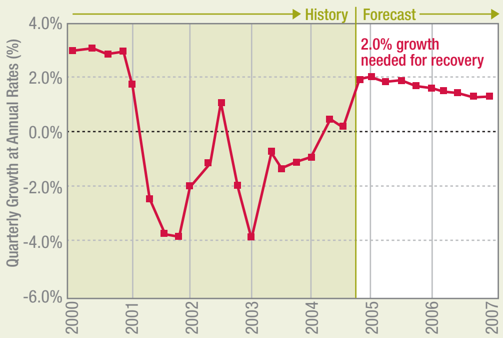
NAI Hunneman
Commercial Real Estate Services, Worldwide.

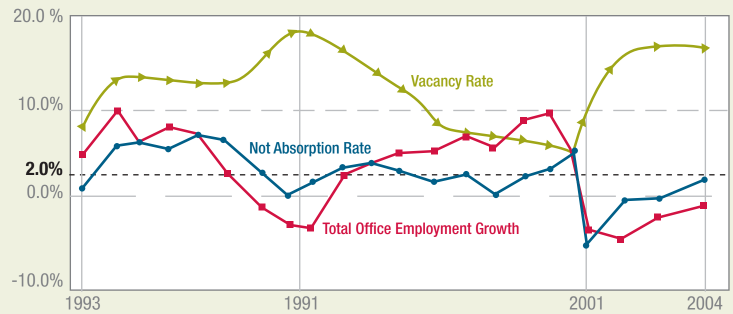
Metro Boston Real Estate
MARKET UPDATE

Job Growth Drives Vacancy and Absorption



Graph 1: Massachusetts Projected Job Growth
Source: NEEP

As Graph 2 shows when job growth is slow, vacancies are high and there is little absorption. At a presentation to NAI Hunneman, Professor Adam Clayton-Matthews of the Donahue Institute projected minimal job growth over the next eight quarters (see Graph 1), indicating that the real estate recovery will continue to be sluggish.



Graph 2: Metro Boston Office Market Historical Relationship between Job Growth, Vacancy and Absorption *Source: Torto*

Boston (Downtown):

Rents should stay firm in the scarce class A premier space; low rise and class B space should continue to feel downward pressure on rents

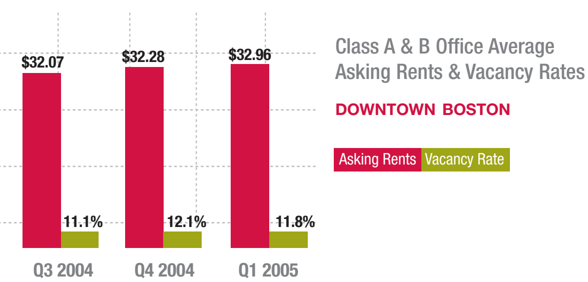
51 Sleeper Street, Boston

Future headquarters for the United Way of Mass Bay. Only 80,500 s.f. of office space left for lease. Breathtaking harbor and city views.

The main event: There are few signs of a recovery Downtown as the market seems to take two steps back for each step forward. Enhanced transit coverage has increased desirability for the Fort Point Channel Area/Seaport District, increasing occupancy, lifting lease rates, and instigating acquisitions by notable firms. This positive sign has been somewhat offset by the disbanding of the major law firm of Testa Hurwitz, the sale of the Fan Pier site falling apart once again, and the purchase of Gillette by Proctor & Gamble, which could result in almost half of the Prudential Tower's office space in the Back Bay being put on the market.

Vacancy/availability: The gap between vacancy (space vacant today) and availability (space vacant plus space announced as coming vacant within 18 months) continues to remain high. For example, vacancy in the Class A Premier Tower market stands at a respectable 6.9 percent. However, availability stands at an unsettling 15.8 percent, or more than double 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 $30-$40 TI's.



Other trends: In the Fort Point Channel area, Beacon Capital acquired four rehab buildings on Melcher and Summer Streets and is marketing the only vacancy at $28-$30 per square foot. This pricing is in line with rates at neighboring Class A offerings. Interested tenants are attracted by the convenience of the new Silver Line service as well as the South Station complex.

