MARKET TRENDS TO WATCH FOR 2020.

Following a year that saw Greater Boston vacancy rates drop to near-historic lows, rents in Downtown Boston increase by over 15 percent year-over-year, and tech companies continue to absorb significant space in prime locations, what trends and shifts in the market can we expect to see in 2020?

One trend that is sure to continue is that landlords will remain in the driver's seat for the foreseeable future. In Cambridge and Downtown, tenant demand remains voracious – particularly for well-amenitized buildings with a focus on tenant experience – as companies seek to gain an edge in recruiting and retaining millennial talent. There are a number of companies currently seeking large blocks of quality space and only limited supply, and while there is a robust development pipeline, the majority of that space has been preleased. Those factors should ensure that rents will continue to increase, although not as sharply as in 2019.

In addition to the big picture view of the market, there are also a number of emerging trends that bear watching in 2020 and beyond:

Shorter Lease Terms – A growing segment of the tenant market is responding to the flexible, short term agreements offered by coworking operators like WeWork and Industrious, and owners like Boston Properties and Tishman Speyer are now adopting similar models within their own properties. In order to meet the needs of the changing marketplace, owners are increasingly willing to consider shorter term leases for tenants. And while we're not envisioning a wholesale change to one-year or shorter leases offered by WeWork, deals of 3-5 years rather than traditional 7-10 year terms are now on the table.

Boston-based Tech Companies Will Continue to Grow – Elsewhere. In discussions with tech companies mapping their three-to-five year growth plans, we are finding that firms expanding operations are considering doing so in markets other than Boston. While the C-Suite executives and core sales and tech talent will remain headquartered here, many are looking to increase headcount in secondary U.S. markets like Denver, Nashville, or even overseas. Firms cite the difficulties of hiring top engineering talent due to the competitive labor market, higher real estate costs, and the lack of affordable housing options for employees.

Tenant Demand Points North – There is a northward trend for tenants underway, both within the city and beyond. Where the North Station submarket was once considered to be too far out of the Financial District to be a viable option for office space, it is fast becoming a destination for companies. The same is true for submarkets north of the city, as we have seen not only with Partners move to Assembly Row, but the vigorous leasing activity at Cambridge Crossing and the development underway at Union Square and Boynton Yards in Somerville, as well as the Malden and Medford submarkets.

Traffic Congestion/MBTA Issues Will Remain – As we head into 2020, the biggest question facing the Boston commercial real estate industry (other than a potential recession), is how to reliably and efficiently get people to and from work? At some point, traffic and the unreliability of the MBTA are going to be deterrents to commuting into Boston/

Cambridge, but we are far from that tipping point. For those commuting by car into the city, it remains to be seen whether congestion pricing will be adopted, and whether or not it can reduce traffic problems. Those traveling to offices along 128 face similar congestion issues. Shuttle buses from Alewife Station, Newton Highlands, and Waltham Center are providing some relief, but until there is an effective last-mile solution to get employees from suburban commuter rail stations, commute times will continue to frustrate. On a brighter note, The MBTA board voted in November to back substantial investment in the commuter rail, including more frequent service through the most heavily trafficked corridors. Unfortunately, those improvements will take years.

And what of WeWork and its impact on Boston CRE? Although they are now one of Boston's largest landlords, the truth is that they still lease less than two percent of the office properties in the city, and no matter what becomes of the company, the effect on Boston will be largely negligible.

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