Cresa Boston - Q3 2022

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Market Report
Boston CBD

The long-term effects of the COVID-19 pandemic are now taking shape within the Boston office market. Despite many notable and large lease signings, many tenants are reducing their footprint causing a rise in vacancy and total availability in the downtown market. The third quarter of 2022 saw the second wave of sublease availability intensify, surpassing the first wave's peak, as major Boston tenants edX, VMware, Wayfair, and GrubHub led the way to an increase of over 550,000 square feet of new offerings. One Post Office Square, Winthrop Center, and One Congress Street are among the newly constructed office buildings that have attracted **large tenants aiming to draw their employees back into the office with a top quality workplace experience. This will likely be an ongoing trend, as construction activity continues despite economic hurdles.** Most notably, construction is picking up on Hines' long-awaited South Station tower, which will bring over 700,000 square feet of Class A office space to the downtown market by the end of 2025. As organizations implement hybrid work policies, we expect some occupiers to shed their extra space as some segments of the market continue to soften.

Market Size	Vacancy	Sublease	Available
61,225,985 SF	13.0%	5.1%	21.9%

*arrows indicate quarterly change

Rental and Vacancy Rates

Submarket	Asking Rent ($/SF) Class A	Asking Rent ($/SF) Class B	Vacancy Rate
Financial District	$72.56	$52.41	14.7%
Back Bay	$79.84	$55.79	6.3%
Seaport/South Station	$77.85	$59.07	14.4%
North Station	N/A	$47.49	21.9%
Total	**$74.08**	**$54.32**	13.0%

Recent Transactions

Tenant	Size (SF)	Submarket	Type	Sector
Harbourvest	250,000	Financial District	Relocation	Office
Holland & Knight	105,000	Back Bay	Renewal	Office
Berkshire Hathaway Specialty	100,000	Financial District	Relocation	Office
Silicon Valley Bank	44,000	Financial District	Expansion	Office
Cushman & Wakefield	30,000	Financial District	Relocation	Office
Silicon Valley Bank	28,000	Financial District	Expansion	Office
EnergySage	24,000	Financial District	Relocation	Office
Colliers	23,000	Financial District	Relocation	Office

Market Trends

The Sublease Wave Continues
Available sublease space has now crested 3.1 million square feet (up 550,000 square feet from last quarter) as occupiers move forward with longer-term hybrid work policies. This surpasses the peak from Q4 of 2020.

Class A Demand Persists
Top-tier Class A space is seeing the most demand in core urban markets. Newly constructed buildings are capturing a larger share of leasing volume in the current climate as occupiers implement new workplace strategies to draw employees back to the office in a post-pandemic commercial landscape.

New Additions to the Market
With more tower cranes operating on construction sites since last quarter, we expect the flight to quality, amenity-rich locations to continue in downtown Boston. Many development projects have pushed forward despite volatile market conditions (inflation, labor shortage, supply chain disruptions, etc.) impacting costs and schedules.

Occupier's Perspective

Take Your Pick
With vacancy rising from last quarter to a new 10-year high, occupiers seeking value in the downtown market can now choose from the growing sublease inventory, lagging Class B buildings, and Class A spaces vacated by those moving to newly constructed buildings.

Quality is Coming
The flight to quality space will likely continue, with over four million square feet of Class A office space expected to deliver to the downtown market through the end of 2025.

Tenant Negotiating Power
While asking rents continue to climb, occupiers entering long-term leases have more negotiating power with concessions like free rent, robust tenant improvement allowances, and contractual flexibility to terminate or extend.

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Market Report
Cambridge Office

With a flood of new sublease space coming onto the market, occupiers seeking value will have more options to choose from to help prevent full build-outs and realize savings on costly items such as furniture and IT equipment. **Even with more options coming to market, sub-landlords and landlords are still holding firm pushing for top rents if they are in a premium building** due in part to the lack of growth in Cambridge's total office inventory. The development pipeline does not offer much relief in the future, as expected new office space shrunk after Facebook announced plans to delay the build-out of 250,000 square feet of office space in Kendall Square due to hybrid work considerations.

Market Size	Vacancy	Sublease	Available
10,588,223 SF	5.8%	6.4%	12.2%

*arrows indicate quarterly change

Rental and Vacancy Rates

Submarket	Asking Rent ($/SF) Class A	Asking Rent ($/SF) Class B	Vacancy Rate
Kendall	$95.00	$87.00	5.2%
Lechmere	$92.00	$87.00	10.3%
Mid Cambridge	$75.00	$65.00	5.8%
West Cambridge/Alewife	$58.00	$46.00	2.8%
Total	**$84.00**	**$76.00**	5.8%

Recent Transaction

Tenant	Size (SF)	Submarket	Type
Hyundai/Boston Dynamics	80,000	Kendall	New Location
Ono Pharma	14,000	Kendall	Expansion

Market Trends

Continued Disposition Influx

With new return to office (RTO) policies now taking effect, we continue to see more and more office space come onto the sublease market creating additional competition for direct space in buildings. The space coming on is primarily a result of companies getting rid of their space altogether or larger companies downsizing their footprint.

