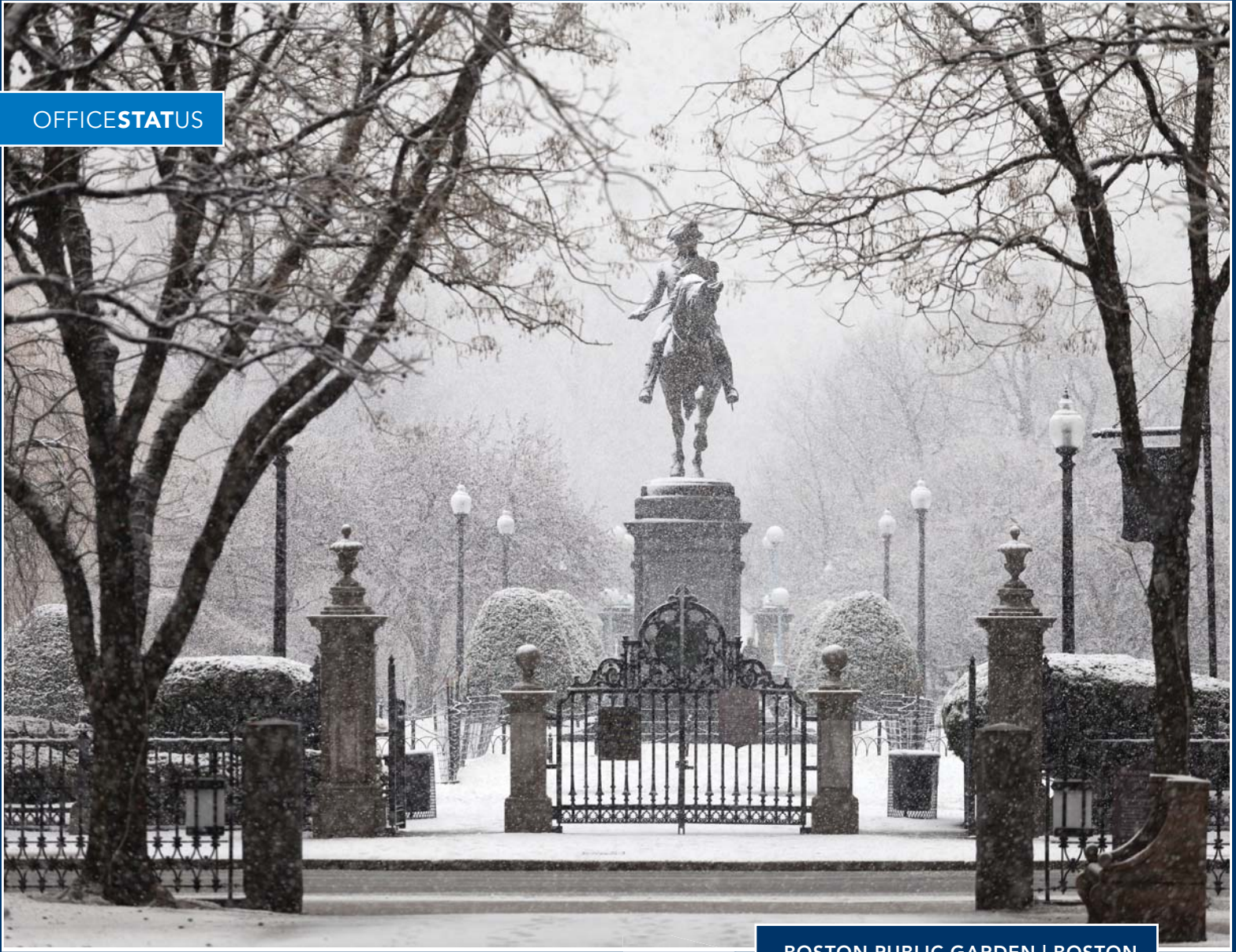


BOSTON OFFICE MARKET

FOURTH QUARTER 2017

OFFICE **STATUS**



BOSTON PUBLIC GARDEN | BOSTON

Inside...

- » Vacancy down to near record low.
- » Tenant activity and leasing fundamentals strong.
- » Bose lands at Boston Landing.
- » More than 3 million square feet under construction.
- » First phase at Hub on Causeway breaks ground.
- » Investment sales prevalent across markets.

Greater Boston Office Market Carries Momentum

Tenant Activity Leads to Strong Close of Year

As expected, the Greater Boston office market closed out the 2017 year in a strong and sturdy manner. Throughout the year, the 186-million-square-foot office market experienced about 1 million square feet of positive absorption, with positive absorption seen in three of the four quarters. Most recently, in Q4, the market absorbed 183,000 square feet, as vacancy fell 0.1 percentage points to a near record low of 11.9 percent. While there were approximately 1.2 million-square-feet of office space delivered in 2017, there is an additional 3.4 million square feet expected over the next few years.

All four major markets, Boston, Cambridge, Route 128, and Interstate 495, continue to function robustly. Boston, Cambridge, and Route 128 all posted positive absorption in the fourth quarter of 2017, while Interstate 495 had one of its strongest years to date, with 714,000 square feet of office space absorbed in the market. Average asking rents continue to rise across the board, with the most expensive product in Cambridge, currently \$68.97 per sf on average, and the most affordable space available along Interstate 495, currently \$21.95 per sf on average.

Tenant activity and leasing fundamentals remained active this quarter, as they had all year. Notable deals include Bose at Boston Landing, Rapid7 at the Hub on Causeway at North Station, JP Morgan Chase in the Seaport, ZGC Boston Innovation Management in Cambridge, Simpson Gumpertz & Heger in Waltham, and Raytheon in Woburn. With companies continuing to grow and expand in Greater Boston, illustrated by a steady unemployment rate of 3.4 percent, look for this tenant activity to lead the charge into the new year.

From a national scope, the outlook remains positive for the U.S. commercial real estate sector. While experts believe the U.S. office expansion cycle has likely peaked, many also predict a steady and prosperous 2018 for both landlords and tenants. Despite an emphasis on workplace efficiency and reduced footprints, employment continues to grow alongside a strong economy, suggesting ongoing success in the future. While this may vary from market to market, the Greater Boston area is certainly atop the list in regards to strength and optimism.

