



# REAL *insights*

THIRD QUARTER 2021 // OFFICE MARKET

presented by the Hunneman Research Department



### After five consecutive quarters of dwindling office occupancy, the Greater Boston office market has finally broken into positive absorption.

With 45,000 square feet in net absorption registered across the market, a strong performance from the suburbs and an active sublease market in the city has allowed for the market to begin its rebound. Most notably, Boston has seen the greatest loss of office occupancy during the pandemic and is now benefiting from companies absorbing a significant portion of vacant sublease space through new leases and sublessors retracting their space from the market in effort to return to the office. However, the total vacancy rate remains static compared to last quarter, sitting at 13.3%, with some companies still shedding space, rendering occupancy growth relatively flat in Boston.

Similar to last quarter, the lab market also continues to be a factor in keeping office vacancy in check. Through development repositioning and building conversions, existing and potential office vacancy is being chipped into through increased lab supply throughout the region. Exemplifying this trend, the Financial District has become the newest hot-bed for lab conversions this past quarter with several landlord and developers deciding to pivot a portion of their office inventory to lab in the heart of the market.

Coinciding with absorption balancing out this quarter, a significant uptick in leasing activity is also a suitable indicator for the office market beginning its path to recovery. Large blocks of space are now being leased again and new development, such as One Post Office Square and the Winthrop Center are seeing increased interest from the market.

Asking rents across the market have remained flat compared to last quarter with Class B space influencing an overall decrease of 1.1% over the last quarter. This is primarily due to a flight-to-quality trend taking hold, where in a market flush with availability, companies are gravitating to Class A product in attempt to attract and recruit employees back to the workplace.

Looking ahead, Greater Boston is still being challenged by a variety of headwinds that will last well into 2022. In order of importance, containing the Delta variant and the readoption of public transit will be key for returning to the office. Employees will need to feel comfortable with their company's workplace strategy surrounding their health and those close to them. When employees do return to the office, public transit options will have to be considered. Based on the most recent data on ridership info from the MBTA, the main modes of transit such as the subway, bus and commuter rail are at a fraction of 2019 levels at this time. However, traffic is even, if not greater, than 2019 levels, which is straining our roadway infrastructure and increasing commuting times. This will need to change.

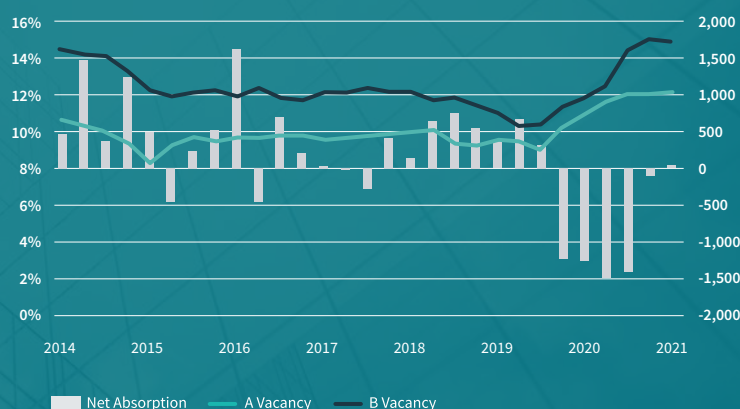
“Looking ahead, Greater Boston is still being challenged by a variety of headwinds that will last well into 2022.”

#### Greater Boston Market Fundamentals

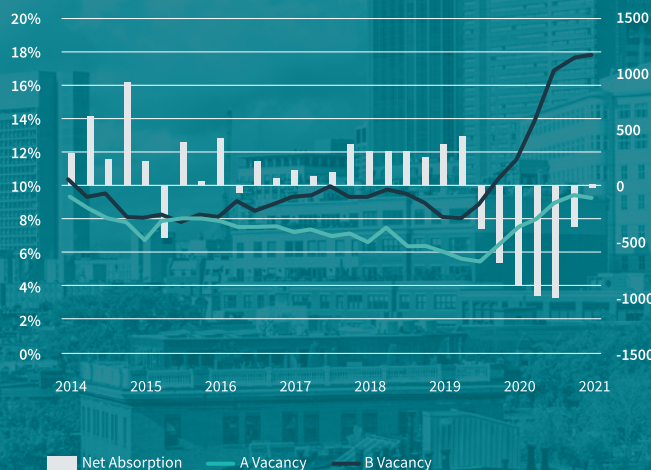
SF Numbers are represented in the thousands

