

Suburban Boston Office MarketView

Q2 2014

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter.

SUBURBAN OFFICE MARKET CONTINUES TO STRENGTHEN WITH NEW CONSTRUCTION AND ORGANIC GROWTH LEADING THE WAY

Quick Stats

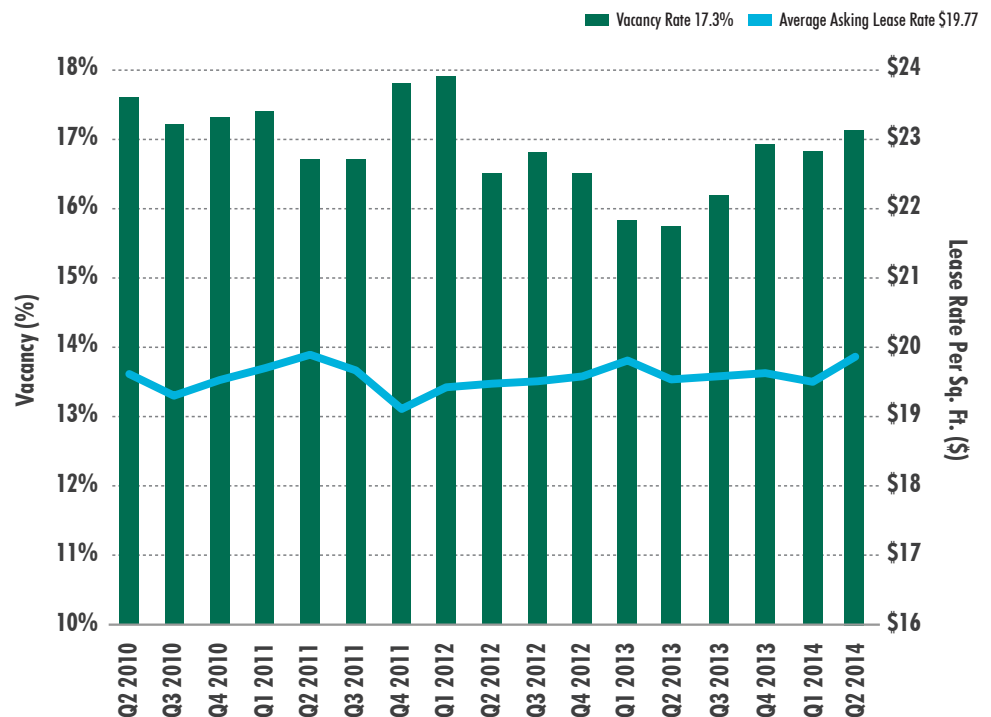
Q2 2014	Current	Y-o-Y	Q-o-Q
Vacancy	17.3%	↑	↑
Lease Rate	\$19.77	↑	↑
Net Absorption	72,628 sq. ft.	↓	↓

Hot Topics

- The return of spec and build-to-suit construction
- Gutierrez breaks ground on new speculative office development in Burlington
- Organic growth continues to drive leasing velocity in the Metro West

Coming off a strong first quarter, the Suburban Office market was relatively flat in the second quarter, posting 73,000 sq. ft. of positive absorption. Despite this modest positive absorption, the second quarter saw availability and vacancy rise by 40 and 60 basis points to 20.6% and 17.4%, respectively. This was a result of slight increases in availability and vacancy across all submarkets as well as inventory adjustments. Overall suburban office asking rents continued to tick upwards, rising \$0.25 per sq. ft. overall in the second quarter to \$19.77 per sq. ft., their highest point since the fourth quarter of 2009. This increase in average asking rents was driven primarily by the Metro North submarket, which posted 284,000 sq. ft. of positive absorption in the second quarter, pushing asking rents up \$0.82 per sq. ft. quarter-over-quarter to \$18.07 per sq. ft.

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q2 2014.

