

# BOSTON OFFICE MARKET

## ABSORPTION STEAMROLLS PAST ONE MILLION SQUARE FEET FOR 2018

A second consecutive quarter of strong net absorption pushed Greater Boston's office net absorption to more than 1.0 million square feet in 2018. Boston's Central Business District accounted for the majority of the overall market's growth during the year with 1.0 million square feet of net absorption. The suburbs ended the year slightly in the red, posting negative absorption of 163,000 square feet after taking a big hit to start the year when Reebok's former headquarters was put on the market. Cambridge, despite its already extremely low vacancy, recorded more net absorption that pushed its vacancy to an unprecedented 2.4% to close the year. Asking rents remain highest in Cambridge but have seen a sizable jump in the CBD as of late owing to strong tenant demand, tightening availability and increasingly concentrated, disciplined and motivated ownership.

## RENTS SURGING IN BOSTON'S CBD, MORE NEW CONSTRUCTION UNDERWAY

Boston's CBD continues to propel the overall market from a net absorption standpoint, having recorded just over 1.0 million square in 2018. High commitment rates in new construction and strong activity among existing buildings, including the appetite for large blocks of space among both new and existing tenants, many of whom are growing, is fueling a spike in asking rents. The overall CBD average asking rent is up 9.2% for the year, having surpassed \$60.00/SF in the fourth quarter, a first for this market. The CBD's vacancy rate edged down 50 basis points in 2018 to 8.2%. These strong fundamentals could result in meaningful new construction starts as evidenced by the commencement of Millennium Partners' Winthrop Square tower project and Skanska's project at 2 Drydock Avenue in the Seaport District. Spanning 750,000 square feet and 233,000 square feet, respectively, both projects are being built on a speculative basis.

The ambitious expansion of coworking is also notable. It seems the CBD cannot go more than a quarter without WeWork signing a large lease for more space. The coworking operator is reportedly negotiating over 600,000 square feet of commitments across the city. With large blocks having quickly evaporated as the year progressed, WeWork is aggressively targeting the limited amount of large availabilities currently left in the CBD. The CBD's second-fastest growing tenant, Wayfair, is nearing a deal for another 300,000 square feet in the Back Bay following a 400,000-square-foot expansion earlier in the year.

## CURRENT CONDITIONS

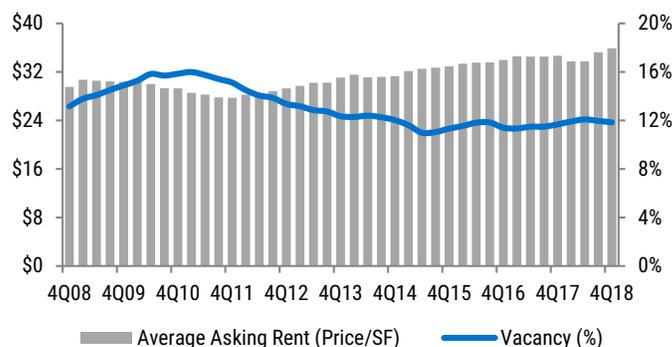
The urban submarkets drove positive absorption for 2018 to the tune of 1.2 million square feet. Cambridge saw a healthy gain of 171,000 square feet, while the CBD posted a robust 1.0 million square feet.

Sanofi's lease for 915,000 square feet at Cambridge Crossing is the second largest this cycle and largest historically in the city of Cambridge.

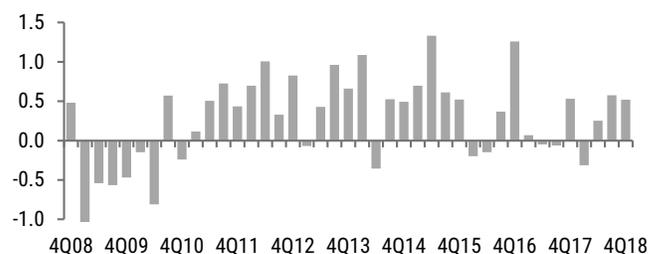
Strong leasing fundamentals in the CBD is driving a spike in asking rents, which on an average basis have eclipsed \$60.00/SF, the highest on record.

