

MARKETBEAT Q1 2017

MARKETBEAT

Greater Boston

Office Q1 2017



GREATER BOSTON OFFICE

Economic Indicators

	Q1 16	Q1 17	12-Month Forecast
MA Employment	3.5M	3.6M	▲
MA Unemployment	4.3%	3.2%	▼
U.S. Unemployment	4.9%	4.7%	▼

Office Market Indicators

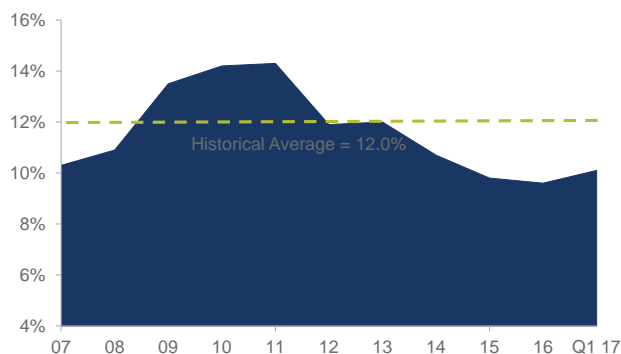
	Q1 16	Q1 17	12-Month Forecast
Overall Vacancy	9.5%	10.1%	■
Net Absorption (YTD)	850K	-479K	■
Under Construction	5.1MSF	3.0MSF	■
Average Asking Rent (Gross)	\$33.76	\$35.30	■

Overall Net Absorption/Overall Asking Rent

GREATER BOSTON OFFICE



Overall Vacancy



Economic Overview

Since November's election, the stock market has surged, bond yields have risen and economists have boosted forecasts for economic growth. The catch is that these improvements are likely temporary - especially given congressional dysfunction and the uncertainty of policies that could lead to longer term growth. However, as we have mentioned in the past, greater Boston is relatively insulated from economic swings. What we're not immune to are shifts in demographics and employee preferences for urban amenities. In the past decade, it's these predilections, paired with cost-consciousness, that have driven corporate site selection.

Market Overview

In Boston, a number of new availabilities contributed to negative absorption of over 500,000 square feet (SF). These new availabilities were not unexpected - and are solely attributable to new downtown construction. As larger tenants opt for new construction, they are leaving behind large blocks of existing space - many of which are remaining vacant for extended periods of time.

Not surprisingly, the first quarter of 2017 was more of the same in Cambridge - high rents and virtually no availability. However, Q1 did bring an inexplicable pause in demand. Over 1.0 MSF of requirements were halted in the past 8 weeks. We're not convinced this is a trend and we certainly wouldn't call it a slowdown, but it does appear that Cambridge conditions may be leveling off - at least in the near term.

And in the suburbs, new construction - specifically mixed-use - continues to be the headlining story. Rents are significantly lower than in Cambridge and tenants get urban amenities with suburban convenience at a fraction of Downtown/Cambridge prices.

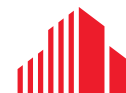
Outlook

Winter in Boston is rarely a statistical blockbuster - so flat first quarter fundamentals were not unexpected. And it's too soon to tell if this quarter's sluggish demand will translate into a trend. But it is concerning enough that it's something we'll be watching.

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Boston

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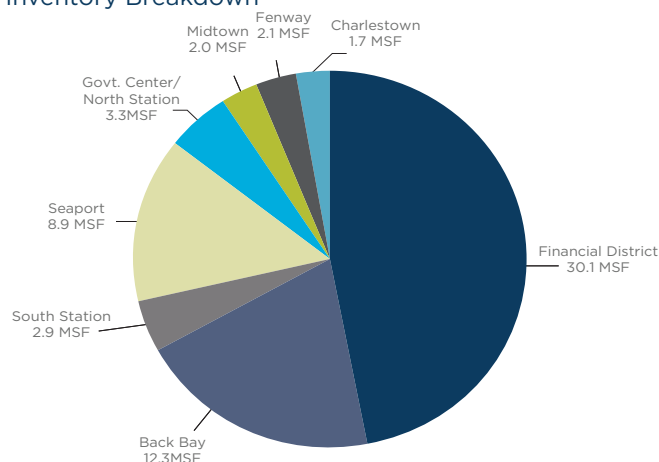
CUSHMAN & WAKEFIELD

BOSTON MARKET

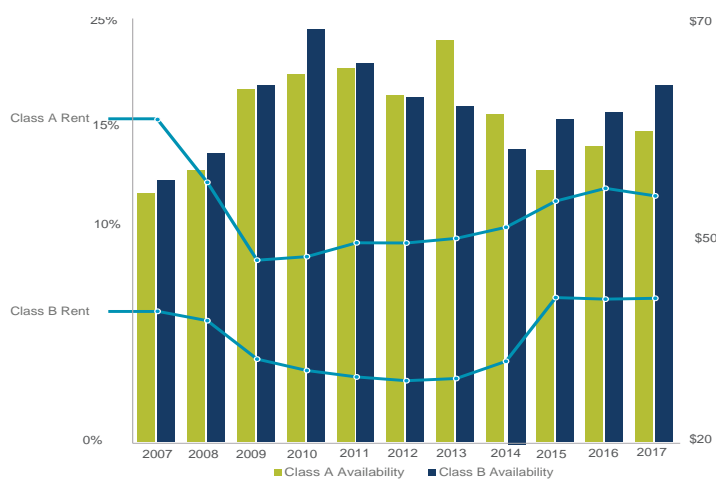
Market Indicators

	2016	2017	12-Month Forecast
Overall Vacancy	7.0%	7.9%	▲
Net Absorption (YTD)	-364KSF	-564KSF	▼
Avg Effective Rent (Gross)	\$47.51	\$49.05	▼

Inventory Breakdown



Class A&B Historical Availabilities and Rents



Market Overview

Boston started 2017 the way it starts most years – with lackluster fundamentals. Absorption clocked in at negative 500,000 square feet (SF) – predominantly due to a handful of large, but anticipated availabilities. 200,000 SF formerly occupied by Partners HealthCare at 1 Constitution Center in Charlestown and 500 Washington Street in Midtown became available; 75,000 SF of Boston Consulting (BCG) space came online at 1 Beacon Street (in advance of its 2018 move to Pier 4 in the Seaport); and 80,000 SF of Sapient space became available at 131 Dartmouth Street. Sapient will join sister firm Digitas in relocating and consolidating into the under-renovation 40 Water Street later this year.

The common theme behind these availabilities is new construction. As many tenants are increasingly drawn to new buildings, they're leaving behind large empty blocks – many of which are remaining on the market for 12 months or more.

As a result, availability in the Back Bay (at 20.1%) is higher than it has ever been (the previous high was 17.8% in 1991). However, overall asking rents have not yet adjusted – with proposals for select high-rise spaces still quoting rents in the \$80s and \$90s. The disconnect between rents and vacancies is evident for the second consecutive quarter – which, with a few low-rise exceptions, has translated into a lack of executed deals.

Although we mentioned it last quarter, it's worth repeating that concession packages are also growing to unprecedented levels – a reflection of rising construction and relocation costs. In the last 45 days, we've seen a handful of downtown deals with over \$100 PSF in tenant improvement allowances. However, there is still a capital gap between what landlords are offering and what it costs to relocate. In the coming months, we expect large users may opt to renew while landlords with current vacancy may become more aggressive with pricing and concessions.

Market Highlights

- WeWork continues to make headlines in Boston. The shared space firm expanded its footprint at 31 Saint James this quarter – leasing nearly 30,000 SF of sublease space. WeWork also leased 56,000 SF at 200 Portland Street across from North Station. Additionally, it inked a deal with Amazon – which will occupy about 200 desks at its 31 Saint James location. These deals bring WeWork's total Boston footprint to just under 500,000 SF.

- In other shared space news, New York-based co-working firm The Yard took 32,000 SF at 120 Saint James.

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Cambridge

Office Q1 2017



CAMBRIDGE MARKET

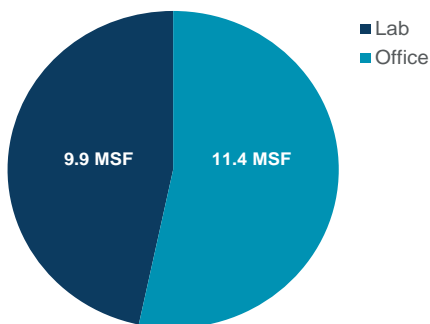
Office Market Indicators

	2016	2017	12-Month Forecast
Overall Vacancy	4.7%	2.5%	■
Net Absorption (YTD)	186K	155K	▲
Avg. Effective Rent (Gross)	\$75.02	\$76.00	▲

