



The Research Bureau

Brokering a New Lease

Capturing the Value of State Offices for Massachusetts

Report 18-03

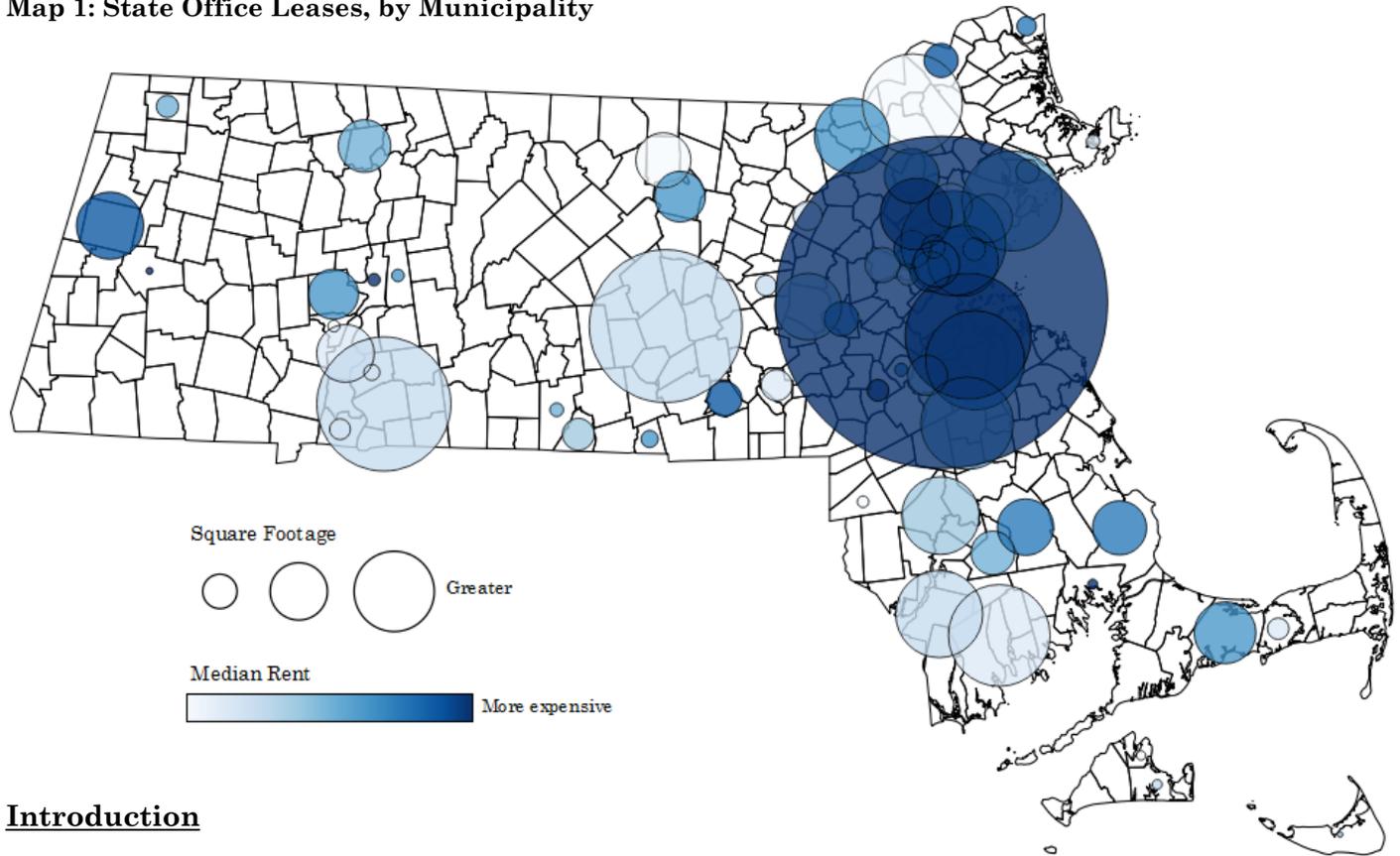
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Research in the Public Interest

Worcester Regional Research Bureau, Inc.

