



GREATER BOSTON MARKET VIEWPOINT

1ST QUARTER 2014

Accelerating success.



Boston Overview

At the end of the first quarter 2014, net occupancy in the Boston office market increased by 825,000 square feet to 55.1 million square feet, representing a historic high. Positive absorption was primarily due to the delivery of two office buildings in the Seaport District—Vertex Pharmaceuticals' 550,000-square-foot headquarters at Fan Pier and State Street Bank's 500,000-square-foot building at One Channel Center. An additional 550,000-square-foot lab building was delivered adjacent to the Vertex office building which is not reflected in these office statistics.

The office vacancy rate for all submarkets including Class A and Class B space was 12.0% at quarter-end, ranging from a low of 2.3% in the North Station submarket to 15.1% in the Financial District. The Financial District, with 33.6 million square feet of supply is the largest of the three core submarkets and currently accounts for a disproportionate share of available space.

Statistics in the various segments of the market are as follows:

| Market Segment | Supply (SF) | SF Available | Vacancy Rate |
|------------------------------|-------------|--------------|--------------|
| Financial District – Class A | 26,844,321 | 4,328,518 | 16.1% |
| Financial District – Class B | 6,754,905 | 758,212 | 11.2% |
| Back Bay – Class A | 10,652,855 | 914,138 | 8.6% |
| Back Bay – Class B | 2,030,085 | 325,457 | 16.0% |
| Seaport – Class A | 3,067,295 | 182,282 | 5.9% |
| Seaport – Class B | 4,545,896 | 445,668 | 9.8% |

SUPPLY AND DEMAND

- Supply totals 62.6 million square feet of which 29.2 million square feet represents Class A tower space in the Financial District (32 buildings, 22.1 million SF) and the Back Bay (9 buildings, 7.1 million SF).
- The Seaport was historically a Class B submarket. With the recent construction completion of Vertex headquarters at Fan Pier and State Street Bank's new building at Channel Center 1.1 million square feet was added to the submarket's Class A office supply. Two additional buildings under construction for Goodwin Procter and PwC will add an additional 800,000 square feet to Seaport's Class A inventory in 2015 and 2016, bringing the total Class A inventory to nearly half the submarket's supply.

- At the end of the first quarter there were over 130 tenants in the market seeking an aggregate of over 3.2 million square feet of space. Although the median requirement is 10,000 square feet, some of the larger requirements include:

| Tenant | SF | Industry |
|--------------------------|---------|--------------------|
| BNY Mellon | 400,000 | Financial Services |
| Putnam Investments | 300,000 | Financial Services |
| Wells Fargo | 250,000 | Financial Services |
| Analysis Group | 170,000 | Business Services |
| Choate Hall & Stewart | 130,000 | Legal |
| Natixis Asset Management | 125,000 | Financial Services |

VELOCITY

- Velocity (signed lease activity) totaled over 850,000 square feet during the quarter, representing approximately 50 transactions. Over 30 additional tenants representing nearly 1 million square feet of leases had commitments pending at quarter-end.
- Although many of the larger requirements cited above represent financial services firms, first quarter leases executed by CIC and WeWork support the Financial District as a viable option for young entrepreneurial companies and start-ups.

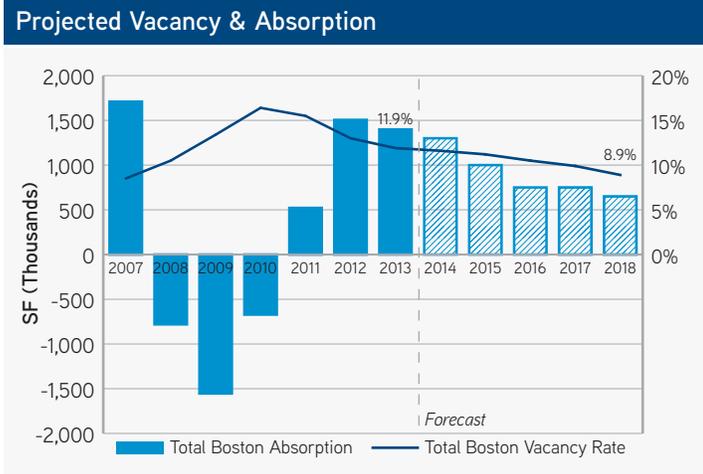
Selected first quarter transactions include:

| Tenant | Address | SF | Submarket |
|-----------------------------------|----------------------|--------|--------------------|
| Wolf Greenfield | 600 Atlantic Avenue | 90,000 | Financial District |
| Arrowstreet Capital | 200 Clarendon Street | 90,000 | Back Bay |
| Harbourvest Partners | One Financial Center | 60,000 | Financial District |
| Cambridge Innovation Center (CIC) | 50 Milk Street | 60,000 | Financial District |
| WeWork | 745 Atlantic Avenue | 35,300 | South Station |
| Financial Engines | 28 State Street | 35,000 | Financial District |

ABSORPTION AND VACANCY

- The quarter-end vacancy rate of 12.0% compares favorably to the first quarter 2013 rate of 12.8%.
- Net negative absorption in the Financial District registered 158,000, which was largely attributed to State Street Bank vacating nearly 450,000 square feet at Lafayette Corporate Center for its new building in the Seaport.

- Continued positive absorption is anticipated over the 2014 to 2018 forecast period and the market is expected to reach the “equilibrium” rate, generally believed to be 10%, by 2017.



RENTAL RATES

| Space Type | Rental Range/SF |
|---------------------|-----------------|
| Class A – High Rise | \$55 - \$80 |
| Class A – Mid Rise | \$50 - \$60 |
| Class A – Low Rise | \$45 - \$50 |
| Class B | \$30 - \$45 |

- Rental rates are firming across the market, with the most notable increases in Class B buildings in the Seaport and for Class A space in the Back Bay.
- Class A rents in the Financial District historically tended to lead the market, but given its higher vacancy rate that trend has recently reversed.



- There were two notable peaks in historical rental rates—in 2000 when vacancy rates were at an all-time low and more recently in 2007 when vacancy rates were declining and investment sales activity at a frenzied pace.

DEVELOPMENT

- Development activity in the red-hot Seaport District includes numerous office, retail, hospitality and residential projects. In addition to the two build-to-suit office buildings for Goodwin Procter and PwC there are over 600 new hotel rooms, thousands of residential units, and numerous new retail spaces actively under construction in the submarket. In addition, New England Development’s office building at Pier Four has the potential to add an additional 350,000 square feet to inventory.
- In the Financial District, construction is underway at the Burnham Building, Millennium’s 1.2-million-square foot mixed-use development at Downtown Crossing which is expected to include 220,000 square feet of office space as well as ground-floor retail including a supermarket. Arnold Worldwide has leased 125,000 square feet at the project and is expected to take occupancy later this year.
- Speculative construction is underway at 1325 Boylston Street, Samuels & Associates’ mixed-use project in the Fenway submarket with 230,000 square feet of office space and a projected delivery of mid-2015.
- A myriad of additional projects are in the pipeline including One Congress Street (HYM Investment Group), 80 Causeway Street (Boston Properties/Delaware North), Boston Harbor Garage (Chiafaro), 888 Boylston Street (Boston Properties), and 350 Boylston Street (Druker Company).

TRENDS

- Gradual rent growth is anticipated over the next 24 months.
- City-wide, landlords will look to non-traditional tenants such as start-ups and technology firms and out-of-market migration in order to absorb the available space.
- Blackstone’s on-going disposition of its Boston assets will further diversify ownership in the Class A market.

Cambridge Overview

The vacancy rate in the 20.6-million-square-foot Cambridge office and lab market remained unchanged from the year-end 2013 vacancy rate of 13.1%, but despite the static result underlying demand is strong in both market segments and tenants desiring space in the heart of Kendall Square have very limited options.

Key statistics at the end of the first quarter include:

| Market/Submarkets | Supply SF (000s) | Vacancy Rate | Absorption (000s) Q1 2014 |
|-------------------------|------------------|--------------|---------------------------|
| Total Cambridge* | 20,582 | 13.1% | 17 |
| Office | 10,924 | 9.1% | 5 |
| Lab | 8,554 | 17.6% | -23 |

*Includes R&D space

OFFICE MARKET

Historical Vacancy & Absorption Cambridge Office



The 10.9-million-square-foot Cambridge office market recorded a mere 4,550 square feet of positive net absorption during the first quarter, leaving the vacancy rate unchanged at 9.1% compared to year-end 2013, and just slightly below the 9.4% rate recorded twelve months ago. Positive results due to leases signed by Concord-based Kayak and Agerion Pharmaceutical's expansion at 1 Main were negated by a handful of smaller vacancies created by Viacord at 245 First Street and Monster.com at 101 Main Street.

Office tenants desiring space in the 5-million-square-foot core Kendall Square office market adjacent to the MIT campus are finding options extremely scarce, with this micro-market reporting a direct vacancy rate of just 2.0%. These conditions encouraged BioMed Realty Trust to begin construction last year at 450 Kendall Street, a 63,000-square-foot speculative lab/office building in its Kendall Square campus. In February, steel erection topped off at the building with an anticipated delivery in early 2015.

450 KENDALL STREET



Source: MassBio

Options are more plentiful in the Alewife submarket or, for technology companies wanting to be closer to the resources and infrastructure surrounding MIT, there are options slightly north and closer to the Lechmere T Station at 2 First Street and 10 Canal Park. Beacon Capital has seized the opportunity presented by the Canal Park vacancy, and in March acquired One Canal Park from Blackstone/EOP for \$436 per square foot and 2 First Street from Invesco for \$379 per square foot. Two First Street was acquired in an off-market transaction and a relatively quick execution. Beacon is clearly bullish on this area adjacent to Kendall Square and in April acquired 10 Canal Park as well.

As a testament to the Canal Park properties' attractiveness to companies seeking an East Cambridge presence, Kayak, a tech company focused on online travel, executed a 41,700-square-foot lease at 10 Canal Park.

