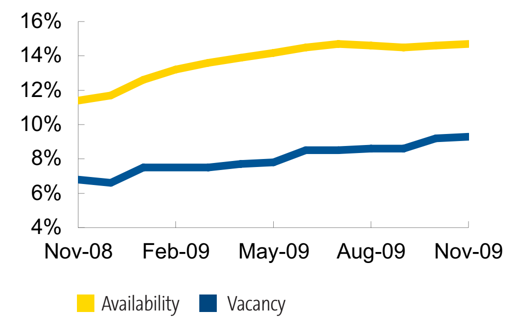
Office Trends Report—December 2009

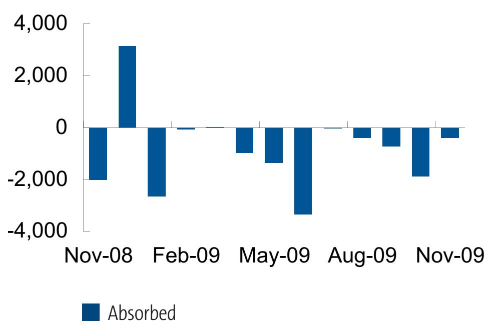
Manhattan, New York

GRUBB & ELLIS.
From Insight to Results

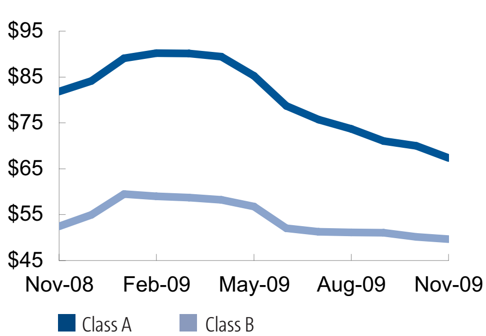
Availability vs. Vacancy Rate
Monthly



Absorption
Monthly (in Thousands of SF)



Overall Asking Rental Rates
Monthly



Balancing Act Shapes the Market

Activity since the strong summer months is slightly tapering, and a balance between supply and demand is causing minimal changes in availability. Since the end of September, the addition of 831,696 square feet pushed availability up 20 basis points to 14.7 percent.

After experiencing a minor drop from July to September, the last two months witnessed a net increase of 260,000 square feet of sublease space. Significant blocks include:

- 450 West 33rd Street - 250,275 square feet by WNET New York
- 101 Park Avenue - 144,759 square feet by UBS
- 1221 Avenue of the Americas - 143,331 square feet by Sonnenschein, Nath & Rosenthal
- 1166 Avenue of the Americas - 126,720 square feet by Conde Naste
- 1 Madison Avenue - 114,878 square feet by Credit Suisse
- 153 West 50th Street - 109,158 square feet by Alliance Bernstein

Currently there is 16.0 million square feet of available sublease space on the market. Since market's 2007 peak, the amount of sublease space climbed 195 percent. Many of these spaces were leased 18 to 24 months prior to the downturn by firms anticipating growth and strong profits. As a result, these spaces, which were recently built-out or came with a tenant improvement allowance in place, provide on-going steep competition to direct space. Landlords reacted by making modest reductions to asking rental rates, while significantly adjusting net effective rents. Since the height of the market, increased tenant improvement allowances and free rent lowered the net effective rent in Class A buildings by 40 percent.

Over the past two months financial firms contributed 36 percent of the sublease blocks greater than 10,000 square feet placed on the market. While some financial companies look to shed space, leasing by growing firms within the industry continues—such as Standard Chartered Bank and Avenue Capital Group—are absorbing available product. In addition to industry's large to mid-sized users, start up firms headed by executives of dissolved investment and hedge funds are going to create activity in the market for smaller spaces.

Building owners are also facing pressure to justify their balance sheets. At the height of the market, office buildings in Manhattan traded for over $1,000 per square foot. Once hopeful buyers expecting to raise rents and capitalize on their investments are struggling with pricing in the current downturn. The widespread drop in rental rates is leading to a shortage of revenue that cannot support the terms of the loans. Lenders and borrowers are going to have to work out new terms to prevent a high foreclosure rate. While tenant credit quaility was critical at the market peak, the landlord's credit is now a factor for tenants in determining where to lease space. Meanwhile, landlords with healthy capital and a strong portfolio may choose to let space remain vacant and refrain from making deals until the market picks up.

