

BOSTON OFFICE MARKET

CBD VACANCIES REACH 15-YEAR LOW

Overall market conditions remain positive in Greater Boston, but a handful of major move-outs in the suburbs weighed on third-quarter performance. Net absorption was positive but slipped to a moderate 47,627 square feet for the quarter. As a result, vacancies were also flat at 11.4%. That said, the CBD and Cambridge office markets are frothier than ever. Tech giants like Apple, Google, Toast and Twitter are executing expansions throughout the urban markets, and WeWork inked another four deals this quarter alone. Vacancies are at or near historic lows across Boston and Cambridge, and developers continue to break ground on new product, with construction climbing to levels rarely seen in this market. Landlords are clearly in the driver's seat, as the scarcity of supply has given way to swift increases in lease rates. Despite the growing concern over macro headwinds, Greater Boston is primed for continued growth in the near term. Expect more moderate gains, though, as certain markets are nearing full occupancy.

BOSTON CBD

Tenant demand in Boston's CBD has been nearly insatiable, and the office market is on track to have its best year since 2015. In two years, this market has absorbed 3.0 million square feet of space, and vacancies have fallen to a 15-year low of just 7.6%. Although the meteoric rise of coworking operations has been a major contributor to this growth, the still-blossoming tech sector and an influx of Cambridge and suburban tenants continue to propel office demand here. Recent leasing activity also highlights tenant preferences for new construction. Foundation Medicine's 580,000-square-foot lease at the to-be-built 400 Summer Street in the Seaport represents the largest transaction of the third quarter. Rapid7 also inked a deal to expand by 67,000 square feet in the office tower currently underway at the Hub on Causeway in North Station. Finally, MullenLowe plans to anchor Skanska's 2 Drydock Avenue development, also in the Seaport, and will occupy 100,000 square feet when the building delivers next year.

WeWork continues to dominate local headlines, as its Boston-area footprint now exceeds 1.5 million square feet. In the third quarter alone, the coworking giant leased four additional locations in Boston's CBD, totaling 223,000 square feet. In the Back Bay, WeWork is taking down 106,000 square feet at 75 Arlington Street; 81,000 square feet at 200 Berkeley Street; and a 13,500-square-foot HQ location at 545 Boylston Street. Lastly, WeWork executed a lease for 21,000 square feet at 14 Beacon Street in the Financial District. With LOIs out for a handful of other sites, WeWork's presence in Boston will likely expand. However, its recent attempt to go public was met with much skepticism, causing the company to postpone its IPO filing until later this year. The market could ultimately see an abatement in the firm's previously rabid expansion plans.

CURRENT CONDITIONS

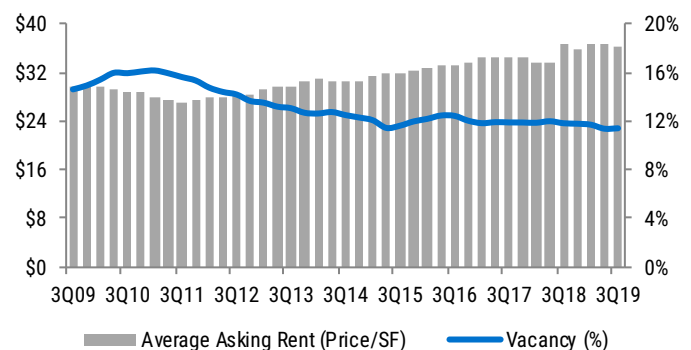
Negative absorption in the suburbs weighed on the market total, which was still positive for a sixth consecutive quarter. Vacancy held stable at 11.4%.

The CBD has seen nearly 1.5 million square feet of net absorption year-to-date. Vacancy fell another 20 basis points to a cycle-low of 7.6%.

