



HUNNEMAN

# METRO BOSTON OFFICE MARKET REPORT

SECOND QUARTER | 2020



## GREATER BOSTON OFFICE MARKET OVERVIEW

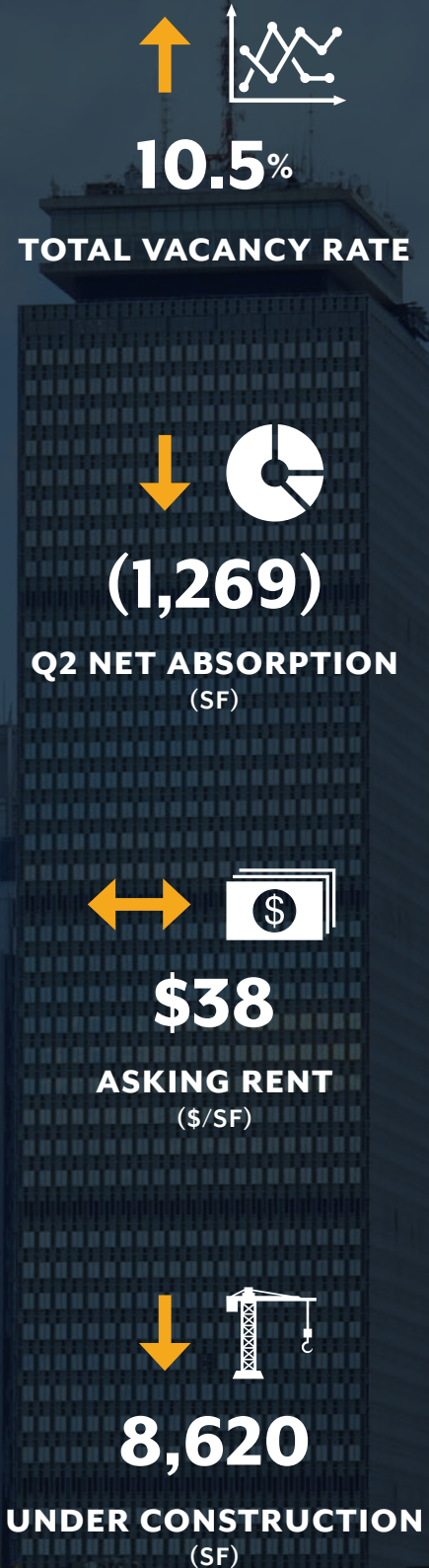
Despite what was already expected to be a poor performance this quarter in term of occupancy levels in the market, the light at the end of the tunnel has become brighter in thanks to the economy beginning to reopen through Phase 3 going into effect across Massachusetts. While other states to the south and on the west coast are now feeling the crippling economic effects the Greater Boston Area (GBA) faced from March through May, the Commonwealth has performed well in comparison to them when it comes to opening the economy back up. Furthermore, touring activity, which has primarily been concentrated away from the urban “Petri-dishes” of Boston and Cambridge in the suburbs, is also faring better in the GBA compared to other metros which can be attributed to the areas internationally renowned life science sector. This has supplied both landlords and tenants alike with confidence that market fundamentals will return back to somewhat normal upon the distribution of a panacea for COVID-19 which is gaining momentum in the life sciences each day.

The second quarter of 2020 proved to be one of the worst office market performances the GBA has registered since the Great Recession. Due to poor economic conditions brought on by the fiscally strangling effects of COVID-19, the overall market gave back 1,269,000 square feet in negative absorption. Mainly driven by the Boston, which saw almost 800,000 square feet negative absorption in the sublease market alone, the overall market has now erased in two quarters the amount of market growth seen over the last twelve months. Total vacancy increased 90 basis points from the previous quarter, now sitting at 10.5%, with the Class B market giving back the brunt of available supply. While the short-term horizon remains glim for the remainder of the year, the future remains bright for the GBA as it continues to promote itself onto the international stage with strong support from the life sciences, healthcare, and technology sectors. This has allowed rental rates to hold steady for the most part throughout the metro markets, with only a few soft spots being seen in the primarily Class B heavy submarkets in the Route 495 Market.

