

# MARKETBEAT

## BOSTON SUBURBAN OFFICE REPORT

### ECONOMY

While there is clear uncertainty surrounding the national economy for 2008, the regional economy in Massachusetts performed well in 2007. Over the past year, the state has exhibited steady growth in employment that, while below the national level, has been well within its historical average. For the twelve-month period ending October 2007, private employment (nonagricultural employment less government employment) was up 1.1% in Massachusetts, slightly below the national average of 1.3%. Employment across the state's leading industries was up over this same period, led by strong gains in professional and business services (up 2.3%) and education and health services (up 2.6%). The obvious concerns in Massachusetts are the state's housing slump and a potential national recession in 2008. While all but two of Boston's suburban office markets generated solid absorption in 2007, concerns about the economy may cause some companies to delay decisions regarding space needs until a more clear economic picture develops.

### OVERVIEW

Boston's suburban office market performed well in 2007. Tenant demand was healthy across most industries, most notably life sciences. Overall class A vacancy reached a six-year low of 15.9% at the end of 2007 and overall absorption totaled 1.9 million square feet (msf), significantly higher than the ten-year historical average of 1.3 msf. Overall suburban leasing activity totaled 9.9 msf, representing an 8.7% year-over-year increase. As a result, overall suburban class A rents have risen an average of 11.7% year-over-year while class B rents have increased 10.7% for the same period.

Overall class A vacancy rates in 128 West and 128 North ended the year at 10.5% and 13.5%, respectively. This represents a significant decrease over 12.2% and 19.8% at year-end 2006. 128 West was the best-performing Boston suburban market in 2007, recording 734,895 square feet (sf) of positive absorption. This was due to its success in attracting several large, multinational life science tenants during the year in addition to solid activity by users in the 10,000-sf to 20,000-sf range. 128 North also performed well as many tenants, priced out of the class A markets in 128 West, found the North to be an economical alternative. As a result, overall vacancy in 128 North declined 5.6 percentage points year-over-year to 13.5%.

Due predominantly to IBM's 485,635-sf lease at 550 King Street in Littleton, 495 North recorded the highest absorption level in the greater Boston metropolitan area at 745,174 sf. However, markets further west and south and along I-495 saw lower levels of leasing activity.

New development in the suburbs is rising with nearly 1.9 msf currently under construction. While there is concern about the market's ability to absorb new product, there has not been any significant new supply delivered since 2002. Tenant interest in these new buildings is steady, with preleasing levels currently at 25%.

### FORECAST

While the weight of local and national economic conditions has caused some tenants to pause with regard to space needs, Boston's suburban market appears well-positioned to weather a potential downturn, should one occur. Occupants have not been overly aggressive in leasing new space and the tenant mix is much healthier than in 2001 when unprofitable start-ups were forced to give back a significant amount of space because their businesses were no longer viable.

## BEAT ON THE STREET

"The market saw increasing volumes of leasing activity and absorption in 2007. Vacancy is low and rents have reached new heights. The idea of new space coming has generated a buzz amongst tenants in the market."

— Mark Roth, Executive Director

### ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth (National)	2.9%	2.2%	2.2%
CPI Growth (National)	3.2%	2.8%	2.5%
Unemployment (Regional)	4.9%	4.9%	4.9%
Employment Growth (Regional)	1.5%	1.6%	0.4%

Source: Moody's | Economy.com

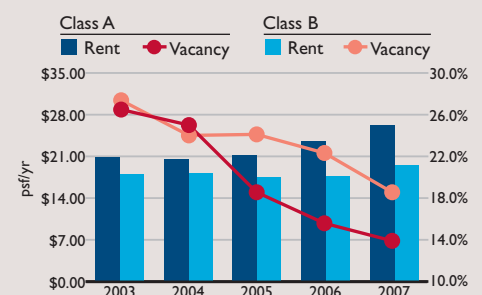
### MARKET FORECAST

RENTS: New supply in 2008-2009 will keep rent growth measured, especially in the Route 128 Belt. ➡

VACANCY: Tenant demand will remain solid in the suburban markets closest to 128; however, the overall decline in suburban vacancy will be negligible. ➡

CONSTRUCTION: There is 1.9 msf under construction, representing 2.0% of total inventory. ⬆

