NAI Hunneman

Commercial Real Estate Services, Worldwide.

Metro Boston Real Estate MARKET UPDATE

Boston (Downtown):

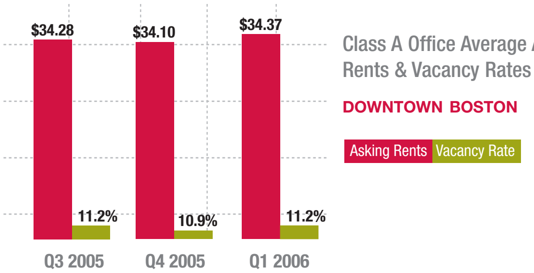
Leasing velocity has been steadily increasing. Large blocks of available space are scarce; options for tenants seeking 10,000 to 20,000 s.f. have in addition decreased by approximately 25%.

One Design Center, Boston
NAI Hunneman leased 30,000 s.f. of space to the Boston Beer Company at the Boston Design Center, which was recently purchased by Vornado

The main event: Leasing velocity has been steadily increasing. Commitments are up and not just in the high-rise sector. Large tenants such as IBT, Bingham McCutchen, Houghton Mifflin, Wellington and Partners Healthcare stepped up and accounted for 25% of the leasing in 2005. So far, 2006 is starting out just as strong as nearly 250,000 s.f of Class A space was absorbed in the first quarter. Even though the Boston area is not experiencing a strong economy, the rest of the country is, and Boston area companies who service other regions are benefiting. National mergers and acquisitions of accounting and law firms are also affecting this area. Companies such as Ropes & Gray and Wilmer Hale are in the market seeking large blocks of space, but large blocks of available space are scarce. Even options for tenants seeking 10,000 to 20,000 s.f. have decreased by approximately 25%. Back Bay continues to be healthy with increased absorption by small to mid-sized tenants, increasing rental rates from mid- $30's per s.f. to high $30's per s.f. and limited sublease space available.

Vacancy/Availability: Overall Class A vacancy is 11.2%, which is a slight increase from 10.9% last quarter as the Financial District submarket slightly increased from 12.8% to 13.1%. Class B slightly dropped from 11.3% to 10.9% currently. Over the last 18 months almost one million s.f. was removed from the Class B inventory for condominium conversions.

Average asking rents: The average asking rent gap between high-rise space and low-rise space is tightening. Low-rise Class A space is averaging mid to high $30's per s.f., compared to low to mid-$30's per s.f. a year ago. High-rise Class A space is averaging low to mid-$50's, compared to high $40's a year ago. Tenant improvements (TI) are still around $50 to $60 per s.f. on a 10-year lease, and some TI is as high as $70 per s.f. Overall Class A space downtown is averaging $34 per s.f., and Class B space is averaging $26 per s.f.



Other Trends: As the market improves, landlords are starting to push back on tenants in the market with lease liability. Lease incentives such as free rent and excessive tenant improvements are also starting to decline due to increased absorption. Traditional "below market" areas such as South Station/Fort Point Channel, Mid-Town, and North Station are closing the price gap disparity due to infrastructure improvements like the artery, Greenway and Silverline, as well as new development commitments.

Demand Drivers: As reported in our Fall 2005 market update, financial, legal services and healthcare continue to drive demand in the marketplace. Continued building conversions such as Russia Wharf, 348-354 Congress Street and 49, 51 and 63 Melcher Street add a constant stream of dislocated tenants. Re-alignment of the Fort Point Channel/Seaport area offers the "shift" and "expansion" from the Financial District, especially for companies in the graphics, architecture and engineering industries.

Forecast: The strong increase in small (2,500 – 8,000 s.f.) to mid-size (10,000 – 25,000 s.f.) tenant growth will motivate the sub-division of large floor plate vacancies throughout the Downtown market. Of the 425 companies surveyed in Boston whose leases are expiring within the next two years, over 60% were in the 2,500 to 10,000 s.f. range, and approximately 16% were in the 10,000 to 25,000 s.f. range. All markets in Boston Downtown will continue to firm up, while the Proctor & Gamble situation remains unclear. With only Fan Pier and Russia Wharf as options for new development coming online, vacancies could dip to around 5% by 2009.

