SUMMARY

Market Highlights

LEASING DECLINES

Following a strong fourth quarter of activity, with 4.0 million square feet (msf) leased – quarterly activity inched down to 2.6 msf. Tenants have leased 11.6 msf in the four most recent quarters, 29.5% below the long-term market average of 16.4 msf.

AVAILABILITY RATES PUSH LOWER

The market’s overall availability rate decreased by 50 basis points from 12.7% to 12.2%. The Class A availability rate fell by 60 basis points to 13.2%.

RENT RISES

The average asking rent for the entire region increased by 0.7% to $32.38. The Class A asking rent was essentially flat, inching down by 0.4% to $40.33.

SALES DOWN SHARPLY

As of March 2018, office sales volume in Boston totaled $1.9 billion in the last six months, down sharply compared to the $4.9 billion sold in the previous six months.

“Boston’s economy and office market has taken a different route in this cycle, deviating from the weak population and job growth displayed in many older Northeast and Midwest metros - and locally during prior cycles. This time has truly been different for Boston. The willingness of many companies to pay top dollar for Boston’s expertise in a wide variety of high-tech sectors has been a game-changer.”

Steve Woodworth, Managing Director
Recovery Covers a Lot of Ground, Region a FrontRunner for HQ2

The duration, magnitude and scope of Boston’s expansion in this cycle has been impressive. As of March, the region was more than 95,000 office-using jobs above its low point hit in late 2010 - a 19.4% jump. Demand for office space and rent growth have spread far and wide, spilling across much of the region, particularly areas close to Cambridge and Boston.

Excluding the most remote suburban locations, most areas in Boston have seen some material decrease in availability rates over the last two years. Cambridge (with an availability rate of 3.7%) remains the tightest submarket of all, but options in the Financial District (10.9%) and Seaport (10.1%) are also very limited. First-quarter leasing activity further depleted the pool of space in early 2018 as DraftKings 105,000-sf lease at 222 Berkeley/500 Boylston Street was finalized. The interconnected building is filling up as Wayfair is expected to expand to 400,000 sf.

In Cambridge, as options in existing buildings dwindle, tenants are pushing to new projects such as DivcoWest’s Cambridge Crossing. The 45-acre campus recently inked its first lease. Health tech innovator Philips has already exercised expansion options and leased 341,000 sf at 250 North Street in East Cambridge. They will move operations from Andover. Additionally, Cambridge Innovation Center signed a 92,500-sf lease at 255 Main Street.

WeWork a Big Spender

Adding to the competition for space in prime districts, WeWork took 123,500 sf at 501 Boylston and leased more than 70,000 sf at 33 Arch Street. While WeWork has been growing in Boston, its expansion has been much slower than in Manhattan or Los Angeles. The two new locations, both in very high-rent submarkets, will bring them to nearly 10 centers in Boston, compared to 43 in Manhattan and 15 in Los Angeles.

Tenants were also active in the Financial District in early 2018. Salsify took 53,900 sf at 101 Federal Street, nearly doubling from the 30,000 sf they currently occupy at 3 Center Plaza. Nixon Peabody committed to 100,593 sf at 53 State Street. WeWork, DraftKings and Salsify are expanding. Nixon Peabody, like many other law firms, is reducing its occupancy, shrinking from the 167,000 sf they currently occupy at 100 Summer Street.
Nixon Peabody will leave behind a much-needed block of space once it moves out. Companies looking for bigger blocks have a dwindling pool of options. Among existing buildings within Boston/Suffolk County there are only 14 buildings offering 50,000 sf or more. New construction will not alleviate the shortage — Congress Square and 400 Northern Avenue at Innovation Square are the two remaining buildings underway in the city with a block of 50,000 sf or more that has not been pre-leased.

Similar to many other markets nationwide, tenants clearly have a strong preference for new product in urban settings. The bulk of the new product has delivered and then been quickly pre-leased in Boston — much of the remaining unleased development pipeline is in suburban locations. This includes Dunham Ridge in Beverly and 152 Grove Street in Waltham. It will take quite some time before proposed construction in the Financial District, the Back Bay and Cambridge alleviates the space crunch.