Another notable lease during the quarter was Agerion Pharmaceutical’s extension of its existing lease at 101 Main Street and expansion to 1 Main Street, bringing its total occupancy at 1 and 101 Main to approximately 54,000 square feet.

Some of the largest office leases executed during the first quarter are listed below:

| Tenant | Address | SF |
|-------------------------|-------------------|--------|
| Kayak | 10 Canal Park | 41,700 |
| Agerion Pharmaceuticals | 1 Main Street | 31,600 |
| Insight Squared | 160 Second Street | 15,400 |
| LeafPresenter | 215 First Street | 15,000 |

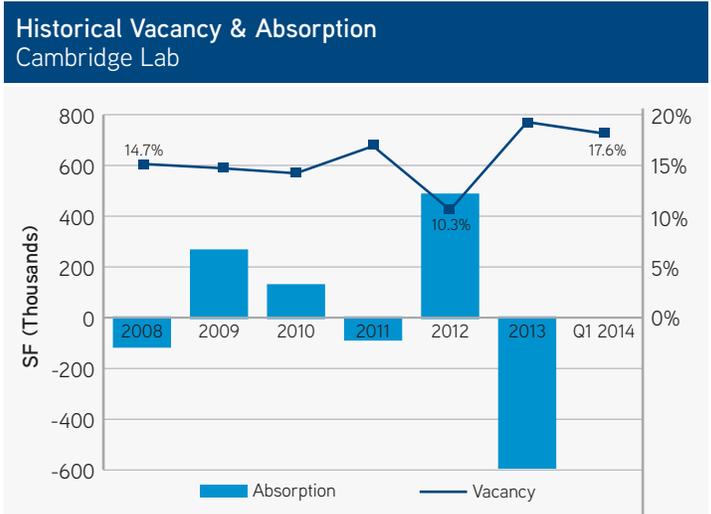
Leasing momentum headed into the second quarter is healthy, with a couple sizable confidential requirements weighing various urban alternatives including Boston, Cambridge and the Inner Suburbs. At quarter-end there were over 30 tenants in the market seeking an aggregate of 1.1 million square feet, ranging from 4,000 to 300,000 square feet in size. Biotech and pharmaceutical companies seeking office space represented one-third of these requirements, with architectural and engineering and technology companies also well represented.

Given the tight market conditions in the area immediate and adjacent to Kendall Square, landlords are able to continue to push rents. Companies not willing to pay the Kendall Square premium will defect to other submarkets. Younger, smaller companies in particular tend to be more price-conscious and find other MBTA-served locations a good alternative.

A comparison of current asking rents compared to 12 and 24 months ago follows:

| Direct Asking Rents PSF | | | |
|--------------------------|-------------|-------------|-------------|
| Space Type - Location | Q1 2012 | Q1 2013 | Q1 2014 |
| Class A – East Cambridge | \$45 - \$65 | \$48 - \$65 | \$50 - \$70 |
| Class B – East Cambridge | \$38 - \$47 | \$42 - \$48 | \$42 - \$52 |
| Class A – Alewife | \$25 - \$35 | \$28 - \$37 | \$33- \$40 |

LAB MARKET



The 8.6-million-square-foot lab market closed the quarter with a vacancy rate of 17.6%, down slightly from year-end 2013 primarily due to the removal of vacant lab space from lab inventory for conversion to office space. The muted results were due in part to the Broad Institute’s plans to vacate over 90,000 square feet of lab space at 301 Binney Street as it readies for its move into a build-to-suit at 75 Ames Street later this year. Other build-to-suit lab buildings in the development pipeline include buildings for Novartis (550,000 SF at 181 Massachusetts Avenue and 22 Windsor Street), Millennium (248,000 SF at 300 Massachusetts Avenue), and ARIAD (386,000 SF at 75 & 125 Binney Street). Product setbacks have plagued ARIAD and it remains unclear whether it will ever occupy these two buildings, but other potential tenants are mindful of the situation and circling the waters waiting for a resolution.

Lab vacancies had spiked late last year due in large part to Vertex Pharmaceuticals vacating nearly 600,000 square feet in five buildings at the end of the fourth quarter to relocate to two buildings at Boston’s Fan Pier. The former Vertex space ranges from Class A existing lab space at 675 West Kendall Street to twenty-year-old functionally obsolete space at 130 Waverly Street and 200 Sidney Street. Biomed Realty Trust will likely

bring both 130 Waverly Street and 200 Sidney Street back to shell condition once Vertex's leases expire at the end of 2015. Perhaps more notable is the fact that the Vertex departure and spike in the vacancy rate has had no negative impact on lab rents. Given that some of the space has lease expirations in 2017 and 2018, it is possible that the Cambridge lab vacancy rate will remain elevated for some time, but rents are unlikely to suffer as a result.

