



REAL *insights*

FIRST QUARTER 2021 // OFFICE MARKET

presented by the Hunneman Research Department

Just over a year ago, Boston was shut down, public gatherings were canceled, restaurants were closed, and all construction came to a halt.

From boom town to ghost town. Fast forward to today – We have three FDA approved vaccines being distributed to the public, sports fans are watching games in person again and restaurants are hosting customers at full capacity. During the weekends, Boston and Cambridge are now just as active as they were a year ago, and with the exception of everyone wearing masks, it would be hard to tell there was even a pandemic. However, the weekdays are a different story. Many companies have not returned to the workplace and employer response to the pandemic have varied. One thing is for sure though, as we come out of the pandemic, companies are starting to realize the value of the workplace and many of the intangible benefits it provides towards efficacy, effectiveness and culture.

Despite another quarter of negative net absorption with just over 1.4 million square feet of new vacancy occurring this quarter, leasing activity is up and each week more companies are announcing a return-to-work plan to be put into action later this year. In Boston, the number of subleases signed this quarter almost surpassed the number of direct leases with tenants taking advantage of a large uptick in new market availabilities COVID-19 has brought on. Over the last several years, Greater Boston has been a landlord's market. Now, tenant leverage is increasing through climbing vacancy and employers who know they want to return to the workplace are taking advantage of it.

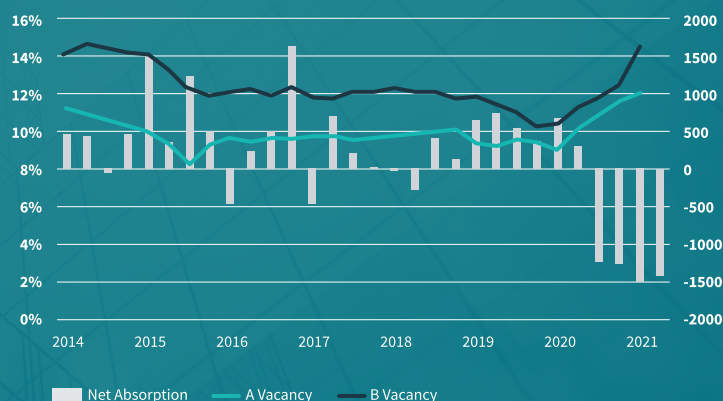
How long will this window of opportunity last? Hunneman predicts that over the next two years, office tenants will be able to take advantage of a leasing environment that benefits them, providing an ample amount of time to work out a workplace strategy in a post-COVID world and run an office search process that is not rushed. It is expected the “bleeding” of supply will not stop until the second half of this year, and even after that, a major supply injection is expected to take place from 2022 to 2024 when a large amount of what is now unleashed product delivers in the Boston and select suburban markets. In Boston alone, approximately 3.7 million square feet of available space is underway in the construction pipeline in a market that has already seen 3.9 million square feet in negative absorption since the start of 2020. Despite strong demand from the life science industry, which has resulted in the repositioning of a significant amount of office space to lab during the pandemic, the recovery of the market will still be dependent on traditional office space. Office users who take advantage of this growing leverage will reap the benefits. Those who wait too long, may never see the Greater Boston market soften this quickly again.

“Leasing activity is up and each week more companies are announcing a return-to-work plan to be put into action later this year.”

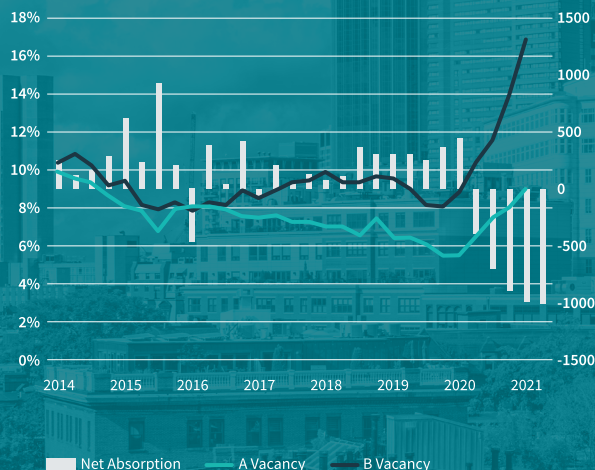
Greater Boston Market Fundamentals

↑	TOTAL VACANCY RATE	13%
↓	Q1 NET ABSORPTION	-1,415 SF
↔	ASKING RENT <small>Average for Boston, Cambridge and Suburbs</small>	\$36.50/SF
↑	UNDER CONSTRUCTION	13,155 SF

*arrows denote change from last quarter's performance
**numbers are represented in the thousands



BOSTON



- **Total vacancy increased** from 10% to 11.6% which was primarily driven by the Class B market, which is now at 16.9%.

