

MARKETWATCH

BOSTON
YEAR END 2009



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Executive Overview

While businesses and individuals emerge from 2009 battered by the storm that has impacted nearly every aspect of the financial system, signs of stabilization are becoming more prevalent as the economy begins the journey on the long road to recovery. As a result of the recession, the greater Boston office market continued to soften in the second half of 2009. Any recovery in the commercial real estate market is unlikely to begin in earnest until the end of 2010 or beginning of 2011 at the earliest.

The extreme turbulence that defined much of 2008 was less rough in 2009, though the repercussions of the near collapse of the financial system remained a defining factor on the economic conditions of 2009. Businesses reacted to the turmoil by pulling back on spending and cutting costs wherever possible, resulting in widespread workforce reduction. The ruinous impact of this recession on the employment picture in the United States and Massachusetts cannot be understated. With 7.3 million jobs lost in 2008 and 2009, the national unemployment rate surged to 10.1% this year and currently stands at 9.7%, the highest level since the early 1980's.

Massachusetts fared only slightly better than the US with an unemployment rate of 9.4% in December, though this number represents an increase over the 8.7% recorded in November 2009. The dismal news on employment in Massachusetts is particularly disconcerting given that in the years between 1999 and 2009 average employment in Massachusetts fell by 55,000 jobs or 2%. This so-called "lost decade" was caused by the technology bust of 2000-2001 and a recovery that did not go far enough in job creation before the latest recession struck. With predictions of a jobless recovery common, business leaders and lawmakers in Massachusetts and the US have stated that taking steps to regenerate the jobs that have been lost and determining a path to growth is a priority.

Although any expansion in the economy was few and far between last year, healthcare, education and biotechnology did not lose jobs at the same rate as other sectors. Biotechnology companies large and small performed relatively well in 2009. There were several high profile pharmaceutical mergers this year, including that of companies with a presence in Massachusetts such as Wyeth and Pfizer and Merck and Schering Plough. The continued success of these sectors is a vital piece of the puzzle for the health of the Massachusetts economy in the next recovery period.

Financial services companies have been particularly hard hit in this downturn given the volatility of the stock market and bank failures. For the stock market, the second half of 2009 was marked by significant improvement. All of the major indices posted significant gains; the Dow Jones Industrial Average has increased by 38% since it hit a low in March. On another positive note, the venture capital picture appears to be brightening with news in that VC investment increased by 15% in the fourth quarter despite being down overall for the year and an IPO market that remains stagnant.

While signs of stabilization are becoming more prevalent, major uncertainty remains regarding the long-term trajectory of the economy and there can be little doubt regarding the importance of job creation in a sustained recovery. For the commercial real estate market in greater Boston, any improvement will depend on the condition of the larger economy. The good news is that the rapid increase in available space that marked the first half of 2009 slowed considerably in the second half of the year. The high level of available space, declining rents and diminished demand that marked 2009 will likely continue well into 2010 and 2011.

OUTLOOK

As 2010 gets underway, the most important factor in the recovery of both the economy and the commercial real estate market will be job creation. After a precipitous decline in 2009, rental rates are likely to remain relatively stable in 2010. Without a significant rebound in business confidence and hiring, available office space is likely to remain abundant in greater Boston in the short term.

Overall Market Statistics YE 2009 Summary

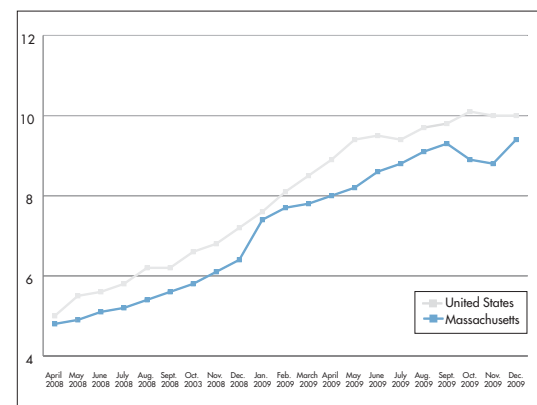
	Asking Rent	Vacancy	Absorption
Boston	↓↓	↑↑	↓↓
Cambridge	↓↓	↑↑	↓↓
Suburbs	↓↓	↑↑	↓↓

