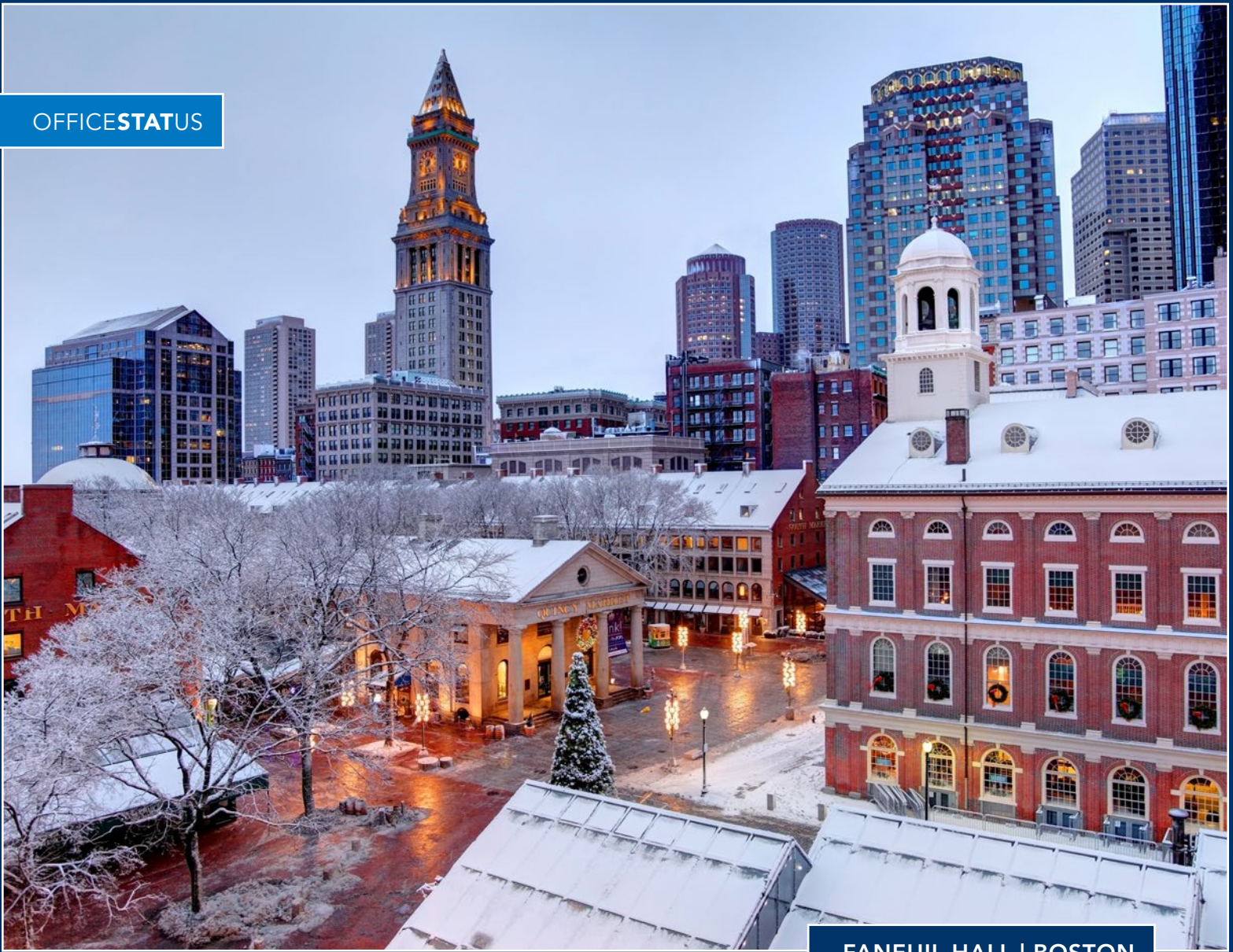


BOSTON OFFICE MARKET

FOURTH QUARTER 2016

OFFICE **STATUS**



FANEUIL HALL | BOSTON

Inside...

