MARKETBEAT

BOSTON

OFFICE Q4 2024

MARKET FUNDAMENTALS

	YOY Chg	Outlook
17.0% Vacancy Rate	▲	▲
-4.6M YTD Net Absorption, SF	▲	▲
$47.48 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS

	YOY Chg	Outlook
2.9M Boston Employment	▲	▲
3.6% Boston Unemployment Rate	▲	▼
4.2% U.S. Unemployment Rate	▲	▲

Source:BLS

ECONOMY

Greater Boston's labor market remained tighter than the U.S. average throughout 2024, and the fourth quarter was no exception, with unemployment ending the year 60 basis points (bps) below the national average at 3.6%. However, office-using employment sectors in the region posted net losses year-over-year (YOY), led by the information sector, which shrunk by 3.8%. The financial activities and professional and business services sectors also posted modest losses over the same period.

DEMAND

Renewals dominated transaction activity throughout 2024 as many users, particularly those situated in highly-amenitized assets in desirable locations, opted to remain in place. Notably, some made decisions years in advance of their lease expirations. Nearly 4.3 million square feet (msf) of renewals were inked across Greater Boston in 2024, comprising 46.1% of all transaction activity, a substantial increase over 2023's share of 19.6%. Back Bay led Downtown with 1.1 msf of deals signed, followed closely by the Seaport at 1.0 msf, while 85.9% of Suburban renewals were concentrated in just three submarkets – 495 North, 128 North, and 128 Central. In total, nineteen users occupying spaces 50,000 square feet (sf) or larger renewed in 2024, up from just five in 2023. Further, a whopping nine of the market's ten largest transactions signed in 2024 were renewals, with Commonwealth Financial's deal at 275 Wyman Street in Waltham representing the sole new lease on the list. With renewals reigning supreme, annual new leasing activity totaled just 5.1 msf, marking a drop of 19.1% YOY, and falling short of the market's five-year average by 2.1 msf. Combining renewals and new demand, seven of nineteen submarkets recorded YOY increases in transaction volume, led by the Seaport, where total demand nearly doubled after Vertex Pharmaceutical's significant renewal of its headquarters space in August.

