

BOSTON OFFICE MARKET

SUBLEASE INVENTORIES WEIGH ON FUNDAMENTALS

Similar to most major U.S. markets, fundamentals continued to waver in Greater Boston's office market during the third quarter as impacts of the pandemic lingered throughout the summer. With a third consecutive quarter of negative net absorption, metrowide vacancies climbed 120 basis points over the quarter, to a seven-year high of 13.5%. Direct vacancies are on the rise, however, sublease inventories more than doubled over the last six months. With uncertainty prevalent in the marketplace, many tenants are still exercising caution in their decision-making. Year-to-date leasing velocity across the metro is off 67.0% compared to year-ago levels and the average lease term declined by nearly 10.0% over the course of 2020. Physical occupancies also remain limited – particularly Downtown – as the list of companies delaying their return to the office has grown. While landlords continue to reposition competitive office product for life science users, new office developments are moving forward. Despite current challenges, Greater Boston's economy is more diversified than ever, and the region remains a global hub for innovation, healthcare, life science and education.

BOSTON CBD

Driven primarily by mounting sublease inventories Boston office fundamentals slackened further in the third quarter. With more than 1.1 million square feet of negative net absorption, the market posted its worst quarter on record and vacancies breached 10.0% for the first time since 2014. Though the marketplace is beginning to thaw, few lease transactions are taking place outside of expiration-driven activity. The majority of signed leases this quarter were tenants renewing in place or taking down sublet space. Chewy.com, an online pet supply company, signed one of the largest deals of the year, renewing and expanding at 343 Congress Street. Labor Day marked the unofficial target for many companies planning to bring their employees back to the office. Despite a slight post-holiday bump in traffic, building occupancies across the city remain well below 10.0%. Small-to-mid sized homegrown ventured-backed tech companies, major contributors of the absorption of commodity space over the last 5-7 years, have been responsible for much of the recent rise in sublease availabilities. That being said, Boston remains one of the top spots for venture funding interest and will likely be a key growth engine powering the eventual recovery.

Lease rates declined slightly during the third quarter as non-institutional ownership in the Class B market has been more willing to reduce rents to preserve cash. Overall, institutional landlords have been able to hold face rents, but re-trades are landing on average 10.0-15.0% below asking rents. Increased concessions in the form of more free rent and higher TI allowances are commonplace as well. Ultimately, price discovery will take

CURRENT CONDITIONS

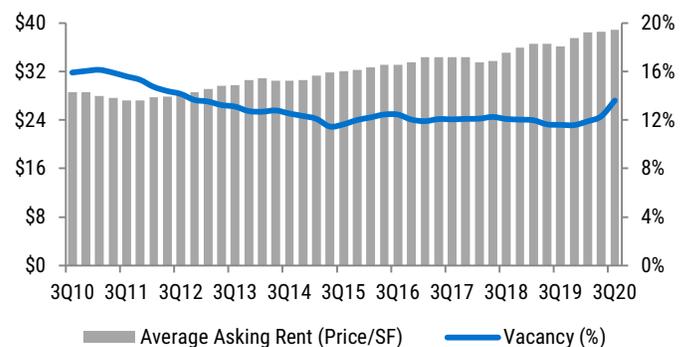
Market fundamentals slackened further during the third quarter as year-to-date net absorption surpassed negative 2.9 million square feet.

The 120-basis-point expansion in metrowide vacancies represents the largest quarterly increase in 15 years.

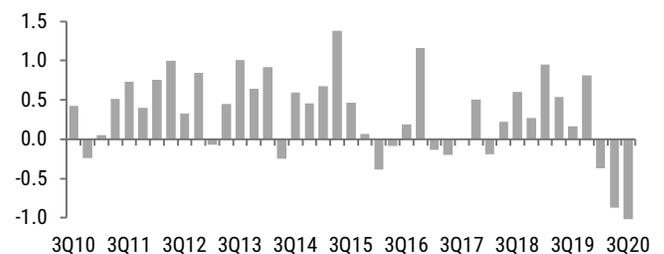
The majority of face rents are holding steady while concessions – e.g., free rent – continue to climb to cyclical highs.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	181.1 M	181.4 M	181.3 M	↑
Vacancy Rate	13.6%	12.4%	11.6%	↑
Quarterly Net Absorption (SF)	-1.7 M	-873,305	167,371	↓
Average Asking Rent	\$38.91	\$38.55	\$36.19	↓
Under Construction (SF)	7.4 M	6.1 M	6.0 M	→
Deliveries (SF)	582,467	0	392,000	↑

