Boston Office MarketView

Q4 2013

CBRE Global Research and Consulting

U.S. UNEMPLOYMENT	MA UNEMPLOYMENT	OCCUPIED SF	AVAILABILITY	SUBLEASE SF	UNDER CONSTRUCTION
6.7%	7.1%	70.5M	16.2%	884K	1.8M

*Arrows indicate change from previous quarter.

WORKPLACE TRENDS DRIVE MARKET FUNDAMENTALS

Quick Stats

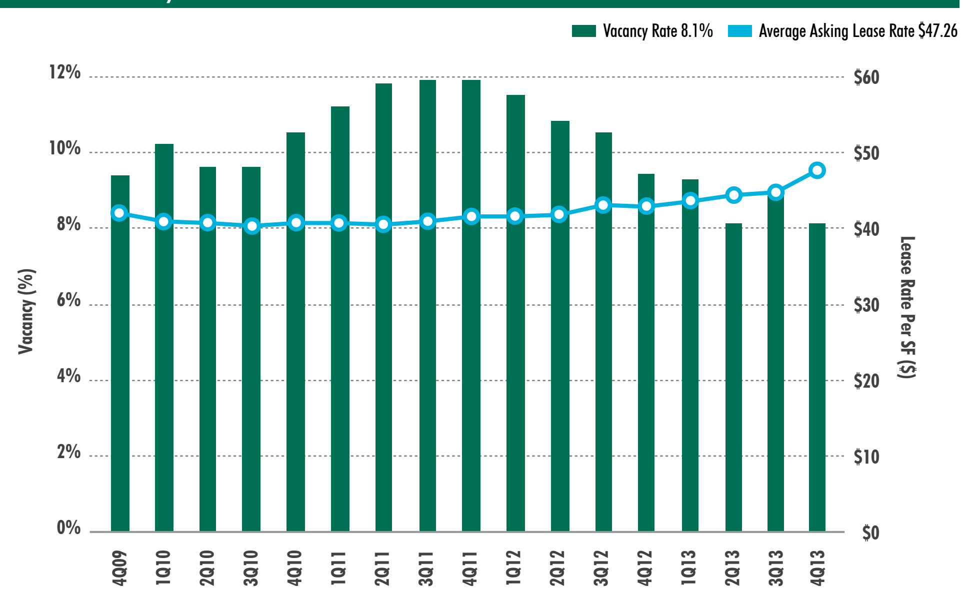
Q4 2013	Current	YoY	QoQ
Vacancy	8.1%	↓	↓
Lease Rate	$47.26	↑	↑
Net Absorption	773,332 SF	↑	↑

Hot Topics

- Goodwin Procter finalized their lease for a build-to-suit at Fan Pier; the 500,000 square foot building is set to break ground in the spring and Goodwin plans to occupy ±378,000 square feet in 2016. Goodwin is the latest large tenant to relocate to the Seaport while right-sizing their real estate footprint, following firms such as PricewaterhouseCoopers and State Street.
- Demand has continued for creative collaborative space, leading to an increasing number of Class B buildings undergoing renovations that have allowed them to compete with Class A product.
- The trend of companies right-sizing their real estate footprint has continued, including an increasing number of firms moving towards varying models of "hoteling," which has led to lower-than-normal levels of absorption compared to past cycles.

