

Office Report

Boston | Cambridge | Suburbs

Q2 2024

Lincoln

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Overview

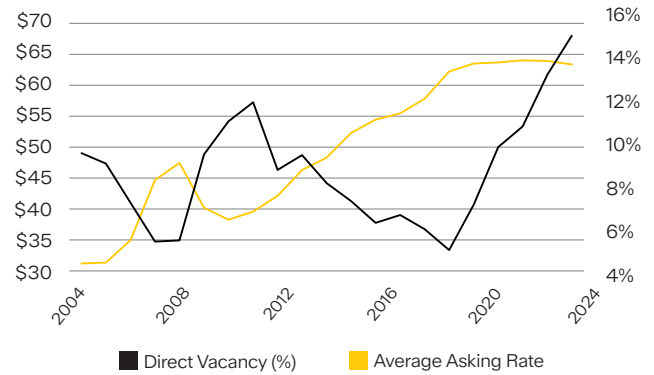
The Boston Office Market continues to struggle with demand losses, and vacancies increased by almost 100 basis points in Q2 2024. Net absorption was negative by more than 1.2 million square feet last quarter and roughly 3 million square feet over the last 12 months. At 15.1%, vacancies are near a record high, while total availability now exceeds 22%. The sublet market has been a relative bright spot over the last year, with rates remaining flat. Low occupancies continue to place pressure on rents, with asking rents declining and large concession packages often needed to lure tenants. Sales volume is on pace for its lowest total in decades and many repeat sales are going for significant discounts from past selling prices.

The market's fundamentals continue to face significant challenges from supply and demand drivers. Despite firmer return-to-office mandates, office usage remains well below pre-2020s levels. Per Scoop, Massachusetts ranks as the most flexible state in the country, with 90% of companies allowing employees some degree of work flexibility. While demand struggles to recover, Boston is in the middle of its largest supply wave in over 20 years, with more than 6 million square feet delivered since 2021 and more than 2 million square feet under construction. New developments have generated some of the market's top deals over the last few years, but have mainly drawn from elsewhere in the market instead of creating entirely new demand.

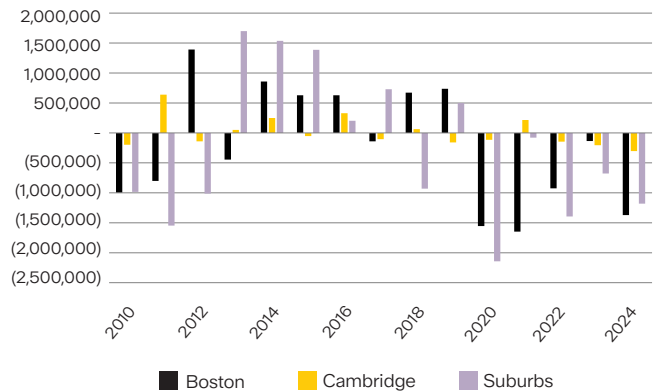
Looking Forward

The Boston Office Market has endured a tough few years and serious challenges remain, but signs of normalization and a possible rebound are beginning to emerge. According to VTS, the number of tenants actively touring space in Boston last quarter reached its highest total in three years. Active requirements now total about 6.5 million square feet, which is about 50% greater than the monthly average across 2021 to 2023. The largest uptick in touring activity came from smaller tenants and those in the TAMl sectors, while Back Bay and Fenway were the primary locations for increased activity. Also helping the outlook is a waning supply pipeline. Nearly 3 million square feet of speculative office space delivered since the start of 2023, but only about 1.3 million square feet of speculative space remains under construction. Hines' South Station tower is the last remaining speculative project under construction in Downtown Boston. The 700,000-square foot property is still fully available for lease, but will likely follow the trend set by its predecessors of poaching demand from other buildings in Greater Boston. Once available space dries up in new construction, expanding or relocating tenants will need look for space in the rest of the Class A market. Fundamentals could struggle for several more quarters and the recovery could take a long time, but current supply and demand trends are still encouraging signs that the rate of vacancy expansion could soon taper off.

