
2Q23

Boston Office Market Overview



NEWMARK

Market Observations

Economy

- While the region’s labor market remains historically strong amid shifting macroeconomic conditions, there is a visible disconnect between office-using employment growth and office demand.
- Overall economic uncertainty and a lack of comparable sales data in the market is deterring capital flows, and investment in office assets will be dampened until interest rates stabilize.
- MBTA ridership has seen a significant uptick in recent months, with most employees commuting to the office Tuesday through Thursday. Mondays have seen a notable increase as well, suggesting more companies pushing for in-person attendance.

Major Transactions

- Deloitte signed a lease in the Financial District at Winthrop Center, which is expected to deliver in the third quarter of 2023. The 137,000-square-foot deal represents one of the largest office transactions in the Boston Metro this year. The consulting and advisory firm will relocate from the Back Bay.
- Amazon extended its lease at 101 Main Street in Cambridge. Although this was the largest deal in Cambridge during the second quarter of 2023, Amazon is shrinking its footprint within Kendall Square due to the recent delivery of its 1 Boston Wharf location in the Seaport District.
- Keches Law Group inked a lease at 1200 Crown Colony Drive in Quincy. The 59,724-square-foot deal marks one of the largest suburban office transactions in the last year.

Leasing Market Fundamentals

- Net absorption in the second quarter of 2023 totaled negative 665,082 SF. This was the fourth consecutive quarter of occupancy losses across the Boston Metro office market. Buildings that were previously slated for lab conversion in the suburbs are returning to the office inventory before the end of the year, which will negatively impact fundamentals as well.
- Although several new leases were signed this quarter, most of the recent deal volume has been comprised of tenants downsizing or renewing on a short-term basis.
- Vacancy grew to 17.4% during the second quarter of 2023, marking a near-20-year high. New deliveries, primarily in the CBD, will continue to apply upward pressure on both vacancy and availability in the near term.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Fundamentals are expected to deteriorate further in 2023 due to limited demand and future expansion of office inventory. Vacancies will continue on their upward trajectory, which should lead to more widespread deterioration in asking rents.
- Growing concerns in the debt markets will ultimately impact leasing and deal economics in the coming quarters.
- Greater Boston’s office market will remain challenged in the short term, but the region’s position as a global innovation hub bodes well for long-term recovery.

1. Economy
2. Leasing Market Fundamentals

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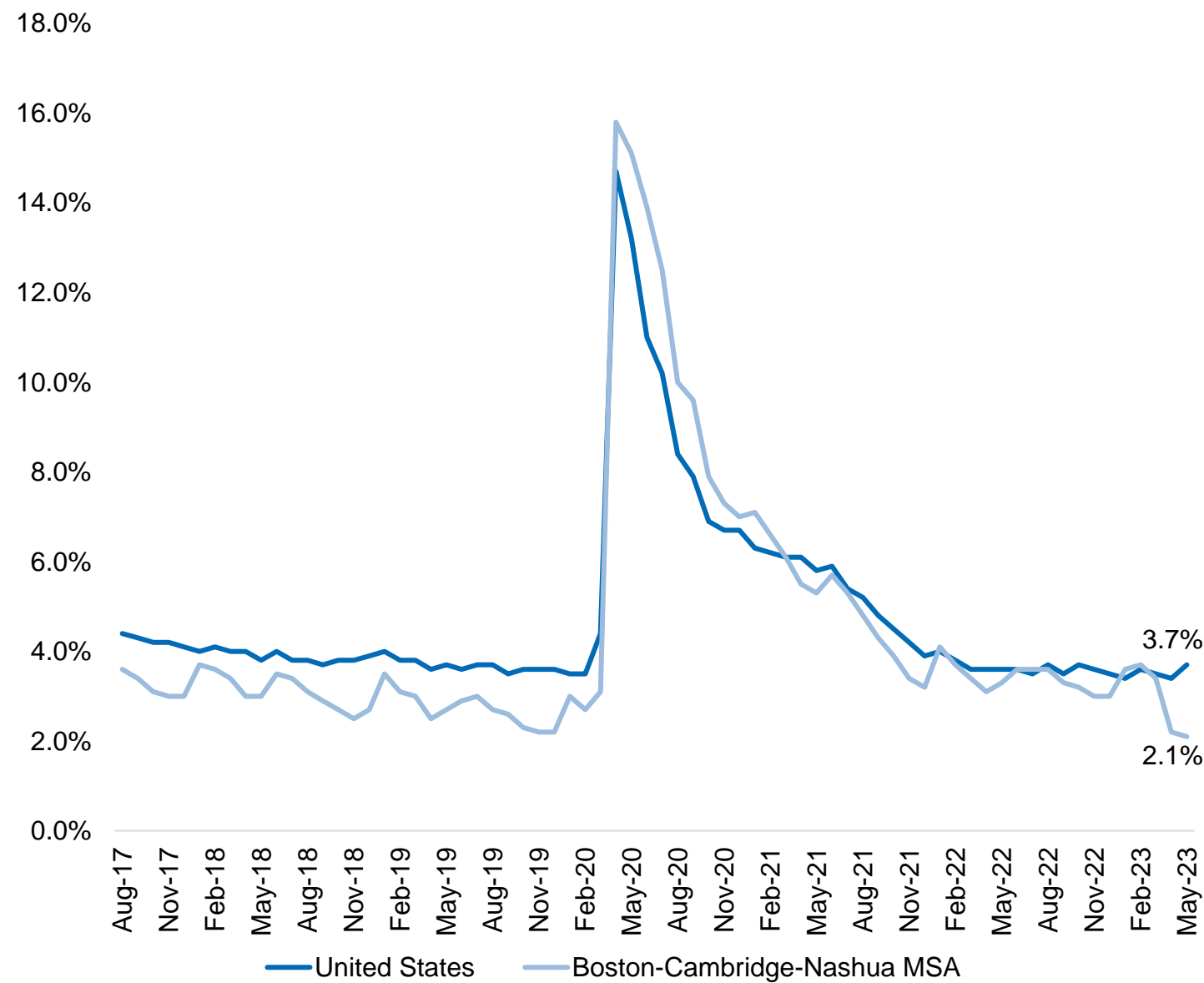
Economy



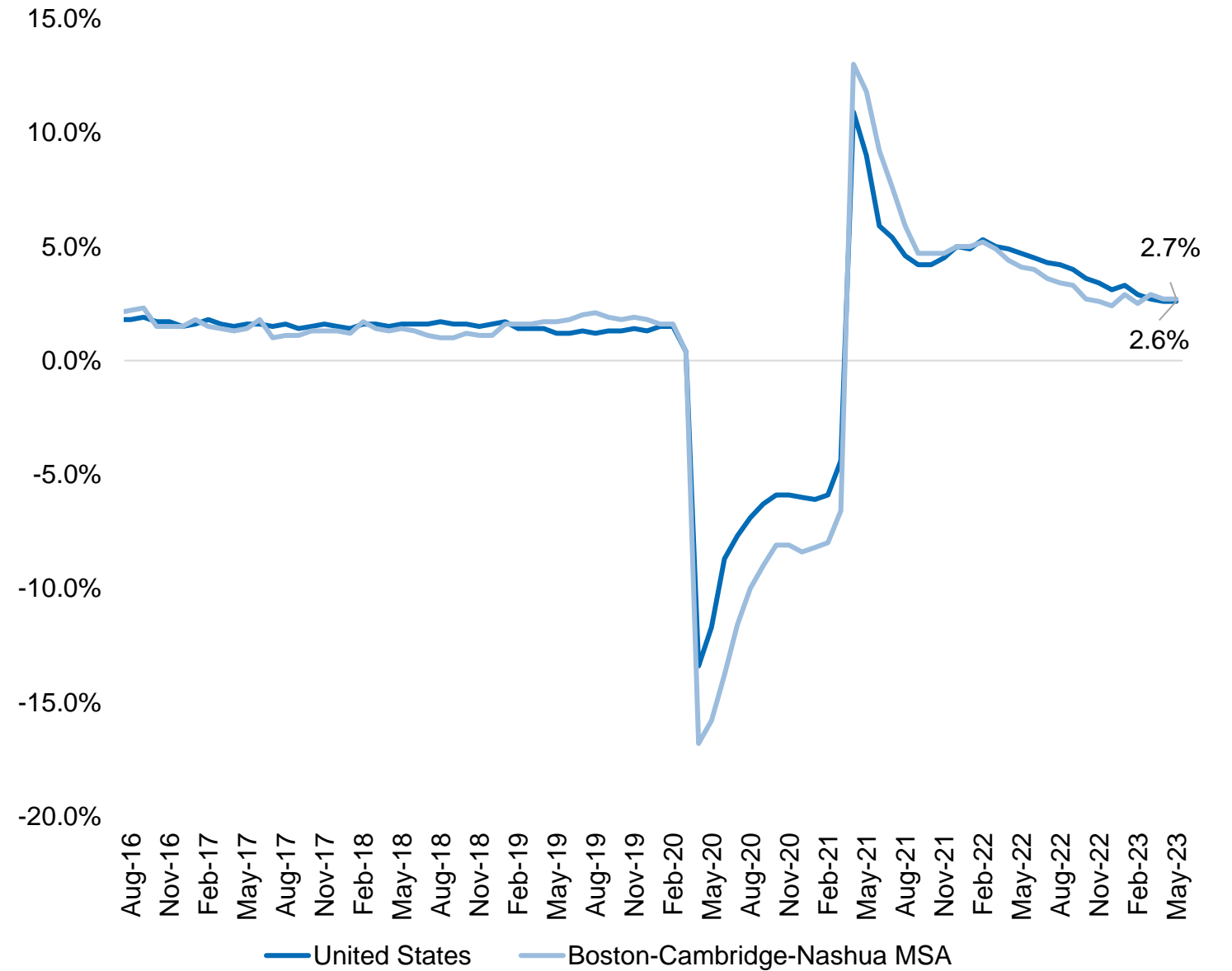
Metro Employment Trends Signal a Slowing Economy

While the region's labor market remains on relatively solid footing and the annual job growth rate has exceeded the national average, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment in Boston remains below the national average, but the tech and biotech sectors are experiencing sustained layoffs.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

