

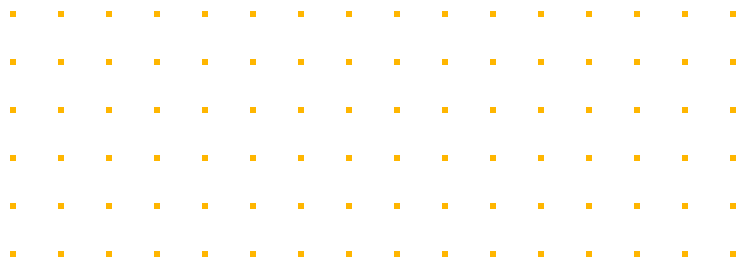
A wide-angle photograph of the Boston skyline at sunset. The sky is filled with soft, colorful clouds in shades of orange, pink, and blue. The city's skyline is dominated by several tall skyscrapers, including the Hancock Tower, which is a prominent green glass structure. Other buildings of various architectural styles are visible, some with lit-up windows. In the foreground, a body of water (likely the harbor) is visible, with several sailboats and small boats anchored. A line of green trees separates the water from the city buildings. The overall scene is peaceful and scenic.

Winter/Spring 2023

Downtown Boston

Annual Market Insight Report

Photo: Kyle Klein



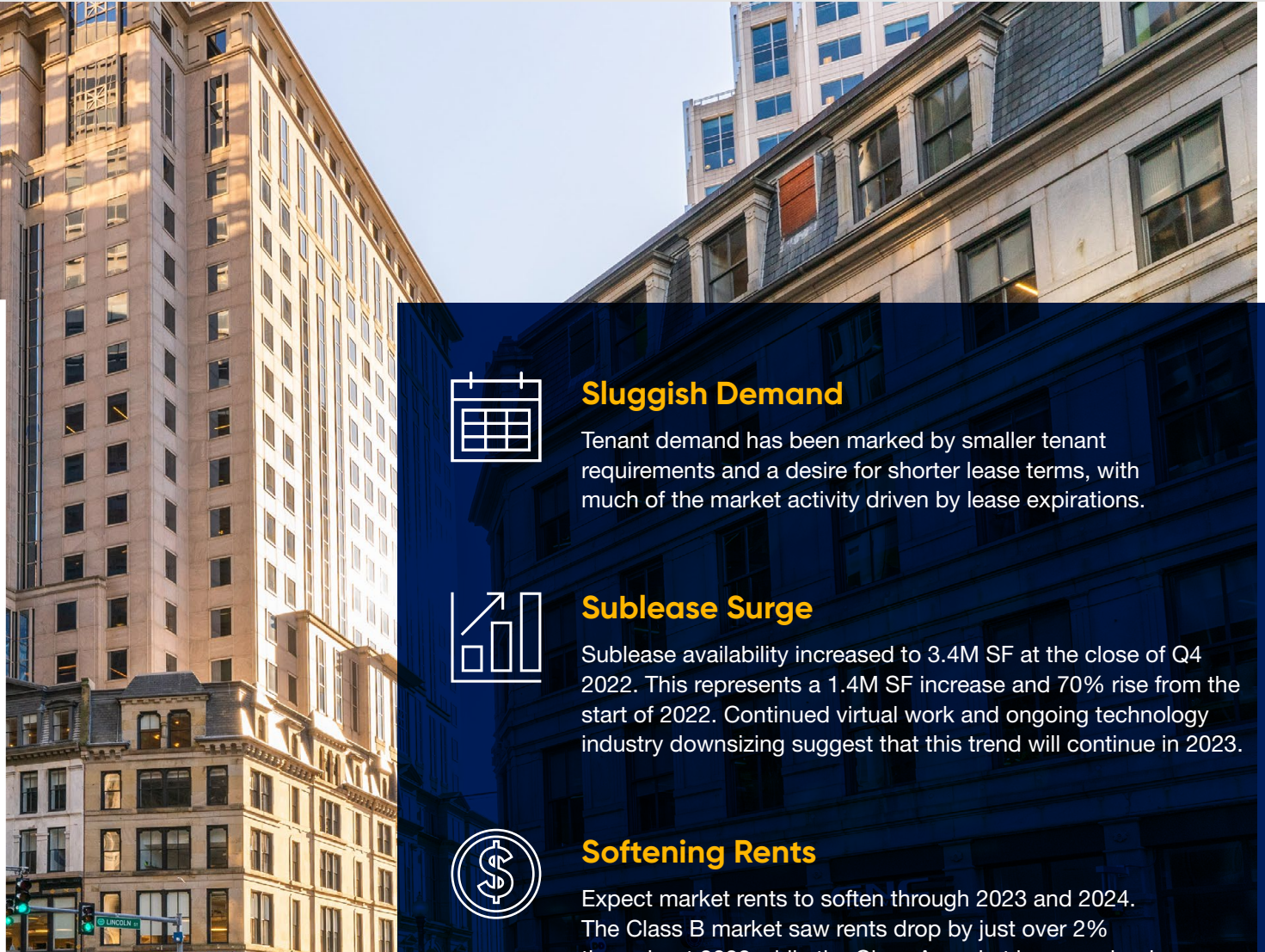
cresa

Photo: Duncan Lake/Cresa

Downtown Boston

Lack of tenant demand and low deal flow are defining themes in today's downtown market.

While the Class A market has seen increased leasing concessions such as free rent and TI allowances, landlords have not decreased rents in stride with day-to-day occupancy levels. However, we expect Class A rents to begin to dip, if slightly, with the scheduled delivery of new supply and large blocks of vacancy in commodity Class A towers as landlords look to compete on price. The widespread adoption of long-term hybrid work models continues to challenge the role of the office, and a significant drop in venture funding has put real estate expenses under heightened scrutiny. We expect these factors to spark a handful of distinct shifts in Boston's office market in 2023.



Sluggish Demand

Tenant demand has been marked by smaller tenant requirements and a desire for shorter lease terms, with much of the market activity driven by lease expirations.



Sublease Surge

Sublease availability increased to 3.4M SF at the close of Q4 2022. This represents a 1.4M SF increase and 70% rise from the start of 2022. Continued virtual work and ongoing technology industry downsizing suggest that this trend will continue in 2023.



Softening Rents

Expect market rents to soften through 2023 and 2024. The Class B market saw rents drop by just over 2% throughout 2022 while the Class A market has remained flat, bolstered by a pronounced flight to quality.



