

# Boston Office MarketView

Q3 2014

CBRE Global Research and Consulting



\*Arrows indicate change from previous quarter.

## OUT-OF-MARKET DEMAND DRIVES DOWNTOWN MARKET IN 3Q14 AS ABSORPTION SURPASSES 1.5 MILLION SQ. FT. IN 2014

### Quick Stats

| Q3 2014        | Current         | Y-o-Y | Q-o-Q |
|----------------|-----------------|-------|-------|
| Vacancy        | 7.6%            | ↓     | ↓     |
| Lease Rate     | \$49.42         | ↑     | ↑     |
| Net Absorption | 847,192 sq. ft. | ↑     | ↑     |

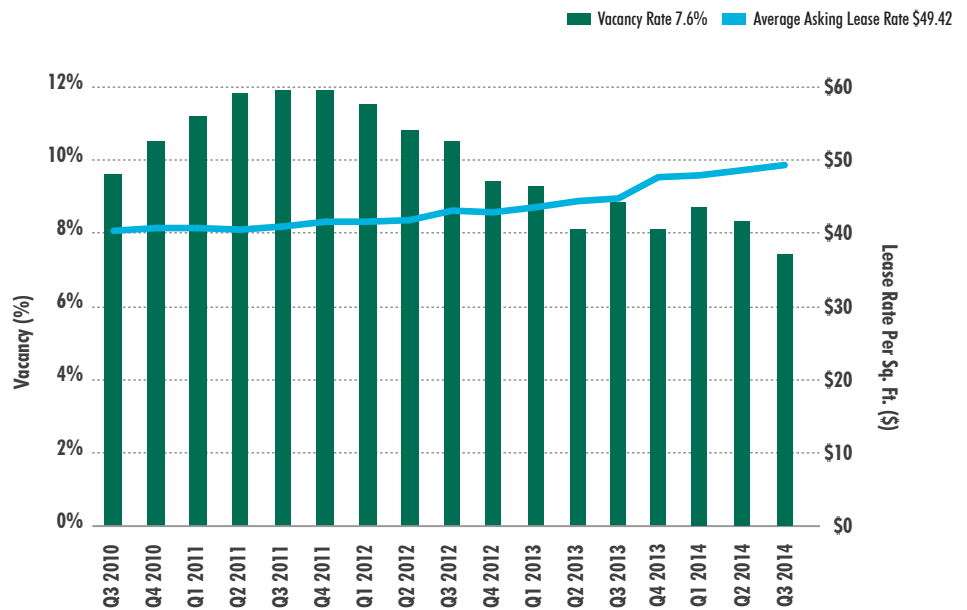
### Hot Topics

- Boston Properties officially broke ground on 888 Boylston Street.\* 234,000 sq. ft. of Class A office space remains available.
- The Burnham Building opened in September and is currently 97% leased; Havas/Arnold Worldwide and AOL have moved in.
- SONOS and CDM Smith both signed 100,000+ sq. ft. deals to relocate from Cambridge to Boston.
- Multiple buildings in the CBD saw leasing activity in vacant spaces, some that had been vacant for nearly three years.
- Capital Markets activity continues to pick up, especially in the Seaport where Crosspoint Associates, DivcoWest and Aegean Capital have all put assets on the market for sale.

\* With Natixis Global Asset Management pre-leasing 130,000 sq. ft.

The Downtown Boston Office market continued to tighten during the third quarter, experiencing 847,000 sq. ft. of positive absorption, making this the fourth consecutive quarter of growth. This brings downtown Boston's 2014 year-to-date absorption to over 1,500,000 sq. ft., already exceeding 2013's year-end total. Boston's central market especially benefited from the tightening in East Cambridge, with two tenants over 100,000 sq. ft. announcing plans to move across the river. Sonos will relocate to 169,000 sq. ft. at Lafayette City Center, supporting Downtown Crossing's growing reputation as a hotbed for technology firms. East Cambridge tenant CDM Smith announced its upcoming move to approximately 122,000 sq. ft. at 75 State Street, notably contributing to the number of vacant blocks that were leased in the third quarter. Back Bay experienced increased availability, primarily attributed to the additional inventory of Boston Properties' new tower at 888 Boylston Street.

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q3 2014.

## CBD

- Overall availability continues to decrease from the 18.0% high seen at the close of 2013, dropping 90 basis points in the third quarter to 15.1%.
- Overall vacancy dropped to single digits for the first time, ending at 9.6%. Over 200,000 sq. ft. of vacant space was absorbed, the biggest contributor being 75 State Street. CDM Smith signed a lease for approximately 122,000 sq. ft., leaving a 180,000 sq. ft. block of available space in East Cambridge, and Hemenway & Barnes signed a lease for just over 43,000 sq. ft. to relocate from 60 State Street.
- Another firm to finalize plans to leave East Cambridge was Sonos, who will relocate to the Midtown submarket with a 169,000 sq. ft. lease at Lafayette City Center.
- The Class B and low-rise Class A markets continue to thrive. Availability and vacancy in the Class B market both hit their lowest point in over a decade, down 30 and 40 basis points quarter-over-quarter, respectively, and average asking rents are up almost \$1.75 per sq. ft. quarter-over-quarter.

## Back Bay

- The largest deal in the Back Bay during the third quarter was Analysis Group's commitment to relocate and restack within 111 Huntington Avenue for approximately 165,000 sq. ft. To complete the deal, Edwards Wildman will also relocate within the building, taking low-rise space totaling 93,000 sq. ft. The restructuring will free up three floors, adding approximately 70,000 sq. ft. to Class A available inventory.

- Natixis Global Asset Management finalized plans to occupy approximately 130,000 sq. ft. in Boston Properties' new 442,000 sq. ft. office and retail tower at 888 Boylston Street, enabling the project to break ground. 888 Boylston Street will deliver approximately 234,000 sq. ft. of Class A space in excess of Natixis' lease, contributing to the rise in Back Bay availability.
- 501 Boylston Street made an impact on the Back Bay's absorption for the second consecutive quarter, signing both Putnam Associates and ARC, which together totaled over 43,000 sq. ft.

## Seaport

- The Seaport maintained solid numbers, boasting the lowest vacancy rate in both downtown Boston and Cambridge at 4.5%, as well as the lowest availability rate at 11.6%.
- At \$60.77 per sq. ft., the Seaport's Class A market is now trailing that of the Back Bay by a mere \$1.13 per sq. ft., and East Cambridge Class A by \$2.19 per sq. ft.
- Seaport development continues to reach new milestones. Skanska's 101 Seaport, future home of PricewaterhouseCoopers in 2015, celebrated its topping-off ceremony in late September. As the development at One Seaport Square continues to take shape, WS Development announced that Kerasotes ShowPlace Theatres will open a 41,000 sq. ft. high-end movie theater within the 260,000 sq. ft. retail development.
- Cabot Corporation renewed in the third quarter for 66,000 sq. ft. at 2 Seaport Lane.

**Figure 2: Transactions of Note**

| Tenant                      | Address                 | Sq. Ft. | Submarket                 | Type              |
|-----------------------------|-------------------------|---------|---------------------------|-------------------|
| Sonos                       | 500 Washington Street   | 169,000 | Midtown                   | New               |
| Analysis Group              | 111 Huntington Avenue   | 165,000 | Back Bay                  | Renewal/Expansion |
| Choate                      | 2 International Place   | 136,000 | CBD                       | Renewal           |
| Natixis                     | 888 Boylston Street     | 130,000 | Back Bay                  | New               |
| CDM Smith                   | 75 State Street         | 122,000 | CBD                       | New               |
| Edwards Wildman             | 111 Huntington Avenue   | 93,000  | Back Bay                  | Renewal           |
| HarbourVest                 | One Financial Center    | 79,000  | CBD                       | Renewal           |
| Cabot Corporation           | 2 Seaport Lane          | 66,000  | Seaport                   | Renewal           |
| UMass                       | One Beacon Street       | 62,000  | CBD                       | New               |
| BR+A Consulting             | 10 Guest Street         | 54,000  | Allston/Brighton/Longwood | New               |
| Morgan Lewis                | One International Place | 46,000  | CBD                       | New               |
| Hemenway & Barnes           | 75 State Street         | 43,000  | CBD                       | New               |
| Partners Healthcare Systems | 500 Washington Street   | 40,000  | Midtown                   | Expansion         |



