

# Office Market Trends Manhattan

Grubb & Ellis Research

April 2008



## Recent Lease Transactions

**Colgate-Palmolive**  
renewed 537,000 sf at  
300 Park Avenue

**AXA Financial**  
renewed 450,000 sf at  
1290 Avenue of the Americas

**State of NY Unified Court**  
renewed 440,240 sf at  
60 Broad Street

**General Motors Corp.**  
leased 120,000 sf at  
153 East 53<sup>rd</sup> Street

**Carter, Ledyard & Millburn**  
renewed 115,327 sf at  
2 Wall Street

## Financial Firms Start to Shed Space

The fall-out from the credit crisis bullied its way into the Manhattan office leasing market during the first quarter of 2008, causing the vacancy rate to jump 40 basis points to 4.9 percent. With JP Morgan Chase's acquisition of Bear Stearns and the continuation of financial firms posting billions of dollars in write downs—including recent announcements by UBS and Deutsche Bank—the financial services industry as a whole began to dispose of space throughout Manhattan. Available space for sublease jumped to 7 million square feet, with the addition of 1 million square feet in the first quarter. The sharp increase was precipitated by the 599,000-square-foot block of space placed on the market by Goldman Sachs at 77 Water Street, the 140,000 square feet marketed by the Royal Bank of Scotland at 7 World Trade Center, the 110,000-square-foot sublease put on the market at 2 World Financial Center by Nomura Holdings and iStar Financial's return of 107,000 square feet at 1095 Avenue of the Americas.

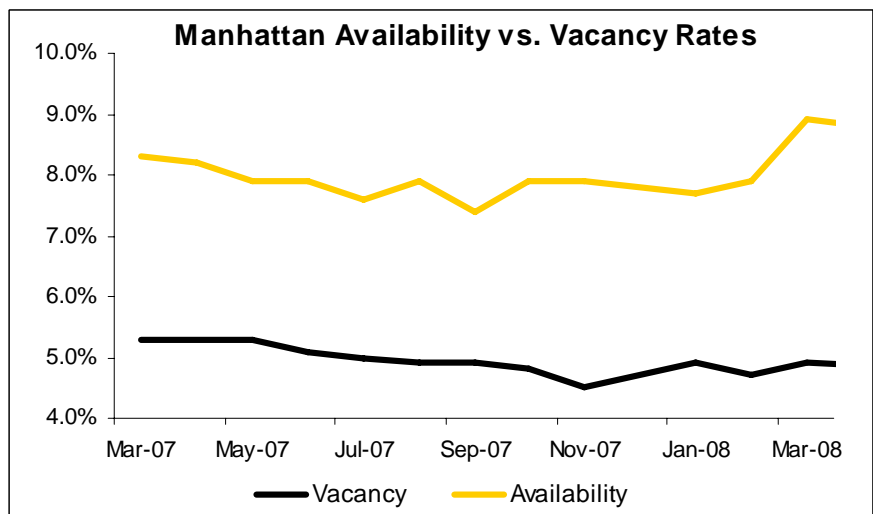
Over the past four years, the financial services industry accounted for more than 40 percent of the leasing activity in Manhattan, but with the financial markets in turmoil, expect overall demand to remain flat throughout the year. A slowdown in leasing velocity has already been witnessed in the first quarter as only 7.6 million square feet in lease transactions occurred. A drop in demand by 15 percent compared to one year ago insinuates a weakening market. A more telling indicator is that 48 percent of the square feet leased this year were renewals, a significant increase compared to last year when renewals only accounted for 19 percent of the first quarter's activity. The lack of new transactions in the market suggests that tenants are in standby mode as the status of the economy unfolds.

One year ago, tenants with large space requirements had limited options in Manhattan, with only 26 available blocks of space greater than 100,000 square feet. By the end of the first quarter, 14 new large-block availabilities hit the market, as the year-over-year total more than doubled with 53 such blocks of space in the available supply. Still, landlords kept pricing in Manhattan stable, as direct Class A asking rents edged up \$1.14 to \$90.20 per square foot. However, the increase is a noticeable decline from the \$4.35 per square foot quarterly average rise recorded over the past 18 months. Asking rents likely will flatten over the next six months, and begin to gradually decline as 2009 approaches. The trend should begin to give tenants more negotiating influence to achieve more generous concession packages in the form of free rent and tenant improvement allowances.

