

MARKET REPORT

Office
Boston Metro Area

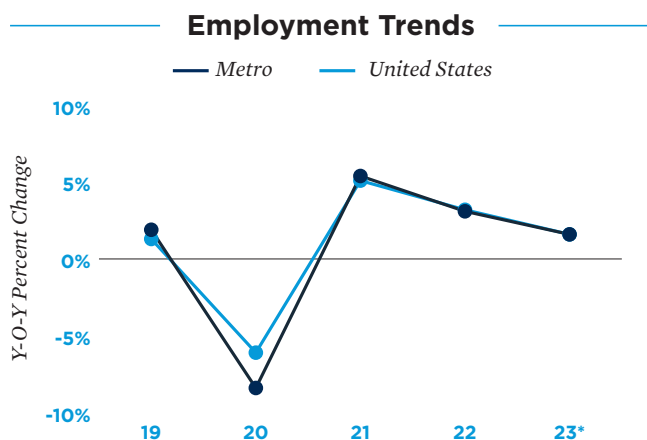
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4Q/23

Scale of Deliveries Puts Pressure on Vacancy, Effects Felt More Acutely Downtown

Considerable pipeline set to deliver amid softening demand. Preferences for smaller floor plans have begun to impact Boston's office market. More than 2.5 million square feet of office space was returned to the market during the first half of 2023, the highest amount in any six-month span on record, barring recessionary periods. A rapid pace of supply additions has not aided matters, with more than 6.2 million square feet completed during the yearlong period ended in June. The impact of this inventory has mostly been felt in the urban core, where availability advanced 300 basis points during that span. Deliveries are likely to weigh heavily on fundamentals here moving forward. As of September, more than 14.1 million square feet of office space was underway in the CBD alone, exceeding the metrowide count of every other major U.S. market.

Corporate move-ins showcase silver linings. Although a robust delivery schedule will create close-in challenges for the market, recent move-ins highlight Boston's long-term appeal. In August, The Lego Group unveiled the design of its new 100,000-square-foot North American headquarters located in the Back Bay. The company previously announced its intention to relocate to Boston from its current Connecticut office. An educated workforce and recruitment prospects from nearby academic institutions have kept firms engaged in the market. In January, Amazon signed a 630,000-square-foot lease at the Seaport for a move-in scheduled for late 2024.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**45,000
JOBS**

will be created

EMPLOYMENT:

Boston's employment base is well on track to expand by roughly 1.6 per-cent this year. During the first eight months of 2023, the professional and business services sector alone grew by a net 9,500 positions.



**7,500,000
SQ. FT.**

will be completed

CONSTRUCTION:

Developers will add a multi-decade record amount of space to the market in 2023. Over 19.5 million square feet was in progress as of September, indicating that the current supply wave will continue into next year.



**240
BASIS POINT**

increase in vacancy

VACANCY:

Vacancy is slated to increase this year by the largest margin on an annual basis since at least 2007. The year-end rate of 16.1 percent will mark the highest level observed in the metro in multiple decades.



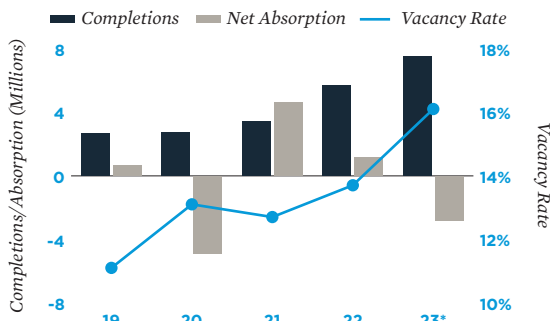
**5.5%
INCREASE**

in asking rent

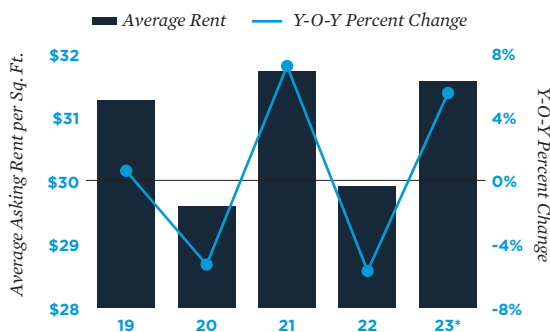
RENT:

Although availability is increasing at a rapid clip, a large amount of inbound amenity-rich stock will keep introducing higher asking rates. The mean marketed rent will reach \$31.56 per square foot by the end of 2023.

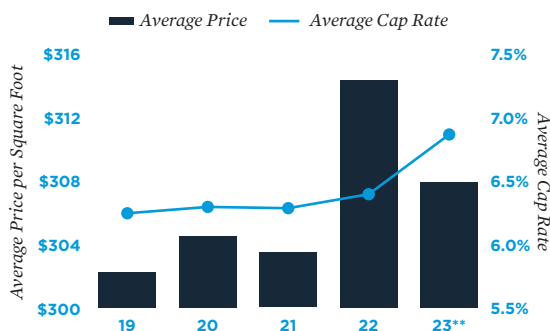
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

Al Pontius

Senior Vice President, Director

Tel: (415) 963-3000 | apontius@ipausa.com

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

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

Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

6,264,000 sq. ft. completed

- Entering July, Boston marked five consecutive quarters in which completions exceeded 1 million square feet in each three-month span, the first time this had occurred in more than a decade.
- Suburban locales accounted for just over 1 million square feet of office space completed during the yearlong span ended in June.



VACANCY

180 basis point increase in vacancy Y-O-Y

- The metro saw vacancy rise to 14.9 percent during the 12-month period ended in June, the highest level since 2012.
- Speculative deliveries in the CBD drove vacancy up in Boston and Cambridge, which noted respective jumps of 250 and 500 basis points. These areas entered July with vacancy rates of 16.4 and 12.1 percent, respectively.



RENT

14.3% increase in the average asking rent Y-O-Y

- The double-digit rent increase observed during this span stems from a sizable amount of Class A space coming back to the market in the second quarter, driving the average asking rent to \$32.52 per square foot.
- Class A marketed rents increased 13 percent in the second quarter of 2023 alone, reaching \$40.41 per square foot.

Investment Highlights

- Transaction velocity was challenged during the first half of 2023, with deal flow during this period comparable to activity during the worst of the health crisis. A number of buyers are still active in the sub-\$10 million price tranche, however, as demand for space in Class B and C offices has been more consistent. Investors traditionally targeting Class A assets are likely awaiting clarity on the future of tenant preferences in this segment.
- Prospective buyers targeting stable submarkets may be drawn to New Hampshire, as Manchester-Nashua and Rockingham-Strafford counties were the only submarkets posting sub-10 percent vacancy entering July. Assets here face little incoming competition. As of September, just 630,000 square feet of space was in development across southern New Hampshire, with minimal activity in Hillsborough and Strafford counties.
- Contrasting the traditional office market, medical office deals have proceeded at a rate comparable to the pre-pandemic level thus far in 2022. Buyers in this category typically pursue mid- to late-20th century builds, with segment trades mostly dispersed throughout Boston's first-ring suburbs and select outlying downtowns.

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: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics