

Leasing activity still outperforms pre-pandemic levels, as quarterly net absorption turns slightly negative in the Greater Boston industrial market.

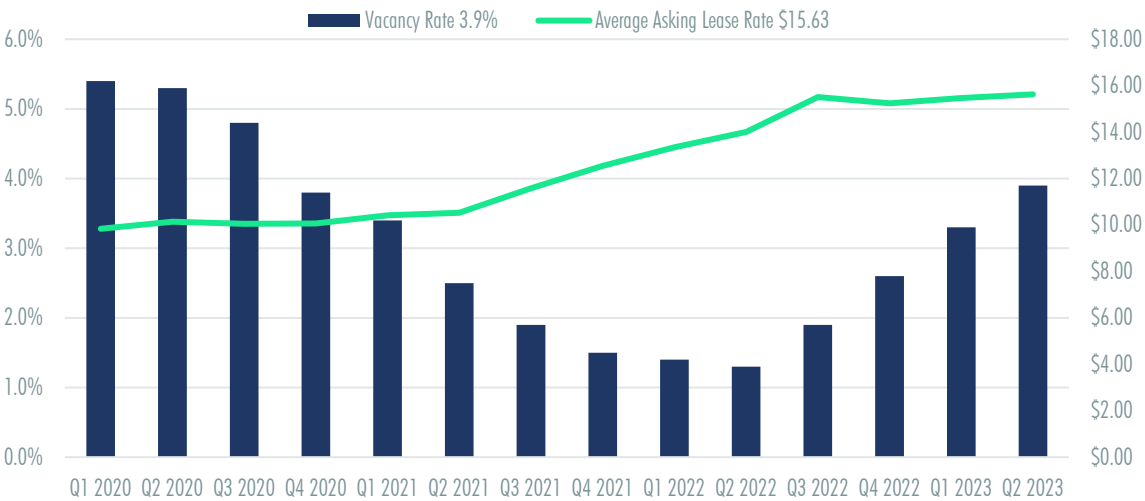


Note: Arrows indicate change from previous quarter.

As forecasted, the Greater Boston industrial market softened slightly in the second quarter of 2023, with reduced net absorption and increased vacancy being observed, compared to the record-breaking year of 2021 and early 2022. While quarterly net absorption was finalized at negative 130,792 sq. ft., year-to-date net absorption was capped at negative 125,981 sq. ft., validating just a moderate overall market softening. Vacancy and availability for the overall market increased by 60 basis points (bps) and 50 bps quarter-over-quarter (q-o-q), respectively. A sub-4.0% overall vacancy rate was maintained at 3.9%, while overall availability rates culminated at 6.2%. Also alluding to a modest market tempering, asking rents continued to level off into 2023, with overall rental rate growth stabilizing q-o-q. Greater Boston overall industrial asking rents were reported at \$15.63 per sq. ft. NNN, representing an increase of \$0.16 per sq. ft. NNN q-o-q.

Moreover, a moderate reduction in overall leasing activity q-o-q indicated a slight softening of the market. Overall leasing volume was recorded at approximately 2.17 million sq. ft., representing a 26.2% decline in executed deals q-o-q. New deals this quarter accounted for approximately 1.03 million sq. ft., while renewals made up about 1.14 million sq. ft. of total transactions.

