

F H O

PARTNERS

Commercial
Real Estate
Value-Addvisors

Market Watch

BOSTON | MID YEAR 2009



“Though the path has not been smooth, our economic system has worked extraordinarily well over time. It has unleashed human potential as no other system has, and it will continue to do so. America’s best days lie ahead.”

- Warren Buffet, Chairman, Berkshire Hathaway
February 2009

OVERALL MARKET STATISTICS MID YEAR 2009 SUMMARY

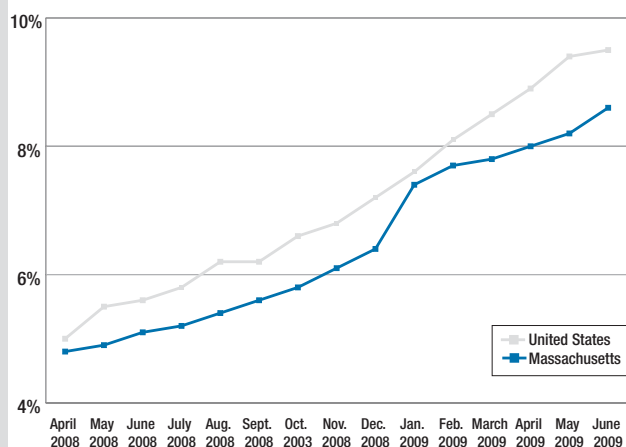
	Asking Rent	Vacancy	Absorption
Boston	↓	↑	↓
Cambridge	↓	↑	↓
Suburbs	↓	↑	↓

THE STATE OF THE ECONOMY BY THE NUMBERS

	Mid Year 2008	Mid Year 2009
DJIA	11,350.11	8,447.00
US Unemployment	5.7%	9.5%
MA Unemployment	5.2%	8.6%
US Employment Payroll (Jan-June)	(796,000)	(3,382,000)
MA Employment Payroll (Jan-June)	(10,533)	(49,600)

Sources: Yahoo Finance, Bureau of Labor & Statistics

UNEMPLOYMENT RATE



GREATER BOSTON MARKET SNAPSHOT

Overall Availability	19.5%
Rent	\$32.20
Absorption	(5,060,920)

EXECUTIVE OVERVIEW

Mid-way through 2009, the national and local economic climate continues to negatively impact the commercial real estate market conditions in greater Boston. As a result of the ongoing recession, the greater Boston office market softened further as indicated by lack-luster demand, little new development, increasing levels of available space and decreasing rents. On a more positive note, the rapid pace of the increase in available space slowed considerably from the first quarter to the second.

For much of the global economy, 2009 has been a year to ride out the storm that has impacted the financial system on all levels; the far reaching repercussions continue to affect everything from consumer confidence and employment to the credit markets and the stock market. While the economy has begun to stabilize somewhat, it is unclear if the worst of the economic crisis is behind us. The stock market continues to improve, regaining some of the value lost in the last ten months and home sales have increased over last year as a result of low mortgage rates. The consequences of the meltdown continue to be felt at every level of the local, national and global economies.

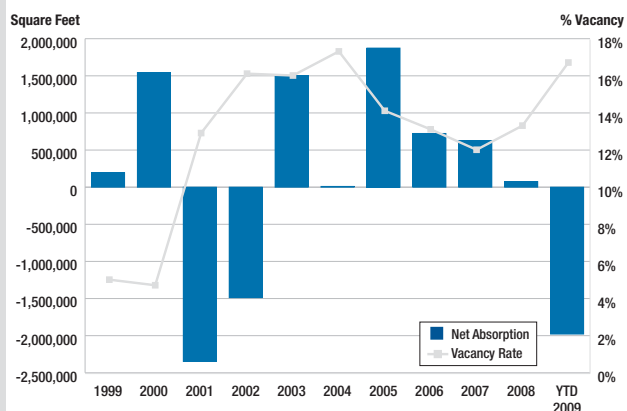
There are precious few areas of the economy experiencing any expansion, whether on a local or national level. So far this year, the biotechnology, healthcare and education sectors have not lost jobs at the same rate as other industries, including financial services, though expansion experienced in recent years seems like a distant memory. Early stage companies found it a difficult market in which to raise venture capital, and more mature companies continue to have difficulty in the IPO market. The lone bright spot continued to be the large pharmaceutical and institutional users like Novartis, Vertex Pharmaceuticals, The Broad Institute, and The Forsyth Institute. These lab users continue to actively seek new space, for the most part in new buildings in Cambridge, Boston’s Longwood Medical Area and Central Route 128.

