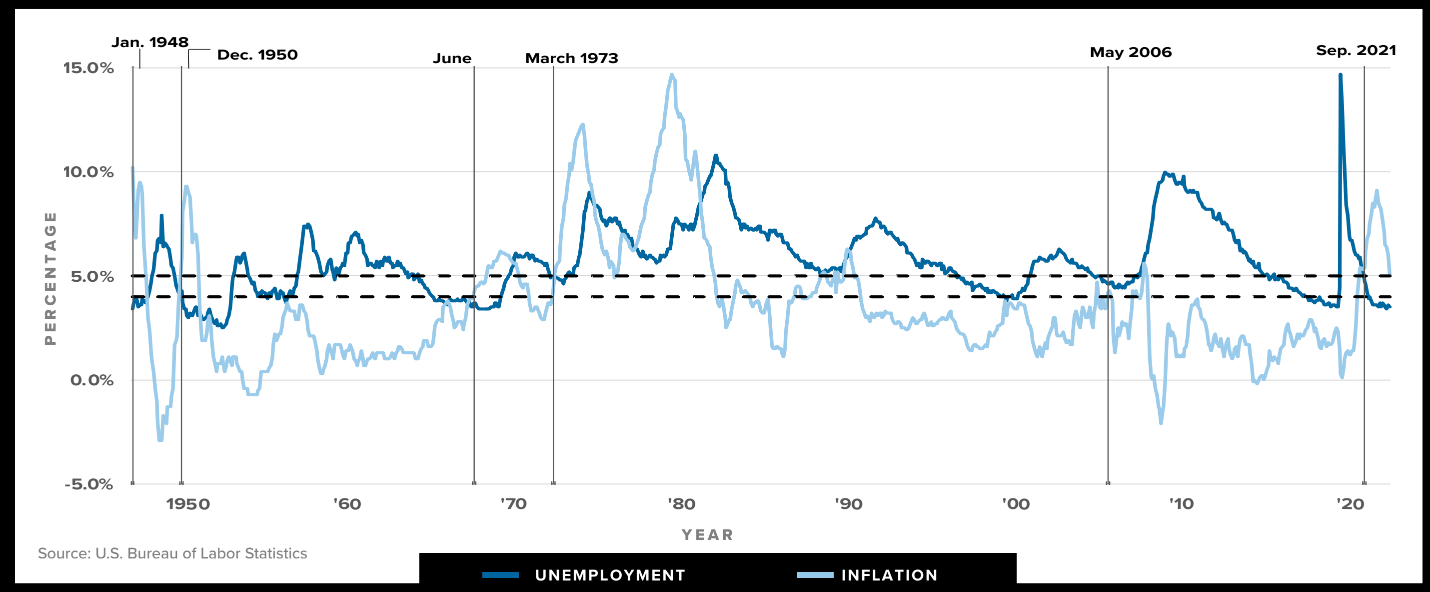
THE PERRY PERSPECTIVE

Q1 2023 MARKET REPORT.

ECONOMIC OVERVIEW.

STORM CLOUDS HAVE BEEN GATHERING; NOW THE WIND IS PICKING UP

UNEMPLOYMENT VS. INFLATION



Source: U.S. Bureau of Labor Statistics

THIS INFLATION VS UNEMPLOYMENT CHART IS IMPORTANT FOR TWO REASONS.

1. Every time inflation has surpassed 4.0% while unemployment has been below 5.0%, the economy has sunk into a recession within 24 months. This most recently occurred in September of 2021.

2. The 1970s bears closer inspection – notably because inflation declined several times only to come roaring back – peaking at 14.6% in mid-1980.

THE ECONOMY has been weird in recent years – few experts anticipated inflation would rise so significantly, interest rates would

SKYROCKET

or that the effect of rising rates would have so little effect on tamping down inflation. Unemployment filings (a proxy for layoffs) are [ticking up,]() but overall unemployment figures (at 3.5% both state and nationwide) are well below equilibrium – meaning the labor market is still strong.

Historically, this has been a positive for commercial real estate – strong labor markets portend strong demand for office space.

This time, it's a problem – a tight labor market is bolstering wage and inflation pressure. This means the Federal Reserve still has work to do to achieve its

2.0% INFLATION TARGET.

FIVE DECADES AGO, abrupt hikes followed by short-term declines convinced policy makers that inflation had been tamed. "Easy money" returned, fueling additional inflation. The result was a 20% interest rate by the fourth quarter of 1980 - followed by a decade of "effective rates" averaging around 10%.

Despite the steepest interest rate hikes since the 1980s, we have yet to experience what is, perhaps, the most anticipated recession in history. This is mainly because the transmission of rate hikes has yet to be felt in broad terms. For example, when the Fed tightened rates in the late 1990s/early 2000s, it collapsed the tech, media and telecom bubble – leading to a decline in hiring and investment.

IN 2004 -2006, THE FED DEFLATED A HOUSING BUBBLE – TRIGGERING A WAVE OF MORTGAGE DEFAULTS.

THUS FAR, NOTHING THAT DRAMATIC HAS HAPPENED. YET.

The addition of turmoil in the banking sector means stricter lending standards (to ensure strong balance sheets and to appease depositors). This, in turn, will have a significant effect on lenders, landlords and ultimately, tenants.

A FOCUS ON SUPPLY,

NOT JUST DEMAND.

STATS

Boston Office

	Q1 2023	Q1 2022
VACANCY RATE (%)	*13.6%*	*12.8%*
YTD Net Absorption (SF)	(578,592)	318,033
Asking Rent ($/SF)	$63.72	$63.78
Sublease Space (SF)	4,272,463	2,563,964

Cambridge Office

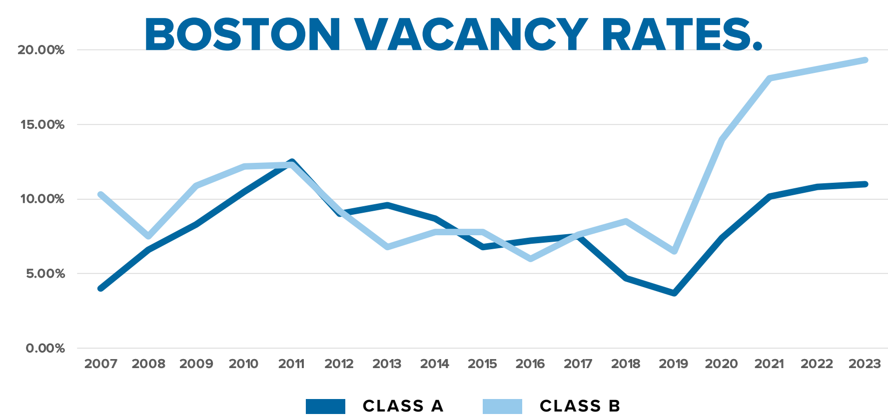
	Q1 2023	Q1 2022
VACANCY RATE (%)	*8.3%*	*4.9%*
YTD Net Absorption (SF)	(170,381)	(120,033)
Asking Rent ($/SF)	$76.29	$78.36
Sublease Space (SF)	976,885	614,829

Suburban Office

	Q1 2023	Q1 2022
VACANCY RATE (%)	*15.2%*	*13.7%*
YTD Net Absorption (SF)	(1,354,659)	(202,232)
Asking Rent ($/SF)	$25.63	$25.45
Sublease Space (SF)	4,365,516	3,501,408

UNTIL RECENTLY, the commercial real estate conversation has been centered around remote work/return to office/hybrid work schedules. The "workplace of the future" conversation has created a field day for consultants, architects and especially brokerage firms.

Thinking critically about the workplace is necessary – it wasn't too long ago that bench seating (under the auspices of collaboration) was touted as a panacea for space-constrained companies. Today, we can confidently confirm there is zero interest in bench seating – and that workplaces will no longer look like those of the past.



