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Cassidy Turley Q3 report on Boston commercial real estate market - strongest numbers since 2005

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Cassidy Turley released its third quarter MarketWatch research that tracks the performance of the commercial real estate market in Boston, Cambridge and the suburbs. After a solid first half, downtown Boston roared to life in the third quarter - posting the strongest year-to-date numbers since 2005.

Leading the way was activity in the city's Downtown Crossing neighborhood. The delivery of 10 Summer St. and commitments by Sonos (170,000 s/f) and Carbonite (52,000 s/f) at 500 Washington St. solidified that this centrally located neighborhood is finally in the midst of a renaissance.

It's not breaking news, but in East Cambridge (particularly Kendall Sq.) office rents continue to rise - up 20% in the past year. However, it looks like a new Cambridge story is finally emerging in the lab market. Large lab users touring the market now include Amgen, Alnylam, Mass Innovation Labs, Lab Central and Baxter. Lab rents have risen 4% in the past year, but with only a handful of existing options, the race for space will likely cause them to climb significantly in the next 12 to 18 months.

In the suburbs, Wolverine became the latest tenant to commit to a build-to-suit. The firm's new headquarters will be located at Boston Properties' 10 CityPoint in Waltham. While 128 Central is the beneficiary of a barrage of recent build-to-suit activity (TripAdvisor, VistaPrint, Phase II of Keurig's headquarters and now Wolverine), the city of Waltham is poised to become the next 'urban suburban' destination. Between CityPoint and the redevelopment of the Polaroid site at 1265 Main St., we are excited about the arrival of nationally recognized restaurants, walkable urban conveniences and retail amenities.

Boston:

* At 1.5 MSF SF YTD, absorption in Boston is the strongest it has been since 2005. A remarkable third quarter is due to three factors:

* The delivery of fully leased new construction - State Street's new building at 1 Channel Center St. in the Seaport (500,000 s/f) delivered in the first quarter and 10 Summer St. (282,000 s/f - preleased to Arnold Worldwide and Primark) in the third quarter.

* Two large technology deals signed at 500 Washington St. - Carbonite committed to 52,000 s/f and Sonos leased 170,000 s/f.

* 75 State St. saw significant leasing activity this quarter with 4 deals totaling over 190,000 s/f. The two largest were CDM Smith's commitment to 122,000 s/f on floors 6-8 and 10-12 as well as Hemenway and Barnes' lease for 44,000 s/f on the 16th floor.

* After many years of false starts, the Downtown Crossing neighborhood has finally come into its own. If the changing streetscape wasn't evidence enough, this quarter brought commitments from tech-based companies Carbonite and Sonos. With the marketing center for the Millennium Tower residences now open, and an anticipated delivery of mid-2016, we are excited to see what the next

18 to 24 months bring to this neighborhood.

Cambridge:

* Overall office rents are up 25% in the last 12 months. Not surprisingly, East Cambridge still leads the market, but it's worth mentioning that asking rents in Alewife/West Cambridge have increased 17% in the same time.

* Lab rents are up 4.1% in the last 12 months-led by an increase of 7.3% in the Mass Ave. Corridor. Dicerna Pharmaceutical's 36,833 s/f lease at 87 Cambridgepark Dr. was one of the larger lab deals of the quarter. However, with many large lab tenants in the market, we know it will not be the last. As a result, we expect rents will continue to rise for the foreseeable future.

* At 6,531 SF YTD, lab absorption is essentially flat; however this does not mean that large deals are not being executed. In addition to the Dicerna deal, Biogen Idec sublet 93,000 s/f of Ironwood Pharmaceuticals' space at 301 Binney St. Limited supply and intense demand mean availability will slim down in the coming months. It also means asking rents will begin to rise.

Suburbs:

* Suburban office absorption totaled (231,975) s/f year-to-date.

* This number is significantly impacted by several large availabilities: in 128 Central 104,000 s/f of Dassault Systemes' space is being marketed at 185 Wyman St., and in Metrowest 96,000 s/f of TJX space came online at 500 Old Connecticut Path.

* On the positive side, Osram Sylvania leased 125,000 s/f in at 200 Ballardvale in Wilmington this quarter and Casa Systems expanded by 58,000 SF at 100 Old River Road, Andover.

* 3rd Quarter Office and R&D rents have remained essentially flat over the past year.

* However, two submarkets have shown notable increases in office rents in the past 12 months:

* At \$23.66 PSF, Metrowest rents are up 3.1%

* In 128 Central they're up 3.3% to \$27.87. However, pockets of the submarket are commanding premium rents in the low \$40s.