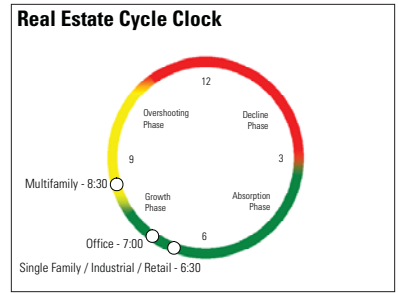


## Outlook: Economy & Demographics

Recently revised employment figures show that the Boston economy grew at a considerably slower pace in 2013 than was originally reported. Moreover, hiring activity moderated in the final months of 2013 and into early 2014, likely impacted by the unusually harsh winter weather. Through early 2014, employment gains were strongest in the professional and business services and information services sectors, spurred by the rapidly expanding high-technology industry. Payrolls in the educational and health services sector increased moderately, with modest job losses among the region's many colleges partially offsetting consistently strong gains in the health-care industry. The trade sector grew at a robust pace, with particularly strong hiring activity at clothing retail stores as consumers continued to spend money in the local economy. Going forward, RCG forecasts moderate but sustained economic expansion in Boston, with job growth in the next three years slightly exceeding growth rates during the mid-2000s. The region's world-class institutions and expanding knowledge-based industries should continue to attract and retain young, highly educated workers. However, retirees are expected to migrate to warmer climates in greater numbers, as housing market conditions improve nationwide. On balance, net migration should remain slightly positive, with moderate levels of population growth and household formation through 2018.



**Economic Risk Assessment**

2014f-2015f:	Low
2016f-2018f:	Low-Medium

**Average Employment Growth**

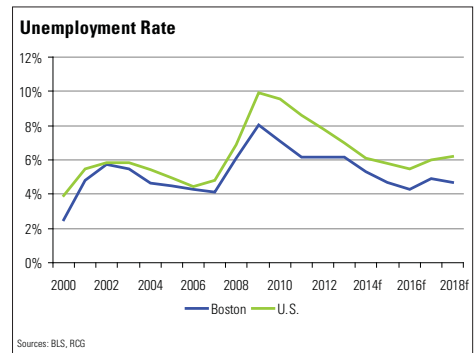
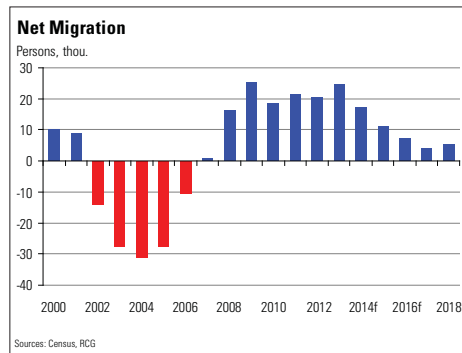
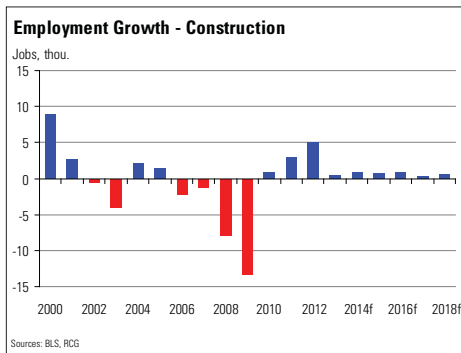
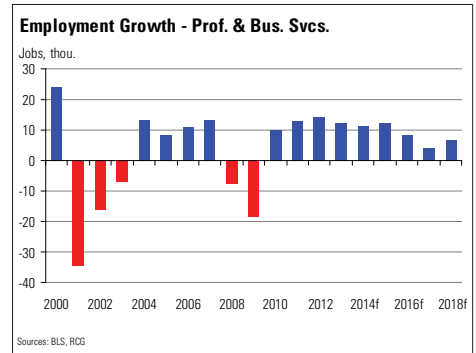
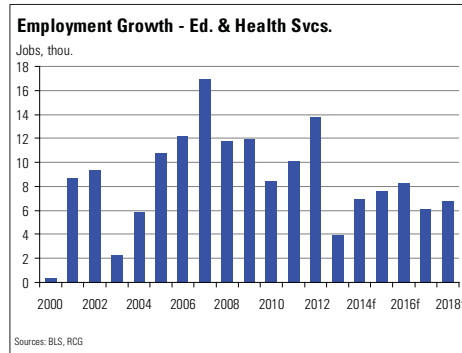
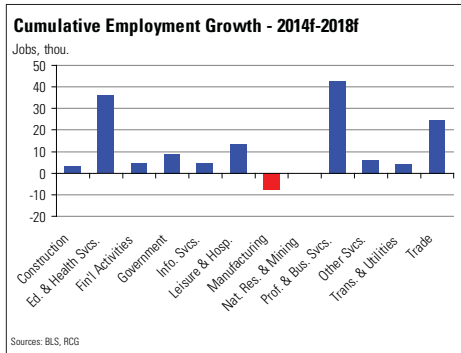
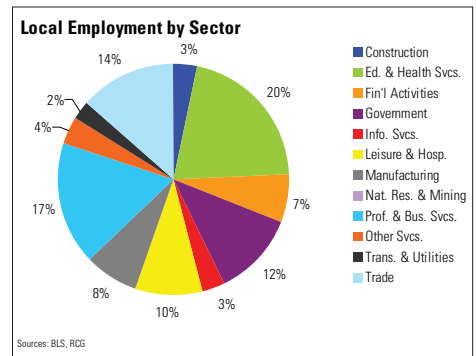
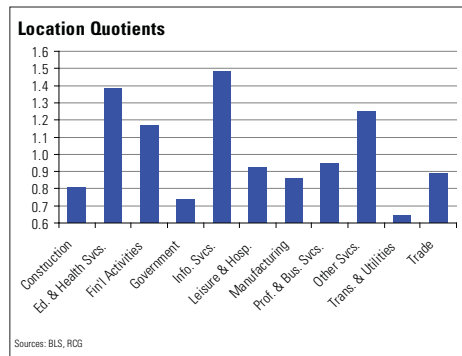
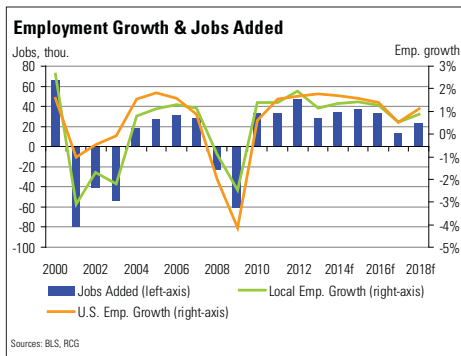
2009-2013:	0.7%
2014f-2018f:	1.1%

**Employment Base (thou.)**

2013	2,562
------	-------

**Population (thou.)**

2013	4,684
------	-------



## Economic Indicators

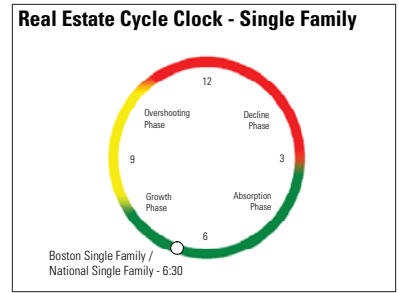
Statistic	Units	2009	2010	2011	2012	2013	Dec12	Sep13	Dec13	2014f	2015f	2016f	2017f	2018f
Total Employment	(000)	2,418.5	2,452.2	2,485.8	2,533.0	2,561.8	2,533.0	2,560.6	2,561.8	2,596.4	2,633.7	2,667.1	2,680.5	2,703.8
% Change		-2.5%	1.4%	1.4%	1.9%	1.1%	1.9%	1.5%	1.1%	1.3%	1.4%	1.3%	0.5%	0.9%
Construction	(000)	77.9	78.8	81.7	86.7	87.2	86.7	89.7	87.2	88.1	88.8	89.6	90.0	90.5
% Change		-14.6%	1.1%	3.7%	6.2%	0.5%	6.2%	5.8%	0.5%	1.1%	0.8%	0.9%	0.4%	0.6%
Manufacturing	(000)	194.3	195.2	192.5	193.5	193.7	193.5	193.2	193.7	193.3	193.1	192.2	187.9	186.1
% Change		-7.5%	0.5%	-1.4%	0.5%	0.1%	0.5%	-0.2%	0.1%	-0.2%	-0.1%	-0.5%	-2.2%	-1.0%
Trade	(000)	334.7	339.4	342.2	344.8	351.1	344.8	348.7	351.1	357.4	363.4	370.0	372.2	375.9
% Change		-3.6%	1.4%	0.8%	0.8%	1.8%	0.8%	1.3%	1.8%	1.8%	1.7%	1.8%	0.6%	1.0%
Transportation & Utilities	(000)	60.5	60.5	60.9	61.4	62.7	61.4	62.0	62.7	64.0	65.4	66.6	66.8	67.1
% Change		-2.1%	0.1%	0.6%	0.8%	2.2%	0.8%	2.1%	2.2%	2.1%	2.2%	1.7%	0.3%	0.5%
Information Services	(000)	73.0	72.1	74.7	74.5	75.8	74.5	74.4	75.8	77.1	78.6	79.7	80.5	80.9
% Change		-2.5%	-1.2%	3.5%	-0.3%	1.8%	-0.3%	-0.1%	1.8%	1.7%	1.9%	1.5%	0.9%	0.5%
Financial Activities	(000)	175.4	173.7	171.8	172.6	171.9	172.6	172.4	171.9	172.6	173.8	175.2	175.6	177.0
% Change		-4.5%	-1.0%	-1.1%	0.5%	-0.4%	0.5%	0.0%	-0.4%	0.4%	0.7%	0.8%	0.2%	0.8%
Professional & Business Svcs.	(000)	388.8	398.7	411.7	425.9	438.1	425.9	436.1	438.1	449.5	461.7	470.0	474.2	480.8
% Change		-4.5%	2.6%	3.3%	3.5%	2.9%	3.5%	3.0%	2.9%	2.6%	2.7%	1.8%	0.9%	1.4%
Educational & Health Svcs.	(000)	500.3	508.7	518.9	532.7	536.7	532.7	539.2	536.7	543.6	551.2	559.5	565.7	572.4
% Change		2.4%	1.7%	2.0%	2.7%	0.7%	2.7%	2.2%	0.7%	1.3%	1.4%	1.5%	1.1%	1.2%
Leisure & Hospitality	(000)	216.2	226.0	232.2	240.6	243.7	240.6	244.8	243.7	246.6	249.8	253.0	254.5	257.4
% Change		-1.2%	4.6%	2.7%	3.6%	1.3%	3.6%	2.4%	1.3%	1.2%	1.3%	1.3%	0.6%	1.1%
Other Services	(000)	91.3	94.2	96.7	97.2	99.8	97.2	98.9	99.8	102.0	103.8	104.9	105.0	105.7
% Change		0.1%	3.2%	2.6%	0.5%	2.6%	0.5%	1.8%	2.6%	2.2%	1.8%	1.1%	0.1%	0.6%
Government	(000)	305.3	304.2	302.1	302.4	300.6	302.4	300.7	300.6	301.5	303.4	305.8	307.6	309.5
% Change		0.3%	-0.4%	-0.7%	0.1%	-0.6%	0.1%	-0.9%	-0.6%	0.3%	0.6%	0.8%	0.6%	0.6%
Unemployment Rate	(%)	8.1%	7.1%	6.1%	6.1%	6.1%	6.1%	6.2%	6.1%	5.3%	4.7%	4.3%	4.9%	4.7%
Personal Income	(\$Bill)	245.6	253.7	269.6	280.2	292.9				307.8	325.6	345.2	365.2	388.2
% Change		-2.0%	3.3%	6.3%	4.0%	4.5%				5.1%	5.8%	6.0%	5.8%	6.3%
Household Income	(\$000)	144.0	145.3	153.0	159.4	165.4				172.6	181.4	191.3	201.6	213.3
% Change		-1.9%	0.9%	5.3%	4.2%	3.8%				4.3%	5.1%	5.5%	5.4%	5.8%
CPI	Avg. 82 - 84	236.6	238.1	245.0	249.9	252.2	249.9	251.9	252.2	258.8	267.8	278.0	288.6	299.4
% Change		1.8%	0.6%	2.9%	2.0%	0.9%	2.0%	1.0%	0.9%	2.6%	3.5%	3.8%	3.8%	3.7%

