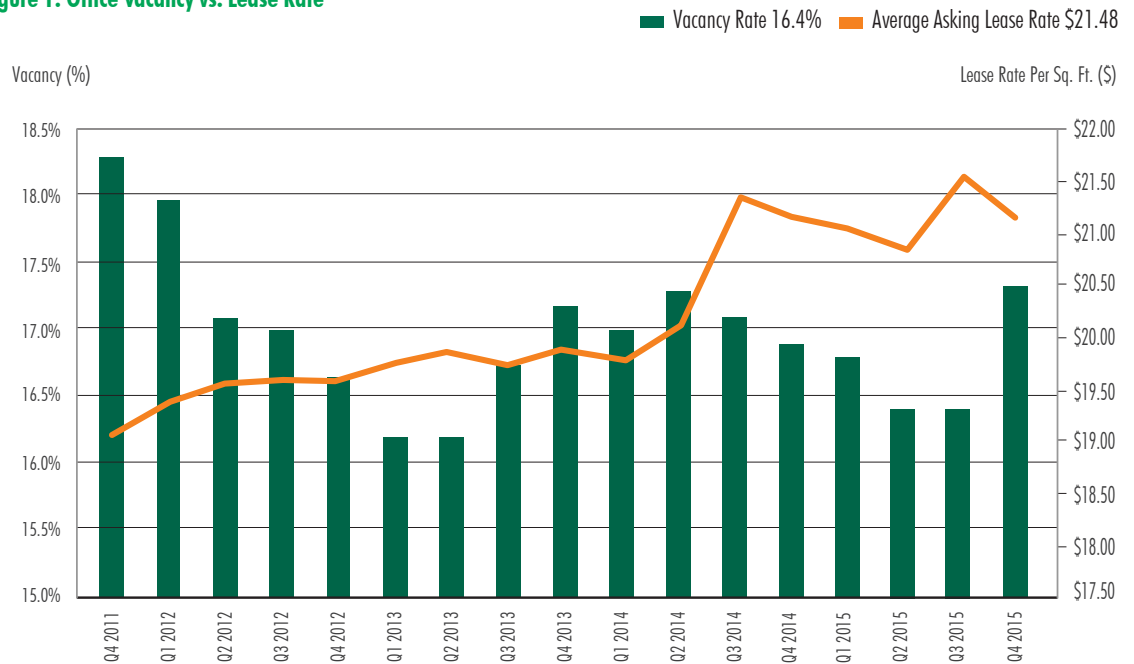


Boston Suburban Office, Q4 2015

# Healthcare, Life Sciences and Technology Sectors Drive Q4 2015 Leasing Activity

▲ Vacancy 17.3%
▲ Availability 19.9%
▼ Absorption 87,036 SF
▼ Sublease 2.5 MSF
▲ Under Construction 942,000 SF

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q4 2015.

The Suburban Office market experienced a booming Q4 2015, recording 561,000 sq. ft. of positive absorption, and ended the year with more than 1.4 million sq. ft. of positive absorption. Organic growth and M&A activity contributed to a strong 2015 with several long-term vacancies removed from available supply, strengthening the

market statistically. The gap between Class A and B product widened noticeably in all suburban markets in 2015 as tenant demand focuses on 'best in-class', new construction or rehab particularly in premium locations as employers focus on employee recruitment and retention.