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Office Snapshot—December 2009
Statistical Data as of 11/30/2009

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By Submarket	Total SF	Available SF	Total Availability %	NET ABSORPTION Current	NET ABSORPTION Year-To-Date	Under Construction SF	ASKING RENT Direct	ASKING RENT Sublet	ASKING RENT Total
Midtown									
Avenue of the Americas	40,268,382	4,988,894	12.4%	40,036	(1,702,430)	-	$66.83	$52.52	$64.16
Eastside	26,838,767	4,210,680	15.7%	(515,511)	(1,125,035)	-	$56.94	$42.98	$53.41
Fifth/Madison	20,385,577	3,719,382	18.2%	(12,756)	(517,971)	-	$88.55	$56.70	$83.79
Grand Central	41,923,107	6,830,291	16.3%	108,054	(972,424)	-	$63.92	$49.50	$59.43
Midtown West	35,582,719	4,972,111	14.0%	630	(836,728)	1,155,550	$69.11	$48.28	$66.16
Park Avenue	20,223,982	3,213,427	15.9%	(264,626)	(1,135,320)	-	$69.64	$60.92	$66.31
Penn/Garment	27,893,290	4,108,574	14.7%	136,108	(824,186)	-	$46.18	$36.48	$44.97
Midtown Total	**213,115,824**	**32,043,359**	**15.0%**	**(508,065)**	**(7,114,094)**	**1,155,550**	**$65.48**	**$50.12**	**$62.07**
Midtown South									
Chelsea	5,925,380	495,836	8.4%	(57,945)	(231,618)	-	$61.77	$41.25	$60.43
Gramercy/Flatiron	8,137,171	1,272,172	15.61%	7,037	(134,346)	-	$49.54	$36.05	$44.85
Hudson Square/Tribeca	13,534,930	2,777,195	20.5%	(50,725)	203,629	-	$41.99	$31.50	$41.10
Madison Square	19,811,834	3,347,955	16.9%	308,563	(197,125)	-	$52.85	$35.99	$49.64
Penn Station	22,329,870	2,493,255	11.2%	(115,326)	(258,055)	-	$46.80	$34.15	$42.69
SoHo/NoHo	4,278,478	554,874	13.0%	2,964	(269,909)	-	$47.82	$43.40	$46.68
Midtown South Total	**74,017,663**	**10,941,287**	**14.8%**	**94,568**	**(887,424)**	**-**	**$47.66**	**$35.31**	**$45.14**
Downtown									
Broadway/Battery Park	6,762,344	1,597,509	23.6%	(22,479)	106,807	-	$34.58	$21.16	$32.99
City Hall	5,900,750	1,429,942	24.2%	30,635	(14,870)	-	$36.01	-	$36.01
Insurance	6,610,149	872,113	13.2%	(24,749)	(250,618)	-	$38.78	$28.35	$38.51
Wall Street	22,356,499	2,533,321	11.3%	26,451	(514,631)	-	$42.17	$35.77	$40.34
Waterfront	15,411,734	2,103,389	13.6%	21,224	(25,695)	-	$49.79	$32.72	$42.03
World Trade Center	19,009,295	1,817,391	9.6%	(7,370)	(279,646)	6,900,000	$48.19	$39.86	$46.00
Downtown Total	**76,050,771**	**10,353,665**	**13.6%**	**23,712**	**(978,653)**	**6,900,000**	**$42.51**	**$34.10**	**$40.29**
Manhattan Total	**363,184,258**	**53,338,311**	**14.7%**	**(389,785)**	**(8,980,171)**	**8,055,550**	**$57.43**	**$43.74**	**$54.33**

By Class	Total SF	Available SF	Total Availability %	NET ABSORPTION Current	NET ABSORPTION Year-To-Date	Under Construction SF	Available for Sublease CBD
Class A	209,806,032	28,747,785	13.7%	(361,011)	(6,015,981)	8,055,550	9,547,853
Class B	123,312,530	20,372,553	16.5%	(32,969)	(2,793,829)	-	5,540,314
Class C	30,065,696	4,217,973	14.0%	4,195	(170,361)	-	879,030
Manhattan Totals	**363,184,258**	**53,338,311**	**14.7%**	**(389,785)**	**(8,980,171)**	**8,055,550**	**15,967,197**

KEY TRANSACTIONS

Lessee	Lessor	Property	Transaction Type	Size (SF)
Paul Weiss Rifkind Wharton & Garrison	J.P. Morgan Securities/ Lend Lease	1285 Avenue of the Americas	Renewal & Expansion	550,000
Depository Trust & Company	New Water Street Corp.	55 Water Street	Renewal	200,392
Donovan Data Systems	Wasserstein Enterprises	113 West 18th Street	Renewal & Expansion	115,170
D.E. Shaw	J.P. Morgan Chase & Co.	1166 Avenue of the Americas	Sublease	117,225
Federal Reserve Bank	American Express Company	3 World Financial Center	Direct	54,870

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.

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. Asking rent average include all classes of space. 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.*