One of the most problematic results of this economic slowdown has been the astounding number of job losses at the national level and in Massachusetts. The national unemployment rate is the highest since 1983. While job losses have slowed in recent months, there is no end in sight to the workforce reductions across sectors, leading to predictions of a jobless recovery. From 2003 to 2007, the most recent five-year consecutive period of job growth, the average number of jobs created was 1.75 million per year. With almost 6.5 million jobs lost in the United States in 2008 and 2009, at that rate it would take more than three and a half years to regenerate these lost jobs. Given that businesses and individuals have reacted to the uncertainty in the economy by pulling back on spending, investing in low-risk vehicles and cutting costs wherever possible, the prospects for significant job creation are not likely to be realized until well into 2010 and beyond. This negative employment trend is severely hindering the demand for office space and is likely to be the biggest hurdle in realizing a full commercial real estate market recovery.

OUTLOOK

As a result of the softening office market, there is more office space available to lease and fewer tenants interested in leasing it, creating downward pressure on rental rates. Any signs that a recovery is imminent are premature at best; when the recovery does get underway, it is likely to be a protracted process. Until the distress being felt by businesses dissipates, demand for office, laboratory and R&D space in greater Boston will not increase in a meaningful way.

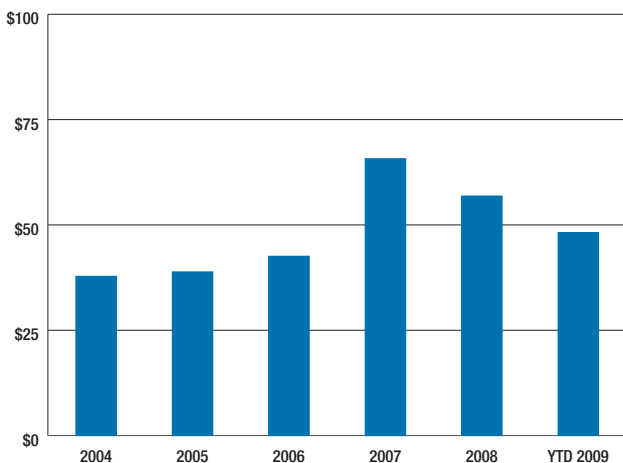
ABSORPTION / VACANCY 1999-YTD 2009



MARKET HIGHLIGHTS

Inventory	58,300,409 SF
Availability Rate	16.7%
Net Absorption YTD 2009	(1,978,249) SF
Average Asking Rent	\$17.00-\$70.00/SF

RENTAL RATES



DEVELOPMENT PROJECTS

One Marina Park Drive - Fan Pier	504,000 SF
Russia Wharf	550,000 SF

BOSTON OVERVIEW

The downtown Boston office market is feeling the impact of the global economic strife in a very acute way in 2009. Demand for office space in downtown Boston waned to end 2008, and shows no signs of increasing thus far in 2009. It is unclear from where new demand for the increased levels of available office space will originate. With many companies right sizing and few companies expanding or adding new jobs, most firms are delaying decisions and new commitments for as long as possible. Much of the current deal velocity is being driven by the 3.2 million square feet of lease expirations set to occur between now and 2011. In 2009 the deals that have been done to date are mainly small to mid-size renewals.

- The percentage of available space has increased from 13.3% to 16.7% since the beginning of 2009. The increase in the amount of available space is due in large part to the addition of large blocks of space at 200 Clarendon Street and 100 Federal Street. On a positive note, in the second quarter there was nearly 80,000 square feet of office space leased at 177 Huntington Avenue in the Back Bay.
- There was 404,971 square feet of negative absorption in downtown Boston in the second quarter, far less than the 1,573,278 square feet of negative absorption observed in the first quarter of 2009. However, demand in 2009 is significantly lower than the 89,455 square feet of net absorption observed at this time last year.
- The rate at which sublease space came onto the market slowed in the second quarter; 78,098 square feet was added to the market this quarter as opposed to 500,000 square feet in the first quarter of 2009.
- Despite the recent increase in sublease space, it is unclear whether the nearly 2.5 million square feet of sublease space marketed during the economic downturn of 2000 to 2002 will be matched in 2009.
- Average asking rental rates in downtown Boston have decreased nearly 15% this year. Rents declined from \$49.87 per square foot in January 2009 to the current rate of \$42.85 per square foot.
- Several construction projects have stalled as a result of the economic slowdown and the likelihood of any further development is remote in the short term.
- Foreclosure activity increased as indicated by the Hancock Tower foreclosure and sale.

