



Boston Office Market

Greater Boston's Office Market Has Lost Some Momentum

The Boston metro area's office market recovery continues to vacillate in concert with macroeconomic uncertainty across the country. Following several quarters of positive momentum, Greater Boston's office fundamentals softened slightly as recessionary pressures have risen and the once-booming tech and biotech sectors are facing corrections. An uptick in sublease space resulted in negative net absorption during the second quarter of 2022, and the metrowide vacancy rate increased by 30 basis points. Sustained inventory contraction due to redevelopment pursuits continues to remove vacant office space from competitive stock; on a more positive note, headwinds in the life science sector could curtail future pipeline projects by upwards of 65%. Tenant activity suggests demand-side challenges will persist in the near term as expiration-driven leasing, renewals/extensions and right-sizing exercises are expected to drive transactions in the local office market, rather than tenant growth. Tumult in the financial markets has rippled through the tech industry, which is now experiencing layoffs, limited exit strategies and more measured venture funding. With that, tenants that are transacting remain attracted to quality office product. In the CBD, new construction is dominating user preferences. Office occupiers are contending with an overhanging sluggishness in return-to-office momentum, while the long-term impact of flexible hybrid schedules lacks clarity. Although inflation and rising interest rates are weighing on investment sale volumes, a handful of life science-related transactions closed in recent months.

Current Conditions

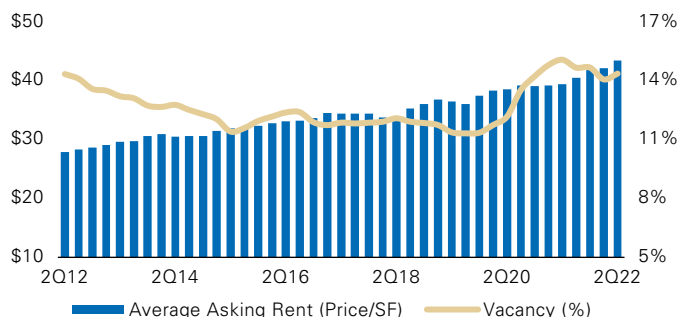
- Office vacancies increased slightly during the second quarter due to modest negative net absorption.
- The metro's sublease availability rate surpassed 4.0% again in the second quarter.
- Average asking rents across the metro area continue to rise, reaching \$43.46/SF in the second quarter.
- Inflation pressures and rising interest rates are weighing on local business confidence.

Market Summary

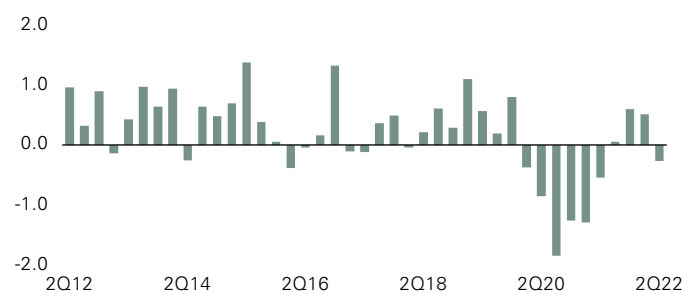
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	173.7M	173.9M	178.7M	↔
Vacancy Rate	14.4%	14.1%	15.1%	↔
Quarterly Net Absorption (SF)	-264,605	506,788	-547,735	↑
Average Asking Rent/SF	\$43.46	\$42.20	\$39.42	↑
Under Construction (SF)	4.5M	4.3M	5.6M	↔

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q2 2022

Boston CBD

Vacancies in Boston's office market are hovering near cyclical peaks. While net absorption was slightly positive during the second quarter of 2022, available subleases are expanding again. Toast re-listed its space at 10 Saint James recently, and Rapid7 put two floors, totaling 67,452 square feet, at 100 Causeway St. on the sublease market in June. Both leases have more than five years of term remaining. At 3.9%, the CBD's sublease availability rate is still well below the pandemic peak of 5.4% reported in late 2020. The delta between Class A and B fundamentals continues to widen in Boston's CBD, however. Vacancies for Class A office space reached 11.0% and are only 420 basis points above the pre-pandemic trough. Conversely, the Class B market is contending with slower leasing momentum and vacancy rates increased to 16.9%, which represents a 15-year high. Several large leases were executed recently, and there is evidence of tenant growth within the private equity sector. Tenant preferences have shifted towards new construction. InterSystems finalized its lease for 420,000 square feet at One Congress in a relocation from Cambridge, and IRM executed a lease for 39,000 square feet at Winthrop Center. Bain & Company also agreed to anchor the Baupost/Druker Company's 350 Boylston St. development, leasing 221,000 square feet in the project. The resulting expansion in availabilities within older Class A buildings is a potential risk to Boston's tower market outlook in the next 24 to 36 months.