### OVERALL RENT VS. VACANCY

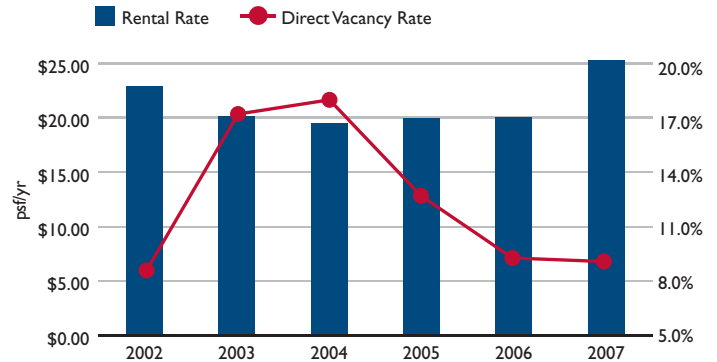
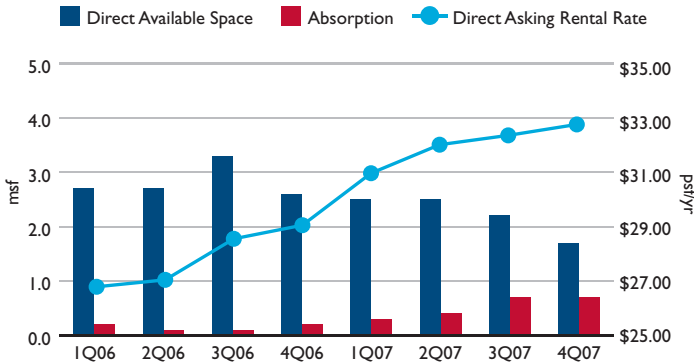


### 128 WEST

### METROWEST AND 495 WEST

128 WEST OVERALL MARKET TRENDS

METROWEST DIRECT RENTAL VS. DIRECT VACANCY

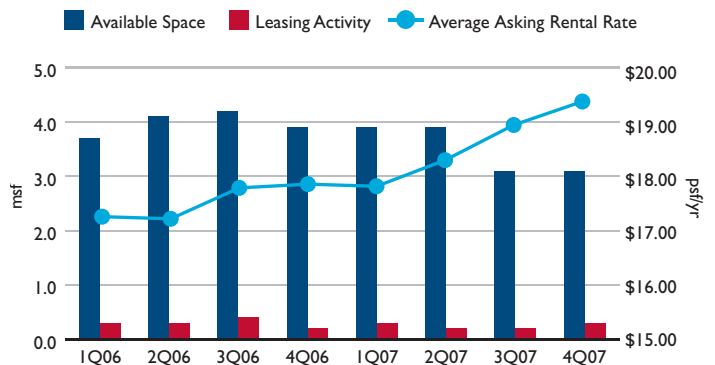
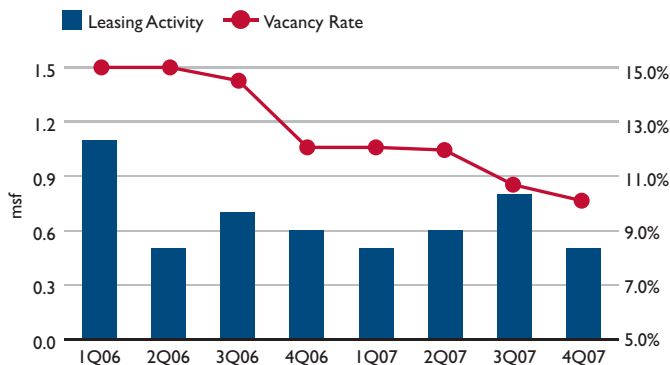


- 128 West's class A vacancy rate has declined 14.7 percentage points to 10.5% since its peak in 2002. The lowest vacancy rate recorded in this market was 2.4% in 2000.
- Institutional investors continue to drive class A rental rate growth at premier office parks. As a result of the active investment sales market in the past two years, new investors/owners have raised asking rents 36.7%.

- Vacancy has declined 9.1 percentage points since 2004. With only three viable options for tenants requiring more than 40,000 sf, rental rates have increased 26.0% year-over-year.
- Contiguous blocks of space for tenants requiring more than 40,000 sf are located at 100 Crossing Boulevard and 100 Pennsylvania Avenue in Framingham and 2 Vision Drive in Natick.

128 WEST OVERALL LEASING ACTIVITY VS. OVERALL VACANCY

495 WEST MARKET TRENDS



- Notable leases were signed by Shire Pharmaceuticals at 300 Patriot Way (135,537 sf) and ImmunoGen at 830 Winter Street (88,930 sf). Altus Pharmaceuticals signed two leases at 333 Wyman Street and 610 Lincoln Street for a total of 173,420 sf.
- New construction is underway in 128 West with 60,702 sf available at 1560 Trapelo Road, 180,000 sf available at 850 Winter Street and 101,693 sf available at 21 Hickory Drive. Boston Properties' development, 77 CityPoint, scheduled to deliver 204,500 sf in the first quarter of 2008, is now fully-leased.

