

Q4 2016

M E T R O B O S T O N

MARKET REPORT



STRONG ABSORPTION SEEN ACROSS ALL PROPERTY TYPES

NAIHunneman

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INSIDE STATISTICS...



OFFICE

(DOWNTOWN, CAMBRIDGE,
SUBURBAN)



INDUSTRIAL

(WAREHOUSE, FLEX/R&D,
MANUFACTURING)



CAPITAL MARKETS



OFFICE STATISTICS OVERVIEW



DIRECT VACANCY



SUBLEASE VACANCY



12-MONTH ABSORPTION



LEASING ACTIVITY



ASKING RENT

Office Market Ends 2016 Strong

The Greater Boston office market posted another positive quarter with close to 1.3 million square feet in net absorption. Build-to-suit construction, including the completion of new headquarters for Clarks and the FBI, helped drive this office demand. Metrowide vacancies fell by almost 100 basis points over the last year to 11.2% in the fourth quarter and direct asking rents inched up to nearly \$33 per square foot.

After a relatively slow first half of the year, leasing velocity ended the year on solid footing. While renewal activity is picking up steam, a number of expansions took place as well. This growth, coupled with continued strength in the local economy, bodes well for Greater Boston in 2017.

Rents are beginning to level off in select segments of the marketplace. Metrowide average asking rents ended the year at nearly \$33 per square foot; only slightly above third-quarter rents. Landlords continue to push through strong gains in Cambridge as outsized demand for the area's limited space keeps pressure on rates. However, pockets of weakness are popping up in the Downtown and Suburban markets. While it is still too early to call for widespread weakness in the office market, we will likely see a turning point in the cycle in the coming quarters.

Compared to previous cycles construction has been relatively subdued. The 3.2 million square feet of office space currently underway

represents less than 2% of total office inventory. Projects on the horizon include DivcoWest's long-delayed NorthPoint development in Cambridge, Boston Properties' 454,000-square-foot build-to-suit for Akamai Technologies at 145 Broadway in Cambridge, athenahealth's 250,000-square-foot expansion to its campus in Watertown, the Volpe Transportation Center redevelopment and the South Station tower. While there is several million square feet of inventory in the planning pipeline, constraints on construction lending will likely keep new ground breakings subdued, which bodes well for future market fundamentals.

With the results of the most recent election now known there has been much speculation about where the macro economy is headed in 2017 and any implications for the commercial real estate markets. Many signs point to a stronger national economic outlook in the coming year. GDP growth was revised up to 3.5% in the third quarter, corporate profits and wages are rising and the labor market continues to impress. Although the FED has already begun raising interest rates, with more hikes expected for the coming year, some industry experts expect President-Elect Trump to buoy the economy. The new administration's proposed tax cuts and spending policies could spur beefier job growth as well as drive GDP growth. A more solid national economic outlook would likely bolster the commercial real estate property markets.

| TOTAL VACANCY RATE | DIRECT VACANCY | Q4 NET ABSORPTION (SF) | ASKING RENT (\$/SF) | UNDER CONSTRUCTION (SF) |
|--------------------|----------------|------------------------|---------------------|-------------------------|
| 11.2% | 10.4% | 1,260,380 | \$32.87 | 3,150,374 SF |

MA Business Confidence Index:

56.1 OUT OF 100
(November 2016)

Boston Unemployment Rate:

2.4%
(November 2016)

Boston Office-using Employment:

15,000
Jobs added
2.1% Growth year-over-year

State Tech & Science Index:

NO. 1
by Milken Institute

MA Economy Ranked:

NO. 4
by Wallet Hub

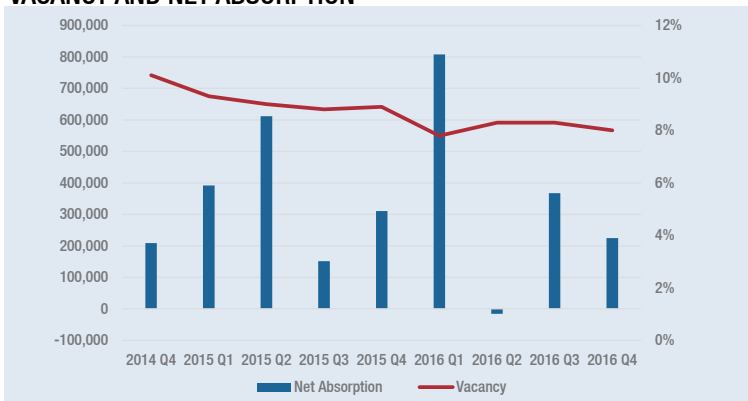


OFFICE STATISTICS

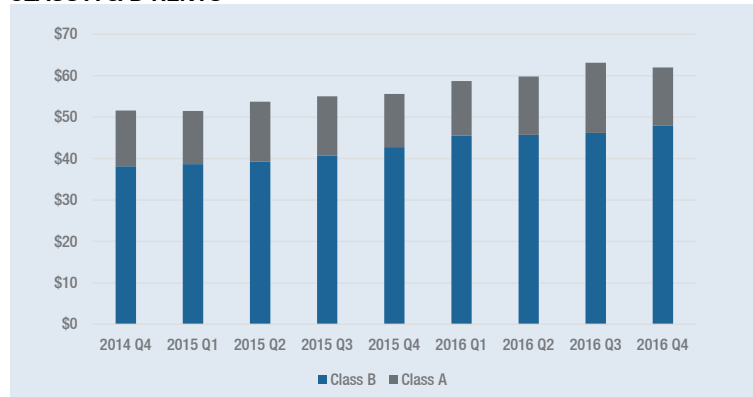
DOWNTOWN

| DOWNTOWN | TOTAL INVENTORY (SF) | TOTAL VACANT (SF) | TOTAL VACANCY RATE | Q4 NET ABSORPTION (SF) | YTD NET ABSORPTION (SF) | ASKING RENT (\$/SF) |
|------------------------------|----------------------|-------------------|--------------------|------------------------|-------------------------|---------------------|
| | Class A | 48,495,146 | 3,930,916 | 8.1% | 180,344 | 1,101,922 |
| Class B | 20,982,567 | 1,634,719 | 7.8% | 44,196 | 282,234 | \$47.92 |
| CLASS A & B TOTAL | 69,477,713 | 5,565,635 | 8.0% | 224,540 | 1,384,156 | \$57.72 |

