

# BOSTON OFFICE MARKET

THIRD QUARTER 2016

OFFICE **STATUS**



BEACON HILL | BOSTON

## *Inside...*

- » Greater Boston sees 899,000 sf absorbed this quarter
- » America's Test Kitchen moving to Seaport
- » Only 30,000 sf vacant in all of Mid Cambridge
- » Route 128 South positive absorption streak continues
- » GE Healthcare and Athena Diagnostics both expand in Marlborough

\*Unless otherwise noted, all data is as of or for the quarter ended September 30, 2016.

## One and a Half Million Square Feet Delivered This Quarter

Low Cost of Borrowing Pushes Further Development and Foreign Investment

The Greater Boston office market produced a strong third quarter with signs pointing toward a solid close for 2016. 899,000 square feet was absorbed during the quarter, while 1.5 million square feet of deliveries increased the vacancy 0.4 percentage points to 13.1 percent. Class A average asking rents have increased 2.6 percent since the first quarter of this year, with an average rate of \$43.04 per square foot.

Tenant activity remains strong in the Boston CBD, with 644,000 square feet of positive absorption this quarter. Vacancy remained unchanged at 9.7 percent due to 655,000 square feet being delivered (888 Boylston Street and 80 Guest Street). While average Class A rents have seen little change in the last twelve months, remaining in the mid-\$50s, Class B average rents have increased 12.1 percent since the third quarter of 2015, with a current price of \$41.31 per square foot.

The Cambridge office market boasts a vacancy rate of 2.9 percent, reflecting a 0.3 percentage point decrease from last quarter, on 67,000 sf of positive absorption. The East Cambridge office market currently has a vacancy rate of 2.7 percent, the lowest rate since 2000. Mid and West Cambridge are tight as well, with vacancy rates of 1.4 percent and 5.4 percent, respectively. However, with an average asking rate of \$76.39 per sf in East Cambridge, tenants experience savings of 20.4 percent in Mid Cambridge (\$63.46 per square foot) and 63.3 percent in West Cambridge (\$46.78 per square foot).

Route 128 submarkets saw 416,000 square feet absorbed this quarter. The vacancy rate increased 0.4 percentage points to 13.4 percent, due to 484,000 square feet having been delivered to the market. Class A asking rents have seen a 5.2 percent increase in the past year with a current average price of \$31.02 per square foot. The I-495 belt saw 210,000 square feet of negative absorption this quarter, but has seen 11,000 square feet of positive absorption in the last twelve months. The vacancy rate increased 0.6 percentage points to 22.4 percent. Class A rents remain stagnant in the low \$20s, with a current rate of \$21.17 per sf.

With low borrowing costs due to the last Federal interest rate hike occurring in December 2015, development has taken off. There were 1.5 million square feet delivered to the market this quarter and an additional 3.4 million square feet are currently under development. International investors, primarily Canadian and German, have made long term bets on the Boston market. In 2016 alone, German investors have purchased five office buildings totaling \$833.3 million. Canadian investments total \$1.64 billion in six properties over the last 24 months. Things to keep an eye on in the near future will be sale metrics and buyers of newly completed properties.