A Resilient Outlook

The office market in Cambridge is seeing less volatility than Boston and surrounding submarkets, with lower vacancy and steady rents. The prominence of office-to-lab conversions has propped up demand by limiting the total supply of office space. Expect this market to be more resilient to economic changes than others.

Occupier's Perspective

Quality Office Space Limited

With just one new pure office building in development in all of Cambridge, office occupiers with anticipated growth or upcoming lease expirations have fewer options when looking for a high-quality space in a high-quality building.

Uptick in Renewals Ahead?

Uncertainties with the overall economy and hybrid work strategies combined with the squeeze in quality availabilities could put a tamper on movement within the market. Occupiers seeking space should adjust expectations accordingly and be decisive with their real estate decisions.

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Market Report
Life Sciences

Over the last two years we have continued to see rents rise across all life sciences markets in the Greater Boston area, which has been driven by great demand and limited supply. **With demand beginning to slow down and planned developments/ conversions getting closer to delivering, we are entering a stage in which occupiers can be more patient with their site selection.** This allows for a better process when considering various factors (i.e. commute times, RTO policy for office vs lab staff, brand identity etc.).

Rental and Vacancy Rates

Asking Rent ($/SF) Class A	Asking Rent ($/SF) Class B	Vacancy Rate	
$130.00	$105.00	Cambridge	3.8%
$115.00	$95.00	Boston	10.4%
$95.00	$80.00	Inner Suburbs	10.0%
$80.00	$57.00	Route 128 West	10.0%
$35.00	$30.00	Route 128 North	21.1%

Recent Transactions

Tenant	Size (SF)	Submarket	Type
Broad Institute	240,000	Cambridge	New Facility
Fractyl Labs	78,000	Route 128 West (Burlington)	Relocation
Sonata Therapeutics	72,000	Inner Suburbs (Watertown)	New Facility
Dicerna	65,000	Route 128 West (Lexington)	New Facility
Ultragenyx	43,000	Inner Suburbs (Somerville)	New Facility
Galy	20,000	Inner Suburbs (Charlestown)	New Facility

Market Trends

Demand Cools, Slightly

During the first half of 2022, the lab and R&D market was extremely competitive, and any existing pre-built space was flying off the shelf with multiple groups vying for the space. As we close out Q3, the slowdown in demand has allowed for groups to have time to run a more thorough process when entering the market.

Rise in Cambridge Subleases

With heightened economic uncertainty, the life sciences sublease market increased to over 1 million square feet in Q3. The bulk of this availability is in the heart of the market, with Cambridge accounting for over 50% of available space.

Occupier's Perspective

Development Pipeline Knowledge is Key

When mapping out the next short- and long-term business plans for your company, be sure to understand the development pipeline not only for R&D but also for manufacturing of your product. Knowing the landscape of the types and geography of new facilities being developed is critical for effective long-term planning.

VC's Changing Risk Tolerance

Expect a lower risk tolerance from pre-IPO companies with the shifting funding environment. VC funding has remained strong for early-stage companies for now, but there has been a noticeable slowdown in the IPO rate. This will inevitably affect planning for real estate decisions with newfound cash flow concerns. The uptick in sublease activity across the market is an early indicator of changing behaviors.

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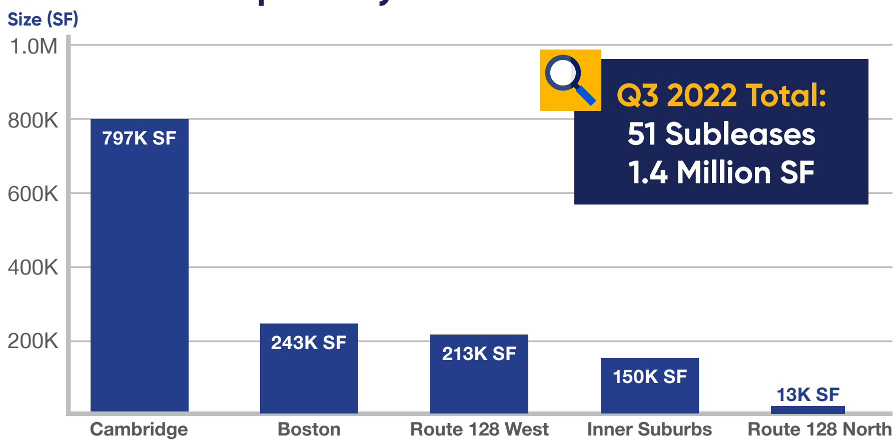
Sublease Observations
Life Sciences

Greater Boston's Life Sciences market saw a notable rise in sublease availability during Q3 of 2022. Of note, 41 subleases totaling 790,000 square feet of space have come to market since the close of Q2, accounting for over half of the 1.4 million square feet of active space Cresa is tracking on the sublease market. Cambridge has added the most space since July 1st (289,000 square feet) and now has 797,000 square feet on the sublease market. Route 128 West and Boston followed closely behind adding 213,000 and 193,000 square feet, respectively. The strongest clusters of new space are in the Seaport and Alewife, with nine and six subleases (five on Cambridgepark Drive alone).

The shifting funding environment and market volatilities are both likely factors in this wave, as both private and public companies are now reevaluating their real estate strategies with cost savings in mind. 14 of the 17 public companies being tracked on the sublease market reported a significant reduction in cash on hand over the past year, with an average monthly burn rate of over $20 million, while 14 of the 26 private companies have now seen at least 12 months pass since their last round of funding.

Q3 Sublease Space by Submarket



New and Notable Subleases

Tenant	Size (SF)	Address	Submarket
Generation Bio	50,000 – 100,000	41 Seyon Street	Route 128 West (Waltham)
Rubius	86,000	399 Binney Street	Cambridge
Agios	66,000	88 Sidney Street	Cambridge
Rheos Medicines	27,000	245 First Street	Cambridge
Ultivue	12,000 – 26,000	4 Burlington Woods Drive	Route 128 West (Burlington)
Accent Therapeutics	11,000 – 26,000	65 Hayden Avenue	Route 128 West (Lexington)
Accent Therapeutics	25,000	1050 Waltham Street	Route 128 West (Lexington)
Avencell	25,000	500 Forge Street	Inner Suburbs (Watertown)
Tome Biosciences	23,000	100 Talcott Avenue	Inner Suburbs (Watertown)

Big Name Subleases on the Market

Bristol Myers Squibb
100 Binney Street
Cambridge
150,000 SF

Bristol Myers Squibb
200 Cambridgepark Drive
Cambridge
150,000 SF

FINCH
100 Hood Park Drive
Charlestown
61,000 SF

Epizyme
400 Technology Square
Cambridge
43,000 SF

CRISPR THERAPEUTICS
105 W First Street
Boston
40,000 SF

Luye Pharma
19 Presidential Way
Woburn
13,000 SF

Cresa Boston - Q3 2022

Market Report
Suburban Route 128

Much of what has played out in the Route 128 corridor in Q3 mirrors the downtown market and cities beyond Boston, as mounting economic uncertainty looms. While leasing activity is being propped up by lease expirations, right sizing exercises, and upgrades to Class A and trophy assets, Class B product and second-generation spaces that have long sat vacant lag behind their higher-end counterparts.

The current inventory of sublease product is indicative of these macroeconomic trends and occupier appetites, with a noticeable increase in lab product coming to market for disposition and older, tired product continuing to sit unleased. There was a significant increase in overall sublease count this quarter (82 subleases as of the end of Q3 2022 versus 58 subleases at the beginning of July 2022), with 10 of the new additions this quarter being lab/life science assets, largely reflective of the headwinds in access to capital and fundraising for occupiers in that sector. Despite deal flow happening with 13 subleases coming off the market due to a combination of expirations, transactions and terminations, a significant amount of remaining sublease inventory – 40%– has remained unleased for at least the last 12 months, with some as long as 46 months. Desire for top-quality space continues to persist, but economic hurdles including inflation and interest rates changes will be a test for occupiers looking to either make significant capital decisions in relocations or reinvestment in spaces to meet the standards of the post-pandemic employee.

Market Size	Vacancy	Sublease	Available
49,492,800 SF	12.5%	3.9%	19.3%

*arrows indicate quarterly change

Rental and Vacancy Rates

Asking Rent ($/SF) Class A	Asking Rent ($/SF) Class B	Vacancy Rate	
$29.00	$24.00	128 Northeast	10.9%
$40.00	$31.00	128 North	10.5%
$46.00	$37.00	128 West	14.0%
$42.00	**$33.00**	Total	12.5%

Recent Transactions

Tenant	Size (SF)	City/Town	Type	Sector
Fractyl Labs	78,000	Burlington	Relocation	Lab
Dicerna	65,000	Lexington	New Facility	Lab
Convergent Dental	30,000	Waltham	Relocation	Office
National Grid	73,000	Waltham	Relocation	Office

Market Trends

Workplace Improvements Remain Pricey

The overall costs of tenant improvements continue to disrupt many tenant budgets and are driving deal terms for occupiers eager to create top-of-the-line workplaces.

Cooling Lab Conversions

Office inventory fell victim to widespread life sciences conversions through 2021 and the first half of 2022, but with macroeconomic challenges in the life sciences industry and economy at large, the conversion pipeline has noticeably slowed.

Occupier's Perspective

Designate the Decision Makers

It's important to determine the internal team that will be involved in your real estate decisions and milestones as soon as possible, especially if the project will require buy-in across departments such as Finance, Human Resources, Operations, and C-Suite. Engaging team members early to align on budget and usage will help prevent roadblocks and costly delays.

Allocate Extra Time

With supply chain constraints still extending construction timelines, overall project schedules have lengthened in the post-pandemic market. Projects that would have typically lasted nine months are now requiring eleven or more. Adjust timelines and expectations accordingly, and be sure to identify and communicate critical dates and deadlines.

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Market Report
Suburban Route 495

Office occupiers continue to grapple with obstacles in their long-term real estate planning. **Despite a noticeable surge in occupancy after Labor Day weekend, many companies are still in a trial phase with return to office strategies, as they look to analyze evolving work habits before overhauling their real estate needs.** A continued rise in interest rates and inflation add to the uncertainty of the current environment. Although these ongoing challenges are stifling office demand, the suburban office market has not softened, and rents rose slightly during Q3. Inventory continues to erode with a growing intensity of suburban office-to-lab conversions, bringing supply-side pressures to rents in this market. Moving forward, expect more renewals and a potential uptick in consolidations of space as office users look for more flexibility.

While facing the same external challenges as the office market, industrial and flex assets are thriving more than ever before as the pandemic-fueled surge in demand for distribution and warehouse space continues. **Rents are rising at an incredible rate with hardly any available space in the suburban industrial market.** Despite headlines that Amazon is slowing its national expansion, the company is increasing its footprint in the 495 North submarket, with plans to open a 3.8 million square foot regional distribution center in North Andover in Q1 2023.

Rental and Vacancy Rates

Office

Asking Rent ($/SF) Class A	Asking Rent ($/SF) Class B	Vacancy Rate	
$24.58	$18.74	459 North	18.5%
$19.52	$16.32	495 Central	30.4%
$23.16	$19.36	495 Metrowest	22.7%

Flex and Industrial

Asking Rent ($/SF)	Vacancy Rate	
$15.53 NNN	5.9%	459 North
$13.34 NNN	5.4%	495 Central
$14.21 NNN	1.4%	495 Metrowest

Recent Transactions

Tenant	Size (SF)	City/Town	Type	Sector
PODS	98,000	Littleton	New Facility	Warehouse
GSA	80,000	Chelmsford	Relocation	Office
ALKU	75,000	Andover	Expansion	Office
Steele Canvas	73,000	Wilmington	Relocation	Warehouse
Broadcom	60,000	Andover	Renewal	Office
Lifeline Systems	41,000	Marlborough	New Facility	Office
Jabra	32,000	Lowell	Renewal	Office
Schrodinger	18,000	Framingham	New Facility	Lab

Market Trends

Desire for Amenity-Rich Space
Several recent office relocations are setting the tone for a suburban 'flight to quality' movement, where office occupiers are hoping to entice workers back to the office with amenity-rich locations.

Another Sublease Wave Likely Approaching
With core urban office markets seeing a surge in sublease activity after an initial recovery from the pandemic-fueled first wave, expect suburban markets to see an uptick in the quarters ahead.

Life Sciences Prop up Activity
Office-to-lab conversions in the outer suburban market have found success despite a slowdown in overall life sciences activity.

Occupier's Perspective

Hiring Challenges Continue
The tightening labor market is amplifying the importance of recruiting for companies to stay competitive. Beyond compensation, factors such as workplace amenities, company culture, and hybrid work policies now hold a heightened importance during a candidate's decision-making process.

Lingering Uncertainties Forcing Decisions
Office occupiers will likely have a reduced risk tolerance as economic uncertainties linger, and long-term hybrid work balances remain unknown. Expect less lateral movement with more renewals and consolidations.

Large Landlords Dominate
Capital is becoming more institutionalized with fewer mom and pop landlords, making the typical landlord-tenant relationship more formal.