The Downtown Boston Office market ended the year in a relatively healthy state. Goodwin Procter's build-to-suit lease at Fan Pier was the third deal of the year over 300,000 square feet, and leasing activity was steady as relocations were prevalent. Although the market saw strong absorption for the quarter at 773,332 square feet, this was inflated by the completion of Vertex Pharmaceuticals' Fan Pier headquarters that brought almost 1.2 million square feet of positive absorption to the Seaport alone. The rest of the market experienced negative absorption overall, mostly attributed to large tenant renewals who gave back space. Smaller real estate footprints continued to be the trend, however in most cases this was a result of workplace innovation rather than decreasing headcount. The Boston economy remains resilient, as the unemployment rate has dropped by 10 basis points to 7.1% as of November 2013, and the education and healthcare sectors continue to boom, accounting for 36% of the workforce in Boston (bls.gov). Another positive sign for the market was the overall continued decline in vacancy rates, as Boston now boasts two submarkets under 5%, ranking amongst the lowest in the country. Yet availability is on the rise, especially due to the influx of new construction with build-to-suit deals that have left large blocks of availability in their wake across both the Back Bay and CBD. Meanwhile, multiple peripheral submarkets have become viable options for tenants, including Fenway, the South End and North Station. The market's ability to compensate these increases in supply with sufficient demand will be a critical factor in the future direction of rents, development and overall leasing activity. Also affecting supply and demand is the investment sales market, as institutional investors continue to purchase Class B assets. With the growing trend of rehabilitation of these assets into institutional-quality, the competition among Class A and B will continue to become less black and white.

Office Vacancy vs. Lease Rate



Source: CBRE/New England, Q4 2013

CBD

- Availability jumped to 18% this quarter as Goodwin Procter became the latest tenant to relocate, planning to leave over 400,000 square feet at 53 State Street.
- There was an influx of small- to mid-size deals, mostly in Class B and low-rise space, as the CBD continues to become a viable alternative to tenants that are priced out of the Seaport.
- Fidelity Investments sold The Block on Congress to Related Beal, comprised of five buildings totaling 343,000 square feet of office and retail space across Devonshire and Congress Streets. Related Beal announced renovation plans that would transform the area surrounding the intersection of State and Congress Streets.

Back Bay

- The vacancy rate in the Back Bay decreased 30 basis points quarter-over-quarter, boasting one of the lowest vacancy rates in the country at 4.3%. However, availability continued to rise, spiking to 15.7%, as large tenants continued to make decisions to relocate and right-size. The fourth quarter's availability spike was primarily attributed to the space State Street will leave at Copley Place after their renewal; GE's space given back during their renewal at 116 Huntington Avenue; and Ernst & Young's decrease in space as they executed a lease to move floors at the Hancock Tower.
- Other than Ernst & Young's 110,000 square foot move within 200 Clarendon Street, the largest deal of the quarter was Northeastern University's 73,000 square foot lease at 177 Huntington Avenue, absorbing the majority of the space left by Wayfair earlier in the year.
- Spot premier pricing over $70 per square foot was still seen for the best spaces, however softening demand has created uncertainty in the direction of future asking rents.

Seaport

- As Vertex Pharmaceuticals completed construction of their new Fan Pier headquarters, quarterly and yearly absorption for the Seaport spiked with the additional 1.2 million square feet.
- Vacancy ended the year at 4.6%, almost matching that of the Back Bay and joining as one of the lowest rates in the country.
- The Seaport continued to see solid demand from out-of-market tenants. ONE Marina Park Drive exhibited multiple examples in the fourth quarter, the largest of which was Waltham tenant Gunderson Dettemer's lease for 27,692 square feet.
- The Seaport boasted the largest deal of the quarter with Goodwin Procter's 378,000 square foot lease at a 500,000 square foot build-to-suit at Fan Pier, scheduled to break ground in the spring 2014.

Transactions of Note

Tenant	Address	SF	Submarket	Type
Goodwin Procter	100 Northern Avenue	378,000	Seaport	New/Build-to-Suit
State Street Corporation	Copley Place	135,000	Back Bay	Renewal
Ernst & Young	200 Clarendon Street	110,000	Back Bay	New
Northeastern University	177 Huntington Avenue	73,000	Back Bay	New
Hachette	53 State Street	44,000	CBD	New
FTI Consulting	200 State Street	32,000	CBD	Renewal
GE	116 Huntington Avenue	28,000	Back Bay	Renewal
Gunderson Dettmer	ONE Marina Park Drive	28,000	Seaport	New
Linedata Services, Inc.	260 Franklin Street	26,000	CBD	Renewal/Expansion

