

# BOSTON OFFICE MARKET

## UNCERTAINTY CLOUDS MARKET AS GLOBAL PANDEMIC TAKES HOLD

Following a banner year of net absorption and rent gains, Greater Boston's office market slowed in early 2020. Historically, first-quarter activity is known to be more measured and, given the market's late-stage expansion phase, slower growth was certainly a near-term risk. Nagging concerns over macro headwinds have given way to a "black swan" event that will more than likely ignite a global recession. The COVID-19 pandemic and subsequent social distancing measures have led to widespread work-from-home policies and will likely weigh on growth throughout the U.S. office market. Users with longer lead times will likely shelve any major real estate decisions until a clearer picture emerges from this outbreak. While the near-term outlook remains precarious, Greater Boston started 2020 with some of the strongest fundamentals the market has ever seen. A recent moratorium on large-scale construction sites in both Boston and Cambridge could also limit over-supply. Look for successful long-term growth to return once the current challenges subside.

### BOSTON CBD

Boston's first-quarter performance was quiet as leasing activity continued to ease. Vacancies held steady at a cyclical low of 7.1%, while net absorption dipped into negative territory for the first time in nearly three years. Most of the major office leases executed during the first quarter, including Acadian Asset Management (108,185 square feet), Seyfarth Shaw LLP (66,418 square feet) and GID (47,005 square feet), were renewals or extensions. Foundation Medicine and Forward Financing each subleased more than 25,000 square feet as well. Recent frothiness had some larger users examining future space requirements well in advance of their expiration. However, tenants suddenly have more bargaining power than they did just a few months ago and groups with shorter lead times will likely push for 1-2-year extensions. Presently, many experts believe a pandemic-induced market correction will be less impactful than the Great Recession. Market fundamentals are relatively tight and landlords were still pushing through rent gains in early 2020, particularly among Class B assets. Strong underlying demand drivers will ultimately benefit Boston's recovery once these current headwinds are dealt with.

The COVID-19 outbreak is also having a material impact on the built world. In order to curtail the spread of this virus, Mayor Walsh put a stop to all construction projects in Boston; bringing a halt to the city's long-running building boom. With 3.5 million square feet of office development under construction and several million square feet more in the planning pipeline, the CBD could see fewer completions than previously anticipated. Delivery timelines for projects already underway, including 2 Drydock Ave, One Post Office Square, 321 Harrison Avenue, One Congress Street and Winthrop Center, will most certainly extend beyond current projections.

## CURRENT CONDITIONS

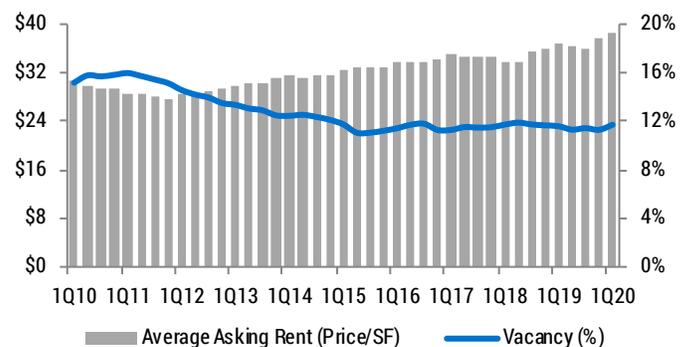
First-quarter negative net absorption totaled more than 51,000 square feet throughout Greater Boston. Vacancy inched up to 11.7% over the quarter.

Historically a slower period for leasing activity, this quarter witnessed fewer new leases, with active tenants opting to renew or expand in place.

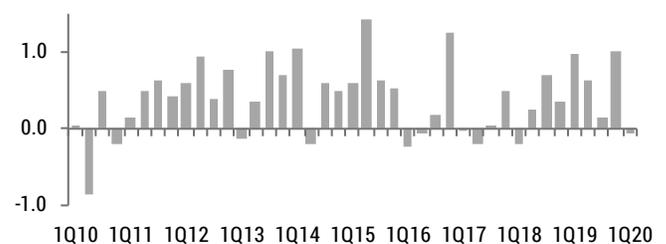
Due to the global COVID-19 pandemic, downside risks remain. All local implications remain to be seen as the situation continues to evolve on a daily basis.

## MARKET ANALYSIS

### Asking Rent and Vacancy



### Net Absorption (SF, Millions)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	181.0 MSF	180.7 MSF	178.3 MSF	↑
Vacancy Rate	11.7%	11.3%	11.6%	→
Quarterly Net Absorption	-51,890 SF	1,021,260 SF	989,015 SF	↑
Average Asking Rent	\$38.47	\$37.52	\$36.65	→
Under Construction	5.9 MSF	6.0 MSF	4.5 MSF	→
Deliveries	140,000 SF	738,796 SF	389,168 SF	↑

Once the moratorium is lifted and work resumes, local inventories will continue to expand. Developments with permitting and financing in place, like Hines' long-awaited South Station tower, should break ground while some planned projects may get shelved. On a positive note, this could dampen the risk of over-supply in the Boston office market.

## CAMBRIDGE

The office sector's performance to kick off 2020 closely mirrored conditions witnessed across many of the urban core submarkets. Net absorption in Cambridge was flat in the first quarter, faring slightly better than Boston's CBD, but still marking a minor decline in three of the past four quarters. While there is little debate that the leasing market's exceptionally strong fundamentals have been returning to a more sustainable level, it is worth reiterating that office space is still at near-to-full occupancy with vacancy averaging 4.6% in the first quarter. The conversion of third-floor space at CambridgeSide Galleria into office use added roughly 140,000 square feet of vacancy to the market, pulling vacancy up from 3.5% a quarter earlier. This was the second consecutive quarter with an office delivery, a rarity in what is likely to remain a supply-constrained market given high preleasing rates in projects delivering through 2021. Moreover, Cambridge will likely see even fewer deliveries in the near term. Following in Boston's footsteps, the city recently suspended construction work on both public and private properties, which will extend project timelines across Cambridge.

The market continues to see a steady increase in both direct and sublease space, which combined rose above 1.0 million square feet, a level last seen in the first quarter of 2015. The increase in availability, which still amounts to less than 10.0% of total inventory, is a result of tight supply conditions that permeated the market over the past decade. New construction is finally providing some relief, but at the same time, more tenants are being squeezed out of the market from both sizing and cost perspectives. Activity in recent months typified what is generally a slower first-quarter period for office leasing. Editas Medicine leased a floor at 1 Main Street, while the majority of other new leases were for spaces less than 10,000 square feet. Asking rents grew at a slightly lower rate in the first quarter and, given the general pullback in activity across the wider market amidst the COVID-19 pandemic, landlords will seemingly have a difficult time justifying another increase in asking rents this year.

## SUBURBS

The consolidation of several more large occupiers in the suburbs pushed vacancies higher and continues to offset otherwise stable absorption gains seen in the latter stage of the current expansion cycle. At 15.3%, overall suburban vacancy rose 50 basis points year-over-year, but remains within reach of its cyclical low of 13.8%. Philips' relocation to Cambridge this quarter freed up 365,000 square feet of office space in Andover, while State Street's consolidation in Quincy returned nearly 245,000 square feet to the market. Liberty Mutual Insurance's planned sale of Riverside Office Park in Weston added an

additional 220,000 square feet vacancy to the West-Route 128 submarket, which had vacancies approaching 10.0% as recently as early 2018, but has seen several other notable tenant consolidations and relocations to Boston that have pulled vacancies up to 13.3% as of the first quarter.

The majority of the quarter's activity took place within the 25,000 to 50,000 square foot range. While several tenants in this segment expanded or occupied newly leased space, most opted to renew in place. Staples is staying in the suburbs after executing one of the quarter's more significant deals in the form of a sale-leaseback on its 666,100-square-foot headquarters in Framingham. Cambridge-based Abcam signed a new lease for more than 100,000 square feet at 152 Grove Street in Waltham, bringing the recently renovated office and flex asset owned by Hilco Real Estate to fully committed.

## CAPITAL MARKETS

The closing of a diverse mix of high-quality assets across the CBD and Inner Suburbs continued to propel investment sales volume in the early months of 2020. The saturation of CBD Class A sales in recent years is fueling more sales of Class B and non-traditional office buildings, notably those suitable for life sciences users. Investment sales volume for the Boston metro stood above \$2.0 billion for a fourth straight quarter as the region remains high on investors' target list.

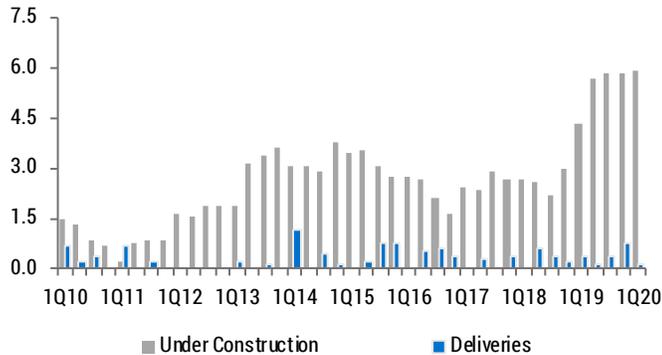
Three Class B office assets in the CBD changed hands at an average price of nearly \$700/SF. Blackstone acquired 179 Lincoln Street, Investcorp and Brickman Associates bought 535-545 Boylston Street and Nan Fung Life Sciences purchased One Winthrop Square. The latter buyer, a Hong Kong-based developer, also acquired the Class B building at 51 Sleeper Street in Fort Point from Brookfield and plans to redevelop the property into commercial lab space. Notable Class A activity included Starwood acquiring 60 State Street for over \$600 million from J.P. Morgan and Oxford Properties Group and Rockpoint Group divesting a 50% stake in 75-101 Federal Street to Carr Properties. Suburban investment turned more active, with a sustained focus on laboratory, single-tenant and rejuvenated assets.

## LOOKING FORWARD

Greater Boston maintained solid momentum going into 2020, but the tides turned quickly. A global pandemic to this extent is almost unprecedented in modern times and the impact on the economy, financial markets, commercial real estate, etc. are already being felt across the entire nation. The retail, restaurant, hospitality, travel and trade industries have been hardest hit so far. Office-using sectors may begin to feel some pain in the coming quarters as well. However, long-term effects on the local office market remain to be seen as the probability of a correction grows. A best-case scenario would involve a quick, mild downturn while worst-case scenarios would entail a steeper, more prolonged decline. It is too soon to tell how current conditions will play out, but the Greater Boston metro is well-positioned to weather the incoming storm.

## 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
Staples	500 Staples Drive, Framingham	Framingham/Natick	Sale/Leaseback	666,100
Acadian Asset Management	260 Franklin Street, Boston	CBD - Downtown	Renewal	108,200
Abcam	152 Grove Street, Waltham	West - Route 128	Direct	100,800
LEK Consulting	75 State Street, Boston	CBD - Downtown	Renewal	78,600
Converge	4 Technology Drive, Peabody	North - Route 128	Renewal	76,400
AMAG Pharmaceuticals, Inc.	1100 Winter Street, Waltham	West - Route 128	Renewal/Expansion	70,000
Seyfarth Shaw LLP	2 Seaport Lane, Boston	CBD - Seaport District	Renewal	66,400
Santander Bank, N.A.	5 Whittier Street, Framingham	Framingham/Natick	Renewal	55,800
GID	125 High Street, Boston	CBD - Downtown	Renewal	47,000
Payette	290 Congress Street, Boston	CBD - Downtown	Renewal/Expansion	41,400
Analog Devices	720 University Avenue, Norwood	South - Route 128	Direct	34,200

## SELECT SALE TRANSACTIONS

Building / Address	Submarket	Sale Price	Price/SF	Square Feet
60 State Street, Boston	CBD - Downtown	Confidential	-	911,394
75-101 Federal Street, Boston	CBD - Downtown	Confidential	-	853,319
275 Grove Street, Newton	West - Route 128	\$230,550,000	\$452	509,702
500 Staples Drive, Framingham	Framingham/Natick	\$165,000,000	\$248	666,100
179 Lincoln Street, Boston	CBD - South Station	Confidential	-	221,474
535-545 Boylston Street, Boston	CBD - Back Bay	\$128,000,000	\$693	184,642
51 Sleeper Street, Boston	CBD - Seaport District	\$115,000,000	\$756	152,102
One Winthrop Square, Boston	CBD - Downtown	\$75,000,000	\$658	114,257

