

Savills Studley Report Boston office sector

Q2 2017



SUMMARY

Market Highlights

DEAL VOLUME SLIDES LOWER

Deal volume has totaled 12.5 msf in the four most recent quarters, nearly 25% below the region's long-term average.

NOTABLE DROP IN CLASS A RATE

The region's overall availability rate dipped by 80 basis points from 13.8% to 13.0% and has fallen by 140 basis points year-on-year. The Class A rate fell by 40 basis points quarter-on-quarter to 14.7% and by 90 basis points from the second quarter of 2016.

RENT STABLE

Boston's overall average asking rent ended midyear at \$32.38, a slight increase compared to midyear 2016. The Class A asking rent averaged \$40.87 - also a slight increase compared to a year ago.

SALES INCREASES

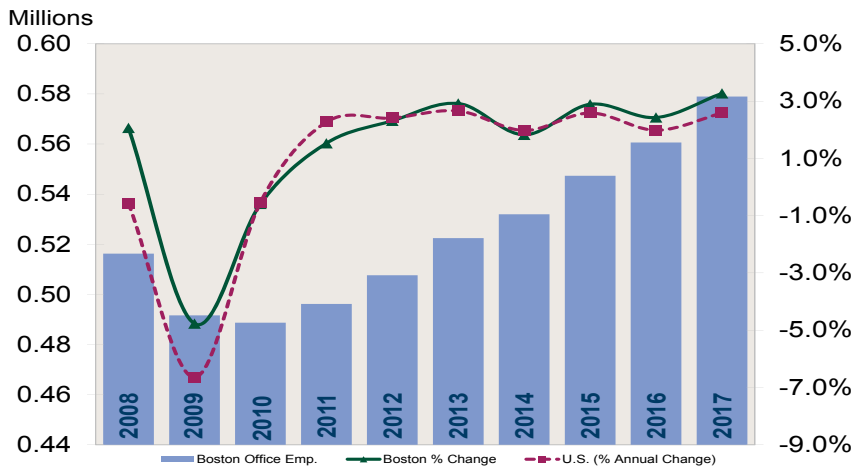
Year-to-date office property sales totaled \$4.9 billion - rising by 6.7% compared to the \$4.6 billion sold during the same period in 2016.

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 "Asking rent - always the last thing to reflect changes in the market - has not budged in much of the Boston area. Concessions are starting to nudge up a bit, though, as landlords sense that leasing activity is losing some of its edge."

Mark Stewart,
Senior Vice President

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Office-Using Employment Trends



Space Crunch Pushes Tenants and Developers to Multiple Areas

Fueled by job growth among a diverse set of companies, Boston’s economy and office market have experienced steady growth in recent years. Life sciences and tech firms are growing, though healthcare and select professional/business services are also coming along for the ride. The pace of hiring activity in office-using sectors has intensified in the last six months totaling nearly 15,000 – doubling from 7,370 jobs in the prior six months. Companies may be hiring more, but leasing has lost a step with less than 4 msf leased regionally in each of the last two quarters. Asking rent – always the last thing to budge – has continued to nudge up. However, as more landlords sense that the recovery is entering its final stretch, they are pushing concession packages up slightly.

Conditions remain tight even as deal volume cools. Construction has been kept under control and much of the new supply in the Innovation District has been pre-leased. The next set of new developments will not get rolling until 2019 or later. As they approach, it will put pressure on landlords across the region to upgrade and renovate their existing buildings. Spillover from lifesciences and biotech priced out of Cambridge continues to spur development and conversion activity in Waltham and other inner suburban locations along the Charles River drainage area.