↔	<b>TOTAL VACANCY RATE</b>	13.3%
↑	<b>Q3 NET ABSORPTION</b>	45 SF
↔	<b>ASKING RENT</b> <small>Average for Boston, Cambridge and Suburbs</small>	\$34.96/SF
↑	<b>UNDER CONSTRUCTION</b>	15,842 SF

\*Arrows denote change from last quarter's performance



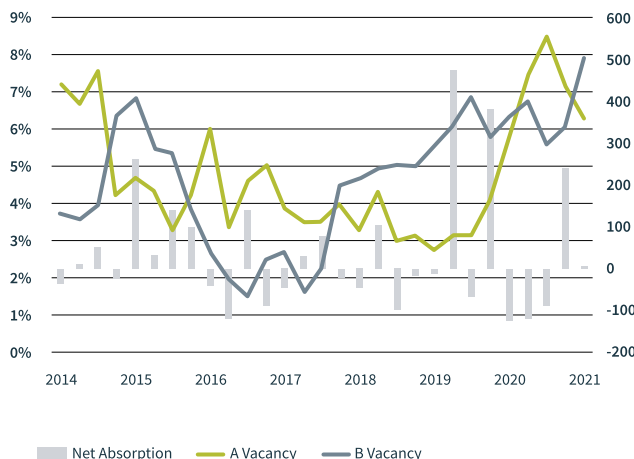
### BOSTON



- **Total vacancy was static**, remaining at 12% due to the delivery of 10 Fan Pier, Mass Mutual's new Headquarters, and the retraction of sublease space which mitigated a fair amount of negative net absorption still being influenced by the sublease market.
- **Overall asking rents decreased** for the third consecutive quarter ever so slightly which was driven by the Class B market. Class A asking rents held steady, increasing a fraction of a percent.
 

**\$65-\$80**  
(Class A asking rents)  
**\$50-\$60**  
(Class B Asking Rents)
- **Construction increased** significantly this quarter in thanks to several buildings kicking off with major lab components. There were no construction commencements for buildings strictly dedicated to office space.
- **Leasing activity increased** significantly with Wellington Management signing a 524,000 square foot expansion and renewal along with Avangrid Renewables, Amwell, and CBT architects all signing mid-size deals.

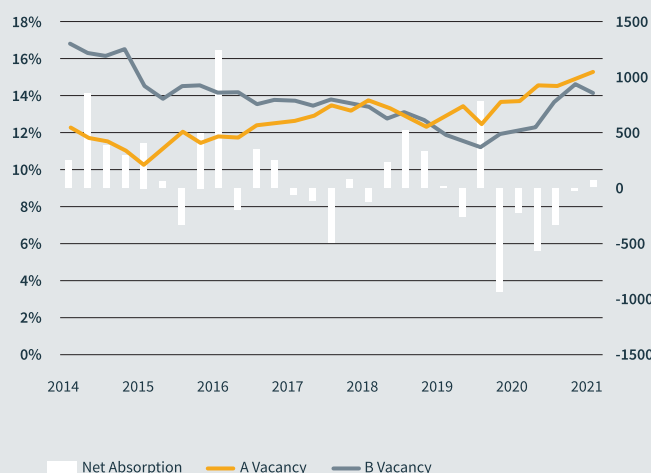
### CAMBRIDGE



- **Total vacancy decreased** from 6.9% to 6.8% with only 4,000 square feet in net absorption taking place.
- **Overall asking rents kept in line** with last quarter, with Class A rents in East Cambridge retaining the status as the most expensive office submarket on average in New England.
 

**\$75-\$90**  
(Class A asking rents)  
**\$55-\$65**  
(Class B Asking Rents)
- **Available sublease space in Cambridge increased** due to Akamai giving back several floors at 145 Broadway, its newly built headquarters.
- **Leasing activity increased** credited in large part to a major commitment from HubSpot. The home-grown Cambridge technology company leased 205,000 square feet at 2 Canal Park located in East Cambridge.

### SUBURBS



- **Total vacancy remained the same** as last quarter. With only 59,000 SF of net absorption unable to move the needle, suburban vacancy sits at 14.7%.
- **Overall asking rents registered a slight increase** which was driven by strong leasing activity along the 128 Belt the available supply being squeezed by an infringing lab market through office-to-lab conversions.
 

**\$30-\$45**  
(Class A asking rents)  
**\$20-\$30**  
(Class B Asking Rents)
- **Construction levels increased** indirectly through a plethora of life science oriented buildings which have the potential to incorporate large office components. However, no new construction registered for buildings meant solely for office tenants.
- **Leasing activity increased** significantly which was driven by several mid-size deals throughout Route 128 West and a major deal from Pega Systems at 225 Wyman Street in Waltham which is currently under construction.

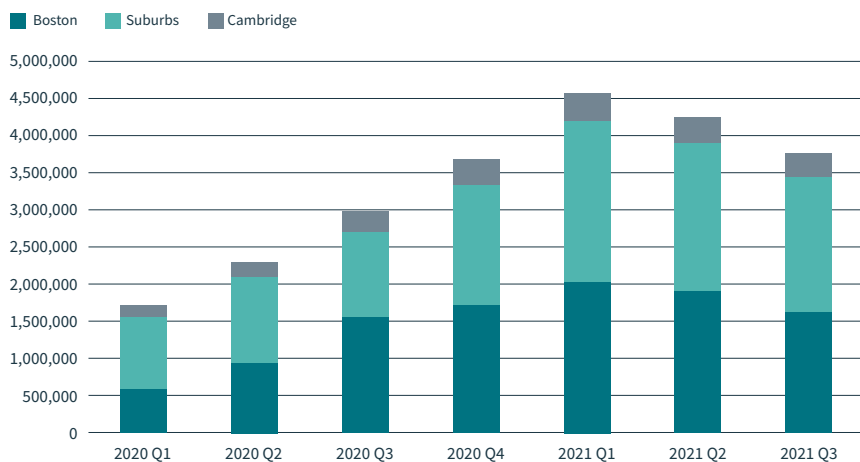


### SELECT OFFICE BUILDING AND PROJECTS IN THE FINANCIAL DISTRICT START TO PIVOT TO LAB

This quarter, several lab conversions and repositions were announced for the Financial District, being the latest submarket to see a large uptick in developers trying to capture an unprecedented amount of lab demand. With the delivery to-market becoming an significantly important factor due to the amount of lab product slated to compete in the nearby Seaport submarket, landlords and developers have filed plans with hopes of quick approval from the Boston Planning and Development (BPDA). Looking ahead, more lab space is expected to come to the Financial District beyond what has already been announced.



