Greater Boston Office Market Report

Q2 2024

AVISON YOUNG

Greater Boston office market trends

3.3 msf

Aggregate downtown Boston demand requirements

Currently, Urban Boston's tenants in the market (TIMs) account for 3.3 msf of active requirements. This demand is generated by 90 companies spanning various office-utilizing industries. Notably, the finance, insurance, and real estate (FIRE) sectors, along with technology and law firms, collectively represent 65% of the active TIMs in Urban Boston.

+9.7%

Change in trophy & class A share of leasing activity

When comparing the first and second quarters of 2024, Greater Boston experienced a significant rise in the share of leasing activity attributed to class A and trophy properties. These facilities boast state of the art amenities, enhancing the draw for this product. While the previous quarter showed a stronger demand for B & C product, it is now clear class A and trophy properties remain in stronger demand.

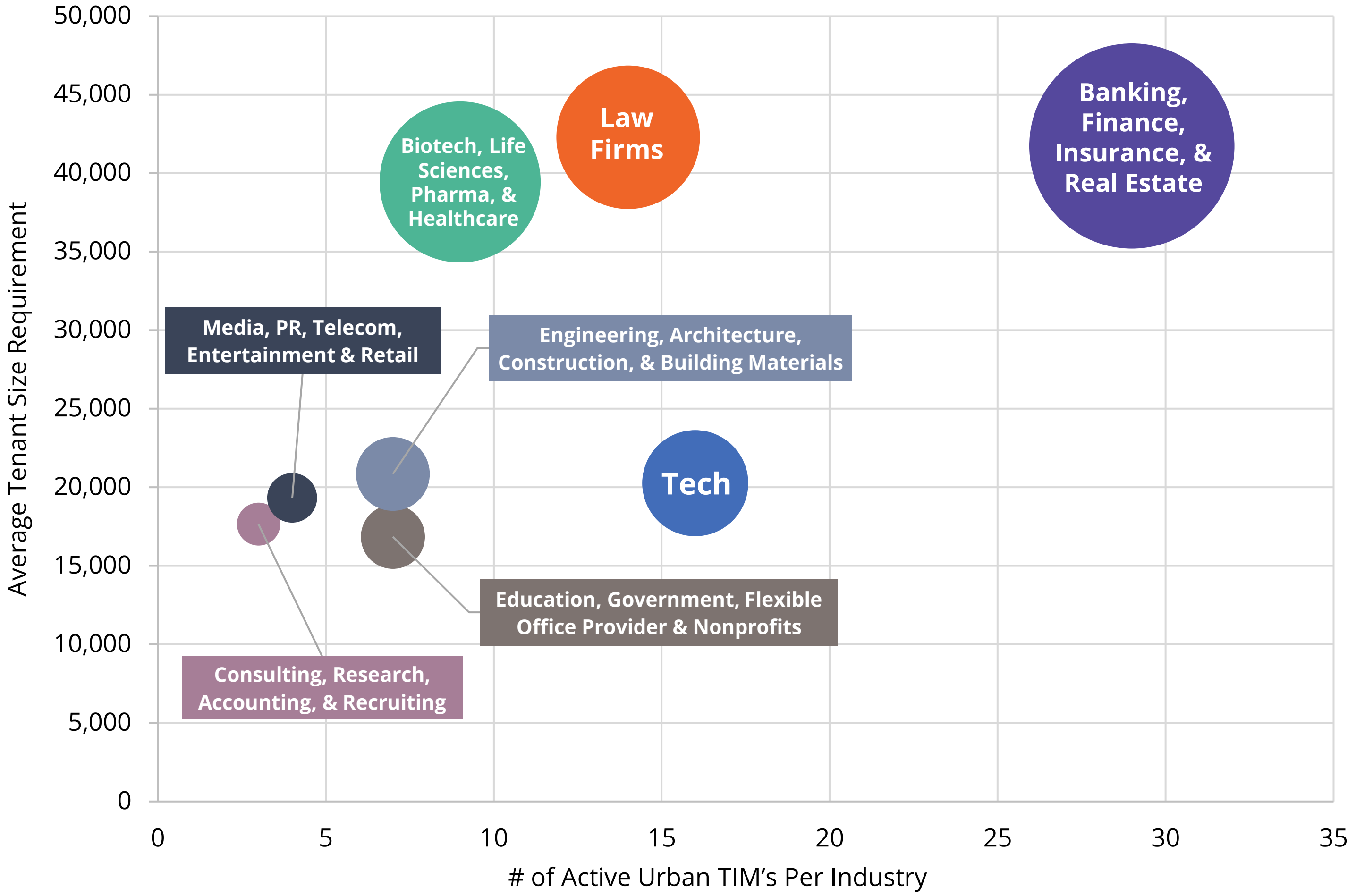
-5.17%

Decrease in available sublease space from year-end 2023

At the end of 2023, Greater Boston recorded an all-time high in available sublease space. Driven by competitive pricing and occupiers' reluctance to commit to long term leases during a period of economic uncertainty, over 550,000 sf of sublease space has been taken off the market in the first half of 2024. This equates to a 5.17% decrease in available sublease space.

Source: AVANT by Avison Young, CoStar

Urban Boston demand requirements

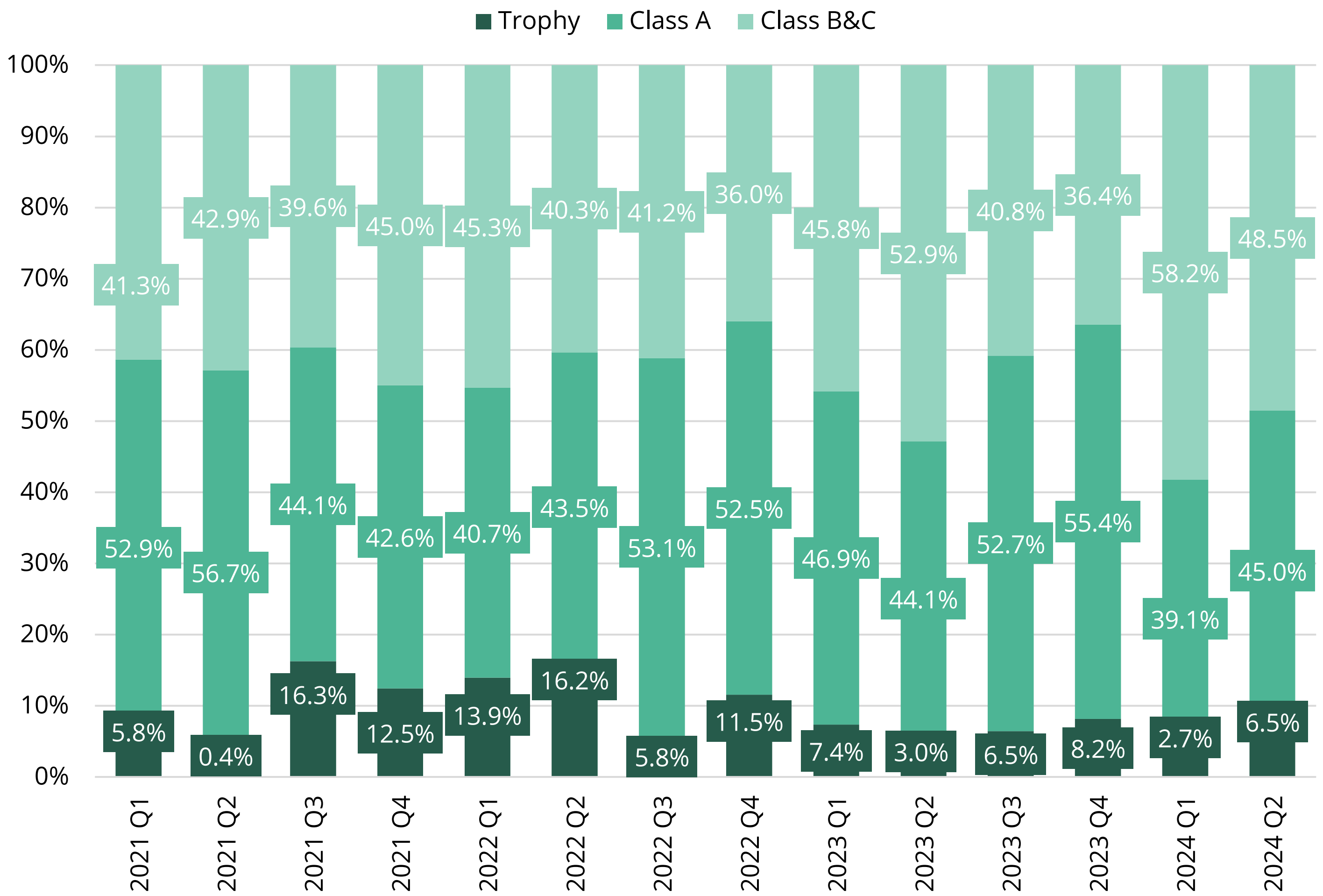


Source: AVANT by Avison Young, CoStar
Note: Tenant requirements only account for TIM's in need of greater than or equal to 10,000 SF.
*All tenant industries reflect OFFICE requirements only

In Urban Boston, tenants in need of 10,000+ sf accounted for 3.3 msf of active requirements in Q2 2024. Among major industries utilizing office space, law firms and FIRE companies demonstrated the greatest average requirement size, at 42,286 sf and 41,724 sf, respectively.

Given the recent growth of AI and tech startups in Greater Boston, this industry is expected to experience a larger increase in space requirements in the coming quarters.

Share of leasing activity by asset class

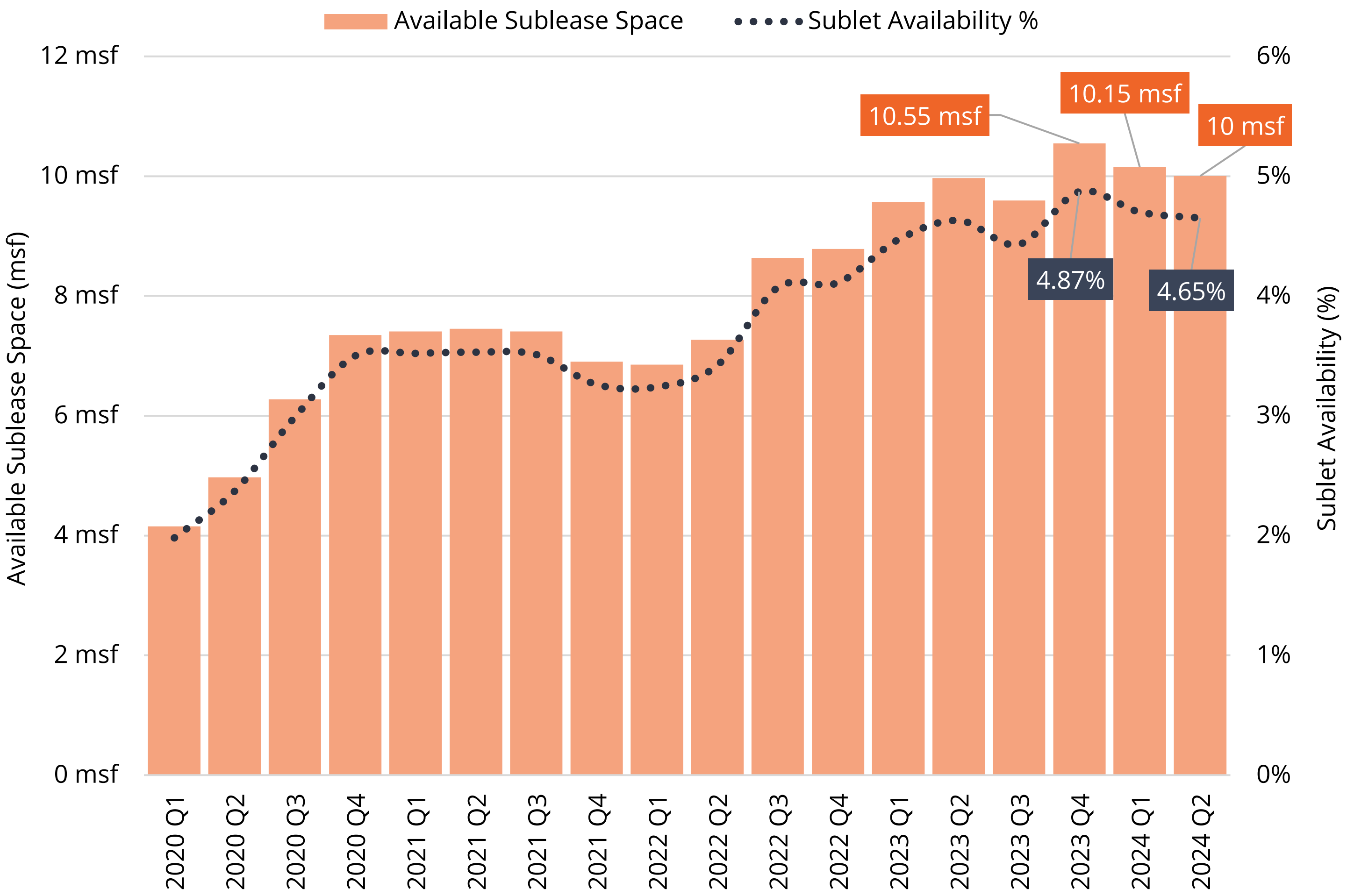


In Q2 2024, trophy and class A facilities accounted for a greater share of leasing activity than in the prior quarter.

This rise in leasing share is a product of occupiers' conducting right sizing efforts. With the majority of trophy and class A tenants opting to downsize, they are willing to spend more on a higher quality facility.

Source: AVANT by Avison Young, CoStar

Available sublease space



Source: AVANT by Avison Young, CoStar

Following a record level 10.55 msf of available sublease space posted at year-end 2023, Greater Boston has witnessed the market begin to correct itself, exhibiting a decrease of 550,000 sf of available sublease space.

This is a product of available sublease space turning direct, existing tenants opting not to sublease their space, and an increase in overall sublease leasing activity.

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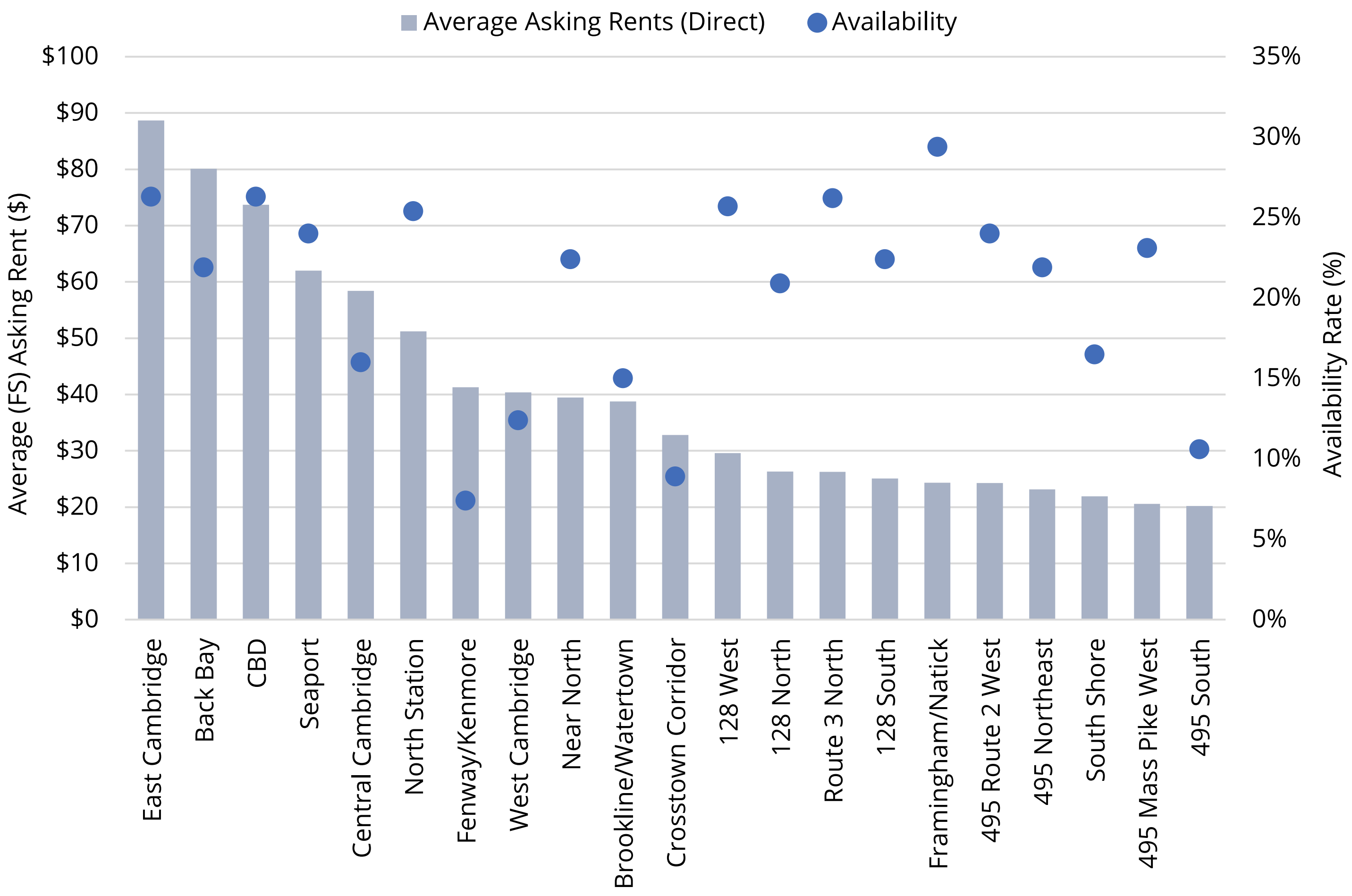
Occupier Trends

Pricing & availability by submarket



East Cambridge, Back Bay, and the CBD consistently command the highest asking rent prices.

Despite elevated availability rates in these submarkets, occupiers remain willing to pay a premium to secure leases in prime locations.

Source: AVANT by Avison Young, CoStar

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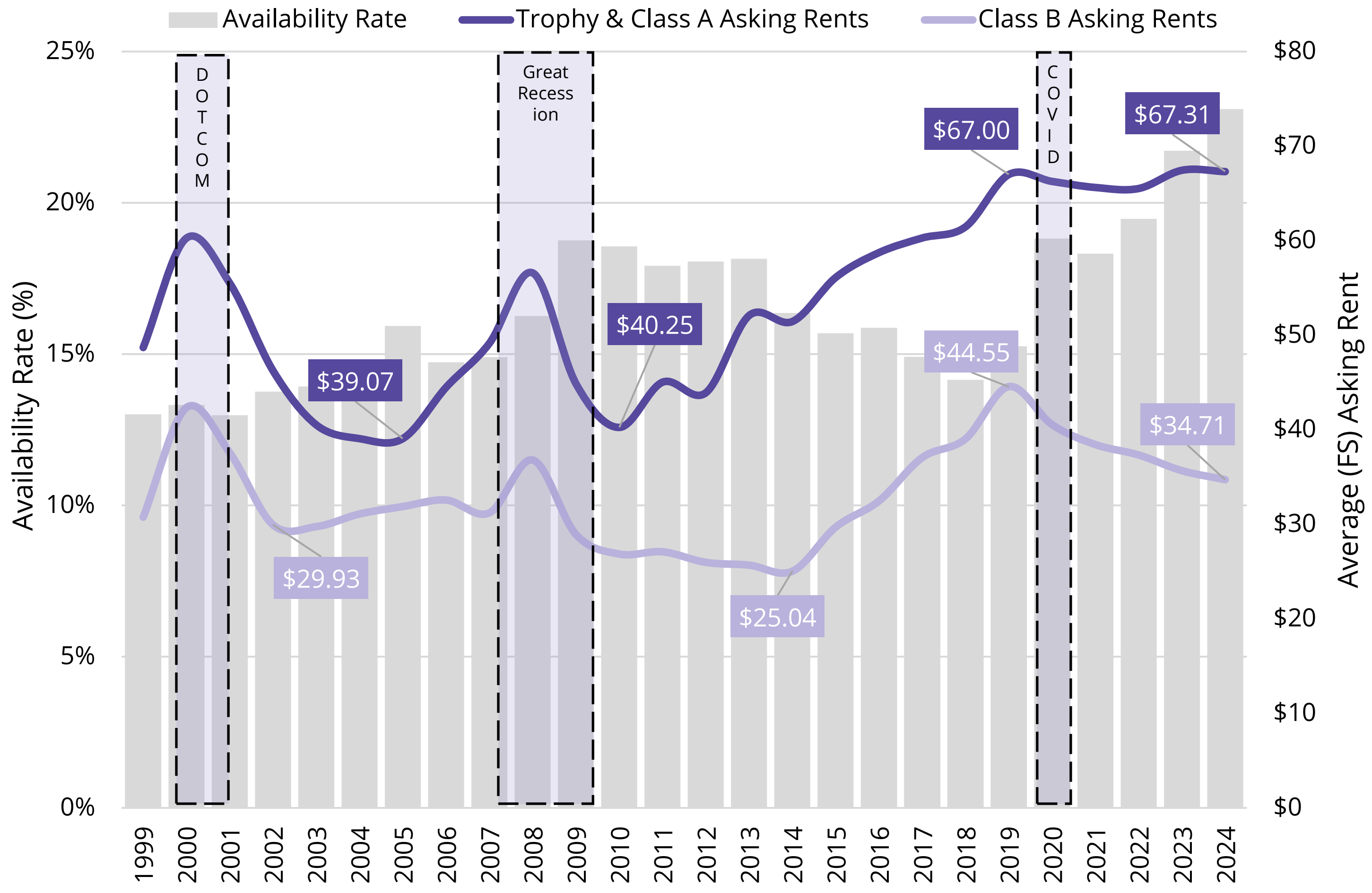
Rent performance post recession(s)



Source: AVANT by Avison Young, CoStar
Note: Rents to include direct, gross leases

Following recessions, rents in Greater Boston typically reach their lowest point 2-3 years later. In the context of COVID-19, Greater Boston has seen significantly discounted asking rates for class B facilities, while class A rents have remained unaffected.

Despite the abundance of class A space available, landlords are hesitant to reduce asking rents, preferring to provide high concession packages to win deals.

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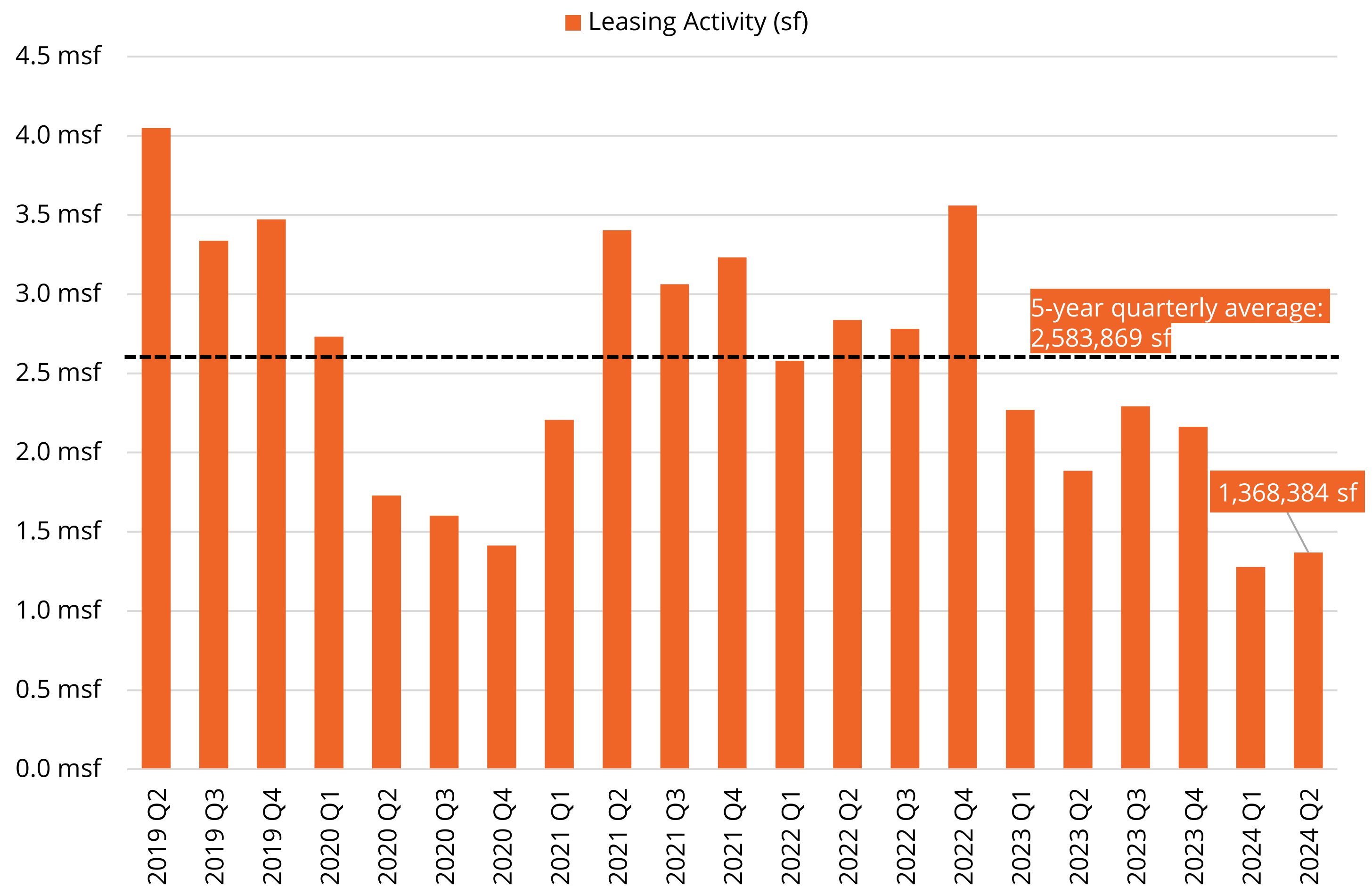
Total leasing activity

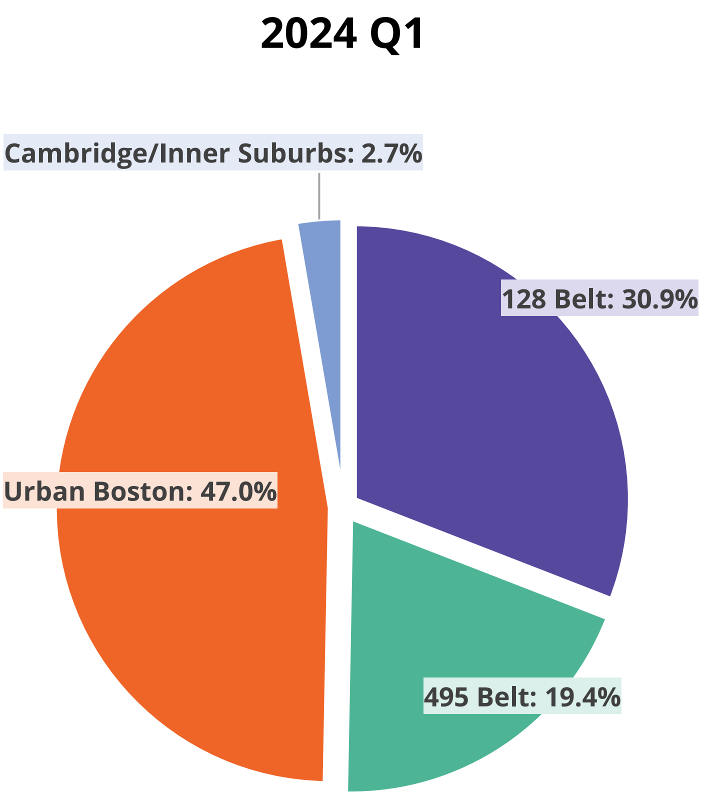


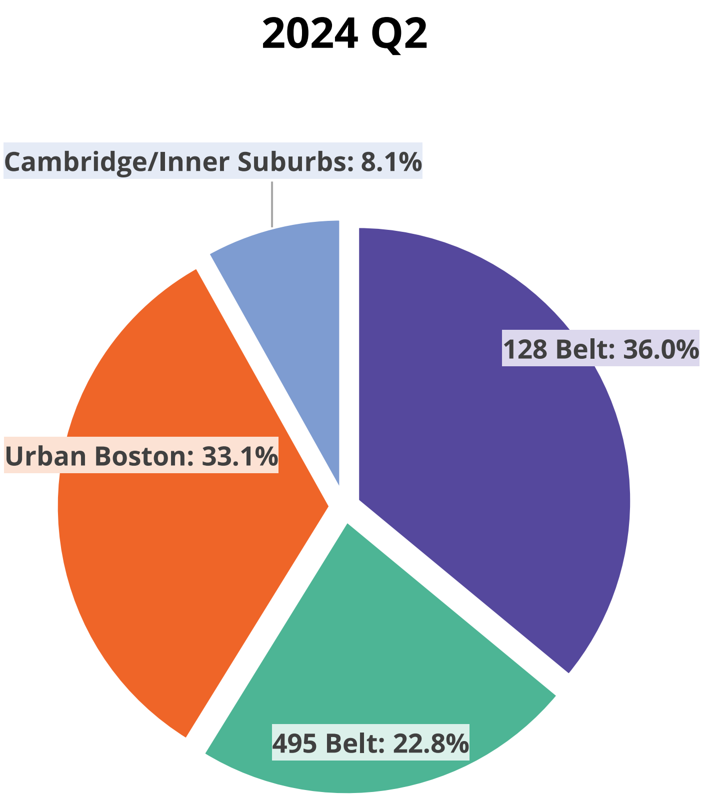
In Q2 2024, Greater Boston recorded 1.4 msf of leasing activity. This marks an increase of approximately 100,000 sf from the previous quarter.

With a substantial number of leases set to expire in the coming quarters, the Greater Boston market is positioned to sustain its growth in aggregate quarterly leasing activity.

Source: AVANT by Avison Young, CoStar

Share of leasing activity by submarket





When comparing Q1 2024 to Q2, the markets of 495, 128 belt, and Cambridge/inner suburbs exhibited a rise in their share of leasing activity. Conversely, Urban Boston experienced a decrease.

As suburban office prices decline, occupiers increasingly favor leasing space in these areas. This is also driven also by reduced employee commute times, contributing to the rising share of leasing activity.

Source: AVANT by Avison Young, CoStar

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Total availability

Greater Boston continues to demonstrate growth in overall and direct space availability. Although there has been a decrease in available sublease space, the total available space is nearing 50 msf.

With such a vast amount of available space, tenants continue to have a plethora of options to choose from when evaluating their real estate needs.

Source: AVANT by Avison Young, CoStar

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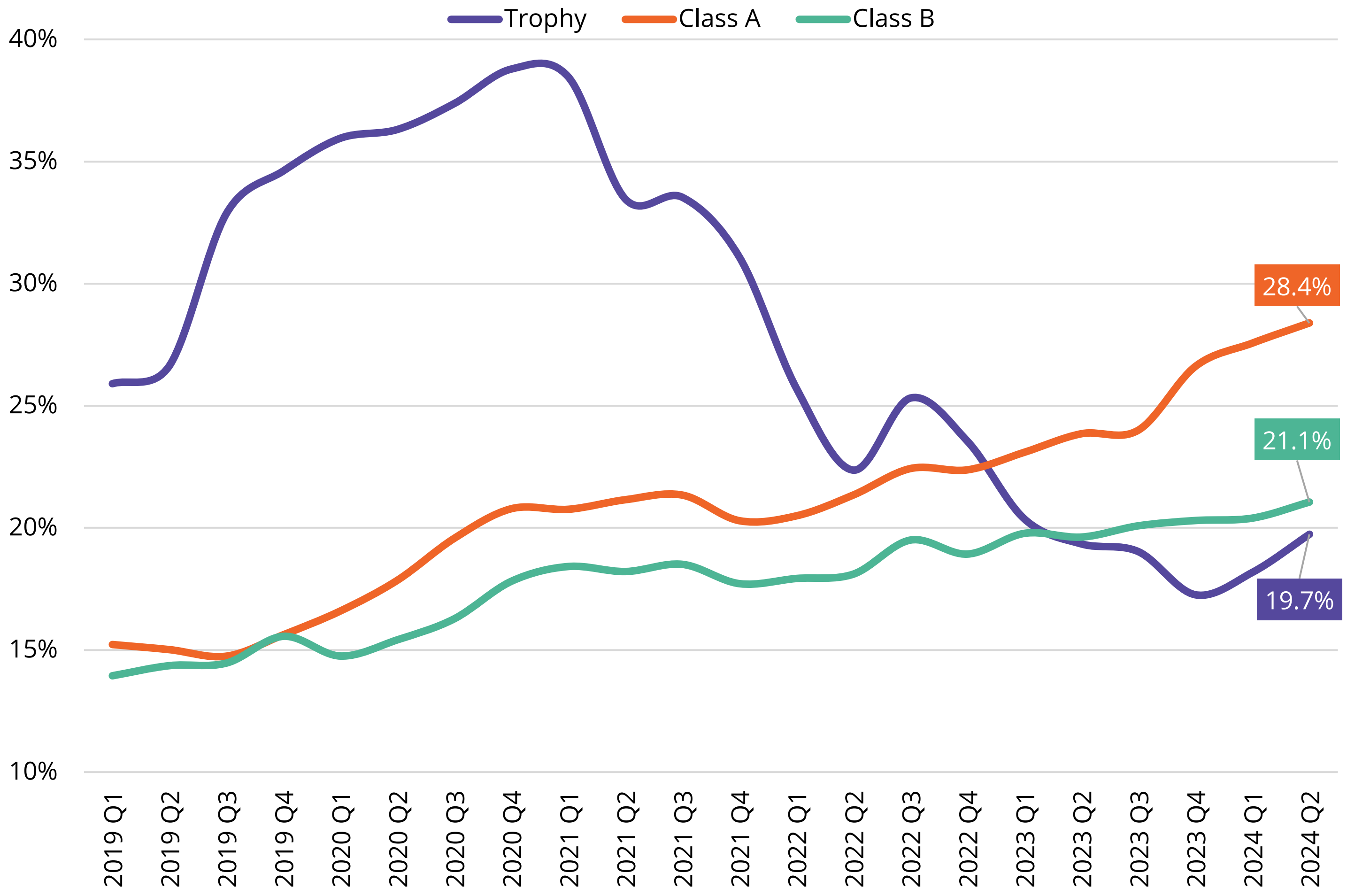
Availability by asset class