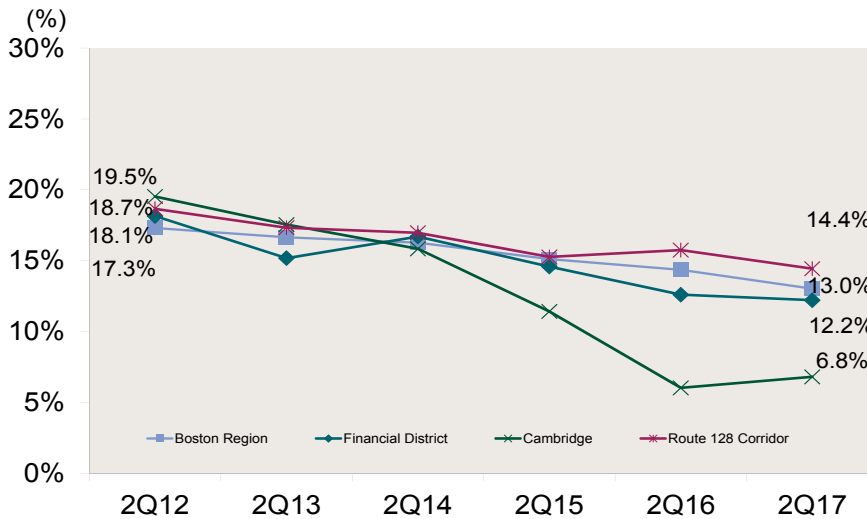
Biotech Adopts Efficiency Code

Movement in the market is being prompted by firms priced out of their current locations, and companies who simply can not find enough space. Life science firms have been behind the curve on densification, but now they are stealing a page from traditional office space users and seeking efficiencies through downsized relocations. They are pursuing densification and more efficient lab space. Some firms have moved out of Cambridge; others adopted novel efficiency measures within their facilities such as mobile fume hoods where possible. The efforts of owners to add services and retail on the ground floor is exacerbating the space shortage – heavy chemistry labs continue to prefer at grade space.

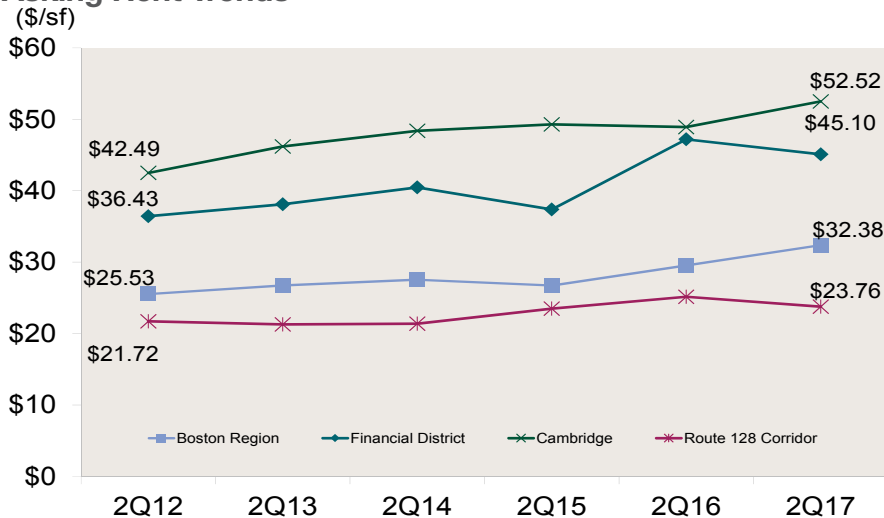
A League of Their Own

The life sciences/biotech market in Cambridge continues to operate in a

Availability Rate Trends



Asking Rent Trends



different league. Rental rate growth is not as extreme as it has been in prior quarters, but there are still enough firms willing to pay top dollar – in some cases exceeding \$80.00/sf for prime lab space. Landlords in Kendall Square can dictate terms as a bidding environment prevails.

More life science product is starting to emerge in close-in suburban locations such as Watertown. In Burlington, construction of MilliporeSigma’s headquarters is underway. Life science firms prefer to be at the heart of the innovation nexus, but when they see a \$40.00 to \$50.00 delta between Cambridge and Route 128 they are thinking twice. In Waltham, King Street Properties has started work on a 144,910-square-foot laboratory and office asset located at 828 Winter St., with an estimated completion next summer. They also purchased the adjacent building 830 Winter Street, and plan to convert the 185,000-sf building into office and lab space, while 275 Second Avenue is being converted to a lab space property from pure office use.