**METRO NORTH**

- Availability and vacancy both declined in Q4 2015 to 22.1% and 18.5%, respectively. Overall average asking rents in the Metro North market decreased quarter-over-quarter to \$19.39 per sq. ft. The highest average asking rents in Metro North were seen in the Close-In Suburbs North submarket, followed closely by Route 128 North with average asking rents of \$23.04 per sq. ft.
- The Route 3 Corridor was the victim of a substantial amount of negative absorption in 2015—more than 544,000 sq. ft. of space was returned to the market, 136,000 sq. ft. in Q4 2015 alone. Covidien's lease termination of 70,000 sq. ft. at 15 Crosby Drive, as well as Tecnav bringing 94,000 sq. ft. at 900 Middlesex Turnpike to the sublease market in Billerica, substantially neutralized the inking of major deals in the corridor in Q4 2015.
- The Route 128 North submarket continued to lead the Metro North market again in 2015 with 321,300 sq. ft. of positive absorption, led by 131,000 sq. ft. in Burlington. A major built-to-suit deal inked in Q4 2015 at 400 Wheeler Road by EMD Serono led the field. EMD will occupy 260,000 sq. ft. in The Gutierrez Company's new development.
- Other notable transactions included Mercury Computer signing a lease to relocate from the Route 3 Corridor in 2017, resulting in a 114,000-sq.-ft. lease at 50 Minuteman Park in Andover. Interactive Data will renew at 32 Crosby Drive in Bedford, rightsizing their footprint to 82,000 sq. ft.
- Along Route 128 West, the vacancy rate at year end is 13.0% compared to the overall vacancy of 15.4%. Average asking rents were up over \$31.40 per sq. ft., representing a 30% premium above the overall suburban average asking rents. Metro West average asking rents increased by 7% over the past year.
- One of the most prominent themes throughout 2015 was the widening gap between Class A and Class B product. The bifurcation in the market is significant as employers continue to focus on employee recruitment/retention and the flight-to-quality phenomenon. New construction in Waltham has seen average rents creeping into the \$50 per sq. ft. Along Route 495 West, Class A rents in Westborough are up 15% year-over-year, while Marlborough Class A rents are up closer to 5%, continuing on a theme seen in 2014. Framingham/Natick rents increased 7%, with a lack of inventory limiting the completed transactions demonstrating this trend.
- Leasing activity was lively in the consumer goods, life sciences, and healthcare sectors in Q4 2015. Rockport signed a 69,700-sq.-ft. lease at 1220 Washington Street, with visible signage along the Mass Pike. Fresenius Medical Care North America finalized the largest transaction of the quarter renewing 422,000 sq. ft. in three corporate locations—920 & 950 Winter Street in Waltham and 32 Hartwell Avenue in Lexington—allowing them the flexibility to grow in the future. Genzyme continued their migration westward and leased an additional 54,000 sq. ft. at One Research Drive in Westborough, relocating from 200 Staples Drive in Framingham.

**METRO WEST**

- Metro West was the strongest of the suburban markets in 2015 closing out the year, recording 255,000 sq. ft. of positive absorption in Q4 2015 and over 1 million sq. ft. throughout 2015. Average asking rents in Metro West continued to tick upwards slightly to \$23.54 per sq. ft. in Q4 2015.

**METRO SOUTH**

- Metro South posted negative absorption of 8,300 sq. ft. in Q4 2015, ending the streak of five consecutive quarters of positive absorption. This is a direct result of Covidien placing 83,000

sq. ft. on the sublease market. Metro South ended 2015 with 415,920 sq. ft. of positive absorption, indicating strong signs of growth in the submarket. Overall average asking rents in Metro South finished at \$19.10 per sq. ft., a slight decrease quarter-over-quarter.

- The increase in interest from other markets has also driven rents upwards for well-located, amenity-rich buildings along both Interstate 93 and Route 128. The average asking rent for

buildings in this grouping reached \$26 per sq. ft. in 2015, the highest level it has seen in the last 10 years.

- While many of the ‘big-block options’ of 25,000 sq. ft. and greater still remain vacant, there was a significant increase the number of tenants completing transactions below 15,000 sq. ft. throughout the market, which made the options for smaller users shrink considerably throughout the year.

Figure 2: Transactions of Note

Tenant	Address	Submarket	Sq. Ft.	Type
Fresenius Medical Care North	920 Winter Street, Waltham	Route 128 West	421,974	Renewal
Interactive Data	32 Crosby Drive, Bedford	Route 3 North	81,919	Renewal
Rockport	1220 Washington Street, Newton	Route 128 West	69,700	New
Genzyme	One Research Drive, Westborough	Route 495/Mass Pike	54,000	New
Scheidt & Bachmann	222 Mill Road, Chelmsford	Route 3 North	50,000	New
SunGard Financial Systems	3 Van de Graaff Drive, Burlington	Route 3 North	49,250	Renewal

Source: CBRE Research, Q4 2015.

