

3Q23

# Boston Office Market Overview

NEWMARK

# Market Observations

## Economy

- Greater Boston’s labor market continues to outperform national averages; however, the disconnect between the unemployment rate and office-using employment is severely impacting the overall health of the office market.
- Challenged market fundamentals and an elevated interest rate environment are driving office valuations down 20% to 30% from previous sale prices. Investor appetite is slim, but the sale of 1 Liberty Square is a positive for capital markets moving forward.
- MBTA ridership has made somewhat of a rebound thus far in 2023, with most employees commuting to the office Tuesday through Thursday. Mondays have seen a notable increase as well, suggesting more companies are pushing for in-person attendance post-Labor Day.

## Major Transactions

- Lego finalized its lease for 134,000 SF at 101 Massachusetts Avenue in the Back Bay. The Danish toymaker announced the relocation of its headquarters from Enfield, Connecticut in the first quarter of 2023 and decided on Samuels & Associates’s development over the Mass Pike for its location this quarter.
- Toast agreed to sublease LogMeIn’s previous headquarters at 333 Summer Street in the Seaport District. The 102,000 SF deal marks one of the largest sublease transactions in the last few years in Greater Boston.
- Synergy Investments purchased 1 Liberty Square for \$45 million, or \$286/SF, from Clarion Partners. The sale marks the largest office transaction in the City of Boston in the last 18 months.

## Leasing Market Fundamentals

- Net absorption in the third quarter of 2023 totaled negative 1.1 million SF. Occupancy losses were led by the suburban office market, which will continue to underperform in the near-term with the return of lab buildings to the office inventory.
- Leasing activity remains sluggish across the Boston Metro, and tenants in the market are acting with little to no conviction. Large transactions are being driven by lease expiration decisions, and there is a flight-to-quality trend taking place throughout the region.
- Overall vacancy and availability expanded to 18.5% and 23.2%, respectively, during the third quarter of 2023. Tenants remain leveraged in lease negotiations moving forward, while landlords are holding asking rents.

## Outlook

- The future health of the overall office market will be determined by return-to-office policies, as well as the restoration of a more normal lending and venture capital funding environment.
- Fundamentals are expected to deteriorate further in the short term due to the expansion of the overall inventory, which is causing a bifurcation in the market.
- Investor appetite should continue to gravitate towards Boston and fuel capital markets activity as property valuations decline.
- Greater Boston’s office market will remain challenged in the short term, but the region’s highly educated, innovative workforce will help drive long-term recovery.



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



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# Economy

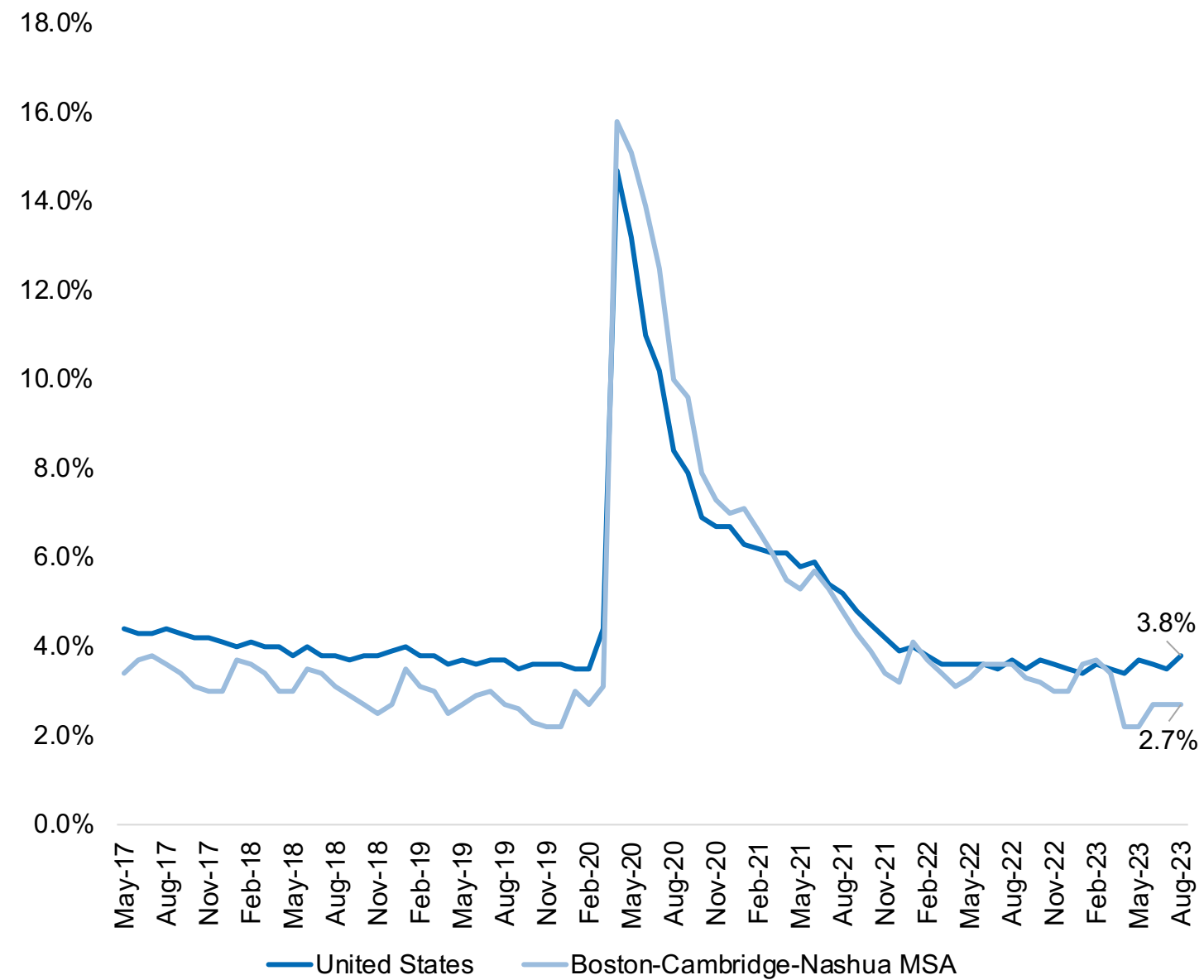




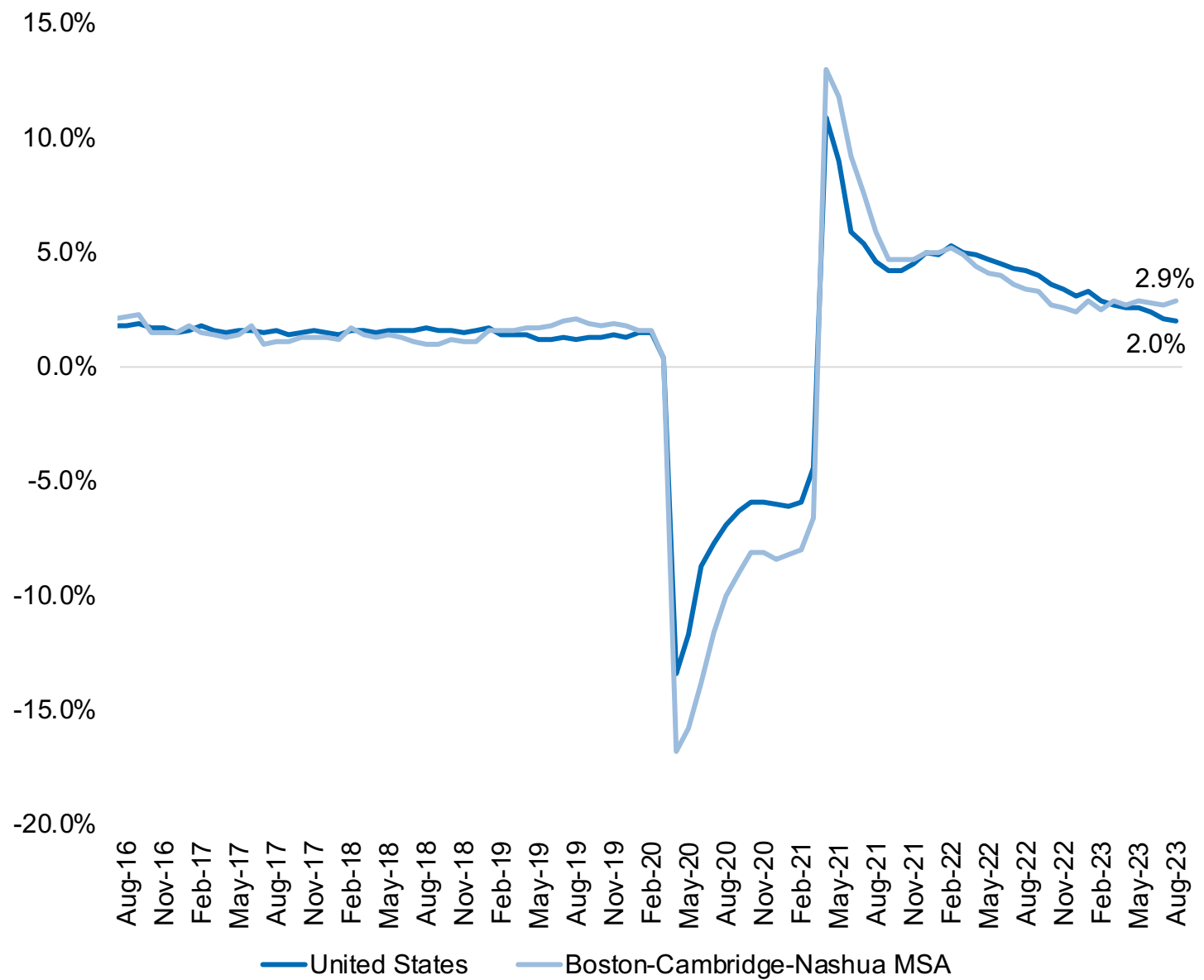
# Metro Employment Trends Are Performing Above the National Average

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

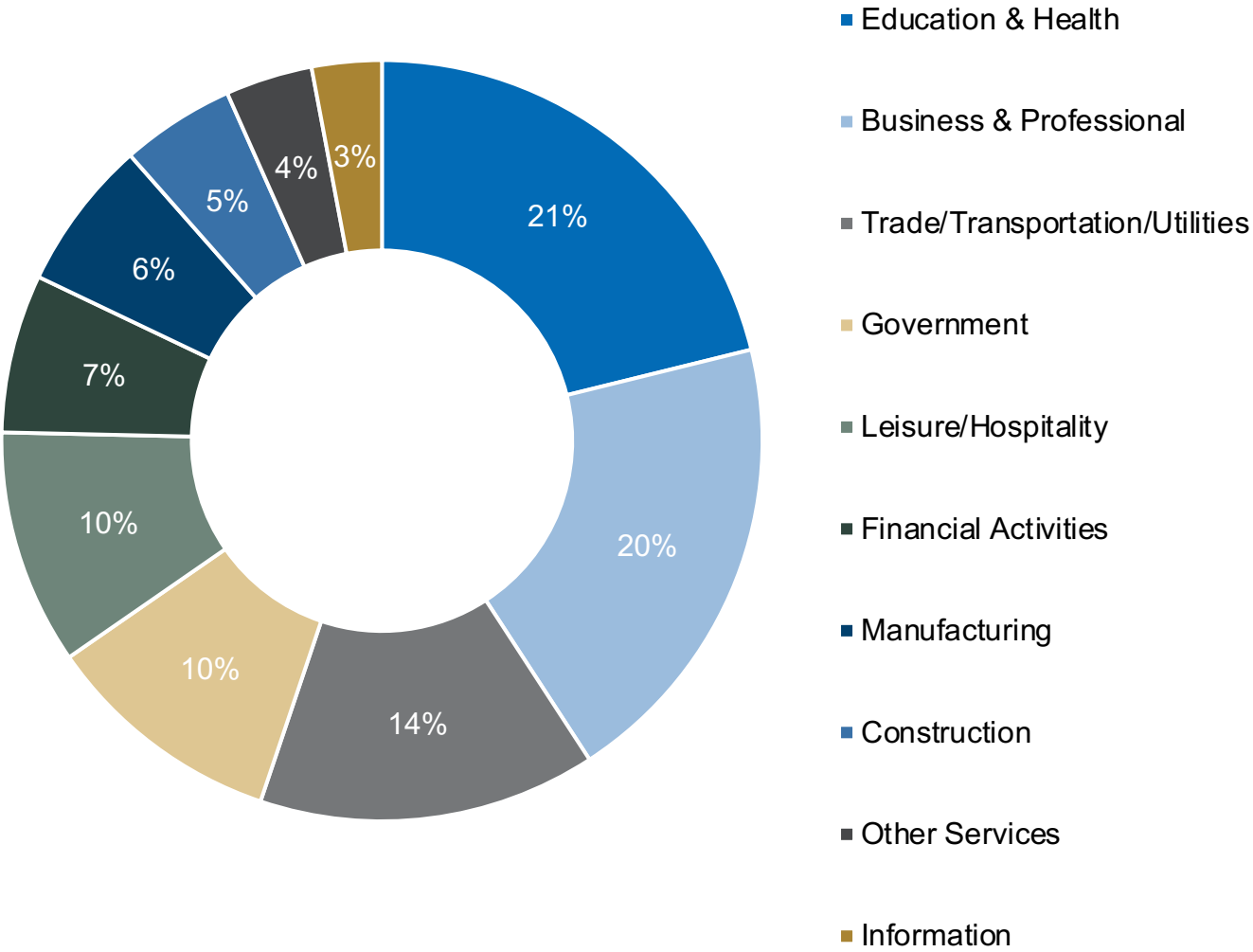


Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA  
Note: August 2023 data is preliminary.  
\*Office-using employment includes employment in the following sectors: Professional & Business Services. Financial Activities and Information.

