



**AVISON
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Boston Office Insight Report

Q3 2021

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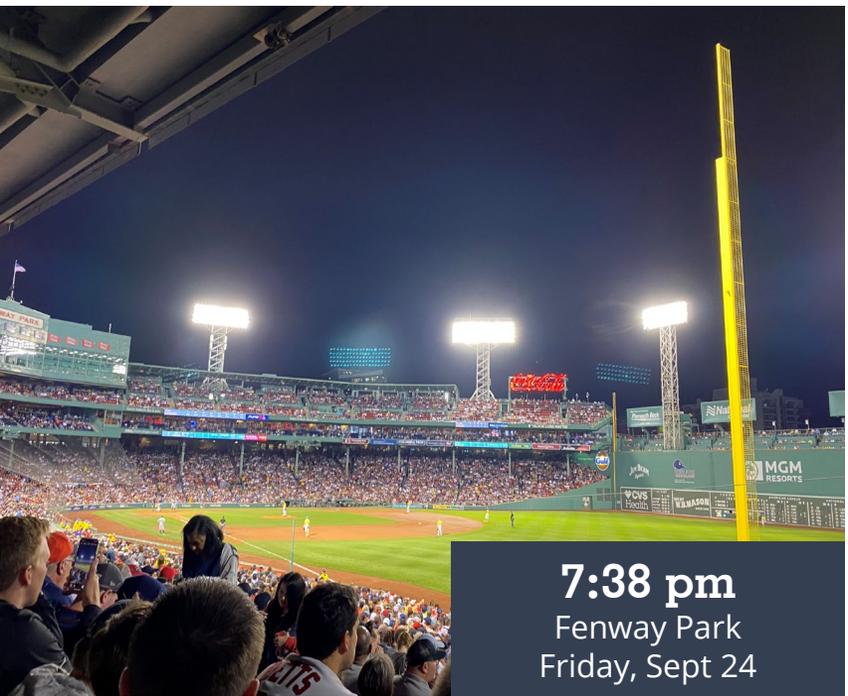
5:26 pm
Boston Common
Tuesday, Oct 5



5:20 pm
Government Center
Tuesday, Oct 5



5:45 pm
Park Plaza
Tuesday, Oct 5



7:38 pm
Fenway Park
Friday, Sept 24



6:04 pm
Copley Plaza
Tuesday, Oct 5



5:15 pm
Park Street Station
Tuesday, Oct 5

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed the Boston unemployment rate to rebound from a high of 15.6 percent in April 2020 to **5.0 percent** in August 2021.
- Boston Metro MSA employment has increased by **4.7 percent** in the past 12 months, signaling a recovery. This recession's impact on the office-using labor market has been less severe than the global financial crisis, when office-using job losses averaged -2.9 percent.



Recovery rate

- The overall post-COVID rate of recovery based on extrapolated cell phone data across different areas of interest in Boston is **-25.6 percent** compared with the same period in 2019.
- Despite significantly lower visitor volumes compared with other areas around Boston, return-to-work efforts are the strongest compared with other U.S. gateway cities. Office visitor volumes are **-58.8 percent** versus the week immediately preceding the quarantine, significantly outpacing the U.S. gateway cities' average of 72.3 percent.



Office demand

- Leasing activity has paused, decreasing by **-43.6 percent** compared with long-term historical averages.
- Net absorption as a percentage of existing inventory had bottomed out earlier in the pandemic but is now on the rise, with the overall rate at **-0.5 percent** to date in 2021, nowhere near the lows of 2020 nor the Global Financial Crisis.

Key takeaways



Office supply

- Direct and sublease vacancy rates have achieved recent historical highs, totaling **11.8 percent** for the entirety of the Boston market.
- The sublease market continues to drag aggregate fundamentals, accounting for **4.2 msf** of vacant space in the Boston market. However, notable tenants are withdrawing large sublease blocks from the market, which can be attributable to an anticipated return to the office or tepid sublessor demand in this market segment.



Pricing trends

- Base rents decreased by **4.9 percent** from 2019 to present as landlords induced tenant commitments through record-setting concessions packages and favorable lease provisions.
- The average differential in net effective rents from across the entirety of the Boston market, from pre-pandemic to now is **11.9 percent**, with the suburban markets being impacted less by the recession.
- Landlords continue to offer generous concession packages to tenants to entice them to rent, with tenant improvement allowances increasing **10.5 percent** from 2019 to present.



Capital markets

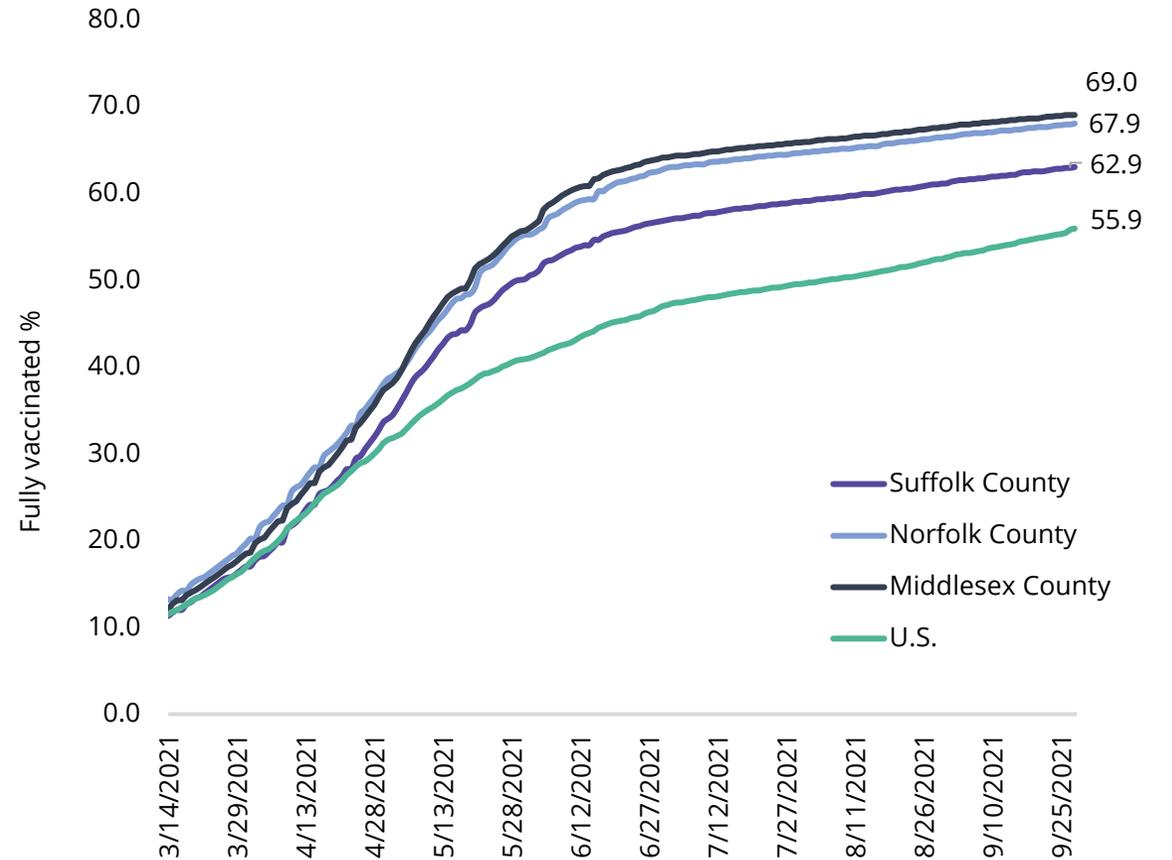
- The market has entered a risk-pricing crisis despite continued record levels of dry powder. As a result, just **\$5.0B** of Boston office properties have been sold since 2020.
- There is optimism in the market, there is a positive **5.6 percent** increase in Boston office pricing from 2020 to present, this is attributed to investor's interest in higher quality office assets.

Vaccination rates

62.9%

Share of total Boston population that is fully vaccinated

The proportionate share of vaccination rates in Boston has far surpassed the U.S. average. Middlesex County and Norfolk County, where restrictions are looser than other Boston counties, have higher vaccination rates than the Boston average.



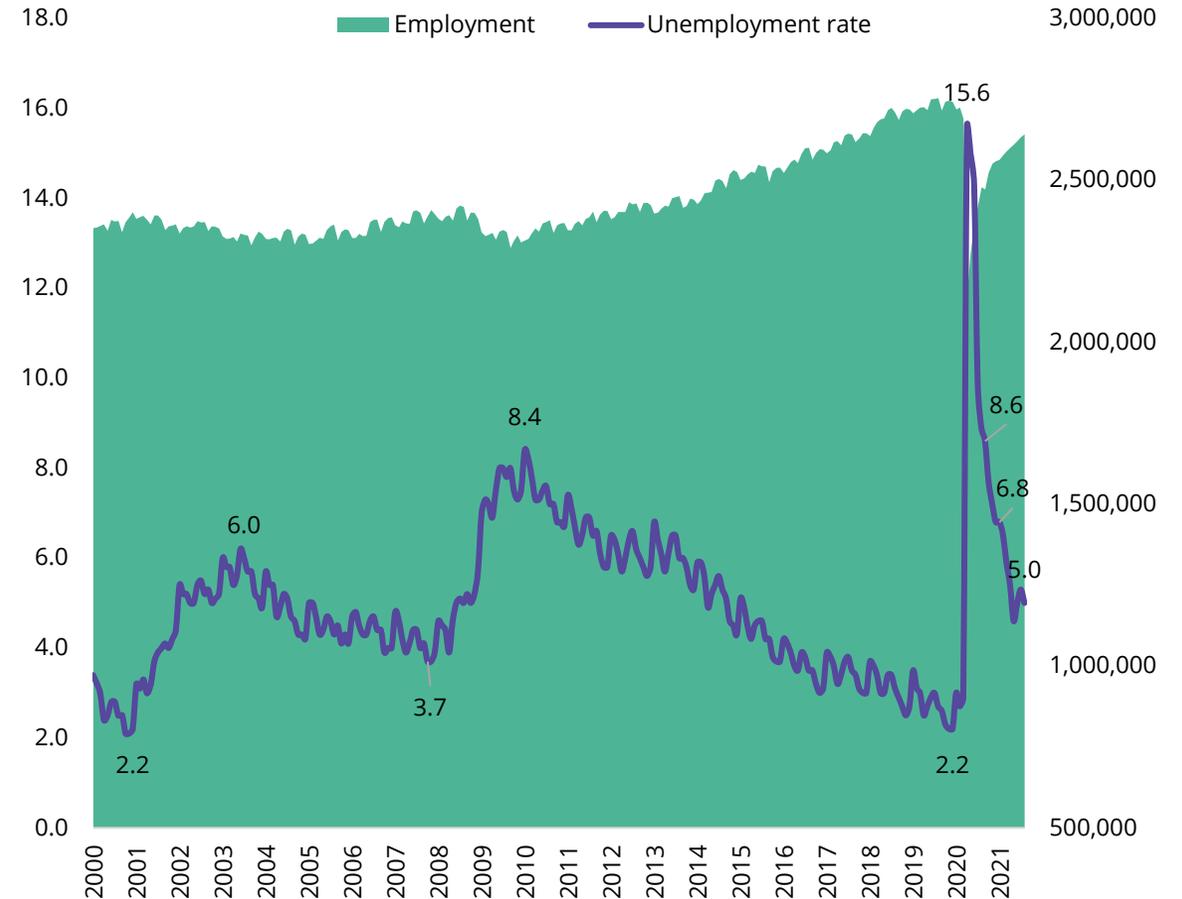
Source: CDC

Employment and unemployment rate

5.0%

Boston MSA unemployment rate as of August 2021, dipping below the height of the global financial crisis

Historically tightened labor market conditions were halted by the pandemic with over 591,000 job losses between February and April 2020. However, reopening efforts enabled the economy to recapture 23.9% of the jobs lost since the pandemic-induced employment low in April 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-1.2%

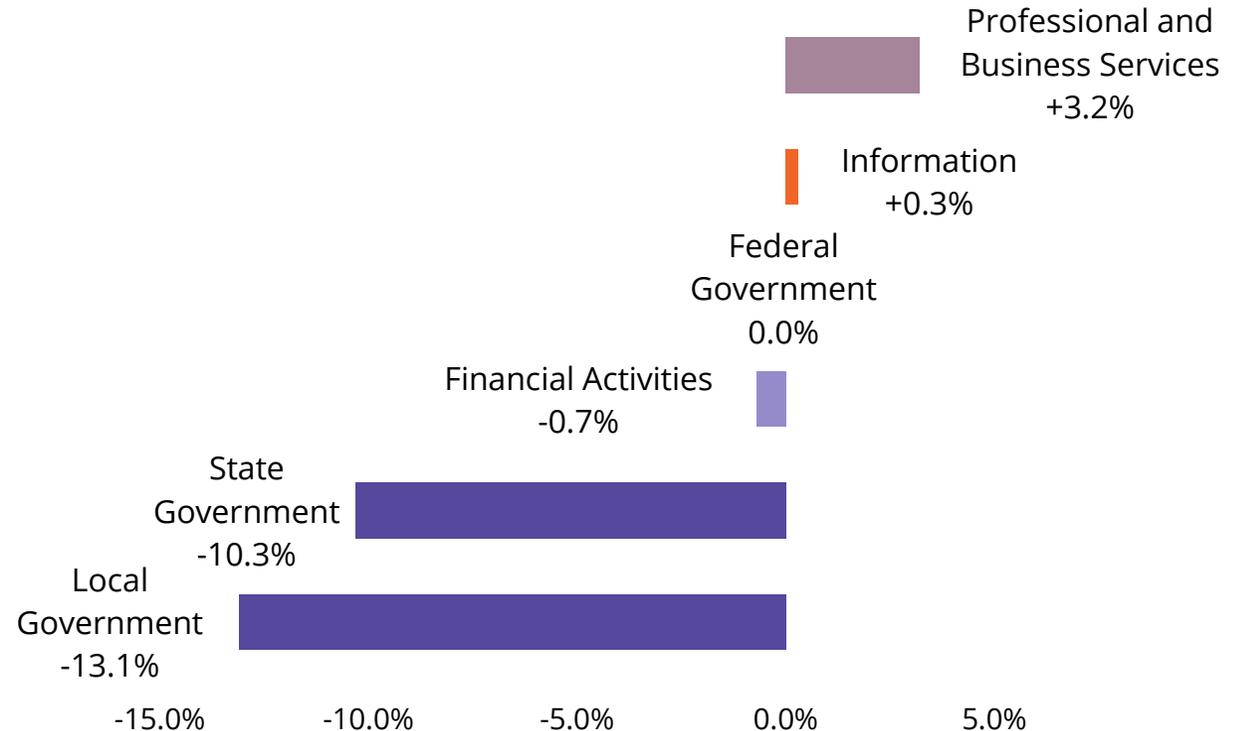
Change in office-using employment during the pandemic

Boston Metro MSA employment has increased by 4.7% in the past 12 months, signaling a recovery. This recession's impact on the office-using labor market has been less severe than the global financial crisis, when office-using job losses totaled -2.9%.

