

FIGURES | GREATER BOSTON INDUSTRIAL | Q3 2021

Industrial leasing activity surges as vacancy hits record low

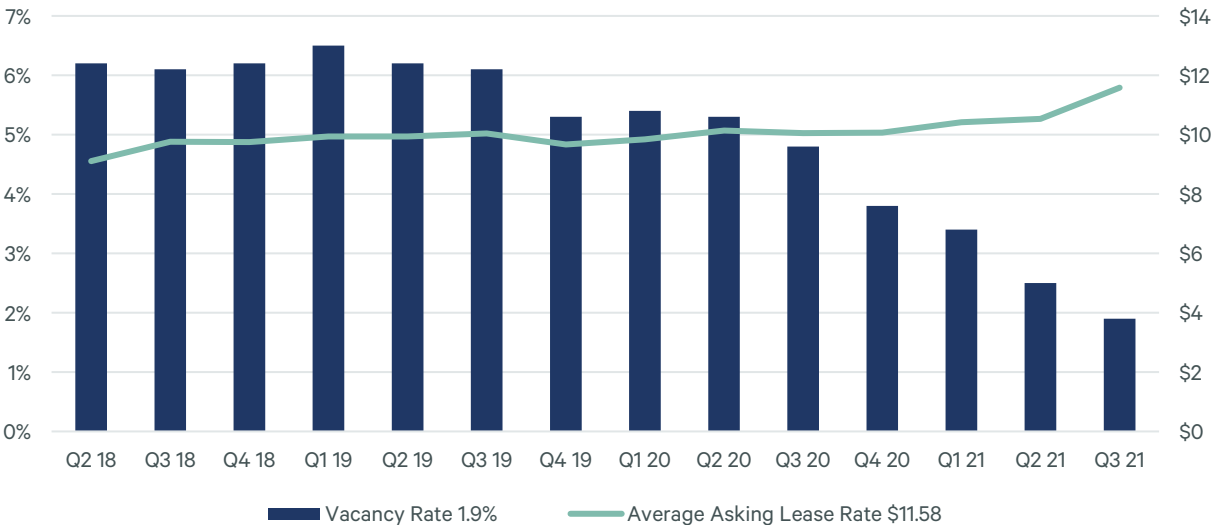


Note: Arrows indicate change from previous quarter.

For the first time in history, the Greater Boston industrial market has hit a sub-2.0% vacancy rate as the supply/demand imbalance creates a challenging environment for tenants looking to break into the market or grow their existing operations. Almost 3.2 million sq. ft. of positive absorption was recorded in Q3 and just under 6.0 million sq. ft. year-to-date, highlighting the explosive growth in the region. Asking rents rose quickly, finishing the quarter at \$11.58 per sq. ft. NNN, up nearly 10% from Q2, and up an unprecedented 15.2% year-over-year. The overall availability and vacancy rates reached historic lows in the third quarter of 2021. The availability rate declined by 100 basis points (bps) quarter-over-quarter (q-o-q) to 3.7%, while the vacancy rate dropped by 60 bps q-o-q to 1.9%.

The insatiable demand for any available space in the market that exploded during the early months of the pandemic is driving leasing. More than 3.1 million sq. ft. of leasing activity in the third quarter was mainly propelled by wholesale/retailers, 3PLs, life science and e-commerce companies. With over 35 million sq. ft. of tenants actively seeking space and a weak pipeline of new speculative supply, cutthroat competition exists for any remaining functional space.

FIGURE 1: Industrial Vacancy vs. Lease Rate



Source: CBRE Research, Q3 2021

This level of demand will continue to outpace existing and speculative supply for the next 18 to 24 months, at minimum. With only 1.4 million sq. ft. of speculative development under construction, and potential future development sites dwindling, the supply crisis the market has been anticipating for the last several quarters is here to stay. With only about 450,000 sq. ft. of spec development set to deliver by the end of 2021, and roughly 60% of that supply already accounted for, tenants are faced with a challenging environment to find the right fit in the near term. The current imbalance will put further pressure on rents and will ultimately drive them to historic highs.

