MARKETBEAT

MANHATTAN OFFICE REPORT

CUSHMAN & WAKEFIELD®
Global Real Estate Solutions℠

2Q10

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ECONOMY

New York City's economy has turned up sooner than anticipated and added jobs in each of the first five months of 2010. Payroll employment in New York has increased more than 43,000 jobs from December 2009 through May 2010. While it is likely that the economy has shifted from contraction to growth, the pace of growth is uncertain. The environment remains fragile with growing uncertainty about financial conditions in Europe leading to more volatile financial markets. This caused national employment growth to falter in May and may have an inhibiting impact on the New York City economy.

New York remains heavily dependent on the financial services sector and this turned out to be an advantage during the recession as government support for financial firms helped prop up the New York economy. However, as financial markets have turned down this spring, uncertainty about the local economic recovery has increased. Overall, we are confident that the local economy will continue to grow, but, as with the national recovery, growth may be slower than anticipated if consumer and business confidence remain fragile.

Nevertheless, New York City has turned the corner from recession to expansion and has added more than 19,000 jobs in the key office-using industries-financial, professional services and media. Over time, this growth will boost demand for office space and has already led to a leveling off of the vacancy rate in Manhattan.

OVERVIEW

The Manhattan office market showed further signs of improvement in the second quarter as leasing activity continued to increase, absorption turned positive for one quarter in Midtown and Midtown South, vacancy stabilized and the rate of rental declines slowed. Manhattan wide vacancy declined from 11.6% in the first quarter to 10.8% in the second quarter, the first quarterly decline since the second quarter of 2007. This led to the first positive absorption in Manhattan since the fourth quarter of 2007. Second quarter leasing activity was the strongest since the third quarter of 2006 with more than 6.9 million square feet(msf) of new leases. This strength can also be seen in the number of large leases (greater than 100,000 square feet) signed in the first half of 2010. A total of 21 such leases have been signed, up from 12 in the first half of 2009. Thirteen of these were moves to new space, a reversal of the2009 trend to remaining in place.

Just as the Midtown market was affected most during the recession, it recorded the most improvement in the second quarter. The Midtown class A vacancy rate declined from 13.9% in first quarter to 12.5% in the second quarter. Despite this decline, the Midtown class A market has the highest vacancy rate in Manhattan with several submarkets showing extremely high vacancy: Madison/Fifth has a class A vacancy rate of 17.7% and Times Square South has a class A vacancy rate of 20.0%. By comparison, Downtown and Midtown South have relatively low vacancy rates of 9.9% and 9.3% respectively. However, there are challenges facing the Downtown market as space being vacated by several large occupiers (including Goldman Sachs and AIG) will enter into statistics in the second half of the year, pushing the vacancy rate into the 12.5% range.

Asking rents showed signs of stability in the second quarter, particularly in Midtown where they decreased by only 0.4%, after averaging -6.2% per quarter in 2009. In Midtown South asking rents fell sharply (-5.6%) largely because of the leasing of more than 250,000 sf at 200 Fifth Avenue by Tiffany. That transaction took some of the most expensive space in Midtown South off the market causing average asking rents to decline. Despite the decline in asking rents, second quarter net effective rents increased for the first time since the fourth quarter of 2009 (+5.2%) as several transactions at expensive locations closed. Overall, the data paint a picture of a market that has stabilized and one that is experiencing an increase in activity as tenants seek to take advantage of attractive pricing, particularly in higher quality buildings that may have been out of their reach just a couple of years ago.

FORECAST

The New York City economy has performed far better than even the most optimistic analysts had anticipated, losing fewer jobs than expected and bottoming much sooner than in past downturns. This has led to the vacancy rate peaking far below the levels of the last two major market declines. This performance suggests that as the economy improves, the Manhattan real estate market will recover as well. Already there are signs of improvement as vacancy appears to have peaked and rents appear to be bottoming. There are still risks to the recovery as the critical financial services sector has become more cautious due to equity market declines and financial stress in Europe. In addition, pending financial sector reform could have an impact on the occupancy of many of the City's major occupiers. These uncertainties could slow the pace of growth, but do not seem severe enough to cause the economy to fall back into recession. Thus, we anticipate further moderate improvement in vacancy rates during the second half of 2010 and into 2011 with asking rents stabilizing at or near current levels.

