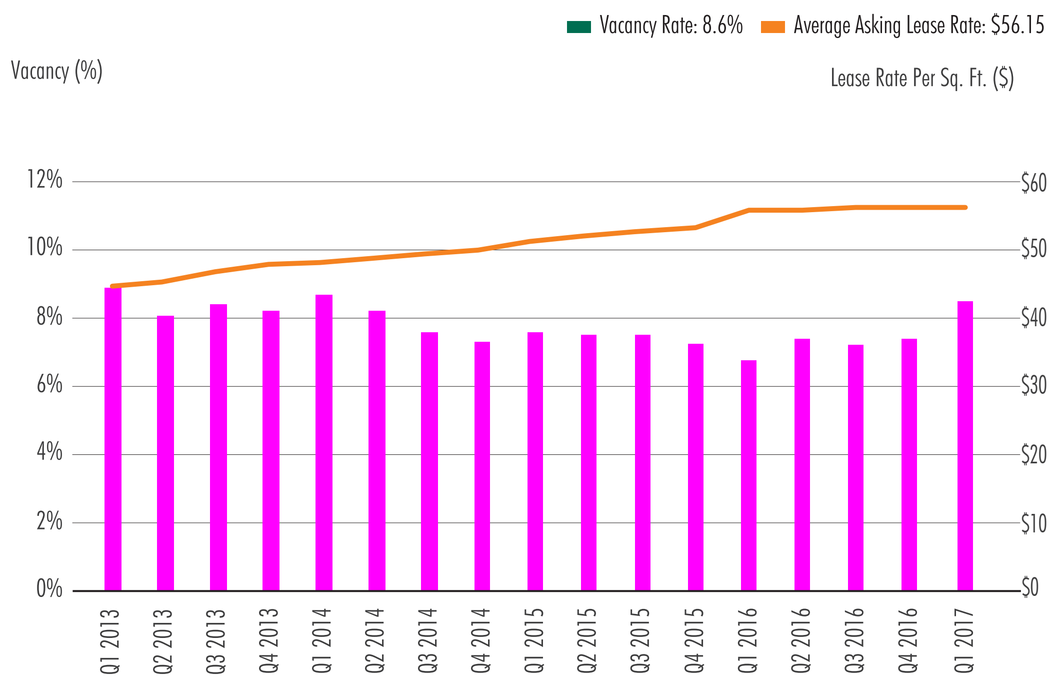
Boston Downtown Office, Q1 2017

Boston starts the year slowly, but has plenty in store

Vacancy 8.6%	Availability 13.9%	Quarterly Absorption (67,890) SF	Sublease 1.3%	Under Construction 1.8 MSF

* Arrows indicate change from previous quarter

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q1 2017.

It was a relatively quiet first quarter for the Downtown Boston Office market, echoing a theme seen across many of the Greater Boston submarkets. Political moving parts and questions about whether the economy has reached the peak of the current cycle have prompted careful decision-making in many quarters, but with an unemployment rate of only 3.7% as of February, Boston's positioning remains strong. Several large leases that were expected to be signed in the first quarter are still in the works, notably including Reebok's new headquarters deal at 21-25 Drydock Avenue. Vacancy was up to 8.6%, the highest it has been in three years, but asking rents continued to edge upwards. Bifurcation of Class A and B rental growth has slowed: while in the past year Class B properties had seen much greater gains in comparison to Class A, in Q1 2017, both saw only modest gains.

Most of the activity in the quarter was seen in value low-rise Class A space in the Back Bay. This type of space can be particularly appealing to Cambridge tenants who want to remain in the urban core, but are being priced out of the options on the other side of the Charles River. Smaller submarkets around the edge of the urban ring also performed steadily—in particular, Allston/Brighton/Longwood ended the first quarter with over 50,000 sq. ft. of positive absorption, and South Station, which is experiencing a small flurry of interest, had almost 17,000 sq. ft.

CBD

- The CBD posted 175,844 sq. ft. of negative absorption in Q1 2017, including an increase of almost 85,000 sq. ft. of available sublease space. This is the lowest that absorption has been in the submarket since Q4 2013. Major contributors included PayPal's 30,000 sq. ft. sublease at One International Place and BNY Mellon's giveback of 60,000 sq. ft. at One Boston Place.

- The largest renewal of the quarter happened in the CBD, with U.S. Bank electing to remain in its 94,000 sq. ft. space at One Federal Street.

- Positive absorption for the submarket was led by 53 State Street, where two full floors were leased to Experian Data Quality and The Institute for Healthcare Improvement (IHI), respectively. IHI will be moving to Boston from its current home in Cambridge.

BACK BAY

- Wayfair expanded yet again at Copley Place, leasing an additional 110,000 sq. ft. Meanwhile, the online retailer continues to sublease portions of its footprint, this quarter subleasing 47,000 sq. ft. to Fuze, a rapidly growing cloud communications provider headquartered in Cambridge.

