

4Q24

NEWMARK

Boston Office Market Overview



Market Observations

Renewals and extensions continue to outperform other lease types, highlighting tenants' cautious approach to committing to new spaces in the current market environment.

Following historically low levels in the first half of the year, leasing activity rebounded this quarter, totaling 2.6 million SF. The second half of the year outpaced the first by an additional 1.0 million square feet.

Landlords continue to examine other development opportunities in Greater Boston, highlighted by local governing initiatives and redevelopment opportunities.

Capital markets in Greater Boston are beginning to show signs of increased liquidity. While transaction volumes remain below historical averages, improved clarity on expectations has spurred a gradual uptick in activity.



TAMI tenants continue to drive subleases in Boston's core submarkets, with Cambridge boasting the highest sublease availability rate at 10.1%.

As asking rents stabilize across the CBD, tenants are increasingly prioritizing spaces that offer both value and flexibility.

Increasing occupancy losses persist throughout Boston's core submarkets, as the vacancy rate reached 21.7% in the fourth quarter of 2024, increasing for the twelfth straight quarter.

Public transit ridership levels, via the commuter rail, have witnessed a 24.3% increase year-over-year, signaling a positive trend for Boston's return-to-office initiatives.

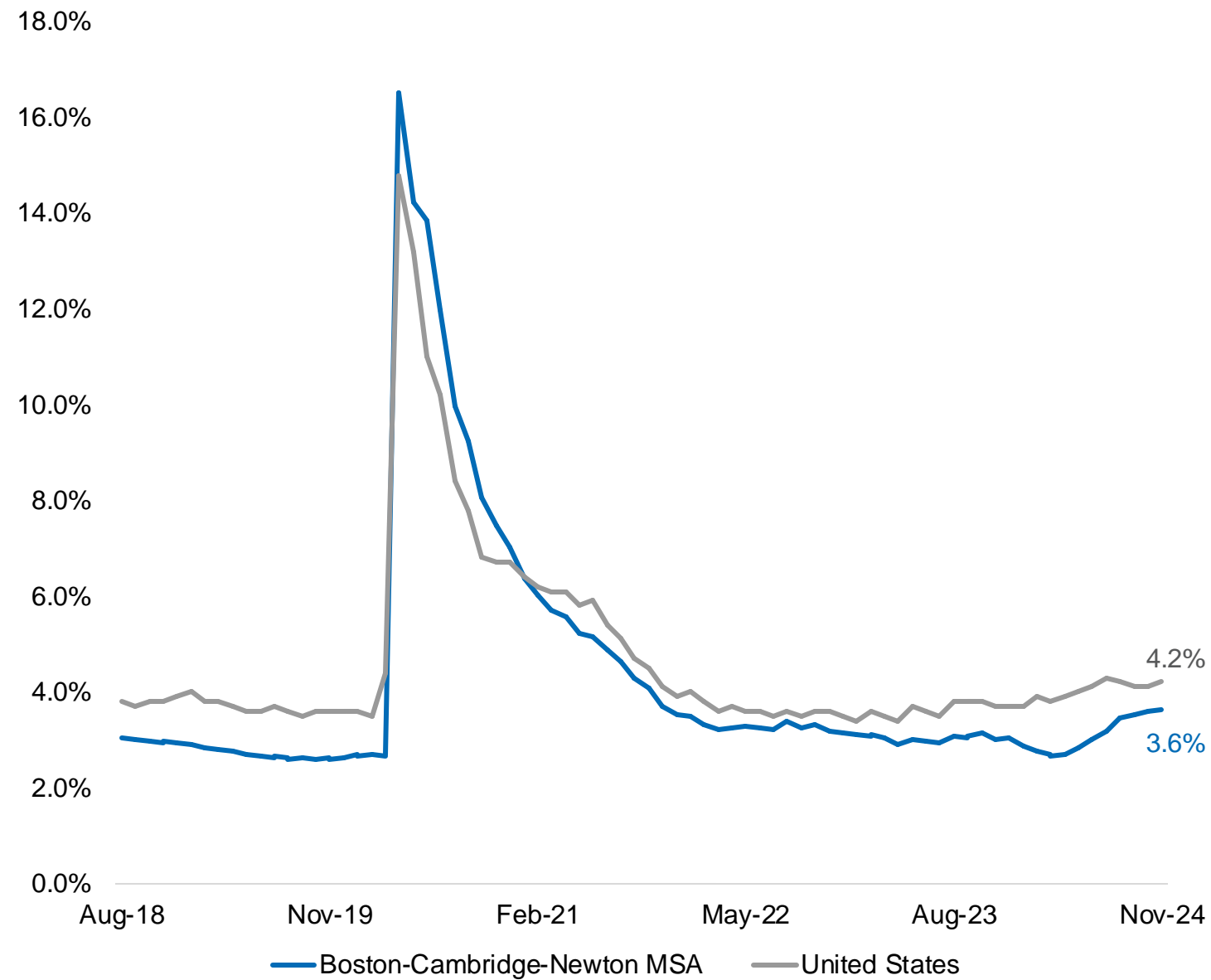
Available office spaces on higher floors in tower buildings within the CBD continue to demonstrate stronger tenant demand, with vacancy rates on these floors notably lower than those on lower levels.

