



Prudential Douglas Elliman Real Estate

Letter from Dottie Herman

As you look back at 2004, I think you'll agree that it was a year to remember. The presidential election was a cliffhanger, the uncertainty of the economy kept us guessing and the impact of the war in Iraq had a longer impact than anyone expected.

In the midst of all this or perhaps because of it, residential real estate continued to boom. We hit records previously unheard of. The average price of a home in Manhattan exceeded the \$1 million mark in the second quarter and stayed there. The average price per square foot set new records as well exceeding \$800 for the first time. And the luxury market both in Manhattan and the Hamptons grew faster than the overall market in all categories. All this and the ever-increasing demand for property over the available supply proves once again, that residential real estate is not only an emotional purchase but a solid investment as well.

For over 10 years, Prudential Douglas Elliman has partnered with Jonathan Miller of Miller Samuel, Manhattan's foremost appraisal firm, to publish the definitive report on residential real estate in Manhattan. Because of its credibility as the most reliable source of data on the market, it is used by financial, governmental, media and industry institutions both here in the US and around the world. Our market reports on the Hamptons and Long Island created the same impact when we introduced them earlier this year working with an independent researcher on the Island.

Know before you buy is a very old adage that applies to all large purchases but especially what is often the biggest purchase in one's life. Armed with solid facts on the value of property in your area of interest is more essential today than ever. You will find some very relevant information on the state of the market in Manhattan and the Hamptons in the next few pages as well as a view of some properties currently on the market in those areas. This is but a fraction of what is available to you, however.

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Dottie Herman



Dottie Herman, Owner & CEO
Prudential Douglas Elliman



Jonathan J. Miller, CRP, President/CEO
Miller Samuel Inc.



A YEAR TO REMEMBER **MANHATTAN**

Like most of the country, the Manhattan residential real estate market made significant gains in housing prices in 2004. These gains in 2004 occurred in the face of a lackluster economy, a series of rate increases by the Federal Reserve, national election politics, rising fuel prices, the Iraq War and international political turmoil. This begs the question: Why?

Attention to quality of life issues by the New York City government since the mid-1990's have become the bedrock of a vibrant real estate market. People actually want to live here. The supply of apartments has remained relatively inelastic due to the lack of sites available for development that make economic sense. Mortgage rates have remained at historic lows for much of the past three years.

In mid-2004 the Fed began efforts to keep inflation in check by systematically raising interest rates a quarter percent at a time. However, mortgage rates have actually trended downward since the spring despite the Fed's rate actions suggesting that any mortgage rate increases next year could be gradual as economic conditions improve. This would allow the real estate market to absorb some of the higher borrowing costs. As a result, we could see more normalized market in 2005 year with modest appreciation, in contrast to the frenetic pace of 2004.

THE RESULTS

We have presented data for each of several housing sub-markets broken out by co-ops, condos and by specific neighborhoods comparing the first three quarters of 2004 to the prior year and prior decade. This information was extracted from the Prudential Douglas Elliman Manhattan Market Report and Prudential Douglas Elliman Manhattan Market Overview, a series of studies of the Manhattan housing market presented on a quarterly and annual basis. The pattern is clear: all Manhattan markets presented here showed significant upward price trends this year as compared to 2003.



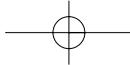
OVERALL AND LUXURY MARKETS

The overall average sales price of a Manhattan apartment was \$1,041,604 year to date, up 19.4% over the 2003 average of \$872,160. This was the first year where the average sales price exceeded the one million-dollar threshold. Media sales price and average price per square foot also showed double-digit gains of 14.2% and 15.3% respectively, setting records as well. An apartment today on average costs 2.5 times the \$414,187 it did ten years ago. The luxury market, which we define as the upper 10% of the overall co-op and condo market returned in force in 2004 after a relatively quiet 2003. Some of the largest gains were seen at the upper end of the market as buyers expressed more confidence in the future of the real estate in Manhattan. The average sales price of a luxury apartment was \$3,867,151, up 23.9% over the 2003 average of \$3,120,489. The average price per square foot and median sales price posted 12.7% and 26.7% increases respectively over the same period.

