



GREATER
BOSTON

MARKET
VIEWPOINT



Q3 2019



Q3 2019

BOSTON OVERVIEW

Despite mounting fears and headlines about a recession nationally, locally, Boston remains on solid footing. Vacancies held flat, at 7.9%, the lowest since early 2001. Rents keep rising, and developers are showing their confidence in the market by announcing more speculative construction.

Boston could very well buck the national slowdown narrative, but it appears that demand has peaked for this cycle — the total SF of active tenant requirements has come off its peak — while development has picked up. It remains a landlords' market today. Time will tell if the Federal Reserve is able to steer the economy into a soft landing/avoid a recession, but for now, Boston is humming.

» 7.9%

vacancy rate

≡ 156k

SF of negative
absorption

≡ 9.9%

Class A rent growth

Statistics in the core submarkets are as follows:

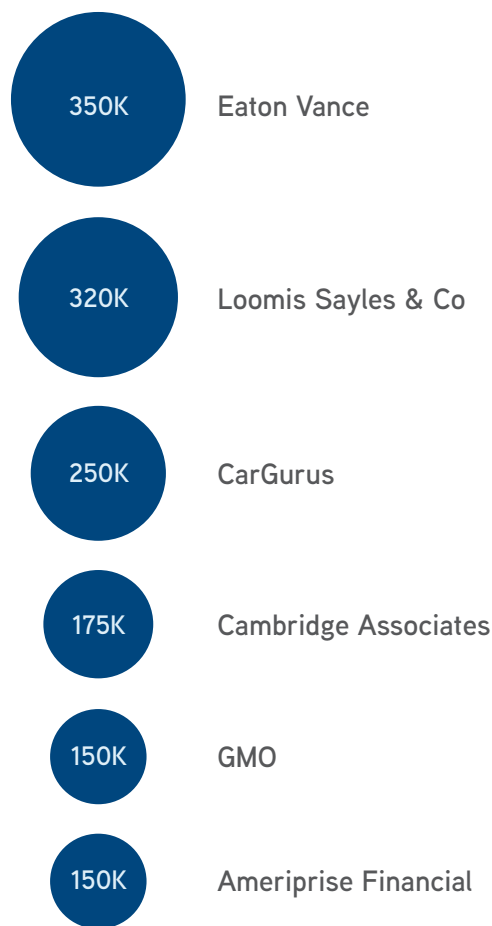
MARKET SEGMENT	SUPPLY	VACANCY RATE*	YTD 2019 ABSORPTION
Back Bay	13,424,652	4.2%	329,041
Class A	11,288,855	3.7%	239,319
Class B	2,135,797	7.0%	89,722
Financial District	34,117,584	9.3%	494,425
Class A	28,294,427	8.6%	853,417
Class B	5,823,157	12.8%	(358,992)
Seaport	11,605,924	12.1%	208,470
Class A	5,494,295	9.1%	178,500
Class B	6,111,629	14.9%	29,970

* includes sublease space

SUPPLY AND DEMAND

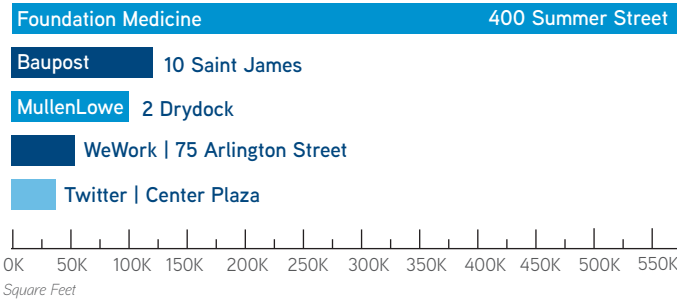
- Developers, still confident in the market, are announcing plans to build on a speculative basis at Exchange South End (Abbey Group) and 350 Boylston Street (Druker Company). Hines may do the same at South Station. These projects join a long list of already underway developments throughout the city.
- WeWork dominated headlines again this quarter, only this time about its IPO. The coworking provider is the second-largest tenant in Boston, securing new locations headlined by 75 Arlington Street during the quarter. At 1.6 million SF, it is by far the largest coworking/flexible provider in the market. Competitor Hana has come to Boston, looking at 51 Sleeper (3 Seaport), while Knotel is now marketing spaces for lease. Coworking, now more than 3.5% of the Boston market, presents a clear downside risk (in the form of direct, or shadow vacancy) in an economic downturn.