- » Asking rent for Class A space in East Cambridge nears \$77 average
- » Alexandria Real Estate Equities with large Cambridge purchase
- » Class A space in the Financial District in high demand
- » Most absorption experienced along Route 128
- » Route 128 South sees highest occupancy levels
- » Newer Class B product in I-495 North in high demand

*Unless otherwise noted, all data is as of or for the quarter ended December 31, 2016.

Fourth Quarter Sees 789,000 SF of Positive Absorption

Head of Steam Expected to Carry into 2017

Office space in the Greater Boston market has now seen positive absorption in 14 of the last 15 quarters, accumulating 12 million square feet positively absorbed over that period. 2016 saw 1.4 million square feet positively absorbed with 789,000 square feet absorbed in the fourth quarter. The current vacancy rate is 12.7 percent, slightly lower than the market average over the last five years of 13.6 percent. Average Class A asking rents are \$43.12 per square foot, which has appreciated 9.1 percent in the last three years.

The Boston CBD contributed 59,000 square feet of positive absorption this quarter, decreasing the vacancy rate 0.1 percentage points to 9.6 percent. The most absorption of the CBD submarkets occurred in the Financial District, which saw 69,000 square feet positively absorbed. Average Class A asking rents are currently \$55.09 per square foot in the CBD, led by Back Bay, which has an average asking rate of \$62.51 per square foot.

Across the Charles River in Cambridge, the vacancy rate rose 0.9 percentage points to 3.8 percent on 104,000 square feet of negative absorption. The bulk of the negative absorption occurred in Mid Cambridge, which experienced 98,000 square feet of negative absorption. Average Class A asking rents across the Cambridge market rose to a price of \$65.62 per square foot, led by East Cambridge with an average asking rate of \$76.93 per square foot.

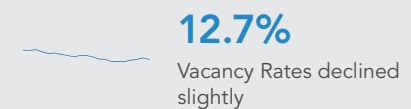
Stretching into the suburban markets, Route 128 collectively saw 433,000 sf absorbed this quarter, dropping the vacancy rate 0.5 percentage points to 12.9 percent. Route 128 North led the Route 128 belt in absorption, snapping a three-quarter negative streak, with 331,000 square feet positively absorbed. The average Class A asking rate for Route 128 is \$30.60 per square foot, with Route 128 West achieving the highest rates within the 128 belt of \$38.80 per square foot. On the outskirts of the market, Interstate 495 saw 115,000 square feet of positive absorption, dropping vacancy 0.7 percentage points to 21.7 percent. Class A asking rents saw little change, with an average asking price of \$21.43 per square foot.

Looking ahead to 2017, the commercial office market is expected to remain as a top destination for investors. There are 2.2 million square feet expected to deliver in 2017 and a number of high profile moves are on the horizon. Most recently, Reebok announced its departure from its Canton headquarters to move to the Innovation and Design Building in the Seaport District, where it will occupy 220,000 square feet. It will be important to keep an eye on the Federal Reserve in 2017; as the economy and stock market strengthen, the speed at which they increase interest rates has become a topic of speculation.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

