

Blue is Greater Boston's definitive resource for commercial office real estate discussion & analysis.

ABSORPTION of 20,000 sf is the lowest quarterly figure seen since 2013; vacancy increased 0.1 percent to 10.9 percent.

AMAZON has reportedly narrowed its search to the Seaport District for a new 200,000 sf local operation.

AETNA has announced its intention to leave its HQ in Hartford; the group is expected to announce its decision between Boston & NYC imminently.

BOSTON PROPERTIES has begun construction on the 486,000 sf, 19-floor building that will service as Akamai's headquarters, in Cambridge.

RELOCATION activity is brisk, though many moves are to more efficient, smaller footprints.

BOSTON LANDING'S commuter rail station opened; its private funding may be emerging as a model for local transit-oriented developments.

HYM INVESTMENT GROUP has acquired and intends to redevelop Suffolk Downs; the 161-acre site is among the largest in the city's history.

CHARTER SCHOOLS are increasing as buyers of functional but affordable Class B suburban office buildings.

MERCURY SYSTEMS took occupancy of 155,000 sf in Andover in a move from Chelmsford, the quarter's largest single transition.

QUICK



Absorption
+20,000 sf

Slight absorption extended a long positive streak



Vacancy
10.9% +0.1%

Vacancy up-ticked on an inventory completion



Rents (Class A)
\$38.58 =0.0%

Rent stabilized amid locally divergent dynamics



THE HUB & HEIGHT

With the largest global skyscraper boom in history underway and long-time tower hold-outs such as London embracing height for the first time, let's take a look at our city's long uneasy relationship with skyward building ...

OTB, page 3



timeline

THE BOSTON GLOBE office functions take occupancy at 53 State Street in Boston's Core, in a relocation from a site in Dorchester it had occupied since the 1950s; printing and other functions are relocating to Taunton.



CHURCH OF CHRIST, SCIENTIST divests the historic 45,000 sf Horticultural Hall adjacent to its headquarters campus; the Church has heavily divested real estate assets over the past ten years.



AETNA confirms a widely speculated plan to move its headquarters out of its 164-year home in Hartford; Boston and New York City are believed to be among the top choices with a decision expected this quarter.



BOSTON LANDING MBTA commuter rail station opens at New Balance's rapidly developing multi-use facility in Brighton; the stop is seeing high early ridership numbers and may be a "regional rail" hub in the 2020s.



GENERAL ELECTRIC holds a groundbreaking ceremony for its 388,000 sf, \$200 million new HQ facility; currently expected to open in 2019; sitework has begun on what includes an adaptive reuse of two historic structures.



SYNTERGY INVESTMENTS acquires the three-building 741,000 sf Center Plaza adjacent to Government Center; the facility reflects the first clear Class A asset purchase for the prominent Class B building owner and operator.



q3

jun

jun

may

may

apr

apr

q1'17



VERIZON says it will open a 10,000 sf coworking facility in a former station in Cambridge; the concept, branded "Alley by Verizon," is expected to grow to numerous large facilities the telecom owns throughout the country.



BOSTON PROPERTIES has broken ground on the 486,000 sf tower at 145 Broadway in Cambridge set to be part of Akamai's new campus; the facility replaces a 80,000 sf structure which was demolished this past quarter.



HYM INVESTMENT GROUP acquires the 161-acre Suffolk Downs; among the largest development sites in the history of the city, the buy comes amidst a flurry of nearby activity that could be an area commercial and housing boom.



AMAZON reportedly narrows its focus for its next area facility to the Seaport District, apparently considering the 175,000 sf 253 Summer Street, a building that previously housed operations of Partners HealthCare.



MERCURY SYSTEMS completes its relocation to 155,000 sf in Andover in a shift from Chelmsford; the quarter's largest move includes approximately a 20 percent size reduction from the group's prior facility.



REEBOK, having announced a relocation of its HQ to Boston's Seaport District in the fourth quarter, says it will divest its current 65-acre Canton campus; the site includes 680,000 sf of Class A office buildings.

Flashback to Q1'2017 ...