Some of the larger requirements include:



Highlighted transactions from this quarter include:

Back Bay Financial District Seaport South Station

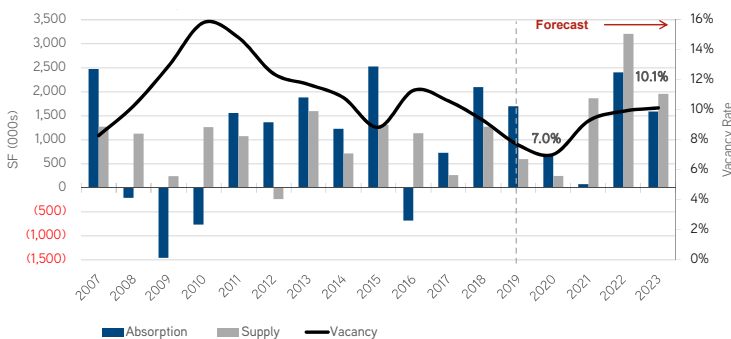


ABSORPTION, VACANCY, AND FORECAST

> Class B office continued its struggles in the third quarter, posting nearly 300,000 SF of negative absorption. Vacancies are up 0.4 percentage points year-over-year, ending the quarter at 10.3%. Record-high rents, competition from coworking and flexible office providers, and improved amenities in Class A space have all contributed to Class B's recent sluggish performance. Meanwhile, Class A vacancies are at multi-cycle lows (6.8%).

- Conditions are solid now, but later in the forecast the risk of an economic downturn will increase. Uncertainty about timing and magnitude leads us to use a conservative absorption projection. The threat of supply outpacing absorption usually increases as the economic cycle moves forward, putting upward pressure on vacancies; however, they are not expected to move much in the near future (see chart below).

Forecast | Vacancy & Absorption



RENTAL RATES

- Class A is starting to have its day, after significantly underperforming Class B in this cycle. B office rents are still rising, up 8.8% over the past year, but A rents have grown at a more rapid 9.6% during the same time.
- Rents are setting new highs in both Class A and B assets, and we have already seen multiple \$100/SF equivalent gross rent deals in the Back Bay. If these rents become more widespread, that historically indicates that market rents are topping out.

The spread between asking rents in various segments of the market is depicted below:



LOOKING AHEAD...

- The "R" word has crept back into the American consciousness. This current economic expansion became the longest in U.S. history in July. But conditions are cooling, with job growth easing, benefits from tax policy waning, and tariff tensions weighing on global trade. The Fed has become more dovish and cut rates twice during the third quarter. The yield curve (the difference between rates on 10-year and three-month Treasuries) has inverted for the first time since 2007, historically a leading indicator of a recession 12-18 months into the future. Oil prices briefly spiked following the attack on Saudi oil production facilities — oil spikes are a common leading indicator of future recession — while the Fed has had to pump liquidity into the overnight lending market. With numerous major tenants no longer seeking space, development picking up, stalled Class B absorption, and rents topping the psychological barrier of \$100/SF, we are at or close to the top of this cycle.
- Development bears watching. Build-to-suit construction is a large component of current activity, but speculative projects are gaining momentum. Numerous "shovel-ready" projects could kick off, setting the market up for a delivery wave unlike anything seen in decades. Roughly seven million SF of new product could deliver between 2021 and 2023, a pace of development not seen since the late 1980s. This bears watching, given the signs of broader economic slowdown. Conditions are strong today, but a combination of recession, heavy deliveries, and failing businesses could wreak havoc on market fundamentals.





CAMBRIDGE OVERVIEW

Cambridge has posted back-to-back quarters of negative absorption for the first time since the end of 2016/beginning of 2017. Overall, vacancies ticked up 0.6 percentage points during the quarter and are up 0.9 percentage points in the last year. What this doesn't show is the continued strength in the market. Life science continues to grow, expanding both inside and outside of Cambridge. MIT's 238 Main Street and 314 Main Street projects are nearly fully committed, while Cambridge Crossing continues to attract new lease deals. The market remains strong, although vacancies have ticked up from incredible lows.

Until new projects come on line, demand is likely to be stunted.