## Demographic Indicators

Statistic	Units	2006	2007	2008	2009	2010	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
Total Population	(000)	4,427.4	4,447.8	4,483.1	4,527.2	4,564.1	4,603.7	4,642.1	4,684.3	4,718.5	4,746.5	4,769.8	4,789.6	4,810.5
% Change		0.2%	0.5%	0.8%	1.0%	0.8%	0.9%	0.8%	0.9%	0.7%	0.6%	0.5%	0.4%	0.4%
15 - 24 Years	(000)	624.9	634.2	641.8	649.3	650.7	651.2	648.1	654.0	658.7	662.6	665.9	668.7	671.6
25 - 34 Years	(000)	593.5	591.6	600.3	612.3	623.1	640.9	659.3	665.3	670.2	674.1	677.5	680.3	683.2
35 - 44 Years	(000)	689.0	674.5	658.7	641.1	627.9	617.3	609.9	615.4	619.9	623.6	626.6	629.2	632.0
45 - 64 Years	(000)	1,148.6	1,175.5	1,200.5	1,230.8	1,257.0	1,279.0	1,285.4	1,297.0	1,306.5	1,314.2	1,320.7	1,326.2	1,332.0
65 & Over	(000)	555.9	563.2	576.1	587.5	599.1	610.7	636.1	641.8	646.5	650.4	653.6	656.3	659.1
Births	(000)	56.5	56.2	56.2	56.1	55.6	56.1	55.7	55.4	54.9	54.6	54.3	54.1	53.8
Deaths	(000)	36.5	36.7	37.1	37.3	37.2	37.9	37.7	37.8	37.9	38.0	38.2	38.3	38.4
Natural Increase	(000)	20.0	19.5	19.2	18.8	18.4	18.3	18.0	17.6	17.0	16.6	16.2	15.8	15.4
Net Migration	(000)	-10.7	1.0	16.2	25.3	18.5	21.4	20.4	24.6	17.2	11.3	7.2	4.0	5.4
Total Households	(000)	1,684.5	1,684.7	1,707.2	1,705.4	1,745.7	1,761.9	1,757.7	1,770.4	1,783.7	1,795.6	1,804.4	1,812.0	1,820.1
% Change		0.1%	0.0%	1.3%	-0.1%	2.4%	0.9%	-0.2%	0.7%	0.8%	0.7%	0.5%	0.4%	0.5%
By Age of Householder														
15 - 24	(000)	56.3	46.8	56.7	52.3	66.4	56.2	50.7	51.0	51.4	51.8	52.0	52.2	52.5
25 - 34	(000)	254.4	249.9	249.3	258.6	267.8	273.2	266.7	268.7	270.7	272.5	273.8	275.0	276.2
35 - 44	(000)	372.3	369.5	363.5	338.4	327.4	327.9	319.6	321.9	324.3	326.5	328.1	329.4	330.9
45 - 64	(000)	663.8	679.0	693.8	697.2	712.9	724.6	726.4	731.7	737.2	742.1	745.7	748.9	752.2
65+	(000)	337.6	339.6	343.8	359.0	371.3	379.9	394.3	397.1	400.1	402.8	404.7	406.4	408.3
By Type														
Married	(000)	816.5	805.3	817.8	812.3	822.1	835.9	831.4	837.4	843.7	849.3	853.5	857.1	860.9
Total Other Family	(000)	256.8	258.1	259.6	248.6	275.0	275.7	283.1	285.2	287.3	289.2	290.6	291.9	293.2
Other Male	(000)	66.4	63.5	65.2	65.1	68.3	65.5	68.2	68.7	69.2	69.7	70.0	70.3	70.7
Other Female	(000)	190.4	194.5	194.5	183.5	206.7	210.2	214.9	216.5	218.1	219.5	220.6	221.5	222.5
Non-Family	(000)	611.2	621.4	629.7	644.6	648.7	650.3	643.2	647.8	652.7	657.0	660.2	663.0	666.0
Male	(000)	274.2	275.6	287.1	279.8	280.1	282.4	284.5	286.6	288.7	290.6	292.1	293.3	294.6
Female	(000)	337.0	345.8	342.6	364.8	368.5	367.9	358.7	361.3	364.0	366.4	368.2	369.7	371.4

## Outlook: Single Family Housing Market

The Boston single-family housing market continued to recover through early 2014, with moderate job growth supporting increased demand during the past year. Weather conditions likely contributed to the drop in both the volume of single-family home sales and the inventory of homes for sale in 2014, compared with the previous year, while limited inventory put upward pressure on home prices. RCG expects inventory to increase going forward as price appreciation encourages more owners to list their homes. Construction activity is also on the rise, with new single-family permitting during the past 12 months reaching the highest level since early 2008. Going forward, new development should increase slowly, limited by rising construction costs and restrictive local land-use policy. We expect new permitting activity to peak at around 6,000 homes annually during 2015 and 2016, with new construction tapering during the latter part of the forecast period. As single-family demand grows and new supply remains modest, we anticipate home price appreciation that averages 4.3% annually throughout the forecast period. Rising prices and mortgage rate normalization will, however, reduce affordability and limit access to homeownership for many households, particularly Boston's growing number of young echo-boomer households.



### Single Family Risk Assessment

2014f-2015f: Low

2016f-2018f: Low

### Avg. Permits (Units, thou.)

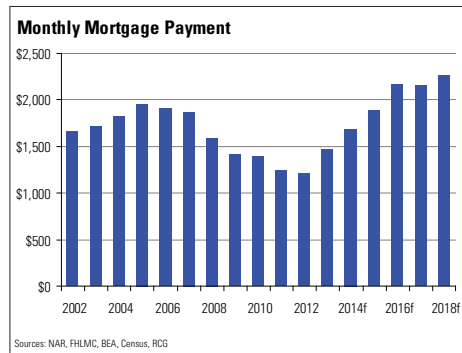
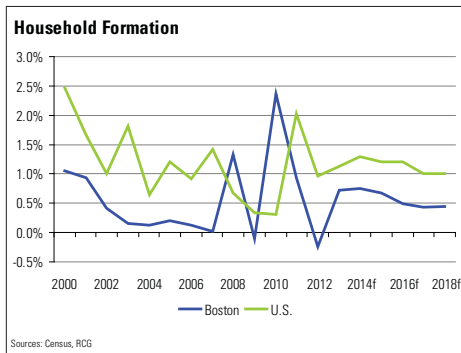
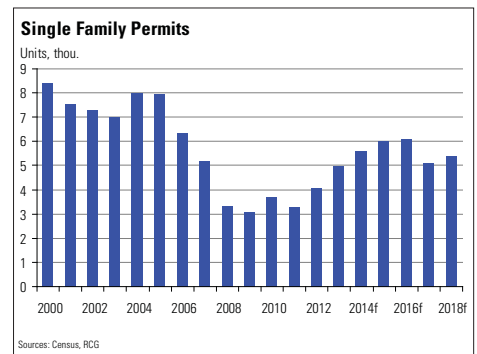
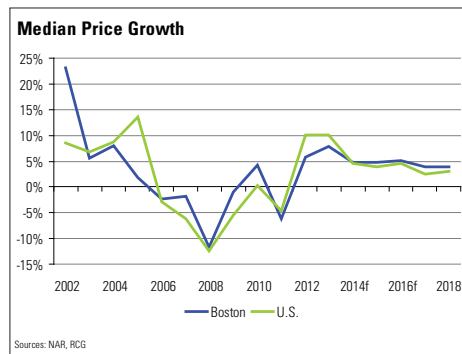
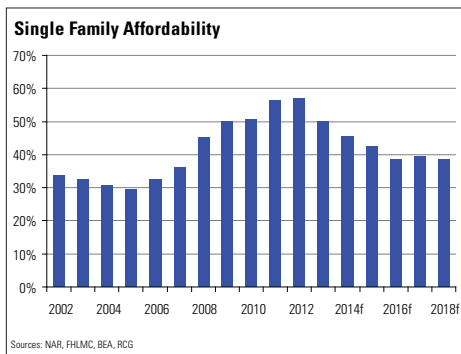
2009-2013: 3.8