VACANCY RATES



ABSORPTION



RENTAL RATE



RBA DELIVERED



AVERAGE OFFICE SALE PRICE

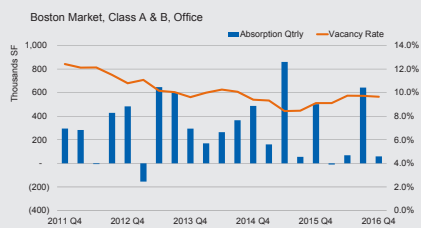


OFFICE-USING EMPLOYMENT

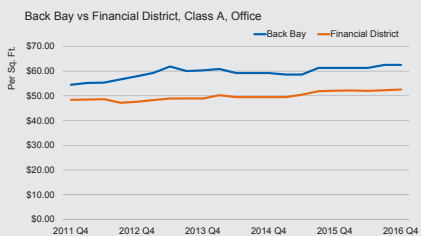


BOSTON

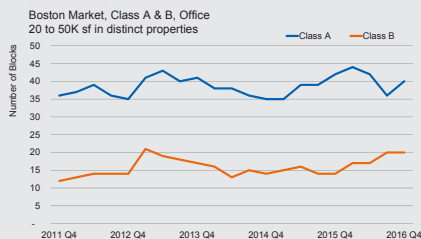
ABSORPTION



ASKING RENTS



CONTIGUOUS BLOCKS



- The Boston submarkets experienced 59,000 sf of positive absorption in the fourth quarter, lowering vacancy 0.1 percentage point to 9.6 percent.
- Across the Boston submarkets, Class A rents remain in the mid-\$50 range at a current average asking rate of \$55.09 per square foot.
- All three major downtown markets (Back Bay, the Financial District and the Seaport District) saw positive absorption this quarter, led by Financial District with 69,000 sf of positive absorption.
- Across the 1.5 msf market, South Station has 65,000 vacant sf remaining, all of which is Class B.
- DigitasLBI signed a lease for 218,000 sf at 40 Water Street, which should deliver in the middle of 2017, and Red Hat signed a lease for 39,000 sf at 300 A Street.
- Reebok leased 220,000 sf at the Innovation and Design Building, where it will relocate its headquarters from Canton in the third quarter of 2017.
- Availability for Class B space in the Boston submarkets has reached the lowest rate since 2008 at 13.1 percent, while asking rents have risen 10.5 percent in the past year.
- Class A space in the Financial District saw 237,000 sf of positive absorption which dropped vacancy 0.9 percentage points
- Related Beal acquired 27 Drydock Avenue from North Star Management (\$146.5 million, 287,000 sf, \$510 per sf).

Boston Office Market Indicators by Class

SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF	4QTR** CHANGE
Class A	46,615	0	300	818	2.0%	10.1%	\$55.09	1.5%
Class B	27,548	0	(241)	(57)	-0.2%	8.8%	\$41.31	10.3%
Boston Total	74,163	0	59	761	1.1%	9.6%	\$51.77	3.9%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

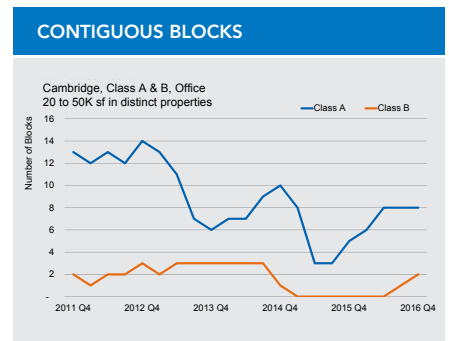
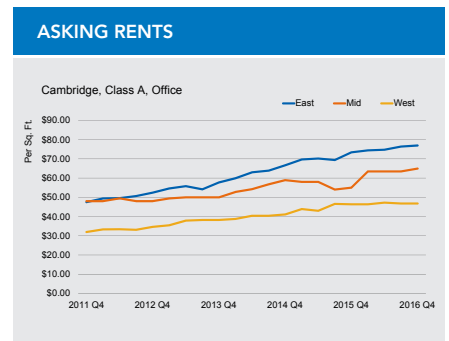
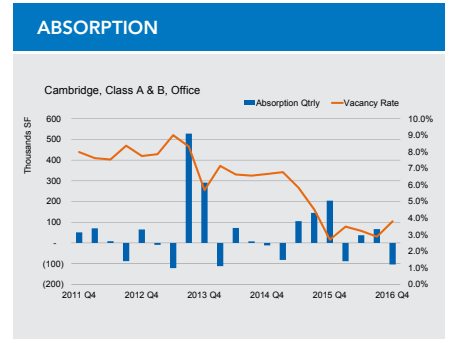
*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