FIGURE 1: Greater Boston Industrial Vacancy vs. Lease Rate

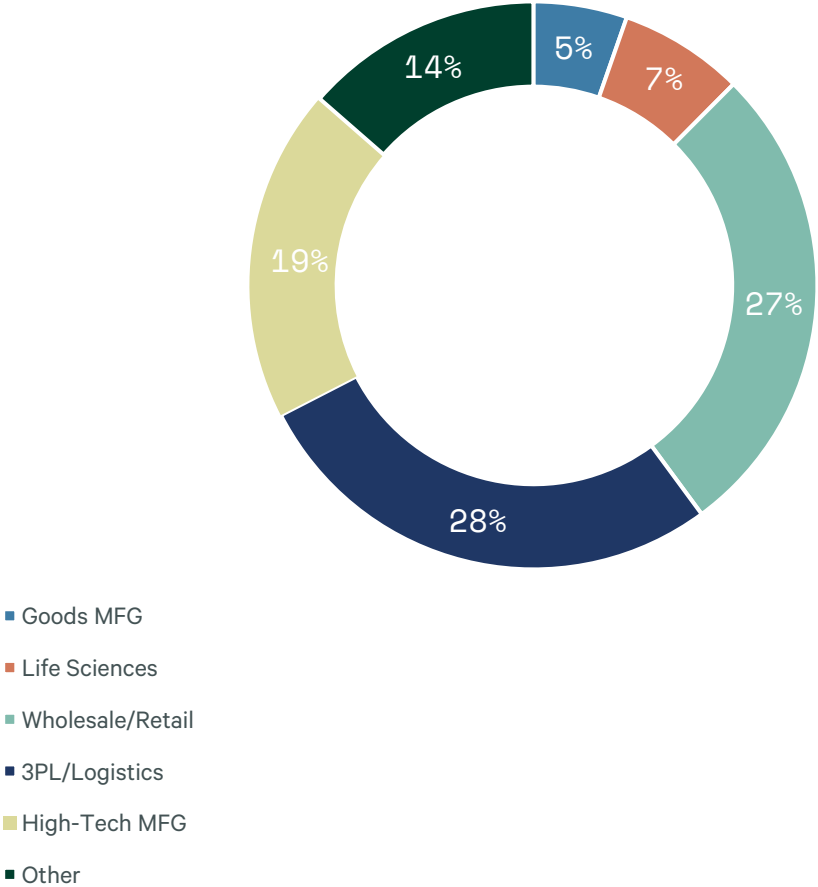


Source: CBRE Research, Q2 2023.

While the industrial supply and demand imbalance still exists, with demand far outweighing current supply, the more hesitant tenant behavior being witnessed in nearly every real estate asset class can be attributed to the reduction in total leasing activity. The high cost of debt as well as lingering economic uncertainty are key factors delaying tenants’ leasing decisions. It is predicted that overall leasing volume will continue to level off in 2023 as current macroeconomic conditions play out.

Nonetheless, the current Greater Boston industrial market is more equipped than it was pre-pandemic, still posting higher leasing activity and overall asking rents than the early half of 2019. During the second quarter of 2019, the industrial market recorded just over 1.64 million sq. ft. of leasing activity, an overall asking rate of \$9.78 per sq. ft. NNN, and an overall vacancy rate of 6.2%. Mostly due to the coronavirus lockdown accelerating the demand for e-commerce, the market has been able to maintain sufficient levels of leasing activity and rental rate growth post-pandemic, helping it to reach historically low vacancy. CBRE National Research reported that e-commerce sales have been steadily rising, hovering at 22% of non-auto or gas retail sales in the fourth quarter of 2022, compared to 16.9% in the first quarter of 2020. The need for adequate inventory and efficient supply chains near population hubs will continue to drive industrial demand into 2023, albeit at a decelerated rate compared to 2021 and early 2022.

FIGURE 2: Greater Boston Leasing Activity by Industry in Square Footage, Q2 2023



Source: CBRE Research, Q2 2023.

Submarkets

The Urban industrial market experienced improved quarterly net absorption q-o-q, mostly due to a large expansion being executed. Net absorption was recorded at negative 4,151 sq. ft., bringing year-to-date net absorption to negative 43,467 sq. ft. Contributing positively to net absorption, ABEX Transportation expanded their operations by approximately 62,736 sq. ft. at 100 Meadow Road in Hyde Park. At the same property, HD Supply, a subsidiary wholesale industrial distributor of The Home Depot, renewed their 152,290 sq. ft. lease. Overall asking rents completed the quarter at \$25.52 per sq. ft. NNN in the Urban market, increasing by \$1.47 per sq. ft. NNN q-o-q. Overall vacancy was up by 80 bps q-o-q, finishing at 3.7%, while overall availability was up 30 bps at 4.7%.

Parallel to the Urban market, the Metro North industrial market witnessed heightened leasing activity in comparison to last quarter, helping quarterly net absorption remain slightly positive at 26,463 sq. ft. As a result, year-to-date net absorption improved to negative 268,464 sq. ft. Benefitting quarterly net absorption, Locus Robotics pre-leased Carlisle Capital’s new 157,500 sq. ft. speculative property currently under construction at 100 Fordham Road in Wilmington. Moreover, Wakefield Moving & Storage sublet leased approximately 133,800 sq. ft. at 122 Parker Street in Newburyport. A large renewal was also completed at 326 Ballardvale Street in Wilmington, with the warehouse robotics manufacturer, Symbolic, signing an extension on their 129,989 sq. ft. lease. Overall asking rents concluded at \$19.43 per sq. ft. NNN, decreasing by \$0.77 per sq. ft. NNN q-o-q. Vacancies were up 40 bps q-o-q in the overall Metro North market at 3.8%. Partly due to Hines’ 146,000 sq. ft. new speculative development site breaking ground and becoming available at 250 Marginal Street in Chelsea this quarter, overall availability was also up q-o-q, increasing by 80 bps to 5.9%.