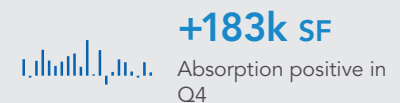
TRENDLINES

5-YEAR TREND CURRENT QUARTER

VACANCY RATES



ABSORPTION



RENTAL RATE



RBA DELIVERED



AVERAGE OFFICE SALE PRICE

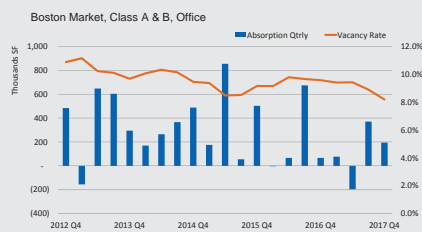


OFFICE-USING EMPLOYMENT

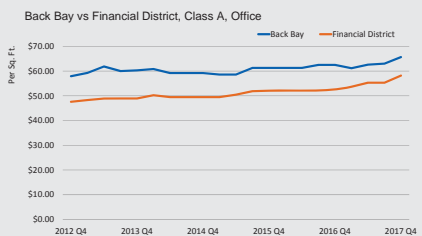


BOSTON

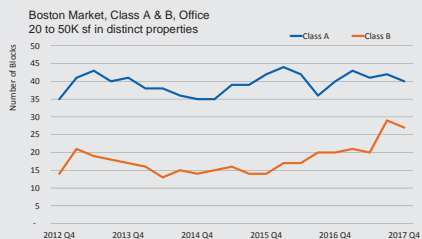
ABSORPTION



ASKING RENTS



CONTIGUOUS BLOCKS



- The 74-million-square-foot Boston CBD market positively absorbed 195,000 sf, bringing the total for the year to 447,000 sf.
- Vacancy in the market decreased each quarter during 2017, dropping from 9.4 percent in Q1 to a current rate of 8.2 percent.
- Average asking rents for Class A space in Boston rose, with the Back Bay at \$65.67 per sf, the Seaport at \$60.39 per sf, and the Financial District at \$58.18 per sf.
- Cybersecurity company Rapid7 will lease 147,000 sf at the Hub on Causeway, relocating its Financial District headquarters to North Station.
- Jacobs Engineering occupied 50,000 sf at 120 Saint James Ave. in the Back Bay, VMware moved into 39,000 sf at Lafayette City Center, and Shoes.com occupied 31,000 sf at One Constitution Ctr.
- Bose leased 98,000 sf at Boston Landing, continuing the trend of suburban tenants increasingly flocking to space in the urban core.
- JP Morgan Chase & Co. extended and expanded at 451 D St. in the Seaport District, growing their total footprint in the building to 140,000 sf.
- Boston Globe Media Partners sold the former Boston Globe site, 135 Morrissey Blvd., to Nordblom Company and Alcion Ventures for \$81 million (703,000 sf, \$115/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	46,493	0	148	362	0.9%	8.4%	\$59.97	8.8%
Class B	27,468	0	47	85	0.3%	7.8%	\$48.00	16.2%
Boston Total	73,962	0	195	447	0.7%	8.2%	\$56.35	8.8%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

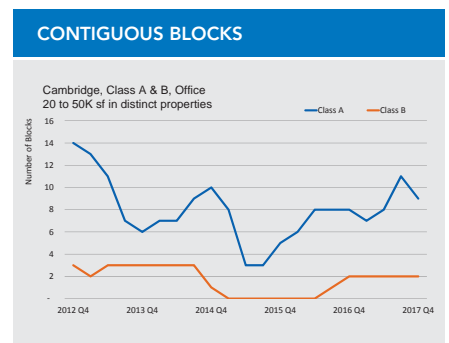
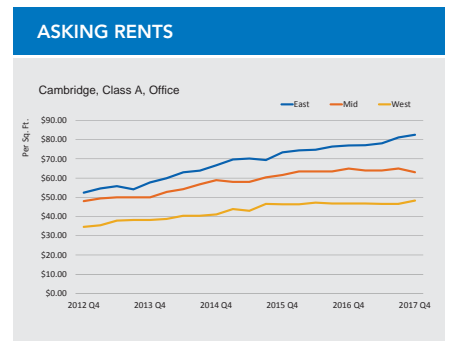
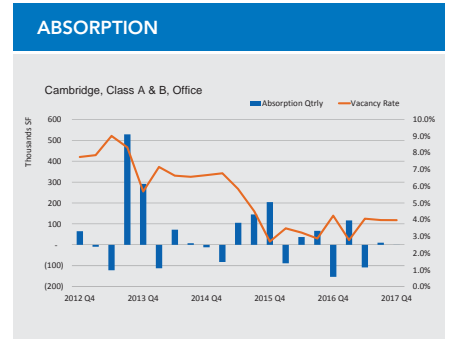
*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

BOSTON OFFICE MARKET

FOURTH QUARTER 2017

CAMBRIDGE

- The 11-million-square-foot office market in Cambridge was quiet, yet stable, during the fourth quarter of 2017, with zero absorption and no fluctuation in the vacancy rate from the previous quarter (4.0%).
- Over the course of the year, the Cambridge market positively absorbed 20,000 sf, as Mid Cambridge led the way with 67,000 sf of positive absorption in 2017.
- DivcoWest announced a rebranding of their 5.5-million-square-foot project formerly known as North Point to Cambridge Crossing, where a speculative 435,000-sf office/lab building is currently under construction.
- East Cambridge remains the hottest office market in the Greater Boston area, with vacancy down to 2.9 percent and average class A asking rents up into the \$82 range, currently \$82.51 per sf.
- The largest deal of the quarter belonged to ZGC Boston Innovation Management, which signed a 66,200-sf lease at 1000 Massachusetts Ave. in Mid Cambridge.
- Mass Innovation Labs signed a 52,000-sf lease at 21 Erie St. and Agios Pharmaceuticals expanded by 27,000 sf at 64 Sidney St.
- Boston Residential Group sold the 100 percent leased 1280 Massachusetts Ave. to Intercontinental Real Estate Corporation for \$45.2 million (43,210 sf, \$1,045/sf).



