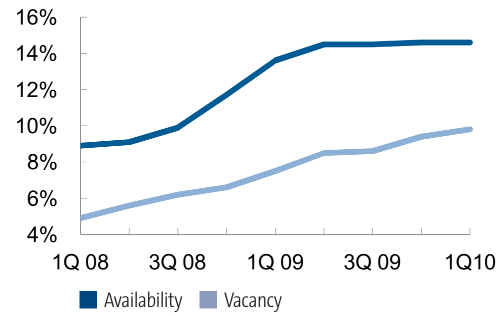
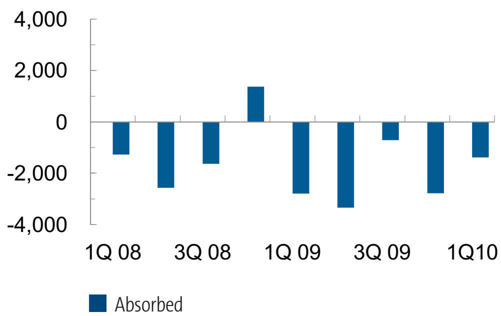
Office Trends Report—First Quarter 2010
Manhattan, NY

GRUBB & ELLIS
From Insight to Results

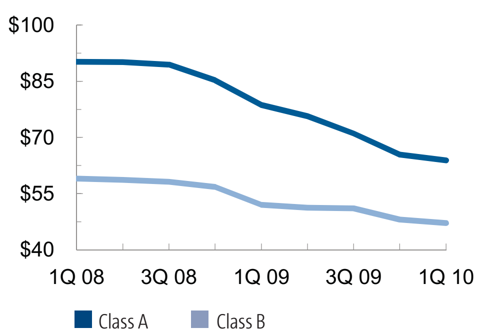
Availability vs Vacancy Rate



Absorption
(in Thousands of SF)



Asking Rental Rates
($/SF/Yr. Full Service)



Midtown Strengthens While Downtown Weakens

The Manhattan office market demonstrated signs of steadiness in the first quarter as asking rents stabilized and the available supply dropped. Despite over 52 million square feet of available space still on the market, demand for space was strong in the first quarter with 5.2 million square feet transacted. Although leasing activity was up 14 percent compared to the first quarter of 2008, it is still below the average of 7.9 million square feet leased during the first quarter of the past 13 years. This burst in leasing activity helped push availabilities down in Midtown and Midtown South. It also caused asking rental
declines to come to a halt as landlords welcomed more activity on their buildings. Expect asking rents to remain flat throughout this year as landlords weigh the health of the overall economy and pull back on concessions before raising face rents.

Both Midtown and Midtown South experienced significant drops in availability during the first quarter, while Downtown took a step backwards. Midtown prospered in the first quarter as the availability rate dropped 60 basis points to 14.3 percent. Large lease signings led the way for Midtown with six transactions over 100,000 square feet. Midtown South shared in that prosperity, with an 80 basis point drop in availability to 14 percent in the first quarter, which was fueled by New York Life's 414,751-square-foot renewal at 63 Madison Avenue. Downtown weakened in the first quarter, as two large blocks of space hit the market - an event that has been written about for the past two years. The eminent move of Goldman Sachs to their new headquarters brings more than 1.6 million square feet to the market at 85 Broad Street and 1 New York Plaza. With just under 12 million square feet available in Lower Manhattan, the availability rate jumped 260 basis points in the first quarter to 16 percent.

FORECAST

- Increased demand should counter any further space additions in Midtown and Midtown South
- Asking rents will remain stable in the second half of 2010; concessions will be pulled back first before starting rents increase
- Downtown will struggle with excess available supply until more Class A space is absorbed in Midtown

KEY TRANSACTIONS

Lessee/Buyer	Lessor/Seller	Property	Size (SF)
Avon Products	William Kaufman Organization	777 Third Avenue	246,500
Kenyon & Kenyon	Stoffel & Partners	One Broadway R	195,000
	PineBridge Investments	Boston Properties	399 Park Avenue

Grubb & Ellis New York
1177 Avenue of the Americas
New York, NY 10036
www.grubb-ellis.com

Prepared by:
Richard Persichetti *Client Services Manager*
212.326.4752
richard.persichetti@grubb-ellis.com