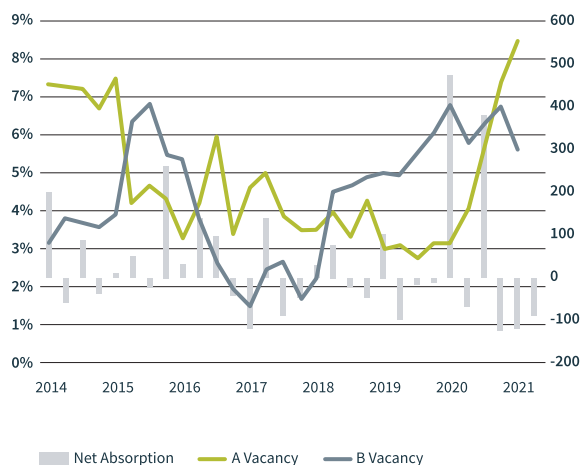
- **Overall asking rents came down** ever so slightly with Class B averages taking the biggest hit over the pandemic, decreasing 5.3% over the last 12-months.

\$65-\$80
(Class A asking rents)
\$50-\$60
(Class B Asking Rents)

- **Construction increased** by almost 800,000 square feet with the commencement of South Station Tower and Amazon's second Seaport Building at 1 Boston Wharf Road.

- **Leasing activity increased** due to a plethora of midsize deals in the Financial District and Back Bay. Almost half of the deals executed were for sublease space.

CAMBRIDGE



- **Total vacancy increased** from 6.9% to 7.6% which was primarily driven by the Class B market, which is now at 16.9%.

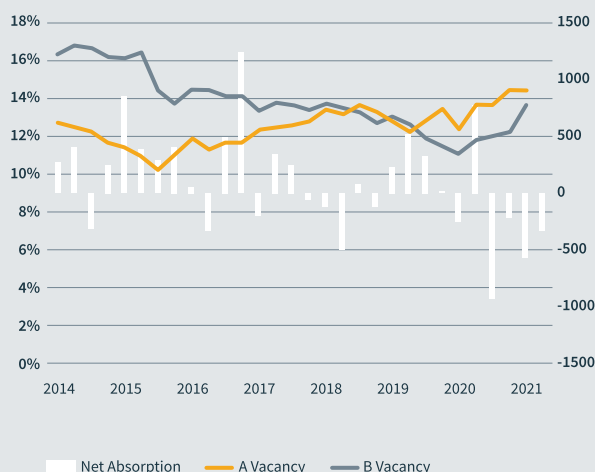
- **Overall asking rents were static** from last quarter with some of the highest Class A asking rents in the market being quoted out of East Cambridge.

\$75-\$90
(Class A asking rents)
\$55-\$65
(Class B Asking Rents)

- **Construction levels remained the same** with the pipeline currently 92% leased between office and lab companies.

- **Leasing activity was minimal** this quarter due to a lack of available existing space and a construction pipeline that is for the most part fully preleased already.

SUBURBS



- **Total vacancy increased** from 13.6% to 14.3% which was primarily driven by several office buildings that are being repositioned to lab space in Route 128 West.

- **Overall asking rents hardly budged**, decreasing only 0.6% from last quarter, following the trend of suburban assets being less affected from headwinds brought on by the pandemic compared to the urban markets.