515 Park Avenue, Web# 649266
Richard Ferrari 212.891.7628, Drew Glick 212.891.7283

	Current Year*	% Chg	Prior Year	% Chg	Prior Decade
Overall	\$1,041,604	19.4	\$872,160	151.5	\$414,187
Luxury	\$3,867,151	23.9	\$3,120,489	178.5	\$1,388,573

* Through 3Q 2004



CO-OP MARKET

Like the overall market, co-ops saw an increase in prices in all of our indicators. Perhaps the defining characteristic of the market this year has been fewer sales as the availability decreased. Projected sales volume for 2004 is 4,969 units, which is 10% below last year's total of 5,524 units but is still 66.7% higher than the 2,981 units seen in the prior decade.



225 Central Park West, Web#646660, Iva Spitzer 212.769.9827



25 Sutton Place, Web#645875, Norma Hirsh 212.891.7036

Some specific area results are as follows:

Central Park West continued to show housing prices at levels above its counterpart, the Fifth Avenue-Park Avenue Corridor. The average sales price of a Central Park West apartment this year was \$2,810,087 versus \$2,554,824 across the park.

The Sutton-Beekman market was one of the few areas where the number of sales was up over the prior year, rising 16.1% to 252 sales over the 2003 total of 217.

The average price per square foot of an Upper East Side co-op on average exceeded \$700 per square foot for the first time, reaching \$769.

Average Sales Price	Current Year*	% Chg	Prior Year	% Chg	Prior Decade
Overall	\$878,606	14.4	\$767,928	101.1	\$436,825
Central Park West	\$2,810,087	12.5	\$2,497,116	239.0	\$829,006
Fifth Avenue - Park Ave Corridor	\$2,554,824	29.8	\$1,968,961	166.8	\$957,688
Sutton - Beekman	\$984,000	13.6	\$866,374	121.1	\$445,023
Upper East Side	\$1,240,756	22.1	\$1,015,778	121.6	\$583,712

* Through 3Q 2004



25 Columbus Circle, Todd Marsh. Web# 638551. Todd Marsh 212.891.7605

CONDO MARKET

Contrary to the co-op market, the number of sales of condo units increased in 2004 as compared to 2003. The increase in sales activity in the market overall has been largely attributed to the condo market. Condos have been favored over co-ops for new construction and conversions by developers over the last twenty years because they generally sell for higher prices. The average sales price of a Manhattan condo unit in 2004 was \$1,287,952, up 20.8% over the \$1,066,317 average seen in 2003. The condo average sales price was 46.6% higher than the co-op average sales price in 2004.



A YEAR TO REMEMBER

MANHATTAN



1 Central Park West, Web# 618063, I. Dolly Lenz 212.891.7113

(Condo Market continued) However, a portion of this difference is the fact that the average condo sale this year was 1,447 square feet, 17.3% larger than the 1,234 average square foot size of a co-op sale.

By area, the results show the following:

The Lincoln Center condo market saw some of the largest gains in prices this year as the new Time Warner Center brought additional high-end apartments to the market. The average sales price was \$1,716,818 which was 22.3% above the prior year average of \$1,403,333. Sales at both Trump International and the 3 Millenium building contributed to the gains.

The Upper East Side had 22.4% of all condo sales in 2004 and saw a modest gain of 3.7% in the average sales price to \$1,213,794 over the prior year average of \$1,170,514.

The average sales price in Soho-Tribeca condo loft market was \$1,886,292 which was an 8.2% increase over last year's average of \$1,744,122. Lofts have seen some of the largest price gains over the past decade and established themselves as a distinct market downtown. The average sales price of a loft is nearly six times the average sales price of \$320,946 seen in 1995.

