

BOSTON OFFICE MARKET

SECOND QUARTER 2017

OFFICE **STATUS**



CHARLES RIVER | BOSTON

Inside...

- » Big quarter for the I-495 belt.
- » Large deals to commence in the second half of the year.
- » Rents in East Cambridge continue to climb.
- » Kronos and the Boston Globe move into their new space.
- » Amazon signs lease in Seaport District.
- » Construction officially underway at 399 Binney St. in East Cambridge.

BOSTON OFFICE MARKET

SECOND QUARTER 2017

Positive Absorption on the Horizon

Suburban Markets, Interstate 495 Perform Well

After experiencing four straight quarters of positive absorption, the 185-million-square-foot Greater Boston office market saw things cool down in the second quarter of 2017. Despite an uncharacteristic negative absorption of 102,000 square feet, there are many bright spots on the horizon to suggest this negativity will be short lived. With 1.7 million square feet of positive absorption over the last twelve months, many large deals to commence by year end, and the fact that the market has never experienced back-to-back quarters of negative absorption, the historical trend points to a positive turnaround in the near future.

The suburban markets led the charge in the Greater Boston market, as the Route 128 and Interstate 495 markets posted an aggregate absorption figure of 217,000 sf. For the third consecutive quarter, Interstate 495 experienced positive absorption, this time positively absorbing 396,000 square feet, the largest since 2008. Activity was spurred from several tenant move-ins, most notably, Kronos and Whole Foods. The 34.1 million square foot office market saw vacancy decrease 1.4 percentage points to 19.9 percent, while the average asking rent for all office space increased slightly to \$19.36 per square foot.

The 11 million square foot Cambridge office market saw 108,000 square feet negatively absorbed in the second quarter of 2017. The vacancy rate in Cambridge is 3.9 percent, increasing 1.1 percentage points from last quarter, but remaining well below the five-year-average of 5.7 percent. The average asking rent for Class A space is \$63.93 per square foot, while Class B space is currently valued at an average price of \$58.75 per square foot. New to the construction pipeline is 399 Binney St. in East Cambridge, where 172,500 square feet of office and lab are expected to be delivered towards the end of 2018.

The 74 million square foot Boston CBD market experienced 195,000 sf of negative absorption but continued to demonstrate strong leasing fundamentals, most notably with Amazon signing a large lease at 253 Summer Street for 150,000 square feet, where it will join General Electric along the Fort Point Channel as the latest blue-chip company to secure a large presence in the Seaport District. Leasing velocity was strong across the board, with many notable tenants inking deals, including ASICS at 125 Summer Street for 25,000 square feet, and Shoes.com for 31,000 square feet at One Constitution Wharf. In a move emphasizing location, workplace efficiency and rebranding, The Boston Globe officially moved out of Dorchester and into its new 75,000 square foot headquarters at 53 State Street in the Financial District. Downtown absorption will likely rebound as many of these tenants prepare to take occupancy, with vacancy likely to remain under 10 percent as it has since 2014.

As it so often has, the Greater Boston economy continues to outperform the national economic metrics. Grounded by education and health care, and a current unemployment rate of approximately 2.5 percent, Boston's economy remains one of the healthiest markets in the U.S. As the city of Boston, and the surrounding suburbs, becomes increasingly popular amongst the millennial generation, expect more of this same success for Boston in the future.


TRENDLINES

5-YEAR TREND CURRENT QUARTER

VACANCY RATES

 **12.3%**
Vacancy Rates remained flat

ABSORPTION

 **(102k) SF**
Absorption decreased slightly in Q2

RENTAL RATE

 **\$44.54 PSF**
Average asking rents continue to rise

RBA DELIVERED

 **0K SF**
No new deliveries occurred in Q2

AVERAGE OFFICE SALE PRICE

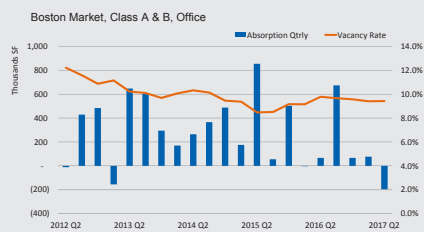
 **\$337 PSF**
Average sale price dropped slightly

OFFICE-USING EMPLOYMENT

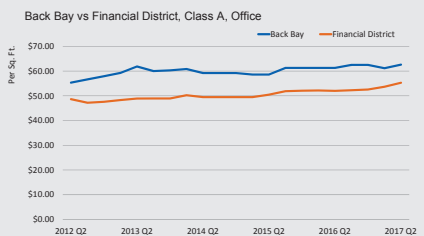
 **+3,253 jobs**
Job growth remained healthy this quarter