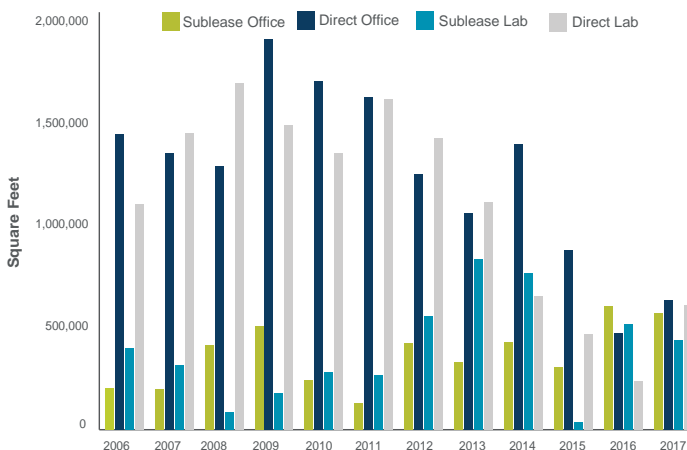
Laboratory Market Indicators

	2016	2017	12-Month Forecast
Overall Vacancy	1.1%	1.7%	■
Net Absorption (YTD)	60K	-111K	▲
Avg. Effective Rent (NNN)	\$70.05	\$84.29	▲

Cambridge Inventory



Direct Available vs. Sublease Available



Market Overview

Not surprisingly, the first quarter of 2017 was more of the same in Cambridge – high rents and virtually no availability. At 2.5% and 1.7%, respectively, both office and lab vacancies are at historical lows. This means that when space does come on the market, it's generally been leased before its availability is made public.

However, Q1 brought an inexplicable pause in demand. Over 1.0 MSF of requirements were halted in the past 8 weeks. We're not convinced this is a trend and we certainly wouldn't call it a slowdown, but it does appear that Cambridge conditions may be leveling off – at least in the near term. As a result, the coming months could see some of the leverage shifting to the occupier, especially larger tenants in the market, as these spaces have stayed available for longer than we have seen in the past few years. Tenants in the market for 100,000 SF have real options now – 6 to 9 months ago, these spaces would have been leased in a matter of weeks, if not days.

Despite the recent pullback in demand, asking rents are still high – a recent proposal for a build-to-suit office quoted starting rents over \$100 PSF. In the lab sector, proposals for existing space are starting in the low to mid-\$80's PSF NNN – with no concessions.

While it is too soon to determine whether the demand interruption will become a trend, there is a very real possibility that buildings currently under construction will be delivered at less than 100% occupancy – something that would have been unheard of just a few months ago. Three separate development sites known as the Alexandria Center at Kendall Square will deliver this year: 50 Binney (delivering Q1-Genzyme's new HQ), 60 Binney (delivering mid-summer), and 100 Binney Street (delivering late-summer).

Outlook

It is too soon to tell whether this quarter's pullback in demand is a trend. Historically, warmer months bring life to the leasing market. But in the words of one Cambridge broker "if the slowdown continues, cracks in rents are coming."

MARKETBEAT

Suburbs

Office Q1 2017



SUBURBAN MARKET

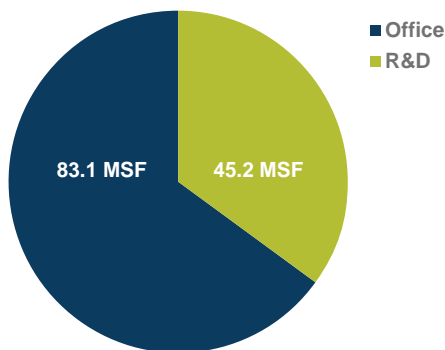
Office Market Indicators

	2016	2017	12-Month Forecast
Overall Vacancy	12.5%	12.8%	▼
Net Absorption (YTD)	676K	-69K	▼
Avg. Effective Rent (Gross)	\$27.41	\$30.75	■

