

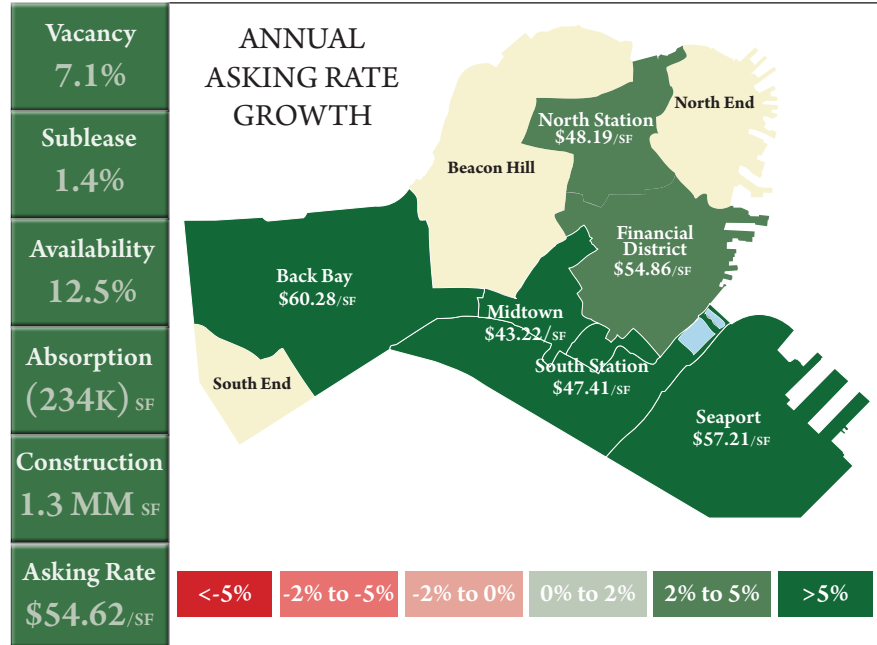
BOSTON Office Report

First Quarter 2017

TEPID PERFORMANCE STARTS NEW YEAR

For the second consecutive quarter the Boston office market submitted negative quarterly absorption. Despite the statistical slump, the city remained the 10th largest metro in the country with population growth exceeding San Francisco, New York and Los Angeles. Firmly rooted in education, technology and life sciences, the region's diverse economic base has submitted strong job growth with the unemployment rate tracking 100-150 basis points below the national average.

The net effect on the surrounding real estate market has created one of the world's strongest and tightest urban markets. Recent success has helped the city recruit new blue chip talent including both *Amazon* and *General Electric*. Looking forward expect sound market fundamentals and a diversified economy to guide the greater Boston commercial real estate market.



MASSACHUSETTS UNEMPLOYMENT
3.4% (February)



NATIONAL UNEMPLOYMENT
4.7% (February)