Market Size
61,327,483 SF



Vacancy
13.0%



Sublease
5.6%

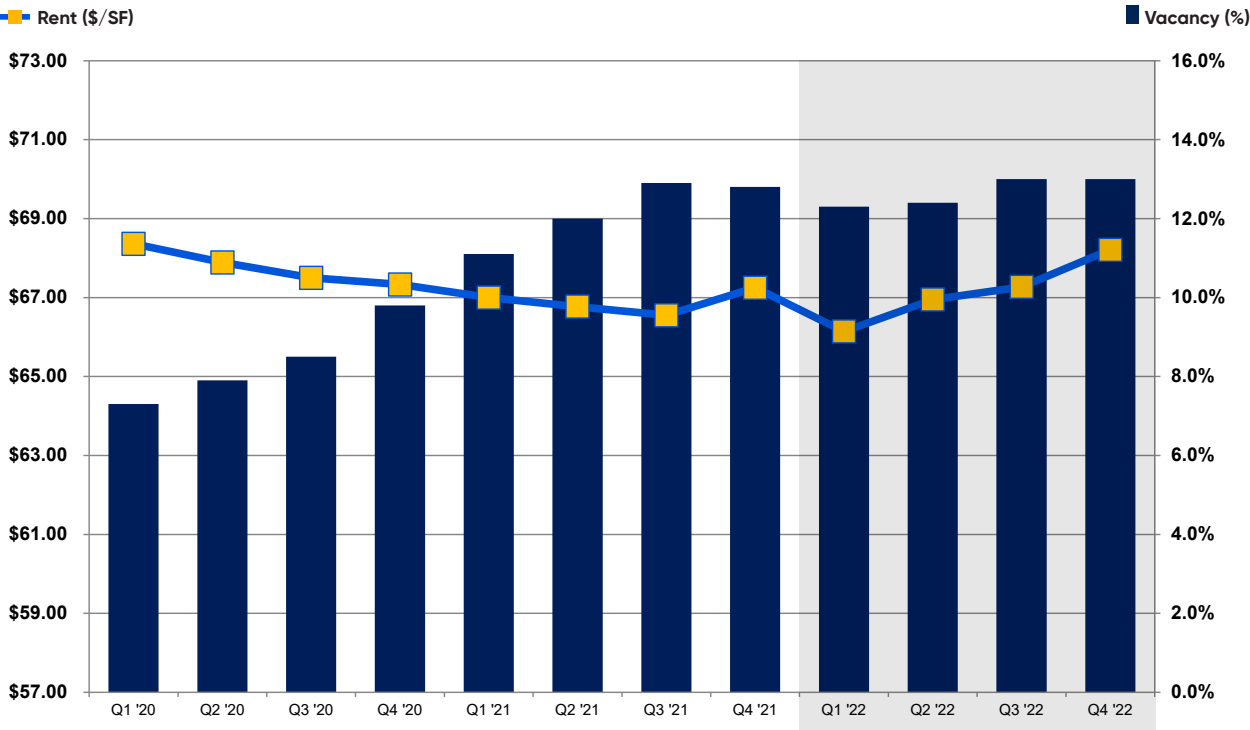


Available
30.5%

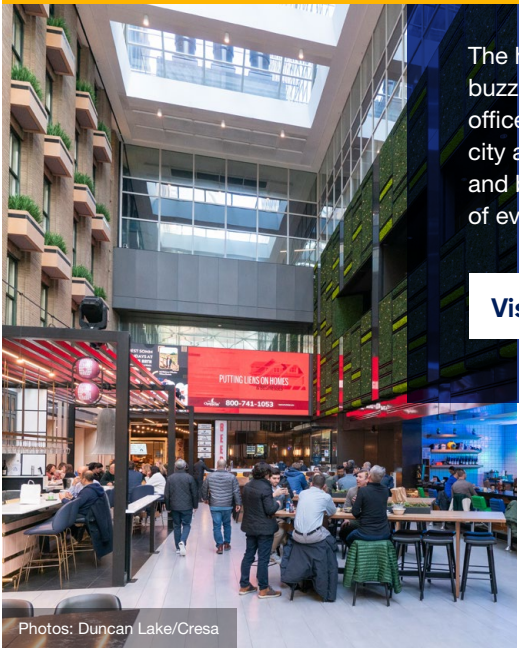
Arrows Indicate One Year Change

Direct Availability + Sublease Availability

Historical Rent & Vacancy



Get to Know: High Street Place



The highly anticipated food hall has become a buzzing lunch and happy hour destination for office workers looking to reconnect with the city and each other. The wide selection of food and beverage options and a rotating calendar of events offer something for everyone.

[Visit Website](#)



