50,000 square feet) is in progress in Melville. Feldman Properties broke ground in the third quarter on a two-building, 32,000 square foot office complex near the intersection of Veterans Memorial Highway and Sycamore Avenue. One of the two single-story buildings has already been leased to the Bank of Smithtown.

Industrial Facility Converts to Class B Office Space: Tritec Real Estate is converting an industrial facility at 135 Engineers Road into Class B office space. The 65,000 square foot project is slated for completion by early 2004. The building could either be used by a single tenant or be split up among several users, depending on the leasing arrangements. Presently, the smallest division Tritec will permit is 10,000 square feet. The repositioning of the site as an office building is part of a growing trend in the Hauppauge industrial park, where costs are pushing developers to redevelop with higher end uses in mind.

First Data Corp. Consolidates into Melville Building: In build-to-suit activity, credit card-processing giant First Data Corporation has a 195,000 square foot building under development on Walt Whitman Road in Melville. The firm signed a letter of intent to consolidate its Long Island operations at the new facility when it is completed in early 2004. Reckson is building the new space on 19 acres it owns off the Long Island Expressway within the company's Melville Square corporate center. First Data's operations are currently housed in two buildings—at 265 Broad Hollow and 80 Baylis Roads.

Leasing activity in the second quarter was driven by expansions, relocations, and consolidations. LA Fitness Sports Club signed the largest lease of the quarter with a 65,000 square foot, 15-year commitment at 1111 Marcus Avenue in the iPark office complex. In the same iPark location, Polar Electro, a manufacturer of heart rate monitors, soaked up 52,000 square feet in a move that nearly doubles its space. The company will relocate from its current Long Island facility in Woodbury.

Third Quarter Brings Largest Lease So Far: One of the largest leases to be signed so far this year occurred in the third quarter. ELM Global Logistics took 560,000 square feet at 50 Emjay Boulevard in

X. Market Analysis

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

Brentwood. The firm, which provides outsourcing of warehouse distribution services to companies on Long Island and nationwide, also has an option to buy from Mack-Cali Realty Corp. ELM already occupies 400,000 square feet at the site. It is renewing its lease for that space and taking the remaining 160,000 square feet that had been occupied by the now-bankrupt Allou Healthcare. The firm will relocate operations from its Deer Park facility on West Jeffry Boulevard (80,000 square feet). The Deer Park building is in contract, but the sale price has not been disclosed.

The largest sale in the second quarter was the Town of Brookhaven's purchase of Allstate Insurance's 221,000 square foot building at 1 Allstate Drive in Brookhaven for \$21 million. Allstate will lease back 50,000 square feet and consolidate operations in the building. Brookhaven plans to convert the remaining space into a new town hall. In the third quarter, Reckson Associates Realty acquired 1055 Washington Boulevard (182,000 square feet) for \$33 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% (the latest figures available), 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 between the two quarters, with vacancy falling from 12.1% to 8.8%.

Heartland Expansion Underway: Heartland Development has begun work on an 87-acre parcel adjacent to the Heartland Business Center that could add 1.3 million square feet of industrial space and fuel up to 1,000 jobs. The developer recently received an incentive package from the Industrial Development Authority (IDA) to carry out the expansion. The incentives can include mortgage recording, sales, and real property tax abatements. The Heartland complex is one of Long Island's largest industrial parks. It includes 3.5 million square feet of industrial space on 300 acres and

is about 90% developed. The build-out of the adjacent 87 acres has begun with the construction of an access road to be known as Wilshire Boulevard. The installation of other necessary infrastructure is expected to follow in the next few months and be completed by the end of the year. After the infrastructure is in place, Heartland plans to begin construction of a speculative industrial facility to stimulate interest in developing the remainder of the 87-acre site.

Del Laboratories Stays Put: In July, Del Laboratories expanded its headquarters on Long Island by subleasing an additional 41,000 square feet at EAB Plaza in Farmingdale. The expansion nearly doubles the company's space at EAB, where it already leases 44,000 square feet. The firm was contemplating moving to another facility on the Island or leaving altogether to be closer to its manufacturing operations in Rocky Point, NC. About 400 local jobs depended on the company's decision. Del has already moved some of its operations to North Carolina.

