

Savills Studley Report Boston office sector

Q2 2018



SUMMARY

Market Highlights

LEASING RISES

Quarterly deal volume rose slightly, increasing from 2.6 million square feet (msf) to 2.8 msf. Tenants have leased just under 12 msf in the four most recent quarters, 29.5% below the long-term market average of 16.4 msf.

AVAILABILITY RATES FLAT

The market's Class A availability rate remained at 14.2%. The overall availability rate was unchanged, remaining at 13.1%. The Class A rate in Boston/Suffolk County fell slightly to 9.3%, a 30 basis point decline.

RENT UP SLIGHTLY

The average asking rent for Boston/Suffolk County rose by 0.7% to \$52.50. The Class A asking rent jumped by 3.7% to \$59.04.

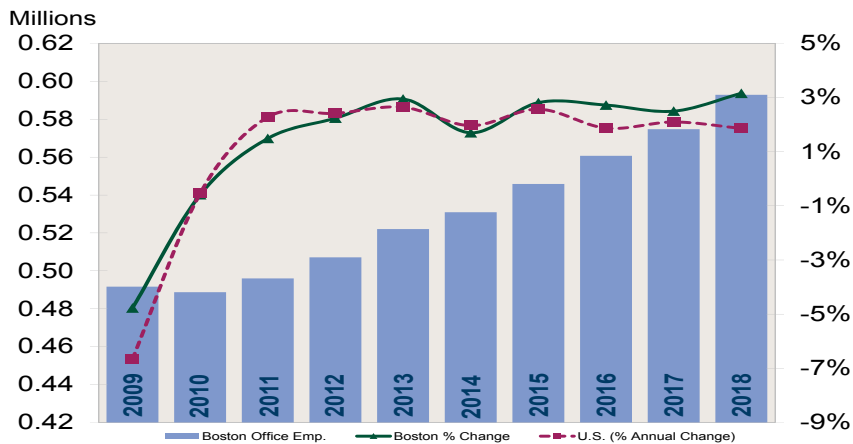
SALES JUMP

As of May 2018, office sales volume in Boston totaled \$2.5 billion in the last six months, up by 28% compared to the \$4.9 billion sold in the previous six months.

"Tenants requiring space in Cambridge, the Back Bay and surrounding submarkets face a shortage of big blocks in premier buildings. Smaller and mid-sized tenants are not as strapped for space options, but they can still expect very elevated rents."

James Halepis, Senior Vice President

Office-Using Employment Trends



Source: Bureau of Labor Statistics^

Tech Innovators Spill Across the Region

From tangible innovations that monitor the performance of buildings or those that diagnose the health of people, to more futuristic moonshot R&D on robotics and machine learning, Boston's tech sector seems to have a stake in almost every area of specialization. This is a reflection of the depth of the region's talent as well as the amount of money chasing the next big thing. Some redundancy is already being exposed, but it will take some time to find out which of these innovations have staying power and which ones will die on the vine. For the time being, there is still a lot of momentum behind the current tech rally in Boston. In turn, conditions remain challenging for tenants across most of the market.

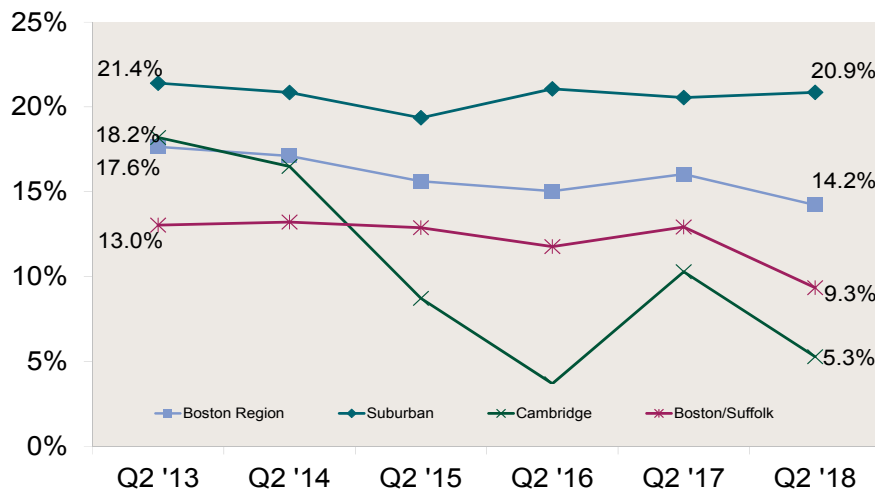
The region is benefiting from expansion both by heavyweights such as Amazon as well as startups. Amazon has about 1,200 tech workers in Boston and Cambridge and expects to hire several hundred more. Amazon leased the entire 430,000 sf at Seaport Square Block L4. Employees located at the facility will specialize on Alexa as well as cloud computing and robotics. The Baker Administration agreed to contribute \$20 million for the addition of bike lanes, street repairs and a new headhouse for the MBTA Silver line. Amazon also has a right to add a second building that would house 2,000 more employees.