2014f-2018f: 5.6

### Avg. Median Price Growth

2009-2013: 2.1%

2014f-2018f: 4.4%



### Least Affordable Single Family Housing Markets

Metro Area	Afford. Rate	Metro Area	Afford. Rate
San Francisco, CA	19.2%	San Diego, CA	33.8%
Honolulu, HI	20.6%	Ventura, CA	36.1%
Santa Barbara, CA	21.6%	Seattle, WA	48.4%
Salinas, CA	23.7%	Boston, MA	50.2%
San Jose, CA	25.8%	Miami, FL	50.3%
Oakland, CA	25.9%	Ft. Lauderdale, FL	50.7%
Orange County, CA	26.7%	Newark, NJ	52.8%
New York, NY	32.4%	West Palm Beach, FL	53.8%
Los Angeles, CA	33.6%	Inland Empire, CA	55.4%
Santa Rosa, CA	33.8%	Denver, CO	55.7%

Sources: RCG, Census, BLS, Freddie Mac, various Realtor associations

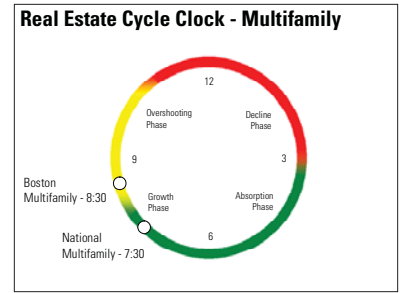
### Single Family Housing Statistics<sup>(1)</sup>

	2009	2010	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
Stock (Units, 000)	960.6	964.3	967.6	971.6	976.6	982.2	988.2	994.3	999.4	1,004.8
Building Permits (Units, 000)	3.1	3.7	3.3	4.1	5.0	5.6	6.0	6.1	5.1	5.4
Existing Median Price	\$332,500	\$346,300	\$325,000	\$344,000	\$371,300	\$388,751	\$407,411	\$427,782	\$444,037	\$461,355
%Change	-1.0%	4.2%	-6.2%	5.8%	7.9%	4.7%	4.8%	5.0%	3.8%	3.9%
Freddie Mac House Price Index	130.1	128.1	124.7	127.5	138.3	143.8	149.6	155.8	161.2	166.9
%Change	-1.2%	-1.6%	-2.6%	2.3%	8.4%	4.0%	4.0%	4.2%	3.5%	3.5%
Monthly Mortgage Payment	\$1,414.97	\$1,389.49	\$1,242.28	\$1,214.36	\$1,470.55	\$1,688.58	\$1,891.69	\$2,163.10	\$2,152.67	\$2,260.52
Households Able to Afford a Median Priced Home	50.2%	50.8%	56.3%	57.2%	50.2%	45.5%	42.3%	38.2%	39.5%	38.5%

(1) Data on permits are year-to-date. All growth rates are year-ago rates.

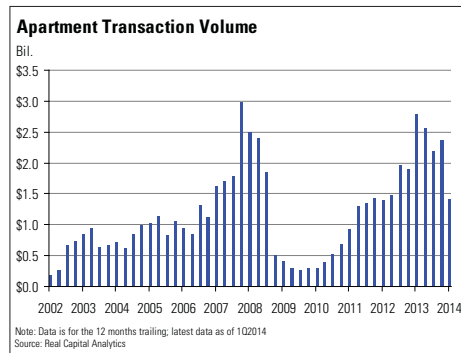
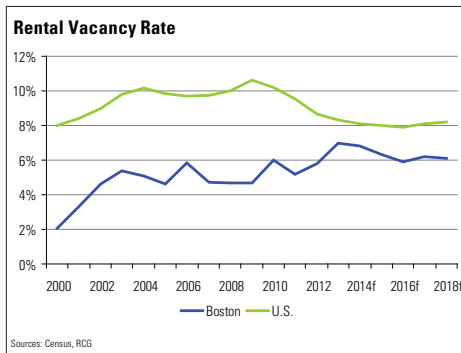
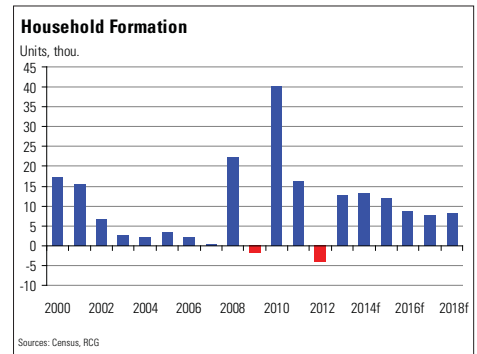
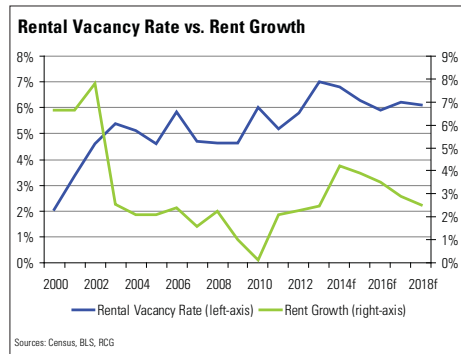
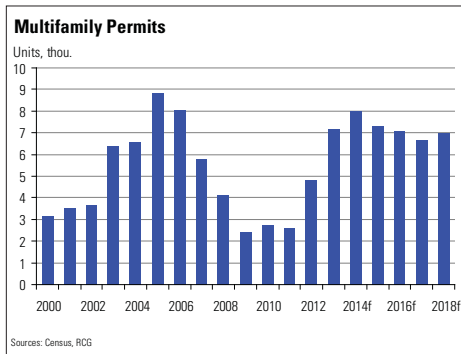
## Outlook: Multifamily Housing Market

Apartment market conditions eased somewhat through the first quarter of 2014 as slower job growth and deliveries of new supply combined to increase slightly the vacancy rate. Although occupancy remains high, according to MPF Research, the apartment vacancy rate rose by 20 basis points year-over-year, while rent growth averaged 3.0%. RCG expects permitting activity to peak in 2014 at around 8,000 units before declining to 7,000 units per year from 2015 to 2018. New construction represents a small fraction of the overall rental stock and is consistent with the pre-recession average from 2003 to 2007. However, the majority of the new development represents luxury units in the urban core. In the near term, strong competition will likely limit rent growth within this market segment, even as the overall rental market remains tight. RCG projects that the overall rental vacancy rate will stabilize near 6% through the medium term, with moderate rent growth from 2014 through 2018. Condo sales in Greater Boston increased slightly through the first quarter of 2014 year-over-year, with very limited inventory contributing to strong price appreciation. According to the Greater Boston Association of Realtors, condo listings reached the lowest level in more than a decade. While listings should rise in response to price appreciation, with limited new construction, condos should continue to appreciate, though at a more sustainable pace.



