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## **Boston's Back Bay May Become A Victim Of Its Own Success**

It's Salad Days In Boston's Hottest Market Now, But Wait Until 2015

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The much-touted success of the Back Bay's office market – from sky-high rents to single-digit vacancy rates – could be turned upside down as several large leases expire over the next few years, potentially leaving behind more than a million square feet of vacant commercial space.

Indeed, some brokerages are now suspecting the Back Bay's success could be its downfall as a lack of availability, particularly in the Class A sector of the market, has forced many users to expand their searches to the Financial District and the South Boston Waterfront.

The Back Bay's vacancy rate in the second quarter held strong at 4.3 percent, a level not seen since mid-2008, and overall net absorption was positive for the eighth consecutive quarter, according to information provided by Jones Lang LaSalle (JLL). And in some premium spaces, rents have crept into the low \$70s per-square-foot, prices several commercial real estate insiders say are unsustainable given the tenants in the market.

“While we have yet to see a trend of Back Bay tenants making the move East [to the Financial District and Waterfront], this will likely occur as rents continue to rise and multiple tenants compete for the limited amount of suitable space options,” according to a second quarter Back Bay submarket report from JLL.

That could be a boon to landlords like Tishman Speyer, the Chiofaro Co. and Brookfield Office Properties, whose buildings all have vacant blocks of roughly 100,000 square feet of low- and mid-rise space sitting vacant in their Financial District towers.



The John Hancock Tower, the crown jewel of the Back Bay, is close to full now. But will it be in 2015?

## Falling Dominoes

But the current Back Bay numbers don't fully take into account the fact that large users including MFS Investment Management, Manulife Financial, State Street Corp. and Liberty Mutual will all see leases expire between 2013 and 2015, potentially putting in the neighborhood of 1.2 million square feet of Back Bay office space onto the market, according to industry sources.

The first tenant to move will be MFS from 500 Boylston St. MFS, formerly known as Massachusetts Financial Services, has already committed to moving to space currently occupied by Bain Capital at 111 Huntington Ave when Bain de-camps to the Hancock Tower. MFS occupies about 350,000 square feet at 500 Boylston, approximately half of the property's 706,505 total square feet.

After that, State Street's 375,000-square-foot lease in the low-rise, elevator bank space of the Hancock Tower expires in 2014, and there are questions whether the company will stay in the Hancock tower or leave, sources say. On top of that, the company leases space at Copley Place and the Prudential Center tower, leases which also expire in 2014, plus a few hundred thousand square feet elsewhere in the neighborhood, according to sources.

William Motley, managing director for Jones Lang LaSalle, said State Street could consolidate in those locations, or could consolidate offices at buildings it occupies in Quincy to reduce costs. And if State Street moves that roughly 75 percent of its Back Bay square footage to the 'burbs, that's equal to seven or 8 percent of the entire submarket's supply of between 12 million and 13 million square feet, said David Richardson, executive vice president for McCall & Almy.

Other large leases expiring between 2013 and 2015 include Blue Cross Blue Shield's lease for more than 350,000 square feet at 309 Park Dr.; Arnold Communications' expiring lease in 2014 for 185,000 square feet it leases at 101 Huntington Ave.; and John Hancock's Manulife Financial's 200,000-square-foot footprint at 101 Huntington Ave. Sources said Manulife has sub-leased roughly 120,000 square feet of its total square footage, so no one knows what will then happen to the remaining space.

## Tough Terms

"There's going to be a lot coming to market in 2014 and 2015," said **Richard Lowe**, a principal for **CresaPartners**. "There are some good-sized tenants that are engaged now or that are out trying to solve their space needs. It's going to be a changed market with more space coming online, with tenants that may downsize or move. Several big tenants are talking about moving."

And that's not just because their leases are expiring.

For all intents and purposes, tenants looking for premium Class A space in the Back Bay have two landlords to deal with – Boston Properties, which controls about five million

square feet of office space in the neighborhood, and Equity Office Properties, which owns around 1.2 million square feet.

According to industry sources, Equity has been getting rents in the low-\$70s per square-foot at 222 Berkeley and 500 Boylston streets, sister buildings that share a lobby and are 100 percent occupied. One tenant on the middle floors of Boston Properties' Hancock tower is also paying approximately \$70 per square-foot.

That's a significant increase over the Financial District's low-\$60s a foot pricing. And while 500 Boylston and 222 Berkeley are arguably two of the best office buildings in the area, there are not a lot of tenants that will be willing to fork over premium prices when they can find cheaper digs elsewhere, sources said.

Take Arnold Communications, for example. The firm is paying in the mid- to high-\$30s or low \$40s for their space on the 20th floor of 101 Huntington Ave., far below what Boston Properties and other major Back Bay landlords are getting today, according to industry sources – and far below the numbers they could realistically hope to get once renewal negotiations begin.

“Would an advertising firm pay up for today's prices just to stay in the Back Bay?” asked one commercial broker rhetorically. “I don't think so.”