



*Arrows indicate change from previous quarter.

INVESTOR DEMAND DOWNTOWN CONTINUES TO HEAT UP AS PREMIER ASSETS TRADE HANDS

Quick Stats

Q2 2014	Current	Y-o-Y	Q-o-Q
Vacancy	8.2%	↑	↓
Lease Rate	\$48.14	↑	↑
Net Absorption	686,652 sq. ft.	↑	↑

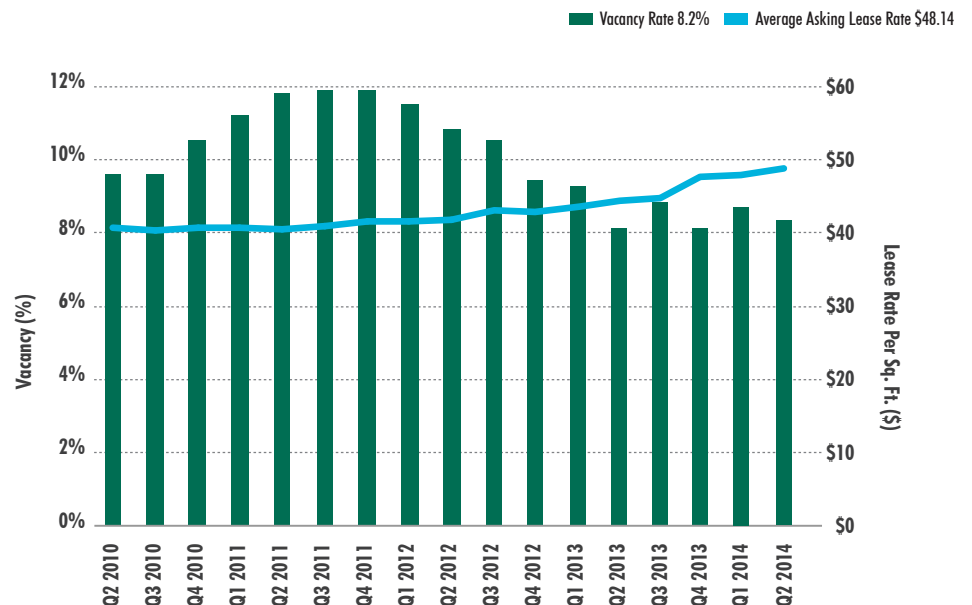
Hot Topics

- The Fallon Company/Cornerstone sold the 1.1 million sq. ft. Vertex headquarter buildings at Fan Pier to Senior Housing Property Trust for \$1.125 billion
- One of the largest clothing retailers in Europe, Primark, announced it will open a flagship U.S. location in Downtown Crossing and will occupy more than 110,000 sq. ft. of office and retail space
- Blackstone Group has reached an agreement with Oxford Properties and JPMorgan Chase for a \$2.1 billion trade of downtown Boston and Cambridge office buildings
- Boston Properties announced plans to break ground in 3Q14 on its long-awaited tower at 888 Boylston Street

Strong leasing activity across all Downtown Boston Office submarkets led to over 680,000 sq. ft. of positive absorption in the second quarter of 2014. Despite a record number of big deals in 2013, the Downtown Office market was able to eclipse last year's absorption pace and finish the first half of the year with over 740,000 sq.ft. of positive absorption. Creative tenants fueled office demand in the CBD, which posted almost 550,000 sq. ft. of positive absorption. The submarket continued to benefit from out-of-market tenant demand as well as internal growth, helping to offset the increase in availability earlier in the year from the large blocks of space given back by Goodwin Procter and PricewaterhouseCoopers. Class A availability in the CBD dropped to 18%, a decline of almost 200 basis points since year-end 2013. Class B availability has reached the lowest point since 2001, now sitting at 10.6%. The Seaport remains the tightest market, with average asking rents reaching \$48.68 per sq. ft., representing a 16% year-over-year increase. Investor confidence remains high, as was evidenced by the sale of the Vertex headquarter buildings at Fan Pier. The recently constructed state-of-the-art-buildings, totaling more than 1.1 million sq. ft., were acquired by Boston-based Senior Housing Property Trust for \$1.125 billion (approximately \$994 per sq. ft.) from The Fallon Company/Cornerstone.

The Massachusetts unemployment rate has fallen to 5.5% as of June 2014, down 150 basis points from May 2013 and 60 basis points lower than the national average (bls.gov). Employment levels in Massachusetts are currently at the highest rate since 1990, increasing companies' need to compete for talent and heightening the importance of desirable work environments.

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q2 2014.