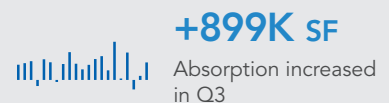
### TRENDLINES

5-YEAR TREND    CURRENT QUARTER

#### VACANCY RATES



#### ABSORPTION



#### RENTAL RATE



#### RBA DELIVERED



#### AVERAGE OFFICE SALE PRICE

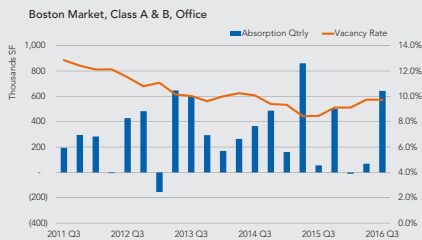


#### OFFICE-USING EMPLOYMENT

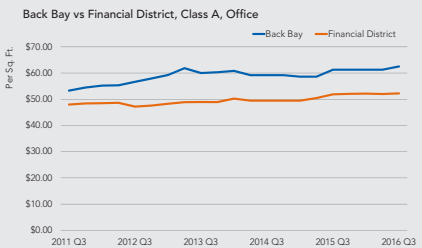


## BOSTON CBD

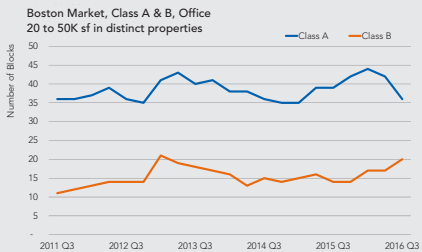
### ABSORPTION



### ASKING RENTS



### CONTIGUOUS BLOCKS



- The Boston CBD experienced **644,000 sf of positive absorption**, while 655,000 sf of newly delivered construction kept the vacancy rate steady at 9.7 percent.
- **Class A average asking rents have risen 63 cents** from last quarter to a price of \$51.80 per square foot.
- **After a relatively slow start to 2016**, the Back Bay submarket saw 315,000 sf of positive absorption.
- **Class B space in the Financial District** is currently 8.6 percent vacant, holding a sub-nine percent vacancy rate for five consecutive quarters.
- **America's Test Kitchen signed a lease** for 52,000 sf at 21 Drydock Avenue, Red Hat committed to 39,000 sf at 300 A Street, and Stifel signed a lease for 21,000 sf at 125 High Street.
- **WeWork moved into 113,000 sf** at 31 Saint James Avenue, ABRY Partners moved into 52,000 sf at the newly completed 888 Boylston Street, and AECOM moved into 55,000 sf at 1 Federal Street.
- **Class A inventory in the Seaport** has more than doubled in three years, growing from 1.8 million sf to the current level of 3.7 million sf.
- **Nearly two million sf have been delivered to the Boston CBD** in the last 12 months, with another 899,000 sf in the pipeline.
- **Clarion Partners sold 535-545 Boylston Street** to John Hancock Life Insurance Company (\$100.5 million, 184,222 sf, \$545.54 per 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	46,615	655	385	1,004	2.4%	10.8%	\$54.96	1.5%
Class B	27,548	0	258	201	0.8%	7.9%	\$41.31	12.1%
<b>Boston Total</b>	<b>74,163</b>	<b>655</b>	<b>644</b>	<b>1,205</b>	<b>1.8%</b>	<b>9.7%</b>	<b>\$51.80</b>	<b>4.5%</b>

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

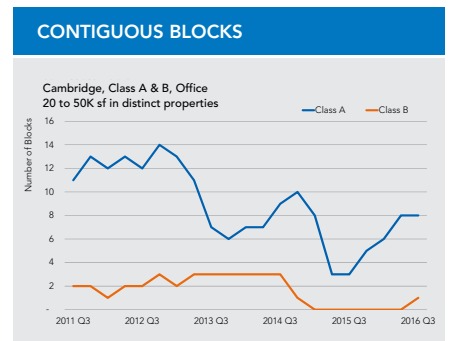
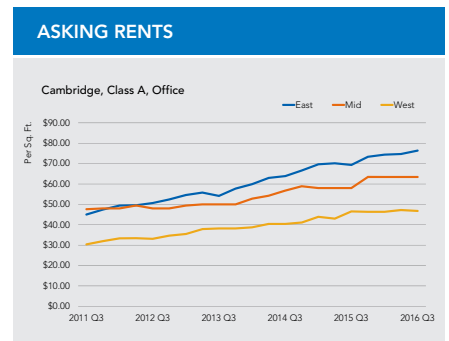
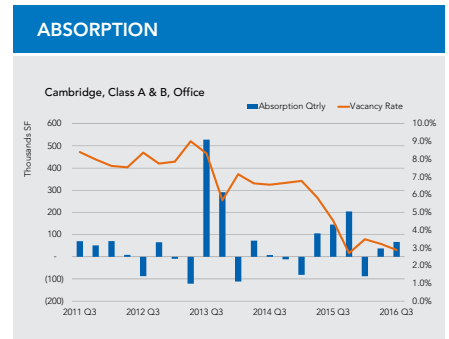
\*LTM = Last Twelve Months // \*\*LTM absorption as a percentage of occupancy levels twelve months ago // \*\*\*Twelve months change in asking lease rate

