

Suburban Boston Office MarketView

Q1 2014

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter.

POSITIVE TRACTION CONTINUES IN THE GREATER BOSTON SUBURBAN OFFICE MARKET AS BIG USERS EXPAND FOOTPRINTS

Quick Stats

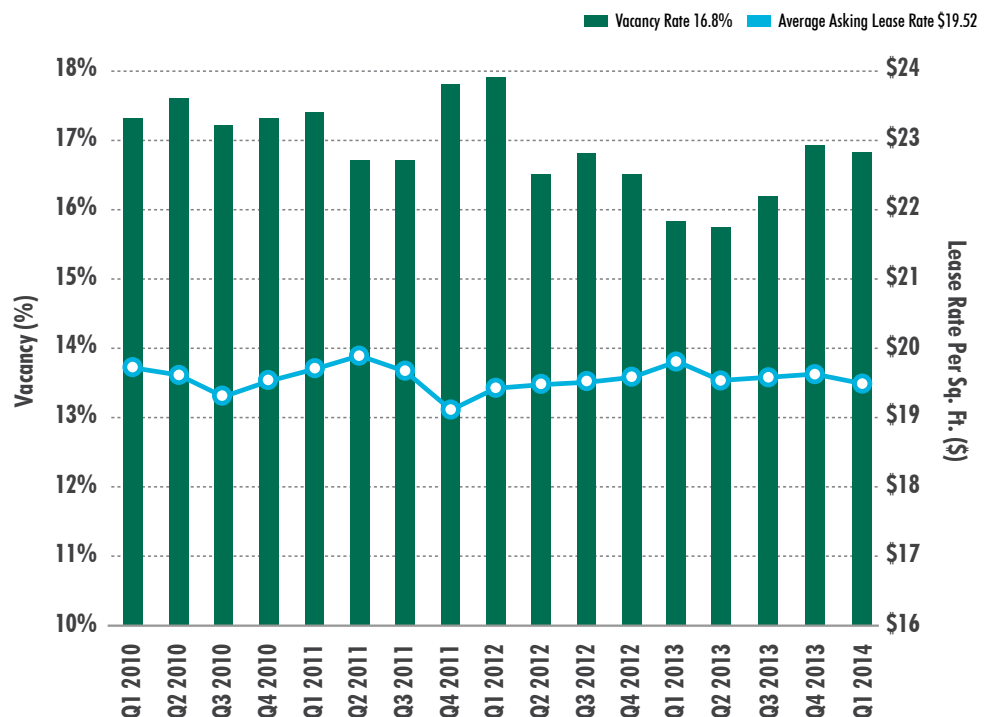
Q1 2014	Current	Y-o-Y	Q-o-Q
Vacancy	16.8%	↑	↓
Lease Rate	\$19.52	↓	↓
Net Absorption	426,854 sq. ft.	↓	↑

Hot Topics

- Deal activity is strong in the 50,000 sq. ft. range as big users expand footprints
- Walters Kluwer leases 120,000 sq. ft. at CityPoint (230 Third Avenue) in Waltham
- Waltham continues to be the suburban tech "hot spot"
- Street-Works pulls out of Quincy Center redevelopment project

Following a strong 2013, the Suburban Boston Office market began the New Year with 427,000 sq. ft. of positive net absorption in the first quarter. A noticeable increase in activity in the Route 3 – North and Route 128 – West submarkets helped drive overall vacancy and availability in the suburbs down 20 and 30 basis points (bps) quarter-over-quarter, respectively. Availability in the suburbs now sits at 20.2%, the lowest point since the first quarter of 2008, with asking rents remaining flat quarter-over-quarter. A number of sizable transactions north of 50,000 sq. ft. were finalized in the first quarter with several users expanding their footprints, while the depth of small to mid-size requirements in the market has shrunk.

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q1 2014.

Metro North

- The Metro North Office market continued to trend positively in the first quarter, posting 195,000 sq. ft. of positive net absorption, the highest since the fourth quarter of 2012. This pushed vacancy down by 20 bps quarter-over-quarter to just 16.3%. The Route 3 – North submarket led all other submarkets in the Metro North, posting 249,000 sq. ft. of positive net absorption in the first quarter, the highest since the third quarter of 2007.