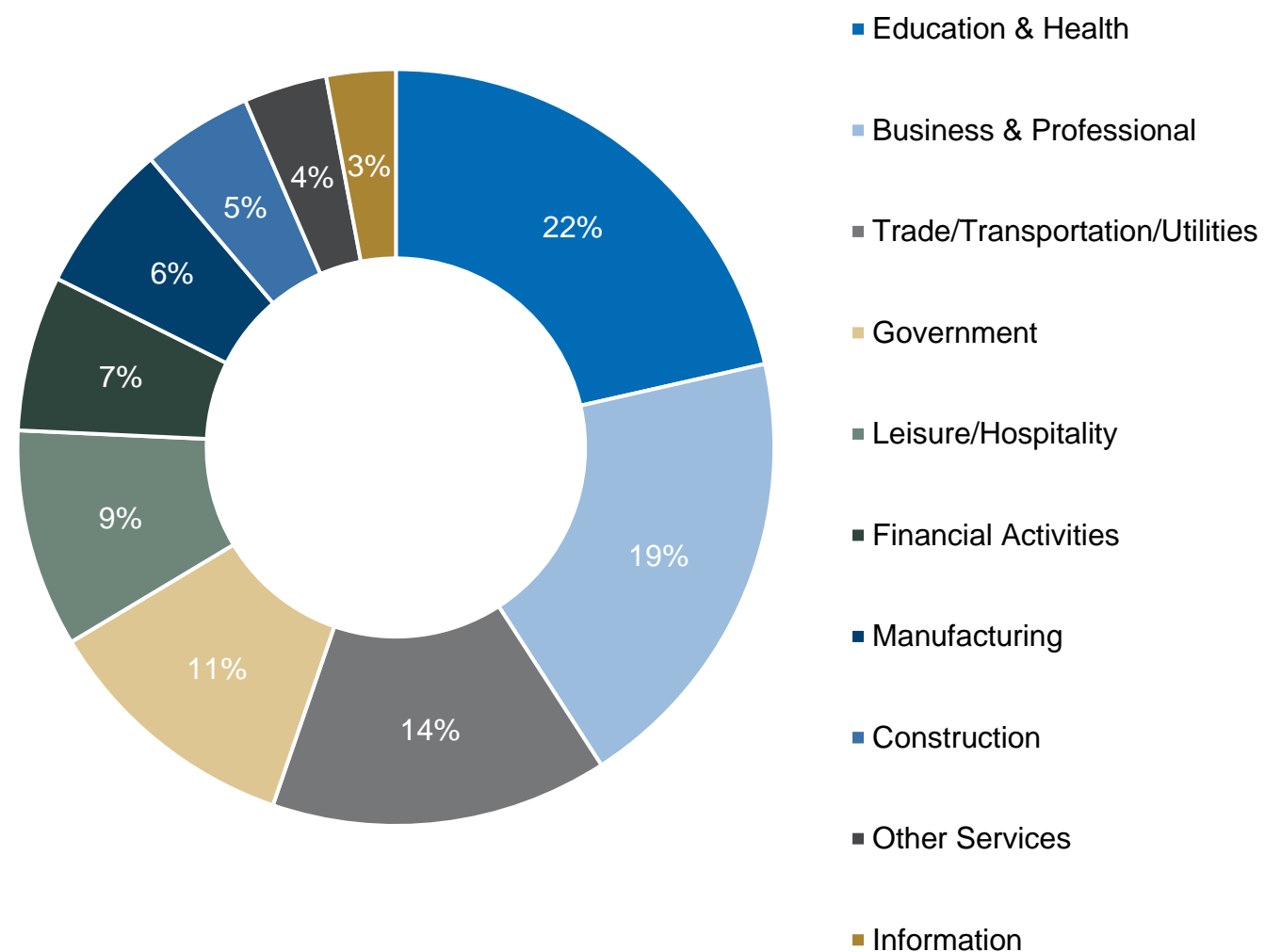


Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

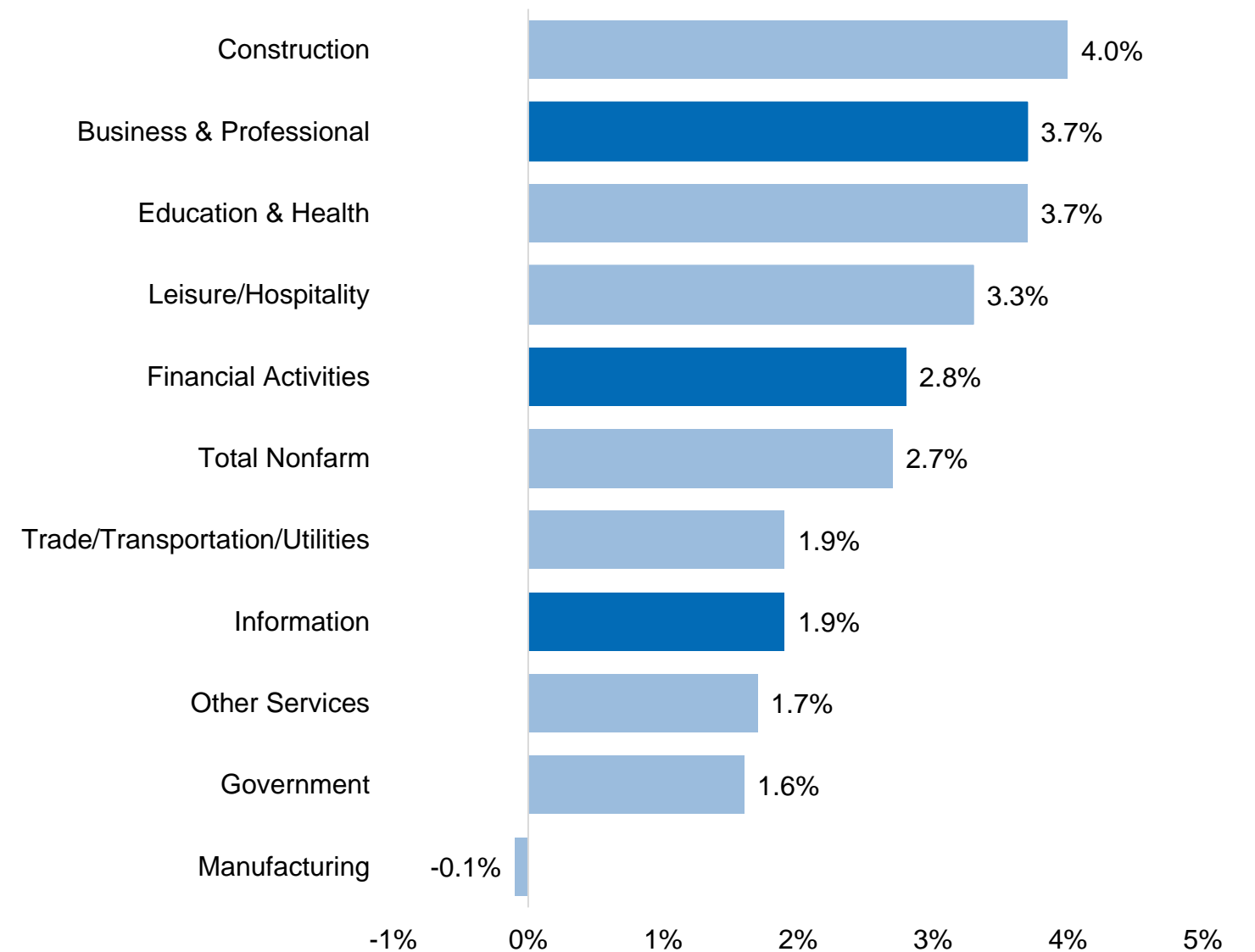
Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

The construction sector led all industries in regional annual job growth. Business and professional services led all office-using jobs in terms of annual job growth; however, the impact on new office demand has diminished as hybrid work schedules are impacting the need for office space.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

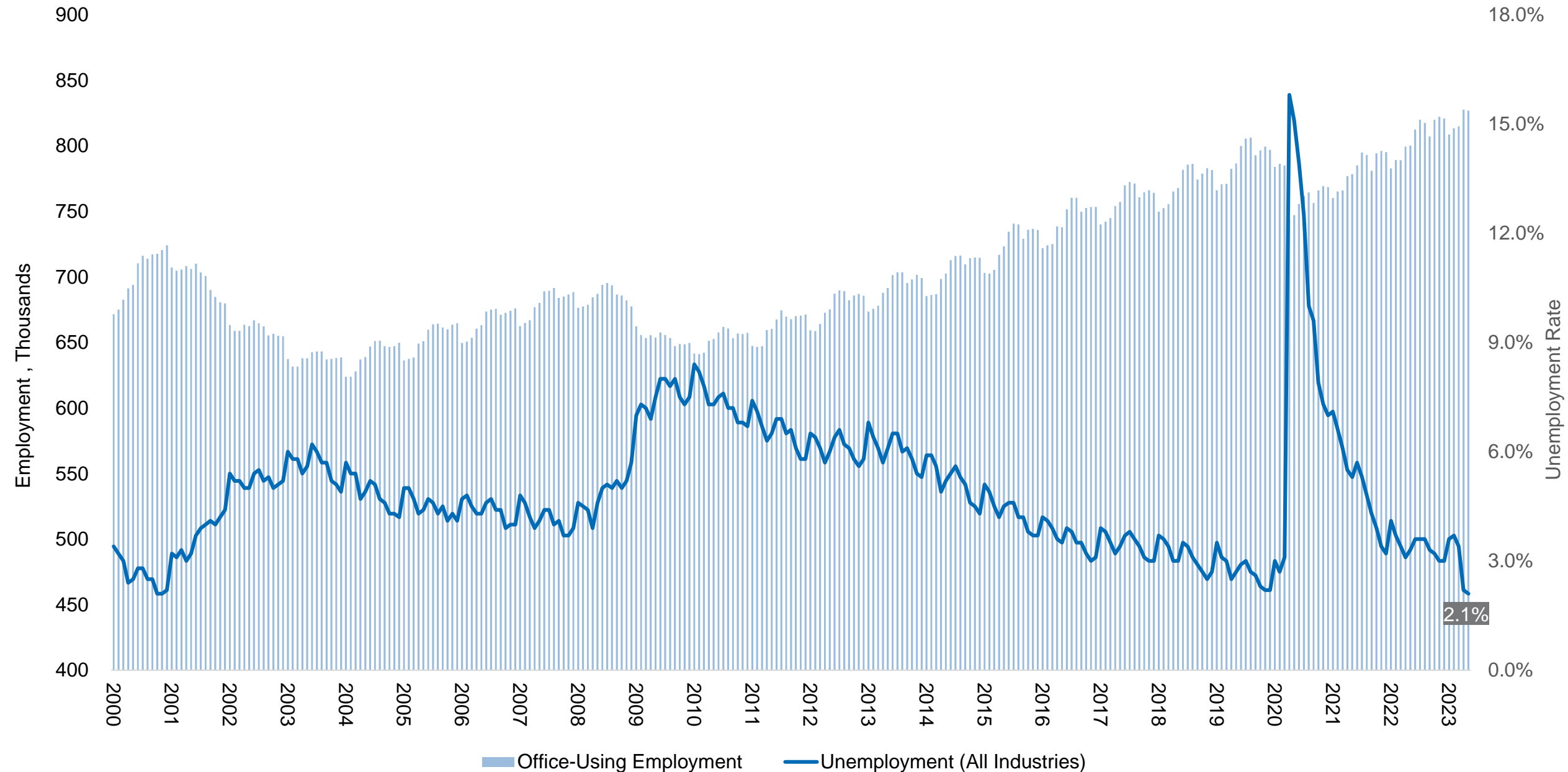


Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

Overall Office-Using Employment Has Rebounded While Unemployment Remains Low

While the number of office jobs has rebounded to pre-pandemic levels, there is a disconnect between macroeconomic conditions and the commercial real estate market. Of those that are being hired for a traditional office role, a significant percentage are either working on a hybrid schedule or completely remote.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

