NAI Hunneman

Commercial Real Estate Services, Worldwide.

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Metro Boston Real Estate MARKET UPDATE

Boston (Downtown):

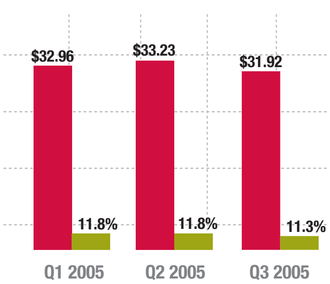
There will be increased strength in the commercial leasing segment in both the Back Bay and Financial District as rents continue to stabilize.

One Design Center, Boston
The recently acquired Design Center has 45,000 s.f. of office space available in this increasingly active Seaport market

The main event: Downtown Boston is finally experiencing a stabilization of rental rates across all market sectors, especially in the Back Bay. This submarket's leasing activity is on the upswing as all classes of office space are being absorbed and vacancies are below 10%. Tenants, especially in the Financial District, are attracted to the Back Bay due to improved access and a 24-hour appeal with more amenities. Year-to-date 2005 net absorption is already positive 410,000 s.f. in the Class A and B Back Bay market, compared to negative 380,000 s.f. for the Financial District. Recent leases in the John Hancock Tower alone include Convexity (28,000 s.f.), Charlesbank Capital Partners (18,000 s.f.), TA Associates (28,000 s.f.), and Karat Interactive (28,000 s.f.).

Vacancy/Availability: Overall Boston Downtown Class A vacancy decreased slightly from 11.8% to 11.2% but the Financial District submarket rose from 12.9% to 13.4%. Back Bay improved from 9.8% to 8.8% currently as this area remains hot and continues to attract tenants from the Financial District. The Class A Premier Tower market remains fairly tight at 10.7%, while the Class B vacancies across all submarkets remain steady at 11.6%.

Average asking rents: Class A Premier: $40 – $50, Class A: $35 – $45; Class A Minus: $34 – $39; Class B: $21 – $29. Back Bay's Class B rental rates have increased from $21 – $26 to $25 – $29. Tenant improvements (TI) on Class A buildings are $50 per square foot on a ten-year lease, while Class B TI's are $20 per square foot.



Class A & B Office Average Asking Rents & Vacancy Rates

DOWNTOWN BOSTON

Asking Rents | Vacancy Rate

Other Trends: There is increased interest in the Seaport District area as some larger deals like Elkus Manfredi moving into 39,000 s.f. at 300 A Street, The United Way moving into 48,000 s.f. at 51 Sleeper Street and the purchase of Fan Pier by the joint partnership of Fallon Company and Massachusetts Mutual Life Insurance Company focus more attention on the area.

In addition, the Institute of Contemporary Art and the Children's Museum expansion have added cachet, energy and interest to Fort Point. Fort Point Channel is becoming more of a destination location rather than a second choice to the Financial District.

Demand Drivers: Since the biotech, medical, technology and education industries are all still healthy, they are driving demand for other services such as legal and financial. The lack of available sub-lease space is also driving demand for higher-priced direct space.

Forecast: There will be increased strength in the commercial leasing segment in both the Back Bay and Financial District as rents continue to stabilize. The Fort Point Channel will also have greater interest as the new owners Berkeley Investments, The Archon Group, Fallon Company and Massachusetts Mutual improve infrastructure and retail presence. However, the future effects of outside events such as Iraq, Hurricane Katrina and higher energy costs on the national economy are still unclear.

Noteworthy Deals: One of the largest leases this quarter was Wellington Management's signing for 215,000 s.f. at 100 Federal Street. Piper Rudnick signed a lease for 50,000 s.f. on two floors at 33 Arch Street, demonstrating positive growth and continued demand for high-rise space. Shepley Bulfinch signed for 66,000 s.f. at World Trade Center East. The big news, though, is the anticipated signing of Bingham McCutchen at 1 Federal Street for approximately 250,000 s.f..

Cambridge:

Rates and vacancies are improving as modest expansion occurs. Cambridge continues to attract both small and large companies from other regions for its life science and high tech reputation.

