2017 New England

MARKET OUTLOOK

CBRE | New England

CB Richard Ellis – N.E. Partners, LP, a CBRE Joint Venture

A MESSAGE FROM CBRE/NEW ENGLAND...

CBRE/New England is pleased to present you with our 2017 New England Market Outlook. This review seeks to explain the changing dynamics of real estate in the major urban and suburban markets of New England.

Twelve months ago, this missive reported on the relocation of General Electric's corporate headquarters from Fairfield, Connecticut to the Fort Point neighborhood in Boston's Seaport District. During 2016, the migration of other prestigious business brands into Boston continued. Those migrations, combined with existing organic growth, have firmly established Boston as the premier business ecosystem in the Northeast. During 2016, investment capital recognized the maturity of Greater Boston as we witnessed increased property exchanges, as new domestic and international capital flowed into Boston's commercial real estate market.

The desire of workers to be part of integrated communities that host residential, entertainment, social and business life has pushed the previous live-work-play model into the next logical progression. Today's generation of workforce seek VIBE in their workspace (Vibrant neighborhood, Innovative design, Bold amenities and an Entrepreneuial Ecosystem)—VIBE drives velocity. The VIBE that these integrated communities exude is what investors are striving to capture to remain competitive and meet the demands of today's workforce. This is by no means an urban challenge for property owners; suburban property investors are adapting their occupancy strategies and capital planning models to respond accordingly. In many respects, this evolution is not unlike the transformation that occurred in the retail category over the past 10 years, as integrated lifestyle centers with VIBE pressured enclosed malls and neighborhood shopping centers with the threat of obsolescence as the better tenants and higher returns migrated to the lifestyle center category. The commercial property owner who is able to create the feel of an integrated community with VIBE will be able to attract higher quality tenants and demand the highest rental rates.

As we are accustomed to do each year, we are once again proud to report that the employees and tenants occupying space at CBRE/New England-managed properties have continued to set new standards in 2016 for giving back to our communities and helping so many of our neighbors who find themselves in need of assistance. Our philanthropic initiative, CBRE Cares New England, was launched in 2010 to unite our philanthropic goals under the mission of "building a foundation for local communities throughout New England by facilitating a variety of volunteer and giving opportunities that have a significant effect on the lives of families in need, building today for a stronger tomorrow." Since its inception, CBRE Cares New England has collected over $1.2 million worth of donations for local designated beneficiary organizations. Some of our beneficiary organizations in 2016 were Cradles to Crayons, Loaves & Fishes, Feeding America, Foodshare, The Greater Boston Food Bank, NH Food Bank, RI Community Food Bank, Goodwill (chapters in CT, MA, NH & RI), United Way (of RI, MA Bay & Merrimack Valley, CT) and Toys for Tots.

At the end of 2016, the Electoral College of the United States of America elected Donald J. Trump the 45th President of the United States, ratifying the election results from this past November. The potential for sweeping change from the direction and course the Obama administration established, both domestically and internationally, since 2009 is staggering; change to healthcare, immigration, homeland security, trade, energy, regulatory compliance, defense spending, income tax rates and Federal Reserve monetary policy will all impact businesses this year. We anticipate an unprecedented level of activity to occur during Mr. Trump's first 100 days in office, as the Trump administration capitalizes on the Republican majorities in Congress and the political capital accrued from the election result; buckle up!

On behalf of the entire CBRE/New England community, we wish you a successful 2017!

Sincerely,

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2016 HIGHLIGHTS

JANUARY 2016

General Electric announced its Connecticut-based headquarters will move to Boston's Fort Point neighborhood in the Seaport.

NOVEMBER 2016

Reebok announced it will move its Canton, Massachusetts-based headquarters and facilities to Boston.

JOBS

4.6%
NATIONAL UNEMPLOYMENT RATE

2.7% **NEW HAMPSHIRE** UNEMPLOYMENT RATE

2.9% **MASSACHUSETTS** UNEMPLOYMENT RATE

ME

2.8% Y-O-Y
MAINE EMPLOYMENT GROWTH

2016 NEW ENGLAND IN REVIEW

by Suzanne Duca, (suzanne.duca@cbre-ne.com); Évianne Netherwood-Schwesig, (evianne.netherwood-schwesig@cbre-ne.com)

Boston is a city that is known for its illustrious past, but in 2016 a number of major global firms decided that Boston is also the place where they want to build their future. The year opened with the announcement by General Electric that the company would leave Connecticut—its home of over four decades—and move their headquarters to the Fort Point neighborhood in the Seaport District. The complex that has been planned to house the firm incorporates two of the original brick Necco buildings on the site, in addition to a substantial portion of new build—a marriage of history and innovation that is emblematic of Boston's appeal.

As the year drew to a close, a similar piece of news broke: Reebok will move its global headquarters into the Seaport District as well. In this case the company's current home in Canton was closer to the city, housed in a sprawling state-of-the-art campus. The decision to relocate from an enclosed ecosystem to a bustling, rapidly transforming neighborhood is representative of broader demographic macro trends. From Boston to the suburbs, from Maine to Connecticut, there is a desire being seen not just for buildings, but for community.

The transition to properties that are wholly integrated into the fabric of their surrounding areas is a natural progression from the live-work-play ethos that drove so many new real estate developments over the past decade. Ease of movement in and out of an area is paramount to its success as one of these viable, desirable places to be, and transit-oriented neighborhoods, such as Downtown Crossing, have continued to grow and flourish. Similarly, many attribute the tremendous boom in Kendall Square just as much to its location atop the Red Line as to the presence of world-class institutions.

Across New England, the strength of the local economy has bolstered commercial real estate fundamentals. Unemployment in four of the six New England states was lower than the national rate of 4.6%, with Massachusetts and New Hampshire closing out November at 2.9% and 2.7%, respectively—the first year either state has dropped below 3% in over a decade. Along with Connecticut, these two states also boast employment numbers solidly above their pre-recession peaks. Rhode Island and Maine have yet to best their earlier benchmarks, but with employment growth at 2.8% year-over-year, easily the highest of all the New England states, Maine is on track to reach a new high-water mark.

TECHNOLOGY & REAL ESTATE

Even as companies seek physical community connectivity with their spaces, the digital realm and its influence on social, business and real estate decisions is ever more significant. The retail sector in particular has been faced with transforming itself in a world where people order an increasing variety of products online. Some businesses following more traditional models have struggled or folded, while those embracing new consumer habits and technologies to enhance the buying experience are prospering and even adding new stores.

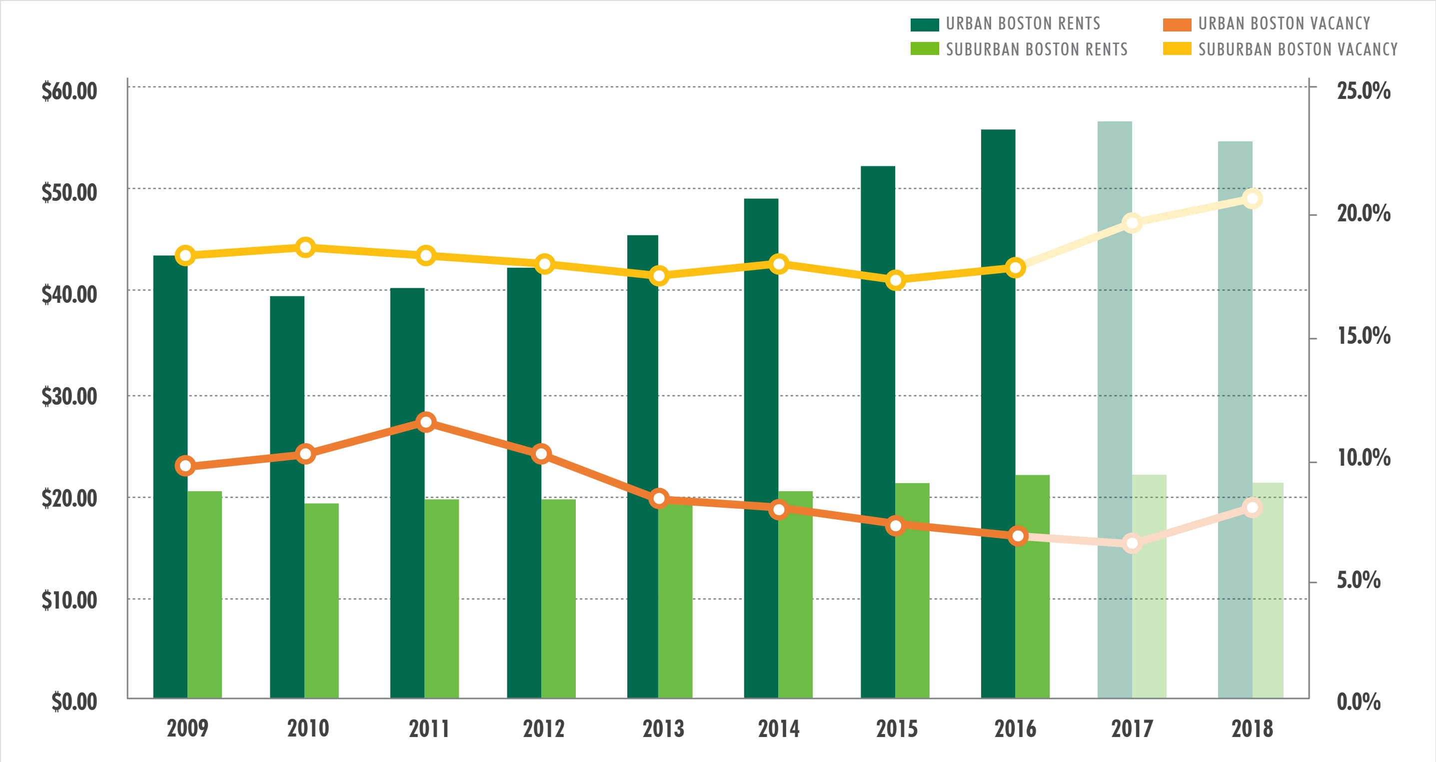
By contrast, the continued growth of internet retail has been nothing but a boon for the industrial sector. One of the trump cards brick & mortar retail traditionally held was the immediate availability of items in their stores, but as more online shoppers began demanding—and paying for—faster shipping options, the industrial sector responded. High-bay warehouse space and advanced logistics centers continue to be in high demand, and they are increasingly moving inwards, closer to the cities and the customer bases they serve.

While it has perhaps been less visible than in other sectors, the office market is not immune from technology's impact either. Rather, as companies increasingly rely on next generation software and connectivity solutions, the concept of what office space looks like is rapidly changing. Allowing employees to work remotely or on individual schedules means that companies have been shrinking their sq. ft. per person, frequently forgoing large private offices for open, collaborative spaces. Equally importantly, the technology vital to today's businesses needs power and speed behind it—leading to the rise of a whole new real estate service sector specifically focused on helping occupiers meet these network and data requirements.

INTRODUCTION

GREATER BOSTON

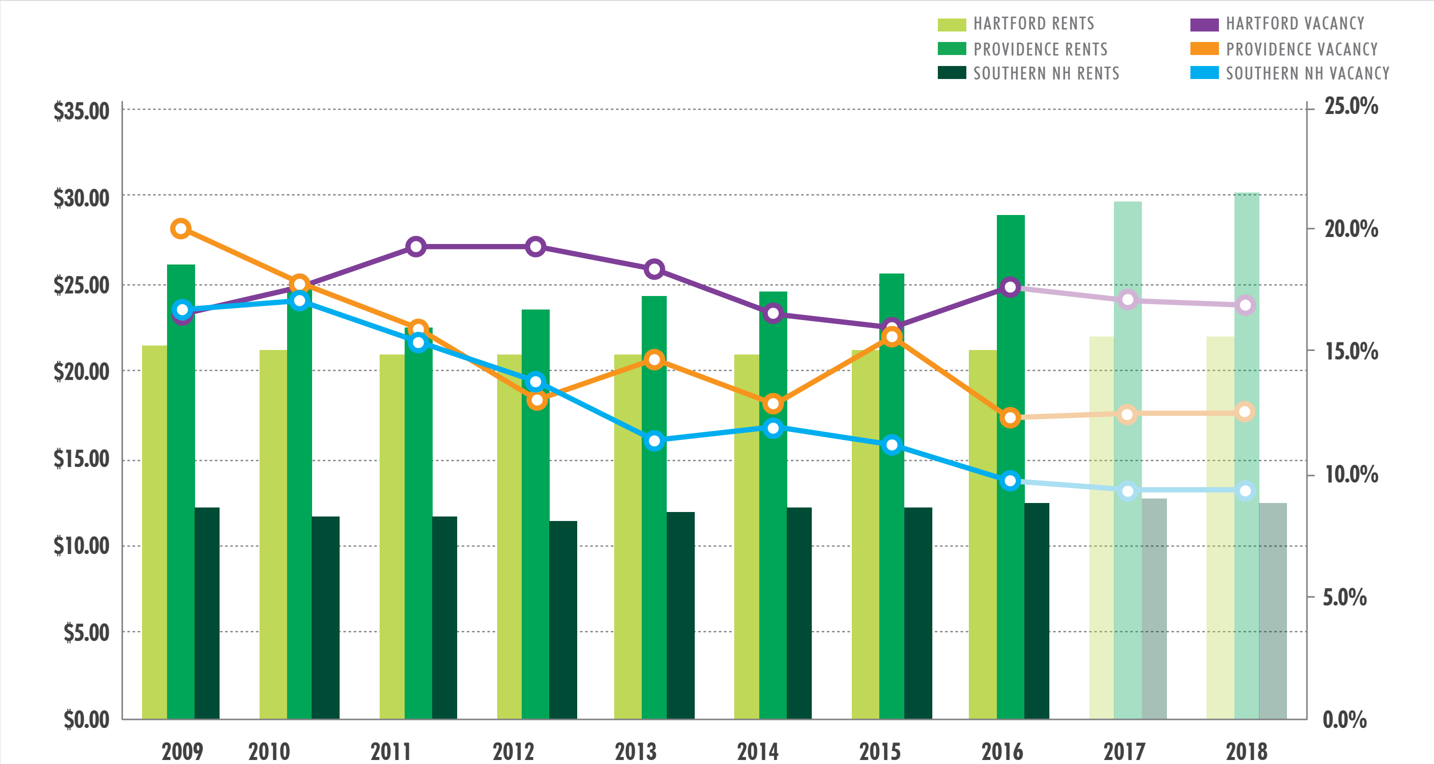
HISTORIC AND PROJECTED RENT VS. VACANCY



Source: CBRE Research, CBRE Econometric Advisors

HARTFORD, CT • PROVIDENCE, RI • SOUTHERN NEW HAMPSHIRE

HISTORIC AND PROJECTED RENT VS. VACANCY



Source: CBRE Research, CBRE Econometric Advisors

2017 OUTLOOK

CBRE Econometric Advisors (CBRE EA), a wholly owned independent research firm under the CBRE umbrella, forecasts that the economy will begin to contract around 2018, partially due to the fact that it is nearing full employment and the inability for companies to fill needed roles will stunt growth in the coming years. While an increasing number of roles are becoming automated, leading to a labor force that has been shrinking steadily since 2000, there is a skills mismatch for more specialized fields, most notably technology.

The office sector will likely experience this softening more dramatically than the industrial sector, where the continued growth of e-commerce is likely to shield it from the full effects of a potential downturn. Given that the growth this cycle has been more moderate than that of the early 2000s, the corresponding correction is not expected to be as drastic as 2008-2009. As such, CBRE EA's projected office rents for 2018 are still slightly above their 2015 levels, and industrial rents are projected to remain elevated even as their growth flattens out.

With that said, CBRE EA sees a gradual softening over the course of 2017, likely including at least two more interest rate hikes, to follow the 25 basis point increase this past December. Rising wages and inflation trending upwards are two more factors that are expected to continue throughout 2017. It goes without saying that the effects of a new administration in Washington are also on the minds of many as the new year approaches. The bottom line is that after a few years of steady growth, 2017 holds a lot more unknowns and potential change-makers. By this time next year, it is likely that the picture will be much clearer regarding what is to come.

2017 Greater Boston

MARKET OUTLOOK

2016 SNAPSHOT

VACANCY:

2015: **7.3%**

2016: **7.3%**

AVAILABILITY:

2015: **13.5%**

2016: **13.9%**

ABSORPTION:

2015: **1.1MSF**

2016: **705K**

CLASS B ASKING RENTS:

9% Y-O-Y

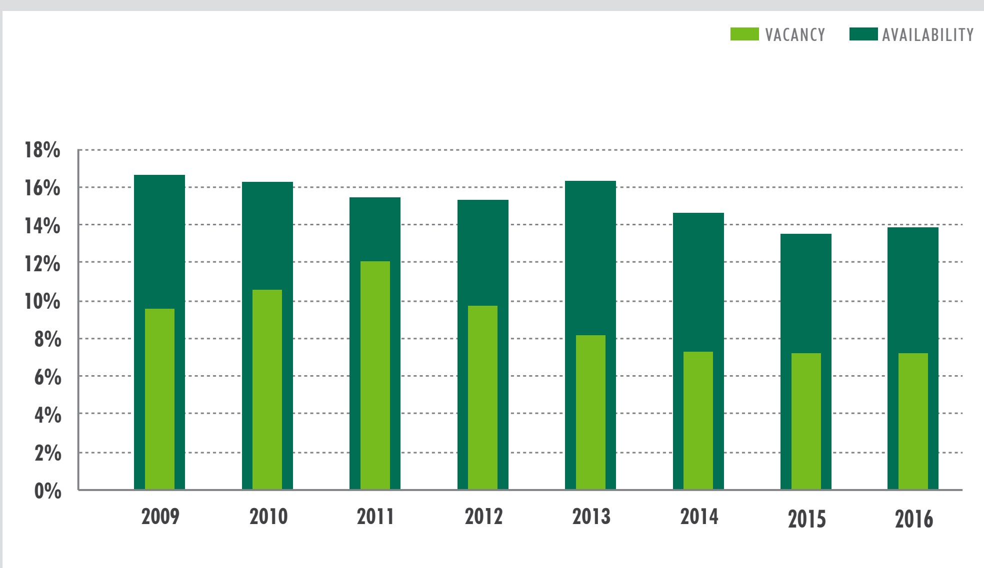
DOWNTOWN BOSTON OFFICE MARKET

by Meredith Christensen, (meredith.christensen@cbre-ne.com)

2016 was a year marked by the announcements of a number of noteworthy out-of-market moves to Boston, including headquarter relocations by household names such as General Electric and Reebok. Boston's appeal is rooted in the city's deep pool of "next generation" workforce. With the unemployment rate in Massachusetts dropping below 3% for the first time in almost 16 years, real estate has become a recruitment and retention tool in the war for talent. As companies' infrastructure and business models rapidly evolve, landlords are rushing to find ways to adapt to this new tech-driven, talent-hungry economy. In 2016, almost 40% was from the Technology, Advertising, Media and Information (TAMI) sector, up 30% from 36 months ago and surpassing the demand from Boston's more traditional financial and legal occupiers. In this rapidly changing, tech-driven economy, space complacency is a concern for both occupiers and landlords. Flexible, "hackable" and frictionless workspaces are no longer a concept, but a necessity for today's business environment.

The Downtown Boston Office market's performance was strong in 2016, ending with close to 700,000 sq. ft. of positive absorption. Although Class A rents were generally flat, Class B rents experienced a strong uptick over the course of the year, driven by out-of-market and organic growth. Tech sector expansion and a proliferation in co-working space have been two notable demand drivers. For the second year running, Class B rents performed particularly well, eclipsing the highs of previous cycles and outpacing low-rise Class A asking rents by almost 9% year-over-year. As a result, many continue to wonder where the demand is for large blocks of high-rise space.

DOWNTOWN BOSTON
HISTORIC AVAILABILITY VS. VACANCY

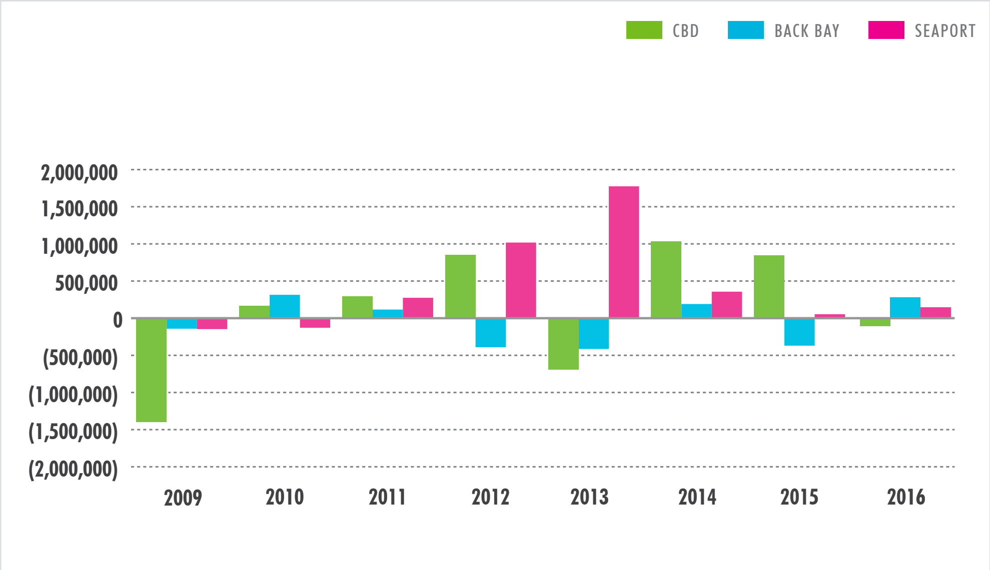


Source: CBRE Research

CENTRAL BUSINESS DISTRICT (CBD)

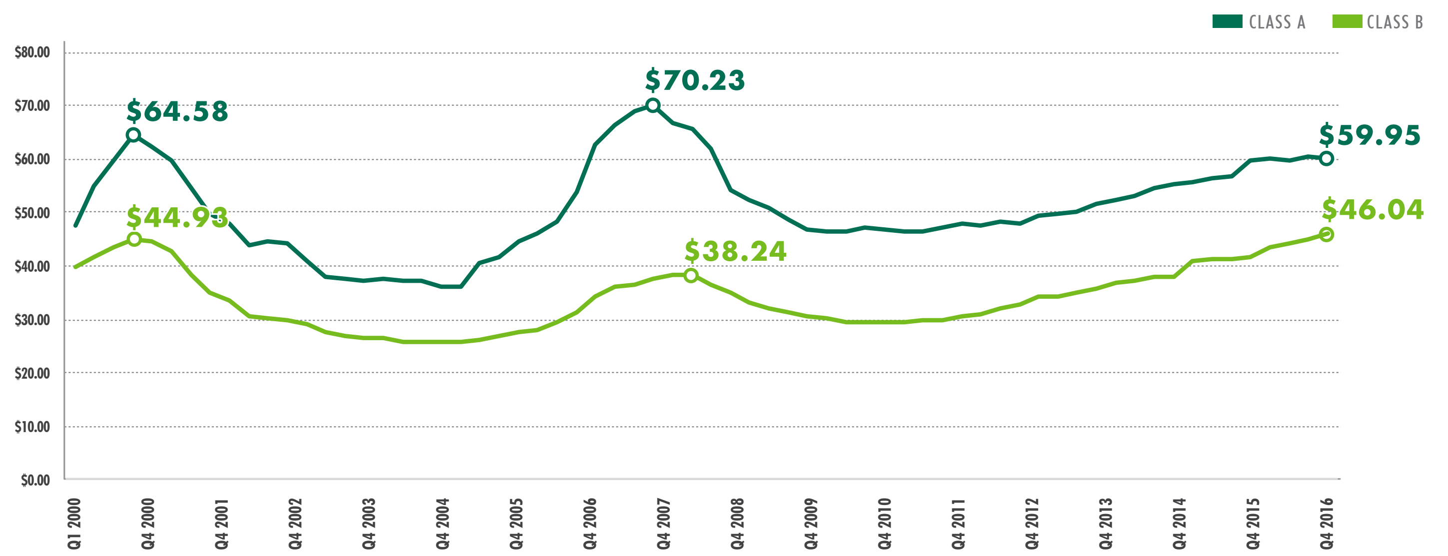
- **Landlords who invested in their existing properties helped secure the CBD's largest leases of 2016.** Both 100 Federal Street and One Boston Place are in the process of being repositioned with robust amenities, and meanwhile a full building renovation is underway at Congress Square. Putnam Investments will be moving to 100 Federal Street in 2019, having signed a lease for 249,000 sq. ft. Bank of New York Mellon elected to renew at One Boston Place in 250,000 sq. ft., and Digitas leased 218,000 sq. ft. at Congress Square. Putnam and Digitas' in-market moves will leave behind two sizable blocks of space at One Post Office Square and 33 Arch Street, respectively. Overall, the CBD ended with 132,000 sq. ft. of negative absorption and saw average asking rents reach $55.40 per sq. ft., up 3.5% year-over-year.
- **The amenities arms race in both Class A and B buildings continues.** Owners are electing to reposition commodity space into building-wide amenities such as conference rooms, outdoor space, fitness areas and cafés, to attract companies who cater to the next generation workforce. The landlords at 100 High Street and 53 State Street have been among those investing millions into these spaces.
- With **Class B spaces being such a hot commodity** across the board, the number of viable, attractive options for traditional occupiers of these locations has shrunk considerably. As a result, many tenants who would normally be found solely in Class B properties have no choice but to **consider options on the low-rise floors of Class A towers.** This increased demand has pushed spaces that were once viewed as commodity into the plus-$50 per sq. ft. rental range.
- Downtown Crossing (DTX) continues to prove itself as an established micro-market within the CBD. The opening of Millennium Tower and the planned redevelopment of the Winthrop Square parking garage are two notable projects driving interest in the area, but the neighborhood's fundamentals are the backbone of its appeal. Situated at the confluence of the Red, Orange and Green Lines, steps from the Boston Common, and boasting a wealth of amenities, **DTX checks off all the boxes for what tenants are looking for today.** Traditional Class A institutional investors have taken note, fueling sales activity among Class B assets

DOWNTOWN BOSTON
HISTORIC BOSTON SUBMARKET ABSORPTION (SF)



Source: CBRE Research

DOWNTOWN BOSTON
CLASS A VS. CLASS B RENTS (2000-2016)



Source: CBRE Research

Boston's world-class talent pool continues to attract top-tier companies to the city—and keep existing ones here.

BACK BAY

- The Back Bay posted **close to 300,000 sq. ft. of positive absorption in 2016,** reducing vacancy by 120 basis points year-over-year to finish at 7.2%. Notable deals making up this absorption include: Wayfair's continued expansion at Copley Place to the tune of 150,000 sq. ft., WeWork's 115,000 sq. ft. lease and Yahoo's 20,000 sq. ft. lease at 31 Saint James Avenue, and Advent International's 76,000 sq. ft. lease at the Prudential Center.
- Boston Properties delivered **888 Boylston Street** in late 2016, the first new high-rise built in the submarket since 2001. The 442,000 sq. ft. property was 76% preleased prior to delivery. 888 Boylston Street has set a new benchmark in sustainable building practices, and the rents achieved in the building have been some of the highest in the Boston market. These have been a boon to Back Bay's average asking rents, which were down 2.2% year-over-year, even though Back Bay remains the city's most expensive submarket.
- In an effort to drive traffic to existing large blocks of vacant space, **landlords have been investing in the repositioning of ground floor and building amenities.** One pertinent example is 120 St. James Avenue, which is rebranding the lower floors of 200 Clarendon Street. Other notable properties that have undergone or will undergo improvements include Copley Place, 500 Boylston Street, 222 Berkeley Street and 399 Boylston Street.

SEAPORT

- The Seaport **continues to attract headquarter deals,** including GE's 300,000 sq. ft. new global head office at Necco Court, Boston Consulting Group's 196,000 sq. ft. lease at Pier 4 and Reebok's 222,000 sq. ft. commitment at the Innovation & Design Building on Drydock Avenue. The submarket saw 150,000 sq. ft. of positive absorption in 2016, with 6.4% rent growth in the Class A office market and 4.9% rent growth in the Class B market.
- Half of a decade after Vertex Pharmaceuticals moved to the Seaport, talk of lab space in the area is in the air again. Driven out of Cambridge by a historically low availability rate, **lab users are considering the Seaport as a viable urban location**—and the numbers are already indicating that building out lab space may be a worthwhile investment. With 27 Drydock Avenue, a building boasting 85% lab occupancy, selling for $146.5 million ($514 per sq. ft.), and an out-of-market lab user at Innovation Square committing to 30,000 sq. ft., landlords are evaluating the merits of lab conversions in addition to lab built-to-suit sites.
- **Construction activity was steady through 2016,** with WS Development's 1.3 million sq. ft. of retail, Skanska's 454,000 sq. ft. office tower at 121 Seaport Boulevard, plus residential buildings VIA and The Benjamin scheduled for delivery in 2017. Other projects are still in the pipeline, with developers Bentall Kennedy and Skanska planning to move forward with speculative projects at 22 Boston Wharf Road, which will be an office and parking structure of roughly 100,000 sq. ft. when the expansion is complete, and Parcel Q (2 Drydock), planned to be over 200,000 sq. ft., respectively.
- With most of the Seaport outside of Fort Point consisting of new build-outs, there is **limited brick & beam space on the market.** Demand for spaces with this sort of historical character has driven average asking rents over $50 per sq. ft. The few opportunities to be found are frequently smaller subleases, which are often vacated because their occupiers have outgrown them. Typically, these are subleased by a new tenant in short order.


Winthrop Square (Rendering) • Boston, MA


Fort Point & Seaport Distict • Boston, MA

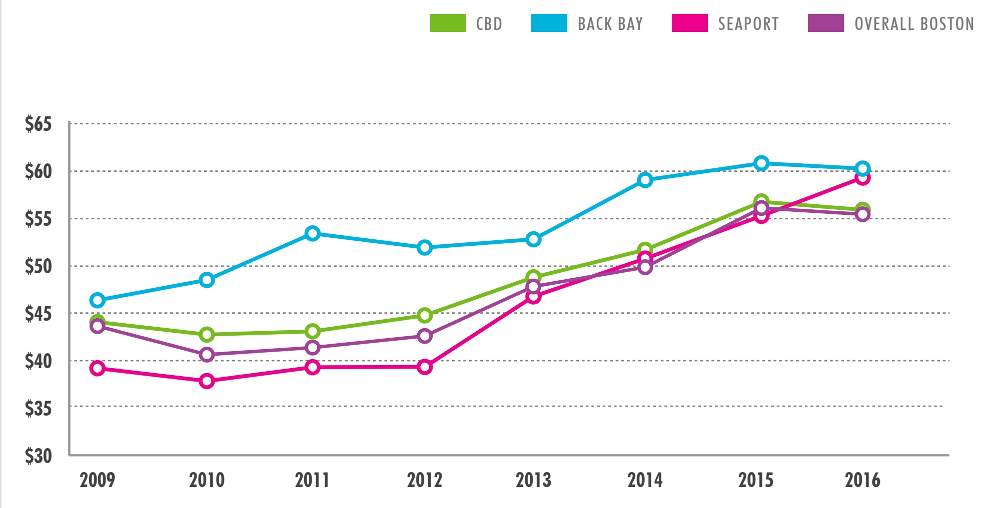

The Bricks at Fort Point (22 Boston Wharf Road) • Boston, MA

GREATER BOSTON

EXPANDING SUBMARKETS

Once considered peripheral residential markets, areas such as Fenway and Uptown (North Station) have successfully made the transition to true mixed-use neighborhoods that can attract top-notch tech and life science companies. 1325 Boylston Street, which was 100% leased less than 12 months from delivery, rounded out its rent-roll with Optum's 30,000 sq. ft. expansion and Decibel Therapeutics' 32,000 sq. ft. lab lease. Meanwhile, Uptown hosts name brand tenants such as Converse, TripAdvisor and Uber. For both submarkets, branding and amenities have been instrumental to their success in their respective submarkets.

DOWNTOWN BOSTON
HISTORIC RENTS BY SUBMARKET (GROSS)



Source: CBRE Research

TRANSACTIONS OF NOTE (DOWNTOWN BOSTON MARKET):

Tenant	Location	Submarket	Sq. Ft.	Transaction Type
PUTNAM INVESTMENTS	100 Federal Street	Central Business District	249,000	New
DIGITASLBI	40 Water Street	Central Business District	218,000	New
BOSTON CONSULTING GROUP	140 Northern Avenue	Seaport	196,000	New
WAYFAIR	Copley Place	Back Bay	150,000	New
WEWORK	31 Saint James Avenue	Back Bay	136,000	New
ADVENT INTERNATIONAL	800 Boylston Street	Back Bay	80,000	New

DOWNTOWN BOSTON FORECAST

Although 2016 ended with close to 700,000 sq. ft. of positive absorption, it is projected that Q1 2017 will almost see the same amount. A number of major deals are slated to close early in the year, including Reebok's new headquarter lease. Out-of-market tenants and organic growth driven by the TAMI sector and co-working expansion will continue to propel the market through 2017. Hanging in the balance is the question of whether Boston will also be able to capitalize on the shortage of available lab space in neighboring Cambridge, by offering lab-ready projects in both the Seaport and Allston/Brighton areas.

With Boston's demographics and occupier make-up evolving, space design in 2017 will have to be innovative and introduce concepts not yet seen in this market. Construction pricing will likely be a factor for both landlords and tenants, driving landlords to push term, while occupiers will prioritize space that is flexible as their businesses' needs change.

CAMBRIDGE OFFICE MARKET

by Carolyn Wheatley (carolyn.wheatley@cbre-ne.com)

The Cambridge Office market continued to break records in 2016, with average asking rents up to $65.26 per sq. ft. at year-end. East Cambridge was once again the most active submarket, contributing almost 150,000 sq. ft. in overall positive absorption. With the continuing trends of severely limited space and historically high rents, this year finally saw a trickle of tenants starting to leave Cambridge for the surrounding urban core, much to the delight of suburban and urban landlords. By bolstering their amenity offerings and featuring lower rates than red-hot Cambridge, many landlords have been hoping to have their properties act as relief valves for the ever-tighter market. The numbers back this up; overall Cambridge vacancy fell to 3.8% by the end of 2016, down from the 5.6% rate seen at the close of 2015.

CAMBRIDGE OFFICE 2016 SNAPSHOT

VACANCY:

2015: **5.6%**
2016: **3.8%**

AVAILABILITY:

2015: **7.3%**
2016: **10.3%**

ABSORPTION:

2015: **712K**
2016: **(65K)**

ASKING RENTS(GROSS):

2015: **$58.34**
2016: **$65.26**

TENANT ACTIVITY

The biggest trend for 2016 was the in-market expansion of existing tenants. In the second quarter, virtually every office lease was an in-market move or expansion. With fierce competition for space and limited options, those who were able to expand in-market counted themselves lucky.

LARGE RENEWALS & EXPANSIONS:

3M Innovation

Multiple renewals
Cambridge Center

453,000 SF build-to-suit
145 Broadway *(Boston Properties)*

CONFIDENTIAL TECH TENANT

155,800 SF renewal
One Memorial Drive

CarGurus

51,500 SF expansion
55 Cambridge Parkway

Takeda

32,000 SF expansion
350 Massachusetts Avenue

CONFIDENTIAL TECH TENANT

30,000 SF renewal
101 Main Street

HubSpot

25,000 SF expansion
2 Canal Park

SAGE THERAPEUTICS

20,000 SF expansion
245 First Street

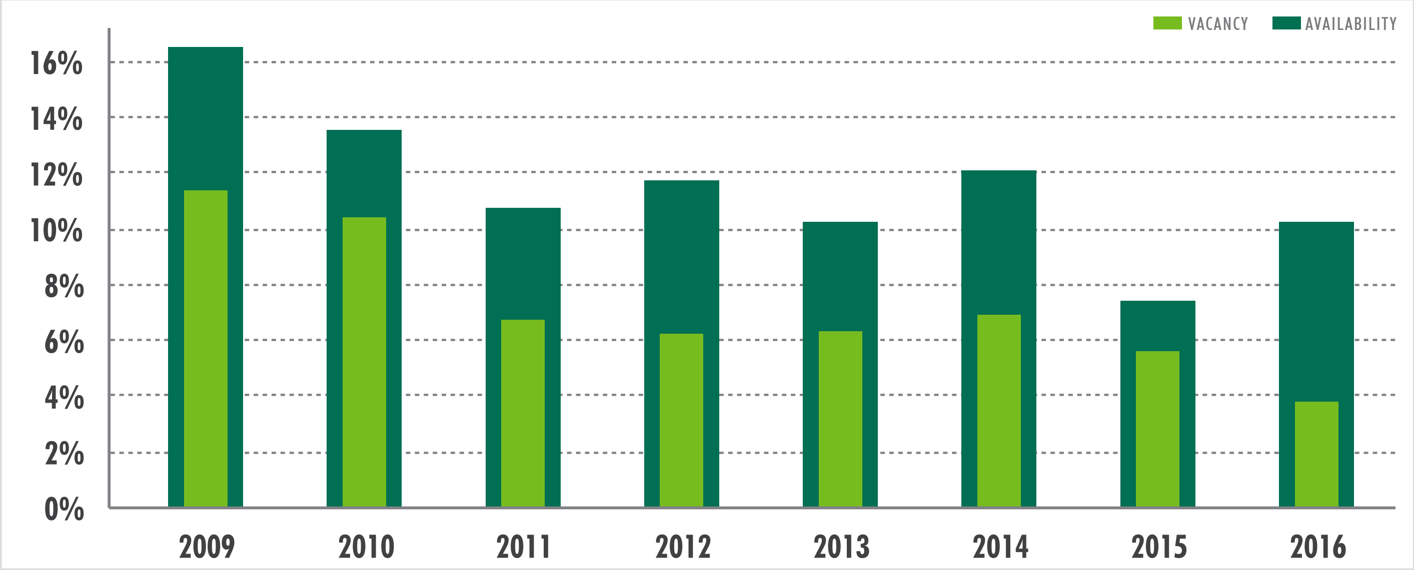
SIGNIFICANT MARKET DEPARTURES

Some tenants were forced to leave Cambridge, due to the extreme lack of availability:

- A confidential tech tenant moved their sales and marketing group to Burlington, Massachusetts, **vacating 113,000 sq. ft. at 1 Cambridge Center**
- The Brattle Group headed downtown and vacated their space at 44 Brattle, leaving **57,000 sq. ft.**, the **largest contiguous piece of office availability in Harvard Square in years**
- SAP left 245 First Street for 53 State Street, Boston

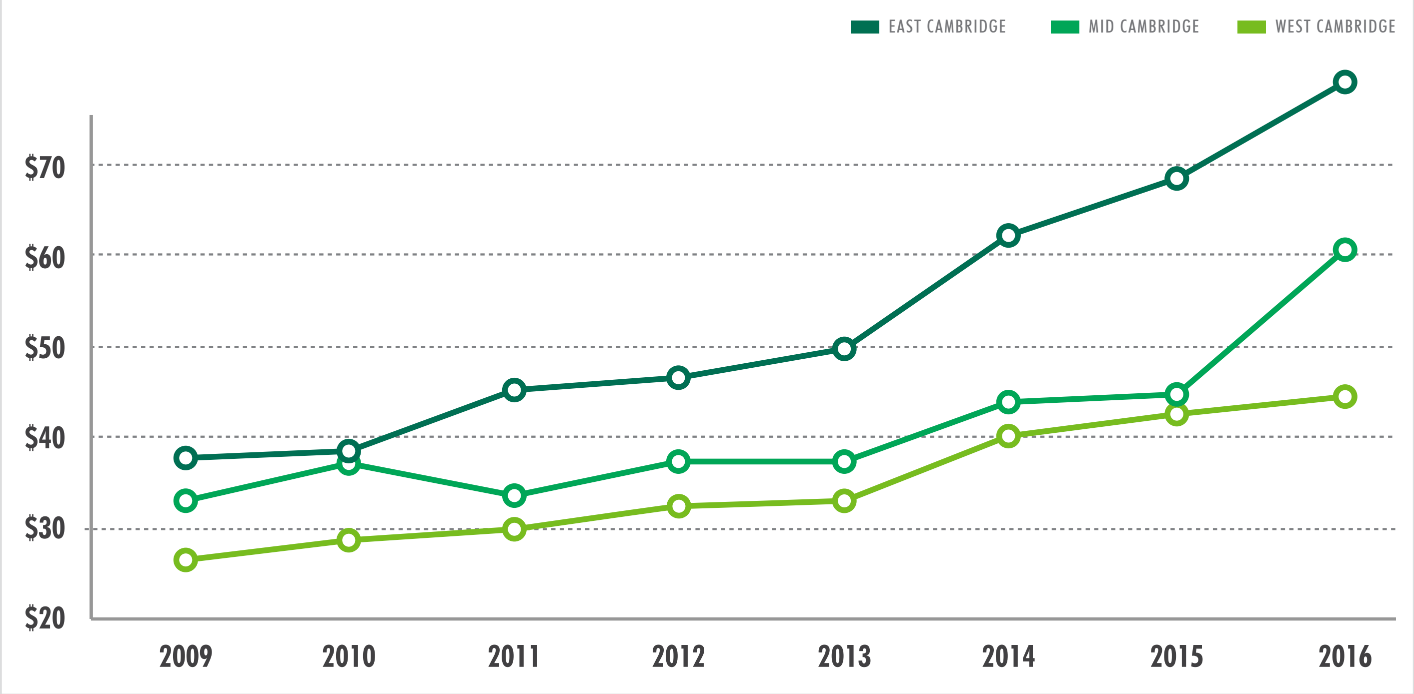
As in previous years, the primary market drivers continued to be expansion of existing tenants, inward migration of out-of-market tenants, and the phenomenal growth of the life sciences industry. The largest headwind the office market faces is simply the lack of available space. Given the market dynamics, what supply is available is largely comprised of lower quality or sublease space. Higher rents mean the demographics of Cambridge occupiers is shifting, with a growing number of strong credit tenants, larger firms and local institutions.

