

3Q24

NEWMARK

# Boston Office Market Overview



# Market Observations

Landlords continue to incentivize occupancy by offering concessions to attract new tenants and facilitate renewals, even considering tenants relocating within their portfolio.

Following a historic low in the first half of the year, a total of 2.4 million SF has been leased this quarter. Compared to the 2.7 million SF committed during the first two quarters of the year.

Landlords are increasingly examining other development opportunities in Greater Boston, highlighted by local governing initiatives and other redevelopment opportunities.

Increasing occupancy losses are persisting throughout Boston's core submarkets, as the availability rate reached 25.7% in the third quarter of 2024.



TAMI tenants continue to drive subleases in Boston's core submarkets, with Cambridge boasting the highest rate at 9.8%.

As asking rents across Boston's core submarkets stabilize, tenants are increasingly seeking spaces that provide value and flexibility.

Driven by continued tenant interest from outside markets, the CBD has recorded its first quarter-over-quarter decline in average months on market since 2023.

Occupancy and public transit ridership levels have continued to near pre-pandemic levels, signaling a positive trend for Boston's return-to-office initiatives.

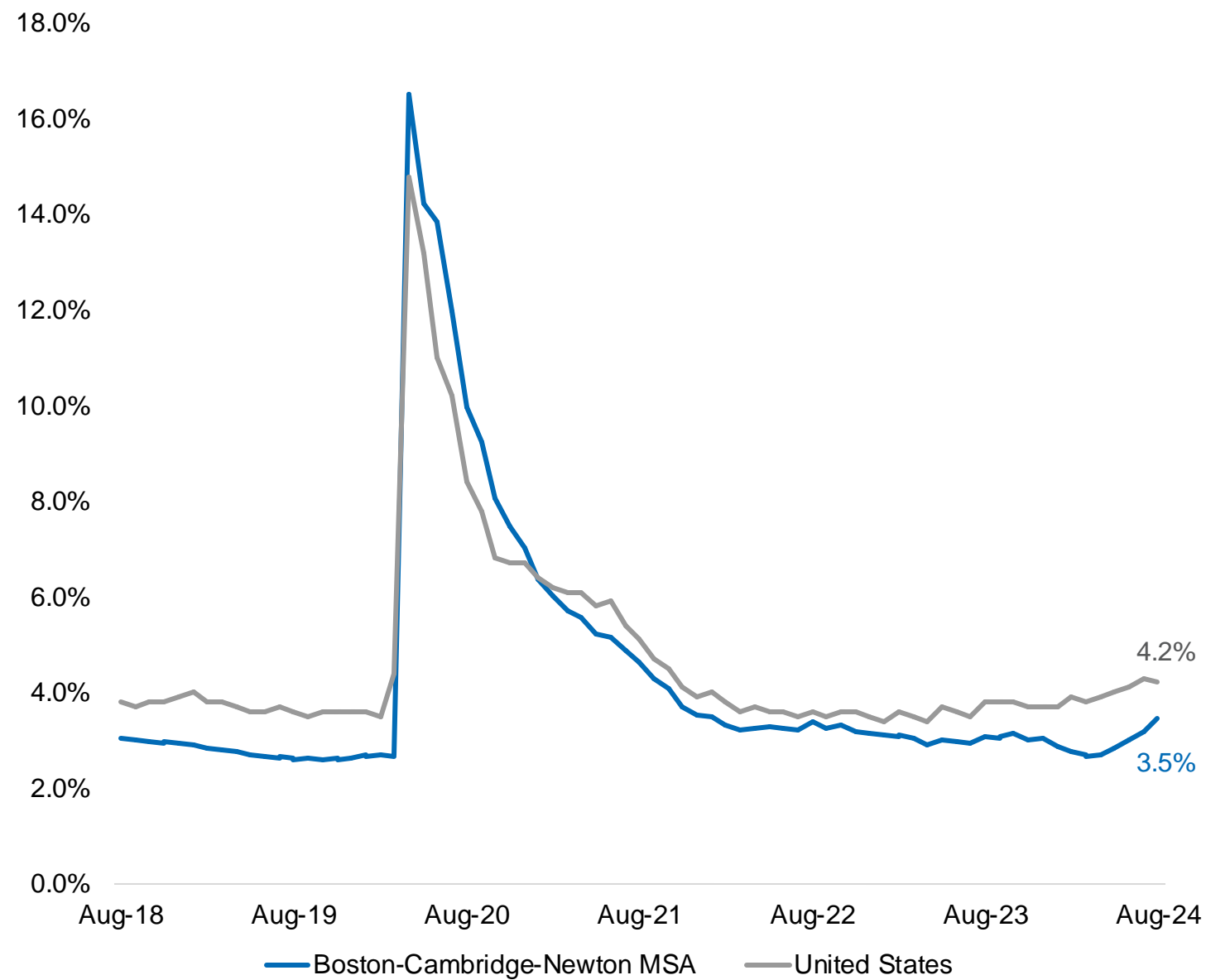
With the first interest rate cut since 2020, investors are once again considering office properties, particularly as companies bolster their return-to-office initiatives.

