



NAI HUNNEMAN COMMERCIAL

METRO BOSTON REAL ESTATE

MARKET UPDATE

FALL 2004

Congratulations to the Boston Red Sox, our 2004 World Series Champions!



Their victory demonstrates the power of focus and teamwork.

IN THIS ISSUE: **Downtown:** Absorption is increasing and deals are being made; vacancies should drop to late-1990 levels by 2008. **Cambridge:** Expect a further drop in lease rates before the turnaround occurs. **Suburban Office Route 128:** For the next 12 – 18 months, the submarket will show a slight improvement, but shadow space could still be an issue. **Route 495:** During the next 12 months, expect slowly decreasing vacancies and flat rents. **Southern New Hampshire:** During the next six to eight months, expect decreasing vacancy rates and resumed building pressures. **Investment:** 2004 is shaping up as the best year for investment sales as a continuation of a past few good years. **Industrial:** Increasing activity should carry into the first quarter of 2005.

Downtown Report



NAI Hunneman leased 25,832 s.f. of first-class office space to Independence Investment LLC at 53 State Street, Boston

Absorption is increasing and deals are being made; vacancies should drop to late-1990 levels by 2008

The main event: The third quarter of 2004 was statistically the worst single quarter in history, with negative 1.2 million s.f. of net absorption. The region experienced the “perfect storm”: Banking (Bank of America), Mutual Funds (State Street), and Insurance (Manulife) collectively put more than 1.5 million s.f. on the market. These firms are among the largest in Boston – only Fidelity is larger.

Vacancy/availability: The gap between vacancy (space vacant today) and availability

(space vacant plus space announced as coming vacant within 18 months) has never been higher. For example, vacancy in the Class A Premier Tower market stands at a respectable 5.6 percent. However, availability stands at an unsettling 13.2 percent, or almost three times the true vacancy.

Average asking rents: Class A Premier: \$40 – \$45 with \$60 in tenant improvements (TI); Class A: \$35 – \$40 with \$60 TI's; Class A Minus: \$32 – \$36 with \$70 TI's; Class B: \$22-\$28 with \$40 TI's.

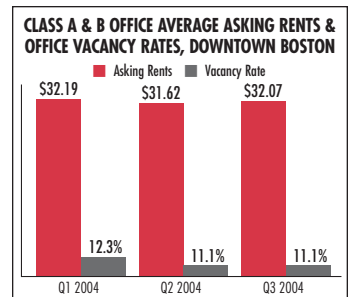
Other trends: Institutions are trimming back, but growth is shifting to mid-size firms that are generally doing well; tenants are cutting deals two years in advance; landlords have been willing to renew early for

additional term; “blend and extend” has occurred frequently; and inventory in the Class B market continues to shrink due to residential conversions.

Demand drivers: With the exception of accounting, advertising and consulting, all industries are showing growth, led by insurance (Liberty Mutual), mutual funds (IBT and Wellington), law (Robinson & Cole) and education (Suffolk University).

Forecast: Looking forward 18 months, we project net absorption in Boston at 900,000 s.f., a number which, as an underlying indicator of growth, has been increasing steadily from 600,000 s.f. in September 2003 to the present. Since there is no space under construction in the City and there is unlikely to be any space delivered prior to 2008, vacancies should drop to late-1990 levels by 2008.

Noteworthy deals: Pearson Publishing expanded its presence in Boston by leasing 100,000 s.f. on the top two floors of 501 Boylston Street; Day, Berry & Howard signed a 15-year lease to relocate into 42,000 s.f. at One International Place, demonstrating the resiliency and growth of the City's law firms. (The gross effective rent for years 1 – 10 was approximately \$42.50, after taking into account a substantial free rent period. The tenant allowance was in excess of \$70.00. Interestingly, the rent for years 11–15 was set as a function of fair market.)



Cambridge Report



NAI Hunneman helped Gene Logic secure 19,000 s.f. of office space at 38 Sidney Street in Cambridge

Expect a further drop in lease rates before the turnaround occurs

The main event: There are three large build-to-suit projects underway in a 20 percent-plus vacant market: Broad Institute (200,000 s.f. at 7 Cambridge Center), Schlumberger (200,000 s.f. at One Hampshire Street), and

Smithsonian Institute (81,500 s.f. at Cambridge Discovery Park). There has also been a continued influx of life science companies that are attracted to Cambridge and headquartered elsewhere, like Genelogic and Organon International.

Vacancy/availability: The overall office vacancy is at 17.6 percent, down from 19.0 percent in Q2 2004 due to a drop in Class B vacancy rates. Class A vacancies still remain at 20.4 percent.

Average asking rents: Class A office rents are in the range of \$25 – \$30 p.s.f. gross, and Class B rents are \$19 – \$22 p.s.f. gross. Lab space is quoted in the \$30 – \$40 p.s.f. NNN for existing labs offered as is or with refinishing allowances up to \$25 p.s.f.. New first class lab-capable shell space is asking \$40 – \$50 p.s.f. NNN with \$100 – \$120 p.s.f. allowances.

