

# Savills Studley Report Boston office sector

Q3 2017



## SUMMARY

### Market Highlights

#### DEAL VOLUME FALLS FURTHER

Tenants have leased just under 11 msf in the four most recent quarters, falling well short of the region's long-term average.

#### AVAILABILITY RATES STABLE

The overall availability rate in the region was unchanged, remaining at 13%. The Class A availability rate fell by 10 basis points to 14.6%, but has dropped by 50 basis points compared to the third quarter of 2016. The Class A rate in the Route 128 Corridor fell by 60 basis points to 16.3%.

#### LITTLE CHANGE IN RENT

Asking rents appear to be stabilizing across the region. The average asking rent for all space fell from \$32.38 to \$32.33. The Class A average asking rent inched up by 0.1% to \$40.90 with a notable jump in the Route 495 Corridor of 6.0% from \$20.77 to \$22.01.

#### SALES INCREASE

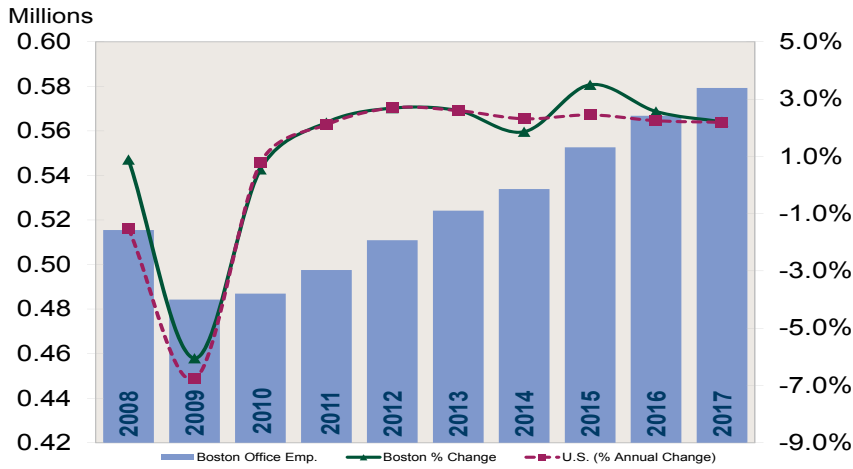
Investors have acquired \$6.2 billion in office properties through July of 2017. This represents a 20.3% increase from the \$5.2 billion transacted in the first seven months of 2016.

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 "Broad-based hiring activity among established tech heavyweights, and a diverse set of startups in emerging sectors such as artificial intelligence and data analytics, continues to drive hiring and leasing growth in the Boston region. Most of these firms consider the cost of real estate secondary to competition for talent, but some price resistance is appearing in Back Bay and other top-tier corporate office buildings."

Mark Stewart  
Senior Vice President

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## Office-Using Employment Trends



## Talent and Space Crunch Persists, but Demand Slowing in Select Sectors

Following trends seen in many major markets, office-using employment has lost some momentum in Boston. The region has added just over 10,000 jobs in the last 12 months – a 1.8% growth rate that is about half the 3.5% rate registered in the prior 12 months. Leasing activity has also backed off a bit, running about 20% below its long-term average this year. Reduced hiring as well as leasing seem to be due to a lack of qualified workers and a limited amount of quality space. These shortages are creating roadblocks for those businesses eager to expand.

Demand is increasingly diverging into two separate tracks. The frenetic competition for top talent, and space to house them, in the tech and biotech/medical research sector, has shown no signs of relenting. Professional/business services firms, on the other hand, are much less aggressive in terms of their hiring and leasing activity.