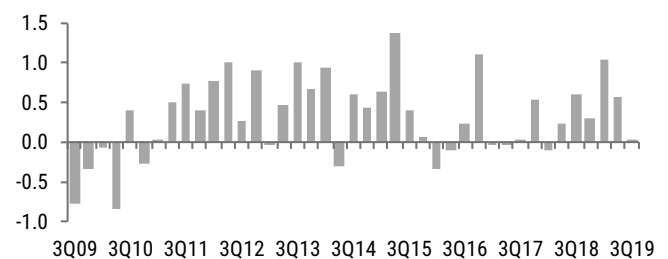
Greater Boston is primed for continued growth in the near term. Look for more moderate gains though, as certain markets are nearing full occupancy.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	182.0 MSF	181.6 MSF	182.0 MSF	↑
Vacancy Rate	11.4%	11.4%	11.8%	↓
Quarterly Net Absorption	47,627 SF	557,303 SF	604,738 SF	↑
Average Asking Rent	\$36.19	\$36.54	\$36.78	↑
Under Construction	5.8 MSF	5.7 MSF	2.2 MSF	↑
Deliveries	392,000 SF	137,702 SF	372,372 SF	↑

Developers continue to target strategic urban locations. As of the third quarter, roughly 3.7 million square feet was underway in Boston's CBD, and several sizeable projects could kick off over the next 12 to 18 months. Buzz surrounds long-awaited developments, including Hines' South Station tower and Druker's 350 Boylston Street in the Back Bay. Potential changes to zoning laws could finally pave the way for large towers at the Boston Harbor Garage and the James Hook & Co. site. WS Development is looking to change Seaport Square's Block N's proposed use from residential to office. With very few blocks of 100,000 square feet or greater available among existing buildings and no availabilities of scale left in other new construction delivering through 2021, new projects are expected to draw heavy tenant activity.

CAMBRIDGE

Cambridge office vacancy, which stood below 5.0% for a seventh consecutive quarter, remains the major obstacle for tenants looking to grow. Large availabilities are scarce, and activity among existing buildings is limited. New construction is no longer a release valve for office demand, as all projects underway are fully committed. Similar to the previous quarter, there are just four availabilities of 30,000 square feet or greater across the three submarkets. The building at 250 Water Street at Cambridge Crossing is in discussions with several tenants to lease the entire building for laboratory and office use. The complex has two more buildings slated for development, the smaller of which is likely to be for office use but unlikely to deliver before 2023.

Faced with a dearth of options in Cambridge, Foundation Medicine signed a build-to-suit in Boston's Seaport District and has rights on an adjacent building that WS Development is in the process of obtaining a project change approval for office use. Another prominent office tenant is in the market for up to 300,000 square feet, but with nothing that size available or in the pipeline through 2023, the company is also likely to land in Boston. Leggat McCall moved a step closer in the redevelopment of the Sullivan Courthouse and is in lease negotiations with a large office. Triple-digit rents for existing Class A space in East Cambridge are on the horizon, with several new Class B availabilities in the submarket expected to achieve rents in the mid-to-high \$80.00/SF range.

SUBURBS

The suburban office markets continue to contend with consolidations and relocations, but overall momentum remains positive. Third-quarter performance was subdued, as several major move-outs resulted in 296,276 square feet of negative net absorption. Computershare vacated 185,000 square feet at 250 Royall Street in Canton and downsized into roughly 70,000 square feet at nearby 150 Royall Street. Acosta is shuttering operations at 130 Lizotte Drive in Marlborough and put 100,000 square feet of space on the market as a result. Although vacancies inched up 20 basis points over the quarter, the organic growth of in-place tenants and those committed to the suburbs are keeping market fundamentals stable. Tenants continue to satisfy their growth requirements through build-to-suits, whole-building commitments and the leasing of newly built or renovated projects.

Simpson Gumpertz & Heger recently relocated and expanded into its new headquarters at 480 Totten Pond Road in Waltham; Citizens Bank agreed to anchor a new, 100,000-square-foot building on Station Drive in Westwood; and Bright Horizons plans to occupy 113,000 square feet in the new addition to 2 Wells Avenue in Newton.