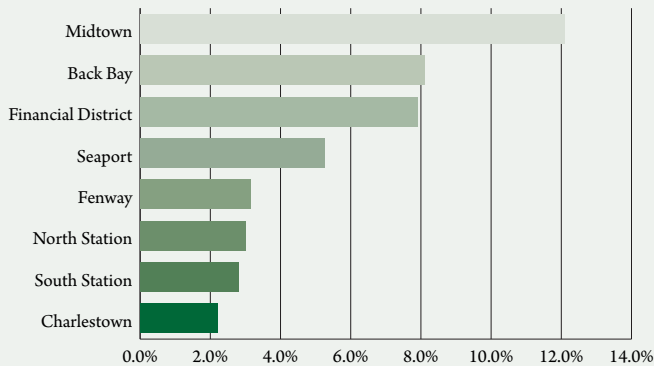
2016 MASS VC INVESTMENT
\$4.8 Billion



2016 NIH MASS FUNDING
\$2.5 Billion

MARKET ACTIVITY

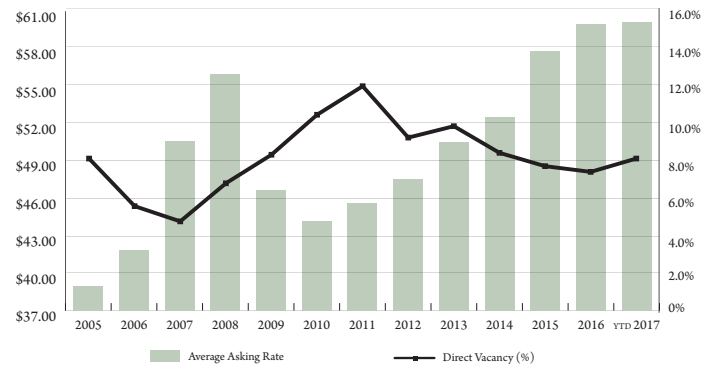
DIRECT VACANCY RATE BY SUBMARKET



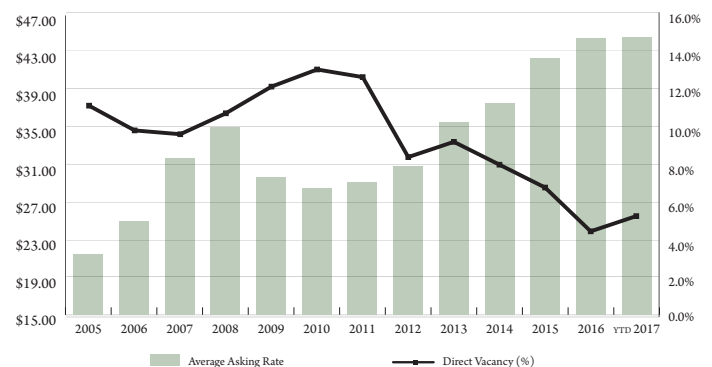
On the heels of its negative performance last quarter, Boston submitted another sluggish result with absorption totaling negative 495,050 SF. Despite a slow past six months, the market maintained a 7.1% direct vacancy rate which ranks among one of the tightest urban centers nationally.

The Seaport's emergence as the premier build-to-suit location has created several large blocks of availability across the city's skyline. Not surprisingly, the Back Bay and Financial District mark two of the highest vacancy rates which are skewed up by the large blocks. While landlords would not agree, these pockets of vacancy promote healthy market dynamics through competitive balance.

CLASS A - ASKING RATE VS. DIRECT VACANCY



CLASS B - ASKING RATE VS. DIRECT VACANCY



BOSTON

Class A Office

First Quarter 2017



**DIRECT
VACANCY**
8.1%



**SUBLEASE
AVAILABILITY**
1.3%



**TOTAL
AVAILABILITY**
13.2%



**12-MONTH
ABSORPTION**
(380,950) SF



**AVERAGE
ASKING RATE**
\$60.14/SF

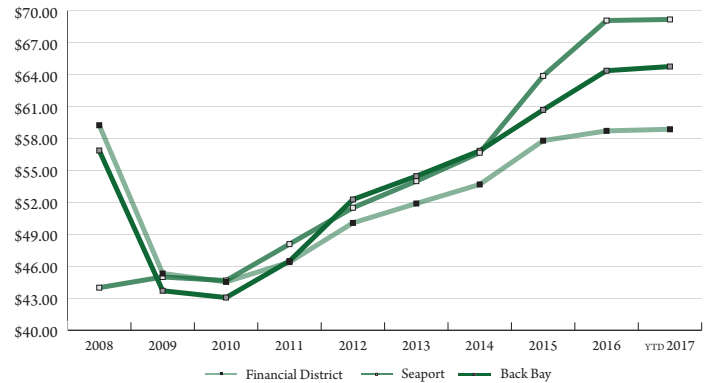
- The Back Bay weighed heavily on overall Class A performance with its 275,000 SF of negative absorption dragging down the total market. The Back Bay was marred by *Wells Fargo* and *Houghton Mifflin's* space coming to market at 222 Berkeley and 500 Boylston Street respectively. However, with news from *Amazon* that it will occupy two floors of *WeWork Labs* new location at 31 St. James Avenue, not all was lost in the Back Bay. Rumors suggest that the tech giant remains active in the market for a larger, permanent home.