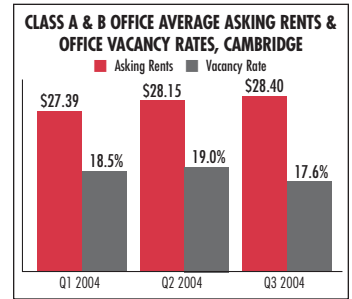
Other trends: The office rental market is recovering but is still fairly soft

and inconsistent. High vacancy, oversupply, dropping rates, concessions and serious competition characterize this market segment. Venture capital slowed in Q3 from a relatively brisk Q1 and Q2 pace, but it is still better than during 2003.

Demand drivers: Most of the leasing market this year has consisted of tenant requirements under 10,000 s.f. and is generally characterized by competitively low “bargain” deals, mostly short term with minimal work for startup companies out of MIT. Nanotechnology is also an emerging industry, and these companies are seeing a rise in venture capital funding.

Forecast: We expect a further drop in lease rates before the turnaround occurs that everyone’s been hoping for since 2000. The soft market conditions are likely to continue for the foreseeable future until the supply is worked down to at least the mid-teens percentage vacancy.

Noteworthy deals: Genelogic from Maryland bought a local startup and leased 19,093 s.f. at 38 Sidney Street; Organon International expanded from their New Jersey and Netherlands headquarters with a lease of 27,610 s.f. at 245 First Street; Intersystems expanded by 20,000 s.f. to 46,000 s.f. for nine years at One Memorial Drive.



Suburban Office Route 128 Report



NAI Hunneman secured a sub-lease for 15,000 s.f. of lab space at 1022 Hingham St in Rockland for the landlord, BioMerieux

For the next 12 – 18 months, the submarket will show a slight improvement, but shadow space could still be an issue

The main event: There has been a slight uptick in demand although rents continue to remain flat and landlord concessions high. Companies continue to

move towards higher quality product and owners.

Vacancy/availability: Overall office vacancy has increased slightly from 18.4 percent in the second quarter to 18.5 percent currently, partially due to Equiserve’s consolidation in the 128 Southwest submarket.

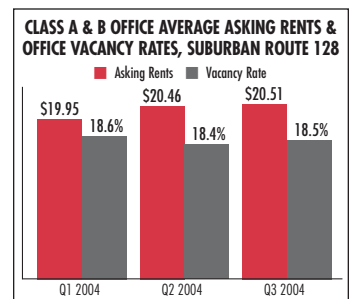
Average asking rents: Class A office asking rents are averaging \$22 – \$29 p.s.f., and Class B asking rents are averaging \$15 – \$22 p.s.f.. Rental rates are essentially at 1996 – 1997 levels.

Other trends: We continue to see tenants trying to “blend and extend” or recast their lease terms. Biotech clusters have sprung up in some 128 North areas such as Beverly and Woburn.

Demand drivers: Demand has mainly been emerging from the high growth industries of life sciences, defense, medical device, healthcare, high technology (e.g. nanotechnology) and foreign companies. The demand has been a mix of established companies as well as venture-backed start-ups, which have seen an increase in funding this year.

Forecast: For the next 12 – 18 months, the 128 submarkets will show a slight improvement as demand continues to build. Even though some of the sublease space has burned off, shadow space could still be an issue before we see substantial absorption.

Noteworthy deals: Equiserve moved out of 286,000 s.f. at 150 Royall Street to 188,000 s.f. at 250 Royall Street in Canton, Blue Cross Blue Shield received approval for 350,000 s.f. in Hingham. Insulet Corporation, a medical device manufacturing company, is expanding to 53,500 s.f. in Bedford in a combination sublease and direct deal.



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Route 495 Report



NAI Hunneman helped find a tenant, Acusphere, to occupy 58,000 s.f. of space at 890 East Street in Tewksbury

During the next 12 months, expect slowly decreasing vacancies and flat rents

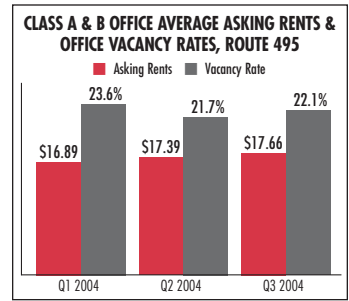
The main event: Medical device and life science companies are the major drivers of demand in this market at present. Prime examples of significant moves to

this area include Cytyc occupying 200,000 s.f. at The Campus in Marlborough and Boston Scientific purchasing 500,000 s.f. at Addition Hill, Marlborough.

Vacancy/availability: Even though 495 West experienced the largest drop in overall office vacancy from 24.7 percent in the first quarter to 19.1 percent currently, the 495 loop experienced a slight increase in overall vacancy from 21.7 percent in the second quarter to 22.1 percent currently. The 495 North/Northwest submarket continues to struggle with high amounts of sublease space.

Average asking rents: Class A office rents range from \$15 to \$20 p.s.f., and Class B rents range from \$13 to \$19 per s.f., remaining fairly steady over the last few quarters.

Other Trends: Historically high rents of 1999-2000 have started rolling. Landlords are starting to panic regarding occupancy levels and cash flow hits by the middle to end of 2005. With rents currently staying low, tenants continue a "flight to quality" by leasing space in higher quality buildings.