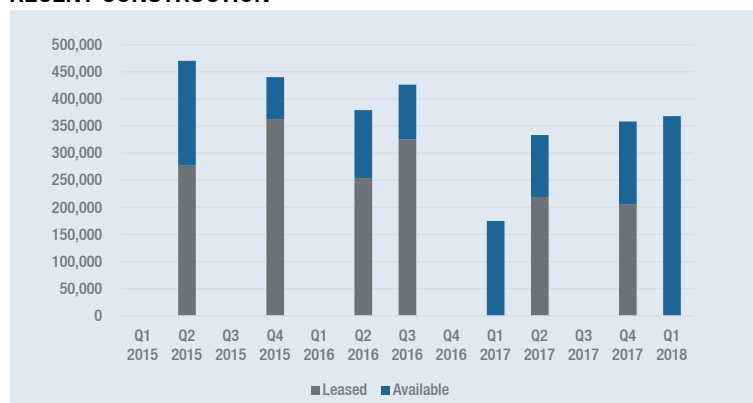
VACANCY AND NET ABSORPTION



CLASS A & B RENTS



RECENT CONSTRUCTION



TRENDS

- In-migration remains a trend for the Downtown office market as firms fight to attract and retain talent. Reebok's plan to relocate into a 220,000-square-foot headquarters at the Innovation & Design Building in 2017 is the latest in a series of moves from suburban Boston (as well as outside the marketplace).
- Traditional FIRE tenants continue to rightsize while the TAMI sector drives office demand. State Street Bank is subleasing upwards of 300,000 square feet of space at 1 Lincoln Street. On average, financial firms are downsizing their footprints by 20-30%.
- In another game of musical chairs, the FBI moved into its newly-constructed building in Chelsea; vacating a large chunk of space at 1 Center Plaza. Houghton Mifflin relocated to 125 High Street from 222 Berkeley Street.
- Shared amenities, like at the Hive and 100 High Street, are a relatively new concept taking hold in Downtown Boston. These combined services are attractive features for potential tenants and their employees, which have allowed landlords to charge a premium on rents in these buildings.
- Several segments of the marketplace are seeing lease rates continue to climb to historically high levels. However, rent growth is beginning to cool and over the next year or two weaknesses will likely crop up.
- Rising availabilities, particularly in the sublease market, present some potential headwinds for the Downtown office market. However, more tenants are expected to be in the market for space in the coming year and interest from firms outside of Boston provides some upside for demand.

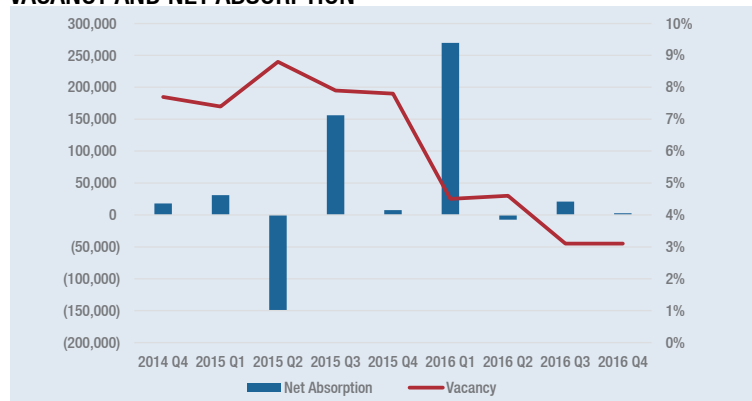
NOTABLE TRANSACTIONS

| TENANT | ADDRESS | SIZE | SUBMARKET | TYPE |
|-------------------------|-----------------------|-----------|--------------------|----------------------|
| Rue La La | 20 Channel Center | 78,096 SF | Seaport | Renewal |
| Audax Management | 101 Huntington Avenue | 55,000 SF | Back Bay | Renewal/Expansion |
| Accenture | 888 Boylston Street | 52,340 SF | Back Bay | Relocation/Expansion |
| First Marblehead | 200 Clarendon Street | 32,198 SF | Back Bay | Relocation |
| Tsoi Kobus & Associates | 60 State Street | 24,565 SF | Financial District | Relocation |

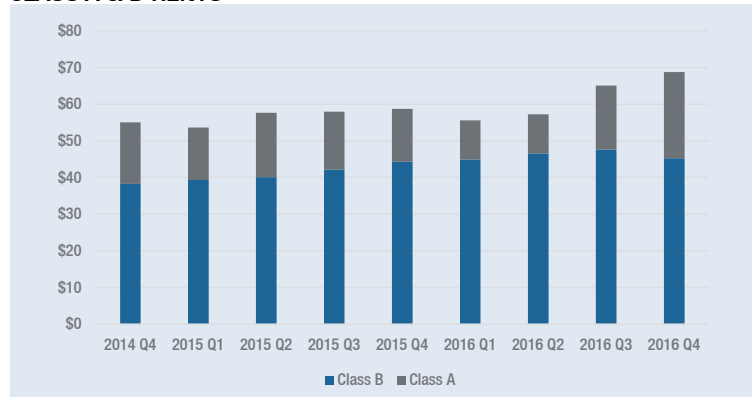


| CAMBRIDGE | TOTAL INVENTORY (SF) | TOTAL VACANT (SF) | TOTAL VACANCY RATE | Q4 NET ABSORPTION (SF) | YTD NET ABSORPTION (SF) | ASKING RENT (\$/SF) |
|------------------------------|----------------------|-------------------|--------------------|------------------------|-------------------------|---------------------|
| | Class A | 7,013,763 | 279,814 | 4.0% | (60,514) | 78,893 |
| Class B | 3,407,336 | 42,134 | 1.2% | 63,197 | 206,853 | \$45.22 |
| CLASS A & B TOTAL | 10,421,099 | 321,948 | 3.1% | 2,683 | 285,746 | \$67.40 |

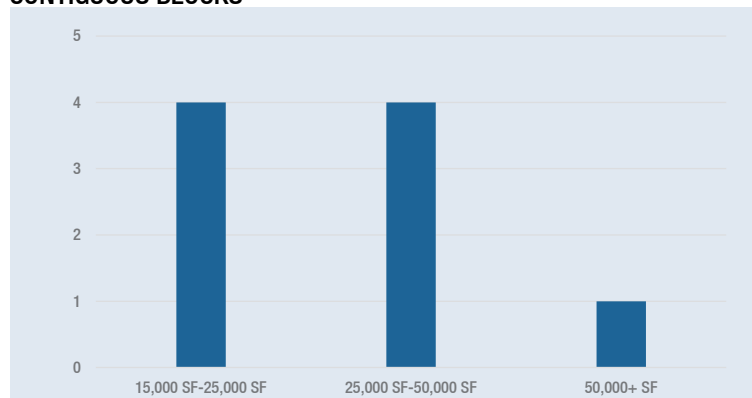
VACANCY AND NET ABSORPTION



CLASS A & B RENTS



CONTIGUOUS BLOCKS



TRENDS

- Infinity Pharmaceuticals' office space at 780 Memorial Drive hit the market this quarter, leaving quarterly net absorption flat in the overall Cambridge office market. Reportedly the landlord is willing to convert the building to lab space.
- In one of the largest deals of the year, Akamai Technologies committed to 630,000 square feet in Kendall Square for 15 years. The 486,048-square-foot lease at Boston Properties' planned 145 Broadway will commence at the end of 2019 and allow the firm to consolidate six existing offices within Kendall Square. Akamai has also committed to lease another 150,000 square feet of space in Cambridge.
- The Massachusetts Teachers' Retirement System relocated to 500 Rutherford Avenue in Charlestown from One Charles Park — leaving roughly 20,000 square feet available.
- In an effort to consolidate office operations, Biogen is subleasing 141,830 square feet at 105 Broadway. Abt Associates is also subleasing roughly 29,000 square feet at 10 Fawcett Street as the firm is relocating to Virginia.
- Landlords maintain their upperhand in the office market, with average asking rents in the high-\$60 per square foot range. In East Cambridge, office rents are almost as expensive as lab rents at \$74.43 per square foot. The gap between East Cambridge and West Cambridge lease rates continues to widen with Cambridge's core office market maintaining a 60% premium.

NOTABLE TRANSACTIONS

| TENANT | ADDRESS | SIZE | SUBMARKET | TYPE |
|---------------------|--------------------------|------------|----------------|----------------------|
| Akamai Technologies | 145 Broadway | 630,000 SF | East Cambridge | Relocation/Expansion |
| Microsoft | 1 Memorial Drive | 170,658 SF | East Cambridge | Renewal |
| WeWork | 625 Massachusetts Avenue | 30,109 SF | Mid Cambridge | Expansion |
| HubSpot | 1 Canal Park | 25,312 SF | East Cambridge | Expansion |
| Facebook | One Broadway | 18,500 SF | East Cambridge | Expansion |

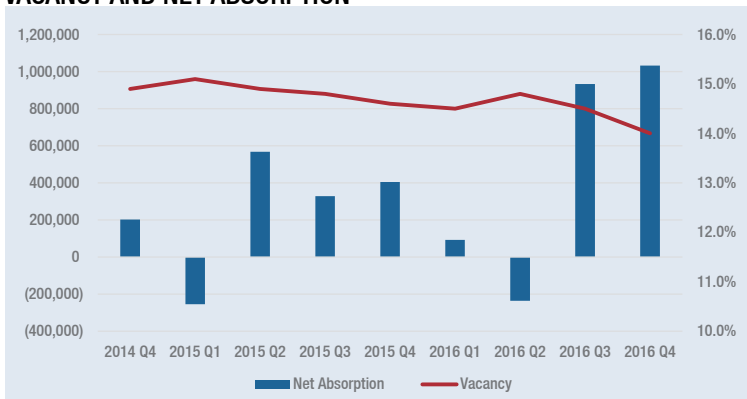


OFFICE STATISTICS

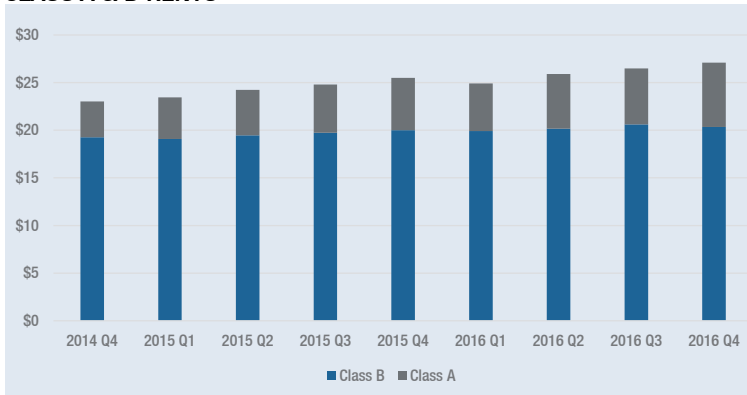
SUBURBAN

| SUBURBAN | TOTAL INVENTORY (SF) | TOTAL VACANT (SF) | TOTAL VACANCY RATE | Q4 NET ABSORPTION (SF) | YTD NET ABSORPTION (SF) | ASKING RENT (\$/SF) |
|------------------------------|----------------------|-------------------|--------------------|------------------------|-------------------------|---------------------|
| | Class A | 57,044,549 | 6,580,646 | 11.5% | 878,893 | 1,784,376 |
| Class B | 52,485,499 | 8,729,222 | 16.6% | 154,264 | 38,300 | \$20.35 |
| CLASS A & B TOTAL | 109,530,048 | 15,309,868 | 14.0% | 1,033,157 | 1,822,676 | \$23.10 |

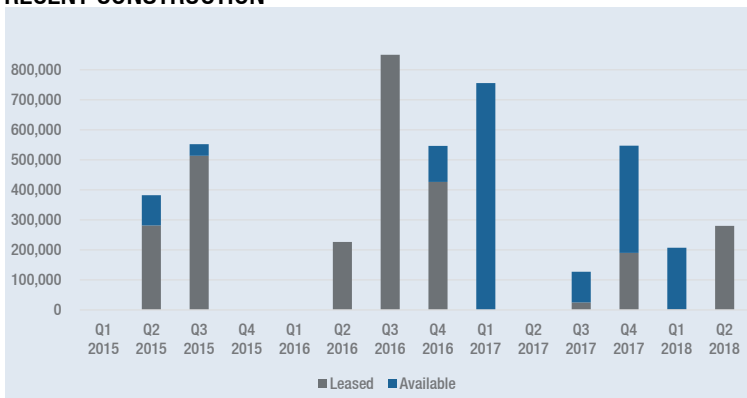
VACANCY AND NET ABSORPTION



CLASS A & B RENTS



RECENT CONSTRUCTION



TRENDS

- With more than 1.8 million square feet in net absorption for 2016, Suburban Boston office vacancies ended the year at just 14%. Build-to-suit construction has been driving much of this activity. Looking ahead, new offices for both SharkNinja and MilliporeSigma are slated to come on line over the next 18 months.
- The depth of demand is thinner compared to the past three years and suburban landlords continue to compete with Cambridge and Boston's urban core for tenants. Companies are following talent into the city; in some cases establishing secondary locations downtown, which could create some headwinds for demand going forward.
- The need for placemaking and the urban-suburban environment has become increasingly important in the face of this competition. Connectivity, amenities, parking and conveniences are in high demand and landlords are responding.
- From Newton Nexus to Center 128, redevelopment projects are replacing aging, less-desirable office and industrial stock with highly-amenitized, mixed-use destinations. 156 Oak Street in Newton, recently vacated by Clarks, is part of Northland's Needham Street development. If the project moves forward it will encompass up to 950 residential units, 175,000 square feet of office space and 200,000 square feet of retail space.
- Reebok's planned relocation to the Seaport could result in roughly 500,000 square feet of office space hitting the Route 128 South submarket once the fate of the shoemaker's long-time Canton headquarters is decided.

NOTABLE TRANSACTIONS

| TENANT | ADDRESS | SIZE | SUBMARKET | TYPE |
|------------------------|-------------------------------------|------------|---------------------|-------------------|
| Ab Initio | 181/201 Spring Street, Lexington | 167,000 SF | Route 128 Northwest | Renewal/Expansion |
| Lahey Health System | 25 Burlington Mall Road, Burlington | 72,000 SF | Route 128 Northwest | Renewal |
| Philips Color Kinetics | 3 Burlington Woods, Burlington | 59,326 SF | Route 128 Northwest | Renewal/Expansion |
| Comcast | 300 Commercial Street, Malden | 44,831 SF | Inner Suburbs | Renewal |
| Patheon Inc. | 140 Kendrick Street, Needham | 44,000 SF | Route 128 West | Relocation |



INDUSTRIAL STATISTICS OVERVIEW



DIRECT VACANCY



SUBLEASE VACANCY



12-MONTH ABSORPTION



LEASING ACTIVITY



ASKING RENT

Industrial Vacancies End 2016 Below 8%

The Greater Boston industrial market absorbed more than four million square feet of space in 2016. Vacancies are now sub-8%; reaching levels not seen in more than 15 years. Demand drivers remain vast and varied. E-commerce, housing and building-related firms, drug manufacturing, logistics, breweries and medical marijuana facilities are all bolstering industrial demand in the marketplace. Given such positive fundamentals, industrial landlords have been consistently raising rents in Greater Boston. At the close of 2016 lease rates expanded by 5.5% on a year-over-year basis, averaging \$8.42 per square foot. While modern, quality industrial space continues to garner a premium, in some instances location (particularly in-fill areas) is driving lease rates. Expect conditions to remain positive going into 2017. Increased leasing activity during the second-half of 2016, coupled with more subdued construction, will keep market fundamentals moving in the right direction.

Demand remains concentrated in Boston's premier industrial markets to the north and south. Combined, these six submarkets accounted for 3.2 million square feet or 76% of the total net absorption in 2016.