Source: AVANT by Avison Young, CoStar
Note: Data excludes class C properties

Availabilities across all asset classes have posted an increase when comparing Q1 2024 to Q2.

Most notably, trophy properties registered an increase of 1.5%, equating to 163,369 sf. Despite their increased share of leasing activity accounted for, availability continued to climb due to major occupiers marketing portions of their space as available for sublease.

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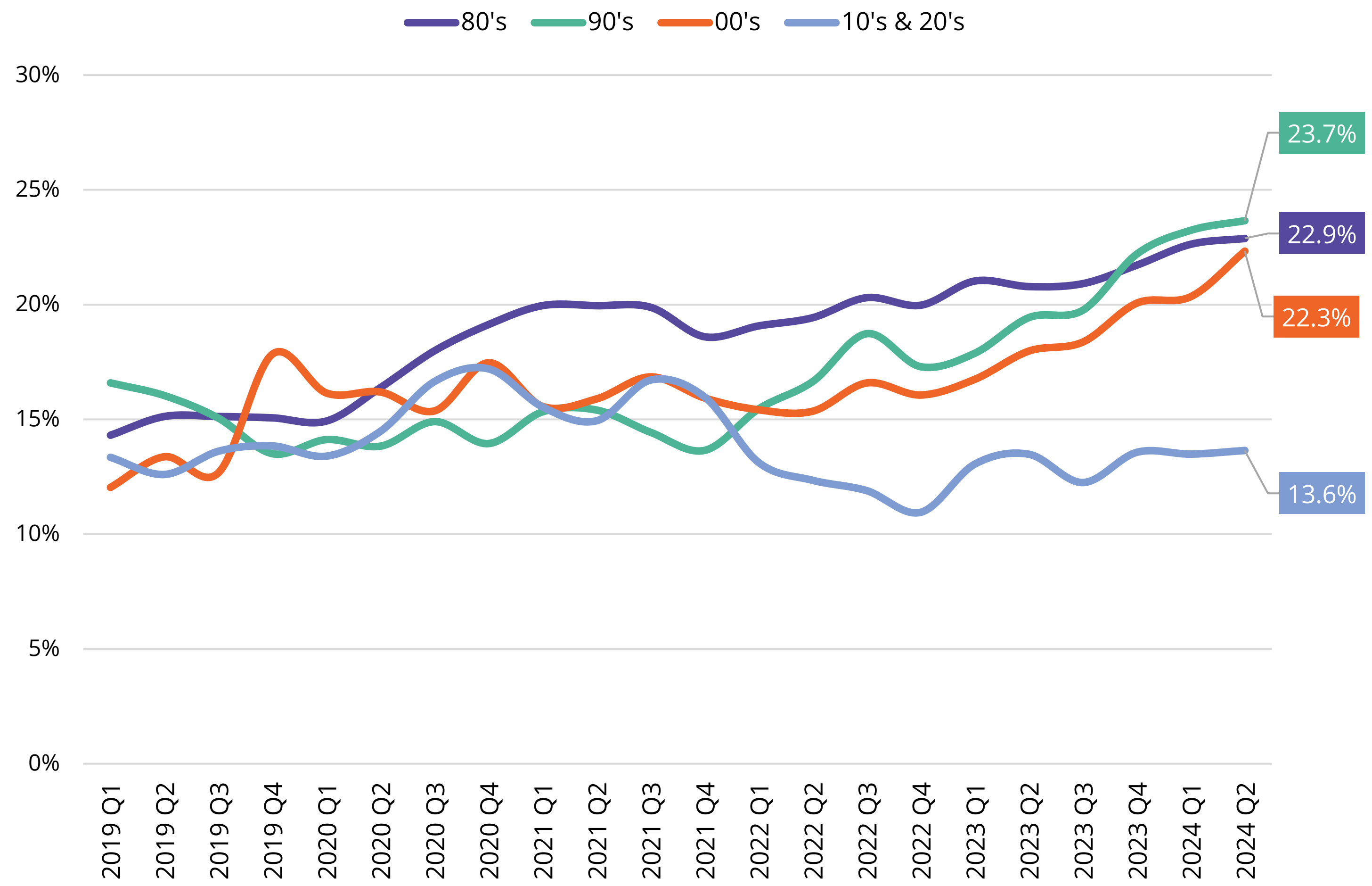
Availability by age group

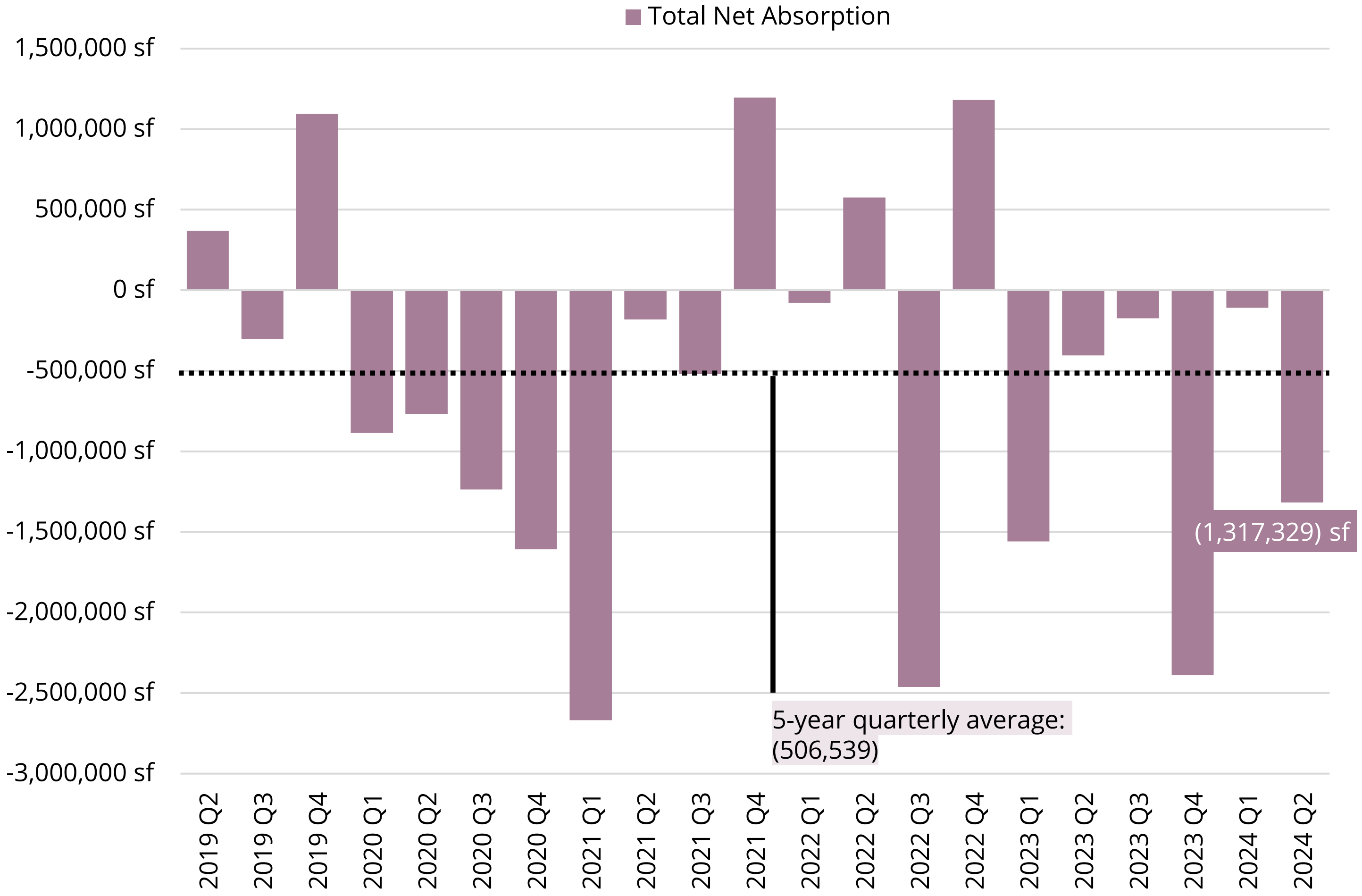


Source: AVANT by Avison Young, CoStar

Newer facilities continue to experience stronger demand than their older counterparts, supported by the ongoing flight-to-quality trend prevailing in Greater Boston.

Occupiers deliberate between investing more in a newer, extensively amenitized facility, or choosing to lease older space at a discounted rate. Given the limited projected deliveries in the Greater Boston office market, tenants seeking new, high-quality space may need to make prompt decisions.

Quarterly total net absorption



In Q2 2024, Greater Boston posted a net absorption of -1.3 msf, equating to -0.61% of Greater Boston's inventory. This marks the sixth consecutive quarter of negative absorption.

The large negative absorption figure was driven by both Urban Boston and the 495 belt submarkets.

