



Boston Industrial Market

Fundamentals Remain Healthy in the Face of Recessionary Pressures

Greater Boston's industrial market closed out 2022 with consistently strong fundamentals despite facing significant macroeconomic headwinds. Leasing activity rallied from its third quarter deficit and ended the year with 1.7 million square feet of positive net absorption. Landlords remained bullish on rents, as the overall average asking rate realized a 12.3% uptick over the year. Several properties that experienced extended construction timelines delivered in the fourth quarter of 2022, providing much-needed supply to an otherwise tight market. The spike in deliveries caused overall vacancies to stabilize above 3.0% as well as quoted rents for the Class A Warehouse/Distribution subtype to decline. Demand continues to outpace supply for quality industrial product, which bodes well for the long-term health of the market. Capital markets felt the impact of interest rate volatility and investor uncertainty during the fourth quarter of 2022, as the average per-square-foot sales price dipped below \$200/SF for the first time since the third quarter of 2021. E-commerce and clean manufacturing companies continue to be core drivers of tenant demand, although the tightness of the market keeps pushing several requirements west to Worcester and north towards the New Hampshire border. Looking ahead, Greater Boston's industrial market is still poised to attract investor interest and weather a potential recession in 2023.

Current Conditions

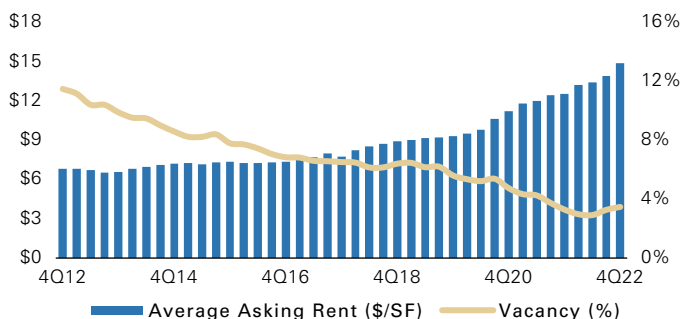
- Although vacancies increased slightly, market fundamentals remain healthy.
- Average asking rents continued on their upward trajectory, finishing the quarter at another historical high of \$14.89/SF NNN.
- Buyer and seller hesitancy caused capital markets to slow and average per-square-foot sales price to drop below \$200/SF.
- Demand for quality space continues to push requirements to Worcester and Southern New Hampshire.

Market Summary

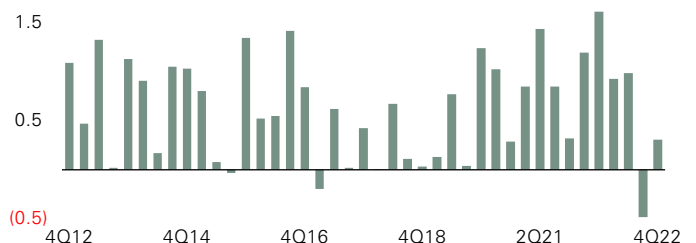
| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 218.3M | 217.8M | 216.3M | ↑ |
| Vacancy Rate | 3.5% | 3.3% | 3.3% | ↔ |
| Quarterly Net Absorption (SF) | 311,349 | -485,921 | 1,622,080 | ↑ |
| Average Asking Rent/SF | \$14.89 | \$13.94 | \$12.56 | ↑ |
| Under Construction (SF) | 6.0M | 5.8M | 6.9M | ↓ |

