



The Black and White Report

A Semi-Annual Report
5th Edition

Update 5

EHABITATSSM
NEW YORK

A Comprehensive Analysis of
the Manhattan Residential
Rental Market from
May - October 2004

METHODOLOGY STATEMENT

The Black and White Report provides the most comprehensive analysis of the current state of Manhattan's residential marketplace. The data analyzed by *The Black and White Report* spans two distinct six-month periods in residential rentals representing *peak* and *off-peak* seasons. The information that follows is drawn from the period of May 2004 through October 2004 which is considered the *peak* season. We break this rental information down into smaller, more size-specific categories, such as geography and unit type, to give you a complete understanding of Manhattan's wide-ranging market.

The statistical integrity of *The Black and White Report* is unparalleled. Compiled by the managers and staff of Citi Habitats' eighteen offices citywide, and incorporating a sampling of more than ten thousand executed rental agreements from over eleven hundred properties, *The Black and White Report* identifies the actual, undeniable trends in today's real estate market.



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The Black and White Report Update 5

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Andrew Heiberger

LETTER FROM OUR FOUNDER

On behalf of Citi Habitats, Inc., it is my pleasure to present *The Black and White Report*, our comprehensive look at the economic trends of Manhattan's residential real estate market. This unparalleled semi-annual report tracks, analyzes, and interprets real data based on thousands of Citi Habitats rental transactions over the course of a 12-month period.

From identifying the average rental price and price per square foot of today's most popular rentals, to identifying the neighborhoods with the most or fewest vacancies, or determining the ideal unit mix of a new development, every reader will be empowered to make informed decisions using the resources contained in this report. Whether you are a renter, an investor, an owner, developer or architect, there is important information here for you to utilize.

In June 2004, Citi Habitats was acquired by NRT, Inc., a subsidiary of Cendant Corporation (NYSE:CD), and the nation's leading residential real estate brokerage. I was extremely excited about the acquisition when I learned that NRT shared my vision of outstanding customer service. Together we realize that the real estate business has become, and will continue to be, a customer service business. *The Black and White Report* is one example of the high level of resources that Citi Habitats has to offer.

A stylized, handwritten signature in black ink, appearing to read 'Andrew Heiberger'.

Andrew Heiberger
Founder
Citi Habitats, Inc.

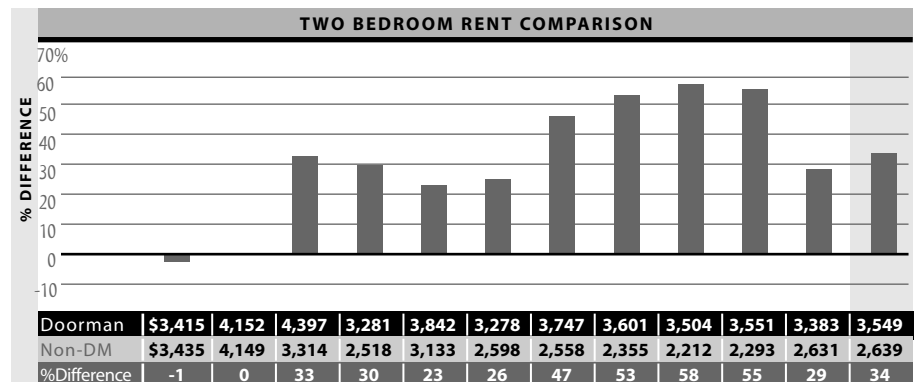
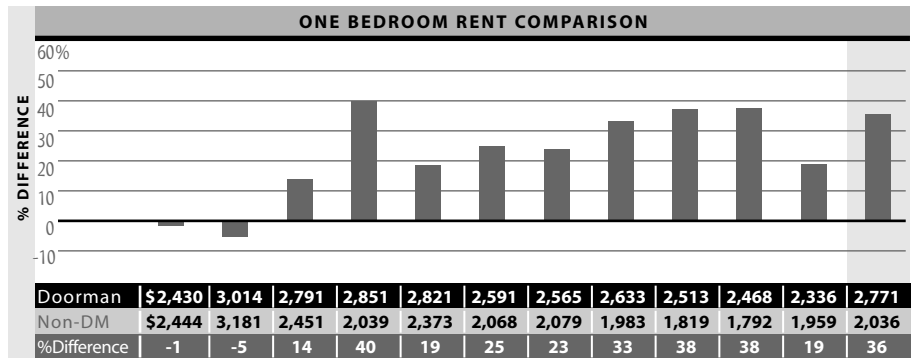
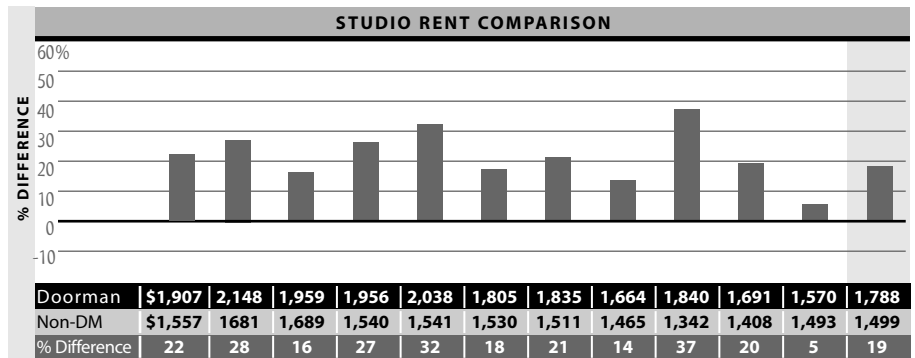
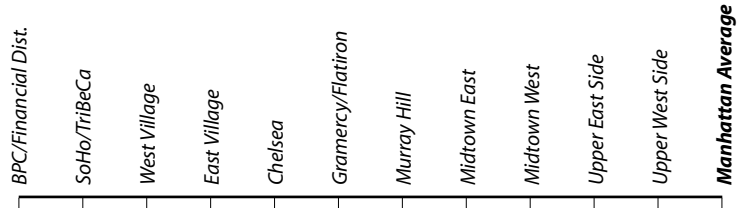
Doorman

