MARKETBEAT

MANHATTAN OFFICE REPORT

CUSHMAN & WAKEFIELD
Global Real Estate Solutions℠

1Q09

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

ECONOMY

Both the national and local New York economies experienced sharp declines in output and employment in the first quarter of 2009. The U.S. economy lost a record 2.1 million jobs in the quarter while employment in New York City fell 86,100 from September 2008 through February 2009. The U.S. economic downturn is likely to continue through the first half of 2009 at the very least. Since New York's service providing economy tends to lag the rest of the nations, employment here is not likely to resume growth until about six months after the national economy reaches a trough. New York City Office of Management and Budget estimates put total job loss in New York in the 300,000 range with an estimated 150,000 of those expected to be in office-using sectors. Overall, 2009 will be one of the most challenging market environments of the past two decades.

OVERVIEW

Falling from its historic peak in September 2008, the Manhattan office market continues to experience anemic levels of leasing and an abundance of available sublease space, which has led to unprecedented declines in rental rates. More than 2 million square feet (msf) of sublet space has been added to the market in the last three months, 35.4% concentrated in the Plaza District. The rise in available sublease space has put downward pressure on asking rents with reductions in all 21 Manhattan submarkets this quarter.

March is typically the strongest leasing month of the year with an average of 2.39 msf of leasing over the past six years. However in March 2009 leasing activity totaled just 943,000 square feet (sf.) That slow March brought total leasing activity for the quarter to nearly 3.1 msf, the slowest on record. While transactions are occurring, many tenants are looking to save money on moving costs by signing renewals, which are not calculated in new leasing activity. Landlords have also become more aggressive in keeping their buildings occupied. Of the 30 largest deals this quarter, 63.3% were made by tenants who chose to renew or expand at their current locations, compared with 33.0% through first quarter 2008.

The effects of a weakening economy have led to the steepest quarterly rent declines since Cushman & Wakefield officially began tracking statistics. Highly concentrated in financial service firms, Midtown class A rents are off 15.3% from their historical peak and now average $79.13 per square foot (psf.) Park Avenue has been the hardest hit submarket in Manhattan with rents off 23.7%, year-over-year. During that span, Park Avenue vacancy has risen 6.3 percentage points and now registers 10.6%. Class A Downtown asking rents have declined 14.9% since the September peak of $57.70 psf. The drop-off in rents can largely be attributed to rising sublease space which now accounts for 48.4% of all class A Downtown available space.

FORECAST

Continued economic uncertainty will likely drive vacancy rates up higher as companies shed excess space. We expect to see significant declines in rents continuing well into 2009.

BEAT ON THE STREET

"Total available space in Manhattan rose by more than 56% from a year ago as companies continued to dispose of excess space. Overall availabilities climbed to 37.5 msf from 24 msf in March 2008. The most significant increase occurred in Midtown's class A market where total available space reached 20.3 msf, a year-over-year increase of 86%"

—Joseph R.Harbert, Chief Operating Officer

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
Regional			
Unemployment	4.3%	4.4%	4.9%
Employment Growth	1.1%	-4.7%	-1.7%

Source: Moody's | Economy.com

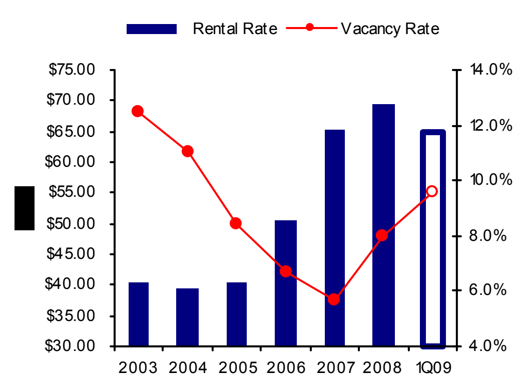
MARKET FORECAST

OVERALL VACANCY at 9.6%, climbed to its highest level in since September 2005. Vacancy rates are expected to reach into the teens over the next 12 to 18 months as tenants continue to dispose of unneeded space.

BLOCKS of space 100,000 sf and larger have doubled in the past year and are expected to increase further as more sublease space hits the market.

