

MARKETBEAT Q2 2017



GREATER BOSTON OFFICE

Economic Indicators

	Q2 16	Q2 17	12-Month Forecast
MA Employment	3.5M	3.6M	▲
MA Unemployment	3.9%	3.8%	▼
U.S. Unemployment	4.9%	4.4%	▼

Office Market Indicators

	Q2 16	Q2 17	12-Month Forecast
Overall Vacancy	9.9%	9.9%	■
Net Absorption (YTD)	133K	283K	■
Under Construction	3.3MSF	3.6MSF	■
Average Asking Rent (Gross)	\$36.27	\$38.00	■

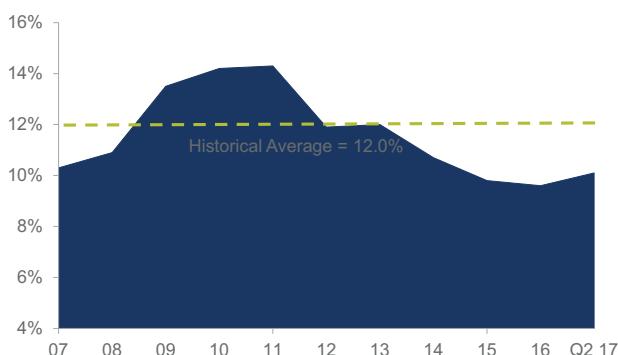
Overall Net Absorption/Overall Asking Rent

GREATER BOSTON OFFICE



Overall Vacancy

GREATER BOSTON OFFICE



Economic Overview

Metrowide, employment figures are solid and demand for office and lab space is consistent. However, as we have discussed previously, it is demographic shifts and an evolving preference for urban amenities that has delivered the most impact to greater Boston's commercial real estate market - at least in recent memory. As these trends have become a permanent part of our landscape, a new narration is emerging - and it concerns the financial services industry. We are hearing from some firms that SEC regulations, coupled with a move from actively managed funds to passively managed funds, means that many finance jobs could become extinct within the next decade. This obviously impacts Boston tenants overall - and the Financial District specifically - and is something we will be watching.

Market Overview

For the second consecutive quarter, absorption in Boston was negative, but asking rents are still rising. The large blocks that have come online this quarter are largely attributable to tenants relocating into new construction. However, supply is exceeding demand in some submarkets and the performance of asking rents is not reflective of current conditions. This is a trend we are monitoring carefully.

In Cambridge, the second quarter of 2017 was more of the same - continually rising rents and virtually no availability. However, a number of notable deals were executed this quarter - Momenta Pharmaceuticals and Synlogic backfilled Ironwood Pharmaceuticals' space at 301 Binney Street and GlaxoSmithKline committed to 42,000 square feet (SF) at 200 Cambridgepark Drive.

In the suburbs, new construction and life science activity are still the top trends. 490 Arsenal Way (185,000 SF) in Watertown delivered this quarter. And in Lexington, Wave Life Sciences took space at 115 Hartwell Avenue - a 95,000 SF lab building that delivered in April.

Outlook

Fundamentals across the region are solid, but we are noticing softening in certain submarkets - particularly in downtown Boston. New ownership, coupled with a rise in construction costs, means that tenant improvement packages are growing, but so are asking rents. In the coming months, we expect that large users may opt to renew while landlords with current vacancy may become more aggressive with pricing and concessions.

MARKETBEAT

Boston

Office Q2 2017



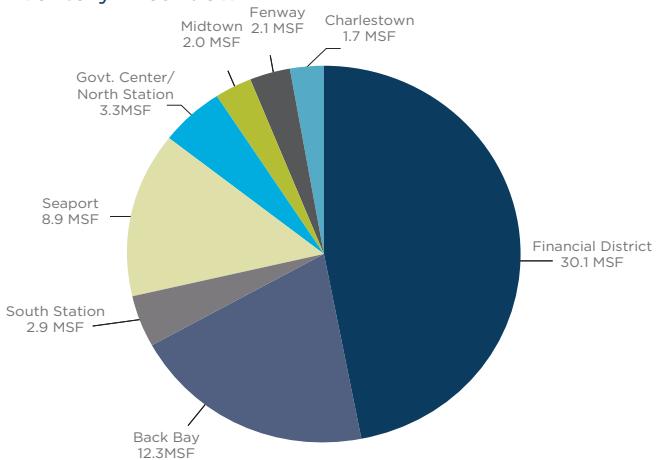
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BOSTON MARKET

