

Boston Office Market

Weaker Office Fundamentals Shifts Focus to Life Sciences

Following a banner year of activity, 2020 proved to be challenging for Greater Boston's office market. While trends were less negative during the fourth quarter, the metro ended the year with more than 4.0 million square feet in negative net absorption, which represents the largest annual decline in more than 15 years. Sublease inventories increased by an additional 1.0 million square feet over the quarter and now represent 4.5% of total office inventory. Vacancies have breached 14% for the first time since the last downturn and asking rents are starting to soften – particularly in the CBD. Leasing remains limited as many tenants continue to exercise caution in their decision-making. As a result, 2020's velocity is down by more than 60% from last year's totals. Fewer transactions took place during the second half of the year, with renewals and extensions accounting for a large share of recent volumes. Despite fewer observations, the average lease term declined by 24% over the course of the year. Landlords continue to reposition competitive office product for life science users and office inventories have declined by roughly 2.0 million square feet since the end of last year. Nearly a year into the pandemic, uncertainty still surrounds remote work and future space needs; however, Greater Boston's economy is more diversified than ever, and the region remains a global hub for innovation, healthcare, life science and education.

Current Conditions

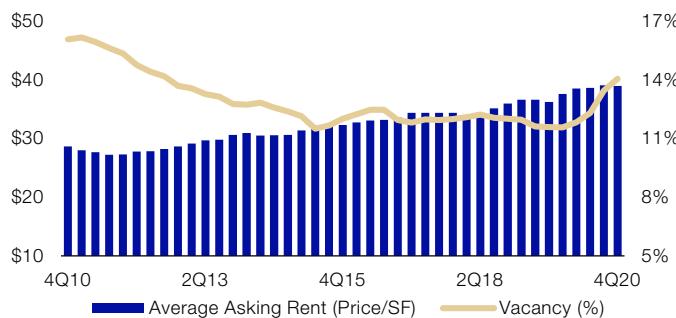
- Fallout from the coronavirus outbreak derailed 2020 office market fundamentals in Greater Boston.
- Year-to-date negative net absorption of 4.0 million square feet has outstripped declines experienced during the Great Recession.
- Outside of some weakness in Boston's CBD, asking rents continue to hold steady throughout the metro.
- Greater Boston ended 2020 as the most active investment market in the U.S. due to investor interest in lab redevelopment opportunities.

Market Summary

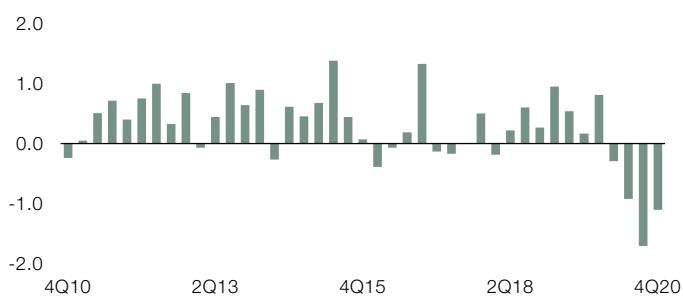
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	180.5M	180.9M	182.7M	↑
Vacancy Rate	14.0%	13.4%	11.6%	↑
Quarterly Net Absorption (SF)	-1.1M	-1.7M	810,685	↔
Average Asking Rent/SF	\$38.91	\$39.00	\$37.54	↓
Under Construction (SF)	7.4M	7.6M	6.1M	↔

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



Boston CBD

Coming off one of the strongest five-year periods in its history, Boston's office market ended 2020 with four-consecutive quarters of negative net absorption and cyclically-high vacancy rates. Expiration-driven activity continues to dominate leasing in the CBD, with 2020 volumes down 62.1% compared to 2019 and shorter lease terms more common. Global investment firm Loomis Sayles signed the largest deal of the year, executing an early renewal and downsizing its footprint at One Financial Center. Real estate firm CoStar Group signed a three-year renewal at 33 Arch Street during the fourth quarter as well. While tech companies still account for the lion's share of new sublease availabilities, weakness is forming within the coworking industry. While the WeWork "shoe" has yet to drop, Servcorp recently closed its Boston office, CIC has listed space for sublease at 50 Milk Street and Breather is shutting down all of its locations. The future of flexible space remains unclear as the office sector works through the impacts of the pandemic.