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Map 1: State Office Leases, by Municipality



Introduction

Since Shays’ Rebellion in 1786, advocates in Worcester and beyond have complained of a Boston-centric state government. While the merits of Shays’ call to relocate the state capital remain debatable, it is indisputable that geographically the engines of Massachusetts bureaucracy are overwhelmingly clustered in the so-called Hub of the Universe.

The City of Boston is home to nearly 35 percent of the Commonwealth’s total leased office space by square footage. The City of Worcester holds the second largest amount of leased square footage, at 7.2 percent of the total. Boston’s Suffolk County as a whole houses 36 percent of the state’s leased office space, while runner-up Middlesex County has 13 percent.

On one level this is expected. Boston is not only the capital of Massachusetts, but its largest city, in contrast to many states where the seat of government is separate from the largest municipality. Giving the Governor and other state leaders quick access to important government employees is beneficial, as is ensuring proximity among agencies with complementary objectives.

However, many agencies are relatively self-sufficient and do not often connect with elected officials or other departments. Boston’s location on the coast makes it less broadly accessible than centrally-located cities and towns. Boston is also a notoriously expensive city, especially when it comes to downtown office space. Parking, traffic congestion, employment competition, and other incidental effects of locating a state agency are serious issues. With the rise of technological advancements and new models for the conduct of business in recent years, the feasibility of moving some state offices should be considered.

Gateway Cities like Worcester have the infrastructure and housing to support a large population, but often struggle to attract and retain well-paid residents. In Boston, the reverse is true, as a booming job market has led to skyrocketing housing costs, and vacant office space does not remain on the market long. Relocating state offices, with tens of thousands of jobs, would undoubtedly serve as an economic driver—but is it feasible? This report will examine state data and Gateway City conditions to chart a possible path forward.