CAMBRIDGE
HISTORIC OFFICE VACANCY vs. AVAILABILITY



Source: CBRE Research

CAMBRIDGE
HISTORIC OFFICE ASKING RENTS BY SUBMARKET (GROSS)



Source: CBRE Research

SUPPLY & DEMAND

The demand for space in Cambridge, coupled with the lack of quality options available and rents that are prohibitively high for many tenants, has resulted in a loss of over 345,000 sq. ft. in existing tenant requirements, year-over-year an 18% decrease. Though office demand may be more moderate than in recent years, there is still a high level of organic growth among Cambridge companies, feeding the market. Most of the current space requirements are stemming from growing small- to mid-size users.

While office demand in Cambridge is healthy, the appetite for lab space hugely outpaces it. Consequently, the supply of new office product will be constricted over the next few years, as any space that can be built out as lab will be, so landlords can capitalize on pent-up demand. 35 Cambridgepark Drive is a prime example of this, as it is being converted from 136,000 sq. ft. of office space to 225,000 sq. ft. of lab space.

The sublease market provided some relief for office users, offering below-market rates and shorter terms in what is currently a landlord's market. The most notable space to hit the market was Biogen's 140,000 sq. ft. at 105 Broadway. The building is nearly full, and this presents a rare opportunity for a long-term sublease in the heart of Kendall Square.

CAMBRIDGE OFFICE FORECAST

In 2017, tenants who are not determined to be in Cambridge may seek space in other parts of the urban core, driven out primarily by the lack of availability and secondarily by the high rents. The office market will become increasingly dominated by life science companies, who are committed to Cambridge because of its world-class talent pool and industry peer group concentration. Office demand will remain a bit more subdued in 2017—by Cambridge standards, that is—although still at a healthy level.

2016 SNAPSHOT

VACANCY:

2015: 1.6%
2016: 2.6%

AVAILABILITY:

2015: 5.2%
2016: 7.9%

CAMBRIDGE LAB MARKET

by Carolyn Wheatley (carolyn.wheatley@cbre-ne.com)

Demand for lab space in Cambridge has never been higher, and this has caused both benefits and challenges for the market in 2016. Lab rents continued their climb to historic highs, reaching $74.55 per sq. ft. NNN at year-end. After the incredible amount of leasing activity over the past few years, the market started the year in an extremely constricted state and only tightened as the year progressed, with lab vacancy at a mere 2.6% and availability down to 7.6%. The continued demand for space from big pharma made landlords continually hold out for better credit tenants amidst the seemingly endless pool of early and mid-stage occupiers.

With the high level of competition for space, many life science tenants that faced impending lease expirations considered the inner suburbs or downtown as a new home, although few were actually willing to leave Cambridge and move away from their peers and cluster neighbors. Fierce competition and nearly non-existent lab vacancy meant large users had to get creative and make commitments far in advance of expiring leases. With very few large blocks of space available, and more than 10 requirements for 100,000 sq. ft. currently in the market, the simple math will force some groups to find space elsewhere.

Average asking rents continued to break records, topping $74 per sq. ft. NNN.

CAMBRIDGE LAB

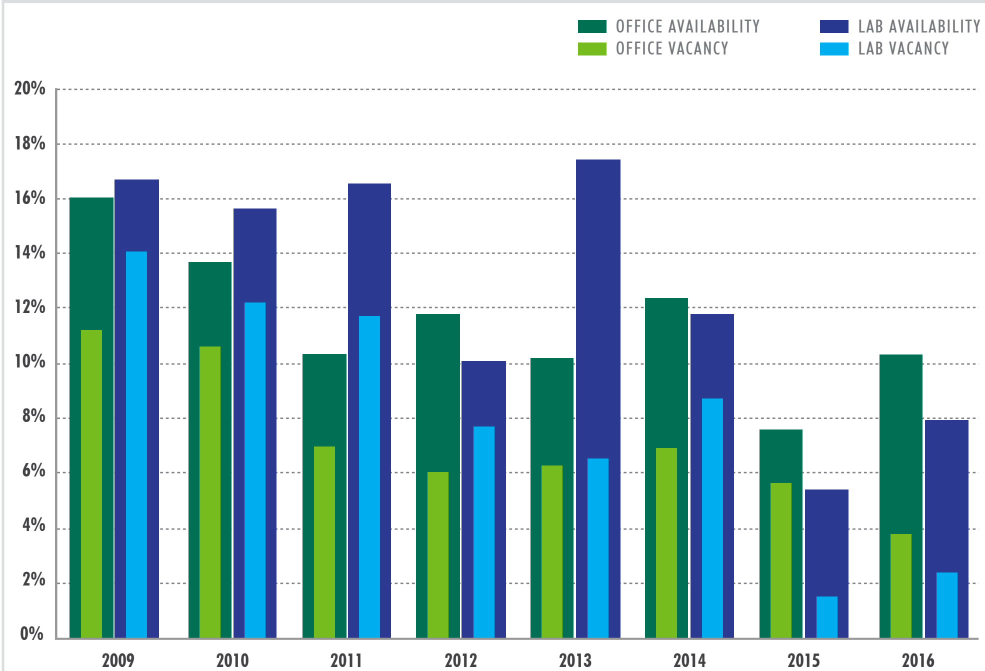
ABSORPTION:

2015: 1.3M
2016: (284K)

ASKING RENTS (NNN):

2015: $73.38
2016: $74.55

CAMBRIDGE
HISTORIC CAMBRIDGE LAB VS. OFFICE AVAILABILITY & VACANCY



Source: CBRE Research

TENANT ACTIVITY

In addition to fighting off new groups hoping to enter the market, Cambridge companies had to compete with a significant number of in-market expansion requirements. Takeda, Momenta, CRISPR Therapeutics, Intellia Therapeutics, Editas Medicine, Foundation Medicine and Seres Therapeutics all significantly increased their footprints in 2016. For those seeking relief from the high East Cambridge rents, they faced the challenge of nearly non-existent supply in Mid and West Cambridge where there is only 130,000 sq. ft. available for lease.

NOTABLE EXPANSIONS:

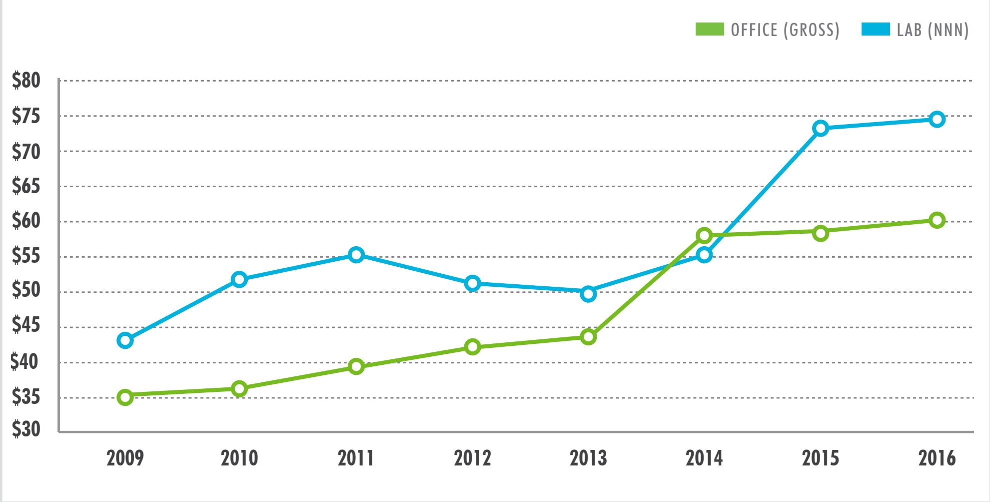
moderna	**155,800 SF renewal/expansion** 200 Technology Square
FOUNDATION MEDICINE	**124,300 SF expansion** 150 Second Street
SERES THERAPEUTICS	**83,000 SF expansion** 200 Sidney Street
MOMENTA	**79,000 SF renewal** 301 Binney Street
Takeda	**78,000 SF lease** 75 Sidney Street
CRISPR THERAPEUTICS	**65,684 SF lease** 610 Main Street
Intellia THERAPEUTICS	**65,300 SF lease** 40 Erie Street
editas MEDICINE	**59,700 SF lease** 11 Hurley Street
KSQ	**33,000 SF sublease** 610 Main Street
SURFACE ONCOLOGY	**32,018 SF expansion** 50 Hampshire Street

CURRENT AVAILABILITY

M&A activity, organic growth and product setbacks led to a few large chunks of space hitting the sublease market and offering some additional supply, such as Infinity's 50,000 sq. ft. sublease at 780 Memorial Drive and ARIAD's 92,000 sq. ft. sublease at 125 Binney Street. Given that sublease space is making up an abnormally large percentage of the available space, average asking rents for lab space dipped slightly during part of 2016 — the first time this has occurred in two years. However, the 25+ companies looking for 20,000 sq. ft. or more are still finding it nearly impossible to find available space.

Although there is almost **five million sq. ft. in the supply pipeline,** most of it is at least 18 months from delivery. Between Volpe Center and the Kendall Square Initiative, MIT alone will bring around 3.5 million sq. ft. of lab and office space online in Kendall Square between now and 2025. Other developers are racing to permit new buildings, build on sites that are already permitted or convert existing office space to lab. The good news for lab users is that the overwhelming majority of new development will be created to accommodate their needs as developers try to capitalize on the historically high demand for lab space. Approximately 60% of the four million sq. ft. in the development pipeline is being marketed primarily to lab users.

CAMBRIDGE
AVERAGE ASKING RENTS (OFFICE VS. LAB)

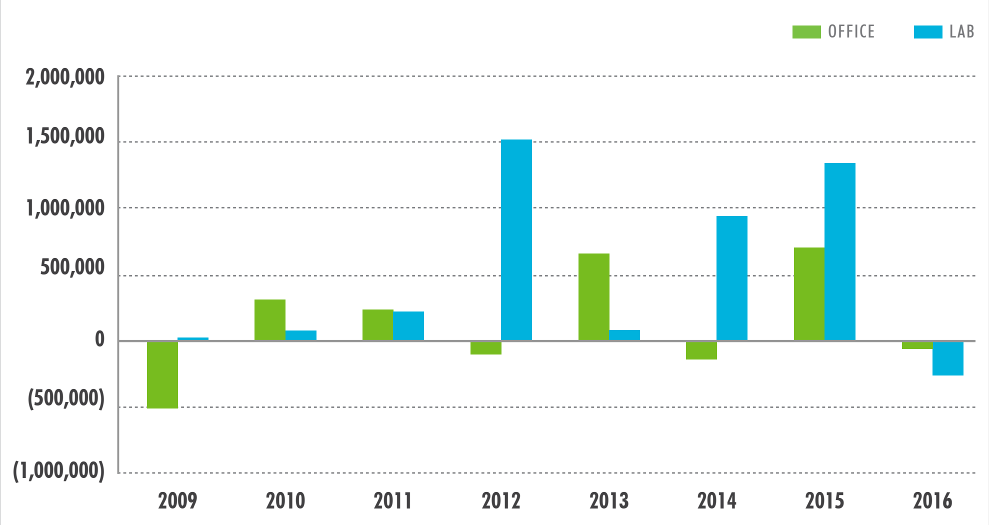


Source: CBRE Research

2017 FORECAST

While subleases may appear from time to time and satisfy some requirements, those who cannot wait years for new development to come online may be forced to look outside of Cambridge. The economic headwinds that had threatened the thriving life sciences market, including stock market volatility and the expected drug pricing regulations from a Clinton presidency, have all but subsided. While Cambridge landlords have enjoyed having their pick of strong credit tenants and record-setting rents, at some point tenants may reach a point of indifference as to the value proposition of staying in Cambridge considering the pricing levels. Even so, the question remains of what will happen to the many Cambridge tenants competing for lab space in a market with virtually no vacancy.

CAMBRIDGE
HISTORIC NET ABSORPTION (OFFICE VS. LAB)



Source: CBRE Research

SPOTLIGHT:
DEVELOPMENT & PROJECT MANAGEMENT

- This past year, a noticeable rise was seen in construction costs. For both labor and material costs, there was an increase of approximately **3.5-5%** in the Boston market.

- The Boston market's average construction costs are higher than the rest of the country, ranging from **$110-125** per sq. ft. This compares to a national average of about $100 per sq. ft.

- Due to the higher-than-normal volume of work in the Boston market, when choosing a consultant, it is important to evaluate their existing workload to ensure they have the capacity to meet expectations.

- Most new space designs are moving away from traditional office concepts and in the direction of a more open and collaborative environment.

- Furniture and AV components have become a critical part of the open environment concept, adding to overall first-time costs.

- **Workplace strategy** has become a buzzword in the industry. Understanding how and where people work is critical in the initial design process, and providing flexibility for employees has become a competitive differentiator.

- Due to the volume of work in the City of Boston, the overall permitting process timeline has been extended, which should be taken into consideration when reviewing a complete construction schedule.

by Mark Clayton (mark.clayton@cbre-ne.com)

Broadcom

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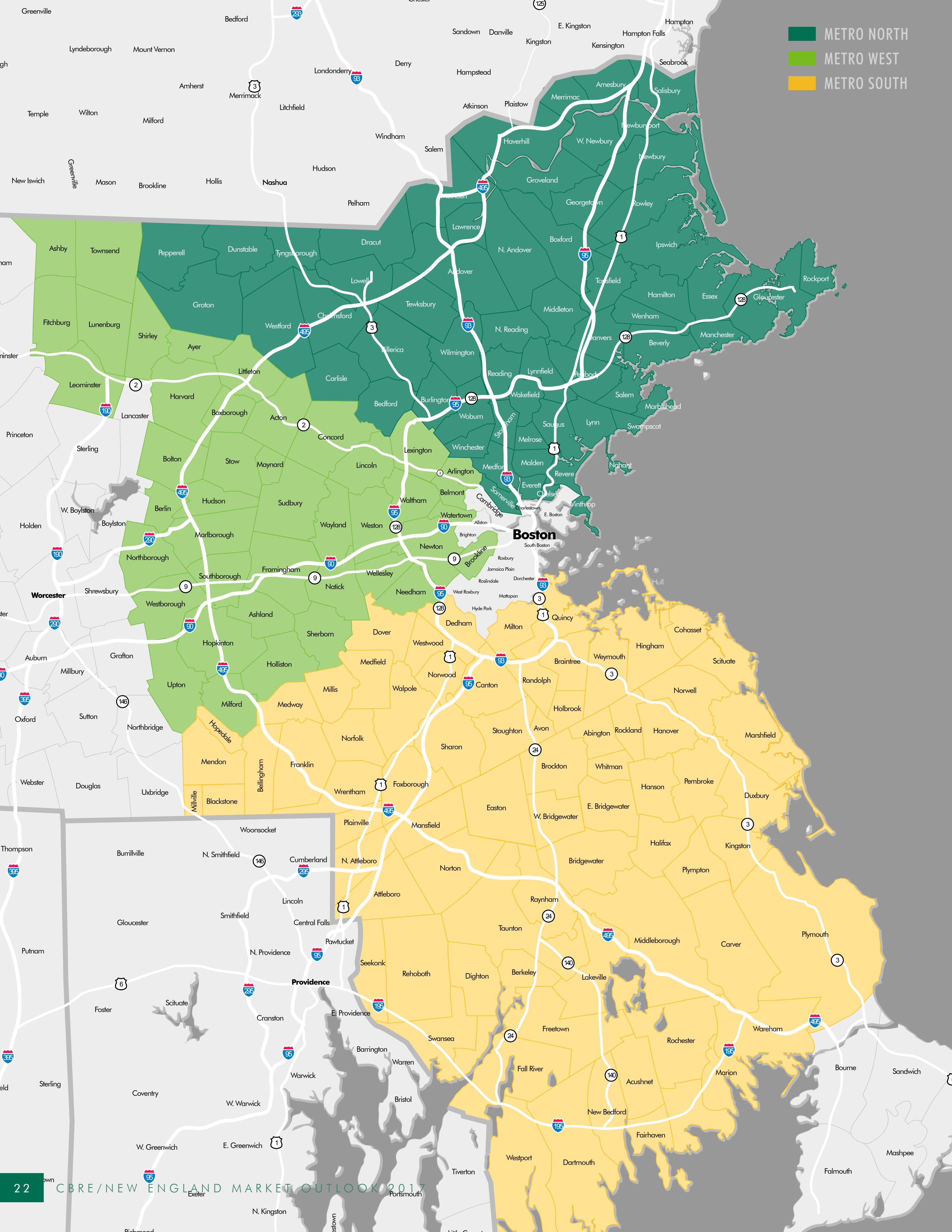

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METRO SOUTH
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Greenville
Mason
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Dover
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Milton
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Millis
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Randolph
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Brockton
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METRO NORTH SUBURBAN OFFICE MARKET

by Kerry Hawkins, (kerry.hawkins@cbre-ne.com)

2016 SNAPSHOT

VACANCY:
2015: 18.6%
2016: 19.1%

AVAILABILITY:
2015: 22.1%
2016: 22.5%

ABSORPTION:
2015: (35K)
2016: (40K)

ASKING RENTS:
2015: $19.39
2016: $20.03

2016 continued to be all about amenitization. Properties in which significant renovations and investments were made by new ownership interests reaped the rewards throughout the Metro North market.

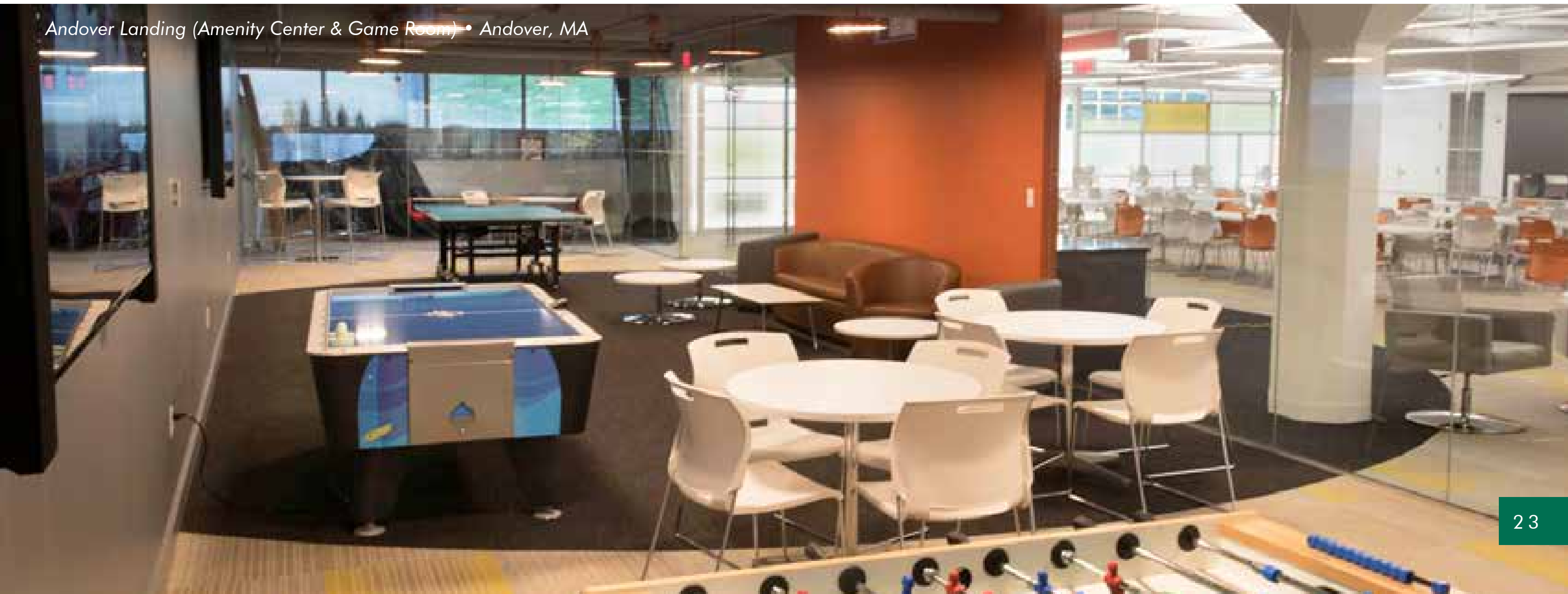
The highlight of 2016 was the Kronos deal inked at Cross Point in Lowell. A massive 450,000 sq. ft. transaction, Kronos is vacating their multi-building campus in Chelmsford in favor of the newly renovated former Wang Towers. Complete with a Tavern in the Square restaurant, game room, first class fitness operation, brand new daycare and a host of other amenities, Cross Point has reinvented the suburban office building into an urbanized setting in one of our gateway cities.

A multi-million-dollar renovation that was once known as Brickstone Square has morphed into Andover Landing. The one million sq. ft. complex has landed two headquarters relocations: Enel Green Power will take 65,000 sq. ft. and Polartec who is moving their base of operations to the facility. New amenities include a 100-seat conference facility, 25,000 sq. ft. cafeteria, barista and juice bar, activated outdoor spaces and a brand new fitness center.

Completing the trifecta of the suburban office renaissance is Burlington's The District, formerly known as New England Executive Park. After a $200 million purchase in 2013, National Development is nearing completion of a reimagined campus with an emphasis on walkability and urbanization—complete with several popular restaurant outposts including Tuscan Kitchen, Island Creek Oyster Bar and Pressed. A flagship Marriott hotel is under construction and an 80,000 sq. ft. addition to 700 District is also complete.

The overall Metro North market was relatively flat for 2016, ending the year with just over 40,000 sq. ft. of negative absorption despite a positive fourth quarter with 41,000 sq. ft. of absorption. With a first quarter loss of nearly 600,000 sq. ft. of occupancy, there was a long way to rebound throughout the remainder of the year.

The Route 128 North submarket led the way in the north, nearing 160,000 sq. ft. of positive absorption to close out the year. Burlington continued to lead the pack, though with surprisingly fewer large transactions, atypical of this dynamic and highly sought-



Andover Landing (Amenity Center & Game Room) • Andover, MA after market. Despite the low vacancy, demand was flat, with few sizable tenants entering the market in 2016. However, a number of significant renewals and restructures have transacted; most notably was Oracle's contraction and extension at Network Drive, retaining 300,000 sq. ft., but returning 73,000 sq. ft. to the market in the third quarter. Lahey Hospital also completed two significant restructures at 67 South Bedford Street, as well as a reshuffle at 25 Mall Road next to their main campus. Due to the lack of new activity, for the first time in several years owners are beginning to compromise in order to land new deals; rents are beginning to flatten and landlords are becoming wary of a continuous cycle that seems too good to be true. The mid- to high-$30s rents necessitated by cap rate compression are waning for all but the upper echelon of inventory, replaced with low- to mid-$30s effective numbers. A full year after completion, 4 Burlington Woods continues to sit vacant; this validates the redirection of some build-to-suit sites for alternate uses, chiefly multifamily development, as evidenced by The Davis Companies at The Center or Vitality Senior Living at Dunham Ridge in Beverly.

Coming off more than half a million sq. ft, of negative absorption in 2015, the Route 3 Corridor continues to be decimated by vacating tenants. With more than 300,000 sq. ft. of space coming to market in Chelmsford as a result of Kronos' relocation to Lowell, the town is posting an availability rate of 44%, nearing the 51% availability rate of its Route 3 neighbor Tewksbury. Also hitting in the first quarter was the former Mercury Computer campus at Riverneck

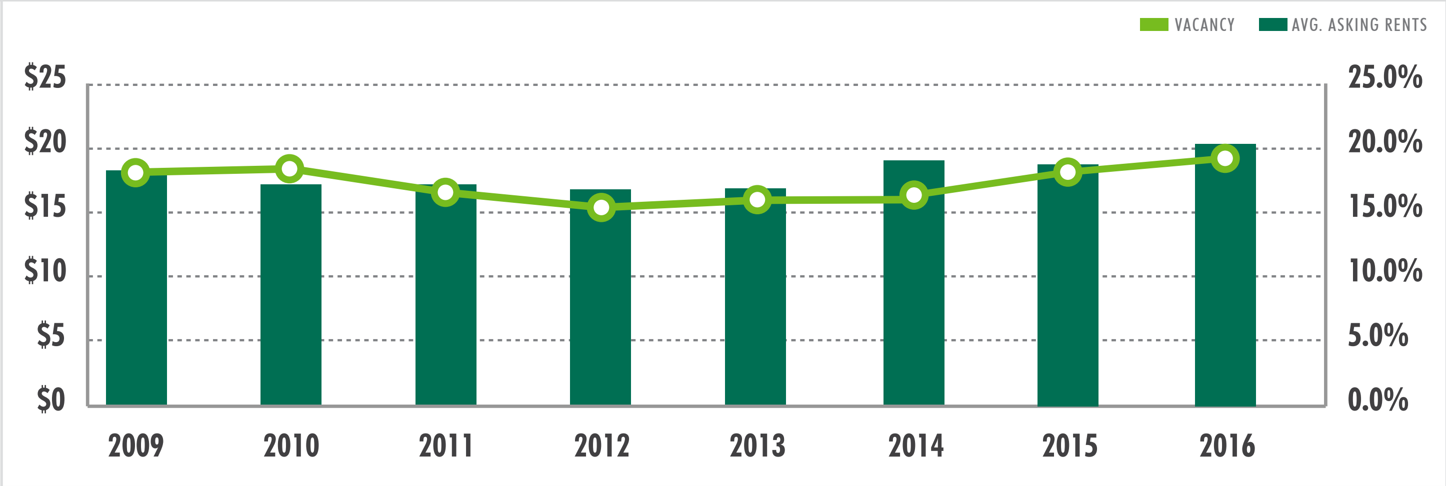
Cross Point (café and common space) • Lowell, MA

Suburban amenitization isn't just about fitness centers—new renovations are turning campuses into true mixed-use destinations.

Road, with 180,000 sq. ft. coming to market as they prepare to relocate to Andover, a deal inked in 2015. Harris Corporation's long-term lease at 150 Apollo Drive is expiring, adding another 70,000 sq. ft. in Chelmsford. Joule Science vacated 18 Crosby Drive—returning 50,000 sq. ft. to the market as sublease space—across the street from Hologic's 200,000 sq. ft. sublease block and next door to 65,000 sq. ft. of vacancy at 14 Crosby Drive in the newly renovated The Xchange at Bedford.

All told, over 700,000 sq. ft. of space has been returned to inventory this year, netting out to negative 200,000 sq. ft., primarily due to the 450,000 sq. ft. of absorption at Cross Point. On a positive note, Ocular Therapeutics closed on a long-term lease for R&D space of 70,000 sq. ft. at 15 Crosby Drive, and ConforMIS inked a relocation to 600 Technology Park Drive in Billerica for 45,000 sq. ft. In building sales, Highwood Office Park traded to KS Partners for $30 million, or $105 per sq. ft., and Rubenstein has a major renovation of 495 Business Center underway in Tewksbury, now known as The Center at Innovation Drive. The Route 495 Northeast market remained flat despite a handful of significant deals. Andover Landing completed over 100,000 sq. ft. of net new leasing. 400 Minuteman Road was stabilized long term with an extension by Navisite totaling 100,000 sq. ft., and is now being marketed for sale. MKS Instruments renewed and expanded at 2 Technology Drive, which is under new ownership from Novaya, who is planning a major retrofit of park amenities and common spaces. Novaya purchased the park as part of a 10-building portfolio transaction in March. Other market news includes Akamai's relocation within Westford Technology Park to 50,000 sq. ft. at 5 Tech Park Drive, and the sale of New England Business Center in an all-cash deal for $32 million. Overall, the 495 Northeast market finished with 45,000 sq. ft. of negative absorption and a 27% availability rate, or a

METRO NORTH
AVERAGE ASKING RENTS VS. VACANCY



Source: CBRE Research

slight decline of 2% from year-end 2015 levels—though much of that is long-term vacancy and functional obsolescence.

The Close-In Suburbs submarket was relatively flat for 2016 in leasing activity, but saw some major trades on the capital markets side. 200 Exchange Street in Malden was purchased by Berkeley Investments in May. A data center and hub of Bank of America for decades, the property boasts a prime location directly across from the Malden Center MBTA Station in addition to extensive data center infrastructure. The Davis Companies completed its renovation of the massive One Cabot Road, resulting in the welcoming of two new tenants. This location is expected to continue to evolve due to its easy access to transit and will benefit from the expansion of the urban core as tenants seek relief from Boston and Cambridge rents.


Dunham Ridge • Beverly, MA

2017 FORECAST

The overall leasing performance of the Metro North market during 2016 was relatively flat, posting 41,000 sq. ft. of negative absorption in a total market of 47.1 million sq. ft. While two of the four submarkets in Metro North posted positive absorption, the amount of space returned to the Route 3 Corridor's inventory negated the modest gains elsewhere in the submarket for the second consecutive year. That said, 2017 is predicted to be healthy, especially as Boston and Cambridge continue to outpace the suburban markets in both rising rental rates and inventory reduction. Additionally, particularly for tenants in search of large blocks or campus locations, geographic boundaries will continue to blur as much of the available inventory is located further from the urban core. Mergers and acquisitions activity throughout the market is expected to continue, as well as sustained strategic growth among such industries as healthcare and technology.

SUBURBAN METRO WEST OFFICE MARKET

by Matt Siciliano, (matt.siciliano@cbre-ne.com); Sam Crossan, (sam.crossan@cbre-ne.com)

Despite slowing demand due to uncertainty within the global economy, the Presidential election and a tremendous amount of leasing activity completed in 2015, the **Western Suburban market remained steady throughout 2016.** The Metro West market was primarily bolstered by another strong year from the Route 128 West submarket, while being offset by several large blocks that became available in the Route 495/Mass Pike submarket in the third quarter. Almost 480,000 sq. ft. of negative absorption was recorded in 3Q 2016, distorting the general health of the Metro West market—numbers effectuated by the addition of several major subleases to the marketplace. Despite weakness demonstrated by several new big block availabilities, **market fundamentals otherwise remained strong along Route 128 West** where outward life sciences migration, organic growth and several slowly moving larger requirements buoyed the health of the largest submarket within the Metro West. Demand remained steady in Framingham/Natick and Route 495/Route 2 West, though organic growth was curbed relative to 2015. Route 128 West led the suburban market from a statistical standpoint in vacancy, absorption and average asking rents, while Framingham/Natick and Route 495/Route 2 West saw mild rent rate appreciation and continue showing positive fundamentals in those submarkets as well.

While new tenant demand slowed throughout the year, vacancy rates remained low across the market, continuing to decline in Route 128 West as a result of organic growth and strong demand from the life science sector. The vacancy rate in Route 128 West was 13.9%, compared to the overall vacancy of 16.7%, and average asking rents were up over $33.66 per sq. ft., representing a 32% premium above the overall suburban average asking rents, similar to 2015. Overall average

VACANCY:	ABSORPTION:	AVAILABILITY:	ASKING RENTS:
2015: **15.4%**	2015: **1.0M**	2015: **17.8%**	2015: **$23.54**
2016: **16.7%**	2016: **(228K)**	2016: **19.3%**	2016: **$25.25**

asking rents increased slightly, up 3% from a year ago. Outside of Route 128 West, rents remained flat, though premium well-located product continues to demonstrate mild rent appreciation.

The primary drivers of a statistically flat 2016 were the large givebacks of space within the Route 495/Mass Pike West submarket in the third quarter. These included three major subleases: 250,000 sq. ft. from Bose at 8 Technology Drive in Westborough, 88,000 sq. ft. by IBM at 26 Forest Street in Marlborough, and 55,000 sq. ft. by CLEAResult at 50 Washington Street in Westborough. Lost within the numbers, however, was Whole Foods' 50,000 sq. ft. relocation to 200 Forest Street in Marlborough from Cambridge, which brings the 550,000 sq. ft. building to full occupancy within four years of Atlantic Management's acquisition and rehabilitation of the site HP vacated in 2011. Outside of Route 495/ Mass Pike West, a lesser influx of sublease space has begun to occur due to defensive leasing (Vistaprint, Wolverine Worldwide, Dassault Systémes), corporate downsizing (Bose, IBM, CLEAResult, Marcum LLP, ACI Worldwide), right-sizing of growth projections of technology companies (MCX, Actifio) and M&A activity (Constant Contact/ Endurance International, CompuWare/Dynatrace).

Organic growth and strong demand from the life science sector drove the Western market in 2016.

Despite modest statistical changes from 2015 and limited new tenant demand, landlords continue to reinvest, rehabilitate and, in some cases, move forward with speculative construction. Nowhere was this more evident than at Waltham's 200 Smith Street, also known as Post. The property is a 430,000 sq. ft. redevelopment of a former U.S. Postal Service headquarters site now owned by Anchor Line Partners. Anchor Line Partners can deliver both office and lab space and hopes to capture the next big user, potentially from Cambridge. Other rehab examples include 152 Grove Street in Waltham (Hilco Redevelopment Partners),


Mill & Main • Maynard, MA

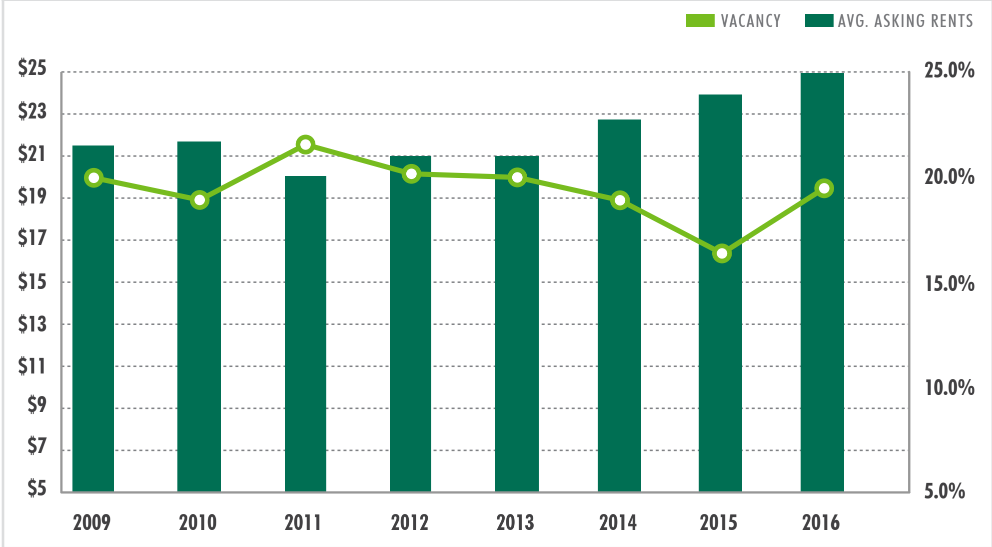
NOTABLE GROWING COMPANIES:

Acacia Communications, Inc.	**114,000 SF** 3 Mill & Main Place Maynard, MA
globoforce	**55,000 SF** 200 Crossing Boulevard Framingham, MA
TESARO	**40,000 SF** 1000 Winter Street Waltham, MA
FRACTYL	**32,000 SF** 17 Hartwell Avenue Lexington, MA
PAYTRONIX	**32,000 SF** Chapel Bridge Park Newton, MA
FRESENIUS	**30,000 SF** 40 Hartwell Avenue Lexington, MA
NetProspex	**30,000 SF** 610 Lincoln Street Waltham, MA
YARDI	**26,000 SF** 400 Fifth Avenue Waltham, MA
amag Pharmaceuticals	**22,000 SF** 1100 Winter Street Waltham, MA
Dassault Systemes	**20,000 SF** 185 Wyman Street Waltham, MA

65 Grove Street in Watertown (Cresset Development), 490 Arsenal Street/Lynx in Watertown (Boylston Properties), 170 Tracer Lane in Waltham (Boston Properties), 191 Spring Street in Lexington (Boston Properties), Normandy Real Estate Partners' site in Needham (includes office, retail, housing and a hotel), 180 Wells Avenue in Newton (Intrum Corporation), 2 Wells Avenue in Newton and Mill & Main in Maynard (Saracen Properties/ Artemis Real Estate Partners).