Key statistics for the quarter include:

MARKET	SUPPLY SF (000s)	VACANCY RATE	ABSORPTION (000s) Q3 2019
Total Cambridge	23,549	3.9%	(152)
	10,931	6.2%	(139)
	12,619	1.9%	(13)

OFFICE MARKET

- Office vacancies are up quarter-over-quarter, but so are rents. All three submarkets posted negative absorption, though Alewife was barely in the red.

> Vacancies didn't move in Alewife this quarter, as the decline in direct vacancy was offset by the increase in sublease vacancy. Direct vacancy has declined 70% in the last year.

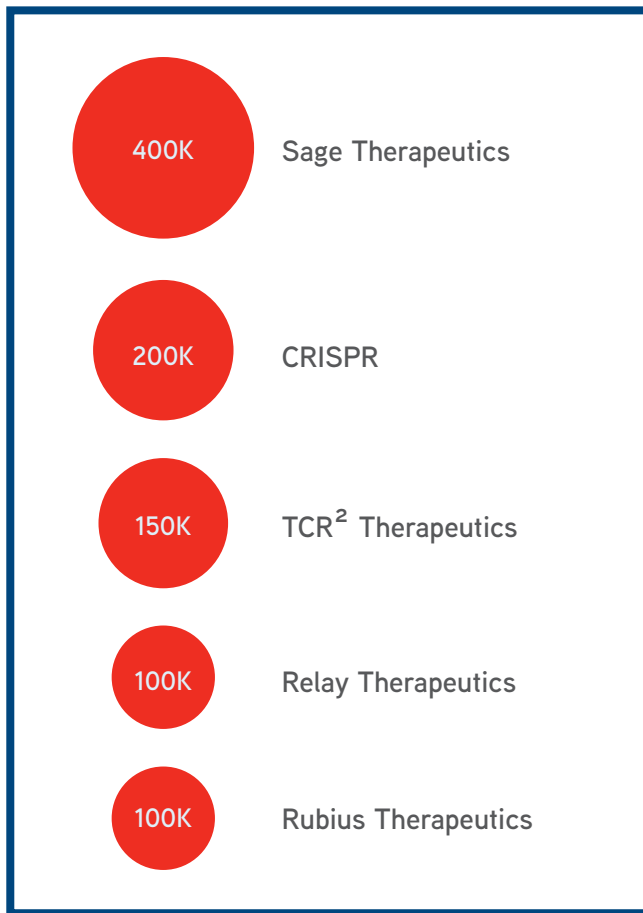
- WeWork, rapidly becoming the largest tenant in Boston, made a big splash in East Cambridge with a lease for the conversion of the top floor of the Cambridgeside Galleria (140,000 SF). Its only other Cambridge location is in Central Square.

LAB MARKET

- Vacancies barely budged this quarter. Alewife drew additional absorption — in addition to leasing velocity at the still underway Cambridge Discovery Park — bringing vacancies down to 11%. East Cambridge remains essentially full with a 1.1% vacancy rate.

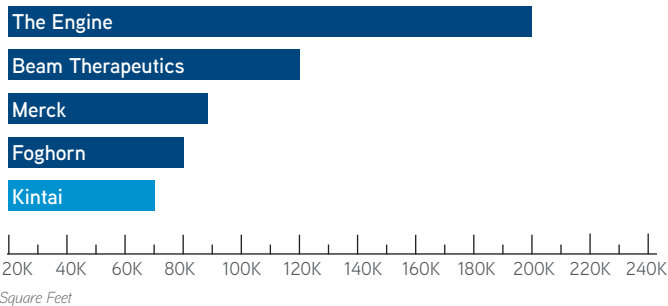
> As Cambridge is the global epicenter of life science research and development, tenants are aggressively trying to enter it. But with virtually no space available, growing tenants are struggling to stay in place. Supply is coming, but aside from the spec building at Cambridge Crossing (said to be close to landing a large tenant), the new development probably won't provide much relief. And even Cambridge Crossing may be challenged to meet the demand, after Sanofi signed a record 900,000 SF lease there in late 2018. In the heart of Kendall, BioMed Realty is likely to bring new space in the years ahead, after buying the lot at 585 Third Street. A massive supply/demand mismatch remains in the market today.

Highlighted active tenants and recent transactions are shown in the tables below.



VELOCITY

■ East Cambridge ■ Alewife ■ Harvard Square



LOOKING AHEAD...