The state of the economy by the numbers

	4Q 2008	4Q 2009
DJIA	10,831.07	9,509.28
US Unemployment	7.4%	10.0%
MA Unemployment	6.4%	9.4%
US Employment Payroll (Jan.-Dec.)	(3,078,000)	(4,164,000)
MA Employment Payroll (Jan.-Dec.)	(47,893)	(22,359)

Sources: Yahoo Finance, Bureau of Labor & Statistics

Unemployment Rate

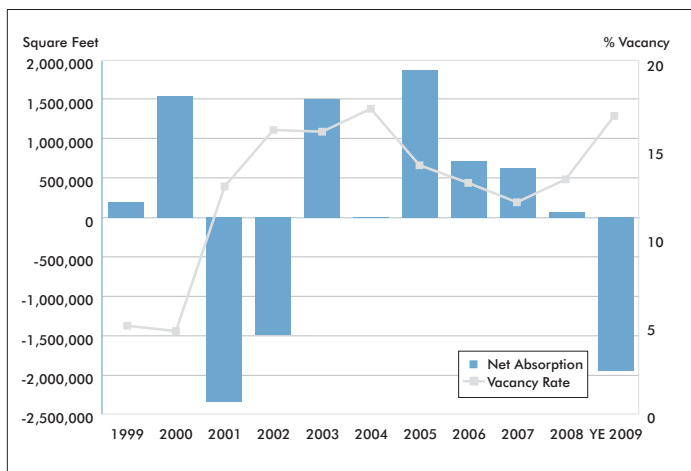


Greater Boston Market Snapshot

Overall Availability	19.9%
Average Rent	\$30.51
Absorption	(6,376,494)

Boston Market Overview

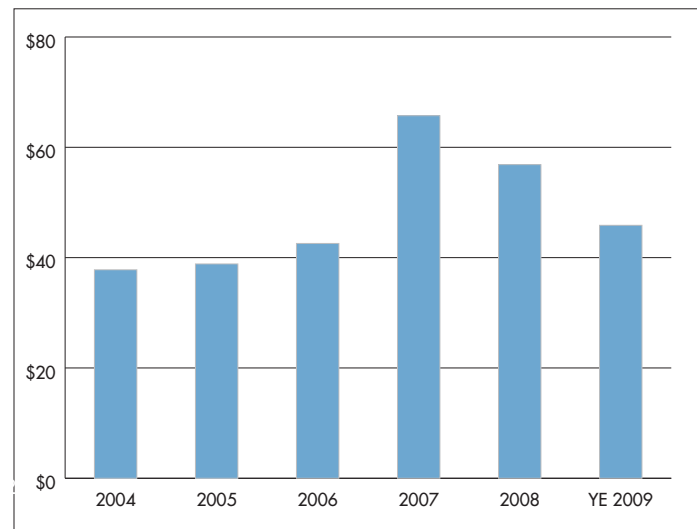
Absorption / Vacancy 1999 - YE 2009



Market Highlights

Inventory	58,799,764 SF
Availability Rate	16.9%
Net Absorption YE 2009	(1,950,129) SF
Average Asking Rent	\$17.00-\$65.00/SF

Average Asking Rental Rates - Class A



As a result of the challenges facing the national and global economies, the downtown Boston office market weakened further in 2009. Due in large part to a climate in which businesses attempted to reduce costs, 2009 was a year of stagnant demand, increasing amounts of available office space and declining rents. With little new growth happening in any sector, deal activity that is occurring downtown is mainly being driven by looming lease expirations. Landlord concessions and “blend and extend” lease restructures are more prevalent as tenants capitalize on market conditions to maximize value. Despite improvement in the stock market and the positive impact that is having on Boston’s financial service heavy business community, the prospect for job creation is unlikely to materialize until late 2010 at the earliest.