Similar to 2015, there is limited speculative construction currently, a trend expected to continue into 2017. King Street Properties is finalizing plans for the construction of 115

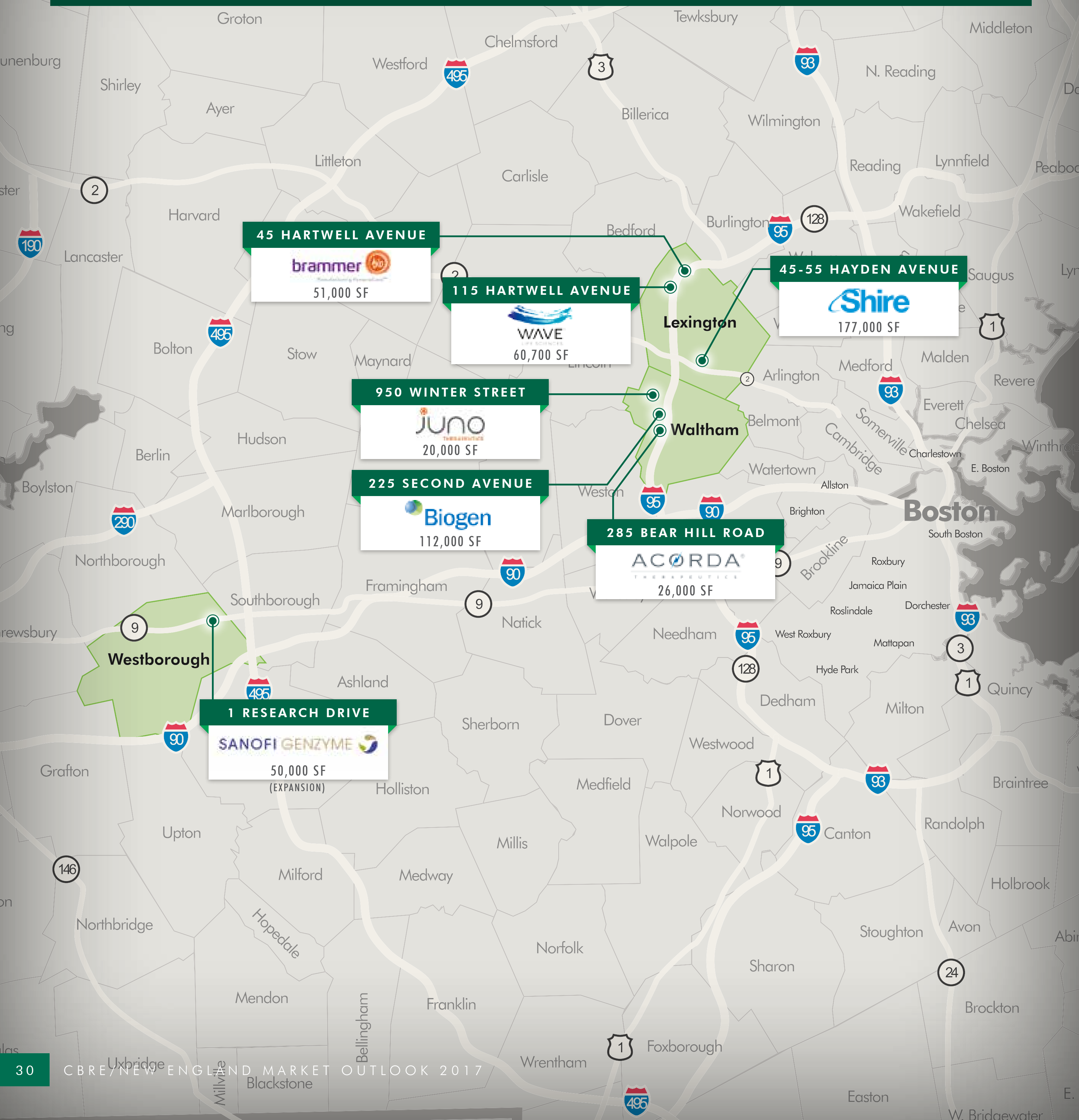
METRO WEST
ASKING RENTS VS. VACANCY



Source: CBRE Research

180 Wells Avenue • Newton, MA

SUBURBAN LIFE SCIENCE ACTIVITY



Hartwell Avenue in Lexington and has two-thirds of the availability pre-leased to Wave Life Sciences, which will occupy 60,000 sq. ft. In addition, King Street Properties is moving forward with the speculative development 828 Winter Street in Waltham, a 140,000 sq. ft. lab building set to break ground in 2017.

In addition to to the rehab projects and new construction, some landlords have focused on delivering smaller suites on a speculative basis, specifically to address demand from young companies focused on immediate timing, flexibility and limiting out-of-pocket expenses. Anchor Line Partners has put this strategy in motion, delivering 95,000 sq. ft. of speculative suites at Prospect Hill Office Park on Fifth Avenue in Waltham.

Tenant demand has historically been driven by technology companies within the Metro West, but **in 2016, demand was driven more so by the life science sector.** Companies like Shire and Biogen continue to expand their footprints in Lexington and Waltham, and GE Healthcare expanded in Marlborough. New companies like Juno Therapeutics, Brammer Biopharmaceuticals and Acorda Therapeutics look to establish themselves in this market, capitalizing on access to talent and value, as limited availability, rent appreciation and traffic concerns in the urban core markets have led increasingly more life science tenants to consider options within Lexington and Waltham.

In addition to major life sciences activity and organic growth within the technology sector, 2016 thus far has experienced a wave of corporate tenants renewing in place, primarily along Route 495, including GE Healthcare in Westborough (100,000 sq. ft.), Synopsys in Marlborough (50,000 sq. ft.) and Setra Systems in Boxborough (100,000 sq. ft.).

Marlborough Hills (2 Results Way) • Marlborough, MA

2017 FORECAST

Post-election market dynamics should remain steady and trend in a positive direction in 2017. Expect both tenants and landlords to remain cautiously optimistic as everyone grows accustomed to new government leadership and policies. Notable areas to keep an eye on in 2017 include: the life science sector, which will continue to drive demand (there is a potential build-to-suit in the cards for one of the three large life science companies in the market today); continued organic growth from established companies; rents, which will likely remain flat; and M&A activity and its impact on sublease supply.

SPOTLIGHT:

DATA CENTER & NETWORK SOLUTIONS

Evolving at an exponential pace over the last century, it was inevitable that technology would begin to converge with commercial real estate in a significant way. Increasingly, the needs for remote access, high-speed connections, powerful software and interconnectivity are driving executives to evaluate and diversify their company's technology platform and capabilities that are made available to their employees 24/7, worldwide.

Since these requirements are still so new to the considerations of a real estate search, when occupiers evaluate space, they often overlook one of the most important necessities: bandwidth. With that in mind, CBRE/New England has launched a new Data Center & Network Solutions service, dedicated to assisting clients with their telecommunications and data center needs. To illustrate the increasing importance of this field, there are a few statistics to consider:

- Working with a team that specifically focuses on data center and network solutions can provide **25-30%** average savings on bandwidth costs for clients
- **90%** of owners and property managers say advanced communications is the most important selling point after location, price and parking
- **61%** of owners report that having advanced communications in their buildings provides them with a competitive advantage
- Data production will be **44** times greater in 2020 than it was in 2009

by Brad McLaughlin (brad.mclaughlin@cbre-ne.com) and Rich Modliszewski (rich.modliszewski@cbre-ne.com)

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WHEN YOU NEED US

Because technology is changing so rapidly, many clients are overpaying for limited bandwidth and lousy performance, here are some of the compelling events that might cause an enterprise to evaluate their network architecture:

OPENING OR MOVING OFFICES

RAPIDLY INCREASING NETWORK COSTS THAT ARE UNPREDICTABLE

ACQUISITION OR DIVESTITURE OF ANOTHER COMPANY OR DIVISION

LATENCY CONCERNS

MOVING TO THE CLOUD OR COLOCATION FACILITY

SUBURBAN METRO SOUTH OFFICE MARKET

by Patrick Joyce, (patrick.joyce@cbre-ne.com)

After a strong and steady 2015 in the Metro South market, **activity remained stable for the majority of 2016,** ending the year with negative absorption of 132,000 sq. ft.

One of the most noteworthy transactions of 2016 was Moderna Therapeutics' 15-year commitment to build a 200,000 sq. ft. state-of-the-art clinical manufacturing facility at 100 Upland Road in Norwood. The expansion and migration of life science firms from Cambridge to the suburban markets continues to be a theme that is tracked closely, and one that should endure in 2017 given the lack of inventory and rising rents in the Cambridge market. Historically, when companies relocate or expand from Cambridge to the suburbs, they have focused on the already established life science hubs of Waltham, Lexington and Bedford, which makes the expansion of Moderna to Norwood all the more significant.

Elsewhere in the Metro South Office market, 101 Station Drive in Westwood continued its positive momentum from 2015 into 2016, with the relocations of both Mott MacDonald and Boston Children's Hospital for a combined 63,000 sq. ft. of new leases in the building. Also in the Route 1 South submarket, Blue Hills Bank expanded and relocated their headquarters to 500 River Ridge Drive in Norwood. Formerly occupied by insurance giant FM Global for many years, 500 River Ridge Drive has been repositioned as a multi-tenanted building, and ownership has invested a significant amount of capital to improve the common areas and amenities. In the Braintree/Quincy market, the most significant leasing velocity was seen at 3 Batterymarch Park in Quincy. J. Calnan & Associates, Topco Associates, Bedivere Insurance and Sentient Jet combined to lease over 67,000 sq. ft. in the building.

> Reebok's soon-to-be-vacant Canton campus could present a prime opportunity for mixed-use development.

On the sales side, both FoxRock Properties and Grander Capital led the way with the purchase of two assets each. In 2016, FoxRock continued their portfolio expansion with the addition of 1 Heritage Landing in Quincy, which they purchased from Campanelli for an undisclosed price. 1 Heritage Landing was in the news in 2015 for its 90,000 sq. ft. lease to State Street. FoxRock also stayed busy with the purchase of 350 Granite Street in Braintree from New Boston Fund for $16.5 million ($98 per sq. ft.). Since FoxRock was able to buy 350 Granite Street for under $100 per sq. ft., they will be able to make significant capital improvements to the building, with the goal of attracting tenants that would typically gravitate towards the more traditional Class A options in the Braintree/Quincy market.

Grander Capital also remained active on the acquisition front with the purchase of both 2 Heritage Landing and 2300 Crown Colony Drive, both in Quincy. 2 Heritage Landing is a 185,000 sq. ft., nine-story building that was the main focus of Campanelli's repositioning of their North Quincy assets from 2013-2015. This building has served as a new headquarters for many companies looking to relocate from the downtown market to escape the rising rents of the CBD and the Seaport District. Grander's second acquisition, 2300 Crown Colony Drive, is a 50,000 sq. ft. building that is anchored by the corporate headquarters of Work N' Gears. 2300 Crown Colony Drive was purchased from Lone Star Funds for $6.8 million ($135.79 per sq. ft.). This is the second time in two years that the property has

100 Upload Road • Norwood, MA

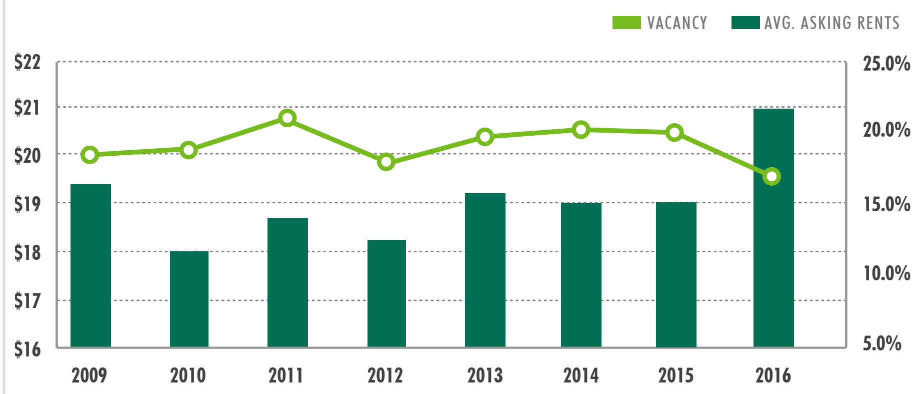
changed ownership. In 2015, Lone Star Funds purchased it as part of a 53-building portfolio from Commonwealth REIT for $3.9 million ($78 per sq. ft.). With these two acquisitions, Grander continues to expand their presence in the Metro South market, having made previous purchases of 300 Crown Colony Drive in 2013 and 110 Shawmut Road in Canton in 2014.

In other investment sales news, 100 Technology Center Drive in Stoughton is currently under agreement and the property is expected to trade by year's end. This 195,000 sq. ft. building served as the former headquarters to Reebok and then to The Shaw Group before their relocation to Canton. The property has been vacant for many years and is a prime candidate for repositioning by new ownership. This large piece of space also ties into one of the major themes being tracked in the market, big block availability.

In Westwood, Eversource has made 70,000 sq. ft. available this year in their corporate headquarters on Station Drive. Not far down the road in Norwood, MEDITECH has made the full building at 720 University Avenue available for either purchase or lease. The building itself is 80,000 sq. ft. and is surrounded by over 60 acres of developable land. Continuing farther down Interstate 95 to Mansfield, Medtronic's acquisition of Covidien has led them to consolidate their campus in Cabot Park. Two of their buildings—9-11 Hampshire Street and 5 Hampshire Street—are now vacant and available, adding 160,000 sq. ft. of negative absorption to the market since 4Q 2016.

Most recently, Reebok made waves when they announced that they will be relocating their headquarters to downtown Boston in September 2017 and vacating their existing campus in Canton, in an effort to reposition the company. While the campus could potentially be another big block of available space should it remain as office, it is a prime candidate for redevelopment into a potential mixed-use site.

METRO SOUTH
ASKING RENTS VS. VACANCY



Source: CBRE Research

2016 SNAPSHOT

VACANCY:
2015: **19.9%**
2016: **16.6%**

ABSORPTION:
2015: **415K**
2016: **(133K)**

AVAILABILITY:
2015: **20.8%**
2016: **20.0%**

ASKING RENTS:
2015: **$19.10**
2016: **$21.02**

2017 FORECAST

Looking ahead to 2017, the vast number of big blocks available in the Metro South market will likely indicate how the remainder of the market goes. Potential new construction remains on the horizon and could also impact inventory, as LStar Development has continued finalizing development plans for Union Point in Weymouth, a master-planned mixed-use project that features an MBTA Commuter Rail station. The 1,200 acres of land could accommodate 4,500 residential units, six million sq. ft. of commercial space, lakefront retail and entertainment facilities including a sports stadium, village center, civic areas, recreational parks and trails and athletic playing fields.

SUBURBAN LAB MARKET

by Alex Plaisted, (alex.plaisted@cbre-ne.com)

Life science demand in suburban Boston throughout 2016 was as strong as ever. Robust organic growth combined with migration from Cambridge fueled over 1.3 million sq. ft. of leasing completed by the life science sector, which accounted for one million sq. ft. of absorption. This is a 35% increase from 2015, and 650,000 sq. ft. of these transactions have been from Cambridge tenants migrating to the suburbs. This strong demand has led to the development of new supply, with speculative construction at 115 Hartwell Avenue in Lexington and 828 Winter Street in Waltham.

Demand was primarily driven by former Cambridge tenants and organic growth. In 2016, there were 25 life science transactions, of which 23 saw tenants growing. Biogen's spinoff, Bioverativ, leased 122,500 sq. ft. of research space in Waltham and WAVE Life Sciences is opening a 60,000 sq. ft. lab facility in Lexington to accommodate their growth out of Alewife. ModeRNA Therapeutics and Alnylam both opened 200,000 sq. ft. manufacturing facilities in the Route 128 South market and Brammer Bio, a gene therapy startup, is building out a 50,000 sq. ft. manufacturing facility on Hartwell Avenue in Lexington.

Organic growth drove 850,000 sq. ft. of leasing in 2014 and 1.3 million sq. ft. in 2016.

TESARO renewed and expanded their offices in Waltham, leasing 115,000 sq. ft., and AMAG Pharmaceuticals did the same next door, expanding to 60,000 sq. ft.

The northern suburbs saw strong activity as well. Ocular Therapeutix leased 70,000 sq. ft in Bedford, Augmenix relocated from Waltham to 20,000 sq. ft in Bedford, and Metabolix left Cambridge and leased 26,000 sq. ft. in Woburn. The Metro West market also saw growth in the life science sector, with Sanofi Genzyme expanding into an additional 50,000 sq. ft. in Westborough.

Life science developers have taken note of the strong demand, which has resulted in the first ever speculative laboratory construction in the suburbs—King Street Properties' 115 Hartwell Avenue in Lexington, a 90,000 sq. ft. lab building that has been 66% leased to WAVE Life Sciences prior to completion. King Street Properties has been one of the most active suburban life science landlords with their acquisitions of 830 Winter Street in Waltham and 45-65 Hayden Avenue in Lexington. Additionally, King Street Properties is planning to break ground on a new 140,000 sq. ft. speculative lab building in Waltham at 828 Winter Street. Other landlords have positioned their speculative redevelopments for the flexibility to offer both office and lab space to prospective tenants. Notable projects include Anchor Line Partners' 425,000 sq. ft. speculative redevelopment at 200 Smith Street in Waltham, Griffith Properties' 100,000 sq. ft. lab conversion at 266 Second Avenue in Waltham, and Boylston Properties' 180,000 sq. ft. speculative redevelopment at 490 Arsenal Street in Watertown. One of the biggest beneficiaries of the life science demand was owners of single-story buildings that have historically been used for R&D purposes. Rental rates for well-situated single-story buildings rose significantly in 2016 and vacancy came down dramatically.

2017 FORECAST

In 2017, the Suburban Lab market is expected to continue along the same trajectory. The market has established itself as an appealing alternative for Cambridge tenants and will continue to serve as an outlet and relief valve given the Cambridge market dynamics. Large blocks of space are in demand. Between current availabilities and build-to-suit options in Waltham and Lexington, it is likely that a few of these spaces will be leased by life science tenants in 2017. With the continued lack of existing life science inventory in the suburbs, landlords will become more open to converting traditional office and R&D buildings to a life science use.

HERE THERE & EVERYWHERE:

LAB GROWS BEYOND TRADITIONAL BOUNDARIES

Lab occupiers are a driving force in the city of Cambridge, but a story emerging more recently is the spread and growth of this industry to other parts of the Greater Boston market. Some suburban clusters have consistently had pockets of life science activity, but one advancing trend is Boston, more specifically the Seaport District, being considered as a life science alternative.

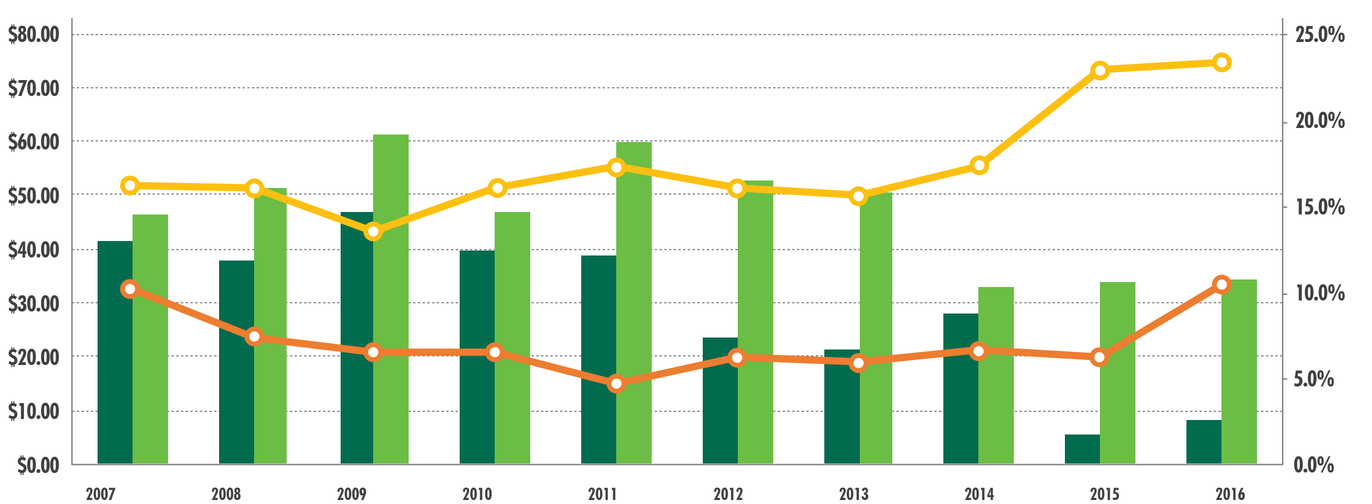
THIS TREND IS ATTRIBUTABLE TO THREE KEY METRICS

Organic expansion by local companies

Greater Boston's growing reputation as a life science hub

Cambridge's supply constraints + ever-increasing occupancy costs

GREATER BOSTON
CAMBRIDGE AND SUBURBAN LAB RENTS VS. VACANCY



by Curtis Cole (cutis.cole@cbre-ne.com)

EVOLVING GEOGRAPHIES

Cambridge demand currently outpaces supply by a ratio of 2.5:1. Requirements from major out-of-market tenants—including Shire, Johnson & Johnson and Bristol-Myers Squibb—are for large blocks of space, yet large blocks of space are exactly what Cambridge lacks even with the four million sq. ft. of new construction since 2013. Furthermore, rising rents in Cambridge have been more sustainable for established blue-chip operations than startups and, as a result, big pharma now comprises 50% of the Cambridge Lab market.

The solution for many has been to look at other promising submarkets of Greater Boston, including the inner suburbs and hot spots like Waltham and Lexington. This broadened focus has been a boon to the suburbs; with other industries having a fairly quiet year, life science companies drove the bulk of occupier activity in 2016. Although overall suburban absorption was negative, life science absorption topped one million sq. ft. Furthermore, asking rents for existing lab space rose from $34-40 per sq. ft. in 2015 to $38-52 per sq. ft. in 2016—a 10-20% increase, depending on product type.

It isn't only the suburbs close to the city that are gaining attention; the 495 belt has also experienced growth in the life science sector over the past few years. One of the key advantages of this area is the greater availability of land sites that can accommodate large-scale lab projects—and at a lower cost of land acquisition than urban submarkets. Alnylam Pharmaceuticals is one company taking this route and is building a 200,000 sq. ft. facility in Norton. Many existing vacant buildings with large blocks of space are also being considered for lab conversions. Municipal governments are keen to capitalize on these advantages, and have been offering tax incentives in addition to the area's lower occupancy costs.

ORGANIC GROWTH

As much as big out-of-market companies grab headlines when they choose to move to Greater Boston, organic growth by existing life science occupiers has also been propelling the market. The Boston area has always had a strong base of world-class educational institutions and, increasingly, innovators are choosing to build their businesses locally. ModeRNA Therapeutics, Momenta Pharmaceuticals, Foundation Technologies and CRISPR Therapeutics are all prime examples of companies that have been growing their footprints within the Greater Boston market.

Faced with historically high rents in prime spots like Kendall Square, many homegrown shops are finding other ways to meet their space requirements. Some companies have sought space in the suburbs for their manufacturing functions, notable because of the choice to keep these operations close to the headquarters instead of moving them out-of-state. As a result, there has been an uptick in GMP manufacturing requirements throughout the suburbs, particularly in Billerica, Lexington, Norwood and Norton. Examples include Brammer Bio in Lexington and ModeRNA Therapeutics in Norwood. Big pharma companies are also more likely to seek new construction, creating opportunities for smaller firms to backfill space.

HERE THERE & EVERYWHERE:

LAB GROWS BEYOND TRADITIONAL BOUNDARIES

THIS WOULDN'T HAVE HAPPENED FIVE YEARS AGO…

Speculative developments in the suburban markets are being considered or built for lab, whereas previously they were almost exclusively focused on office opportunities.

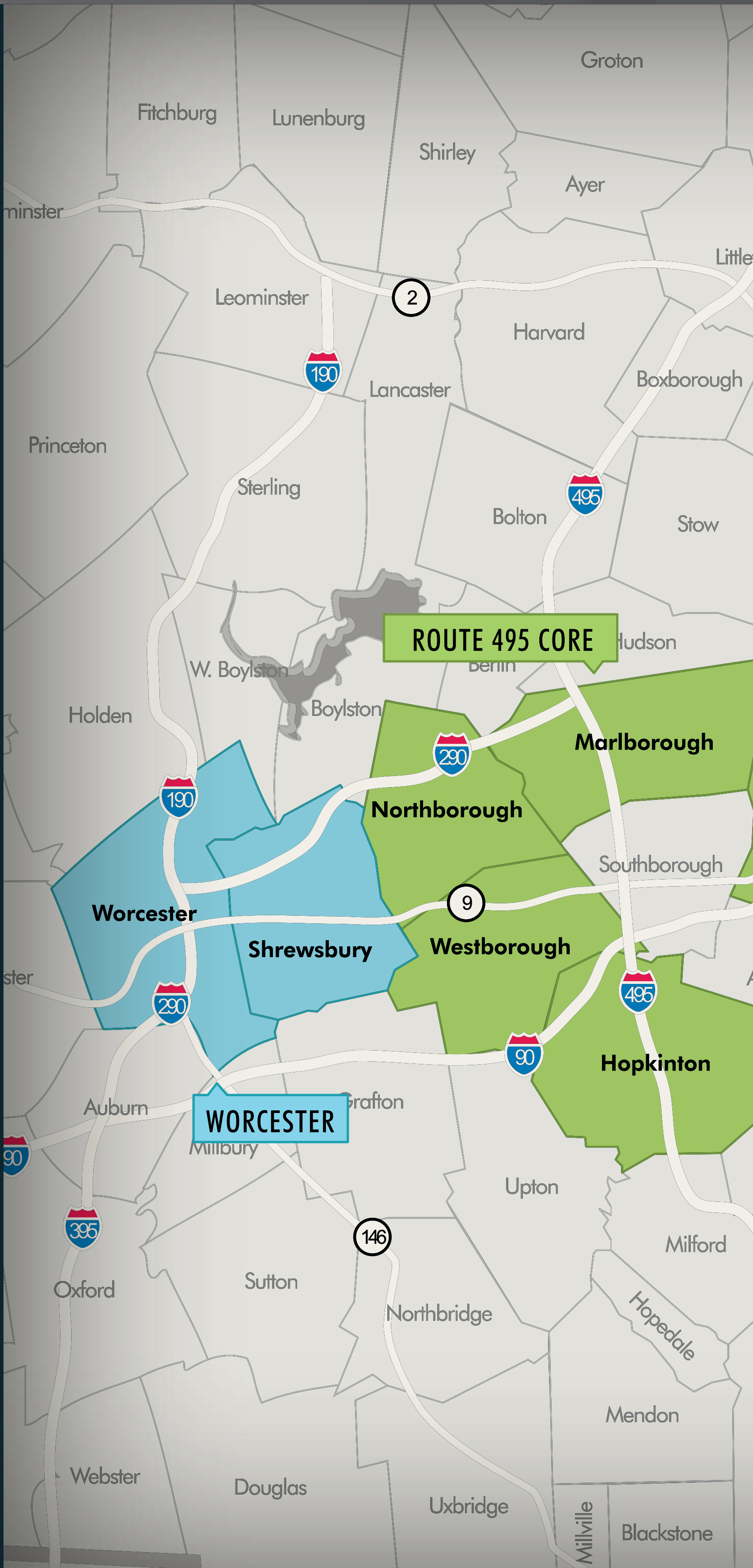
- **115 Hartwell Avenue • Lexington:**
  The first-ever speculative lab building in the suburbs
- **828 Winter Street • Waltham:**
  Speculative lab building planned to break ground in 2017
- **200 Smith Street • Waltham:**
  Speculative renovation of a former U.S. Post Office that is targeting lab and office users

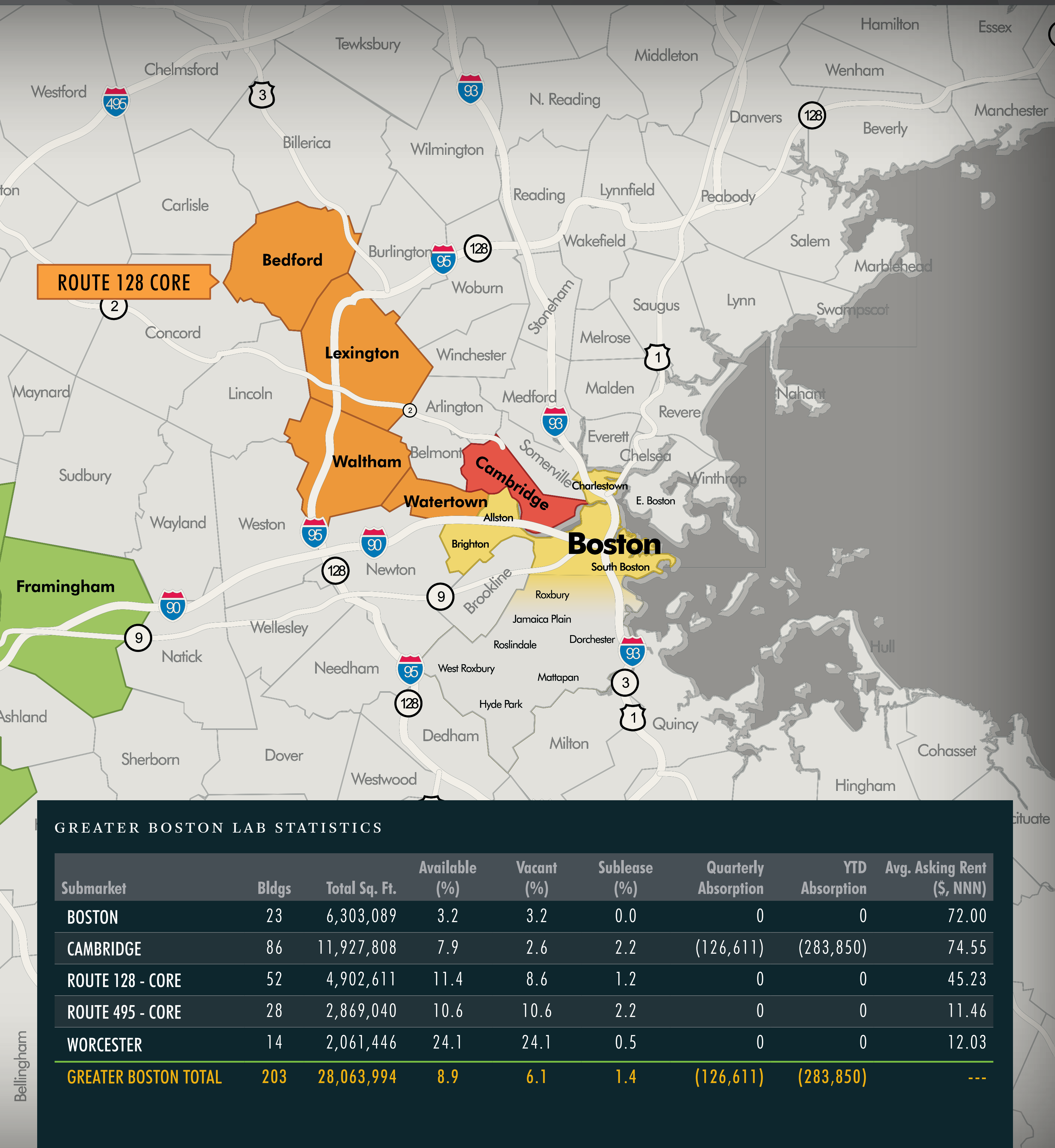
Landlords that have traditionally focused on office properties are converting space to lab, and existing buildings are being repositioned to court life science occupiers.

- **115 Hartwell Avenue • Lexington:**
  Boston Properties
- **266 & 275 Second Avenue • Waltham:**
  Griffith Properties
- **490 Arsenal Street • Watertown:**
  Boylston Properties

The geographies attracting attention from the life science sector are expanding beyond the previous scope. New locations becoming increasingly appealing are:

- **Seaport District** (South Boston)
- **Alewife/Fresh Pond** (Cambridge)
- **Inner suburbs**





GREATER BOSTON LAB STATISTICS

Submarket	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarterly Absorption	YTD Absorption	Avg. Asking Rent ($, NNN)
BOSTON	23	6,303,089	3.2	3.2	0.0	0	0	72.00
CAMBRIDGE	86	11,927,808	7.9	2.6	2.2	(126,611)	(283,850)	74.55
ROUTE 128 - CORE	52	4,902,611	11.4	8.6	1.2	0	0	45.23
ROUTE 495 - CORE	28	2,869,040	10.6	10.6	2.2	0	0	11.46
WORCESTER	14	2,061,446	24.1	24.1	0.5	0	0	12.03
GREATER BOSTON TOTAL	203	28,063,994	8.9	6.1	1.4	(126,611)	(283,850)	---

GREATER BOSTON INDUSTRIAL MARKET

by Rachel Marks, (rachel.marks@cbre-ne.com)

The Greater Boston Industrial market has continued its impressive run. Single-digit vacancy rates are the norm in nearly all submarkets, and speculative construction is finally coming into play as **existing product cannot supply the space necessary to meet demand.**

At almost six million sq. ft., industrial absorption is the highest it has been in over a decade.

Strong consumer spending, an increased demand for speed-to-ship, the legalization of recreational marijuana and low interest rates have combined to create **a flurry of demand** not seen in the Greater Boston area since before the recession. The overall industrial market has closed out the year with nearly six million sq. ft. of positive absorption, well ahead of the 3.5 million sq. ft. absorbed in 2015.

2016 SNAPSHOT

VACANCY:

2015: **9.8%**
2016: **7.6%**

ABSORPTION:

2015: **3.4M**
2016: **5.9M**

AVAILABILITY:

2015: **13.4%**
2016: **11.1%**

ASKING RENTS(NNN):

2015: **$6.64**
2016: **$7.21**

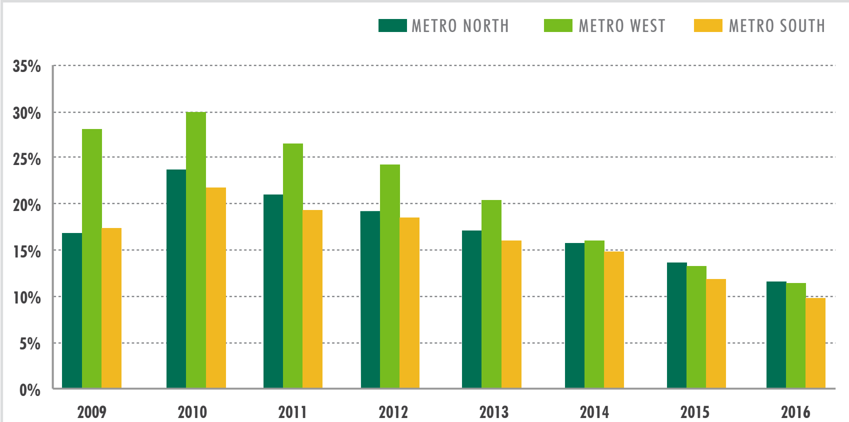
A MUTUAL MIGRATION

As speed-to-ship has become the single most important factor in most e-commerce supply chains, retail giants have zeroed in on infill submarkets surrounding cities to locate warehouses close to the population center. In Boston, with the construction boom, mechanical construction firms like J.C. Cannistraro have pushed inward to satisfy their needs to be as close to their clients as possible. Cannistraro completed a long-term ground lease with the City of Boston's EDIC for 25 Fid Kennedy Avenue, a 3.5-acre site where it will rehab an existing 157,000 sq. ft. building and consolidate its manufacturing and warehousing operations from Wilmington, Watertown and Stoughton.

This demand, coupled with the recent spike in infill redevelopment into higher and better uses, has driven up asking rents in the urban and close-in suburb areas of Boston, while year-over-year (y-o-y) vacancy in the urban market has been pushed down three basis points (bps) from the close of 2015.

This e-commerce and 3PL (third-party logistics) urban demand has also created a surge of requirements in the suburbs, as longstanding urban industrial occupiers have been forced to look elsewhere to find affordable space. Pharmaceutical and life science companies have not been immune from this phenomenon, as Cambridge has extremely limited vacant space for expansion. Manufacturing requirements for companies like Alnylam Pharmaceuticals, Moderna Therapeutics and WAVE Life Sciences have landed in the suburbs, in Norton, Norwood and Lexington, respectively.

GREATER BOSTON
HISTORIC INDUSTRIAL AVAILABILITY



Source: CBRE Research

HIGH-BAY 2016 SNAPSHOT

VACANCY:
2015: **8.5%**
2016: **6.6%**

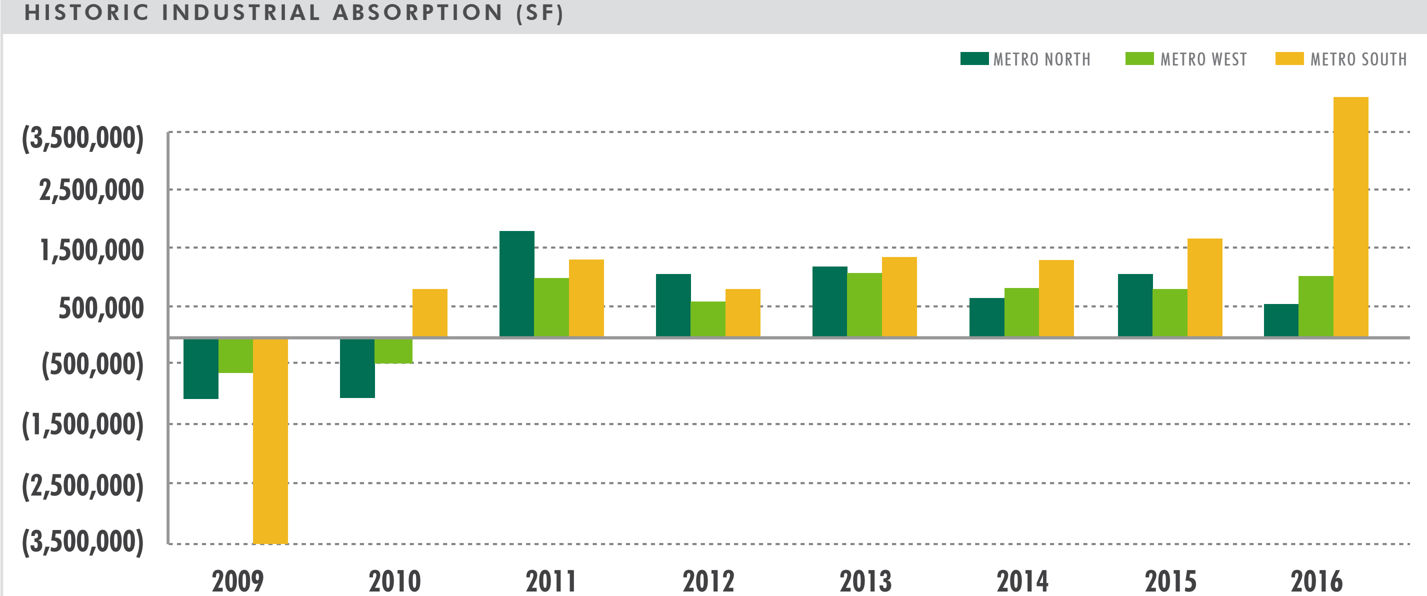
AVAILABILITY:
2015: **11.0%**
2016: **10.7%**

ABSORPTION:
2015: **1.0M**
2016: **1.8M**

METRO NORTH

- With just over 600,000 sq. ft. of absorption in 2016, the Metro North Industrial submarket remained relatively flat compared to the West and the South, but it still saw falling vacancy rates in each quarter of 2016. Demand for high-bay space remains strong, with overall vacancy in the North reaching a historic low of 8.9%.
- The majority of the absorption was derived from several smaller deals. FedEx increased its footprint at 90 Salem Road in Billerica by 100,000 sq. ft. to a total of 215,000 sq. ft. CNE Direct leased 65,000 sq. ft. at 1 Technology Drive in Peabody, where it will house all IT Asset Disposition Operations. 1-800-PACK-RAT leased 63,000 sq. ft. at 14 Aegean Drive in Methuen.
- Urban relocations to the close-in suburbs were widespread, perhaps no better example of which was the move of The New England Flower Exchange from its long-time home on Albany Street in Boston to its new 60,000 sq. ft. space at 260 Second Street in Chelsea. The owners of the Albany Street site have plans to redevelop the property into a higher and better use.

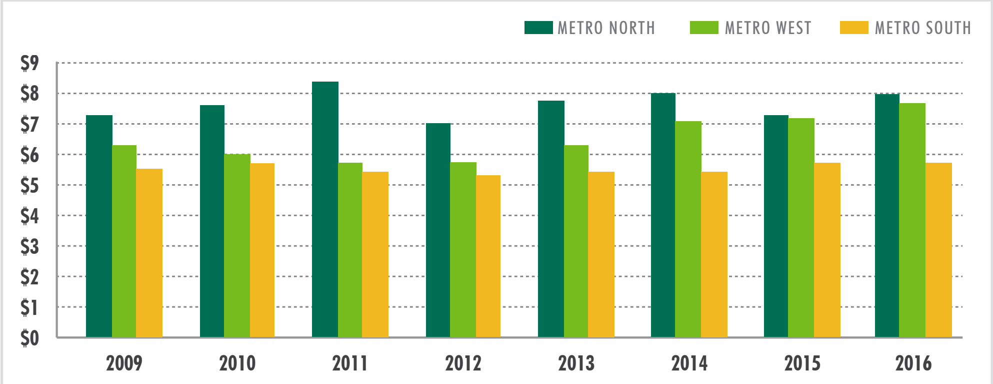
GREATER BOSTON
HISTORIC INDUSTRIAL ABSORPTION (SF)



Source: CBRE Research

- The average asking rental rates in the Metro West market have seen the strongest growth across all submarkets in 2016. The overall Greater Boston Industrial market has increased by just $0.08 per sq. ft. throughout the year, while the Metro West market saw a $0.46 per sq. ft. increase, y-o-y.
- Much of the market strength can be traced back to the Interstate 495/Route 2 West submarket. Potpourri Groups' brand new 450,000 sq. ft. building at 3 Distribution Center Circle in Littleton delivered in the second quarter, and the company is completely operational out of the facility. Nestlé Water North America signed a 135,000 sq. ft. lease at 66 Saratoga Boulevard in Devens.
- Additionally, at 12 Industrial Drive in Milford, a large e-commerce retailer has continued to expand in the region, taking 162,000 sq. ft. of 30' clear space. GE Healthcare renewed in 100,600 sq. ft. at 14 Walkup Drive. Dade Paper Company, a paper goods distributor new to the Boston market, took 40,000 sq. ft. of high-bay space at 190 Mechanic Drive in Bellingham. An e-commerce retailer has continued to expand in the region, taking 162,000 sq. ft. of 30' clear space. GE Healthcare renewed in 100,600 sq. ft. at 14 Walkup Drive. Dade Paper Company, a paper goods distributor new to the Boston market, took 40,000 sq. ft. of high-bay space at 190 Mechanic Drive in Bellingham.

