Boston office market collects itself after tumultuous year.

▲ 19.9%
Office Availability

▲ 12.5%
Office Vacancy

▼ $66.60
Office Lease Rate (Gross)

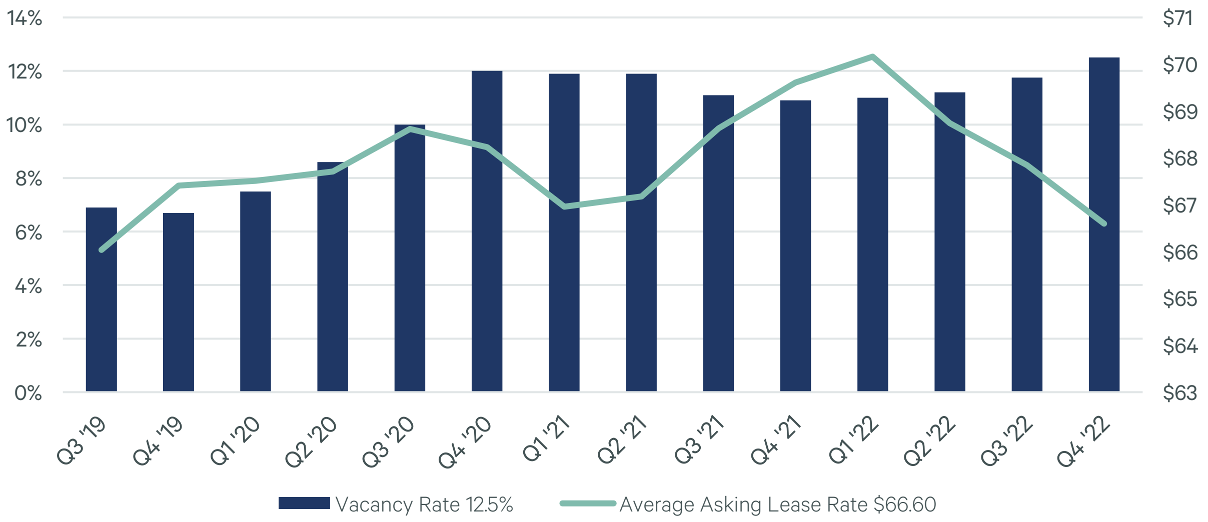
▼ 756,000 SF
Leasing Activity

Note: Arrows indicate change from previous quarter.

As office markets across the country reel from the remains of the pandemic, the adoption of hybrid-work strategies and looming recession fears, it is important to keep a close watch on key trends used as indicators of market health. Throughout 2022, Boston has fared better than most cities, ranking in the top three of the largest eleven markets in crucial areas such as leasing activity, tenants-in-market, and sublease availability. In past recessions Boston's diverse, innovative and growth-centric tenant base has contributed to its swift recovery. It will be vital to observe how the ongoing, as well as emerging, trends develop over the next two to four quarters as the office market dynamics shift. The evolution of trends such as the flight-to-quality, technology firm's sublease additions and increasing tenant concessions will be the basis by which context can be given to the market's recovery.

The Boston office market was struck with new sublease space hitting the market as well as declining rental rates. This trend was spread out across all submarkets to varying extents. Overall, there was 369,115 sq. ft. of negative absorption this quarter resulting in a total 1,367,050 sq. ft. of negative absorption in 2022. Although this figure is very large and negative, this is only 80% of the negative absorption seen in the 2009 recession and only 43% of the negative absorption seen in the 2001 recession. Availability rose 60 basis-points (bps) to end the

FIGURE 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q4 2022

year at 19.9%, the highest level in the past 20 years, and vacancy increased 70 bps to end the year at 12.5%. Leasing activity was a moderate 765,000 sq. ft. for the final quarter but a strong 4.8 million sq. ft. for the full year. An ever-increasing majority of the space leased was in Class A buildings. Overall asking rents fell by $1.25 to an overall average of $66.60 per sq. ft. gross as landlords adjust for reduced tenant demand and the market is flooded with mid-to-low tier space.

Sublease Market

The Boston office market saw an influx of sublease availability throughout 2022, with a net addition of 515,000 sq. ft. in the fourth quarter alone to bring the total year-over-year (Y-o-Y) net addition to approximately 1.5 million sq. ft. The result was a sublease rate that increased 60 bps this quarter to 4.7%, an increase of 1.8% Y-o-Y, to the highest sublease rate seen since the end of the 2001 recession. About 54% of the space added this year was in Class A buildings and 46% was in Class B buildings. As Class B buildings only make up 36% of inventory, this figure reveals the excessive amount of Class B sublease space that has flooded the market which has been slower to lease compared to Class A sublease space.

The sublease market remains highly weighted towards large availabilities and technology firms, with 19 blocks of space larger than 50,000 sq. ft. making up 43% of all sublease space currently available. Fourteen of these 19 blocks were listed by technology firms. In total, tech companies make up 47% of the total available sublease space in the market. Although this is a decrease in the weighting of tech companies listing sublease space from last quarter, due in large part to the addition of space by insurance and law firms, it still represents a 15% increase since last year.

Leasing Activity & Demand

After two substantial quarters of leasing activity during Q2 and Q3 of 2022 that saw 7 deals over 100,000 sq. ft. close, the fourth quarter leasing activity was a healthy but diminished 756,000 sq. ft. to end the year with a total of 4.8 million sq. ft. signed. The largest deal of the quarter was Medtronic's relocation to the Channel Center in the Seaport, by far the largest relocation to Class B product these past two years. ***Although the year concluded on a slower note, 2022 deal activity was a shining light for a turbulent year, increasing 10% from 2021 and over 130% from 2020 levels.***

FIGURE 2: Historical Sublease Availability

Source: CBRE Research, Q4 2022

While technology, advertising/media, and information (TAMI) firms dominated leasing in 2021 with 41% share of the total leasing activity, their contribution to deals signed in 2022 fell to 24%. Instead, financial services, insurance, and real estate (FIRE) firms increased their share from 30% in 2021 to take the top spot in 2022 with 40% or 1.9 million sq. ft. leased total for the industry.

The current tenants-in-market (TIMs) fell greatly over the past year by 34% to a final level of 2.5 million sq. ft. of requirements. A large part of this decline can be attributed to the significant number of large tenants who were actively looking for space during 2022 and then executed leases over the course of the year. FIRE firms make up 35% of the requirements with TAMI companies representing 22% and law firms making up another 13%.

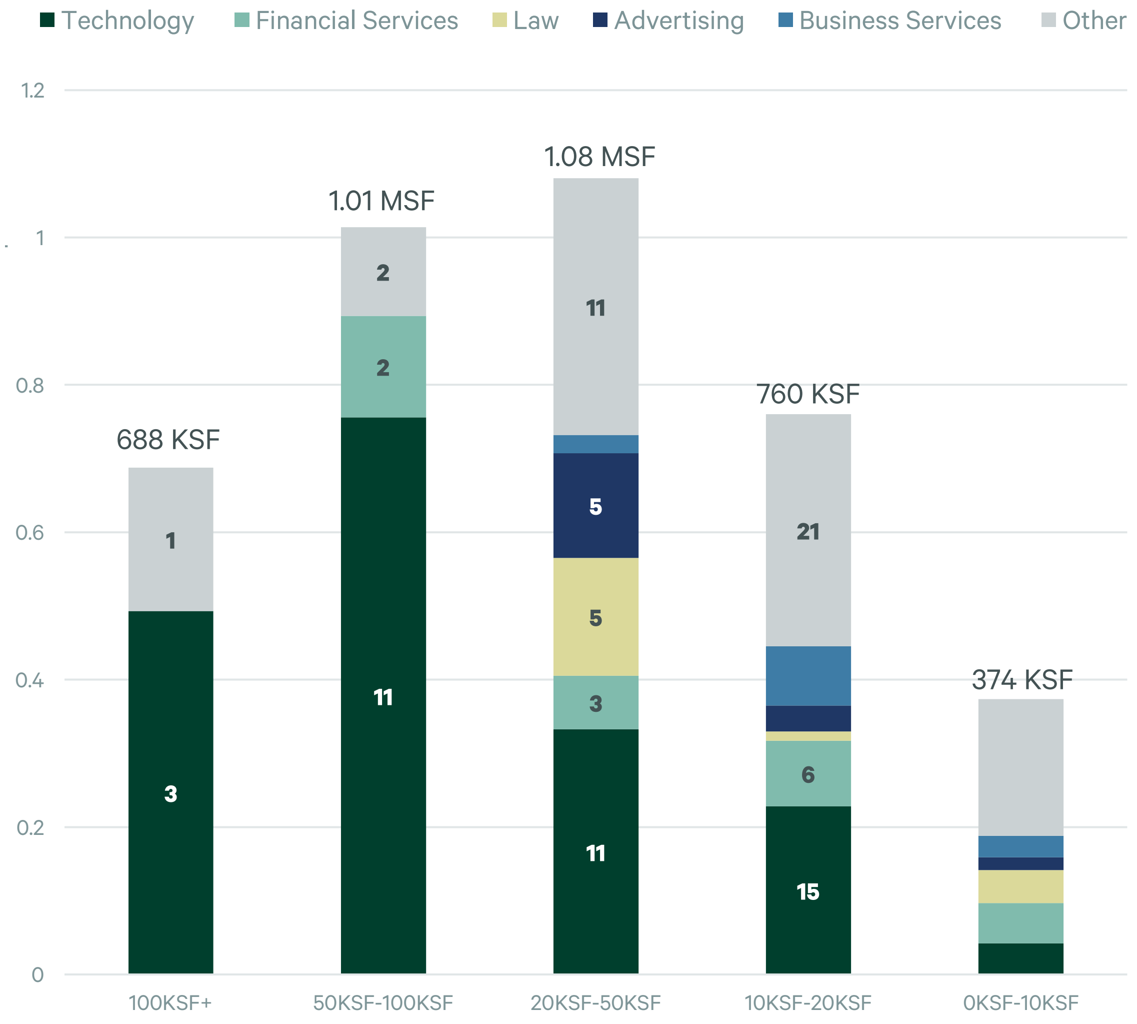
One trend that stayed consistent in 2022 was the sheer volume of Class A leasing when compared to leases signed in Class B buildings. In the fourth quarter, 70% of all leasing activity was in Class A product, only reinforcing the year-long bias towards higher quality buildings as ***86% of the 4.8 million sq. ft. of leases signed in 2022 were for Class A space***. This figure is even more telling when noted that the largest deal of the quarter was signed in a Class B building. Furthermore, out of all 2022 Class A leasing, 41% of the deals happened in Class A+ buildings, defined as newly constructed or under construction office towers making up the top 15% of the market's inventory and fetching the upper limit of rents within Boston. This trend remains consistent from last year as 48% of the Class A leasing was in these Class A+ buildings during 2021 as well.

