

Office Report

Boston | Cambridge | Suburbs

Q1 2024

Lincoln

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Overview

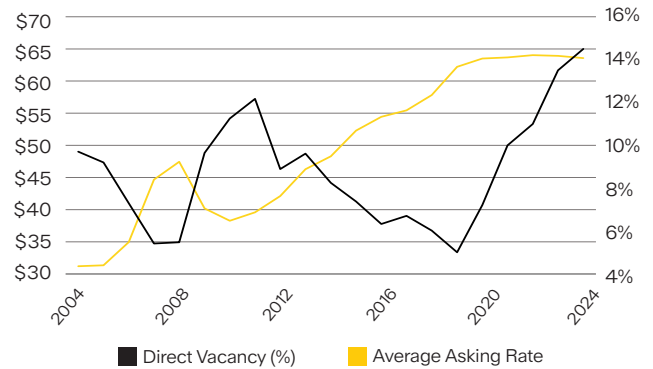
Vacancies increased by about 100 basis points in Q1 2024, finishing at 14.5%. Net absorption was negative by more than 1.6 million square feet last quarter and by nearly 2 million square feet over the last 12 months. Despite firmer return-to-office mandates, companies are still meeting resistance from employees and remote work continues to thwart office demand. Per Scoop, Massachusetts ranks as the most flexible state in the country, with 90% of companies allowing employees some degree of work flexibility. Absorption losses in Q1 2024 represented about 1% of total inventories in Boston, Cambridge, and the suburbs, although the suburbs had the steepest losses on an absolute basis. Rents have declined and sales volume and price appreciation have trailed their historical averages.

Flight-to-quality trends have occurred in the aftermath of the pandemic, and this dynamic may persist and accelerate. Several companies that adopted hybrid work plans proceeded to downsize their footprints, but for newer and higher quality space. Many of the largest office deals of the last few years came for first generation or renovated space due to the market's sizable supply wave. As flight-to-quality persists, underperforming properties may continue to be targeted for conversion or full-scale renovations. Since the start of the pandemic, millions of square feet have been removed from the office inventory for lab conversions, which has helped buoy occupancies, especially in the suburbs. The recent struggles of the lab market have softened this trend, however, with a higher share of the lab pipeline now shifting to purpose-built projects.

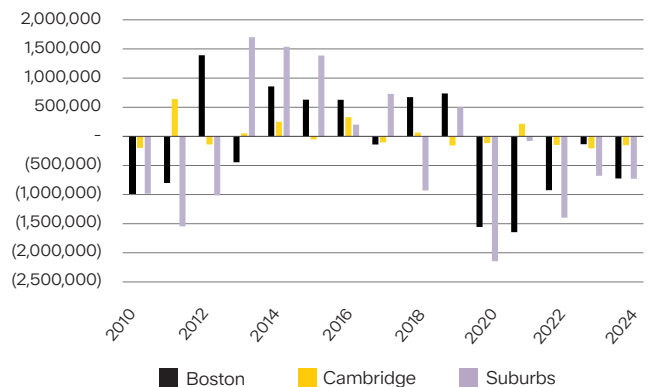
Looking Forward

High vacancies in the Boston Office Market were caused by the demand struggles of the remote work era, coupled with the large speculative supply wave that unfortunately hit just as the pandemic reset leasing expectations. Boston was one of the most underbuilt major office markets in the country for the first two decades of the 21st century, so recent developments provided a needed boost for an inventory in need of fresh options. While a major driver of leasing activity, new construction has mainly drawn from elsewhere in the market and caused overall vacancy expansion. The market is nearly through the supply wave, however, with Hines' South Station tower the last remaining speculative project under construction in Downtown Boston. The property is still fully available for lease, but will likely follow the trend set by its predecessors of poaching demand from other buildings in Greater Boston. Once the new towers finish leaseup, expanding or relocating tenants will need look for space in the rest of the Class A market.

