

## BOSTON 3Q17 OFFICE MARKET



### BOSTON'S GROWTH STORY CONTINUES

Notable pre-commitments in new construction along with sizable expansions by existing tenants in key submarkets propelled leasing activity during the third quarter and in all likelihood will support a seventh consecutive year of expansion for the Greater Boston office market in 2017. Year-to-date net absorption rose to 531,500 square feet following a third-quarter expansion of 238,500 square feet. As a result, the metro overall vacancy rate eased to 11.6%, down from 12.0% during the same period a year earlier. Office asking rents across the wider market were up 2.9% year-over-year, with Cambridge and Class B properties in the CBD exhibiting the highest growth rates.

A sharp increase in leasing activity within new construction in Boston's CBD materialized this quarter and further reflected the city's ongoing ability to attract new tenant demand. 121 Seaport has been fully leased after commitments by PTC and Alexion Pharmaceuticals. Tech sector expansion also continued as CloudHealth Technologies outgrew its Seaport office and leased two floors at 100 Summer Street, while another local tech firm is expected to triple the space it currently occupies. Net absorption bounced back this quarter following a net contraction during the first six months of the year as a result of several large tenant relocations. At just over 239,000 square feet, net absorption in the CBD was driven by several expansions in the Back Bay, notably from coworking tenants, and smaller-sized company relocations in Downtown. The Back Bay posted the CBD's highest quarterly absorption, as occupancy levels improved following a tough start to the year. Its vacancy rate dropped to 11.5%, down from a 10-year peak of 12.7% in first-quarter 2017. The CBD vacancy rate dropped slightly to 9.2%.

Cambridge, which has so far this year recorded slight negative net absorption and an uptick in vacancy as a result of several tenant consolidations, is still in growth mode as otherwise suggested by its recent softened performance. Facebook and Shire are the latest examples of large expansions by in-place tenants, both of which committed to space at Alexandria's new Binney Street projects in Kendall Square. At 5.8%, Cambridge continues to boast the lowest vacancy rate for a major office cluster in the metro area. Its direct and sublease availability are trending at approximately 500,000 square feet apiece.

Stable occupancy growth again this quarter brought the suburbs' year-to-date net absorption to 771,300 square feet, which already exceeds last year's total. Despite the push to Boston by many tech and professional services firms, the suburbs are still capturing new demand and organic growth. The Urban Edge and West - Route 128 submarkets are on pace to record the highest absorption gains, after more pre-commitments in new construction, and in the latter submarket, several notable healthcare tenant expansions by Aetna and Steward Health Care. The widespread increase in new speculative construction in these areas is bearing more

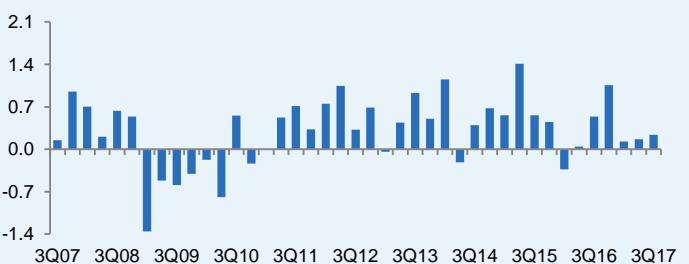
#### Market Analysis

##### Asking Rent and Vacancy



##### Net Absorption

Square Feet, Millions



##### Construction and Deliveries

Square Feet, Millions



#### Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	183.0M	182.8M	181.2M	↑
Vacancy Rate	11.6%	11.7%	12.0%	↓
Qtr. Net Absorption (SF)	238,508	164,935	541,136	→
Avg. Asking Rent (\$/SF)	\$34.23	\$34.18	\$33.27	↑
Under Construction (SF)	3.2M	2.7M	2.3M	↑
Deliveries (SF)	0	247,300	592,000	↑

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fruit. The past several months saw deals by Cyber Ark at 2 Wells Avenue and Program Software, which committed to all of 170 Tracer Lane; both properties are in the West - Route 128 submarket. Several whole floor-tenants are currently negotiating leases at 80 Guest Street at Boston Landing, while a 100,000-square-foot contiguous space on the upper floors has several tenant prospects.

