

Market Review

Metro Boston Real Estate Market Review | 3rd Quarter 2011



Boston Office Market

FEATURED PROPERTY



Executive Office Suites by Daniel Rene

Located on the 4th floor at 109 State Street, high-end office space.

Contact Jeff Becker at 617.457.3424

CLASS A OFFICE SPACE

Office Submarket	Space Inventory	Direct Vacant Space	Sublease Vacant Space	Total Vacant Space	Average Rental Rates	Direct Vacancy (%)	Total Vacancy (%)
Financial District	30,562,668	4,586,509	129,598	4,716,107	\$43	15.0%	15.4%
North Station/North End	1,633,531	185,017	0	185,017	\$29	11.3%	11.3%
Seaport	2,816,533	370,947	0	370,947	\$60	13.2%	13.2%
Charlestown	903,771	33,803	10,089	43,892	\$33	3.7%	4.9%
Back Bay	11,441,412	597,514	102,843	700,357	\$38	5.2%	6.1%
Downtown Boston	47,357,915	5,773,790	242,530	6,016,320	\$42	12.2%	12.7%

HIGHLIGHTS

- The Boston Office Inventory comprises approximately 73.6 million square feet (SF) of Class A & B product situated throughout the Charlestown, Seaport, Financial District, North / South Station, Midtown and Back Bay Submarkets. This office market continues to witness a slow stabilization. Unlike past recessions, this recovery period will be marked by a series of modest up ticks in rental rates and a similar decline in vacancy rates.
- Overall vacancy stands at 11.95% with a Q3 absorption of 312,781 SF, which is an improvement over Q3 2010 when absorption totaled 112,488 SF.
- Large users, particularly in the Back Bay and the Suburbs are starting to look seriously at the Seaport/Innovation District as a price and lifestyle alternative. Technology continues to put pressure on employee-to-SF ratios.
- Overall "Asking Rents" have remained stable at \$36.74 / SF, which is down slightly from one year ago.

CLASS B OFFICE SPACE

Office Submarket	Space Inventory	Direct Vacant Space	Sublease Vacant Space	Total Vacant Space	Average Rental Rates	Direct Vacancy (%)	Total Vacancy (%)
Financial District	10,137,423	1,170,166	12,958	1,183,124	\$27	11.5%	11.7%
North Station/North End	5,924,969	224,840	17,334	242,174	\$26	3.8%	4.1%
Seaport	5,247,725	928,255	63,737	991,992	\$26	17.7%	18.9%
Charlestown	2,214,055	120,605	23,975	144,580	\$27	5.4%	6.5%
Back Bay	2,849,637	234,082	1,700	235,782	\$34	8.2%	8.3%
Downtown Boston	26,373,809	2,677,948	119,704	2,797,652	\$27	10.2%	10.6%

Source: CoStar, NAI Hunneman Commercial Company. Prepared: October, 2011. Rental Rates are asking rents on direct space as reported by Costar. Disclaimer: The above data is from sources deemed to be generally reliable, but no warranty is made as to the accuracy of the data nor its usefulness for any particular purpose.

- The lack of significant new supply in the Boston market will continue to put pressure on rents throughout 2012, particularly in the Back Bay where vacancy rates are at 6.6%; and Boston's central business district offers affordable space in the lower floors of Class-A office towers.

NOTEWORTHY TRANSACTIONS

- NAI Hunneman leased the full 23,000 SF of office space at One Faneuil Hall Square to EC Boston Language Center. NAI completed the transaction within six months of being named the exclusive leasing agent for the building.
- The Boston Herald took 50,000 SF at Seaport Center.
- LPL Financial took 68,000 SF at 75 State Street in Boston's Financial District.

*Vacant space, vacancy rate values include direct and sublease space.

Metro Boston Real Estate Market Review Q3/11

Cambridge Office Market

FEATURED PROPERTY



215 First Street

Plug & Play office space in an East Cambridge icon.

