



HUNNEMAN

METRO BOSTON OFFICE MARKET REPORT

THIRD QUARTER | 2020

GREATER BOSTON OFFICE MARKET OVERVIEW

The COVID pandemic continues to have an adverse impact on the office market, producing another quarter of heavy negative absorption. While the market did not take quite as big a hit as last quarter, most of the themes brought on by the pandemic that came to fruition in the second quarter, have only gained more traction this time around. Despite a decrease in the Massachusetts unemployment rate month-over-month since June, there has not been an increase in office occupancy, being that many operations are still enforcing or allowing work-from-home protocols. The economic reopening efforts brought on by Phase 3 of the Commonwealth's "Reopen Massachusetts" COVID-19 plan has allowed employers to host up to 50% of their workforce in office space, yet most companies are not occupying the full 50%. This has brought on another increase in sublease space, particularly in Boston where nearly 2.3 million square feet has hit the market since the start of the pandemic. Historically this is a larger ratio of office inventory compared to the Great Recession of 2008 and is closing in on the Dot-Com Bubble of the early 2000's. The suburbs, on the other hand, have not been hindered as much as the urban markets, although sublet space is mounting as well in select submarkets, which already have had above average vacancy rates and are starting to see rental rates decline. Companies looking to get out of Boston and Cambridge due to the higher levels of risk associated with the pandemic in densely populated areas are adding to the demand being seen outside Boston and Cambridge, particularly along the 128 belt. However, this is not expected to be enough to pacify the amount of available supply coming to the market and most suburban areas are expected to see a further decline in square foot pricing by years-end.


With the exception of asking rents, which have remained relatively steady and have not seen any significant drops, market fundamentals were not strong in the third quarter. Just over 1.2 million square feet of negative net absorption registered with the total vacancy rate, increasing to 11.1%, which was mostly influenced by sublease space coming to the market. The Financial District, Back Bay and Seaport alone accounted for more than half of the negative net absorption seen in third quarter, giving back just over 774,000 square feet to the market, which was primarily concentrated in office towers. While minimal compared to Boston and the suburbs, Cambridge also saw a giveback of over 125,000 square feet of space, which is rare for a city that is known for having one of the tightest office markets on the East Coast.

Despite a having a large supply pipeline, which tends to show developer confidence in the market, most of this new product went unleashed during the third quarter. As these projects approach their respective delivery dates, the lack of leasing activity threatens to produce a large supply injection to the market in 2022. While a three-month construction pause in Boston and Cambridge has helped push these projects back and has allowed for a slightly larger window for preleasing, it is becoming clearer that some of these projects will be delivered without a tenant.

Looking ahead, there is still time for the market to rebound. With much of the negative absorption accumulating due to the sublease market, a loose timeline has been placed for when these availabilities need to be taken before the landlords can market them to a larger set of tenants. The majority of subleases average between two to three years, which is constraining many requirements that require a longer lease term and has deterred the demand that is capable of satisfying the vacancy. The implications that vaccinations will help reopen our economy next year is expected to lead to more leasing activity heading into 2021. While some of the space is currently vacant due to businesses folding, most is due to companies hitting the "pause" button. When office users decide to "press play" again, they will have better and more options to work with than before, leading to what is expected to be an active year in 2021. The flu pandemic of 1918 brought on the Roaring 20s, will this pandemic do the same for Boston? We think so.




11.1%
TOTAL VACANCY RATE



(1,217)
Q3 NET ABSORPTION
(SF)



\$37
ASKING RENT
(\$/SF)



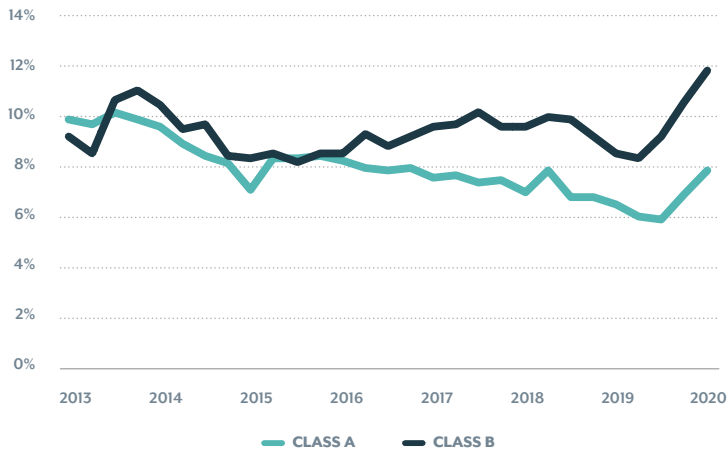
12,496
UNDER CONSTRUCTION
(SF)