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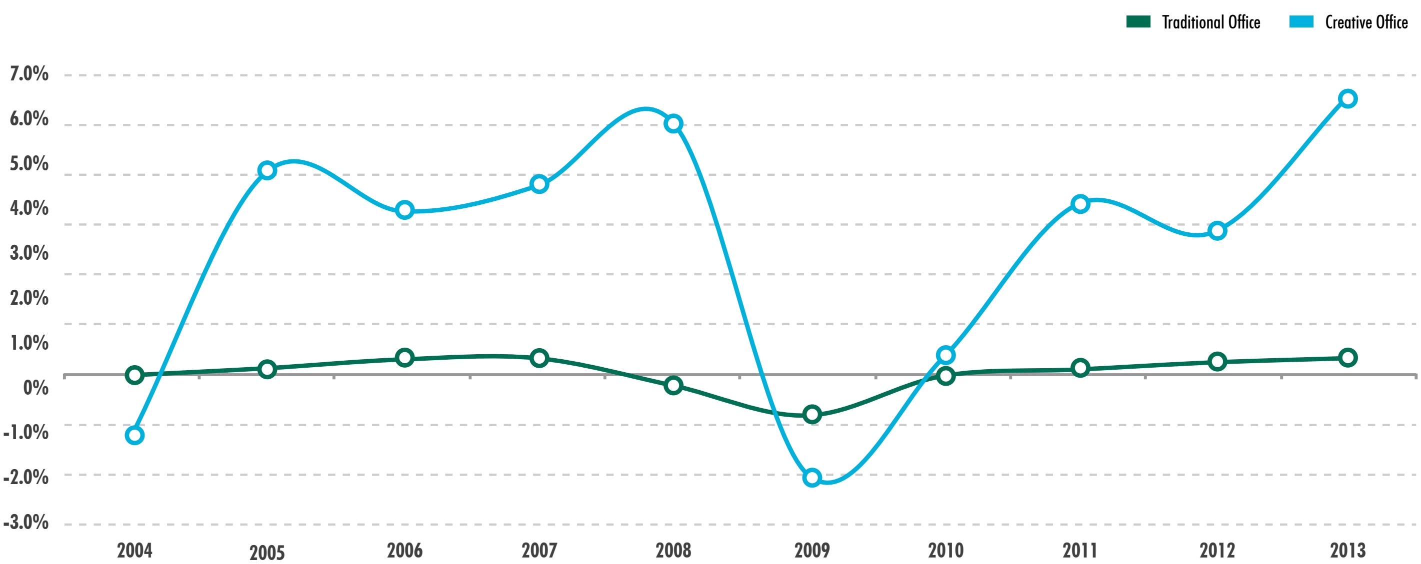
Market Statistics

