

Boston Suburban Office, Q2 2015

Metro South leads the way with a string of Route 128-South deals.

▼ Vacancy
16.4%

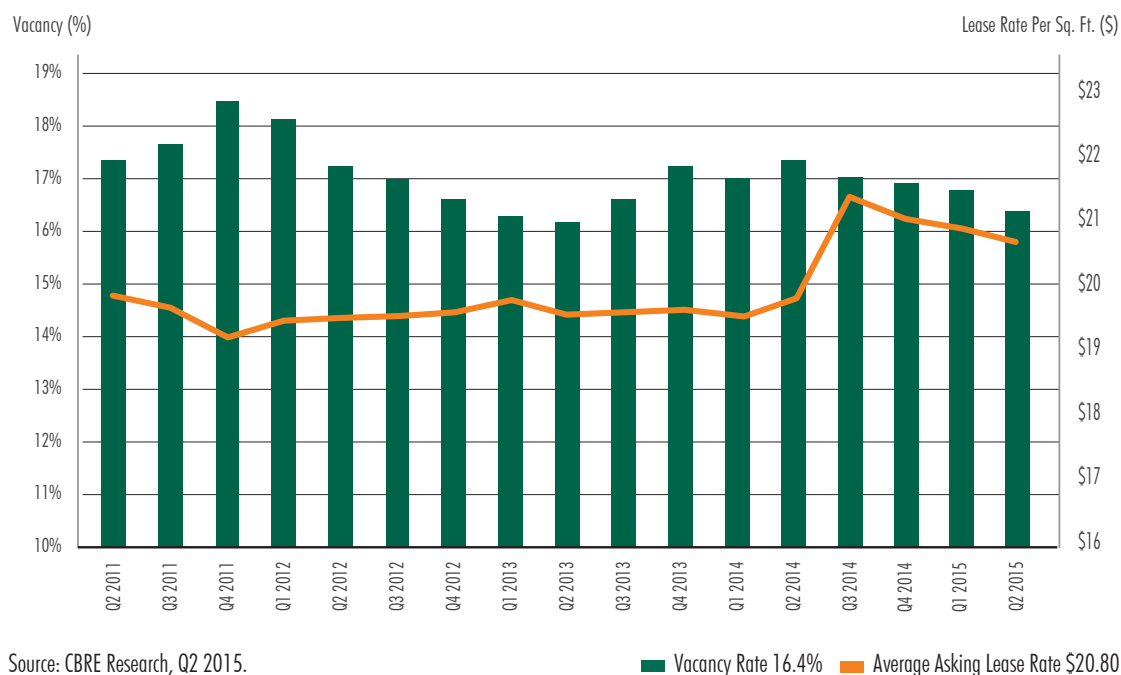
▼ Availability
19.4%

▲ Absorption
549,258 SF

▼ Sublease
2.8 MSF

▲ Under Construction
942,000 SF

Figure 1: Office Vacancy vs. Lease Rate



The Suburban office market saw 549,000 sq. ft. of positive absorption in Q2 2015, bringing the year-to-date absorption to a healthy 943,600 sq. ft. The growth of the market in first half of 2015 is close to the total of 2014 in entirety, a year that saw over 1.97 million sq. ft. of positive absorption.

Availability fell in the suburbs for the fourth consecutive quarter to 19.4%. This represents a 20 basis point drop quarter-over-quarter, a 140 basis point drop year-over-year and the lowest availability has been in at least 10 years. Vacancy also dropped for the fourth consecutive quarter in

the suburbs, falling to 16.4%, a 40 basis point drop quarter-over-quarter and a 90 basis point drop year-over-year. The strong leasing activity in the suburbs kept average asking rents high at an average of \$20.80 per sq. ft., down \$0.26 from Q1 2015 but up \$0.73 year-over-year. The highest levels of absorption in the suburban office market were seen in Metro South and Metro West, which both saw over 250,000 sq. ft. of positive absorption thanks in part to large leases signed by companies like The Clarks Companies, State Street and Kaz Incorporated.