Market Indicators

	2016	2017	12-Month Forecast
Overall Vacancy	7.0%	7.4%	▲
Net Absorption (YTD)	-364KSF	-84KSF	▼
Avg Effective Rent (Gross)	\$55.09	\$56.97	▼

Inventory Breakdown



Class A&B Historical Availabilities and Rents



Market Overview

The second quarter brought more headline-grabbing deals to Boston – and specifically to the Seaport. Amazon committed to 150,000 SF at 253 Summer Street while Reebok announced it will relocate from its Canton headquarters into 200,000 SF at 21-25 Drydock Avenue.

Despite these banner transactions, for the second consecutive quarter absorption in Boston was negative - at 84,000 SF YTD. This is partially attributable to a hangover of space that came online in the first quarter – Boston Consulting Group space at 1 Beacon Street (72,000 SF); Sapient (Digitas) space at 131 Dartmouth Street (80,000 SF) and two large blocks vacated by Partners Healthcare at 1 Constitution Center and 500 Washington Street (200,000 SF in total). It was also due to Cengage Learning's 88,000 SF at 10 Channel Center that was added to availability this quarter. While Cengage has yet to decide where it will land, the rest of these large blocks are largely attributable to tenants opting for new construction.

There is no denying that many companies are still moving into the city – from Cambridge, the suburbs as well as from out of state. This makes it an exciting and innovative time in downtown Boston – and demand, particularly in the Seaport, has lead to over 5.1 MSF added to inventory between 2013 and 2019. However, local blocks vacated by these tenants are taking longer and longer to backfill – in some cases over twelve months.

Behind the high-profile deals, many companies have begun to reel in real estate costs – and not just through space consolidation. Some firms are re-evaluating space utilization - and opting for unassigned desks available for whomever needs them. We also recently saw a large financial service firm relocate from mid and high-rise space into low rise space in the same building.

Despite softening market fundamentals, asking rents continue to rise – rents in the Financial District are up 6.0% since the beginning of the year. While we have mentioned the disconnect between growing availability and rising rents in past quarters, it is worth repeating since it is clearly leading to a lack of executed deals – particularly for local tenants under 30,000 SF.

Market Highlights

- The second quarter solidified Boston's place as a shoe town. In addition to Reebok's announcement, ASICS America Corp. committed to 25,000 SF at 125 Summer Street – a move intended to bring the Irvine, California-based subsidiary of Japan's ASICS Corp. a presence on the East Coast. Meanwhile, Shoes.com (formerly located at 101 Arch Street) announced it will relocate and expand into 31,000 SF at Constitution Wharf in Charlestown.
- VMware committed to 37,000 SF at 500 Washington Street in Midtown – where it will join the likes of Carbonite, Inc. and Sonos. VMware will relocate from Cambridge.

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Cambridge

Office Q2 2017



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CAMBRIDGE MARKET

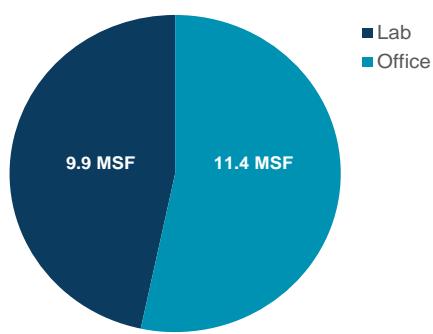
Office Market Indicators

	2016	2017	12-Month Forecast
Overall Vacancy	2.5%	3.8%	■
Net Absorption (YTD)	149K	158K	▲
Avg. Effective Rent (Gross)	\$73.12	\$78.00	▲