Following a slew of development projects, a majority of which were build-to-suits, activity is beginning to ease with less than one million square feet of space currently underway marketwide. While there are several large projects in the planning pipeline, market volatility, rising construction costs and more restrained lending on construction loans will result in fewer industrial projects moving forward in 2017.

Functional obsolescence continues to drive the redevelopment of industrial sites throughout the metro. In spite of recent new construction, Greater Boston's industrial inventory declined by close to 500,000 square feet since the end of 2015. As part of Nordblom's 4th Avenue development in Burlington, Lifetime Fitness recently purchased 186 Middlesex Turnpike for conversion and 146 Dascomb Road in Andover is being converted into retail. Finally, Northland Investment's proposed Needham Street development would reposition 55 Tower Road and 160 Charlemont Street into residential, office and retail space. Urban in-fill locations remain a target for redevelopment projects and the industrial inventory continues to shrink in these areas.

Upgrades at the Port of Boston along with the recent Panama Canal expansion could bolster industrial activity in the metro. Although Boston is more of a tertiary port market, the long-awaited completion of the Panama Canal expansion is expected to result in a 10% shift in trade from the West Coast to the East Coast. Boston is already seeing the benefits of the expansion project. China Ocean Shipping Company plans to double the capacity of its ships going from Boston to China. In September the federal government announced \$42 million in funding for the Port of Boston, which will help Conley Terminal accommodate larger vessels. Massport is also undertaking a dredging project in Boston Harbor, where channel depths will surpass 50 feet in some locations. This will allow the port to handle larger ships and increase cargo traffic. Even a modest increase in cargo flows would likely benefit Greater Boston's industrial markets.

| TOTAL VACANCY RATE | DIRECT VACANCY | Q4 NET ABSORPTION (SF) | ASKING RENT (\$/SF) | UNDER CONSTRUCTION (SF) |
|--------------------|----------------|------------------------|---------------------|-------------------------|
| 7.6% | 7.3% | 1,291,408 | \$8.42 | 977,523 SF |

Containerized Cargo:

208,188 TEUS
(YTD November 2016)
5.8% Growth year-over-year

Manufacturing Output:

10.10%
of GSP
(2015)

Housing Permits:

12,064
(YTD November 2016)
10% Decline year-over-year

Industrial Employment:

819,600
MA Jobs (November 2016)
0.3% Growth year-over-year

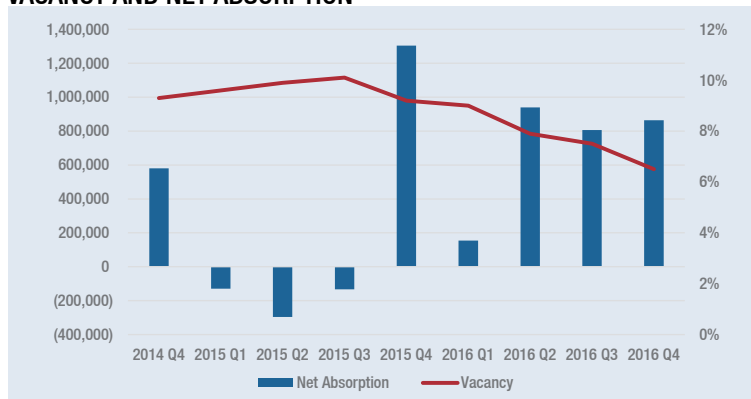
Biopharma MFG Employment:

10,616
MA Jobs
6.3% Growth year-over-year

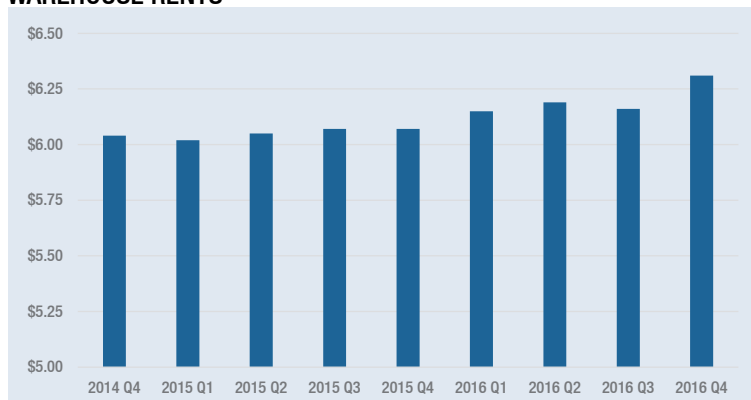


| WAREHOUSE | TOTAL INVENTORY (SF) | TOTAL VACANT (SF) | TOTAL VACANCY RATE | Q4 NET ABSORPTION (SF) | YTD NET ABSORPTION (SF) | ASKING RENT (\$/SF) |
|-----------|----------------------|-------------------|--------------------|------------------------|-------------------------|---------------------|
| | TOTAL | 89,656,069 | 5,787,764 | 6.5% | 863,734 | 2,764,249 |

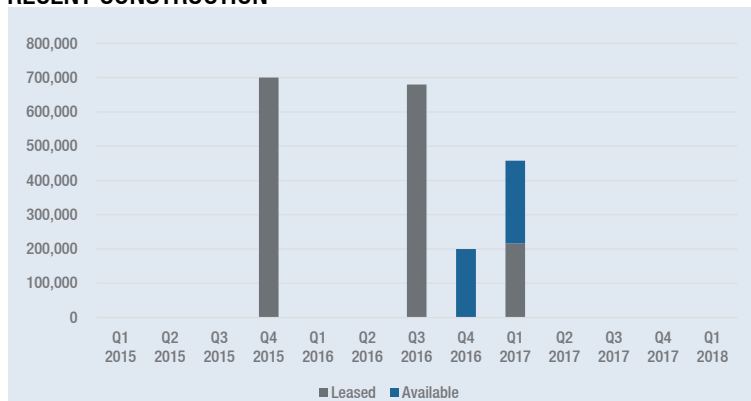
VACANCY AND NET ABSORPTION



WAREHOUSE RENTS



RECENT CONSTRUCTION



TRENDS

- Net absorption for warehouse and distribution space in Greater Boston totaled roughly 863,000 square feet metrowide in the fourth quarter; bringing vacancies down to 6.5%.
- TA Realty's 200,000-square-foot speculative building at 150 Charles Colton Road in Taunton delivered fully vacant. An additional 458,000 square feet of warehouse space, nearly half of which is preleased, is slated to come on line within the next few months.
- Campanelli's latest plan for its warehouse on Maple Street in Bellingham includes 477,500 square feet of industrial space; down significantly from the original project size of 900,000 square feet. Reportedly, Spears is committed to 127,000 square feet of the proposed development.
- Given the market's strong fundamentals investors, private equity firms and institutional buyers remain active in the Boston industrial market. One of the largest transactions of the quarter was NorthBridge Partners' acquisition of the 347,500-square-foot 192 Mansfield Avenue in Norton. The sale price was \$29.25 million or \$84 per square foot.
- Owner-user sales have also been driving the market. In December, Patriot Beverage purchased the 305,400-square-foot 20 Harvard Road in Littleton for \$10.65 million or \$35 per square foot.
- PrimeSource acquired Northeast Wholesale in November; leaving 60,000 square feet vacant at 980 Turnpike Street in Canton.