Metro North

- The Metro North Office market continued to trend positively in the second quarter, posting 284,000 sq. ft. of positive absorption, the strongest quarter since the end of 2012. Availability and vacancy were relatively flat, increasing 10 and 70 basis points quarter-over-quarter to 20.5% and 16.9%, respectively. The Route 128 – North, Route 495 – Northeast and Route 3 – North submarkets contributed to this significant positive absorption, all posting over 100,000 sq. ft. of positive absorption in the second quarter. Asking rents in the submarket were up \$0.19 to \$18.13 per sq. ft.
- A noticeable jump in tenant activity in Andover in the first half of the year has driven more than 140,000 sq. ft. of positive absorption year-to-date. Safran Morpho, a high-tech security firm, inked a 64,000 sq. ft. lease at 23 Frontage Road in Andover this quarter. Recent renovations attracted Morpho to a building that has remained dark for the past decade. Class A availability in Andover declined 190 basis points quarter-over-quarter to 16.5%, with rents climbing steadily to \$19.74 per sq. ft.
- Burlington remains the hottest market in the Metro North, as tenants continue to be attracted by its amenity-rich environment and competitive pricing relative to Boston. Burlington posted 80,000 sq. ft. of positive absorption in 2Q14, the strongest quarter in two years. Lahey Clinic’s growth continued with a renewal/expansion for 65,000 sq. ft. at 25 Burlington Mall Road. NetBrain Technologies also expanded into 55,000 sq. ft. at 15 Network Drive. Strong demand from both organic growth and out-of-market tenants pushed average asking rents in the Burlington Office market up \$1.91 to \$23.87 per sq. ft.
- The Gutierrez Company broke ground on a new 100,000 sq. ft., speculative office building at 4 Burlington Woods. As the market continues to tighten and rents continue to trend upwards, it is likely new construction will continue to be in the forefront of discussions.

Metro West

- Coming off a strong first quarter, the Metro West Office market posted 184,000 square feet of negative absorption in the second quarter as several large blocks became available. As a result, both availability and vacancy rose 40 and 20 basis points to 19.7% and 16.7%, respectively. The large blocks included Genzyme’s space

at 200 Crossing Boulevard, Framingham totaling 100,000 sq. ft.; Reed Elsevier’s 90,000 sq. ft. at 225 Wyman Street, Waltham; and AstraZeneca and Raytheon both of whom put on large blocks in excess of 100,000 sq. ft.

- Waltham, often considered the suburban tech “hot spot,” saw Wolters Kluwer, a global information services and publishing firm, take 112,000 sq. ft. at 230 Third Avenue. Despite a slight uptick in vacancy quarter-over-quarter to 13.3%, Waltham still remains one of the tightest markets in the Greater Boston Suburban Office market. Overall asking rents in Waltham were relatively flat in 2Q14, ending the quarter at \$27.55 per sq. ft.
- GI Partners, a California-based investment company, acquired a building within the Reservoir Woods Office Park in Waltham from Davis Marcus. The 180,000 sq. ft. office and biotech asset traded for \$72.7M (\$404 per sq. ft.) and was fully leased at the time of the sale.
- Signifying that tenant demand continues to strengthen in the Metro West, at quarter close Forum Pharmaceuticals and Care.com had both committed to relocate and expand in Waltham to more than 100,000 sq. ft. each at 225 Second Avenue and 77 Citypoint, respectively.

Metro South

- The Metro South Office market was relatively flat in the second quarter, posting just 27,000 sq. ft. of negative absorption. This pushed vacancy up 130 basis points quarter-over-quarter to 20.9%, and average rents dipped slightly to \$18.92 per sq. ft.
- The momentum that began earlier this year at Heritage Landing in North Quincy carried over into 2Q14 peaking interest from a number of companies being priced out of the Seaport and Downtown markets. Seeking value as well as MBTA Red Line accessibility, Heritage Landing is becoming a top contender for companies not willing to pay up for a Boston address.
- Construction at the University Station Development in Westwood is progressing quickly as a parking structure has begun to rise and the first wave of retail including Wegman’s is expected to open in 2015, followed by Target and others shortly thereafter.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Harvard Pilgrim HealthCare	93 Worcester Street, Wellesley	127,000	Route 128 West	Renewal
Wolters Kluwer	230 Third Avenue, Waltham	112,000	Route 128 West	New
L-1 Secure Credentialing	296 Concord Road, Billerica	107,000	Route 3 North	Renewal
Lahey Clinic	25 Burlington Mall Road, Burlington	65,000	Route 128 North	Renewal/Expansion
Safran Morpho	23 Frontage Road, Andover	64,000	Route 495 Northeast	New
Partners HealthCare System, Inc.	93 Worcester Street, Wellesley	63,000	Route 128 West	New
NetBrain	15 Network Drive, Burlington	55,000	Route 128 North	New

Source: CBRE Research, Q2 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)
Close-In Suburbs North	4,148,529	15.7%	11.5%	2.2%	(54,927)	\$18.13
Route 128 – North	19,719,582	19.1%	15.0%	3.2%	118,126	\$20.32
Route 495 – Northeast	5,013,471	24.9%	21.0%	0.4%	113,405	\$17.96
Route 3 – North	14,385,947	22.4%	19.6%	3.0%	107,335	\$15.57
Metro North	43,267,529	20.5%	16.9%	2.7%	283,939	\$18.07
Route 128 – West	27,725,069	14.7%	11.9%	1.9%	(14,737)	\$27.36
Framingham – Natick	7,418,417	19.1%	15.3%	3.4%	(154,555)	\$21.66
Route 495 – Route 2 West	4,929,280	28.3%	24.2%	4.0%	24,867	\$14.71
Route 495 – Mass Pike West	13,583,315	27.0%	24.7%	3.0%	(39,649)	\$17.05
Metro West	53,656,081	19.7%	16.7%	2.6%	(184,074)	\$21.08
Route 128 – South	13,612,307	23.3%	21.1%	0.6%	(23,832)	\$19.27
Route 495 – South	2,190,950	25.6%	18.0%	0.0%	(3,405)	\$17.03
Metro South	15,803,257	23.6%	20.6%	0.5%	(27,237)	\$18.92
Overall Suburban Office	112,726,867	20.5%	17.3%	2.3%	72,628	\$19.77

Source: CBRE Research, Q2 2014.