METRO NORTH

The overall Metro North submarket posted 19,000 sq. ft. of positive absorption in Q2 2015 after two quarters in the red. Availability in Metro North rose slightly to 20.3%, up from 19.9% in Q1 2015, but still representing a 30 basis point drop year-over-year. Vacancy in the submarket stayed similarly flat in Q2 2015, falling slightly to 16.9% from 17.1% in Q1 2015. Q2 2015 marked the fourth consecutive quarter that the average asking rent has stayed above \$19.00 in Metro North.

The strongest leasing activity in Metro North for Q2 2015 was seen in Route 128 North where there was 160,000 sq. ft. of positive absorption. Route 128 North also saw availability drop by 80 basis points quarter-over-quarter and 250 basis points year-over-year to an even 16.0%. Vacancy dropped by similar margins quarter-over-quarter in Route 128 North, falling 50 basis points to 13.9%. The declining availability and vacancy in the submarket kept rents above the \$20.00 mark for the fifth consecutive quarter at \$21.58.

Notable new leasing activity in the Metro North included Keurig's 51,500-sq.-ft. expansion at 201 Burlington Road in Bedford, making its total footprint in the Metro North just over 200,000 sq. ft. Also, Broadcom, a designer of semiconductors,

completed a 27,000-sq.-ft. expansion, and will now occupy 61,000 sq. ft. at 300 Brickstone Square in Andover.

A number of midsize leases in the 20,000-40,000-sq.-ft. range were also finalized in the second quarter. Everbridge subleased 35,000 sq. ft. at 25 Corporate Drive, LoopPay will occupy 29,000 sq. ft. at 3 Van De Graaff Drive, 128 Technology Inc. leased 27,000 sq. ft. at 200 Wheeler Road and Cambridge Trust leased 40,400 sq. ft. at 78 Blanchard Road – all in Burlington. Additionally, Datawatch, a data analytics software developer, leased 21,000 sq. ft. at 4 Crosby Drive in Bedford.

METRO WEST

The overall Metro West submarket saw 260,000 sq. ft. of positive absorption in Q2 2015, marking the third consecutive quarter of positive absorption in excess of 250,000 sq. ft. Metro West availability dropped 50 basis points quarter-over-quarter and 200 basis points year-over-year to 18.4%. Vacancy levels in the submarket dropped in Q2 2015 as well, falling to 15.4% from 15.8% in Q1 2015. The scarcity of quality space kept average asking rents high at \$22.29, the fourth consecutive quarter average asking rents have been above \$22.00 in the submarket. Notable transactions include an 84,500-sq.-ft. expansion by SimpliVity Corporation in Westborough, and Kaz Incorporated taking 50,000 sq. ft. at 400 Donald Lynch Boulevard in Marlborough.

The strongest leasing activity in Metro West was seen in the Route 128 West submarket where there was 132,000 sq. ft. of positive absorption, bringing the year-to-date absorption to 450,500 sq. ft. Leading the charge in Route 128 West was The Clarks Companies, which announced the relocation of its corporate headquarters from Newton to the former Polaroid property at 1265 Main Street in Waltham. The 120,000-sq.-ft.

property will be renovated into a four-story office building that will house 400 employees. Also in Waltham, Symetra Financial Corporation inked a 41,000 sq.-ft. lease at 275 Second Avenue and in Lexington OmniGuide Surgical leased 29,000 sq. ft. at 4 Maguire Road.

The Route 495 West/Mass Pike submarket continued to show signs of strong leasing activity in Q2 2015. Although it only recorded 79,000 sq. ft. of positive absorption during the quarter, vacancy declined by 180 basis points quarter-over-quarter to 20.1%. SimpliVity Corporation in Westborough continued to grow by taking an additional 30,000 sq. ft. for a total of 84,500 sq. ft. at 8 Technology Park Drive in Westborough. Kaz will relocate and expand from 250 Turnpike in Southborough to 62,600 sq. ft. at 400 Donald Lynch Boulevard in Marlborough.