Cambridge Office Market Indicators by Class

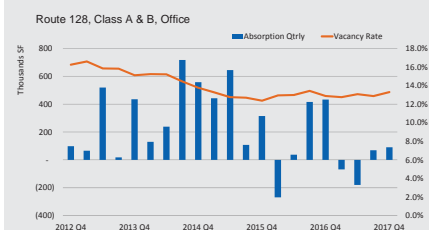
SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF	4QTR** CHANGE
Class A	8,060	0	10	(32)	-0.4%	4.5%	\$68.97	5.1%
Class B	2,944	0	(9)	51	1.8%	2.5%	\$61.98	29.4%
Cambridge Total	11,005	0	0	20	0.2%	4.0%	\$68.08	7.7%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

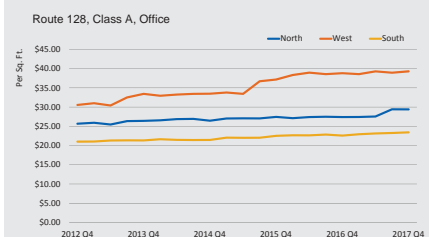
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ROUTE 128

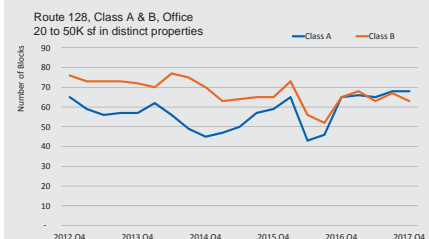
ABSORPTION



ASKING RENTS



CONTIGUOUS BLOCKS



- The office market along Route 128, consisting of 62.8 million square feet, experienced 91,000 sf of positive absorption in the final quarter of 2017, as vacancy dropped to 12.8 percent.
- The Route 128 South market was impressive in the second half of 2017, positively absorbing 176,000 sf while vacancy dropped from 11.7 percent to 10.5 percent and Class A asking rents continue to tick up, currently \$23.43 per sf.
- Several tenant move-ins contributed to the positive absorption, including Mimecast at 191 Spring St. in Lexington, Corbus Pharmaceuticals at 500 River Ridge Road in Norwood, and Honeywell Technologies at 101 Station Dr. in Westwood.
- Over the course of 2017, more than 1.1 million square feet of office space was delivered to the Route 128 market, while an additional 585,000 sf remain under construction.
- Raytheon signed a five year, 440,000-sf renewal at 225 & 235 Presidential Way in Woburn, while Simpson Gumpertz & Heger signed a lease at 20 CityPoint in Waltham for 110,000 sf.
- Olympus expanded/extended at 48 Woerd Ave. in Waltham, bringing their total footprint there to 120,000 sf.
- Spear Street Capital bought the Center at Corporate Drive portfolio in Burlington from Principal Real Estate Investors and The Davis Companies for \$134 million (496,755 sf, \$270/sf), while H.N. Gorin sold 130 Royall St. in Canton to Livingston Street Capital for \$33.5 million (175,000 sf, \$191/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	35,761	420	119	131	0.4%	12.3%	\$31.86	4.1%
Class B	27,937	0	(28)	(218)	-0.9%	14.5%	\$22.93	1.9%
Route 128 Total	63,418	420	91	(87)	-0.2%	13.3%	\$27.99	1.7%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