- Alewife could be next in line for Cambridge's surging life science market growth. Across the train tracks from Cambridgepark Drive, the properties off Concord Avenue are shaping up to be the next relief valve, and recent investment/property turnover there suggests that redevelopment is not



far off. Since Alewife is just a few stops away on the Red Line, it could potentially offer alternatives to East Cambridge firms needing space. While Cambridge remains a global power in life science R&D, new areas need to emerge to maintain this competitive advantage because of Kendall's limited growth opportunities.

- Rent volatility is a real concern. Cambridge does not impose strict building limits, as, for example, San Francisco does, but the severe supply/demand imbalance here could very well re-create the Bay Area's rent volatility. Today there is four million SF of active tenants in the market, yet total office and lab vacancy is just over 900,000 SF. In San Francisco, massive rent spikes occur when tenant demand is soaring and development can't be completed fast enough to meet it. Rents come back down to earth when conditions soften, and such volatility may be Cambridge's future.

> Competition is emerging. The A Street Corridor in Boston, Harvard's planned expansion in Allston, and multiple locations in Somerville are aiming to become the next "it" location for life science. Cambridge will remain the core of this industry and drive growth, but in the years ahead, it will have far more competition than ever before.



Q3 2019

SUBURBAN OVERVIEW

Boston's suburban market hit a bump last quarter caused by increasing vacancies and negative absorption. The Route 128 Mass Pike led in absorption, as it has throughout the year, boosted by the completion of 10 CityPoint. The biggest hit to vacancy in the third quarter was the addition of 100 Crosby Drive in Bedford as Oracle is moving out, creating another large block of suburban vacancy. Despite that, vacancies ended the quarter at 16.4% — among the lowest they have been in nearly 20 years. Rents continue to increase.

Development, particularly of build-to-suits, is beginning to crop up again. Aside from close-in locations or Waltham, speculative development is difficult to make pencil out.



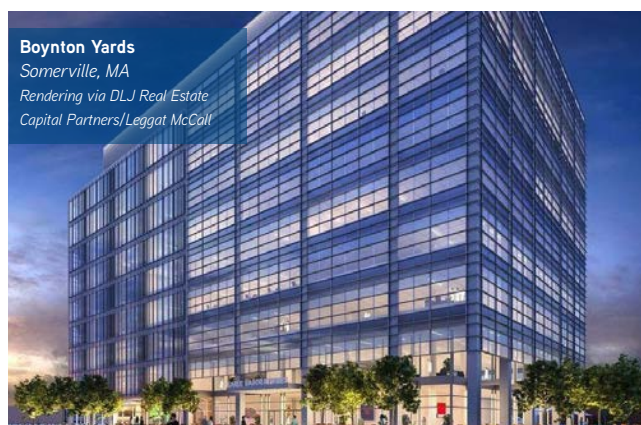
Aggregate statistics for the office and lab market are provided below:

MARKET/ SUBMARKETS	SUPPLY SF (000s)	VACANCY RATE	ABSORPTION (000s) Q3 2019
Suburban Boston	122,849	16.4%	(171)
Inner Suburbs	6,765	14.3%	(133)
Route 128	67,867	14.6%	156
Route 495	45,3624	19.7%	(176)
Worcester	2,892	9.9%	(19)

SUPPLY AND DEMAND

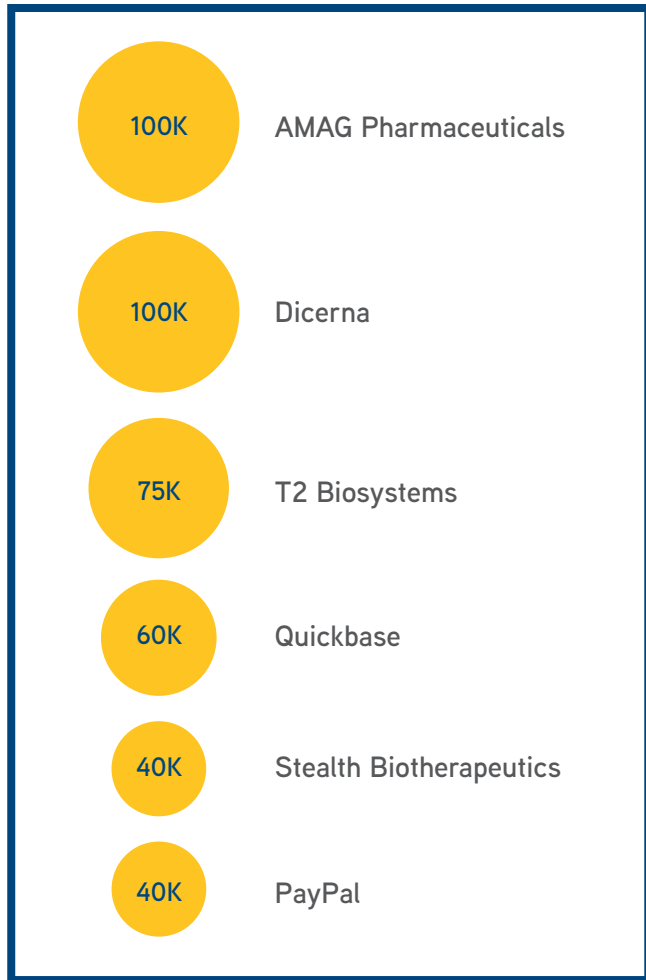
- Life science is as hot as ever, leaving landlords scrambling to build or renovate. There is limited ground-up construction at the moment, but several properties from Waltham to Burlington are being converted to lab or lab shell to capture demand. The largest single block of available lab product in the suburbs is 4 Corporate Drive in Andover, Eisai's longtime home. This state-of-the-art facility is move-in-ready, which is unique in today's market.
- Somerville is positioning itself as a life science market. DLJ and Leggat McCall have broken ground on a speculative lab building (289,000 SF) at Boynton Yards. As the quarter was drawing to a close, the firms acquired Gentle Giant's long-time home in order to integrate that parcel into its redevelopment plans. Skanska and US2 are gearing up to break ground on 175,000 SF of lab space in Union Square, with completion due to roughly coincide with the Green Line Extension (GLX). Somerville's proximity to the knowledge centers of Cambridge makes it an intriguing choice for tenants. The GLX will be nothing short of transformative for this city's commercial real estate potential.

> The suburbs' highly educated workforce is driving strong demand from numerous industries and business categories. The suburbs have long been dominated by technology companies, but as technology has evolved, software as a service (SaaS), 3-D printing, robotics, manufacturing, and life sciences have become current and future drivers of the market. Healthcare and medical, as well as business services, remain key drivers in today's market.

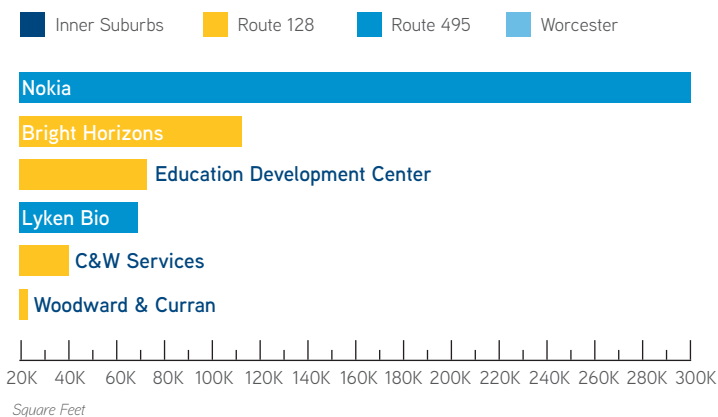


Boynton Yards
Somerville, MA
Rendering via DLJ Real Estate
Capital Partners/Leggat McCall

Some of the larger requirements include:



Some of the larger transactions during the quarter included:



ABSORPTION, VACANCY, AND FORECAST

- Route 128 Mass Pike is the market leader year-to-date, benefitting from tech and life science growth. The Route 128 South market has felt the most pain: big blocks of space opened

up (driven by State Street), leading to year-to-date negative absorption topping 500,000 SF. Meanwhile Route 495 North continues to sputter, with nearly 400,000 SF of negative absorption year-to-date.

- The suburban markets continue to deal with large-scale vacant blocks caused by space givebacks from Reebok, State Street, Computershare, Eisai, Oracle, Sanofi, and others; Phillips, Puma, and more fallout from Sanofi are next. Sanofi has already sold two buildings in Framingham and has vacated its lease at 1 Research Drive in Westborough. These big blocks weigh on the market.
- Class B vacancies are slightly outperforming Class A's. The market was moving mostly in concert until the past two quarters. Class B rent growth is also outpacing that of Class A (4.8% vs. 0.7%).

