

FIGURES | BOSTON METRO INDUSTRIAL | Q1 2023

Leasing activity demonstrates the Greater Boston industrial market’s resilience to start 2023

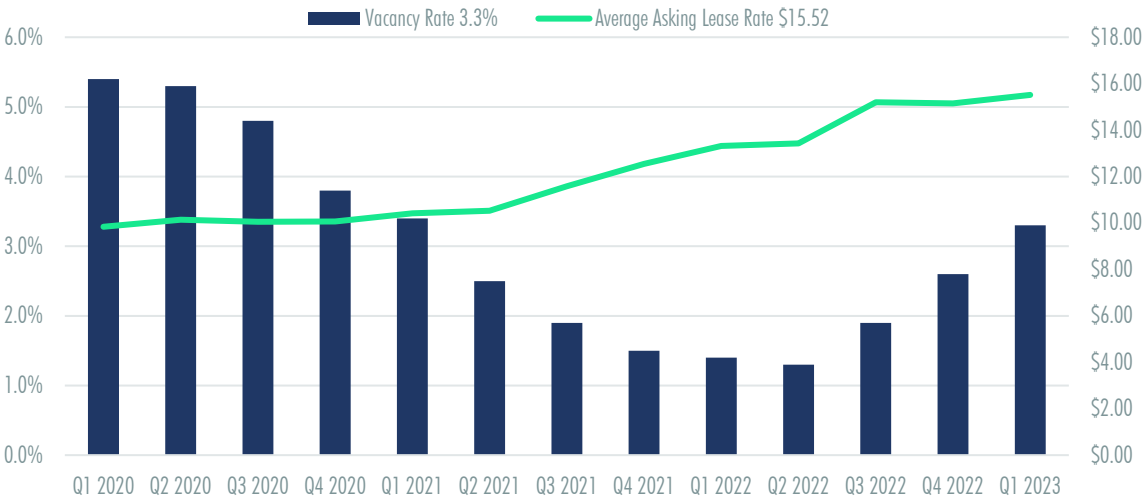


Note: Arrows indicate change from previous quarter.

Being a key indicator of market health, leasing activity this quarter demonstrated the resilience of Greater Boston industrial assets to start 2023. Although not at the record pace of 2021 and the early half of 2022, the Greater Boston industrial market continued to benefit from quarterly leasing activity of more than 2.94 million sq. ft. In comparison to the latter half of 2022, total recorded leasing volume improved mostly due to heightened tenant demand and continued supply constraints. Total leasing transactions increased by approximately 28% quarter-over-quarter (q-o-q), in comparison to the 2.27 million sq. ft. of transactions accounted for in the fourth quarter of 2022. Continued strong market fundamentals created a healthy environment for industrial leasing, with only slight hints toward a potential softening of the overall Greater Boston market further into 2023 due to big block spaces now delivering to the market vacant (over 300,000 rentable sq. ft.).

While vacancies and availabilities amounted to just 3.3% and 5.4% of overall market inventory respectively, these rates are up from the fourth quarter of 2022. Overall vacancy rates increased by 70 basis points (bps), while overall availability rates increased by 40 bps q-o-q. These specific rates, in part, are higher q-o-q as a result of new speculative supply coming to market for the first time.

FIGURE 1: Industrial Vacancy vs. Lease Rate

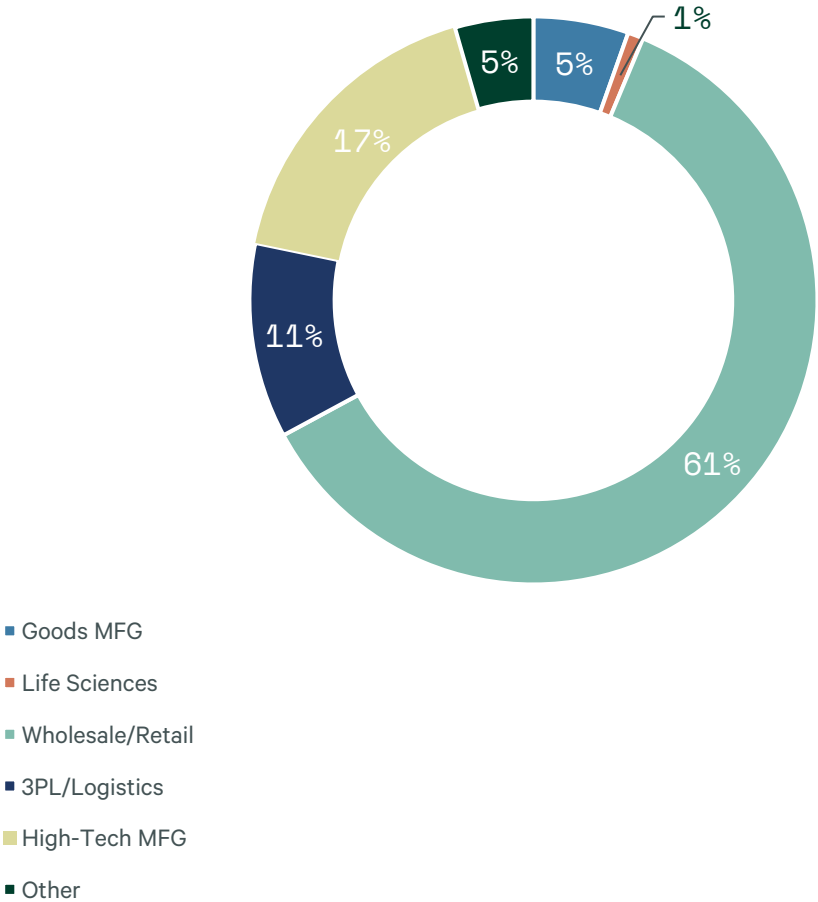


Source: CBRE Research, Q1 2023.

Also impacting overall vacancy and availability is tenant behavior. Some industrial tenants are re-evaluating their most efficient real estate footprints amidst economic uncertainty. As companies adjust to current macroeconomic factors, including but not limited to high inflation and high interest rates, overall vacancy and availability rates may continue to rise marginally in the upcoming quarters but remain at historical lows.

Despite modest increases in overall vacancy and availability, the Greater Boston industrial market finished the quarter with 334,225 sq. ft. of positive net absorption due to strong leasing activity involving mostly new deals and very few renewals. Unlike the accelerated growth in positive net absorption q-o-q, the growth in overall asking rents appears to be flatlining. Asking rent for the overall market was capped at \$15.52 per sq. ft. NNN this quarter. While this represents an increase from the overall asking rate recorded in the fourth quarter of 2022, rent growth in most submarkets has slowed to a point of rent stabilization. Mainly due to new speculative industrial product delivered in the latter half of 2022, overall asking rents are slightly elevated this quarter. It is anticipated that asking rents will continue to level off as new supply delivered at the end of 2022 is fully realized by the market and speculative construction efforts carry on into 2023.

FIGURE 2: Leasing Activity by Industry in Square Footage, Q1 2023



Source: CBRE Research, Q1 2023.

Submarkets

The Urban industrial market that encompasses Boston and Cambridge, experienced negative net absorption of 39,316 sq. ft., an improvement from the fourth quarter of 2022. Vacancy and availability rates increased minimally q-o-q, culminating at 2.9% and 4.4%, respectively. With just over 424,000 sq. ft. of vacant space in the entire market, a single deal was executed this quarter as a direct result of limited functional space. Overall asking rent in the Urban market decreased historically by \$0.23 per sq. ft. q-o-q to \$24.05 per sq. ft. NNN.

Similar to the Urban market, the Metro North industrial market witnessed a lower volume of transactions this quarter mostly due to limited functional space, contributing to the 211,988 sq. ft. of negative net absorption recorded. A total of just over 318,000 sq. ft. of transactions was recorded in the Metro North, with approximately 121,000 sq. ft. stemming from renewals. One of the larger transactions recorded this quarter was L3 Technologies’ approximately 30,995 sq. ft. expansion at 46 Jonspin Road in Wilmington. Also contributing to the negative net absorption was Eastern Bag and Paper Company’s approximately 153,641 sq. ft. space coming to the sublease market at 65 Sunnyslope Avenue in Tewksbury. Partially due to larger space coming to market, vacancy and availability in the Metro North increased 110 bps and 60 bps q-o-q, respectively, to 3.4% and 4.6%. Overall asking rents were finalized at \$20.20 per sq. ft. NNN, representing a mild increase of \$0.16 per sq. ft. q-o-q.

Mostly due to few large spaces coming to market coupled with execution of a larger lease, 34,877 sq. ft. of positive net absorption was observed in the Metro West industrial market. In the Route 495-Route 2 West submarket, GFI Partners’ 154,000 sq. ft. new speculative property at 35 Saratoga Boulevard in Devens was fully leased by Avantor Fluid Handling, LLC. While this was the largest recorded deal in the Metro West this quarter, several other transactions were executed, including Kismet E-Commerce’s 45,497 sq. ft. lease of the full property at 77 Rowe Street in Newton. Vacancy and availability rates were capped at 2.2% and 5.0% this quarter, respectively. Overall asking rents increased by just \$0.15 per sq. ft. q-o-q to \$14.59 per sq. ft. NNN, proving that rent growth is flattening.

FIGURE 3: Top Lease Transactions, Q1 2023

Tenant	Building	Market	Size (SF)	Transaction Type
Christmas Tree Shops	64 Leona Drive Middleborough, MA	MS – Route 495–South	750,000	Sale-Leaseback
Acushnet Company	175 Kenneth Welch Drive Lakeville, MA	MS – Route 495–South	555,695	Assignment
Stellantis	550 Forbes Boulevard Mansfield, MA	MS – Route 495–South	230,394	Sale Leaseback
Redline Freight Systems	631 Airport Road Fall River, MA	MS – Route 495–South	156,000	Expansion
Avantor Fluid Handling, LLC	35 Saratoga Boulevard Devens, MA	MW – Route 495–Route 2 West	154,000	New Lease
CHEP USA	675 Canton Street Norwood, MA	MS – Route 128–South	90,000	Renewal
4Wall Entertainment	7 Manley Street West Bridgewater, MA	MS – Route 495–South	88,200	New Lease

Source: CBRE Research, Q1 2023.

In contrast, record-pace leasing activity assisted the Metro South industrial market in achieving 550,652 sq. ft. of positive net absorption. Two separate sale-leasebacks were signed in the Route 495-South submarket, totaling approximately 980,394 sq. ft. Talbot, Inc.’s 555,965 sq. ft. lease at 175 Kenneth Welch Drive was also assigned to Acushnet Company this quarter. Additionally, Redline Freight Systems expanded their operation by 156,000 sq. ft. at 631 Airport Road in Fall River and CHEP, USA renewed their 90,000 sq. ft. lease at 675 Canton Street in Norwood. Also contributing to net absorption, Marcus Partners’ new 88,200 sq. ft. speculative property at 7 Manley Street in West Bridgewater was fully preleased by 4Wall Entertainment, achieving a \$14.10 NNN starting rate, a highwater mark within the submarket. Vacancy went from 3.6% in the fourth quarter of 2022 to 3.8%, a slight increase of 20 bps q-o-q. Availability increased slightly as well to 6.4% from 6.0% in the prior quarter. Mostly due to availabilities at new, high-quality speculative properties in the Metro South, overall asking rents concluded at \$12.90 per sq. ft. NNN, an uptick of \$0.40 per sq. ft. q-o-q.

Figure 4: Average Asking Lease Rates (PSF/NNN)

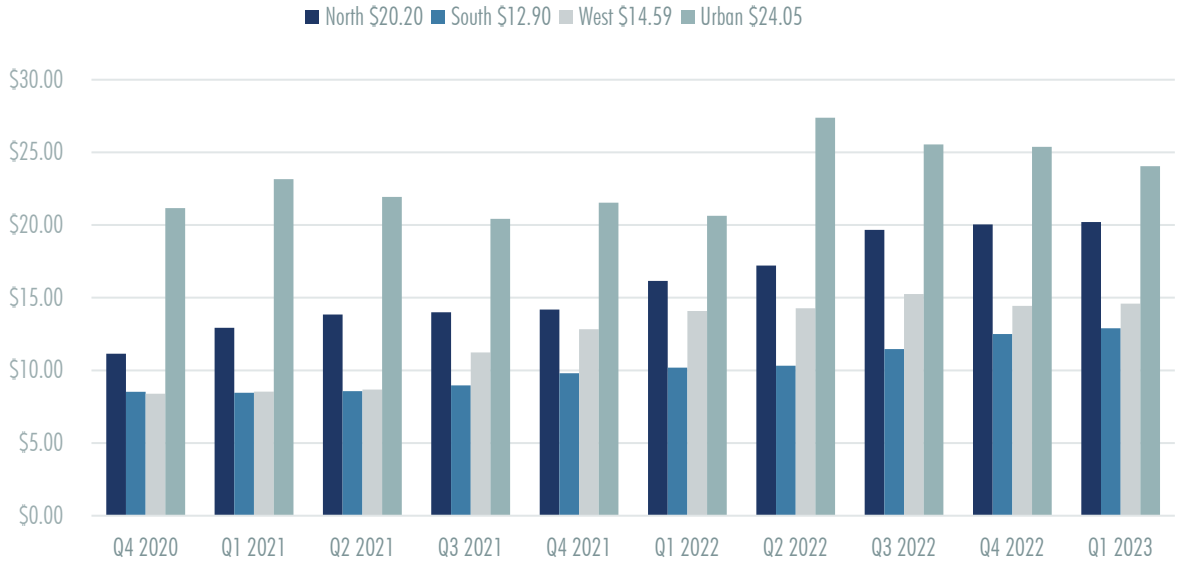
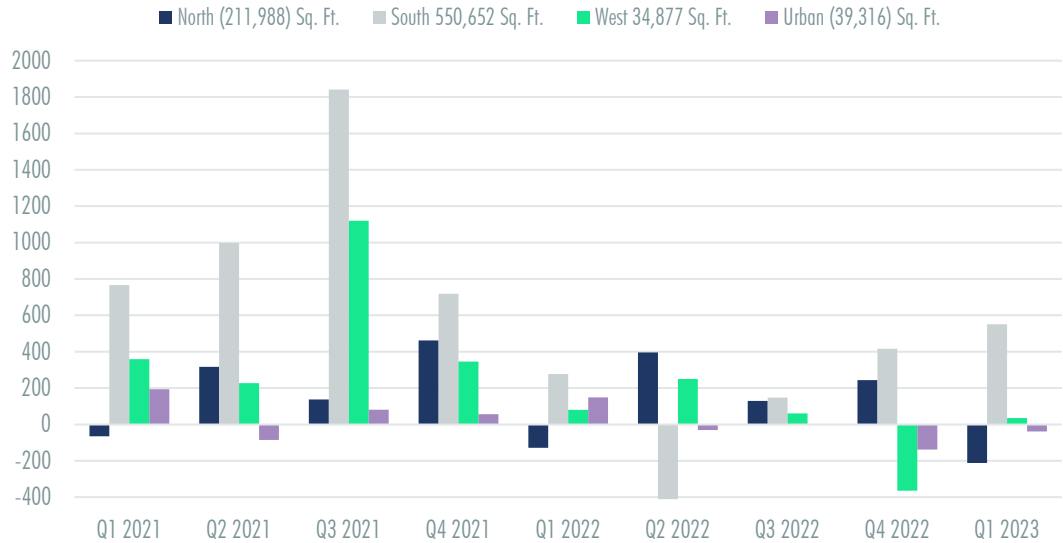


Figure 5: Net Absorption



Source: CBRE Research, Q1 2023.

Construction

After a year of abundant new speculative construction deliveries, the first quarter of 2023 proved to be a period of reduced new supply. Just over 214,000 sq. ft. of new speculative product was delivered this quarter, compared to last quarter's approximately 1.62 million sq. ft. of new speculative completions. This quarter witnessed just two completions, both of which properties were at Davis Companies' new speculative development sites at 36 and 38 Upton Drive in Wilmington, totaling approximately 103,440 sq. ft. at Building A and 111,000 sq. ft. at Building B. These sites mark the first new industrial speculative developments in the Route 128-North submarket since the fourth quarter of 2020, as most new industrial product has been focused in Route 495-South. With extremely scarce high bay options, 36 and 38 Upton Drive have delivered much needed supply to the Route 128-North submarket.

As for the remaining supply-constrained submarkets, a robust industrial speculative development pipeline continues to grow. Overall active speculative construction sits around 3.10 million sq. ft., with approximately 766,480 sq. ft. breaking ground this quarter. Specifically, site work began at DeBartolo Development's 350,000 sq. ft. speculative site at 21 Lincoln Street in West Bridgewater. Construction also commenced at Camber Development's 237,880 sq. ft. new, high bay speculative property at 800 Salem Street in Wilmington. Carlise Capital's 100 Fordham Road in Wilmington and Rhino Capital's 1275 Commerce Way in Attleboro also broke ground this quarter. With several other speculative developments anticipated to break ground in the second quarter of 2023, the industrial construction pipeline is predicted to remain healthy throughout the new year.

