

Savills Studley Report Boston office sector

Q3 2018



SUMMARY

Market Highlights

LEASING RISES

Quarterly deal volume jumped from 2.8 million square feet (msf) in the second quarter to 4.2 msf in the third quarter. Tenants have leased 13.7 msf in the four most recent quarters.

AVAILABILITY RATES FALL

The market's overall availability rate dropped by 10 basis points to 13.3%, driven in part by a 30 basis point decline in Boston/Suffolk County to 9.7%. The Class A availability rate dipped by 10 basis points to 14.1%.

RENT UP SLIGHTLY

The average asking rent for Boston/Suffolk County rose by 1.1% to \$49.15. The Class A asking rent jumped by 1.5% to \$59.90.

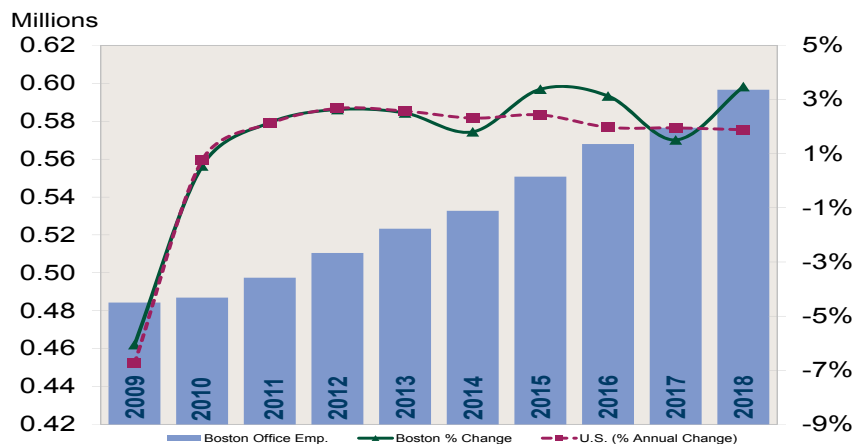
SALES DOWN

Office property sales during the first eight months of the year totaled \$2.9 billion, a 54% decrease compared to the first eight months of 2017.

.....
"Following the trends in other knowledge centers, the appetite for best-in-class new product and converted creative office space in Boston seems to have few bounds. Demand from top employers remains very strong, spurring bidding wars for both talent and space."

Savills Studley Research

Office-Using Employment Trends



Source: Bureau of Labor Statistics^

Pricing Power

Property owners throughout Boston have maintained pricing power: the ability to lease space and sell buildings, despite rising rent and compressing cap rates. This staying power rests squarely on three trends – the expansion of a wide range of tech firms, the consistent migration of corporate headquarters into the Boston area, and a willingness of traditional professional space users (law firms, banks and general professional/business services) to invest in and continue to control their own workplace. These core space consumers are being efficient. Many are still densifying. However, over the last two years, most firms have been willing to increase their operating budgets to meet ever increasing rental costs. These companies are absorbing these costs in order to occupy premium locations and new buildings as they compete for talent.

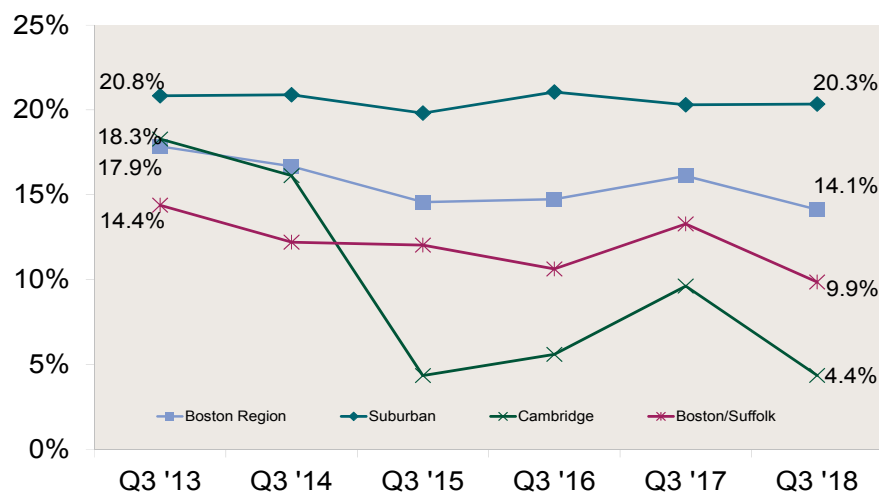
The regional economy shows few immediate signs of slowing. The tech sector continues to generate the most dynamic activity, but other industries such as healthcare and life sciences have also been absorbing space. The Boston region added 18,404 office-using jobs in the last 12 months – a 3.2% increase that is well above the national increase of 1.9% in the same period. Strong growth in professional/business services (nearly 20,500 added) offset combined losses of 2,000 jobs in banking and information sectors.