Contact Greg Larsen at 617.457.3321

CLASS A OFFICE SPACE

Office Submarket	Space Inventory	Direct Vacant Space	Sublease Vacant Space	Total Vacant Space	Average Rental Rates	Direct Vacancy (%)	Total Vacancy (%)
East Cambridge	9,680,376	898,581	86,938	985,519	\$50	9.3%	10.2%
Central Cambridge	3,516,830	432,141	0	432,141	\$33	12.3%	12.3%
West Cambridge	1,432,219	300,039	0	300,039	\$27	20.9%	20.9%
Cambridge	14,629,425	1,630,761	86,938	1,717,699	\$44	11.1%	11.7%

HIGHLIGHTS

- Cambridge, with over 19 million SF of Class A & B inventory, has over 2 million SF of total vacant space. The overall vacancy rate for Q3 was 10.78%, a decrease from 11.5% in Q3 2010. The average asking rent was \$39/SF for Class A & B space.
- There was approximately 268,000 SF of available sublease space in Q3 down from 399,000 SF in Q2.
- The Class A office market in Cambridge contains approximately 14 million SF and the vacancy rate for Q3 was 11.1%. Average rents for Class A space are approximately \$46/SF. The Class B inventory measures approximately 5 million SF with a vacancy rate of 8% and asking rents in the \$33/SF range.

CLASS B OFFICE SPACE

Office Submarket	Space Inventory	Direct Vacant Space	Sublease Vacant Space	Total Vacant Space	Average Rental Rates	Direct Vacancy (%)	Total Vacancy (%)
East Cambridge	1,989,940	102,283	0	102,283	\$39	5.1%	5.1%
Central Cambridge	2,137,195	143,936	8,800	152,736	\$32	6.7%	7.1%
West Cambridge	901,488	145,750	0	145,750	\$19	16.2%	16.2%
Cambridge	5,028,623	391,969	8,800	400,769	\$33	7.8%	8.0%

Source: CoStar, NAI Hunneman Commercial Company. Prepared: October, 2011. Rental Rates are asking rents on direct space as reported by Costar. Disclaimer: The above data is from sources deemed to be generally reliable, but no warranty is made as to the accuracy of the data nor its usefulness for any particular purpose.

NOTEWORTHY TRANSACTIONS

- Biogen IDEC for 2 new buildings returning from their new 400,000 SF Weston office HQ to 600,000 SF in Kendall Square:
 - 200,000 SF at Boston Properties' 17 Cambridge Center and
 - 400,000 SF at 225 Binney Street, the first new building at Alexandria Center at Kendall Square.
- Pfizer announced a new 180,000 SF Cambridge research headquarters to be constructed at MIT's 610 Main Street site.
- Pegasystems absorbed the remaining available IBM space at One Rogers Street with a 143,000 SF switch from its longtime 101 Main Street location.

Suburban Office Market

FEATURED PROPERTY



One & Three Burlington Woods

Class A office space ranging in size from 5,000 – 18,000 SF directly off of Route 128

Contact Steve James at 617.457.3263

CLASS A OFFICE SPACE

Office Submarket	Space Inventory	Direct Vacant Space	Sublease Vacant Space	Total Vacant Space	Average Rental Rates	Direct Vacancy (%)	Total Vacancy (%)
Route 128 North	9,226,353	1,731,985	13,710	1,745,695	\$24	18.8%	18.9%
Route 128 Northwest	8,352,547	897,554	165,527	1,063,081	\$25	10.7%	12.7%
Route 128 West	14,859,938	1,869,121	195,838	2,064,959	\$29	12.6%	13.9%
Route 128 Southwest	1,615,761	216,655	16,791	233,446	\$23	13.4%	14.4%
Route 128 South	4,741,662	1,020,482	172,946	1,193,428	\$23	21.5%	25.2%
Route 128 Loop	38,796,261	5,735,797	564,812	6,300,609	\$26	14.8%	16.2%
I-495 North	3,339,292	656,966	28,509	685,475	\$20	19.7%	20.5%
I-495 Northwest	3,680,721	307,258	30,648	337,906	\$19	8.3%	9.2%
I-495 West	5,470,036	1,061,285	142,191	1,203,476	\$19	19.4%	22.0%
I-495 Southwest	788,793	277,844	0	277,844	\$21	35.2%	35.2%
I-495 South	137,000	27,110	0	27,110	\$21	19.8%	19.8%
I-495 Loop	13,415,842	2,330,463	201,348	2,531,811	\$19	17.4%	18.9%

HIGHLIGHTS

ROUTE 128

- As of Q3 2011 the Route 128 Class A & B office inventory measured approximately 75.2 million SF. There was 11.8 million SF of vacant space (direct & sublet) which equals a vacancy rate of 15.7%. The vacancy rate remained stable during the third quarter of the year. The average asking rent was \$22.42/SF range.
- There was roughly 3,337,090 SF of available sublease space in Q1, up from 636,532 in the previous quarter and consistent with other submarkets as a trend of shedding sublease space has continued for several quarters.
- The Class A inventory includes 38.8 million SF with a vacancy rate of 16.2%. Asking rents for Class A space are approximately \$26/SF. The 36.5 million SF Class B market has a vacancy rate of 14.3% and average asking rents in the \$19/SF range.