Photos: Duncan Lake/Cresa

By the Numbers

Data as of Q4 2022

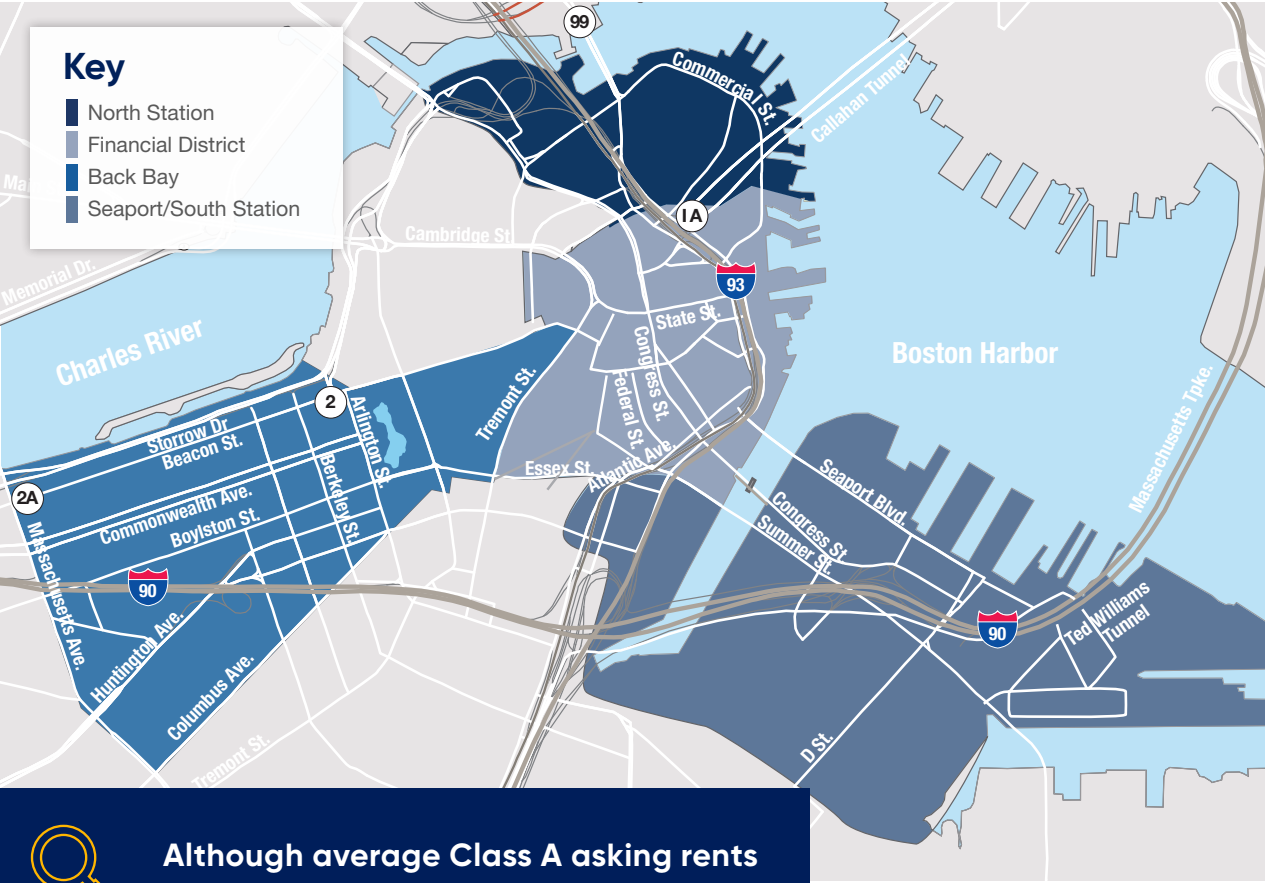
Submarket	Market Size (SF)	Vacant	Sublease	Available	Class A Rent/SF	Class B Rent/SF
Financial District	34,854,027	14.8%	5.3%	35.8%	\$72.64	\$51.88
Back Bay	13,178,219	6.1%	6.2%	16.6%	\$79.93	\$54.79
Seaport/South Station	11,311,328	13.7%	6.3%	31.0%	\$77.97	\$58.75
North Station	1,983,909	21.9%	3.7%	28.2%	N/A	\$47.49
Total	61,327,483	13.0%	5.6%	30.5%	\$73.66	\$54.70



Landmark Center | Photo: Duncan Lake/Cresa



101 Federal Street | Photo: Duncan Lake/Cresa



Although average Class A asking rents are flat, landlords with properties at the top end of the market are bullish and achieving premium rents.



Tenants in the Market

WilmerHale	200,000 SF
Deloitte	80,000 SF
Rue La La	70,000 SF
Homesite Insurance	60,000 SF
Datadog	45,000 SF

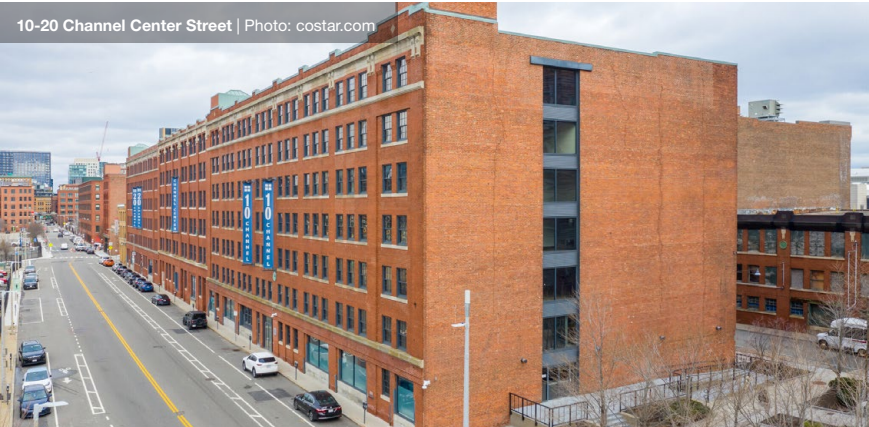
Notable Transactions

These sizable deals were completed in Q4 2022.