The supply pipeline also held ground this quarter, delivering approximately 570,000 square feet to the market, most of which was already preleased to tenants committed to the region in the long-term, while new speculative construction kick-offs evidenced developer confidence in the market. With construction freezes expiring this quarter, some of the market's largest office projects are now going “full steam ahead” in effort to deliver close to the previously projected completion times sought prior to the COVID-19 outbreak. New towers Downtown such as One Congress, the Winthrop Center, and the major renovation at One Post Office Square are now seeing activity tick upwards although it has waned in comparison to initial expectations. The technology and life science engine of Cambridge continues to fire on all cylinders, moving forward with a much-needed supply injection, and suburban construction keeps moving along as a “switch-hitter” - playing to both the office and lab demand side of the equation, particularly in the Route 128 West and Route 128 Northwest submarkets.

Looking ahead into the second half of 2020, market conditions are expected to improve quarter-over quarter with touring activity starting to increase market-wide and a significant amount of major office requirements coming to light, many of which are new companies to the market.

However, with the major halt in leasing activity over the last several months, the amount of available supply coming to the market through a heavy development pipeline is expected to keep rental rates in check and pricing isn't expected to increase again until next year.

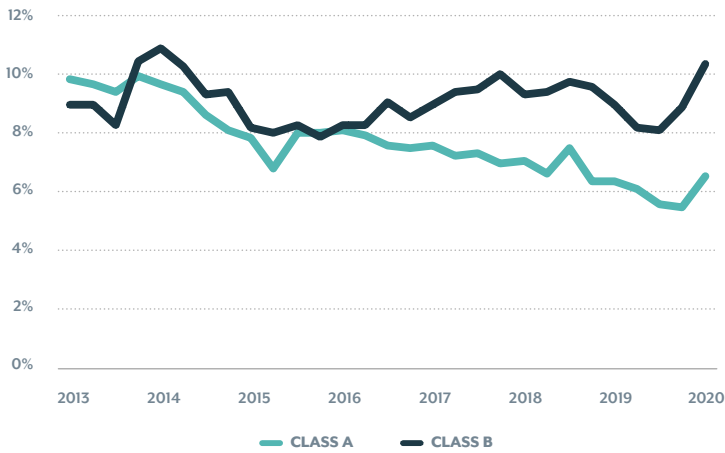


\*numbers in the thousands

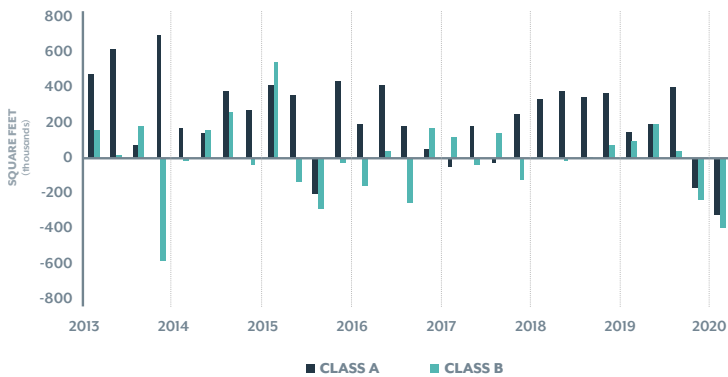
\*\*Arrows denote the change from a Q1 2020 performance