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q4 2022

Development Trends

While interest rate volatility, the rising cost of debt, and overall economic uncertainty have caused landlords and developers of alternative asset types to reconsider their footprints, demand for quality industrial product within Greater Boston remains strong. The local industrial market added 13 properties totaling 2.5 million square feet to its inventory during 2022, marking a historical high in terms of annual deliveries. Construction timelines have stabilized and average pace for ground-up developments now ranges from 12 to 15 months. Several projects are expected to deliver in 2023, with 5.9 million square feet of Warehouse/Distribution space currently underway. Much of this product is made up of build-to-suit requirements; however, as Amazon's redevelopment at Osgood Landing in North Andover is nearing completion. Tenant requirements in the 75,000 to 100,000-square-foot range remain extremely active, with a focus on new construction, high-bay Warehouse/Distribution space to conduct operations. In addition, several cold storage requirements have entered the market, prompting the need for new owner-user and build-to-suit options. The expectation is that developers will continue to explore opportunities to deliver speculative as well as alternative builds to the market to meet strong tenant demand as 2023 begins; however, the entitlement processes are becoming increasingly more difficult and lengthier. It is expected that construction totals could dwindle in the short term as developers seek more lenient areas that are conducive to new construction. This could be positive for the overall health of the industrial market, as fundamentals should remain tight due to the supply-demand imbalance.

Demand Remains Strong within the Boston Metro

Leasing activity within Greater Boston's industrial market ended the year on solid footing, with net absorption returning positive and totaling more than 300,000 square feet during the fourth quarter of 2022. Demand has maintained a steady pace and several large requirements that were previously on hold have returned to the market. Although this demand is still concentrated on quality Class A Warehouse/Distribution space, the emergence of alternative space needs has become more prevalent. Properties with the ability to accommodate for heavy manufacturing or extremely high-powered requirements are garnering strong interest, however, options are limited within the Boston metro. Total requirements now stand at 176 and average 110,000 square feet. High-end robotics, clean energy, and battery manufacturers will continue to contribute to this total within Greater Boston's industrial market in 2023, and expect developers to explore more build-to-suit and owner-user opportunities to

provide supply for these types of users. The fourth quarter of 2022 was once again dominated by renewals and medium-sized direct transactions, as larger companies remained patient while evaluating their space needs. Several notable leases were executed in the South submarket during the quarter, led by Ferguson Enterprises inking a 261,041-square-foot deal at the recently delivered 300 Charles F. Colton Rd. in Taunton. WorldPac also finalized a new, direct deal in Taunton, as the automotive parts distributor leased 140,000 square feet of Warehouse/Distribution space at 385 Myles Standish Blvd. in November. BlueTriton Brands was involved in the largest deal of the quarter at 66 Saratoga Blvd. in Devens, and the beverage company is set to occupy an additional quarter of the building in early February. Due to the tightness of Greater Boston's industrial market, many companies with large space needs continue to be pushed west to Worcester and north to the New Hampshire border. Leasing activity will likely remain healthy heading into the new year, but the industrial market is not immune to macroeconomic risks affecting the broader commercial real estate markets in 2023.

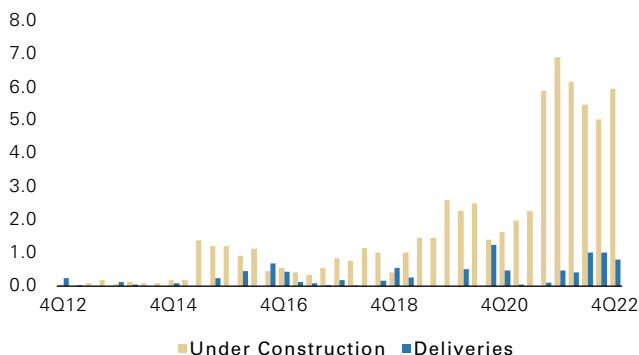
Asking Rents Continue on Upward Trajectory

Greater Boston's industrial market performed extremely well throughout 2022, as indicated by overall asking rents consistently climbing quarter over quarter. Quoted rents for the overall market reached a historic high for the 20th consecutive quarter and closed at \$14.89/SF NNN. Owners within the Urban submarket continue to drive solid rent growth, as overall and Warehouse/Distribution asking rents increased by 18.0% and 25.0% year to date, respectively. Effective rents are also following this trend and annual escalations within the 3.0% to 3.5% range have now become normal due in part to inflation. While these fundamentals bode well for the overall health of Greater Boston's industrial market, the migration of companies who have been priced out of the core markets to Southern New Hampshire and Worcester is a trend that bears watching as we move into 2023.

