



Boston Office Market

Signs of a Recovery Are Emerging Across Greater Boston's Office Market

While one quarter certainly doesn't make a trend, the Greater Boston office market posted positive fundamentals for the first time since the start of the pandemic. Vacancies declined 50 basis points over the quarter as more than 300,000 square feet of office space was absorbed. Sublease inventories are abating as well, decreasing by more than 1.0 million square feet in the third quarter. Tenant activity is picking up, despite uncertainty surrounding flexible work arrangements and recent commitments from homegrown tech companies, including HubSpot and Pegasystems, point to the continued need for physical space among office users. Asking rents are trending upward across the metro, surpassing \$40.00/SF for the first time, while growth in effective rates still lags. The impact of the region's booming life science sector on and the interplay with the local office landscape cannot be emphasized enough. With laboratory demand inundating the marketplace, developers remain focused on purpose-built space as well as conversion projects, resulting in another 1.4-million-square-foot reduction in the metro's office inventory, nearly all located in Boston's suburbs, in the third quarter alone. Boston's emergence as a global destination for capital, particularly for alternative assets, continues to drive immense liquidity in the region, as well. Overall, Greater Boston's office market is heading toward more normalcy, despite current challenges from COVID-19 variants and delays in return-to-office plans. However, expectations for an uneven recovery remain high and more stable market conditions may not take hold until at least 2022.

Current Conditions

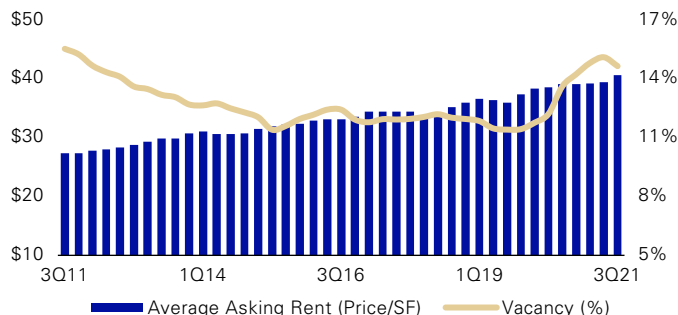
- Vacancies declined by 50 basis points over the quarter – decreasing to 14.6%.
- After peaking earlier this year, sublease availabilities continue to retrench across the metro area.
- Greater Boston's office inventory declined from 182.3 to 177.7 million square feet over the year due to ongoing office-to-life science conversions.
- While asking rents have stabilized, effective rates are still approximately 15.0% below year-ago levels in Boston's CBD.

Market Summary

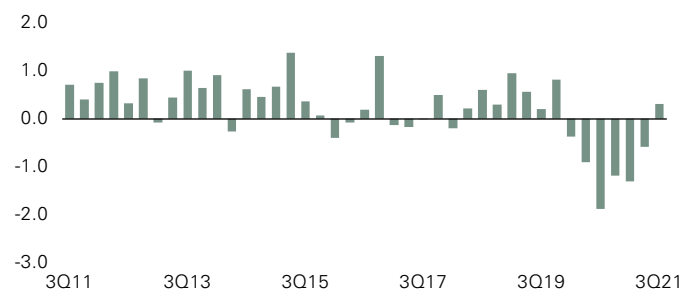
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	177.7M	179.3M	182.3M	↔
Vacancy Rate	14.6%	15.1%	13.6%	↓
Quarterly Net Absorption (SF)	316,057	-574,744	-1.9M	↔
Average Asking Rent/SF	\$40.57	\$39.41	\$39.13	↑
Under Construction (SF)	6.3M	6.3M	7.6M	↔

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



Boston CBD

Market conditions are stabilizing in Boston’s CBD. Following six consecutive quarters of space givebacks, net absorption was slightly positive in the third quarter, with vacancies inching down to 12.2%. Though still robust, sublease availabilities have decreased by 30.0% since peaking in late 2020. Notably, Toast is re-occupying more than 132,000 square feet at 10 Saint James in the Back Bay to accommodate future growth plans. Tenants maintain an appetite for shorter, more flexible lease terms, resulting in the continued dominance of sublets and renewals among leasing activity. Amwell renewed and downsized into 44,045 square feet at 75 State Street, while Avangrid and Validity executed significant subleases during the third quarter. Some large office users are still looking for long-term leases. In one of the largest transactions since the start of the pandemic, Wellington Management signed an early renewal and expansion, totaling 524,000 square feet, at Atlantic Wharf. The finance firm is; however, consolidating operations and plans to vacate a large block of space at 100 Federal Street. A growing emphasis on the life science sector continues to impact market fundamentals. Boston’s development pipeline is expanding, with targeted laboratory conversions at recently traded Two Financial Center (located Downtown) and 51 Melcher Street (in the Seaport).