One Memorial Drive, Cambridge
An indication of returning health, A.T. Kearney, Inc. renewed here for $33.00 per foot

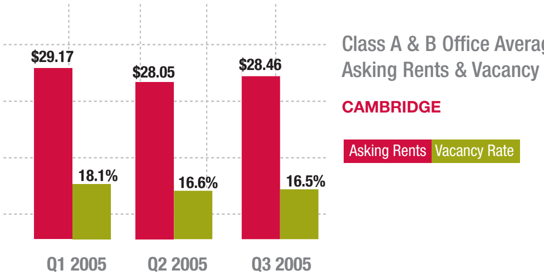
The main event: The market is slowly recovering, with three straight quarters of positive absorption. Vacancy rates are still far from robust, but most properties are achieving enough occupancy to stabilize and modestly increase rent levels. A number of new Cambridge technology startups are obtaining either private or venture investment, then combing the market for three-year leases with minimal refinishing to hold them until the next stage of growth.

continued on inside

Cambridge Market *continued from page 1*

Vacancy/availability: For the first time since the high tech slowdown five years ago, Class A vacancies dipped under 20% to 19.4% overall, down from 25.8% in Q1 2005. The East Cambridge submarket was the biggest driver of the overall drop, reflecting the rebound in the high tech sector. The Class B vacancy also ticked downward for the first time into single digits, from 10.1% in Q1 to 8.8%.

Average asking rents: 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, both averages are $1 per square foot higher than in early 2005. Lab space is quoted in the $30 – $40 per square foot NNN range for existing labs offered "as is" or with retrofit allowances up to $25 per square foot. New first class lab-capable shell space is still looking for $40 – $50 per square foot NNN with ever higher build-out allowances. New lab build-out allowances under $100 per square foot would now be considered below market.



Class A & B Office Average Asking Rents & Vacancy Rates

CAMBRIDGE

Other trends: With rents stabilizing in Cambridge, companies that don't need to be in Cambridge are looking out to softer submarkets in the suburbs. This trend is a reversal from two years ago, when a number of companies were returning to Cambridge to take advantage of relative bargains. Examples are Circle Lending moving to Waltham and SupplyScape relocating to Woburn.

Demand drivers: Small companies are expanding, but growth in the medium and larger sizes has been spotty and mainly in the form of relocations and renewals or "blend and extend" scenarios. The Broad Institute has already fully programmed its personnel for the coming 7 Cambridge Center space, but in additiona will retain its existing 26,000 s.f. at 320 Charles Street, the original office/R&D facility owned by the Whitehead Institute.

Forecast: We see a continued slow recovery with vacancy rates inching down and rents continuing to stabilize. The investment sales market is strong and will likely remain that way in the limited Cambridge arena of existing product.

Noteworthy deals: Several of the major deals noted in our spring newsletter have now closed. TKT has been acquired by Shire Pharmaceuticals, and BioMed Realty Trust has completed its purchase of the seven performing (i.e. mostly rented) Lyme Properties buildings. The Bulfinch Companies sold Cambridge Place: three office buildings for $103.4 million, or $361 per square foot, to Met Life. Hines sold Riverfront Office Park to RREEF for $264 million, or $264 per square foot. 201 Broadway achieved 100% occupancy with new leases to Wilkins Management and Quantia Communications. One of the largest office deals was actually a user-buyer transaction where the City of Cambridge purchased 125 Sixth Street to use the 98,000 s.f. building as its Police Department Headquarters.

Suburban Route 128:

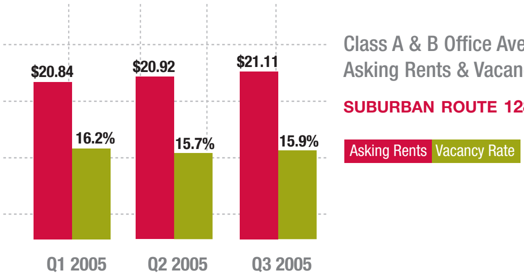
Lack of larger blocks of available Class A space is driving speculative construction, which is a good sign of recovery in this area.

6 Kimball Lane, Lynnfield
This high-image brand-new Class A office building has 17,000 s.f. available for immediate occupancy

The main event: A sign of recovery in the Route 128 area is the recent introduction of speculative construction taking place in the market, especially in the 128 West submarket. Boston Properties has a fully-permitted 204,000 square foot speculative development at 77 Fourth Avenue in Waltham which could be available within 18 months. The lack of 25,000 s.f. and larger blocks of available Class A space is driving speculative construction. Three projects are currently either being proposed or already under construction: The Related Companies is rumored to be purchasing Polaroid's 100-acre Main Street site in Waltham for $90 million, which could be 2 to 3 million s.f. of development; Equity Office Properties is constructing a speculative building at 175 Wyman Street in Waltham, which is a 26-acre site slated for approximately 500,000 s.f. of office space; and finally The Davis Companies and Prudential Real Estate broke ground on 450,000 s.f. of speculative development at Reservoir Woods.

