

StudleyReport

STUDLEY OFFICE MARKET AND SPACEDATA REPORT

MARKET HIGHLIGHTS

SLIGHT DECLINE IN AVAILABILITY

Available supply fell by nearly 2.0 msf in Midtown Manhattan, offsetting an increase of nearly 500,000 sf Downtown and lowering the overall availability rate for the second quarter in a row. Manhattan's Class A availability rate fell by 0.4 pp to 12.7% due to a 0.7 pp drop in Midtown to 13.1%. Downtown's Class A rate rose by 0.5 pp to 11.3%.

ASKING RENTS CONTINUE SLIDE

Overall asking rent in Manhattan fell by 3.8% in the second quarter – slightly more than the 2.7% decline last quarter. Class A rents fell by a mere 0.2% in Midtown to \$63.24, but dropped by 1.1% Downtown to \$43.72.

LEASING HITS FIVE-YEAR HIGH

Total deal volume reached its highest mark since the first quarter of 2005, totaling 9.6 msf. Larger leases above 50,000 sf were split nearly evenly between renewals and new leasing.

Separating the Wheat from the Chaff

Over the last several months, Manhattan's tenants have been steadily culling the choicest options from the wide array of spaces that are there for the taking. More businesses have pushed past the hesitancy of 2008 and 2009 and a flight to quality is clearly gaining momentum. At the same time, cost-savings remains the top concern for many companies. Solid bargains, with rents well below \$50, are also attracting a high level of interest. These spaces may be a bit rougher around the edges – they may offer a less convenient location or be outdated, and the building may have minimal amenities – but they are still leasing. The market is separating into two tiers as tenants winnow out the gems and the bigger blocks of bargain space, leaving behind a hodgepodge of spaces of varying quality.

The quality and quantity of leasing have been accelerating since the third quarter of last year. Overall deal volume in New York City during the second quarter (9.6 msf) exceeded 9.0 msf for the first time since the first quarter of 2005. Relocations were prevalent and a growing number of renewals included expansions. The flight to quality is clearest in the Plaza District, where total available Class A space has fallen by 18.6% since the start of the year. Flight-to-value leases have been keeping pace with the flight to quality – underscored by the recent flurry of activity in Midtown South, where overall supply has declined by 15.9% in 2010. Quite a few firms are still opting for the safer route of capturing savings rather than pursuing more prominent and costlier space. Deloitte's recent decision to renew its lease at Four World Financial Center, reportedly with rents in the \$40s, typifies such choices.

During the last four quarters, New York City tenants have leased 34.3 msf – the strongest four quarters of leasing since the fourth quarter of 2000. Even so, tenants have absorbed only 12.3% (3.3 msf) of the 27.0 msf added since the market peaked in late 2007. The prevalence of renewals (many of them early lease restructures) and comparative absence of expansions account for the minimal absorption. The number of deals involving expansions has escalated, but most were for one or two floors at most. Leasing activity has also been surging due to the rollovers of leases dating back to the late 90s as well as because of the class of tenants that relocated to Midtown after 9/11.

The market has become more variegated in terms of the types of firms leading the flight to quality. Traditionally, the financial sector and law firms have initiated market recoveries. A few law firms

MIDTOWN TRANSACTION BAROMETER

	Under 50,000 sf	One Qtr Change	Over 50,000 sf	One Qtr Change
Average Term:	10 yrs	◀▶	10-15 yrs	◀▶
Concessions:				
Free Rent	10-12 months	◀▶	10-12 months	◀▶
Tenant Improvements	\$60.00-\$75.00	▼	\$70.00-\$80.00	▼
Other	Various	◀▶	Various	◀▶