New Developments Leasing Up

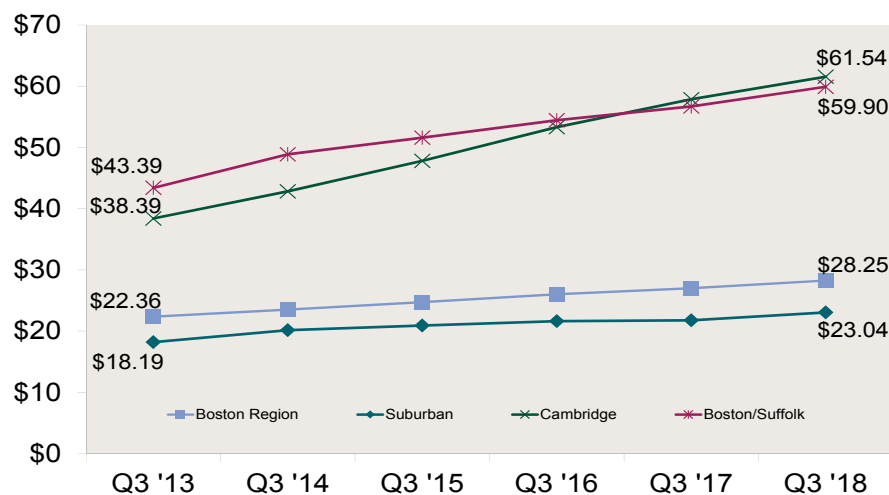
New properties continue to capture steady demand as many companies prefer these buildings offering amenity-laden space with highly efficient layouts. Tenants are dipping into the next set of properties that will not deliver until 2019 or later. Oath Inc., a digital media subsidiary of Verizon, committed to a 20-year lease on approximately 440,000 sf at The Hub on Causeway I in North Station. Construction on the podium portion of the project where cybersecurity company Rapid7 has leased approximately 147,500 square feet is currently underway. Delaware North and Boston Properties are co-developing the complex. Upon completion, expected to take until 2021, the project will have 1.5 msf of mixed-use space. With these leases the Hub is 75% pre-leased.

In Cambridge, Boeing is leasing 100,000 sf at the MIT building at 314 Main Street, next to the Kendall Square transit hub. Boeing's unmanned aircraft subsidiary, Aurora Flight Services, will be the first tenant to commit to space at MIT's Kendall

Class A Availability Rate Trends



Class A Asking Rent Trends (\$/sf)



Square Initiative. According to Boeing the innovation center will house research for NeXt, a project to design the next generation of “flying technologies.” Finally, online retailer and Amazon competitor Wayfair, continued its Back Bay expansion. Wayfair, which already leases 655,000 sf at Copley Place, committed to another 395,000 sf at 500 Boylston and 222 Berkeley Street. The online home goods retailer will shift employees from nearly Copley Place and is still reportedly in the market for another 250,000 sf.

These leases leave the Boston region with 4.6 msf currently underway with just over 60% pre-leased. The region has a long list of proposed projects that will keep the pipeline of new product elevated in 2019 and 2020. Some of these developments are unlikely to get started until the next cycle, though.