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

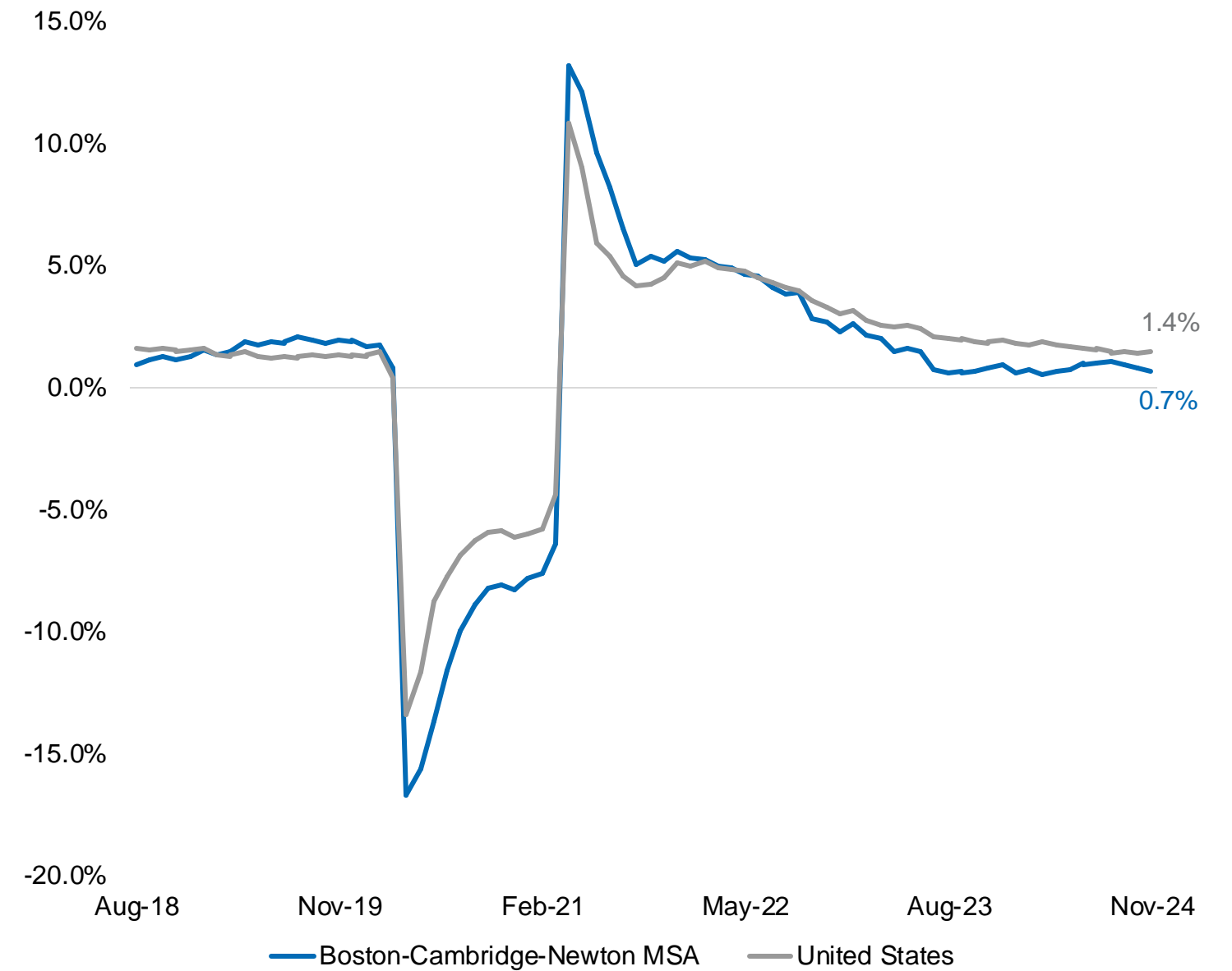
Impacts of Layoffs and Future Workforce Development

Greater Boston's unemployment rate is rising, reaching 3.6% in November, the highest level since 2022. Despite ongoing layoffs, the region's unemployment rate remains below the national average, suggesting a degree of resiliency 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