Attracted by its top-tier market fundamentals, as well as the secular shift of the e-commerce and logistics industries favoring population hubs, the Greater Boston industrial market is being prioritized by many of the largest capital sources in the country, including industrial REITS, institutional pension fund advisors, private equity capital, life insurance companies, foreign capital allocators, and ultra-high net worth investors. Among a flurry of deals in the market, one transaction recently set the high-water mark for land sale prices with the 147-acre former Silver City Galleria Mall in Taunton being sold to Atlanta-based Portman Industrial. The site was sold for \$75 million (\$66/FAR) and has been permitted for 1.1 million sq. ft. of industrial development. Another transaction of note was The Town industrial portfolio, a three-building complex located in Charlestown totaling 110,898 sq. ft. that was acquired by The Related Companies for \$74.5 million (\$672.00 per sq. ft.). With year-over-year market rents soaring and overall vacancy rates predicted to hit ~1% by year-end, investors are now underwriting annual market rent growth in the 7-10% range for 2022 and beyond, putting further pressure on going-in yields and price per sq. ft. levels. This dynamic has caused cap rates to plummet over the course of the last 12-24 months, resulting in best-in-class, high-bay warehouses now pricing in the 3.25-3.50% cap rate range. Greater Boston's significant barriers to entry and overall supply/demand imbalance will drive growth, further fueling capital flows to the region in the months and years to come.

Urban

- The Urban market finished Q3 with 81,978 sq. ft. of positive absorption. Both availability and vacancy decreased by 90 bps to 4.5% and 2.7%, respectively. Rents decreased to \$20.42 per sq. ft. NNN.

FIGURE 2: Transactions of Note

Tenant/Investor	Address	Sq. Ft.	Submarket	Type
TriMark USA	160 Mechanic Street	345,000	Route 495 – South	New
United States Postal Service (USPS)	275 Bodwell Street	210,000	Route 128 – South	New
United Parcel Service (UPS)	206 Grove Street	150,000	Route 495 – South	New
Best Buy Company	50 Hampden Street	105,000	Route 495 – South	New
Metrie Inc.	301 Bartlett Street	122,000	Route 495 – Mass Pike West	Renewal/Expansion
United States Postal Service (USPS)	111 Constitution Boulevard	96,000	Route 495 – South	New
1-800-PAT-RACK	12 Forge Parkway, Franklin	86,000	Route 495 – South	New

Source: CBRE Research, Q3 2021

- In Hyde Park, Yard 5's 77,150 sq. ft. Building B is one of only nine speculative projects currently under construction in Greater Boston, which is expected to deliver in mid-November 2021.

North

- The Metro North industrial market was relatively active in Q3 2021, posting 137,391 sq. ft. of positive absorption. Vacancy decreased by 20 bps to 2.2%. Average asking rents in the Metro North market increased to \$14.00 per sq. ft. NNN in Q3 and remained the highest of the suburban industrial submarkets. The Route 495 North submarket continues to be one of the tightest markets in the Greater Boston region, with a vacancy rate of just 0.9%.
- The most notable deal in the Metro North market in Q3 was a confidential 90,000 sq. ft. renewal at Haverhill. Other activity included DXC Technology leasing all of Starwood Capital's 70,000 sq. ft. standalone building at 200 Danton Drive in Methuen and Bimbo Bakeries signing a 45,650 sq. ft. renewal at 234 Ballardvale Street in Wilmington.

South

- The Metro South industrial market once again recorded the strongest growth in the region with 1,841,373 sq. ft. of positive absorption in the third quarter of 2021. As a result, vacancy decreased 80 bps to 1.8% while availability decreased 140 bps to 3.6%. Rents increased to \$8.97 per sq. ft. NNN.
- The largest cluster of leasing activity occurred in the Route 495 South submarket with the new construction underway drawing significant activity and interest.

FIGURE 3: Industrial Market Statistics

Total Industrial	Bldgs	Total Sq. Ft	Available (%)	Vacant (%)	Sublease (%)	Quarter Absorption	YTD Absorption	Avg Asking Rent \$ (Gross)
Urban	222	14,512,313	4.5	2.7	0.2	81,978	190,660	20.42
Metro North	1,114	87,165,464	4.2	2.2	0.4	137,391	403,551	14.00
Close-In Suburbs North	238	17,858,057	3.6	2.5	0.1	(5,010)	(17,610)	16.48
Route 128 – North	448	32,336,624	3.8	1.7	0.1	234,099	304,126	14.19
Route 495 – Northeast	200	19,244,348	3.2	0.9	0.1	(114,548)	(27,482)	11.96
Route 3 – North	228	17,726,435	6.6	4.0	1.6	22,850	144,517	12.62
Metro South	1,510	110,428,731	3.6	1.8	0.2	1,841,373	3,638,668	8.97
Route 128 – South	699	44,201,952	3.7	2.4	0.3	344,262	1,134,099	11.31
Route 495 – South	811	66,226,779	3.5	1.4	0.2	1,497,111	2,504,569	7.81
Metro West	797	54,771,404	2.8	1.2	0.3	1,120,006	1,708,942	11.24
Route 128 – West	152	6,588,448	4.5	4.1	0.5	26,711	84,333	17.22
Framingham – Natick	85	4,691,376	2.3	1.1	0.2	74,245	45,511	12.14
Route 495 - Route 2 West	221	20,201,571	1.0	0.4	0.0	669,450	1,060,520	9.31
Route 495 - Mass Pike West	339	23,290,009	3.9	1.2	0.5	349,600	518,578	8.68
Overall Total Industrial	3,643	266,877,912	3.7	1.9	0.3	3,180,748	5,941,821	11.58