I-495

- The I-495 office market (Class A & B) has approximately 31.1 million SF. There was 5.8 million SF of vacant space at the end Q3. The vacancy rate went up from 17.8% in Q2 to 18.83% in Q3. The average asking rent for Class A & B space was \$17/SF.

CLASS B OFFICE SPACE

Office Submarket	Space Inventory	Direct Vacant Space	Sublease Vacant Space	Total Vacant Space	Average Rental Rates	Direct Vacancy (%)	Total Vacancy (%)
Route 128 North	8,369,395	990,942	38,350	1,029,292	\$18	11.8%	12.3%
Route 128 Northwest	5,707,798	948,156	157,219	1,105,375	\$17	16.6%	19.4%
Route 128 West	13,091,327	1,809,238	70,960	1,880,198	\$21	13.8%	14.4%
Route 128 Southwest	3,664,239	630,936	28,000	658,936	\$17	17.2%	18.0%
Route 128 South	5,701,196	854,287	34,418	888,705	\$17	15.0%	15.6%
Route 128 Loop	36,533,955	5,233,559	328,947	5,562,506	\$19	14.3%	15.2%
I-495 North	3,400,862	574,056	0	574,056	\$17	16.9%	16.9%
I-495 Northwest	5,458,325	1,004,532	178,285	1,182,817	\$17	18.4%	21.7%
I-495 West	6,245,687	953,448	150,905	1,104,353	\$17	15.3%	17.7%
I-495 Southwest	1,214,424	237,493	0	237,493	\$20	19.6%	19.6%
I-495 South	1,372,545	227,422	0	227,422	\$19	16.6%	16.6%
I-495 Loop	17,691,843	2,996,951	329,190	3,326,141	\$17	16.9%	18.8%

Source: CoStar, NAI Hunneman Commercial Company. Prepared: October, 2011. Rental Rates are asking rents on direct space as reported by Costar. Disclaimer: The above data is from sources deemed to be generally reliable, but no warranty is made as to the accuracy of the data nor its usefulness for any particular purpose.

- There was 1,006,185 SF of available sublease space, which decreased from 1,185,617 in the previous quarter.
- The Class A market includes 13.4 million SF and has a vacancy rate of 18.9%. The vacancy rate increased from 17.4% in Q2. The average asking rent for Class A space was \$19/SF range. The Class B inventory is approximately 17.6 million SF with a vacancy rate of 19%. The average asking rent was \$17.6/SF.

NOTEWORTHY TRANSACTIONS

- NAI Hunneman leased 10,000 SF to CSG Systems International at One Burlington Woods.
- Dyax Corp leased 44,500 SF at 55 Network Drive in Burlington.
- Hitachi Solutions leased 50,000 SF at Hobbs Brook Office Park.

Industrial/Flex Market

FEATURED PROPERTY



SouthCoast Life Science & Technology Park

New to market 300-acre science and industrial park MEPA approved for 3 MSF of new development – \$80,000/acre.

Contact Cathy Minnerly at 617.457.3334 or Michael DiGiano at 617.457.3410

INDUSTRIAL MARKET

Industrial Submarket	Space Inventory	Vacant Space*	Vacancy Rate*	Rental Rate (NNN)
Boston Central Core	22,474,208	2,384,316	10.6%	\$7.88
Route 128 North	27,255,263	1,713,119	6.3%	\$6.03
Route 128 Northwest	4,731,707	216,965	4.6%	\$6.36
Route 128 West	11,507,606	376,858	3.3%	\$6.59
Route 128 Southwest	12,008,128	1,007,925	8.4%	\$4.97
Route 128 South	24,549,507	3,284,038	13.4%	\$5.32
Route 128 Loop	80,052,211	6,598,905	8.2%	\$5.75
I-495 North	15,197,974	1,296,276	8.5%	\$4.76
I-495 Northwest	10,792,255	1,779,926	16.5%	\$4.57
I-495 West	16,873,359	2,108,006	12.5%	\$5.27
I-495 Southwest	15,393,175	2,205,815	14.3%	\$4.99
I-495 South	13,810,084	2,628,474	19.0%	\$4.16
I-495 Loop	72,066,847	10,018,497	13.9%	\$4.79
Metropolitan Boston	174,593,266	19,001,718	10.9%	\$5.63