Vacancy/Availability: Class A vacancy has declined from 21.0% in Q3 2004 to 17.0% in Q3 2005. The 128 South submarket Class A vacancies are the lowest at 10.6%, with the 128 West submarket coming in next at 14.8%. Class B vacancies have also improved from 16.1% in Q3 2004 to 14.9% currently.

Average asking rents: Class A average asking rents have remained steady at $22 – $29 per square foot but some areas are even asking as high as $35 per square foot. Class B asking rents are averaging $16 – $21 per square foot.



Class A & B Office Average Asking Rents & Vacancy Rates

SUBURBAN ROUTE 128

Other Trends: This area continues to experience the "flight to quality" phenomenon, but Class A vacancies are falling and rents are slightly increasing. Landlords are signing shorter leases, and the concessions they are offering are not as great. "Blend and extend" deals are not as prevalent either.

Demand Drivers: Demand continues to come from the strong industries of FIRE, technology, healthcare, and medical device. Raytheon's continued expansion exemplifies the strength of the defense industry as well.

Forecast: The 128 Loop seems to be the central driver in the suburban market recovery, as demonstrated by the speculative projects taking place in the 128 West submarket. All the submarkets should stabilize with Class A recovering first. There is still a call for cautious optimism as energy prices and rising construction costs will have a dampening effect on growth of the overall economy.

Noteworthy Deals: BAE Systems signed to lease 102,000 s.f. at 6 New England Executive Park in Burlington in an extension and expansion deal. Scansoft's 88,000 s.f. lease deal will put One Wayside Drive in Burlington at 90% occupancy. ITV Direct will lease 55,000 s.f. at Cherry Hill Drive in Beverly. Aviva Life Insurance is taking 100,000 s.f. at 3 Batterymarch in Quincy. This area also experienced one of the largest sales where OneBeacon Insurance Group purchased 150 Royall Street for $23 million ($115 per square foot) to use as their headquarters after vacating their Boston space.

Route 495:

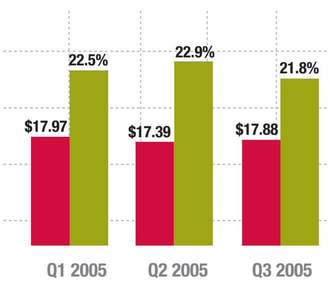
Growth remains slow, but demand is starting to be driven by tenants seeing a tightening in the Framingham/Natick area.

Devens, MA
High tech companies like American Superconductor are choosing Devens' amenities and fast permitting

The main event: Progress continues to trend westward from Framingham/Natick. Major intersections along the Mass Pike continue to strengthen such as Speen Street and 9/90 Corporate Center. Class A buildings continue to fill while Class B buildings' vacancies remain higher.

Vacancy/Availability: Class A vacancies continued to drop from 28.2% in Q2 2005 to 24.0% currently, with 495 West experiencing a drop from 20.8% in Q2 to 17.9% currently. Class B vacancies remain high at 19.8%.

Average asking rents: Class A office rents range from $17 to $23 per square foot, and Class B rents range from $15 to $18 per square foot. These ranges remained pretty steady over the last few quarters.



Class A & B Office Average Asking Rents & Vacancy Rates
ROUTE 495
Asking Rents | Vacancy Rate

Other Trends: R&D/flex space which has been languishing, has recently seen improved activity with recent leases to Diebold (24,000 s.f.), Richardson Electronics (40,650 s.f.), Array, Inc. (7,000 s.f.), Fresenius Medical and Aydin Displays (7,500 s.f.).

Demand Drivers: 495 West continues to experience sporadic growth. Companies continue a "lean and mean" approach to real estate. Software and hardware companies along with medical device companies are primary drivers of demand.

Forecast: The 495 area will continue to experience slow growth. However, with the tightening Framingham/Natick market, companies will begin to transition towards Route 495 in order to take advantage of higher vacancies and lower rental rates. In the 495 South area, companies who are searching for Class A space of 1,000 to 5,000 s.f. are having a difficult time finding options.

Noteworthy Deals: Clark Consulting will lease 26,000 s.f. at 132 Turnpike Road in Southborough. The tenant did receive some TI, but they will spend more to complete a higher-end buildout. Draeger Medical Systems signed to lease 128,400 s.f. at 6 Technology Drive in Andover, and Northrop Grumman will lease 81,000 s.f. at 100 Brickstone in Andover for an effective rate of $16.94 per square foot.

