



COMMERCIAL YEAR END MARKET REPORT

2022 Overview | 2023 Forecast

FEBRUARY 2022

Boston Realty Advisors presents the 2022 market report for Multifamily Capital Markets, Office and Retail Leasing. 2022 started strong but finished in what were unrecognizable events just 12 months earlier. The U.S. economy survived numerous headwinds, including the war in Ukraine, rampant inflation, geopolitical risk, dramatic interest rates, a declining stock market, COVID-19, and the dramatic change in monetary policy. Together, these events may lead to a recession in 2023. The prospect of even a mild to moderate recession presents many challenges for the commercial real estate sector.

Multifamily investment in the Greater Boston area saw its second-best year in market history in 2022. Although deal flow decelerated due to high debt costs in Q3 and Q4, the demand for apartment and condo units stood firm. Forecasted outlooks are optimistic for institutional multifamily in the city, even as rent control legislature looms. The metro area is sure to have a strong turnaround from a slowed 2022 and hurdle the remaining effects of the post-pandemic years.

2022 was a successful year in the retail leasing sector and we are eager to see what 2023 holds. Despite the pervasive economic headwinds, retail once again has proved to be a survivor and has managed to enter 2023 with retail sales volumes up and vacancy rates down. Boston's strong core fundamentals coupled with a strong retail sector lead to a record number of new brands and store openings across the city in 2022. Boston continues to be one of the top US cities to attract global retailer attention and retail real estate investors.

Boston continues to be in the world spotlight as companies like LEGO select Boston for their U.S. Headquarters. Tech-focused cities will be more susceptible to job cuts and the cascade that follows in housing, office and retail vacancies.

Boston is by no sense unscathed from the global and national events of 2022, but Boston is better positioned for 2023 than many other markets. The greater Boston market has more diversification than other cities can only dream about. MEDS, EDS, TAMI, and FIRE combined with a highly skilled workforce make greater Boston a desirable place to live, work and play.

Sincerely,

JASON S. WEISSMAN

Founder & Senior Partner
Boston Realty Advisors

WILLIAM H. CATLIN, JR.

Managing Director & Sr. Partner
Boston Realty Advisors

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The background of the image is a detailed, light gray line-art map of a city. It features a complex street grid, a winding river that flows from the top left towards the bottom right, and various irregular shapes representing parks, lakes, and other urban features. The map is oriented horizontally.

