

BOSTON OFFICE MARKET

GREATER BOSTON POSTS BANNER YEAR

The Greater Boston office market ended 2019 on solid footing, with positive momentum experienced throughout the metro area. The CBD posted a record-breaking 1.9 million square feet of net absorption during the year, while Akamai's build-to-suit in Kendall Square pushed Cambridge well into the black. Overall vacancies ended the year at a cyclical low of 11.5%. While leasing velocity waned during the fourth quarter, market conditions remain positive heading into the new year. Tenants are facing few options in Boston and Cambridge, and the scarcity of new supply continues to drive swift increases in lease rates. The development pipeline is swelling with new speculative projects, but it is unclear how much of this proposed space will materialize. Greater Boston's near-term outlook is encouraging, but growing concerns over macro headwinds, particularly the 2020 presidential election, could curtail overall business growth.

BOSTON CBD

Boston posted a banner year in 2019. The market absorbed close to 1.9 million square feet of office space throughout the year, and the vacancy rate declined by another 50 basis points over the quarter to 7.1%. Rates are now well below their long-term historical average of 10.7%, leaving tenants with few options. This frothiness has pushed some larger users to examine their future space requirements several years in advance of expiration. While transactions below 50,000 square feet dominated recent leasing activity, CarGurus (275,000 square feet) and MullenLowe (114,620 square feet) represented two of the largest leases executed during the quarter. Fundamentals are especially tight in the CBD's Class A market: vacancies ended the year below 7.0% for the first time in more than 15 years and average asking rents are now north of \$75/SF. Slightly higher vacancy among Class B assets, at 8.3%, highlight tenant preferences for newer space. However, it is becoming increasingly difficult for tenants to find value in the Class B market. Average lease rates are now in the high \$50s/SF and availabilities in the \$40/SF range remain limited in the CBD.

A handful of key themes emerged in Boston's CBD in 2019. The rise and near-implosion of WeWork following its failed IPO attempt dominated the news early in the fourth quarter. The conversations surrounding coworking have since shifted and this industry's once rapid expansion has slowed to a crawl. Going forward, expect more measured growth or, potentially, a mild contraction from these types of office users. If Boston were to see some of this shared office space return to the market, it would provide immediate relief for any large tenant with a near-term requirement. This past year was also characterized by frenetic growth in asking rents throughout the CBD. Record-low vacancies have given landlords a clear upper hand this cycle and lease rates have been expanding at a rapid clip in recent quarters. One could argue, with little

CURRENT CONDITIONS

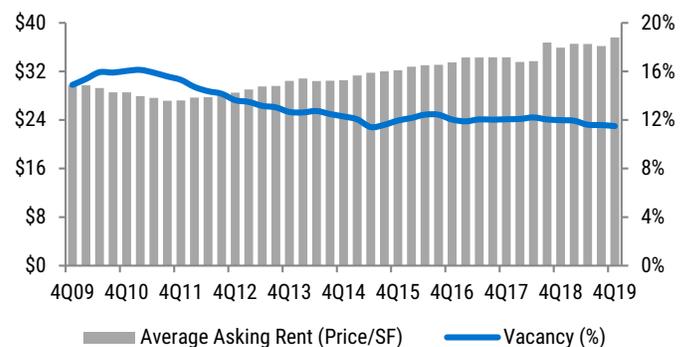
2019 net absorption topped 2.4 million square feet throughout Greater Boston. Vacancy inched down to 11.5% over the quarter.

The CBD absorbed nearly 1.9 million square feet of office space in 2019. Vacancy fell another 50 basis points to a cycle-low of 7.1%.

