



HUNNEMAN

# METRO BOSTON OFFICE MARKET REPORT

THIRD QUARTER | 2018



## BOSTON OFFICE MARKET OVERVIEW

Greater Boston's office market recorded another quarter of solid growth as absorption gains kept vacancies stable at 12.0%. Activity remains brisk within the urban landscape, where out-of-market demand and expansions among new economy tenants persist. Oath (Verizon) and Boeing are two of the newest entrants into the Boston market. More traditional office users, like Liberty Mutual and John Hancock Financial, are challenged with continued consolidations. While developers are moving forward with more than 3.4 million square feet of new office supply throughout the metro area, construction remains measured and much of this new space has already been committed. Over the quarter, asking rents expanded across most submarkets and surpassed \$34/SF metrowide. However, the magnitude of growth has been decelerating since peaking in 2015 and gains will likely plateau in the coming years.

Large-scale, multi-use developments are gaining traction in fringe urban areas. From the former Boston Globe site and Bayside Expo Center in Dorchester to the Suffolk Downs site in East Boston to the former Boston Flower Exchange in the South End, developers are moving forward with several major projects that include retail, office, flex, light industrial, lab and residential space. As these projects progress, new centers of commerce could arise in areas outside of Boston's core office markets.

Regional economic trends bode well for commercial real estate fundamentals in Greater Boston. Rooted in technology, education and life sciences, Boston boasts a stable, diversified economy with solid job growth. The metro area unemployment rate has been hovering around 3.5% over the last year, and finding workers is becoming more challenging for employers. Recent growth in the local labor force provides more upside for Massachusetts' workers. Over the last six months, the Bay State's labor force participation skyrocketed; growing at the fastest rate in at least 40 years. Between January and August of 2018, the BLS estimates that an additional 147,000 workers were added to the labor force. More workers, encouraged by a strong economic outlook, are rejoining the workforce. These additional workers will likely have a positive impact on demand for commercial space in the region.

Fundamentals throughout the region are on solid footing. The TAMI sector continues to drive demand for office space, vacancies are hovering near cyclical lows and economic conditions are heating up. Greater Boston is expected to end 2018 on solid footing. There is a little less certainty in the longer-term outlook as the risk of the recession looms on the horizon, but all signs point to continued strength in this market.



12.0%

TOTAL VACANCY RATE



459,781

Q3 NET ABSORPTION  
(SF)



\$34.08

ASKING RENT  
(\$/SF)

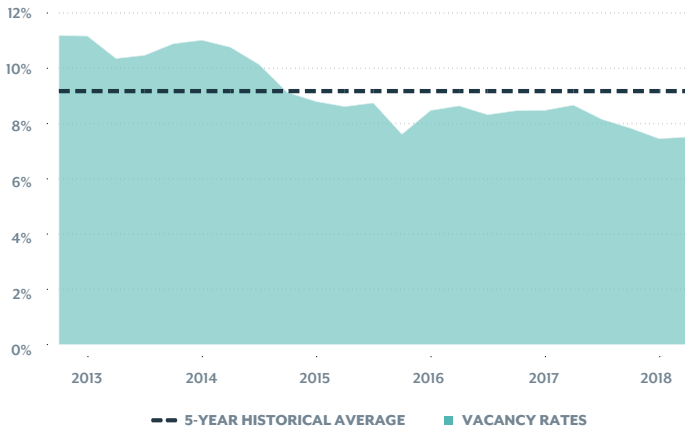


3,453,804

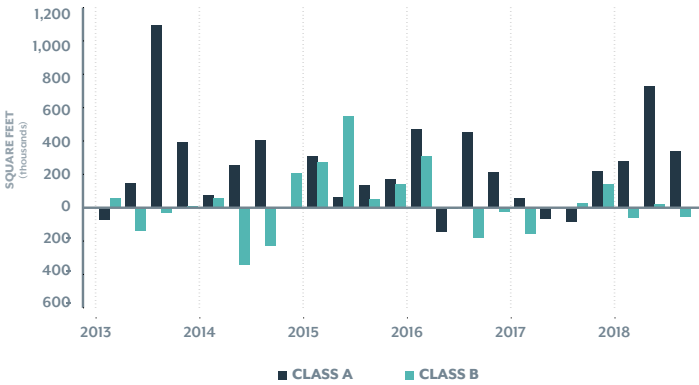
UNDER CONSTRUCTION  
(SF)