LEASING ACTIVITY fell 39% over the past year as tenants remain uncertain about the future of their business or are waiting for the market to hit bottom. Activity is likely to remain low through 2009.

OVERALL RENTAL VS. VACANCY RATES



MARKETBEAT

MARKET SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Murray Hill	14,197,421	81	8.4%	7.9%	124,627	0	0	(221,835)	$56.15
Grand Central	43,631,892	137	11.7%	7.4%	271,271	0	0	(927,938)	$77.13
United Nations	2,909,648	17	3.1%	1.9%	25,391	143,000	0	1,300	$52.14
East Side	19,320,215	64	12.6%	11.0%	478,928	0	0	(302,925)	$76.85
Park Avenue	21,043,271	31	10.6%	5.9%	92,942	0	0	(840,831)	$102.52
Madison/ Fifth	24,213,727	120	13.2%	10.6%	153,337	350,000	0	(789,999)	$114.62
6 Ave/ Rock Cntr	39,934,358	69	10.1%	5.2%	209,806	0	0	(601,657)	$92.13
Westside	26,322,516	76	12.5%	10.4%	103,815	0	0	(1,361,142)	$76.95
Penn Station	14,753,835	46	6.4%	4.3%	51,802	140,000	0	(294,112)	$57.38
Times Square South	30,180,329	146	8.9%	7.7%	325,696	1,000,000	0	(645,457)	$59.47
Lincoln Center	3,557,826	15	2.0%	1.8%	0	0	0	(6,711)	$49.27
Midtown Totals	*240,065,038*	*802*	*10.5%*	*7.6%*	*1,837,615*	*1,633,000*	*0*	*(5,991,307)*	*$85.62*
SoHo	3,943,428	45	4.7%	4.0%	43,919	0	0	618	$0.00
Greenwich/NoHo	4,804,918	38	4.2%	4.2%	12,482	0	0	(49,528)	$0.00
Madison/Union Square	31,106,879	223	7.1%	4.3%	84,749	317,434	0	(404,419)	$54.92
Hudson Sq./W. Village	10,471,557	39	17.0%	16.1%	60,882	88,300	0	(100,271)	$60.15
Chelsea	14,177,858	79	5.9%	4.0%	116,143	0	0	(249,596)	$74.61
Midtown South Totals	*64,504,640*	*424*	*8.1%*	*6.1%*	*318,175*	*405,734*	*0*	*(803,196)*	*$63.61*
City Hall	14,828,704	56	5.1%	4.7%	25,775	0	0	(135,204)	$44.68
World Financial	15,785,956	13	10.1%	7.3%	468,268	4,600,000	0	70,872	$68.83
Financial West	5,533,915	15	13.7%	11.9%	72,550	0	0	(73,472)	$46.28
Financial East	36,391,872	58	8.4%	5.1%	315,782	0	0	(432,226)	$47.59
Insurance	15,116,526	46	5.9%	4.7%	38,020	0	0	(175,038)	$48.80
Downtown Totals	*87,656,973*	*188*	*8.1%*	*5.8%*	*920,395*	*4,600,000*	*0*	*(745,068)*	*$54.80*
MANHATTAN TOTALS	**392,226,651**	**1,414**	**9.6%**	**6.9%**	**3,076,185**	**6,638,734**	**0**	**(7,539,571)**	**$81.55**

* Rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
*1 World Trade Center	World Financial	Vantone Industrial Co.	189,910	A
731 Lexington Avenue	East Side	Bloomberg, L.P.	178,200	A
Two World Financial Center	World Financial	Sonnenschein, Nath & Rosenthal	135,390	A
SIGNIFICANT 1Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
1540 Broadway	Westside	CB Richard Ellis Investors	1,088,000	$355,000,000
620 Eighth Avenue/N.Y. Times Bldg.	Times Square South	W.P. Carey & Co.	712,000	$225,000,000**
222 Broadway	Insurance	Bank of America	729,751	Seized from Merrill Lynch
**Sale leaseback agreement				
SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				
SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
*1 World Trade Center	World Financial	Vantone Industrial Co.	2,600,000	2nd Qtr. 2013
200 West Street	World Financial	Goldman Sachs	2,000,000	1st Qtr. 2010

* Formerly known as Freedom Tower

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*Market terms & definitions based on BOMA and NAIOP standards.