

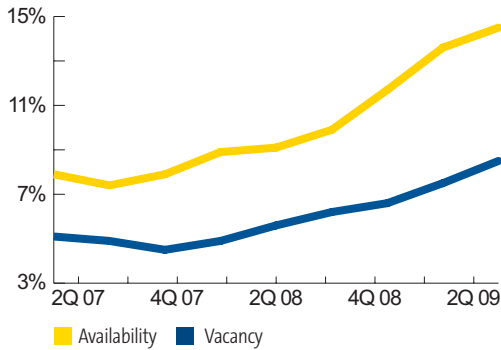
# Office Trends Report—Second Quarter 2009

## Manhattan, NY



### Availability vs. Vacancy Rate

Quarterly

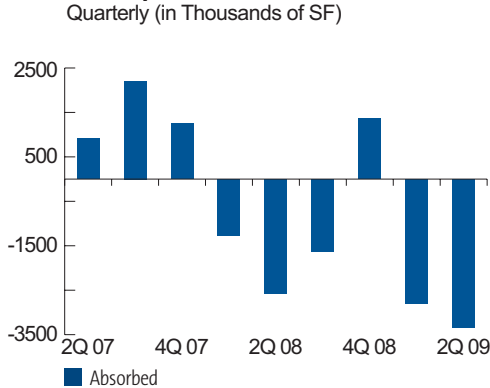


Increased available supply and diminished demand caused landlords to adjust pricing downward through the first half of 2009. Tenants making real estate decisions benefit from generous concession packages in addition to negotiated rents 30 to 40 percent less than one year ago.

The New York City unemployment rate surged to 9 percent in May, and the diminished job growth led to a lack of demand for office space throughout the city over the past year. Landlords with large blocks of space in excess of 100,000 square feet are feeling the worst leasing pains, as these types of availabilities flooded the market in the last 12 months. In the past year, an additional 32 large blocks hit the available supply, bringing the total in Manhattan to 92. From 2003 through 2008, an average of 25 large space leases were signed through the first half of each year. However, with companies downsizing, transactions for large requirements are much less frequent. Only 11 deals were completed through the second quarter of this year over 100,000 square feet, seven of which were renewals.

### Absorption

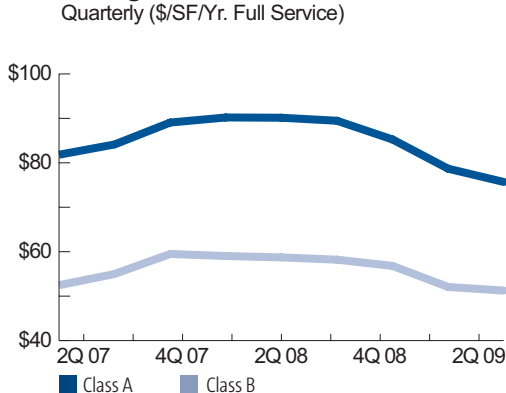
Quarterly (in Thousands of SF)



The slowdown in leasing involves all space sizes, as only 6.9 million square feet was transacted through the first half of the year, a 40 percent decline compared to the same time period in 2008. Leasing inactivity combined with a flood of space returned to the market caused available space to reach 52.8 million square feet; this surpassed the high-point of 52.5 million square feet, which marked the bottom of the last down cycle in 2003. Available sublease space accounts for 30 percent of the available inventory, and continues to place pressure on landlords to adjust pricing downward on direct space. Manhattan direct Class A average asking rents are down 16 percent from the rental peaks in 2008, but are being negotiated down even further as landlords compete for the few tenants seeking space.

### Asking Rental Rates

Quarterly (\$/SF/Yr. Full Service)



### FORECAST

- Tenants “flight to quality” will continue, since rents on top-tier space is down as much as 50 percent in high quality buildings
- Landlords will continue to offer significant concessions on new transactions in order to satisfy their pro formas
- More foreign investors will begin to invest funds in New York City office properties
- Continued decline in the financial and professional services industries will keep office market conditions weak headed into 2010

### KEY TRANSACTIONS

Lessee	Lessor	Property	Size (SF)
National Basketball Association*	Olympic Tower Associates	645 Fifth Avenue	153,000
Loeb & Loeb*	Rudin Management Company	345 Park Avenue	112,000
Geller & Company	Vornado Realty Trust	909 Third Avenue	94,000
Squire, Sanders & Dempsey LLP	Tishman Speyer	30 Rockefeller Plaza	70,225

