

HARTFORD INDUSTRIAL MARKET REMAINS ON SOLID FOOTING DESPITE LACK OF LARGE DEALS

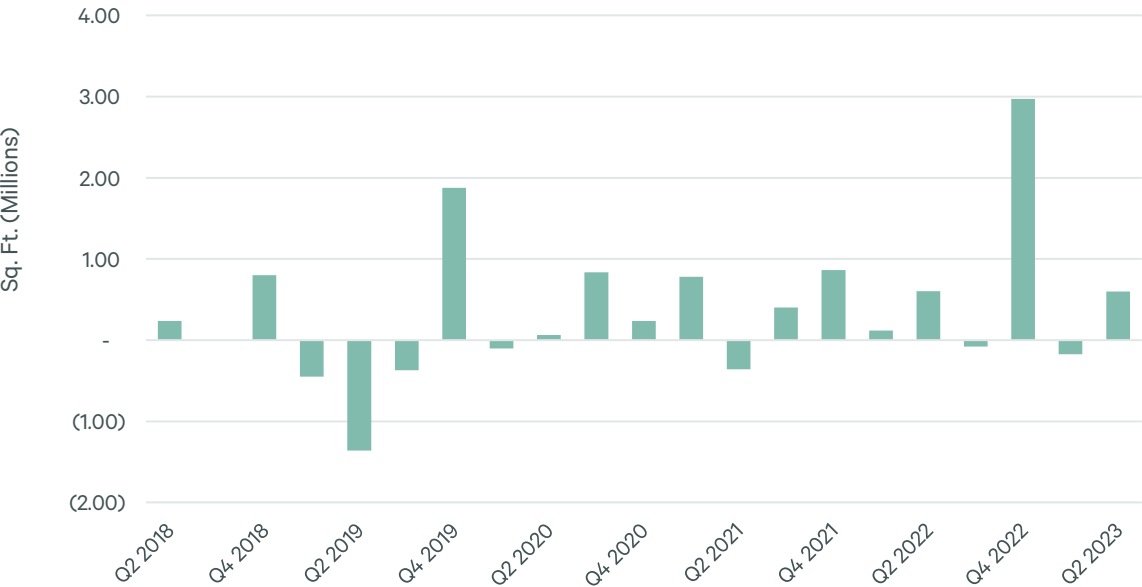


Note: Arrows indicate change from previous quarter.

Market Overview

Leasing activity within the Hartford industrial market remained muted during the second quarter with no leases greater than 100,000 square feet (sq. ft.) in size. This is attributable to a slowing of major lease requirements given the uncertainty in the direction of the economy as well as a general slowing of leasing requirements by e-commerce tenants and large retailers after several years of rapid leasing activity. Despite the recent absence of larger leases, the Hartford industrial market remains on stable footing. Leasing activity increased 40% quarter-over-quarter to 322,000 sq. ft. A lack of new availabilities on the market in conjunction with increased move-ins led to positive absorption of 627,000 sq. ft., a strong reversal from Q1 2023's net absorption of -175,000 sq. ft. Overall vacancy dropped 80 basis points (bps) quarter-over-quarter as a result to 3.1%. Vacancy should remain tight for the foreseeable future given Hartford's strong pre-leasing rate of 95% for the 3.2 million sq. ft. of industrial space currently under construction. Hartford's average asking rent declined 8% quarter-over-quarter to \$5.32 per sq. ft. due to changes the availability in higher rent properties, not because of a major shift in demand. Rents will likely skew higher in upcoming quarters given the lack of vacancy and no major downward pressures from sublease availability.

FIGURE 1: Historical Net Absorption



Source: CBRE Research, Q2 2023

Demand

Successive interest rate increases and slowing consumer spending growth dampened logistics demand from e-commerce and retail, industries that drove market activity during the past several years. Despite the absence of larger deals, leasing increased quarter-over-quarter by 40% to 322,000 sq. ft. By industry, leasing was balanced between manufacturing media, and wholesale/retail tenants. The Hartford North submarket claimed most of the activity this quarter with 224,040 sq. ft. of leases signed. Keystone Auto Industries' 73,500 sq.-ft. lease at 330 Stone Road in Windsor contributed to that sum.

