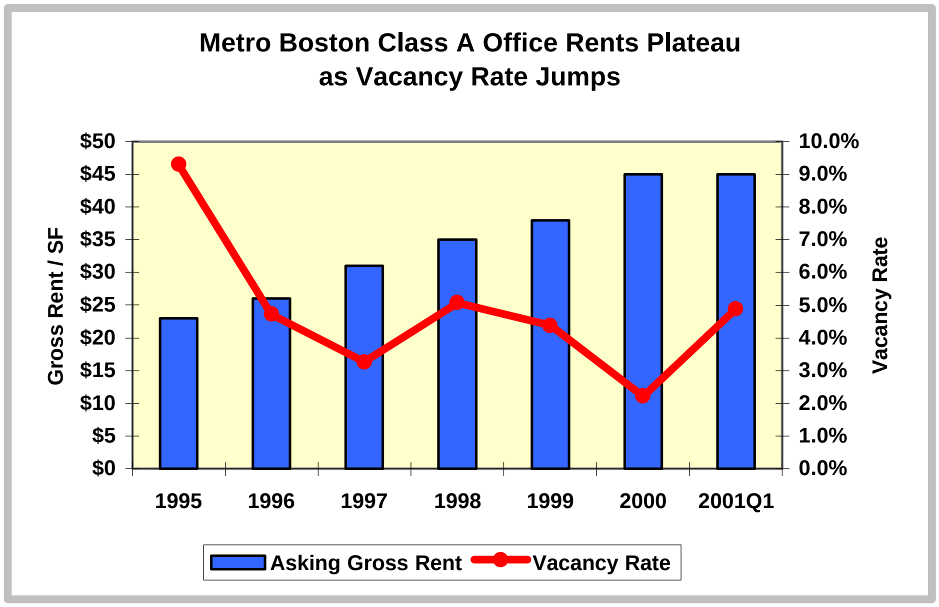
METRO BOSTON OFFICE MARKET

First Quarter 2001 Report

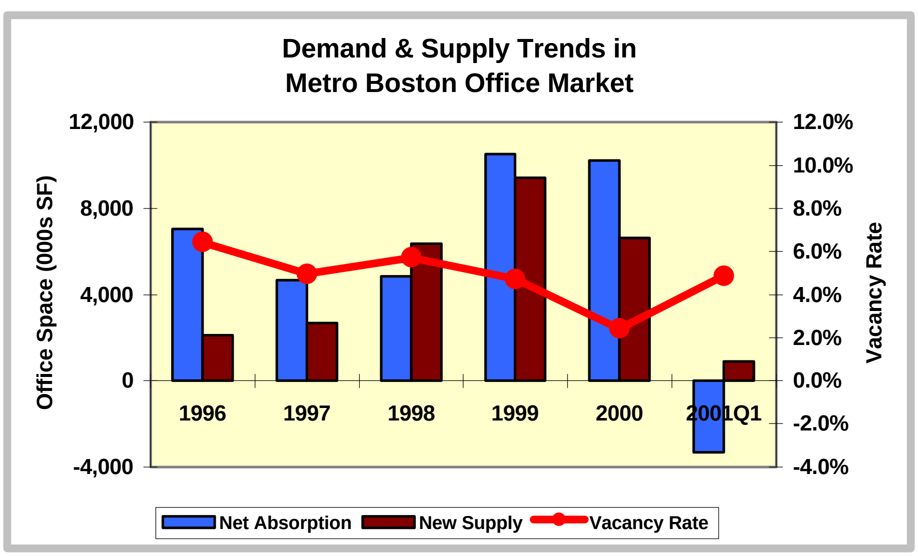
Bubble Bursts

How Far Will Rents Fall?

With the wind out of the sails of the property market upcycle, the question on everyone's mind now is, "Just how low will rents sink (from record highs) before stabilizing?" As available sublease space grows like topsy, downward pressure on rents is intensifying. On the other hand, new supply coming on line during the next few years is relatively modest, so – barring a prolonged tech sector slump – upward pressure on rents is ready to resume soon after market stabilization occurs.