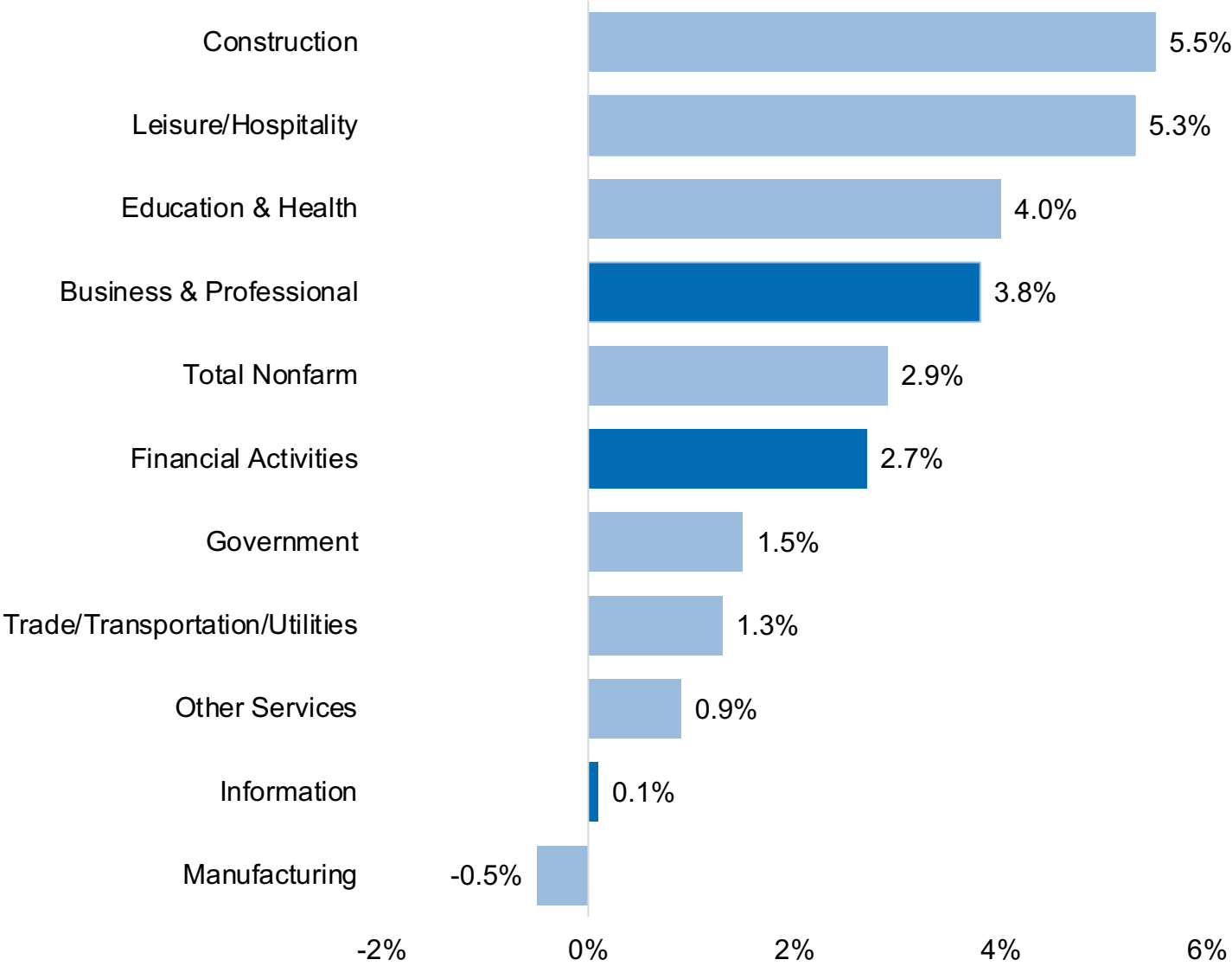
# Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

The construction sector led all industries in regional annual job growth for the second consecutive quarter. Business and professional services led all office-using jobs in terms of annual job growth, and the hospitality sector saw a significant uptick in employment. Manufacturing job growth realized a decline over the quarter but is expected to rise in the short term with the emergence of advanced manufacturing companies throughout Greater Boston.

Employment by Industry, August 2023



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

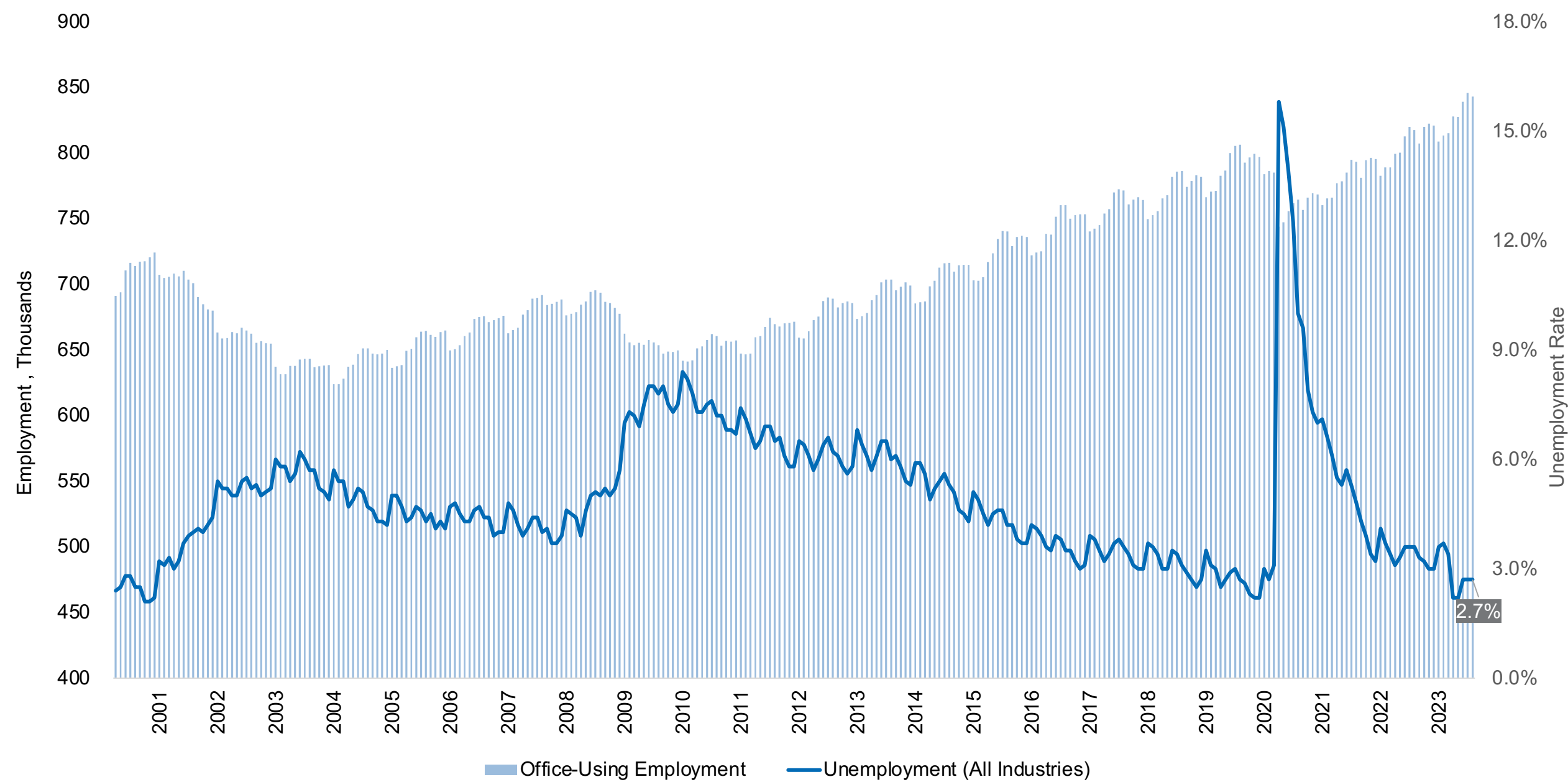


Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

# Boston’s Unemployment Rate Remains Low Despite Macroeconomic Conditions

The number of office jobs continues to increase in the face of repeated interest rate hikes and recessionary pressures, while Greater Boston’s unemployment rate remains below the national average. Hybrid work policies are still having an impact on the overall health of the office market, however, as companies that are hiring and expanding their workforce are not seeking additional office space to accommodate them.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA  
Note: August 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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# Public Transit Showing Signs of a Rebound

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# Leasing Market Fundamentals

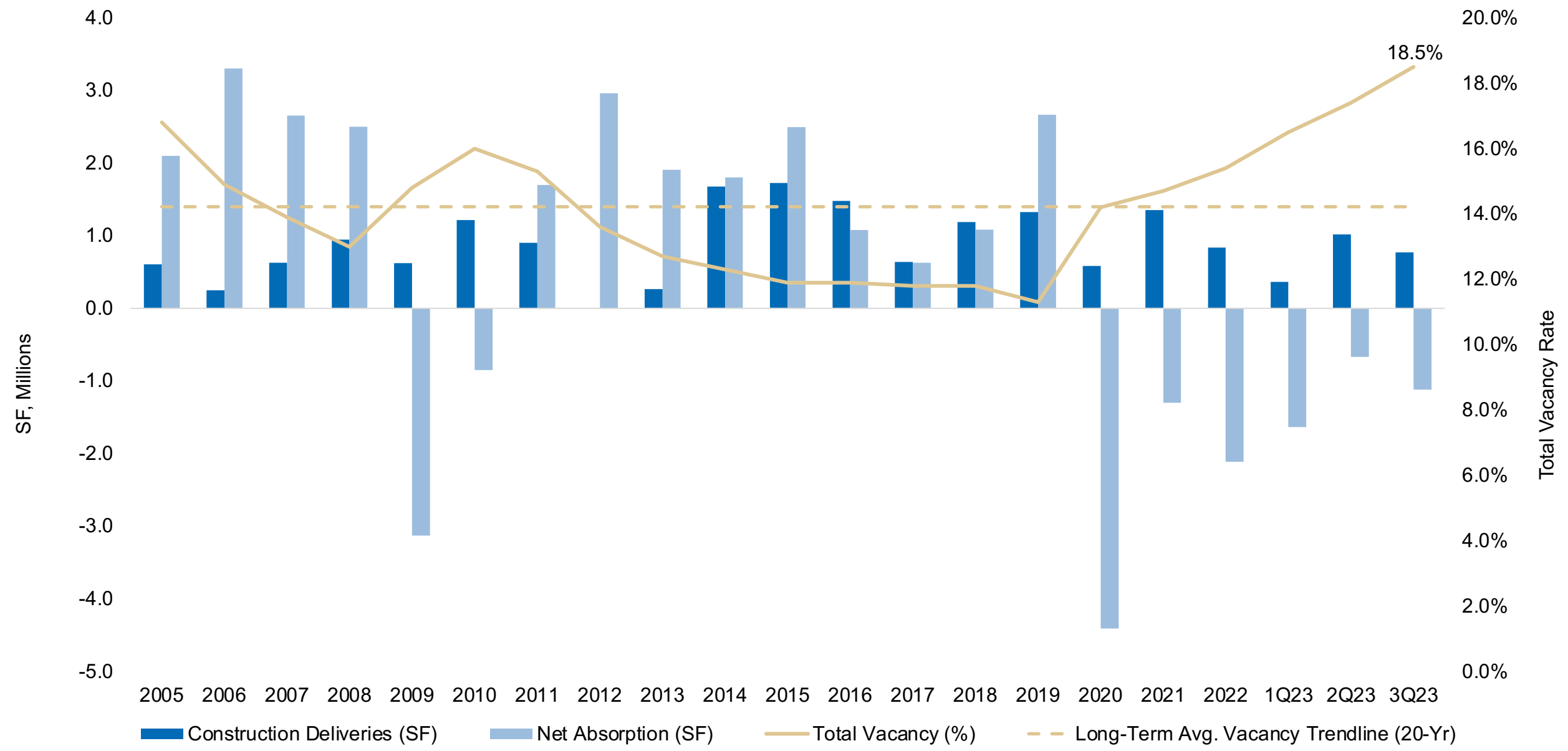




# Office Vacancies Increasing as Inventory Expands

The metro-wide vacancy rate increased to 18.5% in the third quarter of 2023, marking another historical high. Boston’s CBD experienced the greatest increase in vacancies, rising by 150 basis points over the quarter due to the delivery of Winthrop Center and an expansion at One Post Office Square. Lab developers have begun to pivot space back to office use on select projects, which could challenge the office market significantly if demand does not outpace supply.