# BOSTON OFFICE

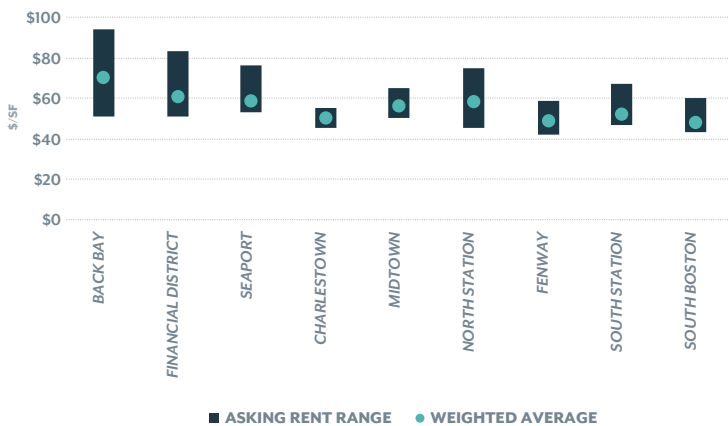
## TOTAL VACANCY



## QUARTERLY NET ABSORPTION



## GROSS ASKING RENTS



\*Asking rent ranges denote the highest and lowest rents on gross basis

- For the second quarter in a row, the Boston Market recorded an untraditional amount of negative absorption, almost doubling the amount of space given back in the first quarter. Primarily driven by Class B buildings, the City saw 692,000 square feet of negative absorption, bringing the total vacancy rate to 7.8%. Major office footprints from TripAdvisor, Toast, and State Street contributed toward a significant amount of negative absorption while several large tenants that were slated to expand as of 6 months ago, held onto their existing space and either renewed or extended their lease.
- While down significantly from normal levels, leasing velocity was driven by mid-size deals in the Financial District with notable transactions taking place from DataDog at 225 Franklin Street, SNYK, who subleased space from State Street at 100 Summer Street, and Jones Day who renewed at 100 High Street. The Back Bay and Seaport saw minimal leasing activity, and while a quiet quarter for these submarket may cause concern for some, the fact that many large users in these submarket such as Wayfair and Amazon that could of given a significant amount of space back to the market, but did not, emphasizes a long-term commitment to Boston.
- Construction projects are on the move again in Boston with Seaport Square, and a notable tenant base of Foundation Medicine and Amazon moving ahead with their parcels. Tower construction in the Financial District is still unleased for the most part, however some projects are receiving more interest than others. Particularly, the One Post Office Square renovation, which will be the first tower finished over the next two years through two different phases, has seen the most interest from tenants looking to expand next year. While towers further out on the spectrum such as the South Station Tower, which has not kicked off yet, is still planning to go-head after the sight work currently taking place at the bus and train terminals is complete.
- Touring activity is slowly starting to rise in Boston which is mainly being driven by technology and life science-oriented tenants. Requirements that were previously on hold are showing signs of life again such as Eaton Vance and Mastercard, who previously bought SessionM, while new market entrants like Facebook are poking around for large amounts of square footage.

