

3Q23

Boston Industrial Market Overview

An aerial photograph showing the repetitive, geometric patterns of industrial building roofs. The roofs are covered in metal grates with parallel slats, creating a strong sense of rhythm and perspective. The perspective is from a high angle, looking down at the roofs, which are arranged in a grid-like fashion.

NEWMARK

Market Observations

Economy

- The region’s labor market proved resilient amid shifting macroeconomic conditions. The unemployment rate ticked up slightly to 2.7% in August but remains low by historical standards.
- The construction industry remained at the forefront of the metro’s year-over-year job gains, further underlining the strength of the region’s development pipeline. With elevated levels of construction activity since the pandemic, the demand for experienced workers has exceeded supply, causing some developers to extend their project timelines.
- Through the Federal CHIPS and Science Act, Massachusetts has been awarded \$19.7 million to establish a regional hub in the Northeast that will advance the nation’s microelectronics needs.

Major Transactions

- Utility distributor Anixter expanded its current premises of 120,000 SF to occupy nearly 307,000 SF at 12 Industrial Rd. in Milford.
- Several large speculative Class A warehouses delivered this quarter, including 211 Highland St. in East Bridgewater and 404 Green St. in Wrentham.
- Boston-based TA Realty sold two industrial buildings, 301 Bartlett St. and 150 Hayes Memorial Dr. in Northborough, totaling 387,544 SF to LBA Realty for \$78.9 million, or \$203.46/SF.

Leasing Market Fundamentals

- While the vacancy rate increased by 50 basis points to 5.5%, the third quarter of 2023 posted a positive net absorption of 100,495 SF.
- Despite some softening in recent quarters, current demand remains strong at nearly 21.0 million SF, with 1/5 of new active requirements emerging within the last three months.
- Rents continue to hold, as the overall average asking rate increased by 4.1% to reach a new historic high of \$15.69/SF. More speculative, premium quality industrial product is set to deliver during the remainder of the year, which is expected to put some upward pressure on asking rents in the near term.

Outlook

- The overall vacancy rate will likely continue to rise as several new speculatively-built construction projects are set to deliver during the remainder of 2023.
- The state’s newly awarded status as a regional microelectronics hub will provide a significant boost to the state’s advanced manufacturing industry and help continue to attract investment in the Greater Boston area.
- As broader market conditions continue to normalize, the industrial asset type continues to outperform many others in the Boston metro.

1. Economy
2. Leasing Market Fundamentals
3. Submarket Overview

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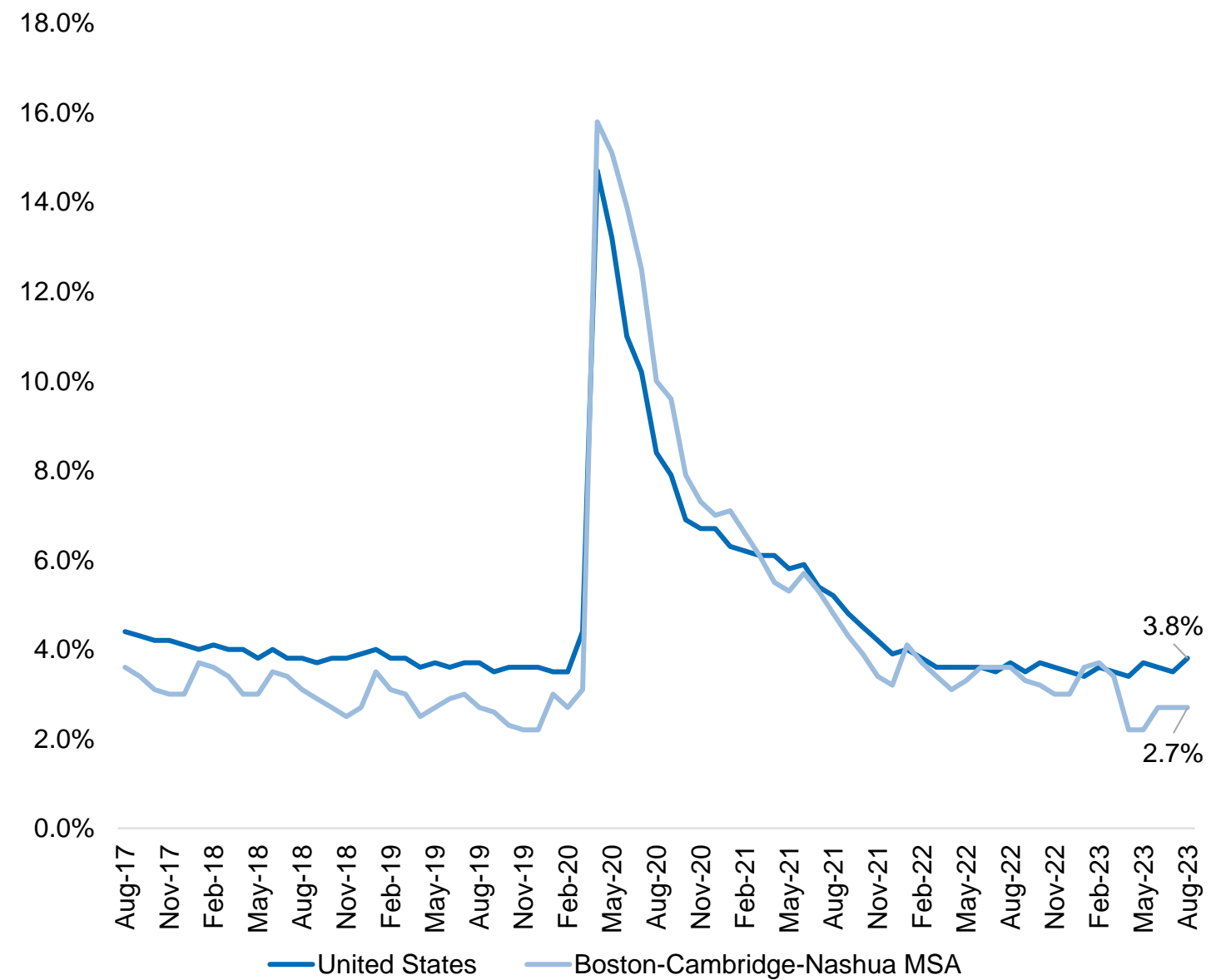
Economy