- The percentage of available space increased this quarter from 16.4% to 16.9%, a 3.6% increase since the beginning of 2009. The pace at which space is being made available for lease slowed considerably in the second half of 2009.
- The largest increase in available space occurred in the Financial District where the availability rate rose from 15.1% to 19.4%.
- The amount of space available for sublease remains high with more than 1.45 million square feet available. From July to December, there was a 66,459 square foot decline in the amount of space available for sublease. In 2010, watch for large blocks of sublease supply that may come on the market.
- Given the market conditions, several construction projects have stalled and new development in Boston is unlikely in the short term. The three new projects coming on the market in 2009 -2010 and are 47% pre-leased.
- There was 130,251 square feet of negative absorption in downtown Boston in the fourth quarter, with 1,950,129 square feet of negative absorption observed since the beginning of 2009.
- Average asking rental rates declined in the fourth quarter from \$42.84/SF to \$40.83/SF and average asking rental rates in downtown Boston decreased nearly 20% this year but further rent reductions are expected to be minimal in 2010.

Market Makers

Loomis Sayles Co. renewed its lease of 233,300 square feet at One Financial Center in the Financial District, including a 10,375 square foot expansion.

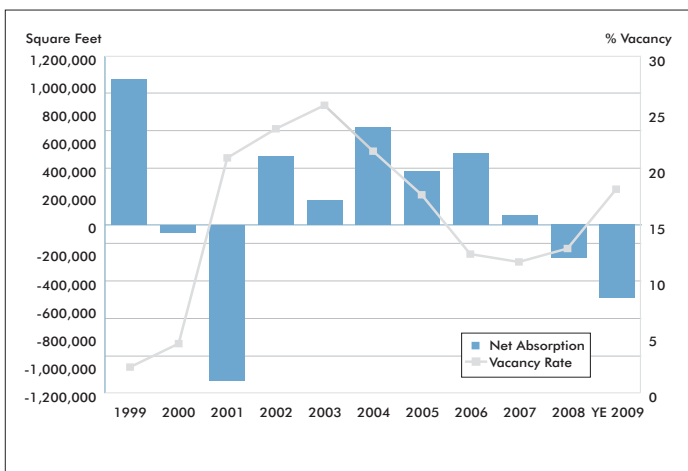
Edwards Angell Palmer & Dodge completed a long term renewal of 188,000 square feet at 111 Huntington Avenue.

Historical Perspective

The percentage of office space currently available in downtown Boston is 16.9%, the highest point since 2004 when the availability rate peaked at 17.1%. This marks a steep increase over the 12.0% available at the end of 2007, the low point in the last market recovery.

Cambridge Market Overview

Absorption / Vacancy 1999 - YE 2009



Market Highlights

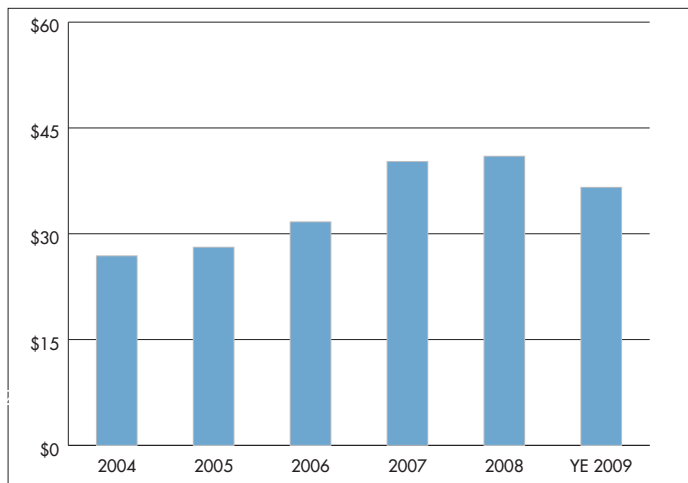
Office

Inventory	9,769,186 SF
Availability Rate	18.2%
Net Absorption YE 2009	(523,740) SF
Average Asking Rent	\$15.00-\$51.00/SF

Lab

Inventory	7,872,234 SF
Availability Rate	15.6%
Net Absorption YE 2009	108,558 SF
Average Asking Rent	\$25.00-\$65.00/SF NNN

Average Asking Rental Rates - Office



At the end of 2009, the Cambridge lab market was the bright spot in greater Boston as it was the only submarket to experience any net absorption. Demand for lab space in Cambridge is expected to remain relatively strong if the biotechnology sector continues to do well and institutional users continue to grow. Like neighboring Boston and the suburbs, the Cambridge office market struggled in the face of the recession.