METRO SOUTH

The overall Metro South submarket recorded the most growth amongst the Greater Boston Suburbs in Q2 2015. Absorption in Metro South more than doubled quarter-over-quarter in Q2 2015, jumping to 270,500 sq. ft. from 121,000 sq. ft. in Q1 2015. The leasing activity in the submarket drove availability down 80 basis points quarter-over-quarter and 290 points year-over-year to 20.1%, the lowest level seen since 2009 when availability dipped as low as 19.8%. Average asking rents in Metro South fell slightly in Q2 2015 to \$19.31, down from \$19.86 in Q1 2015, a result of several quality availabilities being removed from the market.

The submarket with the highest absorption in the entire suburban office market was Route 128 South, where a total of 252,000 sq. ft. of positive absorption occurred. It was here that State Street

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Type
Draeger Medical Systems	6 Technology Drive, Andover	255,000	Renewal
The Clarks Companies	1265 Main Street, Waltham	120,000	New
State Street	One Heritage Drive, Quincy	90,000	New
Kaz Incorporated	400 Donald Lynch Boulevard, Marlborough	62,000	New
Keurig	201 Burlington Road, Bedford	51,000	Expansion
Symetra Financial Corporation	275 Second Avenue, Waltham	38,000	New
Everbridge	25 Corporate Drive, Burlington	35,000	Sublease
Wolverine	500 Totten Pond Road, Waltham	33,000	Expansion
Lockheed	225 Foxborough Boulevard, Foxboro	32,000	New
TUV	295 Foster Street, Lexington	30,000	New

Source: CBRE Research, Q2 2015.

signed a 90,000-sq.-ft. lease at Campanelli-owned One Heritage Drive in Quincy to accommodate future growth needs. The submarket also saw a 90,000-sq.-ft. lease from a major aerospace and defense company in Westwood. At 15-45 Dan Road in Canton, Citizen's Bank leased 28,000 sq. ft. for back office operations and DataBank IMX, a company that specializes in imaging and information management solutions, completed an expansion totaling 18,000 sq. ft.

The healthy leasing velocity in Route 128 South drove availability down 130 basis points quarter over quarter to 20.0%. This figure represents a 260 basis point drop year-over-year and is the lowest availability has dropped in the submarket since 2009. Vacancy in Route 128 South also fell in Q2 2015, dropping 70 basis points quarter-over-quarter and 100 basis points year-over-year.

Figure 3: Market Statistics

Suburban Boston Office	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent \$ (Gross)
Close-In Suburbs North	53	4,090,769	16.7	11.2	6.1	44,251	(14,467)	25.15
Route 128 - North	187	19,796,959	16.0	13.9	3.1	159,931	172,176	21.58
Route 495 - Northeast	45	5,256,743	24.9	23.1	0.4	6,648	20,252	19.30
Route 3 - North	167	14,734,636	25.4	20.2	3.0	(191,891)	(205,966)	17.66
Metro North	452	43,879,107	20.3	16.9	3.0	18,939	(28,005)	19.65
Route 128 - West	342	29,736,875	15.7	12.6	2.2	131,666	450,539	29.81
Framingham - Natick	84	7,233,839	15.3	12.6	1.0	(11,508)	(32,039)	21.63
Route 495 - Route 2 West	58	5,027,563	25.9	23.3	3.4	60,849	53,989	16.45
Route 495 - Mass Pike West	134	13,800,742	23.1	20.1	1.8	78,792	107,548	16.86
Metro West	618	55,799,019	18.4	15.4	2.1	259,799	580,037	22.29
Route 128 - South	185	13,800,939	20.0	19.4	1.5	252,391	348,866	19.70
Route 495 - South	37	2,531,809	20.6	15.4	0.3	18,129	42,665	17.61
Metro South	222	16,332,748	20.1	18.8	1.3	270,520	391,531	19.31
Overall Suburban Office	1,292	116,010,874	19.4	16.4	2.3	549,258	943,563	20.80

Source: CBRE Research, Q2 2015.

