



COMMERCIAL MID-YEAR 2023 MARKET REPORT

Multifamily | Office | Retail

JULY 2023

Boston Realty Advisors presents the 2023 market report for Multifamily Capital Markets, Office and Retail Leasing.

Despite entering 2023 with an unclear outlook, the end of Q2 proves that Boston remains one of the most in-demand housing markets in the country, even amidst rocky macroeconomic conditions and a tightening fiscal policy. According to Q2 trends, rising mortgage rates are driving down sales volume and sale prices while increasing demand for rentals. At the same time, economic uncertainty is slowly driving up vacancies. Asking rents in the metro area have experienced a steady, inline increase from the year prior but are expected to slow through the rest of the year. The development pipeline is also slowly shrinking, with fewer units underway than last year, mainly of suburban mid-rise products. All in all, these key indicators indicate that Boston's multifamily market is resilient against the tough macroeconomic scene.

The Boston office market continued to struggle with availability at just under 18%, which is a 20-year high. Additionally, new deliveries continue to attract tenants from legacy assets. Since the pandemic's start, the flight to quality has been relatively equal between Class A and Class B.

Return-to-office mandates have seen a positive uptick in recent months. MBTA ridership has increased on Tuesdays through Thursdays, and Mondays have also seen increased activity. Those who travel on the roadways will say traffic has never been worse during commuting hours since the pandemic.

The retail sector's overall fundamentals have proven solid, even amid challenges such as bank turmoil, rising interest rates, and the possibility of a recession. Surprisingly, consumer spending remained strong throughout the first half of 2023, a trend that experts believe will persist. While consumers exercise thoughtfulness in their spending habits, retail sales in the U.S. have maintained their strength, with brick-and-mortar stores remaining as important as ever.

Most retail indicators are showing promising signs, indicating a positive outlook. However, it's important to note that not all retailers will experience a strong year, as the performance will likely vary among merchants. Leasing dynamics may also differ depending on the individual businesses. Nonetheless, strong real estate is expected to continue attracting robust tenants, leading to the ongoing signing of favorable deals in the retail sector.

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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MULTIFAMILY