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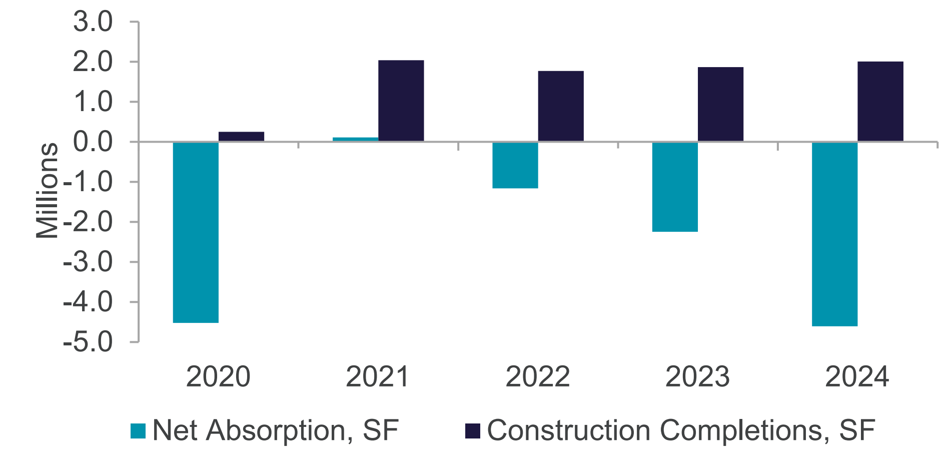
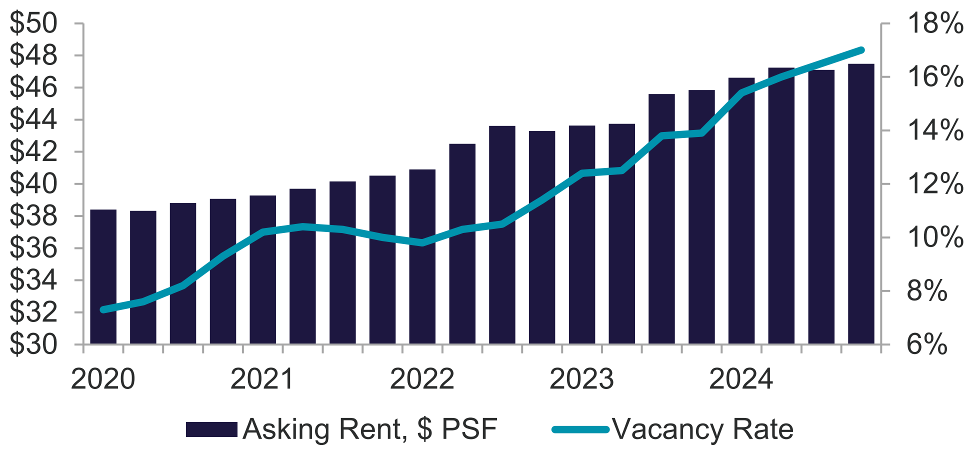
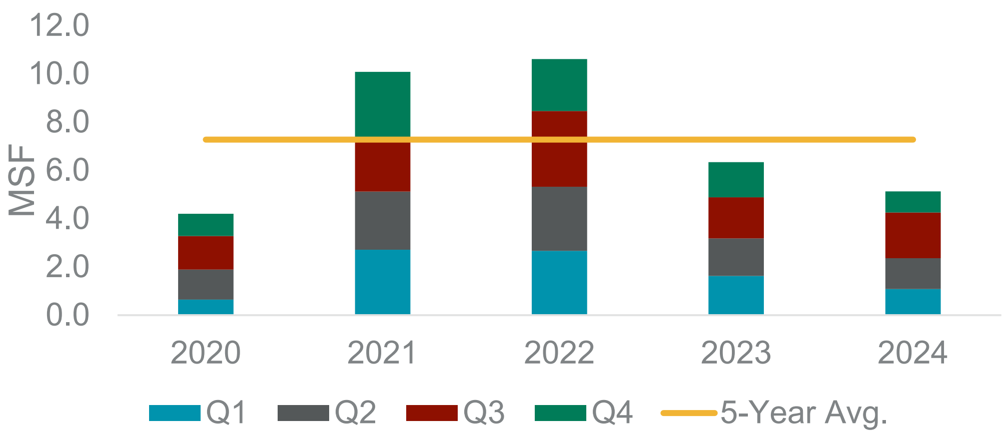
SPACE DEMAND / DELIVERIES