Historical Construction Deliveries, Net Absorption, and Vacancy

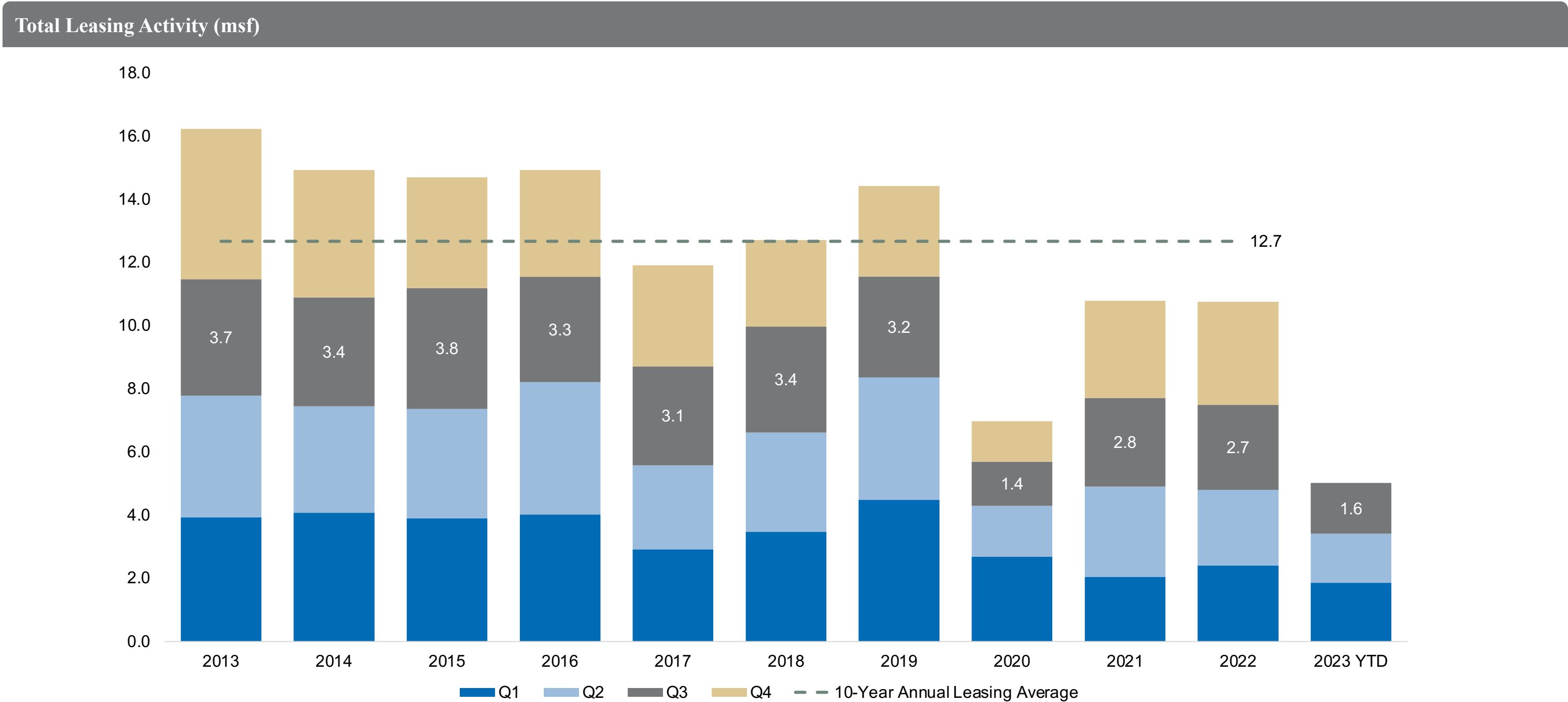


Source: Newmark Research



# Leasing Activity Remains Sluggish

Leasing activity across the Greater Boston office market is well-below the 10-year annual leasing average throughout the first three quarters of 2023. Larger transactions have been limited to extensions and renewals, and the average time to lease space continues to rise. Although leasing totals are historically low, touring activity saw a noticeable increase over the quarter and several companies made public return-to-office announcements for their employees.



Source: Newmark Research, CoStar

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## Average Months on Market Throughout Greater Boston

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# Sublease Availabilities Reaching Historic Highs

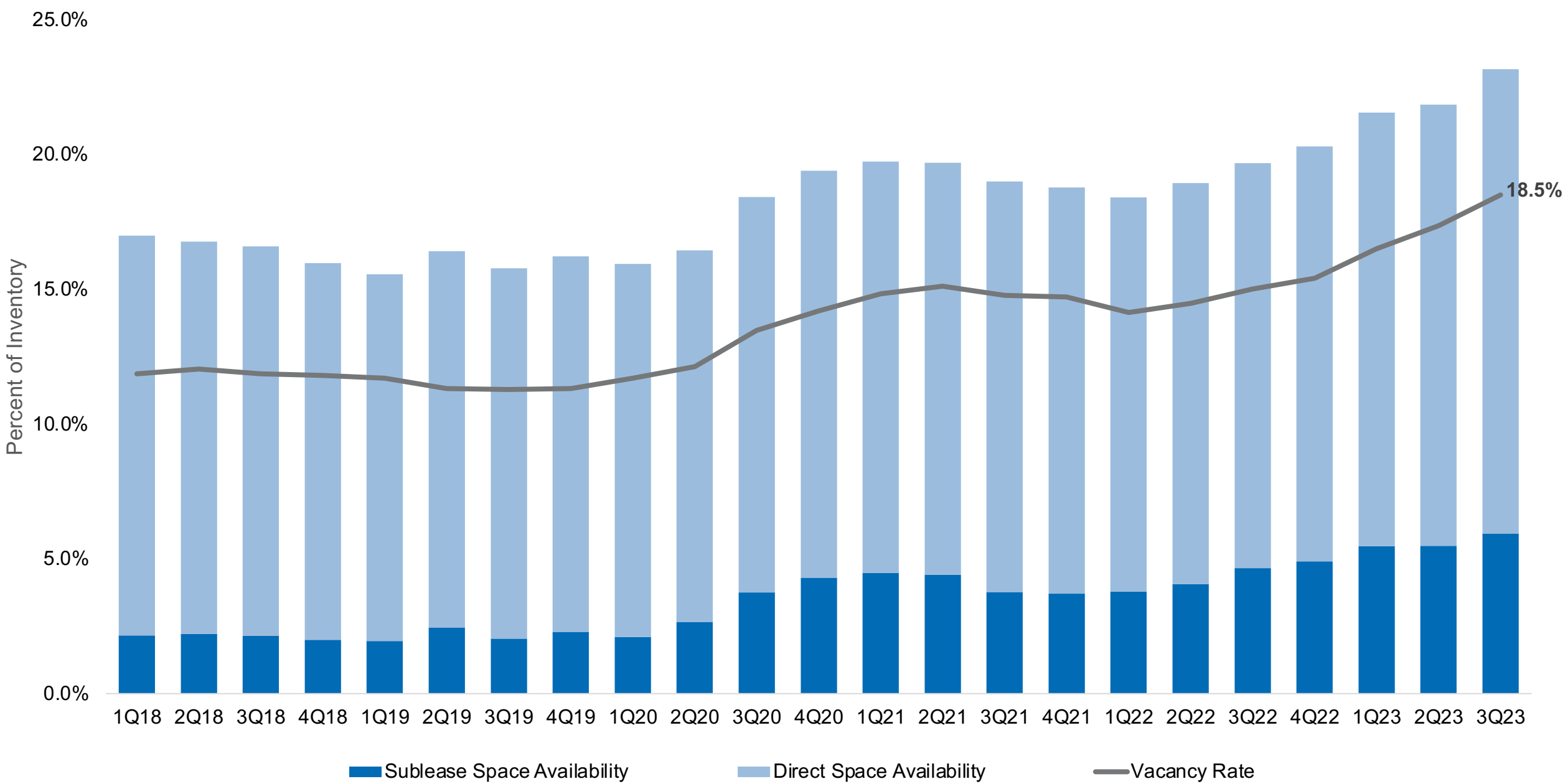


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# Availability Continues to Increase While Tenant Activity Shows Signs of Promise

Fundamentals remained challenged within Greater Boston’s office market during the third quarter of 2023, as both vacancy and availability rates climbed to historic highs. Overall inventory expanded once again due to new construction deliveries and lab buildings moving back to office use, placing further leverage in the hands of tenants during lease negotiations. Touring activity saw a notable uptick over the quarter in the CBD and Cambridge submarkets, which should bode well for the long-term health of Boston’s office market.

