



Boston Office Market

Occupancy Losses are Waning Despite Lingering Hesitancy in the Marketplace

While virtually every major U.S. city is facing a long road to recovery, as hesitancy persists among tenants and landlords, there are flickers of light at the end of the tunnel in Greater Boston. Office vacancies ended the second quarter at 15.1%, increasing 30 basis points from the first quarter. This represents the lowest quarterly rate increase since the start of the pandemic and negative net absorption is less than half of the previous quarter's total. Recent commitments from both home-grown and national blue-chip tech companies, including WHOOP and Facebook, point to the continued need for physical space among tenants. Office utilization rates are steadily improving, averaging 32.8% across the metro by mid-June and reaching 10.0-18.0% in select Downtown buildings. The narrative surrounding sublease space has also shifted in recent months, with availabilities retrenching by 3.7% over the quarter as re-occupancies and tenant preferences for flexible space options chip away at historically high rates. Growth in the region's life science sector has reached a near-fever pitch and continues to impact office market fundamentals. With laboratory demand inundating the marketplace, developers remain focused on purpose-built space as well as conversion projects, resulting in a 3.3-million-square-foot reduction in the metro's office inventory since the end of 2019. Boston's emergence as a global destination for capital, particularly for alternative assets, continues to drive immense liquidity in the region as well.

Current Conditions

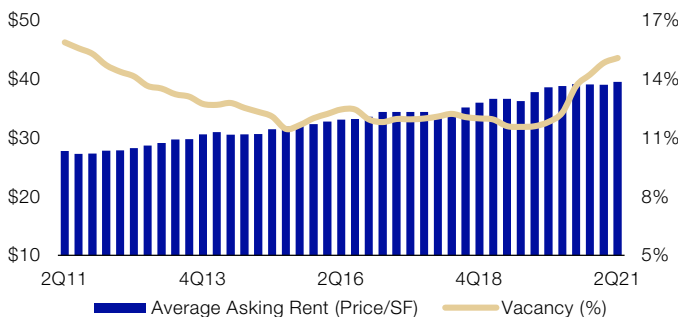
- Vacancies surpassed 15.0% in the second quarter, but this represents the lowest quarterly rate increase since the start of the pandemic.
- Tenants vacated another 407,000 square feet – bringing year-to-date negative net absorption to 1.7 million square feet.
- Office usage is slowly improving, with Kastle Systems reporting occupancies of 32.8% across the metro as of mid-June.
- While asking rents remain stable, effective rates are down by 10-15% in Boston's CBD office market.

Market Summary

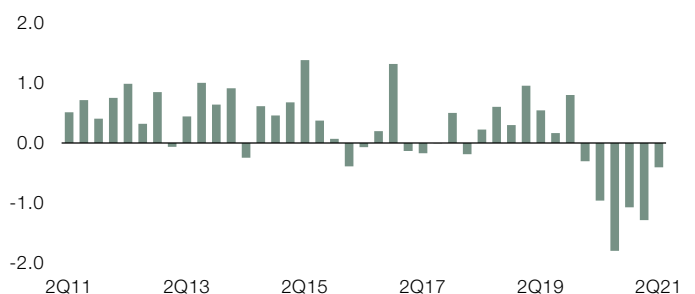
| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 178.8M | 179.5M | 181.6M | ↔ |
| Vacancy Rate | 15.1% | 14.8% | 12.3% | ↑ |
| Quarterly Net Absorption (SF) | -407,119 | -1.3M | -961,291 | ↔ |
| Average Asking Rent/SF | \$39.48 | \$39.00 | \$38.75 | ↓ |
| Under Construction (SF) | 5.9M | 6.1M | 6.6M | ↔ |

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q2 2021

Boston CBD

Similar to the metro as a whole, the softening of CBD office fundamentals was less severe during the second quarter of 2021. Tenants only vacated 230,000 square feet of office space and vacancies increased by just 40 basis points over the quarter. While rates have nearly doubled since the end of 2019, overall vacancies are still 260 basis points below their 2011 peak following the Great Recession. Sublets and renewals continue to dominate leasing activity, with Embark, Hydrow, Leyton and Praxis Precision Medicines all executing significant subleases during the second quarter. Notably, an increased need for shorter, more flexible lease terms and re-occupancies among some users have resulted in a modest decline in CBD sublease availabilities. A growing emphasis on the life science sector continues to impact both supply- and demand-side fundamentals. Developers and investors remain focused on purpose-built laboratory space and the repositioning of existing office assets as active requirements in the CBD have surpassed 1.0 million square feet.