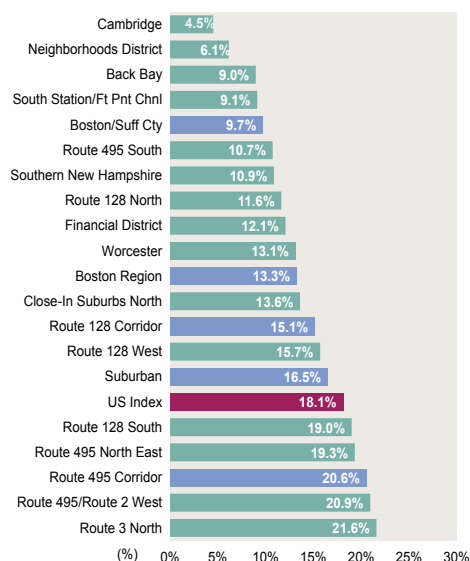
Law Firms on the Move

Most law firms remain cautious in their space demands, either shedding space or taking roughly the same amount of space as they relocate or renew. Law firm Burns & Levinson signed a 15-year, 102,969-sf lease at 125 High Street. They will relocate about 250 employees from a similarly-sized space spread across five floors at 125 Summer Street. The move will open a block of five full floors at 125 Summer. Burns & Levinson has been in the building for almost three decades. Hogan Lovells, new to Boston with the acquisition of Collora in 2017, leased 41,291 sf for 15 years at 125 High Street. Earlier this year Nixon Peabody signed a lease at 53 State Street through 2035 on 105,000 rentable square feet, downsizing from the 167,000-sf that it occupied at 100 Summer Street. Finally, Pepper Hamilton, also at 125 High Street, recently renewed its 42,105 sf lease for six years.

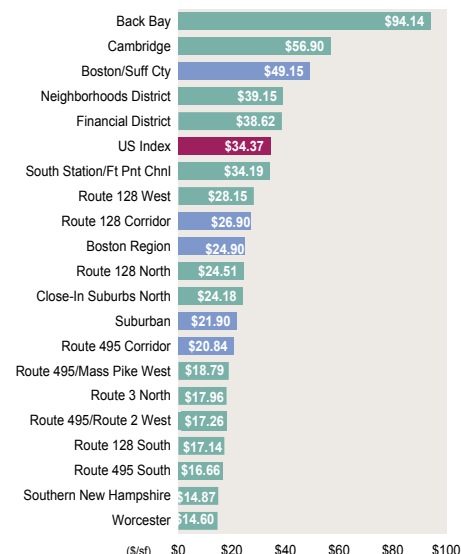
Tenants & Investors Broaden Search

In addition to new product, tenants are attracted to recently renovated, amenity-rich office parks. Many landlords are making at least basic renovations and adding some shared amenities. Cambridge Savings Bank leased 76,000 sf at 81 Wyman Street at Hobbs Brook Park in Waltham. The bank is consolidating back-office locations currently based in Cambridge and Arlington. The landlord, Hobbs Brook Management, is undertaking a complete gut renovation of the former ThermoFisher Scientific headquarters. This fall speculative demolition of 225 Wyman Street will begin to create a pad-ready site capable of supporting 507,000 sf of office and/or lab for

Availability Rate Comparison



Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Oath Inc	440,000	100 Causeway St	Neighborhoods District
Wayfair	395,000	500 Boylston St & 222 Berkely St	Back Bay
Sakon	140,734	300 Baker Ave	Route 495/Route 2 West
Alnylam Pharmaceuticals, Inc.	132,924	300 Third St	Cambridge
Burns & Levinson LLP	102,969	125 High St	Financial District
Boeing	100,000	314 Main St	Cambridge
Cambridge Savings Bank	76,000	81 Wyman St	Route 128 West
Collegium Pharmaceutical, Inc.	50,273	100 Technology Center Dr	Route 128 South
Eisai	48,861	35 Cambridgepark Dr	Cambridge
Dicephera Pharmaceuticals	44,256	200 Smith St	Route 128 West
Sum of Top Leases	1,531,017		

the numerous 300,000-sf-plus requirements in this submarket. 828 Winter Street in Waltham, delivering at the end of 2018, is the second “spec” lab building to deliver in the Boston suburbs (144,910sf) as lab vacancy in 128 West submarket remains below 5%.

Leasing in Cambridge cooled briefly in the first half of the year, but rebounded in the last few months. Eisai Inc. signed a 48,861-sf lease at the Alewife Research Center (35 Cambridge Park Drive). Located next to the Alewife train station, the 224,000-sf lab building is slated to be completed in early October. The Japanese pharmaceutical firm will move from Andover in early 2019. Alewife is emerging as an alternative to Kendall Square. Companies unable to afford or find adequate options in Cambridge continue to take space in the Seaport District. Currently based in Cambridge, Living Proof leased 27,528 sf at the Innovation and Design Building.

