

Suburban Boston Office MarketView

Q3 2013

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter.

THE GREATER BOSTON SUBURBAN OFFICE MARKET REMAINS IN GROWTH MODE WITH STRONG FUNDAMENTALS

Quick Stats

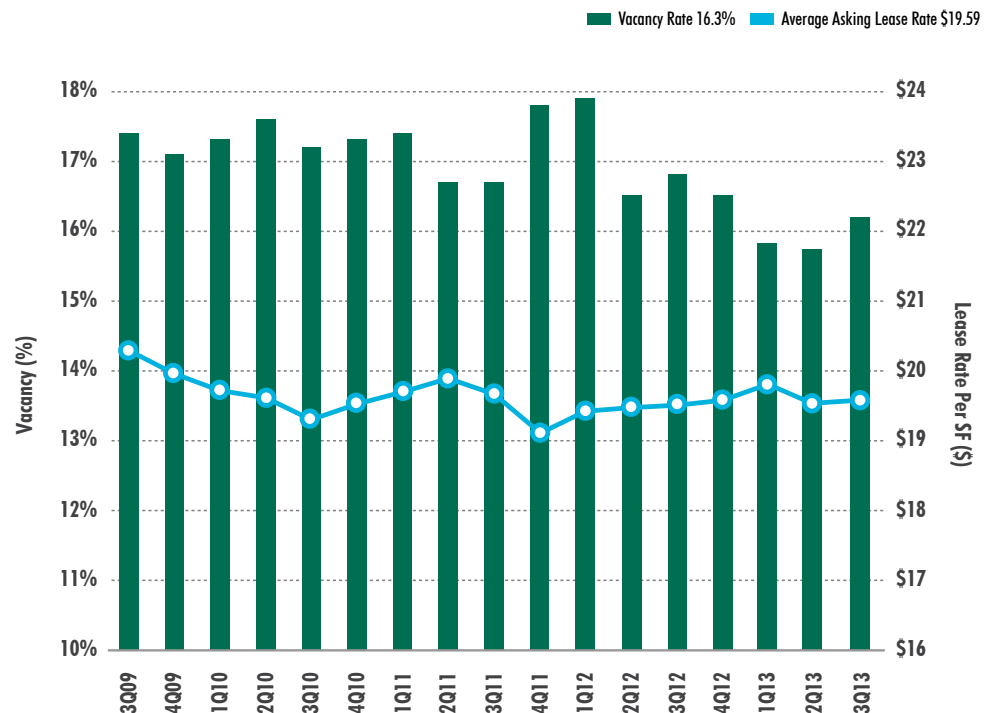
Q3 2013	Current	YoY	QoQ
Vacancy	16.3%	↓	↑
Lease Rate	\$19.59	↑	↓
Net Absorption	(82,830) SF	↓	↓

Hot Topics

- 65% of the Class A office market in Burlington has or will trade hands before 2013 comes to a close
- TripAdvisor finalized plans to relocate to 400 First Avenue in Needham, a 280,000 square foot build-to-suit with Normandy Real Estate Partners
- Equity Office Properties continued to downsize their Greater Boston portfolio selling 25 Burlington Mall Road, Burlington to TA Associates and putting Wellesley Office Park on the market for sale
- Small to mid-size tenant activity dominated the demand; signed leases with large users were scarce in the third quarter

Following three strong quarters of growth, the Suburban Office market was relatively flat in the third quarter with approximately 83,000 square feet of negative absorption. Despite this, 2013 year-to-date absorption in the Suburban Office market still remains at a nine-year high, with approximately 794,000 square feet absorbed. The third quarter saw a handful of large transactions, but small to mid-size tenant activity in the 5,000–10,000 square foot range dominated the demand. Overall suburban office availability and average asking rents were statistically flat, up by 10 basis points to 20.5% and down by \$0.05 to \$19.59, respectively. There has been a noticeable uptick of cranes in the sky as construction activity has returned to the Suburban Office market (see spotlight – ‘Suburban Office Market Construction Pipeline’). Significant positive year-to-date absorption coupled with the trend of new construction—some of which is speculative—suggest that the Suburban Office market is still in growth mode with strong fundamentals.

