

# INVESTMENT FORECAST

Office  
Boston

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## Stock Expansion Outpacing Demand Growth; Investment Sentiment Buoyed by Life Sciences Boom

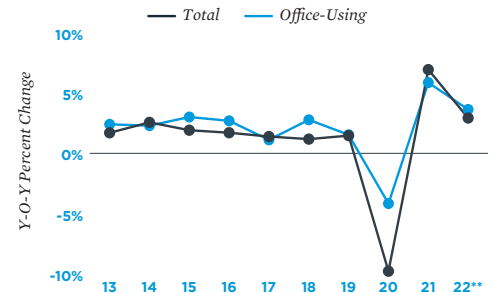
**Ample supply growth weighs on upward-trending office fundamentals.** Boston's construction pipeline remains formidable for a second straight year. After 2021's delivery schedule surpassed previous highs, developers are projected to set a post-financial crisis record this year. With many tenants still subletting space as they grapple with recalling employees to the office, builders run the risk of diluting a recovering market with new supply. The metro boasts one of the nation's most prodigious office construction pipelines, with nearly 12 million square feet of space currently underway. This substantial amount of space will leave availability ending 2022 at an eight-year high. Though demand for space varies by industry, leasing activity is most robust in Boston's growing life sciences sector, leading builders to outbid developers of other property types for valuable real estate in the metro's urban core. However, new completions catering to other office-using segments may report elevated vacancy in the near term. Further recovery may be challenged as the spread of COVID-19 variants may convince some employers to delay returns to the office or extend hybrid work policies utilizing less floorspace.

**Investors follow tenant trends to the suburbs.** As pandemic conditions improved and investors anticipated economic recovery, transaction activity recovered to 2019 levels last year. Middlesex County remains the most popular portion of the market for office trades, accounting for over 45 percent of total deal flow in 2021 and comprising the most transactions across office classes. The area's large selection of amenity-rich office stock stands to benefit from the nationwide flight-to-quality, in addition to offering investors a lower entry cost than nearby Suffolk County. Properties in Middlesex sold on average for \$40 per square foot less than assets in Boston proper. Class A deals to the north and west of Boston that contain lab space are also in high demand, reflecting investors' confidence in the evolution of the local biotechnology sector.

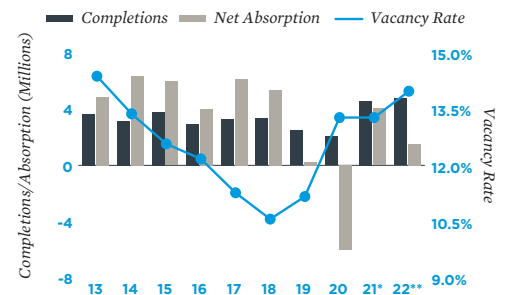
## 2022 Market Forecast

- Employment**  
up 2.9%  
Metro employers are projected to add 80,000 positions through this year, 30,000 of which are in office-using sectors.
- Construction**  
4,750,000 sq. ft.  
As demand for office space continues to recover, developers will surpass last year's construction pipeline by around 200,000 square feet, expanding metro inventory by 1.3 percent.
- Vacancy**  
up 70 bps  
Despite solid employment performance, vacancy is projected to rise 70 basis points as this year's substantial delivery volume overshoots short-term demand.
- Rent**  
down 1.7%  
The metro's mean asking rent declines to \$28.75 per square foot as operators discount rent while vacancy remains above its long-term average.
- Investment**  
Buyers priced out of amenity-rich properties in the core may head west. Those seeking higher yields may target Class C listings in Concord or Worcester.

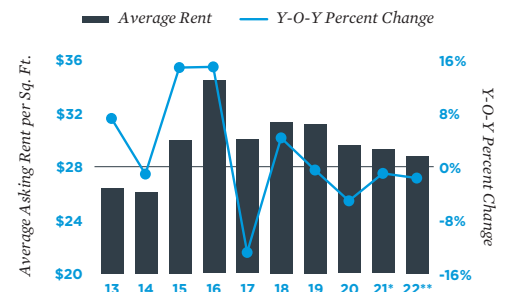
### Employment Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.