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THIRD QUARTER 2016

## CAMBRIDGE

- The vacancy rate in Cambridge dipped below 3.0 percent for the second time since 2000, with 2.9 percent of leasable space vacant, down from 3.2 percent last quarter, on 67,000 sf absorbed.
- Cambridge-wide Class A average asking rents have risen more than \$15.00 in the last three years, with a current asking rate of \$64.51 per sf.
- Vacant space in East Cambridge has reached the lowest level since 2000, with a rate of 2.7 percent.
- East Cambridge has seen positive absorption in five of the last six quarters producing 473,000 sf of positive absorption in aggregate.
- Amazon leased 30,000 sf at 101 Main Street, CarGurus signed an expansion for 21,000 sf at 55 Cambridgepark Drive, and SAGE Therapeutics signed a lease for 20,000 sf at 245 First Avenue.
- Fuze moved into 33,000 sf at 10 Fawcett Street, and Toyota Motor Corporation moved into 13,000 sf at 1 Kendall Square.
- Of the 2.1 million sf inventory in Mid Cambridge, only 30,000 sf remain vacant (1.4 percent).
- 81 percent of the availability in West Cambridge is contained to three properties, and if removed the availability rate would drop from 10.7 percent to 2.0 percent.
- 245 First Street in East Cambridge was acquired by Clarion Partners from Jamestown Properties (\$311.25 million, 298,000 sf, \$1,044 per sf).



### Cambridge Office Market Indicators by Class

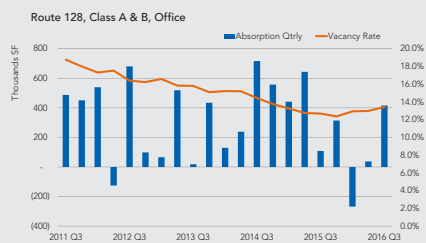
SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF	4QTR** CHANGE
Class A	8,184	0	12	181	2.3%	3.1%	\$64.51	5.3%
Class B	3,052	0	55	40	1.3%	2.2%	\$57.12	28.3%
<b>Cambridge Total</b>	<b>11,236</b>	<b>0</b>	<b>67</b>	<b>221</b>	<b>2.0%</b>	<b>2.9%</b>	<b>\$62.44</b>	<b>9.8%</b>

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

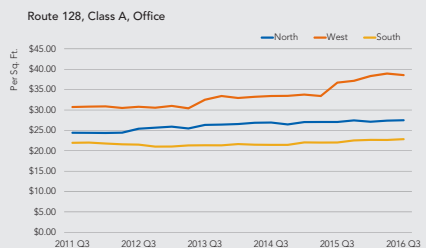
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## ROUTE 128

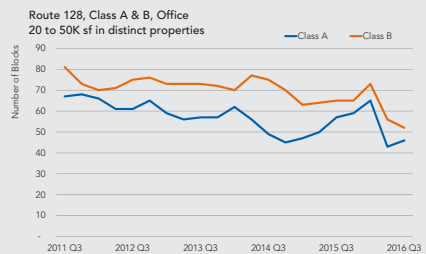
### ABSORPTION



### ASKING RENTS



### CONTIGUOUS BLOCKS



- **Properties along the Route 128 belt saw 416,000 sf** positively absorbed, while 484,000 sf delivered raised the vacancy rate 0.4 percentage points to 13.4 percent.
- **Average asking prices for Class A properties** increased 5.2 percent year-over-year with a current ask of \$31.02 per sf.
- **All 484,000 sf delivered were in Route 128 West**, the two most prominent being 1265 Main Street in Waltham, Clarks America's new headquarters, and 500 Totten Pond Road in Waltham, Wolverine Worldwide's new headquarters.
- **Route 128 South extended its positive absorption streak** to 15 quarters, producing 1.3 million sf of positive absorption over that period.
- **Dun & Bradstreet leased 30,000 sf** at 610 Lincoln Street in Waltham and DiCicco Gulman and Co. renewed its leased for 23,000 sf at 150 Presidential Way in Woburn.
- **Wolverine Worldwide moved** into 245,000 sf at 500 Totten Pond Road, Thermo Fisher Scientific moved into 136,000 sf at 168 Third Avenue and Clarks Americas moved into 120,000 sf at 1265 Main Street, all in Waltham.
- **18 percent of the vacancy in Route 128 North** consists in five properties, which if removed would drop the vacancy from 15.6 percent to 12.8 percent.
- **Spear Street Capital acquired Wellesley Gateway** (93 Worcester Street) from Commonwealth Partners (\$87.5 million, 272,570 sf, \$321.02 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	34,498	381	299	135	0.4%	12.6%	\$31.02	5.2%
Class B	27,862	103	117	366	1.5%	14.3%	\$22.95	12.5%
<b>Route 128 Total</b>	<b>62,081</b>	<b>484</b>	<b>416</b>	<b>500</b>	<b>0.9%</b>	<b>13.4%</b>	<b>\$27.71</b>	<b>7.5%</b>