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Total change in Boston Metro MSA job gains/(losses)

February 2020 to July 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

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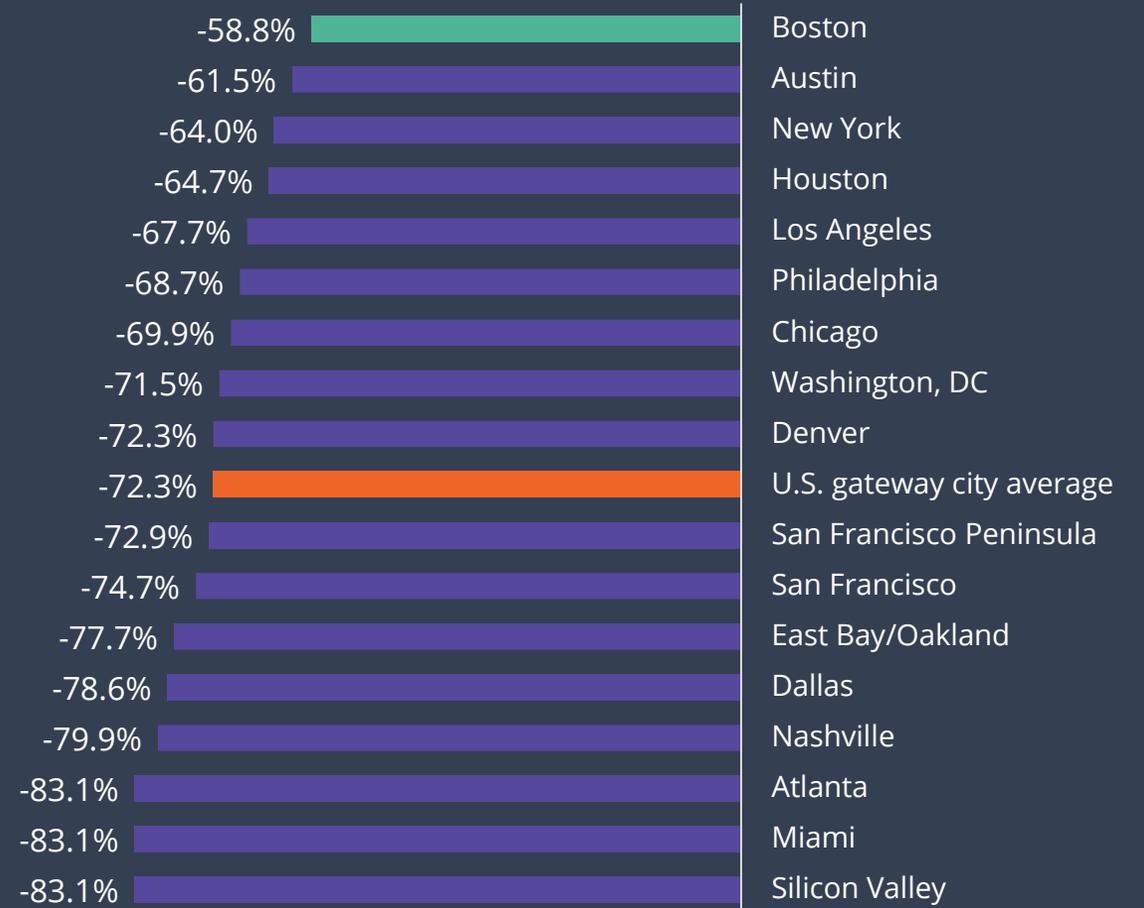
U.S. return-to-work rates since start of COVID

-72.3%

Average office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Return-to-work efforts across cities have been influenced by governmental regulations (informed by infection and vaccination rates), office-using industry composition and employees' reliance on mass transit.

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Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

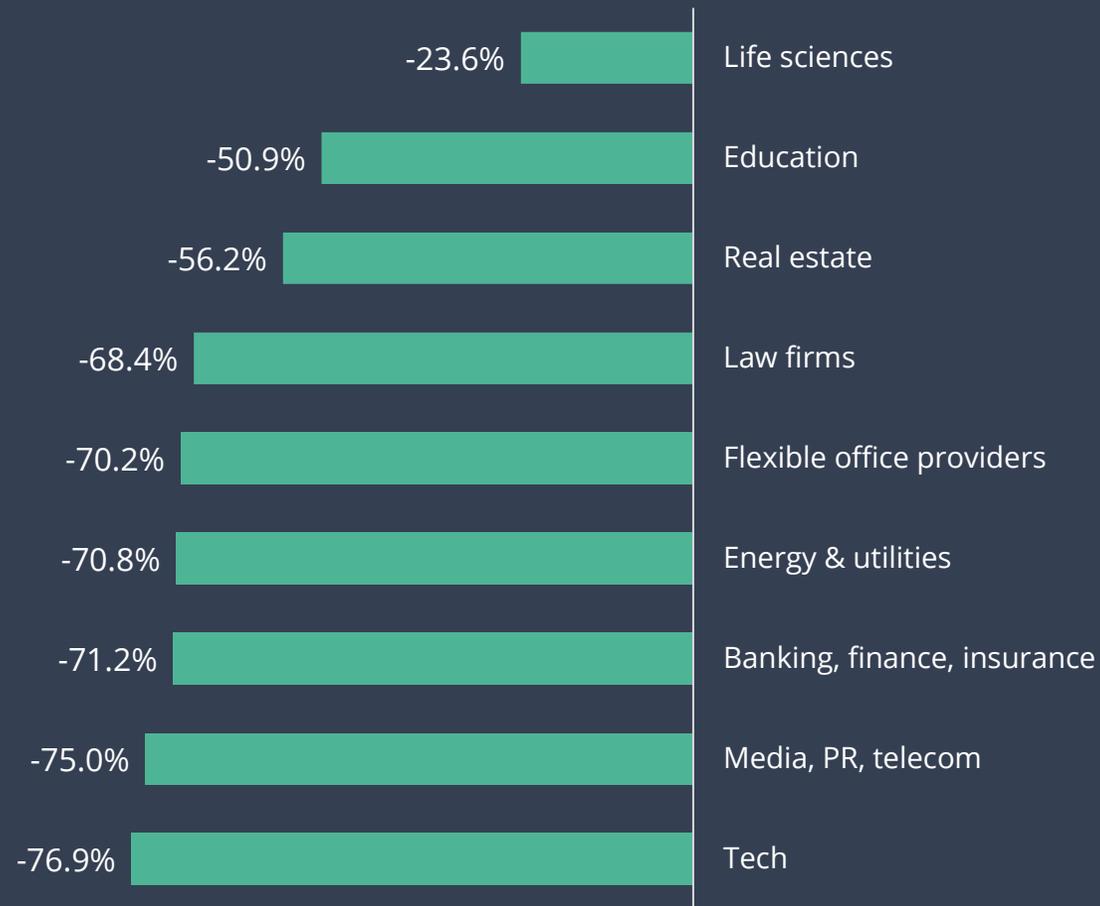
U.S. return-to-work rates since start of COVID

-76.9%

Average tech office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Tech companies have adopted remote work strategies more than most major office-occupying industries, while life sciences and real estate companies have embraced flexible in-office and remote working arrangements.

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Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

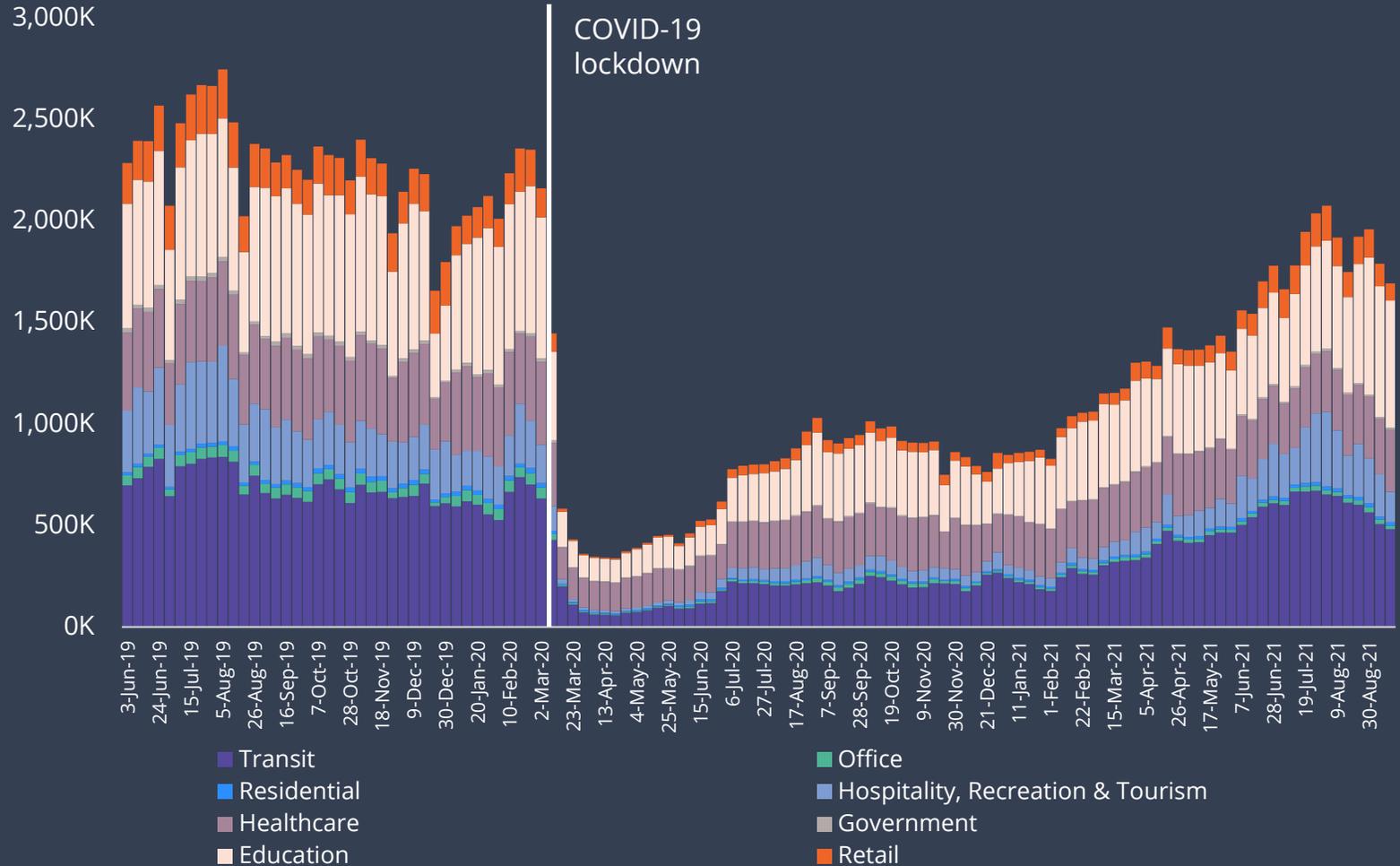
Local historical visitor volumes

87.4%

Total visitor volume increase,
September 16, 2020 vs.
September 13, 2021

Transit (-16.4%) and education
(-16.6%) have nearly returned to pre-
COVID activity levels, though office
(-56.9%) has lagged all other property
types.

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Note: Based on cell phone data for representative areas of interest. Weekdays only.
Weekly visitor volumes referenced above.
Source: Orbital Insight, AVANT by Avison Young

Change in local activity levels, 2019 vs. 2021

-56.9%
Office

-57.1%
Retail

-16.4%
Transit

-10.2%
Healthcare

-16.6%
Education

-42.0%
Government

-24.2%
Residential

-70.2%
Hospitality &
Tourism

Note: Select, representative areas of interest only. Weekdays only.
Week of September 16, 2019 vs. week of September 20, 2021.
Source: Orbital Insight, AVANT by Avison Young

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Office occupier conditions

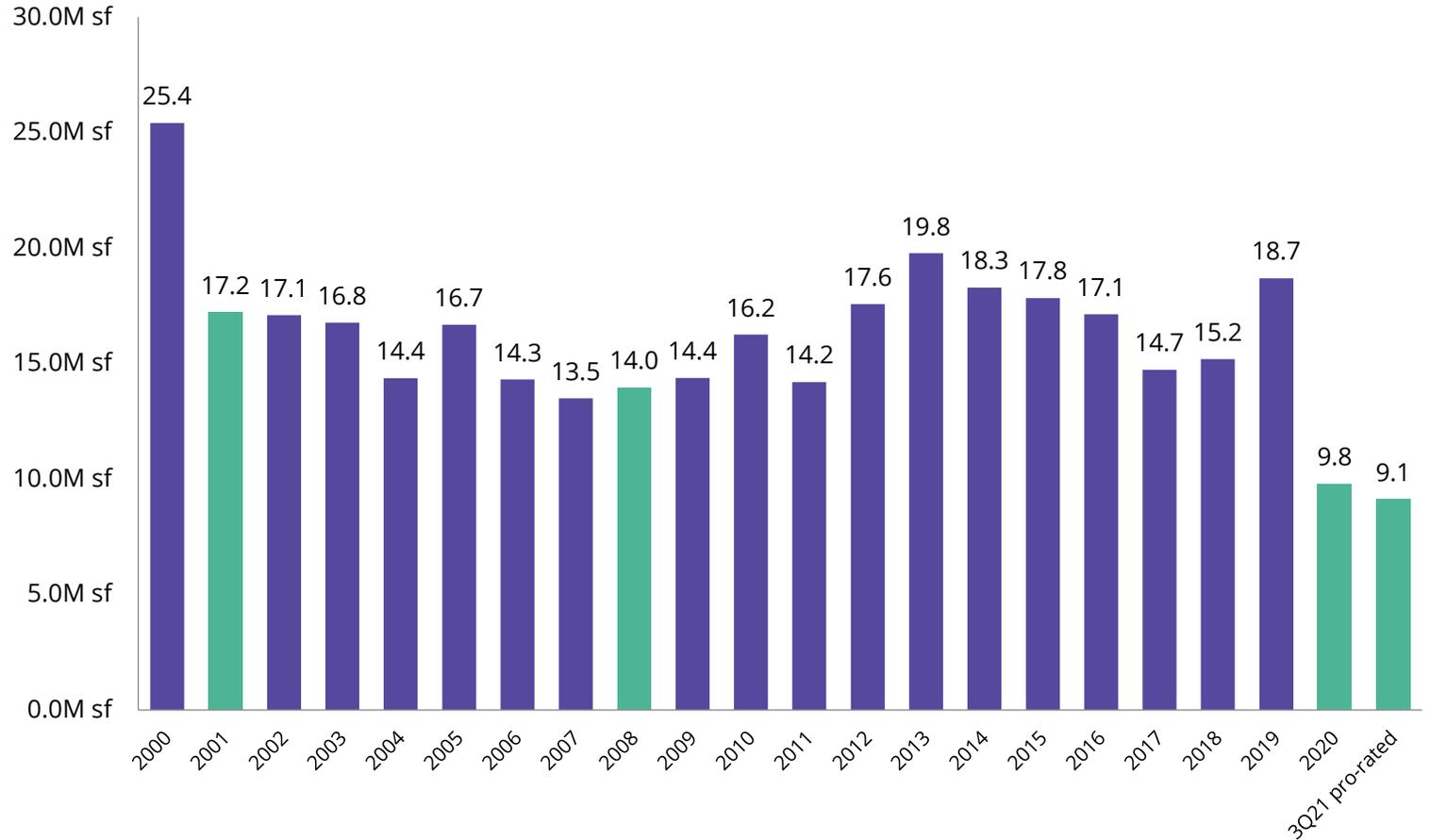
Demand temporarily paused, allowing supply to reach record levels. Tenants are navigating the market with more conviction, though the lab segment of the market is as strong as ever.

Boston office leasing activity

-43.6%

2020-pro-rated 2021 vs. prior 20-year annual average leasing activity

There is positive momentum within the office market in Boston, as there is currently less than a 675k sf delta between all of activity in 2020 and YTD 2021. However, the annualized pace of closed deals remains the weakest reported since at least 2000.