BOSTON

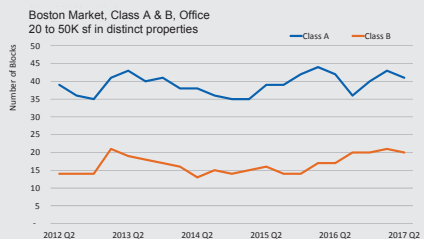
ABSORPTION



ASKING RENTS



CONTIGUOUS BLOCKS



- Absorption has been positive 15 of the last 17 quarters, totaling 5.1 million square feet during that time.
- Overall vacancy is 9.4 percent, remaining below the five year average of 9.9 percent, with both Class A and Class B vacancy hovering around 9.5 percent.
- Class B rents have risen significantly in the past year, as demand persists for low-rise “value” space downtown.
- The most expensive average asking rents for Class A office space continue to belong to the Back Bay, with an average asking price of \$62.61 per sf.
- Amazon leased 150,000 sf at 253 Summer St., joining General Electric along the Fort Point Channel as the latest blue-chip company to secure a large presence in the Seaport District.
- ASICS leased 25,000 sf at 125 Summer St., while Shoes.com grew its Boston footprint by leasing 31,000 sf at One Constitution Wharf.
- The Boston Globe officially moved into 75,000 sf at 53 State St., while Klaviyo moved into 26,000 sf at 225 Franklin St., and Smartsheet took 19,000 sf at 179 Lincoln St.
- Rockpoint Group sold Tower Point (27-43 Wormwood St.) in the Seaport to Northwood Investors for \$86.8 million (155,700 sf, \$558/sf), while it also purchased 160 Federal St. from Beacon Capital Partners for \$190 million (366,650 sf, \$518/sf).

Boston Office Market Indicators by Class

SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF	4QTR** CHANGE
Class A	46,493	0	(181)	712	1.7%	9.5%	\$57.13	4.8%
Class B	27,438	0	(14)	(90)	-0.4%	9.4%	\$44.08	8.8%
Boston Total	73,931	0	(195)	622	0.9%	9.4%	\$53.60	4.7%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

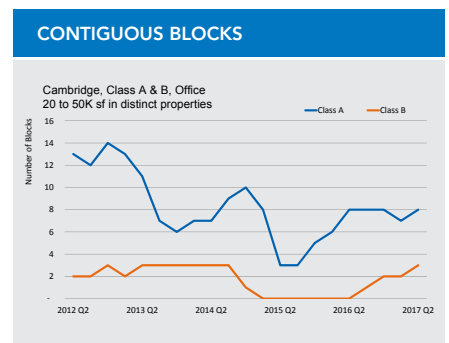
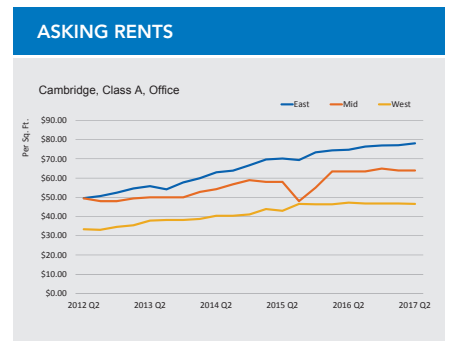
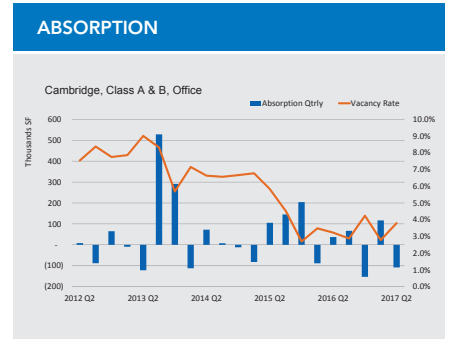
*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

