

BOSTON OFFICE MARKET

GLOBAL HEALTH CRISIS WEIGHS ON 2Q PERFORMANCE

At the close of the second quarter, Greater Boston's office market continues to contend with the effects of the COVID-19 pandemic. Widespread layoffs, particularly within the tech sector, have given way to negative net absorption across all markets. As a result, vacancies climbed 50 basis points over the quarter, to 12.2% metrowide. Recent weakening in fundamentals is almost exclusively a result of rising sublease inventory, with the CBD and Cambridge accounting for the lion's share of new space. Leasing velocity slowed to a trickle as in-office business activity essentially shut down during the height of the pandemic and many office users needing to transact have opted for short-term renewals or extensions. Pre-COVID rents appear to be holding due in part to the lack of transactions and an inability to accurately mark-to-market. While construction has resumed throughout the metro, expect delayed development timelines for many projects. Several other key trends have emerged as a result of the outbreak, including the de-densification of office space and a greater interest in the suburbs. Despite these current challenges, Greater Boston's long-run outlook remains decidedly positive.

BOSTON CBD

Following a relatively pedestrian first quarter, the coronavirus outbreak weighed further on market activity in Boston during the second quarter. With roughly 280,000 square feet of negative net absorption reported for the second quarter, CBD vacancies expanded by 40 basis points over the last three months. Mounting sublease inventories, which grew by roughly 41.0% from the first quarter, accounted for the majority of movement in the marketplace. Moreover, consumer-facing tech companies challenged with layoffs contributed 37.0% of this new space. COVID-19 has made transacting difficult as tenants put most business decisions on hold while employees worked from home. Consequently, leasing velocity dropped in the CBD, with volumes down by more than 70.0% compared to the first half of 2019. Renewals and extensions also accounted for more than half of the executed leases so far in 2020 as tenants seek flexibility amidst uncertainty surrounding the pandemic.

CBD landlords have been able to hold asking rents steady despite a recent slack in office fundamentals. Discounts have come in the form of larger tenant improvement allowances and more months of free rent while face rents remain relatively unmoved. This is particularly true in the Class A market, where lease rates ended the second quarter at \$74.62/SF. Asking rents among Class B properties, however, experienced modest declines over the quarter as vacancies increased at an above average rate. Looking ahead, a rent correction is certainly on the horizon, but the depth of the correction remains unclear. Given that the majority of sublease space is concentrated in the Class A market, downside risks prevail in this sector.

CURRENT CONDITIONS

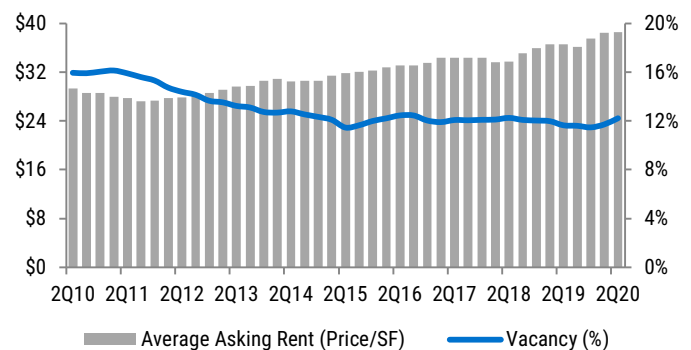
A swift increase in sublease space resulted in negative net absorption of more than 900,000 square feet during the second quarter.

With metrowide vacancies climbing above 12.0% asking rents were effectively flat in the second quarter, at \$38.54/SF.

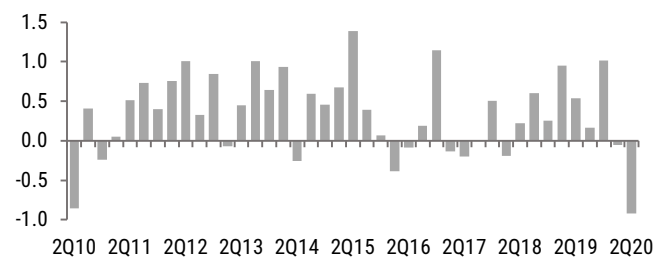
Mid-year leasing velocity is down 66.3% compared to the first half of 2019, and renewals/extensions represented 39.0% of total leasing volumes.

