

2Q24

NEWMARK

Boston Office Market Overview



Market Observations

The region's tight labor market, high living and business costs, and adverse demographics have constrained hiring in Greater Boston.

Rising occupancy is persisting throughout Boston's core submarkets, as the availability rate reached 25.4% in the second quarter of 2024.

TAMI firms continue to drive new sublease availabilities. Nearly 10.5 million SF is currently available for sublease in Greater Boston.

Leasing totals through the first half of 2024 are historically low and less than 3.0 million SF has been committed thus far.



New construction continues to outperform older assets in the market, but construction starts have been minimal since South Station Tower's groundbreaking in 2023.

Asking rents declined across asset classes during the quarter, while concessions appear to have reached a peak given current economic conditions.

Boston's pilot program supporting office-to-residential conversions has been extended through 2025, prompting the proposal of several new projects.

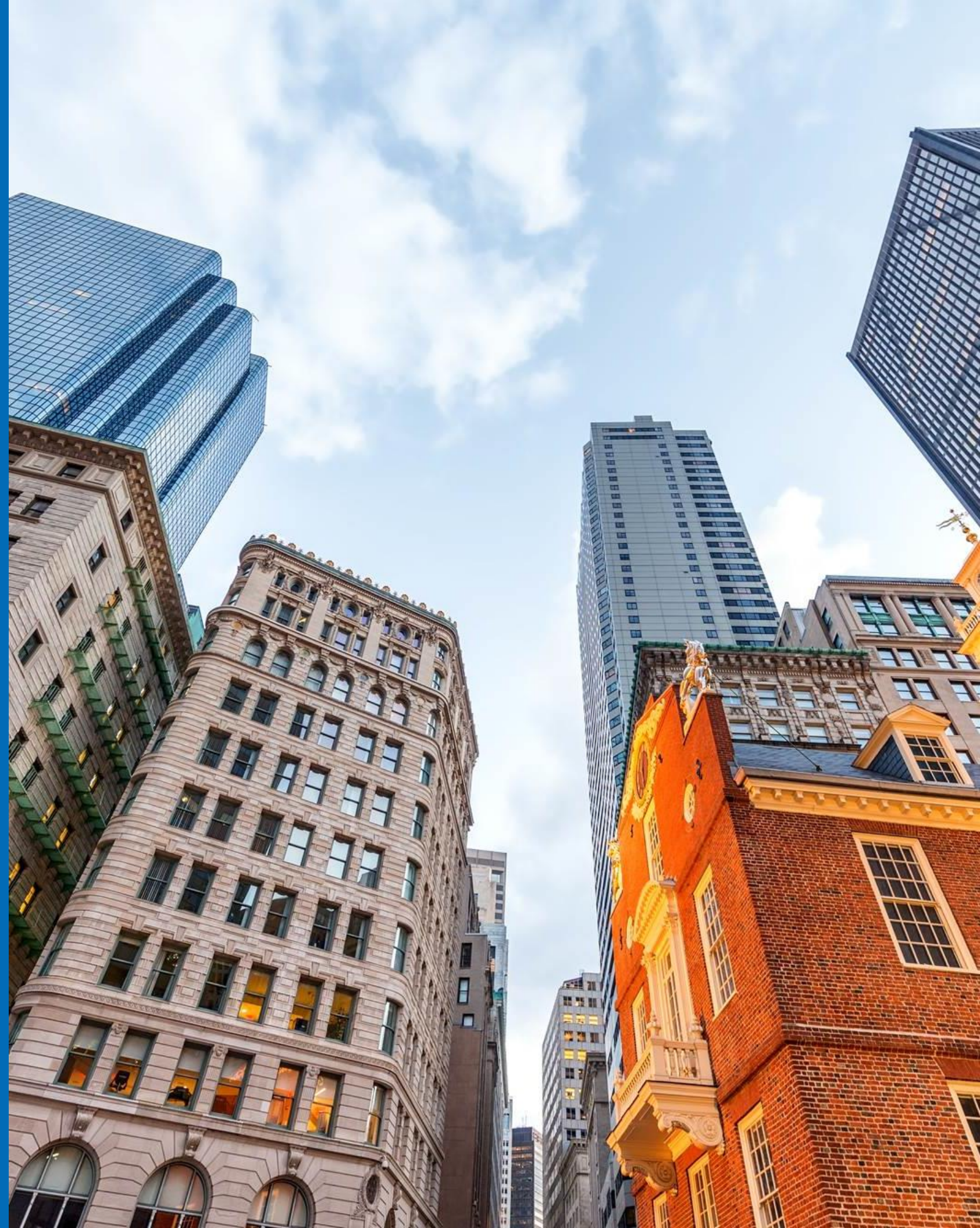
Occupancy and public transit ridership levels have rebounded, which should bode well for the long-term health of the Boston office leasing market.

With loans set to mature in the next 12 months, the expectation is for capital markets activity to return as owners look to refinance or dispose of assets.

