



MARKET
VIEWPOINT  **INT** | Q4 2020

GREATER BOSTON
MARKET

Colliers
INTERNATIONAL

BOSTON OVERVIEW

Rising vacancies, increased sublease space, softening rents, and a focus on life science sum up market conditions in Boston at the end of the year. The global pandemic has rapidly changed the office landscape, with vacancies up to 14.2% from 8.1% at this time last year, the largest increase since the tech bust. Meanwhile, the year's 4.1 million SF of negative absorption is the most ever over a four-quarter period. Sublease space has been the main culprit driving this increase, as a total of 3.3 million SF is now on the market, a record high. Rents are beginning to soften. While headline rents (a blended Class A and B series) are off only marginally, taking rents are off significantly. With limited tenant activity, landlords are showing a willingness to adjust financials in order to get a deal done. Meanwhile, life science is very much in focus for landlords and developers.

There is light at the end of the tunnel. COVID-19 vaccines are being distributed, setting the stage for workers to return to offices. At this time, they're still hesitant, with attendance hovering at around 10% in many buildings. The big return to office occupation, now expected to be a Q2 or Q3 event, will allow firms, currently unable to project their future space needs, to better plan. How much flexible/remote work will ultimately be built into work schedules is undetermined. Surveys are suggesting many desire to return to the office, citing a strained work/life balance in our current remote environment and an elongated average workday.

14.2%

vacancy rate

1.3M

SF negative absorption

3.3M

SF total sublease space

Statistics in the core submarkets are as follows:

MARKET SEGMENT	SUPPLY	VACANCY RATE*	Q4 2020 ABSORPTION
Back Bay	13,379,652	10.1%	(184,262)
Class A	11,549,046	9.7%	(168,686)
Class B	1,830,606	12.2%	(15,576)
Financial District	34,354,264	15.6%	(803,871)
Class A	28,676,597	14.5%	(728,363)
Class B	5,677,667	21.3%	(75,508)
Seaport	12,002,934	18.0%	(223,499)
Class A	5,964,295	13.6%	(75,095)
Class B	6,038,639	22.4%	(148,404)

* includes sublease space

SUPPLY AND DEMAND

- Deliveries will pick up next year after a quiet 2020 as build-to-suits start to come on line. The future pipeline is ever shifting toward life science and lab properties. Recent and pending acquisitions of 601 Congress, 321 Harrison, and IDB show the continued interest in office-to-lab conversion in the market. Meanwhile, projects originally planned as office, such as Oxford's 125 Lincoln Street and Boston Global Investors' 401 Congress, have modified plans in order to accommodate lab space. The Davis Companies have filed plans to expand 88 Black Falcon with a lab-focused development plan. This shift to lab will aid the office market in its recovery, as it will leave less office space to compete on the market and in the pipeline.
- Demand has slowed considerably since the start of the year, since most tenants hesitate to sign long-term commitments or are unsure of future space needs, especially since asking rents have not declined significantly. Tech companies formerly in aggressive growth modes have cooled, some reversing course with layoffs and space reductions. Employers from across industries have delayed a return to work until summer or fall 2021. Leasing is at just a fraction of its normal market rate, though Loomis Sayles' downsized renewal was a highlight in the quarter. Boston and the surrounding area rank among the top spots across the country for VC funding to cutting-edge technology — from autonomous vehicles, cybersecurity, IoT, robotics, AI/machine learning, and biotech/life science — supporting new businesses going forward. Life science VC investment has never been stronger. Healthcare, healthtech, and health-related tenants remain active, an underlying strength of the Boston market.

