Greater Boston Office Market

Summer 2005

The Greater Boston commercial office market experienced 1,484,000 square feet of positive absorption in the second quarter of 2005, lowering vacancy rates 1.0 percent to 17.9 percent while Class A asking lease rates climbed $0.76 to $32.68 per square foot.

- **Vacancy is disappearing** market-wide through positive absorption, the conversion of vacant inventory, and the absence of construction activity; **expansions** are occurring more commonly.
- **Buildings experiencing gains** in occupancy outnumbered those experiencing losses 353 to 190 in the quarter; demonstrating the wide distribution of the absorption activity.
- **Numerous pricing trends** are shifting, including a pronounced upswing in Route 128 West; the Back Bay is statistically pricier than the Financial District for the first time, though that may be due, in part, to an unusual amount of available, high quality Back Bay tower space.
- **Fallout from the tech bust** continues to hamper growth; consolidations on the part of networking firms Avaya and Nortel contributed nearly 300,000 square feet of negative absorption while prominent high-tech law firm Testa Hurwitz vacated nearly that much space, upon dissolution.
- **The traditional financial services** tenant base of the Financial District continues to shift away; OneBeacon Insurance will consolidate its operations in Canton following the acquisition of a building while Fidelity Investments will vacate nearly 300,000 square feet at One Federal Street; both in 2007.
- **The region's lack of affordable housing** is emerging as a serious liability as Boston competes for skilled labor with lower cost regions offering a high quality of life; efforts currently underway to expedite permitting processes and encourage development near transit centers may help alleviate these concerns.

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INSIDE

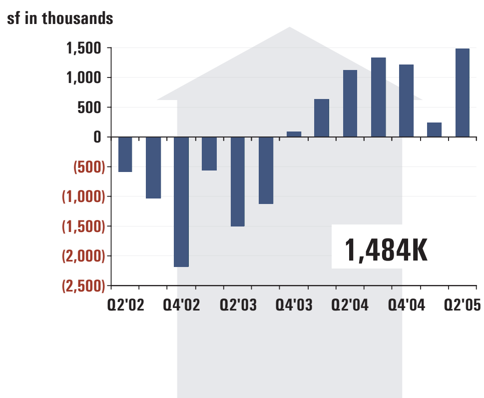
SMAAHT GROWTH? Business leaders and politicians see high density multi-use projects near transit hubs as the solution to increasing auto traffic and resulting pollution in the suburbs ... landlords take notice: THESE PROPERTIES MAY BE OUTPERFORMING THEIR NON TRANSIT-ACCESIBLE COUNTERPARTS

See page 7 for more...