Office Market

- The Cambridge office market has seen the amount of available space increase steadily throughout 2009 resulting in the availability rate rising from 12.9% at the beginning of 2009 to 18.2% at the end of 2009.
- There was 130,009 square feet of negative absorption in the office market this quarter and 523,740 square feet of negative absorption in 2009.
- The amount of sublease space on the market decreased from 409,947 square feet to 372,426 square feet in the fourth quarter.
- Average asking rental rates for office space in Cambridge decreased in the fourth quarter from \$38.42 per square foot to \$36.58 per square foot.

Lab Market

- On the strength of biotechnology companies and healthy institutions, the Cambridge lab market continued to do well this quarter relative to other greater Boston submarkets. All told, there was 108,558 square feet of net absorption observed this year, making the Cambridge lab market the only submarket to experience positive absorption this year.
- Since January of 2009 the availability rate decreased from 16.7% in to 15.6% currently.
- Average asking rental rates decreased from \$51.14 per square foot to \$47.39 per square foot.
- Recent construction is limited to 650 East Kendall Street, a 300,000 square foot lab building in East Cambridge. The 415,000 square foot 301 Binney Street project is nearly half vacant almost two years after its completion in 2008.
- The recently approved Alexandria Properties development will add 1.9 million square feet of lab space in East Cambridge.

Market Makers

The Forsyth Institute will relocate from the Fenway to 73,000 square feet at 245 First Street in East Cambridge.

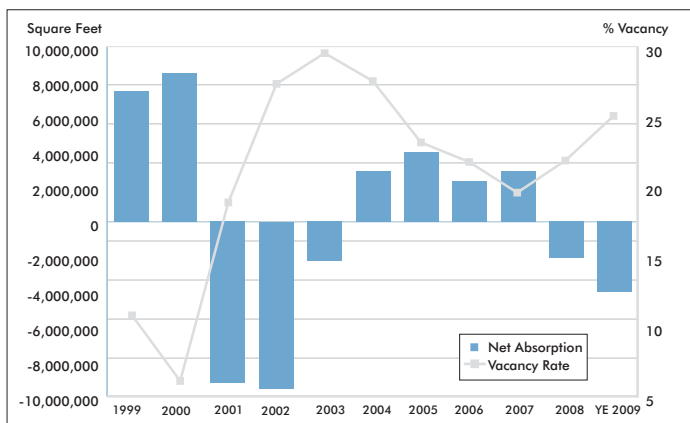
Continuing its pattern of growth, The Broad Institute leased an additional 80,000 square feet of lab space at 301 Binney Street.

Historical Perspective

The amount of office space available in Cambridge climbed more than 5% in 2009, representing the sharpest increase since 2001 when it shot up nearly 15%.

Suburban Market Overview

Office/R&D Absorption / Vacancy 1999 - YE 2009



Market Highlights

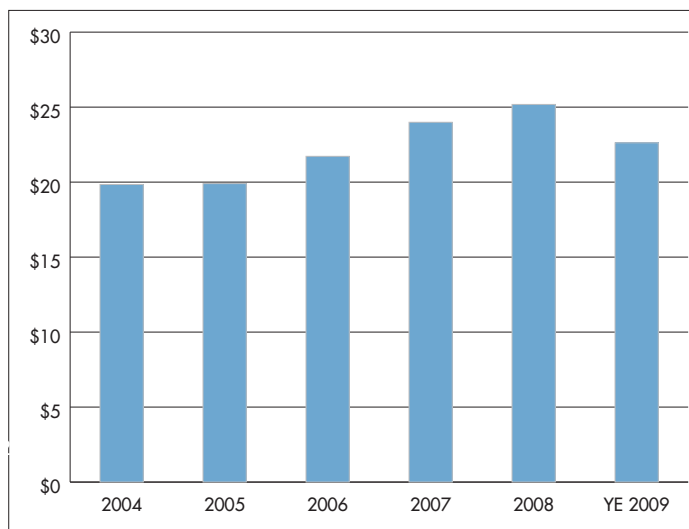
Office

Inventory	74,000,287 SF
Availability Rate	22.6%
Net Absorption YE 2009	(1,461,488) SF
Average Asking Rent	\$7.00-\$35.00/SF