MARKET MAKERS

Law firm **Burns & Levinson** renewed its lease of 100,000 square feet at 125 Summer Street.

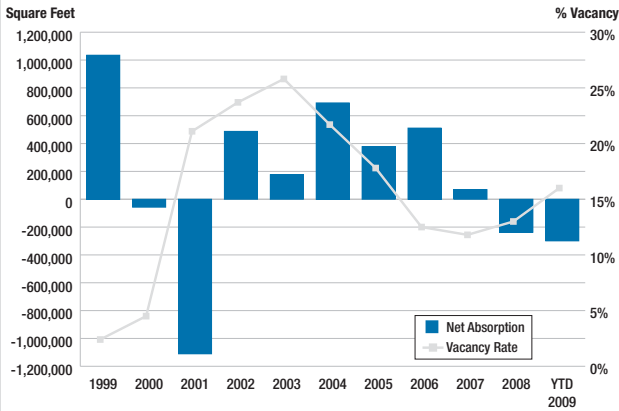
SmartBargains leased 43,385 square feet at 10 & 20 Channel Center in the South Boston Waterfront submarket.

CSN Stores, Inc. leased 47,730 square feet from The First Church of Christ, Scientist at 177 Huntington Avenue in the Back Bay.

HISTORICAL PERSPECTIVE

As recently as 2006 there was 1.65 million square feet of sublease space being marketed in downtown Boston, more than the current amount of 1.54 million square feet; in 2007 that number dropped to 631,257 square feet, the low point in that market recovery.

OFFICE ABSORPTION / VACANCY 1999-YTD 2009



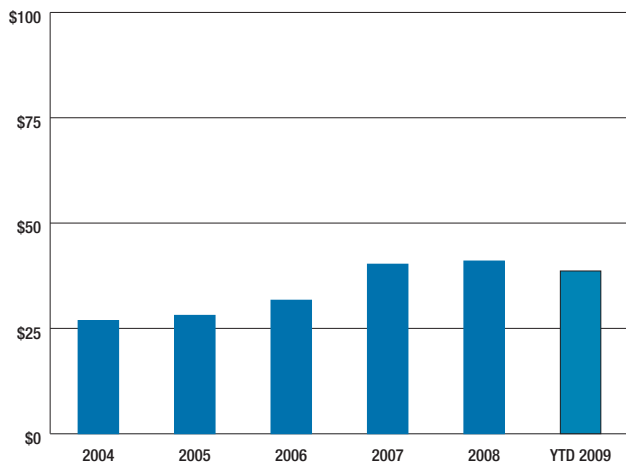
OFFICE MARKET HIGHLIGHTS

Inventory	9,769,186 SF
Availability Rate	15.9%
Net Absorption YTD 2009	(298,978) SF
Average Asking Rent	\$12.00-\$55.00/SF

LAB MARKET HIGHLIGHTS

Inventory	7,833,232 SF
Availability Rate	15.8%
Net Absorption YTD 2009	69,199 SF
Average Asking Rent	\$17.00-\$65.00/SF

OFFICE RENTAL RATES



DEVELOPMENT PROJECTS

650 East Kendall Street	277,671 SF
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CAMBRIDGE OVERVIEW

The Cambridge office and lab markets are faring slightly better than neighboring Boston and the suburbs in 2009, though activity is relatively sluggish when compared to recent years. Demand for laboratory space in Cambridge has been diminished in 2009, though not to the same extent as demand for office space. Companies who were traditional Cambridge users continue to move to suburban locations to capitalize on lower rental rates and shifting demographics in the industry. As a result, there is more lab space available for lease at lower rental rates than at this time last year.

Office Market

- While the Cambridge office market saw slightly improved activity in the second quarter, the percentage of available space has increased from 12.9% to 15.9% currently.
- Despite the overall negative absorption experienced this year, there was 32,254 square feet of positive net absorption in the office market this quarter.
- The amount of sublease space on the market decreased from 462,180 square feet in the first quarter to the current 366,365 square feet.
- Average asking rental rates for office space in Cambridge decreased this quarter from \$40.99 per square foot to \$38.63 per square foot.