SOME OF THE LARGER REQUIREMENTS INCLUDE:



Highlighted transactions from this quarter include:

- Back Bay
- Financial District
- Seaport
- Fenway

Loomis Sayles | 1 Financial

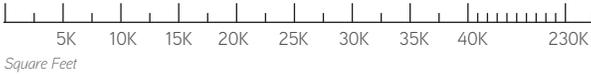
CoStar Group | 33 Arch Street

William Blair | 125 High Street

Ikena Oncology | 645 Summer Street

Clarion Healthcare | 280 Summer Street

Barings | 1 Marina Park Drive

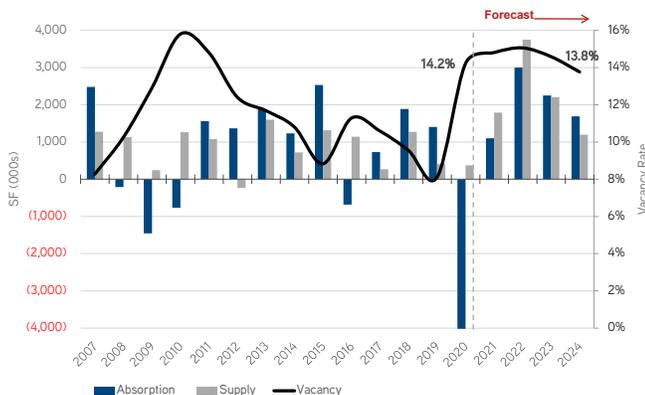


ABSORPTION, VACANCY, AND FORECAST

- Absorption was negative in Q4, declining a net 1.3 million SF and 4.1 million SF on the year, the largest decline in a four-quarter period on record. Vacancies rose to 14.2%, up 1.9 percentage points from last quarter and 6.1 percentage points from one year prior, and are now back to 2012 levels. Both Class A (negative 1.1 million SF) and Class B (negative 250,000 SF) vacancies increased. Sublease space was again a major contributor, increasing a net 730,000 SF on the quarter. The North Station market has the highest ratio of sublease space, at 10.3%, and also the highest vacancy level, 23.5%.

The outlook is unknowable. However, we are projecting limited leasing and business presence until a vaccine is widely available and distributed, resulting in our lower absorption projection for early 2021. At this time, we're holding to our supply forecast in the chart below, with the caveat that project completion dates could be adjusted, based on myriad factors such as preleasing, labor availability, and social distancing/safety measures.

Forecast | Vacancy & Absorption



RENTAL RATES

- Asking rents are showing limited signs of decline. Landlords have been trying to hold on to face rents, but they increased concessions in the form of more free rent or a higher tenant improvement allowance (i.e., turnkey space). They are also willing to make a deal when a tenant is in hand, with examples of double-digit declines between asking rents and taking rents. The surge in sublease space caused Class B rents to soften first. If history is a guide, it will take time for price discovery and for rents to hit bottom. From there, rents tend to stabilize before recovering, which can take years. With limited leasing, there are few deals to help set the market. Today's elevated level of sublease, however, does make for a compelling value proposition. Numerous options are available with rents in the \$40s-to-low-\$50s/SF, essentially allowing tenants to find space at 2014 levels.

The spread between asking rents in various segments of the market is depicted below:



LOOKING AHEAD...

- Deliveries will pick up in 2021 and 2022. Preleasing going into the pandemic was strong overall, though large blocks of vacancy remain not spoken for and if not leased, will exacerbate the current vacancy increases. Meanwhile, companies such as Verizon, Rapid7, State Street, MassMutual, and Amazon signed expansion/relocation deals in new Class A space. These prelessors bear watching, as they could modify their occupancy or space usage plans or put part of their buildouts on hold. This would also weigh on market fundamentals.
- Coworking is showing signs of a retreat. Regus, Greater Boston's second-largest flexible office provider, has filed for bankruptcy in some of its locations, including three in the Boston area, while WeWork wants to get out of some of its space in Boston (it has let leases lapse in other markets and pulled out of other locations across the country). The growth of coworking has been well documented, and if it unravels as an industry, it will only add more stress to the office market, as WeWork is Boston's second-largest tenant.





CAMBRIDGE OVERVIEW

The ongoing global pandemic has affected conditions less in Cambridge than in either Boston or the suburbs. This is thanks to Cambridge's unique place within the larger life science ecosystem, a differentiating factor that other markets simply do not have. Tremendous capital flowing into life sciences from government grants, NIH funding, M&A, and venture capital is essentially speeding up medical research. That should be good news for startups and demand in the Cambridge and broader life science marketplace into the future and is propping up conditions in an otherwise softening Greater Boston market.

