



HUNNEMAN

METRO BOSTON OFFICE MARKET REPORT

FOURTH QUARTER | 2020

GREATER BOSTON OFFICE MARKET OVERVIEW

A year marked by uncertainty, negative absorption and limited leasing activity has come to an end for the Greater Boston office market, but not without optimism heading into the new year. With the promise of a new vaccine hitting the market throughout 2021, companies and landlords alike are expecting employees to return back to the office in varying capacities. For some companies, the pandemic has proven that operating remotely is seemingly just as effective as working from the office. While for others, it has had a clear negative effect. Either way, most companies have agreed on one thing – there is an intangible and unmeasurable value to working in the office that is incapable of being fully realized in the short-term. This means the market will not transition back to pre-pandemic levels over night and not all companies will come to make decisions regarding office operations in 2021. In other words, despite the news of a vaccine on the horizon, market conditions could get worse before they get better.

Mass distribution of the COVID-19 vaccine is not expected to fully take place until the second half of 2021. If this quarter's performance is any indication of what to expect during the first half of 2021, the market is expected to further soften. Mainly driven by an increase in sublease space coming online in Boston, 1.7 million square feet of negative absorption took place this quarter throughout the market. Since last quarter rents decreased by 1.2%. The overall vacancy rate increased to 11.9%, up from 9.6% at the start of the pandemic. While the construction pipeline held steady with just over 12 million square feet of space underway. However, not all is “doom and gloom”. The short-term ramifications brought on by the pandemic to the office market are temporary and Greater Boston has much more going for it than it does against it.

When you look at the office market alone, Boston has performed similarly to most major metropolitan areas across the nation, but when you take a step back and look at the emerging industries in the region, the market is positioned advantageously for the future. Some of the most forward-thinking sectors such as robotics, cyber security and most notably, the life sciences have established Greater Boston as an international hub. Evidenced by leasing and sales activity throughout the pandemic, these industries have only gained momentum headed into the new year and are expected to increase significantly in size over the next decade. These emerging industries separate Greater Boston from the majority of markets across the nation, positioning it to recover faster than most.

Looking ahead, 2021 is expected to be a year of “give then take”. More space will be given back to the market before companies are able to take it back up. The speed at which the market rebounds will be dependent on several factors assuming vaccinations by mid-2021 are successful.

First, and perhaps the most important question, will a sublease market which is now breaching 3 million square feet of space remain? With an average remaining term between three to four years and most space unleased, companies will have to decide if they want to keep the space on the market or return to the office. This is an important market dynamic because these are companies who are already here and operating. The more companies that return to work, the less the market will be reliant on external demand to fill vacancies.

Another factor to keep an eye on is the amount of sheer office supply expected to deliver over the next several years. This supply is solely intended to accommodate office users, thus limits the amount of demand that can be captured through tenants that require a lab or flex component. In Boston alone, there are several office towers underway that have over 2.6 million square feet of available space combined that will deliver vacant over the next four years if not leased.

Finally, the rate at which the office market comes back will be dependent on the lab market and the complimentary services provided to life sciences companies. As the top life science market in the world, this sector is growing at an exponential rate with demand for lab space only gaining momentum since the start of the pandemic. Over the next several years, a significant fraction of the office space currently available now is expected to transition to lab or be leased by life science-oriented companies with office needs, helping take away office vacancy and putting pressure back on rents.



11.9%

TOTAL VACANCY RATE



(1,674)

Q4 NET ABSORPTION
(SF)



\$37

ASKING RENT
(\$/SF)



12,203

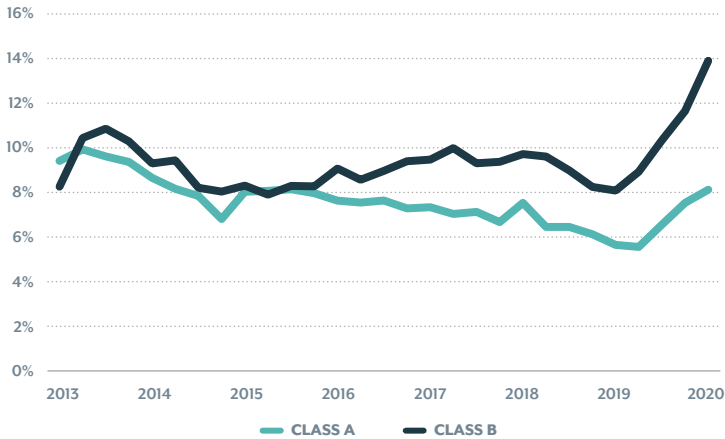
UNDER CONSTRUCTION
(SF)

**numbers in the thousands*

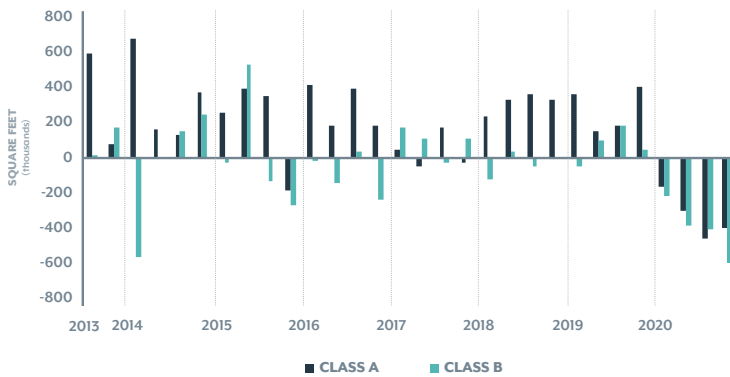
***Arrows denote the change from a Q3 2020 performance*

BOSTON OFFICE

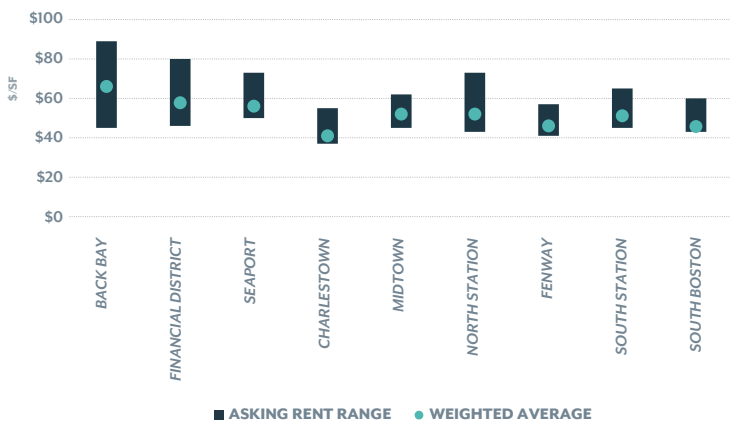
TOTAL VACANCY



QUARTERLY NET ABSORPTION



GROSS ASKING RENTS



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

- For the fourth consecutive quarter the Boston Market recorded negative absorption, this time giving back almost one million square feet of space to the market--the most negative absorption registered all year. The injection of more sublease space into the market was the culprit yet again, and the sharp increase in the give-back of direct space this quarter helped set a record of over 2.5 million square feet in negative absorption this year, the most in recent history. Due to this, overall vacancy increased to 10% from 8.7% last quarter and is up from 6.5% at the start of the pandemic.
- Minimal leasing activity has taken place in Boston, although several midsize deals were executed which were concentrated in the Financial District. CoStar Group renewed its lease at 33 Arch Street, hanging onto roughly 25,000 square feet. William Blair & Co. leased approximately 20,000 square feet at 125 High Street. Finally, Credit Suisse reaffirmed its commitment to the market, renewing nearly 10,000 square feet at One Federal Street.
- With another building starting construction at 10 Stack Street in Charlestown, the supply pipeline is no longer exclusive to just the Financial District, Fenway and the Seaport. However, some of this product is now being transitioned to accommodate life science companies as demand for lab space continues to climb. Most notably, 321 Harrison Avenue, 660 Beacon Street, 545 Commonwealth Avenue and the proposed building at 401 Congress Street have all recently increased the amount of lab space in each project. Looking ahead, this is expected to help the office market, taking away from potentially vacant office supply and placing it in a category that is more likely to be absorbed by lab users.
- A noticeable decline in direct asking rents is starting to take place in the Boston office market which is mainly driven by Class B space. 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 limited number of large blocks directly available are expected to keep this market segment competitive as the economy opens back up.

TOTAL VACANCY RATE

10.0%



Q4 NET ABSORPTION (SF)

(994)



ASKING RENT (\$/SF)

\$57



UNDER CONSTRUCTION (SF)

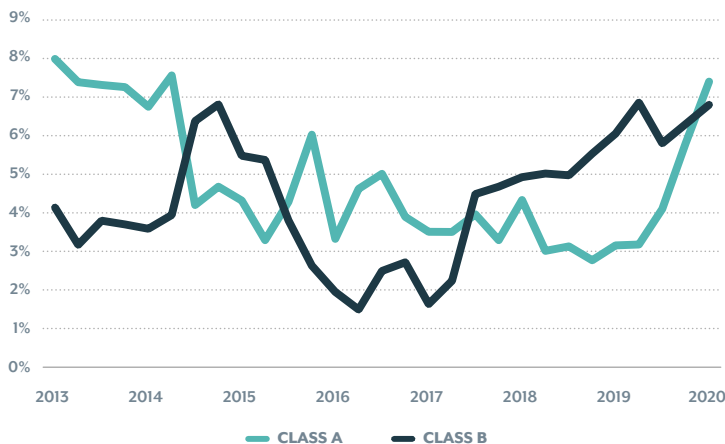
6,960



*numbers in the thousands

CAMBRIDGE OFFICE

TOTAL VACANCY



QUARTERLY NET ABSORPTION



GROSS ASKING RENTS



- Another rare give-back of space took place in the Cambridge office market with just over 100,000 square feet of negative absorption taking place in the fourth quarter. However, this does mark an improvement from last quarter and with several major supply deliveries on the horizon that are fully leased, the market is expected to tighten back up throughout 2021. When looking at 2020 as a whole, Cambridge is the only market within Greater Boston that saw occupancy growth, absorbing 44,000 square feet over the last twelve months on a net basis.
- The most notable activity in Cambridge this quarter was the sale of Brookfield's office and lab portfolio, which is considered the largest sale to take place throughout the country in terms of office and lab acquisitions in 2020. BioMed Realty, an arm of Blackstone Real Estate, bought Brookfield's office and lab portfolio located in East Cambridge for a total of \$3.45 billion. The record-breaking pricing does not only reaffirm East Cambridge's place as the most valuable lab market in the world but also shines light on the stability it provides in the long term and its attractiveness to global investors. As the Greater Boston economy begins to bounce back, East Cambridge will continue to play a vital role as one of the key economic engines to keep the office and lab market moving forward.
- 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 in the beginning of 2021. 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.
- 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 Cambridge 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 be pushed out in order for more space to be transitioned to lab, which could benefit the neighboring office submarkets.

TOTAL VACANCY RATE

7.2%



Q4 NET ABSORPTION (SF)

(118)



ASKING RENT (\$/SF)

\$71



UNDER CONSTRUCTION (SF)

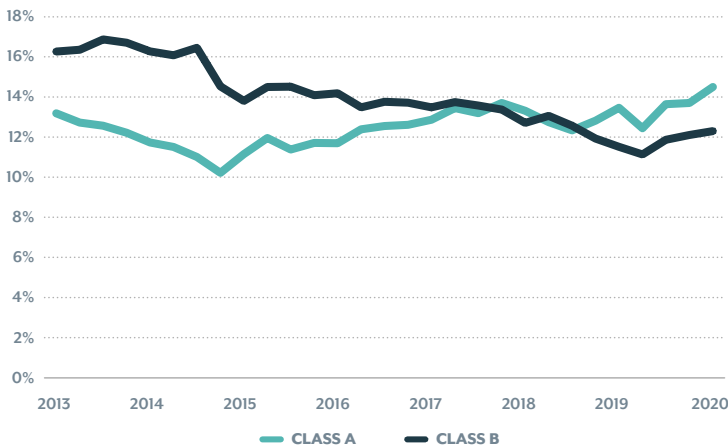
2,877



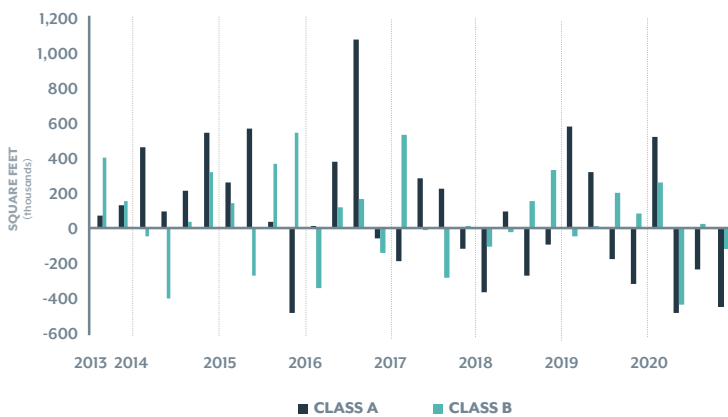
*numbers in the thousands

SUBURBAN OFFICE

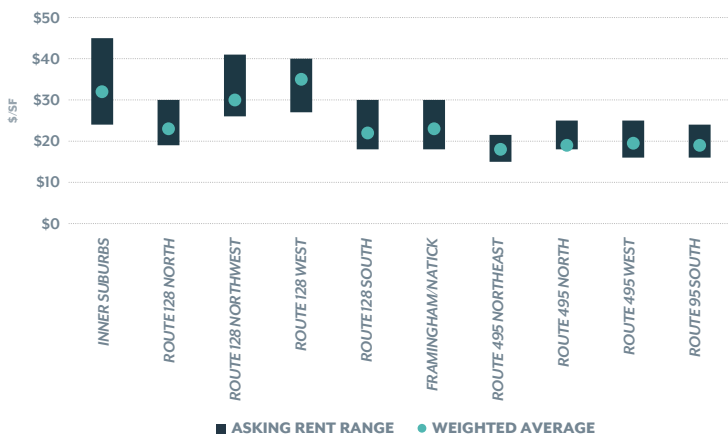
TOTAL VACANCY



QUARTERLY NET ABSORPTION



GROSS ASKING RENTS



- The suburbs registered just over a half million square feet of negative absorption this quarter, bringing the overall vacancy rate up to 13.5% from 13% last quarter. Despite 1.7 million square feet of negative absorption taking place throughout 2020, it is safe to say the suburbs have performed better than Boston throughout the pandemic. The suburbs performance is mainly due to the general sense of comfort navigating a spread-out suburban market instead of the densely packed city during this pandemic, as it relates mitigating the risk of contracting COVID-19.
- Most of the leasing activity that took place in the suburbs was concentrated in the Route 128 West submarket and consisted of companies that required a lab component. Most notably, Translate Bio leasing 138,000 square feet at Boston Properties' 200 West Street in Waltham and Constellation Pharmaceuticals leased roughly 79,000 square feet at the Arsenal on the Charles in Watertown, formally an office campus that is now transitioning into a cluster of buildings that host lab space. Finally, Dyne Therapeutics and SnapDragon Chemistry both leased large chunks of space in Waltham for approximately 68,000 square feet and 47,000 square feet, respectively.
- Most of the new supply slated to hit the suburban market over the next year is located in the Inner Suburbs and 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, of which are currently at the forefront of the demand curve in the suburbs.

TOTAL VACANCY RATE

13.5%



Q4 NET ABSORPTION (SF)

(562)



ASKING RENT (\$/SF)

\$24



UNDER CONSTRUCTION (SF)