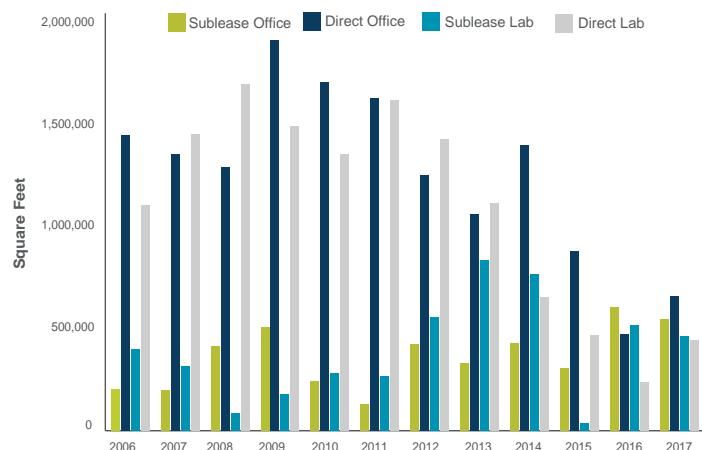
Laboratory Market Indicators

	2016	2017	12-Month Forecast
Overall Vacancy	2.4%	3.8%	■
Net Absorption (YTD)	-137K	-6K	▲
Avg. Effective Rent (NNN)	\$71.04	\$85.49	▲

Cambridge Inventory



Direct Available vs. Sublease Available



Market Overview

In Cambridge, the second quarter brought more of the same – continually rising rents and limited vacancy – both in the office and the lab sector. At 158,000 SF YTD, overall office absorption is keeping vacancy at all-time lows – citywide, it stands at 3.8%. This is notable because, with the exception of year-end 2016 (when it stood at a scant 3.0%), vacancy figures are the lowest they've been since at least 2006. While East Cambridge (and Kendall Square, specifically) get all the press, vacancy in Alewife/West Cambridge and the Mass Ave Corridor are both hovering around 5.0% - meaning tenants squeezed out of Kendall Square are moving westward.

In the lab sector, absorption has been flat through the first half of the year. However, this quarter was highlighted by Momenta Pharmaceuticals and Synlogic backfilling Ironwood Pharmaceuticals' space at 301 Binney Street. GlaxoSmithKline also committed to 42,000 SF at 200 Cambridgepark Drive.

On the capital markets front, activity was strong in Alewife/West Cambridge this quarter. Longfellow Real Estate Partners, along with Morgan Stanley, purchased 100, and 125-150 Cambridgepark Drive in a \$270M sale. In the Mass Ave Corridor, DivcoWest acquired 955 Massachusetts Avenue from Brickman Associates for \$66.5M.

In construction news, we are anticipating that projects in the pipeline will receive significant tenant commitments within the next 12 months. There has also been notable activity on the sublease availabilities at 75-125 Binney Street (222,000 SF from Takeda) and 10 Cambridge Center (141,000 SF from Biogen). We expect these blocks to be fully leased by next quarter.

Outlook

Venture capitalists continue to pump money into Cambridge firms – an impressive \$589M landed here just in the last 90 days. This makes it the second most funded quarter Cambridge has ever seen - second only to the third quarter of 2016 when the city received \$1.07B. As Cambridge firms continue to receive investments, they also continue to grow. This means that demand is not likely to subside any time in the near future.

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Suburbs

Office Q2 2017



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SUBURBAN MARKET

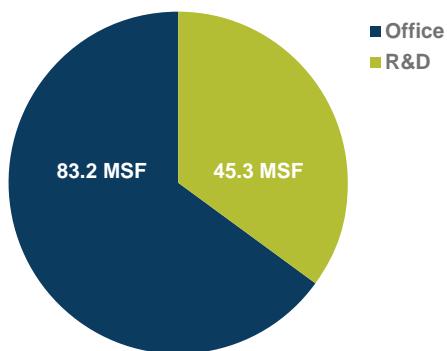
Office Market Indicators

	2016	2017	12-Month Forecast
Overall Vacancy	12.6%	12.7%	▼
Net Absorption (YTD)	-363K	256K	▼
Avg. Effective Rent (Gross)	\$35.04	\$35.29	■