Note: May 2023 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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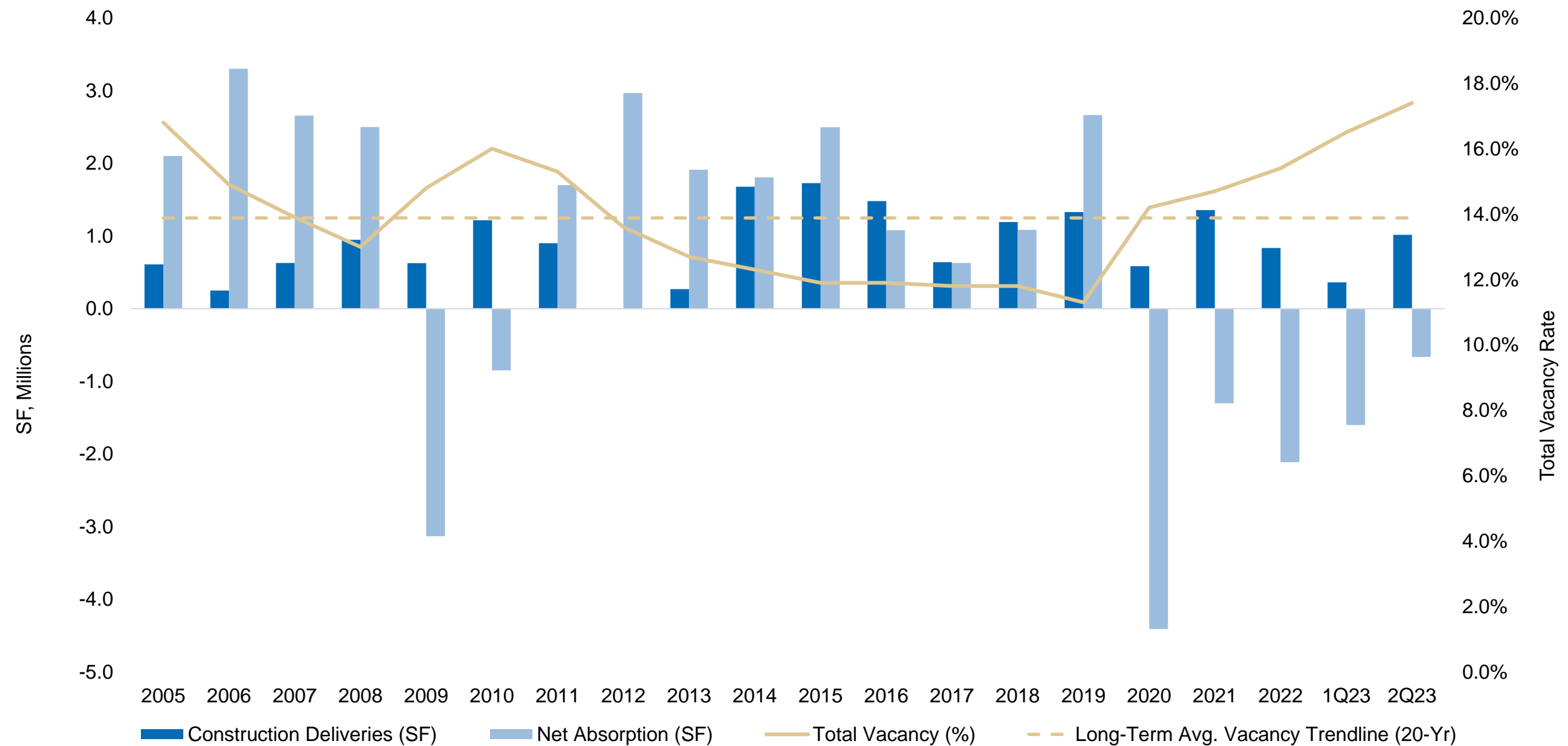
Leasing Market Fundamentals



Vacancy Rises as Occupancy Losses Drag On

The vacancy rate increased to 17.4% in the second quarter of 2023 from 16.5% in the prior quarter. The market is recalibrating, with vacancy expected to continue to rise over the next few quarters. State Street relocated and downsized to One Congress, which is the first tower to deliver in Boston's CBD in over two years. Several deliveries are on the horizon, however, which will provide additional supply to an already challenged market.

Historical Construction Deliveries, Net Absorption, and Vacancy

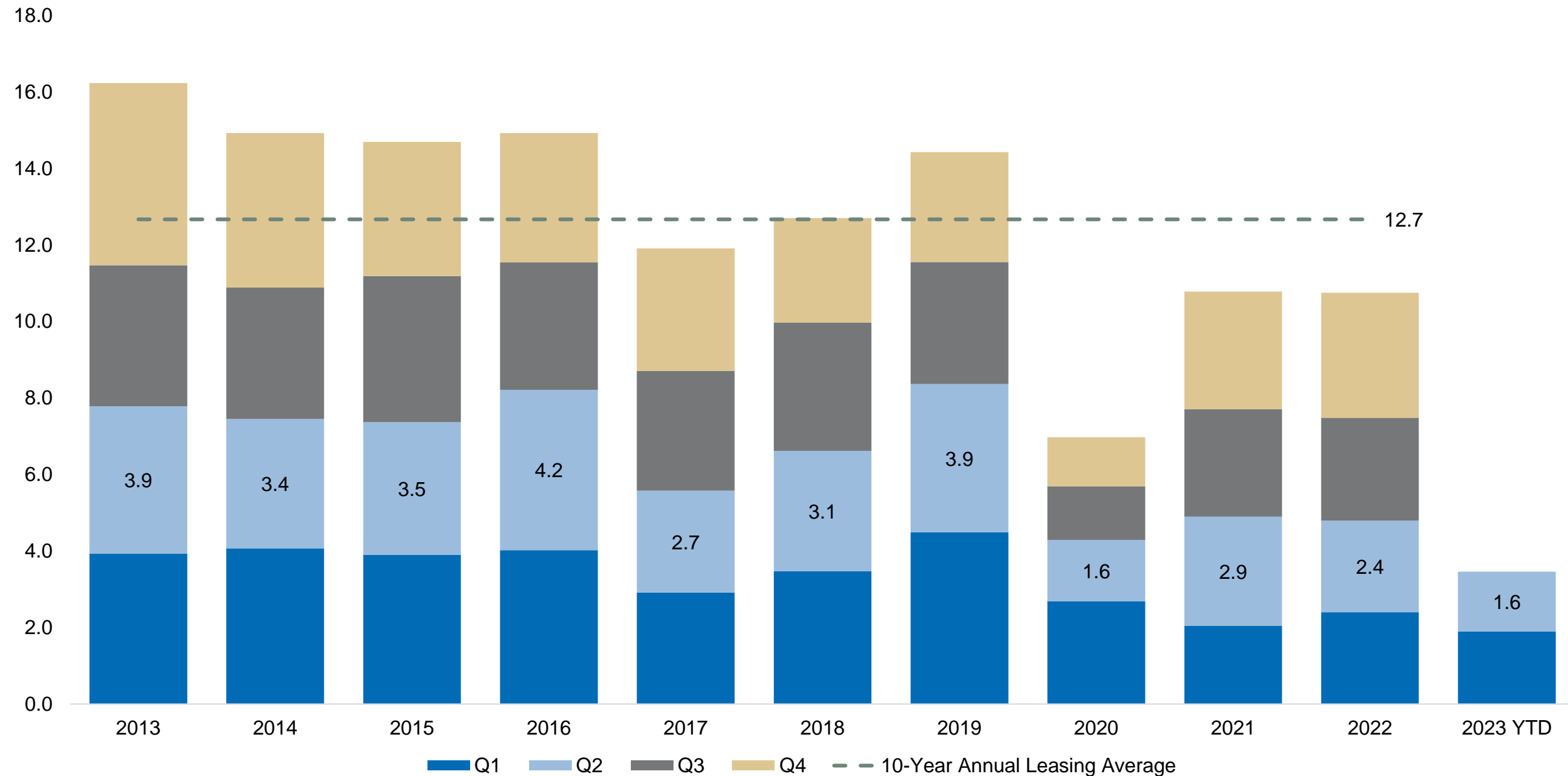


Source: Newmark Research

Year-to-Date Leasing Activity Reaches 10-Year Low

The return-to-office trend stagnated during the beginning of 2023, as several companies have become comfortable with hybrid work environments. Leasing activity has been limited throughout the Metro area, and at 3.5 million square feet during the first half of 2023, leasing volumes are well below the long-term average. Decision-making is taking longer than usual, and many firms faced with expiring leases are opting for short-term renewals and extensions.

Total Leasing Activity (msf)

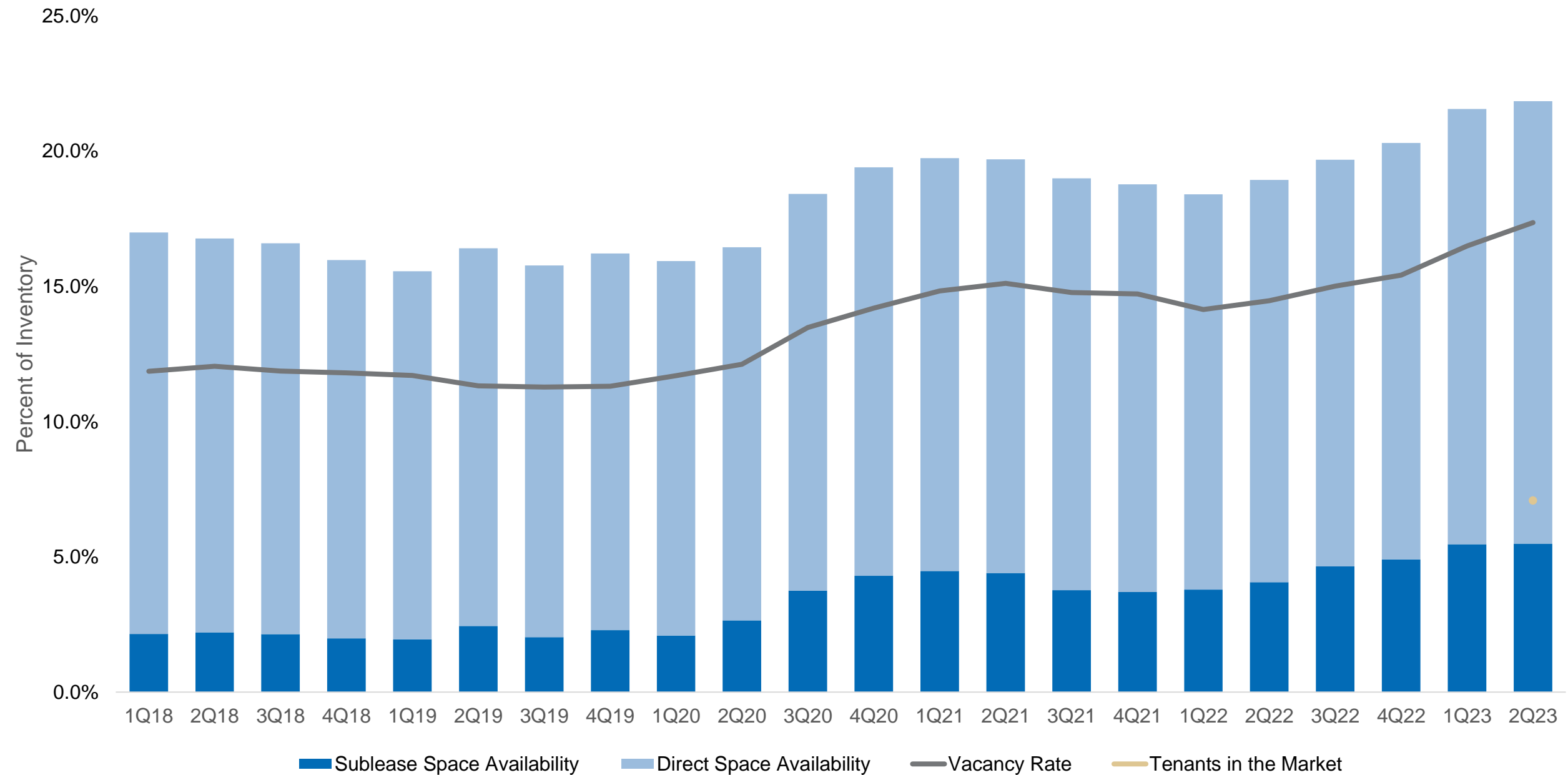


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Fundamentals continue to deteriorate across the Boston Metro, as direct and sublease availabilities both reached historic highs during the second quarter of 2023. Tenant demand in the CBD and Cambridge totals 5.5 million square feet, although much of the demand profile is made up of tenants with little to no conviction. The deliveries of new towers Downtown, as well as the return of office inventory from buildings that were previously slated for lab conversion in the suburbs, will place additional pressure on availabilities in the near-term.

