



Boston Office Market

Life Science Activity Continues to Drive Down Office Inventories

Greater Boston office fundamentals have improved from one year ago, with deal momentum picking up. However, office leasing activity remains a fraction of pre-COVID levels. Build-to-suit activity, again, represents a majority of the positive net absorption reported during the quarter and improvements in sublease inventories have stalled. Sustained inventory contraction due to redevelopment pursuits resulted in lower vacancy, specifically within the suburban office markets. Average asking rents increased modestly over the quarter, while concession packages and tenant improvement allowances are resetting at higher rates. Tenants are flocking to quality office product and in the CBD, new construction is dominating user preferences. Cambridge Associates, Eaton Vance, K&L Gates, Intersystems, Goulston & Storrs and IRM have executed or are close to executing leases within new CBD developments. The impact of the region's booming life science and logistics sectors on the local office landscape cannot be emphasized enough. Since the end of 2019, the repositioning of office assets for laboratory and industrial uses has resulted in a net inventory reduction of more than 6.5 million square feet in select submarket across the metro area. Displaced office tenants now have fewer space options, which is already benefiting select existing assets in nodes with significant laboratory development. Despite volatile public health conditions early in the first quarter, all metrics are pointing toward a slow and steady increase in workers returning to offices.

Current Conditions

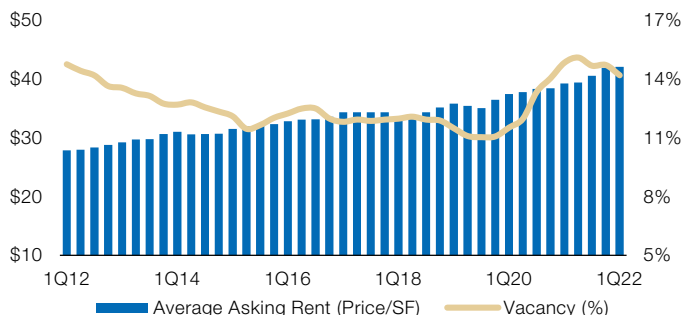
- Offices vacancies reached a five-quarter low, declining to 14.2% metrowide.
- Widespread adaptive redevelopment projects have pushed office inventories below 175 million square feet in the first quarter.
- The metro's sublease availability rate has yet to reach pre-COVID levels, ending the first quarter at 3.8%.
- Asking rents are holding steady across the board having surpassed \$42.00/SF in early 2022.

Market Summary

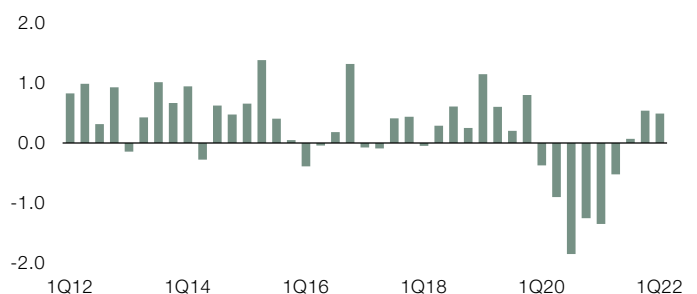
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	174.9M	176.6M	180.0M	↔
Vacancy Rate	14.2%	14.7%	14.8%	↓
Quarterly Net Absorption (SF)	489,057	539,913	-1.4M	↑
Average Asking Rent/SF	\$42.05	\$41.88	\$39.20	↑
Under Construction (SF)	4.4M	4.9M	5.6M	↔

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q1 2022

Boston CBD

For the second consecutive quarter, build-to-suit activity propped up CBD office fundamentals. Outside of the completion of Amazon's new building in the Seaport, which tops 400,000 square feet, net absorption was primarily negative during the first quarter. LogMeIn listed another 85,000 square feet for sublease in the Seaport, and CBT Architects vacated the majority of 110 Canal Street in its relocation to Charlestown. As a result, CBD vacancies ended the first quarter unchanged, at 12.8%. Sublets continue to slowly decline in Boston, with availabilities reaching 3.3% of inventory in early 2022. Comparatively, sublease rates were 2.1% at the end of 2019. Several large leases were executed during the first quarter; however, tenant preferences have shifted towards new construction. The Winthrop Center development landed its first tenant with the Cambridge Associates 115,000-square-foot lease and Verily subleased more than 100,000 square feet from Oath at the newly constructed Hub on Causeway project. Eaton Vance, Intersystems, Goulston & Storrs and IRM are close to executing leases within new CBD developments as well. The resulting rise in availabilities within "commodity" Class A buildings is a potential risk to Boston's tower market outlook in the next 24 to 36 months. Landlords will need to compete with a new class of amenity offerings and a heightened focus on health and wellness. On a more positive note, urban office usage, pedestrian traffic, and transit ridership have all improved significantly in recent weeks as the threat of the pandemic has waned and more workers are working in-person again.