LOOKING AHEAD...

- Massachusetts is poised to be a main beneficiary of the Raytheon/United Technologies merger, housing the future company's headquarters as long as the deal goes through. This marks another Connecticut firm that has chosen Greater Boston for relocation and could yield a major tenant to anchor new development or kick off build-to-suit construction. The size, scope, and scale are all to be determined, but the move looks promising for suburban demand.
- Local firms such as TJX are set to fuel additional demand. The retail giant, bucking national trends of retrenchment and store cuts and thriving in today's climate, has just purchased 550 Cochituate Road in Framingham (450,000 SF), with plans to occupy the space. This gives TJX room to grow — the building is not fully vacant — and anchors it in the Route 495 West market between Framingham and Marlborough.

> With a high concentration of Boston's suburban executive housing, Route 128 Mass Pike and Route 128 Northwest are likely to be the first to benefit from tenants leaving the city for the suburbs. We're just beginning to see some smaller outfits relocating from Boston and Cambridge. One of the main reasons? The commute has worn down their employees. Work-life balance, increasingly important to younger workers, could encourage a suburban resurgence in the years ahead.

CAPITAL MARKETS

SALES AND HIGHLIGHTS

> Debt fund issuance is increasing,
| providing a new macro source of capital.

- Agency allocations have been revised and green-lit, injecting additional competitive capital into the market.
- Multifamily sales demand remains very high but there is a low availability of inventory to buy.
- The yield curve is inverted. While not a cause of recession, it is a key leading indicator and is important to watch.

OFFICE/LAB



100 SUMMER STREET BOSTON

BUYER: ROCKPOINT GROUP
PRICE: \$800,000,000
PSF: \$730

OFFICE/LAB



35 CAMBRIDGEPARK DRIVE CAMBRIDGE

BUYER: HCP INC.
PRICE: \$332,500,000
PSF: \$1,485

OFFICE/LAB



550 COCHITUATE ROAD FRAMINGHAM

BUYER: TJX COMPANIES
PRICE: \$120,000,000
PSF: \$267

OFFICE/LAB



880 AND 890 WINTER STREET WALTHAM

BUYER: BOSTON PROPERTIES
PRICE: \$106,000,000
PSF: \$270

OFFICE/LAB



1 OCEAN SPRAY DRIVE LAKEVILLE

BUYER: STAHL REAL ESTATE COMPANY
PRICE: \$58,178,838
PSF: \$358

OFFICE/LAB



1 BULFINCH PLACE BOSTON

BUYER: EVERWEST REAL ESTATE INVESTORS
PRICE: \$39,000,000
PSF: \$437

MULTI-FAMILY


THE COMMONS AT WINDSOR GARDENS
624 WALPOLE STREET, NORWOOD

BUYER: UDR
 PRICE: \$270,000,000
 \$/UNIT: \$295,404

INDUSTRIAL


1 TECHNOLOGY DRIVE
PEABODY

BUYER: NEWTOWER TRUST COMPANY
 PRICE: \$34,200,000
 PSF: \$187

MULTI-FAMILY


BELL NORTH SHORE
1 CAROL WAY, SALEM

BUYER: BELL PARTNERS INC.
 PRICE: \$52,200,000
 PSF: \$352,702

INDUSTRIAL


22 WILLOW STREET
CHELSEA

BUYER: BERKELEY PARTNERS/
 THE SEYON GROUP
 PRICE: \$32,000,000
 PSF: \$111

RETAIL


DAVIS SQUARE/DAY STREET PLAZA
DAY/ELM STREET, SOMERVILLE

BUYER: ASANA PARTNERS
 PRICE: \$39,675,000
 PSF: \$387

INDUSTRIAL


29 HARDING STREET
SOMERVILLE

BUYER: DLJ REAL ESTATE CAPITAL PTRS/
 LEGGAT MCCALL PROPERTIES
 PRICE: \$23,000,000
 PSF: \$383

RETAIL


LA FITNESS
3 HAWES WAY, STOUGHTON

BUYER: BECCARIA PARTNERS
 PRICE: \$14,900,000
 PSF: \$332

INDUSTRIAL


16 LEONA DRIVE (LOT 6)
MIDDLEBORO

BUYER: STAG INDUSTRIAL INC.
 PRICE: \$14,400,000
 PSF: \$179

> WE ARE COLLIERS.