2023

YEAR TO DATE

MULTIFAMILY

\$3,500,000,000

12 MO SALES VOLUME | BOSTON, MA

\$456,000

AVERAGE PRICE/UNIT | **DECREASE** OF 8.1%



260

TOTAL TRANSACTIONS
DECREASE OF 16%

4.7%

AVERAGE CAP RATE
INCREASE OF 0.53%

\$439M

LARGEST TRADE
CHURCH PARK APARTMENTS | 508 UNITS

5.2%

VACANCY RATE
INCREASE OF 0.74%

DEVELOPMENT

265,801

INVENTORY UNITS | **INCREASE** OF 3%

15,542

UNITS UNDER CONSTRUCTION
DECREASE OF 12%

6,909

DELIVERIES | 2023 ESTIMATE

5,467

12 MONTH ABSORPTION

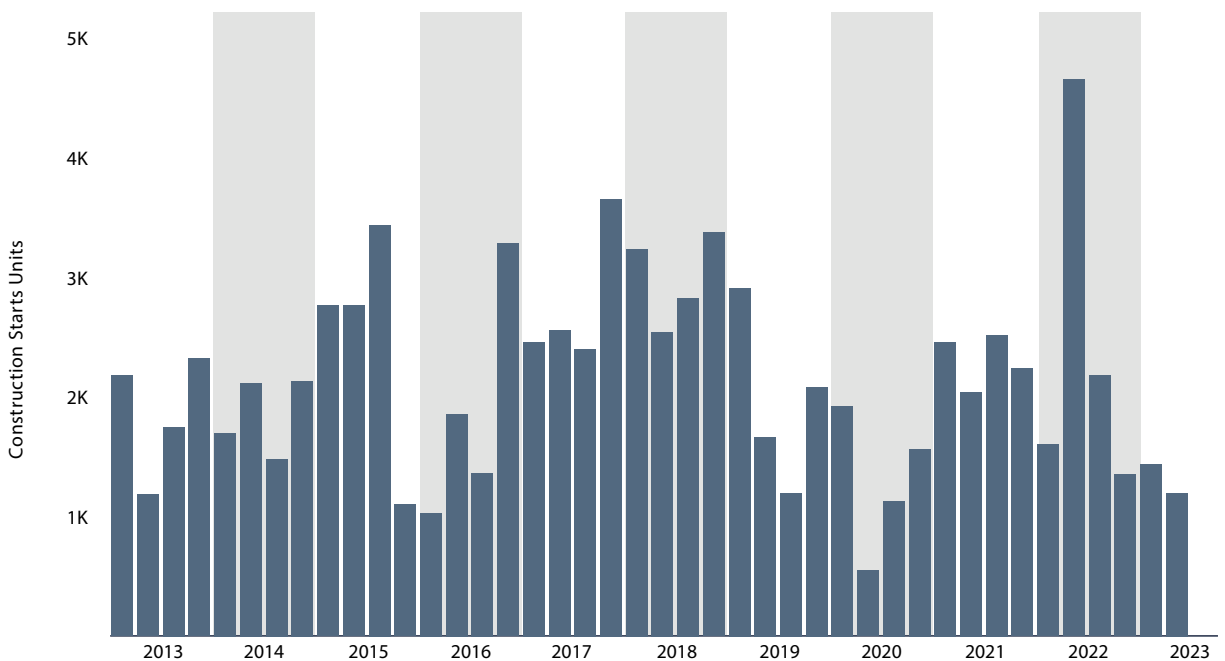


AVAILABILITY

Boston's Pipeline

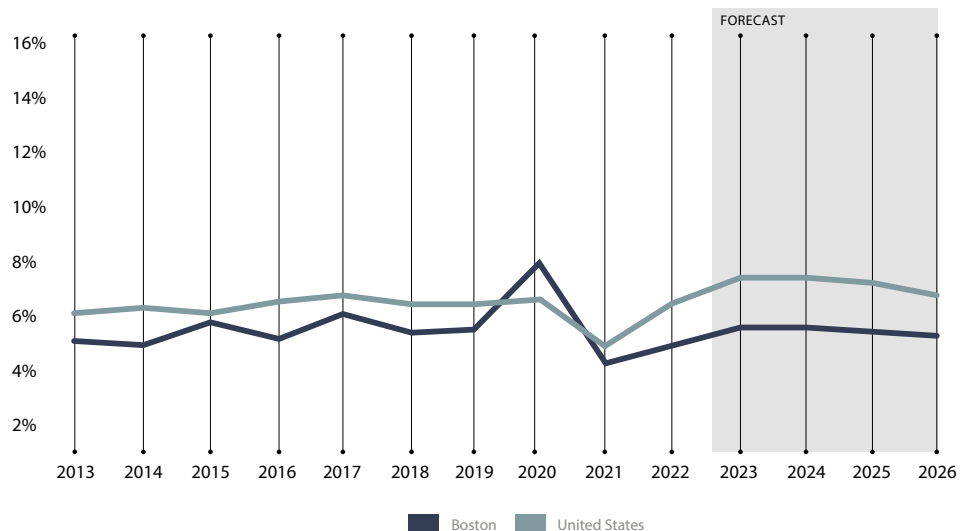
Last year, Boston's multifamily pipeline had just about 18,000 units under construction. Since then the pipeline has shrunk 14% putting just over 15,000 units under construction this year. Recent trends in the pipeline demonstrate that new construction and development has been migrating out of the city and into suburban setting submarkets.