More recent additions to Boston's tech community are also expanding. iboss recently signed a 45,000-sf lease at Downtown Crossing, doubling the size of its lease just a year after it moved from San Diego. The company CEO said that the move has been ideal from a talent perspective. The cybersecurity firm has about 125 employees locally. The new space, following some renovations, will enable iBoss to expand to about 300 workers.

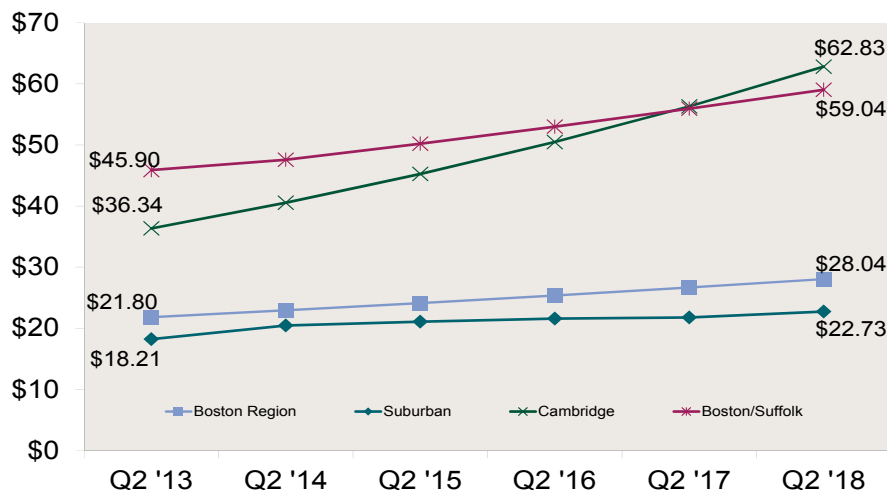
Building Engines announced a relocation of its 80 employees from Waltham to a 16,500-sf space at 33 Arch Street. The property management solution provider completed its acquisition of AwareManager in April. AwareManager provides property and facility management software for trophy assets such as One World Trade Center. The combined firm provides software services to more than 2 billion in commercial properties.

Some private equity firms, like the tech companies they invest in, are branching out to areas beyond Back Bay. Agis Capital

Class A Availability Rate Trends



Class A Asking Rent Trends (\$/sf)



took 5,000 sf of space at 46 Plympton Street in the South End. The private equity firm is moving from 745 Boylston Street in Back Bay – the brick and beam building in the South End is near the future planned development of Exchange South End, the former Boston Flower Exchange site.

Lab Ready = Lab Rent

It is not just biotech absorbing lab and R&D space in East Cambridge. Many tech heavyweights that consider proximity to Harvard and MIT a must, are also willing to pay top dollar for space. Facebook recently leased 130,000 sf at 100 Binney. East Cambridge's lab market has scant options. Developers have converted more than 2.5 msf of traditional office space to lab space in recent years. Tech users are being charged lab rents for lab capable projects. Buildings with larger floor plates and higher ceilings are particularly appealing.