Boston Asking Rate vs. Direct Vacancy



Annual Office Net Absorption (SF)



Top Leases

	SF
AspenTech 28 Crosby Drive, Bedford 495 Route 2	155,000
Arnold Worldwide/Havas Media 5 Necco Street, Boston Seaport	70,000
Atrius Health 275 Grove Street, Newton 128 West	48,793
Massachusetts College of Pharmacy 1 Palace Road, Boston Fenway	40,000
Sick Sensor Intelligence 150 Royall Street, Canton 128 South	31,569
Sage Therapeutics 55 Cambridge Parkway, Cambridge East Cambridge	30,567
Harvard University 1000 Massachusetts Ave, Cambridge Mid Cambridge	28,000
Sherin and Lodgen 1 Lincoln Street, Boston Financial District	26,037
FTI Consulting 200 State Street, Boston Financial District	21,580
Peak Scientific 210 Littleton Road, Westford 495 Route 2	21,114

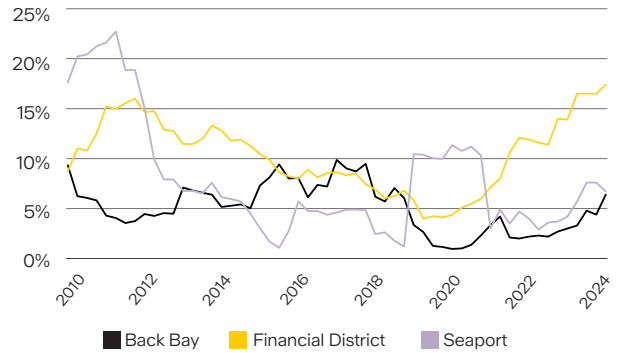
Boston Office Trends

Vacancies increased by about 100 basis points last quarter, as the Boston office market shed roughly 800,000 square feet of occupied space. Most of the absorption losses occurred in the Class A segment and the Back Bay and Financial District submarkets. Class B lost almost the same amount of occupied space as Class A, however, when proportional to inventory size. Nearly 2 million square feet of new supply opened over the last 12 months, which helped boost leasing activity, but has also contributed to rising vacancies. More than 600,000 square feet is still available for lease in recently delivered projects, which accounts for more than 5% of the city's total vacancy rate. The Seaport has the largest median available block size of all Boston submarkets, at more than 8,000 square feet.

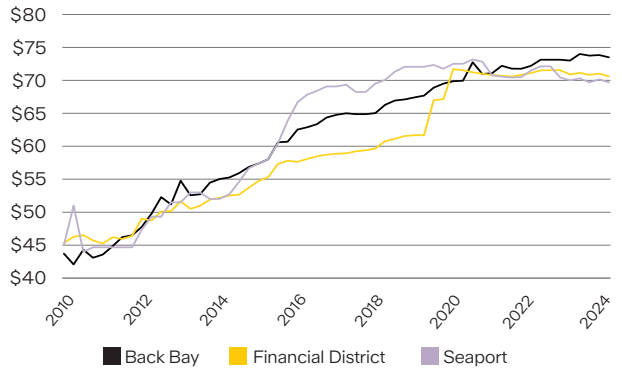
Leasing activity slowed in Q1 2024, as deals for recently delivered space dried up. Arnold Worldwide/Havas Media signed the only new deal for more than 30,000 square feet last quarter, taking 70,000 square feet at 5 Necco Street in the Seaport. This was the largest direct new office deal for non-new construction signed in the city since 2022, but also reflected the shrinking appetite for office space seen by many tenants. The advertising agency will relocate from about 125,000 square feet at 10 Summer Street in the deal.

While leasing in new properties slowed last quarter, it supported most of the market's largest deals last year. Deloitte leased 138,000 square feet at Winthrop Center, where it will take occupancy in the second half of 2024 and relocate from a similarly sized footprint at 200 Berkeley Street in Back Bay. Goulston & Storrs leased 104,000 square feet at One Post Office Square, which recently completed a full-scale renovation. The law firm is relocating from a similarly sized space at 400 Atlantic Avenue Boston got a significant win when Lego selected 1001 Boylston Street for its new North American headquarters. The company will relocate from its longtime home in Enfield, Connecticut to the new Back Bay development in 2025, creating entirely new demand for the market.