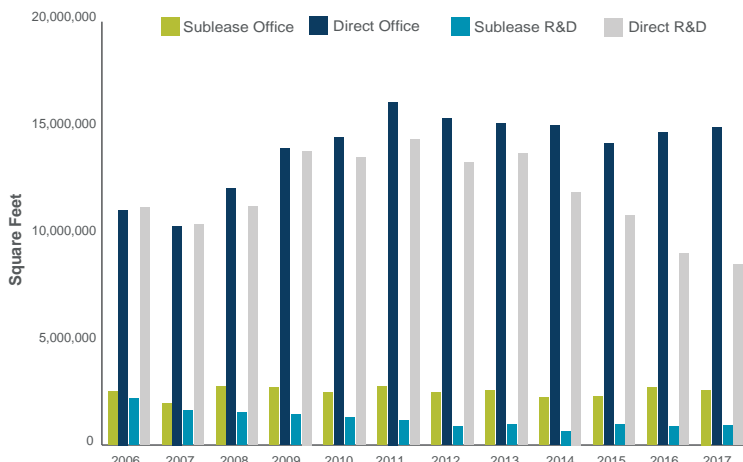
R&D Market Indicators

	2016	2017	12-Month Forecast
Overall Vacancy	13.7%	12.2%	▼
Net Absorption (YTD)	-321K	111K	▲
Avg. Effective Rent (NNN)	\$10.02	\$10.53	▲

Office and R&D Inventory



Direct Availability vs. Sublease Availability



Market Overview

After a banner year of life science leases, the suburbs started 2017 statistically flat in both the office and R&D sectors. While a few large deals were executed in the first quarter, overall it was a quiet winter.

Year-to-date (YTD) office absorption totaled 209,000 SF. This includes Kronos' third expansion at Cross Point in Lowell – they've now leased a total of 550,000 SF. Other notable deals include Everbridge's commitment to 46,000 SF at 500 Burlington Center and Babcock Power's 47,000 SF lease at 26 Forest Street in Marlborough.

New construction – specifically mixed-use – continues to be the headlining story. Rents are more economical in the suburbs and tenants get urban amenities with suburban convenience at a fraction of Downtown/Cambridge prices. Currently, 1.2 MSF is under construction with delivery dates extending into 2018 – 60% of which has already been pre-leased. New projects include 200 Smith Street, Waltham (The Post Office Site); and the development sites of CityPoint South and Reservoir Woods – also in Waltham. According to a major industry source, there are currently 2.0 MSF of proposals out at Boston Properties' CityPoint South development site.

If 2016 was the year of life science activity, 2017 could be the year of redevelopment. We have begun to see developers acquire older industrial buildings – and repurpose them into mixed-use projects. The most notable example this quarter is the redevelopment of 189 B Street in Needham – a vacant warehouse building formerly occupied by General Dynamics. NBCUniversal has agreed to a build-to-suit deal with Normandy Real Estate Partners. The office component will be between 165,000 and 215,000 SF and will house 375 employees. However, the entirety of the project will encompass 1.1 MSF.

Outlook

While M&A and subsequent real estate consolidations are regular occurrences downtown and in Cambridge, their impact on the suburbs has gone largely unnoticed until recently. Last year's headliner was Dell's acquisition of EMC and Salesforce's acquisition of Demandware. This quarter, it was Hewlett Packard's acquisition of former unicorn SimpliVity. The real estate implications of these deals are something we will be monitoring in the coming months.