GREATER BOSTON
HISTORIC INDUSTRIAL RENTS (NNN)



Source: CBRE Research

METRO SOUTH

- With more than 4.2 million sq. ft. absorbed throughout 2016, the Metro South market was the clear leader of the overall Greater Boston Industrial market. The submarket saw a steady stream of leasing activity throughout the year, partially attributed to the increase in high-bay requirements as well as several new construction opportunities in Taunton and Fall River.
- As warehouse users invest in technologies to allow them to maximize their cubic feet usage,

the high-bay sector continues to see most of the activity in the Metro South market. The sector boasted some of the strongest demand in 2016. Vacancy rates of high-bay space, which were 7.6% just one year ago, dropped to only 3.6% by the end of the year.

- Much of the absorption in the Metro South is due to new construction projects, like a large e-commerce retailer's new 1,000,000 sq. ft. warehouse in Fall River, and Martignetti Liquors' brand new 650,000 sq. ft. facility in Taunton.
- There were also several large lease transactions in existing buildings in the South, as Cold Chain Technologies leased 227,000 sq. ft. of 32' clear space at 135 Constitution Boulevard in Franklin, 47 Brand leased 274,000 sq. ft. of space at 140 Laurel Street in East Bridgewater, and Insul-Mart LLC signed a lease for 107,216 sq. ft. at 260 Kenneth Welch Drive in Lakeville.

INVESTMENT SALE ACTIVITY

Investors have taken note of the lucrative opportunities in the industrial world, and institutional demand for industrial product reached new heights throughout the year. Capital has been drawn to the stability and NNN lease structure of industrial product, and that led to more than $1.7 billion in investment sale transactions in the Greater Boston market in 2016.

The most notable vacant sale of the year was National Development's acquisition of 975 University Avenue, the state-of-the-art former Martignetti Liquors facility. The 32' clear building was sold for $93 per sq. ft. with no income in place, but National swiftly leased the entire 365,000 sq. ft. to MS Walker.

Other notable investments of 2016 included the sale/leaseback of 150 Depot Street in Bellingham by Dunkin' Brands to Bentall Kennedy for $101 per sq. ft., the sale of 18 Independence Drive in Devens to one of its tenants, SMC, Ltd., a plastics manufacturer and the acquisition of 192 Mansfield Avenue in Norton by Northbridge Partners for $84 per sq. ft.

90 Salem Road • Billerica, MA

150 Depot Drive • Bellingham, MA

2017 FORECAST

The Greater Boston Industrial market remains well-positioned to continue to tighten in 2017. Even though there is two million sq. ft. of anticipated new construction deliverables in 2016 and 2017, nearly 80% of that is committed, and demand will continue to outpace new supply.

Quality, high-bay product will continue to do well, no matter what submarket it resides in. Speed-to-ship will remain a major demand driver, even with uncertainty lingering in the economy as the nation transitions to a new presidential administration.

Lower, B-grade product will see activity as well, as recreational marijuana rolls out statewide. Asking rents will continue to rise in all submarkets as vacancy tightens. Accordingly, it is expected that market conditions will continue to favor landlords in the coming year.

Eataly (The Shops at Prudential Center) • Boston, MA

BOSTON URBAN RETAIL MARKET OVERVIEW

By Jeremy Grossman, (jeremy.grossman@cbre-ne.com)

Boston is rapidly becoming one of the most desirable cities in the country for retail thanks to a number of metrics, including positive sales trends, a rising, more affluent population within the city, strong employment and increasing personal income. Currently, because of the recent spike in urban residential development, Boston is the sixth largest of the retail markets tracked by CBRE Econometric Advisors (CBRE EA). In 2016, strong demand for urban retail, coupled with diminishing supply of inventory, caused another year of rent inflation and Boston's core urban submarkets produced historically high rents.

Mixed-use development activity throughout Boston's core submarkets has produced much-needed inventory for the retail sector, necessitating new product. Developers have provided ground floor and often multi-level space for retail, generally consisting of restaurants, specialty grocery services and lifestyle concepts.

By category, fast-casual, full-service sit-down restaurants and boutique fitness uses have been dominating retail expansion in Boston. Traditional and luxury operators remained active, though with limited opportunities available new openings slowed in 2016. Traditional and specialty grocers, home improvement and larger-format general merchandise concepts are all actively pursuing locations in Boston.

Fast-casual, full-service sit-down restaurants and boutique fitness uses have been dominating retail expansion in Boston.

BACK BAY

Boston's Back Bay submarket continues to attract exceptional global retailers, luxury and aspirational brands and nationally recognized restaurants. Although demand is strong in the Back Bay, vacancy along the submarket's high street, Newbury Street, rose in 2016. With asking rents at historical highs, exceeding $300 per sq. ft. NNN for premium space along the street, and property owners recapturing space with the intent to secure value-add deals for its vacant space, the pool of prospects capable of affording the higher rent has diminished.

With renovations and development activity nearly complete at the Prudential Center and the mixed-use expansion of Copley Place underway, many traditional high-street retail uses have selected the mall properties for new stores, rather than the more typical high-street location. Recent openings at the Prudential Mall include Shinola, Eataly and Under Armour. Recent additions to Newbury Street include Sephora, Uniqlo, Le Labo and MUJI.

Boston is rapidly becoming one of the most desirable cities in the country for retail.

SEAPORT

Boston's Seaport District, which has over the last several years transformed into one of the region's most desired retail and dining destinations, continues to attract lifestyle and anchor retail, entertainment and the best local and national restaurants. The Seaport's direct access to the Boston suburbs, efficient and affordable parking, and significant commercial and residential growth, has led to the strong demand for retail space.

The early success of Legal Test Kitchen, Legal Harborside and Del Frisco's Grill at Liberty Wharf led to the emergence of some of Boston's finest restaurants. Many of these are anchored at Fan Pier, The Fallon Company's upscale mixed-use development, which recently attracted Mario Batali's first restaurant in Boston, Babbo Pizzeria, in addition to Mastro's Ocean Club, Nantucket-based Lola 42 and other successful local concepts.

WS Development's long-anticipated Seaport Square, currently under construction, will soon deliver anchor retail and entertainment, as well as a diverse mix of lifestyle offerings and services, supporting thousands of new residential units in the submarket. In total, over one million sq. ft. of additional retail will open in the coming years and solidify the Seaport District as one of the most viable submarkets in Boston.

While demand for Seaport Square, Fan Pier and other waterfront planned developments are high, the Fort Point Channel neighborhood within the Seaport District has become an alternative destination for boutique retail and an authentic dining experience. The announcement that General Electric will relocate its headquarters to the Fort Point neighborhood—joining State Street Corporation at One Channel Center—will certainly bring additional new shops and restaurants to the area. More recently, Lolita announced its second restaurant in Boston at 253 Summer Street on the Fort Point waterfront. Other retail and restaurant deals along Congress Street, Summer Street and other perimeter roads will soon be announced.

50 Liberty Wharf (Fan Pier) • Boston, MA

DOWNTOWN CROSSING

The transformation of Downtown Crossing over the last several years has reached a new high in 2016 with the long-awaited completion of Millennium Tower, the Godfrey Hotel and the opening of many new retailers and restaurants. Washington Street, Downtown Crossing's high-street consumer corridor, has quickly become a target for value and aspirational retailers, large and small. The widely publicized successful opening of global apparel retailer Primark, the first U.S. store for the company, as well as the strong response to Boston's newest large-format grocer, Roche Bros., has led to increased demand from other traditional retail and grocery uses.

Strong restaurant performance in the submarket has increased demand for that space type and has led to recent openings and announcements from noteworthy entities, including national celebrity chef Michael Mina, who opened PABU at Millennium Tower, and local favorite Boston Chops, planning an early 2017 opening. Other notable retail additions to the street include Forever 21, sweetgreen and Old Navy.

Heavy demand for retail with limited supply has pushed rents to a historical high, with asking rents exceeding $200 per sq. ft. NNN along Washington Street.

The significant commercial and residential growth over the last few years in the submarket has also sparked retail and restaurant interest in Boston's CBD. With Related Beal's redevelopment of the former Fidelity Block—now known as Congress Square—offering larger-format retail space within the CBD, further expansion into the submarket is expected. Repurposed office space converted to retail within the Financial District will also accelerate the growth of this sector, and rents are expected to rise accordingly.

Boston's core urban submarkets saw historically high rents in 2016.

BACK BAY

MARKET RENT

(SMALL SHOP):
$140.00-275.00 PSF

(ANCHOR):
$65.00-80.00 PSF

ALLOWANCE

(SMALL SHOP):
$0.00-50.00 PSF

(ANCHOR):
$0.00-40.00 PSF

FENWAY

Boston's Fenway neighborhood, led by developer Samuels & Associates' long-term, ambitious mixed-use development, is quickly becoming one of Boston's most desirable submarkets for retail and dining. Some of the notable occupiers include Target, which recently opened an urban flagship store that helps anchor the neighborhood; Sweet Cheeks and Tiger Mama, two popular restaurants from local celebrity chef Tiffany Faison; homegrown burger chain Wahlburgers; and most recently, Sephora, which opened its newest concept store along Boylston Street. With a growing number of tenants like these, Fenway will see strong retail and restaurant demand in 2017, along with rising rents.

The planned redevelopment of Landmark Center will deliver additional commercial space and retail anchors to the neighborhood, adding to its current mix of cinema, restaurants and shops. Increasing demand and commitments from national and global retail occupiers is expected given the significant commercial and residential growth in the neighborhood, and its proximity to several of Boston's largest colleges and universities.

Congress Square • Boston, MA

350 Washington Street • Boston, MA

SEAPORT

MARKET RENT

(SMALL SHOP):
$50.00-125.00 PSF

(ANCHOR):
$25.00-65.00 PSF

ALLOWANCE

(SMALL SHOP):
$30.00-150.00 PSF

(ANCHOR):
$20.00-40.00 PSF

DOWNTOWN CROSSING

MARKET RENT

(SMALL SHOP):
$60.00-150.00 PSF

(ANCHOR):
$45.00-75.00 PSF

ALLOWANCE

(SMALL SHOP):
$30.00-100.00 PSF

(ANCHOR):
$20.00-40.00 PSF

FENWAY

MARKET RENT

(SMALL SHOP):
$50.00-80.00 PSF

(ANCHOR):
$30.00-40.00 PSF

ALLOWANCE

(SMALL SHOP):
$30.00-125.00 PSF

(ANCHOR):
$20.00-40.00 PSF

URBAN RETAIL FORECAST

Retail demand and leasing activity remains very strong throughout Boston's core submarkets as stores in Boston continue the trend of increasing sales performance. Over the last five years, retail sales in Boston have grown at an annual rate of 3.4%, as reported by CBRE EA. Looking ahead, growth is projected to be over 4%. While 2016 saw historically high rents, this trend may slow in 2017 as increasingly cautious retailers become less aggressive with expansion and unwilling to pay the premiums demanded for prime retail space in Boston's top core submarkets.

With several new urban mixed-use developments delivering ground floor space to retail tenants early next year, significantly higher absorption and more openings are expected in 2017, specifically in the Seaport District, Fenway and Downtown Crossing submarkets. As these developments finalize leasing and retail absorption continues throughout the city, 2017 will also deliver less inventory to the market.

GREATER BOSTON RETAIL MARKET OVERVIEW

By Kevin Higgins, (kevin.higgins@cbre-ne.com)

Today, the retail industry is facing an unprecedented disruption in the form of the internet; industry experts have spoken of little else in recent years. As the typical Darwinian forces weed out the vulnerable players, new retail concepts emerge to meet changing needs. While e-commerce is increasing rapidly every year, it has not yet been able to overtake brick and mortar (B&M) retail. That said, the shifting competitive landscape is at the forefront of all retail management teams' radars, and their innovations have helped the sector remain relatively healthy since the end of the recession. While some companies have struggled to adapt and have since gone out of business, there have been several new entrants to the New England market that have done very well. Certain retail categories have had to make changes more quickly than others based on their online competitors and product. As a result, the pace of retail leasing may not be as fevered as it was two years ago, but landlords continue to report healthy demand in their centers and have minimal trouble filling vacant space. Moreover, the amount of space coming on the market is more balanced than it was a few years ago. A final strength indicator is that the A+ markets are still very tight and difficult to penetrate, especially for junior and larger box tenants. While the retail landscape has clearly shifted in the past decade, the resilience of B&M retail is as apparent as ever.

THE RETAIL CONVENIENCE MODEL

That old chestnut about real estate—location, location, location—has never been more true than it is today. However, convenience, convenience, convenience can now be added to this phrase. The ease and convenience of shopping online is causing many retailers to rethink their approach to selling goods. In a world filled with dual-income families and hour-plus commutes, people seem to have less time than ever. Thus, convenience is arguably now the most important part of the location equation. Consumers today are less likely to spend the afternoon strolling the mall; rather, they are focused on accomplishing specific tasks and moving on. Landlords and retailers are fully aware of this, and have been taking creative steps to maximize the convenience of their operations in ways that mitigate, or even improve upon, that provided by the internet.

WHAT IS A BRICK & MORTAR RETAILER TO DO?

Smartphones today are increasing the convenience factor for people tenfold and, to compete, companies are finding innovative ways to marry the online and B&M worlds. Today it is possible to download a phone application that knows where a consumer's favorite stores are located in the Natick or Burlington Mall—and even recommends which side of the mall to park on.

Like Starbucks, Dunkin' Donuts recently rolled out an application that allows a person to order coffee in advance, so that upon arrival they can skip the line and pick up the drink immediately, or even have it delivered to them in their car. Some other stores in urban areas are beginning to take advantage of their localized inventories to do their own same-day delivery, using Uber to test real-time distribution to customers. Specifically, there is a major upscale fashion brand that will deliver a new shirt to an executive who spills coffee on themselves within an hour of the order, so that they can show up to their meeting in a spotless shirt.


Tuscan Village • Salem, NH


Meriel at Marina Bay • Quincy, MA


Lakeway Commons • Shrewsbury, MA

ONLINE-ONLY RETAILERS

On the other end of the spectrum, there is an interesting development transpiring among traditionally online-only retailers. In the last couple years, online-only retailers have begun to open B&M stores in major cities and suburbs throughout the country, looking to capitalize on the healthy demand for a physical presence. Over 70% of consumers still prefer to shop in a B&M location, seeking the tactile experience, the social opportunity and the personalized service that cannot be matched online. This principle even holds true for Millennials, who spend a great deal of time researching products online, but frequently complete the actual sale at a local shop. After all, immediacy is very important to this generation and making an online purchase requires waiting a few days for shipping—or paying hefty charges to get it sooner. Furthermore, certain items have a higher experiential factor. Trying on makeup, for instance, cannot be replicated online; thus, retailers such as Ulta, Sephora and H&M continue to bring customers into their stores looking for these products.

MULTITASKING WITH DIVERSIFICATION

Another major component of convenience is multi-tasking; malls and other retail centers are looking for ways to diversify their offerings and enable their customers to knock off many items on their to-do lists at once. Grocery stores, fitness uses, entertainment and even medical offices are now being integrated into the traditional retail model. A customer at MarketStreet in Lynnfield or Legacy Place in Dedham can grab a coffee, swing by Lululemon before a spin class or kickboxing lesson, and then pick up a fully prepared gourmet dinner from Whole Foods all before getting back in the car to head home.

REGIONAL MALLS

The concept of combining multiple services into one retail platform is not new. It is, in fact, the primary philosophy behind regional malls. While industry observers frequently lament the decline in this sector, the properties that are struggling are mainly those in C or D markets. Some of these will eventually be shuttered and repurposed for non-retail uses, including government offices, schools or medical uses. Additionally, some anchor stores have struggled with declining traffic and comp sales, as the department store model is faced with the challenge of reinventing itself. On the contrary, the outlook is rosier for regional malls in the A and B+ markets as they continue to do well, especially those that are actively innovating to stay relevant and adding uses demanded by today's consumers.

By embracing the new omnichannel paradigm, retailers can change the reality of the traditional store model. For example, Millennial customers are partial to the sharing economy—that is, paying for the temporary use of something rather than permanent ownership. Such demand has led to the rise of companies like Rent the Runway, where people can pay to borrow designer formalwear for an event. To combat the difficulty with knowing whether the clothing will fit, the company has now partnered with Neiman Marcus and will be featured in its stores. This solution has the added benefit of expanding the demographic for each retailer: Rent the Runway's average customer is 29 years old, while Neiman's is 51.

By embracing the new omnichannel paradigm, retailers can change the reality of the traditional store model.

INNOVATION

- **Many brands hold a cachet** and smart mall owners are capitalizing on that concept by featuring those stores. At the Derby Shoppes in Hingham, owner WS has recently added a Sephora, Tesla, The Shade Store and an expanded Apple Store, with the aim of staying fresh and attractive to shoppers.

- At the other end of the scale, **discount and off-price retail continues to be a demand driver** with stores such as TJ Maxx, Marshalls, Saks Off 5th and Nordstrom Rack enjoying robust sales and selectively opening new stores throughout New England.

- Major **online-only retailers are now opening pop-up shops** like bookstores and grocery stores to showcase new products.

Best Buy added a **"buy online, pickup in store"** feature that has aided them in driving sales and cutting delivery costs.

Tradesy, a mobile app and website that re-sells designer fashion, has partnered with Happy Returns so customers can **return products to kiosks also known as Return Bars,** in metro areas throughout the country.

GROCERY STORE INNOVATION

Until recently, the grocery sector had remained largely untouched by the surge in online shopping. With new internet-based food delivery services now competing heavily to change this model, traditional retailers are defining their niche and exploring new avenues to meet consumer needs.

Roche Bros. has expanded into downtown Boston, satisfying pent-up demand for a grocery store in this area. The customer base includes not only local residents, but the many office workers who pick up groceries after work or grab a meal for lunch. In addition, Roche Bros. is planning to expand its smaller store concept, Brothers Marketplace, in select markets. Having already opened in Medfield and Weston, the stores harken back to the days of the corner grocer, offering both fresh, quality produce and convenience.

Stop & Shop continues to hold the largest share of New England's grocery business, but is facing stiff competition from all segments in this category. Not one to rest on its laurels, Stop & Shop continues to adapt to changing consumer demand and has rolled out its bfresh concept in select urban areas. This new concept has a smaller footprint than its large store format, but offers fresh products, value and local convenience.

Whole Foods has a new store opening planned in Shrewsbury in 2017 and recently opened new stores in Bedford, NH and Westford, MA. The company is a major traffic driver at shopping centers around New England, with numerous organic offerings and a wide array of prepared food options.

Wegmans has been steadily adding new stores in the Greater Boston area. A location will open at the Natick Mall in 2018 and will be served by a covered parking deck, allowing shoppers to avoid rain and snow. The company has also recently announced the opening of a new store at the Meadow Glen Mall in Medford.

Market Basket continues to grow its large store format, drawing customers from beyond what would be considered a typical trade area for a grocery store. Its large selection, low cost and personalized service attracts shoppers from all income levels.

SNAPSHOT OF RETAIL EXPANSION ACROSS NEW ENGLAND

GROCERY
bfresh
Wegmans
Whole Foods Market
Brothers Marketplace

FITNESS
Equinox
Life Time
Planet Fitness

SPECIAL INTEREST FITNESS
Orangetheory Fitness
B/SPOKE
CycleBar
SoulCycle
Title
Everybody Fights
pure barre

APPAREL
PRIMARK

MEDICAL
CareWell Urgent Care
medspring
ConvenientMD
MedPost Urgent Care

ENTERTAINMENT
ArcLight Cinemas
Kings
Dave & Buster's
Sky Zone

OTHER
Eataly
Hobby Lobby
Total Wine & More
Cost Plus World Market

FAST-CASUAL
sweetgreen
b.good
Shake Shack

WHO IS MOVING?

The evolving nature of retail means that when some stores close, opportunities are created for new companies. With the recent shuttering of Sports Authority, for instance, Total Wine will be taking over its former Danvers site, and Sierra Trading Post, TJ Maxx's new concept, is acquiring the location at Shopper's World in Framingham. Similarly, the downsizing of Sears in Burlington and Braintree has provided Primark with an opportunity to enter two major regional markets. Also in Braintree, a Saks Off 5th and a Nordstrom Rack are replacing a former Kmart. Elsewhere, Target will be opening express stores in Stoneham and Cambridge.

GREATER BOSTON RETAIL FORECAST

Although the nature of the industry may change, the bottom line is that physical retail—from main street shops to regional malls—is a vital part of the local economy. Shopping centers are major tax payers in many communities and employ thousands of people. Given the uncharted territory the sector is now in, new development has slowed since the recession. Despite this, there are still several notable projects in the pipeline:

- **Shrewsbury, MA:** Grossman Development Group's Lakeway Commons is a prime example of the type of center being developed today to satisfy multiple demands in the market, including grocery, restaurants, fitness, banking and multifamily residential (both for rent and sale). The center will be anchored by Whole Foods, Burton's Grill and Tavern in the Square, among others.
- **Watertown, MA:** Wilder has plans for a major redevelopment of the Arsenal Mall, which was recently renamed Arsenal Yards.
- **Salem, NH:** The Salem market is notoriously difficult to penetrate, due to very little turnover and a lack of new development. However, Salem's position on the NH/MA state line, just off Interstate 93 in sales-tax free New Hampshire, gives it an unusually large retail trade area, drawing well into Massachusetts. Joe Faro, owner of Tuscan Market and Tuscan Kitchen, has purchased what is arguably the largest and best piece of undeveloped land in New England—the former Rockingham Park Race Track. The current plan calls for a large-scale mixed-use project with retail, restaurants, entertainment, multifamily housing, hotel, office and medical.

As retailers continue to adapt to the ever-changing environment with same-day delivery, hub and spoke strategies, better in-store service and advice to consumers, those who are successful will not only survive, but thrive. Brick & mortar retail is not dead, it is changing and the market will dictate what works and what does not. At the end of the day, humans are social beings who delight in sharing experiences with others. Most people find it more pleasant to dine in a lively restaurant or shop in a bustling mall, rather than spending time in a place that feels empty and tired. Satisfying the desire for company while shopping, dining and entertaining cannot be done online. It's Darwinian—the strongest retailers will adapt, survive and prosper.

2017 Capital Markets

MARKET OUTLOOK

GREATER BOSTON OFFICE SALES MARKET

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The United States (U.S.) continues to be the global front-runner for commercial real estate investment, though following an exceptionally strong 2015, 2016 saw deal volume fall slightly on a year-over-year (y-o-y) basis. At the close of November, **total investment in the U.S. eclipsed $424.2 billion,** representing a 10% y-o-y decline, but still well ahead of the five-year average. Capitalization rates continued to drop over the course of the year for office and retail properties, and remained steady for good quality industrial product.

The Greater Boston investment market was active in 2016, and the year was marked by several significant sales in Cambridge and Boston. As of November, office transaction volume accounted for nearly **$7.2 billion of total investment**, a slight decrease from 2015 when the market posted a healthy $8.3 billion in office sales volume. Foreign and domestic capital continued to target the downtown Boston and Cambridge markets due to the stability of the region's economy. Key economic drivers continued to lift all major gateway markets across the U.S.

As the year drew to a close, the **Greater Boston investment market saw a flurry of activity.** Several significant properties went under contract in the fourth quarter, and other trades were completed including the portfolio sale of 10 St. James and 75 Arlington, two adjacent buildings in Back Bay.

Similar to 2015, fundamentals for Class B space in Boston steadily improved during 2016 and, accordingly, the investment market for Class B properties remained healthy.

NOTABLE BOSTON/CAMBRIDGE TRANSACTIONS:

Date	Property/Address	City	Total SF	Price ($M)	$/PSF	Buyer	Seller
OCT-16	One Kendall Square	Cambridge	676,440	725	1,072	Alexandria Real Estate Equities	DivcoWest
SEP-16	Riverview (245 First Street & Cambridge Science Center)	Cambridge	297,632	311	1,046	Clarion Partners	Jamestown Properties
APRIL-16	101 Seaport Boulevard	Boston	440,000	452	1,027	Union Investment	Skanska USA Building
DEC-16	The Davenport Building	Cambridge	232,000	202	871	Oxford Properties Group	Jamestown Properties
MAY-16	Canal Park Portfolio	Cambridge	418,692	304	726	Intercontinental Real Estate Corporation	Beacon Capital Partners
MAR-16	160 N. Washington Street	Boston	234,643	150	639	Union Investment	Related Companies
MAY-16	175 Federal Street	Boston	227,365	139	611	Deka Immobilien	Blackstone Group
APRIL-16	Fort Point Creative Exchange Portfolio	Boston	414,919	224	540	TH Real Estate	Clarion Partners
DEC-16	27 Drydock Avenue	Boston	286,160	147	512	Related Beal	Northstar
DEC-16	10-20 Channel Center	Boston	251,000	119	473	LaSalle Investment Management	Callahan Capital Partners
FEB-16	415 Main Street	Cambridge	231,000	105	456	MIT Investment Management (MITIMCo)	Boston Properties
DEC-16	99 Chauncy & 101 Summer Street	Boston	165,486	75	453	TH Real Estate	Synergy JV Independencia
UNDER AGREEMENT	10 Post Office Square	Boston	452,000	190	420	LaSalle Investment Management	Synergy JV GreenOak

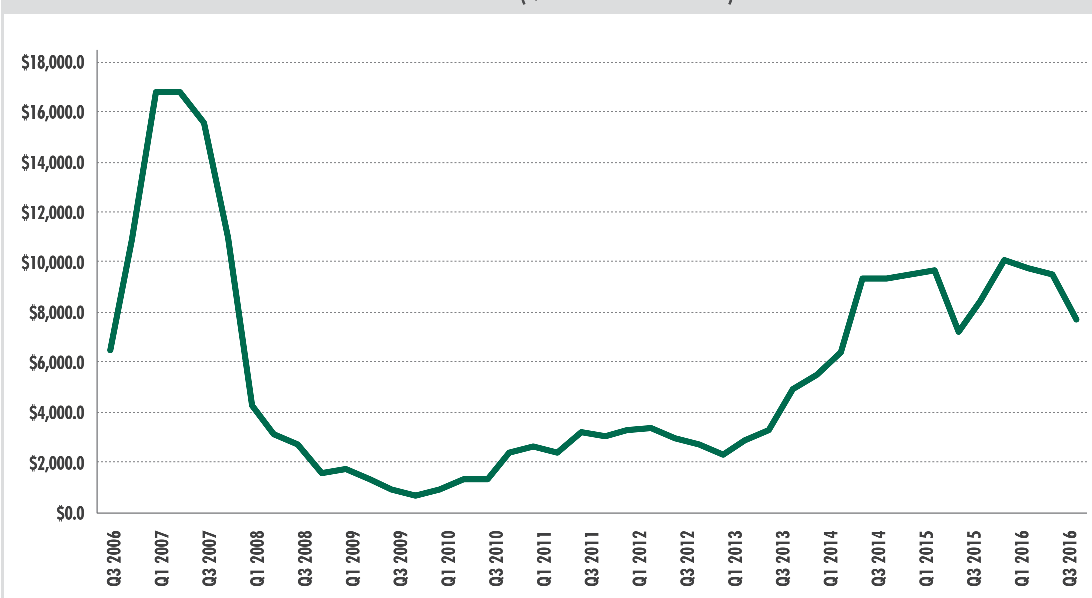
2016 SIGNIFICANT CLASS B TRANSACTIONS

Date	Property/Address	City	Total SF	Price ($M)	$/SF	Buyer	Seller
OCT-16	Blackstone Science Square (237 Putnam Ave)	Cambridge	76,123	57	749	Investcorp	Brickman
SEPT-16	1050 Massachusetts Avenue	Cambridge	62,474	46	736	L&B Realty Advisors	Dupree Associates
SEPT-16	101 Tremont Street	Boston	77,250	50	649	GLL Real Estate Partners	Alcion Ventures/Paradigm Properties
FEB-16	333 Summer Street	Boston	118,000	74	629	ASB RE Investments JV Lincoln Property Co	DivcoWest/Synergy Investments
MAR-16	15 Broad Street	Boston	73,561	33	473	Brookfield Properties JV AustralianSuper	Broder Properties
MAR-16	294 Washington Street	Boston	230,206	95	411	Goldman Sachs/Synergy Investments	GreenOak Real Estate/ Synergy Investments
MAR-16	95 Berkeley Street	Boston	114,000	43	377	Center Court Partners JV CIM Group, L.P.	The Community Builders
FEB-16	201-207 South Street	Boston	73,689	28	373	ClearRock Properties JV Juster Properties	Meritage Properties

Foreign and domestic capital sources have competed fiercely for good quality urban office product that became available during the year in both Boston and Cambridge. The region's traditionally stable educational and healthcare institutions provide a fundamentally **strong economic base for the local market,** and given the current uncertainty in the global economy, investors are particularly attracted to this stability.

BOSTON

HISTORICAL TRANSACTION VOLUME ($ IN MILLIONS)



Source: CBRE Research

SUBURBAN SALES MARKET

Top-quality, well-located suburban office product performed well during 2016. However, commodity office product and properties located in secondary locations were unwritten with extreme discipline. Institutional capital displayed tepid interest in office product located outside of the urban core. This trend is expected to continue into 2017, until key suburban markets demonstrate a path to true rent growth and fundamental leasing strength.

NOTABLE 2016 SUBURBAN SALES

Date	Property/Address	City	Total SF	Price ($M)	$/SF	Buyer	Seller
AUG-16	One Wayside Drive	Burlington	200,605	67	336	Piedmont Office Realty Trust	Gramercy Property Trust
JUL-16	Wellesley Gateway (93 Worcester Street)	Wellesley	272,500	88	321	Spear Street Capital	CommonWealth Partners
MAY-16	10 Maguire Road	Lexington	288,528	48	166	R.J. Kelly Co.	Normandy Real Estate Partners
APR-16	New England Business Center (10-35 New England Business Center Drive)	Andover	242,241	32	132	Andover Companies	MARIC, Inc.
MAY-16	Highwood Office Park (1-3 Highwood Drive)	Tewksbury	280,118	29	104	KS Partners, LLC	Equus Capital Partners

Office investors competed for product in Boston and Cambridge, but were more measured in suburban markets.

2017 OUTLOOK

The 2017 investment outlook is strong. As a new U.S. presidential administration transitions into power, there will be periods of uncertainty—as well as opportunity—within the commercial real estate industry. Greater Boston's leasing fundamentals have remained remarkably steady during the past 18 months, despite several political and economic changes around the world that have shaken the global economy.

While the Federal Reserve increased interest rates by 25 basis points in December, historical data would suggest that treasuries have room to run before a material impact is seen on building values. The arrival of General Electric in Boston is already having a positive impact on the city, and regional economic strength will likely continue to drive investment demand in relevant urban core locations throughout Boston and Cambridge. Foreign capital continues to play a major role in the region's investment landscape, and this capital will continue to drive competition among investors committed to investing in Boston and Cambridge real estate. It is anticipated that 2017 will be another highly competitive year marked by a healthy capital markets environment.

INDUSTRIAL SALES MARKET

As e-commerce has forced the U.S. economy to pivot towards providing near-instant access to consumer goods and services, **New England's distribution and industrial markets are witnessing a significant transformation.** Airport access and easily accessible suburban and urban locations that enable last-mile distribution to key population centers have become highly coveted, and underlying leasing fundamentals for these assets are as strong as they have ever been.

The improvement in the region's industrial market created an appealing environment for an active investment sales market during 2016. **Good-quality, high-bay warehouse and distribution product** performed extraordinarily well during the year, as the best-in-class assets traded at historically low capitalization rates for the region and unit pricing arguably exceeded replacement costs. Domestic institutional capital, as well both foreign capital and private family offices from the U.S. and abroad, all played active roles during the year. This trend is expected to continue into 2017.

HIGHLIGHTS

- $9.5 billion in total transaction volume across all product types in 2016, a 16% decrease from 2015
- Inexpensive debt and an overabundance of capital for the best properties continued to drive pricing to historical levels in the urban core, although recent turbulence in the bond market may impact interest rates moving forward
- The continued expansion of the urban ring (Downtown, Cambridge and the Seaport) represented 67% (61 out of 90) of office transactions and 90% of total volume in deals over $10 million

NOTABLE 2016 INDUSTRIAL SALES

Date	Property/Address	City	Total SF	Price ($M)	$/SF	Buyer	Seller
MAY-16	825 University Avenue	Norwood	166,574	26	156	Hilco Real Estate	KBS Realty Advisors
OCT-16	275 John Hancock Road	Taunton	238,398	24	102	Colony Realty Partners	Exeter Property Group
AUG-16	150 Depot Street	Bellingham	252,000	26	101	Bentall Kennedy	National DCP
AUG-16	3 Distribution Center Circle	Littleton	450,000	40	88	Gramercy Property Trust	Colony Capital, LLC
JUN-16	18 Independence Drive	Ayer	322,030	28	88	SMC Ltd.	CrossHarbor Capital Partners
NOV-16	192 Mansfield Avenue	Norton	347,500	29	84	NorthBridge Partners	Prescott Group

GREATER BOSTON CBD CAP RATES:

CLASS A STABILIZED
3.75-4.75%

CLASS B STABILIZED
5.00-6.00%

SUBURBAN OFFICE CAP RATES:

CLASS A STABILIZED
6.25-7.25%

CLASS B STABILIZED
8.50-10.00%

WAREHOUSE/DISTRIBUTION CAP RATES:

CLASS A STABILIZED
5.75-6.50%

CLASS B STABILIZED
7.50-8.50%

DEBT & STRUCTURED FINANCE

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2016 INTEREST RATES

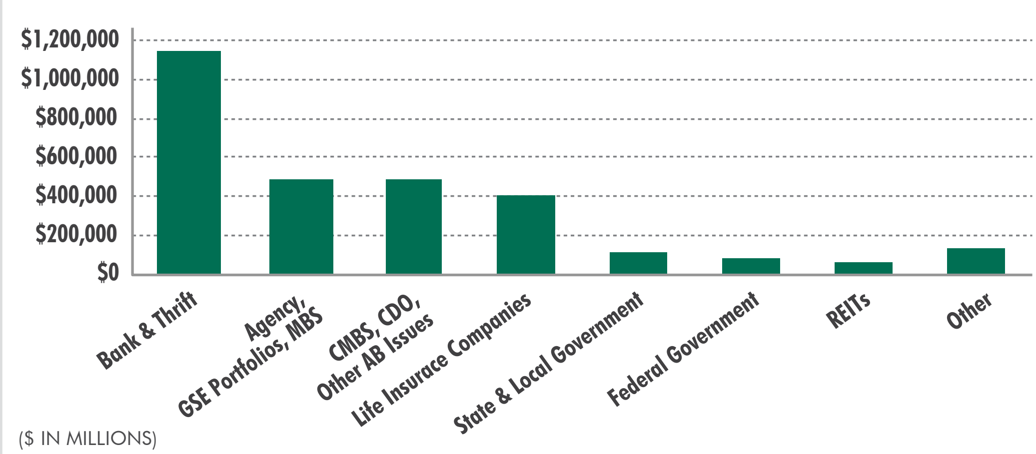
The 10-Year Treasury Rate increased significantly at year-end to ±2.60% as the U.S. stock market and overall economic fundamentals continued to dominate the news. The projections of rising interest rates over the course of the year came to fruition after the presidential election, as the 10-Year Treasury Rate increased ±40 basis points (bps) at year-end.

The 10-Year Treasury Rate reached a record low of 1.37% on July 5, which surpassed its previous record closing yield of 1.3875% back on July 24, 2012. Interestingly, the 10-Year Treasury Rate closed out the year roughly 30 bps higher than 2015 (±2.30%). Lender spreads followed the compression trend in 2016 resulting in all-time low interest rates across all product types.

The Federal Reserve increased the federal funds target rate by a quarter percentage point on December 15, from 0.50% to 0.75%, signaling that concerns about growth, employment, overseas politics and weak inflation have dissipated in the eyes of the Federal Reserve. The Federal Reserve's move is just the second rate increase in more than 10 years.

Some experts forecast that heightened interest rates could have a negative effect on commercial real estate, as higher rates may decrease asset values, reduce capital inflows and cause developers to re-evaluate the feasibility of their projects. Conversely, the driver behind rate increases is, in general terms, a continually strengthening economy with a healthy job market (new projections have the unemployment rate at 4.5% in 2017 and remaining there through 2019), which would intuitively create a positive climate for the commercial real estate industry.

DEBT & STRUCTURED FINANCE
COMMERCIAL AND MULTIFAMILY MORTGAGE DEBT OUTSTANDING 2Q16



Source: CBRE Research

2016 LOAN ORIGINATIONS BY PRODUCT TYPE

According to the Mortgage Bankers Association (MBA), commercial and multifamily mortgage originations increased 2% year-over-year in the first three quarters of 2016. For the third quarter alone, mortgage originations were up 5% from 2Q 2015 and 7% from 2Q 2016. Much of the year-over-year increase is made up of new originations in the multifamily and industrial sectors. Across industrial properties alone, 3Q 2016 saw a 32% year-over-year increase in loan volume. This strong activity comes after a 91% loan origination increase seen across 2015. Multifamily properties saw a 26% year-over-year increase in loan volume for 3Q 2016 after a 2015 that had a 41% increase for the year over 2014. Originations for retail and hotel assets are down 5% and 13%, respectively, from their 3Q 2015 levels year-to-date. Office is up 6% by this same metric and healthcare is down 60%.

Total outstanding commercial and multifamily debt reached record highs in 2016.

2016 LOAN ORIGINATIONS BY LENDER TYPE

Government Sponsored Entities (GSEs – Fannie Mae and Freddie Mac) jumped 85% percent in 2015 and, as of 3Q 2016, were 13% higher year-to-date than at the close of 3Q 2015. Commercial banks have shown similar increases in loan volumes across this period, jumping 49% in 2015 and up 19% through 3Q 2016. Commercial Mortgage-Backed Securities (CMBS)/Conduits and Life Insurance Companies have shown less growth in loan originations despite increasing by 9% and 25% in 2015, respectively. As of 3Q 2016, Life Insurance Companies were only 3% above their 3Q 2015 year-to-date levels and CMBS/Conduits were 20% below their 3Q 2015 year-to-date levels.

OUTSTANDING DEBT

Halfway through 2016, total outstanding commercial and multifamily debt reached $2.9 trillion, a new record. By this point in the year, commercial banks once again represented the largest percentage of this debt at 39.3%, or $1.1 trillion. Federal agency, GSEs and Mortgage-Backed Securities (MBS) combine for the second largest group, holding $486 billion or 16.8% of the total. CMBS, Collateralized Debt Obligation (CDO) and other Asset-Backed Securities (ABS) combine for another roughly 16.7% with $484 billion, and life insurance groups hold $407 billion, or 14%. The remaining debt is held by smaller entities such as state and local governments, the federal government and REITs.

