

Boston Industrial Market

Fundamentals Soften amid Recessionary Pressures

Greater Boston's industrial market softened during the first quarter of 2023 amid significant macroeconomic headwinds. As a result of decelerating demand, net absorption returned to a deficit with negative 918,228 square feet. Average asking rents fell for the first time in over five years, closing the first quarter of 2023 at \$15.07/SF NNN. Though overall rent growth has slowed, the asking rate for Class A product, particularly the Warehouse/Distribution subtype, continues to hold near-historic highs. As a result of a strong quarter of new construction deliveries, vacancies increased to 4.6%. With nearly 3.0 million square feet of new projects set to deliver in the core metro throughout the remainder of the year, this new supply should offer some relief to Greater Boston's market, which has been constrained by various geographic and political limitations. Turmoil in the global banking sector is impacting the commercial real estate landscape, which has led to tightened lending standards and availability of credit. As the broader economy begins to cool, e-commerce and retail companies, once some of the primary drivers behind strong tenant demand, have slowed their leasing velocity. Retailers may need to see multiple quarters of sales growth before confirming the size and extent of their industrial footprint and reengaging the market with large-scale requirements. Overall, Greater Boston's proximity to key population nodes, barriers to new supply, and healthy rents bode well for the market's outlook.

Current Conditions

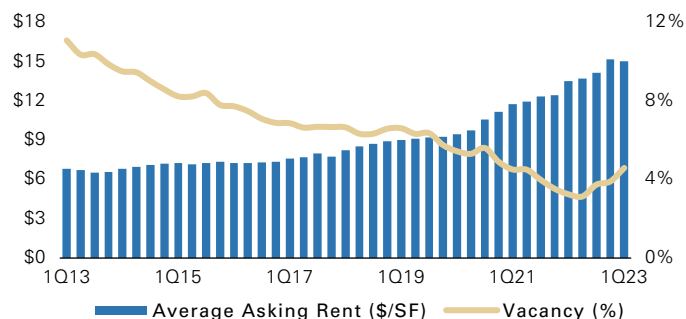
- Despite rising vacancies, overall market fundamentals remain healthy.
- Rent growth has slowed, though average asking rents remain near record highs at \$15.07/SF NNN.
- Capital markets activity picked up comparatively to last quarter, but the average per-square-foot sales price fell to \$188/SF.
- Demand for quality space continues to push requirements to Worcester and Southern New Hampshire.

Market Summary

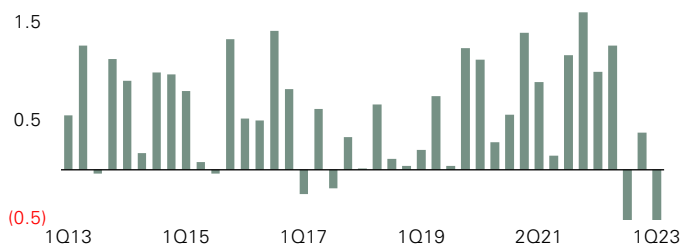
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	215.8M	215.0M	213.6M	↑
Vacancy Rate	4.6%	3.9%	3.3%	↑
Quarterly Net Absorption (SF)	-918,228	379,332	1,005,223	↑
Average Asking Rent/SF	\$15.07	\$15.20	\$13.55	↔
Under Construction (SF)	6.6M	6.6M	6.2M	↔

