

Boston Downtown Office, Q1 2015

Boston office market builds on success of 2014 despite record snowfall in the first quarter

▲ Vacancy **7.6%**

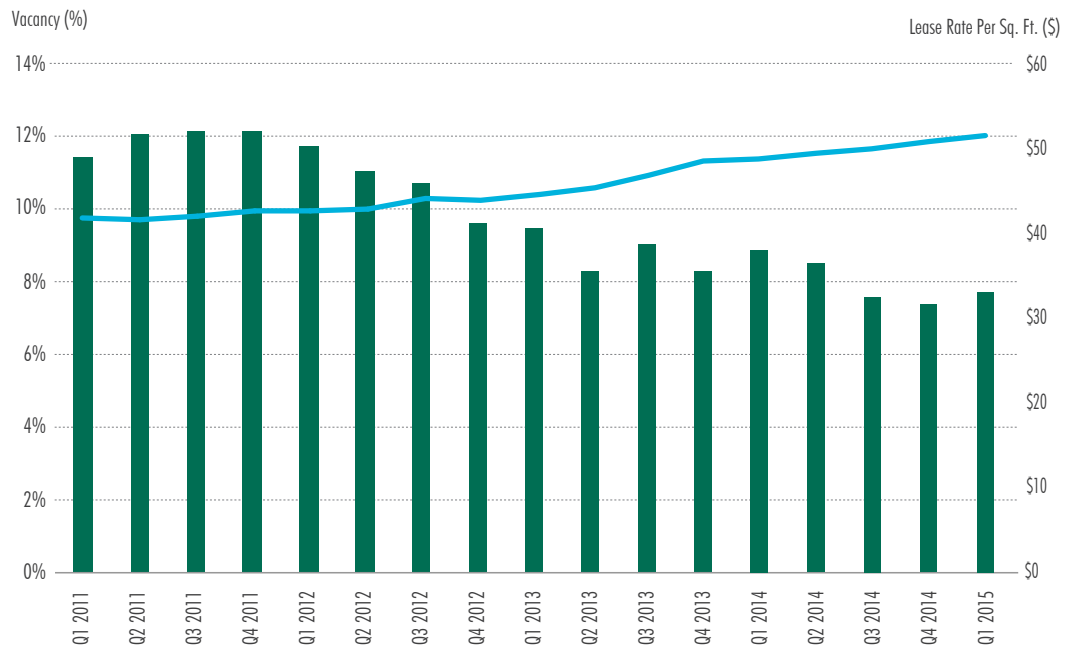
▲ Availability **14.4%**

▲ Absorption **346,978 SF**

▲ Sublease **0.9%**

▲ Under Construction **2.7 MSF**

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q1 2015.

■ Vacancy Rate 7.6% ■ Average Asking Lease Rate \$51.26

Enduring Boston’s snowiest winter, the Downtown Boston submarket remained resilient through the start of 2015 and continued to build on the success of 2014. Overall average asking rents continued to climb upward, increasing \$3.36 year-over-year to

\$51.26, the highest point since the fourth quarter of 2008. New construction impacted first quarter market fundamentals as the Boston Landing site in Brighton broke ground and 888 Boylston Street in the Back Bay began pre-leasing. Investment sales

activity remained strong with continued interest from foreign capital. All submarkets and asset types have seen action. Properties that closed in the first quarter include 116 Huntington Avenue (\$152M) in the Back Bay, 100 Cambridge Street (\$279.6M) in the CBD and DivcoWest's Fort Point Portfolio (\$105.6M), including 313 & 330 Congress Street, and 300 A Street in the Seaport.

The U.S. and Massachusetts Unemployment rates fell dramatically through the beginning of 2015, reaching 5.1% and 4.9% in February, respectively. The Massachusetts Unemployment rate continues to decline, down 110 basis points year-over-year, hitting its lowest point since pre-recession levels. As noted in 2014, the falling unemployment rate will likely lead to increased competition between companies to acquire and retain valuable talent.