- While the Metro North submarket continues to benefit from tenants seeking amenity-rich and competitively priced alternatives to Boston, organic growth accounted for the majority of deals completed this quarter. Insulet, creator of tubeless insulin pumps, will relocate approximately 500 employees from Bedford. The company will expand and occupy 90,000 sq. ft. at their new headquarters at 600 Technology Park Drive in Billerica. Software maker Aspen Technologies will occupy 105,000 sq. ft. at 20 & 28 Crosby Drive in Bedford in 2014 and expand into an additional 37,000 sq. ft. at 22 Crosby Drive in early 2015.
- Following an incredible burst of Class A investment activity in 2013, investment activity continued into 2014. Campanelli purchased a four-building Class B portfolio in Acton and Chelmsford (289 Great Road, Acton; 220 & 222 Mill Road, Chelmsford; and 25 Industrial Avenue, Chelmsford) totaling approximately 300,000 sq. ft. for \$12.6 million with plans to upgrade the buildings. Additionally, Brickstone Square in Andover was brought to market in the first quarter. The one million sq. ft. Class A office park owned by Transwestern Investment Company was purchased in 2005 for \$78 million.
- Gutierrez has announced it will break ground on a new 100,000 sq. ft. spec office building at 4 Burlington Woods in the second quarter of 2014. With two existing spec buildings already in the market—125 Pennsylvania Avenue in Framingham and Blanchard Woods in Burlington—and several build-to-suit projects yet to be filled, Gutierrez’s decision to go spec demonstrates its strong confidence in the Greater Boston Suburban Office market.

Metro West

- The Metro West submarket continues to lead the Greater Boston Suburban Office market, posting 240,000 sq. ft. of positive net absorption in the first quarter of 2014. This pushed availability down 40 bps quarter-over-quarter and 140 bps year-over-year to 19.2%, its lowest point since the third quarter of 2008.
- Waltham continues to be the suburban tech “hot spot.” This was highlighted by a multitude of deals in the first quarter of 2014. Most notably, Wolters Kluwer leased 120,000 sq. ft. at 230 Third Avenue; Lionbridge renewed for 60,000 sq. ft. at 1050 Winter Street; IntraLinks took 52,000 sq. ft. at 404 Wyman Street; and Raytheon will occupy 42,000 sq. ft. at 880 Winter Street. The Waltham office market continues to benefit from the growth of these tech companies, posting 108,000 sq. ft. of positive net absorption in the first quarter. This pushed vacancy and

availability rates in the Waltham office market down 120 and 130 bps quarter-over-quarter and 240 and 260 bps year-over-year, respectively to 12.2% and 14.8%

- With the first speculative office development in the Metro West in years at 125 Pennsylvania Avenue in Framingham, investors are taking more risk and have confidence in the continued momentum of the office market. Investor capital is chasing deals further out of the core in an effort to find greater yield. There is currently more than one million sq. ft. of office space on the market for sale in the Metro West, with 900,000 sq. ft. of that located inside the Route 128 belt.

Metro South

- After a strong end to 2013, the Metro South Office market began the New Year with a relatively flat first quarter, posting just 8,000 sq. ft. of negative net absorption. Despite the lack of new deal activity, renewals remained strong, pushing vacancy and availability in the Metro South down. Availability continued to decline for the fifth consecutive quarter, decreasing 30 bps to just 22.6%, the lowest point since the second quarter of 2009.
- Street-Works, the developer of the Quincy Center Development, announced that it was exiting the project in March. Local government has stated that they will be reevaluating the project, with hopes of breaking it into smaller components for completion by different developers over a longer period of time.
- The University Station Development in Westwood will bring a true live-work-play environment to the Metro South, with office, retail and residential components being built. The first wave of stores, including Wegmans and Target, is expected to open in 2015. Later phases will bring 350,000 sq. ft. of office space, a 150-room hotel, residences and additional stores.
- There has been a notable migration of tenants to 1 and 2 Heritage Drive in North Quincy as companies have been relocating from Boston and other South Shore communities. Campanelli bought the two empty buildings at Heritage Drive in 2013. 1 Heritage is currently vacant and being saved for a single user, while 2 Heritage is becoming multi-tenanted. With 39,400 sq. ft. of positive net absorption at 2 Heritage since the acquisition, the buildings continue to gain momentum as Quincy continues to be viewed as a value price alternative to Boston, near the city and in proximity to the MBTA Red Line.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Aspen Technology	20 & 22 Crosby Drive, Bedford	143,000	Route 3 – North	New
Wolters Kluwer	230 Third Avenue, Waltham	120,000	Route 128 – West	New
Insulet	600 Technology Park Drive, Billerica	90,000	Route 3 – North	New
Sandisk	200 Donald J. Lynch Boulevard, Marlborough	71,000	Route 495 – Mass Pike West	New
LogixHealth	8 Oak Park Drive, Bedford	64,000	Route 3 – North	Renewal
Lionbridge	1050 Winter Street, Waltham	60,000	Route 128 – West	Renewal
SimpliVity	8 Technology Drive, Westborough	55,000	Route 495 – Mass Pike West	Renewal/Expansion
IntraLinks	404 Wyman Street, Waltham	52,000	Route 128 – West	New