Source: CBRE Research, Q3 2014.

# SPOTLIGHT CAPITAL MARKETS

The Greater Boston area has experienced a flurry of investment sales activity year-to-date in 2014. Activity peaked in the third quarter with \$4 billion in transaction volume, half of which was generated by EOP/Blackstone's five-building portfolio sale. Sales volume is in excess of \$7 billion, totaling over 20 million sq. ft., and stabilized cap rates range between 4.5-6.5% for Class A office product and 5.75-7.75% for Class B office product. The increase in overall transactions can be attributed to the insatiable demand from various capital sources to invest in Greater Boston, coupled with the attractive cost of debt in today's marketplace as interest rates continue to remain historically low.

An emerging theme throughout 2014 has been the shifting sources of market capital that are now eyeing the Greater Boston market, especially downtown. Boston has evolved into a transformative gateway city, competing more prominently with New York and San Francisco as a haven for international and institutional capital. As a result, foreign and institutional investors are investing in our Class A market, which had previously been dominated by a few major local and regional owners. Active foreign investors entering the Greater Boston market in 2014 include Norges Bank, Norway's central bank, and Toronto-based Oxford Properties Group. In comparison to other gateway cities, Greater Boston has maintained extremely attractive fundamentals and still provides upside for foreign capital as the urbanized city continues to transform into a 24/7 neighborhood.

## Downtown & Seaport Themes

|  |   |   |   |
|--|---|---|---|
| <p><b>BOSTON<br/>1H 2014<br/>STABILIZED<br/>CAP RATES:</b></p> | <p><b>CLASS A:<br/>4.5-5%</b></p>  | <p><b>CLASS B:<br/>5.75-6.25%</b></p>  | <p><b>YEAR-TO-DATE SALES VOLUME:</b></p> <div style="display: flex; align-items: center; justify-content: center;"> <div style="border: 1px solid black; padding: 10px; text-align: center;"> <p><b>\$3.1B</b><br/>2013</p> </div> <div style="font-size: 2em; margin: 0 10px;">▶</div> <div style="border: 1px solid black; padding: 10px; text-align: center;"> <p><b>\$6.3B</b><br/>2014</p> </div> </div> |
|--|---|---|---|


- There is a true bidding war for downtown Boston Class B buildings, with floor plates ranging between 5,000-15,000 sq. ft., to cater to the influx of new-economy tenants from Cambridge and the suburbs.
- As long as interest rates remain low, expect transaction volume to continue and investors to search for value within 'new frontier submarkets' of downtown.
- As the Crosspoint Portfolio and other Fort Point buildings come to market, the question remains whether a single tenant or industry group will plant its flag and occupy the emerging area.
- Looking ahead, expect to see record-setting sales in the Fort Point area closing towards the beginning of 2015. Investors are making long-term investments in the Seaport District where new mixed-use and residential developments are coming to fruition.

