

BOSTON MARKET OVERVIEW

MID-YEAR 2020

OVERVIEW

The spillover into January, February, and March from 2019 feels like decades ago, but 2020 started just as strong as the previous booming years in Boston. Acquisitions to turn office into life science buildings, large tech company requirements, and rents continuing to climb all dominated Boston's office dynamics until mid-March. Since then, the COVID-19 global pandemic has brought the economy, and office real estate market, to its knees.

Active lease requirements based on increased space needs or upcoming lease expirations were immediately paused and continue to be paused four months later. Employers aren't sure how or when to send back employees to the office, and what started as a crash course on Work from Home is now being considered a necessary component of long-term planning.

The sublease market has grown from 1.4 MSF in Boston to over 2 MSF during COVID-19, with more to come. The sublease market has not yet had the expected effect of lowering asking rents for direct space, adding a rent standoff amid an almost entirely stalled marketplace. Tenants are looking to take advantage of assumed asking rent decreases that landlords have thus far been unwilling to drop.

WHAT THIS MEANS FOR TENANTS

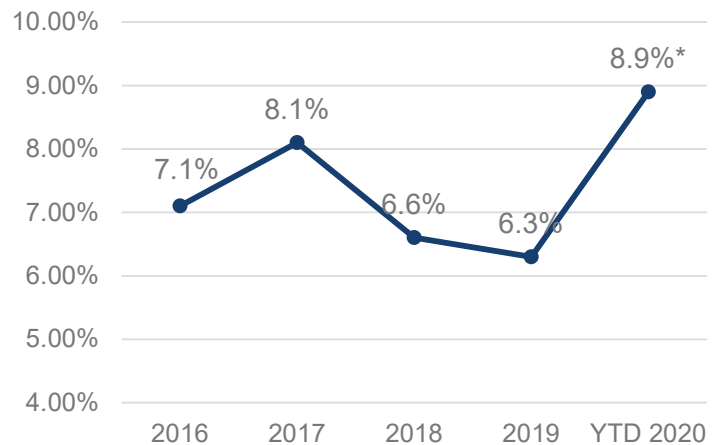
- Look for the 3rd quarter to look similar to the 2nd quarter; an increase in subleases coming online, lack of transaction velocity, and a continued freeze on asking rents from landlords. We expect a slight increase in transaction velocity in the 4th quarter which should allow the landlord asking rent (and thus achieving rent) to start to fall.

MARKET FUNDAMENTALS

MARKET FUNDAMENTALS	FORECAST
Market Size	78.3 MSF ▲
Total Vacancy	8.9%* ▲
YTD Net Absorption	(1.1) MSF ▼
Under Construction	5.1 MSF ►
Average Asking Rent (Gross)	\$67.61 ▼
Concessions Flat to Increasing	▲

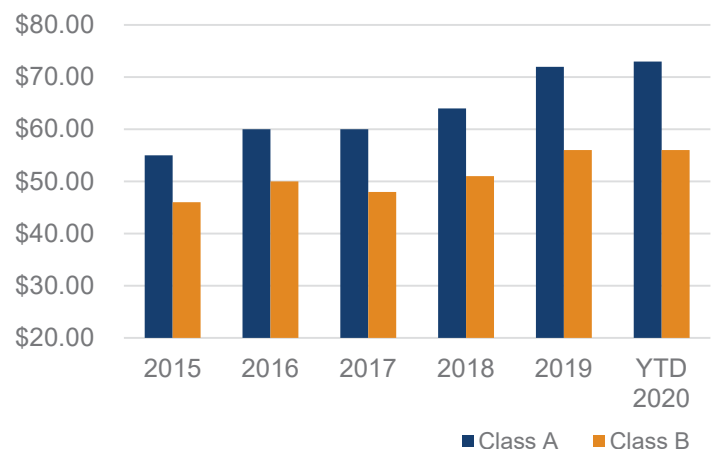
*Availability rate is 11.4%

TOTAL VACANCY



*Availability rate is 11.4%

AVERAGE ASKING RENTS



- Apart from plug-and-play subleases, pre-built and quality second generation space will be the first to lease. The uncertain future will limit tenants and landlords from committing the necessary capital into building shell space.
- The question on everyone's mind is "Which will have a greater impact on space needs: Work from Home or Social Distancing?" We do not expect this question to have a definitive answer until 2021-2022, but both trends will weigh heavily on any new office requirement.
- Many downtown Boston companies are considering satellite offices in the suburbs (or a complete relocation), but we do not see this exploration turning into a new widespread trend.

KEY LEASE TRANSACTIONS

TENANT	BUILDING ADDRESS	SUBMARKET	TYPE	SQUARE FOOTAGE
Acadian Asset Management	260 Franklin Street	Financial District	Renewal	108,200
Pioneer Investments	60 State Street	Financial District	Renewal	99,000
Seyfarth Shaw	2 Seaport Lane	Seaport	Relocation	66,400
Vertex Pharmaceuticals	One Harbor Street	Seaport	New Lease	65,000
DataDog	225 Franklin Street	Financial District	Expansion	63,000
Brown Rudnick	One Financial Center	Financial District	Renewal	57,000
GID	125 High Street	Financial District	Renewal	47,000
Payette	290 Congress Street	Seaport	Renewal / Expansion	41,000
SNYK	100 Summer Street	Financial District	Sublease	37,000
Jones Day	100 High Street	Financial District	Renewal	36,000



John Dolan
+1 617.947.1793
jdolan@mccallalmy.com



Rob Glor
+1 617.548.5986
rglor@mccallalmy.com



Michael Goodwin
+1 508.397.1095
mgoodwin@mccallalmy.com



Garrett Larivee
+1 617.838.9050
glarivee@mccallalmy.com



Lenny Owens
+1 617.838.9191
lowens@mccallalmy.com



Dave Richardson
+1 617.838.9343
drichardson@mccallalmy.com



Neil Schneider
+1 617.306.9216
nschneider@mccallalmy.com