Office Vacancy vs. Lease Rate



Source: CBRE/New England, Q3 2013

Metro North

- The Metro North submarket posted 76,000 square feet of negative absorption in the third quarter, pushing availability up by 40 basis points quarter-over-quarter. Overall demand was flat during the summer months in the North, but tenant activity in secondary markets surrounding Burlington picked up—Billerica, Bedford, Woburn and Wilmington—as tenants began to seek rent relief from Burlington. Demand is expected to return in the fourth quarter; as summer vacations have ended, decisions are ready to be finalized and confidence in the economy continues to strengthen.
- Microline Surgical, Inc. completed the largest transaction of the quarter relocating to 68,000 square feet at 50 Dunham Road in Beverly. Previously located in 54,000 square feet at Cummings Center in Beverly, this new location will accommodate their current and future growth needs. TASC leased 23,300 square feet at 35 New England Business Center in Andover, taking over the space that struggling Research in Motion (RIM) occupied.
- The flurry of investment sales in Burlington continued in the third quarter leading to a staggering statistic—ownership of 65% of the Class A office market in Burlington has or will trade hands before 2013 comes to a close. The Davis Companies purchased Burlington Centre, a 490,000 square foot four-property portfolio, for \$109 million with plans to create a collaborative campus setting with full amenities. Equity Office Properties sold off another property in their portfolio, 25 Burlington Mall Road. The 285,400 square foot building was purchased by TA Associates for \$77 million. Earlier in the year Equity Office also sold the one million square foot New England Executive Park to National Development and Charles River Investors for \$216 million. There is currently more than 650,000 square feet on the market with 1 & 3 Burlington Woods (under contract), 5 Burlington Woods, 10 & 20 Mall Road and 77 South Bedford Street (under contract) all expected to close in the fourth quarter. These new ownership changes, combined with tenant demand, is expected to continue to drive Class A rents up in Burlington.

Metro West

- The overall Metro West submarket posted negative absorption of approximately 71,000 square feet in the third quarter; the first quarter of negative growth since the third quarter of 2012. Small

users in the 5,000–10,000 square foot range drove tenant activity, while large tenant activity was sparse.

- The Route 128 West submarket was the only Metro West submarket to show signs of growth in the third quarter as the market absorbed 107,000 square feet of space and availability decreased by 40 basis points to 15.8%. TripAdvisor LLC completed plans to relocate to 280,000 square feet of new construction at 400 First Avenue in Needham, doubling their existing footprint in Newton in a building developed by Normandy Real Estate Partners to enhance their corporate culture. Global Partners will expand by 40,000 square feet after leasing 72,000 square feet at 800 South Street in Waltham. uniQure also announced plans to establish its regional headquarters in Lexington, leasing 53,000 square feet at 113 Hartwell Avenue.
- The Framingham – Natick submarket offered mixed signals in the third quarter. Despite a negative statistical quarter, 119,000 square feet of negative absorption driven by Mathworks making 200,000 square feet at the old Boston Scientific headquarters available, vacancy decreased by 10 basis points to 8.5%, the lowest point since the fourth quarter of 2010. International Data Group (IDG) completed a blend and extend renewal for 92,000 square feet of office space at 492 Old Connecticut Path in Framingham. Heart Ware subleased 58,000 square feet of office space from The TJX Companies at 500 Old Connecticut Path.

Metro South

- The Metro South submarket posted 65,000 square feet of positive absorption in the third quarter. This pushed availability down by 30 basis points to 24.7%, its lowest point since the first quarter of 2010. Average asking rents increased \$0.43 quarter-over-quarter to \$18.95, its highest point since the second quarter of 2009. While modest, these movements suggest that the Metro South is in continued growth mode.
- Several large tenants are currently feeling out the market in the Metro South and their final decisions will shape the near future of the submarket. Dunkin' Brands, New York Life, Siemens and Haemonetics are all in the market for 100,000+ square feet of office space.