Overall, lease rates for Class A space in the CBD have continued to hold steady and reached a new historic high in the first quarter of 2022. Landlord concession packages are on the rise, with Class A tenant improvement allowances reaching \$100.00/SF to \$120.00/SF and free rent rising to six to nine months on select transactions. There is more softness in Class B asking rents as well. Average lease rates for this space have declined by nearly 7% since late 2019 in the CBD. While supply growth remains a near-term risk, the growing emphasis on the life science sector is impacting market fundamentals in Boston's laboratory market. In March of 2022, Phase 3 acquired 55 Summer Street for \$107 million, or \$860/SF, and plans to reposition the property for laboratory use. While the depth of demand for biotech space in the CBD remains untested in the long run, the conversion trend has eliminated several potential large blocks of space from Boston's office inventory.

Cambridge

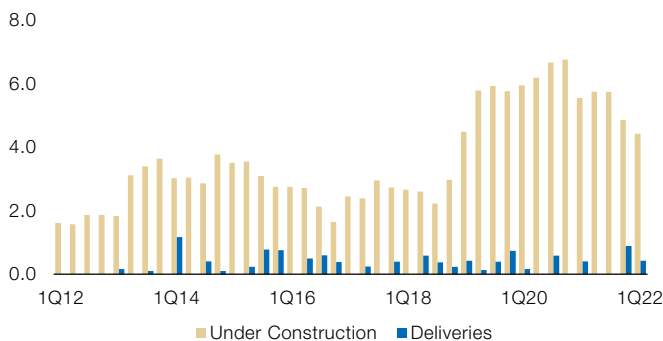
Following two quarters of positive momentum in Cambridge office fundamentals, vacancies increased significantly during the first quarter of 2022. Akamai, CarGurus, and GoDaddy all vacated space recently, resulting in roughly 127,000 square feet of negative net absorption. As a result of Biogen's new 185,000-square-foot sublease at Cambridge Center and Kayak's 54,000-square-foot sublease at 10 Canal Park, availabilities are nearing the cyclical peak reported at the end of 2020. Intersystems is reportedly committed to the remaining availability at Carr Properties'/HYM's One Congress Street development in Boston's North Station, which would result in a large block of space coming back at One Memorial Drive in Kendall Square. Despite these first-quarter challenges, interest in Akamai's sublease is healthy and Meta is close to executing a lease for another 166,000 square feet of space at 100 Binney Street. The tech giant's footprint in East Cambridge will surpass 500,000 square feet as a result. Average asking rents also advanced again in the first quarter of 2022 as lease rates on the best spaces continue to garner a premium. Over the next year, the Cambridge office market may face a bifurcation as volatility persists throughout the recovery. Well-heeled tech companies such as Meta, Microsoft, and Google will likely continue to expand and drive the flight-to-quality in office space. Softness in the Class B market remains a risk as less mature startups look to preserve cash runways and demand less office space. In the long-term, however, Cambridge's innovative culture and access to young talent will bolster market fundamentals.

Suburbs

The suburban office landscape has shown persistent recovery in the latter half of the pandemic. Although suburban Boston reflects generally higher vacancy rates, vacancies have decreased for the fourth consecutive quarter and reached 15.6% in early 2022. Vacancies are now just 60 basis points above pre-pandemic levels. Not surprisingly, transaction volume swayed heavily toward life science deals, with several mid-sized office leases being executed in the first quarter of 2022.