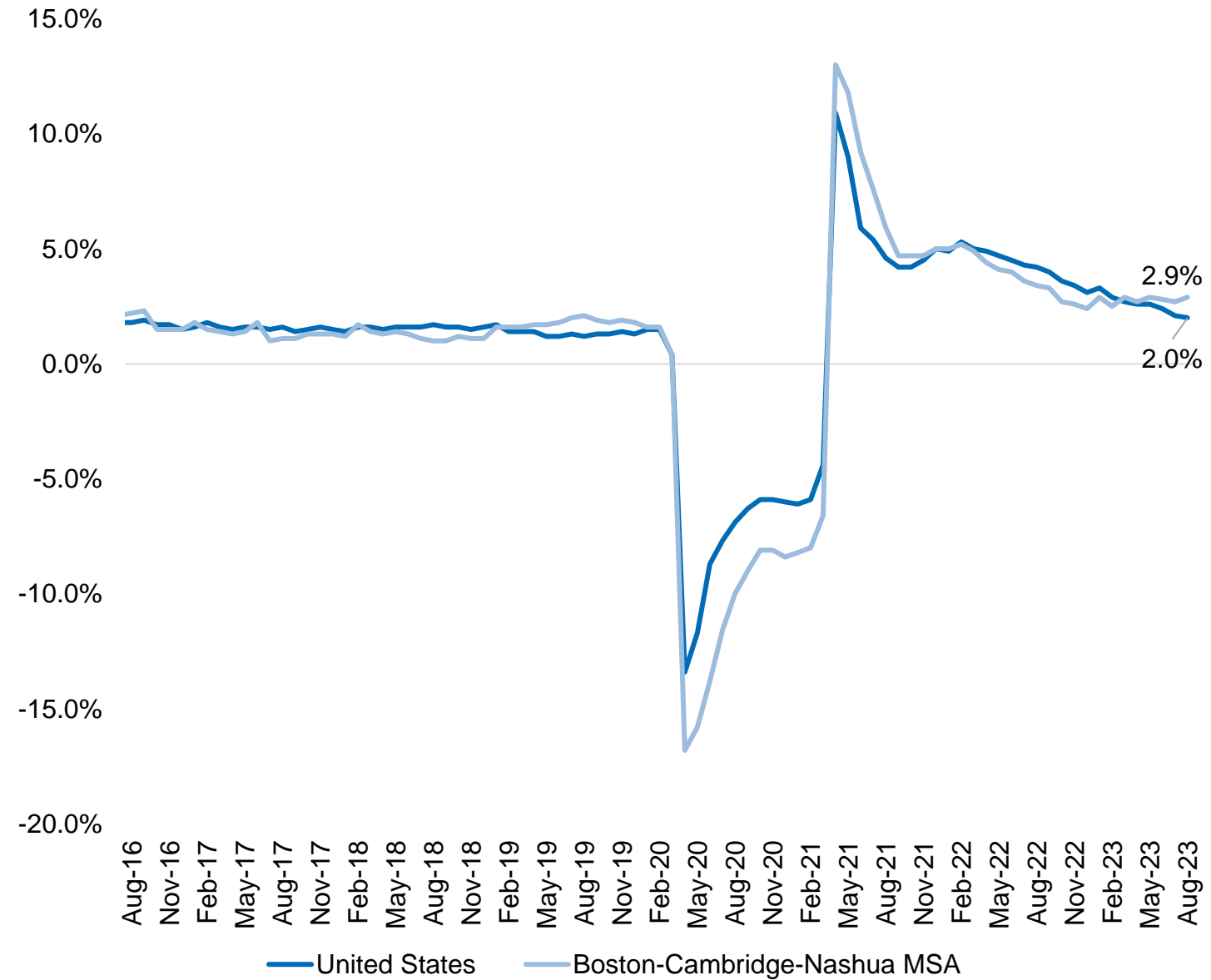
Metro Employment Trends Are Performing above the National Average

While the region’s labor market remains on relatively solid footing and the annual job growth rate has exceeded the national average, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment in Boston remains below the national average, but the tech and biotech sectors are experiencing sustained layoffs.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



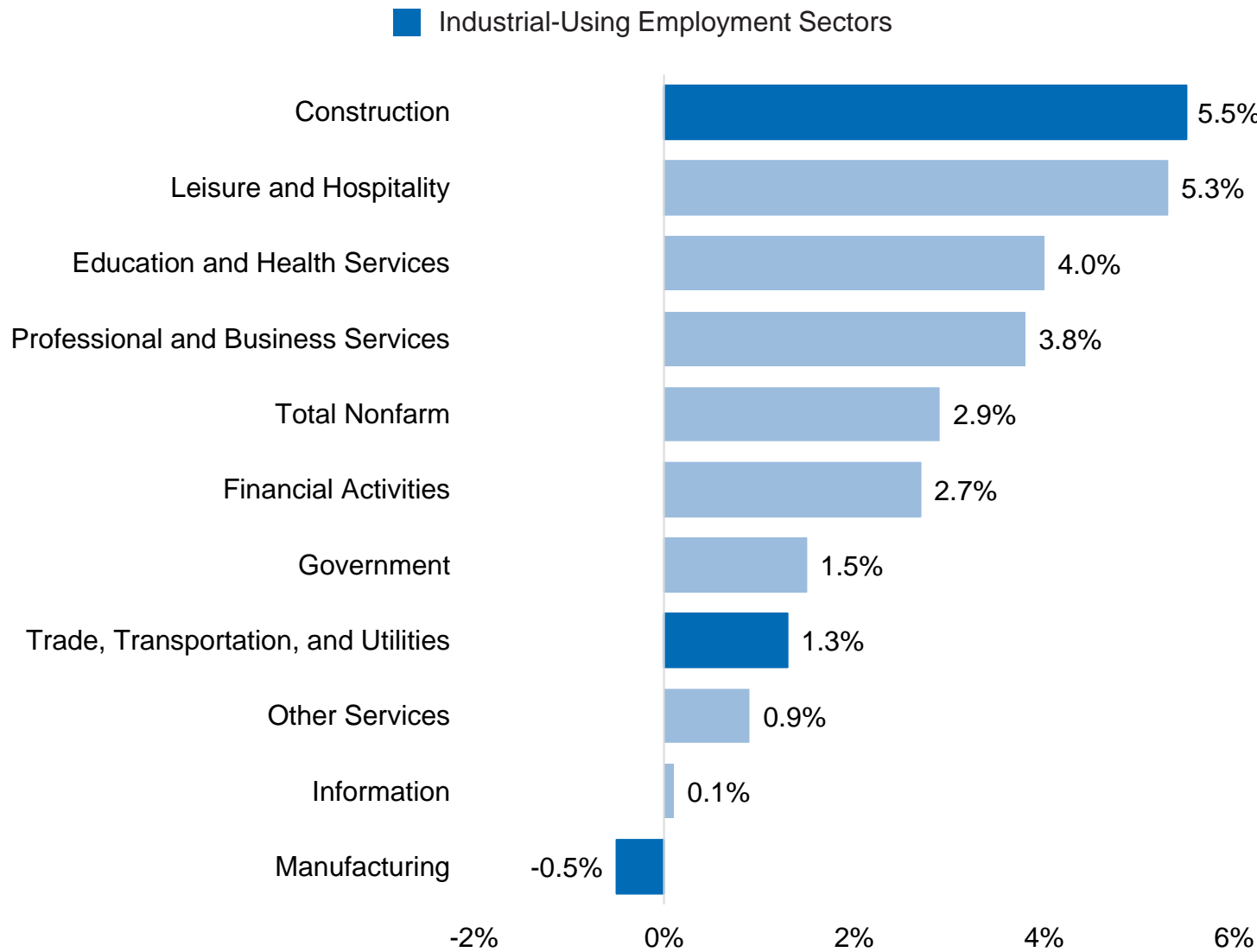
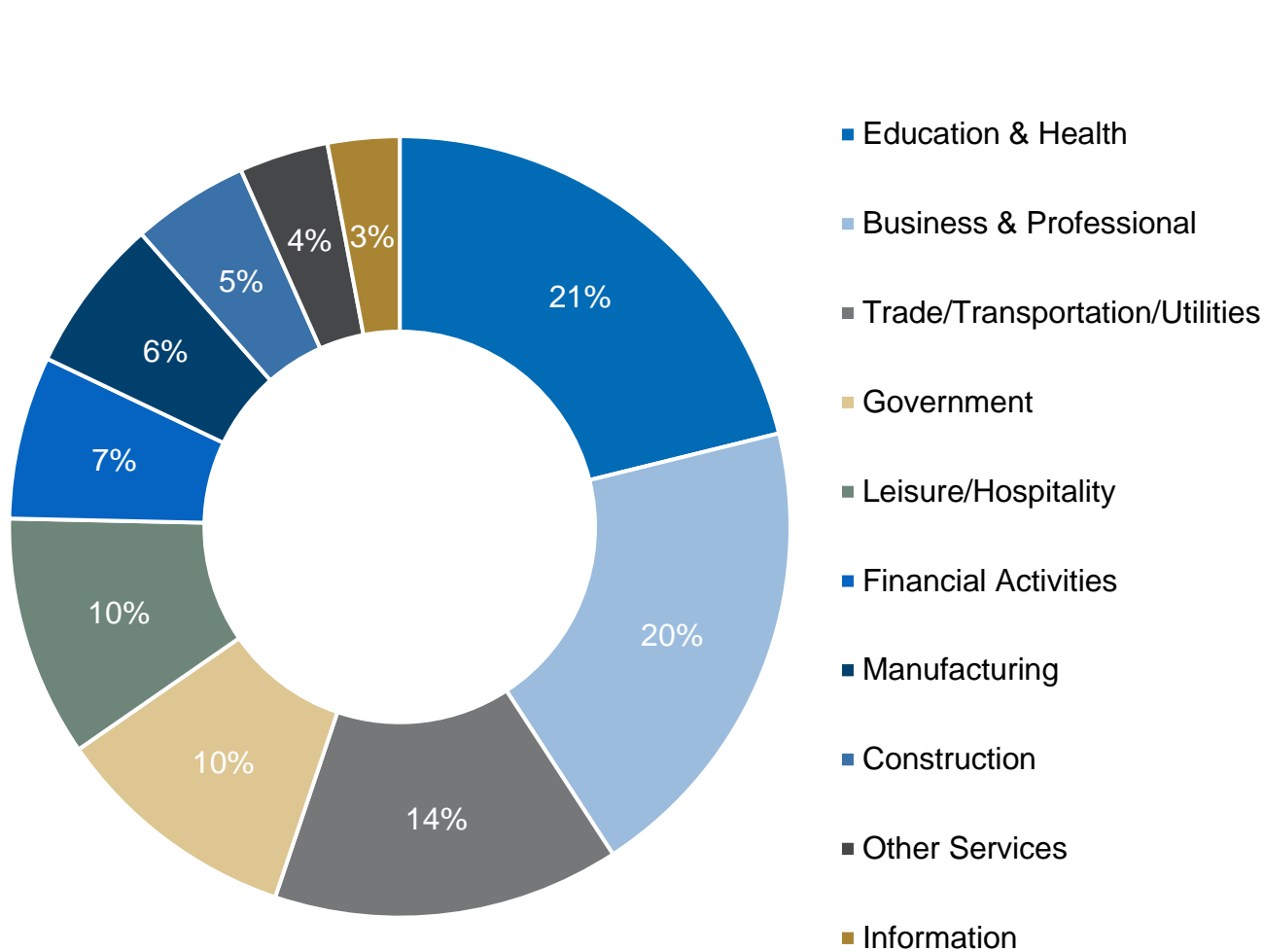
Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