CBD

- Blackstone Group reached an agreement with Oxford Properties and JPMorgan Chase for a \$2.1 billion trade of downtown Boston and Cambridge office buildings including 60 State Street, 125 Summer Street, 225 Franklin Street, 100 High Street, Rows Wharf and One Memorial Drive.
- Overall availability and vacancy in the CBD decreased 140 basis points to 16.0% and 10.2% respectively. The CBD posted its strongest quarter in more than a decade, with more than 546,000 sq. ft. absorbed in 2Q14 while asking rents rose to \$48.75 per sq. ft.
- European retailer Primark announced a flagship U.S. location in Downtown Crossing at The Burnham Building (the former Filene's building). The price-conscious retailer will occupy 110,000 sq. ft. (70,000 sq. ft. of retail space and 40,000 sq. ft. of office space) when the doors open in late 2015 and will continue to fuel the revitalization of the Downtown Crossing area.
- The largest contributor to the growth in the CBD was Year Up. The non-profit organization will grow its footprint by more than 40,000 sq. ft. when it leaves 93 Summer Street to become the 62,000 sq. ft. anchor tenant of 45 Milk Street.
- The CBD continues to become a hub of growing technology companies seeking value and 24/7 amenities. 100 Summer Street boasted over 80,000 sq. ft. of tech-sector deals, including Worldwinner.com, which will relocate from Waltham to occupy 38,000 sq. ft. The peripheral CBD submarkets also exhibited an influx of tech companies. In Midtown, Carbonite leased over 50,000 sq. ft. at 500 Washington Street. In South Station, WeWork expanded by an additional 30,000 sq. ft. at 745 Atlantic Avenue, bringing its footprint to over 125,000 sq. ft.
- The CBD assets that finalized sales in the second quarter were primarily Class B assets. San Francisco-based DivcoWest acquired a 90,000 sq. ft. three-building portfolio along Summer Street (71, 77 & 87) from Boston-based Synergy Investments for \$31.5 million (\$350 per sq. ft.). Brickman sold 40 Court Street, a fully-occupied 110,000 sq. ft. building to Lincoln Property Company for \$31 million (\$283 per sq. ft.). Salvatore Capital Partners sold 44 School Street to Bay Management Corporation for \$20 million (\$316 per sq. ft.).

Back Bay

- After vacancy soared in 1Q14 as large blocks of available space went dark, the Back Bay was tempered as vacancy decreased by 50 basis points to 6.7% in 2Q14. Despite the decrease, several large availabilities remain and are expected to go dark in upcoming quarters.
- After three consecutive quarters of negative absorption, the Back Bay posted almost 60,000 sq. ft. of positive absorption in 2Q14. Leading the way was DCAM (Department of Capital Asset Management), leasing 41,200 sq. ft. at 501 Boylston Street.
- Boston Properties announced plans to break ground in 3Q14 on the long-awaited 888 Boylston Street project, a 17-story tower that will include 364,000 sq. ft. of office space sitting atop 78,000 sq. ft. of retail space. Natixis Global Asset Management has committed to lease 130,000 sq. ft. to kick-off the project.

Seaport

- At 4.8%, the Seaport continues to boast the lowest vacancy rate in Greater Boston, remaining lower than both East Cambridge and the Back Bay.
- 21-25 Drydock Avenue continued to draw office activity to the Marine Industrial Park. Following MassChallenge's 26,000 sq. ft. lease earlier in the year, Elkus Manfredi Architects announced it will occupy approximately 55,000 sq. ft., a 15,000 sq. ft. increase from its footprint at 300 A Street.
- The tech sector remains prominent in Seaport demand. Altisource expanded its Boston footprint with an additional 49,000 sq. ft. location at 321 Summer Street. Healthways will relocate from the Back Bay, more than doubling its footprint by leasing 26,000 sq. ft. at Tower Point @ A Street.
- Overall asking rents have risen more than 16% year-over-year to \$48.68 per sq. ft. as competition is high for the limited remaining space. Class B asking rents have eclipsed the \$40 mark for the first time, finishing the quarter at \$41.80 per sq. ft., an 8% increase since the end of 2013 and more than \$5 per sq. ft. higher than the CBD.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Year Up	45 Milk Street	62,000	CBD	Relocation/Expansion
Elkus Manfredi Architects	21-25 Drydock Avenue	54,000	Seaport	Relocation/Expansion
Carbonite	500 Washington Street	53,000	Midtown	Relocation/Expansion
Altisource	321 Summer Street	48,700	Seaport	New
DCAM	501 Boylston Street	41,000	Back Bay	Relocation
Jewish Vocational Services	75 & 101 Federal Street	41,400	CBD	Relocation/Expansion
Primark*	10 Summer Street	40,000	CBD	New
Worldwinner.com	100 Summer Street	38,000	CBD	Relocation/Expansion
WeWork	745 Atlantic Avenue	32,000	South Station	Expansion

*Primark leased an additional 70,000 sq. ft. of retail space for a total of 110,000 sq. ft.