Available Space and Tenant Demand as Percent of Overall Market

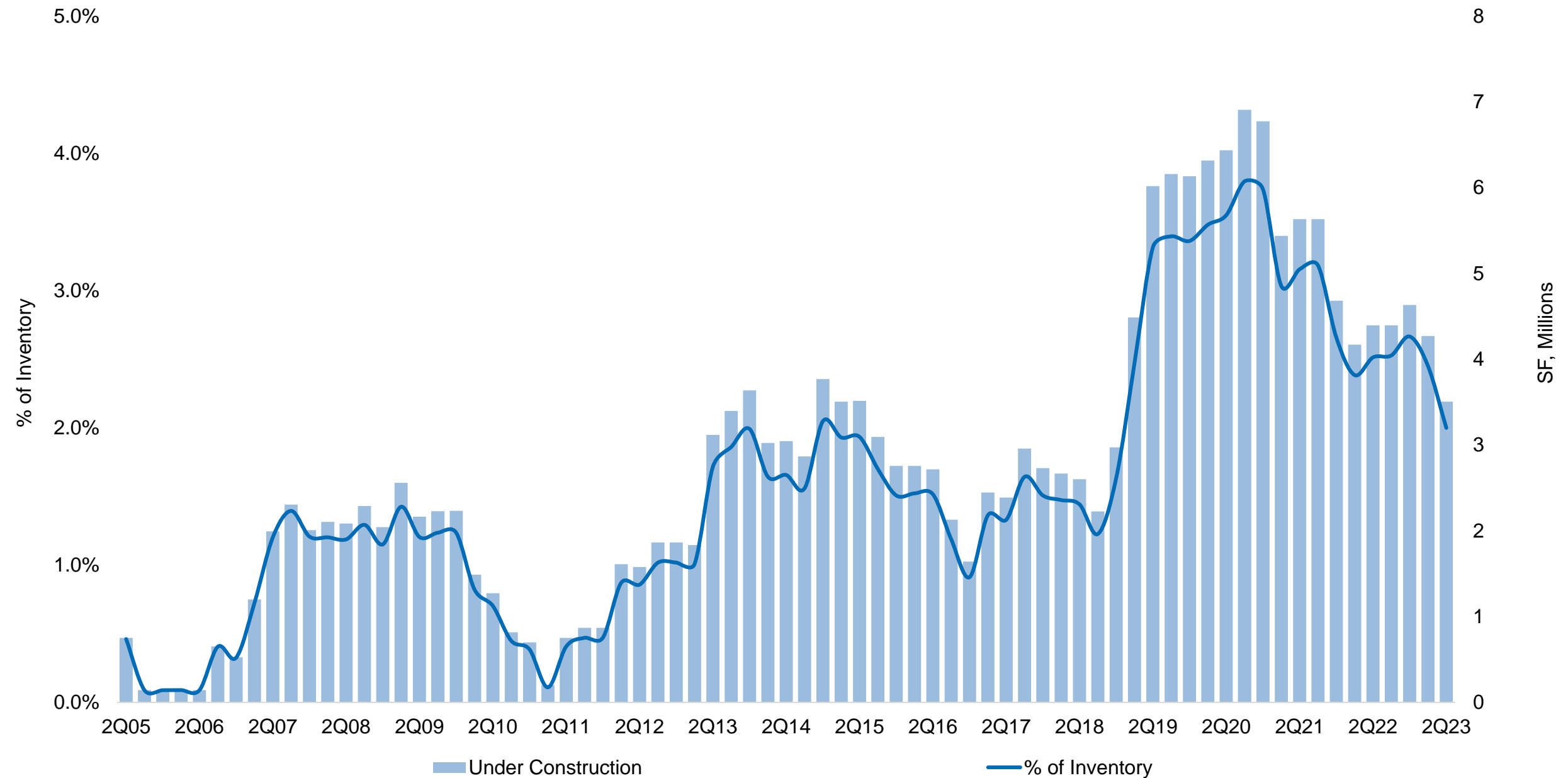


*Tenants in the Market is represented as a percentage of the CBD and Cambridge market inventories.
Source: Newmark Research

Office Developers Remain Active in Boston's CBD

The delivery of One Congress during the second quarter of 2023 marked the first tower completion in the Boston area since the Hub on Causeway in 2021. State Street has already moved into the building, leaving significant space behind at their previous headquarters at 1 Lincoln Street. One Post Office Square and Winthrop Center are also expected to deliver before the end of the year, which will create additional back-end space in existing skyline towers.

Office Under Construction and % of Inventory

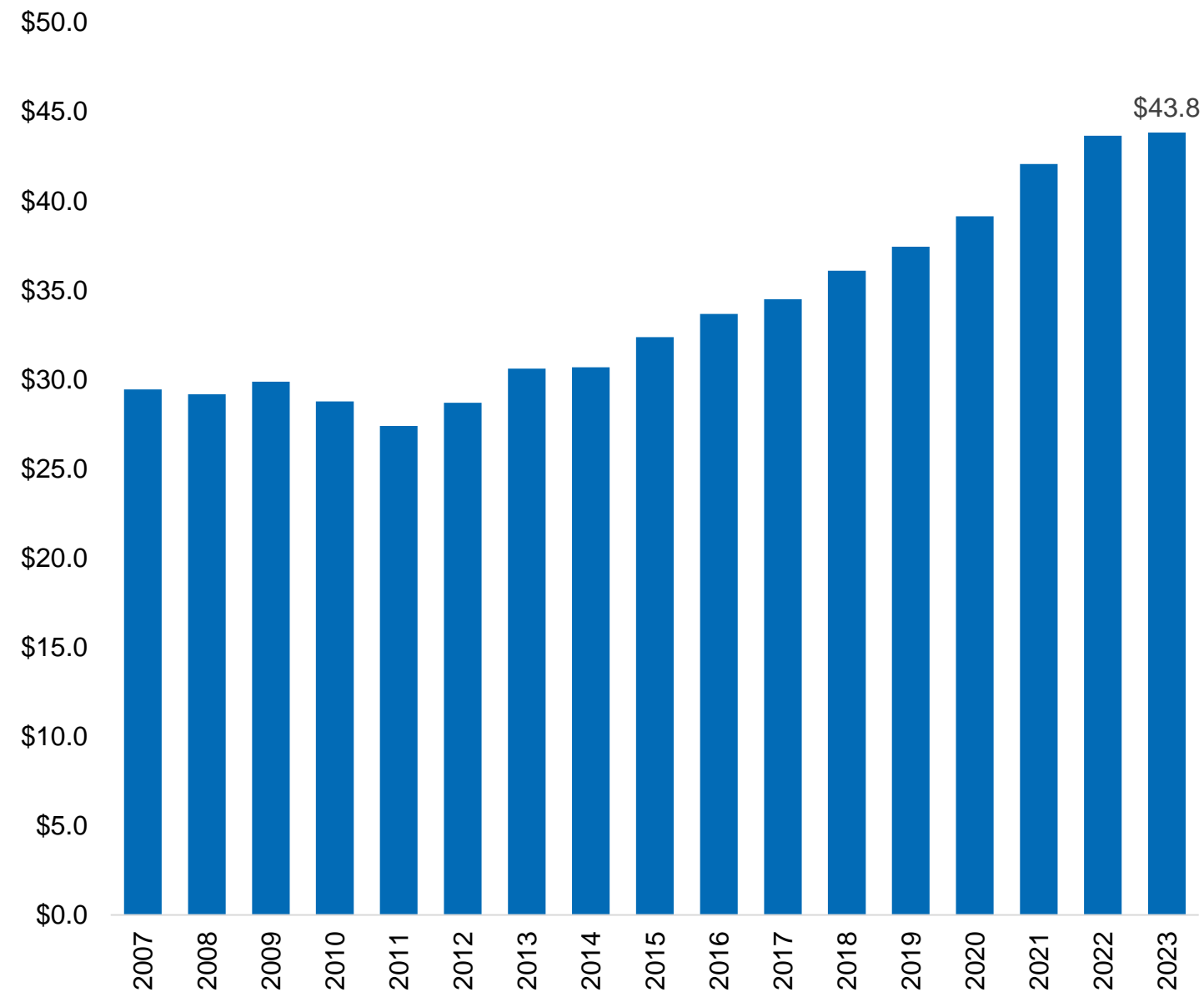


Source: Newmark Research, CoStar, City/County of ____ (where applicable)