Noteworthy Deals: Piper Rudnick signed a 10-year lease for 68,000 s.f. at 33 Arch Street. In a relocation from 150 Federal Street, Bingham McCutchen will lease 320,000 s.f at 1 Federal Street, which was previously occupied by Fidelity Investments, starting in the summer of 2008. Wellington Management will occupy more than 200,000 s.f at 100 Federal Street, which was previously occupied by Bank of America. Sovereign Bank renewed for 10 years at 75 State Street for 110,000 s.f.

Cambridge:

East Cambridge's Class A market has experienced an unusual burst of positive absorption, decreasing vacancies and increasing rental rates. Cambridge's reputation as the pharmaceutical/large-biotech center continues to attract the most serious and successful players.

85 Bolton Street, Cambridge
New to the tightening Cambridge market is this 43,000 s.f. Class A office and lab building at 85 Bolton Street. Available for sale or lease

The main event: East Cambridge's Class A office market has experienced an unusual burst of positive absorption of almost 375,000 s.f., as well as decreasing vacancies and increasing rental rates. As a result, Class A rents in East Cambridge have been increasing by 50 cents each quarter over the last year. Class B space has been moving much slower, and there is still a lot of Class B/C on the market. Class A lab space is also faring well with large pharmaceutical companies like Novartis, Schering-Plough and Helicos Pharmaceuticals taking large blocks of space. Most of the life science growth is by companies relocating from out-of-state, or companies already located here who are maturing to the clinical trial phase. Companies coming from out-of-state, such as Schering-Plough, are attracted to the labor pool from MIT and Harvard

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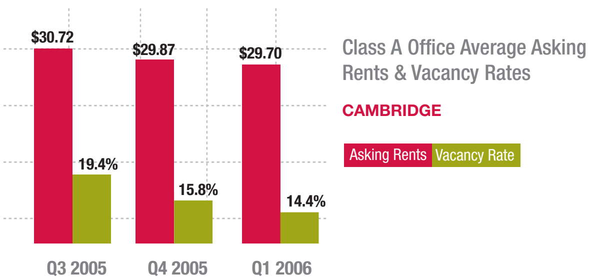
Cambridge Market *continued from page 1*

and want to stay competitive with the large players already located here such as Novartis, Genzyme, Biogen and Millennium Pharmaceuticals.

Vacancy/availability: Class A vacancies have been rapidly declining from 21.4% in the first quarter of 2005 to 14.4% currently. East Cambridge continues to be the driver of the substantial drop in vacancy, as this submarket dropped to 16.2% from 26.0% a year ago, thanks to solid positive absorption of 350,000 s.f in the Class A market in the first quarter of 2006 alone. Class B vacancies remain in the single digits at 9.5% with East Cambridge remaining tight at 5.4%.

Average asking rents: Rental rate increases have been more prevalent in Class A office and lab space, where East Cambridge experienced the most rent growth. Overall Class A office space ranges from $28 per s.f. to $33 per s.f. Class B rents range from $22 per s.f. to $25 per s.f. Newly built lab space ranges from $40 to $50 NNN per s.f. with landlord buildout contributions on long term deals at well over $100 per s.f. Existing lab space is usually offered in the $25 to $35 NNN per s.f. range with negotiable landlord allowances up to $25 per s.f. Any space that is quoted in the teens is now considered Class C or discounted sublease space, and this discounted sublease space is being absorbed by growing startups.



Other trends: Existing premium wet lab space on the Kendall/Lechmere side of MIT is tightening up considerably. On the other hand, lab space left from startup and expansions for Millenium, Shire (TKT), Schering-Plough (Neogenesis), Pharma Mar and Alkermes, which are on the Cambridge Port side, is hanging on the market. Lab developers continue to compete hard for Cambridge. Alexandria purchased 300 Third Street, 161 First Street and 171 Sidney Street, spurred by the competition from rival Biomed Realty and others.

Demand drivers: Cambridge's reputation as the pharmaceutical/large-biotech center continues to attract the most serious and successful players, as well as additional service providers for that sector. In addition, venture capital funding is steadily increasing.

Forecast: As landlords for Class A space continue to raise rents, Class B space should begin to tighten up as companies seek this space for economic deals. With large tenants in the market such as Aventis for 75,000 s.f. and Altus for 100,000 s.f., the market is poised for more positive absorption and increasing rental rates.