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FIGURE 3: Greater Boston Top Lease Transactions, Q2 2023

| Tenant | Building | Market | Size (SF) | Transaction Type |
|--------------------------------|---|---------------------------------|-----------|-------------------|
| EMS Warehousing | 380 South Worcester Street Norton, MA | MS – Route 495–South | 253,000 | Renewal/Expansion |
| Locus Robotics | 100 Fordham Road Wilmington, MA | MN – Route 128–North | 157,500 | New Lease |
| HD Supply | 100 Meadow Road Bldg 100 Hyde Park, MA | DT – Dorchester/South Boston | 152,290 | Renewal |
| Wakefield Moving & Storage | 122 Parker Street Newburyport, MA | MN – Route 495–Northeast | 133,800 | Sublease |
| Symbolic | 326 Ballardvale Street Bldg 2 Wilmington, MA | MN – Route 128–North | 129,989 | Renewal |
| Beacon Roofing Supply, Inc. | 530 Turnpike Street South Easton, MA | MS – Route 495–South | 101,200 | New Lease |

Source: CBRE Research, Q2 2023.

As for the Metro South industrial market, decelerated leasing activity q-o-q coupled with larger spaces coming onto the market, led to reduced quarterly net absorption. Partly due to a large space coming onto the direct market at 393 Manley Street in West Bridgewater, quarterly net absorption was negative 146,028 sq. ft. Year-to-date net absorption, however, remained positive in the Metro South at 174,080 sq. ft. The largest lease executed in this market this quarter was EMS Warehousing’s 138,000 sq. ft. renewal and 115,000 sq. ft. expansion at 380 South Worcester Street in Norton. Also this quarter, Beacon Roofing Supply, Inc. pre-leased Rhino Capital Advisor’s new 101,200 sq. ft. speculative site at 530 Turnpike Street in South Easton that is currently under construction. Overall asking rents ended the quarter at \$13.53 per sq. ft. NNN, representing an increase of \$0.65 per sq. ft. NNN q-o-q. Overall vacancy increased by 90 bps q-o-q to 4.8%, while availability increased by 80 bps q-o-q to 7.4%.

In the end, the extremely supply-constrained Metro West recorded the lowest leasing activity of all the suburban industrial markets this quarter, mainly due to the lack of effective space. Just over 92,000 sq. ft. was leased this quarter in the Metro West, the largest deal signed being Peak Technology’s 58,264 sq. ft. lease at 265 Foster Street in Littleton. Although minimal leasing activity occurred, the lack of large space coming onto the Metro West market this quarter allowed for net absorption to be only slightly negative at -7,076 sq. ft., bringing year-to-date net absorption to 11,870 sq. ft. Overall vacancy was up just 10 bps q-o-q in this market, closing at 2.3%. Overall availability rates were down 20 bps q-o-q to 4.8%. Finally, overall asking rents for the Metro West industrial market decreased by \$0.48 per sq. ft. NNN q-o-q, to \$14.06 per sq. ft. NNN.

FIGURE 4: Greater Boston Average Asking Lease Rates (PSF/NNN)

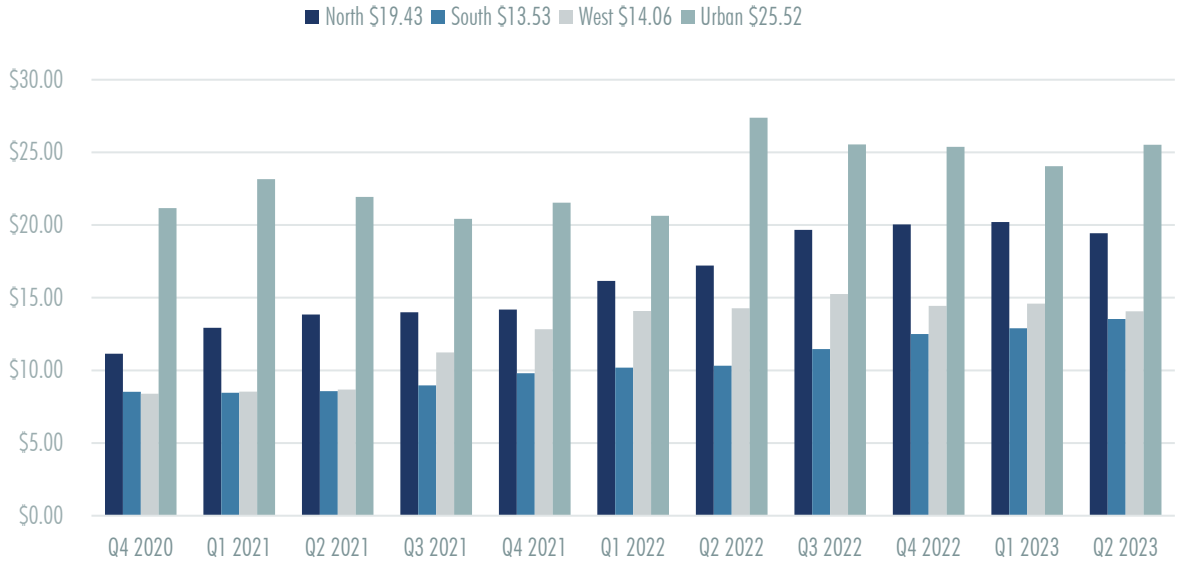
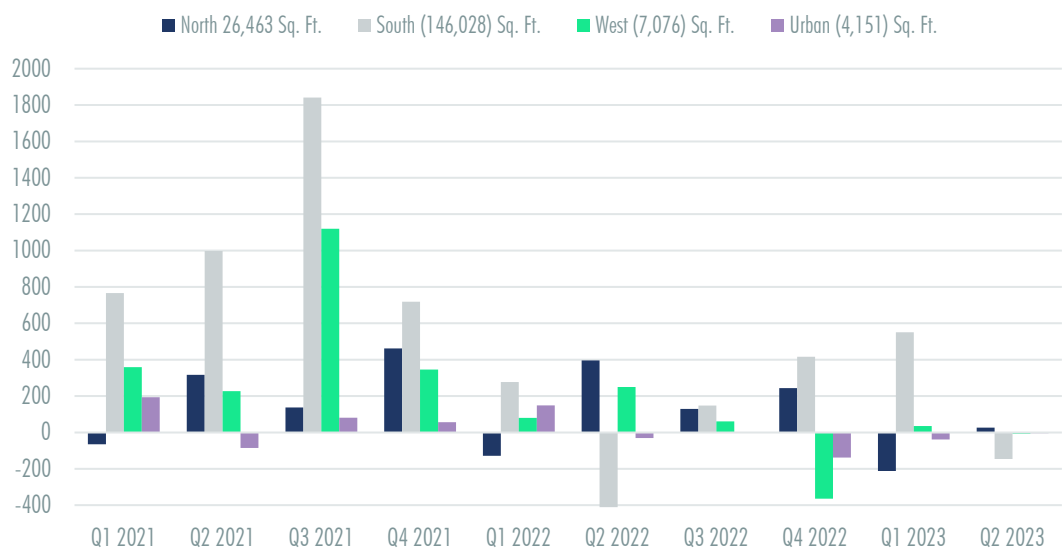


FIGURE 5: Greater Boston Net Absorption



Source: CBRE Research, Q2 2023.

Construction

About 3.40 million sq. ft. of new, speculative industrial product was deemed under construction in the Greater Boston market as of the second quarter of 2023, with the majority still being situated in the Route 495-South submarket. In fact, approximately 1.88 million sq. ft., or 55.3% of the total Greater Boston active industrial speculative construction pipeline, resides in the Route 495-South submarket. New speculative construction efforts, particularly in the Metro South, do not appear to be diminishing with the largest site breaking ground this quarter being National Development’s approximately 210,600 sq. ft. development at 586 Manley Street in West Bridgewater. Also in the Route 495-South submarket, Rhino Capital Advisors broke ground on their 101,200 sq. ft. speculative site at 530 Turnpike Street in South Easton, already 100% pre-leased to Beacon Supply, Inc. as aforementioned. Two other speculative developments breaking ground, 46 Old Ferry Road in Methuen and 250 Marginal Street in Chelsea, added approximately 147,480 sq. ft. and 146,000 sq. ft., respectively to the Greater Boston active industrial construction pipeline this quarter.