Absorption reached its second highest level in five quarters as 676,000 sf lowered vacancy 0.3 percent to 10.8 percent. Publicis Groupe announced it will combine its DigitasLBi and SapientPublicis units into 217,000 sf at 40 Water Street in 2018. WeWork opened more than 150,000 sf of space at sites in the Back Bay and Cambridge; the group's third and fourth regionally. Cambridge City Council approved a re-zoning of Central Square which will allow for taller buildings. Kenmore Square's Citgo Sign will remain in place following a long-term lease furnished by new building owner Related Beal.



Optimism and confidence remain at high levels in the Greater Boston business community as of the second quarter of 2017 as the region continues to be increasingly competitive as a global center of the commercialization of technologies. Slight absorption of 20,000 sf reflected a quarter with some isolated consolidation activity and an absence of significant expansion events, such as those experienced in recent quarters and those anticipated with headquarters projects in the process of commencing for Akamai Technologies and General Electric. Relocation activity remains brisk with groups generally choosing facilities that offer an enhanced experience, though these moves are generally resulting in overall reductions in used space, with a 20 percent average savings seen in the first half of 2017. An urban influx continues to intensify with suburban tenants infiltrating the Urban core, and an increasing number of users from both the suburbs and the Core choosing to locate in Streetcar Ring infill locations, such as those in Brighton, Malden, Medford and Somerville. With capital investment focusing on additional rail-accessible infill locations, such as the newly-former site of the Boston Globe, the racetracks at Suffolk Downs and Wonderland, the NECCO factory and Widett Circle, the ability to continually accommodate an increasing share of the region's commercial activity within a dense central core may be about to expand.

THE HUB IN HEIGHT

Boston's contention with height goes back a long way – here's a quick primer ...



Boston served as an early important center of 1800s architecture, with robust regional capabilities and some of the world's foremost building designers, such as Charles Bulfinch and Henry Hobson Richardson.

Advancements in building methods toward the end of the century enabled buildings to grow higher and the invention of the elevator helped users more fully utilize the newly possible height. Because of Boston's early competency in architecture, it was among the first cities to see, and react to, the effects of what were then some of the world's tallest buildings.



Ames Building
1888 188'

Fiske Building
1893 183'

Haddon Hall
1894 125'

In 1896, Boston enacted the world's first building height limitation – of 125 feet; architects, hoping to design taller and taller buildings, settled in other cities – most notably in Chicago, then world's fastest growing city also looking to demonstrate strength following its devastating fire.

Boston Notably Lagged In Early Tall Buildings

Cities with more buildings over 200' in height than Boston in 1940

Albany	Cleveland	Los Angeles	Philadelphia
Atlanta	Dallas	Memphis	Pittsburgh
Baltimore	Detroit	Milwaukee	San Antonio
Birmingham	Fort Worth	Minneapolis	San Francisco
Buffalo	Houston	Newark	Seattle
Chicago	Indianapolis	New Orleans	St Louis
Cincinnati	Kansas City	New York	St Paul



Built on federally-controlled land, Boston's Custom House was not subject to local zoning laws; at 496 feet in height, it was New England's tallest building for 49 years.

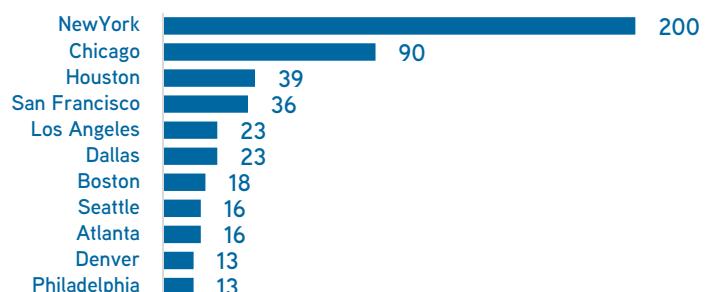


The 1964-built Prudential Tower was an early symbol of an urban renewal phase for the city; the tower was the tallest in the world outside New York City upon opening.