One important benchmark of where rent levels are likely to fall is the market rent necessary to justify the replacement cost of office building space. As long as major tenants are postponing and/or lowering their forecasts of expansion space needs, lower-cost build-to-suit projects will continue to undermine the premiums that scarce available spaces have been commanding in recent years. With new Class A office space costing $400 to $450 per square foot to develop in downtown Boston, the gross rent required by developers is around $60 to $65. In the Route 128 Corridor, replacement costs are in the $200 to $225 per square foot range, with equivalent gross rents being around $30 to $35 per square foot. Along the Interstate 495 Loop, replacement costs fall to the $160 to $190 range, with equivalent gross rents being $23 to $27 per square foot.

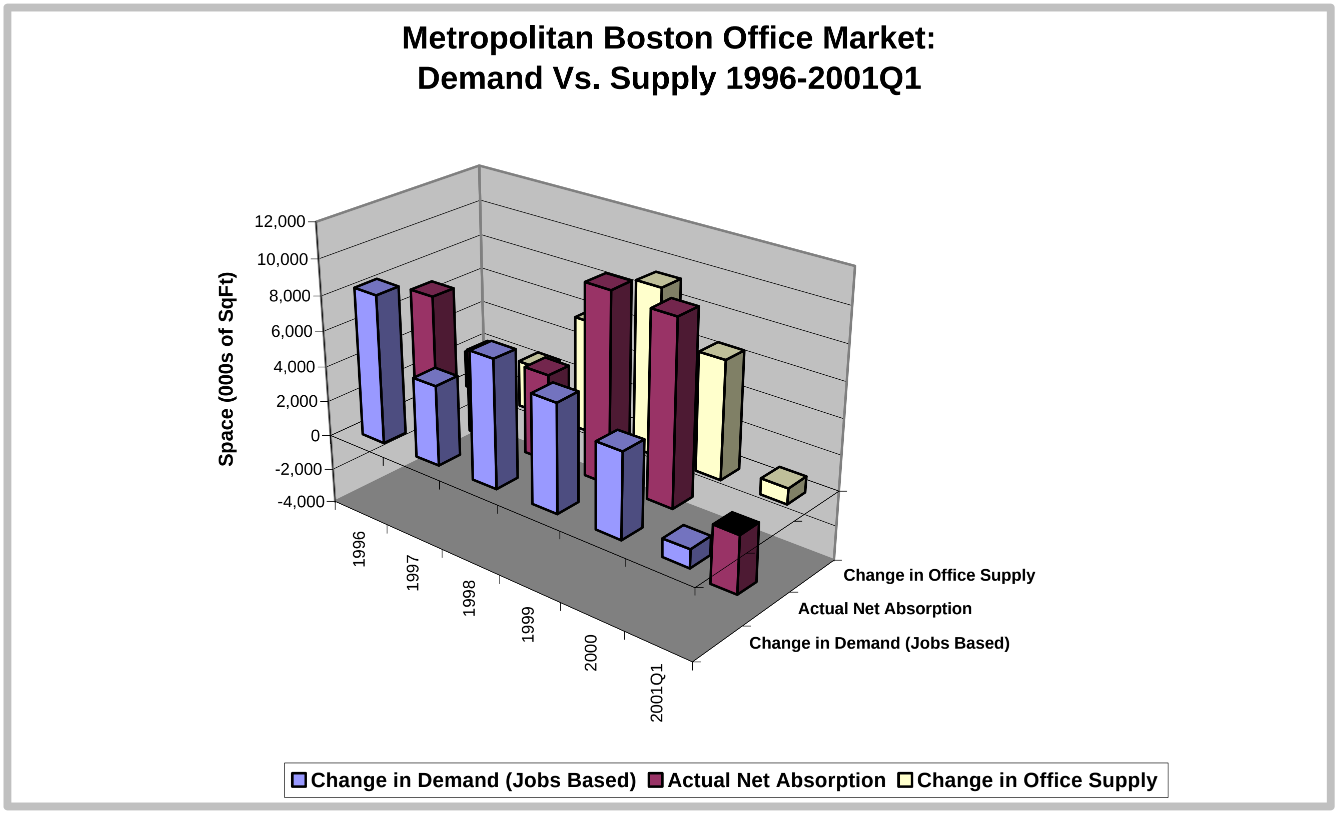


During the first quarter of 2001, most office landlords opted for the "Let's hope it's just a pause in demand" marketing strategy, during what was clearly "the denial phase" of the present market downturn. Few landlords lowered asking rents, but several cut deals at 5% to 10% discounts to those levels. Leasing volume was down as tenants delayed expansion moves and/or patiently wait for asking rents to fall. As the quarter passed, the pace and severity of job layoffs in the tech sector grew at an ominous pace. The good news for Metro Boston was relative in nature. Just as Silicon Valley had outpaced New England with respect to the birth and growth of dot-com firms, so did Silicon Valley outpace the East Coast with respect to the retrenchment and insolvency of struggling internet-focused enterprises.

Our forecast for the middle half of 2001 is for swifter movement toward market equilibrium. We expect landlords to start lowering asking rents by 10% from today's record levels as "demand vs. supply" reality becomes

