Office Market Trends Manhattan

Grubb & Ellis Research
December 2008

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Property Solutions Worldwide

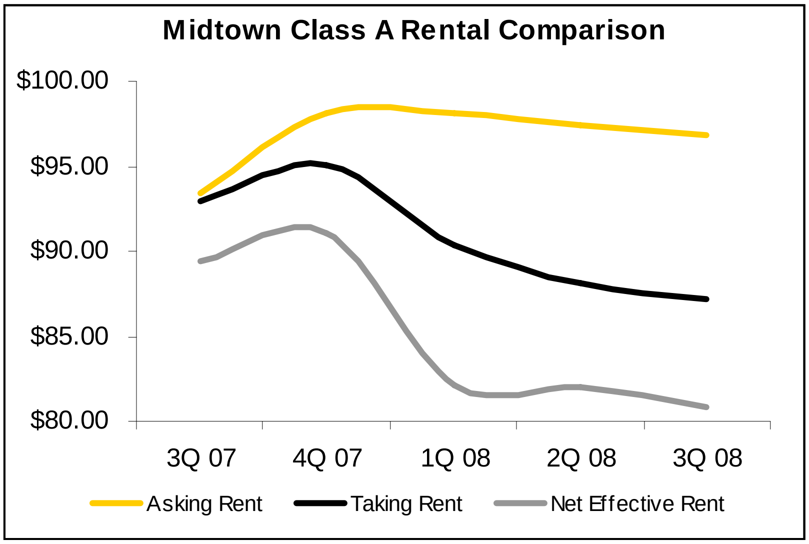
Asking Rents Drop, Taking Rents Tumble

Most landlords reacted slowly to the changing market at the beginning of 2008, as they kept asking rents high. However, since the average direct Class A asking rent in Manhattan peaked at $90.61 per square foot in April of this year, asking rents have trended downward for seven consecutive months. During the first five months of this trend, asking rents dropped slowly and declined only $1.15 per square foot. Over the past two months, rents decreased more precipitously as they plummeted an additional $2.27 per square foot.

Midtown direct average Class A asking rents demonstrated a similar trend, dropping over the last seven months since they peaked at $98.50 per square foot. In the last two months, asking rents decreased by $1.90 per square foot to $94.95, and came down 3.7 percent since April. Despite being bullish on asking rents, landlords with Class A space are negotiating transactions by taking an average of 9 percent off the asking price. In addition, most landlords are granting tenants more concessions, causing net effective rents to decline more rapidly.

At $80.85 per square foot, Midtown Class A net effective rents are down 12.6 percent from 2007, a significant difference from the decline in asking rents. Not only are deals starting lower, but concessions being offered are increasing. The average tenant improvement allowance offered by landlords is just under $40.00 per square foot, a 12.5 percent increase compared to last year. Free rent is up as well, with an average of four months being given compared to an average of three months in 2007.

With vacancies on the rise throughout Manhattan, the national economy in a recession and major corporations announcing layoffs almost daily, expect rents to continue to decrease throughout 2009. Most transactions will be situational over the next two years since some landlords have minimal lease rollover. Owners faced with significant vacancies, however, are likely to make transactions more competitive due to a rising sublease market. Tenants placed over 4.5 million square feet of available sublease space on the market since the start of the year; as that number grows, expect some landlords to discount rents further by offering more than one year of concessions in value on 10-year transactions.



