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The fundamentals of the Waltham office market to remain stable throughout the rest of the year

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The growth of the Waltham office market has plateaued over the past several quarters as rising rental rates have checked tenants' demand for space. The current market dynamics can be described by the following figures from Grubb & Ellis research, accurate as of the fourth quarter of 2007:

- * Office market size: 8,748,000 s/f
- * Vacancy: 13.8%
- * Average Class A asking rent: \$32.34 per s/f
- * 2007 net absorption: 91,000 s/f
- * Asking rents are currently topping \$40 per s/f in signature properties
- * 77 CityPoint, a development by Boston Properties, will deliver 204,000 s/f of fully leased new office in the second quarter of 2008
- * The Overlook Center, a speculative development by Neelon Properties, will deliver 102,000 s/f of new office in 2009
- * 1560 Trapelo Rd., a speculative development by Cornerstone Corp, will deliver 65,000 s/f of new office in the second quarter of 2008
- * Reservoir Woods West Campus, a LEED-certified development by Davis Marcus Partners, will deliver 180,000 s/f of new office in the second quarter of 2008

Since the middle of 2006, when private equity investors acquired some desirable properties and aggressively raised rental rates, a significant subset of tenants have found themselves priced out of Waltham. The desirable location along central Rte. 128, high quality of office product and prestige of a Waltham address are still effective in drawing interest from area tenants. However, the average rents in Waltham, now the highest suburban rates outside of Cambridge, have caused many tenants to make the decision to trade affordability for amenities and seek space elsewhere in the Rte. 128 corridor. For example, longtime Waltham tenant Polaroid Corp.'s decision to leave the market for more affordable accommodations at 200 Baker Ave. in Concord is emblematic of this trend. The resulting effect on Waltham has been stabilization in vacancy of around 13.5% for the past four quarters as tenant departures have balanced out new arrivals and modest increases in rents amidst double-digit rental gains in the surrounding submarkets over the same time period.

While existing properties have seen their growth prospects limited by the changing market dynamics, new construction in Waltham is still demonstrating growth potential and has contributed some of the most impressive recent deals to the market. Two examples are National Grid signing a 20-year, 270,000 s/f commitment to Davis Marcus Partners' Reservoir Woods East Campus and Phase Forward leasing 165,000 s/f at Boston Properties' 77 CityPoint. Average rents in both of these instances were north of the average figures achieved in existing properties of around \$30-\$35

per s/f.

Another exception to the steady-state office market has been the upswing in the Waltham lab market. Local biotech firms are recognizing Waltham's value for lab space relative to the soaring rents in the Cambridge lab market. Examples include Altus Pharmaceuticals' leases at 333 Wyman St. and 610 Lincoln St. to transfer operations that had formerly been housed in Cambridge. Additionally, Immunogen signed a deal for 90,000 s/f at 830 Winter St. after a deal at 301 Binney St. in Cambridge fell through last year.

The largest investment sale in the Waltham market in the past year was the three-building purchase of 10-52 Second Ave. by American Realty Advisors for more than \$100 million, or \$278 per s/f. Like elsewhere, sales transaction volume has significantly diminished following the credit crunch in the first half of 2007.

Expect fundamentals in the Waltham office market to remain stable throughout the rest of the year. Developers will continue to target the city due to the promise of above-market rents achieved in current projects.

Central 128 Market Profile

The city of Waltham is located within the central Rte. 128 submarket. This market consists of 24 million s/f of office space with a 10.6% vacancy rate and posted 573,000 s/f of net absorption in 2007. Average Class A asking rents are \$31.19 per s/f. The market also contains 10 million s/f of industrial space (including flex, manufacturing and warehouse) with a 10.3% vacancy rate.

This submarket appeals to office tenants demanding easy access to Boston as well as the outer suburbs. The submarket is popular with a variety of firms, including technology companies, venture capital firms, biotech and medical. Properties within the submarket contain some of the highest quality office space on the market. Tenants appreciate the advantages of lower rents and free parking over downtown locations without having to sacrifice the quality of space. In addition, accessibility to this market is top notch with both the Mass. Pike and Rte. 128 bisecting this central market making commuting for downtown workers and affluent western suburban decision makers almost effortless.

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