vs. non-doorman rental comparison

The following graphs compare the difference between average rental prices in doorman and non-doorman buildings in each of Manhattan's 11 neighborhoods. Each graph illustrates the difference for one of the three unit types analyzed: studio, one bedroom, and two bedrooms.

Discussion The rent differential percentage-wise in doorman vs. non-doorman buildings for studio apartments is considerably different than for one and two bedroom apartments; it's more than double for the latter. The reason behind this fact is that one and two bedroom apartments are more expensive, so usually the tenant is more financially established, and as a result is able to pay higher rent and have higher expectations. Interestingly, with the exception of Midtown, our data shows that many East Siders are willing to pay a higher premium than West Siders for a doorman building versus a non-doorman building.

An important consideration for landlords and developers is the minimum number of units a building needs to have in order to justify the expense of employing a full-time union doorman staff. After analyzing our numbers, taking into account the cost of employing a 24/7 door staff, measured against the blended annualized premium paid by renters in doorman buildings, we have determined that the minimum number of units to justify the expense of the door staff is 39. This number is actually less than expected, and helpful information, as having a doorman increases the perceived value for renters who appreciate the security and convenience of having a doorman in the building.



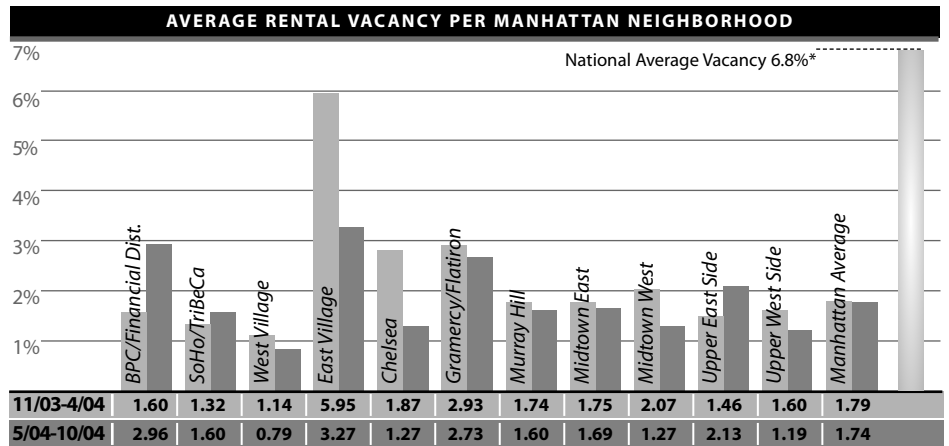
Source: All Citi Habitats transactions from May 2004 through October 2004. The data represents over 4,000 buildings, including 57 Citi Habitats exclusive buildings and 200 exclusive properties in doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

Rental *vacancy rates*

This graph illustrates the average rental vacancy rate in each of Manhattan's 11 neighborhoods compared to the citywide average and the national average vacancy rate. This information has been useful in assessing the strength of the rental market for each neighborhood as well as for the whole of Manhattan compared to the rest of the nation.