Transactions of Note

Tenant	Address	SF	Submarket	Type
TripAdvisor	400 First Avenue, Needham	280,000	128 West	Relocation/Expansion/ Build-to-suit
International Data Group (IDG)	492 Old Connecticut Path Road, Framingham	92,000	Framingham/Natick	Renewal
ADP	123 Felton Street, Marlborough	72,000	Route 495/Mass Pike West	Renewal
Global Partners	800 South Street, Waltham	72,000	Route 128 West	Renewal/Expansion
Microline Surgical	50 Dunham Road, Beverly	68,000	128 North	Relocation/Expansion
Empirix	600 Technology Park Drive, Billerica	56,000	Route 3 North	New
uniQure	113 Hartwell Avenue, Lexington	53,000	128 West	New

SUBURBAN CONSTRUCTION SPOTLIGHT

With more than 1.4 million square feet currently under construction and more than 1 million square feet expected to break ground in the near future the cranes have returned to change the Suburban landscape. Although build-to-suit activity remains dominant, speculative development is beginning to return after almost a decade with three projects under construction or in the immediate pipeline. The Congress Group plans to redevelop 125 Pennsylvania Avenue in Framingham on a spec basis is driven by continued confidence in the strength of the market, as well as the existing lack of large blocks in the Framingham Office market. With only two other options in Framingham, 125 Pennsylvania Avenue is positioned to attract strong activity and lease up quickly.

BUILT-TO-SUIT ACTIVITY



63 SOUTH AVENUE
BURLINGTON



CENTER 128
400 FIRST STREET, NEEDHAM



171 BEARFOOT ROAD
NORTHBOROUGH

STATUS	Under Construction	Under Construction	Under Construction
EST. COMPLETION	3Q 2014	2015	2014
OFFICE SPACE (SF)	424,000	280,000 +	30,000 (Data Center)
MAJOR TENANT(S)	Keurig	TripAdvisor	Iron Mountain
OWNER	The Gutierrez Company	Normandy	Iron Mountain
SPACE USE/SPACE NOTES	Office/R&D Facility	Office	Data Center; Expected to be LEED Gold Certified

SPECULATIVE CONSTRUCTION



125 PENNSYLVANIA AVE
FRAMINGHAM



BOSTON LANDING
BRIGHTON



ASSEMBLY ROW
SOMERVILLE

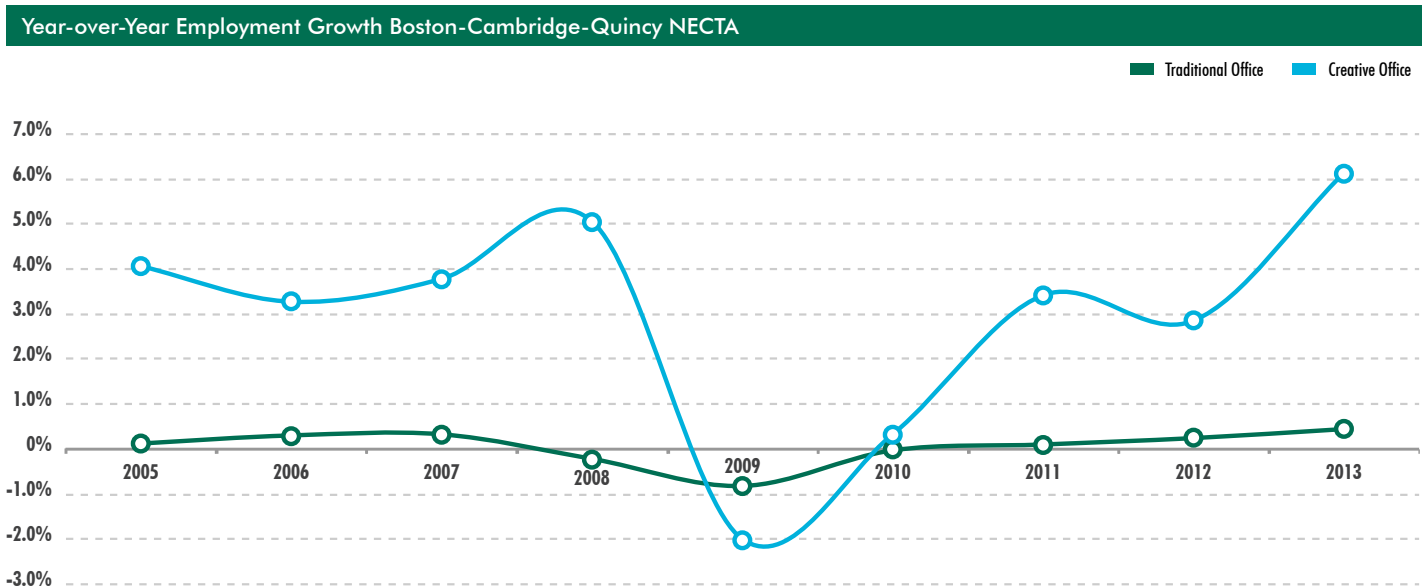
TENANT	N/A	New Balance	N/A
STATUS	Proposed	Moving Dirt	Under Construction
EST. COMPLETION	2015	2016	2014
OFFICE SPACE (SF)	85,000	650,000	100,000 +
OWNER	The Congress Group	New Balance	Federal Realty Investment Trust
SPACE USE/SPACE NOTES	Office or Lab Space Subdividable to 20,000 sf	Office/Retail/Sports Complex	Office/Retail