Boston Asking Rate vs. Direct Vacancy



Annual Office Net Absorption (SF)



Top Leases

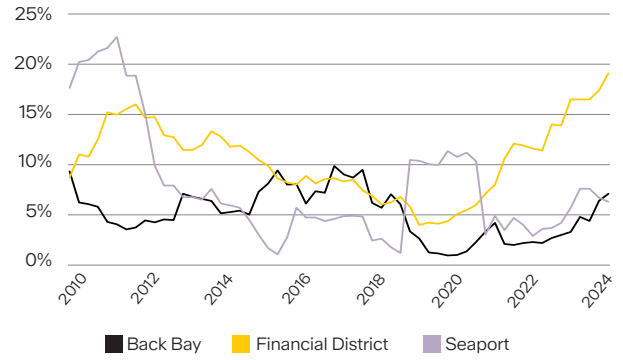
	SF
Welch's 16-1 Trapelo Road, Waltham 128 West	60,000
Revvity 77 Fourth Ave, Waltham 128 West	46,000
Havard Management Company 600 Atlantic Ave, Boston Financial District	45,399
Carrier Fire & Security Americas Corporation 1 Speen Street, Framingham 495 Mass Pike	24,000
Pillar VC 500 Boylston Street, Boston Back Bay	22,000
eShare 920 Winter Street, Waltham 128 West	21,000
Power Home Remodeling Group 201 Jones Road, Waltham 128 West	19,945
Helen of Troy 399 Boylston Street, Boston Back Bay	19,530
Bohler Engineering 50 Washington Street, Westborough 495 Mass Pike	19,160
Eliassen Group 55 Walkers Brook Drive, Reading 128 North	17,776

Boston Office Trends

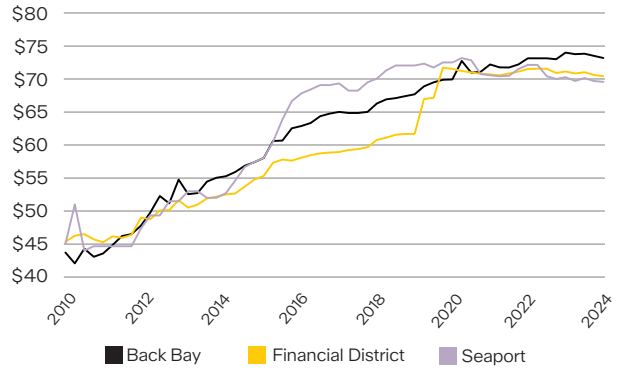
Vacancies increased by about 100 basis points last quarter, as tenants continue to shed space downtown. Net absorption was negative by roughly 650,000 square feet in Q2 2024 and by nearly 900,000 square feet over the last 12 months. Net absorption in the Class A segment was negative by nearly 700,000 square feet, while the Class B segment recorded slightly positive absorption. About 20 Class A properties in Downtown Boston now have more than 100,000 square feet of vacant space. The Financial District has the highest vacancy rate of any submarket, at about 20% overall and 19% in the Class A segment. The Financial District's Class A vacancy rate is more than double that of any other downtown submarket. Boston's sublet rate stayed level at about 5.5% and has fallen from a peak of 6% reached a year ago, indicating some normalization in this market.

Although more than 1 million square feet of trophy office space in recent and upcoming deliveries remains on the market, leasing activity for new space has dried up. The largest deal signed last quarter was Harvard Management Company's renewal of 45,399 square feet at 600 Atlantic Avenue on a 5-year deal. Arnold Worldwide/Havas Media signed the only new deal for more than 40,000 square feet so far in 2024. The advertising agency leased 70,000 square feet at 5 Necco Street in the Seaport in Q1. This was the largest direct deal for second generation office space signed in Boston since 2022, but represented a net loss for the city's office demand. The company will relocate from about 125,000 square feet at 10 Summer Street in the deal.