Active office requirements are holding steady at close to 5.0 million square feet across the CBD and build-to-suit developments from Amazon and Verizon (Oath) will bolster year-end net absorption. However, the rise of the Delta variant and other pandemic-related challenges have resulted in a delay in many office users bringing employees back in person and the deferment in business decisions among a number of Boston companies. M&A activity, including State Street’s acquisition of Brown Brothers Harriman, bears watching as well. Potential consolidations may reduce real estate needs among firms merging operations. Consequently, a material recovery in office fundamentals is unlikely to take hold until 2022. Asking rents continue to hold steady in Boston’s CBD, particularly within the Class A market, where rates increased modestly over the quarter. As noted in the last downturn, however, effective rents are experiencing greater deterioration than asking rents. In fact, effective rates are still roughly 15.0% below year-ago levels across the CBD.

Cambridge

Moderate improvements characterized Cambridge office fundamentals in

the third quarter. Activity remains concentrated in East Cambridge, where HubSpot (206,567 square feet) is expanding. Pegasystems also subleased 31,571 square feet at One Main Street – maintaining a Cambridge hub while relocating a large portion of its office space to Waltham. Asking rents for office space have never been higher, reaching nearly \$85.00/SF gross in the third quarter. While Akamai Technologies listed five floors totaling 133,500 square feet for sublet in its recently completed build-to-suit at 145 Broadway, overall sublease availability rates in Cambridge are still well below their late-2020 peak of nearly 7.0%. While developers remain laser-focused on laboratory supply, new office construction is advancing in the form of redevelopment. Leggat McCall and Granite Properties are moving forward with the long-awaited 40 Thorndike, a 475,000-square-foot office project in East Cambridge.

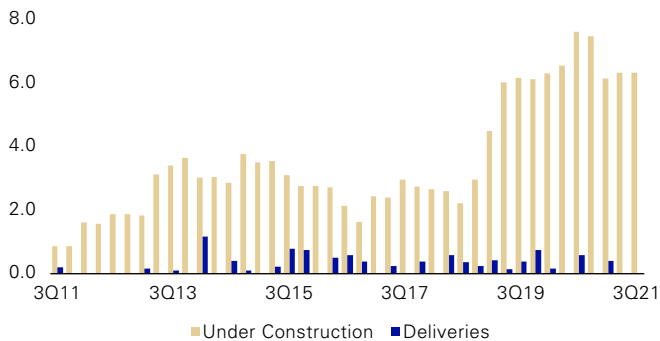
Stabilization in Cambridge’s office market has been met with more fervor from the life science sector. The list of planned office conversions is expanding in Cambridge, as demand for laboratory space continues to outstrip available supply by a wide margin. Renovations are underway on several buildings, including: 60 Hampshire Street in East Cambridge; 100, 125 and 150 CambridgePark Drive in West Cambridge; and One Alewife Center, also in West Cambridge. 1 Canal Park and the Cambridge Highlands campus, both of which recently sold to life science developers, are also slated for future laboratory conversions. As a result, Cambridge’s office inventory is expected to decline further in the coming quarters as the continued concentration on ground-up construction of new laboratory space and the conversion of older office assets impact supply-side fundamentals.

Suburbs

Greater Boston’s suburban office market posted its most positive quarter since the start of the pandemic. Driven largely by Tufts-Harvard Pilgrim’s relocation to the former Reebok campus in Canton, third-quarter net absorption surpassed 200,000 square feet. The healthcare giant’s former offices in Watertown and Wellesley are now slated for laboratory conversion. A planned relocation to Marlborough by BJ’s Wholesale resulted in the vacancy of its former headquarters at 25 Research Drive in Westborough. In one of the largest transactions of the quarter, Pegasystems leased 130,885 square feet at 225 Wyman Street in Waltham. This move, which was considered pre-pandemic,