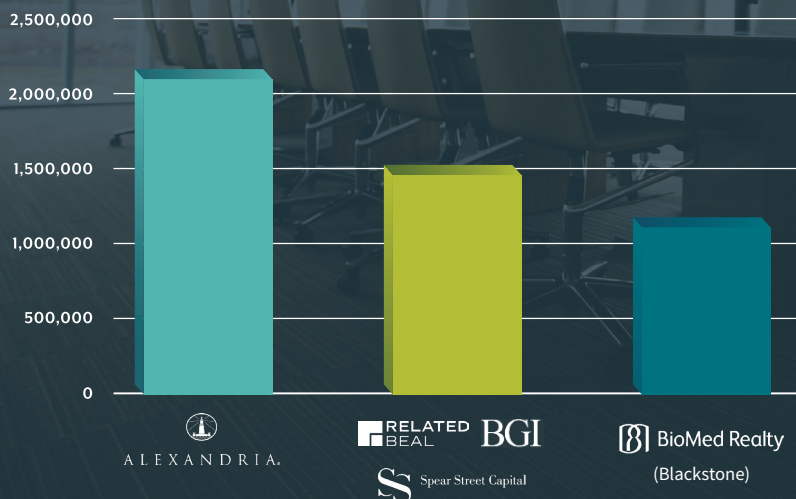
\$30-\$45
(Class A asking rents)
\$20-\$30
(Class B Asking Rents)

- **Construction levels decreased** with several buildings delivering throughout the suburbs and only two buildings starting on construction at 100 Forge Road in Watertown and 170 Middlesex Turnpike in Bedford.

- **Leasing activity was up** this quarter due to a number of larger deals such as ZoomInfo at 275 Wyman Street in Waltham and Flagship Pioneering at 101 South Street in Somerville.

ALEXANDRIA, BIOMED, AND OTHERS CUT INTO POTENTIAL OFFICE VACANCY

Amount of Office Converted or in the Process of Being Converted



*Square footage of office that has been or is planning to be converted to lab since March 2020.

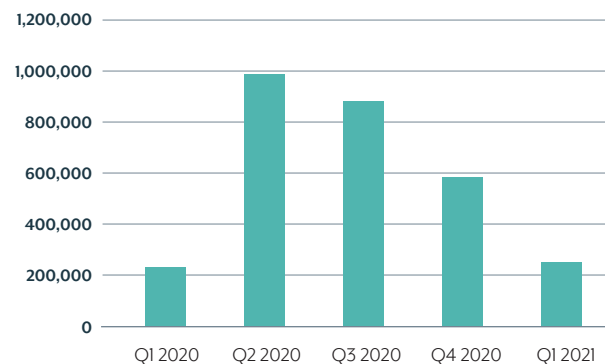
“ Approximately 4.7 million square feet of existing and planned office space pivoting to a lab. ”

- The office market is getting some help from the lab market in a time of need with approximately 4.7 million square feet of existing and planned office space pivoting to a lab use since the start of the pandemic, which will help take away from what could have been vacant office supply.
- A plethora of developers are repositioning their assets to take advantage of a lab market on fire which has been ignited by the pandemic and an ample amount of funding, both public and private, being deployed towards life science companies across the metro.
- Most Notably, Alexandria has repurposed or announced plans to repurpose just over 2 million square feet across several projects including The Arsenal on the Charles in Watertown, Riverside Center in Newton and 401 Park Drive in Boston.

INJECTION OF SUBLEASE SPACE SLOWS

- An increasing compilation of sublease quarter-over-quarter has given way to a tremendous amount of availability in the city and has been the primary driver of negative absorption over the last four quarters with a total of 2.9 million square feet of sublease space currently on the market.
- However, the injection of sublease space quarter-over-quarter is starting to slow and, in some cases, companies are now taking their sublease space off the market with plans to bring employees back to the office later this year.
- This is a positive indicator for the office market in Boston with an increasing number of companies setting a timeline to return to the workplace. As our economy continues to open up through vaccination efforts, Boston can begin a road to recovery that is becoming seemingly shorter with less space coming back on the market.

Net Sublease Space Added in Boston



*Only includes sublease space above 1,000 square feet with over 12 months of term left.

DOWNTOWN TOWERS AWAIT MAJOR LEASING

“ Approximately 2.7 million square feet is available across these towers ”

- Four major tower projects in Downtown Boston are still without any major preleasing since the start of the pandemic, increasing the chances of vacant supply coming to the market when these buildings deliver.
- Approximately 2.7 million square feet is available across these towers with deliveries ranging from 2022 to 2025.
- Based on pre-pandemic net absorption levels, which ranged from 1 to 1.5 million square feet on an annual basis from 2015 to 2019, we expect most of these towers to deliver with a high amount of vacancy, further softening the Class A office market.