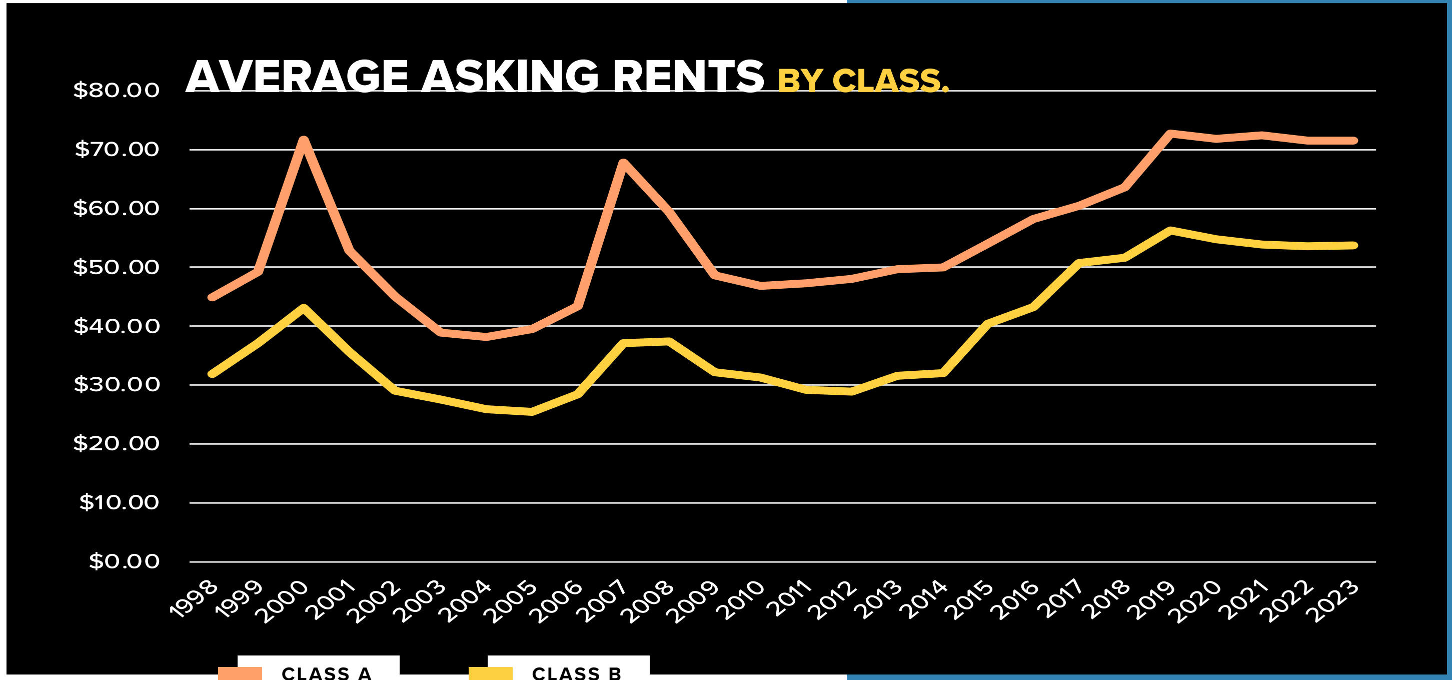
HOWEVER, demand (employee perspective) is only half of the equation. Yes – well-located, highly amenitized and new buildings have certainly fared better (from a vacancy perspective) than their class B counterparts in Boston.

BUT RISING INTEREST RATES lead to higher borrowing costs. This eats into landlord earnings and makes it harder to refinance expiring loans. So far, Boston has yet to see a discernable decline in class A asking rents. Which makes sense – if landlords drop rents, the building value declines.

But when a proposal for legacy class A space comes in with a longer term, higher asking rent (and escalations) and a tenant improvement package 75% lower than a proposal for brand new construction, **there is a problem.**

TO COUNTER THIS DYNAMIC, WE ARE SEEING SOME CLASS A LANDLORDS OFFERING MORE GENEROUS FREE RENT PACKAGES. THIS MAY BE AN EFFECTIVE TACTIC TO CAPTURE PIECES OF DEMAND, BUT IN THIS CASE (SPOILER ALERT), OUR CLIENT OPTED FOR

THE DEAL IN NEW CONSTRUCTION.



THE IMPORTANCE OF KNOWING YOUR LANDLORD. WHAT COMES NEXT?

Escalating interest rates, paired with the growing supply of vacant space (exacerbated by remote/hybrid work) is a threat to the commercial real estate sector. It is not the first, and unlikely to be the last, but it is a threat nonetheless.

