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BREAKING NEWS

Boston Properties Bullish on Swift Real Estate Rebound Amid Vaccine Progress

One of the Largest US Office Landlords Marks Strongest Leasing Quarters Since Pandemic

Boston Properties is on track to complete the next 632,000-square-foot phase of its Hub office development in Boston this year. (CoStar)

By Katie Burke
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After closing out a year of tumultuous uncertainty, one of the nation's largest office landlords is prepared to estimate when it expects to mark its full recovery.

Commercial developer Boston Properties said it is betting its business across the country will not only be back to normal within two years, but will be on its way to growing faster than ever as vaccination hopes and a new political direction in Washington, D.C., fuel an economic recovery.

"Over the next 24 months, Boston Properties will likely enjoy one of its most significant and predictable improvements in economic conditions and leasing activity as we witness the end of the COVID-19 pandemic," CEO Owen Thomas said on a call with investors. "As infection rates drop, the economy will reopen and people will return to the office, and we expect a strong recovery as it does."

Boston Properties describes itself as the nation's largest publicly traded office owner. It has a stake in more than 195 properties across the country, encompassing more than 51 million square feet and raking in nearly $2.6 billion in annual revenue last year.

Thomas' optimistic remarks are among the first from a major office landlord to provide a clear forecast for its financial recovery, even as uncertainty about the pandemic and vaccine rollout roils other decision-makers in the industry.

Across the country, office space is still largely vacant as workers remain at home and companies rethink their commercial footprints. Most major cities are reporting less than 20% physical occupancy for their total office space, according to CoStar data, and office demand is expected to fizzle for the foreseeable future. The U.S. office sector posted about 75 million square feet of negative net absorption throughout the course of last year, with more work space across the country going empty than being filled.

However, Boston Properties executives said they now believe the worst of the pandemic may be in the rearview mirror as vaccine distribution increases. As of Wednesday, more than 82.5 million Americans had been vaccinated as efforts to inoculate the majority of the population accelerated amid the emergence of new virus variants and an increasing death toll.

"We are shifting from COVID, COVID, COVID as the obstacle to activity to vaccine, vaccine, vaccine as the signal to rejuvenate tenant conversations about bringing staff back to the office and starting the leasing transaction process," said the landlord's president, Doug Linde, adding that he expects the first half of 2021 to be quiet and that the latter part of the year could be defined by a discernible pickup in leasing, parking revenue and retail sales.

Boston Properties said it is on track to deliver about 1 million square feet of space across three soon-to-be-completed projects that are collectively 95% preleased. It expects to begin $800 million worth of new developments and redevelopments before the end of 2021, a majority of which is planned to be concentrated in the life science and biotech sectors.

All told, the developer has seven projects under development or redevelopment that are expected to add about 3.7 million square feet of space, about 88% of which has been preleased. That's already funded and worth about $2.2 billion in total investment.

Restart Demand

The development plans are a bullish strategy for the company, which is still facing a steep drop in leasing activity compared to its pre-pandemic growth.

The Boston-based real estate giant signed 1.2 million square feet of new leases and renewals in the fourth quarter last year, the strongest leasing quarters it had since the onset of the coronavirus pandemic in early 2020. The company said it signed 942,000 square feet in the second quarter and an additional 810,000 square feet of leases in the third quarter.

All told, the company signed 3.7 million square feet of new leases and expansions throughout the year, headlined by deals with carmaker Volkswagen America, tech giant Microsoft and financial services firm Columbia Threadneedle Investments.

Still, Boston Properties has a ways to go before it returns to pre-pandemic levels of leasing. To compare, it signed 7.6 million square feet of leases in full-year 2019, 1.7 million square feet of which was signed in the last quarter.

"Leasing volumes were way off their historical pace, and with the significant sublet space added to the market, we saw negative absorption and increased availability everywhere," Linde said.

He added that activity is relatively healthy at its properties in Boston, Northern Virginia and Midtown Manhattan, but those in Silicon Valley, Washington, D.C., and downtown San Francisco continue to struggle amid depressed demand.

"When we talk about California, it's important to recognize that the state has been strongly discouraging tenants from asking employees to go to their offices for the last 11 months," Linde said. "The uncertainty level and lack of pedestrian activity on the street planes, particularly in the [downtown] San Francisco area, has been more severe than anywhere else in our portfolio. That has affected tenants' appetites from making any decision."

Between 2017 and 2019, for example, tech companies signed an average 14 leases larger than 100,000 square feet each year. In 2020, there were none.

Even so, Boston Properties said emerging demand in the life science sector and a flurry of activity in the Silicon Valley area will underscore a slow but steady recovery.

"The COVID-19 pandemic continues to create a very challenging environment for many sectors in the US economy and commercial real estate," Thomas said. "However, the end of the pandemic is approaching, and we're confident Boston Properties will emerge with strength and momentum given our portfolio quality, income stability, growth potential and access to capital."

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