

Suburban Boston Office MarketView

Q3 2014

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter.

SUBURBAN BOSTON OFFICE MARKET DRIVEN BY ORGANIC GROWTH AS NEW LEASES OUTPACE RENEWALS

Quick Stats

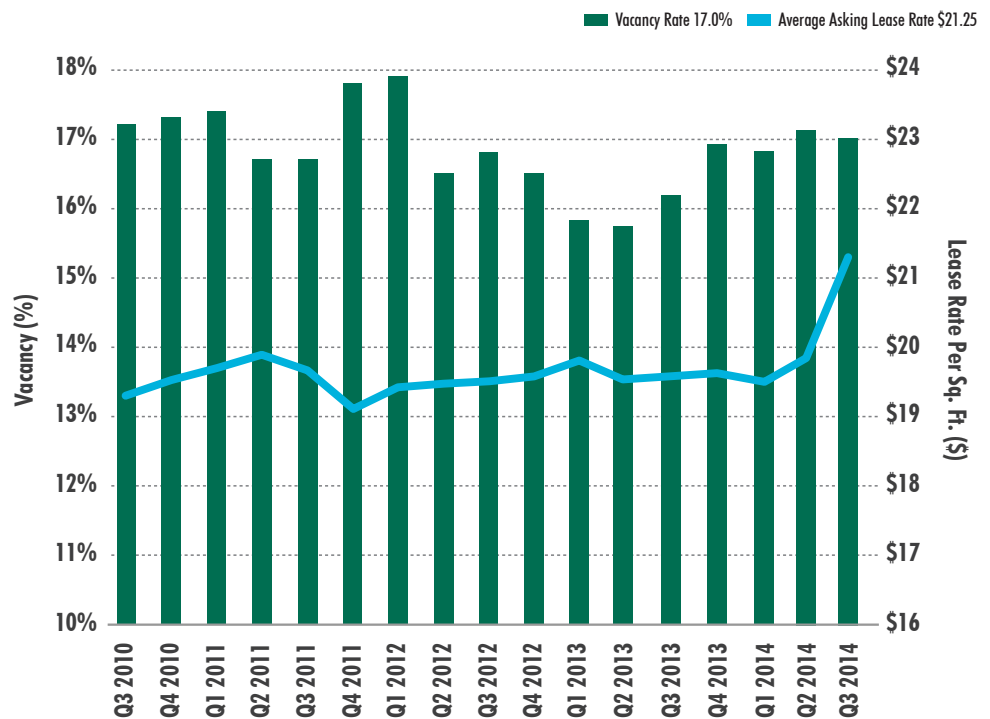
Q3 2014	Current	Y-o-Y	Q-o-Q
Vacancy	17.0%	↑	↓
Lease Rate	\$21.25	↑	↑
Net Absorption	549,844 sq. ft.	↑	↑

Hot Topics

- Organic growth of tenants seen in requirements of all sizes
- The competition for quality mid-size space grows
- Brickstone Square, a one million sq. ft. portfolio in Andover, was acquired by Oaktree Capital Management for \$59.5 million

The Suburban Boston Office market was driven by robust demand and organic growth from small, mid and large users in Q3 2014, posting almost 550,000 sq. ft. of positive absorption. New leases outpaced renewal activity with six tenants finalizing deals totaling more than 100,000 sq. ft. each in Q3 2014. As a result, vacancy decreased by 30 basis points quarter-over-quarter to 17.0%. Tenants are scrambling to accommodate continued growth needs with a lack of quality options available. As a result, landlords continue to push rents in all markets with overall asking rents eclipsing the \$20.00 per sq. ft. mark for the first time since 2009, ending the quarter at \$21.25 per sq. ft.

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q3 2014.