Of the 1.5 million square feet of available lab space in Cambridge, 960,000 is offered on a direct basis and 540,000 square feet is offered on a sublease basis with varying lengths of remaining term. Since the end of last year, there has been a marked increase in the availability of Class A space due to the Vertex space becoming available. More than half the available space at quarter-end represents existing Class A lab space, an increase compared to the first quarter 2013 when Class A availability represented 39% of the total and much of the available space was in shell condition. A breakdown of options by type and quality follows:

| Space Type | SF Available | % of Available Space | # Buildings |
|-------------------------------|------------------|----------------------|-------------|
| Class A "Biotech-Ready" Shell | 264,174 | 18% | 4 |
| Class A Existing Lab | 849,067 | 56% | 9 |
| Class B Existing Lab | 380,456 | 25% | 11 |
| Obsolete Lab | 13,200 | 1% | 1 |
| Totals | 1,506,897 | 100% | 25 |

Demand is good, and at the end of the first quarter there were 25 tenants in the market seeking an aggregate of nearly 1 million square feet of lab space. Although the median requirement is 15,000 square feet, some of the larger requirements represent expansions by existing Cambridge tenants Momenta Pharmaceuticals and Alexion. Further, in addition to its occupancy at two recently completed build-to-suits in Kendall Square, Biogen continues to evaluate its growth options in the submarket.

It is worth noting that with the exception of FORUM, all the larger requirements at quarter-end represent publicly-traded companies. After nine Massachusetts-based life science companies went public in 2013, including six Cambridge companies, an additional six went public in the first quarter and a seventh in April. Cambridge life science companies that have gone public thus far in 2014 include: Genocera Biosciences (GNCA, \$66 million), Eleven Biotherapeutics (EBIO, \$65 million), Cerulean Pharma (CERU, \$60 million), and Akebia Therapeutics

(AKBA, \$100 million). Although the market retreated toward the end of the quarter, the IPO window is still open. Overall, biotech stocks have outperformed the broader markets over the course of the past year, and industry observers have been cautioning of a potential "bubble" for some time. It remains to be seen how this recent biotech stock correction will affect what is one of the region's most powerful economic engines or influence companies' real estate decisions.

As access to the capital markets opened up in 2013, venture capitalists also showed a greater willingness to fund young companies. Voyager Therapeutics, a gene therapy company launched in 2014, recently signed a lease for 18,850 square feet at 75 Sidney Street. This coincided with Voyager receiving \$45 million Series A financing in February from life science venture firm Third Rock Ventures. Additionally, privately-held oncology services company Kew Group completed its private financing round financing and signed a 9,500-square foot lease at 840 Memorial Drive.

Some of the largest lab leases executed during the first quarter are listed below:

| Tenant | Address | SF |
|----------------------------------|-----------------------|---------|
| Alnylam (r) | 300 Technology Square | 129,000 |
| Novartis (e) | 64 Sidney Street | 27,100 |
| Idera Pharmaceuticals (r) | 167 Sidney Street | 26,600 |
| Voyager Therapeutics | 75 Sidney Street | 18,850 |
| <i>(r) renewal (e) expansion</i> | | |

TRENDS

- Due to the lack of office space available and escalating rents in the core Kendall Square market, tenants will consider other Cambridge, Inner Suburban or Boston options.
- Despite the vacancy spike the lab market experienced in 2013, rental rates for quality well-located lab space will hold firm. Although there is likely some downward pressure on Class B rents, recent absorption of some Class B space should allow rents in that category to remain firm as well.

Suburban Overview

The suburban Boston office and R&D markets started the year off with a bang. At the end of the first quarter of 2014, net absorption surpassed 600,000 square feet and the vacancy rate declined to a four-year low. A positive economic climate and improving market fundamentals have led to more confidence in corporate decision-making—encouraging businesses to expand. Tenants remain attracted to highly-amenitized suburban locations in the core Route 128 submarkets. However, with vacancies tightening quickly in these areas tenants (especially large users) are faced with fewer space options, which has been driving up rents and pushing demand further into the larger suburban market.

Aggregate statistics for the office and R&D market are provided below:

| Market / Submarkets | Supply SF (000s) | Vacancy Rate | Absorption SF (000s) |
|------------------------|------------------|--------------|----------------------|
| Suburban Boston | 133,690 | 19.3% | 611 |
| Inner Suburbs | 5,816 | 10.2% | 7 |
| Route 128 | 76,763 | 17.1% | 255 |
| Route 495 | 49,096 | 23.8% | 337 |
| Worcester | 2,015 | 18.6% | 12 |

SUPPLY AND DEMAND

- The suburban office and R&D market totals more than 133 million square feet, with performance and product varying from one submarket to the next. Class A properties comprise 31% of the market, with a majority (close to 70%) of this high-end office space located along Route 128.
- Continued growth in the tech and biotech industries in greater Boston is driving the suburban recovery and several medical, computer software, and biotech companies are actively looking for space. Firms in business and financial services, retail and insurance are in the market as well.

