



HUNNEMAN

METRO BOSTON

CAPITAL MARKETS REPORT

SPRING | 2020

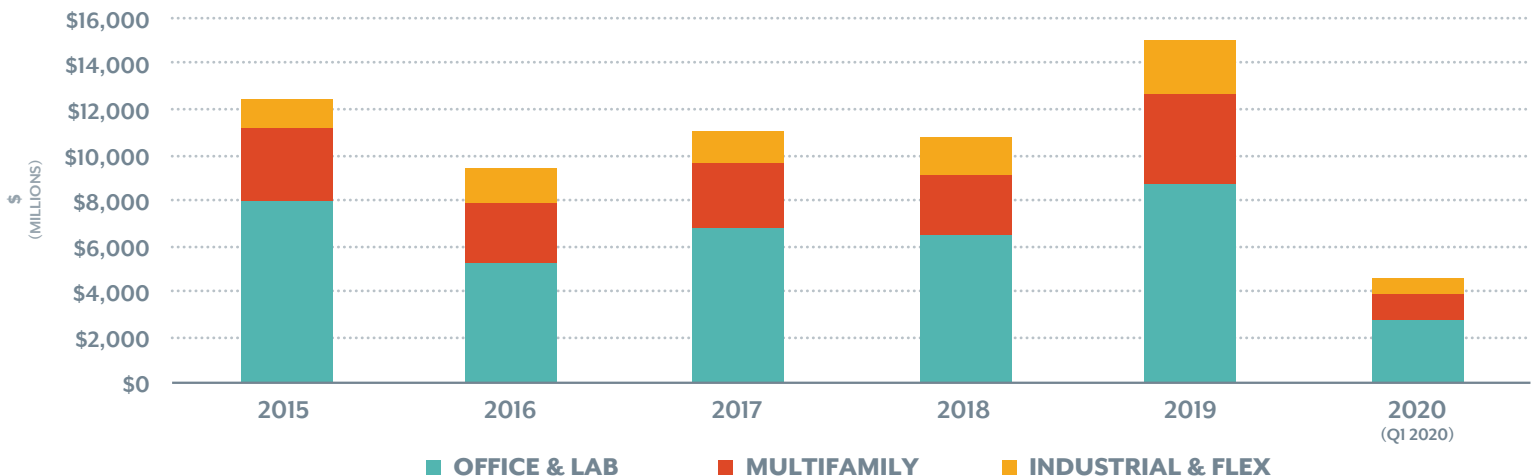
BOSTON CAPITAL MARKETS OVERVIEW

In a time of uncertainty, Greater Boston is proving its long-term worth through activity in the capital markets. Despite a slowdown in leasing activity, influenced by the global pandemic, for the most part, investors are looking past the short-term horizon and remaining active in the market through the first quarter of 2020. Yes, investors are finding it difficult to achieve immediate gains and holding patterns are becoming more popular, but optimism still persists for those who understand these circumstances are temporary, and compared to other markets, Greater Boston is being looked at as a safe place to park capital through its diverse industry base and its economic backbones of healthcare and education.

While the investment dynamic for all asset classes may change, sellers and buyers alike are still finding opportunity in what is becoming a more volatile market for the next year. Evidenced by only a small decrease in capital markets activity compared to last quarter, trades are still taking place and traditionally dormant asset classes are becoming more popular through a change in macro trends. For example, industrial assets

are being looked at harder now than ever before, in a market that is traditionally dominated by office and multifamily activity. Warehousing is becoming ever more important to assist with social distancing efforts through e-commerce services. The manufacturing sector is being brought further into the light with assumptions that the nation will conduct more of these operations in our own back yard instead of being dependent on foreign production. Particularly, drug manufacturing in the region, which has historically piggy-backed off the metro's robust life science industry is becoming a hot commodity as companies prepare to ramp up production to combat COVID in a variety of ways. Furthermore, untraditional investment vehicles such as urban parking garages are being capitalized on due to the assumption that more people will be less inclined to take public transit in the near future and a dwindling hospitality industry has investors curious about how these assets can be repurposed. While the landscape has changed, it is still being navigated and Greater Boston is being considered a comparatively safer place to do so than most major US markets.

