



Executive Overview

At the end of 2007 and during the first half of 2008 there was significant uncertainty regarding whether or not the United States was entering a recession; as 2009 gets underway, that uncertainty seems like a distant memory. The United States economy deteriorated rapidly in the second half of 2008 and is not expected to grow until the second half of 2009 at the earliest. The reach of the current economic crisis is widespread and cannot be understated. After being relatively insulated from the worldwide economic struggles, the turmoil began to catch up to the local economy and the greater Boston commercial real estate market in earnest in the last several months of 2008.

Financial Institutions Collapse Under Pressure

With financial institutions crippled by staggering losses, the national and global economies were battered by one crisis after another in 2008. The year saw the collapse of several investment banks and other financial institutions such as Bear Stearns, Lehman Brothers, AIG and Washington Mutual. Fear ruled the day as the banking industry was left in tatters, lending all but screeched to a halt, the stock market sharply declined, consumer confidence plummeted, job losses spiked across sectors and the unemployment rate jumped significantly. The credit crisis that impaired investment sales activity across the country in late 2007 and 2008 led to commercial foreclosure activity as property owners struggled to refinance short term mezzanine debt. Boston has yet to see a spike in commercial foreclosure activity, though news that the high profile John Hancock tower is in default is likely an indicator that more foreclosures are imminent.

Local Companies Feel the Pain

Companies in greater Boston have been impacted by a lack of available capital, hampering their growth and impairing their ability to make decisions regarding real estate. Demand for office space throughout the Boston area decreased and is expected to decline further in 2009 as a result of recessionary pressures. The amount of space being marketed for sublease has risen as companies use all possible methods in an attempt to mitigate damage to their balance sheets. That said, the current level of available sublease space is a fraction of the amount put on the market by struggling firms during the tech bust of 2001 and 2002. At the peak in 2002, there was

16.5 million square feet available for sublease in greater Boston, compared to today's 5.6 million square feet.

Increasing vacancy rates, decreasing rental rates, lagging levels of net absorption and little deal activity to speak of are indicators of the toll the larger economic woes are taking on the local office market. As developers struggled to put together and hold on to financing, some projects are having trouble finding tenants or some have been delayed indefinitely. Rental rates have receded in the face of the weakening economy, exacerbating the problems of landlords and developers.

Massachusetts is not located at the center of this economic storm like it was during the tech bust of 2001 and 2002, one of the bright spots amidst so much gloom. The life science and biotechnology sectors continue to perform relatively well. The concentration of these sectors and the healthcare and education focused industry in the area should help insulate the local economy from the same levels of pain felt elsewhere. One of the particular worries for Boston is the stock market decline; with so many local companies firmly rooted in financial services the implications of a prolonged period of volatility in the stock market have yet to be felt. Job losses in Massachusetts are expected to continue with financial services job cuts increasing as the industry continues to reel from tumult in the financial markets.

Resilience of Massachusetts Businesses to be Tested in 2009

It is unclear what impact the government stimulus package will have on the economy in greater Boston and the nation in 2009. The pervasive negativity permeating the marketplace is cause for concern as 2009 gets underway, though the strength of greater Boston's technology, biotechnology, healthcare and education focused industry is a point of strength in these troubled times.

The economic crisis of 2008 by the numbers

What a difference a year makes

	Year End 2007	Year End 2008
DJIA	13,264.82	8,776.39
US Unemployment	4.9%	7.2%
MA Unemployment	4.3%	6.9%
Job Creation MA	16,000	(43,900)
Job Creation US	1,096,000	(2,589,000)

Sources: Yahoo Finance, Bureau of Labor & Statistics, The Warren Group

Overall Market Statistics YEAR END 2008 Summary

	Asking Rent	Vacancy	Absorption
Boston	↓	↑	↓
Cambridge	↓	↑	↓
Suburbs	↓	↑	↓

Boston Market Overview

The downtown Boston office market, which was relatively insulated from economic turbulence for the first half of 2008, ended 2008 feeling the effects of the trouble in the economy and the credit markets. In 2008, activity and net absorption levels were significantly below recent averages; 74,545 square feet of net absorption was observed this year, far less than the 625,700 square feet absorbed in 2007. The total percentage of available space increased from 12.2% to the current 13.3% in the fourth quarter of 2008 alone.