Market Statistics

Market	Rentable Area (SF)	Availability Rate %	Vacancy Rate %	Sublease Rate %	Quarterly Net Absorption (SF)	Avg. Asking Rent (\$/SF/YR)
Close-In Suburbs North	4,147,746	14.6%	11.6%	2.1%	40,169	\$17.79
Route 128 – North	19,450,952	17.8%	13.8%	3.5%	(27,838)	\$19.84
Route 495 – Northeast	5,096,155	26.7%	22.9%	0.4%	(76,246)	\$15.51
Route 3 – North	14,095,189	23.6%	17.8%	2.9%	(12,335)	\$15.69
Metro North	42,790,042	20.5%	16.0%	2.8%	(76,250)	\$17.39
Route 128 – West	27,173,546	15.8%	12.1%	3.3%	107,574	\$27.20
Framingham – Natick	7,400,007	13.1%	8.5%	0.6%	(119,096)	\$20.31
Route 495 – Route 2 West	4,735,123	24.3%	20.0%	3.4%	(3,395)	\$14.32
Route 495 – Mass Pike West	13,484,898	27.9%	23.2%	2.8%	(56,396)	\$17.18
Metro West	52,793,574	19.2%	15.1%	2.8%	(71,313)	\$21.06
Route 128 – South	13,747,707	24.7%	21.5%	1.1%	45,005	\$19.76
Route 495 – South	2,190,950	24.6%	18.4%	0.7%	19,728	\$15.00
Metro South	15,938,657	24.7%	21.1%	1.1%	64,733	\$18.95
Overall Suburban Office	111,522,273	20.5%	16.3%	2.6%	(82,830)	(Gross) \$19.59

