

BOSTON OFFICE MARKET

SECOND QUARTER 2016

OFFICE **STATUS**



FINANCIAL DISTRICT | BOSTON

Inside...

- » Two more Boston giants call Seaport home
- » Minimal Cambridge availability leaves tenants planning for long-term growth
- » Route 128 South continues strong performance
- » East Cambridge rents see tremendous growth over last three years
- » Boston weathers global instability

*Unless otherwise noted, all data is as of or for the quarter ended June 30, 2016.

Seaport Welcomes Two More Headquarters

Spatial Scarcity in Cambridge Creates Strategic Long-Term Growth Planning

After a slow Q1, the Greater Boston real estate market once again headed in the right direction, with 209,000 square feet of positive absorption coming in the second quarter of 2016. Vacancy remained below 13 percent for the seventh consecutive quarter, with a rate of 12.7 percent. Class A average asking rents have breached the \$42 mark for the first time since 2002, with a current price of \$42.50 per square foot.

The Boston CBD saw 69,000 sf of positive absorption this quarter, with large move-ins by Wayfair (97,000 square feet) and HBS (125,000 square feet). Vacancy rates rose by 0.6 percentage points to 9.7 percent, while Class A rents remained flat from last quarter at \$54.49 per square foot. Additionally, Boston Consulting Group announced plans to join John Hancock, PwC and Goodwin Procter in the Seaport District with a build-to-suit project delivering in 2018.

Vacancy rates continue diminishing in Cambridge as more space was removed from the market. The Cambridge market saw 37,000 square feet of positive absorption as vacancy fell to 3.2 percent. Class A average asking rents are currently \$62.94 per square foot and reach low-\$80s in East Cambridge. Pharmaceutical giants and blue chip office users continue creating supply constraints, causing office-using tenants to strategically plan for long-term growth and take space that they may need in the future.

Along the Route 128 and Interstate 495 belts, activity was relatively slow. Route 128 saw 38,000 square feet of positive absorption with no appreciable change to vacancy or Class A average asking rents, which remained at 13.0 percent and \$38.80 per square foot, respectively. I-495 saw 1,000 square feet of positive absorption, also leaving vacancy rates and Class A asking rents unchanged at 21.8 percent and \$21.26 per square foot. Despite a flat quarter, as available space in Cambridge disappears and rental rates continue to climb, we expect to see a positive spillover of tenants searching for quality, cost-efficient space.

Despite a great deal of uncertainty in financial markets brought about by Chinese instability and European fallout due to Brexit, foreign and domestic real estate investors alike are searching for a safe haven for investment with a low-risk return. As a result, Boston has remained a top destination for capital inflows, with \$4.7 billion invested in the office market through mid-June according to Real Capital Analytics. With foreign pressures holding interest rates low for the near future, investors will likely take advantage of favorable loan terms in coming quarters and investment volume should remain high for the foreseeable future.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