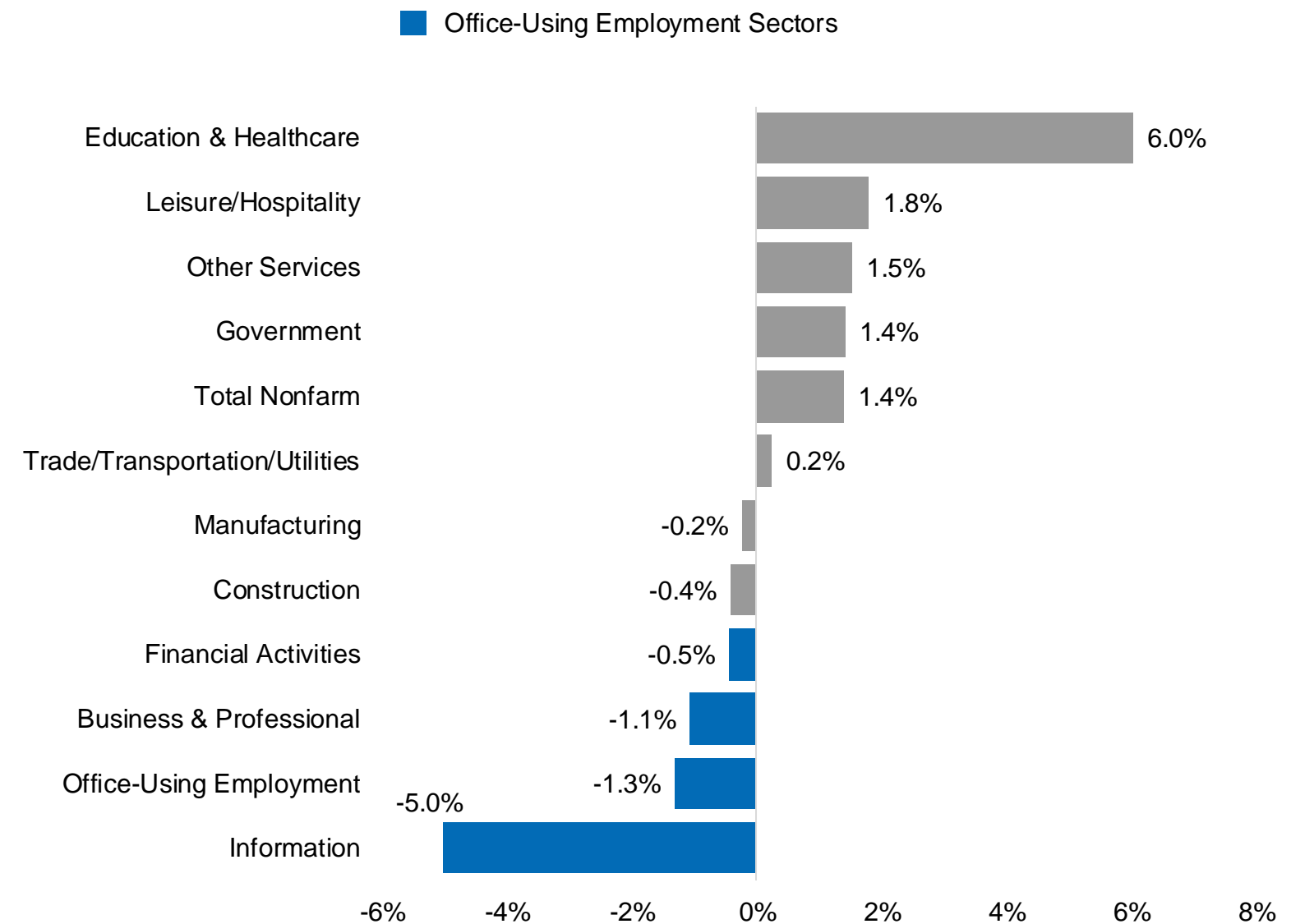
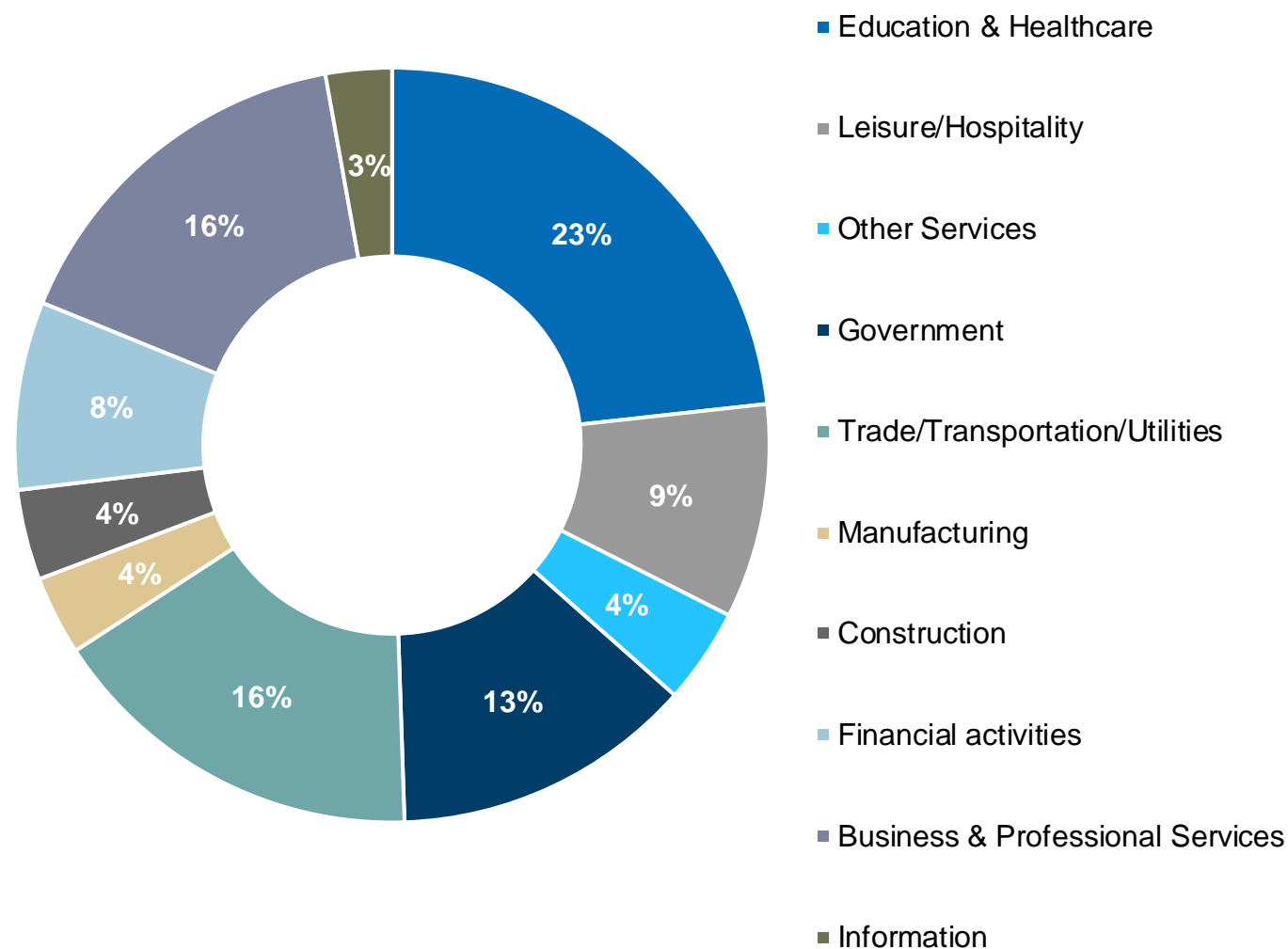
Source: Moody's Analytics, Boston-Cambridge-Newton, MA-NH MSA