## CASE STUDIES



**SUMMER STREET PORTFOLIO:  
71, 77 & 87 SUMMER STREET**

|                     |                             |
|---------------------|-----------------------------|
| • <b>Sale Date</b>  | June 2014                   |
| • <b>Size</b>       | 90,070 sq. ft.              |
| • <b>Sale Price</b> | \$31.5M (\$350 per sq. ft.) |
| • <b>Seller</b>     | Synergy Investments         |
| • <b>Buyer</b>      | DivcoWest                   |



**225 FRANKLIN STREET  
& 60 STATE STREET**  
(Part of a three-building portfolio sale; third building in Cambridge)

|                     |  |
|---------------------|--|
| • <b>Sale Date</b>  | September 2014   |
| • <b>Size</b>       | 225 Franklin Street: 943,605 sq. ft.<br>60 State Street: 823,014 sq. ft.                       |
| • <b>Sale Price</b> | 225 Franklin Street: \$590M (\$625 per sq. ft.)<br>60 State Street: \$580M (\$704 per sq. ft.) |
| • <b>Seller</b>     | Blackstone/EOP   |
| • <b>Buyer</b>      | Oxford Properties/JP Morgan  |

**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) |
|----------------------------------|-------------------------|---------------------|----------------|-----------------|------------------------------------|----------------------------------|
| <b>Central Business District</b> | <b>36,866,735</b>       | <b>15.1%</b>        | <b>9.6%</b>    | <b>0.8%</b>     | <b>321,585</b>                     | <b>\$49.21</b>                   |
| Class A                          | 26,876,664              | 16.8%               | 10.6%          | 0.8%            | 296,779                            | \$51.91                          |
| Class B/C                        | 9,990,071               | 10.3%               | 6.9%           | 0.7%            | 24,806                             | \$36.54                          |
| <b>Back Bay</b>                  | <b>15,058,485</b>       | <b>16.8%</b>        | <b>6.5%</b>    | <b>0.8%</b>     | <b>100,087</b>                     | <b>\$58.08</b>                   |
| Class A                          | 10,192,552              | 18.6%               | 5.0%           | 1.1%            | 18,238                             | \$61.90                          |
| Class B/C                        | 4,865,933               | 13.0%               | 9.8%           | 0.1%            | 81,849                             | \$45.87                          |
| <b>Charlestown/East Boston</b>   | <b>2,922,083</b>        | <b>11.4%</b>        | <b>10.6%</b>   | <b>0.0%</b>     | <b>18,314</b>                      | <b>\$29.72</b>                   |
| <b>Seaport</b>                   | <b>10,870,899</b>       | <b>11.6%</b>        | <b>4.5%</b>    | <b>1.3%</b>     | <b>136,694</b>                     | <b>\$48.60</b>                   |
| Class A                          | 4,592,928               | 9.3%                | 3.8%           | 1.1%            | 103,965                            | \$60.77                          |
| Class B/C                        | 6,277,971               | 13.2%               | 5.1%           | 1.5%            | 32,729                             | \$41.74                          |
| <b>Midtown</b>                   | <b>2,538,866</b>        | <b>18.0%</b>        | <b>10.1%</b>   | <b>0.6%</b>     | <b>174,451</b>                     | <b>\$38.77</b>                   |
| <b>North Station/Waterfront</b>  | <b>2,768,250</b>        | <b>5.7%</b>         | <b>2.7%</b>    | <b>0.9%</b>     | <b>(14,102)</b>                    | <b>\$31.22</b>                   |
| <b>South Station</b>             | <b>1,332,259</b>        | <b>5.8%</b>         | <b>4.4%</b>    | <b>0.3%</b>     | <b>44,225</b>                      | <b>\$35.79</b>                   |
| <b>Dorchester/South Boston</b>   | <b>2,136,158</b>        | <b>7.7%</b>         | <b>5.9%</b>    | <b>0.0%</b>     | <b>21,008</b>                      | <b>\$28.86</b>                   |
| <b>Allston/Brighton/Longwood</b> | <b>1,508,326</b>        | <b>12.1%</b>        | <b>4.1%</b>    | <b>0.0%</b>     | <b>37,212</b>                      | <b>\$30.00</b>                   |
| <b>Fenway/Kenmore Square</b>     | <b>2,174,357</b>        | <b>28.1%</b>        | <b>0.1%</b>    | <b>0.0%</b>     | <b>7,718</b>                       | <b>\$53.37</b>                   |
| <b>Overall Boston Office</b>     | <b>78,176,418</b>       | <b>14.5%</b>        | <b>7.6%</b>    | <b>0.8%</b>     | <b>847,192</b>                     | <b>\$49.42</b>                   |

Source: CBRE Research, Q3 2014.