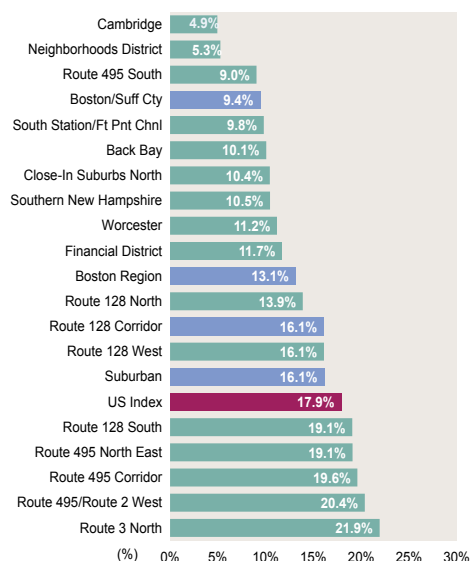
In addition to Facebook, health tech firm Philips is moving its headquarters from Andover to Cambridge Crossing in 2020. The 45-acre site straddles Cambridge, Somerville and Boston. Lab development is pushing out to other areas. NB Development Group, a real estate arm of New Balance, is developing Boston Landing in the Brighton Neighborhood. The transit-oriented development was originally marketed as a sports and innovation center, but is now offering some lab space as well.

More Options in Some Suburb Locations

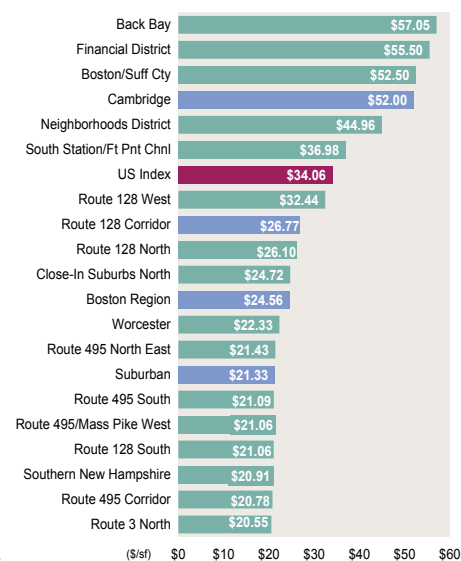
Landlords in Cambridge and some higher-end Back Bay buildings are in a position to dictate terms. Conditions are not as challenging across many suburban submarkets. Landlords are being a bit more aggressive to lure tenants. They are either expanding concessions or renovating their buildings. Lyndra recently signed a 14,450-sf lease at 65 Grove Street in Watertown. The biotech firm moved from just a short distance away, 134 Coolidge Avenue. Cresset Development, the owner, renovated the building in 2016, adding new common areas, HVAC systems and mechanicals. Smaller and mid-sized firms were active in suburban buildings. In Waltham, Edenred Commuter Benefit Solutions signed a 16,837 sf, eight-year lease at 265 Winter Street. The company provides commuter benefit solutions and savings.

Suburban markets face challenges retaining younger talent. Some tech firms are still based in suburban Boston. Marlborough

Availability Rate Comparison



Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Amazon	430,000	101 Seaport Blv	Seaport/South Boston
Simpson Gumpertz & Heger	110,000	20 CityPoint	Route 128 West
iBoss	45,000	426 Washington St	Financial District
Nant Health	30,724	100 Summer St	Financial District
Seismic Software	26,961	25-29 Thomson Pl	Seaport/South Boston
Industrious	21,026	100 Summer St	Financial District
Akebia Therapeutics, Inc	19,805	245 First St	Cambridge
Aileron Therapeutics Inc	18,609	490 Arsenal St	Route 128 West
Edenred Commuter Benefit Solutions	16,837	265 Winter st	Route 128 West
Building Engines	16,500	33 Arch St	Financial District
Sum of Top Leases	735,462		

has long been a choice due to its central location - more than 100 companies have moved to or expanded in Marlborough over the past six years, adding close to 7,000 jobs to the local labor market.

The extensive expansion among tech firms overshadows continued consolidation and cost-consciousness by many law firms and banks. Some professional business services companies are expanding as well, though. This includes some taking space at proposed properties. Currently located at 41 Seyon Street in Waltham, engineering firm Simpson Gumpertz & Heger pre-leased 110,000 at 20 CityPoint. The proposed 211,000 sf building at 500 Totten Pond Road is expected to deliver in August of 2019. SGH will also have a small 14,000 sf co-headquarters at the Prudential Tower.