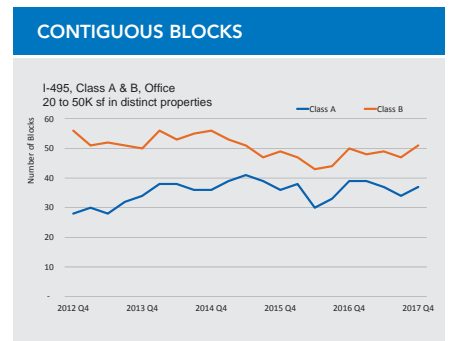
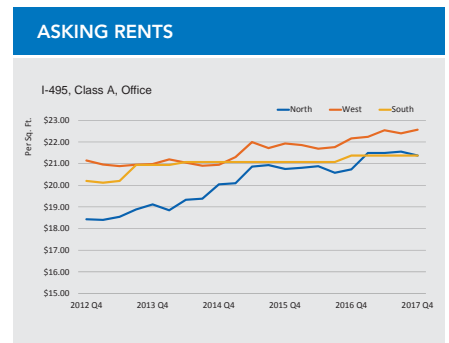
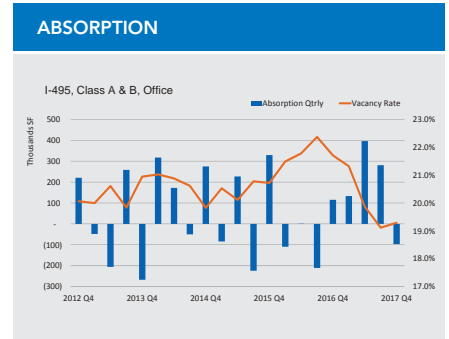
*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

BOSTON OFFICE MARKET

FOURTH QUARTER 2017

INTERSTATE 495

- While the Interstate 495 office market, consisting of 34.2 million square feet, experienced 96,000 sf of negative absorption during the fourth quarter, 714,000 sf were positively absorbed during the past 12 months.
- Vacancy in the market increased slightly to 19.3 percent, however, remains comfortably below the five-year-average of 20.6%
- The 16.4-million-square-foot office market in I-495 West positively absorbed 490,000 sf during the year, as vacancy fell from 20.4 percent to 18.3 percent.
- Several deals were signed during the quarter, including HCL America for 29,033 sf at 300 Apollo Dr. in Chelmsford, Pall Corporation for 22,781 sf at 1700 W Park Dr. in Westborough, and Virtusa Corporation for 12,000 sf at 132 Turnpike Rd in Southborough.
- While there were no new building deliveries to the office market, there are currently 569,000 sf under construction/renovation, 1 Boston Scientific Place in Natick and 144 Chelmsford St in Lowell, both with completion dates in the near future.
- Raytheon Company acquired 60 Frontage Rd. in Andover from US Bank National Trust for \$8.15 million (149,567 sf, \$54/sf), and LNR Partners bought 144 Turnpike Rd in Southborough from Starwood Property Trust for \$10.1 million (99,835 sf, 101/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	14,765	0	2	359	2.9%	15.2%	\$21.95	2.4%
Class B	19,772	0	(98)	354	2.3%	22.0%	\$17.51	2.9%
I-495 Total	34,169	0	(96)	714	2.6%	19.3%	\$19.51	2.9%