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.

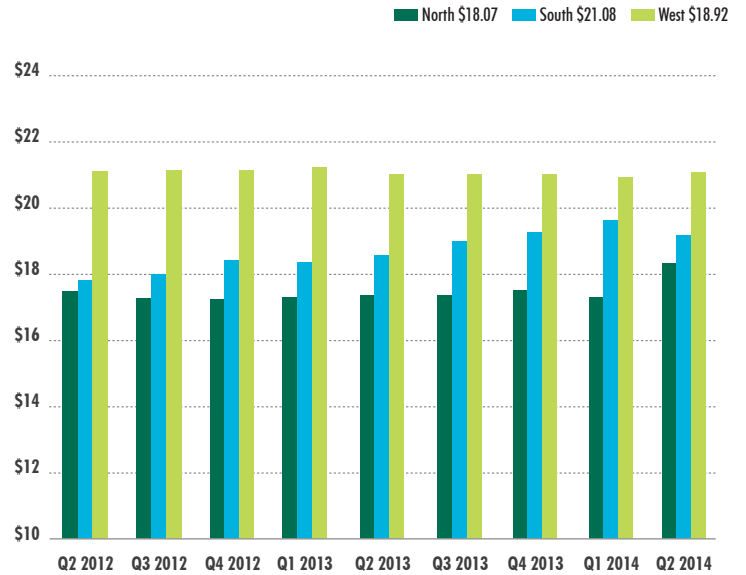
Normalization

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.

Average Asking Rents

- Despite relatively flat absorption and increases in both availability and vacancy, the Greater Boston Suburban Office market saw rents increase \$0.25 in 2Q14 to \$19.77 per sq. ft., their highest point in three years. This was led by the Metro North Office market, which saw rents increase \$0.82 quarter-over-quarter to \$18.07 per sq. ft., the highest point since 3Q10. The Metro West Office market saw a modest increase in rents in the 2Q14, up \$0.15 to \$21.08 per sq. ft. The Metro South Office market saw a slight decline in average asking rents, down just \$0.12 quarter-over-quarter to \$18.92 per sq. ft.

Figure 5: Average Asking Lease Rates

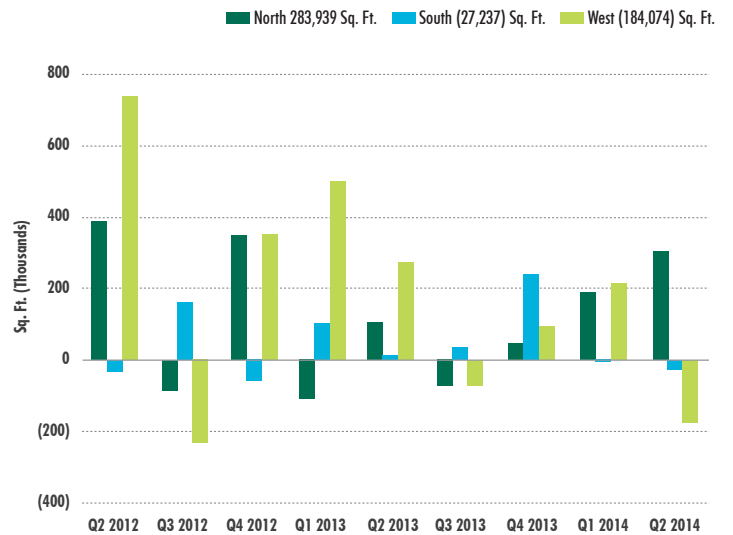


Source: CBRE Research, Q2 2014.

Net Absorption

- Coming off two consecutive quarters with significant positive absorption above 400,000 sq. ft., the Greater Boston Suburban Office market was relatively flat in 2Q14, posting just 11,000 sq. ft. of positive absorption. This was led by the Metro North market posting 284,000 sq. ft. of positive absorption in 2Q14, the highest since the 4Q12. This was offset by negative traction in the Metro West Office market, posting 184,000 sq. ft. of negative absorption in 2Q14. Absorption in the Metro South Office market was relatively flat in 2Q14, posting just 27,000 sq. ft. of negative absorption.

