Strong signals of a downtown recovery evident in Q3

▼ 18.4%
Office Availability

▼ 11.1%
Office Vacancy

▲ $68.83
Office Lease Rate (Gross)

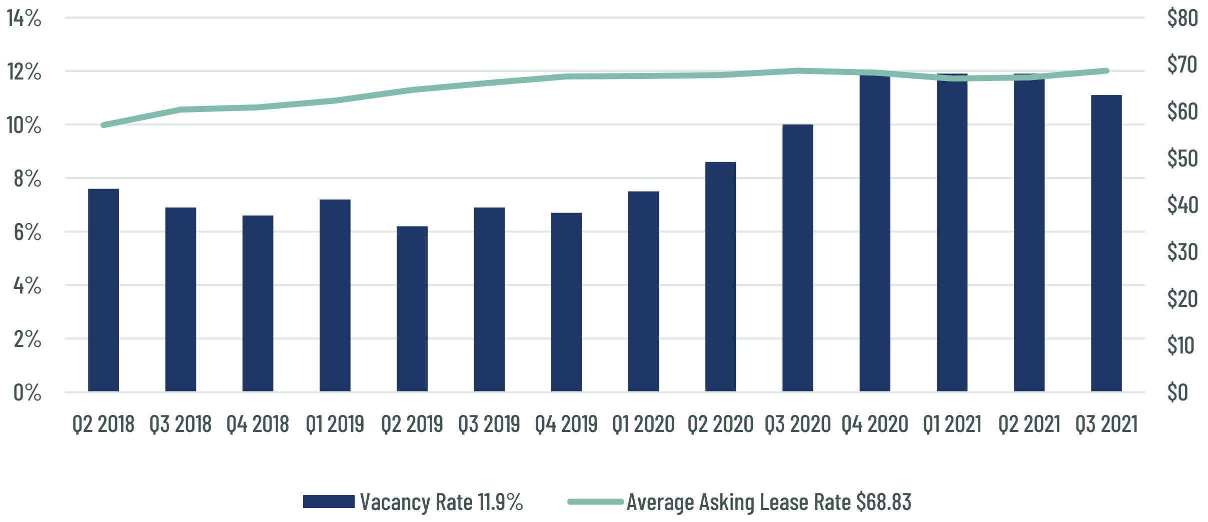
▼ 5,603,605
Under Construction SF

Note: Arrows indicate change from previous quarter.

While a sense of optimism and vibrancy returned to the streets of downtown Boston over the summer months, the arrival of the Delta variant has temporarily paused that enthusiasm as many companies again delayed their return to the office. The city of Boston lifted all COVID-related restrictions on May 29th but reimposed indoor mask mandates on August 20th to combat the latest Covid surge. Despite this, the downtown office market experienced the strongest quarter since the pandemic began, showing signs that a return to normalcy is on the horizon. The daily occupancy rate of office towers in the city — which had declined to 4-5% in mid-December — ticked upward to about 10-12% at the end of March and held steady at about 15-18% through August. Traffic coming in and out of Boston has returned to its regular level with well-distributed congestion throughout the day, perhaps due to work from home flexibility. Public transit usage has returned to about 45-50% of its pre-pandemic level and Logan International Airport has rebounded to about 70% of its pre-pandemic level.

The Boston office market recorded the first quarter of growth since the end of 2019 with 364,000 sq. ft. of positive absorption. While big deal transactions remain muted, activity in the sublease market is as strong as it has been since the pandemic began. Overall availability decreased to 18.4% and vacancy declined to 11.1% in the third quarter of 2021.

FIGURE 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q3 2021

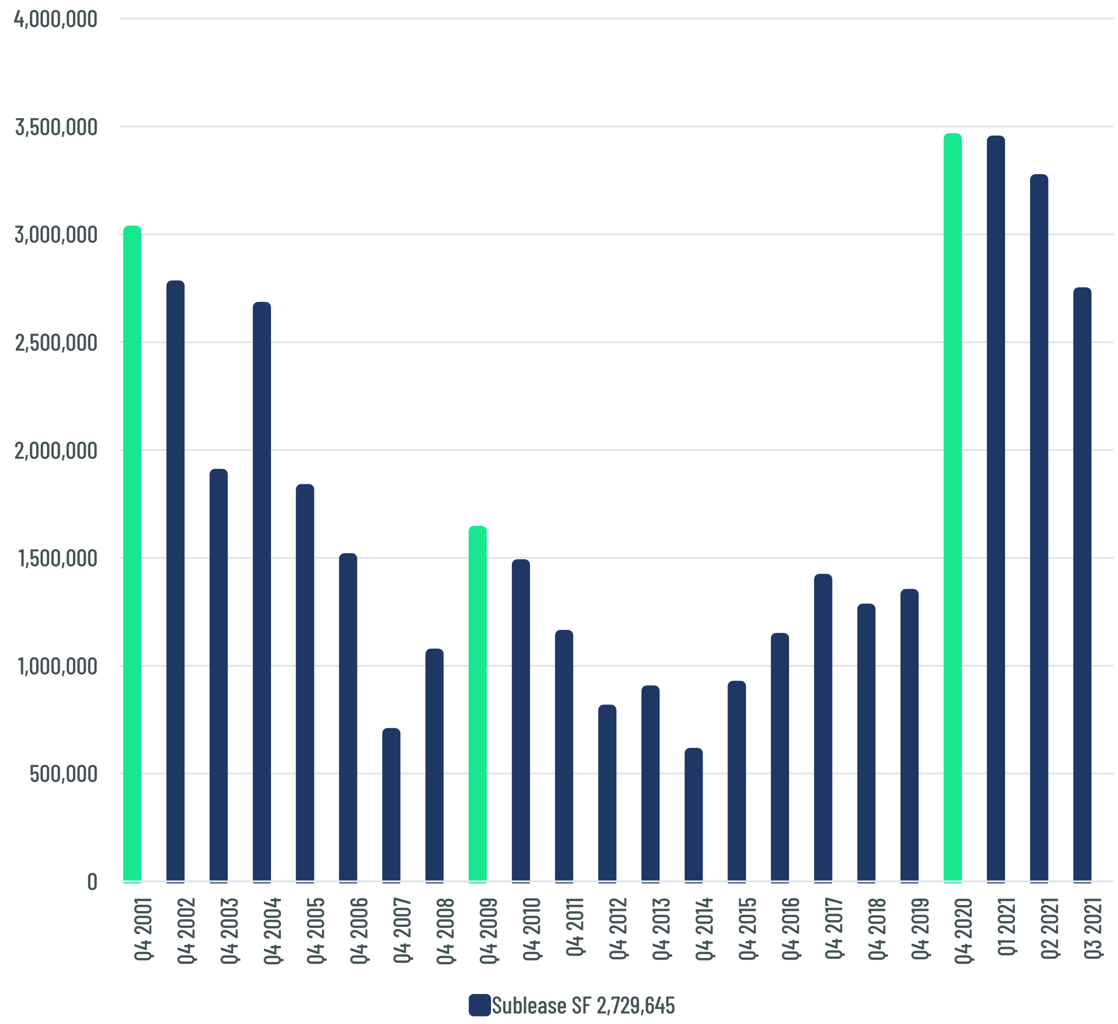
The amount of sublease space on the market downtown declined significantly in the third quarter to 2.7 million sq. ft. Sublease availability has declined by more than 700,000 sq. ft. since the end of Q1 2021, with the majority happening in the third quarter. Almost 420,000 sq. ft. of available sublease space was leased and an additional 330,000 sq. ft. was withdrawn by tenants with plans to reoccupy for their own use during the third quarter. About 320,000 sq. ft. was added to the sublease market; the quarter ended with a sublease availability rate of 3.3%, a decline of 80 basis points (bps) since the beginning of 2021.

Demand levels continue to be steady, holding at 3.7 million sq. ft. of tenants in the market for the second straight quarter, up more than 500,000 sq. ft. since earlier this year (note: these are requirements of more than 20,000 sq. ft.), with 89% active and 11% temporarily paused. The number of requirements “on hold” decreased by 3 percentage points quarter-over-quarter, a sign that many companies continue to re-engage in discussions regarding their future workplace despite the impact of the delta variant. At the end of the second quarter about 1.0 million sq. ft. of the active demand had committed but not yet formally signed a lease, signaling a healthy third quarter. As many of those commitments turned final in Q3, about 385,000 sq. ft. of committed demand remains as the fourth quarter begins. As more tenants have transacted, the demand profile of new tenants actively seeking space has shifted slightly with 50% of the current demand coming from firms in the FIRE (financial services, insurance and real estate) and TAMI (technology, advertising, media and information) sectors; Business Services accounted for about 12.5% of the requirements.

Asking rents downtown have continued to surpass any forecasted declines and ended the quarter up $1.30 per sq. ft. from pre-pandemic levels at $68.83 per sq. ft. gross. Expected declines in asking rents have yet to come to fruition as any reductions in the past 18 months have been nominal with minimal repricing on a direct basis. While rents have held steady, concession packages continue to become more lucrative and competitive.

Construction activity has increased as WS Development broke ground on One Boston Wharf Road, Amazon’s 630,000 sq. ft. second location in the Seaport. Boston Global Investors is also likely to break ground before year-end on 10 World Trade Center in the Seaport, a 600,000 sq. ft. building which will be comprised of 200,000 sq. ft. of office and 255,000 sq. ft. of lab space as well as community space. Boston Properties delivered The Hub on Causeway Phase II in Q3, a

FIGURE 2: Historical Sublease Available SF



Source: CBRE Research, Q3 2021

632,000 sq. ft. office building adjacent to TD Garden in North Station. At the end of Q3 5.6 million sq. ft. of new office space is under construction with 50% of that space pre-leased. The construction at One Congress Street, One Post Office Square and Winthrop Center is continuing at a brisk pace as these buildings compete for large tenants.

Central Business District

- While the CBD saw 14 new sublease spaces totaling 224,000 sq. ft. become available in the third quarter, the sublease availability rate declined by 60 bps to 3.2% quarter-over-quarter. The sublease market saw a high volume of activity in the third quarter as tenants sought short-term and high-value opportunities, with almost 170,00 sq. ft. of leases signed.
- After seven consecutive quarters of negative absorption, the CBD rebounded with 87,000 sq. ft. of positive absorption in Q3.
- Class A rents continued to hold steady quarter-over-quarter at $76.33 per sq. ft., and overall asking rents declined by $0.60 to $73.08 per sq. ft.
- The most notable transaction of the quarter was Wellington Management extending and expanding their lease at Atlantic Wharf (280 Congress Street), signing the second-largest office lease in the city since the pandemic began. Wellington will occupy and grow their Boston headquarters location into 524,000 sq. ft. at 280 Congress Street, leaving behind their secondary location at 100 Federal Street.
- Other notable transactions of the quarter included ezCater leasing 50,200 sq. ft. at 40 Water Street, Avangrid subleasing 38,000 sq. ft. at 125 High Street and at 100 Summer Street, Invensene and Lightmatter each sublet about 20,000 sq. ft.

Back Bay

- Asking rents in the Back Bay increased in the third quarter to $70.16 per sq. ft. Class A rents increased sharply by $4.35 per sq. ft. gross to $73.34 per sq. ft., closing the gap on the decline during the last 18 months to about 6%.
- Vacancy declined 40 bps to 8.1% while sublease availability declined by 80 bps to 2.6% as more than 100,000 sq. ft. of subleases were signed during Q3.

FIGURE 3: Transactions of Note

Tenant/Investor	Address	Sq. Ft.	Submarket	Type
Wellington Management	280 Congress Street	524,000	CBD	Renewal/Expansion
ezCater	40 Water Street	50,200	CBD	New
CBT Architects	1 Constitution Wharf	40,000	Charlestown	Sublease
Avangrid	125 High Street	39,000	CBD	Sublease
Embark Veterinary	320 Summer Street	38,000	Seaport	Sublease
Validity	100 Summer Street	26,000	CBD	New
Invensense	100 Summer Street	20,000	CBD	New

Source: CBRE Research, Q3 2021

– Perch signed the biggest lease in the Back Bay in the third quarter, subleasing 19,500 sq. ft. at 222 Berkeley Street. Nexthink subleased 15,000 sq. ft. at 501 Boylston Street and UG2 subleased 15,000 sq. ft. at 2 Copley Place.