BOSTON OFFICE MARKET

FOURTH QUARTER 2016

CAMBRIDGE

- **Office space in Cambridge** saw vacancy rise 0.9 percentage points to 3.8 percent on 104,000 sf of negative absorption.
- **Average Class A asking rates increased \$1.11** from last quarter to \$65.62 per sf, a gain of 10.1 percent from two years ago.
- **East Cambridge office space** has shown positive absorption in six of the last seven quarters, accumulating 479,000 sf over that period.
- **In a two-year span**, vacancy in East Cambridge has fallen 4.1 percentage points to 3.0 percent, the lowest rate on record.
- **Akamai Technologies signed a lease for 486,000 sf**, Foundation Medicine signed a lease for 50,000 sf of expansion space at 150 Second Street and Seqirus signed a lease for 30,000 sf at 50 Hampshire Street.
- **ARIAD Pharmaceuticals moved into 88,000 sf** at 75-125 Binney Street, while Infinity Pharmaceuticals vacated two buildings for a combined 113,000 sf in Mid Cambridge. 780 Memorial Drive was committed to by Jounce Therapeutics who will take occupancy the second quarter of 2017.
- **Class A average asking rents in Mid Cambridge** are currently \$64.92 per sf, a \$10.78 premium to the five-year average.
- **DivcoWest sold One Kendall Square** to Alexandria Real Estate Equities, who will be converting the office space to lab (\$725 million, 741,089 sf, \$978.29 per sf).



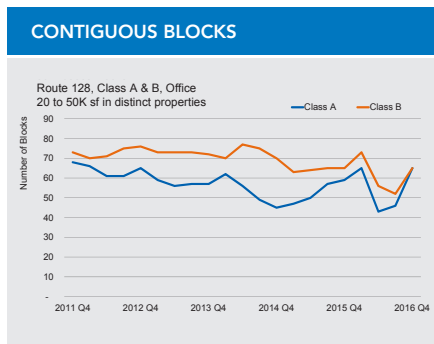
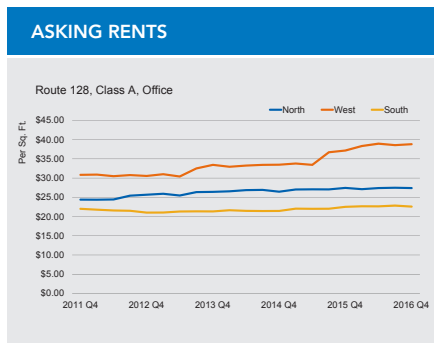
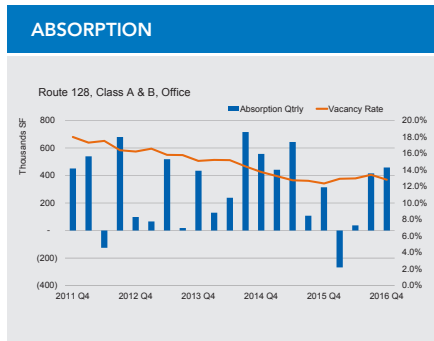
Cambridge Office Market Indicators by Class

SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF	4QTR** CHANGE
Class A	8,184	0	(44)	(10)	-0.1%	3.7%	\$65.62	4.8%
Class B	3,052	0	(59)	(77)	-2.6%	4.1%	\$47.89	12.7%
Cambridge Total	11,236	0	(104)	(87)	-0.8%	3.8%	\$63.20	6.6%

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



- **Route 128 saw the most quarterly absorption of 2016** to close the year, with 433,000 sf positively absorbed this quarter, lowering vacancy from 13.4 percent to 12.9 percent.
- **Average Class A asking rents throughout Route 128** are \$30.60 per sf, a 9.8 percent increase from two years ago.
- **Route 128 South witnessed 90,000 sf of positive absorption** this quarter, closing off four consecutive years of positive absorption.
- **Route 128 West Class A average asking rents** are currently \$38.80 per sf, which is a premium of 42 percent and 72 percent to Route 128 North and Route 128 South, respectively.
- **Innosight signed a lease for 31,000 sf** at 92 Hayden Avenue in Lexington, the Alzheimer's Association signed a lease for 26,000 sf at 309 Waverly Oaks Road in Waltham and Partylite signed a lease for 25,000 sf at 600 Cordwainer Drive in Norwell.
- **The Guild for Human Services** purchased and moved into 60,000 sf at 6 Concord Farms in Concord and Blue Hills Bank moved into 32,000 sf at 500 River Ridge Drive in Norwood.
- **Route 128 South is currently 88.7 percent occupied**, the highest level since 2002.
- **Merck sold their Hayden Avenue properties** (44, 55 & 65 Hayden) to The Carlyle Group and King Street Properties (\$167 million, 388,067 sf, \$430.34 per sf).