- There are 287 tenants, representing roughly 7.1 million square feet with active suburban requirements. The median size requirement is approximately 10,000 square feet, indicating smaller transactions will drive leasing in the near term. However, some of the more sizeable tenants in the market with potential requirements over the next 12 to 24 months include:

| Tenant | SF | Industry | Target Market |
|---------------------|---------|---------------------|---|
| Hologic Corporation | 400,000 | Medical Devices | Route 495 West |
| MKS Instruments | 300,000 | Medical Devices | Route 495 North |
| GE Healthcare | 250,000 | Health Care/Medical | Route 495 West |
| Wolverine Worldwide | 180,000 | Retail – Apparel | Route 128 North/ Route 128 Northwest |
| Clarks Shoes | 160,000 | Retail – Apparel | Route 128 Mass Pike/ Route 128 South/ Route 128 Northwest |

VELOCITY

- Expansions and relocations have become commonplace in the suburban markets, bolstering leasing momentum. Velocity (signed lease activity) totaled roughly two million square feet during the first quarter, representing 55 leases. More than half of the total square feet leased can be attributed to just a handful of major transactions.
- Healthcare and technology firms continue to dominate the expansions across all suburban submarkets. Aspen Technology leased 143,000 square feet in three buildings on Crosby Drive in Bedford with plans to relocate more than 600 employees from 200 Wheeler Road in Burlington at the end of this year. Intralinks executed a 52,000-square-foot lease at 404 Wyman Street in Waltham—moving from the Schrafft Center in Charlestown. Insulet took down 90,000 square feet at 600 Technology Park Drive in Billerica, combining office space from three buildings on Oak Park Drive in Bedford. OmniCare is also planning to relocate later this year, leasing

Suburban Overview

50,000 square feet at 2 Technology Drive in Peabody. HeartWare recently subleased 60,000 square feet from TJX at 500 Old Connecticut Path, Framingham. This signifies an expansion as the medical device company is leaving only 40,000 square feet of space behind at 205 Newbury Street, Framingham. Other technology-related tenants to expand in the first quarter include Synageva BioPharma, Karyopharma Therapeutics, Qliktech, and Everbridge.

- A handful of major transactions occurred in the Boroughs this quarter, aiding in Route 495 West’s recovery. IPG Photonics recently purchased 257 and 259 Cedar Hill Street in Marlborough, which were vacant at the time of sale, totaling 112,500 square feet. Reportedly, these building are an expansion of the 160,000 square feet the firm currently occupies at 50 Old Webster Road in Oxford. SanDisk also executed a lease in Marlborough, taking down 58,000 square feet at 200 Donald Lynch Boulevard. In Westborough, BNY Mellon renewed its 382,000-square-foot lease at 440 Computer Drive and Simplivity leased roughly 50,000 square feet at 8 Technology Drive.

Some of the larger transactions executed during the quarter included:

| Tenant | Address | SF |
|---|---|---------|
| BNY Mellon <i>(r)</i> | 4400 Computer Drive, Westborough | 382,000 |
| Boston Financial Data Services <i>(r) (e)</i> | 2000 Crown Colony Drive, Quincy | 240,000 |
| Aspen Technology <i>(e)</i> | 20, 22, 28 Crosby Drive, Bedford | 143,000 |
| Insulet <i>(e)</i> | 600 Technology Park Drive, Billerica | 90,000 |
| Sandisk <i>(e)</i> | 200 Donald Lynch Boulevard, Marlborough | 58,000 |
| Intralinks <i>(e)</i> | 404 Wyman Street, Waltham | 52,000 |

(r) renewal (e) expansion

ABSORPTION AND VACANCY

Historical Vacancy & Absorption by Class Office and R&D



- The suburban office and R&D markets recorded more than 600,000 square feet of absorption in the first quarter, pushing vacancies down to 19.3%. This quarter, the majority of tenant activity took place in the Class B market, allowing the delta between Class A and B vacancies to narrow significantly.
- Build-to-suit construction will prop up net absorption over the next 12-18 months. Although the construction pipeline has slowed, there are a handful of other corporate expansion projects currently underway. Trip Advisor (Needham), Schneider Electric (Andover), Keurig (Burlington), and New Balance (at New Boston Landing in Brighton) will all be increasing their suburban office footprint in 2014 and 2015.
- Despite some lingering weakness in Route 128 North, the larger Route 128 area may have turned a corner. Absorption totaled 255,000 square feet in the first quarter, and vacancies edged toward 17%, representing one of the strongest quarters this area has seen in the past two years. Robust leasing still exists in Waltham, Newton, and Burlington, and tenants have

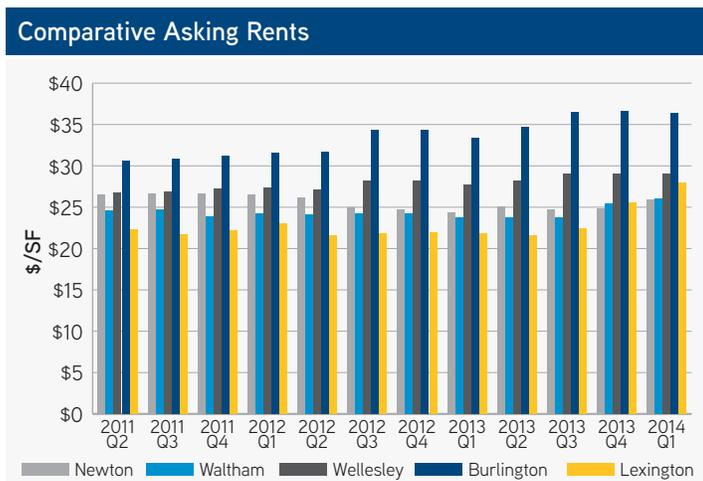
been branching out beyond these major office nodes. In fact, first-quarter leasing was also solid in Framingham, Lexington, Quincy, and Braintree. Look for continued improvements through this year, as large contiguous blocks of available space will be harder to come by and construction remains subdued.