Construction Starts



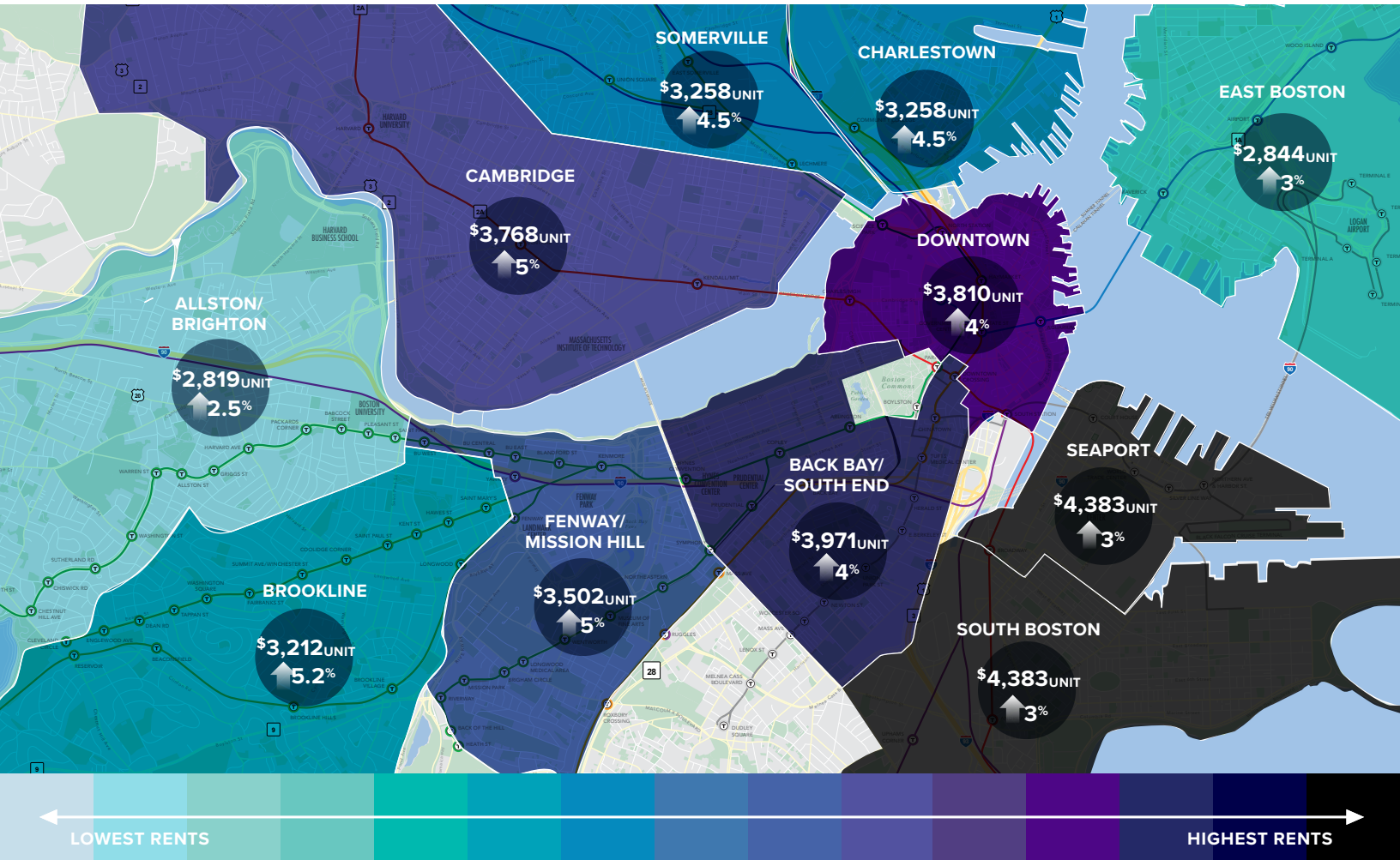
Vacancy

Record breaking construction starts in Q2 2022 translated into a flood of new deliveries in 2023, pushing the vacancy rate up by 1% currently sitting at 5.2%. Not only did an excess of deliveries influence this increase, but households consolidated following economic uncertainty