Vacancies increased in Cambridge in the fourth quarter, up to 5.7%, though rents continue to show strength. New development, which is heavily preleased, is just on the horizon, but given the tight market conditions, will not put a dent in the need for more product. The recent completion of 314 Main helped to prop up the office market in the fourth quarter. Tenants still cannot find space for their growth, particularly on the lab side. Office is a slightly different story, because broader macroeconomic conditions are affecting occupancy. Groups such as HubSpot, and Boeing are reducing occupancy by putting space on the sublease market.

5.7%
vacancy rate

101K
SF positive absorption

600K
SF total sublease space available

Key statistics for the quarter include:

MARKET	SUPPLY SF (000s)	VACANCY RATE	ABSORPTION (000s) Q4 2020
Total Cambridge	25,146	5.7%	101
	12,373	10%	82
	12,774	1.6%	20

OFFICE MARKET

- Office absorption was a positive 82,000 SF in the fourth quarter. East Cambridge was positive thanks to the completion of 314 Main. However, without this strongly preleased building, absorption would have been negative. Rents continued to hold up and even increased slightly; however, this is more a result of a changing sample size, though it does show the relative strength in the Cambridge market.
- Sublease space is increasing, however, with more than 600,000 SF on the Cambridge market, the most since the end of 2003. The sublease market peaked at one million SF in the aftermath of the tech bust.

Life science companies needing office space are looking to Boston for growth or relocation, particularly out of East Cambridge, for rent savings north of \$20/SF that could push beyond \$30/SF. Case in point: multiple spaces have been put on the direct or sublease market, with a number topping \$100/SF on a gross basis. Increased quality sublease space in Boston makes it even more appealing for cost-conscious firms.

LAB MARKET

- Lab vacancies shrunk again this quarter to 1.6%. This absorption was sublease-driven.
- Bristol-Myers Squibb's 360,000 SF lease at Cambridge Crossing last quarter has led to some future space additions, such as the company's block of space at 100 Binney Street. However, this space is not available until years in the future, and it would not be surprising to see this space leased before BMS occupies the new building.

The active tenant-in-the-market list shrunk quickly at the outset of the COVID-19 pandemic but is filling up again. The current active tenant requirement list is dominated by Series A and early-stage firms, which are attracting strong capital inflows from VC firms and a healthy IPO market. This bodes well for future demand.



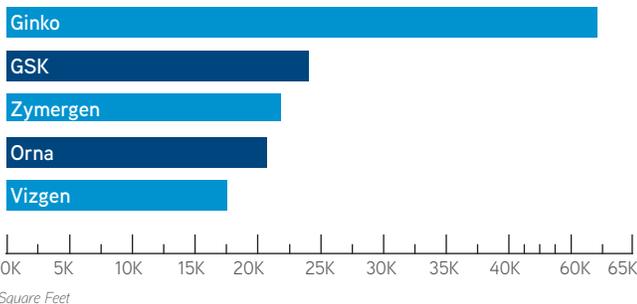
314 Main St | MIT
Cambridge, MA
Source: www.capitalprojects.mit.edu

Highlighted active tenants and recent transactions are shown in the tables below.



VELOCITY

■ East Cambridge ■ Alewife ■ Harvard Square

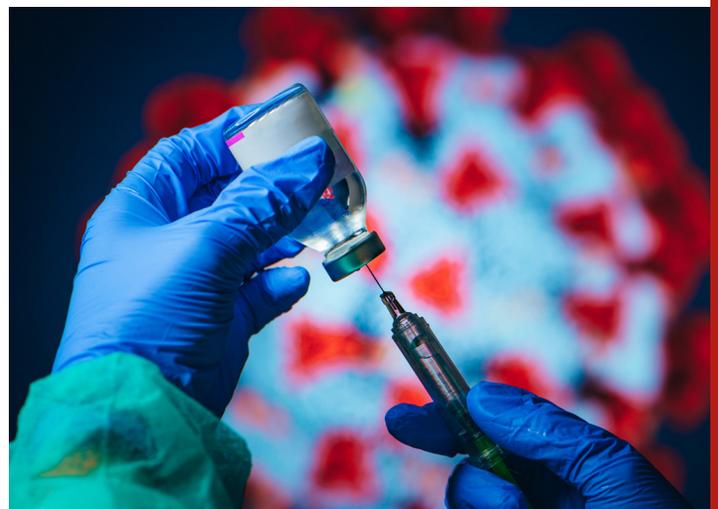


LOOKING AHEAD...