1. Economy
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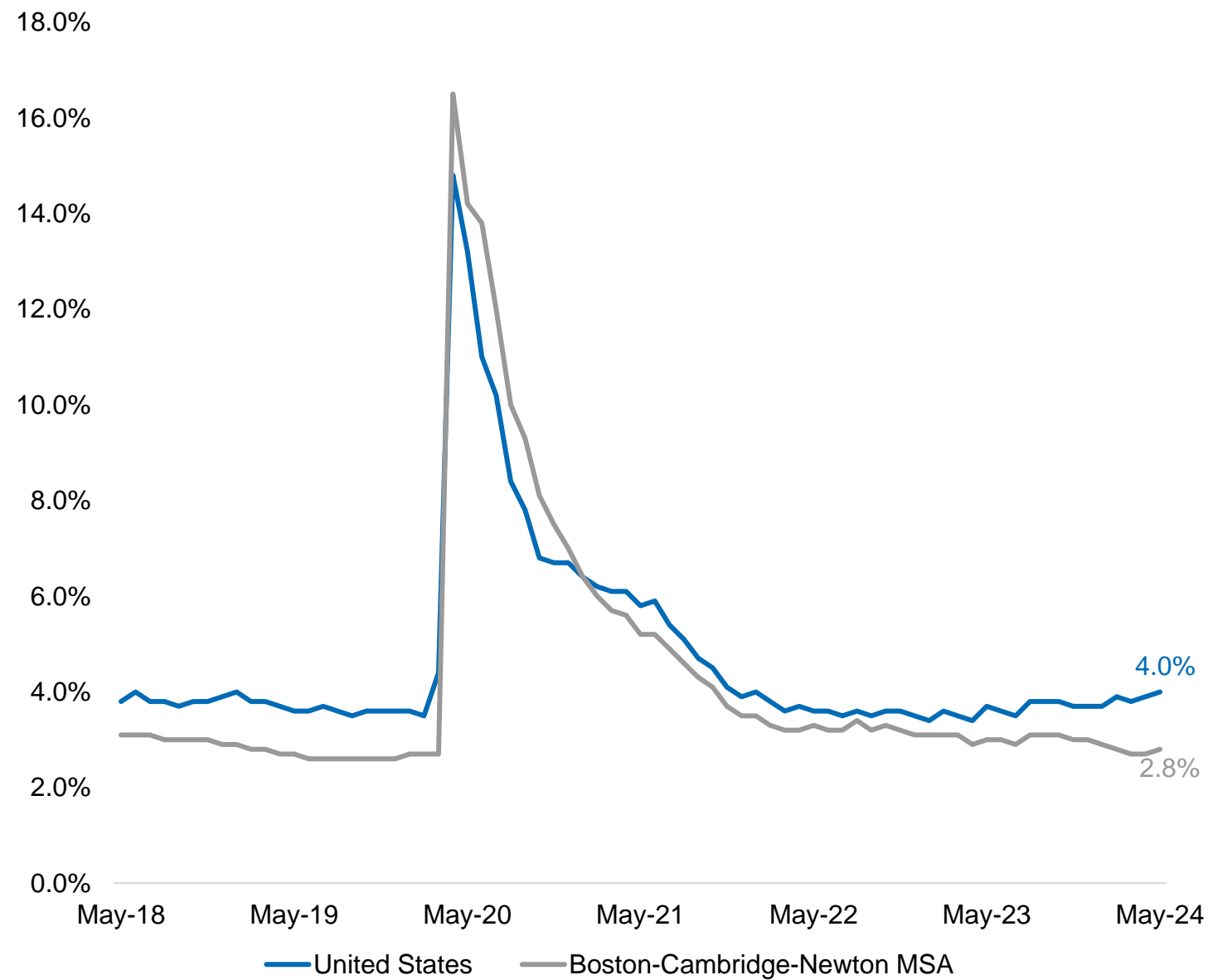
Economy



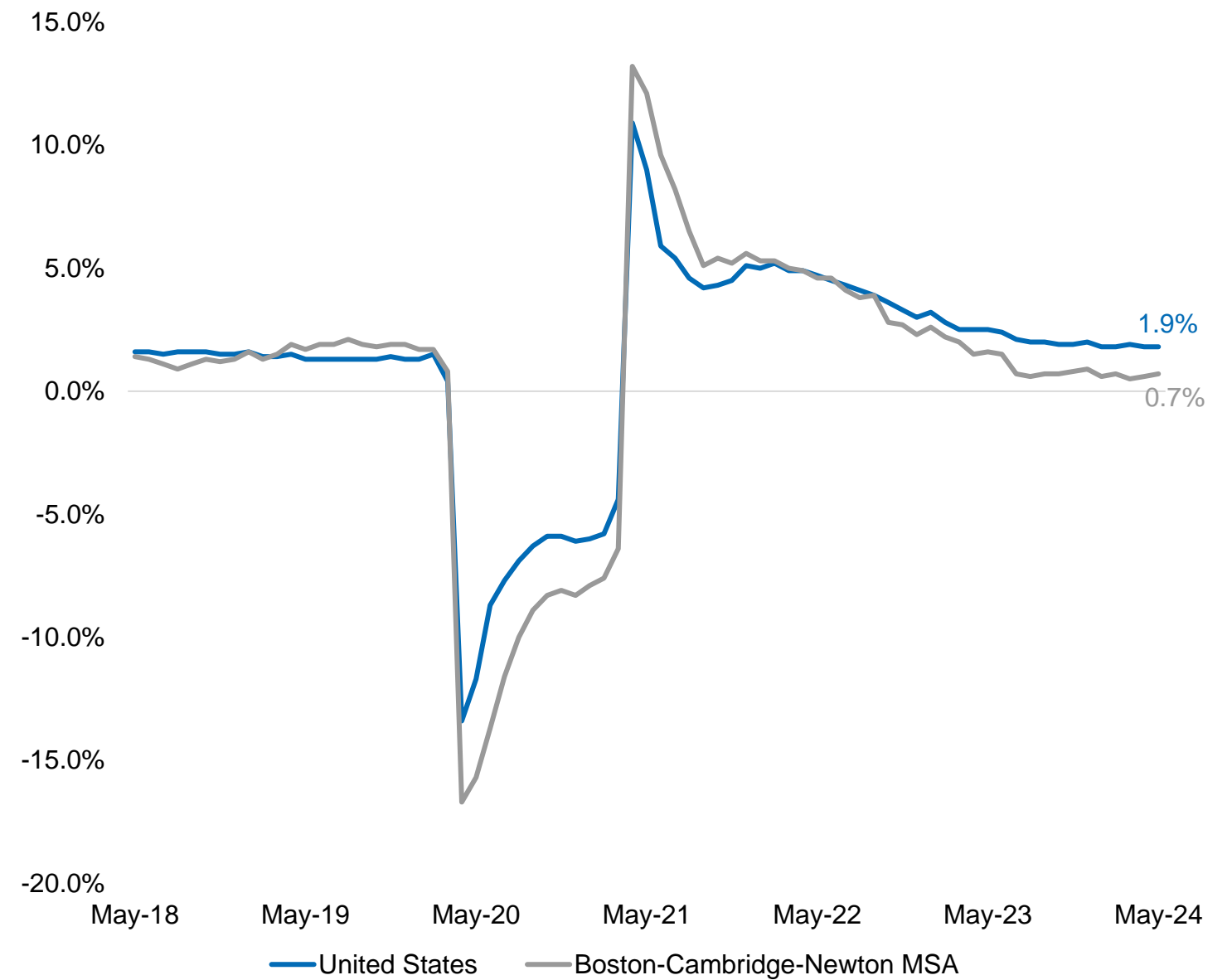
Tight Labor Conditions Are Hampering Employment Growth

Greater Boston's unemployment rate dipped below 3.0% for the first time in nearly five years. At 2.8% in May 2024, local unemployment is well below the national average of 4.0%. While layoffs persist in select industries, including TAMI and biotechnology, limitations on labor availability are also impacting job gains at the metro level. Year-over-year growth in Greater Boston total employment continues to trail the national average as a result.