Source: AVANT by Avison Young, CoStar

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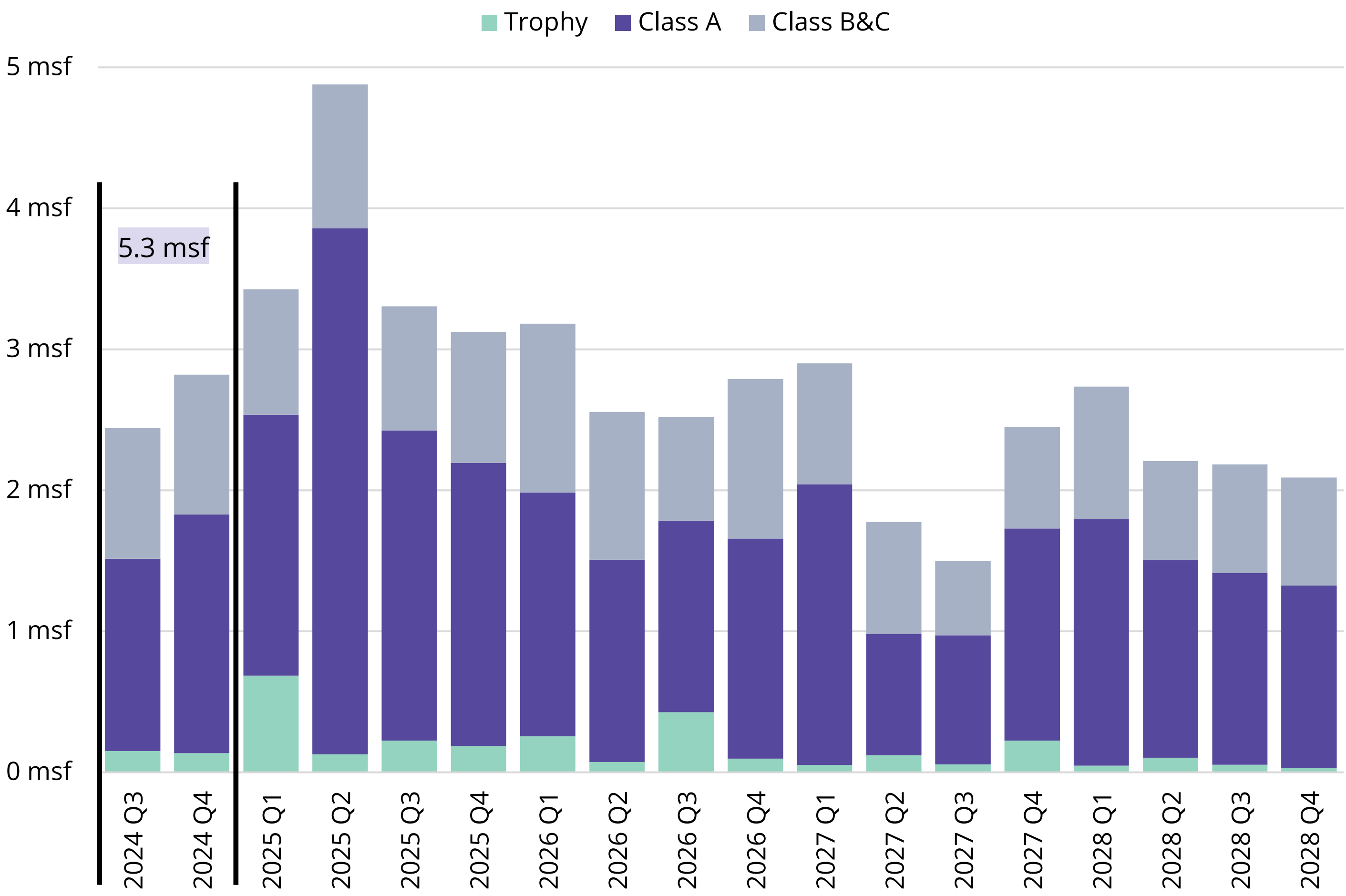
Upcoming lease expirations by asset class

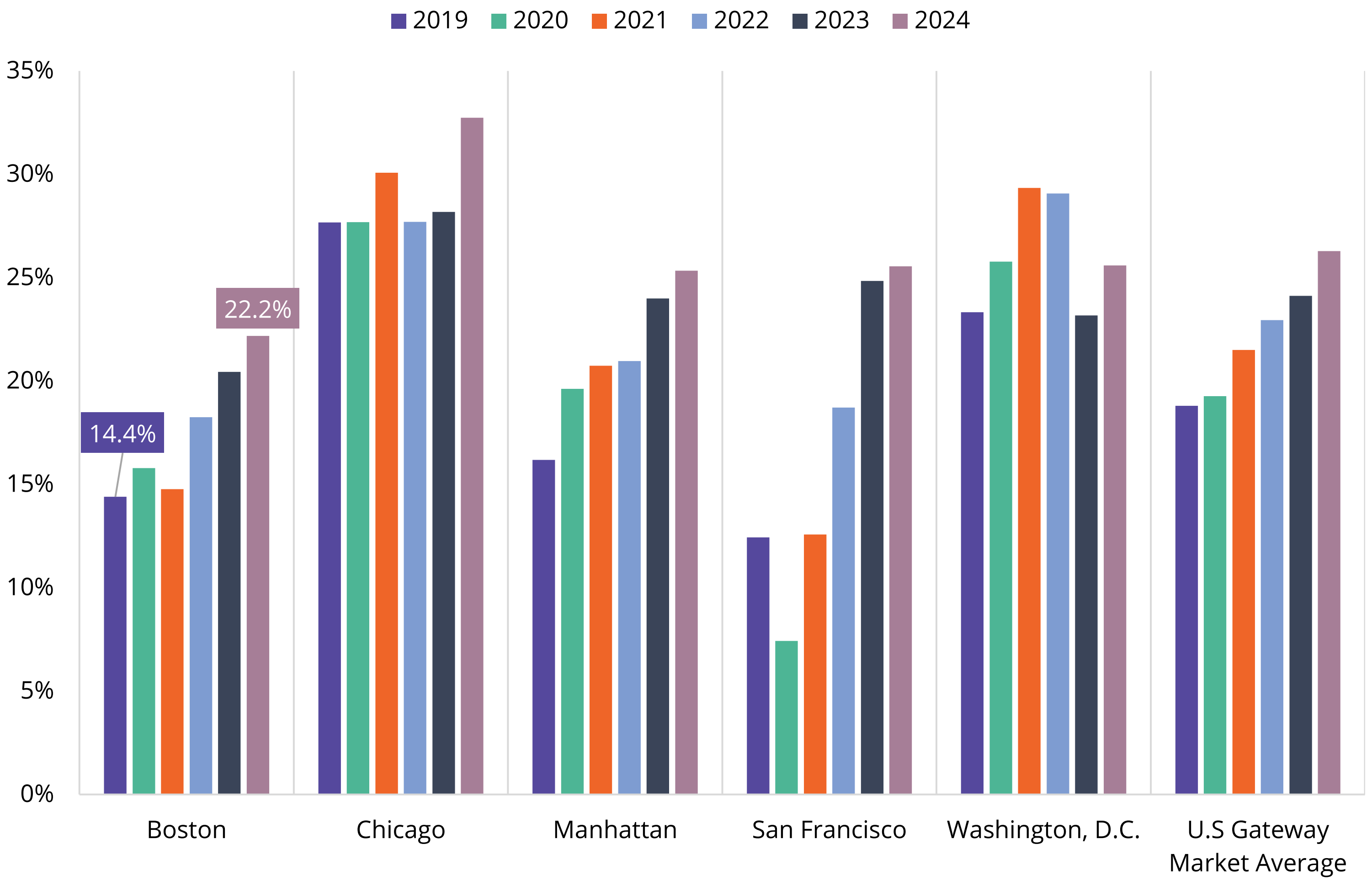


In the upcoming two quarters, Greater Boston is expected to see 5.3 msf of leases expire. In Q2 2025, 4.9 msf is set to expire.

With such a substantial amount of square footage set to expire within the next year, occupiers will encounter more availabilities tailored to their real estate needs.

Source: AVANT by Avison Young, CoStar

Concessions as a share of lease term



Note: Concessions include the value of tenant improvement allowances and free rent periods.
Central business districts only. Direct relocations only with 7+ year lease terms.
Source: AVANT by Avison Young

In Greater Boston, concessions as a share of lease term have seen a gradual increase each year since 2021.

When comparing 2019 to 2024 YTD, Greater Boston demonstrated an increase of 7.8%. As space continues to sit vacant, landlords are forced to incentivize tenants by providing significant concession packages.

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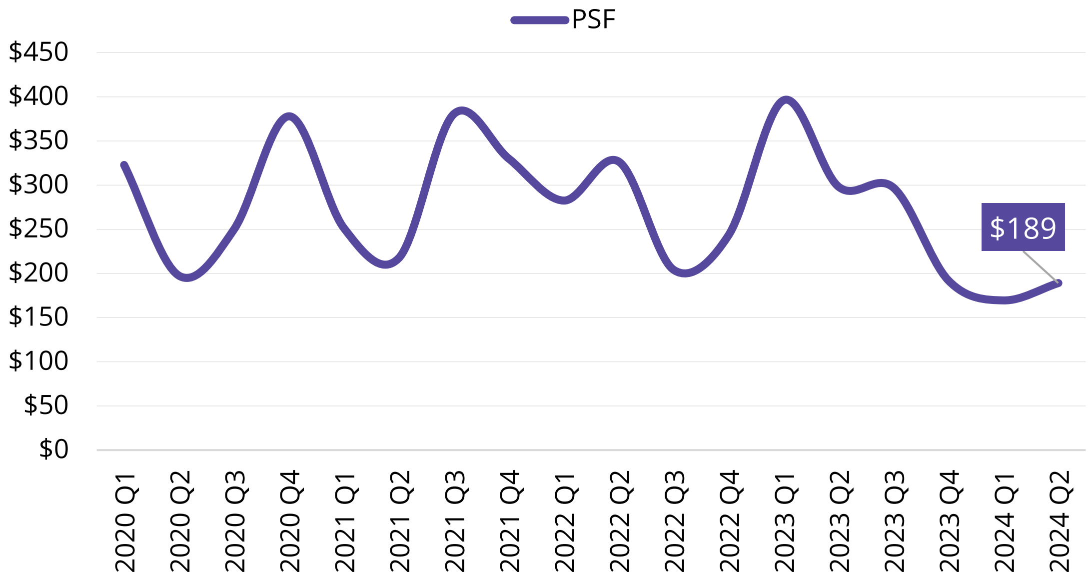
Sales Activity & Adjacent Market Metrics

Office sale price per square foot & total sale count

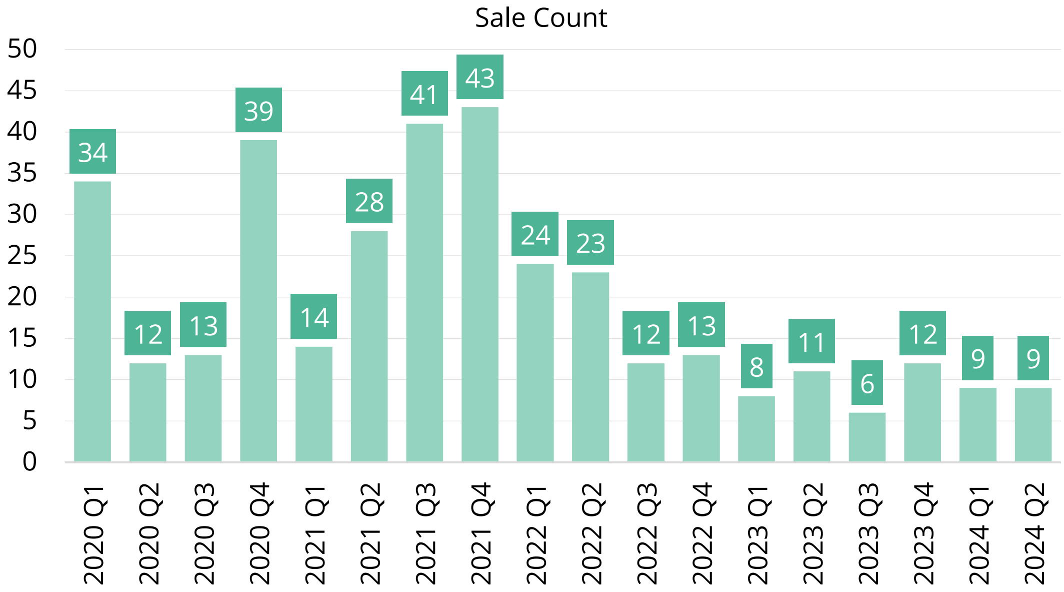
$189 PSF

Average price per SF in Q2 2024 office trades.