Landlords, particularly within the Class A market, have been holding strong on face rents. Concession packages remain generous, with Class A tenant improvement allowances reaching \$100.00/SF to \$150.00/SF and free rent reaching 7 to 15 months on select transactions. Asking lease rates for Class B space stabilized this quarter but are still 7.0% below the pre-pandemic peak. With that, further rent corrections may be on the horizon, given the potential downside risks in the marketplace. Urban office usage has rebounded to roughly 30% to 35% of pre-pandemic levels and transit ridership continues to rise as more workers are now in person, at least on a part-time basis. The long-term impacts of remote and flexible schedules are still unclear and office demand may continue to struggle. Weakness in the labor markets could give employers the leverage needed to bring workers back to the office.

Cambridge

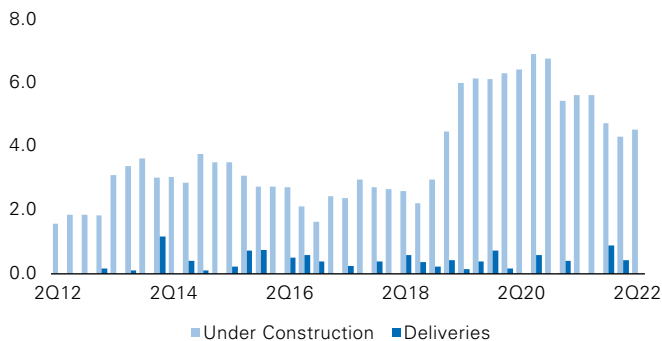
Increasing sublease space is impacting Cambridge office fundamentals as well. Vacancies increased by another 80 basis points during the second quarter of 2022 as Biogen vacated its office space at 300 Binney St. in East Cambridge. Other companies such as Akebia and 2seventy bio also listed space for sublease in recent months, while Meta is reportedly pulling back on its expansion plans throughout the U.S. With InterSystems's relocation to the Carr Properties/HYM's One Congress Street development in Boston's North Station finalized, 160,000 square feet of space is expected to come back at One Memorial Drive in Kendall Square next year. On a more positive note, the delivery of Sanofi's office and laboratory campus in Cambridge Crossing resulted in positive net absorption for the quarter. Moreover, two large blocks of availability in East Cambridge are committed to laboratory users and slated for future conversion. Coworking operator Industrious is expanding in Harvard Square, leasing 21,500 square feet at 20 University Rd. during the second quarter of 2022. Risks certainly remain as Cambridge's tech and biotech sectors will remain challenged in the near term. Previous predictions of well-heeled tech companies continuing to expand in the Cambridge market may need revising as juggernauts such as Meta and Google are reportedly implementing hiring freezes this year. Softness in the smaller Class B market also remains a risk as less mature startups look to preserve cash runways and demand less office space. In the long term, however, Cambridge's innovative culture and access to young talent will bolster market fundamentals.

Suburbs

The suburban office landscape continues to reflect broader office market fundamentals that are being observed throughout Greater Boston. Following four consecutive quarters of vacancy rate decline, the second quarter of 2022 showed a 40-basis-point uptick in vacancies compared to the first quarter, reaching 15.8%. Suburban office users are listing space for sublease as macroeconomic headwinds have emerged and companies continue to grapple with the fallout from the pandemic. Biogen and Monster Worldwide listed 183,585 square feet and 74,113 square feet on the sublease market, respectively, while Idemia vacated 90,058 square feet at 296 Concord Rd. in Billerica. **Expiration-driven leasing and tenant**