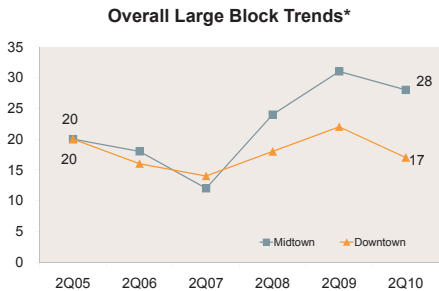
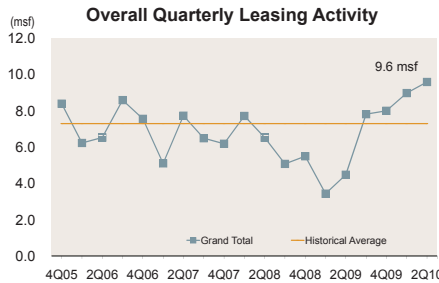
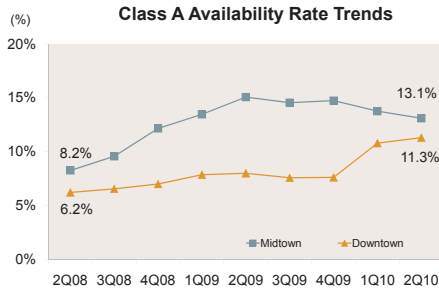
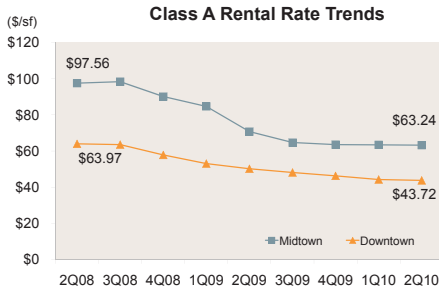
Outlook Tenants are encountering some pullback on concessions in the highest-caliber properties. Firms looking for smaller and mid-sized spaces can still select from a wide array of options.

DOWNTOWN TRANSACTION BAROMETER

	Under 50,000 sf	One Qtr Change	Over 50,000 sf	One Qtr Change
Average Term:	7-10 yrs	◀▶	15 yrs	◀▶
Concessions:				
Free Rent	8-12 months	◀▶	14 months	◀▶
Tenant Improvements	\$55.00-\$65.00	◀▶	\$75.00	◀▶
Other	Various	◀▶	Various	◀▶

Outlook Although there are still a limited number of high-quality full floors of space Downtown, companies willing to sacrifice amenities and a prominent location can find ample space well below \$40 that includes generous incentive packages.

▲ Up ▼ Down ◀▶ Unchanged



*Downtown Contiguous Space >= 100,000 sf
Midtown Contiguous Space >= 150,000 sf

have been active lately. After an exhaustive search, Proskauer Rose upgraded its space, but the rest of the companies moving up in quality over the last few quarters have included a broad cross-section of industries. The financial sector is not likely to play its standard “market-mover” role, at least in the short term, for several reasons. Profits are forecasted to decline to 1990’s levels in the next few years. The Frank-Dodd Bill, although not as severe as many had initially feared, is also expected to clip future revenues. Finally, the sovereign debt crisis has had a very tangible effect on Wall Street – negatively impacting IPO issuance, M&A activity and stock values. The market does not have a “white knight” industry that will pick up the slack in the short term, but will have to rely on broad-based growth instead. In terms of bargain deals, many of the usual suspects such as schools, non-profits and government agencies have been active, but architects, publishers and law firms have also opted for highly discounted spaces.

Tenants have plucked many of the plum spaces and snared spaces that offer greatest value, but this does not mean that these most desirable segments of the markets have been stripped bare. Until tenants shift into expansion mode and abandon value plays, the market will be engaged in a process of musical chairs. By this fall, another group of appealing spaces with late 2011/early 2012 occupancy will start to hit the market. Proskauer will vacate 360,000 sf at 1585 Broadway, for example. Quite a few larger tenants such as Natixis and Société Générale are in the market and approaching a decision about whether to move. Companies that ultimately relocate will leave behind big blocks of quality space. Additionally, the trend toward consolidation is not likely to end any time soon – JPMorgan Chase, for example, is contemplating a move from 245 Park Avenue to 277 Park Avenue.