time to work through and the possibility of a steeper rent correction is on the horizon. Construction activity is seemingly back to “business as usual” in Boston. With projects like Hines’ South Station Tower, Millennium’s Winthrop Center and Foundation Medicine’s build-to-suit moving forward, there is now more than 5.0 million square feet of office space underway in the CBD. The market has not seen this much development in more than 20 years. The hope for developers is that projects with 2-4 years of lead time will be delivering into an upcycle. Future developments and conversions of competitive office space for lab use could curtail the impact of some of this office supply growth.

CAMBRIDGE

As the epicenter for the region’s life science industry, the Cambridge lab market continued to garner significant attention while the office market is middling due to weaker demand. The delivery of MITIMCo-owned 314 Main Street in East Cambridge – anchored by Boeing and Apple – pushed the market’s office inventory to nearly 11.0 million square feet and accounted for the majority of positive net absorption in the third quarter. With that said, Boeing is subleasing two floors at their new facility and CarGurus, HubSpot and Symantec all vacated space this quarter. Consequently, vacancies increased by another 160 basis points over the quarter, to 7.7%. Rates among Class A assets, which account for roughly 75.0% of Cambridge’s office inventory, are sitting more than 100 basis points above the market average. Much of the recent weakness in fundamentals can be attributed to rapidly rising sublease inventories, particularly within the Class A market, as both direct office vacancies and availabilities declined in the third quarter.

Office leasing abated in the Cambridge market as well with very few transactions occurring during the third quarter. Black Diamond Therapeutics’ direct lease of 25,578 square feet at 1 Main Street in East Cambridge marked one of the only major deals to be executed recently. Tamr recently subleased 16,410 square feet at 1000 Massachusetts Avenue in Mid Cambridge. Supply-side fundamentals remain stable, with build-to-suits for Sanofi and Google representing the only office projects underway, as development is focused on the ground up construction of new lab space and the repositioning of older office assets. Properties in West Cambridge will likely remain of interest to developers as the area is a key relief valve for Kendall’s limited growth opportunities.

SUBURBS

Activity remains constrained in Greater Boston’s suburban office market. With limited leasing velocity and an additional 600,000 square feet of negative net absorption, vacancies climbed 60 basis points over the quarter, reaching an eight-year high of 16.4%. Moreover, the much-talked-about trend of tenants pivoting away from the dense urbanity of the CBD has yet to take hold here. At the start of the pandemic, the suburban markets saw an uptick in urban users exploring options outside of the city. However, this trend remains more speculative than anything as few tenants – if any – are actually migrating out of Boston or executing so-called “hub-and-spoke” operations. Shifting housing preferences, which favor suburban living, could alter this narrative in the long run though. While sublease space has not surged as it has in

Boston, new availabilities are coming on line every week. Most recently, VistaPrint and the Rockport Group listed large blocks of space for sublease in the West – Route 128 submarket. On a more positive note, Tufts Health Plan/Harvard Pilgrim Health Care finalized its purchase of the former Reebok campus, rebranded The Block, in Canton. Once the newly-formed healthcare company takes occupancy this move will have a material impact on suburban office fundamentals.

From traditional lab users to growing demand from biomanufacturing tenants, the life science sector continues to drive activity in the suburban markets while office growth has stalled. Biotech companies are rapidly expanding throughout the Route 128 and 495 corridors, with Forma Therapeutics, Affinia Therapeutics and Dicerna Pharmaceuticals all leasing space here in recent months. Over the last year a multitude of properties were either converted to lab or made lab-ready to tap into this outsized demand, which resulted in a reduction of roughly 1.1 million square feet of office space across the suburbs since the end of 2019. Given the dearth of office demand, the list of assets slated for repositioning is expanding. Going forward, look for a large portion of new development in the suburban markets to also include a lab component.

CAPITAL MARKETS

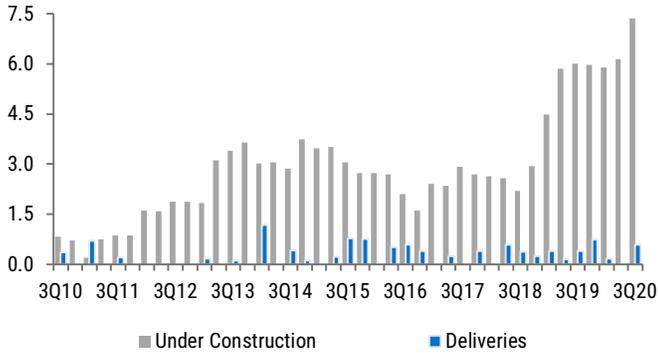
Similar to leasing velocity, investment sales volume was particularly sparse in the third quarter as uncertainty and limited price discovery characterized the marketplace. In fact, transaction volume for the Boston metro fell to its lowest level since 2012. Investors were focused on urban and suburban lab redevelopment opportunities. Alexandria Real Estate Equities acquired the 515,273-square foot Reservoir Woods East in Waltham from PGIM and Marcus Partners for \$330 million or \$640/SF with plans to position the assets for lab use. IQHQ snapped up another area asset – purchasing the 26.5-acre Alewife Park in West Cambridge from owner-user GCP Applied Technologies for \$125 million or \$435/SF. The seller will occupy the building rent-free for 18-24 months as the new owner is exploring development options for the site. While market activity and inquiries continue to gain momentum, many buyers are looking for distress, which has yet to emerge here in Boston. Moreover, continued strength in the region’s life science sector will likely drive capital to the area’s office market as well.

LOOKING FORWARD

Third-quarter performance was among the worst the Greater Boston office market has ever seen. Even though restrictions on the local economy have been rolling back for several months, the recovery has been sluggish and downside risks prevail. Projections are for availabilities – particularly among sublease spaces – to increase in the coming quarters as companies continue to evaluate their space needs. Asking rents will eventually begin to soften as well. Though it will take some time to work through current challenges and many uncertainties are on the horizon, Greater Boston began this downturn with some of the strongest fundamentals on record. Ultimately, the region’s highly-educated, innovative workforce will help drive the long-term recovery.

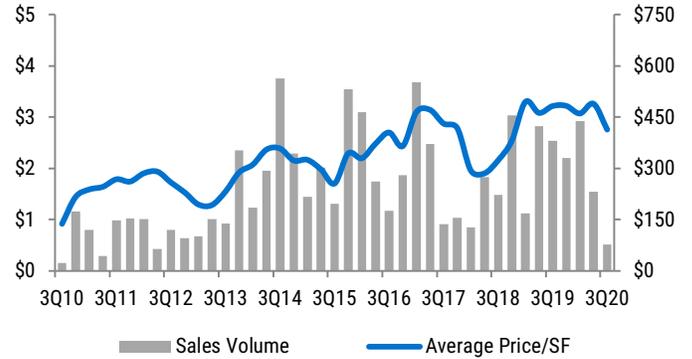
CONSTRUCTION AND DELIVERIES

Square Feet, Millions



OFFICE INVESTMENT

Sales Volume (Billions) and Average Price/SF



SELECT LEASE TRANSACTIONS

Tenant	Building / Address	Submarket	Type	Square Feet
Ameriprise	290 Congress Street, Boston	CBD – Downtown	Direct	84,000
Chewy.com	343 Congress Street, Boston	CBD – Seaport	Renewal / Expansion	75,009
Sarepta Therapeutics	55 Network Drive, Burlington	North – Route 128	Direct	44,740
Pearson Education	1 Federal Street, Boston	CBD – Downtown	Sublease	42,787
SVB Leerink	53 State Street, Boston	CBD – Downtown	Direct	38,947
DCAMM	75 Federal Street, Boston	CBD – Downtown	Direct	36,951
MarkForged	480 Pleasant Street, Watertown	Urban Edge – West	Direct	36,291
Black Diamond Therapeutics	1 Main Street, Cambridge	East Cambridge	Direct	25,578
MasterCard	225 Franklin Street, Boston	CBD – Downtown	Sublease	24,930
Andersen Tax	125 High Street, Boston	CBD – Downtown	Renewal	20,267
Cayan	101 Arch Street, Boston	CBD – Downtown	Sublease	18,575
Citadel Securities	28 State Street, Boston	CBD – Downtown	Renewal	16,782