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q1 2023

Development Trends

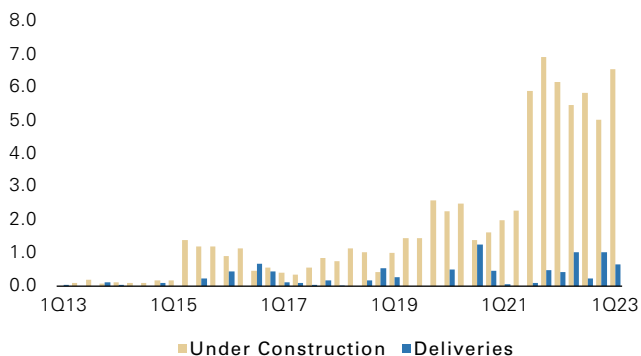
Difficult and lengthy entitlement processes, as well as pushback from local municipalities, still pose challenges to the Greater Boston industrial market's already-constrained supply. New developments continue to move north and west of the traditionally defined metro area. Over 1.3 million square feet broke ground during the first quarter of 2023, and another 2.8 million square feet of space currently underway is estimated to be completed by year-end. Despite some challenges in leasing for a few recent large deliveries, they still offer premium quality industrial space for tenants in a tight industrial market. Rents in new construction continue to push while Class A Warehouse/Distribution rents hover near historic highs, ticking up past \$13.00/SF NNN during the first quarter of 2023. Projects in the construction pipeline that have obtained permitting, the majority of which are speculative builds, are still expected to deliver within the next few years. Others that are not yet approved or have not yet received financing could be put on hold as developers face higher costs of capital, elevated construction costs and potentially weaker fundamentals. Significant macroeconomic headwinds are expected to put greater pressure on the broader commercial real estate market, indicating that new construction is expected to slow in the near term. Given the continued strength of demand for industrial space, this could benefit the overall health of the Greater Boston industrial market, as fundamentals should remain tight due to the supply-demand imbalance.

Demand Remains Strong within the Boston Metro

Though demand within Greater Boston's industrial market has remained relatively strong during the first quarter of 2023, both companies and developers are reevaluating their needs as some key players have recently announced pullbacks in their plans and operations. Larger size requirements have returned, with a few users actively looking in the market to occupy over 100,000 square feet; however, some tenants with bigger needs have slowed down their search for new space, which has already been challenging, given the region's limited supply. Select e-commerce and retail tenants are facing challenges from the tumult in the overall economy and are going to have to see more profound sales growth before confirming any new requirements, which may impact fundamentals for the Warehouse/Distribution subtype in the near term. Nevertheless, growth still exists for third-party logistics space, as companies are prioritizing outsourcing these services.

Construction and Deliveries

SQUARE FEET, MILLIONS



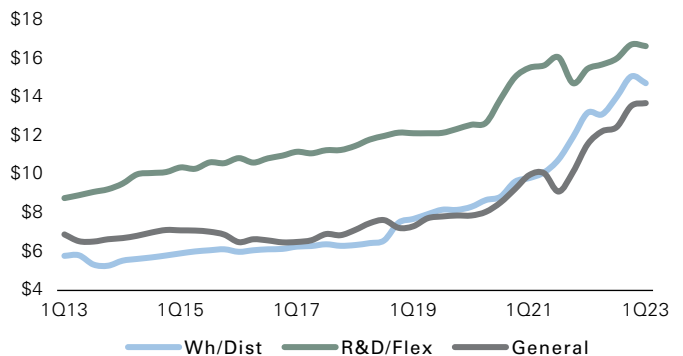
In addition, the sublease market remains tight throughout the metro with only 0.6% of sublease space staying vacant during the first quarter of 2023. Leasing remains healthy, especially among users under 200,000 square feet. Some large users, including EBP Supply Solutions, Steward Health Care and Parexel, gave back space that contributed to this quarter's negative net absorption. Flex users had a strong presence in leasing activity this quarter, and several new leases were executed throughout Greater Boston. Most notably, golf manufacturing company Acushnet leased the entire 555,395-square-foot warehouse facility at 175 Kenneth Welch Dr. in Lakeville. Co-warehousing company Kismet agreed to occupy 45,497 square feet at 77 Rowe St. in Newton. Biotech company Avantor Fluid Handling signed a deal to occupy 154,000 square feet at 35 Saratoga Blvd. in Devens, and solar energy producer Navisun inked a 60,200-square-foot lease at 61 Strafford Rd. in Avon. Despite the recent new supply, many companies with larger space requirements continue to be pushed west to the Worcester County region and north to the New Hampshire border. Leasing activity will likely remain steady in the near term, but the industrial market is not immune to macroeconomic risks affecting the broader commercial real estate market.

