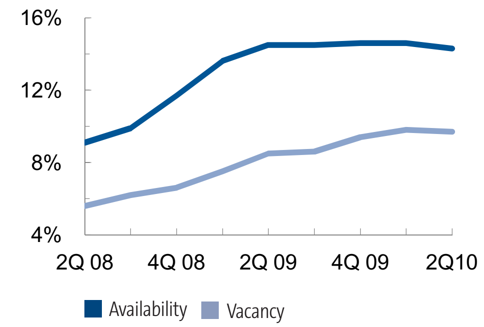
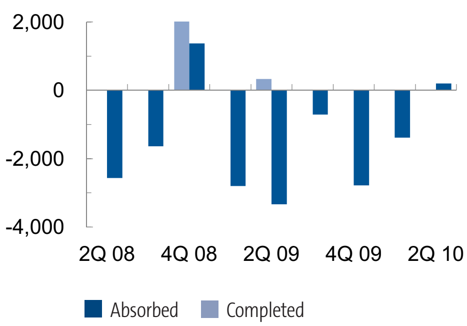
Office Trends Report—Second Quarter 2010
Manhattan, NY

GRUBB & ELLIS
From Insight to Results

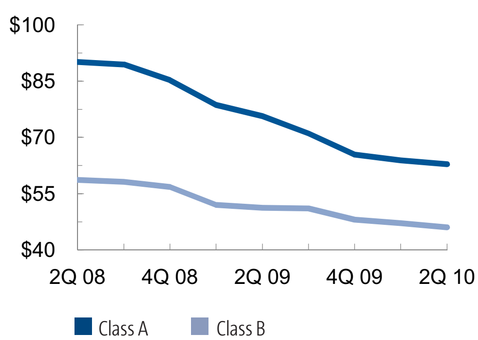
Availability vs. Vacancy Rate



Completion vs. Absorption
(in Thousands of SF)



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



Market Continues to Show Signs of Stability

The Manhattan office market continued to improve in the second quarter, as the overall vacancy rate dropped for the first time in nine quarters, decreasing by 10 basis points to 9.7 percent. The overall available supply is shrinking as well, by dropping to under 52 million square feet for the first time in five quarters. Dwindling supply was due to an increase in demand in the second quarter, as 8.2 million square feet was leased, bringing the year-to-date total to 13.4 million square feet. Demand for space this year is up 20 percent compared to mid-year 2009, as five transactions over 250,000 square feet were signed in the second quarter.

Despite some average asking rental increases in certain submarkets, Manhattan Class A and Class B asking rents continued to decline. Class A asking rents averaged $62.87, down $1.04 per square foot from the first quarter, while Class B asking rents dropped $1.17 per square foot to $46.01. Expect asking rents to remain steady throughout the second half of the year, with overall increases not likely occurring until 2011. Landlords will likely pull back on concessions before raising face rents during the remainder of 2010.

Midtown Class A Rents Increase

Midtown Class A average asking rents increased for the first time in 10 quarters, with direct Class A asking rents moving up $0.39 per square foot to $69.17 in the second quarter. Although the rental increase was a mere $0.40 per square foot, it demonstrates that the market has reached bottom in Midtown. In addition to the rental declines coming to a halt, the availability rate is down from a peak of 15.1 percent one year ago to 13.8 percent. The drop in available supply can be attributed to significant transactions being signed throughout the year, like Proskauer Rose's 406,399-square-foot lease signed in the second quarter at 11 Times Square. Two other significant Midtown transactions this quarter were Jones Apparel Group's renewal and expansion into 380,000 square feet at 1411 Broadway and Willkie Farr & Gallagher's renewal of 355,118 square feet at 787 Seventh Avenue.