On the supply side, developers are targeting suburban locations that can support a mix of uses to provide tenants newer, more amenity-driven office space. DLJ Real Estate recently broke ground on the first phase of Boynton Yards in Somerville, which includes a 289,000-square-foot office and lab building. Hobbs Brook Management began construction on the 510,000-square-foot office or lab building at 225 Wyman Street in Waltham, and Berkeley Investments kicked off the renovation of Exchange 200 in Malden, which will house 300,000 square feet of office, R&D, data center and retail space. Outsized growth in the local life sciences industry and the sheer lack of available space in Cambridge have led many landlords to consider converting traditional suburban office space to accommodate lab users. This quarter, 4 Burlington Woods in Burlington and 20 Maguire Road in Lexington transitioned from office to lab. This trend is helping to keep suburban vacancies in check, as vacant office space is being removed from the inventory.

CAPITAL MARKETS

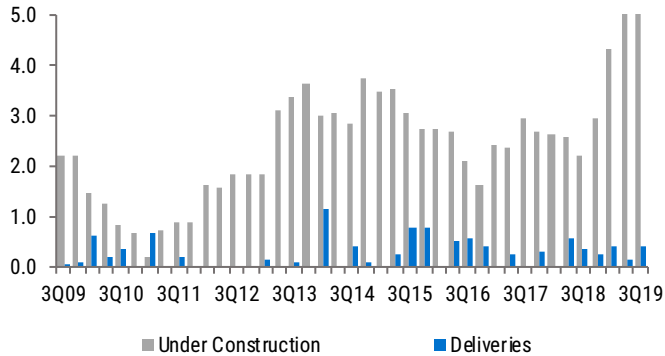
Office investment sales stayed strong entering the second half of 2019, as Boston's still burgeoning economy continues to propel strong market fundamentals, luring more domestic and foreign investment. Sales volume topped \$2.5 billion for a second straight quarter, following the sale of several core and suburban office assets. A Boston-based investor is expected to close soon on its acquisition of two office towers in Downtown. National Development and Charles River Realty Investors sold Constitution Wharf for \$114.0 million to Jamestown, while in West Cambridge, the Bulfinch Companies re-acquired a building at Cambridge Discovery Park and an adjacent parking structure after selling the building to CBRE Global Investors five years earlier. In the suburbs, Boston Properties acquired Waltham Woods from AEW Capital for \$270/SF. Other notable activity was rounded out with Carr Properties increasing its ownership stake in One Congress to 75.0% from a 50-50 partnership with National Real Estate Advisors.

LOOKING FORWARD

The Greater Boston office market is well-positioned to finish 2019 on a high note. New construction in the urban core is on the rise amid high pre-leasing rates for current projects and increasingly limited availability within existing inventory. Office space underway totals 5.8 million square feet, an unprecedented amount this late in the current expansion cycle. Several projects that recently entered the mix in the CBD that can accommodate tenants in 2022 and beyond will capture significant tenant interest. Cambridge is quickly running out of new construction availability that will keep vacancies low and rents high while also driving more new development. The outlook in the suburbs is also favorable, as organic tenant growth is keeping vacancy in check, while some tenants downsize or seek locations closer to the city.

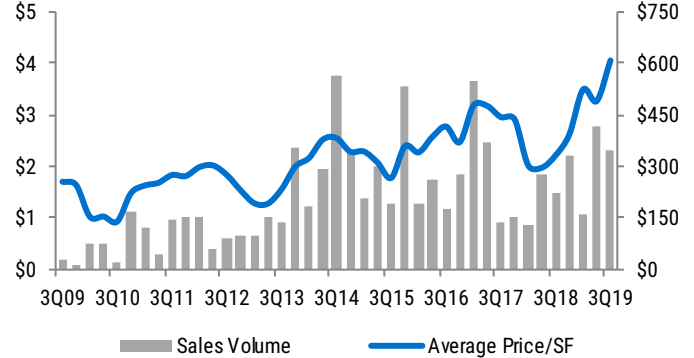
CONSTRUCTION AND DELIVERIES

Square Feet, Millions



OFFICE INVESTMENT

Sales Volume (Billions) and Average Price/SF



SELECT LEASE TRANSACTIONS

Tenant	Building / Address	Submarket	Type	Square Feet
Foundation Medicine	400 Summer Street, Boston	CBD - Seaport	Direct	580,000
Klaviyo	125 Summer Street, Boston	CBD - Downtown	Direct	159,900
Bright Horizons	2 Wells Avenue, Newton	West - Route 128	Direct	112,600
WeWork	75 Arlington Street, Boston	CBD - Back Bay	Direct	106,000
Citizens Bank	100 Station Drive, Westwood	South - Route 128	Direct	100,000
Doble Engineering	123 Felton Street, Marlborough	West - Route 495	Direct	79,100
Toast	109 Brookline Avenue, Boston	Urban Edge South	Direct	71,800
DataRobot	225 Franklin Street, Boston	CBD - Downtown	Expansion	68,000
Rapid7	100 Causeway Street, Boston	CBD - North Station	Expansion	67,200
Advisor360	133 Boston Post Road, Weston	West - Route 128	Expansion	48,200
Twitter	3 Center Plaza, Boston	CBD - Government Center	Direct	44,300
Adage Capital Management	200 Clarendon Street, Boston	CBD - Back Bay	Direct	32,700
Akoya Biosciences	100 Campus Drive, Marlborough	West - Route 495	Direct	25,500

SELECT SALE TRANSACTIONS

Building / Address	Submarket	Sale Price	Price/SF	Square Feet
200 Cambridge Discovery Park	West Cambridge	\$138,750,000	\$687	202,000
Constitution Wharf, Boston	Urban Edge	\$114,000,000	\$636	179,300
Waltham Woods Corporate Center	West - Route 128	\$106,000,000	\$270	392,600
1 Bulfinch Place, Boston	CBD - Government Center	\$39,000,000	\$471	82,700
10 & 20 Burlington Mall Rd, Burlington	North - Route 128	\$37,800,000	\$245	154,400

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	13,426,325	-	3.7%	139,619	408,305	\$73.51	\$54.76	\$67.18
Downtown	33,010,386	1,074,610	8.2%	70,448	407,490	\$70.85	\$54.10	\$66.18
Government Center	1,735,523	977,249	8.1%	28,655	121,219	\$65.00	\$60.91	\$62.78
Midtown	2,047,455	-	9.4%	14,435	107,570	-	\$48.96	\$48.95
North Station	2,395,709	627,000	7.8%	161,245	112,819	-	\$53.41	\$53.41
Seaport District	11,099,129	753,121	10.8%	-31,612	355,996	\$76.54	\$56.60	\$64.15
South Station	2,948,242	233,901	5.7%	-13,403	-42,334	\$55.00	\$53.56	\$53.01
CBD Total	66,662,769	3,666,481	7.6%	369,387	1,471,065	\$71.75	\$54.87	\$64.44
East Cambridge	5,805,133	1,245,832	1.3%	10,518	56,635	\$94.05	\$73.14	\$89.51
Mid Cambridge	2,469,975	-	4.6%	-5,772	-11,224	\$73.69	\$71.60	\$68.92
West Cambridge	1,730,789	-	8.4%	-30,230	-18,260	\$53.69	\$41.99	\$50.35
Cambridge Total	10,005,897	1,245,832	3.4%	-25,484	27,151	\$80.46	\$65.12	\$75.18
Urban Edge	13,168,414	419,958	6.0%	-75,132	-39,553	\$38.36	\$35.19	\$37.45
North - Route 128	21,632,330	-	12.2%	-87,941	137,430	\$32.55	\$22.69	\$27.47
South - Route 128	13,095,584	-	16.5%	-132,114	-159,838	\$29.29	\$23.72	\$27.31
West - Route 128	21,739,560	507,620	12.1%	-97,813	-23,586	\$40.52	\$29.53	\$37.33
North - Route 495	18,771,016	-	19.1%	109,906	124,969	\$23.17	\$18.48	\$20.93
South - Route 495	3,319,070	-	10.9%	-4,277	85,916	\$20.72	\$19.80	\$20.22
West - Route 495	9,600,307	-	26.8%	-32,993	10,285	\$21.91	\$19.05	\$20.15
Framingham/Natick	4,042,181	-	16.5%	24,088	9,084	\$28.14	\$20.33	\$25.30
Suburban Total	105,368,462	927,578	14.6%	-296,276	144,707	\$30.06	\$21.99	\$26.48
Market	182,037,128	5,839,891	11.4%	47,627	1,642,923	\$41.10	\$30.10	\$36.19