### Office Investment

At \$6.1 billion, investment sales volume through the first half of 2017 already topped 2016's total (\$6.07 billion). Since then, volume has plummeted to under \$800.0 million. Rather than signifying a lull in investor demand, the pullback is largely attributed to the limited presence of available CBD assets on the heels of a series of acquisitions by institutional long-term investors, from both the U.S and abroad. Cambridge continued to see several trades with robust pricing, while the suburbs are beginning to see more activity, as several projects have

recently hit the market. Asset pricing remains at peak levels and is unlikely to soften anytime soon, especially given the limited availability of core assets and strengthening leasing fundamentals in Boston, Cambridge and extending through the inner suburban markets.

### Looking Forward

Recent commitments by both inbound and expanding tenants has reduced the number of large contiguous availabilities in Boston's CBD, and is encouraging some firms to expedite their real estate decisions. Further intensifying the situation is coworking giant WeWork, which is in the process of taking down more large blocks of space as it continues to rapidly expand. Such activity will drive absorption into next year, while supporting a more landlord-favorable climate that could spur an upturn in Class A asking rents as availability decreases further. No obvious relief valve will keep the Cambridge market tight, while suburban markets are expected to experience sustained growth.

### Office Investment



Source: Real Capital Analytics, NGKF Research

### Asking Rents by Class



### Select Lease Transactions

Tenant	Building / Address	Submarket	Type	Square Feet
PTC	121 Seaport	Seaport District	Direct	250,000
Shire	75-125 Binney Street	East Cambridge	Sublease	223,000
Alexion Pharmaceuticals	121 Seaport	Seaport District	Direct	150,000
Facebook	100 Binney Street	East Cambridge	Direct	132,600
Aetna	93 Worcester Street	West - Route 128	Lease Expansion	80,300
CloudHealth Technologies	100 Summer Street	Downtown	Direct	77,900
Program Software	170 Tracer Lane	West - Route 128	Direct	73,300
Steward Health Care	89 A Street	West - Route 128	Direct	52,100
CRRC MA Corp.	108 Myrtle Street	South - Route 128	Direct	29,100

### Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
10-35 Corporate Drive	North - Route 128	\$134,000,000	\$275	487,000
515 Massachusetts Avenue	Mid Cambridge	\$30,100,000	\$649	46,400