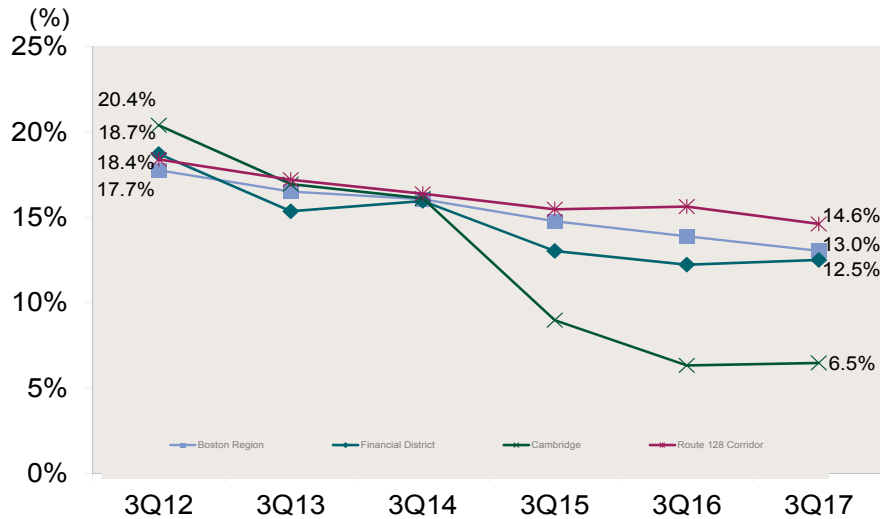
### Tech Firms Remain Focused on Talent

The region is still in the thick of a “big pharma” influx to Cambridge that is spilling over into the Innovation District and the Route 2 Corridor. The East Cambridge/Kendall Square markets are operating in a different league. Landlords are getting creative in their efforts to keep expanding companies from relocating. Smaller to midsize blocks (even some under 20,000 sf) are getting gobbled up and re-packaged to create bigger blocks of space. Larger tenants are competing with one another over a handful of space options. Smaller companies that can work in shared services options like Nest.Bio or Mass Innovation labs stand to achieve \$20/sf - \$40/sf in savings from the (\$80.00/sf-plus) they would pay for lab/R&D space.

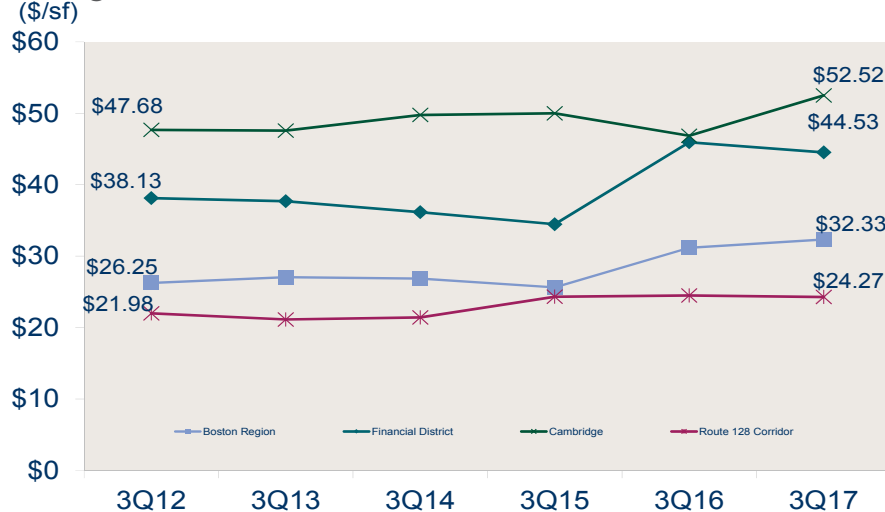
Even with tight conditions, Cambridge captured many of the top leases of the quarter. Momenta Pharmaceuticals leased 52,252 sf (an expansion bringing their total occupancy to 130,00 sf) at 301 Binney Street and GlaxoSmithKline took 41,446 sf at 200 Cambridge Park Drive. Additionally, Facebook leased 132,636 sf at 100 Binney Street and Harvard University Info Tech inked a 63,175 sf lease at 784 Memorial Drive. Finally, Shire plc is negotiating for 230,000 sf of the former Ariad facility at 125 Binney Street.

With negligible options in Cambridge

## Availability Rate Trends



## Asking Rent Trends



and surrounding areas, some tech companies are turning to Seaport/ Innovation District for space. Skanska's new tower, 121 Seaport, captured the top two transactions, and is now 100% pre-leased. PTC signed a 250,000-sf, 20-year lease. The Internet of Things innovator will move from 140 Kendrick Street in Needham, to the new building in early 2019. Alexion Pharmaceuticals signed a lease for the remainder of the office space. The biopharm firm will relocate from New Haven, Connecticut and Lexington, Massachusetts.