Tenant	Address	Submarket	Size (SF)	Type
Medtronic	10-20 Channel Center Street	Seaport	112,952	Relocation
Indigo AG	500 Rutherford Avenue	Charlestown	64,846	Renewal
American Tower	116 Huntington Avenue	Back Bay	40,000	Extension
Weiss Asset Management	222 Berkeley Street	Back Bay	35,000	Renewal/Expansion
Cushman & Wakefield	125 High Street	Financial District	29,800	New Facility

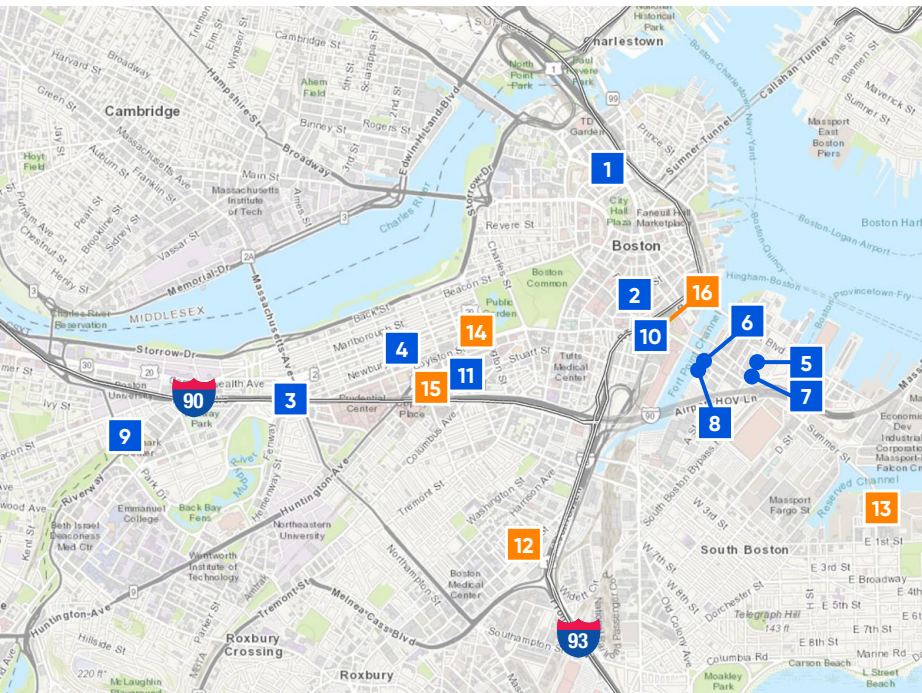
Investment Sales

Buyer	Address	Submarket	Size (SF)	Price/SF
GI Partners	451 D Street	Seaport	477,132	\$1,483.00
Phase 3 RE Partners	55 Summer Street	Financial District	124,001	\$860.00
Undisclosed Buyer	581 Boylston Street	Back Bay	43,903	\$445.00





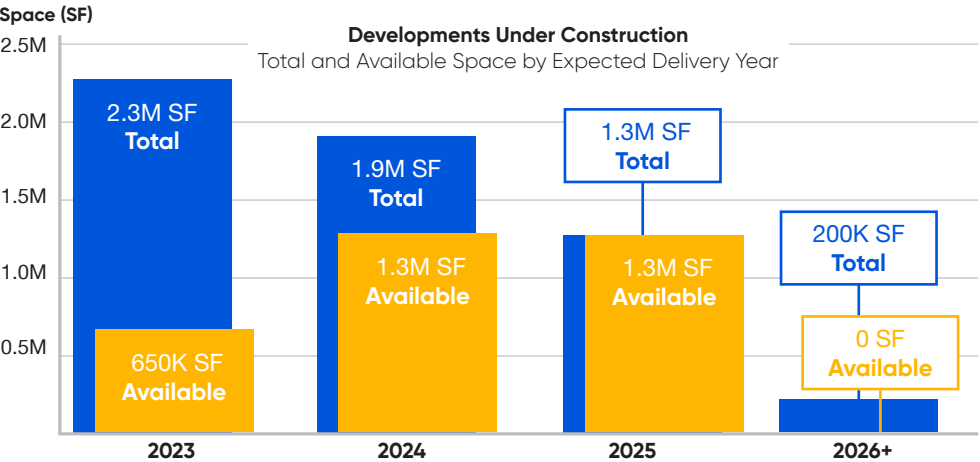
1 Congress Street | Photo: Duncan Lake/Cresa



