REPRINTED FROM THE

FRIDAY, JULY 29, 2005

NEW ENGLAND

Real Estate Journal

THE LARGEST BUSINESS PUBLICATION OF ITS KIND IN THE NATION

Boston suburban office market continues to show positive signs of recovery

Craig Johnston

R.W. Holmes Realty Co.

Tim Fossett

R.W. Holmes Realty Co.

Boston Suburban Office Market

Inventory	Vacancy	Sublease	Total Available	Availability Rate
78,620,000 (SF)	13,758,500 (SF)	5,031,680 (SF)	18,790,180 (SF)	23.9%

The Boston suburban office market totals 78.6 million s/f with a combined availability rate of 23.9% halfway through 2005. The market continues to show positive signs of recovery with seven consecutive quarters of positive net absorption. Year to date, we have experienced 1.3 million s/f of net absorption which has been occurring at a higher rate than years past. The only submarket that did not experience positive absorption for the most recent quarter is the I-495 North market. We are now starting to see value conscious companies exploring options in this submarket.

In the last 12 months rent concession packages in class "A" properties have retreated in comparison to class "B" product. The price differential in class "A" properties and class "B "properties are starting to widen, showing further evidence of a market recovery, Owners of these class "B" properties would be wise to improve their asset in order to better attract a tenant, such as making the necessary capital improvements (upgrading the lobby and common areas, mechanical systems, etc.). These capital improvements will not necessarily have a profound impact on the rental rate, but will certainly increase the likelihood of securing tenants.

In the last several months the market has seen the following noteworthy deals: TJX expanding into 257,000 s/f at 500 Old Connecticut Path in Framingham, The MathWorks continuing to expand into 65,000 s/f at Two Apple Hill in Natick. Staples expanding to the I-495 market at One Research Dr. in Westborough leasing 57,000 s/f and Boston IVF and Constant Contact leasing 50,000 s/f & 27,000 s/f respectively in Waltham. Clean Harbors leased 104,000 s/f at 42 Longwater Dr. in Norwell and Deploy Solutions, Inc. subleased 32,152 s/f at 275 Grove St. in Newton. In Southborough, Averion Inc. leased 63,000 s/f at 225 Turnpike Rd. and Clark Consulting leased 26,000 s/f at 136 Turnpike Rd.

All of the I-495 Central lease transactions represented deals by companies that initially looked to be in the Natick/Framingham market but were forced out to the I-495 Central market due to lack of available space. Currently, the Natick/Framingham submarket shows a very impressive 5.7% availability rate.

In previous market cycles, Central 128 was thought to be "ground zero" for market recovery. Accordingly, capital has been pursuing opportunities in this submarket aggressively, as reduction of available inventory has outperformed the suburban market as a whole. In addition, there could be several quality risk-adjusted opportunities going forward in the Central I-495 submarket as recovery in Natick/Framingham/Wellesley is largely pushing west. However, availability rates in Central I-495, while certainly decreasing, still stand at 28.7 % so that a rental spike is still distant, although class "A" product will perform nicely from an absorption standpoint. Longer term, I-495 will see increased appreciation due to high housing costs inside Rte. 128 with corporate middle management choosing to settle in Worcester County. Furthermore, vacant spaces in Natick and Framingham can be underwritten with shorter than historical lease up times, and under market transaction costs.

In terms of future growth, we are beginning to see additional activity among start-ups. However, most of these companies are very early in their lifecycles. Accordingly, they are taking small quantities of space for very short terms. The entrepreneurs and venture capitalists seem to be much more conservative this go-around than they were in the past cycle. Furthermore, in conversations with many start-up tenants, a developing trend among the entrepreneurial community seems to be to resist venture capital financing, and grow companies organically, rather than take on venture capital financing in preparation for a large-scale liquidity event at the peak of the business cycle. Thus, we anticipate continued demand for smaller spaces (under 20,000 s/f) rather than seeing start-up companies with explosive growth that was characteristic of the last cycle.

In conclusion, we will continue to see rents tick up in the class "A" market, and idle in the class "B" market, with the possible exception of Central 128 to Framingham, where velocity in the "B" market and lack of value in the "A" market will lead to slight rental appreciation. But as a whole, the gap between rents in "A" and "B" product will widen, particularly in submarkets that are outperforming the market as a whole. Smaller tenants will be the drivers in the "B" market, and will be looking for value in the form of building upgrades or amenity packages. As has historically been the case, recovery will mushroom out from the Central 128 submarket. Large & medium tenants will lead the charge in absorbing "A" space, while the "B" market will see mostly smaller tenants searching for move-in opportunities under 10,000 s/f. The market is certainly on the road to recovery, and when local entrepreneurs and savvy national investors dig deeper through the market they will find some good opportunities that will pay off handsomely as the market continues its recovery. But given the influx of capital, one must have expectations for singles and doubles in suburban Boston, not home runs, as somewhat distressed "B" product in challenged submarkets are still trading at a premium.

Craig Johnston, senior vice president and Tim Fossett are with R. W. Holmes Realty Co., Inc., Natick, Mass.

Tel: 781-878-4540 / Fax: 781-871-1853 / 800-654-4993 / nerej@rejournal.com / www.rejournal.com