

Boston Office MarketView

Q3 2013

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter.

INCREASED CONSTRUCTION AND INVESTMENT SALES ACTIVITY CONTINUE TO FUEL THE DOWNTOWN OFFICE MARKET

Quick Stats

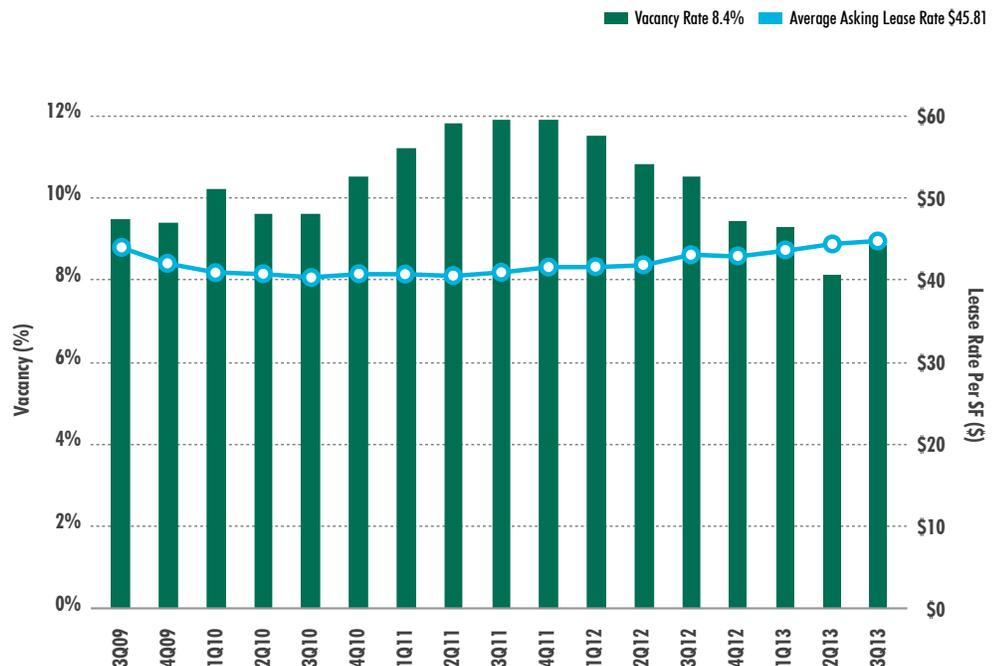
Q3 2013	Current	YoY	QoQ
Vacancy	8.4%	↓	↓
Lease Rate	\$45.81	↑	↓
Net Absorption	(374,115) SF	↑	↑

Hot Topics

- PricewaterhouseCoopers announced plans to relocate their Boston headquarters to Seaport Square in a ±440,000 square foot build-to-suit located on a parcel owned by Skanska.
- Phase I of the "Boston Landing Project" in Brighton broke ground in September. Phase II of the project will include three office buildings totaling 650,000 square feet, in addition to the owner-occupied New Balance headquarters.
- Boston Properties' Boston Garden development project in North Station is expected to commence in early 2014, including 668,000 square feet of office space in addition to retail, residential and hotel space.

The Downtown Boston Office market kicked off the second half of 2013 with mixed signals. Despite ending the quarter with 374,115 square feet of negative absorption, deal activity remained strong across all submarkets, driven by small to midsize technology requirements. The negative absorption was primarily attributed to companies right-sizing their real estate footprint, focusing on efficient and technology-savvy workplaces. The overall economy remains strong; companies continue to hire and several large companies consolidated their footprints without job loss. Overall vacancy rose by 30 basis points to end the quarter at 8.4%; the increase is attributed primarily to the CBD, however all of downtown Boston's submarkets maintained low and healthy vacancy rates. Rents continued to increase, finishing the quarter at \$45.81 per square foot, the highest the market has seen in almost five years. The economic resiliency of Boston has brought the attention of institutional capital, particularly seeking less risk than the investment opportunities during the most recent downturn. As a result, investors are accepting lower returns and confidence in CBD assets is at an all-time high. Demand for quality product is insatiable; as the broader recovery in leasing fundamentals spreads, investors are exploring new pockets of the city in order to deploy capital and achieve marginally better risk-adjusted returns.

Office Vacancy vs. Lease Rate



Source: CBRE/New England, Q3 2013

CBD

- Vacancy in the CBD rose by 130 basis points quarter-over-quarter, ending the quarter at 11.2%. Average asking rents increased by \$1.54 to \$47.05 per square foot. The largest transaction of the quarter was AIG's relocation within 99 High Street to merge all business units in 102,000 square feet. This was a decrease from an original combined footprint of approximately 317,000 square feet between 99 High Street and 100 Summer Street.
- Tenants continue to seek value, as indicated by the continued shift in demand from high-rise space (Floors 29+) to low-rise space (Floors 1-15) in Class A buildings. The gap between low-rise and high-rise vacancy has been steadily declining in recent quarters and has tightened significantly as tenants relocate to lower floors within existing locations while restructuring their term and achieving lower rents.
- Investment sales in Boston's Central Business District have seen record-breaking transactions. Equity Office sold their 50% share in One Post Office Square to Morgan Stanley for \$275 million, equating to approximately \$661 per square foot based on full building value. In addition, 99 Summer Street sold for over \$110.8 million (\$405 per square foot); 1 Liberty Square sold for \$54.4 million (\$345 per square foot); and 50 Congress Street sold for \$51 million (\$283 per square foot), all densely located in the CBD. As a result, it is expected that landlords will continue to push rents upwards.

Back Bay

- Statistically, the Back Bay continued to tighten as vacancy decreased by 120 basis points quarter-over-quarter to 4.7%. This decline was driven by the completion and delivery of Liberty Mutual's new 580,000 square foot building at 157 Berkeley Street, as the company continues to expand its commitment to the Back Bay.

- Overall activity remained quiet. A few notable leases driving the market in the third quarter included Skadden relocating to 47,772 square feet at 500 Boylston Street from One Beacon Street in the CBD; BTMU recasting its lease to 23,796 square feet at 111 Huntington Avenue; and Pri-Med relocating its Back Bay operation within the Boston Properties portfolio from 101 Huntington Avenue to 41,500 square feet at 111 Huntington Avenue.
- Overall asking rents in the Back Bay continued to tick upwards in the past quarter to \$52.40. Although Class A rents declined slightly from \$57.95 to \$57.15 quarter-over-quarter, some premier high-rise spaces in select towers have achieved rents in the \$70-80 per square foot range, mostly from small to mid-size firms.

Seaport

- After a quiet second quarter, average asking rents in the Seaport increased by almost 2% in the third quarter while vacancy decreased to 6.7%, showing continued demand for the "Innovation District."
- WeWork, a New York-based co-working company, expanded its presence in Boston by signing a lease at 51 Melcher Street in the Seaport District for 48,500 square feet as well as taking 38,000 square feet at 745 Atlantic Avenue in the South Station submarket. Waltham-based Polaris Partners continued the inward migration trend, taking 16,000 square feet at ONE Marina Park Drive.
- Build-to-suit activity continued into the third quarter as Skanska broke ground on PricewaterhouseCoopers' new Boston headquarters. PwC will occupy approximately 340,000 square feet of the 440,000 square foot building scheduled for 2015 delivery. Skanska continued to ramp up its presence in the Seaport with the purchase of Seaport Square Parcel "L2" in September, with plans to construct another 425,000 square foot build-to-suit office tower.

