INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

OFFICE

Boston Metro Area

2020

Tech Firms Boost Demand in Core Boston Office Districts; Suburban Yields Draw Investors

New office leases in core locations elevating Boston's position as a tech hub. Approximately 20 tech companies have announced plans to expand in the market this year, targeting the Financial District, Back Bay, Cambridge, and Seaport District. Recently penned leases include a 180,000-square-foot commitment in Cambridge from Google, and 160,000-square-foot deal by Klaviyo in the Financial District, both set to occupy the space in 2020. Additionally, tech company Philips will be relocating from the Essex suburb to Cambridge, where it will occupy 243,000 square feet. These companies entering and expanding in the core will support an increase in space demand this year. However, developers have responded to rising demand and will deliver the largest amount of new supply in over a decade, which will ultimately lift vacancy for the second consecutive year. Weakness may be pronounced in Dorchester, Roxbury and the Financial District, where pre-leasing is trending below the market average. Nonetheless, the influx of available space will not impact marketed rents for available space this year, which will outpace last year's growth.

Suburban areas entice investors with elevated first-year returns. Investors seeking Class B/C properties have transitioned their search from Boston's central business district to the outer suburbs. Limited listings and compressing cap rates in the Financial District and Cambridge have dropped Class B/C sales velocity well below suburban deal flow. Owners in the suburbs neighboring the CBD and farther north past Interstate 95 are receiving more competitive bids from buyers, lifting year-over-year sales of suburban Class B/C buildings by more than 10 percent last year. Assets north of the Interstate 495 corridor between Chelmsford and Haverhill have first-year yields in the mid-7 percent range, significantly higher than returns available in core locations. Overall, average cap rates across the market are in the low-6 percent range.

2020 Market Forecast

Employment up 1.0% — Building on last year's 40,100-job addition, employers will hire 28,000 workers to in 2020.

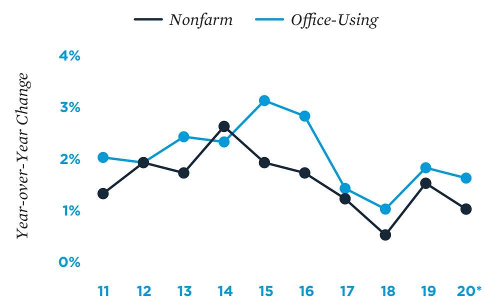
Construction 3.9 million sq. ft. — Development sets a new expansionary high watermark this year as inventory grows 1.2 percent. In 2019, builders brought 1.9 million square feet to the market.

Vacancy up 20 bps — Supply growth outpaces space demand for the second consecutive year, lifting the average rate to 12.1 percent.

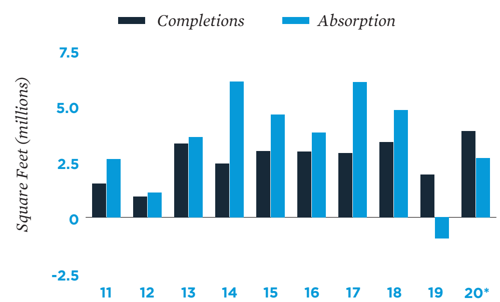
Rent up 3.2% — Asking rent growth accelerates from 2.1 percent recorded in 2019. By year end, the average asking rent will climb to $34.33 per square foot.

Investment — Investors scour the market for the few value-add plays available in the suburbs. Class B properties with a significant vacancy component garner attention.

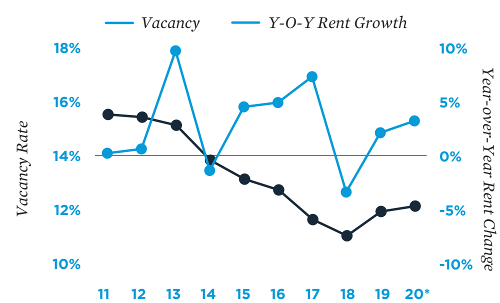
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Alan Pontius

Senior Vice President | Director
Office and Industrial Properties Division

(415) 963-3000

apontius@ipausa.com