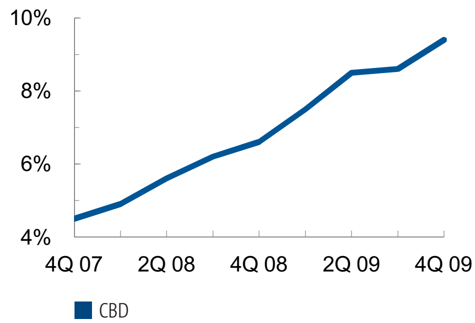
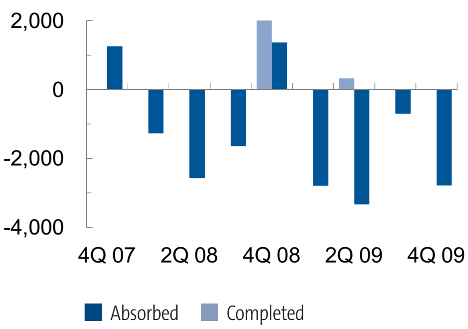
Office Trends Report—Fourth Quarter 2009
Manhattan, NY

GRUBB & ELLIS.
From Insight to Results

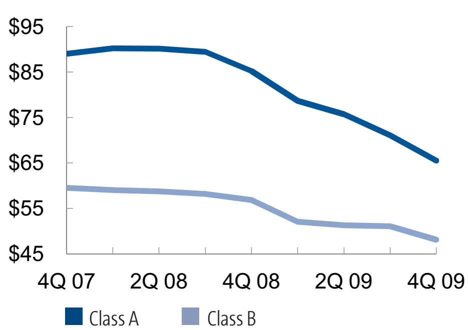
Vacancy Rate
Quarterly



Completion vs. Absorption
Quarterly (in Thousands of SF)



Asking Rental Rates
Quarterly ($/SF/Yr. Full Service)



Year Ends with Flurry of Leasing Activity

The Manhattan office market exhibited weak performance throughout 2009, but increased leasing activity in the fourth quarter provided a bright spot heading into 2010. Tenants are seizing the opportunities presented by five-year low net effective rents and a decade high inventory of over 53 million square feet of available space. Landlords with Class A product continued to offer generous concessions on transactions with a 10-year term or higher. In order to lock in tenants long-term, an average of $60 in tenant improvement allowance and six to eight months of free rent are being offered by savvy landlords. As the "flight-to-quality" trend continues into 2010, landlords will likely begin to pull back some of the concessions in prime Midtown buildings, as the high-end space is absorbed.

After a slow start to 2009, when lease transaction volume was down 30 percent, activity picked up in the second half of the year and surpassed 2008's total volume by 5 percent with 25.1 million square feet leased. Lease renewals accounted for 40 percent of the total leasing activity in 2009, similar to the trend witnessed in 2008. In the fourth quarter, 12 lease transactions greater than 100,000 square feet were signed, a trend that was missing during the first half of 2009 when only 11 such transactions closed. Of the 12 significant lease transactions, 10 were renewals, as most large tenants decided to save on moving costs and stay in place. In the fourth quarter, tenants and landlords negotiated early lease renewals three to five years before lease expiration. Landlords will likely entertain early renewals by "blending and extending" the lease rates and terms to retain quality tenants and lock in occupancy rates for the next 15 to 20 years.

FORECAST

- Expect availability to peak by mid-2010, as more space is placed on the market over the next six months
- Asking rents will continue to decline slightly and level off in the second half of 2010
- Leasing activity will increase as tenants lease space and seek opportunities to save on real estate expenses

KEY TRANSACTIONS

Lessee/Buyer	Lessor/Seller	Property	Size (SF)/Price
Paul Weiss Rifkind Wharton & Garrison	JP Morgan Securities	1285 Avenue of the Americas [R]	550,000
Simon & Schuster	Tishman Speyer	1230 Avenue of the Americas [R]	275,000
Stroock & Stroock & Lavan LLP	The Moinian Group	180 Maiden Lane [R]	225,000

Leasing Sales *R* = Renewal *S*= Sublease *Indicates Transaction Represented by Grubb & Ellis