Office-Using Sectors Drive Annual Job Losses in Greater Boston

Education & healthcare have overtaken the construction sector as the primary driver of annual employment growth in Greater Boston, while the information technology sector experienced a 5.0% decline in total employment over the last 12 months. The construction sector has experienced several quarters in a row of significant employment growth, so the 0.4% decline, while modest, stands out compared to prior quarters.

Employment by Industry, November 2024

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



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

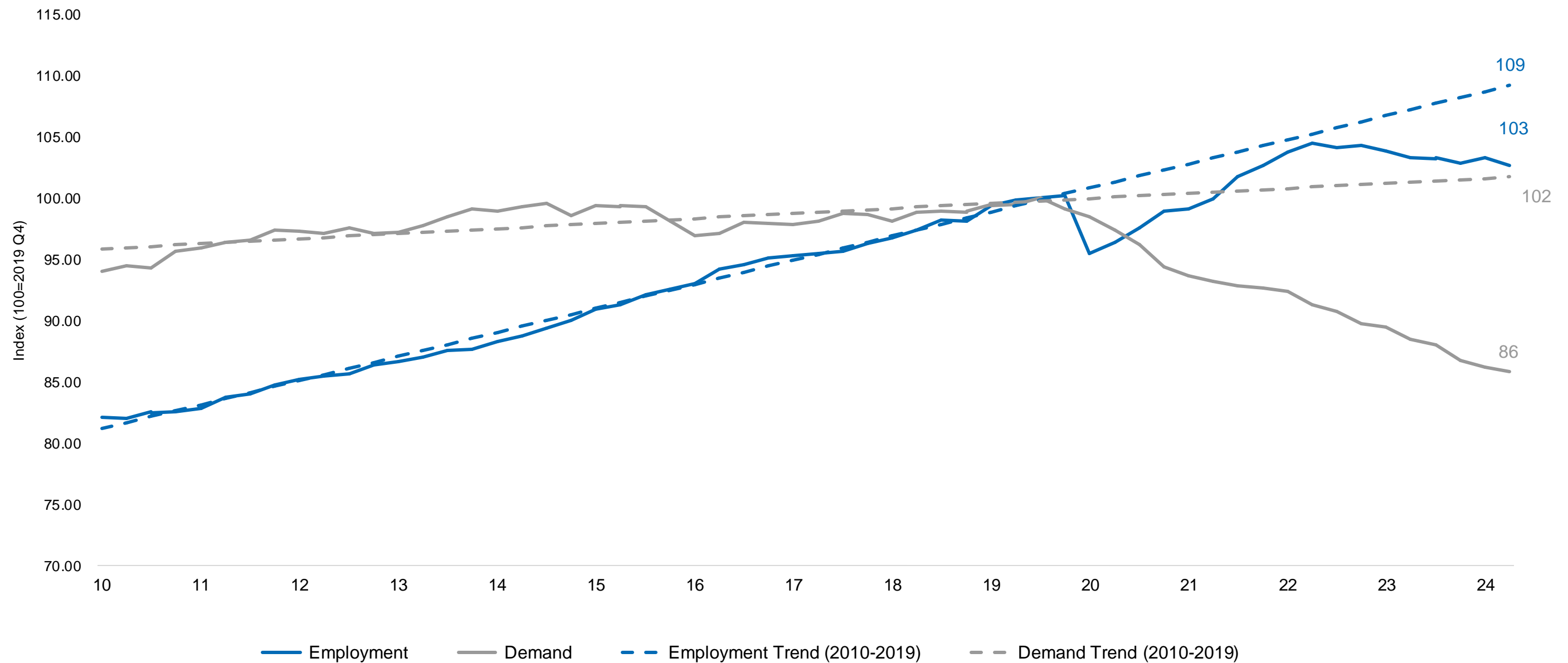
Note: November 2024 data is preliminary.

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

Evolving Relationship Between Office Employment and Space Demand

The historical correlation between additional office workers and demand for space has been broken since the onset of the pandemic, however, that trend has halted in the fourth quarter of 2024, with both an employment and office demand decrease. As companies continue to firm up their return to office strategies, this trend may revert to the pre-pandemic correlation seen below.