Direct Asking Rents

For the third consecutive quarter overall direct asking rents fell, this quarter by $1.25 to a level of $66.60 per sq. ft. gross. Over the course of the year the rent decreases have been shared by Class A and Class B buildings, but pushed further downwards by the cheaper, Class B availability that has entered the market. While the decrease in asking rents the market has shown over the last three quarters is striking, it does not truly represent the rate at which net effective, or taking, rents have fallen over the same time period.

From Q4 2021 to Q4 2022, direct gross asking rents have decreased by 4.3% or about $3.00 per sq. ft. By looking at lease financials for deals signed within the same time period (new direct deals over 10,000 sq. ft. with at least moderate term lengths), the starting rents of deals

FIGURE 3: Boston Office Sublease Blocks by Industry and Size



Source: CBRE Research, Q4 2022

have decreased about the same amount, 4.2% from H2 2021 to H2 2022. Net effective rents however, which is the rate paid by tenants once escalations, tenant improvement (TI) allowances and free rent subsidies are factored in, have decreased by 6.9%. This drop means that over last year net effective rents have fallen 66% more than asking rents. The main source of this change has been the significant increase in TI allowances given to tenants by landlords, particularly in relocation leases, growing 39% on average for the representative deal set over the last year. These figures are much more representative of the formidable market conditions facing landlords as they compete against an increasing inventory of options with a decreasing tenant demand to fill vacant and available space.

Central Business District

The Central Business District (CBD) once again saw the largest amount of leasing activity out of any submarket this quarter. Almost half of the leasing activity of the overall market this quarter was in the CBD, about 362,000 sq. ft., although 36% of it was renewals. These renewals did little to combat the negative absorption of the quarter, of which the CBD carried the majority as well with 233,110 sq. ft. of it occurring in the fourth quarter to end the year with a little over 300,000 sq. ft. of negative absorption in the submarket. Although this quarter Class A buildings in the CBD made up the bulk of the negative absorption, for the year as a whole 82% of negative absorption was carried by Class B buildings. As a result, availability climbed 1.0% and vacancy rose by 50 bps. Asking rents fell significantly to an average of $69.91 per sq. ft. gross.

The second largest deal of the quarter was a renewal/expansion by the investment bank UBS in One Post Office square tower where the tenant renewed its 56,000 sq. ft. footprint and took over control of an additional 10,500 sq. ft. in the newly renovated premier tower. In the CBD, FIRE firms made up 67% of the leasing activity during the quarter and TAMI firms a mere 12%. This creates a stark contrast of the leasing activity that occurred a year ago during Q4 2021, where only 27% of leasing activity came from the FIRE industry and TAMI firms made up a staggering 48% of sq. ft. leased.

With the changing distribution of industries leasing space in the CBD against the backdrop of 35% of the submarkets 1.76 million sq. ft. of available sublease space being listed by technology tenants, ***the post-pandemic trend of tech companies downsizing or employing fully remote-work strategies is evident in the CBD***. Of the nine blocks of sublease space over 50,000 sq. ft.

FIGURE 4: Transactions of Note

Tenant/Investor	Address	Sq. Ft.	Submarket	Type
Medtronic	Channel Center	113,000	Seaport	Relocation
UBS	One Post Office Sq.	66,000	CBD	Renewal/Expansion
Weiss Asset Management	222 Berkeley Street	35,000	Back Bay	Renewal/Expansion
Perkins & Will	225 Franklin Street	25,000	CBD	Relocation
REsurety	40 Water Street	23,000	CBD	Sublease
Cowen Group	Two International Place	19,000	CBD	Relocation

Source: CBRE Research, Q4 2022

currently available in the CBD, six of them are listed by technology firms of which three were listed or added this quarter.

Availability increased a whole percentage point to a level of 25.2% which is the highest level within the last 20 years. Vacancy, however, only rose 50 bps to 14.1% which is still below that of the aftermath of the Dot-Com Bubble of the early 2000s and the Great Recession in 2009. This variance indicates that there is a substantial amount of leases expiring within the next year or so and suggests a coming tide of available roll becoming vacant if more tenants decide to leave the CBD all together or significantly downsize.

CBD direct asking rents decreased 1.9% this quarter to end the year at an average of $69.91 per sq. ft. gross with a significant portion of the decrease due to the considerable addition of low-rise, less expensive availabilities in Class A buildings. This brought Class A rents down to $73.46 while Class B rents also decreased to $55.29 per sq. ft. gross and contributing slightly to the overall decline as well.

Back Bay

The Back Bay submarket posted the largest amount of positive absorption of 76,709 sq. ft. this quarter, bringing total absorption of the submarket to negative 356,641 sq. ft. in 2022. The Class A buildings in the submarket made up the entirety of the positive absorption in Q4 as a result of new leasing activity and expansions, working to decrease availability by 70 bps. Regardless of the positive quarter, the Back Bay struggled in 2022 with availability jumping 3.4% Y-o-Y and vacancy increasing 1.9% during the same time period. The sublease rate rose by a meager 10 bps this quarter opposed to the 1.6% that characterized Q3, as little sublease space was added in Class B buildings and an even smaller amount was removed from Class A buildings.

Leasing activity in the Back Bay was a moderate 161,000 sq. ft this quarter with 72% of the total made up of mostly mid-sized relocations, expansions, or small subleases and the remainder by renewals. Nearly all of the deal velocity, 95% of it, occurred in Class A buildings which follows along the trend established throughout the entirety of 2022. The largest deal in the Back Bay was Weiss Asset Management's renewal of 15,000 sq. ft. in combination with an expansion of an additional 19,500 sq. ft. to their footprint at 222 Berkely street. Also, Arbor Realty leased 17,000 sq. ft. in 501 Boylston and Ara Partners relocated from a small sublease in the Back Bay to the top floor of 200 Berkeley.

FIGURE 5: Office Market Statistics

Boston Office	Bldgs	Total SqFt	Available (%)	Vacant (%)	Sublease (%)	Quarter Absorption	YTD Absorption	Avg Asking Rent $ (Gross)
Central Business District	184	39,559,266	25.2%	14.1%	4.5%	(233,110)	(302,267)	$69.91
Class A	46	29,817,953	26.1%	12.6%	4.2%	(191,732)	(54,444)	$73.46
Class B/C	138	9,741,313	22.5%	18.6%	5.4%	(41,378)	(247,823)	$55.29
Back Bay	76	15,465,229	13.1%	9.8%	4.9%	76,709	(356,641)	$67.19
Class A	24	11,301,481	11.6%	7.7%	5.0%	93,000	(125,157)	$75.13
Class B/C	52	4,163,748	17.2%	15.5%	4.4%	(16,291)	(231,484)	$57.44
Seaport	67	12,431,921	14.6%	10.2%	4.8%	(55,879)	(237,694)	$61.46
Class A	15	6,271,421	9.6%	4.3%	2.2%	(63,818)	62,288	$70.76
Class B/C	52	6,061,840	19.6%	16.2%	7.4%	7,939	(299,982)	$58.63
Fenway/Kenmore Square	21	2,012,953	7.9%	16.7%	8.0%	(45,813)	(87,802)	$85.00
Class A	4	1,108,379	14.3%	7.4%	7.0%	(45,813)	(87,803)	$85.00
Class B/C	17	904,574	0.0%	0.0%	0.0%	0	0	—
North Station/Waterfront	39	3,381,813	22.6%	16.7%	8.0%	(107,291)	(221,698)	$59.63
Class A	2	998,000	32.8%	19.2%	23.0%	(110,230)	(203,348)	$77.49
Class B/C	37	2,383,813	18.4%	15.8%	1.6%	2,939	(18,350)	$53.75
Mid-Town	27	2,499,785	19.2%	16.5%	6.2%	(12,641)	(94,531)	$47.91
South Station	21	1,161,953	22.1%	18.9%	6.0%	14,435	(68,496)	$55.99
Charlestown/East Boston	17	1,753,655	19.8%	17.0%	1.1%	9,299	144,490	$49.91
Dorchester/South Boston	22	2,405,151	15.0%	11.6%	2.7%	(5,212)	(14,871)	$37.35
Allston/Brighton/Longwood	22	1,901,281	10.8%	4.8%	7.5%	(9,612)	(127,539)	$51.43
Overall Boston Office	496	82,477,651	19.9%	12.5%	4.7%	(369,115)	(1,367,050)	$66.60

Source: CBRE Research, Q4 2022

During 2022 the Back Bay sublease rate increased a total of 2.4% to end the year just shy of 5.0% and over half of this increase came in Q3. The sublease space currently available in the Back Bay is disproportionately made up of a few large blocks, with 66% of the space contained within four blocks over 50,000 sq. ft. Three out of these four blocks were listed by technology tenants. In total, 73% of the available sublease space in the Back Bay is being listed by technology firms which, while monumental, falls along the same path set by other submarkets.

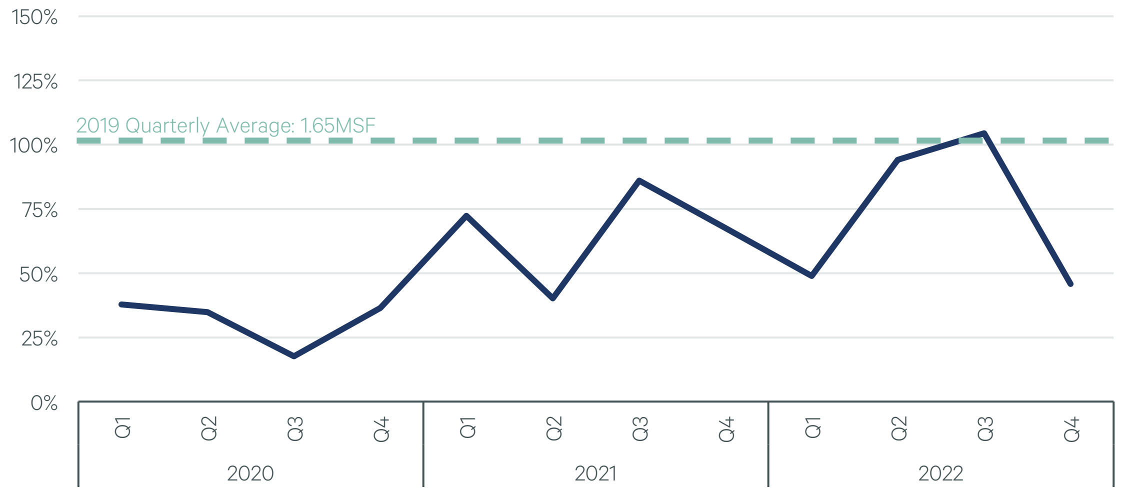
Overall average asking rents fell materially this quarter by over $3.50 to $67.19 per sq. ft. gross, derived from the decrease in Class A rents, the even greater decrease in Class B rents, and most importantly the simultaneous decrease in Class A availability and increase in Class B availability causing the cheaper space to be factored into overall rents more heavily.