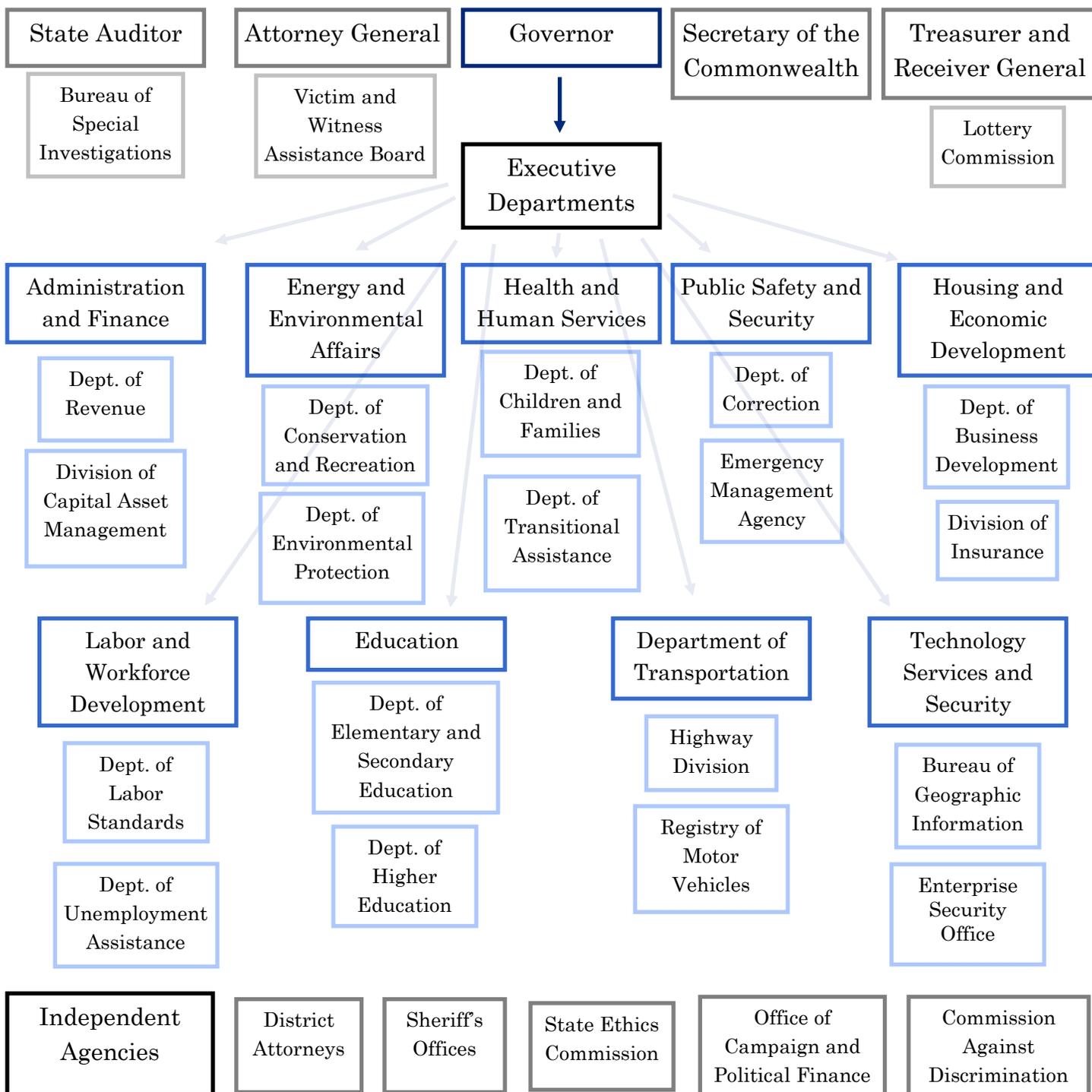


State Departments and Offices

In Massachusetts, most state agencies report to the Governor, who oversees a sprawling operation divided into nine executive offices. Under the current administration, these are the Executive Offices for Education; Administration and Finance; Energy and Environmental Affairs;

Health and Human Services; Housing and Economic Development; Labor and Workforce Development; Public Safety and Security; and Technology Services and Security; as well as the Department of Transportation. These Executive Offices are further divided into the agencies and departments that work toward their given mission. The Department of Transportation, for example, contains the Highway Division, the

Chart 1: Massachusetts Offices and Select Departments and Agencies



Registry of Motor Vehicles, and the Massachusetts Bay Transportation Authority (MBTA), among others.

In addition to the Governor’s office, the Attorney General, State Treasurer, Secretary of State, and State Auditor are independent members of the executive branch of state government. These constitutional offices are elected positions, and oversee offices of their own.

There are also several state organizations not contained in any of the three branches of government. These include agencies whose mission requires independence, such as the Ethics Commission and the Office of Campaign and Political Finance, as well as regional services, like District Attorneys and Sheriff’s Offices.

The Massachusetts House of Representatives and Senate—which together comprise the legislative branch of government—have offices for their elected members, but they do not directly control any state agencies or departments. The judicial branch is mainly associated with regional and statewide courtroom proceedings, but it also contains offices that handle various court-associated functions, including the Massachusetts Probation Service and the Committee for Public Counsel Services.

The Commonwealth owns around 734,000 acres of land, 94 percent of which is conservation, recreational, or agricultural open space. Additionally, it owns more than 88 million square feet of building space. Most of this is not office space—nearly half of the square footage owned is under the stewardship of the Executive Office of Education, which oversees the various state colleges and universities.

To fulfill its need for office space, the state government leases around 4.9 million square feet across 63 Massachusetts municipalities, in addition to leases in Chicago, New York, and Washington, D.C.

Chart 2: Owned Square Footage, by Executive Office

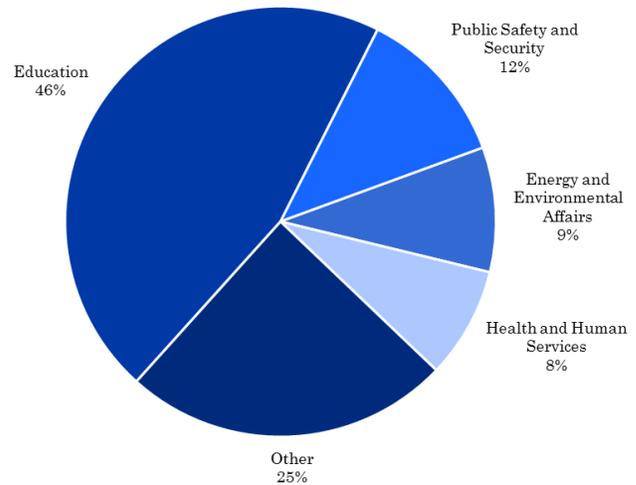
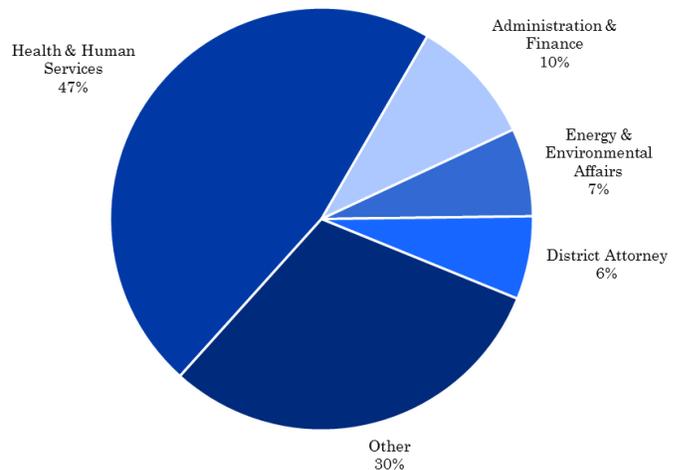


Chart 3: Leased Office Space Square Footage, by Executive Office



Source: Massachusetts Division of Capital Asset Management and Maintenance

The Department of Children and Families, which supports at-risk children and youth, and the Department of Transitional Assistance, which administers many of the Commonwealth’s welfare programs, take up the largest amount of leased space, at approximately 745,000 square feet and 443,000 square feet, respectively. Those departments, and a few others, require regional offices to allow residents easy access to their staff. Smaller offices or ones with more concentrated missions are often located in only one place—the Division of Insurance and the Massachusetts Gaming Commission, for example, each have under 40,000 square feet at just one office in Boston.



Table 1: State Office Leases in Boston by Square Footage

Agency	Area
Division of Capital Asset Management and Maintenance	286,308
Department of Public Health	171,070
Department of Children and Families	114,826
Massachusetts Rehabilitation Commission	94,259
Department of Transitional Assistance	92,620
Department of Environmental Protection	89,429
Executive Office of Environmental Affairs	88,147
Trial Court	65,466
Executive Office of Health & Human Services	59,644
Department of Industrial Accidents	54,996
Other	559,041

As of December 2017. Source: Massachusetts Division of Capital Asset Management and Maintenance

The Boston Market

Boston, long the center of the Massachusetts economy, has seen a steady stream of new construction and new businesses choosing to locate in its downtown. As business thrives, developers and landlords reap the benefits, and Boston's status as an economic hub is reflected in the cost of renting office space.

Class A office space, which generally has more amenities and/or is more prestigious than other office classifications, was quoted at an average of \$58.96 per square foot in Boston in 2017, according to a quarterly report covering large metropolitan areas from Colliers International. In a report focused specifically on the Boston area, the real estate investment company Jones Lang LaSalle estimated Class A office space at \$60.85 per square foot in 2017, with Class B space at \$51.43. Both firms reported a vacancy rate of around 10 percent.

Nationally, the average Class A rental price is \$46.82 per square foot, according to the same Colliers report. Boston is one of only four markets in the country with an asking rate of more than \$50 per square foot, joining Manhattan, San

Francisco, and Washington, D.C. Class A space in the Boston suburbs is also in demand, with an average rent of \$28.32 per square foot, and rents there have increased by more than 5 percent in the last 12 months.

The state owns a number of office buildings in Boston, notably the Transportation Building (901,000 square feet), the John W. McCormack Building (800,000 square feet), and the Charles F. Hurley Building (347,000 square feet). The state also has 64 lease agreements for office space across 46 buildings, covering 1.7 million square feet of space. Some of these leased spaces are supplementary offices for agency headquarters housed in state-owned buildings, but many organizations have their main offices in leased space—notably the Department of Public Health, the Department of Children and Families, the Department of Transitional Assistance, and the Department of Environmental Protection, among others.

The state pays an average of \$37 per square foot across its Boston lease agreements, with a high of \$73 per square foot near Boston City Hall and a low of \$19 per square foot in Hyde Park. The median lease agreement is \$38 per square foot.

