

Boston Downtown Office/Lab, Q2 2020

Office leasing on pause in Q2 as life science remains resilient

Office Availability
15.0%

Lab Availability
8.9%

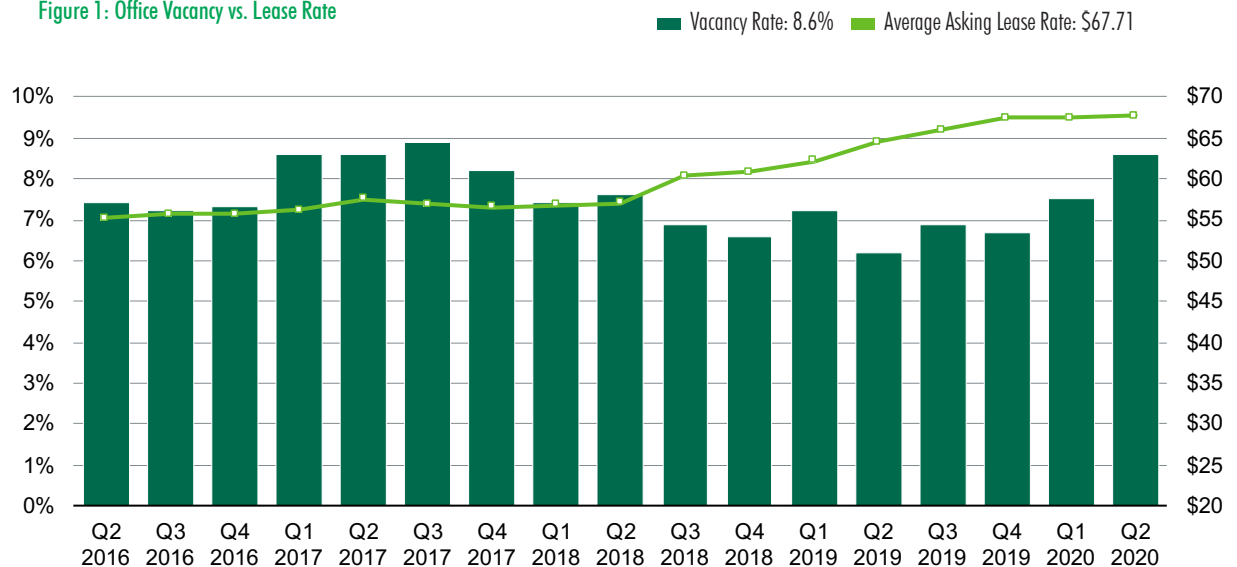
Office Lease Rate (Gross)
\$67.71

Lab Lease Rate (NNN)
\$82.36

Under Construction
5.1 MSF

* Arrows indicate change from previous quarter

Figure 1: Office Vacancy vs. Lease Rate



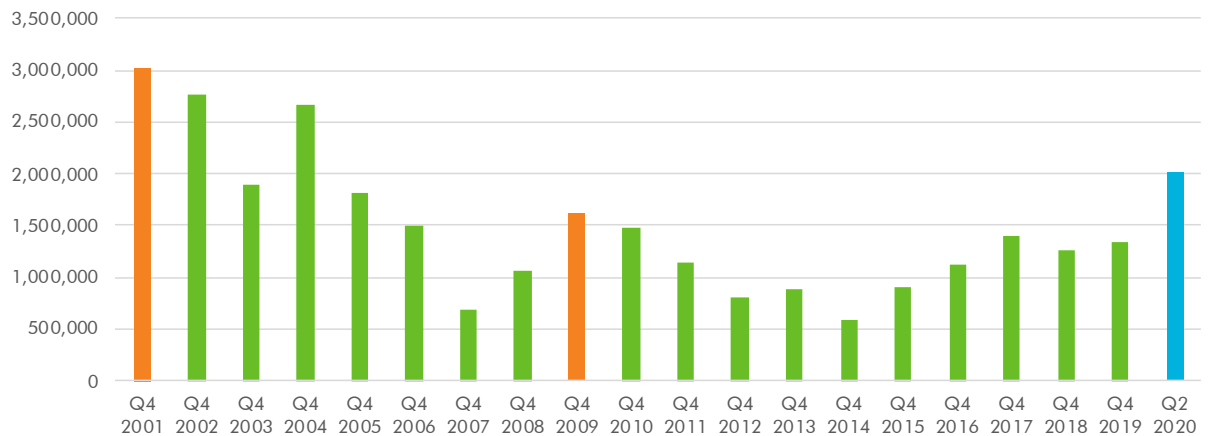
Source: CBRE Research, Q2 2020.

Life and business in Boston came to a halt in mid-March as strict stay-at-home orders went into effect, but the region began a phased re-opening in late May as COVID-19 numbers stabilized. Non-essential employers were allowed to re-open offices at 25% capacity in the city of Boston in early June, and as a result it is anticipated the Boston office market will begin to show gradual signs of normalcy.

Boston recorded the second consecutive quarter of negative growth with almost 930,000 sq. ft. of negative absorption in the second quarter. Availability and vacancy both increased 110 basis points (bps) to 15.0% and 8.6% respectively, largely due to a spike in

sublease space being added throughout the city. In Q2 there was more than 725,000 sq. ft. added to the sublease market, ending the quarter with more than 2.0 million sq. ft. of available sublease space. The 2.0 million sq. ft. of sublease space on the market has surpassed the high in 2010 from the Great Financial Crisis but has not surpassed the all-time high of 3.0 million sq. ft. in 2001. TAMI tenants make up over 50% of the sublandlords that added sublease space in Boston this quarter. Projections are for an increase in sublease availabilities over the next few quarters as companies continue to reassess their office-using needs.

Figure 2: Historical Sublease Available SF



Source: CBRE Research, Q2 2020.

After an unprecedented period of growth over the last decade, the downtown market showed signs of slowing demand earlier this year, but the pace of the slowdown was accelerated by the sudden impact of COVID. The downtown market had been on pause with limited to no tour activity since mid-March, but tenants have begun touring new spaces again in recent weeks. At the end of the second quarter there was 4.1 million sq. ft. of demand in the market (requirements over 20,000 sq. ft.) with 76% of the requirements active, and 24% temporarily paused. In comparison there was 4.9 million sq. ft. of demand at the end of 2019 and 3.4 million sq. ft. three years ago. FIRE companies now make up more of the demand than TAMI companies for the first time in 18-24 months.

The moratorium on construction projects in the city was lifted at the end of May after more than two months. There is currently 5.1 million sq. ft. of new office and life science construction underway, with almost 4 million sq. ft. set to be delivered between 2021 and 2023. At this point projects that were financed and permitted are moving forward while uncertainty continues to surround other projects that were in the planning stages.

The US economy showed a surprisingly strong rebound in employment in May, with a 1.9% increase in total nonfarm employment. However, the Boston employment numbers lagged the national trend, reflecting the region's cautious reopening strategy. The reference period for May's employment report was the week of May 16, which falls short of Massachusetts' phase one reopening, which began in the final week of

May. Boston employment rebounded by 0.7% in May, with a net employment gain of 10,900 jobs, or 3.2% of jobs lost since February. Overall, office-using employment in Boston is down 30,900 jobs since February, a loss of 5%.

Leasing activity continued to be driven predominately by lease expirations and less by growth-driven needs, as many companies take a wait-and-see approach to their real estate needs and focus on re-opening their offices. Asking rents continued their tick upward with overall city rents up slightly to \$67.71 per sq. ft. but it is anticipated that rents will begin softening in the second half of 2020 and into early 2021. Though signs of a return to normal are beginning to show, significant challenges in the Boston office market lie ahead in the next few quarters as companies balance decisions around de-densification in the office and the flexibility of employees working remotely as the workplace continues to evolve.

CBD

- The CBD saw more than 300,000 sq. ft. of sublease space become available in the second quarter and posted more than 480,000 sq. ft. of negative absorption. Sublease availability in the CBD rose to 2.8%, up 40 basis points quarter-over-quarter as more than 30 spaces (all less than 30,000 sq. ft. each) became available.
- Despite the headwinds, Class A rents continued to increase, rising more \$0.40 per sq. ft. to \$78.20 per sq. ft.

- Two law firms completed two of the larger transactions of the quarter. Jones Day executed a 37,000 sq. ft. renewal at 100 High Street and Eckert Seamans Cherin & Mellot renewed 25,000 sq. ft. at Two International Place. DataDog also expanded and extended at 225 Franklin Street in 63,000 sq. ft.
- Augustech and FitBit both subleased 20,000 sq. ft. at 99 High Street and 101 Federal Street, respectively.
- Fidelity Investments acquired 245 Summer Street, the 891, 000 sq. ft. building they have occupied as their headquarters location since 2012, from Benderson Development for \$782.5 million (\$816 per sq. ft.)