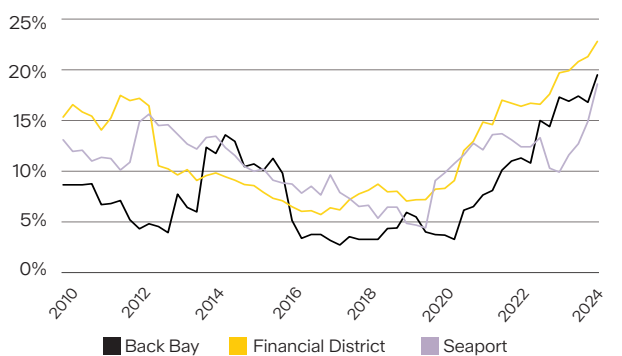
Class A Direct Vacancies



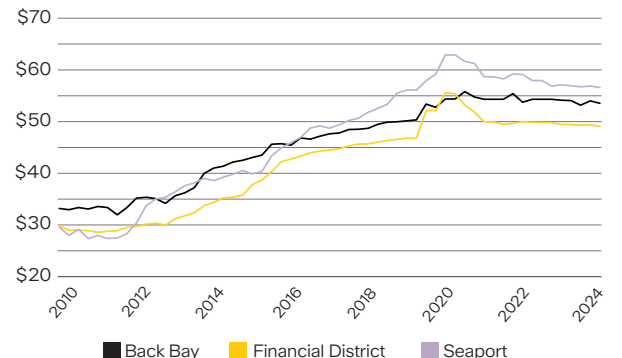
Class A Asking Rates



Class B Direct Vacancies



Class B Asking Rates

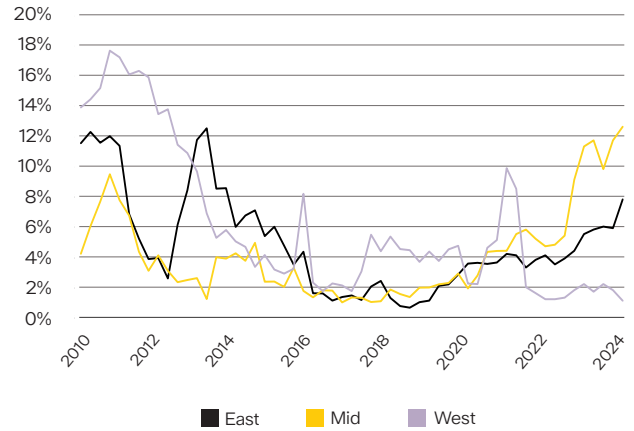


Cambridge Office Trends

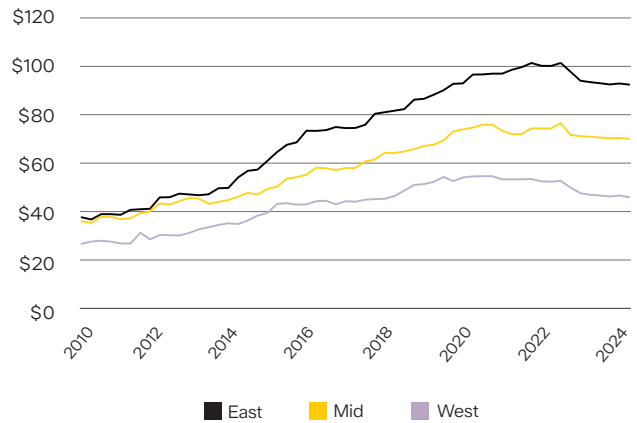
Cambridge's vacancy rate has steadily climbed since hitting a trough of 2.9% in the first half of 2022 and finished Q1 2024 at 8.4%. The city still has a much lower vacancy rate than Boston or the suburbs, but has a higher sublet rate. Cambridge's exposure to the tech and biotech industries generally supports strong demand, but these sectors are highly dependent on a startup culture funded by venture capital money. As interest rates increased over the last couple years, VC funding dried up, leading companies to cut back on space. The tech industry is also one of the friendliest to remote work, which has not helped office demand. Net absorption was negative in seven of the last eight quarters, with most losses occurring in the Class A segment. Since Q1 2022, the amount of Class A vacant space has increased by about 300%, compared with a 50% rise in Class B.