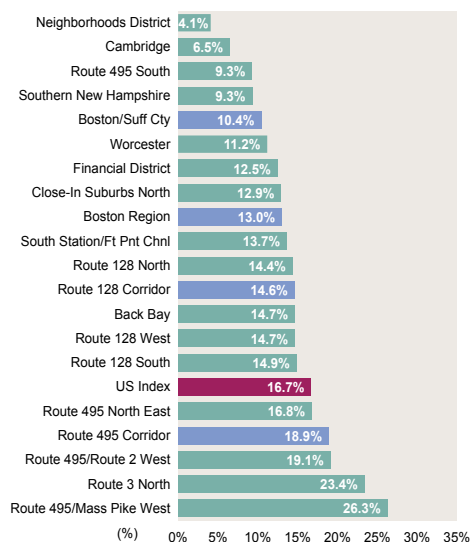
A location in Boston seems to still be a must have for these talent-driven firms. So far at least, the top companies in Boston are opting to stay put even if it comes at a high price or entails a costly move within the market. This contrasts to other top tech hubs such as San Francisco and Seattle. In these markets, some of the largest firms are either being priced out of the market or they can not find enough properly qualified talent to reasonably meet their future growth plans. Some tech heavyweights are increasingly searching outside of their home base for talent as their labor pool is depleted. Most tech firms in Boston have not yet reached this point. Many are taking more space for added headcount, despite paying a rent that is significantly higher than what they paid in the prior cycle. In some cases businesses that plan to relocate and take less square footage have found themselves needing more space a few months later – ultimately squashing efforts to reduce their space obligation and expense growth.

### Demand Slowing Among Corporate Space Users

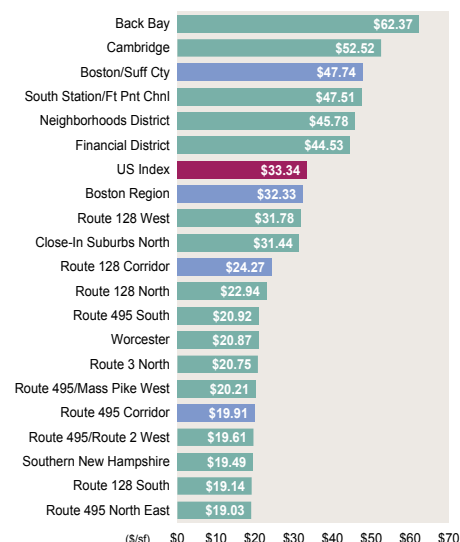
In contrast, traditional corporate office space users (professional/business services, law firms and banks) generally lack the room in their bottom line to justify extensive out-of-pocket expenditures. Some of these firms are densifying in place. This is less costly than moving to a more efficient floorplate in a newer building, but retrofitting space can still be a big expenditure.

Demand remains sluggish in the region's highest-caliber corporate office buildings, including recently constructed properties that have pushed the limits for rent in the locations that law firms, banks and general professional/business services firms target. Asking rent routinely exceeds \$70/sf in Back Bay, and \$60/sf in some Innovation District and Financial District buildings. The lease-up period on newly

## Availability Rate Comparison



## Overall Rental Rate Comparison



## Major Transactions

Tenant	Sq Feet	Address	Market Area
PTC inc.	221,531	121 Seaport Blvd	South Station/Seaport
Alexion Pharmaceuticals	178,787	121 Seaport Blvd	South Station/Seaport
Facebook	132,636	100 Binney St	Cambridge
Sonus Networks, Inc.	97,500	4 Technology Park Dr	RE 3 North
Harvard University Info Tech	63,175	784 Memorial Dr	Cambridge
Momenta Pharmaceuticals	52,252	301 Binney St	Cambridge
C4 Therapeutics	45,559	480 Arsenal St	Route 128 West
GLaxoSmithKline	41,446	200 Cambridgepark Dr	Cambridge
J Jill Group Inc	27,343	4 Batterymarch Park	Route 128 South
Optos	23,209	500 Nickerson Rd	Route 495/Mass Pike West
<b>Sum of Top Leases</b>	<b>883,438</b>		

constructed buildings in the Seaport and the outer Western Cambridge areas has been increasing. As of mid-September Boston had 4.1 msf under construction – approximately half of the space was still available for lease.