Change in Office-Using Employment and Office Demand



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



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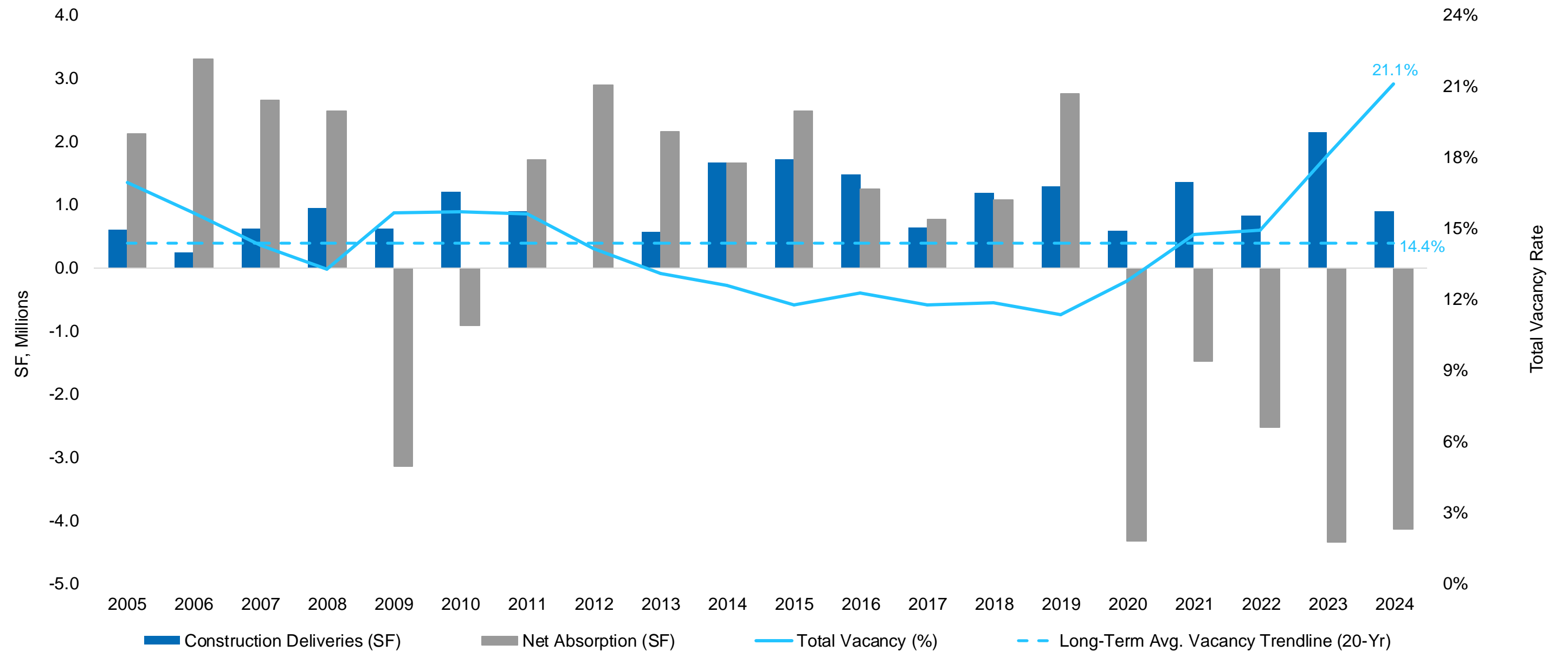
Leasing Market Fundamentals



Renewals Continue to Drive Leasing Activity

Greater Boston has recorded its eleventh consecutive quarter of negative net absorption, accompanied by a 30 bps increase in vacancy rates, reaching a record high of 21.1%. Renewals accounted for a majority of large transactions this year, rather than new direct deals, continuing the trend of rising vacancy rates as tenants consolidate or delay expansions.