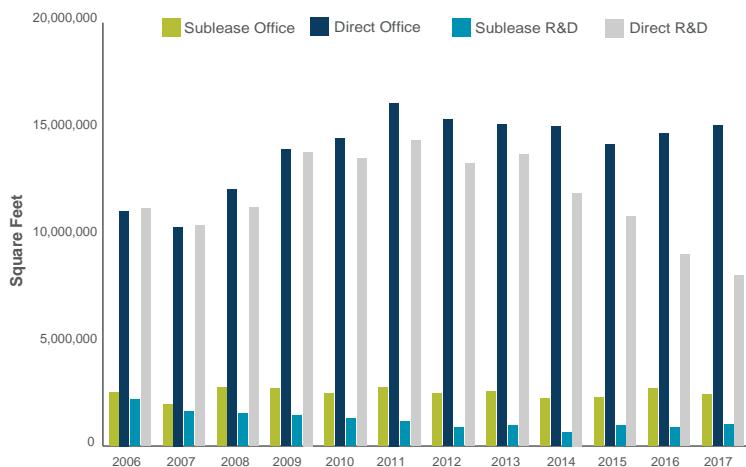
R&D Market Indicators

	2016	2017	12-Month Forecast
Overall Vacancy	12.9%	11.1%	▼
Net Absorption (YTD)	-234K	508K	▲
Avg. Effective Rent (NNN)	\$14.73	\$14.81	▲

Office and R&D Inventory



Direct Availability vs. Sublease Availability



Market Overview

In the suburbs, new construction and life science activity continue to dominate the news. LINX, at 490 Arsenal Way in Watertown, delivered this quarter - providing an alternative for tenants getting squeezed and priced out of Cambridge. While in Lexington, Wave Life Sciences moved into 115 Hartwell Avenue - a 95,000 SF lab building that delivered in April.

Office and R&D absorption totaled 717,500 SF - up significantly from a year ago when it totaled negative 500,000 SF. The most notable transaction of the quarter was Dana Farber's 140,000 SF lease at 300 Boylston Street - the site of the former Atrium Mall. The facility serves as an extension of the Longwood Medical Area and, after significant renovations in 2016, it is fully leased. As part of a recent trend of repurposing vacant shopping malls, the high ceilings and heavy duty floors are a perfect fit for large, heavy medical equipment.

Other notable office deals were executed by Mimecast (79,000 SF at 191 Spring Street, Lexington), MITRE (44,000 SF at 201 Burlington Road, Bedford) and Aspect Software (30,000 SF at 5 Technology Park Drive, Westford).

In the R&D sector, increasing demand from life science companies means vacancy now stands at 11.0% - the lowest rate in over a decade. As a result, high-end R&D and lab space in the suburbs now commands close to \$50 NNN PSF.

On the capital markets front, volume is down slightly compared to this time last year. Through the first half of 2016, transaction volume totaled \$624M. So far this year, \$184M of transactions have been executed.

Outlook

Despite the migratory trend of firms flocking downtown, there is still solid demand for suburban space. One submarket we are closely watching is the Inner Suburbs which, until a few years ago, was frequently overlooked by tenants in the market. However, the 2016 delivery of 80 Guest Street in Brighton (and the subsequent completion of its own commuter rail station) and this quarter's delivery of 490 Arsenal Way in Watertown have solidified the Inner Suburbs as a burgeoning hotspot. As a result, office rents have risen dramatically over the last 12 months - up 35% to \$41.64 PSF. This is driven by larger availabilities in new construction commanding premium rents - a trend we anticipate for the foreseeable future.

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Greater Boston Office Q2 2017