Available Space in Boston’s Overall Office Market

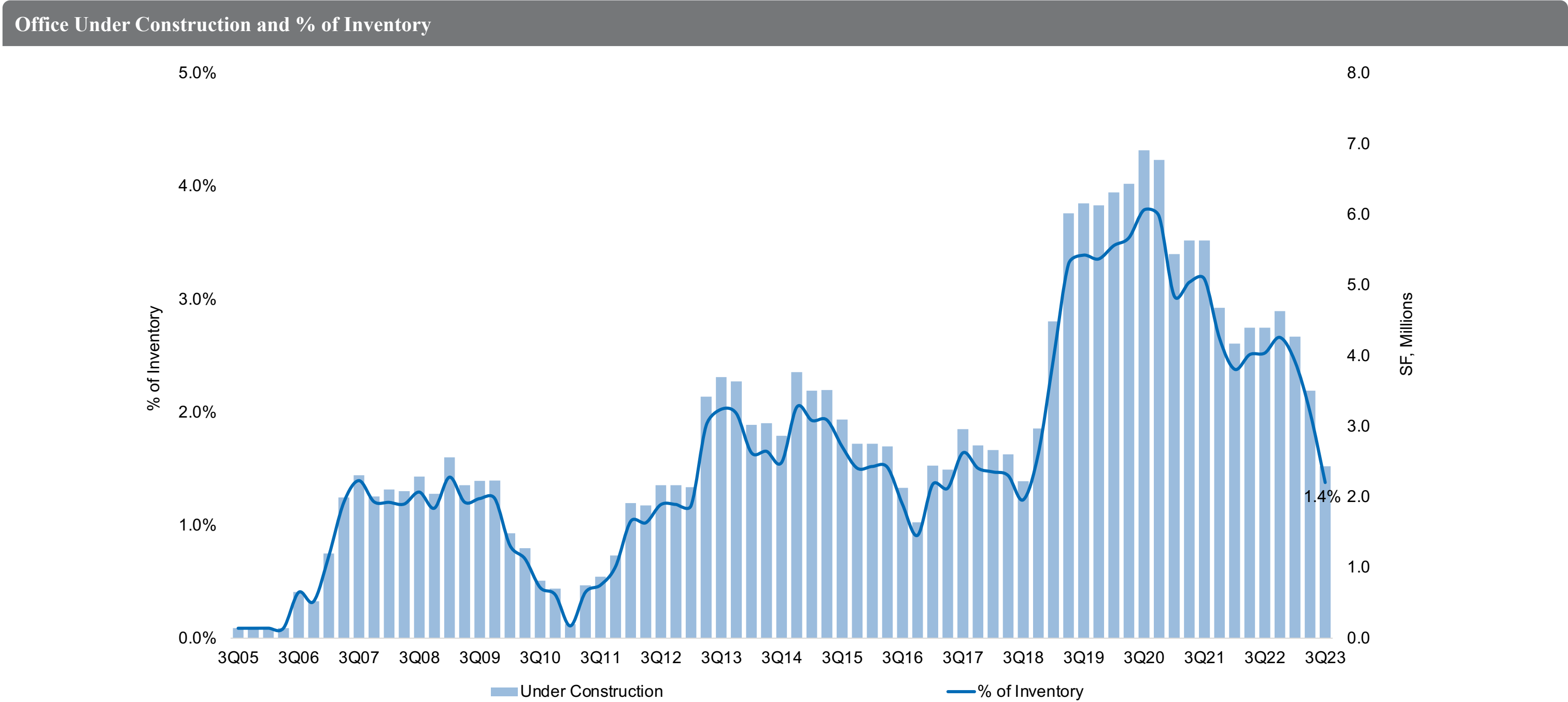


Source: Newmark Research



# New Deliveries Applying Further Pressure on Office Supply

Record deliveries continued in Boston’s CBD during the third quarter of 2023, with Winthrop Center and the formal expansion of One Post Office Square adding more than 1.1 million square feet of inventory to the office market. The additional office space has caused a bifurcation in the market, as large tenant preference is now focused on new builds. Construction remains concentrated in the CBD; however, the square footage underway in Greater Boston is nearing a five-year low. Outside of select pockets of development, the pipeline for new office supply is somewhat limited.