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

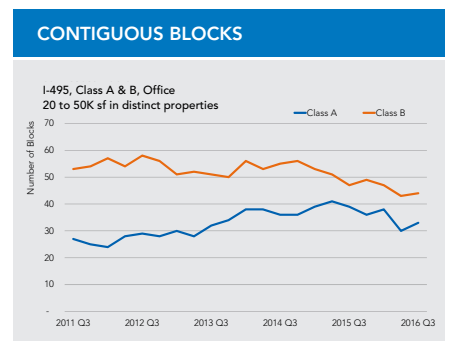
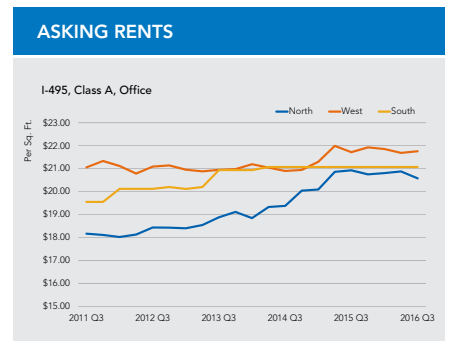
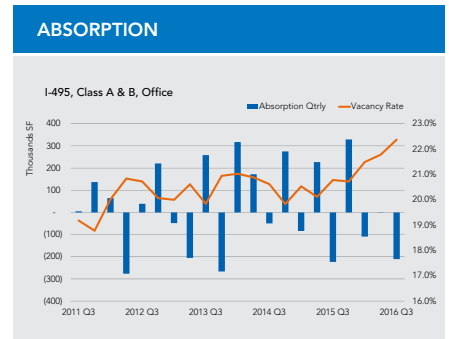
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## INTERSTATE 495

- The I-495 corridor saw 210,000 sf of negative absorption, raising the vacancy rate 0.6 percentage points to 22.4 percent.
- Class A average asking rent has seen little change in the calendar year, with a current rate of \$21.17 per sf.
- Vacancy dropped 1.0 percentage point for Class A properties in I-495 North to 24.3 percent on 81,000 sf of positive absorption.
- Class B space in The Boroughs has seen 533,000 sf of positive absorption in the six quarters.
- Enel Green Power leased 60,000 sf at 100 Brickstone Square in Andover, Globoforce signed a lease for 50,000 sf at 200 Crossing Boulevard in Framingham, and Ameresco leased 27,500 at 111 Speen Street in Framingham.
- GE Healthcare and Athena Diagnostics both expanded at 200 Forest Street in Marlborough, removing a combined 56,000 sf from the market, and Lighttower Fiber Networks expanded at 80 Central Street in Boxborough, occupying a total of 55,000 sf.
- The Acton-Boxborough-Littleton micromarket has a vacancy rate of 18.3 percent, which is 7.9 percentage points lower than the I-495 North vacancy rate.
- Class B sublet availability has reached a record low, with 68,000 sf on the market, while the five year average has been 429,000 sf.
- 400 Riverpark Drive in North Reading sold to Curo Enterprises from Taurus Investment Holdings (\$21.4 million, 150,000 sf, \$142.67 per sf).



### 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	14,441	0	90	102	0.9%	19.2%	\$21.17	0.5%
Class B	19,832	0	(301)	(91)	-0.6%	24.7%	\$17.05	2.0%
<b>I-495 Total</b>	<b>34,273</b>	<b>0</b>	<b>(210)</b>	<b>11</b>	<b>0.0%</b>	<b>22.4%</b>	<b>\$18.84</b>	<b>0.6%</b>

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## Greater Boston Office Market Indicators by Submarket