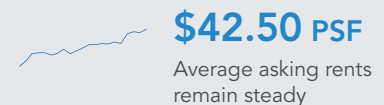
VACANCY RATES



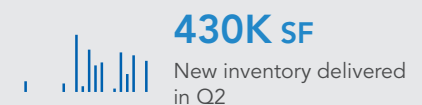
ABSORPTION



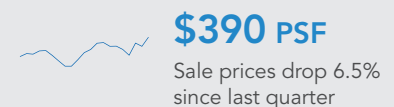
RENTAL RATE



RBA DELIVERED



AVERAGE OFFICE SALE PRICE

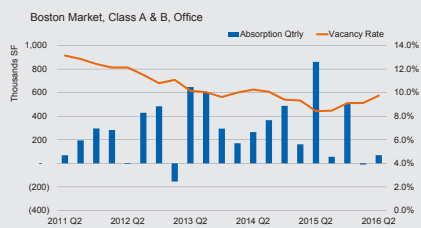


OFFICE-USING EMPLOYMENT

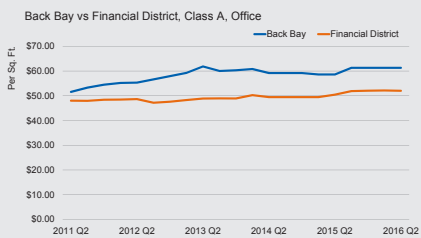


BOSTON CBD

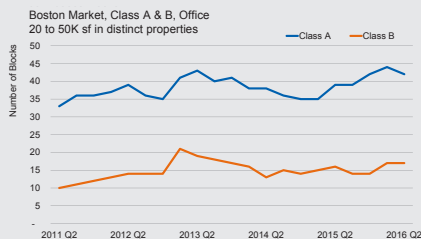
ABSORPTION



ASKING RENTS



CONTIGUOUS BLOCKS



- The Boston CBD saw **69,000 sf of positive absorption**, with a corresponding vacancy rate of 9.7 percent, and Class A asking rents with an average price of \$54.49 per sf.
- The Financial District experienced **320,000 sf of negative absorption** due to Goodwin Procter moving out of 450,000 sf and relocating to the Seaport District.
- The Seaport District witnessed **Class A asking rents** reach the highest recorded level with an average asking rate of \$57.44 per sf.
- The **Class B availability rate is nearly half** of what it was in the second quarter of last year, dropping from 16.1 percent to the current rate of 8.6 percent.
- **McCarter & English, LLP signed a lease** for 64,000 sf at 265 Franklin Street and Salsify signed a lease for 28,000 sf at 2 Center Plaza.
- **Goodwin Procter relocated** to 100 Northern Avenue, occupying 375,000 sf, Harvard Business School Publishing moved into 125,000 sf at 20 Guest Street, and Wayfair moved into 97,000 sf at 1 Copley Place.
- **Boston CBD Class A space-using tenants** have attributed to net positive absorption in nine of the last 10 quarters totaling 2.9 million square feet.
- **Development of premier space** in the Seaport District continues, with 789,000 sf of Class A office space under construction.
- **Union Investment Real Estate purchased** 101 Seaport Boulevard from the developer Skanska (\$452 million, 440,000 sf, \$1,027.27 per sf).

Boston Office Market Indicators by Class

SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF CLASS A	4QTR** CHANGE
Class A	46,176	516	200	631	1.5%	10.3%	\$54.49	4.2%
Class B	27,548	70	(131)	(15)	-0.1%	8.9%	\$40.52	11.6%
Boston Total	73,724	586	69	617	0.9%	9.7%	\$51.17	6.5%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

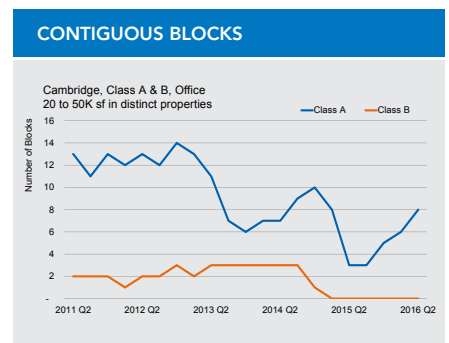
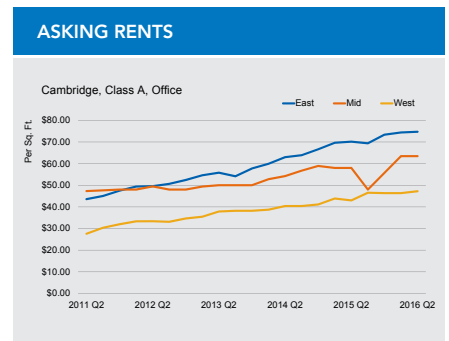
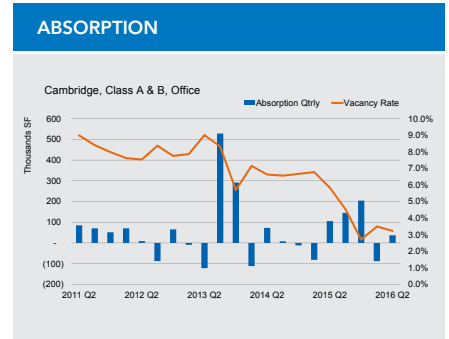
*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

BOSTON OFFICE MARKET

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CAMBRIDGE

- **Cambridge office tenants absorbed 37,000 sf of space**, dropping the vacancy rate 0.3 percentage points to 3.2 percent, while Class A asking rents increased 95 cents from last quarter to \$62.94 per sf.
- **There is high demand for all office space**, as Class B availability is currently 4.0 percent, down from 12.4 percent two years ago.
- **East Cambridge office space** witnessed 73,000 sf of positive absorption, dropping the vacancy rate to the lowest level since 2000, at 3.2 percent.
- **Only 3,000 vacant sf remain in Mid Cambridge**, which has an inventory of over two million sf.
- **CarGurus signed a lease for 30,534 sf** at 55 Cambridge Parkway, Zagster signed a lease for 11,064 sf at 24 Thorndike Street, And Army Corps of Engineers signed a lease for 10,993 at One Charles Park.
- **Blue Chip Office users** (IBM Watson, Google, Amazon, Akami, Hubspot, etc.) continue to expand their presence in East Cambridge.
- **Class A asking rents for East Cambridge** lead the entire Boston market with a price of \$74.71 per sf, which has grown 38% in the last three years.
- **Tenants are planning for long-term growth in Cambridge** and removing final blocks of available space due to low vacancy and minimal availability.
- **Intercontinental Real Estate Corp. purchased 1, 2 and 10 Canal Park** from Beacon Capital Partners (\$304 million, 426,527 sf, \$712.73 per sf).



Cambridge Office Market Indicators by Class

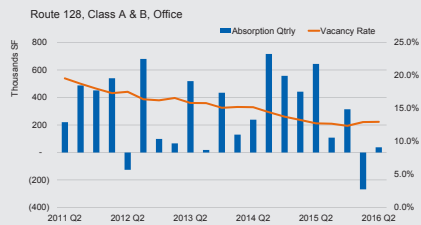
SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF CLASS A	4QTR** CHANGE
Class A	8,117	0	73	323	4.1%	2.9%	\$62.94	0.7%
Class B	3,052	0	(36)	(24)	-0.8%	4.0%	\$45.87	12.3%
Cambridge Total	11,170	0	37	299	2.8%	3.2%	\$58.82	4.7%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

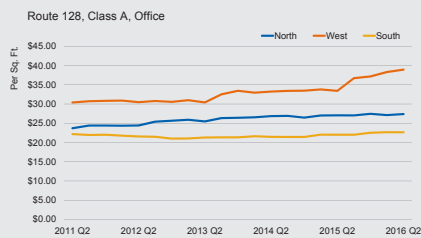
ROUTE 128

ABSORPTION



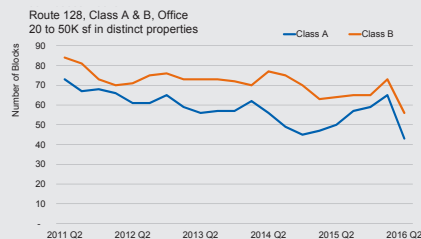
- **Route 128 collectively saw 38,000 sf of positive absorption**, with vacancy remaining unchanged at 13.0 percent, and Class A average asking rents staying at \$30.80 per sf.
- **Route 128 South has seen positive absorption** in 19 of the last 20 quarters and the last 16 consecutive quarters, totaling 1.5 million sf and 1.2 million sf, respectively.
- **There is currently 1.6 million sf under construction** in Route 128 West, the most activity seen in that market since 1998.

ASKING RENTS



- **Class A space in Route 128 North** witnessed positive absorption of 60,000 sf, dropping vacancy from 13.1 percent to 12.6 percent.
- **The Rockport Group signed a lease for 70,000 sf** at 1210 Washington Street in Newton, and SEIU signed a lease for 42,000 sf at 108 Myrtle Street in Quincy.
- **Demandware committed to lease** all of 5 Wall Street in Burlington over the next five years, Ocular Therapeutix signed a lease for 70,712 sf at 15 Crosby Drive in Bedford, and Liberty Bay Credit Union moved into 23,000 sf at 300 Granite Street in Braintree.

CONTIGUOUS BLOCKS



- **As available space in Cambridge continues to diminish**, demand in quality properties along Route 128 is expected to increase.
- **Route 128 West has seen its sixth consecutive quarter** of single digit vacancy, with 9.9 percent vacancy this quarter.
- **Capstone Partners acquired 70 Blanchard Road in Burlington** from E&F Realty Associates (\$24 million, 107,427 sf, \$223.41 per sf).