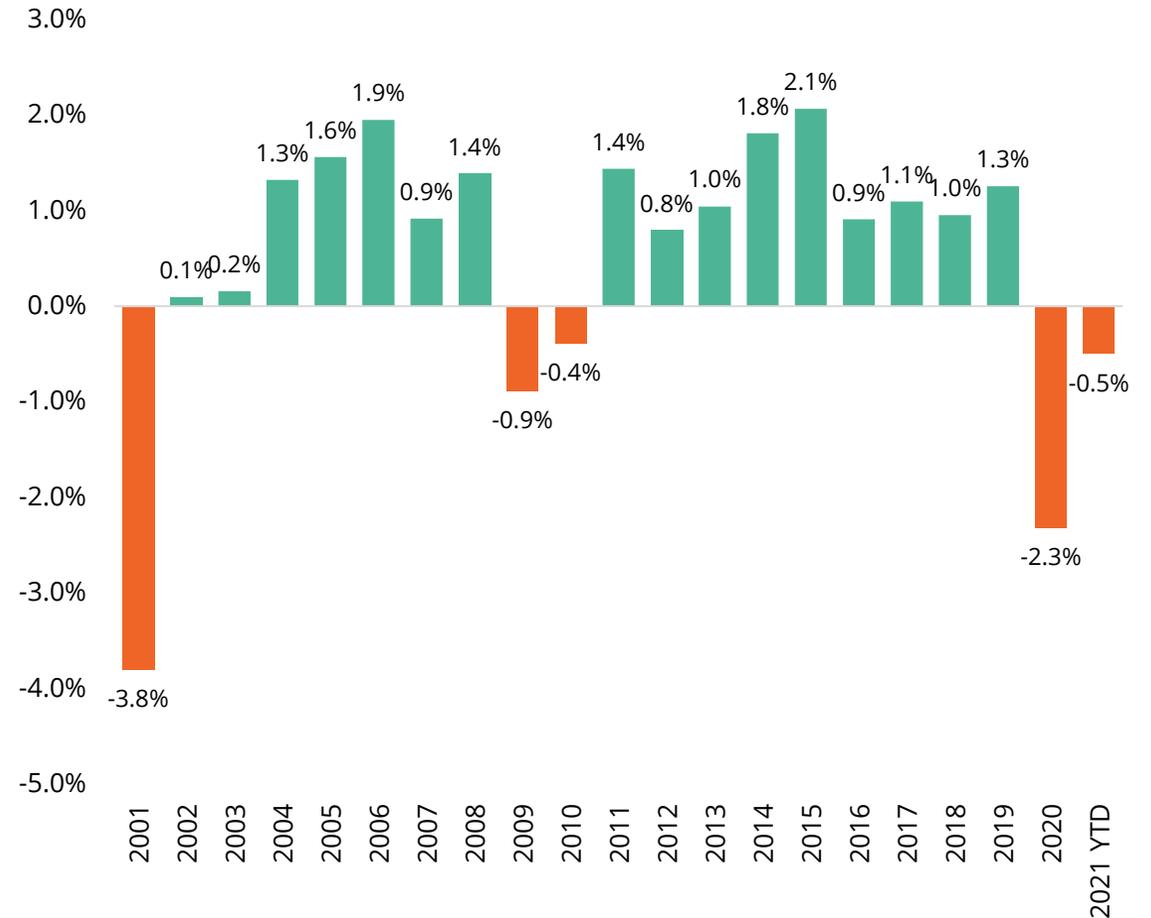
Source: AVANT by Avison Young

Boston absorption

-2.8%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Negative absorption from 2020 to YTD 2021 has totaled -5.3 msf, totaling -2.8% of the existing stock. This negative absorption almost surpasses the lows of the early 2000's recession (-3.8%) and greatly surpasses that of the global financial crisis (-1.3%).



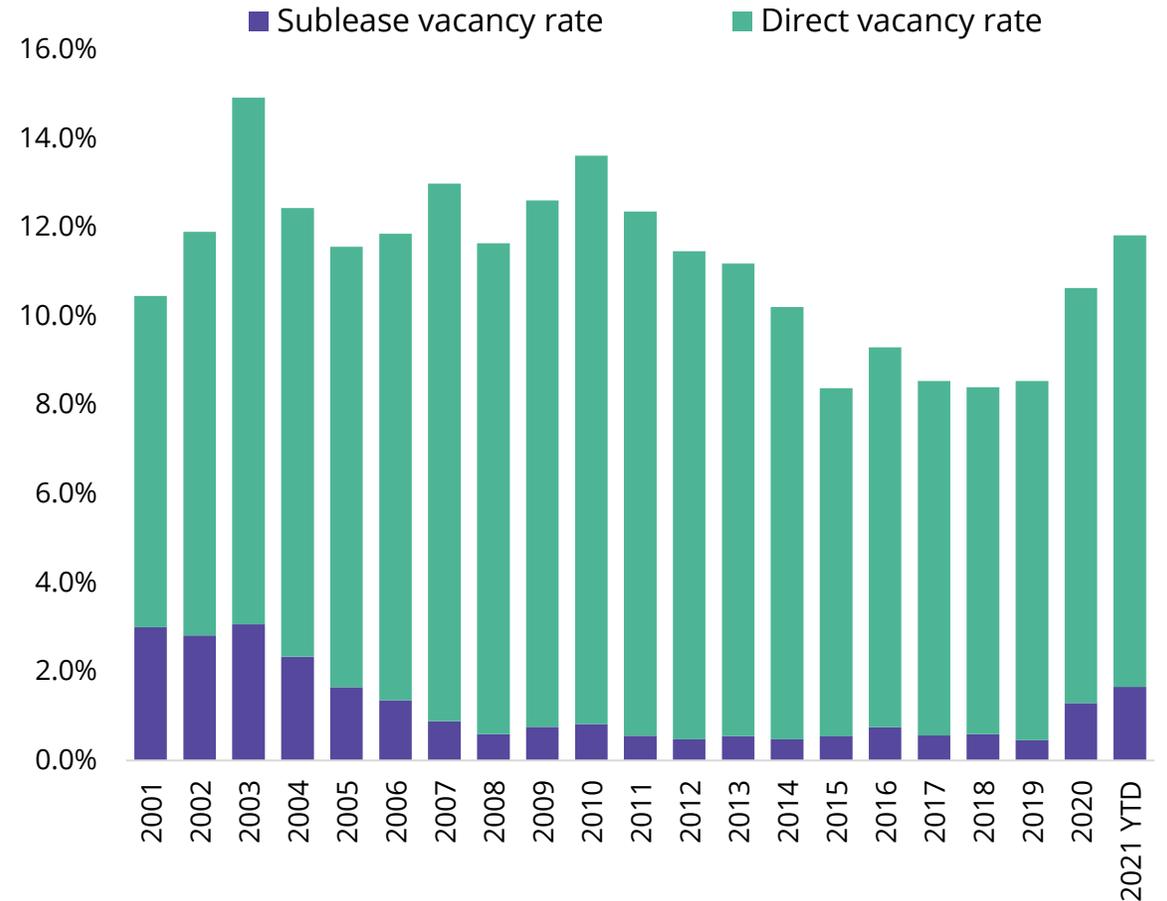
Source: AVANT by Avison Young

Boston vacancy rate

11.8%

Total Boston vacancy Q3 2021

Vacancy across the Boston market did not surpass highs of both the Dot Com Recession as well as the Great Financial Crisis, showing that there is a resiliency bolstered by downward trending sublease vacancy in the 495 Belt and marginal additions to the direct vacancy throughout the 128 Belt.



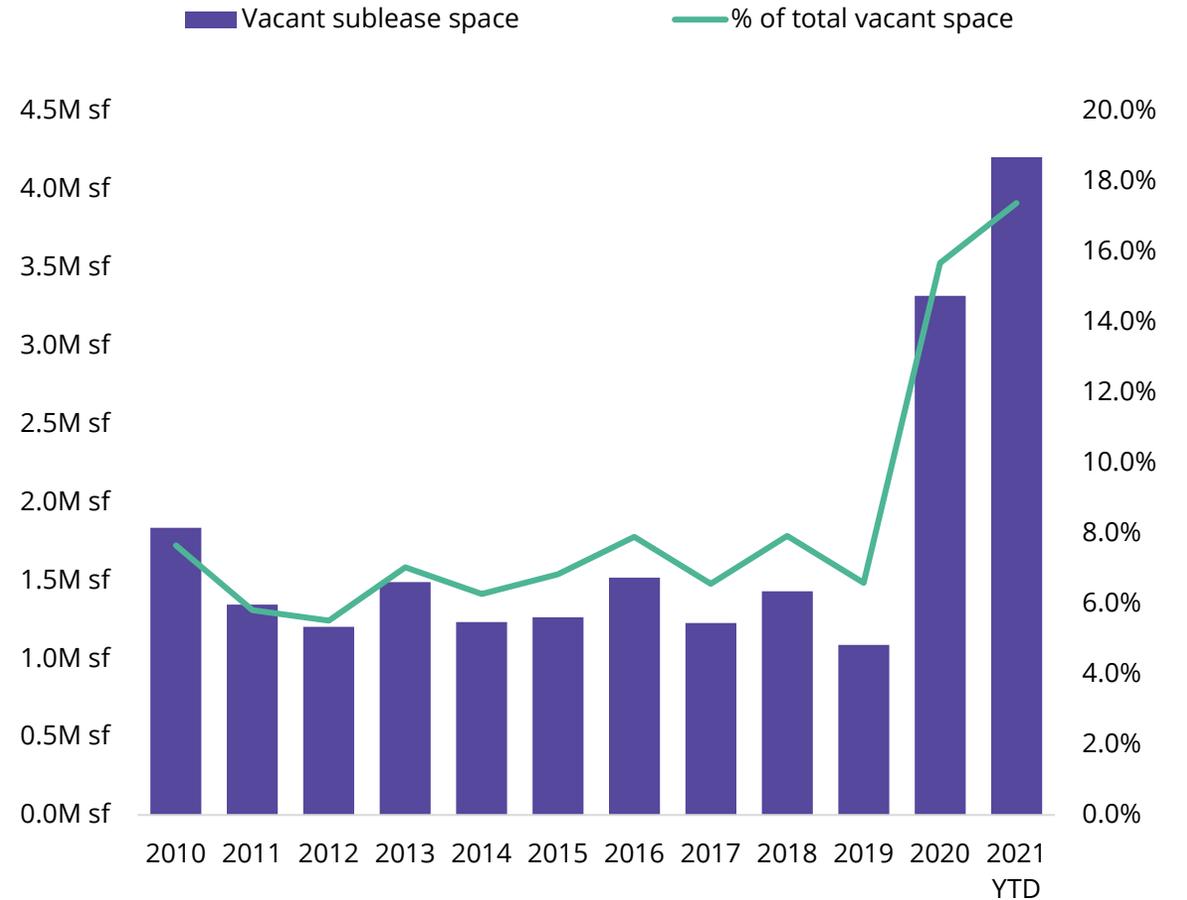
Source: AVANT by Avison Young

Boston vacant sublease space

4.2 msf

Post-2010 record levels of sublease vacant space

The share of sublease-to-total vacant space of 17.4% has reached new highs from the beginning of the recession in 2020.



Source: AVANT by Avison Young

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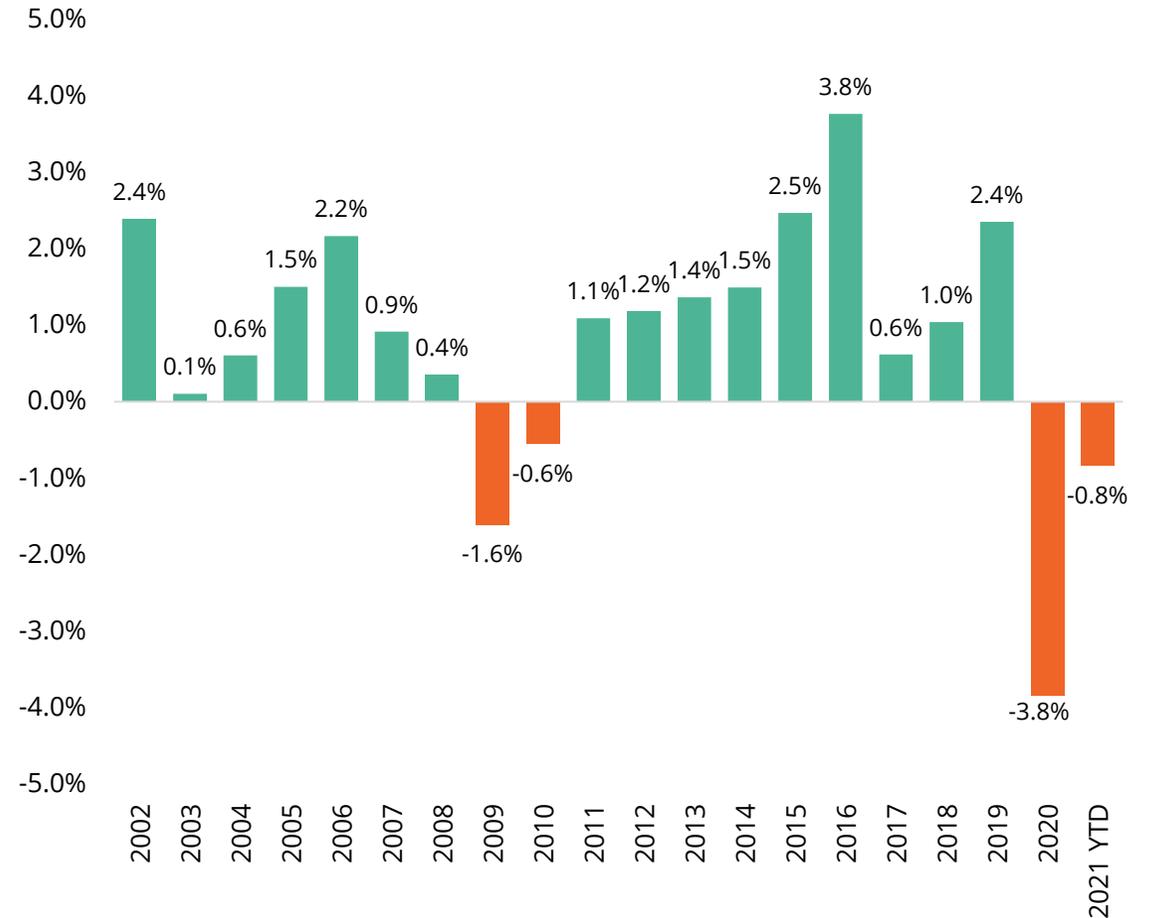
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Boston Core absorption

-4.6%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Negative absorption from 2020 to YTD 2021 has totaled -3.1 msf, representing -4.6% of the existing stock. This negative absorption greatly surpasses that of the global financial crisis (-2.2%).