In leasing activity, Regent Baby Products, a Jamaica-based importer and distributor of pet, baby, and swim products, leased the 130,000 square foot former Pergament warehouse at 101 Marcus Drive in Melville. Also, direct mail giant Access Direct Systems has subleased 100,000 square feet of industrial space from JC Penney at 185 Price Parkway in Farmingdale. The new space will replace 85,000 square feet that Access Direct has been leasing on Route 109. The JC Penney lease has seven years remaining. The retail chain has been giving up smaller facilities and converting to larger regional warehouses of 500,000 square feet. Wallace Packaging plans to relocate from Queens to 96,000 square feet at the former Lumex building on Spence Street in Bay Shore.

In sales activity, a 386,000 square foot industrial facility at One Grumman Road West in Bethpage was purchased for \$17 million and a 263,000 square foot industrial property at 466-468 Mill Road in Coram was bought for \$5 million. Also, Dorson/Apple Sports acquired Twinlab's dormant facility (72,000 square feet) on Smithtown Avenue in Ronkonkoma for \$5 million. The supplier of Wilson Sports golf products will double its warehousing capacity by moving to the new site.

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

Meanwhile, Tri-Link, a supplier of miniature liquor bottles for the airline industry, has acquired Dorson/Apple's 60,000 square foot facility at 1 Roebling Court for an undisclosed price.

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 has been steadily creeping up with store closings and bankruptcies.

Galyan's Trading Company, an outdoor and athletic equipment and apparel retailer, is preparing to open its first Long Island store at the Roosevelt Field mall in Garden City. The 100,000 square foot space is expected to open within a former Stern's department store (measuring 239,000 square feet) this Fall. Galyan's will be competing with Eastern Mountain Sports (EMS), which has stores in Carle Place near Roosevelt Field and in Lake Grove at the Smithhaven mall. Bloomingdale's Furniture Store will also take 65,000 square feet in the former department store space.

Big Boxes Fan Out: 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 Target 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. Big Lots, the nation's largest close-out retailer, plans to open its third store (33,000 square feet) on Long Island this Fall at Centereach mall. The store joins several other chains currently located in the center, including a Wal-Mart, CVS, and Modell's. Big Lots opened stores in West Babylon and Copiague earlier this year.

Vacated Space Finds Takers: Kmart plans to shut stores in Westbury, Syosset, Stony Brook, Fresh Meadows, and Brooklyn. Big-box retailers are queuing up to take the space. Target, Kohl's, and Wal-Mart are among the top contenders for the locations. All three chains have been aggressively expanding on Long Island, and many of the stores that Kmart abandoned are prime retail spots, including the sites 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 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.

Taubman Finds Simon's Offer Inadequate: 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, remains on hold. Taubman was fighting a takeover bid from Simon Properties, which owns several Long Island malls that would have to compete with the new shopping center. However, Taubman contends that Simon failed to meet the conditions required to acquire the company. By Taubman's calculations, only 31.5 million (less than 39%) of the approximately 81 million shares of Taubman's voting stock have accepted the offer. This is significantly less than the two-third minimum (approximately 54 million voting shares) required to approve any sales transaction or amendment to the corporate charter. Taubman Centers' Board of Directors unanimously determined that the Simon offer is inadequate. However, the two sides differ on the calculation methods used to determine the percentages. Simon insists that 64% of the shares have accepted the offer.

X. Market Analysis

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

Another development sitting at the starting gate is the 122,000 square foot retail center planned for a 21-acre site in Calverton next to a proposed 54,000 square foot YMCA. A Ronkonkoma development firm is awaiting site plan approval to develop the property. The project, under review by the Riverhead Town Board, would sit on the northwest corner of Manor Road and Middle Country Road, about a half mile west of the Tanger Outlet Center.

Caldor's Shopping Center Tagged for Demolition:

The owner of the nearly-abandoned Caldor's Shopping Center on Montauk Highway in East Patchogue (who recently purchased the property for \$4.8 million) has proposed demolishing the current 140,000 square foot structure to make room for a development that would feature street-level retail with two upper floors of affordable and market-rate rental housing. The current center is 92% vacant following the departure of anchor tenants such as King Kullen, Pergament Express home center, and Caldor's. The proposal needs to be approved by the Brookhaven Town Planning Commission before moving forward. In Manhasset, the 220,000 square foot Americana Manhasset is opening renovated space that features some of the most famous names in high-end fashion retailing. For instance, Christian Dior opened its doors in August and Bottega Veneta, Yves St. Laurent, and Gucci all plan on opening there soon. Louis Vuitton, St. John, and Coach will be moving into some of the larger spaces.

