

Office Market Report

Boston | Cambridge | Suburbs

Q4 2023

Lincoln

Contents

03

Overview

07

Development

04

Boston Office Trends

08

Investment Sales

05

Cambridge Office Trends

09

Office and Lab Stats

06

Suburban Office Trends

Overview

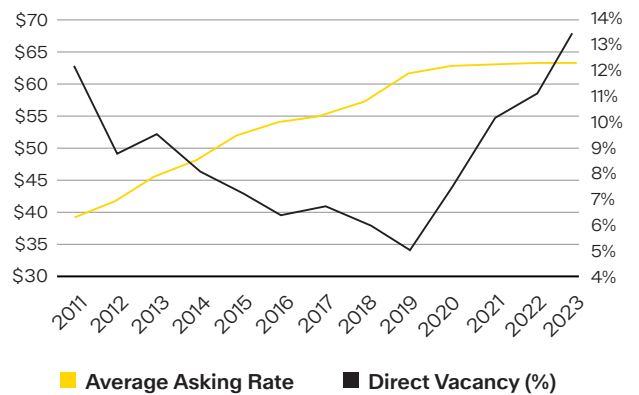
Vacancies finished 2023 at 13.5%, more than 100 basis point higher than where they started the year. Despite a strengthened push to get workers back in-person, offices are still struggling with high vacancies and underusage. Net absorption was negative by nearly 500,000 SF in Q4 2023 and by more than 1 million SF for the year. The suburban office market incurred most of the demand losses, with nearly 700,000 SF of negative absorption, while Cambridge had the most demand losses relative to inventory size. Sublet rates also increased by about 100 basis points last year. The suburbs saw the most sublet space added, despite having the lowest overall sublet rate. After several quiet quarters, trading activity picked up in the second half of last year, but sales volume and price appreciation still trail their historical averages.

Companies are setting firmer return-to-office expectations, but are still meeting resistance. Per Scoop, Boston ranks as the fifth most work-from-home friendly large metro in the country, with 89% of companies allowing employees some degree of work flexibility. Larger companies are less likely to be remote friendly, with only roughly 20% of Massachusetts-headquartered companies with more than 1,000 employees giving employees full remote-work flexibility. Flight-to-quality trends may persist and accelerate, as larger companies seek higher quality space to incentive returns to in-person work, while smaller companies seek leaner arrangements. Tenants still have plenty of options in new construction, with roughly 3 million SF under construction, about two-thirds of which is available for lease. Underperforming properties may continue to be targeted for conversion, which should alleviate some of the pressure on the office market. Nearly as much office space is underway or permitted for conversion as is under construction.

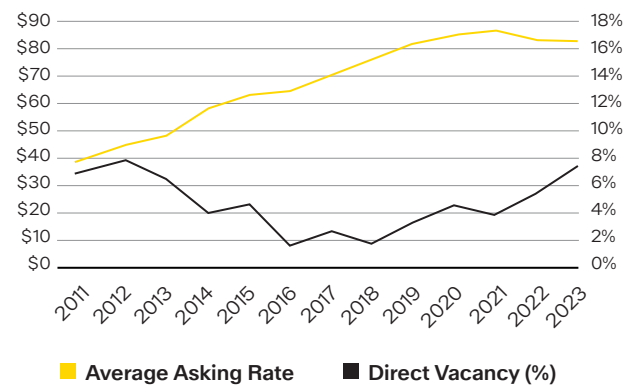
Looking Forward

Heading into 2024, interest rates are expected to finally compress. The Fed signaled in its year-end meeting that three quarter-percentage cuts could come in the next 12 months, as inflation has eased since peaking in mid-2022. Although lower interest rates won't solve every problem for the office market—especially in regards to diminished demand due to remote work—they could make an immediate impact on the capital markets. Investment activity was limited across most sectors last year, as high borrowing costs kept buyers on the sidelines. Interest rate relief should also free up venture capital funding, which has dropped off since the halfway point of 2022 when the Fed began its rate hikes. VC funding is especially critical to high growth industries like Tech and Biotech, which are critical to the Greater Boston commercial real estate market. While promising, potential interest rate cuts are still not guaranteed, and won't fix every issue plaguing the Boston office market overnight.