ECONOMIC CONDITIONS

With 107-consecutive months of gains topline U.S. job numbers have been positive, but signs of a slowdown are evident. While an average of 156,000 jobs per month were added to the economy from June-August, growth is decelerating as fears of a potential recession swell. Trade policy, a lack of productivity gains and unsustainable debt levels are key concerns in today's business climate. That said, slower growth does not necessarily mean a recession is imminent. Overall, the U.S. labor markets remain healthy and the economic expansion is expected to persist at least in the near-term.

Greater Boston's employment base continues to expand despite mounting macroeconomic headwinds. While this cycle isn't the most robust the market has ever seen, Greater Boston's economic expansion has been consistent and evenly-paced. Near-term trends reinforce this narrative. For the 12 months ending in July 2019, the metro added 22,000 jobs, which is healthy compared to the region's 20-year average annual growth of 15,600 jobs. This equates to 0.8% in annual employment growth. The local unemployment rate, at 2.7%, continues to track 100 basis points below the national average as well. Most industries posted gains over the past year, with professional services, education and health services and leisure and hospitality leading the way. As this cycle continues to mature, Greater Boston is positioned to gain more jobs although at a slower rate of growth than during the earlier part of this most recent cycle.

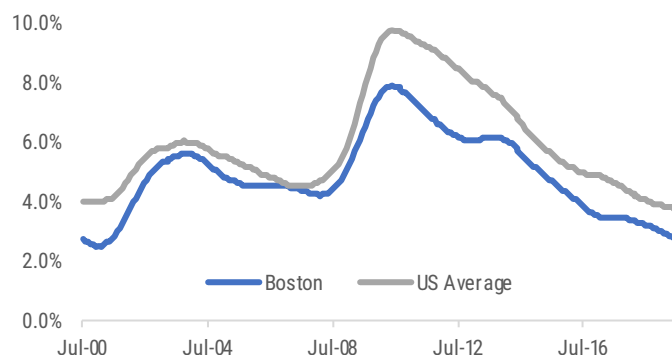
Technology, life sciences, health services and other key industries will likely continue to drive economic growth here. High-tech, which includes biotech and pharma jobs, employment remains a mainstay in Greater Boston's economic narrative. Over the last several years, growth in these industries has averaged a solid 3.0% per year. During the last 12 months, both health and education and leisure and hospitality employment expanded by 2.9% while manufacturing declined by 0.4%.

ECONOMIC OUTLOOK

The local economy is not immune to national trends though, and business sentiment is shifting as the U.S. economy appears to be slowing. The Associated Industries of Massachusetts' Business Confidence Index tumbled in August amid growing concerns about the U.S. economy and the manufacturing industry. While one month doesn't make a trend, all measures of confidence have been trending downward for the better part of the last 12 months. This cycle's economic expansion still has some room to run in Greater Boston, but peak job growth is likely behind us. Look for moderate gains over the next several quarters.