Investors are also targeting assets in the Seaport District. The emerging submarket has limited assets for sale and market fundamentals are strong. Vacancy rates are just above 10%. Converted warehouse buildings with brick and beam construction and large floorplates are highly coveted by tenants – and in turn, by investors. Clarion Partners recently paid \$128.5 million for a six-building, 400,000-sf portfolio in the Fort Point section. The renovated properties are being marketed as having “great bones” and offering tenants the “open spaces, abundant infrastructure and collaborative work environments they are looking for.” Also in the Seaport District, Tishman Speyer’s Pier 4, which was completed just in May, sold to Commonwealth Partners for \$450 million (\$1,208/sf), the highest price per square foot on record in Boston. The building’s tenant roster includes Boston Consulting Group, Cengage and Man Numeric.

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	39,254	2,312	634	4,743	2.6%	5,048	12.1%	0.3%	12.9%	\$38.62	-5.6%	\$53.72
	Financial District - Class A	29,858	1,634	371	3,541	11.5%	3,761	11.9%	1.2%	12.6%	\$61.07	-2.8%	\$57.69
2	Back Bay	14,706	1,269	526	1,319	-14.8%	2,312	9.0%	-1.6%	15.7%	\$94.14	-2.6%	\$55.27
	Back Bay - Class A	12,429	1,209	509	1,164	-16.6%	2,165	9.4%	-1.9%	17.4%	\$96.00	-2.2%	\$60.37
3	South Station/Ft Pnt Channel	12,566	880	189	1,147	-6.9%	1,786	9.1%	-0.7%	14.2%	\$34.19	0.1%	\$28.15
	South Station/Ft Pnt Channel - Class A	6,297	436	39	274	2.5%	910	4.3%	0.1%	14.5%	N/A	N/A	\$0.00
4	Neighborhoods District	20,770	1,500	670	1,276	-3.8%	1,293	6.1%	-0.2%	6.2%	\$39.15	-2.9%	\$40.29
	Neighborhoods District - Class A	4,545	1,185	540	257	5.6%	389	5.7%	0.3%	8.6%	\$49.15	1.5%	\$52.05
5	Cambridge	22,807	1,413	434	1,031	-10.4%	1,861	4.5%	-0.5%	8.2%	\$56.90	-1.3%	\$33.55
	Cambridge - Class A	16,516	1,174	391	719	-17.6%	1,589	4.4%	-0.9%	9.6%	\$61.54	-2.3%	\$57.88
6	Close-In Suburbs North	5,325	30	30	724	29.9%	0	13.6%	3.1%	10.6%	N/A	N/A	N/A
	Close-In Suburbs North - Class A	2,992	24	24	592	29.8%	437	19.8%	4.5%	14.6%	N/A	N/A	\$32.78
7	Route 128 North	23,520	1,298	349	2,737	-16.2%	2,181	11.6%	-2.3%	15.3%	\$24.51	2.5%	\$23.83
	Route 128 North - Class A	11,747	881	261	1,688	-11.6%	2,181	14.4%	-1.9%	18.6%	\$29.71	1.3%	\$26.14
8	Route 128 South	17,218	572	196	3,272	-1.9%	2,810	19.0%	-0.4%	16.3%	\$17.14	-7.9%	\$21.17
	Route 128 South - Class A	8,211	386	129	1,703	-5.9%	1,378	20.7%	-1.3%	16.8%	\$22.33	-2.1%	\$22.74
9	Route 128 West	27,820	1,787	512	4,367	-2.6%	4,911	15.7%	-0.4%	17.7%	\$28.15	-5.0%	\$31.14
	Route 128 West - Class A	15,222	1,137	351	2,625	-6.2%	3,010	17.2%	-1.1%	19.8%	\$34.15	-5.8%	\$38.42
10	Route 3 North	14,847	33	33	3,204	-3.2%	3,748	21.6%	-0.7%	25.2%	\$17.96	-2.1%	\$20.20
	Route 3 North - Class A	4,591	0	0	1,128	0.1%	1,146	24.6%	0.0%	25.0%	\$21.08	-5.4%	\$22.13