BACK BAY

- After growing more than 11% in the last two years, asking rents in the Back Bay declined in the second quarter, falling below the \$70 mark to \$69.59 per sq. ft. Class A rents also declined to \$75.82 per sq. ft., a 3% decline quarter-over-quarter.
- Vacancy rose 100 basis points to 4.5% and sublease availability increased by 120 basis points to 2.3%. Limited leasing activity was offset by several sublease availabilities added to the market, including those by Wayfair and MFS.
- Lincoln Institute of Land Policy signed the largest lease of the quarter, subleasing 19,000 sq. ft. at 116 Huntington Avenue.

SEAPORT

- The Seaport had 89,000 sq. ft. of negative absorption in the first quarter with availability and vacancy both increasing to 14.0% and 11.0% respectively as limited demand for office space continued into the second quarter.
- While overall asking rents declined nominally in the second quarter to \$67.93 per sq. ft., Class A rents increased slightly to \$77.33 per sq. ft.

- Seyfarth Shaw completed the largest transaction of the quarter, relocating and consolidating into 66,000 sq. ft. at 2 Seaport Lane.

OUTLOOK

Virology, not the business cycle, has dictated the course of the world's economy this year. COVID-19 forced a nationwide shutdown of most economic activity in March, with the largest economic centers, especially the Northeast and Pacific coast, facing the strictest lockdowns. The economic fallout proved severe, pushing U.S. unemployment to over 15% and causing the economy to contract by more than 30% per annum in the second quarter.

These morbid economic conditions inspired many governors to ease lockdowns, especially in Sunbelt states where the case count was less severe than in more densely populated regions. These re-openings have energized activity. Several high-frequency indicators, such as hotel occupancies, restaurant traffic and hours worked, suggest the US economy bottomed in April and has been trending slightly upward since. This has renewed demand for labor as many hard-hit sectors, such as hospitality and healthcare, began to bring back furloughed workers in May.

On the downside, COVID-19 is ramping up in states that were quick to reopen. In Texas and Florida the 7-day moving average of daily new cases has hit fresh highs approaching 2,000. Local political commentary suggests authorities in these states have little appetite to re-impose stricter lockdowns. Although a significant uptick in cases that pummels consumer confidence is a risk, it is quite plausible that a mild escalation of COVID-19 can coincide with pent-up consumer demand that restrains economic losses this year to a fall in GDP of just over 6%.

Figure 3: Office Transactions of Note

| Tenant | Address | Sq. Ft. | Submarket | Type |
|----------------------------------|-------------------------|---------|-----------|------------------------|
| Seyfarth Shaw | 2 Seaport Lane | 66,000 | Seaport | Relocation/Contraction |
| DataDog | 225 Franklin Street | 63,000 | CBD | Expansion/Extended |
| Jones Day | 100 High Street | 37,000 | CBD | Renewal |
| Eckert Seamans Cherin & Mellott | Two International Place | 25,000 | CBD | Renewal |
| Augustech | 99 High Street | 20,000 | CBD | Sublease |
| FitBit | 101 Federal Street | 20,000 | CBD | Sublease |
| Lincoln Institute of Land Policy | 116 Huntington Avenue | 19,000 | Back Bay | Sublease |
| Funnel | 175 Federal Street | 16,000 | CBD | New |

Source: CBRE Research, Q2 2020.