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	181.1 M	181.1 M	↑
Vacancy Rate	12.2%	11.7%	11.7%	↑
Quarterly Net Absorption (SF)	-923,749	-53,134	541,160	↓
Average Asking Rent	\$38.54	\$38.45	\$36.55	↓
Under Construction (SF)	6.1 M	5.9 M	5.9 M	→
Deliveries (SF)	0	163,000	137,702	↑

Return-to-work strategies are top of mind for tenants and landlords alike. Though non-essential businesses are allowed to operate at a reduced capacity, most of the Boston workforce has yet to return in a meaningful way. Moreover, the need for less density in the workplace has many reconsidering hoteling and other open work environments as well as driving some tenants to explore suburban alternatives. On a more positive note, the markets are beginning to loosen as reopening efforts continue and a few larger requirements have materialized in recent months.

CAMBRIDGE

The office sector's performance in the second quarter closely mirrored conditions witnessed across the urban core submarkets. Net absorption in Cambridge ended the quarter in negative territory, allowing vacancies to rise to their highest level in five years. Fallout from the COVID-19 pandemic resulted in a precipitous rise in sublease availabilities here as well. Since the end of March, nearly 500,000 square feet of Cambridge office space has come on line, with Bluebird Bio subleasing roughly 260,000 square feet at 50 Binney Street, and Boeing putting two floors on the market at 314 Main Street. Market wide, sublease space has now surpassed 900,000 square feet or 8.8% of current office inventory. Supply-side fundamentals remain stable with no new deliveries occurring in the second quarter. Construction delays due to COVID-19 may impact delivery projections for the 1.1 million square feet of office space under development in East Cambridge. The lack of construction work over the last few months has also impacted tenant fit outs which, in turn, is likely impeding planned occupancy dates and other tenant movements.

Office leasing abated in the Cambridge markets as well, with very few transactions occurring during the second quarter. MIT's renewal of 108,907 square feet at 600 Technology Square in early April marked one of the only major leases to be executed there. The scarcity of transactional data has limited visibility into office lease rates. That said, the Class A market accounted for the lion's share of new office availabilities while Class B fundamentals remained relatively unchanged in the second quarter. With more Class A inventory on the market, asking rents increased modestly over the quarter. Given the general pullback in activity across the wider market due to COVID-19, landlords will seemingly have a difficult time justifying further increases in asking rents this year.

SUBURBS

Although the suburban office market is not immune to the effects of the pandemic, it may benefit from recent shifts in tenant preferences. Many users have begun reevaluating their workplace needs, with some now valuing less density, proximity to their employee base, access to parking, etc. The number of urban tenants touring the suburbs has increased as a result. Though the hub-and-spoke model has garnered a lot of attention recently, this trend is more speculative than anything. Major healthcare operators represent some of the larger requirements looking for suburban alternatives or back-office space, with a particular focus on the Urban Edge South/South – Route 128 markets. In one of

the biggest suburban stories of the quarter, Tufts Health Plan and Harvard Pilgrim Health Care are looking to consolidate operations following a planned merger. Their sights are set on the former Reebok campus, rebranded The Block, in Canton. IDC also executed a lease for more than 100,000 square feet of former PTC space at 140 Kendrick Street in Needham. The firm plans to relocate from Framingham.

However, recent market fundamentals have wavered in the suburbs. Nearly 500,000 square feet of negative net absorption, across several large blocks of space, was reported during the second quarter. As a result, suburban office vacancies increased by 50 basis points, to 15.8%. Publicis Groupe's acquisition of Epsilon resulted in a large availability at 601 Edgewater in Wakefield. Both TripAdvisor and Toast have put large blocks of space up for sublease this quarter as well. The former is marketing the top two floors at 400 First Avenue in Needham while the latter has listed 74,544 square feet at 401 Park Drive in the Fenway neighborhood. Similar to other markets, pre-COVID pricing appears to be holding in the suburbs and asking rents were essentially flat over the quarter.

