

Boston Office MarketView

Q1 2014

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter.

FIRMS CHOOSE TO GROW IN BOSTON; CBD LEADS ORGANIC GROWTH

Quick Stats

Q1 2014	Current	Y-o-Y	Q-o-Q
Vacancy	8.6%	↓	↑
Lease Rate	\$47.70	↑	↑
Net Absorption	57,735 sq. ft.	↓	↓

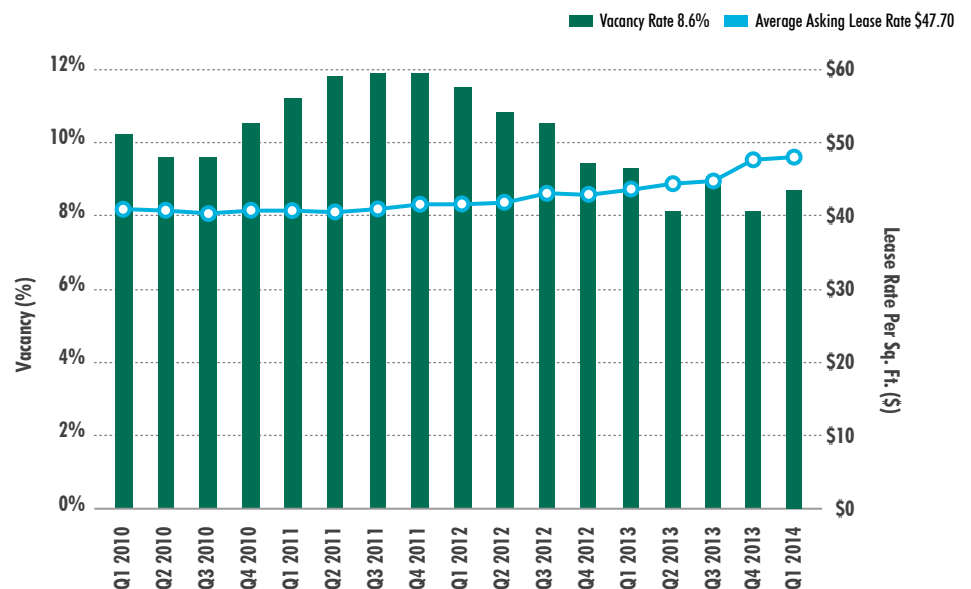
Hot Topics

- Equity Office sold two CBD assets—28 State Street to the Rockefeller Group for \$345 million (\$605 per sq. ft.) and 1–3 Center Plaza to Shorenstein Properties for \$307 million (\$423 per sq. ft.)
- Goodwin Procter’s build-to-suit office tower at Fan Pier broke ground in March. Goodwin will occupy more than 350,000 sq. ft. of the 485,000 sq. ft. office tower.
- Online retailer Wayfair expanded by 170,000 sq. ft. at Copley Place.

The Downtown Boston Office market kicked off 2014 with modest leasing activity despite experiencing relatively flat absorption of just under 60,000 sq. ft. The CBD Class A market led the charge, posting 248,000 sq. ft. of positive net absorption and offsetting the negative net absorption seen in both the Back Bay and Seaport. As the Back Bay vacancy rose from 4.3% to 7.2%, the Seaport became the tightest market, with vacancy remaining flat around 4.7% and average asking rents reaching \$48.26 per sq. ft., representing a \$10.11 year-over-year increase. As a result of the Seaport’s rising tide, some tenants have turned to the CBD and surrounding peripheral markets as viable alternatives. The CBD continued to gain popularity with new economy tenants overflowing from the Seaport and East Cambridge.

As the demand for creative space continues to grow beyond technology sector tenants, the gap between Class A high-rise and low-rise vacancy continues to narrow on a percentage basis. Demand for this type of space also continued to fuel rehabilitation activity as evidenced by institutional investor activity in the Class B market. Class A tower sales began to gain momentum as investor confidence in Boston continues to strengthen. The Massachusetts unemployment rate has fallen to 6.3% as of March 2014, down 60 basis points (bps) from last quarter and 20 bps lower than the national average (bls.gov). Another positive economic indicator for Boston was the organic growth seen in the first quarter from a variety of users, including expansions from existing tenants such as Wayfair expanding by 170,000 sq. ft. at Copley Place; Arrowstreet Capital by 58,500 sq. ft. at the Hancock Tower; Wolf Greenfield & Sacks by 15,000 sq. ft. at 600 Atlantic Avenue; Robeco Investment Management by 16,000 sq. ft. at One Beacon Street; and WeWork at 745 Atlantic Avenue by 48,000 sq. ft. Additionally, out-of-market tenants such as Cambridge Innovation Center and Keolis signed new leases at 50 Milk Street for 69,000 sq. ft. and 470 Atlantic Avenue for 28,000 sq. ft., respectively, also fueling growth.

Figure 1: Office Vacancy vs. Lease Rate



CBD

- Overall availability in the CBD decreased slightly to 17.4%. The gap between Class A and B availability increased markedly from the same period in 2013, highlighting the value preference inherent in today's demand.
- After a year totaling almost one million sq. ft. of negative net absorption, the CBD Class A market led absorption in the first quarter, recording 248,000 sq. ft. of positive net absorption despite various new blocks of availability.
- The largest contributors to the growth in the CBD were co-working companies. Cambridge Innovation Center signed a 70,000 sq. ft. lease at 50 Milk Street and WeWork took an additional 48,000 sq. ft. at 745 Atlantic Avenue.
- With East Cambridge and the Seaport District continuing to tighten, the CBD proved to be a viable alternative for innovative technology companies. SCVNGR subleased 24,000 sq. ft. from Coverys at 101 Arch Street, Informatica grew into 15,000 sq. ft. at 125 High Street, and DraftKings leased 13,000 sq. ft. at 125 Summer Street.
- Increased out-of-market and foreign capital activity continued in the investment sales market. Beacon Capital sold its 50% interest in One Financial Center to Norges Bank Investment Management for \$770M (\$700/sq. ft.). Equity Office sold 28 State Street to the Rockefeller Group for \$345M (\$605/sq. ft.) and put 225 Franklin Street on the market. Institutional investors continued to buy Class B buildings, including Credit Suisse's purchase of 400 Atlantic Avenue for \$50M (\$501/sq. ft.) and Equity Office's sale of 1-3 Center Plaza to Shorenstein Properties for \$307M (\$423/sq. ft.).

Back Bay

- After reaching 4.3%, the lowest vacancy rate seen in the Back Bay in over 10 years, vacancy soared to 7.2% in the first quarter as large blocks of available space went dark.

- Overall availability remained flat, with a 30 basis point increase to 16.0%.
- Back Bay exhibited negative net absorption for the third consecutive quarter. Despite Wayfair's 170,000 sq. ft. expansion at Copley Place, the quarter ended at 155,314 sq. ft. of negative net absorption.
- 200 Clarendon Street exhibited a developing trend of tenants signing new leases to move within the same building. Both CRA International and Latham & Watkins were able to right-size their footprints by moving to lower floors.

Seaport

- At 4.7%, the Seaport now boasts the lowest vacancy rate in Greater Boston, remaining relatively flat quarter-over-quarter but still lower than both East Cambridge and the Back Bay. Limited blocks of large availability resulted in velocity consisting of mostly smaller deals and renewals. Absorption for the quarter was relatively flat, finishing with 19,000 sq. ft. of negative net absorption.
- The limited amount of remaining space contributed to the \$10.11 year-over-year increase in average asking rents. In addition, build-to-suit construction and the resulting high-priced availability helped to fuel this overall increase in Seaport rents, which ended the first quarter at \$48.26 per sq. ft.
- Construction activity continued to flourish as Goodwin Procter officially broke ground in March on the 17-story 485,000 sq. ft. built-to-suit at Fan Pier, with delivery expected in 2016.
- Brick and beam, creative space is still at the forefront of tenant demand. With the addition of new residential, hotel and amenity space, the Seaport "buzz" continues to grow, along with concerns over infrastructure and traffic.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Wayfair	Copley Place	170,000	Back Bay	Expansion
Harvard School of Public Health	Landmark Center	109,000	Fenway/Kenmore	Renewal
Wolf Greenfield & Sacks	600 Atlantic Avenue	90,000	CBD	Renewal/Expansion
Arrowstreet Capital	200 Clarendon Street	90,000	Back Bay	Renewal/Expansion
Cambridge Innovation Center	50 Milk Street	70,000	CBD	New
CRA International	200 Clarendon Street	58,000	Back Bay	Relocation
Latham & Watkins	200 Clarendon Street	50,000	Back Bay	Relocation
WeWork	745 Atlantic Avenue	48,000	CBD	Expansion
Robeco Investment Management	One Beacon Street	47,000	CBD	Renewal/Expansion

Source: CBRE Research, Q1 2014.

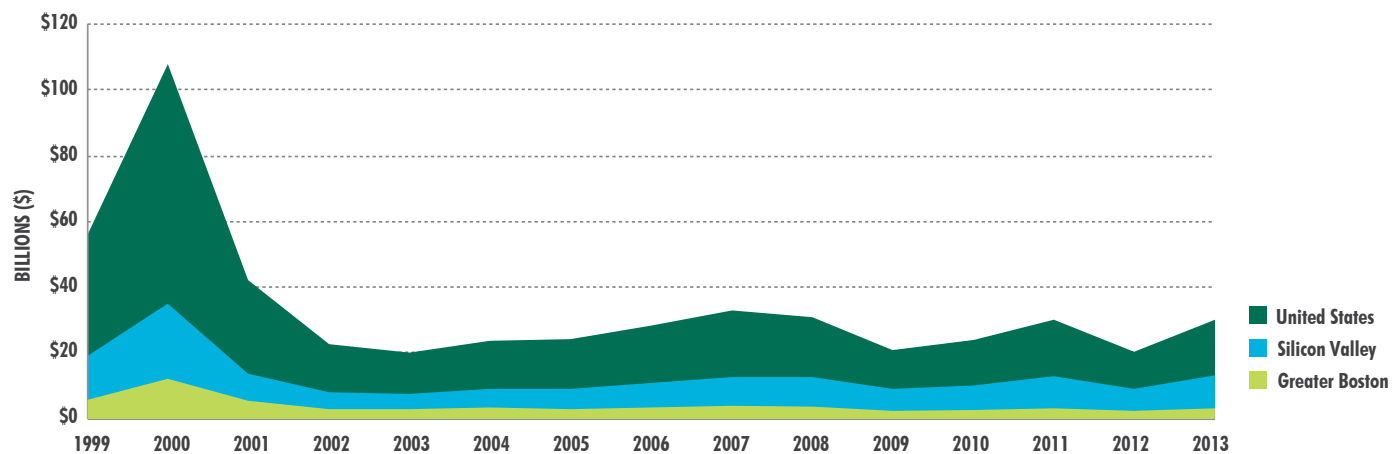
Figure 3: Market Statistics

Market	Rentable Area (Sq. Ft.)	Availability Rate %	Vacancy Rate %	Sublease Rate %	Quarterly Net Absorption (Sq. Ft.)	Avg. Asking Rent (\$/Sq. Ft./YR)
Central Business District	36,846,473	17.4%	11.6%	1.1%	212,603	\$48.18
Class A	26,876,664	19.3%	12.6%	1.3%	248,239	\$51.16
Class B/C	9,969,809	12.5%	8.9%	0.7%	(35,636)	\$35.31
Back Bay	14,669,523	16.0%	7.2%	1.4%	(155,314)	\$53.94
Class A	9,749,606	16.0%	5.4%	2.1%	(6,175)	\$58.83
Class B/C	4,919,917	16.0%	10.6%	0.2%	(149,139)	\$43.88
Seaport	10,472,402	11.9%	4.7%	1.6%	(19,134)	\$48.26
Class A	4,592,928	11.2%	2.5%	1.9%	(62,149)	\$59.54
Class B/C	5,879,474	12.4%	6.4%	1.3%	43,015	\$39.55
Charlestown/East Boston	2,803,083	9.0%	8.1%	0.2%	2,031	\$29.46
Mid-Town	2,505,186	21.5%	3.5%	0.0%	(80,680)	\$36.99
North Station/Waterfront	2,768,250	4.4%	3.8%	0.4%	25,817	\$27.78
South Station	1,332,259	10.8%	4.2%	0.9%	58,258	\$37.86
Dorchester/South Boston	1,338,170	12.7%	5.9%	0.3%	13,214	\$27.21
Allston/Brighton/Longwood	1,575,367	16.7%	12.5%	0.0%	940	\$27.41
Fenway/Kenmore Square	2,167,588	30.1%	2.1%	0.0%	0	\$50.45
Overall Boston Office	76,478,301	15.9%	8.6%	1.1%	57,735	(Gross) \$47.70

Source: CBRE Research, Q1 2014.

Figure 4: Economic Conditions – Venture Capital Funding

- In the first quarter of 2014 Massachusetts companies raised \$899 million in venture capital funding—an increase of nearly 50% compared to the same period last year. While health care has consistently dominated Massachusetts’ share of VC funding, the Internet sector topped health care for the first time in five quarters as reported by CB Insights.
- Greater Boston is second only to Silicon Valley in receiving VC funds in the United States. Boston and Silicon Valley attract the most VC funding of any region in the U.S., accounting for 52% of the nation’s investments.
- In 2013, companies in Greater Boston received \$3.3 billion in VC funding. This is \$92 million more than all the companies in the NY Metro area combined.
- Software and biotechnology continued to be the largest sectors for dollars invested in the U.S. in 2013.