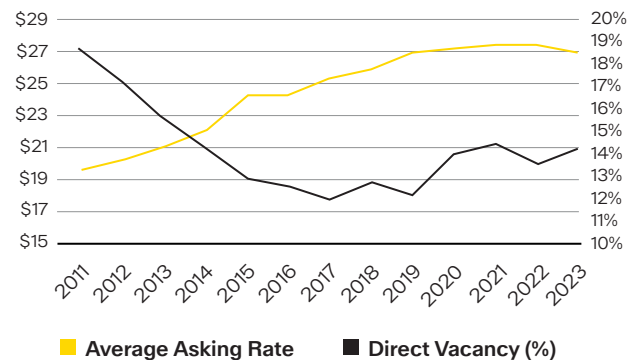
Boston Asking Rate vs Direct Vacancy



Cambridge Asking Rate vs Direct Vacancy



Suburban Asking Rate vs Direct Vacancy %



Boston Office Trends

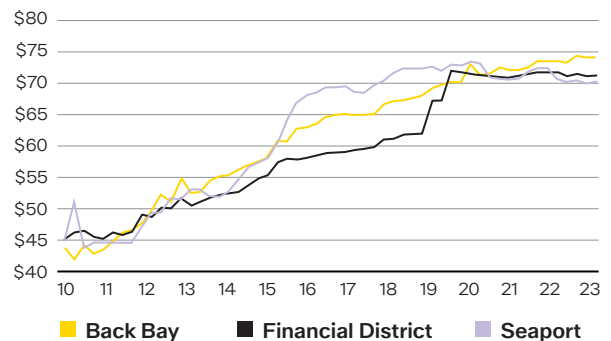
Vacancies expanded by more than 200 basis points in Boston last year, as a couple large deliveries combined with continued demand-side pain to create unfavorable conditions for occupancies. Although demand was negative by about 135,000 SF for the full year, absorption improved to about positive 50,000 SF in Q4 and vacancies slightly decreased. Nearly 2 million SF of new supply opened last year, largely concentrated in the 812,000 SF Winthrop Center and the 978,000 SF One Congress. Boston still faces significant supply pressures, with nearly 3 million SF under construction, roughly half of which is still available for lease.

Although new construction is a significant source of vacancy expansion, it has also been a major driver of leasing activity as companies seek top-quality space. Boston was one of the most underbuilt major office markets in the country for the first two decades of the 21st century, so recent developments provided a needed boost for an inventory in need of fresh options. Several of last year's largest leases were for space in brand-new or recently renovated properties.

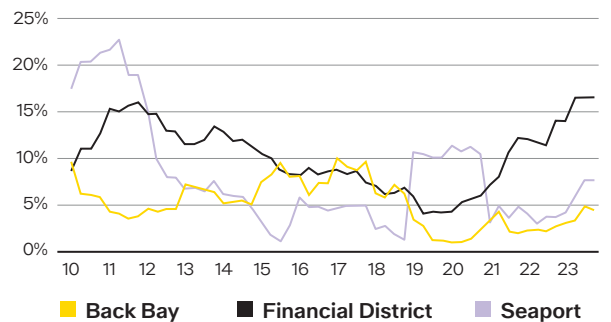
Deloitte leased 138,000 SF at Winthrop Center, where it will take occupancy in the second half of 2024. The company will relocate from its location at 200 Berkeley St. in Back Bay, where it has been for about 25 years in a similarly sized footprint. Goulston & Storrs leased 104,000 SF at One Post Office Square, which recently completed a full-scale renovation. The law firm is relocating from a similarly sized space at 400 Atlantic Ave., where it has been located for about 40 years. While the Deloitte and Goulston & Storrs leases were lateral moves for the market, Boston got a significant win when Lego selected 1001 Boylston St. for its new North American headquarters. The company will relocate from its longtime home in Enfield, Connecticut to the new Back Bay development in 2025, creating entirely new demand for the market.