Similar to active construction efforts, new industrial speculative properties delivered this quarter were predominantly located in the Route 495-South submarket. Approximately 220,255 sq. ft. of new industrial speculative product was delivered this quarter in Route 495-South, the largest being Bluewater Property Group’s 132,055 sq. ft. site at 545 Washington Street in Wrentham. Additionally supplying the Route 495-South submarket with 88,200 sq. ft., 7 Manley Street in West Bridgewater, developed by Marcus Partners and 100% leased to 4Wall Entertainment, was delivered. In the Route 495-Mass Pike West submarket, Lincoln Property Company’s new speculative, 120,600 sq. ft. quasi-biomanufacturing property at 1000 Nickerson Road in Marlborough was completed, capping new industrial speculative deliveries this quarter for the overall market at approximately 340,855 sq. ft.

Worcester

Primarily due to a large lease execution, the Worcester Metro industrial market witnessed 163,888 sq. ft. of positive net absorption in the second quarter, bringing year-to-date net absorption to 436,825 sq. ft. This is the second consecutive quarter this market has posted positive net absorption, as new industrial speculative space has been quickly leased. Specifically, Cardinal Health, a distributor of medical products, signed a lease this quarter for 316,850 sq. ft. at NorthBridge Partners' new, recently completed speculative development at 80 Pine Hill Drive in Boylston. Mainly due to this large lease execution, the overall market's availability decreased by 50 bps q-o-q to 9.9%. Overall vacancy increased modestly q-o-q by 20 bps, culminating at 5.5%, as a result of new speculative supply delivering to the market vacant. Worcester Metro overall industrial asking rents ended the quarter at \$11.12 per sq. ft. NNN.

Active industrial speculative construction sits around 1.35 million sq. ft. in the Worcester Metro market, despite no new projects breaking ground in the second quarter of 2023. New industrial speculative deliveries were more prevalent with approximately 564,600 sq. ft. being delivered to the overall Worcester Metro this quarter. Specifically, The Kraft Group's 297,000 sq. ft. speculative property at 160 Shrewsbury Street in Boylston, 100% leased to Un1f1ed Global Packaging Group, was delivered this quarter. Additionally, Berkeley Partners/The Brennan Group/The Corcoran Company delivered approximately 267,600 sq. ft. of new industrial supply at their speculative site located at 90 Huntoon Memorial Highway in Leicester. As demonstrated by Cardinal Health and Un1f1ed's recent leases, new industrial supply appears to be well-received in the Worcester Metro as companies branch out further west than Greater Boston, in hopes of occupying high-quality space with lower rent premiums.

FIGURE 6: Greater Boston Submarket Statistics

| Total Industrial | Bldgs. | Total Sq. Ft. | Available (%) | Vacant (%) | Sublease (%) | Quarter Net Absorption | YTD Net Absorption | Avg. Asking Rent NNN (\$) |
|---|--------|---------------|---------------|------------|--------------|------------------------|--------------------|---------------------------|
| Urban | 222 | 14,459,801 | 4.7 | 3.7 | 0.5 | (4,151) | (43,467) | 25.52 |
| Close-In Suburbs North | 237 | 18,006,289 | 6.3 | 4.7 | 0.9 | (125,237) | (104,508) | 24.88 |
| Route 128 - North | 456 | 33,564,626 | 7.4 | 3.8 | 0.5 | (89,364) | (298,554) | 19.00 |
| Route 495 - Northeast | 209 | 20,953,625 | 3.8 | 2.0 | 0.4 | 161,040 | 148,200 | 15.36 |
| Route 3 - North | 232 | 17,935,269 | 5.4 | 4.7 | 1.7 | 80,024 | (13,602) | 15.67 |
| Metro North | 1,134 | 90,459,809 | 5.9 | 3.8 | 0.8 | 26,463 | (268,464) | 19.43 |
| Route 128 - South | 700 | 44,252,803 | 6.3 | 5.4 | 1.2 | 16,935 | (227,166) | 14.64 |
| Route 495 - South | 842 | 71,063,828 | 8.0 | 4.4 | 0.9 | (162,963) | 401,246 | 13.03 |
| Metro South | 1,542 | 115,316,631 | 7.4 | 4.8 | 1.0 | (146,028) | 174,080 | 13.53 |
| Route 128 - West | 147 | 6,372,001 | 2.3 | 2.1 | 0.5 | 4,092 | 81,511 | 26.82 |
| Framingham - Natick | 83 | 4,528,544 | 3.8 | 2.0 | 0.0 | 47,112 | 42,031 | 12.93 |
| Route 495 - Route 2 West | 230 | 21,376,483 | 4.7 | 3.1 | 0.0 | 25,942 | 178,767 | 15.21 |
| Route 495 - Mass Pike West | 342 | 23,741,898 | 5.7 | 1.6 | 0.1 | (84,222) | (290,439) | 12.59 |
| Metro West | 802 | 56,018,926 | 4.8 | 2.3 | 0.1 | (7,076) | 11,870 | 14.06 |
| Overall Greater Boston Total Industrial | 3,700 | 276,255,167 | 6.2 | 3.9 | 0.7 | (130,792) | (125,981) | 15.63 |