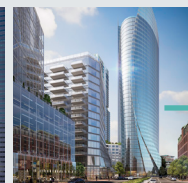
647,000 SF

South Station Tower



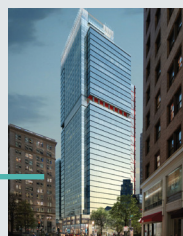
468,000 SF

One Congress



783,000 SF

One Post Office Square



812,000 SF

Winthrop Center

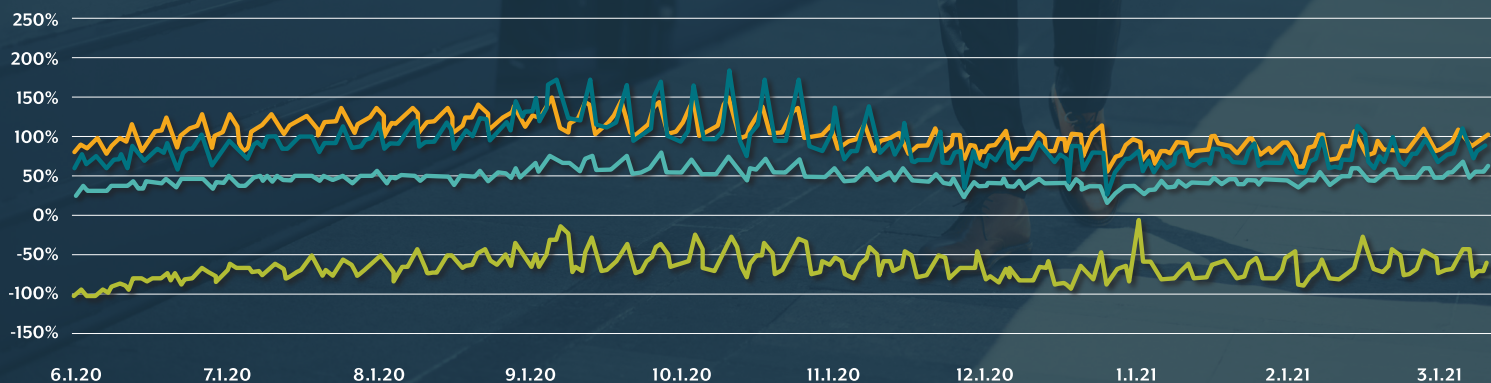


±Available SF

BOSTON SHOWS SIGNS OF REVIVAL

Boston: Apple Mobility Scores and OpenTable Reservations

— Driving Score
— Walking Score
— Transit Score
— OpenTable Reservations



- Boston is slowly becoming more active as we come out of the winter months with mobility scores from Apple showing a small increase since the end of last year and more tables being reserved despite an overall decrease in the number of restaurants available to dine at.
- The below mobility scores and table reservations show a score as a percentage of rates in January, 2020 which tells us Boston has been just as or almost as active on the weekends this January compared to the last.
- Most notably, the upticks seen through the Apple mobility score occurring on the weekends align with table reservations, implying the public could be more comfortable coming into the city to dine in close proximity to each other rather than work together in the same workplace during the week.



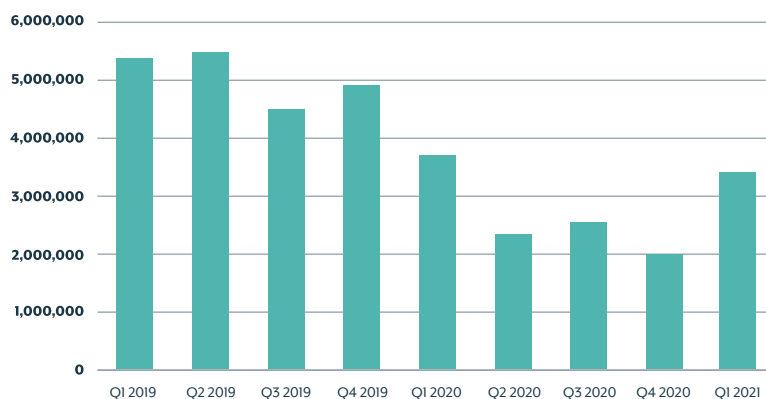
111 HARBOR WAY

1 BOSTON WHARF ROAD

LEASING ACTIVITY PICKS UP THROUGHOUT THE METRO

- Leasing activity for office space across Greater Boston is up 68% since last quarter in thanks to mass vaccinations starting to take place and companies setting timelines to return to work.
- While this leasing activity is still far from pre-pandemic levels, this is a positive indicator that 2021 will be a year in which the market starts to recover.
- Most of this leasing activity has been concentrated in the suburbs. However, two major leases by Amazon at 1 Boston Wharf Road in the Seaport and Flagship Pioneering at 101 South Street in Somerville, have helped move the needle in the urban markets, accounting for over 800,000 SF of leasing.

