R.W. Holmes: As office leasing velocity slows down, subleasing hits smaller companies in Greater Boston

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Wayland, MA R.W. Holmes, one of the largest commercial brokerage firms serving tenants and landlords in Massachusetts for more than 45 years, released its first quarter market report and forecasts for 2023. The report shows a growing discrepancy in the market between the continued success of industrial product and slowing office activity.

A particularly interesting trend the R.W. Holmes team will be watching for the remainder of 2023 is the growing number of smaller companies in Greater Boston putting space on the market for sublease.

“What is concerning about these subleases is while 2020-2022 were primarily large companies giving up major spaces, the first quarter of this year had 60% of the subleases under 10,000 s/f in the prime 128 Central Office market,” said Elizabeth Holmes, director of corporate services at R. W. Holmes. “This shift shows that the small to mid-sized companies that drove most of 2022’s office activity have now established definitive hybrid work policies. In many cases, these hybrid work models mean companies can operate in less space, thus the growth in sublease availabilities.”

Concurrently, the industrial market continues to be the consistent backbone of Greater Boston’s market activity. “Despite a softening economy, we continue to see demand for industrial product throughout Greater Boston, particularly with mid-market sized companies and investors,” said John Eysenbach, EVP at R.W. Holmes. “In this size range, deals continue to be inked, and there is no sign of significant new construction for the remainder of 2023 to appease the continued demand from this size tenant."

Here are some other highlights from the report:

• While several suburban markets have seen a softening on office rents, Central 128 owners (particularly in class A properties) continue to push rental rates with little room for negotiation. We have seen some class A rents jump $5-10+ per s/f from what tenants signed leases for 3-5 years ago.

• As anticipated, sale activity in 2023 was led by smaller owner-occupant deals rather than investors with multi-million-dollar transactions or redevelopments. Of the 11 transactions, seven were owner-occupants.

• An increase in flex deals happening in office buildings is likely to continue in 2023. The flex market is so tight that users are looking at office buildings with first-floor availability and loading dock access. While this is not a new trend, we expect to see an expansion in this area.

• More companies are starting to understand their need for in-office versus remote requirements. Organizations are realizing there is a need for more employee personal interaction and are trending towards more of a three-day in-office week. That said, expect the "back office" jobs to stay primarily work from home.

• Industrial space continues to be in high demand with short supply available. Despite over 1.3 million s/f coming onto the 128 North/Rte. 3 North market in Q1, vacancy only moved slightly north, a sign that newer generation space is quick to lease once delivered, if not pre-leased. Industrial property continues to be a hot commodity to buy.

• Interest rates are not scaring off buyers from taking a run at industrial/flex property right now. User demand continues to be high, so ambitious underwriting is not disappearing. Pricing, however, has become a challenge as both users and investors are getting very tight on where debt service falls and the current average rental rates.

• In March alone, we were tracking over 700,000 s/f of active requirements in the 50-75,000 s/f range along I-495/Rte. 3 North. The uses vary from pure warehouse to manufacturing to biologics GDP space.

"Tenants coming off leases are increasingly shifting to becoming buyers as they weigh the narrowing cost between rent and ownership in several submarkets," said Holmes. "There are several flex tenants in the market who need buildings with basic loading capabilities for either low-volume delivery or proximity-based service industry use that do not require the same clear height of a distribution and manufacturing tenant. As such, a repositioning of more strategically located office properties with existing or the ability to add loading to suit the needs of these users is something that could gain traction."