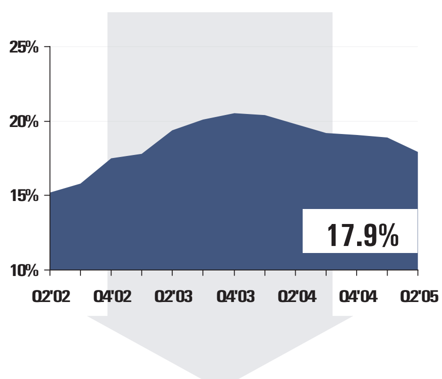
state of the market

All Greater Boston Submarkets

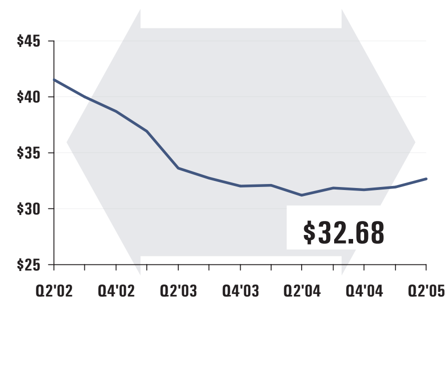
all statistics as of 6.30.05



absorption



vacancy



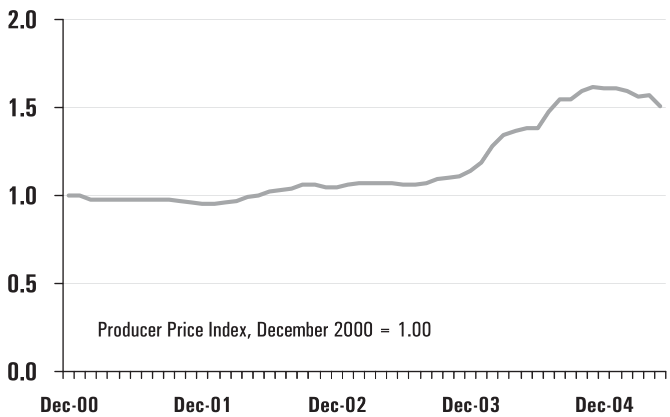
$ Class A asking

The most significant quarter of absorption activity since the second quarter of 2000 brought 1.5 million sf of positive absorption, lowering the vacancy rate a full percentage point to 17.9 percent. Greater Boston absorption was positive for the seventh consecutive quarter, and average Class A asking lease rates moved above $32 per sf for the first time since the second quarter of 2003. Vacancy, having peaked above 20 percent for a three quarter stint in 2003/04, is now decreasing by every imaginable method: (i) consistent positive absorption; (ii) conversion of long vacant and somewhat less desirable office properties to other uses; and (iii) absence of speculative construction.

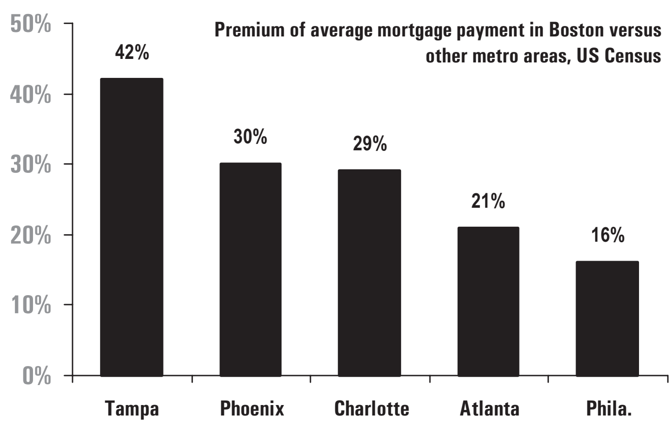
Consistent positive absorption has been achieved through a combination of new entrants to the market, as well as expansion, for the first time since 2000, on the part of existing tenants. New market entrants have arrived, typically with the intention of capitalizing on the region's highly educated workforce; in recent quarters these include Schlumberger, and may include a large number of other players in coming quarters, including Google. The conversion dynamic has taken surplus capacity out of central Boston for several years, though is now being expanded to Cambridge and the suburbs, where a long vacant, 400,000 sf office property may be the first of three projects likely to be converted to retail and residential use. Finally, only 58,000 sf of the currently under construction office pipeline is available for lease, a reduction from 1.9 million just two years ago. Steel prices have increased 42 percent since the beginning of 2003 (see graph), and provide further insurance against irrational building sprees adding unneeded capacity ahead of rational market equilibrium.

The understandable and justified excitement must, however, be accompanying by a fair amount of caution. Fallout from the tech bust continues to adversely affect commercial real estate, as pockets of shadow space continue to emerge; Avaya and Nortel both consolidated underused facilities in the quarter, while the law firm that may be most closely associated with the tech boom, Testa Hurwitz, dissolved. These three events aggregated over 500,000 sf contribution to negative absorption this quarter. Furthermore, announcements by Fidelity Investments and OneBeacon Insurance further what appears sometimes to be a march of financial services firms out of the CBD. While the development of the Internet as a medium for global commerce created many jobs in the region throughout the 1990s, this technology now enables services jobs to be located in areas of lower cost within, as well as outside, the region. The development of residential real estate is certain to become one of the most interesting topics to the commercial real estate industry in the near term, if Boston is to be poised to capture its share of the current national economic expansion.

Record Steel Prices Help Kill Spec



Housing Costs are Cheaper in ...