SUBMARKET BREAKDOWN

Rents



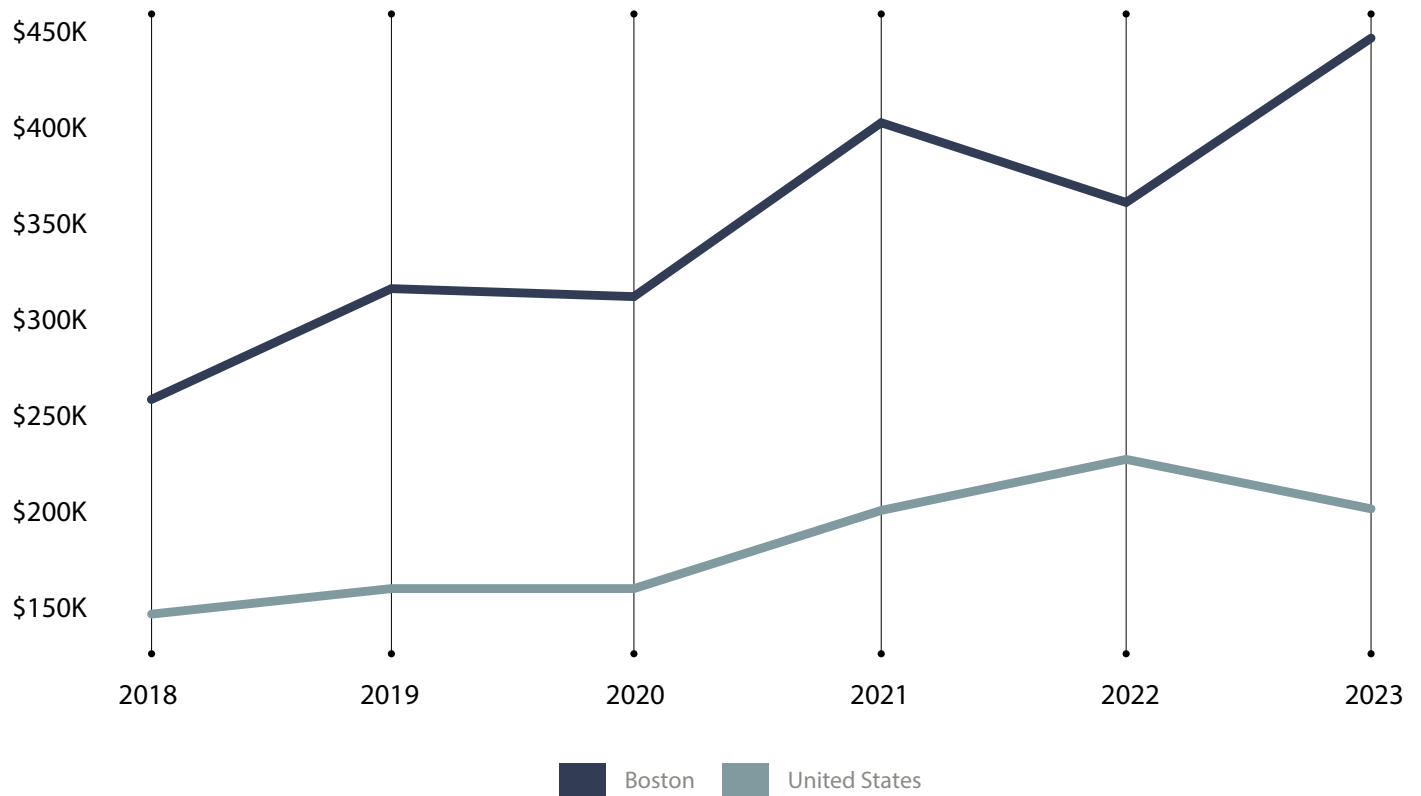
With asking rents averaging \$2,790 per month (a 4% increase from last year), Boston remains one of the most expensive markets in the country. Rents are expected to continue increasing but minimally and at a much slower rate over the next 3-year period.

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

MULTIFAMILY SALES



Sales prices per unit for Boston remain well above the national average, at \$449,000. Despite this high, sale prices along with sale momentum is expected to slow in the coming year as fiscal policy tightens and interest rates increase.





CORPORATE LEASING

JULY 2023

The first half of 2023 for the Boston/Cambridge office market is best summarized as slow. Slower than normal deal velocity at the end of 2022 persisted through the 1st and 2nd quarters of 2023. The lack of tenant demand, coupled with increasing sublease availability and new construction developments coming online, saw overall market availability eclipsed 17 million square feet, the highest in 20 years.

Despite a significant supply surplus, direct asking rental rates remained relatively flat over the last 4 quarters. One can point to several reasons: higher transaction costs, shorter term transactions, low overall transaction volume; however, this price stability disguises the fact that deal concessions are historically high, bringing the overall net effective rents 15% below asking rents. Sublease rates further underscore the reality that significant value in the office market exists today, although not at the surface.

The Federal Reserve's continued efforts to control inflation weighed heavily on the broader economic outlook. The uncertainty around the future caused many companies to defer long-term real estate decision making. At the same time, people are coming to the office more frequently. MBTA ridership reached 68% of pre-pandemic levels as of March 2023, the highest levels since the lockdown in 2020.

Despite hybrid work policies normalizing and many employees returning to the office on average 2-3 days per week, the office sector locally remains challenged. The added pressure of rising interest rates has created a perfect storm for building owners with pending loan maturities. A significant value loss in office assets will be realized as pending sales close in the later half of 2023. Expect a major reset in value to the tune of 40-60% lower than pre-pandemic trades with more distress assets to unwind into 2024.