Top leases in Q4 2023 were concentrated in the Seaport and Back Bay submarkets. The largest deal in the city was EMD Sero's sublease for 60,500 SF at 200 Pier Four Blvd., in the Seaport. The company signed a 10-year deal with a starting rent of \$70 PSF triple net, and will relocate its U.S. headquarters from Rockland, Massachusetts early in 2024. Also in the Seaport, Cabot renewed its 33,000 SF office at 2 Seaport Ln. Notable Back Bay leases included Cornerstone Research for 37,000 SF space at 699 Boylston St. and United Healthcare Services for 29,570 SF at 142 Berkeley St. Cornerstone Research renewed its space on a 10-year deal at a starting rent of \$67 PSF modified gross.

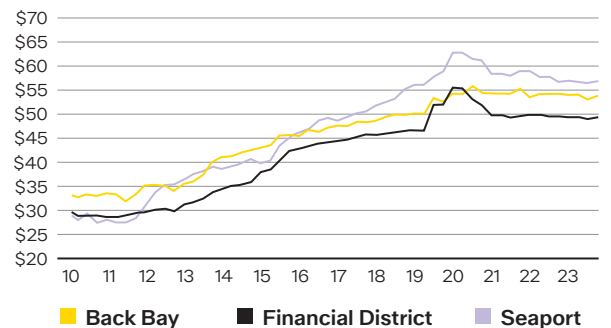
Class A Asking Rents



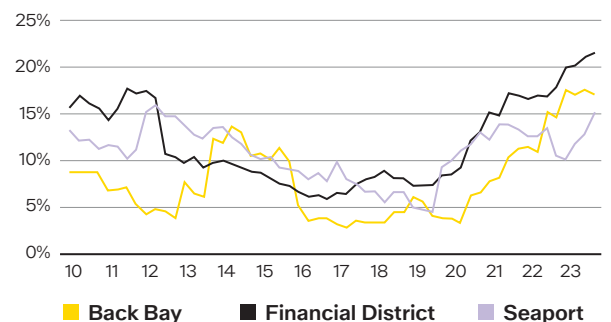
Class A Direct Vacancies



Class B Asking Rates



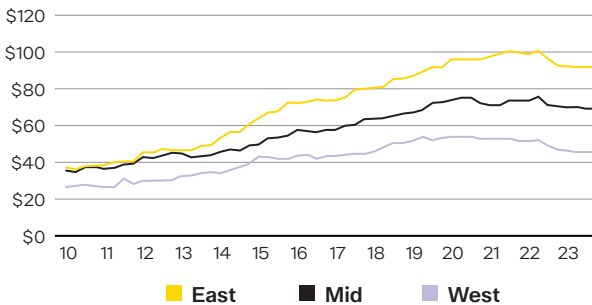
Class B Direct Vacancies



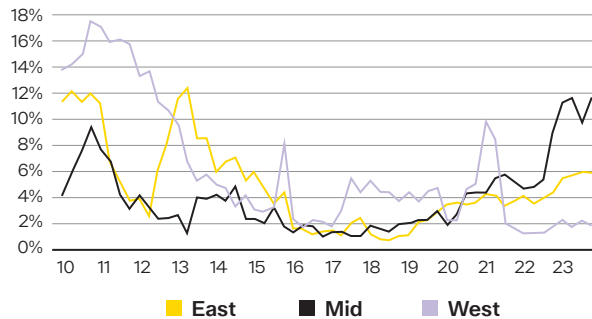
Cambridge Office Trends

Office vacancies in Cambridge are lower than those of Boston and the suburbs, but softening in the tech and biotech sectors has weighed on fundamentals. Net absorption was negative in six of the last seven quarters and vacancies expanded by nearly 200 basis points in 2023, finishing the year at their highest level in roughly a decade. Cambridge also has the highest sublet rate in the metro, finishing last year at 7.2%. Notable sublet blocks on the market include 108,000 SF listed by Akamai Technologies at 145 Broadway, 64,950 SF listed by Microsoft at 1 Memorial Dr., 59,216 SF listed by Akebia Therapeutics at 245 First St. Leasing activity was limited in 2023, with most of the larger deals being renewals or for sublet space. In the largest lease of the year, Amazon renewed 93,400 SF at 101 Main St. for three years at a starting rent of \$90 PSF. Context Labs took 39,006 SF off the sublet market at 75 Binney St. on a three-year deal, with a starting rent of \$38 PSF.