Historical Construction Deliveries, Net Absorption, and Vacancy

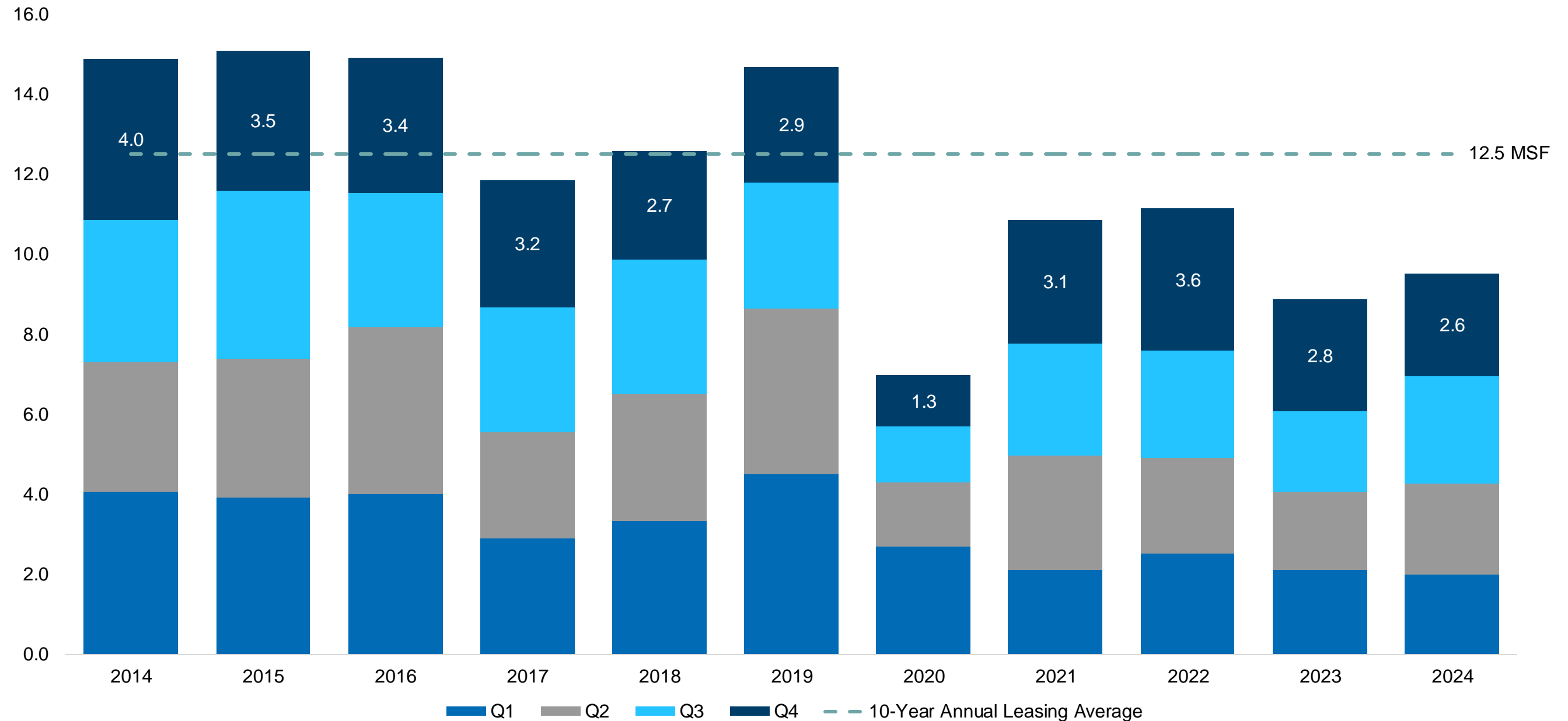


Source: Newmark Research

Greater Boston Leasing Activity Surges, Led by Renewals and Extensions

This quarter saw robust leasing activity in Greater Boston, totaling 2.6 million square feet. The second half of the year outperformed the first by 1.0 million square feet, while overall leasing activity in 2024 surpassed 2023 by 6.9%. Renewals and extensions within traditional office sectors continue to drive activity, reflecting tenants' cautious approach and a preference for flexibility in response to evolving market conditions.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar



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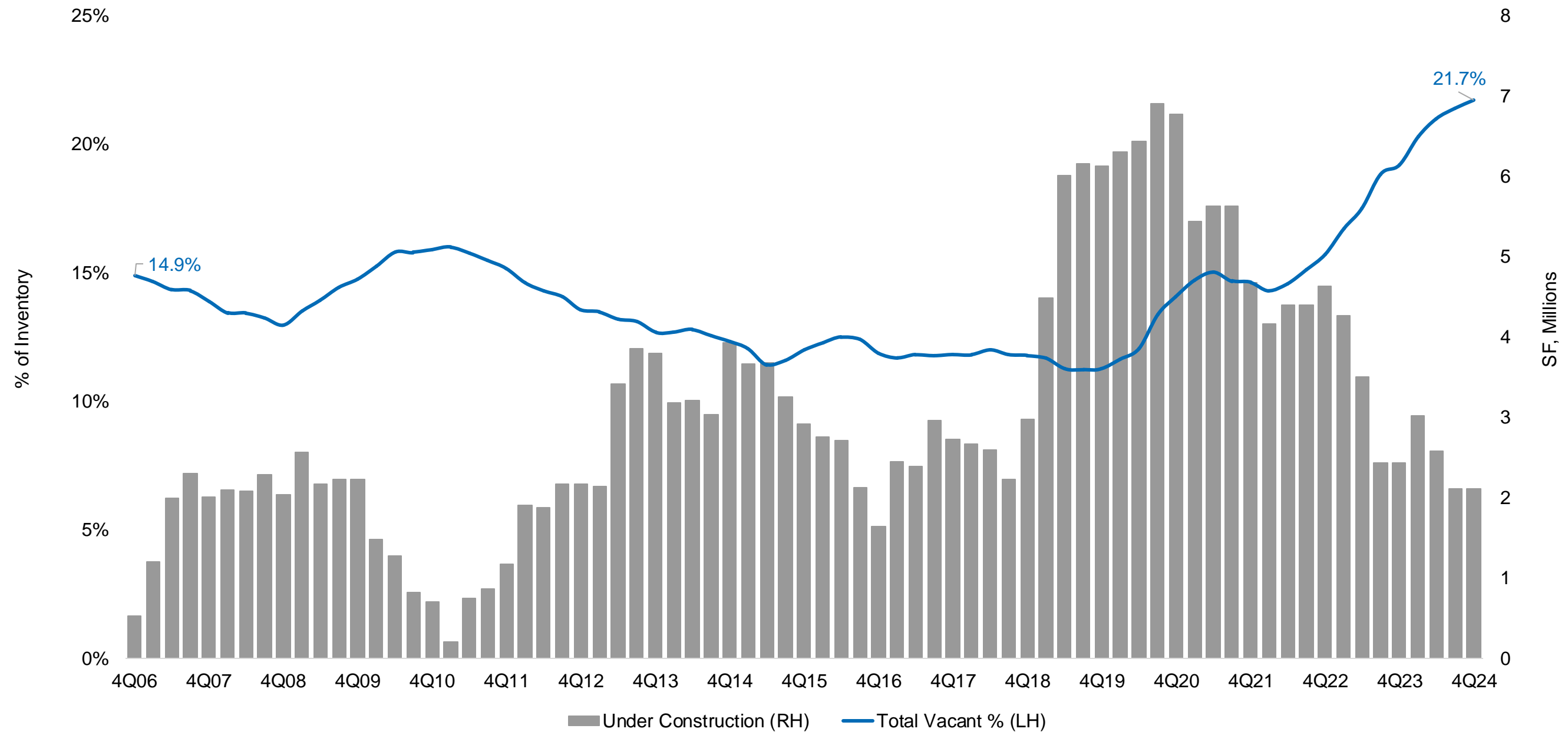