# BOSTON OFFICE

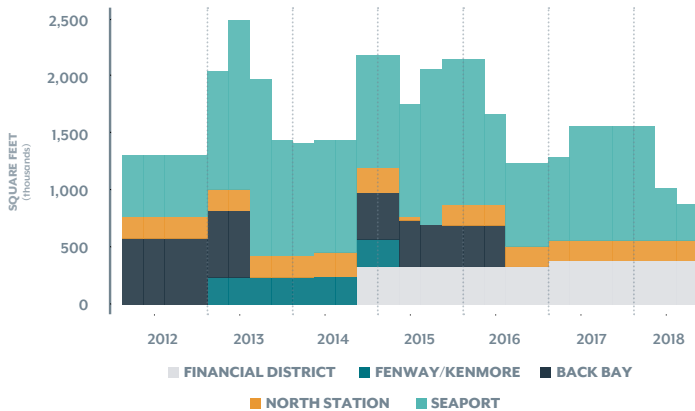
## TOTAL VACANCY



## NET ABSORPTION



## CONSTRUCTION

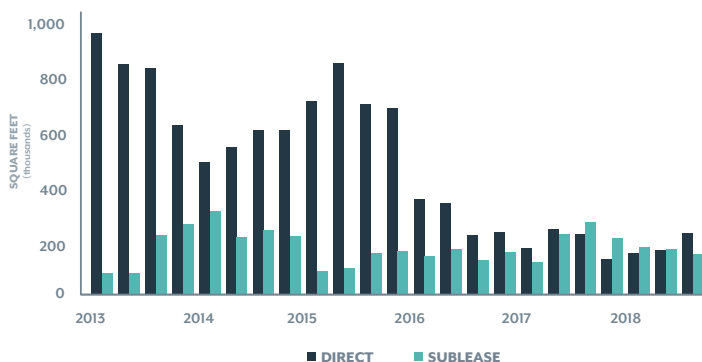


- Third-quarter fundamentals were solid in Boston’s office market. Positive absorption of close to 286,000 square feet pushed year-to-date totals to more than 1.2 million square feet while construction completions held vacancies at 7.5% over the quarter. Sizable commitments from users like Oath (Verizon), Air Worldwide and Community Catalyst topped transaction activity as WeWork finalized plans for its tenth Boston location. The development landscape is more dynamic than ever as projects push traditional geographic boundaries. Asking rents continued on their upward trajectory, as tenants with deep pockets keep pressure on office demand.
- Boston’s never-ending game of musical chairs resulted in some large moves in the third quarter. The delivery of the first office tower at the Pier 4 development in the Seaport marked Boston Consulting Group’s relocation from 53 State Street and One Beacon. Cengage Learning also plans to relocate from Channel Center to the new tower in mid-2019. Putnam Investments took occupancy of its new 250,000-square-foot headquarters at 100 Federal Street. The finance giant left behind its long-time headquarters at One Post Office Square, which is undergoing a major renovation.
- Coworking operators are continuing to change the game in Boston’s urban office environment. In an interesting move, WeWork announced plans to lease the second floor of a residential tower, The Benjamin, in the Seaport. Industrious is also opening another location at 100 Summer Street, and landlords have begun to throw their hat in the ring. Tishman Speyer recently launched its own flexible workspace dubbed Studio, with a Boston outfit planned for 125 High Street. “Enterprise” clients are increasingly attracted to the flexible lease terms and space options that coworking offers. Puma represents the latest example of such a move and is slated to take down two floors at WeWork’s 33 Arch Street location.
- Once the backbone of Boston’s office market, finance, insurance, and legal services companies are facing consolidations while TAMI tenants continue to expand. Liberty Mutual and John Hancock Financial represent two of the largest firms right-sizing their operations in the urban markets. Growing tech companies, like Wayfair, will help backfill some of this space though.

