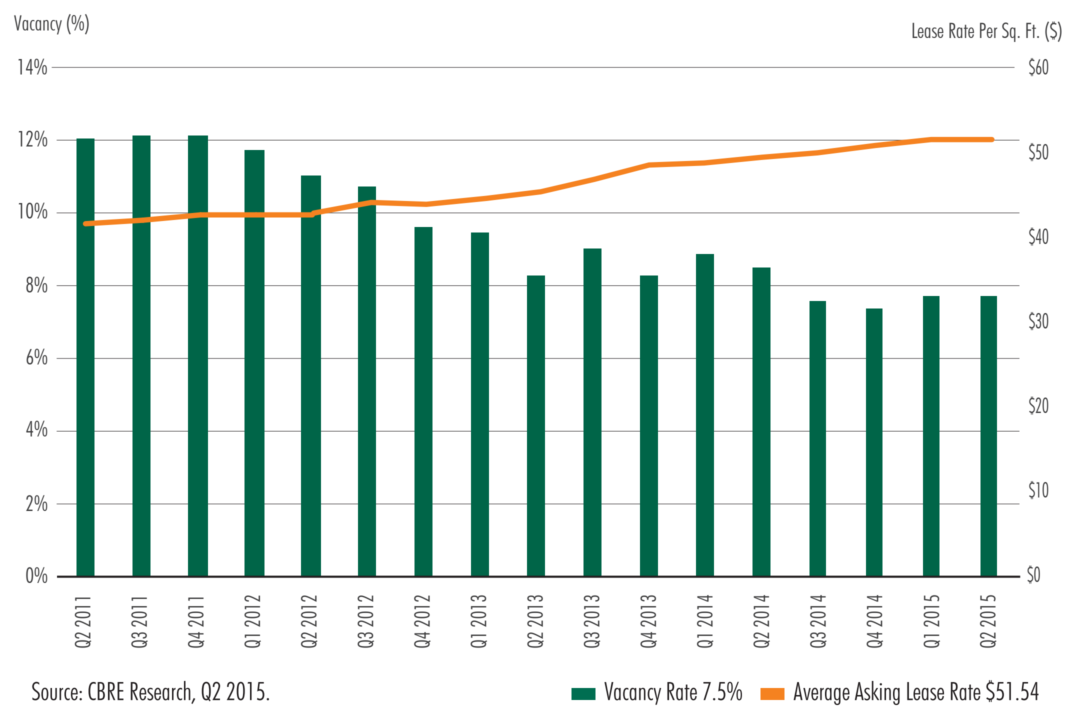
Boston Downtown Office, Q2 2015

Speculative construction and record breaking investment sales lead the way in Q2 2015

Vacancy	7.5%
Availability	13.9%
Absorption	424,525 SF
Sublease	0.75%
Under Construction	3.3 MSF

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q2 2015.

Q2 2015 proved to be another strong quarter for downtown Boston as the market continues to benefit from similar trends seen the past several quarters. Pressure from East Cambridge's strikingly low vacancy and high asking rents continues to drive activity in the CBD, especially along the MBTA Red Line. Workplace strategies of the new economy and millennial generation dominate tenant demand, accelerating performance in the Class B and low-rise Class A markets. The investment sales market is red hot, with record-breaking sales seen in all submarkets. Meanwhile, with continued improvement in the overall economy, construction activity and costs are at an all-time high. Nonetheless, the second quarter saw Skanska breaking ground on 121 Seaport, the first speculative office building since 1325 Boylston in the Fenway, and the first in the Seaport since ONE Marina Park Drive.

CBD

- The CBD exhibited a spike in Class A activity in Q2 2015, ending at over 400,000 sq. ft. of positive absorption. This was primarily attributed to Houghton Mifflin signing a 160,000-sq.-ft. lease to relocate from the Back Bay to 125 High Street, and Cambridge Innovation Center expanding into an additional 56,000 sq. ft. at 50 Milk Street.

- The Class A market also drove investment sales headlines with Beacon Capital selling 745 Atlantic Avenue to Oxford Properties for $114.5 million, or $657 per sq. ft., and Brookfield selling 49% interest in 75 State Street to AustralianSuper, a transaction that valued the asset at $605 million, or $779 per sq. ft.