Despite the near-term challenges, the Boston/Cambridge market is faring better than many large cities nationwide, and leasing activity is happening, albeit at lower levels than needed. Companies want to be here, believe in the city long-term, and a recovery is inevitable. The near-term value in the market will likely improve as buildings sell and new owners are able to get more aggressive to attract tenants. Companies will reset real estate planning to the new normal and those committing to a plan for the long-term will find very favorable lease terms in the market.

OFFICE MARKET OVERVIEW

Boston | Cambridge

Mid-Year 2023

CLASS A

CLASS B

Availability
(INCL SUBLEASE)

14.75%

19.95%

TOTAL AVAILABILITY **17.09M SF**

Direct Asking Rent

\$79.15

\$53.06



MID-YEAR 2023 – BY SUBMARKET

Boston | Cambridge

Class A

	FINANCIAL DISTRICT	BACK BAY	SEAPORT	NORTH STATION	EAST CAMBRIDGE	MID CAMBRIDGE	ALEWIFE
DIRECT ASKING RENT	\$76.54_{SF}	\$79.04_{SF}	\$75.87_{SF}	\$69.02_{SF}	\$101.58_{SF}	\$67.12_{SF}	\$68.33_{SF}
CHANGE SINCE YE 2022	0.03%	0.06%	0.09%	0.02%	0.13%	0.25%	0.18%
DIRECT AVAILABILITY	15.88%	7.88%	3.98%	8.31%	5.54%	2.14%	5.37%
AVAILABILITY W/SUBLEASE	20.87%	12.46%	6.04%	11.26%	14.37%	1.66%	6.29%

Class B

	FINANCIAL DISTRICT	BACK BAY	SEAPORT	NORTH STATION	EAST CAMBRIDGE	MID CAMBRIDGE	ALEWIFE
DIRECT ASKING RENT	\$48.37_{SF}	\$66.07_{SF}	\$59.43_{SF}	\$47.64_{SF}	\$78.44_{SF}	\$62.51_{SF}	\$54.98_{SF}
CHANGE SINCE YE 2022	0.17%	0.35%	0.46%	0.46%	0.28%	0.13%	0.18%
DIRECT AVAILABILITY	24.45%	20.68%	11.46%	21.36%	3.94%	9.55%	6.83%
AVAILABILITY W/SUBLEASE	27.39%	21.90%	20.76%	21.46%	15.21%	15.59%	11.66%

Market Highlights

SUB 5K SF DEMAND

FLIGHT TO QUALITY IS STILL A PREREQUISITE FOR TENANTS AS LARGER USERS CONTINUE TO RIGHT SIZE THEIR SF'AGE FOOTPRINT

CONSESSIONS REMAIN STRONG

THE DELTA BETWEEN ASKING RENTS AND EFFECTIVE RENTS CONTINUE TO GROW.



RETAIL LEASING

THE BOSTON RETAIL MARKET REMAINS STRONG

Despite a looming recession, high inflation, and labor shortages, retail leasing in Boston in 2023 shows no immediate signs of slow down.

**Retail
Rents**

**Tenant
Demand**

**Retail Sales
Volume**

**Vacancy
Rates**

BOSTON: A MAJOR GATEWAY CITY

- Top Academic Institutions & Hospitals
- Access to Funding
- Strong Industry Infrastructure
- Supportive Government Policies