Unemployment Rate, Seasonally Adjusted



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



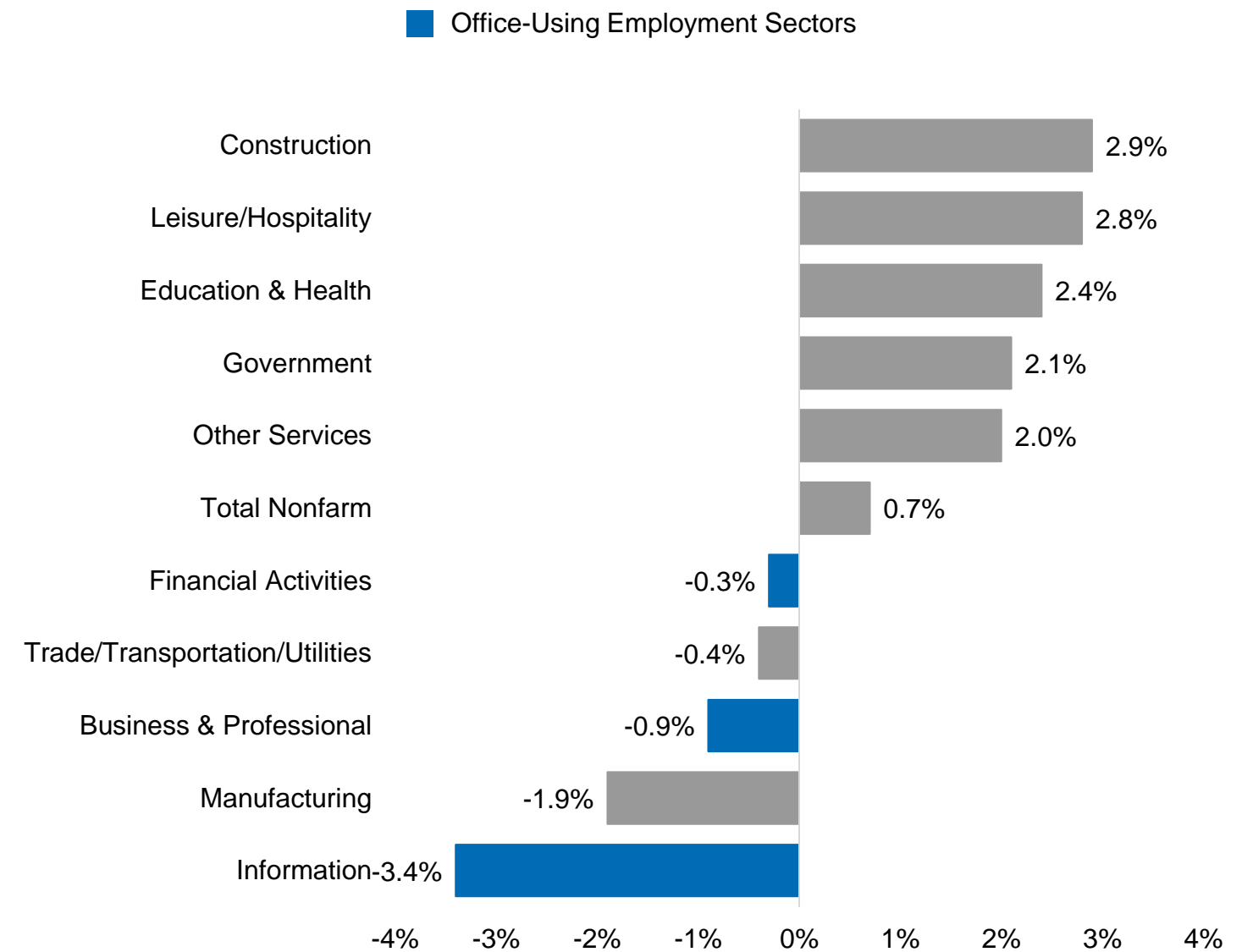
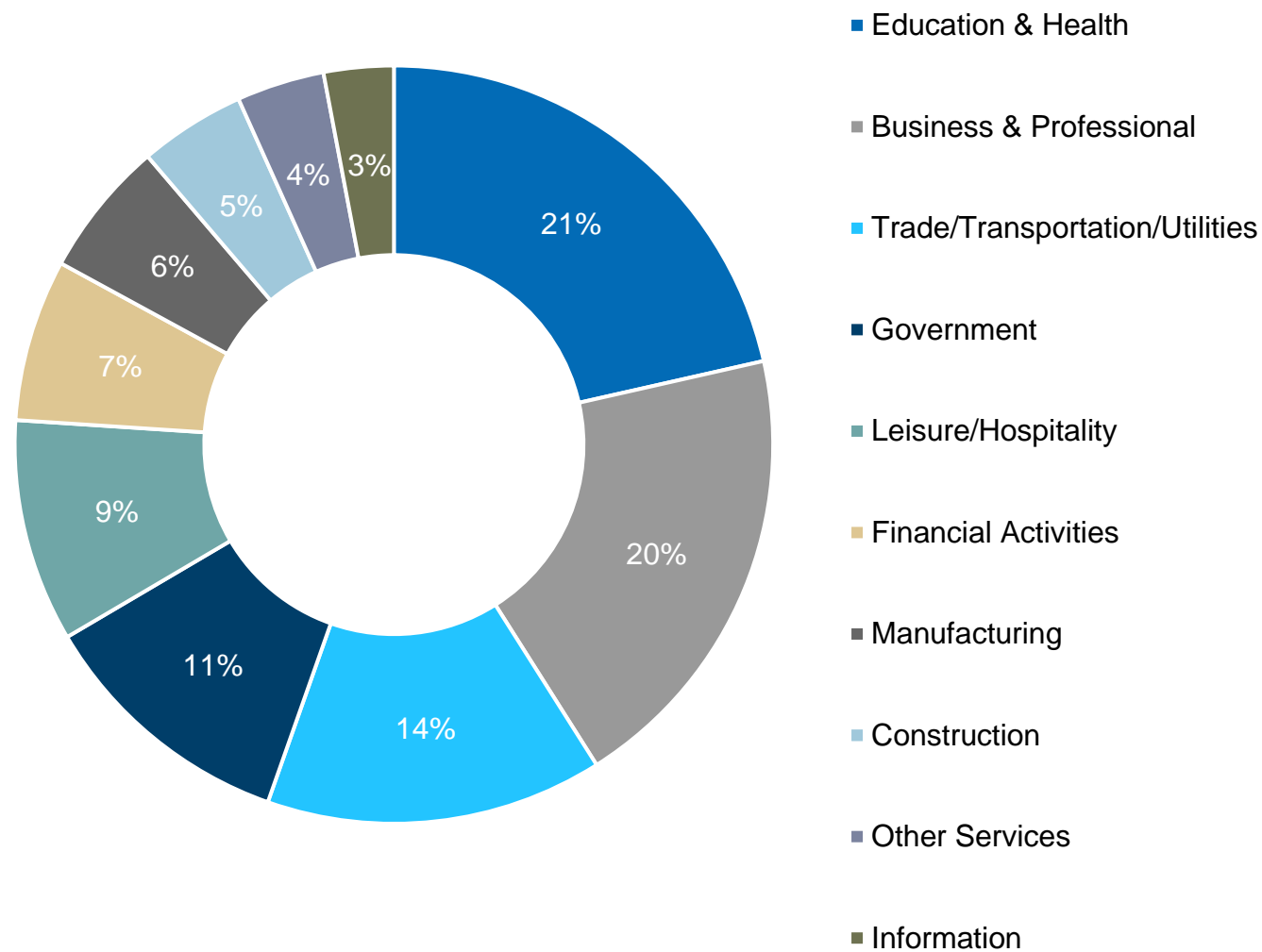
Source: Moody's Analytics, Boston-Cambridge-Newton, MA-NH MSA
 Note: May 2024 data is preliminary.

Local Employment Growth Has Stagnated in Recent Months

The construction sector is now leading annual employment gains in Greater Boston, while the information sector continues to post modest job losses. Employment within the government has expanded by 2.1% over the last 12 months, which should hopefully translate to heightened office demand in the near term. As occupancy losses persist throughout the region's core office submarkets, employment growth in office-related industries will be a key driver in improving future market fundamentals.

Employment by Industry, May 2024

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



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

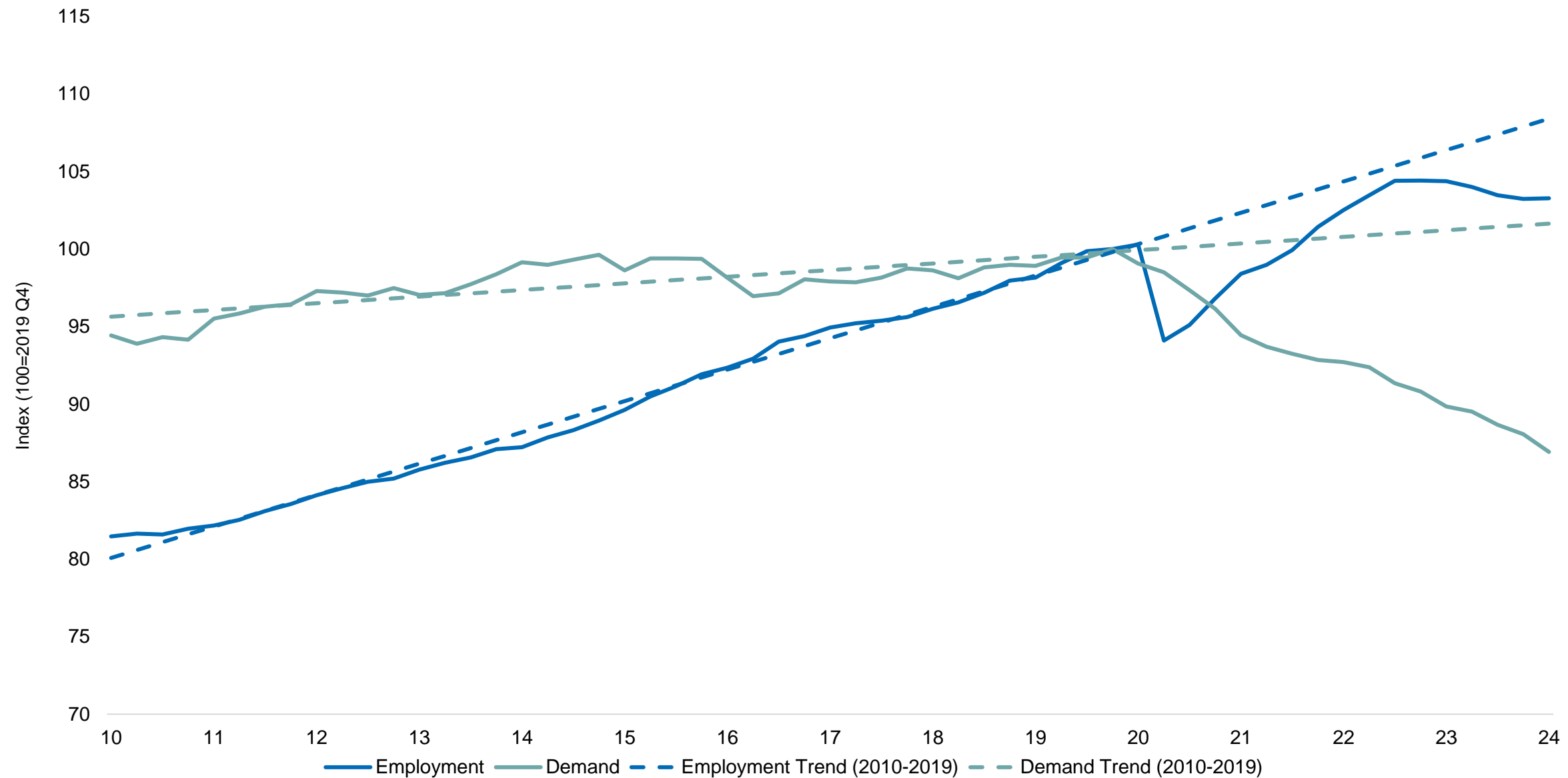
Note: May 2024 data is preliminary.

*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 second quarter of 2024. As office-using employment growth remains strong, the addition of new jobs to the market has not resulted in firms committing to more 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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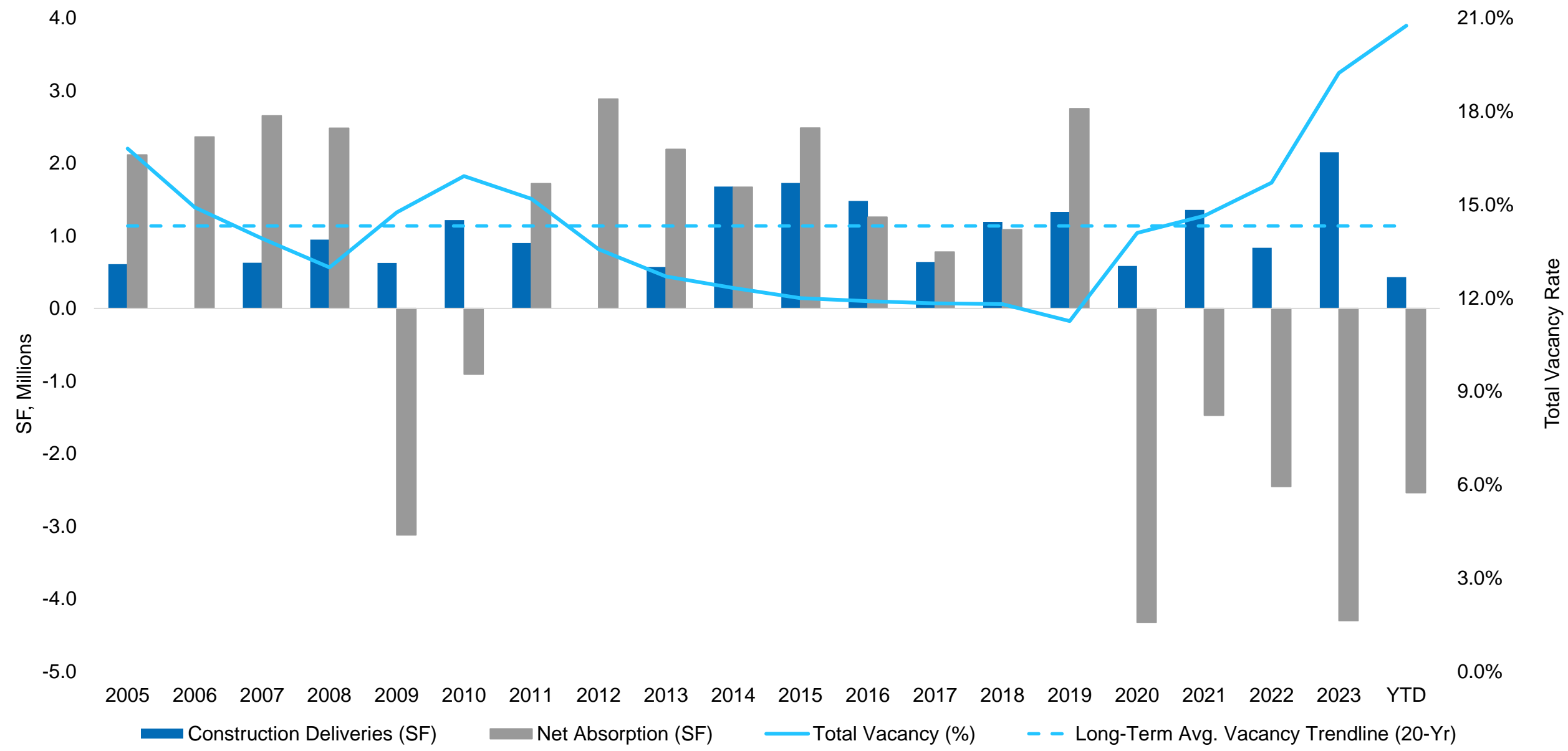
Leasing Market Fundamentals



Vacancy Reaches Historical High for Eighth Consecutive Quarter

Boston's office fundamentals deteriorated further during the second quarter of 2024, as the overall vacancy and availability rates ended the period at 20.7% and 25.4%, respectively. The delivery of 40 Thorndike St. in East Cambridge brought an additional 430,000 SF of vacant space to the market, while negative net absorption totaled over 600,000 SF. With loans set to mature in the coming quarters and a difficult lending environment, the nation's office market will remain challenged in the short term.

