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Contact: Kristen Campbell
Phone: 702.733.7500
Email: kcampbell@gelasvegas.com

Grubb & Ellis Predicts a Challenging 2009 for Commercial Real Estate as Economy Weathers Recession

The Las Vegas market, supported by the hotel/casino industry, is expected to rebound faster than any other nationwide

LAS VEGAS (Jan. 5, 2009) – Grubb & Ellis Company (NYSE: GBE), a leading real estate services and investment firm, today released its 2009 Global Real Estate Forecast, which indicates that 2009 will be a challenging year for commercial real estate with the economy starting the year 13 months into what may become the longest recession since the 1930s.

"The economy will struggle in 2009, which will dampen demand for all product types, resulting in negative absorption and increased vacancy," said Robert Bach, senior vice president, chief economist of Grubb & Ellis. "We expect total payroll job losses in the range of 1 to 2 million in 2009 on top of the 2+ million in 2008. GDP is likely to shrink by 1 percent in 2009, compared with growth of 1.3 percent and 2 percent in 2008 and 2007, respectively."

"There is no question 2009 will be a challenging year for the Las Vegas economy and the entire nation," said Joseph E. Kupiec, Sr., Managing Director for Grubb & Ellis|Las Vegas. "However, with an abundant amount of tourism due to the hotel/casino industry, as in the past Las Vegas should show signs of a recovery sooner than many other parts of the country. When it will occur is difficult to predict."

Nationally, the investment market, which saw transaction volume plummet in 2008 as the financial markets collapsed and the credit markets froze, is expected to see a 15 percent increase in sales volume in 2009 as distressed properties are brought to market, particularly those acquired in the past couple of years with floating rate debt. Loan delinquencies and foreclosures will increase with more properties returning to lenders, who will be anxious to sell them. Debt capital will remain expensive and tight in 2009, but more of it will be available than in 2008, and there will be a slow increase in equity capital flowing into the market from private, institutional and offshore investors waiting on the sidelines. The coming year should be more active as the gap between buyers and sellers gradually narrows, with sellers making up most of that difference.

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Debt will be the hot investment type in 2009. Investments could be made in CMBS, collateralized debt obligations or funds investing in these assets. Or debt investments could be made at the property level with owners seeking to refinance their properties. More equity investments will be made as well in 2009 as investors holding an estimated $300 to $400 billion in institutional, private and offshore equity begin to deploy their capital in response to falling prices.

The outlook is equally challenging for global markets, both developed and emerging. The previous contention that emerging markets would largely escape the financial crises in North America and Europe looks to be overly optimistic. This will not be an ordinary downturn, but rather a structural correction in global capital markets that will impact every sector of the economy and real estate market.

One benefit of the global market correction has been the rapid evaporation of inflationary pressures in most key economies. The decline in inflation has left governments less reticent in using interest rates as a weapon in the battle to stave off sharp economic and commercial decline.

Office Tenants Will Have the Upper Hand in 2009

The office construction pipeline contained 90 million square feet at year-end 2008, the lion's share of which will be delivered in 2009. This combined with a projected 45 million square feet of negative absorption, including a big jump in sublease space, will push vacancy up by two percentage points to end 2009 at 16.5 percent. Tenants will have greater negotiating leverage in 2009 with concession packages becoming more generous as the year progresses. The growing inventory of sublease space will put downward pressure on asking rental rates for direct lease space, which are expected to decline in the range of 4 to 5 percent for both Class A and B space by year-end.

"Employment growth drives demand for office space and the labor market will be shrinking in 2009," said Bach. "Government and health care will be among the few sectors with growing demand for office space."

Leasing and sales activity in the Las Vegas office market is expected to remain flat in the first half of 2009. Toward the end of the year, absorption is likely to increase as existing product continues to be offered at highly discounted rates.