- The Route 495 submarkets accounted for more than half of the suburban market’s first quarter net absorption. Leasing velocity has remained strong with firms like IPG Photonics, Simplivity, SanDisk, and Insulet all expanding during the first three months of the year. With a handful of large office-users actively looking for new space in the Route 495 West and North submarkets, the near-term outlook is positive as well. Price-sensitive firms and companies with large lease requirements will boost office demand here going forward. That being said, sentiment is shifting and tenants will remain attracted to newer, more modern, amenity-rich spaces.

attributed to more aggressive underwriting by new building owners, who have been pushing rents in anticipation of positive fundamentals. However, all signs point to continued tightening in the market, which bodes well for future gains.

- Rapidly declining vacancies in core Route 128 have asking rents surging in the Route 128 Mass Pike and Northwest submarkets by 3.5% and 9.7% (year-over-year), respectively. Pricing has become especially frothy in Lexington, Burlington, Waltham, Newton, and Wellesley, as leasing proposals on top-quality properties are being aggressively quoted. For reference, Riverside Center in Newton is quoting rents of \$40 per square foot. Additionally, certain segments of the Burlington market are seeing lease rates in the low \$30s per square foot. Rents in Waltham and Wellesley are among the highest in the suburban markets with a few select properties in these towns quoting rates in the mid-\$40s per square foot.

OFFICE RENTAL RATES



- Lease rates are on an upward trajectory in the suburban markets, with four consecutive quarters of growth now on the books. Overall, landlords have been able to push rents by more than 3% over the past year. Some of this growth can be

TRENDS

- With more than 60% of the metro’s office inventory located in the suburbs, the vacancy rate is slower to move than the Boston or Cambridge markets, yet is expected to decline steadily in the coming quarters.
- Tenant expansions, in the form of build-to-suit construction, will support suburban office absorption in the coming year.
- Look for more relocations and expansions in the core Route 128 Mass Pike submarket. As the market tightens further, the recovery in less central locations should solidify.
- Rent growth has permeated the suburban market, and landlords should continue to see more broad-based improvements in lease rates over the next few quarters. That said, outsized gains will remain focused in desirable towns such as Wellesley, Burlington, and Waltham.
- In addition to the economics of rent per square foot, tenants seek value through efficiency, amenities and sustainability.

Capital Markets

The first quarter 2014 is in the books and Greater Boston had another very strong quarter in terms of investment sales activity with 87 transactions totaling \$2.19 billion. This compares favorably with the first quarter 2013 totals of 57 transactions totaling \$1.24 billion, or a 50% and 77% increase year-over-year for both metrics, respectively. All major asset classes surpassed \$100 million in sales volume, but the majority of the \$2.19 billion came from the office sector—both Downtown and Cambridge—and the retail sector. That sales volume was spread across all property types is evidence that investors believe in Greater Boston as a multi-dimensional commercial real estate market, and demand fundamentals have solidified to the point that owners are enticed to sell.

BOSTON CBD

As was the case in 2013, the Class B office market remained hot during the first quarter. In early January, Synergy Investments and partner GreenOak Realty acquired 10 Milk Street for \$252 per square foot, resolving a troubled debt situation from Oasis Development that LNR Property took over. Synergy and GreenOak plan to invest significantly in the asset in order to completely reposition it and anticipate rents that average in the high \$30s per square foot. In late March, William Thibeault continued his buying streak purchasing 44 Bromfield Street for \$257 per square foot. This is consistent with pricing for Class B office space in the Financial District over the past several quarters, which has been in the \$230-\$280 per square foot range. However, once one crosses the channel into the red-hot Seaport/Fort Point submarket, pricing dramatically increases. A case in point is Deutsche Asset & Wealth Management's March acquisition of two Summer Street buildings from Spear Street Capital for \$365 per square foot.

CAMBRIDGE OFFICE

As referenced in the Cambridge section of this report, Beacon Capital made an aggressive move during the quarter by acquiring two East Cambridge properties, One and Two Canal Park at per-square-foot pricing of \$436 and \$379, respectively. One Kendall Square, a nine-building, 670,000-square-foot portfolio owned by a joint venture between Rockwood Capital and Related Beal was sold to DivcoWest for \$395 million. The joint venture had acquired the portfolio in 2006 for \$211 million and invested significantly in infrastructure and capital improvements during its ownership.