Seaport

– The Seaport recorded 103,000 sq. ft. of positive absorption in the third quarter with availability and vacancy both decreasing by 50 bps to 14.1% and 10.4%.

– Sublease availability declined 60 bps to 4.3%, as 81,000 sq. ft. of sublease space was leased in the third quarter.

– Overall asking rents increased by almost $1.08 per sq. ft. in the second quarter to $62.69 per sq. ft. Class A rents also increased to $74.98 per sq. ft.

– Embark Veterinary signed the largest lease of the quarter, subleasing 38,000 sq. ft. from LogMeIn at 320 Summer Street. Two other notable transactions occurred at 27-43 Wormwood Street with ZERTO and PA Consulting each leasing about 18,000 sq. ft.

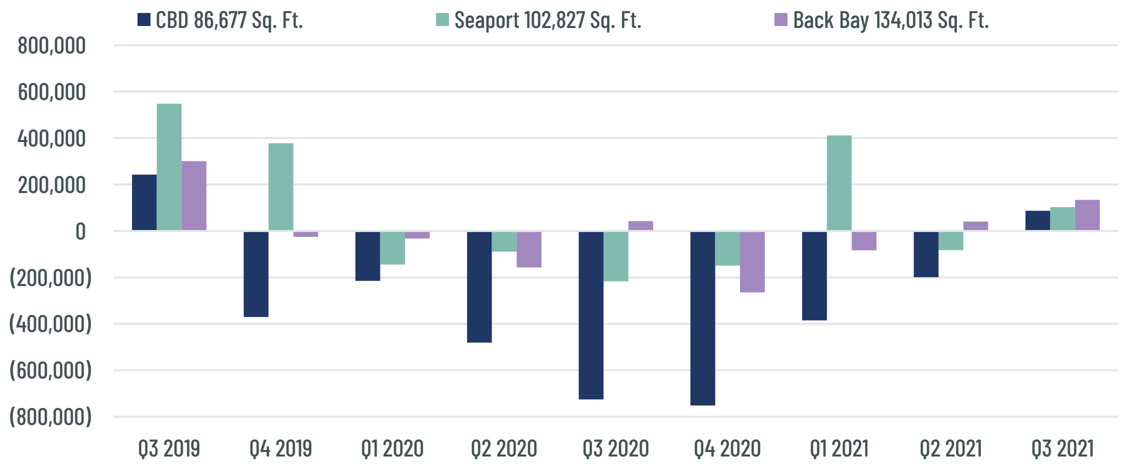
Net Absorption

The downtown Boston market recorded the first quarter of growth since the pandemic began with 367,000 sq. ft. of positive absorption in the third quarter. Notable signs of optimism were seen in office activity; however, demand continued to be driven primarily by lease expirations or small-to mid-sized sublease requirements..