Figure 6: Net Absorption



Source: CBRE Research, Q2 2014.



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

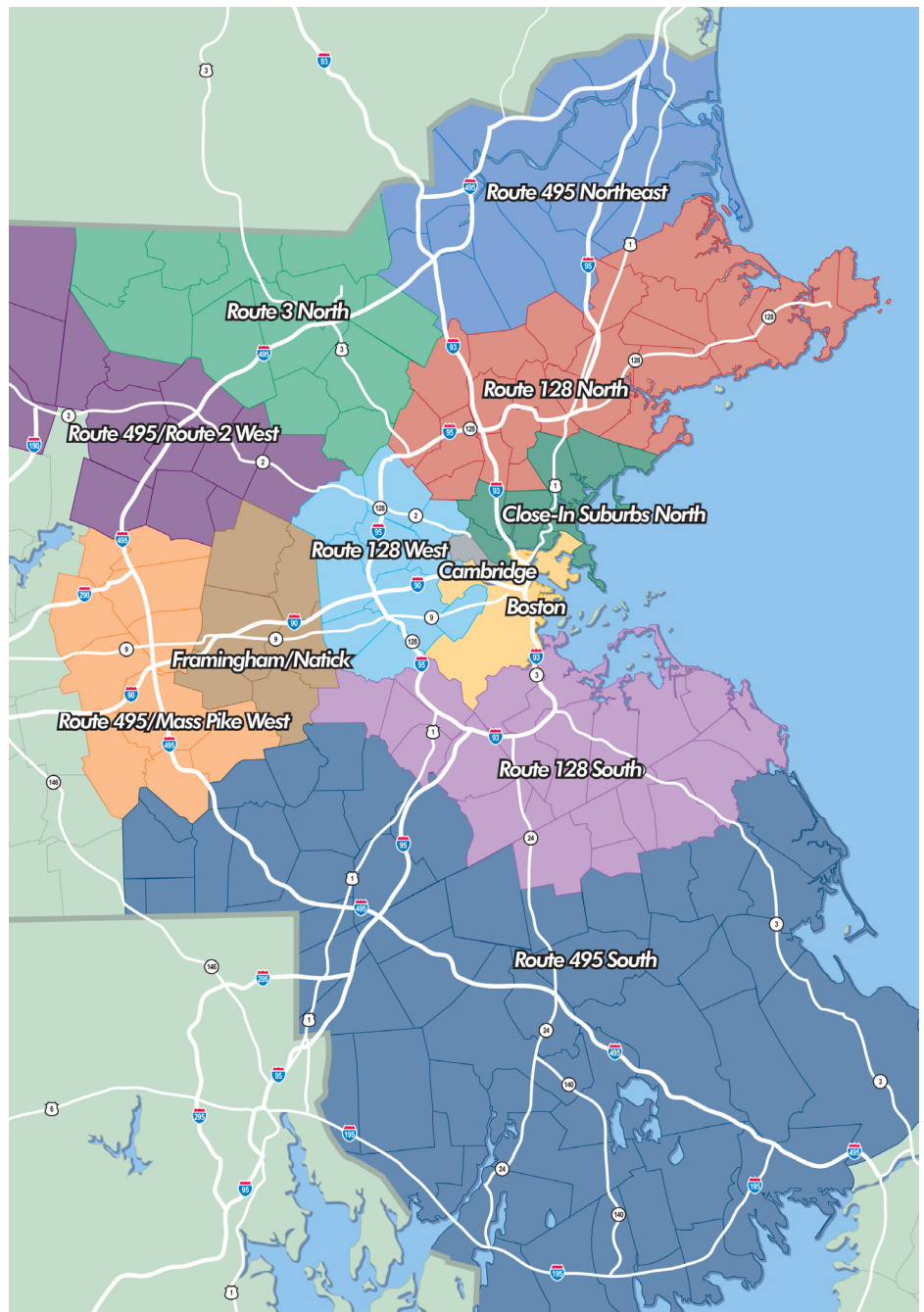
t: +1 617 912 7041
f: +1 617 912 7001
e: suzanne.duca@cbre-ne.com

WWW.CBRE-NE.COM

+FOLLOW US



GREATER BOSTON SUBMARKETS



GLOBAL RESEARCH AND CONSULTING

This report was prepared by the CBRE U.S. Research Team, which forms part of CBRE Global Research and Consulting—a network of preeminent researchers and consultants who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate investors and occupiers around the globe.

DISCLAIMER

Information contained herein, including projections, has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to confirm independently its accuracy and completeness. This information is presented exclusively for use by CBRE clients and professionals and all rights to the material are reserved and cannot be reproduced without prior written permission of CBRE.