Despite recent headwinds, tech and biotech still drive most of the city's leasing activity. Sage Therapeutics signed a 30,567-square foot lease in January at 55 Cambridge Parkway for five and a half years. Lincoln Property Company represented the landlord in the deal, which was the largest direct lease signed in the Cambridge office market since 2022. Sage will downsize in the move, however, leaving more than 100,000 square feet across two previous locations in the city. Other notable deals signed in the last year include Amazon's 3-year renewal of 93,400 square feet at 101 Main Street and Context Labs subleasing 39,006 square feet at 75 Binney Street, also on a 3-year deal.

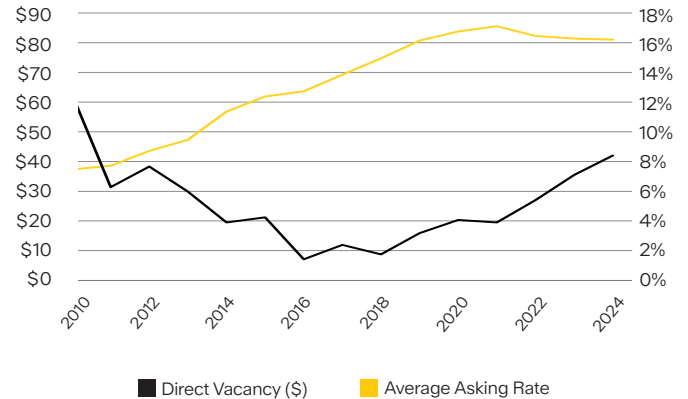
Cambridge Direct Vacancies



Cambridge Asking Rates



Cambridge Asking Rate vs. Direct Vacancy

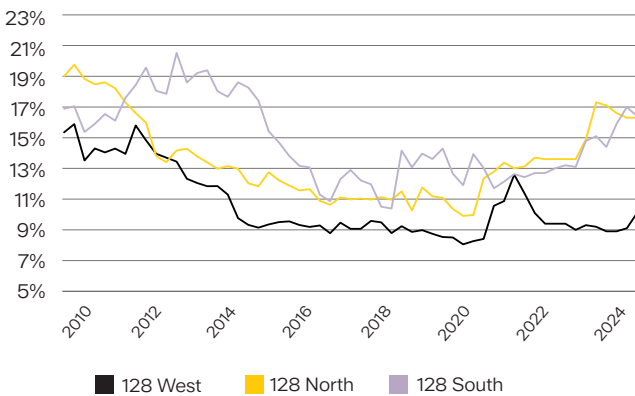


Suburban Office Trends

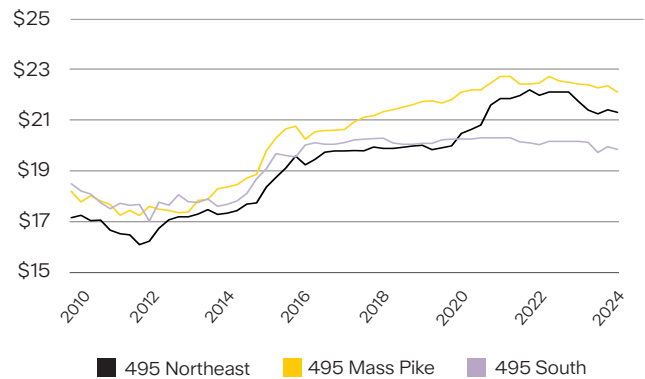
Net absorption was negative in the suburbs by more than 700,000 square feet in Q1 2024 and over 1 million square feet over the last 12 months. Vacancies increased by about 100 basis points to 15.1%, but sublet and total availabilities declined slightly. The Class B suburban market outperformed the Class A market last quarter, with smaller absorption losses on an absolute basis and as a percentage of total inventory. Class B also has a lower vacancy, sublet, and total availability rate. The 128 market recorded positive net absorption in Q1 2024, an anomaly in the suburbs with significant demand losses experienced in the Inner Suburbs North and 495. The Class A market in the 128 West submarket is 8.2%, which is one of the lowest rates of all Greater Boston submarkets and below the vacancy rate of Boston and Cambridge.

Several of the quarter's largest leases involved tenants in the process manufacturing and chemical processing industries. Aspen Technology renewed and expanded at its 20 Crosby Drive headquarters in Bedford. The company, which provides software and services for the process manufacturing industries, signed for 155,000 square feet on a 12-year deal. Sick Sensor Intelligence leased 31,569 square feet at 150 Royall Street in Canton. The company, which is headquartered in Germany and manufactures sensors for manufacturing and logistics automation, is relocating from a smaller footprint at 800 Technology Center Drive in Stoughton. Peak Scientific, a Scotland-based manufacturer of nitrogen, hydrogen, and gas generators, signed a 21,114-square foot lease at 210 Littleton Road in Westford.

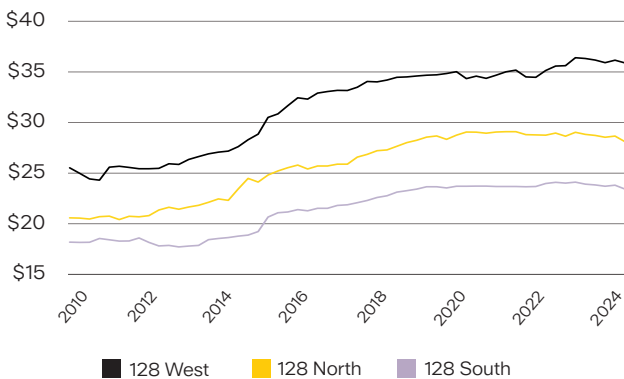
Route 128 Direct Vacancies



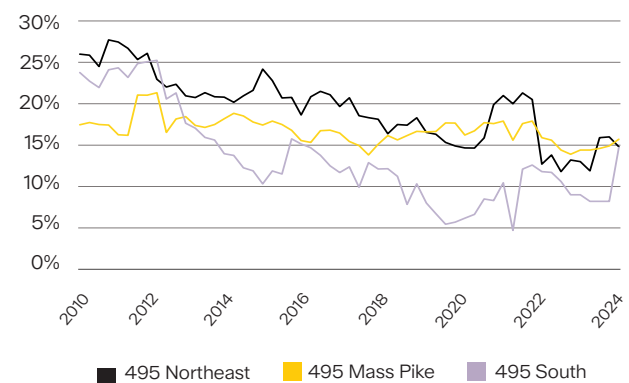
495 Asking Rates



Route 128 Asking Rates



495 Direct Vacancies



Development

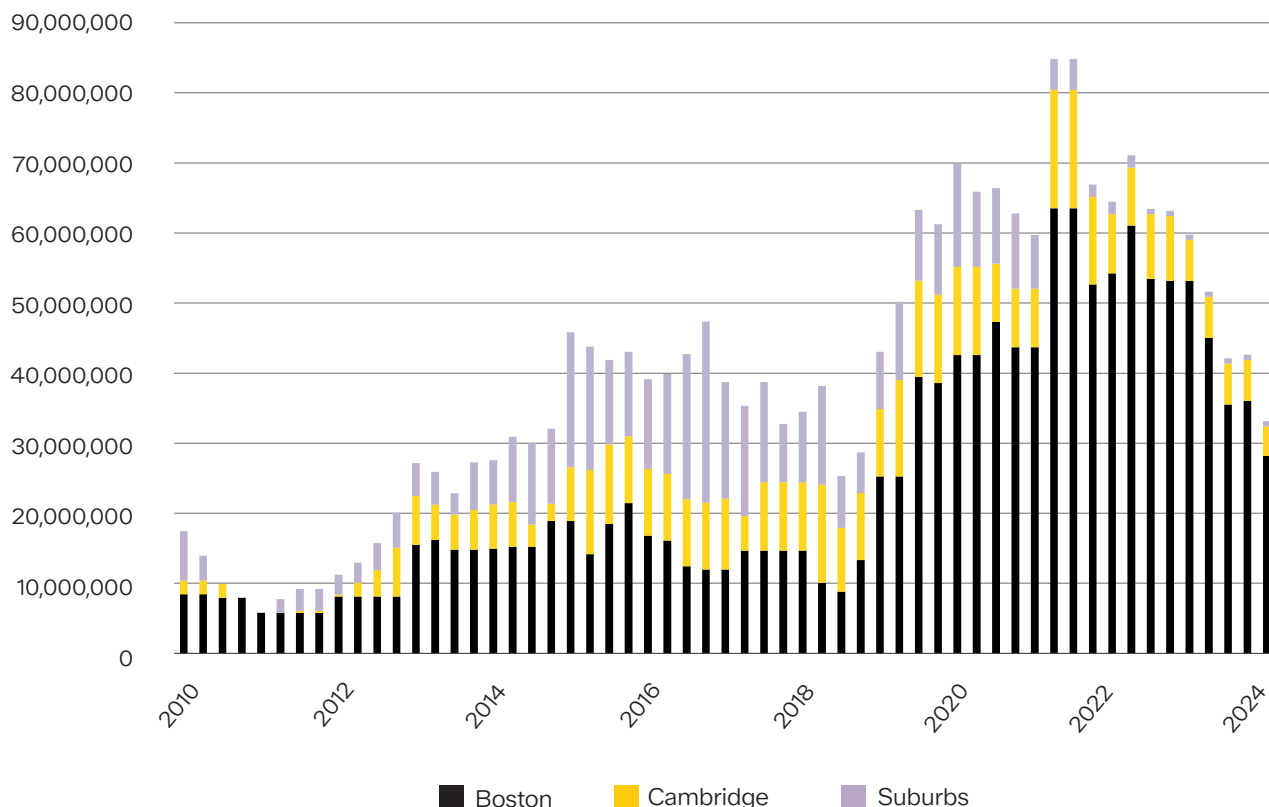
The Boston Office Market is in the middle of its largest supply wave in over 20 years, with more than 6 million square feet delivered since 2021 and more than 2 million square feet under construction. The pipeline is focused on the Downtown area, where several large speculative projects have delivered or are in development. Recent deliveries include One Congress and Winthrop Center, which both opened last year and have about 980,000 square feet and 812,000 square feet of office space, respectively. One Congress is nearly fully leased to State Street, K&L Gates, InterSystems Corp., and others, while Winthrop Center counts Deloitte, McKinsey & Co., and Cambridge Associates among its tenants.