> **THE REALITY IS THAT SPACE CANNOT STAY VACANT FOREVER.**

Taxes, operating expenses and insurance costs don't go away even if the building is vacant. The question we're all trying to answer is **WHAT NEEDS TO HAPPEN FOR LANDLORDS TO FILL THEIR SPACE?** Lower rents, yes. But before that - a renegotiation of their loan? A write-down of value?

Knowing your landlord in today's market is critical. It is highly likely that a class A landlord will sell at some point – so the owner you know may cease to exist.

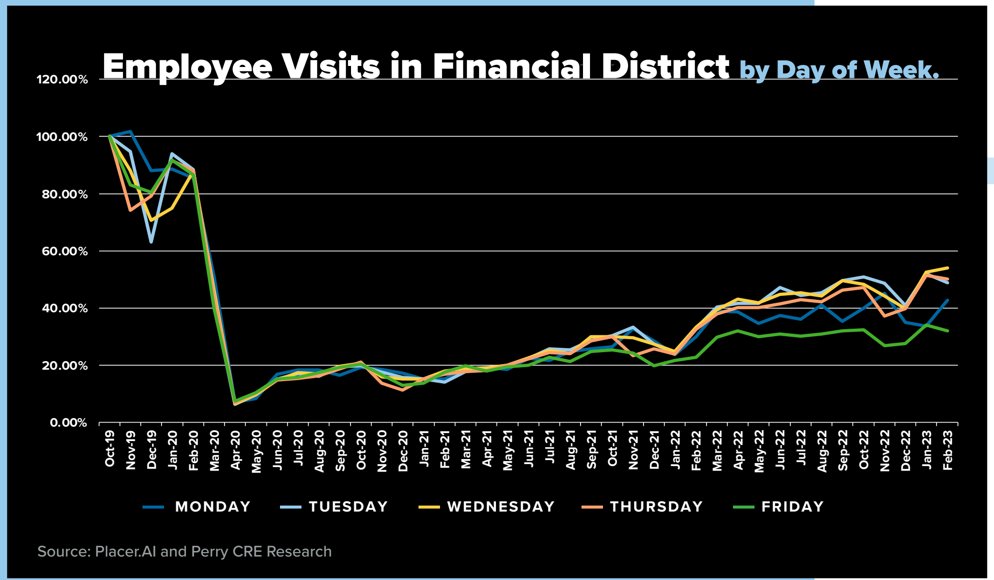
GENERALLY SPEAKING, class B landlords in Boston are more focused on cashflow than class A owners. Their objective is to secure an operating deal versus a lease-and-sell deal. As a result, tenants in Boston have more leverage in negotiations for class B space. And, overall, we are finding class B landlords to be the most accommodating when it comes to short-term leases.

THIS IS IMPERATIVE in a market where incongruities between supply and demand – outside of the physical space – are becoming prevalent. Technology and life science tenants have long contended with landlord preferences for long-term leases. This has notably led to churn (but still strong demand) in the lab market – where companies grow rapidly, are acquired or become defunct rather quickly.

All of which is 250 words to say this:

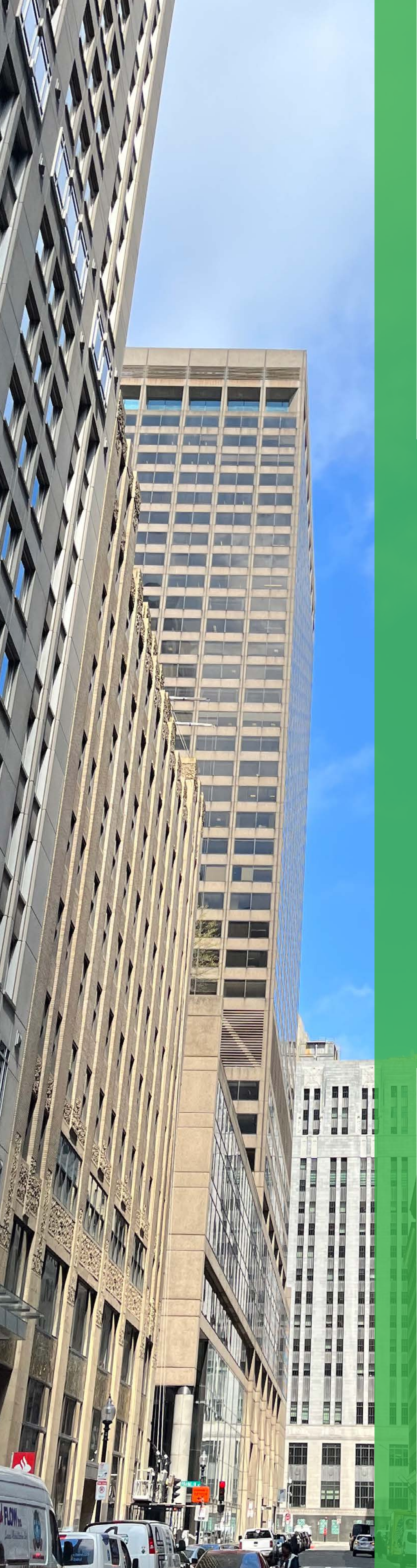
Landlords who are the strongest magnet in their respective asset classes will fare the best.

As vacancies and defaults continue to climb in class A assets, and with fewer than 45% of employees at Financial District firms coming into the office on Mondays and Fridays, it has become clear that remote work and rising interest rates are contributing to a tenuous situation.



At Perry CRE, we believe flexible lease terms are here to stay. We are witnessing this shift play out with our tenant clients and with the landlords we represent. It is imperative for banks and lenders to figure out how to underwrite this.

Given the ongoing demand for **SHORTER LEASES,** we think lenders might be well-served to examine the possibility of utilizing a hospitality model when underwriting commercial real estate.



A NOTE ON

SUBLEASE SPACE.

The sublease story is a compelling one.

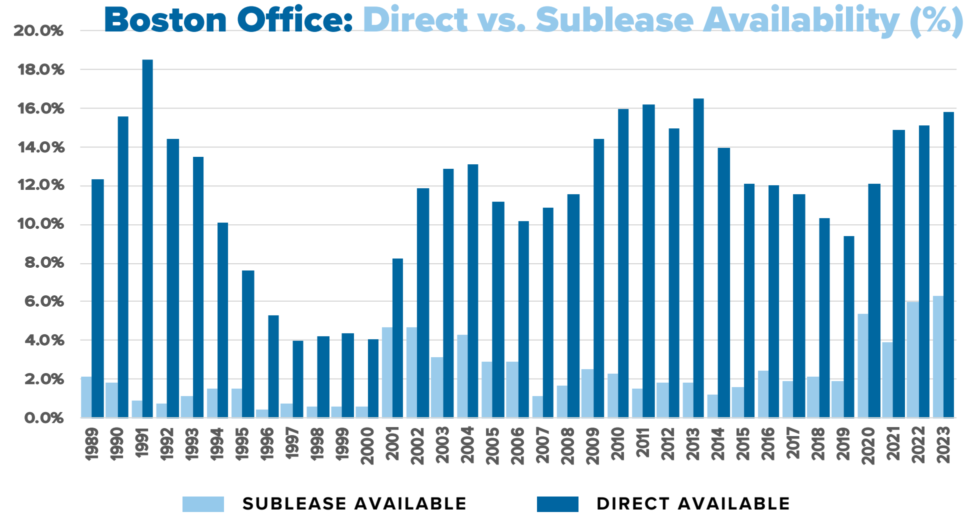
It is a physical manifestation of what we already know to be true – that companies are shrinking via layoffs, remote-work implementation and, in some cases, just going out of business. While this may tell us where we are and where we have been, it does not tell us where we are going. It is also not a metric we at Perry CRE find overly concerning (at least not yet) because it pales in comparison to broader market woes.

In Boston, the sublease availability rate is currently 6.3% (or just over 4.2 million square feet). Is this the highest rate in nearly 35 years? Yes.

But even if all of this space flips to direct, it is still not enough to sink the market.

THIS IS GOOD NEWS.