CBD

- For the second consecutive quarter, the CBD ended with negative absorption, not telling the full story of the strong activity the submarket continues to see. The negative absorption in the Class B market was in part due to the Federal Bureau of Investigation moving forward with its build-to-suit in Chelsea and leaving a large block of available space at Center Plaza.
- Despite ending the first quarter with negative absorption, activity remains strong in the Class B and low-rise Class A markets, especially from the TAMI sector and in the Downtown Crossing area.
- The corner of State and Congress Street saw moderate activity this quarter in low- and mid-rise space with Criteo leasing 49,000 sq. ft. at 60 State Street and Santander's lease of 34,000 sq. ft. at 28 State Street.
- Following the merger of Bingham McCutcheon with Morgan Lewis, the Bingham sublease at One Federal Street was withdrawn, having been on the market for over a year and a half, and substituted with a sublease of Morgan Lewis' recently built-out space at One International Place.

BACK BAY

- The Back Bay exhibited another strong quarter, ending at an availability rate of 14.4%, a 160 basis point decrease year-over-year. The submarket posted 181,000 sq. ft. of positive absorption overall, with Boston Properties' new construction at 888 Boylston Street contributing 75,000 sq. ft. in pre-leased deals with Bracebridge Capital and ABRY Partners.
- Although availability decreased, the vacancy rate in the Back Bay increased to 8.2%, a 190 basis point increase quarter-over-quarter. The submarket's lowest vacancy rate in over 10 years occurred in Q4 2013 when it hit 4.3%. This quarter's jump can be primarily attributed to the various blocks of space State Street left during its move to a build-to-suit at Channel Center.
- Despite the slight decrease in overall average asking rents, the Class A average continued its upward trajectory, increasing \$1.04 quarter-over-quarter and a notable \$5.13 year-over-year to \$63.96.

SEAPORT

- Absorption in the Seaport submarket ended the first quarter relatively flat, with various small- and mid-sized deals offset by Thomson Financial adding approximately 48,000 sq. ft. to the sublease market.
- Although vacancy in the Seaport made a slight increase, the submarket remains extremely tight at 4.7%, pushing the boundaries of Seaport momentum as activity picks up in South Boston. The Marine Industrial Park made headlines again with an announced deal for 70,000 sq. ft. at the Innovation and Design Building.
- With increased activity in peripheral areas and no shortage in demand for core brick-and-beam space, the Class B market continued to rise in average asking rents, raising overall rates by \$2.25 per sq. ft. quarter-over-quarter to \$52.97. While Class A rents remained flat quarter-over-quarter, they still exhibit a \$3.94 year-over-year increase, just trailing the Back Bay.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Harvard Business School of Publishing	20 Guest Street, Brighton	124,000	Allston/Brighton/Longwood	New
ABRY Partners	888 Boylston Street	52,000	Back Bay	New
Criteo	60 State Street	49,000	CBD	Renewal
VM Turbo	500 Boylston Street	45,000	Back Bay	Renewal/Exp.
Cornerstone Research	699 Boylston Street, Boston	37,000	Back Bay	Renewal/Exp.
New England Development	75 Park Plaza	36,000	Back Bay	New
Santander	28 State Street	34,000	CBD	New
Bracebridge	888 Boylston Street	25,000	Back Bay	New
Harmonix	40 Broad Street	24,600	CBD	New
Wells Fargo & Company	One Boston Place, Boston	20,000	Central Business District	Renewal
Maxwell Health	101 Tremont Street	20,000	Midtown	New

Source: CBRE Research, Q1 2015

Figure 3: Market Statistics

Boston Office	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent \$ (Gross)
Central Business District	184	36,829,778	15.4	9.0	0.8	(90,095)	(90,095)	\$51.86
Class A	43	26,870,269	16.2	9.9	0.8	42,126	42,126	\$54.43
Class B/C	141	9,959,509	13.4	6.5	0.9	(132,221)	(132,221)	\$42.03
Back Bay	78	15,058,485	14.4	8.2	0.8	181,411	181,411	\$58.72
Class A	21	10,192,552	15.0	7.5	0.9	218,001	218,001	\$63.96
Class B/C	57	4,865,933	13.2	9.7	0.6	(36,590)	(36,590)	\$45.89
Charlestown/East Boston	21	2,922,083	19.6	10.3	0.4	(2,107)	(2,107)	\$33.56
Seaport	65	10,855,968	9.9	4.7	1.7	(13,799)	(13,799)	\$52.97
Class A	10	4,592,928	8.8	2.8	1.7	45,334	45,334	\$63.48
Class B/C	55	6,263,040	10.7	6.2	1.7	(59,133)	(59,133)	\$45.84
Mid-Town	27	2,559,445	14.8	12.0	0.4	28,575	28,575	\$41.30
North Station/Waterfront	39	2,678,250	6.3	2.6	0.9	(20,364)	(20,364)	\$34.03
South Station	22	1,332,259	5.5	3.9	0.0	9,211	9,211	\$38.21
Dorchester/South Boston	24	2,179,189	9.2	7.1	0.0	7,428	7,428	\$29.06
Allston/Brighton/Longwood	24	2,006,081	19.4	3.0	2.3	246,718	246,718	\$41.99
Fenway/Kenmore Square	22	2,172,967	28.0	0.1	0.0	0	0	\$56.38
Overall Boston Office	506	78,594,505	14.4	7.6	0.9	346,978	346,978	\$51.26