Discussion One of the most commonly asked questions is: what are the vacancy rates in the City's various neighborhoods? Here you see that the numbers speak for themselves. Vacancy rates are at a pre-September 11th low. Despite all that the City has been through, across the board, its low vacancies are remarkable. The methodology behind the gathering of this data by Citi Habitats' market research division is comprehensive. Because we maintain a vast network of relationships with landlords and management companies and have the City's largest proprietary rental listings database, Citi Habitats is the only Manhattan firm to track vacancies in such a detailed manner, generating a "Vacancy Rate Index."

It is important to note that vacancy rates tie into rental prices. Historically, when vacancy rates are steady between 2-4%, rents remain stagnant. However, when vacancies drop below 2%, rents begin to climb. Compared to the blended national average vacancy, which is 6.8%,* the City's considerably lower rates are strong, indicating that rents are poised to rise.

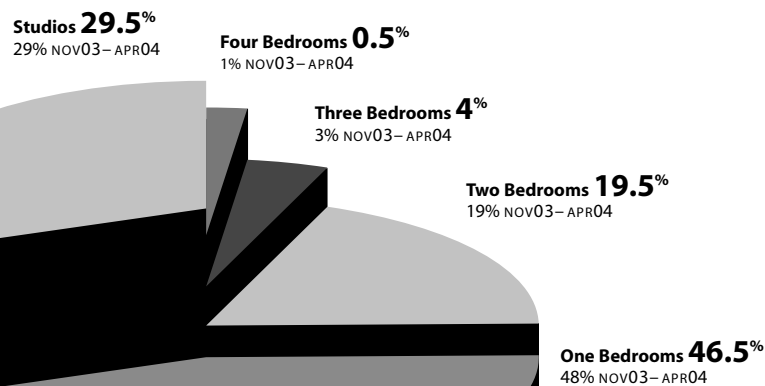


Source: A sampling of 8-10 key rental buildings in each Manhattan neighborhood below 100th Street, including doorman and non-doorman buildings.

*National Vacancy Rate Source: Korpacz Real Estate Investor Survey, Fourth Quarter 2004, and National Association of Realtors, Torto Wheaton Research, Bureau of Labor Statistics.

What is renting?

This chart illustrates the percentage of each unit type: studio, one bedroom, two bedroom and three bedroom apartments rented during the current report period. This information is important in determining and projecting the demand for each unit type in the rental marketplace.



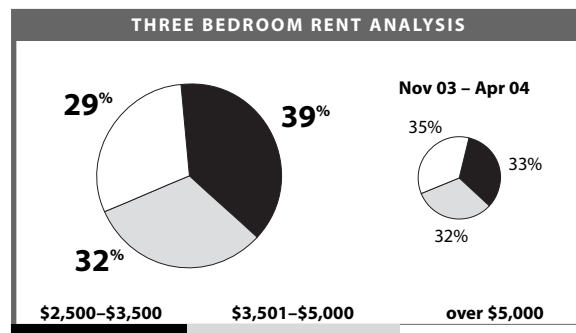
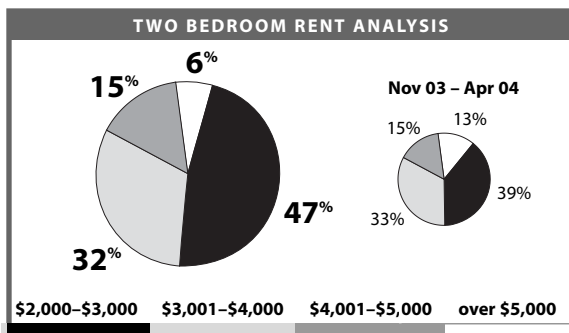
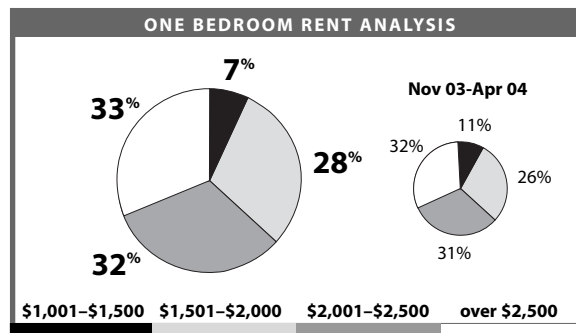
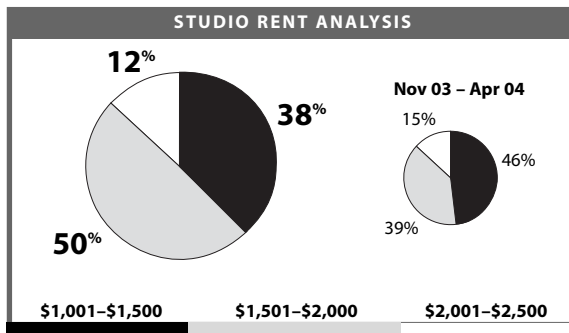
Discussion Consistent with our previous reports, studios and one bedroom apartments comprise more than 75% of the rental market. This statistic is no surprise, since renters typically fall into one of three categories which lend themselves to these smaller unit types. Renters are usually a) living in a temporary situation; b) not yet married or not yet married with children; or c) have a smaller portion of their income to devote to housing. These factors make renters more inclined to rent studios and one bedrooms.