King Kullen plans to open new or remodeled stores in Manhasset, Bethpage, and other locations in 2003-2004. It recently completed a 50,000 square foot supermarket in Valley Stream and remodeled its 49,000 square foot store in Port Washington.

In recent sales activity, an affiliate of Archon Group acquired the 252,000 square foot Nobody Beats the Wiz Plaza in Lake Grove for \$38 million. The shopping center was 96% leased at the time of the sale. 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.

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. This tax 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.

APARTMENT

The vacancy rate for apartments on Long Island increased from 6% to 6.6% between the second quarters of 2002 and 2003, according to Property & Portfolio Research. Multifamily construction here is limited by geographical constraints and staunch community activism opposing large developments. Multifamily permits decreased 10% from the first half of 2002 to 436 during the same period in 2003.

The Island's 84.3% homeownership rate is significantly higher than the 66.1% national average. The chronic lack of rental options and an abundance of expensive single-family homes has had a major impact on younger and lower income workers, forcing many to leave the metro.

Demand Outstrips Supply for Senior Complexes:

According to Census figures released at the end of the 1990s, most seniors stay on Long Island after they retire—88% of Long Islanders retiring between 1985 and 1990 stayed put, though many didn't always think they would. However, in a recent *Newsday* poll, only a third of Long Island baby boomers, now ages 36 to 52, said they expect to retire locally. Among residents closer to making definite plans—ages 50 to 64—the figure jumps to about 60%. Long Island builders have been trying to catch up since the demand for senior housing already outstrips the supply. More than 5,000 units of housing designed for senior citizens were built in the 1990s, up 15% from the decade before. Restrictive local zoning and a lack of open land keeps more from being constructed. A high-end development for age 55-plus residents is under

X. Market Analysis

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

construction in Port Jefferson Station. 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. 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 61.7% in the first quarter of 2002 to 59.9% in the first quarter of 2003, according to PKF Consulting. Average daily room rates dropped from \$130 to \$123.

Pack of 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 165-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. A 124-room Marriott Residence Inn is underway at Exit 62 off the Long Island Expressway in Holbrook. The Marriott will be the fourth addition to the growing development complex at the Exit 62 parcel, which is anchored by an Island 16 multiplex movie theater.

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 soon on a 178-room Garden Inn and a 147-unit Homewood Suites. The group already has zoning and site plan approval from the towns of Huntington and Oyster Bay. In Bohemia, Apple Corp. is in contract to acquire a four-acre parcel on which it plans to build a 133-unit La Quinta Inn. The facility would be the first La Quinta Inn on Long Island and it would be the closest hotel to Long Island MacArthur Airport.

Delta Express to Halt Service to MacArthur Airport: Delta Express discontinued 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 County	5,477,586	8.7%	126,688
Central Nassau	10,123,069	12.3%	(345,178)
South Nassau	1,399,131	12.1%	(83,986)
East Nassau	5,977,390	15.7%	46,198
Mid Suffolk	4,639,225	19.6%	158,244
West Suffolk	7,262,266	14.9%	71,216
MARKET TOTAL	34,878,667	13.7%	(26,818)
*Reported as of second 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 (the latest figures available for this metropolitan area).		
Source: CB Richard Ellis (New York).		

X. New York: Market Analysis

C. New York—Market Snapshot

Job Decline Deepens

Greater New York shed a total of 63,300 net jobs during the 12 months ending in June 2003. This is worse than the 61,200 positions lost during the 12 months ending in March. Consequently, New York remains the leader for job losses nationwide. The unemployment rate rose slightly from 7% in June 2002 to 7.1% in June 2003.

Government Sees Largest Loss: The government sector saw the greatest retraction in employment with the elimination of 14,200 jobs. 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. NYC Schools announced that it would cut 856 supervisors and administrators as part of the overhaul of the school system. 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.

FIRE's Flame is Doused: Financial activities was next, cutting 13,900 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, Goldman Sachs recently laid off 150 stock and options traders, salesmen, and other equities staff, and UBS Warburg is cutting 70 equities-related jobs in New York and Stamford. Also, 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.

