

MARKETBEAT BOSTON



Office Q4 2019

YoY Chg 12-Mo. Forecast

4.7%
Vacancy Rate



797K
Net Absorption, SF



\$66.29
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

YoY Chg 12-Mo. Forecast

2.8M
Boston MSA
Employment



2.6%
Boston MSA
Unemployment Rate



3.6%
U.S.
Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

Boston closed another year on solid ground. At 2.6%, metro-level unemployment is down and overall employment in the region continues to grow. This is largely due to ongoing gains in the technology and life sciences sectors. Regionally, development of laboratory space now outstrips the development of office space. This is especially true in submarkets such as Boston's Seaport District – which is rapidly becoming an MBTA red line annex of Cambridge's Kendall Square. With rents across the region at historical highs and vacancy historically low, we expect 2020 to be a year of continued strength in Greater Boston.

RENTS CONTINUE TO RISE

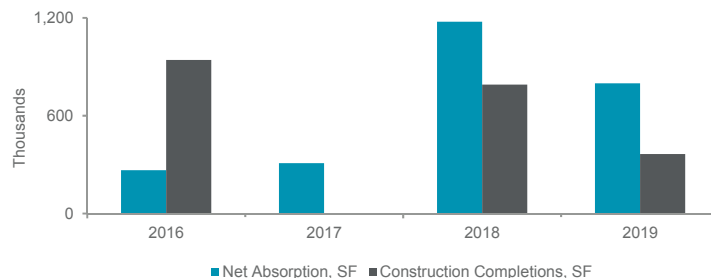
On average, asking rents in Boston rose 15% in 2019. High-rise class A space is now commanding rents into the \$80s per square foot (psf) on a gross basis. This is driven in large part by users in the market for blocks of space over 100,000 square feet (sf). At last count, there were seven blocks available and seven tenants in the market for space of this size. The lack of large availabilities coupled with 3.6 million square feet (msf) of demand in a market with 3.9 msf of vacant space means that rent escalation will not likely abate soon.

For the past two quarters, we have mentioned that tight conditions coupled with the fast pace of the market means that tenants need to be especially vigilant around the pitfalls and nuances of the lease negotiation process – particularly around market removal clauses. At 4.7%, vacancy in Boston is now as low as it was in 2000. Without a market removal clause, some landlords may continue to market the space in order to garner a better deal – making it difficult for a tenant to close on a lease.

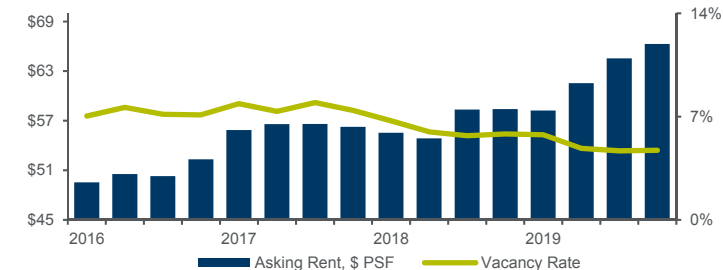
CONSTRUCTION PIPELINE AND DEMAND FOR SPACE KEEP GROWING

Approximately 5.5 msf of office and lab product are under construction in Boston with delivery dates extending through 2023. Nearly 60% of this pipeline has already been preleased. Despite a 7.5% increase in inventory over the next three years, we expect that limited large block availability will be an ongoing theme. From a leasing perspective, several large leases were executed in the fourth quarter: Morgan Stanley expanded into 120,000 sf at 28 State Street in the Financial District; advertising agency MullenLowe committed to 115,000 sf at 2 Drydock Avenue in the Seaport and Salesforce renewed and expanded in 46,000 sf at 500 Boylston Street in the Back Bay.

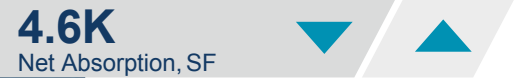
SPACE DEMAND / DELIVERIES



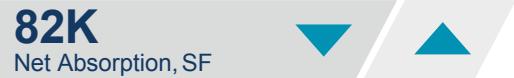
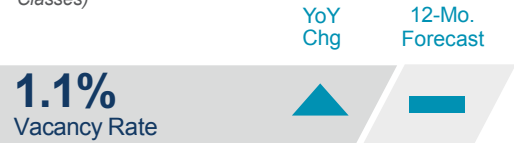
OVERALL VACANCY & ASKING RENT



Office Q4 2019



(Overall Office All Property Classes)



(Overall Laboratory All Property Classes)

MARKET OVERVIEW

Another year has come and gone in the hottest real estate market in Greater Boston. Cambridge office absorption ended 2019 at positive 4,620 square feet (sf) while vacancy was 2.7%. The lab sector also ended the year in a position of strength – 2019 brought 82,000 sf of positive absorption with vacancy at an astonishingly low 1.1%. Ongoing limited supply means that significant absorption figures will not occur until we see product deliveries. While there is much in the pipeline (1.45 million square feet of office, 1.75 msf of lab), nothing delivered this calendar year. Barring any major market shifts, we expect a healthy pipeline to accommodate higher absorption in 2020 and 2021.

RENTS STILL RISING

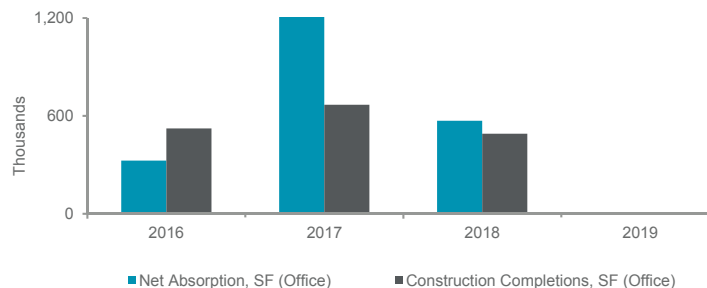
Rents continue to rise in both the office and lab sectors. Asking rents for prime office space in East Cambridge are now starting at \$95 per square foot (psf) on a gross basis – up 9.6% over the past 12 months. Lab space in East Cambridge continues to command the highest rents in the region – with premium space now starting over \$105 psf, triple net (NNN).

SUPPLY AND DEMAND

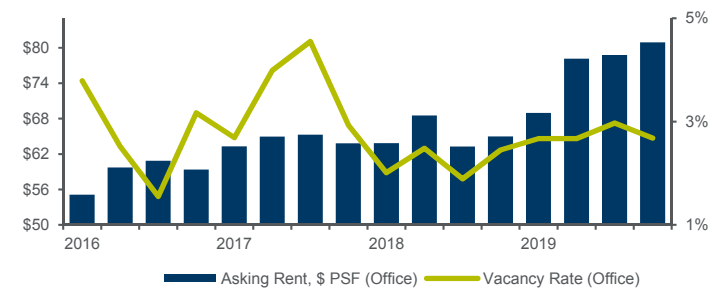
New deliveries will be a major part of Cambridge’s 2020 narrative. 2.2 msf is slated to deliver this year – growing total inventory by nearly 10%. Nearly 90% of this space is already preleased. The story of Cambridge is that it’s one of the few markets in the country building enough to keep up with demand – and this growing demand is swallowing most of the incoming space being delivered. There are a few, scattered concerns of oversupply, but historical vacancy and rent figures, coupled with ongoing growth in demand, suggest that current demand will support new construction, at least in the short-term.

From a leasing perspective, several large deals were signed in Cambridge in the fourth quarter. 35 Cambridgepark Drive experienced significant leasing activity. The property landed over 140,000 sf of deals between Syros Pharmaceuticals (53,000 sf), Codiak Biosciences (68,000 sf) and Glympse Bio (23,000 sf). Other notable deals this quarter were signed by Epizyme (33,000 sf at 50 Hampshire Street) and Civetta Therapeutics (31,000 sf at 10 Wilson Road).

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKETBEAT SUBURBS



Office Q4 2019

YoY Chg 12-Mo. Forecast



(Overall Office All Property Classes)

YoY Chg 12-Mo. Forecast



(Overall Laboratory All Property Classes)

HIGH DEMAND FOR NEW PRODUCT

The suburbs of Greater Boston comprise nearly 100 million square feet (msf) of office space. Only about 10% of total office inventory has been constructed or renovated in the past 15 years. This is important to note because new suburban product has been very successful from a leasing perspective. Office product that has been built or renovated in the last 15 years has a vacancy rate half that of product in the older category – 7.0% (post 2015) versus 13.5% (pre-2005). With overall office absorption only slightly positive at 186,000 square feet (sf) year-to-date, the proper positioning of buildings is of the utmost importance in order to attract tenants.