CAPITAL MARKETS

MORTGAGE MATURITIES

Non-bank maturities will increase 51% over 2015 levels by the end of 2016, as projected by the MBA. Life company maturities are scheduled to climb to $27 billion by this time, a 70% increase from 2015. 2017 and 2018 maturity levels for life insurance companies are scheduled for similar levels, at $26 and $27 billion each. There is a total of $11 billion in GSE and Federal Housing Administration (FHA) maturities scheduled by the close of 2016, which increases to $25 billion in 2017 and $31 billion in 2018. 2016 CMBS maturities are scheduled for a total of $115 billion for the year and expected to rise to $121 billion in 2017 before dropping to $21 billion in 2018. The MBA maps maturities for these lender types, increasing 14% in 2017 and then decreasing by 50% in 2018.

CONSTRUCTION LENDING

Many banks have become highly exposed to construction lending in recent years across all property types, leading to a great deal of selectivity in 2016. This, along with regulations associated with Dodd-Frank and the High Volatility Commercial Real Estate (HVCRE) rules built into Basel III, resulted in a more challenging environment for ground-up construction financing. Basel III mandates that banks hold 50% more cash reserves to account for any exposure to the HVCRE category. These regulations are attributed to the slowdown in CMBS lending and are having a similar impact on construction. However, with a lower-regulation environment promised by the new administration, the climate could certainly change. A scaling back of these laws could breathe new life into construction lending and allow for ground-up development activity to accelerate if demand is still strong.

2017 FORECAST

The economy's moderate but steady growth has meant that relatively low interest rates and strong transaction volume, along with rising property values, will continue to drive the mortgage market forward through 2017. Though welcomed by U.S. households, real wage gains will increase unit labor costs, thereby pushing up core inflation. In response, the Federal Reserve likely will strategically raise the federal funds target rate again in 2017.

Steady job growth in the U.S. will mean an ongoing need for new office and industrial space across the country. This trend, combined with limited new supply in the Boston market for every asset class but multifamily, should tighten vacancy to new lows and make for a low-risk environment for local lenders. Even as fear surrounding Brexit's impact on the European economy has subsided somewhat, foreign investors will likely continue to see U.S. real estate as the safest haven for their money. For this capital, the U.S. property market remains the steadiest landscape in the world; its inherent transparency means higher price appreciation potential and more reliable yields. The Boston area has witnessed first-hand this dramatic increase in foreign capital, which may spell increased partnerships between foreign sponsors and local lenders in 2017.

The total value of all real estate investment in the first three quarters of 2016 was $602 billion, down 9% from the same period in 2015. Early evidence suggests that the market stabilized in Q3 2016, as many individual property transactions went through, but the weakness in the first half of the year means that real estate investment will be down by around 10% in 2016. The decline in investment volumes in the early part of the year is understandable. Real estate prices increased sharply in 2015 and economic growth in the first half of 2016 was weaker than expected, so investors became more cautious. A Q4 2016 pickup in volumes in line with stronger economic growth in the U.S. is possible—real estate yields retain their substantive spread over treasuries—but the political atmosphere may be a headwind.

Even at a time of economic uncertainty and weaker investment demand, it is a testimony to the attractiveness of real estate as an asset class that its value is holding firm and in some cases increasing. Jonny Hull, Managing Director of EMEA Investment Properties for CBRE, notes that "investors have become a little more risk averse in recent quarters, and high-quality income streams in core locations are in increasing demand from major institutional sources of capital."

GREATER BOSTON MULTIFAMILY MARKET

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SALES & TREASURIES/DEBT TRENDS

The Greater Boston multifamily investment market experienced another strong year in 2016, as **transaction volume totaled $2.71 billion** with 49 sales over $10 million. This represents the largest sales volume to date—beating 2015, which had 46 sales over $10 million totaling $2.68 billion. Competition for assets has remained strong, with cap rates remaining near historic lows. Core Class A cap rates range between 4.00-4.50%, while value-add and Class B cap rates in core locations range between 4.50-5.75%. Class B assets in secondary locations are pricing in the 6.00-6.75% range.

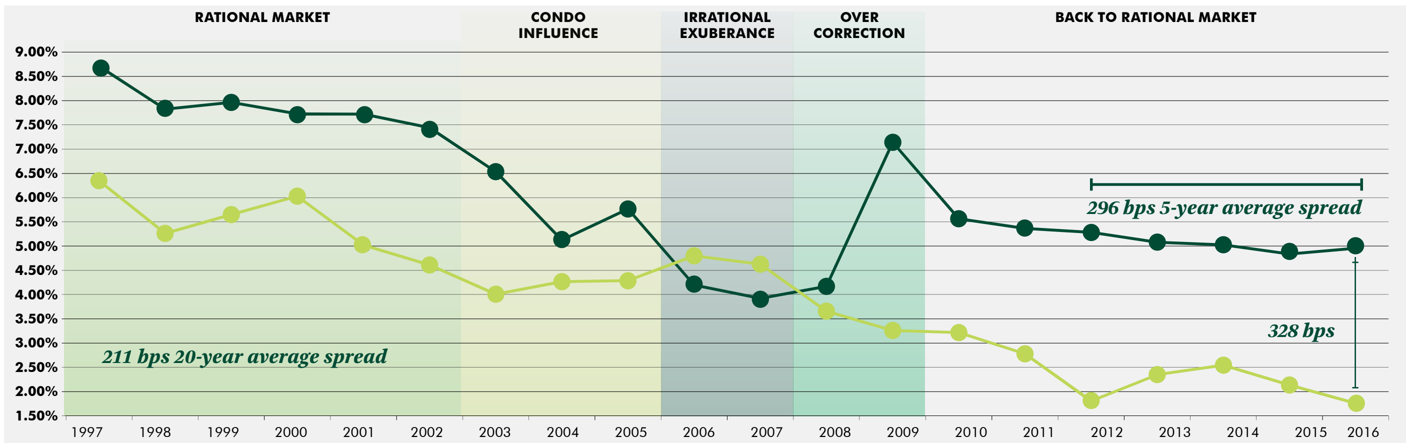
Throughout most of the year, treasuries and interest rates continued to decline from already historic lows. In fact, the 10-Year Treasury Rate averaged 1.81% through December 2016, down from 2.14% over 2015 and 2.54% over 2014. While the November election created some volatility in the marketplace, the Federal Reserve then increased the funds rate 25 basis points (bps) in December. The impact has pushed the 10-Year Treasury Rate around 2.60%. Investors throughout the year used a mix of fixed-rate debt along with floating-rate debt with caps. As caps have become more expensive, more investors are now looking at their individual investment strategy and weighing the all-in costs and risk thresholds for debt over the hold period. With a comfortable spread still between cap rates and treasuries, the expectation is that the debt markets will stabilize into the new year with little impact to overall cap rates.

Lumiere • Medford, MA

Neponset Landing • Quincy, MA

MULTIFAMILY MARKET

MASSACHUSETTS HISTORICAL CAP RATE & 10-YEAR TREASURY YIELDS



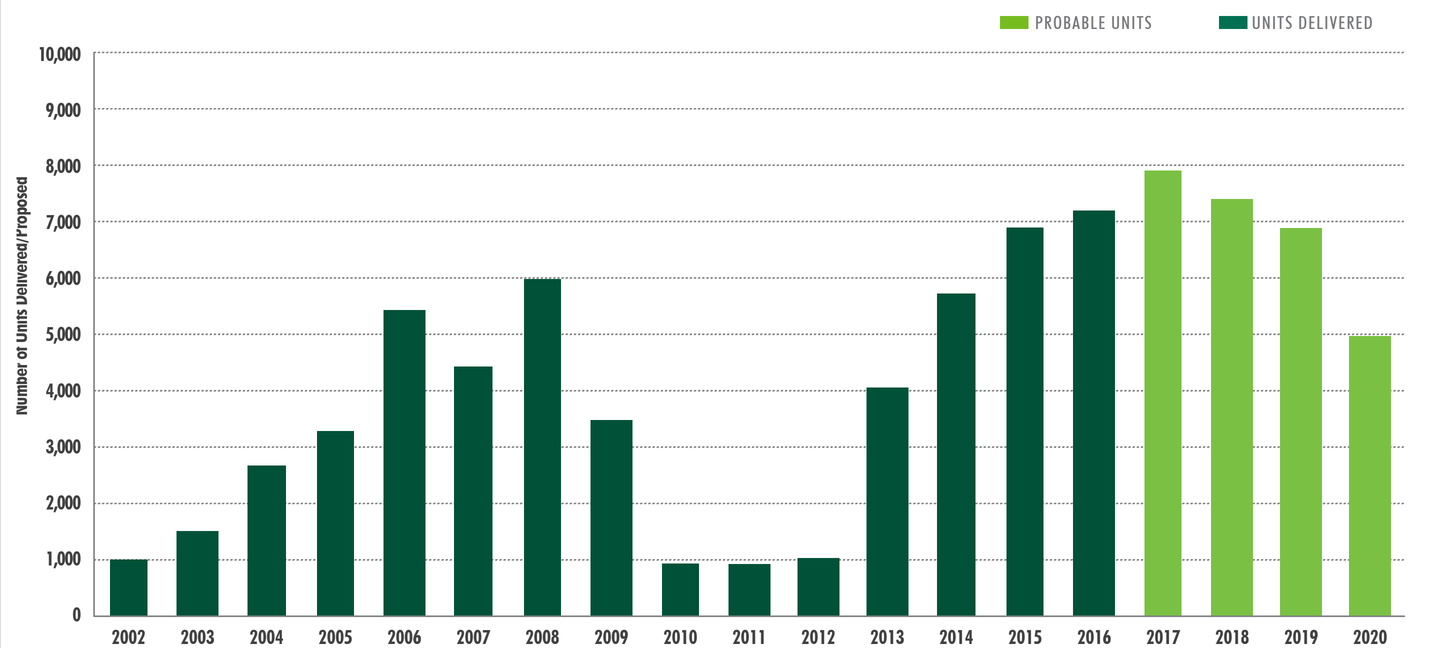
Source: CBRE Research

NEW CONSTRUCTION & ABSORPTION

There were nearly 7,200 units delivered in 2016, following the delivery of 6,900 units in 2015. Many of these new communities have seen strong leasing, with rents above their original pro-formas. In fact, out of the 35 developments delivered in 2015, over 75% of the communities reached stabilization within their first 12 months, with larger communities targeting 18-24-month initial lease-ups. Looking toward 2017, there are 7,900 units scheduled to deliver, which will be the most units ever in one year. With a combination of construction costs continuing to rise, access to construction debt slowing, and many suburban communities reaching their 40B caps (10% SHI requirements), new deliveries are anticipated to slow after 2017.

MULTIFAMILY MARKET

MASSACHUSETTS APARTMENT DEVELOPMENT PIPELINE AND PROJECTION (2002-2020)



Source: CBRE Research

While concessions were seen in the marketplace at a number of the new communities during initial lease-ups, many of these properties have been able to remove concessions on their first round of renewals. We anticipate this trend of competitive pricing and concessions going forward in select submarkets as new communities open throughout Greater Boston in 2017. As these communities go through their initial lease-ups, we anticipate rent growth and overall vacancies to continue to level and mirror historical averages. These scheduled deliveries have been spread throughout Boston, Cambridge and the suburbs, allowing each employment submarket to grow and accommodate the increasing demand for nearby quality rental housing throughout Greater Boston.

2016 broke last year's record for sales volume of properties over $10 million.


JOBS
2.9%
MASSACHUSETTS
UNEMPLOYMENT RATE
HOME OWNERSHIP
2005-2007
70%
2016
61%
10,000
NEW RENTER HOUSEHOLDS

THE LOCAL ECONOMY & RENTER TRENDS

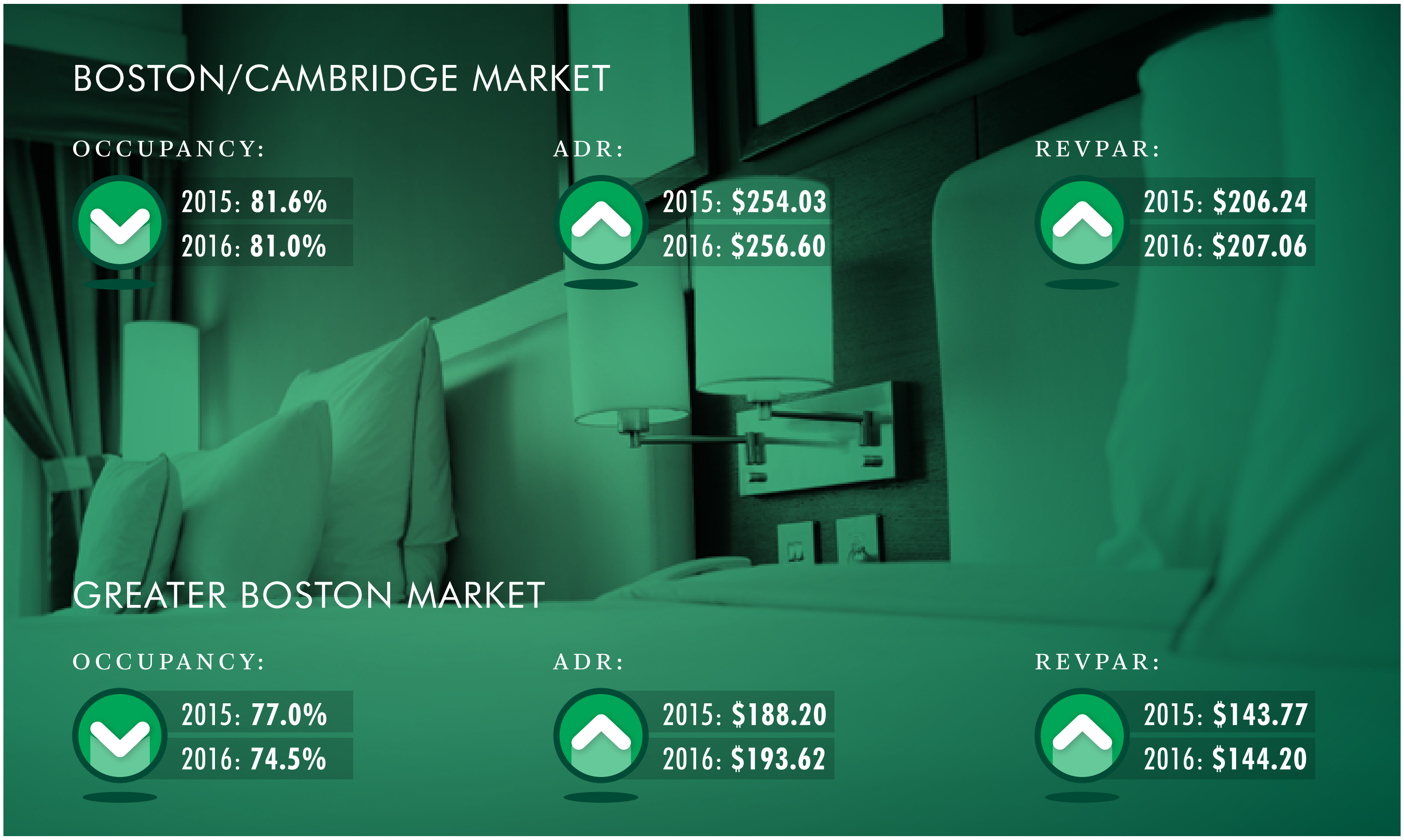
Overall, the local economy has grown steadily over the past few years, with **46,000 new jobs throughout the Boston MSA** year-over-year (y-o-y), and at the same time producing some of the strongest AMI growth nationally—a testament to the quality of these new jobs. This employment growth, along with the stability from the hospitals and universities, have made Boston one of the most desirable cities in the nation for development and real estate investment. In fact, General Electric's (GE) global headquarters is in the midst of moving to South Boston's Seaport District. GE—ranked #11 on the 2016 Fortune 500 list—reported that the company was drawn to Boston's vibrant, innovative environment, which will stimulate its employees. Demographics were a key factor behind GE's move to Boston, as young talent is at the heart of Boston and employers want to be where the talent is located.

With the **unemployment rate hovering at 2.9% as of November 2016,** Massachusetts is operating at near full employment. Since Boston cannot fill all the job openings from within its existing population, we anticipate continued inward migration of young professionals to fill those jobs as well as above-inflationary growth of income as the demand outpaces the supply and companies compete for talent. All this bodes well for demand for additional housing and the ability of those residents to pay. In fact, housing costs in Boston as a percentage of income are more affordable than both New York and San Francisco.

Lastly, in addition to the strong employment growth, the market has seen a changing renter demographic. Home ownership peaked between 2005-2007 when nearly 70% of households had chosen home ownership, compared to 61% in 2016. This shift has translated into over **10,000 new renter households per year throughout the state.** Renting has provided residents with desirable flexibilities without the commitment or financial burden of home ownership. With the cost of home ownership continuing to rise—4.1% y-o-y throughout Greater Boston and 11.3% y-o-y in Boston and Cambridge—renting has continued to be an attractive housing option.

GREATER BOSTON HOTEL INVESTMENT MARKET

by Dave McElroy, (dave.mcelroy@cbre-ne.com); Scott Hutchinson, (scott.hutchinson@cbre-ne.com); Geoffrey Evans, (geoffrey.evans@cbre-ne.com)



2016 saw national lodging fundamentals continue to trend upward, although at a slightly more muted pace than experienced during the prior three years. CBRE Hotels' Americas Research forecasts **2016 will finish with ADR growth of 3.5%** and essentially flat overall occupancy metrics, translating into **RevPAR growth of 3.6%.** This trend of moderate but steady growth is expected to continue through 2017, with occupancy once again flat and ADR growing at 4.1%, yielding a RevPAR increase of 3.9%.

Locally, Boston continues to perform among the top five markets in the U.S., buoyed by its robust and diverse demand generators, a strong economic base and positive supply and demand dynamics. Following a record-breaking 2015, **Greater Boston is forecasted to finish 2016 at 74.5% occupancy,** down 2.5% from the prior year. **ADR is forecasted to finish the year at $193.62** (up 2.8%), yielding a **RevPAR of $144.20,** a 0.3% increase over 2015. 2017 is set to experience modest RevPAR growth of 2.6%, which is being driven primarily by ADR growth of 2.8% as occupancy levels stabilize, or very modestly decline.

The **Boston/Cambridge market is forecasted to end 2016 with 81% occupancy** (down 0.6% from 2015), an **ADR of $256.60** (up 1%), and **RevPAR of $207.06,** for an 0.4% increase over 2015. Looking ahead to 2017, occupancy is forecasted to decline 1.2% from 2016, while ADR is predicted to grow by 4%, implying a RevPAR increase of 2.7%.

BOSTON/CAMBRIDGE NEW SUPPLY

2016 saw six hotels, totaling 1,045 rooms, enter the Boston/Cambridge market:

- Hotel Commonwealth expansion (96 rooms)
- Element Boston Seaport (180 rooms)
- Aloft Boston Seaport (330 rooms)
- The Godfrey Hotel (224 rooms)
- Porter Square Hotel (65 rooms)
- AC Hotel Boston Cambridge (150 rooms)

Currently under construction:

- YOTEL Boston (326 rooms)
- Hyatt Centric (166 rooms)
- AC Hotel South End (200 rooms)
- Four Seasons Hotel Back Bay (211 rooms)

SUBURBAN BOSTON NEW SUPPLY

In suburban Boston, 11 hotels opened, adding 1,348 rooms to the market:

- AC Hotel Boston North (152 rooms)
- Courtyard Boston Littleton (115 rooms)
- Beauport Hotel (95 rooms)
- Hilton Garden Inn Marlborough Hotel (160 rooms)
- Homewood Suites by Hilton Boston/Brookline (130 rooms)
- Hampton Inn Amesbury (92 rooms)
- Hampton Inn Boston-Westborough (106 rooms)
- Residence Inn Boston Concord (118 rooms)
- Residence Inn Boston Watertown (148 rooms)
- Residence Inn Boston Bridgewater (96 rooms)
- Hilton Garden Inn Foxborough Patriot Place (136 rooms)

2016's new supply constitutes a 4.0% growth in the Boston/Cambridge market.

NATIONAL TRANSACTION MARKET

According to CBRE Research, 2Q 2016 U.S. hotel transactions totaled $6.9 billion, down 46.4% year-over-year. The decline was in line with H1 figures, with $15.3 billion in sales in 2016 year-to-date through July, down 50.1% from the same period in 2015. Much of the decline can be attributed to fewer larger portfolio or entity-level transactions.

2Q 2016 saw $6.3 billion in single-asset transactions, generally considered to be a better measurement of investment momentum, which was down a more moderate 19.4% year-over-year. The slowdown in deal volume was in part due to recent instability in the CMBS market, which historically has been a much larger source of financing for hotels relative to other property sectors.

Foreign capital continues to be a player in the hotel sector, with $2.2 billion (32%) of the $6.9 billion sold in 2Q 2016 coming from cross-border buyers. This marks a 27.5% increase from 2Q 2015. China, Germany and Canada were the largest sources of global capital for the period.

Nationally, CBD cap rates averaged 7.84% for the first half of 2016, with suburban cap rates averaging 8.39%, a modest widening over the prior year. Luxury assets in CBD and suburban locations reported the smallest increases, while the largest increases came from suburban full-service and select-service hotels. Tier 2 markets also noticed large increases in cap rates, again particularly in non-luxury assets. Despite this widening in the national market, Boston continues to be a highly desirable hotel investment market. Boston's CBD, along with Washington D.C. and New York City, boasts the lowest hotel cap rates (6% or lower) compared to the rest of the United States, per CBRE Research.


Hyatt Centric (Congress Square) • Boston, MA

Courtyard by Marriott • Westwood, MA

SELECTED BOSTON TRANSACTIONS

- **JANUARY 2016**
  The 245-room Hotel Commonwealth was sold to Xenia Hotels and Resorts for $136 million ($555,102/key) from a joint venture between Sage Hospitality and Fundamental Advisors.

- **APRIL 2016**
  The 148-room Mandarin Oriental was bought by Mandarin Oriental Group from the Irish Government for a sum of $140 million ($945,946/key).

- **JUNE 2016**
  Indian Hotels sold the 273-room Taj Boston to a joint venture between New England Development, Eastern Real Estate, Rockpoint Group, Lubert-Adler and Highgate Holdings for a sum of $125 million ($457,875/key).

- **JULY 2016**
  Hersha Hospitality Trust bought the 136-room Envoy Hotel for $112.5 million ($827,205/key) from Norwich Partners.

- **AUGUST 2016**
  Westbrook Partners purchased the 228-room Holiday Inn Brookline from a joint venture between Linchris Hotel Corporation and Strategic Capital Partners for a sum of $80 million ($350,877/key).

- **SEPTEMBER 2016**
  Thayer Lodging purchased Kimpton Nine Zero for $102 million ($536,842/key) from Kimpton Hotel & Restaurant Group.

HOTEL LENDING ENVIRONMENT

Despite some challenges, all lender sources continue to be active, with CMBS at the forefront. Life insurance companies, while more conservative and with a longer process, still have a healthy appetite for hotels, particularly for large portfolio loans and trophy assets. Bank lenders are active, with non-recourse money available at attractive spreads. Most desired are loan terms of 3-5 years, though some banks will stretch to 7-10-year terms. International banks have aggressively deployed capital into U.S. hotel assets located in core markets. Lastly, alternative lenders of late have focused on opportunities with in-place yield and have an increased appetite for lower going-in debt yields. High-yield construction debt is also selectively available, although it is very sponsor- and project-specific, due to concerns of oversupply.

2017 FORECAST

Greater Boston continues to enjoy its position as an extremely competitive, high barrier-to-entry gateway market. Due to its relatively small land mass, high construction costs and a rigorous entitlement process, it is very unlikely to experience any significant oversupply in the long term. Coupled with a thriving demand base spanning higher education, a booming tech scene, world-class hospitals, major sports teams, a very strong corporate base, national-class convention venues and rich, distinct cultural leisure attractions, the favorable long-term supply and demand dynamics should continue to appeal to a broad array of capital sources throughout 2017 and beyond.


2017
Connecticut
MARKET OUTLOOK

CONNECTICUT

2016 SNAPSHOT

VACANCY:

2015: **18.0%**
2016: **18.1%**

ABSORPTION:

2015: **(119K)**
2016: **(43K)**

CLASS A RENTS:

2015: **$23.35**
2016: **$22.96**

CITY OF HARTFORD MARKET

by John McCormick, Jr., (john.mccormick@cbre-ne.com)

2016 HIGHLIGHTS

- In addition to Prudential Financial renewing 254,000 sq. ft. at 280 Trumbull Street and Lincoln Financial renewing 185,000 sq. ft. at MetroCenter, McCarter & English renewed for 32,750 sq. ft. at City Place I
- **Renewal activity accounted for 80% of all leasing volume**
- **Increase of Residents on the Street:** Four significant apartment projects totaling 730 units opened and are now over 90% occupied—Spectra Apartments at Constitution Plaza, Front Street Lofts, 179 Allyn Street and 777 Main Street—bringing more after-hours activity to the streets
- **Signs of Progress:** The city's transit-oriented developments are under construction; the University of Connecticut's Hartford campus and Barnes & Noble bookstore are under construction; Goodwin Hotel improvements are underway with a grand reopening scheduled for March; the Hartford Yard Goats' opening day is scheduled for April 2017

Major renewals by two large employers solidified 8% of the city's downtown inventory, accounting for 439,000 sq. ft. in lease recommitments in 2016. Prudential Financial renewed 10 floors at 280 Trumbull Street and Lincoln Financial renewed eight floors at MetroCenter, both without downsizing. The city's budget concerns have increased conversations about regionalism with Connecticut's state leaders, a topic that is likely to continue into 2017 and 2018. **Hartford has reasons to be optimistic**, as first-year Mayor Luke Bronin seems to have reenergized the city with new management, frankness and commitment.

TRENDS

- Vacancy increased by 230 basis points to 20.0% year-over-year, but this was expected, based upon United Technologies Corporation's relocation to Farmington
- Average asking rental rates remained flat year-over-year at $23.00 per sq. ft. gross
- Transactions split between renewals and new tenants, with 16% of new tenants migrating from the suburbs
- Number of overall leasing transactions decreased on a year-over-year basis

2017 FORECAST

Downtown Hartford has much to be excited for in 2017. The University of Connecticut will open their downtown campus and affiliated Barnes & Noble bookstore in fall 2017, adding 2,300+ students and 200 faculty daily to the city streets. The Dunkin' Donuts AA baseball park will see its first pitch in April 2017 and the Capital Region Development Authority announced an additional $50 million in funding for new apartment projects in downtown Hartford. These investments in the city are perpetuating the strong trend of corporate and civic leadership giving back to the community. Jay Fishman and Liam McGee, past leaders of Travelers and The Hartford, were strong believers in this sentiment and are credited with enhancing their corporations' engagement in the Central Business District. As the city becomes even more vibrant, urban migration is expected to increase from the suburbs, offering views, culture and amenities not found anywhere but the capital city.

Renewal activity accounted for 80% of all leasing volume in 2016.

GREATER HARTFORD SUBURBAN EAST MARKET

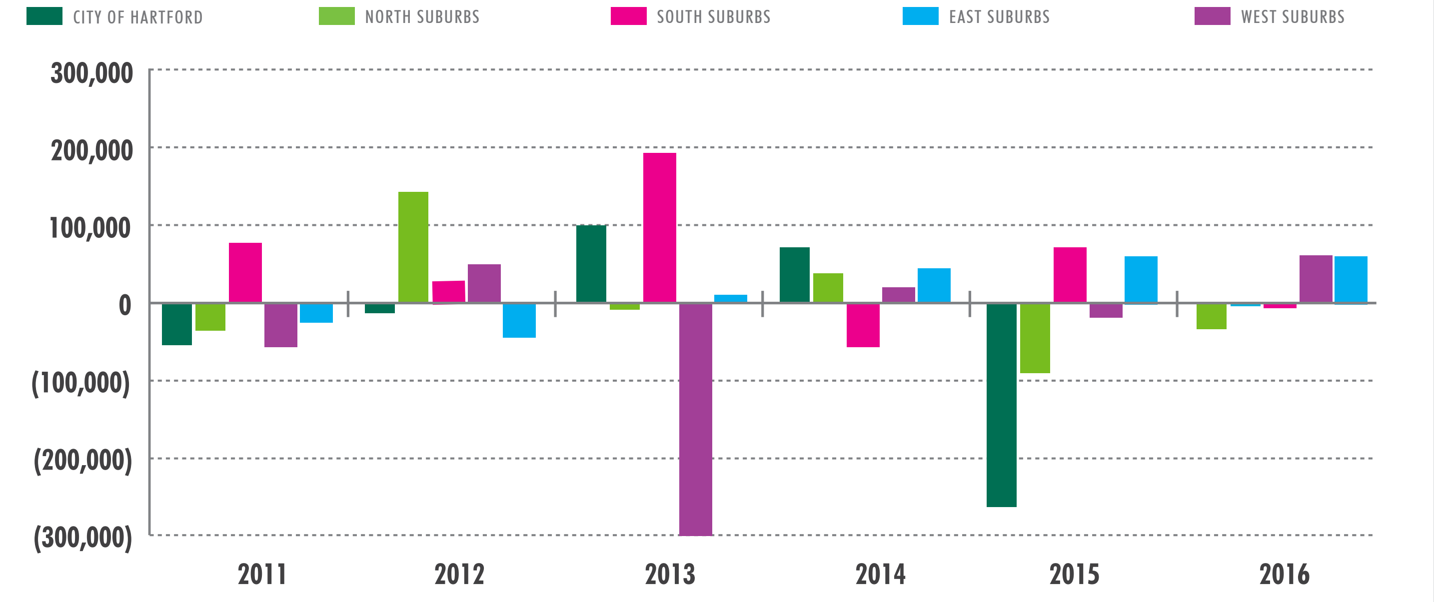
by Jennifer Gosselin, (jennifer.gosselin@cbre-ne.com)

The Greater Hartford Suburban East market saw positive absorption of over 60,000 sq. ft., with over 50,000 sq. ft. in the Class A market. Vacancy rates ticked down over 180 basis points (bps) year-over-year to finish 2016 at 17.6%. The majority of leasing occurred in the form of mid-size transactions and renewals, with fewer pockets of space being returned to inventory. The amount of Class A space in Glastonbury decreased 90 bps year-over-year to 9.1% vacancy.

Within the East office market, Glastonbury continues to dominate the submarket's activity compared to Manchester, South Windsor and East Hartford. Amenity-rich Glastonbury continues to be a **'Tale of Two Markets'** with 93% of the 480,000 sq. ft. Class A inventory occupied in Somerset Square and closer to 90% of the 590,000 sq. ft. Class A and B inventory occupied in Salmon Brook Park and Glastonbury Corporate Center. Now seeing rent appreciation above $26.00 per sq. ft., Class A asking rents in Somerset Square have increased to levels greater than downtown Hartford. In Salmon Brook Park and Glastonbury Corporate Center, the average asking rents are closer to $20.00 per sq. ft.

Somerset Square • Glastonbury, CT

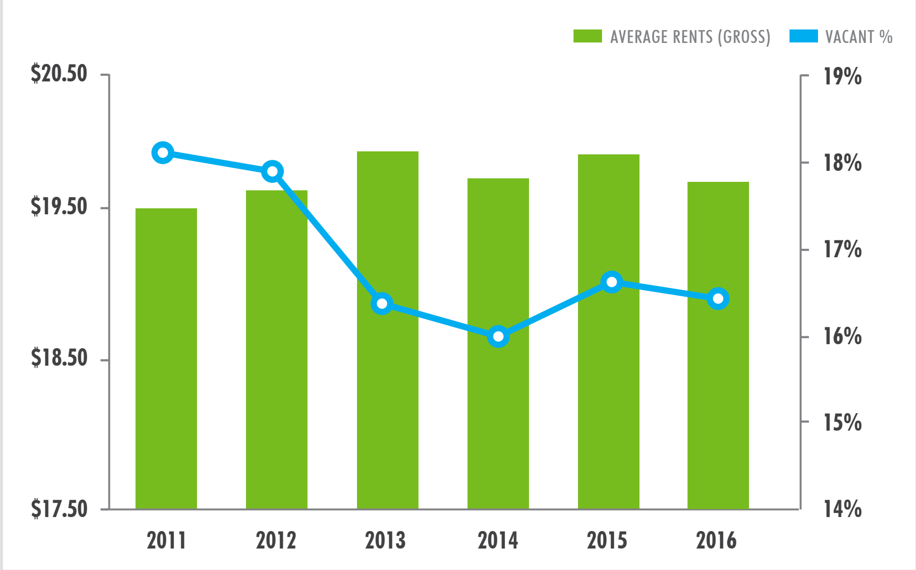
GREATER HARTFORD
HISTORIC OFFICE NET ABSORPTION



Source: CBRE Research

Glastonbury continued to dominate the submarket... with Class A rents rivaling downtown Hartford.

GREATER HARTFORD
HISTORIC OFFICE VACANCY VS. AVERAGE ASKING RENTS



Source: CBRE Research

In 2016, tenants across the East market continued to renew and make their existing footprints more efficient. Transactions of note include:

- **Corporate Translations,** a language translation company, leased a full floor, taking 24,000 sq. ft. at 101 East River Drive in East Hartford as the first tenant to kick off the building, which was vacated by the State of Connecticut several years ago. The owner is investing in significant capital upgrades to both the structure and common areas.
- **Quest Global Services** leased 8,000 sq. ft. of vacant space and McGann, Bartlett & Brown renewed in 8,300 sq. ft. at 111 Founders Plaza in East Hartford.
- **Cyient,** an engineering design company, renewed and expanded into 7,000 sq. ft. at 99 East River Drive in East Hartford.
- **RSL Fiber,** a technology company, leased 7,400 sq. ft. at 473 Silver Lane in East Hartford, a property that had been vacant for several years.
- **Kelser Corporation,** a technology consulting firm, signed an 11,000 sq. ft. lease at 43 Western Boulevard, downsizing from 17,000 sq. ft. of flex space in East Hartford into an open office plan and keeping the same number of employees, creating a more efficient and collaborative environment.
- **Selective Insurance** renewed and expanded at 500 Winding Brook Drive in Glastonbury, growing into 30,000 sq. ft. and further reducing the space available within Salmon Brook Park.
- **Envision Pharm** renewed and expanded their lease at 455 Winding Brook Drive in Glastonbury.
- **Heritage Capital** took 4,600 sq. ft. and Presidio relocated from Farmington to take 5,800 sq. ft. at 200 Glastonbury Boulevard.

CONNECTICUT

2016 NOTABLE TRENDS

- Spaces that had previously been overlooked are starting to be leased and **asking rental rates have increased by approximately 10% in certain areas for Class A space.**
- With very little Class A inventory in Glastonbury, tenants have been forced to **consider renovating outdated spaces** at 101 East River Drive in East Hartford and 43 Western Boulevard in Glastonbury, both unoccupied for years but now poised for new life as owners invest capital in both infrastructure and interior space finishes.
- **Asking rents have also been appreciating** at both Somerset Square in Glastonbury and Founders Plaza in East Hartford due to higher demand and decreasing inventory. Asking rental rates in Glastonbury have gone from the $24-25 per sq. ft. full-service gross range to upwards of $26.50 per sq. ft. In East Hartford, asking rates have also increased from $20-21 per sq. ft. to $22-24 per sq. ft.
- **Sales activity cooled in 2016** with fewer notable sales, most of which occurred in the Class B market. 809 Main Street in East Hartford sold for $1.25 million and 207 Pitkin Street in East Hartford sold for $995,000. Both properties sold to users.
- Companies relocating within the East market are showing signs of adaptation as the **culture of their workforce changes,** going from **traditional layouts to more efficient, open and immersive environments.** As evidenced by Kelser's relocation from 17,000 sq. ft. at 111 Roberts Street into 11,000 sq. ft. at 43 Western Boulevard, the company is creating a more open and highly collaborative environment for their 45 employees.

2017 FORECAST

The East market remained stable over the course of 2016 as absorption continued in Class A spaces, and there is renewed confidence that 2017 will continue to be a positive year for this submarket. Glastonbury has led the East in absorption and rent growth, however, as it now has less vacant inventory, Founders Plaza in East Hartford will benefit as tenants seeking locations east of the river will have to consider East Hartford for quality Class A space if they are unable to meet their needs in Glastonbury's tightening office market. The largest block of quality space in the East continues to be Riverview Square at 101 East River Drive in East Hartford, with just over 160,000 sq. ft. available. Looking ahead, landlords may need to provide tenant improvement packages and concessions to lease less attractive options.

GREATER HARTFORD SUBURBAN WEST MARKET

by Mike Puzzo, (mike.puzzo@cbre-ne.com)

The Hartford West market **continued to stabilize in 2016.** Major relocations within the market and key lease renewals worked to both absorb existing vacant space and also to minimize new options coming on to the market. Statistically, the market tightened dramatically during the year. At 14.5%, the West trails only the South market in terms of the lowest Class A availability rate. This compares very favorably on a year-over-year basis, when the West ended 2015 with a 16.8% Class A availability rate. Like 2015, absorption continued to be strong with more than 84,000 sq. ft. absorbed in 2016 in the Class A market.

As for pricing, Class A rents in the West market increased to an average of $21.53 per sq. ft., which is an increase year-over-year of nearly $1.00 per sq. ft. Aiding the uptick in average asking rental rates was the town of Southington, which saw a significant improvement in the absorption of available supply. The price gap depending on location within the submarket is still wide—ranging between $19.50-24.50 per sq. ft. on a gross basis. West Hartford remains a significant outlier in all of Greater Hartford. With its 8.0% availability rate, highway accessibility and magnetic draw associated with “the Center,” West Hartford still commands rents in the $33.00-38.00 per sq. ft. range.

2016 SNAPSHOT

VACANCY:

2015: **15.7%**
2016: **12.9%**

ABSORPTION:

2015: **62K**
2016: **64K**

CLASS A RENTS:

2015: **$20.81**
2016: **$20.96**

Renewals outpaced relocations, rewarding landlords who were open to early renewals.

Renewals continued to outpace relocations, which is a market-wide trend for all of Greater Hartford. This trend gives an advantage to incumbent landlords willing to entertain early renewal discussions and puts increased pressure on landlords holding large blocks of commodity space that have been slow to secure new tenants.

2016 KEY TRANSACTIONS

RELOCATIONS

Tenant	Sq. Ft.	Address
STANLEY BLACK & DECKER	65,000	400 Executive Boulevard, Southington
COMCAST BUSINESS	19,000	76 Batterson Park Road, Farmington
LOCKTON COMPANIES	15,000	76 Batterson Park Road, Farmington
CATALINA HOLDINGS	9,500	5 Batterson Park Road, Farmington

LEASE EXTENSIONS

Tenant	Sq. Ft.	Address
ONE DIGITAL HEALTH & BENEFITS	19,000	5 Batterson Park Road, Farmington
WALKER GROUP	12,200	20 Waterside Drive, Farmington
U.S. TRUST	16,600	29 South Main Street, W. Hartford
FAIRVIEW CAPITAL PARTNERS	15,500	75 Isham Road, W. Hartford

400 Executive Boulevard • Southington, CT

Activity came primarily from tenants looking to get in front of late-2016 and 2017 lease expirations, in particular for larger transactions that need a longer planning horizon for potential relocations. In the coming year, **large user activity—either renewals or relocations—**is expected to come from occupiers with lease expirations timed for calendar year 2018.

Helping bring down vacancy and increasing space absorption in the West was the continued repositioning of Southington Executive Park. Stanley Black & Decker's lease to occupy 65,000 sq. ft. at 400 Executive Boulevard trimmed vacancy in the three-building park—totaling 350,000 sq. ft. of inventory—to only 35,000 sq. ft. in two buildings. The Hartford Insurance Group vacated 100, 200 and 400 Executive Boulevard in phases starting in 2009. Albeit a positive end-story, it gives a sense of the length of time it takes for large blocks of space to be reabsorbed in an oversupplied market.

