Inside...

» Industrial vacancy drops slightly.
» Positive absorption seen 11 of the past 13 quarters.
» Warehouse space in The Boroughs remains limited.
» Flex leasing fundamentals are strong.
» 128 North industrial market continues to thrive.
» Tenants absorb significant warehouse space.

*Unless otherwise noted, all data is as of or for the quarter ended September 30, 2017.
Industrial Market Back on Track
Warehouse Activity Leads the Way

The 71-million-square-foot Greater Boston industrial market, consisting of manufacturing and warehouse space, experienced 37,000 square feet of positive absorption in the third quarter of 2017, rebounding nicely after two consecutive quarters of negative absorption to start the year. The Greater Boston industrial market has now seen positive absorption in 11 of the last 13 quarters, amassing 3.8 million square feet over that period. Vacancy in the market is currently 9.7 percent, comfortably below the five-year-average of 12.4 percent, as availability also continues to decline, now 14.9 percent.

Warehouse space in Greater Boston drove the industrial market in the third quarter, as the 57-million-square-foot market absorbed 71,000 square feet, dropping vacancy slightly to 9.2 percent. As the market remains very tight, average asking rents for warehouse space in Greater Boston continue to escalate, currently $6.99 per square foot, nearly into the $7.00 range for the first time on record. The market was driven by tenant activity, including FedEx expanding within 90 Salem Rd. in Billerica, Mancon moving into 200 Shuman Ave. in Stoughton, UPS taking warehouse space at 40 Fordham Rd. in Wilmington, and Hologic renewing at 14 Aegean Dr. in Methuen. The 187-building, 13.9-million-square-foot manufacturing market in Greater Boston experienced slightly negative absorption this quarter, with 34,000 square feet put back on the market. Despite a slight increase in the vacancy rate to 12.0 percent, leasing fundamentals remain steady while average asking rents continue to rise, currently $8.46 per square foot.

The flex market, consisting of 27.9 million square feet, experienced 28,000 square feet of negative absorption in the third quarter, while vacancy remains at 11.1 percent. As the flex market has historically been one of the most consistent markets, with positive absorption in 11 of the past 14 quarters and a declining vacancy rate, expect the market to bounce back firmly and quickly.

While the unemployment rate in Greater Boston has risen slightly over the past several months, it remains at a solid level of 3.5 percent. The economic outlook for Boston is positive, as the core sectors that drive the city and the surrounding suburbs continue to thrive and grow. As ecommerce continues to boom, one trend to look for is the shift of warehouse activity towards the urban city limits. Online retailers and logistics companies, such as Amazon and FedEx, have expressed the importance of maintaining presences in “last mile” locations in order to feed the consumer demand for faster delivery. As transportation and labor continue to be their most expensive costs, rising rents are unlikely to deter the larger companies from occupying facilities closer to the city. That being said, space constraints certainly exist, as the bulk of vacant space in the market is along the Interstate 495 belt, with recent deliveries providing needed alternatives for tenants. Regardless, the Greater Boston industrial market as a whole remains well positioned for continued success in the future.
The 57-million-square-foot warehouse market saw 71,000 sf of positive absorption, as the vacancy dropped 0.1 percentage point to 9.2 percent.

With 17 percent of the total warehouse inventory, Route 128 North remains one of the hottest markets, positively absorbing 554,000 sf over its seven-quarter streak, with 139,000 sf seen this quarter.

Both Route 128 and Interstate 495 experienced positive absorption this quarter, absorbing 229,000 sf and 48,000 sf, respectively.

The 4.4 million square feet of warehouse space in The Boroughs remains extremely tight, with vacancy at 1.8 percent, 4 percentage points below the five-year average.

Prior to the first quarter of 2017, the warehouse market in Greater Boston hadn’t experienced a quarter with negative absorption since 2012, at which time the vacancy rate was 19.4 percent, a 53 percent decrease to today’s rate.

The average asking rent for warehouse space in Greater Boston is $6.27 per sf, with the most expensive product in Route 128 North, where rents recently eclipsed $8.00, currently $8.08 per sf.

FedEx expanded within 90 Salem Rd. in Billerica, while Mancon moved into 88,000 sf at 200 Shuman Ave. in Stoughton, and Sonepar took 78,000 sf at 560 Oak St. in Brockton.

Equity Industrial Partners sold the 169,000-sf warehouse facility at 200 Shuman Ave. in Stoughton to TSC Shuman 200, LLC for $9.7 million ($57.40/sf).
MANUFACTURING

ABSORPTION & VACANCY

- The 13.9 million square foot manufacturing market in Greater Boston experienced 34,000 sf of negative absorption in the third quarter of 2017, as vacancy rose slightly to 12.0 percent.

- One of the largest tenant move-outs was G&M Trucking & Rigging at 73 Holton St. in Woburn, vacating the entire building of 28,000 sf; however, the space will be backfilled in November of this year.

- Of the total vacancy in the market, 63 percent of it is maintained in three buildings: 495 Woburn St. in Tewksbury, 351 Holt St. in North Andover and 24 Plain St. in Braintree. If these buildings are removed from the inventory completely, vacancy drops to 4.9 percent.

- Route 128, consisting of 6.0 million square feet of manufacturing space, has experienced three consecutive quarters with positive absorption, absorbing 127,000 sf over that time with 27,000 seen this quarter.

- While only 1.7 million square feet of manufacturing space exist in the I-495 South market, only 2.2 percent is vacant, significantly below the five-year average of 10.6 percent.

- Manufacturing space along Route 128 continues to be scarce, especially larger blocks, with only one space greater than 100,000 sf available in the market, 28 Draper Ln. in Canton.