Employment Trends – Creative Office Outpacing the Market

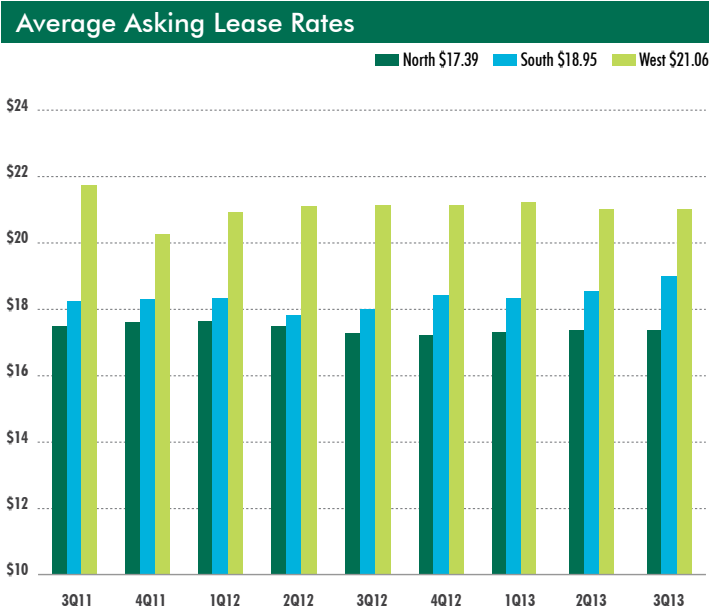
In August 2013, non-farm employment in the Greater Boston area grew to approximately 1.7 million jobs. Of the total, roughly 205,000 jobs were in jobs that occupy creative office space. The jobs are diversified and extend into many industries such as publishing, high tech, architecture and software. These jobs currently account for 12% of the total office-using jobs in Greater Boston. Compared to last year, creative office employment grew by 6.1% in August 2013 and only 2.9% in 2012. Led by the high tech industry which grew by approximately 13.7%, creative office users are having a significant impact on the health of the office market throughout the region.



Source: www.bls.gov

Average Asking Rents

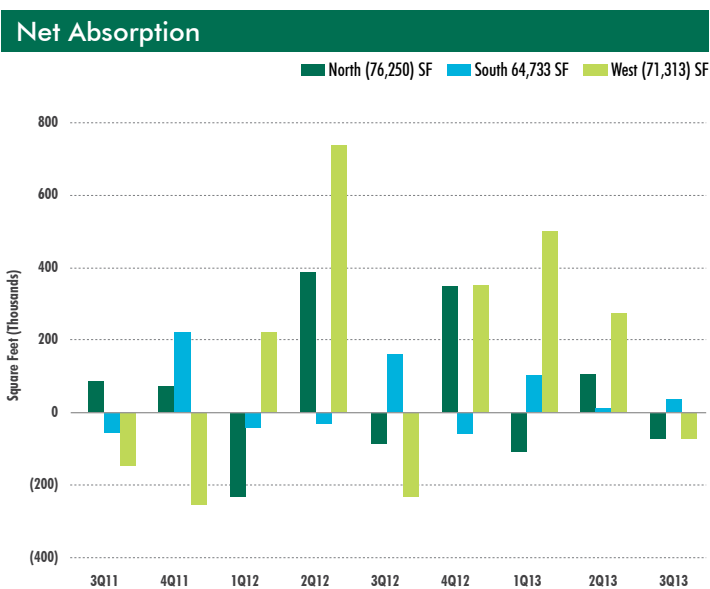
Overall asking rents in the suburban markets decreased slightly in the third quarter to \$19.59 per square foot, gross. 128 North saw the largest appreciation in rent this quarter, rising \$0.49 per square foot, as landlords continue to push rents in that market. The Framingham – Natick submarket in the third quarter saw average asking rents increase by \$0.35 to \$20.31 per square foot, the highest point since the fourth quarter of 2009. Route 128 West saw the largest decrease in asking rents, decreasing by \$0.30 per square foot this quarter, a direct result of high-quality space being leased thus reducing the inventory. Overall rent growth in the Metro South was the strongest of all the submarkets, up \$0.43 to \$18.95 per square foot.



Source: CBRE/New England, Q3 2013

Net Absorption

Kicking off the second half of 2013, the overall Suburban Office market experienced 83,000 square feet of negative absorption. Despite this, 2013 year-to-date absorption in the Suburban Office market still remains at a nine-year high, with approximately 794,000 square feet absorbed. Absorption in the Metro North and West submarkets was slightly negative across the boards, with the Route 128 – West region being the only one to post positive absorption (of 108,000 square feet), marking the 14th consecutive quarter of positive absorption. The Metro South was the only submarket to post positive absorption overall at 65,000 square feet.



Source: CBRE/New England, Q3 2013

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 square feet from one period to the next, as measured by available square feet.

Net Rentable Area

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

Occupied Area (Square Feet)

Building area not considered vacant.

Under Construction

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

Available Area (Square Feet)

Available building area that is either physically vacant or occupied.

