

BOSTON MARKET OVERVIEW

MID-YEAR 2021

OVERVIEW

There is light at the end of the proverbial COVID-19 tunnel as we are at an inflection point in Boston. There are signs of hope as we return to some semblance of normalcy. The current occupancy rate in Downtown office towers is hovering around 15%. With New England leading the vaccination rates in the country, most employers are expecting their workforce back after Labor Day with a mix of full-time in-person and hybrid approach. While remote work is here to stay, so too is the office.

Many tech companies initially had no immediate plans to return to the office instead adopting a fully remote model, which is turning out not to be the case. Amazon signed a 630,000 sq. ft. office lease in the Seaport with occupancy expected next year. Facebook is rumored to have signed a 270,000 sq. ft. sublease in Cambridge. Apple announced it had plans to hire hundreds of new employees and expand its presence in Kendall Square. Google is expected to occupy a full building in Kendall Square.

The volume of sublease space that hit the office market since late 2019 has seen a modest decline over the last quarter going from 4 million sq. ft to approximately 3.1 million sq. ft. Some due to tenants putting the space on the market as a reactionary measure and now planning on re-occupying the space. The most significant dent in the sublease supply was State Street taking 200,000 sq. ft off the market.

Most Class A assets have held their asking rents very close to pre-COVID-19 rates, while more Class B buildings have been more willing to take more significant rate reductions.

Office to lab conversions in the Seaport and Greater Boston continue to dominate the headlines, with demand for life sciences doubling since the pandemic. Marcus Partners plans to redevelop 310 Northern Avenue to include 742,000 sq. ft. and is in the process of permitting an adjacent building for 228,000 sq. ft., both part of the Raymond L. Flynn Marine Park. Related Beal is converting three properties to 185,000 sq. ft of life science space in Fenway. In fact, Boston accounted for nearly one-fourth of all lab transactions nationwide last quarter.*

*Source: Real Capital Analytics

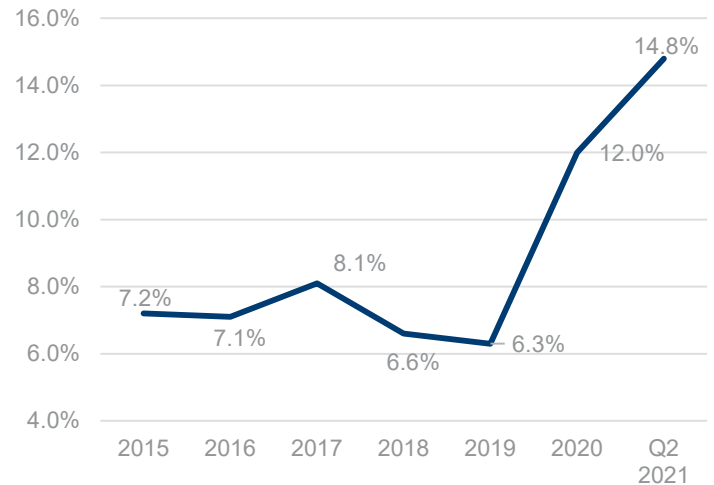
MARKET FUNDAMENTALS

FORECAST

Market Size	74.5 MSF	◀▶
Total Vacancy	14.8%*	▲
YTD Net Absorption	(100) KSF	▲
Under Construction	4.1 MSF	▼
Average Asking Rent (Gross)	\$67.00	▲
Concessions	Increasing	▲

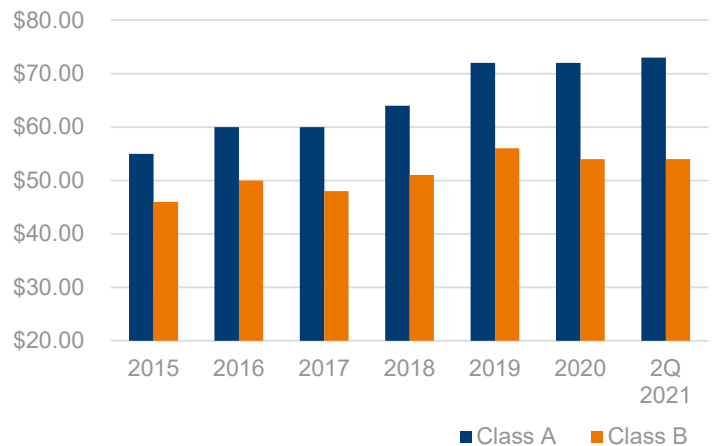
*Availability rate is 19.1%

TOTAL VACANCY



*Availability rate is 19.1%

AVERAGE ASKING RENTS



WHAT THIS MEANS FOR TENANTS

- Fewer new subleases are being added to market. However, there is “shadow vacancy” with high transaction volume for smaller subleases.
- Landlords have become amenable to doing shorter-term deals and are offering concessions in the form of T.I. and free rent to attract / retain tenants.
- Rents are “sticky” on the downside. We expect the decline to accelerate over next 6-24 months.
- Companies are taking advantage of market that has softened over the last year, but we expect the majority of these lease decisions to be shorter term.
- TAMI tenants (tech, advertising, media, and information) are the largest share of demand and require more collaboration. As a result, those tenants will need the same amount of space.
- Due to the sheer amount of subleases, there are good opportunities for tenants seeking 50,000-100,000 sq. ft. with term.
- The future workplace is still being reimagined, and it may be many months – or even years post-vaccine – for that future workplace to take advantage of the increase in quality options.

KEY 2021 LEASE TRANSACTIONS

TENANT	BUILDING ADDRESS	SUBMARKET	TYPE	SQUARE FOOTAGE
Amazon	One Boston Wharf Road	Seaport	Lease Expansion	630,000 SF
Gingko BioWorks	One Au Bon Pain Way	Seaport	New Lease	150,000 SF
Whoop	One Kenmore Square	Fenway	New Lease	110,000 SF
Summit Partners	222 Berkley Street	Back Bay	Renewal / Expansion	78,600 SF
Sasaki	110 Chauncy Street	Financial District	New Lease	64,000 SF
Hill Holliday	Two Drydock Avenue	Seaport	Sublease	57,000 SF
Embark	320 Summer Street	Seaport	Sublease	37,765 SF



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



Vince Walker
+1 240.550.3248
vwalker@mccallalmy.com