Class A Warehouse/Distribution asking rents declined quarter-over-quarter; however, it should be noted that the reported total is a function of what is directly available in the market. The Class A Warehouse/Distribution subtype continues to be the most desirable asset within Greater Boston's industrial market, as availabilities have not climbed above 3.3% since early 2021. As a result, the average asking rate that is reported is a reflection of new deliveries and listed commodity Class A Warehouse/Distribution space that has been added to the market.

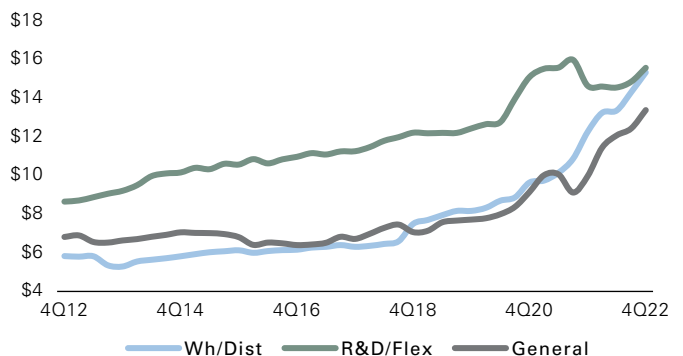
Construction and Deliveries

SQUARE FEET, MILLIONS



Asking Rent by Property Type

\$/SF



RESEARCH Q4 2022

New deliveries this quarter were concentrated in the South submarket where landlords are unable to achieve the same premium on rents as owners of smaller, existing Class A space in the Urban and North submarkets. The delivery of 300 Charles F. Colton Dr. in Taunton during the fourth quarter of 2022 added more than 50% of all directly available Class A space to the market. The expectation is that rents will remain on their upward trajectory in 2023, and the overall health of the market should not be disputed due to the reported decline in quoted rents for the Class A Warehouse/Distribution subtype.

Capital Markets

Investment activity in Greater Boston's industrial market slowed during the fourth quarter of 2022, as it did throughout the country. Overall economic uncertainty as well as declines in property valuations have caused both buyers and sellers to adjust their strategies moving into the new year. While these conditions have proven to be less than favorable for investment, the industrial asset type has remained at the forefront of investor interest in the Boston metro. Transaction volume, along with the average per-square-foot sales price, decreased during the fourth quarter of 2022, in addition to land values sliding. The rising cost of debt and capital has also been a deterrent to global sales. Despite disruptions in the capital markets, there will be several opportunities for investment to return, as fundamentals are healthy and capital seeks to be deployed from the sidelines.

Although there were still several industrial sales that took place during the fourth quarter of 2022, larger transactions were limited due to current macroeconomic conditions as well as buyer and seller hesitancy. Notable trades within the South submarket included 10 Campanelli Cir. in Canton and 200 Shuman Ave. in Stoughton,

collecting \$16.0 million and \$42.0 million, respectively. Despite cap rate inflation and declines in overall valuations, industrial assets within the Urban submarket continue to achieve premiums in terms of average price per square foot. Quaker Lane Capital acquired 180 Charles Street in Malden for \$24.5 million, or \$380/SF, nearly double the average price per square foot for the overall industrial market in the fourth quarter of 2022. While these sales are all indicative of the persistent demand for acquiring centralized industrial assets, the largest sale of the fourth quarter took place outside of the Boston Metro at 580 Fort Pond Rd. in Lancaster. The Seyon Group purchased the distribution center from The Kraft Group for \$54.45 million, or \$197.55/SF, and the property is anchored by packaging group Rand-Whitney. In the near-term, expect investor interest to follow demand and development outside of the defined Boston Metro area.