The next two quarters are likely to be a transitional period as a few properties raise rents and reports of a handful of deals signed for \$100 or more are achieved. Terms and conditions vary widely from building to building. Landlords who just signed a significant lease that bumped them over a key occupancy rate have started to dig their heels in on rents or concessions. In some cases, such a lease pushed the landlord’s debt service coverage ratio into more comfortable territory. A few landlords are banking on a gut feeling that the economy is turning around and demand will keep building.

Landlords adding space in the next few months may want to test the strength of demand and add space at high rents. May was one of the strongest months for leasing in years but activity paused in June. If this lull carries into the fall, there will be little rationale for raising rental rates. So far, few landlords have actually increased their asking rents, but the number of landlords lowering their face rents has declined recently – the ratio of buildings decreasing rents to those increasing rents in June was still about two to one, but a year ago this ratio was about seven to one and in February of 2009 it was 43 to one. A significant portion of the market is not in any position to increase rents, though. As of mid-June, 42% of Class A properties had an availability rate of more than 15%. The cost of a falling knife is still high for landlords as well as for sub-lessors who incorrectly appraise the quality and value of their space. The vast majority of space – at the very soft core of Manhattan’s office market – is still languishing.

An analysis of leases signed during the last several quarters indicate that 90% of transactions were completed for an initial rent that ranged from \$40 to \$75. Two years

MAJOR TRANSACTIONS

Tenant	Sq Feet	Address	Market Area
Proskauer Rose	406,399	11 Times Sq	Westside II
Jones Apparel Group**	380,000	1411 Broadway	Westside II
Willkie Farr & Gallagher*	355,118	787 Seventh Ave	Westside I
32BJ SEIU	283,162	620 Ave of the Americas	Midtown South I
Tiffany & Co.	257,415	200 Fifth Ave	Midtown South I
Kenyon & Kenyon*	199,240	1 Broadway	Downtown I
Katz Media Group*	175,650	125 W 55th St	Westside I
GMHC	167,000	450 W 33rd St	Westside II
New York Liquidation Bureau	116,540	110 William St	Downtown I
McGarry Bowen**	113,177	601 W 26th St	Midtown South I
Kirshenbaum Bond & Partners**	96,888	160 Varick St	Midtown South II
URS Corporation	94,000	1 Penn Plz	Westside II
Vinson & Elkins**	80,300	666 Fifth Ave	Westside I
City of New York*	79,810	250 Broadway	Downtown II
Korn Ferry	75,574	200 Park Ave	Grand Central I
Sum of Top Leases	2,880,273	Sum of 2nd Quarter Leasing Activity	9.6 MSF

* Renewals **Renewal & Expansion ^ Sale-Leaseback ^^Expansion

ago, deals of more than \$100 were the benchmark for a market with seemingly limitless potential for rent growth. The \$100 asking rent is making a comeback in a few of Midtown's trophy properties but is a distant memory for most buildings. Only a very narrow segment of the market can appropriately consider pushing rents back above \$100. The percentage of leases with an initial rent below \$50 increased from less than 30% in both 2007 and 2008 to 51.9% in 2009 and 57.3% in 2010. In general, within individual properties a gap of \$35 to \$50 between rents on leases signed in 2007 and those inked in 2009 and 2010 has become quite commonplace.

Tenants in Midtown are well into the process of picking out quality and bargain space but this selection has just begun Downtown, where a great deal is still up in the air. The potential increase in available space over the next four to six quarters (excluding new construction) ranges from a low of 2.0 msf to as much as 7.8 msf. A lot of space will be in play between 2011 and 2013 and a fair number of companies such as Oppenheimer, Nomura and The Bank of New York are evaluating their options. For now, the number of properties marketing high-caliber space, such as 7 World Trade Center, is limited.

