Boston industrial market surges to record-breaking highs... again

▼ 3.2%
Availability

▼ 1.5%
Vacancy

▲ 267 MSF
Occupied Square Feet

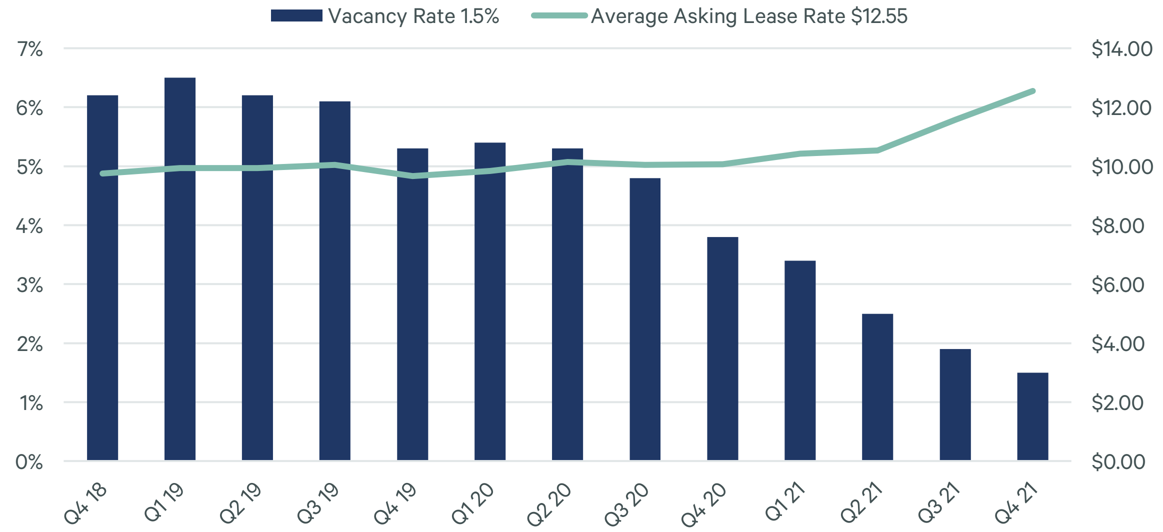
▲ 2.9 MSF
Under Construction (Spec)

Note: Arrows indicate change from previous quarter.

The Greater Boston industrial market's record velocity continued to surge during the fourth quarter of 2021, as year-to-date (YTD) absorption figures set new annual historic highs, and vacancy dropped to another all-time low. Nearly 1.6 million sq. ft. of positive absorption was recorded in Q4, totaling just over 7.5 million sq. ft. YTD, the most ever recorded in the market in a single year. Asking rents continued to rise quickly, finishing the quarter at $12.55 per sq. ft. NNN, an increase of more than 8% from Q3, and up an unprecedented 21.8% year-over-year (y-o-y). Availability and vacancy rates reached historic lows in the fourth quarter of 2021. The availability rate declined by 50 basis points (bps) quarter-over-quarter (q-o-q) to 3.2%, while the vacancy rate dropped by 40 bps q-o-q to 1.5%. The supply/demand imbalance brought about by the market's sub-2.0% vacancy creates a challenging environment for tenants looking to break into the market or grow their existing operations. This dynamic highlights the rapidly growing delta between supply and demand that is putting upward pressure on asking rents as tenants compete for limited stock.

Driving Greater Boston's insatiable level of demand is a tenant landscape more diverse than perhaps any other market in the country. Emerging industrial users such as life science distributors, robotics manufacturers, and biomanufacturers are competing with the traditional

FIGURE 1: Industrial Vacancy vs. Lease Rate



Source: CBRE Research, Q4 2021

large industrial occupiers for space. While these emerging industrial users represent around 15% of current demand, the 9.2 million sq. ft. of total industrial leasing activity that occurred in 2021 was mainly propelled by wholesalers/retailers, 3PLs, transportation/distribution, goods manufacturing, life science and e-commerce companies. With over 40 million sq. ft. of tenants actively seeking space and a growing, but still relatively weak, pipeline of new speculative supply, fierce competition exists for any remaining functional space.

