

MARKET REPORT

Office
Boston Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

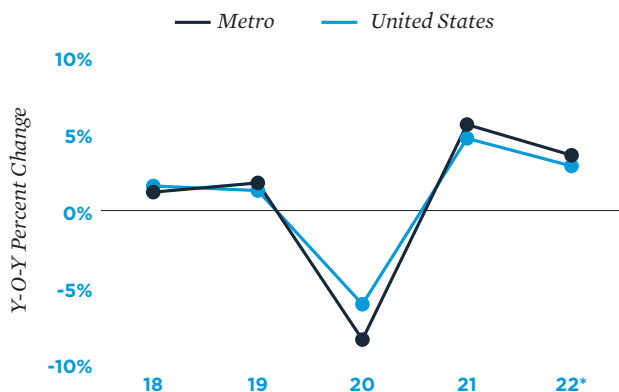
2Q/22

Biotech Leasing Drives High Absorption; Office-to-Lab Conversions Accelerate

Skilled labor base draws innovative firms. Boston's status as a biotechnology hub has bolstered office leasing in the last four quarters, supporting a 12-month net absorption total approaching 8 million square feet entering April. Robust absorption will continue this year, with Moderna, Sanofi and ElevateBio, the three largest sector leases undertaken in 2022, committed to a combined 1 million square feet. The metro's highly-educated population is also driving tech-related leasing, highlighted by 100,000-plus-square-foot commitments from Google and IBM. Additionally, internet auto wholesaler CarGurus is slated to occupy a new 225,000-square-foot headquarters in Cambridge, doubling the company's current metro footprint.

Flourishing life sciences ecosystem warrants rapid expansion. Pre-leasing rates on the metro's construction pipeline exceeded 60 percent metrowide as of May, though high demand for properties catering to biotechnology initiatives is resulting in category leases coming off the market much more rapidly than traditional spaces. With both Boston and Cambridge reporting single-digit vacancy rates for suitable lab space entering the second quarter, smaller firms seeking leases are increasingly driven to suburban opportunities. Developers are targeting traditional office assets for candidates to be retrofitted into laboratories, benefiting remaining properties as supply in this segment is removed from the market. However, a total of 15 million square feet of office space is underway, indicating that the current rapid pace of completions will extend into 2023.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**100,000
JOBS**
will be created

EMPLOYMENT:

Another year of employment recovery should bring the metro within 8,000 jobs of the pre-pandemic level. Owing to a nexus of high-skill industries, nearly one-third of this year's job gains stem from traditionally office-using positions.



**7,100,000
SQ. FT.**
will be completed

CONSTRUCTION:

Deliveries nearly double last year's pace, translating to supply growth of 1.9 percent, a multidecade record. The energetic pace of development supports the second-highest completions total among major U.S. markets during 2022.



**30
BASIS POINT**
decrease in vacancy

VACANCY:

Despite prodigious construction activity, demand for office space exceeds incoming supply additions. A year-end net absorption total exceeding 7.4 million square feet will support vacancy falling to 12.6 percent.

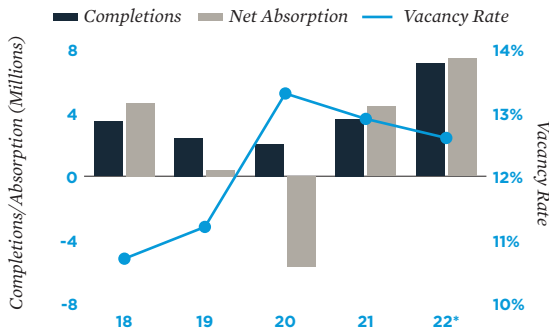


**4.2%
DECREASE**
in asking rent

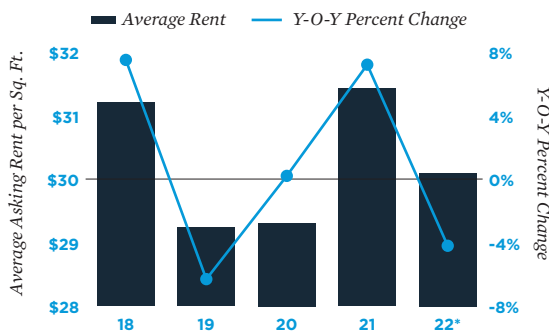
RENT:

An increase in concessions usage resulted in a 9 percent drop in average asking rent during the first quarter. Declining vacancy should support some recovery in this metric, bringing the mean market rate back to \$30.10 per square foot this year.

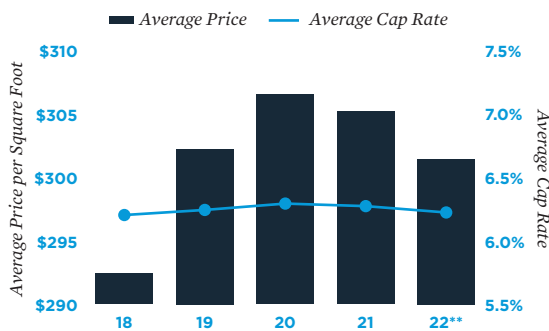
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

5,524,000 sq. ft. completed

- Developers achieved a three-month completion record during the first quarter of 2022, as 2.2 million square feet of space came online.
- Projects finalized in the six-month period ended in March accounted for nearly 75 percent of completions during the yearlong span, with deliveries concentrated in Cambridge and Boston proper.



VACANCY

90 basis point decrease in vacancy Y-O-Y

- Metro vacancy ended March at 12.8 percent, supported by the largest year-over-year decline in availability among major northeastern markets.
- Boston led the nation in net absorption during the first quarter of 2022. During the three-month span, tenants absorbed more than 2.3 million square feet of space, lowering vacancy by 10 basis points



RENT

2.9% decrease in the average asking rent Y-O-Y

- Entering April at \$28.59 per square foot on average, a high amount of Class A space available suggests concessions usage is behind the decline in rents.
- Class A rents took the brunt of the decline, with the average marketed rate in this tier falling 4.9 percent to \$33.91 per square foot in the last 12 months. This occurred in tandem with a 100-basis-point vacancy drop.

Investment Highlights

- Robust office absorption and the strength of Boston's biotech sector is drawing office investors back to the market, translating to a 12-month record for transaction velocity over the yearlong span ended in March. A continued decline in pricing and flattening cap rates among deals observed in 2021 can be attributed to a greater proportion of Class B/C assets changing hands, as many investors pursue properties with renovation and retenanting potential.
- The percentage of institutional capital in the market has rapidly increased as the metro has emerged from pandemic investment nadirs. During the recent yearlong span, REITs were the buying party in around 20 percent of the transactions, but were the seller in less than 1 percent. The potential extension of this trend moving forward may drive private equity firms with less purchasing power farther from the core, or incentivize the execution of innovative value-add strategies on lower-tier assets.
- Developers seeking to transform older buildings into dedicated lab space are targeting both office and industrial properties around the metro. These builders typically prioritize 20th century assets with larger floor plates, due to the lower cost of conversion.