Cambridge Asking Rents



Cambridge Direct Vacancies



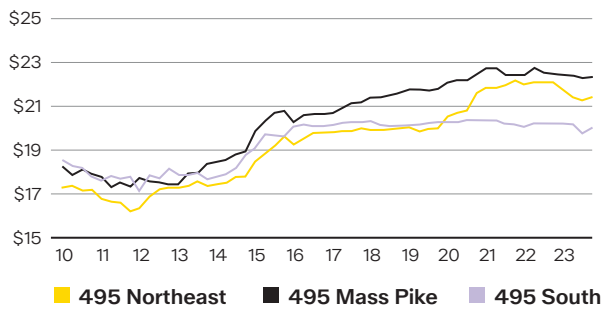
Top Leases

	Size (SF)
New York Life 201 Jones Rd., Waltham: 128 West	79,000 SF
EMD Serono 200 Pier Four Blvd., Boston: Seaport	60,500 SF
Cornerstone Research 699 Boylston St., Boston: Back Bay	37,000 SF
Devoted Health 221 Crescent St., Waltham: 128 West	35,000 SF
Paragonix 950 Winter St., Waltham: 128 West	34,623 SF
Cabot 2 Seaport Ln., Boston: Seaport	33,000 SF
United Healthcare Services 142 Berkeley St., Boston: Back Bay	29,570 SF
Blizzard 100 Causeway St., Boston: North Station	27,600 SF
Boston Dynamics AI Institute 145 Broadway, Cambridge: East Cambridge	27,000 SF
Medminder 320 Norwood Park South, Norwood: 128 South	20,952 SF
Publicis Groupe 601 Edgewater Dr., Wakefield: 128 North	20,354 SF

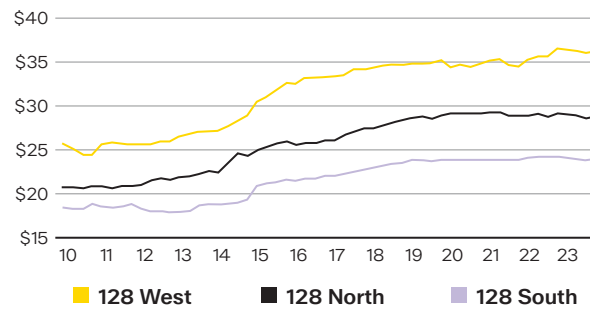
Suburban Office Trends

Net absorption was negative in the suburbs by about 450,000 SF in Q4 2023 and vacancies increased to 14.2%. Net absorption was negative by nearly 700,000 SF for all of last year, which was actually a significant improvement from the 1.4 million SF of occupied space shed in 2022. The 495 belt had steeper absorption losses than the Route 128 submarkets in Q4, but the opposite was true for the full year totals. Sublet rates are lower than those of Cambridge and Boston, but increased at a faster pace last year. Leasing activity in Q4 2023 represented a variety of industries and several of the largest deals were signed in Waltham, including New York Life for 79,000 SF, Devoted Health for 35,000 SF, and Paragonix for 34,623 SF. Coworking firm Regus also was major lessee in the suburbs, taking about 100,000 SF across a variety of sites.

