Sublease space rises as companies continue to navigate the future of office work

▼ 22.0%
Office Availability

▲ $28.04
Office Lease Rate (Gross)

▲ 518,954 SF
Leasing Activity

Note: Arrows indicate change from previous quarter.

Following a period of stabilization for the suburban office market, vacancy and availability increased as sublease inventory climbed amidst the start of 2023. With over 1.17 million sq. ft. of sublease space added in Q1, companies continue to navigate return-to-work policies and future space needs. Across all three submarkets, looming large blocks of shadow space were formally listed on the market. Leasing activity continues to show a tenant focus on quality, amenitized, Class A space. The first quarter of 2023 resulted in muted growth for the suburban office market as availability and vacancy rose and leasing activity declined. Nonetheless, new deals remained consistent across the Metro North, South, and West.

Sublease additions as well as large blocks of direct space coming onto the market contributed to the negative absorption in Q1. The first quarter recorded 1,238,140 sq. ft. of negative net absorption. The largest number of sublease additions were in Metro West- over 562,500 sq. ft. added in Q1 resulting in an increase in sublease availability by 90 basis points (bps) to 3.8%. Outside of subleases in particular, both overall vacancy and availability rose in Q1. Vacancy increased 130 bps to 17.2% and overall availability increased 100 bps to 22.0%.

FIGURE 1: Vacancy vs. Lease Rate

Source: CBRE Research, Q1 2023

Overall leasing activity finished at 518,954 sq. ft. of transactions, a decrease from Q4. Of the nearly 520,000 sq. ft. of transactions, over 75% were new deals with 72% of these deals occurring in Class A buildings, further proving quality space remains a priority. Overall asking rents increased slightly by $0.10 per sq. ft. quarter-over-quarter (q-o-q) to $28.04 per sq. ft. gross.

Metro North

The Metro North market posted 532,061 sq. ft. of negative net absorption in Q1. Negative absorption can be attributed to large sublease additions and relatively quiet leasing activity. Over 346,054 sq. ft. of sublease additions were listed in Q1, and leasing activity was down 138,187 sq. ft from the previous quarter finishing at 83,630 sq. ft. of transactions. Despite lower leasing activity in Q1, asking rents finished at $26.92 per sq. ft. gross.

The Route 128 - North submarket experienced 189,555 sq. ft. of negative net absorption in Q1. Overall vacancy and availability both increased in Route 128 – North. Vacancy increased a notable 120 bps to 16.0% and availability increased 150 bps to 20.5%. Sublease availability also increased 10 bps to 3.0%, as the largest block of sublease space came on in this submarket with Butterfly Networks listing their space at 1600 District Avenue in Burlington totaling approximately 61,138 sq. ft. Additionally, asking rents finished at $31.51 per sq. ft. gross.

The Close in Suburbs North finished Q1 with 127,780 sq. ft. of negative net absorption. Similarly, to Route 128 - North, sublease additions contributed to negative absorption in this submarket with two larger blocks of space listed in The Close in Suburbs North. Approximately 41,090 sq. ft. of sublease space was added at One Cabot Road in Medford by Clario, as well as 35,000 sq. ft. of sublease space at 300 Commercial St. in Malden. In consequence, sublease availability rose 120 bps to 5.3%.

Route 3 - North and Route 495 - Northeast also posted negative absorption in Q1 with 195,423 sq. ft. of negative net absorption in Route 3 and 19,303 sq. ft. of negative net absorption in Route 495. Asking rents slightly increased $0.07 per sq. ft. to $23.75 per sq. ft. gross in Route 3 - North. Sublease availability increased in both submarkets, rising 100 bps in Route 3 - North to 4.6% and 30 bps in Route 495 - Northeast to 3.7%.

FIGURE 2: Transactions of Note

Tenant/Investor	Address	Sq. Ft.	Submarket	Type
FM Global	1 Technology Way, Norwood	130,000	Route 128 – South	New
Medtronic	200 Beaver Brook Road, Boxborough	93,224	Route 495 – Route 2 West	New
The University of Massachusetts	50 Washington Street, Westborough	70,000	Route 495 – Mass Pike West	New
Ai3 Architects	111 Speen Street., Framingham	19,502	Framingham – Natick	New
Axtria	100 Fifth Avenue, Waltham	12,404	Route 128 - West	New
Baker, Braverman, & Barbadoro, P.C	1200 Crown Colony Drive, Quincy	9,450	Route 128 – South	New
Aptim	150 Royall Street, Canton	9,059	Route 128 – South	Renewal
Opinion Dynamics	130 Turner Street Bldg. 3, Waltham	8,848	Route 128 - West	New

Metro South

The Metro South market remained stable throughout the start of 2023. Leasing activity increased q-o-q with over 188,646 sq. ft. of transactions signed resulting in a 51,468 sq. ft. increase from the previous quarter. Absorption finished slightly positive at 4,998 sq. ft. Similar to other suburban submarkets the Metro South experienced over 229,094 sq. ft. of sublease additions in Q1, resulting in overall sublease availability increasing 90 bps to 2.6%.

Route 128 - South experienced 28,677 sq. ft. of negative net absorption in Q1. All large sublease additions in the Metro South market occurred in Route 128 - South as shadow space additions became an emerging trend across the suburban office market. Inspire Brands, parent company to Dunkin', listed one and a half floors of their space for sublease at 130 Royall Street in Canton totaling 90,537 sq. ft. The largest transaction in Q1 occurred in Route 128 - South, where FM Global signed for 130,000 sq. ft. at 1 Technology Way in Norwood. Other smaller transactions included Baker, Braverman & Barbadoro committing to a 9,450 sq. ft. lease at 1200 Crown Colony Drive in Quincy and Seasons Hospice renewed 8,470 sq. ft. at 1 Edgewater Drive in Norwood. Asking rents slightly decreased in Route 128 - South by $0.11 to $27.04 per sq. ft. gross. Vacancy and availability both increased with vacancy increasing 60 bps to 13.6% and availability 100 bps to 19.7%.

Route 495 - South finished Q1 with 33,675 sq. ft. of positive absorption. Vacancy and availability decreased in Route 495 – South with vacancy dropping 70 bps to 14.2% and availability dropping by 10 bps to 11.0%. Asking rents decreased by $0.06 per sq. ft. to $22.06 per sq. ft. gross. Overall, the Metro South market remained stable in Q1 amidst an uncertain market.

Metro West

The Metro West submarket experienced 711,077 sq. ft. of negative net absorption with Q1 leasing activity totaling 239,997 sq. ft. of transactions unable to combat more than 562,500 sq. ft. of new-to-market sublease inventory, a 130 bps increase in sublease availability to 4.2%

Route 128 - West recorded new transactions in Q1 totaling over 50,689 sq. ft including Axtria at 100 Fifth Avenue in Waltham for 12,404 sq. ft and Opinion Dynamics for 8,848 sq. ft. at 130 Turner Street, Building 3 in Waltham.

FIGURE 3: Submarket Stats

Boston Office	Bldgs	Total SqFt	Available (%)	Vacant (%)	Sublease (%)	Quarter Absorption	YTD Absorption	Avg Asking Rent $ (Gross)
Close-In Suburbs North	63	5,647,270	23.2	14.3	5.3	(127,780)	(127,780)	30.07
Route 128 - North	160	17,863,251	20.5	16.0	3.0	(189,555)	(189,555)	31.51
Route 495 - Northeast	36	5,959,277	24.8	21.7	3.7	(19,303)	(19,303)	22.57
Route 3 - North	131	12,500,171	32.0	24.4	4.6	(195,423)	(195,423)	23.76
Metro North	**390**	**41,969,969**	**24.9**	**19.1**	**3.9**	**(532,061)**	**(532,061)**	**26.92**
Route 128 - West	267	23,385,351	19.1	16.5	6.7	(542,799)	(542,799)	41.26
Framingham - Natick	82	7,033,859	13.2	9.2	0.8	(75,331)	(75,331)	21.82
Route 495 - Route 2 West	59	5,194,204	35.2	30.8	0.8	26,955	26,955	19.85
Route 495 - Mass Pike West	115	11,503,099	21.2	15.8	2.5	(119,902)	(119,902)	21.66
Metro West	**523**	**47,116,513**	**20.5**	**16.8**	**4.2**	**(711,077)**	**(711,077)**	**30.08**
Route 128 - South	165	13,861,520	19.7	13.6	3.1	(28,677)	(28,677)	27.04
Route 495 - South	35	2,504,999	14.2	11.0	0.1	33,675	33,675	22.06
Metro South	**200**	**16,366,519**	**18.8**	**13.2**	**2.6**	**4,998**	**4,998**	**26.45**
Overall Suburban Office	**1,113**	**105,453,001**	**22.0**	**17.2**	**3.8**	**(1,238,140)**	**(1,238,140)**	**28.04**