Historical Construction Deliveries, Net Absorption, and Vacancy

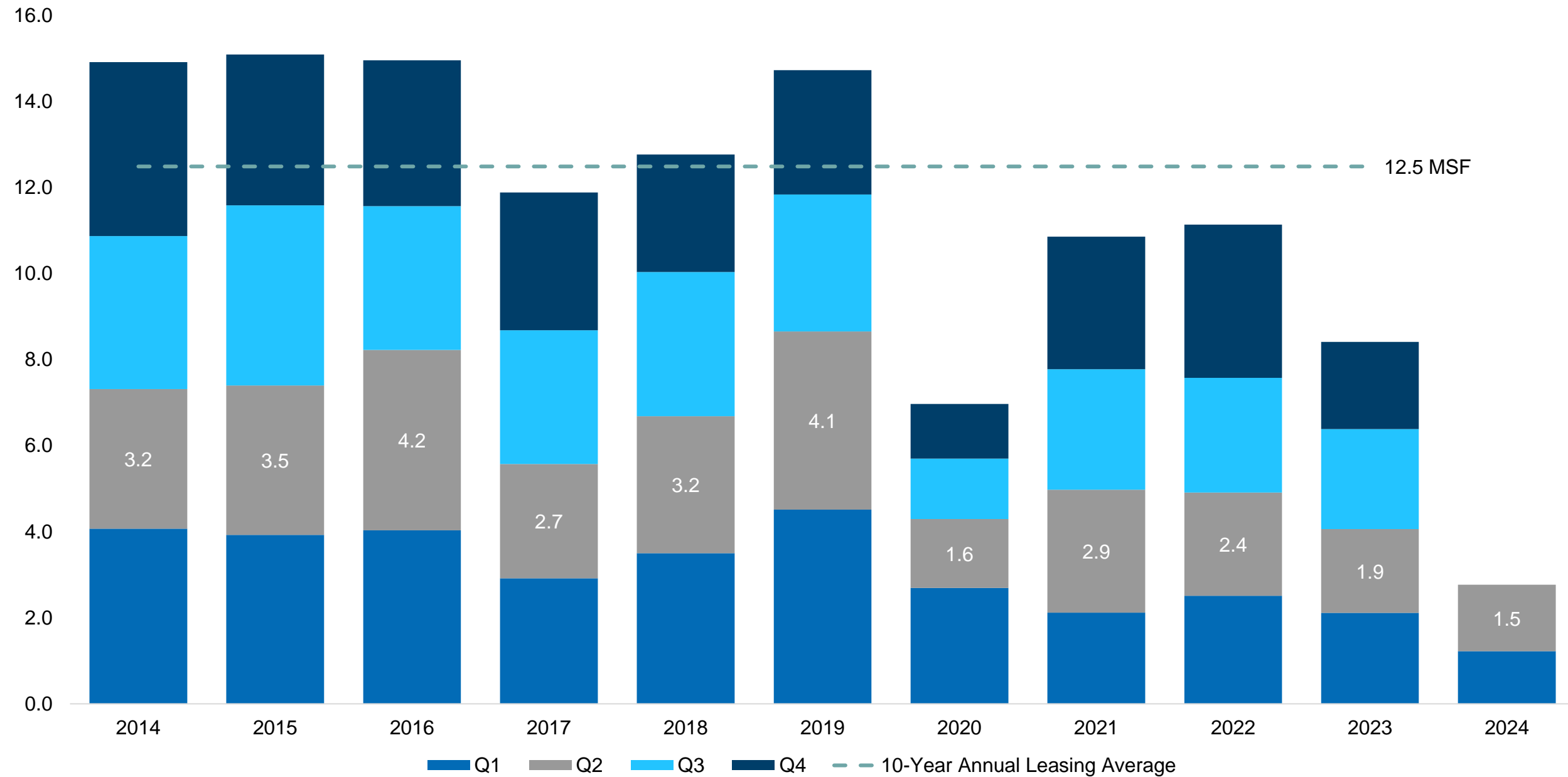


Source: Newmark Research

Leasing Activity Hovering Historically Low Midway Through 2024

It has been a sluggish start to the year for the office leasing market, with less than 3.0 million SF being committed to in the first half of 2024. Comparatively, the 10-year annual leasing average from 2014 to 2023 was 12.5 million SF. Activity continues to be dominated by short-term renewals and extensions, mainly from traditional office users in the legal, banking and professional service sectors.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar



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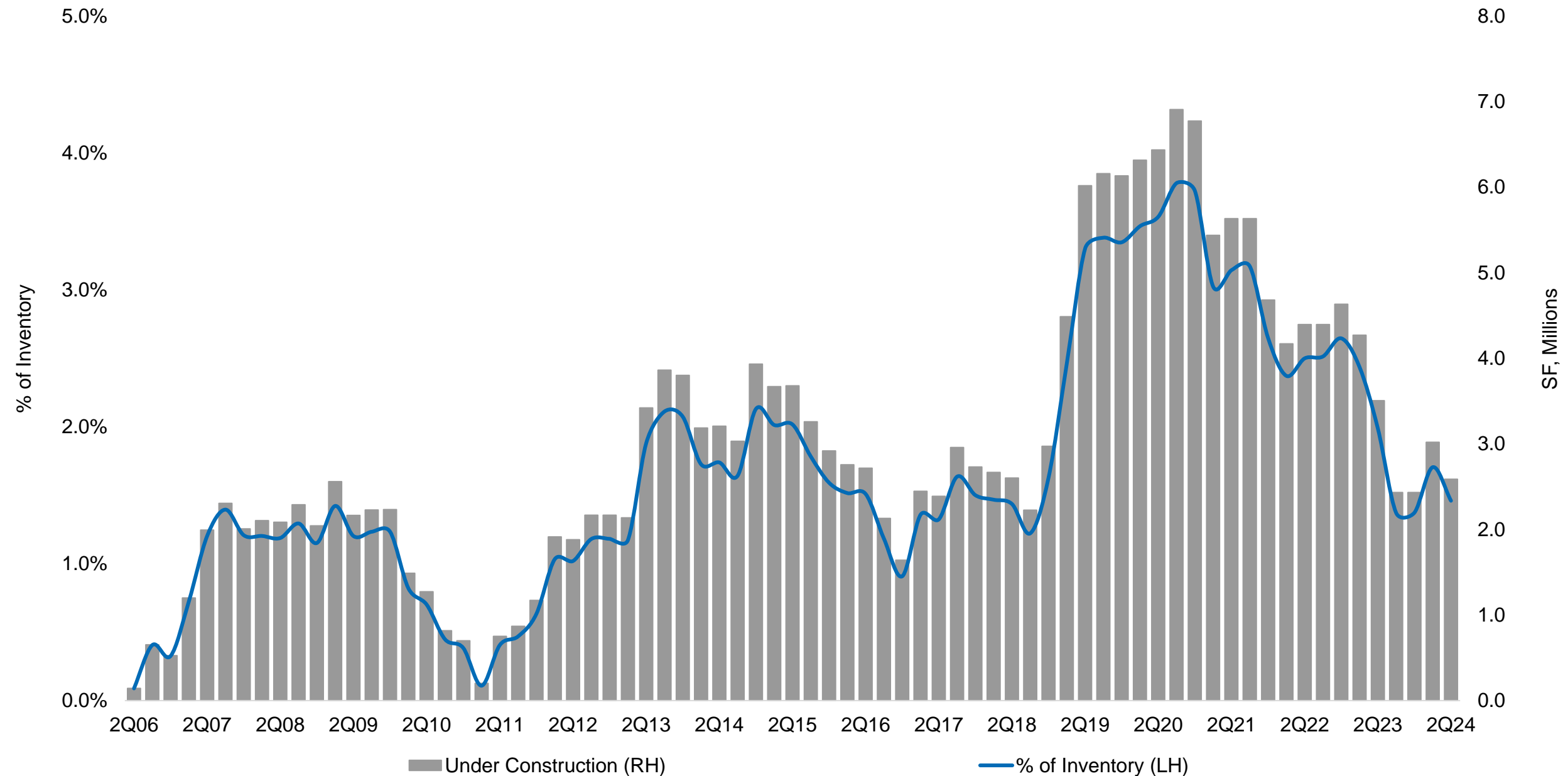


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Office Construction Pipeline Tightening with New Deliveries on the Horizon

Construction starts within Greater Boston's office market have been severely limited in recent years, a trend that is likely to persist while fundamentals continue to struggle. 40 Thorndike St. in East Cambridge delivered during the second quarter of 2024, bringing 430,000 SF of vacant office space to the market. Additional developments are set to be completed by the end of 2024, led by 1001 Boylston St. and Amazon's 1 Boston Wharf project in the Seaport.