Leasing Activity in Greater Boston



“ALEXA, WHERE ARE YOU FROM?”

- While it is no HQ2, Amazon announced another major expansion in Boston, exercising its rights to the neighboring parcel of 111 Harbor Way in the Seaport, which is expected to be completed later this year.
- The announcement comes with projected hiring of an additional 3,000 employees in what Amazon is deeming a “Boston Tech Hub” which houses the Alexa business unit. This decision serves as a positive signal that employees will eventually come back to workplace as the pandemic hopefully comes to an end.
- The Seaport campus will now comprise of approximate 1 million square feet of office space with 630,000 square feet in the new building kicking off this year at 1 Boston Wharf Road.

RECENT DEALS

amazon | 1 BOSTON WHARF RD / BOSTON
630,000 SF

zoominfo | 275 WYMAN ST / WALTHAM
226,244 SF

PHILIPS Lifeline | 111 LAWRENCE ST / FRAMINGHAM
80,000 SF

OPHTHALMIC CONSULTANTS OF BOSTON | 195 WEST ST / WALTHAM
63,500 SF

ascend LEARNING | 25 MALL RD / BURLINGTON
55,000 SF

VICARIOUS SURGICAL | 78 4TH AVE / WALTHAM
42,000 SF

QUICK BASE | 280 CONGRESS ST / BOSTON
41,432 SF

hydrox | 10 SUMMER ST / BOSTON
33,000 SF








DRIZLY | 501 BOYLSTON ST / BOSTON
30,665 SF


KARUNA THERAPEUTICS | 88 HIGH ST / BOSTON
42,000 SF

solarwinds | 30 CORPORATE ST / BURLINGTON
25,005 SF

DTCC | 55 THOMSON PL / BOSTON
21,179 SF

IN THE PIPELINE

Property Address	City	RBA	Percent Leased	Owner Name
1 Congress St	Boston	985,000	53%	Carr Properties
115 Federal St	Boston	812,000	0%	Millennium Partners Management LLC
135 William T Morrissey Blvd	 Dorchester	693,921	0%	Alcion Ventures L.P.
South Station Tower	Boston	646,613	0%	Hines
100 Causeway St	Boston	632,000	94%	Boston Properties, Inc.
1 Boston Wharf Rd	Boston	630,000	100%	W/S Development
400 Summer St	 Boston	626,400	100%	W/S Development
350 Water St	 Cambridge	515,040	100%	Divco West Services, LLC
111 Harbor Way	Boston	511,000	100%	W/S Development
201 Brookline Ave	 Boston	510,116	19%	Alexandria Real Estate Equities, Inc.
250 Water St	 Cambridge	504,000	100%	Divco West Services, LLC
314 Main St	Cambridge	425,000	98%	Massachusetts Institute of Technology
325 Main St	Cambridge	420,000	100%	Boston Properties, Inc.
450 Water St	 Cambridge	413,235	100%	Divco West Services, LLC
249 Fifth St	Cambridge	400,000	100%	GSA/PBS
238 Main St	 Cambridge	386,600	100%	Massachusetts Institute of Technology
50 University Ave	Westwood	350,000	0%	Mass Bay Transit Authority Inspectors Associates
10 Fan Pier Blvd	Boston	315,000	100%	MassMutual
455 Grand Union Blvd	Somerville	303,546	58%	Federal Realty Investment Trust
101 South St	 Somerville	289,000	100%	DLJ Real Estate Capital Partners
316-318 Northern Ave	 Boston	265,000	100%	Related Beal
105 W First St	 Boston	263,500	100%	Breakthrough Properties
321 Harrison Ave	 Boston	233,901	0%	CIM Group, LP
225 Wyman St	 Waltham	227,491	0%	Hobbs Brook Management LLC
750 Main St	 Cambridge	200,000	100%	Massachusetts Institute of Technology
170 Middlesex Tpke	 Bedford	186,000	0%	The Gutierrez Company
100 Forge St	 Watertown	165,496	0%	Boylston Properties
660 Beacon St	 Boston	144,589	0%	Related Beal
300 Third Ave	 Waltham	140,000	0%	Lincoln Property Company
545 Commonwealth Ave	 Boston	127,035	0%	Related Beal
95 E Howard St	Quincy	116,334	32%	March Fourth, LLC.