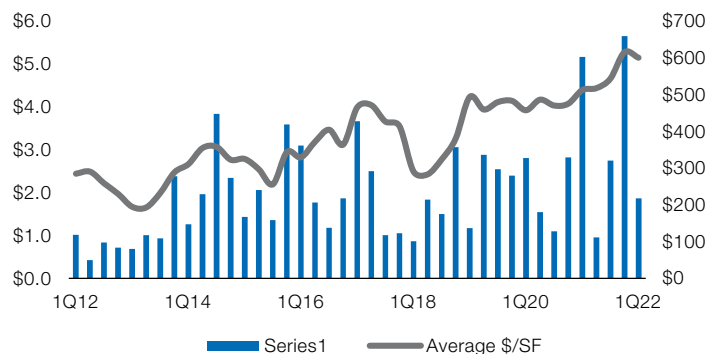
Construction and Deliveries

SQUARE FEET, MILLIONS



Office / Lab Investment

SALES VOLUME (BILLIONS AND AVERAGE PRICE/SF)



RESEARCH Q1 2022

The largest suburban office transaction occurred at 1 Van De Graaff Drive in Burlington, where Signify, a lighting company, inked a 52,150-square-foot lease. Coworking operator Workbar expanded its presence in Woburn with a new location at 500 Unicorn Park Drive. Aware, a biometrics software company, also executed a 20,730-square-foot lease at 76 Blanchard Road in Burlington. The suburban office inventory continues to shrink as redevelopment efforts favor the industrial, laboratory, and multi-family verticals. Inventories declined by just over two million square feet during the first quarter of 2022, marking the largest decrease in recent history. This trend is spreading to new and maturing clusters throughout Boston's suburbs. High-quality office spaces are becoming scarce in key submarkets such as West – Route 128. Older, more functionally obsolete properties along Route 495, including 4400 Computer Drive in Westborough, are being repositioned to logistics facilities, as well.

Capital Markets

Following a banner year, investment volumes decreased in the first quarter of 2022, with less than \$2 billion in office and lab assets changing hands throughout Greater Boston. Macroeconomic headwinds, the Russo-Ukraine conflict, and the lingering global pandemic have led to more hesitancy in the marketplace, which could impact near-term capital flows. With that said, life science-related investment continues to drive capital to the region. Nearly all the largest transactions closed during the first three months of 2022 are full or partial life science redevelopments. Minuteman Office Park in Andover and Raytheon's Presidential Way Campus in Woburn represent two suburban office parks recently acquired by Alexandria that are earmarked for repositioning. Phase 3 recently acquired 55 Summer Street in the Financial

District from Synergy Investments and AIG Global Asset Management with plans to convert the office building to laboratory use. Despite current challenges, Greater Boston consistently ranks among the top destinations for capital within the U.S. Foreign investors have been particularly active here; according to Real Capital Analytics, Boston surpassed Manhattan as the number-one market for cross-border investment in 2021. The region is expected to remain desirable for investment activity due to the metro's favorable demographics, world-renowned hospitals and universities, and maturing tech and biotech sectors.

Outlook

Two years post-pandemic and market conditions remain tenuous within Greater Boston. Local office fundamentals have improved, but the pace of recovery has waned in recent quarters. As the public health crisis continues to ebb and flow, other macroeconomic and global risks have emerged. Rising interest rates, inflation concerns, and labor market shortages are weighing on sentiment in the public markets. The ongoing Russo-Ukraine conflict and renewed COVID-related shutdowns in Asia are also stressing the markets. The next several quarters will be pivotal for the region's recovery as vacancy and rent will remain challenged by the flight to quality, potential corporate consolidations, and generous landlord concession packages. Nevertheless, the metro's long-term outlook for recovery is encouraging as Boston's preeminence as a global tech and biotech hub is only expected to strengthen.

Select Lease Transactions

Tenant	Building / Address	Submarket	Type	Square Feet
Cambridge Associates	115 Federal Street, Boston	CBD – Downtown	Direct Lease	115,000
Verily	100 Causeway Street, Boston	CBD – North Station	Sublease	108,871
NOBULL	The BEAT, Dorchester	Urban Edge	Direct Lease	96,000
Aptiv	1 Marina Park Drive, Boston	CBD – Seaport	Sublease	54,838
Signify	1 Van de Graaff Drive, Burlington	North – Route 128	Direct Lease	52,150
Wilson Sonsini	One Boston Place, Boston	CBD – Downtown	Direct Lease	40,975