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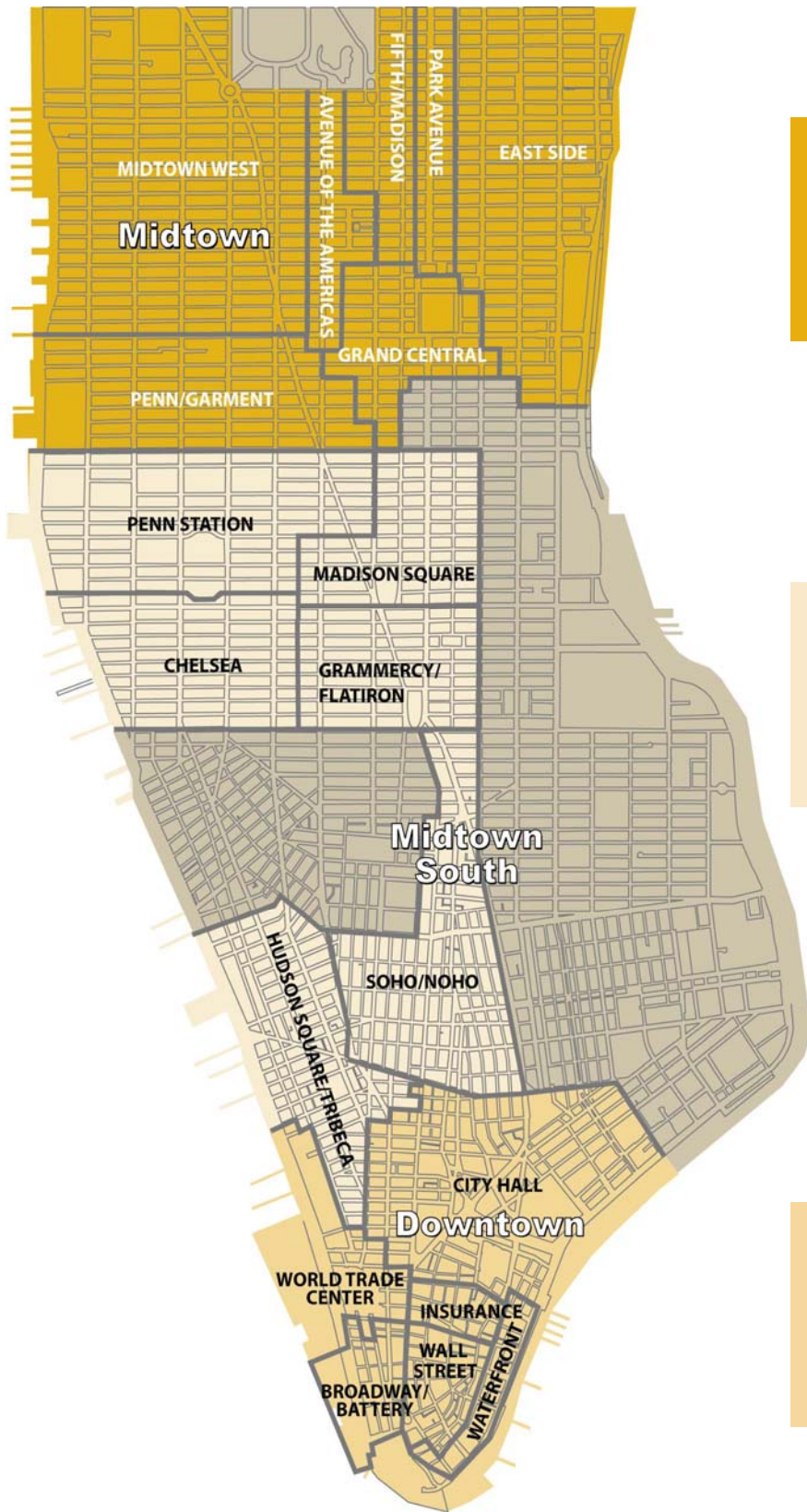
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# Office Market Trends April 2008

