

MARKET REPORT

Office
Boston Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

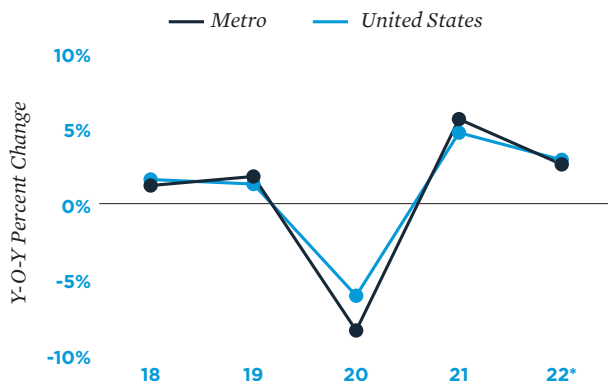
4Q/22

Boston's Office Landscape Set for Dramatic Change; Fundamentals Strengthen in the West

Corporate commitments spur historic construction. A diverse mix of traditional office-using companies are locking in their decisions to expand operations in the Boston metro. Amazon is among these companies, as the logistics giant has signed on for 600,000 square feet at a new Seaport project slated for completion in 2024. This development adds to the metro's already sizable pipeline, which includes over 14 million square feet of ongoing space. Once finalized, these projects will collectively expand the metro's inventory by 6.3 percent. With over 2.9 million square feet of Class A space absorbed on a net basis over the previous yearlong period, near-term growth in the Boston office sector bodes well for the asset class.

Western suburbs experience notable recovery. The Route 128 West submarket, spanning Newton-Brookline to Lexington-Arlington, has experienced strong net absorption over each of the last three quarters ending in June. During this nine-month period, tenants absorbed over 1.3 million square feet in the locale, a figure that exceeds the absorption total from the prior 15 quarters combined. This positive leasing activity drove a 190-basis-point drop in vacancy to 12.6 percent, just 80 basis points off its year-end 2019 mark. Heightened demand for Class A space and the expansion of the local biotech sector are largely to credit for the submarket's recovery. More than 90 percent of the office space absorbed in this submarket during the past nine months was Class A, with new life science-focused tenants helping drop top-tier vacancy by 320 basis points.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

70,000
JOBS
will be created

EMPLOYMENT:

Hiring will continue for the remainder of the year, however, at a slower pace. As unemployment nears 3.0 percent, a smaller pool of available labor will back a 2.4 percent increase in traditional office-using jobs, slightly below the metro's overall gain.

6,800,000
SQ. FT.
will be completed

CONSTRUCTION:

Completions for the year will more than double the historical average, expanding inventory by 1.8 percent. Of the record amount of completed space, more than 1 million square feet is slated for delivery in the Charlestown-East Boston area.

90
BASIS POINT
increase in vacancy

VACANCY:

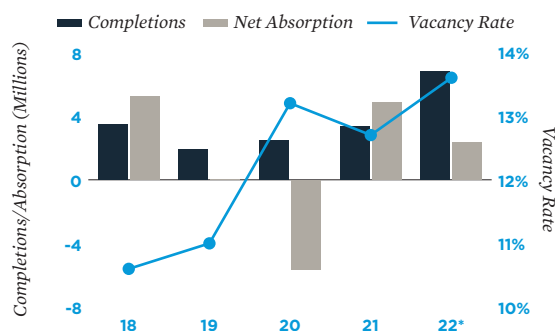
Substantial inventory additions amid mild leasing activity will expand vacancy, bringing the rate to 13.6 percent. Although availability increases considerably, the measure in Boston will remain 150 basis points lower than its record high.

8.3%
DECREASE
in asking rent

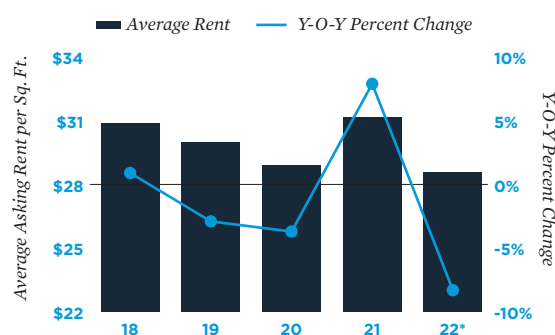
RENT:

Following a 7.9 percent jump in the average asking rate in 2021, marketed rents will subside this year as absorption slows. About half as much office space will be taken off the market this year, pushing the average rent down to \$28.55 per square foot.

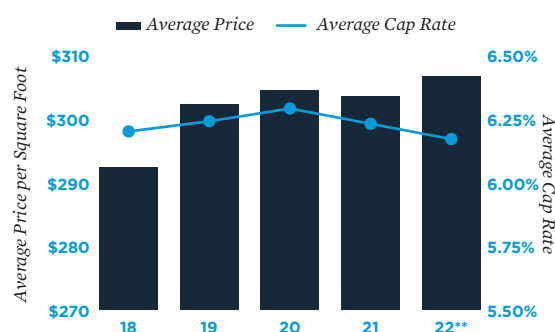
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

Boston Office:

Thomas Shihadeh

Vice President, Regional Manager

100 High Street, Suite 1025

Boston, MA 02110

Tel: (617) 896-7200 | thomas.shihadeh@marcusmillichap.com

Prepared and edited by:

Neel Sodhi

Research Associate | Research Services

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

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2Q 2022 - 12-Month Period



CONSTRUCTION

3,528,000 sq. ft. completed

- Completions during the yearlong period ending in June reached its highest point since 2017-2018, growing total inventory by 1.0 percent.
- Deliveries in Cambridge accounted for roughly 30 percent of recent supply additions, increasing local inventory by 3.3 percent. An additional 2.5 million square feet was underway in the submarket as of August 2022.



VACANCY

20 basis point decrease in vacancy Y-O-Y

- Tenants absorbed just shy of 3.6 million square feet in the trailing 12 months ended in June, helping compress market availability to 13.1 percent in the second quarter.
- CBD vacancy returned to a rate on par with the 2021 high, increasing 40 basis points year-over-year to 12.5 percent in the second quarter.



RENT

3.9% decrease in the average asking rent Y-O-Y

- Increased tenant demand, which drove improved net absorption over the previous four quarters, boosted the suburban average asking rent 1.9 percent to \$21.32 per square foot.
- The Class B/C average asking rent reached within 1.0 percent of the year-end 2019 metric, following a 1.9 percent gain over the past year.

Investment Highlights

- Transaction velocity jumped substantially over the four-quarter period ending in June, up roughly 60 percent from the same span in 2021. Of this heightened velocity, trades among suburban locales were most notable, increasing over 70 percent from the prior year. Newton-Brookline, Concord-Maynard and other western submarkets led the way as buyers were encouraged by strong levels of recent, local absorption.
- Multi-property sales made up less of the transaction pool during the year, accounting for roughly 35 percent of trades compared to over 40 percent during the prior yearlong period. This trend was consistent with a reduction in out-of-state purchasers over the same span, meanwhile local buyers continue to expand their office portfolios. Of these trades, activity in the Route 3 North submarket, comprising of Lowell-Chelmsford and Concord-Maynard, more than doubled from the prior one-year period.
- Following a slight decline at the end of 2021, investors experienced an average price increase of 1 percent during the four-quarter period ending in June, bringing the average price to \$306 per square foot. This uptick correlated to a 10-basis-point drop in the market's cap rate to 6.2 percent, returning the mean first-year yield to its pre-pandemic mark.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics