



Q3 2023 MARKET REPORT.

G R E A T E R B O S T O N

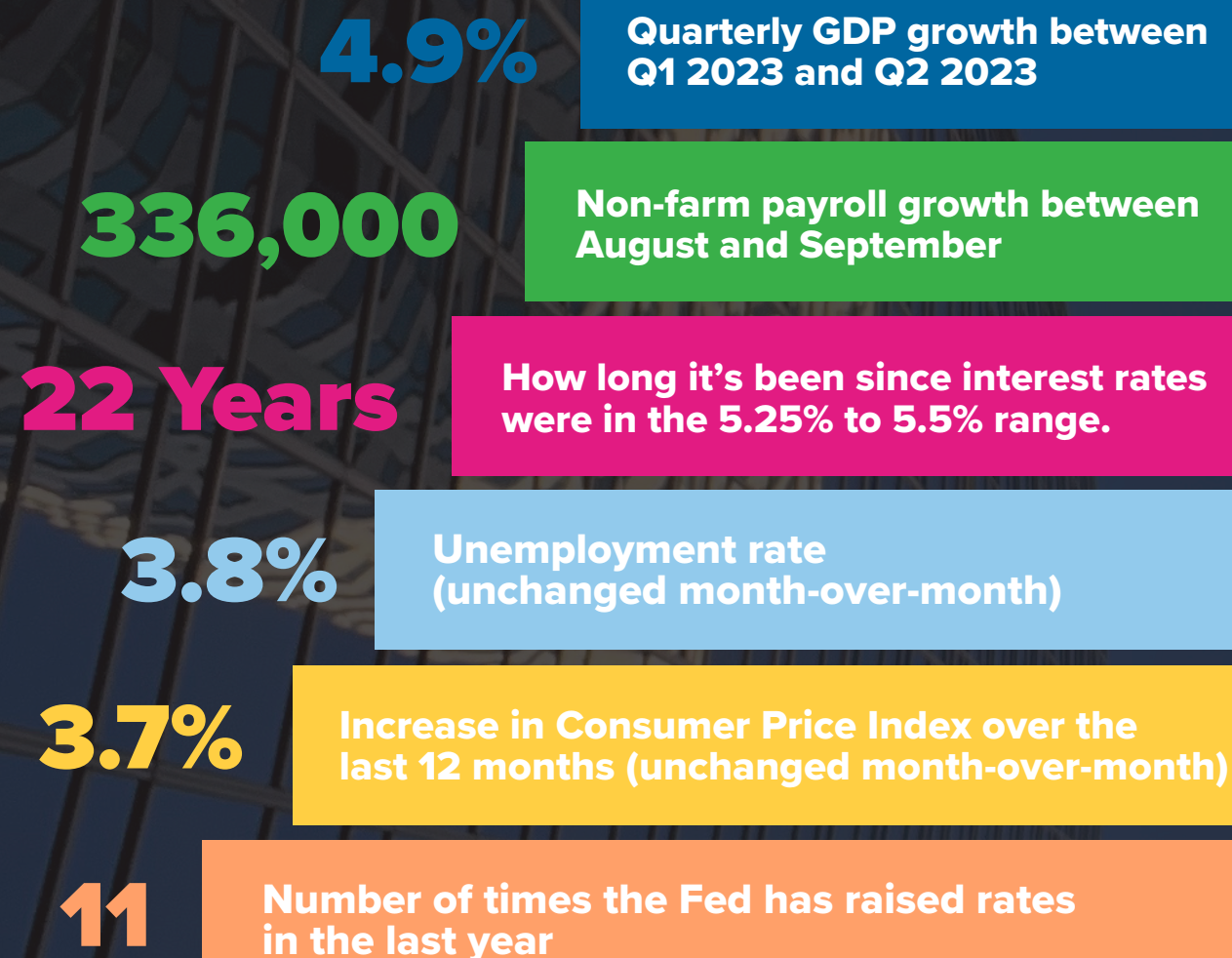
ECONOMY AT A GLANCE.



NON-FARM PAYROLL growth increased significantly month-over month – from 187,000 between July and August to 336,000 today. However, it is important to note that leisure and hospitality comprise 1/3 of total employment and 70% of hiring in the last 90 days. These sectors were disproportionately impacted by COVID lockdowns and are still in recovery mode.

A cursory glance at economic indicators reveals strong footing and the potential to achieve a soft landing. At 3.8%, the unemployment rate has been gradually increasing since April – suggesting a loosening labor market. However, unemployment is only 20 basis points (bps) higher than Q1 2022 - when the Federal Reserve (Fed) began raising interest rates.