Noteworthy deals: There have been some recent sales with record prices. 300 Third Street sold for $567 per s.f., and 55 Cambridge Parkway just sold for approximately $406 per s.f. As one of the largest sales transactions in Cambridge and the Suburbs in 2006, One Kendall Square, with 85,000 s.f of recent lease signings, just sold for $210.5 million ($311 per s.f.) to a joint venture of The Beal Companies and Rockwood Capital Corporation. Most notably, Helicos Pharmaceutical is expanding to 27,000 s.f. at One Kendall. Novartis expanded by 75,000 s.f. at 500 Technology Square. Schering-Plough will lease 75,000 s.f. at 320 Bent Street, and CombinatoRX is taking 18,000 s.f. of office space and 22,000 s.f. of lab space at 245 First Street.

Suburban Route 128:

Over the next few quarters the Class A market in the 128 West submarket should continue to experience declining vacancies, rising rental rates and an increase in speculative and build-to-suit construction.

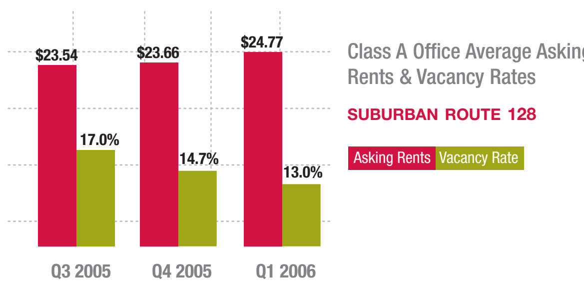
860 Winter Street, Waltham

Located in the desirable Waltham submarket, 860 Winter Street is a Class A building with top notch amenities, state-of-the-art conference center and onsite management and security

The main event: As we reported in the Fall, Class A rental rates have risen enough to spur new speculative construction. Waltham seems to have completely recovered and is setting the trend for the rest of the Route 128 market. Rents continue to increase to the low to mid $30's per s.f., and vacancy rates are falling. This trend in Waltham is driving rents up slowly in the rest of the 128 market, while Class B space remains steady. New speculative construction continues in Waltham. For example, The Davis Companies is developing the former 100-acre Polaroid site on Winter Street, Equity Office Properties continues with the development of 350,000 s.f. of office space at 175 Wyman Street, and Boston Properties is developing office space at their Prospect Hill site.

Vacancy/Availability: Since the first quarter of 2005, Class A vacancy for the Route 128 market has dropped significantly from 18.2% to 13.0% currently. Every submarket experienced significant drops with the 128 West (from 14.1% to 9.3% currently) and 128 South (from 16.4% to 11.7% currently), experiencing the largest drops. Class B market vacancies actually slightly increased from 14.2% in the first quarter of 2005 to 14.5% currently.

Average asking rents: Waltham Class A asking rents range from $30 to $35 per s.f. The rest of the submarkets range from $20 to $25 per s.f. Since construction costs, utility costs and insurance costs are very high, the amount of tenant improvements being offered by landlords is declining.



Other Trends: Not only is the leasing for Class A space doing well, but trophy Class A properties are selling for record prices as well. Bay Colony Corporate Center was purchased by Beacon Capital for approximately $280 per s.f. Boston Properties purchased Prospect Place in Waltham for approximately $213 per s.f. In a sale/leaseback, 830 Winter Street was sold to Intercontinental Real Estate for $293 per s.f. by Praecis Pharmaceuticals, who will continue to lease 65,000 s.f. in the building.

Demand Drivers: Military spending is benefiting defense companies in the northern suburbs. For example, Raytheon is reportedly taking approximately 100,000 s.f. in Billerica, where it already took 100,000 s.f. in the Fall. The healthcare industry is also growing as evidenced by the pending developments of Partners Health and North East Health Systems of 150,000 s.f and 80,000 s.f, respectively. In addition, the financial and technology sectors are also driving demand in the Route 128 area.

Forecast: Over the next few quarters the Class A market in the 128 West submarket should continue to experience declining vacancies, rising rental rates, and an increase in speculative and build-to-suit construction. This effect should trickle down to the Class B market as well as the remaining 128 submarkets.

Noteworthy Deals: United Healthcare will become an anchor tenant at 950 Winter Street at the Bay Colony Corporate Center by combining two of their divisions into 70,000 s.f. Perkin Elmer signed a deal to lease 110,000 s.f. at 940 Winter Street in Waltham.

Route 495:

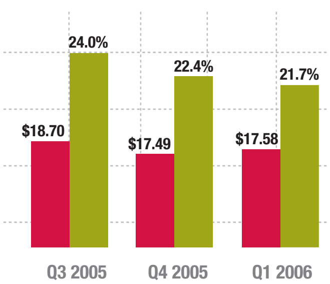
The area has experienced positive absorption and a definite uptick in leasing activity over the last two quarters, which has been fueled by corporate growth.

20 Walkup Drive, Westborough
NAI Hunneman helped RenaMed Biologics secure this 130,000 s.f. office and lab building. They will relocate from Rhode Island

The main event: As the Framingham/Natick area continues to tighten up with vacancies around 5.4%, tenants are moving further west. The area has experienced positive absorption and a definite uptick in leasing activity over the last two quarters, which has been fueled by corporate growth. Vacancy rates have been gradually decreasing, and rental rates have been slowing increasing. Free rent along with other leasing incentives are not as prevalent.

Vacancy/Availability: Class A vacancies continue to drop from 27.0% in the first quarter of 2005 to 21.7% currently, with 495 West experiencing a drop from 21.0% in Q1 2005 to 16.8% currently. Class B vacancies also experienced a slight drop from 18.8% in Q1 2005 to 17.0% currently.

Average asking rents: Class A office rents range from $16 to $22 per s.f., and Class B rents range from $16 to $18 per s.f. These rents have remained fairly steady over the last few quarters with some areas experiencing a slight increase.



Class A Office Average Asking Rents & Vacancy Rates

ROUTE 495

Asking Rents | Vacancy Rate

Other Trends: Investment sales prices continue to move higher as competition from investors pushes falling capitalization rates lower. Examples include 260 Cedar Hill Road, which sold for approximately $130 per s.f. to TV Marlborough LLC. 293 Boston Post Road sold for about $88 per s.f. to Lincoln Property Company and Boston-headquartered Realty Financial Partners.

Demand Drivers: Job growth in the high technology sectors like hardware and software along with the medical device and life science sectors are creating demand for space. According to the Boston Business Journal, of the top-ranked biotech companies in the Boston Metropolitan Area, suburban life science companies now account for 55% of the top 20 biotech companies compared to just 40% in 2002.

Forecast: Since rental rates are currently at least two years away from being at levels to justify speculative development, vacancies should continue its slow decline, and rents should start to increase, albeit slowly. There will also be downward pressure on tenant improvements and free rent.

Noteworthy Deals: In addition to Raytheon's deal in the 128 market, the defense company Northrop Grumman is leasing 81,000 s.f. at Brickstone Square in Andover. Draeger Medical is leasing 128,000 s.f. at 6 Technology Drive, also in Andover. There are currently major corporations in the market such as Motorola and Puma International, which could lease up large blocks of space in the area as well and join other major players already located here such as Staples, Bose, Boston Scientific, and Mathworks.

Industrial Market:

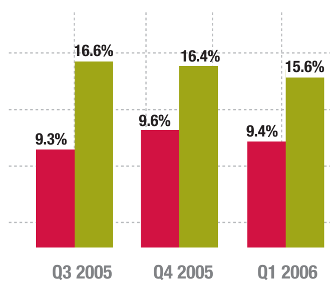
The industrial and flex/R&D market will see a slow and steady improvement in vacancies and rents. However, rents may not increase significantly for another 12 to 18 months.

11 Forbes Road, Northborough
NAI Hunneman sold 11 Forbes Road in Northborough, a 211,000 s.f. warehouse building with 34-foot clear height for $11,500,000

The main event: The Boston Metro industrial market showed signs of recovery, but it was spotty. The Central Core and Route 128 submarkets combined for positive 400,000 s.f of net absorption, while the 495 submarkets experienced slightly negative net absorption. The flex/R&D market is heating up. Last year the average user's size was 3,000 to 5,000 s.f., but now the flex/R&D market is seeing slightly larger users of 7,000 to 10,000 s.f. Warehouse space that is high stud, wide bay with ample outside storage and enough docks is at a premium with only four to five choices along 495. Tenants are now seeking clear heights of 30 to 36 feet and in some cases even 40 feet, as opposed to 22 feet. They are seeking large truck courts, even as long as 160 feet with concrete and also anti-static flooring, ESFR sprinkler systems and efficient power.

Vacancy/Availability: The current overall industrial vacancy rate is 9.4%, which is slightly down from 9.6% from last quarter and 9.8% in Q1 2005. The flex/R&D market has fared much better, falling to the current rate of 15.6% from 16.4% last quarter and from 23.0% in Q1 2005.