- Co-working firm The Yard took 32,000 sq. ft. at 120 St. James Avenue, the low-rise block at 200 Clarendon Street renovated by Boston Properties. This is the first Boston location of the New York City-based co-working operation, which is also in the process of expanding to Philadelphia and Washington, D.C.

SEAPORT

- Activity in the Seaport was fairly quiet during Q1 2017, with the largest deal coming from Catalant's 27,000 sq. ft. lease at 25 Thomson Place. The business software company's original location is nearby at 280 Summer Street.

- Startups, tech companies and those tenants seeking flex space have already been drawn to the far side of the Seaport, but Reebok's impending blockbuster lease at 21-25 Drydock Avenue helps expand the footprint of where blue chip occupiers are considering space.

Figure 2: Market Statistics

Boston Office	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent $ (Gross)
Central Business District	182	36,956,911	14.0	8.5	1.4	(175,844)	(175,844)	55.82
Class A	43	26,900,298	14.6	8.4	1.6	(118,004)	(118,004)	58.31
Class B/C	139	10,056,613	12.4	8.6	0.9	(57,840)	(57,840)	47.23
Back Bay	75	15,008,985	15.3	10.2	2.0	124,657	124,657	61.80
Class A	21	10,192,552	19.0	12.8	2.0	129,708	129,708	63.76
Class B/C	54	4,816,433	7.5	4.7	1.9	(5,051)	(5,051)	49.98
Seaport	67	12,247,242	14.9	6.9	1.0	17,406	17,406	59.62
Class A	12	5,418,877	13.6	3.1	0.1	(8,919)	(8,919)	72.42
Class B/C	55	6,828,365	15.8	10.0	1.8	26,325	26,325	50.02
Fenway/Kenmore Square	21	2,137,967	5.5	5.5	0.0	3,222	3,222	63.00
Class A	2	899,379	8.9	8.9	0.0	0	0	63.00
Class B/C	19	1,238,588	3.1	3.1	0.0	3,222	3,222	0.00
North Station/Waterfront	38	2,736,050	15.5	5.9	1.2	(4,771)	(4,771)	56.28
Class A	2	368,000	52.1	4.6	2.6	0	0	66.16
Class B/C	36	2,368,050	9.8	6.1	1.0	(4,771)	(4,771)	45.08
Mid-Town	27	2,559,445	15.2	14.5	1.5	(7,618)	(7,618)	44.18
South Station	22	1,332,259	8.7	5.4	0.0	16,815	16,815	46.36
Charlestown/East Boston	20	2,858,655	7.2	3.0	0.0	(94,173)	(94,173)	40.31
Dorchester/South Boston	22	2,146,689	12.9	11.7	0.0	999	999	30.57
Allston/Brighton/Longwood	23	1,946,081	15.1	14.5	0.0	51,417	51,417	44.50
Overall Boston Office	497	79,930,284	13.9	8.6	1.3	(67,890)	(67,890)	56.15

Source: CBRE Research, Q1 2017.

Figure 3: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Wayfair	Copley Place	110,000	Back Bay	Expansion
U.S. Bank	One Federal Street	94,000	CBD	Renewal
Fuze	Copley Place	47,000	Back Bay	Sublease
Global Atlantic Financial	20 Guest Street	47,000	Allston/Brighton/ Longwood	New
The Yard	200 Clarendon Street	32,000	Back Bay	New
Experian	53 State Street	27,000	CBD	New
IHI	53 State Street	27,000	CBD	New
Catalant	25 Thomson Place	27,000	Seaport	New
Keybank	225 Franklin Street	25,000	CBD	Relocation
Analog Devices	125 Summer Street	25,000	CBD	New

Source: CBRE Research, Q1 2017.

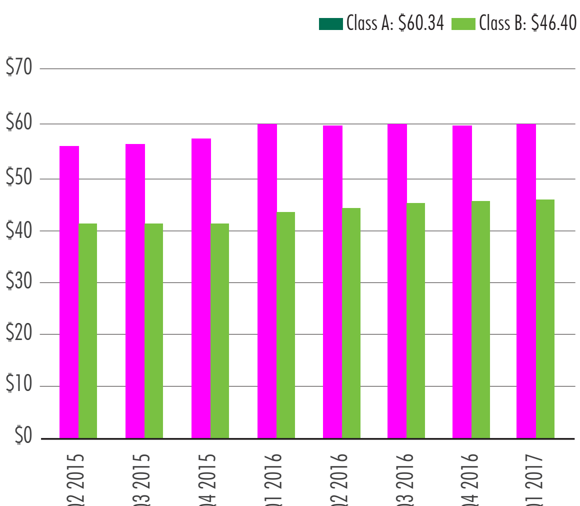
AVERAGE ASKING RENTS

Overall average asking rents rose marginally in Q1 2017, increasing $0.44 per sq. ft. from 4Q 2016. The CBD and Seaport both remained relatively flat, while Back Bay Class A space rose 300 basis points quarter-over-quarter. Back Bay Class A rents ended at $63.76 per sq. ft., due to large blocks of low-rise Class A space being leased.