Professional/business services (recently established as a separate labor category) and manufacturing lost 13,100 workers each. The transportation/public utilities sector (which includes telecommunications) shaved 8,100 jobs. The

broader services sector slashed 6,000 positions, retail trade cut 1,700 workers, and wholesale trade reduced its payroll by 1,300.

Construction was the only major employment category to report a net job gain, adding 8,100 positions.

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

Two of these major job generators are about to shrink, though. In April, Verizon Communications told its New York workforce that it plans to eliminate around 1,300 unionized jobs throughout the state in the coming months. In June, Citigroup announced that it will cut 10% of its global corporate investment banking workforce in the latest round of layoffs.

OFFICE

Vacancies Remain Relatively Stable

The office market in greater New York (Manhattan) saw an almost imperceptible (one-tenth of a percentage point) rise in vacancy between the first and second quarters of 2003 to 10.8%, according to CB Richard Ellis. The highest vacancy rate was in the Downtown submarket (13.3%). The lowest rate was in Midtown North (9.4%). Year-over-year, the metropolitan vacancy shows a 1.4 percentage point climb. Midtown and Downtown currently have an estimated ten million square feet of sublease space. Net absorption, at a negative 551,000 square feet in the second quarter, represents an improvement of more than two million square feet over last quarter. Most of the positive absorption this quarter occurred in the Financial District. Construction gained just over one million square feet to total 6.3 million square feet at the end of June.

Midtown North Projects Move Toward

Openings: There are five 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

X. Market Analysis

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

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), 11 Times Square (1.1 million square feet), and 731 Lexington Avenue (900,000 square feet). The latter three 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), opened for business in June.

Shadow Space Leaves a Big Question Mark:

Shadow space (vacant or soon-to-be vacant space that is not officially on the market) has become a big element of uncertainty here and in major markets around the country. In Manhattan, shadow space is estimated at five million square feet with more space pending unless the economy picks up soon. The big question about this type of space is whether companies will market it or use it for themselves. Several of the leases signed this quarter were the result of large corporations moving to this type of discounted sublease space. For instance, law firm Clifford Chance leased 380,000 square feet of space at 31 West 52nd Street from Deutsche Bank and Revlon Consumer Products took 115,000 square feet at 237 Park Avenue. Revlon will move its headquarters to this former shadow space that was never formally marketed by Credit Suisse First Boston. Also, Cerberus Capital Management signed for 80,000 square feet of sublease space from UBS Warburg at 299 Park Avenue and New York Mortgage will move into 63,000 square feet that was formerly occupied by PricewaterhouseCoopers.

In Midtown South, the Associated Press will consolidate its headquarters from three different locations in Manhattan into 291,000 square feet of space at 450 West 33rd Street on the Westside, subleased from DoubleClick. Donovan Data Systems renewed its commitment for 115,000 square feet at 115 West 18th Street and St. Vincent Catholic Medical Center will consolidate employees from different boroughs into 105,000 square feet, also at 450 West 33rd Street.

Downtown Inks Largest Deal:

Activity in Downtown Manhattan included three major leases. HIP Health Plan of New York soaked up 486,000 square feet with a 20-year lease at 55 Water Street, the largest commitment this quarter. The space will become HIP's headquarters and represents a consolidation from 132 West 31st Street and 7 West 34th Street. Oppenheimer Funds absorbed 206,000 square feet at 2 World Financial Center and the Teachers Retirement System (TRS) will move its headquarters from 40 Worth Street into 158,000 square feet at 55 Water Street. This latter lease represents nearly twice as much space as the TRS previously occupied.

The city's out-reach efforts to businesses and current incentive plans are credited for the absorption of nearly one million square feet of Downtown office space so far this year. With the PATH trains scheduled to resume in November, declining rents, tax abatements, and other incentives, the number of tenants seeking space in Manhattan has grown significantly in all sectors except financial services, which remains in contraction. Foreign banks are closing their doors in New York at a rate of two a month as a weak economy (both here and abroad) and industry consolidations continue.

Decision on WTC's Underground Portion:

Developer Larry Silverstein has set a deadline of November for deciding what should go underground at the World Trade Center site if he is to start construction on the 1,776-foot Freedom Tower next year. The decisions center on the location of a permanent PATH station and pedestrian connections to nearby subway lines. Silverstein has promised to begin construction of the tower next year with completion by 2006. After the close of the second quarter and almost two years to the day after law firm Thacher Proffitt & Wood lost its 2 World Trade Center offices to the attack, the company is moving back into lower Manhattan. The move was sealed with a lease for 137,000 square feet at the new 2 World Trade Center space. The move will bring 300 employees back to downtown Manhattan. Thacher was the first major WTC tenant to re-commit to downtown after 9/11. The lease is for 15 years.