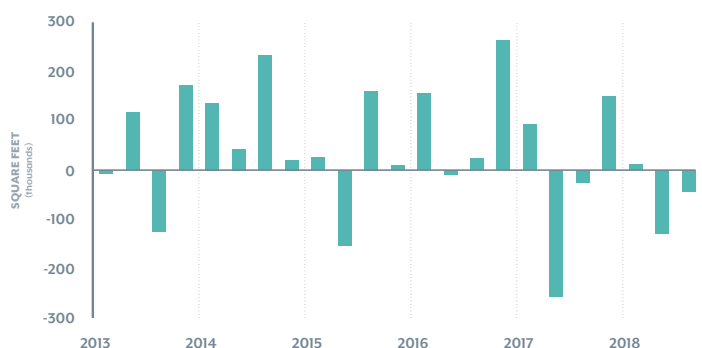
	TOTAL INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE	Q3 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT (\$/SF)
<b>Class A</b>	49,865,754	3,521,373	7.1%	339,842	1,349,498	\$64.32
<b>Class B</b>	21,047,409	1,811,959	8.6%	(54,134)	(90,144)	\$51.45
<b>Total</b>	<b>70,913,163</b>	<b>5,333,332</b>	<b>7.5%</b>	<b>285,708</b>	<b>1,259,354</b>	<b>\$60.14</b>

# CAMBRIDGE OFFICE

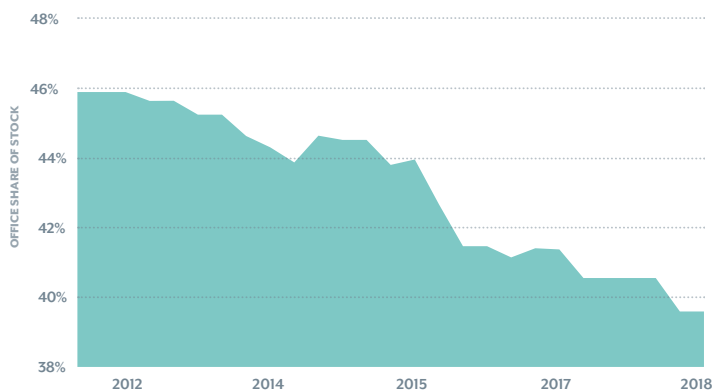
## TOTAL VACANCY



## NET ABSORPTION



## LAB VS. OFFICE SUPPLY SHARE

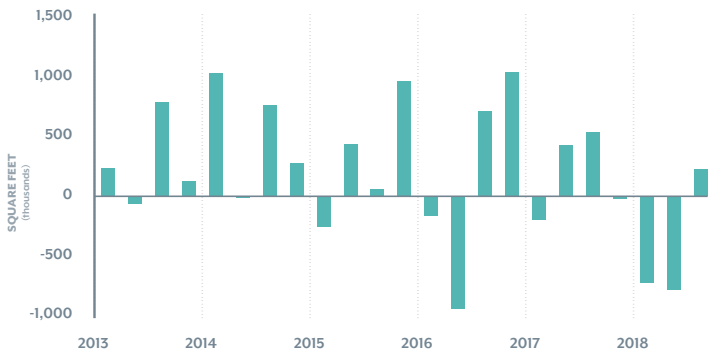


- Despite posting almost 45,000 square feet of negative absorption in the third quarter, vacancy rates are still below 4% in Cambridge's office market. West Cambridge accounted for a majority of this activity, as both a subsidiary of Northrop Grumman and Quickbase vacated space in this submarket. However, out-of-market office users remain active throughout Cambridge. Persistent demand for commercial space will keep fundamentals at or near current lows in the foreseeable future; leaving landlords with a clear upper hand.
- Office construction is on Cambridge's horizon and pricing for new space is lofty. Lease rates on some existing Class A spaces in East Cambridge are already in the low-to-mid \$90s/SF, with the overall Cambridge average surpassing \$65/SF in the third quarter. Office users looking at new construction in Kendall Square will likely pay over \$100/SF gross, which would be a new high for the Cambridge market and Greater Boston.
- West Cambridge continues to evolve as a commercial hub in Greater Boston's hottest market. In recent years, new residential and commercial developments have made this market more desirable for tenants and landlords alike. In April, Invesco Advisors purchased a group of low-rise warehouse and flex buildings for \$73 million. The new owner is repositioning the assets as The Quad. Reportedly, 10 Fawcett Street is on the market and the potential new owners will pay nearly double its \$31.3 million price tag from five years ago. Finally, The Bulfinch Companies broke ground on the final phase of the Cambridge Discovery Park. The 250,000-square-foot building 400/500 is slated to deliver in late 2019.
- The backlog of office demand has led to strong preleasing among new construction. Boeing executed a 100,000-square-foot lease at MIT's development on Main Street in Kendall Square. There are rumblings in the marketplace that a major life science tenant is looking to take the remainder of the space. The first commercial building at DivcoWest's Cambridge Crossing is now fully committed, with Goldfinch Bio taking the remaining 50,000-60,000 square feet. Philips North America, which is relocating from Andover, is the other major tenant in the building.