Outlook

The persistent strength of Greater Boston's industrial fundamentals will likely provide a cushion against recessionary pressures facing the greater commercial real estate market in 2023. The asset is not immune to a larger downturn, but the tightness of the market, coupled with demand outpacing supply, should bode well for the short-term outlook. Investor interest will likely remain concentrated in core industrial markets, although more capital that was previously sidelined may migrate to Southern New Hampshire for tax relief. Developers will also explore additional ways to provide inventory to the market through speculative builds or build-to-suit options for companies that require high-powered properties to conduct their operations. Overall, Greater Boston's industrial market is poised for a healthy 2023 due to the strength of its fundamentals and consistency of its performance as an asset type within the metro area.

Select Lease Transactions

| Tenant | Address | Submarket | Type | Square Feet |
|---------------------------|---------------------------------------|-----------|---------------|-------------|
| BlueTriton Brands Inc | 66 Saratoga Boulevard, Devens | West | Direct Lease | 275,000 |
| Ferguson | 300 Charles F. Colton Road, Taunton | South | Direct Lease | 261,041 |
| Peak Event Services | 36 Cabot Road, Woburn | North | Lease Renewal | 232,000 |
| Globe Composite Solutions | 200 Shuman Avenue, Stoughton | South | Lease Renewal | 151,101 |
| WorldPac | 385 Myles Standish Boulevard, Taunton | South | Direct Lease | 140,000 |
| CHEP | 675 Canton Street, Norwood | South | Lease Renewal | 95,868 |

Select Sale Transactions

| Address | Submarket | Property Type | Sale Price | Price/SF | Square Feet |
|------------------------------|-----------|------------------------|--------------|----------|-------------|
| 200 Shuman Avenue, Stoughton | South | Warehouse/Distribution | \$42,000,000 | \$267 | 157,152 |
| 180 Charles Street, Malden | Urban | Warehouse/Distribution | \$24,500,000 | \$380 | 64,300 |
| 10 Campanelli Circle, Canton | South | Warehouse/Distribution | \$16,000,000 | \$147 | 109,200 |
| 96 High Street, Billerica | North | Warehouse/Distribution | \$14,500,000 | \$158 | 92,000 |
| 79 Lowland Street, Holliston | West | Warehouse/Distribution | \$12,930,000 | \$159 | 81,255 |

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 | 22,901,463 | 134,095 | 4.1% | 174,046 | 376,739 | \$22.93 | \$23.90 | \$22.73 |
| North | 76,433,923 | 3,908,275 | 3.8% | 35,704 | 650,843 | \$16.23 | \$16.23 | \$14.77 |
| South | 82,113,274 | 1,751,270 | 3.6% | (19,580) | 273,593 | \$11.98 | \$14.11 | \$12.60 |
| West | 36,832,400 | 175,000 | 2.2% | 121,179 | 446,253 | \$13.55 | \$14.19 | \$13.56 |
| Market | 218,281,060 | 5,968,640 | 3.5% | 311,349 | 1,747,428 | \$15.34 | \$15.58 | \$14.89 |

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 | 57,904,730 | 342,775 | 3.1% | 233,500 | 147,469 | \$13.39 |
| R&D/Flex | 52,544,846 | 94,095 | 4.4% | 30,422 | 304,919 | \$15.58 |
| Warehouse/Distribution | 107,831,484 | 5,531,770 | 3.2% | 47,427 | 1,295,040 | \$15.34 |
| Market | 218,281,060 | 5,968,640 | 3.5% | 311,349 | 1,747,428 | \$14.89 |