Recent Lease Transactions

Viacom International
renewed & expanded
1.3 million sf at
1515 Broadway

WestLB AG
leased 129,024 sf at
7 World Trade Center

NBC
subleased 95,932 sf at
75 Rockefeller Plaza

Comcast Cable Corporation
subleased 95,436 sf at
5 Times Square

Lifetime Network
leased 71,000 sf at
111 Eighth Avenue

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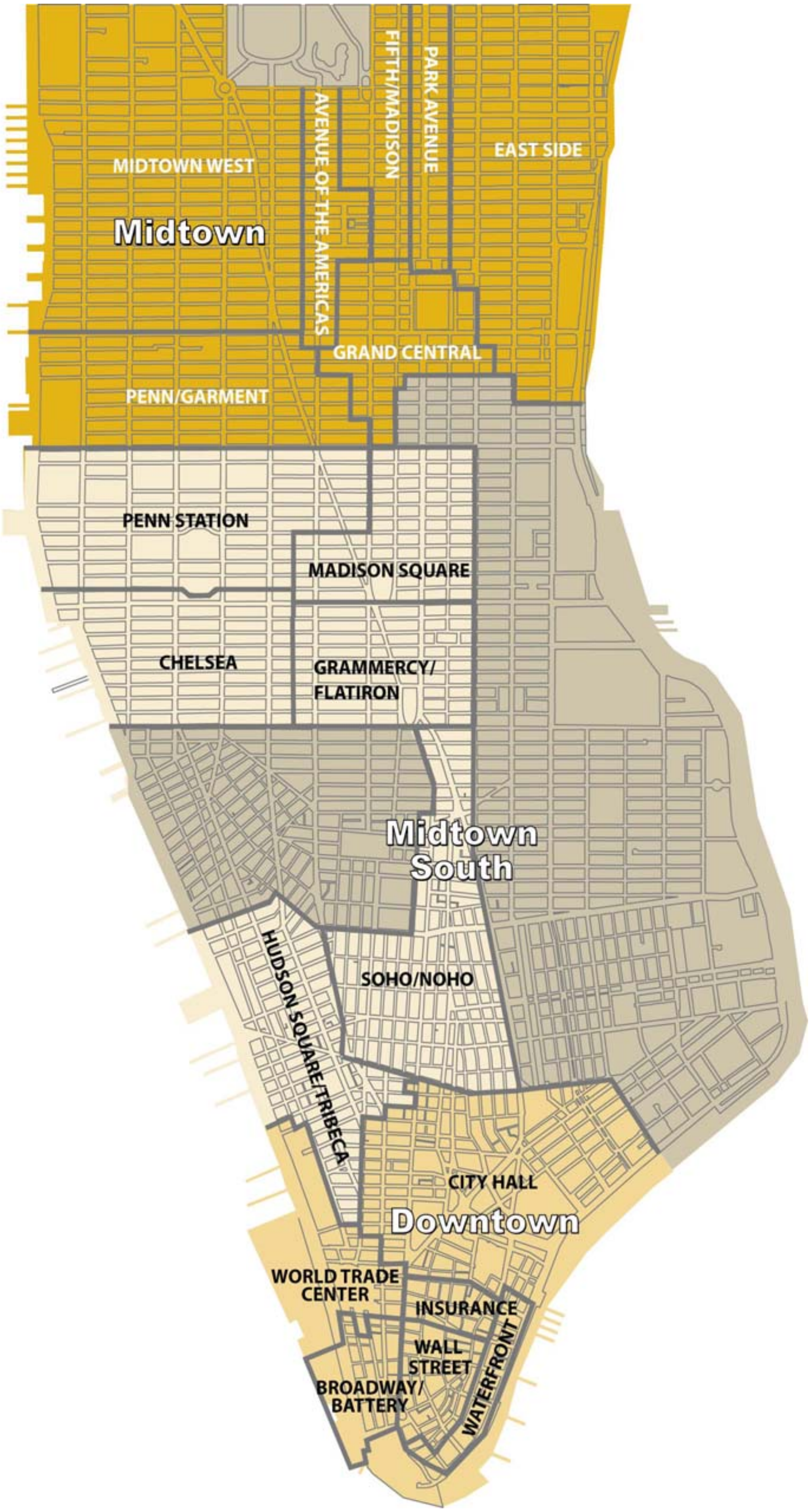
Manhattan Office Markets