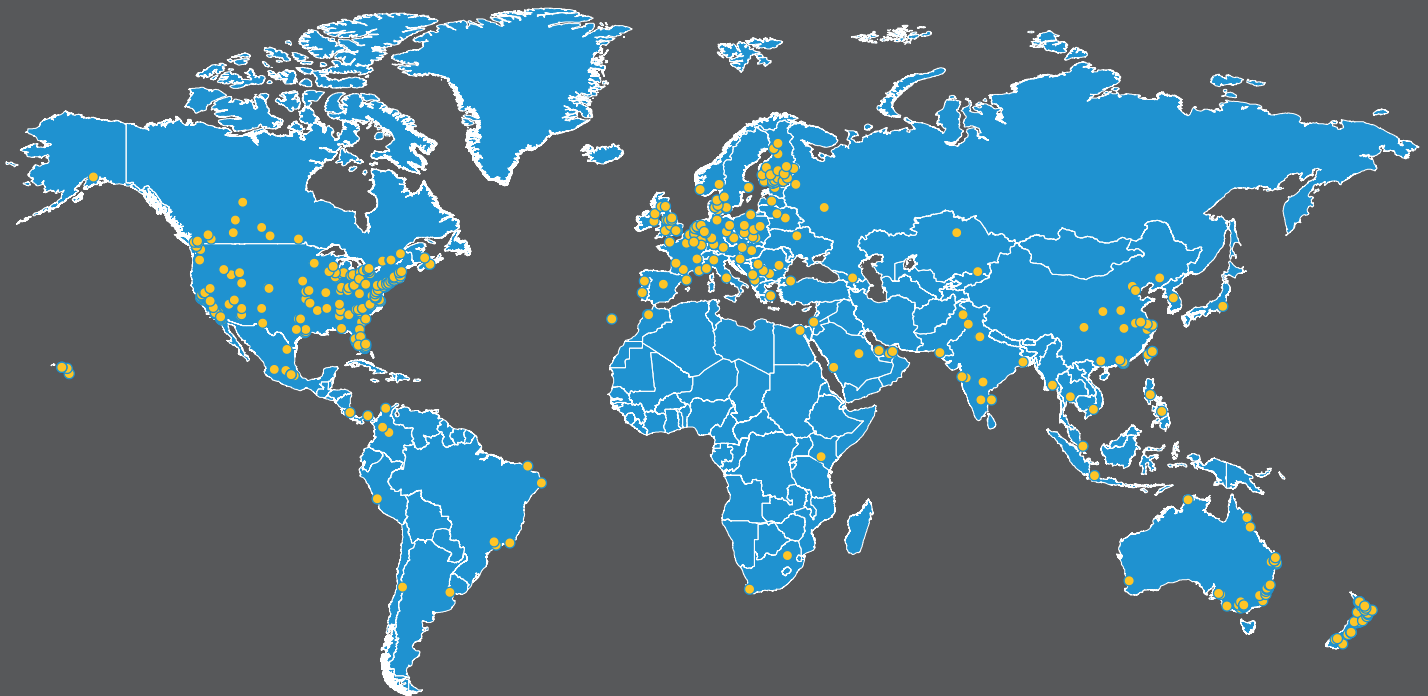
WE ARE GLOBAL GROUNDED INTEGRATED RESOURCEFUL
ACCOMPLISHED WE ARE



WE ARE GLOBAL.

With offices in 68 countries, Colliers International is armed with the talent and expertise to meet your needs and exceed your expectations in virtually every major market worldwide.

The foundation of our service is the strength and depth of our specialists. Our clients depend on our ability to draw on years of direct experience in their local market. Our professionals know their communities and the industry inside and out. Whether you are a local firm or a global organization, we provide creative solutions for all your real estate needs.



WE ARE GROUNDED.

Despite our strong global connections, our local office is deeply rooted in Boston, tracing its history back to 1875 when we were founded as Meredith & Grew. We have been directly involved in several of the major projects that have shaped Greater Boston as we see it today and are as committed to the future of this City and market as we are invested in its past.

WE ARE INTEGRATED.

A full service platform alone is not a differentiator, but cohesive, multidisciplinary collaboration is. At Colliers, we advocate complete transparency between our service lines, resulting in the maximum benefit to you. When we can see the big picture from all service angles, it uncovers and unlocks opportunities that would otherwise remain hidden in a silo approach, and enables thoughtful and proactive decision-making for you.



WE ARE RESOURCEFUL.

A deep bench of industry, geography, and subject matter specialists, combined with an unrivaled set of research and marketing tools allows Colliers to take a fully client-centric approach. We staff projects with representatives and resources that will add the most value to an assignment and ultimately accelerate your success.

WE ARE ACCOMPLISHED.

Colliers has been built upon a foundation of success, resulting from habitual good practices, overwhelmingly sound principles, and a perpetual desire to improve. The launch of new disciplines over the years has purely resulted from our clients' evolving needs, and has proven successful as most repeat clients choose to leverage the broader Colliers service lines.

World of Colliers 2018 Year-End Stats

Revenue
\$3.3B
(US\$)

Established in
68
countries

Transaction value
\$127B
(US\$)

Managing
2B
(square feet)

Lease/sale transactions
69,000

Assets Under Management
\$26B+

Comprised of
17,000+
professionals

All statistics are for 2018, are in U.S. dollars and include affiliates.

WE AT COLLIERS **ARE ALL OF THIS** AND MORE.

YOU ARE THE **BENEFICIARY.**

MARKET SNAPSHOT

Q3 2019 STATISTICS | OFFICE & LAB / CLASS A & CLASS B

MARKET	SQUARE FEET (SF) SUPPLY	DIRECT SF AVAILABLE	SUBLEASE SF AVAILABLE	VACANCY*	CURRENT ABSORPTION	YTD ABSORPTION
BOSTON	71,826,591	4,795,367	860,796	7.9%	(156,184)	1,232,577
Back Bay	13,424,652	296,652	272,262	4.2%	228,936	329,041
Financial District	34,117,584	2,744,782	435,252	9.3%	(427,386)	494,425
Allston / Brighton	962,443	0	0	0.0%	0	59,892
Charlestown	2,747,176	89,769	12,878	3.7%	(4,009)	(14,206)
Crosstown	1,251,320	76,675	0	6.1%	1,640	(3,400)
Fenway / Kenmore	4,257,995	14,976	0	0.4%	96,096	153,999
North Station	2,245,004	193,421	49,823	10.8%	(20,450)	(80,905)
Seaport	11,605,924	1,319,298	90,581	12.1%	(94,444)	208,470
South Station	1,214,493	59,794	0	4.9%	63,433	85,261
CAMBRIDGE	23,549,253	558,695	360,008	3.9%	(151,621)	(92,679)
Alewife Station/Route 2	2,755,614	173,183	159,283	12.1%	40,642	222,324
East Cambridge	18,894,144	317,706	148,520	2.5%	(154,452)	(304,287)
Harvard Square/Mass Ave	1,899,495	67,806	52,205	6.3%	(37,811)	(10,716)
SUBURBS	122,849,466	17,799,214	2,292,086	16.4%	(171,425)	114,508
Inner Suburbs	6,765,404	925,030	41,260	14.3%	(132,892)	(210,666)
Route 128 North	7,418,401	913,502	32,307	12.7%	33,601	114,188
Route 128 Northwest	21,343,456	2,215,900	412,815	12.3%	(57,690)	371,363
Route 128 Mass Pike	22,421,308	3,051,114	482,672	15.8%	300,385	490,892
Route 128 South	16,684,323	2,293,030	522,429	16.9%	(119,880)	(509,582)
Route 495 North	20,983,818	4,356,952	348,189	22.4%	(218,086)	(363,962)
Route 495 West	21,113,735	3,521,066	387,450	18.5%	(29,277)	30,455
Route 495 South	3,227,097	289,740	11,993	9.3%	71,229	148,923
Worcester	2,891,924	232,880	52,971	9.9%	(18,815)	42,897
MARKET TOTALS	218,225,310	23,153,276	3,512,890	12.2%	(479,230)	1,254,406

*Including sublease space

CONTACT:

Aaron Jodka
Director of Research
 +1 617 330 8059
aaron.jodka@colliers.com

Dion Sorrentino
Research Analyst
 +1 617 330 8148
dion.sorrentino@colliers.com

FOLLOW US:

