

BOSTON MARKET OVERVIEW

YEAR-END 2020

OVERVIEW

As expected, the second half of 2020 lacked the necessary solutions for Boston's commercial real estate market. The lone bright star, the life science industry, continued to expand as investments continued to flow into these companies. Real estate developers did everything they could to capture market share. But the office market remained frozen in place, as companies lacked any desire to bring their employees back to offices until a vaccine becomes widely available.

The focus continues to be on two levers that will impact the direction of Boston's office market: the sheer volume of sublease space that has been listed, and the role that remote work will play in shaping post-COVID office requirements.

Boston has seen almost 4 million square feet hit the market from tenants looking to offload unwanted leased space. The only event to put a dent in that figure was not a large sublease, but instead was State Street Bank's decision to remove its more than 200,000 sq. ft. from the market just before the end of the year. This appears to be a decision driven by accounting purposes and not indicative of a return to needing the space.

Sublease asking rents continue to decline as more and more sublandlords chase the few active requirements. As for direct deals, we have seen differing approaches from Class A and Class B buildings. 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.

Companies across Boston and around the globe still seem to be months away from taking a stance on defining what impact remote work will have on their future office requirements. 2020 brought more questions than answers on that front.

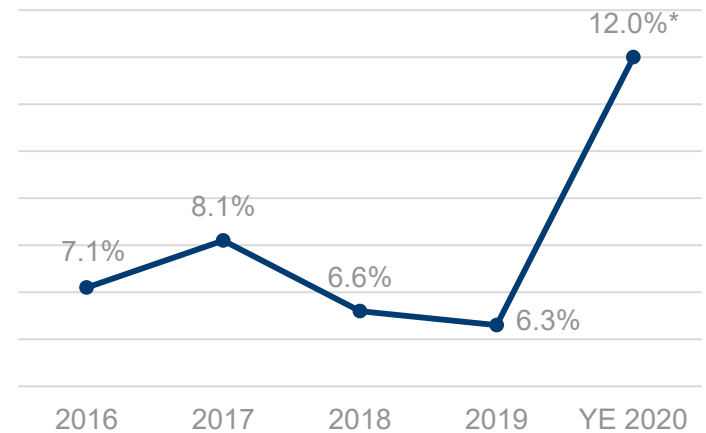
MARKET FUNDAMENTALS

FORECAST

Market Size	74.5 MSF	▲
Total Vacancy	12.0%*	▲
YE Net Absorption	(3.6) MSF	◆
Under Construction	7.0 MSF	◆
Average Asking Rent (Gross)	\$65.61	▼
Concessions	Increasing	▲

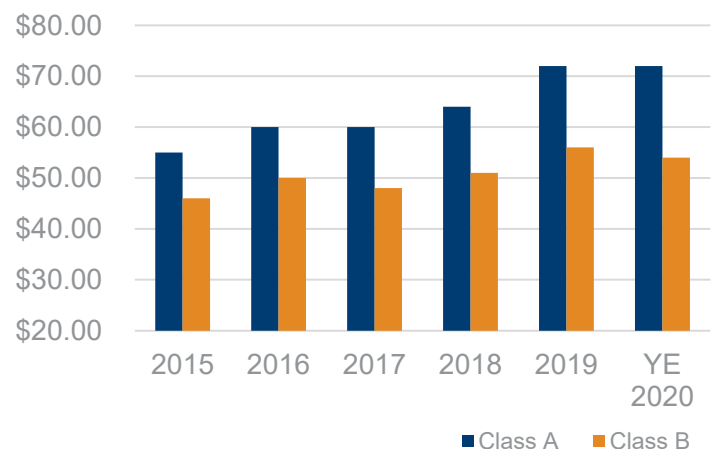
*Availability rate is 18.1%

TOTAL VACANCY



*Availability rate is 18.1%

AVERAGE ASKING RENTS



WHAT THIS MEANS FOR TENANTS

- The vaccine should allow more companies to begin to plan for employees to return to the office in late Q2. In turn, more companies will have the confidence to make office lease decisions.
- But we expect the majority of these lease decisions to be shorter term, as the future workplace has still not been defined.
- The sublease market will finally see some absorption, and the price discovery of these transactions will result in landlords finally dropping rates in most buildings to compete with the cheaper sublease alternatives.
- Larger companies will continue to have more options available to them than smaller companies.
- Direct vacancy will increase slightly as many companies' lease extensions will involve giving back some portion of their space.
- All of which increases the buying power of tenants willing and able to sign new leases and amendments.
- Mid-year 2021 will still have more questions than answers on the future workplace.

KEY 2020 LEASE TRANSACTIONS

TENANT	BUILDING ADDRESS	SUBMARKET	TYPE	SQUARE FOOTAGE
Loomis Sayles	One Financial Center	Financial District	Renewal	232,200
Car Gurus	1001 Boylston Street	Back Bay	New Lease	225,000
Acadian Asset Management	260 Franklin Street	Financial District	Renewal	108,200
Pioneer Investments	60 State Street	Financial District	Renewal	99,000
Chewy	343 Congress Street	Financial District	Renewal/Expansion	75,000
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



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