- Demand is expected to remain strong for the foreseeable future. As noted earlier, the confluence of various sources of capital and a strong base of intellectual horsepower have made Cambridge the global leader in life science research and development. The vast majority of the early-stage firms receiving venture capital dollars have yet to make a real estate move. If history is a guide, there is tremendous future demand waiting in the wings.

But competition is appearing. The A Street Corridor in Boston, Harvard’s planned expansion in Allston, and multiple locations in Somerville all aim to become the next “it” location for life science. The Cambridge market will remain at the center of this industry and drive growth, but in the years ahead will have far more competition. In fact, some of Cambridge’s largest landlords are investing in new markets. BioMed has joined Somerville’s Xmbly development and is reportedly under contract for an acquisition in the Seaport, while Alexandria has focused on Watertown, Waltham, and Boston. That said, BioMed just recently purchased the Brookfield portfolio in East Cambridge, becoming the largest lab owner in the submarket.

- Alewife could be next in line for Cambridge’s surging life science market growth. Across the train tracks from Cambridgepark Drive, properties off Concord Avenue could be the next relief valve, and recent investment/property turnover there suggests that redevelopment is not far off. Since Alewife is just a few stops away on the Red Line, the area might offer alternatives to East Cambridge firms needing space. Cambridge needs new areas to emerge to maintain its competitive advantage because of Kendall’s limited growth opportunities.





SUPPLY AND DEMAND

Underway projects are driven by a mix of build-to-suits (Olympus in Westborough) and life science (225 Wyman St., Waltham; 101 South St., Somerville). Conversions are underway in Watertown, Waltham, and Lexington (among others) to make buildings lab or lab-ready. Lab has become the main driver of the pipeline. And that looks to hold: the next development cycle is becoming clearer, with Alexandria recently purchasing a portfolio in Waltham, including a development site, as well as land in Watertown. King Street's 75 Hayden in Lexington has delivered with a roster of tenants including Frequency Therapeutics, Dicerna Pharmaceuticals, Voyager Therapeutics, and Integral Health.

- The suburbs are not an exception to the strength of life science across Greater Boston: on the year, lab saw 760,000 SF of absorption. More than 2.5 million SF of life science growth has come to the suburbs, including lab/manufacturing space in recent years, and active tenants are seeking millions of square feet of space.
- The suburbs' highly educated workforce creates diversified demand from numerous industries and business categories. The suburban markets have long been dominated by technology companies, but technology has evolved to software as a service (SaaS), 3-D printing, robotics, manufacturing, and life sciences, now current and future drivers of the market. Healthcare and medical and business services have remained key drivers.

SUBURBAN OVERVIEW

Fundamentals in Boston's suburbs softened a bit at the end of the year. Vacancies moved up to 17.4%, a 1.2-percentage-point increase from this time last year. Sublease space remains a major contributor, as an additional 300,000 SF hit the market in the quarter, and for the year, it has increased by 1.1 million SF. A total negative absorption of 156,000 SF was registered in the fourth quarter and 1.2 million SF in 2020. Sluggish office leasing, slowed decision-making, and continued uncertainty have been key themes throughout this pandemic-induced market cycle.

Life science remains a strong driver of the market. Vivalogics leased 118,000 SF in Boxborough for a new facility in a former Cisco building, which follows another strong year of absorption in lab space across all the suburbs. Other deals include Translate Bio (120,000 SF), Dyne Therapeutics (65,000 SF), and Kiniksa (55,000 SF). Life science is a bright spot that is showing no signs of dimming anytime soon. And deals such as Vivalogics' show that the industry continues to expand, driving growth across the suburbs.