Midtown

RBA: 209,712,024

Vacant Space: 10,568,748

Vacancy: 6.4%

Direct Asking Rent: $83.55

Midtown South

RBA: 74,127,157

Vacant Space: 4,778,605

Vacancy: 7.4%

Direct Asking Rent: $54.66

Downtown

RBA: 75,944,555

Vacant Space: 5,156,610

Vacancy: 6.8%

Direct Asking Rent: $53.55

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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	2,005,599	5.3%	(198,428)	(787,201)	2,100,000	$100.68	$72.80	$87.17
East Side	26,838,767	1,540,825	5.7%	(98,227)	(362,346)	-	$70.46	$52.58	$63.66
Fifth/Madison	20,056,777	1,749,683	8.7%	(217,426)	(693,792)	350,000	$111.44	$67.88	$98.85
Grand Central	41,323,107	2,649,492	6.4%	103,938	(32,990)	-	$82.45	$65.67	$75.15
Midtown West	35,582,719	2,933,919	8.2%	(53,292)	(1,440,194)	1,100,000	$72.30	$60.09	$66.99
Park Avenue	20,223,982	954,296	4.7%	(39,413)	(447,745)	-	$91.88	$74.79	$85.03
Penn/Garment	27,518,290	1,527,421	5.6%	(179,266)	(138,021)	-	$57.61	$53.01	$56.03
Midtown Total	**209,712,024**	**13,361,235**	**6.4%**	**(682,114)**	**(3,902,289)**	**3,550,000**	**$83.55**	**$64.84**	**$75.92**
Midtown South									
Chelsea	5,925,380	164,688	2.8%	15,121	78,217	-	$80.27	$69.00	$78.05
Gramercy Park/Flatiron	8,137,171	418,121	5.1%	(337,563)	(261,955)	-	$56.88	$62.07	$59.45
Hudson Square/Tribeca	13,827,424	2,380,461	17.2%	(102,546)	(1,413,666)	-	$47.26	$32.59	$42.23
Madison Square	19,811,834	1,277,028	6.4%	205,112	52,327	-	$52.66	$46.01	$50.19
Penn Station	22,329,870	1,152,633	5.2%	7,712	(204,220)	-	$52.70	$40.90	$47.85
SoHo/NoHo	4,095,478	104,712	2.6%	18,542	19,043	-	$59.34	$46.46	$55.07
Midtown South Total	**74,127,157**	**5,497,643**	**7.4%**	**(193,622)**	**(1,730,254)**	**-**	**$54.66**	**$43.92**	**$50.62**
Downtown									
Broadway/Battery Park	6,656,128	738,657	11.1%	(15,620)	41,989	-	$52.84	$33.17	$45.24
City Hall	5,900,750	155,803	2.6%	10,426	(27,265)	-	$40.66	-	$40.66
Insurance	6,610,149	337,491	5.1%	17,182	(121,110)	-	$49.21	$33.54	$45.19
Wall Street	22,356,499	1,227,710	5.5%	50,124	265,090	-	$49.21	$34.99	$44.90
Waterfront	15,411,734	1,205,323	7.8%	6,085	(527,152)	-	$58.05	$40.38	$51.52
World Trade Center	19,009,295	1,491,626	7.8%	(92,866)	(354,238)	4,600,000	$67.40	$42.70	$57.33
Downtown Total	**75,944,555**	**5,156,610**	**6.8%**	**(24,669)**	**(722,686)**	**4,600,000**	**$53.55**	**$37.49**	**$48.21**
Manhattan Total	**359,783,736**	**24,015,488**	**6.7%**	**(900,405)**	**(6,355,229)**	**8,150,000**	**$72.63**	**$57.22**	**$66.63**

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	207,069,726	12,059,279	5.8%	36,683	(3,619,123)	8,150,000	6,372,547
Class B	122,648,314	9,392,833	7.7%	(641,467)	(1,506,119)	-	3,959,405
Class C	30,065,696	2,563,376	8.5%	(295,621)	(1,229,987)	-	518,423
Manhattan Total	**359,783,736**	**24,015,488**	**6.7%**	**(900,405)**	**(6,355,229)**	**8,150,000**	**10,850,375**

(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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