

1Q24

NEWMARK

Boston Office Market Overview



Market Observations

Despite below-average unemployment, local job growth has been anemic, with losses impacting most office-using sectors.

Driven by occupancy losses in the suburbs, Greater Boston office vacancies surpassed 20.0% for the first time in history.

While transactions below 50,000 SF dominated first-quarter office leasing, there are 20 requirements over 100,000 SF currently active.

Suburban sublease availabilities are now higher than in the CBD as market conditions soften further outside of the urban core.



By nearly all metrics, including tenant demand, net absorption and pricing, office properties built after 2015 are outperforming the rest of the market.

The spread between tenant and landlord expectations has likely never been wider, with the former looking for significant discounts and/or concessions.

Asking rent losses are concentrated almost exclusively in Greater Boston's Class B segment.

The "office-to-anything" movement is gaining traction. Landlords are repositioning office space to hotel, residential and amenity suites.

Liquidity is slowly returning to Boston, with the sale of 101 Arch St. representing the first tower to change hands in five years.

1. Economy
2. Leasing Market Fundamentals
3. Submarket Overviews

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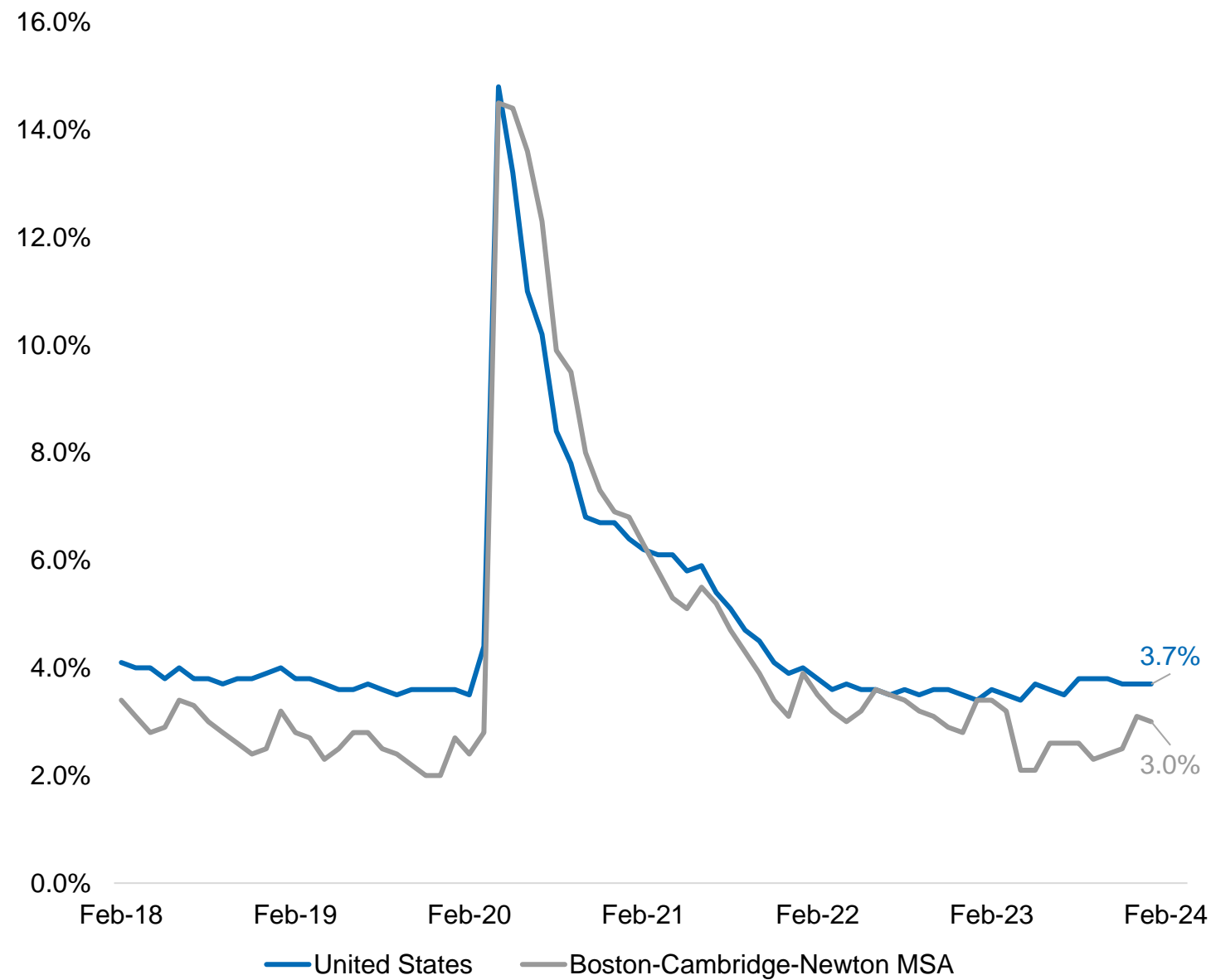
Economy