Development Pipeline

■ Under Construction ■ Permitted Development

▼ Delivery	Development	Developer/Owner	Size (SF)	Use
2023	1 1 Congress Street	HYM Investment Group	1,000,000	Office
	2 115 Federal Street (Winthrop Center)	Millennium Partners	775,000	Office/Residential/Retail
	3 1001 Boylston Street	Samuels & Associates	450,000	Office/Lab
	4 149-155 Newbury Street	L3 Capital	38,000	Office/Retail
2024	5 1 Boston Wharf	WS Development	630,000	Office
	6 100 Necco Street	Related Beal	395,000	Office/Lab
	7 401 Congress St/10 World Trade	Boston Global Investors	555,000	Office/Lab
	8 125 Necco Street	Related Beal	325,000	Office
2025	9 650 Atlantic Avenue (South Station Phase 1)	Hines	711,000	Office/Residential
	10 421 Park Drive	ARE/Samuels & Associates	550,000	Office/Lab
2026+	11 350 Boylston Street	The Druker Company	200,000	Office
	12 540 Albany Street (Boston Flower Exchange)	The Abbey Group	1,639,000	Office/Lab
	13 776 Summer Street (Edison Power Plant)	Hilco	860,000	Office/Lab/Residential
	14 380 Stuart Street	Skanska	625,000	Office
	15 171 Dartmouth Street (Back Bay Station)	Boston Properties	606,000	Office
	16 650 Atlantic Avenue (South Station Phase 3)	Hines	511,000	Office



These projects total 5.6M SF of space under construction. Of that, over 2M SF is already committed, leaving 3.2M SF (57%) available.

Indicators Point to a Softening Market

When will rents follow?

Occupier demand is down in terms of both quantity and size of requirements, and supply is increasing through a variety of channels, most notably the upcoming delivery of several large office developments.

Many planned developments saw large lease commitments as part of the widespread flight to quality. At the Winthrop Center Tower (expected to deliver in 2023), Cambridge Associates claimed 115,000 SF in Q1, Income Research + Management claimed 39,000 SF in Q2, and McKinsey leased 95,000 SF in Q3. In Q2, Intersystems signed a 420,000 SF lease to take the majority of the remaining space at the nearly completed One Congress (where a certificate of occupancy was filed in January 2023). Also in Q2, Bain committed to the entirety of 350 Boylston Street, which is marked for a 2026 delivery. The pipeline can support a continuance of this trend, with over 3M SF remaining uncommitted in projects currently under construction and scheduled for delivery by the end of 2025.

As lab conversions are paused or canceled and organizations recalculate their space needs, sublease space continues to rise. From the previous high in Q3, sublease availability increased another 10.5% in Q4 to 3.4M SF across Boston. The current sublease market sits 70% higher than it did a year ago, and nearly 14% higher than the pandemic high of 3.1M SF during the fourth quarter of 2020. Much of the market activity will be directed toward Class A sublease

space, which makes up 62% of the current inventory. Despite tepid demand, Class A rents have held steady while the concessions have increased: Our data reflects a notable rise in free rent and higher TI allowances afforded to tenants signing leases in 2022 as compared to 2021.

Based on the overwhelming preference for quality and amenities, we expect the remaining Class B inventory to see the least demand in the coming year. Class B rents have fallen 4.75% since Q1 2020 and 2.14% over the past year alone, and this trend will likely continue as organizations seek spaces that will draw employees back to the office. As such, expect the market softening to occur from the bottom up, starting with Class B spaces where the landlords are most exposed. Class B submarket space makes up the largest segment of the market, and with limited perks and amenities, landlords often struggle to differentiate beyond price. This softening will likely work its way up to the quality spaces (though we may never see true softening in Class A towers) in conjunction with sublease space burning off and new office space delivering.



South Station Tower | Photo: Duncan Lake/Cresa

“Despite tepid demand, Class A rents have held steady while the concessions have increased.”

Winthrop Center Tower | Photo: Duncan Lake/Cresa





The Medtronic team nearly doubled in size during a time when most groups were experiencing modest growth, if any.



Photos: ngkf.com

Cresa Boston cresa.com/boston

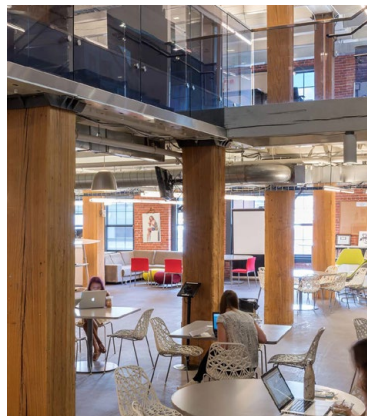
Seaport Consolidation and Expansion

Client: Medtronic

Location: 10-20 Channel Center Street

Project Size: 112,952 SF

Cresa Services Provided: Transaction Management



Objectives

After acquisitions and organic growth, Medtronic hired Cresa to identify a space that could accommodate their team and offer a best-in-class workplace experience. Initially, Medtronic held two separate spaces (approximately 8,000 SF and 24,000 SF) in the Seaport neighborhood. The shift to a larger space would be significant: The Medtronic team nearly doubled in size during a time when most groups were experiencing modest growth, if any.

Strategy & Results

Cresa led a thorough search in Medtronic's target neighborhoods. Ultimately, Medtronic opted to increase their existing footprint at 10-20 Channel Center Street in Boston's bustling Seaport district. They committed to nearly 113,000 SF of contiguous space that not only allowed Medtronic to consolidate teams that had previously worked in disparate locations, but also offered additional square footage to accommodate team growth and an enhanced amenity package. During negotiations with the landlord, Cresa was able to secure significant concessions on Medtronic's behalf, including tenant improvement dollars, free rent, and favorable swing space accommodations.

Occupier's Perspective



Prioritize Flexibility

As companies continue to assess their relationship with in-office work, place flexibility at a premium. Consider shorter lease terms and contractual flexibility to allow for opportunities to reevaluate and adjust your real estate strategy.



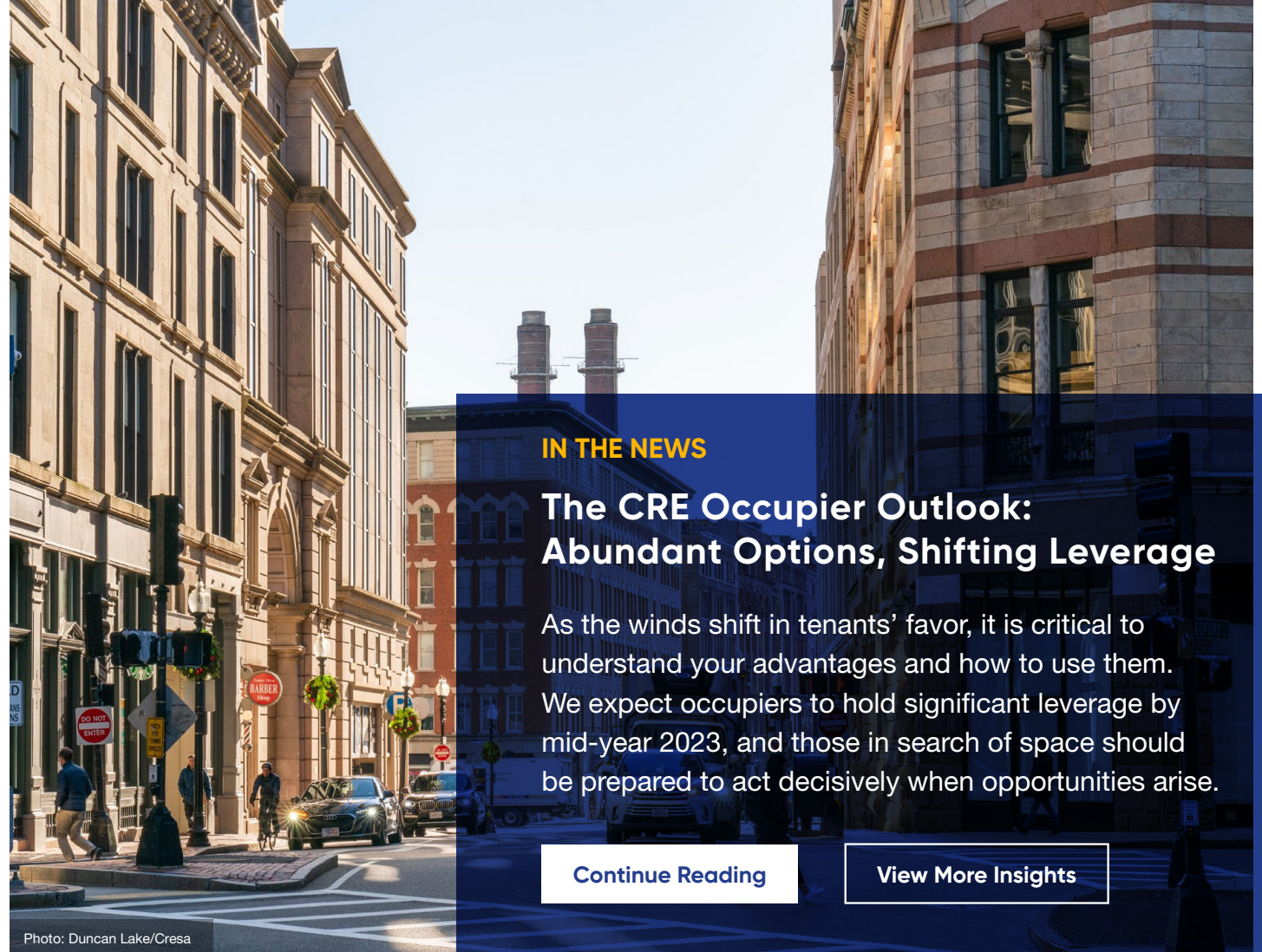
Amenities Available

Occupiers asked, landlords delivered. Downtown organizations looking to enhance their employee experience and boost office utilization now have a multitude of high-quality, amenity-rich options to consider.



Practice Patience

The market is softening and tenants are regaining some long-awaited leverage. Those who are willing and able to exercise patience will see increased concessions and lower rental rates.



IN THE NEWS

The CRE Occupier Outlook: Abundant Options, Shifting Leverage

As the winds shift in tenants' favor, it is critical to understand your advantages and how to use them. We expect occupiers to hold significant leverage by mid-year 2023, and those in search of space should be prepared to act decisively when opportunities arise.

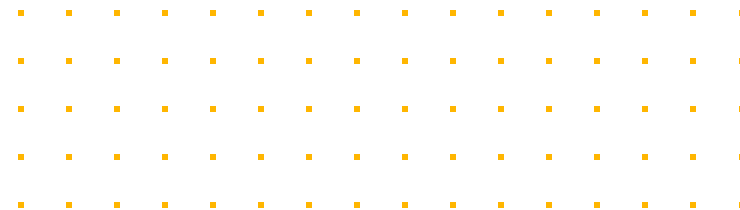
[Continue Reading](#)[View More Insights](#)

Photo: Duncan Lake/Cresa

Meet the Team



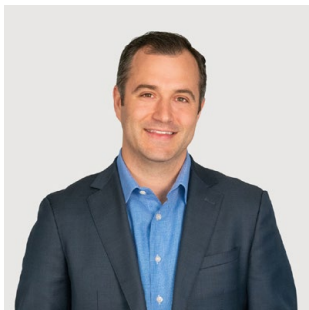
Click to learn more about our advisors



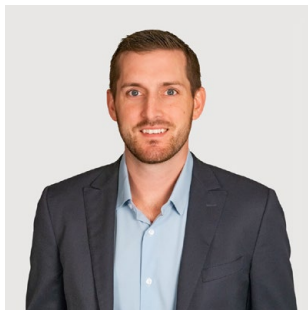
Rick Lowe
Principal



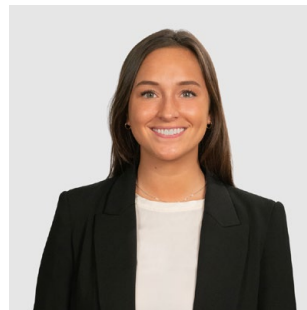
Matt Harvey
Principal



Derek Losi
Senior Vice President



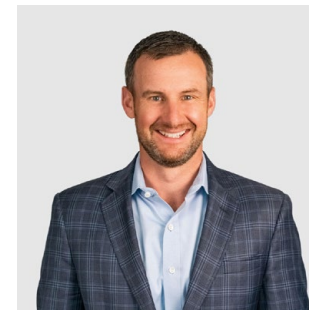
Andrew Orpik
Vice President



Olivia Weckwerth
Associate Advisor



Adam Subber
Managing Principal



Dan Sullivan
Managing Principal

About Cresa Boston

Cresa is the world's largest commercial real estate advisory firm that exclusively represents occupiers and specializes in the delivery of fully integrated real estate solutions. We work with our clients to align their business plans and their real estate needs, increase their productivity, and consistently save them money — results that have earned us numerous industry awards along the way. Our team of real estate advisors, project managers, strategic planners, analysts, and space planners listen to tenants' needs, meticulously research market conditions, firmly negotiate terms, and manage the design and construction of projects to customize the best possible occupancy solutions.

Our Research Team

Brian Gridley, Research Manager
bgridley@cresa.com

Brett McNiff, Research Associate
bmcniff@cresa.com

Contact

For more information about Cresa and the Boston CRE Market, please contact:

Cresa Boston
280 Congress Street
Boston, MA 02210
617.758.6000
cresa.com/boston

+ Follow Us



Check out our social media channels to stay up on current market trends and availability.