Route 128 Office Market Indicators by Class

SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF	4QTR** CHANGE
Class A	34,498	0	262	266	0.9%	12.1%	\$30.60	2.2%
Class B	27,862	0	171	353	1.5%	13.7%	\$23.37	13.2%
Route 128 Total	62,081	0	433	619	1.1%	12.9%	\$27.51	5.1%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

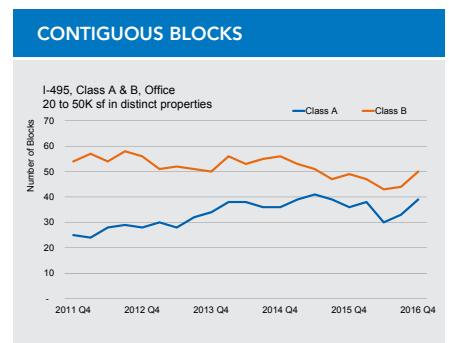
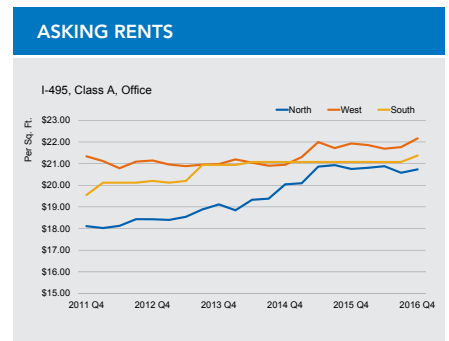
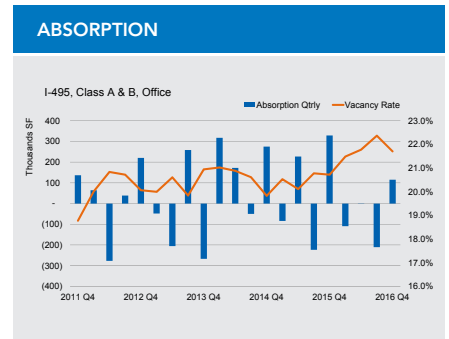
*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

BOSTON OFFICE MARKET

FOURTH QUARTER 2016

INTERSTATE 495

- **After a negative third quarter**, I-495 office space saw 115,000 sf positively absorbed to close 2016, lowering vacancy 0.7 percentage points to 21.7 percent.
- **I-495 average Class A asking rates** have seen little change in 2016, with a current average price of \$21.43 per sf.
- **Over the past four quarters**, Class A properties have positively absorbed 178,000 sf, while Class B properties have witnessed 381,000 sf of negative absorption.
- **Half of the vacant space in I-495 West** is contained within nine buildings, which if removed would drop vacancy from 20.4 to 11.9 percent.
- **The Class A vacancy rate in I-495 North** dropped 5.8 percentage points over the course of the year to the current rate of 19.3 percent.
- **Rockwell Automation renewed on 57,000 sf** at 2 Executive Drive in Chelmsford, Akamai Technologies signed a lease on 42,000 sf at 5 Technology Park Drive in Westford, EXFO signed a lease for 28,000 sf at 250 Apollo Drive in Chelmsford, and Enel Green Power moved into 65,000 sf at 100 Brickstone Square in Andover.
- **Antaeus Wealth Advisors expanded** into an additional 5,000 sf at 80 Central Street in Boxborough.
- **400 Minuteman Road in Andover** was acquired by Carter Validus Mission Critical REIT from Spear Street Capital (\$37 million, 153,000 sf, \$241.83 per sf).



I-495 Office Market Indicators by Class

SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF	4QTR** CHANGE
Class A	14,441	0	195	178	1.5%	17.0%	\$21.43	0.7%
Class B	19,842	0	(80)	(381)	-2.6%	25.1%	\$17.01	0.9%
I-495 Total	34,283	0	115	(203)	-0.8%	21.7%	\$18.96	0.6%