▲ 17.4%

vacancy rate

▼ 156K

SF negative absorption

▲ LIFE SCIENCE

demand and investment

Aggregate statistics for the office and lab market are provided below:

MARKET/ SUBMARKETS	SUPPLY SF (000s)	VACANCY RATE	ABSORPTION SF Q4 2020
Suburban Boston	123,762	17.4%	(156)
Inner Suburbs	6,876	14.3%	(13)
Route 128	68,409	15.0	(176)
Route 495	45,541	21.4%	33
Worcester	2,892	16.7%	0



75 Hayden
Lexington, MA

Source: www.bostonrealestatetimes.com

Some of the larger requirements include:

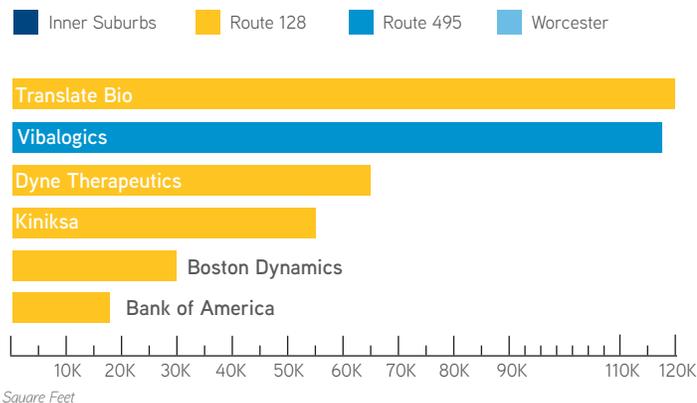


- Asking rents are holding steady. Deal volume is a mere fraction of that in a typical market, so landlords are finding ways to execute a transaction, offering additional free rent, a higher tenant improvement allowance package, or increasingly lower taking rents.

LOOKING AHEAD...

- The future of work is an open-ended question: how much space tenants will need in a post-pandemic world is unknown. Where employees work is likely to become more flexible, and a distributed workforce has been floated as a possible future space-planning strategy. Will this cause a sea change in the suburbs? Tenant relocations out of Boston have been limited so far to small firms, but some larger operations are considering the move. Life science and tech have been pushed out of Cambridge for years, but that hasn't happened yet in Boston. With substantial projects around the Mass Pike coming up in the years ahead, some suburban flight could be just around the corner.

Some of the larger transactions during the quarter included:



ABSORPTION, VACANCY, AND FORECAST

- With no major transactions such as Tufts in Canton or build-to-suits in Westwood, the suburban market posted another quarter of negative absorption. Sublease space drove the majority of the fourth quarter's negative absorption. Vacancies ended the year at 17.4%, a 1.2-percentage-point increase over the past 12 months, reminiscent of 2018 levels. They increased across most submarkets, and the Route 128 South market posted the largest quarterly negative absorption in the suburbs.

Growing demand drivers such as life science and cGMP manufacturing are leading to opportunities to reposition suburban office assets. We have seen office product scraped in order to build new industrial, and portions of floors (or entire floors) removed to accommodate users needing taller clear heights. Owners with the proper financial flexibility may be able to tap into this newfound demand and fill up current high-vacancy assets.

CAPITAL MARKETS

SALES AND HIGHLIGHTS

- The sales market is waking back up. Life science/lab-focused investment has been a bright spot in both the city and suburbs.

Industrial remains hot, with plentiful capital chasing it. Record high e-commerce sales and growth of cGMP manufacturing have investors' attention.

- Interest rates remain favorable, and a persistent low-interest-rate environment will drive investors to real estate over time.
- Multifamily continues to be an easier-to-transact asset class thanks to strong agency lending support. Funding delays are leaving room for local banks and life companies to compete for property.
- Retail and hospitality have opportunities but are attracting far less capital.