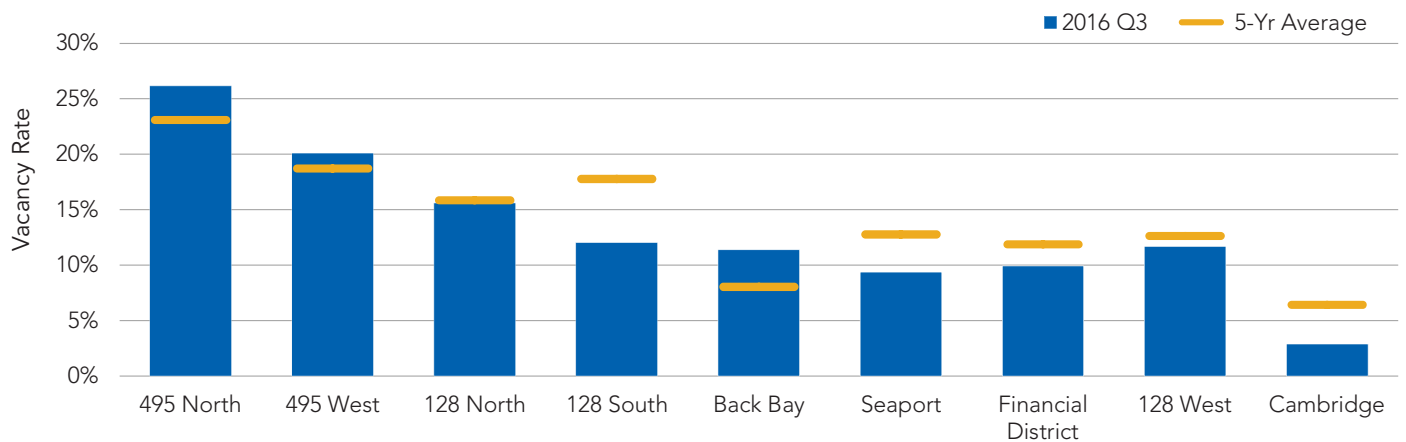
SUBMARKET	INVENTORY	RENTABLE AREA DELIVERED	QTRLY ABSORPTION	LTM* ABSORPTION	GROWTH**	TOTAL VACANCY	RENT PSF CLASS A	4QTR*** CHANGE
Financial District	36,166	0	34	(469)	-1.4%	9.9%	\$52.24	0.7%
Back Bay	14,284	425	315	268	2.1%	11.4%	\$62.51	2.0%
Longwood/Inner South	5,507	230	143	516	10.1%	7.4%	\$38.68	43.3%
Seaport District	9,318	0	93	980	11.6%	9.4%	\$57.28	1.2%
Charlestown	2,782	0	3	(143)	-5.8%	11.9%		-
Midtown	2,217	0	31	61	3.1%	10.3%	\$50.00	-
North Station	2,391	0	7	6	0.3%	3.3%	\$52.00	48.6%
South Station	1,498	0	17	(14)	-1.0%	4.9%		-
<b>Boston Total</b>	<b>74,163</b>	<b>655</b>	<b>644</b>	<b>1,205</b>	<b>1.8%</b>	<b>9.7%</b>	<b>\$54.96</b>	<b>1.5%</b>
East Cambridge/Kendall Square	7,441	0	63	221	3.1%	2.7%	\$76.39	10.1%
Mid Cambridge/Harvard Square	2,129	0	(27)	(17)	-0.8%	1.4%	\$63.46	32.2%
West Cambridge/Alewife Station	1,666	0	31	16	1.0%	5.4%	\$46.78	0.5%
<b>Cambridge Total</b>	<b>11,236</b>	<b>0</b>	<b>67</b>	<b>221</b>	<b>2.0%</b>	<b>2.9%</b>	<b>\$64.51</b>	<b>5.3%</b>
Inner North/Streetcar Suburbs	3,714	370	(17)	90	3.1%	21.5%	\$30.81	22.4%
<b>Suburban Submarkets (excl Cam)</b>	<b>100,068</b>	<b>854</b>	<b>189</b>	<b>600</b>	<b>0.7%</b>	<b>16.8%</b>	<b>\$28.04</b>	<b>4.5%</b>
Route 128 North	26,226	0	(14)	(141)	-0.6%	15.6%	\$27.48	1.6%
Route 128 West	23,449	484	335	179	0.9%	11.7%	\$38.55	5.0%
Route 128 South	12,406	0	95	463	4.2%	12.0%	\$22.84	3.7%
<b>Route 128 Total</b>	<b>62,081</b>	<b>484</b>	<b>416</b>	<b>500</b>	<b>0.9%</b>	<b>13.4%</b>	<b>\$31.02</b>	<b>5.2%</b>
I-495 North	15,415	0	44	160	1.4%	26.2%	\$20.58	1.7%
I-495 West	16,235	0	(332)	(239)	-1.8%	20.1%	\$21.76	0.2%
I-495 South	2,623	0	78	89	3.9%	14.0%	\$21.08	-
<b>I-495 Total</b>	<b>34,273</b>	<b>0</b>	<b>(210)</b>	<b>11</b>	<b>0.0%</b>	<b>22.4%</b>	<b>\$21.17</b>	<b>0.5%</b>
<b>Route 128 &amp; I-495 Total</b>	<b>96,354</b>	<b>484</b>	<b>206</b>	<b>511</b>	<b>0.6%</b>	<b>16.6%</b>	<b>\$27.99</b>	<b>4.2%</b>
<b>Greater Boston Market Total</b>	<b>185,467</b>	<b>1,509</b>	<b>899</b>	<b>2,026</b>	<b>1.3%</b>	<b>13.1%</b>	<b>\$43.04</b>	<b>3.1%</b>

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## 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

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