In keeping with the high demand for these smaller unit types, the current trend for developers is to open rental buildings whose unit mix excludes three bedrooms. Many are shying away from two bedrooms, and some developers are opting for buildings that are completely studios. Owners should also note these trends when determining rental levels.

Source: All Citi Habitats transactions from May 2004–Oct 2004 vs. Nov 2003–April 2004. The data represents over 4,000 buildings, including 54 Citi Habitats exclusive buildings and 197 exclusive properties in doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

Profile of Manhattan renters

The following graphs illustrate the different price points that renters are paying for various sized apartments. The data is representative of the demand for rental unit types at different price points. This information has been useful in determining the pricing thresholds for both new and existing rental units.



Source: All Citi Habitats' transactions from May-Oct 2004 vs. Nov 2003-Apr 2004. The data represents over 4,000 buildings, including 54 Citi Habitats exclusive buildings and 197 exclusive apartments in both doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

Discussion Our findings show that the majority of rented studios remained priced as expected, below \$2,000. Whereas the majority of one bedrooms were priced above \$2,000. This steadiness is attributed to the consistent level of interest in these unit types. As rents rise and one bedroom apartments get priced out of many renters' budgets, studios become a more attractive option.

We also see that less people are renting two bedrooms and three bedrooms priced over \$5,000 per month. The reason for this shift is that these higher tier renters are taking advantage of the buying frenzy and are opting to put their money into a property purchase.

Where are people renting?

This table illustrates the percentage of renters found in each one of Manhattan's 11 neighborhoods for each of the different size units studied: studios, one bedrooms, two bedrooms and three bedrooms. The data is helpful in determining and projecting the rental demand for each neighborhood.

Discussion In such a tight rental market, the neighborhoods that experienced the largest numbers of renters moving to or within the area remained the Upper East Side and Upper West Side, just as in our last report. These neighborhoods offer a tremendous amount of inventory in all sizes, and have experienced new construction growth over the past year. Three bedroom apartments, which are of the fewest quantity, experienced a 4 percentage point increase on the Upper West Side. This is indicative of the shift of families choosing to stay in Manhattan instead of moving out to the suburbs.

Our data indicates that studio and 1 bedroom rentals have increased in the Battery Park City/Financial District, by 3 percentage points and 6 percentage points, respectively. This is due in part to the neighborhoods' attractiveness to younger professionals who are still growing in financial status, looking for an alternative to other densely inhabited downtown neighborhoods, and in need of smaller unit types.

As expected, other neighborhoods not mentioned above experienced little change in rental activity.