NAI HUNNEMAN COMMERCIAL
REAL ESTATE SERVICES, WORLDWIDE
70-80 Lincoln Street, Boston, MA 02111 (617) 457-3400 www.naihunneman.com

clear and widely acknowledged. At worst, rents may stabilize 15% to 20% below recent peak levels – with slippage greatest in peripheral locations and in Cambridge. While these downward pricing adjustments may sound severe, it's important to keep in mind that office rents have literally soared in recent years. A 10% to 20% decline from peak levels will still leave rents well above the level at which they started the Year 2000. Landlords following this "let's fast-track getting available supply in line with demand" strategy will be eyeing future growth in market rents following market stabilization.



Accompanying the "price is no object" mindset of the cash-flush dot-com IPO era was a race to secure space needed for anticipated growth. As the chart above illustrates, much more space was leased by companies in 1999 and 2000 than was currently needed. Much of this expansion space has already been given back to landlords or is (or soon will be) available as sublease space. Given how far rents soared to the upside in 2000, asking rents for this sublease space are often at or above rents on the underlying lease. Typically, sublease space rents for 10% to 25% below market rents for new or relet space. Many sublessors have only discounted their asking rents 5% to 10% below market. This modest reduction made sense last year when demand was sizzling, but now it could turn out to be a costly decision as prospective tenants have many more space options to consider.

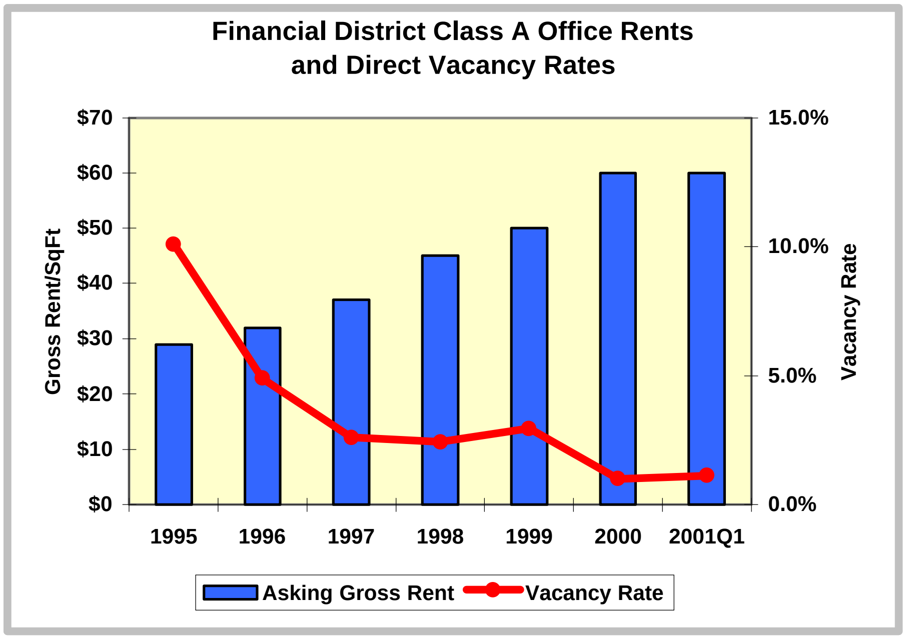
Indeed, from a job growth perspective, Metro Boston has been doing fairly well so far in 2001 (on a seasonally adjusted basis). This situation belies a greater slowdown in job growth, however, as many announced layoffs will not take effect until later this year.