Average Asking Rents

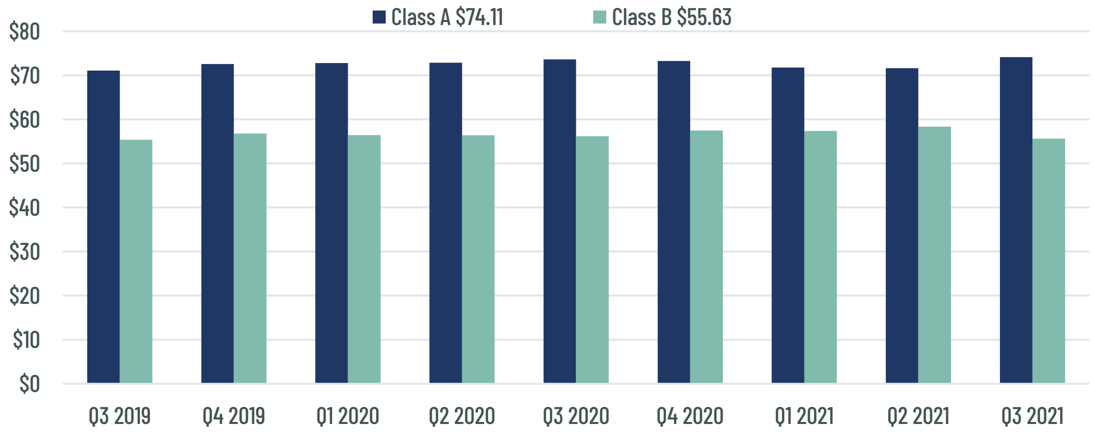
Rents in the Boston office market increased slightly in Q2 2021, to $67.18 per sq. ft., $0.30 per sq. ft. lower than the start of the pandemic in Q1 2020.

FIGURE 4: Net Absorption



Source: CBRE Research, Q3 2021

FIGURE 5: Average Asking Leasing Rate (Gross)



Source: CBRE Research, Q3 2021

Economic Outlook

The summer of 2021 began with a surge, only to ease back as the Delta variant forced many consumers to rethink their holidays and restaurant visits. Consequently, we pared back our GDP growth outlook for this year by an entire percentage point, to 6%, followed by nearly 4% year-on-year growth in 2022. The labor market has also been volatile, primarily due to a reversal in hiring within the Accommodation & Food Services sector, reflecting uncertainty in the space. But demand for labor remains high and most signals suggest the key problem firms face is finding workers. Thus, employment employing growth should remain above 3% through 2022. Longer-term hiring in the U.S. will be restrained by a shrinking labor force.

Shortages are not just limited to people. Key economic inputs ranging from raw materials to microchips pushed consumer prices up by 5% year-on-year. Some supply bottlenecks have proven transitory and annual price increases are stalling. Inflation should ultimately settle into the low-2% range next year. The Fed is responding to these labor market and price developments by announcing it might begin tapering its quantitative easing program as soon as this November.

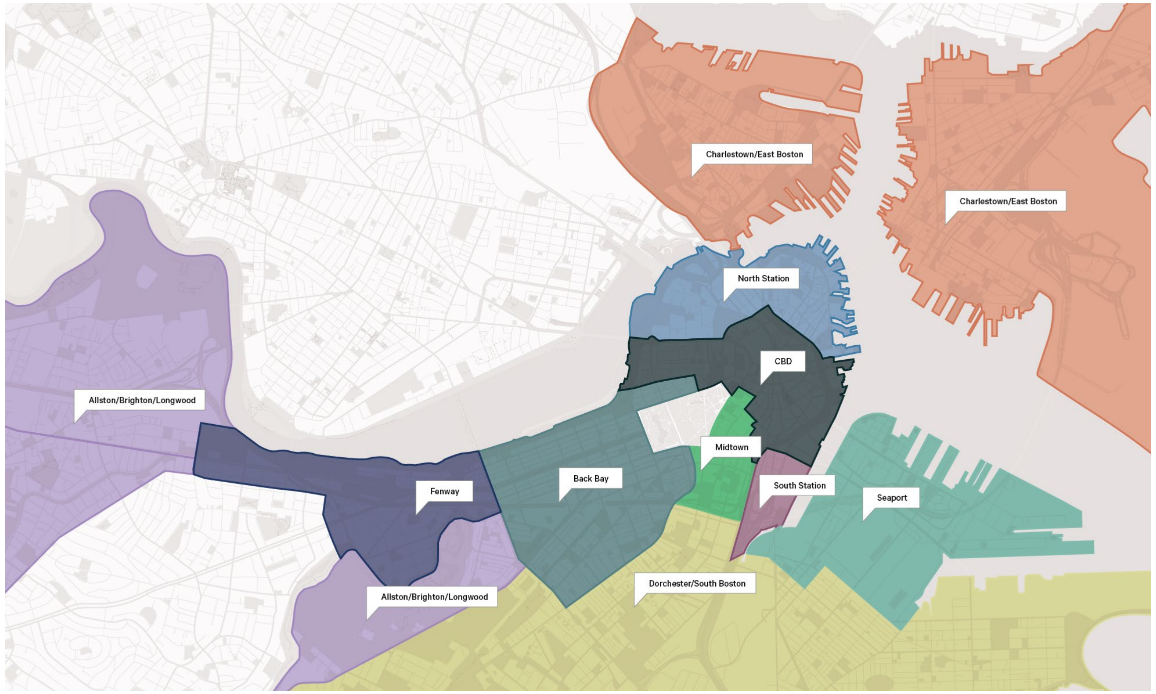
A plausible outlook is that waves of COVID-19 continue but the U.S. economy and health system learn to manage these disruptions. This will allow room for 5% GDP growth in 2022, as business investment and consumer activity normalize. Upside risks include the prospect of greater infrastructure spending, albeit the political dynamics are fluid. Also, the construction of more housing units to correct a historic shortage—estimated at 3.8 million units, per FreddieMac—would also be material tailwind for growth.

Figure 4: Office Market Statistics

Boston Office	Bldgs	Total SqFt	Available (%)	Vacant (%)	Sublease (%)	Quarter Absorption	YTD Absorption	Avg Asking Rent $ (Gross)
Central Business District	**186**	**39,609,070**	**24.6**	**13.1**	**3.2**	**86,677**	**(497,345)**	**73.08**
Class A	46	29,817,953	26.0	11.4	3.2	(9,520)	(482,763)	76.33
Class B/C	140	9,791,117	20.1	18.0	3.1	96,197	(14,582)	57.60
Back Bay	**75**	**15,245,229**	**9.9**	**8.1**	**2.6**	**134,013**	**91,192**	**70.16**
Class A	23	11,081,481	9.7	7.8	3.1	138,646	109,618	73.34
Class B/C	52	4,163,748	10.5	8.7	1.5	(4,633)	(18,426)	60.29
Seaport	**68**	**12,326,019**	**14.1**	**10.4**	**4.3**	**102,827**	**431,318**	**62.69**
Class A	14	6,108,421	8.6	4.8	3.0	(31,927)	562,405	74.98
Class B/C	54	6,217,598	19.5	15.9	5.6	134,754	(131,087)	58.37
Fenway/Kenmore Square	**22**	**2,230,497**	**3.2**	**0.8**	**0.8**	**0**	**293,664**	**85.00**
Class A	4	1,108,379	6.4	1.5	1.5	0	286,739	85.00
Class B/C	18	1,122,118	0.0	0.0	0.0	0	6,925	—
North Station/Waterfront	**39**	**3,381,813**	**15.4**	**11.8**	**3.8**	**(27,447)**	**2,771**	**64.07**
Class A	2	998,000	12.7	9.3	9.3	(10,648)	(6,838)	90.00
Class B/C	37	2,383,813	16.5	12.9	1.5	(16,799)	9,609	55.36
Mid-Town	**26**	**2,479,445**	**14.2**	**7.7**	**2.4**	**2**	**(98,312)**	**38.59**
South Station	**22**	**1,332,259**	**13.8**	**13.3**	**0.0**	**11,363**	**(12,660)**	**57.98**
Charlestown/East Boston	**18**	**1,908,655**	**28.3**	**25.8**	**13.9**	**(58,675)**	**(69,631)**	**48.32**
Dorchester/South Boston	**22**	**2,545,151**	**23.2**	**7.1**	**1.7**	**49,996**	**24,413**	**52.11**
Allston/Brighton/Longwood	**22**	**1,901,281**	**3.7**	**2.7**	**0.8**	**65,060**	**29,278**	**-**
Overall Boston Office	**500**	**82,959,419**	**18.4**	**11.1**	**3.3**	**363,816**	**194,688**	**68.83**

Source: CBRE Research, Q3 2021

Market Area Overview



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.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.

Survey Criteria

Includes all competitive buildings in CBRE's survey set for the Downtown Boston Office Market.

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