AT 3.7%, **INFLATION** is still above the 2.0% Fed target. While down significantly from its 9.1% peak in Q2 2022, this figure has increased 70 bps in the last 90 days. When viewed in conjunction with solid employment figures, one could reasonably surmise that we are in for at least one more interest rate hike.



The point of all this is not to bore our audience with dull analytics or to prove we read The Wall Street Journal. It is to serve as a friendly reminder that

ECONOMICS IS NOT A SCIENCE.

It is an art.

And when it comes to interpretations of such indicators (particularly in the context of commercial real estate and tenant demand) one would be wise to employ a judicious amount of critical thinking.

At Perry CRE, we believe these figures still have the feel of a pre-recessionary trend – most notably around interest rates, debt and building valuations. In our estimation, the time for anticipatory return-to-office mandates and their resulting impacts on demand has come and gone. **We're there.**

**But the question still remains:
What comes next?**



RETURN TO OFFICE

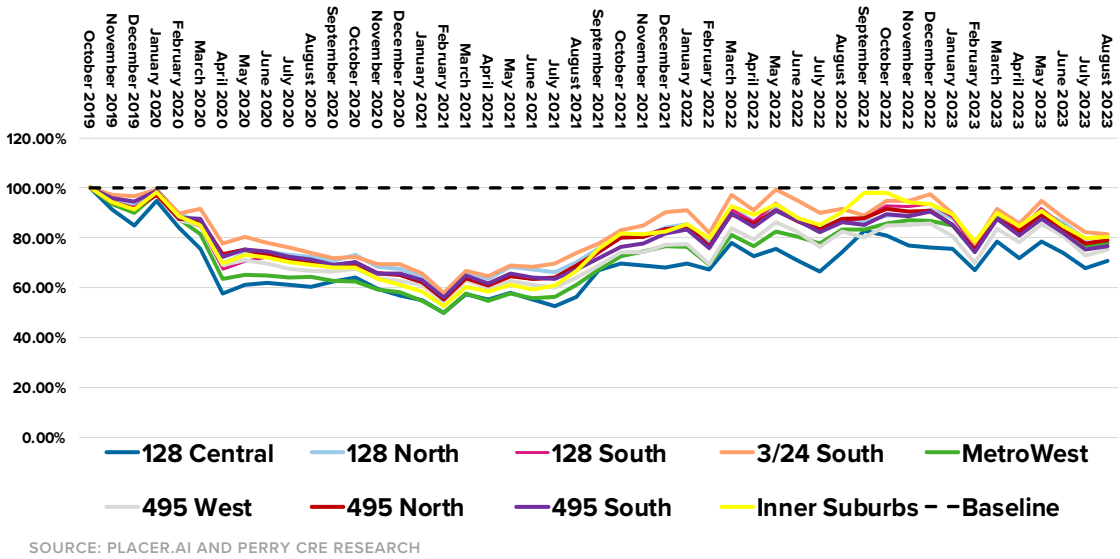
STOP TRYING TO MAKE 'FETCH' HAPPEN.

In our opinion, the conversation about the impact of people returning to the office is long over. We acknowledge that the biggest leases in the last year have landed in amenity-laden new construction, and that many of our clients in the market are drawn to class A space. However, we are not counting on in-office mandates and the building-out of amenity spaces to be the deus ex machina that magically returns us to a 5.0% vacancy rate.