X. Market Analysis

C. New York—Market Snapshot (continued)

Westchester Takes Positive Turn: Westchester's office market experienced its lowest vacancy rate in five quarters with a tightening from 13.2% in the first quarter to 12% in the second quarter of 2003, according to CB Richard Ellis. In contrast to last quarter's 130,000 square feet of negative absorption, the second quarter produced 401,000 square feet of positive absorption. The strongest demand occurred in the West I-287 submarket, where 288,000 square feet were absorbed. Three major leases signed during the quarter were Affiliated Computer Services-State and Local Solutions' renewal and expansion to 65,000 square feet at 777 Old Saw Mill River Road in Tarrytown, Oxford Health Plans' 57,000 square feet at 44 South Broadway in White Plains, and Kraft Food Federal Credit Union's lease of 29,000 square feet at 2 Manhattanville Road in Purchase.

There are two new, though small, speculative office projects underway in Westchester County—the Station Plaza (70,000 square feet) in Getty Square, Yonkers, and the 24,000 square foot building at 2 West Main Street in Irvington (which broke ground after the close of the second quarter). These developments are the first new offices to be offered in more than four years. Morgan Stanley has purchased the 725,000 square foot Chevron/Texaco headquarters at 2000 Westchester Avenue in Harrison. The building will undergo major renovations for use as a data center and back-up trading facility. As many as 2,000 employees are expected to eventually work in the building. The move-in is scheduled to begin in late 2003.

In May, Global Holdings acquired 875 Third Avenue (663,000 square feet) for \$370 million and Pfizer announced plans to invest up to \$560 million to purchase and renovate the 634,000 square foot building at 685 Third Avenue. Pfizer, which has its corporate headquarters on 42nd Street, plans to shift 1,000 jobs from New Jersey, Missouri, Michigan, and California to Manhattan. The first wave of transferees began to stream into Manhattan in June and most are expected to be in place by mid-year 2004. However, Pfizer fired more than 5,000 workers after buying Pharmacia Corp. and has cut an additional 463 jobs from its own workforce. Pfizer bought Pharmacia for about \$58 billion in April to gain all the revenue of Celebrex, the world's top-selling arthritis drug.

In April, Tishman Speyer Properties sold 222 East 41st Street (372,000 square feet) for \$177 million. Sales after the close of the quarter include mortgage broker Singer & Bassuk's purchase of 17 Battery, a 440,000 square foot office building just three blocks from Ground Zero, for \$61 million and Sitt-Sutton Group's purchase of a 250,000 square foot office project for \$59 million. Both transactions were completed in July.

INDUSTRIAL

The Westchester industrial market experienced a tightening with vacancy falling from 9.9% last quarter to 9.2% in the second quarter of 2003, according to CB Richard Ellis. The Southwest Westchester submarket had the highest vacancy rate (11.7%). The Northern Westchester and West I-287 Corridor submarkets tied for the lowest vacancy rate at 5.4%. The overall availability rate (which includes sublease space) was one percentage point higher than the vacancy rate at 10.2%. Net absorption totaled 251,000 square feet, up from the negative 120,000 square feet recorded in the first quarter. Southeast Westchester saw the highest level of absorption at 201,000 square feet. No new industrial construction is underway or in planning for Westchester County.

The bulk of warehouse properties in Westchester County 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.

Brooklyn Rezoning Thwarts Industrial Businesses: 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

X. Market Analysis

C. New York—Market Snapshot (continued)

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. The trend is frustrating business owners who need more space to grow. For instance, the owner of Voila Bakeries in Williamsburg would like to buy, or even rent a portion of a seven-story former knitting factory next door, but the owner has rejected his offers because he is trying to turn the building into apartments. About 50% of the production space in Brooklyn's "loft buildings" (i.e., facilities that were originally constructed to house small manufacturers) has disappeared over the past decade. After World War II, the city's abandoned lofts attracted artists and innovators in the fields of communications and entertainment who were looking for live/work space. Today, these buildings are being converted into apartments and condominiums.