Supply

Despite slower demand from e-commerce and wholesale/retail tenants, vacancy contracted 80 bps quarter-over-quarter to 3.1% resulting mostly from a second consecutive quarter without any construction completions while leasing persisted, albeit muted from quarters past. There were four properties under construction at the end of Q2 2023 in Hartford with a cumulative pre-lease rate of 95%. Only one of these projects are scheduled to complete construction within the year, 500 Groton Rd. in Windsor, which is fully leased to Target. This strong pre-leasing rate in conjunction with no new construction starts during the quarter should put a ceiling on how much vacancy can rise should consumer spending weaken further and overall demand for logistics space softens.

Rent Trends

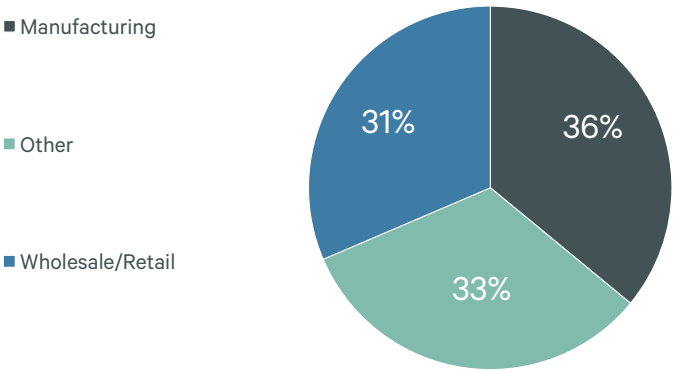
Overall asking rents in Hartford dropped 8% quarter-over-quarter to \$5.66 per-sq.-ft. due to most higher-priced space being leased and removed from the market. Given the tightness in the market, new speculative space under construction in the market is asking more than double that amount such as Luzern Associates, LLC and Foxfield's project at 425 Day Hill Road in Windsor that advertised an asking rent of \$11.75 per-sq.-ft., NNN. With little existing quality space in the market, occupiers will still pay premiums for Class A logistics product.

FIGURE 2: Q2 2023 Notable Lease Transactions

Size	Tenant	Address	City	Transaction Type
73,500	Keystone Automotive Industries	330 Stone Rd	Windsor	New Lease
53,000	Tegna Inc.	285 Broad St	Hartford	Renewal
40,776	Labcorp	1302 Hall Blvd	Bloomfield	New Lease
35,614	Bay Insulation Systems	15 Bradley Park Rd	East Gransby	New Lease
25,300	MycoScience Labs	29-35 Griffin Rd S	Bloomfield	New Lease

Source: CBRE Research, Q2 2023

FIGURE 3: Q2 2023 Leasing by Industry

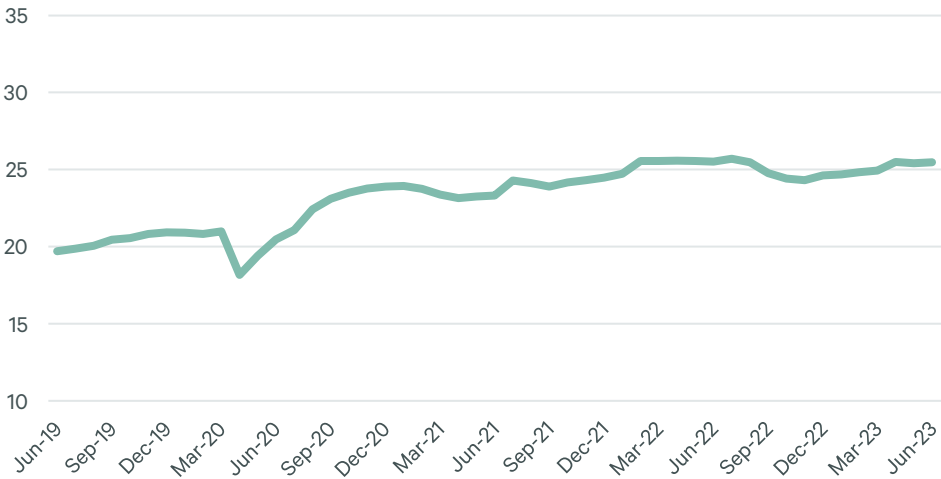


Economic Overview

For the last six months the consensus amongst economists has been that H2 2023 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range per annum. Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