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By Submarket	Total SF	Vacant SF	VACANCY % Direct	VACANCY % Total	NET ABSORPTION Current	NET ABSORPTION Year-To-Date	Under Construction SF	ASKING RENT Class A	ASKING RENT Class B
Midtown									
Avenue of the Americas	40,268,382	4,224,907	7.0%	10.5%	(747,568)	(2,225,217)	-	$66.96	$59.84
Eastside	26,838,767	2,322,234	6.0%	8.7%	(130,327)	(770,827)	-	$56.13	$51.36
Fifth/Madison	20,385,577	2,665,172	11.3%	13.1%	(270,920)	(479,632)	-	$94.82	$64.48
Grand Central	41,923,107	3,781,846	6.2%	9.0%	(402,532)	(1,016,904)	-	$70.51	$56.11
Midtown West	35,582,719	3,985,713	8.8%	11.2%	(288,087)	(1,096,196)	1,155,550	$66.31	$62.64
Park Avenue	20,223,982	1,745,027	4.7%	8.6%	148,466	(779,811)	-	$67.89	$64.06
Penn/Garment	27,893,290	2,645,372	8.6%	9.5%	(341,076)	(1,093,446)	-	$49.17	$46.77
Midtown Total	**213,115,824**	**21,370,271**	**7.4%**	**10.0%**	**(2,032,044)**	**(7,462,033)**	**1,155,550**	**$69.98**	**$55.68**
Midtown South									
Chelsea	5,925,380	348,225	5.0%	5.9%	(46,831)	(184,318)	-	$55.91	$55.49
Gramercy/Flatiron	8,137,171	390,265	2.9%	4.8%	(17,507)	(159,358)	-	-	$50.58
Hudson Square/Tribeca	13,534,930	1,770,710	12.5%	13.1%	(37,939)	200,741	-	$48.50	$48.28
Madison Square	19,811,834	1,914,789	7.8%	9.7%	130,684	(171,612)	-	$64.85	$42.63
Penn Station	22,329,870	1,456,779	5.5%	6.5%	(253,990)	(338,304)	-	$51.20	$39.91
SoHo/NoHo	4,278,478	399,286	7.3%	9.3%	(75,248)	(248,602)	-	-	$47.85
Midtown South Total	**74,017,663**	**6,280,054**	**7.2%**	**8.5%**	**(300,831)**	**(901,453)**	**-**	**$56.66**	**$45.19**
Downtown									
Broadway/Battery Park	6,762,344	742,753	9.7%	11.0%	1,501	114,717	-	$41.45	$32.30
City Hall	5,900,750	116,311	1.9%	2.0%	43,604	21,420	-	-	$34.78
Insurance	6,610,149	583,746	7.7%	8.8%	(51,858)	(253,849)	-	$39.05	$37.25
Wall Street	22,356,499	1,846,112	6.0%	8.3%	(230,123)	(629,560)	-	$43.64	$38.95
Waterfront	15,411,734	1,228,360	2.8%	8.0%	(50,783)	(63,487)	-	$48.08	$39.24
World Trade Center	19,009,295	2,025,026	7.6%	10.7%	(162,460)	(324,728)	6,900,000	$59.94	$39.93
Downtown Total	**76,050,771**	**6,542,308**	**5.9%**	**8.6%**	**(450,119)**	**(1,135,487)**	**6,900,000**	**$48.36**	**$36.46**
ManhattanTotals	**363,184,258**	**34,192,633**	**7.0%**	**9.4%**	**(2,782,994)**	**(9,498,973)**	**8,055,550**	**$65.47**	**$48.09**

By Class	Total SF	Vacant SF	VACANCY % Direct	VACANCY % Total	NET ABSORPTION Current	NET ABSORPTION Year-To-Date	Under Construction SF	AVAILABLE FOR SUBLEASE CBD
Class A	209,806,032	19,455,461	6.4%	9.3%	(1,287,964)	(6,453,837)	8,055,550	9,806,077
Class B	123,312,530	12,057,773	7.7%	9.8%	(1,335,488)	(2,867,272)	-	5,090,320
Class C	30,065,696	2,679,399	8.4%	8.9%	(159,542)	(177,864)	-	796,716
Totals	**363,184,258**	**34,192,633**	**7.0%**	**9.4%**	**(2,782,994)**	**(9,498,973)**	**8,055,550**	**15,693,113**

Overall, lease renewals accounted for 60 percent of the leases signed on 100,000-square-foot and greater transactions throughout 2009. As growing new supply out-stripped demand, this trend did not help absorb the abundance of large-block availabilities that still remain on the market. Throughout Manhattan, 86 blocks of space greater than 100,000 square feet are available, slightly down from the 92 available in June of 2009. Of these 86 spaces, 27 are Class A product located in Midtown. Headed into 2010, these blocks will likely lease first, as tenants seek opportunities in better quality space while pricing remains at a five-year low.

Manhattan Class A average asking rents dropped $19.78 per square foot from one year ago to $65.47 per square foot, the largest one year decline in the past 50 years. More indicative of the weakened pricing of office space is the decline in net effective rents—the cost of real estate minus concessions offered by landlords. In 2009, at an average of $52.21 per square foot, Class A net effective rents were $25.46 per square foot lower than at the end of 2008, a 33 percent discount. Once concessions are factored in, tenants are paying 20 percent below the average advertised asking price.

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 divided by the inventory.

Direct Vacant: This is the vacancy rate in space offered on the market directly by the landlord in single and multi-tenant buildings. This excludes vacant space offered for sublease and vacant space that is not offered on the market, for whatever reason.

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 in most parts of the country and dollars per square foot per month in areas of California and selected other markets. 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.*