	All Units	Studios	1 Bedrooms	2 Bedrooms	3 Bedrooms
PERCENTAGE OF RENTERS IN EACH NEIGHBORHOOD					
BPC / FINANCIAL DIST.					
MAY04-OCT04	13%	16%	13%	9%	6%
NOV03-APR04	10%	13%	7%	8%	16%
SOHO / TRIBECA					
MAY04-OCT04	2%	1%	2%	3%	6%
NOV03-APR04	3%	1%	2%	4%	6%
WEST VILLAGE					
MAY04-OCT04	7%	8%	7%	6%	7%
NOV03-APR04	9%	6%	10%	9%	6%
EAST VILLAGE					
MAY04-OCT04	8%	8%	7%	11%	11%
NOV03-APR04	7%	7%	6%	10%	10%
CHELSEA					
MAY04-OCT04	5%	5%	5%	4%	6%
NOV03-APR04	9%	10%	10%	7%	3%
GRAMERCY / FLATIRON					
MAY04-OCT04	5%	6%	5%	5%	5%
NOV03-APR04	5%	6%	6%	4%	7%
MURRAY HILL					
MAY04-OCT04	7%	7%	6%	6%	6%
NOV03-APR04	8%	8%	8%	6%	5%
MIDTOWN EAST					
MAY04-OCT04	4%	6%	4%	3%	3%
NOV03-APR04	5%	6%	5%	3%	5%
MIDTOWN WEST					
MAY04-OCT04	7%	6%	7%	8%	6%
NOV03-APR04	7%	8%	7%	7%	4%
UPPER EAST SIDE					
MAY04-OCT04	23%	22%	22%	26%	26%
NOV03-APR04	20%	19%	21%	21%	24%
UPPER WEST SIDE					
MAY04-OCT04	19%	17%	20%	19%	18%
NOV03-APR04	17%	16%	18%	19%	14%

Source: All Citi Habitats' transactions from May-Oct 2004 vs. Nov2003-Apr 2004. The data represents over 4,000 buildings, including 54 Citi Habitats exclusive buildings and 197 exclusive properties in both doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.



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Marketing Group

CITI HABITATS
RELOCATION

CITI HABITATS
NEW YORK

Corporate Headquarters
250 Park Avenue South

CITI HABITATS
Corporate Training Facility
450 Park Avenue South



Upper West Side
465 Columbus Ave.

Upper West Side
222 West 72nd St.

Upper East Side
400 East 84th St.

Upper East Side
400 East 76th St.

Midtown West
346 West 57th St.

Midtown East
937 Second Ave.

Murray Hill
30 East 33rd St.

Murray Hill
450 Park Ave So.

Murray Hill
206 East 38th St.

Chelsea
155 Seventh Ave.

Gramercy/Flatiron
32 East 22nd St.

Gramercy/Flatiron
27 East 22nd St.

West Village
114 Perry St.

Sales Headquarters
250 Park Ave So.

East Village
37 Third Ave.

Greenwich Village
1 Great Jones St.

SoHo
62 Greene St.

Financial District
100 John St.

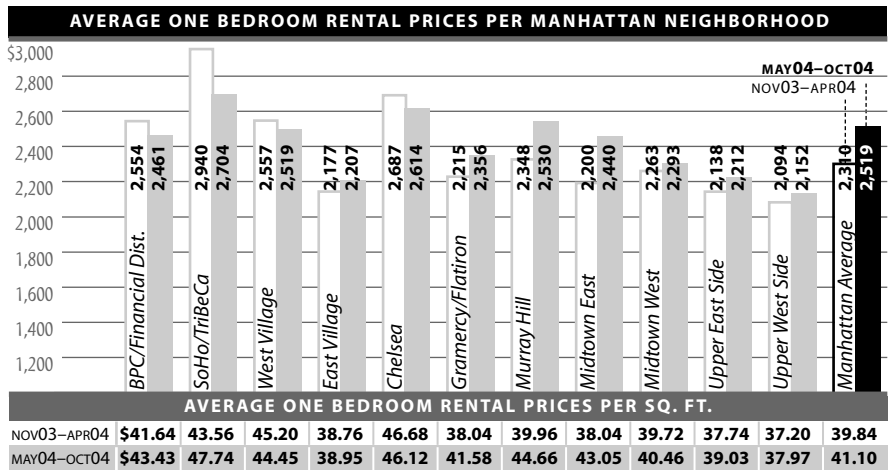
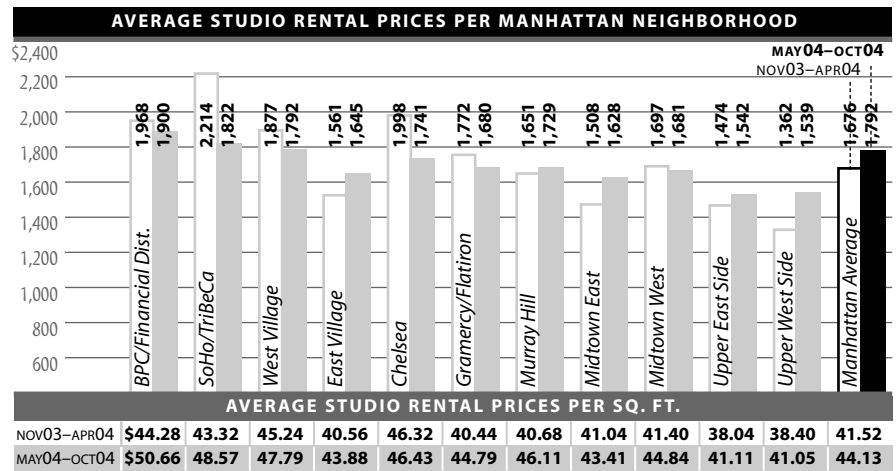
*No matter
where your needs lie,
Citi Habitats is there.
With 18 offices citywide,
and over 1,000
licensed professionals
and staff, we've got
the City covered!*