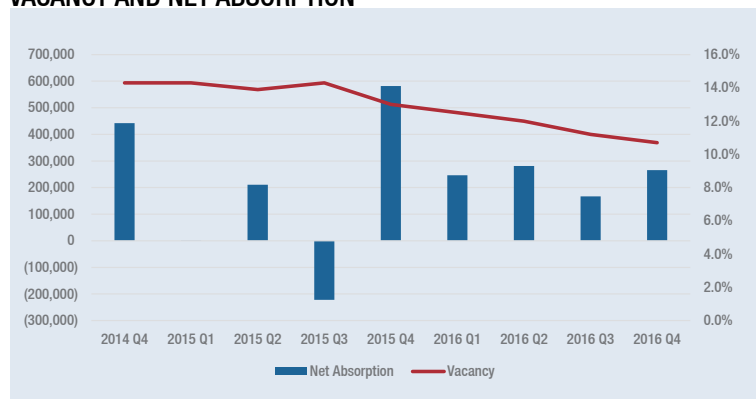
NOTABLE TRANSACTIONS

| TENANT | ADDRESS | SIZE | SUBMARKET | TYPE |
|--|------------------------------------|------------|-----------------|----------------------|
| Insul-Mart LLC | 260 Kenneth Welch Drive, Lakeville | 107,216 SF | Route 495 South | Expansion |
| Tighe Logistics <i>(NAI Hunneman Deal)</i> | 40 Robbie Road, Avon | 75,798 SF | Route 128 South | Relocation |
| Mantua Manufacturing Co. <i>(NAI Hunneman Deal)</i> | 21 Parker Drive, Avon | 30,320 SF | Route 128 South | Relocation |
| Realm Import and Export LLC | 101 Wales Avenue, Avon | 30,000 SF | Route 128 South | Relocation |
| Belknap White | 10 Atlantic Avenue, Woburn | 23,608 SF | Route 128 North | Relocation/Expansion |

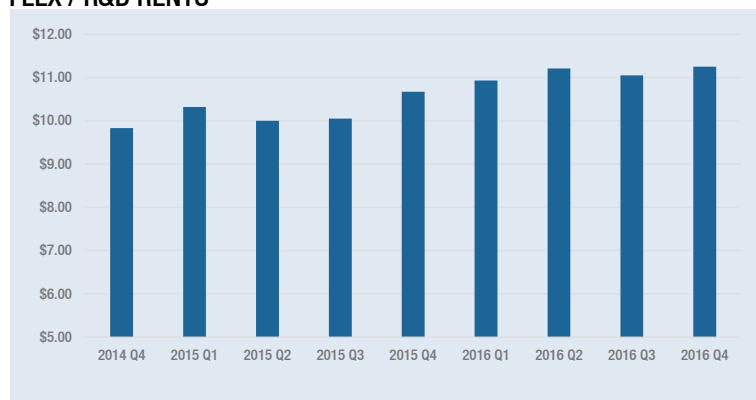


| FLEX / R&D | TOTAL INVENTORY (SF) | TOTAL VACANT (SF) | TOTAL VACANCY RATE | Q4 NET ABSORPTION (SF) | YTD NET ABSORPTION (SF) | ASKING RENT NNN (\$/SF) |
|------------|----------------------|-------------------|--------------------|------------------------|-------------------------|-------------------------|
| | TOTAL | 50,214,930 | 5,387,209 | 10.7% | 265,282 | 959,562 |

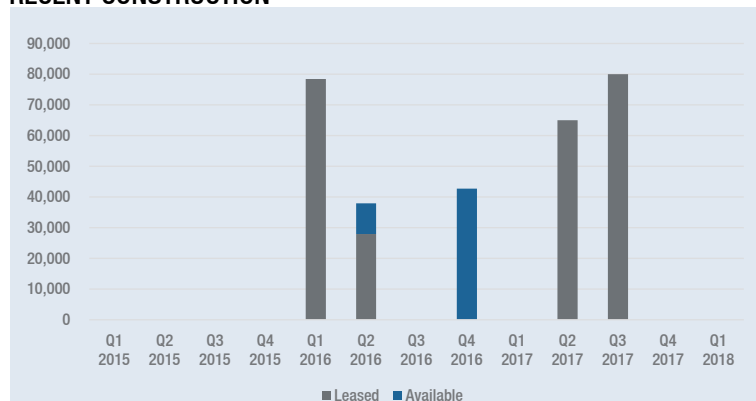
VACANCY AND NET ABSORPTION



FLEX / R&D RENTS



RECENT CONSTRUCTION



TRENDS

- The Greater Boston Flex/R&D market saw positive absorption in nine out of the last ten quarters. With close to one million square feet of positive absorption in 2016, vacancies declined to 10.7% in the fourth quarter.
- Consolidating office and industrial space from tech, biotech and manufacturing companies continue to drive demand for this product type.
- Joule Unlimited is subleasing 50,000 square feet at 18 Crosby Drive in Bedford in anticipation of its relocation in the third quarter of 2017.
- This cycle's roaring real estate market and demand for modern office/lab space with access to amenities has led to the redevelopment of older, outdated industrial properties. Nordblom is set to move forward on another phase of its 4th Avenue development in Burlington which will include an office component and a Lifetime Fitness at 186 Middlesex Turnpike. Longfellow Real Estate Partners is moving forward with converting 1 Patriots Park in Bedford into a 120,000-square-foot lab building.
- Cytonome is relocating from 27 Drydock Avenue in the Seaport to Bedford — executing a full-building lease at 9 Oak Park Drive in the fourth quarter.
- First Colony Development recently broke ground on a 65,000-square-foot Flex/R&D building at 200 Crowley Drive in Marlborough on a speculative basis.

NOTABLE TRANSACTIONS

| TENANT / BUYER | ADDRESS | SIZE | SUBMARKET | TYPE |
|------------------------|----------------------------------|-----------|---------------------|----------------------|
| Azz Inc. | 51 Alder Street, Medway | 80,863 SF | Route 495 South | Renewal |
| Cytonome | 9 Oak Park Drive, Bedford | 53,000 SF | Route 128 Northwest | Relocation/Expansion |
| Verizon Communications | 51 Alder Street, Medway | 42,777 SF | Route 495 South | Renewal |
| The Edinburg Center | 205 Burlington Road, Bedford | 33,002 SF | Route 128 Northwest | Relocation |
| PPI Time Zero | 1400 Providence Highway, Norwood | 25,051 SF | Route 128 South | Relocation |