Speculative construction will moderate in the near-term. More than 2 million square feet is under construction across Boston, but most of that space has already landed tenants. WS Development's 1 Boston Wharf Road in the Seaport and Samuels & Associates' 1001 Boylston Street are both expected to open later this year, with the former fully leased to Amazon and the office-portion of

the latter committed to CarGurus and The Lego Group. The Druker Company is developing 350 Boylston Street in Back Bay, a 221,000-square foot property leased to Bain & Co. The largest speculative project underway is Hines' South Station tower, which will have around 700,000 square feet of office space. The high-rise is still fully available for lease and expected to open in the first half of next year.

Landlords that lost tenants have invested in major renovations and upgrades to boost the appeal of their assets in a competitive market. After State Street and K&L Gates left 1 Lincoln Street, Fortis Property Group announced the investment of more than \$200 million into renovations on the lobby, food service space, and amenities. Following Eaton Vance's departure, the Chiofaro Company is investing \$100 million into International Place, to be used for a new 16,000-square foot amenity space, upgraded lobbies, and rebuilding Fort Hill Plaza.

Cambridge, Boston & Suburban Office Space Under Construction (SF)
(Excluding Conversions)







Investment Sales

Sales activity remains muted, as buyers wait out this period of high borrowing costs and uncertain office forecasts. Around \$170 million changed hands last quarter, well short of the market's quarterly average of about \$950 million since 2010. CoStar also estimates that market pricing per square foot has fallen by close to 20% since peaking in 2021. Despite the overall lukewarm investment climate, several notable trades have closed in recent quarters, particularly in Downtown Boston. Synergy Investments acquired 101 Arch Street for \$78 million (\$192 per square foot) from Clarion Partners in early March. The 407,000-square foot building is the largest commercial property in Boston since the start of the pandemic and was roughly 85% leased at the time of the sale. This transaction also demonstrated price depreciation, however, with 101 Arch previously selling for \$121.7 million in November 2005 and \$89 million in January 2003.

Synergy's acquisition of 101 Arch Street was its second purchase of a downtown office building in the last 12 months for a discount from a previous selling price. The firm also bought 1 Liberty Square from Clarion Partners last September for \$45 million (\$286 per square foot), which was below the asset's \$54.4 million price in September 2013. Price appreciation was also reflected in a couple notable Downtown deals in the second half of last year. Ezdan Holding Group acquired 855 Boylston Street from RREEF Property Trust for \$99.5 million, or \$697 per square foot, while the multi-tenant Back Bay property was 100% leased. The asset previously changed hands in December 2000 for \$47.2 million. In August, Nuveen sold 70 Federal Street for \$41 million (\$638 per square foot), which was higher than its December 2016 selling price of \$38 million.