2017 FORECAST

With many large block opportunities getting leased through multiple transactions during 2015 and 2016, options will be limited next year for tenants seeking opportunities in excess of 20,000 sq. ft. This dynamic will result in increased renewal activity for calendar year 2017 for this cohort of the market. Accordingly, continued tightening in the market will be incumbent upon the growth of small- to medium-sized users, which will continue to have multiple options to consider. With vacancy and availability rates in the low- to mid-teens for most of the West market coverage area and single-digit vacancy in West Hartford, the West could be poised for meaningful rent growth during the coming year, provided that leasing velocity continues at the pace enjoyed during the past 24 months.

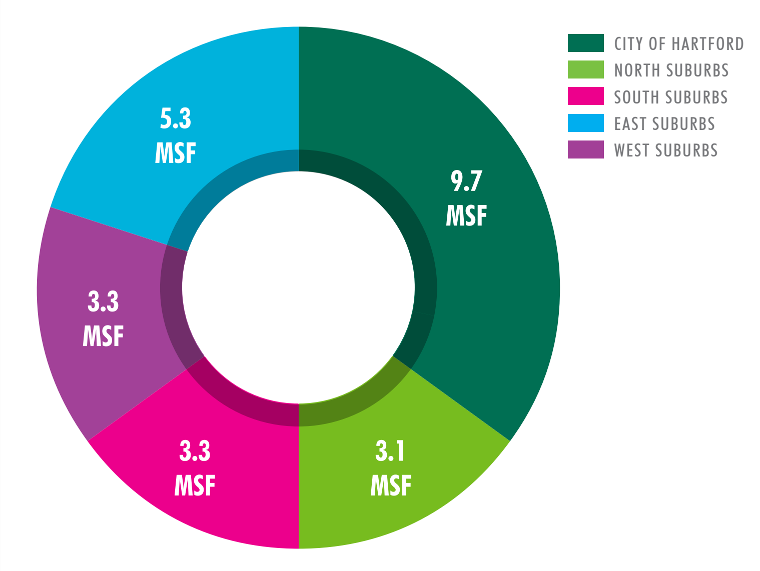

293 South Main Street • Southington, CT

GREATER HARTFORD SUBURBAN NORTH OFFICE MARKET

by Bob Botters, (bob.botters@cbre-ne.com)

Leasing activity in the Greater Hartford Suburban North Office market was modest throughout 2016, except for a couple of properties with a concentration of activity. The balance was comprised of small- to medium-sized tenants renewing or relocating within the market. On the year, there was no new construction. Absorption for the year was negative 4,200 sq. ft., a substantial improvement over last year's negative 96,000 sq. ft. One of the largest contributors to the reduced negative absorption was Quest Global Services, which relocated 39,000 sq. ft. from Founders Plaza in the East market, expanding their existing presence in the North. As a result, the North market held relatively steady at 21.9% availability, an increase of only 80 basis points (bps). Lease rates and tenant improvement allowances remained at 2015 levels. Rates in the North market are still far less expensive than the West, South and East suburban markets by $3.00-6.00 per sq. ft. for comparable space. There are still plenty of options available throughout the market for occupiers of all sizes, and so it continues to remain a tenant's market.

GREATER HARTFORD
TOTAL OFFICE SQUARE FOOTAGE BY SUBMARKET



Source: CBRE Research

The majority of activity was at 175 Addison Road in Windsor, one of the largest multi-tenanted office buildings in the Greater Hartford market at 616,000 sq. ft. Four years ago, the building was mired in lawsuits over millions of dollars between ownership and the tenant-in-common (TIC)

Space in the North market remained much more affordable than comparable options in the other suburban markets.

2016 SNAPSHOT

AVAILABILITY:

2015: **21.2%**
2016: **21.9%**

ABSORPTION:

2015: **(96K)**
2016: **(4.2K)**

2016 ASKING RENTS:

$3.00-6.00 PSF
PREMIUM OVER OTHER SUBURBAN MARKETS

investors. Today, the building has a new lender, several new tenants, recommitments and expansions from existing tenants, plus $50 million in recapitalization monies to be used for extensive improvements to the property. Existing tenant Quest Global Services nearly tripled its space, expanding from 17,300 sq. ft. to 63,100 sq. ft. and extending its lease for eight more years. Belcan Engineering, another existing tenant, renewed its lease for five years for 56,000 sq. ft. Aerospace parts supplier Triumph Group leased 88,000 sq. ft. in the flex space of the building, bringing occupancy from approximately 75% to over 95%, providing further long-term stability to the property.

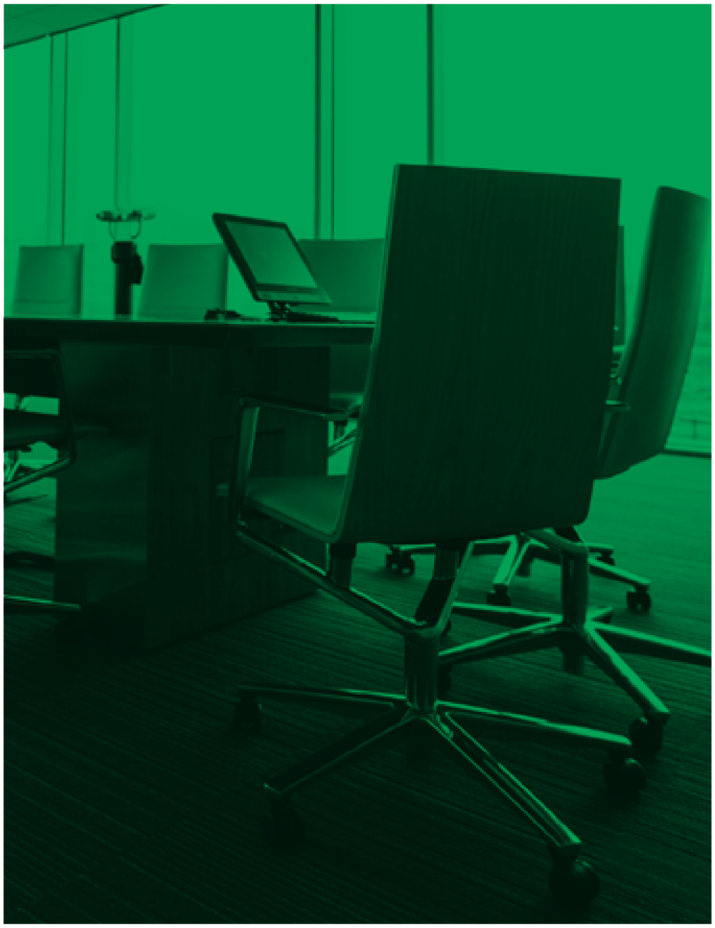
The five-building, 381,000 sq. ft. Aegon Portfolio in the Griffin Office Center is still in search of a new owner. The buildings and grounds, including the parking lots, have fallen into disrepair, making it difficult for new prospects to commit to leasing space at the buildings. While the U.S. Postal Service downsized by 6,400 sq. ft., the portfolio's occupancy was at least steadied with their renewal of 77,300 sq. ft. for another five years within both 6 & 8 Griffin Road North. The portfolio is currently 53% vacant. Tenants in the market looking for a large block of space (50,000 sq. ft. or more) have four options to consider, as they did last year, three of which are in the Aegon Portfolio. If the Aegon Portfolio was removed from the vacancy statistics, availability would only be 17%.

2017 FORECAST

While the North market remained relatively healthy in 2017, next year will bring new challenges. On the supply side, two new large block availabilities in Windsor will be coming on-line in 2Q 2017. 200 Great Pond Road, a three-story, 142,000 sq. ft. building off of Day Hill Road, will be vacated by General Electric as they consolidate their employees into 175 Addison Road. 10 Targeting Centre, a three-story, 50,000 sq. ft. building situated along Interstate 91, will be vacated by the Capitol Region Education Council (CREC) as their new magnet school will be ready for occupancy. At a combined 192,000 sq. ft., these additions alone will increase the North market vacancy in 2017 by over 600 bps, the largest additions to the availability since 2009 when American Airlines left the market and The Hartford consolidated its leased spaces into their owned facility.

While there has not been any new recent construction in the submarket, the owner of Metro Park North in Enfield announced plans to develop an approximately 30,000-50,000 sq. ft. building. It would be the second building to be built in the park, the first of which was constructed in 1986. The developer will require a pre-leasing commitment for approximately 33% of the space in order to commence construction. With a number of less expensive big-block availabilities already on the market, this may be difficult to achieve based on typical new construction pricing, however, the developer is willing to be more aggressive in the early years by offering build-to-suit lease rates at $5.00-8.00 per sq. ft. less than conventional pricing.

Greater Hartford's North market continues to be a "tenant's market."




5 & 7 Waterside Crossing • Windsor, CT


175 Addison Road • Windsor, CT

CONNECTICUT

GREATER HARTFORD SUBURBAN SOUTH MARKET

by David Barnes, (david.barnes@cbre-ne.com)

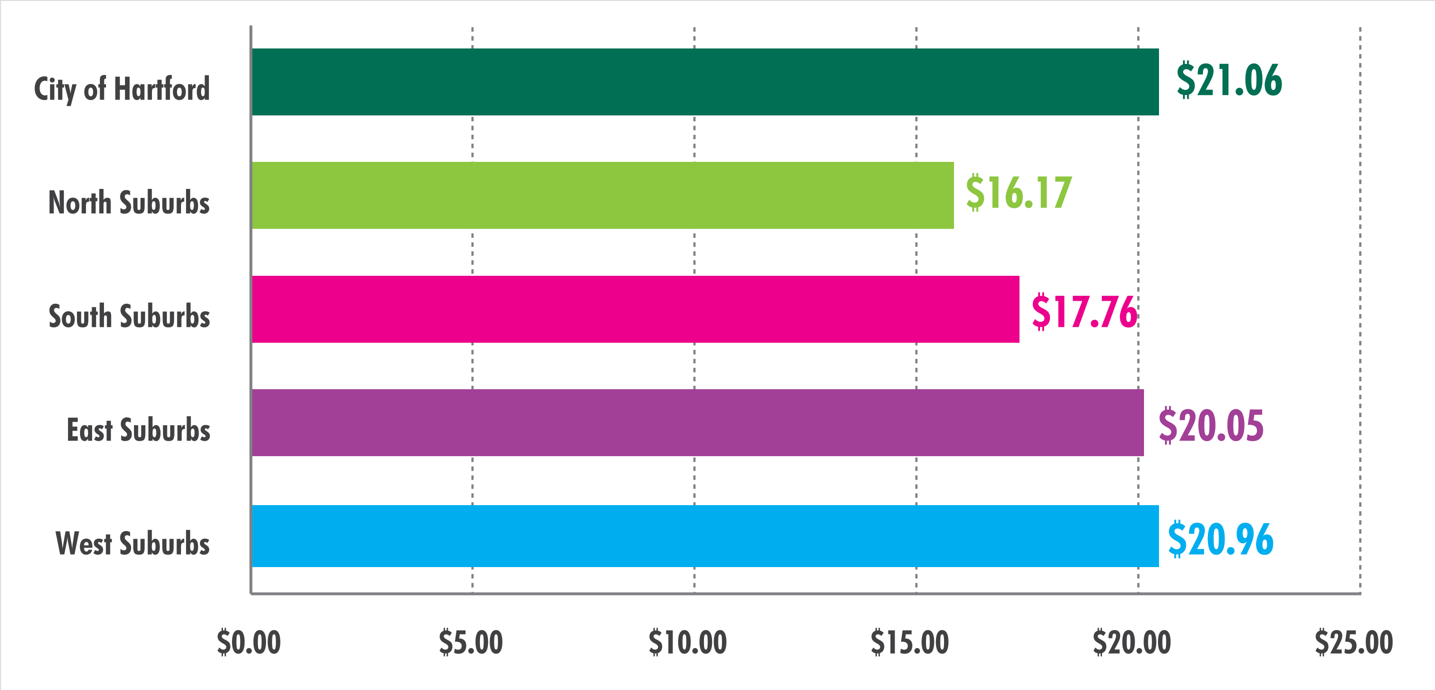
The Greater Hartford Suburban South Office market mirrored 2015 with the majority of the transactions in 2016 presented as **lease renewals or relocations within the market to newly improved space.** Overall vacancy averaged 10.4%, compared to 15.2% for the Greater Hartford Suburban market. Class A vacancy remained low at 8.9%. The Suburban South market continues to trail the national trends of tenants exploring alternative workplace strategies to maximize efficiencies.

Landlords are continuing to improve their facilities in an effort to retain existing tenants and attract new tenants. Improvements to common area lobbies, elevators, parking lots and landscaping are benefactors to capital reserves being invested in the properties. Upgraded food service options and building functions are also amenities added to enhance existing buildings.

NOTABLE TRANSACTIONS

- USI, Progressive Insurance and the Federal Bureau of Investigation contributed over 100,000 sq. ft. of lease renewals at Meriden Executive Park.
- Several renewals are pending at Roscommon Office Park in Middletown.
- Aside from United Healthcare's commitment to renew their 103,000 sq. ft. lease in Corporate Ridge, several engineering firms have repositioned themselves in the Suburban South market.
- Woodard & Curran consolidated into 15,000 sq. ft. at 213 Court Street in Middletown.
- AECOM's $6.0 billion acquisition of URS Corporation resulted in continued tenancy of 47,000 sq. ft. at 500 Enterprise Drive in Rocky Hill.
- HAKS Engineering committed to an expansion and relocation of 11,000 sq. ft. at 100 Great Meadow Road in Wethersfield.
- The construction and recent opening of over 365 apartment and condominium units in Rocky Hill have fueled the live-work-play atmosphere in the Suburban South market.

GREATER HARTFORD
AVERAGE ASKING RENT BY SUBMARKET



Source: CBRE Research

The South market outperformed the overall suburban market with 10.4% vacancy, compared to 15.2%.

2016 SNAPSHOT

VACANCY (ALL SUBURBAN):

2015: **16.5%**
2016: **15.2%**

VACANCY (SOUTH):

2015: **10.2%**
2016: **10.4%**

2017 FORECAST

As the vacancies in many of the upgraded office buildings are absorbed, tenants are going to be forced to consider other markets—such as Cheshire, Meriden, Wallingford and downtown Hartford—as alternatives to expanding and improving their tenancies. There is no speculative development in the pipeline and new office construction remains stagnant. Rental rates for Class A space are increasing and landlords are requesting tenants contribute to the cost of constructing the tenant improvements.

Meriden Executive Park • Meriden, CT

CENTRAL CONNECTICUT INVESTMENT MARKET

by Pat Mulready, (pat.mulready@cbre-ne.com)

After a record year in 2015, office building sales in Central Connecticut tailed off notably. In total, **14 office buildings traded hands this past year, totaling 1.2 million sq. ft.** Although this figure is significantly lower than the 3.6 million sq. ft. that traded in 2015, the **average price per sq. ft. of $110** was the highest watermark since 2005. Historically, over the past 12 years the average year for office sales in Central Connecticut consisted of 16 building sales, totaling just under 1.9 million sq. ft., with an average price per sq. ft. of $90.

Contributing toward the high average price per sq. ft. in 2016 were two notable suburban transactions. In June, Woodgreen Management acquired Compass Point in Rocky Hill from Gary Pelletier for $10.3 million, or $158 per sq. ft. This sale was followed by Capstone's purchase of 95 Glastonbury Boulevard in December for $23.6 million, or $152 per sq. ft. Financing for these two transactions was provided by Wells Fargo and Liberty Bank, respectively.

Two very active buyers of office product in Central Connecticut continued to expand their footprints in 2016. Mark Greenberg acquired 70 Batterson Park Road, a 130,000 sq. ft. Bank of America customer service center, in July for $8.0 million. There were less than four years remaining on the lease with the bank at the time of sale. Joe Moruzzi, who has acquired multiple assets in Rocky Hill, Wethersfield and Southington in the past three years, purchased 609 West Johnson Avenue in Cheshire. This acquisition from Webster Bank was negotiated as part of the bank's relocation to Moruzzi's building at 200 Executive Boulevard in Southington.

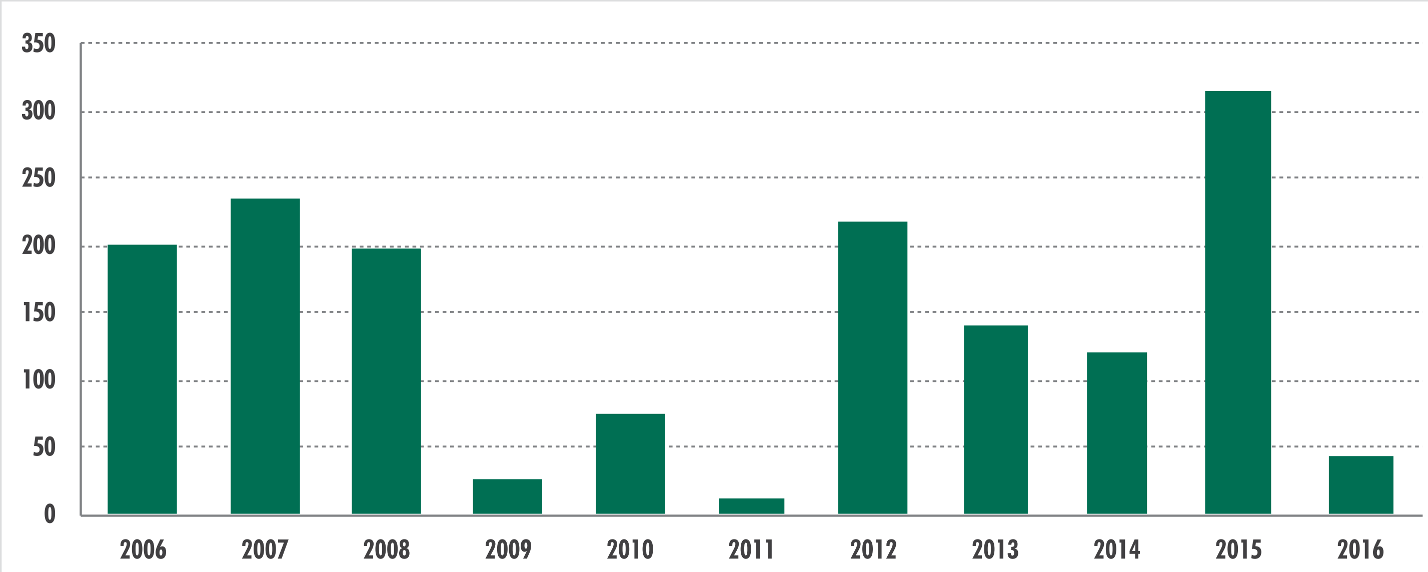
User sales continued to contribute toward overall sales volume. Liberty Bank purchased 245 Long Hill Road in Middletown for $3.5 million, or $41 per sq. ft., and plans to invest significant capital before relocating its headquarters from downtown Middletown. Also, Stanley Black & Decker negotiated to re-acquire its headquarters facility at 1000 Stanley Drive in New Britain, 10 years after selling to U.S. Realty Advisors in a sale-leaseback. There were five years remaining on the original 15-year term, and the sale price was the same as in 2006—$23.1 million, or $178 per sq. ft. Stanley Black & Decker inserted Wachovia Securities as its new landlord and structured a new long-term leaseback at a lower rental rate.

The largest investment sale across all property types in recent years took place in 2016, with CASLE Corporation and Grove Property Trust divesting of its Connecticut medical office portfolio to Healthcare Trust of America, an Arizona-based REIT with a market cap in excess of $4 billion. This portfolio consisted of 20 buildings totaling 612,000 sq. ft., spread across eight communities in the area. The total price was $178 million, or approximately $291 per sq. ft.

Compass Point • Rocky Hill, CT

GREATER HARTFORD

HISTORICAL OFFICE INVESTMENT SALES VOLUMES ($ IN MILLIONS)



Source: Real Capital Analytics

2017 FORECAST

Since so much product traded hands between 2012 and 2015, most owners are in the early stages of a holding period and office building sales will likely continue to be below historical averages. Entering 2017, there are fewer assets on the market or under contract than in prior years, also indicating that lower overall volume is likely. Additionally, most of the troubled loans that have been a focal point during the ongoing economic recovery have been resolved. However, based upon continued low interest rates and the tightening of quality space in the market, trades that do occur will be at a premium.

95 Glastonbury Boulevard • Glastonbury, CT

GREATER HARTFORD INDUSTRIAL MARKET

by Chris Metcalfe, (chris.metcalfe@cbre-ne.com)

The Greater Hartford Industrial market emerged as a preferred geography in 2016 for large-scale national users. Multiple economic, demographic and social drivers have joined forces with traditional real estate fundamentals to establish Connecticut as a major alternative for large-format industrial developments.

Major warehouse-distribution markets in the mid-Atlantic are running extremely low on large format land supply, thanks in part to voracious demand from e-commerce and traditional retailers. Floor area ratio (FAR) pricing in geographies immediately surrounding major cities has reached an extreme, in some cases approaching $80 per sq. ft. Therefore, it is not surprising that Connecticut is one of the next frontiers, and a number of new projects are actively underway or have been recently completed:

User	Sq. Ft.	City/Town
TRADER JOE'S	700,000	Windsor
FEDEX	500,000	Middletown
VERITIV	450,000	Enfield
PLASTIPAK	300,000	Enfield

User	Sq. Ft.	City/Town
UPS	230,000	Windsor
FEDEX	225,000	Stratford
THULE	200,000	Milford

Demand goes much deeper and, in some cases, is substantially larger than these projects. The trend of placing logistics centers closer to the consumer is a major factor in the strong demand, with the following major topics of influence:

- E-commerce consumer expectations of next-day or same-day delivery is accelerating, causing logistics modeling to skew to shorter drive times. Facility placement on multiple sides of traffic hubs for major online retailers is a necessity.
- Growth in e-commerce has led to strong demand for separate reverse logistics (returns) and final-mile (delivery) facilities within local markets. Reverse logistics is increasingly a topic of interest, as it has become common for online shoppers to order clothing in multiple sizes and return all but the one that fits best.
- The trucker shortage is causing employers to make the job more attractive by establishing shorter round trips so that drivers can be home every night. This labor shortage will become a crisis very soon, as the average age of the current labor pool is 55, and very few young people are choosing to make trucking their career choice. The sight of a self-driving truck will become a reality over the next several years.

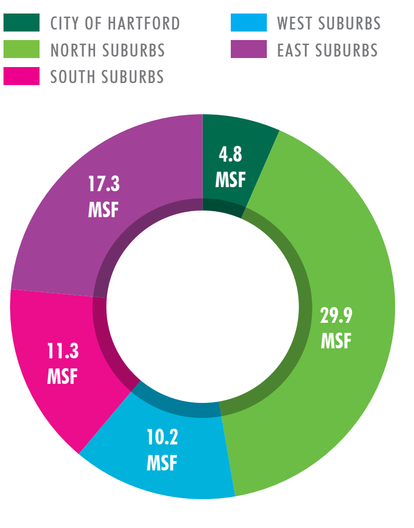
2017 FORECAST

For decades, Connecticut has touted its location between New York and Boston with certain modest success resulting from this geographic reality. These new trends are some of the most tangible yet to display how Connecticut can serve these two high-growth international cities. The way in which obstacles are overcome will help dictate the success of this market, such as the need for public investment in interstate, state and local road systems and other transportation infrastructure such as heavy rail and port facilities.

Availability of large, developable land parcels will become more of a challenge heading into 2017 and beyond. Connecticut is expected to follow in the footsteps of its larger neighbors, where developers are creating large-format parcels with techniques typically seen in retail markets. Parcel aggregation, tear-downs and multi-story designs will become a reality in the Greater Hartford Industrial market over the next 5-10 years. We are already seeing municipalities rezone to accommodate these high-assessment developments and, with little to modest impact on municipal services, this trend should continue.

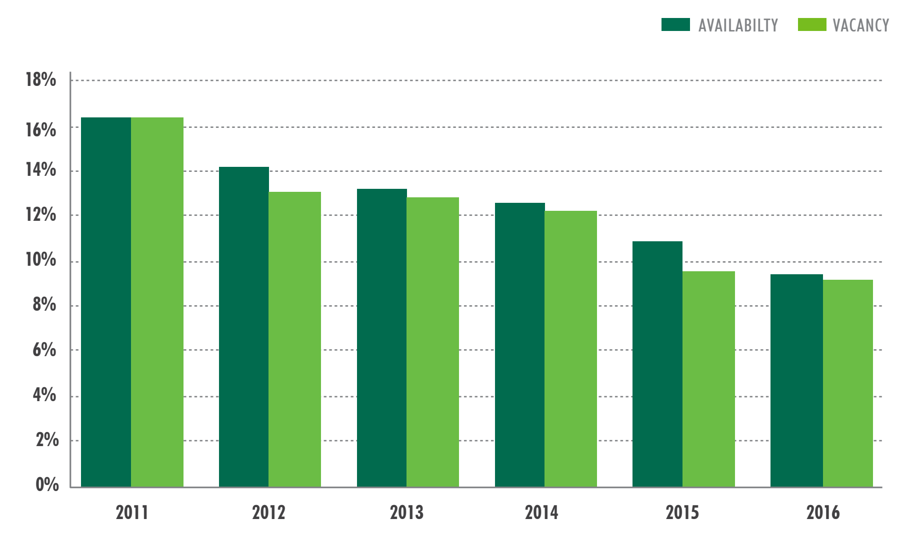
Connecticut has become an important location for large-format industrial developments.

GREATER HARTFORD
TOTAL INDUSTRIAL SQUARE FOOTAGE BY SUBMARKET



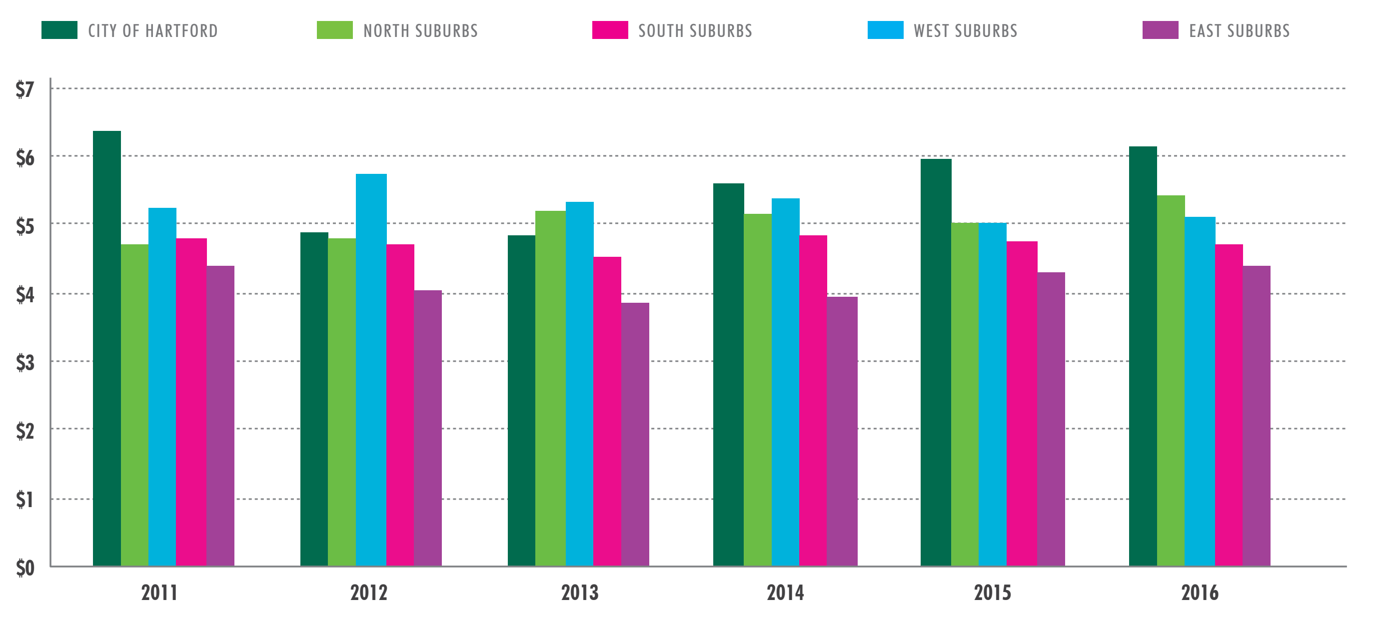
Source: CBRE Research

GREATER HARTFORD
HISTORIC OFFICE VACANCY VS. AVAILABILITY



Source: CBRE Research

GREATER HARTFORD
HISTORICAL INDUSTRIAL AVERAGE ASKING RENTS



Source: CBRE Research

GREATER NEW HAVEN INDUSTRIAL MARKET

by Matt O'Hare, (matt.o'hare@cbre-ne.com)

The Greater New Haven Industrial market experienced **unprecedented robust leasing velocity during 2016.** The strong e-commerce industry in the U.S. helped increase demand for warehouse space from local fulfillment and third-party logistics companies. The New Haven Industrial market also saw increased demand from local manufacturing companies due to the steady defense industry locally and growth in the alternative energy market. The unexpectedly high amount of leasing activity in 2016 brought the overall vacancy rate to 11%, and as leasing velocity is projected to continue along the same trajectory, the vacancy rate in 2017 is predicted to dive below the historic 10% mark. Real estate investment firms expressed continued interest in this market as Calare Properties, Equity Industrial Partners and Benerofe Properties successfully completed recent sales of larger industrial sites in the area.

Connecticut-based fulfillment companies experienced remarkable growth during the past year, fueled by thriving national e-commerce trade. Wallingford-based Fosdick Fulfillment Corporation leased over 250,000 sq. ft. of additional warehouse space in two separate buildings: 550 Research Parkway in Meriden and 181 West Johnson Avenue in Cheshire. Fosdick now occupies almost 1,000,000 sq. ft. of space in Connecticut as well as another 800,000 sq. ft. in Reno, Nevada. Fulfillment Works, formerly based in Orange, relocated their operation to 297 State Street in North Haven and leased 200,000 sq. ft. at the multi-tenanted facility. SCS Direct Inc., another local fulfillment company, rounded out the larger deals involving logistics and warehousing companies and leased almost 90,000 sq. ft. at 22 Marsh Hill Road in Orange.

Surprising growth and demand from the

local manufacturing sector also helped to contribute to positive absorption of industrial space. Thule, GKN Aerospace and APS Technologies all made long-term commitments to the New Haven Industrial market during 2016. Thule, an internationally known producer of car, ski and bicycle racks, continued to grow in Connecticut and relocated to 40 Pepes Farm Road where they leased 200,000 sq. ft. of space. The thriving local defense industry allowed GKN Aerospace to lease 65,000 sq. ft. at 14 Research Parkway in Wallingford for an extended period. Additionally, alternative energy provider APS Technologies strengthened their commitment to the area and leased over 60,000 sq. ft. at Laser Lane in Wallingford.

Strong leasing activity helped to sustain interest in the Greater New Haven Industrial market from investors. Two Massachusetts-based development firms, Calare and Equity Industrial Partners, completed recent sales in this market. Calare Properties purchased 40 Pepes Farm Road in Milford, a 200,000 sq. ft. asset, for $14.1 million. Needham-based Equity Industrial Partners completed the sale of 297 State Street, a 386,000 sq. ft. building in North Haven. Also, Benerofe Properties, based in White Plains, NY, purchased 181 Marsh Hill Road in Orange, a superior warehouse facility located directly off Interstate 95.

2017 FORECAST

Although leasing activity fell short in 2015, the past year certainly compensated for the faulty expectations and resulted in a pleasant surprise for many involved with the local industrial market. This market experienced a complete and unexpected positive turnaround in an extremely short amount of time. With existing functional available space extremely scarce, interest in speculative development should greatly increase in 2017, particularly in the North submarket.

The 163-acre former Pratt & Whitney Aircraft site, owned by New York-based Rabina Properties, is now poised more than ever before to accommodate larger industrial requirements from 500,000-1,000,000 sq. ft. Also, Jon Orsini should see continued interest in his 80,000 sq. ft. development site in Wallingford in the next year.

One significant challenge in 2017 will be the sudden lack of existing supply in the Greater New Haven Industrial market. This new unforeseen dilemma will make for an extremely interesting upcoming year as landlords will be forced to find creative solutions to accommodate requirements from new prospective tenants in the market as well as established ones looking to grow and expand.

GREATER NEW HAVEN OFFICE MARKET

by David Hansen, (david.hansen@cbre-ne.com)

The pace of leasing velocity in the Greater New Haven Office market was lethargic in 2016 relative to 2015, as demand for space slowed both in the Central Business District and suburban submarkets. Several corporate tenants opted to defer large real estate decisions amid a perceived wane in business confidence speculatively due to election year uncertainty and choppy geopolitical conditions. Still, healthcare and educational users continued to expand, driven by Yale New Haven Hospital, the university and public school system, and New Haven's biotech industries.

CENTRAL BUSINESS DISTRICT

- In the Central Business District, **Bristol-Myers Squibb** has tabled an approximately 100,000 sq. ft. relocation of analytical personnel, choosing to holdover in its former Wallingford research and development facility, which they have been marketing for sale as they construct a new Kendall Square R&D center in Cambridge, MA.
- Pennsylvania-based **Customers Bank**, which acquired an arm of New Haven financial technology company Higher One, delayed its plans to open a new headquarters in favor of a short-term extension of its sublease with Higher One in the city's Science Park section of town. Higher One was acquired by a Washington, D.C.-based educational technology company, Blackboard.
- **Bridgewater Associates** founder Ray Dalio's Dalio Foundation and fellow educational non-profit Families for Excellent Schools each opened new 4,000 sq. ft. offices in 700 State Street and 370 James Street, New Haven, respectively.
- New Haven-headquartered **Alexion Pharmaceuticals** purchased maker of rare diseases drugs Synageva BioPharma in an $8.4 billion acquisition, spurring a several hundred thousand sq. ft. need in Massachusetts; it is, however, unclear as of yet how the acquisition will impact Alexion's New Haven real estate requirements.
- Innovative lighting systems company **Acuity Brands** leased 33,000 sq. ft. as part of a 10-year transaction with law firm Wiggin and Dana, who own the high-rise portion of 265 Church Street in downtown New Haven.

350 Knotter Drive • Cheshire CT

2016 SNAPSHOT

ABSORPTION:
2015: **(183K)**
2016: **(166K)**

VACANCY:
2015: **15.8%**
2016: **17.0%**

AVAILABILITY:
2015: **16.4%**
2016: **18.5%**

Healthcare and educational users drove activity in 2016.

2017 FORECAST

The Greater New Haven Office market will strengthen in 2017 around improved fundamentals, bolstered once again by the healthcare and educational industries. It is hoped that the strong real estate fundamentals in the local industrial markets are a signal of a strengthening economy and will translate into more robust office demand. In the near future, increased borrowing costs will impact the value of commercial real estate to some degree in Greater New Haven as well as nationally.

SUBURBAN SUBMARKETS

- Webster Bank will vacate 60,000 sq. ft. of support operations space at 609 West Johnson Avenue in Cheshire and an additional 32,000 sq. ft. at 777 Northrup Road in Wallingford. Webster will relocate those employees to 200 Executive Boulevard in Southington.
- In the process of opening its new headquarters in New Haven, Alexion Pharmaceuticals vacated over 250,000 sq. ft. of office and R&D space at 350 Knotter Drive, 181 West Johnson Avenue and 7 McKee Place, all in Cheshire.
- Insurance co-op HealthyCT will dissolve and vacate 12,000 sq. ft., as it was deemed by the State to be in financially hazardous standing while being subjected to over $13.5 million in fees tied to the Affordable Care Act.
- Healthcare provider WellCare opened a new 6,200 sq. ft. office facility in Hamden Center at 2319 Whitney Avenue. Yale New Haven Hospital continued to expand eastward, completing an 11-year deal for 11,000 sq. ft. of clinical space in a new medical office development on Boston Post Road in Guilford.
- Sales activity cooled in 2016 with fewer notable sales, most of which occurred in the Class B market. 809 Main Street in East Hartford sold for $1.25 million and 207 Pitkin Street in East Hartford sold for $995,000. Both properties sold to users.
- Companies relocating within the East market are showing signs of adaptation as the culture of their workforce changes, going from traditional layouts to more efficient, open and immersive environments. As evidenced by Kelser's relocation from 17,000 sq. ft. at 111 Roberts Street into 11,000 sq. ft. at 43 Western Boulevard, the company is creating a more open and highly collaborative environment for their 45 employees.

GREATER SPRINGFIELD OFFICE MARKET 2017

by John Reed, (john.reed@cbre-ne.com)

The Greater Springfield Office market continued to improve through 2016 in both the suburban submarkets and the Central Business District (CBD). This activity was consistently driven by **intra-market growth, demonstrating the continued stability of local businesses** expanding or improving their existing locations or moving into better quarters.

Development of MGM's $800 million hotel-casino continues to be the main driver of activity. Beginning with the relocation of many displaced tenants and business owners that were located within the casino footprint, there is now the beginnings of an influx of businesses that want to take advantage of proximity to the casino. Progress is increasingly visible in the main building construction and the associated parking garage. There was also a recent announcement of a new hotel planning a development across the street.

Another development is Union Station in the North End. As this nears completion, it will provide 64,000 sq. ft. of new office space in addition to retail and additional parking to the market. Growing pains continue with the Interstate 91 viaduct reconstruction, which reportedly is approximately 50% complete and ahead of schedule. This, along with other infrastructure improvements to downtown parking and city-owned parking garages, is helping to invigorate the local economy and will have long-term positive effects.

Healthcare and education were active sectors in 2016. Baystate Health, in cooperation with the University of Massachusetts, will be starting a new medical school program. The focus of this program—situated in 6,300 sq. ft. at 3601 Main Street in Springfield—will be to train physicians who will develop their careers and stay in western Massachusetts. Baystate Health engaged in further expansion with the addition of a 14,000 sq. ft. Child Partial Hospitalization Program in Holyoke.

In the suburbs, Columbia Gas has taken occupancy of its newly reconstructed 27,000 sq. ft. Roosevelt Avenue headquarters and service center. At 134 Capital Drive in West Springfield, Hatch Mott McDonald moved into 20,280 sq. ft. of newly retrofitted space. American Honda Finance has expanded its Holyoke location to 22,000 sq. ft. and, nearby, O'Connell Development is under construction with their 20,000 sq. ft. headquarters development. Further north, Development Associates has razed the legendary Clarion Hotel to make way for an additional 60,000 sq. ft. of medical office space, completing this Class A campus. This is the only new office construction in the market.

Due to the recent positive economic developments in the region, combined with a record 3.3% unemployment rate in October, the available inventory in the CBD and suburbs continues to drop. Approximately 8.5-9.5% of the Greater Springfield Suburban Office market is vacant and Springfield's total vacancy is 9-10%. Vacancy rates continue to slowly decrease while asking rental rates have marginally increased. In the CBD, Class A rents range from $15-22 per sq. ft., while Class B rents remain at $10-13 per sq. ft.

Development of MGM's $800 million hotel-casino was the main driver of activity in 2016.