The Worcester Market

Worcester's downtown office spaces have seen sharp upticks in rents recently and lower vacancy rates over the last five years, but the city is still widely regarded as an affordable market in which to locate a business or organization.

The average rent per square foot for Class B office space in 2017 was \$17.68, according to a report compiled by the Worcester Regional Chamber of Commerce on nearly 40 buildings downtown. This is up from a 5-year average of \$16.34. Class A office space registered at \$23.08 across eight buildings, or \$21.06 on a 5-year average. The same survey found 107,800 square feet of Class B space available for a 4.6 percent vacancy rate, and 154,013 square feet of Class A office space, a 16.5 percent vacancy rate. Colliers International reported more than 275,000 square feet available,

Table 2: State Office Leases in Worcester by Square Footage	
Agency	Area
Department of Children and Families	59,903
Massachusetts Rehabilitation Commission	37,361
Department of Environmental Protection	32,524
Department of Developmental Services	30,456
Department of Transitional Assistance	27,995
Secretary of State	26,174
Committee For Public Counsel	23,978
Department of Revenue	23,103
Worcester County District Attorney	21,019
Department of Mental Health	20,281
Other	51,515

As of December 2017. Source: Massachusetts Division of Capital Asset Management and Maintenance

and a 10.4 percent vacancy rate, in a report on both classes of office (and lab) space in the fourth quarter of 2017.

Not every office building is appropriate for a state office. The Research Bureau consulted the City’s Economic Development Office and local real estate brokers and identified 275,000 square feet of available space across eight buildings that could feasibly house a state office. All but one had either two or three parking spaces per 1,000 square feet or a negotiable parking arrangement involving adjacent lots. The average rent was \$21.31 per square foot, and one local broker said \$22 per square foot would be a reasonable minimum estimate for new leases involving capital investment.

Worcester currently plays host to regional offices from a number of state agencies. The state does not own any Worcester buildings dedicated solely to office space, although the Department of Transportation’s Division 3 headquarters (24,000 square feet), Worcester Registry of Motor Vehicles (32,400 square feet), and others contain offices for employees. Instead, the state leases 356,000 square feet of space across 19 Worcester buildings. All of these are regional outposts for agencies that maintain locations in a variety of

counties to reach their clientele (the Department of Children and Families, the Department of Transitional Assistance), or auxiliary locations for a main office elsewhere (the Department of Revenue, the Committee for Public Counsel).

The state pays an average of \$21 per square foot to lease space in Worcester, with a high of \$31 per square foot on Main Street near Mechanics Hall and a low of \$11 per square foot in the Denholm Building by Worcester City Hall. The median lease agreement is \$19 per square foot.

Current State Leasing Procedures

The state has shown a clear preference for assigning agencies that need to lease office space to Boston, with more than one-third of the total square footage located in the city, and 36 percent located in Suffolk County. But while there are some agencies that interact so frequently with Beacon Hill or other agencies that separating them from the Boston area would be counterproductive, there is no requirement that the rest of the Commonwealth’s departments be located in the capital city.

The Division of Capital Asset Management and Maintenance (DCAMM), which manages facilities and real estate services for state government, publishes the Manual for Leasing and State Office Planning, a document that lays out a framework for agency staff to follow when

Chart 4: Selected Average Rents per Square Foot



“State Actual” from DCAMM Data. “Market Estimate” from Colliers International and Jones Lang LaSalle. “Local Market Estimate” from WRRB Survey.



searching for or planning new office space. When looking for a new space, search boundaries “should be defined as broadly as possible to provide a number of acceptable locations and insure sufficient competition,” according to the manual, and the agency must consider “current real estate market conditions and the availability of the type of space sought.”

Currently, the Commonwealth pays a median rent of \$23 per square foot across all its office lease agreements statewide. The average per square foot—calculated by dividing the total amount paid in rent by the total square footage rented—is \$28. The average lease agreement is signed at a rate of \$26 per square foot.

Per the manual, other considerations involved in finding a location include access to transportation via major roadways or public transportation, locating offices near “programmatically linked” offices or facilities, parking for employees and possibly visitors, and compatibility with the surrounding neighborhood—for example, keeping the possibility of evening hours in mind when evaluating if an office would be disruptive to the surrounding area.