Transactions of Note

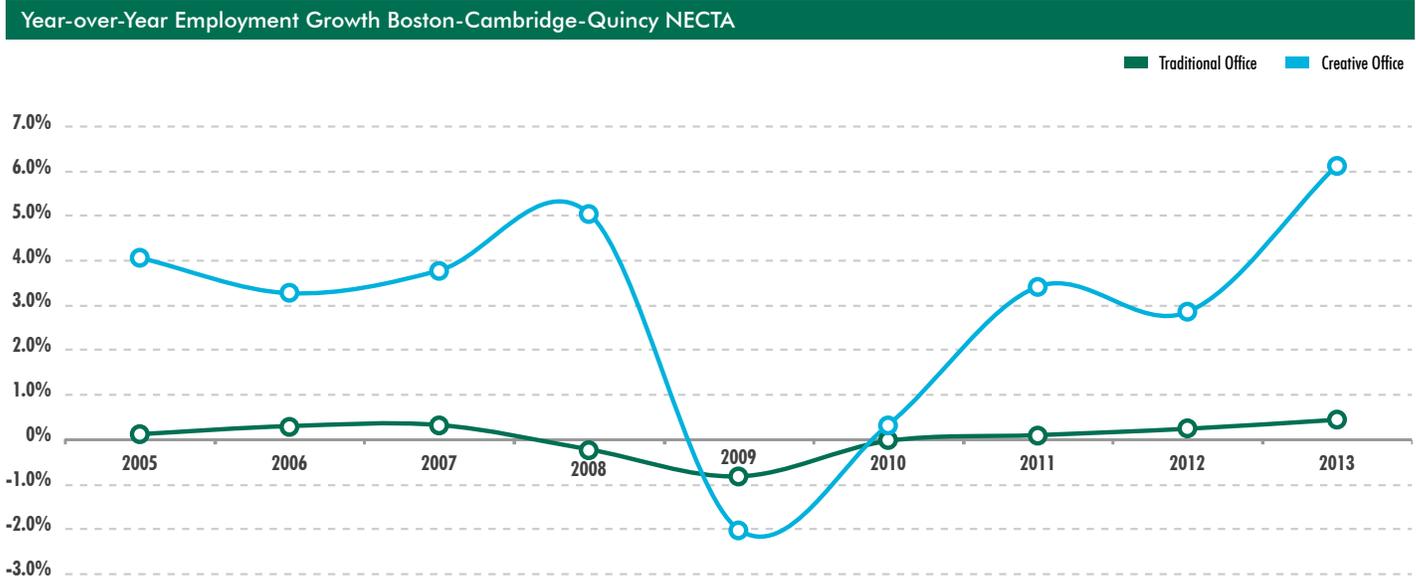
Tenant	Address	SF	Submarket	Type
PwC	101 Seaport Square	340,000	Seaport	Build-to-Suit
AIG	99 High Street	102,000	CBD	Renewal
SmarterTravel (Trip Advisor)	226 Causeway Street	72,000	North Station/Waterfront	New
WeWork	51 Melcher Street	48,500	Seaport	New
Skadden	500 Boylston Street	47,700	Back Bay	New
Rapid7	100 Summer Street	46,000	CBD	New
Sherin & Lodgen	101 Federal Street	41,500	CBD	Renewal
Pri-Med	111 Huntington Avenue	41,500	Back Bay	New
WeWork	745 Atlantic Avenue	38,000	South Station	New
Loomis Sayles & Company	One Financial Center	29,000	CBD	New
DataXu	281 Summer Street	27,700	Seaport	Renewal
BTMU	111 Huntington Avenue	23,800	Back Bay	Renewal
Harvard Medical	155-201 Brookline Avenue	23,000	Fenway	New
Gilbane	10-20 Channel Center	22,600	Seaport	New
Polaris Partners	ONE Marina Park Drive	16,000	Seaport	New

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	16.7%	11.2%	1.2%	(696,791)	\$47.05
Class A	27,070,992	18.3%	12.0%	1.3%	(766,209)	\$50.00
Class B/C	9,969,713	12.2%	9.2%	1.1%	69,418	\$34.27
Back Bay	14,473,218	13.2%	4.7%	1.2%	(14,959)	\$52.40
Class A	9,749,606	12.7%	5.1%	1.7%	(27,365)	\$57.15
Class B/C	4,723,612	14.1%	3.8%	0.3%	12,406	\$43.68
Seaport	8,845,112	12.4%	6.7%	1.2%	231,258	\$41.38
Class A	2,944,905	10.4%	3.9%	0.4%	314,384	\$54.12
Class B/C	5,900,207	13.4%	8.2%	1.6%	(83,126)	\$36.56
Charlestown/East Boston	2,838,573	9.2%	6.2%	0.2%	(3,474)	\$28.15
Mid-Town	2,666,281	20.4%	7.2%	0.0%	(19,632)	\$34.51
North Station/Waterfront	2,750,750	6.4%	4.7%	0.2%	97,336	\$27.20
South Station	1,464,525	16.4%	4.7%	1.2%	24,934	\$39.86
Dorchester/South Boston	1,091,648	13.2%	7.7%	0.3%	(37,024)	\$23.13
Allston/Brighton/Longwood	1,730,367	15.3%	11.5%	0.0%	14,383	\$27.25
Fenway/Kenmore Square	2,077,588	31.4%	2.2%	0.0%	29,854	\$50.45
Overall Boston Office	74,978,767	15.3%	8.4%	1.0%	(374,115)	(Gross) \$45.81