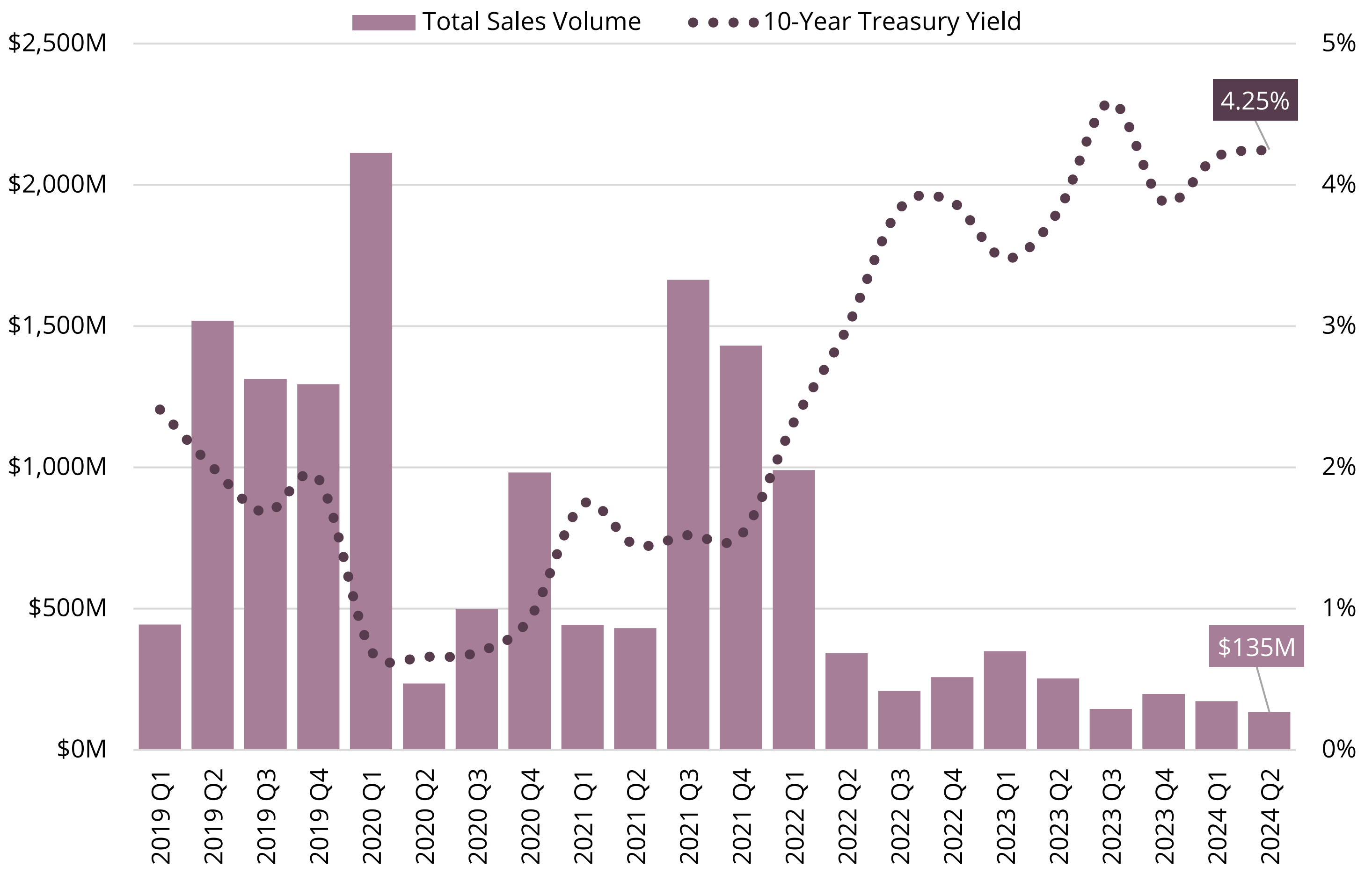
9 transactions

9 office buildings traded hands in Q2 2024.



Source: AVANT By Avison Young, CoStar

Total office sales volume



Source: AVANT by Avison Young, CoStar, FRED
*Note: Does not include partial interest sales.
Note: 10-Year treasury yield reflects end of quarter figures.

In Q2 2024, Greater Boston achieved an aggregate office sales volume of $135 million. With nine total sales, this matches the number of transactions recorded in the previous quarter.

Nationwide sales activity has stalled due to the sharp rise in treasury yields. Granted the 10-year yield eventually declines, an increase in sales activity is anticipated.

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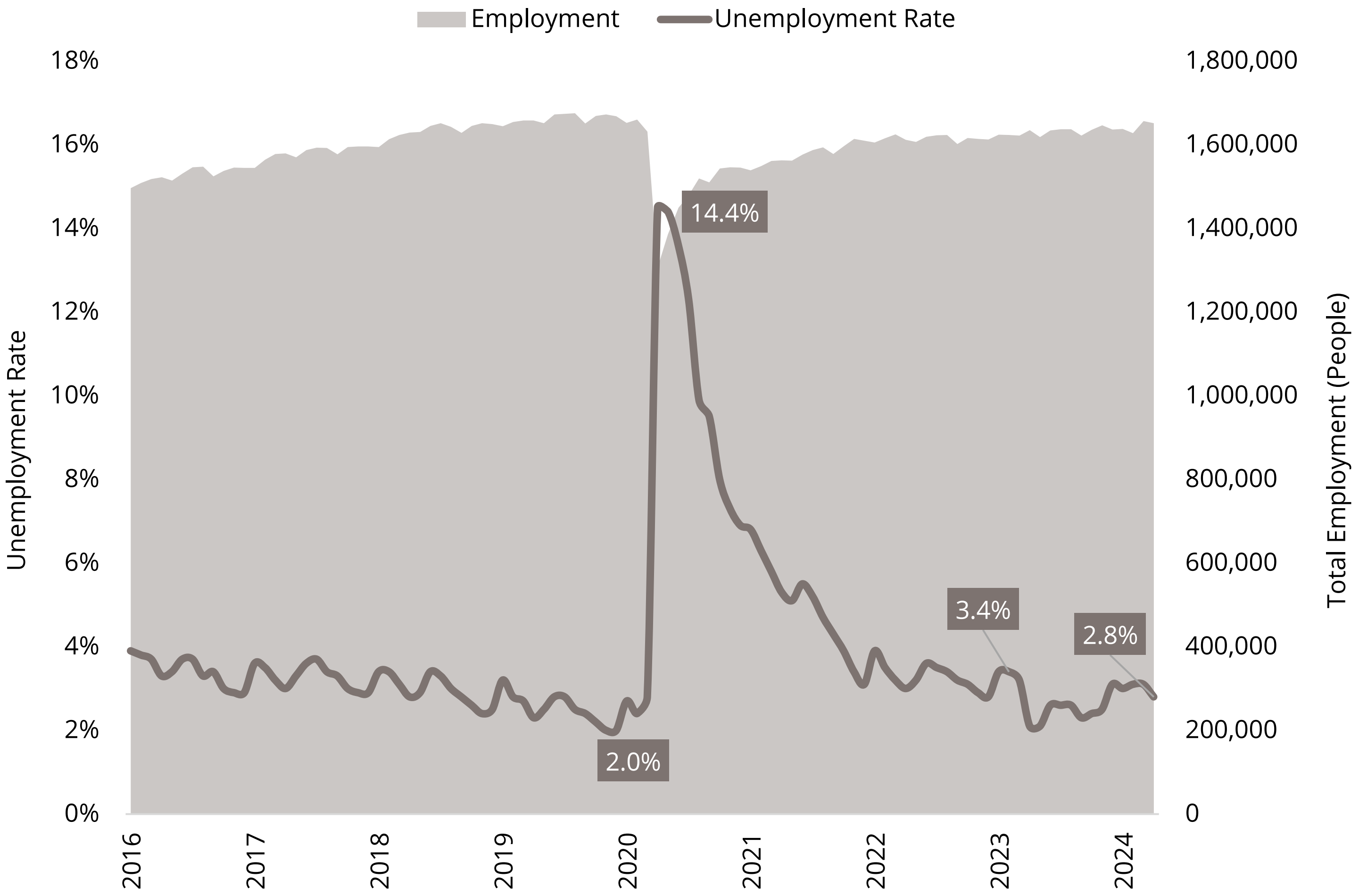
Boston-Cambridge-Newton employment



Comparing Q2 2024 to Q2 2023, the Greater Boston unemployment rate has shown a consistent decline, reaching 2.8% in April 2024.

Although not yet at pre-COVID levels, total employment has steadily increased since Q3 2020. Both Greater Boston's employment levels and unemployment rate are expected to return to pre-COVID levels by the end of 2024.