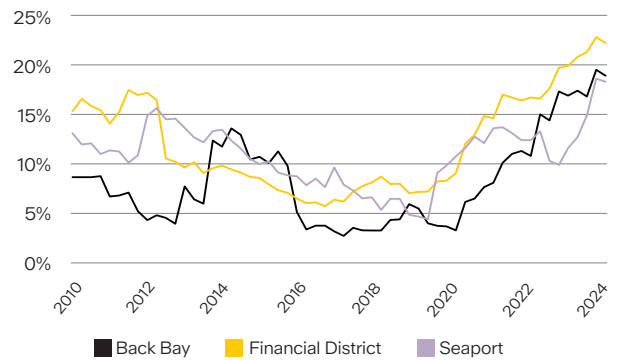
Class A Direct Vacancies



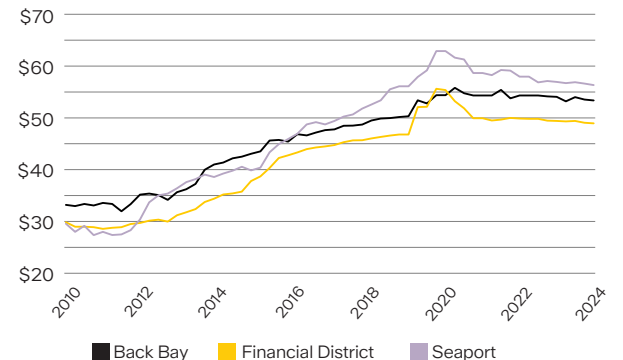
Class A Asking Rates



Class B Direct Vacancies



Class B Asking Rates

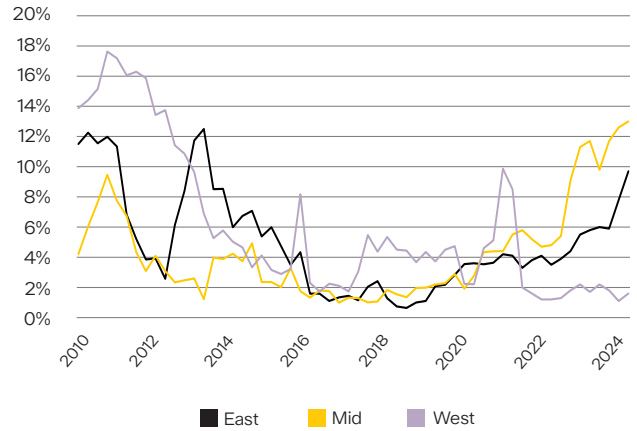


Cambridge Office Trends

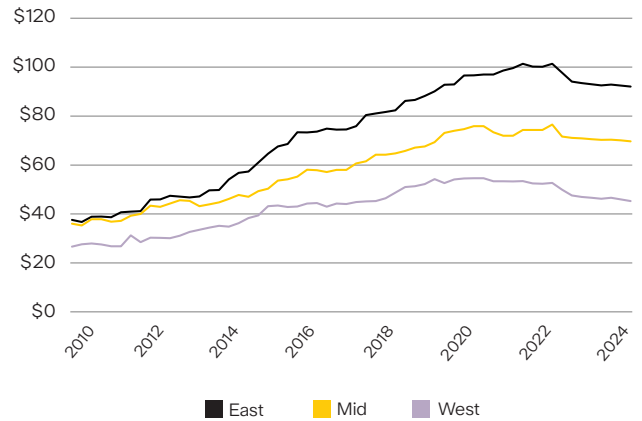
Cambridge's vacancy rate has steadily climbed since hitting a trough of 2.9% in the first half of 2022 and finished Q2 2024 at almost 10%. The city still has a much lower vacancy rate than Boston or the suburbs, but has a higher sublet rate and has seen few notable leases signed in recent quarters. Cambridge is highly exposed to the tech and biotech industries, which are highly dependent on a startup culture funded by venture capital money. VC funding has dried up over the last few years due to interest rate hikes, leading companies to cut back footprints. Tech companies are also more likely to embrace remote work and downsize their offices. Net absorption was negative in eight of the last nine quarters, with most losses occurring in the Class A segment. Over the last two years Class A vacancies have roughly quadrupled, compared with a 50% increase for Class B.