This current level of demand will continue to outpace supply for the next 18 to 24 months at minimum, as there is just 2.9 million sq. ft. of speculative development under construction. Just 550,000 sq. ft. of spec development delivered in 2021, and more than 90% of that supply has already been leased, another example of the growing supply/demand imbalance that has left tenants with a challenging environment in which to find the right fit for the needs of their businesses. With no end in sight, the current imbalance will continue to put further upward pressure on rents.

Attracted by the aforementioned top-tier market fundamentals, the Greater Boston industrial market continues to be prioritized by 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 stood out recently for setting a going-in capitalization rate record for the region - BlueStar Business Park, a three-building, newly constructed industrial complex in Norton, MA totaling approximately 445,000 sq. ft. was sold by CBRE on behalf of Condyne Capital Partners and a fund advised by UBS Realty Investors to AEW Capital Management for $126.1 million ($283.45 per sq. ft.).

Greater Boston's significant barriers to entry, lack of developable industrial land and overall supply/demand imbalance are sure to continue to drive growth, further fueling additional capital flows to the region in the coming quarters. With year-over-year market rents soaring and overall vacancy rates predicted to hit ~1% by mid-year, investors are underwriting annual market rent growth in the 7% to 10% range for 2022 and beyond, putting further pressure on going-in yields and price per square foot levels. This dynamic has caused cap rates to plummet over the course of the last 12-18 months, a trend that is not expected to ease off anytime soon.

Figure 2: Transactions of Note

Tenant/Investor	Address	Sq. Ft.	Submarket	Type
Dell EMC	109 + 111 Constitution Blvd, Franklin	288,000	Route 495 - South	Renewal
Lacerta Group	505 Collins Street, Attleboro	202, 900	Route 495 - South	New
Amazon	135 Intervale Road, Fitchburg	142,000	Route 495 - Route 2 West	New
Imperial Distributors	725 Main Street, Millis	130,200	Route 495 - South	New
Insulet	50 Nagog Park, Acton	119,000	Route 495 – Route 2 West	New
National Grid	326 Ballardvale Street Building 1, Wilmington	106,400	Route 128 - North	New
Nova Biomedical	4 Enterprise Road, Billerica	105,200	Route 3 - North	New
Quality Custom Distribution	135 Will Drive, Canton	102,000	Route 128 - South	New

Source: CBRE Research, Q4 2021

Urban

- The Urban market finished Q4 with 56,064 sq. ft. of positive absorption, and 267,866 sq. ft. of positive absorption YTD. Availability decreased by 30 bps to 4.2%, while vacancy decreased by 40 bps to 2.3%. Average asking rents increased to $21.54 per sq. ft. NNN.
- In Hyde Park, First Highland Management and Development's Yard 5 spec development project delivered two new buildings in 2021: 77,150 sq. ft. Building B and 48,000 sq. ft. Building C. Both saw leasing activity in Q4, with Tesla taking all of Building C, and Bodega signing for 20,097 sq. ft. in Building B.

Metro North

- The Metro North industrial market remained relatively active in Q4, posting 462,454 sq. ft. of positive absorption for the quarter, and 866,005 sq. ft. of positive absorption YTD. Vacancy decreased by 50 bps to 1.7%, while availability fell 60 bps to 3.6%. Average asking rents in the Metro North market increased to $14.19 per sq. ft. NNN in Q4 and remained the highest of the suburban industrial submarkets.
- The most notable deal of the quarter in the Metro North market was National Grid's 106,391 sq. ft. renewal at 326 Ballardvale Street – Building 1 in Wilmington. Other activity included life science company, Nova Biomedical leasing the full 105,161 sq. ft. at Brookfield's 4 Enterprise Road in Billerica.
- New Construction in the Metro North market is nearly non-existent. There are no large speculative construction projects currently underway.