The Post at 200 Smith Street, Waltham, is one of those success stories. The property landed one of the year’s largest deals when Boston Dynamics committed to 180,000 sf. Boston Dynamics joins Elevate Bio and Deciphera Pharmaceuticals at the 430,000- sf property constructed in 2017.

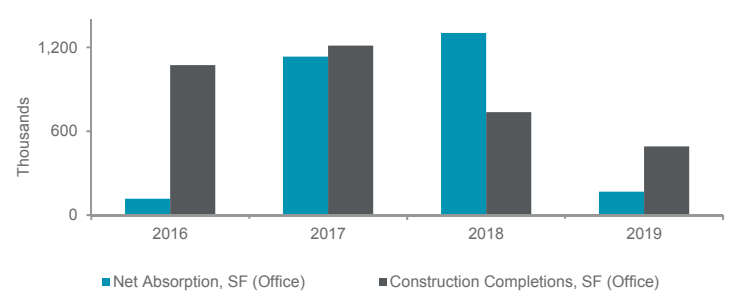
INNER SUBURBS HOTTER THAN EVER

And in a trend started in early 2016, the Inner Suburbs continue to grow hotter. Expanding demand and ongoing scarcity in Boston and Cambridge means that finding economical deal terms in the urban core has become exceedingly difficult. Just a few years ago, the Inner Suburbs provided a relief valve, but this growing submarket is one of the more expensive and sought-after submarkets in the region – let alone in the suburbs. With office vacancy at 6.7% it is one of the tightest submarkets in Greater Boston.

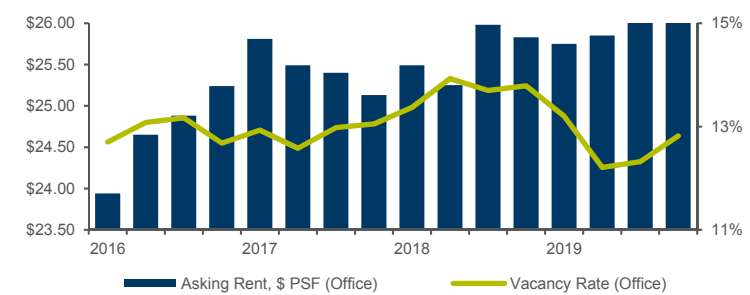
SUBURBAN LAB MARKET CONTINUES TO GROW

The Inner Suburbs have also become one of the hotspots for lab product and lab redevelopment outside of Cambridge. With athenahealth putting its campus up for sale this year, one of the most competitive sales in recent memory followed suit. Four sites along the Charles River in Watertown are slated for lab conversion and will add nearly 300,000 sf to the Watertown lab inventory. This, in combination with recent success of LINX and Arsenal Yards, has legitimized the suburbs as a lab hub outside of Cambridge.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