Compared to happenings in Silicon Valley, the demise of ill-fated dot-com enterprises has had less of an impact here due to the smaller presence of such firms. What has had a major impact, however, is the sudden downdraft in demand for internet-related services. Whether it's the need for website design and development or for the latest technology for speeding the delivery of information across the worldwide web, corporations and pausing in the race to harness and utilize the web's capabilities and postponing expenditures. Layoffs at high-end consulting boutiques as well as at specialized equipment designers and manufacturers have become daily announcements. As a result, significant blocks of space throughout Metropolitan Boston are being freed up. Much of this space is already fitted out with the latest technological infrastructure, although the oversized couches and pinball machines may not qualify as such.

Financial District Still Very Tight

In contrast to dot-com submarkets such as Cambridge where sublease space is washing through like a tidal wave, Boston's Financial District is still tight as a drum. If anything, there remains pent-up demand for Class A office space in this premiere submarket. Very little new construction has occurred in recent years, so vacancy rates are very low following the long economic expansion. With tenant rosters still dominated by financial services firms, national or regional headquarters of corporations, and top-tier business services providers, office towers in the Financial District are holding their values as the economy slows. Long-term leases to credit-rated tenants are the gold standard in this submarket.

Cost overruns notwithstanding, "The Big Dig" is progressing well toward its eventual completion. When finished, Boston will be treated to a much higher capacity underground freeway connecting the north and south sides of Boston, an architecturally sleek bridge over the Charles River (in addition to the already completed Ted Williams Tunnel to Logan International Airport), and the surface transformation of the Central Artery into a resplendent green space corridor. Just as Post Office Square provides the heart of the Financial District with prized open space, the new surface of the Central Artery will act as a magnet, pulling the center of gravity in the Financial District closer to scenic Boston Harbor.