Source: AVANT by Avison Young, CoStar, BLS

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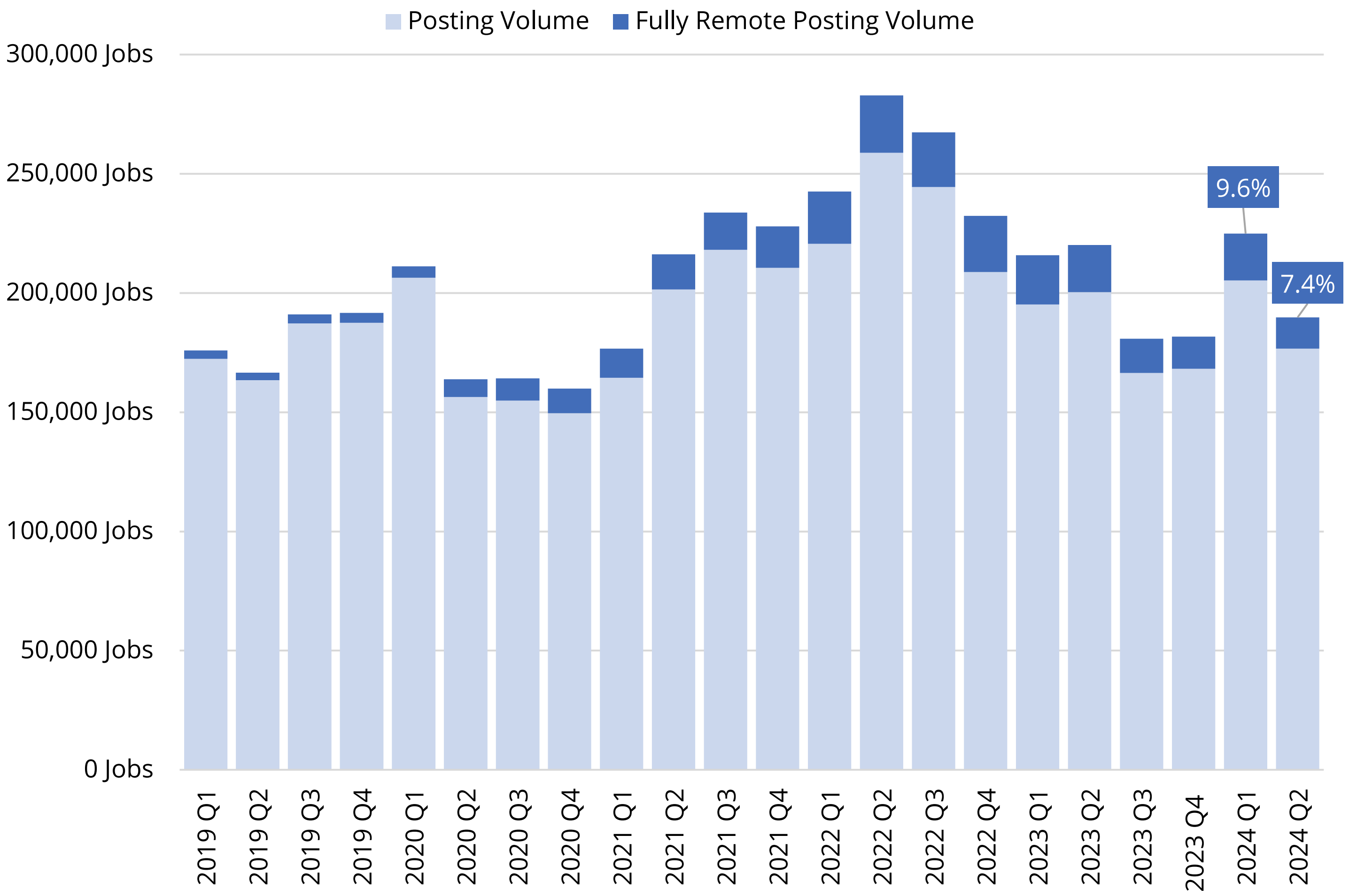
Boston-Cambridge-Newton job postings



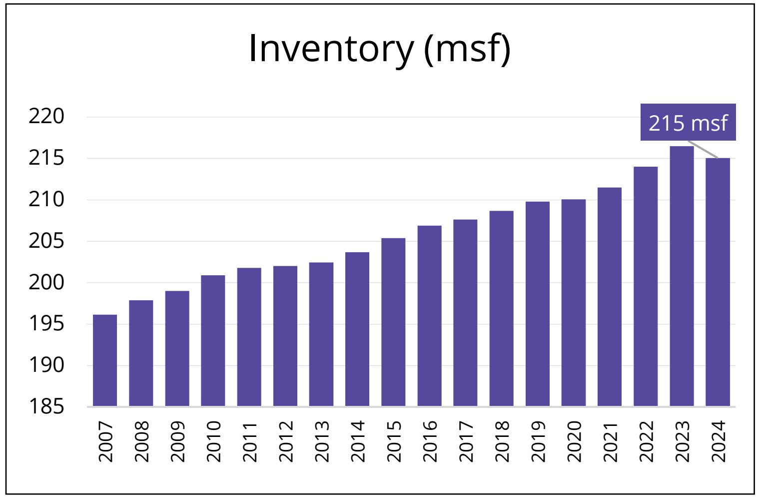
Due to remote and hybrid work, the Boston-Cambridge-Newton MSA recorded its highest volume of remote job postings, as a share of total postings, in 2022.

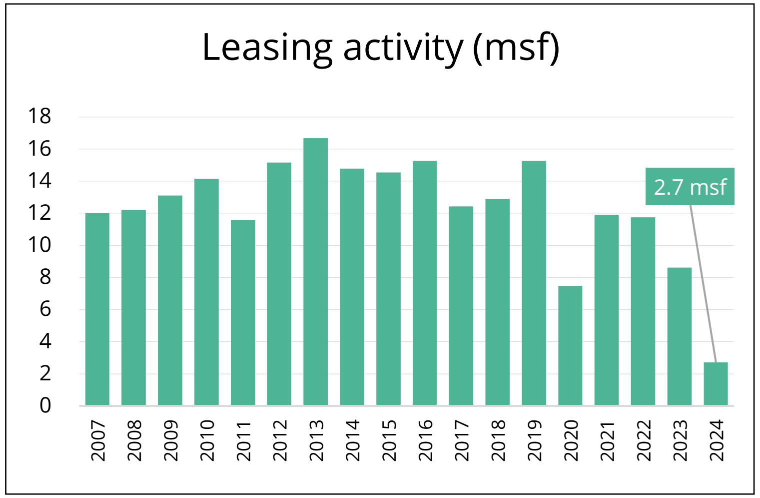
In Q2 2024, Boston-Cambridge-Newton experienced a 2.2% decline in the share of remote postings compared to Q1 2024. This trend is expected to continue as employers increasingly implement return-to-office policies.

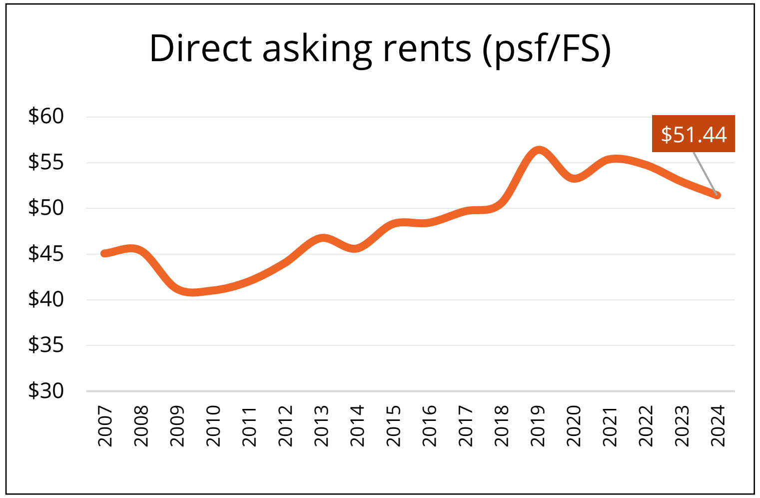
Source: AVANT by Avison Young, CoStar, Lightcast

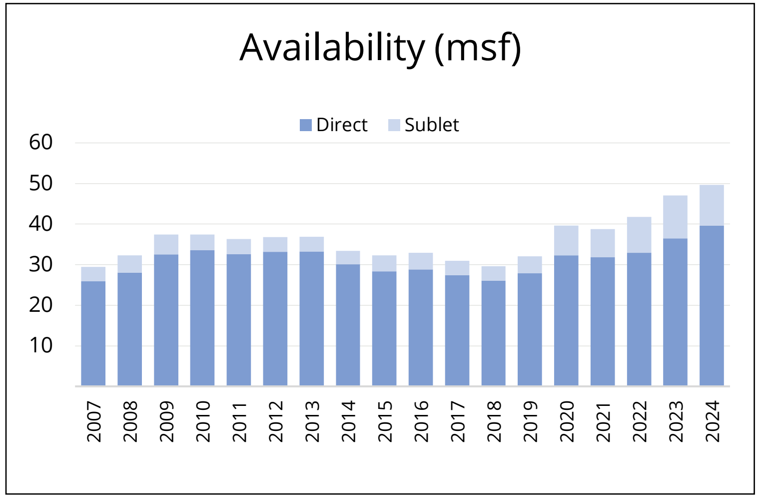
Appendix

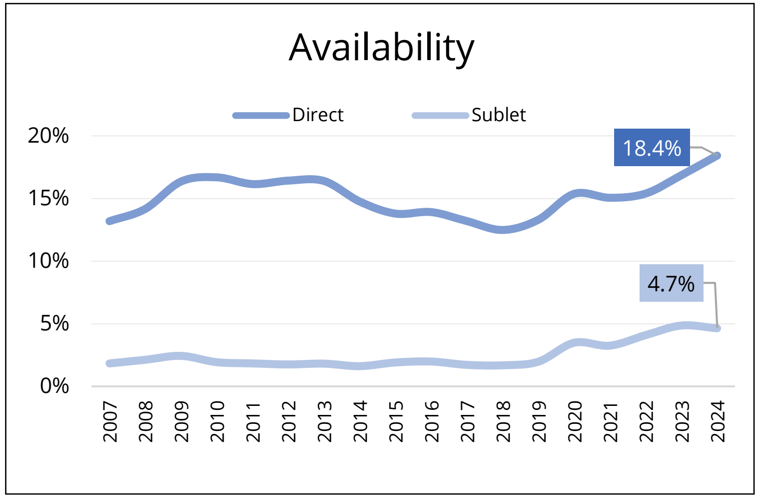
Boston office market indicators

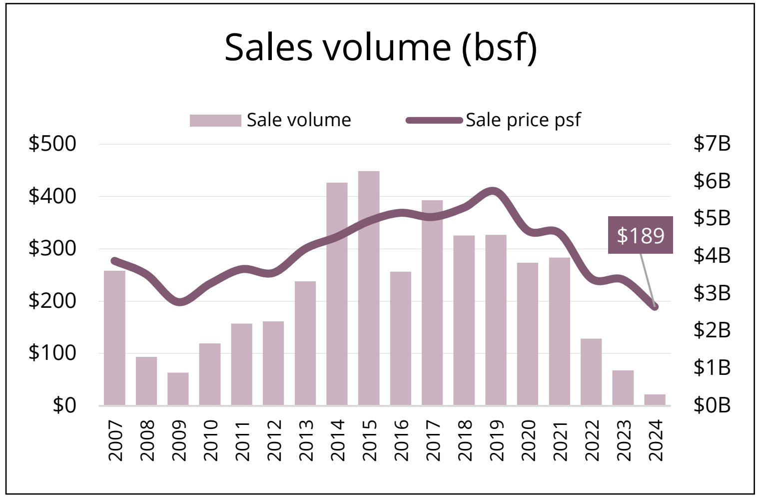












Source: AVANT by Avison Young, CoStar

Greater Boston office market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Welch’s	1601 Trapelo Rd, Waltham	128 West	June 2024	60,000	New	Direct
Harvard Management Company	600 Atlantic Ave, Boston	CBD	May 2024	43,900	Renewal	Direct
CubicPV	20 Crosby Dr, Bedford	Route 3 North	May 2024	22,000	New	Direct
Pillar VC	500 Boylston St, Boston	Back Bay	April 2024	22,000	New	Sublease