SELECT SALE TRANSACTIONS

Building / Address	Submarket	Sale Price	Price/SF	Square Feet
Reservoir Woods East, Waltham	West – Route 128	\$330,000,000	\$640	515,273
Alewif Park, Cambridge	West Cambridge	\$125,000,000	\$435	287,442
One Upland Drive, Norwood	South – Route 128	\$120,000,000	\$494	243,000

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)
Back Bay	13,277,325	-	5.6%	-271,364	-292,893	\$79.29	\$55.46	\$72.02
Downtown	32,896,043	1,719,033	10.6%	-644,591	-960,559	\$73.73	\$55.59	\$68.92
Government Center	1,509,457	977,249	9.7%	-50,322	-40,692	\$67.00	\$64.51	\$65.71
Midtown	2,047,455	-	12.0%	-31,851	-53,390	-	\$55.61	\$55.61
North Station	2,395,763	627,000	12.6%	-42,191	-103,791	-	\$52.69	\$52.69
Seaport District	11,025,374	1,010,576	13.8%	-109,276	-278,727	\$75.98	\$58.77	\$66.58
South Station	2,948,242	893,901	6.7%	-30,523	-45,087	\$57.00	\$52.42	\$49.72
CBD Total	66,099,659	5,227,759	10.1%	-1,180,118	-1,775,139	\$74.59	\$56.11	\$67.18
East Cambridge	6,771,893	767,000	8.4%	143,922	17,851	\$94.17	\$84.47	\$92.08
Mid Cambridge	2,544,891	-	5.9%	-5,854	-17,832	\$81.41	\$71.09	\$71.32
West Cambridge	1,595,217	-	7.5%	-60,806	-66,495	\$55.95	\$38.68	\$52.32
Cambridge Total	10,912,001	767,000	7.7%	77,262	-66,476	\$80.11	\$72.18	\$76.18
Urban Edge	12,818,503	753,912	7.5%	-44,426	-147,520	\$39.80	\$38.98	\$39.15
North - Route 128	21,349,296	-	13.8%	-278,275	-474,716	\$33.19	\$22.94	\$29.08
South - Route 128	12,773,468	100,000	16.9%	-102,617	-92,345	\$29.23	\$23.29	\$26.55
West - Route 128	21,363,431	507,620	14.8%	-156,895	-356,920	\$41.22	\$31.29	\$37.67
North - Route 495	18,896,224	-	20.7%	94,254	209,070	\$24.02	\$18.19	\$21.50
South - Route 495	3,319,070	-	8.2%	39,313	81,587	\$21.24	\$20.15	\$20.40
West - Route 495	9,551,587	-	30.7%	-93,500	-206,295	\$22.77	\$19.14	\$20.15
Framingham/Natick	3,989,464	-	17.9%	-67,636	-125,054	\$28.87	\$20.51	\$25.97
Suburban Total	104,061,043	1,361,532	16.4%	-609,782	-1,112,193	\$30.99	\$22.50	\$27.02
Market	181,072,703	7,356,291	13.6%	-1,712,638	-2,953,808	\$45.08	\$31.23	\$38.91

ECONOMIC OVERVIEW

Though slowly improving, the U.S. economy continues to contend with fallout from the coronavirus outbreak. The second-quarter decline of more than 30.0% on an annualized basis in GDP represents the steepest quarterly plunge on record and national payrolls have only been able to recover roughly half of the 21 million jobs lost in March and April. Initial weekly unemployment claims remain elevated above 800,000 and, according to Moody's Analytics' Back-to-Normal Index, the national economy is only operating at 76.0% of its pre-pandemic levels. Regional flare ups in the virus outbreak and the dissolution of stimulus funding are also impacting recovery efforts, with several high frequency indicators pointing to sluggishness in economic activity over the summer. While experts are predicting a sharp rebound in GDP growth at the close of the third quarter, the path forward remains uncertain. Most experts do agree that it will likely take some time to reach pre-crisis levels.