Boston Office: Direct vs. Sublease Availability (%)

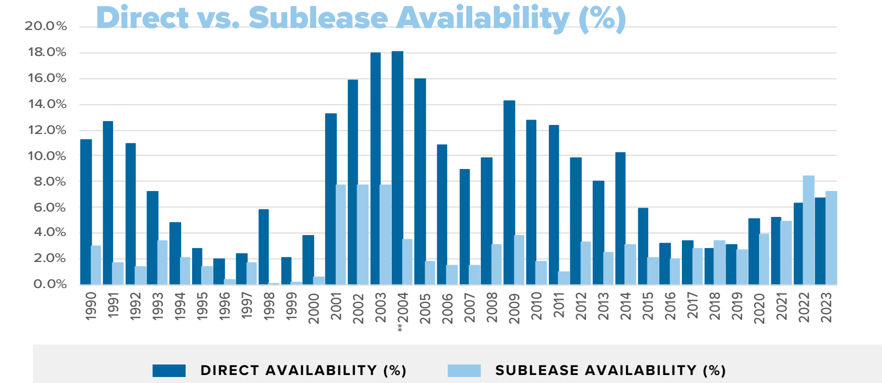


IN CAMBRIDGE,

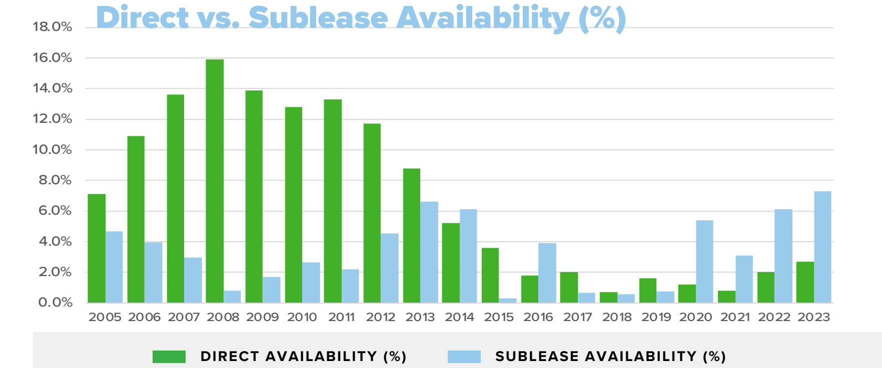
the sublease story is a little more interesting. Sublease availabilities have outstripped direct availabilities in both the lab and office markets since 2020 and 2022, respectively.

Again, we are not overly concerned by this trend because Cambridge is the epicenter of innovation. The clustering of tenants around MIT (from venture capital-backed start-ups to big pharma) is not easily replicated. Which means it is unlikely demand will abate any time soon.

CAMBRIDGE OFFICE: Direct vs. Sublease Availability (%)



CAMBRIDGE LAB: Direct vs. Sublease Availability (%)



From life-saving drugs to artificial intelligence to democracy, greater Boston has always been at the forefront of "the next big thing." Economic turmoil and new interpretations of what an office is will not be our demise. They will merely clear the path for WHAT COMES NEXT.

STATS

Boston Lab

	Q1 2023	Q1 2022
VACANCY RATE (%)	5.2%	0.9%
YTD Net Absorption (SF)	22,114	30,608
Asking Rent ($/SF)	$55.00	$55.00
Sublease Space (SF)	142,907	24,427

Cambridge Lab

	Q1 2023	Q1 2022
VACANCY RATE (%)	6.0%	1.3%
YTD Net Absorption (SF)	(298,511)	(7.032)
Asking Rent ($/SF)	$82.44	$88.18
Sublease Space (SF)	922,574	387,672

Suburban Lab

	Q1 2023	Q1 2022
VACANCY RATE (%)	10.6%	2.2%
YTD Net Absorption (SF)	197,689	506,097
Asking Rent ($/SF)	$56.43	$42.35
Sublease Space (SF)	268,199	67,300

THE NUMBERS.