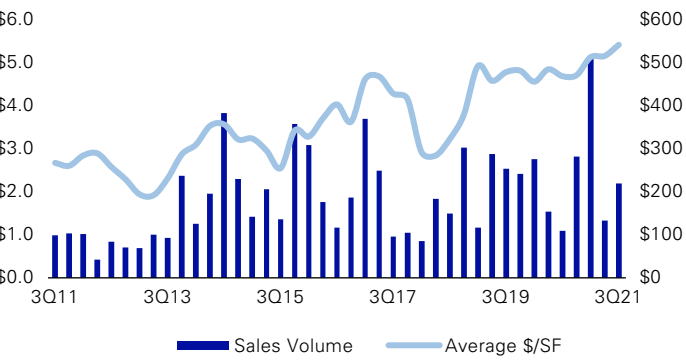
Construction and Deliveries

SQUARE FEET, MILLIONS



Office / Lab Investment

SALES VOLUME (BILLIONS AND AVERAGE PRICE/SF)



RESEARCH Q3 2021

represents one of the only material “hub-and-spoke” operations as the software company is maintaining a Cambridge presence. Biotech firm Allovir executed a major lease in Waltham during the third quarter as well, with plans to relocate from East Cambridge. Suburban sublease space decreased over the quarter and is now in line with year-ago levels and asking rents continued to increase modestly.

The market’s suburban office inventory is being targeted for conversions of all kinds, resulting in a reduction of roughly 1.4 million square feet of space in the third quarter alone. Historically strong fundamentals in the industrial market have led several landlords to consider repositioning office product, particularly in the North and South – Route 495 submarkets, to new warehouse/distribution space. Laboratory conversions continue to take office space out of the competitive inventory as well. Clusters are emerging and growing in many locations such as Andover, Waltham, Watertown, Lexington, Malden, Bedford and Somerville. The former Philips campus on Minuteman Drive in Andover, which sold to Alexandria Real Estate Equities, is just one of the latest examples of this trend.

Capital Markets

Greater Boston remains one of the most liquid markets in the U.S. as life science-related investment drives transaction activity. During the third quarter of 2021, more than \$2.2 billion in office and lab assets changed hands across the metro area – bringing year-to-date sales volume to nearly \$8.7 billion. Alexandria Real Estate Equities, Beacon Capital, Blackstone/BioMed, Healthpeak Properties, IQHQ, KKR, Nan Fung and Tishman Speyer are among the region’s most active investors as a result. While MetLife and Norges Bank’s acquisition of One Memorial Drive in

Cambridge for \$825.1 million represents one of the largest deals of the year, laboratory conversions continue to account for a majority of recent transactions. Nan Fung expanded its local portfolio with the purchase of Two Financial Center in Boston. The Hong Kong-based lab developer is planning to convert the space for biotech users. Other office assets sold to life science developers in the third quarter include the Cambridge Highlands Campus in Alewife, 1 Canal Park in East Cambridge, 51 Melcher Street in Boston and 101 Walnut Street in Watertown. Greater Boston remains a top destination for capital, both foreign and domestic, as the metro’s status as a global tech and biotech hub is expected to grow. Of note, the interplay between the office and life science sectors bears watching.

Outlook

While Greater Boston office fundamentals have improved, market conditions remain tenuous. Decreasing sublease inventories, declining vacancies and stabilized asking rents all signify a possible inflection point in the local office market. Tenant demand is slowly improving, as well, and a continued emphasis on the life science sector is driving capital to the region. Lab, biomanufacturing and industrial conversions are also removing potential office space from the overall inventory. The metro’s long-term outlook for recovery is decidedly positive. However, the ongoing COVID-19 pandemic is curtailing reoccupancy efforts, business decisions and a full correction in the labor market. As a result, the Greater Boston’s road to recovery is less likely to be linear as tenants continue to carefully evaluate their space needs over the next several quarters and office rents potentially face additional downward pressures.