Demand drivers: Most of the industries are showing signs of growth, especially law firms (Bingham McCutchon) and mutual funds (Eaton Vance, State Street, Wellington).

Forecast: In the short-term, rents should stay firm in the scarce Class A premier space; low rise and Class B space should continue to feel downward pressure on rents. Companies' incremental growth when combined with the fact that there are no new office developments slated to hit Downtown for at least four years, should cause vacancies to start slowly declining.

Noteworthy deals: The Mayo Group negotiated a lease deal in the Fort Point Channel area at their newly acquired 51 Sleeper Street to United Way for 50,000 SF. This 15-year lease, which was originally supposed to happen at 470 Atlantic Avenue, is a staggered deal with rents in the mid-to-high $20 per-square-foot range and generous tenant improvements of $40 to $60 per square foot. United Way was able save about $6 per square foot in rent as well as obtain other concessions.

Cambridge:

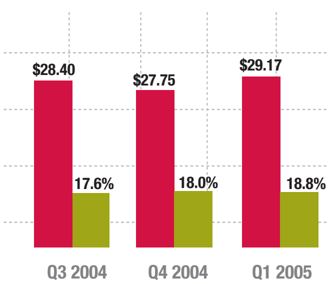
The stage is set for a turnaround as rental rates and vacancies stabilize and modest expansion occurs.

350 Mass. Ave. Cambridge

Two contiguous first class office suites for lease. Approximately 14,000 s.f. on the 4th floor. Located at the gateway to University Park at MIT.

The main event: The influx of major life science players to Cambridge continues, this time from two major acquisitions. Shire Pharmaceuticals, a UK based company, may move into the Cambridge market with a proposed acquisition of TKT, one Cambridge's largest biotechs. BioMed Realty Trust, a national life science property owner based in San Diego, signed a P&S agreement for $531 million to acquire a large portion of the Lyme Properties portfolio, seven mostly leased buildings in Cambridge, including Genzyme's headquarters.

Vacancy/availability: The office market continues to struggle as Class A vacancies slightly increased to 21.4 percent from 21.1 percent in Q4 2004, with the East Cambridge/Kendall Square availability rate hovering in the 30 percent range. The Class B market experienced a drop in vacancy from 10.4 percent in Q4 2004 to 9.3 percent.



Class A & B Office Average Asking Rents & Vacancy Rates

CAMBRIDGE

Asking Rents Vacancy Rate

Average asking rents: While asking rents range $1-3/SF higher, effective office rents are in the range of $23-$33 per square foot gross for Class A space, and $17-$22 per square foot gross for Class B space. Life science space is quoted in the $30-$40/SF NNN asking range for existing labs offered either "as is" or with retrofit allowances up to $25/SF. New first class lab-ready shell space is still higher, asking $40-50/SF NNN with $100-120/SF allowances.

Other trends: Even though the office market is stabilizing, vacancies are still high. The sale of Riverfront Office Park to RREEF demonstrates the current weakened condition of the office market, as RREEF was able to purchase the 670,000 SF park for $175 million, lower than the $213 million National Office Partners paid for it in 2002.

Demand drivers: Aside from larger deals, most of the leasing market this year has continued to consist of competitive bargain deals with tenant requirements under 10,000 square feet. Private and venture capital funding has fueled the startups, mostly in the life sciences and computer applications fields.

Forecast: With the combination of vacancy in the mid $20's and modest demand, we expect a stabilizing of lease rates. It appears the turnaround that everyone's been hoping for since 2000 is here but so far is not dramatic, more a result of smaller requirements chipping away at the vacancy. There are pockets of tightness in certain well-performing buildings, which should help stabilize those who are still struggling. Current soft market conditions are likely to continue until the supply is worked down closer to a mid-teens percentage vacancy. Tenant demand for small and medium space now appears to be driving the vacancy steadily down toward that level.

Noteworthy deals: Cambridge Innovation Center's expansion of 29,549 SF of office space at One Broadway in Kendall Square is a very encouraging indication that technology startups are incubating and expanding in the market. One Broadway, owned by MIT, also benefited from the 30,000 SF relocation of Patni Computer Systems from three previous locations. Nearby, Flagship Ventures relocated from Alewife to take a 20,960 SF floor at One Memorial Drive.