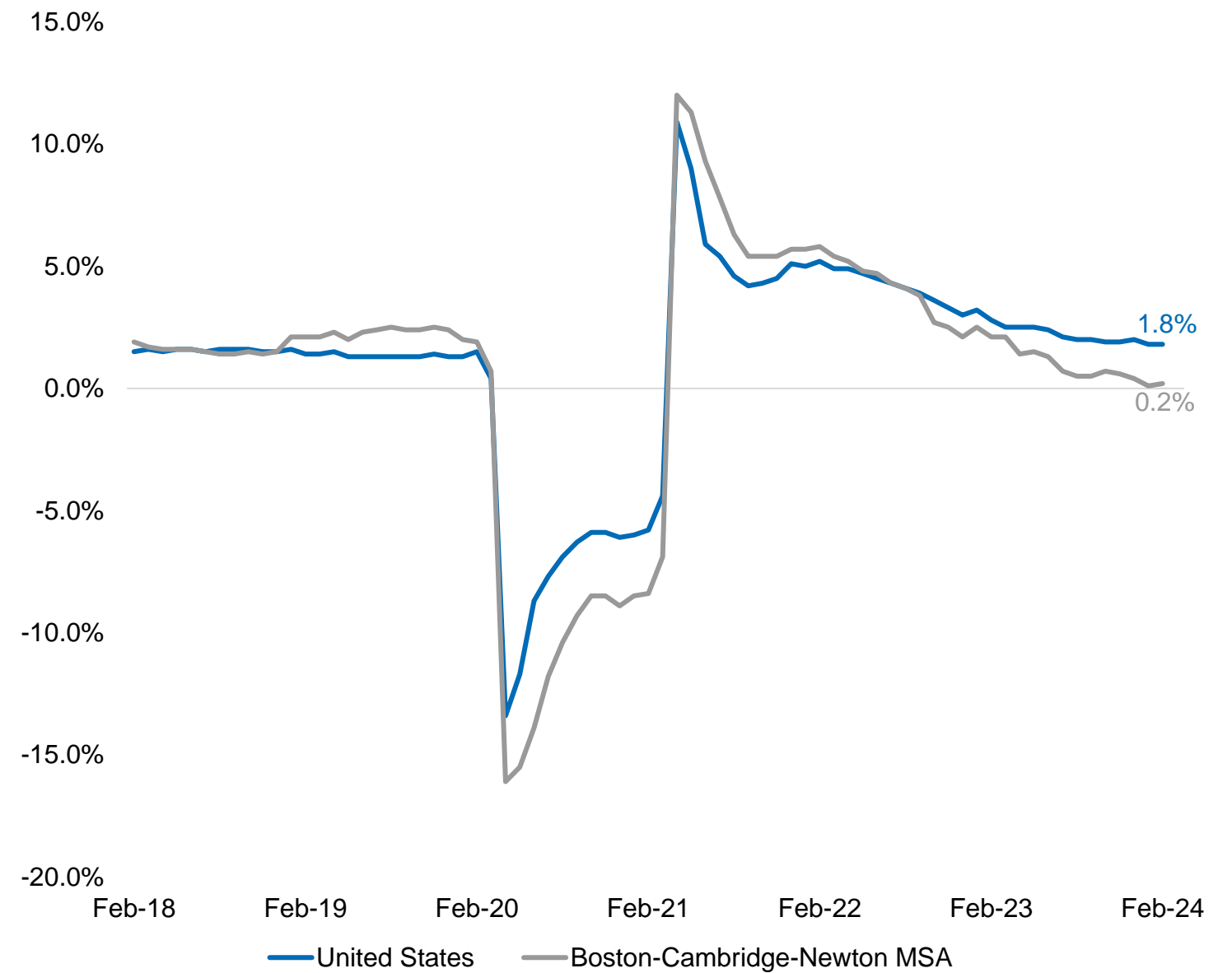
Recent Revisions Indicate Slower Metro Employment Growth

Despite maintaining a below-average unemployment rate, local payroll expansions over the last year were weaker than expected. In fact, total employment growth in Greater Boston has trailed the national average for the last 18 months. Softness in the tech and biotech sectors is likely driving these pedestrian growth trends.

Unemployment Rate, Seasonally Adjusted



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



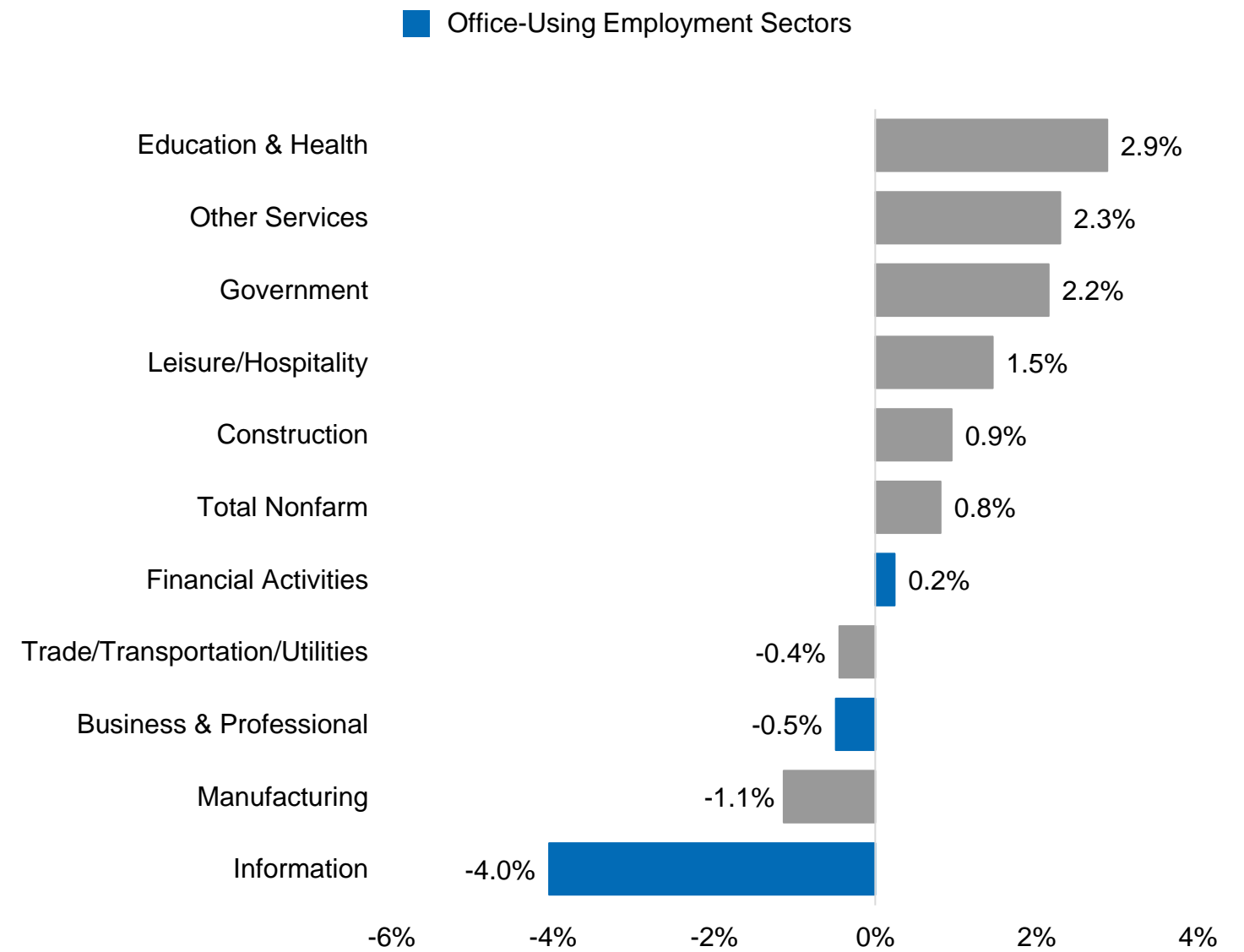
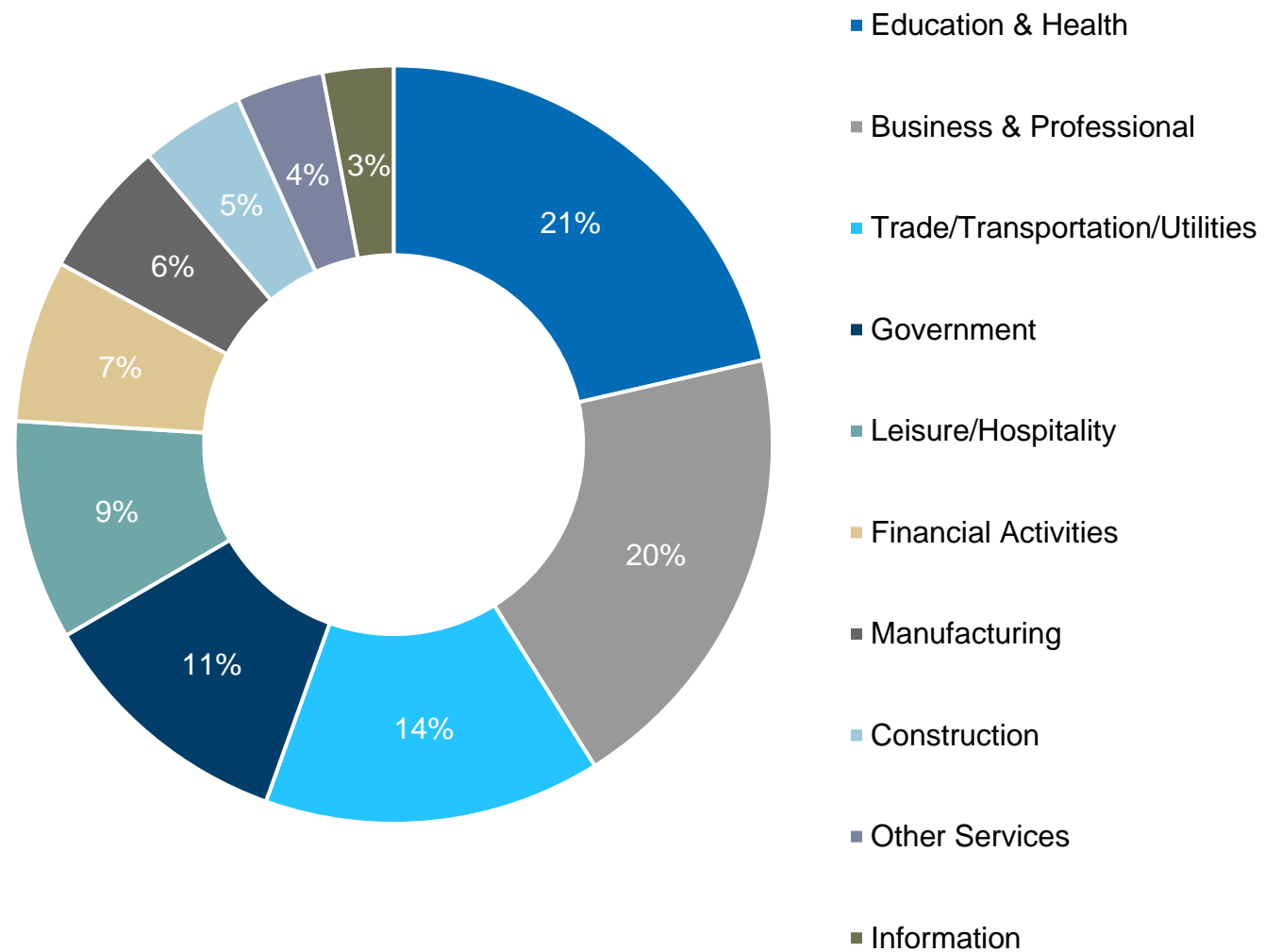
Source: Moody's Analytics, Boston-Cambridge-Newton, MA-NH MSA
 Note: February 2024 data is preliminary.

Local Employment Posts Modest Gains in Most Industries

The education & health sector is now leading annual job gains in the Boston metro area, followed by other services and the government. As employment growth in most office-related industries has stagnated in recent months, the disconnect between this employment growth and office demand persists. Metro wide occupied office space at the beginning of 2024 remained at a 15-year low and is in line with levels experienced during the Great Financial Crisis of 2009.