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Angelo Gordon	65 Walnut St, Wellesley	June 2024	67,500	$24,000,000	$356	Haynes Management
City Realty Group	201-207 South St, Boston	June 2024	69,000	$13,000,000	$188	MCRE Partners
New England Appliance Group	124 Grove St, Franklin	April 2024	112,750	$12,000,000	$106	Southern Star Shipping

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
750 Atlantic Avenue, Boston	CBD	Q4 2025	1,020,000	0%	Hines
1 Boston Wharf Road, Boston	Seaport	Q4 2024	707,000	100%	WS Development
350 Boylston Street, Boston	Back Bay	Q3 2024	231,663	94%	Druker Company

Greater Boston office market stats

By Submarket	Existing Inventory	Under development sf	Direct availability	Sublet availability	Total availability	Total availability change (YoY)	Net absorption sf (Quarterly)	Net absorption % of inventory (Quarterly)	Annual direct asking rent psf FS
Boston Total	**77,257,467**	**2,605,276**	**19.4%**	**5.3%**	**24.7%**	**2.5%**	**(584,548)**	**(0.8%)**	**$71.49**
CBD	46,540,840	1,666,613	21.2%	5.1%	26.3%	2.4%	(560,186)	(1.2%)	$73.73
Back Bay	14,528,323	231,663	17.7%	4.2%	21.9%	2.4%	144,610	1.0%	$80.12
Seaport	10,640,874	707,000	16.8%	7.2%	24.0%	3.7%	10,298	0.1%	$62.03
North Station	4,099,329	0	18.5%	6.9%	25.4%	0.7%	(194,526)	(4.7%)	$51.21
Fenway/Kenmore	1,448,101	0	1.8%	5.6%	7.4%	(1.0%)	15,256	1.1%	$41.32
Cambridge Total	**11,952,746**	**422,000**	**16.7%**	**5.5%**	**22.2%**	**5.0%**	**(26,808)**	**(0.2%)**	**$76.03**
East Cambridge	7,844,398	422,000	20.9%	5.4%	26.3%	7.7%	(78,532)	(1.0%)	$88.69
Central Cambridge	2,341,939	0	11.9%	4.1%	16.0%	(0.8%)	61,044	2.6%	$58.44
West Cambridge	1,766,409	0	4.7%	7.7%	12.4%	0.9%	(9,320)	(0.5%)	$40.36
Inner Suburbs	**16,353,046**	**0**	**12.6%**	**4.5%**	**17.1%**	**2.8%**	**(109,895)**	**(0.7%)**	**$38.71**
Near North	8,033,235	0	16.8%	5.6%	22.4%	1.9%	(35,576)	(0.4%)	$39.48
Brookline/Watertown	4,076,512	0	10.4%	4.6%	15.0%	4.0%	(36,190)	(0.9%)	$38.77
Crosstown Corridor	3,936,829	0	6.4%	2.5%	8.9%	3.8%	(38,129)	(1.0%)	$32.83
Southie	306,470	0	8.4%	0.0%	8.4%	(3.9%)	**	**	**
128 Belt	**56,029,874**	**0**	**17.3%**	**5.6%**	**22.9%**	**3.5%**	**(122,862)**	**(0.2%)**	**$27.19**
128 North	19,588,231	0	16.5%	4.4%	20.9%	0.7%	416,654	2.1%	$26.33
128 West	21,849,599	0	17.8%	7.9%	25.7%	7.5%	(466,678)	(2.1%)	$29.61
128 South	12,447,168	0	18.7%	3.7%	22.4%	1.4%	33,956	0.3%	$25.08
South Shore	2,144,876	0	13.2%	3.3%	16.5%	3.1%	(106,794)	(5.0%)	$21.91
495 Belt	**53,296,576**	**30,000**	**20.4%**	**2.6%**	**23.0%**	**1.7%**	**(473,216)**	**(0.9%)**	**$24.36**
495 Northeast	10,677,238	0	20.0%	1.9%	21.9%	3.0%	76,096	0.7%	$23.13
Route 3 North	15,534,347	0	21.3%	4.9%	26.2%	0.6%	(238,484)	(1.5%)	$26.29
Route 2 West	6,294,310	0	23.4%	0.6%	24.0%	0.7%	(98,706)	(1.6%)	$24.29
495 Mass Pike West	10,021,305	0	20.5%	2.6%	23.1%	(0.6%)	268,043	2.7%	$20.57
Framingham/Natick	4,553,331	30,000	28.2%	1.2%	29.4%	9.7%	(420,046)	(9.2%)	$24.31
495 South	6,216,045	0	9.7%	0.9%	10.6%	1.4%	(60,119)	(1.0%)	$20.19
Greater Boston Total	**214,889,709**	**3,057,276**	**18.4%**	**4.7%**	**23.1%**	**2.7%**	**(1,317,329)**	**(0.6%)**	**$51.44**

Source: AVANT by Avison Young, CoStar
Note: Does not include East Boston

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Greater Boston office market stats by class

	Inventory (sf)	Deliveries sf (YTD)	Under Development sf	Direct availability	Sublet availability	Total avaialbility	Net absorption sf (Quarterly)	Net absorption % of inventory (Quarterly)	Annual direct asking rent psf FS
Trophy	10,479,891	0	1,020,000	15.4%	4.3%	19.7%	(388,642)	(3.7%)	$105.39
Class A	96,993,030	0	0	21.6%	7.0%	28.6%	(740,118)	(0.8%)	$62.05
Class B	86,470,410	0	30,000	18.0%	3.1%	21.1%	(147,487)	(0.2%)	$34.71
Class C	20,946,378	0	2,007,276	7.2%	0.7%	7.9%	(41,082)	(0.2%)	$29.21
Market Total	**214,889,709**	**0**	**3,057,276**	**18.4%**	**4.7%**	**23.1%**	**(1,317,329)**	**(0.6%)**	**$51.44**

Source: AVANT by Avison Young, CoStar
Note: Does not include East Boston

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Greater Boston submarkets map

MAP KEY

Boston

- Seaport
- CBD
- North Station
- Back Bay
- Fenway/Kemore

Cambridge

- West Cambridge/Alewife
- Mid Cambridge/Harvard
- East Cambridge/Kendall Sq

Inner Suburbs

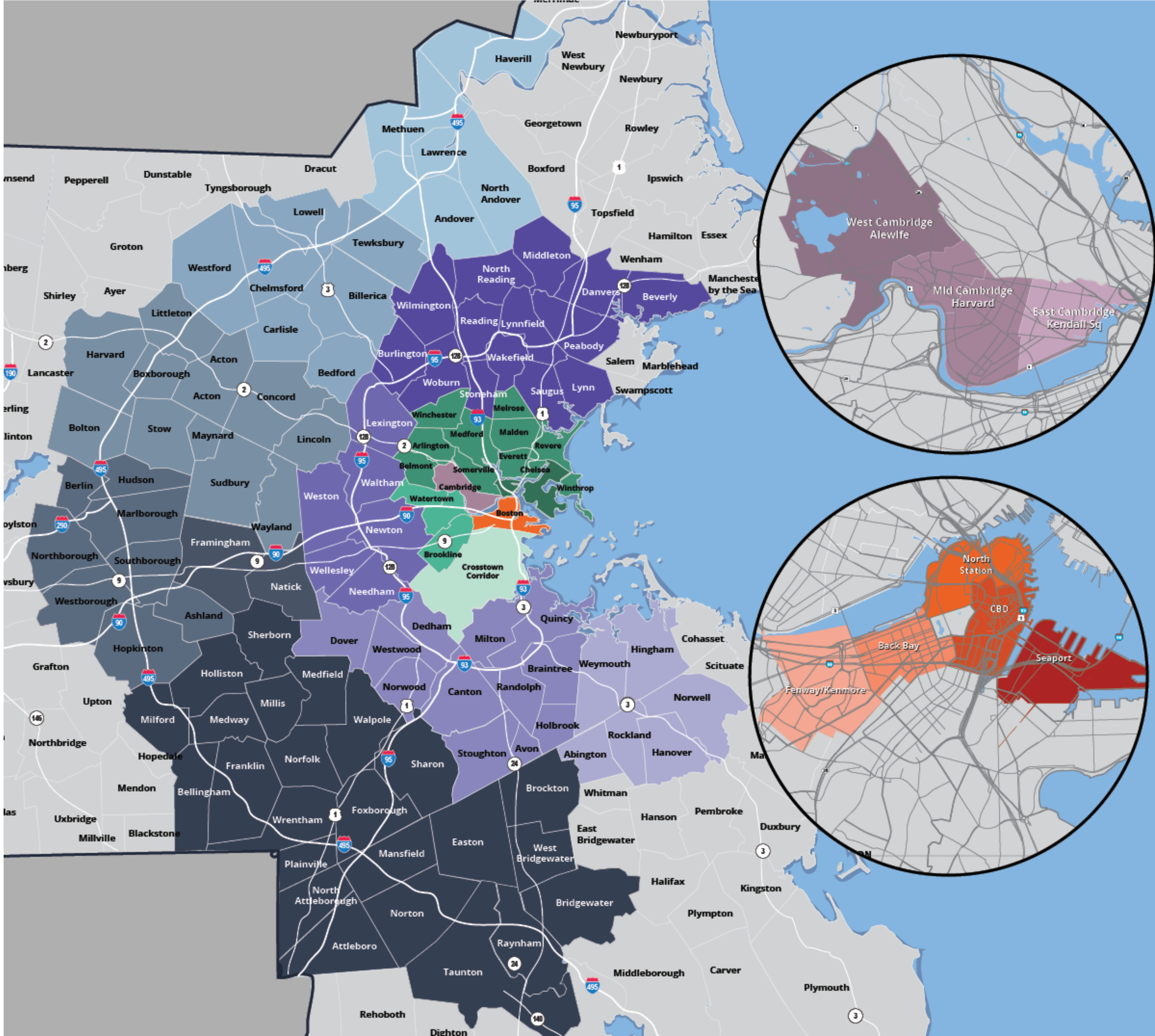
- Near North
- Brookline/Watertown
- Crosstown Corridor

128 Belt

- 128 North
- 128 West
- 128 South
- South Shore

495 Belt

- 495 Northeast
- Route 3 North
- 495 Route 2 West
- 495 Mass Pike West
- Framingham/Natick
- 495 South



Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and information visit **avisonyoung.com**

John Dolan

Managing Director, New England - Principal
john.dolan@avisonyoung.com
+1 617 947 1793

Declan Hood

Market Intelligence Analyst
declan.hood@avisonyoung.com
+1 847 626 4464

AVISON YOUNG