MARKET IN MINUTES
Savills Research

Q2 2022 - Office

Boston

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Leasing demand falls off from last quarter as Boston cools down from over a year of strong leasing activity

As inflation continues to soar higher and economic concerns loom, second-quarter leasing demand reversed course after a positive trajectory. In the previous five quarters, leasing activity came in near or slightly above pre-pandemic levels. This quarter, however, leasing activity fell 30.3% from last quarter and 26.5% from a year ago, now resembling all-time lows seen at the start of the pandemic. To put things into perspective, Boston saw a strong recovery in leasing activity throughout 2021 and into Q1 2022, followed by a drop off this quarter as a result of a lower number of deals transacted given the economic uncertainty and some tenants taking a "wait-and-see" approach. However, flight to quality remains strong in Boston with top tenants in the market still looking to lease the best-in-class space, with all of the top 10 transactions this quarter being executed in Class A buildings. The two largest leases this quarter are both in future developments with InterSystems Corp. leasing 420,000 square feet (sf) at One Congress which is a 1.0-million-square-foot (msf) office building currently being constructed, and Bain & Company leasing 221,000 sf at 350 Boylston Street which is nearly the entire building.

Availability rises as demand slows and large-block opportunities hit the market

With diminished demand and more space coming on the market, availability has surged back to 2021 levels. Availability went up 130 basis points (bps) over the quarter to 16.58%, which puts it just slightly lower than Q2 2021, but still 360 basis points (bps) higher than pre-pandemic levels. Sublet space accounts for 19.3% of all available inventory in the market and total sublease inventory is up 9.8% from last quarter. Sublease inventory is up 62% from pre-pandemic levels and 34 basis points lower than Q2 2021. Available direct space has also seen a surge in availability, up 9.3% from last quarter and up 15.0% from pre-pandemic levels.

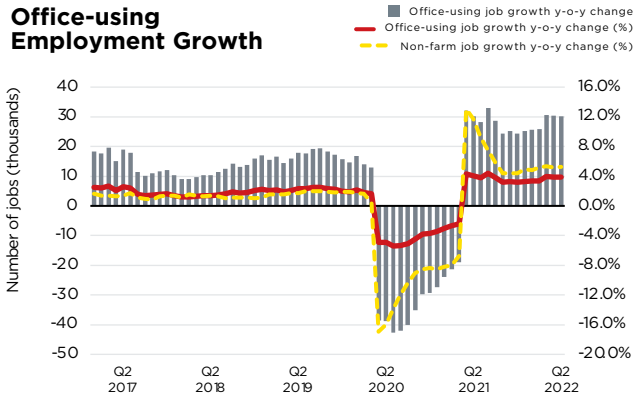
Average asking rental rates continue to increase at mid-year 2022

Overall average asking rents increased by 15.6% year over year, now at $43.42 per square foot (psf). This increase was driven by higher pricing for premium spaces due to higher demand and new first-grade developments such as the Winthrop Center, a 1.9-msf building with 812,000 sf of office space delivering within the next year.

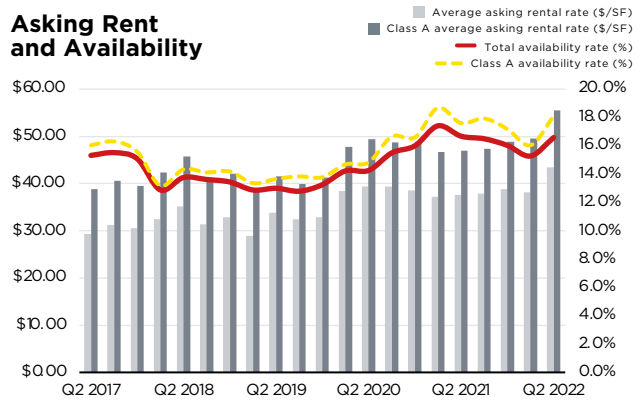
Key Statistics

	Q2 2021	Q2 2022	y-o-y Change
Inventory	256.0 MSF	260.8 MSF	▲
Availability Rate	16.7%	16.6%	▼
Asking Rental Rate	$37.54	$43.42	▲
Class A Asking Rental Rate	$46.96	$55.48	▲
Quarterly Leasing Activity	3.2 MSF	2.3 MSF	▼
Available Sublease Space	8.9 MSF	7.6 MSF	▼