BOSTON OFFICE MARKET

SECOND QUARTER 2017

CAMBRIDGE

- **The Cambridge office market saw 108,000 sf** negatively absorbed this quarter, as the vacancy increased to 3.8 percent, while 33 percent of the vacancy belongs to the departure of Biogen at 105 Broadway.
- **The average asking rent for office space in Cambridge** ranges from approximately \$45 per sf in West Cambridge to nearly \$75 per sf in East Cambridge, with Mid Cambridge trading in between at \$64 per sf.
- **The 6.1 million square foot Class A office market** continues to be the most expensive office product in all of Greater Boston, with a current average asking rent of \$78.06 per sf, with trophy space trading in the mid \$90s.
- **Inari Agriculture moved into 20,000 sf** at 200 Sidney St. in Mid Cambridge, while Draper Laboratory moved into 141 Portland St. in East Cambridge, occupying nearly 16,000 sf.
- **A new development in East Cambridge officially broke ground**, 399 Binney Street, a 172,500 sf Class A office and lab building expected to be delivered at the end of next year.
- **Notable signed leases include** a fifteen-year renewal for InterSystems at One Memorial Drive for 238,000 sf, and an expansion/extension for Sage Therapeutics at 215 First St. where they occupy nearly 55,000 sf.
- **Divco West recently broke ground** on their 435,000-square foot speculative lab building at North Point (250 North Street), which includes 15,000 sf of retail.



Cambridge Office Market Indicators by Class

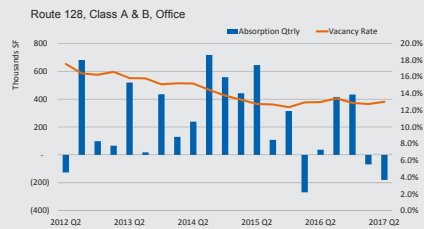
SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF	4QTR** CHANGE
Class A	8,083	0	(136)	(115)	-1.5%	4.2%	\$63.93	1.6%
Class B	2,944	0	12	23	0.8%	3.3%	\$58.75	28.1%
Cambridge Total	11,027	0	(108)	(77)	-0.7%	3.8%	\$63.09	7.3%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

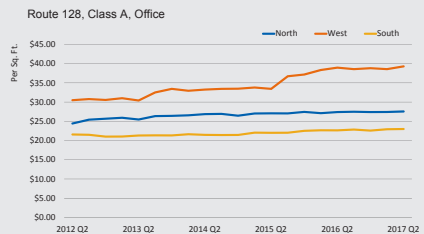
*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

ROUTE 128

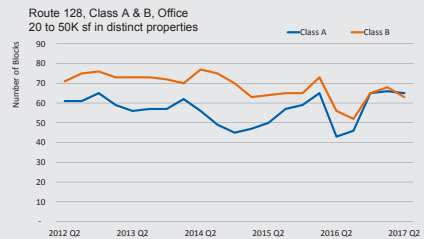
ABSORPTION



ASKING RENTS



CONTIGUOUS BLOCKS



- **Despite negative absorption of 179,000 sf this quarter**, Route 128 has experienced 602,000 sf of positive absorption during the last twelve months.
- **Overall vacancy in the Route 128 submarkets is 13.0 percent**, with Class A space 12.2 percent vacant and Class B space 14 percent vacant.
- **Route 128 North performed the best** experiencing **2,000 sf** of positive absorption, bringing the twelve month total to 201,000 sf; and while Route 128 South struggled this quarter, seeing 66,000 sf negatively absorbed, its twelve month total remains strong at 116,000 sf positively absorbed.
- **The lowest vacancy rate amongst the Route 128 submarkets** belongs to Route 128 West, whose 23.2 million sf office market is only 11.4 percent vacant.
- **Notable move-ins included** HTS Engineering at 1 Corporation Way in Peabody, and The Alzheimer's Association at 309 Waverly Oaks Rd in Waltham, while Mimecast signed a large lease at 191 Spring St. in Lexington, where they will occupy more than 100,000 sf in Q4 2017.
- **Of the negative absorption**, the two buildings with the greatest movement included 28 Crosby Drive in Bedford where ConForMIS vacated 90,000 sf, and 93 Worcester St. in Wellesley where Partners HealthCare moved out of 80,000 sf and relocated to their new headquarters in Somerville.
- **Norwood Business Center** (1400 Providence Highway) in Route 128 South was sold by Calare Properties to Jumbo Capital Management for \$14 million (156,000 sf, \$90 per sf).