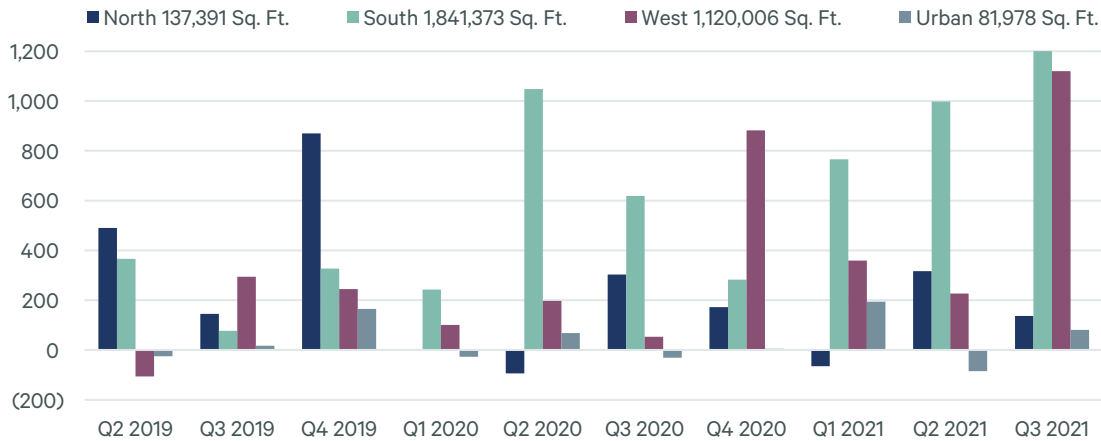
Source: CBRE Research, Q3 2021

- TriMark USA leased the entirety of Barings and Lincoln Property Company’s 345,000 sq. ft. newly constructed high-bay building at 160 Mechanic Street in Bellingham, relocating from 505 Collins Street in Attleboro. Condyne also leased all of 46 Leonard Street, Norton, part of the BlueStar Business Park, to a confidential tenant who leased 211,000 sq. ft.
- The United States Postal Service signed two notable leases in the third quarter – a 210,000 sq. ft. lease at 275 Bodwell Street in Avon and a 96,000 sq. ft. lease at 111 Constitution Boulevard in Franklin.
- Other leases signed during the quarter included Best Buy Company leasing 105,000 sq. ft. at 50 Hampden, Mansfield and 1-800-PACK-RAT leasing 86,000 sq. ft. at 12 Forge Parkway, Franklin. United Parcel Service (UPS) also leased 150,000 sq. ft. at Marcus Partners’ new spec development at 206 Grove Street, Franklin which is set to deliver by the end of 2021.
- Intense levels of demand continue in the Metro South market with very few quality options available to satisfy multiple tenant requirements. While a few speculative construction projects have broken ground in Mansfield and Taunton, currently only 983,000 sq. ft. of speculative development is under construction in the Metro South market. The most notable new spec development to break ground in the third quarter is the Martignetti Companies’ 584,640 sq. ft. high-bay warehouse at 500 John Hancock Road which is expected to deliver in mid-2022 and will provide much-needed relief to the South market.