Agencies with headquarters or main offices located outside Boston include the Lottery Commission and the Disabled Persons Protection Commission in Braintree, the Massachusetts Emergency Management Agency in Framingham, the Department of Elementary and Secondary Education in Malden, the Massachusetts Parole Board in Natick, the State 911 Department in Middleborough, and the Sex Offender Registry Board in Salem. Many other agencies have regional offices or auxiliary offices in other cities, but a large majority of offices make their main home in Boston.

Potential Target Agencies

When determining which agencies would make sense to move out of Boston, it is important to think holistically. Departments that are currently renting space make sense, as the state is already paying to lease and could switch locations without

Table 3: State Office Leases by Department

Agency	Area
Department of Children and Families	726,421
Department of Transitional Assistance	457,179
Division of Capital Asset Management and Maintenance	286,308
Department of Developmental Services	277,997
Massachusetts Rehabilitation Commission	228,541
Committee For Public Counsel	208,928
Executive Office Health & Human Services	207,737
Department of Public Health	204,106
Department of Transportation	195,148
Department of Environmental Protection	182,745
Other	2,248,689

As of December 2017. Source: Massachusetts Division of Capital Asset Management and Maintenance

having to sell or fill space. Departments that have all or most of their office space in Greater Boston are also prime candidates. While the Department of Children and Families is the largest lessee in the state when it comes to office space, for instance, nearly 85 percent of that space is already located outside Boston. Finally, departments that are paying high rental costs should be considered for a move, since eliminating premiums the state pays for desirable locations in Boston would save taxpayer money—with more expensive leases obviously having a bigger impact on the state budget.

Of the state agencies that lease office space, 28 do so entirely in Boston. These range in size from DCAMM, which rents 286,000 square feet in a 22-story tower, to the Mental Health Legal Advisors Committee, which gives legal advice to people with mental health issues and rents 2,500 square feet by Boston Common.

The Center for Health Information and Analysis (CHIA), which collects data and issues reports on health care in Massachusetts, rents nearly 25,000 square feet in Boston’s Back Bay at \$54 per square foot, nearly double the state median. This rate, the 7th highest in the state, pays for office space for the agency’s approximately 150 full-time

employees and contractors. CHIA is funded by fees from hospitals and insurance companies, but is still susceptible to budgetary pressures. The state has significantly reduced the department’s budget, cutting \$45 million over five years starting in 2016. According to data from the Comptroller of the Commonwealth, the median salary for a CHIA employee in 2017 was around \$90,000. At an estimated rate of \$22 per square foot in Worcester, the department could save as much as \$800,000 per year by renting the same amount of space in central Massachusetts. The current lease agreement expires in 2025.

The Massachusetts Gaming Commission, established by a 2011 expanded gaming law and tasked with approving and overseeing casinos and other gambling venues, rents nearly 23,000 square feet of space in Boston’s Financial District for nearly 100 employees. At \$52 per square foot, the Commission pays the 10th highest rate in the state for leased office space. It currently oversees three facilities—Plainridge Park Casino in Plainville and planned resort casinos in Springfield and Everett. Worth noting is that the Gaming Commission is funded through fees paid by applicants and casino owners, although it is still a state agency and revenues collected are added to the state budget. The median salary for a commission employee last year was \$83,000. The agency could save as much as \$700,000 per year with a move to Worcester. The current lease agreement expires in 2024.

The Division of Insurance, which regulates the insurance industry in the state and deals with legal administration and consumer protection, rents 36,000 square feet of space in downtown Boston for their workforce of around 150 full-time employees. At \$44 per square foot, this space costs around \$1.5 million per year—although it could cost under \$800,000 per year in Worcester, a savings of around \$700,000. The median salary at the department was around \$71,000 last year. The current lease agreement expires in 2020.