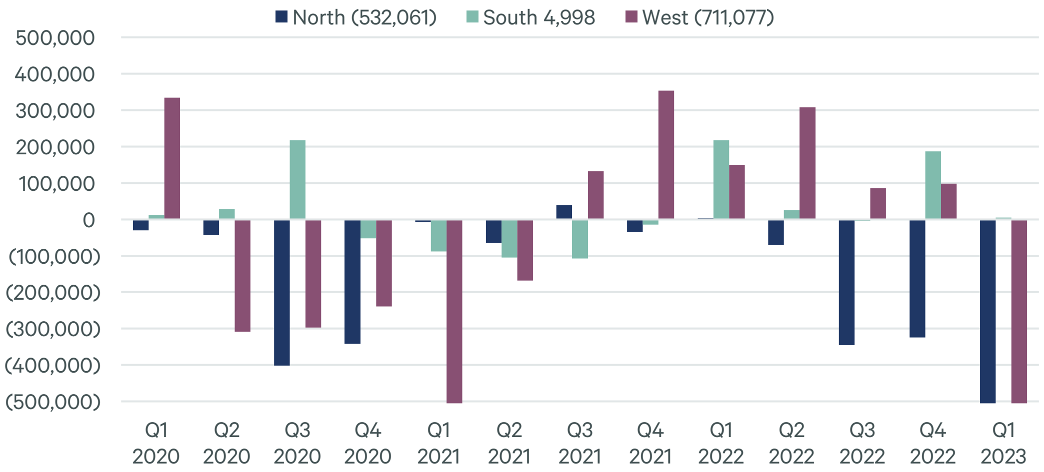
Source: CBRE Research Q1 2023

Notable sublease additions in this market included Fresenius listing 308,000 sq. ft. of space at 920 Winter Street in Waltham. Trip Advisor also listed 52,857 sq. ft. of sublease space at 400 First Avenue in Needham.

The Framingham - Natick submarket saw 75,331 sq. ft. of negative net absorption in Q1. Ai3 Architects signed 19,502 sq. ft. at 111 Speen St. in Framingham. In contrast to most submarkets in Q1, sublease availability decreased 20 bps to 0.8% with few additions this quarter.

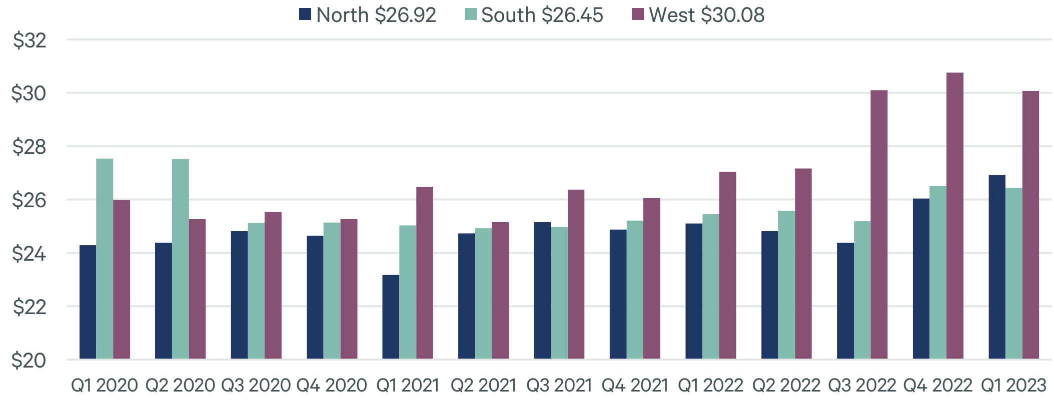
Large transactions occurred in both Route 495 - Mass Pike West and Route 495 - Route 2 West. In Route 495 - Route 2 West, Medtronic signed a new lease for 93,224 sq. ft. at 200 Beaver Brook Road in Boxborough. Comparably in Route 495 - Mass Pike West the University of Massachusetts signed a new lease for 70,000 sq. ft. at 50 Washington Street in Westborough. Route 495 - Mass Pike West posted 119,902 sq. ft. of negative absorption in Q1 and sublease availability rose 60 bps to 2.5%. This is largely due to more sublease additions such as Park Place Technology listing their space at One Research Drive in Westborough totaling 50,998 sq. ft. Asking rents decreased $0.24 per sq. ft. to $21.66 per sq. ft. gross. Route 495 - Route 2 West experienced 26,955 sq. ft. of positive absorption. Asking rents increased slightly to $19.85 per sq. ft. gross.