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

Greater Boston Office Market Indicators by Submarket

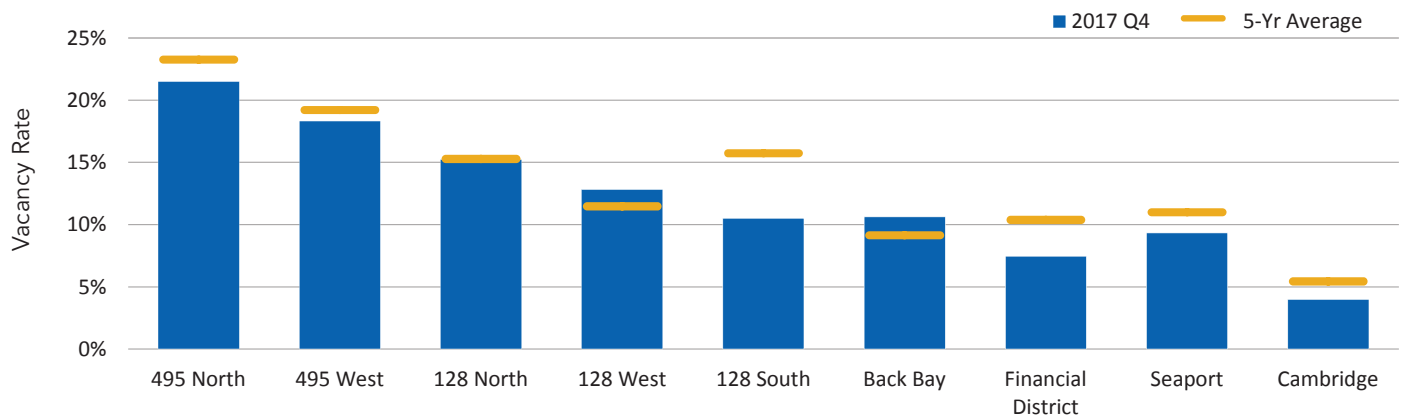
SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF CLASS A	4QTR*** CHANGE
Financial District	36,200	0	143	467	1.4%	7.5%	\$58.18	10.7%
Back Bay	14,284	0	(113)	(156)	-1.2%	10.6%	\$65.67	5.0%
Longwood/Inner South	5,541	0	2	(5)	-0.1%	8.7%	\$38.68	-
Seaport District	9,473	0	48	(18)	-0.2%	9.3%	\$60.39	6.7%
Charlestown	2,782	0	71	178	6.6%	3.0%	\$45.00	-
Midtown	2,217	0	40	(27)	-1.4%	11.5%	\$50.00	-
North Station	2,391	0	8	10	0.4%	5.3%	\$52.00	-
South Station	1,498	0	(3)	4	0.3%	4.1%		-
Boston Total	73,962	0	195	447	0.7%	8.2%	\$59.97	8.8%
East Cambridge/Kendall Square	7,210	0	20	(12)	-0.2%	2.9%	\$82.51	7.2%
Mid Cambridge/Harvard Square	2,129	0	(18)	67	3.3%	2.9%	\$63.03	2.9%
West Cambridge/Alewife Station	1,666	0	(3)	(36)	-2.4%	10.1%	\$48.29	3.2%
Cambridge Total	11,005	0	0	20	0.2%	4.0%	\$68.97	5.1%
Inner North/Streetcar Suburbs	4,749	0	(7)	(44)	-1.1%	15.6%	\$30.81	-
Suburban Submarkets (excl Cam)	102,336	420	(12)	582	0.7%	15.4%	\$28.83	4.2%
Route 128 North	26,185	0	(14)	(155)	-0.7%	15.2%	\$29.40	7.3%
Route 128 West	24,104	420	15	(39)	-0.2%	12.8%	\$39.29	1.3%
Route 128 South	12,849	0	89	107	0.9%	10.5%	\$23.43	3.7%
Route 128 Total	63,418	420	91	(87)	-0.2%	13.3%	\$31.86	4.1%
I-495 North	15,160	0	(51)	255	2.1%	21.5%	\$21.37	3.1%
I-495 West	16,385	0	(78)	490	3.7%	18.3%	\$22.57	1.8%
I-495 South	2,623	0	33	(32)	-1.4%	12.5%	\$21.37	-
I-495 Total	34,169	0	(96)	714	2.6%	19.3%	\$21.95	2.4%
Route 128 & I-495 Total	97,587	420	(5)	626	0.8%	15.4%	\$28.79	4.3%
Greater Boston Market Total	187,726	420	183	1,055	0.6%	11.9%	\$46.49	7.8%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

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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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