- Boston Properties* posted strong leasing momentum across its portfolio. At the low rise portion of the Hancock Tower, now configured as 120 St. James Avenue, approximately 100,000 SF of leases were signed. *Jacob's Engineering* will be relocating from the Seaport, *The Yard* will open its first co-working concept in Boston and *Seniorlink* strengthened its presence. At the opposite end of Boylston Street, the landlord recruited *Accenture* to 888 Boylston Street for nearly 53,000 square feet which brings the newly delivered building closer to stabilization.

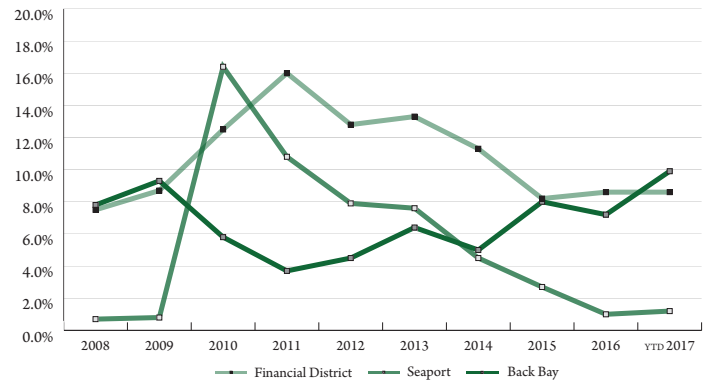
- With the majority of market news (positive & negative) coming from the Back Bay, the Financial District & Seaport continued churning along with a combined 7.8% vacancy rate. Following the early winter opening of its roof deck and conference center, 53 State Street scored another significant relocation with *Rubin & Rudman* leaving Rowes Wharf for Exchange Place.

- Foreign capital continued flowing into premier towers with Japanese based *Mori Trust Co.* purchasing a Back Bay portfolio for \$673MM or \$816 PSF. In addition, *Deutsche Bank* acquired the *Goodwin* anchored 100 Northern Avenue for \$475MM or \$923 PSF.

AVERAGE ASKING RATE BY SUBMARKET



AVERAGE DIRECT VACANCY BY SUBMARKET



NOTABLE QUARTERLY LEASES

Address	Submarket	Tenant	SF
31 St. James Avenue	Back Bay	Amazon	113,000
888 Boylston Street	Back Bay	Accenture	53,000
120 St. James Avenue	Back Bay	First Marblehead	32,200
120 St. James Avenue	Back Bay	The Yard	32,150
53 State Street	Financial District	Rubin & Rudman	32,000
120 St. James Avenue	Back Bay	Seniorlink	22,500

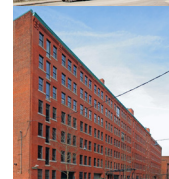
RECENT INVESTMENT SALES



10 St. James & 75-81 Arlington
\$673,000,000 (\$816/RSF)
Buyer: Mori Trust Co.



100 Northern Avenue
\$475,000,000 (\$923/RSF)
Buyer: Deutsche Bank



10-20 Channel Center
\$119,000,000 (\$474/RSF)
Buyer: LaSalle Investment Mgt.



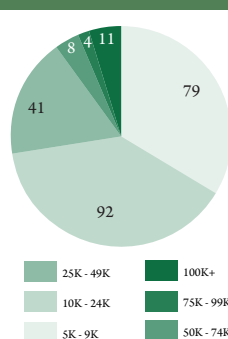
70 Federal Street
\$38,000,000 (\$592/RSF)
Buyer: TIAA CREF

FORECAST AND PROJECTION

	2017	2018	2019	2020
Asking Rates	+	+	+	=
Direct Vacancy	+	+	=	=
Net Absorption	+	+	=	=