**numbers in the thousands*

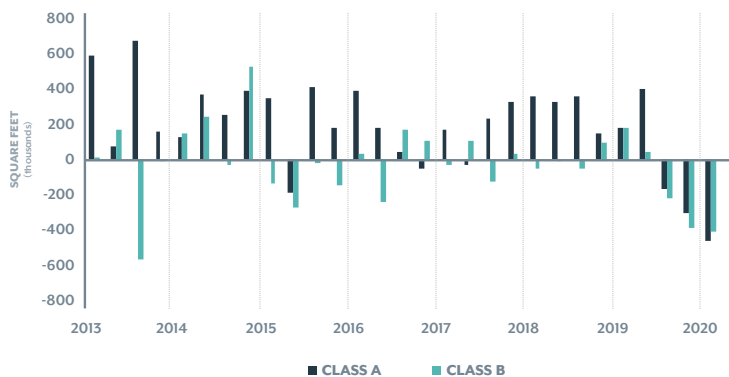
***Arrows denote the change from a Q2 2020 performance*

BOSTON OFFICE

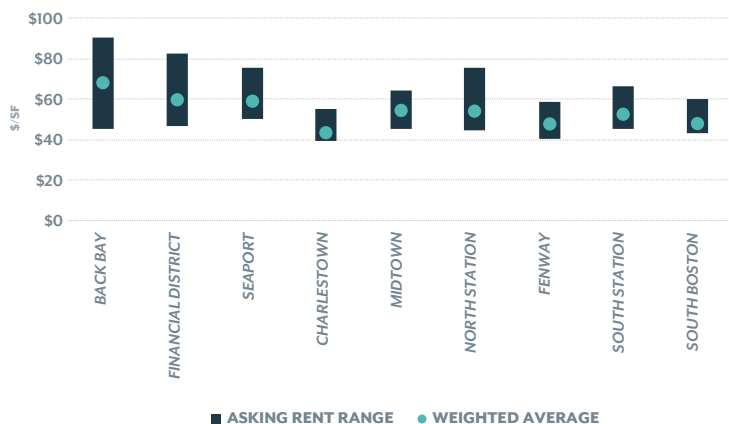
TOTAL VACANCY



QUARTERLY NET ABSORPTION



GROSS ASKING RENTS



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

- For the third consecutive quarter the Boston Market recorded negative absorption, this time giving back more space than the previous two quarters. Once again, this has mainly been driven by sublease space and while the total vacancy rate has increased to a three-year high of 8.8%, the amount of direct space available has hardly faltered. To put that in perspective, three years ago 11.4% of office space was available on a direct basis, with 1.9% available through sublease options. Currently the market has 10.9% of space available through direct leases whereas 4.1% is available in sublease options.
- Minimal leasing activity has taken place in Boston, although a small dent was made in the construction pipeline. Most activity was on the smaller side with several mid-size deals taking place in the sublease market to help backfill some of the tenants who have “packed up shop” during the pandemic. However, two larger deals were executed. Most notably, 105 First Street in the Seaport was fully leased to office and lab tenant CRISPR Therapeutics, after starting construction earlier in the year. On the other side of Fort Point, Columbia Threadneedle, stoked a deal at Atlantic Wharf (280 Congress Street) for 82,000 square feet where they will downsize and relocate from 225 Franklin Street next year.
- After picking back up construction efforts last quarter, the supply pipeline in Boston is moving full steam ahead and tower construction in the Financial District is being looked at as the key performance indicator for the market, with several large projects underway or about to kick off. Between One Post Office Square, the Winthrop Center at 115 Federal Street and One Congress Street, just under three million square feet of supply is scheduled to deliver over the next three years, with only approximately 30% being already leased. Since the start of the pandemic, no leases have been signed across these towers. However, with a “flight to quality” trend expected to gain momentum as the economy reopens, all eyes are on these towers since they are the first buildings expected to do major leasing and have the space to accommodate it.
- Direct asking rents started to slide ever so slightly in the third quarter in the Class B market with Class A rents holding mostly steady. With a significant portion of sublease space coming to the market in Class B buildings, more competition has entered the market over the last several months with lower asking rents than direct availability. However, the class A market has held steady due to the longer-term deals landlords in this space are hoping to land, and until major supply deliveries take place, the number of large blocks directly available are expected to keep this market segment competitive.