Select Lease Transactions

Tenant	Building / Address	Submarket	Type	Square Feet
Wellington Management	Atlantic Wharf, Boston	CBD – Downtown	Lease Renewal/Expansion	524,000
HubSpot	2 Canal Park, Cambridge	East Cambridge	Direct Lease	206,567
Pegasystems	225 Wyman Street, Waltham	West – Route 128	Direct Lease	130,885
AlloVir	1100 Winter Street, Waltham	West – Route 128	Direct Lease/Sublease	78,541
Amwell	75 State Street, Boston	CBD – Downtown	Lease Renewal	44,045
CBT Architects	1 Constitution Road, Charlestown	Urban Edge North	Sublease	41,910

Select Sale Transactions

Building / Address	Submarket	Sale Price	Price/SF	Square Feet
One Memorial Drive, Cambridge	East Cambridge	\$825.1M	\$2,015	409,422
135 William T Morrissey Blvd (The Beat)	Urban Edge	\$362.5M	\$522	695,000
Two Financial Center, Boston	CBD – Downtown	\$210.0M	\$955	220,000
Cambridge Highlands, Cambridge	West Cambridge	\$180.0M	\$787	228,592
1 Canal Park, Cambridge	East Cambridge	\$131.0M	\$1,295	101,128
3 Van de Graaff Drive, Burlington	North – Route 128	\$76.0M	\$261	291,077

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	65,468,280	4,572,245	12.2%	42,911	-1,127,632	\$72.90	\$54.14	\$64.43
Back Bay	13,346,522	225,000	8.0%	229,470	-73,757	\$75.32	\$58.51	\$69.27
Downtown	33,014,407	1,072,420	13.8%	-230,824	-652,582	\$72.65	\$51.12	\$66.60
Government Center	1,509,457	977,249	10.2%	-3,779	11,843	\$65.00	\$61.60	\$62.74
Midtown	2,377,693	-	9.5%	-242	-88,131	-	\$50.34	\$49.05
North Station	2,396,123	627,000	15.0%	32,195	-48,207	-	\$52.02	\$52.02
Seaport District	9,875,836	1,010,576	13.7%	6,955	-217,084	\$74.85	\$59.00	\$61.86
South Station	2,948,242	660,000	9.8%	9,136	-59,714	\$57.00	\$51.94	\$48.90
Cambridge Total	10,086,632	1,197,000	9.6%	43,614	18,215	\$93.34	\$72.57	\$84.78
East Cambridge	6,479,090	1,197,000	11.0%	44,002	45,042	\$94.60	\$88.34	\$93.03
Mid Cambridge	2,565,391	-	8.4%	-11,048	-34,786	\$85.76	\$65.52	\$70.37
West Cambridge	1,042,151	-	3.6%	10,660	7,959	-	\$37.06	\$33.52
Suburban Total	102,184,455	560,108	16.7%	229,532	-453,690	\$32.32	\$22.78	\$27.76
Urban Edge	12,468,209	443,774	11.0%	-75,439	-229,581	\$39.99	\$33.57	\$37.15
North – Route 128	20,885,864	-	15.8%	-41,405	-453,134	\$32.66	\$23.72	\$28.91
South – Route 128	12,886,435	116,334	13.7%	509,535	545,964	\$28.53	\$23.73	\$26.26
West – Route 128	20,449,648	-	15.3%	-92,004	-345,050	\$45.18	\$31.14	\$40.80
North – Route 495	18,099,498	-	18.1%	73,220	217,977	\$24.17	\$19.55	\$22.15
South – Route 495	3,396,961	-	9.8%	-29,456	-54,006	\$21.70	\$20.22	\$20.68
West – Route 495	10,000,463	-	31.1%	-100,758	-77,723	\$22.04	\$18.99	\$19.75
Framingham/Natick	3,997,377	-	19.6%	-14,161	-58,137	\$29.60	\$21.01	\$26.30
Market	177,739,367	6,329,353	14.6%	316,057	-1,563,107	\$47.36	\$32.81	\$40.57

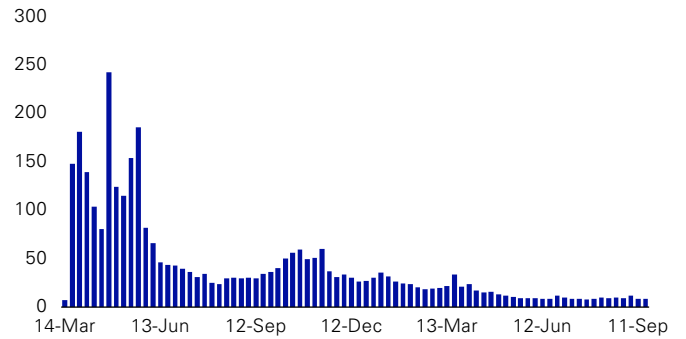
Economic Overview

The rise of the Delta variant has dampened the U.S. economic recovery and local conditions are mirroring these trends. While Greater Boston’s labor market has improved, total employment is still 4.6% below the market’s February 2020 peak. Labor Day was once again a key target among many employers’ return-to-work plans, however, regional mobility, business confidence and office usage indicators remain slow to improve due to the ongoing pandemic. On a more positive note, the metro-level unemployment rate reached 5.0% in August and initial jobless claims have stabilized. Moreover, the region’s booming life science sector is a true bright spot amidst current challenges.