■ Leasing ■ Sales \*Indicates Renewal Transaction

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## Manhattan



By Submarket	Total SF	Available SF	AVAILABILITY %		NET ABSORPTION		Under Construction SF	ASKING RENT	
			Direct	Total	Current Year To Date			Class A	Class B
<b>Midtown</b>									
Avenue of the Americas	40,268,382	5,340,449	8.1%	13.3%	(748,707)	(1,462,900)	-	\$82.24	\$62.49
Eastside	26,838,767	4,397,574	10.1%	16.4%	(270,891)	(540,588)	-	\$61.12	\$57.32
Fifth/Madison	20,385,577	3,417,242	12.4%	16.8%	(8,833)	(84,588)	-	\$109.54	\$62.08
Grand Central	41,923,107	6,555,263	10.1%	15.6%	(135,887)	(658,093)	-	\$84.44	\$63.75
Midtown West	35,582,719	5,078,121	10.0%	14.3%	(481,435)	(844,448)	1,155,550	\$76.21	\$65.01
Park Avenue	20,223,982	3,712,518	10.6%	18.4%	(1,041,168)	(1,186,698)	-	\$83.02	\$81.16
Penn/Garment	27,893,290	3,702,022	10.8%	13.3%	104,881	(185,941)	-	\$60.74	\$48.91
<b>Midtown Total</b>	<b>213,115,824</b>	<b>32,203,189</b>	<b>10.1%</b>	<b>15.1%</b>	<b>(2,582,040)</b>	<b>(4,963,256)</b>	<b>1,155,550</b>	<b>\$80.99</b>	<b>\$59.79</b>
<b>Midtown South</b>									
Chelsea	5,925,380	502,605	6.4%	8.5%	(105,655)	(108,843)	-	\$62.14	\$60.50
Gramercy/Flatiron	8,137,171	1,346,857	9.1%	16.6%	(14,557)	(85,755)	-	\$73.50	\$50.37
Hudson Square/Tribeca	13,534,930	2,568,385	16.9%	19.0%	(45,804)	228,418	-	\$48.50	\$47.61
Madison Square	19,811,834	2,972,586	11.5%	15.0%	(49,197)	(209,613)	-	\$75.63	\$43.08
Penn Station	22,329,870	2,358,926	6.8%	10.6%	(39,430)	(112,123)	-	\$57.32	\$47.48
SoHo/NoHo	4,278,478	621,293	8.7%	14.5%	(93,746)	(200,653)	-	-	\$54.53
<b>Midtown South Total</b>	<b>74,017,663</b>	<b>10,370,652</b>	<b>10.2%</b>	<b>14.0%</b>	<b>(348,389)</b>	<b>(488,569)</b>	<b>-</b>	<b>\$66.42</b>	<b>\$47.66</b>
<b>Downtown</b>									
Broadway/Battery Park	6,762,344	1,447,075	19.1%	21.4%	234,513	262,687	-	\$43.87	\$32.73
City Hall	5,900,750	1,619,755	26.3%	27.4%	173	(21,215)	-	-	\$39.64
Insurance	6,610,149	799,636	10.4%	12.1%	(72,905)	(207,429)	-	\$42.14	\$40.19
Wall Street	22,356,499	2,681,391	8.2%	12.0%	(425,187)	(455,069)	-	\$48.98	\$44.04
Waterfront	15,411,734	1,716,131	5.1%	11.1%	44,374	(93,702)	-	\$48.35	\$40.92
World Trade Center	19,009,295	1,975,967	7.6%	10.4%	(184,951)	(163,753)	6,900,000	\$66.49	\$41.05
<b>Downtown Total</b>	<b>76,050,771</b>	<b>10,239,955</b>	<b>10.0%</b>	<b>13.5%</b>	<b>(403,983)</b>	<b>(678,481)</b>	<b>6,900,000</b>	<b>\$54.07</b>	<b>\$38.75</b>
<b>Manhattan Total</b>	<b>363,184,258</b>	<b>52,813,796</b>	<b>10.1%</b>	<b>14.5%</b>	<b>(3,334,412)</b>	<b>(6,130,306)</b>	<b>8,055,550</b>	<b>\$75.69</b>	<b>\$51.25</b>
<b>AVAILABLE FOR SUBLEASE</b>									
<b>CBD</b>									
Class A	209,806,032	28,796,971	9.0%	13.7%	(3,320,680)	(5,356,805)	8,055,550	9,887,521	
Class B	123,312,530	20,049,577	11.9%	16.3%	77,038	(949,063)	-	5,410,587	
Class C	30,065,696	3,967,248	10.3%	13.2%	(90,770)	175,562	-	867,988	
<b>Manhattan Totals</b>	<b>363,184,258</b>	<b>52,813,796</b>	<b>10.1%</b>	<b>14.5%</b>	<b>(3,334,412)</b>	<b>(6,130,306)</b>	<b>8,055,550</b>	<b>16,166,096</b>	

## INVESTMENT OVERVIEW

Since last year, more than \$4.9 billion in distressed office loans have been identified in Manhattan, one-third of the total distressed debt identified in the U.S. office sector. Buyers and sellers are still at a disconnect with pricing, and the office investment market stalled in the second quarter. No major office properties changed hands, however, three significant office properties went to contract. Kumho Investment Bank in a joint venture with Young Woo & Associates recorded interest to purchase two AIG-owned properties at 72 Wall Street and 70 Pine Street in Lower Manhattan. The sale price of the two buildings will average \$105 per square foot, substantially lower than the \$519 per square foot averaged Downtown in 2007. In Midtown, the last of the Macklowe/Deutsche Bank portfolio went into contract when George Comfort & Sons in a joint venture with RCG Longview offered \$602.5 million for 825 Eighth Avenue. Deutsche Bank sold the troubled asset for 60 percent less than it was purchased for in 2007.

## OFFICE TERMS AND DEFINITIONS

**Inventory:** 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 within the next 12 months divided by the inventory.

**Direct Available:** This is space that is offered on the market directly by the landlord within the next 12 months in single and multi-tenant buildings. This excludes available space offered for sublease.

**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.*