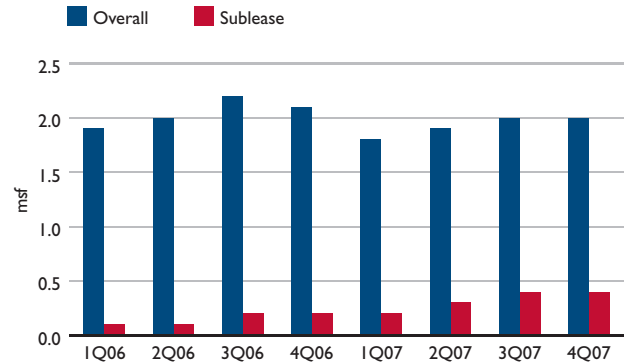
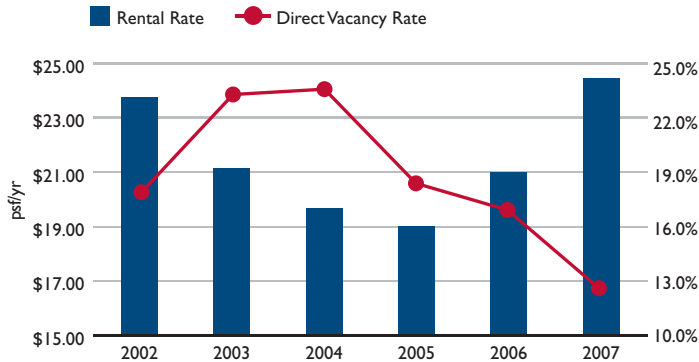
- Despite marked growth in rents over the past three quarters, direct rental rates will stabilize through the first half of 2008, as there are a number of options for tenants over 20,000 sf.
- The 495 West market recorded 993,357 sf of leasing activity in 2007. The majority of leases were signed by smaller tenants (under 30,000 sf) with only four deals greater than 50,000 sf and one deal over 100,000 sf.

### NORTH

### SOUTH

128 NORTH DIRECT RENTAL VS. DIRECT VACANCY RATES

128 SOUTH AVAILABLE SPACE TRENDS VS. SUBLEASE

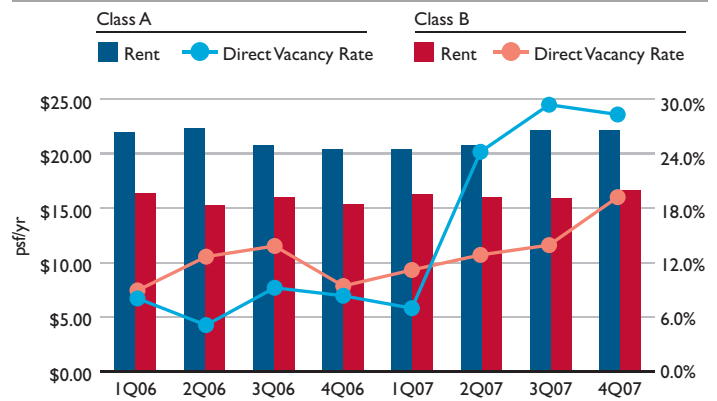
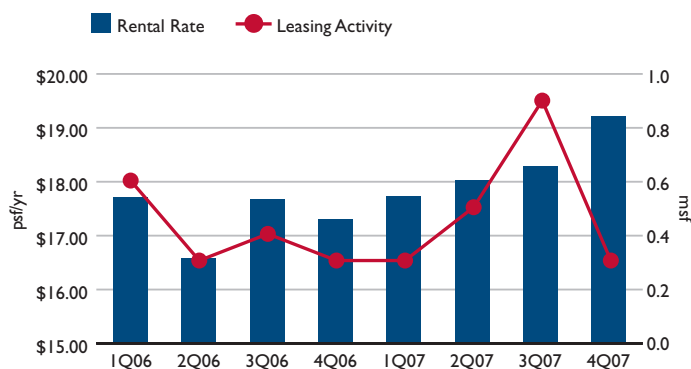


- Tenant activity in 128 North is increasing due to the market's economical options compared to 128 West. Overall absorption in 2007 was 663,444 sf, up 94.2% since year-end 2006. Direct asking rents have climbed to \$24.46 psf, representing a 16.5% increase year-over-year.
- Sun Microsystems sold their 805,774-sf campus in Burlington to the Nordblom Company for \$212 million. Sun then leased back 567,000 sf.

- Overall vacancy in class A averaged 13.5% over the past eight consecutive quarters, while market rents increased 3.9% to \$22.87 psf. There is currently 211,000 sf of available space delivering in the first quarter in 2008, commanding \$30.00 psf.
- Although 128 South recorded negative 149,307 sf of absorption in 2007, there were a handful of notable transactions. State Street Bank renewed for five years at 2 Granite Avenue in Milton and BT Conferencing leased 71,869 sf at 150 Newport Avenue in Quincy.