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

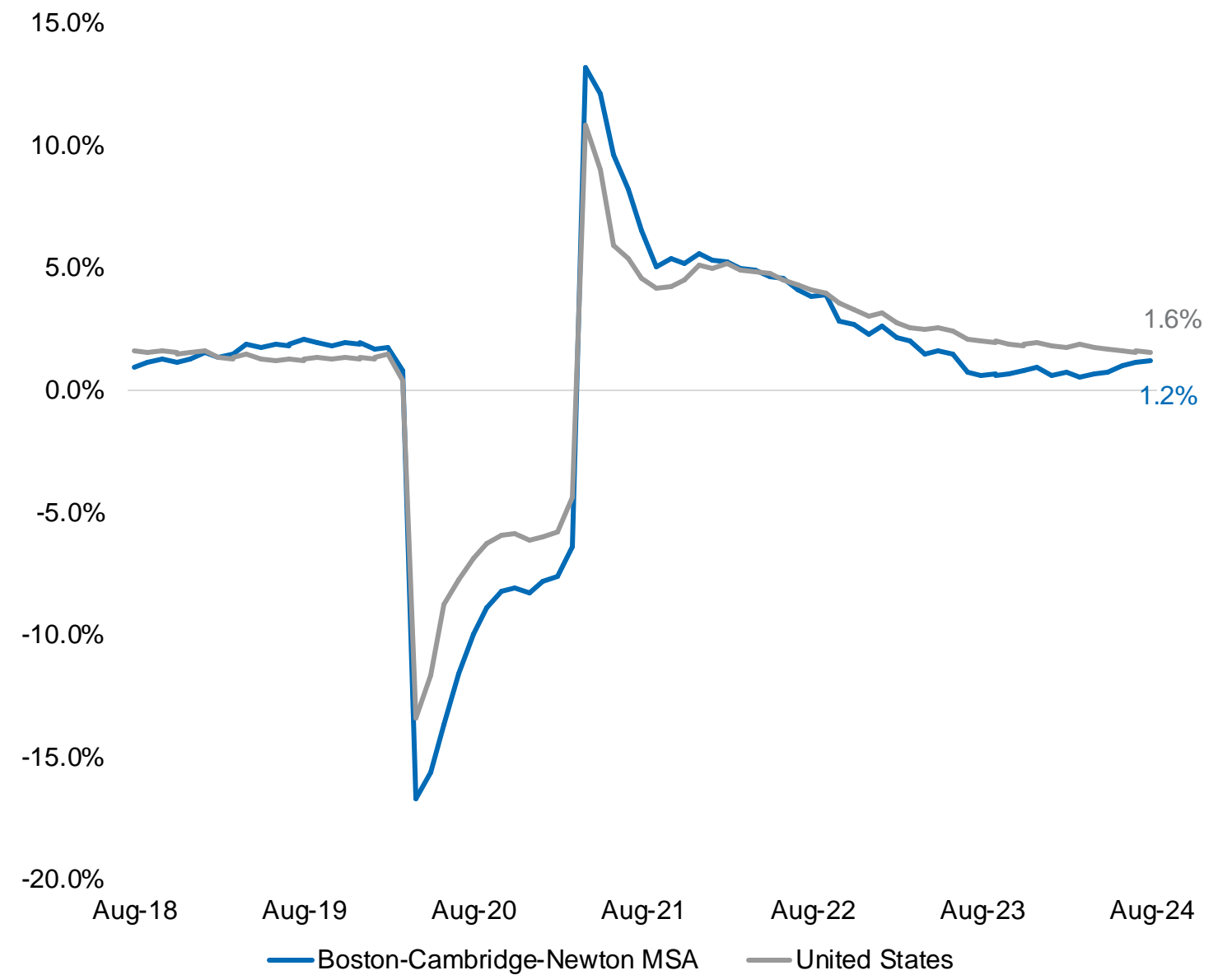
# Impacts of Layoffs and Future Workforce Development

Greater Boston's unemployment rate is rising, reaching 3.5% in August, the highest level since 2022. Despite ongoing layoffs, the region's unemployment rate remains below the national average, suggesting a degree of resilience within the local economy, as businesses continue to adapt and seek talent in emerging sectors like AI, clean tech, etc.