2,366



*numbers in the thousands

NOTABLE TRANSACTIONS

ONE FINANCIAL CENTER
BOSTON



Company Loomis Sayles

Size 232,000 SF

Submarket Financial District

200 WEST STREET
WALTHAM



Company Translate Bio

Size 138,000 SF

Submarket Route 128 West

100 TALCOTT AVENUE
WATERTOWN

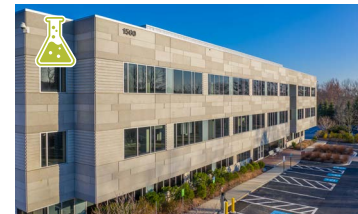


Company Constellation Pharmaceuticals

Size 79,000 SF

Submarket Route 128 West

1560 TRAPELO ROAD
WALTHAM



Company Dyne Therapeutics

Size 68,000 SF

Submarket Route 128 West

492 OLD CONNECTICUT PATH
FRAMINGHAM



Company Definitive Healthcare

Size 56,000 SF

Submarket Framingham/ Natick

360 SECOND AVENUE
WALTHAM



Company SnapDragon Chemistry

Size 47,000 SF

Submarket Route 128 West

10 CABOT ROAD
MEDFORD

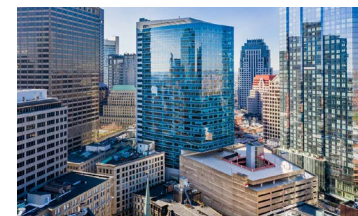


Company Bond Brothers

Size 36,000 SF

Submarket Inner Suburbs

33 ARCH STREET
BOSTON

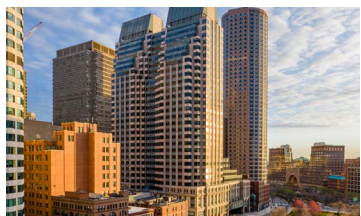


Company CoStar

Size 25,000 SF

Submarket Financial District

125 HIGH STREET
BOSTON



Company William Blair & Co.

Size 20,000 SF

Submarket Financial District

645 SUMMER STREET
BOSTON



Company Ikena

Size 20,000 SF

Submarket Seaport

490 ARSENAL STREET
WATERTOWN



Company Tectonic Therapeutics

Size 19,000 SF

Submarket Route 128 West

100 5TH AVENUE
WALTHAM



Company Apellis Pharmaceuticals

Size 16,000 SF

Submarket Route 128 West

*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	Q4 NET ABSORPTION	YEAR-TO-DATE NET ABSORPTION	12-MONTH NET ABSORPTION	AVERAGE ASKING RENTS
Total Market	211,088	12,203	11.9%	11.3%	12.6%	(1,674)	(4,150)	(3,829)	\$36.89
Boston	78,235	6,960	10.0%	8.1%	14.0%	(994)	(2,568)	(2,915)	\$56.74
Back Bay	15,325	0	6.1%	4.6%	17.6%	(31)	(203)	(193)	\$66.74
Financial District	37,200	1,942	10.9%	9.4%	16.2%	(558)	(1,766)	(1,868)	\$57.95
Seaport	11,224	1,716	14.4%	11.4%	17.2%	(143)	(88)	(263)	\$56.56
Charlestown	2,578	350	10.1%	22.9%	8.1%	(83)	(129)	(174)	\$41.27
Fenway	2,047	272	5.0%	4.8%	5.5%	26	(29)	(60)	\$46.36
Midtown	2,221	234	10.0%	6.2%	11.0%	(40)	(73)	(101)	\$51.53
North Station	3,335	1,617	10.3%	9.7%	10.5%	(62)	(127)	(152)	\$51.58
South Station	1,392	0	6.6%	0.1%	14.2%	(55)	(85)	(79)	\$52.48
South Boston	1,822	829	8.8%	0.0%	10.8%	(1)	(20)	(20)	\$44.47
Cambridge	10,734	2,877	7.2%	7.4%	6.8%	(118)	113	44	\$71.08
East	6,244	2,677	7.2%	6.6%	11.3%	(105)	168	74	\$87.55
Mid	2,559	200	7.6%	10.9%	6.1%	(26)	(79)	(70)	\$61.57
West	1,930	0	6.8%	8.4%	3.6%	13	24	40	\$53.91
Suburban	122,119	2,366	13.5%	14.5%	12.3%	(562)	(1,695)	(958)	\$24.43
Inner Suburbs	5,160	987	8.1%	8.3%	7.8%	5	9	76	\$32.99
Route 128 North	14,257	154	11.3%	14.9%	7.7%	(153)	(506)	(366)	\$23.71
Route 128 Northwest	12,438	0	10.3%	11.4%	8.3%	29	(187)	(120)	\$31.21
Route 128 West	24,999	485	13.3%	13.3%	13.2%	(387)	(862)	(608)	\$34.25
Route 128 South	18,377	531	12.2%	14.3%	9.7%	(158)	(139)	41	\$22.91
Route 495 Northeast	8,436	0	15.3%	18.4%	13.4%	57	140	36	\$19.34
Route 495 North	14,653	60	21.5%	25.4%	19.1%	(48)	(107)	(154)	\$19.54
Framingham-Natick	7,174	0	11.0%	13.1%	8.4%	(47)	(136)	(94)	\$23.68
Route 495 West	12,116	150	17.1%	17.0%	17.2%	105	61	137	\$19.21
Route 495 South	4,089	0	6.7%	3.8%	7.5%	36	31	95	\$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: January 2021.

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.