Some industrial development is taking place in New York, although CB Richard Ellis does not track it. Developers wrapped up on a 435,000 square foot development for indoor air-mold remediation specialist Airis near JFK Airport in Brooklyn as well as International Airport Center's 265,000 square foot Building III. A telecom/data center project, NYCyberCenter (300,000 square feet), also wrapped up construction this Summer on West 57th Street between 11th and 12th Avenues in Manhattan.

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.

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 \$29 billion during the first five months of 2003. Imports grew 10% to \$60 billion. In terms of just waterborne cargo, the seaport terminals in New York handled approximately 1.4 million container units (TEUs) from January through June 2003, according to the Port Authority. This is a 15% increase from the 1.2 million 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.

Two cargo facilities totaling nearly 435,000 square feet opened in July at JFK International Airport. The two buildings, located on adjacent sites in the South cargo area, are intended to help JFK compete with Newark Airport, which has taken much of JFK's business over the years. The new buildings have direct access to the Van Wyck Expressway and Kennedy's main entrance. Companies such as Federal Express had complained that road access to Kennedy was difficult and hampered business.

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 help keep supply and demand stable, but "for rent" signs are multiplying throughout Manhattan.

Empty Storefronts Line Fifth Avenue: The new glut in available retail space is most visible on Fifth Avenue between 44th and 49th Streets. Three flagship store sites are currently available and a fourth

X. Market Analysis

C. New York—Market Snapshot (continued)

is expected to hit the market soon. The stores range in size from 10,000 square feet to 35,000 square feet. Liquidations have emptied Today's Man flagship store at 529 Fifth Avenue and The Wiz store at 555 Fifth Avenue. The Sisley store in the Scribner's building at 597 Fifth Avenue is also on the market. HMV continues to operate at 565 Fifth Avenue, but has closed four other locations around the city in the past two years. In SoHo, local brokers report landlords are accepting rents as much as 20% below the asking price.

A few scattered retail projects are underway in New York, though. River Plaza (230,000 square feet) is expected to complete construction in the Bronx by the end of this year. Also, Bloomingdale's is slated to open a 125,000 square foot store at 504 Broadway in December. 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.

AT&T plans to add a dozen cell phone stores in Manhattan by November. It already has 16 stores on the Island. Italian luxury handbag and shoe brand Furla is taking one of Manhattan's highest profile retail locations: 598 Madison Avenue on the corner of East 57th Street. The address is home to such world-class names as Tiffany & Company, Van Cleef & Arpels, Chanel, and Christian Dior. Furla has signed a 15-year lease for 1,200 square feet of ground-floor space with rent of about \$650 per square foot.

Home Depot Settles in on 23rd Street: In April, Home Depot secured a 110,000 square foot site on 23rd Street between Sixth Avenue and Broadway. The home improvement giant had gone through a decade of failed negotiations before nabbing this location. It is reportedly angling for a second location at Pier 40 on Houston Street. Best Buy opened its second store (30,000 square feet) in Manhattan in July at Lexington Avenue and 86th Street on the posh Upper East Side.

Robust Pre-Leasing at AOL Time Warner: Retail space in the soon-to-be completed AOL Time Warner Center is 95% leased. Approximately 500,000 square feet of retail space is being soaked up by top-drawer shops and restaurants in a city where developers have tried, and often failed, to make vertical malls

work. The lead developer of the project maintains that the AOL Time Warner project's design is different than other vertical projects where customers complain it is easy to get lost and disoriented. The Shops at Columbus Circle have a central retail atrium aligned with 59th Street's edges. The main entrance is covered in a 180-foot high glass wall, which projects the streetscape into the interior.

WTC Plan to Deliver Larger Chunk of Retail:

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 retail component is likely to be phased-in over time, as the office towers are projected to take five years to build.

Rezoning of industrial property in Brooklyn is expected to result in more retail there. In the Red Hook neighborhood, a 430,000 square foot IKEA-anchored complex is being mapped out for a site currently containing 530,000 square feet of industrial space.

