

Dear Investors and Friends:

Recently released economic statistics for the first-half of 2010 indicate a slowing pace of recovery in large part due to the expiration of several government enacted stimulus programs. Most notably, the monthly number of new private sector jobs created has been quite low, and at this pace not even enough to absorb people who will be looking for work to replace their short-term census jobs. Retail sales remain flat and Real GDP is now growing at a more sustainable 2.4% per annum pace versus the 5.0+% pace reported during the months influenced by assorted stimulus programs. That said, GDP growth is being accomplished with 7.4 million fewer workers, which means that current gains are being fueled by productivity increases and not true economic expansion growth from increased sales and production volume.

New, permanent jobs remain the key to how quickly the economy recovers. According to the U.S. Census Bureau, the country's population is projected to grow by 1.5 million individuals per year for the next two decades. Current consensus among economists is that in a steady-recovery scenario, 1.5 – 2.0 million new jobs will be added annually over the next 3-4 years. If this occurs, we are likely to add back substantially all the 7.4 million jobs lost during the 2007-08 recession, however, unemployment may only decrease slightly from the current 9.8% rate due to ongoing population growth during the period. Our view is that the U.S. economy's recovery will be moderately slow but steady as excessive debt levels in all sectors of the economy are reduced and the private sector gets back to hiring more workers and expanding productive capacity. Innovation and productivity will be pillars of this recovery, which may be centered on biotechnology and the much-talked-about area of green technology.

With respect to commercial real estate, recent statistics from the major brokerage firms suggest that the bottom has been reached for all real estate fundamentals including rental rates and value. This does not come as a surprise as the asset class typically trails the larger economy by about 12 months and with the recession considered to be over in May 2009, the trend is right in line. The national office vacancy rate is relatively unchanged from six month ago at 18.1%. Rents in most markets have also remained unchanged with the interesting exception of Pittsburgh which has had a surge in growth related to the energy sector. A few markets, including hard-hit industrial cities like Cleveland and Detroit, and unfortunately our investment markets of Westchester County and Hartford/New Haven still lag the overall U.S. with weak demand for space and flat to declining rents in most buildings. Based on the aforementioned job growth expectations, we expect it will be another twelve months before some noticeable increase in rents will take place in our markets.

Nationally, the volume of commercial property sales remains anemic at \$20 billion year-to-date, a third of the normal volume experienced during the 2004-06 boom period. Core properties in core cities continue to attract the most buyers and at cap rates that are not far off those achieved at the height of the market. For the most part, the absence of good real estate buying opportunities to-date is a direct result of lenders “kicking the can down the road” and entering into extensions, discounted pay-offs and/or modifications with existing borrowers in order to avoid further write-downs and costly foreclosures. With respect to CMBS loans, special servicers generally continue to be difficult to work with and slow to respond to most borrower requests, which tends to exacerbate already difficult transactions and risk further value erosion in properties.

The northeast real estate markets continue to perform generally better than other regions in the country with Washington D.C. leading the way primarily due to increased government hiring. New York City is not far behind with over 12.6 million SF of leasing completed year-to-date. Among the markets we participate in, both Northern New Jersey and Westchester County continue to post a +/- 20% vacancy rate. In the case of Westchester County, the statistics and the market are weighed down by a number of antiquated buildings along the I-287 Corridor that are vacant or nearly vacant and are likely to remain so for a long time, absent major renovations. Fairfield County has shown some positive movement, leasing over 1.7 million square feet midway through the year, about 70% more than last year at this time. The largest transaction in the area was the announced 271,000 square foot HQ relocation of Starwood Hotels from Westchester County to Stamford, CT.

In the current economic environment, borrower/lender loan workouts are inevitable. We believe the key to successful workouts is providing lenders with sound business plans that enable both parties to maximize the value of the asset. Those borrowers or lenders that take a hard line approach are more likely to lose more in the process as the building will be put in limbo and shunned by brokers and tenants. A common strategy of many owners, we among them, is to ride out the next couple of years while always seeking to improve cash flow short and long-term, so as to best position our assets for drawing tenants or buyers when the market improves.

Enjoy the rest of your summer! We look forward to reporting on year-end 2010 and the outlook for 2011 after the New Year.

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