SUBURBAN OFFICE

Given the unprecedented sales activity in trophy, Class A suburban office product and proportionally how much of this sector traded during 2013, a drop-off was inevitable in the first quarter. The 60% decrease in sales volume, year over year, was attributed to a lack of product rather than a lack of interested buyers. This forced capital to go out into the Route 495 submarkets, where buyers can find quality product for less than \$100 per square foot, as evident in the two Westborough trades detailed in the table that follows.

RETAIL

The retail market was extremely active in the first quarter, with over \$230 million in sales volume, a 534% increase over the first quarter 2013. The major trades were within a few miles of downtown Boston and included The Street Chestnut Hill, Porter Square Galleria and the Stop & Shop on Revere Beach Parkway. Inland Real Estate also found stability in Stoughton, buying newly constructed product long-term leased to quality tenants such as TGI Fridays and LA Fitness, at a reported 7.5% cap rate.

MULTIFAMILY

As is the case in the office market, multifamily investors are finding strengthening fundamentals in the Route 495 West submarket, as evidenced by Northland Fountainhead's major investment in Westborough. Notable CBD transactions include the closing of Unitarian Universalist Association's former Beacon Hill offices, to be converted into high-end residential and 165 Newbury Street, which includes a lease to Starbucks as well as residential above.

TRENDS

- Market observers are paying close attention to the potential Blackstone/Equity Office portfolio sale. The assets reported to be a part of the sale are 225 Franklin Street, 100 High Street, Rowes Wharf, 60 State Street, and 125 Summer Street in Boston, and One Memorial Drive, Cambridge. Upon execution of this sale, Blackstone will significantly reduce its Boston-area holdings. Two things to watch as this sale moves along are: 1) the amount of available capital seeking CBD assets, and 2) the potential for rent growth given the portfolio vacancy rate of 22%. Suburban owners will benefit from a continued trend of institutional buyers moving beyond the CBD in order to find more opportunities and better yields.
- Barring any unforeseen external event, interest rates are expected to remain low for at least the next twelve months, enticing capital to remain active.
- The relatively slower first quarter in the multifamily sector indicates that activity in that sector should rebound. Greater Boston remains one of the most stable and sought-after markets for multifamily investment and transaction activity is expected to pick up.
- Select Route 128 Class A office assets are expected to trade hands, and industrial and office product in Route 495 submarkets will trade as well as investors seek a destination for their capital that can achieve strong yields.

Selected first quarter transactions include:

Boston Office

| Address | Buyer | Seller | Price | Size (SF) | \$/SF |
|--|---|---|---------------|-----------|-------|
| 28 State Street | The Rockefeller Group Mitsubishi | The Blackstone Group/Equity Office | \$343,292,000 | 567,000 | \$605 |
| Fort Point Office Buildings | Deutsche Asset & Wealth Management | Spear Street Capital GP LLC | \$94,922,440 | 260,000 | \$365 |
| 10 Milk Street Old South Building | Synergy Investments GreenOak Real Estate | Oasis Development Enterprises | \$58,000,000 | 229,843 | \$252 |
| 400 Atlantic Avenue The Atlantic Building | 400 Atlantic Avenue LLC | Colonnade Properties | \$50,000,000 | 99,711 | \$501 |
| 31 Milk Street | Aegean Capital | Lincoln Property Company ASB Capital | \$24,000,000 | 104,356 | \$230 |
| 44 Bromfield Street | Thibeault Realty Trust | King Street Properties (Ragno) | \$10,800,000 | 42,053 | \$257 |
| 22 Battery March Street | Kendall RC - Matthew Piccione | Taurus New England Investments Corp. | \$10,474,200 | 34,914 | \$300 |

Suburban Office

| Address | Buyer | Seller | Price | Size (SF) | \$/SF |
|------------------------------------|--|--|--------------|-----------|-------|
| 25 Research Drive, Westborough | Angelo, Gordon & Co. | Charles River Realty Investors LLC National Development | \$25,690,064 | 282,027 | \$91 |
| One Research Drive, Westborough | Ferris Development LLC | KBS Realty Advisors | \$21,568,572 | 296,330 | \$73 |
| 100 Morse Street, Norwood | Koda Ventures LLC Lee Kennedy Co., Inc. | CGI Companies, Inc. | \$11,150,000 | 95,000 | \$117 |
| C3 Portfolio, Chelmsford and Acton | Campanelli Companies Trigate Capital | JER Partners | \$12,600,000 | 298,803 | \$42 |

Industrial

| Address | Buyer | Seller | Price | Size (SF) | \$/SF |
|-----------------------------------|---------------------------------|-----------------------------|--------------|-----------|-------|
| 1 Cellu Drive, Nashua, NH | Pizzagalli Properties | Liberty Companies | \$21,750,000 | 228,000 | \$95 |
| 1001 Pawtucket Boulevard, Lowell | Farley White Management Company | Winstanley Enterprises | \$15,500,000 | 883,900 | \$18 |
| 35 United Drive, West Bridgewater | AJAX United Drive LLC | AIC Ventures | \$13,800,000 | 618,800 | \$22 |
| 655 Andover Street, Lawrence | Asahi/America, Inc. | Lewiston Investment Company | \$11,500,000 | 196,930 | \$58 |

