



CELEBRATING
63 YEARS

nerej

Boston and the Great Pandemic recovery – communication with clients is most important - by Webster Collins

July 31, 2020 - Spotlights

Webster Collins

The article I wrote in January 2020 featured the Five Pillars of Boston's commercial real estate market.

The #1 pillar was talent.

In the past 40 years, there have been three sharp, sudden jolts to the Boston economy:

- The 1980s inflation bubble with 20% interest rates
- The 2008 CMBS financial crash
- The 2020 recession brought about by COVID-19 pandemic

Among all cities in the United States, I would expect Boston to be the #1 city coming out the pandemic recession. Our survival and recovery path is strong. Clearly, the #1 reason is talent.

What Life Science Has Done for Boston

Boston's life science industry is at the forefront of the challenge to develop a COVID-19 vaccine. CBRE Research reports that 48 life science firms in the Boston area are involved in work related to COVID-19.

Over \$227 million in venture capital has been provided to five firms. A further \$3.4 billion in capital has been committed to three major firms targeted to being investment in life science.

Since March 2020, 530,000 s/f of space has been leased in the life science market.

CBRE has identified 3.7 million s/f of space requirements for the Boston market. In addition, 19 tenants are looking to develop 1.4 million s/f of biomanufacturing space along Rtes.128 and 495.

While space demands have increased, employment demand in the life science field has been impacted with 1,500 positions having been removed. The key point is that the Boston/Cambridge life science market has adapted to change due to the pandemic.

Trends in the City of Boston Office Market

With work from home, Zoom and remote communication, office space demand has declined. We are closely monitoring the amount of sublease space as a market indicator.

Since the start of 2020, the City of Boston has seen 1,054,557 s/f of sublease availability come to market, the equivalent of one year of normal growth in the office market.

60% of the subleases currently available are set to expire by 2023. 20% are set to expire between 2023 and 2027.

The sublease office market strategy should not be a surprise. Non-essential office space has been closed for most of Q2 2020. But in Cambridge, rents have remained flat at \$80.70 per s/f. As demand for office space slows, rents are expected to decline in the coming quarters.

Trends in the Suburban Office Market

The suburban Boston office market ended Q2 with 2.7 million s/f of sublease space. The suburban market has responded to this availability with continued steady demand. A sizable portion of the leasing in the second quarter transacted on available sublease spaces rents are being discounted within sublease space and the market is taking that space first.

The impact on the suburban market has been nominal; the increase in suburban vacancy rates is less than ½ of 1%.

Trends in the Industrial Market

The Greater Boston industrial market has had an extremely strong Q2 2020 with 1.2 million s/f of positive absorption and very little sublease space was added to the market. Amazon.com continued their expansion in the Greater Boston market leasing 1.2 million s/f during the second quarter.

While office and lab space has received the most attention, a little-known fact is that in terms of size, the industrial market at 268 million s/f is larger than the office and lab markets which total 241 million s/f. The industrial market vacancy rate, at 5.3%, is less than half of office and lab vacancy. With 0.6% sublease availability, the pressure seen in the office and lab markets is virtually non-existent for industrial space.

Conclusion

The “new normal” is the term used to describe our current condition. While the life science market sets the pace, a profound impact will occur in the office market. Work at home preference is a trend; how long this trend will continue is unknown.

The business world is built around a corporate partnership culture. In my particular case,

face-to-face meetings are critically important. The challenge is to keep teamwork and culture together so that #1 cities like Boston can continue to grow and thrive during this time of disruption. Continuous communication with clients is now even more important than ever before.

Webster Collins, MAI, CRE, FRICS is an executive vice president in the valuation and advisory services group of CBRE, Boston, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540