CAPITAL MARKETS

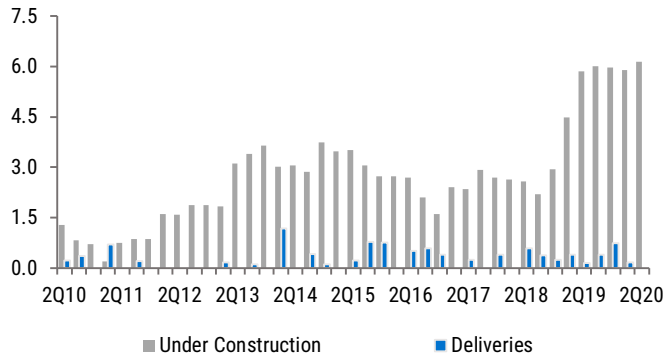
Similar to leasing velocity, investment sales volume declined during the second quarter as market activity slowed in the face of COVID-19. In fact, transaction volume for the Boston metro area fell to \$1.5 billion after having stood above \$2.0 billion for each of the previous four quarters. Pembroke's acquisition of Fidelity's Boston headquarters, at 245 Summer Street, for \$728.5 million or \$806/SF represents the largest transaction of the second quarter. Investors were more active in Boston's suburbs as a handful of assets changed hands recently. Novaya Real Estate Ventures sold 300 Baker Avenue in Concord for \$74.5 million or \$182/SF and Breeds Hill Capital and Greatland Realty Partners purchased The Campus at Marlborough for \$66 million or \$124/SF. Finally, office and lab building, The Post, in Waltham sold to Healthpeak Properties for \$320 million or \$744/SF. Market activity and inquiries have picked up some momentum in recent weeks as the peak of the outbreak appears to have passed. Moreover, distress has yet to emerge here in Boston, as well-capitalized owners have been able to take a wait-and-see approach. However, distressed buyers are raising capital throughout the U.S., waiting for discounted opportunities.

LOOKING FORWARD

Unsurprisingly, second-quarter performance in the Greater Boston office market faltered under the weight of a global health crisis unlike any we have experienced in modern times. As restrictions on the local economy continue to loosen, many furloughed employees will continue to return to work and the markets will thaw. Work-from-home policies, possible de-urbanization, public transit concerns and the potential for a second wave of infections remain top of mind for decision makers. While it's still too soon to gauge the length and depth of this market correction, it will take some time to work through the current challenges. Whether it's a v-shaped or a 'Nike swoosh'-shaped recovery, Greater Boston's long-run growth prospects remain decidedly positive.

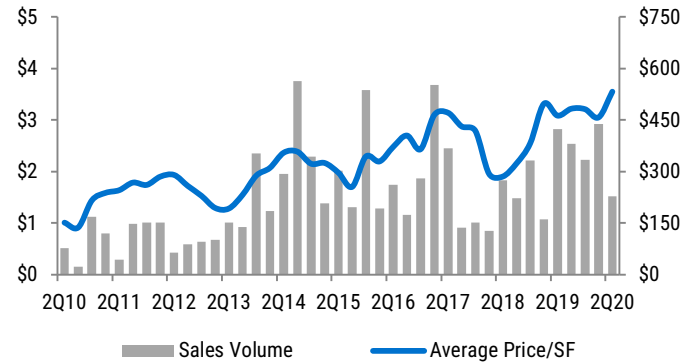
CONSTRUCTION AND DELIVERIES

Square Feet, Millions



OFFICE INVESTMENT

Sales Volume (Billions) and Average Price/SF



SELECT LEASE TRANSACTIONS

Tenant	Building / Address	Submarket	Type	Square Feet
IDC	140 Kendrick Street, Needham	West – Route 128	Direct	114,000
MIT	600 Technology Square, Cambridge	East Cambridge	Renewal	108,907
Datadog	225 Franklin Street, Boston	CBD – Downtown	Expansion	63,220
Affirmed Networks	35 Nagog Park, Acton	North – Route 495	Expansion	62,400
Magellan Health (Senior Whole Health)	1075 Main Street, Waltham	West – Route 128	Direct	40,449
eResearch Technology	1 Cabot Road, Medford	Urban Edge – North	Direct	41,090
SNYK	100 Summer Street, Boston	CBD – Downtown	Sublease	37,384
Jones Day	100 High Street, Boston	CBD – Downtown	Renewal	35,979
Spectro Scientific	1 Executive Drive, Chelmsford	North – Route 495	Extension	35,112
Hitachi Rail	7-57 Wells Avenue, Newton	West – Route 128	Expansion	17,866
Funnel	175 Federal Street, Boston	CBD – Downtown	Direct	16,375
Longfellow Investment Management	125 High Street, Boston	CBD – Downtown	Direct	14,800

SELECT SALE TRANSACTIONS

Building / Address	Submarket	Sale Price	Price/SF	Square Feet
245 Summer Street, Boston	CBD – South Station	\$728,500,000	\$806	904,000
The Post, Waltham	West – Route 128	\$320,000,000	\$744	430,000
27 Drydock Avenue, Boston	CBD – Seaport	\$270,000,000	\$932	289,613
300 Baker Avenue, Concord	North – Route 495	\$74,500,000	\$182	410,296
The Campus at Marlborough, Marlborough	West – Route 495	\$66,000,000	\$124	531,916
3-5 Carlisle Street, Westford	North – Route 495	\$24,500,000	\$149	164,829

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	-	2.7%	-1,092	83,557	\$76.04	\$55.48	\$70.61
Downtown	33,010,386	1,072,420	8.7%	-177,247	-315,968	\$74.31	\$54.99	\$69.20
Government Center	1,509,457	977,249	6.4%	-19,150	9,630	\$65.00	\$64.51	\$64.74
Midtown	2,047,455	-	10.5%	8,712	-21,539	-	\$53.48	\$53.20
North Station	2,395,763	627,000	10.8%	-38,033	-61,600	-	\$54.40	\$54.40
Seaport District	10,797,691	656,721	9.6%	-51,736	-20,977	\$76.79	\$59.55	\$67.37
South Station	2,948,242	233,901	5.7%	-8,314	-14,564	\$57.00	\$55.52	\$53.71
CBD Total	65,986,319	3,567,291	7.6%	-286,860	-341,461	\$74.62	\$56.59	\$67.52
East Cambridge	6,504,093	1,121,784	6.9%	-90,633	-126,071	\$91.29	\$83.51	\$90.36
Mid Cambridge	2,544,891	-	5.7%	-49,404	-11,978	\$79.71	\$71.60	\$70.88
West Cambridge	1,595,217	-	3.7%	1,772	-5,689	\$56.04	\$41.68	\$51.55
Cambridge Total	10,644,201	1,121,784	6.1%	-138,265	-143,738	\$84.63	\$72.91	\$80.72
Urban Edge	13,018,503	833,912	7.0%	-72,836	-103,094	\$39.69	\$36.71	\$38.46
North - Route 128	21,349,296	-	12.5%	-260,439	-185,714	\$32.82	\$23.04	\$28.71
South - Route 128	12,773,468	100,000	16.1%	125,376	10,272	\$30.93	\$23.24	\$28.27
West - Route 128	21,546,581	507,620	14.2%	-205,802	-200,025	\$42.99	\$31.46	\$38.98
North - Route 495	18,896,224	-	21.2%	2,296	114,816	\$23.96	\$18.25	\$21.45
South - Route 495	3,319,070	-	9.4%	-5,135	42,274	\$21.14	\$20.56	\$20.55
West - Route 495	9,551,587	-	29.8%	-48,381	-112,795	\$22.74	\$18.97	\$19.99
Framingham/Natick	3,989,464	-	16.2%	-33,703	-57,418	\$28.80	\$19.67	\$25.74
Suburban Total	104,444,193	1,441,532	15.8%	-498,624	-491,684	\$31.24	\$22.06	\$27.04
Market	181,074,713	6,130,607	12.2%	-923,749	-976,883	\$44.86	\$30.44	\$38.54

COVID-19 & THE ECONOMY

The effects of COVID-19 and the subsequent measures utilized to stem the spread of the virus are still being felt both locally and nationally. After much speculation at the end of the first quarter, the economy's record-long bull run has officially come to an end as the National Bureau of Economic Research quickly confirmed a recession began in February of this year. The U.S. saw unemployment spike to historically high levels while GDP growth, consumer confidence and retail sales fell swiftly. Despite bleak expectations for second-quarter economic growth, the worst is likely in our rearview as reopening efforts continue to advance throughout the U.S. Nationally, recent job numbers surprised to the upside, new unemployment claims have edged lower, retail sales surged in May and multiple high-frequency data sources point to increasing consumer activity. Though there is still much uncertainty surrounding the U.S. economic recovery, most experts agree it will likely take some time to reach pre-crisis levels.