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Office Construction Pipeline Historic Low but More Deliveries Coming

Office under construction in Greater Boston remains at its lowest level since 2016. With no deliveries in the fourth quarter, supply remained constant from the third quarter of 2024. While short-term supply risk is low, 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. in the Seaport.

Office Under Construction and Total Office Vacancy



Source: Newmark Research, CoStar



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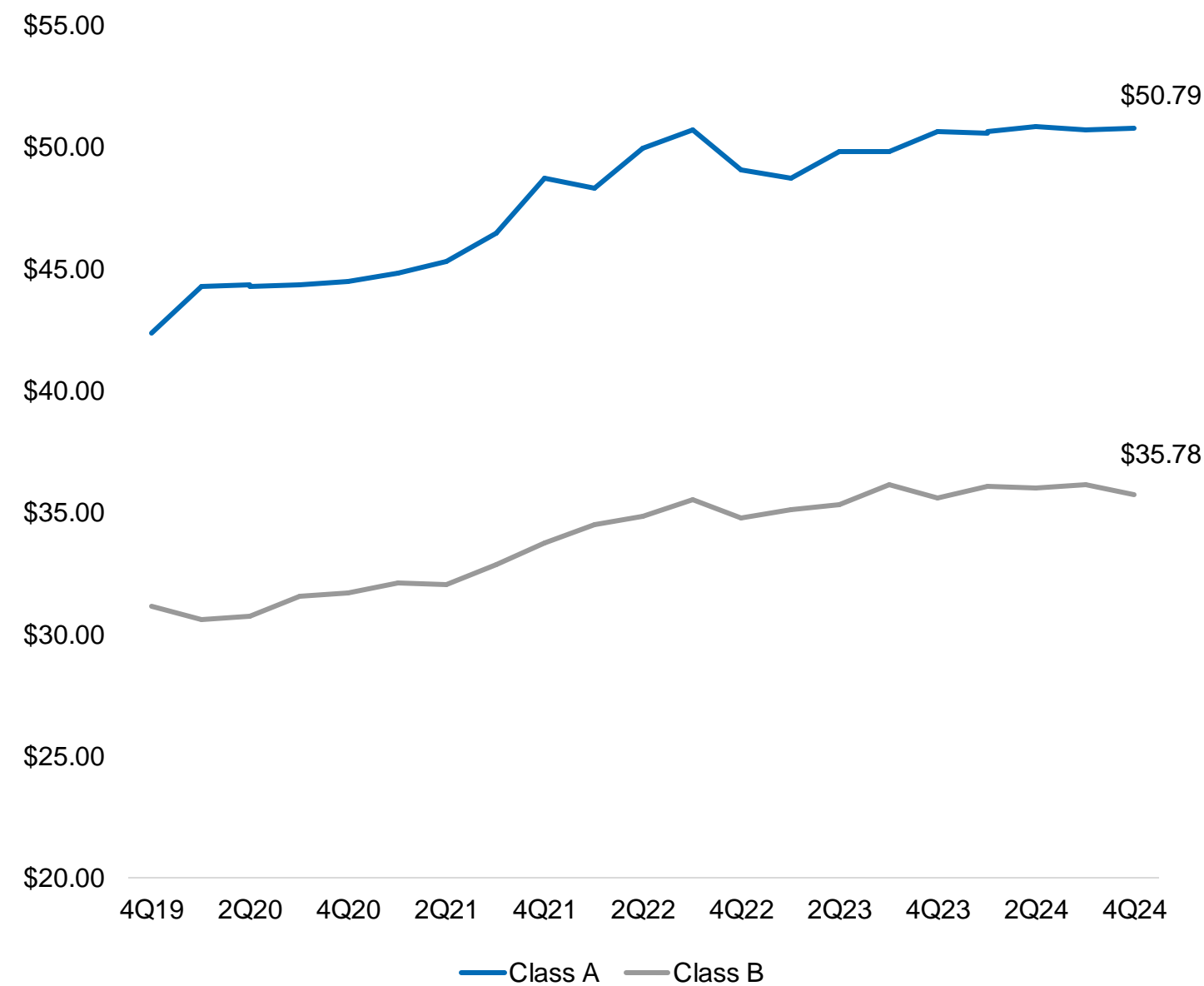