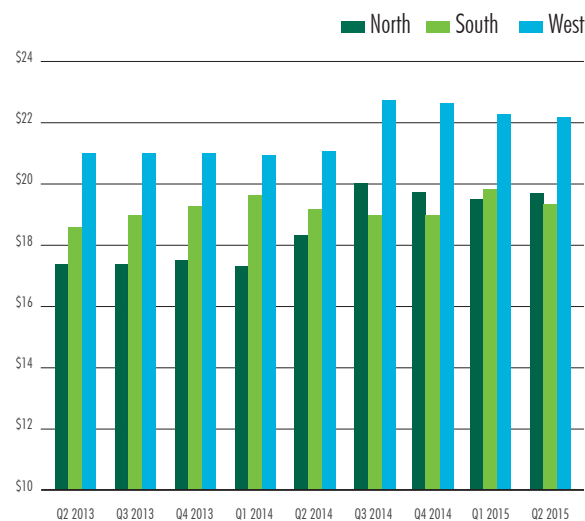
AVERAGE ASKING RENTS

Suburban average asking rents in Q2 2015 stayed above the \$20.00 mark for the fifth consecutive quarter at \$20.80. Prior to Q2 2014, when average asking rents in the suburbs hit \$20.07, \$20.00 average asking rents had not been seen since 2009. The sustained high rents in the suburban office market are due in part to the consistently decreasing availability exhibited over the past four quarters. Availability in the suburbs has dropped by at least 20 basis point each quarter for the last year, finishing Q2 2015 at 19.4%. This is the lowest that availability has fallen in at least 15 years. The highest rents in the suburban office market were once again seen in Metro West where they hit \$22.29, marking the fourth consecutive quarter rents in the submarket have remained above \$22.00. Rents in Metro North and Metro South stayed above \$19.00 for the fourth consecutive quarter, finishing at \$19.65 and \$19.31, respectively.

NET ABSORPTION

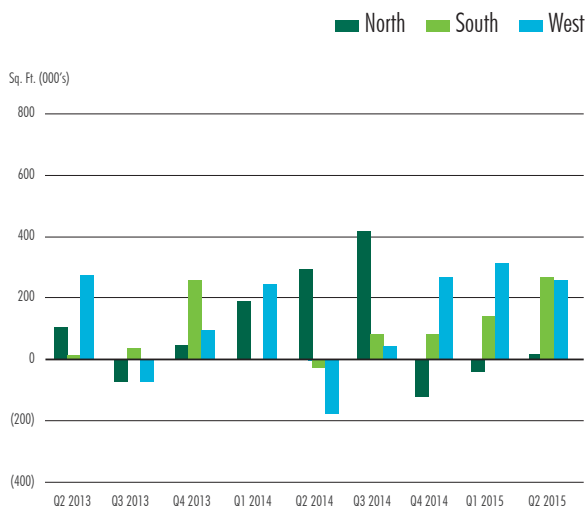
The suburban Boston office market saw positive absorption for the seventh consecutive quarter in Q2 2015 posting 549,000 sq. ft. This marks the fourth consecutive quarter that positive absorption in the submarket has been in excess of 200,000 sq. ft. with Metro North, South and West all posting positive absorption. Quarterly absorption in the suburbs has not been this high since 2012, when there was 678,500 sq. ft. taken in the fourth quarter. The highest positive absorption in the suburbs was seen in Metro South where 270,500 sq. ft. was taken, the highest level seen in the submarket in the last six quarters by nearly 150,000 sq. ft. Metro West was close behind the South with 260,000 sq. ft. of positive absorption in Q2 2015, making it the third consecutive quarter the submarket has had more than 250,000 sq. ft. of space taken. The 549,000 sq. ft. of absorption in Q2 2015 brings the year-to-date absorption to 943,600 – a figure within striking distance to the year-end total of 1,198,000 sq. ft. for all of 2014.

Figure 4: Average Asking Lease Rates



Source: CBRE Research, Q2 2015.