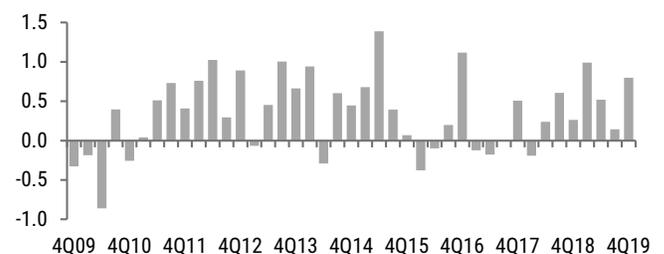
Trade policy, global weakness and the 2020 presidential election are creating headwinds for the macro economy, which may weigh on future business growth.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	182.7 MSF	181.8 MSF	182.3 MSF	↑
Vacancy Rate	11.5%	11.6%	12.0%	↓
Quarterly Net Absorption	797,859 SF	144,154 SF	263,003 SF	↑
Average Asking Rent	\$37.60	\$36.15	\$35.91	↑
Under Construction	5.8 MSF	5.8 MSF	2.9 MSF	↑
Deliveries	738,796 SF	392,000 SF	234,000 SF	↑

speculative construction on the near-term horizon that landlords will continue to reign well into 2020. The promise of more speculative construction in Boston's urban landscape has dominated headlines this past year as well. Buzz surrounds long-awaited developments, including Hines' South Station tower, Druker's 350 Boylston Street in the Back Bay and the Boston Harbor Garage site. As these projects are still making their way through the planning pipeline, it will be a race to see which breaks ground first.

CAMBRIDGE

In a culmination of the market's prolonged strong fundamentals, quarterly net absorption reached a cyclical high of more than 500,000 square feet as 2019 drew to a close. Akamai Technologies' new 486,000-square-foot headquarters in Kendall Square, the largest office completion of the decade, was a major driver behind the quarter's performance, which also hinged upon the successful back-filling of most of Akamai's former space. The tenant's only former space that has yet to be leased are two floors at One Hampshire Street - South. The conversion of the former Star Market grocery store at 20 Sidney Street into office space yielded another notable absorption gain on behalf of Takeda Pharmaceuticals. At 3.7%, vacancy remained below its five-year average, but has inched slightly upward since hitting a low of 2.4% in the beginning of 2019.

Office availabilities have risen slightly over the past six months, but fundamentals still weigh heavily in landlords' favor. More direct and sublease space has hit the market as tenants move to new construction or relocate out of the submarket for expansion or cost-reduction needs, but tenant requirements continue to outpace supply and is leading to more pent-up demand. The disconnect between active tenant requirements and leasable options will further limit activity. Tenants that secured expansion space this quarter included Moderna Therapeutics, which took 47,200 square feet of former Novartis space at 200 Technology Square, and Epizyme, which leased an office floor at 50 Hampshire Street. Hubspot consolidated some of its premises at Canal Park, taking 48,000 square feet of new space while putting several suites up for sublease. More availabilities are able to command \$100/SF gross rents, and this trend is unlikely to shift course in 2020.

SUBURBS

In Greater Boston's suburban office markets, location and vintage remain key performance drivers. On average, flat absorption and elevated vacancies characterized the suburbs this past year. With that said, certain segments of the market are faring better than others. Commercial activity continues to permeate from the urban core, following the region's transit lines, and blurring the lines between urban and suburban. Proximity to Boston has clearly benefited many areas, including Somerville, Allston, Brighton and Charlestown, where tenants can still find relative value. As a result, the Urban Edge boasts single-digit vacancy rates and an ever-expanding development pipeline. In fact, several planned developments are beginning to move toward breaking ground. Demolition recently began at The Abbey Group's South End Exchange redevelopment and Tishman Speyer was recently selected to develop Harvard's latest innovation campus in Allston.

Look for more activity to gravitate towards fringe locations that offer tenants a walkable, urban-like environment with a wealth of amenities, housing options and accessibility. Moreover, talent retention, tenant experience, etc. are driving a flight to quality here. However, new modern office space is rather limited with only 15.0% of the suburban office inventory being built within the last 20 years or so. Vacancies in properties built after 2000 are more than 600 basis points lower than those among older suburban product and have been trending downward for the better part of the last decade. Landlords of newer product have also been able to push through higher rent gains compared to the region's older office stock. Looking ahead, expect tenant demand to remain focused on location and product quality in the suburbs.

Other major trends in the suburban office markets include increases in build-to-suit activity, creative amenity offerings and life science demand. Olympus, Citizens Bank, Meketa Investments and NBC Universal represent just a few of the occupiers that have opted to upgrade their operations this cycle. With the war for talent remaining a constant, landlords have continued to implement creative amenity offerings to attract and retain tenancy. From The District in Burlington to 250 Royall Street in Canton, owners are looking to create a more dense, urban-like environment in the suburbs with new fitness concepts, breweries, restaurants and the like. Finally, the suburban life science pipeline continues to expand as landlords scramble to meet the outsized lab demand that has been flowing out of Cambridge. Ground-up and conversion projects are being implemented throughout the region.