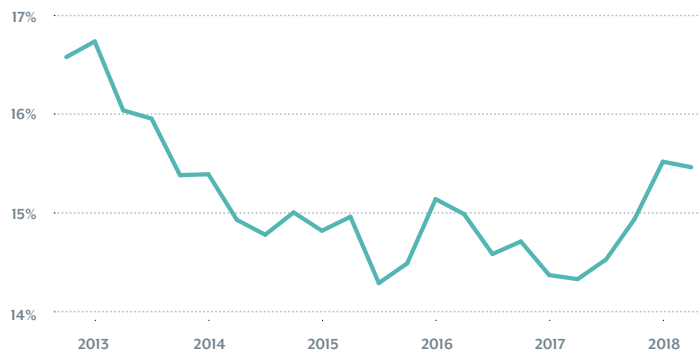
	TOTAL INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE	Q3 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT (\$/SF)
<b>Class A</b>	6,937,573	253,155	3.7%	48,396	54,305	\$65.82
<b>Class B</b>	3,353,740	127,843	3.8%	(93,050)	(216,590)	\$64.28
<b>Total</b>	<b>10,291,313</b>	<b>380,998</b>	<b>3.7%</b>	<b>(44,654)</b>	<b>(162,285)</b>	<b>\$65.10</b>

# SUBURBAN OFFICE

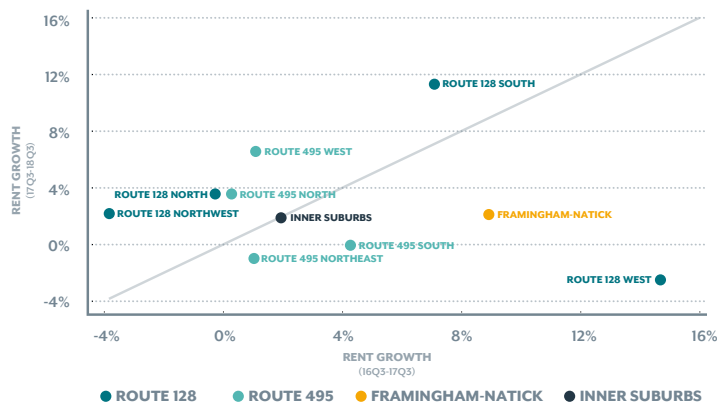
## NET ABSORPTION



## VACANCY RATE



## SUBURBAN RENT GROWTH



- Urban migration among tenants continues to grab headlines, but reverse moves are happening and provide some upside for the Greater Boston suburban market. While still elevated from year-ago levels, vacancies were flat over the quarter due to more than 200,000 square feet of positive absorption. New construction continues to move forward, investors are increasingly active and asking rents are slowly climbing throughout the suburbs. Looking ahead, the suburbs will remain on solid footing, especially if millennials (and talent) make their way back to the suburbs as they age. The lack of large blocks of available space and cyclically high rents in Cambridge and Boston could mitigate recent urbanization trends.
- Speculative construction in Greater Boston's suburban office market is leasing up, albeit at a slower pace than the Boston markets. In Waltham, the Post at 200 Smith Street landed its first tenant, Deciphera, in the second quarter. Two other large users are rumored to be negotiating leases in this building as well. Hilco Real Estate's redevelopment of 152 Grove Street, also in Waltham, reached completion with Panasonic leasing 22,356 square feet of office space in the building.
- Office users seeking value are starting to make their way into the suburbs from the urban core. Most recently, Cambridge Savings Bank announced plans to relocate its back-office operations (currently in Cambridge and Arlington) to 76,000 square feet at 81 Wyman Street in Waltham, which is currently under renovation. The bank will retain its headquarters in Cambridge. Additionally, the long-time Boston-based Boston Herald is also planning a move to the suburbs. The media outlet inked a deal for roughly 13,000 square feet at 100 Grossman Drive in Braintree and will be relocating from the Seaport by the end of the year.
- Asking rents have grown rapidly in select suburban submarkets over the last few years, overall growth is decelerating however. Speculative construction in key markets, like Route 128 West, and large vacancies with above-average asking rents, like Reebok's former space in Canton, have been major drivers of these outsized gains. As of the third quarter, lease rates were up by 4.3% on a year-over-year basis and surpassed \$26/SF.

