

MARKETBEAT

MANHATTAN OFFICE REPORT

ECONOMY

After several years of healthy growth, the New York economy was sputtering as 2007 ended. Although employment and incomes continued to increase into the fourth quarter, the rate of growth slowed to a crawl, and there were signs that the national credit crisis and subprime mortgage losses would be felt in New York. However, it would take a major decline in employment to have a severe negative impact on the New York City real estate market.

While there are pockets of weakness throughout the country largely related to the decline in the housing sector, there are also pockets of strength, including industries that export goods and services and a strong technology sector. For this reason, it is unlikely that the U.S. will experience a recession. Major job loss in New York won't occur without a national recession. Currently, the odds of a recession in 2008 are generally estimated to be about 40%. New York City's economy is a service provider to businesses and individuals throughout the nation, suggesting that New York will not experience a sharp decline in employment.

New York is, however, likely to experience some job loss because of the heavy concentration of financial services companies in the city. Employment in the financial services sector represents 12.7% of total employment, more than double the 6.1% this sector accounts for nationally. As a result, weakness in financial services will have a disproportionate impact on employment in New York City. We expect to see job loss in the financial services sector and associated industries, which could be substantial.

OVERVIEW

Despite troubles in the financial markets that fueled economic concerns during its closing months, 2007 was another robust year for the New York City commercial office market. Available space throughout the market remained scarce and closed December at 22.2 million square feet (msf) – the lowest level in nearly seven years. This translated into a total vacancy rate that never topped 6.0% and helped landlords to drive rents up by 28.7% to \$65.08 per square foot (psf), shattering all previous records. Rental rate growth slowed from August onward, but every month this year recorded gains, climbing on average by \$1.21 psf each month since December 2006.

Leasing activity closed the year slightly below average compared to the previous five years (-3.5%) and trailed last year's total by a more significant 12.8%. In the face of dwindling available space and unprecedented asking rents, however, leasing remained sound with just under 2.0 (msf) leased per month.

FORECAST

The fundamental driver of the New York City office market is a lack of new supply. With less total office space in the market today than in 1995 and minimal new construction coming onto the market in the next three years, this situation is not expected to change any time soon. We believe that vacancy rates will remain below equilibrium and landlords will not see a need to lower rents.

BEAT ON THE STREET

"Total available office space in Manhattan measured 22.2 msf at the end of 2007, down from 26 msf at year-end 2006 and the lowest since early 2001. This low level is due to a lack of new supply. Though many projects have been announced, relatively little has been added to the market in the past ten years."

– Joe Harbert, Chief Operating Officer

ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth (National)	2.9%	2.2%	2.2%
CPI Growth (National)	3.2%	2.8%	2.5%
Unemployment (Regional)	4.7%	4.8%	5.1%
Employment Growth (Regional)	1.3%	1.0%	0.3%

Source: Moody's | Economy.com

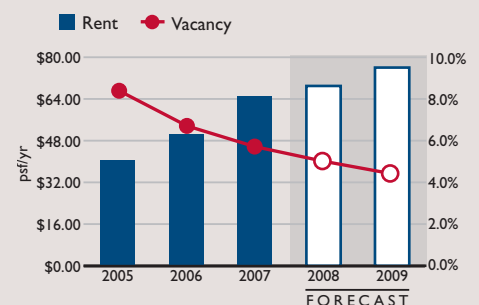
MARKET FORECAST

LEASING: Despite a decrease in activity this past year, 2008 leasing should get off to a healthy start with more than 500,000 sf of pending deals in the pipeline. ↓

RENTS: Uncertainty in the financial services sector will likely cause the rental rate increase to slow in 2008 but is not expected to materially impact the long-term upward trend. ↑

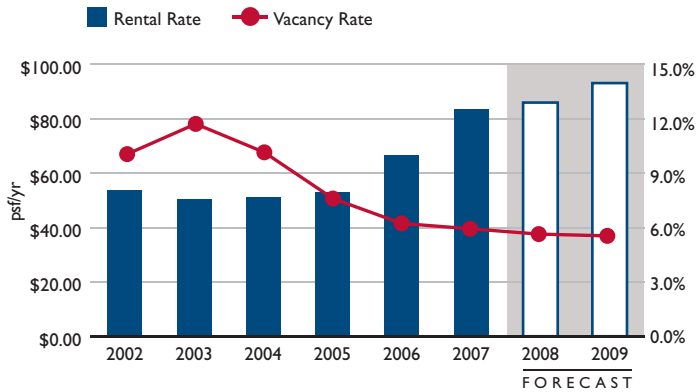
CONSTRUCTION: Over the next two years only 5.5 msf will be added to inventory. This supply will not be sufficient to meet even modest demand growth. ↔

OVERALL RENT VS. VACANCY



MIDTOWN

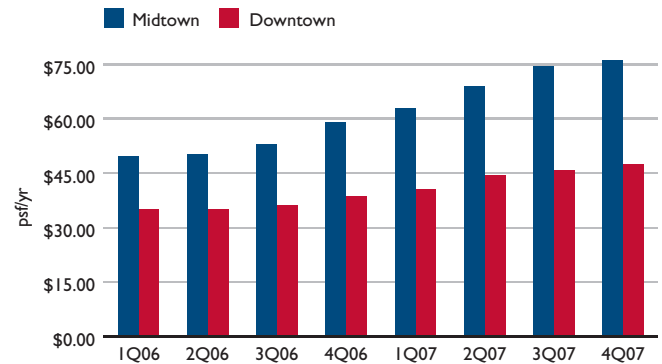
CLASS A RENTAL VS. VACANCY RATES



- Total available class A space fell to 10.6 msf with sublease availabilities dropping by nearly 40.0% from last year at this time. The class A vacancy rate remained essentially flat during the second half of the year, finishing at 5.9%.
- As vacancy rates remained well below equilibrium (7% to 9%), class A asking rents continued to reach unprecedented levels. The Midtown class A asking rent increased more than 25% from one year ago to \$83.40 psf.

MIDTOWN VS. DOWNTOWN

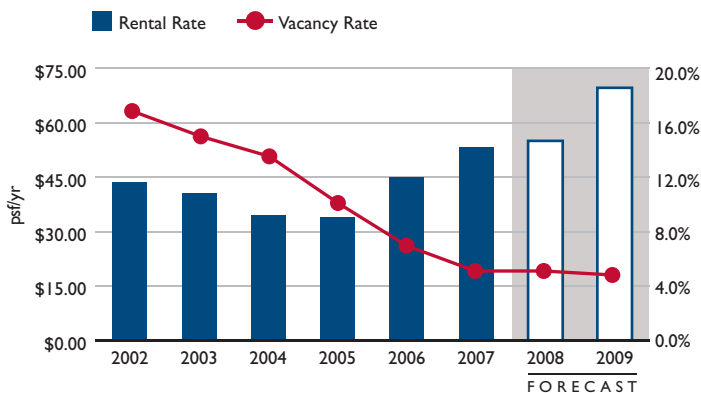
OVERALL ASKING RENTAL RATES



- Lack of quality space combined with strong demand continued to put upward pressure on Midtown and Downtown overall asking rents. While the first half of the year increased 17.2% and 15.2% for Midtown and Downtown, growth slowed during the second half to 10.4% and 6.7%, respectively.
- The largest gap in overall asking rents over the past twelve years was recorded in 2007 with Midtown commanding a 60.6% premium over Downtown. The average over the twelve-year period is 34.0%, with the last four years widening the average premium to 50.3%.

DOWNTOWN

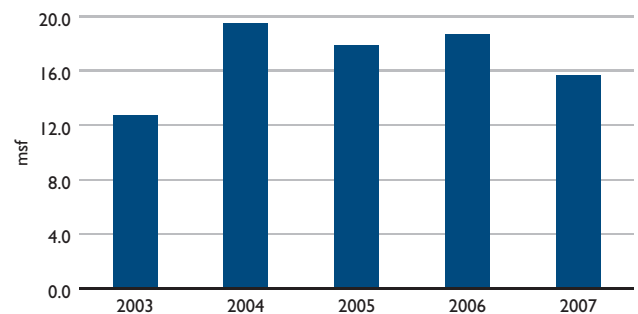
CLASS A RENTAL VS. VACANCY RATES



- Downtown class A asking rents averaged \$53.16 psf. As the supply of available space continued to be absorbed, rental rates increased by 18.1% year-over-year.
- The class A Downtown vacancy rate closed 2007 at 5.0%, a considerable decrease from fourth quarter 2006 when it registered 6.9%. With only two blocks of available space greater than 100,000 square feet (sf) on the market in class A buildings, conditions remained tight.