Seaport

The Seaport office market had another relatively stable quarter, recording only 55,879 sq. ft. of negative absorption with minor changes to asking rents, availability, vacancy and sublease rates. Although the quarter was not detrimental, the availability additions which permeated the year led to 237,694 sq. ft. of negative absorption in 2022., This was due in large part by the addition of 194,000 sq. ft. of Reebok's Innovation and Design Building space which defined last quarter for the submarket. Availability ended the year at 14.6% and vacancy at 10.2%, up 2.7% and 70 bps Y-o-Y respectively. Average asking rents fell 80 bps to $61.46 per sq. ft. gross, the smallest amount of any of the major submarkets.

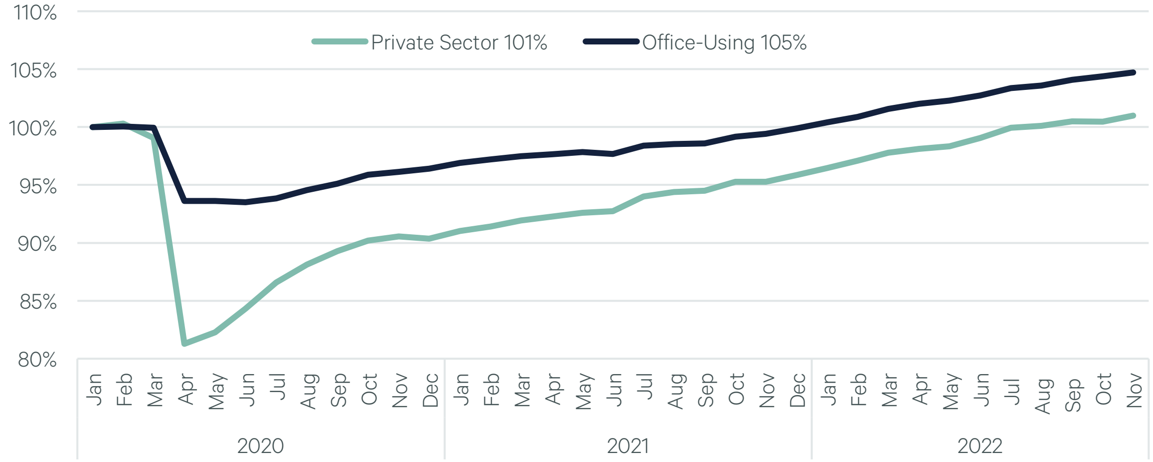
The largest deal in the market this quarter was a relocation of Medtronic to 113,000 sq. ft. in Fort Point's Channel Center, notably only one of a handful of large relocations to Class B product in the last two years. In addition to this deal, Seaport recorded another 53,500 sq. ft. of leasing activity to bring the quarter total to 166,500 sq. ft., including Life is Good Inc. leasing 16,000 sq. ft. at 253 Summer Street and Gradient AI subleasing 13,000 sq. ft. of Fusion Worldwide's space at One Marina Park Drive. On the opposite side of the spectrum, General Electric announced it was moving out of its Fort Point headquarters and vacating approximately 100,000 sq. ft. as part of its effort to downsize their corporate office footprint as they prepare to split into three public companies, instead opting for a smaller lease for office space in Cambridge.

FIGURE 6: Boston Office Leasing Activity Relative to 2019 Levels



Source: CBRE Research, Q4 2022

FIGURE 7: Boston Metro Private Sector & Office-Using Employment



Source: U.S. Bureau of Labor Statistics and Federal Reserve Bank of St. Louis. Measured as percentage of January 2020 level

As a result of the Medtronic deal and the otherwise moderate movement elsewhere, the Seaport largely stood in contrast to the rest of the market, as Class B buildings dominated leasing activity and recorded positive absorption, albeit miniscule. Leasing in Class B buildings represented 92% of the sq. ft. leased this quarter in the submarket and 44% of leased space in 2022, compared to only 10% of the CBD's and 7.0% of Back Bay's yearly leasing activity. Despite this statistic, throughout 2022 Class B space in the Seaport carried the entirety of the submarket's negative absorption as well as the majority of the sublease space added within the last year.