Source: CBRE Research, Q1 2015.

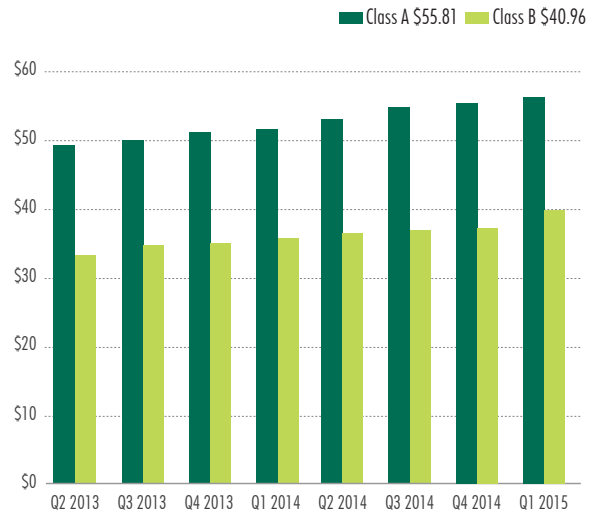
AVERAGE ASKING RENTS

Downtown Boston rents continue to rise for the tenth consecutive quarter, reaching \$51.26, the highest point since the fourth quarter of 2008. All submarkets experienced varied rent growth, especially in the Class B and low-rise Class A markets. Despite being the only submarket to see a slight decrease in overall rates, the Back Bay remained the most expensive, with Class A rents regaining their place at the top, increasing \$5.13 per sq. ft. year-over-year to \$63.96.

NET ABSORPTION

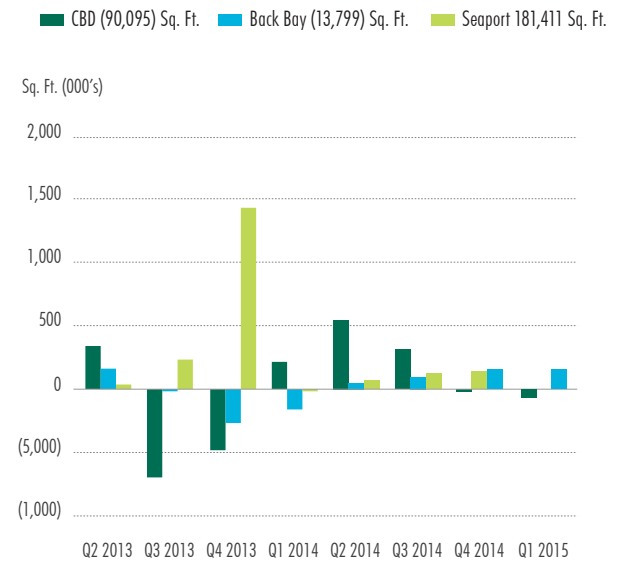
Despite Boston's record snow fall and its impacts on real estate activity, downtown Boston saw its sixth consecutive quarter of positive absorption, posting 347,000 sq. ft. in the first quarter of 2015. The Allston/Brighton submarket was a significant contributor as Boston Landing broke ground on New Balance's new 250,000-sq.-ft. headquarters and Harvard Business School of Publishing signed a lease to leave Watertown and backfill 124,000 sq. ft. of New Balance's current space at 20 Guest Street. The core submarkets saw modest activity. 888 Boylston Street in the Back Bay pre-leased 75,000 sq. ft., while the corner of State and Congress Streets saw 83,000 sq. ft. of activity.

Figure 4: Average Asking Lease Rates



Source: CBRE Research, Q1 2015.