FIGURE 5: Net Absorption



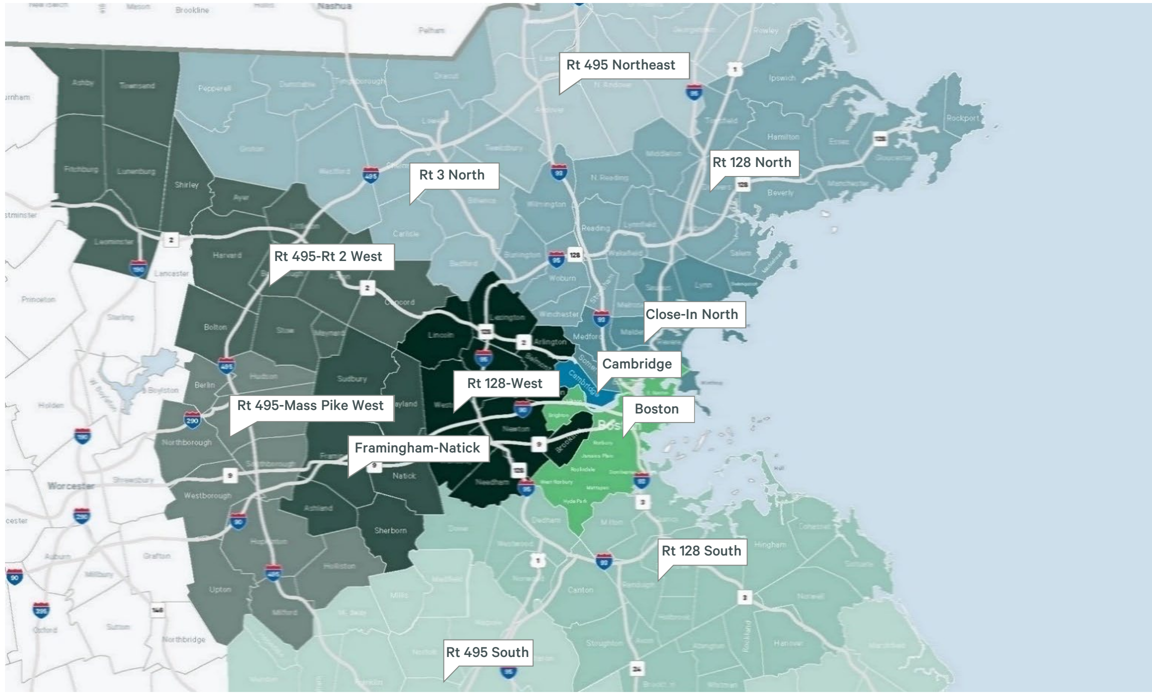
Source: CBRE Research, Q1 2023

FIGURE 6: Average Asking Leasing Rate



Source: CBRE Research, Q1 2023

Market Area Overview



Definitions

AVERAGE ASKING LEASE RATE: Rate determined by multiplying the asking gross lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary. GROSS LEASES: Includes all lease types whereby the tenant pays an agreed rent plus estimated average monthly costs of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.NET ABSORPTION: The change in occupied sq. ft. from one period to the next, as measured by available sq. ft. NET RENTABLE AREA: The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas. OCCUPIED AREA (SQ. FT.): Building area not considered vacant. UNDER CONSTRUCTION: Buildings that have begun construction as evidenced by site excavation or foundation work. AVAILABLE AREA (SQ. FT.): Available building area that is either physically vacant or occupied. AVAILABILITY RATE: Available sq. ft. divided by the net rentable area. VACANT AREA (SQ. FT.): Existing building area that is physically vacant or immediately available. VACANCY RATE: Vacant building feet divided by the net rentable area. NORMALIZATION: Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and vacancy figures for those buildings have been adjusted in previous quarters.

Survey Criteria

Includes all competitive buildings in CBRE's survey set for the Suburban Boston Office.

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