Market	Rentable Area (SF)	Availability Rate %	Vacancy Rate %	Sublease Rate %	Quarterly Net Absorption (SF)	Avg. Asking Rent ($/SF/YR)
Central Business District	**37,040,705**	**18.0%**	**11.5%**	**1.3%**	**(489,441)**	**$48.23**
Class A	27,070,992	20.1%	12.5%	1.5%	(496,365)	$51.18
Class B/C	9,969,713	12.1%	9.0%	0.7%	6,924	$34.86
Back Bay	**14,549,025**	**15.7%**	**4.3%**	**1.3%**	**(272,005)**	**$52.63**
Class A	9,749,606	16.6%	4.6%	1.9%	(323,733)	$56.49
Class B/C	4,799,419	13.9%	3.8%	0.0%	51,728	$43.16
Seaport	**10,472,402**	**12.3%**	**4.6%**	**1.7%**	**1,443,964**	**$46.73**
Class A	4,592,928	11.3%	2.5%	2.0%	1,426,278	$57.75
Class B/C	5,879,474	13.1%	6.3%	1.4%	17,686	$38.51
Charlestown/East Boston	**2,838,573**	**8.9%**	**6.6%**	**0.2%**	**7,247**	**$28.29**
Mid-Town	**2,666,281**	**19.7%**	**6.3%**	**0.0%**	**18,204**	**$34.95**
North Station/Waterfront	**2,750,750**	**5.2%**	**3.9%**	**0.7%**	**23,844**	**$26.82**
South Station	**1,464,525**	**13.6%**	**2.7%**	**0.0%**	**42,159**	**$40.63**
Dorchester/South Boston	**1,141,970**	**13.3%**	**8.1%**	**0.3%**	**(2,400)**	**$23.69**
Allston/Brighton/Longwood	**1,730,367**	**15.2%**	**11.4%**	**0.0%**	**1,760**	**$27.35**
Fenway/Kenmore Square	**2,077,588**	**31.4%**	**2.2%**	**0.0%**	**0**	**$50.45**
Overall Boston Office	**76,732,186**	**16.2%**	**8.1%**	**1.2%**	**773,332**	**(Gross) $47.26**

Employment Trends – Creative Office Outpacing the Market

As of November 2013, total non-farm employment in the Boston area grew to 2.6 million jobs, increasing 2.1% from November 2012. Approximately 204,000 of those jobs occupy creative office space. These jobs are diversified across a range of industries, including software, telecommunications, architecture and publishing. These creative sectors currently account for 8.1% of the total office-using occupations in Greater Boston. Creative office employment grew by 6% year-over-year; this was led by the high-tech industry, growing at a rate of 15.7% year-over-year in the Boston area.

Year-over-Year Employment Growth Boston-Cambridge-Quincy NECTA



Source: www.bls.gov

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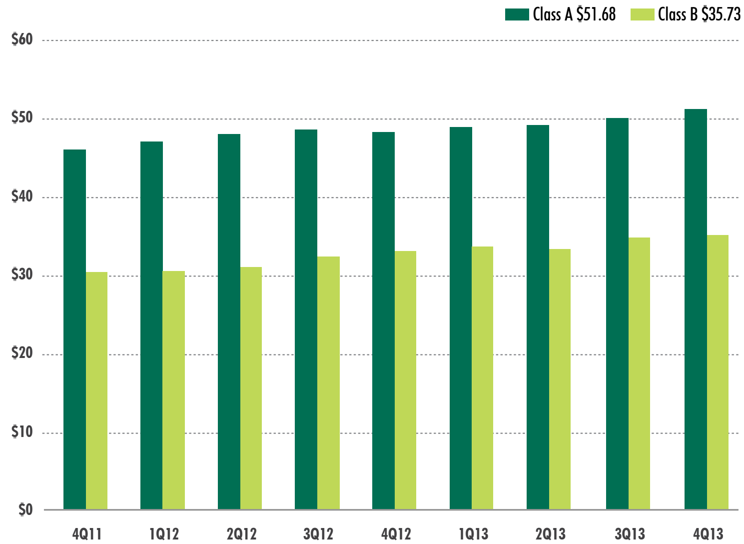
Average Asking Rents

Average asking rents for the overall downtown office market continued to rise, marking the fifth consecutive quarter of rental increases. The fourth quarter closed averaging $47.26 per square foot, $1.45 higher than the previous quarter and 10% higher year-over-year. Rents are currently $0.13 higher since the first quarter of 2009, reaching levels not seen since prerecession highs. Rent growth can be attributed to a number of factors, including leasing activity and new construction in the Seaport District, where Class A average asking rents have risen to $57.75 per square foot, representing a 20% year-over-year increase. In addition, institutional investors purchasing and rehabilitating Class B assets has led to an increase in higher-priced space. Overall, the direction of future rent growth will depend heavily on the market's response to new supply, as a result of emerging peripheral markets, build-to-suit excess space, and resulting vacancy for large relocations.