Office Utilization & Subway Ridership

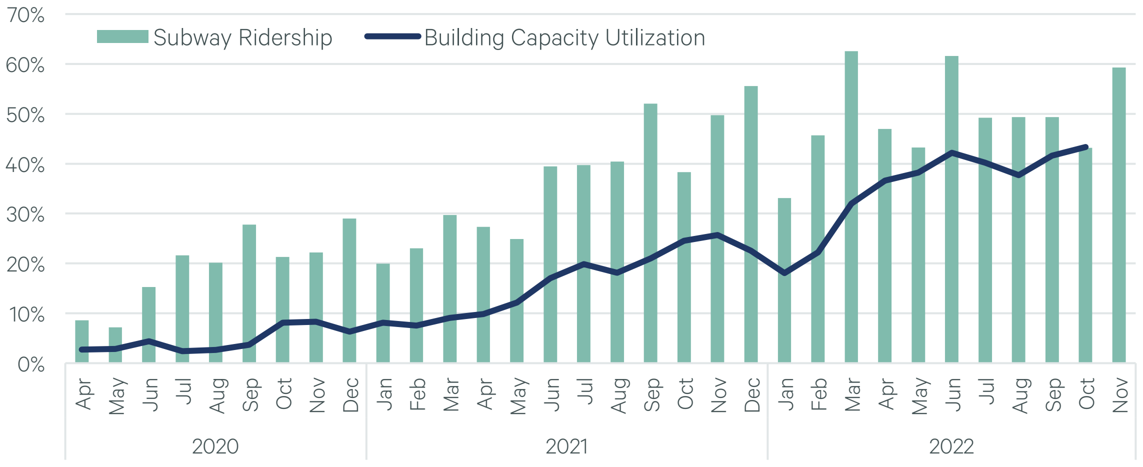
Office utilization continued to rise slowly but steadily, with even greater variance seen between the middle of the week and Mondays/Fridays. Average office tower capacity utilization mid-week, a measure of how many employees come into the office relative to a building's total capacity Tuesday - Thursday, increased to 43.3% in October, representing a 76% Y-o-Y increase. Mid-week usage is about 18% higher when compared to average Monday/Friday utilization, although all days are trending upward. ***When compared to the average of 72% capacity utilization on a given day pre-pandemic, it can be estimated that about 60% of employees are coming into the office mid-week compared to past levels.***

Even with the widely reported subway reliability issues and orange line shutdown from August to September, MBTA subway ridership continues to climb as well. Indexed against 2018/2019 levels and adjusted for seasonality, mid-week ridership rose to 59.3% through the end of November. Similar to office utilization, Tuesday – Thursday subway ridership is 12.6.% higher than Monday/Friday usage. Bus ridership hovered around 70% for most of the quarter, but then ticked up in recent months to end November at 74% of pre-pandemic levels.

Private Sector & Office-Using Employment

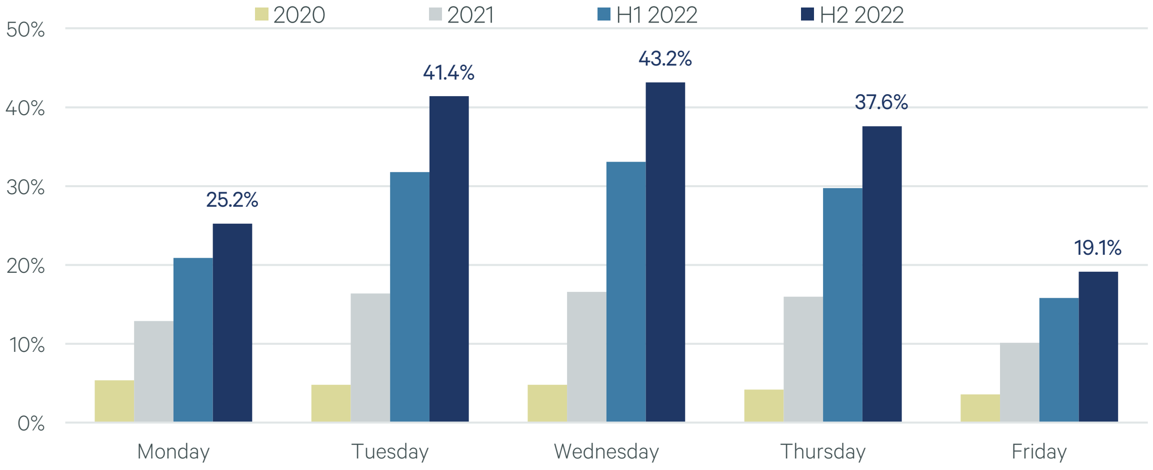
Boston private sector and office-using employment figures continued its march higher which has been consistent throughout the year. Even with looming recession concerns, both rose above their previous highs to 101% and 105% of the January 2020 average through the end of November 2022.