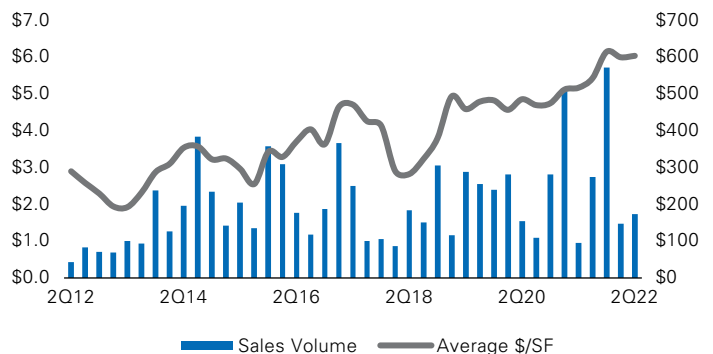
Construction and Deliveries

SQUARE FEET, MILLIONS



Office / Lab Investment

SALES VOLUME (BILLIONS AND AVERAGE PRICE/SF)



RESEARCH Q2 2022

displacement, due to lab conversions, are dominating leasing transactions; however, users on average are requiring less space. Although current economic conditions are impacting investment sale volumes, there were transactions that occurred during the second quarter of 2022. The largest suburban office transaction occurred at Park 9 in Wellesley, where a 375,088-square-foot, four-property portfolio was purchased by Beacon Capital Partners with intent to partially convert the property for life science use. In a joint venture, AEW Capital Management and Redgate Real Estate Advisors acquired 14 Oak Park Dr. in Bedford, with owner-operator Progress Software vacating the building and consolidating its headquarters at 15 Wayside Rd. in Burlington. Laboratory conversions continue to remove traditional office inventory from the market, but the pace of new repositionings appears to be waning due to recent challenges in this sector.

Capital Markets

Following a banner year of activity, investment volumes were muted during the first half of 2022. Roughly \$3.2 billion in office and laboratory assets changed hands throughout Greater Boston, which represents 52.5% of total investment during the two quarters of 2021. Growing recessionary pressures, rising interest rates and inflationary conditions have led to more hesitancy in the marketplace, limiting capital flows. Once again, life science-related transactions dominated investment activity throughout Greater Boston. GI Partners and Related Beal recently recapitalized 451 D St., a laboratory conversion in the Seaport.

Another recapitalization took place at 1 Hampshire St. in Cambridge for \$120 million, or \$1,129/SF. Barings Real Estate Advisors acquired One Patriots Park, also a laboratory conversion in Bedford from Jumbo Capital during the second quarter of 2022. Given current conditions, the investment landscape will likely remain challenged for the next 12 to 18 months. The longer-term forecast is more positive as the region is still a top destination for capital, particularly among foreign investors. Greater Boston's favorable demographics, world-renowned hospitals and universities, and maturing tech and biotech sectors make the metro a desirable location for investment activity.

Outlook

At the midpoint of 2022, market conditions remain somewhat tenuous within Greater Boston. The metro area's economic recovery has been complicated by rising inflation, international conflict, changing consumer behavior and shifts in monetary policy. Although fundamentals posted modest improvements since the height of the pandemic, rising sublease inventories are weighing on local office fundamentals. Layoffs have infiltrated the tech and biotech industries, both locally and nationally and protracted work-from-home schemes are impacting office demand. The next several quarters will be pivotal for the region's recovery as vacancy and rents will remain challenged by the flight to quality, potential corporate consolidations and generous landlord concession packages. Nevertheless, the metro's long-term outlook for recovery is encouraging.

Select Lease Transactions

Tenant	Building / Address	Submarket	Type	Square Feet
InterSystems	One Congress Street, Boston	CBD – Government Center	Direct Lease	420,000
Bain & Company	350 Boylston Street, Boston	CBD – Back Bay	Direct Lease	221,000
Holland & Knight	10 St. James Avenue, Boston	CBD – Back Bay	Lease Renewal	105,130
Fish & Richardson	1 Marina Park Drive, Boston	CBD - Seaport	Lease Renewal	56,676
BNY	118 Flanders Road, Westborough	West – Route 495	Direct Lease	44,000
Boston Consulting Group	53 State Street, Boston	CBD – Downtown	Lease Extension	40,956