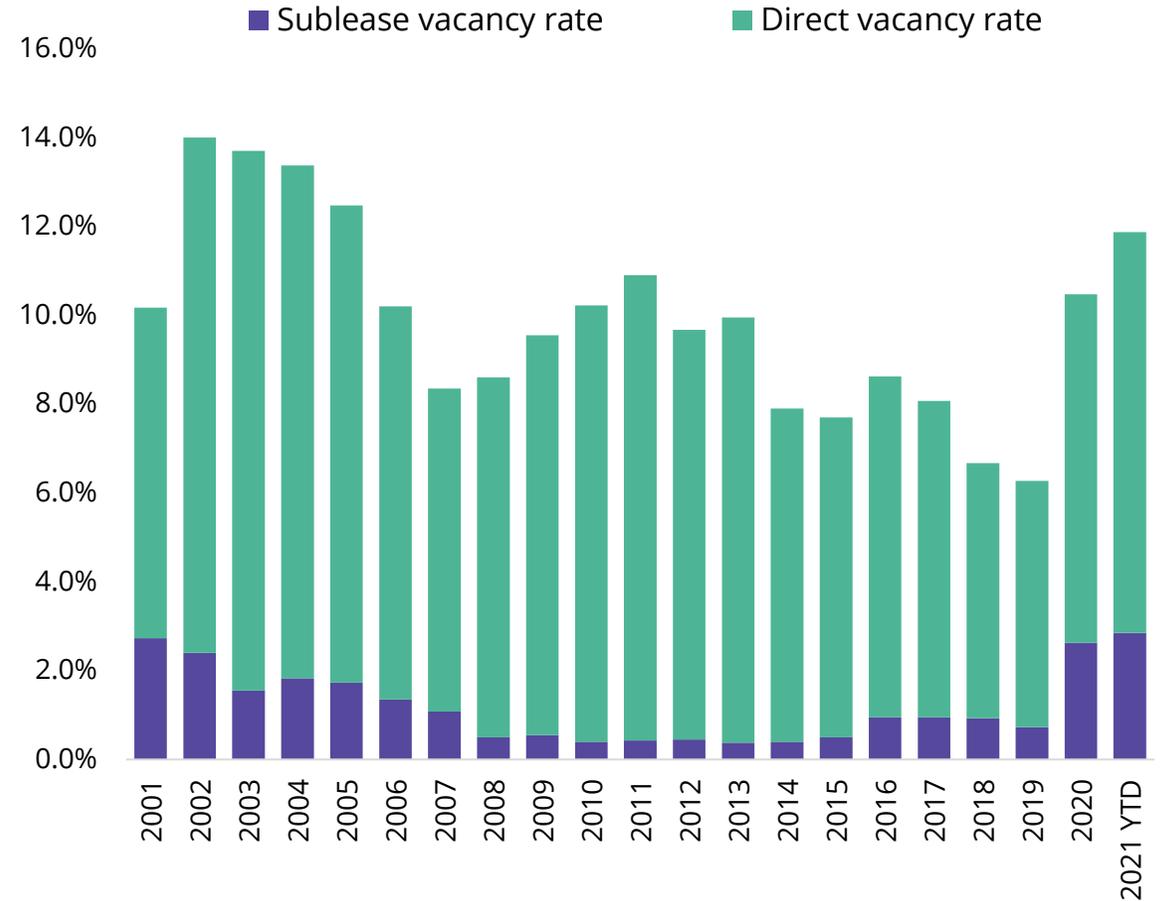
Source: AVANT by Avison Young

Boston Core vacancy rate

11.9%

Boston CORE total vacancy Q3 2021

Sublease vacancy represents a post Dot Com Recession high, with sublease space reaching 2.9% of total vacancy. A sign of optimism is that there has only been a 13.4% increase in vacant sf added to the market this year. Compared to over an 89% jump from 2019 to 2020.



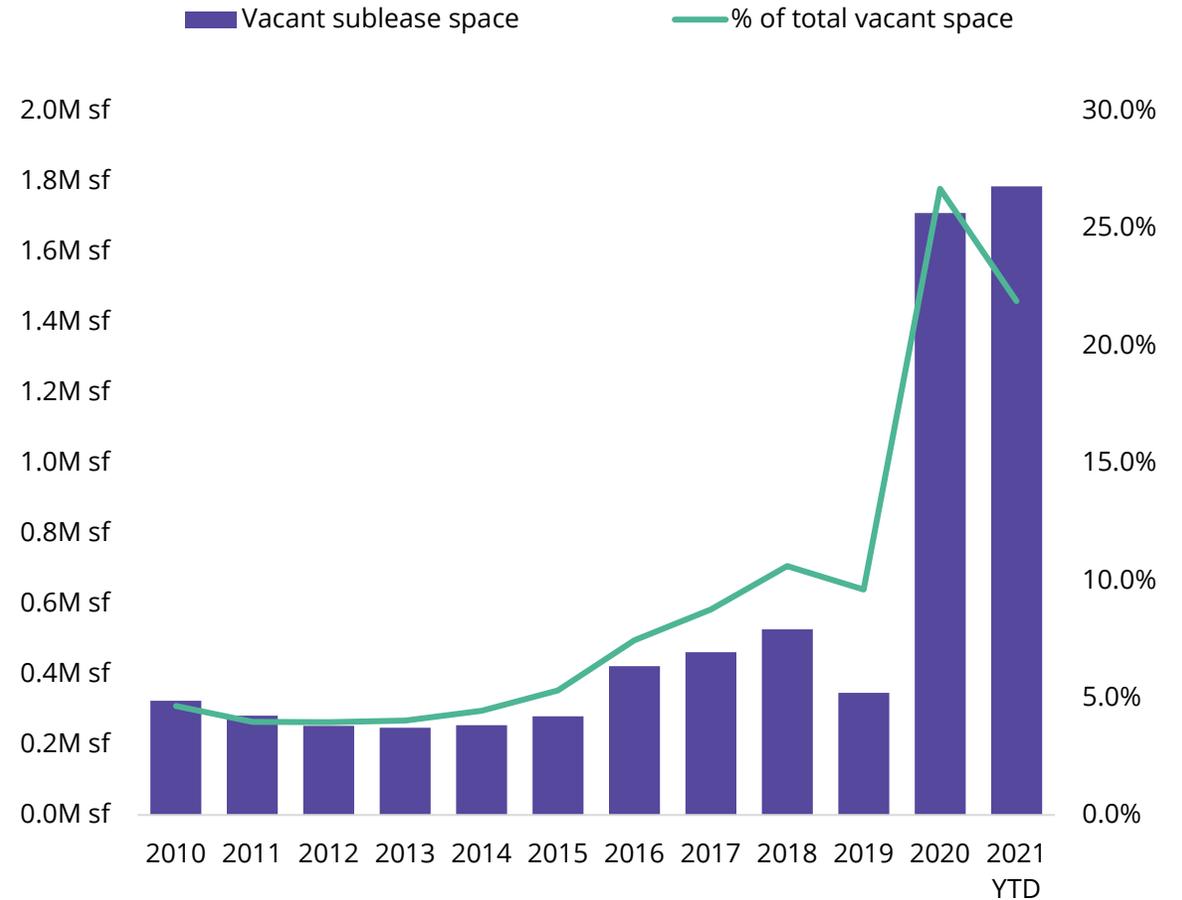
Source: AVANT by Avison Young

Boston Core vacant sublease space

1.8 msf

Record levels of sublease vacant space

The share of sublease-to-total vacant space of 21.9% has declined from the peak of 26.7% in 2020, with many companies returning to office and withdrawing their space from the market.



Source: AVANT by Avison Young

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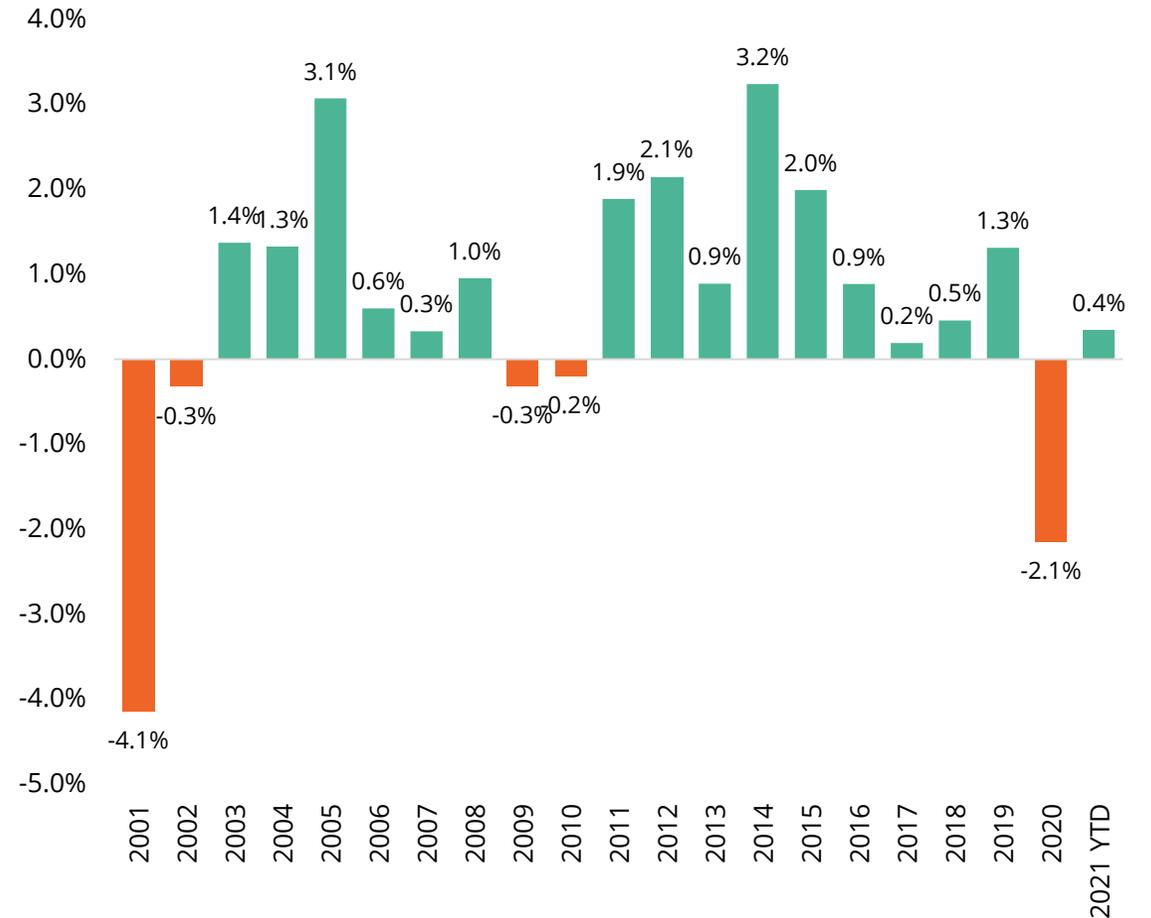
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128 Belt absorption

-1.7%

Net absorption as a percentage of inventory, 2020 through Q3 2021

With a positive absorption rate for the first time since the onset of the pandemic, due to tenants shifting to a hub and spoke model, it can be determined that the suburban office market has made a comeback. From the low of -2.1% in 2020, this is an optimistic sign for landlords and tenants alike.



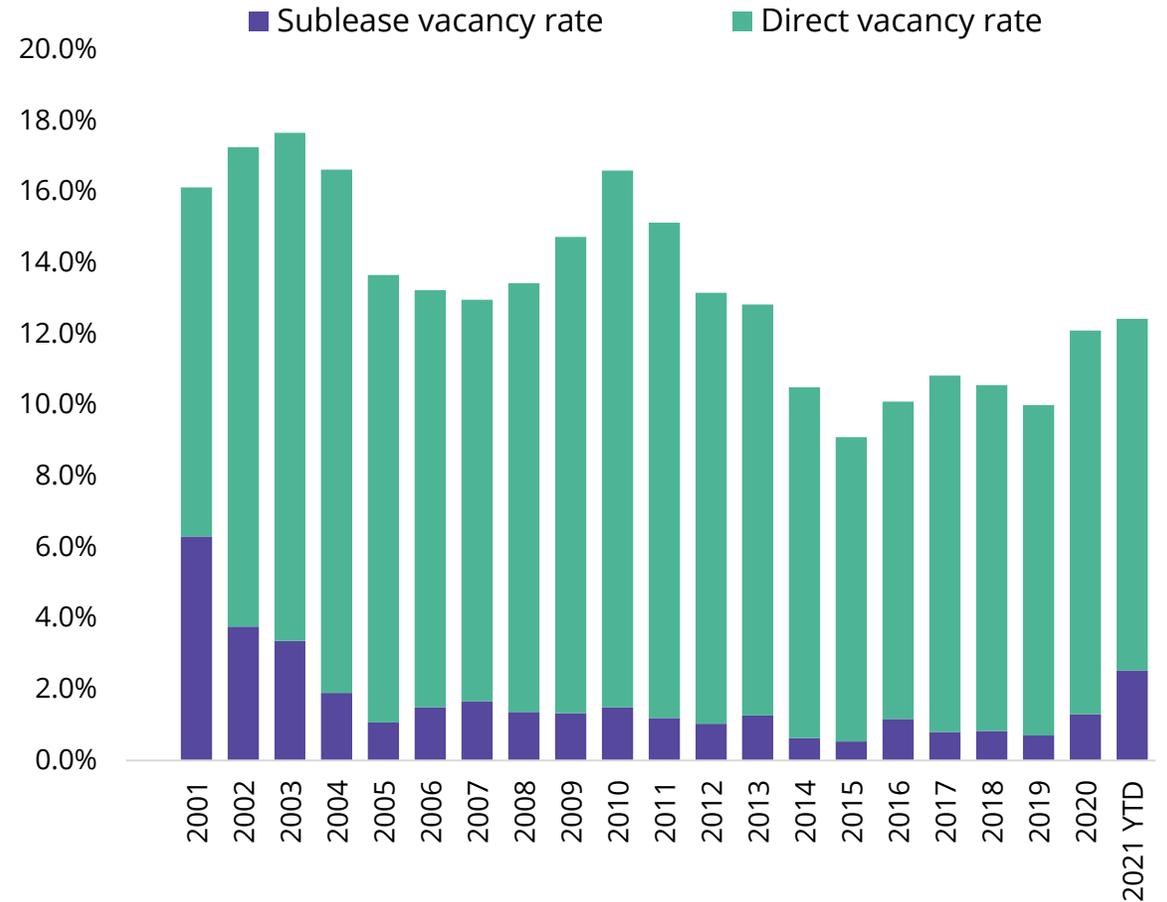
Source: AVANT by Avison Young

128 Belt vacancy rate

12.4%

128 Belt vacancy Q3 2021

The 128 Belt has fared better throughout this recession when comparing to the vacancy rates through the early 2000s recession where vacant space peaked at 17.7% in 2003, as well as the Great Financial Crisis, jumping to 16.6% in 2010, signaling the resiliency of suburban offices.



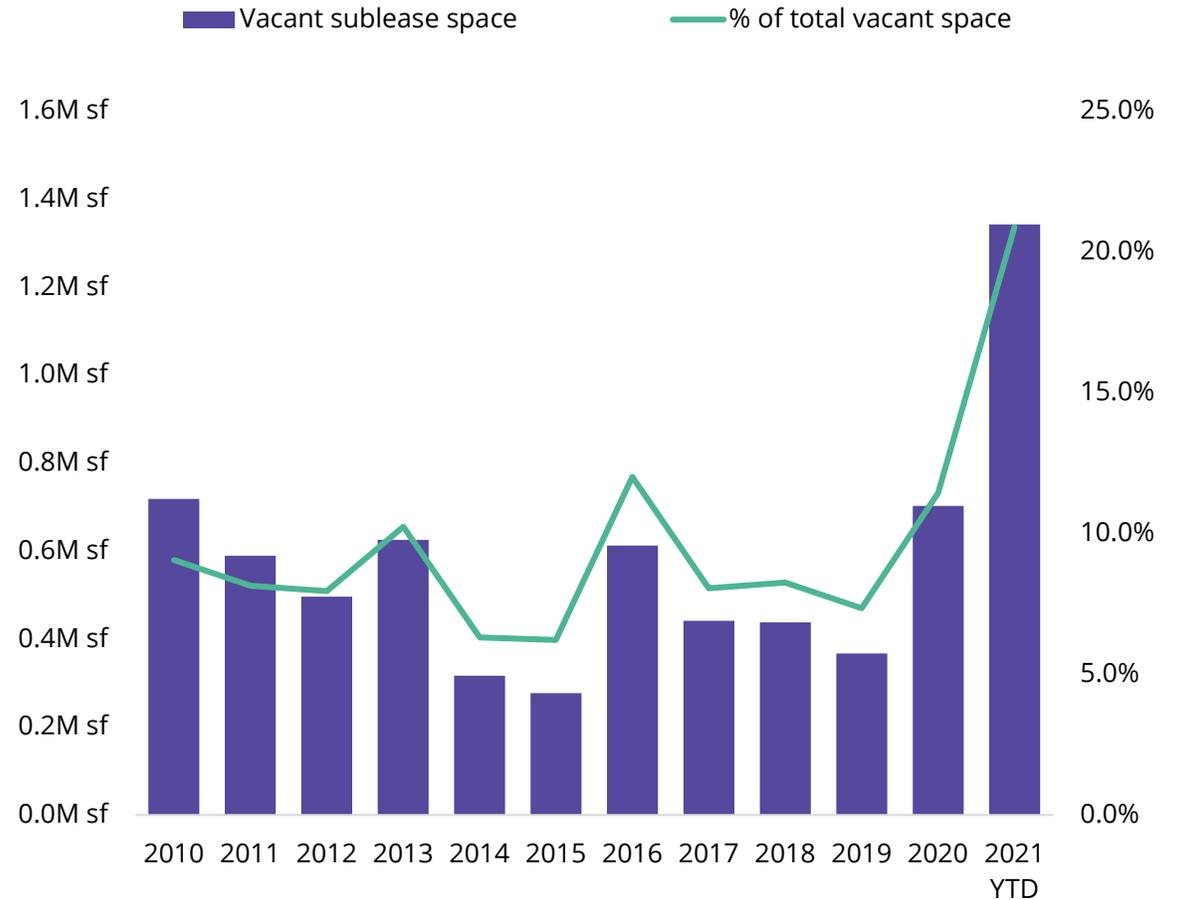
Source: AVANT by Avison Young

128 Belt vacant sublease space

1.3 msf

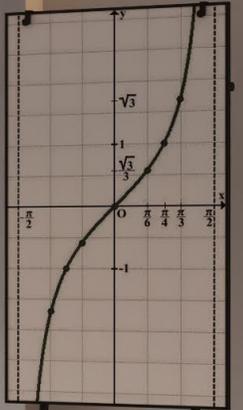
Record levels of sublease vacant space

The current share of sublease-to-total vacant space of 20.9% is elevated by historical standards but is expected to wane after office occupiers increasingly return to work and withdraw sublease availabilities or capture subtenant commitments.