Market paralysis continues to thaw in the CBD, with active office requirements nearing 5.0 million square feet at the end of the second quarter. Comparatively, active tenants in the market bottomed during the third quarter of 2021, at 3.6 million square feet. Tour activity is steadily improving and select building occupancies are in the low double-digit range again. Sublets are garnering more interest among tenants with active requirements due to shorter terms, minimal capital output, more favorable economics and flexibility. Office requirements focused on sublease options more than tripled from June 2020 to June 2021. Asking rents continue to hold steady in Boston's CBD and have only declined by 4.1% over the past year, with Class B assets experiencing above-average losses. As we saw in the last downturn, however, effective rents are experiencing greater deterioration than asking rents. In fact, effective rates have decreased by roughly 10.0% since the beginning of last year. Despite more positive trends, downside risks remain within the CBD office market as hesitancy persists.

Cambridge

Office fundamentals were stable during the second quarter as Cambridge remains a desirable market for technology and life

science companies alike. Conditions are set to improve during the second half of 2021 due to stable office demand and continued laboratory conversion projects. With the lease set to finalize in the third quarter, Facebook is expanding its Cambridge presence by committing to sublease the entirety of bluebird bio's office space at 50 Binney Street in East Cambridge. The Smithsonian Institute also extended its lease at 100 Cambridge Discovery Park in Alewife. At MITCo's 314 Main Street in East Cambridge, Boeing plans to re-occupy one of the four floors it listed for sublease last year. BioMed Realty and Blackstone Life Sciences are slated to sublease two floors from Boeing. Despite elevated vacancies, average asking rents continue to climb in the Cambridge market, ending the quarter at nearly \$83/SF gross.

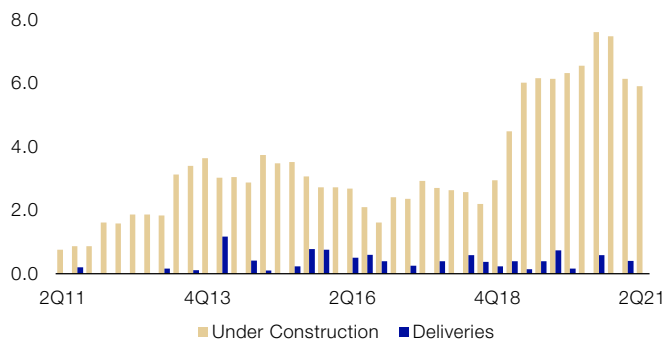
Stabilization in Cambridge's office market has been met with more fervor from the life science sector. The list of planned office conversions is expanding in Cambridge, as demand for lab space continues to outstrip available supply by a wide margin. Renovations are underway on several buildings, including: 60 Hampshire Street in East Cambridge; 100, 125 and 150 CambridgePark Drive in West Cambridge; and One Alewife Center, also in West Cambridge. Charles Park, which just changed hands in the fourth quarter of 2020, is also under agreement to Alexandria Real Estate and slated for lab conversion. As a result, Cambridge's office inventory is expected to decline further in the coming quarters as the concentration on ground-up construction of new lab space and the conversion of older office assets continues to impact supply-side fundamentals.

Suburbs

Greater Boston's suburban office market reported another active quarter. BJ's Wholesale (187,825 square feet) and IBM (150,068 square feet) executed major leases in the Route 495 belt. While the transactions represent two of the largest suburban leases signed in 2021, each firm downsized considerably from their current footprints. Butterfly Network, a new entrant in the market, executed a full-building lease at 1600 District Avenue in Burlington recently, as well. Suburban occupancy losses have been rather moderate, especially when compared to the CBD, totaling roughly 1.8 million square feet over the last year.