CAPITAL MARKETS

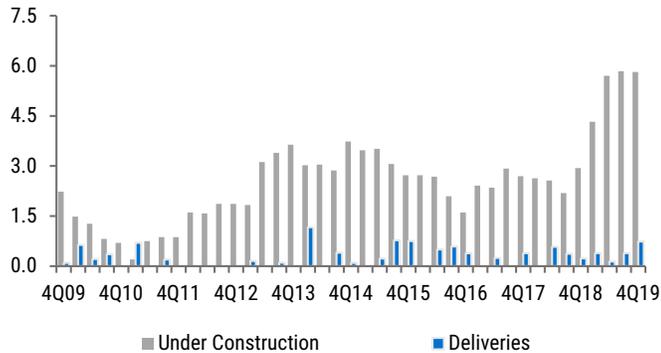
Following another brisk quarter in investment sales, volume in 2019 rose to a five-year high of more than \$8.0 billion on the back of peak-level leasing fundamentals that have far exceeded expectations this far along in the expansion cycle. Following the late-third-quarter sale of 100 Summer Street to Rockpoint Group, nearby 99 Summer Street sold for \$198 million or \$728/SF. In West Cambridge, HCP Inc. acquired 35 CambridgePark Drive, a new life sciences building that achieved record pricing for a Cambridge asset outside of Kendall Square. One Marina Park Drive in the Seaport District recently closed, with owners Barings and The Fallon Company reaping \$482 million or \$981/SF. A handful of Class B and non-tower assets also changed hands with pricing further reflecting investors' confidence in the market's long-term outlook.

LOOKING FORWARD

Though 2019 was arguably one of Greater Boston's best years in recent history, the near-term outlook is slightly more tentative. Market conditions will remain positive moving into 2020, but overall activity will likely slow as we move into a late-stage expansion phase. Restrictive trade policy, global economic headwinds and the upcoming 2020 presidential election have added a layer of uncertainty to the U.S. economic backdrop, which could also weigh on business decisions. That said, local fundamentals are still quite favorable. Look for higher rents, particularly in the CBD and in Cambridge, as landlords push lease rates amidst limited availabilities.

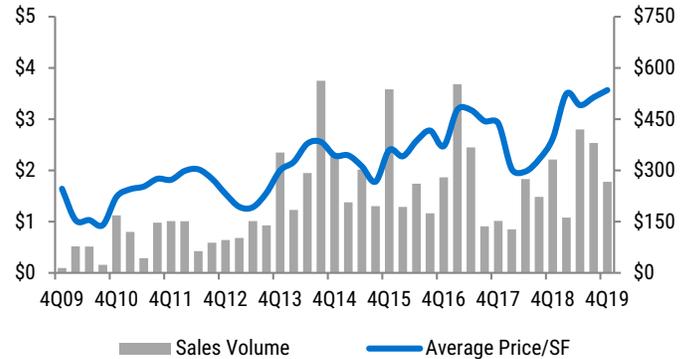
CONSTRUCTION AND DELIVERIES

Square Feet, Millions



OFFICE INVESTMENT

Sales Volume (Billions) and Average Price/SF



SELECT LEASE TRANSACTIONS

Tenant	Building / Address	Submarket	Type	Square Feet
CarGurus	1001 Boylston Street, Boston	CBD - Back Bay	Direct	275,000
MullenLowe	2 Drydock Avenue, Boston	CBD - Seaport District	Direct	114,620
Morgan Stanley	28 State Street, Boston	CBD - Downtown	Direct	70,220
Physical Sciences	20 New England Business Center, Andover	North - Route 495	Renewal	63,366
Brown Rudnick	1 Financial Center, Boston	CBD - Downtown	Renewal	57,688
Shell Techworks	2 Drydock Avenue, Boston	CBD - Seaport District	Direct	47,580
Morrison & Foerster	200 Clarendon Street, Boston	CBD - Back Bay	Expansion	44,250
Panorama Education	10-24 School Street, Boston	CBD - Downtown	Renewal/ Expansion	30,905
Wellframe	470 Atlantic Avenue, Boston	CBD - Downtown	Direct	27,913
Knotel	239 Causeway Street, Boston	CBD - North Station	Direct	26,678
Newton-Wellesley Hospital	75-95 Wells Avenue, Newton	West - Route 128	Direct	26,506