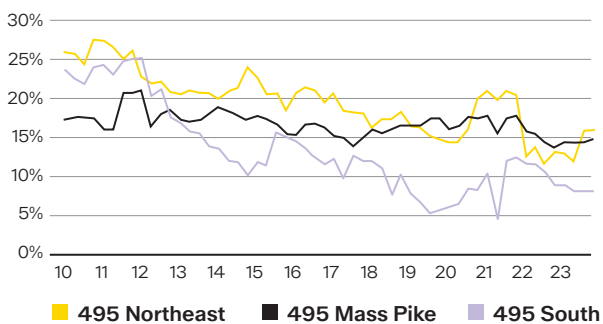
495 Asking Rates



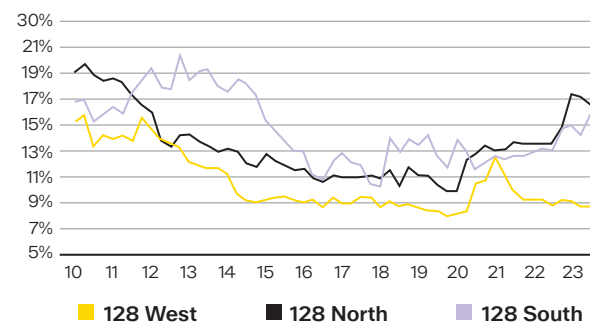
Route 128 Asking Rates



495 Direct Vacancies



Route 128 Direct Vacancies



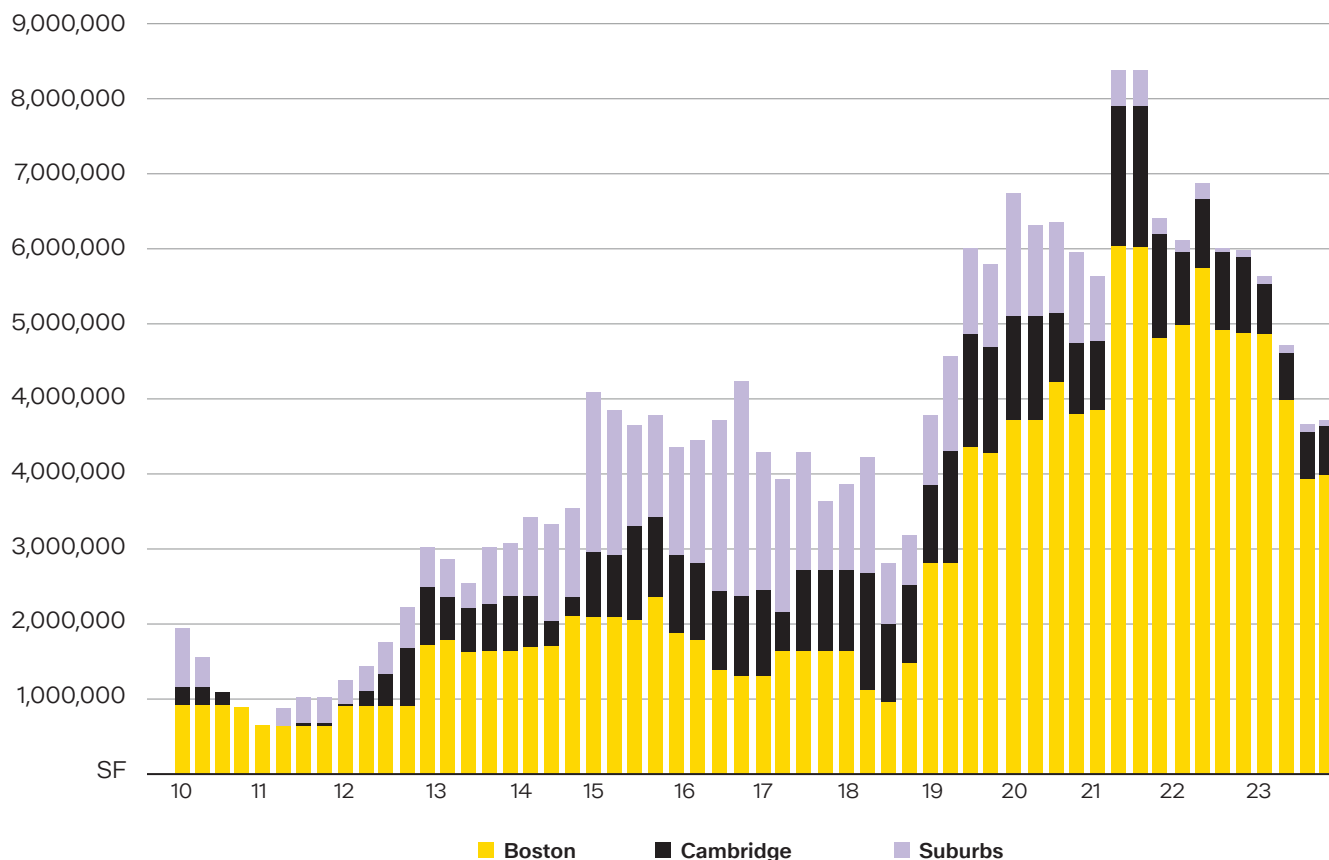
Development

The Greater Boston office market is in the middle of its largest supply wave in more than 20 years, with more than 6 million SF delivered since 2021 and more than 3 million SF under construction. The pipeline is focused on Downtown Boston, where several large high rises have delivered or are in development. One of last year's most notable deliveries was One Congress, which features nearly 1 million SF of office space and is nearly fully leased to State Street, K&L Gates, InterSystems Corp., and others. Also delivered in 2023 was Winthrop Center, which is about 800,000 SF and counts Deloitte, McKinsey & Co., and Cambridge Associates among its tenants. The property still has more than 400,000 SF of vacant space, which represents more than 5% of total vacancy in the Financial District. The largest ground-up project still

underway is Hines' South Station tower, which will have about 700,000 SF of office space, along with a multifamily component. The project is still fully available for lease and expected to deliver in 2025.

Several landlords that lost tenants have invested in major renovations and upgrades to boost the appeal of their assets in a competitive market. After State Street and K&L Gates left 1 Lincoln St., Fortis Property Group announced the investment of more than \$200 million into renovations on the lobby, food service space, and amenities. Following Eaton Vance's departure, the Chiofaro Company is investing \$100 million into International Place, to be used for a new 16,000 SF amenity space, upgraded lobbies, and rebuilding Fort Hill Plaza.

