

# MARKETBEAT

## BOSTON SUBURBAN OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q08

### ECONOMY

While the national economy has been marked by job loss in the first half of 2008 (the U.S. is down 324,000 jobs since January), Boston's economy has benefitted from higher-than-average exposure to growth industries. The area's core industries of technology, healthcare, life science and education have, thus far, helped insulate the greater Boston area from the effects of a pending U.S. recession.

According to estimates provided by the Executive Office of Labor and Workforce Development, Massachusetts has recorded job gains in seven of the past eight months. As of April 2008, regional unemployment stood at 4.1%, well below the national average of 5.0%. Professional, scientific and business service employment is up 1.4% in the past twelve months and education and health services jobs are up 2.2% since May 2007. Additional increases have been recorded in the trade and transportation industries, as well as in leisure and hospitality. Financial employment is down 1,900 jobs year-over-year, primarily due to losses in real estate and leasing.

### OVERVIEW

Although economic conditions worsened in the first half of 2008, fundamentals in Boston's Suburban market have remained stable. At the end of the second quarter, overall suburban vacancy was 16.3%, up only 0.3 percentage points from the first quarter and still down 1.5 percentage points year-over-year. However, the suburban market overall has experienced negative absorption through the first six months of 2008 and has witnessed several new construction deliveries. Leasing has been strongest in 128 West, which has recorded over 1.2 million square feet (msf) of leasing activity year-to-date. However, the delivery of 850 Winter Street to inventory, which has 180,000 sf available, has pushed class A vacancy up to 13.4% in that market.

Despite posting negative absorption year-to-date, overall vacancy is down only 0.9 percentage points in 128 North year-over-year. This is largely due to the delivery of two fully-leased buildings through the first half of 2008: 1 Wayside Road in Burlington delivered 100% preleased to Nuance Communications and 200 Trade Center Park delivered 100% leased to Cambridge District Court. Additionally, class A rents in 128 North have increased 14.4% in the past twelve months to \$29.16 per square foot (psf). Additionally, 128 South and 495 West have both recorded positive overall absorption year-to-date, while the remaining submarkets all posted negative absorption.

Despite declining economic conditions, the suburban construction pipeline remained healthy through the first half of 2008; with nearly 1.5 msf scheduled to deliver through 2010. Of this, 29.6% has already been preleased pointing to continued tenant interest.

### FORECAST

Given the current economic climate, tenants clearly have been cautious about leasing space. However, deals are still getting done and the market has been able to absorb several new construction deliveries without much pain. We do not expect large blocks of sublease space to become available in the second half of the year. Tenant demand, although slower, is still there. Overall rents could soften slightly; however, pricing in premier parks is expected to hold.

### BEAT ON THE STREET

Declining economic conditions continued to affect tenant demand in the first half of 2008. Larger users are still taking a wait-and-see approach while smaller tenants seek out economical options. However, overall suburban rents continued to rise, increasing 4.9% since year-end 2007.

### ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.9%	2.2%	1.6%
CPI Growth	3.2%	2.9%	3.6%
Regional			
Unemployment	4.7%	4.3%	4.7%
Employment Growth	1.5%	1.6%	0.5%

Source: Moody's | Economy.com

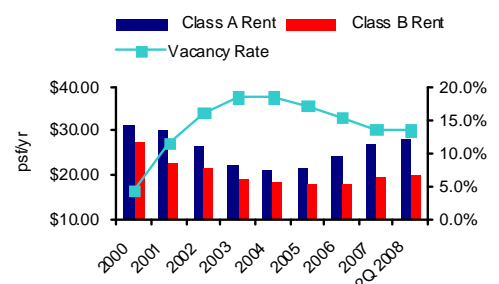
### MARKET FORECAST

**LEASING ACTIVITY** has declined in the past twelve months and will likely remain flat for the remainder of the year. ➡

**ABSORPTION** is expected to be positive by year-end, although it will fall short of the 1.9 msf generated in 2007. ⬆

**CONSTRUCTION:** While the pipeline remains strong, rising construction costs will limit new speculative groundbreakings. ➡

### DIRECT RENTAL VS. VACANCY



### MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
<i>Inner Suburbs Total</i>	6,603,181	85	7.9%	6.9%	122,527	120,000	0	(42,035)	\$27.57
South End/Medical Center	1,305,513	13	6.4%	4.9%	9,050	120,000	0	(5,010)	\$57.00
Somerville/Medford/Malden	2,432,354	30	7.2%	5.9%	42,195	0	0	(12,469)	N/A
Allston/Brighton/Watertown	2,865,314	42	9.1%	8.6%	71,282	0	0	(24,556)	\$30.91
<i>Suburban Total</i>	93,640,671	1,113	16.9%	14.0%	3,446,043	1,371,349	966,702	(178,217)	\$28.42
128 North	20,841,524	236	15.3%	13.4%	575,104	623,700	230,000	(165,711)	\$29.16
128 West	21,748,434	275	12.3%	10.3%	1,202,379	415,693	450,702	(50,875)	\$37.54
128 South	12,198,717	166	16.7%	13.3%	359,007	0	211,000	44,285	\$24.86
MetroWest	4,503,079	55	13.6%	10.6%	107,146	0	0	(68,870)	\$24.64
495 North	19,140,837	190	22.3%	18.4%	601,933	187,700	75,000	(130,708)	\$21.93
495 West	12,214,506	141	19.0%	14.7%	514,783	100,726	0	197,790	\$20.94
495 South	2,993,574	50	24.0%	22.8%	85,691	43,530	0	(4,128)	\$22.78
<b>TOTAL**</b>	<b>100,243,852</b>	<b>1,198</b>	<b>16.3%</b>	<b>13.5%</b>	<b>3,568,570</b>	<b>1,491,349</b>	<b>966,702</b>	<b>(220,252)</b>	<b>\$28.40</b>

\* Rental rates reflect \$psf/year

\*\*Note: Cambridge not included in Suburban totals.

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1 Federal Street	495 North	Soapstone Networks, Inc.	57,064	B
100 Hayden Avenue	128 West	AMAG Pharmaceuticals	55,924	A
44 Hartwell Avenue	128 West	Raindance	26,828	A

#### SIGNIFICANT 2Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Maric, Inc. Portfolio*	MetroWest	Colony Realty Partners	403,018	\$82,000,000
350 Granite Street	128 South	New Boston Fund, Inc.	157,758	\$27,000,000
55 Ferncroft Road	128 North	Condyne	90,000	\$12,350,000

#### SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
77 CityPoint	128 West	Phase Forward	210,000	5/08
850 Winter Street/Reservoir Woods	128 West	N/A	180,000	5/08
30 Braintree Hill Office Park	128 South	N/A	160,000	5/08

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
300 Sylvan Road	128 North	N/A	377,000	8/08
40 Sylvan Road/ Reservoir Woods East	128 West	National Grid	314,000	9/09
300 Network Center Drive	495 North	N/A	187,700	12/08

\* Portfolio included 161 Worcester Road, 492 Old Connecticut Path, 125 Newbury Street and 959 Concord Road in Framingham, MA.



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\*Market terms & definitions based on BOMA and NAIOP standards.

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