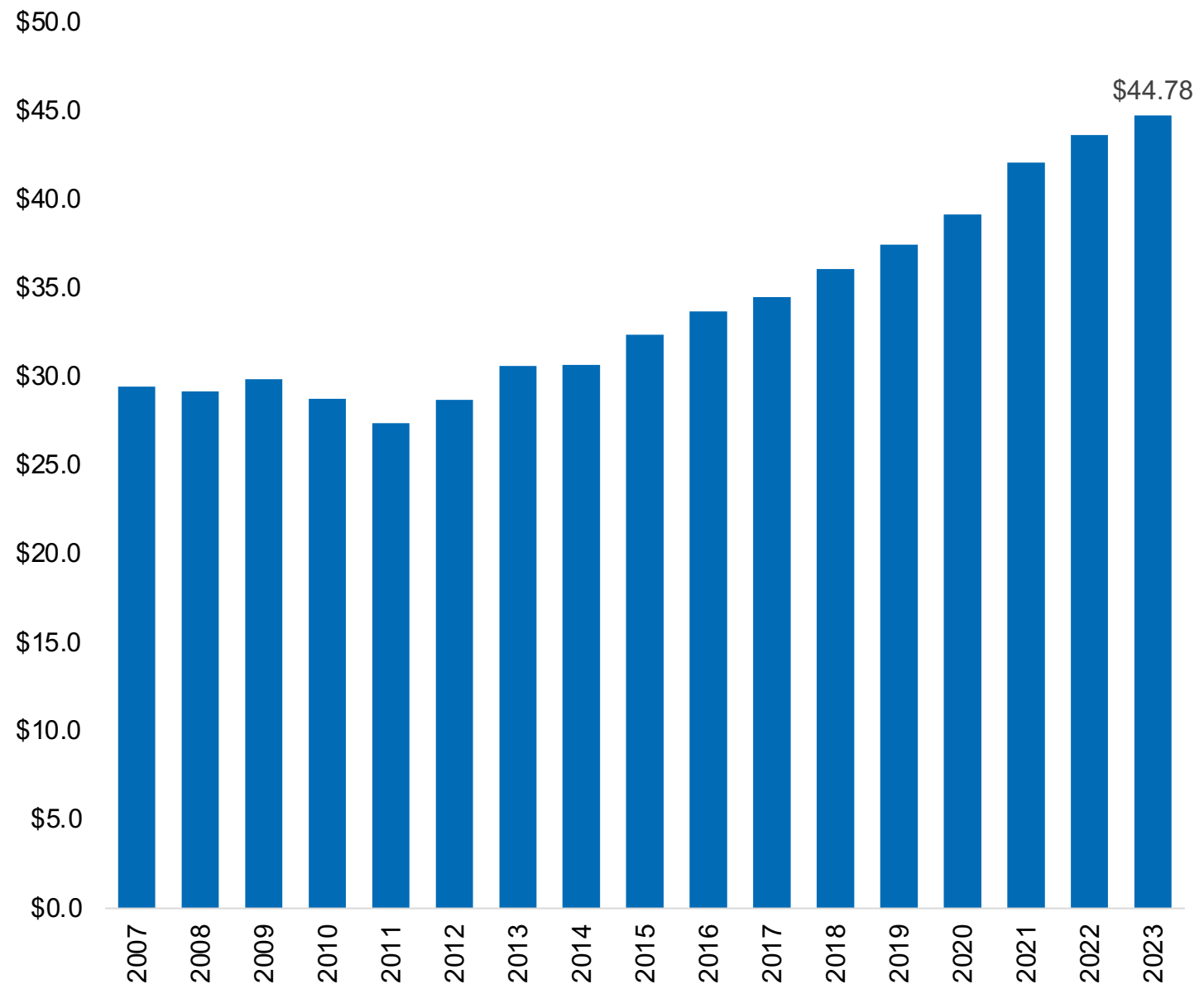


Source: Newmark Research, CoStar

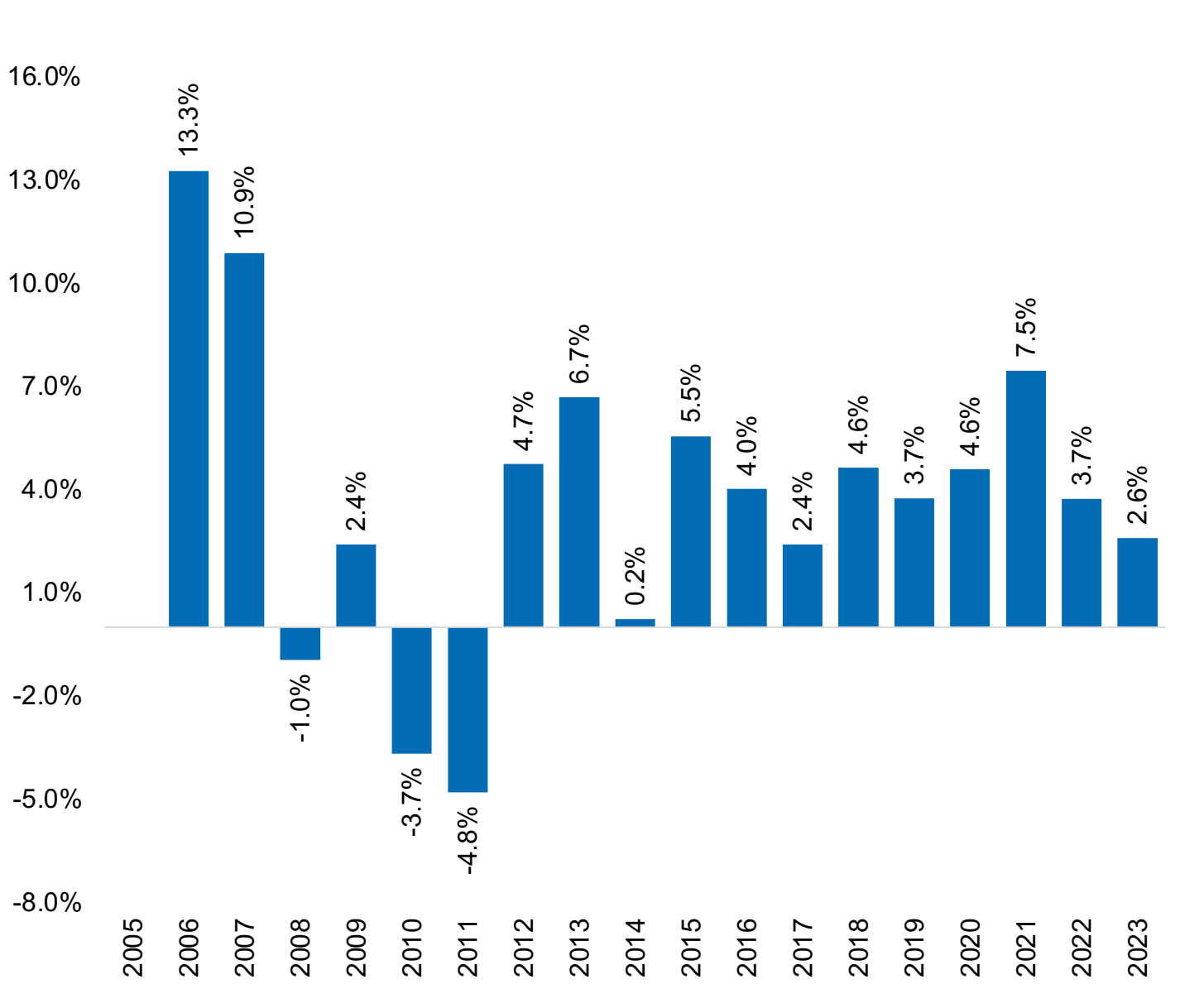
# Asking Rent Growth Appears to be Slowing but Remains Positive

Although asking rents are still rising year-over-year, rent growth is showing signs of slowing down. With struggling fundamentals across the metro area, this trend is expected to continue in the near term while the office market experiences a broader correction.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



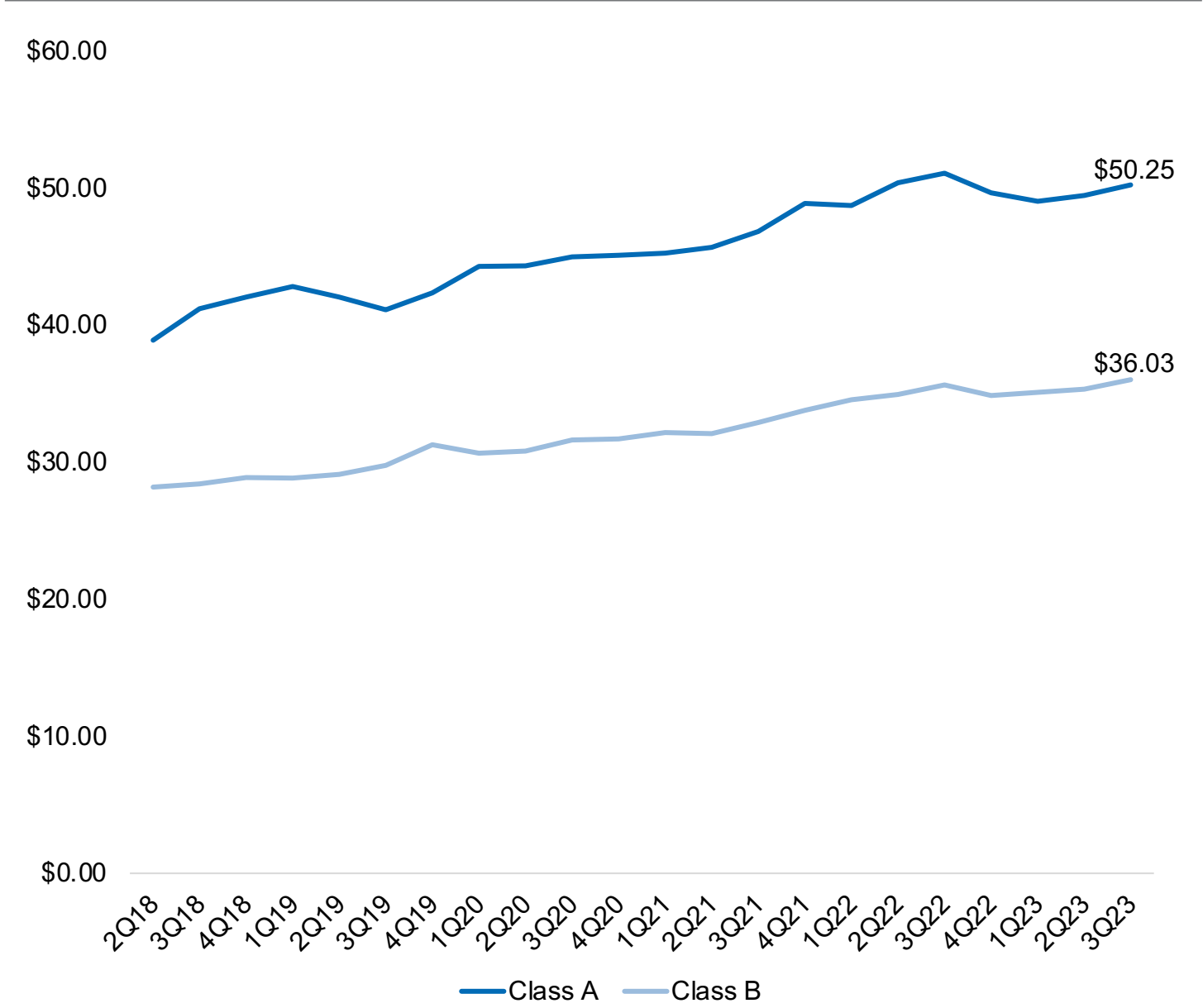
Source: Newmark Research, CoStar



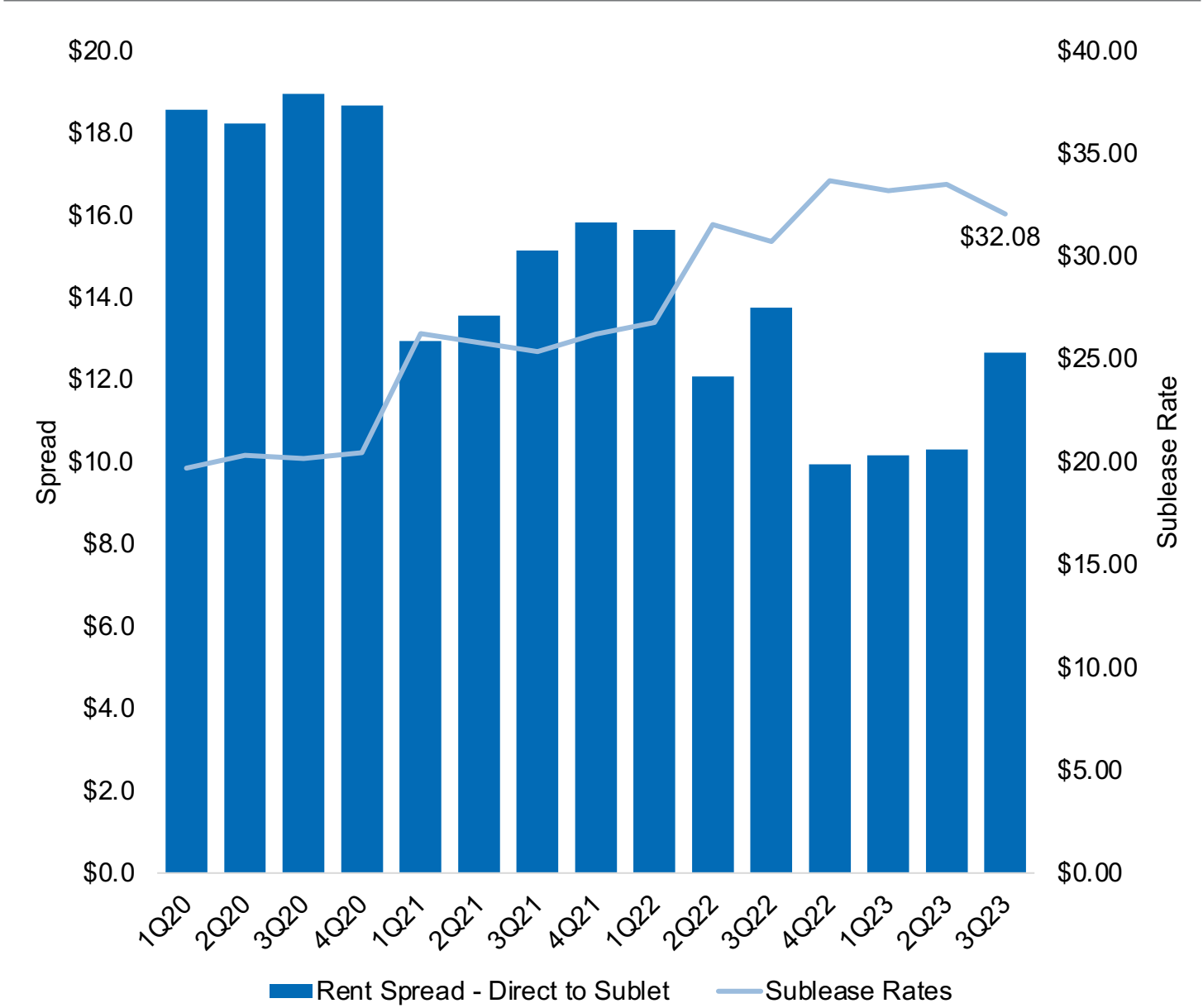
# Asking Rents Holding Across Asset Classes

Average asking rents maintained a steady position across asset classes during the third quarter of 2023, rising over 2.0% from the previous period. The spread between sublease and direct rents saw a jump, as sub-landlords are willing to lease space at a significant discount from where they originally transacted. Striking rents are still landing well below the average asking rate, and the expectation is that rising vacancies and availabilities will apply downward pressure on rents moving forward.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

# Select Lease Transactions

Leasing activity during the third quarter of 2023 was once again driven by tenants with leases rolling in the next 12 to 24 months, although demand and touring activity each saw a slight uptick compared to the previous quarter. Lego and Toast each signed leases to relocate their headquarters, with Lego committing to 134,000 square feet at 101 Massachusetts Avenue and Toast subleasing the former LogMeIn building at 333 Summer Street.

Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
MFS Investment Management	111 Huntington Avenue	CBD – Back Bay	Lease Extension	313,584
MFS extended its lease in the Prudential Center, further proving the strength of the Back Bay submarket.				
Lego	101 Massachusetts Avenue	CBD – Back Bay	Direct Lease	134,000
The toymaker selected the office and lab building, which is currently under construction, for its new Americas headquarters.				
Toast	333 Summer Street	CBD – Seaport District	Sublease	102,000
The cloud-based restaurant software company signed a lease to occupy LogMeIn’s former headquarters.				
Rockwell Automation	2 Executive Drive	North – Route 495	Lease Expansion	72,120
Rockwell Automation inked a deal to expand by over 10,000 square feet within the building.				
Riley Power	26 Forest Street	West – Route 495	Lease Extension	31,804
Riley Power agreed to extend its lease and maintain its footprint for an additional 9 years.				

Source: Newmark Research



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# Submarket Overviews





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# Boston CBD Market Overview



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# Suburban Market Overview



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# Cambridge Market Overview



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## Submarket Stats Overview



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