Asking Rents Fall Slightly but Remain Historically High

Following a period of unprecedented expansion and rent growth, Greater Boston's industrial market started to cool during the first quarter of 2023. Overall asking rents fell slightly from their historic high last quarter to \$15.07/SF NNN but were still up 11.2% year-over-year. Rents in the North and South submarkets continue to rise since companies have been priced out of the more expensive Urban submarket. Rates for Class A assets, particularly for the Class A Warehouse/Distribution subtype, continued an upward trajectory, ticking up above \$13.00/SF NNN. It remains the most desirable asset within Greater Boston's industrial market, and a flight-to-quality trend is expected to persist as more speculative supply delivers in the coming months. Effective rents are also on the rise, with annual escalations averaging within the 3.0% to 3.5% range. Constraints on supply have contributed to this robust rent growth in Greater Boston's industrial market, with asking rents for premier locations, such as within the Urban submarket, reaching nearly \$21.00/SF NNN. These high rates have led to the migration of companies out of the core markets to other regions beyond the traditional metro area.

Asking Rent by Property Type

\$/SF



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Elevated Demand for Advanced Manufacturing

Following a national trend, Greater Boston's industrial market has benefited from increased interest and investment in advanced manufacturing. In an effort to make the U.S. less reliant on offshore production, many companies have recently moved their operations back domestically, leading to heightened demand for new development and infrastructure to support these advanced users' needs. Dubbed "tough tech" by the MIT venture firm The Engine, users of this innovative type of technology typically require more space and facilities than a typical manufacturing or software company. To accommodate these high-powered needs, some developers are willing to explore more speculative builds or build-to-suit options. One of the largest deals of the quarter came from a tough tech company; manufacturer Via Separations is set to take on 50,699 square feet following an office-to-lab conversion at 64 Pleasant St. in Watertown next year. These sizeable deals are indicative of Greater Boston's capacity to foster growing and innovative companies.

Capital Markets

Investment activity in Greater Boston's industrial market continued to stall during the first quarter of 2023. In recent years, record-low interest rates allowed capital to flow freely as borrowers were able to secure financing for new projects and developments more easily. Rising construction costs, as well as liquidity issues stemming from the instability in the banking sector, has created further economic uncertainty, leading to slowed investment activity in the broader commercial real estate market. Though land and property valuations are down across all subtypes, industrial assets have proven to be much more resilient and remain a top choice among many investors.

Despite slowed momentum in capital markets activity, there are still plenty of groups that are willing to transact if the right opportunity arises. Industrial investment activity picked back up with several considerable sales that occurred during the first quarter of 2023. In the most notable trade, Lincoln Property Company acquired 64 Leona Dr. in Middleboro in a sale-leaseback for \$105.0 million, or \$129/SF. Westbrook Partners sold two properties totaling 330,444 square feet at 220 O'Connell Way in East Taunton to Claremont Companies for \$47.5 million, or \$144/SF. Also in the South submarket, Fiat Chrysler Automobiles N.V. leased back 550 Forbes Blvd. in Mansfield from the new owners, Berkeley Partners, for \$36.0 million, or \$167/SF.

Outlook

As the national industrial market begins to cool from a period of unprecedented growth in the face of increased recessionary pressures, Greater Boston boasts strong demand drivers and sturdy fundamentals. Despite its persistently strong performance over the last few years, industrial assets are still susceptible to a possible downturn. However, good tenant demand and the overall tightness of the Boston metro's market should help serve as an advantage and boost fundamentals in the near term. Investment activity has also extended beyond the traditionally defined metro area, with some developers and companies migrating to Worcester County and Southern New Hampshire, which offer slightly cheaper alternatives to the core industrial markets. The long-term outlook for Greater Boston's industrial market remains positive due to the strength of its overall fundamentals and resiliency as one of the more favorable asset types in recent years.