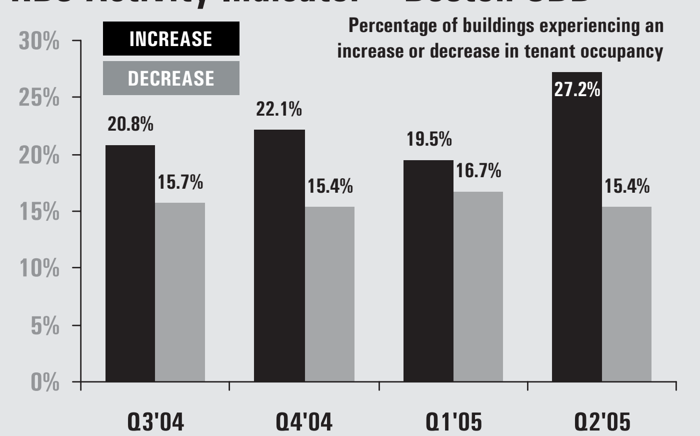


Boston's Central Business District ("CBD") experienced 410,000 sf of positive absorption in the second quarter of 2005 as vacancy rates decreased 0.9 percent to 13.8 percent and Class A asking lease rates rose to $39.77 per sf, the highest levels seen since the fourth quarter of 2003. The absorption has been driven by the small to mid size tenants and involved a large number of properties, as 105 properties experienced increasing levels of occupancy this quarter alone, versus only 60 experiencing decreases. Two sales of over $100 million occurred as 99 High Street ($272.1 mm, 731,000 sf, $372/sf) and 50 Milk Street ($123.0 mm, 274,000 sf, $448/sf) sold, both in the Financial District. However, the reasons to remain cautious are plenty. Financial services companies, once the primary tenant of the central areas, continue to shuffle away with new announcements each quarter. The announcement by OneBeacon Insurance to relocate to Canton and the new expectation that Fidelity Investments will vacate 300,000 sf of space at One Federal St in 2007, join concerns that additional space may be vacated as Putnam Investment's status remains precarious. However, improving dynamics should help the CBD achieve equilibrium over the next 24-36 months.

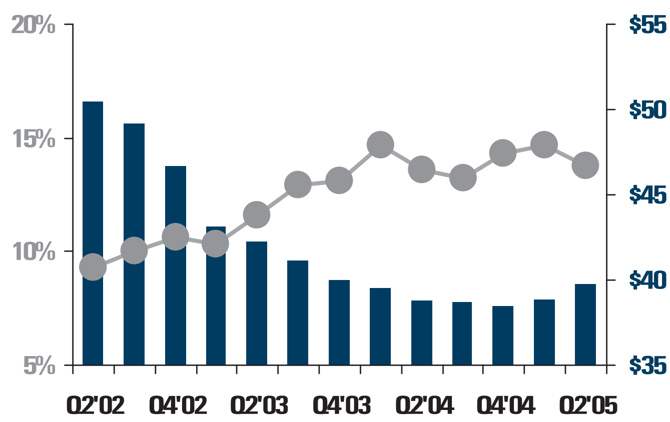
Boston Office Market Highlights

- **Positive absorption** of 410,000 sf was fueled by a number of shifts in the Back Bay, where vacancy is now ten percent following the expansion of Pearson Education's initial commitment at 501 Boylston Street; Class A asking lease rates have increased $0.93 to $39.77 per sf.
- **Financial District buildings** experiencing gains in occupancy outnumbered those experiencing losses 59 to 33, though absorption was flat following the emptying of 250,000 sf formerly occupied by Testa Hurwitz.
- **OneBeacon Insurance** will vacate 166,000 sf at its One Beacon Street namesake in 2008, it will consolidate regional operations in a facility it acquired in Canton (see Route 128).
- **A 100+ year relationship** will come to an end as Boston Wharf Company reached an agreement to sell the last 17 buildings of its Seaport District portfolio to Archon Group, a subsidiary of Goldman Sachs; a deal is expected to be completed for approximately $92 million.
- **The Back Bay's Class A** space is priced at a slight premium to the Financial District's for the first time in real estate history; the statistical aberration is partially due to unusually available high quality space in the Back Bay's most desirable assets.
- **The latest large residential conversion** hasn't even broken ground yet; Two Financial Center, originally proposed and approved by the Boston Redevelopment Authority as a 200,000 sf office building near South Station, is now scheduled to break ground as a 162 unit residential tower.