MULTIFAMILY

2022

AT A GLANCE

MULTIFAMILY

\$4,500,000,000

TOTAL VOLUME | BOSTON, MA

\$491,000

AVERAGE PRICE/UNIT | **INCREASE** OF 7.23%



340

TOTAL TRANSACTIONS
DECREASE OF 16%

4.1%

AVERAGE CAP RATE
DECREASE OF 0.06%

\$560.1M

LARGEST TRADE
2 PROPERTY PORTFOLIO, 1,386 UNITS

5.1%

VACANCY RATE
INCREASE OF 0.87%

DEVELOPMENT

259,544

EXISTING UNITS | **INCREASE** OF 2.6%

16,781

UNITS UNDER CONSTRUCTION
INCREASE OF 14%

6,599

DELIVERIES | **DECREASE** OF 8.89%

4,076

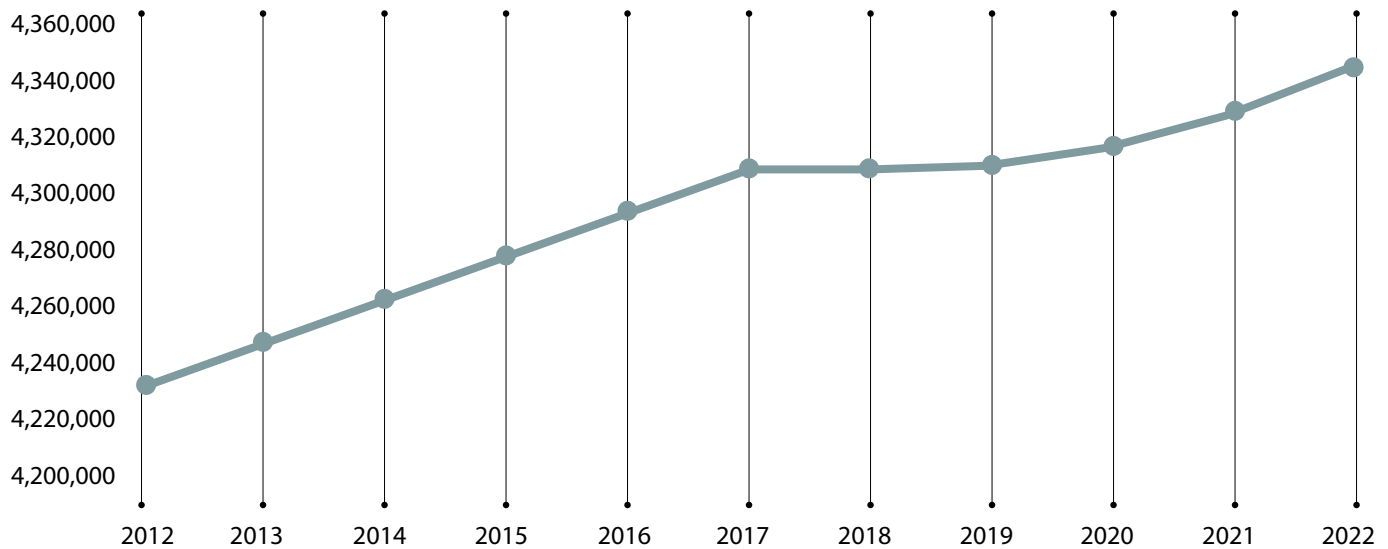
12 MONTH ABSORPTION



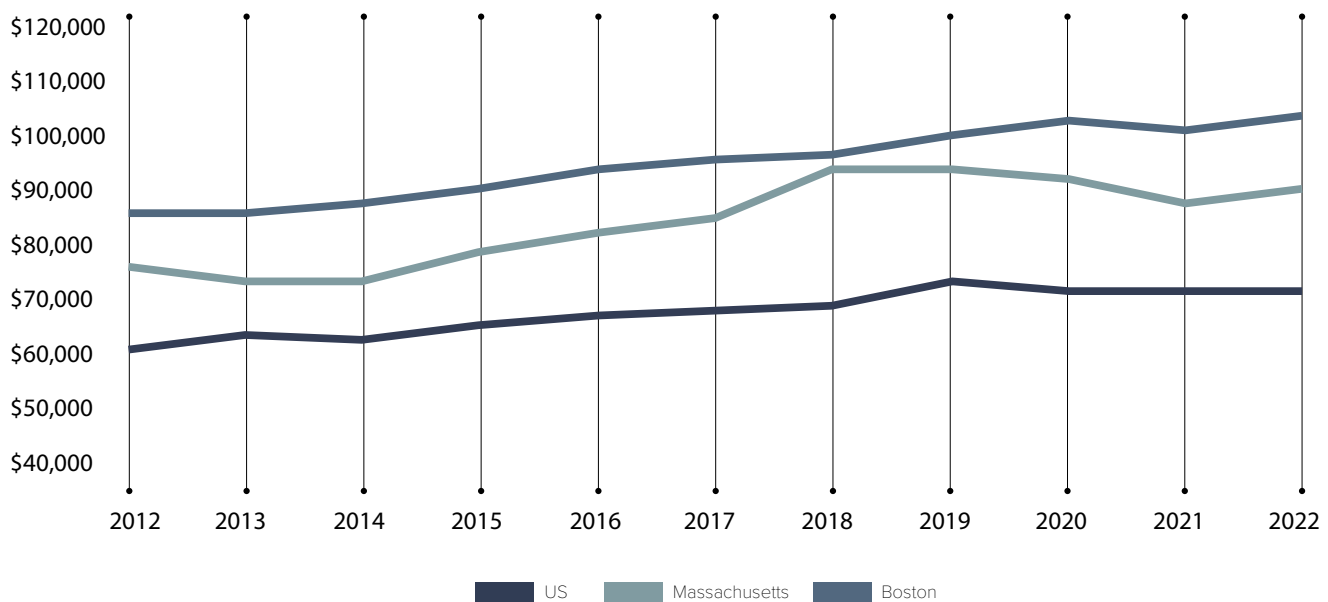
MACROECONOMIC SUMMARY

Population & Income

Population

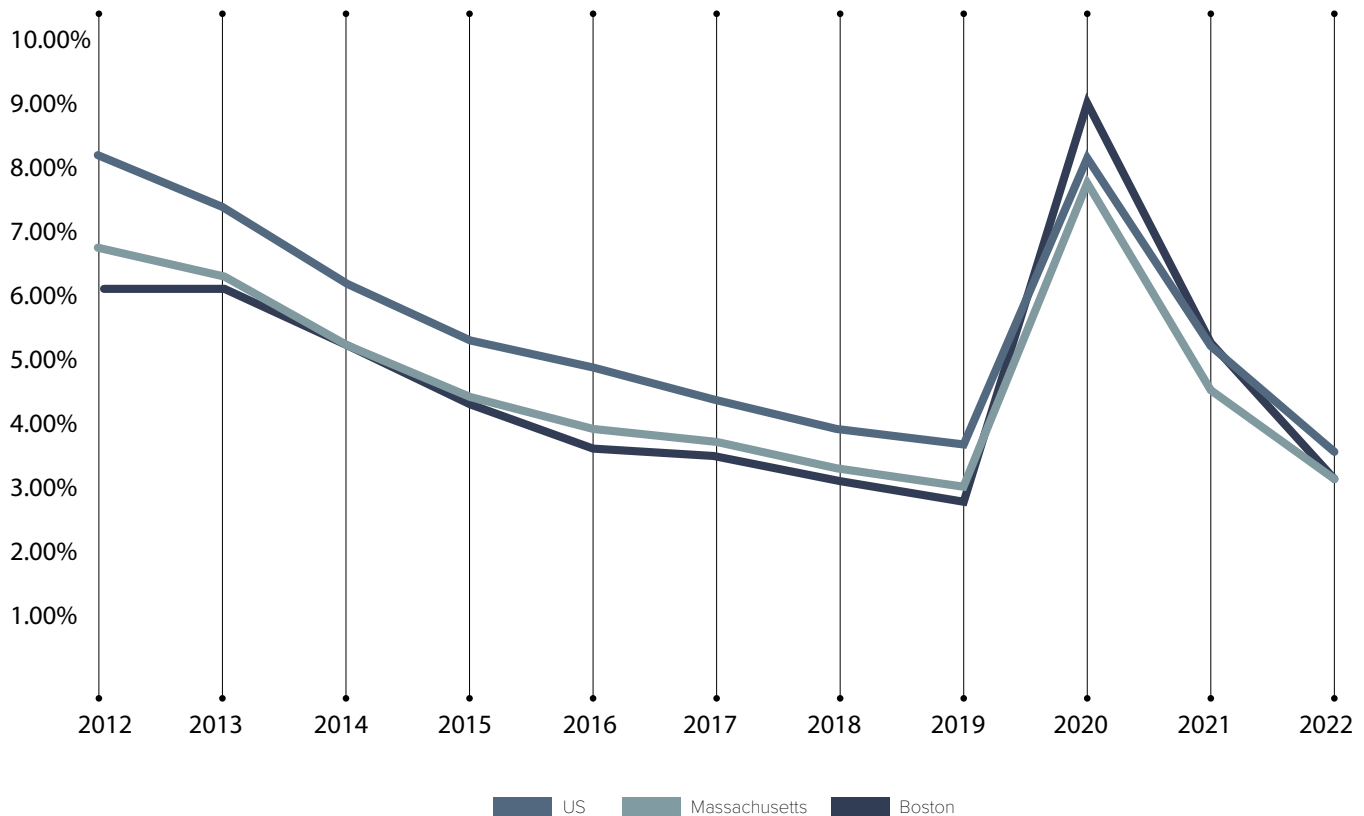


Average Household Income



MACROECONOMIC SUMMARY

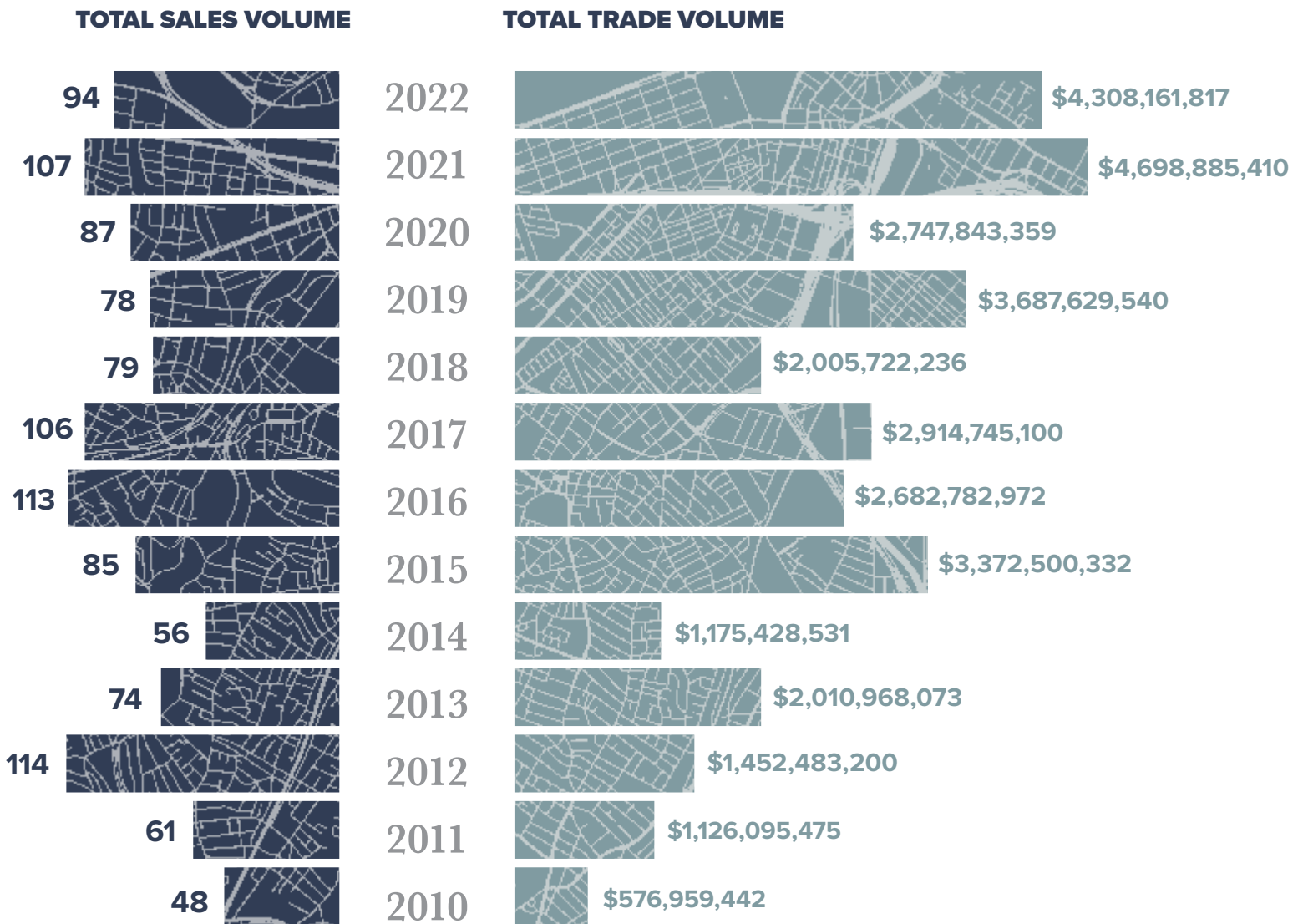
Unemployment



Boston continues to be one of the fastest growing cities in the United States fueled by a highly educated workforce, low unemployment, and consistent increases in average household income. In 2022, Greater Boston's population grew by 0.28% to over 4.327 million while the unemployment rate decreased to 3.20% (a 39% decrease from 5.3% in 2021). These factors in addition to the growth in average household income to over \$103k have led to extensive investment across all sectors. Housing to support the growing workforce and price inflations due to high demand are driving real estate investment in the Boston area beyond forecasted projections.

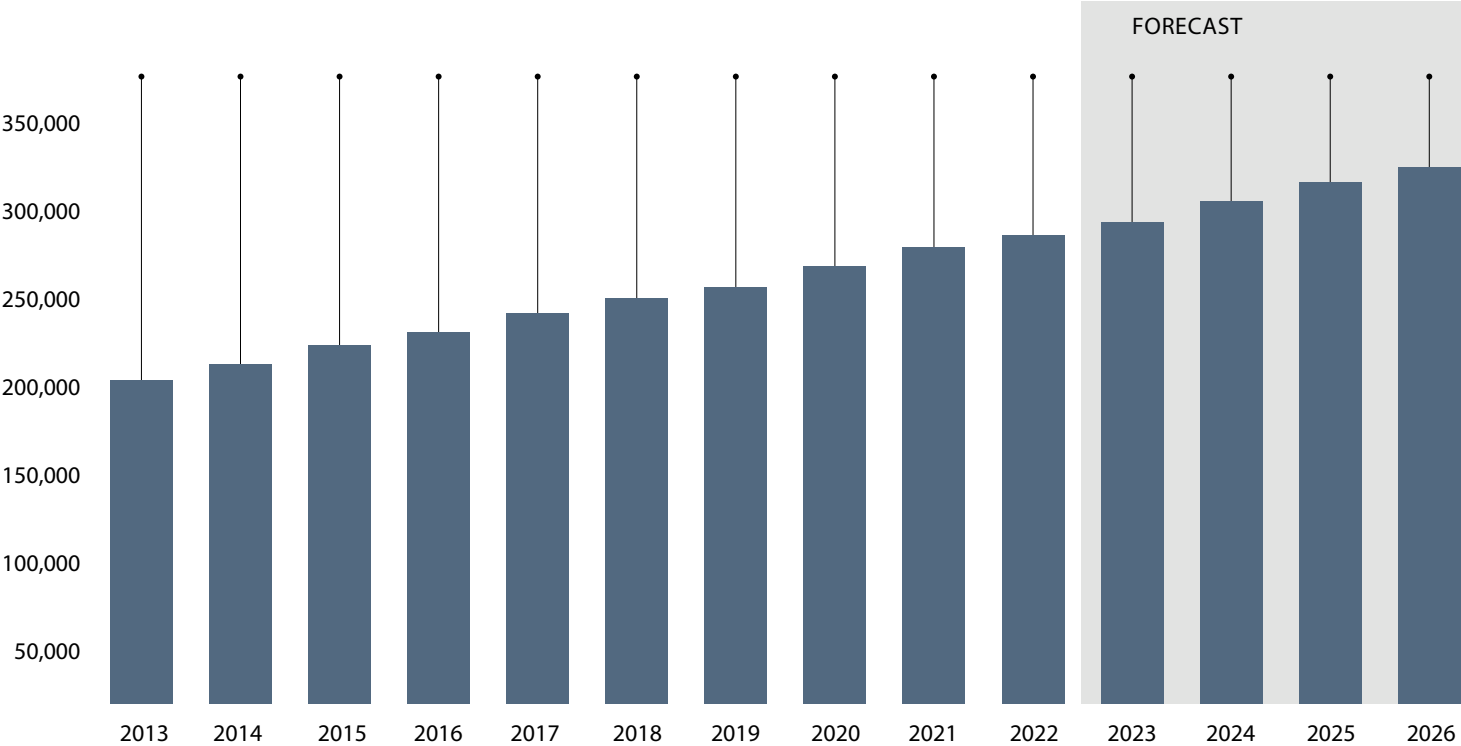
METRO BOSTON

Real Estate Overview | Sales Over \$5M



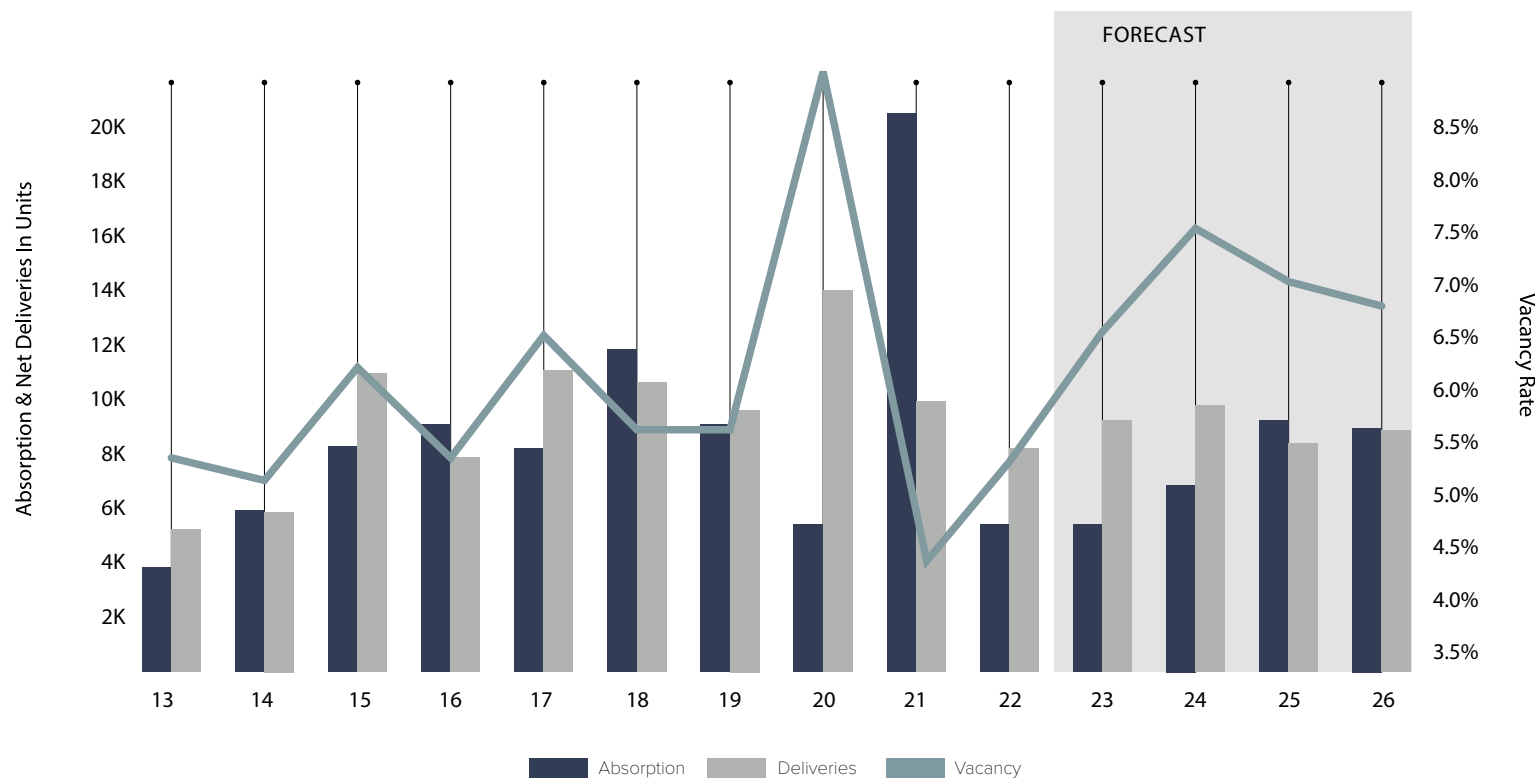
Sales volume in 2021 was the peak for the current real estate cycle when over \$4.8 billion worth of institutional multifamily assets traded on the back of stable interest rates and strong market fundamentals. 2022 was a productive year with a decrease in multifamily trades to \$4.5 billion. Class A apartment buildings drove sales volume, accounting for \$2.8 billion in confirmed transactions. An increase in interest rates in Q3 and Q4 of 2022 kept speculative buyers and developers on the sidelines, decreasing total investment in the second half of the year.