Determining the value of a space remains a complex process that is not as simple as taking asking rent at face value. Spaces can have significant flaws that are not apparent on the surface, such as an abnormally high loss factor or a landlord who cannot back lease obligations. Loss factors have increased from just above 20% to the 27% range in many buildings during the last six to seven years. Similarly, given the heightened concerns about "zombie buildings," assessing a property's financial strength and the landlord's track record is more critical than ever. Companies looking for large blocks of space or firms that have narrow requirements in a high-end property have limited options, but most tenants can afford to be selective and search for the landlords who are accommodating and also able to back their obligations.

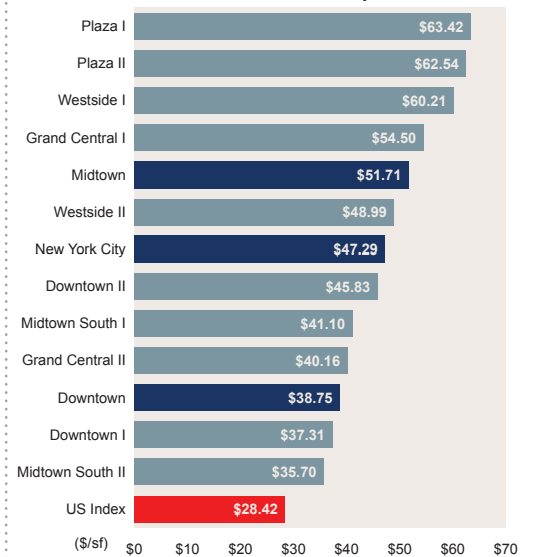
Looking Forward

Growth in office-using employment remains the critical factor for office space demand. So far, New York City has outperformed nearly every other major U.S. market in terms of recovery of jobs lost during the recession, adding jobs in every month during 2010. As of May, New York City had recovered 19,287, or 19.2%, of the 100,605 office-using jobs it had lost – well above the 7.3% national rate. Of note, hiring in professional/business services accounted for about two-thirds of the recovery, with the balance coming from the financial sector. It is troubling, though, that growth in May (3,602 jobs) was less than half of the growth in April (7,423 jobs) and recent turbulence in the global and domestic economy could hamper growth in the second half of the year.

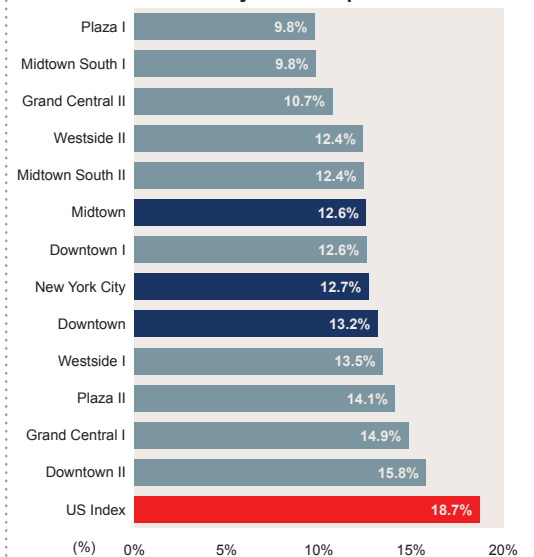
ABOUT OUR FIRM

Studley is the only global tenant advisory firm with a pure tenant representative delivery platform. Founded in 1954, Studley pioneered this conflict-free business model. Today, with 19 offices nationwide and an international presence through its London office and AOS Studley throughout Europe, Studley provides strategic real estate consulting services to top-tier corporations, law firms, nonprofits, government agencies and institutions of higher education. Information about Studley is available at www.studley.com.