**TOTAL VACANCY RATE**

**7.8%**



**Q2 NET ABSORPTION (SF)**

**(692)**



**ASKING RENT (\$/SF)**

**\$59**



**UNDER CONSTRUCTION (SF)**

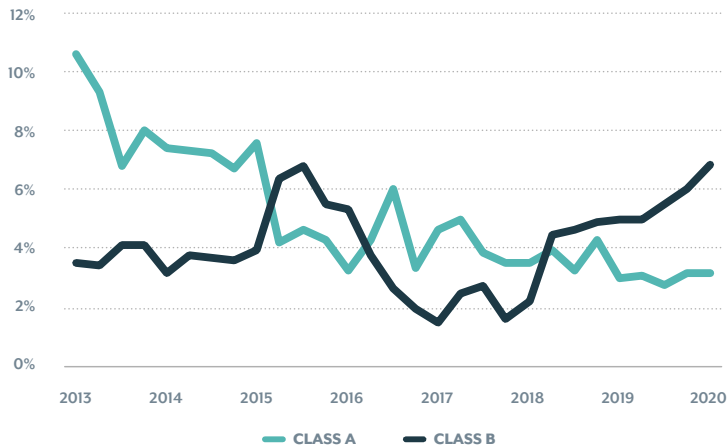
**5,817**



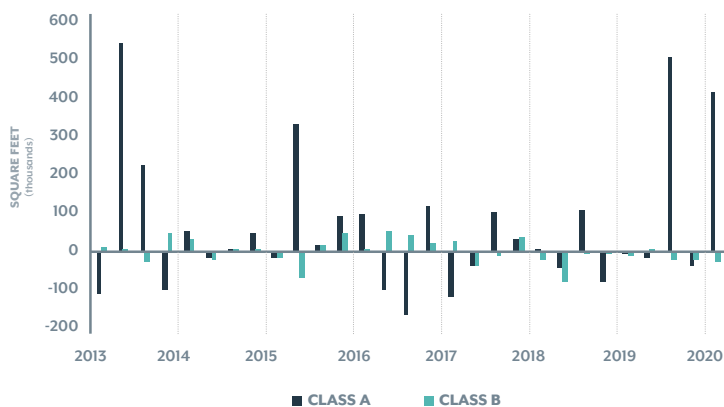
\*numbers in the thousands

# CAMBRIDGE OFFICE

## TOTAL VACANCY



## QUARTERLY NET ABSORPTION



## GROSS ASKING RENTS



- Over the last twelve months, Cambridge is the only market that has now seen a net increase in absorption, coming in at just over 800,000 square feet. This has primarily been driven by new construction deliveries, considering there has not been much existing space to absorb, and the only existing block available above 50,000 square feet is located in West Cambridge through a sublease. The rest is oriented towards lab use. With 314 Main Street delivering fully leased next quarter, strong absorption is expected. However, the lack of office leasing activity this quarter, with the exception of MIT renewing at 600 Technology Square, occupancy levels are not expected to increase much further beyond that.
- The supply pipeline in Cambridge remains limited with the brunt of construction fully preleased and the only speculative project at 250 Water Street in Cambridge Crossing likely giving way to more lab space over office. Furthermore, only 1.6 million square feet of new construction is expected to kick off over the next 24-months, all of which can also accommodate lab tenants. This provides little relief for a market that has maintained a vacancy rate below 5% since 2016, registering at 3.2% this quarter. This supply constraint is only expected to amplify the trend of office users looking across the Charles to Boston where there is much more availability.
- Demand for office space in Cambridge continued to take a backseat to lab requirements and the business halting effects of COVID-19 put most office requirements on hold this quarter. Due to the scarce number of large blocks available in Cambridge office users like Facebook, who is current exploring the Urban Market for approximately 350,000 square feet, have been forced to look in Boston if they need to be near major public transit systems such as the commuter rail and subway.
- The major headline of the quarter was the purchase of the former W.R. Grace headquarters site at Alewife Center in West Cambridge. IQHQ, a San Diego based REIT focusing on lab and office product, purchased the 26.5-acre site from GCP Applied Technologies for \$125 million. Over the next several years the early-stage REIT plans to get approval for over 1 million square feet of mixed-use space, most of which will be office and lab. This is expected to provide a much-needed supply injection in the coming years and based on its location, which is directly on the Alewife Center subway stop for the Red Line, it is expected to see a significant amount of interest from tenants who want to stay or move to Cambridge but do not want to pay the rental premiums in Mid and East Cambridge.