A few landlords are increasing concessions in an effort to induce tenants to pay the elevated rent at these buildings. Other landlords are not budging, even as space sits vacant for an extended period. Soaring construction costs have also taken some of the momentum out of movement as more tenants opt to renew given the uncertain relocation costs.

Even in the corporate office space market, though, conditions remain tight. The region's overall availability rate held steady at 13.0% during the quarter. The Class A rate inched down by 0.1 pp to 14.6%. The number of buildings offering a contiguous block of space in excess of 50,000 sf has fallen. It is no surprise that most landlords are not moving off from their asking rents –

particularly in core submarkets. It generally takes a significant increase in sublet space or an extended period of negative net absorption for asking rent to budge. Available sublet space in the region totaled 5.3 msf as of mid-September, down by nearly 5.0% from year-end 2016.

Tenants willing to lease older Class B office product in peripheral suburban areas can find significantly discounted space, but this is not the top concern of companies focused on expanding payroll. Payroll growth has been steady among established tech firms. Densification is also not a priority for such businesses, some were already very efficient in terms of how much space dedicated per employee. Emerging niches such as data analytics and artificial intelligence are driving quite a bit of expansion activity among area businesses. These firms are focused primarily on employee recruitment and retention and consider the cost of space secondary to finding properties that will help them compete for talent.