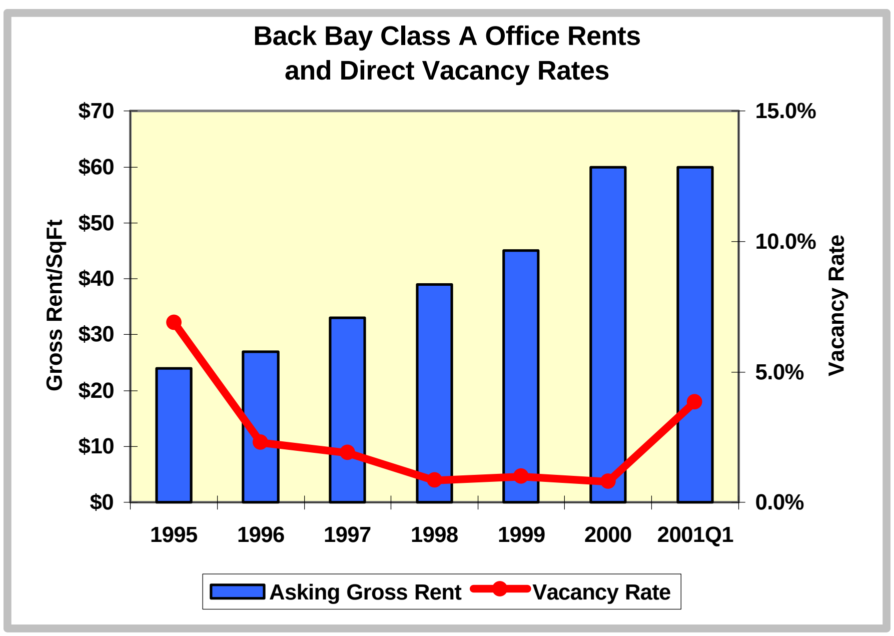


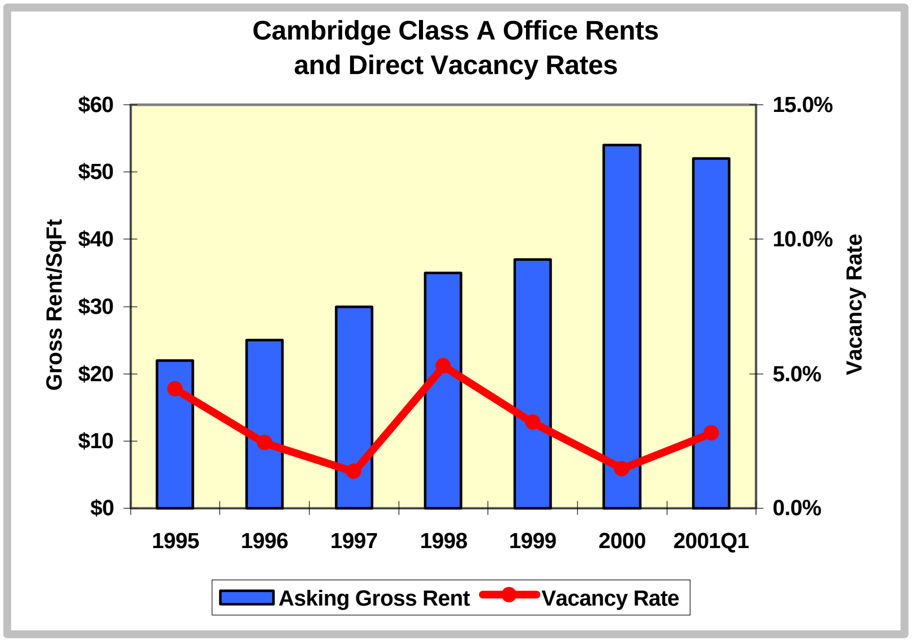
Back Bay Basks in the Sunshine

With the Financial District tight as a drum and Cambridge rents soaring to the moon, Boston's Back Bay submarket has enjoyed an influx of demand in recent years. 10 St. James Ave., for example, is adding 585,000 square feet of state-of-the-art office space to the submarket which has been readily absorbed and 111 Huntington Ave. is about 75% preleased.

As a result, asking rents played catch-up with rents in the Financial District in 1999 and 2000. So far this year, asking rents appear to be holding their own even though the submarket's exposure to dot-com firms is greater than in the Financial District. The strength of the Back Bay as Boston's premiere upscale shopping and residential district reinforces its popularity as an office location.

The demise of the dot-com universe, however, has led to the unexpectedly sudden drying up of capital for telecom infrastructure and service providers. Class B and C office space in the Back Bay will no longer be buoyed by this alternative use.





give back most or all of that space. In many cases this was actually welcome news for landlords as market rents are often higher than contract rents on these leases. On the other hand, struggling tenants that are doing their best to survive the dot-com shakeout and tech sector slump tend to pull down the collateral value of the properties they are located in.

Most new development along the Route 128 Corridor in recent years has been just where it should be — near major freeway nodes. In particular, a lot of development has been channeled into the strategically-located Route 128 West submarket. These well-designed properties with state-of-the-art technological infrastructure will continue to attract tenants relocating from Downtown Boston and Cambridge as well as nearby firms that desire more modern space.

As is typically the case when the property market upcycle reaches a plateau, weakness is starting to appear in the Route 128 South submarket. This is due to a combination of new supply and major tenants consolidating their “back office” operations as leases expire. A small roll back in asking rents is likely.

