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Market Watch

Boston | 1st Quarter 2009 | 4th Edition

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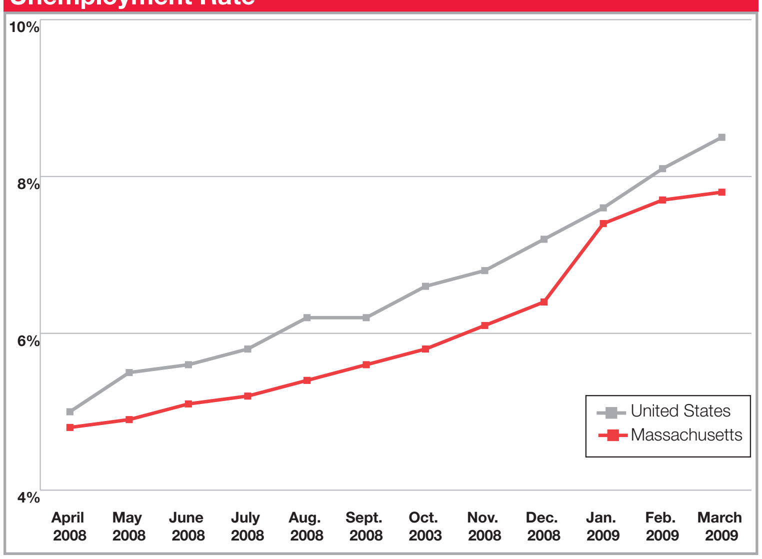
Greater Boston Market Overview

Given the turmoil in the local, national and worldwide economy over the last several months, it is not altogether surprising that the greater Boston commercial real estate market softened in the first quarter of 2009. A volatile stock market, bank failures, reduced consumer spending, tight credit markets, and bleak employment numbers are just some of the hurdles the United States economy faces in 2009. The effect of the massive stimulus package recently put in place by the federal government on the American economic picture remains unclear.

While the challenges the economy is facing during this recession are having a broad impact on both businesses and individuals alike, there are slightly hopeful signs that improvement in the economy could be on the way in the latter half of 2009. After a dramatic decline to begin the year, the stock market began to rebound somewhat towards the end of March. Though the housing market continues to suffer from anemic sales activity and declining home values, historically low mortgage rates have enticed some buyers to move off the sidelines.

One of the largest sources of concern for the economy is the staggering number of job losses across the country. In Massachusetts, the unemployment rate has increased from 5.6% in September 2008 to the current rate of 7.8%.

Unemployment Rate



Lack of access to credit and fears about the trajectory of the economy are forcing employers to scale back on their operations and as a result local companies are not expanding as they have in recent years. The biotechnology, healthcare and education fields in Massachusetts are sectors that are not seeing significant job losses, though companies in these sectors are not growing at the same rate as they were in recent years.

This challenging business environment is having a negative impact on the commercial real estate market here in greater Boston. In the first quarter of 2009 it became clear that the greater Boston office market is facing its own set of challenges, namely an increase in available space, sluggish new demand and an overall lack of activity.

Boston

The office market in downtown Boston is suffering from an acute lack of demand and activity that is the result of the uncertainty in the economy. As a result of the elevated levels of available space, the availability rate increased dramatically this quarter from 13.3% to 16.0%. In the first quarter there was 1,573,278 square feet of negative absorption, the lowest amount observed in Boston since 2001.

The amount of sublease space being marketed in downtown Boston has increased by nearly a third in 2009, or by 500,000 square feet. The majority of this sublease space came on the market in small to medium size blocks and was made available by companies in sectors as diverse as law, publishing and financial services. A number of blocks of more than 75,000 square feet of office space were put on the market on a sublease and direct basis in buildings including One Congress Street and 500 Boylston Street. Most of the large blocks of space that became available in Boston during the first quarter were the result of downsizing, layoffs and planned relocations.

Average asking rental rates continued to decline, down from $56.58 per square foot a year ago to the current rate of $49.22 per square foot. In April 2008 the Class A asking rental rate range in Boston was $28.00 to $99.00 per square foot and today it has declined to $23.00 to $75.00.

Cambridge Office and Lab Market

The Cambridge office market also saw little activity and a sharp increase in available space in the first quarter. The percentage of available space went from 12.9% in January to 16.3% currently resulting in 331,232 square feet of negative absorption in the office market this quarter.

