

Forecast 2021



Boston, MA

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Boston, MA



Executive Summary

- Many office tenants in the Greater Boston Area (GBA) remain hesitant to make long-term real estate commitments as the pandemic has induced tremendous uncertainty.
- A flood of sublease space in the downtown Boston office market and generally slow leasing velocity across the GBA have combined to put downward pressure on direct rents, though most landlords continue to quote asking rates at pre-pandemic levels.
- Amid a public health crisis, demand for lab space has never been higher in the nation's top life science market, which has caught the attention of many developers and investors.
- Construction across all property types, especially office and lab, remains steady as developers are betting on the GBA making a full recovery once the pandemic subsides.
- The GBA could be a tenant's market for several years as increased supply expected to deliver in 2022 and 2023 will likely put rents on a slower path to recovery.

COVID-19 has altered market fundamentals in the GBA. While the GBA's technology, healthcare, and life science sectors remain robust, behavioral changes due to government regulations and new norms for remote work continue to disrupt the use of commercial property. Looking forward to 2021, positive prospects for vaccine development and distribution are good news for a return to more normal conditions.

The onset of COVID-19 halted a decade of explosive growth in the GBA. In the spring, strict lockdowns and shelter-in-place orders put the economy into a deep freeze and companies across the board responded with massive layoffs. A record number of unemployment claims pushed the unemployment rate up 9.5% year-over-year as dense metropolitan areas like Boston have faced greater challenges containing the coronavirus. Since the first few months of the pandemic unemployment in the GBA has fallen steadily, fuelled by the

gradual return of workers to the hospitality, recreation, and manufacturing sectors that bore the brunt of the initial impact from the economic shutdown. While the economy is still far from pre-pandemic levels, we expect this positive momentum to carry over into 2021 especially with news that highly effective vaccines may be widely available earlier than originally anticipated.

For the first time in a decade, net office absorption in the GBA turned negative every quarter in 2020. Boston saw a significant influx of 2.8 million sf of sublease space, representing 3.8% of the city's total inventory, since the pandemic began in March 2020. More than half of this space came in the previously thriving CBD. While technology companies have led the charge, plenty of sublease inventory has come from industries such as financial services, professional services, and law. Many companies with leases expiring in the GBA are signing short-term renewals, delaying decisions on long-term occupancy strategies. We expect more occupiers to start making longer-term real estate commitments starting in mid-2021.

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Life science remains a bright spot during the pandemic, registering single-digit vacancies and record asking rates across the GBA. Biotechnology venture capital funding reached an all-time high of \$6.3 billion in 2020, a 5x increase since 2014. The San Francisco Bay Area and GBA account for over half of total biotechnology venture capital investments in the United States. Fully occupied Cambridge has established itself as one of the most expensive markets in the country with triple net rents exceeding \$100 psf. Demand for lab space is at an all-time high and developers are taking notice. Boston Properties, a major class A office developer, announced it will pivot its focus to life science as many of its office buildings offer flexibility for lab conversion. Nearly 4 msf of lab construction is underway across the GBA, the highest in the nation by roughly 1 msf. With tenants spilling out of Cambridge, even less traditional submarkets such as Watertown, Fenway, Seaport, Waltham, and Lexington are emerging as life science hubs.

The industrial market stands on solid footing heading into 2021 as the pandemic has only increased demand for well-located industrial space. Despite a brief but sharp dip in consumer spending in Q2, the profound shift to online shopping has created a surge in demand for warehouse and distribution space. The rise of e-commerce is a trend that is expected to stay long after the pandemic is over. Historically low vacancy is pushing asking rents upward, to the tune of 5.0% year-over-year. Growth in life science industries has benefited the industrial sector as well, driving the need for pharmaceutical manufacturing and specialty storage.

Stay-at-home orders, social distancing, and restrictions on large gatherings have battered much of the retail sector in 2020, and we expect shopping malls to continue to struggle. However, grocery-anchored centers and detached, net-leased retail properties will continue to thrive while many restaurants will start rebounding.

Looking forward, while the GBA will eventually return to pre-pandemic levels, the timeframe of the recovery is uncertain. Transaction volume was down year-over-year, but investors from a variety of capital sources remain confident in the resiliency of the GBA. With thriving life science, technology, education, and healthcare industries, as well as a highly educated pool of talent, the GBA is positioned to recover at least as quickly as other gateway markets in the U.S.

Trend watch



No place like home

Many Boston occupiers, especially in the technology sector, are realizing the benefits of work-from-home flexibility, such as employee happiness and increased productivity of focus work.



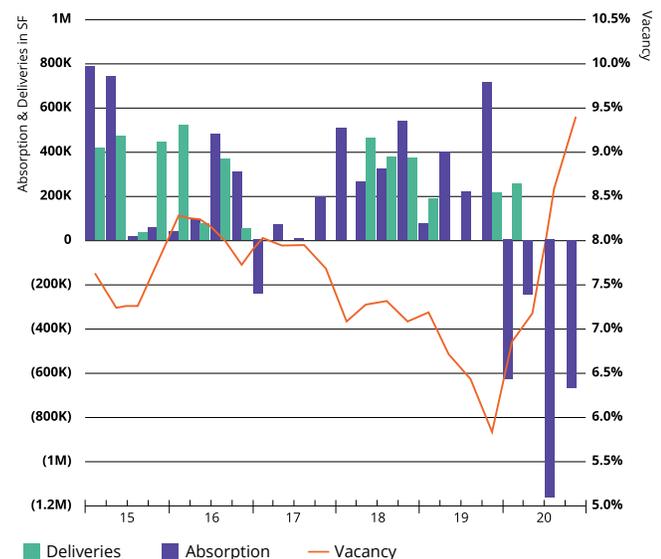
Workplace eXperience

The post-pandemic workplace will need to accommodate employee desires and support collaboration in order to attract talented knowledge workers.



“Measure for measure”

Like many markets, Massachusetts experienced a “K shaped” employment recovery; disproportionate layoffs of low-wage workers led to the nation’s highest unemployment rate at the start of the pandemic while higher-income jobs have returned faster.



Downtown Boston’s Net Absorption, Net Deliveries, & Vacancy
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