RBJ Activity Indicator – Boston CBD



% Vacancy/$ Class Asking

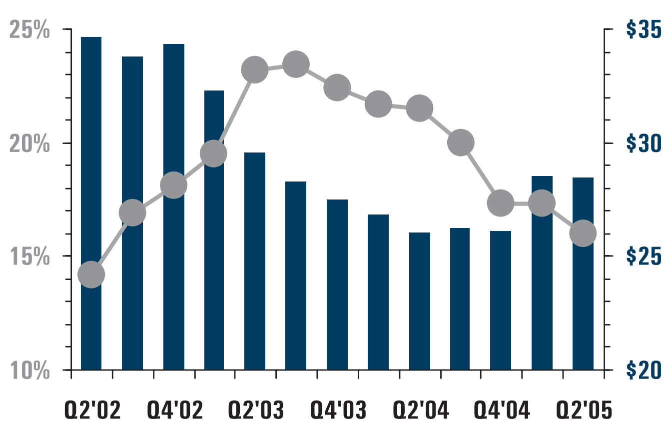


Cambridge experienced 173,000 sf of positive absorption in the second quarter of 2005, lowering vacancy rates 1.3 percent to 16.0 percent while Class A asking lease rates remained steady, at $28.44 per sf. Though the relatively small West Cambridge submarket and the low vacancy Mid Cambridge submarket were each flat, the strong performance on the part of the East Cambridge submarket is a particularly good sign for a sustained recovery in Cambridge. East Cambridge, home to Biogen Idec, Draper, and Genzyme, is also the traditional breeding ground of small Cambridge startups, intimate groups of technology geniuses and entrepreneurs that sometimes become large tenants. There were 18 buildings in Cambridge that experienced between 100 and 10,000 sf of positive absorption, adding 88,000 sf to the quarterly absorption total. The health of the biotechnology industry, a critical tenant of both office and lab space throughout the city, remains strong, despite certain concerns relating to the regulatory approval process and venture capital, which faces an expanding number of competitive investment types.

Cambridge Office Market Highlights

- **A solid quarter** with 173,000 sf of positive absorption lowered vacancy rates 1.3 percent to 16.0 percent, while Class A asking lease rates remained relatively stable, at $28.44 per sf.
- **The absorption was powered** by 190,000 sf of absorption in East Cambridge, where vacancy, 18.2 percent, has fallen 9.3 percent in two years.
- **Cambridge real estate,** traditionally priced at a significant premium to all suburban space, is more affordable than ever to tenants looking to in-migrate; there is nearly no premium to the Route 128 West submarket (see graph, next page).
- **BioMed Realty Trust** acquired a seven property portfolio, consisting of 1.15 million sf of office and lab real estate from an affiliate of Lyme Properties for $524 million, or $456 per sf; the acquisition establishes a benchmark for biotechnology focused real estate.
- **A flurry of smaller transactions** accounted for a significant amount of absorption, fueling optimism that entrepreneurs are increasingly active; 18 buildings experienced between 100 and 10,000 sf of increased occupancy, accounting for 88,000 sf of absorption.
- **The amount of sublease space** available, amid leasing activity and original lease expirations, is now half what it was four quarters ago. The 544,000 sf of buildings under construction are 92 percent leased.

% Vacancy/$ Class Asking



Valuations Gone Wild?