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)
Central Business District	36,817,482	16.0%	10.2%	0.8%	546,589	\$48.75
Class A	26,876,664	18.0%	11.3%	0.8%	353,764	\$51.65
Class B/C	9,940,818	10.6%	7.3%	0.7%	192,825	\$34.82
Back Bay	14,669,523	15.3%	6.7%	1.2%	58,984	\$54.77
Class A	9,749,606	15.8%	4.7%	1.4%	(17,505)	\$59.01
Class B/C	4,919,917	14.4%	10.7%	0.6%	76,489	\$44.88
Charlestown/East Boston	2,922,083	12.0%	10.9%	0.2%	(23,476)	\$29.23
Seaport	10,916,649	12.8%	4.8%	1.8%	70,045	\$48.68
Class A	4,592,928	11.6%	3.3%	2.1%	(16,622)	\$59.43
Class B/C	6,323,721	13.6%	6.0%	1.5%	86,667	\$41.55
Midtown	2,538,866	22.1%	14.2%	0.0%	(20,552)	\$38.85
North Station/Waterfront	2,768,250	5.2%	3.3%	0.7%	(21,636)	\$30.28
South Station	1,332,259	9.1%	4.0%	1.1%	22,352	\$35.18
Dorchester/South Boston	1,338,170	10.1%	4.4%	0.3%	34,764	\$28.71
Allston/Brighton/Longwood	1,508,326	14.5%	11.1%	0.0%	(500)	\$28.03
Fenway/Kenmore Square	2,174,357	28.4%	0.5%	0.0%	20,082	\$53.10
Overall Boston Office	76,985,965	15.2%	8.2%	0.9%	686,652	\$48.14

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.

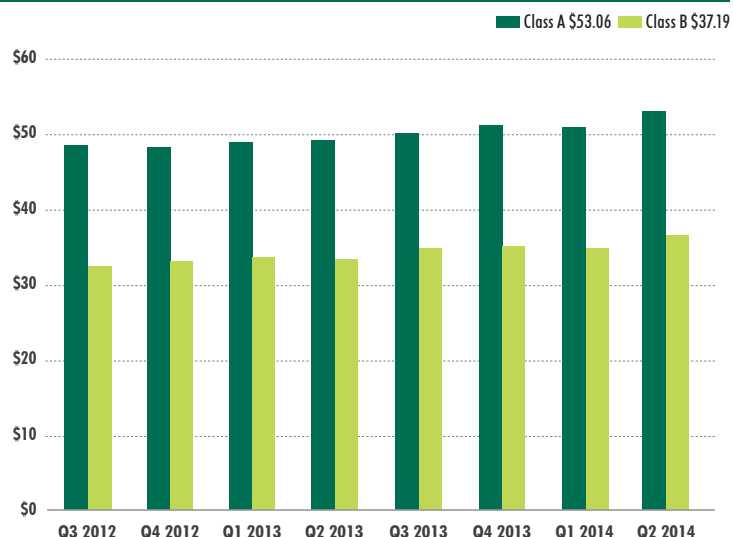
Average Asking Rents

Average asking rents in downtown Boston rose slightly, marking the seventh consecutive quarter of rent increases. Rents for the quarter reached \$48.14 per sq. ft., up \$0.44 from last quarter and up \$3.25 year-over-year, an increase of almost 7%. The CBD was the greatest contributor quarter-over-quarter, as Class A rents increased \$0.49 per sq. ft. in the second quarter and have increased 5% year-over-year to \$51.65, reaching levels not seen since early 2009. Asking rents in the Seaport continue to rise; up \$0.42 per sq. ft. quarter-over-quarter to \$48.68 per sq. ft. as new construction coupled with demand continue to push rents. With premier speculative space anticipated at 888 Boylston Street, average asking rents are likely to continue increasing.