TOTAL VACANCY RATE

8.8%



Q3 NET ABSORPTION (SF)

(882)



ASKING RENT (\$/SF)

\$58



UNDER CONSTRUCTION (SF)

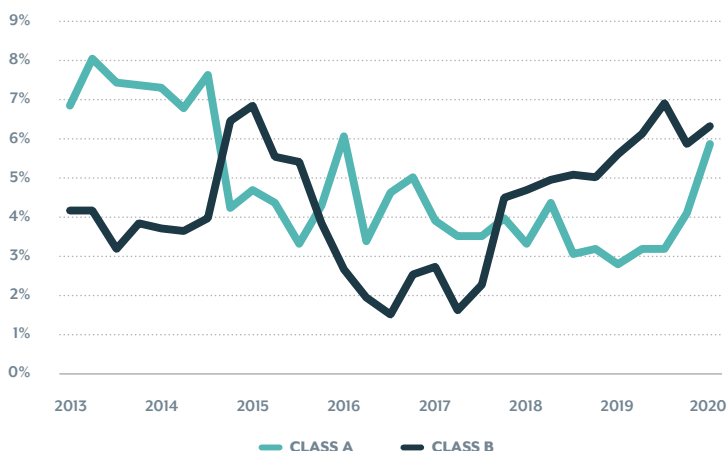
7,230



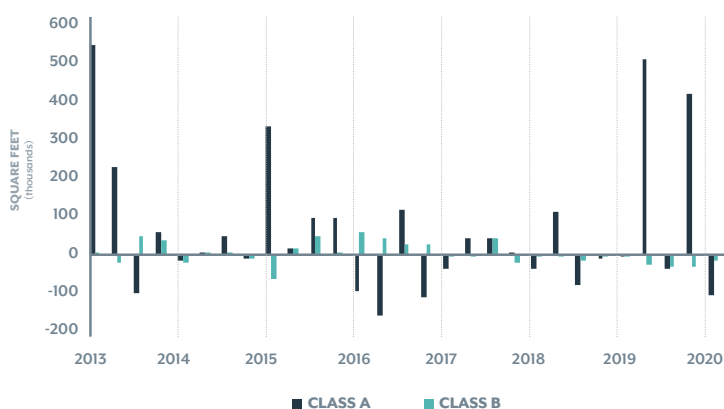
*numbers in the thousands

CAMBRIDGE OFFICE

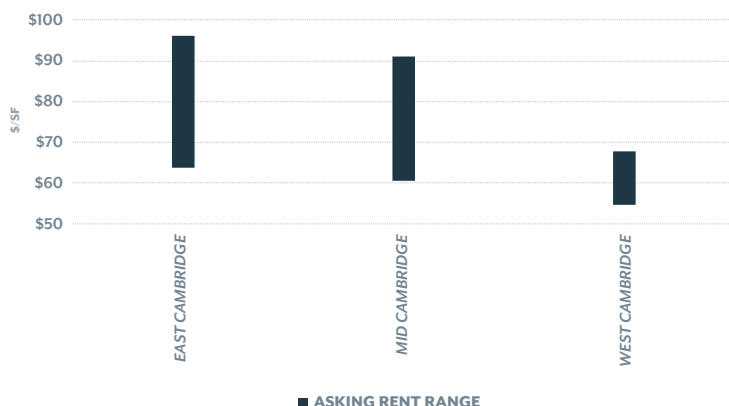
TOTAL VACANCY



QUARTERLY NET ABSORPTION



GROSS ASKING RENTS



- Thanks to the life science sector, the Cambridge office market has not been adversely affected as much as Boston and the suburbs. The third quarter proved to be the worst quarter so far this year but in comparison to the rest of the market, Cambridge is doing well and occupancy levels have actually increased throughout the year. In West Cambridge, lab conversions continue to eat away at office supply, helping decrease the overall vacancy rate. While in Mid Cambridge and East Cambridge much of the office operations have held steady due to connections to the life science industry and the lab market, which has become a national hot spot for combating the pandemic.
- A limited supply pipeline in Cambridge has also helped keep vacancy and rental rates in check with construction, either delivering fully preleased by office users or consisting of predominately lab space over the last 24-months. 250 Water Street at Cambridge Crossing, which initially kicked off this quarter as a speculative lab and office building, was immediately leased by Bristol-Myer Squibb, taking away potential office supply and keeping pressure on asking rents.
- With many office requirements still on hold this quarter and a limited amount of available space throughout Cambridge, minimal leasing activity is expected to take place through the remainder of the year. Moreover, the space that is available or expected to become available in the coming years is primarily life science oriented, leaving little room for purely office users to lease large chunks of space, especially in East Cambridge, the nucleus of the life science industry.
- Asking rents in Cambridge are holding steadier in comparison to the rest of the market. Both Class A and B asking rents have hardly budged since the start of the pandemic and in some cases have increased slightly in areas of East and Mid Cambridge. On the other hand, West Cambridge is expected to see a significant amount of supply become available in surrounding areas, such as Watertown and Medford, both of which have a robust office pipeline capable of delivering more office inventory than all of West Cambridge combined. If West Cambridge continues to transform into a predominantly lab market, more office tenants are expected to look to these areas and move out in search of rent relief.

TOTAL VACANCY RATE

6.0%



Q3 NET ABSORPTION (SF)

(125)



ASKING RENT (\$/SF)

\$71



UNDER CONSTRUCTION (SF)