Figure 3: Industrial Market Statistics

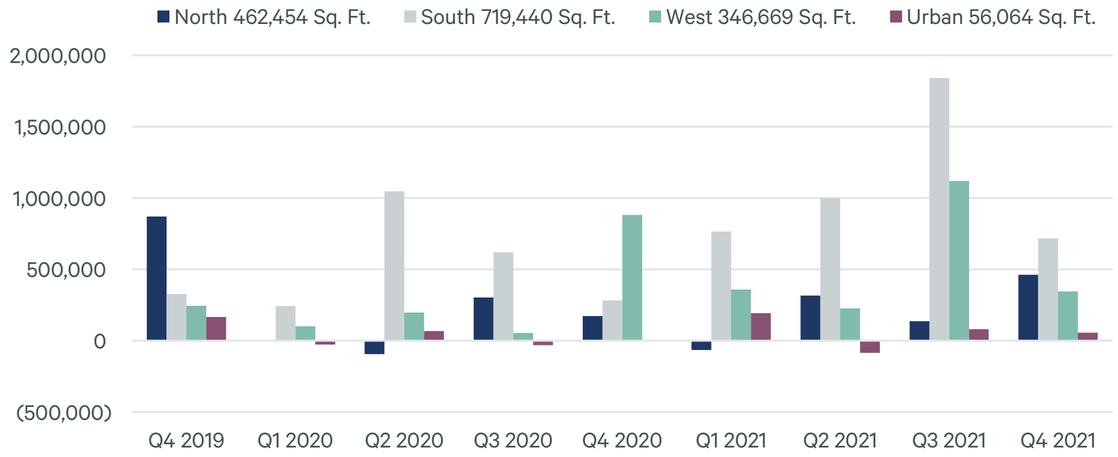
Total Industrial	Bldgs.	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg. Average Rents NNN
Urban	**221**	**14,325,495**	**4.2**	**2.1**	**0.2**	**56,064**	**267,866**	**21.54**
Close-In Suburbs North	239	17,945,057	2.5	1.3	0.1	272,060	254,450	16.73
Route 128 - North	449	32,416,624	3.9	1.5	0.1	(10,319)	293,807	14.30
Route 495 - Northeast	200	19,244,348	2.8	1.0	0.1	82,642	55,160	11.20
Route 3 - North	228	17,763,063	4.9	3.2	0.3	118,071	262,588	13.74
Metro North	**1,116**	**87,369,092**	**3.6**	**1.7**	**0.2**	**462,454**	**866,005**	**14.19**
Route 128 - South	697	44,151,666	3.1	2.1	0.2	315,100	1,303,549	11.69
Route 495 - South	816	66,562,638	3.3	1.1	0.2	404,340	3,054,559	8.78
Metro South	**1,513**	**110,714,304**	**3.2**	**1.5**	**0.2**	**719,440**	**4,358,108**	**9.80**
Route 128 - West	152	6,588,448	3.0	2.7	0.5	100,287	184,620	21.35
Framingham - Natick	85	4,691,376	1.7	0.5	0.5	30,401	75,912	10.98
Route 495 - Route 2 West	222	20,063,226	1.4	0.7	0.0	(11,609)	1,048,911	9.19
Route 495 - Mass Pike West	340	23,352,023	3.1	0.7	0.4	227,590	746,168	9.22
Metro West	**799**	**54,695,073**	**2.3**	**0.9**	**0.2**	**346,669**	**2,055,611**	**12.83**
Overall Greater Boston Industrial	**3,649**	**267,103,964**	**3.2**	**1.5**	**0.2**	**1,584,627**	**7,547,590**	**12.55**