Top Sales

		Price	PSF	Buyer	Seller
	101 Arch Street Boston: Financial District	\$78 Million	\$192	Synergy Investments	Clarion Partners
	26 Exeter Street Boston: Back Bay	\$22.4 Million	\$807	Kingsley Montessori School	Tremont Commons Corporation
	268 Summer Street Boston: Seaport	\$15 Million	\$196	Tremont Asset Management	M&T Bank Corporation
	60 Canal Street Boston: North Station	\$8.25 Million	\$179	Kinross Real Estate	Canon Hill Capital Partners

Office Stats Q1 2024

Submarket	RSF	Direct Vacant	% Vacant	% Sublease	% Avail	Net Absorption - Direct Space	12 Month Absorption	(NNN) Asking Rate
Back Bay	14,773,060	1,432,799	9.7%	4.7%	18.1%	(317,701)	(417,116)	\$68.43
Charlestown	1,776,698	303,292	17.1%	0.0%	19.2%	24,373	39,464	\$44.62
Fenway	2,009,312	72,690	3.6%	2.6%	6.3%	(45,922)	(72,690)	\$54.21
Financial District	35,726,550	6,693,506	18.7%	5.6%	28.1%	(365,337)	(521,655)	\$65.30
Midtown	1,858,356	227,184	12.2%	17.7%	34.9%	5,473	33,546	\$47.55
North Station	4,887,077	536,816	11.0%	6.6%	21.0%	47,569	844,923	\$58.18
Seaport	9,892,626	1,186,122	12.0%	5.8%	19.8%	(113,678)	(521,608)	\$63.86
South Station	2,712,081	209,007	7.7%	1.2%	8.5%	42,442	36,510	\$53.27
Boston Total	73,635,760	10,661,416	14.5%	5.4%	23.1%	(722,781)	(578,626)	\$63.57
East Cambridge	6,957,467	541,569	7.8%	5.5%	20.0%	(130,911)	(167,434)	\$92.47
Mid-Cambridge	3,208,367	404,413	12.6%	4.6%	21.1%	(30,267)	(46,544)	\$70.06
West Cambridge	1,273,292	14,182	1.1%	10.7%	11.9%	9,312	13,369	\$45.92
Cambridge Total	11,439,126	960,164	8.4%	5.8%	19.4%	(151,866)	(200,609)	\$81.00
Inner Suburbs North	4,899,298	448,934	9.2%	8.0%	20.5%	(120,658)	(91,464)	\$40.59
128 West	21,657,174	2,189,013	10.1%	9.3%	21.0%	(49,024)	(37,597)	\$35.89
128 North	16,675,547	2,721,525	16.3%	5.0%	23.6%	(10,705)	193,616	\$28.10
128 South	16,629,730	2,724,855	16.4%	3.3%	20.8%	96,308	(221,864)	\$23.42
128 Total	54,962,451	7,635,393	13.9%	6.2%	21.7%	36,579	(65,845)	\$29.75
495 Mass Pike	18,561,772	2,918,768	15.7%	2.9%	20.1%	(145,076)	(218,032)	\$22.10
495 Route 2	6,688,954	1,368,626	20.5%	0.6%	21.2%	(43,677)	(159,381)	\$19.37
495 Northeast	5,656,696	835,616	14.8%	3.4%	20.5%	87,469	(93,204)	\$21.30
Route 3 North	6,691,230	1,512,509	22.6%	2.1%	25.6%	1,257,727	(254,782)	\$20.83
495 South	4,388,111	646,246	14.7%	1.3%	16.1%	(288,037)	(252,781)	\$19.84
495 Total	41,986,765	7,281,765	17.3%	2.3%	20.8%	(644,103)	(920,234)	\$21.12
Suburban Total	101,848,514	15,366,092	15.1%	4.7%	21.3%	(728,182)	(1,077,543)	\$26.72
All Office	186,923,400	26,987,672	14.4%	5.0%	21.9%	(1,602,829)	(1,856,778)	\$44.86

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