## 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	-	2.8%	71,979	71,979	\$75.77	\$55.25	\$70.83
Downtown	33,010,386	1,072,420	8.0%	-95,842	-95,842	\$74.65	\$55.95	\$69.24
Government Center	1,509,457	977,249	5.1%	28,780	28,780	\$65.00	\$61.00	\$63.03
Midtown	2,047,455	-	10.9%	-30,251	-30,251	-	\$53.96	\$53.82
North Station	2,395,709	627,000	9.2%	-23,567	-23,567	-	\$54.74	\$54.74
Seaport District	10,797,691	656,721	9.3%	15,471	15,471	\$76.61	\$59.85	\$66.67
South Station	2,948,242	233,901	5.4%	-6,250	-6,250	\$57.00	\$55.44	\$54.73
<b>CBD Total</b>	<b>65,986,319</b>	<b>3,567,291</b>	<b>7.1%</b>	<b>-39,680</b>	<b>-39,680</b>	<b>\$74.72</b>	<b>\$56.98</b>	<b>\$67.44</b>
East Cambridge	6,481,093	1,121,784	5.1%	-33,488	-33,488	\$94.82	\$83.71	\$93.09
Mid Cambridge	2,544,891	-	3.8%	37,246	37,426	\$80.46	\$71.60	\$70.97
West Cambridge	1,595,217	-	3.8%	-7,461	-7,461	\$56.47	\$42.92	\$53.89
<b>Cambridge Total</b>	<b>10,621,201</b>	<b>1,121,784</b>	<b>4.6%</b>	<b>-3,523</b>	<b>-3,523</b>	<b>\$83.17</b>	<b>\$73.43</b>	<b>\$79.72</b>
Urban Edge	13,018,503	597,564	6.6%	-30,258	-30,258	\$40.18	\$36.78	\$38.89
North - Route 128	21,349,296	-	11.2%	74,725	74,725	\$33.46	\$23.27	\$28.76
South - Route 128	12,773,468	100,000	17.0%	-115,104	-115,104	\$30.98	\$23.90	\$28.41
West - Route 128	21,546,581	507,620	13.3%	-6,375	-6,375	\$43.61	\$31.31	\$39.60
North - Route 495	18,896,224	-	21.2%	112,520	112,520	\$23.99	\$18.41	\$21.48
South - Route 495	3,319,070	-	19.2%	47,409	47,409	\$21.21	\$20.24	\$20.38
West - Route 495	9,551,587	-	29.3%	-67,889	-67,889	\$22.97	\$18.83	\$20.03
Framingham/Natick	3,982,181	-	15.2%	-23,715	-23,715	\$28.90	\$20.15	\$25.49
<b>Suburban Total</b>	<b>104,436,910</b>	<b>1,205,184</b>	<b>15.3%</b>	<b>-8,687</b>	<b>-8,687</b>	<b>\$31.53</b>	<b>\$22.02</b>	<b>\$27.12</b>
<b>Market</b>	<b>181,044,430</b>	<b>5,894,259</b>	<b>11.7%</b>	<b>-51,890</b>	<b>-51,890</b>	<b>\$44.85</b>	<b>\$30.64</b>	<b>\$38.47</b>

## COVID-19 & THE ECONOMY

Is an end to the economy's record-long bull run now a reality? The U.S. labor markets ended 2019 with fewer jobs than expected and slower wage growth. While the jobless rate held steady at a 50-year low and nearly 500,000 jobs were added during the first two months of 2020, signs continued to point toward a slowing in the macro economy. Moreover, the upcoming presidential election was giving many in the business community pause. However, expectations for growth in 2020 were still overtly positive until very recently. Unfortunately, a new risk to the global economy surfaced in early 2020. The COVID-19 pandemic continues to work its way through some of the world's largest economies as an exogenous shock to the market that has caused widespread isolation measures, wild swings in the stock markets, supply chain disruptions and untold pressure on numerous healthcare systems across the globe. With travel restrictions and school closures in place, and gatherings of more than 10 people highly discouraged, cracks have formed within the airline, cruise, hospitality, entertainment, restaurant and retail industries. Other sectors will likely feel similar effects in the coming weeks as the true impact of this outbreak unfolds. With conditions evolving day-by-day in some cases, uncertainty continues to lead the market. The full extent of such a downturn won't be known until we're on the other side of it, but many expect the second half of 2020 to be more favorable.