Net Absorption

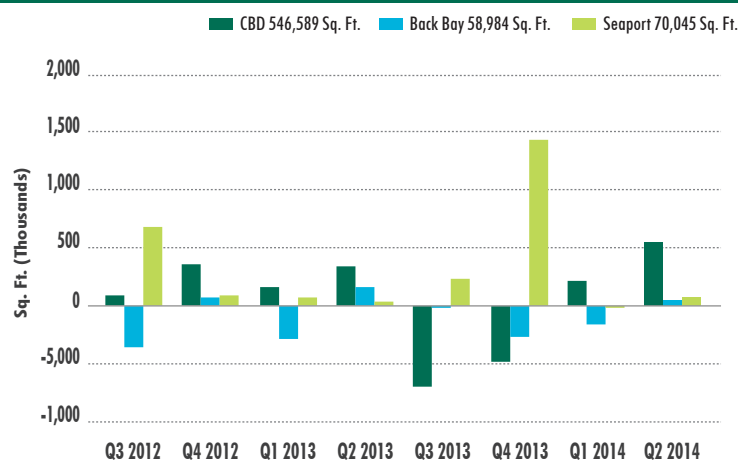
After a relatively flat first quarter, the second quarter posted a robust 686,000 sq. ft. of positive absorption. The CBD market exhibited the majority of positive activity, benefiting from Seaport and East Cambridge overflow. In addition to the CBD's significant growth of 547,000 sq. ft., both the Back Bay and Seaport markets also ended the quarter with positive absorption. With no transactions over 100,000 sq. ft. this quarter, most velocity was seen within small to mid-size requirements, with more tenants relocating and expanding than opting to renew. The largest office transaction occurred in the CBD, with Year Up relocating from 93 Summer Street to 45 Milk Street and will now occupy 62,000 sq. ft.

Figure 5: Average Asking Lease Rates



Source: CBRE Research, Q2 2014.

Figure 6: Net Absorption (Q-o-Q)

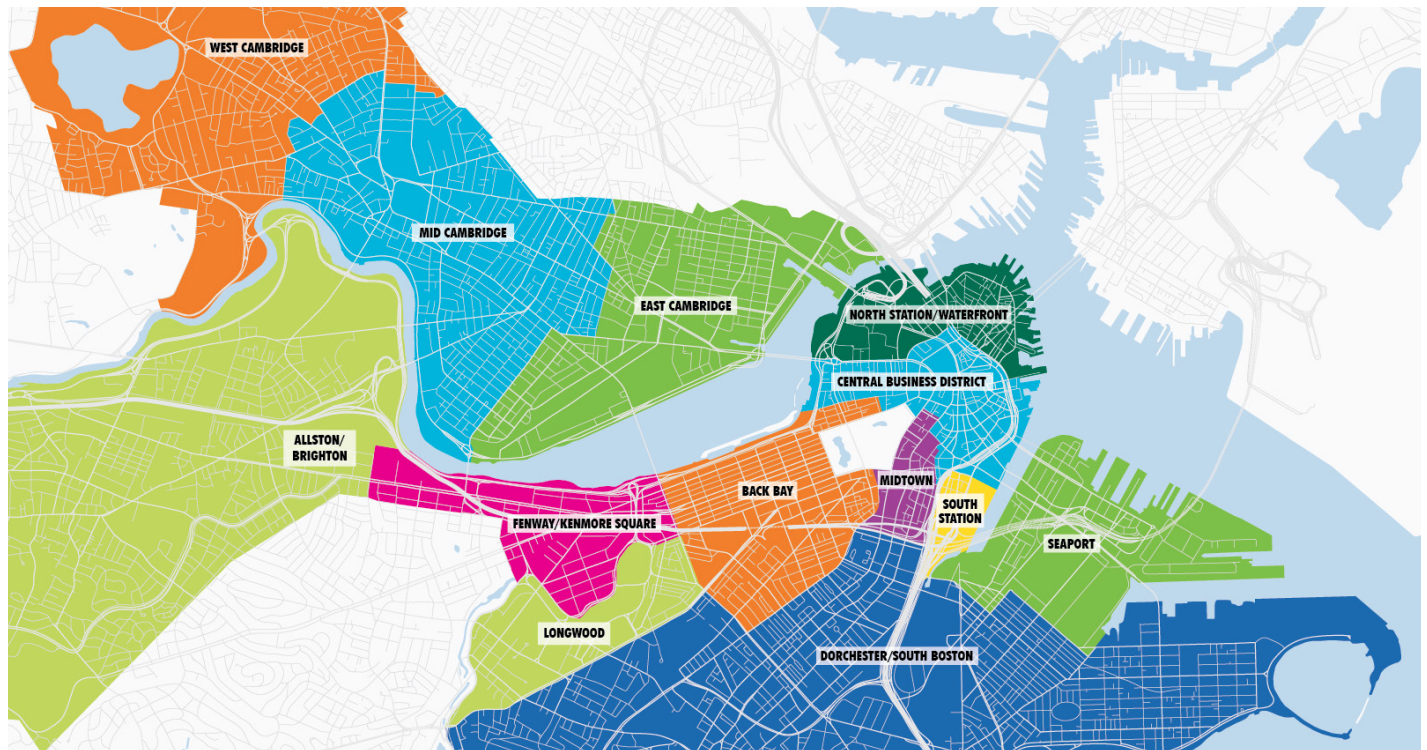


Source: CBRE Research, Q2 2014.



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

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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