Figure 4: Office Market Statistics

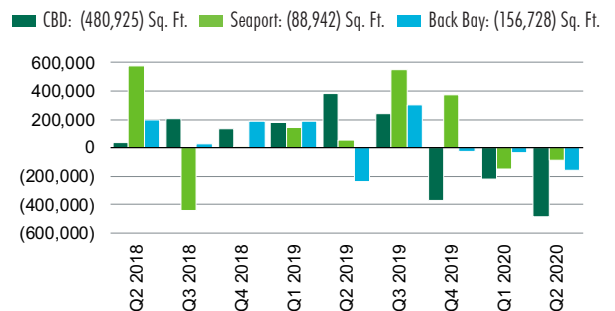
| Boston Office | Bldgs | Total Sq. Ft. | Available (%) | Vacant (%) | Sublease (%) | Quarter Net Absorption | YTD Net Absorption | Avg Asking Rent \$ (Gross) |
|------------------------------|------------|-------------------|---------------|------------|--------------|------------------------|--------------------|----------------------------|
| Central Business District | 183 | 38,741,689 | 18.1 | 8.4 | 2.8 | (480,925) | (695,926) | 74.35 |
| Class A | 45 | 29,068,453 | 19.5 | 7.7 | 2.8 | (339,409) | (491,012) | 78.20 |
| Class B/C | 138 | 9,673,236 | 13.7 | 10.2 | 2.6 | (141,516) | (204,914) | 60.99 |
| Back Bay | 75 | 15,008,985 | 7.9 | 4.5 | 2.3 | (156,728) | (194,004) | 69.59 |
| Class A | 21 | 10,192,552 | 6.2 | 3.3 | 2.6 | (78,569) | 50,564 | 75.82 |
| Class B/C | 54 | 4,816,433 | 11.5 | 7.0 | 1.7 | (78,159) | (244,568) | 60.41 |
| Seaport | 68 | 12,510,019 | 14.2 | 11.0 | 2.0 | (88,942) | (191,009) | 67.93 |
| Class A | 14 | 6,021,421 | 14.9 | 10.2 | 2.1 | (16,393) | (99,594) | 77.33 |
| Class B/C | 54 | 6,488,598 | 13.6 | 11.8 | 2.0 | (72,549) | (91,415) | 65.54 |
| Fenway/Kenmore Square | 22 | 2,388,567 | 15.2 | 4.5 | 4.1 | (74,544) | 7,889 | 63.00 |
| Class A | 3 | 1,149,979 | 28.2 | 6.1 | 8.0 | (74,544) | 14,814 | - |
| Class B/C | 19 | 1,238,588 | 3.1 | 3.1 | 0.6 | 0 | (6,925) | 63.00 |
| North Station/Waterfront | 39 | 3,381,813 | 10.0 | 9.1 | 3.0 | (77,033) | 72,145 | 59.39 |
| Class A | 2 | 998,000 | 8.0 | 5.7 | 5.7 | (56,611) | 53,474 | 95.00 |
| Class B/C | 37 | 2,383,813 | 10.8 | 10.5 | 1.8 | (20,422) | 18,671 | 53.91 |
| Mid-Town | 26 | 2,479,445 | 6.7 | 5.7 | 0.9 | (10,416) | 73,482 | 38.74 |
| South Station | 22 | 1,332,259 | 8.5 | 6.1 | 0.8 | (6,808) | (22,234) | 58.86 |
| Charlestown/East Boston | 19 | 2,208,655 | 12.9 | 9.9 | 2.7 | (30,231) | (105,231) | 58.86 |
| Dorchester/South Boston | 24 | 3,170,253 | 36.7 | 29.2 | 0.5 | (3,864) | 11,136 | 55.22 |
| Allston/Brighton/Longwood | 22 | 1,901,281 | 1.9 | 1.9 | 1.0 | 0 | (10,805) | 38.60 |
| Overall Boston Office | 500 | 83,122,966 | 15.0 | 8.6 | 2.4 | (929,491) | (1,054,557) | 67.71 |

Source: CBRE Research, Q2 2020.

OFFICE NET ABSORPTION

The downtown Boston market recorded the second consecutive quarter of negative growth in more than three years with almost 930,000 sq. ft. of negative absorption in the second quarter. Office demand was driven primarily by lease expirations or small to mid-size sublease requirements.

Figure 5: Net Absorption

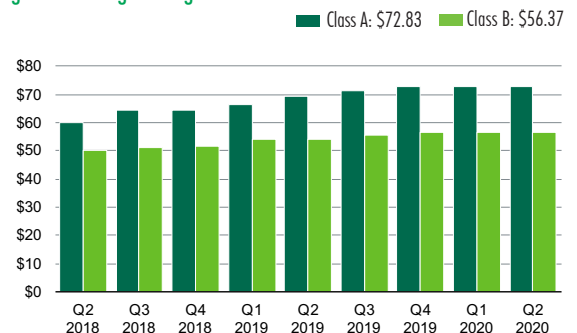


Source: CBRE Research, Q2 2020.