#### Greater Boston Sublease Availability



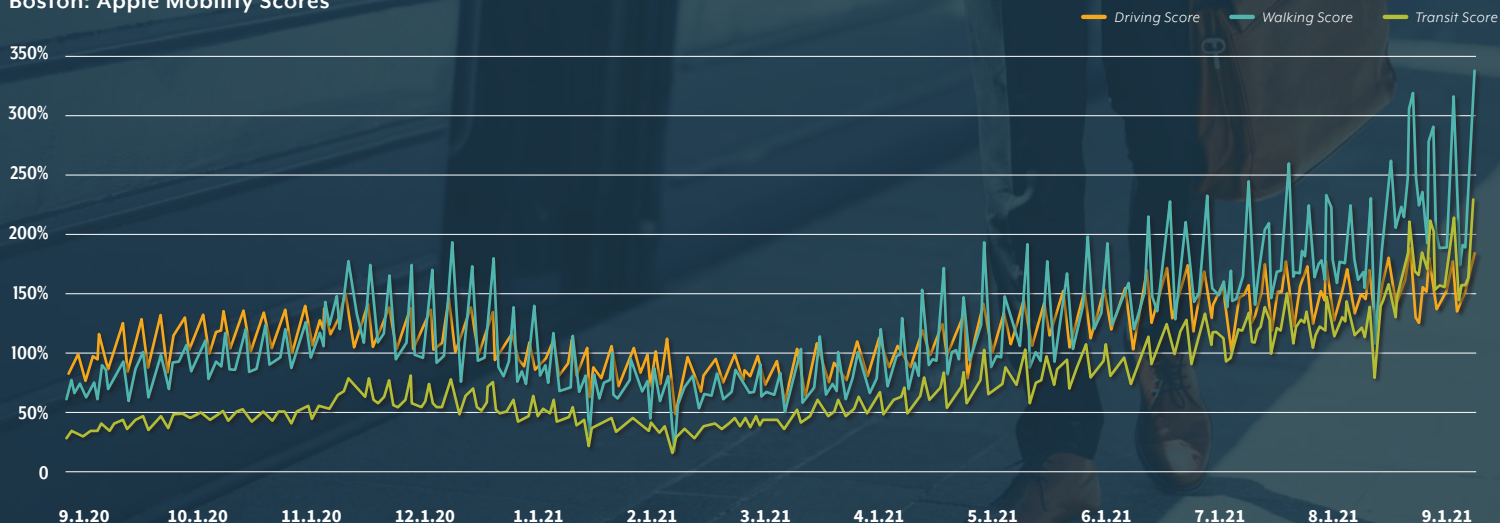
#### SUBLEASE AVAILABILITY ON THE DECLINE

The bleeding of sublease space into the market is beginning to slow. This marks the second quarter in a row where a net decrease in available sublease space across Greater Boston has taken place. This is mainly attributed toward a frenzy of subleasing activity in Boston and Route 128 West. However, an increasing number of cases of tenants who initially put space up in the sublease market at the beginning of the pandemic, are now taking it back. Exemplifying this trend is Toast, a restaurant-oriented technology company, that was hit hard in 2020 but is now back on the rise, valued at approximately \$20 billion by an IPO in September.

### BOSTON SEES POST-LABOR DAY SURGE IN WALKING AND TRANSIT ACTIVITY

Apple mobility data collected over the last year which pulls from routing requests made on Apple Maps shows a significant increase in activity over the last several months with noticeable jumps in walking and transit scores. For many companies, plans to come back to the office after Labor Day in varying capacities was initiated. However, a portion of companies did push return-to-office efforts back further due to the Delta variant.

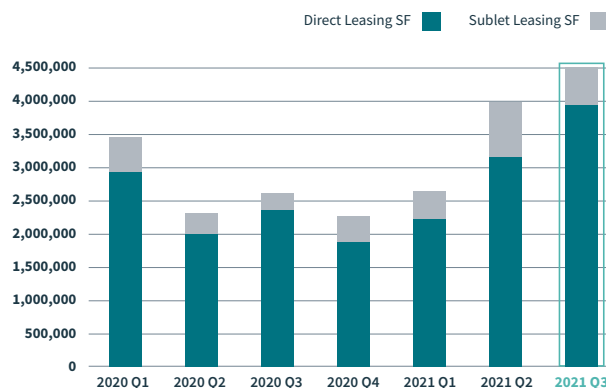
#### Boston: Apple Mobility Scores



### LEASING VELOCITY CONTINUES TO CLIMB IN GREATER BOSTON, NEARING AVERAGE PRE-PANDEMIC LEVELS.

- Leasing activity for office space across Greater Boston is almost back to where it was before the pandemic hit thanks to the suburbs and Boston's active sublease market. With the state of emergency now lifted and vaccinations on the rise, the uncertainty brought on by the pandemic has been minimized and companies are executing on real estate decisions.
- Before COVID, demand for office space in greater Boston was at its height. However, many of these requirements were put on hold in early 2020 and after a year of pent-up demand, the companies that know they still need office space, are taking advantage of market that has softened over the least year.