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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	2,420,872	19.0%	1,259,827	9.9%	(27,812)	0	\$60.39	\$63.38
Charlestown	14	1,748,336	139,126	8.0%	46,721	2.7%	(54,991)	0	\$44.82	\$45.00
Fenway	24	2,130,192	147,749	6.9%	9,553	0.4%	10,313	0	\$41.36	N/A
Financial District	124	30,081,701	4,134,764	13.7%	2,320,631	7.7%	(87,162)	365,000	\$57.72	\$60.09
Government Center/North Station	36	3,392,104	572,512	16.9%	180,230	5.3%	(9,085)	175,000	\$52.41	\$54.35
Midtown	21	2,012,109	278,896	13.9%	138,316	6.9%	(68,867)	0	\$50.50	N/A
Seaport	55	9,144,085	1,176,402	12.9%	763,934	8.4%	179,692	790,000	\$54.51	\$64.93
South Station	10	2,897,521	161,309	5.6%	52,058	1.8%	(26,366)	0	\$50.60	\$54.00
Boston Totals	337	64,163,672	9,031,630	14.1%	4,771,270	7.4%	(84,278)	1,330,000	\$56.73	\$60.81
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	253,591	17.0%	76,960	5.2%	(1,276)	0	\$45.96	\$46.16
East Cambridge	42	7,099,314	415,153	5.8%	218,844	3.1%	159,871	417,000	\$80.20	\$81.35
Mass Ave Corridor	33	2,771,345	214,860	7.8%	135,924	4.9%	(211)	0	\$64.03	\$65.59
Cambridge Office Totals	89	11,364,451	883,604	7.8%	431,728	3.8%	158,384	417,000	\$68.52	\$69.95
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	36,000	4.8%	36,000	4.8%	0	0	\$50.00**	N/A**
East Cambridge	27	5,691,679	330,952	5.8%	109,711	1.9%	(68,594)	684,000	\$71.75**	\$74.40**
Mass Ave Corridor	32	3,505,858	296,678	8.5%	229,211	6.5%	62,706	0	\$71.58**	\$74.78**
Cambridge Laboratory Totals	70	9,940,525	663,630	6.7%	374,922	3.8%	(5,888)	684,000	\$69.21**	\$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	456	38,316,120	6,680,863	17.4%	3,643,623	9.5%	227,381	1,059,000	\$32.64*	\$37.69*
128 North	155	15,145,651	1,952,407	12.9%	1,226,458	8.1%	115,513	300,000	\$23.10*	\$26.17*
128 South	148	13,784,362	2,242,761	16.3%	1,498,063	10.9%	6,768	26,100	\$22.18*	\$23.70*
3/24 South	31	1,874,834	177,886	9.5%	128,848	6.9%	7,630	0	\$19.52*	\$20.00*
Metrowest	66	4,210,271	910,365	21.6%	539,384	12.8%	(84,610)	0	\$25.23*	\$26.62*
495 West	140	12,127,593	3,513,465	29.0%	1,914,001	15.8%	(103,618)	45,000	\$19.19*	\$20.48*
495 North	278	32,569,470	9,228,613	28.3%	5,571,713	17.1%	485,810	0	\$19.39*	\$19.58*
495 South	55	3,920,097	792,583	20.2%	250,312	6.4%	(37,859)	0	\$20.08*	\$20.59*
Inner Suburbs	63	6,578,655	1,161,183	17.7%	797,799	12.1%	147,551	0	\$41.14*	\$44.40*
Overall Suburban Totals	1,392	128,527,053	26,660,126	20.7%	15,570,201	12.1%	764,566	1,430,100	\$26.11*	\$29.17*

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)

MARKETBEAT

Greater Boston

Office Q2 2017



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KEY LEASE TRANSACTIONS Q2 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
21-25 Drydock Avenue, Boston	200,000	Reebok	Relocation	Seaport
253 Summer Street, Boston	150,000	Amazon	New	Seaport
80 Guest Street, Brighton	46,920	Global Atlantic Financial	Relocation	Inner Suburbs
25 Corporate Drive, Burlington	46,132	Everbridge	Sublease	128 Central
201 Burlington Road, Bedford	43,535	MITRE	Relocation	128 Central
500 Washington Street, Boston	37,948	VMware	Relocation	Midtown

KEY SALES TRANSACTIONS Q2 2017

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
1-3 Center Plaza, Boston	726,000	Shorenstein/Synergy-GreenOak	\$365M	Government Ctr/North Station
100 High Street, Boston	529,730	CBRE/Rockpoint Group	\$370M	Financial District
125-150 Cambridgepark Drive, Cambridge	436,000	CBRE/Morgan Stanley-Longfellow	\$210M	Alewife/West Cambridge
160 Federal Street, Boston	354,000	Beacon Capital/Rockpoint Group	\$190M	Financial District

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