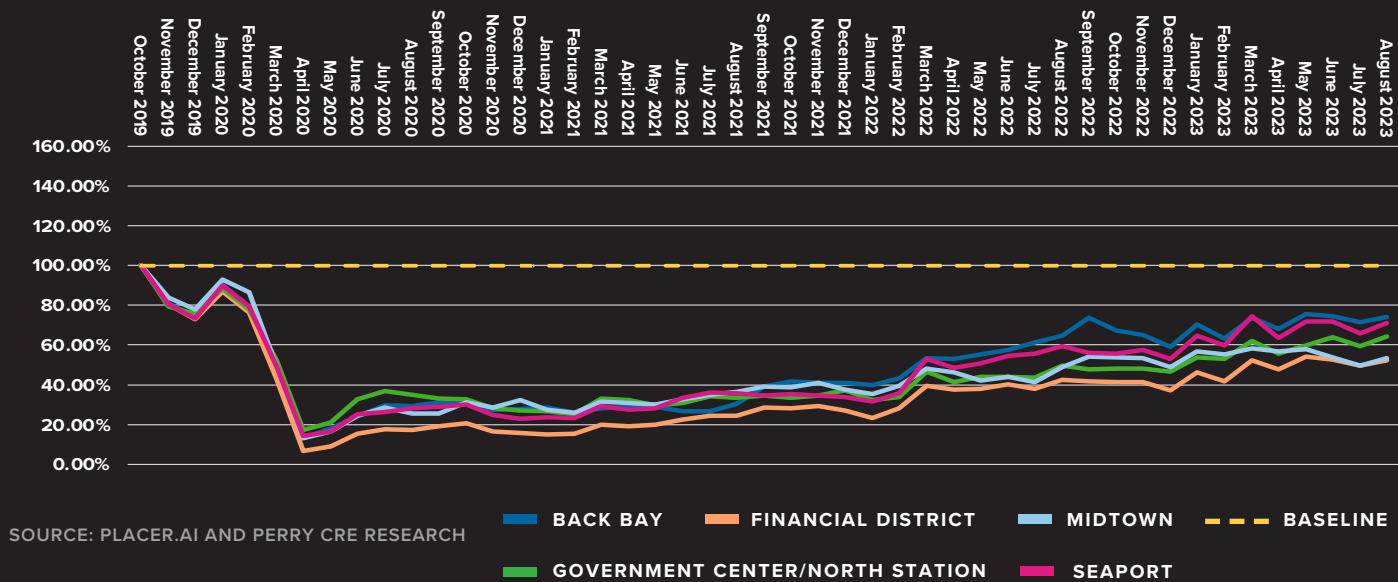
AS WE HAVE NOTED IN PREVIOUS REPORTS, DESPITE THE [KASTLE OCCUPANCY BAROMETER](#) BECOMING AN INDUSTRY STANDARD FOR RETURN-TO-OFFICE METRICS, WE AT PERRY CRE UTILIZE [PLACER.AI](#) FOR ITS ABILITY TO GENERATE TRENDS ON A MORE MICRO AND DETAILED LEVEL – ESPECIALLY IN BOSTON (WHICH KASTLE DOES NOT COVER).

According to this data (which is based on geography, rather than a sample of specific buildings), workplace visits in the city of Boston have leveled off in the last 12 months – at around 80% of pre-pandemic levels. Attendance in Cambridge and the suburbs has actually declined.



Suburban Boston Employees By Submarket: Workplace Visits Pre and Post-Pandemic

Boston Employees By Submarket: Workplace Visits Pre and Post-Pandemic



Boston Office		
	Q3 2023	Q3 2022
VACANCY RATE (%)	16.0%	12.4%
YTD Net Absorption (SF)	(886,530)	(809,651)
Asking Rent (\$/SF)	\$63.55	\$63.90
Sublease Space (SF)	4,717,287	3,789,001

Cambridge Office		
	Q3 2023	Q3 2022
VACANCY RATE (%)	10.3%	8.8%
YTD Net Absorption (SF)	(3,812)	(39,091)
Asking Rent (\$/SF)	\$75.45	\$78.81
Sublease Space (SF)	1,048,408	891,245

Suburban Office		
	Q3 2023	Q3 2022
VACANCY RATE (%)	16.5%	13.2%
YTD Net Absorption (SF)	(2,925,339)	(267,676)
Asking Rent (\$/SF)	\$25.99	\$25.30
Sublease Space (SF)	5,220,096	3,282,016