Suburban Route 128:

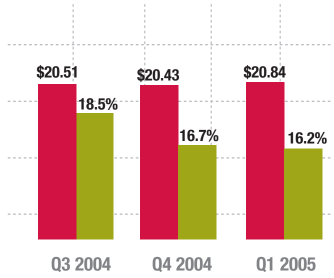
For the next 12-18 months, the 128 submarkets will show a slight improvement as demand continues to build

Fordham Road Wilmington

100,195 r.s.f. R&D building sub-dividable to 20,000 s.f. Four building, 40 acre campus on Route 93.

The main event: Velocity in the leasing market has increased, especially in the 128 West submarket, and average asking rental rates have also increased. Activity is up, most significantly in the Class A market, as the "flight to quality" trend still exists. A number of the Class B/C buildings continue to have higher vacancies.

Vacancy/availability: Class A vacancy has declined from 19.1 percent in Q4 2004 to 18.2 percent for the 128 Loop area as the 128 West submarket continues to improve, which is now at 14.1 percent. Class B vacancy remains flat for the entire Route 128 region.



Average asking rents: Rental rates have started to slightly increase as velocity picks up. Class A office asking rents are averaging $22-$29 per square foot, and Class B asking rents are averaging $15-$22 per square foot. Rental rates are essentially at 1996-1997 levels.

Other trends: There has been an increase in tenant improvements as $20-$25 per square foot no longer covers the costs. A decent build out runs $35-$40 per square foot. Even though the leasing velocity has picked up, there is still a great deal of demand from the user-buyer; smaller buildings of 10-30,000 SF range are trading between $100-$150 per square foot since there is limited supply in this segment.

Demand drivers: Demand continues to stem from the high growth industries of life sciences, defense, medical device, health-care, 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.

Noteworthy deals: The sale of Bay Colony Corporate Center for $272.5 million ($276 per square foot) to Beacon Capital Partners; AG Edwards at 20 William Street, Wellesley for 11,700 SF at $28.64 net effective over 10 years and $40 per square foot work letter included; a tenant at 825 University Avenue, Norwood signed for 109,000 SF for 10 years with effective rent in low teen's with TI of $50-$60 per square foot.

Route 495:

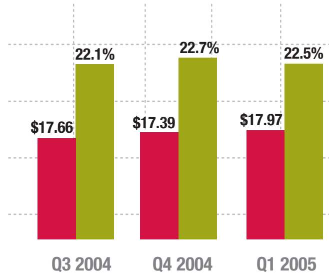
During the next 12 months, expect slowly decreasing vacancies and flat rents

428 Main Street Hudson

State-of-the-art 81,388 s.f. manufacturing facility for lease on 5.12 acres. Over $1 million spent on recent property upgrades.

The main event: This area continues to see deals being done in the small and mid-sized range (5,000-15,000 SF), which has been positive. However, on the flip side, two large companies (Axiowave and Media 100) went bankrupt. With vacancies hovering in the 28 percent range, tenants are still in a strong position to negotiate lease terms. Landlords are anxious for deals and will be creative in not only pricing, but in phasing occupancies, providing free rent and other lease structure points.

Vacancy/availability: Even though the amount of vacant space remains high, Class A vacancy did drop from 28.1 percent in Q4 2004 to 27.0 percent currently. Class B vacancy slightly increased to 18.8 percent from 18.2 percent in Q4 2004.



Average asking rents: Class A office rents range from $16 to $23 per square foot, and Class B rents range from $14 to $18 per square foot. These ranges have remained pretty steady over the last few quarters.

Other Trends: 9 Technology Drive in Westborough and American Superconductor both sold their buildings for very high prices ($150 and $190 per square foot). 9 Technology Drive has a lease with EMC through 2012, and American Superconductor will be there until at least 2009. Buildings with good, long-term credit tenants are fetching high prices.

Demand drivers: More healthcare users are entering this market area such as Fallon, Fresinius Medical, and Health Resources, who are all looking to open clinics in the Metrowest area.