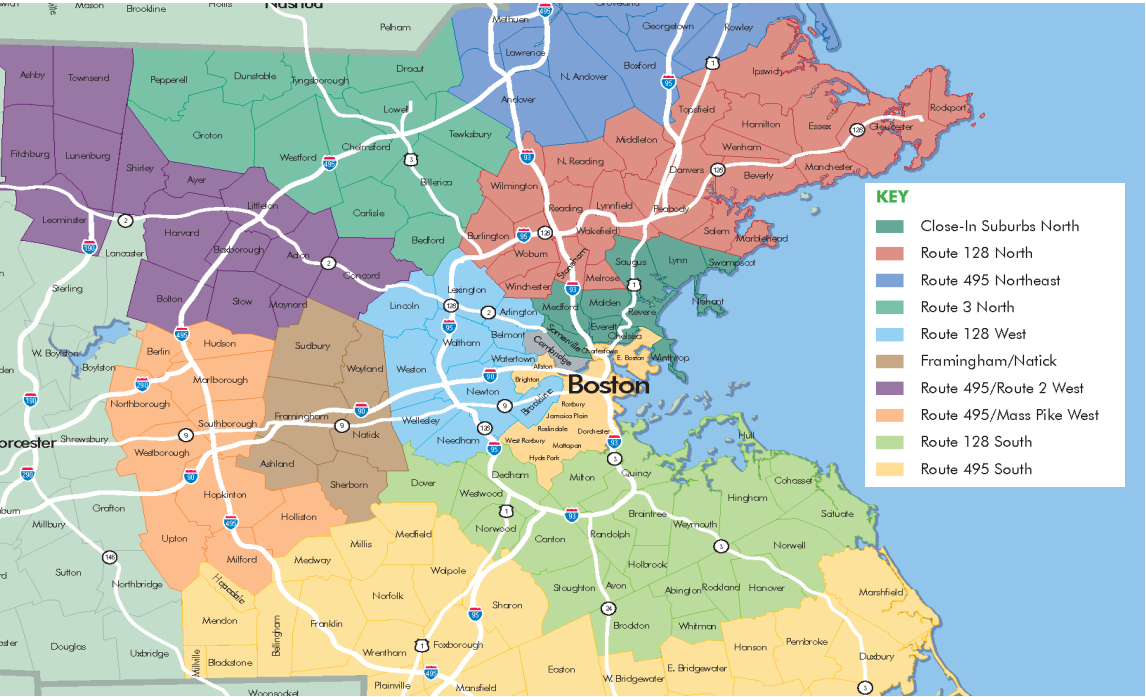
Source: CBRE Research, Q2 2023.

FIGURE 7: Worcester Submarket Statistics

| Total Industrial | Bldgs. | Total Sq. Ft. | Available (%) | Vacant (%) | Sublease (%) | Quarter Net Absorption | YTD Net Absorption | Avg. Asking Rent NNN (\$) |
|------------------------------------|--------|---------------|---------------|------------|--------------|------------------------|--------------------|---------------------------|
| City of Worcester | 113 | 9,537,102 | 0.6 | 0.6 | 0.0 | (10,333) | 17,454 | 8.58 |
| Worcester North | 124 | 11,365,925 | 6.4 | 4.5 | 0.4 | 151,821 | 438,971 | 11.69 |
| Worcester South | 62 | 9,248,542 | 23.8 | 11.9 | 0.0 | 22,400 | (19,600) | 11.03 |
| Overall Worcester Total Industrial | 299 | 30,151,569 | 9.9 | 5.5 | 0.2 | 163,888 | 436,825 | 11.12 |

Source: CBRE Research, Q2 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 Downtown Boston Office and Lab Markets.

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