The construction sector led all industries in regional annual job growth for the second consecutive quarter. Job growth in the manufacturing sector realized another year-over-year decline in August 2023; however, the emergence of advanced manufacturing companies throughout Greater Boston could lead to a shift in demand for these highly skilled workers.

Employment by Industry, August 2023

Employment Growth by Industry, 12-Month % Change, August 2023

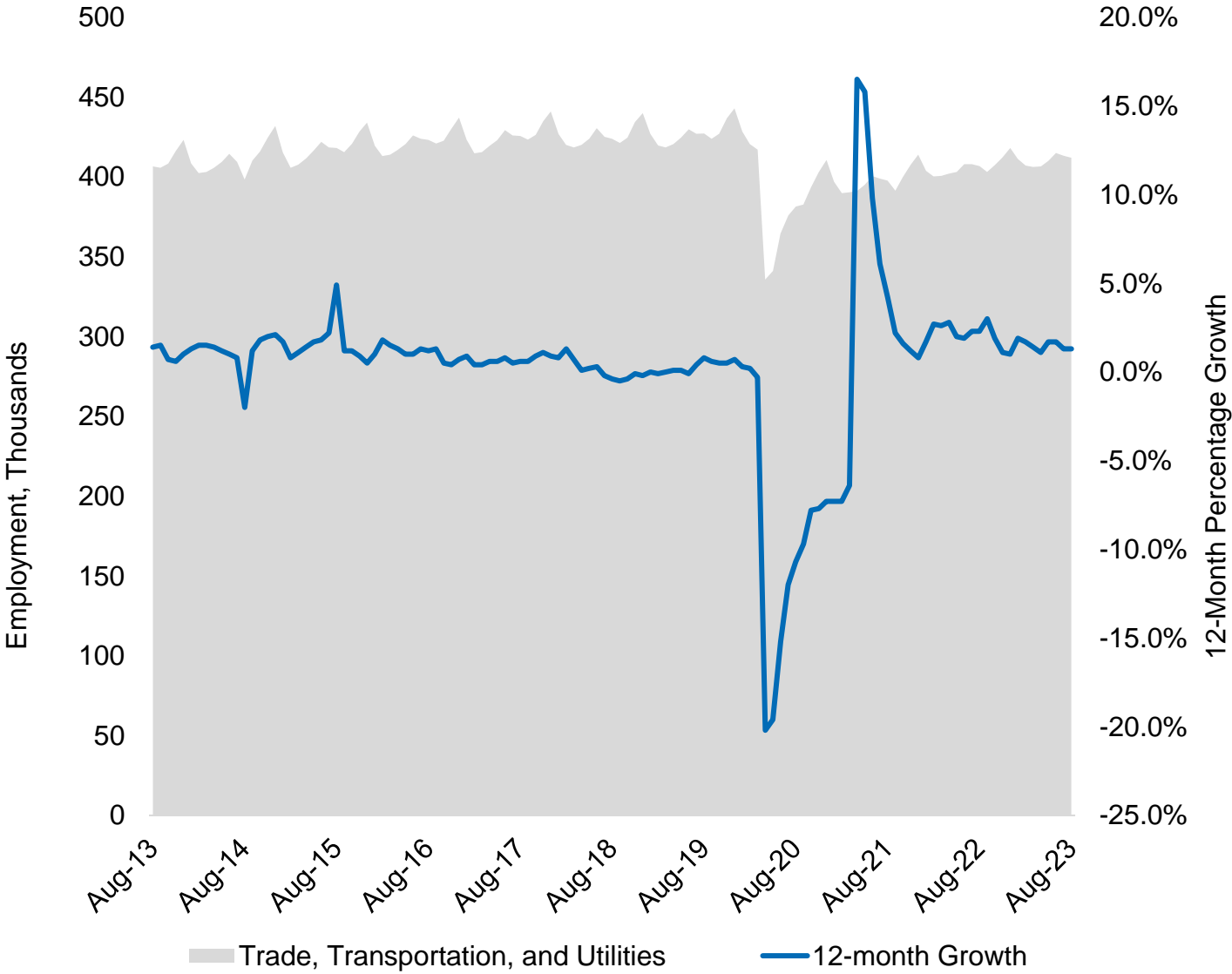


Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

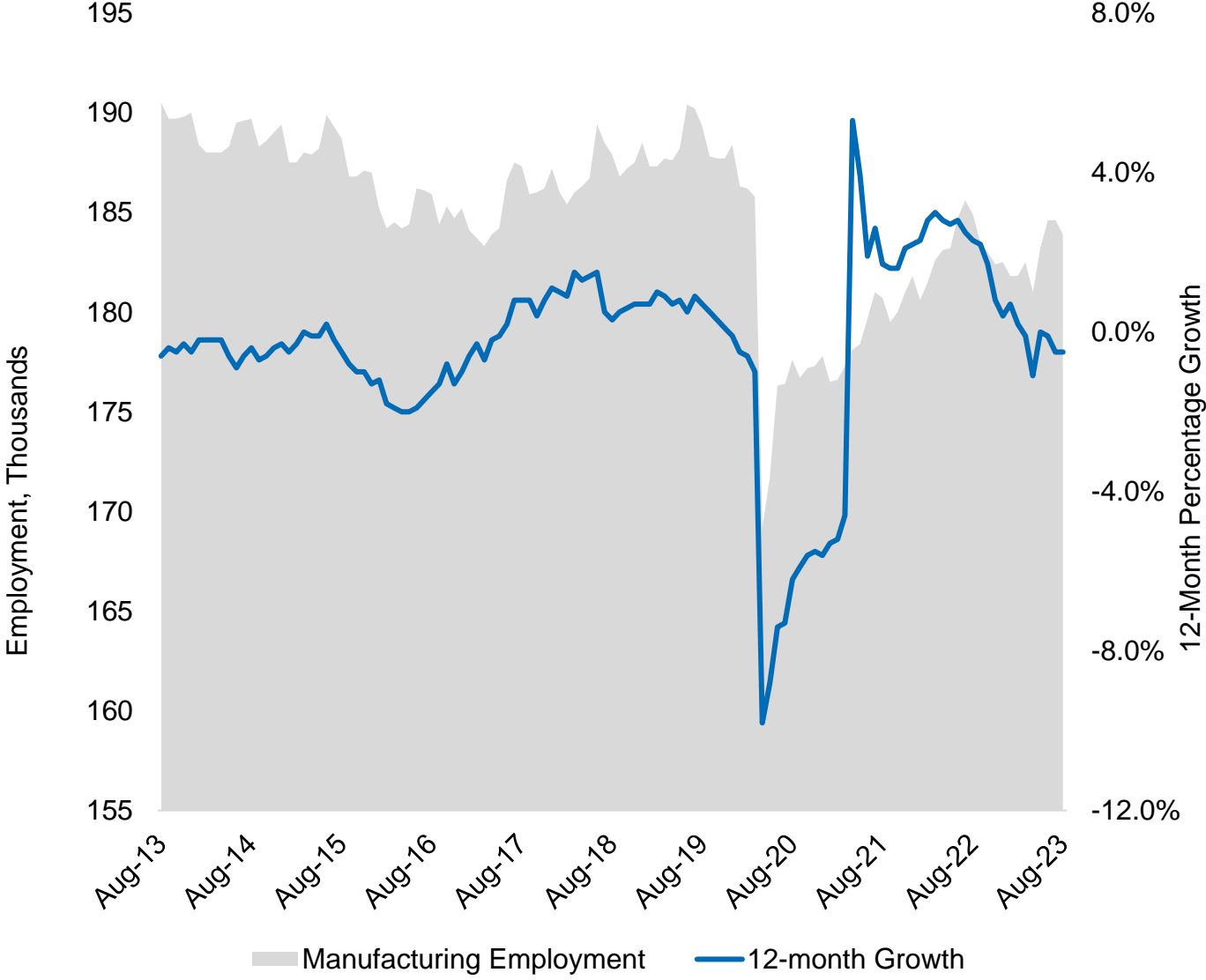
Industrial Employment Remains Stagnant Following Rapid Pandemic Growth

The trade/transportation/utilities and manufacturing sectors have yet to regain all the jobs lost during the pandemic. Firms in these industries are still recalibrating their workforce needs as the broader industrial market continues to normalize. While year-over-year regional employment growth in the manufacturing industry has slowed, heightened interest and investment in advanced manufacturing will benefit domestic production, as well as manufacturing employment in the long term.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

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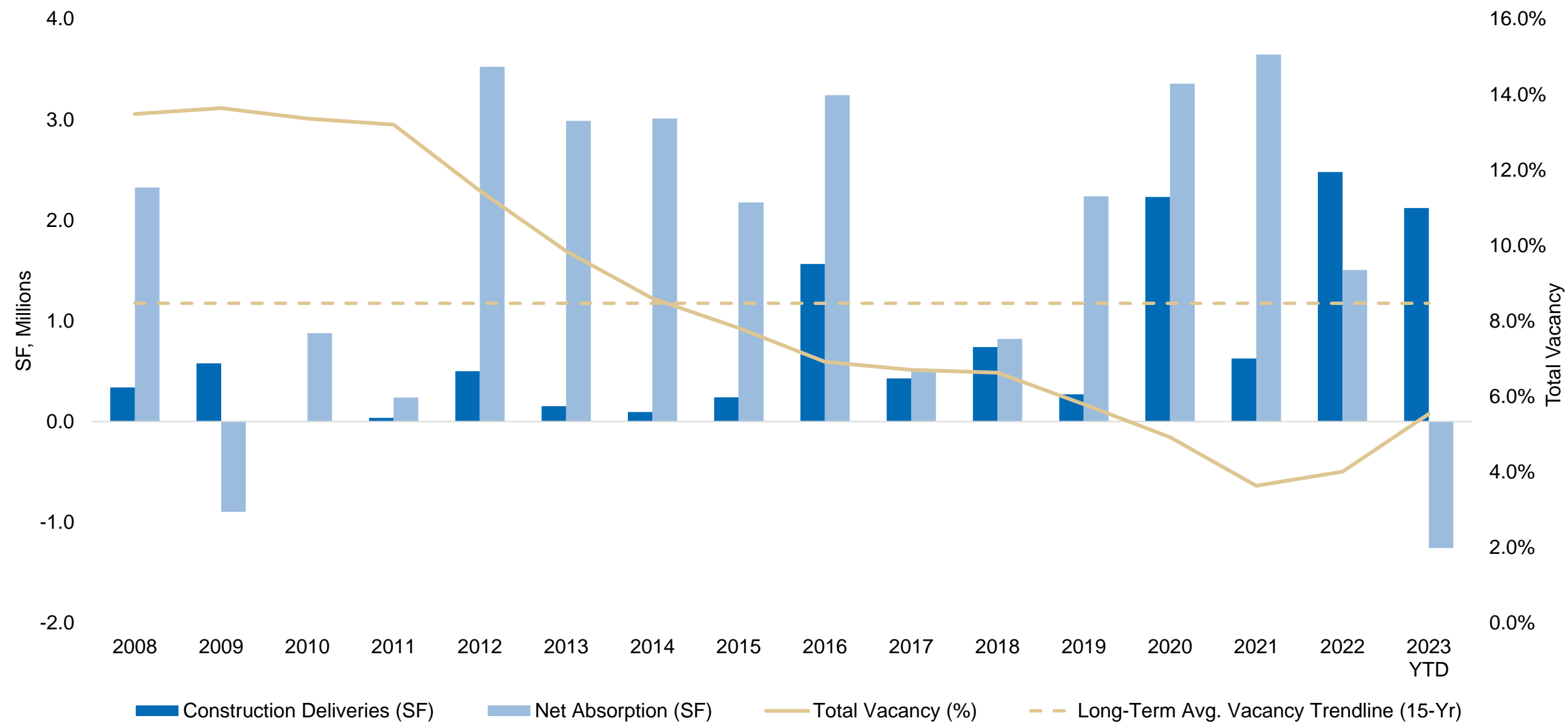
Leasing Market Fundamentals



Speculative Construction Continues to Outpace Absorption

The vacancy rate rose for a sixth consecutive quarter to 5.5%, largely due to several speculatively-built projects delivering this quarter. With approximately 1.7 million SF set to deliver by the end of the year, most of which lacks significant preleasing, these new industrial facilities are expected to put further upward pressure on the vacancy rate in the near term. Other market indicators remain positive, as the overall vacancy rate still sits well below the long-term historic average.