**Figure 4: Massachusetts Innovation IPO Parade**

Massachusetts IPOs are reaching new heights in 2014...and the year isn't over yet. Nineteen tech and biotech IPOs have been introduced through early October. Cumulatively, they have raised more than \$1.6 billion in funding and will hopefully continue to be a strong driver of the local economy for years to come. Wayfair, Boston's biggest internet retailer employing more than 1,000 people, recently completed the largest tech offering of the year raising \$319 million. Care.com, an online marketplace for nannies and other care providers, went public earlier this year raising \$105 million. Care.com was the first software company to go public since June 2012.

Local biotech startups are leading the way in 2014 with 13 public offerings announced through August, raising more than \$875 million in funding and surpassing 2013's total of nine. Cambridge-based Akebia Therapeutics, developing a daily dose for anemia, raised \$100 million earlier this year, the largest of the biotechs year-to-date. As many of these drug makers are in the early stages of therapeutic development, this strong backing from Wall Street will only help to propel the local biotech sector forward and sustain long-term growth.

| COMPANY                 | AMOUNT RAISED | TYPE    |
|-------------------------|---------------|---------|
| WAYFAIR                 | \$350 MILLION | TECH    |
| HUBSPOT                 | \$120 MILLION | TECH    |
| CARE.COM                | \$105 MILLION | TECH    |
| AKEBIA THERAPEUTICS     | \$100 MILLION | BIOTECH |
| ZAFGEN                  | \$96 MILLION  | BIOTECH |
| DICERNA PHARMACEUTICALS | \$90 MILLION  | BIOTECH |
| SAGE THERAPEUTICS       | \$90 MILLION  | BIOTECH |
| CONCERT PHARMACEUTICALS | \$84 MILLION  | BIOTECH |
| ASPEN AEROGELS          | \$83 MILLION  | OTHER   |
| GENOCEA BIOSCIENCES     | \$66 MILLION  | BIOTECH |

| COMPANY                | AMOUNT RAISED | TYPE    |
|------------------------|---------------|---------|
| IMPRIVATA              | \$66 MILLION  | TECH    |
| FLEXION THERAPEUTICS   | \$65 MILLION  | BIOTECH |
| OCULAR THERAPEUTIX     | \$65 MILLION  | BIOTECH |
| CERULEAN PHARMA        | \$60 MILLION  | BIOTECH |
| T2 BIOSYSTEMS          | \$57 MILLION  | OTHER   |
| RADIUS HEALTH          | \$52 MILLION  | BIOTECH |
| ELEVEN BIOTHERAPEUTICS | \$50 MILLION  | BIOTECH |
| MINERVA NEUROSCIENCES  | \$33 MILLION  | BIOTECH |
| ALDEYRA THERAPEUTICS   | \$25 MILLION  | BIOTECH |

Source: CBRE Research, Q3 2014.