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

Greater Boston Office Market Indicators by Submarket

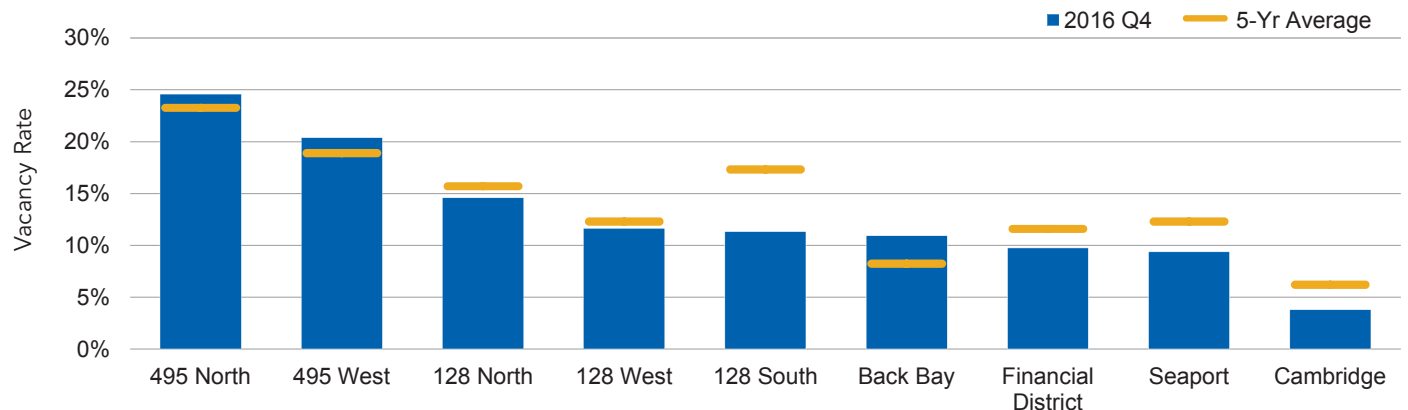
SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF CLASS A	4QTR*** CHANGE
Financial District	36,166	0	69	(177)	-0.5%	9.7%	\$52.55	0.9%
Back Bay	14,284	0	64	384	3.0%	10.9%	\$62.51	2.0%
Longwood/Inner South	5,507	0	(92)	183	3.6%	9.1%	\$38.68	-
Seaport District	9,318	0	1	415	4.9%	9.4%	\$56.59	1.1%
Charlestown	2,782	0	71	(57)	-2.3%	9.4%	-	-
Midtown	2,217	0	(0)	63	3.2%	10.3%	\$50.00	-
North Station	2,391	0	(62)	(48)	-2.2%	5.8%	\$52.00	15.6%
South Station	1,498	0	9	(1)	-0.1%	4.4%	-	-
Boston Total	74,163	0	59	761	1.1%	9.6%	\$55.09	1.5%
East Cambridge/Kendall Square	7,441	0	6	98	1.3%	2.7%	\$76.93	4.9%
Mid Cambridge/Harvard Square	2,129	0	(98)	(119)	-5.9%	6.0%	\$64.92	-
West Cambridge/Alewife Station	1,666	0	(12)	(66)	-4.2%	6.1%	\$46.78	0.9%
Cambridge Total	11,236	0	(104)	(87)	-0.8%	3.8%	\$65.62	4.8%
Inner North/Streetcar Suburbs	3,714	0	286	319	10.0%	13.8%	\$30.81	-
Suburban Submarkets (excl Cam)	100,078	0	834	735	0.9%	15.9%	\$27.67	1.7%
Route 128 North	26,226	0	331	158	0.7%	14.7%	\$27.40	0.2%
Route 128 West	23,449	0	13	167	0.8%	11.6%	\$38.80	4.4%
Route 128 South	12,406	0	90	294	2.7%	11.3%	\$22.59	0.3%
Route 128 Total	62,081	0	433	619	1.1%	12.9%	\$30.60	2.2%
I-495 North	15,415	0	134	224	1.9%	24.6%	\$20.74	0.1%
I-495 West	16,245	0	(45)	(543)	-4.2%	20.4%	\$22.17	1.1%
I-495 South	2,623	0	26	115	5.0%	13.0%	\$21.37	1.4%
I-495 Total	34,283	0	115	(203)	-0.8%	21.7%	\$21.43	0.7%
Route 128 & I-495 Total	96,364	0	548	416	0.5%	16.0%	\$27.61	1.7%
Greater Boston Market Total	185,477	0	789	1,409	0.9%	12.7%	\$43.12	2.5%

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

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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