Lab Market

- Current lab demand in Cambridge totals 500,000 square feet and is largely being driven by pharmaceutical companies and institutional users.
- The Cambridge lab market was held steady this quarter, posting nearly 9,364 square feet of net absorption and an availability rate that decreased from 16.7% in January to 15.8% currently.
- Average asking rental rates have remained flat this year at \$51.65 per square foot, a decline from \$54.57 per square foot in July of 2008.
- The amount of sublease space on the market decreased this quarter in large part as a result of the Vertex Pharmaceuticals deal at 88 Sidney Street.
- Speculative construction of 300,000 square feet at 650 East Kendall Street is well underway, though a tenant has yet to commit to the project.

MARKET MAKERS

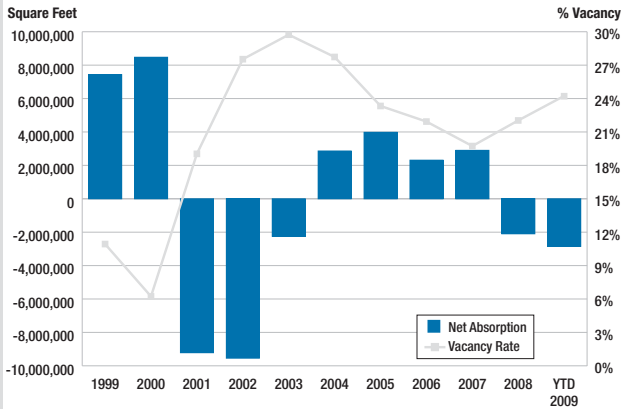
Vertex Pharmaceuticals subleased 143,275 square feet from Alkermes at 88 Sidney Street.

NaviNet leased 55,118 square feet at 8 Cambridge Center in East Cambridge.

HISTORICAL PERSPECTIVE

The level of office and lab space being marketed for sublease reached a high of 1,093,706 square feet at year end 2003, more than double the current 449,256 square feet available for sublease.

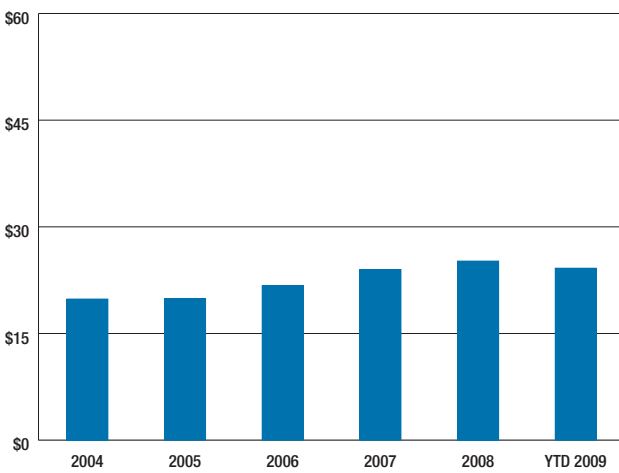
OFFICE/R&D ABSORPTION / VACANCY 1999-YTD 2009



OFFICE MARKET HIGHLIGHTS

Inventory	126,606,241 SF
Availability Rate	24.1%
Net Absorption YTD 2009	(2,852,892) SF
Average Asking Rent	\$12.00-\$38.00/SF

OFFICE/R&D RENTAL RATES



DEVELOPMENT PROJECTS

175-185 Wyman Street, Waltham	320,000 SF
10 Corporate Drive, Burlington	107,000 SF

SUBURBAN OVERVIEW

The greater Boston suburban office and R&D market is being impacted by the challenges in the economy, though this downturn has been much less traumatic than the last. After the technology bubble burst in 2001, the office and R&D market in the greater Boston suburbs was hit particularly hard, resulting in record high levels of available space. Due to the discipline exhibited by occupiers of office space in the recovery period that followed, there is far less sublease space on the market today. In fact, large blocks of contiguous space are somewhat difficult to come by. The new development that has recently been completed provides a high quality option when much of the inventory on the market is showing its age.

- The suburbs experienced an increase in the amount of available space forcing the availability rate up from 23.1% at the end the first quarter of 2009 to the current rate of 24.1%. The amount of sublease space on the market increased in the second quarter by 202,989 square feet to a total of 4.4 million square feet compared to nearly 13 million square feet in 2002.
- The suburbs experienced 1,319,370 square feet of negative absorption this quarter, of which almost one million square feet was office space.
- The biggest increases in available space in the second quarter were in the 128 Central and 495 Central submarkets. There was nearly 400,000 square feet of negative absorption in 128 Central and nearly 615,000 square feet of negative absorption in 495 Central this quarter.
- There were at least ten new blocks of more than 50,000 square feet that became available across submarkets this quarter.
- The average asking rental rate for office space in the suburbs overall decreased from \$25.32 per square foot to \$24.18 per square foot; for R&D space the average asking rental rate decreased from \$10.88 per square foot to \$10.65 square foot.
- The number of development projects in the suburbs has diminished significantly and is unlikely to increase in the short-term.
- Lender takebacks of suburban office projects are on the rise.