Average asking rents: Average overall industrial asking rents continue to range from $5.00 to $8.00 per s.f. NNN. Manufacturing rental rates have also remained pretty steady ranging from $5.00 to $6.00 NNN per s.f. Flex/R&D asking rents range from as low as $6.50 per s.f. NNN to as high as $14.00 per s.f. NNN.



Boston Metro Industrial and Flex/R&D Vacancy Rates

INDUSTRIAL MARKET

Industrial | Flex / R&D

Other Trends: The industrial build-to-suit market is still slow since the cost of construction is so high. Users seem to be looking at buildings in more creative ways by transforming existing buildings to fit their criteria. Landlords will raise a roof, add docks and remove mezzanine levels to create higher ceilings in order to attract tenants. For example, the owner of 445 Simarano Drive in Marlborough recently upgraded his property by removing the 2nd floor mezzanine to create 22-foot clear height as well as installed a new electrical network and modern fire and safety systems. Cascade Promotions just signed a lease for 30,000 s.f. here.With rising fuel costs, rail-served buildings continue to be sought after.

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Industrial Market *continued from page 3*

Demand Drivers: Demand drivers continue to be varied for the industrial market. In the 128 South market, Cabot, Cabot & Forbes' development at Westwood Station has pushed many tenants and owners into this market. Space will continue to tighten as a result of these types of projects.

Forecast: The industrial and flex/R&D market will see a slow and steady improvement in vacancies and rents. However, rents may not increase significantly for another 12 to 18 months. With construction costs high, speculative development will be limited. As a result, owners/developers will continue to modify viable existing buildings.

Noteworthy Deals: In one of the largest sublease deals in a while, Twins Enterprise is subleasing 179,000 s.f. at 480 Sprague Street in Dedham. LTX Corporation is leasing 56,300 s.f. at 825 University Avenue in Norwood. In addition, Netflix is leasing 24,000 s.f. at 444 Whitney Street in Northborough. On the sales side, recent transactions have resulted in record sales prices. 14 Aegean Drive in Methuen sold to AEW for over $78 per s.f. Suffolk had a tenant in tow when they decided to purchase 20 Freedom Way in Franklin from New Boston Fund for approximately $70 per s.f.

Investment Market:

With continuing rising interest rates, capitalization rates may rise 25 to 50 basis points over the balance of the year, putting pressure on prices.

Hyannis House Apartment. Hyannis, MA
NAI Hunneman sold this 111 unit Hyannis House Apartment Complex for $11,000,000 to buyers forecasting a strong rental market

The Main Event: Investment sales increased by approximately 25% in 2005 compared to 2004. However, prices peaked last summer. Values now seem to be correcting themselves. Since last summer we have seen an increase in interest rates and therefore a downward adjustment in prices. Currently, brokers are working with owners to lower their asking price to reflect interest rate spikes, otherwise properties will sit much longer on the market and lose value. All products types seem to be affected by this trend.

Other Trends: Capitalization rates drive the investment sales market, and adjustments in values decrease during a higher interest rate environment. Capitalization rates for shopping centers and net leased properties have increased slightly over the last quarter. There is still a lot of capital in the market, but buyers are being more cautious and waiting for solid, quality assets with a good amount of term. High quality properties in good locations with good long-term credit tenants are selling for record prices. For example, One Kendall Square in Cambridge sold for $311 per s.f., 830 Winter Street in Waltham sold for $293 per s.f., and an industrial building at 14 Aegean Drive in Methuen sold for $78 per s.f.

Demand Drivers: With the 10-year treasury close to 5%, challenges are being faced by private investors versus institutional investors. Private investors are looking for more value-add opportunities. REITs are selling older assets and exchanging them for newer assets and/or in better locations. Pension funds are investing in large mixed-use developments.

Forecast: 2006 should continue to see high activity in investment sales across all property types. Net operating income for multi-family properties should once again start to rise as rent increases accelerate and vacancies decline. With continuing rising interest rates, capitalization rates may rise 25 to 50 basis points over the balance of the year.

Noteworthy Deals: In 2005, Downtown Boston experienced some large sales transactions at 2 Oliver Street, 101 Arch Street, Design Center and 40 Broad Street. In addition, both 1 Federal Street and 1 Boston Place are currently on the market and could fetch high prices. 1 Federal could be purchased by Tishman Speyer for as high as $470 per s.f. The Davis Companies purchased industrial properties on Locke Drive totaling 295,000 s.f. for $81.50 per s.f.

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