**Multifamily Risk Assessment**

2014f-2015f:	Low-Medium
2016f-2018f:	Low-Medium
<b>Avg. Permits (Units, thou.)</b>	
2009-2013:	3.9
2014f-2018f:	7.2
<b>Avg. CPI Rent Component Growth</b>	
2009-2013:	1.6%
2014f-2018f:	3.4%



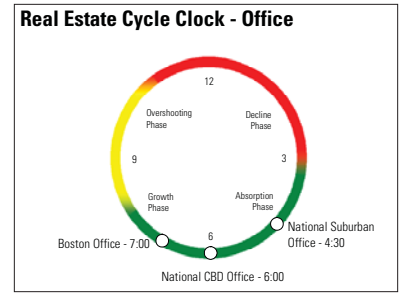
### Multifamily Housing Statistics<sup>(1)</sup>

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014f</u>	<u>2015f</u>	<u>2016f</u>	<u>2017f</u>	<u>2018f</u>
Stock (Units, 000)	889.7	892.2	894.9	898.0	903.4	910.8	918.6	925.9	932.9	939.6
Building Permits (Units, 000)	2.4	2.7	2.6	4.8	7.2	8.0	7.3	7.1	6.7	7.0
Units Delivered (000)	3.7	2.5	2.7	3.2	5.4	7.4	7.8	7.3	7.0	6.8
Net Absorption (Units, 000)	3.5	-9.7	9.7	-2.4	-5.7	8.7	11.9	10.5	3.8	7.3
Occupied Units (000)	848.3	838.6	848.3	845.9	840.2	848.9	860.7	871.2	875.0	882.3
Rental Vacancy Rate	4.7%	6.0%	5.2%	5.8%	7.0%	6.8%	6.3%	5.9%	6.2%	6.1%
CPI Rental Component	277.7	278.0	283.8	290.2	297.4	309.9	322.0	333.2	342.9	351.5
% Change	1.0%	0.1%	2.1%	2.3%	2.5%	4.2%	3.9%	3.5%	2.9%	2.5%

(1) Data on permits and units delivered are year-to-date. All growth rates are year-ago rates.

## Outlook: CBD Office Market

CBD market conditions in Boston remained stable through early 2014. The vacancy rate was essentially unchanged compared with a year prior, as rising levels of new construction balanced growing demand for CBD office space. Going forward, office-using employment should continue to grow at a strong pace, driving increased tenant demand. The Seaport submarket remains highly desirable, attracting new start-ups and drawing existing high-tech and life sciences firms from across the river in Cambridge and from suburban office locations in the long-established high-tech corridor along Route 128. Demand has also extended to traditional office-using firms. Rising demand and a moderate level of new construction in the coming years should put downward pressure on the CBD vacancy rate through the near term. Rent growth is expected to strengthen as market conditions tighten. Looking ahead, we expect the vacancy rate to decrease through the near term, before settling in the high-8% range from 2016 through 2018, with somewhat slower leasing velocity and new deliveries contributing to more modest rental appreciation through the medium term.



**Overall Office Risk Assessment**

2014f-2015f: Medium  
2016f-2018f: Medium

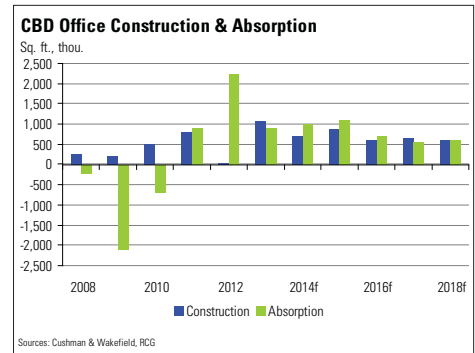
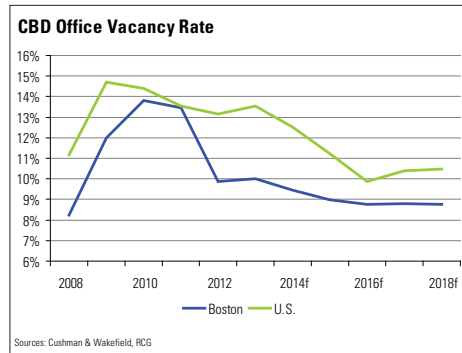
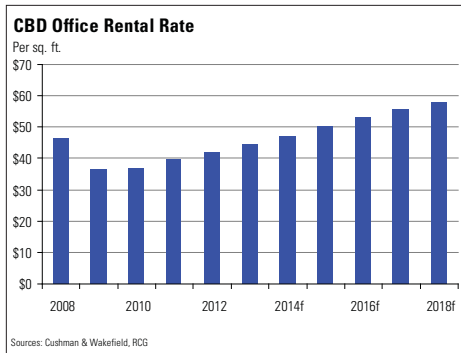
**CBD**

**Avg. New Const. (SF, thou.)**

2009-2013: 512.4  
2014f-2018f: 685.0

**Avg. Rent Growth**

2009-2013: -0.3%  
2014f-2018f: 5.4%



### Overall Office Market Statistics<sup>(1)</sup>

		2009	2010	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
Stock	(SF,000)	184,100	185,728	186,706	186,900	188,875	190,103	191,642	192,942	194,092	195,192
New Construction	(SF,000)	1,410	1,629	978	194	1,975	1,228	1,539	1,300	1,150	1,100
Net Absorption	(SF,000)	-6,934	180	3,353	5,059	2,792	2,000	2,200	1,600	950	1,180
Occupied Stock	(SF,000)	150,199	150,378	153,731	158,791	161,583	163,583	165,783	167,383	168,333	169,513
Vacancy Rate		18.4%	19.0%	17.7%	15.0%	14.4%	14.0%	13.5%	13.2%	13.3%	13.2%
Rent	(\$/SF)	\$25.32	\$25.92	\$26.74	\$26.74	\$27.74	\$29.06	\$30.93	\$32.75	\$34.02	\$35.23
Rent Growth		-15.8%	2.3%	3.2%	0.0%	3.9%	4.8%	6.4%	5.9%	3.9%	3.6%

### CBD Office Market Statistics<sup>(1)</sup>

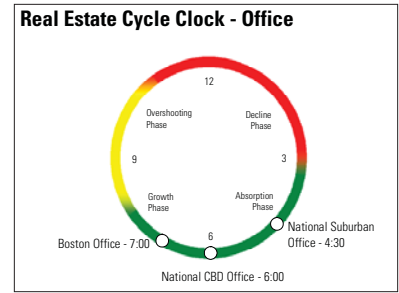
		2009	2010	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
Stock	(SF,000)	61,660	62,164	62,942	62,942	64,015	64,718	65,590	66,190	66,840	67,440
New Construction	(SF,000)	207	504	778	0	1,073	703	872	600	650	600
Net Absorption	(SF,000)	-2,109	-690	897	2,239	882	1,000	1,100	700	550	580
Occupied Stock	(SF,000)	54,271	53,581	54,478	56,717	57,599	58,599	59,699	60,399	60,949	61,529
Vacancy Rate		12.0%	13.8%	13.4%	9.9%	10.0%	9.5%	9.0%	8.7%	8.8%	8.8%
Rent	(\$/SF)	\$36.42	\$36.64	\$39.84	\$41.73	\$44.29	\$46.95	\$50.23	\$53.25	\$55.48	\$57.70
Rent Growth		-21.6%	0.6%	8.7%	4.7%	6.1%	6.0%	7.0%	6.0%	4.2%	4.0%

(1) Construction, net absorption and rent growth are year-to-date values.