Source: CBRE Research, Q1 2014.

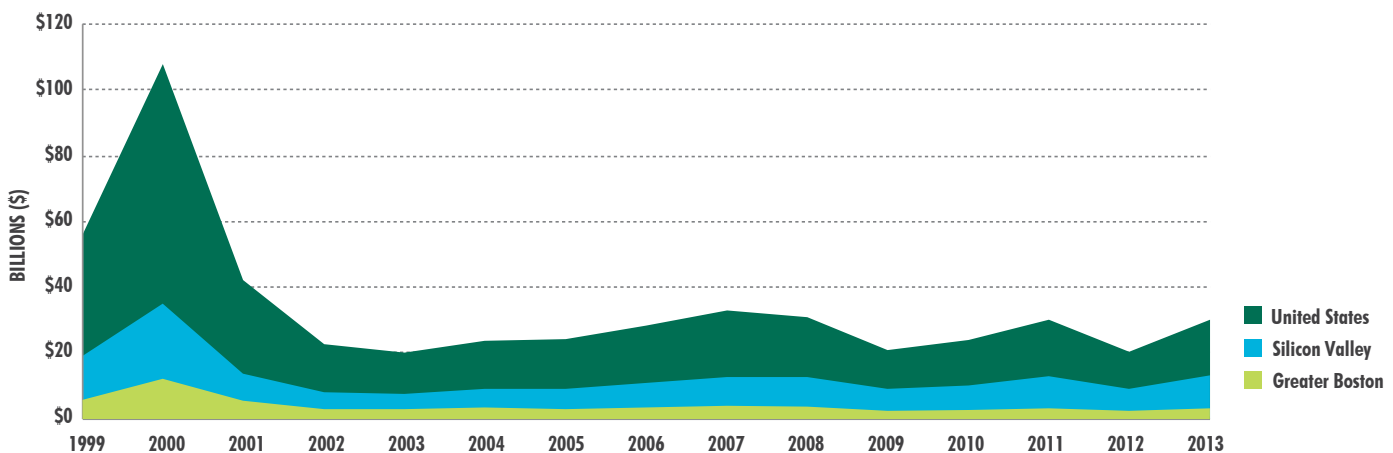
Figure 3: Market Statistics

Market	Rentable Area (sq. ft.)	Availability Rate %	Vacancy Rate %	Sublease Rate %	Quarterly Net Absorption (sq. ft.)	Avg. Asking Rent (\$/sq. ft./yr)
Close-In Suburbs North	4,148,529	14.4%	11.3%	2.2%	(6,816)	\$17.94
Route 128 – North	19,475,688	18.6%	14.1%	3.2%	(91,761)	\$19.63
Route 495 – Northeast	4,936,183	26.0%	21.2%	0.4%	44,427	\$15.09
Route 3 – North	14,385,947	23.1%	19.1%	3.8%	249,304	\$15.21
Metro North	42,946,347	20.6%	16.3%	2.9%	195,154	\$17.25
Route 128 – West	27,374,887	14.3%	11.7%	1.7%	166,089	\$26.73
Framingham – Natick	7,482,978	17.4%	13.9%	3.3%	12,213	\$21.79
Route 495 – Route 2 West	4,929,280	28.8%	24.4%	4.0%	(38,772)	\$14.74
Route 495 – Mass Pike West	13,583,315	26.7%	24.2%	2.6%	100,170	\$17.05
Metro West	53,370,460	19.2%	16.4%	2.4%	239,700	\$20.93
Route 128 – South	13,796,707	22.2%	19.9%	0.9%	85,152	\$19.47
Route 495 – South	2,190,950	25.5%	17.1%	0.7%	(93,152)	\$16.86
Metro South	15,987,657	22.6%	19.6%	0.9%	(8,000)	\$19.04
Overall Suburban Office	112,304,464	20.2%	16.8%	2.4%	426,854	\$19.52

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 continue to be the largest sectors for dollars invested in the U.S. in 2013.