## Average Asking Rents

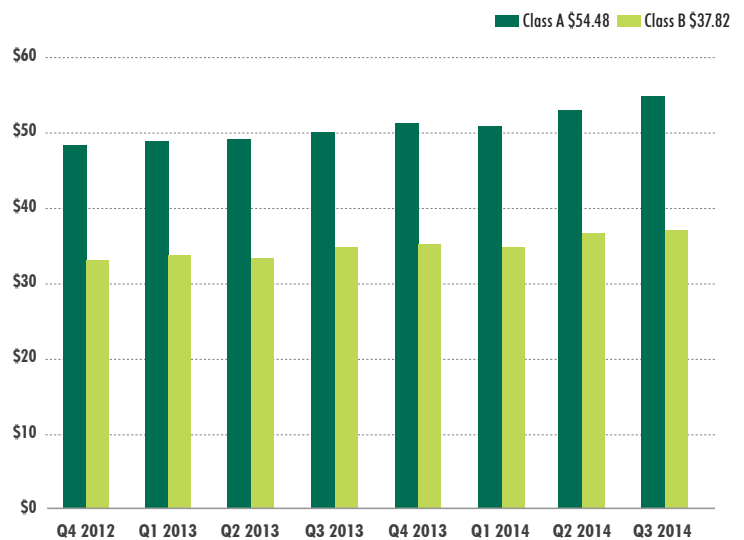
Average asking rents in the Downtown Boston market rose in the third quarter to \$49.42 per sq. ft., marking the eighth consecutive quarter of rent increases and their highest point since the fourth quarter of 2008. This marks a \$1.36 and \$3.64 rise quarter-over-quarter and year-over-year, respectively. Back Bay Class A average asking rates increased \$2.89 per sq. ft. in the third quarter and have increased almost 8% year-over-year to \$61.90 per sq. ft., due in large part to the large block of new inventory at 888 Boylston Street. The Class A market in both the Back Bay and the Seaport reached \$60 per sq. ft., levels not seen since 2008 and 2009, respectively. While the overall Seaport market still exhibits a \$7.22 increase year-over-year, average asking rents have remained steady in the \$48 per sq. ft. range for the past three quarters.

## Net Absorption

In the wake of a strong second quarter, positive momentum continued as the Downtown Boston market experienced 847,000 sq. ft. of positive absorption, the fourth consecutive quarter of positive traction.\* This pushed 2014 year-to-date absorption past 1,500,000 sq. ft., already surpassing the 2013 year-end total. The CBD led the way, experiencing over 300,000 sq. ft. of positive absorption. At 75 State Street, leasing totaled almost 178,000 sq. ft., all of which had been available since 2008. At One International Place, Morgan Lewis leased 46,000 sq. ft., filling part of the block vacated by Ropes & Gray in 2010. At One Beacon Street, UMass' 62,000 sq. ft. lease filled the void left by Skadden, which went dark earlier this year.

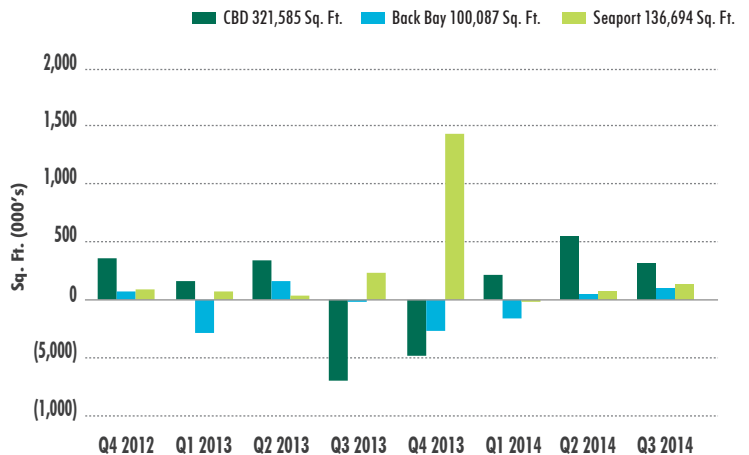
\* And the highest point this cycle.

Figure 5: Average Asking Lease Rates



Source: CBRE Research, Q3 2014.

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



Source: CBRE Research, Q3 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.



Boston, Massachusetts  
Photo by Dave Desroches, [www.desrochesphoto.com](http://www.desrochesphoto.com)



# GREATER BOSTON SUBMARKETS



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