Financial Fallout Will Impact Manhattan Office Market

Predictions— Next 24 Months

- Average asking rents will decline an average of 7% annually
- Projected vacancy will settle between 8.5% to 9%, creating a level playing field between owners and tenants
- Further fallout from the financial market crisis will propel firms to place additional sublease space on the market
- Asset prices are expected to drop by 20%
- Present market conditions on track with Grubb & Ellis November 2007 predictions

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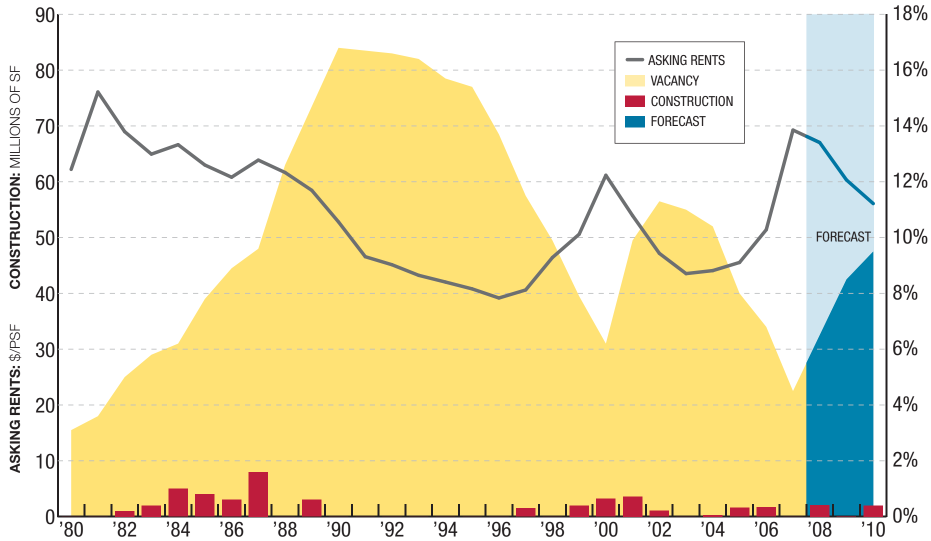
Manhattan Forecast

Historical Vacancy and Inflation-Adjusted Asking Rents



Lehman Brothers' bankruptcy filing and Bank of America's buy-out of Merrill Lynch will not only permanently alter the global banking landscape, it will also have implications for the New York office market. The biggest impact will come in the form of available sublease space, since the two firms occupy approximately 6 million square feet in Manhattan. In addition, the struggles at AIG need to be closely monitored, since the firm owns and leases close to 3.5 million square feet of office space in Manhattan. Although the Federal Reserve bailed out the world's largest insurer, AIG, the company's Manhattan portfolio could be restructured since the U.S. government is now in charge.

The additional sublease space will increase options for tenants and inevitably drive vacancy higher. At 5.7 percent, the Manhattan vacancy rate is already up 120 basis points since 2007. Since the start of 2008, 2.1 million square feet of sublease space has been placed on the market, and that number is expected to grow as the fall-out from the credit market turmoil continues. The growing sublease inventory will likely cause asking rents to decrease in the last quarter of this year and into 2009. As landlords begin to price direct space more com-

RECENT SPACE ADDITIONS

Dow Jones & Company
added a 204,067-square-foot sublet at 1 World Financial Center

EMI Music Publishing
added an 180,899-square-foot sublet at 150 Fifth Avenue

Citigroup
added a 55,422-square-foot sublet at787 Seventh Avenue

Carlin Equities
added a 51,856-square-foot sublet at 666 Third Avenue

petitively with discounted subleases, expect overall average asking rents to decline by approximately 7 percent over the next 12 months.

In August, the increase in marketed subleases altered the ratio of direct versus sublet available space. Sublease space now accounts for 25 percent of the market's availability rate, compared to the 22 percent market share averaged over the last 19 months.

The financial services sector has already shed between an estimated 22,000 and 25,000 jobs this year. However, after the Lehman and Merrill announcements, New York Governor David Paterson, stated that an additional 40,000 Wall Street job cuts could occur. These projected job losses translate into approximately nine to ten million square feet of occupied office space, which if placed on the market would increase the vacancy level to 8.5 to 9.0 percent. In New York, this vacancy range is accepted as market equilibrium, or a healthy market balance. Although an increase in vacancy would give tenants more space options, the additional inventory will keep negotiations between landlords and tenants on an even playing field.

Top Ten Financial Investment Firms—Current New York City Landscape

COMPANY	ESTIMATED NYC EMPLOYEES	APPROXIMATE NYC OFFICE SPACE (RSF)	ESTIMATED NYC SUBLET & SHADOW SPACE	WRITE-DOWNS (BILLIONS)‡
Bank of America*	9,050	3,235,000	1,330,000	$21.2
Citigroup	26,800	7,300,000	500,000	$55.1
Deutche Bank	13,290	2,600,000	N/A	$10.6
Goldman Sachs	8,380	5,021,000	650,000	$3.8
HSBC**	2,000	354,925	HQ For Sale	$27.4
JPMorgan Chase***	27,680	8,045,000	1,750,000	$14.3
Lehman Brothers†	11,000	3,100,000	1,000,000	$8.2
Merrill Lynch*	15,000	3,080,000	N/A	$51.8
Morgan Stanley	11,000	3,275,000	N/A	$14.4
UBS	12,000	1,671,000	1,000,000	$44.2
TOTAL	**136,200**	**37,681,925**	**6,230,000**	**$251.0**