SELECT SALE TRANSACTIONS

Building / Address	Submarket	Sale Price	Price/SF	Square Feet
1 Marina Park Drive, Boston	CBD - Seaport District	\$482,000,000	\$981	491,573
100 Summer Street, Boston	CBD - Downtown	Confidential	-	1,118,537
35 CambridgePark Drive, Cambridge	West Cambridge	Confidential	-	224,305
99 Summer Street, Boston	CBD - Downtown	\$198,000,000	\$728	272,000
99 Chauncy Street & 101 Summer Street, Boston	CBD - Midtown	\$107,800,000	\$651	165,486
100 Franklin Street, Boston	CBD - Downtown	\$69,200,000	\$558	123,630

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	-	3.2%	54,880	475,107	\$82.04	\$55.90	\$73.54
Downtown	33,010,386	1,072,420	7.6%	185,922	577,243	\$74.91	\$56.43	\$69.46
Government Center	1,509,457	977,249	7.0%	35,030	156,249	\$65.00	\$61.00	\$62.97
Midtown	2,047,455	-	9.4%	-743	106,827	-	\$54.48	\$54.43
North Station	2,395,709	627,000	7.4%	10,676	123,495	-	\$54.74	\$54.74
Seaport District	11,196,129	656,721	10.5%	83,720	471,716	\$76.71	\$59.89	\$65.92
South Station	2,948,242	233,901	4.3%	40,853	-1,481	\$57.00	\$57.54	\$56.25
CBD Total	66,533,703	3,567,291	7.1%	410,338	1,909,156	\$75.53	\$57.49	\$67.61
East Cambridge	6,291,181	1,121,784	2.5%	414,107	464,742	\$95.77	\$77.35	\$89.94
Mid Cambridge	2,544,891	-	5.2%	54,770	43,546	\$68.12	\$67.77	\$64.96
West Cambridge	1,730,789	-	6.0%	40,648	22,388	\$55.84	\$42.02	\$51.13
Cambridge Total	10,566,861	1,121,784	3.7%	509,525	530,676	\$80.33	\$67.98	\$74.69
Urban Edge	13,272,382	517,564	6.5%	-69,712	-109,265	\$38.31	\$34.79	\$37.25
North - Route 128	21,627,530	-	12.6%	50,154	179,793	\$32.91	\$22.68	\$27.80
South - Route 128	13,095,584	100,000	16.5%	18,597	-156,031	\$28.78	\$24.14	\$27.14
West - Route 128	21,846,760	507,620	12.7%	-107,693	-120,294	\$40.91	\$30.39	\$37.82
North - Route 495	18,799,039	-	19.6%	73,346	198,315	\$23.16	\$18.78	\$21.06
South - Route 495	3,319,070	-	10.7%	7,484	93,400	\$20.62	\$20.02	\$20.20
West - Route 495	9,666,785	-	28.5%	-155,651	-104,274	\$22.04	\$19.06	\$20.21
Framingham/Natick	3,982,181	-	14.6%	61,471	70,555	\$29.02	\$19.76	\$25.96
Suburban Total	105,609,331	1,125,184	15.0%	-122,004	52,199	\$30.11	\$22.02	\$26.55
Market	182,709,895	5,814,259	11.5%	797,859	2,492,031	\$42.53	\$31.48	\$37.60

ECONOMIC CONDITIONS

The U.S. labor markets rallied late in 2019, with November job growth far surpassing expectations. Though the macro economy has posted 110 consecutive months of gains and the national unemployment rate is now sitting at a historic low of 3.5%, signs of a slowdown were evident throughout 2019. The effects of tax cuts have been waning, a global slowdown has started to emerge and trade wars are weighing on manufacturing and other related industries. While we move into 2020 with more optimism given these recent jobs numbers, the upcoming election year could also negatively impact business activity as decision-makers take a wait-and-see approach. 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. Similar to the national narrative, job growth surged in Boston in recent months. For the 12 months ending in October 2019, the metro added roughly 40,000 jobs, which is well above the region's 20-year average annual growth of 15,500 jobs. The local unemployment rate, at 2.3%, continues to track more than 100 basis points below the national average as well. Nearly all industries posted gains over the past year, with professional services, education and health services and information 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.