	Current Year*	% Chg	Prior Year	% Chg	Prior Decade
Overall	\$1,287,952	20.8	\$1,066,317	243.8	\$374,608
Lincoln Center	\$1,716,818	22.3	\$1,403,333	231.3	\$518,167
SoHo - TriBeCa	\$1,886,292	8.2	\$1,744,122	487.7	\$320,946
Upper East Side	\$1,213,794	3.7	\$1,170,514	141.2	\$320,946

* Through 3Q 2004

HAMPTONS

HAMPTONS REAL ESTATE: A BANNER MARKET WITH MORE TO COME

One of the most compelling trends today is the massive shift of personal wealth into real estate. Real estate has quietly become the investment vehicle of choice across the nation, and this is particularly evident with "The Hamptons" - the world renowned communities comprised of quaint villages and hamlets on the East End of Long Island. The driving force behind this market appreciation - as with others - is supply and demand. Added momentum is derived from its proximity to America's leading city; an ever extending season; world-class shops, restaurants, and beaches; the prospect for significant rental income; and a surge in maturing Baby Boomers. 2004 has been a banner year of price appreciation coupled with record unit sales.



Sold. Sag Harbor. Last listed at \$8,500,000.
Lori Barbaria, Bridgehampton 631.537.5900

H A M P T O N S

THE RESULTS

Price levels have increased during all three quarters of 2004. We have presented market wide data for the first three quarters of 2004 comparing 3Q04 with 2Q04, as well as 2003 data. This information was extracted from the Prudential Douglas Elliman Hamptons Market Reports which are produced quarterly. Although 4Q04 market wide data is not available at this time, our own internal sales data for 4Q04 continues to dramatically outpace our initial projections. Complimenting the Manhattan pattern, after setting unprecedented highs in 2004, residential sales throughout the Hamptons remain historically strong going into 2005.



Sold. Southampton Village. Last listed at \$22,000,000.
Raymond Smith, Southampton Office 631.283.4343



Sold. Southampton Village. Last listed at \$9,250,000.
Laura Nigro, Southampton Office 631.283.4343

OVERALL AND LUXURY MARKETS

The average sales price of a Hamptons residence rose 23.6% during the 1st 9 months of 2004 to \$1,033,590, over the prior year's average of \$827,497. As with both of the preceding quarters, the average price again increased during 3Q04. This is the first year the \$1,000,000 average sales price threshold was broken for Long Island's East End. The median sales price also increased by impressive margins (23.4%) during the same time frames. Although the pace of unit sales during 3Q04 market wide declined from the prior quarter, Prudential Douglas Elliman's 4Q04 unit sales have already increased 35% over 3Q04. Unit sales market wide for the Hamptons are on target to reach or even surpass their 2002 peak.

NUMBER OF SOLD UNITS

Luxury Category	2004 (1st 3 Qtrs)	2003 Year	2002 Year
\$3M to \$5M	69	47	40
\$5M to \$10M	33	11	19
Greater than \$10M	4	9	7

AVERAGE SALES PRICE

Luxury Category	2004 (1st 3 Qtrs)	2003 Year	2002 Year
\$3M to \$5M	\$3,721,451	\$3,661,570	\$3,882,400
\$5M to \$10M	\$6,700,839	\$6,245,455	\$7,049,737
Greater than \$10M	\$14,100,000	\$16,936,411	\$14,904,000

Based on closed sales data for the 1st 9 months of 2004, the average sales price of properties in the luxury category has remained fairly constant since 2002. It is important to recognize that even one or two major transactions can make a difference on the cumulative average sales price. However, the number of closed transactions at \$3,000,000 or more has already increased by a dramatic 50% during the first 9 months of 2004. This is particularly evident in both the \$3-5,000,000 and \$5-10,000,000 categories, which by comparison were relatively unchanged the previous two years. For more information on the Hamptons or to view 1,000s of exclusive listings, visit prudentialelliman.com