Employment by Industry, February 2024

Employment Growth by Industry, 12-Month % Change, February 2024

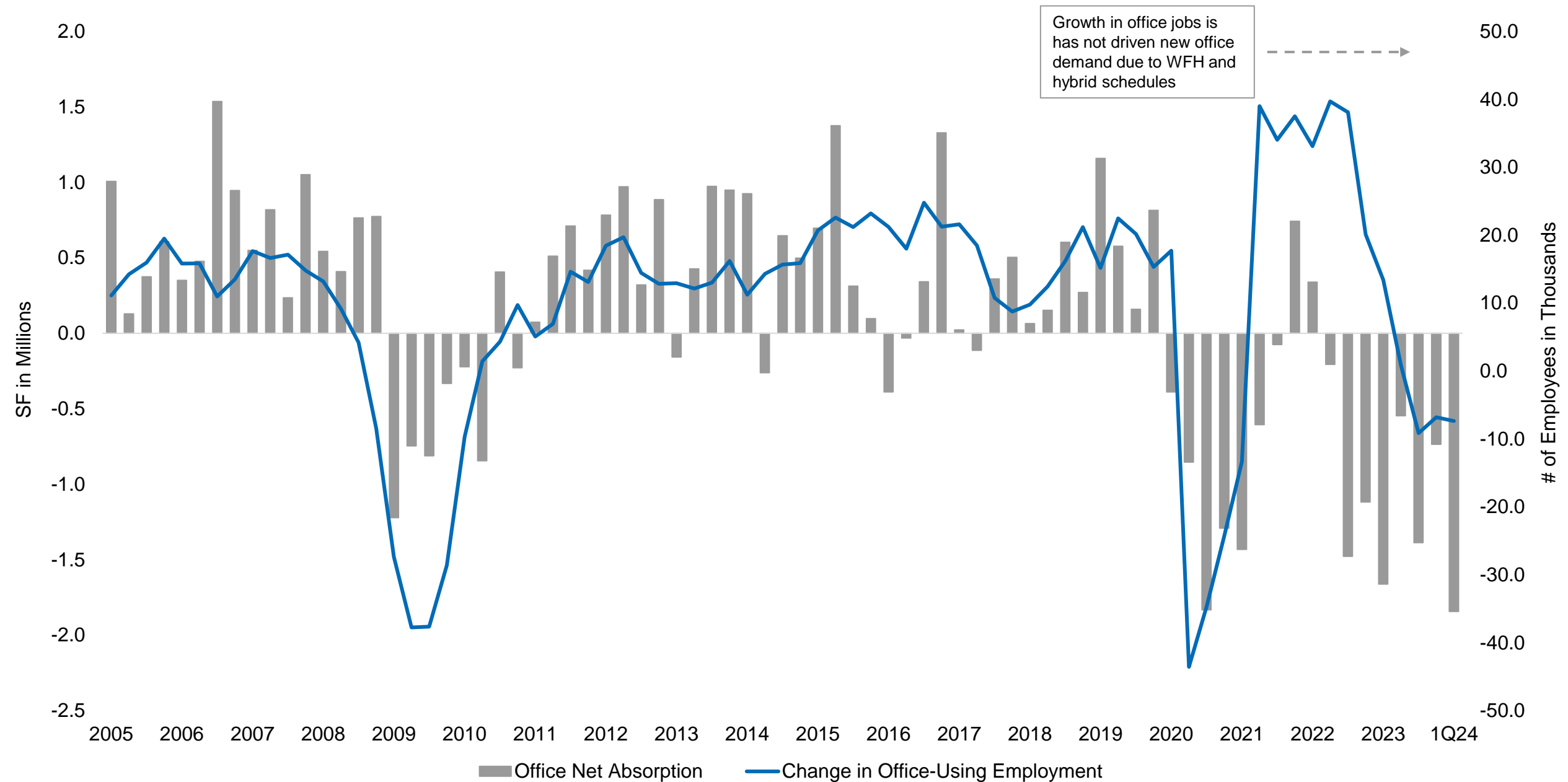


Source: Moody's Analytics, Boston-Cambridge-Newton, MA-NH MSA
 Note: February 2024 data is preliminary.

The Disconnect Between Office Employment Growth and Demand Persists

In Greater Boston, more than 51,000 office-related jobs have been added to local payrolls since the 2020 trough and employment levels are now 5.2% above the pre-pandemic peak. The historical correlation between additional office workers and demand for space is evident, but since the start of the pandemic, this relationship has uncoupled. As office-using employment growth has slowed in recent months, a reversion to more historic norms is starting to emerge.

Change in Office-Using Employment Growth and Office Net Absorption



Source: Moody's Analytics, Boston-Cambridge-Newton, MA-NH MSA

Note: February 2024 data is preliminary.

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



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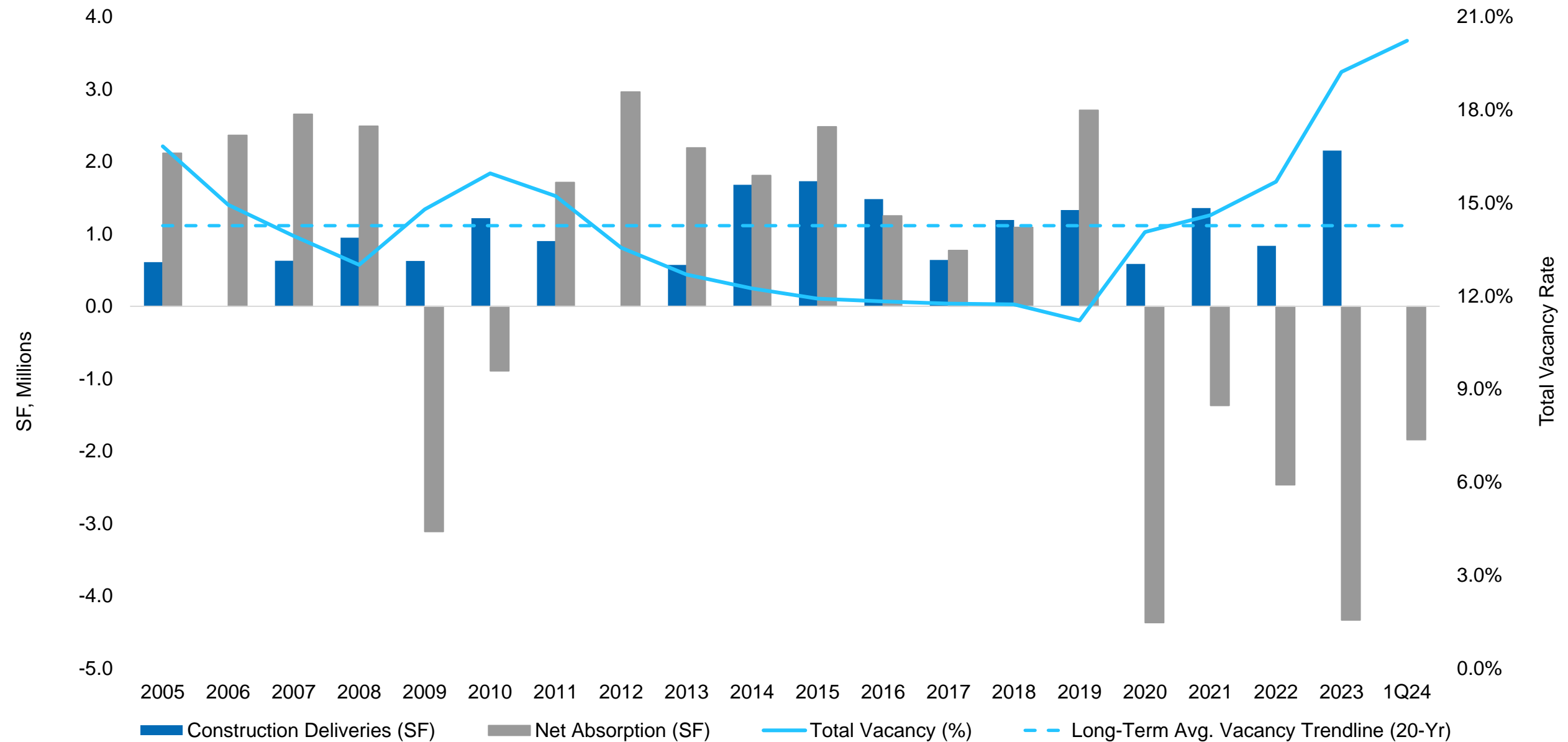
Leasing Market Fundamentals