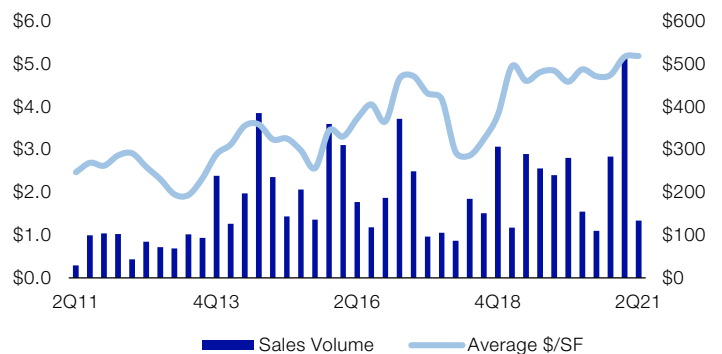
Construction and Deliveries

SQUARE FEET, MILLIONS



Office / Lab Investment

SALES VOLUME (BILLIONS AND AVERAGE PRICE/SF)



RESEARCH Q2 2021

Boston's Urban Edge submarket, which encompasses markets such as Somerville, Charlestown, Fenway/LMA and Watertown, is garnering an increasing amount of attention from tenants, investors and developers. Wearable technology firm WHOOP signed a lease for 121,000 square feet in the One Kenmore Square development, while 500 Rutherford Avenue in the Hood Business Park is transitioning to laboratory use with a 35,000-square-foot lease with Solid Biosciences. The Red Sox also recently announced plans for a major commercial development near Fenway Park, in concert with WS Development. Market activity is expected to continue to gain momentum in Urban Edge.

Life science activity continues to dominate the suburban narrative in Greater Boston. Lab has become a major driver of the development pipeline and investment sales activity as demand emanates out from Cambridge. Developers and operators are most active in the Urban Edge as well as within the North and West – Route 128 submarkets. Most recently, Greatland Realty Partner's proposed conversion of the former Liberty Mutual campus in Weston received approval to move forward and both Phase 3 and Boston Properties plan to reposition an additional 300,000 square feet of Waltham office assets for laboratory use. Biomanufacturing continues to grow in importance and new facilities are being planned throughout the suburbs. Alexandria Real Estate recently acquired One Investors Way in Norwood, which will house expansion space for Moderna's manufacturing operations.

Capital Markets

Despite current office market fundamentals, Greater Boston is one

of the most liquid markets in the U.S. Following a banner first quarter, close to \$1.3 billion in office and lab assets changed hands here during the second quarter. Fervor surrounding the region's life science sector has yet to wane, with asset owners and investors examining nearly every office building for potential lab conversion. BioMed Realty recently finalized its acquisition of a development at 321 Harrison Avenue and the adjacent office building at 1000 Washington Street for \$314.2 million. A handful of other major life science investors and developers, including Alexandria Real Estate, Boston Properties and Phase 3, completed acquisitions recently as well. Greater Boston will likely remain a top destination for capital, both foreign and domestic, despite growing investor interest for secondary and tertiary markets.

Outlook

Greater Boston's office market is clearly beginning to make some headway. With nearly all economic restrictions lifted throughout the Commonwealth, a number of office users are targeting the second half of 2021 for re-occupancy efforts. Tenant demand is slowly improving, as well, and a continued emphasis on the life science sector is driving capital to the region. While the metro's long-term outlook for recovery is decidedly positive, Greater Boston is still facing some headwinds. Office tenants will continue to evaluate space needs over the next several quarters, which could result in more downsizing and consolidations. Asking rents, while softer, have faced limited downward pressure; however, effective rents are experiencing steeper losses and projections are for further declines.

Select Lease Transactions

| Tenant | Building / Address | Submarket | Type | Square Feet |
|-------------------|----------------------------------|-------------------|--------------|-------------|
| BJ's Wholesale | 350 Campus Road, Marlborough | West – Route 495 | Direct Lease | 187,825 |
| IBM | 900 Chelmsford Street, Lowell | North – Route 495 | Direct Lease | 150,068 |
| WHOOP | One Kenmore Square, Boston | Urban Edge | Direct Lease | 121,000 |
| Butterfly Network | 1600 District Avenue, Burlington | North – Route 128 | Direct lease | 61,138 |
| Marvell | 8 Technology Drive, Westborough | West – Route 495 | Direct Lease | 55,101 |
| Embark | 320 Summer Street, Boston | Seaport | Sublease | 37,765 |

Select Sale Transactions

| Building / Address | Submarket | Sale Price | Price/SF | Square Feet |
|---|-------------------|------------|----------|-------------|
| 321 Harrison Ave/1000 Washington St, Boston | South Station | \$314.2M | \$672 | 467,500 |
| One Investors Way, Norwood | South – Route 128 | \$105.0M | \$444 | 242,189 |
| 153-211 Second Avenue, Waltham | West – Route 128 | \$100.0M | \$714 | 139,984 |
| 10 Maguire Road, Lexington | West – Route 128 | \$66.5M | \$215 | 308,826 |
| BT-37 Office Park, Billerica | North – Route 495 | \$60.6M | \$137 | 443,124 |
| 21 Hickory Drive, Waltham | West – Route 128 | \$52.2M | \$432 | 120,866 |