Boston's Urban Renewal Brought Skyscrapers

Number of 400'+ buildings built 1960-1990, US cities





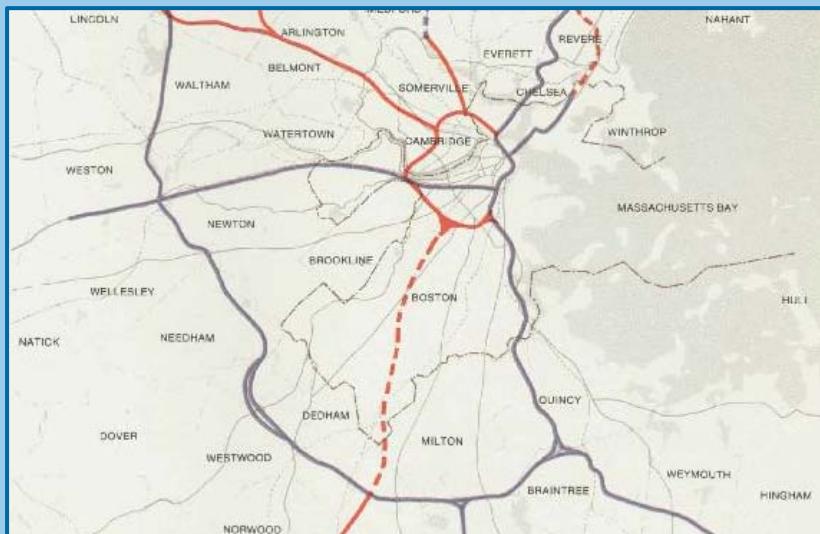
Urban Boston

This Quarter ...

- ◊ Vacancy rose 0.2 percent to 8.5 percent on negative absorption of 92,000 sf as Class A asking lease rates remained flat at \$59.17 per sf.
- ◊ Partners pulled out of its 175,000 sf facility in the Seaport; their former building is believed to be the focus of a potential Amazon expansion.
- ◊ Law firms are increasingly marketing discretionary space; K&L Gates and Locke Lord are newly marketing a combined 80,000 sf.
- ◊ A submarket migration trend continued as Brattle Group moved into 66,000 sf at One Beacon Street from Cambridge and Haug Partners took 15,000 sf at 101 Merrimac Street from Woburn.
- ◊ The Boston Globe moved into 75,000 sf at 53 State Street in a relocation from a Dorchester facility it had occupied since 1959.
- ◊ General Electric held a groundbreaking ceremony for its 380,000 sf permanent headquarters facility at 6 Necco Street.
- ◊ Deutsche Bank acquired 100 Northern Avenue (\$447 million, 514,000 sf, \$868 per sf) as Rockpoint Group bought the adjacent 100 High Street (\$370 million, 546,000 sf, \$677 per sf) and 160 Federal Street (\$190 million, 367,000 sf, \$518 per sf); Synergy Investment & Development acquired Center Plaza (\$125 million, 741,000 sf, \$492 per sf).

What; Bostonians Protest?

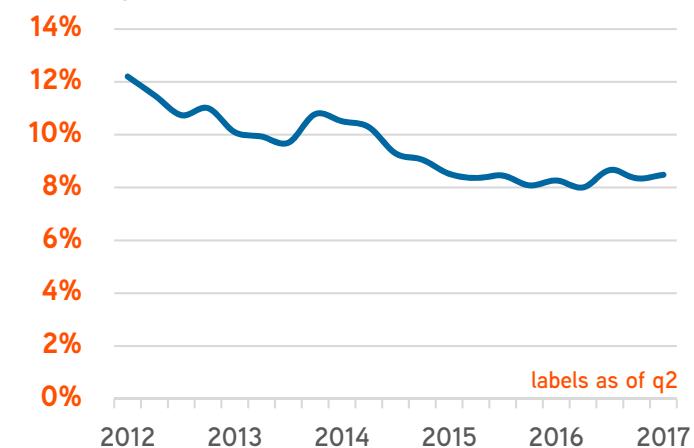
1960s protesting of invasive city freeway development was particularly notable in Boston, causing the governor to halt all freeway construction inside of Route 128 in 1972; while generally believed to be a good move, area freeway congestion and breakdown lane travel serve as reminders the area's traffic loads were intended for a system that was only partly built.



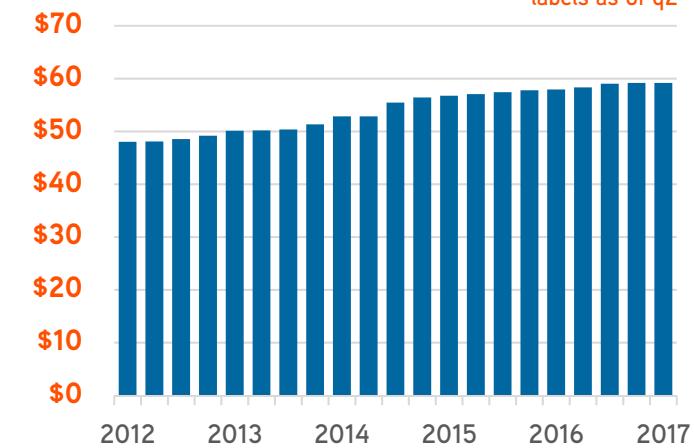
absorption (sf in thousands)



vacancy %



rents \$ class a per sf per year





Cambridge & Streetcar Belt

This Quarter ...

- ◊ Cambridge vacancy further tightened from 3.0 percent to 2.8 percent despite 58,000 sf of negative absorption; average Class A asking lease rates remained flat at \$63.63 per sf.
- ◊ A scarcity of options continues to result in out-of-city relocations with both Brattle Group and Whole Foods leaving this quarter.
- ◊ Inventory decreased by 80,000 sf as 145 Broadway was demolished and will be redeveloped by Boston Properties as a 486,000 sf 19-floor headquarters tower for Akamai Technologies.
- ◊ CarGurus moved into 31,000 sf at 55 Cambridge Parkway in a move from 2 Canal Park as Draper Laboratories took occupancy of 14,000 sf at 141 Portland Street.
- ◊ Ring vacancy increased 0.6 percent to 9.1 percent despite 73,000 sf of positive absorption as 186,000 sf of new inventory was introduced; Class A asking lease rates remain flat at \$40 per sf.
- ◊ First Marblehead vacated 107,000 sf in Malden in a relocation and substantial consolidation to Boston's Back Bay.
- ◊ HYM Investment Group agreed to acquire the 161-acre redevelopment site currently home to the Suffolk Downs race track for \$155 million.

Urban Influx Picks Up Steam in '17

Select tenants in-migrating to Boston or Cambridge, first half 2017

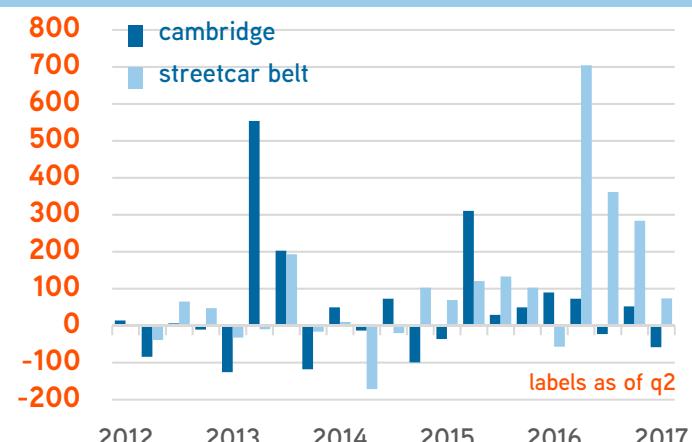
Tenant	Moved to	From	Size (SF)
Boston Globe	53 State St, Boston	Dorchester	75,000
The Brattle Group	1 Beacon St, Boston	Cambridge	66,000
Red Hat	300 A St, Boston	Westford	39,000
First Marblehead	200 Clarendon St, Boston	Medford	32,000
Decibel Therapeutics	1325 Boylston St, Boston	Cambridge	30,000
Nasuni	One Marina Park Dr, Boston	Natick	28,000
Catalyst Online	501 Boylston St, Boston	Newton	20,000
Saylent Technology	116 Huntington Ave, Boston	Newton	16,000
Anderson & Kreiger	50 Milk St, Boston	Cambridge	16,000
Inventiv Health	470 Atlantic Ave, Boston	Burlington	15,000