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.

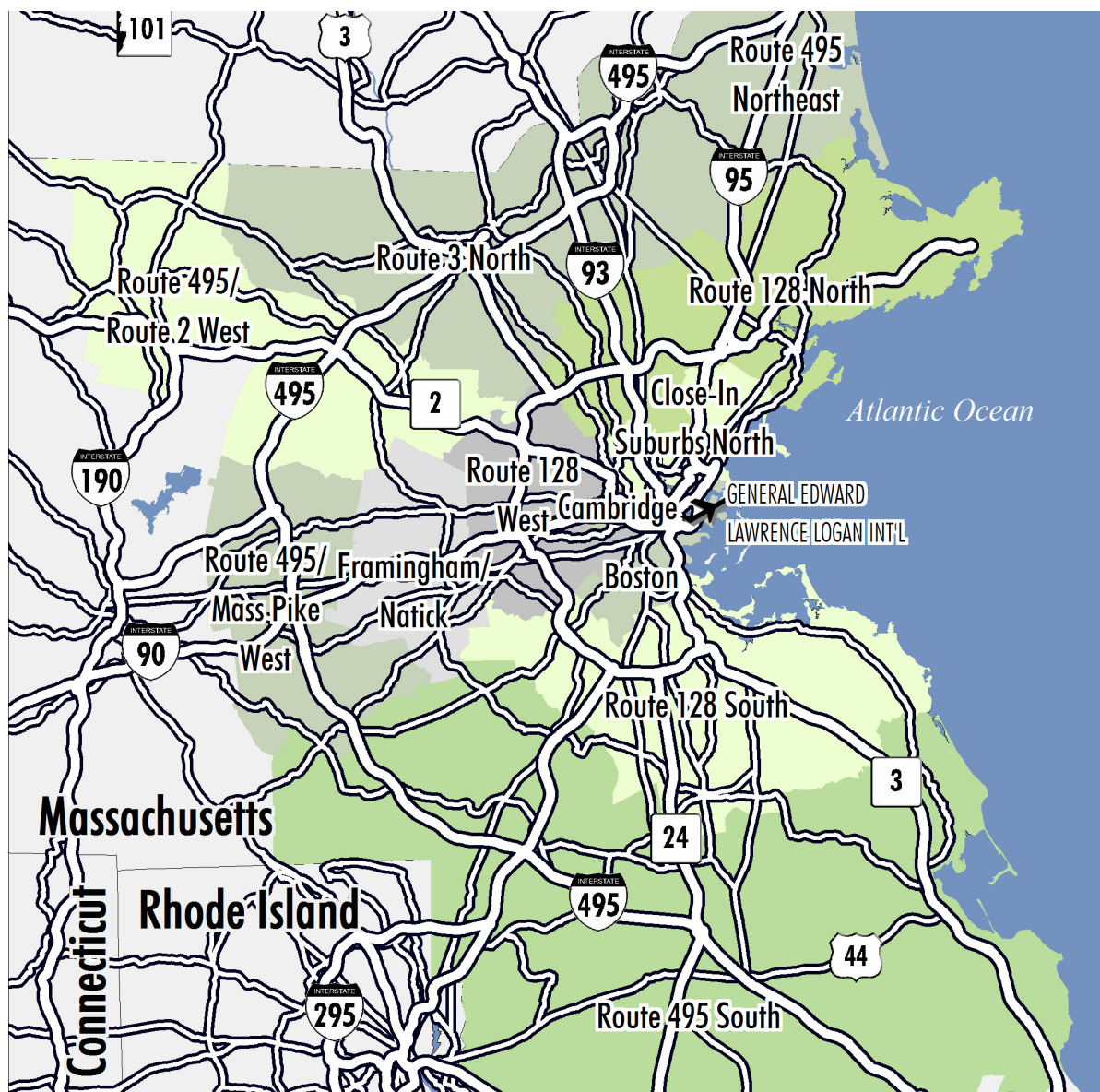
VACANCY RATE

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.





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