Hartford’s industrial employment was a mixed picture in Q2 2023. Manufacturing sector employment was down 2.3% year-over-year and remained down 9.0% compared to the pre-Covid 19 total. Trade, transportation, and utilities – a sector which includes logistics and fulfillment center employment – was essentially unchanged year

FIGURE 4: Historical Trade, Transportation, and Utilities Employment (Thousands)



Source: BLS

Figure 5: Q2 2023 Submarket Statistics

Submarket	Inventory (Sq. Ft.)	Vacancy (%)	Q2 2023 Absorption (Sq. Ft.)	YTD Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg Asking Rent Per Sq. Ft. (\$NNN)
Downtown Hartford	4,448,145	5.5	(161,200)	(169,700)	0	-
Hartford North	30,702,071	3.8	502,800	494,300	700,300	4.84
Hartford South	11,689,517	3.0	(36,800)	(45,200)	0	6.66
Hartford East	16,266,063	1.8	175,700	167,300	2,500,000	5.01
Hartford West	8,672,818	1.8	146,300	137,900	0	7.25
Hartford	71,778,614	3.1	626,700	584,600		5.66

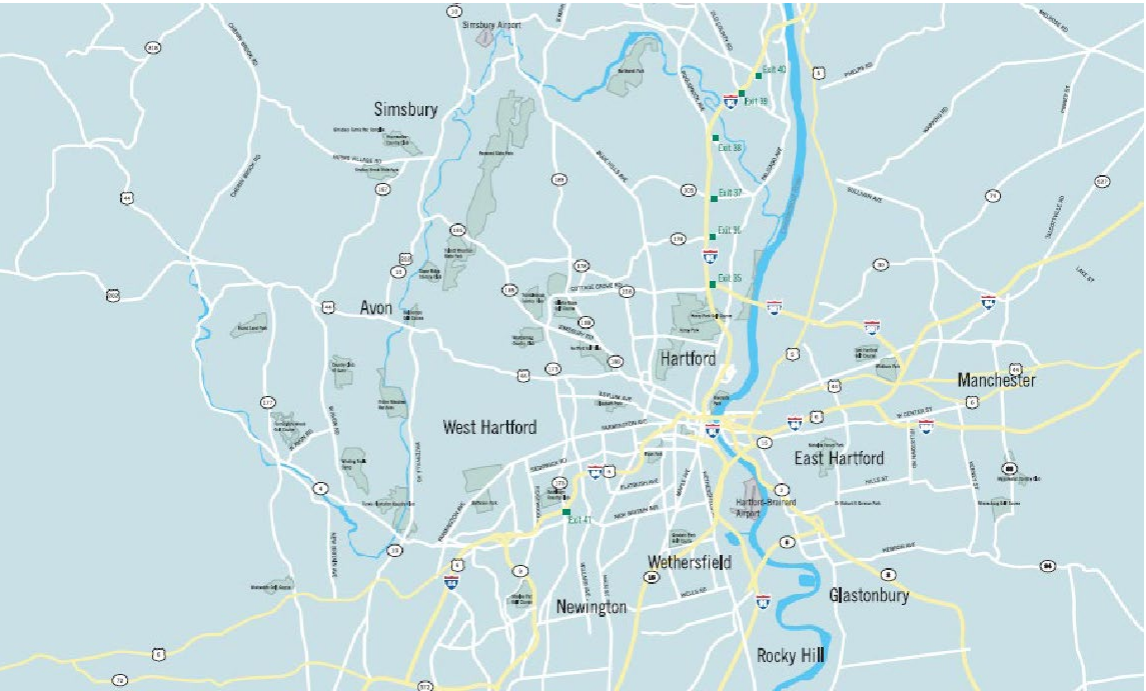
Source: CBRE Research 2023

FIGURE 6: Historical Avg. Asking Rent Per Sq. Ft. (\$NNN)



Source: CBRE Research 2023

Market Area Overview



Definition

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 Hartford Industrial Market.

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