NET ABSORPTION

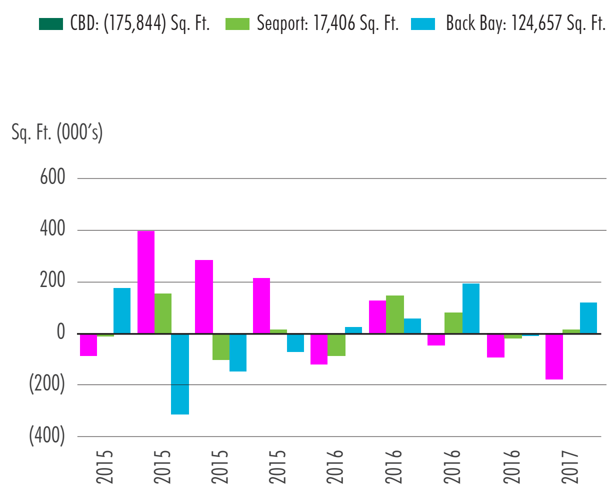
The quarter ended relatively flat in absorption, at negative 67,890 sq. ft. The Back Bay led the charge, posting 124,657 sq. ft. of positive absorption, primarily in Class A low-rise buildings. The CBD saw the biggest hit in negative absorption, significantly impacted by an overall increase of almost 85,000 sq. ft. of sublease space.

Figure 4: Average Asking Lease Rates



Source: CBRE Research, Q1 2017.

Figure 5: Net Absorption



Source: CBRE Research, Q1 2017.

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.

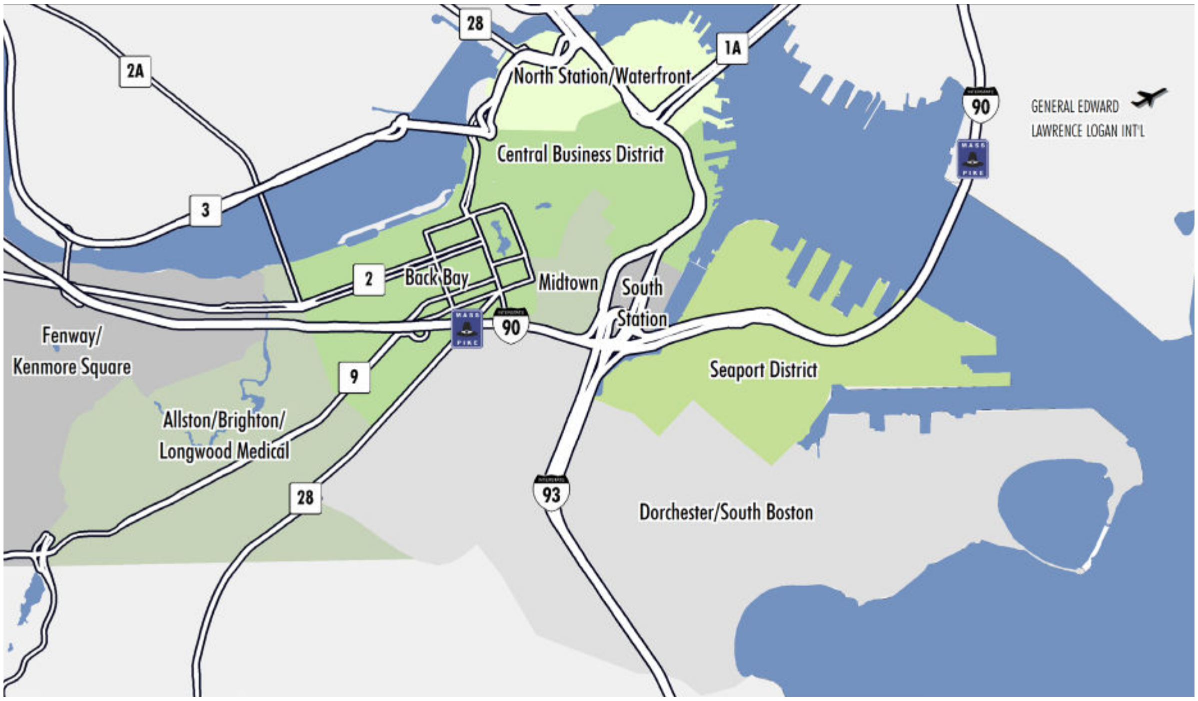
AVAILABLE AREA (SQ. FT.)
Available building area that is either physically vacant or occupied.

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.



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