	TOTAL INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE	Q3 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT (\$/SF)
<b>Class A</b>	59,117,829	8,593,972	14.5%	44,726	(778,343)	\$30.09
<b>Class B</b>	54,547,443	8,981,673	16.5%	174,001	(480,449)	\$22.57
<b>Total</b>	<b>113,665,272</b>	<b>17,575,645</b>	<b>15.5%</b>	<b>218,727</b>	<b>(1,258,792)</b>	<b>\$26.15</b>



# NOTABLE TRANSACTIONS

**HUB ON CAUSEWAY**  
BOSTON



**Company** Oath (Verizon)  
**Size** 440,000 SF  
**Submarket** North Station

**250 CAMPUS DRIVE**  
MARLBOROUGH



**Company** Hologic  
**Size** 216,218 SF  
**Submarket** Route 495 West

**500 WASHINGTON STREET**  
BOSTON



**Company** Air Worldwide  
**Size** 116,225 SF  
**Submarket** Financial District

**200 BERKELEY STREET**  
BOSTON



**Company** John Hancock  
**Size** 115,000 SF  
**Submarket** Back Bay

**125 HIGH STREET**  
BOSTON



**Company** Burns & Levinson  
**Size** 102,969 SF  
**Submarket** Financial District

**314 MAIN STREET**  
CAMBRIDGE



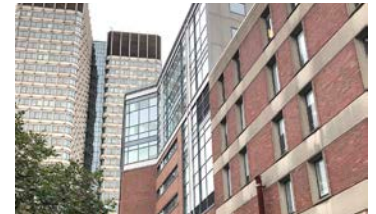
**Company** Boeing  
**Size** 100,000 SF  
**Submarket** East Cambridge

**500 WASHINGTON STREET**  
BOSTON



**Company** Community Catalyst  
**Size** 81,000 SF  
**Submarket** Financial District

**1 BULFINCH PLACE**  
BOSTON



**Company** Suffolk District Attorney  
**Size** 80,000 SF  
**Submarket** North Station

**81 WYMAN STREET**  
WALTHAM



**Company** Cambridge Savings Bank  
**Size** 76,000 SF  
**Submarket** Route 128 West

**33 ARCH STREET - WEWORK**  
BOSTON



**Company** Puma  
**Size** 60,000 SF  
**Submarket** Financial District

**254 SECOND AVENUE**  
NEEDHAM



**Company** Brigham & Women's Hospital  
**Size** 47,035 SF  
**Submarket** Route 128 West

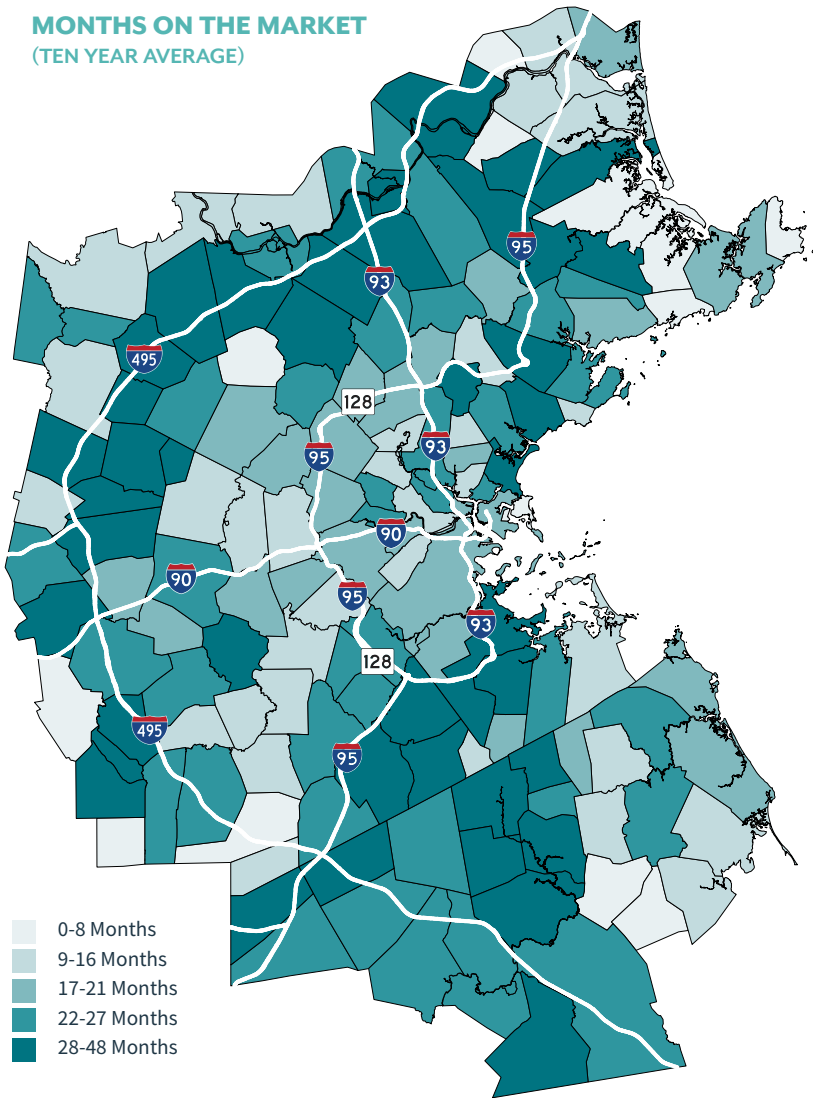
**150 CAMBRIDGE PARK DRIVE**  
CAMBRIDGE