Metro Wide Vacancies Reach 20.0% for the First Time in 20 Years

Fundamentals remained challenged during the first quarter of 2024 as the overall vacancy and availability rates achieved 20.6% and 25.5%, respectively. Negative net absorption totaled nearly 2.0 million SF, and the office construction pipeline sits at over 3.0 million SF. Most of the active developments are scheduled to deliver in the next 12 months, and several owners of projects that were originally slated for lab use are considering pivoting back to office.

Historical Construction Deliveries, Net Absorption, and Vacancy

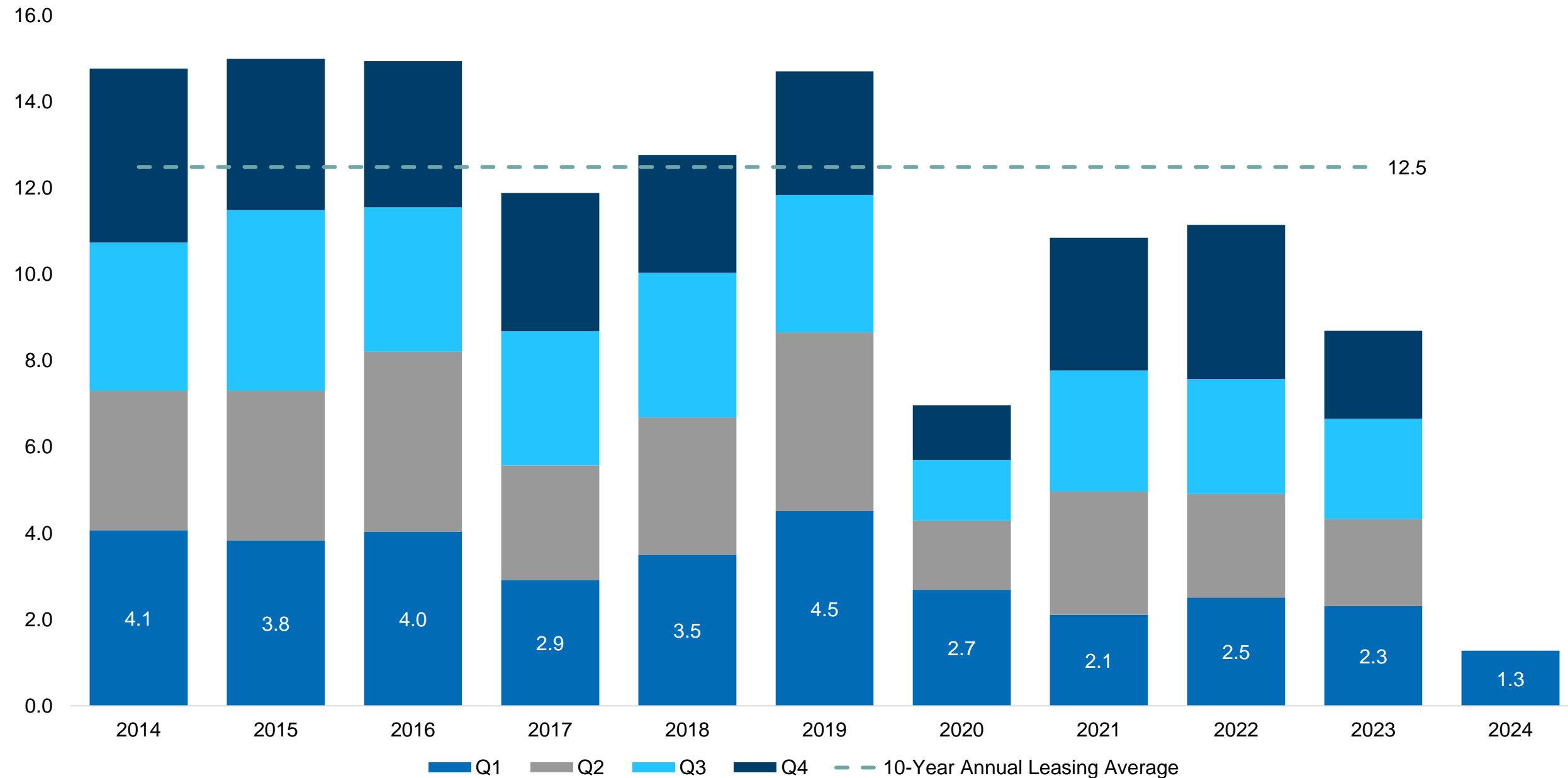


Source: Newmark Research

Leasing Activity Lacking Momentum Despite an Increase in Demand

Leasing activity had a sluggish start to 2024 after another below-average performance in 2023. Tenant demand has seen an uptick in recent months, however, and there are now 20 tenants in the market seeking over 100,000 SF in Greater Boston. The flight-to-quality trend remains prevalent, as buildings with premier amenities are attracting higher touring activity. Although the average size requirement has dropped compared to pre-COVID levels, the sentiment surrounding office as an asset has begun to shift as liquidity returns to the market.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar



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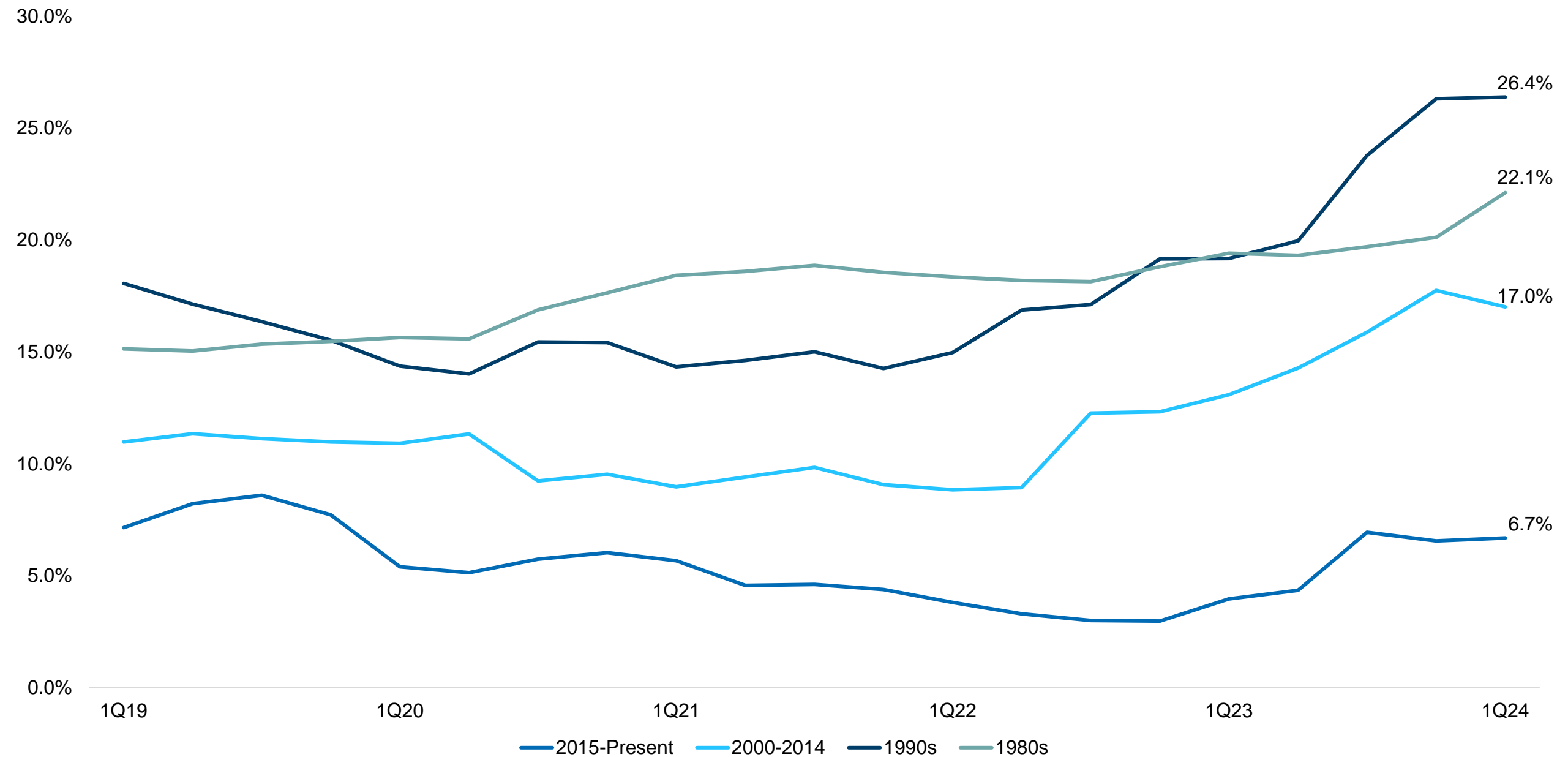


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Flight-to-Quality Trend Is Creating a Broader Market Bifurcation

Greater Boston's office market is currently experiencing a divide between trophy and older generation assets. Tenants remain leveraged in lease negotiations, and preference is concentrated on newer buildings that are offering higher concession packages and premier amenities. Owners of office properties built outside of the last decade will need to invest capital to remain competitive in the marketplace as the office inventory is set to expand further with new deliveries on the horizon.