R&D

Inventory	53,756,723 SF
Availability Rate	28.5%
Net Absorption YE 2009	(2,549,695) SF
Average Asking Rent	\$6.00-\$34.00/SF NNN

Average Asking Rental Rates - Office/R&D



The greater Boston suburban office and R&D market suffered from the same lack of demand that was the result of economic strife in Massachusetts and across the country. The amount of available space in the suburbs is currently below the levels observed in 2001 and 2002 after the technology and internet bust, though with more than a quarter of office and R&D space available, concern about the long and short term trajectory of the market is valid. Suburban development has come to a screeching halt as a result of diminished demand and much of the lease activity being driven by lease renewals. Average asking rental rates in the suburban office and R&D market are down an average of 30-40% since the near record highs reached in the summer of 2008.

- The suburban office and R&D markets continue to experience an increase in the amount of available space forcing the overall direct and sublease suburban availability rate up from 21.9% in January 2009 to the current rate of 25.1%.
- The amount of sublease space on the market decreased further in the fourth quarter by 84,514 square feet, bringing the total amount of sublease space on the market to 4.16 MSF, lower than the 4.3 MSF on the market at the end of 2008.
- The suburbs saw 1,158,291 square feet of negative absorption in the second half of the year, an improvement over the 2,852,892 square feet of negative absorption observed in the first half of 2009. The 495 North submarket saw the largest increase in available space this year, with a nearly 5% increase in the availability rate bringing it to 30.9%.
- The average asking rental rate for office space in the suburbs overall decreased from \$25.18/SF at the beginning of 2009 to \$22.62/SF currently; for R&D space average asking rental rate remained flat at \$10.69/SF.

Market Makers

Avid Technology will relocate its 200,000 square foot worldwide headquarters to Network Drive in Burlington.

Shire Pharmaceuticals signed a lease for an additional 160,000 square feet of lab and office space, a move that is reflective of plans to expand further in Lexington.

International Data Group signed a 127,000 square foot 10-year renewal at 3 & 5 Speen Street in Framingham.

Historical Perspective

In the Suburbs, the level of office and R&D space available for lease is at the highest point since the peak of 36 million square feet, or 29.6%, in 2003.