*Estimate totals reflect dataprior to Bank ofAmericapurchase of MerrillLynch ** Potential HQ move to 7 World Trade Center pending

***Estimated totals includecombined JP Morgan Chase and Bear Stearns data †Estimated totals reflect data prior to Lehman Brother's bankruptcy filing ‡ Source: BloombergNews

Special Report
Manhattan Office Market

Grubb & Ellis Research | September 2008

Office Market Statistical Data as of 8/31/2008

BY SUBMARKET (All Classes)	TOTAL SF[1]	VACANT SF[2]	VACANCY RATE	NET ABSORPTION CURRENT MONTH	NET ABSORPTION YEAR-TO-DATE	UNDER CONSTRUCTION[3]	ASKING RENT[4] DIRECT	ASKING RENT[4] SUBLET	ASKING RENT[4] TOTAL
Midtown									
Avenue of the Americas	38,168,382	2,114,590	5.5%	(69,694)	(936,457)	2,100,000	$102.65	$72.84	$90.38
East Side	26,838,767	1,445,363	5.4%	39,053	(254,113)	-	$73.87	$52.58	$65.23
Fifth/Madison	20,056,777	1,269,407	6.3%	(67,443)	(190,820)	350,000	$115.91	$78.88	$106.95
Grand Central	41,323,107	2,540,243	6.1%	(81,865)	191,471	-	$81.96	$65.51	$75.03
Midtown West	34,807,041	1,182,398	3.4%	(176,553)	(200,356)	1,100,000	$75.92	$65.43	$71.97
Park Avenue	20,223,982	994,559	4.9%	(169,518)	(488,008)	-	$92.73	$75.36	$85.77
Penn/Garment	27,893,290	1,365,457	4.9%	(9,766)	(323,982)	-	$57.61	$53.26	$55.93
MIDTOWN TOTAL	**209,311,346**	**10,912,017**	**5.2%**	**(535,786)**	**(2,202,265)**	**3,550,000**	**$85.50**	**$65.60**	**$77.76**
Midtown South									
Chelsea	5,925,380	166,727	2.8%	(19,421)	(25,572)	-	$85.76	$69.00	$82.46
Gramercy Park/Flatiron	8,137,171	243,029	3.0%	(38,923)	(32,863)	-	$58.44	$44.19	$51.02
Hudson Square/Tribeca	13,534,930	1,835,340	13.6%	69,102	(868,545)	-	$47.42	$32.45	$42.40
Madison Square	18,959,830	827,952	4.4%	(278,978)	(835,554)	-	$54.02	$46.05	$51.38
Penn Station	22,329,870	992,616	4.4%	12,516	105,590	-	$55.03	$47.73	$51.53
SoHo/NoHo	4,095,478	173,311	4.2%	4,663	(31,195)	-	$59.53	$46.10	$53.49
MIDTOWN SOUTH TOTAL	**72,982,659**	**4,238,975**	**5.8%**	**(251,041)**	**(1,688,139)**	**-**	**$56.70**	**$45.36**	**$52.17**
Downtown									
Broadway/Battery Park	6,656,128	664,520	10.0%	8,017	116,126	-	$55.87	$37.29	$50.51
City Hall	4,783,727	171,563	3.6%	(2,901)	(43,025)	-	$42.54	-	$42.54
Insurance	6,610,149	196,410	3.0%	8,441	(2,946)	-	$50.29	$32.99	$45.48
Wall Street	22,356,499	1,447,813	6.5%	(17,419)	(31,869)	-	$50.06	$38.23	$46.83
Waterfront	15,411,734	1,137,831	7.4%	(13,119)	(472,773)	-	$61.13	$41.39	$53.06
World Trade Center	19,009,295	1,526,698	8.0%	(17,022)	(250,795)	4,600,000	$67.40	$50.44	$59.06
DOWNTOWN TOTAL	**74,827,532**	**5,144,835**	**6.9%**	**(34,003)**	**(685,282)**	**4,600,000**	**$55.42**	**$41.82**	**$50.72**
MANHATTAN TOTAL	**357,121,537**	**20,295,827**	**5.7%**	**(820,830)**	**(4,575,686)**	**8,150,000**	**$74.84**	**$58.03**	**$68.39**

By Class (All Submarkets)	TOTAL SF	VACANT SF	VACANCY RATE	NET ABSORPTION CURRENT MONTH	NET ABSORPTION YEAR-TO-DATE	UNDER CONSTRUCTION	AVAILABLE FOR SUBLEASE
Class A	204,032,527	9,633,276	4.7%	(321,709)	(3,055,884)	8,150,000	4,548,489
Class B	123,023,314	8,096,053	6.6%	(92,390)	(245,844)	-	3,114,706
Class C	30,065,696	2,566,498	8.5%	(406,731)	(1,273,958)	-	482,756
MANHATTAN TOTAL	**357,121,537**	**20,295,827**	**5.7%**	**(820,830)**	**(4,575,686)**	**8,150,000**	**8,145,951**

(1) Inventory includes multi-tenant and single tenant buildings with at least 150,000sf
(2) Vacant space includes all space that is physically unoccupied and may or may not be available for lease.
(3) Space under construction includes speculative and build-to-suit for lease projects.
(4) Asking rates are per square foot per year full service for all classes of space. Rates for each building are weighted by the size of the building.

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