MULTIFAMILY INVENTORY



2022 saw a 3.7% increase in multifamily inventory from 2021. Across the city, a strong development pipeline and project completions continue to drive inventory. The urban core submarkets (Financial District and Bay Bay/South End) have seen the most inventory increases over the past 5 years but are expected to slow starting in 2024. Allston/Brighton has strong forecasted projections with inventory units equaling and surpassing the metro core over the next several years. With high rents and housing prices, the city can expect a movement to secondary and tertiary markets that have begun increasing unit counts.

SUPPLY & DEMAND



The Boston real estate market saw supply and demand return to stable levels in 2022. After a hot 2021 with vacancy rate falling below 4.5%, there was a market cooling in which vacancy increased to 5.5%. Net deliveries decreased by 1,500 units YOY and absorption remained at pandemic level numbers. Macroeconomic factors such as interest rate and construction cost increases led to less development and stalled deliveries throughout the second half of the year. Looking ahead, net deliveries are forecasted to increase through 2024 followed by absorptions in 2025 and 2026. As the interest rate environment stabilizes and pricing expectations come to ahead, Boston’s supply and demand will begin to get back on track over the next 6-8 quarters.

BOSTON RENTS

Boston remains one of the most desirable cities to live in the United States. Because of this, rental rates are extremely competitive, putting it at #3 for highest average rent in major cities across the country. Investment in higher education, health care, and financial services along with a strong working class allow for continued rent expansion in Boston.