Route 128 Office Market Indicators by Class

SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF	4QTR** CHANGE
Class A	34,383	0	(139)	390	1.3%	12.2%	\$31.23	1.4%
Class B	27,829	0	(40)	212	0.9%	14.0%	\$23.37	6.1%
Route 128 Total	61,931	0	(179)	602	1.1%	13.0%	\$27.79	2.8%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

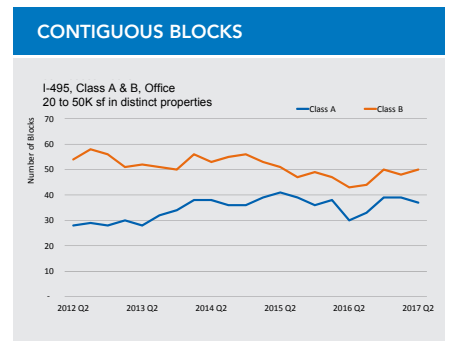
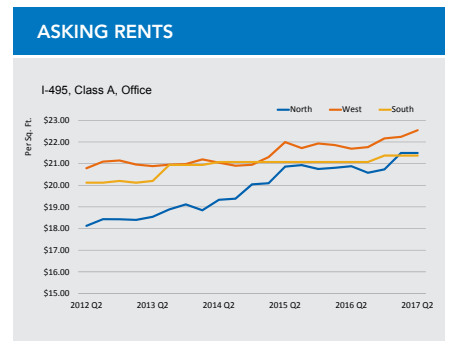
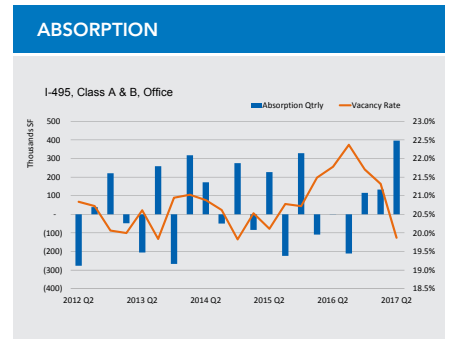
*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

BOSTON OFFICE MARKET

SECOND QUARTER 2017

INTERSTATE 495

- For the third consecutive quarter, the Interstate 495 market experienced positive absorption, with 396,000 sf in the second quarter of 2017, increasing the twelve-month total to 434,000 sf.
- The I-495 market saw vacancy drop significantly to 19.9 percent, while the average asking rent continues to rise, currently at \$19.36 per sf.
- Of the 396,000 sf of net positive absorption, I-495 West was responsible for 133,000 sf, its largest since the fourth quarter of 2015, while I-495 North contributed 169,000 sf.
- I-495 South also saw its largest level of positive absorption since 2012, with 94,000 sf positively absorbed, while vacancy decreased to 10.3 percent.
- Class A vacancy along the I-495 belt is currently 14.9 percent, dropping from 16.2 percent last quarter, while Class B vacancy is 23.6 percent, down from 25.0 percent last quarter.
- Noteworthy activity in the I-495 markets included Kronos officially moving into Cross Point in Lowell, and Whole Foods taking 50,000 sf at 200 Forest St. in Marlborough.
- Several leases were signed this quarter including Smith & Nephew renewing 112,000 sf in Andover at 150 Minuteman Park and Vision Government Solutions signing a new deal for 15,500 sf at 1 Cabot Road in Hudson.



I-495 Office Market Indicators by Class

SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF	4QTR** CHANGE
Class A	14,536	0	295	702	5.7%	14.9%	\$22.00	3.5%
Class B	19,588	0	102	(268)	-1.8%	23.6%	\$17.14	1.2%
I-495 Total	34,124	0	396	434	1.6%	19.9%	\$19.36	2.7%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