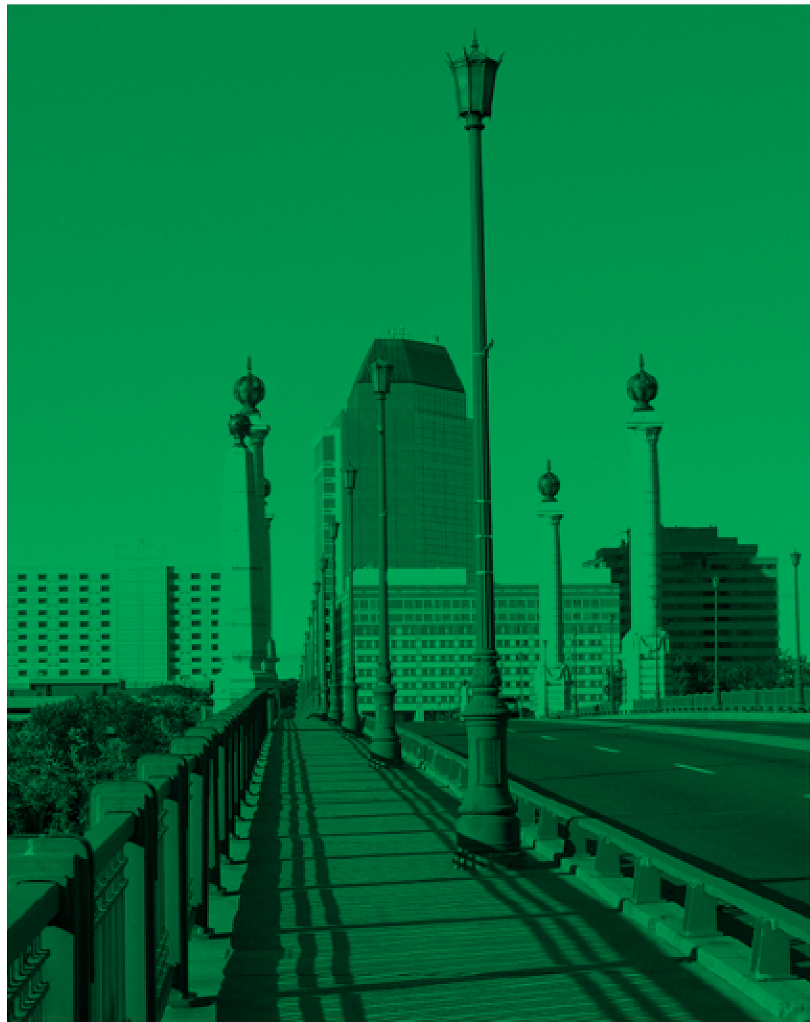
2016 SNAPSHOT

2016 VACANCY
(GREATER SUBURBAN SPRINGFIELD):
8.5-9.5%

2016 VACANCY
(SPRINGFIELD):
9-10%

2016 ASKING RENTS
(CLASS A • CBD):
$15.00-22.00 PSF

2016 ASKING RENTS
(CLASS B • CBD):
$10.00-13.00 PSF



2017 FORECAST

The Greater Springfield Office market continued to improve through 2016 and is likely to follow the same trajectory through 2017 in both the suburban markets and the CBD. This improvement is driven by intra-market growth of local businesses expanding or improving their existing locations. The MGM development, various public projects and strength of current tenants will have a positive effect on the Greater Springfield Office market.

GREATER SPRINGFIELD INDUSTRIAL MARKET

by John Reed, (john.reed@cbre-ne.com)

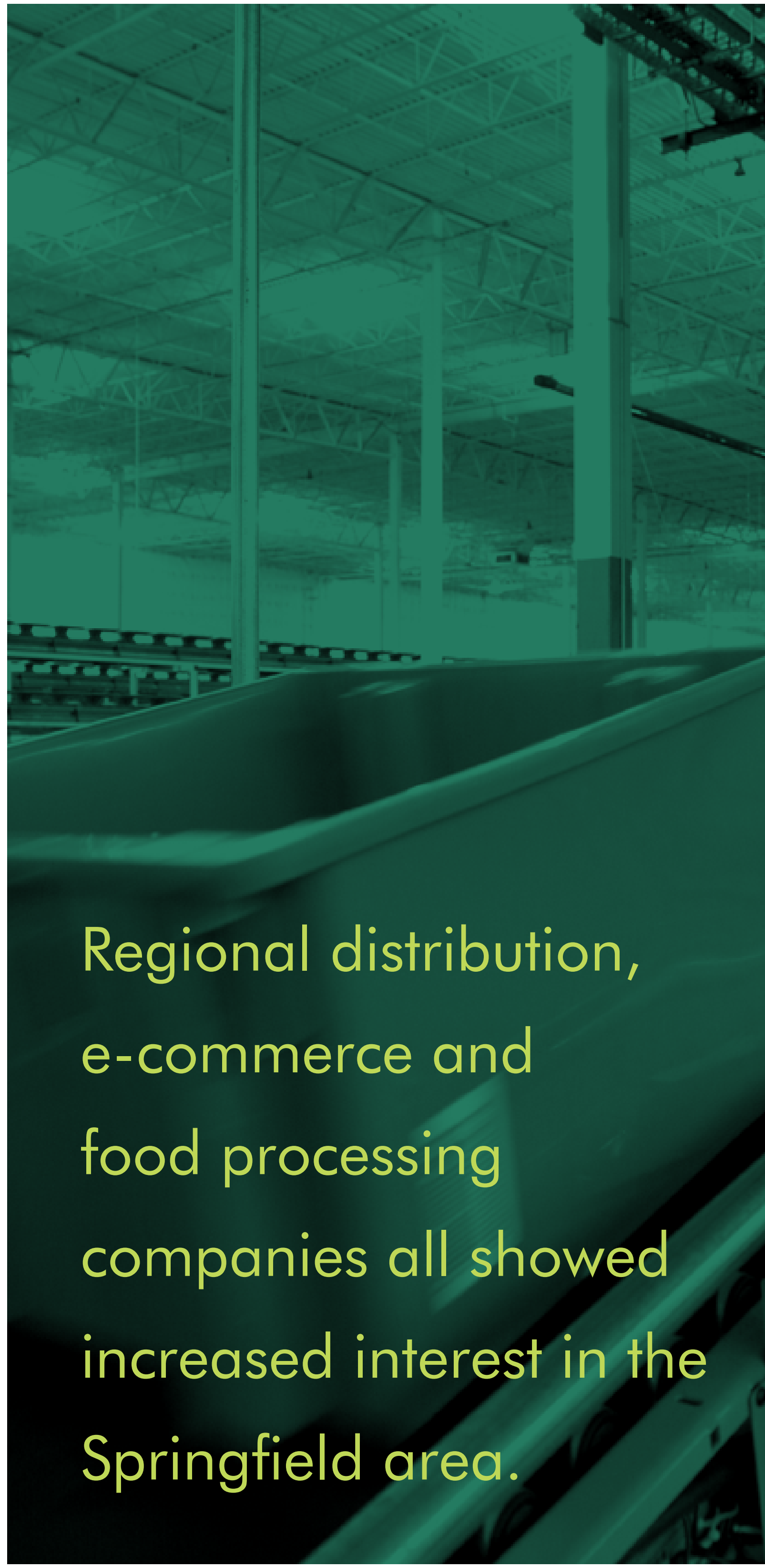
The Greater Springfield Industrial market **experienced steady leasing and sales activity through 2016, marking another year of positive absorption.** As forecasted, the velocity of industrial transactions slowed down due to the diminished modern inventory. Despite the lack of inventory, the market displayed reasonable momentum throughout the year, and that is expected to continue into 2017.

Small to mid-size manufacturers are the drivers in this market. Historically, this demand is in the 10,000-50,000 sq. ft. range. This segment of the market was less active in 2016 due to limited availability of quality inventory.

A continuing trend is the increased interest from regional distribution operations, e-commerce and food processing companies that investigate Greater Springfield due to its attractive labor pool and excellent highway accessibility. Last year the medical marijuana industry entered the market with the construction of two medical marijuana cultivation facilities in Westfield and West Springfield. Due to the required vertical integration of this industry, there will be continued activity in this sector.

Construction is becoming a relevant alternative for growing companies due to the limited existing alternatives. Expansions to existing facilities include Prolamina and Jarvis in Westfield, and a 100,000 sq. ft. addition that will add to U.S. Tsubaki's Chicopee complex. Regarding ground-up build-to-suit activity, there is a slow evolution that is evident due to the price differential between existing product and the cost of construction. There is desirable industrial land available. Pricing for industrial land remains between $75,000-100,000 per acre, or $5.00-7.00 FAR, for highway accessible sites with the appropriate infrastructure. The greatest inventory of sites is in Westfield, Springfield and Chicopee.

User sales and leasing propelled the activity in 2016. Three different examples included the sale of 340 Taylor Street, a 140,000 sq. ft. facility in Springfield, 27 Taxiway Drive in Chicopee, a 190,000 sq. ft. facility sold to the existing tenant and the 72,000 sq. ft. building at Enfield's 96 Phoenix Avenue. Leasing activity was demonstrated by Suddekor leasing 120,000 sq. ft. in West Springfield, Holden Humphrey absorbing 82,000 sq. ft. in Chicopee and the remaining 83,000 sq. ft. being occupied by A.H. Harris at 1559 King Street in Enfield, Connecticut.



25 Bacon Road • Enfield, CT

Developers were active in 2016. 102 First Avenue in Chicopee was purchased with the intent to upgrade and reposition this well-located industrial facility. 25 Bacon Road in Enfield, CT, a 1,050,000 sq. ft. distribution building originally built by Hallmark Cards, was acquired mid-2016. The developer is in the process of a full-building upgrade and is negotiating with multiple tenants for the complex.

At the end of 3Q 2016, the industrial vacancy rate in the Greater Springfield Industrial market was approximately 7%. This includes 1,050,000 sq. ft. of space, of which 700,000 sq. ft. will be absorbed by 1Q 2017, which will dramatically reduce the vacancy rate.

2016 SNAPSHOT

VACANCY:

2015: **7.3%**
2016: **7.0%**

2017 FORECAST

The Greater Springfield Industrial market experienced solid activity in both leasing and sales throughout 2016, marking another year of positive growth. As absorption continues to leave limited existing alternatives, construction will become a relevant alternative for growing companies. There will be a minor slowdown due solely to a lack of available product. Nevertheless, the market displayed reasonable momentum throughout the year and will continue to do so in 2017.

2017 Rhode Island

MARKET OUTLOOK

2016 SNAPSHOT

VACANCY:

2015: **16.9%**
2016: **13.4%**

ABSORPTION:

2015: **(163K)**
2016: **137K**

CLASS A RENTS:

2015: **$31.05**
2016: **$32.14**

11 OFFICE BUILDINGS
(544,000 SF TOTAL)

RESIDENTIAL

DOWNTOWN PROVIDENCE OFFICE MARKET

by Alden Anderson, Jr., (alden.anderson@cbre-ne.com)

The Downtown Providence Office market ended 2016 with a vacancy rate of 13.4%, a decrease of approximately 350 basis points from year-end 2015. This is a significant reduction in vacancy and is attributable to a myriad of factors, including the conversion of 11 office buildings to residential uses since 2013, totaling 544,000 sq. ft. and contributing approximately 148,000 sq. ft. of net positive absorption to Class B and C space in 2016.

FINANCIAL DISTRICT

- The Financial District is the largest submarket in Providence, consisting of 37% of the entire Downtown Providence Office market footprint.
- The removal of **60 Eddy Street,** the "Old Providence Journal Building," lowered the inventory by 60,000 sq. ft. in this submarket. The building has been substantially vacant for over a decade and was sold in 2016 with new ownership focusing on alternative uses.
- The **Financial District submarket had an increase in asking rents of 5.2%,** driven by increases in several properties and the previously mentioned removal of functionally obsolete product, which had a negative effect on the submarket's average rent. It should be noted that strike-price rents have not moved up as much as asking rents in 2016.

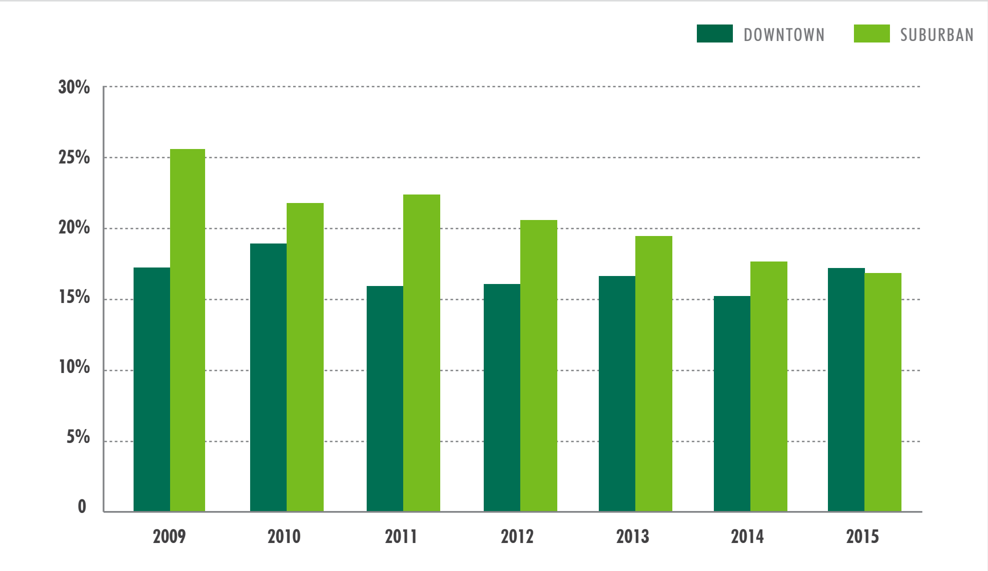
CAPITAL CENTER

- The **Capital Center submarket had 2,600 sq. ft. of net negative absorption.** The inventory in this submarket increased to reflect additional sq. ft. that will be available in the future to third-party tenants at 500 Exchange Street.
- This submarket has the **highest average asking rate at $33.53 per sq. ft.,** primarily due to being transportation centric and having a relatively new building inventory.

WESTMINSTER DISTRICT

- **75 Fountain Street,** the former Providence Journal Building, had 128,000 sq. ft. available at the beginning of 2016 and represented the largest block of available space in the downtown market. The property secured over 88,000 sq. ft. of tenant commitments in 2016, which is a clear indication of the market's strength.
- **150 Washington Street** leased approximately 30,000 sq. ft. for a school use, which was a good backfill of the former Roger Williams School of Continuing Studies space.

DOWNTOWN PROVIDENCE
HISTORICAL OFFICE VACANCY RATES



Source: CBRE Research

PROMENADE DISTRICT

- Despite a small amount of net negative absorption, there was a lot of activity in the Promenade submarket with several leases executed in smaller increments. The largest lease was **Veterans Administration for approximately 15,500 sq. ft. at Eagle Square.**
- The Promenade submarket is dominated by four developments: The Foundry, West Exchange Center, American Locomotive (ALCO) and Rising Sun, which total nearly 1,050,000 sq. ft. and make up 93% of this submarket.
- The available space at **ALCO** and **Rising Sun** developments account for 76% of all the available space in this submarket. Activity in the second half of 2016 was strong in this submarket, which should lead to some solid absorption in 2017.

JEWELRY DISTRICT

- The **$230 million South Street Landing** project is well into construction on the 260,000 sq. ft. adaptive re-use of a power plant and a new 750-car parking garage. Occupancy by the University of Rhode Island and Rhode Island College in the approximately 130,000 sq. ft. Nursing Education Center and Brown University for approximately 135,000 sq. ft. of administrative offices is expected in take place in mid-2017, adding 550 daily employees plus additional nursing students to the neighborhood.
- With the opening of South Street Landing and some known blocks of available space coming to the market in 1Q 2017, it is anticipated that there will be deal activity that places upward pressure on rents, due to the desire of companies to be in the submarket.

EMPIRE, RANDALL SQUARE & SOUTH MAIN STREET DISTRICTS

- These three submarkets total 898,500 sq. ft. and have a combined vacancy rate of 5.6%.
- The **Randall Square** submarket had 12,300 sq. ft. of positive absorption, due to multiple leases in the 3,000–6,000 sq. ft. range.

2017 FORECAST

In 2016, the downtown Class B submarket saw significant leasing take place. There are a limited number of contiguous blocks of space available greater than 25,000 sq. ft. It is anticipated that in 2017, the larger footprint tenants will have to expand their search to look at Class A alternatives with the Class B market tightening considerably in 2016. There will be alternatives in the periphery of downtown, such as the Promenade and suburban Providence submarkets, which provide for large block absorption opportunities in 2017. While the downtown Class A submarket had net negative absorption of 11,000 sq. ft., asking rents increased by 3.5% in 2016, and late 2016 deal activity would indicate a stronger market in 2017.

In 2016, there was further progress on multiple projects on, or near, the Interstate 195 land. The institutional sector, education and healthcare, will continue to be instrumental in seeding the redevelopment of the Interstate 195 corridor during 2017 and beyond. There is good momentum in the Providence market and that could bode well for an adaptive re-use of 111 Westminster Street, an approximately 350,000 sq. ft. former bank headquarters that has been vacant since April 2013. A few notes of caution for 2017 include macro issues such as: (i) the effect of the Presidential election and the impact on corporate decision making, (ii) Providence's status as a secondary/tertiary market at this point in the economic cycle, and (iii) local issues, including the ongoing and tenuous nature of the City of Providence's long-term financial condition, and the business community, municipal leadership and social service organizations' attempts to improve and secure Kennedy Plaza. There should be clarity on the former issues by mid-2017, while resolution of the latter issues is needed to provide the stability and certainty for Providence to grow and prosper into the future.

2016 SNAPSHOT

VACANCY:

2015: 16.4%
2016: 13.6%

ABSORPTION:

2015: 132K
2016: 239K

SUBURBAN RHODE ISLAND OFFICE MARKET

by Andrew Galvin, (andrew.galvin@cbre-ne.com)

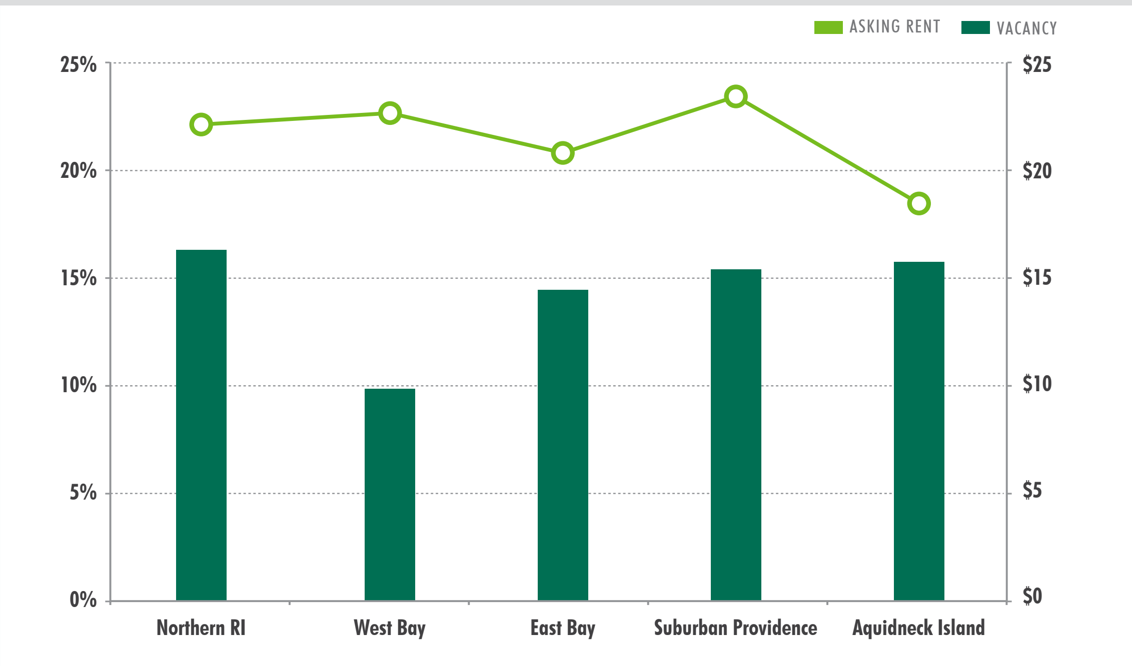
The Suburban Rhode Island Office market ended 2016 with 239,900 sq. ft. of positive absorption and an overall vacancy rate of 13.6%, the lowest vacancy rate since 2006. Additionally, since 2012 there has been approximately 675,000 sq. ft. of net positive absorption.

NORTHERN RHODE ISLAND

- Northern Rhode Island had 110,000 sq. ft. of positive absorption in 2016 with the vacancy rate correspondingly reduced to 16.6% from 23.4% year-over-year. This submarket had vacancy rates over 30% from 2009-2012 and large blocks of absorption are driving the improving market.
- **1301 Atwood Avenue in Johnston** and **One Albion Road in Lincoln,** which accounted for 60% of the available space in this submarket at year-end 2015, combined for over 88,300 sq. ft. of net positive absorption in 2016.
- Asking rents rose 2.2% year-over-year and, for the second year in a row, represent the highest levels this submarket has ever achieved.
- Potential consolidation by major users in this submarket could slow absorption in 2017.

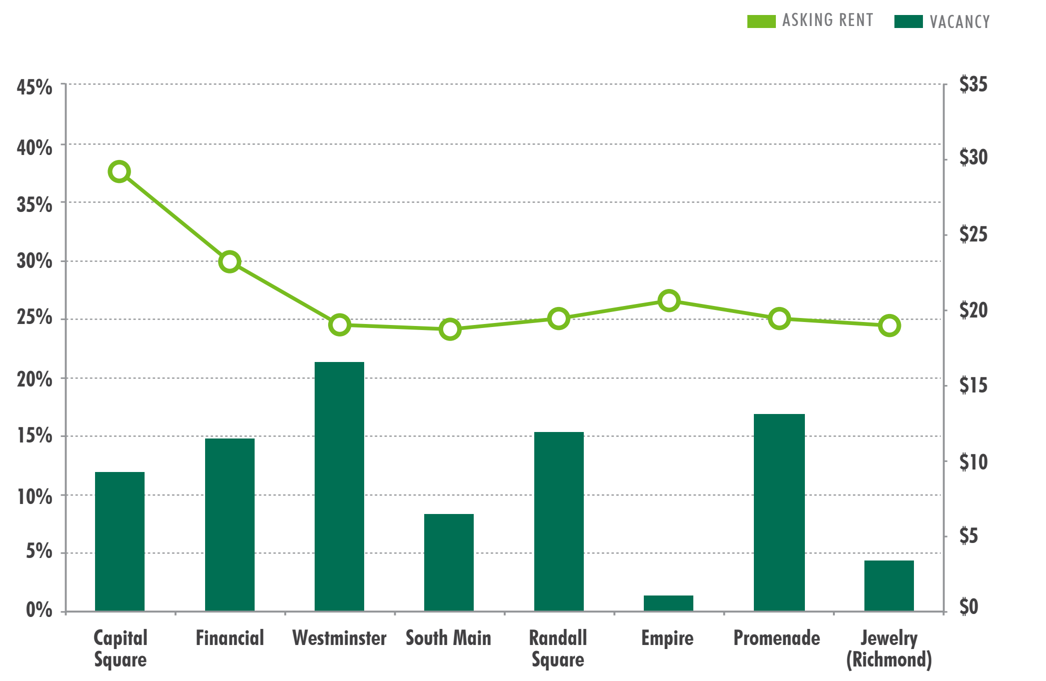
Vacancy was the lowest in 2016 in a decade.

RHODE ISLAND
SUBURBAN OFFICE VACANCY VS. ASKING RENT



Source: CBRE Research

RHODE ISLAND
DOWNTOWN PROVIDENCE OFFICE VACANCY VS. ASKING RENT



Source: CBRE Research

WEST BAY

- West Bay is the largest submarket in suburban Rhode Island, containing **37.0% of the total suburban office space.**
- Approximately 44,000 sq. ft. of net positive absorption over the past 12 months resulted in a year-end **vacancy rate of 9.9%,** the lowest vacancy rate in this submarket since 2006 and the sixth consecutive year of declining vacancy.
- Average asking rent of **$18.16 per sq. ft.** represents the highest level since 2009.

SUBURBAN PROVIDENCE

- The Suburban Providence submarket had approximately **14,150 sq. ft. of net negative absorption in 2016.**
- Several smaller transactions occurred, which counterbalanced a large vacancy that occurred due to corporate consolidation.
- The **portfolio sale of several buildings in the ManuCenter off Allens Avenue** was completed in 4Q 2016. This totals approximately **93,300 sq. ft.** and is anchored by various medical tenants and administrative office uses for Lifespan.

AQUIDNECK ISLAND

- In 2016, there was **10,700 sq. ft. of net positive absorption** in the Aquidneck Island submarket, resulting in a vacancy rate of 15.7%.
- **Asking rents**, which hit a high-water mark in 2015, were down 50 basis points in 2016 to **$14.74 per sq. ft.**
- Activity increased in this submarket with numerous transactions consisting of **contractions, expansions and relocations.** In a market that's typically uniform, this disparate activity led to a choppy 2016.

2017 FORECAST

The outlook presented at the end of 2015 was for a promising 2016. With approximately 240,000 sq. ft. of net positive absorption, expectations have been met. With a current statewide vacancy of 13.6%, the lowest level since 2006, available supply continues to be reduced. With a declining vacancy rate and increasing rent environment, it is feasible that some proposed development projects in the pipeline, particularly specialty uses, will break ground in 2017. Specific to Aquidneck Island, the expected increase in defense spending should positively impact this submarket.

RHODE ISLAND

SNAPSHOT

VACANCY:

2015: **4.3%**

2016: **3.3%**

ABSORPTION:

2015: **1.9 MSF**

2016: **1.3 MSF**

RHODE ISLAND INDUSTRIAL MARKET

by Tom Barry, (tom.barry@cbre-ne.com)

The Rhode Island Industrial market ended 2016 with a **vacancy rate of 3.3%,** down 101 basis points (bps) from 4.3% at year-end 2015. This is the lowest vacancy rate in several decades. Over the course of 2016, there was significant lease and sale activity along with steady deal velocity, which resulted in **1.3 million sq. ft. of net positive absorption.** The total industrial market increased slightly in size, with buildings from other market categories being reclassified to industrial. The industrial market increased by approximately 181,850 sq. ft., totaling **53.3 million sq. ft.** In 2016, much of the deal velocity came from manufacturing companies focused on strong infrastructure and modern efficient space, similar to 2015. As the market continues to tighten there are fewer options in all size categories.

NORTH

- Vacancy rate increased to 1.9% from 0.9% at year-end 2015.
- There was negative net absorption of 146,000 sq. ft., compared to positive net absorption of 910,000 sq. ft. in 2015.
- Major transactions in the North submarket included:
  - **35 Martin Street, Cumberland:** 233,000 sq. ft. sale
  - **211 Columbus Avenue, Pawtucket:** 89,500 sq. ft. sale
  - **20 Providence Pike, North Smithfield:** 70,600 sq. ft. sale

EAST BAY

- Vacancy rate decreased by 503 bps to 0.3% in 2016, from 5.3% at year-end 2015 and from 10% in 2014.
- Total net positive absorption was 256,000 sq. ft. in 2016.
- Major transactions in the East Bay submarket included:
  - **261 Narragansett Park Drive, East Providence:** 48,500 sq. ft. sale
  - **181 Narragansett Park Drive, East Providence:** 22,700 sq. ft. lease

RHODE ISLAND INDUSTRIAL SUBMARKET OVERVIEW

SUBMARKET	TOTAL SQ. FT.	VACANT SQ. FT.	VACANCY RATE	2016 ABSORPTION
EAST BAY	7,198,697	19,300	0.3%	256,371
NORTH	22,796,638	434,600	1.9%	(146,000)
WEST BAY	22,057,883	1,237,325	5.6%	1,083,207
SOUTH	1,285,386	65,000	5.1%	90,313
TOTAL MARKET	53,338,604	1,756,225	3.3%	1,283,891

WEST BAY

- Vacancy rate decreased by 159 bps to 5.6% in 2016, from 7.2% at year-end 2015.
- Total net positive absorption was 1.1 million sq. ft. in 2016.
- Major transactions in the West Bay submarket included:
  - 236,600 sq. ft. sold at 2000 Plainfield Pike in Cranston
  - 710,700 sq. ft. sold at 200 Frenchtown Road in North Kingstown
  - 106,000 sq. ft. leased at 333 Strawberry Field Road in Warwick

SOUTH

- The South submarket, which was added to the overall Rhode Island Industrial market in 2013, had increased activity in 2016.
- The vacancy rate declined 700 bps, from 12.1% to 5.1%.
- A major transaction for the South submarket was 32,600 sq. ft. leased at 53 Tom Harvey Road in Westerly.

2017 FORECAST

The Rhode Island Industrial market in 2016 continued on a positive trajectory, taking the vacancy rate to a new low of 3.3%. The shrinking supply of quality industrial product will present limited options in all size categories for companies searching for space. This will force both tenants and buyers to be opportunistic and be ready to act on an opportunity should it presents itself. With the lack of viable options, more companies have been forced to renew leases at their present location rather than risk losing their space. Tenants may be forced to settle for a less desirable solution and a different geographic location which could affect its labor force.

2016 was well balanced between sale and lease transactions, which is likely to continue into 2017. Pricing has gradually increased for leasing as well as properties sold, in the range of 3-5%, but has not increased as much as the declining vacancy would seem to imply.

There has been a trend developing with manufacturing companies continuing to grow in the state, accounting for a greater percentage of both sale and lease activity. Both manufacturing and warehouse users are searching for similar space—needing high ceiling heights—which puts even more pressure on the limited high-bay inventory available. For manufacturing, suitable infrastructure also becomes an issue. The trend to consolidate operations shows no sign of slowing down and should continue into 2017, with companies continuing to look for increased operational efficiencies.

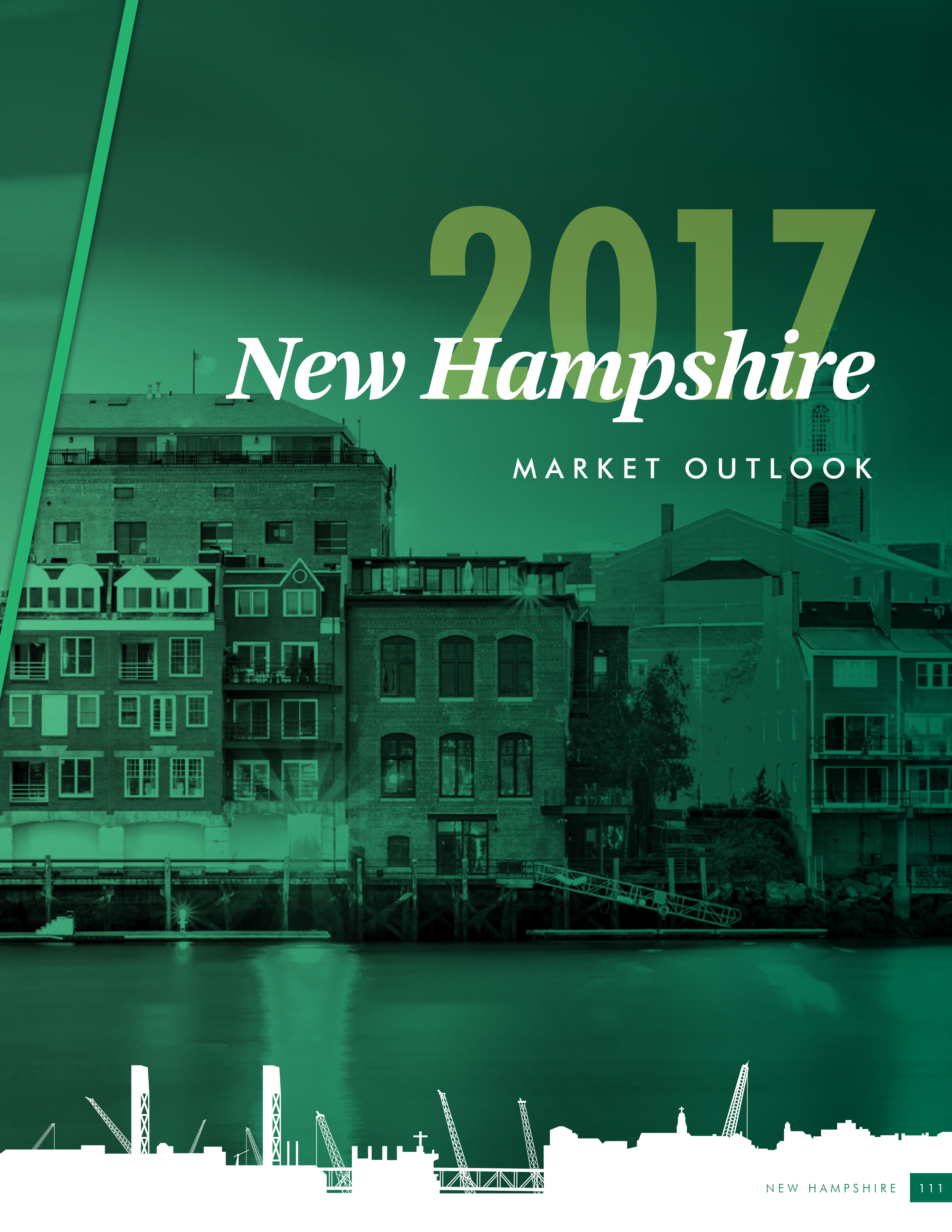
There has been limited demand for industrial land and speculative development, as rent levels in all submarkets have not increased enough to make development economically feasible. The rising cost of construction has also exacerbated this gap between rent and development costs. However, users with specialized building requirements and infrastructure needs will have to consider new construction given the lack of modern inventory.

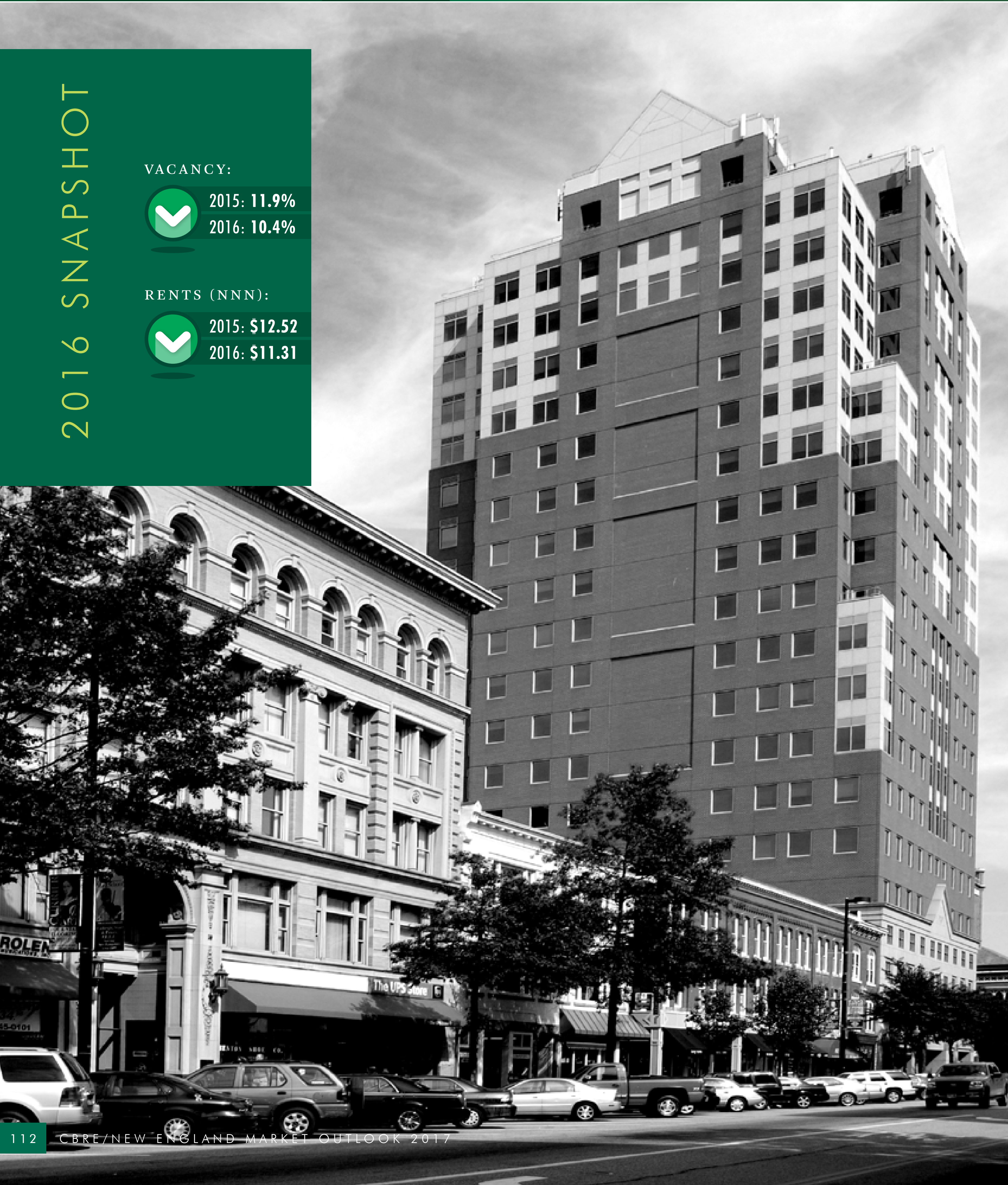
With the local and national economy on stable footing and the election season behind us, there is promise in Rhode Island for companies to grow and thrive, but it will take both a creative and strategic approach to succeed due to market constraints.

2017

New Hampshire

MARKET OUTLOOK





2016 SNAPSHOT

VACANCY:

2015: **11.9%**
2016: **10.4%**

RENTS (NNN):

2015: **$12.52**
2016: **$11.31**

INTERSTATE 93/ROUTE 3 CORRIDOR OFFICE MARKET

by Roger Dieker, (roger.dieker@cbre-ne.com)

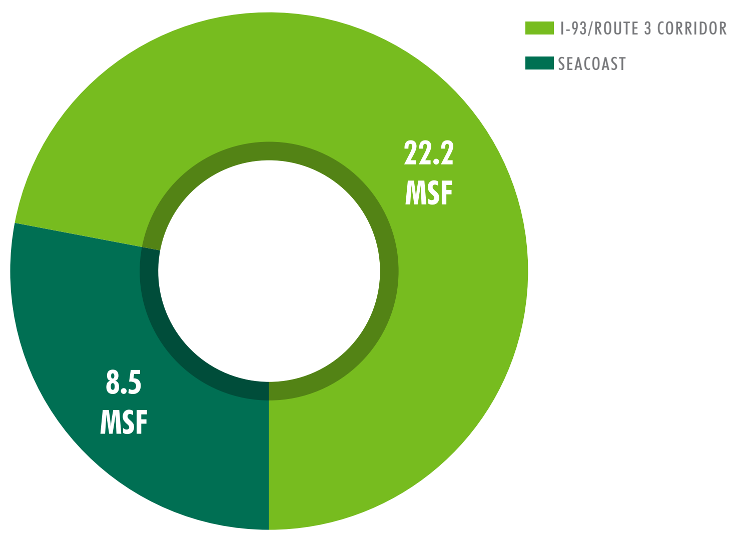
The Interstate 93/Route 3 Office market continued to improve in 2016, as the overall vacancy rate decreased by 150 basis points from 11.9% to 10.4%, which was helped by the redevelopment of several large properties from office to multifamily and the steady expansion of existing office users. The disruption created by the use of mobile technology continues to reshape the 'typical' office configuration. As existing office spaces are reconstructed by relocating tenants, the employee per sq. ft. utilization continues to shrink.

MARKET HIGHLIGHTS:

- Overall vacancy statistics were helped by the conversion of **130,000 sq. ft. of office at 875 Elm Street in Manchester** (Citizens Bank building) to 91 high-end apartment units and first floor retail.
- BAE Systems continued to expand their footprint in Nashua by taking **35,000 sq. ft. at 10 Tara Boulevard** at Exit 1 on the F.E. Everett Turnpike.
- A major financial services firm announced in September that it would relocate 600 jobs from its three-building, 126,000 sq. ft. campus on Northeastern Boulevard in Salem to other facilities in Texas, Florida, Arizona and Delaware. The transition is scheduled to be completed in 2018.
- The continued uncertainty in the health insurance business resulted in **United Healthcare** downsizing from 120,000 sq. ft. to 60,000 sq. ft. at **14 Central Park Drive in Hooksett.**

Vacancy dropped 150 basis points year-over-year as the market continued to strengthen.