Office Under Construction and % of Inventory

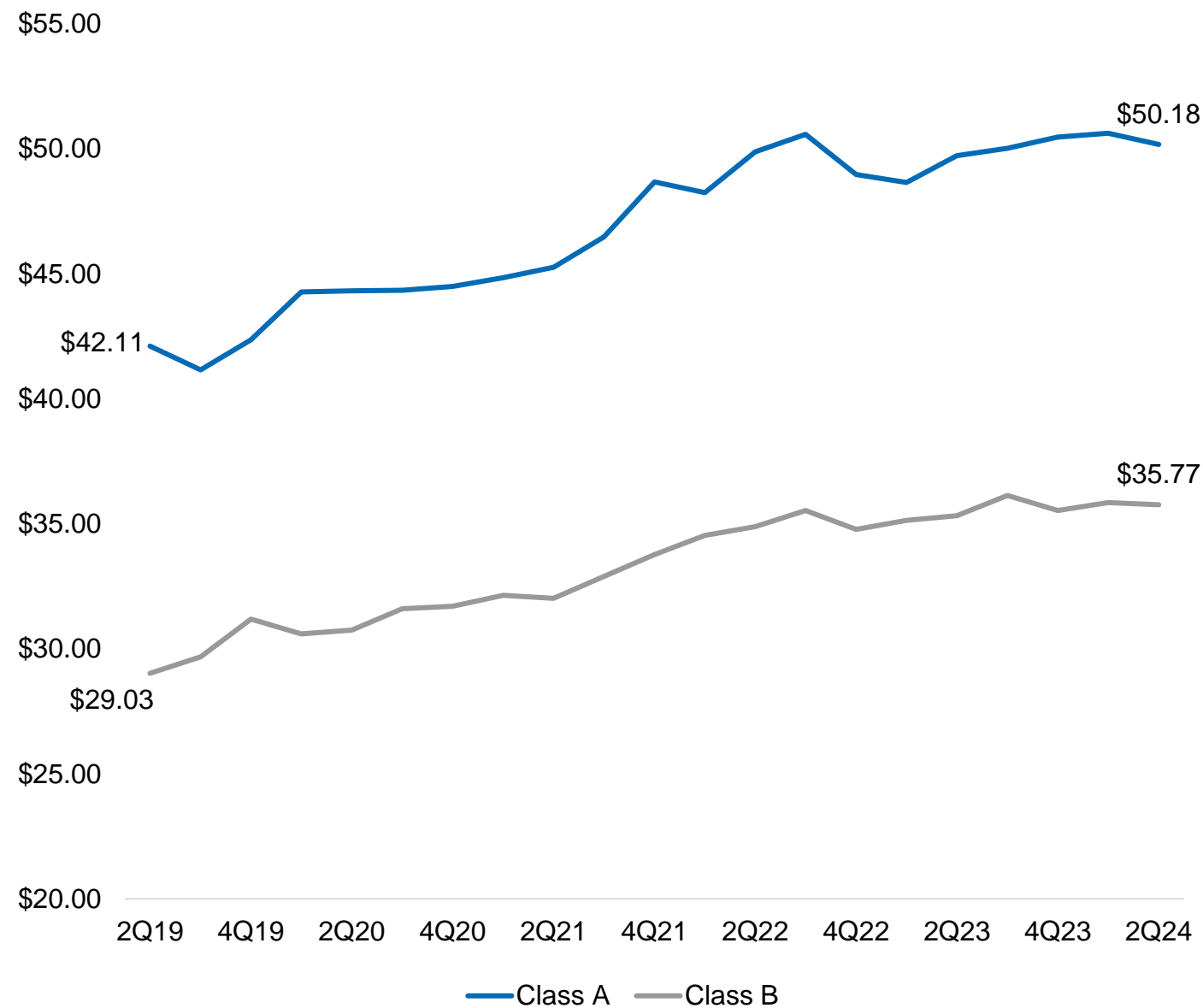


Source: Newmark Research, CoStar

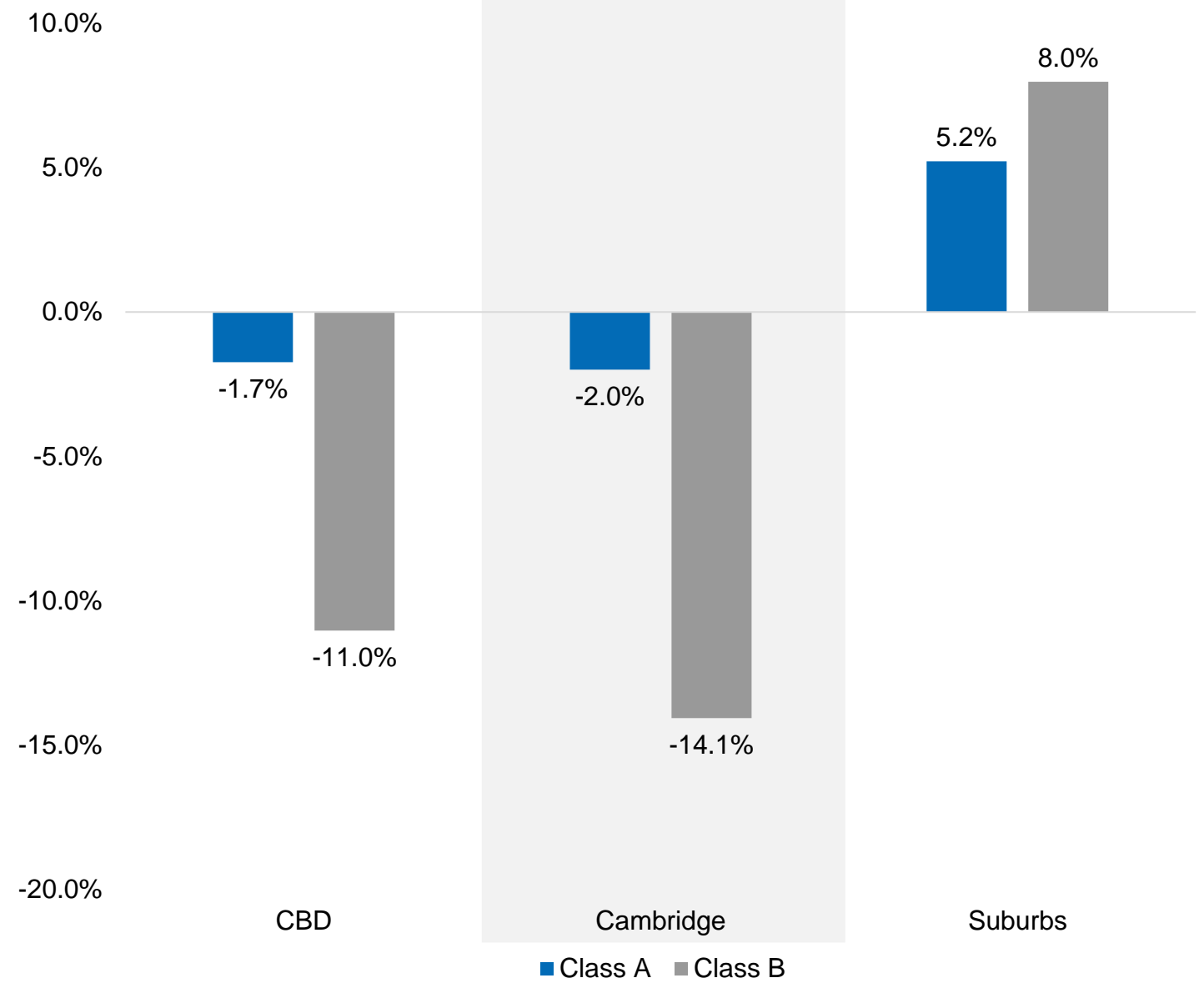
Overall Asking Rents are Beginning to Display Signs of Strain