UNMATCHED PERFORMANCE

12 LARGEST GLOBAL ECONOMY

56 MOST WALKABLE U.S. CITY

16 MILLION ANNUAL VISITORS

7 OF THE TOP 50 UNIVERSITIES

4 OF THE TOP 6 HOSPITALS IN THE US

#1

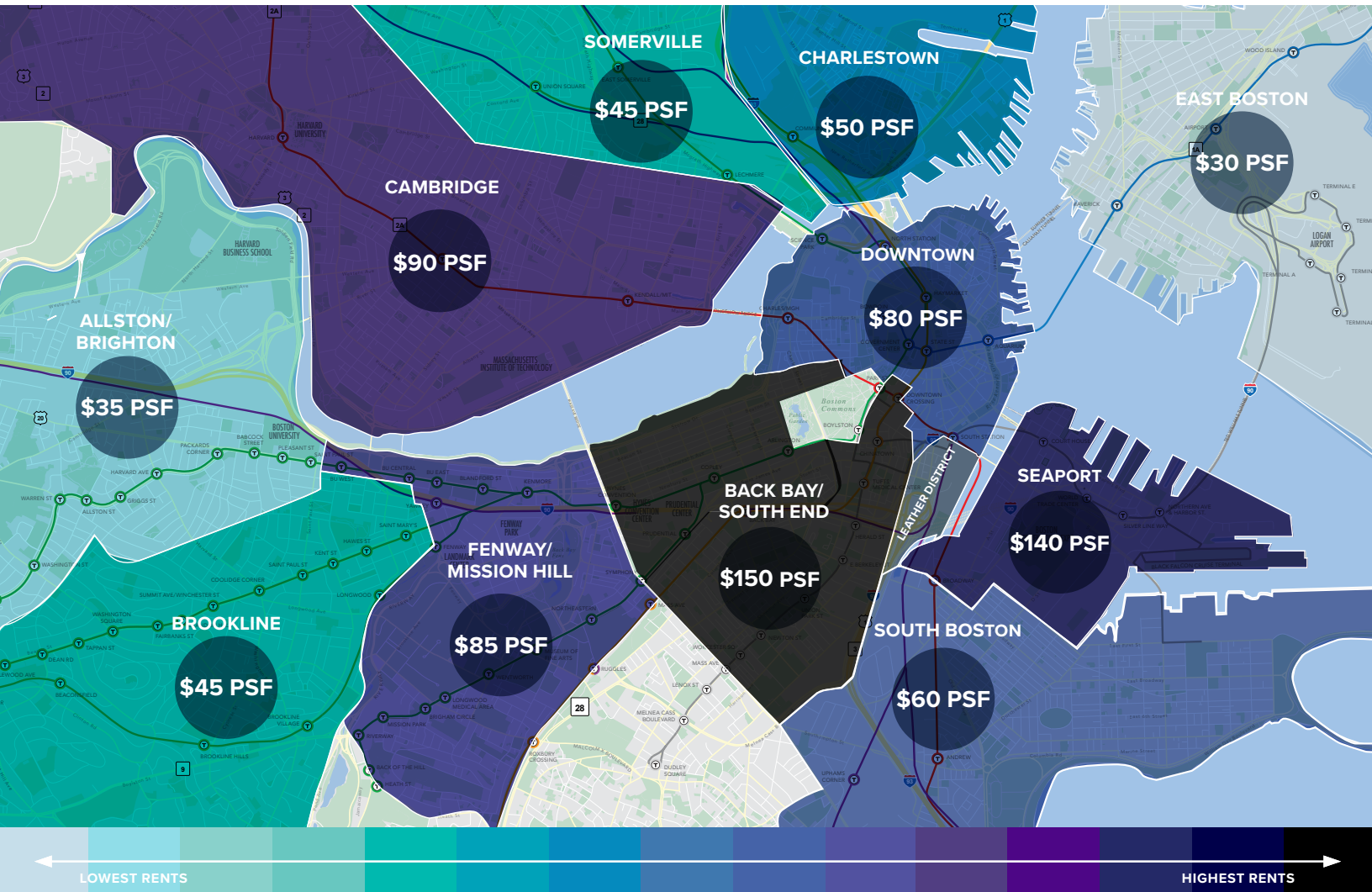
HIGHEST MILLENNIAL
POPULATION

#1

BIOTECH MARKET
IN THE COUNTRY

AVERAGE RENTS

BY NEIGHBORHOOD



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

RENT: HIGH STREET RETAIL

\$155^{PSF}
Harvard Square

\$225^{PSF}
Back Bay

\$200^{PSF}
Seaport District

\$105^{PSF}
Beacon Hill

\$100^{PSF}
Financial District

\$90^{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

6%

BACK BAY

5.9%

SEAPORT

0.3%

BEACON HILL

1%

FINANCIAL DISTRICT

6%

SOUTH END

0.9%

12 MONTH GROWTH

2.8%

5.1%