Metro North

- The Metro North led the Suburban Boston Office market, posting 412,000 sq. ft. of positive absorption in Q3 2014, the fourth consecutive quarter of positive traction. Rents continue to push upwards, rising \$2.03 quarter-over-quarter to \$20.00 per sq. ft., the highest point since the first quarter of 2009. Availability and vacancy levels in the Metro North have reached the lowest levels in the past decade, ending Q3 2014 at 19.5% and 16.2% respectively.
- Route 128 North led all submarkets, posting 371,000 sq. ft. of positive absorption in Q3 2014. This pushed availability and vacancy down 190 and 160 basis points to 17.0% and 13.1% quarter-over-quarter, respectively. Rent increased \$3.00 quarter-over-quarter to \$23.61 per sq. ft., the highest point since the first quarter of 2009.
- In Route 128 North, OSRAM SYLVANIA signed a new lease for 125,000 sq. ft. at 200 Ballardvale Street in Wilmington, which will accommodate a desire for a more collaborative and creative workplace. OSRAM Sylvania will be relocating their regional headquarters from 100 Endicott Street in Danvers.
- Burlington continues to be one of the most attractive markets in Metro North. Sophos Americas signed a renewal for 41,000 sq. ft. at 3 Van De Graaff Drive and Black Duck Software expanded their current footprint by 15,000 sq. ft., bringing their occupancy to 45,000 sq. ft. at 8 New England Executive Park. Class A vacancy in Burlington declined almost 200 basis points quarter-over-quarter to 12.1%, with asking rents ending the quarter at \$31.45 per sq. ft.
- Activity in Andover remained strong in Q3 2014 as Casa Systems more than doubled their footprint at 100 Old River Road, leasing almost 58,000 sq. ft. Polycom, Inc. inked a new lease for 56,000 sq. ft. at 600 Federal Street in Andover's Woodland Park and will relocate from 100 Minuteman Drive in Andover where they occupied 107,000 sq. ft.

Metro West

- Despite strong demand and a number of large transactions, the Metro West was statistically relatively flat in Q3 2014, posting 49,000 sq. ft. of positive absorption, as the market was forced to absorb several large givebacks of space. While vacancy decreased only slightly to 16.6%, overall asking rents were up \$1.40 per sq. ft. to \$22.52 per sq. ft., an indicator that the market continues to tighten.

- Route 128 West saw vacancy decline by 50 basis points quarter-over-quarter to 11.4% as several big transactions were finalized in Waltham. Wolverine Worldwide inked a deal with Boston Properties to relocate their regional headquarters in Lexington, which houses 450 employees, to a new 150,000 sq. ft. building at 500 Totten Pond Road/10 City Point. Care.com, an online caregiver service, will more than double their current square footage as they relocate their headquarters to 108,000 sq. ft. at CityPoint in Waltham (77 Fourth Avenue). Forum Pharmaceuticals will relocate and expand their current Watertown operations to 122,500 sq. ft. at 225 Second Avenue. Offsetting the strong growth seen in Waltham was space returned by Vistaprint as they prepare to move to their newly constructed building at 275 Wyman Street, as well as Dassault Systems and AstraZeneca each putting more than 100,000 sq. ft. up for sublease.
- Route 495 – Mass Pike West led all submarkets, posting 117,000 sq. ft. of positive absorption in Q3 2014, driven by Genzyme's announcement that they will relocate about 500 employees to 114,000 sq. ft. at One Research Drive in Westborough. Sandisk, a developer and manufacturer of memory storage solutions, will relocate from Westford to 57,600 sq. ft. at 200 Donald Lynch Boulevard in Marlborough. The company was recently approved for tax concessions through the Tax Increment Financing (TIF) program and will bring upwards of 80 jobs to Marlborough.

Metro South

- The Metro South was relatively steady in the third quarter, posting 86,000 sq. ft. of positive absorption. This had a slightly positive effect on availability and asking rents; availability declined 60 basis points quarter-over-quarter to 23.0% and asking rents were up \$0.20 to \$19.12 per sq. ft.
- The 128 – South submarket led the Metro South with 54,000 sq. ft. of positive absorption in the third quarter. This pushed availability down 40 basis points quarter-over-quarter to 22.9%, while asking rents increased slightly to \$19.27 per sq. ft.
- CVS Pharmacy completed the largest lease of the quarter and will occupy 20,600 sq. ft. at 2 Hampshire Street in Foxboro. In Norwood, Advantage Resourcing signed a lease for 16,500 sq. ft. at 220 Norwood Park South.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Wolverine Worldwide	500 Totten Pond Road, Waltham	155,000	Route 128 – West	New
OSRAM SYLVANIA	200 Ballardvale Street, Wilmington	125,000	Route 128 – North	New
Forum Pharmaceuticals	225 Second Avenue, Waltham	122,000	Route 128 – West	New
Genzyme	1 Research Drive, Westborough	114,000	Route 495 – Mass Pike West	New
Care.com	77 Fourth Avenue, Waltham	108,000	Route 128 – West	New
Casa Systems	100 Old River Road, Andover	58,000	Route 495 – Northeast	New



Source: CBRE Research, Q3 2014.