Following a promising spring, the near-term outlook has shifted, and optimism is waning. Pandemic-induced supply chain constraints, labor shortages and inflationary conditions are weighing on the U.S. economy. With many experts now targeting early 2023 for a return to full employment, the overall recovery will continue on its uneven path as the pandemic winds down. Consequently, the correction in real estate fundamentals will likely face imbalance, as well.

Weekly Initial MA Jobless Claims

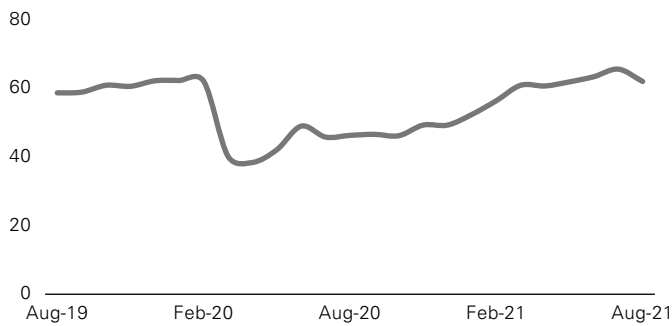
IN THOUSANDS (NSA), INCLUDES PUA* CLAIMS



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

Employer Confidence

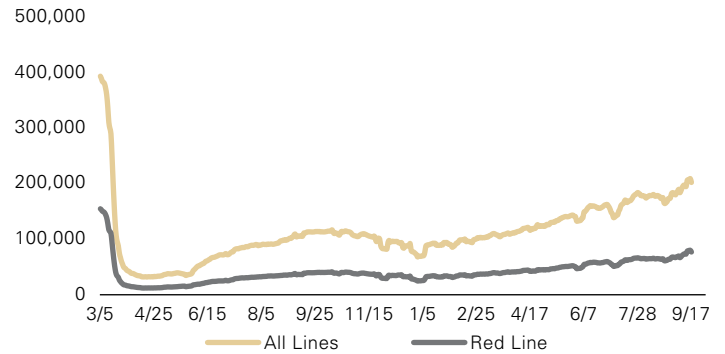
AIM, BUSINESS CONFIDENCE INDEX



Source: Associated Industries of Massachusetts, August 2021

MBTA Gated Validations by Line

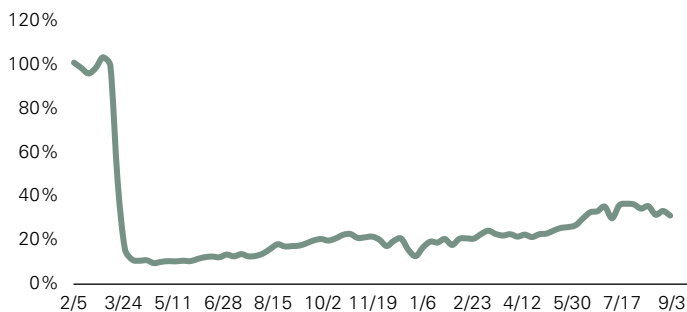
7-DAY AVERAGE



Source: MBTA, Newmark Research, September 2021

Office Usage

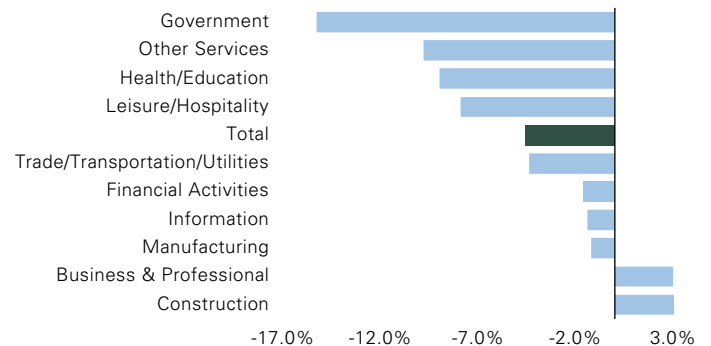
METRO BOSTON



Source: Kastle Systems, September 2021

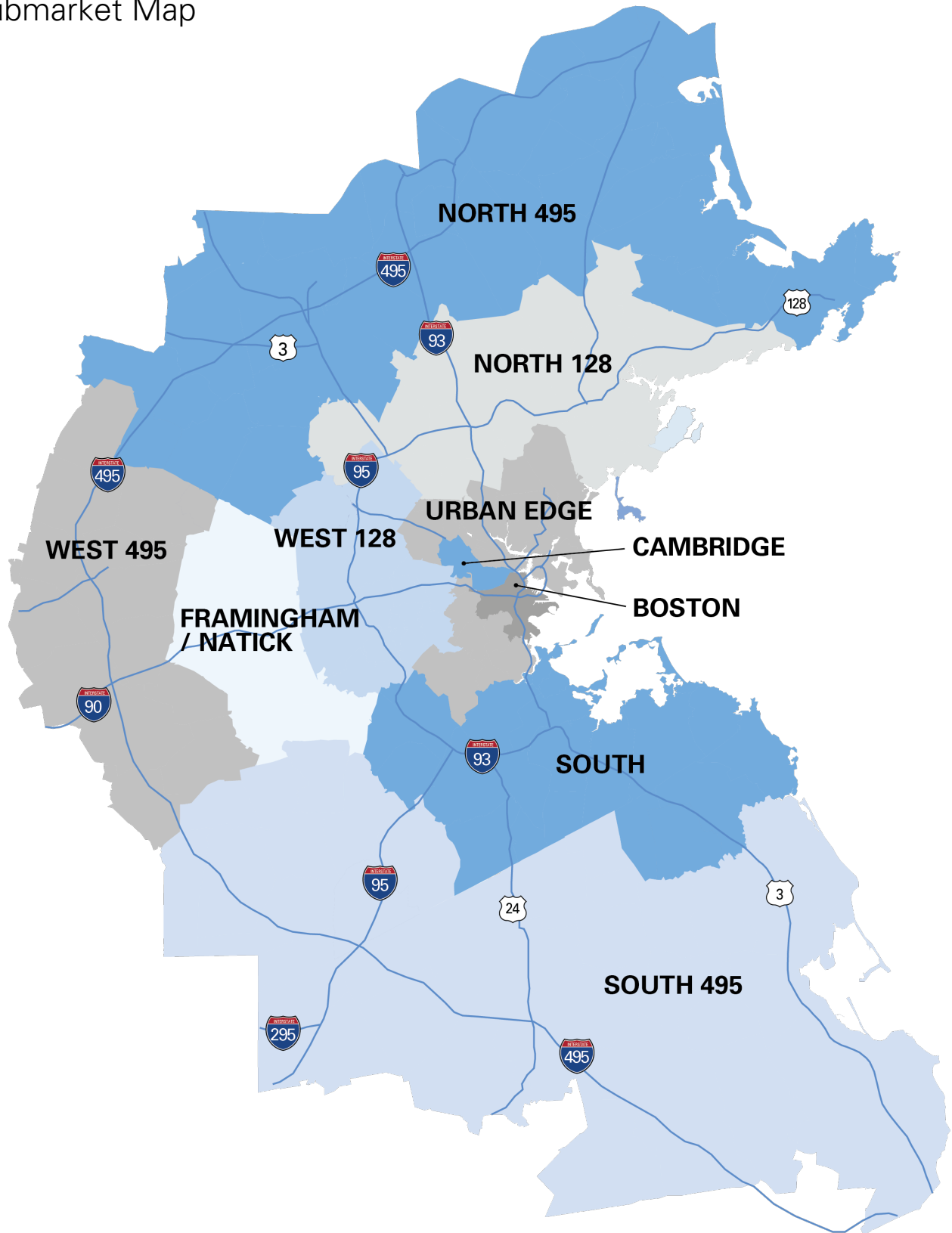
Employment by Industry

PERCENT CHANGE FROM FEBRUARY 2020 PEAK (NSA)



Source: Bureau of Labor Statistics, August 2021

Submarket Map



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