Once known primarily as a finance and insurance hub, Boston quickly grew into one of the world's preeminent tech hubs over the last five to ten years. Now, the market is on the cusp of another seismic transformation. Continued demand from life science tenants has completely changed the commercial real estate landscape in Boston's CBD. The amount of planned office-to-lab conversions and ground-up development in this market is staggering; 601 Congress in the Seaport and 321 Harrison in the South End are under agreement or have sold to life science operators. Oxford Properties recently announced plans to reposition it's proposed development at 125 Lincoln Street in Chinatown to include lab-capable space while 1001 Boylston, One Kenmore Square and 88 Black Falcon all have planned lab components. The focus on lab development ultimately eliminates competitive office supply and reduces existing availabilities in Boston's CBD.

Cambridge

The narrative in Cambridge's office market has yet to shift. Life science continues to garner significant attention while the office

market is middling due to weaker demand. The fourth quarter brought another negative 130,000 square feet of office net absorption across the Cambridge markets and overall vacancies ended 2020 nearly 500 basis points above year-ago levels. Rates among Class A assets, which account for roughly 75% of Cambridge's office inventory, are sitting 60 basis points above the market average. Similar to Boston's CBD, sublease inventories continued to mount during the fourth quarter. Boeing is now trying to sublease all of the 100,000 square feet it had secured in the newly-built 314 Main Street; HubSpot recently listed another two floors, totaling 40,000 square feet, for sublease at One Canal Park; and Sanofi has listed two additional floors of office space at its future headquarters in Cambridge Crossing.

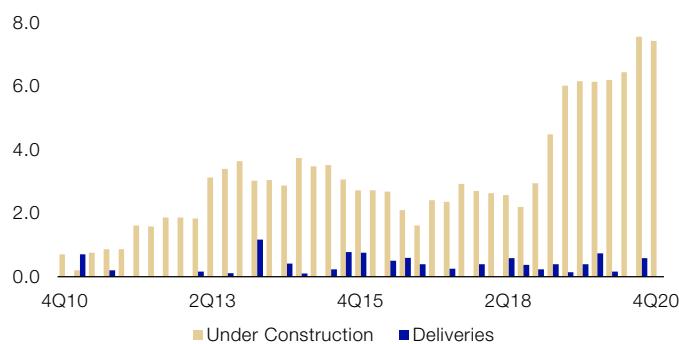
As the epicenter for the region's life science industry, it is no surprise the list of planned office conversions continues to expand in Cambridge. This is particularly true in West Cambridge's maturing lab market. Early in 2020, Longfellow Real Estate Partners and Morgan Stanley repositioned 100 CambridgePark Drive for life science users. The same ownership will also be converting neighboring 150 CambridgePark Drive in early 2021. In November, IQHQ added the 90,000-square-foot One Alewife Center to its growing portfolio and will likely transition the asset to lab use. In East Cambridge, 60 Hampshire Street is slated for lab conversion later next year. Concentration on the ground-up construction of new lab space and the conversion of older office assets will continue to impact supply-side fundamentals in Cambridge's office market going forward.

Suburbs

Greater Boston's suburban market had a generally slow fourth quarter, save for continued interest in the growing life science and industrial sectors. The suburbs ended 2020 with roughly 1.4 million square feet in negative net absorption, and vacancies climbed to 16.5%, which represents the highest rate in nearly 10 years. While leasing velocity remains well below normal levels, far less sublease space was added to the available inventory during the fourth

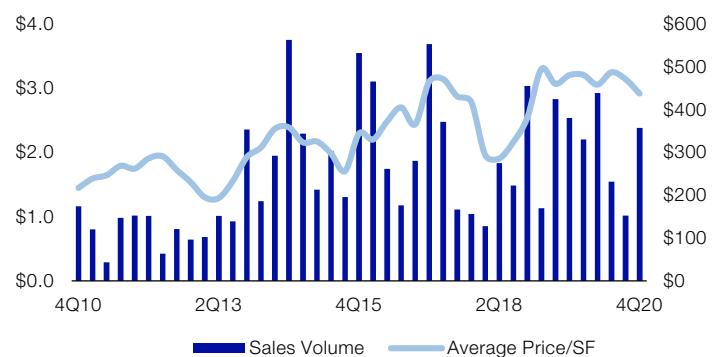
Construction and Deliveries

SQUARE FEET, MILLIONS



Office Investment

SALES VOLUME (BILLIONS AND AVERAGE PRICE/SF)



RESEARCH Q4 2020

quarter. Although some tenants continue to assess space needs – exploring both urban and suburban options – there has yet to be any real traction with this trend. Beyond lab users, few tenants – if any – are migrating out of Boston or executing so-called “hub-and-spoke” operations. Shifting housing preferences, which favor suburban living, could alter this narrative in the long run.