INDUSTRIAL

- The metropolitan Boston Industrial Market includes 174 million SF. The vacancy rate for Q3 was 10.9%.
- The average asking rent was \$5.63/SF NNN.
- The industrial market has been stable over the last few quarters with only minor changes in rents and vacancy rates

R&D

- The Flex / R&D market in metropolitan Boston includes roughly 80.2 million SF.
- The vacancy at the end of Q3 was 12.7%.
- The average rental rate is \$9.11/SF NNN.
- The Flex / R&D market has also been stable over the last few quarters with only marginal changes.
- While some tenants are consolidating to better their space situation, demand continues to grow for quality medical space as does the need for good warehouse and distribution space.

FLEX/R&D MARKET

Industrial Submarket	Space Inventory	Vacant Space*	Vacancy Rate*	Rental Rate (NNN)
Boston Central Core	7,731,302	676,027	8.7%	\$15.76
Route 128 North	13,897,423	1,527,177	11.0%	\$8.24
Route 128 Northwest	9,964,371	1,757,744	17.6%	\$8.45
Route 128 West	8,150,715	685,219	8.4%	\$10.51
Route 128 Southwest	6,027,894	736,125	12.2%	\$8.67
Route 128 South	3,680,199	364,880	9.9%	\$8.67
Route 128 Loop	41,720,602	5,071,145	12.2%	\$8.83
I-495 North	8,761,829	1,788,219	20.4%	\$7.26
I-495 Northwest	5,975,842	631,305	10.6%	\$7.92
I-495 West	10,141,201	1,815,530	17.9%	\$7.03
I-495 Southwest	3,726,673	145,807	3.9%	\$10.55
I-495 South	2,176,719	77,985	3.6%	\$8.83
I-495 Loop	30,782,264	4,458,846	14.5%	\$7.82
Metropolitan Boston	80,234,168	10,206,018	12.7%	\$9.11

Source: CoStar, NAI Hunneman Commercial Company. Prepared: October, 2011. Disclaimer: The above data is from sources deemed to be generally reliable, but no warranty is made as to the accuracy of the data nor its usefulness for any particular purpose. Vacant space, vacancy rate values include direct and sublease space. Average Rental Rates are asking rents on direct space as reported by Costar

NOTEWORTHY TRANSACTIONS

- NAI Hunneman sold 910 Washington Street in Dedham, a former restaurant space that will be converted into medical office.
- Cold Storage Solutions leased 186,000 SF at 310 Kenneth Welch in Lakeville.
- Chex Finer Foods leased 58,000 SF at Cabot Business Park in Mansfield.

Metro Boston Real Estate Market Review Q3/11

Office Market Conditions

CLASS A & B OFFICE MARKET

Office Submarket	Space Inventory	Direct Vacant Space	Sublease Vacant Space	Total Vacant Space	Average Rental Rates	Direct Vacancy %	Total Vacancy %
Financial District	40,700,091	5,756,675	142,556	5,899,231	\$39	14.1%	14.5%
North Station/North End	7,558,500	409,857	17,334	427,191	\$26	5.4%	5.7%
South Station/Ft. Point	8,064,258	1,299,202	63,737	1,362,939	\$38	16.1%	16.9%
Charlestown	3,117,826	154,408	34,064	188,472	\$29	5.0%	6.0%
Back Bay	14,291,049	831,596	104,543	936,139	\$37	5.8%	6.6%
Downtown Boston	73,731,724	8,451,738	362,234	8,813,972	\$37	11.5%	12.0%
East Cambridge	11,670,316	1,000,864	86,938	1,087,802	\$48	8.6%	9.3%
Central Cambridge	5,654,025	576,077	8,800	584,877	\$33	10.2%	10.3%
West Cambridge	2,333,707	445,789	0	445,789	\$24	19.1%	19.1%
Cambridge	19,658,048	2,022,730	95,738	2,118,468	\$41	10.3%	10.8%
Route 128 North	17,595,748	2,722,927	52,060	2,774,987	\$21	15.5%	15.8%
Route 128 Northwest	14,060,345	1,845,710	322,746	2,168,456	\$22	13.1%	15.4%
Route 128 West	27,951,265	3,678,359	266,798	3,945,157	\$25	13.2%	14.1%
Route 128 Southwest	5,280,000	847,591	44,791	892,382	\$19	16.1%	16.9%
Route 128 South	10,442,858	1,874,769	207,364	2,082,133	\$20	18.0%	19.9%
Route 128 Loop	75,330,216	10,969,356	893,759	11,863,115	\$22	14.6%	15.7%
I-495 North	6,740,154	1,231,022	28,509	1,259,531	\$18	18.3%	18.7%
I-495 Northwest	9,139,046	1,311,790	208,933	1,520,723	\$18	14.4%	16.6%
I-495 West	11,715,723	2,014,733	293,096	2,307,829	\$18	17.2%	19.7%
I-495 Southwest	2,003,217	515,337	0	515,337	\$21	25.7%	25.7%
I-495 South	1,509,545	254,532	0	254,532	\$19	16.9%	16.9%
I-495 Loop	31,107,685	5,327,414	530,538	5,857,952	\$18	17.1%	18.8%
Metropolitan Boston	199,827,673	26,771,238	1,882,269	28,653,507	\$28.85	13.4%	14.3%

CLASS A & B OFFICE - AVAILABLE SUBLEASE SPACE & RENTS

Office Submarket	AVAILABLE SUBLEASE SPACE				SUBLEASE ASKING RENTS			
	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4
Downtown Boston	1,041,774	1,079,853	1,146,971	1,219,963	\$27.87	\$27.72	\$27.62	\$29.38
Cambridge	268,294	399,309	164,487	247,160	\$35.66	\$35.58	\$30.73	\$32.56
128 Loop	2,337,090	2,036,832	1,947,118	2,022,532	\$18.07	\$18.05	\$17.99	\$17.48
I-495 Loop	1,074,203	1,082,225	1,006,185	1,185,617	\$14.80	\$13.84	\$14.13	\$14.93
Metropolitan Boston	4,721,361	4,598,219	4,264,761	4,675,272	\$19.52	\$19.41	\$19.60	\$20.50

CLASS A & B OFFICE - CHANGES FROM PREVIOUS QUARTER & YEAR

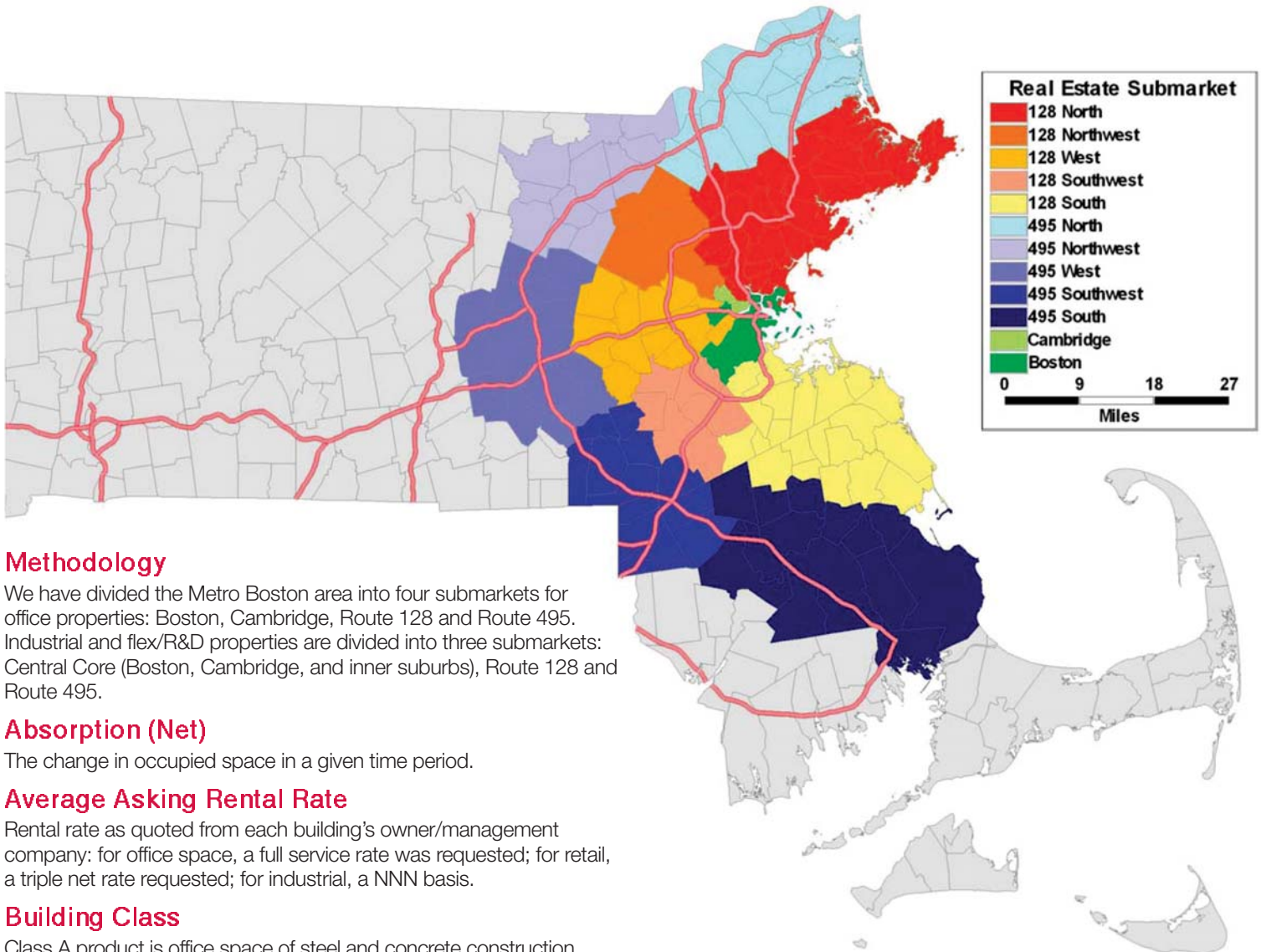
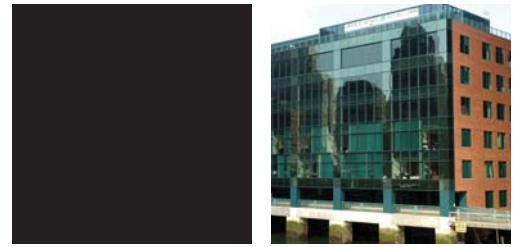
Office Submarket	ASKING RENTS			VACANCY RATES			ABSORPTION		
	2011 Q3	2011 Q2	2010 Q3	2011 Q3	2011 Q2	2010 Q3	2011 Q3	2011 Q2	2010 Q3
Downtown Boston	\$36.74	\$37.73	\$36.97	11.95%	12.39%	10.96%	312,781	(336,874)	112,488
Cambridge	\$40.78	\$39.36	\$35.37	10.78%	11.50%	10.03%	173,853	(230,467)	136,030
Route 128 Loop	\$22.42	\$22.30	\$21.95	15.75%	15.31%	16.05%	(140,890)	413,540	220,238
I-495 Loop	\$18.14	\$18.16	\$16.80	18.83%	17.89%	19.38%	(276,311)	(117,730)	(147,848)
Metropolitan Boston	\$28.85	\$28.87	\$27.91	14.34%	14.29%	14.12%	69,433	(271,531)	320,908

Source: CoStar, NAI Hunneman Commercial Company Prepared: October, 2011

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NAI HUNNEMAN

Methodology / Definitions / Submarket Map



Methodology

We have divided the Metro Boston area into four submarkets for office properties: Boston, Cambridge, Route 128 and Route 495. Industrial and flex/R&D properties are divided into three submarkets: Central Core (Boston, Cambridge, and inner suburbs), Route 128 and Route 495.

Absorption (Net)

The change in occupied space in a given time period.

Average Asking Rental Rate

Rental rate as quoted from each building's owner/management company: for office space, a full service rate was requested; for retail, a triple net rate requested; for industrial, a NNN basis.

Building Class

Class A product is office space of steel and concrete construction, quality tenants, excellent amenities & premium rates. Class B product is office space with fair to good finishes and a wide range of tenants.

Cap Rate

The net operating income divided by the sales price or value of a property expressed as a percentage.

CBD

Central business district

Direct Vacancy

Space currently available for lease directly with the landlord or building owner.

Overall Vacancy

All unoccupied lease space, either direct or sublease.

Sublease

Arrangement in which a tenant leases rental property to another, and the tenant becomes the landlord to the subtenant.

Total Square Footage

Net rentable area considered available for lease; includes sublease space.