NEW HAMPSHIRE
TOTAL OFFICE SQUARE FOOTAGE BY SUBMARKET



Source: CBRE Research

2017 FORECAST

The Southern New Hampshire Office market will remain steady in 2017, as office employment continues to stabilize and the remaining vacant spaces left by consolidating tenants are slowly absorbed in a strengthening economy. Lease rates should experience upward pressure across the board as this vacancy decreases. Lease terms should lengthen as companies gain confidence to lock up attractive rates within an improving economy and spread the amortization of newer efficient office construction over a longer term. Challenged office properties will need to find creative solutions, which may include savvy developers converting them into multifamily properties in order to acclimate themselves in a red-hot residential market.

NEW HAMPSHIRE SEACOAST OFFICE MARKET

by Kent White, (kwhite@cbre-portsmouth.com)

2016 has seen another year of positive absorption, with vacancy rates declining to 8.3%. This is the seventh consecutive year of decreasing vacancy rates from the historically high level of 20.3% in 2009. Unlike previous years when new construction added much-needed available space to the market, the Seacoast did not see any new construction in 2016. This contributed to driving down the vacancy rate even further and putting more pressure on the market.

Although there are submarkets within the Seacoast that continue to be stagnant, **the overall market is extremely healthy.** To illustrate this point, one can look at the Pease Tradeport, which is considered to be the economic engine of the Seacoast. The vacancy rate decreased from 6.9% at the end of 2015 to 3.4% in 4Q 2016. Although there are rumors of various new construction projects, only one 30,000 sq. ft. project at 85 New Hampshire Avenue will be an available option in 2017.

TRENDS & MARKET CONDITIONS

Are vacancy rates too low? Is the New Hampshire Seacoast Office market too healthy? The answer depends on who you ask. Landlords are happy because most buildings are experiencing low vacancy rates and increasing rents. Tenants, however, are frustrated with the lack of quality options and aggressive lease rates and terms.

This lack of supply has placed pressure on office tenants looking for space in the market, particularly large users who require 15,000 sq. ft. or greater. Wheelabrator Industries and Planet Fitness are two examples of this scenario. Both Wheelabrator and Planet Fitness effectively had only one option among existing availability that would accommodate their space needs, and that one option was dependent on the other's move. Wheelabrator decided to relocate their corporate offices from 4 Liberty Lane in Hampton to 100 Arboretum Drive at the Pease Tradeport. Planet Fitness recently leased the building that Wheelabrator vacated, as this was the only existing option in the entire Seacoast to accommodate their expansion.

2016 SNAPSHOT

VACANCY:

2015: **9.8%**

2016: **8.3%**

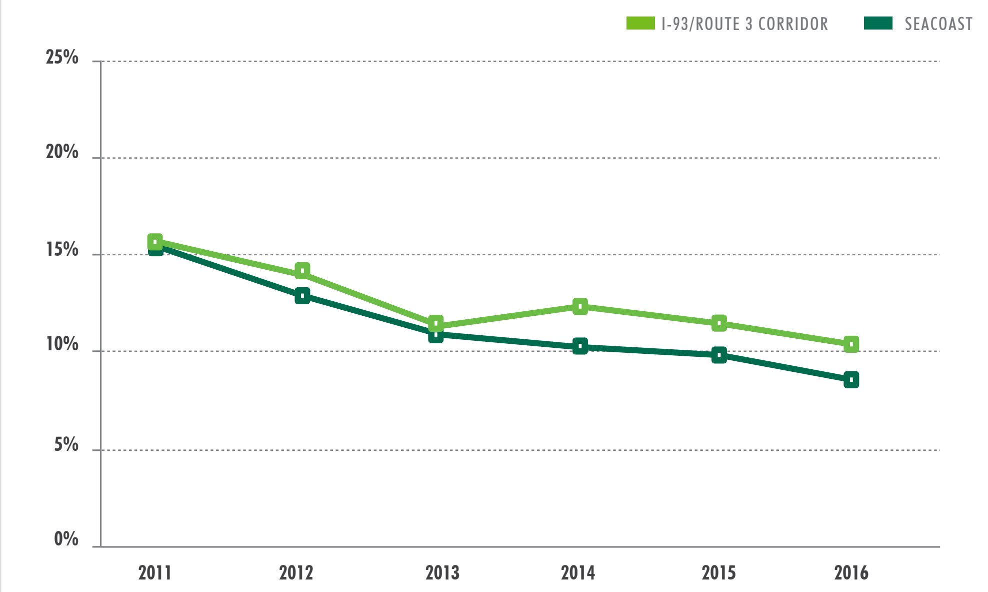
RENTS (NNN):

2015: **$11.42**

2016: **$11.92**

NEW HAMPSHIRE

HISTORIC OFFICE VACANCY RATE

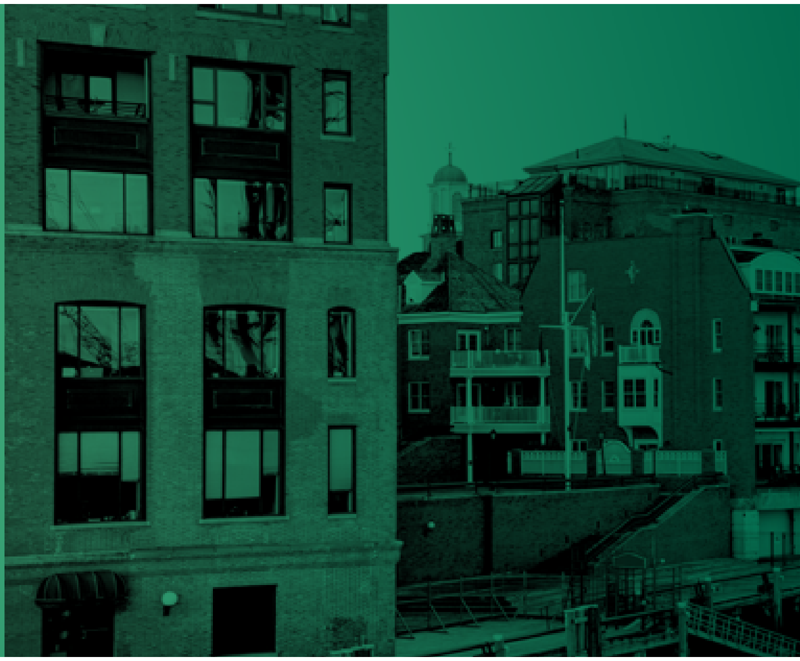


Source: CBRE Research

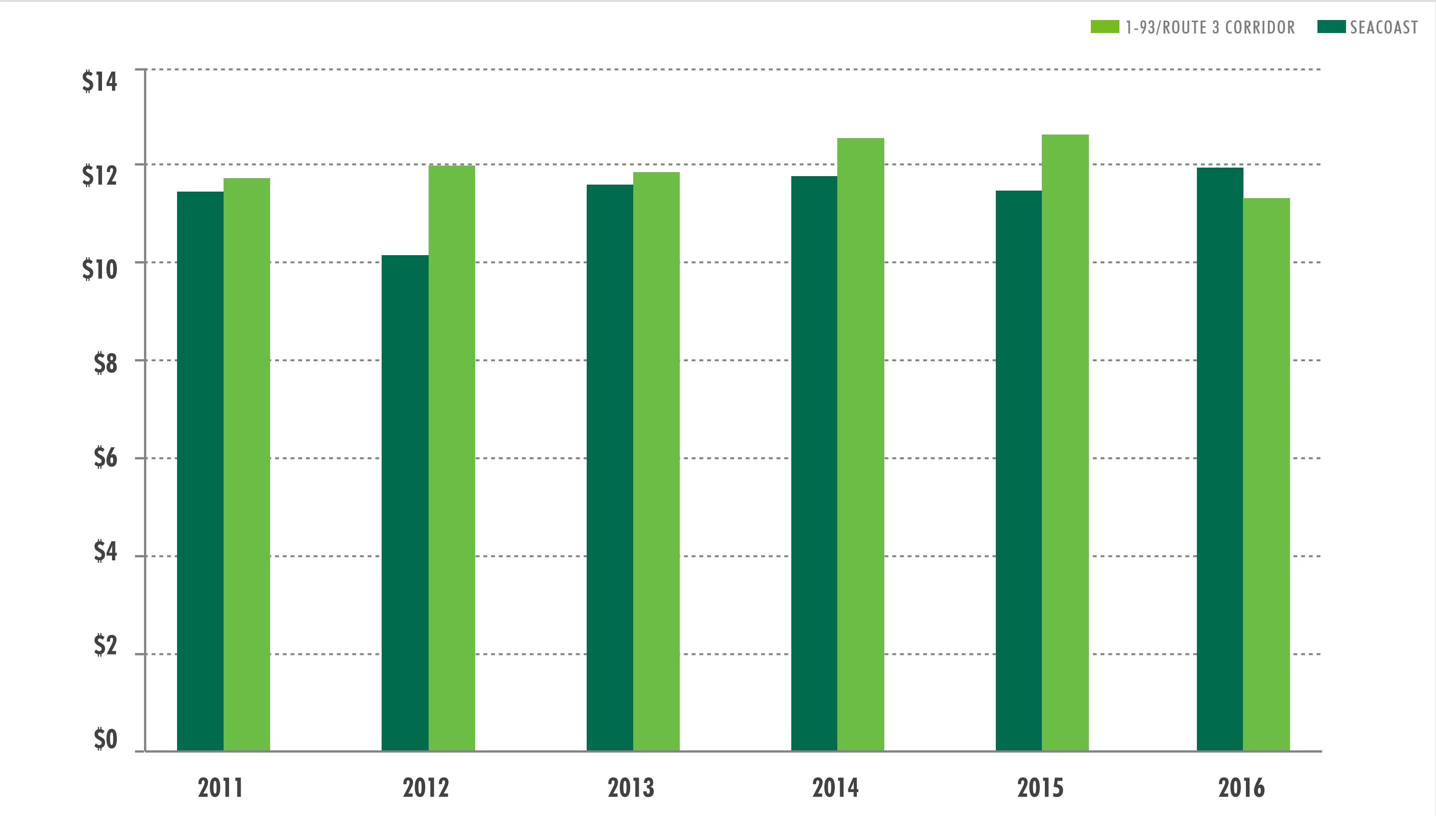
PORTSMOUTH/PEASE VS. THE REST OF THE MARKET

The New Hampshire Seacoast Office market consists of two independent submarkets—Portsmouth/Pease and the rest of the Seacoast. Following are a few facts that emphasize the Portsmouth/Pease market's impact on the overall Seacoast market:

- Portsmouth/Pease comprises 48% of the total Seacoast Office market
- Average asking lease rates in Portsmouth/Pease are $5.00 per sq. ft. higher than surrounding communities
- NNN expenses are higher, especially property taxes, in Portsmouth/Pease
- Higher rents should spur new construction in Portsmouth/Pease



NEW HAMPSHIRE
HISTORIC OFFICE AVERAGE ASKING RENT (NNN)



Source: CBRE Research

NEW HAMPSHIRE

PEASE TRADEPORT... ALMOST FULL?

The New Hampshire Seacoast Office market explosion over the past 20 years can be directly attributed to the growth of the Pease Tradeport. Since the former military base closed in 1991, over **4,000,000 sq. ft. of commercial real estate has been developed, creating more than 9,500 high-paying jobs.** There is the impression that there is an unlimited amount of developable land at Pease to accommodate future demand, however, this is not the case. There are currently nine lots available for commercial/industrial development at Pease. Of those nine, seven are formally under option to developers or abutting businesses looking to protect their future growth needs. Although Pease still has room for growth, this could change in the not-too-distant future as demand continues to increase.

2016 was the seventh consecutive year of decreasing vacancy rates in the Seacoast market.

2017 FORECAST

The Seacoast Office market should remain stable in 2017. Portsmouth/Pease will continue to be the engine of the Seacoast, however, with limited vacancy in existing inventory and minimal new construction planned for 2017, companies that want to be in Portsmouth may be forced to consider surrounding areas. This was the case when Planet Fitness expanded and relocated their corporate headquarters from Portsmouth to Hampton.

Landlords and tenants should consider the following as they plan for 2017 and beyond:

TENANTS

- Tenants will continue to see limited options, increasing lease rates and fewer landlord concessions.
- It is important for tenants to understand their budget. Many tenants may want to lease space in Portsmouth/Pease, but the cost savings can be substantial if they consider surrounding communities.
- Tenants should start looking early. With so few options, a tenant may be forced into making a poor decision if they wait too long.
- Hire a commercial broker to represent the company. Having an experienced broker on call will help prospective tenants navigate the competitive market.

LANDLORDS

- With vacancy rates down and demand high, rents will continue to increase. This is an excellent time for owners to add value to their portfolio.
- It is a landlord's market. The days of landlords offering free rent periods, generous tenant improvement (TI) allowances and other concessions are over.
- Consider selling. The appetite for investment properties is at an all-time high in the Seacoast. If a building is more than 70% occupied, it is a great time to consider putting it on the market.
- Refinance. Commercial interest rates are still at all-time lows, but it is predicted rates will increase in 2017, so now is the time for landlords to refinance their properties.

INTERSTATE 93/ROUTE 3 CORRIDOR INDUSTRIAL MARKET

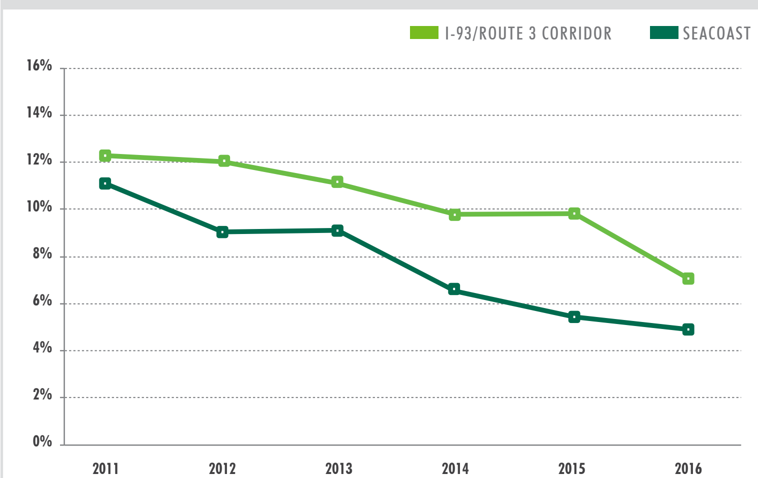
by Chris Healey, (chris.healey@cbre-ne.com)

Clients looking for industrial space in 2016 experienced firsthand the surplus in demand and shortage of on-market opportunities for purchase or lease. For investors, users and tenants alike, securing industrial real estate in southern New Hampshire proved to have its fair share of challenges. A similar story to what was seen in 2015, absorption of existing property progressed and rates further stabilized in response to increased demand and extremely limited supply. The vacancy rate in 2016 was 7.0% which, compared to a rate of 9.9% in both 2014 and 2015, was a decline of 290 basis points. Despite the lack of available inventory in local markets, there was still some notable activity, including the following highlights:

- **200 Perimeter Road,** a 67,500 sq. ft. warehouse located at Manchester-Boston Regional Airport, was acquired by Amber Properties for $2.6 million.
- The 157,000 sq. ft. General Electric building at **31 Industrial Park Drive** in Hooksett was acquired for $25.8 million.
- Law Logistics signed a long-term lease and will occupy 132,200 sq. ft. at **59 Daniel Webster Highway** in Merrimack.
- A heavy equipment company sold **780 Route 103 West,** a 50,000 sq. ft. asset located on 90 acres in Warner, NH, to a user for $2.5 million.

With heightened demand and limited supply, vacancy rates declined significantly from 2015.

NEW HAMPSHIRE
HISTORIC INDUSTRIAL VACANCY RATE



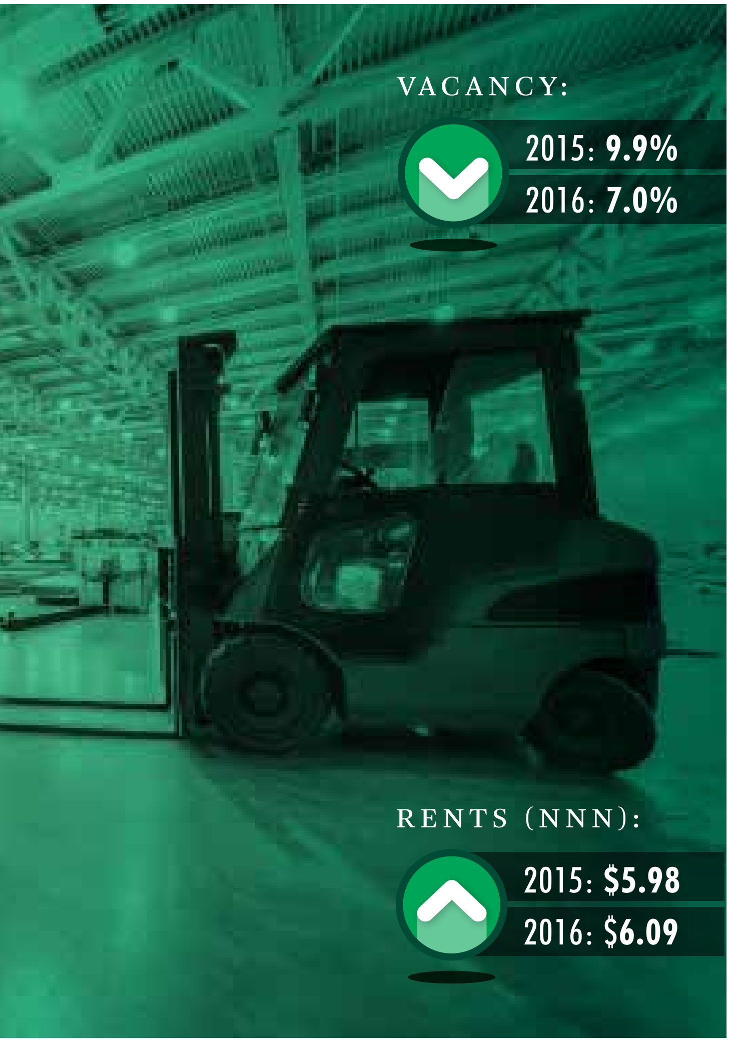
Source: CBRE Research

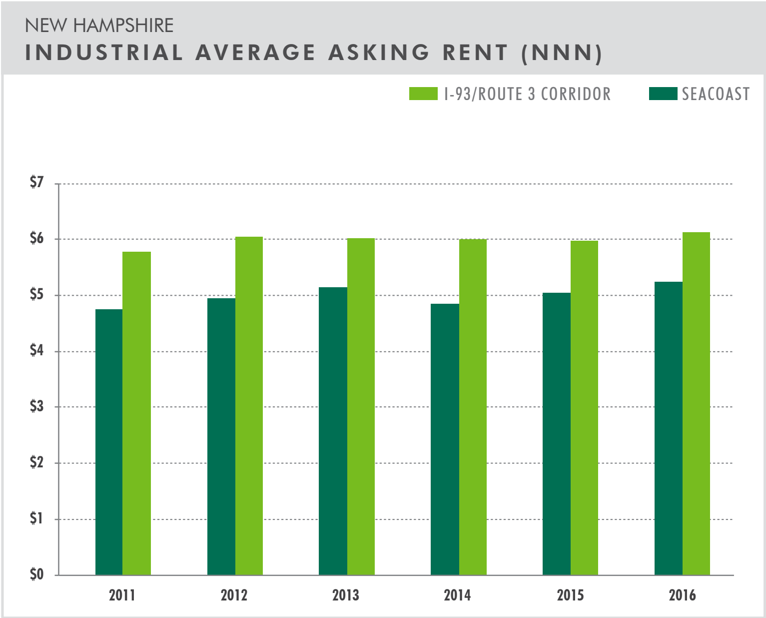
2017 FORECAST

Looking ahead, industrial rates should see continued stabilization—and room for potential increases—with further absorption of existing inventory. Speculators suggest with the election over, there may be improvement with regard to the industrial and manufacturing sectors of our economy, resulting in a demand for more space of that variety.

The Manchester-Boston Regional Airport area has continued to see increased development with notable in-state movement from companies like F.W. Webb (relocating from Amherst to Manchester into 1,000,000 sq. ft.) and EFI-Vutek (relocating from Meredith to Manchester into 240,000 sq. ft.) seeking to improve not only their facilities, but their location and access to a larger workforce. This momentum and commitment to the area will continue to attract more in-state and out-of-state companies as they look for solid, long-term relocation opportunities and modern, state-of-the-art facilities.

Creating new inventory on speculation has not been as economically feasible for developers over the past several years, as the cost of construction has been prohibitive when compared to market rental rates and their return on investment. Inventory will remain tight in the Interstate 93 South corridor through Salem, as well as along Route 3 through Nashua, with less time on market across the region for both existing inventory and newly available industrial space.





Source: CBRE Research

NEW HAMPSHIRE SEACOAST INDUSTRIAL MARKET

by Christian Stallkamp, (cstallkamp@cbre-portsmouth.com)

For industrial users of all sizes, 2016's lack of quality industrial product continued to edge industrial rents and sale prices higher in the Seacoast market. A good economic bellwether for the Seacoast can be seen at an industrial/flex complex in Greenland that is comprised of 44 units, with sizes ranging from 1,200–2,400 sq. ft. Currently, and over the course of the year, there have been limited to no spaces available. Five years ago, a small industrial user could easily have had close to five or six options. This limited supply shows the economy's strength in the Seacoast and the growth and confidence of small businesses.

Other key factors affecting the market are the repositioning of some of the larger industrial buildings and the lack of available developable land. In response to these market conditions, the Seacoast has seen growing industrial users looking at new construction or expanding their existing footprints.

TRENDS & MARKET CONDITIONS

NEW CONSTRUCTION/EXPANSION

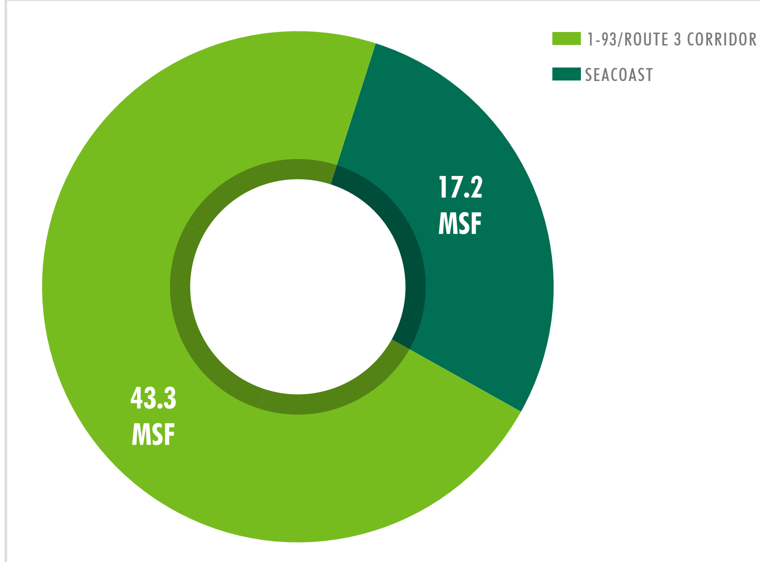
Over the past year, businesses looking to expand in the Seacoast have had limited options, thus forcing them to consider new construction. In fact, most of the noteworthy moves within the Seacoast Industrial market in 2016 involved new construction:

- **GourmetGiftBaskets.com** will be moving into a new 107,000 sq. ft. warehouse/distribution facility in January. This build-to-suit at 12 Continental Drive in Exeter will allow the growing business to meet customer demand.
- **Insurcomm**, a fire damage and restoration services company, recently moved into a new 35,000 sq. ft. facility in Portsmouth, doubling its size to meet the business's strong growth and support its expansion into other markets.
- **C3i, Inc.**, which has been based in Hampton for over 20 years, is relocating to Exeter to a new state-of-the-art 11,000 sq. ft. facility to create a more efficient workplace.
- Other businesses looking to meet their growing customer demand have looked at on-site expansion, such as **LAARS** and **Eastern Propane**, both located in Rochester, New Hampshire.
- **Stonewall Kitchen** and **Rand Whitney** are examples of large tenants with ground-up deals signed in 2015 that have now occupied their space in 2016. Both companies are located in Dover, with Stonewall Kitchen's new space consisting of 75,000 sq. ft. and Rand Whitney now occupying 129,000 sq. ft.

INDUSTRIAL REPOSITIONING

The Seacoast Industrial market is comprised of approximately 17.2 million sq. ft., which is very small when compared to a market such as Boston's approximately 143 million sq. ft. That means when larger buildings are repositioned in this market, the change in metrics stands out. One trend in repositioning that dramatically affected traditional industrial inventory was the repurposing of industrial warehouses into self-storage facilities. Two industrial buildings—72 New Zealand Road in Seabrook (51,000 sq. ft.) and 125 Ocean Road in Greenland (48,000 sq. ft.)—have both been converted to self-storage facilities, contributing to the unbalanced supply vs. demand issue for industrial users.

NEW HAMPSHIRE
TOTAL INDUSTRIAL SQUARE FOOTAGE BY SUBMARKET



Source: CBRE Research

High demand and a shrinking amount of available land for new construction has resulted in historically high sale prices.

2016 SNAPSHOT

VACANCY:

2015: **5.6%**
2016: **4.9%**

RENTS (NNN):

2015: **$5.04**
2016: **$5.26**

LACK OF LAND/HIGHER SALE PRICES

Layered on top of the need for new construction is the lack of available industrial land in the Seacoast market. One example of how far the Seacoast market has filled in over the course of time can be seen at the Pease International Tradeport in Portsmouth/Newington. This former U.S. Air Force Base is home to over four million sq. ft., with only two available lots remaining for development (those without existing options). For pricing data points outside of Portsmouth, but still in the Seacoast, historic sale prices would typically be $55–65 per sq. ft. In 2016, the price range hit $74 per sq. ft. up to $94 per sq. ft. for an older 46,000 sq. ft. industrial building with Interstate 95 visibility.

2017 FORECAST

In 2017, we expect industrial vacancy to continue to be tight, with continued pricing increases occurring as a reflection of the lack of product. This trend should continue as long as product remains in short supply in a low interest rate environment. Submarkets outside Portsmouth—such as Exeter, Dover, Rochester and Epping—will continue to see more ground-up deals due to more available land options with lower acquisition costs.

2017 Maine

MARKET OUTLOOK

by Drew Sigfridson, SIOR, (dsigfridson@boulos.com)

Greater Portland's commercial real estate market has enjoyed another strong year with low vacancy, high transaction volume and increasing property valuations. As of November 2016, Maine's unemployment rate remains at 4.0%, compared to 4.6% nationally. Cumberland County, which includes Portland and is the most heavily populated county in Maine, is even lower at 3.1% unemployment. In the office sector, vacancy rates continue to fall and long-anticipated new construction has begun. The industrial market continues to tighten and new buildings are being constructed to meet demand. The same is true for retail and multifamily product.

As has been the case for several years now, capital market transactions represent a sizable portion of overall sale volume. Significant retail, multifamily and industrial assets have traded in the past 12 months and several transactions are underway, with expected closings in early 2017.

PROJECTS ON THE HORIZON

Once again, Portland's Peninsula is experiencing the most activity on the development front with construction proposed in the residential, office and hospitality sectors. The pipeline for future development continues to fill as projects are completed.

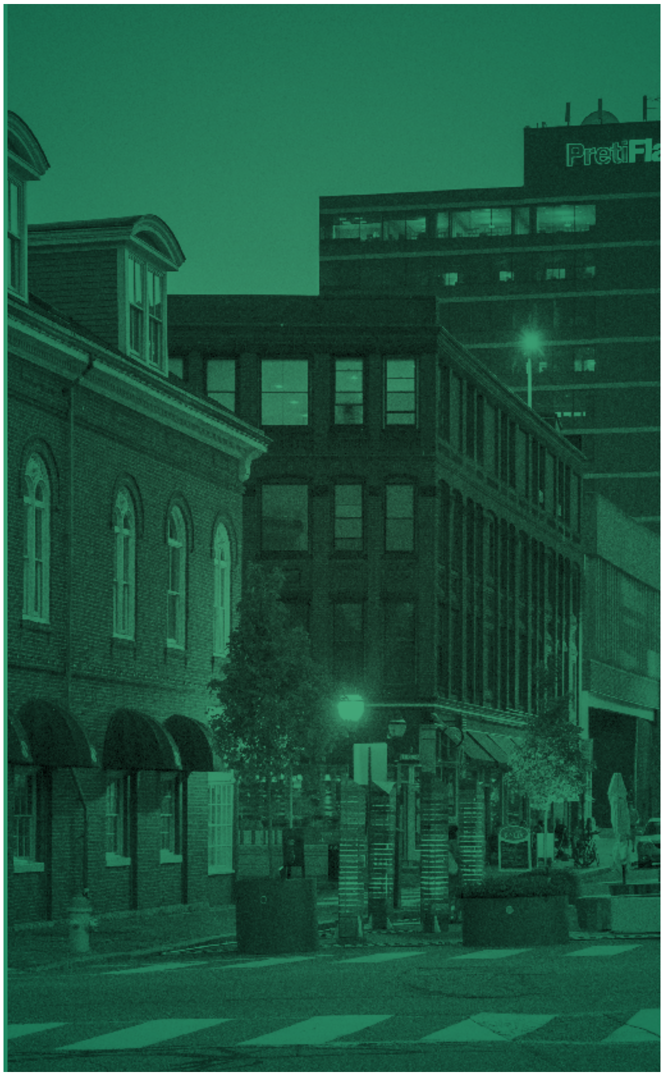
- The **former Portland Company Complex** continues to wind its way through the permitting and approvals process. As proposed, the planned **$500 million project** would create approximately 600 housing units, including over 150,000 sq. ft. of newly constructed space and approximately 50,000 sq. ft. of renovated historic buildings, all for office, retail and restaurant space, along with a new world-class marina. Ownership is reportedly in talks with several potential tenants for both office and retail space.
- A **2.5-acre parcel on Commercial Street**—home to Rufus Deering Lumber for 162 years—is under contract to a developer who has completed several local residential projects in recent years.
- A **150-room AC Hotel by Marriott** at the corner of Fore, Hancock and Thames Streets received city approvals and is expected to open in 3Q 2017. Over **650 new hotel rooms** will have been added to the peninsula when this project is complete.
- The **sale of the Bayside land from the City of Portland to Federated Cos.** was completed in mid-2016. As of this writing, construction has not started on the planned mixed-use development.
- The President and CEO of the Maine Restaurant Association, Steve Hewins, plans to embark on feasibility study in early 2017 for a long-discussed **convention center in Portland.**
- The **City of Portland went out to RFP for brokerage services on several city-owned lots in the Bayside area,** covering a total of nearly four acres. These lots, if developed as envisioned by the city, would help to change the character of one of Portland's most underutilized neighborhoods and spur redevelopment on adjacent properties.


Proposed development (former Portland Co. Complex) • Portland, ME

RESIDENTIAL MARKET

Demand remains high for quality housing in the Portland area; up until now the market hasn't found a ceiling regarding pricing. The confluence of population growth, renovations of older stock and new construction is continuing to push up rental rates, which has spurred local initiatives to enact stringent tenancy laws. Proposals, led by Mayor Strimling, include a ban on evictions without cause, strict regulations around short-term rentals and restrictions around rental increases. New product continues to be added to the market. However, uncertainty surrounding new regulations has not slowed down new proposals for additional housing. By some estimates, over 1,900 new housing units have been proposed, recently completed or are currently under construction in Portland. Highlights include:

- **667 Congress Street:**
  139 market-rate units, seven-story, new construction building
- **89 Anderson Street:**
  53 market-rate apartments, completed
- **101 York Street:**
  63-unit, five-story apartment building, anticipated to open in early 2017
- **62 India Street:**
  Four-story, 29-unit condominium building proposed
- **155 Sheridan Street:**
  Proposed, 34-unit condominium
- **Newbury Street, "Luminato":**
  24 condominiums under construction
- **Chestnut Street:**
  54 market-rate apartments, to be constructed adjacent to the Chestnut Street parking garage
- **The Park Danforth:**
  $26 million addition to senior housing complex on Forest Avenue including 58 apartments and rooftop garden and spa
- **117 Preble Street:**
  55 micro-units, four-story redevelopment
- **Portland Anchor:**
  45-unit, AVESTA affordable housing project nearing completion



Activity is not limited to the Peninsula, however. Portland's suburbs are experiencing a resurgence of multifamily construction as well, with **120 units proposed for the Brick Hill area** in South Portland, **72 market-rate units in Scarborough** and **96 units approved in Cumberland,** quadrupling the number of units in that town. In addition, a large senior housing project is underway on Running Hill Road in South Portland.

Perhaps the most activity is happening in Westbrook, where the **196-unit Phase I development in Blue Spruce** is under construction, with an additional ±100 units proposed. In response to these and other projects, Westbrook has placed a six-month moratorium on residential projects for more than 10 units.

Growing population, renovations and new construction trends pushed residential rents higher in 2016.

CAPITAL MARKETS

Strong demand in the Capital Markets sector by out-of-state investors continues to compress cap rates in Maine. Recent significant sales have included:

REDBANK VILLAGE AND LIBERTY COMMONS

- Adjacent apartment communities in South Portland
- Over 620 units
- Traded at a record-high of $87.5 million

BAKER'S WAY, BIDDEFORD

- ±265,100 sq. ft., former Hostess Bakery plant leased to FedEx
- Sold for $12.4 million

ROUTE ONE, FALMOUTH

- A 13-acre retail plaza anchored by Walmart
- Purchased for $11.5 million

AUBURN RETAIL PORTFOLIO

- Multi-building, NNN-leased retail portfolio
- Sold for $20 million

WESTGATE SHOPPING CENTER

- Grocery-anchored retail mall
- Purchased for $18.5 million

16 Middle Street • Portland, ME

OFFICE MARKET

Continuing several years of improvement in the office sector, Greater Portland's direct office vacancy was 6.2% at the end of 2016; this compares to 6.5% direct for the same period in 2015.

Downtown Portland's Class A market continues to be a strong performer, with only two buildings able to accommodate a new 10,000 sq. ft. user. One unexpected bright spot in the market is Yarmouth, a suburb of 8,300 people north of Portland where three notable developments are taking place. Tyler Technologies is adding a 95,000 sq. ft. expansion to an office building the company purchased a few years ago; insurer Patriot Mutual is constructing a 35,000 sq. ft. Class A office building on a former motel site; and over 40,000 sq. ft. of new office space is being constructed at 2 DeLorme Drive and available for lease in 2017.

In a trend that is expected to continue, the largest office leases in the market last year were renewals, as there are few options available over 10,000 sq. ft., specifically downtown. For this reason, tenants seeking growth options are leasing space in more than one building to accommodate their expansion needs. New leases include:

- **FC Beacon:** 17,580 sq. ft. at 280 Fore Street in Portland.
- **Great Falls Marketing:** 16,996 sq. ft. at 866 Spring Street, Westbrook.
- **AVANGRID:** 16,500 sq. ft. at One City Center, Portland.
- **Residential Mortgage Services:** 13,120 sq. ft. at 179 John Roberts Road in South Portland. This brings the locally owned mortgage company to over 50,000 sq. ft. of occupied space in the John Roberts Road area.
- **Direct Vet Marketing:** 10,000 sq. ft. at 27 Pearl Street in Portland, bringing their total leased space to approximately 25,000 sq. ft. in the area.

VACANCY:

2015: **6.5%**
2016: **6.2%**

Class A product continues strong performance.

Answering the demand for quality office space on Portland's Peninsula, new product is being added:

- Construction is underway on **16 Middle Street,** a five-story office building with first floor retail space. The developer had interest from several users upon marketing, and signed leases for more than 50% of the space within months of receiving city approvals.
- A three-story, ±22,050 sq. ft. retail/office building proposed on **Commercial Street,** near the recently redeveloped Pierce Atwood office building.
- A three-building complex with 45,000 sq. ft. of office, retail and restaurant space on five acres situated on a commercial fishing wharf.

RETAIL MARKET

In the past, major retailers looked first at indoor malls, strip malls and lifestyle centers when coming to the Maine market. Retail activity began to pick up steam in 2016, with more retailers focused on finding locations in urban centers than has been previously experienced.

- A former automotive tire site has been redeveloped into a strip mall hosting several national retailers along Portland's coveted **Marginal Way Corridor.**
- The current NAPA Auto Parts site on **Marginal Way** is expected to be redeveloped into a retail center in 2017, with over 50% of the space already committed.
- **Thompson's Point,** a long-anticipated redevelopment project that has successfully undergone a major transformation, is now a destination for concerts in the summer and a winter outdoor center. Several tenants are now located in an impressively renovated building including the wildly popular Bissell Brothers, Cellardoor Winery and Stroudwater Spirits, to name a few. This destination area has truly evolved into a shining example of Portland's renaissance.
- **Clark's Pond,** formerly a retail power center in South Portland, was nearly 100% vacated by the relocation of its anchor tenants (Bob's Furniture, Homegoods and Marshalls) to a newly constructed center in 2016. A portion of the property was sold to the Eastpoint Christian Church, which is expanding from 16,000 sq. ft. to 84,000 sq. ft. and plans to have a community center at the site. The former Marshalls box was leased to Urban Air, an indoor trampoline park.
- Maine has experienced the closings of stores such as Sports Authority, GAP, Tim Hortons, Bob's Sporting Goods, Ruby Tuesday and Best Buy. However, several of the vacated locations have already been backfilled and brands such as Athleta, Krispy Kreme, Moe's Southwest Grill, Chick-Fil-A and Duluth Trading are entering the market.
- **Dirigo Plaza,** a new 500,000 sq. ft. Walmart-anchored retail center in Westbrook, is expected to be constructed in 2017.
- With the popularity of local breweries, brewpubs and tasting rooms are opening regularly in the market, augmenting an already hot restaurant category both downtown and in the suburbs. **Portland alone is estimated to have over 600 restaurants**.

45 Marginal Way • Portland, ME

191 Marginal Way • Portland, ME

INDUSTRIAL MARKET

Finding available space for industrial users in the market continues to be a challenge. Vacancy is extremely low, and available product only stays vacant if the building is obsolete. Lease rates, while on the rise, have not increased to a level that will justify new construction, and the cost of building new is growing at an even faster pace. Industrial building sales have been robust. Surging demand from a rapidly growing brewing industry and the recent referendum legalizing marijuana is expected to put further pressure on the industrial market.

- In Westbrook, the owner of **Saunders Business Park** has undergone the permitting process for a 60,000 sq. ft. high-bay build-to-suit building.
- A 26,840 sq. ft. building constructed on spec was marketed with the anticipation of being a multi-tenant facility, however **Safelite Fulfillment** signed a lease for the entire building before construction commenced.
- The City of Portland purchased an industrial building in Portland in anticipation of relocating their Public Works department from the Bayside area.
- **Village Candle** has expanded to over 215,000 sq. ft. at **90 Spencer Drive** in Wells.
- **NEPW Logistics** signed a 50,800 sq. ft. lease, also at **90 Spencer Drive** in Wells, and purchased over 250,000 sq. ft. of industrial space on Read Street in Portland.
- **Shipyard Brewing** purchased 60,000 sq. ft. of industrial space in Portland with excess land for future development.

90 Spencer Drive • Wells, ME

One Baker's Way • Biddleford, ME

2017 FORECAST

Many variables could impact the commercial real estate market in Maine in 2017, including interest rates, a recently passed increase in minimum wage and, not insignificantly, the policies of the new administration in the White House as they relate to trade, immigration and labor laws. Last year's forecast of new construction in the office sector is now being realized. Additionally, several office users are in the market with large enough space requirements to justify new construction in the CBD, assuming costs are reasonable. Continued interest is expected in the development on Portland's Peninsula in retail, office, residential and potentially even hospitality. The boom of residential condominium construction is expected to continue for at least another 12 months, however, a slowdown of new construction may occur in the residential multifamily sector as the market settles to absorb all the new product. There is also anticipation of the upcoming consolidation from large corporate office users over the course of the next 12-18 months, which will open up some new opportunities in the office sector. It is with cautious optimism that we look forward to another strong year in the Greater Portland region.

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