Despite recent headwinds, tech and biotech still drive most of the city's leasing activity. Sage Therapeutics signed a 30,567-square foot lease in January at 55 Cambridge Parkway for five and a half years. Lincoln Property Company represented the landlord in the deal, which was the largest direct lease signed in the Cambridge office market since 2022. Sage will downsize in the move, however, leaving more than 100,000 square feet across two previous locations in the city. Other notable deals signed since last year include Amazon's 3-year renewal of 93,400 square feet at 101 Main Street and Context Labs subleasing 39,006 square feet at 75 Binney Street, also on a 3-year deal.

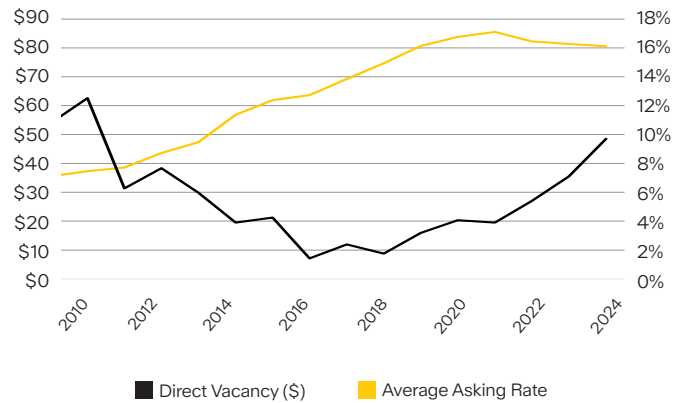
Cambridge Direct Vacancies



Cambridge Asking Rates



Cambridge Asking Rate vs. Direct Vacancy



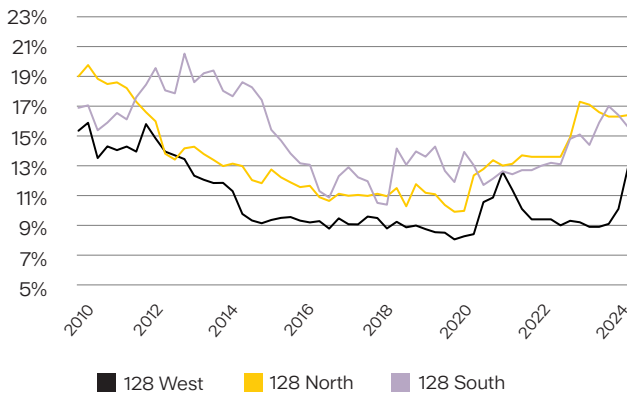
Suburban Office Trends

Suburban office net absorption was negative by about 450,000 square feet in Q2 2024 and by nearly 1.8 million square feet over the last 12 months. At 15.5%, vacancies are at their highest point in about a decade. The 495 Market has the highest vacancy rate in the suburbs and incurred most of the demand losses over the last 12 months. In Q2 2024, however, net absorption was slightly positive in 495, while negative by nearly 500,000 square feet in the 128 Market. Absorption losses were concentrated in Class A space in 128 West, with vacancies in this submarket increasing from about 8% to more than 12% last quarter.

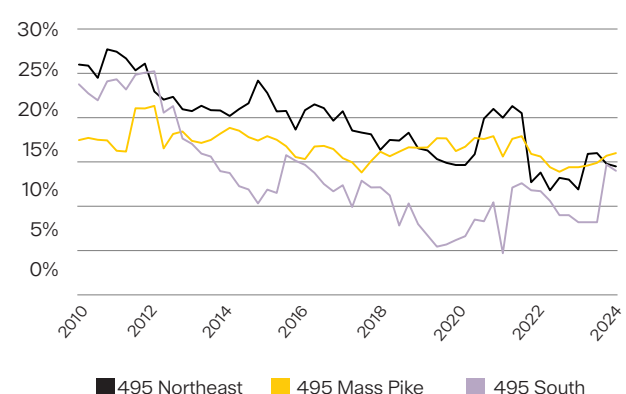
The suburbs had greater representation than Boston and Cambridge in last quarter's list of top leases, with four of the 10 largest deals in Waltham.