Route 128 Office Market Indicators by Class

SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF CLASS A	4QTR** CHANGE
Class A	33,624	0	28	(240)	-0.8%	11.3%	\$30.80	10.0%
Class B	27,956	0	10	432	1.8%	14.9%	\$22.02	10.9%
Route 128 Total	61,300	0	38	192	0.4%	13.0%	\$27.05	9.8%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

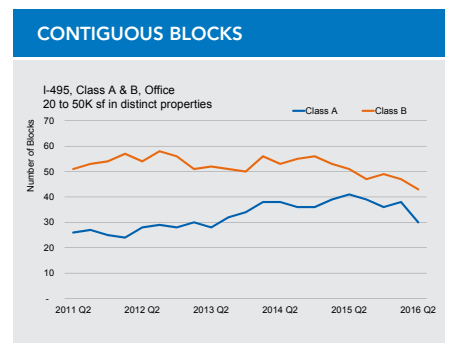
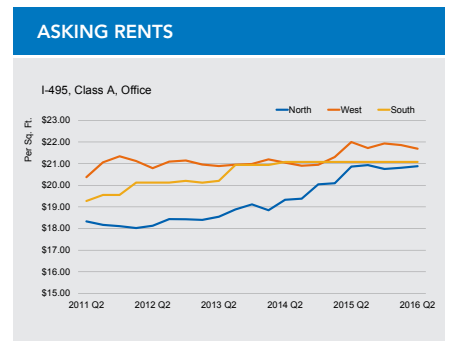
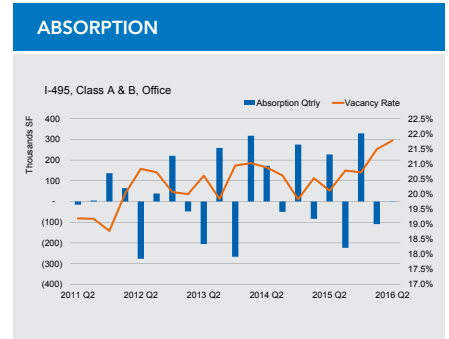
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INTERSTATE 495

- **Interstate 495 experienced 1,000 sf of positive absorption** in the second quarter of 2016, with vacancy rates and Class A average asking rents remaining unchanged at 21.8 percent and \$21.26 per sf, respectively.
- **In three years, the vacancy rate for Class A space** in I-495 West has decreased 3.9 percentage points to the current level of 13.6 percent.
- **Class A blocks of available space of all size tranches** in I-495 North have decreased, with the highest demand for blocks between 10,000 and 20,000 sf, whose numbers have decreased from 19 last quarter to 13 currently.
- **In the last two years, I-495 West** has seen 824,000 sf of positive absorption.
- **38 percent of the vacancy throughout I-495** is contained to 15 buildings, which, if removed, drop the market's vacancy to 15.9 percent.
- **Straumann signed a renewal for 169,333 sf** at 60-100 Minuteman Park in Andover and ViaSat moved into 40,000 sf at 300 Nickerson Road in Marlborough.
- **Since reaching a peak in the third quarter of 2014**, the Class B availability rate in I-495 West has since decreased 8.2 percentage points.
- **Despite a flat quarter, GE's move to Boston** has extended its reach to Marlborough with GE Healthcare opening up the prospect of further expansion for additional subsidiaries in the I-495 office market.
- **Maric, Inc. sold the New England Business Center** in Andover to Andover Companies (\$32 million, 244,000 sf, \$131.15 per sf).



I-495 Office Market Indicators by Class

SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF CLASS A	4QTR** CHANGE
Class A	14,436	0	(24)	(436)	-3.8%	19.8%	\$21.26	0.5%
Class B	19,804	0	25	434	2.9%	23.2%	\$16.93	0.3%
I-495 Total	34,240	0	1	(2)	0.0%	21.8%	\$18.85	0.2%

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Greater Boston Office Market Indicators by Submarket