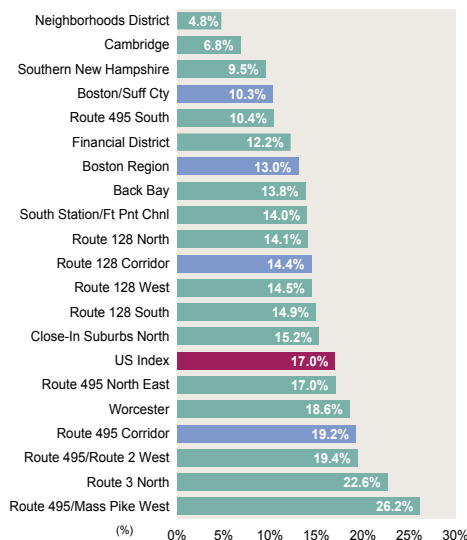
The space crunch in the traditional office market is not quite as acute. However, tenants trying to find space in Back Bay, and to an increasing degree the Financial District, are facing rising rent and dwindling quality space options. New construction in the Innovation District has been largely pre-leased. Downtown is benefiting from the confluence of firms being pushed out of Cambridge as well as suburban tenants pursuing the flow of talent into the urban core. As more businesses compete for Class A product Downtown it is also creating competition for Class B space.

Demand for converted loft/warehouse space in buildings such as 179 Lincoln Street and conversion properties such as Lafayette Center remains strong. In addition to the vibe and character that tech and innovation firms covet, these properties offer the flexibility and openness that enables companies to achieve “fluid and adaptable” work space. These older buildings do little to satisfy the workplace demands of larger or rapidly expanding companies, though.

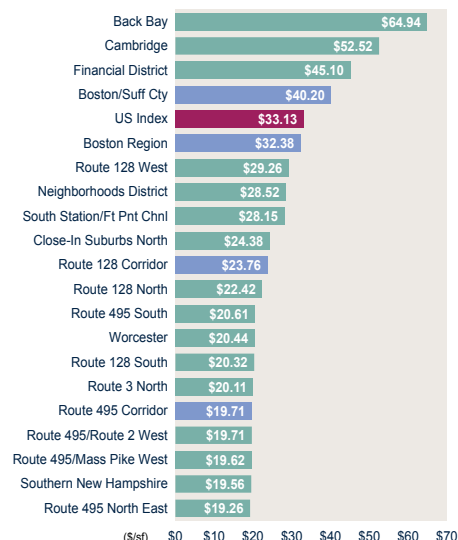
Relief to the Space Crunch on the Distant Horizon

Boston is on the cusp of some of its most transformative mixed-use developments in years. These projects will take years to build out, but they will better serve

Availability Rate Comparison



Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Reebok	220,000	1 Design Center Pl	Boston/Suffolk County
Amazon	150,000	253 Summer St	Seaport
Nuvera	110,684	129 Concor Rd	Route 495
Momenta Pharmaceuticals	52,252	301 Binney St	Cambridge
C4 Therapeutics	45,559	490 Arsenal St	Route 128 West
Panagora Asset Management	39,400	1 International Pl	Boston/Suffolk County
VM Ware	37,948	500 Washington St	Financial District
Jet.com	31,300	1 Constitution	Neighborhoods District
Kirkland & Ellis	29,410	200 Clarendon St	Back Bay
Fuze	29,573	2 Copley Pl	Back Bay
Sum of Top Leases	746,126		

the needs of larger tenants. Projects include major repositioning of outdated and underutilized complexes such as Constitution Wharf in Charlestown, new transit-oriented mixed use projects such as Bulfinch Crossing and the extension of transit-oriented development to the close-in suburbs - witness Union Square in Somerville.

Constitution Wharf is already signing leases. Jet.com-owned shoes.com recently signed a 31,300-square-foot office lease at the property, relocating its headquarters from 101 Arch St. The complex is undergoing a \$20 million renovation that will focus on developing creative workspace. An even more transformative project is Bulfinch Crossing, National Real Estate Advisors and HYM Investment Group’s \$1.5 billion, six-building development that is slated to replace the Government Center Garage. A company spokesperson has described an integral part of the project as “taking down 60% of the garage to daylight.” This is a fitting description for what is happening with

many properties – developers are opening them up and letting the light in for the first time in decades. Similar architectural re-imagining is about to transform some of the older Kendall Square area “factories,” to re-imagine them for the more human needs of the 21st Century. This includes the urban renewal of the archaic Volpe Center, the site was recently purchased by MIT to address the area’s need for more of everything to support the square’s growing densification and urbanization.

