

# Boston, Massachusetts

Tenant's Guide ■ North American Markets ■ Second Quarter 2010

## Overview

Demand for quality class A office increased during Q2. The market is near or at the bottom, and we expect tenant activity to increase somewhat during 2010. However, we don't expect rent increases until 2011 at the earliest. Net positive absorption will still be negative this year.

Overall, through the first few quarters, the absorption for Downtown Boston was negative 500,000 SF, compared to an average annual absorption of one million SF. This negative trend will continue through 2010.

The suburban markets are even softer than downtown. Demand will continue to be low in 2010, and rents may decline another five percent compared to Q1. Rent concessions and tenant improvement allowances have bottomed out. However, some landlords continue to reduce tenant improvement allowances and trade them for free rent.

Commercial banks and insurance companies are slowly starting to lend again, as capital is becoming available to refinance debt in the commercial real estate industry. However, the foreclosures we predicted have increased significantly in the first two quarters and into 2011 as many CMBS loans become due. Tenants should make sure they secure SNDA agreements from their landlords.

## Market Trends

- The Massachusetts unemployment rate is approximately 9.2%, and we do not anticipate a significant increase that would affect net absorption.
- Seventy percent of tenants are electing to renew their leases well in advance of the termination date.
- As foreclosures increase in 2010, rents will continue to drop another five percent in the suburbs.
- Rent growth in the Boston metro market will remain flat through 2011.
- Lease renewals will drive activity because of the cost of construction and capital needed to relocate.
- The sublease space inventory is burning off and has less effect on reducing overall rents.

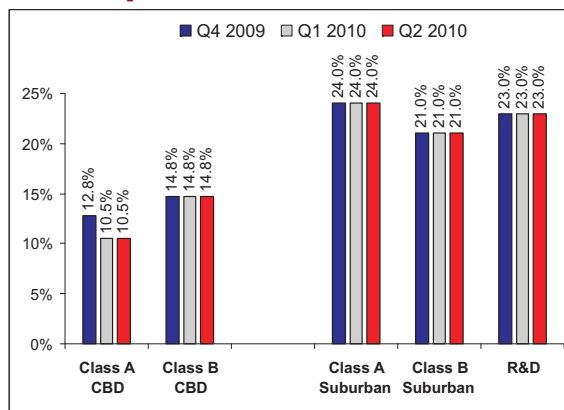
## Tenant's Perspective

The window of opportunity to take advantage of landlord concessions will continue to be in the tenant's favor. The continued economic slowdown will create opportunities in 2010 and 2011, especially for lease renewals with landlords that have a long-term view. Tenants should consider locking into longer-term leases while rents are at the bottom. The rental market will likely be flat through 2010 and into Q1 2011.

## Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
BJ's	282,000	Office	Lease
Bain Capital	210,000	Office	Lease
Holland & Knight	105,000	Office	Lease
Eclinical	100,000	Office	Sale
Comcast	98,000	Office	Lease
A123 Systems	97,000	Office	Lease
Structuretone	83,000	Office	Sale
Dynisco	47,000	Office	Lease
MA Property Insurance	33,000	Office	Lease
Robeco Boston Partners	30,000	Office	Lease

## Vacancy Rate



## Average Rental Rates

CBD	Q4 2009	Q1 2010	Q2 2010
Class A Office	\$48.00	\$48.00	\$48.00
Class B Office	\$30.00	\$30.00	\$30.00
Suburban	Q3 2009	Q4 2009	Q2 2010
Class A Office	\$27.00	\$27.00	\$27.00
Class B Office	\$18.00	\$18.00	\$18.00
R&D	\$9.50	\$9.50	\$9.50

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