Multifamily

| Address | Buyer | Seller | Price | Units | \$/Unit |
|---|----------------------------|------------------------------------|--------------|-------|-----------|
| 293-297 Turnpike Road Fountainhead Apartment Homes | Northland Fountainhead LLC | A J Lane Development Corporation | \$83,750,000 | 562 | \$149,021 |
| The Beacon | SDC-DLJ Beacon LLC | Unitarian Universalist Association | \$23,600,000 | N/A | N/A |
| 165 Newbury Street | Frazer Holdings LLC | Nowell Bloomenthal | \$6,750,000 | N/A | N/A |

Retail

| Address | Buyer | Seller | Price | SF | \$/SF |
|--|--------------------------------|----------------------|--------------|---------|-------|
| The Street Chestnut Hill | W/S Development | C & R Realty Trust | \$66,940,101 | 340,000 | \$197 |
| 1 Porter Square Porter Square Galleria | CBRE Global Investors | KS Partners LLC | \$35,550,000 | 54,389 | \$654 |
| 26 Whittier Street BJ'S Wholesale Club | Inland Real Estate Corporation | Samuels & Associates | \$26,500,000 | 116,565 | \$227 |
| House of Blues/Lansdowne Pub | Bay Management Corp | Lyons Group | \$24,000,000 | 52,418 | \$458 |
| 2 & 3 Hawes Way | Inland Real Estate Corporation | Edens, Inc. | \$15,800,000 | 42,549 | \$371 |
| 1690 Revere Beach Parkway Stop & Shop | 1690 Revere Beach LLC | The Richmond Company | \$12,785,000 | 74,572 | \$171 |

Did you know?



More than 18 million people visit Boston annually.



In 2013, more than 361,000 flights went through Logan International Airport, with airport passengers topping 30 million.



Massachusetts is home to 136 colleges and universities, and a total student population of over 500,000. Over 200,000 undergraduate students attend a college in the Boston-Cambridge urban core.



Boston has ranked 1st in NIH funding 19 years straight for a total of \$26.9 billion.



Massachusetts is home to 12 Fortune 500 Companies located in Boston and suburban locations.

Market Snapshot

Q1 2014 STATISTICS | OFFICE/R&D

| MARKET | SQUARE FEET (SF) SUPPLY | DIRECT SF AVAILABLE | SUBLEASE SF AVAILABLE | VACANCY* | Q1 2014 ABSORPTION |
|-------------------------|-------------------------|---------------------|-----------------------|--------------|--------------------|
| BOSTON | 62,637,701 | 6,894,500 | 633,966 | 12.0% | 825,333 |
| Back Bay | 12,682,940 | 1,075,641 | 163,954 | 9.8% | (215,371) |
| Financial District | 33,599,226 | 4,693,648 | 393,082 | 15.1% | (157,993) |
| Charlestown | 2,843,898 | 296,888 | 0 | 10.4% | 4,862 |
| Crosstown | 1,025,000 | 13,750 | 0 | 1.3% | 510 |
| Fenway/Kenmore | 1,826,057 | 111,665 | 0 | 6.1% | 0 |
| North Station | 1,863,372 | 37,294 | 5,000 | 2.3% | 28,954 |
| Seaport | 7,613,191 | 568,589 | 59,361 | 8.2% | 1,023,615 |
| South Station | 1,184,017 | 97,025 | 12,569 | 9.3% | 140,756 |
| CAMBRIDGE | 20,582,109 | 1,708,947 | 980,091 | 13.1% | 16,580 |
| Alewife Station/Route 2 | 2,753,023 | 486,069 | 175,529 | 24.0% | 24,547 |
| East Cambridge | 15,902,940 | 1,161,718 | 792,566 | 12.3% | 13,296 |
| Harvard Square/Mass Ave | 1,926,146 | 61,160 | 11,996 | 3.8% | (21,263) |
| SUBURBS | 133,689,514 | 22,786,433 | 2,985,716 | 19.3% | 611,488 |
| Inner Suburbs | 5,816,062 | 488,227 | 103,170 | 10.2% | 6,600 |
| Route 128 North | 8,276,548 | 1,497,700 | 141,250 | 19.8% | (104,973) |
| Route 128 Northwest | 22,895,972 | 3,267,499 | 606,170 | 16.9% | 29,201 |
| Route 128 Mass Pike | 30,153,027 | 3,898,869 | 819,033 | 15.6% | 207,423 |
| Route 128 South | 15,436,303 | 2,813,219 | 75,385 | 18.7% | 123,748 |
| Route 495 North | 26,101,036 | 5,557,515 | 457,963 | 23.0% | 105,148 |
| Route 495 West | 18,395,828 | 4,161,998 | 715,341 | 26.5% | 196,877 |
| Route 495 South | 4,599,604 | 758,478 | 35,400 | 17.3% | 35,504 |
| Worcester | 2,015,134 | 342,928 | 32,004 | 18.6% | 11,960 |
| TOTAL | 216,909,324 | 31,389,880 | 4,599,773 | 16.6% | 1,453,401 |

*Including sublease space

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