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COMMERCIAL REAL ESTATE

Boston office lease terms lengthen as premium spaces tighten

With no new towers in sight, office tenants are locking in quality space, betting on rising rents

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When John J. McGivney, the managing partner of the Boston law firm Rubin Rudman, planned for the firm's next downtown office, he knew one way the firm could get more out of its lease: It could go even longer than the 10.5-year lease it began in 2017. It could go 15 years.

The extension is the latest example of the office market's slow but continuing recovery since the pandemic, when lease deals were as short as five years, and a sign that tenants want to lock in prices they say are only going up from here.

For Rubin Rudman, the longer lease at One Federal Street downtown also gives the firm the right of first refusal on space immediately below its 23rd- and 24th-floor offices and next to its partial footprint on the 25th floor.

"We're doing that because we want to have contiguous office space so we can bring our people into an integrated office environment," McGivney said.

One Federal owner Tishman Speyer also gave the law firm a right of first offer if space on the 19th through 29th floors becomes available. And it has two options to extend its lease by successive 10-year periods and three options to



A NEW OFFICE TENANT TERRACE AT BOSTON'S INTERNATIONAL PLACE. THE RECENTLY RENOVATED PROPERTY IS AMONG BUILDINGS THAT HAVE ATTRACTED LONG OFFICE LEASES.

extend for five years.

Lastly, keeping the same address for at least a decade and a half is seen as a sign of stability to employees and clients, firm officials said.

"That's the kind of thing you're able to negotiate when you take a longer term, and it's important to us because we intend to expand and grow, and to expand and grow our space as needed," said McGivney.

"Five or 10 years from now, the folks who are part of the Rubin Rudman community are going to look at this and say it was a very wise decision to take this lease at these terms," continued McGivney, who plans for himself to step

down in April 2029. "Because you don't know what the future holds, but I would guess the future of first-class office space in the city, the rents are going to go up and not go down."

'Get your good space now'

Owners of Boston office buildings can be in a tough spot these days, sitting on property that's worth a lot less than before the pandemic. But there is a bright spot: Tenants who are signing leases are doing so for longer periods of time, on average, since the pandemic.

Local leases hit their shortest point in 2021, averaging just over five years, according to Cushman & Wakefield, and they were even slightly

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shorter downtown.

Pandemic uncertainty led more tenants to sign cautious, shorter deals. But that's rebounded. Leases this year have averaged more than six years across the region and closer to seven years downtown.

And it's not just small deals: Larger deals are also going longer.

Leases of 10,000 square feet or more are now averaging nearly nine years, according to Cushman & Wakefield. They were less than seven in 2021.

One reason driving that trend is that tenants want to secure more years in Boston's most desirable buildings, said Riley McMullan, a senior research manager at Cushman & Wakefield.

Few new office buildings are being built locally. And those that are already have been spoken for. With no new office construction underway, new premier space is not expected to hit the market for many years.

"It's kind of like a 'get your good space now' outlook," she said. "Especially for the larger users. They want to lock that space down for as long as they can."

Rubin Rudman's 15-year lease is near the top of the range, but it is not alone.

Law firm Jones Day has a 15-year lease at South Station Tower and KKR signed for 15 years at International Place.

When law firm McCarter & English said

it would move across the street to International Place, it signed an 11-year deal. TD Bank, also in International Place, made it 10 years. At 125 High St., recent leases include a 10-year lease extension by MG+M The Law Firm and a nine-year extension for the financial services firm William Blair.

In the suburbs, Global Partners' new headquarters lease in Newton spans 12 years. And Panera Bread signed a 12-year lease in Weston for its future headquarters.

Longer leases, more landlord help on buildouts

The rationale for tenants these days is to draw more workers back to the office, said Tim Lahey, a vice chairman at CBRE New England.

To do that, they want to be in the best buildings, which are often the newest – and new spaces are more likely to require construction and so-called "tenant buildouts." By signing longer leases, tenants can get landlords to contribute more to those buildouts.

Lahey said he's had a common conversation with clients lately: Do they want to lock in lower prices for a longer period of time, or is there still enough uncertainty to keep deals shorter? The answer has come back: They more often want to go longer. That's why Lahey expects leases to continue to grow longer so tenants can ask for more customization of their spaces and avoid some upfront capital costs.

Bryan Montgomery, a research manager at JLL, said he sees it too. Another factor beyond price, he said, is that Boston's top-quality office buildings have less available space than the market over all.

"If they go too short, they might find themselves with their lease up in a market where there's no space available within the tier of quality they're looking for," he said. "Rental rates are going to change accordingly over the next three to five years. I think they understand it's better to get locked in now for a longer term at a better rate, even if that rate does seem like it's higher for longer within the context of the broader market."

Landlords have their own reasons to sign longer deals. Building owners are more willing to offer higher tenant-improvement allowances if they can spread those expenses over a longer lease, Montgomery said.

McGivney, the Rubin Rudman managing partner, said the 15-year lease cements the firm's long-term presence at One Federal. The space, with views from the harbor to the east and the Charles River to the west, will entice employees to be in the office more often, he said.

Rubin Rudman is working with architecture firm Gensler to fit out the new space.

"When you go into this new space," he said, "it's an opportunity to architecturally and aesthetically present the firm in the way that we feel is part of our branding – that this is our firm now."