**Company** Aurora Life Sciences  
**Size** 31,355 SF  
**Submarket** West Cambridge

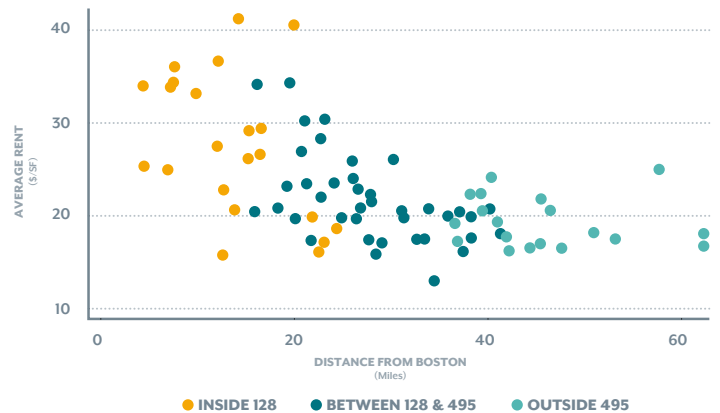
# RESEARCH SPOTLIGHT

## MONTHS ON THE MARKET (TEN YEAR AVERAGE)



- Simply put, distance matters in the Greater Boston office market and proximity to the city's center has a material impact on rent and leasing trends.
- Looking at average asking rents by town, there is a clear correlation between distance to Boston and lease rates. There is a tighter range of observations outside of Route 128; indicating that as you move further out from Boston location matters less when compared to closer-in locales.
- Similar trends arise when looking at the 10-year average of months-on-market. Available space in towns further away from the city, especially along Route 495, have tended to sit on the market longer. While space in places like Route 128 West have moved faster.