OFFICE AVERAGE ASKING RENTS

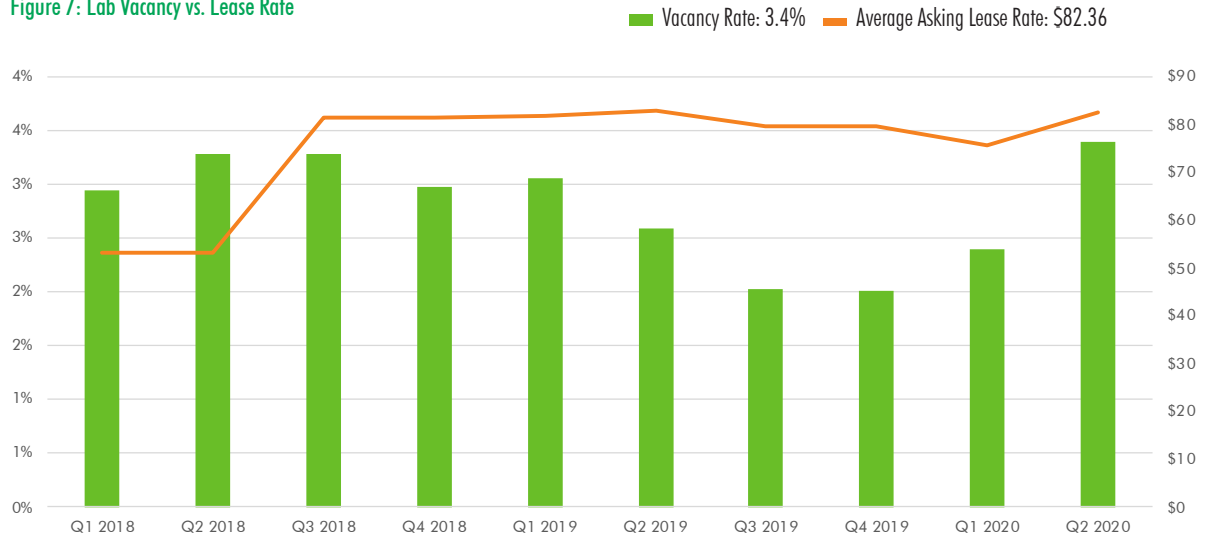
Rents in the Boston office market continued to grow in Q2 2020, reaching \$67.71 per sq. ft. With rents only at \$62.24 per sq. ft. at this time last year, year-over-year rent growth was almost 8%. Despite the increase in rents in the second quarter, the expectation is that rents will begin to soften in the third quarter.

Figure 6: Average Asking Lease Rates



Source: CBRE Research, Q2 2020.

Figure 7: Lab Vacancy vs. Lease Rate



Source: CBRE Research, Q2 2020.

LAB MARKET

The Boston life science industry remains as robust as ever as the COVID-19 pandemic continues to disrupt the world. Boston's role as a driving force in the life sciences industry has placed the city at the center of the global fight against COVID-19 as almost 50 firms in the metro region are working to design, develop and test treatments, therapies and drugs that will mitigate the health effects and stem the transmission of the coronavirus.

In the second quarter the Downtown Boston lab market recorded almost 78,000 sq. ft. of positive absorption and asking rents grew by about 8% quarter-over-quarter to \$82.36 NNN. Despite the strong demand, availability rose to 8.9% as the base of inventory in Boston continued to grow. In the second quarter, two office properties were acquired by a life science subsidiary of Hong Kong-based Nan Fung Group earlier this year, 51 Sleeper Street and One Winthrop Square, and both are in the process of being converted to lab.

The Seaport posted 99,000 sq. ft. growth as it continues to emerge as a top life science submarket in the U.S., with rents climbing to \$81.64 per sq. ft. NNN. Five years ago, there were only a couple of life science companies that called the Seaport home, but today there are more than 30 that occupy over 2.0 million sq.

ft. of lab space. The clustering effect seen in early stage biotechs in the Seaport is driven by a desire to recruit top talent in a highly competitive labor market—being located among their peers is an important aspect of successful talent attraction and retention.

The largest transaction in the second quarter was completed by Vertex Pharmaceuticals, the original Seaport pioneer for life sciences, after their 2014 relocation to the submarket. Vertex continued to expand their footprint, leasing 65,000 sq. ft. at Cargo

Venture's One Harbor Street. Inozyme Pharma leased 6,000 sq. ft. at 451 D Street and a growing Seaport tenant committed to 20,000 sq. ft. at 645 Summer Street. This company relocated out of 50 Northern Avenue as Vertex Pharmaceuticals shuttered their incubator space, allowing for expansion opportunities internally.

Demand for lab space remains strong with 19 companies looking for more than 550,000 sq. ft. of space in downtown, with average requirements in the 20,000 - 40,000 sq. ft. range. New companies are currently driving the demand, as many more established companies have hit pause since the economic recession took hold in March.

The development pipeline for the downtown Boston lab market remains robust with just over 1.5 million sq. ft. currently under construction, and 61% of the space already pre-leased. 1.2 million sq. ft. is under construction in the Seaport with another 560,000 sq. ft. set to proceed at Tishman Speyer's 266,000 sq. ft. development at 105 West First Street, and 15 Necco, the 293,000 sq. ft. site recently acquired by Alexandria. Rather than planning for ground-up development

which normally takes 24-30 months to deliver, several owners are looking at converting existing brick and beam structures in the Seaport to lab to diversify their portfolios as the office market begins to soften. Many of the new companies driving the current demand are not in need of purpose-built lab, but instead retrofitted space that can be delivered in 9-12 months to accommodate their immediate growth needs.

Figure 8: Lab Transactions of Note

| Tenant | Address | Sq. Ft. | Submarket | Type |
|------------------------|-------------------|---------|-----------|------|
| Vertex Pharmaceuticals | One Harbor Street | 65,000 | Seaport | New |
| Inozyme Pharma | 451 D Street | 6,000 | Seaport | New |

Source: CBRE Research, Q2 2020.

Figure 9: Lab Market Statistics

| Boston Lab | Bldgs | Total Sq. Ft. | Available (%) | Vacant (%) | Sublease (%) | Quarter Net Absorption | YTD Net Absorption | Avg Asking Rent \$ (NNN) |
|---------------------------|-----------|------------------|---------------|------------|--------------|------------------------|--------------------|--------------------------|
| Back Bay | 1 | 65,000 | 0.0 | 0.0 | 0.0 | 0 | 0 | - |
| Seaport | 9 | 2,423,139 | 11.5 | 10.1 | 0.0 | 98,691 | 311,515 | 81.64 |
| Fenway/Kenmore Square | 2 | 485,600 | 36.9 | 0.0 | 0.0 | 0 | 0 | 82.00 |
| North Station/Waterfront | 2 | 579,090 | 0.0 | 0.0 | 0.0 | 0 | 0 | - |
| Charlestown/East Boston | 4 | 876,775 | 6.2 | 0.0 | 0.0 | 0 | 0 | 55.00 |
| Dorchester/South Boston | 6 | 1,028,462 | 20.4 | 0.0 | 0.0 | 0 | 0 | 88.00 |
| Allston/Brighton/Longwood | 8 | 2,745,993 | 0.0 | 0.0 | 0.0 | 0 | 0 | - |
| Others | 3 | 472,223 | 10.2 | 10.2 | 0.0 | (20,802) | (20,802) | - |
| Overall Boston Lab | 35 | 8,676,282 | 8.9 | 3.4 | 0.0 | 77,889 | 290,713 | 82.36 |

Source: CBRE Research, Q2 2020.

Definitions

AVERAGE ASKING LEASE RATE

Rate determined by multiplying the asking gross lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

GROSS LEASES

Includes all lease types whereby the tenant pays an agreed rent plus estimated average monthly costs of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

MARKET COVERAGE

Includes all competitive buildings in CBRE's survey set.

NET ABSORPTION

The change in occupied sq. ft. from one period to the next, as measured by available sq. ft.

NET RENTABLE AREA

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas.

OCCUPIED AREA (SQ. FT.)

Building area not considered vacant.

UNDER CONSTRUCTION

Buildings that have begun construction as evidenced by site excavation or foundation work.

AVAILABLE AREA (SQ. FT.)

Available building area that is either physically vacant or occupied.

AVAILABILITY RATE

Available sq. ft. divided by the net rentable area.

VACANT AREA (SQ. FT.)

Existing building area that is physically vacant or immediately available.

VACANCY RATE

Vacant building feet divided by the net rentable area.

NORMALIZATION

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and vacancy figures for those buildings have been adjusted in previous quarters.



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