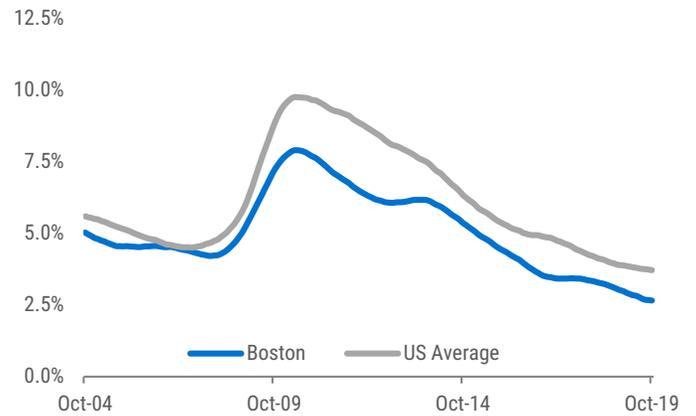
Technology, life sciences, health services and other key industries will likely continue to drive economic growth here. For the high-tech sector, which includes biotech and pharma jobs, employment remains a mainstay in Greater Boston's economic narrative. Over the last several years, growth in these industries has averaged a solid 3.0% per year. During the last 12 months, both health and education and information employment expanded by 3.3%, and business & professional services expanded by 2.5%. Unsurprisingly, manufacturing and trade posted net negative jobs during the same time frame.

ECONOMIC OUTLOOK

Both the local and national outlook remain uncertain as mixed signals continue to dominate the economic backdrop. Throughout 2019, business sentiment had been shifting as the U.S. economy was downshifting. The end-of-year rally in job growth helped turn this story around, and the local business climate appears to be responding to more positive labor trends. After taking a dive in August, the Associated Industries of Massachusetts' Business Confidence Index bounced back as respondents point to more optimism in the local and national economy. This cycle's economic expansion still has some room to run in Greater Boston, but downside risks are on the horizon.