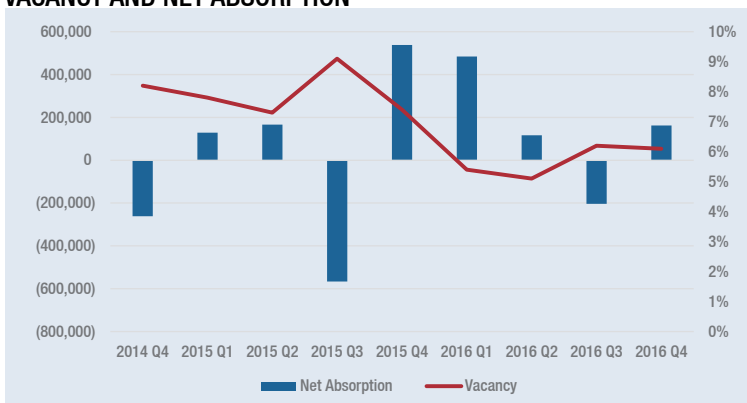
INDUSTRIAL STATISTICS

MANUFACTURING

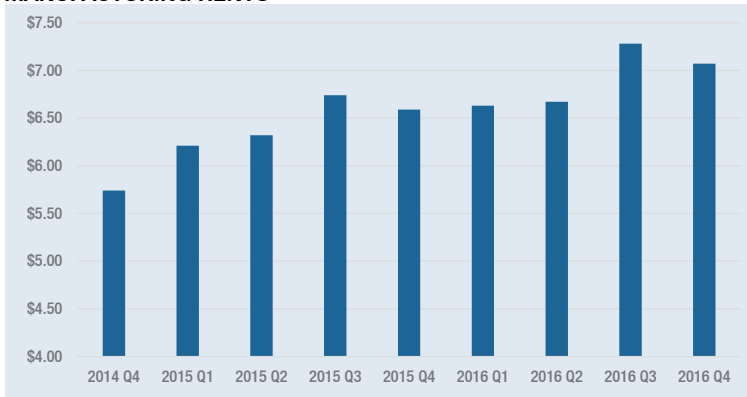
MANUFACTURING

| | TOTAL INVENTORY (SF) | TOTAL VACANT (SF) | TOTAL VACANCY RATE | Q4 NET ABSORPTION (SF) | YTD NET ABSORPTION (SF) | ASKING RENT NNN (\$/SF) |
|--------------|----------------------|-------------------|--------------------|------------------------|-------------------------|-------------------------|
| TOTAL | 32,972,996 | 2,002,918 | 6.1% | 162,392 | 560,574 | \$7.07 |

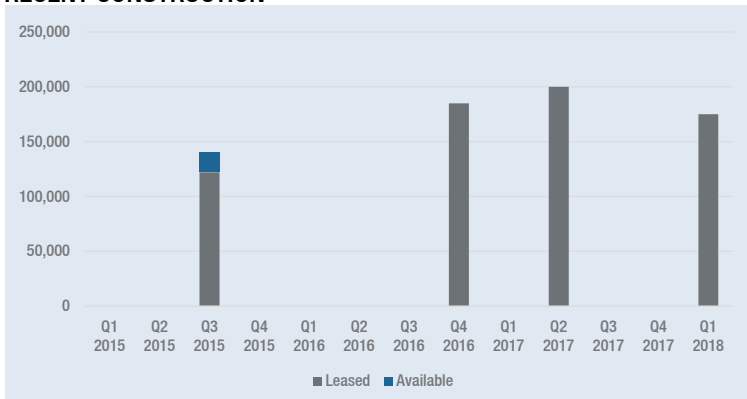
VACANCY AND NET ABSORPTION



MANUFACTURING RENTS



RECENT CONSTRUCTION



TRENDS

- Greater Boston's talent pool and tech-heavy economy continue to drive manufacturing demand. Drug manufacturing is becoming a boon for the Massachusetts economy. Major pharmaceutical companies, including Sarepta and Moderna Therapeutics, are establishing manufacturing facilities in lower-cost suburban locales as a lack of space and prohibitive lease rates make these types of operations a difficult endeavor in Cambridge. Looking ahead, biomanufacturing in the region should continue to grow. Massachusetts was recently selected as a partner in the National Institute for Innovation in Manufacturing Biopharmaceuticals. The \$250-million public-private partnership will promote R&D and workforce training.
- Developers are also repositioning outdated manufacturing properties. Northland Investment is planning to redevelopment several properties on Needham Street in Newton. The proposed development would include residential, office and retail components. If the project moves forward, a 260,991 square foot manufacturing facility at 55 Tower Road and the 90,825-square-foot 160 Charlemont Street would be removed from the industrial inventory.
- M.S. Walker recently completed construction on its 184,900-square-foot bottling plant at 100 Meadow Road in the Boston Business Park.
- In the fall of 2017, the first phase of a one million-square-foot medical marijuana growing facility, known as the Massachusetts Medical Cannabis Center, is set to open in Freetown. Overall, there is potentially several million square feet of industrial demand from the medical marijuana industry in Greater Boston, which would only bolster market fundamentals in the coming years.

NOTABLE TRANSACTIONS

| TENANT / BUYER | ADDRESS | SIZE | SUBMARKET | TYPE |
|-------------------------------|--------------------------------|------------|-----------------|-------|
| ICON International | 50 Otis Street, Westborough | 259,000 SF | Route 495 West | Sale |
| HP Enterprise Services | 153 Taylor Street, Littleton | 193,802 SF | Route 495 North | Sale |
| Xerox Corp. | 70 Broadway, Lynnfield | 102,400 SF | Route 128 North | Rewal |
| Jennings Real Estate Services | 6 October Hill Road, Holliston | 80,000 SF | Route 495 West | Sale |



CAPITAL MARKETS OVERVIEW



OFFICE SALES VOLUME (\$)



MULTIFAMILY SALES VOLUME (\$)



RETAIL SALES VOLUME (\$)



INDUSTRIAL SALES VOLUME (\$)

Boston Ranks **Third** for Foreign Investment

While double-digit pricing gains may be behind us, U.S. commercial sales and pricing trends will likely remain positive in the coming year. In November, CoStar reported gains of more than 1% for its equal-weighted Commercial Repeat-Sale Index. Green Street Advisors also reported a very slight bump in its November CPPI. The U.S. remains a top destination for foreign capital, and real estate as an asset class is still very attractive. Despite rising interest rates, this is still a low-interest rate environment. A stronger-than-expected post-election economy and financing constraints on new construction (resulting in stronger fundamentals) could also help drive capital to real estate and support price appreciation in the near term.

Locally, transaction volume has eased from record-levels seen in late 2015 and early 2016. With that said, investors' appetites are still strong in Greater Boston and pricing is holding steady, especially in the office market. Institutional investors remain focused on office properties inside the Route 128 corridor, however signs of interest in top Class A assets in core suburban markets are beginning to pop up. Going forward Boston will remain a target for investment capital, but sales volume has likely peaked.

The Association of Foreign Investors in Real Estate recently ranked Boston as the third-most desired city for foreign institutional investors; moving up two spots from last year. Most survey respondents planned to maintain or increase their U.S. Investments in the coming year.

Investor interest continues to drive up pricing in downtown Class B office properties. In December, LaSalle Investment Management acquired the 251,394-square-foot 10 Channel Center for \$119 million or \$473 per square foot. Comparatively the seller, Callahan Capital Properties, purchased this property in 2013 for just \$328 per square foot. Synergy Investment & Development sold 99 Chauncy Street and 101 Summer Street to TIAA in December as well. The two-property portfolio garnered a \$75 million or \$478 per square foot price tag.

The investor pool is expanding in the life science sector as buyers look to tap into one of the hottest asset classes in the nation. High-quality assets in key locations such as Kendall Square will garner a premium. The sales of 1 Kendall Square, 27 Drydock Avenue, Blackstone Science Square and 45-65 Hayden Avenue point to how in-demand lab buildings are in the Greater Boston market.