Select Sale Transactions

Building / Address	Submarket	Sale Price	Price/SF	Square Feet
451 D Street, Boston*	CBD – Seaport	\$700.0M	\$1,467	477,132
Alexandria RE Portfolio	West & North – Route 128	\$292.0M	\$782	373,457
Park 9 Campus, Wellesley	West – Route 128	Confidential	Confidential	375,058
One Patriots Park, Bedford	North – Route 128	\$132.0M	\$920	143,553
1 Hampshire Street, Cambridge*	East Cambridge	\$120.0M	\$1,129	106,286
254 Second Avenue, Needham	West – Route 128	\$30.7M	\$353	86,906

* Recapitalization

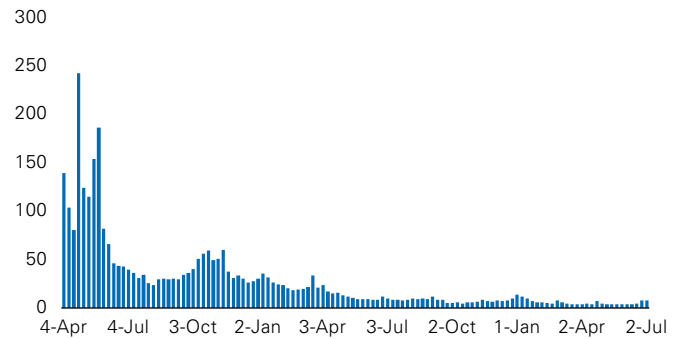
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD Total	66,348,030	3,564,669	12.8%	27,482	345,971	\$75.00	\$53.65	\$65.87
Back Bay	13,346,522	225,000	8.4%	11,839	-83,539	\$79.11	\$58.05	\$72.41
Downtown	33,027,528	1,072,420	15.1%	-47,701	-92,341	\$74.18	\$50.93	\$68.07
Government Center	1,509,457	977,249	8.3%	-3,247	24,298	\$70.00	\$57.36	\$61.31
Midtown	2,385,193	-	15.5%	-20,176	-68,187	-	\$52.05	\$50.88
North Station	3,026,427	-	14.7%	20,929	4,376	\$90.00	\$51.39	\$54.15
Seaport District	10,276,494	630,000	11.1%	37,023	546,790	\$73.97	\$58.88	\$62.41
South Station	2,776,409	660,000	11.4%	28,815	14,574	-	\$52.08	\$49.25
Cambridge Total	10,466,191	792,000	10.6%	177,926	28,786	\$92.64	\$76.17	\$84.77
East Cambridge	6,858,649	792,000	12.8%	191,001	28,463	\$94.35	\$83.34	\$91.34
Mid Cambridge	2,565,391	-	7.4%	-11,545	14,045	\$85.84	\$66.18	\$73.51
West Cambridge	1,042,151	-	4.4%	-1,530	-13,722	-	\$40.00	\$35.52
Suburban Total	96,871,279	179,564	15.6%	-470,013	-132,574	\$27.59	\$23.02	\$27.59
Urban Edge	12,174,639	179,564	10.0%	-130,129	3,461	\$42.30	\$31.32	\$38.19
North – Route 128	19,057,449	-	12.8%	-37,957	63,892	\$34.53	\$24.18	\$30.86
South – Route 128	12,725,072	-	14.8%	32,967	22,357	\$28.50	\$24.93	\$26.59
West – Route 128	19,063,643	-	14.9%	-193,551	-85,110	\$43.46	\$32.03	\$38.43
North – Route 495	17,629,199	-	18.3%	-201,445	-235,922	\$24.71	\$18.20	\$22.18
South – Route 495	3,319,070	-	10.8%	-6,430	-1,274	\$21.54	\$21.17	\$21.23
West – Route 495	9,080,463	-	29.6%	36,011	58,603	\$21.92	\$19.10	\$19.70
Framingham/Natick	3,821,744	-	17.7%	30,521	41,419	\$30.03	\$21.25	\$26.93
Market	173,685,500	4,536,233	14.4 %	-264,605	242,183	\$50.47	\$34.88	\$43.46

Economic Overview

More than two years after the onset of the pandemic, health concerns have largely given way to economic ones. A recession is likely on the horizon due to inflationary pressures and rising interest rates. The public markets have been impacted by these macroeconomic headwinds, and layoffs/hiring freezes are gaining traction within certain sectors. Local business confidence has fallen to its lowest level since the end of 2020 and return-to-work momentum has been sluggish within the office sector. MBTA ridership is still wavering between 40% to 50% of pre-COVID-19 levels, as well. Despite these factors and a modest uptick in weekly unemployment claims, Greater Boston's labor markets remain quite healthy. Following three months of solid growth, the region has regained nearly all the jobs lost during the pandemic. Metrowide total employment ended May just 0.9% below its February 2020 peak and the unemployment rate is only 10 basis points above the cyclical low of 2.9%. Many jobs were added in the construction, professional services and information industries.