NEW CONSTRUCTION BOLSTERS BOSTON ABSORPTION

IF WE WERE TO REPORT ABSORPTION ABSENT
NEW CONSTRUCTION, WE'D BE LOOKING AT

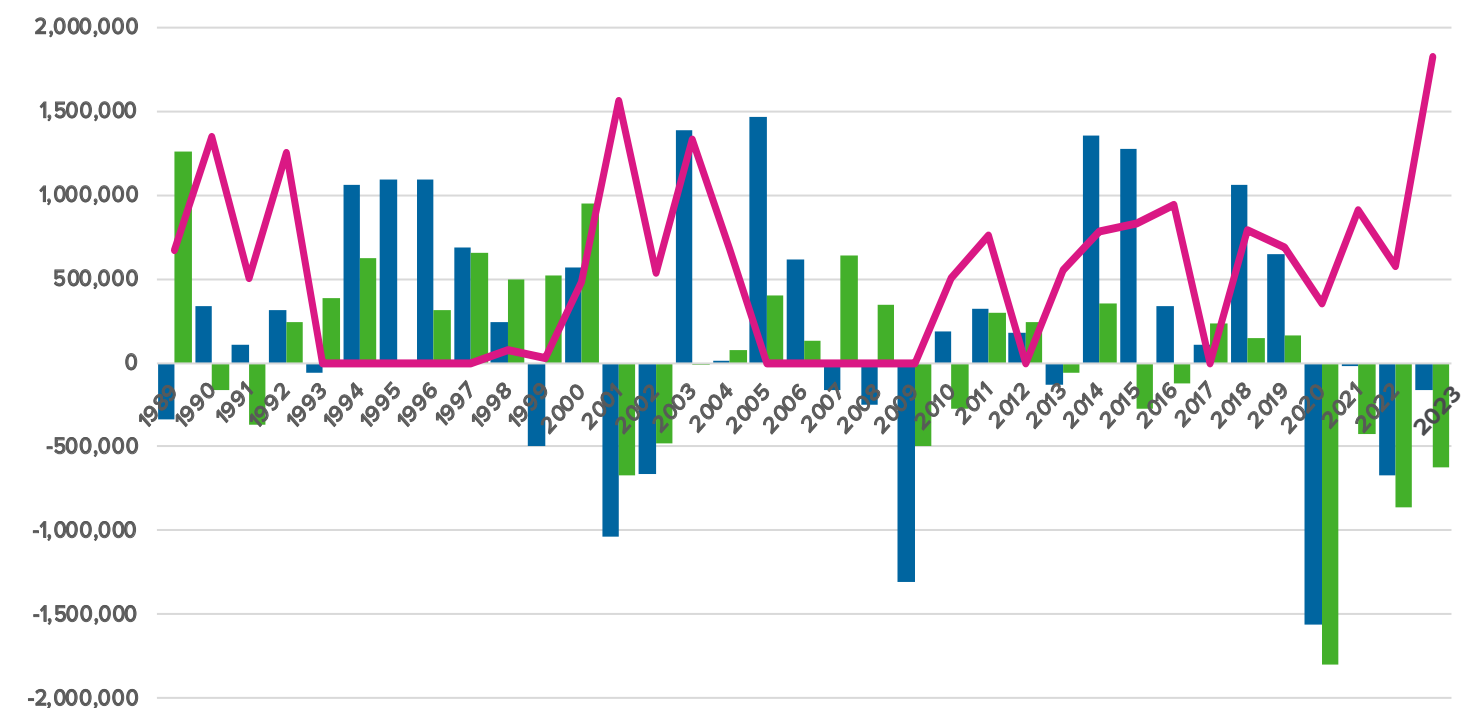
-2.2 MSF YTD

A NUMBER CONSISTENT WITH Q3 2020 FIGURES.

SINCE Q1 2020, **14.6 million square feet (MSF) of office space has become available across greater Boston.** (For perspective, that's the entirety of Back Bay and Fenway.) In the city itself, absorption showed positive gains quarter-over-quarter – ticking up from -1.1 MSF year-to-date (YTD) in Q2 to -886,000 SF in Q3.

BUT BEFORE WE CHEER for shrinking availability, it should be noted that these gains are largely attributable to 1.8 MSF of new deliveries across One Congress Street and Winthrop Center (with pre-leasing rates over 75%).

BOSTON ABSORPTION VS. NEW DELIVERIES



**THIS IS THE HIGHEST LEVEL OF OFFICE SPACE DELIVERED
IN A SINGLE YEAR IN BOSTON IN AT LEAST 30 YEARS.**

NEW DELIVERIES

ABSORPTION
CLASS A

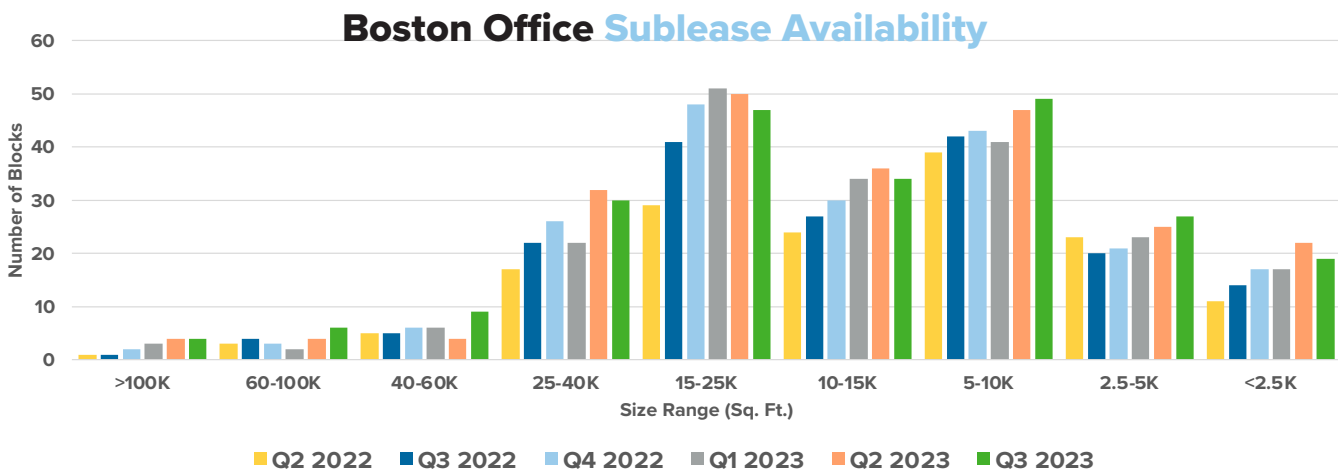
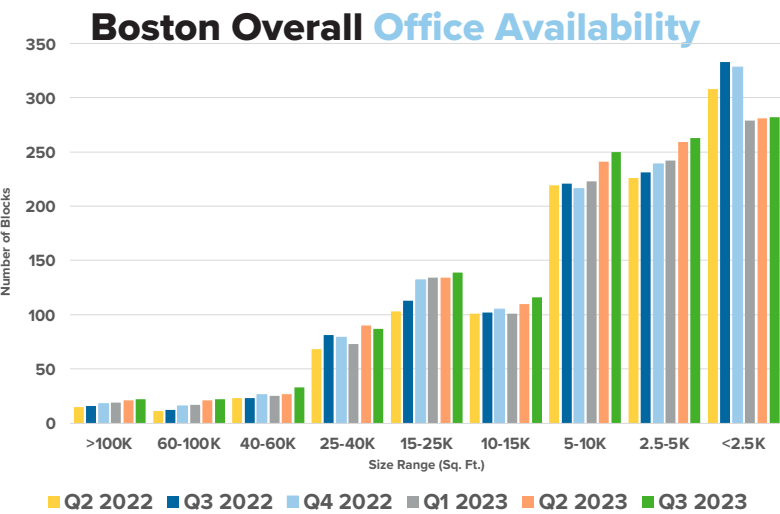
ABSORPTION
CLASS B