Select Sale Transactions

Building / Address	Submarket	Sale Price	Price/SF	Square Feet
Minuteman Office Park, Andover	North – Route 495	\$151.0M	\$254	595,399
535-545 Boylston Street, Boston*	CBD – Back Bay	\$148.0M	\$792	192,579
Raytheon Campus, Woburn	North – Route 128	\$129.0M	\$293	440,130
55 Summer Street, Boston	CBD – Downtown	\$106.7M	\$860	124,001
Wells Park Portfolio, Newton	West – Route 128	\$92.0M	\$233	394,878
3 Burlington Woods, Burlington	North – Route 128	\$58.1M	\$354	164,000

* Recapitalization

RESEARCH Q1 2022

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	66,359,521	2,934,669	12.8 %	354,649	354,649	\$75.12	\$53.60	\$65.33
Back Bay	13,346,522	225,000	8.4%	-83,222	-83,222	\$80.12	\$58.49	\$72.05
Downtown	33,049,823	1,072,420	14.8%	-6,747	-6,747	\$74.47	\$50.45	\$67.62
Government Center	1,509,457	977,249	9.4 %	27,545	27,545	\$70.00	\$59.96	\$63.72
Midtown	2,377,693	-	14.4 %	-48,011	-48,011	-	\$52.25	\$50.94
North Station	3,023,123	-	15.3 %	-30,442	-30,442	\$90.00	\$52.11	\$54.83
Seaport District	10,276,494	-	11.4 %	509,767	509,767	\$73.55	\$58.02	\$61.53
South Station	2,776,409	660,000	12.5 %	-14,241	-14,241	\$57.00	\$53.88	\$50.40
Cambridge Total	10,061,191	1,197,000	9.1%	-127,425	-127,425	\$92.98	\$78.57	\$86.21
East Cambridge	6,453,649	1,197,000	11.0 %	-162,538	-162,538	\$95.40	\$85.23	\$92.50
Mid Cambridge	2,565,391	-	6.1 %	47,305	47,305	\$83.79	\$67.92	\$73.67
West Cambridge	1,042,151	-	4.2 %	-12,192	-12,192	-	\$40.00	\$29.12
Suburban Total	98,529,231	295,898	15.6%	261,833	261,833	\$31.08	\$23.01	\$27.26
Urban Edge	12,322,562	179,564	10.6%	103,609	103,609	\$40.85	\$31.53	\$37.02
North – Route 128	19,839,073	-	13.0 %	99,534	99,534	\$34.31	\$23.16	\$30.00
South – Route 128	12,725,072	116,334	15.0 %	-10,610	-10,610	\$28.64	\$24.62	\$26.52
West – Route 128	19,063,643	-	13.9 %	101,952	101,952	\$43.31	\$32.18	\$38.85
North – Route 495	18,120,699	-	17.3 %	-58,140	-58,140	\$24.12	\$18.91	\$21.95
South – Route 495	3,319,070	-	10.6 %	5,156	5,156	\$21.51	\$20.73	\$21.04
West – Route 495	9,200,463	-	29.9 %	9,434	9,434	\$21.90	\$19.10	\$19.92
Framingham/Natick	3,938,649	-	18.2 %	10,898	10,898	\$30.03	\$21.21	\$26.75
Market	174,949,943	4,427,567	14.2 %	489,057	489,057	\$48.60	\$34.42	\$42.05

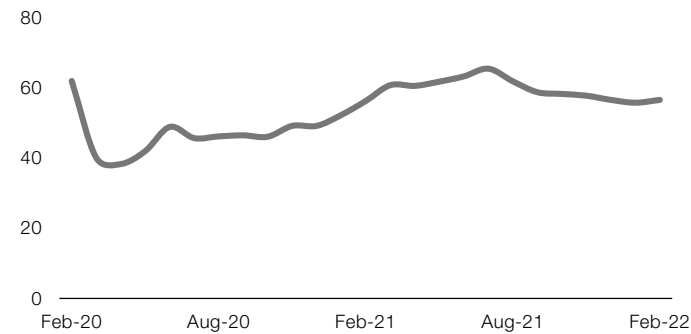
Economic Overview

The pandemic continues to be an unpredictable factor in the metro's economic performance. There have been positive developments since the latest wave's subsiding, including Boston revoking its mask mandate and increasing ridership on all MBTA lines, which are currently at 50.0% of pre-pandemic levels. While remote work continues to affect many of the metro's office workers, companies are ramping up back-to-the-office initiatives on a full-time or part-time basis. Greater Boston's unemployment rate is still slightly above the U.S. average, ending January at 4.4%, with total employment 3.5% below the pre-pandemic peak reported in February 2020.