Locally, Massachusetts has logged more than one million new unemployment claims since mid-March and the rate rose to 16.3% in May. Despite adding 58,600 jobs in the same month, Massachusetts was one of just three states to report a higher rate of unemployment compared to April. Across the Commonwealth, total employment declined by 17.0% from its February peak with the leisure and hospitality, retail trade and construction sectors bearing the brunt of these job losses. Healthcare and education, traditional stalwarts of the local economy, have also been contending with the negative impacts of social distancing and stay-at-home advisories. Office-using jobs, while more amenable to work-from-home scenarios, have faced headwinds as well. Consumer-related tech companies, in particular, have been cutting payrolls due to the current pandemic.

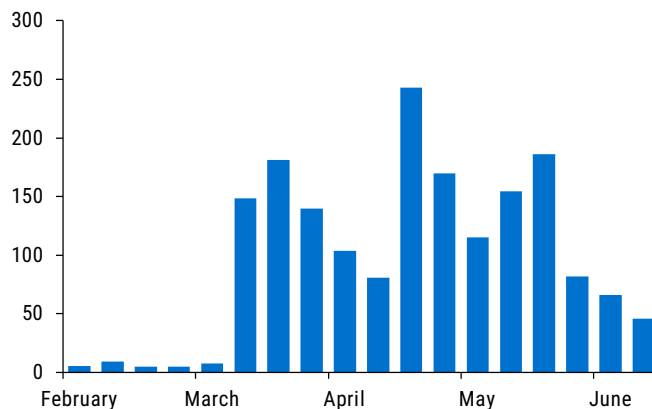
Those aged 25-34 years old, many of whom belong to the Millennial generation, account for the largest share of recent unemployment filings. This is especially true within Boston, where this age cohort represents nearly a third of all claimants as of May. Looking at educational attainment, unemployment applicants with only a high school diploma nearly doubled the next largest tranche: those with some college experience. As service workers – in retail, restaurant, hospitality and the like – continue their return to work, expect to see some relief among this segment of the population.

ECONOMIC OUTLOOK

While both the local and national economies are facing one of the worst economic downturns on record, market conditions are slowly improving. Massachusetts continues to move through its 4-phase reopening plan, with non-essential business, retail, restaurants and other activities allowed to resume with proper precautions. Many local colleges and universities plan to bring students back in some capacity for the fall semester and the resumption of routine and elective medical care should provide a boost to the robust healthcare sector. We're not out of the woods yet, but Greater Boston is 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

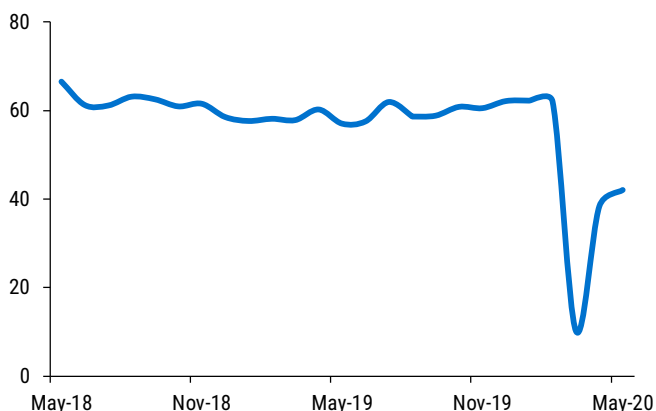
In Thousands (NSA), Includes PUA* Claims