Source: AVANT by Avison Young

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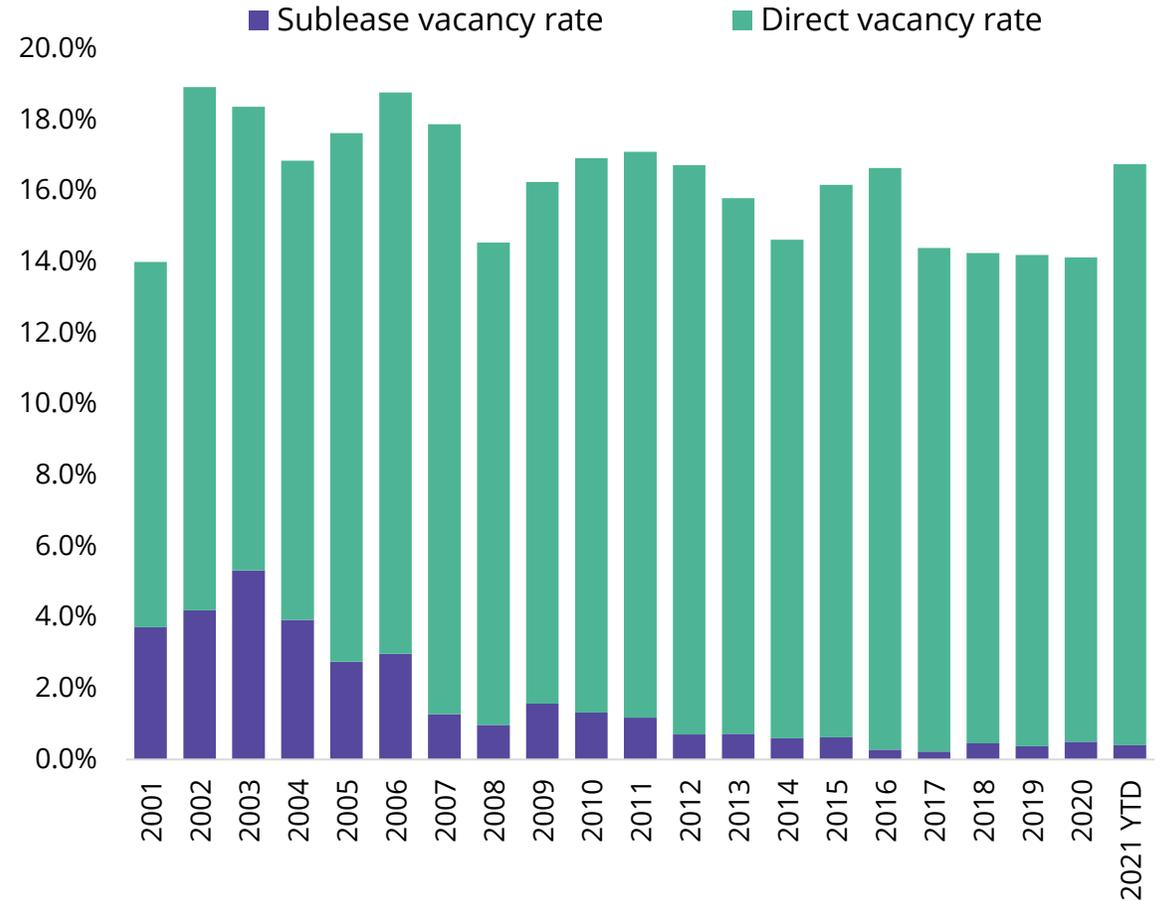
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495 Belt vacancy rate

16.8%

495 Belt vacancy Q3 2021

The current 2021 vacancy rate has not reached, but has approached, the post-2001 records set from the early 2000s in terms of sublease, direct and total vacancy percentages. Overall, the 495 Belt has fared well when comparing to past recessions, with sublease space comprising less than 1.0% of the total stock.



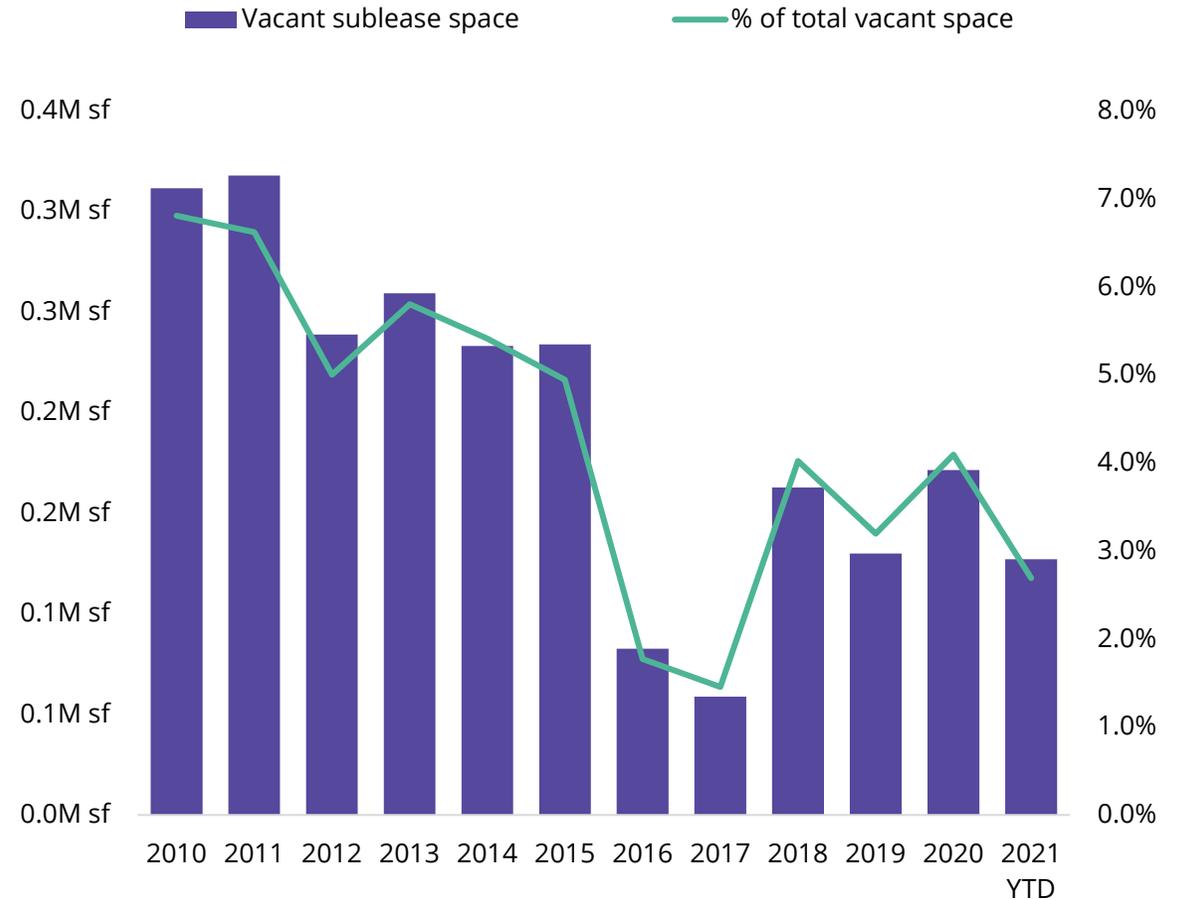
Source: AVANT by Avison Young

495 Belt vacant sublease space

127 ksf

Sublease vacant space

Sublease space on the market has declined from pandemic highs in 2020. Overall, the resiliency of the 495 Belt has shone during the pandemic, as both total vacant space and vacant sublease space is on the decline, due to tenants choosing to relocate to the suburbs.



Source: AVANT by Avison Young

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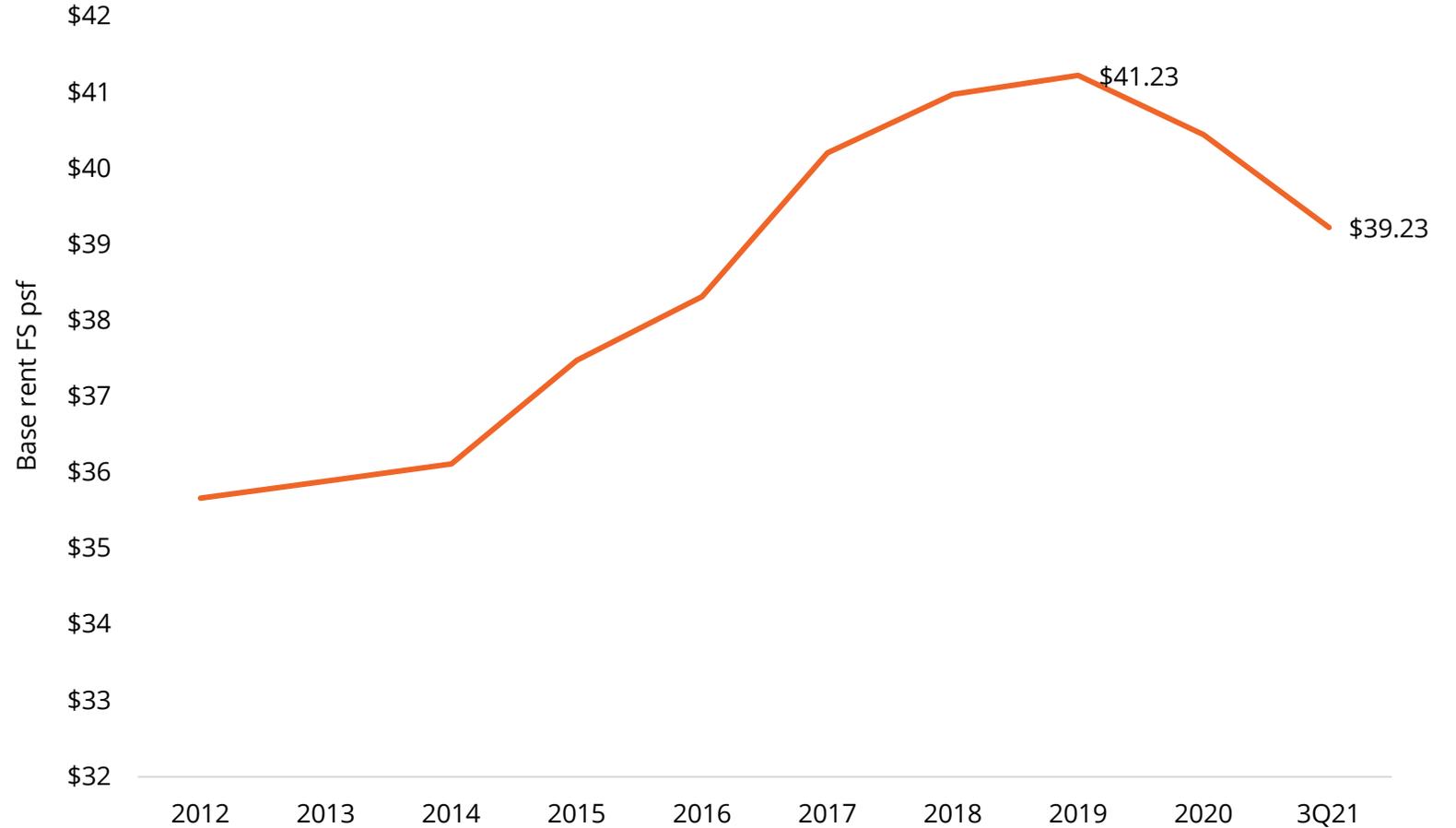
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Boston overall base rents

-4.9%

**Change in base rents,
from 2019 to 2021 YTD**

The decline in base rents in the Boston market has been marginal, bolstered by the suburban markets, as well as the reluctance of landlords to recalibrate base rent expectations.



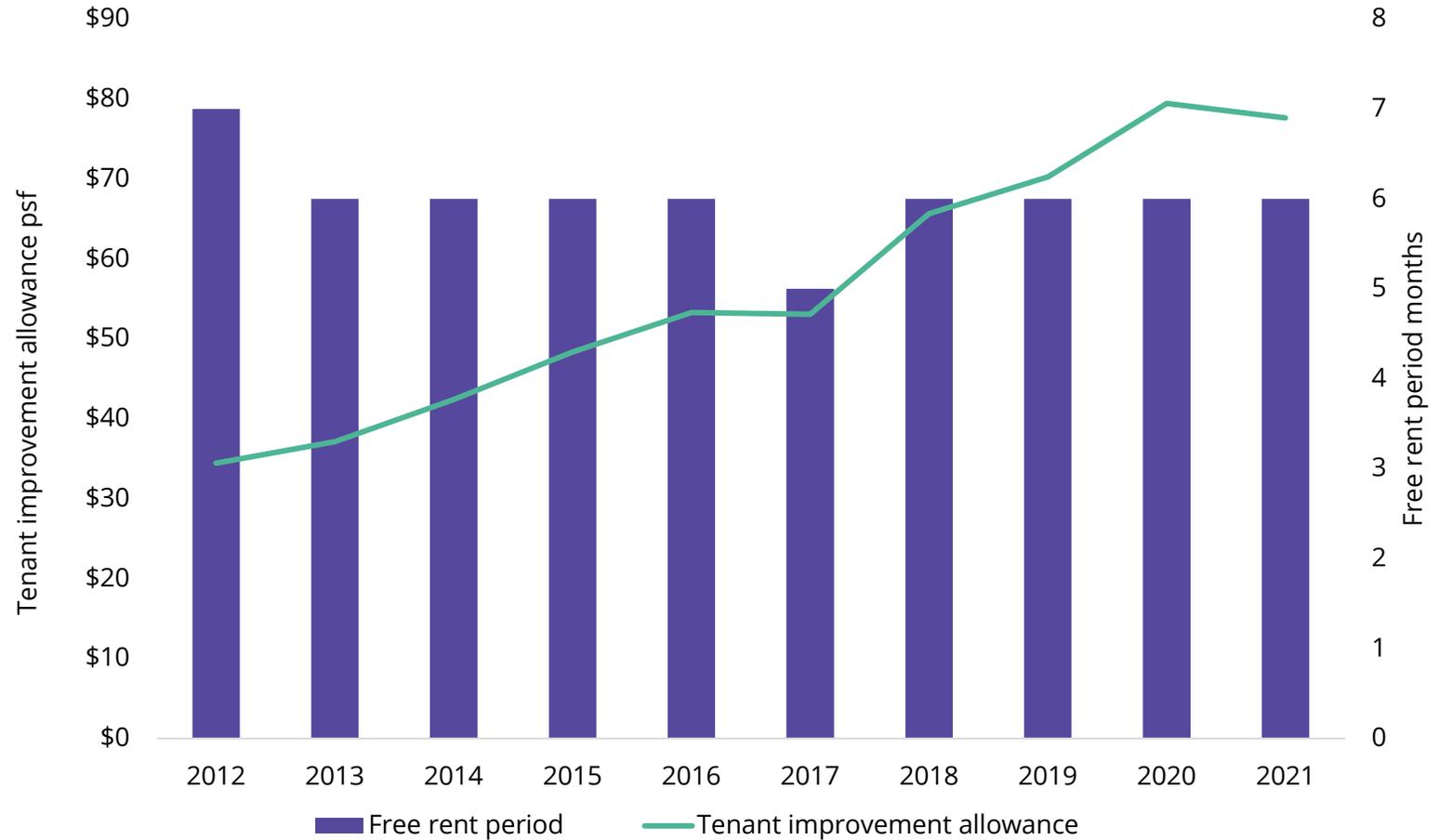
Note: Excludes subleases, expansions and renewals.
Source: AVANT by Avison Young

Concessions

+ 10.5%

Change in tenant improvement allowance amounts, 2019 vs. 2021

Tenant improvement allowances and free rent periods have begun to stabilize as activity levels have risen, though both metrics remain near historical highs.



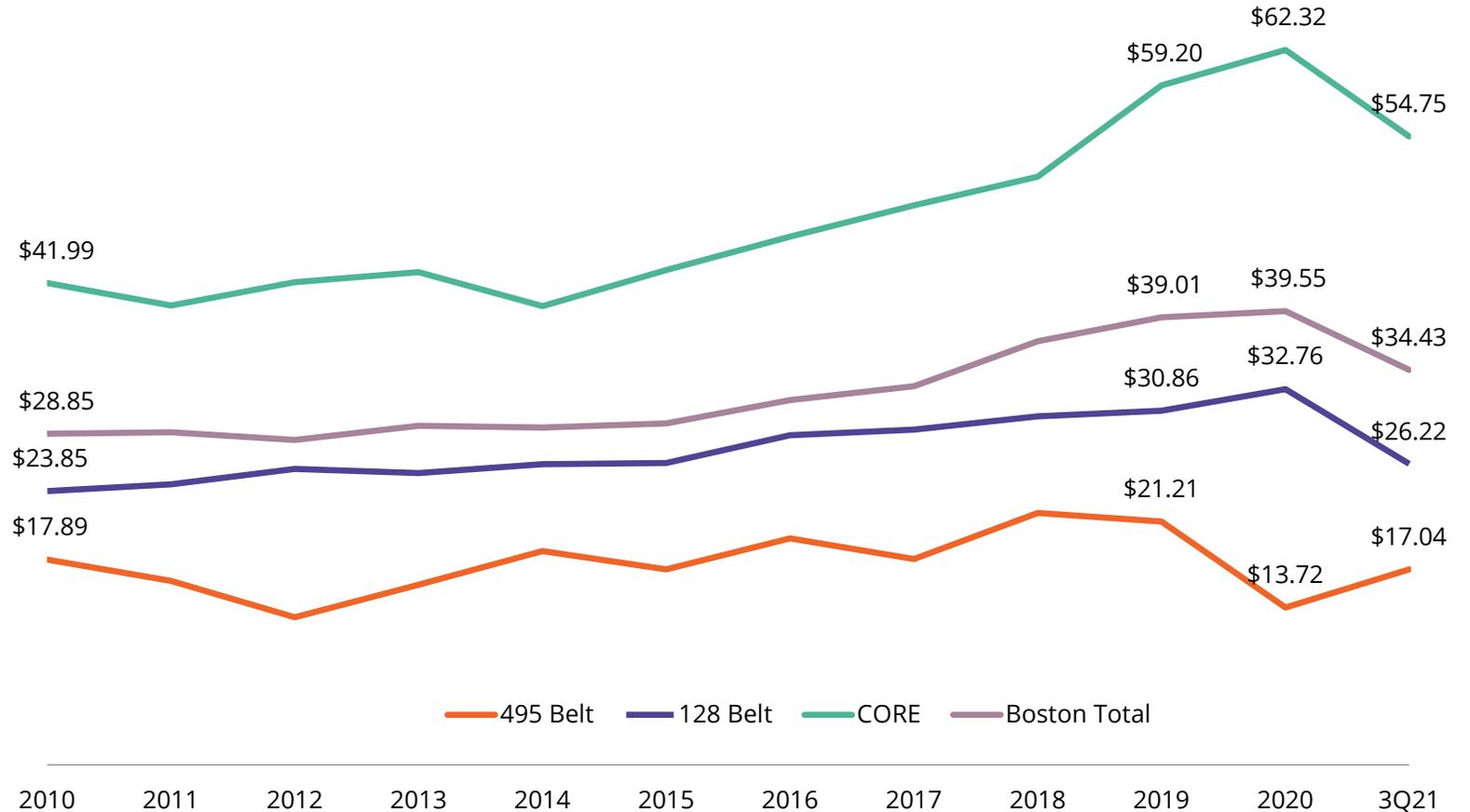
Note: Excludes subleases, expansions and renewals. Normalized to 10-year lease terms.
Source: AVANT by Avison Young

Net effective rents

11.9%

Average differential between rents pre-pandemic and now

The softer downturns in NER within the suburban markets compared to that of the downtown CORE is apparent, though not commanding as high of rents, the decline is less significant.



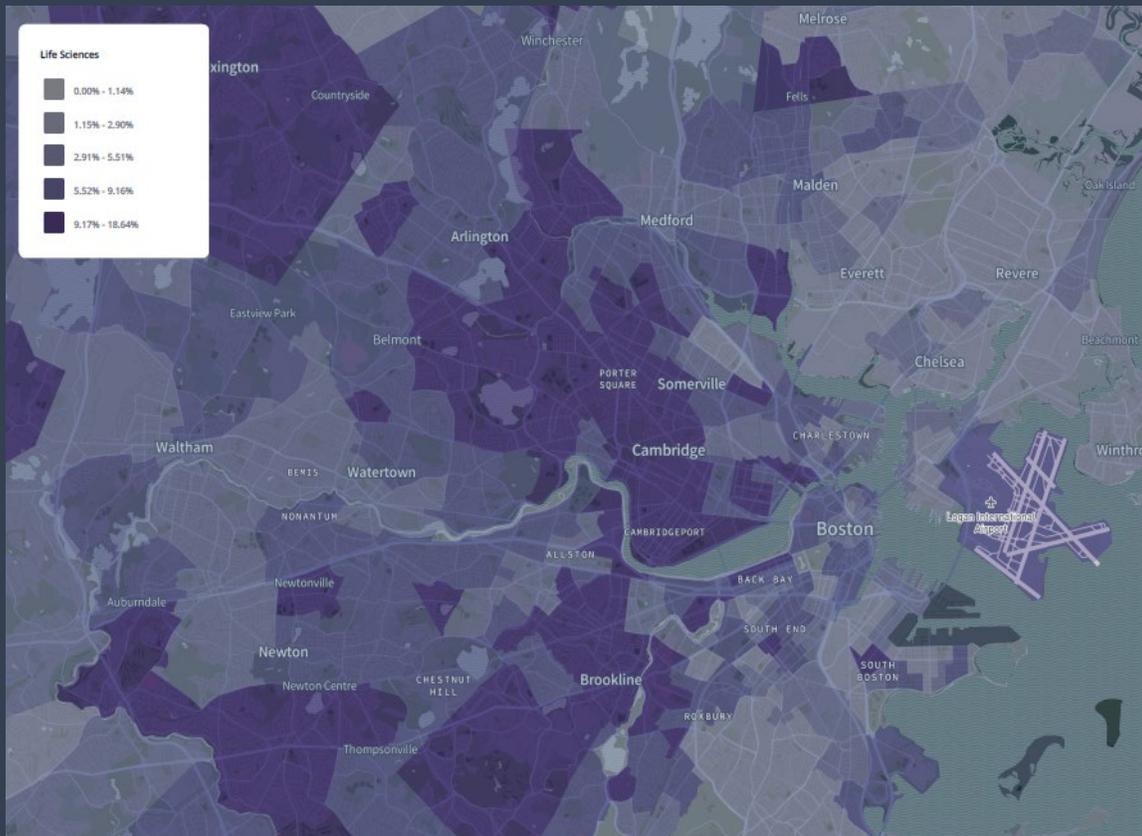
Note: Class A, B, C office exclusive (non-lab) properties. Trailing 12-month unweighted averages.
Source: AVANT by Avison Young

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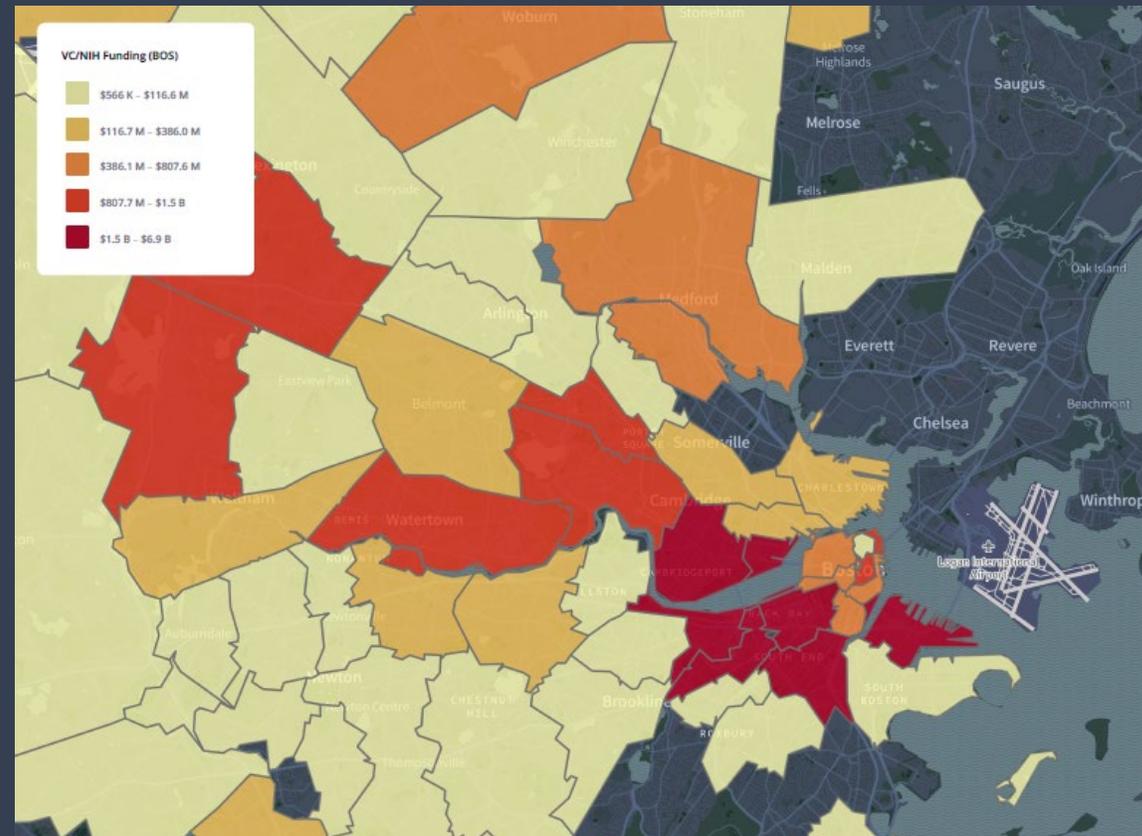


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Boston is the preeminent U.S. life sciences hub



Darker purple denotes higher concentrations of life sciences residents



VC/NIH funding mirrors the concentration of life sciences residents

Source: AVANT by Avison Young

Office development pipeline

83 properties

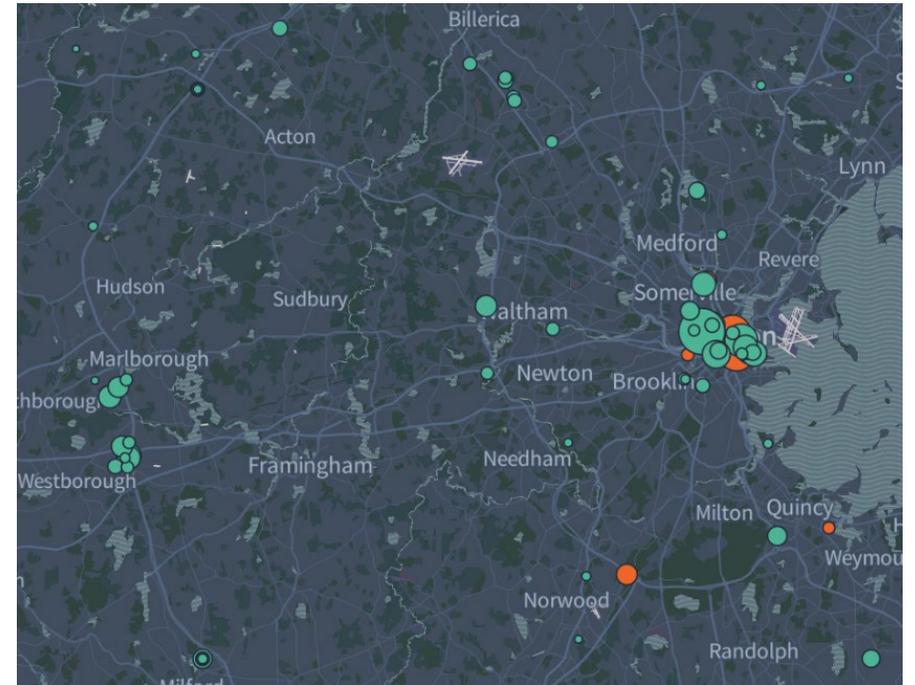
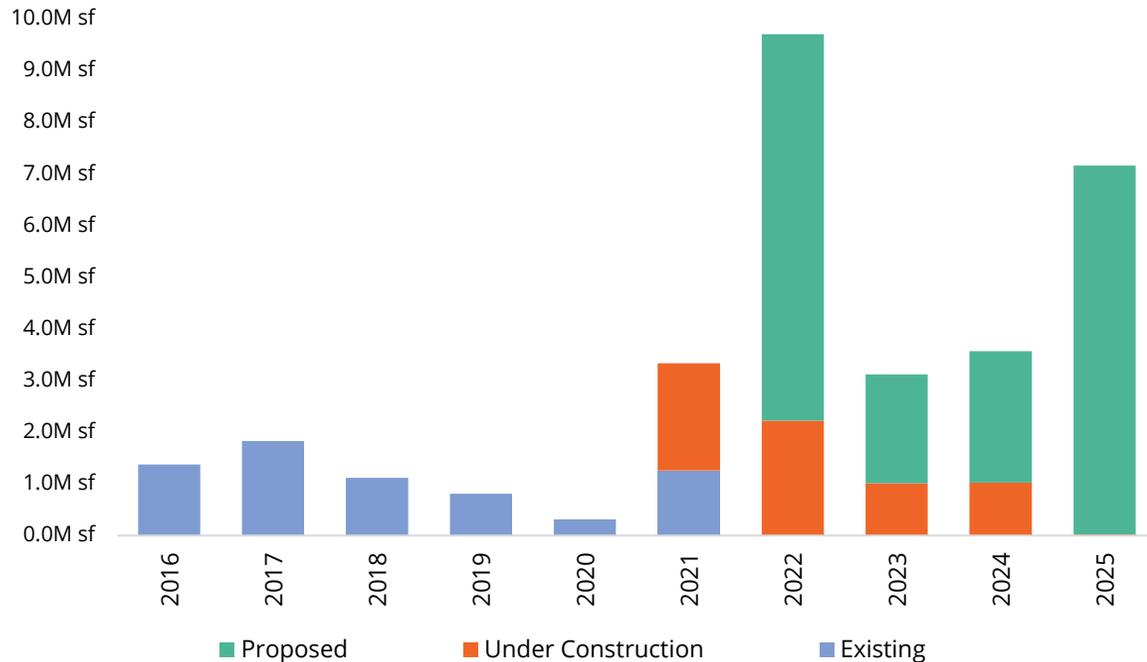
proposed or under construction

20.9 msf

proposed or under construction

7.1%

share of office inventory



Source: AVANT by Avison Young

03.

Capital market conditions

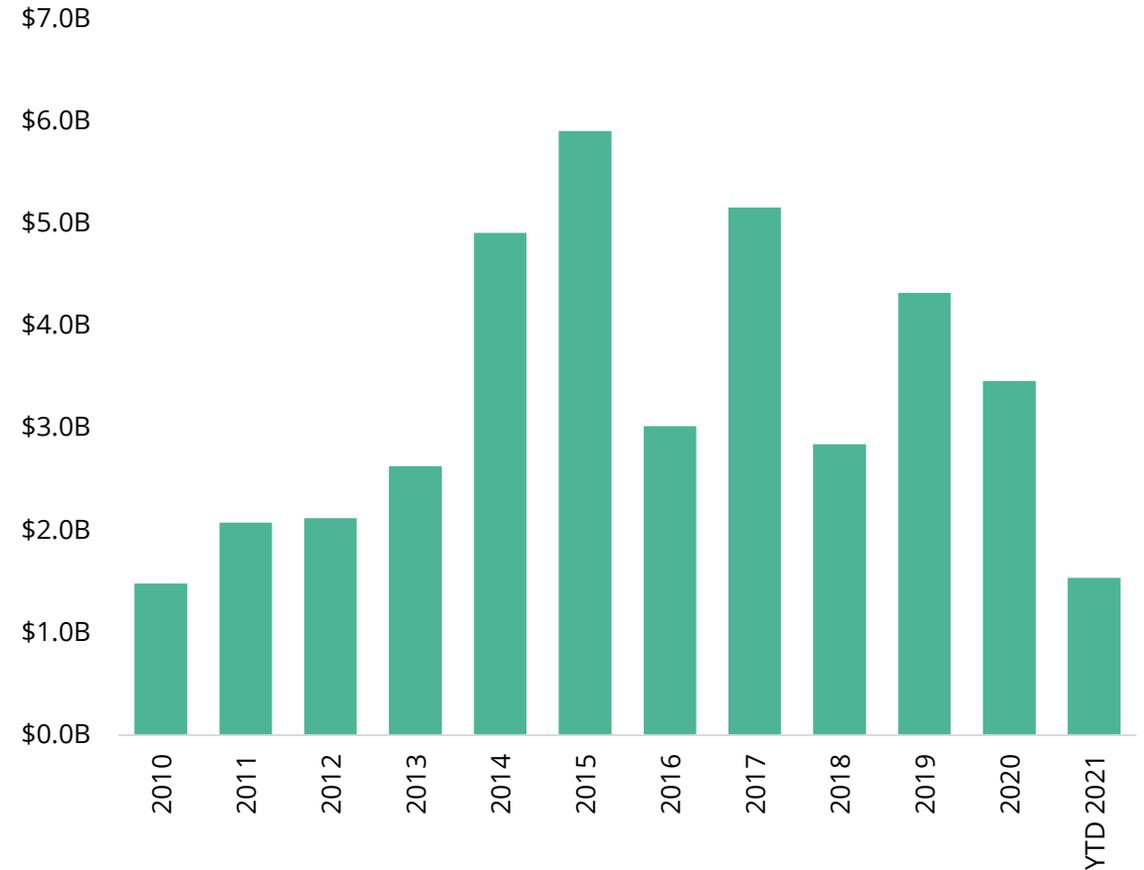
Investors have encountered a risk pricing crisis as office occupier conditions became strained, raising the prospect for defaults in the commodity market segment.

Total office investment dollar volume

\$5.0B

Boston office dollar volume 2020 to present

Office sales activity has temporarily paused as investors have had difficulty underwriting acquisition opportunities given prevailing occupier uncertainties. As a result, investment dollar volume from 2020 to Q3 2021 decreased by an annualized rate of 85.1% compared with the prior five-year average.



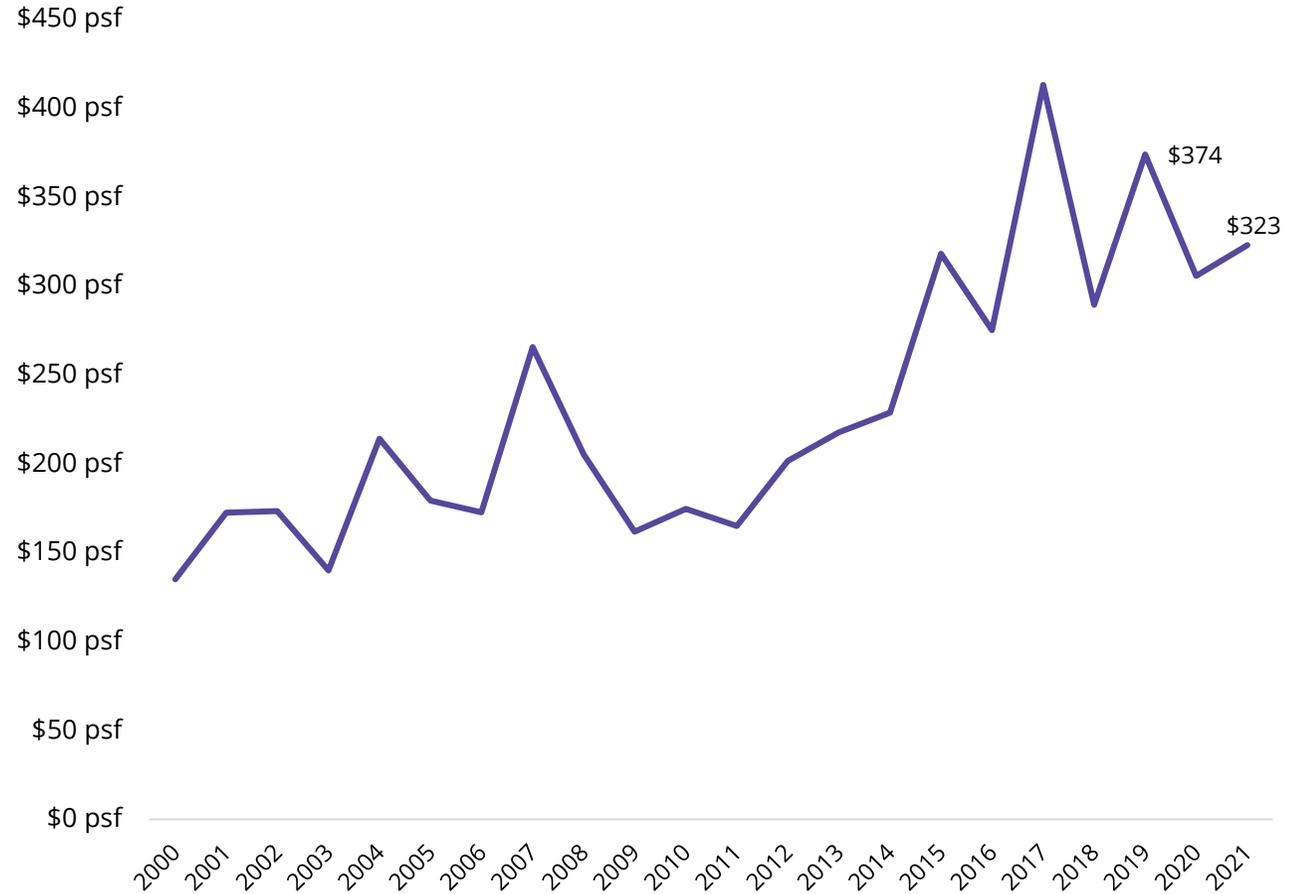
Source: AVANT by Avison Young, RCA

Boston office asset pricing

-13.7%

Change in Boston office pricing from 2019 to present

Office pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches and office occupier fundamentals have deteriorated. However, asset pricing has trended incrementally upward since April 2021, indicating a potential stabilization.



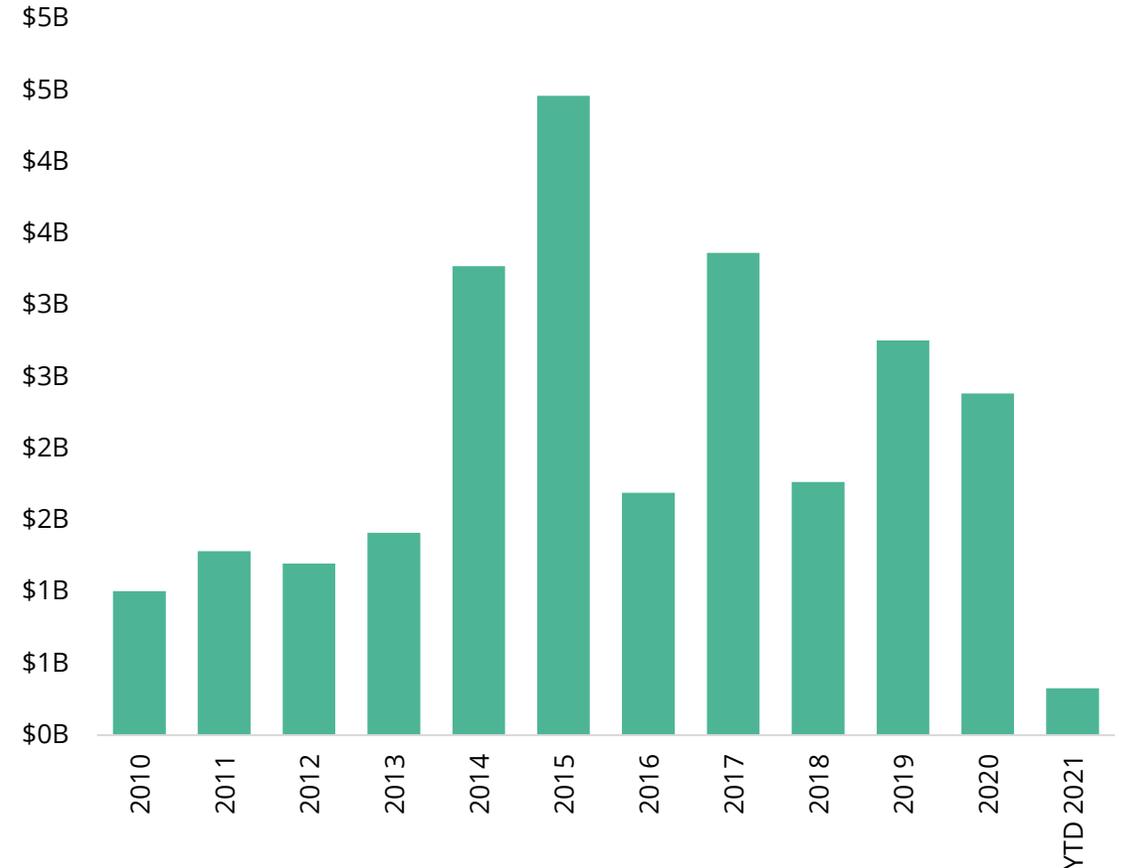
Source: AVANT by Avison Young, RCA

Boston CORE office investment dollar volume

\$2.7B

Boston CORE office dollar volume 2020 to present

Post-COVID annualized office sales activity has temporarily paused provided an ongoing risk-pricing crisis, decreasing by an annualized rate of 85.0% compared with the prior five-year average dollar volume.



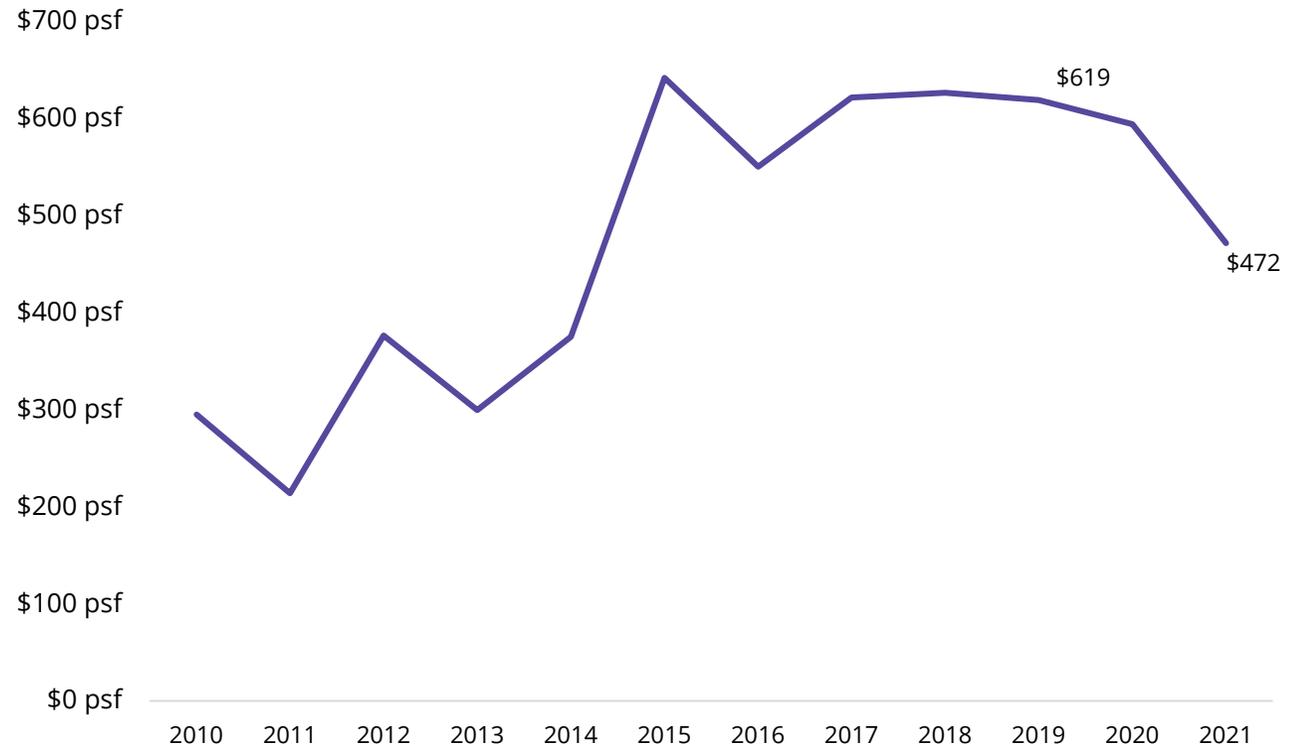
Source: AVANT by Avison Young, RCA

Boston CORE office asset pricing

-23.8%

Change in Boston CORE office pricing from 2019 to present

CORE pricing has been on a decline due to the pandemic, reaching a post-2014 low. This is partially attributable to the tight supply of offices on the market for sale, where pure-play office assets are not frequently traded.