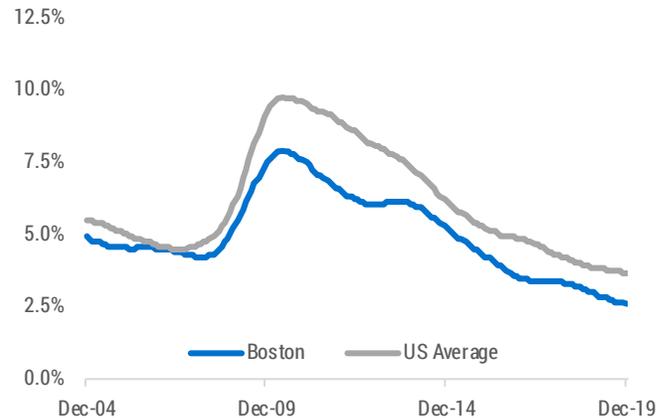
Greater Boston's economy also posted solid gains in early 2020 and business sentiment remained strong through January. That said, conditions are softening and it will take a couple of months for local data sources to reflect this rapid shift. As the outbreak has spread throughout Massachusetts, social distancing measures have ramped up. Most colleges and universities, a key component of the area's business ecosystem, have sent their students home or moved classes online. This leaves a 150,000+ student-sized hole in the metro area's consumer economy (bars, clubs, restaurants, ride shares, etc.). Work-from-home policies implemented across the country have led to a reduction in day-time restaurant patronage (dine-in service is now prohibited in most locales), public transit ridership and daily traffic congestion. Casinos, government buildings, museums, large construction sites, etc. are also closing out of an abundance of caution. Massachusetts-based companies have lost a significant amount of market cap since the beginning of the year as well. While Boston's top-ranked hospital and research institutions could provide some upside to current conditions, it may not be enough to move the needle.

## ECONOMIC OUTLOOK

While both the local and national economies are facing an uncertain near-term outlook, market conditions were among the strongest they have ever been going into 2020. Greater Boston is especially well-positioned to weather the immediate crisis at hand. The metro area's large, diversified and innovative economy will prove vital to the area's long-term growth story. Expectations are for Greater Boston to be among the first markets to rebound from any potential downturn.

## UNEMPLOYMENT RATE

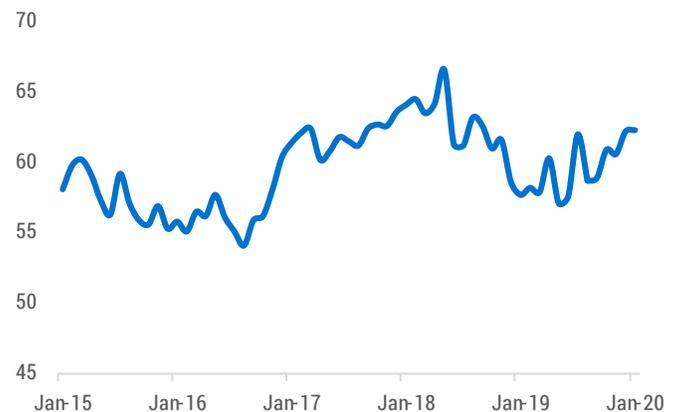
### Total Nonfarm, 12-Month Moving Average



Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua, MA-NH

## EMPLOYER CONFIDENCE

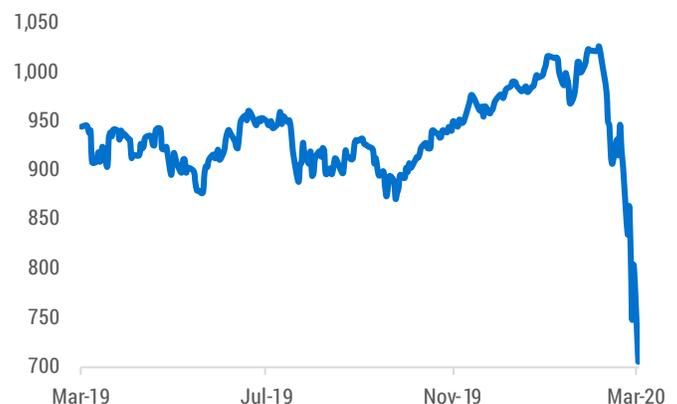
### AIM, Business Confidence Index



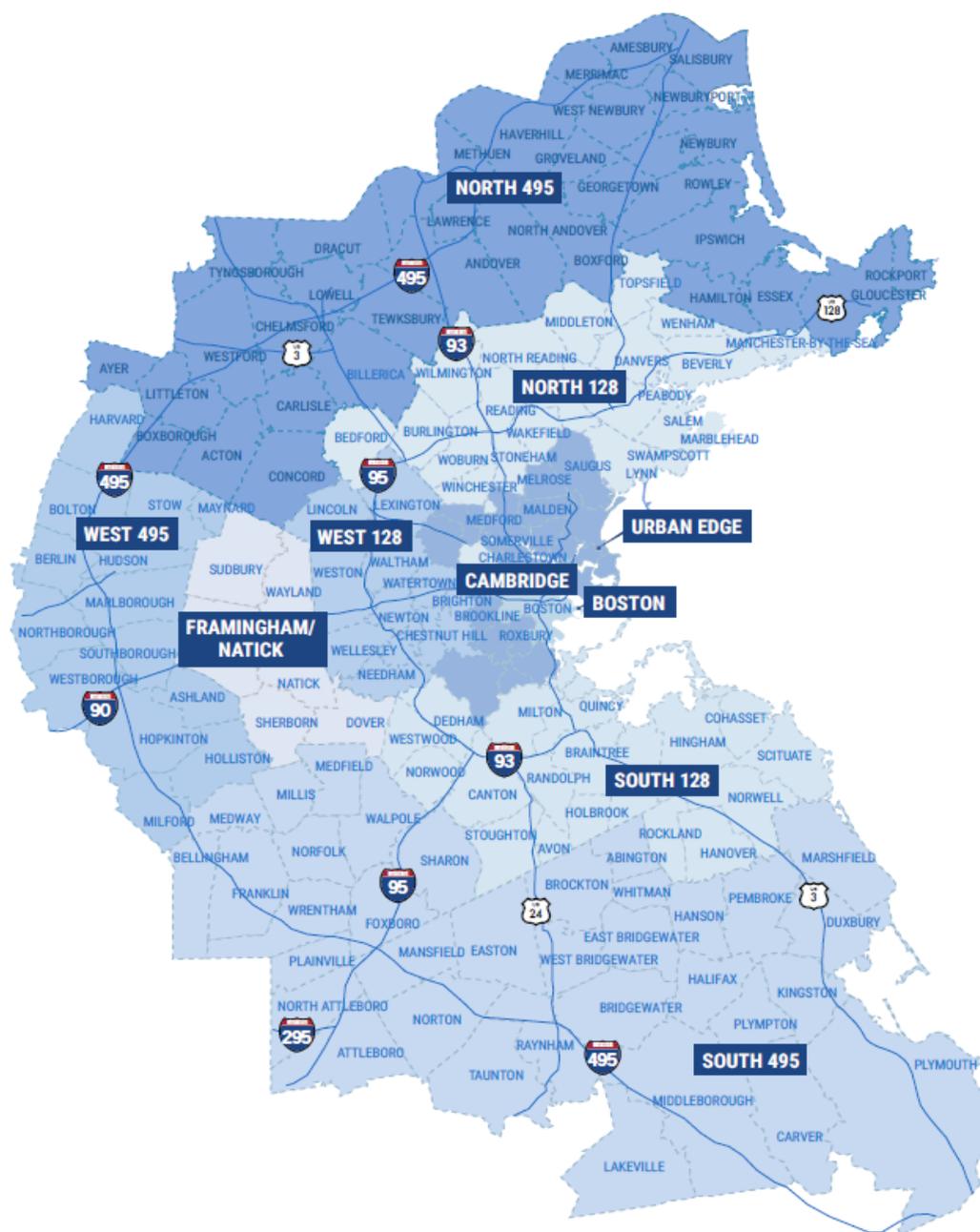
Source: Associated Industries of Massachusetts

## BLOOMBERG MASSACHUSETTS INDEX

### BBMX Quote, Previous 12 Months



Source: Bloomberg, as of 3/18/2020



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