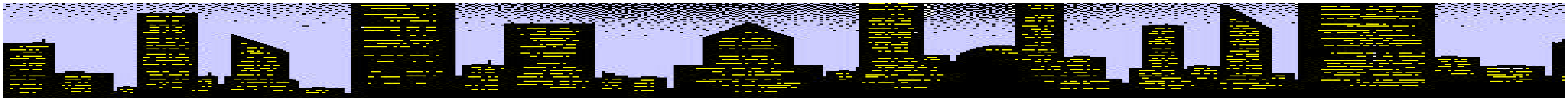


Winter / Spring 2002

THE MILLER REPORT

How did the events of September 11th change the New York real estate market?

Prior to September 11th, the economy had already showed signs of weakening. During the first eight months of 2001, employment in areas like finance, business services and retail trade contracted, profits in the securities industry were down, and due to the demise of many dot-coms, a substantial amount of highly improved office space was put on the market for sublease. In spite of earlier projections by economists that the outlook for 2002 would have flat employment and slow growth in wage rates, the September 11th attack caused the economic outlook to change even more drastically.

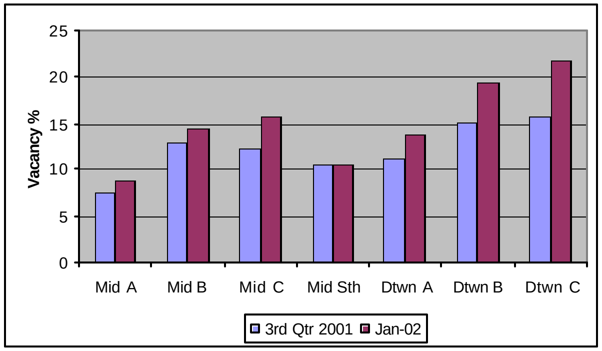
Job losses due directly and indirectly from the destruction of the World Trade Center are anticipated to be more than 90,000. Roughly 20% of those jobs result from firms in the immediate vicinity of the Trade Center relocating to New Jersey, Westchester and Connecticut. 30% of the job losses are related to the tourism industry and 50% are due to closed businesses because of a reduction in business activity. (The multiplier effect).

Despite the fact that virtually 13 million feet of Class A office space and more than 300,000 feet of upscale retail space was destroyed, the frenzy of relocations and deal making lasted only two to three weeks. Where people thought the relocating of displaced tenants would back-fill much of the vacant space in Manhattan, this was not exactly the case. Certainly, space in Midtown and Midtown South did get leased, but it did not significantly reduce the burgeoning office vacancies. The market showed enormous flexibility, as millions of square feet of presumably occupied space hit the market as sublet space, and was absorbed by displaced tenants.

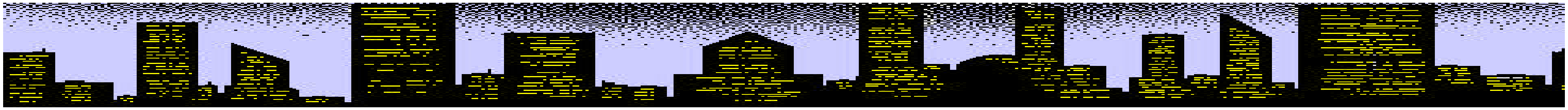
Prior to September 11th, the market was showing signs of decline. In fact, during the second quarter of 2001, the fall of the dot-com industry and the slow-down in the securities industry contributed to the addition of sublet space thrown onto the market in every rent category and in each geographic market. The economy was changing and rents were starting to slide. Landlords and sublessors were beginning to provide tenant improvement allowances and rent concession packages that had not been available since late 1998, early 1999.

Since the real estate market often lags behind economic events, it took up until the third and fourth quarters of 2001 to see the vacancy rates and average rental rates reverse their trends from the prior 18 month period. This time period is also when the amount of sublet space placed on the market showed a significant increase.

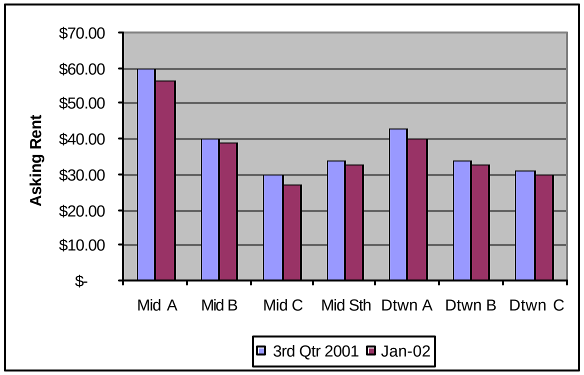
The statistics support the story. In the three month period from October 2001 to January 2002, the vacancy rates increased by about 1% in the midtown A and B markets and was virtually unchanged in midtown south. Vacancy for all the downtown markets increased by an average of more than 4%.



Rental rates also started to decline. Since the third quarter of 2001, there has been a drop in the average rental rate of roughly $3.00 per square foot in Class A and C space in Midtown. For Class B space in Midtown, the



decrease was about $1.00 per square foot. Space in Midtown South also decreased by about $1.40 per square foot. Downtown space in all building classes showed declining rents ranging from $1.00 per square foot to slightly above $2.00 per square foot.



The outlook for the remainder of 2002 is pretty consistent with the current trend. If the economy recovers, the market will return to some form of stability. Businesses are more cost conscious with companies cutting back, rather than expanding. Rents will continue to taper, but probably will not drop drastically. Rather, we will see, as is now evident, more rent concessions and landlord work contributions. The supply of space continues to flood the market, particularly blocks of space in the range of 25,000 to 50,000 square feet in all class categories and sub-districts.

Selective Cost Cutting Strategies

Today's corporate managers should focus on cutting "fat" without sacrificing the "muscle" needed for future profitability. Mercer Management Consulting analyzed the strategies and performance of 800 companies in numerous industries during the period 1987-1992, which included the last recession, and identified 120 "cost cutters". Of those cost-cutting firms, 68% did not go on to achieve profitable revenue growth during the next five years. Cutting the wrong 10% of costs could result in a significant decline of a firm's long term value.

Newsworthy Events:

Bank of NY leases space in:
15 Broad Street – 982,000 sq.ft.
63 Madison Avenue – 113,572 sq. ft.
620 Ave. of the Americas – 74,425 sq.ft.

Morgan Stanley purchased the 725,000 sq.ft. Texaco Building in Harrison, NY.

Goldman Sachs leases space at 30 Hudson Street, a new building under construction in Jersey City, New Jersey.

Jones Day Reavis & Pogue leases more space in 222 East 41st Street, taking their total space in the new 374,000 sq. ft. building to about 250,000 sq.ft.

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