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	2,385,712	18.9%	1,464,232	11.6%	(88,192)	$65.76	$72.81
Charlestown	2,171,000	0	760,796	35.0%	260,140	12.0%	10,266	$66.01	$78.82
Fenway/LMA	2,105,000	0	156,126	7.4%	52,020	2.5%	(54,397)	$45.00	N/A
Financial District	31,324,000	0	7,991,020	25.5%	5,148,123	16.4%	(508)	$65.83	$70.86
Government Center/ North Station	4,049,000	0	1,150,751	28.4%	679,790	16.8%	(231,759)	$53.76	$65.10
Midtown	2,012,000	0	470,781	23.4%	316,768	15.7%	(92,010)	$52.93	N/A
Seaport	10,786,000	0	1,802,214	16.7%	1,148,545	10.6%	(128,927)	$58.66	$76.29
South Station	2,737,000	0	256,165	9.4%	180,841	6.6%	6,935	$51.41	N/A
BOSTON OFFICE TOTALS	67,808,000	0	14,973,565	22.1%	9,250,459	13.6%	(578,592)	$63.72	$71.56

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	316,210	20.0%	166,794	10.5%	(62,804)	$57.20	$57.42
East Cambridge	9,068,000	0	1,157,503	12.8%	686,756	7.6%	(74,071)	$83.35	$84.73
Mass Ave Corridor	2,796,000	0	406,418	14.5%	264,627	9.5%	(33,506)	$76.31	$79.44
CAMBRIDGE OFFICE TOTALS	13,449,000	0	1,880,131	14.0%	1,118,177	8.3%	(170,381)	$76.29	$75.65

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	5,290,311	18.3%	3,705,205	12.8%	(475,159)	$32.47	$38.85
128 North	11,164,000	0	1,809,120	16.2%	1,330,775	11.9%	(81,565)	$23.87	$25.85
128 South	11,156,000	0	2,568,576	23.0%	1,452,838	13.0%	(241,031)	$25.30	$26.47
3/24 South	1,585,000	0	232,736	14.7%	132,683	8.4%	(40,140)	$20.03	$20.91
Metrowest	2,809,000	0	629,838	22.4%	459,612	16.4%	130,426	$24.57	$27.37
495 West	7,661,000	0	2,335,763	30.5%	1,637,965	21.4%	(53,393)	$20.48	$21.20
495 North	21,772,000	0	6,440,378	29.6%	4,613,299	21.2%	(454,192)	$21.46	$22.58
495 South	1,499,000	0	302,101	20.2%	139,649	9.3%	38,509	$19.94	$20.37
Inner Suburbs	6,026,000	0	1,713,923	28.4%	618,527	10.3%	(178,114)	$39.43	$41.47
SUBURBAN OFFICE TOTALS	92,533,000	0	21,322,746	23.0%	14,090,553	15.2%	(1,354,659)	$25.63	$28.17

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	80,728	9.0%	59,446	6.6%	0	$55.00	N/A
Fenway/LMA	2,349,000	0	162,192	6.9%	120,530	5.1%	(3,000)	N/A	N/A
Seaport	1,862,000	0	114,036	6.1%	105,115	5.6%	(6,545)	N/A	N/A
South End	556,000	0	30,143	5.4%	12,143	2.2%	31,659	N/A	N/A
BOSTON LAB TOTALS	5,663,000	0	387,099	6.8%	297,234	5.2%	22,114	$55.00	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	191,990	14.5%	107,548	8.1%	(4,377)	$70.00	N/A
East Cambridge	7,824,000	0	733,839	9.4%	479,839	6.1%	(208,922)	$82.04	N/A
Mass Ave Corridor	3,506,000	0	334,505	9.5%	165,974	4.7%	(85,212)	$85.36	N/A
CAMBRIDGE LAB TOTALS	12,649,000	0	1,260,334	10.0%	753,361	6.0%	(298,511)	$82.44	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	5,998,000	0	910,251	15.2%	622,228	10.4%	84,511	$75.00	N/A
128 North	347,000	0	223,126	64.3%	13,095	3.8%	0	$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	N/A	N/A	N/A	N/A	N/A
Metrowest	335,000	0	20,141	6.0%	20,141	6.0%	0	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	82,370	19.5%	76,580	18.1%	0	$25.00	N/A
495 South	N/A	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inner Suburbs	2,489,000	0	427,444	17.2%	356,524	14.3%	113,178	$64.58	N/A
SUBURBAN LAB TOTALS	10,264,000	0	1,663,332	16.2%	1,088,568	10.6%	197,689	$56.43	N/A