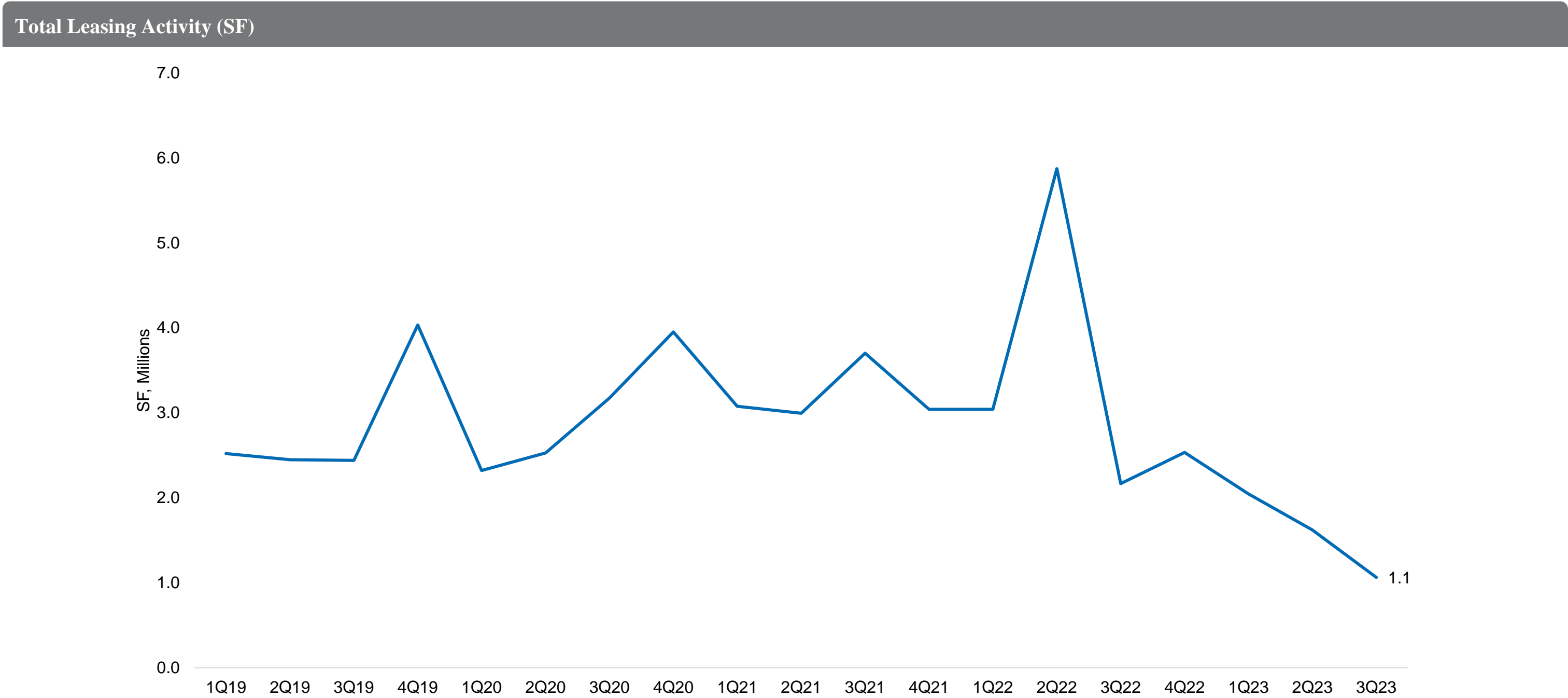
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Continues to Slow but Demand Remains Elevated

As leasing activity continues to fall back to pre-pandemic levels, other market indicators offer a positive sign that the Greater Boston industrial market remains healthy. Following decelerated demand due to some tenants putting their requirements on hold earlier in 2023, positive momentum has picked back up, with demand currently standing at nearly 21.0 million SF. Good leasing activity over recent months has largely stemmed from some smaller-sized tenants within the 40,000- to 50,000-SF range.

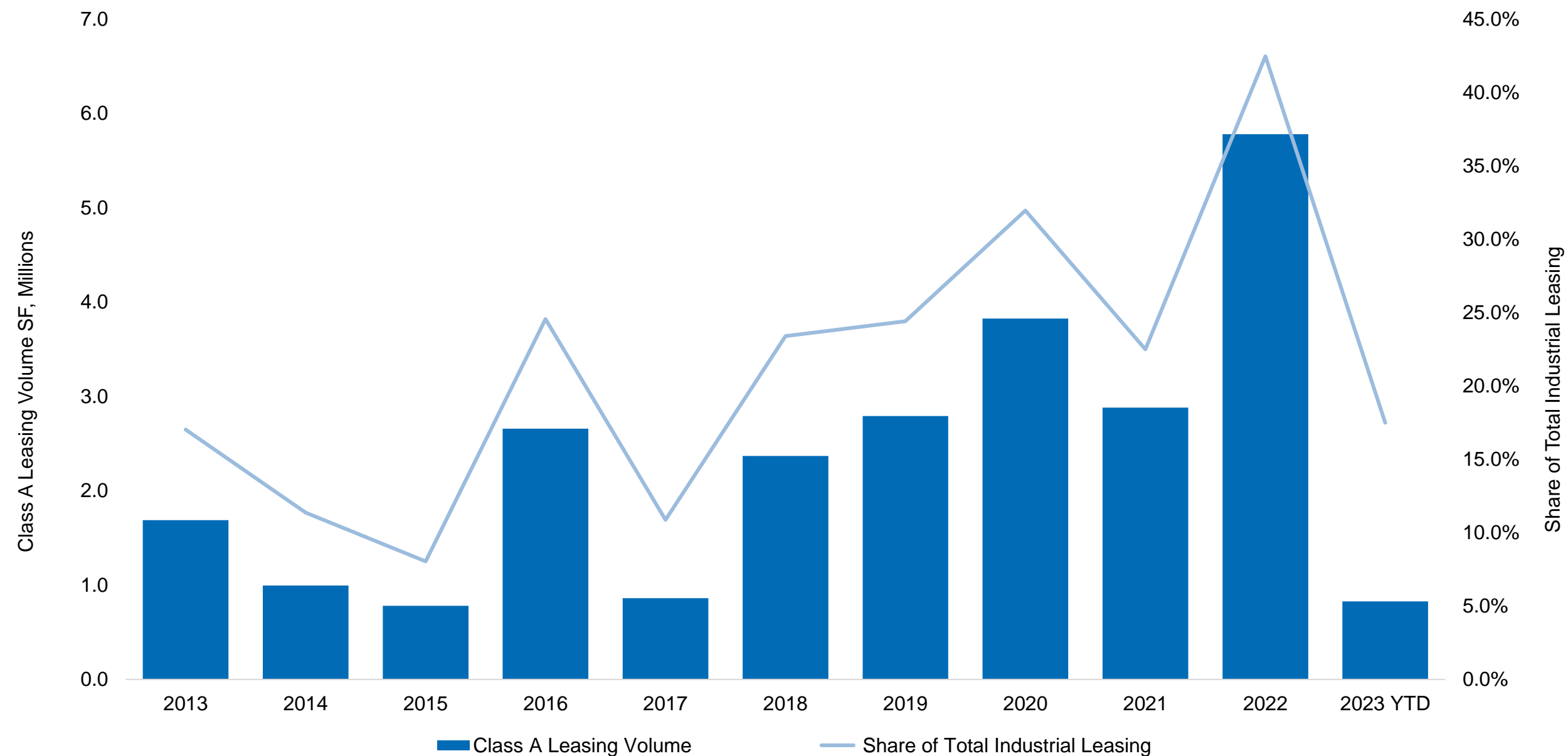


Source: Newmark Research, CoStar

Class A Warehouse Leasing Falls Back to Long-Term Average

Overall industrial leasing activity in the Boston metro has fallen back in line with pre-pandemic levels, with Class A warehouse and distribution space experiencing a similar decline since the rapid growth during 2022. While demand for this premium quality space remains elevated, some tenants are taking longer to make decisions. Given the current macroeconomic headwinds and increasing available options, tenants may have some slight leverage when negotiating terms.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