SPOTLIGHT CAPITAL MARKETS

The Greater Boston area has experienced a flurry of investment sales activity year-to-date in 2014. Activity peaked in the third quarter with \$4 billion in transaction volume, half of which was generated by EOP/Blackstone's five-building portfolio sale. Sales volume is in excess of \$7 billion, totaling over 20 million sq. ft., and stabilized cap rates range between 4.50-6.50% for Class A office product and 5.75-7.75% for Class B office product. The increase in overall transactions can be attributed to the insatiable demand from various capital sources to invest in Greater Boston, coupled with the attractive cost of debt in today's marketplace as interest rates continue to remain historically low.

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

Suburban Themes

<p>SUBURBAN 1H 2014 STABILIZED CAP RATES:</p> <p>CLASS A: 6.0-6.5%</p>	 	<p>CLASS B: 6.75-7.75%</p>	<p>YEAR-TO-DATE SALES VOLUME:</p> <div style="display: flex; align-items: center; justify-content: center;"> <div style="border: 1px solid black; padding: 5px; text-align: center;"> <p>\$2.0B 2013</p> </div> <div style="font-size: 2em; margin: 0 10px;">▶</div> <div style="border: 1px solid black; padding: 5px; text-align: center;"> <p>\$931M 2014</p> </div> </div>
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- Building on the high activity year-to-date, especially along the Route 128 belt, the next 8-10 months will continue to set the stage for the Suburban market. Sale activity will be partly driven by companies' continued willingness to move outside the core areas of Greater Boston
- As foreign capital out-competes local investors in the core markets of Greater Boston, local buyers will be forced to look to the suburbs to place capital

CASE STUDIES



BRICKSTONE SQUARE
THREE-BUILDING PORTFOLIO:
100, 200 & 300 BRICKSTONE SQUARE

• Sale Date	September 2014
• Size	1,035,000 sq. ft.
• Sale Price	\$59.5M
• Seller	Pearlmark Real Estate Partners
• Buyer	KS Partners



**800 SOUTH STREET
WATERMILL CENTER**

• Sale Date	August 2014
• Size	206,722 sq. ft.
• Sale Price	\$55M
• Seller	New Boston Fund
• Buyer	Intercontinental Real Estate Corporation

Figure 3: Market Statistics

Market	Rentable Area (sq. ft.)	Availability Rate %	Vacancy Rate %	Sublease Rate %	Quarterly Net Absorption (sq. ft.)	Avg. Asking Rent (\$/sq. ft./yr)
Close-In Suburbs North	4,125,769	15.7%	13.5%	2.5%	5,568	\$22.06
Route 128 – North	19,662,746	17.0%	13.1%	2.6%	371,886	\$23.61
Route 495 – Northeast	5,012,533	25.3%	22.1%	0.4%	(22,530)	\$18.83
Route 3 – North	14,387,945	22.0%	19.1%	2.1%	57,425	\$15.18
Metro North	43,188,993	19.5%	16.2%	2.2%	412,349	\$20.00
Route 128 – West	28,152,704	16.4%	11.4%	2.1%	(89,144)	\$29.22
Framingham – Natick	7,418,417	19.0%	16.4%	3.4%	11,264	\$21.41
Route 495 – Route 2 West	4,929,280	26.9%	25.0%	2.9%	10,198	\$15.85
Route 495 – Mass Pike West	13,583,315	26.4%	24.4%	3.2%	117,413	\$17.13
Metro West	54,083,716	20.3%	16.6%	2.6%	49,731	\$22.52
Route 128 – South	13,609,084	22.9%	21.3%	0.8%	54,304	\$19.53
Route 495 – South	2,193,114	23.5%	16.1%	0.7%	33,460	\$16.96
Metro South	15,802,198	23.0%	20.6%	0.8%	87,764	\$19.12
Overall Suburban Office	113,074,907	20.4%	17.0%	2.2%	549,844	\$21.25

Source: CBRE Research, Q3 2014.