Rental prices

The following graphs illustrate the average rents for studio, one bedroom, two bedroom and three bedroom apartments in Manhattan's 11 different neighborhoods. Beneath each graph, the average rental price per square foot for all neighborhoods is indicated.

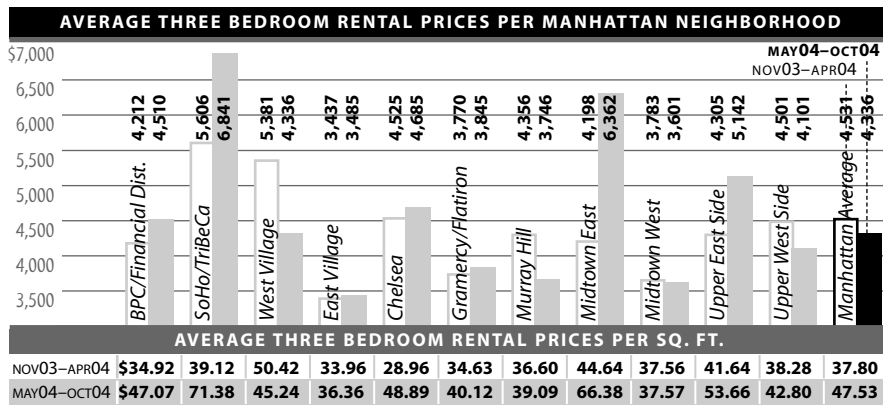
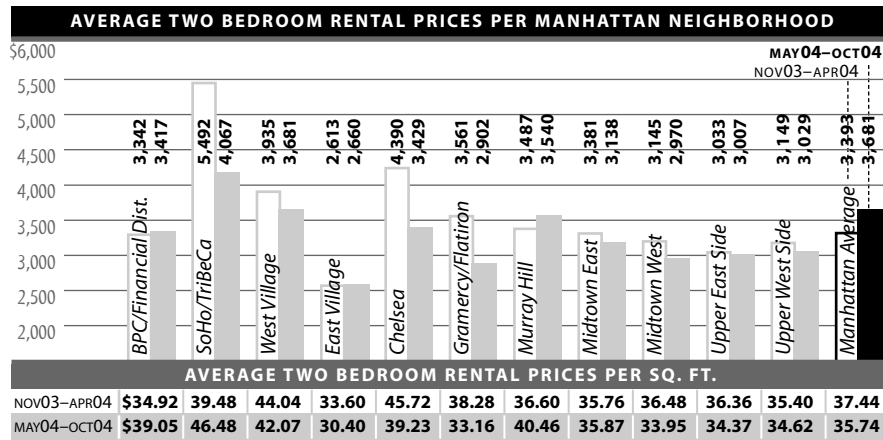
Discussion Rental prices per square foot have slightly increased due to the City's low vacancy rate, which is at a pre-September 11th low. As available inventory is absorbed, rental prices are starting to trend upwards.

The sales market is attracting some renters away, with the most noticeable effect on the two and three bedroom rental market. There is little synergy between the studio and one bedroom renter and the studio and one bedroom buyer, so the booming sales market is not having an impact on 76% of the rental marketplace, which we have shown is comprised of studios and one bedroom apartments.