Figure 5: Net Absorption

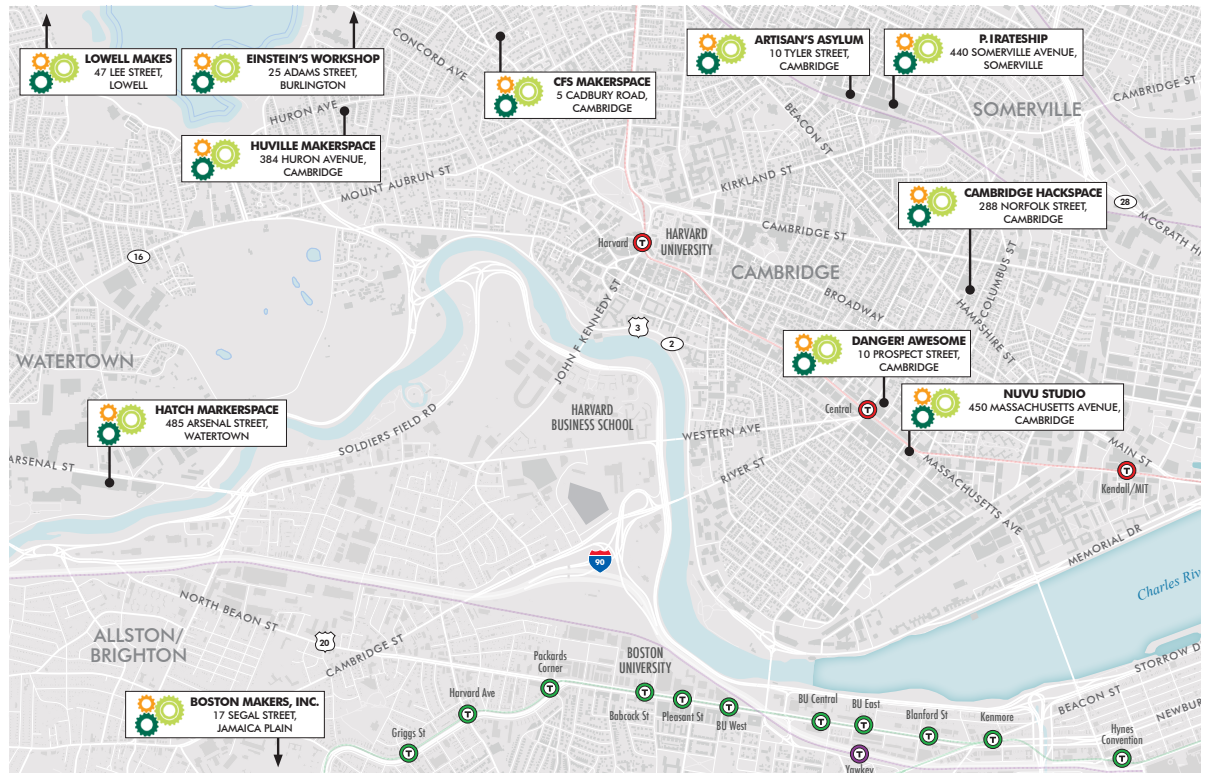


Source: CBRE Research, Q1 2015.

MAKERSPACE IN GREATER BOSTON

A developing trend in Greater Boston and throughout Cambridge, Makerspace, also referred to as hackerspace, is a creative do-it-yourself (DIY) studio or community space where individuals can gather to share resources, invent, create and learn. Makerspaces provide the tools and equipment in the various types of space—be it a library, community center, private organization or campus facility. Often times Makerspace finds itself associated with engineering, hardware development, computer science, graphic design and, more recently, 3D printing. The concept of Makerspace emerges out of the technology-driven “maker culture”, and can be associated with Make Magazine and the official online community of Maker Faire.

The idea of providing a collaborative community studio for creative endeavors has also caught on in areas of education, where the informal combination of lab, workshop and creative space come together to form a strong argument for learning through hands-on activities. Makerspaces are areas for self-directed learning and creation, and provide the ideal workshop for the thinker and the ultimate educational space for those who learn best by doing. Integration and collaboration between experts and amateur inventors foster a highly collaborative learning environment that promotes multidisciplinary thinking and learning as well as enrichment of the projects individuals build there.



Source: CBRE Research, Q1 2015.

Source: <http://net.educause.edu/ir/library/pdf/eli7095.pdf> | <http://makerspace.com/> | <http://makezine.com/> | <http://www.hackerspaces.org/>

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.



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



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