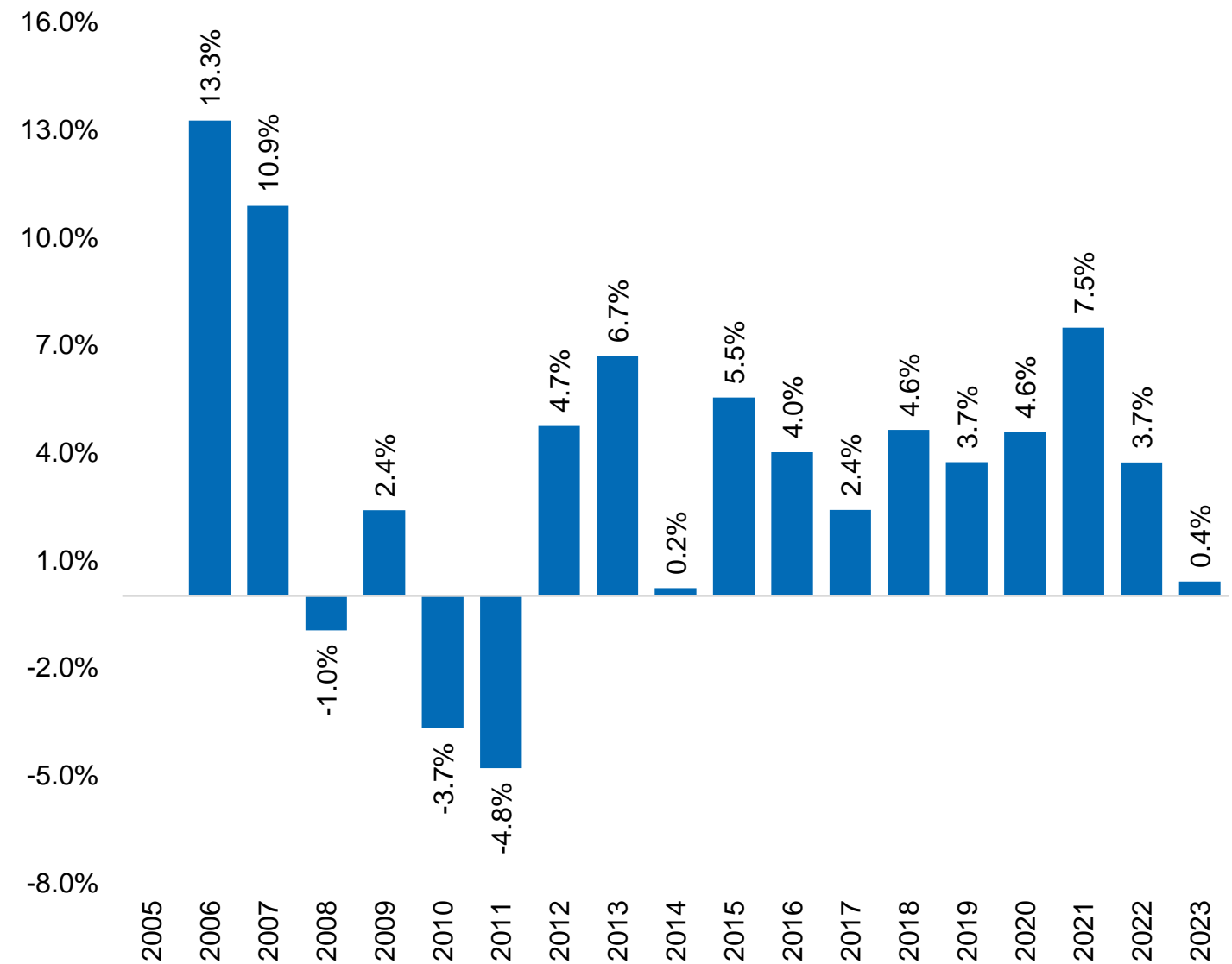
Asking Rent Growth Appears to be Slowing but Remains Positive

While overall asking rents have stabilized over the last three quarters, the expansion of vacancies across the Boston Metro should begin to drive rents down in the near term. Asking rents in the CBD have already experienced downward pressure, while suburban rates are holding steady. Striking rents are landing well below what is being quoted, and some landlords have begun to pull back on tenant improvement allowances in favor of additional free rent.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