SALES VOLUME BREAKDOWN



Q1 2020 SALES VOLUME
(BILLIONS)

\$4.61



**NUMBER OF
TRANSACTIONS**

273



AVERAGE CAP RATE
(WEIGHTED)

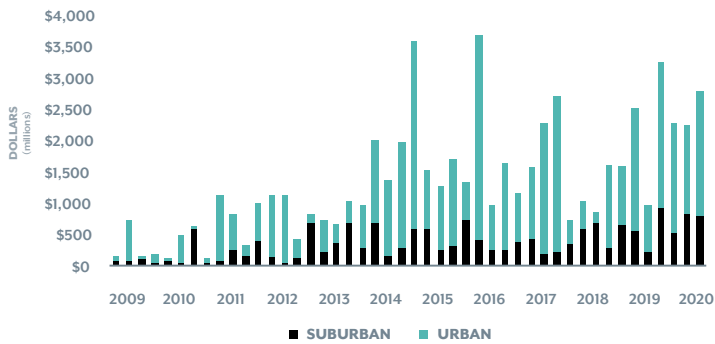
6.4%



OFFICE & LAB

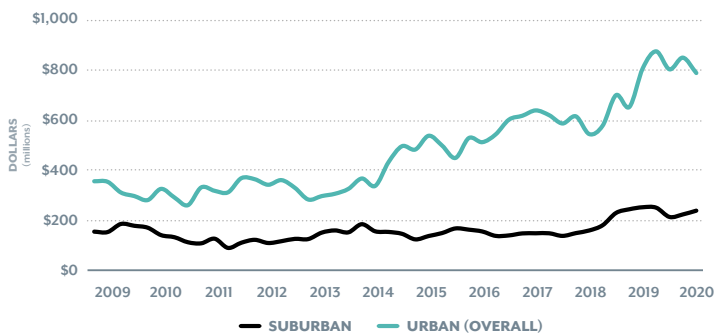
SALES VOLUME

Quarterly



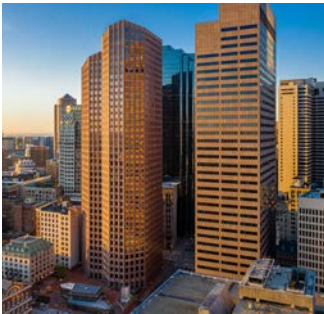
AVERAGE PRICE/SF

Quarterly



- Keeping in line with historical trends, office and lab space lead the pack in terms of commercial real estate investment in the Greater Boston Area (GBA) in the first quarter. In thanks to some large trades in the Urban Market such as 60 State Street, 245 Summer Street (Fidelity Investment's Building) and 109 Brookline Street, sales volume is up from last quarter.
- Despite the current economic uncertainty brought on by the COVID-19 outbreak, many of the deals that were executed had already been taken well down the road in the deal process prior to the pandemic coming to fruition in the middle of the quarter, which allowed them to close near initial pricing. However, with the short-term effects of COVID-19 now being realized by buyer, both trade frequency and volume is expected to drop in the second quarter.
- The short-term horizon is not all doom and gloom. Long-term oriented investors are expected to capitalize on this market disruption through the remainder of year, as pressure mounts on sellers who need the capital relief sooner rather than later. While initial gains may be limited for these investors, the outlook for office and lab space in Boston over the next decade remains positive with the life science market expected to come into greater focus and importance as we emerge from this health crisis.
- As more schools announces contingency plans over the next year to combat the spread of COVID-19, it is becoming clear that the GBA's educational backbone is here to stay, providing the office and lab market with one of the most robust labor pools in the world, which in turn supports strong investment fundamentals on the far horizon. Unless an unexpected paradigm shift occurs over the next couple years which hinders Boston's education base more so than other markets, investors can expect the GBA to keep a competitive edge in drawing more companies to the region and allowing existing ones to expand.