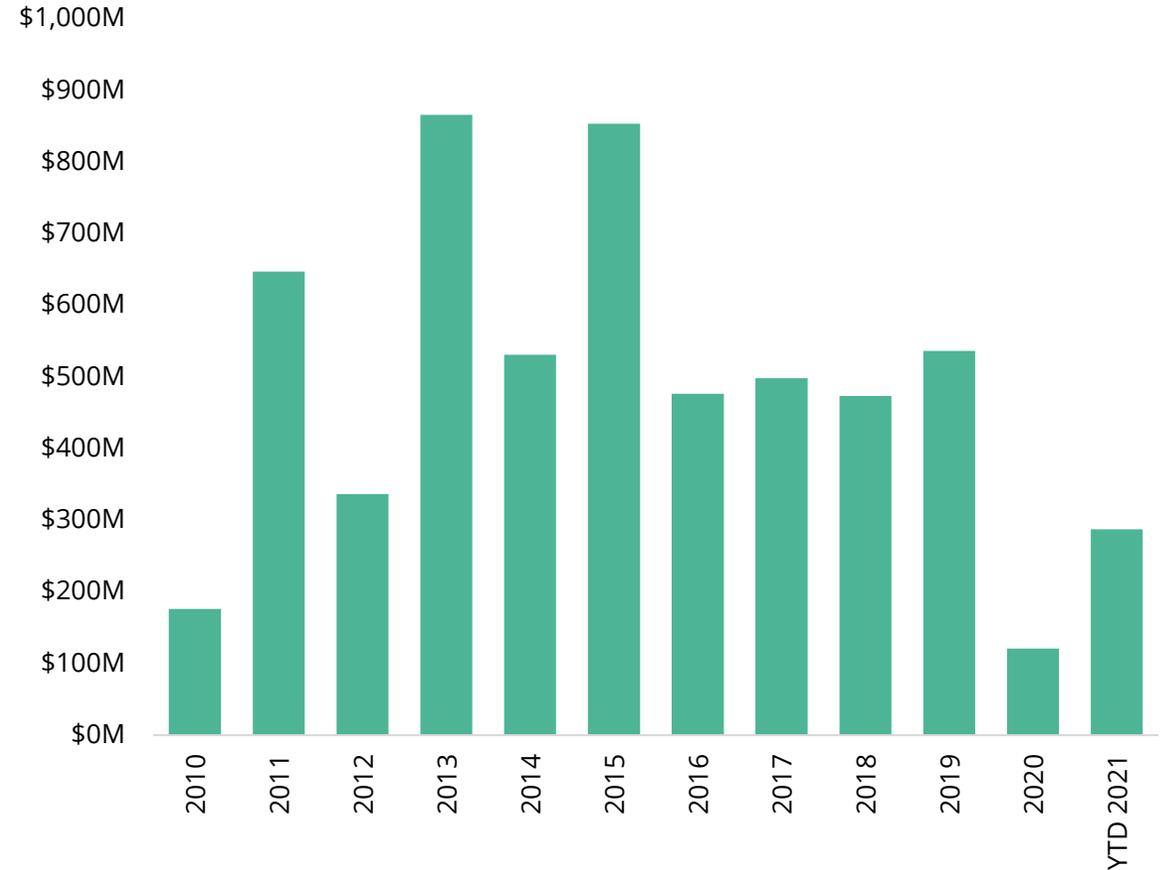
Source: AVANT by Avison Young, RCA

128 Belt office investment dollar volume

\$408M

128 Belt office dollar volume 2020 to present

Office sales activity since the pandemic has temporarily paused in the 128 Belt market, decreasing by an annualized rate of 88.8% compared with the prior five-year average dollar volume.



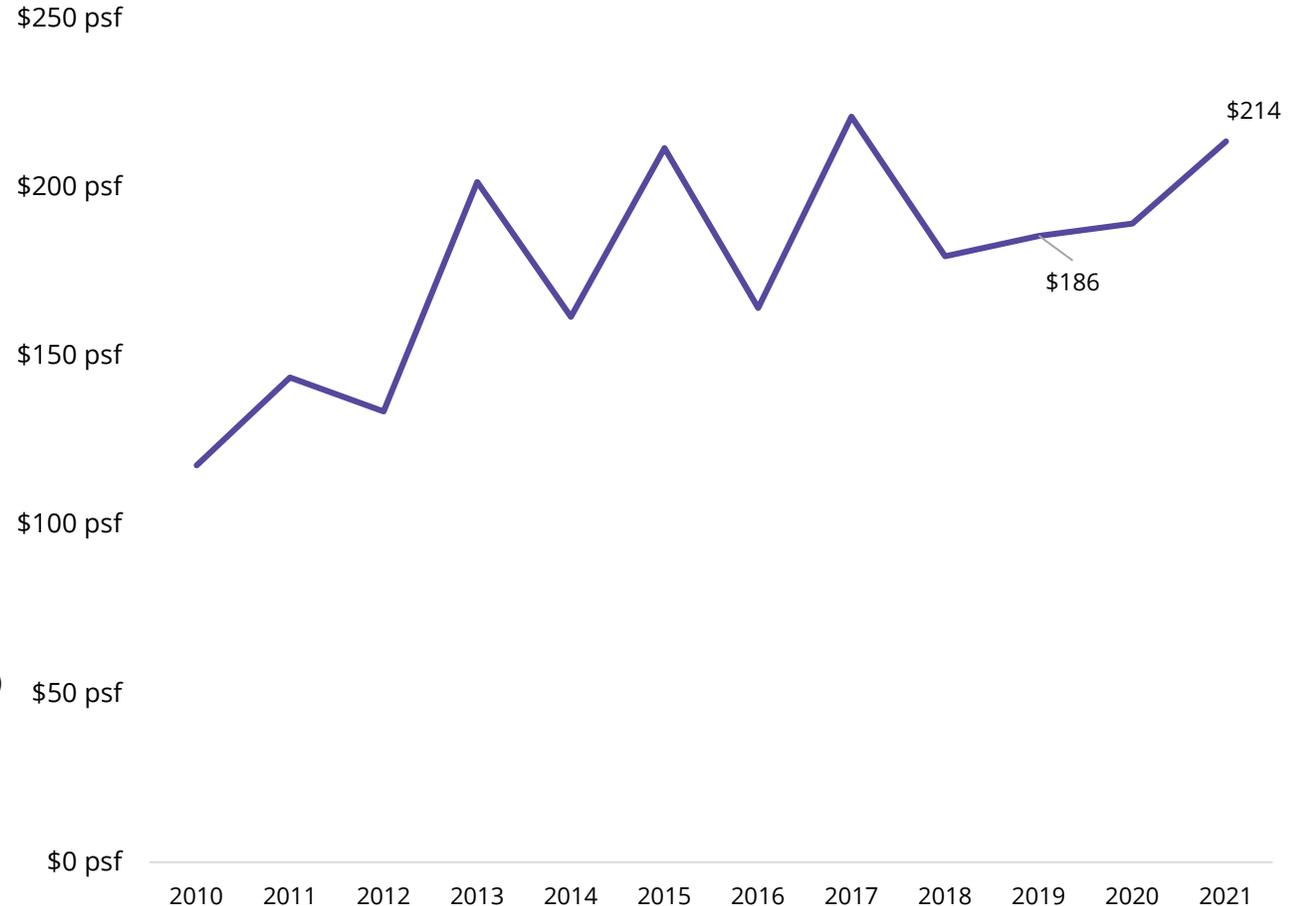
Source: AVANT by Avison Young, RCA

128 Belt office asset pricing

15.1%

Change in the 128 Belt office pricing from 2019 to present

Pricing has been trending upwards throughout the 128 Belt. Many investors are flocking to the area, scooping up assets to consider possible lab conversions – a market segment with stronger positive tailwinds compared with most office assets.



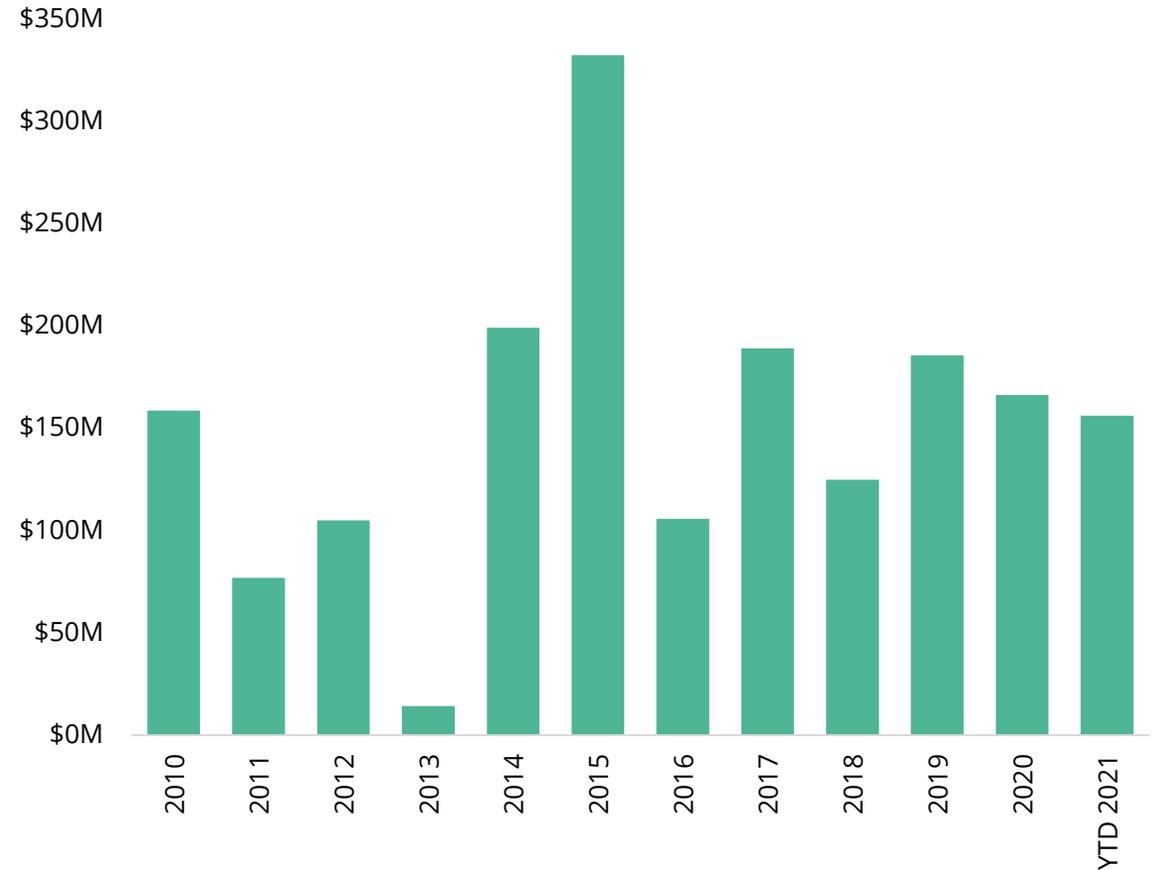
Source: AVANT by Avison Young, RCA

495 Belt office investment dollar volume

\$322M

495 Belt office dollar volume 2020 to present

Office sales activity has temporarily stalled, decreasing by an annualized rate of 86.0% compared with the prior five-year average dollar volume.



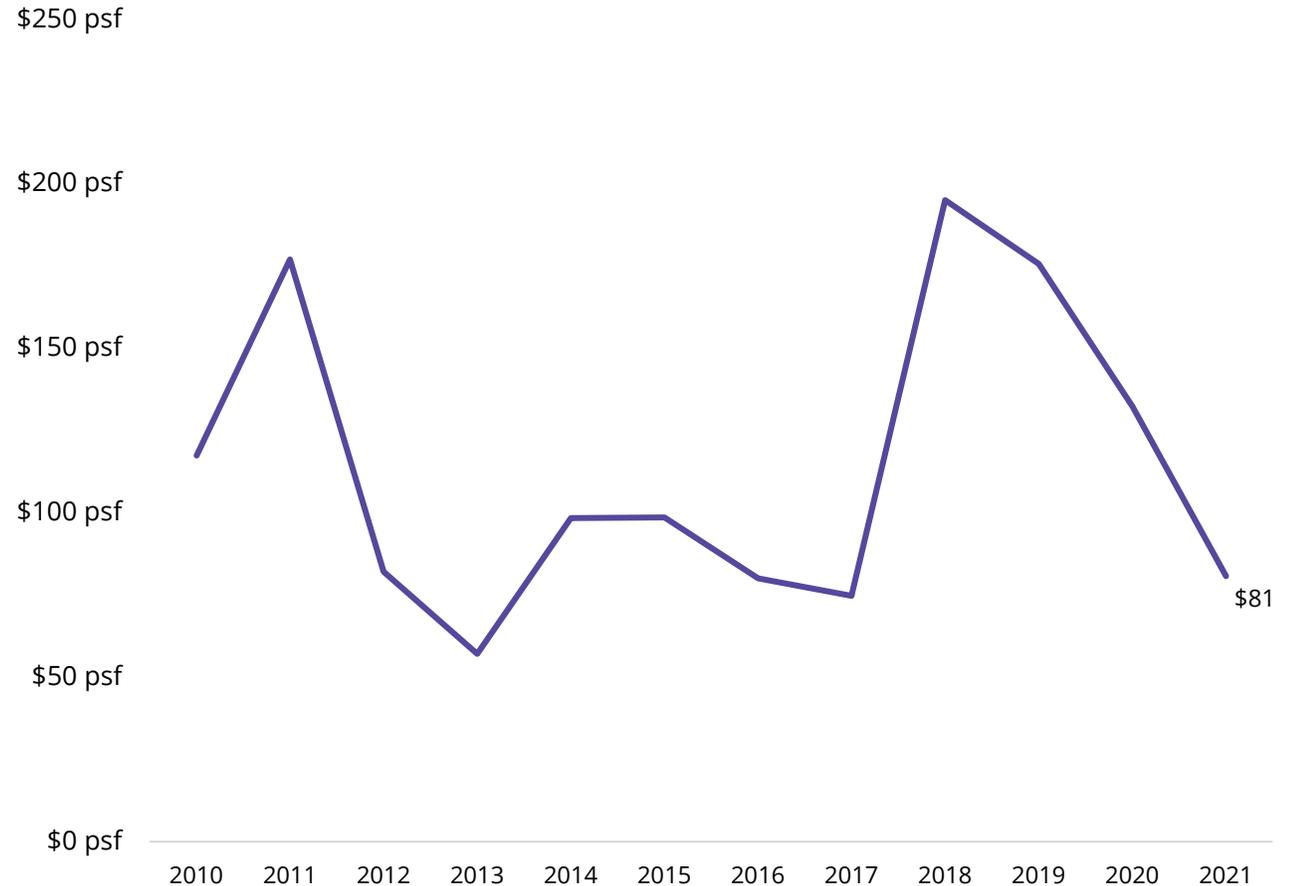
Source: AVANT by Avison Young, RCA

495 Belt office asset pricing

-54.1%

Change in the 495 Belt office pricing from 2019 to present

From the spike in pricing in 2018, pricing has been on a steady decline, reaching more normalized, historical levels.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- The **suburban market has proven to be resilient in the face of structural challenges**, with vacancy rates trending downward and rental rates marginally softening. More tenants may opt to relocate from Downtown to the 128 Belt in favor of more space at cheaper overhead costs.
- The Delta variant has put a wrench in many companies' plans to bring their workforce back by Labor Day, but the new **return to office date of after the New Year** is fast approaching and **activity is picking up** in anticipation.
- Sale activity has been decreasing, but with several notable sales taking place throughout the market in the past quarter, such as 2 Financial Center, **signaling that investment volume is positioned to ramp up.**



Get in touch



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Let's talk

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