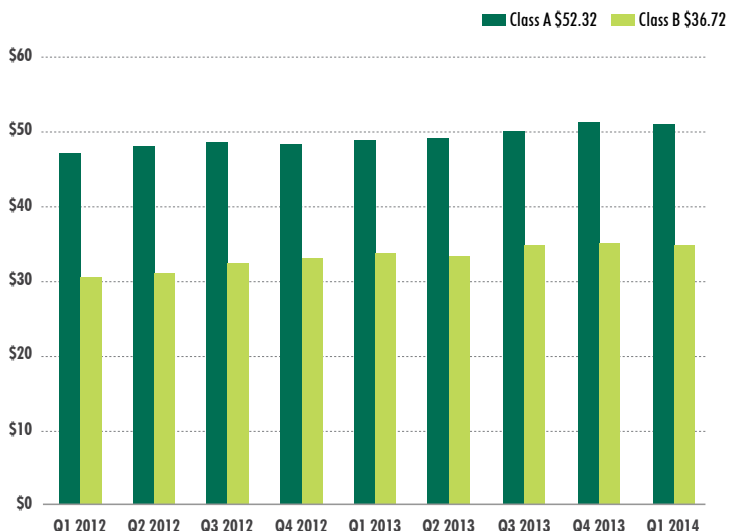


Source: PWC MoneyTree and CB Insights.

Average Asking Rents

Average asking rents in Downtown Boston rose slightly, marking the sixth consecutive quarter of rent increases. Rents for the quarter reached \$47.70 per sq. ft., up \$0.38 from last quarter and up \$3.34 year-over-year. The Seaport was the greatest contributor, with the largest inventory of new construction availability and limited amount of desirable brick and beam space. Both Class A and Class B Seaport rents increased approximately \$5.00 year-over-year, ending at an overall rate of \$48.26 per sq. ft.

Figure 5: Average Asking Lease Rates

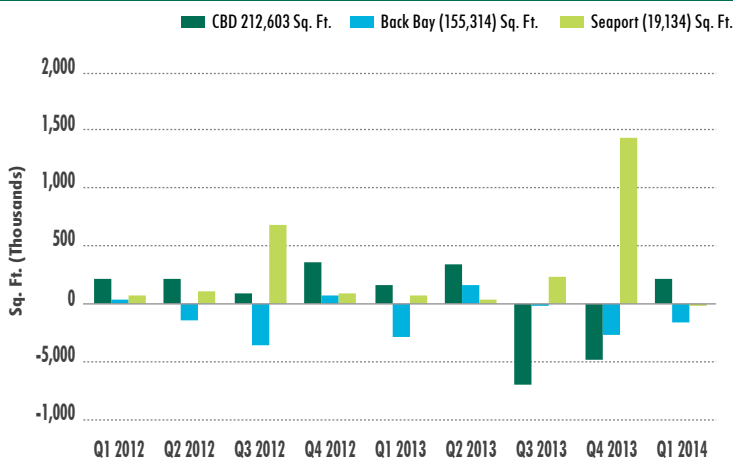


Source: CBRE Research, Q1 2014.

Net Absorption

The first quarter of 2014 ended relatively flat, posting approximately 60,000 sq. ft. of positive net absorption. The CBD Class A market exhibited the majority of positive activity, benefiting from Seaport and East Cambridge overflow into CBD Class A low-rise space. The 212,000 sq. ft. of positive net absorption from the overall CBD market was offset by negative net absorption in the remaining submarkets, primarily from the Back Bay. Contributing large blocks included Pearson Education announcing plans to vacate 125,000 sq. ft. at 75 Arlington Street and 10 Saint James Avenue, and Sanford Brown Institute planning to leave 33,500 sq. ft. at 126 Newbury Street. The Seaport experienced relatively flat absorption, remaining the tightest submarket in Boston.

Figure 6: Absorption (Q-o-Q)



Source: CBRE Research, Q1 2014.



Boston, Massachusetts
Photo by Dave Desroches, www.desrochesphoto.com

DEFINITIONS

Average Asking Lease Rate

Rate determined by multiplying the asking gross lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

Gross Leases

Includes all lease types whereby the tenant pays an agreed rent plus estimated average monthly costs of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

Market Coverage

Includes all competitive buildings in CBRE's survey set.