FIGURE 8: Mid-Week Office Capacity Utilization and Subway Ridership as percentage of pre-pandemic average.



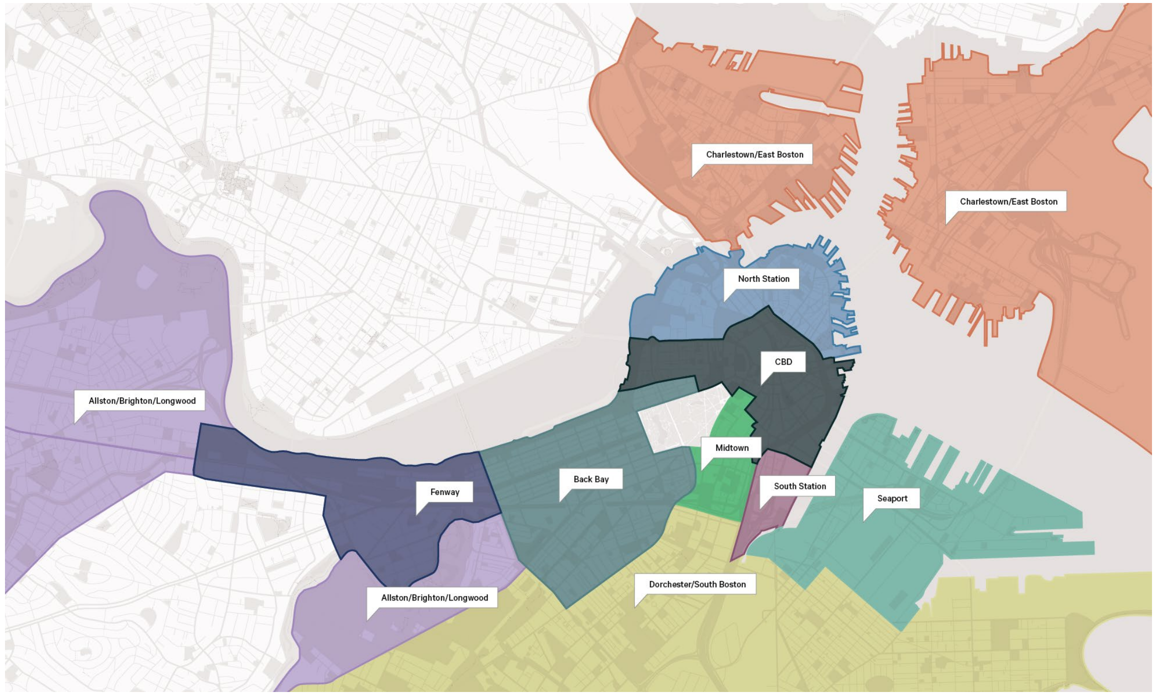
Source: CBRE, Inc. and MassDOT MBTA Gated Station Validations by line. Building occupancy is measured as percentage of total employee capacity and subway ridership is indexed against monthly 2019 average.

FIGURE 9: Boston Weekday Office Capacity Utilization by Day-of-Week



Source: CBRE Research, Q4 2022

Market Area Overview



Definitions

AVERAGE ASKING LEASE RATE: Rate determined by multiplying the asking gross lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary. GROSS LEASES: Includes all lease types whereby the tenant pays an agreed rent plus estimated average monthly costs of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.NET ABSORPTION: The change in occupied sq. ft. from one period to the next, as measured by available sq. ft. NET RENTABLE AREA: The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas. OCCUPIED AREA (SQ. FT.): Building area not considered vacant. UNDER CONSTRUCTION: Buildings that have begun construction as evidenced by site excavation or foundation work. AVAILABLE AREA (SQ. FT.): Available building area that is either physically vacant or occupied. AVAILABILITY RATE: Available sq. ft. divided by the net rentable area. VACANT AREA (SQ. FT.): Existing building area that is physically vacant or immediately available. VACANCY RATE: Vacant building feet divided by the net rentable area. NORMALIZATION: Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and vacancy figures for those buildings have been adjusted in previous quarters.

Survey Criteria

Includes all competitive buildings in CBRE's survey set for the Downtown Boston Office Market.

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