MARKET MAKERS

3Com Corporation renewed its 132,798 square foot lease at at 350 Campus Drive in Marlborough.

CGI Technologies & Solutions, Inc. renewed their lease of 37,695 square feet at 600 Federal Street in Andover.

Alkermes will relocate from Cambridge to approximately 85,000 square feet at 850 Winter Street in Waltham.

Covidien will consolidate into 70,000 square feet at 15 Crosby Drive in Bedford.

HISTORICAL PERSPECTIVE

In 2003, the amount of office space available for sublease was less than half of the suburban R&D space available for sublease. Currently, the amount of office space available for sublease is more than double the amount of R&D space being marketed for sublease.

MARKET SUMMARY

MARKET	TOTAL INVENTORY	TOTAL AVAILABLE	AVAILABILITY RATE	TOTAL VACANT	VACANCY RATE	YTD 2009 NET ABSORPTION	DIRECT WEIGHTED AVG. RENT
BOSTON OFFICE	58,300,409	9,719,560	16.7%	5,678,767	9.7%	(1,978,249)	\$42.85
Back Bay	12,182,324	2,005,951	16.5%	1,121,258	9.2%	(424,418)	\$45.72
Charlestown	1,745,328	234,591	13.4%	188,782	10.8%	(3,663)	\$27.81
Fenway	1,911,890	56,380	2.9%	41,830	2.2%	1,059	\$26.24
Financial District	27,925,181	5,313,054	19.0%	2,996,274	10.7%	(1,086,767)	\$45.94
Government Center	1,878,278	345,920	18.4%	119,183	6.3%	(231,695)	\$35.39
Midtown	1,872,209	220,285	11.8%	145,273	7.8%	(52,756)	\$28.44
North Station	1,630,744	219,910	13.5%	165,517	10.1%	(10,416)	\$36.01
South Boston Waterfront	5,275,761	1,095,858	20.8%	760,034	14.4%	(232,918)	\$31.26
South Station	3,878,694	237,589	6.1%	154,478	4.0%	63,325	\$36.39
CAMBRIDGE OFFICE	9,769,186	1,549,241	15.9%	939,546	9.6%	(298,978)	\$38.63
Alewife/West Cambridge	1,714,404	333,431	19.4%	235,875	13.8%	(24,243)	\$36.01
East Cambridge	6,160,198	1,046,805	17.0%	608,275	9.9%	(190,888)	\$39.94
Mass Avenue Corridor	1,894,584	169,005	8.9%	95,396	5.0%	(83,847)	\$34.91
CAMBRIDGE LAB	7,833,232	1,238,631	15.8%	1,106,783	14.1%	69,199	\$51.65
Alewife/West Cambridge	677,311	212,012	31.3%	208,212	30.7%	(2,750)	\$32.91
East Cambridge	4,534,266	703,709	15.5%	636,930	14.0%	13,119	\$55.23
Mass Avenue Corridor	2,621,655	322,910	12.3%	1,127,515	14.4%	58,830	\$56.74
SUBURBS OFFICE/R&D	126,606,241	30,561,376	24.1%	21,552,418	17.0%	(2,852,892)	\$24.18
128 Central	40,673,196	9,208,584	22.6%	5,602,610	13.8%	(896,116)	\$27.51
128 North	9,332,139	2,446,370	26.2%	1,992,019	21.3%	(9,579)	\$19.72
128 South	14,481,036	3,339,266	23.1%	2,555,774	17.6%	(464,682)	\$22.07
3/24 South	1,922,813	392,316	20.4%	363,335	18.9%	(42,638)	\$22.34
495 Central	17,746,164	4,693,526	26.4%	3,038,417	17.1%	(493,902)	\$22.12
495 North	31,691,923	9,014,460	28.4%	6,910,313	21.8%	(712,400)	\$18.09
495 South	4,285,045	843,001	19.7%	618,133	14.4%	(19,868)	\$20.25
Inner Suburbs	6,473,925	623,853	9.6%	471,817	7.3%	(213,707)	\$25.09
TOTAL	202,509,068	43,068,808	21.3%	29,277,514	14.5%	(5,060,920)	\$32.39

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 FHO Partners from representatives of each property.

All of the information gathered is stored in a 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 24 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.

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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