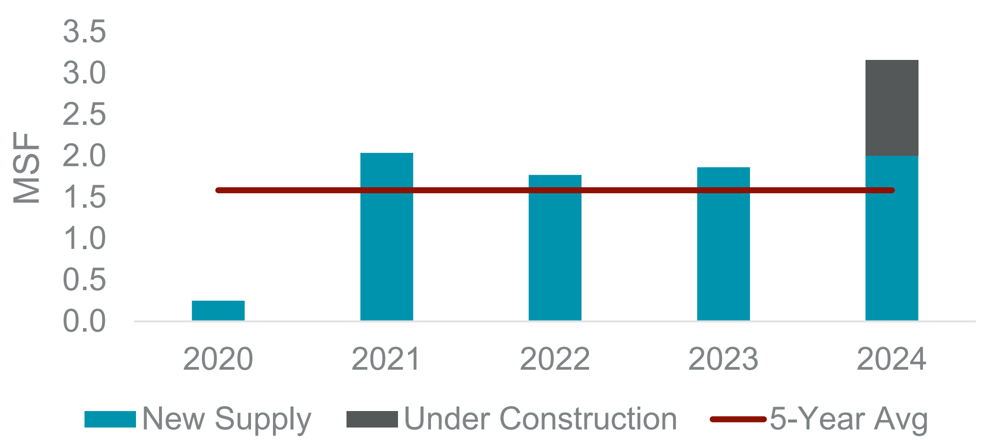
OVERALL VACANCY & ASKING RENT



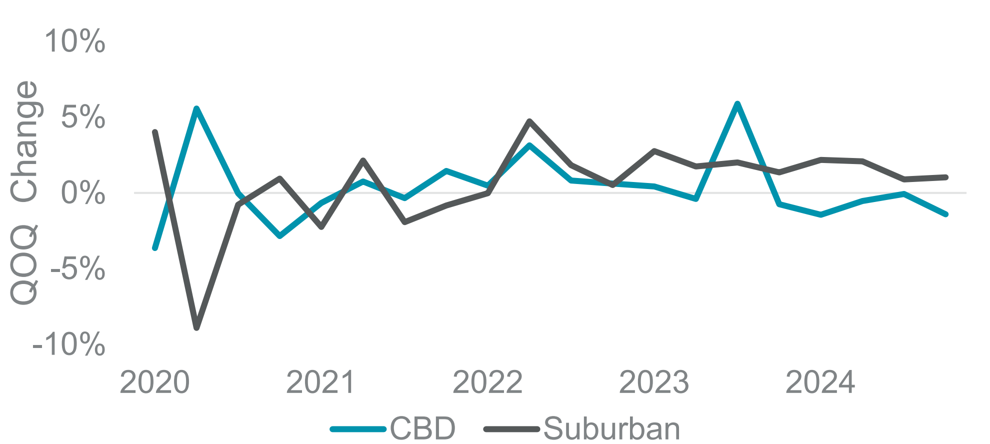
DEMAND: NEW LEASING ACTIVITY



SUPPLY: CONSTRUCTION DELIVERIES



PRICING: CLASS A DIRECT ASKING RENT TREND



SUPPLY

The market's overall vacancy continued to rise throughout 2024, ending the year 310 bps higher than where it began. While this follows the trend established over the prior two years, when vacancy rose 140 bps and 250 bps, respectively, it represents a sharper increase and at 17.0%, a new record-high for the market. The pattern held steady across both geography and asset class as Boston's Downtown submarkets and Suburban submarkets posted increases of identical magnitude. While Class A and Class B market segments each recorded spikes, the jump was most pronounced in the higher-tier assets, which posted an increase of 370 bps compared with just 230 bps for Class B. However, Class B assets situated in Downtown fared most poorly amidst softened pricing for higher quality space, with vacancy increasing 500 bps YOY in that cohort.

CONSTRUCTION

More than 2.0 msf delivered across four projects throughout 2024, including a pair of large build-to-suit developments in the Seaport: Foundation Medicine's 610,000-sf 400 Summer Street and 630,000 sf at 1 Boston Wharf Road for Amazon. On the speculative side, Back Bay's 1001 Boylston Street delivered in September with substantial commitments from CarGurus and Lego, while the 422,000-sf 40 Thorndike Street in Cambridge delivered in July and remains fully available. Three buildings remain under construction in Greater Boston, the largest of which, South Station Tower, secured its first tenant during the fourth quarter when Jones Day inked a deal for 41,000 sf across two floors. The 680,000-sf development is scheduled for completion in Q2 2025.

PRICING

While Greater Boston's overall asking rate jumped by 3.6% YOY, rent growth was not geographically widespread as rents jumped 3.7% in suburban submarkets but fell 1.6% in Downtown Boston. Suggesting the prominence of "flight to quality" has begun to recede, Class B assets posted 6.7% YOY growth, compared with a far more moderate 1.8% increase for Class A. Suburban Class B direct space posted the most significant growth of all market segments, climbing 11.1% since start of the year.