WEST

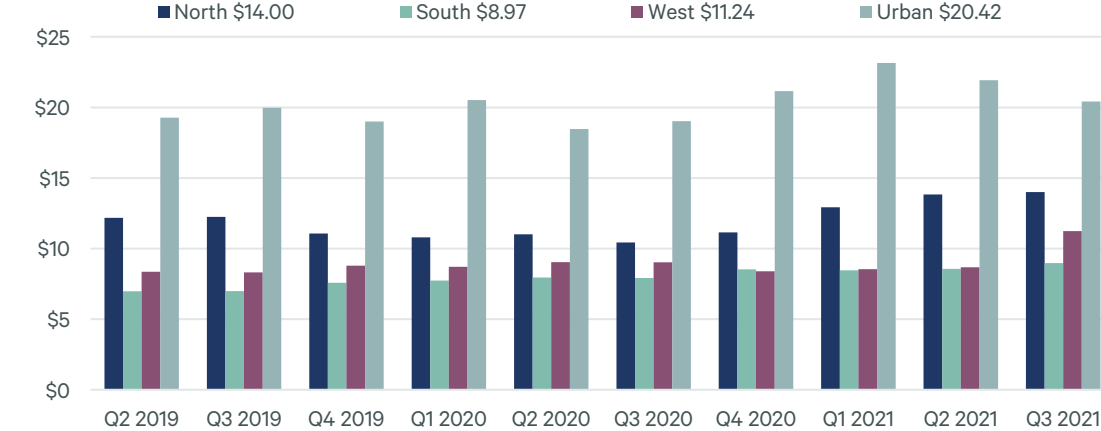
- The Metro West industrial market recorded another strong quarter with 1,120,006 sq. ft. of positive absorption in Q3. The availability rate decreased by 200 bps to 2.8%, while vacancy decreased by 90 bps to 1.2%.
- The Route 495 – Route 2 West submarket posted the strongest quarter of the four Metro West submarkets, with almost 670,000 sq. ft. of positive absorption. With a vacancy rate of just 0.4% in Q3, and an availability rate of 1.0%, the submarket became the tightest in the Greater Boston market.
- In Northborough, Metrie Inc. signed a 122,000 sq. ft. renewal/expansion at 301 Bartlett Street, doubling their existing footprint. Further up Route 495, S.G. Torrice leased 81,000 sq. ft. at 66 Saratoga Boulevard in Devens.
- WiseTek completed the only sublease deal of the quarter in the market, subleasing 41,000 sq. ft. from Zensar Technologies at 20 Forbes Road in Northborough.

FIGURE 4: Net Absorption



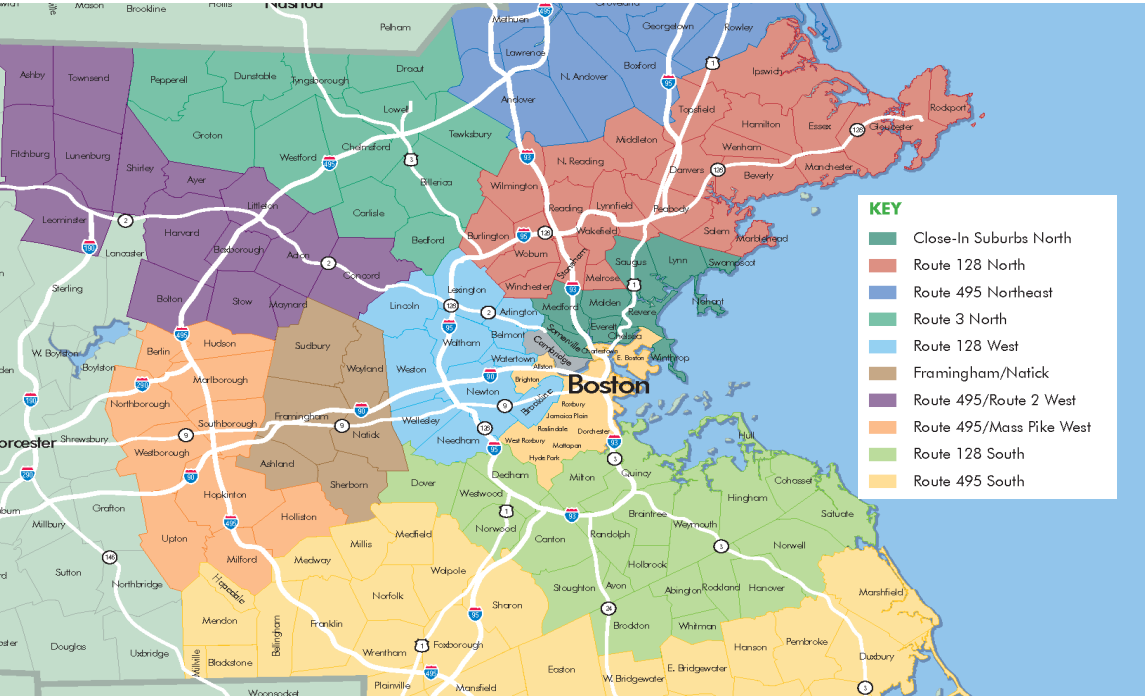
Source: CBRE Research, Q3 2021

FIGURE 5: Average Asking Lease Rates (NNN)



Source: CBRE Research, Q3 2021

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 Greater Boston Industrial market.

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