OFFICE/LAB



33 NEW YORK AVE/ 1-5 THE MOUNTAIN ROAD FRAMINGHAM

BUYER: OXFORD PROPERTIES GROUP
PRICE: \$151,000,000
PSF: \$566

OFFICE/LAB



CROSBY CENTER BEDFORD

BUYER: TPG CAPITAL
PRICE: \$122,000,000
PSF: \$207

OFFICE/LAB



CAMBRIDGE DISCOVERY PARK CAMBRIDGE

BUYER: HEALTHPEAK PROPERTIES
PRICE: \$720,000,000
PSF: \$939

OFFICE/LAB



1 PATRIOTS PARK BEDFORD

BUYER: JUMBO CAPITAL AND
IRON POINT PARTNERS
PRICE: \$72,500,000
PSF: \$505

OFFICE/LAB



380 STUART STREET BOSTON

BUYER: SKANSKA
PRICE: \$177,000,000
PSF: \$1,188

OFFICE/LAB



1 ALEWIFE CENTER CAMBRIDGE

BUYER: IQHQ
PRICE: \$54,000,000
PSF: \$601

MULTI-FAMILY



**THE EDISON ON THE CHARLES
BY WINDSOR**
20 COOPER STREET, WALTHAM

BUYER: GID INVESTMENT ADVISERS
PRICE: \$139,000,000
\$/UNIT: \$526,515

INDUSTRIAL



380 AND 420 E STREET
BOSTON

BUYER: ALEXANDRIA REAL
ESTATE EQUITIES
PRICE: \$168,500,000
PSF: \$871

MULTI-FAMILY



ROSEMONT SQUARE APARTMENTS
2 CHESTNUT W, RANDOLPH

BUYER: WATERTON
PRICE: \$130,250,000
PSF: \$258,946

INDUSTRIAL



EQUITY INDUSTRIAL PORTFOLIO
BRAINTREE, BROCKTON, CANTON,
GREENLAND, NH

BUYER: ANGELO, GORDON & CO.
PRICE: \$151,000,000
PSF: \$90

RETAIL



235 OLD CONNECTICUT PATH
SUPER STOP & SHOP, FRAMINGHAM

BUYER: RK CENTERS
PRICE: \$23,500,000
PSF: \$279

INDUSTRIAL



351 AND 353 MAPLE STREET
BELLINGHAM

BUYER: MANULIFE INVESTMENT
MANAGEMENT
PRICE: \$76,100,000
PSF: \$178

RETAIL



331 PARADISE ROAD
WHOLE FOODS MARKET, SWAMPSCOTT

BUYER: RAJ DHANDA
PRICE: \$19,250,000
PSF: \$536

INDUSTRIAL



140 SUMMIT STREET
PEABODY

BUYER: OLIVER STREET CAPITAL AND
BAIN CAPITAL REAL ESTATE
PRICE: \$65,000,000
PSF: \$176

WE ARE COLLIERS.

WE ARE: GLOBAL GROUNDED INTEGRATED
RESOURCEFUL ACCOMPLISHED

WE ARE GLOBAL.

With offices in 68 countries, Colliers International is armed with the talent and expertise to meet your needs and exceed your expectations in virtually every major market worldwide.

The foundation of our service is the strength and depth of our specialists. Our clients depend on our ability to draw on years of direct experience in their local market. Our professionals know their communities and the industry inside and out. Whether you are a local firm or a global organization, we provide creative solutions for all your real estate needs.

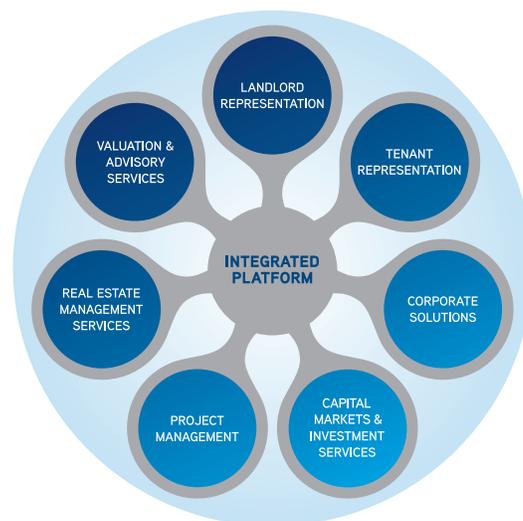


WE ARE GROUNDED.

Despite our strong global connections, our local office is deeply rooted in Boston, tracing its history back to 1875 when we were founded as Meredith & Grew. We have been directly involved in several of the major projects that have shaped Greater Boston as we see it today and are as committed to the future of this City and market as we are invested in its past.

WE ARE INTEGRATED.

A full service platform alone is not a differentiator, but cohesive, multidisciplinary collaboration is. At Colliers, we advocate complete transparency between our service lines, resulting in the maximum benefit to you. When we can see the big picture from all service angles, it uncovers and unlocks opportunities that would otherwise remain hidden in a silo approach, and enables thoughtful and proactive decision-making for you.