## TOWN DISTANCE AND AVERAGE RENT

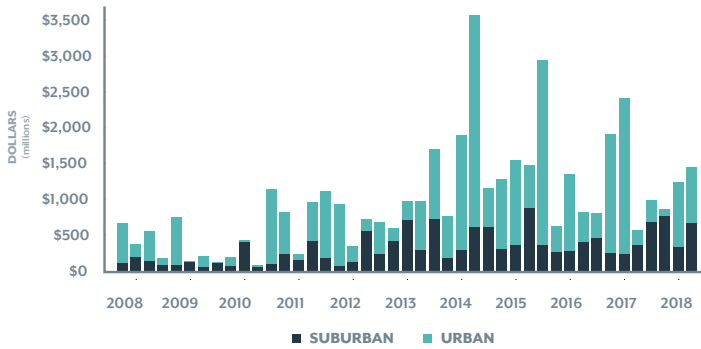


## RECENT LARGE LEASES BY DISTANCE

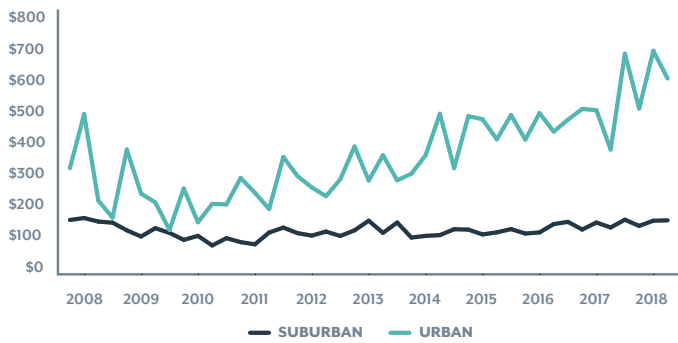
TENANT	ADDRESS	CITY	SQUARE FEET	DISTANCE	DATE SIGNED
<b>Akamai Technologies</b>	145 Broadway	Cambridge	630,000	0-10	2016
<b>Philips North America</b>	250 North Street	Cambridge	341,100	0-10	2018
<b>Alkermes</b>	900 Winter Street	Waltham	220,000	10-20	2018
<b>SharkNinja</b>	77 A Street	Needham	178,363	10-20	2016
<b>Ab Initio</b>	181-201 Spring Street	Lexington	167,000	20-30	2016
<b>ClearMotion, Inc.</b>	805 Middlesex Turnpike	Billerica	122,282	20-30	2018
<b>Kronos</b>	900 Chelmsford Street	Lowell	435,000	30-40	2016
<b>Cynosure</b>	3 & 5 Carlisle Road	Westford	157,538	30-40	2016
<b>Astellas Institute</b>	9 Technology Drive	Westborough	250,813	40-50	2017

# CAPITAL MARKETS

## SALES VOLUME



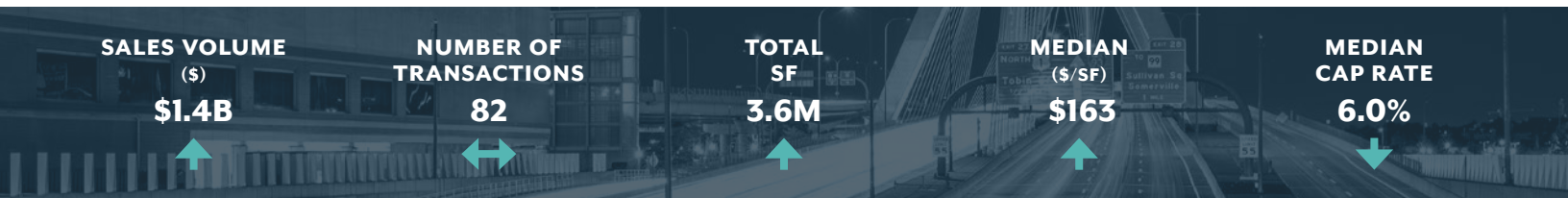
## MEDIAN PRICE/SF



- Sales volume continued to inch higher in the Greater Boston office market during the third quarter. Slower late-cycle growth, a widening bid-ask spread and rising interest rates are expected to stifle investment sales in the near term. With that said, Boston remains a highly-desirable destination for capital among all investor types. Prices remain elevated and cap rates are compressing modestly.
- Despite significantly lower transaction volume compared to a few years ago, pricing remains frothy in the urban markets. In August, Commonwealth Partners acquired the newly built office tower at Pier 4 in the Seaport for \$450 million or \$1,208/SF at a 4.2% cap rate. On a per square foot basis, this transaction is hovering near Boston's all-time high. TH Real Estate also sold a partial interest in 501 Boylston Street, a 610,000-square-foot office tower in the Back Bay, to Norges Bank \$956/SF.
- Investors seeking higher yields and greater opportunities are driving suburban investment activity, which accounted for 46% of total sales volume in the third quarter. A handful of high-profile transactions took place, including CenterPoint, LINX and 89 A Street all in Route 128 West.

## TOP Q3 / INVESTMENT SALES

200 PIER FOUR BOULEVARD BOSTON	501 BOYLSTON STREET BOSTON	490 ARSENAL STREET WATERTOWN	89 A STREET NEEDHAM
			
<b>Buyer</b> Commonwealth Partners, LLC	<b>Buyer</b> Norwegian Government Pension Fund Global	<b>Buyer</b> Clarion Partners	<b>Buyer</b> MetLife, Inc
<b>Price</b> \$450,000,000	<b>Price</b> \$290,900,000	<b>Price</b> \$157,567,600	<b>Price</b> \$96,500,000
<b>Total SF</b> 372,372	<b>Total SF</b> 607,685	<b>Total SF</b> 185,015	<b>Total SF</b> 247,542
<b>Price/SF</b> \$1,208	<b>Price/SF</b> \$956	<b>Price/SF</b> \$852	<b>Price/SF</b> \$390
<b>Cap Rate</b> 4.2%	<b>Cap Rate</b> -	<b>Cap Rate</b> 5.5%	<b>Cap Rate</b> -