New space was made available in existing buildings in the Financial District and Back Bay this year including multiple floors at 28 State Street, 99 High Street, One Federal Street and 500 Boylston Street. In 2009 the vacancy rate is expected to rise further with several blocks of 100,000 square feet set to be vacated at buildings including One Federal Street, 28 State Street, and 255 State Street.

The amount of sublease space currently on the market is 968,430 square feet or 4.4% of the total available space, an increase of 336,903 square feet since the beginning of 2008. The amount of sublease space in Boston coming on the market is expected to swell further as companies in all sectors deal with the stock market decline and rising fears of a prolonged recession. Despite the recent bank failures and stock market turmoil, financial service firms have yet to add significant amounts of space to the sublease market in downtown Boston.

The construction boom that had promised to bring significant new supply to downtown Boston stalled in 2008, with work on One Franklin at a standstill as the project is redesigned and the Fan Pier project well underway but without any committed tenants. Other downtown Boston construction projects had a smoother ride in 2008; the 250,000 square foot Channel Center project was completed this year anchored by a 120,000 square foot lease with education company Cengage, Two Financial Center will be anchored by KPMG upon completion in 2010 and Russia Wharf is nearly 82% leased two years before its scheduled completion.

Slowing Demand Results in Decreased Activity

New demand for office space in downtown Boston was slow in 2008 and it is unclear where new demand will originate from in 2009. Few companies are expanding or adding new jobs, many companies are right sizing and most firms are delaying real estate decisions for as long as possible. The slowing of the local and national economies and the prospect of more existing space availabilities coming to market both on a direct and sublease basis will cause rental rates to erode in the short term as tenants take a controlled and disciplined approach to growth and occupancy costs. Much of the deal activity observed in 2008 was renewal driven. It is likely that deal velocity in 2009 will be driven by the

Historical Perspective:

From 2001-2006 the average amount of sublease space on the market in Boston was 2.1 million square feet; the nearly 1 million square feet currently on the market is significantly less.

3.2 million square feet of lease expirations set to occur between now and 2011. Landlords, aware of declining demand, looming vacancy and space needs, are becoming much more aggressive; concessions to tenants, which include free rent and tenant improvement allowances, are trending upward for both new and renewal deals.

Boston Market Highlights

Year End 2008 Boston Market Statistics

Total Inventory	58,308,650 SF
Availability Rate	13.3%
Vacancy Rate	7.1%
Net Absorption YE 2008	74,545 SF
Average Asking Rent	\$49.87

The meteoric rise in average asking rental rates that defined much of 2006 and 2007 came to an end as rental rates began to retreat in 2008. In downtown Boston, average direct weighted rental rates fell 10% in the fourth quarter of 2008 after seven straight quarters of growth. City-wide average asking rental rates decreased nearly 10% this year, dropping from \$55.01/SF at the start of 2008 to the current rate of \$49.87/SF. Financial District rents have decreased from \$60.61 per square foot at the end of 2008 to \$55.35 per square foot to end the year. Rents are expected to erode further in 2009.

When compared to other metro-submarkets, downtown Boston remains relatively healthy. Regardless of the relatively sluggish levels of leasing activity and below average amounts of net absorption observed in 2008, downtown Boston's commercial real estate market remains fundamentally healthy when compared to other metro-submarkets. As 2009 gets underway, the extent to which Boston's economy and office market can weather the recent economic turmoil remains to be seen.

Market Makers

Grantham Mayo Van Oterloo renewed their leases at Rowes Wharf and 225 Franklin Street for a total of 150,000 square feet.

Cengage signed a lease for 120,000 square feet at the recently completed Channel Center.

KPMG will relocate into 118,000 square feet upon the completion of Two Financial Center.

Analysis Group expanded and renewed their lease of 118,000 square feet at 111 Huntington Avenue in the Back Bay.

Charles River Associates renewed their lease of 91,424 square feet at the Hancock Tower.

Cambridge Lab and Office Market Overview

In 2008 the Cambridge office and lab markets suffered from overall anemic demand and leasing activity. Life science, biotechnology and technology firms have been a main source of demand for office space in Cambridge in recent years and continue to drive the little activity that is occurring. Despite all of the success in these sectors, the turmoil in the larger economy has diminished the need for office and lab space as these companies proceed with caution in making business decisions. Institutes with academic affiliations have been another steady source of demand for office and lab space in Cambridge and as yet seem to be more insulated from the larger economic woes. Despite the diversified tenant base in Cambridge, there is little to indicate that Cambridge will see demand increasing substantially in 2009.