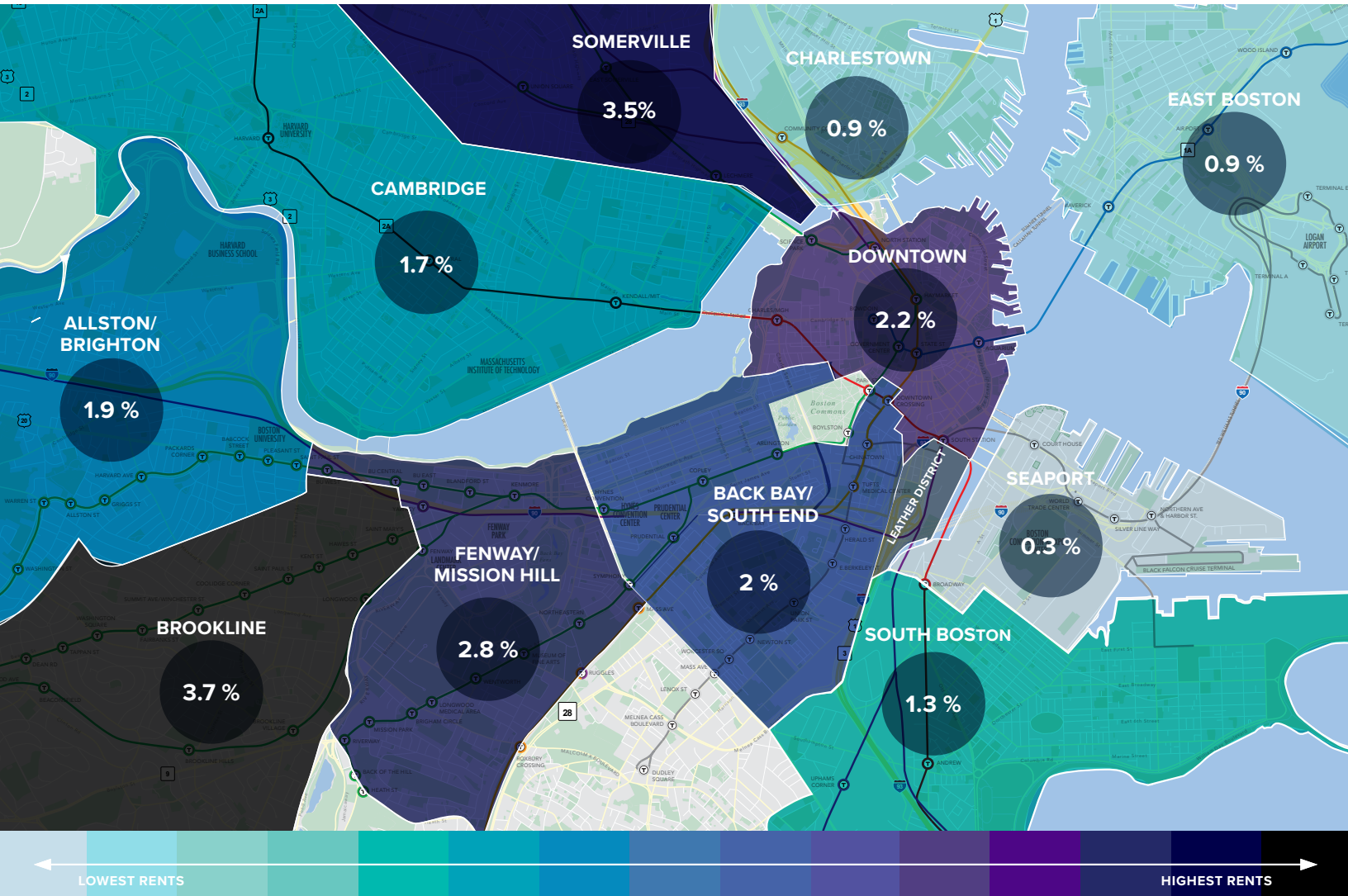
5.4%

4.2%

5.9%

4%

VACANCY BREAKDOWN BY NEIGHBORHOOD



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

USES EXPANDING

Food & Beverage
Competitive Entertainment
Digitally Native Brands
Boutique Fitness
Wellness
Athleisure
Luxury
Amenities for Office Users

DESIRABLE DEALS & SPACES

Flight to Quality
Second Generation Spaces
Turn-Key Opportunities
Outdoor Space & Public Realm Connectivity
Strong Foot Traffic
Established Sales Volumes
Exciting Co-Tenancy
Attractive Deals / High Tenant Allowances

NEW TENANTS OPEN IN **BOSTON**

FAST-CASUAL RESTAURANTS



SIT-DOWN RESTAURANTS



ENTERTAINMENT | NIGHT LIFE



WELLNESS | BEAUTY | FITNESS



SIT-DOWN RESTAURANTS



DIGITALLY NATIVE | FASHION