IS THIS REALLY A TENANTS' MARKET?

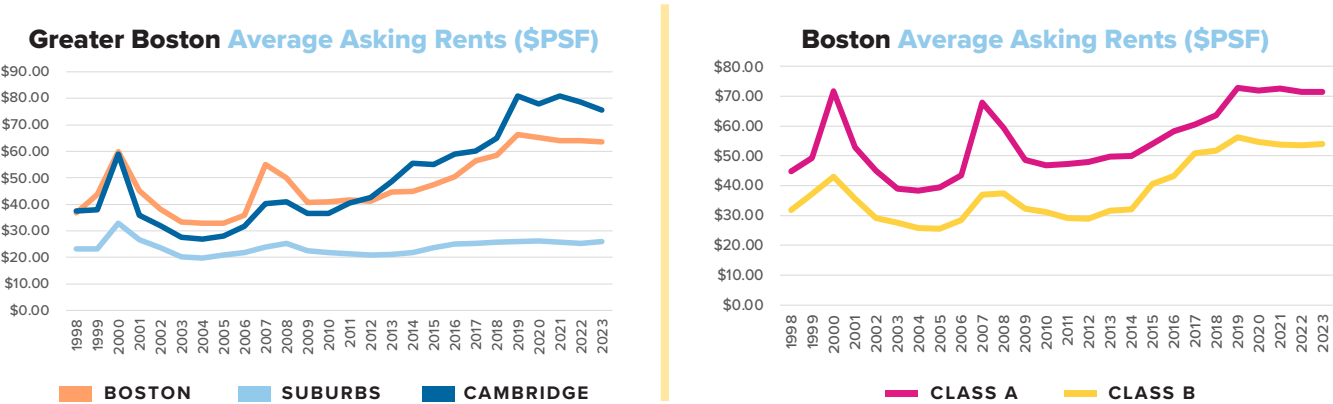
There is an abundance of space available for lease, yet underlying fundamentals point to a (class A) market where landlords have the upper hand:

OVERALL, the number of available blocks between 10,000 SF and 20,000 SF in Boston has grown nearly 25% since Q1 2021 (from 207 to 255)

THE NUMBER of available sublease blocks in the same size range has grown nearly 20% in the same time frame (from 69 to 81)