Suburbs

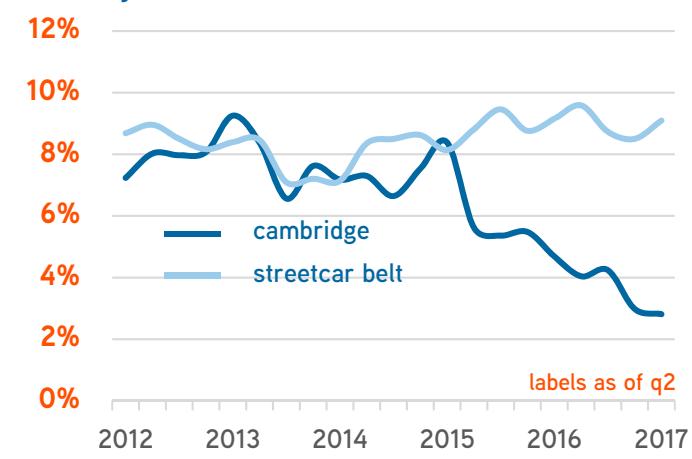
Cambridge

Boston

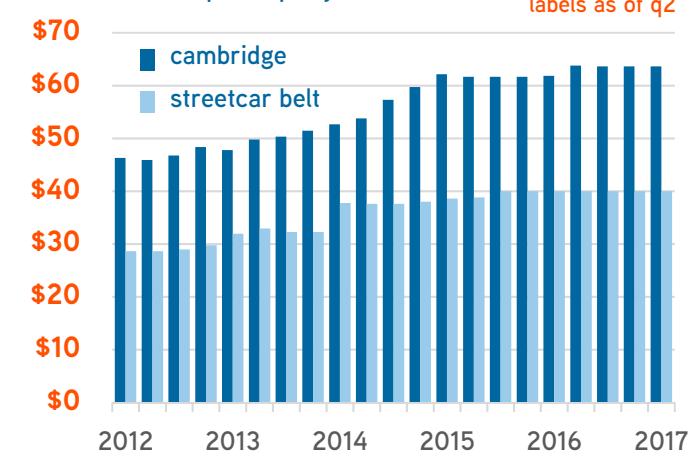
absorption (sf in thousands)



vacancy %



rents \$ class a per sf per year





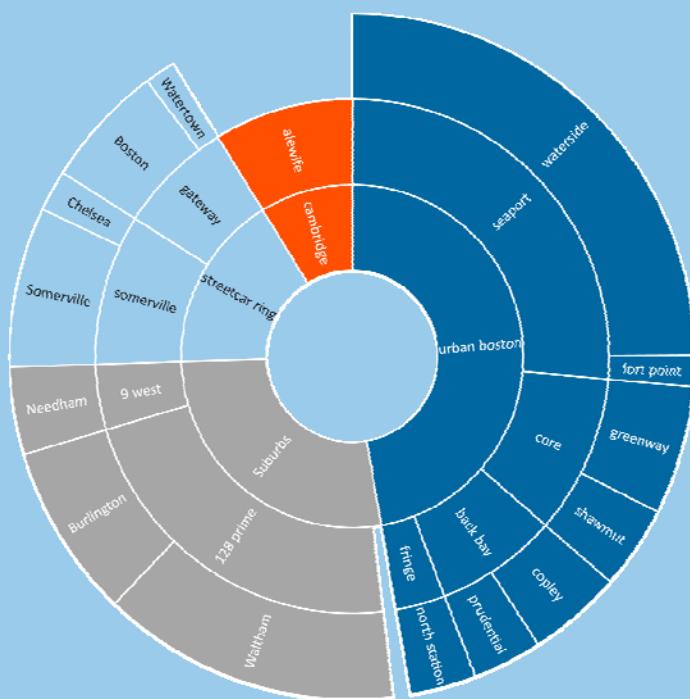
128 & 495 Belts

This Quarter ...