Cambridge Companies Hindered by Lack of Capital

The growth of some of Cambridge's vital start-up companies has been hindered as a result of the credit crisis as venture capital funding all but ground to a halt in Massachusetts in 2008. According to Thomson Reuters, there were no initial public offerings statewide and just 20 sales recorded in 2008 compared to 19 initial public offerings and 37 acquisitions in 2007.

As a result of the sluggish demand in the office market, the percentage of available space increased to a still healthy 12.9% from 10.4% at the beginning of 2008. The amount of office space put on the market for sublease this year nearly doubled, for a total of 302,089 square feet. The amount of space available in the lab market remained flat at 16.7% in 2008. The amount of lab space made available for sublease actually decreased from 230,488 square feet at the start of 2008 to the current amount 61,619 square feet. The level of office and lab sublease space currently on the market totals 363,708 square feet, significantly less than the one million square feet being marketed in 2002.

Cambridge Market Highlights

Year End 2008 Cambridge OFFICE Market Statistics

Total Inventory	9,714,186 SF
Availability Rate	12.9%
Vacancy Rate	8.1%
Net Absorption YE 2008	(237,095) SF
Average Asking Rent	\$40.99

Year End 2008 Cambridge LAB Market Statistics

Total Inventory	7,826,105 SF
Availability Rate	16.7%
Vacancy Rate	12.2%
Net Absorption YE 2008	(11,540) SF
Average Asking Rent	\$51.65

Market Watch

The lack of activity and new availability at office buildings such as 100, 125 and 150 Cambridgepark Drive, 25 First Street and 101 Main Street resulted in 237,095 square feet of negative absorption, a 5-year low. There was 54,581 square feet of net absorption in the lab market in the fourth quarter of 2008 due mostly to leasing at 64 Sidney Street in the Massachusetts Avenue Corridor.

In the office market, average asking rental rates have remained relatively stable, increasing slightly from \$40.24 per square foot at the start of 2008 to the current rate of \$40.99 per square foot. Average asking rental rates for lab space declined nearly 10% in 2008 from \$56.97 per square foot at the start of the year to the current rate of \$51.65 per square foot.

The renovation of 177,101 square feet at 200 Technology Square was completed in 2008; otherwise, there was no other new office or lab construction delivered in 2008. The 280,000 square foot building at 650 East Kendall Street, the only project currently under construction in Cambridge, has yet to secure a tenant. The newly constructed lab 415,000 square foot building at 301 Binney Street project struggled to attract tenants in 2008 with nearly 300,000 square feet of vacant space. The slow pace of leasing in these projects and the overall economic climate make it seem unlikely that proposed development projects such as 150 Second Street will get off the ground in 2009.

As a result of the economic challenges plaguing the local and national economy, it is unlikely that demand for office space will increase in 2009, testing the fundamental strength of the Cambridge office and lab markets.

Market Makers

Novartis signed a 47,185 square foot lease for office space at 200 Technology Square.

Genzyme renewed their lease of 114,000 square feet of office space at 55 Cambridge Park Drive.

Accelleron Pharmaceuticals leased nearly 75,000 square feet of lab space at 128 Sidney Street and 149 Sidney Street.

Historical Perspective:

In 2002, the combined office and lab market registered one million square feet of negative absorption, and nearly one million square feet of new construction delivered; in 2008, those numbers were 54,600 square feet of net absorption and no new construction other than the 200 Technology Square renovation.

Suburban Office and R&D Market Overview

For the Greater Boston suburban office and R&D market, 2008 was a year of slowing activity and sluggish demand. Like their neighbors in Boston and Cambridge, suburban tenants are taking a cautious approach to real estate as the fallout from the national and global economic problems are felt on a local level. The inability or unwillingness of banks to lend to companies big and small is keeping tenants from making decisions about their real estate needs. Tenants are keenly aware of the costs associated with relocation and are seeking short term renewals and value driven deals. The amount of available space in the market will give tenants more options and put pressure on landlords to increase concessions.

Increased Available Space Impacts Market Dynamics

The percentage of available space in the suburban office and R&D market is currently 21.9%, an increase from 19.5% at the end of 2007. All but one suburban submarket experienced an increase in available space this year, with the largest increases coming in the 128 Central and 128 North submarkets at 4.5% and 4.6% respectively.