Greater Boston Office Market Indicators by Submarket

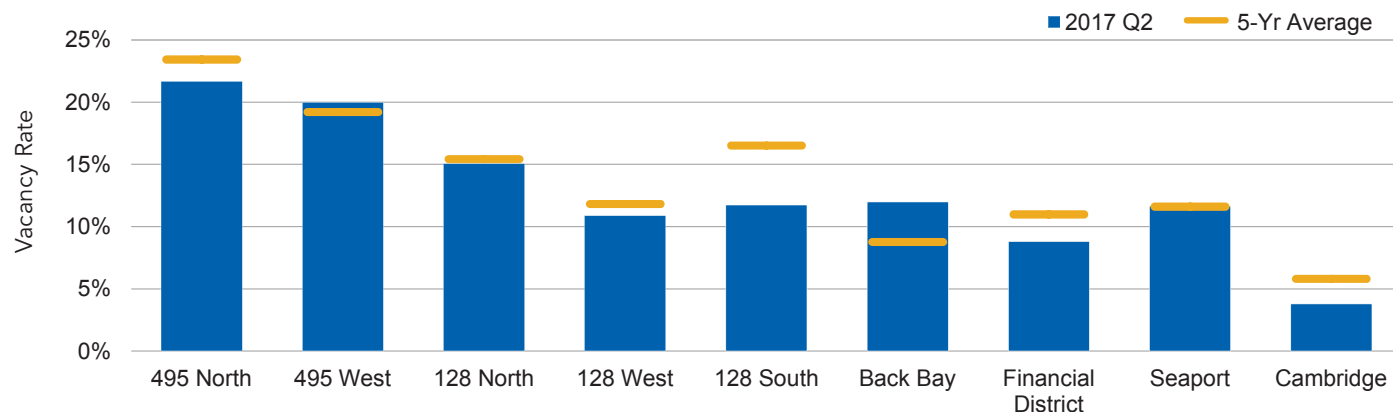
SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF CLASS A	4QTR*** CHANGE
Financial District	36,170	0	(134)	297	0.9%	8.8%	\$55.29	6.3%
Back Bay	14,284	0	(47)	108	0.9%	12.0%	\$62.61	2.1%
Longwood/Inner South	5,541	0	34	92	1.8%	7.9%	\$38.68	-
Seaport District	9,473	0	(34)	(71)	-0.9%	11.4%	\$58.66	2.1%
Charlestown	2,782	0	(6)	243	9.0%	3.3%	\$46.00	-
Midtown	2,217	0	(9)	(47)	-2.4%	13.8%	\$50.00	-
North Station	2,391	0	1	(48)	-2.1%	5.6%	\$52.00	-
South Station	1,498	0	5	16	1.1%	5.0%		-
Boston Total	73,931	0	(195)	622	0.9%	9.4%	\$57.13	4.8%
East Cambridge/Kendall Square	7,232	0	(98)	(15)	-0.2%	3.2%	\$78.06	4.5%
Mid Cambridge/Harvard Square	2,129	0	5	(101)	-5.0%	4.9%	\$63.94	0.8%
West Cambridge/Alewife Station	1,666	0	(16)	40	2.5%	4.9%	\$46.55	1.4%
Cambridge Total	11,027	0	(108)	(77)	-0.7%	3.8%	\$63.93	1.6%
Inner North/Streetcar Suburbs	3,714	0	(22)	217	6.9%	15.2%	\$30.81	-
Suburban Submarkets (excl Cam)	99,769	0	195	1,253	1.5%	15.4%	\$28.23	1.5%
Route 128 North	26,185	0	2	201	0.9%	15.1%	\$27.55	0.6%
Route 128 West	23,276	0	(115)	285	1.4%	11.4%	\$39.28	0.9%
Route 128 South	12,470	0	(66)	116	1.1%	11.7%	\$22.99	1.5%
Route 128 Total	61,931	0	(179)	602	1.1%	13.0%	\$31.23	1.4%
I-495 North	15,160	0	169	465	3.9%	21.4%	\$21.49	2.9%
I-495 West	16,340	0	133	(206)	-1.6%	20.0%	\$22.54	3.9%
I-495 South	2,623	0	94	175	7.4%	10.3%	\$21.37	1.4%
I-495 Total	34,124	0	396	434	1.6%	19.9%	\$22.00	3.5%
Route 128 & I-495 Total	96,055	0	217	1,036	1.3%	15.4%	\$28.18	1.6%
Greater Boston Market Total	185,151	0	(102)	1,766	1.1%	12.3%	\$44.54	4.8%

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

*LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

Context: Vacancy Rate by Submarket

Class A & B, Office



METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Boston metropolitan area. This report includes single-tenant, multi-tenant office properties 20,000 sf and larger, excluding condo and medical office facilities and those properties owned and occupied by a user or government agency.

CONTACT

Chase Bourdelaise
Director of Research, Northeast Region
617.439.9313
Chase.Bourdelaise@transwestern.com

Tom Hovey
Research Analyst
617.778.7163
Thomas.Hovey@transwestern.com



99 High Street, 30th Floor
Boston, MA 02110

T 617.439.6000 **F** 617.439.9707
www.transwestern.com/boston

Copyright © 2017 Transwestern. All rights reserved. No part of this work may be reproduced or distributed to third parties without written permission of the copyright owner. The information contained in this report was gathered by Transwestern from CoStar and other primary and secondary sources believed to be reliable. Transwestern, however, makes no representation concerning the accuracy or completeness of such information and expressly disclaims any responsibility for any inaccuracy contained herein.