60 STATE STREET BOSTON



Buyer Starwood Real Estate

Sale Price \$614,000,000

Total SF 911,394

PSF \$674

Sub-Type Office Tower

109 BROOKLINE AVENUE BOSTON



Buyer IQHQ

Sale Price \$27,000,000

Total SF 285,556

PSF \$945

Sub-Type Medical Office

275 GROVE STREET RIVERSIDE CENTER NEWTON



Buyer Alexandria Real Estate Equities

Sale Price \$235,000,000

Total SF 509,702

PSF \$461

Sub-Type Office & Lab

900 MIDDLESEX TURNPIKE BUILDING I BILLERICA



Buyer Phase3 Real Estate Partners

Sale Price \$42,500,000

Total SF 91,600

PSF \$464

Sub-Type Office & Lab

**YTD
SALES VOLUME**
\$2.78B



**AVERAGE
\$/SF**
\$464



**AVERAGE CAP RATE
(WEIGHTED)**
6.4%



**NUMBER OF
TRANSACTIONS**
49



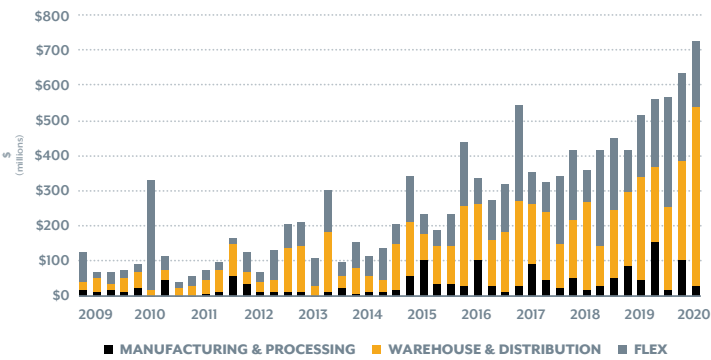
**TOTAL SF
SOLD**
5.96M



INDUSTRIAL

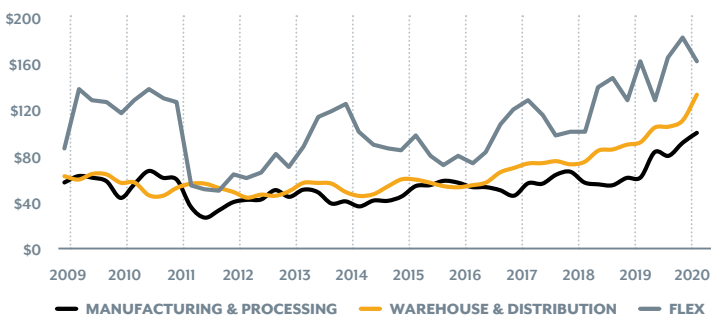
SALES VOLUME

Quarterly



AVERAGE PRICE/SF

Quarterly



- The industrial sector is expected to have the best capital market performance through the remainder of the year with warehousing and distribution expected to take center stage through the growing importance of supply-chain operations to help support social distancing efforts.
- Manufacturing assets and particularly buildings with GMP (Goods Manufacturing Practices) operations are also expected to fare well in the short-term but the long-term horizon seems to be more promising with the influence of the GBA life science industry creating a greater need for controlled manufacturing through the development of drugs and medical devices. These assets tend to have heavy capital fixtures that keep tenants in place and provide high barriers of entry for new supply trying to enter the GMP market. As more remedies and supportive technologies come to light that need to be in close proximity to the R&D practices that created them, the GBA can expect this unique industrial type to remain stable for the foreseeable future.
- Flex operations are also expected to remain relatively stable through the remainder of the year due to the business operations they serve. With a mix of office, warehouse space, light manufacturing, and/or distribution components these buildings tend to provide companies with a unique set of capabilities that businesses rely on more heavily and typically cater to the exact operational needs of the company. This creates a dynamic where the tenant has a stronger marriage to the space due to the limited supply in the market that would allow them to conduct the same operations elsewhere.
- Amazon continued to gobble up warehouse and distribution space on the leasing front while also buying assets that they know will be of long-term use, that are located within striking distances of large population cohorts. Evidenced by the purchase of 135 American Legion Highway in Revere, formally the Necco Candy headquarters, Amazon showed it is willing to pay top dollar for existing locations that allow them to expand within the market quickly and do not want to wait for new construction.