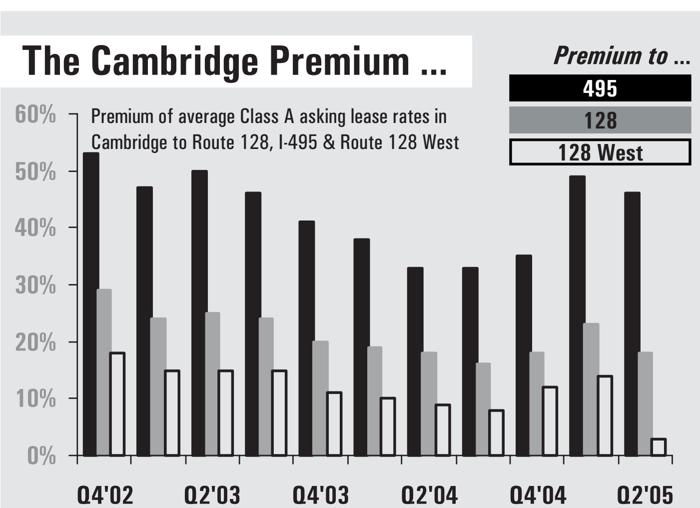
A sustained low interest rate environment, combined with the increasing attractiveness of real estate as a viable asset class, has resulted in low cap rates and record valuations. The Back Bay's 10 St James may be the next property to trade for over $400 per square foot. Here is a look at $350+ per square foot transactions over the past six quarters ...

Building	$MM	SF (000)	$/SF	Cap (est)
1 Lincoln Street	$705.4	1,024	$689	6.6%
200 State Street	$141.0	296	$476	NA
50 Milk Street	$123.0	274	$448	6.7%
99 High Street	$272.1	731	$372	4.7%
245 Summer St	$307.0	860	$357	6.5%

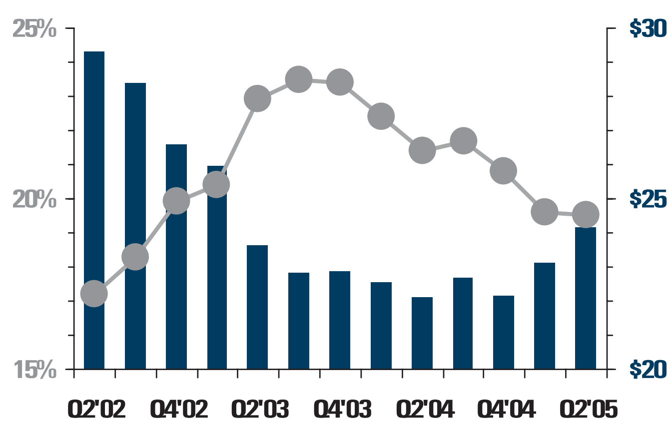
The Route 128 submarkets experienced 107,000 sf of positive absorption in the second quarter of 2005, lowering vacancy rates 0.2 percent to 19.4 percent while Class A asking lease rates rose $1.05 to $24.15 per sf. Vacant spaces throughout the area continue to be filled by space users of all sizes, as the number of available spaces of all sizes continues to decrease. Perhaps the most notable shift is the disappearance of the sublease glut. Route 128 West sublease space available has decreased from 1.8 million sf to 667,000 sf in just five quarters. The disappearance of sublease space has allowed landlords to achieve better economics for the first time since before the most recent economic downturn, with Class A asking lease rates in the high $20s in Newton, and reaching over $30 per sf in Waltham and Wellesley. The quarter also highlighted the continued differentiation between the South and West Route 128 submarkets, with OneBeacon Insurance committing to a newly owned facility in Canton and smaller users filling spaces in the West. However, the improving health of the West, and to a certain extent, the North submarkets, is dependent upon continued healthy venture capital and public markets investment conditions.

Route 128 Office Market Highlights

- **Vacancy is currently 19.4 percent** as six of the past seven quarters have brought positive absorption of 2.3 million sf and lowered vacancy rates 4.1 percent.
- **Waltham, the biggest** suburban commercial real estate concentration in the market, continues to attract the heaviest absorption with 154,000 sf in the quarter; vacancy in the town has decreased 8.8 percent over seven quarters to 21.6 percent.
- **Pricing power has shifted** dramatically in the landlord's favor over the past two quarters, driven by Waltham and Route 128 West; average Waltham Class A asking rates increased $4.45 during the first half of 2005 to $27.66 per sf.
- **Consolidation on the part** of networking companies continues to be a draw on absorption, with Avaya vacating 144,000 sf in Concord and Nortel leaving 135,000 sf in Billerica.
- **OneBeacon Insurance acquired** 150 Royall Street in Canton ($23.0 mm, 286,000 sf, $80/sf) to use as its headquarters facility beginning in 2007; it will consolidate its Boston and Foxborough locations.
- **Investment activity i**ncluded the acquisition of 117 Kendrick Street in Needham ($37.5 mm, 212,000 sf, $177/sf) by Intercontinental Real Estate and the acquisition of 25 Burlington Mall Road in Burlington ($50.0 mm, 278,000 sf, $180/sf) by Equity Office.