BOSTON	TOTAL BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	AVG ASKING RENT (OFFICE)	OVERALL AVG ASKING RENT (CLASS A)*
Back Bay	53	12,757,624	1,063,406	8.3%	460,806	3.6%	355,064	0	\$69.60	\$73.65
Charlestown	13	1,724,336	91,795	5.3%	8,251	0.5%	-36,991	54,000	\$45.00	\$45.00
Fenway	23	2,072,152	146,311	7.1%	39,669	1.9%	31,303	0	\$45.00	N/A
Financial District	126	31,286,319	4,305,309	13.8%	1,741,185	5.6%	205,078	750,000	\$68.59	\$72.48
Government Center/North Station	37	3,416,104	405,965	11.9%	241,691	7.1%	76,407	1,600,000	\$59.71	\$65.26
Midtown	21	2,012,109	274,702	13.7%	94,804	4.7%	65,346	0	\$54.68	N/A
Seaport	59	9,921,997	1,057,574	10.7%	484,053	4.9%	21,097	1,441,400	\$59.49	\$75.24
South Station	10	2,897,521	78,607	2.7%	64,507	2.2%	80,466	0	\$50.50	N/A
BOSTON OFFICE TOTALS	342	66,088,162	7,423,669	11.2%	3,134,966	4.7%	797,770	3,845,400	\$66.29	\$72.74
CAMBRIDGE OFFICE	TOTAL BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	AVG ASKING RENT (OFFICE)	OVERALL AVG ASKING RENT (CLASS A)*
Alewife/West Cambridge	13	1,584,902	215,579	13.6%	136,916	8.6%	44,797	N/A	\$54.90	\$54.88
East Cambridge	42	6,902,389	288,611	4.2%	72,640	1.1%	15,534	1,429,000	\$92.27	\$96.07
Mass Ave Corridor	33	2,771,345	152,231	5.5%	92,181	3.3%	-55,711	24,900	\$80.48	\$88.63
CAMBRIDGE OFFICE TOTALS	88	11,258,636	656,421	5.8%	301,737	2.7%	4,620	1,453,900	\$80.91	\$82.82
CAMBRIDGE LABORATORY	TOTAL BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	AVG ASKING RENT (LAB)	OVERALL AVG ASKING RENT (CLASS A)*
Alewife/West Cambridge	12	889,834	48,550	5.5%	48,550	5.5%	186,156	270,000	\$74.49**	N/A
East Cambridge	31	6,793,602	146,616	2.2%	67,923	1.0%	-70,562	1,480,000	\$99.09**	N/A
Mass Ave Corridor	32	3,505,885	63,529	1.8%	10,754	0.3%	-33,464	0	\$85.00**	N/A
CAMBRIDGE LAB TOTALS	75	11,189,321	258,695	2.3%	127,227	1.1%	82,130	1,750,000	\$88.23**	N/A
SUBURBS	TOTAL BLDGS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	AVG ASKING RENT (OFFICE)	OVERALL AVG ASKING RENT (CLASS A)*
128 Central	308	30,352,859	4,716,063	15.5%	3,125,326	10.3%	95,316	N/A	\$34.24	\$38.95
128 North	98	12,012,639	1,306,740	10.9%	925,493	7.7%	14,402	65,000	\$21.88	\$24.48
128 South	112	11,042,715	2,669,610	24.2%	1,773,883	16.1%	-95,461	40,000	\$28.01	\$29.72
3/24 South	26	1,585,242	135,964	8.6%	87,029	5.5%	63,234	N/A	\$20.81	\$22.48
Metrowest	43	2,999,847	669,998	22.3%	492,218	16.4%	118,208	N/A	\$25.33	\$27.04
495 West	81	7,896,968	2,749,047	34.8%	1,388,474	17.6%	-181,441	N/A	\$20.84	\$21.46
495 North	179	22,332,332	6,037,352	23.2%	3,940,571	17.6%	-3,428	N/A	\$20.76	\$21.12
495 South	20	1,498,922	214,737	14.3%	128,502	8.6%	75,570	N/A	\$19.86	\$20.51
Inner Suburbs	57	5,813,104	761,913	20.2%	387,566	6.7%	81,013	303,546	\$38.99	\$40.25
SUBURBAN OFFICE TOTALS	924	95,534,628	19,261,424	20.2%	12,249,062	12.8%	167,413	408,546	\$26.01	\$28.45

Suburban statistics reflect office only unless otherwise specified

**Lab Rents quoted on NNN basis. Office Asking Rents are Full Service

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1000 Winter Street, Waltham	128 Central	Tesaro	205,276	Renewal
28 State Street, Boston	Financial District	Morgan Stanley	120,775	Expansion
2 Drydock Avenue, Boston	Seaport	Mullenlowe	114,630	Relocation
200 Crossing Boulevard, Framingham	Metrowest	Globoforce	92,352	Renewal
275 Grove Street, Newton	128 Central	Parexel	90,721	Relocation

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
Arsenal on the Charles, Watertown	Inner Suburbs	Athenahealth / Alexandria	834,782	\$525.5M/\$629
One Marina Park Drive, Boston	Seaport	Mass Mutual / Clarion Partners	491,573	\$482M/\$982
99 Summer Street, Boston	Financial District	Rockpoint Group / Northwestern Mutual	273,000	\$198M/\$725
35 Cambridgepark Drive, Cambridge	Alewife/West Cambridge	The Davis Companies / Healthpeak Properties	224,305	\$332.5M/\$1,482
535-545 Boylston Street, Boston	Back Bay	John Hancock / Brickman Associates	184,642	\$127M/\$688

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