The East Cambridge office market was hit the hardest, particularly by an increase in the level of available sublease space. In the first quarter the amount of sublease space in East Cambridge increased by 120,000 square feet. The biggest blocks of sublease space were put on the market this year at 2 Canal Park and One Cambridge Center. Average asking rental rates for office space in Cambridge remained essentially flat this quarter at $40.94 per square feet.

With relatively healthy demand from pharmaceutical companies and institutional lab users, the Cambridge lab market was a bright spot amid the gloom this quarter. The availability rate decreased from 16.7% in January to 16.0% currently, there was nearly 60,000 square feet of net absorption and average asking rental rates remained essentially flat.

Suburbs

The suburban office and R&D markets were not immune to the negative forces at play in the larger economy in 2009. The suburbs experienced an increase in the overall amount of available office and R&D space, pushing the availability rate up from 21.9% at the end of 2008 to the current rate of 23.1%. Unlike Boston and Cambridge, the increase in available space in the suburbs was in the amount of space being marketed on a direct basis; the amount of sublease space on the market actually decreased this quarter by 122,565 square feet.

As a result of the elevated levels of available space in the office and R&D markets, overall the suburbs saw 1,533,522 square feet of negative absorption this quarter. Nearly 90% of the negative absorption, or 1,182,854 square feet, was in the R&D market.

Of all suburban submarkets, the Route 128 Central and the Route 495 North submarkets experienced the largest increases in available space in the first quarter of 2009. The 495 North submarket experienced the biggest increase in available R&D space with 840,848 square feet of negative absorption. Route 128 Central submarket saw 500,000 square feet of negative absorption, most of which was office space. Several buildings in 128 Central and 495 North saw blocks of 75,000 square feet or more come on the market in the first quarter of 2009 including space at 495 Woburn Street in Billerica, 104 Glenn Street in Lawrence, 495 Network Center in Tewksbury, and 93 Worcester Street in Wellesley. Despite this increase in available space, rental rates for office and R&D space remained flat at $25.32 per square foot and $10.88 per square foot respectively.

Outlook

With the first quarter of 2009 behind us, it is clear that the demand for office, R&D and lab space that has fueled the success in greater Boston's commercial real estate market in recent years has fallen off considerably as a result of this economic slowdown. As some companies struggle to find their footing amid economic uncertainty, the extent to which the challenges being faced by local businesses will translate into further hardship for the commercial real estate market in greater Boston remains to be seen. If predictions of further job losses in Massachusetts become a reality, it is likely that the local commercial real estate market will be further distressed before it has a chance to recover.

Market Makers

Boston
SmartBargains leased 43,385 square feet at 10 Channel Center.

Cambridge
Vertex Pharmaceuticals renewed its lease of 292,000 square feet of office space at 200 Sidney Street and 130 Waverly Street in Cambridge.

Suburbs
The Federal Aviation Administration renewed its lease of 91,896 square feet at 12 New England Executive Park in Burlington.

Historical Perspective

Boston
As a result of the tech bust and wave of mergers and acquisitions in the early 2000's, the percentage of available space peaked at 17.4% in October 2004.

Cambridge
The percentage of available space in the combined office and lab market reached a high of 25.4% at year end 2003.

Suburbs
In 2003 the availability rate in the combined suburban office and R&D markets peaked at 29.6%.

Market Summary

Market	Total Inventory	Total Available	Availability Rate	Total Vacant	Vacancy Rate	YTD 2009 Net Absorption	Direct Weighted Avg. Rent
Boston Office	58,343,371	9,338,848	16.0%	5,363,114	9.2%	(1,573,278)	$49.24
Cambridge Office	9,714,186	1,581,495	16.3%	956,697	9.8%	(331,232)	$40.99
Cambridge Lab	7,833,232	1,255,122	16.0%	1,106,783	14.1%	59,835	$51.65
Suburban Office	72,776,516	15,149,960	20.8%	10,573,856	14.5%	(350,668)	$25.32
Suburban R&D	53,539,077	14,000,629	26.2%	10,079,991	18.8%	(1,182,854)	$10.88
Total	**202,206,382**	**41,326,054**	**20.4%**	**28,080,441**	**13.9%**	**(3,378,197)**	**$35.81**

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