OUTLOOK

- Tenant-favorable conditions will continue through 2025 with asking rates predicted to dip, particularly in Downtown assets.
- Vacancy is expected to increase during 2025, albeit less sharply than over the past year, with a predicted cycle peak during the second half of 2025. Fundamentals will begin to level off in 2026 as the market enters a period of recovery.
- The market could record a rebound in demand in the coming years with a significant number of lease expirations on the horizon.
- With Boston's office-to-residential conversion program extended through the end of 2025, additional projects are likely to enter the pipeline and the market may see its first proposed high-rise conversion.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Back Bay	14,650,392	2,088,995	391,602	16.9%	-190,124	-574,833	547,376	221,230	$66.24	$67.18
Fenway/Longwood	1,397,608	0	30,854	2.2%	0	0	0	0	$91.50	$91.50
Financial District	34,787,590	6,007,276	1,022,285	20.2%	-312,057	-872,311	1,346,212	680,000	$67.79	$72.15
Midtown/N Station	8,065,349	999,261	410,794	17.5%	23,783	-237,294	226,695	0	$54.57	$63.58
Seaport	12,091,971	1,286,290	775,075	17.1%	467,158	664,220	256,960	258,000	$58.79	$73.31
BOSTON CBD TOTAL	70,992,910	10,381,822	2,630,610	18.3%	-11,240	-1,020,218	2,377,243	1,159,230	$64.74	$70.99
Alewife	1,153,069	107,966	105,538	18.5%	-5,127	-17,866	0	0	$59.28	$75.00
East Cambridge	9,472,557	1,439,657	513,439	20.6%	-168,108	-399,184	118,498	0	$75.28	$82.46
Mid Cambridge	2,103,241	270,178	15,600	13.6%	21,215	-63,158	33,651	0	$67.44	$86.19
CAMBRIDGE TOTAL	12,728,867	1,817,801	634,577	19.3%	-152,020	-480,208	152,149	0	$72.47	$82.20
Urban North	7,013,042	884,648	176,565	15.1%	-165,380	-418,100	153,778	0	$43.65	$41.82
Urban South	2,348,809	127,525	8,030	5.8%	-19,319	-27,349	0	0	$41.58	$40.00
Urban West	1,349,982	101,738	69,507	12.7%	0	-40,856	78,067	0	$49.41	$51.17
Watertown	1,086,867	82,732	40,685	11.4%	0	7,921	21,952	0	$46.72	$29.00
URBAN RING TOTAL	11,798,700	1,196,643	294,787	12.6%	-184,699	-478,384	253,797	0	$44.23	$42.66
128 Central	25,437,618	3,553,710	1,616,814	20.3%	-165,016	-649,115	830,907	0	$37.61	$39.02
128 North	10,852,952	1,428,284	93,031	14.0%	-37,651	-266,284	452,269	0	$27.11	$27.91
128 South	15,887,867	1,762,551	251,029	12.7%	31,047	-264,738	365,202	0	$29.36	$31.02
128 BELT TOTAL	52,178,437	6,744,545	1,960,874	16.7%	-171,620	-1,180,137	1,648,378	0	$33.91	$35.51
495 North	26,451,218	4,203,694	367,800	17.3%	-23,727	-827,295	358,749	0	$26.23	$27.23
495 South	4,578,239	510,748	184,424	15.2%	-21,604	-340,959	32,512	0	$23.04	$23.86
495 West	13,420,403	1,746,387	452,568	16.4%	-41,681	-188,996	202,171	0	$24.77	$27.59
Framingham/Natick	6,059,674	631,143	30,833	10.9%	6,524	-90,597	107,610	0	$25.87	$26.59
495 BELT TOTAL	50,509,534	7,091,972	1,035,625	16.1%	-80,488	-1,447,847	701,042	0	$25.63	$27.07
BOSTON TOTALS	**198,208,448**	**27,232,783**	**6,556,473**	**17.0%**	**-600,067**	**-4,606,794**	**5,132,609**	**1,159,230**	**$47.48**	**$51.19**