New York

\$3,260

+30.4% YOY



San Francisco

\$2,910

+9.8% YOY



Boston

\$2,660

+27.3% YOY



Miami

\$2,500

+38.9% YOY



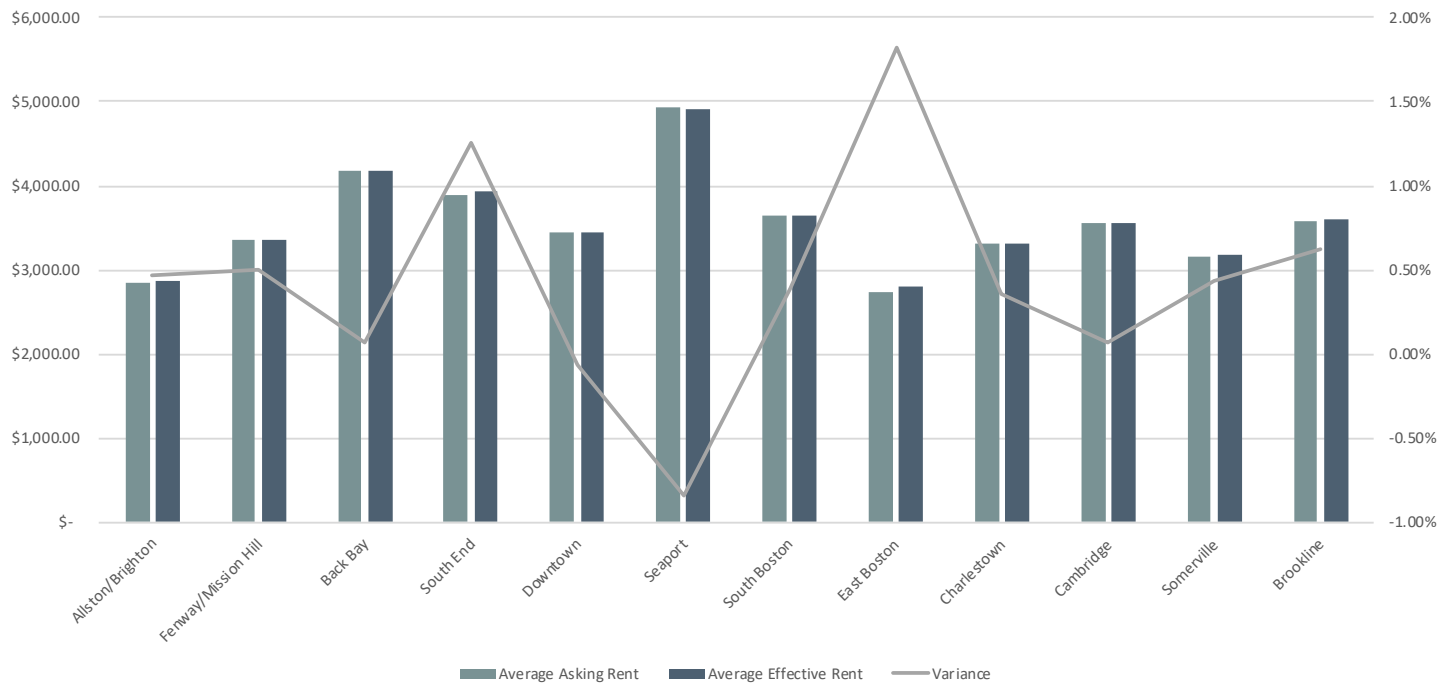
San Jose

\$2,420

+15.2% YOY



BOSTON SUBMARKETS



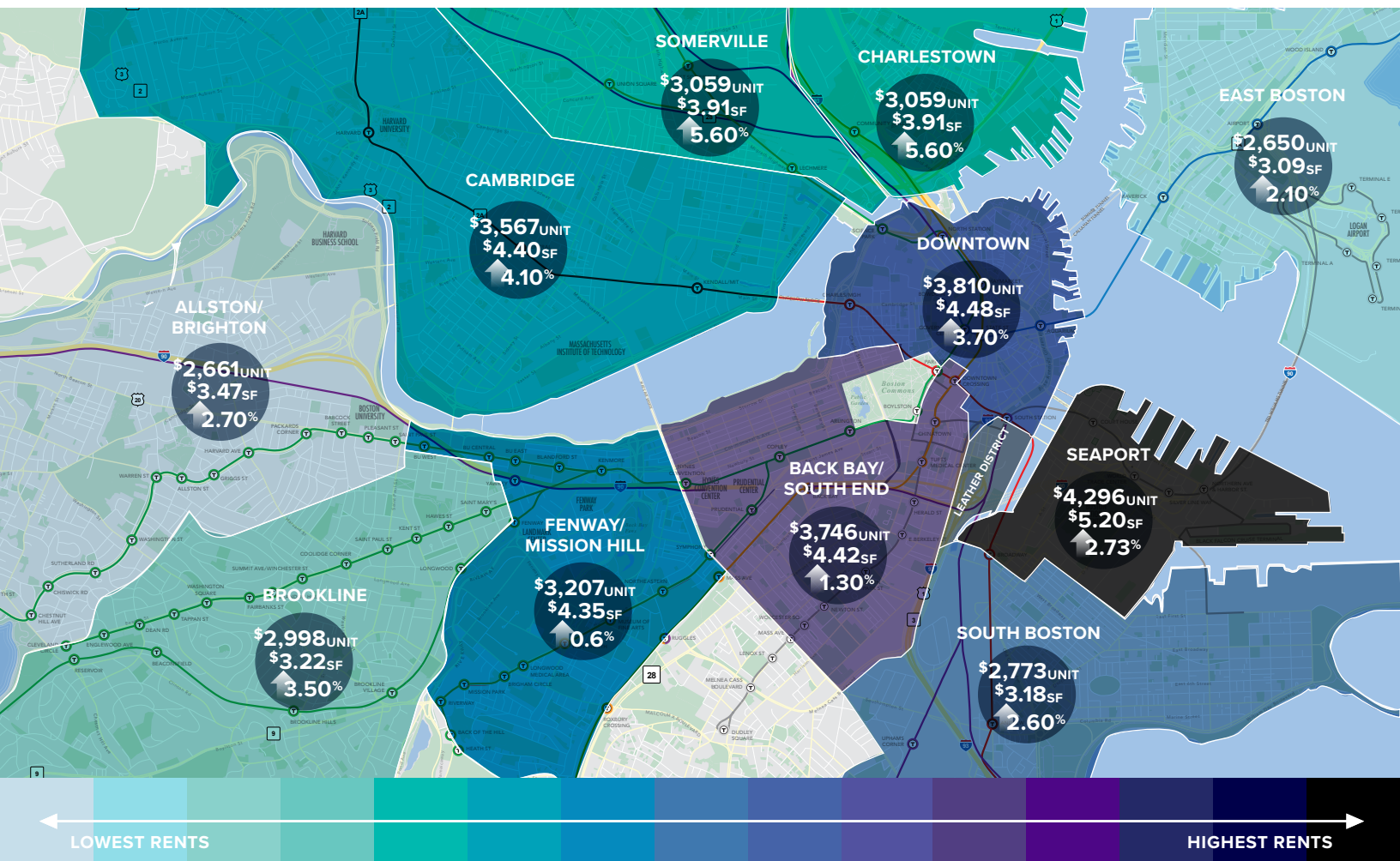
Asking vs Effective Rents

	Average Asking Rent	Average Effective Rent	Variance
Allston/Brighton	\$2,854.13	\$2,867.55	0.47%
Fenway/Mission Hill	\$3,347.48	\$3,364.43	0.51%
Back Bay	\$4,173.21	\$4,176.16	0.07%
South End	\$3,884.53	\$3,933.45	1.26%
Downtown	\$3,450.04	\$3,447.95	-0.06%
Seaport	\$4,941.55	\$4,900.05	-0.84%
South Boston	\$3,636.11	\$3,650.43	0.39%
East Boston	\$2,744.31	\$2,794.18	1.82%
Charlestown	\$3,303.07	\$3,315.04	0.36%
Cambridge	\$3,562.70	\$3,565.35	0.07%
Somerville	\$3,157.43	\$3,171.24	0.44%
Brookline	\$3,586.35	\$3,608.60	0.62%

Throughout the submarkets of Boston, asking vs effective rents had varying differences this past year. East Boston and the South End led the way with the largest difference with 1.82% and 1.26% respectively. East Boston was able to achieve higher rents due to new development and deliveries in the in the rapidly expanding market. The South End boomed in 2022 which is attributable to several new projects and the attractive brownstone townhomes. Conversely, the Seaport and Downtown had an inverse result with effective rent spreads being -0.84% and -0.06% respectively. Higher asking rents and a declining “landlord-market” in these areas led to this difference. Core markets such as Back Bay, South Boston, and Cambridge had the least “bid-ask” rental spreads, showing strong stability.

SUBMARKET BREAKDOWN

Rents



The urban core led the Boston Metro area in monthly rent with Seaport averaging \$4,296/month followed by Downtown at \$3,810/month. Excluding Fenway/Mission Hill, all major submarkets saw rental rate increases of 2.6% or greater in 2022 creating a healthy rental market across the city.

Seaport, Downtown, and Back Bay/South End are expected to remain at the top of Boston's rental market through the next real estate cycle. With the recent Boston Planning and Development Agency (BPDA) downtown re-use request for proposal, the submarket will see an increased supply of housing units and in return, increased rental rates. New high-rise living downtown will fuel rental developments across the metro area strengthening secondary markets such as East Boston, Allston-Brighton, and South Boston/Dorchester.

The Urban Core market encompasses all submarkets within Boston Proper, Brookline, Cambridge and Somerville

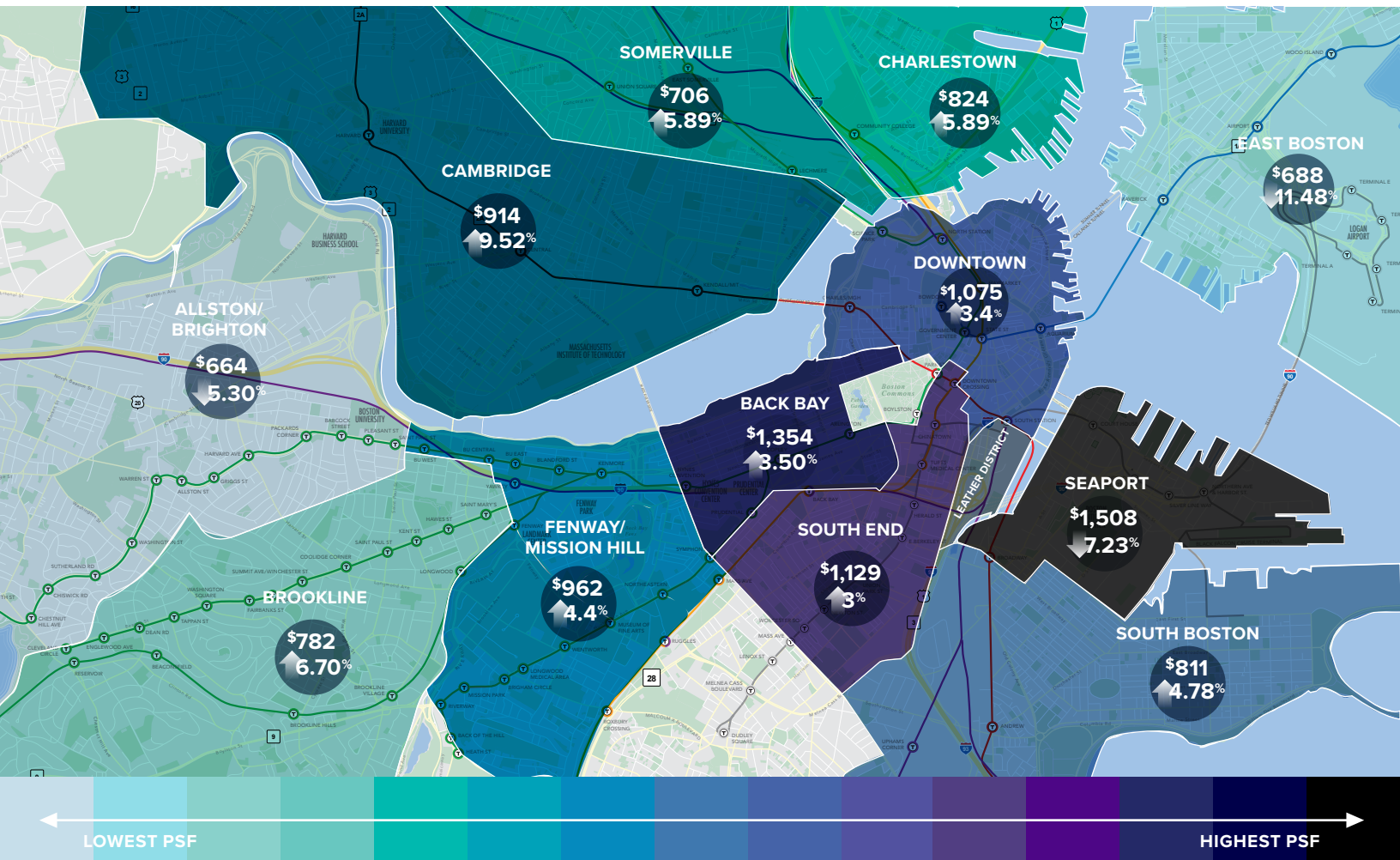
* Map represent 12-month increases

* Data excludes shadow inventory

Source: MLSPin

SUBMARKET BREAKDOWN

Condo



Boston was ranked the 3rd most expensive city in the nation in 2022 with over six of its neighborhoods surpassing \$900 for average condominium Price Per Square Foot (PSF). Boston's Seaport District known for its upscale retail and stunning city line views remains the city's most exclusive neighborhood, with an average PSF of \$1,508, surpassing the Back Bay at \$1,354 PSF.