Weekly Initial MA Jobless Claims

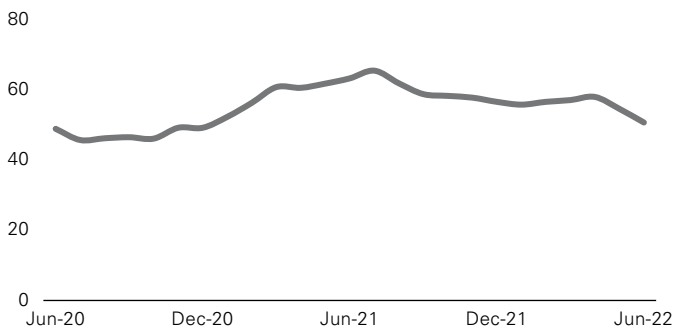
IN THOUSANDS (NSA), INCLUDES PUA* CLAIMS



*Pandemic Unemployment Assistance
Source: U.S. Department of Labor, July 2022

Employer Confidence

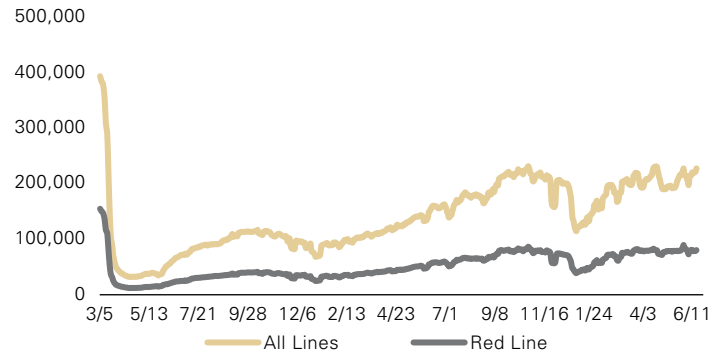
AIM, BUSINESS CONFIDENCE INDEX



Source: Associated Industries of Massachusetts, June 2022

MBTA Gated Validations by Line

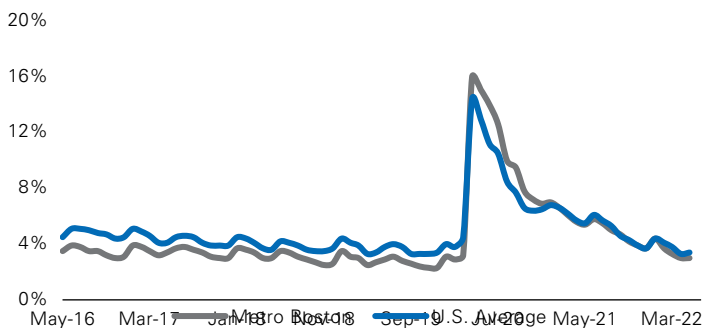