The increase in available space in the 128 Central submarket was the result of the completion of a relatively large amount of new construction and large blocks of existing space becoming available. The amount of existing space being marketed for lease on a direct basis increased significantly in the first half of 2008 and includes the 410,000 square feet of office space at 275 Grove Street in Newton that will be vacated by Adobe when they move to Overlook Center in Waltham.

Despite the troubled credit markets and increase in existing available space, nearly 1.4 million square feet of suburban office development projects were completed in 2008. Projects completed in Waltham included the fully leased 77 CityPoint, 1560 Trapelo Road, Overlook

Center, and 850 Winter Street. The more than one million square feet of new construction coming online in 128 Central was the highest level observed in this submarket since 2001. Although the age of existing suburban inventory has made this new development more desirable, these projects are currently 65% available. The high profile TradeCenter 128 project in Woburn delivered in the first half of 2008 and remains only 10% leased. The 1,375,929 square feet of new construction delivered throughout the suburbs in 2008 reflects a sharp increase over the 331,642 square feet delivered in 2007; this is the highest amount delivered since 1.5 million square feet of office and R&D space came online in the suburbs in 2002.

The frenzied pace of investment sales that had propelled rental rates throughout the Boston area to new heights in 2006 and the first part of 2007 came screeching to a halt to end 2007. This slowdown in sales activity taken with the slowing demand for suburban office space have forced rents downward, in some cases by 15% to 20%. In 2008, the volume of sales transactions was a paltry 6% of the sales in that occurred in 2007.

In 2008, the amount of sublease space on the market grew by a relatively modest 684,507 square feet for a total of nearly 4.3 million square feet. The 2.1 million square feet of negative absorption observed in the suburban market in 2008 is almost 5 million square feet less than the 2.9 million square feet of net absorption observed in 2007.

The suburban office and R&D markets are likely to be negatively impacted in 2009 as local companies feel the pain of the slow economy.

Market Makers

Biogen Idec will move its headquarters to the 356,000 square foot building to be constructed at 133 Boston Post Road in Weston.

Reveal Imaging leased 100,000 square feet of office space at 28 Crosby Drive in Bedford.

L-1 Identity Solutions signed a lease at 296 Concord Avenue in Billerica.

Curtiss-Wright leased 65,000 square feet at 151 Taylor Street in Littleton.

Gulf Oil/Cumberland Farms leased 100,000 square feet at 100 Crossing Boulevard in Framingham.

Suburban Market Highlights

Year End 2008 Suburban OFFICE Market Statistics

Total Inventory	72,774,182 SF
Availability Rate	20.5%
Vacancy Rate	14.2%
Net Absorption YE 2008	(1,205,299) SF
Average Asking Rent	\$25.18

Year End 2008 Suburban R&D Market Statistics

Total Inventory	53,521,536 SF
Availability Rate	23.9%
Vacancy Rate	18.0%
Net Absorption YE 2008	(890,804) SF
Average Asking Rent	\$10.88

Historical Perspective:

In 2001 to 2002, there was a combined total of 18,525,019 square feet of negative absorption in the office and R&D market; in 2007 and 2008 there was a total of 802,645 square feet of negative absorption in the suburban office and R&D market.