- Despite a relatively flat quarter in Q2 2015, the Class B market continues to see steady demand from technology and new economy tenants. At $42.64 per sq. ft., Class B average asking rents have already surpassed the last cycle's peak of $41.00 in 2008, while Class A rents are still approximately $15.00 per sq. ft. below their 2008 peak of $70.00 per sq. ft.

BACK BAY

- The Back Bay posted 300,000 sq. ft. of potential availability with Houghton Mifflin's planned relocation to 160,000 sq. ft. in the CBD. While on the surface this appears as a 140,000-sq.-ft. contraction for the overall Boston market, the educational publishing company has been subletting approximately 150,000 sq. ft. of its current lease, lessening the impact on overall market growth.

- Equity Office announced 222 Berkeley Street/500 Boylston Street is on the market and the trophy asset is expected to trade with record-breaking numbers.

- Samuels & Associates made headlines in the Fenway, as the newly finished 1325 Boylston at Van Ness reported a 45,000-sq.-ft. lease from CRICO. At nearby Landmark Center, the developer has also opened its 'startup launchpad' Hatch Fenway and has secured a 37,500-sq.-ft. lease with restaurant software group Toast.

SEAPORT

- At the end of Q2 2015, Skanska broke ground on the first speculative office building in the Seaport since ONE Marina Park Drive. The 400,000-sq.-ft. structure is being constructed on Seaport Square Parcel L2 and is scheduled for completion in 2017. Meanwhile Pier 4's office tower, recently purchased by Tishman Speyer, is rumored to break ground this fall.

- Another example of the Seaport's expanding center, Autodesk finalized its lease for 72,000 sq. ft. at the Innovation & Design Building.

- Investment sales activity in the Seaport remains strong with the Crosspoint/Thomson portfolio being purchased by Invesco for $183 million, Beacon Capital selling 10-20 Channel Center to Ivanhoe Cambridge for $100 million, or $404 per sq. ft., and One Channel Center on the market for sale.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Houghton Mifflin	125 High Street - HST	160,000	CBD	New
Autodesk	21-25 Drydock Avenue	72,000	Seaport	New
Cambridge Innovation Center	50 Milk Street	56,000	CBD	Expansion
UBS	One Post Office Square	46,000	CBD	Renewal
InsightSquared	Copley Place	45,000	Back Bay	Sublease
Beacon Health	200 State Street	45,000	CBD	Renewal/Exp.
CRICO	1325 Boylston Street	45,000	Fenway/Kenmore	New
Toast	401 Park Drive	37,500	Fenway/Kenmore	New
State Street Bank	100 Summer Street	37,000	CBD	Expansion
Manion Gaynor	125 High Street - OST	31,000	CBD	New

Source: CBRE Research, Q2 2015

SPOTLIGHT: ARE TI'S RISING AT THE SAME PACE AS CONSTRUCTION COSTS?

Construction is booming in the United States after years of weakness, and the ripple effect is having a noticeable impact on the Boston skyline and overall construction costs. Estimates show that by September of this year the Boston Area will have permitted over $5.8 billion worth of new construction over the past 13 months. The original growth was in the downtown housing and life science/healthcare markets, with additional growth being seen in the commercial sector in the last two quarters. With the high demand for new construction, both material and labor costs have increased dramatically. A high-rise construction budget 10 to 12 years ago was half of what it is today before adding in soft costs and land costs. As this demand for new construction continues, we will continue to see an increase in material costs and labor cost for all projects in the Greater Boston Area. As costs increase with demand, material lead time durations have shifted out dramatically. Previous lead times on items such as carpet (previously a 2-4 week lead time, now 4-8 weeks), light fixtures (previously a 4-6 week lead time, now 8-12 weeks), and HVAC boxes (previously a 4-8 week lead time, now 8-12 weeks) have doubled. This shift in lead times is pushing out construction schedules as material is not readily available as it once was. Oddly enough, TI allowances do not seem to have responded to the growth in construction costs throughout the city, staying relatively flat since late 2012.