South Submarket Maintains the Highest Vacancy Rate Relative to Other Submarkets

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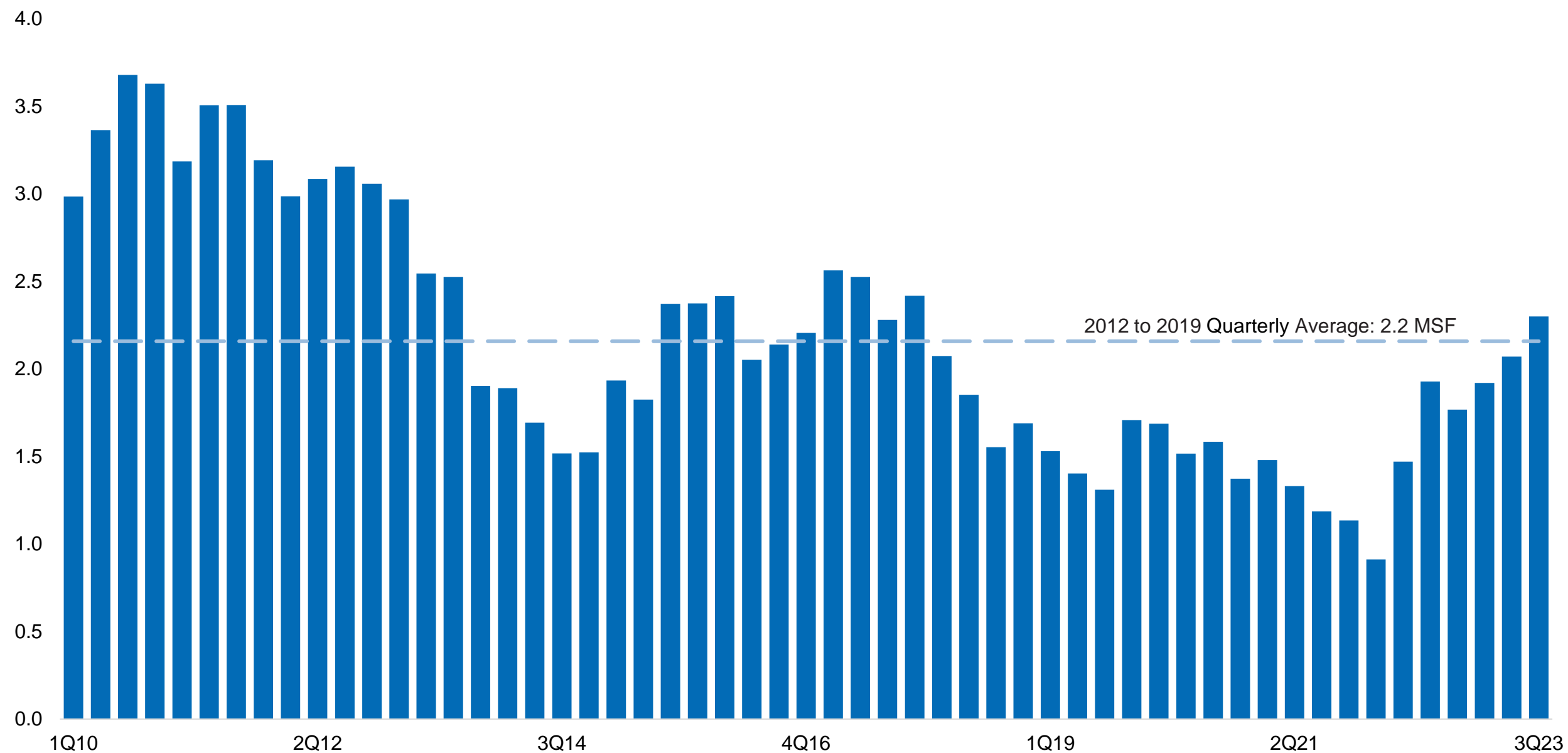
Industrial Parks Have Posted Lower Vacancies Within the Last Five Years

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Industrial Sublease Availability Ticks up Slightly above Historical Average

Sublease availabilities have risen steadily since the historic low realized in early 2022, with current levels standing just above the long-term pre-pandemic average. Some large tenants, including Essendant, Quality Custom Distribution, and Web Industries, have listed big blocks of space in recent months, reflecting a wider trend of tenants reevaluating and pulling back their space needs. While this recent uptick in availability appears disconcerting, the current sublease volume only reflects 1.1% of the metro’s total industrial inventory.

Available Industrial Sublease Volume (msf)

