Message From The Chairman

In ironic twist the slowing economy and a weak national housing market is boding very well for New York City Real Estate. The national economy is moving slowly as the third quarter appears to be tracking an estimated 2% annualized real GDP growth. There is also little improvement on the horizon for the longer term outlook. The national housing market remains the lynch pin of the deceleration in the economy with new housing starts and the Monthly Home Builder's Survey both decelerating by more than expectations for the third straight month. Housing starts are down 20% vs. August of 2005, comparable to the rate of the decline in the slowdown of the early 90's, while the National Association of Home Builders Housing Market Index has shown the biggest drop in it's 20 year history. Foreclosure rates nationwide jumped by 24% in August from the previous month which is a 53% increase over last year and a record high for 2006. It is estimated that over the next 1-3 years, real estate foreclosures are going to substantially increase and the market will experience significant property value declines particularly in certain geographic markets. We do not believe New York City is one of those markets. Because the economy is weak, it is likely that the Fed will halt its tightening policy. At the end of September the Fed once again kept rates flat. Presently the yield curve is predicting a 25% chance that the Fed will ease rates in January. Some economists expect the Federal Funds Rate to move down to 4% or less at some point in 2007. The momentum in the national housing market has turned so negative that it is doubtful lower interest rates will do much, in the short run, to turn things around. This all bodes well for New York City Markets for two reasons. The first is that it is likely in the near term that interest rates will remain flat or go down which is very positive for our market. Another factor that is causing a slowdown in the economy is the upward pressure on labor costs and on rental prices. The later of these is very evident in our market as residential rental rates and commercial rental rates continue to increase, which is the second reason our city is in a good position. The combination of the rental markets increasing and interest rates decreasing will continue to keep the New York City building sales market strong for the short term. At the next meeting of the Fed on October 24th we believe that a hold policy will continue to be adopted. Reduction in value in the housing market across the nation has also lowered mortgage equity withdrawal across the board. This will slow consumer spending which in turn will keep the economy cool, another factor which will keep interest rates stable or cause future reductions in the rates. In terms of the New York City market itself, we have seen significant demand for office and hotel properties. In fact, the price per square foot of each of these segments is increasing rapidly. Income producing properties have seen recent decreases in cap rates as more and more capital is chasing available product. The volume of sales has increased significantly in 2006 from 2005. Looking at elevatored buildings, walk up buildings and mixed-use properties in Manhattan and the boroughs shows a significant increase in the volume of sales. In the second half of 2005, the turnover was 1.3% of the total stock, which has escalated to 1.9% in the first half of 2006. This is a 46% increase in turnover from one period to the next. During the same period the market has also experienced a 4.9% appreciation in pricing. We are projecting that price appreciation in 2006 will be in excess of 10% across the board. As interest rates ease, investor yield expectation appears to be adjusting downward. The most interesting market segment to watch during the balance of the year will be the consumer condominium market which has a direct impact on land prices and the price of free market multifamily buildings. At this point our outlook for 2007 is extremely positive for the building sales market.