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	<b>Financial District</b>	39,816	1,689	245	4,977	2.3%	4,868	12.5%	0.3%	12.2%	\$44.53	-1.3%	\$45.95
	Financial District - Class A	29,972	1,141	170	3,672	2.0%	3,453	12.3%	0.2%	11.5%	\$63.08	0.7%	\$57.52
2	<b>Back Bay</b>	15,757	830	46	2,312	6.5%	2,364	14.7%	0.9%	15.0%	\$62.37	-3.9%	\$84.06
	Back Bay - Class A	13,199	749	31	2,165	6.9%	2,233	16.4%	1.1%	16.9%	\$85.99	-0.1%	\$90.00
3	<b>South Station/Ft Pnt Channel</b>	13,080	908	263	1,786	-2.4%	2,217	13.7%	-0.3%	16.9%	\$47.51	68.8%	\$32.46
	South Station/Ft Pnt Channel - Class A	6,208	265	0	910	16.1%	1,021	14.7%	2.0%	16.6%	N/A	N/A	N/A
4	<b>Neighborhoods District</b>	30,209	708	208	1,237	-6.5%	1,178	4.1%	-0.3%	3.9%	\$45.78	60.5%	\$26.29
	Neighborhoods District - Class A	6,895	120	0	305	-7.0%	222	4.4%	-0.3%	3.2%	\$58.83	153.6%	\$22.40
5	<b>Cambridge</b>	24,789	571	229	1,604	-5.0%	1,567	6.5%	-0.3%	6.3%	\$52.52	0.0%	\$46.86
	Cambridge - Class A	17,732	378	178	1,332	-8.5%	1,149	7.5%	-0.7%	6.5%	\$55.00	0.0%	\$63.63
6	<b>Close-In Suburbs North</b>	5,624	340	113	727	-15.2%	677	12.9%	-2.3%	12.1%	\$31.44	29.0%	\$18.53
	Close-In Suburbs North - Class A	2,859	158	28	511	-13.1%	396	17.9%	-2.7%	13.9%	\$28.00	-5.2%	\$14.72
7	<b>Route 128 North</b>	25,202	1,121	204	3,619	1.9%	4,088	14.4%	0.3%	16.3%	\$22.94	2.4%	\$19.55
	Route 128 North - Class A	12,369	626	127	2,205	-1.7%	2,419	17.8%	-0.3%	19.6%	\$25.96	1.5%	\$22.59
8	<b>Route 128 South</b>	17,238	651	121	2,562	-0.5%	2,461	14.9%	-0.1%	14.3%	\$19.14	-5.8%	\$18.11
	Route 128 South - Class A	7,411	468	98	1,182	-4.3%	1,295	15.9%	-0.7%	17.5%	\$22.87	0.5%	\$21.63
9	<b>Route 128 West</b>	28,222	1,522	290	4,141	1.5%	4,458	14.7%	0.2%	15.8%	\$31.78	8.6%	\$33.21
	Route 128 West - Class A	14,964	855	188	2,259	-5.4%	2,483	15.1%	-0.9%	16.6%	\$37.26	11.9%	\$39.15
10	<b>Route 3 North</b>	15,368	518	216	3,595	3.3%	3,567	23.4%	0.8%	23.3%	\$20.75	3.2%	\$19.06
	Route 3 North - Class A	4,666	0	0	1,146	17.8%	1,063	24.6%	3.7%	22.8%	\$22.78	3.0%	\$20.03
11	<b>Route 495 North East</b>	9,253	352	80	1,553	-1.3%	1,862	16.8%	-0.2%	20.1%	\$19.03	-1.2%	\$18.41
	Route 495 North East - Class A	3,274	212	45	846	-2.4%	977	25.8%	-0.6%	30.7%	\$21.22	0.0%	\$19.64
12	<b>Route 495 South</b>	10,041	341	47	931	-10.7%	1,165	9.3%	-1.1%	11.6%	\$20.92	1.5%	\$17.72
	Route 495 South - Class A	1,192	4	0	310	-4.8%	320	26.0%	-1.3%	26.9%	\$24.25	0.0%	\$19.77
13	<b>Route 495/Mass Pike West</b>	15,510	745	129	4,074	0.4%	3,988	26.3%	0.1%	25.7%	\$20.21	3.0%	\$18.33
	Route 495/Mass Pike West - Class A	7,253	409	48	2,034	-5.4%	2,008	28.0%	-1.6%	27.7%	\$23.08	13.6%	\$18.41
14	<b>Route 495/Route 2 West</b>	9,288	177	50	1,778	-2.2%	2,114	19.1%	-0.3%	22.8%	\$19.61	-0.5%	\$18.18
	Route 495/Route 2 West - Class A	2,600	27	0	401	-1.1%	418	15.4%	-0.2%	16.1%	\$21.08	0.4%	\$20.03
15	<b>Southern New Hampshire</b>	18,435	433	109	1,715	-2.0%	2,091	9.3%	-0.2%	11.6%	\$19.49	-0.3%	\$18.10
	Southern New Hampshire - Class A	3,753	166	10	550	-8.8%	654	14.6%	-1.4%	17.4%	\$21.34	1.0%	\$21.63
16	<b>Worcester</b>	10,018	83	21	1,121	-1.5%	1,189	11.2%	-0.2%	11.9%	\$20.87	2.1%	\$18.15
	Worcester - Class A	1,907	0	0	391	10.4%	417	20.5%	1.9%	21.9%	\$23.59	-0.2%	\$21.01
1-4	<b>Boston/Suffolk County Total</b>	98,863	5,956	762	10,311	1.2%	10,627	10.4%	1.2%	10.8%	\$47.74	18.8%	\$37.72
	Boston/Suffolk County Total - Class A	56,274	2,275	202	7,052	4.7%	6,930	12.5%	4.7%	12.3%	\$63.34	-3.7%	\$50.61
7-9	<b>Route 128 Corridor Total</b>	70,662	3,293	615	10,322	1.2%	11,008	14.6%	0.2%	15.6%	\$24.27	2.1%	\$24.49
	Route 128 Corridor Total - Class A	34,744	1,949	414	5,646	-3.7%	6,197	16.3%	-0.6%	17.8%	\$27.60	2.5%	\$28.99
11-14	<b>Route 495 Corridor Total</b>	44,093	1,614	307	8,337	-1.7%	9,130	18.9%	-0.3%	20.7%	\$19.91	1.0%	\$18.28
	Route 495 Corridor Total - Class A	14,320	653	93	3,590	-4.2%	3,723	25.1%	-1.1%	26.2%	\$22.01	6.0%	\$19.28
1-16	<b>Boston Region Total</b>	287,852	10,888	2,372	37,517	0.0%	39,855	13.0%	0.0%	13.9%	\$32.33	-0.1%	\$31.18
	Boston Region - Class A	136,254	5,578	925	19,922	-0.4%	20,531	14.6%	-0.1%	15.1%	\$40.90	0.1%	\$40.86

## Please contact us for further information

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(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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