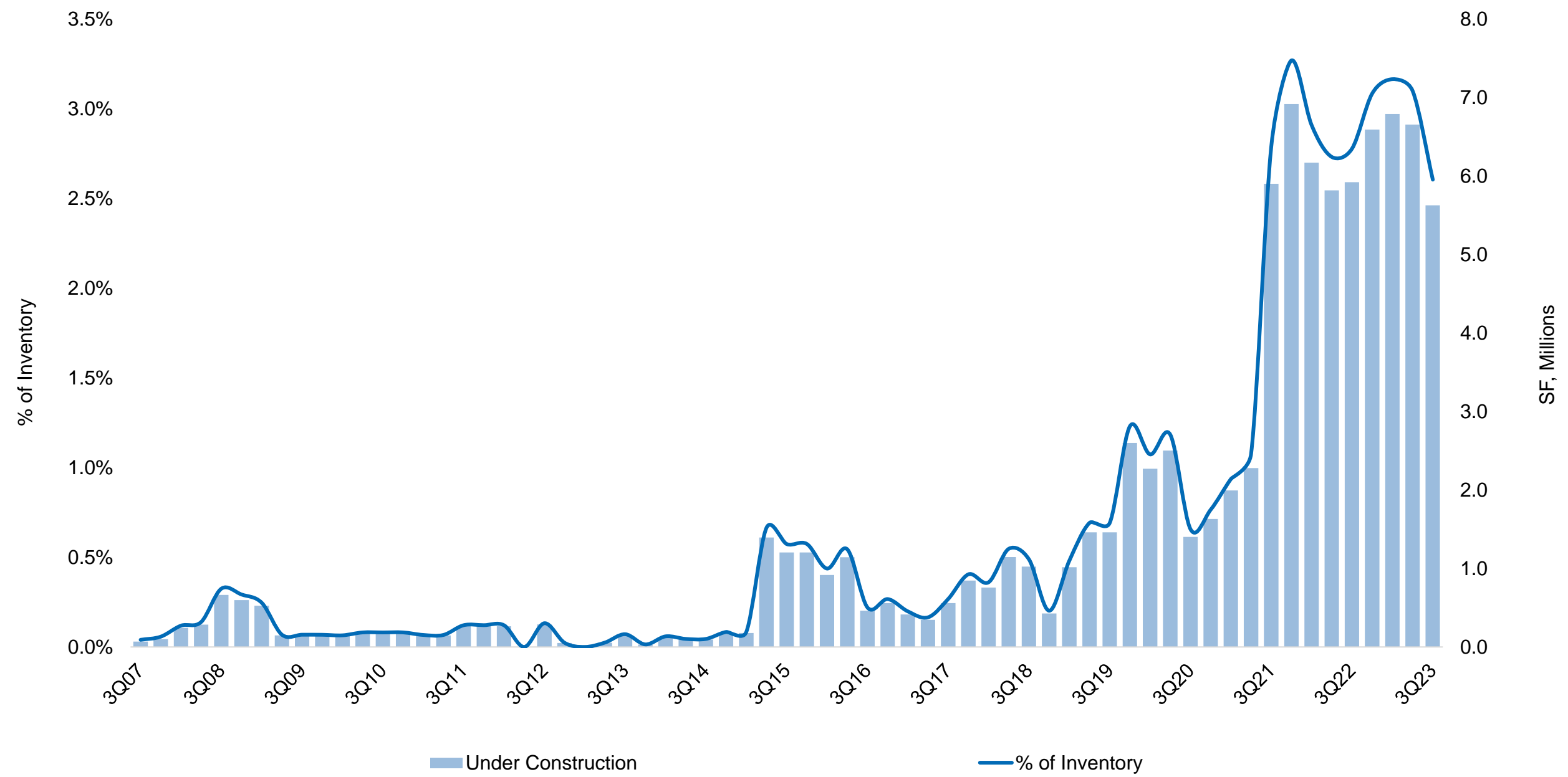


Source: Newmark Research, CoStar

Industrial Supply Pipeline Starting to Cool Following Historic High

Following the second highest quarter for deliveries during the third quarter of 2023, the construction pipeline has started to fall back but remains elevated relative to pre-pandemic levels. Given the record number of industrial facilities currently underway, developers are looking to lease more speculatively-built space before breaking ground on new developments. Several more projects are set to deliver by the end of the year, including a 3.3-million-SF Amazon warehouse that will significantly impact the metro’s new construction inventory.

Industrial Under Construction and % of Inventory

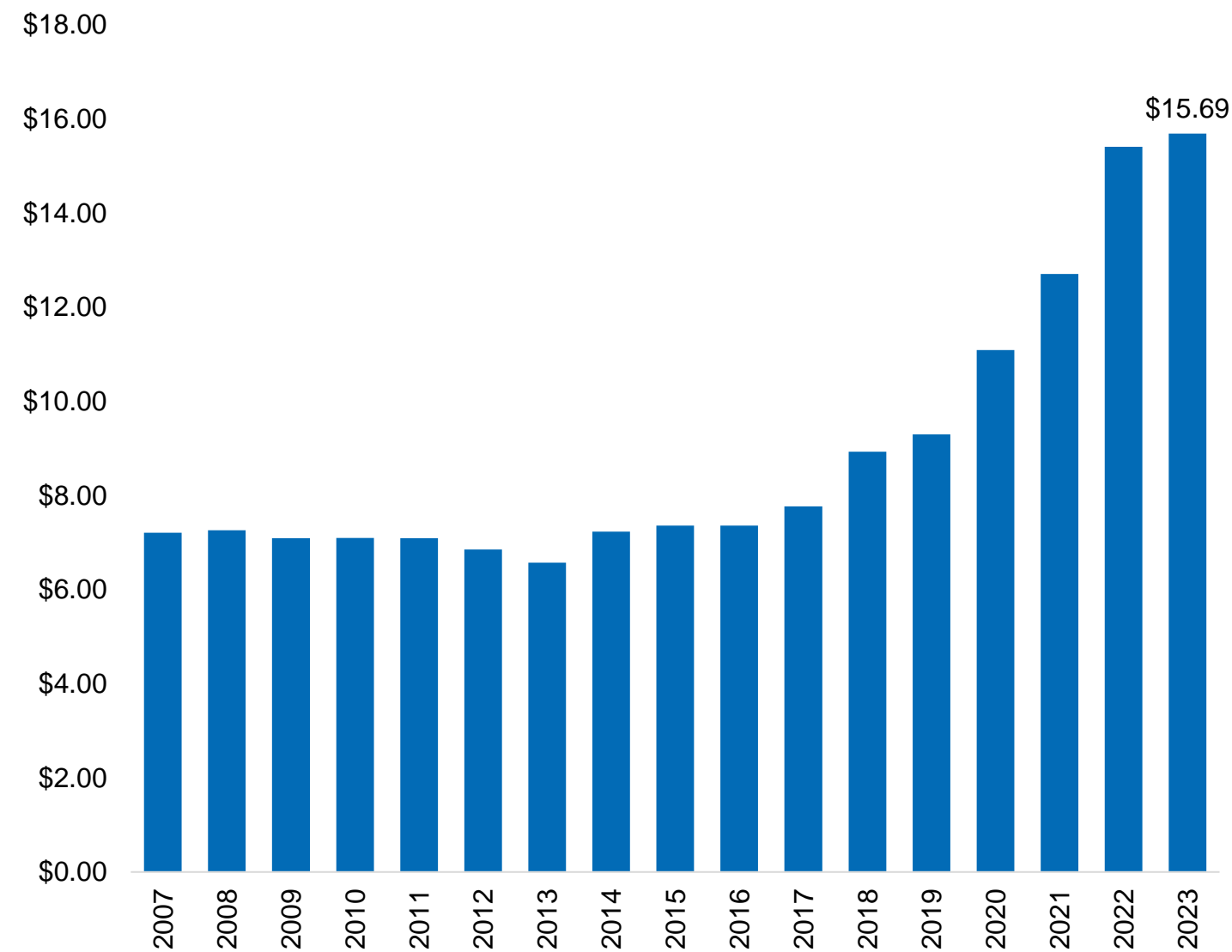


Source: Newmark Research, CoStar

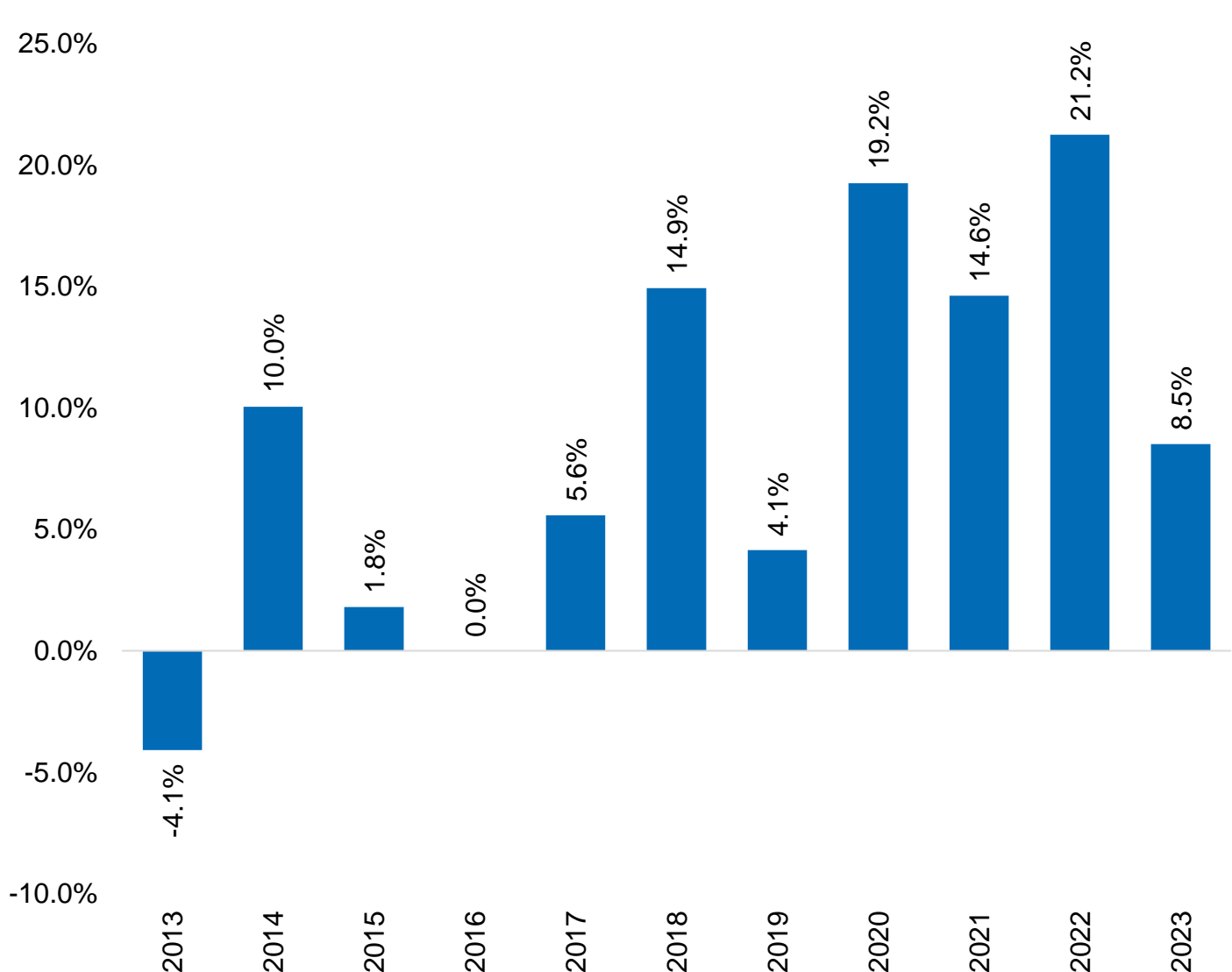
Industrial Asking Rents Continue to Climb but Growing at a Slower Pace