Unemployment Rate, Seasonally Adjusted



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

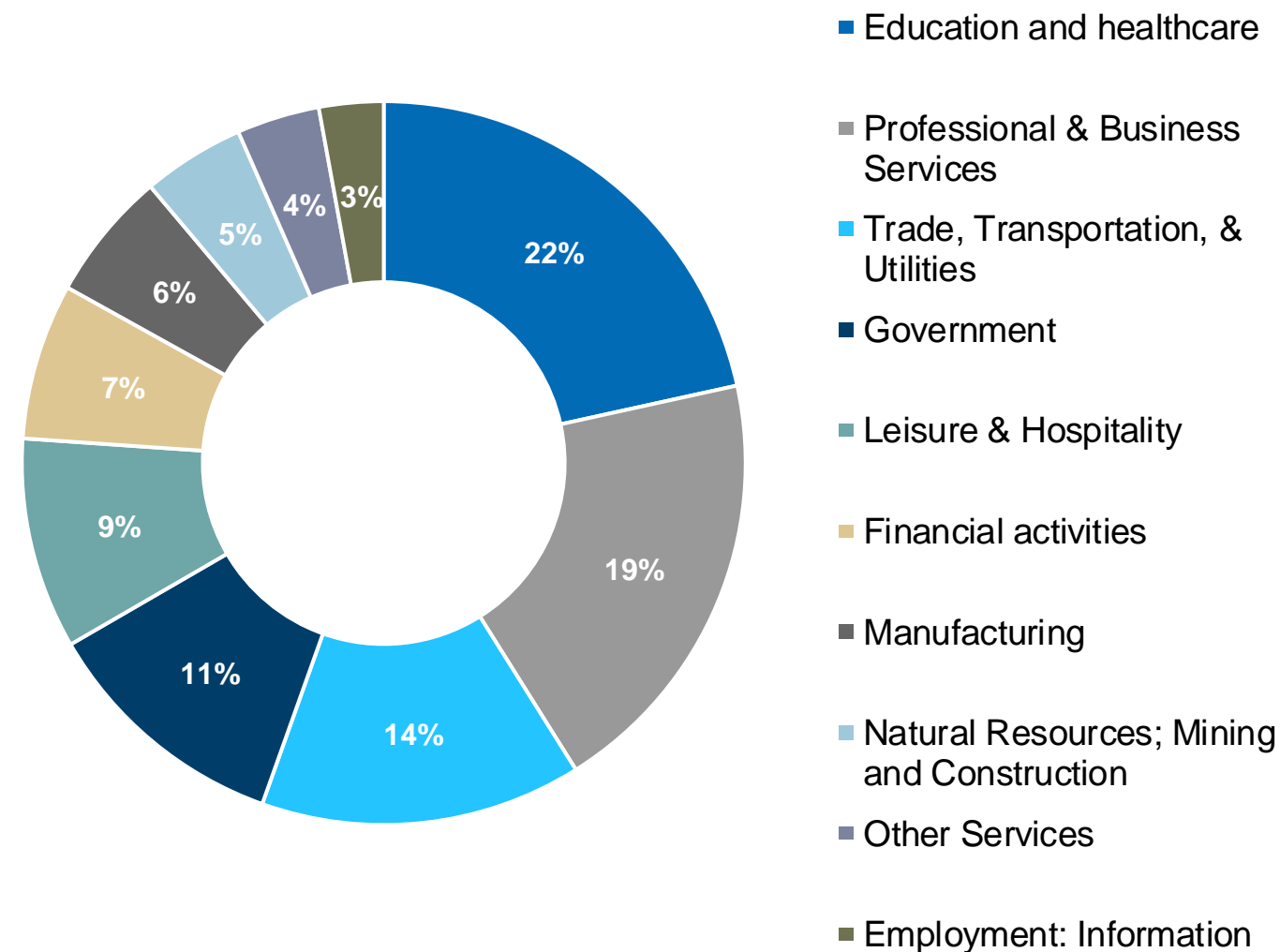


Source: Moody's Analytics, Boston-Cambridge-Newton, MA-NH MSA  
 Note: August 2024 data is preliminary.

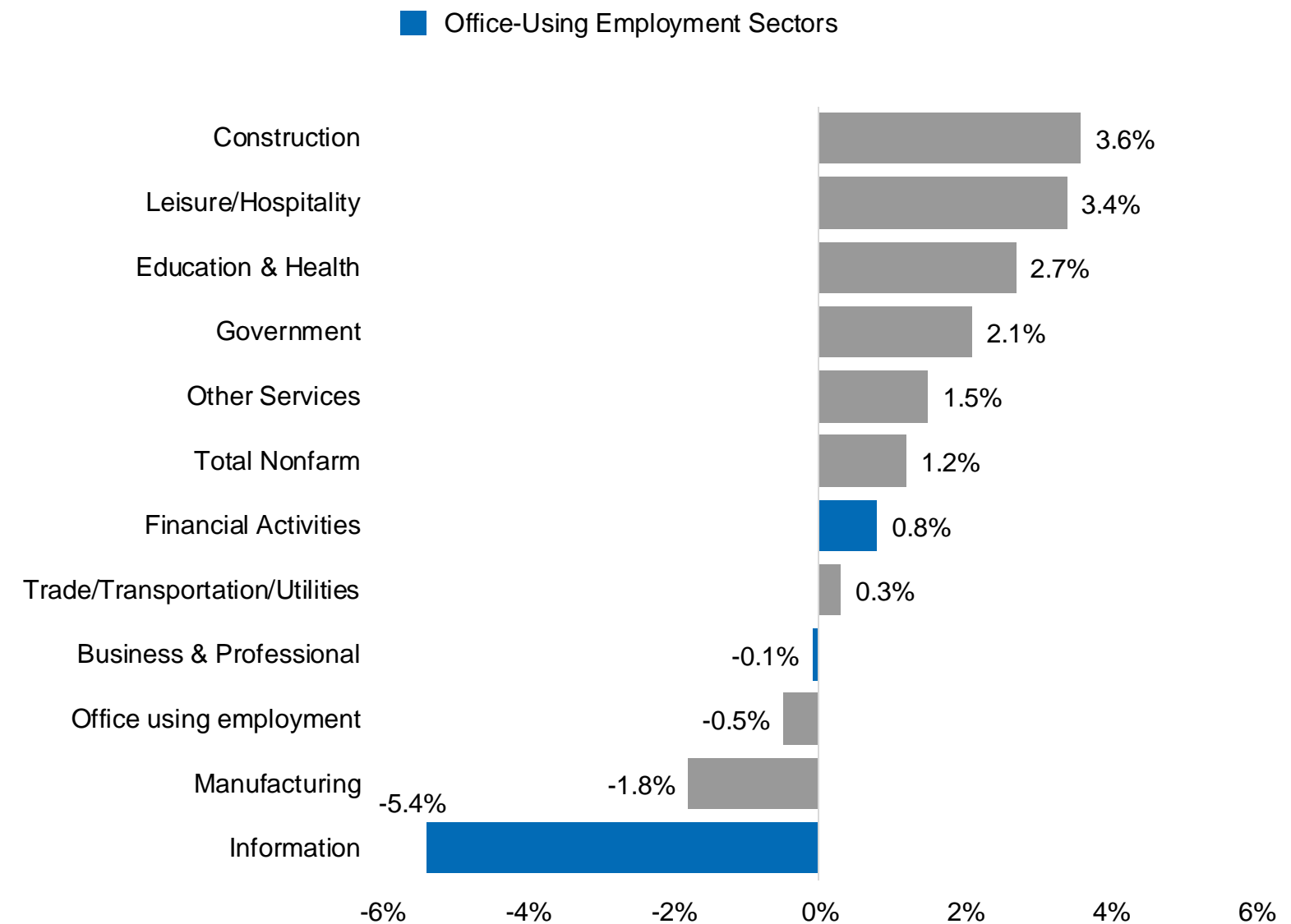
# Construction Growth and IT Sector Decline Likely Impacting Office Demand