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### Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Back Bay	13,562,325	-	11.5 %	143,994	-168,286	\$65.77	\$47.73	\$63.95
Downtown	32,857,218	-	8.5 %	-15,908	165,278	\$60.17	\$47.59	\$57.66
Government Center	1,796,457	-	13.5 %	61,405	48,757	\$55.00	\$50.50	\$52.01
Midtown	2,332,634	-	13.9 %	21,453	-22,501	-	\$47.31	\$46.99
North Station	2,604,323	175,000	8.5 %	-4,498	-16,291	-	\$45.46	\$45.46
Seaport District	9,997,072	770,455	8.8 %	33,239	-42,999	\$66.46	\$48.96	\$51.56
South Station	2,972,546	-	3.0 %	-619	4,931	\$46.00	\$46.90	\$45.82
<b>CBD Total</b>	<b>66,122,575</b>	<b>945,455</b>	<b>9.2 %</b>	<b>239,066</b>	<b>-31,111</b>	<b>\$62.08</b>	<b>\$48.26</b>	<b>\$56.93</b>
East Cambridge	5,938,730	889,396	4.4 %	-40,255	-115,899	\$80.69	\$66.96	\$78.83
Mid Cambridge	2,533,300	-	6.8 %	-3,403	-26,731	\$62.89	\$52.54	\$61.63
West Cambridge	1,965,338	-	9.0 %	-85,448	66,007	\$47.06	\$40.52	\$44.36
<b>Cambridge Total</b>	<b>10,437,368</b>	<b>889,396</b>	<b>5.8 %</b>	<b>-129,106</b>	<b>-208,637</b>	<b>\$65.10</b>	<b>\$59.26</b>	<b>\$63.26</b>
Urban Edge	13,879,318	338,131	5.7 %	-11,534	352,553	\$37.98	\$33.44	\$35.96
North - Route 128	21,400,468	425,000	11.2 %	-16,950	-11,897	\$30.75	\$20.00	\$25.86
South - Route 128	13,539,810	-	13.7 %	20,985	-36,970	\$23.89	\$19.42	\$22.03
West - Route 128	21,259,041	558,510	11.3 %	-9,840	221,980	\$36.37	\$30.18	\$33.67
North - Route 495	19,394,760	58,000	21.3 %	-52,319	79,880	\$20.32	\$17.34	\$18.72
South - Route 495	3,271,020	-	9.2 %	14,202	30,124	\$21.28	\$19.92	\$20.49
West - Route 495	9,302,862	-	21.2 %	130,836	98,263	\$21.30	\$17.71	\$19.07
Framingham/Natick	4,329,404	-	14.6 %	53,168	37,369	\$25.71	\$19.56	\$24.29
<b>Suburban Total</b>	<b>106,376,683</b>	<b>1,379,641</b>	<b>13.6 %</b>	<b>128,548</b>	<b>771,302</b>	<b>\$27.04</b>	<b>\$20.69</b>	<b>\$23.97</b>
<b>Market</b>	<b>182,936,626</b>	<b>3,214,492</b>	<b>11.6 %</b>	<b>238,508</b>	<b>531,554</b>	<b>\$39.30</b>	<b>\$27.96</b>	<b>\$34.23</b>

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### ECONOMIC CONDITIONS

The Boston metro unemployment rate is trending back toward the national rate after gaining some separation in late 2016. At 4.0%, the unemployment rate is only 0.5 percentage points below the national rate, down from a gap of 2.0 percentage points at the end of 2016. The national rate (not seasonally adjusted) stood at 5.1% at the beginning of 2017 and has dropped 0.6 percentage points to 4.5% through the first three quarters. Although the unemployment rate is rising in Boston, it should not be cause for concern. The influx of workers into Boston is a critical component of the increase. The labor force participation rate is currently at 66.4%, a year-over-year increase of 1.5 percentage points.

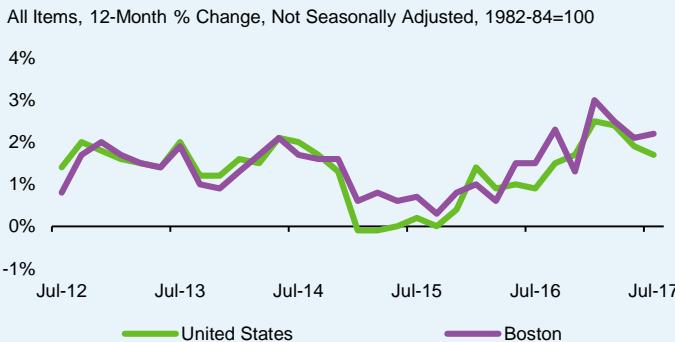
Boston experienced steady employment growth to start the second half of the year, having gained 94,100 jobs year-to-date compared with 90,400 jobs added during the same period a year earlier. The health and education sector has realized the largest gain in employment over the past year (4.1%). Meanwhile, the professional and business services sector has added 24,900 jobs so far in 2017.