With an influx of new mixed-use development and historic brownstones, the South End has emerged as one of Boston's premier neighborhoods, with its average PSF reaching \$1,129. However, as the appetite for affordability continues to grow, the Urban Core will expand into new territories, pushing north into Lynn and south into Quincy. Markets such as Allston / Brighton, Somerville, and East Boston have already benefited from transit-oriented developments, where low-rise stick frame construction provides a reduced cost per square foot unlike the traditional mid-to-high rise in downtown.

The Urban Core market encompasses all submarkets within Boston Proper, Brookline, Cambridge and Somerville

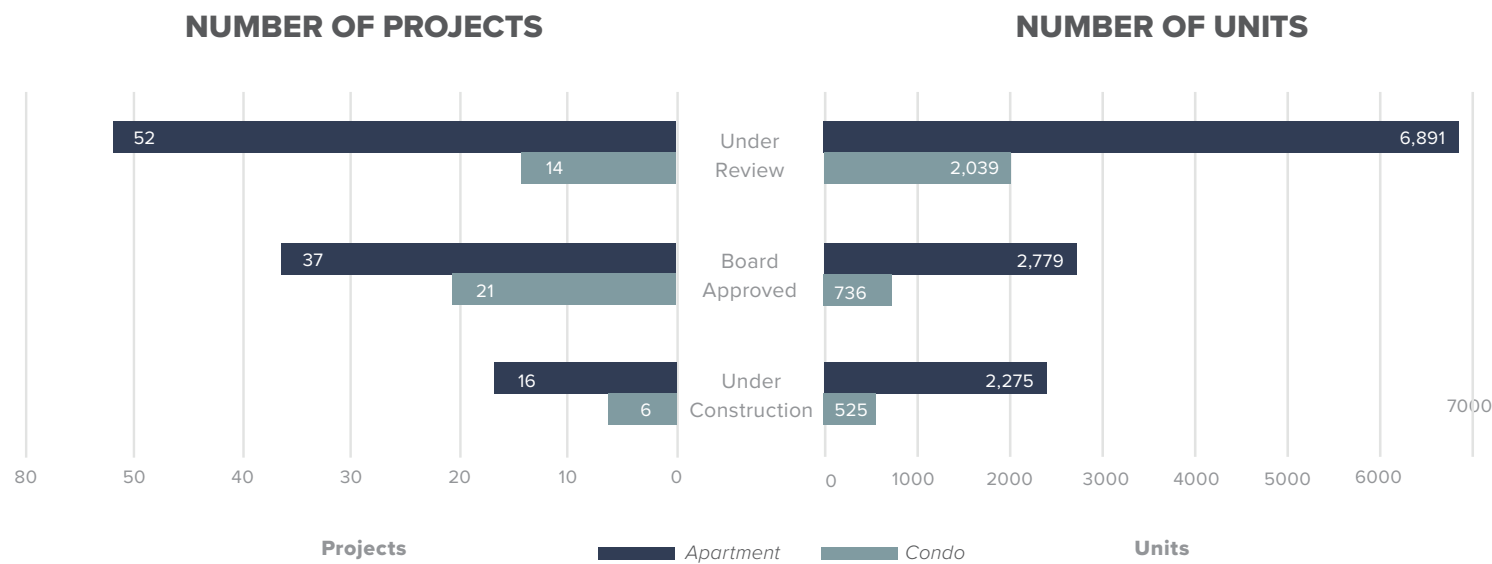
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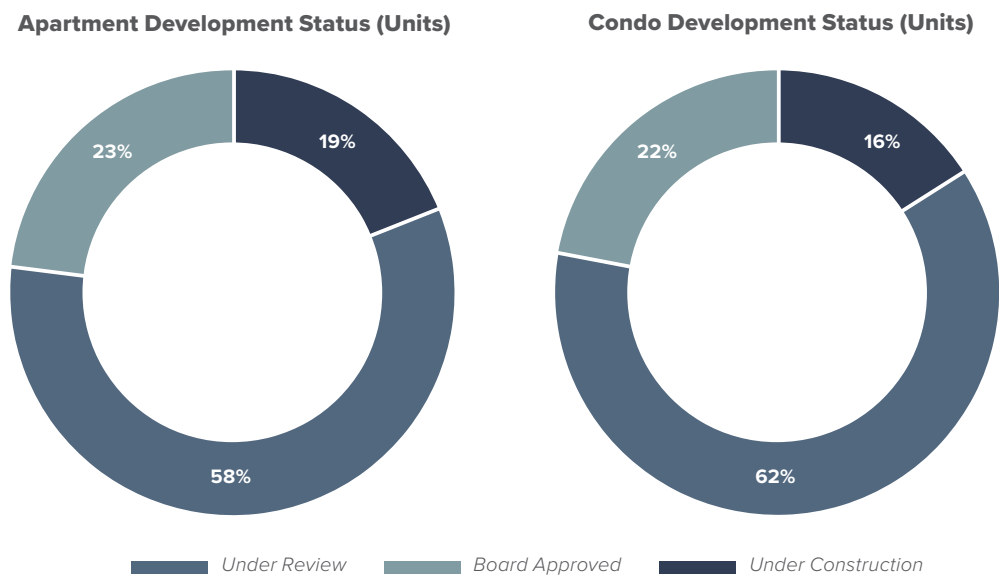
Source: MLSPin

NEW PRODUCTS

Apartment vs Condo



Boston’s development pipeline has 57 apartment and 27 condo projects approved or under construction. There is a disproportionate ratio between rental and ownership units (~4:1) that went through the approval process in 2022. Construction costs in the second half of 2022 reached highs of \$450/sf, which did not allow for stable returns on condo builds. The BPDA still has thousands of units under review that will bring exciting new projects to the city over the next 5-10 years.



Source: BPDA

FINANCING BREAKDOWN

2022 Interest Rates

10-YEAR TREASURY

	DECEMBER 2021	JUNE 2022	DECEMBER 2022
ACTUAL	1.48%	3.02%	3.48%
↑ 6-MONTH		+104.74%	+15.16%
↑ 12-MONTH			+135.77%

FEDERAL FUNDS RATE

	DECEMBER 2021	JUNE 2022	DECEMBER 2022
ACTUAL	0.08%	1.21%	3.78%
↑ 6-MONTH		+1412.50%	+212.40%
↑ 12-MONTH			+4625.00%

30-DAY AVERAGE SOFR RATE

	DECEMBER 2021	JUNE 2022	DECEMBER 2022
ACTUAL	0.05%	0.77%	3.80%
↑ 6-MONTH		+1440.00%	+393.51%
↑ 12-MONTH			+7500.00%



CORPORATE LEASING

OFFICE MARKET OVERVIEW – YEAR END 2022

Boston | Cambridge

Year Over Year

	CLASS A	CLASS B
Availability (INCL SUBLEASE)	12.6%	17.6%
Direct Asking Rent	\$78.56	\$52.96

Historical 2019-2022

		CLASS A		CLASS B
Availability (INCL SUBLEASE)	↑	59.2%	↑	86.1%
Direct Asking Rent	↑	\$0.81	↓	\$4.59

2022 Year in Review

The 2022 Boston/Cambridge office market suffered broadly from a Pandemic Hangover, posting increasing availability and flat to slightly negative asking rents year over year. The early optimism and robust leasing momentum in the spring of 2022 quickly cooled from rising inflation and the corresponding Federal Reserve response through interest increases. By Summer of 2022, recovery hopes were replaced by recession fears, and the demand side of the market rate waned into the Fall.