## MARKET ANALYSIS

### Asking Rent and Vacancy



### Net Absorption (SF, Millions)



## MARKET SUMMARY

|                          | Current Quarter | Prior Quarter | Year Ago Period | 12 Month Forecast |
|--------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory          | 183.8 MSF       | 183.4 MSF     | 181.6 MSF       | ↑                 |
| Vacancy Rate             | 11.8%           | 12.0%         | 11.7%           | ↓                 |
| Quarterly Net Absorption | 519,087         | 575,444       | 531,070         | ↑                 |
| Average Asking Rent      | \$35.90         | \$35.24       | \$34.69         | ↑                 |
| Under Construction       | 3.1 MSF         | 2.4 MSF       | 2.7 MSF         | ↑                 |
| Deliveries               | 229,000         | 372,372       | 755,021         | ↑                 |

## INCREDIBLY TIGHT CAMBRIDGE MARKET SPURS MORE LEASING IN NEW CONSTRUCTION

The Cambridge office and laboratory market is likely to remain tight for the foreseeable future. A blockbuster deal by drugmaker Sanofi to take more than 900,000 square feet at Cambridge Crossing was announced as the year concluded. After inking the second largest lease in the current cycle in Greater Boston, DivcoWest's 2.0 million-square-foot office and laboratory development is astoundingly two-thirds committed after signing its first lease just 12 months ago. Several other large tenants are still in the market, suggesting the possibility that the campus could secure another large commitment in the coming months. Boston Properties is moving forward with plans to construct an 18-story office building after recently receiving city approval. Google is reportedly on the receiving end, with the new building to connect to the company's current offices at 355 Main Street. The structure will replace the existing MIT Coop building and include a new entranceway for the MBTA Kendall Square station.

The three Cambridge submarkets combined for just under 171,000 square feet of net absorption in 2018, which pulled vacancy down 2.5 percentage points to 2.4%. With vacancy primarily concentrated in West Cambridge, East and Mid Cambridge boasted rates of 0.7% and 1.5%, respectively. Having had the highest rents in the wider market for the better part of five years, East Cambridge asking rents still remained on the uptrend through year-end. Other notable activity during the quarter included the Bill & Melinda Gates Medical Research Institute leasing 55,400 square feet at One Kendall Square that will be retrofitted for laboratory use.

## SUBURBS SEE MORE ABSORPTION GAINS, BUT FALL SHORT OF POSITIVE GROWTH IN 2018

The suburban submarkets recorded a second straight quarter of absorption gains, but ended 2018 in negative territory. Recent gains were not sufficient to offset the large hit earlier in the year stemming from Reebok's relocation to Boston, but they are a testament to the positive traction still occurring in most submarkets. The North – Route 495 submarket posted the suburbs' highest net absorption of 231,400 square feet this year, led by L3 Security & Detection Systems' move to 1 Radcliff Road in Tewksbury and the completion of Macom's expansion in Lowell, both of which occurred in the fourth quarter. The North and West – Route 128 submarkets combined for 352,600 square feet of net absorption in 2018, with the Urban Edge seeing 85,000 square feet of absorption. In all, suburban vacancy ended the year at 15.0%, up 0.6 percentage points on the year, a sizable clip but not substantial given the delivery of some uncommitted new construction and the 500,000-square-foot increase in vacancy from Reebok in the South – Route 128 submarket.