- CBRE/New England Project Management

Figure 3: Market Statistics

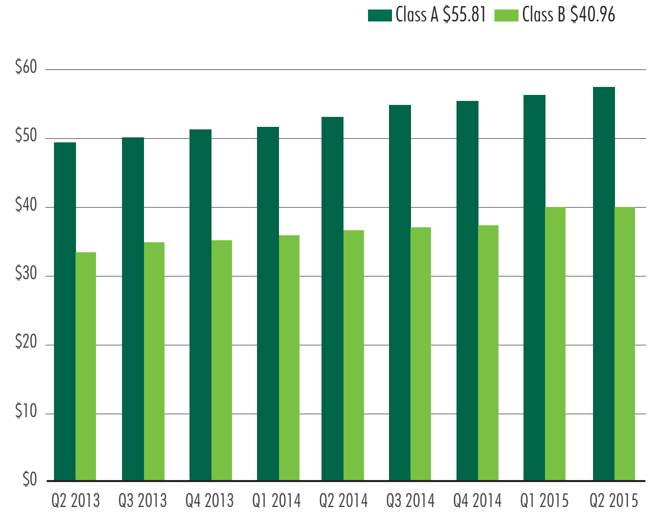
Boston Office	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent $ (Gross)
Central Business District	185	36,854,778	14.3	8.4	0.8	415,808	325,713	52.39
Class A	43	26,870,269	14.6	9.2	0.8	419,909	462,035	55.11
Class B/C	142	9,984,509	13.4	6.3	0.9	(4,101)	(136,322)	42.64
Back Bay	78	15,058,485	16.5	8.5	0.6	(326,575)	(145,164)	58.21
Class A	21	10,192,552	18.6	7.9	0.9	(367,700)	(149,699)	62.10
Class B/C	57	4,865,933	12.3	9.7	0.1	41,125	4,535	45.44
Charlestown/East Boston	21	2,922,083	19.6	10.3	0.4	955	(1,152)	33.32
Seaport	65	10,855,968	8.4	3.8	1.0	160,671	146,872	52.08
Class A	10	4,592,928	6.3	1.2	0.9	115,129	160,463	63.95
Class B/C	55	6,263,040	10.0	5.8	1.0	45,542	(13,591)	46.27
Mid-Town	27	2,559,445	14.7	12.8	0.5	745	29,320	40.97
North Station/Waterfront	39	2,678,250	4.2	2.2	0.7	57,306	36,942	34.85
South Station	22	1,332,259	6.6	4.6	0.6	(14,910)	(5,699)	38.30
Dorchester/South Boston	24	2,179,189	9.4	6.5	0.0	(3,026)	4,402	30.95
Allston/Brighton/Longwood	24	2,006,081	19.8	3.0	2.3	(9,318)	237,400	41.92
Fenway/Kenmore Square	22	2,172,967	21.5	9.0	0.0	142,869	142,869	57.37
Overall Boston Office	507	78,619,505	13.9	7.5	0.7	424,525	771,503	51.54

Source: CBRE Research, Q2 2015.

AVERAGE ASKING RENTS

Average asking rents continue to climb upward and show no signs of slowing in the future. While the Seaport's size of inventory puts its overall numbers below those of the Back Bay and CBD, on a weighted average basis, both Class A and Class B rents in the Seaport individually outperform their counterparts in both of these same submarkets. Although the Back Bay saw a slight decline in overall and Class A rates, this is attributed to premier space taken off the market, with the addition of large blocks of low-rise space. As noted, the CBD rates continue to increase overall, with Class B rates climbing at an accelerated pace compared to the Class A market and the peaks seen in Q1 2008.

Figure 4: Average Asking Lease Rates

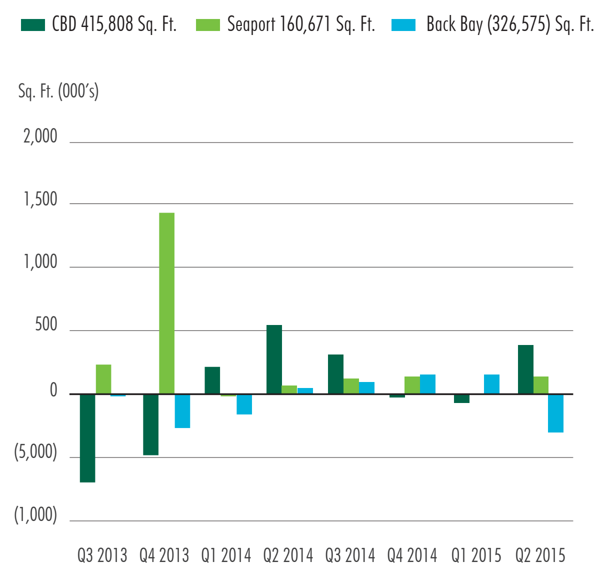


Source: CBRE Research, Q2 2015.