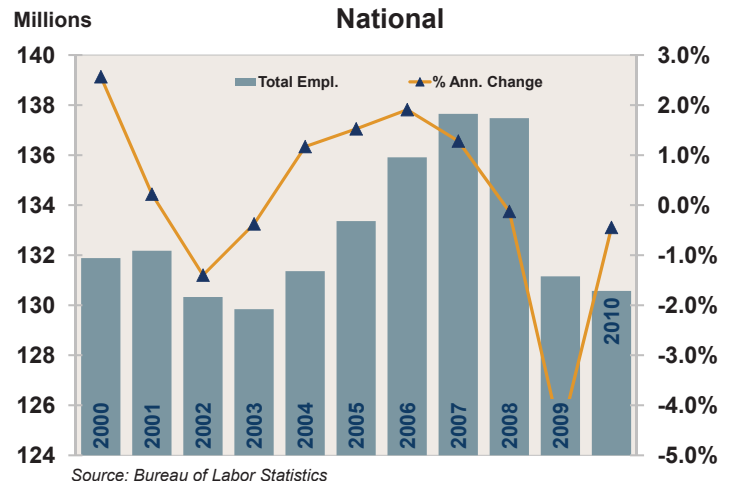
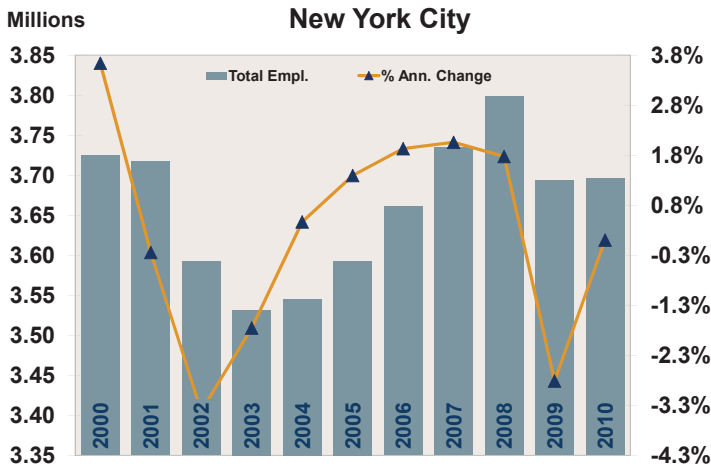
Overall Rental Rate Comparison