Figure 4: Massachusetts Innovation IPO Parade

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

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

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

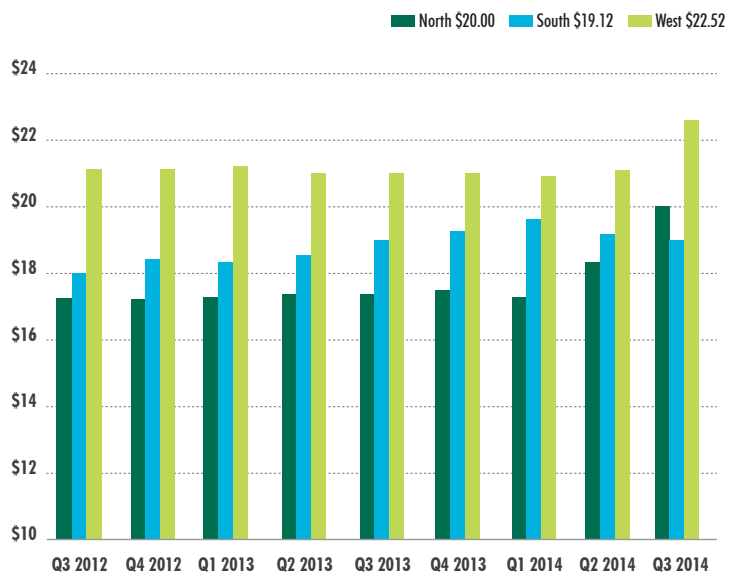
COMPANY	AMOUNT RAISED	TYPE
IMPRIVATA	\$66 MILLION	TECH
FLEXION THERAPEUTICS	\$65 MILLION	BIOTECH
OCULAR THERAPEUTIX	\$65 MILLION	BIOTECH
CERULEAN PHARMA	\$60 MILLION	BIOTECH
T2 BIOSYSTEMS	\$57 MILLION	OTHER
RADIUS HEALTH	\$52 MILLION	BIOTECH
ELEVEN BIOTHERAPEUTICS	\$50 MILLION	BIOTECH
MINERVA NEUROSCIENCES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

Source: CBRE Research, Q3 2014.

Average Asking Rents

Overall asking rents in the suburbs increased \$1.48 quarter-over-quarter to \$21.25 per sq. ft., a result of significant positive absorption in the Suburban Boston Office market. This represents the highest point since the second quarter of 2009. This was led by the Metro North Office market, which saw asking rents increase by \$1.93 in the third quarter to \$20.00 per sq. ft. Rents in the Metro South Office market increased \$0.20 quarter-over-quarter to \$19.12 per sq. ft., a result of slightly positive absorption in the submarket. Despite negative absorption, the Metro West also saw rents increase \$1.44 to \$22.52 per sq. ft. in the third quarter.

Figure 5: Average Asking Lease Rates

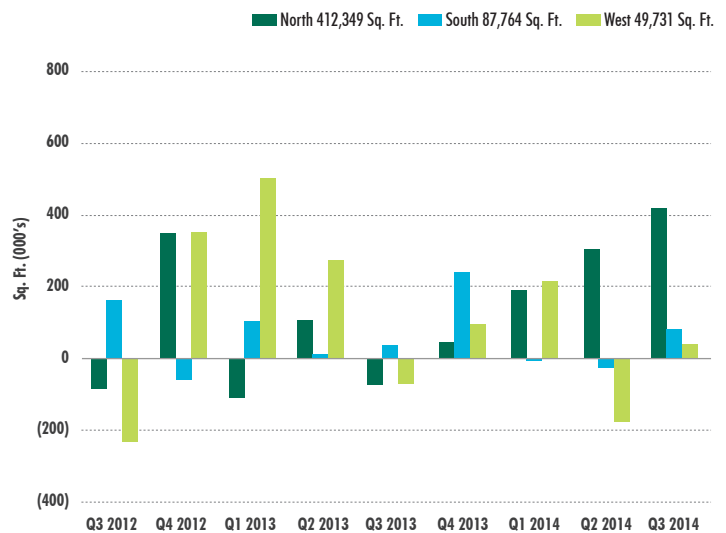


Source: CBRE Research, Q3 2014.

Net Absorption

The Suburban Boston Office market saw 549,844 sq. ft. of positive absorption in the third quarter, the fourth consecutive quarter of positive absorption. This brings total absorption to 1,085,662 sq. ft. in 2014 year-to-date and sets the Suburban Office market on track to finish the year with over one million sq. ft. of positive absorption for the third consecutive year. The Metro North Office market led the way, posting 412,349 sq. ft. of positive absorption in the third quarter, its fourth consecutive quarter of positive traction. The Metro South Office market saw 87,764 sq. ft. of positive absorption, while the Metro West Office market posted 49,731 sq. ft. of positive traction. The 128 – North submarket led all other submarkets, posting 347,000 sq. ft. of positive absorption in the third quarter.

Figure 6: Net Absorption



Source: CBRE Research, Q3 2014.

DEFINITIONS

Average Asking Lease Rate

Rate determined by multiplying the asking gross lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

Gross Leases

Includes all lease types whereby the tenant pays an agreed rent plus estimated average monthly costs of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

Market Coverage

Includes all competitive buildings in CBRE's survey set.

Net Absorption

The change in occupied sq. ft. from one period to the next, as measured by available sq. ft.