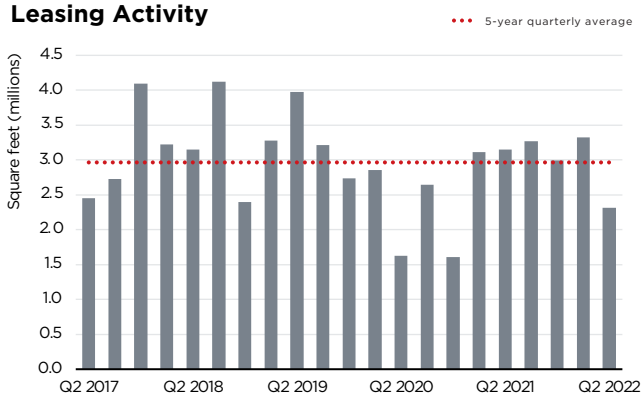
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Outlook

- Office availability is expected to remain high due to continued large-block direct and sublet space additions, partly as some companies still seek out top-quality first grade space to attract employees and leave commodity space behind
- Rents are expected to increase in future quarters, as tenant demand grows for first-grade space – which commands a premium
- Sublease inventory is expected to increase, with more companies trying to downsize to match their new workplace environment given greater hybrid or remote work business models

By the Numbers

2.9%
Boston unemployment rate (as of May 2022)

3.9%
Office-using employment growth year-over-year (as of May 2022)

9.7 msf
Office space currently under construction

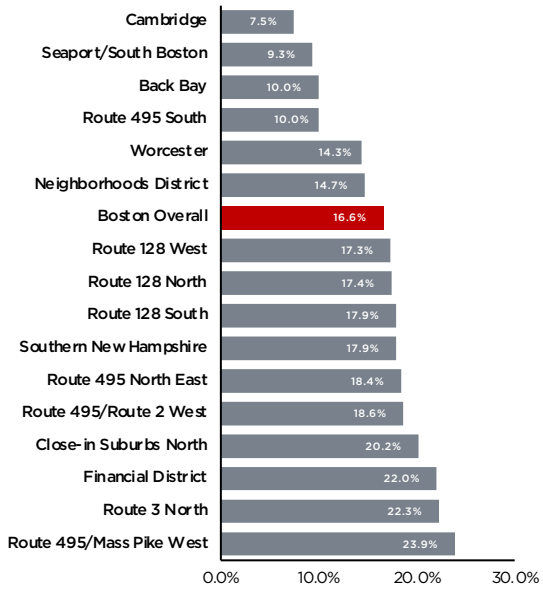
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
InterSystems Corporation	420,000	1 Congress St	Relocation	Seaport/South Boston	Business & Professional Services
Bain & Company	221,000	350 Boylston St	New Location	Back Bay	Business & Professional Services
Holland & Knight	105,000	10 Saint James Ave	Renewal	Back Bay	Legal Services
Fish & Richardson	57,000	1 Marina Park Dr	Renewal	Seaport/South Boston	Legal Services
Sartorius	56,174	200 Donald J Lynch Blvd	Relocation	Route 495/Mass Pike West	Pharmaceuticals & Life Sciences
BNY Mellon	44,000	118 Flanders Rd	New Location	Route 495/Mass Pike West	Business & Professional Services
Income Research + Management	39,000	115 Federal St	Relocation	Financial District	Business & Professional Services
Biocytogen	36,911	300 Third Ave	Relocation	Route 128 West	Pharmaceuticals & Life Sciences
Aura Biosciences	29,836	80 Guest St	New Location	Neighborhoods District	Pharmaceuticals & Life Sciences
Cannistraro Construction	26,595	201 Jones Rd	New Location	Route 128 West	Architecture, Engineering & Construction

Source: Savills Research

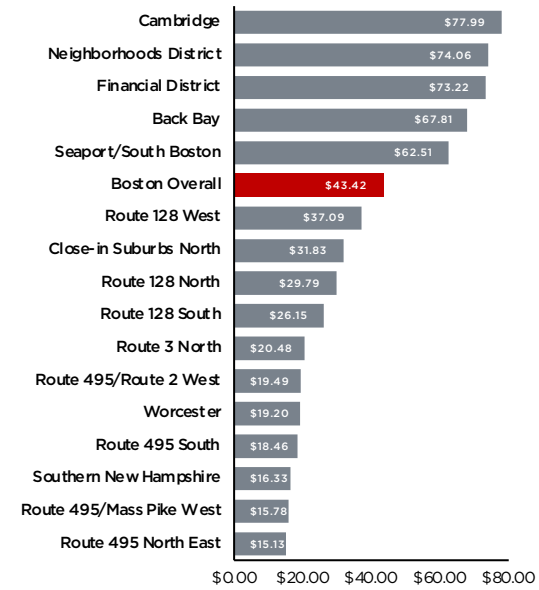
Availability Rate Comparison (%)

Boston Submarkets



Rental Rate Comparison ($/SF)

Boston Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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