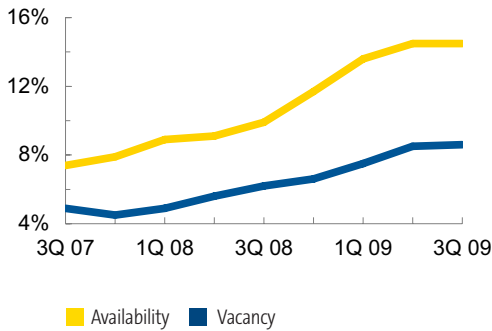




Availability vs. Vacancy Rate

Quarterly

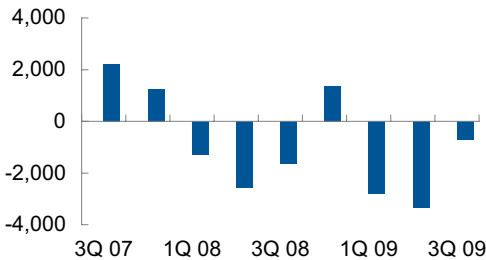


Surge in Leasing Activity — Rents Decline Further

Pent up demand from tenants who were trolling the market for space over the past two years finally translated into leasing activity during the third quarter. The increase in leasing brought the year-to-date transaction volume up to 17.5 million square feet, a 15 percent decline compared to the first three quarters of 2008. Despite the leasing surge over the summer months, the change in available supply was minimal. More than 52.5 million square feet of available space remain, a marginal decline of 214,069 square feet. In addition, the overall vacancy rate for Manhattan increased 10 basis points this quarter to 8.6 percent, and will likely move higher with tenant move-outs expected over the next six months.

Absorption

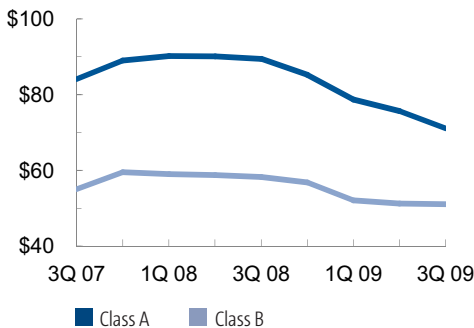
Quarterly (in Thousands of SF)



In August, the New York City unemployment rate reached 10.3 percent, the highest rate since January 1994. Financial services and professional services firms continue to shed jobs, and account for 80 percent of the 83,000 office sector jobs cut in the last 12 months. Despite their job cuts, these industries continue to be the two top sectors acquiring space. Although the number of transactions signed surpassed the amount of leases signed in 2008, firms are leasing smaller spaces, with the average transaction size only 11,500 square feet. This is a 35 percent decrease compared to the previous 10 year average transaction size of 17,700 square feet.

Asking Rental Rates

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



Average Class A asking rents in Manhattan continue to decline, down \$4.53 from the second quarter to \$71.06 per square foot. A more accurate gauge of market pricing is net effective rents, which are currently 26 percent off the average Class A asking rents. Landlords continue to offer generous concessions to tenants, and once the free rent and tenant improvement allowances are factored out of the rental structure, transactions are being signed at an average of \$52.57 per square foot.

Over the next three years, nearly \$1.4 trillion in commercial real estate mortgages nationally are expected to mature, which will likely keep a storm cloud over the industry. Throughout Manhattan, more than \$7.7 billion in distressed properties were identified across all product types through August. All of the distressed assets have not translated into much investment activity, but the office sector doubled its first half of the year output during the third quarter. More than \$1.1 billion in office investment volume took place this quarter, bringing the year-to-date activity totals to \$2.2 billion. The quarter's most notable transaction was IDB Group and Midtown Equities' joint venture purchase of HSBC Bank's headquarters at 452 Fifth Avenue. The sale/partial leaseback sold for \$330 million, a \$382 per square foot average for a Class A building in the heart of Midtown. HSBC plans to vacate floors 12 through 29 in one year, and the firm signed a 10-year lease for floors 1 through 10.

FORECAST

- Expect more available space to hit the market over the next six to nine months, and for availability to peak in 2010.
- Asking rents will continue to fall through the next 12 to 18 months, but at a slower pace.
- A combination of maturing CMBS and commercial mortgage loans will weigh heavily on the Manhattan office market over the next three years.