source: CoStar

BLOCKS OF SPACE



BOSTON

Class B Office

First Quarter 2017



**DIRECT
VACANCY**
5.3%



**SUBLEASE
AVAILABILITY**
1.5%



**TOTAL
AVAILABILITY**
11.1%



**12-MONTH
ABSORPTION**
146,250 SF



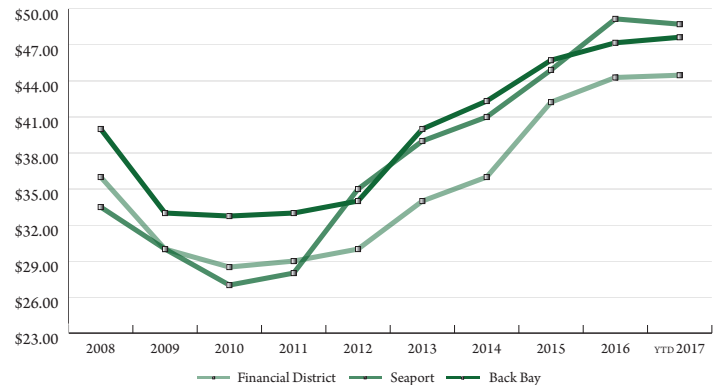
**AVERAGE
ASKING RATE**
\$44.64/SF

The Class B market's success has been well documented over the past 24-36 months during which it has become the leading home to today's creative tenants. The authentic character and boutique feel of the buildings coupled with modern technologies and contemporary finishes have elevated the market standard. As a result, the vacancy rate has averaged between 5-7% and asking rates are in the mid-high \$40's PSF for well positioned product.

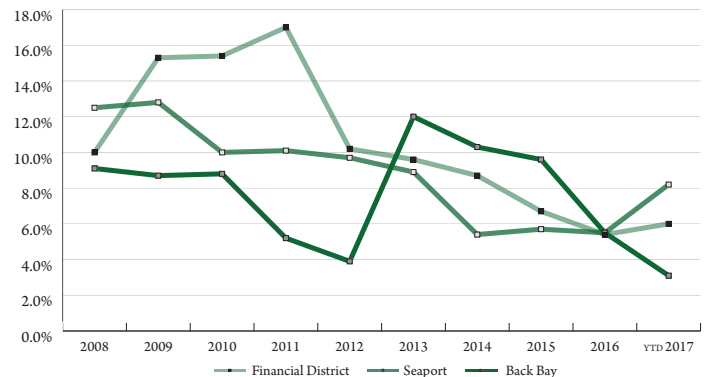
After successfully recruiting *Amazon* to its Back Bay location and launching its first Cambridge location at 625 Massachusetts Avenue in Central Square, market rumors suggest that *WeWork Labs* will likely open its first North Station location by backfilling vacancy at 200 Portland Street. Following the popularity of its South Station location at 745 Atlantic Avenue the co-working giant hopes the commuter friendly location in North Station will perform comparably.

In the heart of the Financial District, *Related Beal* appeared to make strong headway at Congress Square where *Digitas* and *Sapient* will combine under one roof from 131 Dartmouth and 33 Arch Street. The building's new center core and multi-story glass addition are set to rise from the former drab *Fidelity* headquarters. The project represents one of the most successful traits of the Class B market which is adaptive reuse. We've seen the strategy across the city with *LogMeIn*, *GE* and *Reebok* in the Seaport, *Converse* at North Station, as well as *Havas* and *Publicis Groupe* in the Financial District. The phenomena which began out of necessity due to supply constraints has swept across the market and even made its way into today's Class A towers.

AVERAGE ASKING RATE BY SUBMARKET



AVERAGE DIRECT VACANCY BY SUBMARKET



NOTABLE QUARTERLY LEASES

Address	Submarket	Tenant	SF
75/101 Federal Street	Financial District	iBoss Cybersecurity	19,300
501 Boylston Street	Back Bay	Trunk Club	17,000
12 Channel Center	Seaport	Mass Robotics	15,000
89 South Street	Financial District	Boston Senior Home	14,250
10 Post Office Square	Financial District	Digital Realty	9,650

RECENT INVESTMENT SALES

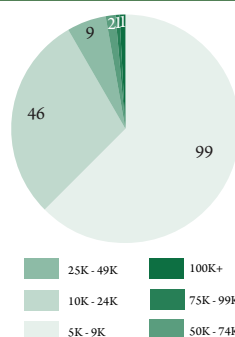
	<p>99 Chauncy Street \$47,829,664 (\$479/RSF) Buyer: TIAA CREF</p>
	<p>70 Federal Street \$38,000,000 (\$592/RSF) Buyer: TIAA CREF</p>
	<p>101 Summer Street \$27,175,331 (\$537/RSF) Buyer: TIAA CREF</p>
	<p>26 West Street \$21,800,000 (\$411/RSF) Buyer: Eden Properties</p>
	<p>100-124 N. Washington Street \$21,482,000 (\$405/RSF) Buyer: Boston Development</p>