MIDTOWN

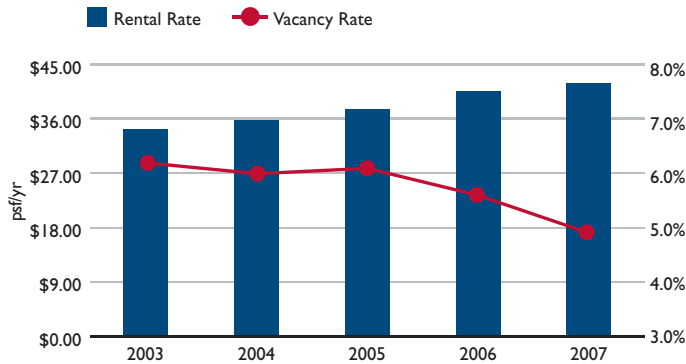
LEASING ACTIVITY



- Midtown leasing activity closed 2007 at 15.7 msf, down 16.4% from year-end 2006. Record-high rents coupled with a lack of overall large blocks and class A space, slowed leasing activity during the second half of 2007.
- Sixth Ave/Rock Center and Grand Central registered the highest leasing activity of all submarkets (3.0 msf and 2.9 msf, respectively), accounting for over 38% of all Midtown leasing during the year.

MIDTOWN SOUTH

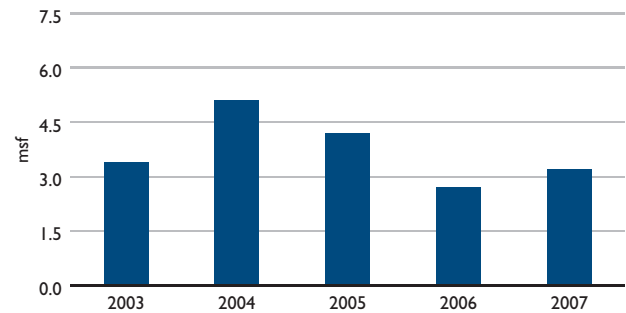
OVERALL RENTAL VS. VACANCY RATES



- The overall Midtown South vacancy rate continued to trend lower, registering 4.7% by year-end. Market conditions greatly improved as the vacancy rate was cut in half since first quarter 2005 and was nearly 10.0 percentage points below this decade's peak.
- Overall asking rents rose considerably, up 15.6% year-over-year. In the midst of economic turmoil in the financial markets, the increase in commercial rents did not slow during the fourth quarter, closing the year at \$46.89 psf.

MIDTOWN SOUTH

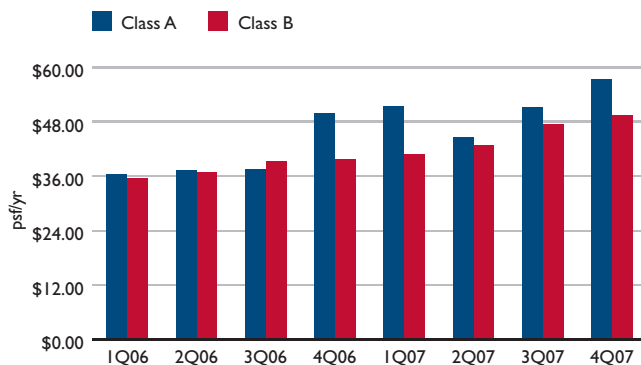
LEASING ACTIVITY



- Overall leasing activity in Midtown South increased 21.5% year-over-year and was up 37.5% in class B properties. The surge in class B leasing was largely due to 23 deals greater than 20,000 sf.
- Recent significant transactions include WPP/Grey Global's 368,000-sf lease at the redeveloped Toy Center Building at 200 Fifth Avenue, Lord & Taylor's 109,000-sf sublease at 601 West 26th Street and Daniel J. Edelman's 127,000-sf lease at 250 Hudson Street.

MIDTOWN SOUTH

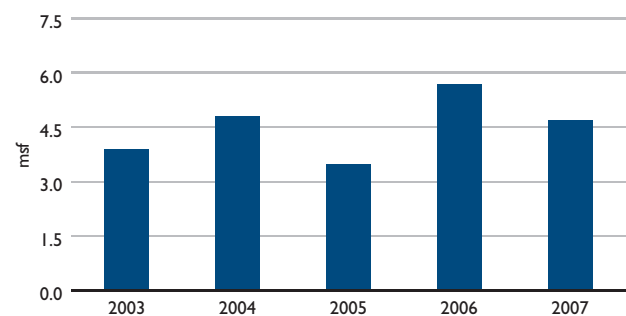
ASKING RENTAL RATES CLASS A VS. CLASS B



- Midtown South class A asking rents rose 11.4% in the last two months. Epitomizing a supply-constrained market, there were only five blocks of space greater than 100,000 sf, none in class A properties. The lack of available space continued to put upward pressure on rents.
- Asking rents for class B properties (which comprises 45.7% of all Midtown South inventory) jumped 26.7% since December of 2006 and now stands at \$49.49 psf.

DOWNTOWN

LEASING ACTIVITY



- Downtown month-to-month leasing was inconsistent throughout 2007, failing to establish a clear trend. December closed as the second slowest month of the year. Following a record-breaking 2006, overall leasing is down 17.0% year-over-year.
- Several large notable transactions paced the market, including Omnicom's move from Midtown to 172,000 sf at 195 Broadway, American International Group's 133,000-sf sublease at One New York Plaza and American Lawyer Media's 91,000-sf lease at 120 Broadway.