TOP Q4 / CLASS B INVESTMENT SALES

OFFICE



10 Channel Center
Channel Center
Boston

| | |
|----------|-------------------------------|
| Buyer | LaSalle Investment Management |
| Price | \$119,000,000 |
| Total SF | 251,394 SF |
| Price/SF | \$473 |
| Cap Rate | N/A |

MULTIFAMILY



10 Independence Way
Union Place
Franklin

| | |
|-------------|---------------------------------------|
| Buyer | Jones Street Investment Partners, LLC |
| Price | \$64,750,000 |
| Units | 300 |
| Price/ Unit | \$215,833 |
| Cap Rate | N/A |

RETAIL



1775 Washington Street
Hanover Mall
Hanover

| | |
|----------|---------------------------|
| Buyer | PECO Real Estate Partners |
| Price | \$39,500,000 |
| Total SF | 732,101 SF |
| Price/SF | \$54 |
| Cap Rate | 8.50% |

INDUSTRIAL



275 John Hancock Road
Taunton

| | |
|----------|------------------------|
| Buyer | Colony Realty Partners |
| Price | \$24,400,000 |
| Total SF | 238,299 SF |
| Price/SF | \$102 |
| Cap Rate | 6.25% |



OFFICE SALES

| | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 | TOTAL |
|-------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| SALES VOLUME (\$) | \$887,149,195 | \$1,664,738,395 | \$1,255,580,743 | \$1,262,790,271 | \$5,070,258,604 |
| # OF TRANSACTIONS | 94 | 100 | 88 | 82 | 364 |
| TOTAL SF | 3,982,126 | 4,980,442 | 3,615,137 | 3,195,186 | 15,772,891 |
| MEDIAN \$/SF | \$136 | \$134 | \$168 | \$199 | \$161 |

MULTIFAMILY SALES

| | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 | TOTAL |
|-------------------|---------------|---------------|---------------|---------------|-----------------|
| SALES VOLUME (\$) | \$558,431,164 | \$701,561,046 | \$526,142,279 | \$874,411,417 | \$2,660,545,906 |
| # OF TRANSACTIONS | 93 | 78 | 80 | 74 | 325 |
| TOTAL UNITS | 2,608 | 2,460 | 2,329 | 2,969 | 10,366 |
| MEDIAN \$/UNIT | \$171,000 | \$156,250 | \$161,586 | \$179,911 | \$166,666 |

RETAIL SALES

| | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 | TOTAL |
|-------------------|---------------|---------------|---------------|---------------|-----------------|
| SALES VOLUME (\$) | \$313,005,745 | \$350,607,868 | \$529,526,001 | \$484,147,168 | \$1,677,286,782 |
| # OF TRANSACTIONS | 112 | 153 | 145 | 110 | 520 |
| TOTAL SF | 1,357,885 | 1,709,429 | 1,921,318 | 2,396,303 | 7,384,935 |
| MEDIAN \$/SF | \$213 | \$216 | \$233 | \$198 | \$213 |

INDUSTRIAL SALES

| | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 | TOTAL |
|-------------------|---------------|---------------|---------------|---------------|-----------------|
| SALES VOLUME (\$) | \$450,298,149 | \$407,949,900 | \$319,177,430 | \$562,671,566 | \$1,740,097,045 |
| # OF TRANSACTIONS | 91 | 94 | 71 | 89 | 345 |
| TOTAL SF | 6,554,516 | 5,496,646 | 3,957,237 | 5,256,244 | 21,264,643 |
| MEDIAN \$/SF | \$73 | \$75 | \$79 | \$84 | \$78 |

MARKET RECAP



OFFICE STATISTICS

| | TOTAL INVENTORY (SF) | UNDER CONSTRUCTION (SF) | DIRECT VACANT (SF) | SUBLEASE VACANT (SF) | TOTAL VACANCY RATE | Q4 NET ABSORPTION (SF) | YTD NET ABSORPTION (SF) | ASKING RENT (\$/SF) |
|------------------------|----------------------|-------------------------|--------------------|----------------------|--------------------|------------------------|-------------------------|---------------------|
| Back Bay | 13,918,476 | - | 1,357,192 | 233,944 | 11.4% | (237,128) | 217,874 | \$62.57 |
| Charlestown | 2,443,780 | - | 82,853 | - | 3.4% | 257,038 | 181,495 | \$34.59 |
| Fenway/Kenmore | 1,700,298 | - | 55,819 | - | 3.3% | 2,194 | 140,599 | \$59.00 |
| Financial District | 35,473,639 | 333,283 | 2,808,169 | 73,848 | 8.1% | 171,696 | 432,175 | \$57.62 |
| Midtown | 2,099,602 | - | 77,807 | 1,334 | 3.8% | (1,950) | (11,782) | \$45.87 |
| North Station | 2,730,640 | 175,000 | 106,697 | - | 3.9% | (40,122) | 20,979 | \$43.94 |
| Seaport | 9,952,157 | 726,006 | 744,850 | 13,431 | 7.6% | 59,734 | 385,527 | \$55.22 |
| South Station | 1,159,121 | - | 9,691 | - | 0.8% | 13,078 | 17,289 | \$37.15 |
| BOSTON TOTAL | 69,477,713 | 1,234,289 | 5,243,078 | 322,557 | 8.0% | 224,540 | 1,384,156 | \$57.72 |
| East Cambridge | 5,703,635 | - | 107,524 | 37,218 | 2.5% | 50,915 | 207,287 | \$74.43 |
| Mid Cambridge | 2,670,584 | - | 88,503 | 3,937 | 3.5% | (52,241) | 62,455 | \$66.56 |
| West Cambridge | 2,046,880 | - | 33,391 | 51,375 | 4.1% | 4,009 | 16,004 | \$46.98 |
| CAMBRIDGE TOTAL | 10,421,099 | - | 229,418 | 92,530 | 3.1% | 2,683 | 285,746 | \$67.40 |
| Framingham-Natick | 4,607,617 | - | 743,262 | 26,437 | 16.7% | 99,310 | 4,094 | \$22.72 |
| Inner Suburbs | 6,288,788 | - | 420,512 | 154,793 | 9.1% | 295,866 | 1,160,544 | \$31.63 |
| Route 128 North | 14,198,279 | 370,000 | 1,254,094 | 98,979 | 9.5% | 57,920 | 226,019 | \$21.88 |
| Route 128 Northwest | 13,527,659 | 280,000 | 1,741,812 | 120,153 | 13.8% | (59,636) | (145,007) | \$32.15 |
| Route 128 South | 14,356,268 | - | 1,504,929 | 57,426 | 10.9% | 170,364 | 249,692 | \$21.00 |
| Route 128 West | 21,913,654 | 1,152,595 | 1,626,476 | 465,846 | 9.5% | 167,039 | 286,216 | \$34.70 |
| ROUTE 128 TOTAL | 63,995,860 | 1,802,595 | 6,127,311 | 742,404 | 10.7% | 335,687 | 616,920 | \$27.98 |
| Route 495 North | 13,378,876 | - | 2,887,582 | 146,946 | 22.7% | 177,411 | (283,453) | \$17.77 |
| Route 495 Northeast | 7,083,247 | - | 1,483,014 | 44,144 | 21.6% | 100,275 | 213,561 | \$18.23 |
| Route 495 South | 3,224,505 | - | 403,088 | 17,301 | 13.0% | 10,653 | 17,426 | \$18.79 |
| Route 495 West | 10,951,155 | 113,490 | 2,080,571 | 32,503 | 19.3% | 13,955 | 93,584 | \$18.83 |
| ROUTE 495 TOTAL | 34,637,783 | 113,490 | 6,854,255 | 240,894 | 20.5% | 302,294 | 41,118 | \$18.25 |
| SUBURBAN TOTAL | 109,530,048 | 1,916,085 | 14,145,340 | 1,164,528 | 14.0% | 1,033,157 | 1,822,676 | \$23.10 |
| MARKET TOTAL | 189,428,860 | 3,150,374 | 19,617,836 | 1,579,615 | 11.2% | 1,260,380 | 3,492,578 | \$32.87 |