Finally the region is seeing the extension of mass transit and mixed-use development to close-in suburbs such as Somerville. The Board of Alderman approved a rezoning plan for Union Square, a \$1 billion mixed-use plan that could eventually see as much as 2.3 msf of transit-oriented development clustered around the to be extended Green Line light rail system. It will take 15 to 20 years to construct 1.38 million square feet of new office, lab, hotel, retail and arts space, plus much-needed residential product.

Map	Submarket	Total	Leasing Activity		Available SF			Availability Rate			Asking Rents Per SF		
			Inventory SF (1000's)	Last 12 Months	This Quarter	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.
1	Financial District	39,816	2,731	997	4,864	-6.7%	5,020	12.2%	-0.9%	12.6%	\$45.10	-4.5%	\$47.20
	Financial District - Class A	29,972	1,593	312	3,600	-2.5%	3,618	12.0%	-0.3%	12.1%	\$62.65	21.2%	\$52.89
2	Back Bay	15,757	2,037	1,221	2,172	-15.8%	2,460	13.8%	-2.6%	15.6%	\$64.94	1.1%	\$65.32
	Back Bay - Class A	13,199	941	198	2,025	-16.8%	2,321	15.3%	-3.1%	17.6%	\$86.06	-0.7%	\$80.05
3	South Station/Ft Pnt Channel	13,080	1,197	495	1,829	-4.0%	2,330	14.0%	-0.6%	17.8%	\$28.15	-18.9%	\$31.09
	South Station/Ft Pnt Channel - Class A	6,208	279	11	784	2.7%	1,098	12.6%	0.2%	17.9%	N/A	N/A	N/A
4	Neighborhoods District	30,209	806	244	1,322	0.2%	1,218	4.4%	0.0%	4.0%	\$28.52	1.1%	\$28.07
	Neighborhoods District - Class A	6,895	185	48	328	8.0%	270	4.8%	0.4%	3.9%	\$23.20	-3.4%	\$23.98
5	Cambridge	24,789	613	85	1,689	10.7%	1,494	6.8%	0.7%	6.0%	\$52.52	23.8%	\$48.93
	Cambridge - Class A	17,732	356	13	1,456	18.6%	1,074	8.2%	1.3%	6.1%	\$55.00	0.1%	\$57.95
6	Close-In Suburbs North	5,624	263	43	857	22.9%	604	15.2%	2.8%	10.8%	\$24.38	10.2%	\$18.76
	Close-In Suburbs North - Class A	2,859	139	24	588	65.0%	349	20.6%	8.1%	12.2%	\$29.52	-9.5%	\$14.72
7	Route 128 North	25,202	1,636	313	3,551	-5.4%	4,319	14.1%	-0.9%	17.2%	\$22.42	-0.1%	\$19.59
	Route 128 North - Class A	12,369	1,080	185	2,243	-1.8%	2,392	18.1%	-0.4%	19.3%	\$25.58	-4.0%	\$22.31
8	Route 128 South	17,238	878	179	2,574	-5.1%	2,560	14.9%	-0.8%	14.9%	\$20.32	12.6%	\$18.47
	Route 128 South - Class A	7,411	630	106	1,234	-6.7%	1,429	16.7%	-1.2%	19.3%	\$22.75	-1.1%	\$22.55
9	Route 128 West	28,222	1,572	309	4,079	-3.2%	4,205	14.5%	-0.5%	14.9%	\$29.26	-10.4%	\$34.05
	Route 128 West - Class A	14,964	859	151	2,388	-0.9%	2,382	16.0%	-0.1%	15.9%	\$33.31	-14.6%	\$40.19
10	Route 3 North	15,368	979	71	3,479	-3.2%	3,973	22.6%	-0.8%	25.9%	\$20.11	3.8%	\$18.75
	Route 3 North - Class A	4,666	0	0	972	-3.6%	1,367	20.8%	-0.8%	29.3%	\$22.13	8.0%	\$20.03