# OFFICE RECAP

	TOTAL INVENTORY (SF)	UNDER CONSTRUCTION (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANCY RATE	Q3 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT (\$/SF)
Back Bay	14,040,431	-	1,015,624	68,816	7.7%	66,226	392,368	\$68.40
Charlestown	2,534,875	-	57,141	2,751	2.4%	(9,530)	15,471	\$43.03
Fenway/Kenmore	1,673,521	-	155,374	-	9.3%	4,541	(125,890)	\$66.85
Financial District	35,705,863	381,283	2,704,714	300,915	8.4%	(17,088)	53,517	\$58.76
Midtown	2,166,011	-	71,950	27,082	4.6%	(13,261)	(39,592)	\$47.60
North Station	2,668,666	175,000	68,881	7,245	2.9%	18,252	17,684	\$47.22
Seaport	10,949,228	320,979	651,976	126,321	7.1%	268,549	991,592	\$56.51
South Station	1,174,568	-	70,536	4,006	6.3%	(31,981)	(45,796)	\$52.30
<b>Boston Total</b>	<b>70,913,163</b>	<b>877,262</b>	<b>4,796,196</b>	<b>537,136</b>	<b>7.5%</b>	<b>285,708</b>	<b>1,259,354</b>	<b>\$60.14</b>
East Cambridge	5,841,888	1,309,598	48,403	11,139	1.0%	58,822	114,293	\$83.01
Mid Cambridge	2,517,470	-	44,185	17,081	2.4%	(17,267)	(17,834)	\$67.84
West Cambridge	1,931,955	250,000	137,429	122,761	13.5%	(86,209)	(258,744)	\$57.90
<b>Cambridge Total</b>	<b>10,291,313</b>	<b>1,559,598</b>	<b>230,017</b>	<b>150,981</b>	<b>3.7%</b>	<b>(44,654)</b>	<b>(162,285)</b>	<b>\$65.10</b>
Framingham-Natick	4,630,781	-	703,279	41,957	16.1%	54,240	(138,988)	\$24.93
Inner Suburbs	6,458,065	115,000	596,782	8,117	9.4%	(76,550)	(48,866)	\$33.53
Route 128 North	13,790,737	175,000	1,476,237	57,267	11.1%	26,069	(16,509)	\$22.78
Route 128 Northwest	13,796,885	-	1,728,236	222,639	14.1%	76,905	(102,253)	\$31.49
Route 128 South	16,156,452	61,702	2,104,446	121,146	13.8%	24,723	(667,036)	\$25.57
Route 128 West	23,181,237	665,242	2,981,606	211,487	13.8%	72,036	(279,759)	\$38.79
<b>Route 128 Total</b>	<b>66,925,311</b>	<b>901,944</b>	<b>8,290,525</b>	<b>612,539</b>	<b>13.3%</b>	<b>199,733</b>	<b>(1,065,557)</b>	<b>\$31.06</b>
Route 495 North	13,194,568	-	3,142,902	119,716	24.7%	129,313	234,763	\$19.51
Route 495 Northeast	7,939,842	-	1,424,497	78,396	18.9%	(69,050)	22,383	\$20.17
Route 495 South	3,332,907	-	620,450	4,788	18.8%	59,750	(18,531)	\$19.49
Route 495 West	11,183,798	-	1,877,121	54,576	17.3%	(78,709)	(243,996)	\$20.40
<b>Route 495 Total</b>	<b>35,651,115</b>	<b>-</b>	<b>7,064,970</b>	<b>257,476</b>	<b>20.5%</b>	<b>41,304</b>	<b>(5,381)</b>	<b>\$19.88</b>
<b>Suburban Total</b>	<b>113,665,272</b>	<b>1,016,944</b>	<b>16,655,556</b>	<b>920,089</b>	<b>15.5%</b>	<b>218,727</b>	<b>(1,258,792)</b>	<b>\$26.15</b>
<b>Market Total</b>	<b>194,869,748</b>	<b>3,453,804</b>	<b>21,681,769</b>	<b>1,608,206</b>	<b>12.0%</b>	<b>459,781</b>	<b>(161,723)</b>	<b>\$34.08</b>





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### METHODOLOGY

Source: Co-Star, Hunneman. Prepared: September 2018.

**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.