Looking Forward

In many tech centers, particularly in California, the tech sector is being asked to help fund costs associated with rapid

growth. Seattle's flirtation with a payroll tax that would have hit larger employers such as Amazon with several million dollars in tax is just one example. The measure would have taxed for-profit companies with a certain level of revenues \$275 per employee. Similarly, Mountain View has proposed the "Google Tax."

Taxes in Boston can hardly be described as inexpensive. Surprisingly, most cities and towns in Massachusetts lowered both their residential and commercial tax rates by about 5 cents in 2017. The median commercial property tax rate across the state fell to \$17.54 per \$1,000 of value. As is often the case, though, while one tax goes down, other ones go up or are added. In July of last year the 1% property-tax surcharge mandated as part of the Community Preservation Act, went into effect. Developers of new construction must contribute to funds for public parks, affordable housing, and preservation of historic buildings.

Map	Submarket	Total	Leasing Activity		Available SF			Availability Rate			Asking Rents Per SF		
		Inventory SF (1000's)	Last 12 Months	This Quarter	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Financial District	39,487	1,924	616	4,624	-2.5%	4,937	11.7%	-0.3%	12.5%	\$55.50	1.0%	\$53.12
	Financial District - Class A	29,858	1,433	437	3,176	-3.6%	3,690	10.6%	-0.4%	12.4%	\$60.83	1.8%	\$56.68
2	Back Bay	15,396	789	106	1,549	-3.6%	2,172	10.1%	-0.4%	14.1%	\$57.05	1.0%	\$54.67
	Back Bay - Class A	13,009	731	92	1,396	-6.0%	2,025	10.7%	-0.7%	15.6%	\$62.15	0.9%	\$59.77
3	South Station/Ft Pnt Channel	12,566	954	106	1,232	-7.5%	1,949	9.8%	-0.8%	15.5%	\$36.98	-3.3%	\$28.15
	South Station/Ft Pnt Channel - Class A	6,297	397	26	267	-8.2%	904	4.2%	-0.4%	14.4%	\$0.00	-100.0%	\$0.00
4	Neighborhoods District	25,188	1,038	165	1,327	26.7%	1,396	5.3%	1.1%	5.5%	\$44.96	3.6%	\$39.95
	Neighborhoods District - Class A	5,226	645	165	243	28.3%	412	4.7%	1.0%	7.9%	\$54.13	1.3%	\$51.37
5	Cambridge	23,256	1,208	131	1,151	0.6%	1,933	4.9%	0.0%	8.3%	\$52.00	8.1%	\$33.55
	Cambridge - Class A	16,523	962	71	873	0.8%	1,700	5.3%	0.0%	10.3%	\$62.83	2.8%	\$56.31
6	Close-In Suburbs North	5,342	30	30	558	9.7%	0	10.4%	0.9%	12.1%	\$0.00	#N/A	\$0.00
	Close-In Suburbs North - Class A	2,992	4	4	456	14.4%	427	15.2%	1.9%	14.3%	\$22.00	-21.4%	\$32.78
7	Route 128 North	23,528	1,153	338	3,267	0.7%	2,221	13.9%	0.1%	15.0%	\$26.10	-2.0%	\$23.83
	Route 128 North - Class A	11,521	747	218	1,910	-8.2%	2,221	16.6%	-1.5%	19.3%	\$30.73	-0.5%	\$26.14
8	Route 128 South	17,489	497	117	3,334	23.7%	2,648	19.1%	3.7%	15.1%	\$21.06	-0.8%	\$21.17
	Route 128 South - Class A	8,321	354	98	1,811	34.7%	1,255	21.8%	5.6%	15.1%	\$24.48	1.1%	\$22.74