Select Lease Transactions

Tenant	Address	Submarket	Type	Square Feet
Acushnet Co.	175 Kenneth Welch Drive, Lakeville	South	Direct Lease	555,395
Avantor Fluid Handling	35 Saratoga Boulevard, Devens	North	Direct Lease	154,000
4Wall Entertainment	7 Manley Street, West Bridgewater	South	Direct Lease	88,200
Navisun	61 Strafello Road, Avon	South	Direct Lease	60,200
Via Separations	64 Pleasant Street, Watertown	West	Direct Lease	50,699
Kismet	77 Rowe Street, Newton	West	Direct Lease	45,497

Select Sale Transactions

Address	Submarket	Property Type	Sale Price	Price/SF	Square Feet
64 Leona Drive, Middleboro	South	Warehouse/Distribution	\$105,000,000	\$129	816,084
220 O'Connell Way, East Taunton	South	Warehouse/Distribution	\$47,500,000	\$144	330,444
550 Forbes Boulevard, Mansfield	South	R&D/Flex	\$36,000,000	\$167	215,575
71 Cherry Hill Drive, Beverly	North	R&D/Flex	\$23,100,000	\$229	100,928
80 South Street, Hopkinton	West	General Industrial	\$22,000,000	\$139	157,852

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist. Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Urban	21,675,382	280,095	4.9%	(204,735)	(204,735)	\$22.80	\$15.72	\$20.97
North	75,399,229	4,438,470	4.6%	(668,286)	(668,286)	\$16.25	\$17.55	\$15.51
South	81,794,294	1,658,718	5.3%	77,047	77,047	\$12.46	\$15.46	\$13.18
West	36,900,154	175,000	3.0%	(122,254)	(122,254)	\$13.17	\$16.69	\$14.58
Market	215,769,059	6,552,283	4.6%	(918,228)	(918,228)	\$14.73	\$16.65	\$15.07

Submarket Statistics by Subtype

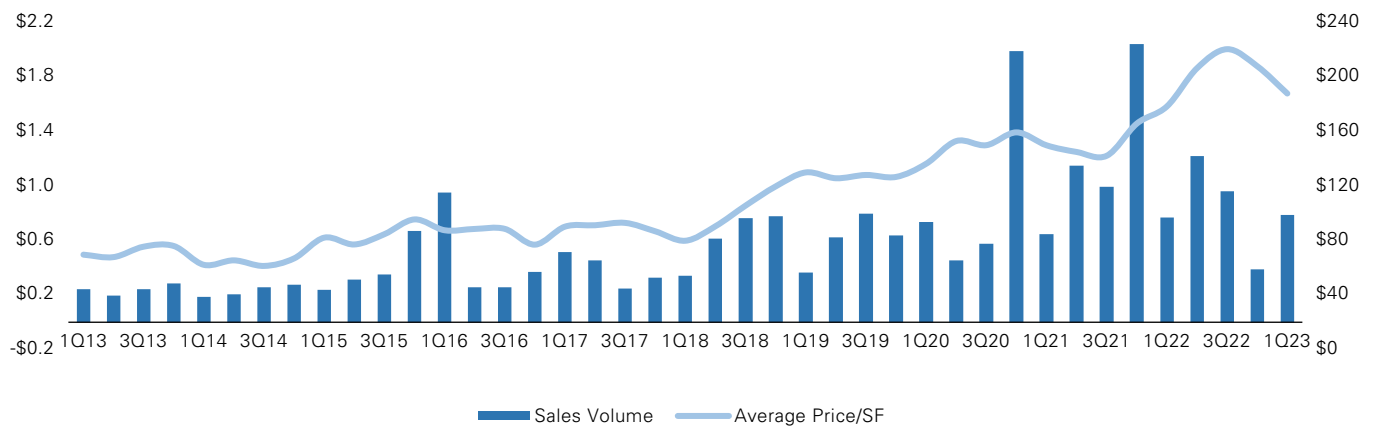
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
General Industrial	57,445,881	342,775	3.3%	(104,784)	(104,784)	\$13.70
R&D/Flex	51,490,483	152,695	5.9%	(504,953)	(504,953)	\$16.65
Warehouse/Distribution	106,832,695	6,056,813	4.7%	(308,491)	(308,491)	\$14.73
Market	215,769,059	6,552,283	4.6%	(918,228)	(918,228)	\$15.07

