

MARKETBEAT

MANHATTAN OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



4Q09

ECONOMY

While the New York City economy continued to lose jobs in the fourth quarter of 2009, the pace of deterioration remained slower than the rest of the country. Since employment reached a peak in 2008, New York City has lost a total of 147,300 jobs or 3.9% of all payroll jobs. By contrast the U.S. has shed 5.2% of all payroll jobs during the downturn. New York's surprising resilience during 2009 appears to be a consequence of the Federal Government's support of financial corporations, many of which are headquartered in the City which led to fewer layoffs than anticipated. This performance suggests that New York will recover more quickly and with far less pain than had been feared.

The key office using industries: financial services, professional business services and information services (media) have lost a total of 83,200 jobs or 6.7% of total employment from the peak through November 2009. These three sectors account for roughly one third of employment in New York City, but account for slightly more than half of the job loss. Significantly, the financial service sector improved in the fourth quarter, adding jobs in the three months through November.

The resilience of the regional economy in the face of the most severe national economic decline since the 1930s bodes well for 2010. New York City entered the recession later than the rest of the nation, experiencing its first job loss in mid 2008 and it is likely to be one of the first regions to emerge from the recession.

OVERVIEW

The Manhattan office market showed signs of stability in the fourth quarter of 2009. At 11.1% the overall vacancy rate for Manhattan was unchanged from the third quarter but up 3.1 percentage points from the 8.0% rate at the end of 2008. Almost all of that increase occurred in the first half of the year. Since June, the vacancy rate has increased only 0.6 percentage points. The year 2009 was a tale of two markets with a dismal first half followed by a stronger second half. Leasing activity surged from 6.4 million square feet (msf) in the first half to 9.9 msf in the second half.

The Midtown market bore the brunt of the deterioration in 2009 as the Midtown class A vacancy rate surged from 9.2% to 13.2%. By contrast, the vacancy rate in Midtown South increased 2.8 percentage points to 10.0% while vacancy Downtown increased from 7.4% at the end of 2008 to 9.6% at the end of 2009. However, the Downtown market is facing numerous uncertainties including the disposition of over 1.5 msf of space that Goldman Sachs will be vacating as the firm moves to its new headquarters.

Asking rents declined sharply during 2009. For the year as a whole asking rents were down 20%. The Midtown class A market, which went up the fastest in the boom years bore the brunt of the decline. Since reaching a peak in September 2008, asking rents for Midtown class A space have fallen 29.7%. As was the case in many other measures of the market, the weakness was concentrated in the first half of the year. From September 2008 to June 2009, Midtown class A asking rents fell 23%. In the second half of 2009 they declined another 8.3%.

FORECAST

The resilience of the New York city economy bodes well for the real estate market in 2010. It is likely that New York City will see employment reach a trough in the first half of the year before rising modestly in the second half. As employment first stabilizes and then increases, it should lead to a peaking of the vacancy rate. Our current forecast calls for a peak in the vacancy rate between 12% and 13%, compared with 11.1% currently. During the second half of the year, we anticipate rising employment will lead to a decline in vacancy. As the economy shifts from contraction to expansion, conditions in the real estate market will shift. While vacancy will still be into double digits during the second half of 2010, a downward trend will likely lead to a change in psychology. As a result, we expect net effective rents will reach bottom early in 2010 and will perhaps start to increase moderately during the second half of the year.

BEAT ON THE STREET

"Signs of recovery began to emerge in the second half of the year as leasing activity rose more than 55% from a weak first half of the year. The amount of sublease space that had inundated the market earlier in the year declined in the past five months, helping vacancy rates to gradually stabilize. As market conditions continue to improve and job losses slow, vacancy rates should flatten over the next several quarters, and while rental rates should still decline, it will not likely be significant."

—Joseph R. Harbert, Chief Operating Officer


ECONOMIC INDICATORS


National	2008	2009F	2010F
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%

Regional	2008	2009F	2010F
Unemployment	5.5%	9.0%	10.5%
Employment Growth	0.9%	-1.9%	-0.7%

Source: Moody's | Economy.com

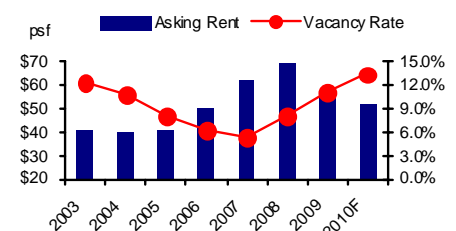
MARKET FORECAST

VACANCY RATES: An improvement in leasing combined with a steady reduction of sublease space contributed to the stabilization of overall vacancy rates. Although vacancy should continue to rise going into 2010, it will flatten and gradually fall as market conditions slowly improve. 