Under Construction







Investment Sales

Office investment continues to lag historical performance, as high borrowing costs and the uncertain economic and office sector-specific outlooks have kept buyers on the sidelines. Deal activity picked up in the second half of last year, especially in the urban core. The largest sale of Q4 2023 was Ezdan Holding Group's acquisition of 855 Boylston St. from RREEF Property Trust for \$99.5 million, or \$697 PSF. The Qatar-based buyer acquired the multi-tenant Back Bay property while it was 100% leased. The asset last previously changed hands in December 2000 for \$47.2 million. In September Clarion Partners sold 1 Liberty Sq. to Synergy Boston for \$45 million (\$286 PSF), which was below the asset's \$54.4 million selling price in September 2013, and lower than what it sold for in

December 2006 and June 2001. In another notable downtown trade, Nuveen divested 70 Federal St. for \$41 million (\$638 PSF), which was higher than its December 2016 selling price of \$38 million. Buyers also targeted the suburbs last quarter, particularly the 128 West submarket. Jumbo Capital Management acquired a 9-property portfolio in Wellesley from Haynes Management for \$48.5 million (\$265 PSF). The portfolio consisted mainly of multi-tenant Class B office and was 97.5% leased at the time of sale. Another notable sale of multi-tenant Class B office in 128 West was J. Derenzo Co.'s acquisition of 15-19 Crawford St. in Needham from The Bulfinch Companies for \$10.8 million (\$265 PSF).