Demand drivers: Smaller tenants with requirements in the 3,000 to 10,000 s.f. range continue to drive the market for demand along with medical device and life science companies.

Forecast: Demand is spotty and vacancy rates are still too high to allow landlords to increase rental rates. Over the course of the next 12 months vacancies will slowly decrease and rents will remain flat.

Noteworthy deals: Blue Cod Technologies signed a six-year lease at 295 Donald Lynch Boulevard in Marlborough for 10,983 s.f. at an effective rent of \$17.25 p.s.f. with turnkey buildout. Other deals include Genzyme moving its facility to Westborough, and Bose purchasing a 300,000 s.f. facility in Stow and getting approval to expand to 600,000 s.f..

Southern New Hampshire Report

During the next six to eight months, expect decreasing vacancy rates and resumed building pressures

The main event: Despite stagnant high vacancy levels and soft market conditions, many landlords are still not lowering rents. However, Portsmouth is showing a slight rebound and has experienced some positive absorption.

Vacancy/availability: Industrial and Flex/R&D vacancy rates range

from 15.4 percent in the Portsmouth area to a high of 26.9 percent in the Pease International Tradeport submarket.

Average asking rents: New industrial or "flex buildings" with ten percent office build-out are \$5-\$6 per s.f. NNN. Flex/R&D rents are now reaching higher levels of \$5-\$7 NNN.

Forecast: Since few new speculative office and industrial projects are underway, vacancy rates are likely to decrease over the next six to eight months and building pressures will resume.

Investment Report



NAI Hunneman sold 409 Marlborough Street in Boston's Back Bay for \$7.95 million, a 40-unit, six-floor building that is 100% occupied

2004 is shaping up as the best year for investment sales as a continuation of a past few good years

The main event: The year 2004 is turning out to be one of the best investment sales markets. Investors are hurrying to the table to purchase as the threat of rising interest rates looms, and there is still a lot of capital in the market vying for real estate opportunities.

Other trends: Deals are taking longer to close in some situations due to longer due diligence, but the bid/ask gap is narrowing. Cap rates are all over the board, depending on location, type, and tenant quality, ranging from as low as 4 percent to as high as 12 percent in some cases.

Demand drivers: Retail and multifamily properties are still the top sellers, but office (especially in the City) and industrial are still doing well. Lack of supply, plenty of money, low interest rates, and 1031 exchanges continue to fuel the market.

Forecast: As long as the demand factors remain in place, the investment sales market will continue to be healthy for the next 12 months, with a continued growing demand from 1031 exchanges.

Industrial Report



NAI Hunneman sold this 82,000 s.f. industrial building at 428 Main Street in Hudson for \$4.12 million

Increasing activity should carry into the first quarter of 2005

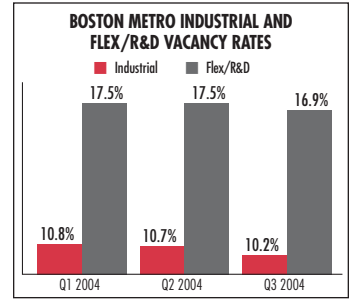
The main event: Though recent large deals do indicate that there has been activity, they actually represent a slight negative net absorption in the market because these tenants have moved to smaller, yet more efficient space.

Vacancy/availability: The current overall industrial vacancy rate stands at 10.2 percent, down from 10.7 percent in the second quarter. The flex/R&D vacancy rate experienced a slightly better drop from 17.5 percent in the first and second quarters to 16.9 percent currently.

Average asking rents: Industrial rents range from \$5.00 p.s.f. to almost \$8.00 p.s.f.. Flex/R&D rents range from \$6.50 p.s.f. to over \$15 p.s.f.. Essentially, rates have remained steady over the last few quarters.

Other trends: Companies that are looking to buy facilities are finding it increasingly difficult to secure buildings which meet their needs due to lack of supply in the 20,000-60,000 s.f. range. As a result, we have seen record prices for industrial buildings, as evidenced by

244 Bodwell Street in Avon which recently traded for \$65 p.s.f., 345 John Quincy Adams Drive in Taunton, which is a 40,000 s.f., 24' clear warehouse building that recently went under agreement for \$65 p.s.f. as well, and 55 Shawmut Road in Canton, a 58,255 s.f. warehouse building, just sold for approximately \$70.00 p.s.f..



Demand drivers: Most of the demand has been driven by companies looking to buy buildings and by build-to-suit activity by tenants looking to occupy state-of-the-art, high bay distribution and manufacturing facilities.

Forecast: There has been a definite uptick in activity, one that we expect will carry through the rest of 2004 and into the first quarter of 2005.

Noteworthy deals: Ocean Beauty recently broke ground on a 60,000-s.f. processing and distribution facility in The Myles Standish Industrial Park in Taunton. Instron recently moved to 110,000 s.f. at 825 University Avenue in Norwood, and Bureau Veritas' recently-signed lease of 57,300 s.f. of office and R&D space at 350 Myles Standish Boulevard in Taunton.