Welch's leased 60,000 square feet at 1601 Trapelo Road, relocating from its longtime home in Concord. The juice-maker will begin work on its new home this summer, with a full move-in scheduled for Spring 2025. Revvity leased 46,000 square feet at 77 4th Avenue on a 10-year deal that will start at the beginning of next year. The life sciences company's rent will start at \$36 per square foot and received \$50 per square foot in T.I. allowances. Other notable Waltham leases included eShare for 21,000 square feet at 920 Winter Street and Power Home Remodeling Group for 19,945 square feet at 201 Jones Road.

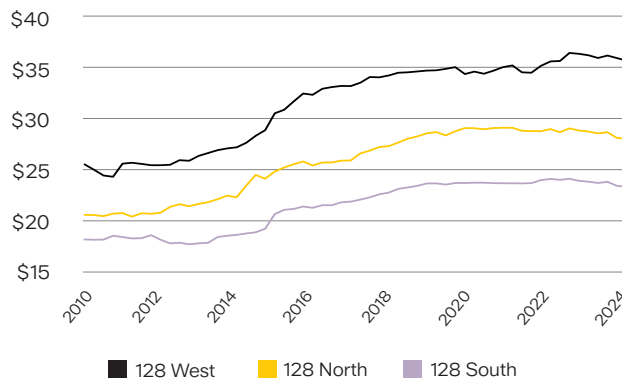
Route 128 Direct Vacancies



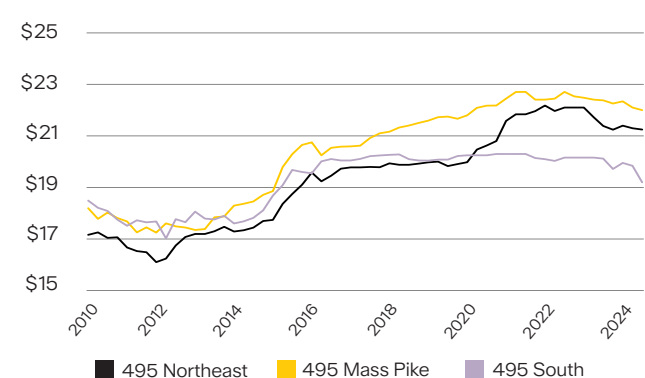
495 Direct Vacancies



Route 128 Asking Rates



495 Asking Rates



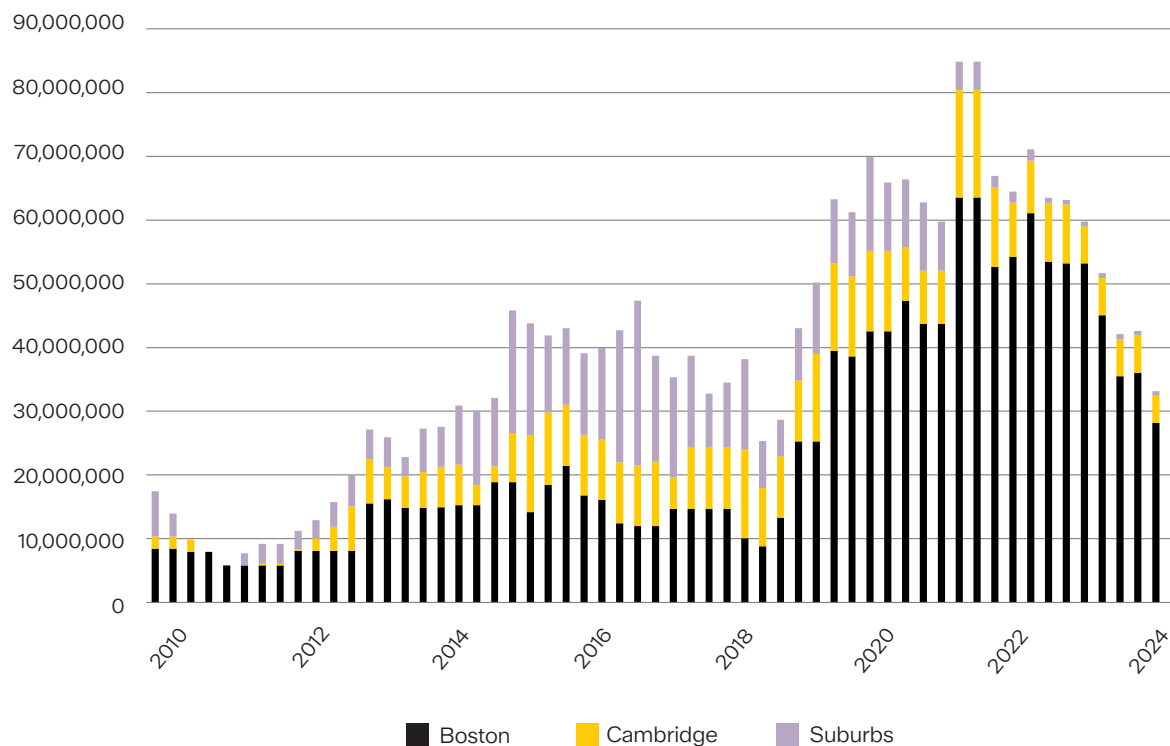
Development

The speculative supply wave hitting Downtown Boston will wrap up once Hines' South Station tower delivers in early 2025. The 700,000-square foot high-rise is still fully available for lease and will follow The Hub on Causeway, Winthrop Center, One Congress, and One Post Office Square as downtown deliveries in the 2020s. Together these projects total roughly 4 million square feet, representing Boston's largest supply wave in decades. While high vacancies may deter further speculative construction for the foreseeable future, several large build-to-suits are in the pipeline. WS Development's 1 Boston Wharf Road in the Seaport and Samuels & Associates' 1001 Boylston Street are both expected to open later this year, with the former fully leased to Amazon and the office-portion of the