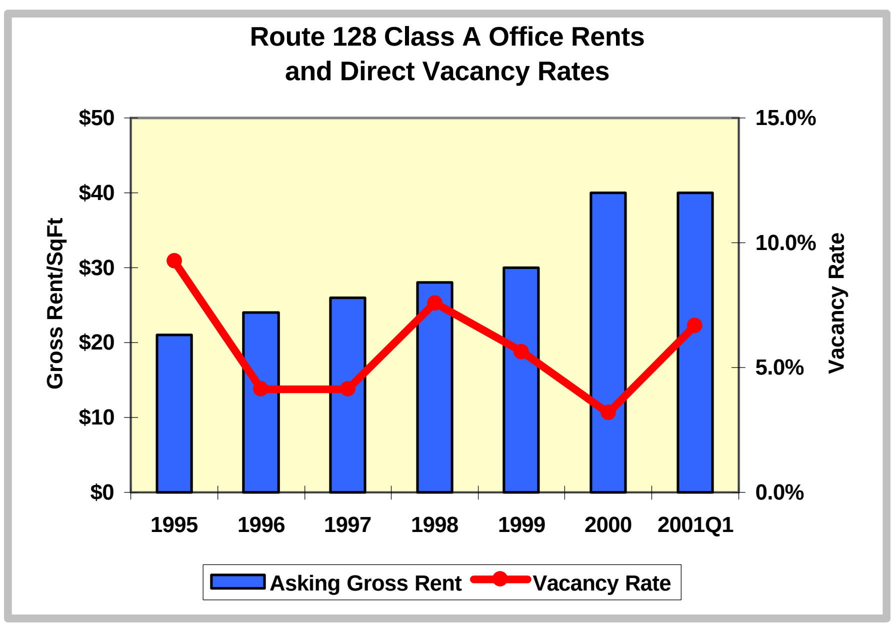
Sizzling Cambridge Hits an Ice Patch

Fueled by unprecedented demand from high technology and biotechnology firms and research institutes, rents in Cambridge soared to levels almost on a par with the Financial District in 2000. The winding down of dot-com enterprises and the broad slump in the high tech sector during the first quarter of 2001, however, has resulted in an unexpected flood of relet and sublease space in Cambridge. Asking rents are starting to ratchet down as landlords realize there is again competition for tenants.

Longer term, though, the outlook for Cambridge is very bullish. The submarket continues to grow as a dynamic educational / institutional center of emerging technologies. A Cambridge, MA business address still lends cachet to high technology enterprises. There is also a changing of the guard occurring, with biotechnology companies taking center stage as stalwarts like Lotus downsize and free up excess space.

Route 128 Corridor Feels the Chill

Following an amazingly strong year in 2000, the first quarter of 2001 brought home the reality that the bloom is off the rose — temporarily, at least. All those once promising dot-com enterprises that had gobbled up office and R&D space with abandon, were now attempting to



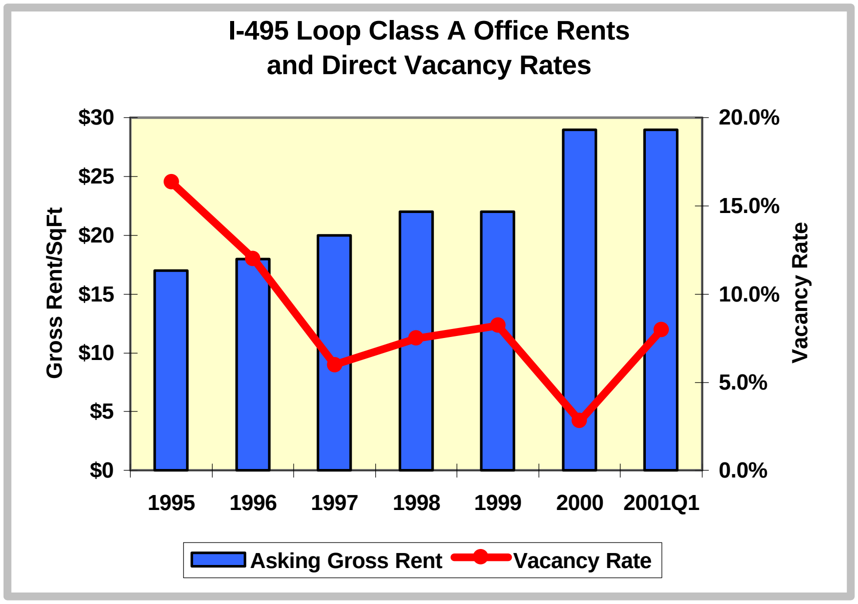
Interstate 495 Loop Corporate Campus Expansions on Hold

With world-class high technology corporations and major financial services firms gobbling up buildings and land in 2000, this was expected to be a year of corporate campus development along the I-495 Loop. Instead, nearly everything has been put on hold as these corporations adjust to the unexpected slowdown in demand for their products and services.

Most at risk are land acquisitions made in 2000 to accommodate corporate campus development. Delays are costly as the land sits underutilized awaiting development. If the tech sector slump hits bottom soon and starts a sustainable rebound, then planned campus projects are likely to see the green light later this year or early next year. If a prolonged national recession is in the works, then these acquisitions could suffer the same fate as similar holdings did in the late 1980s.