11	Route 495 North East	9,253	303	42	1,574	-4.6%	1,935	17.0%	-0.9%	21.0%	\$19.26	9.1%	\$18.19
	Route 495 North East - Class A	3,274	170	10	867	-0.8%	1,053	26.5%	-1.0%	33.1%	\$21.22	7.4%	\$20.63
12	Route 495 South	10,041	375	64	1,043	-13.2%	1,450	10.4%	-1.6%	14.5%	\$20.61	6.7%	\$17.88
	Route 495 South - Class A	1,192	7	0	325	-19.4%	398	27.3%	-6.6%	33.4%	\$24.25	8.0%	\$19.77
13	Route 495/Mass Pike West	15,510	721	189	4,057	-1.6%	3,868	26.2%	-0.4%	24.9%	\$19.62	-0.2%	\$18.28
	Route 495/Mass Pike West - Class A	7,253	381	109	2,150	6.9%	1,907	29.6%	1.9%	26.3%	\$20.31	0.5%	\$18.42
14	Route 495/Route 2 West	9,288	306	51	1,803	-2.2%	2,171	19.4%	-2.1%	23.4%	\$19.71	4.0%	\$18.04
	Route 495/Route 2 West - Class A	2,600	27	27	405	-9.1%	416	15.6%	-1.6%	16.0%	\$20.99	1.6%	\$20.21
15	Southern New Hampshire	18,435	457	73	1,750	-7.3%	2,448	9.5%	-1.1%	13.6%	\$19.56	5.5%	\$18.18
	Southern New Hampshire - Class A	3,753	184	15	603	-2.4%	829	16.1%	-0.4%	22.1%	\$21.13	-1.2%	\$22.01
16	Worcester	10,018	104	13	1,138	-2.1%	1,148	11.4%	-0.3%	11.5%	\$20.44	10.7%	\$17.63
	Worcester - Class A	1,907	0	0	354	-1.1%	386	18.6%	-0.2%	20.2%	\$23.63	2.1%	\$20.91
1-4	Boston/Suffolk County Total	98,863	6,771	2,957	10,187	-7.5%	11,028	10.3%	-7.6%	11.2%	\$40.20	0.0%	\$36.78
	Boston/Suffolk County Total - Class A	56,274	2,998	569	6,737	-6.3%	7,307	12.0%	-6.4%	13.0%	\$65.75	10.7%	\$49.83
7-9	Route 128 Corridor Total	70,662	4,086	801	10,203	-4.5%	11,084	14.4%	-0.7%	15.7%	\$23.76	-2.6%	\$25.15
	Route 128 Corridor Total - Class A	34,744	2,570	442	5,866	-2.5%	6,203	16.9%	-0.5%	17.9%	\$26.92	-6.0%	\$29.71
11-14	Route 495 Corridor Total	44,093	1,705	346	8,477	-5.5%	9,424	19.2%	-1.1%	21.4%	\$19.71	1.5%	\$18.20
	Route 495 Corridor Total - Class A	14,320	586	146	3,748	0.3%	3,773	26.2%	-0.1%	26.5%	\$20.77	-1.6%	\$19.55
1-16	Boston Region Total	287,852	12,546	2,527	37,510	-5.1%	41,204	13.0%	-0.8%	14.4%	\$32.38	-0.5%	\$29.54
	Boston Region - Class A	136,254	6,833	1,209	20,004	-2.5%	21,288	14.7%	-0.4%	15.6%	\$40.87	2.7%	\$37.76

Please contact us for further information

Savills Studley
Exchange Place
53 State Street
13th Floor
Boston, MA 02109
(617) 925-6300

Branch Manager
Mark Stewart - SVP
mstewart@savills-studley.com
(617) 925-6311

Co-Branch Manager
James Halepis - SVP
jhalepis@savills-studley.com
(617) 925-6307

Corporate Research Contact
Keith DeCoster - Director of U.S.
Real Estate Analytics
kdecoster@savills-studley.com
(212) 326-1023



(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf. Statistics are calculated using both direct and sublease information. Short-term sublet spaces (terms under two years) were excluded.

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