Source: CBRE Research, Q4 2021

Metro South

- The Metro South industrial market once again recorded the strongest growth in the region with 719,440 sq. ft. of positive absorption in the fourth quarter, finishing the year with a staggering 4,358,108 sq. ft. of positive absorption YTD, the market's highest ever recorded in a single year. As a result, vacancy fell to 1.5%, a compression of 30 bps from Q3, while availability decreased 40 bps to 3.2%. Average asking rents increased slightly to $9.24 per sq. ft. NNN.
- The largest cluster of leasing activity took place in the Route 495 South submarket, where 404,340 sq. ft. of positive absorption was recorded in Q4.
- Dell EMC signed the largest lease of the fourth quarter, renewing for a total of 288,000 sq. ft. between 109 and 111 Constitution Boulevard in Franklin. Plastic packaging manufacturer, Lacerta Group leased the entirety of The Seyon Group's 202,863 sq. ft. warehouse at 505 Collins Street in Attleboro, following TriMark USA's relocation to 160 Mechanic Street in Bellingham in Q3.
- Other leases signed during the quarter included Quality Custom Distribution Services renewing their 102,000 sq. ft. lease at 135 Will Drive in Canton, and Zeptometrix leasing 53,000 sq. ft. at 25 Kenwood Circle in Franklin. In Mansfield, Conroy Development's new 60,000 sq. ft. spec development at 44 Cabot Boulevard was leased to a prominent Fortune 100 company. The tenant is set to occupy the full building upon the building's target delivery of Q1 2022.
- Intense levels of demand in the Metro South market have left very few quality options available to satisfy multiple tenant requirements. One of the most notable new spec developments to break ground in the second half of 2021 is the Martignetti Companies' 584,640 sq. ft. high-bay warehouse at 300 Charles Colton Road in Taunton, which is expected to deliver in the second half of 2022. Additionally, three other large spec development projects broke ground just before the end of 2021. In Plainville, construction is underway at CRG's 662,500 sq. ft. spec development site at 27 Cross Street. In Uxbridge, The Seyon Group's 450,800 sq. ft. site at 139 Campanelli Drive began construction, as did Scannell Properties' 607,000 sq. ft. spec development project 40 Lackey Dam Road. All three projects are expected to deliver toward the end of 2022, attracting significant interest and activity, and will provide the Metro South market with much-needed supply relief.