495 NORTH OVERALL RENTAL RATES VS. LEASING ACTIVITY

495 SOUTH DIRECT RENTAL VS. DIRECT VACANCY RATES



- Leasing activity was strong with 115 deals totaling 1.6 msf executed in the class B market. The largest lease transaction of the year in the greater Boston metropolitan office market was IBM's 485,635-sf lease at 550 King Street in Littleton.
- The 495 North market witnessed the highest absorption levels in the greater Boston office market at 745,174 sf. As a result, overall vacancy decreased 4.1 percentage points over year-end 2006.

- Vacancy increased in 2007 due to tenant relocations/consolidations within the south markets. Large blocks of available space include 208,850 sf at 1 Constitution Way in Foxboro and 73,853 sf at 575 West Street in Mansfield. The Offices at Chestnut Green added 105,280 sf of vacancy to the market.
- Although leasing picked up in the fourth quarter, activity was down from the prior year, as most leasing activity was by tenants requiring less than 5,000 sf.

### 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*
<b>Inner Suburbs Total</b>	<b>6,103,644</b>	<b>75</b>	<b>10.0%</b>	<b>9.6%</b>	<b>410,146</b>	<b>0</b>	<b>0</b>	<b>236,942</b>	<b>\$40.86</b>
South End/Medical Center	1,550,513	14	18.4%	17.2%	52,494	0	0	38,295	\$57.00
Somerville/Medford/Malden	1,816,159	21	4.8%	4.8%	150,835	0	0	96,990	N/A
Allston/Brighton/Watertown	2,736,972	40	8.8%	8.5%	206,817	0	0	101,657	\$31.88
<b>Suburban Total</b>	<b>93,407,696</b>	<b>1,118</b>	<b>15.9%</b>	<b>13.6%</b>	<b>9,868,311</b>	<b>1,894,295</b>	<b>363,921</b>	<b>1,927,074</b>	<b>\$27.10</b>
128 North	21,565,908	250	13.5%	12.5%	2,924,460	853,700	0	663,444	\$28.37
128 West	20,663,380	261	10.1%	8.3%	2,477,070	546,895	142,663	734,895	\$37.56
128 South	11,718,283	164	16.8%	13.7%	993,357	231,000	65,978	(149,307)	\$22.87
MetroWest	4,523,079	55	11.1%	9.0%	252,966	0	0	26,873	\$26.63
495 North	18,023,154	175	19.8%	16.7%	2,116,045	262,700	0	745,174	\$21.28
495 West	13,965,318	164	22.0%	18.0%	976,650	0	50,000	348,247	\$21.12
495 South	2,948,574	49	26.1%	24.5%	127,763	0	105,280	(442,252)	\$22.14
<b>TOTAL</b>	<b>99,511,340</b>	<b>1,193</b>	<b>15.6%</b>	<b>13.3%</b>	<b>10,278,457</b>	<b>1,894,295</b>	<b>363,921</b>	<b>2,164,016</b>	<b>\$38.04</b>

\*Asking rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2007 NEW LEASE TRANSACTIONS

Building	Submarket	Tenant	Square Feet	Building Class
550 King Street, Building I & II	495 North	IBM	485,635	B
300 Patriot Way	128 West	Shire Pharmaceuticals	135,537	A
830 Winter Street	128 West	ImmunoGen	88,930	A

#### SIGNIFICANT 2007 SALE TRANSACTIONS

Building	Submarket	Buyer	Square Feet	Purchase Price
Bay Colony Corporate Center	128 West	Broadway Real Estate Partners	968,608	\$350,000,000
One Network Drive	128 North	Nordblom Company	805,774	\$212,000,000
Prospect Hill Office Park	128 West	Divco West	475,181	\$115,000,000

#### SIGNIFICANT 2007 CONSTRUCTION COMPLETIONS

Building	Submarket	Major Tenant	Square Feet	Completion Date
920, 930 & 940 Winter Street	128 West	Fresenius, Perkin Elmer	445,000	1/07
309 Waverley Oaks Road	128 West	Comcast	142,663	1/07
The Offices at Chestnut Green	495 South	N/A	105,280	3/07

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

Building	Submarket	Major Tenant	Square Feet	Completion Date
300 Sylvan Road	128 North	N/A	377,000	6/08
77 CityPoint	128 West	Phase Forward	204,500	3/08
300 Network Center Drive	495 North	N/A	187,700	4/08
Five Wall Street	128 North	N/A	181,700	9/08
850 Winter Street	128 West	N/A	180,000	1/08
30 Braintree Hill Office Park	128 South	N/A	160,000	3/08



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