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

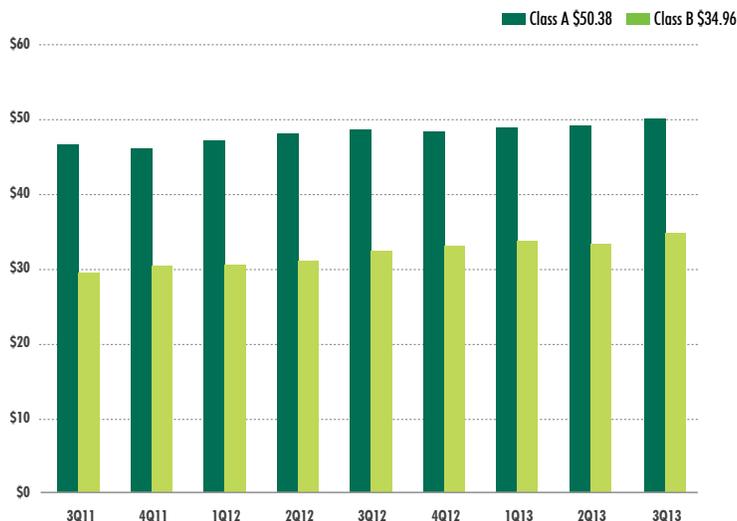
Average Asking Rents

Average asking rents for the overall Downtown Office market continue to climb, finishing out the third quarter at \$45.81 per square foot, almost \$1.00 higher than last quarter and a 6.5% increase year-over-year. Overall asking rents are at their highest point since the beginning of 2009. Class A rents in the Seaport and Back Bay remain well above an average asking price of \$50.00 per square foot. Despite an increase in both availability and vacancy in the CBD, Class A asking rents rose 3.3% quarter-over-quarter to \$50.00 per square foot. This push in rents can be attributed to the increase in investment sales activity. After a slight dip in Class B CBD rents in the second quarter, asking rents rose 2.7% in the third quarter to \$34.27.

Net Absorption

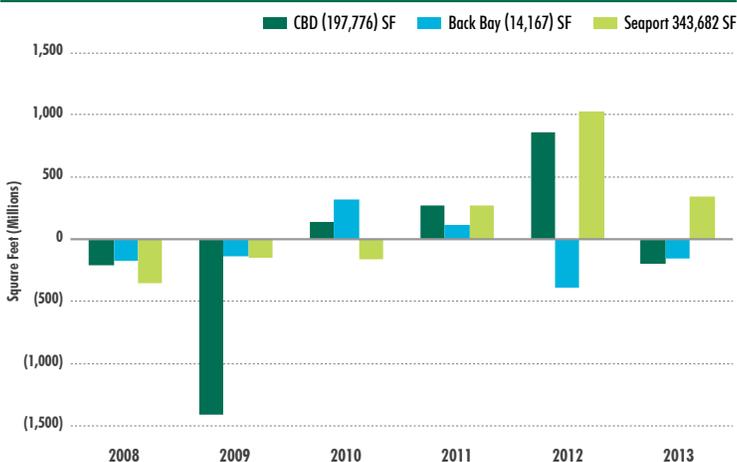
After three consecutive quarters of positive growth in the overall Downtown Boston Office market, the third quarter ended with 374,115 square feet of negative absorption. However, absorption remains positive year-to-date, with 517,158 square feet absorbed so far. The Seaport and North Station/Waterfront were the strongest performers in the third quarter. PricewaterhouseCoopers announced they will be relocating to 340,000 square feet in the Seaport and SmarterTravel (a TripAdvisor LLC company) will be relocating to 72,000 square feet at 226 Causeway Street in North Station. The CBD posted the weakest statistics in the third quarter, as PwC will be vacating 360,000 square feet at 125 High Street and AIG is downsizing its overall footprint by 215,000 square feet.

Average Asking Lease Rates



Source: CBRE/New England, Q3 2013

Absorption (YoY)



Source: CBRE/New England, Q3 2013



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

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.

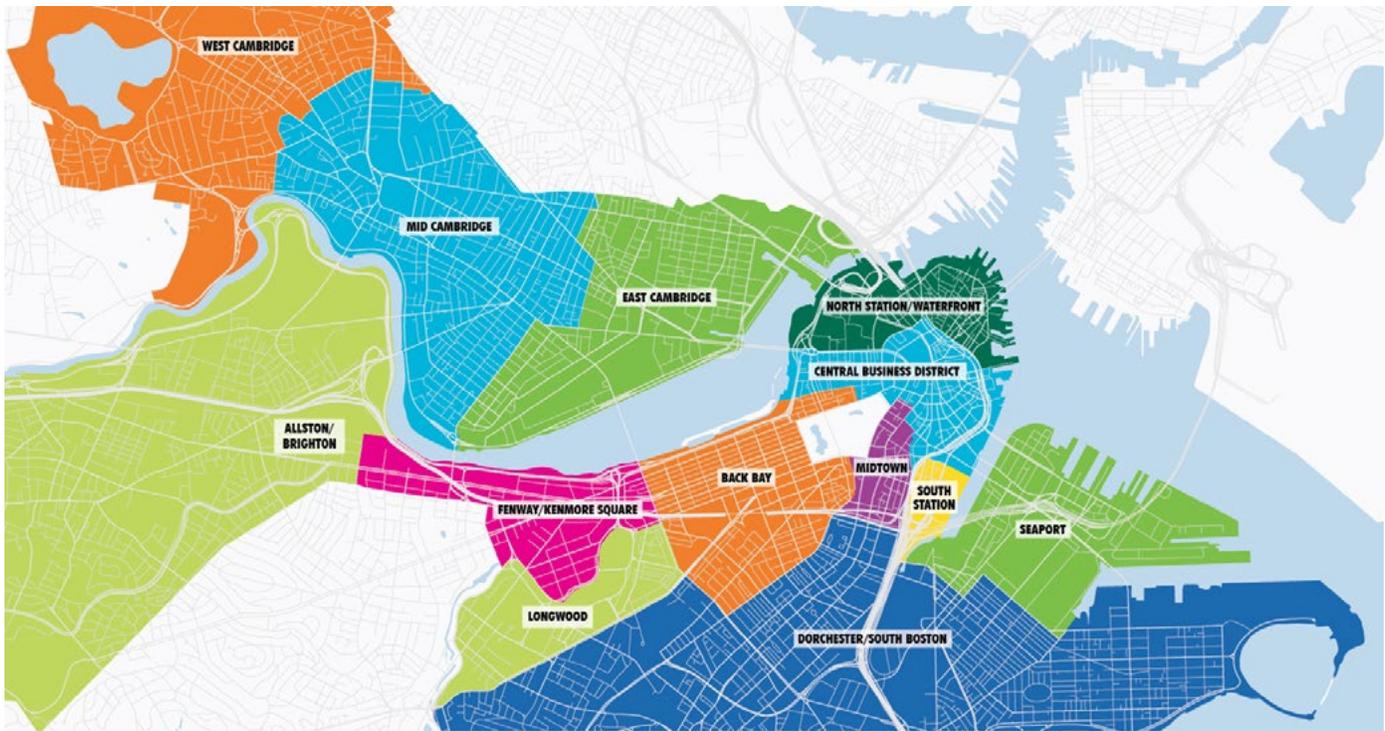
Vacancy Rate

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.

GREATER BOSTON SUBMARKETS



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