CoStar™

# Boston Properties Tries to Leverage Return-to-Work Trends To Boost Leasing

One of Nation's Largest Office Landlords Says Bet on Premier Space Pays Off

Boston Properties, one of the nation's largest office landlords, recently completed construction on the 476,000-square-foot office development at 2100 Pennsylvania Avenue in Washington, D.C. (Boston Properties)

**By Katie Burke**
**CoStar News**

August 2, 2023 | 2:13 P.M.

The workplace may still look far different from before the pandemic, but one of the nation's largest landlords says a growing number of companies are bringing more employees back to the office in a sign of further leasing momentum.

Boston Properties, which calls itself the largest publicly traded U.S. developer and office owner, said leasing across its portfolio has climbed as a range of employers walk back remote-work policies, mandate more in-office days and use office attendance as a metric for employee performance.

The Boston-based developer reported about 940,000 square feet of leases across its properties in the second quarter, a significant boost from the roughly 660,000 square feet leased in the first three months of the year. It attributed the increase to higher office attendance rates and the developer's renewed focus on top-tier properties, a bright spot in the national market as tenants look for higher-quality spaces to use as leverage in their push to get employees back to the office.

"More employers are bringing their workers back to the office," Boston Properties CEO Owen Thomas said on the developer's call with investors to discuss its most recent earnings. "Some have more prescriptive office attendance policies, and there's a workforce bifurcation that's creating a bigger gap in the office market between companies looking for modern workspaces rich with amenities and those that aren't as commonly located in premier workplace assets."

About 95% of the developer's portfolio includes properties classified as "premier workplaces," Thomas said, an emphasis that "has been and will be critical for our long-term success."

The landlord has spent the past couple of years battling what Thomas described as "strong negative market sentiment" in the national office market as companies have adopted flexible-work policies, higher interest rates batter acquisition activity and the ability to finance new projects, and an unprecedented amount of sublease space hits the market across the United States.

As tenants continue to evaluate how much space they use and need, they've offloaded more than 40 million square feet since the beginning of the year, according to CoStar data. That's pushed the national vacancy rate to more than 13% as the total amount of occupied space has fallen to its lowest level since 2017.

Even so, Boston Properties still expects it can lease more than 3 million square feet of space throughout 2023. By comparison, the developer leased 5.8 million square feet through all of 2022.

## 'Not What It Was'

While leasing activity is beginning to regain steam lost to the pandemic, the number of new deals and amount of space taken is nowhere near what it was prior to 2020.

"We believe we're in an office recession and there's no massive acceleration in leasing activity," Boston Properties President Doug Linde said. "The tech demand, particularly on the West Coast, has really not started to materialize. That used to be a big volume generator for our portfolio, and we don't anticipate that changing in 2023 and probably not even 2024. The general market will not be what it was."

The lack of blockbuster deals among tenants such as Google, Salesforce, Meta, Amazon and other tech giants has been a significant drain for the developers such as Boston Properties that operate most of their space in top-tier cities.

The firm's office portfolio is concentrated in large markets including New York, Boston, San Francisco and Silicon Valley, Seattle and Washington, D.C., all of which have faced some of the steepest declines in leasing activity as well as an even slower return among employees getting back to physical workspaces.

The slowdown has even pushed Boston Properties to pump the brakes on its Platform 16 development in San Jose, California. The project was initially expected to be completed next year, but the developer will instead hold onto the three-building office project and wait until the market recovers more.

"Tech companies' trajectory of income growth has flattened out, so more of them are focused on costs, which has an impact on space demand," Thomas said. Over the past couple of years there "could have been an over-investment period where there were lots of employees hired and space taken to accommodate growth that hasn't materialized. Tech companies have been behind the rest of the country in returning to the office. We're just now starting to see that change, and new office attendance policies that are rolling out now will increase the demand for space."

The decision to halt work on the Silicon Valley project has freed up about $200 million that Boston Properties had allocated for the site. Despite becoming increasingly selective about future investments, Thomas said the firm is expecting to spend about $2.6 billion to fund its development pipeline, which now includes 13 office, lab, retail and residential projects that will collectively span more than 3.1 million square feet upon completion.

"It's important to be nimble and opportunistic," Thomas said. "Even with the strong negative sentiment in the market, Boston Properties is well positioned to weather the current economic slowdown. Market conditions will start to recover, and once they do, we'll be ready."