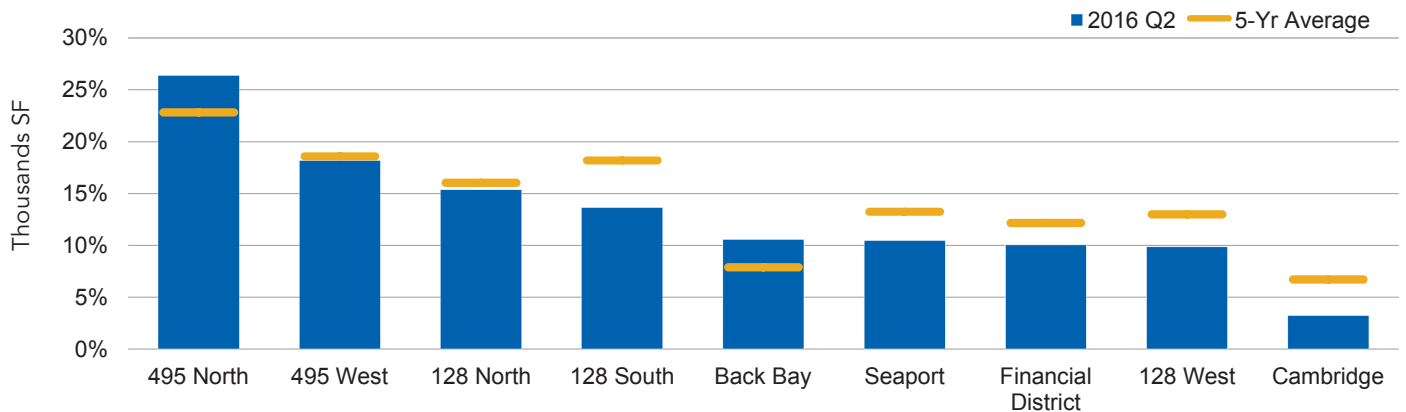
SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF CLASS A	4QTR*** CHANGE
Financial District	36,166	0	(320)	(306)	-0.9%	10.0%	\$52.02	3.1%
Back Bay	13,859	0	(4)	(157)	-1.3%	10.6%	\$61.30	4.6%
Longwood/Inner South	5,278	0	130	281	5.7%	6.1%	\$38.68	43.3%
Seaport District	9,533	586	371	912	10.7%	10.5%	\$57.44	1.5%
Charlestown	2,782	0	(135)	(109)	-4.4%	12.0%		-
Midtown	2,217	0	18	30	1.5%	11.7%	\$50.00	-
North Station	2,391	0	9	(11)	-0.5%	3.5%	\$52.00	48.6%
South Station	1,498	0	(1)	(23)	-1.6%	6.1%		-
Boston Total	73,724	586	69	617	0.9%	9.7%	\$54.49	4.2%
East Cambridge/Kendall Square	7,441	0	73	318	4.4%	3.2%	\$74.71	6.5%
Mid Cambridge/Harvard Square	2,063	0	6	3	0.2%	0.1%	\$63.46	9.4%
West Cambridge/Alewife Station	1,666	0	(42)	(22)	-1.4%	7.2%	\$47.23	9.8%
Cambridge Total	11,170	0	37	299	2.8%	3.2%	\$62.94	0.7%
Inner North/Streetcar Suburbs	3,344	0	64	94	3.2%	12.3%	\$30.81	22.4%
Suburban Submarkets (excl Cam)	98,884	0	102	283	0.3%	16.0%	\$27.81	7.7%
Route 128 North	26,140	0	(36)	(322)	-1.5%	15.4%	\$27.39	1.2%
Route 128 West	22,714	0	(5)	25	0.1%	9.9%	\$38.94	16.5%
Route 128 South	12,446	0	79	490	4.6%	13.7%	\$22.65	2.9%
Route 128 Total	61,300	0	38	192	0.4%	13.0%	\$30.80	10.0%
I-495 North	15,387	0	(20)	(184)	-1.6%	26.4%	\$20.88	0.1%
I-495 West	16,230	0	9	392	3.0%	18.2%	\$21.69	1.4%
I-495 South	2,623	0	12	(210)	-9.7%	17.0%	\$21.08	-
I-495 Total	34,240	0	1	(2)	0.0%	21.8%	\$21.26	0.5%
Route 128 & I-495 Total	95,540	0	39	190	0.2%	16.1%	\$27.75	7.4%
Greater Boston Market Total	183,777	586	209	1,199	0.7%	12.7%	\$42.50	5.7%

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Context: Vacancy Rate by Submarket

Class A & B, Office



METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Boston metropolitan area. This report includes single-tenant, multi-tenant office properties 20,000 sf and larger, excluding condo and medical office facilities and those properties owned and occupied by a user or government agency.

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