Further complicating overall economic recovery is the Russo-Ukraine conflict, which has caused uncertainty in the stock and oil markets. While still high, oil prices have been falling slightly since their peak in mid-March. This puts a strain on COVID-related supply chain disruptions that haven't yet been resolved. It also contributes to price increases, which are further compounded by ongoing inflation concerns.

Employer Confidence

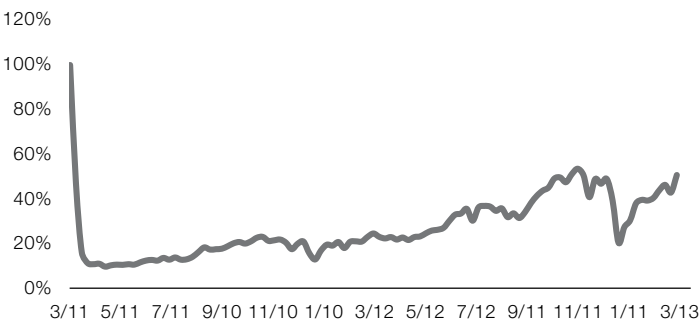
AIM, BUSINESS CONFIDENCE INDEX



Source: Associated Industries of Massachusetts, February 2022

Office Usage

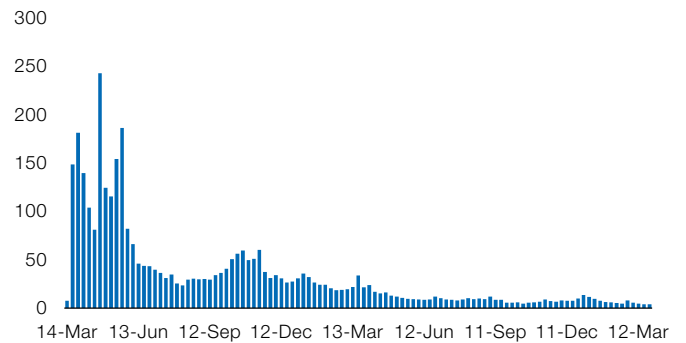