Source: All Citi Habitats' transactions from May-Oct 2004 vs. Nov2003-Apr 2004. The data represents over 4,000 buildings, including 54 Citi Habitats exclusive buildings and 197 exclusive properties in both doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

Rental *prices* (continued)



Source: All Citi Habitats' transactions from May-Oct 2004 vs. Nov2003-Apr 2004. The data represents over 4,000 buildings, including 54 Citi Habitats exclusive buildings and 197 exclusive properties in both doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

OP *concessions/free rent*

The table to the right illustrates the different effective rents for studios, one bedrooms and two bedrooms in the various neighborhoods throughout Manhattan. Effective rent is the annual rent minus the concessions offered.

Discussion OP (owner-paid) concessions and free rent are two incentives used by landlords to make their properties more attractive to prospective renters and agents. Concessions occur when the owner of a building offers to pay a portion or all of the broker's fee. The most common OP is equivalent to one month's rent, or 8.33% of the standard broker's commission of 15%, which lightens the burden on a new tenant who uses a broker. Some owners may offer an additional concession wherein they will allow the tenant to live rent free for one to three months.

Judging by the number of N/A's in the chart that follows, one can easily see that incentives are drying up. The OP concession/free rent was commonplace in the New York market up until 1996 and all but disappeared in the booming years immediately following. However, in the weeks following September 11, 2001, these incentives re-emerged to strengthen the rental market.

Now, as a result of the healthy rental market in Manhattan, we are experiencing a continuing trend where concessions are becoming less and less common. At any given time, only approximately 7.5% of Citi Habitats' more than 9,000 rental database listings will be offering some kind of incentive. Many landlords of newly constructed buildings will offer one to three free months' rent to fill their properties faster. But when lease renewals come around, the rent is increased based on the actual monthly rental price, without considering the concessions offered. When all is said and done, OPs or free rent are effective marketing tools for landlords and buildings.

EFFECTIVE RENT BY MANHATTAN NEIGHBORHOOD				
Studios	NO INCENTIVES	FREE RENT + OP	FREE RENT ONLY	OP ONLY
BPC/Fin. District	\$1,929	\$2,204	\$2,205	\$1,936
SoHo/TriBeCa	N/A*	N/A*	N/A*	2,148
West Village	1,835	N/A*	N/A*	1,866
East Village	1,645	N/A*	N/A*	1,713
Chelsea	1,773	N/A*	N/A*	1,693
Gramercy/Flatiron	1,747	N/A*	N/A*	1,920
Murray Hill	1,727	N/A*	N/A*	1,746
Midtown East	1,626	N/A*	1,163	1,699
Midtown West	1,639	2,195	2,088	1,956
Upper East Side	1,479	N/A*	2,055	1,713
Upper West Side	1,556	1,781	1,781	1,563
One Bedrooms	NO INCENTIVES	FREE RENT + OP	FREE RENT ONLY	OP ONLY
BPC/Fin. District	\$2,420	\$2,563	\$2,527	\$2,484
SoHo/TriBeCa	3,232	N/A*	2,823	2,785
West Village	2,541	N/A*	N/A*	2,503
East Village	2,165	N/A*	N/A*	2,483
Chelsea	2,594	N/A*	2,642	2,867
Gramercy/Flatiron	2,335	2,223	2,223	2,466
Murray Hill	2,505	N/A*	2,175	2,650
Midtown East	2,355	N/A*	3,791	2,673
Midtown West	2,231	2,907	2,763	2,421
Upper East Side	2,129	2,688	2,806	2,382
Upper West Side	2,097	3,117	2,772	2,452
Two Bedrooms	NO INCENTIVES	FREE RENT + OP	FREE RENT ONLY	OP ONLY
BPC/Fin. District	\$3,526	\$3,679	\$3,679	\$3,331
SoHo/TriBeCa	5,275	N/A*	N/A*	4,316
West Village	3,755	N/A*	N/A*	4,379
East Village	2,795	N/A*	N/A*	2,779
Chelsea	3,541	N/A*	N/A*	4,363
Gramercy/Flatiron	2,948	N/A*	N/A*	2,824
Murray Hill	3,483	N/A*	4,098	3,831
Midtown East	2,915	N/A*	4,309	3,681
Midtown West	2,617	3,123	3,704	3,802
Upper East Side	3,065	2,750	3,123	2,907
Upper West Side	2,938	N/A*	N/A*	3,664

Source: All Citi Habitats' transactions from May–Oct 2004 vs. Nov2003–Apr 2004. The data represents over 4,000 buildings, including 54 Citi Habitats exclusive buildings and 197 exclusive properties in both doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.
* Sample group for this neighborhood too small to attain accurate average.

OP concessions/free rent (continued)

In today's competitive real estate marketplace, we must consider net effective rents in order to analyze income and cost effectively.

The examples to the right illustrate the manner in which various concessions are distributed and how effective rents are determined. Note that for simplicity, the owner-paid commission (OP) was used towards reducing the tenant's rent and not towards payment of the broker's fee.

HOW TO CALCULATE NET EFFECTIVE RENTS

Example

If the monthly rent for an apartment is \$2,400 a month and the landlord is offering one month free rent and one month OP:

$$\frac{\$2,400 \times 11 \text{ MONTHS [12 - 1 free MONTH]} - \$2,400 \text{ [1 MONTH OP]}}{12 \text{ MONTHS}} = \$2,000 \text{ effective rent}$$

Example

If the monthly rent for an apartment is \$3,200 a month and the landlord is offering two months' free rent:

$$\frac{\$3,200 \times 10 \text{ MONTHS [12 - 2 free MONTHS]}}{12 \text{ MONTHS}} = \$2,666 \text{ effective rent}$$

Example

If the monthly rent for an apartment is \$1,600 a month and the landlord is offering a one month OP:

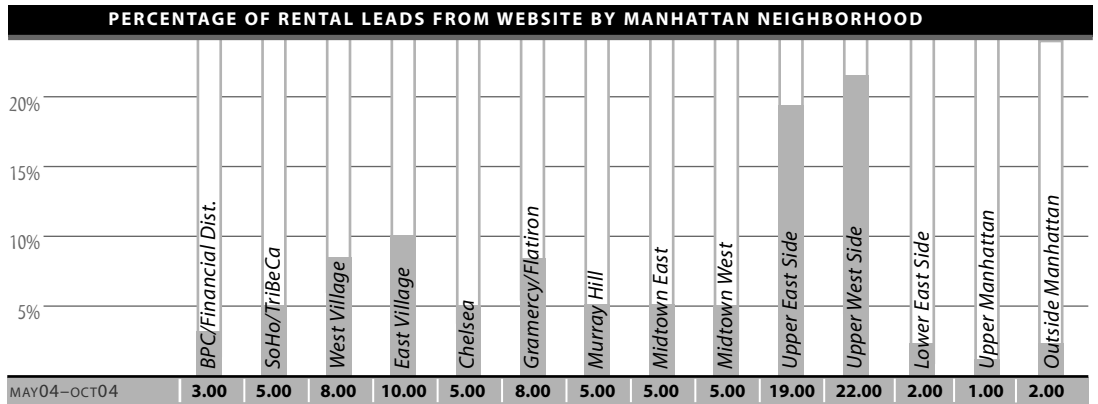
$$\frac{\$1,600 \times 12 \text{ MONTHS} - \$1,600 \text{ [1 MONTH OP]}}{12 \text{ MONTHS}} = \$1,467 \text{ effective rent}$$

Internet search data

This table illustrates what web searchers estimated they would pay when renting various sized apartments, compared to the actual average rental prices for these units.

	Studios	One Bedrooms	Two Bedrooms	Three Bedrooms
WEBSITE VISITORS' AVERAGE RENT EXPECTATIONS VS. MANHATTAN RENTS				
Expected Rent	\$1,426	\$1,964	\$2,648	\$3,778
Average Rent	\$1,792	\$2,519	\$3,681	\$4,336

Source: All Citi Habitats' website visitors at www.citi-habitats.com from May 2004 through October 2004.



This table shows the percentage of Citi Habitats' web leads seeking to rent or buy in the various Manhattan neighborhoods.

Source: Citi Habitats' web searches for rentals from May 2004 through October 2004.

Discussion One of the most phenomenal aspects of the Internet is its ability to measure customers' desires. Citi Habitats has one of the most heavily trafficked web sites in the industry and our agents have completed a record-breaking number of transactions this year. We have first-hand knowledge of how people act versus their initial expectations.



Visit our ground breaking website, www.citihabitats.com.



For a customized report tailored to your specific needs, contact the Market Research Department at our Corporate Headquarters, 212.685.7777

Our Affiliates, Divisions, and Services



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Citi Concierge is a complimentary program extended to Citi Habitats' valued clients. It puts the best of New York at your fingertips, from dining and entertainment to Settling-In Services.

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