Figure 3: Market Statistics

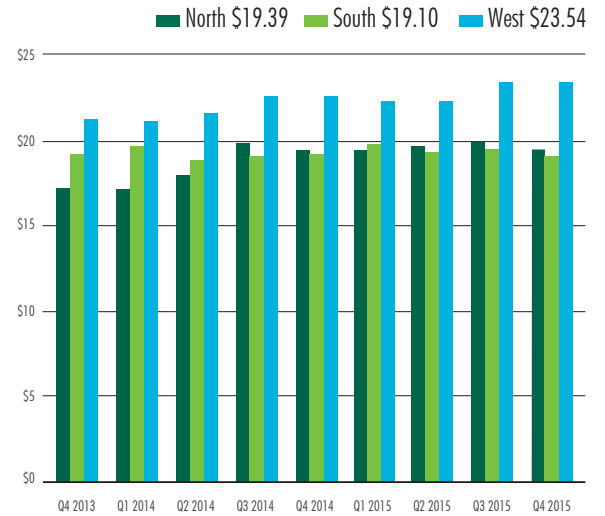
Suburban Boston Office	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent \$ (Gross)
Close-In Suburbs North	53	4,090,769	15.8	11.2	5.0	6,519	24,135	23.64
Route 128 - North	190	20,452,307	16.1	13.3	2.3	291,861	321,251	23.04
Route 495 - Northeast	47	6,449,767	26.5	24.9	1.1	156,366	163,419	17.22
Route 3 - North	171	15,461,915	29.9	24.8	2.6	(136,810)	(544,197)	17.84
<b>Metro North</b>	<b>461</b>	<b>46,454,758</b>	<b>22.1</b>	<b>18.6</b>	<b>2.5</b>	<b>317,936</b>	<b>(35,392)</b>	<b>19.39</b>
Route 128 - West	343	30,013,393	15.6	13.0	1.9	203,669	609,041	31.40
Framingham - Natick	84	7,233,839	15.2	11.6	0.8	(18,368)	(20,896)	22.05
Route 495 - Route 2 West	58	5,027,563	25.2	23.2	3.3	(4,942)	73,633	16.65
Route 495 - Mass Pike West	134	13,800,742	21.3	20.0	1.7	74,632	371,876	16.53
<b>Metro West</b>	<b>619</b>	<b>56,075,537</b>	<b>17.8</b>	<b>15.4</b>	<b>1.8</b>	<b>254,991</b>	<b>1,033,654</b>	<b>23.54</b>
Route 128 - South	182	13,315,035	19.2	18.4	1.3	64,071	478,518	19.61
Route 495 - South	39	2,689,695	28.9	27.8	3.4	(72,402)	(62,598)	17.88
<b>Metro South</b>	<b>221</b>	<b>16,004,730</b>	<b>20.8</b>	<b>19.9</b>	<b>1.6</b>	<b>(8,331)</b>	<b>415,920</b>	<b>19.10</b>
<b>Overall Suburban Office</b>	<b>1,301</b>	<b>118,535,025</b>	<b>19.9</b>	<b>17.3</b>	<b>2.0</b>	<b>564,596</b>	<b>1,414,182</b>	<b>21.18</b>

Source: CBRE Research, Q4 2015.

**AVERAGE ASKING RENTS**

Suburban average asking rents remained over the \$21 mark in Q4 2015 declining slightly to \$21.18, a result of a number of premium spaces being removed from the market. Average asking rents have now stayed above \$20 for seven straight quarters, a level last seen in 2009. The high average asking rents are due in part to suburban availability rates that have stayed under 20% for three straight quarters. Average asking rents in Metro North declined quarter-over-quarter to \$19.18 per sq. ft., staying above the \$19 mark for the fifth consecutive quarter. Average asking rents in Metro South declined to \$19.10 per sq. ft. The highest average asking rents in the suburbs were seen in Metro West where they reached \$23.54, a slight quarter-over-quarter increase of \$0.04.

**Figure 4: Average Asking Lease Rates**

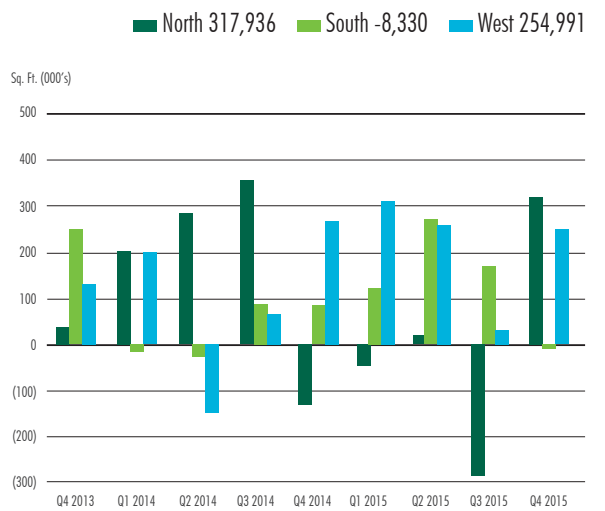


Source: CBRE Research, Q4 2015.