FORECAST

- Midtown and Midtown South will recover further throughout 2010, while the recovery Downtown lags the rest of the market
- Despite minimal asking rental increases in Class A Midtown space, asking rents will remain flat in the second half of 2010, with market-wide increases occuring in 2011
- Leasing activity should remain strong throughout the year as tenants continue to seize opportunities before rents start to rise steadily

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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	5,294,409	13.4%	124,416	58,171	-	$66.55	$56.55
Eastside	26,024,415	3,679,844	14.1%	257,985	(450,991)	-	$55.18	$49.73
Fifth/Madison	20,481,858	3,648,947	17.8%	(165,416)	(24,930)	-	$93.32	$62.19
Grand Central	42,342,087	6,448,520	15.2%	(168,334)	250,184	-	$66.33	$54.41
Midtown West	35,329,904	4,606,267	13.0%	3,038	(52,298)	1,155,550	$64.36	$60.91
Park Avenue	20,359,019	2,562,866	12.6%	199,802	302,907	-	$68.13	$57.75
Penn/Garment	27,833,099	3,090,939	11.1%	549,182	730,970	-	$48.72	$44.10
Midtown Total	**211,965,668**	**29,331,792**	**13.8%**	**800,673**	**814,013**	**1,155,550**	**$69.17**	**$53.90**
Midtown South								
Chelsea	5,767,080	388,462	6.7%	(63,882)	(56,748)	-	$63.50	$51.95
Gramercy/Flatiron	8,751,574	1,211,618	13.8%	105,168	501,328	-	$52.00	$49.74
Hudson Square/Tribeca	13,470,703	2,640,291	19.6%	63,587	(9,111)	-	$48.50	$48.21
Madison Square	19,637,328	2,564,869	13.1%	(31,612)	(243,458)	-	$60.18	$41.35
Penn Station	22,584,101	2,838,331	12.6%	(29,127)	275,148	-	$50.79	$39.84
SoHo/NoHo	4,278,478	558,465	13.1%	22,060	(21,412)	-	-	$46.63
Midtown South Total	**74,489,264**	**10,202,036**	**13.7%**	**66,194**	**445,747**	**-**	**$53.46**	**$44.18**
Downtown								
Broadway/Battery Park	6,781,960	1,655,336	24.4%	60,653	35,557	-	$40.30	$34.17
City Hall	5,748,733	1,410,436	24.5%	(31,413)	(1,175,630)	-	-	$35.52
Insurance	6,434,914	749,669	11.7%	9,857	(7,990)	-	$39.78	$34.29
Wall Street	22,408,379	4,163,418	18.6%	(761,053)	(724,467)	-	$41.23	$36.73
Waterfront	14,680,136	2,430,771	16.6%	124,993	(760,679)	-	$46.53	$37.16
World Trade Center	19,009,295	1,863,287	9.8%	(68,494)	236,387	4,900,000	$60.29	$38.81
Downtown Total	**75,063,417**	**12,272,917**	**16.4%**	**(665,457)**	**(2,396,822)**	**4,900,000**	**$45.72**	**$36.10**
Manhattan Totals	**361,518,349**	**51,806,745**	**14.3%**	**201,410**	**(1,137,062)**	**6,055,550**	**$62.87**	**$46.01**

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	28,532,621	13.7%	(408,079)	(2,772,717)	6,055,550	8,805,997
Class B	123,162,536	19,726,747	16.0%	523,868	1,353,694	-	3,971,041
Class C	29,800,957	3,547,377	11.9%	85,621	281,961	-	655,542
Totals	**361,518,349**	**51,806,745**	**14.3%**	**201,410**	**(1,137,062)**	**6,055,550**	**13,432,580**

Significant Leases Paces Midtown South

In the second quarter alone there were three lease transactions signed over 100,000 square feet; this is equal to the transactions signed within Midtown South throughout all of 2009. The Service Employees International Union 32BJ signed a lease for 276,000 square feet at 620 Avenue of the Americas. Also, at 200 Fifth Avenue, Tiffany & Co. closed its 257,415-square-foot transaction, and the Bowery Residents Committee leased 104,500 square feet at 131 West 25th Street. These transactions lead the way for Midtown South's availability rate to drop 30 basis points from the first quarter to 13.7 percent this quarter.

Downtown Weakens Further

With Goldman Sachs' move into their new headquarters near complete, it led to significant blocks of space coming on line in Lower Manhattan this year. These blocks at 85 Broad Street and One New York Plaza, coupled with the space marketed at 70 Pine Street as AIG moves out over the next six months, added more than 2.2 million square feet of available supply to Downtown this year. As forecasted, this pushed availability up 300 basis points this year to 16.4 percent in the second quarter. This surplus of available supply led landlords to drop Class A asking rents an additional $2.06 per square foot to $45.72 this quarter.

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.*