Market Summary

Market	Total Inventory	Total Available	Availability Rate	Total Vacant	Vacancy Rate	YE '09 Net Absorption	Direct Weighted Average Rent
BOSTON OFFICE	58,799,764	9,916,499	16.9%	5,529,417	9.4%	(1,950,129)	\$40.83
Back Bay	12,182,324	1,700,692	14.0%	1,042,115	8.6%	(119,159)	\$42.87
Charlestown	1,748,336	232,666	13.3%	154,345	8.8%	(1,738)	\$25.05
Fenway	1,911,890	37,600	2.0%	37,600	2.0%	19,839	\$30.55
Financial District	28,202,230	5,466,059	19.4%	2,971,879	10.5%	(1,237,607)	\$44.10
Government Center	1,878,278	407,772	21.7%	101,506	5.4%	(293,547)	\$34.56
Midtown	1,872,209	183,346	18.0%	135,818	7.3%	(167,589)	\$27.53
North Station	1,638,642	256,053	15.6%	182,431	11.1%	(56,537)	\$29.69
South Boston Waterfront	5,275,761	1,070,297	20.3%	599,481	11.4%	(204,463)	\$29.02
South Station	4,098,694	410,242	10.0%	304,242	7.4%	110,672	\$37.23
CAMBRIDGE OFFICE	9,769,186	1,643,994	16.8%	1,117,131	11.4%	(523,740)	\$36.58
Alewife/West Cambridge	1,714,404	324,642	18.9%	304,905	17.8%	(15,454)	\$26.16
East Cambridge	6,160,198	1,106,511	18.0%	730,502	11.9%	(361,197)	\$40.21
Mass Avenue Corridor	1,894,584	217,341	11.5%	81,724	4.3%	(147,089)	\$31.71
CAMBRIDGE LAB	7,872,234	1,226,072	15.6%	1,026,851	13.0%	108,558	\$47.39
Alewife/West Cambridge	677,311	215,294	31.8%	204,712	30.2%	(6,032)	\$33.21
East Cambridge	4,561,586	682,181	15.0%	558,388	12.2%	61,447	\$49.84
Mass Avenue Corridor	2,633,337	328,597	12.5%	263,751	10.0%	53,143	\$53.82
SUBURBS OFFICE/R&D	127,757,010	32,052,810	25.1%	22,747,816	17.8%	(4,011,183)	\$22.62
128 Central	41,516,568	9,564,175	23.0%	6,178,508	14.9%	(942,921)	\$35.39
128 North	9,656,517	2,858,431	29.6%	2,253,022	23.3%	(421,640)	\$19.52
128 South	14,466,182	3,417,667	23.6%	2,604,300	18.0%	(543,083)	\$20.03
3/24 South	1,982,663	514,245	25.9%	435,934	22.0%	(140,210)	\$21.29
495 Central	17,701,164	4,285,802	24.2%	3,209,781	18.1%	(86,178)	\$20.30
495 North	31,674,739	9,783,343	30.9%	6,880,029	21.7%	(1,481,283)	\$18.07
495 South	4,285,045	928,270	21.7%	678,114	15.8%	(105,137)	\$17.50
Inner Suburbs	6,474,132	700,877	10.8%	508,128	7.8%	(290,731)	\$24.42
TOTAL	204,198,194	44,839,375	19.9%	30,421,215	13.0%	(6,376,494)	\$30.51

Glossary of Terms

METHODOLOGY

The information included in this report is the result of a compilation of information on Class A, B and C office, R&D and investment properties located in the Boston area. The information was obtained by FHO Partners from representatives of each property.

All of the information gathered is stored in a FHO Partners database which is updated quarterly. From this database, total inventory, vacancy rate, rental rate and absorption figures may be calculated and presented.

Total inventory may change from year to year as a result of newly constructed or newly renovated buildings, recently remeasured properties, or significant change or deletion of a particular building status. The database is thoroughly checked and balanced from year to year. The appropriate adjustments are made in order to balance the figures and calculate the most accurate vacancy and absorption figures.

DEFINITIONS

Inventory:

Includes all existing competitive office and R&D buildings over 20,000 sq. ft. as well as significant buildings less than that size. Under construction, government, medical, educational and 100% owner-occupied buildings are not included.

Direct Space:

Space available directly from the building owner. Includes space available for occupancy within the next 24 months. Does not include space in under construction buildings.

Sublease Space:

Space available through a lessee to a third party for the remainder of the original lease term and/or beyond. Includes space being actively marketed.

Vacancy Rate:

Space, available both directly and by sublease, that is currently vacant and being marketed for immediate occupancy. Does not include space under construction.

Availability Rate:

Available space is generally defined as space that is being actively marketed and/or available for occupancy within the next 24 months.

Construction Completions:

Buildings which have received their certificate of occupancy in the stated time period.

Under Construction:

Buildings which have had excavation work commence, but have not yet received their certificate of occupancy.

Office:

Space designed for general office use. Buildings are generally two or more stories and offer tenants a higher-level of finish than R&D space.

R&D:

Space designed for high technology, office or light industrial use. Buildings are generally one or two stories.

Net Absorption:

The net change in occupied space over a given period of time. Calculations are based on available space.

Rental Rates:

Gross: Rents which include tax and operating expenses, but generally not electricity.

Triple Net:

Rents where the tenant is directly responsible for all tax, operating and utility expenses.

Weighted Average Rent:

An average rental rate that is weighted by the amount of square footage available at each respective rental rate.



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