The construction sector remains the primary driver of annual employment growth in Greater Boston, while the information technology sector is experiencing a 5.4% decline in employment growth over the last 12 months. There has been an increase in government entities executing leases and, with a 2.1% growth in employment over the past 12 months, this trend will support ongoing demand for office space.

Employment by Industry, August 2024



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



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

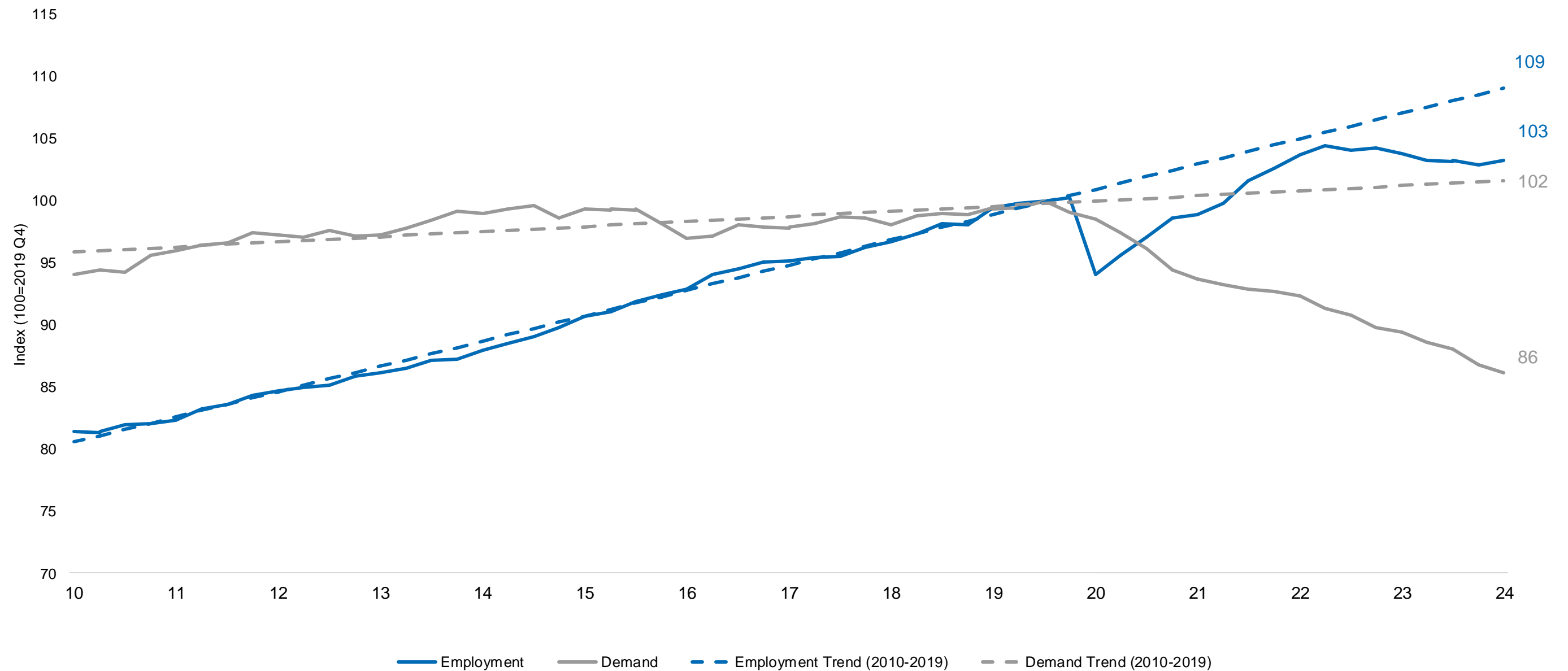
Note: August 2024 data is preliminary.

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

# The Disconnect Between Office Employment Growth and Demand Persists

The historical correlation between additional office workers and demand for space has been broken since the onset of the pandemic, a trend that extended during the third quarter of 2024. While total office-using employment has risen this quarter, the negative employment growth in sectors like information technology has resulted in firms not committing to higher ratios of office space per employee.