UNEMPLOYMENT RATE

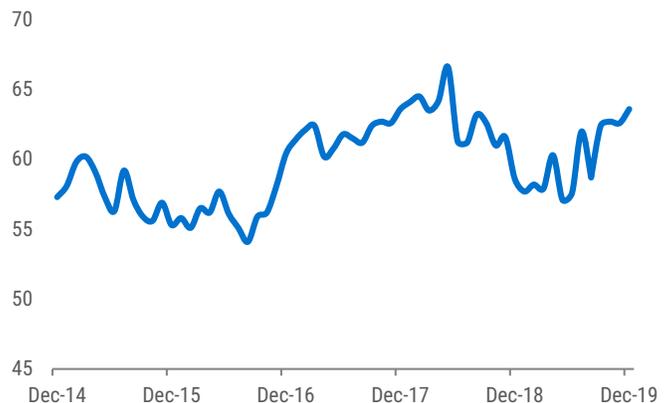
Total Nonfarm, 12-Month Moving Average



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

EMPLOYER CONFIDENCE

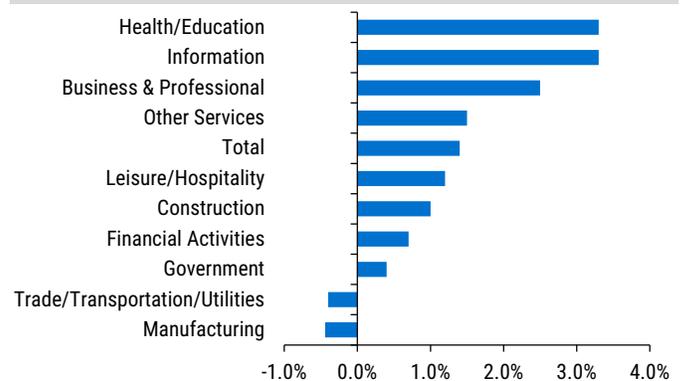
AIM, Business Confidence Index



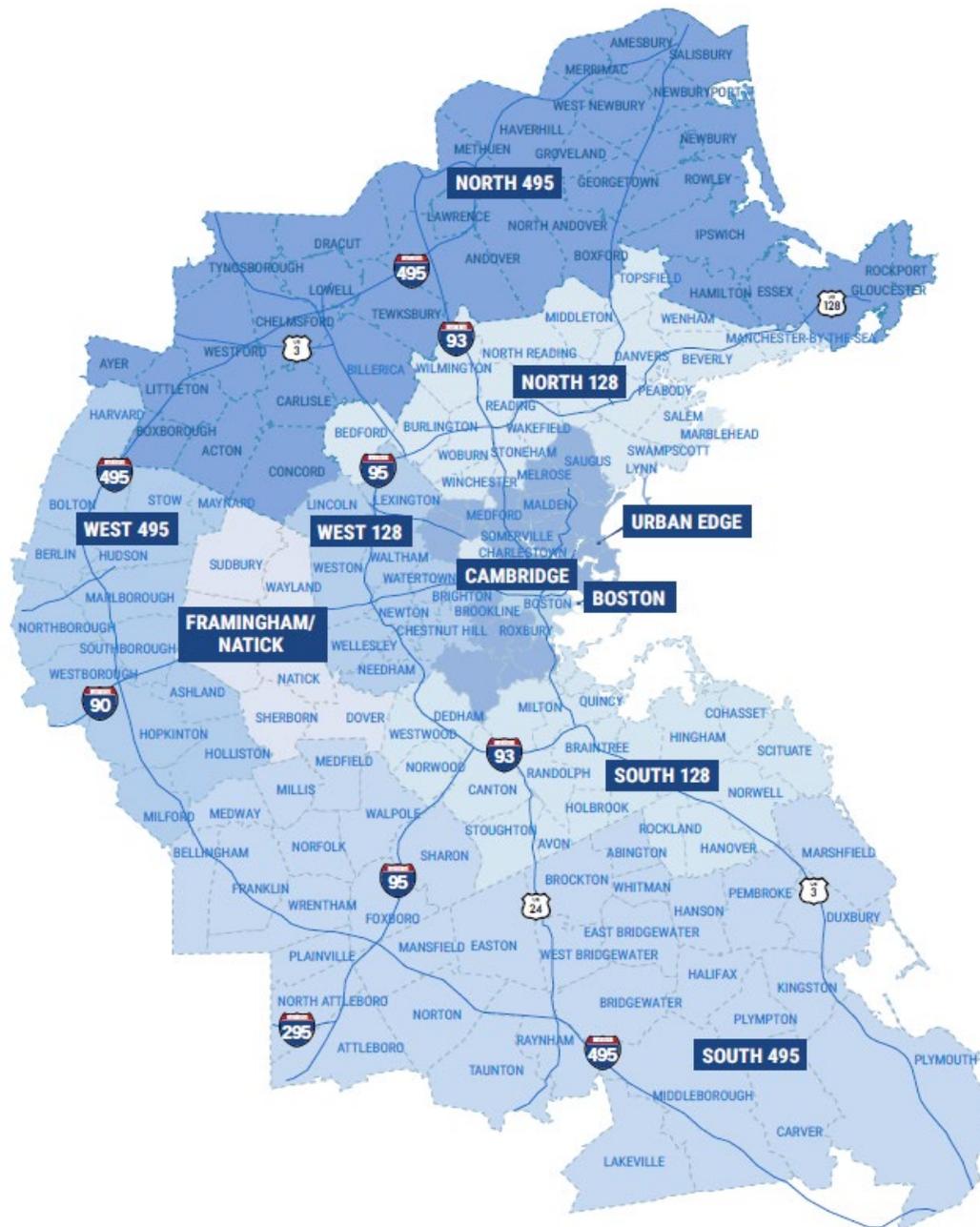
Source: Associated Industries of Massachusetts

EMPLOYMENT GROWTH BY INDUSTRY

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



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



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