The Post at 200 Smith Street in Waltham, after not securing any commitments during the first half of the year, is approximately 85% committed following two large leases this quarter. Boston Dynamics leased approximately 175,000 square feet, while Elevate Bio took 107,000 square feet. Both leases represent large expansions for both companies. Leasing activity elsewhere was slightly more muted this quarter. Revener leased almost 32,000 square feet at 10 Maguire Road in Lexington, while Equian took 24,500 square feet at 500 Unicorn Park in Woburn. Corporate relocations to the city center, such as PTC's upcoming move from Needham in 2019, will continue to put upward pressure on vacancy in the suburbs. However, at the same time, the region's rapidly expanding life science sector is increasingly taking down space in the suburbs due to the incredibly tight Cambridge market. As a result, more landlords are exploring lab conversions on vacant office buildings and space that will be vacated by relocating tenants. This trend is helping offset the upward pressure put on office vacancy by tenants relocating to the city.

## CAPITAL MARKETS

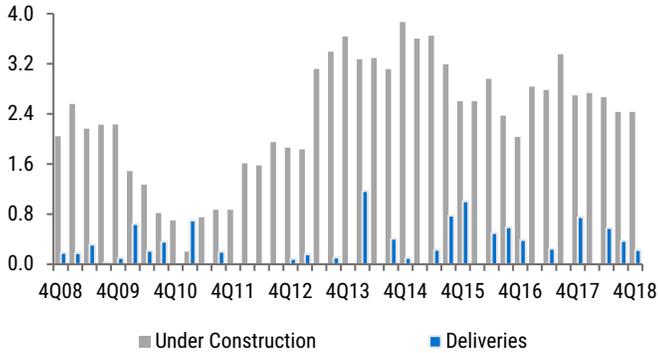
Investment sales volume remains on the uptrend following a slowdown from the second half of 2017 through early 2018. Recent months have seen a number of sizable deals closing in the CBD, coupled with healthy sales activity throughout the suburbs. As a result, sales volume this quarter reached its highest level since the second quarter of 2017. Recent notable activity included Skanska's 121 Seaport crossing the \$1,100/SF threshold, after trading to American Realty Advisors for \$455 million, while UBS sold 53 State Street for \$695/SF to a joint venture between Allianz Life Insurance, Beacon Capital Partners, and Mass PRIM. Both properties fell short of Tishman Speyers' record sale of Pier 4 earlier this year, which sold for \$1,208/SF, but clearly attest to investors' confidence in a market that continues to possess strong leasing fundamentals. A number of other assets in the CBD recently hit the market, which will likely keep sales volume robust moving into 2019.

## LOOKING FORWARD

Office demand throughout Greater Boston continues to reflect the region's diverse, blossoming economy driven by its talent-rich workforce. The flow of headquarters relocations and large-scale expansions in the urban core, the taking down of new construction across the metro and steadfast activity in the suburbs secured the market's eighth straight year of expansion, and are underpinning optimistic expectations for 2019.

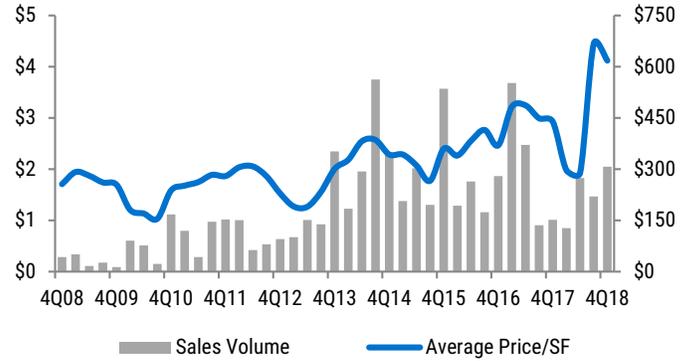
## CONSTRUCTION AND DELIVERIES

Square Feet, Millions



## OFFICE INVESTMENT

Sales Volume (Billions) and Average Price/SF



## SELECT LEASE TRANSACTIONS

| Tenant  | Building / Address                        | Submarket         | Type     | Square Feet |
|---|---|-------------------|----------|-------------|
| Sanofi  | Cambridge Crossing, Cambridge             | East Cambridge    | Direct   | 915,000     |
| Wayfair   | 10 St. James Avenue, Boston               | Back Bay          | Sublease | 300,000     |
| Boston Dynamics                                 | 200 Smith Street, Waltham                 | West – Route 128  | Direct   | 175,000     |
| Medidata  | 110 High Street, Boston                   | Downtown          | Direct   | 117,000     |
| Elevate Bio                                     | 200 Smith Street, Waltham                 | West – Route 128  | Direct   | 107,000     |
| ezCater   | 40 Water Street (WeWork), Boston          | Downtown          | Direct   | 100,000     |
| Avid Technology                                 | 75 Network Drive, Burlington              | North – Route 128 | Renewal  | 99,800      |
| Haemonetics                                     | 125 Summer Street, Boston                 | Downtown          | Direct   | 62,000      |
| Bill & Melinda Gates Medical Research Institute | 1 Kendall Square, Bldg 600/700, Cambridge | East Cambridge    | Direct   | 55,400      |
| Industrious                                     | 131 Dartmouth Street, Boston              | Back Bay          | Direct   | 48,600      |
| Stantec   | 65 Network Drive, Burlington              | West – Route 128  | Direct   | 46,700      |
| Buildium  | 3 Center Plaza, Boston                    | Government Center | Direct   | 38,000      |

## SELECT SALE TRANSACTIONS

| Building / Address            | Submarket        | Sale Price    | Price/SF | Square Feet |
|-------------------------------|------------------|---------------|----------|-------------|
| 53 State Street, Boston       | Downtown         | \$845,000,000 | \$695    | 1,216,472   |
| 121 Seaport Boulevard, Boston | Seaport District | \$455,000,000 | \$1,137  | 400,342     |
| 200 State Street              | Downtown         | \$222,000,000 | \$730    | 304,178     |
| 226 Causeway Street           | North Station    | \$107,000,000 | \$555    | 192,890     |

## 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           | -                       | 7.3%               | 114,171             | 387,828             | \$70.35                        | \$50.78                        | \$66.13                      |
| Downtown               | 32,602,053           | 1,081,000               | 8.1%               | 174,211             | -19,111             | \$66.89                        | \$50.58                        | \$63.30                      |
| Government Center      | 1,796,457            | -                       | 14.6%              | -10,851             | -15,651             | \$62.00                        | \$54.49                        | \$56.14                      |
| Midtown                | 2,285,034            | -                       | 13.1%              | -44,982             | -9,811              | -                              | \$52.55                        | \$52.35                      |
| North Station          | 2,343,179            | 181,000                 | 3.1%               | 11,959              | 63,572              | -                              | \$50.39                        | \$50.39                      |
| Seaport District       | 11,137,154           | 322,000                 | 9.6%               | 995                 | 629,374             | \$76.00                        | \$53.06                        | \$62.18                      |
| South Station          | 2,948,242            | -                       | 4.3%               | 31,713              | -31,697             | \$55.00                        | \$50.93                        | \$50.27                      |
| <b>CBD Total</b>       | <b>66,674,444</b>    | <b>1,584,000</b>        | <b>8.2%</b>        | <b>277,216</b>      | <b>1,004,504</b>    | <b>\$68.56</b>                 | <b>\$51.98</b>                 | <b>\$62.14</b>               |
| East Cambridge         | 5,714,909            | 889,216                 | 0.7%               | 12,406              | 187,466             | \$90.02                        | \$74.58                        | \$79.11                      |
| Mid Cambridge          | 2,485,319            | -                       | 1.5%               | 10,097              | 71,643              | \$71.40                        | \$66.04                        | \$62.67                      |
| West Cambridge         | 1,730,789            | -                       | 9.2%               | -12,035             | -88,273             | \$53.65                        | \$47.15                        | \$51.09                      |
| <b>Cambridge Total</b> | <b>9,931,017</b>     | <b>889,216</b>          | <b>2.4%</b>        | <b>10,468</b>       | <b>170,836</b>      | <b>\$65.74</b>                 | <b>\$65.13</b>                 | <b>\$62.07</b>               |
| Urban Edge             | 14,156,879           | 115,000                 | 5.7%               | -32,459             | 84,979              | \$39.19                        | \$34.18                        | \$37.68                      |
| North - Route 128      | 22,047,869           | -                       | 13.2%              | 98,934              | 128,850             | \$31.72                        | \$22.08                        | \$26.29                      |
| South - Route 128      | 13,154,063           | -                       | 14.7%              | 81,781              | -522,409            | \$28.66                        | \$20.52                        | \$25.43                      |
| West - Route 128       | 21,940,952           | 431,000                 | 13.1%              | 116,808             | 223,738             | \$38.38                        | \$30.76                        | \$35.79                      |
| North - Route 495      | 18,879,518           | -                       | 21.0%              | 94,419              | 231,419             | \$22.02                        | \$17.87                        | \$19.93                      |
| South - Route 495      | 3,257,368            | 61,702                  | 11.5%              | -46,100             | 16,413              | \$20.32                        | \$19.98                        | \$20.18                      |
| West - Route 495       | 9,665,415            | -                       | 26.7%              | -119,257            | -239,695            | \$21.50                        | \$18.69                        | \$19.71                      |
| Framingham/Natick      | 4,042,181            | -                       | 15.1%              | 37,277              | -85,979             | \$28.25                        | \$19.57                        | \$25.28                      |
| <b>Suburban Total</b>  | <b>107,144,245</b>   | <b>607,702</b>          | <b>15.0%</b>       | <b>231,403</b>      | <b>-162,684</b>     | <b>\$29.02</b>                 | <b>\$21.32</b>                 | <b>\$25.34</b>               |
| <b>Market</b>          | <b>183,749,706</b>   | <b>3,080,918</b>        | <b>11.8%</b>       | <b>519,087</b>      | <b>1,012,656</b>    | <b>\$41.48</b>                 | <b>\$29.14</b>                 | <b>\$35.90</b>               |

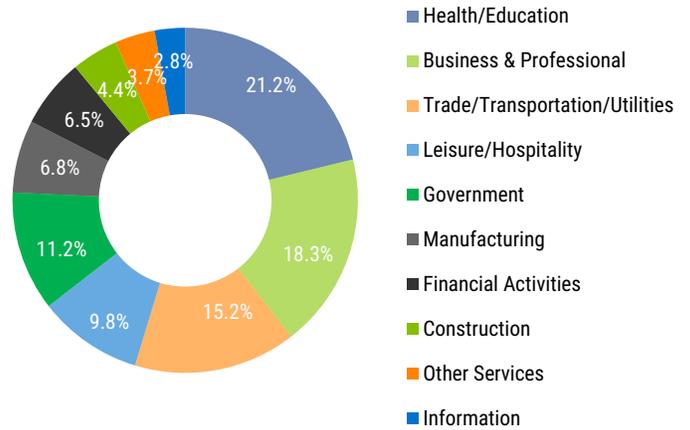
## ECONOMIC CONDITIONS

Boston continues to boast one of the lowest unemployment rates in the nation among large metros, ranking third nationally on a non seasonally adjusted basis. The region's seasonally adjusted rate dropped to 3.0% in October, a new post-recession low, and has fallen 20 basis points year-over-year. On a national level, the unemployment rate slipped was 3.7% in October, good for a 40 basis point drop year-over-year. A positive economic outlook for 2019 indicates further tightening of the labor market that will keep unemployment at low levels, notably throughout the Greater Boston and New England region.

Following nine months of subpar employment growth that averaged 1.0%, Greater Boston's economy has seen an average of 1.9% growth since April of 2018. Employment rose at a rate of 1.9% in October with the addition of 53,100 jobs over the 12-month period. This compares to 34,400 jobs added during the previous 12-month period. The construction sector continued to lead all sectors in employment growth, seeing a 5.6% increase in employment year-over-year. Not far behind was the professional services sector, which has seen a notable uptick in employment over the past six months. The financial activities sector remains the laggard with 12 consecutive months of employment decline and has lost 1,500 jobs over that period.