**Rental rates reflect full service asking*

KEY LEASE TRANSACTIONS 2024

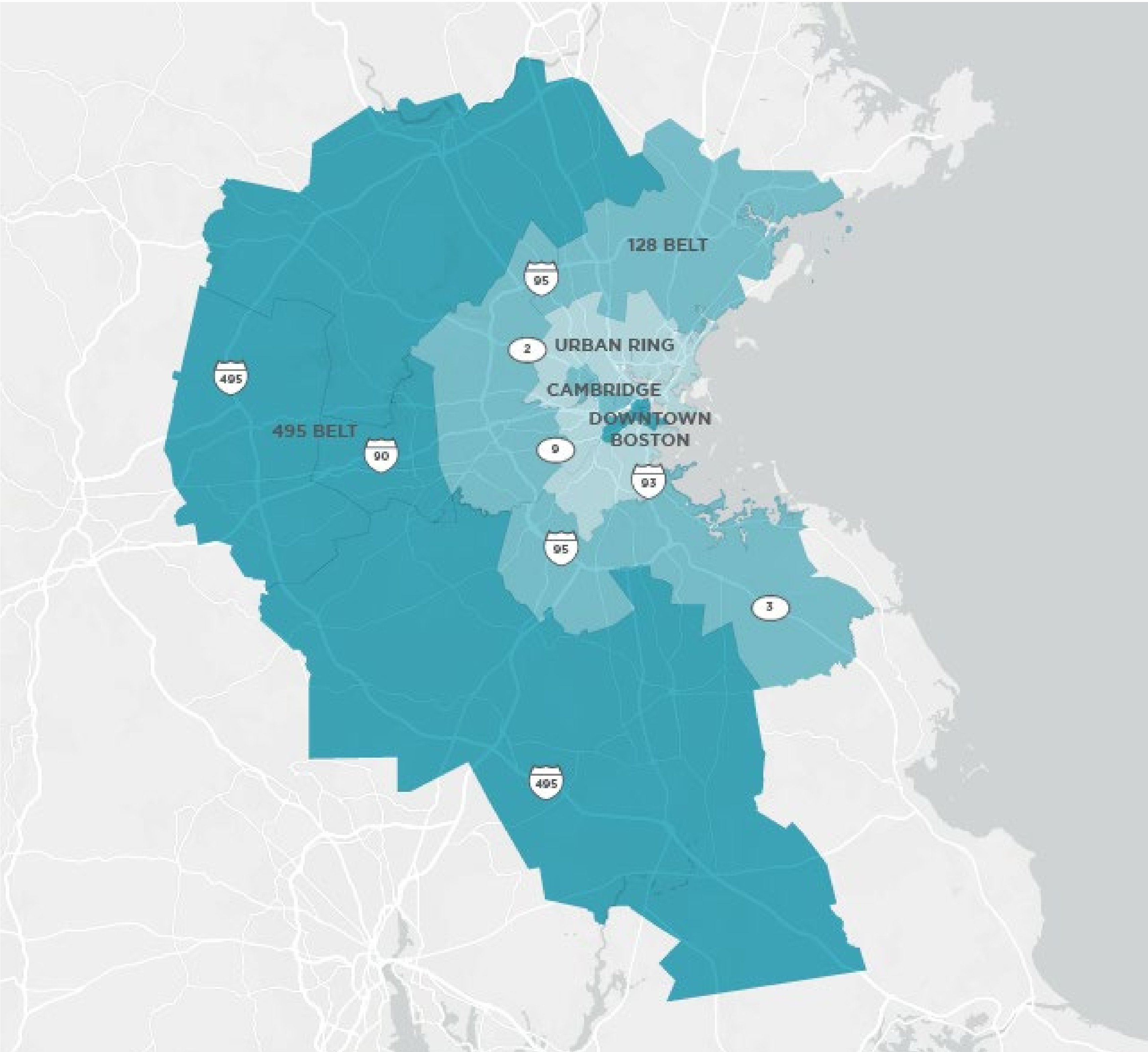
PROPERTY	SUBMARKET	TENANT	SF	TYPE
11 Fan Pier Blvd	Seaport	Vertex Pharmaceuticals	526,312	Renewal*
800 Boylston Street	Back Bay	Ropes & Gray LLP	413,000	Renewal*
200 Clarendon Street	Back Bay	Bain Capital	378,000	Renewal/Expansion*
101 Seaport Blvd	Seaport	PwC	335,000	Renewal*
160 North Washington Street	Midtown/N. Station	Converse	186,525	Renewal*

**Renewals not included in leasing statistics*

KEY CONSTRUCTION COMPLETIONS 2024

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
1 Boston Wharf Road	Seaport	Amazon	630,000	W/S Development
400 Summer Street	Seaport	Foundation Medicine	610,000	W/S Development
40 Thorndike Street	East Cambridge	N/A	422,000	Leggat McCall Properties

OFFICE SUBMARKETS



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