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	13,995,427	83	7.5%	7.0%	666,867	0	0	(257,984)	\$57.09
Grand Central	43,483,409	143	7.7%	6.4%	2,936,929	0	0	150,951	\$70.78
United Nations	2,862,048	17	4.5%	4.5%	216,595	0	0	(31,553)	\$58.75
Eastside	19,834,310	69	5.8%	4.7%	1,211,489	0	0	(190,210)	\$74.06
Park Avenue	21,043,271	31	4.5%	3.0%	1,297,923	0	0	(69,210)	\$120.52
Madison/Fifth Ave.	24,326,893	126	6.9%	6.3%	1,743,638	350,000	0	(159,047)	\$107.31
6th Ave./Rock. Ctr.	37,928,848	70	4.8%	3.8%	3,032,337	2,100,000	0	283,396	\$102.86
Westside	25,357,996	78	4.0%	3.1%	1,150,953	0	0	(198,545)	\$88.63
Penn Station	14,163,835	48	4.3%	2.3%	787,593	0	0	241,634	\$58.09
Times Square South	30,937,720	149	6.1%	4.9%	2,526,048	1,000,000	1,500,000	244,277	\$64.56
Lincoln Center	3,557,826	15	1.1%	1.1%	85,016	0	0	11,013	\$0.00
Midtown Totals	237,491,583	829	5.8%	4.7%	15,655,388	3,450,000	1,500,000	24,722	\$84.98
SoHo	3,753,228	43	1.0%	1.0%	73,014	0	0	10,933	\$0.00
Greewich/NoHo	4,786,971	39	1.2%	1.2%	240,616	0	0	(14,712)	\$0.00
Madison/Union Sq.	31,042,807	229	2.6%	2.4%	1,134,895	0	0	176,113	\$49.00
Hudson Sq./W.Village	10,470,909	40	15.1%	14.8%	1,173,858	0	0	(298,399)	\$0.00
Chelsea	14,231,858	81	4.0%	3.3%	600,564	0	0	(63,077)	\$70.44
Midtown South Totals	64,285,773	432	4.7%	4.5%	3,222,947	0	0	(189,142)	\$62.48
City Hall	14,190,764	59	3.0%	3.0%	523,226	0	0	87,243	\$0.00
World Financial	14,614,416	12	7.9%	7.8%	945,156	4,600,000	0	605,803	\$73.31
Financial West	5,533,915	15	14.2%	13.2%	650,465	0	0	26,733	\$43.30
Financial East	37,892,187	62	6.7%	5.3%	1,887,478	0	0	(395,849)	\$53.66
Insurance	16,659,782	57	3.6%	2.7%	709,991	0	0	12,823	\$49.88
Downtown Totals	88,891,064	205	6.2%	5.3%	4,716,316	4,600,000	0	336,753	\$56.03
MANHATTAN TOTALS	390,668,420	1,466	5.7%	4.8%	23,594,651	8,050,000	1,500,000	172,333	\$79.64

* Asking rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2007 NEW LEASE TRANSACTIONS

Building	Submarket	Tenant	Square Feet	Building Class
1271 Avenue of the Americas	6 Ave/Rock Center	Lehman Brothers Holdings	414,575	A
345 Hudson Street	Hudson Sq./West Village	Viacom	394,368	A
200 Fifth Avenue	Madison/Union Square	WPP/Grey Global Group	368,000	B

SIGNIFICANT 2007 SALE TRANSACTIONS

Building	Submarket	Buyer	Square Feet	Purchase Price
301 Park Avenue	Park Avenue	BH Hotels	3,400,000	\$572,343,007
388-390 Greenwich Street	City Hall	S.L. Green/SITQ	2,405,000	\$1,575,000,000
1301 Avenue of the Americas	6 Ave/Rock Center	Macklowe Properties	1,805,000	\$2,000,000,000

SIGNIFICANT 2007 CONSTRUCTION COMPLETIONS

Building	Submarket	Major Tenant	Square Feet	Completion Date
620 Eighth Avenue	Times Square South	New York Times	1,500,000	6/07

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

Building	Submarket	Major Tenant	Square Feet	Completion Date
One Bryant Park	6 Ave/Rock Center	Bank of America Corp.	2,100,000	3/08
200 West Street	City Hall	Goldman Sachs	2,000,000	2009
11 Times Square	Times Square South	N/A	1,000,000	2009
510 Madison Avenue	Madison/Fifth	N/A	350,000	2009



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