Average Asking Lease Rates

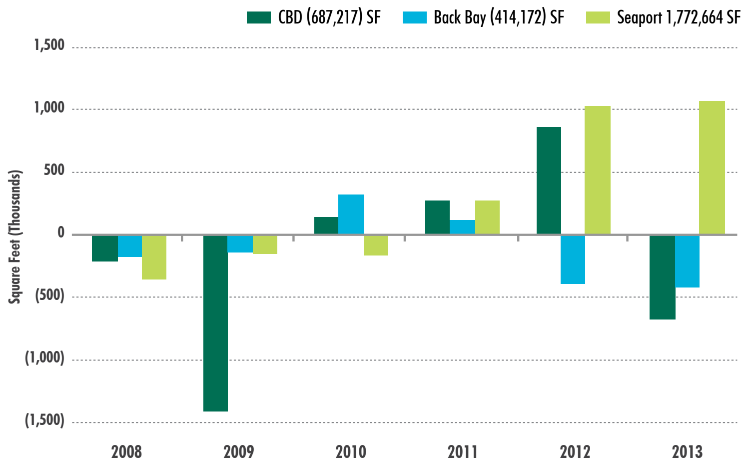


Source: CBRE/New England, Q4 2013

Net Absorption

With Vertex Pharmaceuticals' completion of their Seaport build-to-suit headquarters, almost 1.2 million square feet was absorbed in the fourth quarter—an anomaly for the market. Excluding this deal, the quarter would have experienced negative absorption overall and the year as a whole would have been relatively flat. The fourth quarter saw yet another large tenant making a build-to-suit deal as Goodwin Procter finalized their lease at Fan Pier. The space left behind by such deals is contributing to a growing number of large available blocks of space in the CBD and Back Bay. Another contributor to the decrease in absorption is the increasing trend of companies right-sizing their real estate footprint, opting for more open layouts and in some cases using models of "hoteling."

Absorption (YoY)



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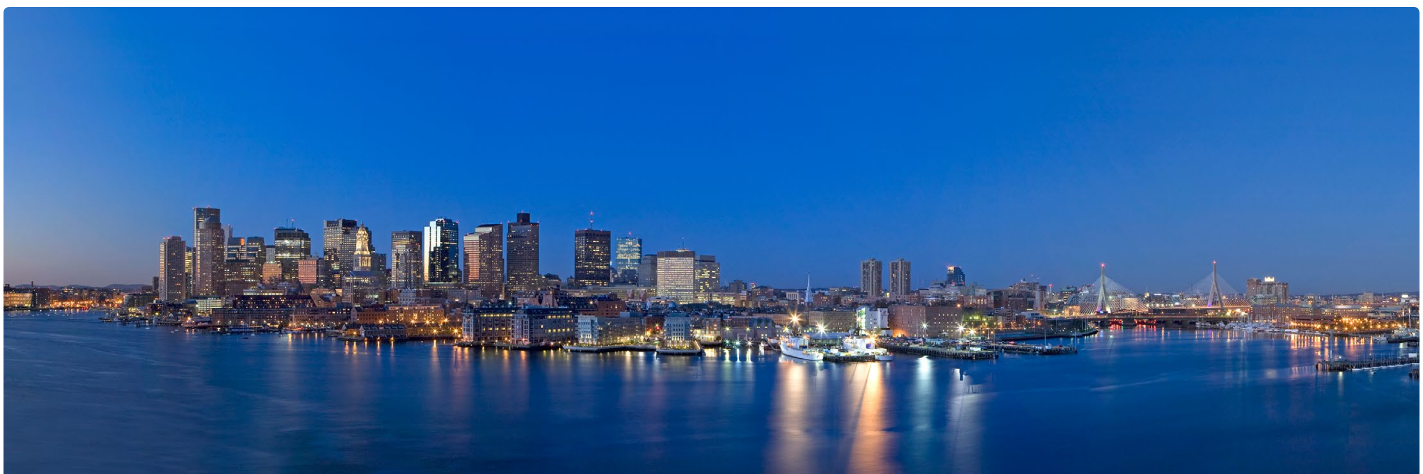

Boston, Massachusetts
Photo by Dave Desroches, www.desrochesphoto.com

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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.