MARKET RECAP



INDUSTRIAL STATISTICS

| | TOTAL INVENTORY (SF) | UNDER CONSTRUCTION (SF) | DIRECT VACANT (SF) | SUBLEASE VACANT (SF) | TOTAL VACANCY RATE | Q4 NET ABSORPTION (SF) | YTD NET ABSORPTION (SF) | ASKING RENT NNN (\$/SF) |
|------------------------|----------------------|-------------------------|--------------------|----------------------|--------------------|------------------------|-------------------------|-------------------------|
| Urban Core | 17,050,730 | 159,323 | 852,834 | - | 5.0% | 149,551 | 558,071 | \$9.91 |
| Framingham-Natick | 3,148,801 | - | 229,524 | 40,000 | 8.6% | 5,881 | 30,767 | \$6.72 |
| Route 128 North | 28,002,776 | 80,000 | 1,153,195 | 22,682 | 4.2% | 118,696 | 816,595 | \$8.74 |
| Route 128 Northwest | 3,881,064 | - | 273,441 | 8,198 | 7.3% | 26,208 | 130,692 | \$18.42 |
| Route 128 South | 38,543,181 | - | 2,933,554 | 8,900 | 7.6% | 133,824 | 1,435,814 | \$7.06 |
| Route 128 West | 4,343,524 | - | 142,309 | 9,790 | 3.5% | 18,457 | 130,316 | \$19.04 |
| ROUTE 128 TOTAL | 74,770,545 | 80,000 | 4,502,499 | 49,570 | 6.1% | 297,185 | 2,513,417 | \$8.56 |
| Route 495 North | 20,325,432 | - | 2,075,577 | 235,810 | 11.4% | 491,688 | 579,632 | \$9.21 |
| Route 495 Northeast | 11,606,942 | 175,000 | 1,440,738 | 59,600 | 12.9% | 23,092 | (25,401) | \$10.55 |
| Route 495 South | 30,649,493 | 498,200 | 2,837,533 | - | 9.3% | 234,096 | 297,971 | \$6.12 |
| Route 495 West | 15,292,052 | 65,000 | 752,592 | 101,614 | 5.6% | 89,915 | 329,928 | \$8.75 |
| ROUTE 495 TOTAL | 77,873,919 | 738,200 | 7,106,440 | 397,024 | 9.6% | 838,791 | 1,182,130 | \$8.01 |
| MARKET TOTAL | 172,843,995 | 977,523 | 12,691,297 | 486,594 | 7.6% | 1,291,408 | 4,284,385 | \$8.42 |

10TH LARGEST METROPOLITAN AREA IN THE US

4,000 Tech Startups (Compass)

537 Big Data Companies in MA

\$2.7 BILLION VC Funding (2016)

9 Accelerators

#1 SMARTEST CITY (Forbes)

#2 INNOVATIVE CITY (Innovation Cities)

2.4% UNEMPLOYMENT RATE (US AVERAGE: 4.6%)

2,607,370 LABOR FORCE

16 LIFE SCIENCE INCUBATORS

BOSTON

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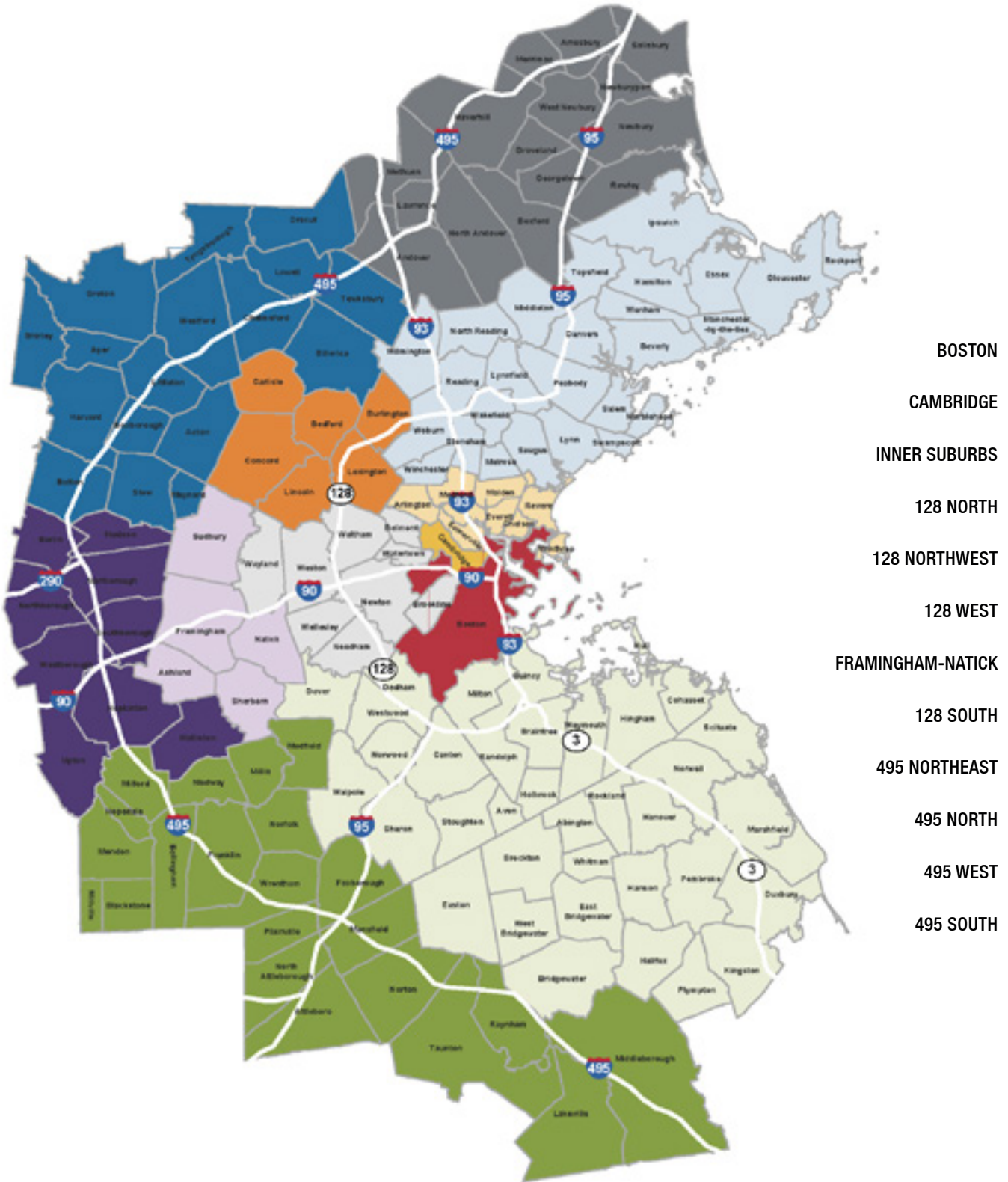
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SUBMARKET MAP



Q4

2016

M E T R O B O S T O N

MARKET REPORT



OFFICE

(DOWNTOWN, CAMBRIDGE,
SUBURBAN)



INDUSTRIAL

(WAREHOUSE, FLEX/R&D,
MANUFACTURING)



CAPITAL MARKETS

METHODOLOGY

SOURCE: Co-Star, NAI Hunneman Commercial Company. **PREPARED:** December, 2016.

DISCLAIMER: The above data is from sources deemed to be generally reliable, but no warranty is made as to the accuracy of the data nor its usefulness for any particular purpose.

Average Rental Rates are asking rents on direct space.

Vacant space includes both direct and sublease space.

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