CORPORATE LEASING

COMMERCIAL YEAR END MARKET REPORT

2022 Overview | 2023 Forecast

Boston Realty Advisors

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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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.

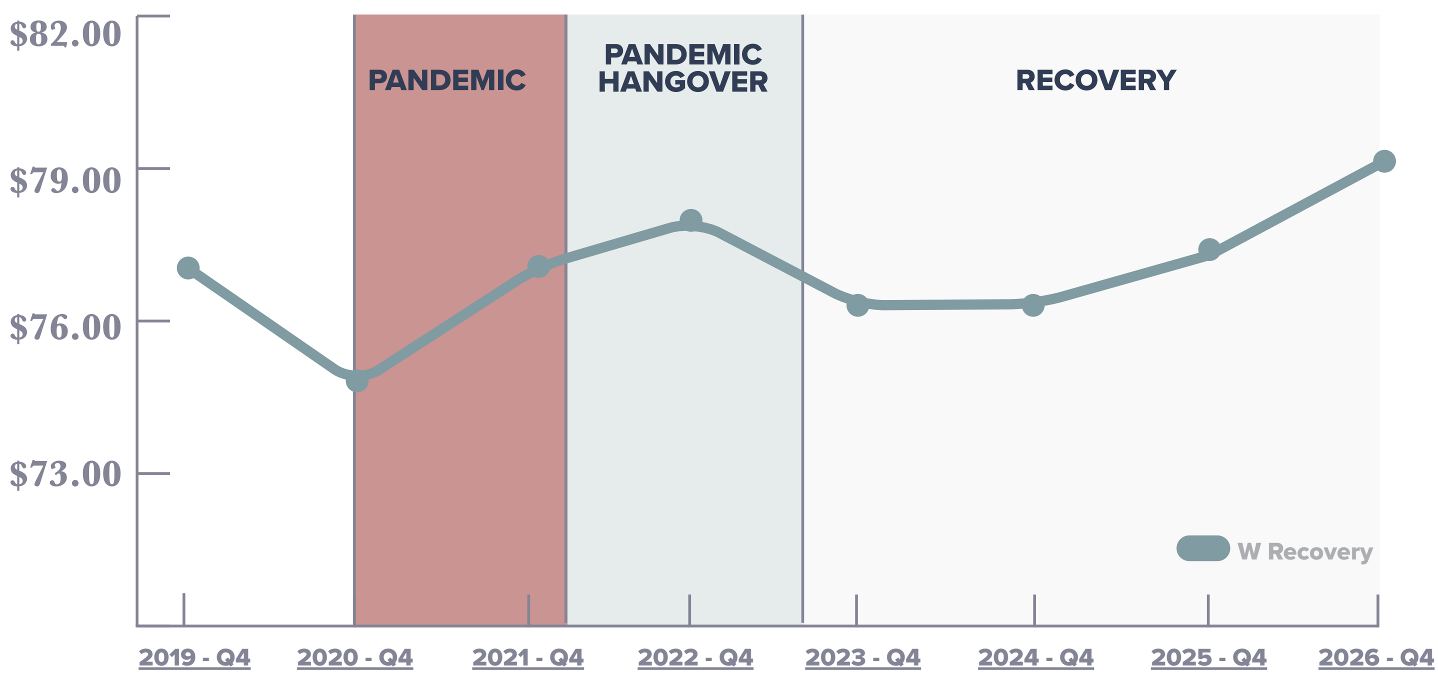
The tech sector pullback in the 2nd half of 2022 led to more sublease space added to the market cancelling out the absorption gains in the 1st and 2nd quarters. Continued emphasis on remote work, an increasingly challenging fundraising environment, diminished valuations from the public market, and layoffs 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.

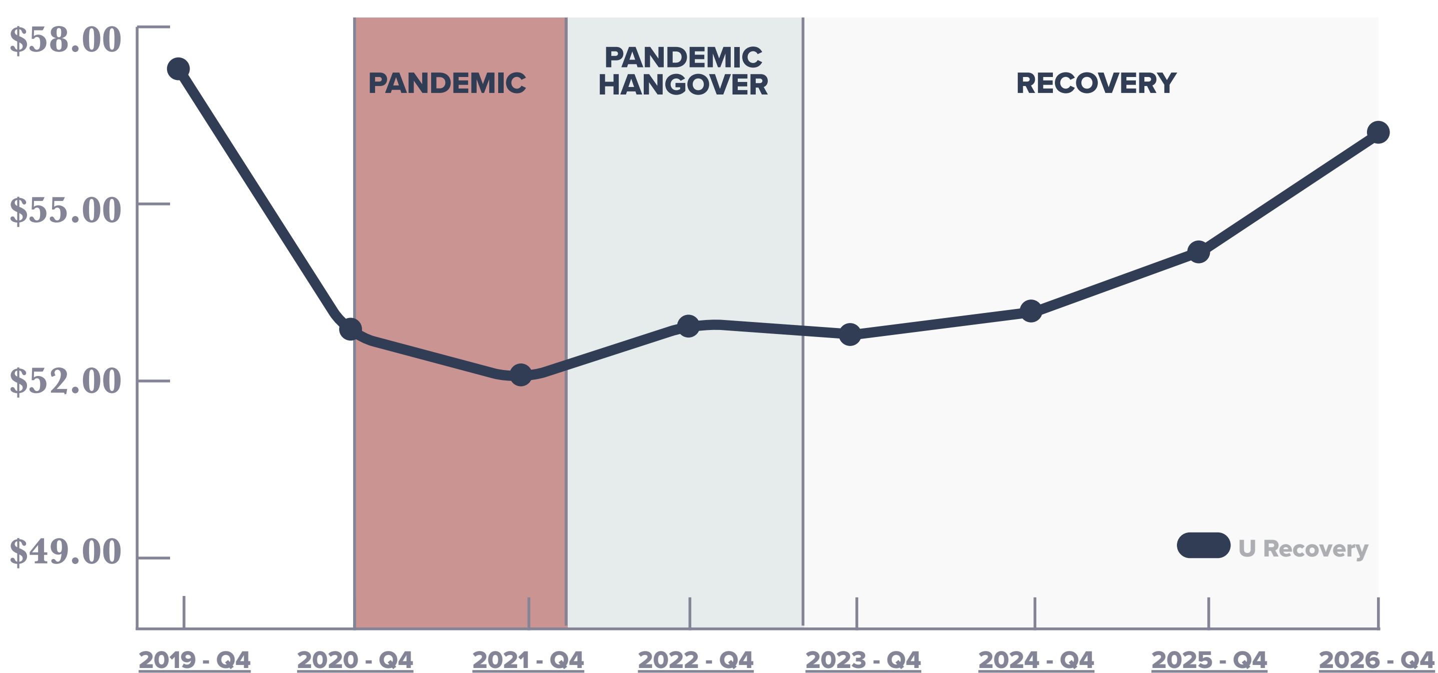
POST PANDEMIC RECOVERY

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	$76.51SF	$78.99SF	$75.81SF	$69.01SF	$101.45SF	$66.95SF	$68.21SF
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	$47.37SF	$48.27SF	$67.26SF	$71.63SF	$92.91SF	$53.32SF	$45.00SF
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	$48.29SF	$65.84SF	$59.25SF	$47.42SF	$78.22SF	$62.43SF	$54.88SF
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	$36.59SF	$45.19SF	$49.80SF	$40.44SF	$83.79SF	$62.27SF	$39.72SF
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