**TOTAL VACANCY RATE**

**4.1%**



**Q2 NET ABSORPTION (SF)**

**389**



**ASKING RENT (\$/SF)**

**\$71**



**UNDER CONSTRUCTION (SF)**

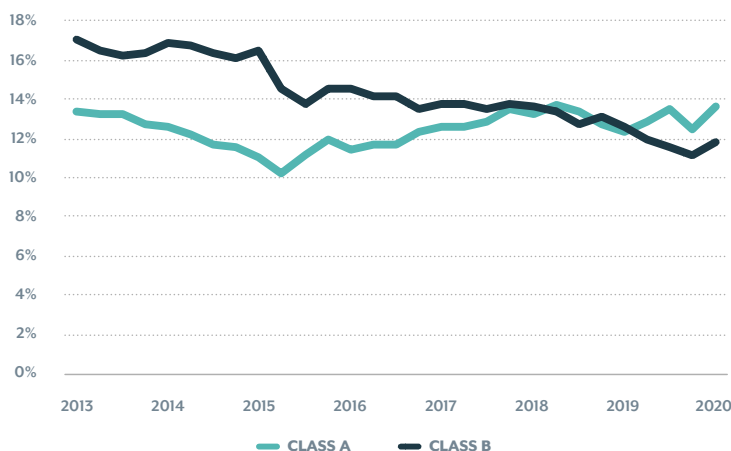
**810**



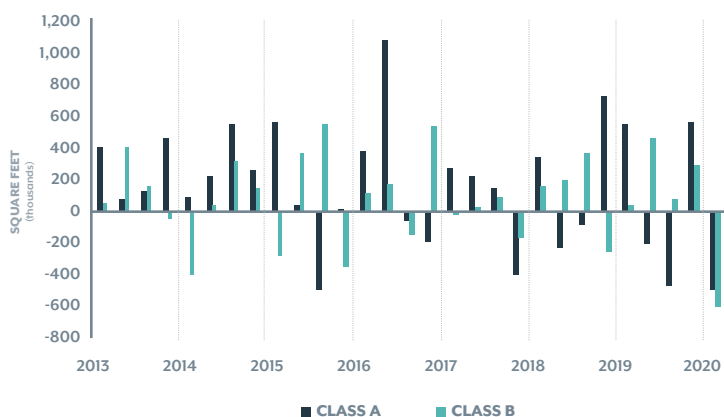
*\*numbers in the thousands*

# SUBURBAN OFFICE

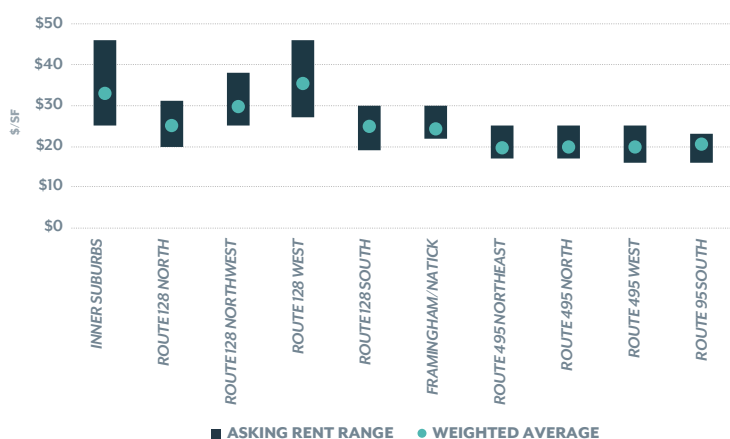
## TOTAL VACANCY



## QUARTERLY NET ABSORPTION



## GROSS ASKING RENTS



- The Suburban Market saw just under 1 million square feet of negative absorption this quarter, which can be attributed towards a mix of the economic effects of COVID-19, building repositioning influenced by the lab market, and a plethora of new mid-size vacancies in the Class B market. The current pandemic gave way to a frenzy of tenants either closing up shop, lowering footprints, or subleasing space. Most notably, TripAdvisor gave back the largest block of space this quarter, totaling 100,000 square feet at the online travel company's Needham headquarters through a sublease.
- Despite the suburbs leading the pack in negative absorption this quarter, the most amount of touring and leasing activity was seen here throughout the GBA, particularly in the Route 128 Market. This is mainly due to people generally feeling more comfortable navigating a spread-out suburban market instead of the densely packed city during a pandemic as it relates to touring for space but is also due to longer term implications brought on by COVID. Some companies may feel more comfortable operating out of the suburbs in the future over urban areas after witnessing the last few months where employees in the city were at higher risk for contracting COVID-19.
- The supply pipeline is currently top heavy with available space and recent deliveries, for the most part, have delivered under 50% leased. However, while lease-up times have traditionally been longer than Boston and Cambridge, the flight-to-quality trend remains strong in the suburbs and tenants have looked to these new projects to attract and retain employees in what is expected to be a competitive labor pool once again after COVID-19. Furthermore, with the lab market expected to almost double in the suburbs over the next five year, much of this new lab inventory will come from repositioned office buildings – taking away from office supply.
- Now in the final stages of a market-moving merger, Tufts Health Plan and Harvard Pilgrim are slated to swap Tufts' Watertown Campus for the former Reebok headquarters at One Orchard Way in Canton with the owner, Spear Street Capital. Once merged, the two companies would occupy roughly 600,000 square feet together, taking down the largest office vacancy in Route 128 South. Spear Street would then be able to control the future of 3 Kingsbury Avenue in Watertown, a micro-market of its own, that is currently having tremendous success drafting off office and lab tenant spill-over from Cambridge.