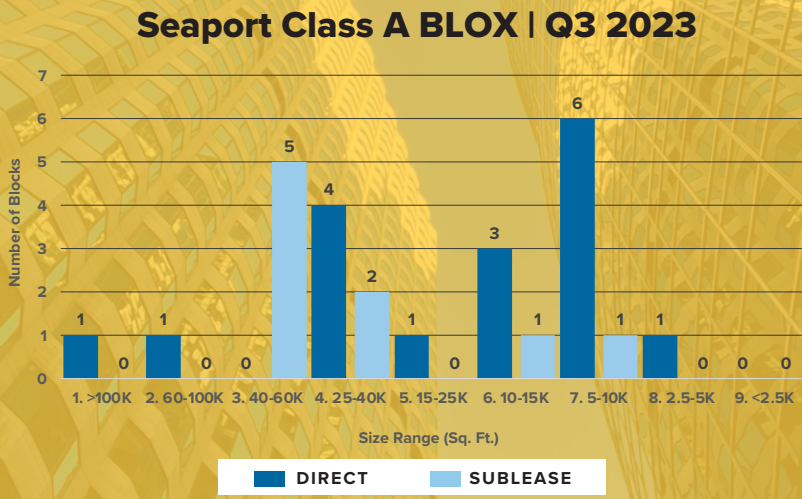
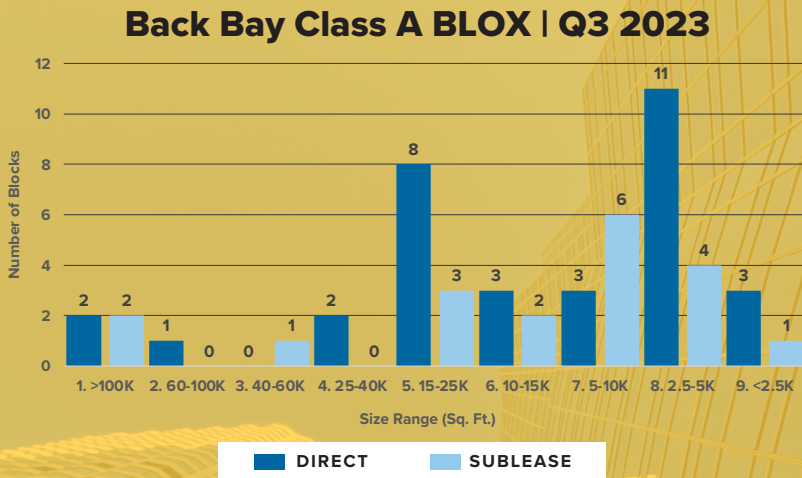
DESPITE growing availability, asking rents in class A and trophy buildings have remained flat – ticking up 0.3% since Q1 2021.



CLASS A LANDLORDS are in a position of strength. More than 3.0 MSF of direct deals have been inked since Q1 2021. Of this, 65% (1.9 MSF) have landed in new construction and legacy class A buildings. Demand for highly amenitized, centrally located, high-end office space has not abated – despite the onset of hybrid and remote work.

THIS DEMAND, coupled with underwriting assumptions, makes it unlikely rents across the class A market will drop appreciably over the next 24-36 months.

ADDITIONALLY, the number of sublease options with higher-end finishes is rapidly dwindling. This is predominantly due to expiring lease terms – not because of significant leasing activity. With an average remaining term length of less than 36 months, the narrative of plentiful, economically priced options is a fallacy – particularly if a prospective tenant is looking for tenant improvement allowances.



THE NUMBERS.

BOSTON	INVENTORY (SF)	CONSTRUCTION COMPLETIONS (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG ASKING RENT (OFFICE)	AVG ASKING RENT (CLASS A)*
Back Bay	12,624,000	0	2,568,266	20.3%	1,669,910	13.2%	(279,766)	\$65.18	\$72.47
Charlestown	2,171,000	0	752,296	34.7%	583,882	26.9%	18,766	\$65.03	\$78.62
Fenway/LMA	2,105,000	0	180,244	8.6%	135,274	6.4%	(101,010)	\$45.00	N/A
Financial District	32,136,000	812,000	9,367,373	29.1%	5,905,642	18.4%	(492,848)	\$66.14	\$71.41
Government Center/ North Station	5,056,000	1,006,541	1,427,894	28.2%	919,616	18.2%	529,555	\$53.83	\$59.62
Midtown	2,012,000	0	468,745	23.3%	350,146	17.4%	(89,974)	\$53.21	N/A
Seaport	10,786,000	0	2,027,321	18.8%	1,385,028	12.8%	(446,490)	\$58.12	\$75.97
South Station	2,737,000	0	287,863	10.5%	218,837	8.0%	(24,763)	\$51.59	\$57.00
BOSTON OFFICE TOTALS	69,627,000	1,818,541	17,080,002	24.5%	11,168,335	16.0%	(886,530)	\$63.55	\$71.49

CAMBRIDGE OFFICE	INVENTORY (SF)	CONSTRUCTION COMPLETIONS (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG ASKING RENT (OFFICE)	AVG ASKING RENT (CLASS A)*
West Cambridge	1,585,000	0	331,107	20.9%	184,172	11.6%	(77,701)	\$56.69	\$56.84
East Cambridge	9,572,000	504,000	1,339,975	14.0%	976,106	10.2%	301,457	\$80.48	\$79.58
Mass Ave Corridor	2,796,000	0	600,480	21.5%	270,828	9.7%	(227,568)	\$75.61	\$82.03
CAMBRIDGE OFFICE TOTALS	13,953,000	504,000	2,271,562	16.3%	1,431,106	10.3%	(3,812)	\$75.45	\$73.88