Worcester

Like the Greater Boston industrial market, Worcester and its surrounding areas represented a healthy leasing environment in the first quarter of 2023. Leasing activity totaled just under 375,000 sq. ft. this quarter. Most notably, The Kraft Food Group's new 297,000 sq. ft. speculative property at 160 Shrewsbury Street in Boylston will be occupied by Un1f1ed Global Packaging Group, one of Kraft's paper and packaging subsidiaries. Mostly due to this particular big block coming off the market, the overall Worcester industrial market experienced 272,937 sq. ft. of positive net absorption this quarter. Overall asking rent was recorded at \$11.50 per sq. ft. NNN, while vacancy and availability rates stood at 5.3% and 10.4%, respectively. It should be noted that most available space in this particular market stems from new speculative product, while the remaining supply is functionally challenged.

A robust speculative development pipeline, however, continues to add high-quality options to the Worcester industrial market. In the fourth quarter of 2022, approximately 1.75 million sq. ft. of speculative industrial product was delivered. Specifically, Northbridge Partners wrapped up construction on their 396,375 sq. ft. speculative, high bay development site at 80 Pine Hill Drive, in Boylston last quarter. Although no new speculative completions were recorded in the Worcester market for the first quarter of 2023, active industrial speculative construction sits around 1.77 million sq. ft. with CRG's 123 Gilboa Street in Douglas set to deliver approximately 1,102,500 sq. ft. to the market in the final quarter of 2023.

Capital Markets

The headwinds in the Greater Boston Industrial Capital Markets, that gained momentum over the course of 2022, continued through the first quarter of 2023. The sustained rising cost of capital, a result of the Fed’s continued unprecedented monetary policy tightening, coupled with the more recent turmoil in the banking sector, has caused both buyers and sellers to reassess their underwriting, be more stringent on property quality and location, and ultimately enter a new period of price discovery. While some lenders have remained active (predominately only for industrial product with existing sponsor relationships), many have hit pause or are quoting terms that are unacceptable for borrowers. Similarly, larger institutional investors appear to be waiting for some level of economic certainty before jumping back into the market, especially as some continue to deal with redemption queues. Many of the more nimble industrial investors, on the other hand, are looking for new creative opportunities at reduced prices, taking advantage of a smaller buyer pool.

While Q1 is typically a slower quarter for investment sales, this year’s first quarter saw a significant drop in volume compared to Q1, 2022. However, the core fundamentals in industrial real estate, unlike many of the other real estate asset classes, remain very strong, and rent growth spared several investment sale transactions, especially those with the ability to “mark-to-market” below market rents in the near-term. High profile deals that did close in Q1 included 64 Leona Drive in Middleborough to Lincoln Property Company for \$105,000,000; and 220 O’Connell Way in Taunton to Claremont Companies for \$47,500,000.

As noted in both the Q3 and Q4 reports, it is still very important to take the recent slowdown into perspective. The Greater Boston industrial market has broken every record from cap rates to rent growth over the last 24-36 months. With rents continuing to be much higher than pre-pandemic asking rates and vacancy remaining sub-3.5%, the Greater Boston Industrial Capital Markets could emerge from the potential downturn with limited friction, and investors may benefit from taking advantage of a bear market while macro affairs level out. The market and leasing fundamentals from a historic perspective remain extremely healthy.

FIGURE 6: High Profile Industrial Investment Sales, Q1 2023

Building Address	Market	Size (SF)	Sale Date	Sale Price (\$)	Price/SF (\$)	Buyer
64 Leona Drive Middleborough, MA	MS – Route 495–South	816,084	2/16/2023	105,000,000	128.66	Lincoln Property Company
220 O’Connell Way Taunton, MA	MS – Route 495–South	330,488	3/6/2023	47,500,000	143.73	Claremont Companies
60 Olympia Avenue Woburn, MA	MN – Route 128–North	97,000	2/3/2023	18,000,000	185.57	Brookfield Property Group

Source: CBRE Research, Q1 2023.