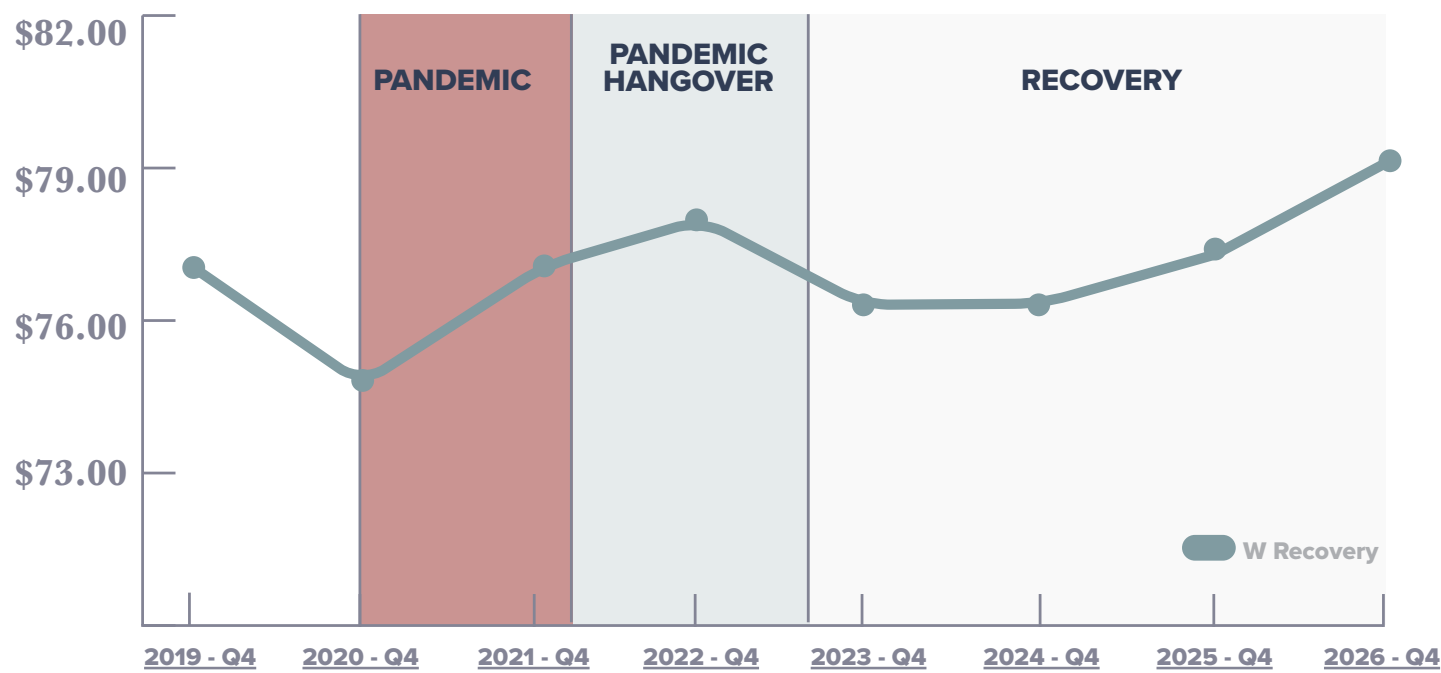
The tech sector pullback in the 2nd half of 2022 led to more sublease space added to the market cancelling out the absorption gains in the 1st and 2nd quarters. Continued emphasis on remote work, an increasingly challenging fundraising environment, diminished valuations from the public market, and layoffs are all playing a part. This recent trend most pointedly supports recessions concerns.

Although a quick recovery may be out of the question, asking rents in all Boston and Cambridge submarkets were resilient, remaining down 10% overall since peaking in 2019. The primary leasing trend continues to be “flight to quality,” as tenants value new and improved buildings/spaces to entice employees back to the office. This is true for large tenant deals (Bain & Co @ 350 Boylston, HarbourVest @ 1 Lincoln, InterSystems Corp @ 1 Congress, and McKinsey @ 1 Winthrop) and smaller middle market deals. The quality and functionality of the space remain paramount for tenants, outweighing any rent premium for the building. Building amenities are also an essential element being evaluated by tenants in the market.

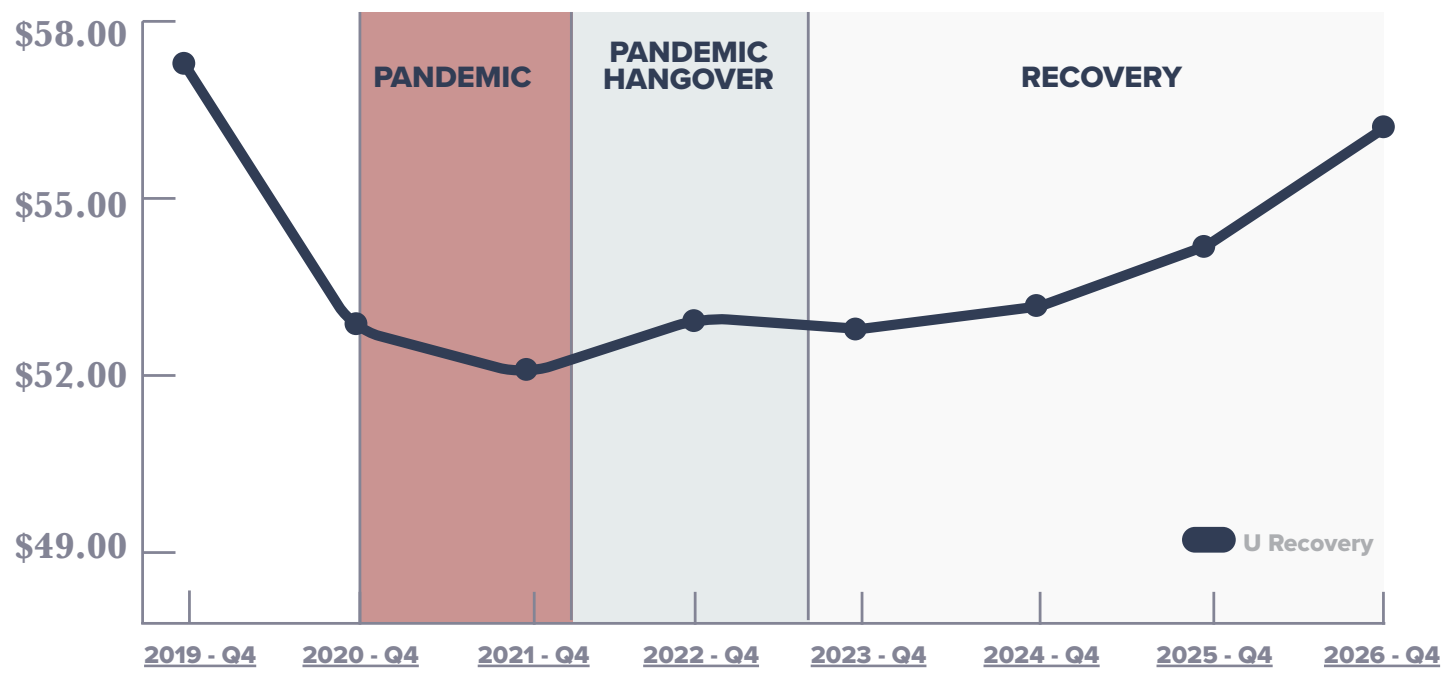
POST PANDEMIC RECOVERY

Boston | Cambridge

CLASS A



CLASS B



2023 MARKET FORECAST

The 2022 Boston/Cambridge office market began as a pandemic market and transitioned into a more traditional recession market. The early pandemic optimism of a quick recovery has now faded, and the path forward for both landlords and tenants is clearer. Looking ahead into 2023, a recession market is more predictable, one reliant on supply/demand market fundamentals. Leverage will be clearly in favor of tenants for the near term.