Net Rentable Area

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas.

Occupied Area (Sq. Ft.)

Building area not considered vacant.

Under Construction

Buildings that have begun construction as evidenced by site excavation or foundation work.

Available Area (Sq. Ft.)

Available building area that is either physically vacant or occupied.

Availability Rate

Available sq. ft. divided by the net rentable area.

Vacant Area (Sq. Ft.)

Existing building area that is physically vacant or immediately available.

Vacancy Rate

Vacant building feet divided by the net rentable area.

Normalization

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and vacancy figures for those buildings have been adjusted in previous quarters.



CONTACT

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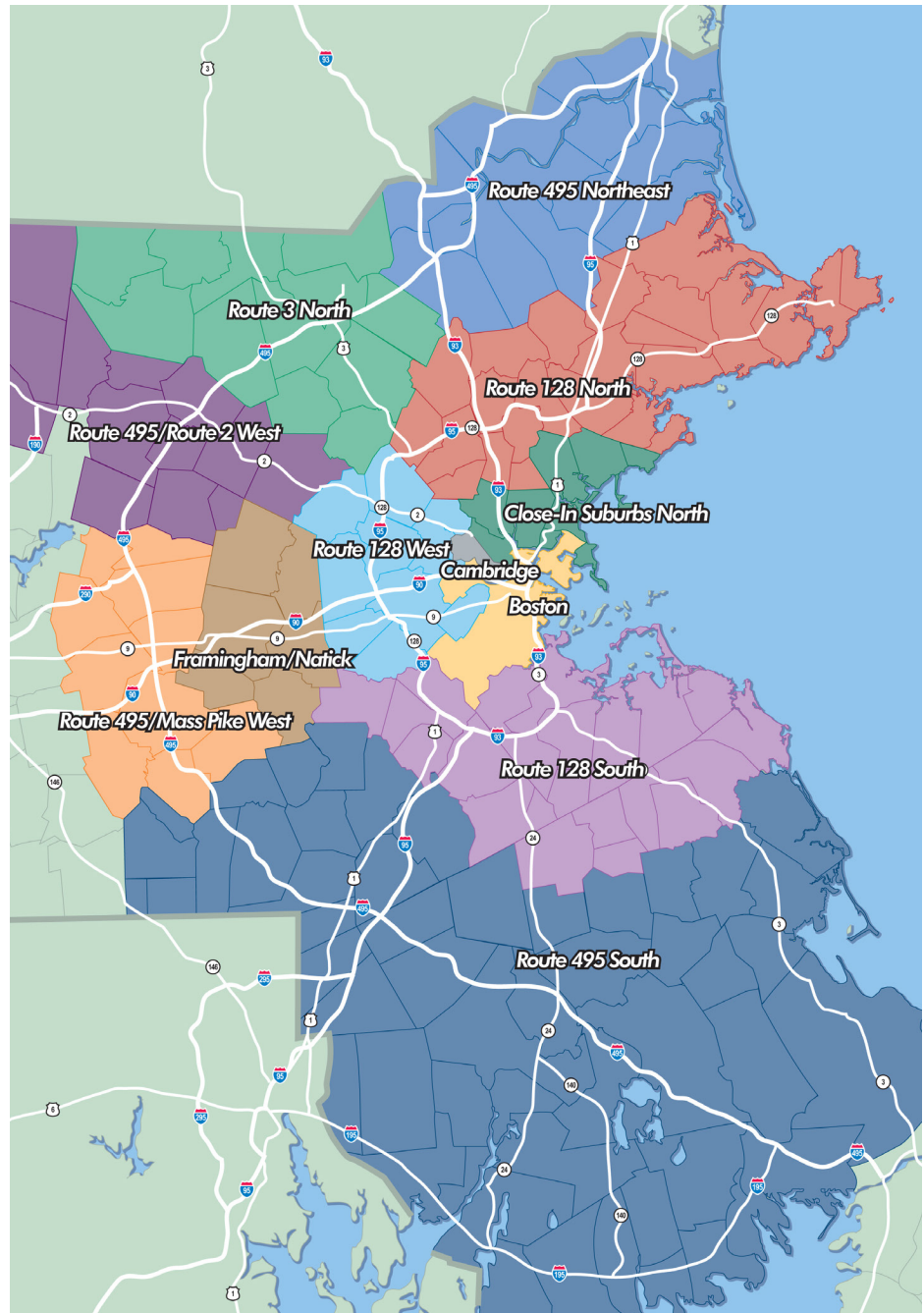
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GREATER BOSTON SUBMARKETS



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