latter committed to CarGurus and The Lego Group. The Druker Company is developing 350 Boylston Street in Back Bay, a 221,000-square foot property leased to Bain & Co.

Landlords are investing 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 Street, 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-square foot amenity space, upgraded lobbies, and rebuilding Fort Hill Plaza.

Cambridge, Boston & Suburban Office Space Under Construction (SF)
(Excluding Conversions)




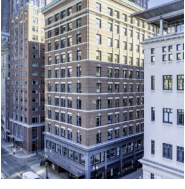


Investment Sales

Sales activity remains scarce, with fewer than \$500 million changing hands in the first half of 2024, placing sales volume on its slowest pace in decades. Last quarter's top deals highlighted a range of approaches office investors are taking in today's market. City Realty Group acquired the four-property Landing at Chestnut Hill, which includes office, flex, and retail space, for \$41 million from W/S Development. The portfolio was mostly vacant at the time of closing and the buyer plans on redeveloping the site into a new mixed-use property. Azora Exan acquired 801 Boylston Street for \$39.1 million, or just over \$1,500 per square foot. The Back Bay property

was 91% leased at the time of its sale, and the buyer cited its discount price and opportunity to add value through capital expenditures as motivations for the purchase. The third-largest transaction of the quarter was the sale of 147 Milk Street for \$36.35 million, or \$695 per square foot. KanAm Group sold the Financial District medical-office building to Remedy Medical Properties and Kayne Anderson Real Estate. Despite being 100% leased to Atrius Health and a few smaller tenants, the property sold at a significant discount from its previous price of \$47.95 million in April 2021.

