Message from the Chairman

MASSEY KNAKAL
Realty Services

October/November 2007

Dear Friends,

The current building sales market in New York has not been as adversely affected as one might think given the recent credit market issues. This is particularly true for properties under $100,000,000 in value. Although there was a six week period in August and September during which uncertainty created difficult times in the credit markets, the past few weeks have seen the markets stabilizing and there is a tremendous amount of debt available to buyers. This debt is, however, more expensive and additional equity may also be required but that is a fundamentally sound market dynamic.

The office building and hotel sectors remain the most active and strongest. Hotel occupancy levels have been averaging 85% for the past 3 years, the most successful period in New York's history. This high occupancy rate has been coupled with room rates that have increased by 15% annually during this period. **The credit markets have had the effect of slowing large institutional office building sales as the mezzanine debt markets are challenging today.** Apartment buildings remain in very high demand, particularly those with a high percentage of rent regulated units. However, there is very little multi-family product available for sale today.

It appears the appetite of investors is geared much more toward in-place income today versus land or properties purchased for conversion. Surprisingly, land in prime locations is still inching up in value while land in secondary and tertiary locations is seeing modest reductions in price. It is interesting to see this segment of the market moving in opposite directions. We anticipate muted construction activity over the next several quarters as land costs are holding steady and construction costs continue to escalate. While it is true that construction costs have not increased substantially over the last quarter or two, they are maintaining the lofty levels they reached during the huge increases of the past year to eighteen months. This being the case, **intuitively land prices should be falling but this is not the case. A major reason for this is the strength of the residential condominium market which, by all reports, seems to be holding its own both in terms of price level and volume of sales.**

The rental market, for both apartments and office space, continues to show extraordinarily strong fundamentals. In terms of building sales, we saw a slight turnover slow down in August and September with the pace picking back up in October. For most of August and part of September uncertainty due to credit market volatility, which was catalyzed by the National sub-prime concerns, created a point in time where spreads grew significantly. We are now in a market where spreads are moderating and normalcy is coming back. We anticipate that for the balance of the fourth quarter and for the first quarter of 2008, the pace of sales should increase. This may not be the case for institutional quality office buildings which require mezzanine debt to facilitate transactions.

Looking at the National economy, we see that, based upon second quarter 2007 results, **Gross Domestic Product appears to be growing at 3.8% annually. This may be somewhat misleading as sharp increases in government spending and an increase in our exports are skewing this data.** The weak US dollar, relative to foreign currencies, and the growth that economies are experiencing globally are increasing our export capacity. **Consumer spending, however, has been down as high level of mortgage equity withdrawal that we have seen over the past couple of years is slowing dramatically and has been for a couple of quarters.** Much of the mortgage equity withdrawal proceeds were spent on discretionary items and this is a dynamic no longer evident in the market. Additionally, **the job market is experiencing both a slow down in job creation and slight increases in unemployment.** These factors have the

FOMC concerned causing a 50 basis point drop in the Federal Funds Rate at the last session and it is anticipated that another 25 basis point decrease will occur at the October 31st meeting. This would be an extremely positive occurrence for our building sales market particularly given the moderating spreads that we have seen recently.

We mentioned the increase in exports due to the weak dollar. The weak dollar has also been attributed to the tremendous growth in foreign investment in New York real estate. We question the impact of the weak dollar on this, particularly for incoming producing properties. One must keep in mind that if foreigners purchase properties due to the weak dollar, their cash flow is in that same weak dollar. Concurrently, the profits realized on a sale of the asset will be in the weakened dollar as well. We believe that the perceived low risk of real estate investments in New York is a major contributor to this excessive demand that we are seeing from the foreign markets. This highlights the fact that the next mayoral election will have a significant impact on New York's future and is something that we should all be concerned about.

Meanwhile the outlook for the building sales market in the New York City Metropolitan area remains very positive and demand continues to outpace supply by a significant margin.

Robert A. Knakal
Chairman

During Mr. Knakal's 24 year career, he has sold over 940 buildings having an aggregate market value of over $5.0 Billion. He was the top salesman, with partner Paul Massey, at Coldwell Banker Commercial (now CB Richard Ellis) in New York in 1986, 1987, and 1988 prior to forming Massey Knakal. In 1999 he was awarded Crain's New York Business "40 Under 40" awarded annually to 40 business people under forty years of age for outstanding achievement in the New York business community. In 2001 Mr. Knakal was named one of "The Top Dealmakers" by Real Estate New York Magazine. He has twice been the recipient of the Robert T. Lawrence Award in the Real Estate Board of New York's Most Ingenious Deal of the Year Contest. First in 2002, for the assemblage of the easterly blockfront of Second Avenue between 54th and 55th Streets. Then again in 2004 for the sale of the historic Gotham Book Mart at 41 West 47th Street. Please give a call if you have questions about your property or the market in general.
212-696-2500 x 7777

Massey Knakal Realty Services
2007 Year to Date Statistics

368	Total Number of Sales Transactions
469	Total Number of Buildings Sold
$1.86 Billion	Total Aggregate Consideration

Manhattan
Bronx
Westchester
275 Madison Avenue
New York, NY 10016
212.696.2500
212.696.0333 Fax

Queens
Nassau County
118-35 Queens Blvd.
Forest Hills, NY 11375
718.275.3400
718.275.5478 Fax

Brooklyn
Staten Island
205 Montague Street
Brooklyn, NY 11201
718.238.8999
718.238.6091 Fax

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