Availability Rate

Available square feet divided by the net rentable area.

Vacant Area (Square Feet)

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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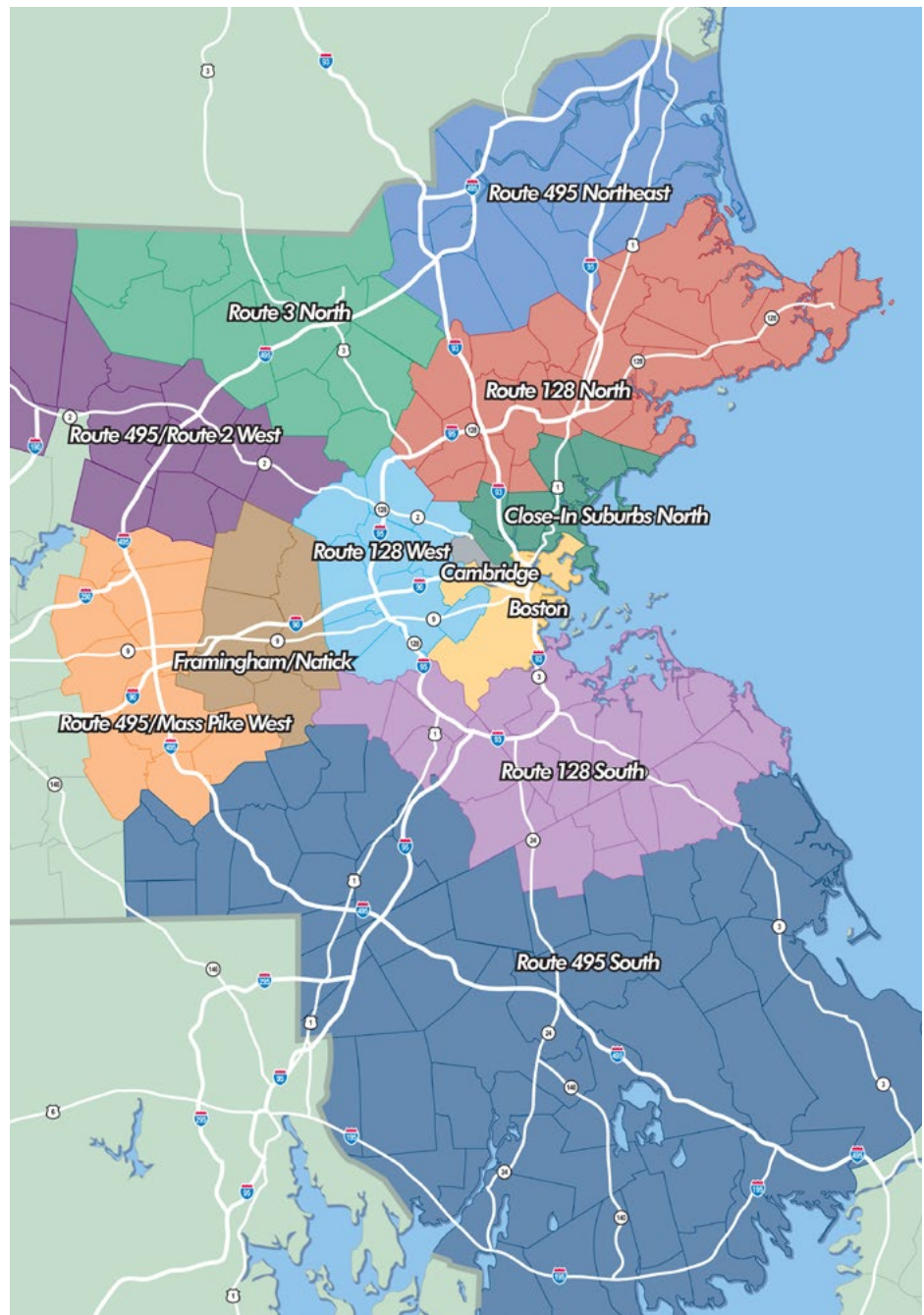
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GREATER BOSTON SUBMARKETS



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