MMJ Real Estate Appraisals — Mitchell, Maxwell & Jackson, Inc.

Market Snapshot

Residential Real Estate Report

Manhattan
1st Quarter 2006

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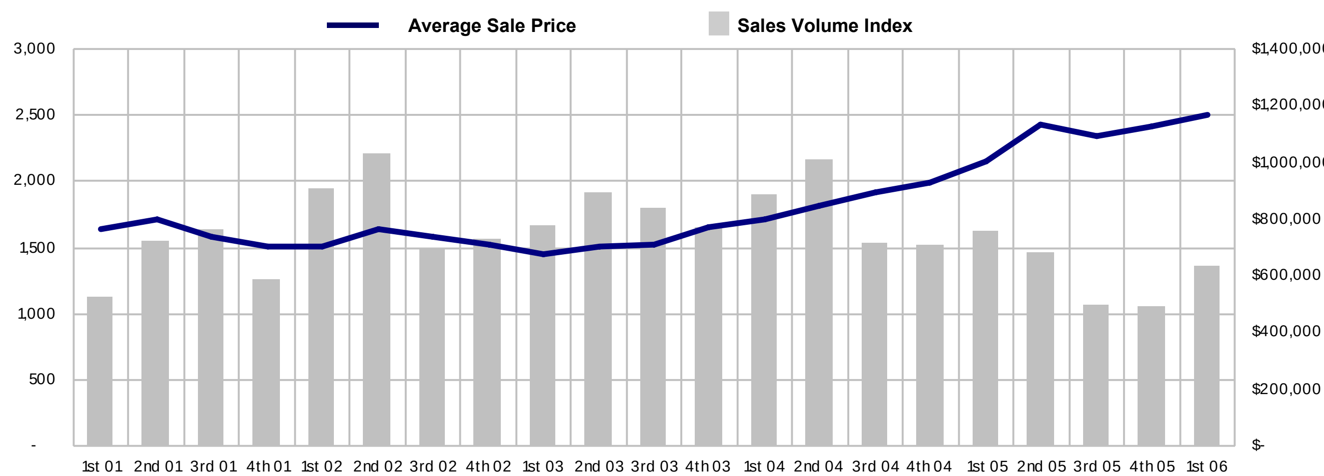
First-Quarter 2006—Choppy Weather

► **1st Quarter Average Price Up 3.5%.** The average apartment sale price rose to $1,168,000 from $1,128,500 in 4Q05. The price gain was driven by strength in the high-end segment of the market. First-quarter's median sales price dropped 7% from the previous quarter to $695,000 and represented a 2% decline from year-ago levels.

► **The Real Story—Volume Trends Are Choppy.** According to the MMJ Sales Volume Index, first-quarter saw a 14% decline from a year ago. The quarter started out strong, with volume in January up approximately 30% from a weak December, however, finished down nearly 30% from last March. March typically is the biggest volume month of the year.

► **Rising interest rates likely to impact the lower end of the market.** Several factors, including rising interest rates, lower affordability, and higher inventories, will likely take a toll on the studio and 1-bedroom segment where owners are more price sensitive.

5 Year Average Sale Price & Volume Index



Market Statistics	*Current 1st Q 2006*	*Previous Quarter 4th Q 2005*	*Previous Year 1st Q 2005*
Average Sale Price **% Change**	**$1,167,599** **▲ 3.5%**	**$1,128,500**	**$1,005,743** **▲ 16%**
Average Sale Price Per Square Foot **% Change**	**$1,022** **▲ 6%**	**$966**	**$850** **▲ 20%**
Median Sale Price **% Change**	**$695,000** **▼ 7%**	**$749,500**	**$712,000** **▼ 2%**
Listing Inventory (Est.) **% Change**	**8,965** **▲ 3.3%**	**8,675**	**4,696**

First Quarter 2006—Choppy Weather

Luxury Market Drove Average Price Increase

The average apartment sale price rose 3.5% to $1,168,000 in 1Q06 from $1,128,500 in 4Q05, and compares to $1,006,000 (up 16%) from a year ago. First-quarter's price gains were largely driven by activity in the upper end of the market. The average price for the over $4 million-plus segment was up over 30% to $7.6 million per transaction.

First-quarter's median sales price dropped 7% from 4Q05, to $695,000 and represented a 2% decline from year-ago levels. Average price declines were seen in the loft segment and 1-bedroom segment. (We would note that a few large transactions in the previous quarter had skewed results in the loft segment.)

Foul Weather At The Fed Produces Choppy Results

The real story in the first quarter was the choppy sales volume. According to our MMJ Sales Volume Index, the first-quarter saw a 14% decline from a year ago. The quarter started out strong, with volume in January up approximately 30% from a weak December, but finished with soft demand in March.

Most surprising, March, which typically is the strongest month of the year in terms of contract signings, was down from last year's level by nearly 30%. This is somewhat concerning, particularly given such a strong bonus period. As we mention in our fourth-quarter 2005 *Market Measure*, Wall Street bonuses hit a record $21.5 billion in 2005. Bonuses are typically paid in the first part of the following year, driving contract signings in February, March, and April. However, industry sources indicate that this trend has reverse itself again in the past week.

Rising Interest Rates Hurts Affordability... We attribute the overall slowdown in activity to rising interests and the flattening of the yield curve. These factors have significantly impacted affordability. Rising short-term rates are acutely reflected in the Manhattan market due to the high velocity of sales. Manhattan homeowners typically trade out of their apartments every four to five years, much more frequently than the seven years for the average American.

...While The Rental Market Has Become More Attractive. One has to only look at the move up in rates to understand the buy/rent scenario turning around. Over the last 18 months, the prime rate is up 180 basis points. Therefore, the monthly carry on a $500,000 adjustable mortgage is $800-$850 more than it was a year ago. Rental rates, over the same time period, are up only slightly, so the rental option becomes much more attractive.

Adding to this market malaise are rising inventories and an overall feeling that the market has topped out. All these factors are keeping buyers on the sidelines until a greater motivation comes to fruition.

Studios & 1-Bedroom Apartments Are The Most Vulnerable

The slowdown in market volume will likely take the greatest toll on studios and the 1-bedroom segment. We estimate that the studio and 1 bedroom segment represent close to 60% of the Manhattan's market transactions and around 35% of the total market dollars in a given quarter. This segment typically falls into the price point of less than $1 million where apartments are more of a commodity.