BEAT ON THE STREET

"The Manhattan office market improved during the first half of the year and produced 12.6 msf of new leasing, up 95% from a year ago. A significant reduction of Midtown sublease space drove Manhattan sublease availabilities to the lowest level since January, 2009. For the first time in more than three years, overall quarterly absorption was positive, further signaling that a market recovery is underway."

–Joseph R. Harbert, Chief Operating Officer

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	9.2%	9.7%	9.4%
Employment Growth	-3.1%	-0.3%	1.1%

Source: Moody's | Economy.com

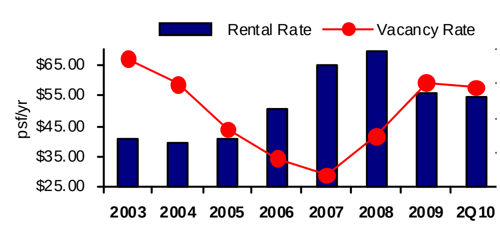
MARKET FORECAST

VACANCY RATES: Although the overall vacancy rate has stabilized, it is not expected to substantially decrease until there is continuous job growth. Additionally, it is likely that the overall vacancy will increase over the next several months, mainly due to a significant amount of space expected to come to market Downtown.

ASKING RENTS: After steadily declining since third quarter 2008, overall asking rents have leveled off. Although there have been slight increases in some markets, overall asking rents should remain flat until there is a signficant decrease in vacancy.

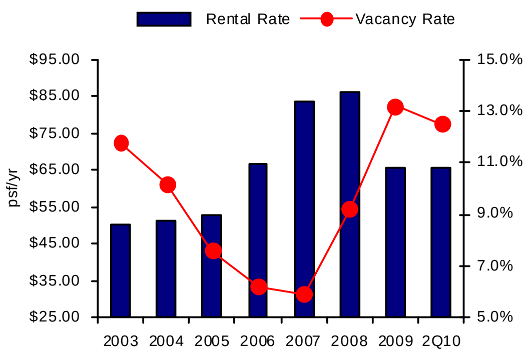
LEASING: Manhattan office leasing improved signficiantly compared to this time last year, almost doubling. Gradual employment growth should keep leasing activity healthy through 2010.

MANHATTAN OVERALL RENTAL VS. VACANCY RATES



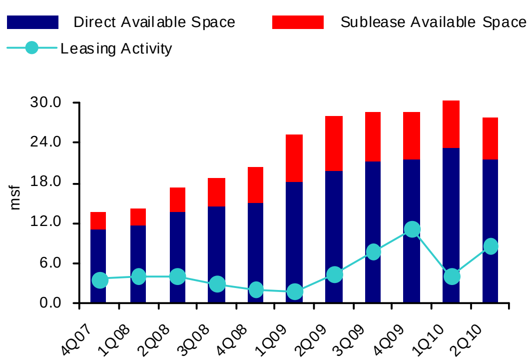
MIDTOWN

MIDTOWN CLASS A RENTAL VS. VACANCY RATES



- A slow and steady reduction of Midtown class A sublease space combined with a substantial increase in leasing activity drove Midtown's class A vacancy rate at 12.5% down 0.2 percentage points from a year ago and to its lowest level in 14 months.
- Midtown class A rents at $65.85 per square foot (psf) have remained stable since year-end 2009. Although class A asking rents were 8.0% lower than a year ago, they increased $0.83 psf over the past six months.