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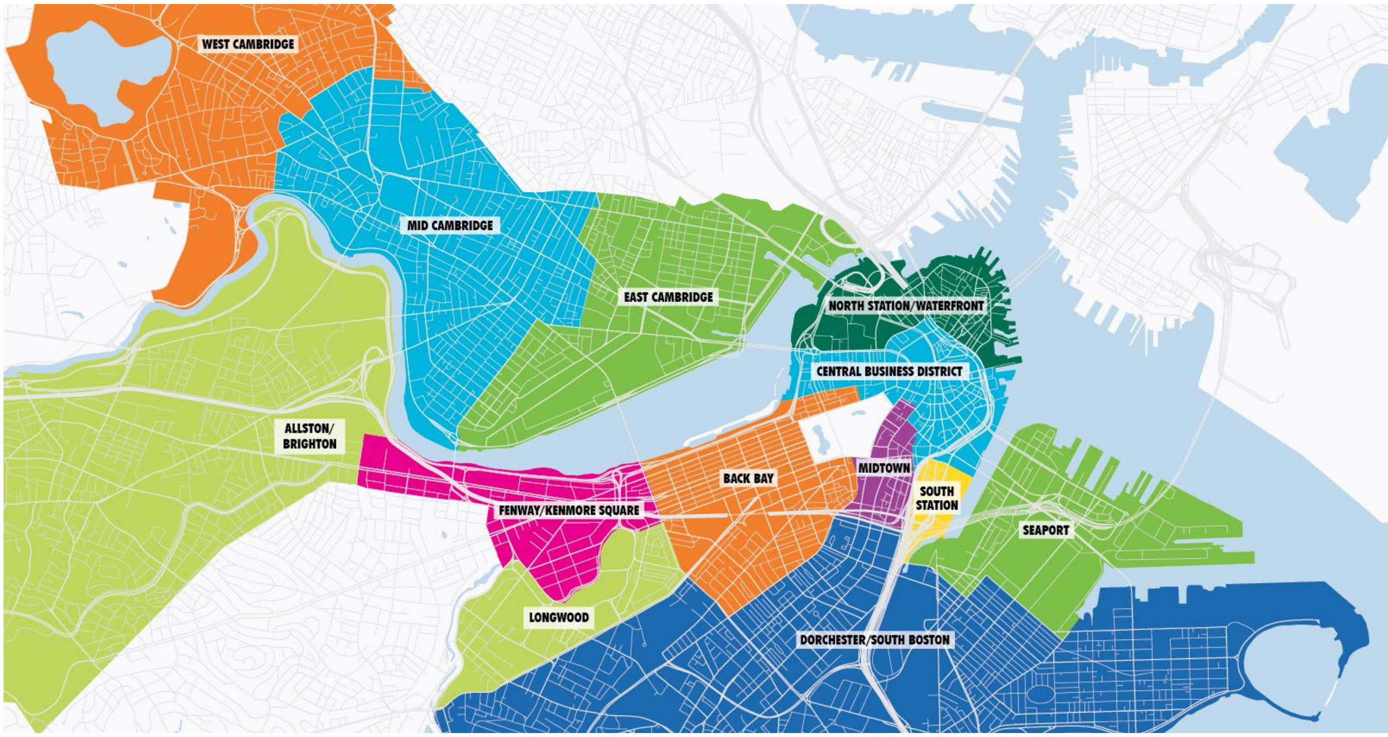
GREATER BOSTON SUBMARKETS



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