## Outlook: Suburban Office Market

Despite the trend of high-tech and life sciences tenants moving to CBD locations, the submarkets along Route 128 continue to be the strongest, with increased office-using employment supporting strong leasing activity and rent growth through early 2014. Larger Class A spaces, particularly those greater than 50,000 square feet, remained in high demand throughout all of Boston's suburban submarkets. In Cambridge, growth in the high-tech and life sciences industries continues to generate strong tenant demand, especially in the Kendall Square submarket, where the market for Class A space is particularly tight despite new supply coming on-line. With a moderate level of new supply and increasing tenant demand in the coming years, RCG expects the suburban office vacancy rate to decrease to the mid-15% range in 2016, before stabilizing through the remainder of the forecast period. Increased absorption should support rent growth, with asking rents rising by an average annual rate of 5.6% through the near term. Thereafter, rent growth is expected to moderate to an average of 4.2% per year from 2016 through 2018.



### Overall Office Risk Assessment

2014f-2015f: Medium  
2016f-2018f: Medium

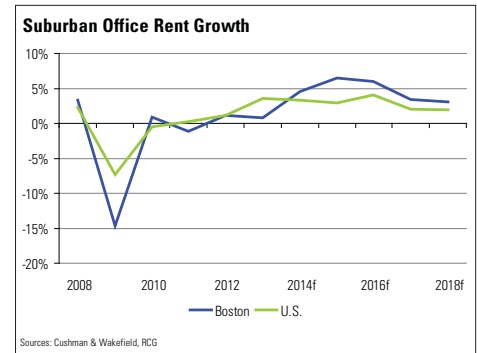
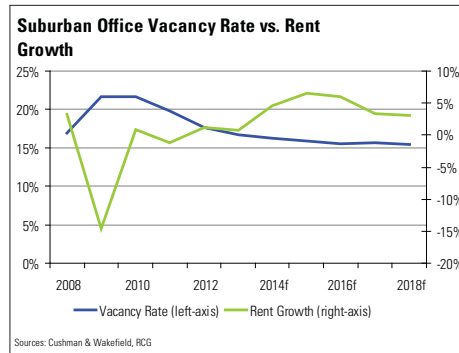
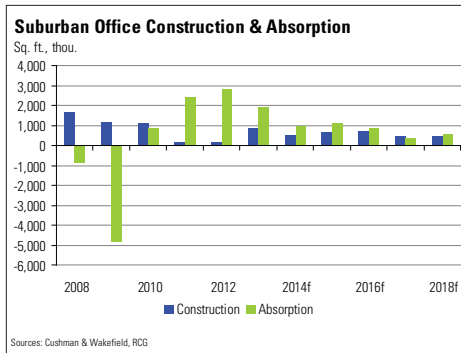
### Suburban

#### Avg. New Const. (SF, thou.)

2009-2013: 724.7  
2014f-2018f: 578.4

#### Avg. Rent Growth

2009-2013: -2.6%  
2014f-2018f: 4.7%



### Overall Office Market Statistics<sup>(1)</sup>

		2009	2010	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
Stock	(SF,000)	184,100	185,728	186,706	186,900	188,875	190,103	191,642	192,942	194,092	195,192
New Construction	(SF,000)	1,410	1,629	978	194	1,975	1,228	1,539	1,300	1,150	1,100
Net Absorption	(SF,000)	(6,934)	180	3,353	5,059	2,792	2,000	2,200	1,600	950	1,180
Occupied Stock	(SF,000)	150,199	150,378	153,731	158,791	161,583	163,583	165,783	167,383	168,333	169,513
Vacancy Rate		18.4%	19.0%	17.7%	15.0%	14.4%	14.0%	13.5%	13.2%	13.3%	13.2%
Rent	(\$/SF)	\$25.32	\$25.92	\$26.74	\$26.74	\$27.74	\$29.06	\$30.93	\$32.75	\$34.02	\$35.23
Rent Growth		-15.8%	2.3%	3.2%	0.0%	3.9%	4.8%	6.4%	5.9%	3.9%	3.6%

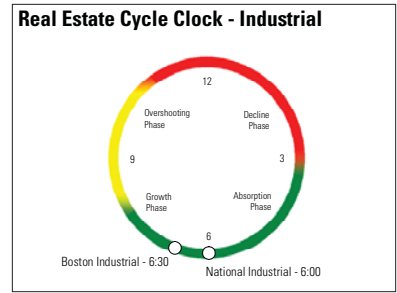
### Suburban Office Market Statistics<sup>(1)</sup>

		2009	2010	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
Stock	(SF,000)	122,440	123,565	123,765	123,959	124,861	125,386	126,053	126,753	127,253	127,753
New Construction	(SF,000)	1,203	1,125	200	194	902	525	667	700	500	500
Net Absorption	(SF,000)	-4,825	869	2,456	2,821	1,910	1,000	1,100	900	400	600
Occupied Stock	(SF,000)	95,928	96,797	99,254	102,074	103,984	104,984	106,084	106,984	107,384	107,984
Vacancy Rate		21.7%	21.7%	19.8%	17.7%	16.7%	16.3%	15.8%	15.6%	15.6%	15.5%
Rent	(\$/SF)	\$22.29	\$22.48	\$22.22	\$22.47	\$22.65	\$23.69	\$25.23	\$26.75	\$27.66	\$28.51
Rent Growth		-14.6%	0.9%	-1.2%	1.1%	0.8%	4.6%	6.5%	6.0%	3.4%	3.1%

(1) Construction, net absorption and rent growth are year-to-date values.

## Outlook: Industrial Market

Industrial market conditions improved rapidly during the past year, as sustained employment growth, broadening income growth and increased retail spending boosted demand for warehouse and distribution space. Moreover, robust growth in the region's life sciences and biotechnology industries during the past year continued to generate strong tenant demand for high-quality research and development space. Limited new construction and robust leasing activity across all property segments led to rapid absorption, a substantial decline in the overall industrial vacancy rate, and a sharp spike in average asking rents. Rent growth was strongest in the warehouse/distribution segment. Going forward, RCG expects moderate but sustained economic growth to continue to support rising tenant demand. New construction should remain modest through the near term, averaging 550,000 square feet per year, before rising to more than 770,000 square feet annually from 2016 through 2018. Despite increased construction, we project that tenant demand will outpace new deliveries throughout the forecast period, pushing the vacancy rate downward to the high-11% range in 2018. Rents should continue to rise, though at a more sustainable pace, considerably slower than the rapid appreciation achieved during the past year. Improving operating conditions contributed to increased investment demand, with industrial transaction volume in Boston rising by approximately 5% year-over-year to a total of \$218 million in the first quarter of 2014.



### Industrial Risk Assessment

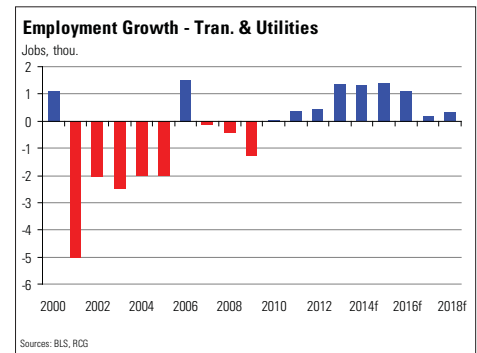
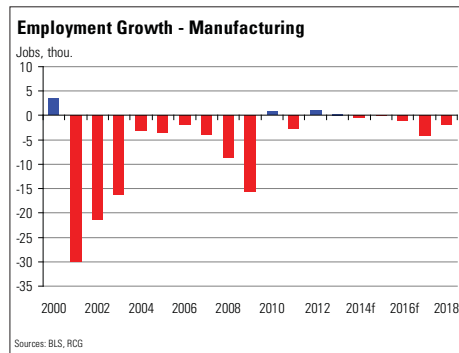
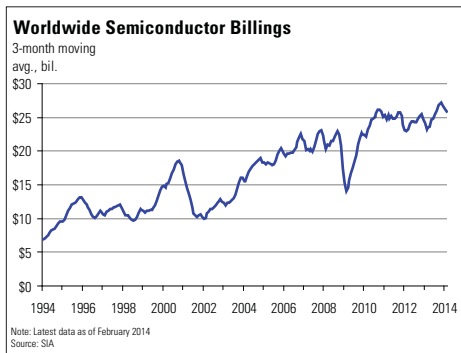
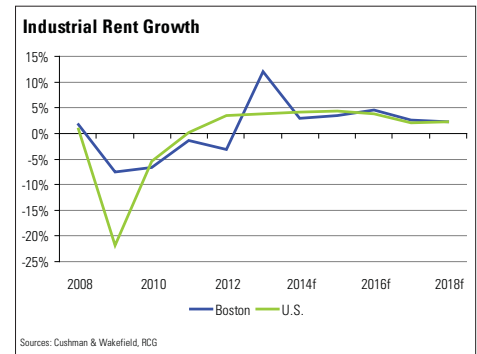
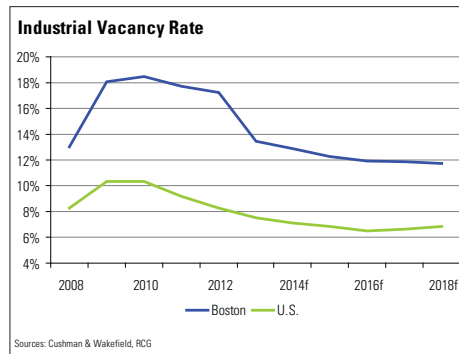
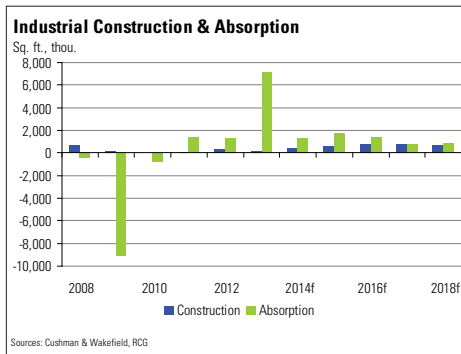
2014f-2015f: Medium  
2016f-2018f: Medium

### Avg. New Construction (SF, thou.)

2009-2013: 162.6  
2014f-2018f: 684.0

### Avg. Rent Growth

2009-2013: -1.4%  
2014f-2018f: 3.2%



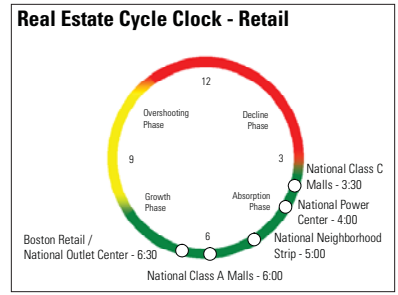
### Industrial Market Statistics<sup>(1)</sup>

		2009	2010	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
Stock	(SF,000)	183,004	183,004	183,141	183,490	183,672	184,122	184,772	185,552	186,352	187,092
New Construction	(SF,000)	145	0	137	349	182	450	650	780	800	740
Net Absorption	(SF,000)	-9,090	-734	1,427	1,257	7,128	1,300	1,750	1,400	800	900
Occupied Stock	(SF,000)	149,940	149,206	150,633	151,890	159,018	160,318	162,068	163,468	164,268	165,168
Vacancy Rate		18.1%	18.5%	17.8%	17.2%	13.4%	12.9%	12.3%	11.9%	11.9%	11.7%
Rent	(\$/SF)	\$6.57	\$6.13	\$6.04	\$5.85	\$6.56	\$6.75	\$6.99	\$7.30	\$7.49	\$7.66
Rent Growth		-7.6%	-6.7%	-1.5%	-3.1%	12.1%	3.0%	3.5%	4.5%	2.6%	2.2%

(1) Construction, net absorption and rent growth are year-to-date values.

## Outlook: Retail Market

Retail market operating conditions in Boston improved during the past year, as job growth, particularly in high-wage industries, helped to support personal income growth, increased consumer confidence and strong retail spending. The retail vacancy rate in Boston contracted to 5.0% in 2013, the lowest vacancy rate in the market since 2005. Going forward, employment gains and home price appreciation should continue to boost consumer confidence, contribute to growth in retail sales and generate increased tenant demand for retail space. In the near term as leasing activity increases, we expect the retail vacancy rate to trend downward, reaching 4.3% in 2015, before stabilizing through the remainder of the forecast period as new supply comes online. We expect the average asking rent to increase at an average annual rate of 3.7% from 2014 through 2018. Construction is likely to increase in the coming years, with new deliveries expected to exceed 1.2 million by 2015, before averaging nearly 1.5 million square feet of new deliveries annually from 2016 through 2018. On the investment side, acquisition activity was very strong to start the year, with the total sales volume exceeding \$300 million in the first quarter of 2014, according to Real Capital Analytics. This represented the highest level of investment activity since 2008 and was well above the \$155 million in transaction volume during the first quarter of 2013.