NET ABSORPTION

Overall, downtown Boston ended Q2 2015 at over 400,000 sq. ft., despite the 300,000-sq.-ft. hit of negative absorption seen in the Back Bay. This represents the seventh consecutive quarter of positive absorption for downtown Boston. The Class A market was the primary contributor, with over 70,000 sq. ft. of space leased at ONE Marina Park in the Seaport, both Copley Place and 888 Boylston Street posting 50,000 sq. ft. each in the Back Bay, 1325 Boylston Street and Landmark Center contributing over 100,000 sq. ft. in Fenway, and multiple assets in the CBD demonstrating strong numbers, most notably 125 High Street with Houghton Mifflin's 160,000-sq.-ft. lease, among others. Year-to-date absorption ended at over 770,000 sq. ft. and, with multiple large deals in the pipeline, 2015 appears to be another strong year for downtown Boston.

Figure 5: Net Absorption



Source: CBRE Research, Q2 2015.

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.

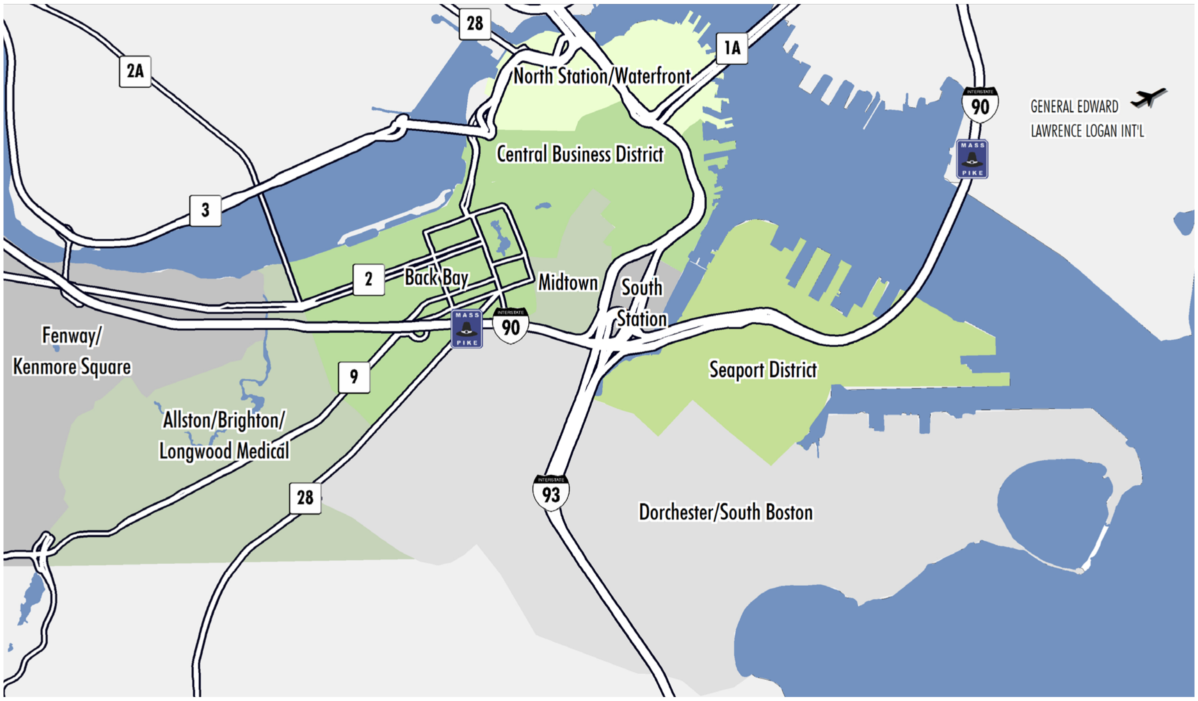
AVAILABILITY RATE
Available sq. ft. divided by the net rentable area.

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.

Boston, Massachusetts
Photo by Dave Desroches, www.desrochesphoto.com



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