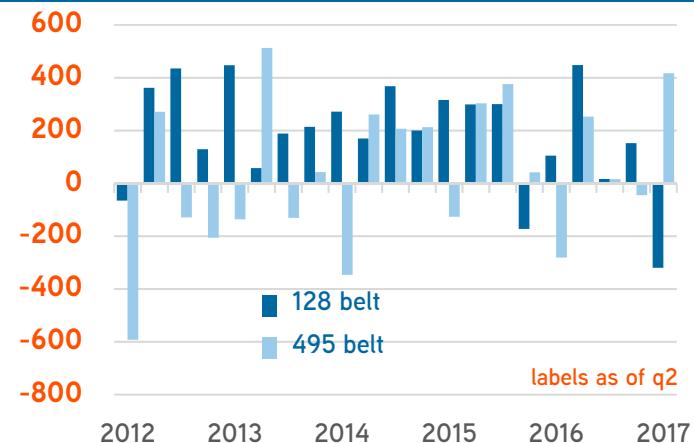
- ◊ 128 Ring vacancy increased 0.6 percent to 10.8 percent on 320,000 sf of negative absorption as average Class A asking rents of \$32.02 per sf are 1.4 percent above year-ago levels.
- ◊ Seventy-eight percent of the quarter's negative demand was focused in Class B properties, as rents of \$22.83 per sf are 0.5 percent below year-ago levels.
- ◊ Patheon opened a 44,000 sf location in Needham as Eliassen moved into 26,000 sf in Reading in a relocation from Wakefield as Timepayment expanded by 25,000 sf in Burlington and HTS completed a 19,000 sf move within Peabody.
- ◊ 495 Ring vacancy dipped 0.8 percent to 16.0 percent as tenants absorbed 417,000 sf and Class A rents rose \$0.16 to \$22.67 per sf.
- ◊ Mercury Systems moved into 155,000 sf in Andover in a relocation from Chelmsford as Whole Foods moved its regional office into 50,000 sf in Marlborough, Globoforce moved into 52,000 sf in Framingham and ConforMIS moved into 45,000 sf in Billerica.
- ◊ Charter schools are becoming acquirers of Class B office buildings; Brockton Charter Schools and Crossroads School completed acquisitions in Foxborough and Marlborough, respectively, this quarter.

2010s Office Construction by Area

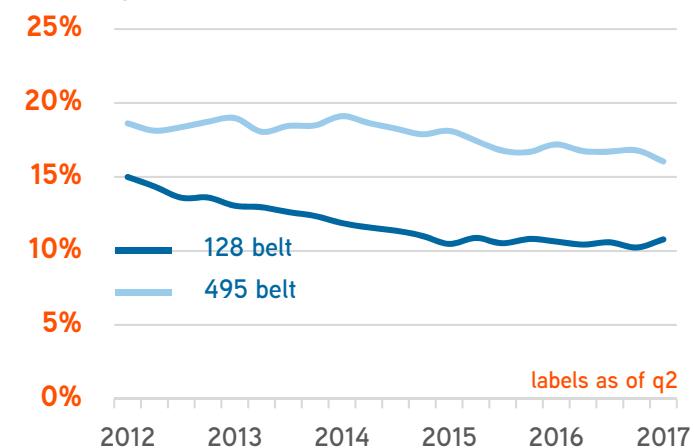
Share of properties completed in the 2010s or presently under construction