% Vacancy/$ Class Asking

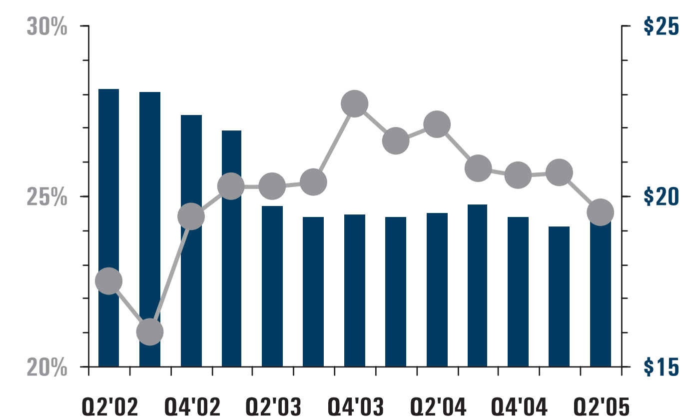


The I-495 submarkets experienced 151,000 sf of positive absorption in the second quarter of 2005 as vacancy rates dipped 1.2 percent to 24.5 percent and Class A asking lease rates increased $0.29 to $19.42 per sf. Despite the existence of 8.5 million existing empty square feet in the market, increasing optimism of the direction of the I-495 submarkets permeates the region. The interest, this quarter, on the part of investor-buyers, including New Boston Fund with their purchase of 155-159 Swanson Road in Boxborough ($19.75 mm, 205,000 sf, $96/sf) and Wells Real Estate Funds with their purchase of 150 Apollo Drive in Chelmsford (see bullets), signal enthusiasm over the area's stability as well as value add prospects. Investor interest is expected to remain strong throughout 2005. On the tenant side, the extremely low vacancy conditions in the Framingham/Natick area may spur spillover westward, to the Boroughs. Eventually, the I-495 submarkets should experience positive absorption not only from within, but may attract tenants from the increasingly crowded Route 128 submarkets.

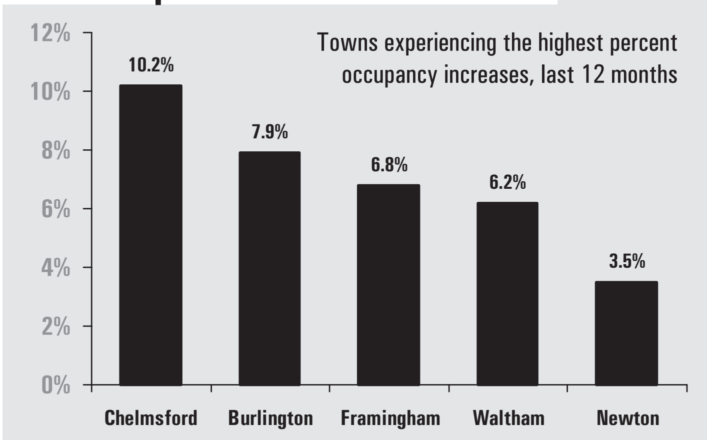
I-495 Office Market Highlights

- **Vacancy rates decreased** 1.2 percent to 24.5 percent on 383,000 sf of positive absorption while Class A asking lease rates edged up $0.29 to $19.42 per sf; the quarter capped a four quarter streak of positive absorption which has brought 989,000 sf of new occupancy.
- **Framingham experienced** 72,000 sf of positive absorption led by Intranets, Entertainment Software and Moldflow, which took a combined 55,000 sf ; Framingham is now 5.1 percent vacant.
- **I-495 West continues** to be a tale of two areas ... Framingham/Natick 7.9 percent vacant while The Boroughs are 25.0 percent vacant.
- **Tenants continue** chipping away at Chelmsford vacancy, seven of eight quarters of positive absorption has filled 384,000 sf of space and lowered vacancy from 35.9 percent to 21.4 percent.
- **I-495 Class A properties** are priced at an average 15 percent premium to Class B properties, the Greater Boston average is 59 percent; Class A owners are often more deep pocketed than their Class B counterparts and better equipped to price aggressively amid heavy vacancy.
- **Pockets of vacancy continue** to exist, despite generally improving conditions; Andover is now 36.2 percent vacant.
- **Investor buyers acquired aggressively** in the quarter, the heaviest investor buyer quarter in recent history, for an area recently active with user-buyers; five notable transactions in the quarter were led by the acquisition **of** 150 Apollo Drive in Chelmsford ($19.25 mm, 80,000 sf, $153/sf).

% Vacancy/$ Class Asking



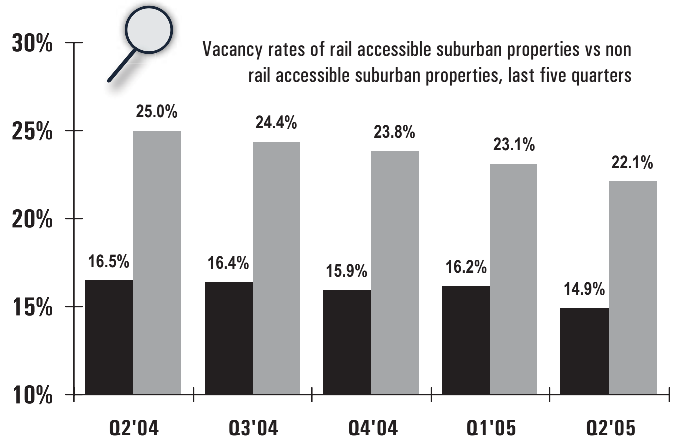
Most Improved Suburbs



Suburban office landlords may be able to achieve CBD-like occupancy levels if they are able to offer prospective tenants one key CBD characteristic: accessibility to rail public transportation. Over time, properties located within a half a mile, or approximately a ten minute walk, of a rail transit stop have consistently outperformed other suburban properties. In the second quarter of 2005, rail accessible properties accounted for 20 percent of all suburban positive absorption, despite making up only 14 percent of the inventory. Furthermore, the current 14.9 percent vacancy rate of rail accessible inventory will likely fall below ten percent as the only large block of accessible vacancy is occupied; nearly 300,000 square feet at the Shraft Center located a short walk from the Sullivan Square Orange Line T station.

The current trend is understandable given the rapidly increasing volume of auto traffic that has followed the continued development of suburban Boston areas. Data has shown that, tenants value the option of offering their employees alternatives to freeway commutes, which could include lengthy amounts of time stuck in traffic, when their employees could be at work or enjoying personal time. Employees are increasingly embracing rail transit, as the commuter rail network ridership has doubled from 1992 to 2004. The low vacancy characteristics are, not surprisingly, located along transportation routes that are linked with centers of high education and affluent areas containing highly skilled labor pools; the green and red lines of the rapid transit system, and the Framingham/Worcester commuter rail line both fit the category, and are all near 5 percent vacant. Landlords will have opportunities to capitalize on this development phenomenon as the MBTA looks to raise capital and fully realize the development potential near its transit hubs.

Vacancy: Rail Accessible vs. Non



Inventory Breakdown & Vacancy

Line/Station	Inventory (RSF)	Vac %
RAIL ACCESIBLE	13,541,000	14.9%
SUBWAY ACCESIBLE	8,637,000	11.9%
RED LINE	4,198,000	5.2%
North Quincy	1,578,000	1.2%
Quincy Adams	1,189,000	7.8%
GREEN LINE	2,238,000	5.8%
Riverside	640,000	4.1%
Brookline Village	384,000	0.6%
ORANGE LINE	2,561,000	27.2%
Sullivan Square	1,407,000	37.7%
Wellington	777,000	9.4%
COMMUTER RAIL	4,904,000	20.3%

Inventory and vacancy of office space located within approximately a ten minute walk of transit station along given form of conveyance, rail line, or station.