While the suburbs are holding strong, relatively speaking, asking rents in the Cambridge and CBD office markets are starting to decline across asset classes. Effective rents are facing more pronounced reductions, although concession packages appear to have reached a peak due to the current economic environment.

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



Change in Class A and B Asking Rents (\$/SF) 1Q20-2Q24



Source: Newmark Research, CoStar



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Select Lease Transactions

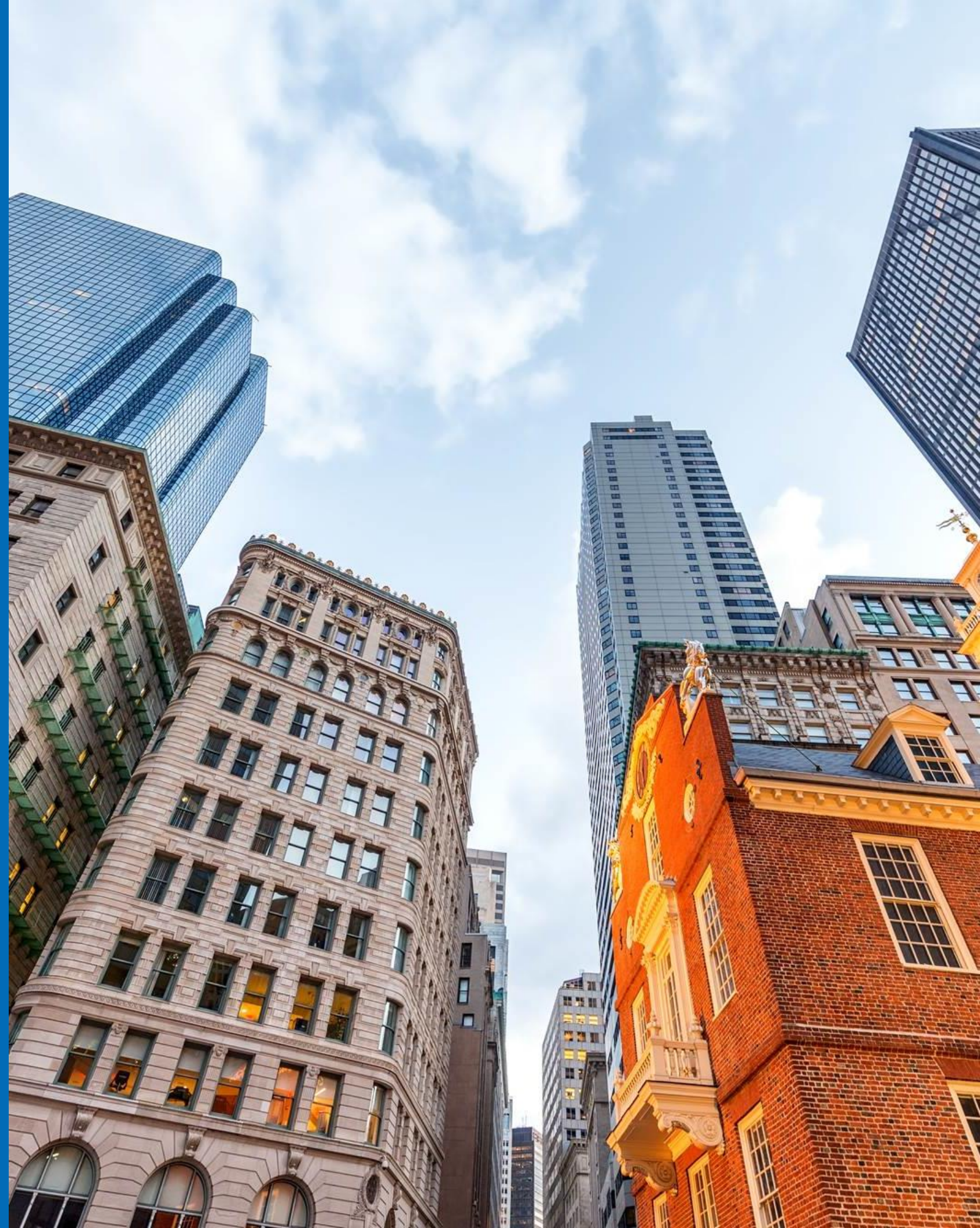
Leasing activity was once again led by renewals and extensions in the second quarter of 2024. Havas signed one of the largest new deals of the quarter and is set to move its operations from Downtown Crossing to the former GE headquarters at 5 Necco Ct. in the Seaport. Hologic inked the largest deal in the suburbs, but the announcement of Welch's relocation of its headquarters from Concord to Waltham drew the most press attention during the quarter.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Hologic	250 Campus Drive, Marlborough	West – Route 495	Lease Extension	216,218
<i>The medical technology company inked the largest deal of the quarter by extending its lease in Marlborough.</i>				
Havas	5 Necco Court, Boston	CBD – Seaport	Direct Lease	71,846
<i>The media company signed a new lease to move its operations to the Seaport.</i>				
Welch's	1601 Trapelo Road, Waltham	West – Route 128	Direct lease	60,000
<i>The juice giant is set to relocate its headquarters from Concord in 2025.</i>				
Prince Lobel Tye LLP	1 International Place, Boston	CBD – Financial District	Direct lease	45,467
<i>The law firm moved into the Financial District after subleasing space.</i>				
Harvard Management Company	600 Atlantic Avenue, Boston	CBD – Financial District	Lease Renewal	43,902
<i>Harvard Management renewed its lease in the Financial District through 2030.</i>				

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Submarket Overviews





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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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