 Denotes the project has or can include a lab component

	TOTAL INVENTORY SF	UNDER CONSTRUCTION	TOTAL VACANCY	CLASS A VACANCY	CLASS B VACANCY	Q1 NET ABSORPTION	12-MONTH NET ABSORPTION	AVERAGE ASKING RENTS
Total Market	212,305	13,155	12.8%	11.8%	14.4%	(1,415)	(5,404)	\$36.59
Boston	78,530	8,261	11.6%	9.0%	16.9%	(998)	(3,564)	\$56.54
Back Bay	15,325	0	7.6%	6.5%	17.0%	(240)	(443)	\$65.06
Financial District	37,202	2,589	11.7%	9.7%	18.8%	(306)	(2,072)	\$57.53
Seaport	11,224	2,346	17.8%	12.3%	23.0%	(381)	(468)	\$56.05
Charlestown	2,705	0	20.6%	31.9%	18.1%	(170)	(299)	\$41.98
Fenway	2,071	782	3.5%	2.7%	5.5%	29	0	\$47.27
Midtown	2,223	234	8.1%	6.7%	8.4%	44	(29)	\$51.42
North Station	3,340	1,617	10.9%	9.7%	11.2%	(20)	(147)	\$51.57
South Station	1,392	0	10.2%	4.7%	16.5%	(50)	(135)	\$51.91
South Boston	1,957	694	10.2%	8.6%	10.7%	96	76	\$44.47
Cambridge	11,238	2,877	7.6%	8.5%	5.6%	(87)	26	\$70.62
East	6,644	2,677	6.1%	6.1%	5.6%	43	211	\$85.55
Mid	2,661	200	7.6%	10.9%	6.1%	(6)	(85)	\$62.28
West	1,933	0	13.2%	17.9%	4.1%	(124)	(100)	\$53.93
Suburban	122,537	2,017	14.1%	14.5%	13.7%	(331)	(1,865)	\$24.28
Inner Suburbs	5,457	673	13.3%	9.1%	22.2%	(12)	(3)	\$30.79
Route 128 North	14,428	0	10.2%	12.7%	7.7%	288	(217)	\$23.31
Route 128 Northwest	12,455	186	13.0%	14.6%	9.8%	(334)	(521)	\$31.25
Route 128 West	24,608	650	14.5%	14.3%	14.9%	(417)	(1,119)	\$34.35
Route 128 South	18,411	508	9.7%	9.9%	9.5%	474	335	\$22.93
Route 495 Northeast	8,436	0	19.1%	14.8%	21.7%	(315)	(175)	\$19.16
Route 495 North	14,715	0	20.7%	25.3%	17.9%	168	62	\$19.38
Framingham-Natick	7,238	0	9.9%	12.7%	6.4%	73	(62)	\$22.92
Route 495 West	12,279	0	19.9%	21.1%	18.7%	(222)	(160)	\$19.17
Route 495 South	4,089	0	7.5%	4.5%	8.5%	(36)	(5)	\$19.85

*Numbers in the thousands

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

*** Asking rents are quoted on a gross basis

“Hunneman prides itself on having the ability to cater to our client’s specific needs, and to provide the level of personal service they deserve.”



2020

YEAR IN REVIEW

PROPERTY MANAGEMENT

35

NEW BUILDINGS

3M_{SF}

NEW MANAGEMENT PROPERTIES

APPRAISAL

187

TOTAL APPRAISALS IN 2020

<100

LARGEST APPRAISAL MASS DOT

INVESTMENT SALES

37

COMPLETED DEALS

LANDLORD REP

45

COMPLETED DEALS

TENANT REP

56

COMPLETED DEALS

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Charts

METHODOLOGY

Source: Co-Star, Hunneman, Apple, OpenTable, Bldup.

Prepared: March 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.