WE ARE RESOURCEFUL.

A deep bench of industry, geography, and subject matter specialists, combined with an unrivaled set of research and marketing tools allows Colliers to take a fully client-centric approach. We staff projects with representatives and resources that will add the most value to an assignment and ultimately accelerate your success.

WE ARE ACCOMPLISHED.

Colliers has been built upon a foundation of success, resulting from habitual good practices, overwhelmingly sound principles, and a perpetual desire to improve. The launch of new disciplines over the years has purely resulted from our clients' evolving needs, and has proven successful as most repeat clients choose to leverage the broader Colliers service lines.



Revenue
\$3.5B
(US\$)



Established in
68
countries



Transaction value
\$129B
(US\$)



Managing
2B
(square feet)



Lease/sale transactions
70,000



Assets under management
\$33B



Comprised of
18,000+
(professionals)

All statistics are for 2019, are in U.S. dollars and include affiliates

WE AT COLLIERS ARE ALL OF THIS AND MORE.
YOU ARE THE BENEFICIARY.

MARKET SNAPSHOT

Q4 2020 STATISTICS | OFFICE & LAB / CLASS A & CLASS B

MARKET	SQUARE FEET (SF) SUPPLY	DIRECT SF AVAILABLE	SUBLEASE SF AVAILABLE	VACANCY*	CURRENT ABSORPTION	YTD ABSORPTION
BOSTON	72,383,609	6,973,177	3,319,102	14.2%	(1,315,566)	(4,083,253)
BACK BAY	13,379,652	764,221	581,874	10.1%	(184,262)	(777,847)
FINANCIAL DISTRICT	34,354,264	3,556,092	1,814,539	15.6%	(803,871)	(2,216,023)
ALLSTON / BRIGHTON	962,443	27,081	66,065	9.7%	(74,146)	(93,146)
CHARLESTOWN	2,841,176	321,323	67,963	13.7%	10,019	(167,275)
CROSTOWN	1,025,000	54,177	0	5.3%	(1,806)	(51,724)
FENWAY / KENMORE	4,257,995	73,647	68,184	3.3%	10,715	(68,823)
NORTH STATION	2,245,004	350,936	176,391	23.5%	(5,696)	(279,710)
SEAPORT	12,002,934	1,667,259	495,044	18.0%	(223,499)	(323,372)
SOUTH STATION	1,315,141	158,441	49,042	15.8%	(43,020)	(105,333)
CAMBRIDGE	25,146,343	807,890	628,261	5.7%	101,318	433,103
ALEWIFE STATION / ROUTE 2	3,040,614	272,694	129,849	13.2%	4,621	248,894
EAST CAMBRIDGE	20,206,234	452,377	441,717	4.4%	106,632	197,411
HARVARD SQUARE / MASS AVE	1,899,495	82,819	56,695	7.3%	(9,935)	(13,202)
SUBURBS	123,716,591	18,208,297	3,288,394	17.4%	(155,856)	(1,159,835)
INNER SUBURBS	6,875,904	852,834	127,260	14.3%	(12,588)	(127,071)
ROUTE 128 NORTH	7,418,401	1,158,387	16,582	15.8%	15,122	(251,456)
ROUTE 128 NORTHWEST	21,515,346	2,378,929	359,242	12.7%	228,227	(103,095)
ROUTE 128 MASS PIKE	22,735,924	2,827,836	1,023,688	16.9%	(169,763)	(37,713)
ROUTE 128 SOUTH	16,738,359	2,032,521	484,809	15.0%	(249,521)	482,812
ROUTE 495 NORTH	20,966,816	4,347,407	599,446	23.6%	(44,529)	(459,464)
ROUTE 495 WEST	21,346,820	3,897,846	481,779	20.5%	103,809	(339,948)
ROUTE 495 SOUTH	3,227,097	329,755	95,588	13.2%	(26,613)	(114,614)
WORCESTER	2,891,924	382,782	100,000	16.7%	-	(209,286)
MARKET TOTALS	221,246,543	25,989,364	7,235,757	15.0%	(1,370,104)	(4,809,985)

*Including sublease space

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