Source: PWC MoneyTree and CB Insights.

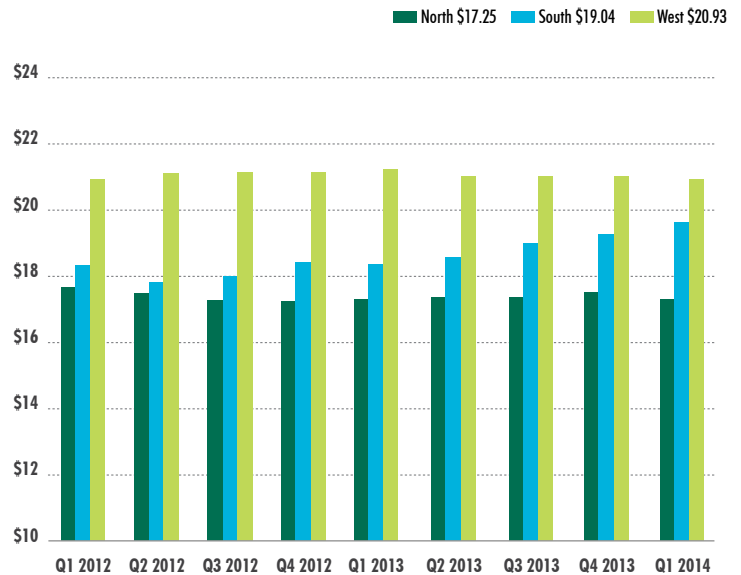
Average Asking Rents

- Despite strong positive net absorption and decreases in availability and vacancy rates, average asking rents in the Greater Boston Suburban Office market were down slightly from the fourth quarter of 2013 across all submarkets. Overall asking rents in the suburbs were down \$0.15 quarter-over-quarter to \$19.52 per sq. ft. This was led by the Metro North Office market, down \$0.20 in the first quarter. Average asking rents were down \$0.16 in the Metro South and down just \$0.06 in the Metro West, quarter-over-quarter.

Net Absorption

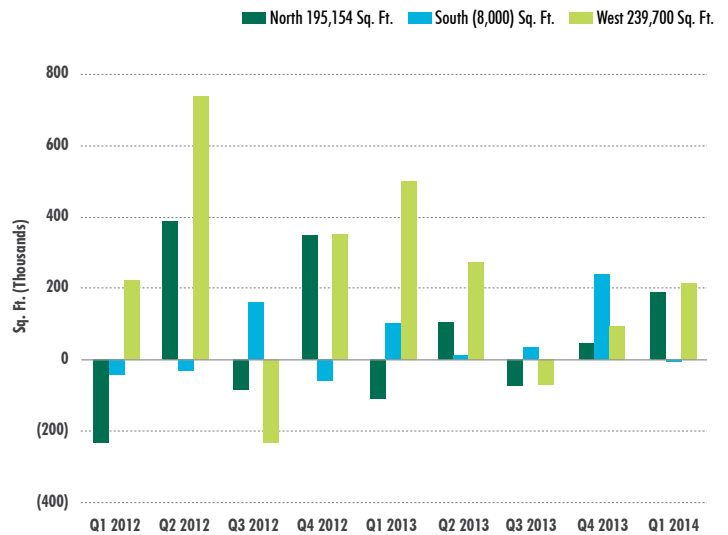
- The Greater Boston Suburban Office market posted 427,000 sq. ft. of positive net absorption across all submarkets in the first quarter of 2014. This was led by the Metro West market, posting 240,000 sq. ft. of positive net absorption. The Route 128 – West submarket continued to lead all submarkets in the Metro West, posting 166,000 sq. ft. of positive net absorption in the first quarter, the thirteenth consecutive quarter of positive traction. The Metro North saw 195,000 square feet of positive net absorption in the first quarter. This was driven by the Route 3 – North submarket posting 249,000 sq. ft. of positive net absorption, the highest since the third quarter of 2007. This was in large part due to Aspen Technology taking 143,000 sq. ft. at 20 & 28 Crosby Drive in Bedford. The Metro South was relatively flat in the first quarter, posting just 8,000 sq. ft. of negative net absorption.