7-DAY AVERAGE



Source: MBTA, Newmark Research, June 2022

Unemployment Rate

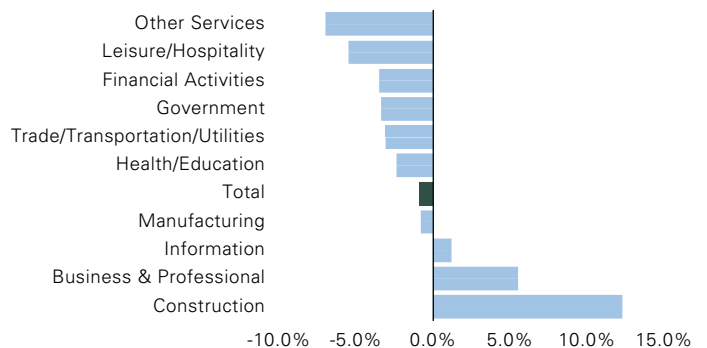
NOT SEASONALLY ADJUSTED



Source: Bureau of Labor Statistics, May 2022

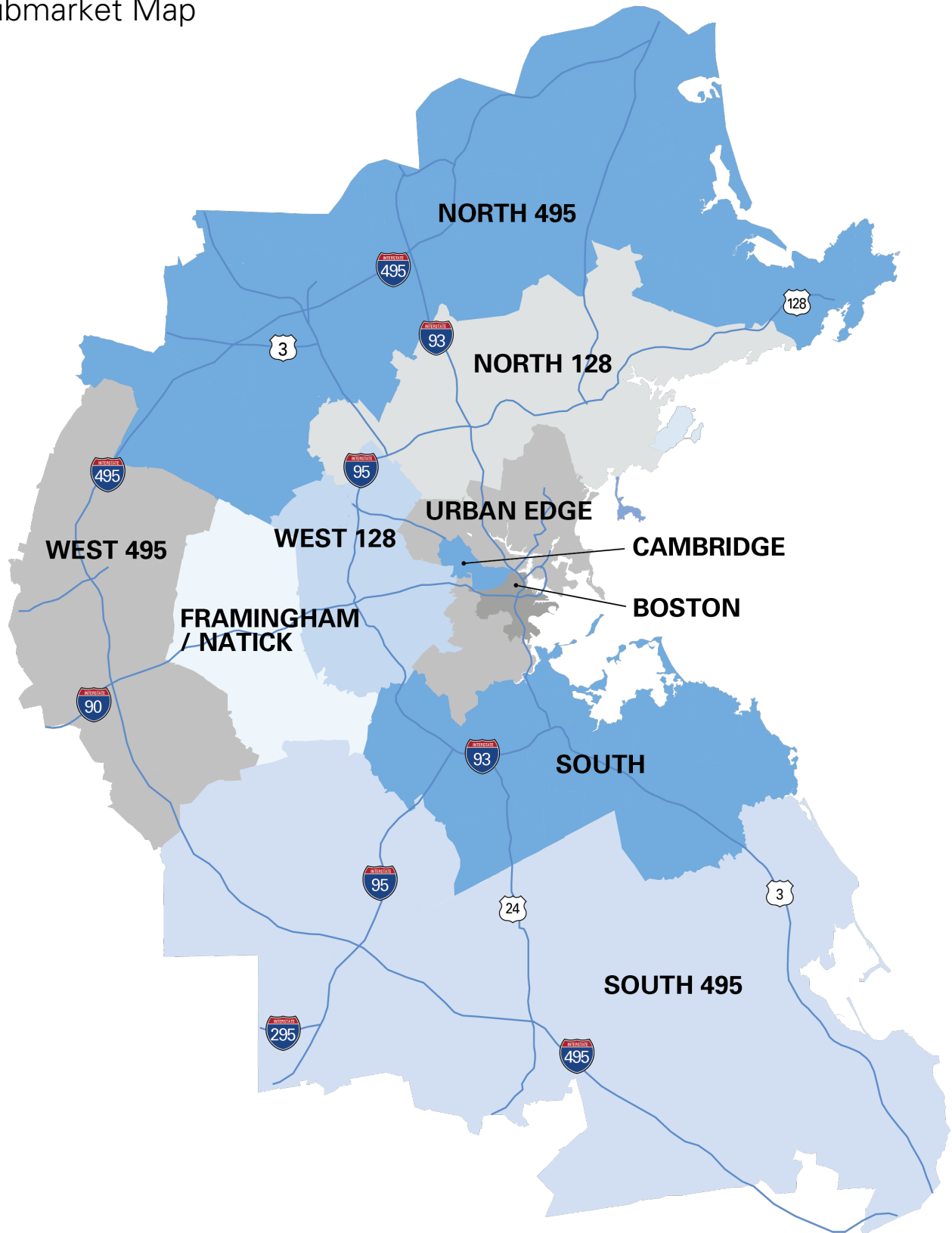
Employment by Industry

PERCENT CHANGE FROM FEBRUARY 2020 PEAK (NSA)



Source: Bureau of Labor Statistics, May 2022

Submarket Map



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