In 2023, expect historically high concession packages to continue in Class A and B buildings due to high construction costs and competition among landlords. Pre-built spec suites under 25,000 SF and newly renovated buildings will continue to outperform the broader market. These trends will allow landlords to hold asking rents; however, the greater deal costs will see effective rents 15-20% lower than face rents. As a result, owners with low or no basis will opt to lower rents further. This strategy has proven unsuccessful but was historically effective in a recession market.

Tenant demand will rebound in 2023 from the Pandemic Hangover of 2022, although expect absorption levels to be modest as tenants right-size, downsize, or shutter offices with increased economic uncertainty. The return-to-work enigma will likely resolve itself as the employment market softens. The employer/employee relationship will shift in favor of the employer, giving executives more confidence to reestablish in-office work policies.

The biggest story of 2023 could be the mark-to-market fallout caused by loan maturity dates. With over 5 billion in debt maturing in 2023 and 2024, many building owners will be forced to realize losses in building value. Those with significant vacancies may be forced to sell or even be foreclosed on. This could have a more considerable ripple effect across the market. *Time will tell...*

Robert LeClair

Managing Director & Partner

Boston Realty Advisors

YEAR END 2022 – BY SUBMARKET

Boston | Cambridge

Class A

	FINANCIAL DISTRICT	BACK BAY	SEAPORT	NORTH STATION	EAST CAMBRIDGE	MID CAMBRIDGE	ALEWIFE
DIRECT ASKING RENT	\$76.51_{SF}	\$78.99_{SF}	\$75.81_{SF}	\$69.01_{SF}	\$101.45_{SF}	\$66.95_{SF}	\$68.21_{SF}
CHANGE SINCE 2019	3.84%	22.1%	4.10%	23.6%	0.3%	1.6%	0.6%
DIRECT AVAILABILITY	13.6%	6.8%	3.4%	6.8%	2.6%	0.8%	4.4%
SUBLEASE ASKING RENT	\$47.37_{SF}	\$48.27_{SF}	\$67.26_{SF}	\$71.63_{SF}	\$92.91_{SF}	\$53.32_{SF}	\$45.00_{SF}
AVAILABILITY W/SUBLEASE	18.6%	11.1%	4.9%	10.8%	7.0%	1.3%	6.1%

Class B

	FINANCIAL DISTRICT	BACK BAY	SEAPORT	NORTH STATION	EAST CAMBRIDGE	MID CAMBRIDGE	ALEWIFE
DIRECT ASKING RENT	\$48.29_{SF}	\$65.84_{SF}	\$59.25_{SF}	\$47.42_{SF}	\$78.22_{SF}	\$62.43_{SF}	\$54.88_{SF}
CHANGE SINCE 2019	15.4%	7.7%	2.5%	12.0%	15.5%	6.7%	4.6%
DIRECT AVAILABILITY	22.2%	21.6%	10.3%	19.2%	4.2%	7.0%	5.6%
SUBLEASE ASKING RENT	\$36.59_{SF}	\$45.19_{SF}	\$49.80_{SF}	\$40.44_{SF}	\$83.79_{SF}	\$62.27_{SF}	\$39.72_{SF}
AVAILABILITY W/SUBLEASE	25.7%	23.2%	16.4%	20.4%	15.3%	9.2%	11.3%

Market Drivers

HYBRID WORK
SPACE RECALIBRATION

TENANT DEMAND
RENT RECALIBRATION



RETAIL LEASING

RENT: HIGH STREET RETAIL

\$150^{PSF}
Harvard Square

\$150^{PSF}
Back Bay

\$140^{PSF}
Seaport District

\$100^{PSF}
Beacon Hill

\$100^{PSF}
Financial District

\$85^{PSF}
South End

HIGHLAND
PARK VILLAGE

\$175^{PSF}

NEWBURY STREET

\$225^{PSF}

#9

outperforming
its neighborhood

WALNUT STREET

\$225^{PSF}

M STREET

\$230^{PSF}

LINCOLN ROAD

\$350^{PSF}

KALAKUA AVE

\$420^{PSF}

MICHIGAN AVE

\$480^{PSF}

UNION SQUARE
SAN FRANCISCO

\$650^{PSF}

RODEO DRIVE

\$660^{PSF}

FIFTH AVENUE

\$3,617^{PSF}

Top 10 Performing
Streets Nation Wide

*Rents are average psf+NNN costs

VACANCY RATE

HARVARD
SQUARE

2.7%

BACK BAY

5.7%

SEAPORT

0.3%

BEACON HILL

1.3%

FINANCIAL
DISTRICT

6.3%

SOUTH END

0.3%

12 MONTH GROWTH

2.8%

5.1%

5.4%

4.2%

5.9%

4%

NEWBURY STREET

NEW RETAILERS OPEN 2022

PATEK PHILIPPE • ZEGNA • INTIMISSIMI • BUCK MASON
BREITLING • MEJURI • A LANGE & SÖHNE • HUBLOT
PHO REAL • BOSTON DIAMOND • EVA RESTAURANT
BURROW FURNITURE • NAMES FOR GOOD • CUSTOMINK
BOND VET • EXPRESS EDIT • OUTERKNOWN • TREND
GOOD LIFE • SKIN LAUNDRY • THIRD LOVE • NEW BALANCE
LEVAIN BAKERY • ACEITUNA GRILL • LAZZONI FURNITURE
VUORI • FREEBIRD • FACCIA A FACCIA • JOHNNY CUPCAKES
SAATVA • PARACHUTE HOME

COMING 2023

ABERCROMBIE & FITCH • GLOSSIER
MOSCOT • ANTHROPOLOGIE



63%

OF THE

35

OPENINGS WERE

First to Market National Brands



NEW RETAILERS OPEN 2022



48%
OF THE
29

OPENINGS IN
SEAPORT WERE

**First to Market
National Brands**

SEAPORT DISTRICT

ALO • SERAFINA • AESOP • THAZIA • LUCID • STIO
MECHA NOODLE BAR • BLUE BOTTLE • TODD SNYDER
LUNYA • VINCE • FRAMEBRIDGE • MIZNON • KOKODA
LE LABO • RAG & BONE • SCOTCH & SODA • MACK WELDON
HAIR SEAPORT • CRÉMIEUX • LEVI'S • PUTTSHACK • TONAL
LITTLE WORDS PROJECT • BOND VET • GRACE LOVES LACE

COMING 2023

STUBBY'S • ALAMO DRAFTHOUSE CINEMA • GRACE BY NIA

COPLEY PLACE

MICHELE LOPRIORE • BALENCIAGA • PARM
ALEXANDER MCQUEEN • THOM BROWNE

PRUDENTIAL CENTER

ALLBIRDS • OAK + FORT • SHAKE SHACK

COMING 2023

ALO • HARVARD BOOKSTORE



HARVARD SQUARE

EL JEFE'S • CENTRAL ROCK GYM • TIGER SUGAR • BAR ENZA
STARBUCKS • GONG CHA • BOSSO RAMEN TAVERN • TAIYAKI
LE MACARON • BEAT BREW HALL • BRATO BREWHOUSE • F45
FRIENDLY TOAST • WUSONG ROAD TIKI BAR • LIFE ALIVE
SOURCE RESTAURANTS • BEN & JERRY'S

COMING 2023

JP MORGAN CHASE • JOE'S PIZZA • SHADE STORE • FEDEX
CAVA • COOKIES



MUST VISIT IN 2023



HIGH STREET PLACE | FOOD HALL
100 HIGH STREET | BOSTON, MA



STUBBY'S | SEAPORT SQUARE
43 NORTHERN AVE | BOSTON, MA



CENTRAL ROCK GYM | THE ABBOT
1-30 BRATTLE STREET | CAMBRIDGE, MA



WAVERLY | KITCHEN & BAR
231 BUNKER HILL ST | CHARLESTOWN, MA



SILVER DOVE | TEA ROOM
18 TREMONT STREET | BOSTON, MA



PORTICO BREWING | BOYNTON YARDS
101 SOUTH STREET | SOMERVILLE, MA