RESEARCH Q2 2021

| 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 | 65,093,548 | 4,572,245 | 12.2% | -230,427 | -1,040,461 | \$72.29 | \$54.35 | \$64.15 |
| Back Bay | 13,391,522 | 225,000 | 9.7% | -81,199 | -293,127 | \$72.69 | \$58.10 | \$67.16 |
| Downtown | 32,924,913 | 1,072,420 | 12.9% | -134,049 | -327,755 | \$72.29 | \$51.95 | \$66.61 |
| Government Center | 1,509,457 | 977,249 | 10.7% | 7,755 | 4,772 | \$65.00 | \$61.63 | \$63.21 |
| Midtown | 2,047,455 | - | 10.4% | 20,293 | -75,978 | - | \$50.09 | \$48.46 |
| North Station | 2,396,123 | 627,000 | 16.4% | -32,225 | -80,402 | - | \$51.64 | \$51.64 |
| Seaport District | 9,875,836 | 1,010,576 | 13.5% | 6,266 | -199,121 | \$75.35 | \$58.40 | \$62.10 |
| South Station | 2,948,242 | 660,000 | 10.1% | -17,268 | -68,850 | \$57.00 | \$52.45 | \$48.89 |
| Cambridge Total | 10,277,823 | 767,000 | 9.5% | -1,478 | 6,707 | \$90.28 | \$70.00 | \$82.66 |
| East Cambridge | 6,479,090 | 767,000 | 11.2% | 9,746 | 33,146 | \$92.43 | \$86.97 | \$90.88 |
| Mid Cambridge | 2,565,391 | - | 7.9% | -14,612 | -23,738 | \$84.80 | \$61.62 | \$69.97 |
| West Cambridge | 1,233,342 | - | 4.1% | 3,388 | -2,701 | \$57.00 | \$38.21 | \$42.42 |
| Suburban Total | 103,401,840 | 560,108 | 17.4% | -175,214 | -660,680 | \$32.61 | \$22.73 | \$27.91 |
| Urban Edge | 12,580,209 | 443,774 | 10.9% | 52,419 | -154,408 | \$39.24 | \$34.39 | \$36.69 |
| North – Route 128 | 21,070,350 | - | 15.9% | -110,225 | -367,778 | \$33.01 | \$22.82 | \$28.96 |
| South – Route 128 | 12,886,435 | 116,334 | 18.2% | -88,437 | -15,508 | \$28.54 | \$23.74 | \$26.07 |
| West – Route 128 | 20,877,906 | - | 14.9% | 66,344 | -177,290 | \$45.83 | \$31.37 | \$40.89 |
| North – Route 495 | 18,955,901 | - | 19.6% | -91,672 | 68,094 | \$26.97 | \$18.80 | \$23.77 |
| South – Route 495 | 3,319,070 | - | 9.2% | -16,807 | -24,550 | \$21.71 | \$20.51 | \$20.87 |
| West – Route 495 | 9,714,592 | - | 31.5% | -34,217 | 46,762 | \$21.86 | \$19.01 | \$19.69 |
| Framingham/Natick | 3,997,377 | - | 19.1% | 47,381 | -36,002 | \$29.67 | \$20.98 | \$26.42 |
| Market | 178,773,211 | 5,899,353 | 15.1% | -407,119 | -1,694,434 | \$45.95 | \$32.06 | \$39.48 |

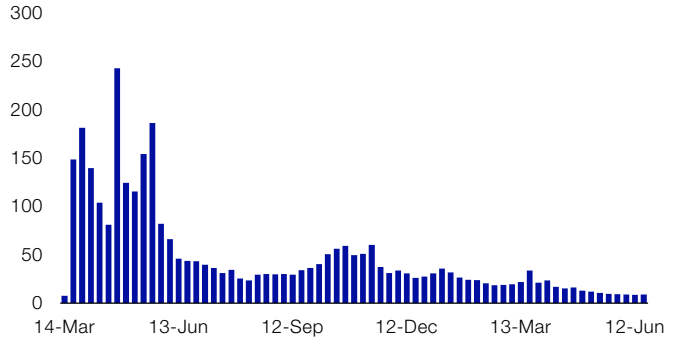
Economic Overview

Greater Boston’s economic recovery is slowly improving. A successful vaccine campaign, resulting in one of the highest vaccination rates in the nation, led to a complete rollback in COVID-related restrictions in late May. Accordingly, regional mobility and business confidence continue to improve. Local unemployment trends are now mirroring the U.S. average, with the jobless rate ending May at 5.5%. Total employment, which increased by 10.6% over the past year, is now just 6.4% below the market’s pre-pandemic peak.

The near-term outlook has vastly improved, with many experts predicting a robust economic rebound over the next year. While stronger job growth is expected to carry through the second half of 2021, the overall recovery will likely remain uneven. With office-using industries such as financial activities and business services projected to lead the recovery, a correction in real estate fundamentals will likely follow.

Weekly Initial MA Jobless Claims

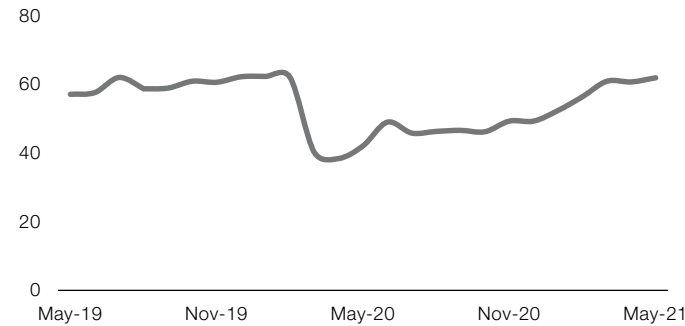
IN THOUSANDS (NSA), INCLUDES PUA* CLAIMS



*Pandemic Unemployment Assistance
Source: U.S. Department of Labor, June 2021

Employer Confidence

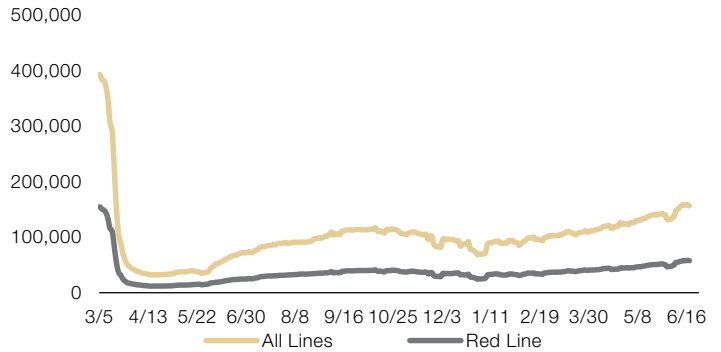
AIM, BUSINESS CONFIDENCE INDEX



Source: Associated Industries of Massachusetts, May 2021

MBTA Gated Validations by Line

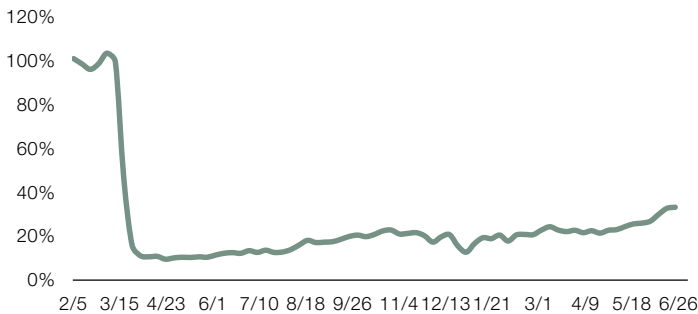
7-DAY AVERAGE



Source: MBTA, Newmark Research, June 2021

Office Usage

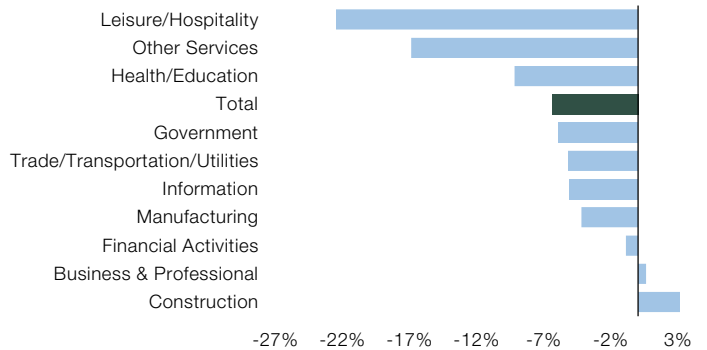
METRO BOSTON



Source: Kastle Systems, June 2021

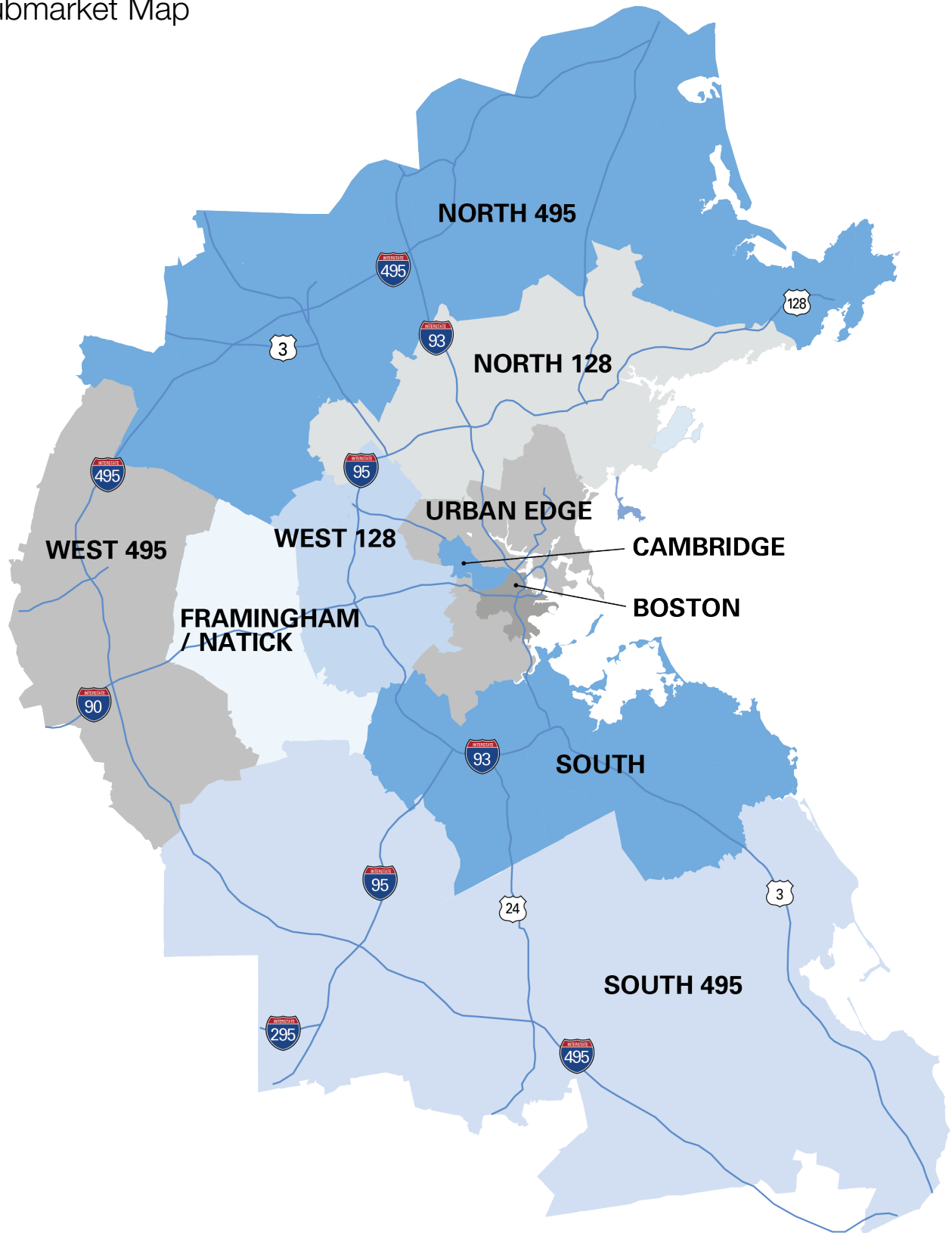
Employment by Industry

PERCENT CHANGE FROM FEBRUARY 2020 PEAK (NSA)



Source: Bureau of Labor Statistics, May 2021

Submarket Map



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