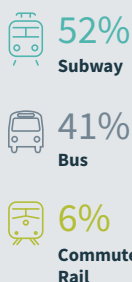
#### Greater Boston Office Leasing Velocity



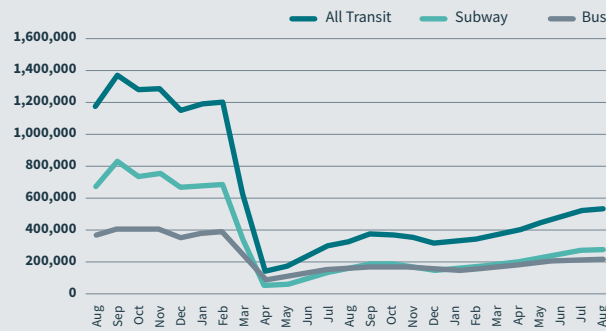
### MBTA RIDERSHIP IS ON THE RISE BUT NOT QUITE "ON TRACK"

This pun is intended, in the circumstances of the delayed Green Line Extension and tardy orders of the new Red and Orange Line rail cars, it is also literal. That said, there are more pressing issues -- the MBTA transit system is growing in ridership, but still has ways to go in order to reach pre-pandemic levels. The subway, bus and commuter rail make up 99% of MBTA ridership and help mitigate traffic congestions, while helping to shorten commuting times for those who need to drive.

#### Ridership Breakdown (Aug.2021)



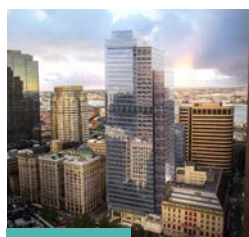
#### MBTA Ridership



### RECENT DEALS

	ATLANTIC WHARF BOSTON 524,000 SF		75 STATE STREET BOSTON 45,000 SF		140 KENDRICK STREET NEEDHAM 34,500 SF
	2 CANAL PARK CAMBRIDGE 205,000 SF		70 CODMAN HILL ROAD BOXBOROUGH 43,720 SF		200 PIER 4 BOULEVARD BOSTON 33,000 SF
	225 WYMAN STREET WALTHAM 130,835 SF		1 CONSTITUTION ROAD CHARLESTOWN 41,910 SF		1 MAIN STREET CAMBRIDGE 31,571 SF
	1100 WINTER STREET WALTHAM 59,305 SF		125 HIGH STREET BOSTON 38,682 SF		120 PRESIDENTIAL WAY WOUBURN 25,000 SF

### OFFICE CONSTRUCTION - TOP 10 PROJECTS



**One Post Office Square**  
Boston  
*Financial District*

**1,130,038 SF**  
31% Leased



**One Congress**  
Boston  
*North Station*

**978,800 SF**  
52% Leased



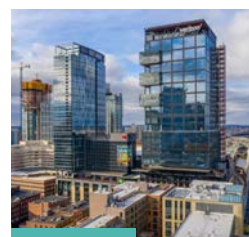
**Winthrop Center**  
Boston  
*Financial District*

**812,000 SF**  
0% Leased



**South Station Tower**  
Boston  
*Financial District*

**646,613 SF**  
0% Leased



**Hub on Causeway - P3**  
Boston  
*North Station*

**632,000 SF**  
100% Leased



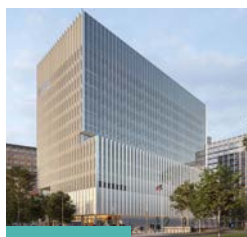
**111 Harbor Way**  
Boston  
*Seaport*

**511,000 SF**  
100% Leased



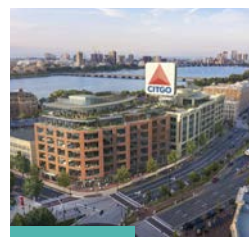
**325 Main Street**  
Cambridge  
*East Cambridge*