Net Absorption

The change in occupied sq. ft. from one period to the next, as measured by available sq. ft.

Net Rentable Area

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas.

Occupied Area (Sq. Ft.)

Building area not considered vacant.

Under Construction

Buildings that have begun construction as evidenced by site excavation or foundation work.

Available Area (Sq. Ft.)

Available building area that is either physically vacant or occupied.

Availability Rate

Available sq. ft. divided by the net rentable area.

Vacant Area (Sq. Ft.)

Existing building area that is physically vacant or immediately available.

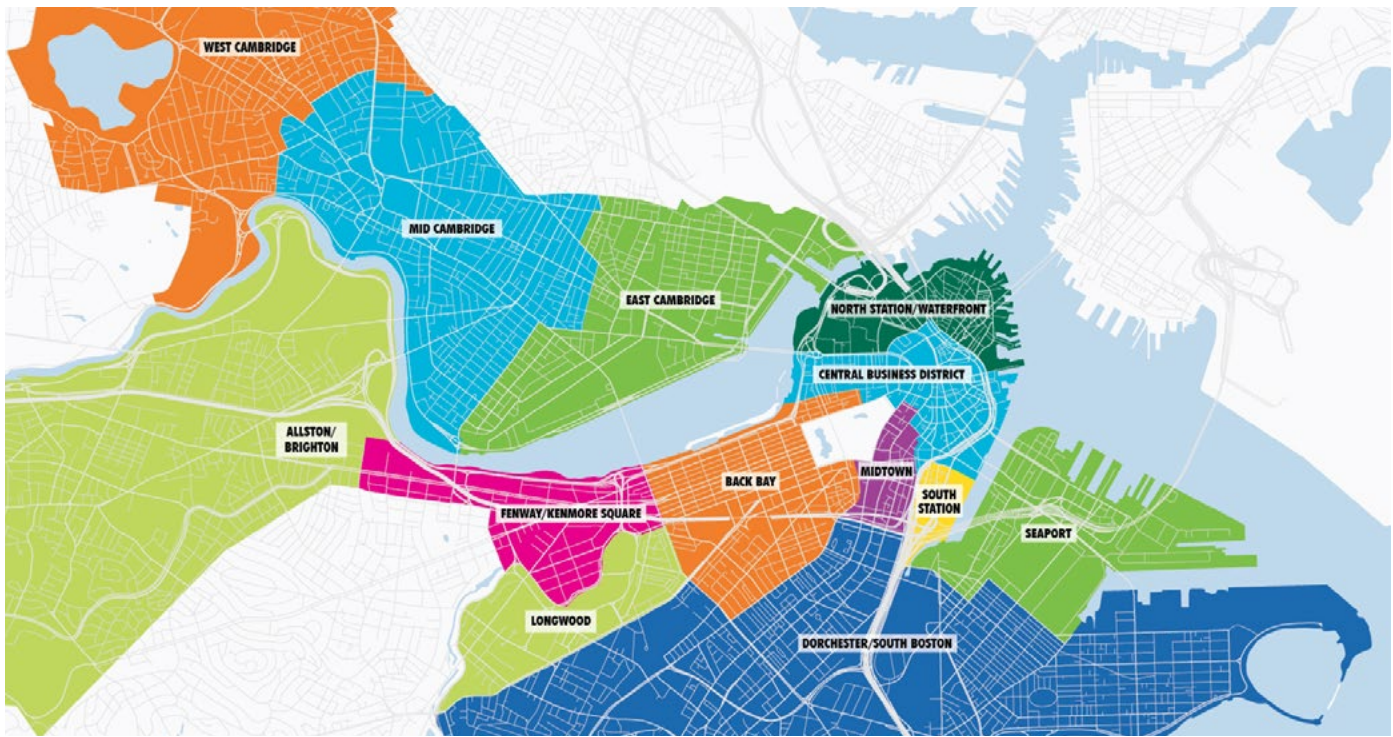
Vacancy Rate

Vacant building feet divided by the net rentable area.

Normalization

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and vacancy figures for those buildings have been adjusted in previous quarters.

GREATER BOSTON SUBMARKETS



CONTACT

For more information about this Local MarketView, please contact:

U.S. RESEARCH

Suzanne Duca

Director of Research
New England Research
CBRE, 33 Arch Street, 28th Floor
Boston, MA 02110

t: +1 617 912 7041
f: +1 617 912 7001
e: suzanne.duca@cbre-ne.com

WWW.CBRE-NE.COM

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