### Retail Risk Assessment

2014f-2015f: Low-Medium

2016f-2018f: Low-Medium

### Avg. New Construction (SF, thou.)

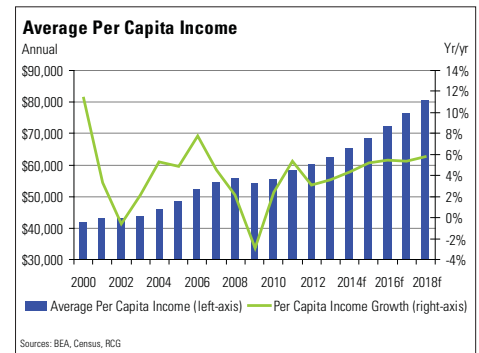
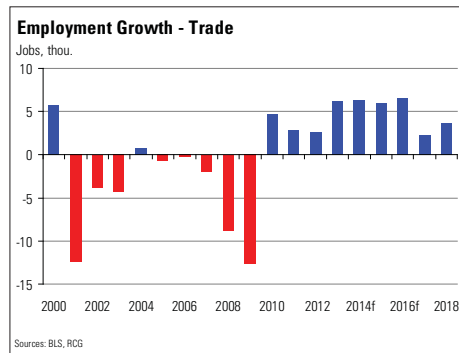
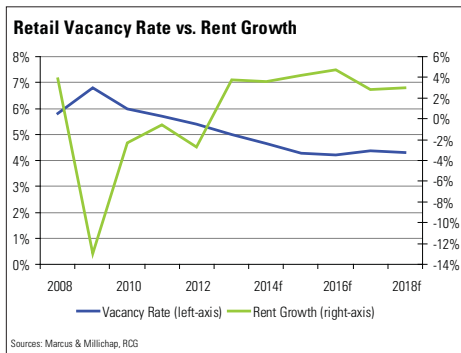
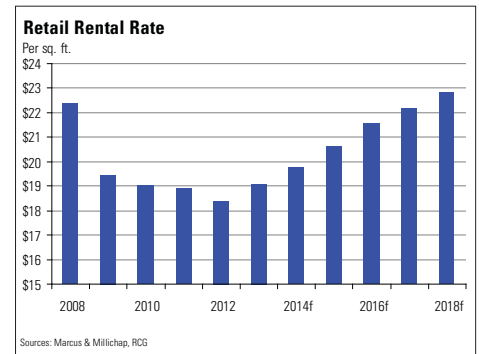
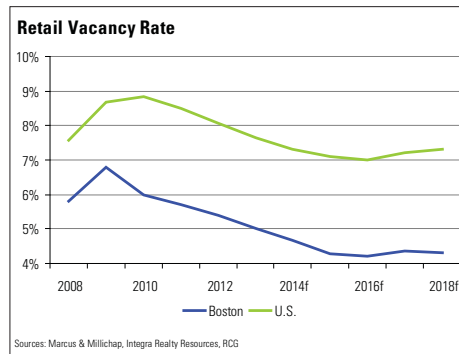
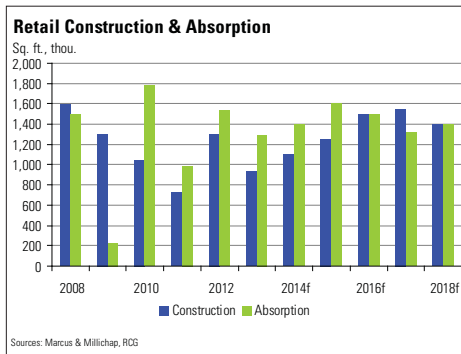
2009-2013: 1,059.8

2014f-2018f: 1,360.0

### Avg. Rent Growth

2009-2013: -3.0%

2014f-2018f: 3.7%



### Retail Market Statistics<sup>(1)</sup>

		2009	2010	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
Stock	(SF,000)	99,563	100,609	101,332	102,632	103,562	104,662	105,912	107,412	108,962	110,362
New Construction	(SF,000)	1,300	1,046	723	1,300	930	1,100	1,250	1,500	1,550	1,400
Net Absorption	(SF,000)	229	1,780	984	1,534	1,294	1,400	1,600	1,500	1,325	1,400
Occupied Stock	(SF,000)	92,793	94,572	95,556	97,090	98,384	99,784	101,384	102,884	104,209	105,609
Vacancy Rate		6.8%	6.0%	5.7%	5.4%	5.0%	4.7%	4.3%	4.2%	4.4%	4.3%
Rent	(\$/SF)	\$19.46	\$19.02	\$18.91	\$18.39	\$19.08	\$19.77	\$20.60	\$21.57	\$22.17	\$22.83
Rent Growth		-13.0%	-2.3%	-0.6%	-2.7%	3.8%	3.6%	4.2%	4.7%	2.8%	3.0%

(1) Construction, net absorption and rent growth are year-to-date values.



---

**Boston, MA**

---

**Explanatory Notes for Data Tables**

<b>Economic Indicators</b>	<b>Comments</b>	<b>Source*</b>
Employment	Quarterly columns are percent change between indicated monthly level. Annual data are year-end.	Bureau of Labor Statistics
Unemployment	Quarterly columns reflect seasonally adjusted rate for the indicated month. Annual data are year-end.	Bureau of Labor Statistics
Income	All income concepts are annual averages.	Bureau of Economic Analysis
<b>Demographic Indicators</b>		
Population	Data through 2000 are from the Census Bureau intercensal data calculated by RCG until new MSA intercensal estimates are released by the Census Bureau.	Bureau of the Census
Net Migration	Calculated by RCG by netting out natural increase (births less deaths) from population growth.	Bureau of the Census
Households	All intercensal data are calculated by RCG.	Bureau of the Census
<b>Household Market Activity</b>		
Existing Median Price	Quarterly columns are percent change between indicated quarter and year-ago levels. Annual data are averages.	National Assoc. of Realtors
Freddie Mac House Price Index	Quarterly columns are percent change between quarter and year-ago levels. Annual data are averages.	Federal Home Loan Mtg. Corp.
Affordability	Based on FHLMC 30-year, fixed interest rate mortgage, 80% LTV, HH income, and median existing home price.	RCG
Housing Stock	Stock increased by permits in intercensal years.	Bureau of the Census, RCG
Housing Permits	Quarterly numbers are year-to-date.	Bureau of the Census
Rental Vacancy Rate	Small sample of all units.	Bureau of the Census
Rental CPI	Rent of primary residence component of CPI.	Bureau of Labor Statistics
<b>Commercial Real Estate Markets</b>		
Office Market Data:	All competitive office buildings of significant size, excluding government, medical and owner occupied buildings.	Cushman & Wakefield
Industrial Market Data:	All competitive industrial buildings of significant size, excluding self storage.	Cushman & Wakefield
Retail Market Data:	All competitive retail properties of significant size.	Marcus & Millichap
All Variables:	New construction and net absorption reflect year-to-date totals. Vacancy and rents are as of the end of the current quarter. Rents are weighted by the amount of available space.	

\* All 2014 to 2018 data are forecasts by RCG.