The maturation of the suburban life science market has been a key bright spot within Greater Boston while office growth has stalled. Lab has become a major driver of the development pipeline and investment sale activity as demand continues to emanate out from Cambridge. As a result, the list of properties being considered for lab conversion continues to expand. Developers and operators are most active in the Urban Edge, specifically Watertown, Somerville and Allston-Brighton, as well as within the North and West – Route 128 submarkets. Biomanufacturing continues to grow in importance and new facilities are being planned throughout the suburbs, mainly along Route 495. Given the dearth of office demand, the list of assets slated for repositioning will continue to grow. Going forward, look for a large portion of new development in the suburban markets to also include a lab component.

Capital Markets

Like leasing velocity, Greater Boston investment sales volume has been somewhat limited in recent quarters as uncertainty and limited price discovery continues to characterize the marketplace. Office transaction volumes remain muted compared with recent history, with investors laser-focused on urban and suburban lab

redevelopment opportunities. Ultimately, Boston will finish 2020 as the most active market in the U.S. due to interest in life science. In one of the largest transactions of the year, Related Beal acquired a 50% stake in the Innovation and Design Building in the Seaport from Jamestown and plans to begin work on new lab and office spaces in 2021. Recently sold 1040 and 1050 Waltham Street in Lexington are also being repositioned for lab use and Au Bon Pain's former Seaport headquarters sold to Marcus Partners, which has proposed a lab development on the site. Though the near-term outlook remains uncertain, continued strength in the region's life science sector will likely drive capital to the area's office market.

Outlook

Greater Boston's fourth-quarter performance was only slightly better than the previous quarter. With the outbreak worsening over the last few months and new capacity limits on the table, it's no surprise the recovery has been sluggish. Office users will continue to evaluate their space needs in the coming quarters and remain cautious in their return-to-work timelines despite recent advances in vaccine therapies. Asking rents have begun to soften and projections are for further declines as price discovery becomes clearer. Due to limited office demand, look for an even greater emphasis on the life science sector going forward. Ultimately, Greater Boston began this downturn with some of the strongest fundamentals on record and the region's highly-educated, innovative workforce will help drive the long-term recovery.

Select Lease Transactions

Tenant	Building / Address	Submarket	Type	Square Feet
Loomis Sayles	One Financial Center, Boston	Downtown	Lease Renewal	232,184
Definitive Healthcare	492 Old Connecticut Path, Framingham	Framingham/Natick	Lease Extension	55,737
Bond Brothers	10 Cabot Road, Medford	Urban Edge	Direct Lease	36,000
Qorvo US	2 Executive Drive, Chelmsford	North – Route 495	Lease Extension	34,755
CoStar Group	33 Arch Street, Boston	Downtown	Lease Renewal	25,200
William Blair & Co	125 High Street, Boston	Downtown	Direct Lease	20,443

Select Sale Transactions

Building / Address	Submarket	Sale Price	Price/SF	Square Feet
The Innovation and Design Building (50% Interest), Boston	Seaport	\$710.0M	\$523	1,356,866
400-600 Summit Drive, Burlington	North – Route 128	\$252.8M	\$722	350,000
Crosby Corporate Center, Bedford	North – Route 128	\$122.0M	\$207	590,053
One Alewife Center, Cambridge	West Cambridge	\$54.0M	\$605	89,309
Liberty Mutual Office Portfolio, Weston	West – Route 128	\$26.0M	\$115	226,477
1040 & 1050 Waltham Street, Lexington	West – Route 128	\$23.2M	\$283	81,909

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD Total	65,979,088	4,887,245	11.0%	-647,312	-2,432,287	\$72.47	\$54.32	\$64.85
Back Bay	13,277,325	540,000	6.8%	-169,456	-462,349	\$71.43	\$53.92	\$65.65
Downtown	32,924,913	1,072,420	11.8%	-378,072	-1,348,467	\$72.34	\$51.75	\$66.66
Government Center	1,509,457	977,249	11.0%	-19,768	-60,460	\$65.00	\$58.64	\$61.56
Midtown	2,047,455	-	6.7%	108,818	55,428	-	\$51.02	\$49.29
North Station	2,396,123	627,000	13.0%	-9,336	-113,127	-	\$53.06	\$53.06
Seaport District	10,875,573	1,010,576	15.0%	-149,260	-427,987	\$75.43	\$59.32	\$66.76
South Station	2,948,242	660,000	7.8%	-30,238	-75,325	\$57.00	\$54.01	\$49.94
Cambridge Total	10,895,097	767,000	8.4%	-129,645	-207,722	\$82.34	\$72.90	\$78.28
East Cambridge	6,734,489	767,000	8.6%	-65,720	-54,210	\$95.63	\$87.01	\$93.16
Mid Cambridge	2,565,391	-	7.0%	-23,561	-46,653	\$78.57	\$71.88	\$71.97
West Cambridge	1,595,217	-	10.0%	-40,364	-106,859	\$56.01	\$40.55	\$51.92
Suburban Total	103,672,578	1,765,532	16.5%	-325,261	-1,391,746	\$31.17	\$22.74	\$27.18
Urban Edge	12,733,395	753,912	8.5%	-119,357	-266,877	\$38.77	\$38.75	\$38.50
North – Route 128	21,363,873	-	14.1%	-56,854	-564,325	\$33.27	\$22.76	\$28.96
South – Route 128	12,786,435	100,000	17.3%	-48,818	-141,163	\$28.42	\$23.55	\$26.18
West – Route 128	21,132,530	507,620	14.9%	-152,554	-431,011	\$42.89	\$31.88	\$38.79
North – Route 495	18,796,224	154,000	19.7%	114,325	323,395	\$24.04	\$18.22	\$21.56
South – Route 495	3,319,070	100,000	9.6%	-47,937	33,650	\$21.66	\$21.05	\$21.06
West – Route 495	9,551,587	150,000	30.8%	-8,130	-214,425	\$22.80	\$18.96	\$20.02
Framingham/Natick	3,989,464	-	18.0%	-5,936	-130,990	\$28.70	\$20.80	\$25.81
Market	180,546,763	7,419,777	14.0%	-1,102,218	-4,031,755	\$45.02	\$31.62	\$38.91

RESEARCH Q4 2020

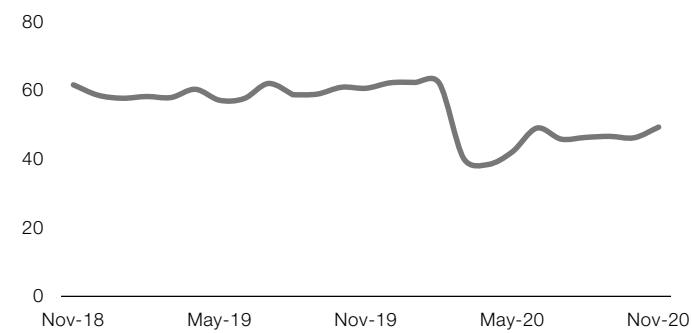
Economic Overview

Greater Boston's economic recovery continues to wane as monthly job growth decelerated again in November. Since April, 262,000 jobs have been added to local payrolls, which is only 57% of the jobs lost due to the pandemic. Though the metro-level unemployment rate is now in line with the national average, labor force participation is declining. Lower-wage service industries are still languishing while employment within high-paying office-using sectors is nearing pre-pandemic levels.

The near-term outlook remains precarious as a resurgence in COVID-19 and the oncoming winter months present additional headwinds for Greater Boston. However, there are reasons for optimism: widespread distribution of recently-approved vaccine therapies from Pfizer and Moderna are on the horizon and another round of stimulus relief is all but certain. In the long-run, this market's large, diversified and innovative economy is poised for growth.