Kirkpatrick & Lockhart Nicholson Graham LLP

1 Lincoln Street, Boston, MA

Richards Barry Joyce & Partners acted as sublandlord representative for State Street Corporation in connection with a sublease agreement

152,000 Square Feet

OneBeacon INSURANCE

150 Royall Street, Canton, MA

Richards Barry Joyce & Partners advised the buyer, OneBeacon Insurance Company, and the seller, Lennar Corporation in connection with the sale of 150 Royall Street in Canton

286,270 Square Feet

STARENT NETWORKS

30 International Drive, Tewksbury, MA

Richards Barry Joyce & Partners acted as tenant representative for Starent Networks Corporation in connection with a lease agreement

54,000 Square Feet

Area	Size RSF (000)	VACANCY %	Absorption Q2 2005	Absorption Last 12 Mths	Availability % Direct	Availability % Sublet	Availability % Total	UC RSF (000)
TOTAL OFFICE MARKET	**173,848**	**17.9%**	**1,484**	**4,275**	**16.8%**	**4.5%**	**21.3%**	**973**
BOSTON SUBMARKETS	**66,708**	**13.8%**	**410**	**898**	**12.5%**	**3.6%**	**16.1%**	**355**
Financial District	33,809	15.0%	(19)	(136)	13.7%	3.6%	17.4%	0
Back Bay	12,559	10.0%	375	337	10.2%	5.4%	15.6%	0
Longwood/Inner South	5,422	10.9%	41	550	11.1%	0.6%	11.7%	0
Seaport District	4,512	19.7%	(36)	234	13.9%	1.2%	15.2%	0
Charlestown	3,186	19.3%	44	(207)	10.6%	10.7%	21.2%	0
Midtown	2,966	9.7%	(4)	19	9.9%	0.0%	9.9%	0
North Station	2,657	13.5%	(12)	34	13.7%	1.0%	14.7%	355
South Station	1,596	9.5%	20	68	12.1%	2.0%	14.1%	0
CAMBRIDGE	**13,105**	**16.0%**	**173**	**753**	**16.4%**	**2.6%**	**19.0%**	**544**
East Cambridge	7,864	18.2%	190	512	18.6%	3.6%	22.2%	419
Mid Cambridge	3,286	7.9%	(11)	168	7.0%	2.0%	9.0%	0
West Cambridge	1,955	20.8%	(6)	74	23.4%	0.0%	23.4%	125
SUBURBAN SUBMARKETS	**94,035**	**21.1%**	**901**	**2,624**	**20.0%**	**5.3%**	**25.3%**	**74**
Inner North	4,877	16.3%	411	522	15.5%	1.5%	17.1%	0
Route 128 & I-495	**89,158**	**21.4%**	**490**	**2,102**	**20.2%**	**5.5%**	**25.8%**	**74**
Route 128	**54,327**	**19.4%**	**107**	**1,113**	**20.1%**	**4.2%**	**24.3%**	**74**
Route 128 North	23,809	22.8%	113	451	22.9%	5.9%	28.8%	74
Route 128 West	19,534	17.2%	(145)	684	18.5%	3.4%	21.9%	0
Route 128 South	10,984	15.7%	140	(23)	17.0%	2.1%	19.1%	0
I-495	**34,830**	**24.5%**	**383**	**989**	**20.4%**	**7.6%**	**28.0%**	**0**
I-495 North	14,929	30.1%	151	351	22.7%	8.8%	31.5%	0
I-495 West	17,800	22.1%	140	362	19.5%	6.2%	25.8%	0
I-495 South	2,101	3.9%	91	276	12.6%	9.8%	22.4%	0
TOTAL LAB MARKET	**12,222**	**13.7%**	**63**	**1,073**	**9.9%**	**6.2%**	**16.0%**	**705**
Cambridge Lab	6,630	**16.0%**	78	446	8.6%	10.0%	18.6%	544
Boston Lab	2,390	**0.0%**	2	459	0.0%	0.0%	0.0%	161
Suburban Lab	3,203	**19.2%**	(17)	168	19.8%	2.0%	21.8%	0

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