ASKING RENTS: An increase in demand coupled with healthier market conditions helped asking rents to decline at a slower pace by year-end. Although rents will likely continue to fall in 2010, it should not be substantial. 

LEASING Strengthening signs in the economy prompted a significant increase in leasing activity in the second half of the year. As confidence levels steadily recover, demand for space should pick up in 2010. 

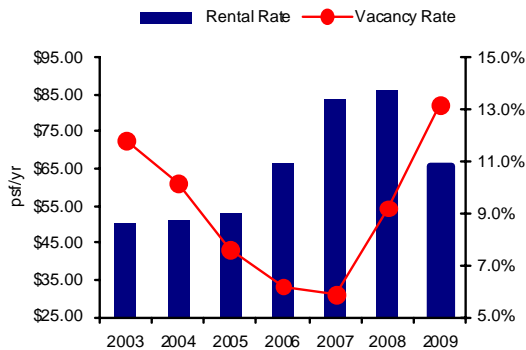
MANHATTAN OVERALL RENTAL VS. VACANCY RATES



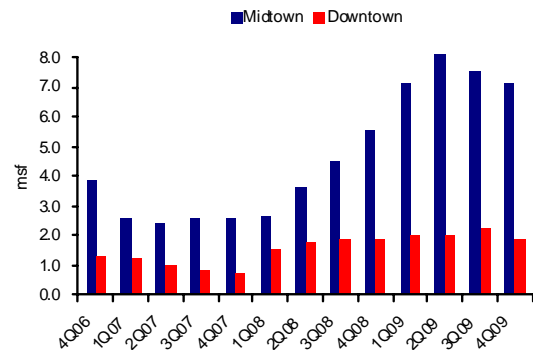
MIDTOWN

DOWNTOWN

MIDTOWN CLASS A RENTAL VS. VACANCY RATES



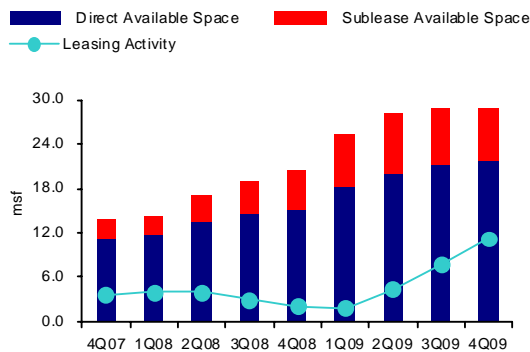
MIDTOWN VS. DOWNTOWN SUBLEASE SPACE



- Midtown's class A vacancy rate steadily climbed during the first half of the year but remained relatively stable by year-end and finished December at 11.1%, driven by a noticeable reduction of sublease space combined with a considerable improvement in leasing activity.
- Midtown class A rents at \$65.61 per square foot (psf) continued to decline but at a slower pace than earlier in the year. In the fourth quarter, class A asking rents declined an average of only \$0.68 per month compared to an average of \$1.31 psf in the previous quarter monthly level of 2009.

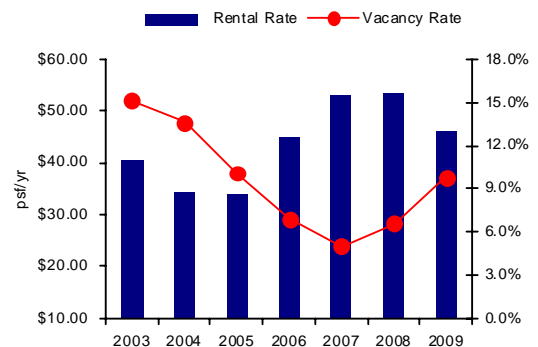
- Although Midtown's overall sublease space steadily increased for the first six months of the year, it has decreased each month from August through December. By year-end, total sublease space measured 7.1 msf, down from 8.1 msf at mid-year.
- After rising for three consecutive quarters, Downtown sublease space fell by more than 400,000 sf in the fourth quarter. This is the largest drop in available sublease space since the fourth quarter of 2003.

MIDTOWN AVAILABLE SPACE TRENDS VS. LEASING



- Although total available space at 28.9 msf is 40.6% higher than a year ago, it remained flat from October and November. Sublease space has declined over the past five months and currently represents 24.7% of total available space in Midtown, down from 26.8% at year-end 2008.
- After a weak first five months of the year, Midtown leasing picked up significantly in June and July at each totaling 1.4 msf. December leasing totaled 1.5 msf, the highest monthly level of 2009. Leasing in the second half of the year represented nearly 62% of total activity for the year.

DOWNTOWN CLASS A RENTAL VS. VACANCY RATE

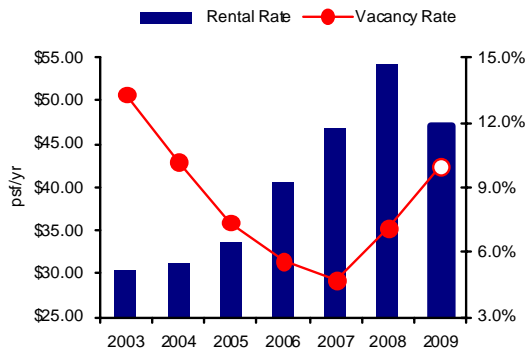


- After two consecutive quarters of rising vacancy, class A rates decreased 1.1 percentage points in the fourth quarter, ending the year at 8.7%.
- While vacancy rates fell, class A asking rents fell for the fifth consecutive quarter. The class A asking rent finished the quarter at \$43.78 psf, a \$2.18 drop for the quarter and a \$13.92 psf decrease since the peak of the market in the third quarter of 2008.

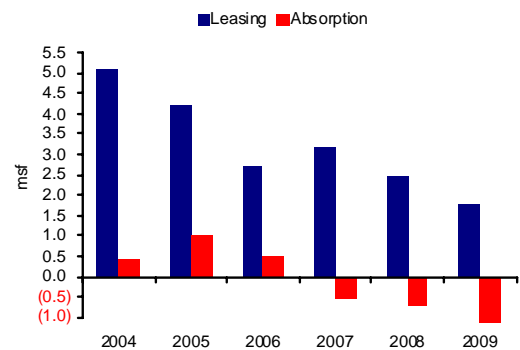
MIDTOWN SOUTH

MIDTOWN SOUTH - DOWNTOWN

MIDTOWN SOUTH OVERALL RENT VS. VACANCY



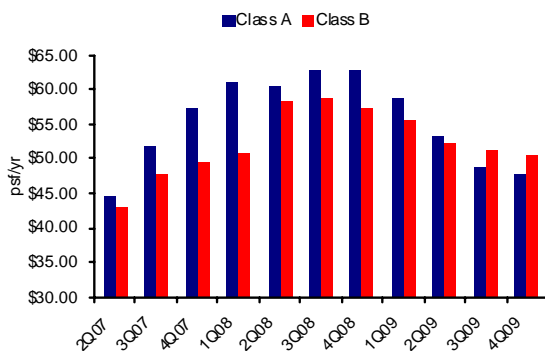
MIDTOWN SOUTH LEASING VS. ABSORPTION



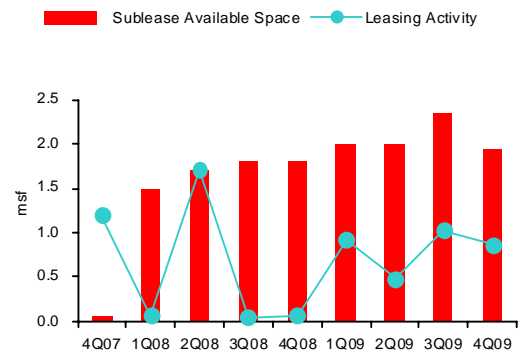
- Although down 12.8% from a year ago, overall asking rents increased slightly in December to \$47.17 psf, the first increase since November 2008. Class A asking rents decreased from \$62.81 psf to \$47.87 psf, while class B asking rents declined 12% to close 2009 at \$50.37 psf. Class B asking rents were higher than class A mainly due to a block of more than 400,000 sf of higher than average priced space available in the Madison/Union Square submarket.
- Midtown South overall has a vacancy rate of 10%, up from 7.1% a year ago. Excluding Hudson Square/West Village which has the highest vacancy rate in the City at 19.4%, each Midtown South submarket posted vacancy rates in the single digits.

- Midtown South leasing for the year totaled nearly 1.8 msf, 30.7% lower than a year ago. Roughly 62% of all transactions this year were renewals. Soho was the only Midtown South submarket to record a year-over-year increase in overall new leasing, up 65.5% from year-end 2008.
- Overall absorption measured negative 2.3 msf at the end of the year, the highest level of negative absorption on record. Hudson Square West Village class A was the only Midtown South submarket to record positive absorption at 5,220 sf.

MIDTOWN SOUTH CLASS A VS. B ASKING RENTS



DOWNTOWN OVERALL MARKET TRENDS



- Direct class A asking rents in Midtown South increased in November and December for the first time since December 2007, mainly due to a 137,000-sf block of space with lower than average asking rents that was taken off the market in the Hudson/Square submarket.
- Although class B overall asking rents are down 12% from a year ago, they have remained stable since October. Class B sublease asking rents at \$40.60 psf, are up from \$39.04 psf in September.