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	266,092	32.9%	189,168	23.4%	5,494	$16.93
Boston West	2,068,000	0	142,838	6.9%	38,038	1.8%	(33,625)	$18.00
128 North	4,918,000	0	137,276	2.8%	81,713	1.7%	30,352	$10.53
495 North	10,797,000	0	1,243,679	11.5%	771,856	7.1%	109,459	$9.51
128 West	6,573,000	0	743,397	11.3%	429,968	6.5%	(194,105)	$19.18
495 West	7,524,000	0	445,797	5.9%	344,941	4.6%	(54,323)	$9.01
MetroWest	1,012,000	0	120,250	11.9%	28,750	2.8%	(110,000)	N/A
Worcester	196,000	0	0	0.0%	0	0.0%	0	N/A
128 South	6,283,000	0	392,857	6.3%	182,712	2.9%	65,484	$9.96
495 South	6,559,000	0	302,444	4.6%	243,184	3.7%	(22,182)	$10.88
3/24 South	1,311,000	0	103,811	7.9%	82,032	6.3%	(18,000)	$14.50
Fall River/New Bedford	291,000	0	0	0.0%	0	0.0%	0	N/A
FLEX TOTALS	49,574,000	0	4,216,442	8.5%	2,693,008	5.4%	(194,446)	$11.21

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	261,993	19.3%	259,414	19.1%	(14,864)	$11.85
Boston North	1,290,000	0	81,000	6.3%	0	0.0%	45,600	$15.00
Boston South	2,770,000	0	19,933	0.7%	15,433	0.6%	(1,000)	$20.46
Boston West	980,000	0	0	0.0%	0	0.0%	0	N/A
128 North	1,770,000	0	5,100	0.3%	5,100	0.3%	7,800	N/A
495 North	5,520,000	0	198,090	3.6%	196,690	3.6%	(10,000)	$7.86
128 West	600,000	0	2,000	0.3%	2,000	0.3%	0	$16.00
495 West	2,350,000	0	100,580	4.3%	0	0.0%	12,000	$7.24
MetroWest	660,000	0	39,962	6.1%	21,312	3.2%	(1,844)	$9.13
Worcester	2,630,000	0	125,000	4.8%	0	0.0%	0	$12.00
128 South	3,260,000	0	187,230	5.7%	74,054	2.3%	(42,796)	$6.35
495 South	4,290,000	0	280,277	6.5%	51,215	1.2%	(27,410)	$6.02
3/24 South	590,000	0	3,318	0.6%	3,318	0.6%	0	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	1,304,483	4.1%	628,536	2.0%	(32,514)	$9.96

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	179,926	8.2%	162,475	7.4%	525	$15.01
Boston North	2,450,000	0	217,337	8.9%	184,506	7.5%	0	$16.91
Boston South	2,120,000	0	407,541	19.2%	259,688	12.2%	(166,731)	$8.11
Boston West	2,100,000	0	51,334	2.4%	20,027	1.0%	(23,307)	$25.00
128 North	6,380,000	0	528,063	8.3%	336,172	5.3%	(134,518)	$11.12
495 North	12,330,000	0	788,044	6.4%	411,305	3.3%	(109,606)	$7.33
128 West	480,000	0	61,938	12.9%	52,000	10.8%	2,655	$10.00
495 West	8,510,000	0	498,418	5.9%	63,155	0.7%	132,847	$6.20
MetroWest	660,000	0	28,991	4.4%	0	0.0%	(5,000)	$6.19
Worcester	7,970,000	0	267,128	3.4%	51,118	0.6%	326,834	$6.70
128 South	15,170,000	0	1,113,996	7.3%	674,186	4.4%	(42,551)	$6.26
495 South	24,740,000	130,000	1,483,240	6.0%	923,315	3.7%	(300,147)	$6.29
3/24 South	3,750,000	0	480,695	12.8%	392,999	10.5%	(7,588)	$7.93
Fall River/New Bedford	6,000,000	0	459,927	7.7%	437,927	7.3%	0	$5.87
WAREHOUSE TOTALS	94,860,000	130,000	6,566,578	6.9%	3,968,873	4.2%	(326,587)	$7.95

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