Industrial Users Strive to Reduce Costs

Businesses look at industrial space as a productivity enhancer, an integral part of their supply chain strategies. Their relentless quest for cost-saving efficiencies should sustain demand for industrial space in 2009, despite the weak economy. However, supply is expected to outpace demand with absorption dipping into the red and the vacancy rate rising by 60 basis points to end the year at 9.4 percent as the construction pipeline delivers space still underway.

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"The industrial market will recover more quickly than the office market because the construction pipeline is set to thin out sooner," said Bach.

Developers in Las Vegas, hesitant to build new industrial product while sales and leasing velocity are diminished, have held back on further development across the valley until the economy takes a positive turn. While there is less than one million square feet of industrial space under construction heading into 2009, many developers have resumed the lengthy planning process to once again feed the demand for industrial product in Las Vegas.

Will Consumer Spending Rebound in 2009?

Consumer spending hit a 28-year low in 2008 with retailers in the crosshairs of the downturn. Grocery store-anchored centers in mature trade areas will hold their ground in 2009, while centers on the urban fringe, where housing construction has stalled will suffer. Retailers will be even more conservative with their expansion plans in 2009, with more store closings and fewer openings. Expect higher vacancies and softer rental rates by year-end.

"Value retailers are garnering the majority of consumers' dollars in this challenging economic climate," said Bach. "Even the luxury retailers, which are usually immune to downturns, are feeling the pain."

In 2008, the Las Vegas market was faced with many challenges, including several large-scale retail and hotel/casino projects fighting for survival. However, expectations for a healthier and more encouraging economic climate towards the end of 2009 are high. The actions taken by the government should raise the level of confidence in the real estate market and allow business owners and consumers to see some light at the end of the tunnel. The wait and see attitude will be felt across the valley in 2009 and fortify a stronger foundation going into 2010.

Multi Housing Will See Vacancy Rising as Well

The housing slump and recession have produced countervailing forces that will both help and hurt the multifamily market in 2009. Apartments are seeing some new renters who have lost their homes to foreclosure, while landlords are able to maintain existing renters who are waiting for prices and mortgage rates to fall further. However, new graduates who can't find jobs are doubling up with a roommate or moving in with a relative to conserve cash. At the same time, the apartment market faces competition from an increasing supply of unsold condos and foreclosed homes returning to the market as rentals. The negative forces are expected to have a slight edge in 2009 resulting in slowly rising vacancies for the multi housing market this year.

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Residential and apartment activity was sluggish in Las Vegas in 2008. Available funding was difficult to obtain in 2008, however, various opportunities to obtain financing going into 2009 will be available with larger down payments and a much higher amount of equity required. The future of the multi housing market still has hope. Apartments are still the best performing investment opportunity in Las Vegas.

Editor's Note: The complete Grubb & Ellis Global Forecast and regional forecasts are available on the Grubb & Ellis Company Web site: www.grubb-ellis.com.

About Grubb & Ellis
Grubb & Ellis Company (NYSE: GBE) is one of the largest and most respected commercial real estate services and investment companies. With more than 130 owned and affiliate offices worldwide, Grubb & Ellis offers property owners, corporate occupants and investors comprehensive integrated real estate solutions, including transaction, management, consulting and investment advisory services supported by proprietary market research and extensive local market expertise.

Grubb & Ellis and its subsidiaries are leading sponsors of real estate investment programs that provide individuals and institutions the opportunity to invest in a broad range of real estate investment vehicles, including tax-deferred 1031 tenant-in-common (TIC) exchanges; public non-traded real estate investment trusts (REITs) and real estate investment funds. As of September 30, 2008, more than $3.8 billion in investor equity has been raised for these investment programs. The company and its subsidiaries currently manage a growing portfolio of more than 225 million square feet of real estate. In 2007, Grubb & Ellis was selected from among 15,000 vendors as Microsoft Corporation's Vendor of the Year. For more information regarding Grubb & Ellis Company, please visit www.grubb-ellis.com.

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