SUBURBS	INVENTORY (SF)	CONSTRUCTION COMPLETIONS (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG ASKING RENT (OFFICE)	AVG ASKING RENT (CLASS A)*
128 West	28,862,000	0	6,352,403	22.0%	4,419,536	15.3%	(1,513,923)	\$32.94	\$38.81
128 North	11,164,000	0	1,809,816	16.2%	1,486,667	13.3%	(97,642)	\$23.62	\$25.73
128 South	11,156,000	0	2,704,039	24.2%	1,582,638	14.2%	(440,136)	\$25.17	\$26.44
3/24 South	1,650,000	0	225,905	13.7%	167,134	10.1%	(24,372)	\$20.03	\$21.09
Metrowest	2,809,000	0	673,935	24.0%	521,271	18.6%	86,329	\$24.87	\$27.36
495 West	7,661,000	0	2,442,404	31.9%	1,749,393	22.8%	(204,243)	\$20.44	\$21.18
495 North	21,713,000	0	6,438,952	29.7%	4,648,495	21.4%	(602,781)	\$21.49	\$22.59
495 South	1,499,000	0	233,720	15.6%	140,800	9.4%	106,890	\$19.82	\$20.30
Inner Suburbs	6,026,000	0	1,763,763	29.3%	528,659	8.8%	(235,461)	\$39.59	\$40.48
SUBURBAN OFFICE TOTALS	92,538,000	0	22,644,937	24.5%	15,244,593	16.5%	(2,925,339)	\$25.99	\$28.71

BOSTON LAB	INVENTORY (SF)	CONSTRUCTION COMPLETIONS (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG ASKING RENT (NNN)	AVG ASKING RENT (CLASS A)*
Charlestown	896,000	0	75,776	8.5%	59,891	6.7%	4,952	\$54.21	N/A
Fenway/LMA	2,349,000	0	173,432	7.4%	163,696	7.0%	(14,240)	N/A	N/A
Seaport	1,862,000	0	271,856	14.6%	148,407	8.0%	(124,365)	N/A	N/A
South End	556,000	0	61,811	11.1%	12,143	2.2%	(9)	N/A	N/A
BOSTON LAB TOTALS	5,663,000	0	582,875	10.3%	384,137	6.8%	(133,662)	\$54.21	N/A

CAMBRIDGE LAB	INVENTORY (SF)	CONSTRUCTION COMPLETIONS (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG ASKING RENT (NNN)	AVG ASKING RENT (CLASS A)*
West Cambridge	1,320,000	0	293,190	22.2%	233,067	17.7%	(167,577)	\$77.97	N/A
East Cambridge	8,074,000	250,000	1,192,653	14.8%	837,091	10.4%	(352,360)	\$82.96	N/A
Mass Ave Corridor	3,506,000	0	659,543	18.8%	355,535	10.1%	(410,250)	\$90.71	N/A
CAMBRIDGE LAB TOTALS	12,899,000	250,000	2,145,386	16.6%	1,425,693	11.1%	(930,187)	\$86.66	N/A

SUBURBAN LAB	INVENTORY (SF)	CONSTRUCTION COMPLETIONS (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG ASKING RENT (NNN)	AVG ASKING RENT (CLASS A)*
128 West	6,172,000	173,700	989,985	16.0%	699,647	11.3%	178,477	\$66.67	N/A
128 North	347,000	0	210,031	60.5%	0	0.0%	13,095	\$45.00	N/A
128 South	N/A	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3/24 South	N/A	0	N/A	N/A	0	N/A	N/A	N/A	N/A
Metrowest	335,000	0	17,894	5.3%	17,894	5.3%	2,247	N/A	N/A
495 West	672,000	0	0	0.0%	0	0.0%	0	N/A	N/A
495 North	422,000	0	70,538	16.7%	70,538	16.7%	11,832	N/A	N/A
495 South	N/A	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inner Suburbs	2,689,000	200,000	738,977	27.5%	465,393	17.3%	22,445	\$64.55	N/A
SUBURBAN LAB TOTALS	10,637,000	373,700	2,027,425	19.1%	1,253,472	11.8%	228,096	\$56.31	N/A

THE NUMBERS.

