

Office Market Trends Manhattan

Grubb & Ellis Research

May 2009



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From Insight to Results

Recent Lease Transactions

City University of New York

renewed 200,000 sf at
555 W 57th Street

Sonnenshein, Nath & Rosenthal LLP

subleased 135,390 sf at
Two World Financial Center

Ironshore Insurance

subleased 54,060 sf at
1 State Street Plaza

Leerink Swann & Co.

subleased 42,000 sf at
1251 Avenue of the Americas

Milliman USA, Inc.

renewed 37,000 sf at
1 Penn Plaza

Employment Declines Lead to Supply Increase

Since New York City employment peaked in August 2008, corporations shed 104,200 jobs through March of this year. The professional and financial service sectors cut the most jobs during this period, 24,000 and 21,400 respectively. Since these two industry sectors account for more than 50 percent of the Manhattan leasing activity in any given year, the decline in employment impacted the office market, causing a rise in vacancy to continue. At 7.7 percent, the vacancy rate does not tell the whole story, as companies continue to place available but occupied sublease space on the market. Available subleases rose 23 percent this year, and the increase in available supply drove overall asking rents down further. One of the largest rental declines occurred in the Avenue of the Americas submarket for Class A total asking rents, which dropped 19.4 percent to \$73.42 per square foot since the start of the year. In addition to the majority of landlords dropping asking rents considerably, some are offering over a year of free rent and/or attractive work letters for long-term deals. Landlords are starting to employ aggressive strategies to dispose of available space they control and are now offering smaller divisions on large blocks of space which they would not consider just one year ago.

Another emerging trend on the mind of both landlords and tenants is the performance of commercial real estate loans. As several hundred billion dollars of commercial real estate loans mature in the next five years, many property owners will face a difficult reality if capital markets continue to be distressed. The amount of property that is under-water is rising fast, and consequently depreciating the values of well-performing assets. This has caused the underwriting of properties to become tighter and more realistic in order to stabilize the market moving forward. Landlords' financial stability or access to credit is an important factor while considering space that is not built out.

Tenants are seeing the declining real estate market and weak economy as an opportunity to renew their leases at favorable rental rates. The costs associated with relocations during a period when businesses prefer to keep capital expenses down caused renewals to account for more than 45 percent of the square feet leased through April. As a result, newly built or renovated buildings like 11 Times Square and 510 Madison Avenue cannot compete with pricing and are having difficulty finding tenants despite their top-tier location and amenities.

With far less new product coming to market in the near future, the existing building owners will benefit in both the leasing and sales markets. For now, investment activity continues to be slow. Aside from a few small office condo deals there was only one large transaction in April. Otéra Capital purchased a 572,300-square-foot building at 1330 Avenue of the Americas for \$240 million.

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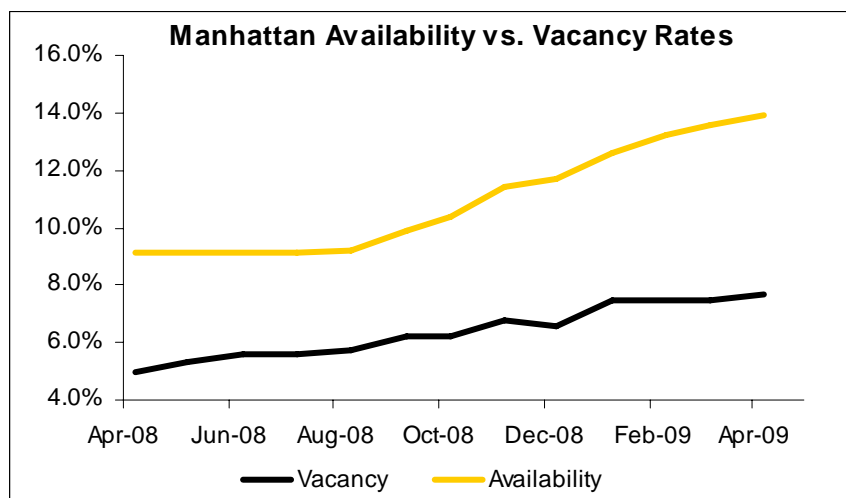
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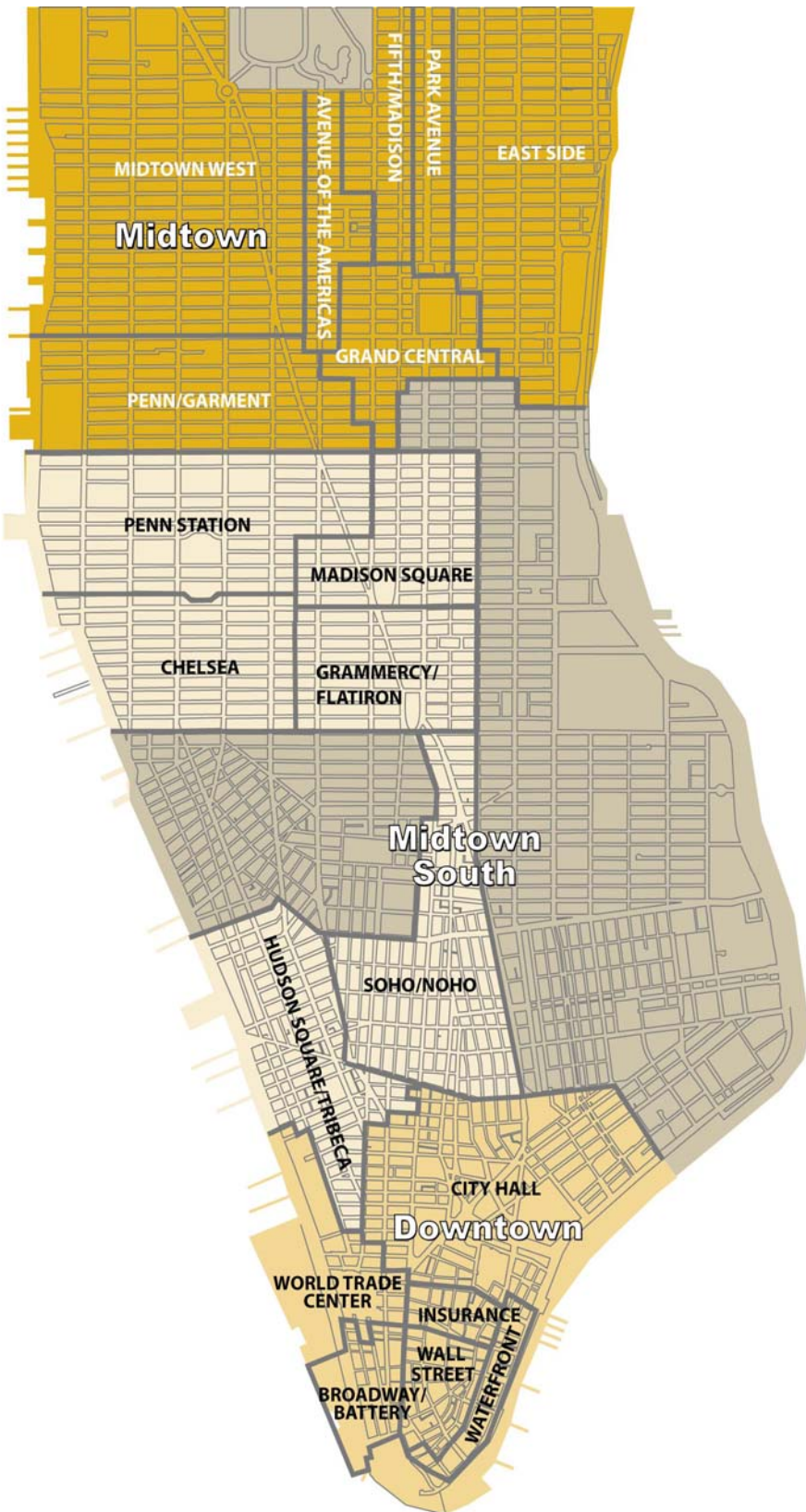
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Office Market Trends May 2009