Fortunately, most property owners along the I-495 Loop acquired their office buildings or tracts of land at prices well below today's valuations. These owners can more easily ride out a pause in demand growth and patiently wait for rents and values to resume an upward climb.

I-495 West remains the most popular office submarket along the outer loop. The 'Boroughs (Marlborough, Southborough, Northborough, and Westborough) continue to evolve into a thriving west suburban node as employment and population rises at a brisk pace. Cisco Systems' selection of Boxborough for a planned East Coast corporate campus illustrates that spillover into adjoining I-495 submarkets is now picking up steam.



Investment Sales Slow Pace

Office property values in most submarkets of Metropolitan Boston remain at levels higher than one year ago. Market rents are still well above rents on leases signed in early 2000 or before and low interest rates are partially offsetting expectations of more modest growth in rents going forward.

Today's big question, "At what level will office rents stabilize?" is the same question that was on buyers' and sellers' minds last year. Once market rents stabilize later this year, the pace of office building sales is likely to pick up as investors reposition their portfolios for the next market cycle.

Typical cap rates for office buildings in Metro Boston continue to reflect differences in long-term growth prospects by submarket, as shown in the chart below. The lower the cap rate, the higher the expected uptick in net operating income (NOI) over time.

Investors expect downtown office buildings to achieve the largest increase in NOI over time (but to some extent this reflects the prevalence of long-term leases that are well below market rather than larger increases in market rents from today's levels). In the suburbs, Route 128 West is expected to outperform other submarkets.

Office Submarkets	Capitalization Rates		
	Low	High	Average
Downtown Boston	8.0%	9.0%	8.5%
Route 128 West	8.5%	9.5%	9.0%
Other Suburban	9.0%	11.0%	10.0%

NAI HUNNEMAN COMMERCIAL
REAL ESTATE SERVICES, WORLDWIDE
70-80 Lincoln Street, Boston, MA 02111 (617) 457-3400 www.naihunneman.com

Office Market Outlook

Compared to the last time the office market peaked in Metropolitan Boston in the late 1980s, today demand and supply trends are much more in balance. Vacancy rates remain low to moderate in most submarkets. New supply in the pipeline is moderate and being built in the right places around the metropolitan area. Demand is poised for a much quicker resumption of growth once the bottom of the tech sector slump materializes.

The expected modest decline in asking rents is likely to be of short duration. Metropolitan Boston's economy is well positioned to capitalize on the next round of capital investment in technology. Now is the time for tenants with expansion needs or leases set to expire during the next two years to take advantage of a fleeting window of opportunity. Once the dot-com sublease space is absorbed, it's back to brisk escalation of rents.

303 Congress Street (shown under construction on the east bank of Fort Point Channel) will add 65,728 square feet of Class A office and retail space to the Boston Central Business District in 2001.

This report was researched and authored by Daniel P. Guenther, SVP / Director of Research, in collaboration with NAI Hunneman Commercial Company office brokers, property managers, and project consultants as well as using property-level data provided by CoStar Realty Information Group. The views and opinions expressed are solely those of the author and are not necessarily those of NAI Hunneman Commercial Company nor its employees. For additional copies of this report, please call your NAI Hunneman office broker or Amy Szeto at (617) 457-3400. If you have questions regarding the data or analysis contained in the report, please call Dan Guenther at (617) 457-3369 or send an e-mail to *dan_guenther@NAIHunneman.com*.

Notice of Disclaimer: The information presented in this report is from sources deemed to be generally reliable, but no warranty is made as to the accuracy or completeness of the data, nor as to its usefulness for any particular purpose.

Copyright (c) 2001 by NAI Hunneman Commercial Company. All Rights Reserved.