Figure 4: Net Absorption

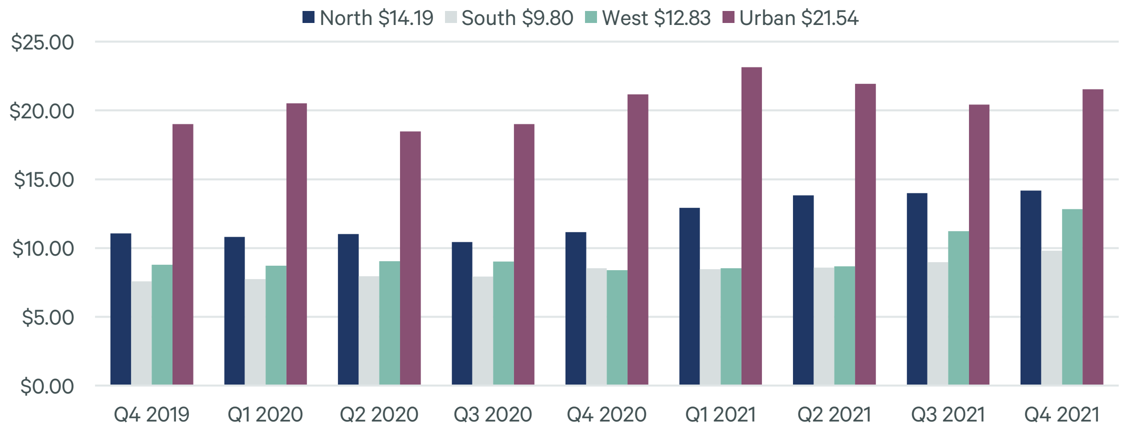


Source: CBRE Research, Q4 2021

Metro West

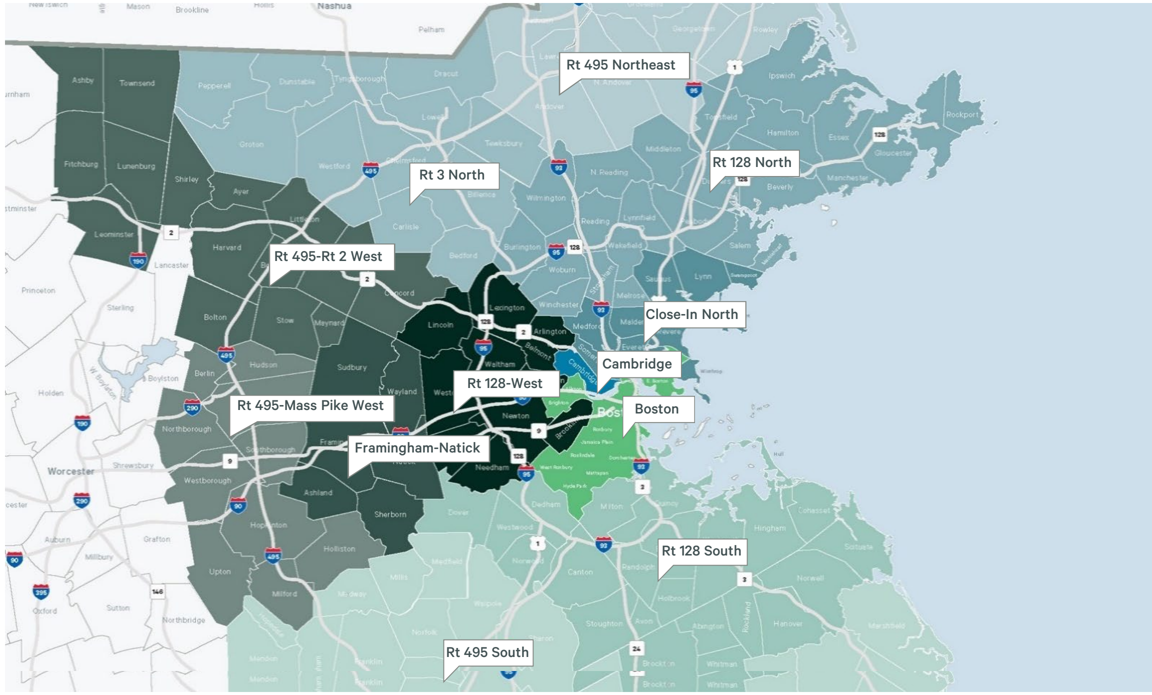
- The Metro West industrial market recorded another strong quarter with 346,669 sq. ft. of positive absorption in Q4, and 2,055,611 sq. ft. of positive absorption YTD. The availability rate decreased by 50 bps to 2.3%, while vacancy decreased by 30 bps to 0.9%, the lowest of the four greater Boston industrial markets.
- The Route 495 – Mass Pike West submarket posted the strongest quarter of the four Metro West submarkets, with almost 230,000 sq. ft. of positive absorption. With a vacancy rate of just 0.7% in Q4, the submarket remains one of the tightest in the Greater Boston market.
- Amazon further expanded their footprint in the greater Boston market, taking 142,000 sq. ft. in a new lease at 135 Intervale Road in Fitchburg. Medical device company, Insulet took all 119,000 sq. ft. of Calare Properties' newly delivered high-bay development at 50 Nagog Street in Acton. In the Boroughs, DHL signed a new 27,533 sq. ft. lease at 360 Cedar Hill Street in Marlborough, and electrical engineering and manufacturing firm, Columbia Tech, renewed and expanded on their footprint at 444 Whitney Street in Northborough, where they will now be occupying a total of 73,504 sq. ft.

Figure 5: Average Asking Lease Rates



Source: CBRE Research, Q4 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 Suburban Boston Office.

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