Employer Confidence

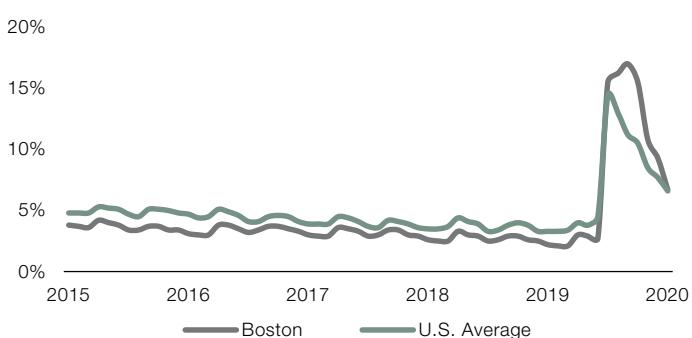
AIM, BUSINESS CONFIDENCE INDEX



Source: Associated Industries of Massachusetts, November 2020

Unemployment Rate

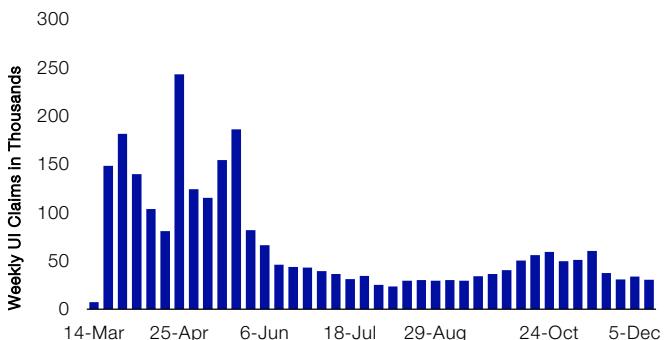
NOT SEASONALLY ADJUSTED



Source: Bureau of Labor Statistics, October 2020

Weekly Initial MA Jobless Claims

IN THOUSANDS (NSA), INCLUDES PUA* CLAIMS

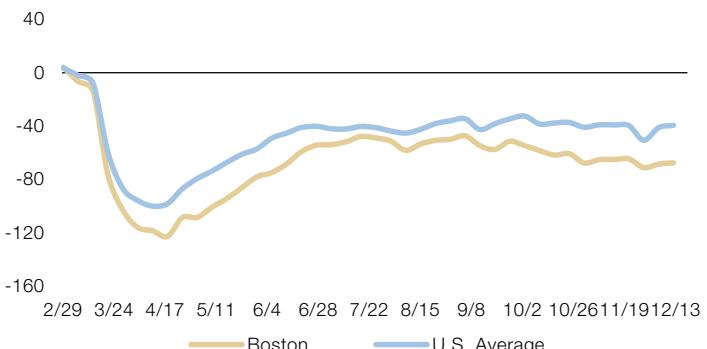


*Pandemic Unemployment Assistance

Source: U.S. Department of Labor, December 2020

Mobility & Engagement Index

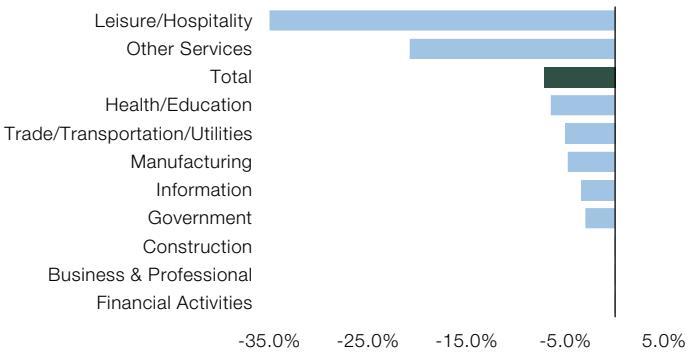
7-DAY AVERAGE



Source: Federal Reserve Bank of Dallas, December 2020

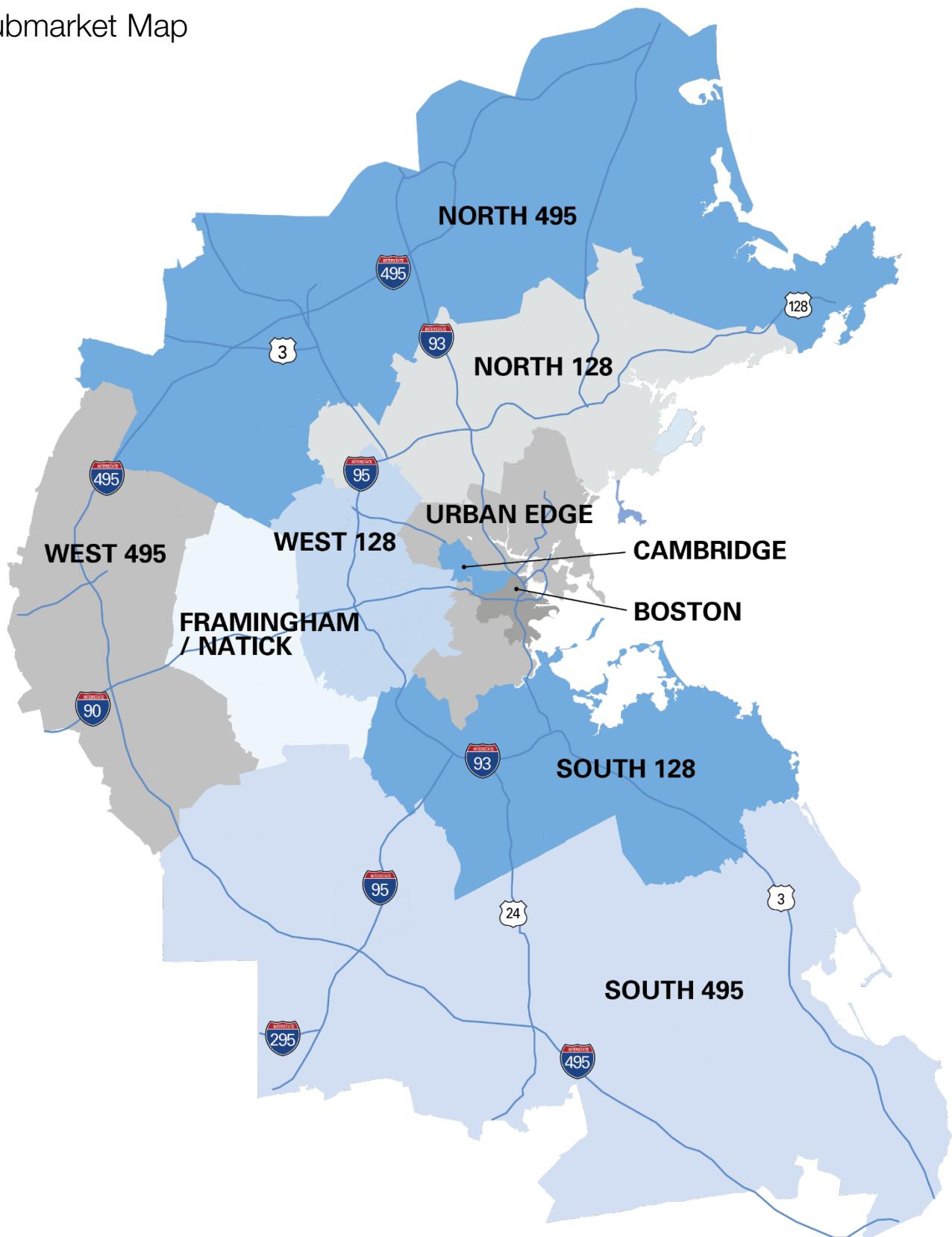
Employment by Industry

PERCENT BELOW FEBRUARY PEAK (NSA)



Source: Bureau of Labor Statistics, November 2020

Submarket Map



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ARKANSAS Fayetteville Little Rock	KENTUCKY Louisville	OREGON Portland/Lake Oswego
CALIFORNIA El Segundo Irvine Los Angeles Newport Beach Pasadena Sacramento San Francisco San Jose San Mateo Santa Rosa	LOUISIANA New Orleans	PENNSYLVANIA Allentown Philadelphia Pittsburgh
MASSACHUSETTS Boston	MARYLAND Baltimore Salisbury	TEXAS Austin Dallas Houston
COLORADO Denver	MINNESOTA Minneapolis	UTAH Salt Lake City
CONNECTICUT Stamford	MISSOURI St. Louis	VIRGINIA Tysons Corner
DELAWARE Wilmington	NEVADA Las Vegas Reno	WASHINGTON Seattle
DISTRICT OF COLUMBIA	NEW JERSEY Rutherford East Brunswick Morristown	WISCONSIN Milwaukee
FLORIDA Boca Raton Jupiter Miami Palm Beach Tampa	NEW YORK Buffalo/Amherst New York	
GEORGIA Atlanta	NORTH CAROLINA Charlotte Raleigh	

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