Class A Statistics

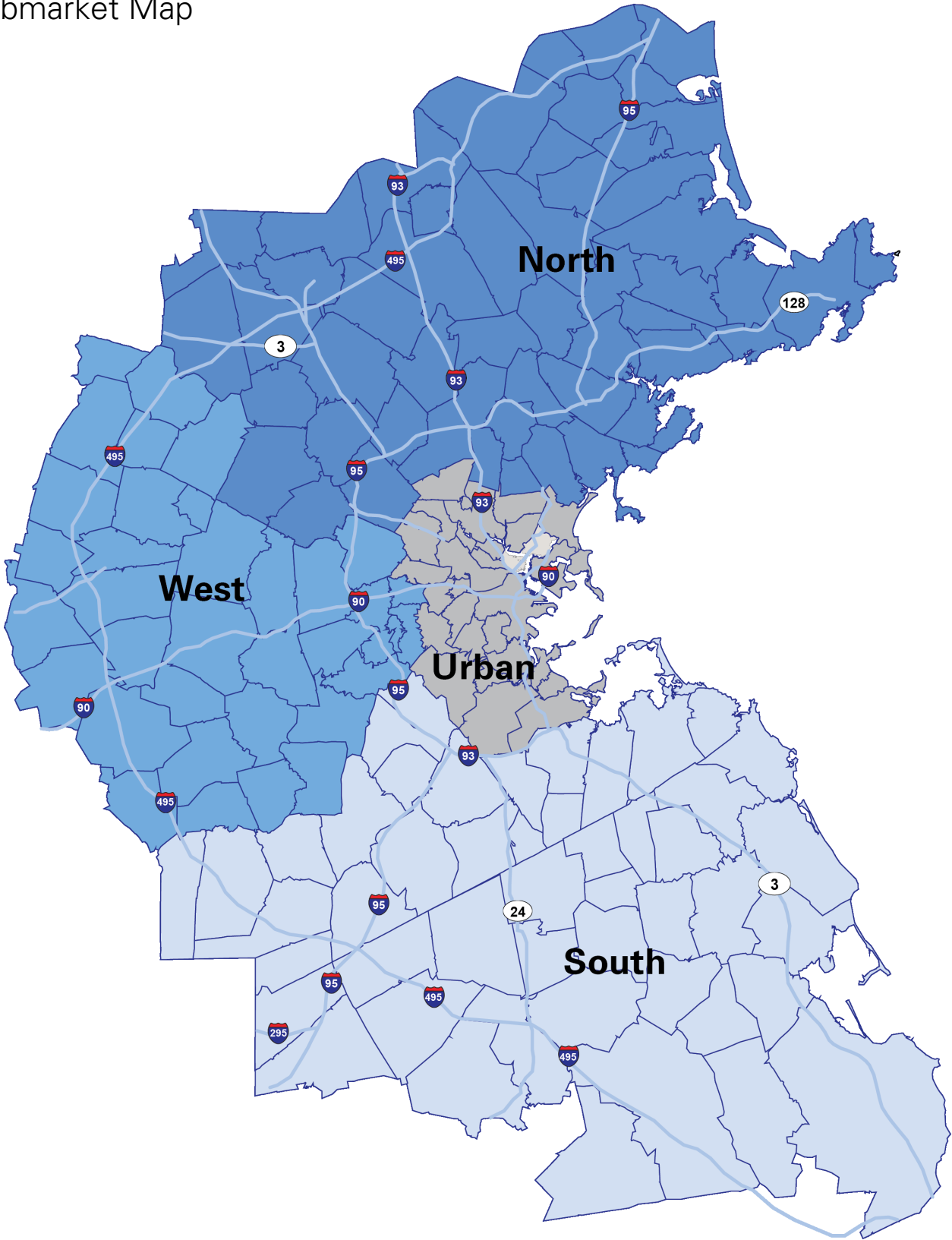
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist. Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Market	36,223,870	6,241,483	4.7%	156,198	156,198	\$13.12	\$13.14

Industrial Investment

SALES VOLUME (BILLIONS AND AVERAGE PRICE/SF)



Submarket Map



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Southern New Hampshire

Given Greater Boston's limited supply, demand for quality industrial space has pushed requirements beyond the traditional metro area, most notably up north to Southern New Hampshire. Even before Massachusetts approved a "millionaires' tax" in late 2022, high earners have looked to New Hampshire for its lower-tax environment and lower cost of living. The Southern New Hampshire submarket, which includes Merrimack County, Hillsborough County, Strafford County, and Rockingham County, serves as a relatively more affordable alternative to developers and other businesses who have been priced out of the core metro markets.