FORECAST AND PROJECTION

	2017	2018	2019	2020
Asking Rates	+	+	+	=
Direct Vacancy	+	+	=	=
Net Absorption	+	+	=	=

source: CoStar

BLOCKS OF SPACE



BOSTON

Office Report

First Quarter 2017

OFFICE	Total Inventory(SF)	Direct Vacancy	Sublease Availability	Total Availability	Quarterly Absorption (SF)	12 Month Absorption (SF)	Average Asking Rate
TOTAL A&B							
BOSTON	71,478,750	7.1%	1.4%	12.5%	(495,050)	(234,650)	\$54.62
Back Bay	14,949,300	8.1%	2.2%	15.7%	(272,150)	(157,600)	\$60.28
Charlestown	2,858,650	2.2%	0.3%	8.1%	10,4000	165,750	\$39.32
Fenway	1,746,000	3.1%	0.0%	3.1%	---	31,600	\$51.07
Financial District	35,439,750	7.9%	1.2%	13.5%	(77,000)	(146,500)	\$54.86
Midtown	1,999,250	12.1%	1.0%	13.9%	(50,550)	(38,650)	\$43.22
North Station	3,312,800	3.0%	2.6%	8.3%	(12,250)	(2,450)	\$48.19
Seaport	8,274,450	5.3%	1.5%	9.2%	(107,850)	(82,200)	\$57.21
South Station	2,898,650	2.8%	0.0%	5.6%	16,350	(4,550)	\$47.41

CLASS A							
BOSTON	46,005,5090	8.1%	1.3%	13.2%	(320,700)	(380,950)	\$60.14
Back Bay	11,038,450	9.9%	2.1%	17.6%	(294,550)	(233,000)	\$64.76
Charlestown	903,800	3.3%	0.6%	6.0%	12,200	(30,250)	\$41.32
Fenway	1,117,600	4.9%	0.0%	4.9%	---	32,700	\$56.50
Financial District	25,558,850	8.6%	1.0%	13.8%	(16,550)	(157,450)	\$58.87
Midtown	1,176,200	17.5%	1.7%	19.2%	(44,300)	(36,550)	\$46.83
North Station	1,407,650	2.3%	4.5%	12.3%	---	13,000	\$56.38
Seaport	3,448,000	1.2%	0.3%	1.8%	(8,900)	43,750	\$69.08
South Station	1,354,850	3.5%	0.0%	3.5%	31,650	(13,250)	\$54.63

CLASS B							
BOSTON	25,473,250	5.3%	1.5%	11.1%	(174,350)	146,250	\$44.64
Back Bay	3,910,850	3.1%	2.6%	10.1%	22,450	75,350	\$47.64
Charlestown	1,954,900	1.7%	0.3%	9.0%	(1,750)	195,900	\$38.40
Fenway	628,400	9.8%	0.0%	9.8%	---	(1,150)	\$41.41
Financial District	9,880,850	6.0%	1.6%	12.6%	(62,450)	10,900	\$44.48
Midtown	823,000	4.4%	0.0%	6.3%	(6,250)	(2,100)	\$38.06
North Station	1,905,100	3.5%	1.1%	5.4%	(12,100)	(15,450)	\$42.15
Seaport	4,826,450	8.2%	2.3%	14.4%	(98,900)	(125,900)	\$48.73
South Station	1,543,750	2.2%	0.1%	7.4%	(15,300)	8,700	\$41.08

All information provided in LPC's Market Statistics are from sources deemed reliable, but no warranty or representation is made as to its accuracy thereof and same is submitted subject to errors, omissions, or other conditions.

Lincoln Property Company's *Boston Office Report* is produced by the Boston Office's research team in collaboration with our Downtown Brokerage Group. If you have any questions regarding market conditions and the information found in this report, please contact Ethan Robert at erobert@lpc.com.