Mixed-Use Project Nears Completion in White Plains: The City Center at White Plains will add a mix of retail, entertainment, and luxury rental housing to downtown White Plains when completed this Fall. The site will offer approximately 470,000 square feet of retail and entertainment space, in addition to hundreds of residential units. Also in White Plains, Long-Island-based retailer Fortunoff purchased and is demolishing the former Saks Fifth Avenue store on Bloomingdale Road to build a 270,000 square foot retail structure. The 85,000 square foot ground floor of the four-story store will house retail tenants and a restaurant. Fortunoff will occupy 180,000 square feet on the three upper levels. The project is expected to wrap up in September.

X. Market Analysis

C. New York—Market Snapshot (continued)

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, which just increased its own local tax from 4% to 4.13%, and has an additional 0.25% transportation tax, that translates into an 8.63% total tax rate. 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.

Retail Sales Fall: Same-store retail sales in greater New York fell 4.9% during the fiscal year (February-June 2003), according to the International Council of Shopping Centers. This is slightly better than the 5.1% decline nationwide.

APARTMENT

The vacancy rate for apartments in greater New York dipped to 4% during the first half of 2003, according to Marcus & Millichap. This reflects a mild improvement from 4.2% at the end of 2002. However, vacancy is expected to increase to 4.3% by the end of 2003. 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. Multifamily permits decreased 12% to 5,300 during the first half of this year compared to the same period last year.

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.

Higher Returns Spark Office Conversions:

Falling office rents have landlords and developers tripping over each other to convert downtown office buildings to luxury residential complexes. Several properties are in renovation or are now renting and more are being contemplated. However, demand for convertible buildings has pushed acquisition prices beyond the reach of some developers. The buildings most coveted boast spectacular views, are small, or have unusual layouts that cannot be easily upgraded for modern office use. For instance, 63 Wall Street, the former headquarters of Brown Brothers Harriman, is shaped like a wedding cake and has views of Midtown. The 400,000 square foot building has small upper floors suitable for apartments, so the developers plan to take advantage of Liberty Bond financing to construct 430 rental units. Also, 50 Murray Street developer World-Wide Group has capitalized on that building's trendy mid-century architecture and location on the southern edge of Tribeca. Most of the 390 units there have already been leased. Demand is so strong that even buildings without much charm are being recycled. For example, the building at 90 Washington Street, which housed Bank of New York's back office for 30 years, opened 398 apartments in August. The 900,000 square foot office at 15 Broad Street, the former headquarters of JP Morgan, is also under consideration for conversion into condos.

Affordable Housing Receives Boost from State:

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. Some of the properties taking advantage of the incentives include 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 Mayor Mike Bloomberg 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.

X. Market Analysis

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

In addition, the Bloomberg administration recently reached an agreement with the City Council on incentives for affordable housing in Park Slope, Brooklyn. The mayor agreed to offer \$6 million in incentives and subsidies to developers to encourage them to build affordable housing there. In return, several local council members have dropped their opposition to rezoning Park Slope to allow residential housing of up to 12 stories.

New market-rate developments in planning include Forest City's proposed 330-unit apartment building at 111 Worth Street in the Tribeca district. 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.

GM Site Tagged for Conversion 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. By the fourth quarter of 2003, the City Center at White Plains (mentioned in the Retail section) is expected to add more than 600 apartments in two 35-story high-rise buildings on Main Street, Martine Avenue, and Conroy Drive.

Prana Properties acquired a 400-unit apartment complex in New York for \$30 million and Martin Newman bought a 59-unit rental building at 305 East 95th Street for \$9 million.

HOSPITALITY

The occupancy rate for hotels in New York City decreased 4% to 67.5% in the first quarter of 2003 compared to the same period one year earlier, according to PKF Consulting. The average daily room rate fell from \$182 to \$177.

Year-to-date, Broadway attendance in 2003 is down by about 31,000 compared with last year; however, ticket revenues rose by about \$17 million for the same period, reflecting a general increase in ticket prices, according to the League of American Theatres and Producers.

Several hotels were under construction in New York City during the second quarter. The Mandarin Oriental (250 rooms) is due to open this Fall in the new AOL Time Warner Center development at Columbus Circle in the heart of Manhattan. Also, the Hotel Gansevoort (187 rooms) on Ninth Avenue is slated to open in November and Sheraton Four Points (158 rooms) on West 25th Street opened its doors this Summer. In addition, The Alex Residential hotel (73 rooms and 103 apartments) is wrapping up construction on East 45th Street and a 113-unit boutique hotel recently completed construction on East 55th Street.