**TOTAL VACANCY RATE**

**12.7%**



**Q2 NET ABSORPTION (SF)**

**(966)**



**ASKING RENT (\$/SF)**

**\$26**



**UNDER CONSTRUCTION (SF)**

**1,992**



\*numbers in the thousands



# NOTABLE TRANSACTIONS

**140 KENDRICK STREET**  
NEEDHAM



**Company** IDG  
(sublease from PTC)

**Size** 125,000 SF

**Submarket** Route 128 West

**600 TECHNOLOGY SQUARE**  
CAMBRIDGE



**Company** MIT

**Size** 109,000 SF

**Submarket** East Cambridge

**225 FRANKLIN STREET**  
BOSTON



**Company** DataDog

**Size** 63,000 SF

**Submarket** Financial District

**35 NAGOG PARK**  
ACTON



**Company** Affirmed Networks

**Size** 62,000 SF

**Submarket** Route 128 Northwest

**1 CABOT ROAD**  
MEDFORD



**Company** ERT

**Size** 41,000 SF

**Submarket** Inner Suburbs

**1075 MAIN STREET**  
WALTHAM



**Company** Magellan Health

**Size** 40,000 SF

**Submarket** Route 128 West

**100 SUMMER STREET**  
BOSTON



**Company** SNYK  
(sublease from State Street)

**Size** 37,000 SF

**Submarket** Financial District

**100 HIGH STREET**  
BOSTON



**Company** Jones Day

**Size** 36,000 SF

**Submarket** Financial District

**250 FIRST AVENUE**  
NEEDHAM



**Company** Cambridge Health Institute

**Size** 28,000 SF

**Submarket** Route 128 West

**2 OLIVER STREET**  
BOSTON



**Company** Preservation of Affordable Housing

**Size** 19,000 SF

**Submarket** Financial District

**100 SUMMER STREET**  
BOSTON



**Company** Deutsche Bank

**Size** 16,300 SF

**Submarket** Financial District

**175 FEDERAL STREET**  
BOSTON



**Company** Funnel

**Size** 16,000 SF

**Submarket** Financial District

\*All square footage is rounded to the nearest thousandth

# GREATER BOSTON DEVELOPMENT PIPELINE

## OFFICE & LAB SPACE

URBAN BOSTON					
STATUS	ON THE HORIZON	FILED	CITY APPROVED	READY TO GO	UNDERWAY
Total	0	6,285,630	3,003,500	2,468,000	5,191,980
Available	0	6,285,630	3,003,500	2,468,000	2,405,627
Leased	0	0	0	0	2,786,353
% Leased	N/A	0%	0%	0%	54%
DELIVERY YEAR	20'	21'	22'	23'	24'+
Total	378,000	2,167,370	774,610	1,572,000	10,989,130
Available	338,000	791,017	774,610	502,000	10,989,130
Leased	40,000	1,376,353	0	1,070,000	0
% Leased	11%	64%	0%	68%	0%
CAMBRIDGE					
STATUS	ON THE HORIZON	FILED	CITY APPROVED	READY TO GO	UNDERWAY
Total	0	500,000	848,695	360,000	3,229,298
Available	0	500,000	848,695	360,000	558,247
Leased	0	0	0	0	2,671,051
% Leased	na	0%	0%	0%	83%
DELIVERY YEAR	20'	21'	22'	23'	24'+
Total	1,353,275	1,250,600	985,423	0	0
Available	0	918,247	0	0	1,348,695
Leased	1,353,275	332,353	985,423	0	0
% Leased	100%	27%	100%	N/A	N/A
INNER RING					
STATUS	ON THE HORIZON	FILED	CITY APPROVED	READY TO GO	UNDERWAY
Total	4,661,900	4,661,900	2,444,850	2,305,765	2,153,239
Available	4,661,900	4,661,900	2,444,850	2,030,765	1,816,654
Leased	0	0	0	275,000	336,585
% Leased	0%	0%	0%	12%	16%
DELIVERY YEAR	20'	21'	22'	23'	24'+
Total	823,921	0	0	0	0
Available	753,921	1,062,733	0	0	19,318,515
Leased	70,000	266,585	0	0	275,000
% Leased	8%	N/A	N/A	N/A	N/A
128 BELT					
STATUS	ON THE HORIZON	FILED	CITY APPROVED	READY TO GO	UNDERWAY
Total	2,511,958	2,511,958	1,307,000	1,059,000	861,510
Available	2,511,958	2,511,958	1,287,000	1,059,000	706,779
Leased	0	0	20,000	0	154,731
% Leased	0%	0%	2%	0%	18%
DELIVERY YEAR	20'	21'	22'	23'	24'+
Total	213,890	0	0	0	0
Available	59,159	647,620	0	0	5,232,958
Leased	154,731	0	0	0	20,000
% Leased	72%	N/A	N/A	N/A	N/A