Manhattan Office Markets



Midtown

RBA: 212,787,024

Vacant Space: 16,755,760

Vacancy: 7.9%

Direct Asking Rent (All Classes): \$74.90

Midtown South

RBA: 74,017,663

Vacant Space: 5,708,842

Vacancy: 7.7%

Direct Asking Rent (All Classes): \$49.49

Downtown

RBA: 76,050,771

Vacant Space: 5,602,782

Vacancy: 7.4%

Direct Asking Rent (All Classes): \$44.88

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By Submarket (All Classes)	Total SF ⁽¹⁾	Vacant SF ⁽²⁾	Vacancy Rate	Net Absorption		Under Construction ⁽³⁾	Asking Rent ⁽⁴⁾		
				Current Month	Year-to-date		Direct	Sublet	Total
Midtown									
Avenue of the Americas	40,268,382	2,783,125	6.9%	(129,718)	(843,911)	-	\$82.89	\$59.47	\$73.02
East Side	26,838,767	1,721,692	6.4%	99,412	(170,285)	-	\$61.12	\$51.24	\$57.82
Fifth/Madison	20,056,777	1,935,056	9.6%	(2,561)	(78,316)	350,000	\$101.11	\$55.76	\$88.65
Grand Central	41,923,107	3,959,439	9.4%	(672,291)	(1,194,497)	-	\$74.76	\$53.06	\$67.39
Midtown West	35,582,719	3,168,830	8.9%	83,700	(279,313)	1,155,550	\$74.98	\$39.27	\$66.62
Park Avenue	20,223,982	1,375,165	6.8%	(264,419)	(409,949)	-	\$87.77	\$71.51	\$82.03
Penn/Garment	27,893,290	1,812,453	6.5%	30,295	(260,527)	-	\$50.84	\$39.40	\$46.79
Midtown Total	212,787,024	16,755,760	7.9%	(855,582)	(3,236,798)	1,505,550	\$74.90	\$52.95	\$67.57
Midtown South									
Chelsea	5,925,380	272,750	4.6%	(105,655)	(108,843)	-	\$66.55	-	\$66.56
Gramercy Park/Flatiron	8,137,171	306,632	3.8%	(4,527)	(75,725)	-	\$53.06	\$38.00	\$47.48
Hudson Square/Tribeca	13,534,930	1,695,880	12.5%	1,349	275,571	-	\$41.24	\$35.11	\$40.24
Madison Square	19,811,834	1,974,243	10.0%	(70,650)	(231,066)	-	\$55.37	\$45.06	\$53.05
Penn Station	22,329,870	1,209,858	5.4%	(18,690)	(91,383)	-	\$49.12	\$41.42	\$46.12
SoHo/NoHo	4,278,478	249,479	5.8%	8,112	(1,795)	-	\$54.70	\$38.75	\$48.96
Midtown South Total	74,017,663	5,708,842	7.7%	(190,061)	(233,241)	-	\$49.49	\$40.39	\$47.11
Downtown									
Broadway/Battery Park	6,762,344	738,293	10.9%	91,003	119,177	-	\$35.01	\$20.48	\$30.56
City Hall	5,900,750	161,462	2.7%	(2,343)	(23,731)	-	\$40.19		\$40.19
Insurance	6,610,149	433,152	6.6%	31,269	(103,255)	-	\$40.95	\$50.52	\$43.31
Wall Street	22,356,499	1,377,088	6.2%	(130,654)	(160,536)	-	\$46.40	\$35.51	\$42.06
Waterfront	15,411,734	1,281,787	8.3%	21,162	(116,914)	-	\$47.69	\$39.34	\$43.81
World Trade Center	19,009,295	1,611,000	8.5%	68,100	89,298	4,600,000	\$54.91	\$47.58	\$53.16
Downtown Total	76,050,771	5,602,782	7.4%	78,537	(195,961)	4,600,000	\$44.88	\$35.70	\$41.82
Manhattan Total	362,855,458	28,067,384	7.7%	(967,106)	(3,666,000)	6,105,550	\$63.93	\$38.75	\$48.96
By Class									
(All Submarkets)							Available for Sublease		
Class A	209,477,232	15,512,700	7.4%	(864,227)	(2,900,352)	6,105,550		9,345,601	
Class B	123,312,530	10,257,443	8.3%	(40,841)	(969,942)	-		5,215,346	
Class C	30,065,696	2,297,241	7.6%	(62,038)	204,294	-		744,835	
Manhattan Total	362,855,458	28,067,384	7.7%	(967,106)	(3,666,000)	6,105,550		15,305,782	

(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.

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