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Office Q1 2017



BOSTON	TOTAL BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT (OFFICE)	AVERAGE ASKING RENT (CLASS A)
Back Bay	53	12,757,624	2,569,902	20.1%	1,352,444	10.6%	(39,667)	0	\$58.91	\$64.85
Charlestown	14	1,748,336	238,995	13.7%	46,721	2.7%	(87,791)	0	\$30.06	\$34.00
Fenway	24	2,130,192	164,818	7.7%	13,022	0.6%	(6,756)	0	\$34.00	N/A
Financial District	124	30,081,701	4,348,634	14.5%	2,380,623	7.9%	(269,800)	365,000	\$48.05	\$50.18
Government Center/North Station	36	3,392,104	605,969	17.9%	239,849	7.1%	(42,542)	175,000	\$43.33	\$47.17
Midtown	21	2,012,109	337,332	16.8%	118,573	5.9%	(127,303)	0	\$38.50	N/A
Seaport	54	9,034,728	1,321,465	14.6%	886,381	9.8%	(17,040)	790,000	\$44.03	\$60.22
South Station	10	2,897,521	107,887	3.7%	50,318	1.7%	27,056	0	\$31.09	\$50.00
Boston Totals	336	64,054,315	9,695,002	15.1%	5,087,931	7.9%	(563,843)	1,330,000	\$49.05	\$54.94
CAMBRIDGE OFFICE	TOTAL BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT (OFFICE)	AVERAGE ASKING RENT (CLASS A)
Alewife/West Cambridge	14	1,493,792	242,494	16.2%	56,036	3.8%	9,821	0	\$47.98	\$48.26
East Cambridge	43	7,177,314	437,815	6.1%	115,592	1.6%	137,209	417,000	\$77.78	\$81.12
Mass Ave Corridor	33	2,771,345	206,884	7.5%	117,430	4.2%	7,765	0	\$60.47	\$57.03
Cambridge Office Totals	90	11,442,451	887,193	7.8%	289,058	2.5%	154,795	417,000	\$67.35	\$70.26
CAMBRIDGE LABORATORY	TOTAL BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT (LAB)	AVERAGE ASKING RENT (CLASS A)
Alewife/West Cambridge	11	742,988	82,350	11.1%	40,350	5.4%	(46,350)	0	\$55.28**	\$60.00**
East Cambridge	27	5,691,679	409,961	7.2%	37,602	0.7%	(147,603)	684,000	\$67.23**	\$74.39**
Mass Ave Corridor	32	3,505,858	276,392	7.9%	95,244	2.7%	82,992	0	\$69.31**	\$75.00**
Cambridge Laboratory Totals	70	9,940,525	768,703	7.7%	173,196	1.7%	(110,961)	684,000	\$66.16**	\$74.92**
SUBURBS	TOTAL BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT (OFFICE)	AVERAGE ASKING RENT (CLASS A)
128 Central	454	38,135,615	6,638,051	17.4%	3,821,075	10.0%	(14,984)	966,000	\$33.29*	\$37.52*
128 North	156	15,172,651	2,082,459	13.7%	1,243,497	8.2%	100,811	300,000	\$22.38*	\$24.91*
128 South	148	13,784,362	2,336,526	17.0%	1,763,279	12.8%	(86,997)	0	\$21.41*	\$22.82*
3/24 South	31	1,874,834	205,753	11.0%	134,472	7.2%	(20,237)	0	\$19.45*	\$19.82*
Metrowest	66	4,210,271	898,407	21.3%	547,237	13.0%	(72,652)	0	\$25.57*	\$27.22*
495 West	140	12,127,593	3,230,069	26.6%	1,846,055	15.2%	179,778	0	\$18.94*	\$20.51*
495 North	278	32,569,470	9,629,218	29.6%	5,895,504	18.1%	101,413	0	\$18.53*	\$20.93*
495 South	55	3,920,097	837,429	21.4%	293,219	7.5%	(82,705)	0	\$18.88*	\$20.59*
Inner Suburbs	64	6,638,655	1,198,596	18.1%	643,497	9.7%	(22,957)	0	\$41.68*	\$45.25*
Overall Suburban Totals	1,392	128,433,548	27,056,508	21.1%	16,187,835	12.6%	41,424	1,266,000	\$25.83*	\$29.55*

Suburban statistics include both office and R&D unless otherwise specified.

*Average of office rents only.

**Lab rents quoted on NNN basis. Office Asking Rents are Full Service (FS)

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Greater Boston

Office Q1 2017



KEY LEASE TRANSACTIONS Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
301 Binney Street, Cambridge	222,562	Ironwood Pharmaceuticals	Renewal	East Cambridge
530 John Hancock Road, Taunton	181,980	Exel, Inc. (DHL)	Renewal	495 South
1 Federal Street, Boston	93,936	US Bank	Renewal	Financial District
265 Franklin Street, Boston	64,314	McCarter English	Renewal	Financial District
200 Portland Street, Boston	56,306	WeWork	New	Govt Center/North Station
26 Forest Street, Marlborough	47,000	Babcock Power	New	495 West

KEY SALES TRANSACTIONS Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
10 Saint James & 75-81 Arlington	824,637	Liberty Mutual/Mori Trust	\$673M	Back Bay
100 Northern Avenue	514,738	The Fallon Co/Deutsche	\$447M	Seaport
25 First Street	230,864	Jamestown/Oxford Properties	\$202.5M	East Cambridge
10 Post Office Square	452,000	GreenOak/LaSalle	\$184.8M	Financial District
MetroNorth Corporate Center/120 & 150 Presidential Way	222,391	Angelo Gordon & Co/Andover Co	\$47.3M	128 North

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