Direct Availability Rate by Year of Construction

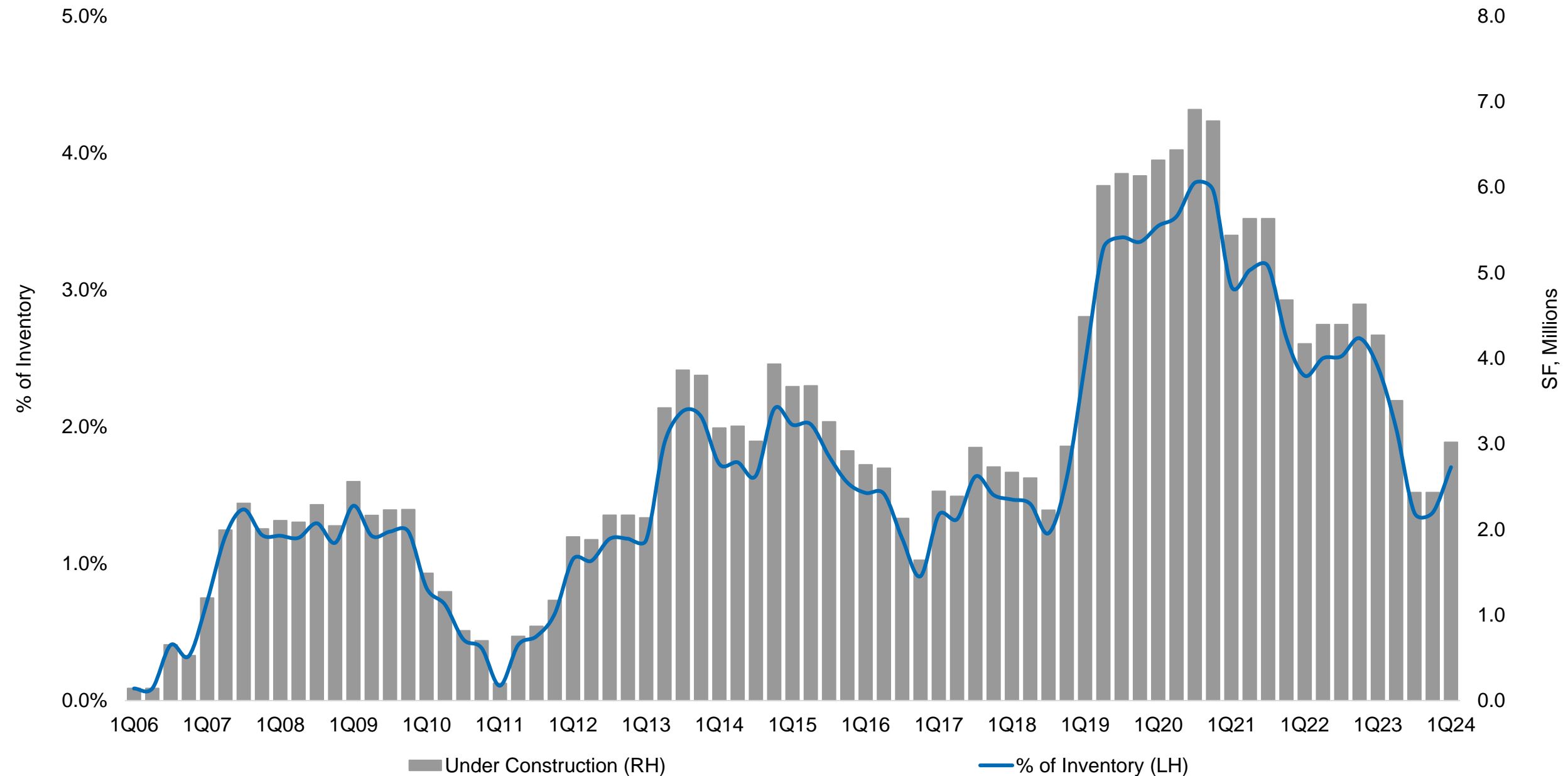


Source: Newmark Research, CoStar

Construction Pipeline Has Returned to Pre-Pandemic Average

Following several years of a robust office development pipeline, Greater Boston's construction levels are now in-line with pre-pandemic levels. Although no projects broke ground during the first quarter of 2024, 10 World Trade Center in Boston's Seaport shifted from life science use to the future downtown office inventory.