FIGURE 7: 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	14,465,208	4.4	2.9	0.2	(39,316)	(39,316)	24.05
Close-In Suburbs North	236	17,860,289	4.7	3.9	0.5	20,729	20,729	25.62
Route 128 - North	454	33,395,025	5.2	2.7	0.5	(126,251)	(126,251)	18.57
Route 495 - Northeast	208	20,786,010	2.8	2.5	0.9	(12,840)	(12,840)	16.48
Route 3 - North	231	17,855,269	5.4	4.9	1.7	(93,626)	(93,626)	16.34
Metro North	1,129	89,896,593	4.6	3.4	0.8	(211,988)	(211,988)	20.20
Route 128 - South	700	44,252,803	6.3	4.7	1.2	(244,101)	(244,101)	13.19
Route 495 - South	840	70,709,184	6.5	3.2	0.8	794,753	794,753	12.76
Metro South	1,540	114,961,987	6.4	3.8	1.0	550,652	550,652	12.90
Route 128 - West	149	6,412,601	2.8	2.5	0.6	77,419	77,419	25.75
Framingham - Natick	83	4,528,544	4.9	2.0	0.0	(5,081)	(5,081)	13.86
Route 495 - Route 2 West	229	21,318,483	4.8	2.8	0.0	152,825	152,825	15.16
Route 495 - Mass Pike West	343	23,881,898	5.7	1.7	0.0	(190,286)	(190,286)	13.04
Metro West	804	56,141,526	5.0	2.2	0.1	34,877	34,877	14.59
Overall Greater Boston Total Industrial	3,695	275,465,314	5.4	3.3	0.7	334,225	334,225	15.52

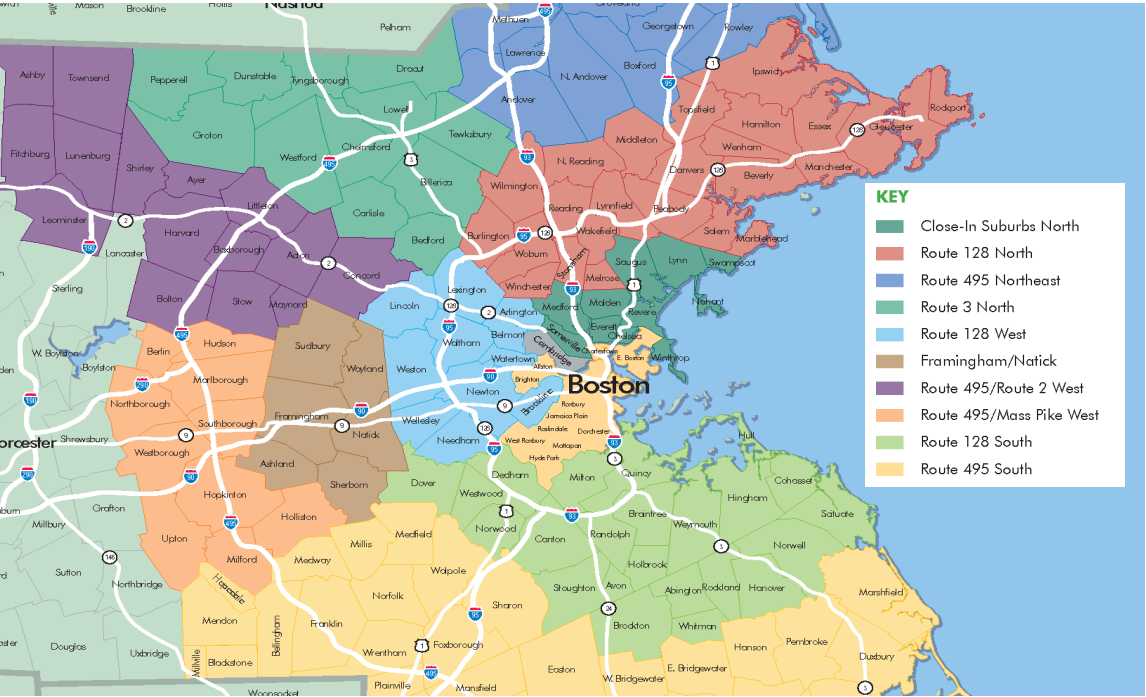
Source: CBRE Research, Q1 2023.

FIGURE 8: 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	111	9,262,714	0.5	0.4	0.0	27,787	27,787	9.07
Worcester North	124	11,365,925	7.3	4.0	0.0	287,150	287,150	12.92
Worcester South	62	9,248,542	24.1	11.8	0.2	(42,000)	(42,000)	11.04
Overall Worcester Total Industrial	297	29,877,181	10.4	5.3	0.1	272,937	272,937	11.50

Source: CBRE Research, Q1 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.

Contact

Suzanne Duca

Director of Research, New England
suzanne.duca@cbre.com

Jacqueline Smith

Research Analyst, New England
jacqueline.smith1@cbre.com

CBRE Offices

33 Arch Street, 28th Floor
Boston, MA 02110