#### Unemployment Rate



Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua, MA-NH Metropolitan NECTA

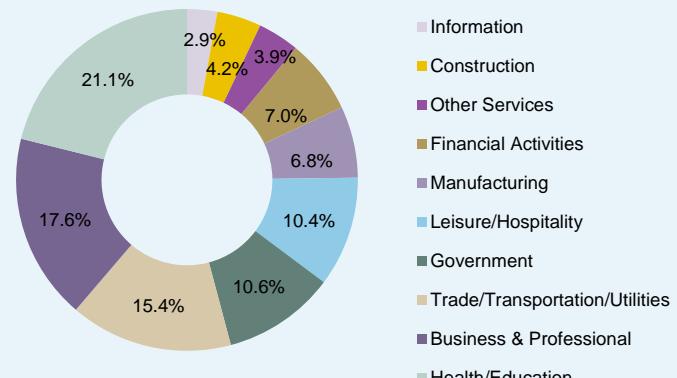
#### Consumer Price Index (CPI)



Source: U.S. Bureau of Labor Statistics, Boston-Brockton-Nashua, MA-NH-ME-CT

#### Employment By Industry

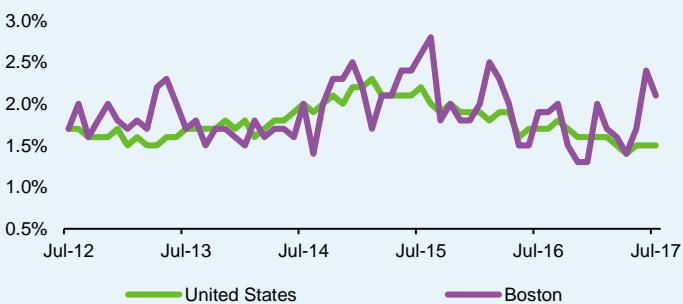
Not Seasonally Adjusted, July 2017



Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Quincy, MA-NH

#### Payroll Employment

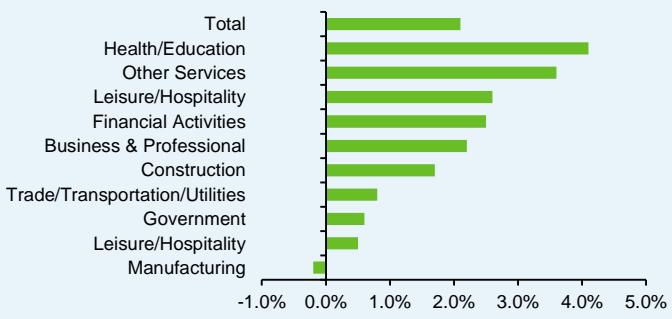
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua, MA-NH

#### Employment Growth by Industry

12-Month % Change, Not Seasonally Adjusted, as of Jul-17



Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua, MA-NH

# BOSTON 3Q17 OFFICE MARKET

## Boston

225 Franklin Street  
33<sup>rd</sup> Floor  
Boston, MA 02210  
617.863.8090

**Jonathan Sullivan**  
Research Manager  
617.863.8421  
jonathan.sullivan@

**Dan Carucci**  
Senior Research Analyst  
617.863.8425  
[dan.carucci@nkgf.com](mailto:dan.carucci@nkgf.com)

**Alex Wilsterman**  
Research Analyst  
617.863.8428  
[alex.wilsterman@ngkf.com](mailto:alex.wilsterman@ngkf.com)

## Glossary of Terms

## Absorption

A measure of the change in occupied space

## Deliveries

The total RBA of properties added to the inventory once construction has been completed

## Inventory

Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet in total rentable building area. Owner occupied buildings are not included in the inventory

### Rentable Building Area (RBA)

A measurement of the total square feet in a building including the tenant and common areas such as the lobby and hallways

## Under Construction

Buildings under construction are defined by the time the foundation is poured through the time the building is certified for occupancy

## Vacancy

Any space not physically occupied by a tenant, regardless of the lease status or availability of space

### Average Asking Rent

The asking dollar amount for the use of available space, weighted by size--the average does not include negotiable or unpublished rates and is reported as full service net of tenant electric



Starting in 2017, Metro Boston office asking rents are reported on a full service gross plus electric basis. In the past, Newmark Knight Frank - Boston reported asking rents on a full service basis inclusive of operating costs including utilities. The Northwest 128 submarket has also been dissolved, with its former towns having been absorbed primarily by the West - Route 128 and North - Route 128 submarkets.

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