JLL releases 2017 Skyline report: Boston’s skyline is among the most expensive in the country

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Boston, MA When it comes to premium office space across the United States and Canada, creative firms are doing what they do best: driving change. JLL’s 2017 Skyline shows that across the U.S., a lack of space in more unique neighborhoods are driving TAMI companies (technology, advertising, media and information) into more traditional business districts and high-rise office buildings. In Boston, there has certainly been an uptick in TAMI companies, however the leasing velocity is still driven by a healthy mix of law firms and financial services companies.

Skyline is JLL’s annual look at office space within the tallest buildings in 57 markets across North America, and locally, 46 class A buildings in Boston taller than 15 stories or architecturally significant. Some highlights from this year’s edition include:

• Skyline vacancy within the Boston market remains below the national average at 10.7%, which is statistically the lowest it’s been since 2009.

• Low rise rents are $56.23 per s/f while space above the 30th floor is $70.71 per s/f.

• Two properties were added to the Skyline over the last year: 888 Boylston St. and 100 Northern Ave.

• Skyline landlords continue to renovate and modernize their buildings to keep up with tenant demand

Lisa Strope, JLL

“The Boston Skyline market has experienced slow to moderate growth in the last year and is expected to continue on that path through 2017,” said Lisa Strope, New England research director at JLL. “From an economic standpoint, 2016 was a great year. In fact, the Boston MSA recorded the largest decline in unemployment rate of major U.S. metros last year.”

Locally, the net change in occupied space, also called net absorption, jumped to 1.4 million s/f – largely driven by new deliveries that were nearly fully preleased. This was the third consecutive year of positive net absorption in the Boston skyline and this is expected to continue based on the 3.8

million square feet of demand we are currently tracking in Boston's CBD.

Nationally, Skyline vacancy sits at 12.9% – well below the overall national average of 14.5%. Just 10% of trophy space (think Chicago's Willis Tower and New York's One World Trade Center) is available, giving landlords the upper hand. But that may change as we see a slow rise in vacancy in 2018.

Tenants still want that Skyline caché, which is why rents in Boston jumped to $62.13 per square foot on average, fourth most expensive in the nation. While not included in the official Skyline report, Cambridge office rents have grown a staggering 68.0 percent in the last five years, reaching $70.77 per square feet. Not surprisingly, New York stands above all others with an average Skyline rent of $87.90, followed by Washington, DC and San Francisco.

"Skyline assets continue to provide stable value, making them an incredibly attractive option for investors," said JLL managing director Frank Petz. "In particular, Boston continues to be a top target for foreign investment, which controls just over 30% of the market."

So, just how much do investors love the Skyline?

Across the U.S., Skyline acquisitions were up by more than $1.2 billion in 2016, while sales in the broader office market fell by nearly 10% – the sector's first decline since 2009.

Investors are increasingly looking to secondary markets for Skyline acquisitions. Ten secondary markets surpassed $300 million of total volume (not just Skylines) in 2016. Atlanta, Dallas and Miami led the way.

Offshore investment increased to 40.3% of total Skyline volume in the first quarter of 2017.

Forty-two trophy assets were traded in 2016, increasing volume by $7.2 billion year-over-year.

In Boston, there is 1.097 million s/f of skyline product under construction or under renovation, all of which is scheduled to deliver in 2018, and is currently 38.4% preleased. They do not expect any additional projects to break ground without a significant preleasing commitment.

Nationally, with the pipeline extending all the way into 2021—15 million s/f is set to deliver in 2018 alone – and the potential for slower economic growth, they expect the Skyline to shift to neutral territory for landlords and tenants.

Investors and tenants can access JLL's Skyline via a digital platform. The interactive website features JLL's exclusive market insights regarding office supply, demand, rents, leverage and investment into 57 markets across the United States and Canada. It gives users the ability to compare and contrast individual markets or multiples of markets, as well as individual properties or portfolios. In addition, the site offers videos and infographics, all of which are available via mobile access.

JLL is a leading professional services firm that specializes in real estate and investment management. A Fortune 500 company, JLL helps real estate owners, occupiers and investors achieve their business ambitions. In 2016, JLL had revenue of $6.8 billion and fee revenue of $5.8 billion and, on behalf of clients, managed 4.4 billion s/f, or 409 million square meters, and completed sales acquisitions and finance transactions of approximately $136 billion. At the end of the first quarter of 2017, JLL had nearly 300 corporate offices, operations in over 80 countries and a global workforce of more than 78,000. As of March 31, 2017, LaSalle Investment Management had $58 billion of real estate under asset management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated.