AVISON YOUNG

Office Market Report / Fourth Quarter 2020

Greater Boston

Quick stats
Greater Boston

247.4 msf
Total market RBA

11.3%
Class A vacancy

12.6%
Class B vacancy

$46.86 psf
Class A
Average annual asking rate

$34.52 psf
Class B
Average annual asking rate

Overall vacancy climbed to over 11% during the third quarter, the highest vacancy has been in Greater Boston since the third quarter of 2014.

Life Sciences drive market in 2020 while Office lags

- 2020 was a year unlike any other in the Greater Boston commercial real estate market. After seeing record setting GDP recovery in Q3, Massachusetts reimposed restrictions on activity in Q4 with the U.S. gripped by a new wave of coronavirus spread.
- As during the first lockdown, lower-wage earners in the labor-heavy service sector (especially those in restaurants, leisure, and hospitality) felt most of the impact. Office using sectors such as professional, financial, and legal services remained among the strongest for employment growth, though they have continued to rely largely on remote work. While this has proven effective in the short-term, the long-term impact remains unknown.
- Most occupiers are still postponing long-term leasing decisions, but a few companies made headlines in Q4 with announcements about downsizing. Raytheon, one of the largest employers in Massachusetts and a mainstay of the pandemic-clobbered aerospace and defense industry, announced it will trim 20-25% of its global real estate footprint to save money. Technology giant LogMeIn cut its office space in the Boston Seaport by 111,000 square feet (sf), and one third of its space nationwide as part of a commitment to a hybrid model for most employees. In the financial services sector, Barclays is also looking to cut costs by reducing its global real estate footprint.
- Leasing velocity was down over 50% in 2020, as the bulk of deals outside the life sciences sector were short-term extensions or renewals. Despite starting the year at an all-time low, vacancy across Greater Boston rose to 11.8%, an increase of 300 basis points in 2020 and 130 basis points in Q4 alone.
- The Greater Boston market saw a historically low negative 4.9 million square feet (msf) of absorption in 2020, nearly 1.6 msf of which came in Q4. This was driven by the twin factors of dwindling tenant demand and a significant influx of sublease inventory, most of which came from technology companies and startups.
- Life Sciences provided a consistent bright spot in 2020, and landlords have taken notice. Developers plan to deliver 3.9 msf of new lab space in the next two years, and office-to-lab conversions are gaining more traction every quarter. Oxford Properties Group announced it will reposition its proposed office tower at 125 Lincoln St in the CBD to laboratory space. IQHQ plans on converting newly acquired One Alewife Square in West Cambridge to laboratory space as well. BioMed Realty also purchased the old John Hancock Headquarters at 601 Congress St in the Seaport and plans on converting the 482,000 sf LEED Platinum class A office building into lab.

Trends to watch

Office-to-Lab conversions
Office-to-lab conversions are gaining more traction every quarter across Greater Boston.

Sublease space
Asking rates will continue to soften as record sublease inventory has hit the market.

Urban Boston

- Since the start of the pandemic sublease space has dominated the market in urban Boston, posting a record setting total of 3.0 msf since March. October alone saw 667,541 sf of sublease space come to market, the highest of any month in 2020. LogMeIn, Toast, Havas, Publicis, and Boston Private all added over 40,000 sf of sublease inventory in October.

- The CBD has been hit especially hard by the pandemic, accounting for 2.1 msf of Boston's 3.0 msf of negative absorption year-over-year. Uncertainty regarding the future of coworking could push net absorption down further in 2021.

- Mounting sublease space and sluggish leasing velocity pushed vacancy up 430 basis points year-over-year to 10.4% in Boston.

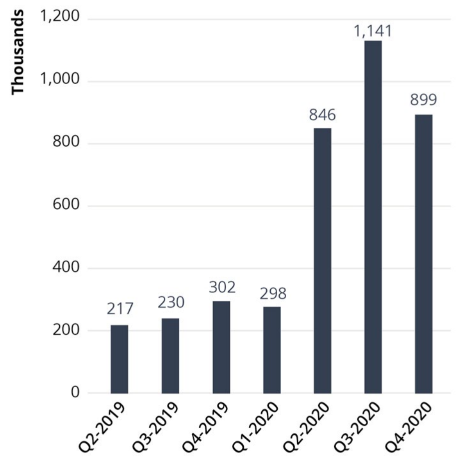
- While class B asking rates have softened, the class A market is yet to see a significant drop. Instead, class A landlords have offered generous free rent, tenant improvement allowances, and other concessions to compete with discounted sublease space. We expect this to continue into 2021 as landlords attempt to prevent significant rental rate declines. Additional office supply coming to market in 2021 and 2022 will challenge this, putting rent growth on a longer path to recovery. We anticipate Boston to be a tenant's market for several years to come.

- In December, Boston-based financial services firm Loomis, Sayles & Company, represented by Avison Young, signed a long-term lease extension for 232,184 sf through mid-2037 at One Financial Center. The deal means a smaller footprint for the firm but is nevertheless the largest office transaction in Boston since July 2019. The firm cited a few keys to its long-term commitment to Boston's CBD: right sizing their operations, taking advantage of technology utilized in the remote working environment, and creating long-term flexibility for the company.

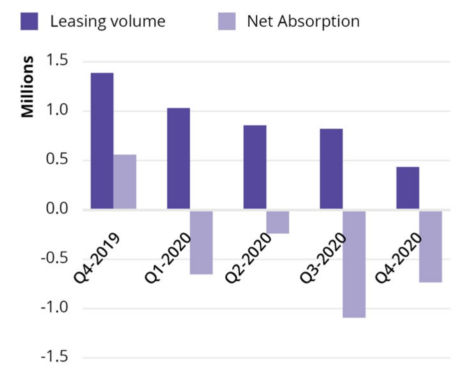
- Skanska seized one of the few remaining development opportunities in Back Bay, acquiring 380 Stuart Street for $177 million. With its proposed 27-story, 625,000 sf office tower, Skanska is betting on the future of the workplace and the Back Bay submarket alike.

- Davis Companies announced a 330,600 sf addition to 88 Black Falcon Ave in the Seaport, to be comprised of office, R&D, and lab space.

Quarterly additions to sublease inventory



Leasing vs Absorption



Suburban Boston

- Compared to downtown Boston vacancy increases in suburban Boston were less severe. In 2020 the 128 Belt and 495 Belt saw 2.4% and 1.2% increases, respectively.

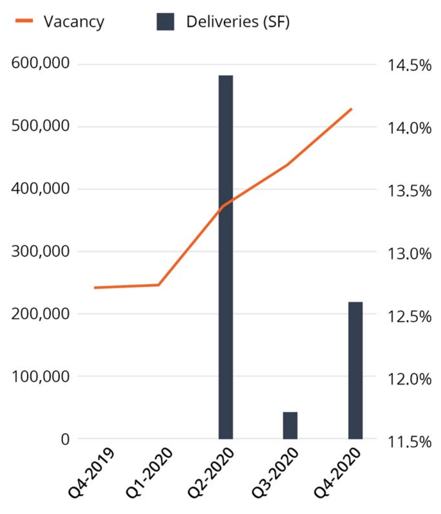
- Discussion about the "rise of the suburbs" and decentralized workplace models like "hub-and-spoke" remain largely speculative, as no major urban occupiers have announced relocations to the suburbs. But given growth in the suburban Boston housing market, these trends remain on the table as possibilities for 2021 and beyond.

- The 128 Belt actually enjoyed positive net absorption in 2020, mainly due to a handful of sizeable life sciences deals along 128 West, which netted 325,850 sf for the quarter. Growth in life sciences in spillover markets such as Allston/Watertown, 128 West, and 128 North helped ease the impact of otherwise weak office demand. Outside of biotechnology tenants, leasing velocity remained slow in the suburbs.

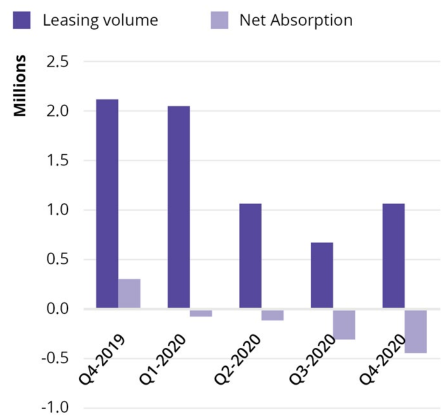
- The top three life sciences transactions across Greater Boston in Q4 were concentrated in the suburbs. Translate Bio signed a 10-year 138,000 sf lease at 200 West St in Waltham, an office building that Boston Properties is currently converting to laboratory space. Constellation Pharmaceuticals leased 79,000 sf in Watertown to escape the expensive East Cambridge market. And after Dyne Therapeutics raised $267.7 million from its September initial public offering, the medical treatment firm leased 68,187 sf to fully occupy 1560 Trapelo Rd in Waltham.

- In addition to comparatively robust leasing activity, the 128 Belt was an active investment sales market in Q4 as well. TPG acquired the newly lab-converted 615,000 sf CenterPoint Campus in Waltham for $344 million from Hilco Real Estate. Merck bought out its two-building 350,000 sf lease in Burlington from The Gutierrez Company for $252 million as well.

Vacancy vs Deliveries



Leasing vs Absorption

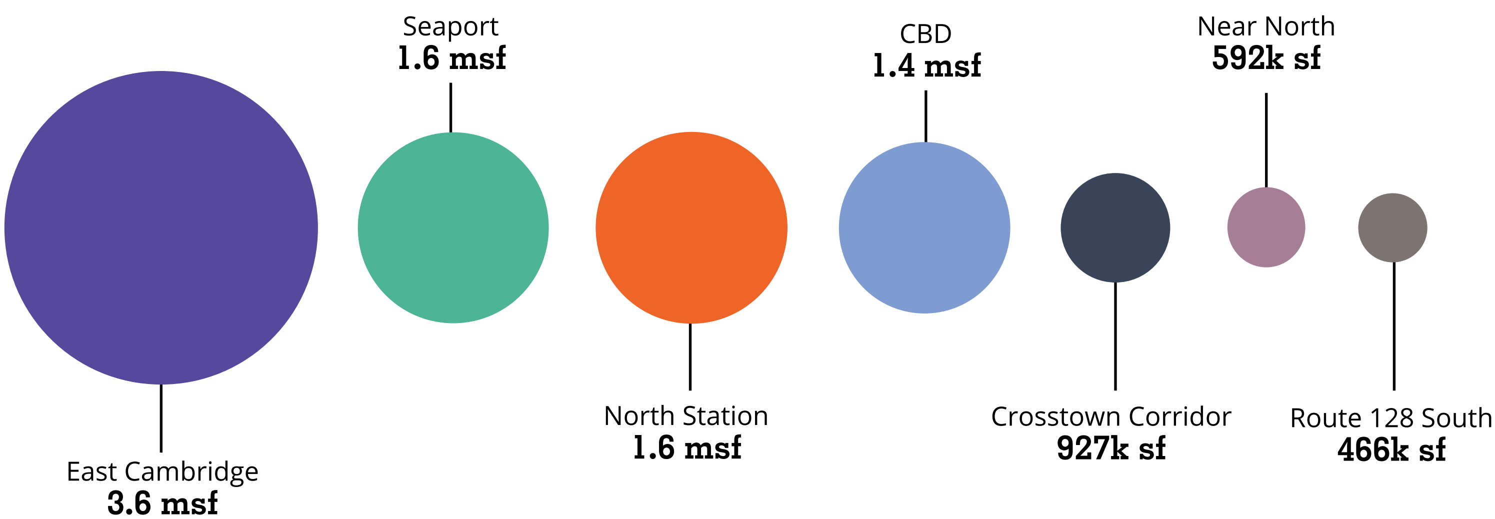


Looking forward

With the arrival of multiple highly effective vaccines in December, there is finally light at the end of the COVID-19 tunnel. After ten months of pandemic-induced disruption to Greater Boston and to the overall global economy, life will move closer to normal, with restrictions expected to be eased following widespread vaccination in the spring of 2021.

Post-pandemic life will begin to tell the long-term impact of remote work on the office market. Though many companies have return-to-office plans, it seems clear that the 5-day commute to a central headquarters will be a thing of the past for many office workers. Flexibility to work remotely will be an important benefit for office occupiers in attracting talent, and this will challenge office space to adapt in order to draw employees for high-value collaborative work. Even so, we expect to see more companies making longer-term real estate commitments by mid-2021. Buoyed by the life sciences sector and a highly educated workforce, Greater Boston should recover at least as fast as other U.S. gateway markets.

Construction totals by submarket



Construction pipeline

= includes lab component

Building	Developer	Submarket	Delivery	SF	%Leased
The Hub on Causeway	Boston Properties	North Station	Q2 2021	651,000	100%
225 Wyman St	Hobbs Brook Management	128 West	Q2 2021	507,620	36%
111 Harbor Way	WS Development	Seaport	Q3 2021	511,000	100%
Cambridge Crossing	DivcoWest	East Cambridge	Q4 2021	1,428,000	100%
201 Brookline Ave	Alexandria Real Estate Equities	Fenway/Kenmore	Q2 2022	501,200	18%
Winthrop Center	Millennium Partners	CBD	Q4 2022	812,000	0%
400 Summer St	WS Development	Seaport	Q1 2023	626,000	100%
650 Atlantic Ave	Hines	CBD	Q3 2024	660,000	0%
Bullfinch Crossing	Carr Properties	North Station	Q4 2024	1,012,000	50%