Average asking rents in this region continue to rise and experienced a 30.4% year-over-year increase to \$12.31/SF NNN during the first quarter of 2023. This represents a considerable discount to the more expensive asking rents, which can top \$20/SF NNN, in the Greater Boston submarkets. Though vacancy increased slightly by 20 basis points, it still hovers around its 5-year historic low.

The Southern New Hampshire submarket has seen solid leasing activity in recent months. In late 2022, Boston-based apparel company Life is Good signed a 350,000-square-foot deal at 48 Friars Dr. in Hudson. The warehouse and manufacturing facility is currently under construction and expected to deliver in the fourth quarter of 2023. The University of New Hampshire has leased a facility at 121 Technology Dr. in Durham, which serves as an on-campus advanced manufacturing center. In the first quarter of 2023, logistics

management company Law Logistics executed a new deal to occupy 81,462 square feet at 59 Daniel Webster Hwy. in Merrimack.

As developers are pushed out of the Boston markets, the greater availability of land and lower costs of capital make Southern New Hampshire an attractive option for investors. In the largest trade of the quarter, Target acquired land at the Green Meadow Golf Club in Hudson for \$128.1 million. The retail corporation plans to build a 1.4 million-square-foot distribution center at the site. Also in Hudson, Gentle Giant Moving Company acquired 3 Sagamore Park Rd. from Diggins & Rose Inc. for \$3.9 million, or \$83/SF. In another notable trade, O'Neil Warehouse Company sold 16 Swamscott St. in Newfields to a private buyer for \$5.2 million, or \$44/SF.

On another positive note, over 1.0 million square feet of manufacturing and R&D requirements are touring the market. A combination of medical device, semiconductor, retail and apparel, and contract manufacturing companies are all looking to grow.

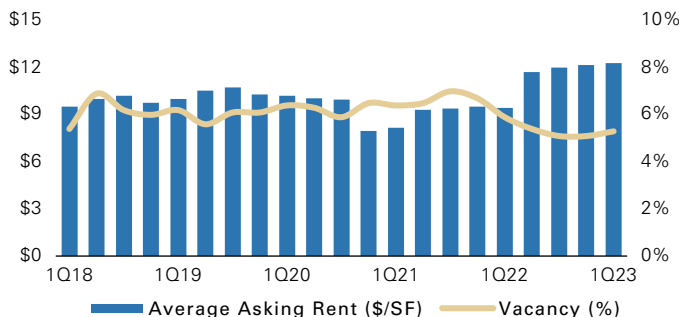
With several commitments and strong investor interest in this region, more deals are expected to close in the coming months. Multiple new warehouses are under construction and will provide much-needed supply to the Greater Boston region. Overall, the State of New Hampshire's cost savings incentives will help continue to attract activity outside of the Boston metro.

Submarket Statistics

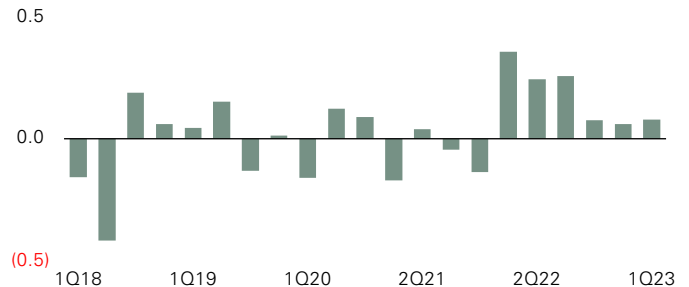
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist. Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Southern New Hampshire	29,589,823	875,750	5.3%	79,011	79,011	\$11.02	\$12.55	\$12.31