Locally, Massachusetts has logged more than two million in new unemployment claims (including Pandemic Unemployment Assistance filings) since mid-March and the state's unemployment rate rose to the highest in the U.S. during the third quarter. Conditions have since improved, with Massachusetts recording the largest unemployment rate decline of any state in the U.S. from June to August. Rehiring among many of the state's most impacted industries – including leisure, hospitality, retail and construction – resumed once COVID-19-related restrictions began rolling back in late spring. Roughly 272,000 jobs have been added to local payrolls over the last four months, which represents 39.4% of the jobs lost during March and April. However, statewide total employment remains more than 11.0% below February's pre-crisis peak.

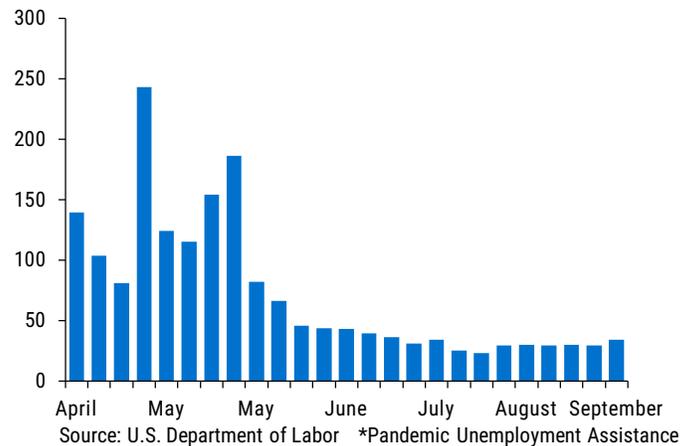
Though all industries have been impacted by the current pandemic, Massachusetts' office-using sectors have fared better than most. As jobs in these industries are more amenable to remote work scenarios, layoffs among office workers (outside of certain segments of the tech community) have been rather restrained. Combined, employment in the information, financial activities and business and professional services sectors declined by just 56,300 jobs or 5.9% from February to April. Life sciences, driven by strong venture funding and IPO activity, remains a bright spot within the local economy as well.

ECONOMIC OUTLOOK

Both the local and national economies are facing one of the worst economic downturns on record. While market conditions have rebounded from the depths of March and April, the recovery in economic activity and employment has been somewhat sluggish and uneven. Uncertainty still surrounds the longevity of remote work among area employers, the reopening of educational institutions and the immanent return of colder weather. In the near term, the pandemic will likely remain a drag on the economy. With all of that said, the Greater Boston region remains well-positioned to weather the current recession as the area's large, diversified and innovative economy will bolster its long-term growth story.

