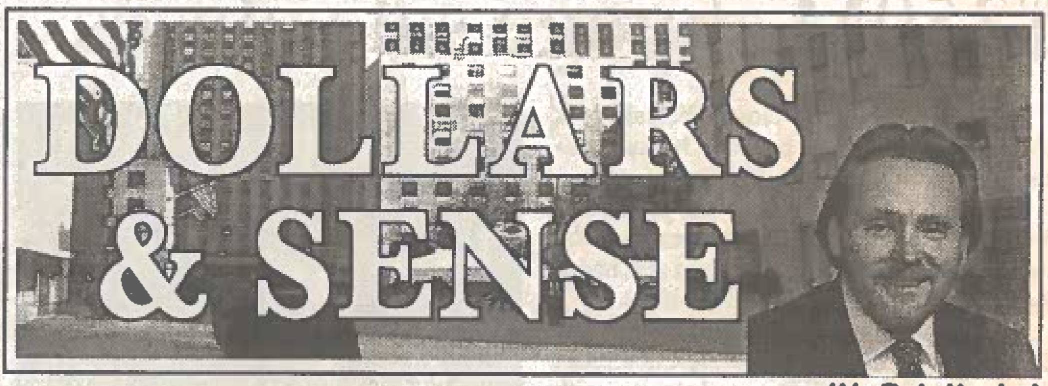

with Bob Knakal

New York's big advantages

Q) *It is very apparent that the New York City real estate market has performed much better than other markets across the country. Could you provide specific reasons why this is the case and what do you think are the biggest threats to the continuation of this positive trend?*

A) There are several reasons why this is the case. The New York City market has held up from an employment standpoint extraordinarily well.

During the Savings & Loan crisis in the early 1990's, the city lost about 320,000 jobs. During this downturn, the job losses are only about half of that amount, at about 160,000, and a decent percentage of those jobs have been recovered.

The job market is a major driver of the health of the commercial real estate market and New York consists of a great diversity of industries that thrive here.

Another reason why the city has outperformed is due to the significant economic boost the city gets from tourism.

For the past several years, we have had year-over-year record numbers of tourists coming to New York and it is projected that nearly 50 million tourists will visit the city in 2011.

There are several reasons why tourism has thrived so much. Firstly, the quality of life in the city has changed dramatically from the adverse conditions that plagued it in the 1980's. Mayors Giuliani and Bloomberg have done a wonderful job reducing crime as well as enhancing the quality of life for residents and visitors of New York. The perception and reality of a safer city draws people to New York.

> *"The first sign of a squeegee man returning to a midtown corner would be a big concern."*

The weak U.S. dollar has also had a positive dual effect on tourism. The cheap dollar makes a visit to New York for foreign travelers very inexpensive and, in reverse, the weak dollar makes traveling abroad extremely expensive for Americans. Therefore, many domestic travelers are picking New York as a vacation destination as opposed to traveling overseas.

The relative health of the banking industry here has also helped our real estate market.

Most of the community and small regional banks that have failed nationwide over the past few years have done so due to a disproportionate percentage of capital deployed into the construction and development sector.

Here in the New York City metro area, those same types of banks have primarily focused lending on rent regulated properties and cash flowing assets so their relative health has been strengthened. Lastly, the city always benefits from perennial supply constraints. This has remained the case throughout this downturn. The average investor in New York City has a holding period of 40 years when they purchase an asset. This fact illustrates that there is never an over-supply of available product on the market and demand is always extremely strong.

New York City is a major destination for foreign capital. While it may be the case that we become disgruntled with our economy and the status of our political landscape, on a relative basis, we are politically stable and economically stable and this is viewed positively by foreign investors.

We have seen demand within New York City greatly exceed supply every year (with the possible exception of 1992) going all the way back to 1984.

For these reasons, the New York City marketplace has held up very well relative to other cities across the country.

Concerns for the health of the city moving forward revolve around a few issues.

The constant threat of terrorism is a reality that we have to face. We should all applaud the tremendous efforts that the New York City Police Department is making to thwart terrorist activity, but this is something that will unfortunately be a concern for the foreseeable future.

Real estate taxes, and taxes in general, are something that also is causes of concern for the future of the city.

On a percentage of revenue basis, our real estate tax burden here is significantly higher than elsewhere around the country and it appears there is little political will to abate the disproportionally high tax burden that the real estate industry faces.

During this downturn we have seen average property values, per square foot, drop by 38 percent from peak to trough, but real estate tax assessments have continued to increase year-over-year.

There is a solution to this problem as the real estate industry cares more about real estate taxes per square foot, while the city cares more about real estate tax revenue per tax lot. This leaves plenty of room for mutually agreeable solutions.

Tax burdens, in general, are also a concern. Today, residents of New York City can pay in excess of 50 percent of their adjusted gross revenue in taxes. Many die-hard New Yorkers have been contemplating relocating out of the city and several studies show that this is actually happening. We have the highest tax burden, per capita, than anywhere in the country and while this may be justifiable for living in the greatest city on earth, there is a limit to what people are willing to pay.

Lastly, while the quality of life is such an important issue in terms of creating tourism and fueling the desire of people to live and work in the city, the quality of life can turn negative just as quickly as it was corrected.

The first sign of a squeegee man returning to a midtown corner would be a big concern. Who the next mayor is will have a large impact on this key issue.