**NET ABSORPTION**

The Suburban Boston Office market experienced 565,000 sq. ft. of positive absorption in Q4 2015, ending the year with more than 1.4 million sq. ft. of positive growth. Despite a number of large givebacks of space in the Route 3 North submarket, the Metro North market was the strongest performer in Q4 2015 with 318,000 sq. ft. of positive absorption. Metro West experienced 254,000 sq. ft. of positive absorption, bringing the year-to-date absorption in the submarket to 1 million sq. ft., nearly triple the total for all of 2014. Metro South experienced a slight blip recording negative absorption of 8,300 sq. ft. in Q4 2015, but finished 2015 with a strong 416,000 sq. ft. of space absorbed.

**Figure 5: Net Absorption**



Source: CBRE Research, Q4 2015.

## 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.)**

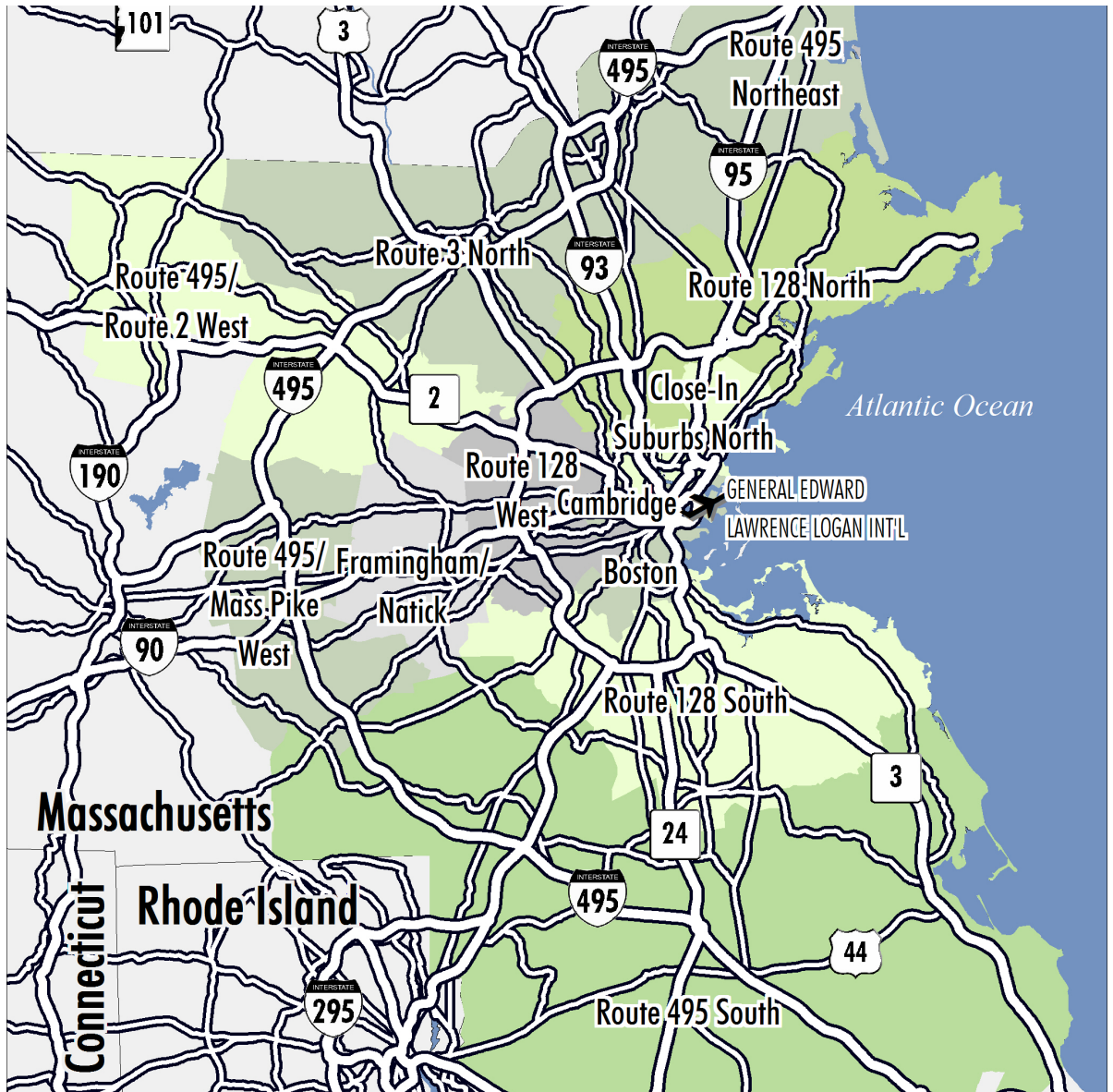
Existing building area that is physically vacant or immediately available.

**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.



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