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By Submarket	Total SF	Available SF	Availability %	Net Absorption Current	Net Absorption Year-To-Date	Under Construction SF	Asking Rent Class A	Asking Rent Class B
Midtown								
Avenue of the Americas	39,595,286	5,090,659	12.9%	(114,022)	(114,022)	-	$66.28	$56.18
Eastside	26,024,415	3,596,490	13.8%	(708,976)	(708,976)	-	$55.59	$50.92
Fifth/Madison	20,481,858	3,738,633	18.3%	140,486	140,486	-	$92.06	$63.91
Grand Central	42,342,087	6,515,579	15.4%	418,518	418,518	-	$66.41	$54.11
Midtown West	35,329,904	4,878,716	13.8%	(55,336)	(55,336)	1,155,550	$64.63	$61.60
Park Avenue	20,359,019	2,991,642	14.7%	103,105	103,105	-	$67.27	$64.10
Penn/Garment	27,833,099	3,580,281	12.9%	181,788	181,788	-	$48.61	$45.04
Midtown Total	**211,965,668**	**30,392,000**	**14.3%**	**(34,437)**	**(34,437)**	**1,155,550**	**$68.78**	**$54.27**
Midtown South								
Chelsea	5,767,080	360,354	6.2%	7,134	7,134	-	$63.50	$51.95
Gramercy/Flatiron	8,751,574	1,397,666	16.0%	396,160	396,160	-	$52.00	$49.72
Hudson Square/Tribeca	13,470,703	2,648,940	19.7%	(72,698)	(72,698)	-	$48.50	$48.27
Madison Square	19,637,328	2,781,540	14.2%	(211,846)	(211,846)	-	$63.11	$42.93
Penn Station	22,584,101	2,718,222	12.0%	304,275	304,275	-	$51.14	$39.63
SoHo/NoHo	4,278,478	485,540	11.3%	(43,472)	(43,472)	-	-	$47.01
Midtown South Total	**74,489,264**	**10,392,262**	**14.0%**	**379,553**	**379,553**	**-**	**$55.39**	**$45.18**
Downtown								
Broadway/Battery Park	6,781,960	1,701,255	25.1%	(25,096)	(25,096)	-	$40.28	$33.65
City Hall	5,748,733	1,415,526	24.6%	(1,144,217)	(1,144,217)	-	-	$34.70
Insurance	6,434,914	929,590	14.4%	(17,847)	(17,847)	-	$39.71	$35.98
Wall Street	22,408,379	3,762,498	16.8%	36,586	36,586	-	$44.11	$37.70
Waterfront	14,680,136	2,489,528	17.0%	(885,672)	(885,672)	-	$46.34	$38.71
World Trade Center	19,009,295	1,696,715	8.9%	304,881	304,881	6,900,000	$60.16	$40.00
Downtown Total	**75,063,417**	**11,995,112**	**16.0%**	**(1,731,365)**	**(1,731,365)**	**6,900,000**	**$47.78**	**$36.39**
Manhattan Totals	**361,518,349**	**52,779,374**	**14.6%**	**(1,386,249)**	**(1,386,249)**	**8,055,550**	**$63.91**	**$47.18**

By Class	Total SF	Available SF	Availability %	Net Absorption Current	Net Absorption Year-To-Date	Under Construction SF	Available for Sublease CBD
Class A	208,554,856	29,627,115	14.2%	(2,412,415)	(2,412,415)	8,055,550	9,024,847
Class B	123,162,536	19,431,615	15.8%	829,826	829,826	-	4,434,999
Class C	29,800,957	3,720,644	12.5%	196,340	196,340	-	763,380
Totals	**361,518,349**	**52,779,374**	**14.6%**	**(1,386,249)**	**(1,386,249)**	**8,055,550**	**14,223,226**

To start the year, lease renewals continue to account for a significant portion of the leases signed. Of the 5.2 million square feet of office leases signed in the first quarter, 30 percent were renewals. Most of the square feet renewed this year came from the larger transactions, as five out of 10 of the top deals were renewals. The average transaction size, however, continues to shrink. In 2009, the average deal size was 11,576 square feet, which was down 30 percent compared to 2008. So far this year, the average deal size dipped again, down to 10,090 square feet, which is 43 percent lower than the 10-year trailing average of 17,700 square feet. With 77 blocks of available space greater than 100,000 square feet still on the market, and more than 90 percent of the demand coming from tenant requirements of 50,000 square feet and under, landlords with large spaces need to become more creative and market their buildings towards the smaller tenants. Pre-builts could assist these landlords shore up tenancy in their buildings with significant vacancies.

After available sublease space peaked in the second quarter of 2009 at 16.2 million square feet, it was slowly absorbed over the past nine months. With 14.2 million square feet currently on the market, tenants attraction to built space in move-in condition helped shed 2 million square feet. Expect more sublease space to be leased throughout the year, which will also help to stabilize rents further.

OFFICE TERMS AND DEFINITIONS

Total SF: Office inventory includes all multi-tenant and single tenant buildings at least 150,000 square feet. Owner-occupied, government and medical buildings are not included.

Office Building Classifications: Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported full service where all costs of operation are paid for by the landlord up to a base year or expense stop. The asking rent for each building in the market is weighted by the amount of available space in the building.

** Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*