11	Route 495 North East	8,744	196	39	1,690	-1.1%	1,758	19.3%	-0.2%	20.1%	\$13.68	3.1%	\$21.44
	Route 495 North East - Class A	3,365	105	27	740	-3.4%	712	22.0%	-0.8%	21.2%	\$17.69	4.4%	\$21.49
12	Route 495 South	8,273	238	39	888	9.3%	875	10.7%	0.9%	10.6%	\$16.66	-4.3%	\$21.18
	Route 495 South - Class A	795	20	2	363	3.5%	310	45.6%	1.5%	39.0%	N/A	N/A	\$24.25
13	Route 495/Mass Pike West	15,008	674	153	3,972	2.5%	3,774	26.5%	0.6%	25.1%	\$18.79	0.5%	\$20.81
	Route 495/Mass Pike West - Class A	7,564	424	92	2,240	-0.1%	2,115	29.6%	0.0%	28.0%	\$21.86	-0.8%	\$22.07
14	Route 495/Route 2 West	8,720	337	209	1,827	-1.8%	1,772	20.9%	-0.4%	20.3%	\$17.26	-0.8%	\$19.79
	Route 495/Route 2 West - Class A	2,596	175	168	570	0.3%	401	22.0%	0.1%	15.4%	\$18.22	-2.7%	\$20.99
15	Southern New Hampshire	17,305	356	90	1,882	2.3%	1,782	10.9%	0.2%	10.3%	\$14.87	7.1%	\$20.01
	Southern New Hampshire - Class A	3,464	124	13	776	19.6%	550	22.4%	3.7%	15.9%	\$17.56	4.6%	\$21.07
16	Worcester	9,486	238	92	1,245	17.3%	1,114	13.1%	1.9%	11.7%	\$14.60	-16.5%	\$21.16
	Worcester - Class A	1,913	106	12	282	-5.5%	391	14.8%	-0.9%	20.4%	\$21.95	0.0%	\$23.63
1-4	Boston/Suffolk County Total	87,297	5,961	2,019	8,486	-2.8%	10,438	9.7%	-0.3%	12.0%	\$49.15	1.1%	\$44.36
	Boston/Suffolk County Total - Class A	53,129	4,463	1,460	5,236	3.0%	7,225	9.9%	0.3%	13.6%	\$59.90	1.5%	\$56.70
7-9	Route 128 Corridor Total	68,557	3,656	1,057	10,376	-6.4%	11,312	15.1%	-1.0%	16.5%	\$26.90	0.5%	\$26.37
	Route 128 Corridor Total - Class A	35,179	2,404	741	6,017	-7.7%	6,569	17.1%	-1.4%	18.7%	\$32.01	0.8%	\$30.58
11-14	Route 495 Corridor Total	40,745	1,444	440	8,377	1.4%	8,178	20.6%	0.3%	20.1%	\$20.84	0.3%	\$20.80
	Route 495 Corridor Total - Class A	14,321	723	289	3,913	-0.3%	3,537	27.3%	-0.1%	24.7%	\$22.11	0.1%	\$21.69
6-16	Suburban Total	156,265	6,337	1,742	25,809	-1.2%	26,701	16.5%	-1.2%	17.1%	\$21.90	2.7%	\$20.29
	Suburban - Class A	62,459	3,522	1,080	12,709	-2.1%	12,629	20.3%	-2.1%	20.2%	\$23.04	1.4%	\$21.76
1-16	Boston Region Total	266,368	13,712	4,196	35,326	-1.9%	39,000	13.3%	-0.3%	14.6%	\$24.90	1.4%	\$24.19
	Boston Region - Class A	132,104	9,160	2,930	18,664	-1.4%	21,443	14.1%	-0.2%	16.2%	\$28.25	0.8%	\$27.00

Please contact us for further information

Savills Studley
Exchange Place
53 State Street
13th Floor
Boston, MA 02109
(617) 925-6300

Branch Manager
Mark Stewart - SVP
mstewart@savills-studley.com
(617) 925-6311

Co-Branch Manager
James Halepis - SVP
jhalepis@savills-studley.com
(617) 925-6307

Additional Contacts
James Topper
jtopper@savills-studley.com
Roger Williams
rwilliams@savills-studley.com
Steve Woodworth
swoodworth@savills-studley.com
Corey Paquette
cpaquette@savills-studley.com

(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.
The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
Copyright © 2018 Savills Studley

