

Boston, Massachusetts

Tenant's Guide ■ North American Markets ■ Fourth Quarter 2009

Overview

Demand for class A and B office was painfully slow. The market will continue to soften during 2010. Companies will be more cautious and possibly delay the execution of real estate decisions.

Overall through Q4, the absorption for Downtown Boston was negative 1.5M SF, as compared to an average annual absorption of 1M SF. This trend will continue through 2010. The same story is echoed for the suburban markets. Demand will be at least 30% less than 2009 and rents will decline by another 5-10% from Q4 rents into 2010. Rent concessions and tenant improvement allowances will increase by another 10%. However, some landlords are reducing the tenant improvement allowances and trading them for free rent.

The lack of capital in the debt markets has virtually shut down the investment sales market. We expect foreclosures to increase significantly in 2010 and into 2011 as many CMBS loans come due. There is limited capital available to refinance the massive amount of debt in the commercial real estate industry. Tenants should make sure they get SNDA agreements from their landlords.

Market Trends

- Massachusetts unemployment rate is 9.4%. The lack of job growth will affect the absorption in vacant space through 2010.
- Approximately 70% of tenants are electing to renew their leases rather than move.
- As foreclosures increase in 2010, rents will continue to drop another 10%.
- There will be no rent growth in the Boston metro market until 2012.
- Lease renewals will drive activity because of construction costs and capital needed to relocate.
- Sublease space will add supply to the market and pressure rents downward. Downtown Boston has reached 1.8M SF of sublease space.

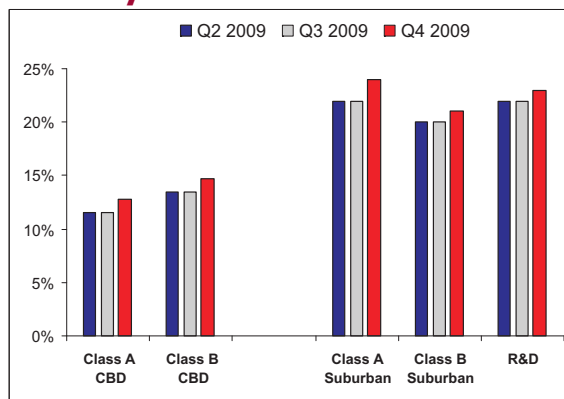
Tenant's Perspective

The window of opportunity to take advantage of landlord concessions will continue to be in the tenant's favor. The economic slowdown will create opportunities in 2010 and 2011, especially for lease renewals with landlords that have a long-term view. Tenants will also have more opportunity to buy their buildings as foreclosure inventory increases. Tenants who are flexible about location will have the best chance to take advantage of the remaining opportunities in the market. The market will be on the floor at least through 2010 and into Q1 2011.

Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
Avid Technology	206,900	Office	Lease
Loomis Sayles	200,000	Office	Lease
Forrester Research	189,000	Office	Lease
Edwards Angell Palmer & Dodge	188,000	Office	Lease
Unknown	170,000	Office	Sale
Brookwood Financial	163,600	Office	Lease
VS Gypsum	154,300	Office	Lease
Medtronic	137,000	Office	Lease
Acme Packet	124,000	Office	Lease
Injured Workers Pharmacy	120,000	Office	Sale

Vacancy Rate



Average Rental Rates

CBD	Q2 2009	Q3 2009	Q4 2009
Class A Office	\$51.00	\$49.00	\$48.00
Class B Office	\$33.00	\$31.00	\$30.00

Suburban	Q2 2009	Q3 2009	Q4 2009
Class A Office	\$32.00	\$30.00	\$27.00
Class B Office	\$22.00	\$22.00	\$18.00
R&D	\$11.50	\$10.50	\$9.50

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