Rents continue to experience positive rent growth, albeit at a slower pace relative to some recent years, with overall average asking rents now at \$15.69/SF. Rents in the South submarket experienced the greatest year-over-year increase at 13.7% to close the quarter at \$13.48/SF. Overall average asking rents are expected to experience some further upward pressure for the remainder of the year as several new developments near completion.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Class A Warehouse Rents Level Off Following Post-Pandemic Peak



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Asking Rent Spread Between Urban and All Other Submarkets Continues to Widen

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Select Lease Transactions

With increased tours and over 21.5 million square feet of active tenant requirements in the market, industrial leasing activity picked back up during the third quarter of 2023. Momentum is still moving at a slower pace relative to the pandemic years, however, and landlords are now more willing to do shorter-term deals.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Anixter, Inc. <i>In the largest lease registered in the region this quarter, the utility distributor expanded from its existing premises of 120,000 SF to nearly 307,000 SF.</i>	12 Industrial Rd., Milford	West	Lease Expansion	306,662
Catania-Spagna Corporation <i>The oil producer and distributor leased the entire warehouse/distribution facility.</i>	90 Nemco Way, Ayer	North	Direct Lease	216,010
Karl Storz Endoscopy <i>The German medical device company expanded its footprint in the U.S. by signing a new lease at the warehouse/distribution facility in Auburn.</i>	28 Millbury St., Auburn	Worcester County	Direct Lease	210,000
Synventive Molding Solutions <i>The manufacturer of hot runner systems renewed its lease at its primary U.S. location.</i>	10 Centennial Dr., Peabody	North	Lease Extension	86,152
Potpourri Group <i>The multi-brand retailer extended the lease on its existing premises at the flex facility.</i>	101 Billerica Ave., North Billerica	North	Lease Extension	72,000

Source: Newmark Research

Competitive Wage and Employment Growth in Advanced Manufacturing Sectors

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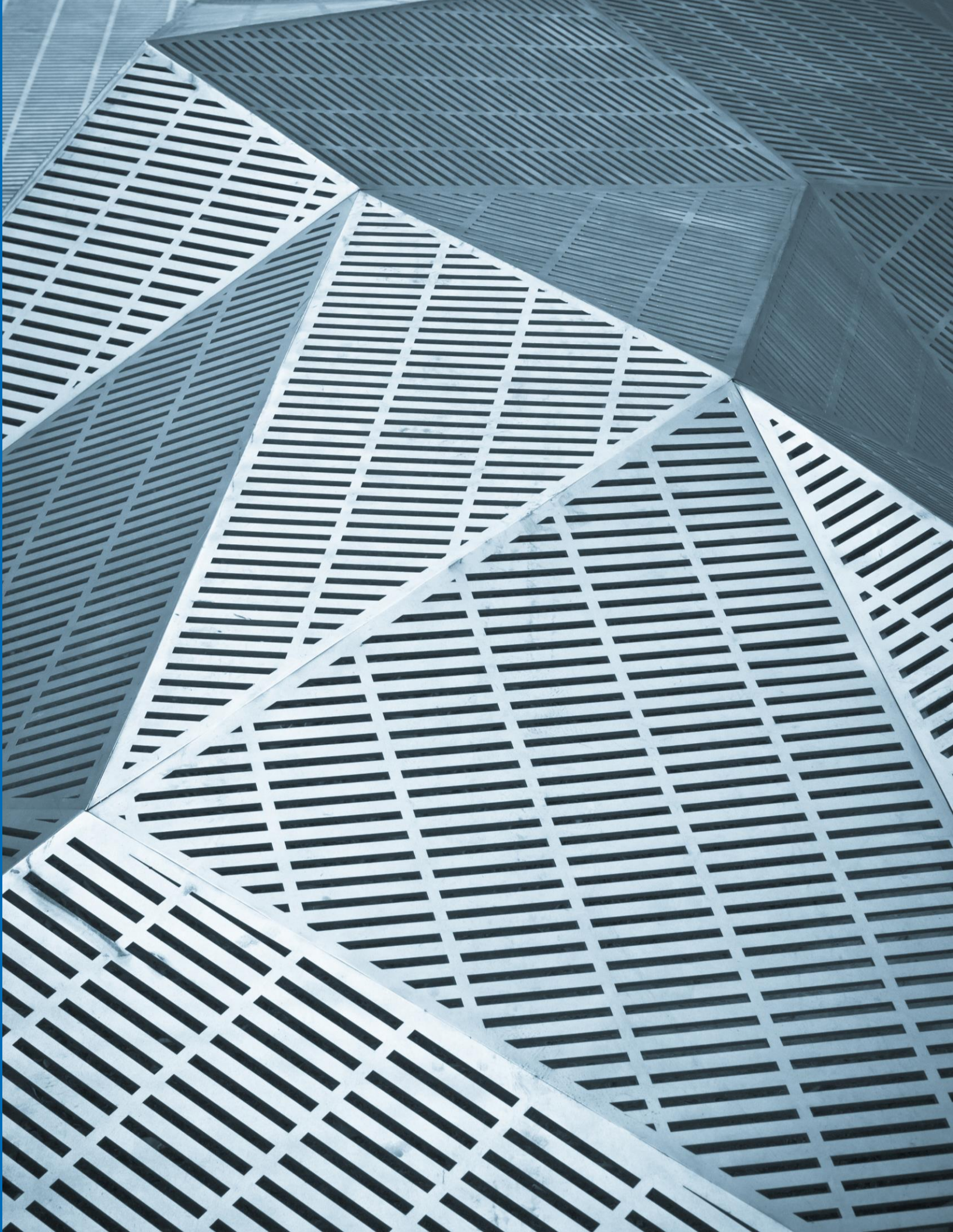
Greater Boston's Emerging Advanced Manufacturing Industry



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Submarket Overview



Southern New Hampshire Submarket Overview

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North Submarket Overview



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South Submarket Overview



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Urban Submarket Overview



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West Submarket Overview



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Submarket Overview



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