# OFFICE RECAP

	TOTAL INVENTORY SF	UNDER CONSTRUCTION	TOTAL VACANCY	CLASS A VACANCY	CLASS B VACANCY	Q2 NET ABSORPTION	YEAR-TO- DATE NET ABSORPTION	12-MONTH NET ABSORPTION	AVERAGE ASKING RENTS
<b>Total Market</b>	<b>231,307</b>	<b>8,620</b>	<b>10.5%</b>	<b>9.9%</b>	<b>11.3%</b>	<b>(1,269)</b>	<b>(983)</b>	<b>156</b>	<b>\$37.77</b>
<b>Boston</b>	<b>79,513</b>	<b>5,817</b>	<b>7.8%</b>	<b>6.5%</b>	<b>10.4%</b>	<b>(692)</b>	<b>(1,076)</b>	<b>(272)</b>	<b>\$59.16</b>
Back Bay	15,299	0	5.0%	3.8%	14.4%	(36)	(26)	15	\$69.54
Financial District	37,206	1,942	8.1%	7.2%	11.2%	(730)	(832)	(136)	\$60.16
Seaport	13,292	826	11.5%	8.8%	14.3%	215	45	45	\$58.22
Charlestown	2,578	84	6.9%	22.9%	4.4%	(46)	(91)	(82)	\$41.90
Fenway	2,306	272	6.3%	6.7%	5.3%	(55)	(87)	(15)	\$47.89
Midtown	2,283	235	6.9%	3.1%	8.0%	(8)	(35)	(28)	\$53.56
North Station	3,320	1,629	6.4%	11.6%	5.3%	5	(19)	(12)	\$55.27
South Station	1,392	0	1.7%	0.1%	3.6%	(17)	(11)	35	\$51.24
South Boston	1,837	829	8.7%	0.0%	10.7%	(20)	(20)	(96)	\$47.00
<b>Cambridge</b>	<b>13,533</b>	<b>810</b>	<b>4.1%</b>	<b>3.2%</b>	<b>6.9%</b>	<b>389</b>	<b>333</b>	<b>807</b>	<b>\$70.81</b>
East	8,701	810	2.6%	1.6%	12.1%	390	296	757	\$83.29
Mid	2,810	0	5.6%	10.0%	3.7%	(40)	(30)	(18)	\$67.56
West	2,022	0	8.6%	8.2%	9.2%	38	68	68	\$52.48
<b>Suburban</b>	<b>138,260</b>	<b>1,992</b>	<b>12.7%</b>	<b>13.6%</b>	<b>11.9%</b>	<b>(966)</b>	<b>(241)</b>	<b>(378)</b>	<b>\$25.69</b>
Inner Suburbs	6,383	698	7.7%	9.4%	3.9%	(54)	25	125	\$32.87
Route 128 North	15,974	154	9.6%	13.6%	6.2%	(115)	28	155	\$25.11
Route 128 Northwest	15,150	101	11.1%	12.3%	9.0%	(160)	(103)	(177)	\$29.74
Route 128 West	26,745	508	10.9%	11.0%	10.7%	(329)	7	(274)	\$35.28
Route 128 South	19,374	472	11.6%	13.7%	9.4%	(25)	155	251	\$24.17
Route 495 Northeast	9,039	0	18.6%	18.8%	18.4%	(49)	(153)	(168)	\$19.07
Route 495 North	18,405	60	20.1%	22.7%	18.8%	(110)	(281)	(274)	\$19.41
Framingham-Natick	7,502	0	10.0%	12.4%	6.7%	(51)	2	100	\$24.03
Route 495 West	14,564	0	15.8%	17.1%	14.9%	(60)	30	(155)	\$19.46
Route 495 South	4,500	0	7.0%	3.5%	8.0%	(13)	51	38	\$20.30

\*numbers in the thousands





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### **METHODOLOGY**

Source: Co-Star, Hunneman. Prepared: June 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.