## EMPLOYMENT BY INDUSTRY

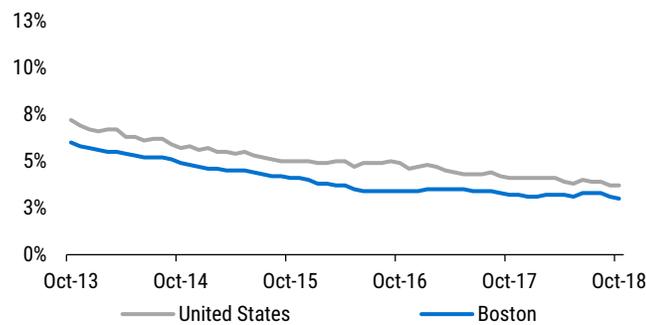
Boston Metro, October 2018, Not Seasonally Adjusted



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

## UNEMPLOYMENT RATE

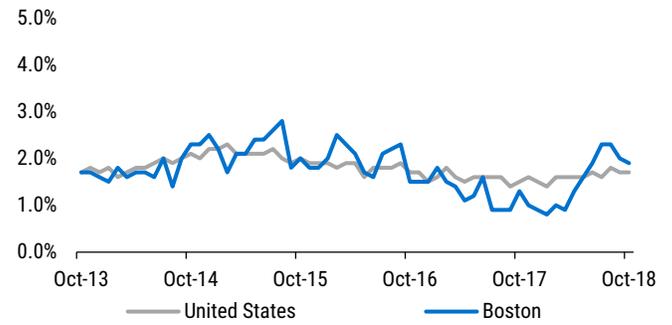
Seasonally Adjusted



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

## PAYROLL EMPLOYMENT

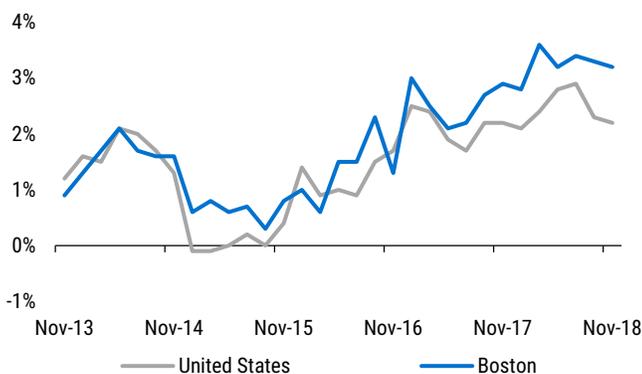
Total Nonfarm, 12-Month % Change, Not Seasonally Adjusted



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

## CONSUMER PRICE INDEX (CPI)

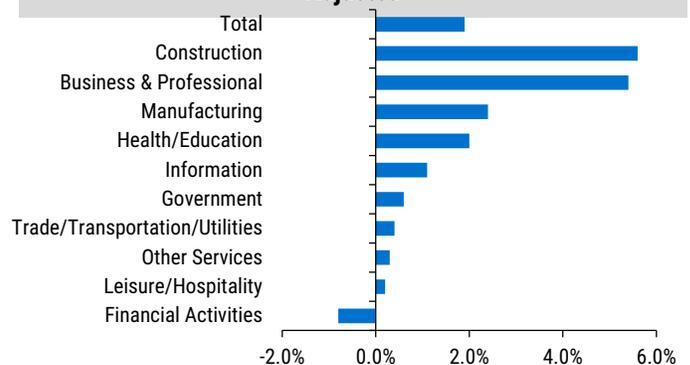
All Items, 12-Month % Change, Not Seasonally Adjusted



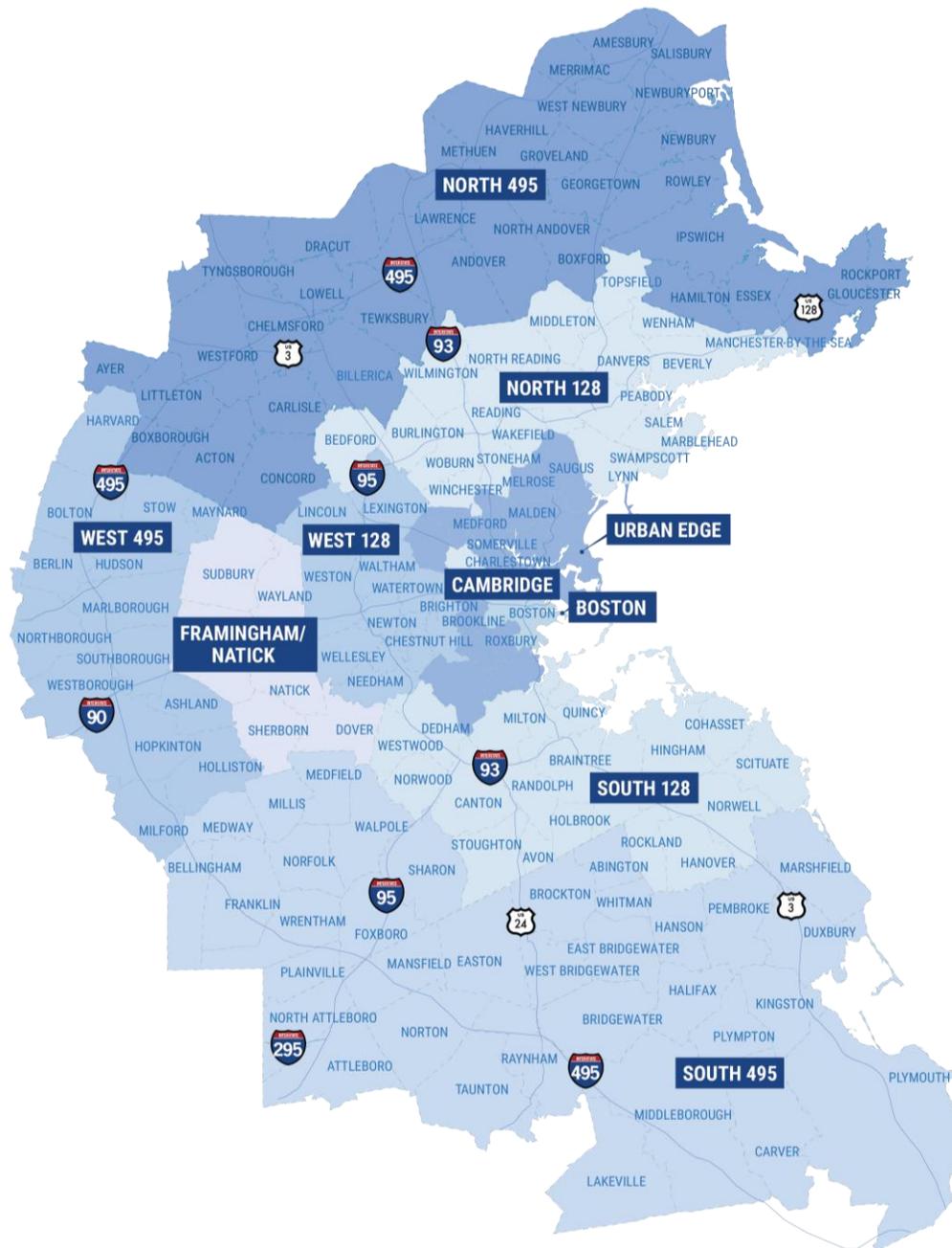
Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Newton, MA-NH

## EMPLOYMENT GROWTH BY INDUSTRY

October 2018, 12-Month % Change, Not Seasonally Adjusted



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


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