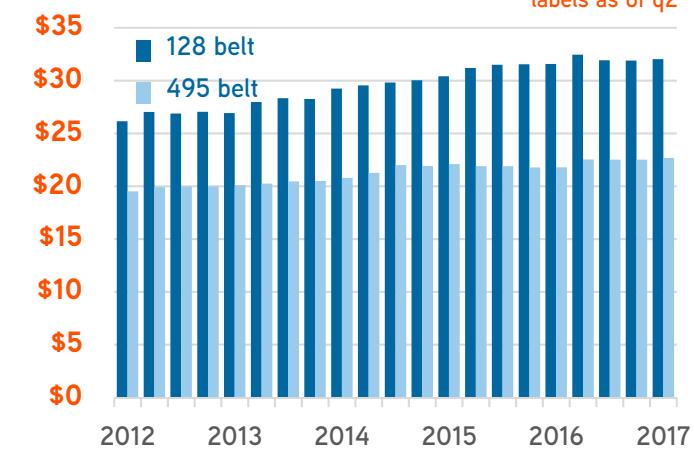
absorption (sf in thousands)



vacancy %



rents \$ class a per sf per year

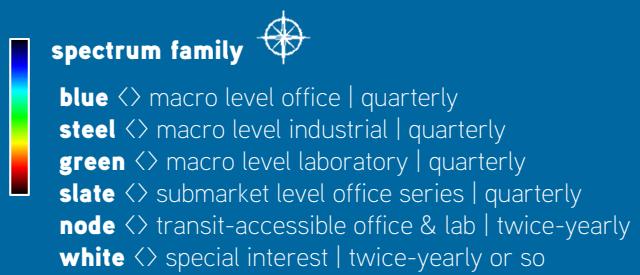
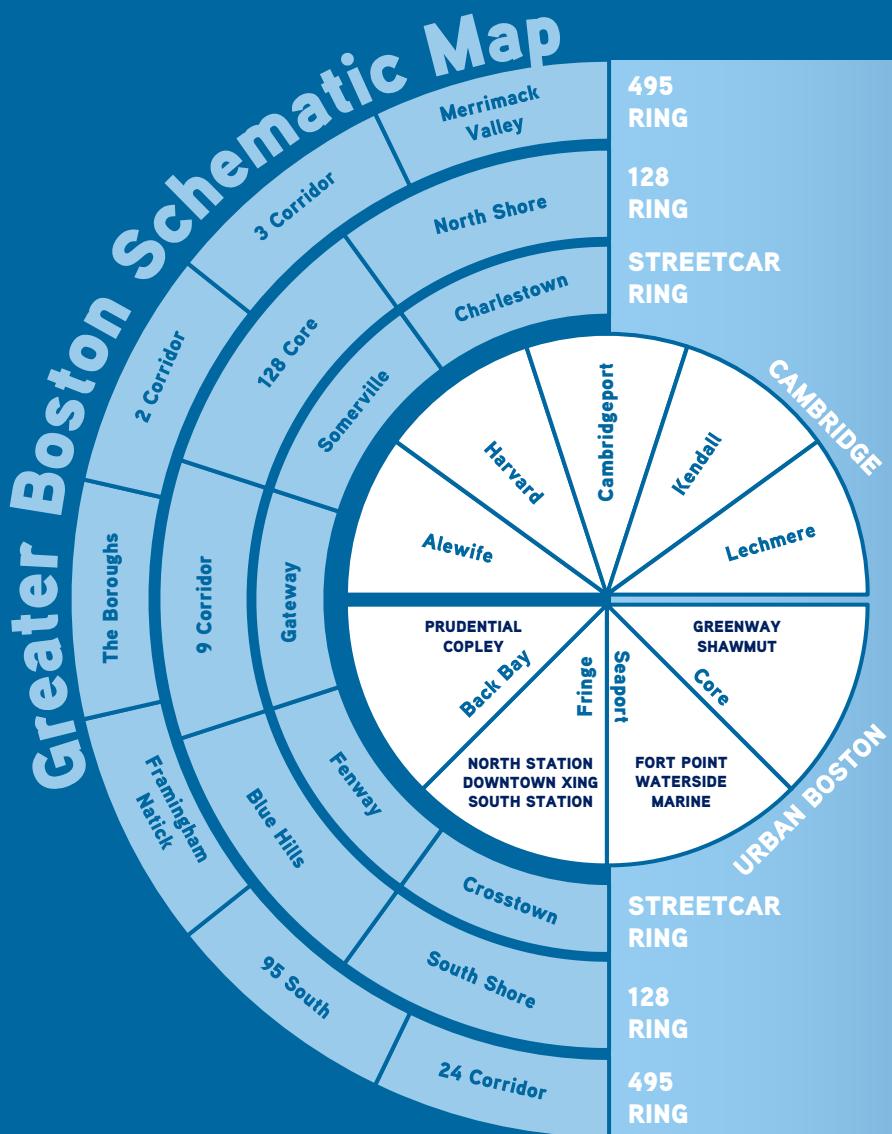




sf in thousands	rba	vac%	Absorption		construction**		rent***	
			q2'17	ltm	uc	lease%	ltm	\$cl a
total market	209,497	10.9%	20	2,711	3,232	46%	2,689	\$38.58
urban boston	68,361	8.5%	(92)	308	1,390	34%	495	\$59.17
core	34,389	8.7%	135	316	365	69%	0	\$57.46
greenway	12,454	4.4%	(15)	370	0		0	\$62.09
shawmut	21,935	11.2%	150	(54)	365	69%	0	\$54.38
fringe	7,874	6.5%	2	(39)	175	0%	0	\$46.50
downtown crossing	3,139	8.5%	(9)	38	0		0	\$48.00
north station	3,208	5.4%	2	(51)	175	0%	0	\$45.00
south station	1,527	4.7%	8	(26)	0		0	
back bay	14,680	9.6%	(75)	(5)	0		425	\$65.73
copley	10,699	9.1%	(20)	(160)	0		0	\$64.75
prudential	3,981	11.2%	(54)	155	0		425	\$67.45
seaport	11,418	7.7%	(154)	36	850	26%	70	\$60.21
fort point	3,985	8.9%	(154)	(89)	0		70	
marine	2,054	13.0%	0	89	0		0	
waterside	5,379	4.7%	0	35	850	26%	0	\$60.21
cambridge	11,118	2.8%	(58)	44	486	100%	44	\$63.63
kendall	5,387	1.1%	(64)	(25)	486	100%	0	\$78.09
central	1,014	8.2%	1	(5)	0		44	
lechmere	1,698	4.3%	38	101	0		0	\$70.00
harvard	1,240	1.7%	(17)	(21)	0		0	
alewife	1,779	4.5%	(16)	(5)	0		0	\$46.00
streetcar belt	16,270	9.1%	73	1,423	160	0%	1,556	\$40.00
charlestown	2,352	3.3%	163	151	0		0	
somerville	5,331	10.5%	(122)	1,056	0		1,100	\$39.00
gateway	3,993	16.5%	(9)	46	160	0%	456	\$40.00
longwood	2,356	2.4%	30	185	0		0	\$42.00
crosstown	2,239	5.6%	11	(15)	0		0	
128 belt	58,564	10.8%	(320)	296	1,196	45%	595	\$32.02
north shore	13,161	9.9%	(92)	162	145	0%	0	\$25.82
128 core	22,022	12.1%	(68)	134	796	47%	595	\$35.28
9 west	6,742	10.4%	20	(91)	255	64%	0	\$42.56
blue hills	6,520	12.3%	(95)	79	0		0	\$31.94
south shore	10,119	8.4%	(85)	12	0		0	\$22.44
495 belt	55,184	16.0%	417	640	0		0	\$22.67
merrimack valley	8,807	19.7%	230	323	0		0	\$22.08
3 north	15,029	16.5%	(137)	(90)	0		0	\$21.87
2 west	6,015	17.6%	33	171	0		0	
the boroughs	14,019	16.2%	168	90	0		0	\$19.52
framingham natick	6,328	9.3%	22	(81)	0		0	\$31.21
95 south	3,460	11.2%	88	204	0		0	\$21.42
24 corridor	1,527	22.0%	12	23	0		0	\$21.50

rba = rentable building area ltm = last twelve months ** preleased % & last twelve months completions ***rent = \$ per sf per year full service class a

Perry Brokerage strives for complete accuracy in all aspects of its information and analysis, though no guarantee to that effect is made. Sources include Bureau of Economic Analysis, Bureau of Labor Statistics, Esri, Federal Reserve Bank, Google Analytics, Institute for Supply Management, Perry Brokerage Associates.



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