Industrial Market:

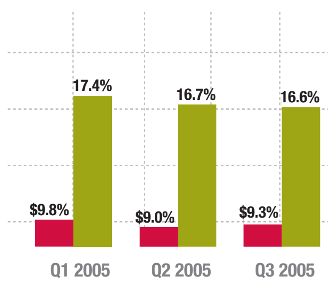
With leasing activity experiencing a slight uptick in the industrial market, projected growth will be slow and steady with rental rates remaining fairly flat.

11 Forbes Road, Northborough
Industrial investors are paying top dollar for modern industrial buildings like this which NAI Hunneman sold for $11.5 million

The main event: Whereas in the past most of the activity in the industrial market was on the user/buyer side, now tenants are coming back to the market for leasing. In 2004 buyers were in the market due to low interest rates, poor returns in the stock market and ample supply of capital for investment. Purchase opportunities are still hot, but the supply is extremely limited. Construction costs for new buildings continue to rise with an increased demand for steel and other resources from other regions in the U.S. and foreign countries, most notably Canada.

Vacancy/Availability: The current overall industrial vacancy rate increased slightly to 9.3% this quarter compared to 9.0% in Q2 2005, but is still down from 10.2% a year ago. The flex/R&D vacancy rate slightly dropped from 16.7% last quarter to 16.6% currently, which is down from the 16.9% rate a year ago.

Average asking rents: Average industrial asking rents continue to range from $5.00 per square foot NNN to $8.00 per square foot NNN. Flex/R&D rents range from $6.60 per square foot NNN to almost $14.00 per square foot NNN. Rental rates continue to stabilize.



Boston Metro Industrial and Flex/R&D Vacancy Rates
INDUSTRIAL MARKET
Industrial | Flex/R&D

Other Trends: Sites close to major highways are becoming more in demand as industrial companies are trying to cut down on rising transportation costs. Rail access is at a premium and hard to find. Tenants are also looking to upgrade to more modern and efficient facilities.

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Industrial Market *continued from page inside*

Demand Drivers: Demand is varied for industrial manufacturing, especially in the 495 South area, where there are a limited number of modern facilities available. There are some large facilities available and there has been significant activity particularly from retail related to auto parts on those larger facilities.

Forecast: With leasing activity experiencing a slight uptick in the industrial market, projected growth will be slow and steady with rental rates remaining fairly flat. With the lack of many speculative construction projects underway, tenants who do need space will have to contend with existing available options, resulting in vacancies to decline slowly over the next few quarters.

Noteworthy Deals: In one of the largest deals in the 495 South area in a while, Bodek & Rhodes signed an five-year deal for 132,500 s.f. of warehouse/distribution space. This deal demonstrates the strength of retailers as a demand driver for warehouse space.

Investment Market:

Due to available equity, subsequent demand and lack of supply, investors are willing to take smaller returns, causing cap rates to decline.

318 Main Street, Malden
Walgreens Plaza in Malden, whose tenants include Walgreens, Blockbuster and D'Angelo, was sold by NAI Hunneman for $7.65 million ($318 per square foot)

The Main Event: Available equity and subsequent demand continue to outpace supply. Capitalization rates for higher quality investment properties have continued to decrease to the point that they have now reached the 6% to 8% range. Retail cap rates are approximately 6.5% to 7.5%. Cap rates and discount rates have declined by at least 100 basis points in the last few years.

Other Trends: Properties are trading at or near replacement costs. Triple net industrial, triple net retail supermarket-anchored shopping centers and multi-family properties continue to be the top sellers. Real estate returns continue to outperform those of other asset classes. Some of the better quality buildings are getting multiple bids, causing some investors to offer to pay non-refundable deposits or offer to have shorter due diligence requirements if any in order to stand out from the rest of the bidders.

Demand Drivers: A wide availability of equity/capital is resulting in strong demand. Today's buyers are coming from all sectors such as entrepreneurs, syndicators, TIC's, foreign investors, REIT's, insurance companies, and pension funds.

Forecast: Without a major change in the ten-year note, the investment sales market should continue to be red hot. Even if interest rates creep up, cap rates are not expected to rise significantly for several years.

Noteworthy Deals: Bay Colony Corporate Center in Waltham is selling for a cap rate of 6.8% at $281 per square foot. South End and Bay Village, a six-townhouse apartment building portfolio with 42 luxury units, sold for $11 million at a 6% cap rate. And finally, 11 Forbes in Northborough, a 211,600 s.f. warehouse and distribution center net-leased to Graybar Electric, sold for $11.5 million ($54.35 per square foot).

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