135 AMERICAN LEGION HIGHWAY AMAZON DISTRIBUTION CENTER REVERE



Buyer Amazon

Sale Price \$355,000,000

Total SF 829,000

PSF \$428

Sub-Type Warehouse/Distribution

100 FINANCIAL PARK IMPERIAL BAG & PAPER FRANKLIN



Buyer Barings Real Estate Advisers

Sale Price \$34,000,000

Total SF 300,000

PSF \$115

Sub-Type Warehouse/Distribution

6 TECHNOLOGY DRIVE DRAEGER MEDICAL ANDOVER



Buyer Wheelock Street Capital

Sale Price \$26,000,000

Total SF 128,400

PSF \$202

Sub-Type Manufacturing

45 HOLTON STREET TIGHE LOGISTICS GROUP WINCHESTER



Buyer Oliver Street Capital

Sale Price \$19,000,000

Total SF 180,000

PSF \$107

Sub-Type Warehouse/Distribution

**YTD
SALES VOLUME**
\$747.75M



**AVERAGE
\$/SF**
\$158



**AVERAGE CAP RATE
(WEIGHTED)**
8.2%



**NUMBER OF
TRANSACTIONS**
60

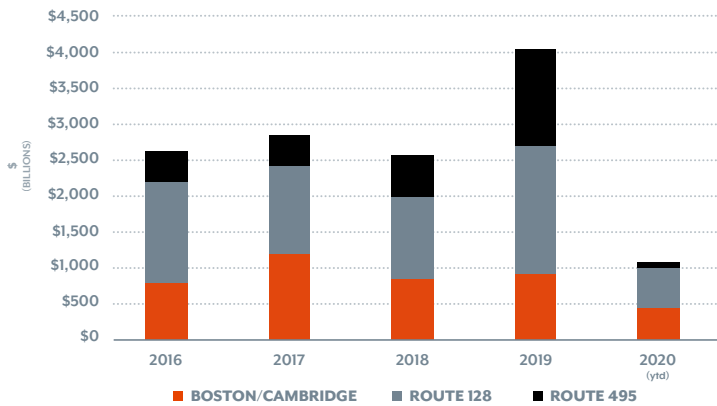


**TOTAL SF
SOLD**
4.92M

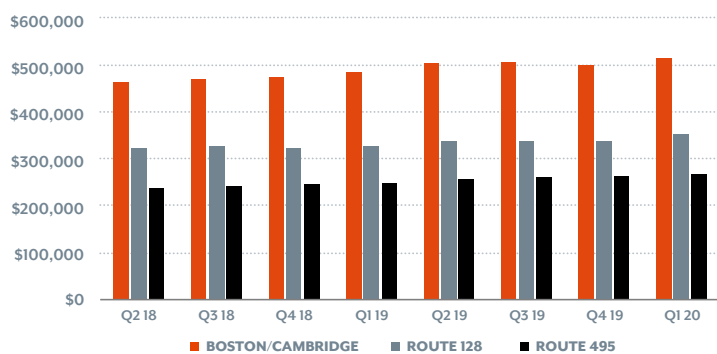


MULTIFAMILY

SALES VOLUME



AVERAGE PRICE



- Despite a substantial decrease in sales frequency in the first quarter of 2020, multifamily trade volume remained in line with 2019 levels due to large purchases in the suburbs. The urban market also saw a fair amount of investment but most of this can be attributed toward pre-COVID-19 activity.
- An increase in suburban sales activity has mostly been influenced by the growing sentiment that urban living will become less popular due to concerns related to COVID-19 and potential future outbreaks. With a solid portion of the residential urban migration seen over the last decade coming from empty-nest baby boomers, this trend may be put in reverse with the later age bracket seemingly more vulnerable to infectious outbreaks which are more common in the “petri dishes” within the 128 Belt.
- In the short-term, the Urban Market is also being hindered through a lack of college students returning for the first semester of school this upcoming fall, particularly in neighborhoods and cities such as Allston, Brighton, Cambridge, Somerville, and Fenway, where a substantial amount of multifamily housing is dependent on collegiate demand and high pricing is able to be achieved through a competitive September 1st move-in date.
- While the current pandemic is expected to affect the overall multifamily market negatively in the near future, it has also put a hold on a large supply injection expected to take place throughout 2020. With construction halts taking place in Boston, Cambridge, Somerville and select suburban municipalities, a large number of new units have been pushed off for a minimum of one quarter, providing existing units with more leverage in pricing for a brief period.

180 BROOKLINE AVENUE FENWAY TRIANGLE TRILOGY BOSTON



Buyer Gazit Group USA

Sale Price \$340,000,000

Total SF 875,483

Units 405

Price/Unit \$839,000

375 ACORN PARK DRIVE THE ROYAL BELMONT BELMONT



Buyer Harbor Group International

Sale Price \$120,000,000

Total SF 382,706

Units 298

Price/Unit \$405,000

8 UPLAND WOODS CIRCLE ONE UPLAND NORWOOD



Buyer Cottonwood Residential

Sale Price \$105,000,000

Total SF 252,000

Units 262

Price/Unit \$395,000

100 STONE PLACE JACKS FLATS MELROSE



Buyer GID Investment Advisers

Sale Price \$102,000,000

Total SF 222,818

Units 212

Price/Unit \$480,000

**YTD
SALES VOLUME**
\$1.08B

**AVERAGE \$/SF
(WEIGHTED)**
\$403,483

**AVERAGE CAP RATE
(WEIGHTED)**
4.5%

**NUMBER OF
TRANSACTIONS**
164

**NUMBER OF
UNITS SOLD**
4,357



HUNNEMAN

TUCKER WHITE

Director of Research

978.828.5141

twhite@hunnemanre.com

JAMES FIFTAL

Senior Research Analyst

617.457.3385

jfiftal@hunnemanre.com

HEATHER CHAPMAN

Graphics Manager

617.457.3256

hchapman@hunnemanre.com

METHODOLOGY

Source: Co-Star, Hunneman. Prepared: March 2020.

Disclaimer: The above data is from sources deemed to be generally reliable, but no warranty is made as to the accuracy of the data nor its usefulness for any particular purpose. Average Rental Rates are asking rents on direct space. Vacant space includes both direct and sublease space.