

MARKETBEAT

BOSTON SUBURBAN OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



1Q09

ECONOMY

Greater Boston's economy continued to weaken in the first quarter. Payrolls in the Boston Metro declined by 48,051 jobs in the year-over-year period ending February 2009, during which time total employment fell 2.2%. The pace of job loss appears to have accelerated in recent months. In September 2008, statewide unemployment was 100 basis points below the national average. Today, with state unemployment at 7.8%, that gap stands at just 30 basis points on a seasonally adjusted basis. While job losses in the financial sector appear to be moderating (the most recent data shows no monthly change), financial activities employment across Massachusetts is down 5.5% year-over-year and is at its lowest level since 1997. The bright spot in the economy continues to be education and health services. This sector has added 3,000 jobs in the last two months and has continued to generate jobs during this entire recession.

Massachusetts is scheduled to receive significant funds from the recent stimulus legislation, with the most promising aspects of the bill being in the areas of renewable energy technology and healthcare funding. That being said, it is still unclear as to what degree near-term job loss can be mitigated. According to Moody's | Economy.com, employment losses for 2009 will total 5.5% in the greater Boston Metro, with an additional 1.9% loss in 2010. All-in-all, these numbers are still well below those realized in the 2001-2004 recession.

OVERVIEW

Fundamentals across Boston's suburban market continued to soften in the first quarter of 2009. Overall absorption was negative 970,092 square feet (sf), pushing overall vacancy up 1.4 percentage points from year-end 2008 to 19.2%. Suburban vacancy is now slightly above the market's 10-year historical average of 18.7%, but remains well below the peak vacancy achieved in 2003 of 28.5%. Sublease vacancy was unchanged in the first quarter at 3.2%, still in-line with the market's historical average. Although some occupiers are growing, most businesses are still cautious with respect to how the recession will impact their operations. Tenants that are making space decisions in this environment are being driven primarily by lease expirations.

Approximately 1.6 million square feet (msf) delivered across the suburbs in 2008 and there is another 1.8 msf currently under construction, the majority of which is in 128 West. Despite a lack of tenant confidence, several transactions did get signed in the quarter. L-1 Secure Credentials took 89,673 sf at Concord Corporate Center, with 50,000 sf representing new growth. e-Dialog leased 47,426 sf at Northwest Park in Burlington and Areva renewed for 43,709 sf at Solomon Pond Park in Marlborough.

FORECAST

Going forward, expect more sublease space to hit the market, which, along with new construction deliveries, will place additional downward pressure on asking rents. The good news for landlords is that the market can expect little additional construction beyond what's in the current pipeline. Tenant activity should increase in the second half of the year, as those occupiers who put off making decisions will be forced to deal with expiring leases. And while vacancy will continue to soften, it is not expected to reach its past peak of 28.5%, which was achieved under higher levels of speculative development and more aggressive leasing than what occurred in the recent run-up.

BEAT ON THE STREET

"The combination of owner occupied facilities, economic diversity and lower levels of construction when compared to previous downturns, will help to soften the blow of the current downturn."

- Kevin J. Hanna, Executive Director, Suburban Leasing

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
Regional			
Unemployment	4.9%	8.2%	9.2%
Employment Growth	1.0%	-5.5%	-1.9%

Source: Moody's | Economy.com

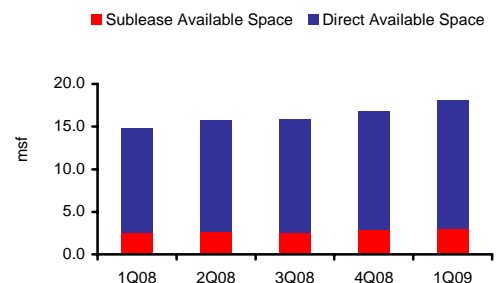
MARKET FORECAST

RENTAL RATES will to soften, particularly in markets that saw new construction deliveries. Landlords will offer increased concessions to attract and retain tenants. ↓

VACANCY will rise as tenants continue to right size their operations and put additional space out for sublease. ↑

SPECULATIVE CONSTRUCTION beyond what's in the current pipeline will be minimal, as current fundamentals and a lack of financing no longer support development. ↓

AVAILABLE SPACE TRENDS



MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
<i>Inner Suburbs Total</i>	6,868,828	87	14.3%	13.2%	36,029	0	115,000	(246,587)	\$22.40
South End/Medical Center	1,591,760	14	20.3%	19.0%	0	0	0	0	N/A
Somerville/Medford/Malden	2,529,354	30	15.6%	13.4%	17,229	0	115,000	(80,794)	\$19.78
Allston/Brighton/Watertown	2,747,714	43	9.7%	9.7%	18,800	0	0	(165,793)	\$34.46
<i>Suburban Total</i>	94,657,649	1,120	19.2%	16.0%	870,776	1,843,419	105,000	(970,092)	\$25.45
128 North	21,315,571	239	18.9%	17.6%	163,652	387,000	0	(213,297)	\$25.87
128 West	21,837,286	276	15.6%	11.3%	284,020	1,250,693	0	(361,871)	\$32.42
128 South	12,204,673	165	16.8%	14.1%	109,352	30,000	0	51,124	\$23.89
MetroWest	4,655,079	57	15.5%	14.1%	43,518	0	63,000	(61,000)	\$24.20
495 North	18,987,337	188	22.2%	18.3%	190,289	0	0	(10,297)	\$20.07
495 West	12,743,293	145	22.8%	17.9%	74,914	175,726	0	(361,966)	\$20.59
495 South	2,914,410	50	28.0%	26.7%	5,031	0	42,000	(12,785)	\$22.39
TOTAL**	101,526,477	1,207	18.8%	15.8%	906,805	1,843,419	220,000	(1,216,679)	\$22.04

* Rental rates reflect \$psf/year

**Note: Cambridge not included in Suburban totals.

MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
296 Concord Road	495 North	L-1 Secure Credentialing Division	89,673	A
55 Network Drive	128 North	e-Dialog	47,426	A
160 Gould Street	128 West	Salary.com	36,288	A

SIGNIFICANT 1Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
N/A				

SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
200 River's Edge	Somerville-Medford-Malden	N/A	115,000	3/09
144 North Road	MetroWest	N/A	63,000	1/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
133 Boston Post Road	128 West	Biogen	359,000	6/10
175-185 Wyman Street	128 West	N/A	335,000	12/09
40 Sylvan Road	128 West	National Grid	314,000	9/09
8 Van de Graaff Drive	128 North	Oracle	150,000	6/10



For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge

Cushman & Wakefield, Inc.
125 Summer Street, Suite 1500
Boston, MA 02110
(617) 330-6966

Please consider your environmental responsibility before printing this report.

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

This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

©2009 Cushman & Wakefield, Inc. All rights reserved.