## Change in Office-Using Employment and Office Demand



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



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# Leasing Market Fundamentals

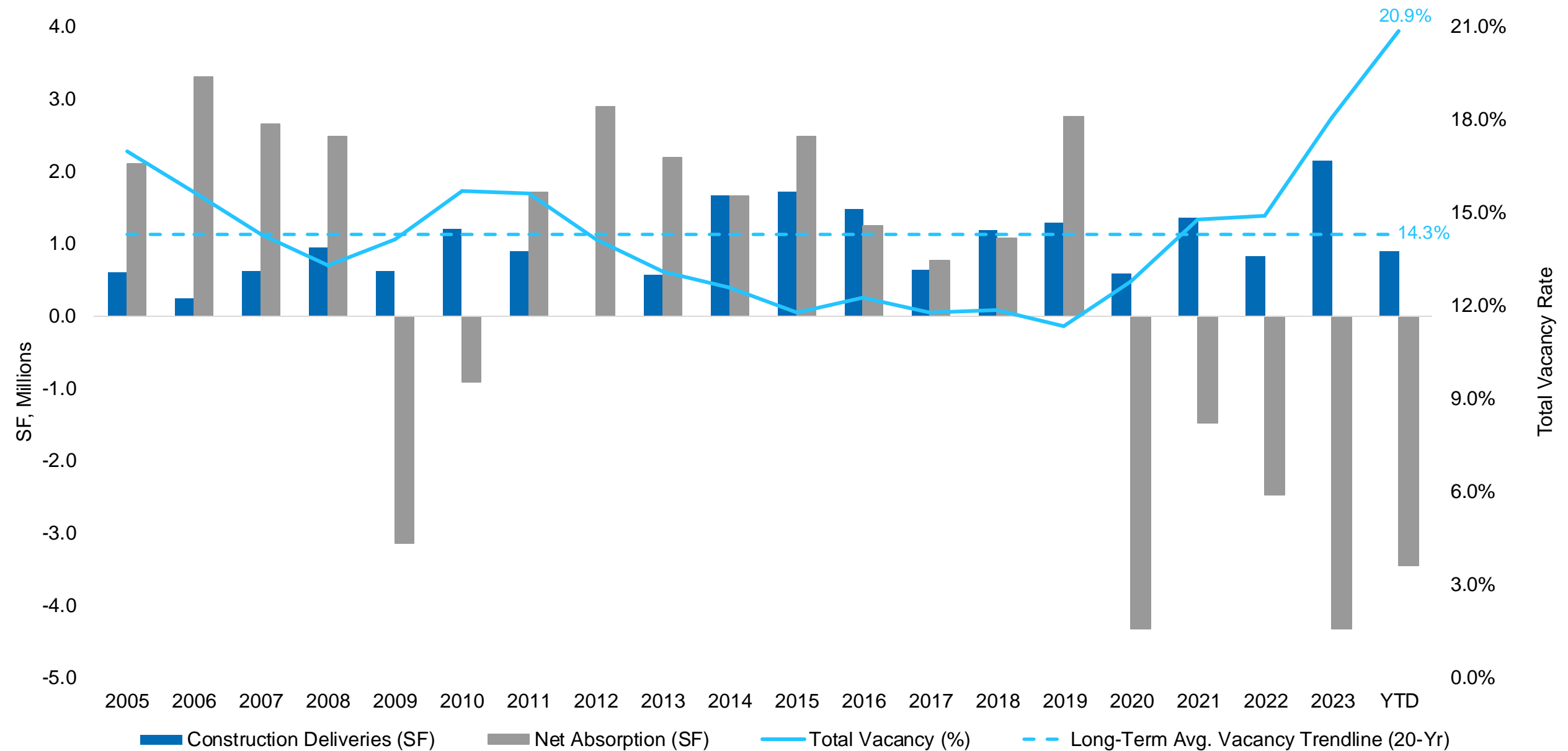




# Signs of Optimism Amid Increased Leasing Activity

Greater Boston's vacancy rates continue to rise, marking a ninth consecutive quarter of increases and surpassing an average of 20% for the first time in over two decades. With the recent interest rate cut in September, there is optimism that leasing activity will improve, leading to positive net absorption in the upcoming quarters.