Availability Rate Comparison



EMPLOYMENT TRENDS



MARKET SNAPSHOT: 2Q 2010

MAP	SUBMARKET	TOTAL Inventory SF (1,000's)	LEASING ACTIVITY			AVAILABLE SF			AVAILABILITY RATE			ASKING RENTS PER SF				
			Last 12 Mos	5 Yr Average	This Qtr	% Change from Last Qtr	Yr Ago	5 Yrs Ago	This Qtr	PP Change from Last Qtr ⁽¹⁾	Yr Ago	5 Yrs Ago	This Qtr	% Change from Last Qtr	Yr Ago	5 Yrs Ago
1	Westside I	58,491	5,659	4,268	7,878	-4.0%	7,716	5,325	13.5%	-0.6%	13.2%	9.2%	\$60.21	1.9%	\$66.63	\$55.19
	Westside I - Class A	49,102	4,770	3,471	6,567	-0.5%	6,523	4,564	13.4%	-0.1%	13.3%	9.4%	\$63.83	3.3%	\$71.19	\$56.87
2	Westside II	84,286	7,327	5,658	10,451	-9.7%	11,981	7,124	12.4%	-1.2%	14.1%	8.9%	\$48.99	-3.7%	\$54.44	\$41.76
	Westside II - Class A	24,840	1,916	1,647	3,237	-11.1%	4,531	1,941	13.0%	-1.2%	17.7%	9.1%	\$64.98	-7.1%	\$78.89	\$64.46
3	Plaza I	17,057	1,449	1,342	2,260	-2.5%	2,556	1,653	9.8%	-0.2%	11.1%	7.2%	\$63.42	10.1%	\$63.56	\$69.64
	Plaza I - Class A	5,957	1,158	1,025	1,574	-5.4%	1,872	1,189	9.2%	-0.5%	11.0%	7.0%	\$59.46	6.7%	\$64.86	\$77.02
4	Plaza II	18,974	2,624	1,457	2,684	-14.7%	3,797	1,322	14.1%	-2.4%	20.0%	7.1%	\$62.54	3.1%	\$63.46	\$59.15
	Plaza II - Class A	15,467	2,280	1,215	2,192	-16.7%	3,235	983	14.2%	-2.8%	20.9%	6.5%	\$65.15	4.5%	\$64.51	\$73.08
5	Grand Central I	62,554	5,540	4,320	9,296	4.1%	9,693	6,485	14.9%	0.6%	15.5%	10.5%	\$54.50	-2.6%	\$61.88	\$52.66
	Grand Central I - Class A	40,773	3,633	2,551	6,129	1.9%	6,469	4,410	15.0%	0.3%	15.9%	11.0%	\$60.27	-0.5%	\$68.96	\$58.18
6	Grand Central II	13,961	1,077	732	1,498	-2.8%	1,424	1,102	10.7%	-0.3%	10.2%	7.8%	\$40.16	-2.5%	\$46.57	\$37.09
	Grand Central II - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7	Midtown South I	44,131	3,733	2,349	4,342	-8.8%	4,945	2,690	9.8%	-0.9%	11.3%	6.1%	\$41.10	-6.0%	\$41.99	\$29.47
	Midtown South I - Class A	4,887	348	182	413	-39.0%	567	0	8.4%	-5.4%	12.4%	0.0%	N/A	N/A	N/A	N/A
8	Midtown South II	17,480	950	1,080	2,176	2.0%	2,732	1,587	12.4%	0.2%	15.6%	9.5%	\$35.70	-6.7%	\$50.20	\$33.53
	Midtown South II - Class A	1,609	16	44	14	0.0%	17	41	0.9%	0.0%	1.1%	2.5%	N/A	N/A	N/A	N/A
9	Downtown I	74,350	4,961	4,466	9,354	4.0%	7,263	10,684	12.6%	0.5%	9.8%	14.5%	\$37.31	-0.5%	\$41.47	\$31.32
	Downtown I - Class A	37,124	1,508	2,199	4,046	3.1%	2,744	4,675	10.9%	0.3%	7.4%	13.1%	\$41.38	1.3%	\$45.65	\$35.96
10	Downtown II	16,900	860	971	2,673	3.2%	2,410	3,591	15.8%	0.5%	14.3%	21.2%	\$45.83	4.6%	\$46.09	\$44.06
	Downtown II - Class A	2,430	123	302	420	23.2%	416	N/A	17.3%	3.3%	17.1%	N/A	\$61.00	-1.2%	\$74.36	N/A
1-8	MIDTOWN TOTAL	323,005	28,358	21,202	40,585	-4.7%	44,845	27,289	12.6%	-0.6%	13.9%	8.6%	\$51.71	-2.6%	\$57.49	\$47.12
	MIDTOWN TOTAL - Class A	153,735	14,169	10,172	20,126	-5.3%	23,214	13,184	13.1%	-0.7%	15.1%	8.9%	\$63.24	-0.2%	\$70.75	\$60.62
9-10	DOWNTOWN TOTAL	91,250	5,821	5,437	12,027	3.8%	9,673	14,275	13.2%	0.5%	10.6%	15.8%	\$38.75	0.6%	\$42.57	\$35.20
	DOWNTOWN TOTAL - Class A	39,554	1,631	2,501	4,466	4.7%	3,160	6,350	11.3%	0.5%	8.0%	16.7%	\$43.72	-1.1%	\$50.18	\$43.15
1-10	MANHATTAN TOTAL	414,256	34,179	26,639	52,613	-2.9%	57,074	41,563	12.7%	-0.4%	13.8%	10.2%	\$47.29	-3.8%	\$53.76	\$42.78
	MANHATTAN TOTAL - Class A	193,289	15,799	12,672	24,592	-3.6%	26,374	19,534	12.7%	-0.4%	13.6%	10.5%	\$57.20	-4.5%	\$66.65	\$54.73

(1) Percentage point change for availability rates.

Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf. Statistics are calculated using both direct and sublease information. Short-term sublet spaces (terms under two years) were excluded.

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