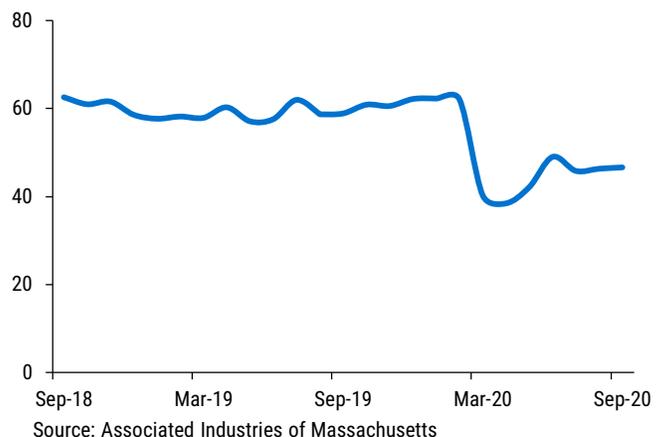
WEEKLY INITIAL MA JOBLESS CLAIMS

In Thousands (NSA), Includes PUA* Claims



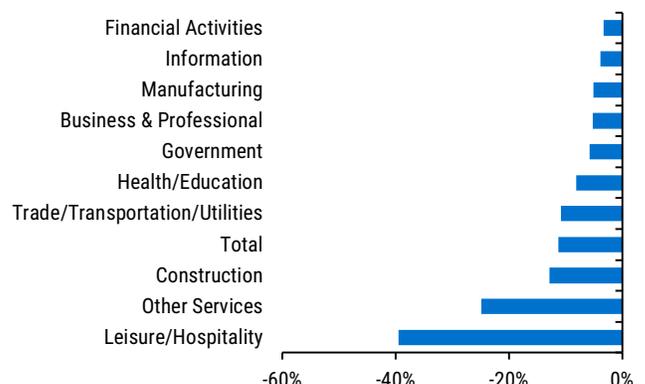
EMPLOYER CONFIDENCE

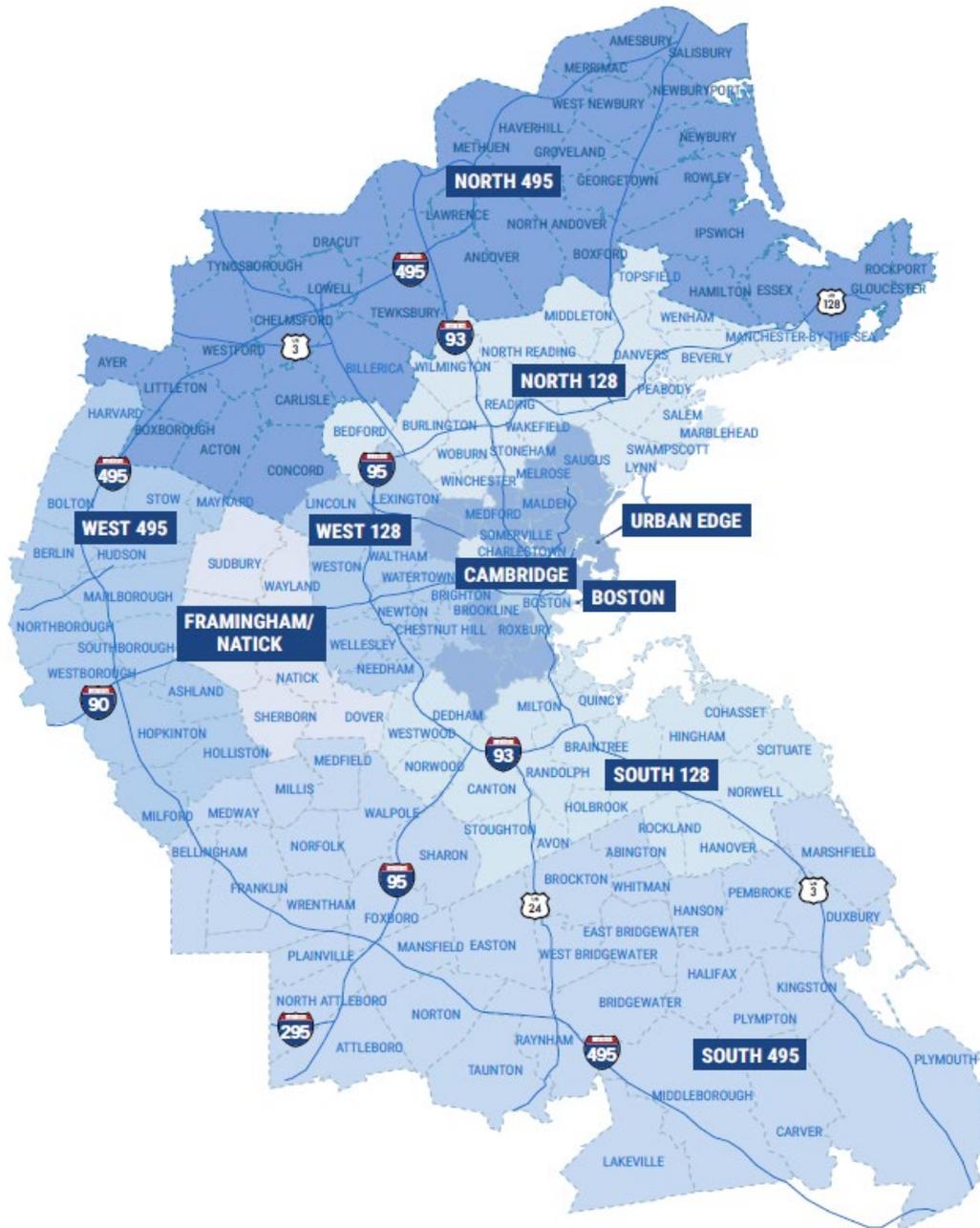
AIM, Business Confidence Index



MA EMPLOYMENT CHANGE BY INDUSTRY

August 2020, % Below February Peak (NSA)





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