Top Sales

		Price	PSF	Buyer	Seller
	Chestnut Hill Office Park Newton: 128 West	\$41 Million	\$349	City Realty Group	W/S Development
	801 Boylston Street Boston: Back Bay	\$39.1 Million	\$1,501	Azora Exan, LLC	ASB Capital Management & Blatteis & Schnur, Inc.
	147 Milk Street Boston: Financial District	\$36.35 Million	\$695	Remedy Medical Properties & Kayne Anderson Real Estate	KanAm Group
	101 Tremont Street Boston: Financial District	\$30 Million	\$375	Suffolk University	GLL Real Estate Partners GmbH

Office Stats Q2 2024

Submarket	RSF	Direct Vacant	% Vacant	% Sublease	% Avail	Net Absorption - Direct Space	12 Month Absorption	(NNN) Asking Rate
Back Bay	14,773,060	1,488,689	10.1%	3.9%	18.1%	(55,890)	(453,664)	\$68.13
Charlestown	1,776,698	269,539	15.2%	0.0%	17.1%	33,753	109,037	\$44.45
Fenway	2,009,312	72,690	3.6%	3.2%	6.8%	-	(45,922)	\$54.06
Financial District	35,726,550	7,103,805	19.9%	5.5%	27.9%	(410,299)	(897,924)	\$65.15
Midtown	1,858,356	226,356	12.2%	17.7%	35.2%	602	4,941	\$47.11
North Station	4,887,077	786,136	16.1%	6.3%	25.3%	(249,320)	690,073	\$58.16
Seaport	9,892,626	1,158,428	11.7%	7.4%	21.0%	27,694	(334,624)	\$63.65
South Station	2,712,081	203,296	7.5%	1.8%	9.4%	5,711	60,365	\$52.74
Boston Total	73,635,760	11,309,165	15.4%	5.5%	23.5%	(647,749)	(867,718)	\$63.37
East Cambridge	6,957,467	672,822	9.7%	5.4%	20.6%	(131,253)	(276,973)	\$92.07
Mid-Cambridge	3,208,367	418,365	13.0%	4.4%	21.3%	(13,952)	(42,361)	\$69.66
West Cambridge	1,273,292	20,191	1.6%	10.7%	12.3%	(6,009)	835	\$45.27
Cambridge Total	11,439,126	1,11,378	9.7%	5.7%	19.9%	960,164	(318,499)	\$80.57
Inner Suburbs North	4,899,298	430,936	8.8%	8.6%	20.5%	17,996	(88,627)	\$40.28
128 West	21,657,174	2,786,459	12.9%	8.9%	24.5%	(597,446)	(690,501)	\$35.66
128 North	16,675,547	2,732,737	16.4%	4.6%	24.0%	(11,212)	155,832	\$28.01
128 South	16,629,730	2,589,165	15.6%	3.4%	20.0%	138,690	(190,707)	\$23.33
128 Total	54,962,451	8,105,361	14.7%	5.9%	23.0%	(469,968)	(725,376)	\$29.61
495 Mass Pike	18,561,772	2,967,478	16.0%	3.1%	20.6%	(48,710)	(257,495)	\$22.00
495 Route 2	6,688,954	1,385,089	21.3%	0.6%	22.2%	(16,463)	(93,025)	\$19.33
495 Northeast	5,656,698	818,787	14.5%	2.9%	19.8%	16,829	(139,637)	\$21.25
Route 3 North	6,919,230	1,496,330	21.6%	2.5%	25.1%	16,179	(216,859)	\$20.64
495 South	4,388,111	613,344	14.0%	1.9%	16.1%	32,902	(254,091)	\$19.20
495 Total	42,039,765	7,281,028	17.3%	2.5%	21.0%	737	(961,107)	\$20.97
Suburban Total	101,901,514	15,817,325	15.5%	4.6%	22.1%	(451,233)	(1,775,110)	\$26.56
All Office	186,976,400	28,237,868	15.1%	5.0%	22.5%	(1,250,196)	(2,961,327)	\$44.68

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