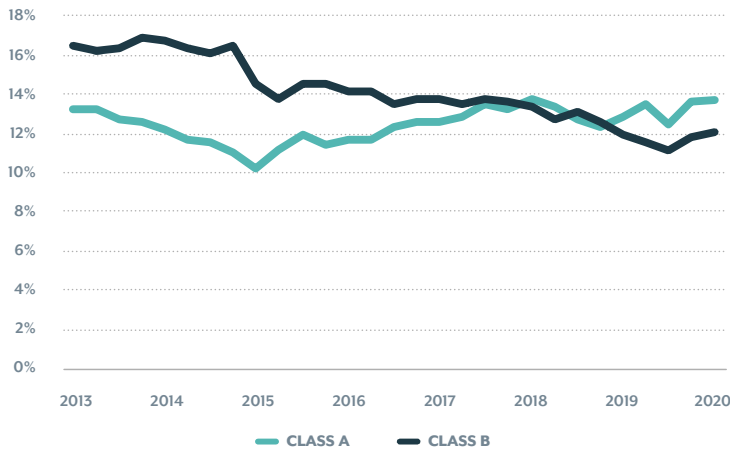
2,877



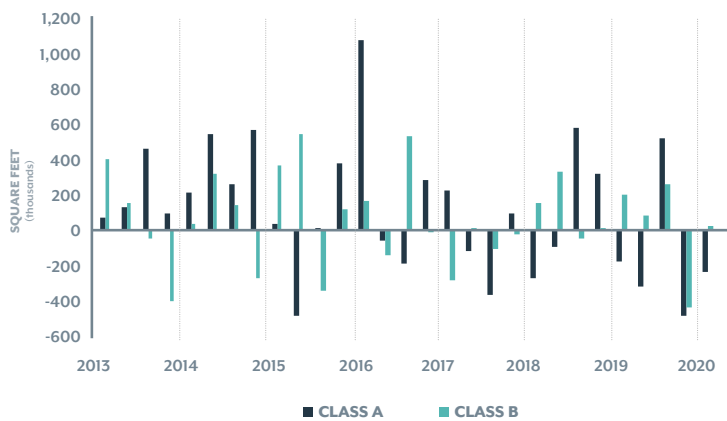
*numbers in the thousands

SUBURBAN OFFICE

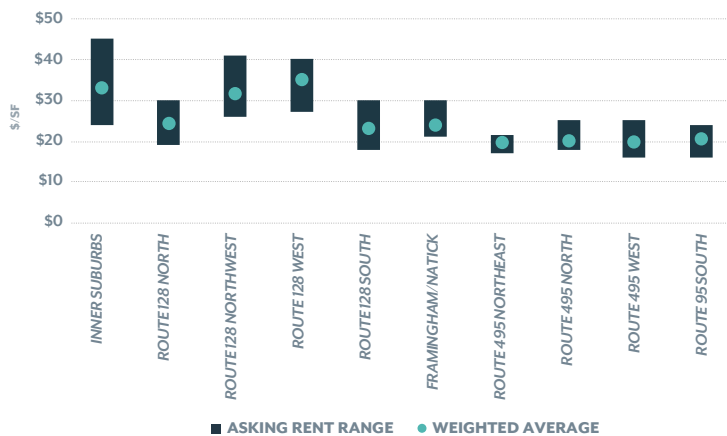
TOTAL VACANCY



QUARTERLY NET ABSORPTION



GROSS ASKING RENTS



- For the second quarter in a row, the suburbs ended with negative net absorption, and compared to Boston and Cambridge, had the largest decrease in overall rents where price per square foot came down by over a dollar on average. That being said, most of the leasing and touring activity in the third quarter has come from the suburban markets, and the amount of absorption levels were almost four times better than second quarter, where almost one million square feet was given back to the market. This was mainly due to employees' general sense of comfort navigating a spread-out suburban market instead of the densely packed city during this pandemic, as it relates to touring space and also due to longer term implications brought on by COVID. Some companies may feel more comfortable operating out of the suburbs in the future rather than urban areas after witnessing the last few months, where employees in the city were at higher risk for contracting COVID-19.
- Tufts Health Plan and Harvard Pilgrim signed a deal to consolidate into the former Reebok headquarters at One Orchard Way in Canton as the companies initiate their market-moving merger. The two companies will occupy roughly 500,000 square feet together, taking down the largest office vacancy in Route 128 South and accounting for the largest deal in the market this quarter. The 128 Belt also saw notable deals from Integral Health to bring the development at 75 Hayden Avenue in Lexington to fully-leased, while two 3D printing companies, Markforged and Afinia 3D, both leased space in Route 128 West for 29,000 and 32,000 square feet, respectively.
- Next to Cambridge, submarkets on the 495 Belt have given back the least amount of space on a net basis since the rise of COVID, but this has been counterbalanced through a minute amount of leasing activity taking place compared to the rest of the market. The office transactions that have taken place have mainly been concentrated in Route 495 West and Route 495 Northeast where the most amount of available options reside.
- The Inner Suburbs are hosting most of the construction currently taking place in the suburbs while the rest is mainly concentrated in Route 128 West. Of the 2.4 million square feet of projects currently underway in the suburbs that can satisfy office requirements and are not solely intended for lab users, 29% have been preleased and most are expected to be completed by the end of next year. Unlike the towers being built in Boston, most of these buildings are able to accommodate a significant portion of lab space due to the existing infrastructure and inherent design benefits they provide. Looking ahead, this dynamic is expected to keep office vacancy rates from getting out of hand, with much of the potential new supply likely ending up with more lab users, which are currently at the forefront of the demand curve.

TOTAL VACANCY RATE

12.9%



Q3 NET ABSORPTION (SF)

(209)



ASKING RENT (\$/SF)

\$25



UNDER CONSTRUCTION (SF)

2,389



*numbers in the thousands

NOTABLE TRANSACTIONS

ONE ORCHARD WAY CANTON



Company Tufts and Harvard Pilgrim
Size 504,000 SF
Submarket Route 128 South

250 WATER STREET CAMBRIDGE



Company Bristol-Myers Squibb
Size 360,000 SF
Submarket East Cambridge

36-64 WHITTEMORE AVENUE CAMBRIDGE



Company GCP Applied Technologies
Size 287,000 SF
Submarket West Cambridge

105 FIRST STREET BOSTON



Company CRISPR
Size 264,000 SF
Submarket Seaport

ATLANTIC WHARF BOSTON



Company Columbia Threadneedle
Size 82,000 SF
Submarket Financial District

343 CONGRESS STREET BOSTON



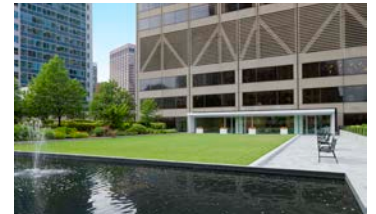
Company Chewy
Size 75,000 SF
Submarket Seaport

238 MAIN STREET CAMBRIDGE



Company BlueRock
Size 73,000 SF
Submarket East Cambridge

1 FEDERAL STREET BOSTON



Company Pearson Education
(sublease from Cayan)
Size 43,000 SF
Submarket Financial District

350 GRANITE STREET BRAINTREE



Company South Shore Elder Services
Size 37,000 SF
Submarket Route 128 South

480 PLEASANT STREET WATERTOWN



Company Markforged
Size 36,000 SF
Submarket Route 128 West

43 FOUNDRY WALTHAM



Company Afinia
Size 32,000 SF
Submarket Route 128 West

75 HAYDEN AVENUE LEXINGTON



Company Integral Health
Size 29,000 SF
Submarket Route 128 Northwest

*All square footage is rounded to the nearest thousandth

 Donates the deal has a lab components

OFFICE RECAP

	TOTAL INVENTORY SF	UNDER CONSTRUCTION	TOTAL VACANCY	CLASS A VACANCY	CLASS B VACANCY	Q3 NET ABSORPTION	YEAR-TO- DATE NET ABSORPTION	12-MONTH NET ABSORPTION	AVERAGE ASKING RENTS
Total Market	210,689	12,496	11.1%	10.6%	11.8%	(1,217)	(2,130)	(1,446)	\$37.33
Boston	77,125	7,230	8.8%	7.5%	11.7%	(882)	(1,962)	(1,514)	\$58.31
Back Bay	15,312	0	5.9%	4.4%	17.4%	(136)	(162)	(137)	\$67.22
Financial District	37,151	1,942	9.4%	8.2%	13.8%	(479)	(1,310)	(989)	\$58.91
Seaport	11,266	1,716	13.1%	11.9%	14.2%	(161)	(119)	(148)	\$58.21
Charlestown	2,578	127	6.8%	22.9%	4.3%	1	(90)	(59)	\$41.86
Fenway	2,047	773	6.3%	6.6%	5.5%	0	(87)	(11)	\$47.30
Midtown	2,221	234	8.3%	4.9%	9.1%	(25)	(61)	(70)	\$53.13
North Station	3,335	1,609	8.5%	9.7%	8.2%	(70)	(90)	(73)	\$53.27
South Station	1,392	0	2.6%	0.1%	5.6%	(13)	(23)	(4)	\$51.15
South Boston	1,822	829	8.7%	0.0%	10.7%	1	(19)	(24)	\$45.67
Cambridge	10,463	2,877	6.0%	5.8%	6.3%	(125)	187	663	\$70.69
East	5,904	2,677	5.3%	4.1%	12.5%	(92)	204	679	\$87.31
Mid	2,638	200	6.4%	10.9%	4.4%	(13)	(44)	(56)	\$60.20
West	1,921	0	7.5%	9.4%	3.8%	(20)	27	40	\$55.91
Suburban	123,101	2,389	12.9%	13.7%	12.1%	(209)	(355)	(595)	\$24.86
Inner Suburbs	6,177	987	7.0%	7.9%	4.7%	58	82	(2)	\$32.86
Route 128 North	14,189	154	10.3%	13.3%	7.2%	(216)	(213)	(200)	\$24.42
Route 128 Northwest	12,429	0	10.6%	10.9%	9.9%	(66)	(148)	17	\$31.37
Route 128 West	25,054	508	11.7%	11.9%	11.5%	(148)	(191)	(444)	\$34.92
Route 128 South	18,357	531	11.3%	13.1%	9.3%	41	198	333	\$22.88
Route 495 Northeast	8,436	0	16.0%	19.9%	13.6%	151	(21)	(70)	\$19.35
Route 495 North	14,653	60	21.2%	25.2%	18.8%	16	(105)	(233)	\$19.53
Framingham-Natick	7,185	0	10.3%	12.4%	7.7%	(48)	(47)	35	\$23.65
Route 495 West	12,111	150	18.0%	16.9%	19.1%	(5)	32	(136)	\$19.50
Route 495 South	4,089	0	7.5%	3.5%	8.8%	8	59	105	\$19.79

*numbers in the thousands

**Construction number include space that can also be built out as labs



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METHODOLOGY

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