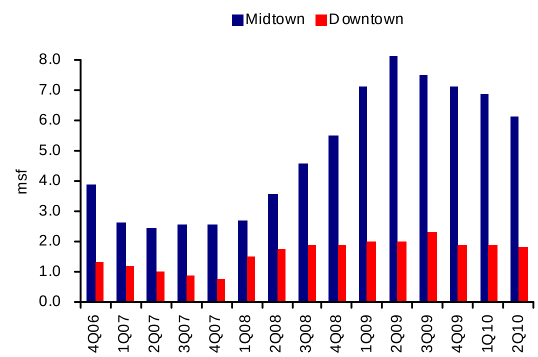
MIDTOWN AVAILABLE SPACE TRENDS VS. LEASING



- Midtown available space has fallen 4.9% since the beginning of the year, due to improvement in leasing combined with a significant decline in sublease availabilities (which are 18.0% lower than in January). While direct availabilities are up 9% from a year ago, they are down 7.4% from the first quarter 2010.
- Midtown year-to-date leasing increased nearly 99% over the past year. Average monthly leasing velocity from January to June was 1.4 msf, compared to an average of 715,000 sf for the same period last year. Second quarter leasing activity represented 53% of total activity for the year thus far.

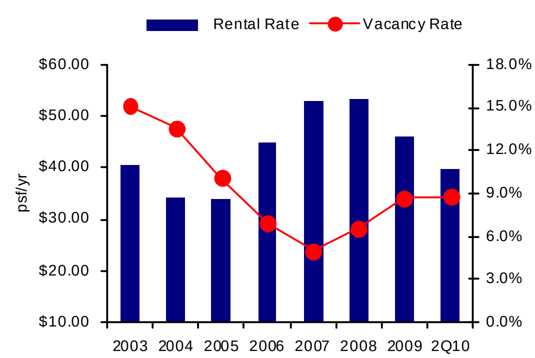
DOWNTOWN

MIDTOWN VS. DOWNTOWN SUBLEASE SPACE



- Midtown's overall sublease space steadily declined since the beginning of the year and is currently at 6.1 msf, its lowest monthly level since December, 2008. Sublease space currently represents 22% of total available space in Midtown compared to 29% at mid-year 2009.
- Downtown sublease space currently measures 1.7 msf. This is the largest decline in available sublease space since July, 2008.

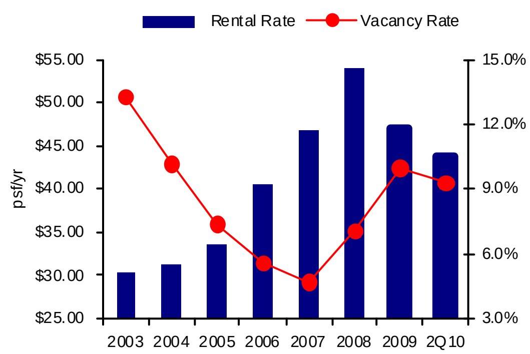
DOWNTOWN CLASS A RENTAL VS. VACANCY RATE



- After falling from a peak of 10.2% in October 2009, the class A vacancy rate has been stable, around 8.8% since the end of the fourth quarter.
- Class A asking rents continued to fall for the seventh consecutive quarter. The class A asking rent measured $39.78 psf, a $1.68 psf drop for the quarter and a $17.92 psf decrease since the peak of the market in the third quarter of 2008.

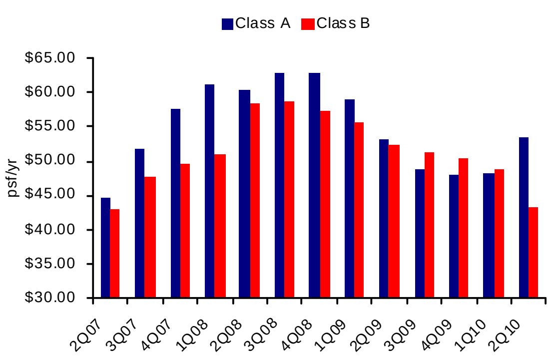
MIDTOWN SOUTH

MIDTOWN SOUTH OVERALL RENT VS. VACANCY



- Although overall Midtown South rents fell 6.4% over the past six months, class C rents were 1.3%, higher, mainly due to a block of class C available space at 708 Broadway with higher than average asking rents.
- Midtown South overall vacancy rates have shown a nominal steady decline since the beginning of the year, falling 0.8 percentage points to 9.3%. While all of the classes displayed a decrease in vacancy from the beginning of the year, class B and C vacancy rates were also slightly down from a year ago.