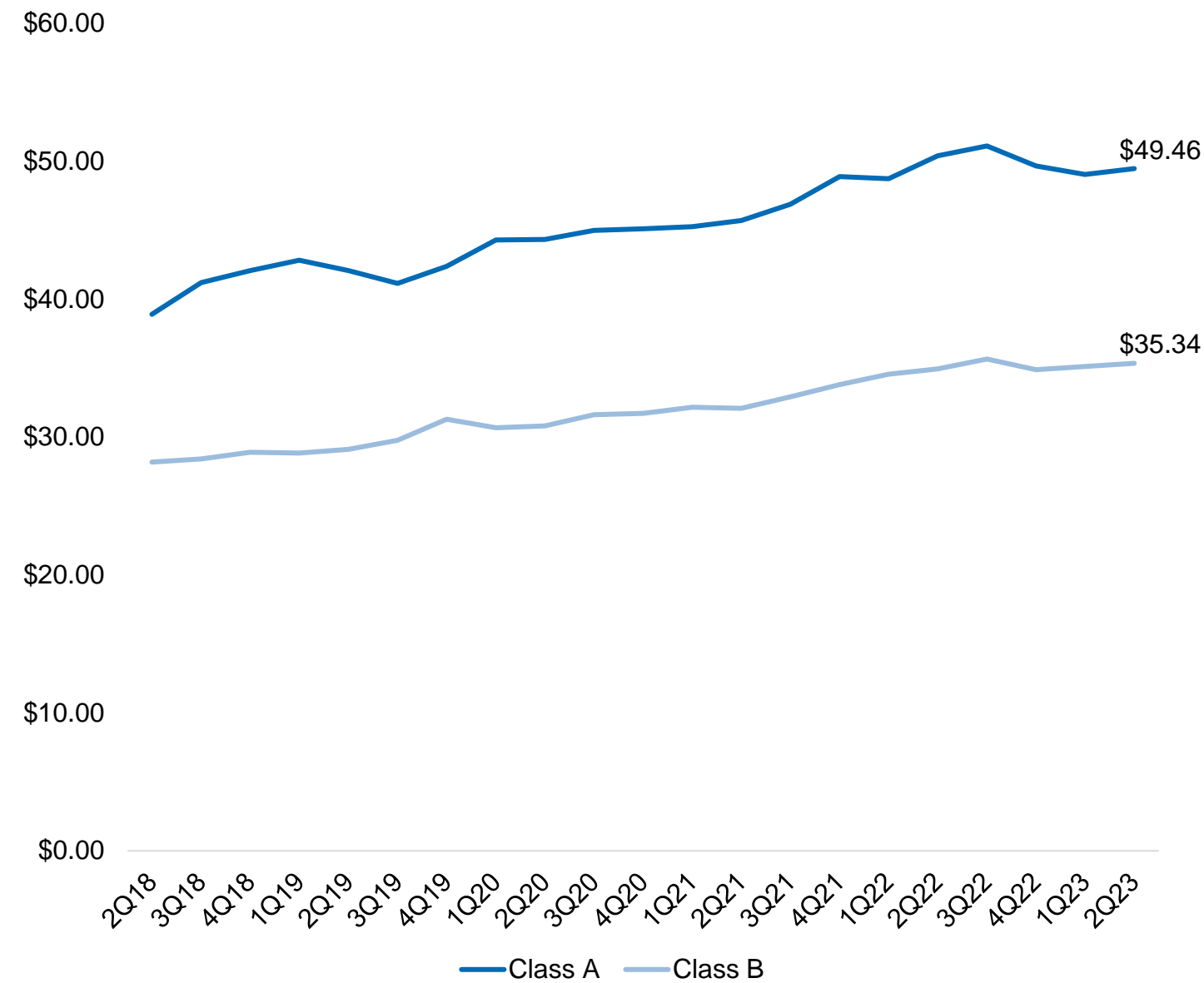


Source: Newmark Research, CoStar

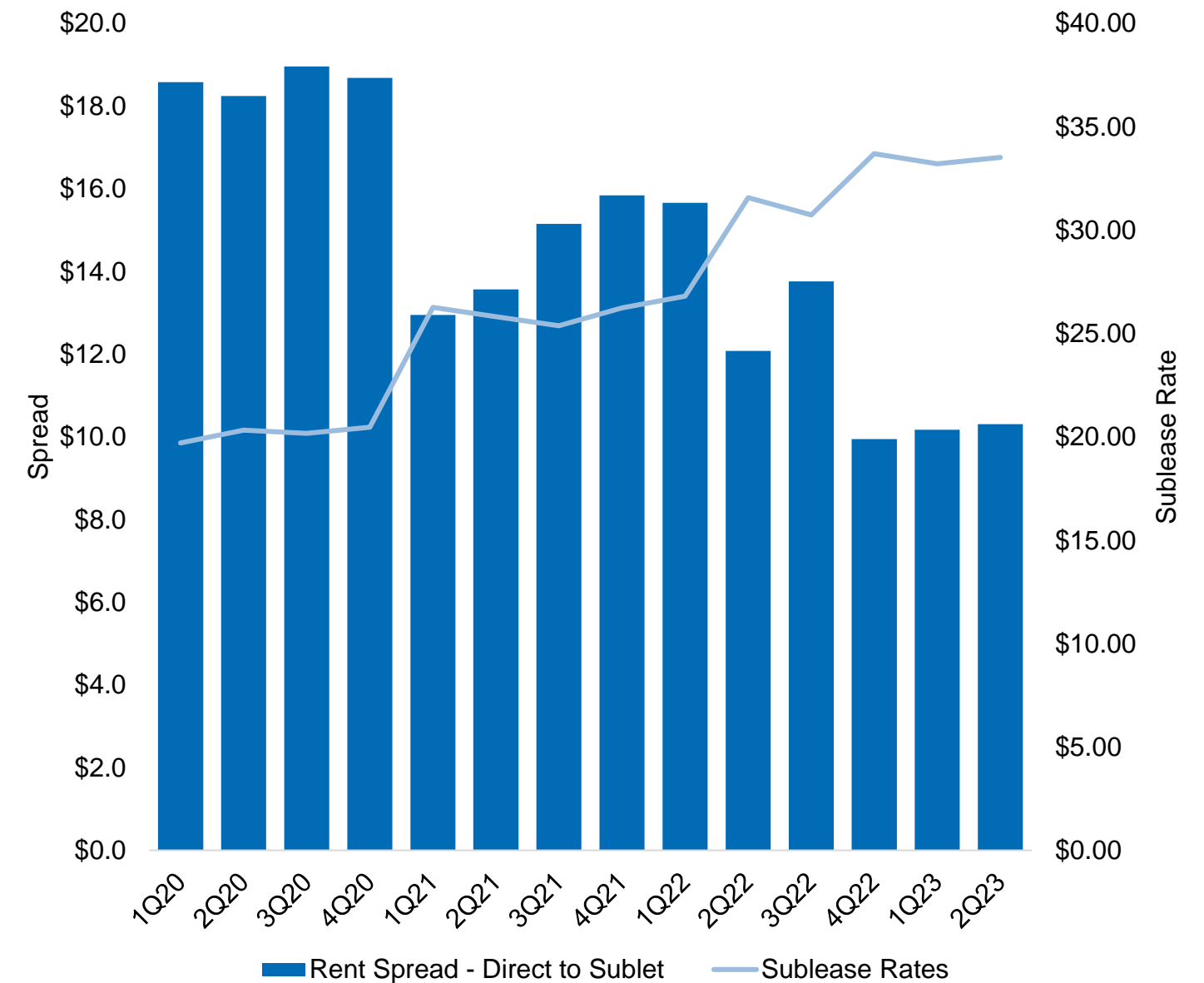
Suburban Asking Rents Are Bolstering Metro Trends

The average asking rents for both Class A and Class B office assets remained stationary across the Boston Metro during the second quarter of 2023. While notable rent losses are being observed in the CBD, suburban asking rates are holding for all asset classes despite the current market bifurcation. Several companies that signed leases previously in new construction or premium office buildings have added space to the sublease market, which has caused a decline in the spread between direct and sublease asking rates.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Select Lease Transactions

Leasing activity during 2023 has been primarily lease-expiration driven, with most transactions being short-term renewals and extensions. Large leases have been few and far between, but those that have transacted have done so in either new construction or highly amenitized trophy towers.

Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Deloitte	Winthrop Center	CBD – Financial District	Direct Lease	137,000
<i>This is the largest lease in the Boston Metro in 2023. The consulting firm is relocating from 200 Berkeley Street in the Back Bay.</i>				
Amazon	101 Main Street	Cambridge – East	Lease Extension	93,685
<i>This was an extension on 93,685 square feet and a downsizing on Amazon’s office footprint in East Cambridge.</i>				
Keches Law Group P.C.	1200 Crown Colony Drive	South – Route 128	Direct Lease	59,724
<i>This marked one of the largest suburban office leases in the last year.</i>				
Karuna Therapeutics	99 High Street	CBD – Financial District	Direct Lease	50,890
<i>Karuna expanded their footprint within 99 High Street.</i>				
The University of Massachusetts	50 Washington Street	West – Route 495	Direct Lease	48,000
<i>Umass cut its systemwide office space in half with a relocation to Westborough.</i>				

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