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 on the Upswing: According to the Port Authority of New York & New Jersey, JFK International Airport handled nearly 31 million passengers during the 12 months ending in June. Domestic travel was up 18% to 14.5 million; commuter traffic, which is represented by regional carriers, increased 10% to 1.1 million; the number of international passengers grew 2%, for a total of 15 million (slightly exceeding the domestic numbers). At LaGuardia International Airport, domestic travel rose slightly (0.5%) to almost 18 million passengers and international traffic climbed 4% to 1.1 million. LaGuardia's commuter traffic jumped a dramatic 37% to more than three million passengers.

X. Market Analysis

D. New York—Submarket Inventory/Vacancy

OFFICE—Manhattan*					
SUBMARKET	INVENTORY	VACANCY	AVAILABILITY	ABSORPTION	CONSTRUCTION
Battery Park	7,026,934	20.4%	21.8%	(83,651)	0
City Hall	9,780,591	10.9%	15.1%	94,740	0
Financial District	32,793,107	13.0%	14.4%	327,006	0
Insurance District	19,461,180	9.1%	10.6%	(35,602)	0
Greenwich Village	12,145,517	12.6%	15.0%	(3,278)	0
World Financial Ctr.	10,521,456	20.6%	32.2%	137,578	0
Downtown	91,728,785	13.3%	16.4%	436,793	0
Columbus Circle	18,681,726	8.4%	9.4%	92,803	1,875,851
Grand Central/UN	40,537,093	10.2%	13.0%	(561,895)	1,200,000
Madison Ave	13,624,050	11.8%	15.2%	(140,171)	0
Park/Lexington	26,871,098	7.6%	10.8%	(35,916)	900,000
Plaza District	17,412,022	13.6%	16.9%	(111,741)	0
Rockefeller Center	23,961,754	6.5%	9.4%	(125,844)	0
Third Ave	11,441,248	14.2%	19.5%	(21,401)	0
Times Square	21,165,099	7.1%	9.1%	(80,960)	2,326,972
Midtown North	173,694,090	9.4%	12.3%	(985,125)	6,302,823
East Midtown South	38,547,737	11.6%	13.7%	(119,023)	0
Garment District	28,179,168	10.7%	16.2%	132,683	0
Penn Station	12,903,268	8.9%	16.0%	13,440	0
West Midtown South	8,666,465	13.0%	17.3%	(29,319)	0
Midtown South	88,296,638	11.0%	15.2%	(2,219)	0
Midtown TOTAL	261,990,728	10.0%	13.3%	(987,344)	6,302,823
MARKET TOTAL	353,719,513	10.8%	14.1%	(550,551)	6,302,823
*Reported as of second quarter 2003. Availability rates include sublease space.					
<u>Source:</u> CB Richard Ellis (New York).					

X. Market Analysis

D. New York—Submarket Inventory/Vacancy (continued)

OFFICE—Westchester County*					
SUBMARKET	INVENTORY	VACANCY	AVAILABILITY	ABSORPTION	CONSTRUCTION
White Plains	6,320,821	18.5%	19.2%	25,267	0
East I-287	11,378,536	12.9%	15.0%	71,794	0
Southeast Westchester	1,891,472	7.0%	7.1%	(2,818)	70,072
West I-287	7,041,825	10.6%	13.7%	287,922	0
Southwest Westchester	1,285,406	13.8%	13.8%	22,944	0
Northern Westchester	5,687,143	6.1%	6.4%	(4,453)	0
MARKET TOTAL	33,605,203	12.0%	13.6%	400,656	70,072
*Reported as of second quarter 2003. Availability rates include sublease space.					
Source: CB Richard Ellis (Stamford, CT).					

INDUSTRIAL—Westchester County*				
SUBMARKET	INVENTORY	VACANCY	AVAILABILITY	ABSORPTION
East I-287 Corridor	2,567,030	11.3%	11.9%	43,650
N. Westchester	4,477,380	5.4%	5.7%	31,400
S.E. Westchester	6,785,921	10.0%	10.9%	200,920
S.W. Westchester	9,041,009	11.7%	12.2%	(13,940)
West I-287 Corridor	4,663,792	5.4%	8.5%	(11,410)
MARKET TOTAL	27,535,132	9.2%	10.2%	250,620
*Reported as of second quarter 2003. Availability rates include sublease space.				
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, Apartment–New York)

PKF Consulting (Hospitality)

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