NAI HUNNEMAN COMMERCIAL

REAL ESTATE SERVICES, WORLDWIDE

70-80 Lincoln Street, Boston, MA 02111 (617) 457-3400 www.naihunneman.com

METROPOLITAN BOSTON OFFICE MARKET
Conditions as of 2001-Q1

Office Submarket	Class A Space Inventory	Class A Vacant Space	Class A Vacancy Rate	Class A Average Gross Rent	Class B Space Inventory	Class B Vacant Space	Class B Vacancy Rate	Class B Average Gross Rent	A & B Space Inventory	A & B Vacant Space	A & B Vacancy Rate
Financial District	20,965,084	236,332	1.1%	$60	11,650,148	649,856	5.6%	$45	32,615,232	886,188	2.7%
North Station/North End	1,797,434	21,217	1.2%	$52	1,661,591	25,090	1.5%	$38	3,459,025	46,307	1.3%
South Station/Ft. Point	2,752,395	232,811	8.5%	$52	5,033,570	84,843	1.7%	$43	7,785,965	317,654	4.1%
Charlestown	1,064,235	45,796	4.3%	$42	1,568,123	30,000	1.9%	$35	2,632,358	75,796	2.9%
Back Bay	7,608,745	293,635	3.9%	$60	5,830,493	141,667	2.4%	$45	13,439,238	435,302	3.2%
Downtown Boston	**34,187,893**	**829,791**	**2.4%**	**$56**	**25,743,925**	**931,456**	**3.6%**	**$43**	**59,931,818**	**1,761,247**	**2.9%**
East Cambridge	5,877,768	117,429	2.0%	$53	824,732	10,000	1.2%	$42	6,702,500	127,429	1.9%
Central Cambridge	3,295,156	35,813	1.1%	$52	1,584,124	28,155	1.8%	$43	4,879,280	63,968	1.3%
West Cambridge	1,451,776	141,950	9.8%	$50	1,017,976	11,076	1.1%	$42	2,469,752	153,026	6.2%
Cambridge	**10,624,700**	**295,192**	**2.8%**	**$52**	**3,426,832**	**49,231**	**1.4%**	**$42**	**14,051,532**	**344,423**	**2.5%**
Route 128 North	6,238,716	555,344	8.9%	$33	7,882,610	624,230	7.9%	$22	14,121,326	1,179,574	8.4%
Route 128 Northwest	8,462,987	294,211	3.5%	$44	6,889,045	227,089	3.3%	$26	15,352,032	521,300	3.4%
Route 128 West	16,339,886	874,594	5.4%	$47	10,004,018	659,601	6.6%	$34	26,343,904	1,534,195	5.8%
Route 128 Southwest	1,482,123	196,523	13.3%	$30	2,817,356	322,325	11.4%	$23	4,299,479	518,848	12.1%
Route 128 South	6,115,715	661,935	10.8%	$29	3,530,749	231,416	6.6%	$21	9,646,464	893,351	9.3%
Route 128 Loop	**38,639,427**	**2,582,607**	**6.7%**	**$40**	**31,123,778**	**2,064,661**	**6.6%**	**$27**	**69,763,205**	**4,647,268**	**6.7%**
I-495 North	3,062,800	457,467	14.9%	$26	2,414,561	63,164	2.6%	$20	5,477,361	520,631	9.5%
I-495 Northwest	2,879,364	250,000	8.7%	$29	5,264,425	72,534	1.4%	$24	8,143,789	322,534	4.0%
I-495 West	5,382,287	190,191	3.5%	$30	7,277,979	512,807	7.0%	$25	12,660,266	702,998	5.6%
I-495 Southwest	571,155	0	0.0%	$24	692,710	21,658	3.1%	$20	1,263,865	21,658	1.7%
I-495 South	163,000	62,832	38.5%	$21	1,116,367	19,900	1.8%	$19	1,279,367	82,732	6.5%
I-495 Loop	**12,058,606**	**960,490**	**8.0%**	**$29**	**16,766,042**	**690,063**	**4.1%**	**$23**	**28,824,648**	**1,650,553**	**5.7%**
Metropolitan Boston	**95,510,626**	**4,668,080**	**4.9%**	**$45**	**77,060,577**	**3,735,411**	**4.8%**	**$31**	**172,571,203**	**8,403,491**	**4.9%**

Source: Co-Star, NAI Hunneman Commercial Company.

Prepared: April 2, 2001

NAI HUNNEMAN COMMERCIAL
REAL ESTATE SERVICES, WORLDWIDE

Above information is from sources deemed to be generally reliable, but no warranty is made as to the accuracy or completeness of the data, nor as to its usefulness for any particular purpose.