Figure 5: Average Asking Lease Rates



Source: CBRE Research, Q1 2014.

Figure 6: Net Absorption



Source: CBRE Research, Q1 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.



25 Sylvan Road, Waltham, MA
Photo by www.lesvanis.com

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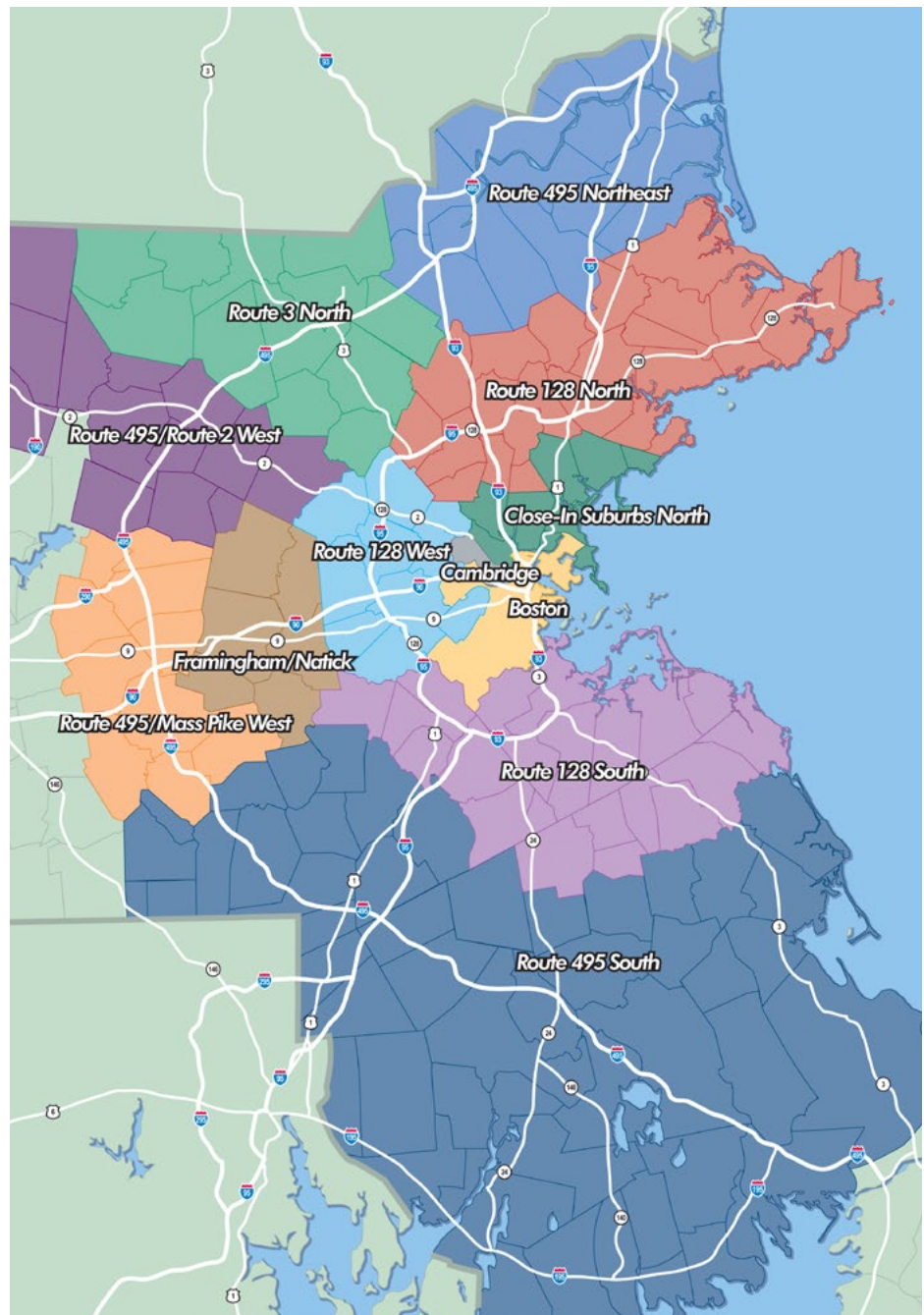
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GREATER BOSTON SUBMARKETS



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