Submarket Analysis

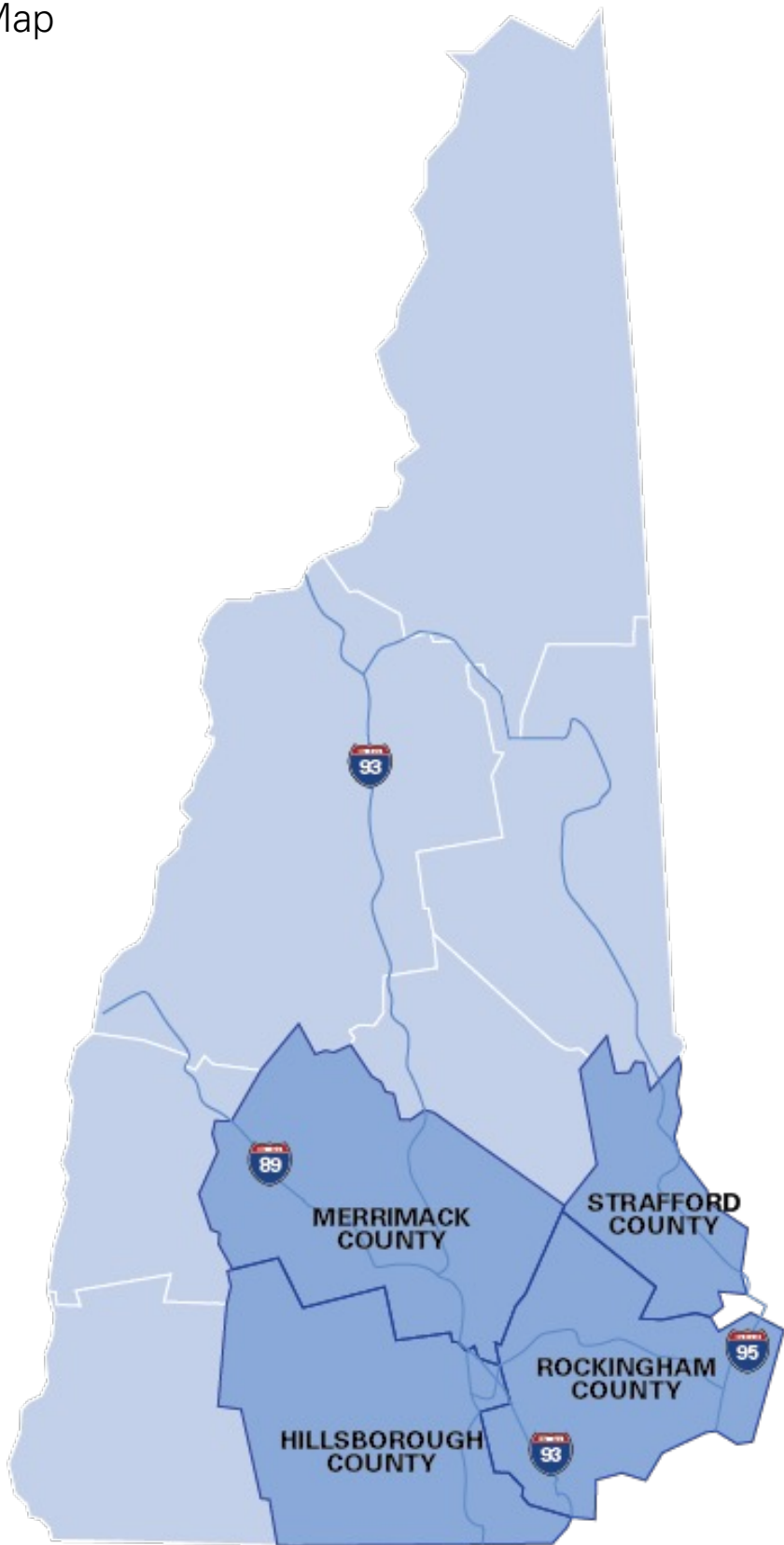
ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



Submarket Map



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