Top Sales

		Price	PSF	Buyer	Seller
	855 Boylston St Boston: Back Bay	\$99.5 Million	\$697	Ezdan Holding Group	RREEF Property Trust, Inc.
	The Haynes Collection Wellesley: 128 West	\$48.5 Million	\$265	Jumbo Capital Management LLC	Haynes Management, Inc.
	186 Lincoln St Boston: Midtown	\$11 Million	\$151	City Realty Group	Brickman
	15-19 Crawford St Waltham: 128 West	\$10.8 Million	\$265	J. Derenzo Co.	The Bulfinch Companies, Inc.

Office and Lab Stats Q4 2023

Submarket	RSF	% Vacant	% Sublease	% Avail	Net Absorption - Direct Space	12 Month Absorption	Asking Rate
Back Bay	14,773,060	7.5%	5.0%	17.3%	62,679	(245,816)	\$68.80
Charlestown	1,776,698	18.4%	0.4%	21.7%	109,359	70,427	\$45.11
Fenway	2,009,312	1.3%	2.8%	6.4%	45,922	(26,768)	\$54.14
Financial District	35,726,550	17.7%	5.9%	26.5%	(49,710)	(292,660)	\$65.70
Midtown	1,858,356	12.5%	14.9%	27.7%	(9,216)	(54,804)	\$47.18
North Station	4,887,077	12.0%	5.8%	22.6%	(18,985)	850,985	\$58.45
Seaport	9,892,626	10.8%	5.9%	18.0%	(92,397)	(413,113)	\$64.22
South Station	2,712,081	9.3%	1.9%	11.7%	10,067	(23,372)	\$53.49
Boston Total	73,635,760	13.5%	5.6%	22.1%	57,719	(135,121)	\$63.91
East Cambridge	6,950,089	5.9%	7.4%	19.8%	4,360	(116,753)	\$92.88
Mid-Cambridge	3,208,367	11.7%	6.1%	21.9%	(60,702)	(87,777)	\$70.38
West Cambridge	1,273,292	1.8%	9.6%	11.5%	5,154	(1,174)	\$46.61
Cambridge Total	11,431,748	7.1%	7.2%	19.5%	(51,188)	(205,704)	81.41
Inner Suburbs North	4,899,298	6.7%	7.8%	17.8%	(21,781)	50,628	\$40.80
128 West	21,476,710	9.1%	10.7%	21.5%	(47,851)	63,116	\$36.15
128 North	16,881,547	16.3%	4.3%	22.5%	53,317	(234,948)	\$28.66
128 South	16,629,730	17.0%	3.2%	21.4%	(182,378)	(356,026)	\$23.81
128 Total	54,987,987	13.7%	6.4%	21.8%	(176,912)	(527,858)	\$30.12
495 Mass Pike	18,561,772	14.9%	2.9%	19.5%	(43,281)	(140,133)	\$22.34
495 Route 2	6,688,954	19.8%	0.7%	20.8%	(101,040)	8,955	\$19.50
495 Northeast	5,772,405	16.0%	4.4%	22.5%	(4,454)	(170,380)	\$21.40
Route 3 North	6,745,242	18.6%	2.3%	25.8%	(117,905)	65,711	\$21.36
495 South	4,388,111	8.2%	0.6%	9.5%	1,210	35,745	\$19.95
495 Total	42,156,484	15.7%	2.4%	20.1%	(265,470)	(200,102)	\$21.36
Suburban Total	102,043,769	14.2%	4.8%	20.9%	(464,163)	(677,332)	\$27.01
All Office	187,111,277	13.5%	5.3%	21.3%	(457,632)	(1,018,157)	\$45.11

Adin Perera
Research Director
53 State Street, 8th Floor
Boston, MA 02109

www.lpc.com

Lincoln