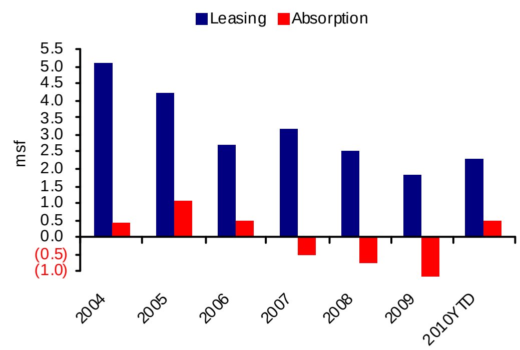
MIDTOWN SOUTH CLASS A VS. B ASKING RENTS



- Although Midtown South overall class A asking rents were 11.3% lower than a year ago, they remained stable in the second quarter. Class A direct rents stayed essentially flat over the past six months and measured $ $53.33 psf at the end of the quarter.
- Class B asking rents exhibited the largest decrease which can be attributed to a block of 261,000 sf at 200 Fifth Avenue with higher than average asking rents that was leased to Tiffany's in the second quarter.

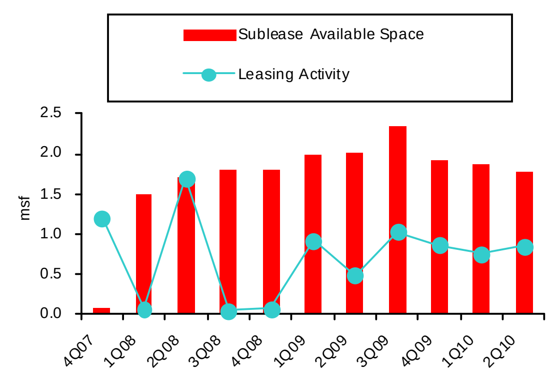
MIDTOWN SOUTH - DOWNTOWN

MIDTOWN SOUTH LEASING VS. ABSORPTION



- Midtown South had its most active quarter since year-end 2004 in the second quarter with nearly 1.4 msf of leasing activity. Year-to-date leasing at 2.3 msf was 32.5% higher than total 2009 leasing. With the exception of Soho, all of the Midtown South submarkets registered a year-over-year increase in activity with Madison/Union Square and Hudson Square West Village up the highest at 347.7% and 343.6%, respectively.
- Overall absorption was positive in all markets and classes for the first time since first quarter 2008. Chelsea had the highest level of positive absorption at 302,515 sf.