Market by the numbers

Submarket	Total RBA (SF)	Total Vacancy Rate	Vacancy Rate A	Vacancy Rate B	Net Absorption (SF)	Net Absorp. YTD (SF)	Under Construction	Average Ask Total	Average Ask A	Average Ask B
CBD	43,120,188	11.2%	10.6%	13.3%	-528,993	-2,105,496	1,458,613	$61.79	$66.17	$50.90
Seaport	13,298,178	13.3%	9.3%	18.7%	-86,129	-195,664	1,665,900	$61.93	$68.65	$53.87
Back Bay	14,465,525	6.7%	5.9%	11.8%	-122,223	-594,665	0	$72.03	$75.22	$51.72
North Station	4,689,122	6.7%	5.5%	7.6%	-34,629	-103,960	1,617,000	$46.00	-	$46.00
The Core	75,573,013	10.4%	9.2%	13.7%	-771,974	-2,999,785	4,741,513	$63.35	$68.53	$51.40
East Cambridge/ Kendall	13,326,812	3.5%	3.5%	3.2%	-103,624	-242,606	3,463,875	$89.68	$92.34	$78.39
Mid Cambride/ Havard Square	7,169,500	3.3%	1.5%	6.3%	-24,047	-35,479	200,000	$67.28	-	$67.28
West Cambridge/ Alewife Square	3,489,853	6.7%	9.3%	2.7%	13,288	286,553	0	$84.46	$89.30	$28.18
Cambridge	23,986,165	3.9%	3.8%	4.7%	-114,383	8,468	3,663,875	$82.23	$91.19	$70.81
Charlestown/ Eastie	2,919,246	15.6%	29.5%	16.3%	-269,379	-228,790	350,000	$38.85	-	$38.85
Near North	6,059,062	13.1%	23.1%	6.2%	-62,105	-17,879	592,546	$27.88	$37.21	$26.52
Allston/Watertown	5,382,541	5.5%	9.6%	3.6%	-83,711	-109,482	0	$38.19	$52.07	$23.74
Fenway/Kenmore	5,070,019	5.6%	1.1%	10.1%	0	-59,460	16,940	-	-	-
Crosstown Corridor	4,771,543	6.5%	5.5%	9.0%	-19,754	32,062	927,822	$45.06	$54.30	$27.72
The Ring	24,202,411	8.9%	8.9%	8.8%	-434,949	-383,549	2,498,603	$33.44	$35.94	$31.70
Route 128 North	23,698,092	12.6%	16.0%	8.6%	-166,397	-921,326	154,000	$25.40	$30.11	$17.39
Route 128 West	25,956,136	11.0%	10.6%	12.6%	325,850	52,986	367,491	$31.90	$34.14	$29.95
Route 128 South	14,028,254	11.7%	11.9%	12.9%	-159,586	-92,680	466,334	$23.02	$26.93	$22.37
South Shore	2,940,700	7.6%	5.6%	9.6%	30,835	-6,805	0	$21.69	$25.65	$19.61
128 Belt	66,623,182	11.6%	12.7%	11.2%	30,702	-967,825	987,825	$27.03	$30.68	$24.12
Route 495 Northeast	11,010,902	17.1%	13.9%	22.6%	-167,938	-501,964	80,000	$25.58	$30.24	$21.61
Route 3 North	14,686,389	17.1%	24.1%	17.2%	-94,733	-103,612	186,000	$19.92	$19.99	$19.84
Route 495/Route 2 West	6,148,510	17.2%	23.8%	14.3%	123,457	146,907	0	$21.24	$21.78	$20.15
Route 495/Mass Pike West	10,950,574	21.8%	28.8%	15.6%	-116,584	-149,762	150,000	$20.13	$21.90	$19.35
Framingham/Natick	6,210,075	12.7%	13.3%	12.4%	-24,442	-102,359	0	$22.95	$27.43	$20.49
Route 495 South	7,988,965	5.3%	5.1%	6.8%	13,849	164,749	0	$18.60	$33.18	$18.23
495 Belt	56,995,415	15.9%	20.5%	15.8%	-266,391	-546,041	416,000	$21.30	$23.02	$19.87
Suburban Boston	147,821,008	12.8%	15.1%	12.6%	-670,638	-1,897,415	3,902,428	$25.57	$28.59	$23.72
TOTAL	247,380,186	11.8%	11.3%	12.6%	-1,556,995	-4,888,732	12,307,816	$39.73	$46.86	$34.52

Greater Boston submarket map

MAP KEY

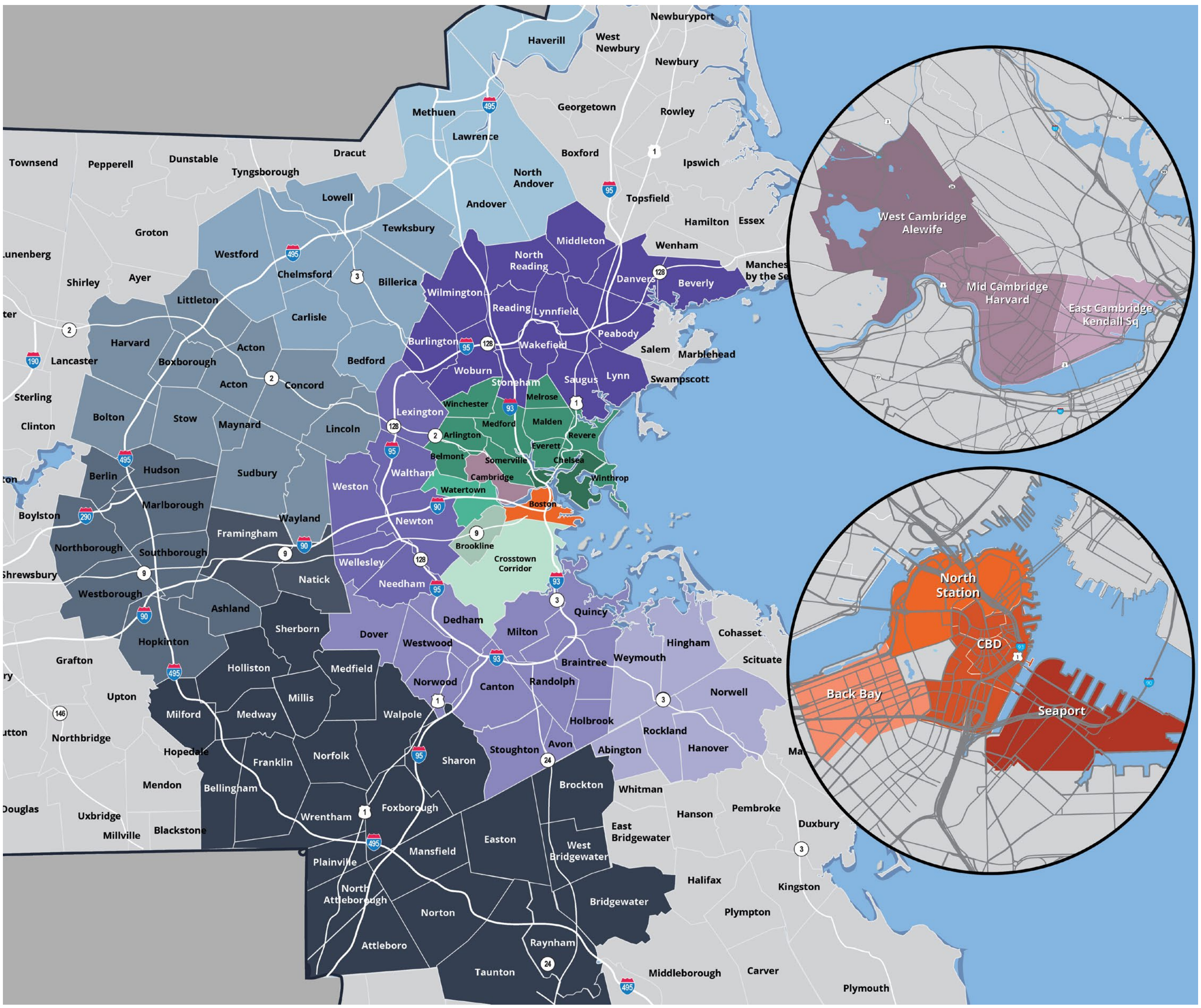
495 Belt
- 495 Northeast
- Route 3 North
- 495 Route 2 West
- 495 Mass Pike West
- Framingham/Natick
- 495 South

128 Belt
- 128 North
- 128 West
- 128 South
- South Shore

The Ring
- Charlestown/Eastie
- Near North
- Allston/Watertown
- Fenway/Kenmore
- Crosstown Corridor

Boston
- Seaport
- CBD
- North Station
- Back Bay

Cambridge
- West Cambridge/Alewife
- Mid Cambridge/Harvard
- East Cambridge/Kendall Sq



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