The Department of Telecommunications and Cable, which regulates those industries and educates consumers, rents more than 10,000 square feet of space in downtown Boston for around 25 employees. The rent is \$47 per square

Map 2: Leased State Office Space Square Footage per capita, by County

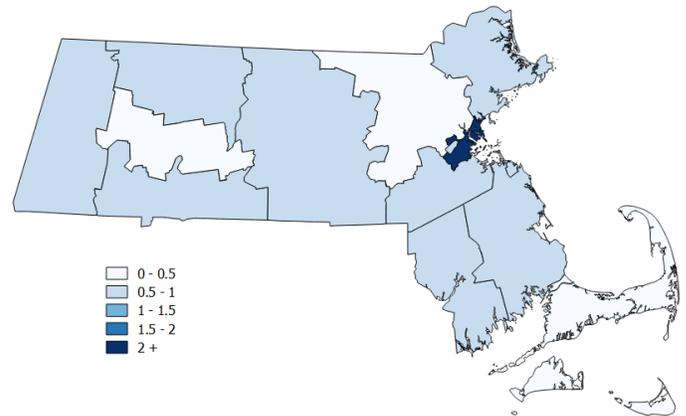
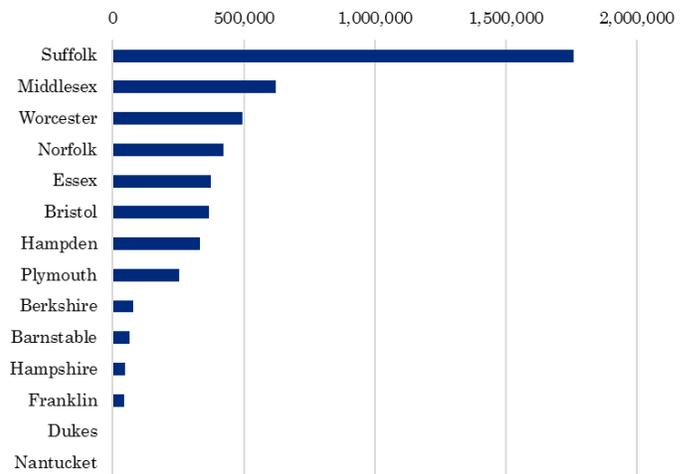


Chart 5: State Office Lease Square Footage, by County



Source: Division of Capital Asset Management and Maintenance

foot. Renting the same amount of space in Worcester instead could lead to savings of up to \$250,000 per year. The median salary at the department was around \$73,000 last year. The current lease agreement expires in 2020.

The Board of Library Commissioners has the authority to “organize, develop, coordinate, and improve library services throughout the Commonwealth.” To fulfill this mission, the agency rents nearly 7,000 square feet in downtown Boston at a cost of \$39 per square foot to provide space for its 25 employees. An equivalent amount of space in Worcester could cost around \$120,000 less annually. The median salary for an employee was nearly \$85,000 last year. The current lease agreement expires in 2020.



With so many executive offices, departments, agencies, and sub-agencies, it would be difficult for anyone outside government to identify every department that could feasibly be moved outside Boston, and it is possible that departments that do not appear to require proximity to others have a good reason for needing to stay in the capital. DCAMM's leasing manual specifies that if an agency needs to be near certain other facilities or offices, those requirements should be explained in its facility plan—so it is also possible that some agencies located in Boston by default could function just as effectively somewhere else.

The Bureau's View

Moving state offices out of Boston is not something that should be done without careful review. Relocating an office can be disruptive to employees and the important work an organization does. There are near-term costs involved. These short-term sacrifices should only be made if the long-term benefits are great—but a more equal distribution of office space could be a win-win for Worcester, Boston, and Massachusetts taxpayers.

Depending on the amount of space the state relocates, the cost savings could be significant. The state's median rent per square foot in Worcester is already half what it pays in Boston (\$19 versus \$38). While rents in Worcester's office space market are rising, they have not matched the frenzied development and demand in downtown Boston. Worcester has also not felt the same parking crunches, traffic delays, and demands on infrastructure that Boston handles daily.

Many Gateway Cities could feasibly house more state office space, but Worcester in particular is an ideal candidate for relocated state offices. It is an inexpensive destination that does not create a burdensome commute when state employees do need to report to the capital. The introduction of express trains between Worcester and Boston, and the state's declared goal of spurring economic development in both cities by creating a convenient and quick commute, shows state leaders are aware of the potential to leverage Worcester's proximity to Boston to help both cities.

Over the last decade, the state has been a willing economic development partner with Worcester and has invested millions of taxpayer dollars in key projects. A strategic approach to locating state offices leverages previously spent public funds and can save significant money going forward.

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