UNEMPLOYMENT RATE

Total Nonfarm, 12-Month Moving Average, Seasonally Adjusted



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

EMPLOYER CONFIDENCE

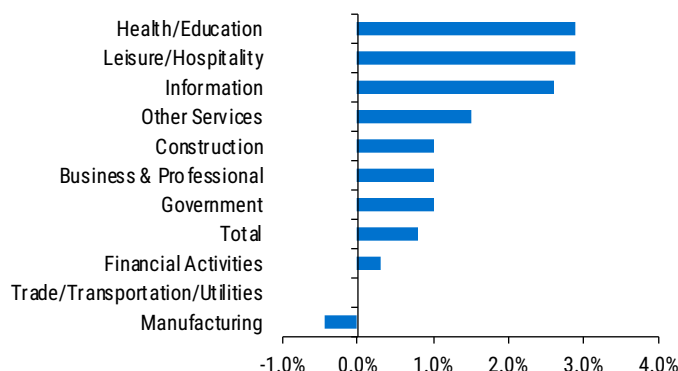
AIM, Business Confidence Index



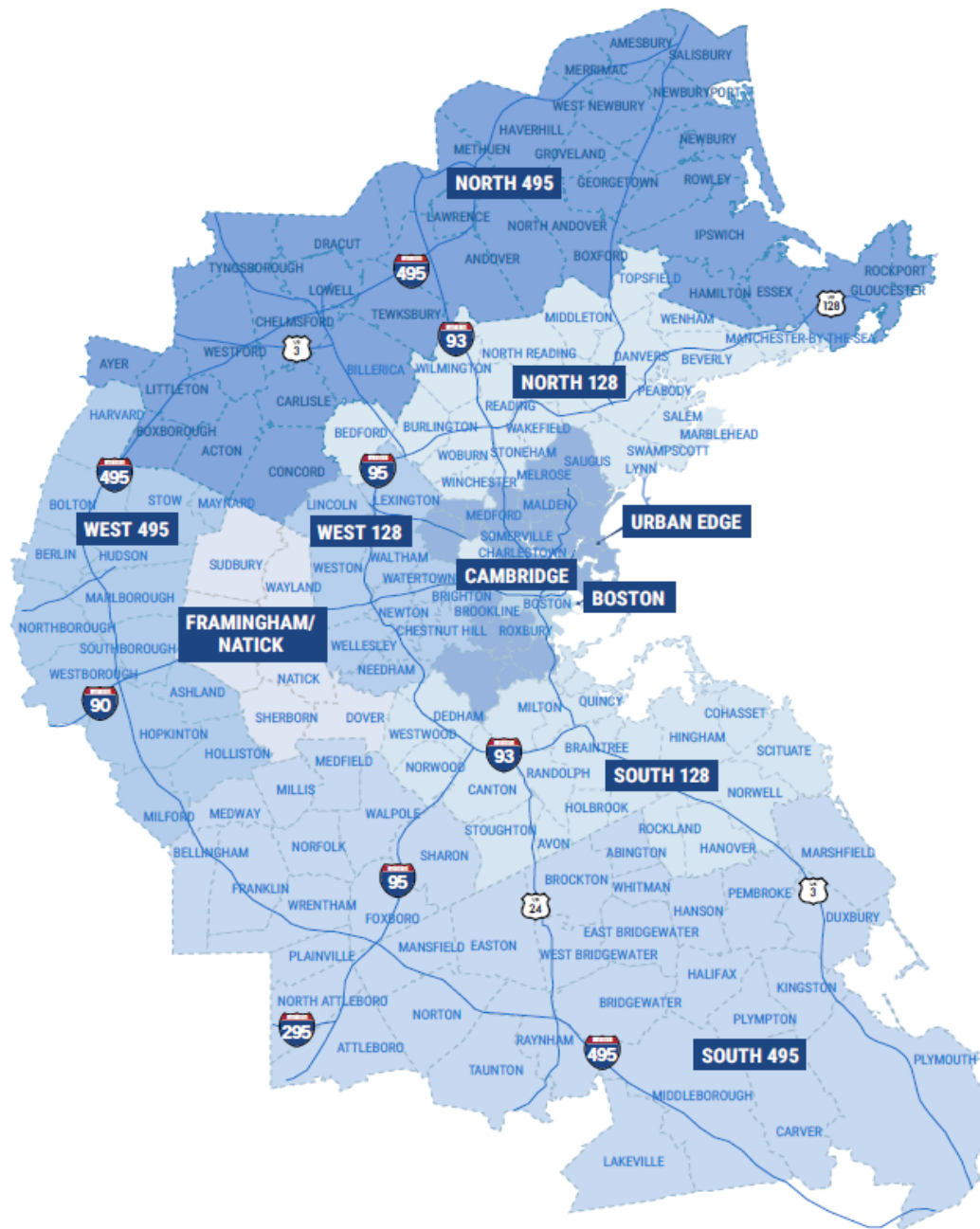
Source: Associated Industries of Massachusetts

EMPLOYMENT GROWTH BY INDUSTRY

July 2019, 12-Month % Change, Not Seasonally Adjusted



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



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