Office Under Construction and % of Inventory

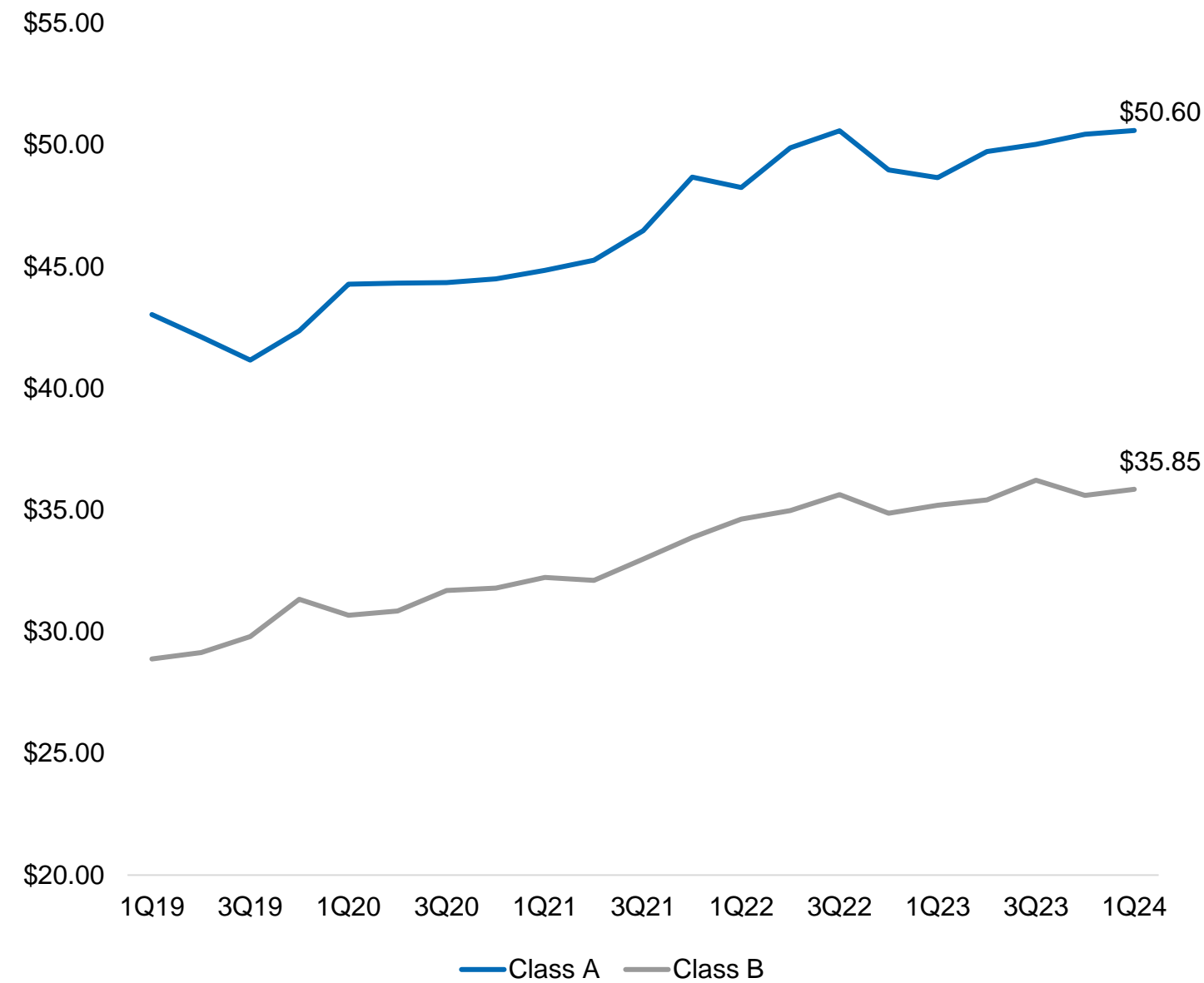


Source: Newmark Research, CoStar

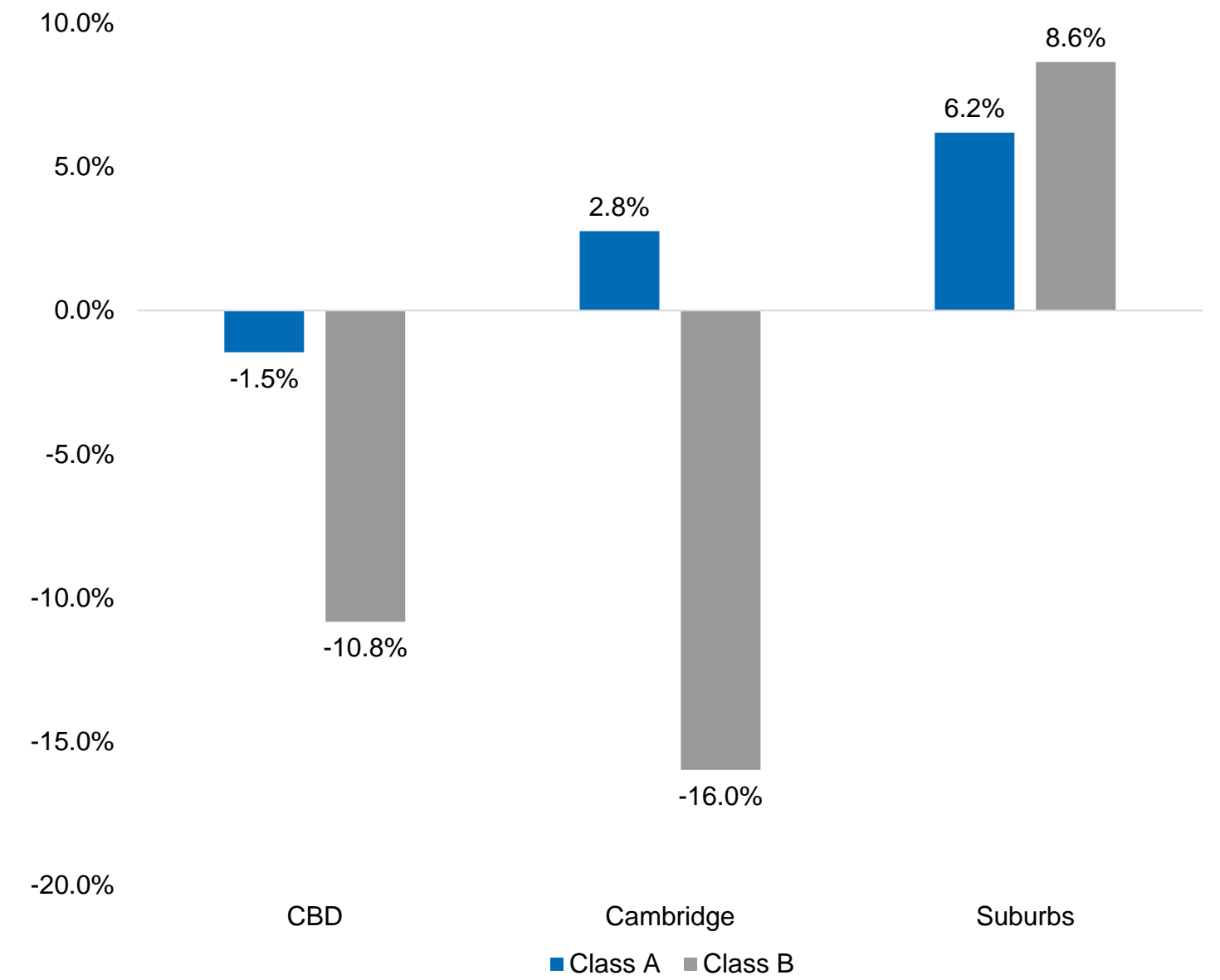
Overall Asking Rents are Holding Despite Market Conditions

Office landlords have maintained their footing with regards to asking rents since the pandemic, while other fundamentals in the Boston metro office market have deteriorated. Quoted rates for Class B buildings have seen a notable decline in Cambridge and the CBD, and there is a growing bifurcation in the marketplace between asset classes. Effective rates have seen a greater impact, as landlords continue to provide large concession packages in favor of higher base rents.

Class A and Class B Asking Rents (\$/SF)



Change in Class A and B Asking Rents (\$/SF) 1Q20-1Q24



Source: Newmark Research, CoStar



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Select Lease Transactions

Leasing volume was limited during the first quarter of 2024 despite an increase in demand. Several subleases were absorbed in the CBD, led by Astria Health at 22 Boston Wharf Rd. and the City of Boston at Center Plaza. Aspen Technology inked the largest Suburban office deal since 2022, signing for 155,000 SF at 22 Crosby Dr. in Bedford. With 20 tenants in the market for over 100,000 SF, the expectation is for leasing activity to gain more momentum throughout the rest of 2024.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Aspen Technology	22 Crosby Drive	North – Route 128	Lease Renewal/Expansion	155,000
<i>The software provider inked the largest deal of the quarter to renew and expand its footprint in Bedford.</i>				
SICK USA	150 Royall Street	South – Route 128	Direct Lease	31,569
<i>SICK signed a new lease to expand its operations in Boston’s South – Route 128 submarket.</i>				
Astria Health	22 Boston Wharf Road	CBD – Seaport District	Sublease	31,110
<i>Astria committed to sublease the current Duck Creek Technologies space in the Seaport.</i>				
Sage Therapeutics	55 Cambridge Parkway	Cambridge – East	Direct lease	30,567
<i>The biotech company relocated its office needs within Cambridge.</i>				
Grant Thornton	53 State Street	CBD – Financial District	Direct Lease	26,970
<i>The accounting firm inked a full floor lease to maintain its presence in the Financial District.</i>				

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Submarket Overviews





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