9	Route 128 West	27,849	1,564	417	4,484	-2.4%	4,799	16.1%	-0.4%	17.2%	\$32.44	-3.9%	\$31.14
	Route 128 West - Class A	14,994	975	246	2,800	-1.1%	3,102	18.7%	-0.2%	20.7%	\$38.33	-11.1%	\$38.42
10	Route 3 North	15,096	286	286	3,310	-10.1%	3,467	21.9%	-2.5%	23.0%	\$20.55	-0.6%	\$20.20
	Route 3 North - Class A	4,591	25	25	1,126	-4.7%	972	24.5%	-1.2%	21.2%	\$22.29	-2.1%	\$22.13
11	Route 495 North East	8,950	236	29	1,708	-1.0%	1,743	19.1%	-0.2%	19.5%	\$21.43	0.0%	\$21.44
	Route 495 North East - Class A	3,321	122	8	766	-4.4%	733	23.1%	-1.1%	22.1%	\$16.95	0.0%	\$21.49
12	Route 495 South	8,987	246	109	813	-0.8%	972	9.0%	-0.1%	10.8%	\$21.09	-1.1%	\$21.18
	Route 495 South - Class A	995	17	9	350	9.7%	325	35.2%	3.1%	32.7%	\$24.30	0.0%	\$24.25
13	Route 495/Mass Pike West	15,068	651	155	3,876	-1.0%	3,745	25.7%	-0.3%	24.9%	\$21.06	-2.9%	\$20.81
	Route 495/Mass Pike West - Class A	7,564	380	137	2,242	-2.6%	2,227	29.6%	-0.8%	29.4%	\$23.51	-3.6%	\$22.07
14	Route 495/Route 2 West	9,134	178	34	1,861	-2.2%	1,797	20.4%	-0.5%	19.7%	\$19.44	-0.1%	\$19.79
	Route 495/Route 2 West - Class A	2,596	7	7	569	0.8%	405	21.9%	0.2%	15.6%	\$21.03	0.0%	\$20.99
15	Southern New Hampshire	17,588	375	133	1,840	-4.0%	1,817	10.5%	-0.4%	10.3%	\$20.91	1.4%	\$20.01
	Southern New Hampshire - Class A	3,397	121	54	649	-2.4%	603	19.1%	-0.5%	17.7%	\$22.12	-0.1%	\$21.07
16	Worcester	9,488	167	56	1,061	-2.1%	1,133	11.2%	-0.2%	11.9%	\$22.33	1.5%	\$21.16
	Worcester - Class A	1,913	94	22	299	-6.2%	354	15.6%	-1.0%	18.5%	\$24.09	0.2%	\$23.63
1-4	Boston/Suffolk County Total	92,637	4,704	993	8,732	0.0%	10,454	9.4%	0.0%	11.3%	\$48.62	0.7%	\$43.97
	Boston/Suffolk County Total - Class A	54,390	3,205	721	5,083	-3.4%	7,030	9.3%	-3.4%	12.9%	\$59.04	3.7%	\$55.94
7-9	Route 128 Corridor Total	68,867	3,215	872	11,085	5.2%	10,975	16.1%	0.8%	15.9%	\$26.77	0.5%	\$26.23
	Route 128 Corridor Total - Class A	34,836	2,076	562	6,520	4.3%	6,578	18.7%	0.8%	18.9%	\$31.76	1.3%	\$30.20
11-14	Route 495 Corridor Total	42,139	1,311	327	8,258	-1.3%	8,257	19.6%	-0.2%	19.6%	\$20.78	-1.2%	\$20.80
	Route 495 Corridor Total - Class A	14,476	527	161	3,927	-1.5%	3,691	27.1%	-0.4%	25.5%	\$22.08	-2.1%	\$21.69
6-16	Suburban Total	158,519	5,976	1,703	26,112	0.1%	26,296	16.5%	0.1%	16.6%	\$21.33	1.4%	\$20.29
	Suburban - Class A	62,204	2,987	828	12,977	1.3%	12,624	20.9%	1.3%	20.3%	\$22.73	0.0%	\$21.76
1-16	Boston Region Total	274,412	11,888	2,828	35,995	0.1%	38,683	13.1%	0.0%	14.1%	\$24.56	0.5%	\$24.07
	Boston Region - Class A	133,117	7,154	1,620	18,933	0.0%	21,355	14.2%	0.0%	16.0%	\$28.04	1.3%	\$26.66

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(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf. Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.
^Unless otherwise noted, source for data is Savills Studley.
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