## Manhattan Office Markets



**Midtown**  
RBA: 209,311,346  
Vacant Space: 9,236,786  
Vacancy: 4.4%  
Direct Asking Rent: \$85.64

**Midtown South**  
RBA: 72,982,659  
Vacant Space: 2,875,818  
Vacancy: 3.9%  
Direct Asking Rent: \$56.82

**Downtown**  
RBA: 74,827,532  
Vacant Space: 5,282,881  
Vacancy: 7.1%  
Direct Asking Rent: \$56.05

## MANHATTAN

By Submarket (All Classes)	Total SF <sup>(1)</sup>	Vacant SF <sup>(2)</sup>	Vacancy Rate	Net Absorption		Under Construction <sup>(3)</sup>	Asking Rent <sup>(4)</sup>		
				Current Month	Year-to-date		Direct	Sublet	Total
<b>Midtown</b>									
Avenue of the Americas	38,168,382	1,481,971	3.9%	(122,064)	(263,573)	2,100,000	\$104.82	\$70.05	\$91.59
East Side	26,838,767	1,212,902	4.5%	(35,420)	(34,423)	-	\$76.71	\$56.23	\$68.18
Fifth/Madison	20,056,777	1,126,460	5.6%	(76,413)	(70,569)	350,000	\$111.10	\$53.08	\$101.48
Grand Central	41,323,107	2,563,522	6.2%	56,629	52,980	-	\$81.96	\$64.53	\$75.25
Midtown West	34,807,041	868,520	2.5%	(293,054)	(164,621)	1,155,550	\$74.74	\$62.15	\$70.78
Park Avenue	20,223,982	678,381	3.4%	302,606	(171,830)	-	\$99.69	\$74.66	\$89.80
Penn/Garment	27,893,290	1,305,030	4.7%	140,920	86,476	-	\$57.11	\$55.56	\$56.63
<b>Midtown Total</b>	<b>209,311,346</b>	<b>9,236,786</b>	<b>4.4%</b>	<b>(26,796)</b>	<b>(565,560)</b>	<b>3,605,550</b>	<b>\$85.64</b>	<b>\$63.57</b>	<b>\$77.93</b>
<b>Midtown South</b>									
Chelsea	5,925,380	176,482	3.0%	76,375	66,423	-	\$85.00	\$69.00	\$81.08
Gramercy Park/Flatiron	8,137,171	171,458	2.1%	(68,061)	(15,292)	-	\$56.17	\$39.93	\$50.93
Hudson Square/Tribeca	13,534,930	789,692	5.8%	(243,814)	(115,391)	-	\$47.30	\$34.46	\$43.85
Madison Square	18,959,830	645,838	3.4%	30,848	(33,665)	-	\$62.86	\$44.98	\$58.08
Penn Station	22,329,870	945,746	4.2%	(49,105)	2,676	-	\$52.59	\$55.09	\$53.61
SoHo/NoHo	4,095,478	146,602	3.6%	(16,908)	(22,847)	-	\$60.22	\$38.08	\$53.38
<b>Midtown South Total</b>	<b>72,982,659</b>	<b>2,875,818</b>	<b>3.9%</b>	<b>(270,665)</b>	<b>(118,096)</b>	<b>-</b>	<b>\$56.82</b>	<b>\$49.06</b>	<b>\$54.28</b>
<b>Downtown</b>									
Broadway/Battery Park	6,656,128	720,681	10.8%	8,679	59,965	-	\$55.55	\$33.25	\$47.52
City Hall	4,783,727	174,127	3.6%	(7,697)	(45,589)	-	\$43.80	-	\$43.80
Insurance	6,610,149	164,475	2.5%	11,866	52,445	-	\$52.34	\$35.00	\$51.14
Wall Street	22,356,499	1,480,135	6.6%	50,415	133,344	-	\$51.99	\$40.18	\$48.55
Waterfront	15,411,734	1,094,985	7.1%	(498,464)	(416,814)	-	\$61.33	\$38.70	\$51.65
World Trade Center	19,009,295	1,648,478	8.7%	(8,714)	(372,575)	4,600,000	\$67.40	\$48.01	\$60.23
<b>Downtown Total</b>	<b>74,827,532</b>	<b>5,282,881</b>	<b>7.1%</b>	<b>(443,915)</b>	<b>(589,224)</b>	<b>4,600,000</b>	<b>\$56.05</b>	<b>\$39.91</b>	<b>\$51.01</b>
<b>Manhattan Total</b>	<b>357,121,537</b>	<b>17,395,485</b>	<b>4.9%</b>	<b>(741,376)</b>	<b>(1,272,880)</b>	<b>8,205,550</b>	<b>\$74.86</b>	<b>\$57.24</b>	<b>\$68.89</b>
<b>By Class</b>									
<b>(All Submarkets)</b>							<b>Available for Sublease</b>		
Class A	204,032,527	8,225,810	4.0%	(952,942)	(1,631,847)	8,205,550	4,096,101		
Class B	123,023,314	7,760,043	6.3%	258,807	296,147	-	2,579,367		
Class C	30,065,696	1,409,632	4.7%	(47,241)	62,820	-	365,642		
<b>Manhattan Total</b>	<b>357,121,537</b>	<b>17,395,485</b>	<b>4.9%</b>	<b>(741,376)</b>	<b>(1,272,880)</b>	<b>8,205,550</b>	<b>7,041,110</b>		

(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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