Wide-Ranging Rent
Leasing activity, rent growth and development have spread far and wide. Even so, Boston is still a market characterized by a wide differentiation in term of rents. Rents range from $80-plus for lab space in Cambridge and view space in the Back Bay, to office product priced in the high teens in the Route 495 Corridor. Between these two ends of the spectrum, most space is priced between $40/sf and $70/sf. Tenants in nearly every price range have seen steady rental rate growth. Asking rent averages are approaching $70/sf in the Financial District and Seaport, rent for a few tenants in nearly every price range have seen steady rental rate growth. Asking rent averages are approaching $70/sf in the Financial District and Seaport, rent for a few tenants in nearly every price range have seen steady rental rate growth. Asking rent averages are approaching $70/sf in the Financial District and Seaport, rent for a few

Most companies prefer proximity to mass transit, or at least major transportation routes. Businesses focused on recruiting younger talent have recoiled from the suburban periphery. In turn, tenants can still find sub-$30/sf space in some sections of the Route 128 Corridor and much of the Route 495 Corridor.

A Different Path
Boston has defied the trends seen in many Northeast and Midwest high-cost markets during this cycle. In fact, it has taken a different route from its own past performance in prior cycles. Area households and some businesses continue to move to lower-cost and warmer markets. This time around though, there are more businesses and households willing to pay the high price of operating or living in Boston. This, coupled with local organic growth, has more than offset any trickle of firms to other regions. There are many reasons Boston’s economy has taken a different path this go around. One in particular stands out — expertise. Despite spiraling wages and salaries, Boston’s economy continues to charge along. Top tech firms and employers have been willing to pay top dollar for talent in Boston.

HQ2 in the Cards?
Boston is making a strong bid to land the biggest whale – Amazon’s HQ2. If Boston lands Amazon HQ2 it will send a strong signal that the Seattle-based giant values expertise more so than a long list of other criteria such as cost, logistics or political influence. As well, transit may prove to be a key deciding factor. New York City or Northern Virginia also have a deep pool of tech talent, as well as prime access to capital (political and monetary).

But these cities lack the depth of talent in AI/machine learning that Boston and San Francisco have. This niche holds a lot of potential, it is also one of the most undersupplied in terms of qualified labor. McKinsey Global Institute recently calculated that AI innovations and techniques such as neural networks and deep learning could create $3.5 trillion and $5.8 trillion in value to the global economy. Boston is fortunate to have one of the top concentrations of AI and machine learning as well as a plethora of venture capital funds that tap into talent coming from MIT, Harvard, BU and other local universities.

Businesses are also taking notice, including some such as GE and IBM that see expertise more so than a long list of other criteria such as cost, logistics or political influence. As well, transit may prove to be a key deciding factor. New York City or Northern Virginia also have a deep pool of tech talent, as well as prime access to capital (political and monetary).
<table>
<thead>
<tr>
<th>Map</th>
<th>Submarket</th>
<th>Inventory SF (1000's)</th>
<th>Last 12 Months SF</th>
<th>This Quarter SF</th>
<th>% Change from Last Qtr.</th>
<th>Year Ago SF</th>
<th>This Quarter SF</th>
<th>% Change from Last Qtr.</th>
<th>Year Ago SF</th>
<th>This Quarter pp Change from Last Qtr.</th>
<th>Year Ago pp Change</th>
<th>Asking Rents Per SF</th>
<th>% Change from Year Ago</th>
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<tbody>
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<td>1</td>
<td>Financial District - Class A</td>
<td>39,181</td>
<td>1,809</td>
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<td>Close-in Suburbs North - Class A</td>
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<td>27</td>
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<td>161</td>
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<td>1-4</td>
<td>Boston/Suffolk County Total - Class A</td>
<td>95,579</td>
<td>6,668</td>
<td>1,256</td>
<td>8,576</td>
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<td>7-9</td>
<td>Route 128 Corridor Total - Class A</td>
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<td>3,144</td>
<td>606</td>
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<td>11-14</td>
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<td>Boston Region Total - Class A</td>
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<td>$32.38</td>
<td>0.7%</td>
<td>$32.35</td>
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</tbody>
</table>

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