Message from the Chairman

As reported in my last "Message", **it appears that 2007 will remain another extremely strong and steady year for the New York Metropolitan Area's building sales market. This is surprising given the relatively poor health of the national housing market.** Prognosticators are often laughed at when they say, "But it's different here". However, in this case, it really is.

The investment sales market has hit unprecedented levels, both in terms of price and volume, as capital is pouring in from every conceivable domestic and international source. Does a real 5% cap rate even exist in Manhattan today? The biggest problem our agents are having today is finding time to sleep. To monitor our company's performance, we track contract executions very closely. In February, Massey Knakal signed more contracts than we have during any month in our 19 year history. The March numbers blew February away as 52 contracts were signed.

Presently, in the New York Metropolitan Area, the hotel and office building sectors are absolutely on fire. Average room rates are higher than they have ever been and occupancy rates are hovering at cyclical highs. Based upon the activity in the first quarter of 2007 we expect the projection of 44,000,000 tourists visiting New York to be surpassed. According to a report from Colliers ABR, **office rents continue to climb as class A space in Manhattan is averaging $72 per square foot and vacancy rates market wide are at 6.1%, well below equilibium.** These dynamics have developers scrambling for office sites that are few and far between.

The multi-family market is as solid as a rock as cap rates continue to drop, (elevatored buildings in Manhattan have seen cap rates drop below 3%), **gross rent multiples continue to climb and that's only if you can find any multi-family properties available for sale.** The supply is miniscule and as low as we have ever seen in the past 24 years. Rental rates continue to climb and in some units, with very efficient layouts, rents are hitting the $80 per square foot mark. A 25% increase in rents in 2007 would not be surprising.

An even bigger surprise is the health of the Development site market. In 4Q06, activity on development sites had slowed based upon the perception that the consumer condominium market had surpassed its peak. All of the negative media attention about this, which was a topical subject to write about, **had no substance and influenced the psychology of the market. This coupled with the fact that there was actual contraction in the national housing market led to inertia in the development sector...Not surprising given the national landscape.**

Let's take a closer look at the national housing market. The national economy is showing signs of weakness as first quarter growth was only 1.3% on an annualized basis - the weakest quarterly growth in 4 years. This has kept interest rates low (a good thing for our local market). Notwithstanding this fact, the sub prime debacle nationally is affecting the national housing market in a tangible way. The inventory of available homes is very high and the number of sales is down. The figures for March, which if annualized show 6.12 million home sales, are down 8.4% from February which related to an 18 year low in terms of national sales volume. Housing prices also have remained relatively unchanged between March of 2007 and March of 2006. In 2006 there were a total of 900,000 defaults and foreclosures nationally and in 1Q07 alone there were 1.2 million. These factors clearly are putting downward pressure on national housing prices. You would expect the New York City Metropolitan area to follow this national trend. However, this is not the case because New York City is different.

Let's look at the statistics on the apartment market in our area. According to a study by Miller Cicero, the average price per square foot in 1Q07 had increased 7.2% over 4Q06. Large units performed best as average price increases for 3 and 4 bedroom apartments increased by 24.8% and 9% respectively compared with 1Q06. The price per square foot indices are much more important as the bedroom count approach does not take into consideration the actual size of the units. **The volume of sales has increased significantly as well. In 1Q07, 3,474 units were sold vs. 2,441 in 4Q06, a 42.3% increase. The much talked about over-supply of inventory is not evident in market statistics. In the first quarter there was an average of 5,923 apartments available vs. 5,935 in 4Q06. Inventory remained relatively unchanged. But the inventory level in 1Q07 was 14.2% below 1Q06 levels. To give some relative perspective, the peak of inventory in 2Q06 was 7,640 available units.** With respect to listings discount (the deviation between selling price and last listing price) the discount shrunk from 2.8% in 4Q06 to 2.6% in 1Q07 and additionally, days on the market contracted from 149 average days in the 4Q06 to 131 days in 1Q07.

These tangibly positive apartment results in 1Q07 have led to an extremely healthy development site market. In 2006, 24.5% of Massey Knakal's sales transactions were of development sites and we have very strong activity on all 186 development sites we are currently marketing in the New York Metropolitan Area. **Why is the New York City Metropolitan Area doing so well? There are several reasons.** The metropolitan area has **extremely low unemployment** presently with additional job growth projected, notwithstanding the recent announcements of cutbacks by some banks. **There are significantly rising income levels, particularly in the financial services sector. Corporate profits are rising** and are at all time highs. While the dollar is weak relative to other currencies; this has a two fold benefit to our market. Because of the weak dollar, the gains in tourism have been substantial, fueling the hotel boom. **The global economy is experiencing the best business expansion in 30 years. As economies grow, much of the generated capital world wide is funneling into U.S. investments and particularly New York Real Estate.**

For these reasons our property sales market continues to roll and we anticipate continued strength for the balance of the year and well into 2008.

Very truly yours,

Robert A. Knakal
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During Mr. Knakal's 24 year career, he had 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 betweeen 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.

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