**420,000 SF**  
100% Leased



**Volpe Exchange**  
Cambridge  
*East Cambridge*

**400,000 SF**  
100% Leased



**545 Commonwealth Ave**  
Boston  
*Fenway/Kenmore*

**127,035 SF**  
100% Leased



**50 University Ave**  
Westwood  
*Route 128 South*

**50,000 SF**  
0% Leased



	TOTAL INVENTORY SF	UNDER CONSTRUCTION	TOTAL VACANCY	CLASS A VACANCY	CLASS B VACANCY	Q1 NET ABSORPTION	12-MONTH NET ABSORPTION	AVERAGE ASKING RENTS
<b>Total Market</b>	<b>212,513</b>	<b>15,842</b>	<b>13.3%</b>	<b>12.2%</b>	<b>14.9%</b>	<b>45</b>	<b>(3,001)</b>	<b>\$34.96</b>
<b>Boston</b>	<b>78,736</b>	<b>8,821</b>	<b>12.0%</b>	<b>9.3%</b>	<b>17.8%</b>	<b>(19)</b>	<b>(2,342)</b>	<b>\$55.80</b>
Back Bay	15,324	0	6.3%	5.2%	15.9%	169	(72)	\$62.76
Financial District	37,252	2,589	13.4%	11.9%	18.8%	(421)	(1,514)	\$58.61
Seaport	11,500	2,067	17.2%	8.1%	25.9%	220	(433)	\$52.09
Charlestown	2,708	350	21.6%	31.0%	19.7%	(17)	(283)	\$42.86
Fenway	1,908	1,277	2.0%	2.7%	0.5%	0	91	\$50.85
Midtown	2,226	234	10.1%	6.7%	10.9%	2	(41)	\$49.33
North Station	3,378	1,611	10.2%	3.2%	11.8%	(27)	(62)	\$50.25
South Station	1,392	0	9.5%	4.7%	15.1%	10	(96)	\$52.14
S.Boston	1,957	694	10.3%	7.0%	11.4%	(6)	93	\$44.47
Allston-Brighton	1,091	0	3.2%	3.9%	2.0%	50	(24)	\$48.15
<b>Cambridge</b>	<b>11,091</b>	<b>3,763</b>	<b>6.8%</b>	<b>6.3%</b>	<b>7.9%</b>	<b>4</b>	<b>41</b>	<b>\$68.93</b>
East	6,757	3,402	5.8%	4.7%	14.8%	66	265	\$77.22
Mid	2,670	200	9.9%	17.6%	6.6%	(46)	(95)	\$65.71
West	1,664	161	5.8%	6.9%	4.0%	(16)	(129)	\$66.23
<b>Suburban</b>	<b>122,686</b>	<b>3,258</b>	<b>14.7%</b>	<b>15.3%</b>	<b>14.1%</b>	<b>59</b>	<b>(699)</b>	<b>\$24.66</b>
Inner Suburbs	5,541	867	13.4%	8.3%	23.6%	(3)	(20)	\$30.50
Route 128 North	14,773	0	10.8%	13.9%	7.8%	(41)	217	\$23.91
Route 128 Northwest	12,700	360	15.6%	18.5%	10.2%	27	(363)	\$30.42
Route 128 West	24,050	1,495	13.4%	12.7%	14.3%	17	(313)	\$32.09
Route 128 South	18,584	166	11.1%	11.9%	10.2%	(241)	70	\$23.10
Route 495 Northeast	8,157	0	20.1%	15.3%	23.4%	(57)	(298)	\$19.85
Route 495 North	15,317	0	20.2%	24.1%	18.0%	698	285	\$19.83
Framingham-Natick	7,212	0	11.2%	13.1%	8.8%	(92)	(68)	\$24.17
Route 495 West	12,299	0	18.4%	19.1%	17.7%	57	99	\$19.90
Route 495 South	3,623	0	8.3%	6.4%	9.0%	(14)	(17)	\$19.77

\*Numbers in the thousands

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

\*\*\* Asking rents are quoted on a gross basis

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### METHODOLOGY

Source: Co-Star, Hunneman, Apple, Bldup, MBTA. Prepared: September 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.



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