Flex	INVENTORY (SF)	CONSTRUCTION COMPLETIONS (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG ASKING RENT (NNN)
Boston	724,000	0	300,646	41.5%	300,646	41.5%	0	\$9.00
Boston North	510,000	0	17,355	3.4%	0	0.0%	27,000	\$13.50
Boston South	808,000	0	273,436	33.8%	196,512	24.3%	(1,850)	\$16.67
Boston West	2,068,000	0	52,578	2.5%	38,038	1.8%	56,635	N/A
128 North	4,918,000	0	175,861	3.6%	77,785	1.6%	28,878	\$12.38
495 North	10,797,000	0	1,304,613	12.1%	794,591	7.4%	31,305	\$9.40
128 West	6,573,000	0	502,051	7.6%	329,074	5.0%	(146,256)	\$17.93
495 West	7,524,000	0	388,278	5.2%	312,420	4.2%	(36,804)	\$9.53
MetroWest	1,012,000	0	97,248	9.6%	92,750	9.2%	(86,998)	N/A
Worcester	196,000	0	4,300	2.2%	4,300	2.2%	(4,300)	N/A
128 South	6,283,000	0	531,764	8.5%	172,594	2.7%	(8,053)	\$10.09
495 South	6,559,000	0	399,779	6.1%	322,688	4.9%	(119,517)	\$10.27
3/24 South	1,276,000	0	128,739	10.1%	118,072	9.3%	(42,928)	\$12.64
Fall River/New Bedford	291,000	0	0	0.0%	0	0.0%	0	N/A
FLEX TOTALS	49,538,000	0	4,176,648	8.4%	2,759,470	5.6%	(302,888)	\$10.96

MANUFACTURING	INVENTORY (SF)	CONSTRUCTION COMPLETIONS (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG ASKING RENT (NNN)
Boston	1,360,000	0	290,290	21.3%	216,882	15.9%	(6,527)	\$11.01
Boston North	1,290,000	0	125,920	9.8%	0	0.0%	680	\$13.76
Boston South	2,770,000	0	43,300	1.6%	23,300	0.8%	(24,367)	\$11.20
Boston West	980,000	0	0	0.0%	0	0.0%	0	N/A
128 North	1,770,000	0	44,200	2.5%	34,000	1.9%	(31,300)	N/A
495 North	5,520,000	0	211,390	3.8%	176,690	3.2%	(23,300)	\$8.57
128 West	600,000	0	0	0.0%	0	0.0%	2,000	N/A
495 West	2,350,000	0	86,110	3.7%	42,460	1.8%	(9,530)	\$7.50
MetroWest	660,000	0	18,862	2.9%	12,112	1.8%	19,256	\$9.00
Worcester	2,630,000	0	219,000	8.3%	31,000	1.2%	(94,000)	\$12.00
128 South	3,260,000	0	133,818	4.1%	98,818	3.0%	10,616	\$6.00
495 South	4,290,000	0	296,903	6.9%	233,205	5.4%	(44,036)	\$6.02
3/24 South	590,000	0	16,518	2.8%	16,518	2.8%	(13,200)	N/A
Fall River/New Bedford	3,450,000	0	0	0.0%	0	0.0%	0	N/A
MANUFACTURING TOTALS	31,500,000	0	1,486,311	4.7%	884,985	2.8%	(213,708)	\$10.17

WAREHOUSE	INVENTORY (SF)	CONSTRUCTION COMPLETIONS (SF)	TOTAL AVAILABLE (SF)	AVAILABILITY RATE	TOTAL VACANT (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG ASKING RENT (NNN)
Boston	2,200,000	0	175,981	8.0%	120,104	5.5%	4,470	\$14.91
Boston North	2,450,000	0	300,231	12.3%	279,231	11.4%	(82,894)	\$16.88
Boston South	2,120,000	0	417,573	19.7%	261,206	12.3%	(176,763)	\$8.27
Boston West	2,100,000	0	45,307	2.2%	14,000	0.7%	(17,280)	\$25.00
128 North	6,380,000	0	672,370	10.5%	266,879	4.2%	(165,699)	\$11.78
495 North	12,330,000	0	840,713	6.8%	739,913	6.0%	(162,275)	\$7.10
128 West	480,000	0	47,600	9.9%	47,600	9.9%	16,993	N/A
495 West	8,510,000	0	473,031	5.6%	77,144	0.9%	117,025	\$7.25
MetroWest	660,000	0	18,649	2.8%	3,700	0.6%	5,342	\$6.44
Worcester	7,970,000	0	201,635	2.5%	88,253	1.1%	176,317	\$6.61
128 South	15,170,000	0	1,139,029	7.5%	788,464	5.2%	(75,902)	\$6.26
495 South	24,740,000	130,000	2,601,276	10.5%	710,858	2.9%	(1,418,183)	\$7.22
3/24 South	3,750,000	0	430,668	11.5%	389,668	10.4%	16,439	\$6.00
Fall River/New Bedford	6,000,000	0	196,125	3.3%	174,125	2.9%	5,444	\$5.94
WAREHOUSE TOTALS	94,860,000	130,000	7,560,188	8.0%	3,961,145	4.2%	(1,756,966)	\$7.99



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