Source: U.S. Department of Labor *Pandemic Unemployment Assistance

EMPLOYER CONFIDENCE

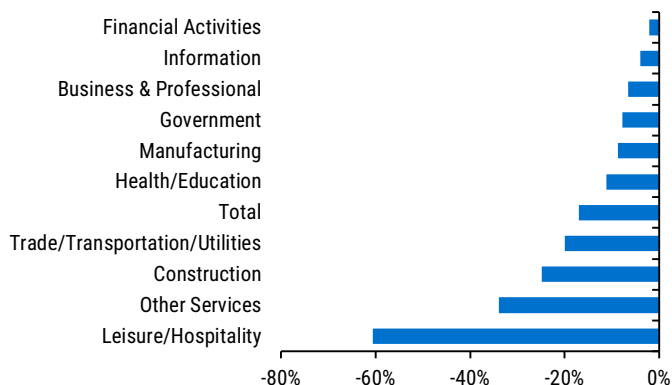
AIM, Business Confidence Index



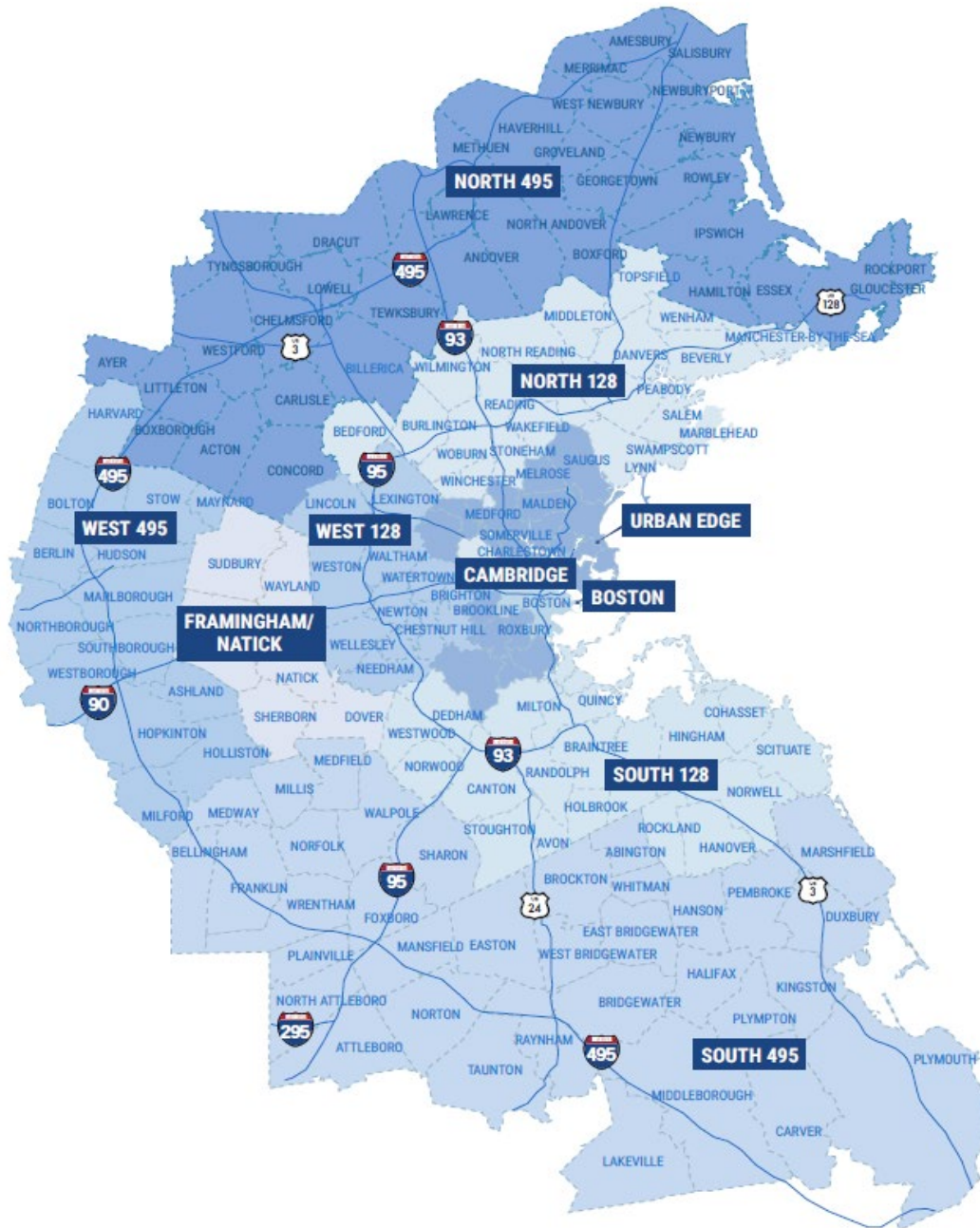
Source: Associated Industries of Massachusetts

MA EMPLOYMENT LOSSES BY INDUSTRY

May 2020, % Change from February (NSA)



Source: U.S. Bureau of Labor Statistics



LIZ BERTHELETTE

Research Director

617.863.8377

elizabeth.berthelette@ngkf.com

MICHAEL MALINCONICO

Senior Research Analyst

617.863.8428

michael.malinconico@ngkf.com

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