## Historical Construction Deliveries, Net Absorption, and Vacancy

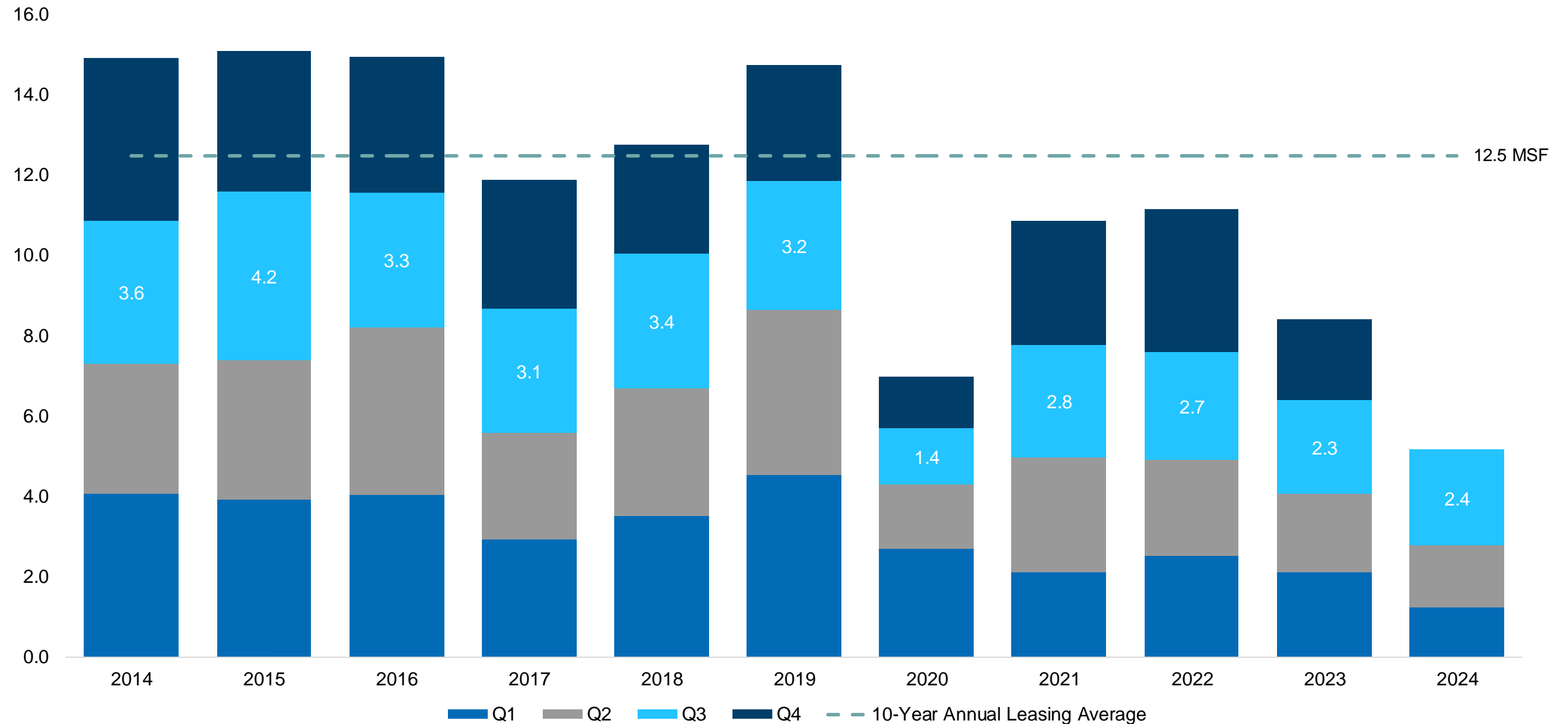


Source: Newmark Research

# Leasing Activity Gaining Momentum Following a Slow First Half

This quarter has recorded the highest leasing activity in the past seven quarters, totaling 2.4 million SF, which is only 13.6% short of the total activity for the first half of this year. In comparison, the 10-year annual leasing average from 2014-2023 was 12.5 million SF. Activity remains primarily driven by renewals and extensions, particularly within traditional office sectors.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar



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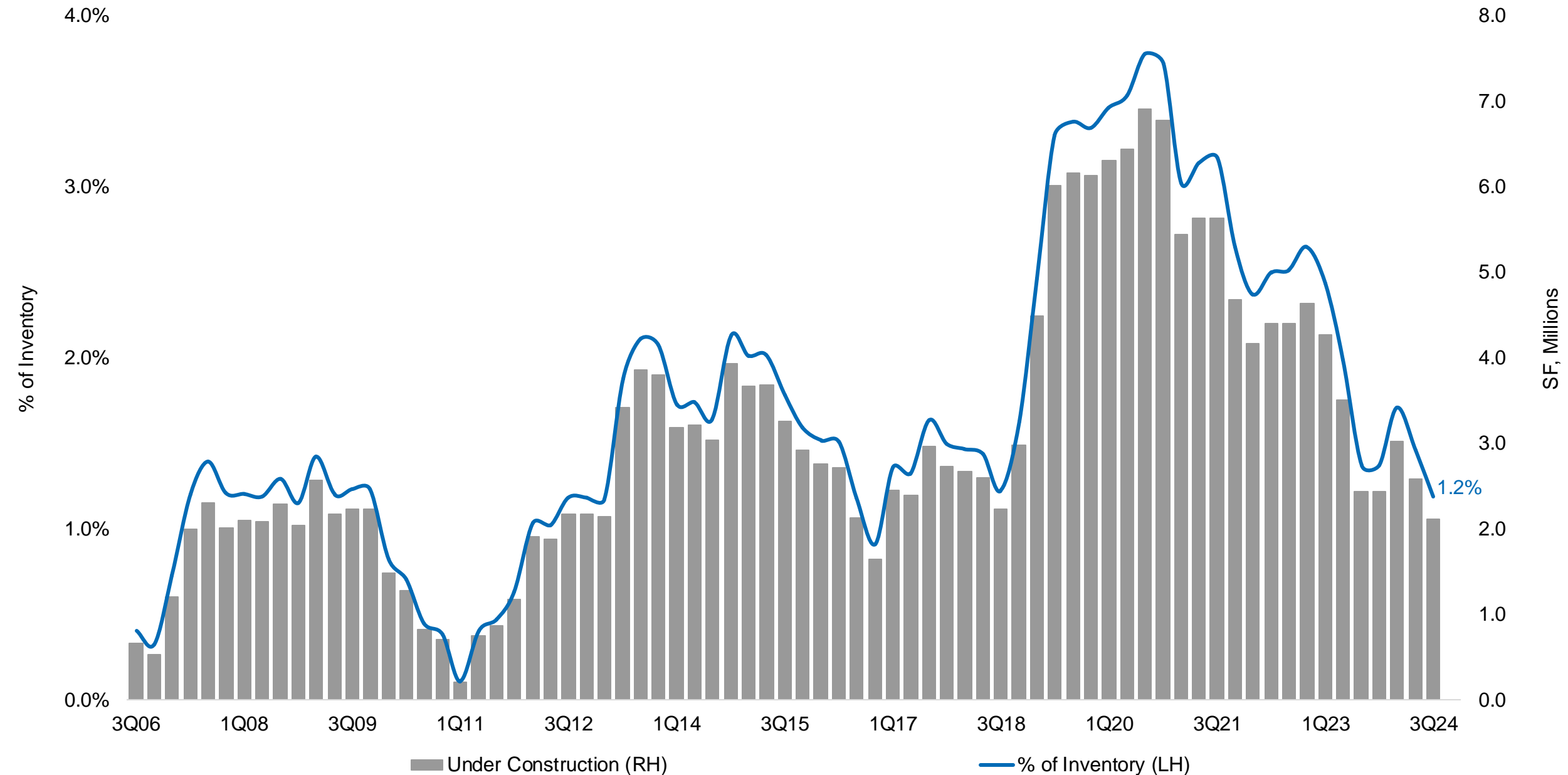