DOWNTOWN OVERALL MARKET TRENDS



- Downtown leasing activity finished the second quarter with three leases over 100,000 sf and very strong activity in deals between 45,000 sf and 55,000 sf. There were 848,553 sf leased in the second quarter and 1.6 msf year-to-date.
- There are currently 27 blocks of space available greater than 100,000 sf accounting for 10.6 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 DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
6 Ave / Rock Cntr	39,931,358	69	10.8%	7.3%	911,794	748,000	0	(258,787)	(808,923)	$70.91
East Side	19,266,525	62	13.4%	10.3%	991,339	0	0	325,032	419,048	$58.46
Grand Central	43,642,472	137	12.2%	9.5%	1,567,466	0	0	(89,224)	188,740	$60.84
Lincoln Center	3,557,826	15	2.4%	2.2%	3,302	0	0	(18,569)	(18,569)	$45.00
Madison / Fifth	24,541,427	120	16.5%	13.7%	745,057	0	0	(277,817)	(332,354)	$93.08
Murray Hill	14,298,221	82	11.1%	9.9%	308,468	0	0	(143,607)	(143,917)	$49.94
Park Avenue	21,043,271	31	10.4%	6.4%	973,636	0	0	(62,190)	157,423	$76.10
Penn Station	14,753,835	46	5.6%	4.4%	377,197	0	0	(23,549)	46,521	$56.49
Times Square South	31,279,365	147	11.6%	10.2%	1,883,807	0	1,056,851	387,309	403,637	$71.73
United Nations	2,909,648	17	3.5%	3.3%	16,689	0	0	(7,665)	(7,665)	$49.40
West Side	26,190,942	74	12.2%	9.7%	737,646	0	0	(80,737)	(58,282)	$62.72
MIDTOWN	**241,414,890**	**800**	**11.5%**	**9.0%**	**8,516,401**	**748,000**	**1,056,851**	**(249,804)**	**(154,341)**	**$69.49**
Chelsea	14,754,679	79	7.9%	5.6%	719,145	0	0	307,883	302,515	$48.30
Greenwich/Noho	4,577,498	36	6.1%	5.8%	87,109	0	0	(7,277)	(10,777)	N/A
Hudson Sq. / W. Village	10,443,186	39	17.5%	16.8%	350,948	152,272	0	95,267	127,267	$54.86
Madison/Union Square	30,865,841	221	7.9%	5.3%	1,063,474	317,434	0	86,438	99,745	$52.33
Soho	3,943,428	45	6.8%	3.5%	101,674	0	0	(11,925)	(29,659)	N/A
MIDTOWN SOUTH	**64,584,632**	**420**	**9.3%**	**7.2%**	**2,322,350**	**469,706**	**0**	**470,386**	**489,091**	**$53.33**
City Hall	14,483,704	54	6.2%	5.6%	171,978	0	0	(201,217)	(202,131)	$36.10
Financial East	35,512,055	57	11.2%	8.1%	632,836	0	0	(312,978)	(422,538)	$38.23
Financial West	5,679,102	15	16.0%	14.5%	324,154	0	0	(170,328)	(159,236)	$38.27
Insurance	15,080,026	45	7.8%	7.1%	238,925	0	0	38,279	148,283	$40.96
World Financial	15,570,956	12	10.4%	7.8%	235,139	4,370,480	0	31,620	(11,982)	$59.38
DOWNTOWN	**86,325,843**	**183**	**9.9%**	**7.9%**	**1,603,032**	**4,370,480**	**0**	**(614,624)**	**(647,604)**	**$41.89**
NEW YORK CITY TOTAL	**392,325,365**	**1,403**	**10.8%**	**8.5%**	**12,608,262**	**5,588,186**	**1,056,851**	**(394,042)**	**(312,854)**	**$65.44**

* Rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1411 Broadway	Times Square South	Jones Apparel Group	380,000	A
11 Times Square/640 Eighth Avenue	Times Square South	Proskauer Rose, LLP	378,304	A
787 Seventh Avenue	Sixth Avenue/Rock Center	Willkie Farr & Gallagher, LLP	352,000	A

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
600 Lexington Avenue	East Side	S.L. Green Realty	303,000	$193,000,000
299 Park Avenue	Park Avenue	Rockpoint Group (49% Interest Jeff Gural c/o Newmark Knight Frank & Otera Capital	1,056,146	$150,000,000
417 Fifth Avenue	Murray Hill	Inmobiliaria Carso, S.A. de C.V	374,000	$140,000,000

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETETION

BUILDING	Greenwich/NoHo	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
200 West Street	World Financial	Goldman Sachs	2,000,000	1Q2010
11 Times Square/640 Eighth Avenue	Times Square South	Proskauer Rose, LLP	1,056,851	1Q2010

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1 World Trade Center	World Financial	Vantone Industrial Co.	2,600,000	2Q2013
44 West 47th Street/ International Gem Tower	Sixth Avenue/Rock Center	Gemological Institute of America	748,000	3Q2011

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