- Leasing activity finished the fourth quarter with only one lease (non-renewal) over 100,000 sf but had very strong activity in deals between 50,000 sf and 100,000 sf. Downtown finished with 862,583 sf of leasing for the quarter and 3.29 msf year-to-date.
- There are currently 25 blocks of space available greater than 100,000 sf accounting for 7.7 msf of all office space in Lower Manhattan.

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	11.3%	9.2%	509,012	0	0	(643,574)	\$54.65
Grand Central	43,642,472	137	13.7%	9.8%	1,975,109	0	0	(2,144,034)	\$62.44
United Nations	2,909,648	17	3.4%	3.2%	44,479	0	0	(9,949)	\$50.34
East Side	19,346,325	64	16.1%	12.2%	1,192,064	0	0	(1,229,085)	\$61.47
Park Avenue	21,043,271	31	11.9%	6.1%	1,367,782	0	0	(1,141,942)	\$80.93
Madison/ Fifth	24,563,727	121	16.0%	12.9%	1,104,832	0	350,000	(1,301,673)	\$92.87
6 Ave/ Rock Cntr	39,934,358	69	9.4%	6.9%	2,297,453	0	0	(953,452)	\$72.62
Westside	26,340,942	76	14.4%	11.8%	557,758	0	0	(1,858,816)	\$61.99
Penn Station	14,753,835	46	6.3%	4.5%	342,344	0	0	(454,457)	\$56.56
Times Square South	30,180,329	146	10.4%	8.8%	1,851,237	1,056,851	0	(1,299,673)	\$53.85
Lincoln Center	3,557,826	15	2.1%	1.9%	21,500	0	0	(24,239)	\$50.00
Midtown Totals	240,470,154	803	12.0%	9.1%	11,263,570	1,056,851	350,000	(11,060,894)	\$69.39
SoHo	3,943,428	45	6.3%	3.6%	227,250	0	0	(72,119)	\$0.00
Greenwich/Noho	4,804,918	38	5.7%	5.5%	56,347	0	0	(119,334)	\$0.00
Madison/Union Square	31,106,879	223	8.5%	5.6%	850,709	317,434	0	(960,869)	\$50.41
Hudson Sq./W. Village	10,504,986	40	19.4%	18.4%	277,532	152,272	0	(380,014)	\$54.86
Chelsea	14,436,858	80	8.6%	5.9%	340,726	0	0	(746,012)	\$47.52
Midtown South Totals	64,797,069	426	10.0%	7.6%	1,752,564	469,706		(2,278,348)	\$52.45
City Hall	14,828,704	56	5.0%	4.2%	522,494	0	0	(129,958)	\$0.00
World Financial	15,785,956	13	12.7%	10.4%	705,941	6,370,480	0	(534,695)	\$51.88
Financial West	5,533,915	15	14.4%	12.3%	448,298	0	0	(116,045)	\$37.58
Financial East	36,391,872	58	9.7%	6.7%	1,408,326	0	0	(930,141)	\$43.00
Insurance	15,116,526	46	8.9%	7.5%	206,007	0	0	(630,866)	\$42.07
Downtown Totals	87,656,973	188	9.6%	7.4%	3,291,066	6,270,480	350,000	(2,341,705)	\$45.74
MANHATTAN TOTALS	392,924,196	1,417	11.1%	8.5%	16,307,200	7,897,037	350,000	(15,680,947)	\$65.90

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
*620 Eighth Avenue	Times Square South	*The New York Times Company	749,445	A
40 Worth Street	City Hall	GAP	265,083	C
51 West 52nd Street	Sixth Avenue/Rock Center	Orrick, Herrington & Sutcliffe LLP	215,034	A
SIGNIFICANT 2009 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
825 Eighth Avenue/Worldwide Plaza	Westside	WWP Office LLC c/o George Comfort & Sons (w/ R.C. Longview Gp.)	1,800,000	\$590,333,250
1330 Avenue of the Americas	Sixth Avenue /Rock Center	Otera Capital	415,000	\$370,000,000
1540 Broadway	Westside	CB Richard Ellis Investors	1,100,000	\$355,000,000
SIGNIFICANT 2009 CONSTRUCTION COMPLETION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
510 Madison Avenue	Madison/Fifth	N/A	350,000	3rd Qtr. 2009
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
11 Times Square/640 Eighth Avenue	Times Square South	N/A	1,056,851	1st Qtr. 2010

* Sale-lease back.

**Formerly known as Freedom Tower



For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge

Cushman & Wakefield, Inc.
1290 Avenue of the Americas
New York, NY 10014
(212) 841-7500

Please consider your environmental responsibility before printing this report.

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

This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

©2010 Cushman & Wakefield, Inc. All rights reserved.