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# Office Construction Pipeline Historic Low but More Deliveries Coming

Office under construction in Greater Boston has reached the lowest level since 2016. The only property delivered this quarter was 1001 Boylston Street in the Back Bay, which added 475,000 SF to the market, including 81,000 SF of vacant office space. Anticipation is high for the delivery of additional assets over the next 12 months, including properties like South Station Tower and Amazon's build-to-suit at 1 Boston Wharf Rd.

## Office Under Construction and % of Inventory

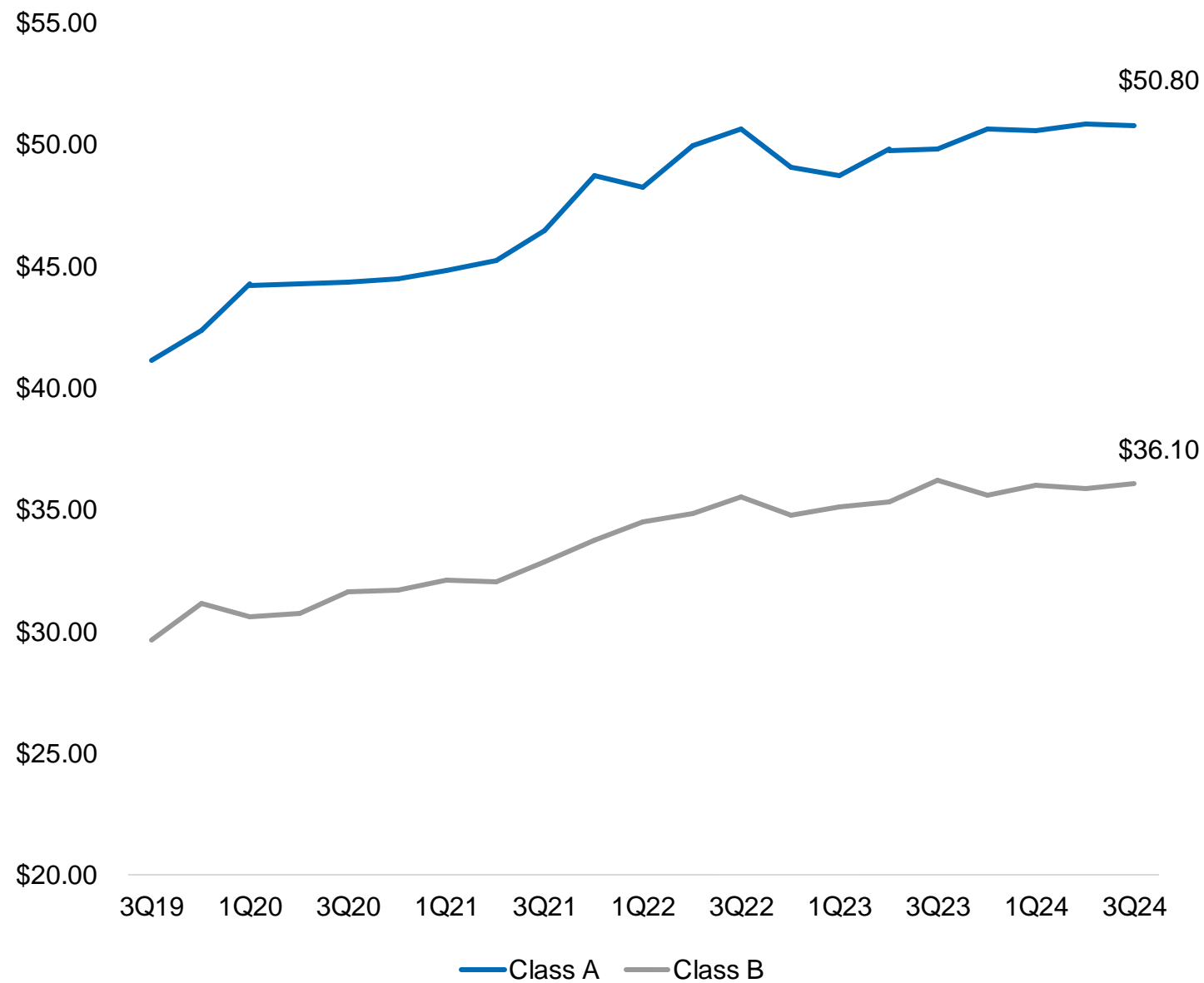


Source: Newmark Research, CoStar

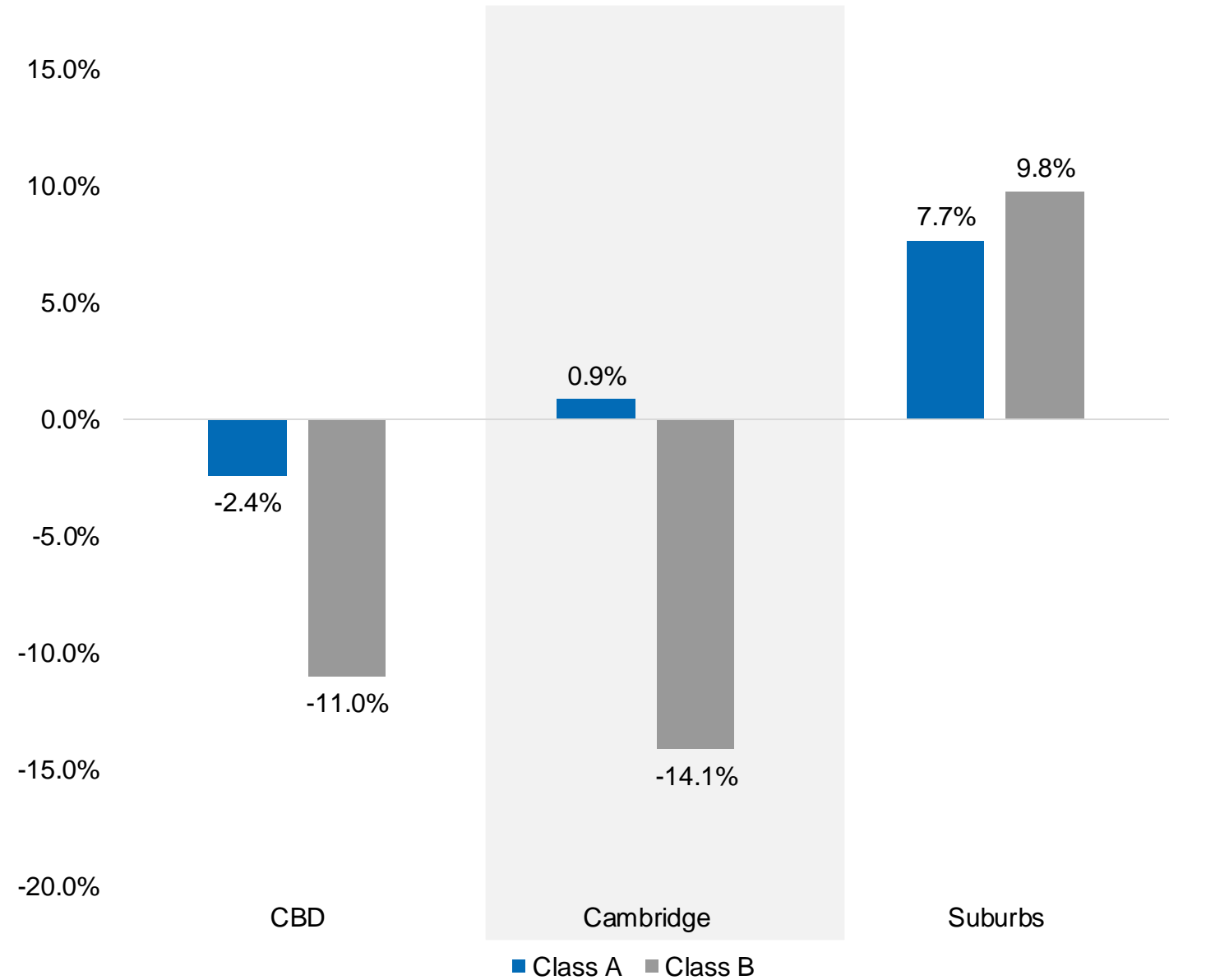
# Overall Asking Rents Remain Flat Across Greater Boston

While the suburbs remain relatively stable, Class B properties in the CBD and Cambridge continue to experience a marked decline in rental rates. Effective rents are facing more pronounced reductions, although concession packages appear to have reached a peak due to the current economic environment.

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



Change in Class A and B Asking Rents (\$/SF) 1Q20-3Q24



Source: Newmark Research, CoStar





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# Select Lease Transactions

Leasing activity driven by renewals and extensions continues into the third quarter. Bain Capital and Arrowstreet Capital renewed/extended their leases at 200 Clarendon, encompassing a total of 497,000 square feet in the Back Bay. Furthermore, two separate government entities finalized leases in the Financial District, at 1 Federal and 40 Broad.

## Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Vertex Pharmaceuticals	11 Fan Pier BLVD, Boston	CBD – Seaport	Lease Renewal	550,000
<i>The biopharmaceutical company inked the largest deal of the quarter by renewing its lease in the Seaport.</i>				
Bain Capital	200 Clarendon Street, Boston	CBD – Back Bay	Lease Renewal	378,284
<i>The private investment firm executed a renewal at their long-time home in the Back Bay.</i>				
General Dynamics	100 Rustcraft Road, Dedham	Route 128 - South	Lease Extension	133,203
<i>The aerospace and defense corporation executed the largest lease outside the CBD, extending their lease in Dedham.</i>				
Arrowstreet Capital	200 Clarendon Street, Boston	CBD – Back Bay	Lease Extension	119,532
<i>The investment firm also renewed its lease at 200 Clarendon during the third quarter of 2024.</i>				
DCAMM – Consumer Affairs	1 Federal Street, Boston	CBD – Financial District	Direct Lease	106,000
<i>The government agency plans to move their operations to a Downtown tower after leasing two floors at 1 Federal St.</i>				
DCAMM – Mental Health Legal Affairs	40 Broad Street, Boston	CBD – Financial District	Direct Lease	95,413
<i>The government agency consisting of five different departments leased 67% of the Insurance Exchange Building.</i>				

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# Submarket Overviews





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