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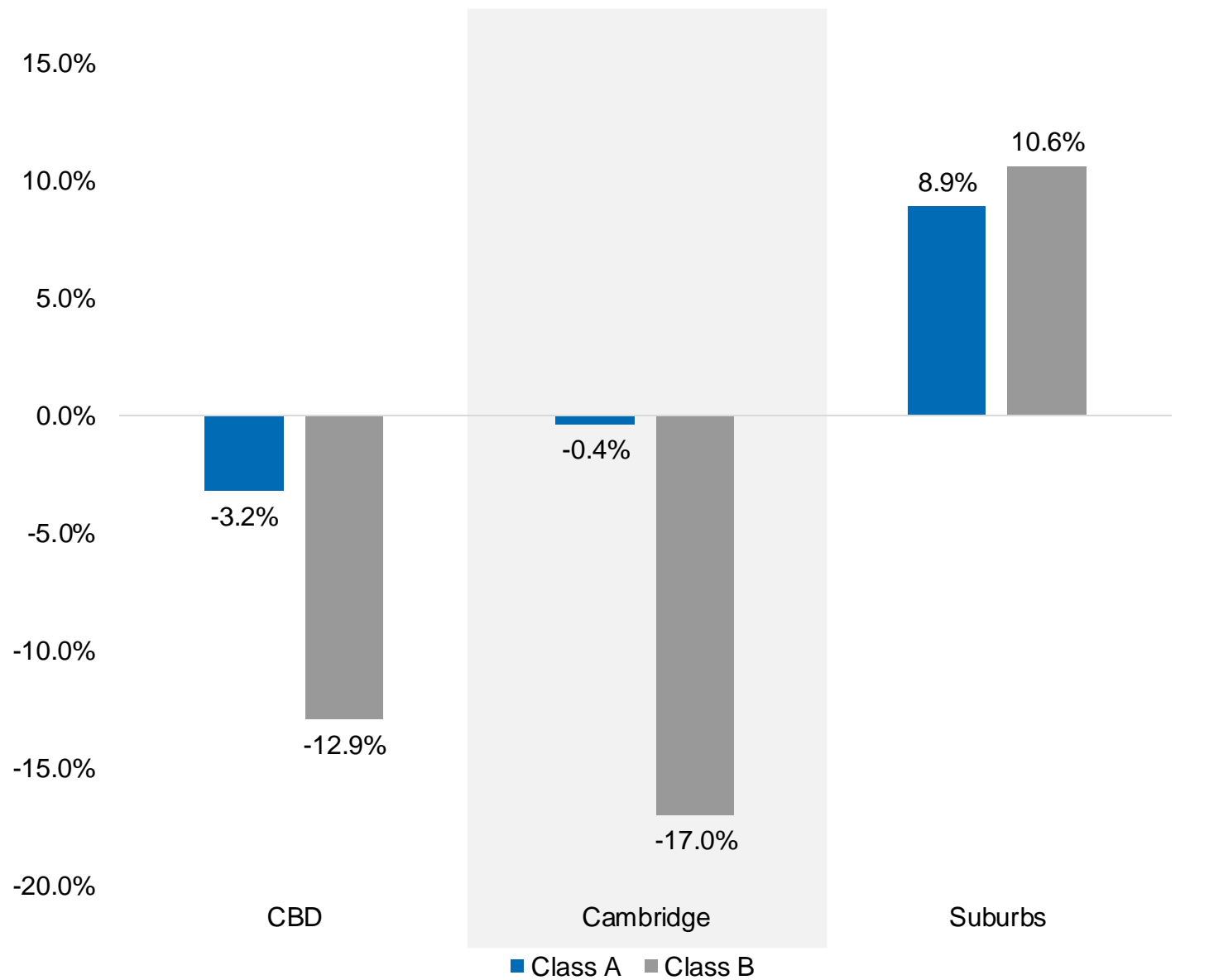
Overall Asking Rents Remain Flat Across Greater Boston

Greater Boston Class A market rents remained relatively stable this quarter, while the Class B market experienced a decline of 1.1%. At the submarket level, the Suburbs recorded their third consecutive quarter of growth in asking rent, increasing by 1.2%. However, the effective rents have seen more substantial reductions, even as concession packages appear to have peaked, reflecting the impact of the current economic conditions.

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



Change in Class A and B Asking Rents (\$/SF) 1Q20-4Q24



Source: Newmark Research, CoStar



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Select Lease Transactions

Leasing activity driven by renewals and extensions continues into the fourth quarter. Ropes & Gray extended its lease at 800 Boylston, resulting in the largest lease signed this quarter. Another law firm, Latham & Watkins, renewed its lease in the Back Bay, totaling over 489,000 SF signed between the two firms.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Ropes & Gray	800 Boylston Street, Boston	CBD – Back Bay	Lease Renewal	413,000
<i>Boston's biggest law firm has extended its lease in the Prudential Tower, inking the largest deal this quarter and signing six years before its original lease expiration date.</i>				
PwC	101 Seaport Boulevard, Boston	CBD – Seaport	Lease Renewal	308,210
<i>The accounting firm executed an extension at the Seaport building that bears its name.</i>				
STR	600 Cummings Park, Woburn	Route 128 – North	Lease Extension	185,712
<i>The defense and space manufacturer executed the largest lease outside the CBD, extending its lease in Woburn.</i>				
Commonwealth Equity	275 Wyman Street, Waltham	Route 128 - West	Direct Lease	151,765
<i>The investment firm also renewed its lease at 200 Clarendon during the fourth quarter of 2024.</i>				
Latham & Watkins	200 Clarendon Street, Boston	CBD – Back Bay	Lease Renewal	76,243
<i>The law firm renewed its lease at the Back Bay tower, adding to the two major renewals in the tower last quarter.</i>				
Eastern Bank	601 Edgewater Drive, Wakefield	Route 128 – North	Direct Lease	51,751
<i>The Boston-based bank signed a lease in the suburbs, occupying two floors of the property.</i>				

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Submarket Overviews





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