Market Summary

Market	Total Inventory	Total Available	Availability Rate	Total Vacant	Vacancy Rate	YE 2008 Net Absorption	Direct Weighted Avg. Rent
Boston Office	58,308,650	7,743,490	13.3%	4,143,044	7.1%	74,545	\$49.87
Back Bay	12,181,603	1,581,533	13.0%	881,818	7.2%	(10,093)	\$53.45
Charlestown	1,788,290	230,928	12.9%	172,525	9.6%	20,483	\$28.25
Fenway	1,911,890	57,439	3.0%	57,439	3.0%	81,545	\$30.77
Financial District	27,925,181	4,226,287	15.1%	2,248,894	8.1%	(277,909)	\$55.35
Government Center	1,844,278	114,225	6.2%	112,900	6.1%	2,091	\$41.18
Midtown	1,872,209	167,529	8.9%	122,307	6.5%	(8,160)	\$31.98
North Station	1,630,744	199,516	12.2%	150,403	9.2%	(38,303)	\$36.33
South Boston Waterfront	5,275,761	865,119	16.4%	351,790	6.7%	266,115	\$33.80
South Station	3,878,694	300,914	7.8%	44,968	1.2%	38,776	\$40.46
Cambridge Office	9,714,186	1,250,263	12.9%	790,120	8.1%	(237,095)	\$40.99
Alewife/West Cambridge	1,714,404	309,188	18.0%	194,497	11.3%	(133,808)	\$38.73
East Cambridge	6,105,198	855,917	14.0%	531,175	8.7%	(132,826)	\$42.18
Mass Avenue Corridor	1,894,584	85,158	4.5%	64,448	3.4%	29,539	\$34.97
Cambridge Lab	7,826,105	1,307,830	16.7%	958,439	12.2%	(11,540)	\$51.65
Alewife/West Cambridge	677,311	209,262	30.9%	209,262	30.9%	56,229	\$36.02
East Cambridge	4,534,266	716,828	15.8%	643,571	14.2%	98,570	\$54.68
Mass Avenue Corridor	2,614,528	381,740	14.6%	105,606	4.0%	(166,339)	\$55.62
Suburbs Office/R&D	126,295,718	27,708,963	21.9%	19,975,737	15.8%	(2,096,103)	\$25.18
128 Central	40,520,018	8,298,947	20.5%	5,320,847	13.1%	(996,324)	\$29.89
128 North	9,332,139	2,436,791	26.1%	1,780,821	19.1%	(443,754)	\$19.81
128 South	14,387,284	2,918,584	20.3%	2,431,980	16.9%	(431,635)	\$22.22
3/24 South	1,880,983	319,678	17.0%	331,678	17.6%	112,500	\$19.84
495 Central	17,643,664	4,199,624	23.8%	2,808,440	15.9%	(410,653)	\$21.88
495 North	31,772,660	8,302,060	26.1%	6,334,161	19.9%	195,598	\$18.15
495 South	4,285,045	823,133	19.2%	696,905	16.3%	(56,502)	\$20.33
Inner Suburbs	6,473,925	410,146	6.3%	270,905	4.2%	(65,333)	\$21.95
Total	202,144,659	38,010,546	19.0%	25,867,340	13.0%	(2,270,193)	\$35.34

Glossary of Terms

Methodology

The information included in this report is the result of a compilation of information on Class A, B and C office, R&D and investment properties located in the Boston area. The information was obtained by DTZ FHO Partners from representatives of each property.

All of the information gathered is stored in a DTZ FHO Partners database which is updated quarterly. From this database, total inventory, vacancy rate, rental rate and absorption figures may be calculated and presented.

Total inventory may change from year to year as a result of newly constructed or newly renovated buildings, recently remeasured properties, or significant change or deletion of a particular building status. The database is thoroughly checked and balanced from year to year. The appropriate adjustments are made in order to balance the figures and calculate the most accurate vacancy and absorption figures.

Definitions

Inventory:

Includes all existing competitive office and R&D buildings over 20,000 sq. ft. as well as significant buildings less than that size. Under construction, government, medical, educational and 100% owner-occupied buildings are not included.

Direct Space:

Space available directly from the building owner. Includes space available for occupancy within the next 12 months. Does not include space in under construction buildings.

Sublease Space:

Space available through a lessee to a third party for the remainder of the original lease term and/or beyond. Includes space being actively marketed and available for occupancy within the next 12 months.

Vacancy Rate:

Space, available both directly and by sublease, that is currently vacant and being marketed for immediate occupancy. Does not include space under construction.

Availability Rate:

Available space is generally defined as space that is being actively marketed and/or available for occupancy within the next 24 months.

Construction Completions:

Buildings which have received their certificate of occupancy in the stated time period.

Under Construction:

Buildings which have had excavation work commence, but have not yet received their certificate of occupancy.

Office:

Space designed for general office use. Buildings are generally two or more stories and offer tenants a higher-level of finish than R&D space.

R&D:

Space designed for high technology, office or light industrial use. Buildings are generally one or two stories.

Net Absorption:

The net change in occupied space over a given period of time. Calculations are based on available space.

Rental Rates:

Gross: Rents which include tax and operating expenses, but generally not electricity.

Triple Net:

Rents where the tenant is directly responsible for all tax, operating and utility expenses.

Weighted Average Rent:

An average rental rate that is weighted by the amount of square footage available at each respective rental rate.

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