METRO BOSTON



Source: Kastle Systems, March 2022

Weekly Initial MA Jobless Claims

IN THOUSANDS (NSA), INCLUDES PUA* CLAIMS

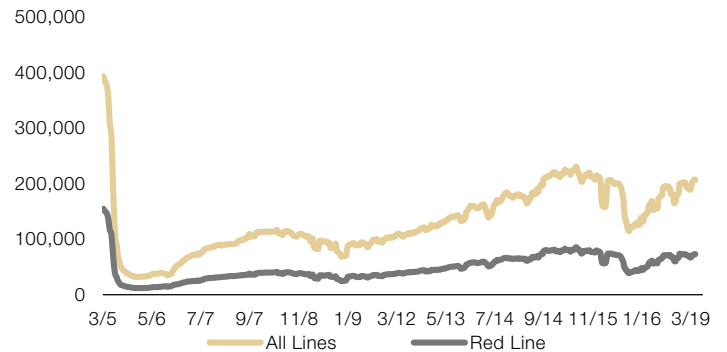


*Pandemic Unemployment Assistance

Source: U.S. Department of Labor, March 2022

MBTA Gated Validations by Line

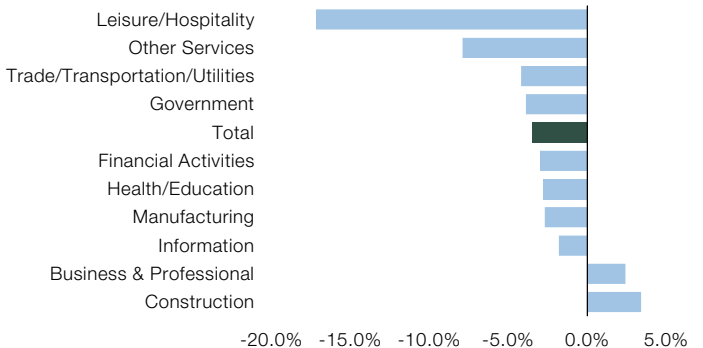
7-DAY AVERAGE



Source: MBTA, Newmark Research, March 2022

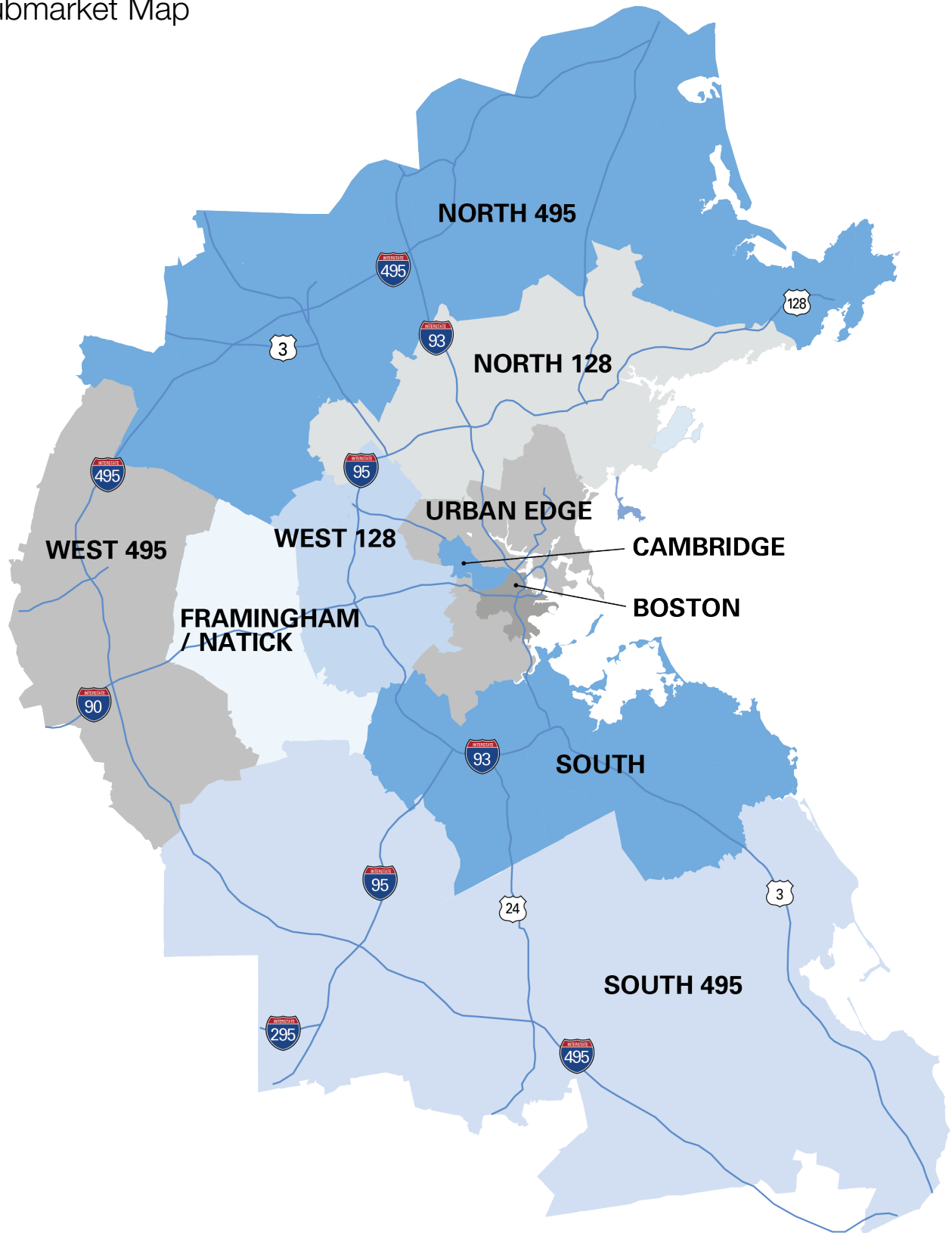
Employment by Industry

PERCENT CHANGE FROM FEBRUARY 2020 PEAK (NSA)



Source: Bureau of Labor Statistics, February 2022

Submarket Map



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