Forecast: While positive absorption has occurred, particularly in the 495 West area, 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: Workscape Technologies will lease 72,120 SF at 123 Felton Street in Marlborough for seven years at $15.35 per square foot NNN average with three months free rent and furniture included.

Industrial Market:

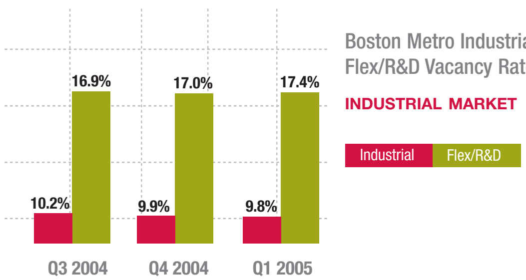
Increasing activity should carry through the remainder of 2005

32 Tozer Road Beverly

87,000 square feet life science building for sale. Property can be easily used for corporate offices. Equipment and laboratory furniture can be made available.

The main event: Most of the activity is on the “user/buyer” side due to relatively low interest rates and rising costs of construction materials. For example, Miller Recycling had plans to buy land and build a 80,000 SF building in Taunton. When costs kept rising, they went back to the market and were able to buy 73 Plymouth Street in Mansfield (72,306 SF), which was not actively being marketed, for $3.35 million ($46.33 per square foot).

Vacancy/availability: The current overall industrial vacancy rate stands at 9.8 percent, slightly down from 9.9 percent in the fourth quarter and 10.8 percent a year ago. The flex/R&D vacancy rate experienced an increase from 17.0 percent in the fourth quarter to 17.4 percent currently, which is due to the increase in vacancy in the Central Core area from 10.2 percent to 17.4 percent currently. This was due in large part to the addition of the newly-constructed 301 Binney Street in Cambridge to the survey, which is 450,000 SF and 100 percent vacant.



Average asking rents: Average industrial asking rents range from $5.00 per square foot to almost $8.00 per square foot. Flex/R&D rents range from $6.40 per square feet to almost $14 per square foot. Essentially, rates have remained steady over the last few quarters.

Other trends: Rail use among distributors is making a big comeback; with rising fuel costs it is almost 50 percent more cost effective to ship across country than by truck. TJX Companies announced layoffs and plans to close a 200,000 SF distribution building in Mansfield.

Demand drivers: Most of the demand continues to be 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 an increase in leasing activity that we expect will carry through the remainder of 2005.

Noteworthy deals: Pollak Engineered Products signed a lease for 58,077 SF at 275 Dan Road in Canton; AMB Property sold 240 Forbes Road in Mansfield, a 74,544 SF manufacturing facility, to Yale Electric for $4.93 million ($66.14 per square foot). There is a developing trend of AMB selling vacant buildings to user/buyers, which they had previously been reluctant to do.

Investment Market:

2005 is shaping up to be just as strong as 2004 for property sales

Folly Hill Apartments Beverly

NAI Hunneman brokered the sale of Folly Hill Apartments in Beverly, MA for $34 Million. Located just off of Route 128, Folly Hill is a 250-unit building comprised of one- and two-bedroom units.

The main event: Multi-family and retail properties are selling at a quick pace with cap rates at an all time low. Other product types aren't moving as fast even with higher cap rates. 2005 is shaping up to be just as strong as 2004 for property sales as there seems to be as much capital and as many buyers as last year.

Other trends: The bid/ask gap exists as buyers are not willing to pay a premium for properties exposed to risk, such as those that are not 100 percent occupied. 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. Increased competition among interested buyers is resulting in shorter due diligence periods and faster closings.

Demand drivers: Retail and multifamily properties continue to be the top sellers, but office and industrial continue to receive some attention as well. Lack of supply, plenty of money, low interest rates, and 1031 exchanges continue to fuel the market.

Forecast: Slowly rising interest rates may somewhat reduce liquidity to the point that investors will find themselves making offers at slightly higher capitalization rates.

NAI Hunneman
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T: 617 457 3400
F: 617 457 3268

www.naihunneman.com