Class A Statistics

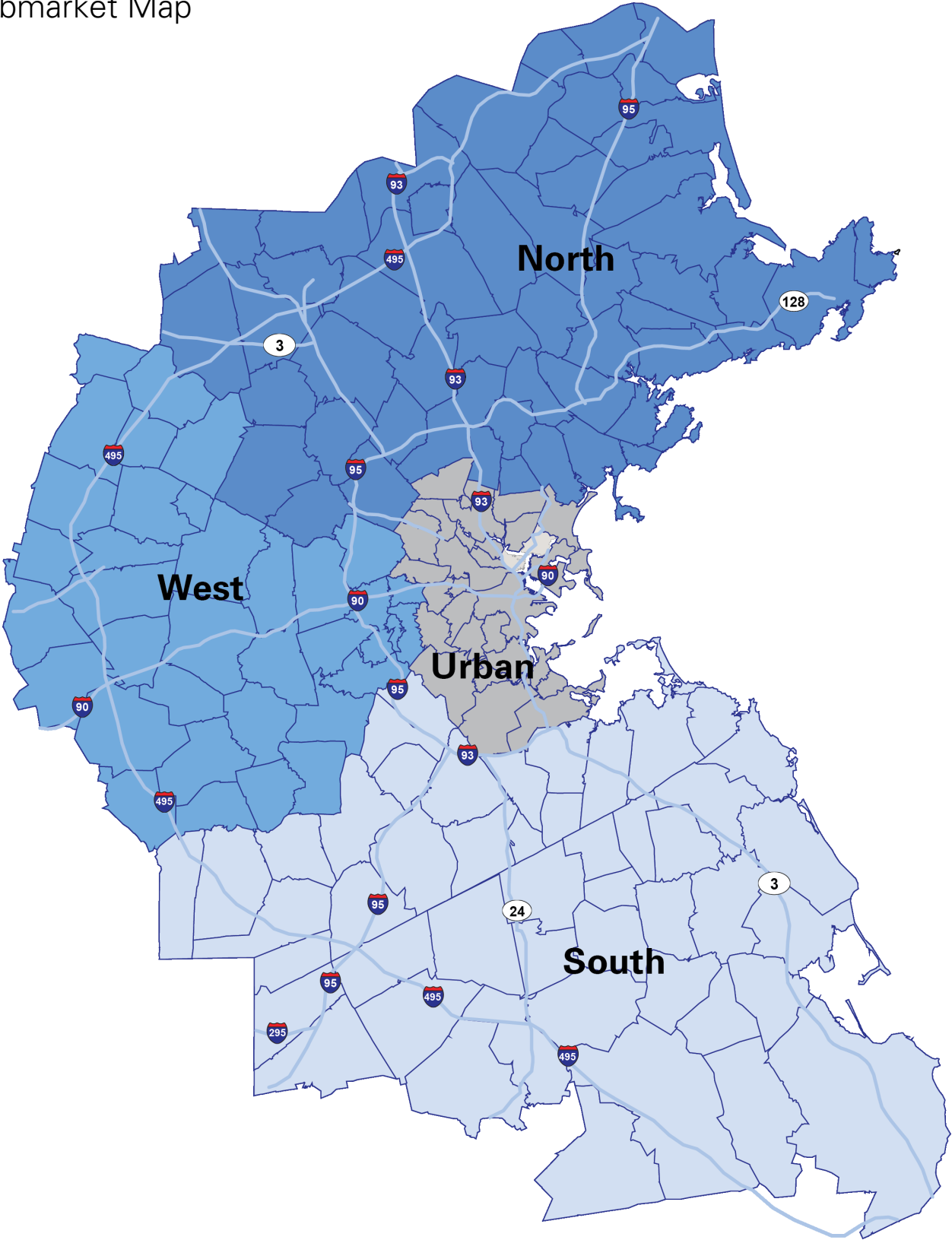
| | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | WH/Dist. Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
|--------|----------------------|-------------------------|--------------------|---------------------|---------------------|---------------------------------|------------------------------|
| Market | 35,511,370 | 5,657,840 | 3.3% | 222,000 | 1,407,238 | \$13.60 | \$13.29 |

Industrial Investment

SALES VOLUME (BILLIONS AND AVERAGE PRICE/SF)



Submarket Map



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