- In an interesting redevelopment opportunity in a great location, National Development and Charles River Realty Investors bought 960 Massachusetts Ave. and 100 Newmark St. in Boston from 960 Limited Partnership for $11.7 million (2.88 acres)

ASKING RENTS

Boston Manufacturing Market Indicators by Submarket

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th>INVENTORY</th>
<th>DELIVERIES (SF)</th>
<th>QUARTER NET ABSORPTION</th>
<th>LTM* NET ABSORPTION</th>
<th>GROWTH**</th>
<th>DIRECT AVAILABILITY</th>
<th>SUBLET AVAILABILITY</th>
<th>TOTAL VACANCY</th>
<th>AVERAGE RATE $SF</th>
<th>4QTR*** CHAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Route 128 North</td>
<td>3,265</td>
<td>0</td>
<td>28</td>
<td>103</td>
<td>3.3%</td>
<td>6.4%</td>
<td>0.2%</td>
<td>4.4%</td>
<td>$13.05</td>
<td>14.6%</td>
</tr>
<tr>
<td>Route 128 West</td>
<td>638</td>
<td>0</td>
<td>(2)</td>
<td>(6)</td>
<td>-0.9%</td>
<td>5.8%</td>
<td>0.0%</td>
<td>1.3%</td>
<td>$12.18</td>
<td>32.4%</td>
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<tr>
<td>Route 128 South</td>
<td>2,041</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>0.7%</td>
<td>14.1%</td>
<td>0.0%</td>
<td>11.6%</td>
<td>$5.21</td>
<td>-</td>
</tr>
<tr>
<td>Route 128 Submarkets</td>
<td>5,955</td>
<td>0</td>
<td>27</td>
<td>111</td>
<td>2.0%</td>
<td>9.7%</td>
<td>0.1%</td>
<td>6.5%</td>
<td>$9.62</td>
<td>15.2%</td>
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<tr>
<td>I-495 North</td>
<td>3,183</td>
<td>0</td>
<td>33</td>
<td>(146)</td>
<td>-4.8%</td>
<td>35.9%</td>
<td>1.4%</td>
<td>32.5%</td>
<td>$7.33</td>
<td>3.2%</td>
</tr>
<tr>
<td>I-495 West</td>
<td>1,582</td>
<td>0</td>
<td>(64)</td>
<td>(99)</td>
<td>-4.0%</td>
<td>9.2%</td>
<td>0.0%</td>
<td>7.7%</td>
<td>$9.77</td>
<td>9.1%</td>
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<tr>
<td>I-495 South</td>
<td>1,723</td>
<td>0</td>
<td>5</td>
<td>98</td>
<td>5.8%</td>
<td>3.2%</td>
<td>0.6%</td>
<td>2.2%</td>
<td>$6.97</td>
<td>26.4%</td>
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<tr>
<td>I-495 Submarkets</td>
<td>4,488</td>
<td>0</td>
<td>(26)</td>
<td>(107)</td>
<td>-2.0%</td>
<td>20.7%</td>
<td>0.9%</td>
<td>18.4%</td>
<td>$8.12</td>
<td>3.6%</td>
</tr>
<tr>
<td>Route 128 &amp; I-495 Combined</td>
<td>12,442</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0.0%</td>
<td>10.4%</td>
<td>0.5%</td>
<td>12.5%</td>
<td>$8.71</td>
<td>8.8%</td>
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<tr>
<td>Central Areas</td>
<td>1,444</td>
<td>0</td>
<td>(35)</td>
<td>2</td>
<td>0.0%</td>
<td>8.2%</td>
<td>0.0%</td>
<td>5.8%</td>
<td>$6.67</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>13,886</td>
<td>0</td>
<td>(34)</td>
<td>4</td>
<td>0.0%</td>
<td>14.7%</td>
<td>0.4%</td>
<td>12.0%</td>
<td>$8.46</td>
<td>7.7%</td>
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</table>

* LTM = Last Twelve Months // **LTM absorption as a percentage of occupancy levels twelve months ago // ***Twelve months change in asking lease rate

ALL AMOUNTS, EXCEPT PERCENTAGES AND DOLLAR FIGURES IN THOUSANDS

REAL ESTATE OUTLOOK BOSTON INDUSTRIAL MARKET Q3 2017

PREPARED BY: Transwestern RBJ PAGE 17
The historically steady flex market in Greater Boston experienced a rare quarter of negative absorption, with 28,000 sf negatively absorbed in the third quarter of 2017.

Since 2012, Greater Boston has absorbed nearly 2.8 million sf of flex space, as vacancy has dropped from 17.6 percent to a current rate of 11.1 percent.

More than 70 percent of the market vacancy in Route 128 North and I-495 North is concentrated in five properties that are functionally or geographically obsolete, and when excluded from the inventory, vacancy drops from 13.4 percent to 4.6 percent.

Tegra Medical, LLC renewed its 81,000 sf footprint at 9 Forge Pky. in Franklin, while Mass Machine signed a new lease at Walpole Park South Building 2 in Walpole for 10,000 sf, and ClearMotion signed a new deal at 400 Research Dr. in Wilmington for 28,000 sf.

Cab Technologies and Nova Engineering signed leases totaling 22,000 sf at 21 Alpha Rd. in Chelmsford.

Astellas Pharma is committed to approximately 35,000 sf at 111 Locke Dr. in Marlborough, expected to take occupancy during the fourth quarter of 2017.

The Cabot Flex Portfolio in Mansfield along I-495 South was sold by PGIM Real Estate and Spaulding & Syle Investments to James Campbell Company for $21.9 million (188,344 sf, $116/sf), while The Seyon Group bought 20 Seyon St. in Watertown from Calare Properties for $15 million (94,268 sf, $159/sf).

The Boston Flex Market Indicators by Submarket table and charts are also included in the document.
METHODOLOGY

The information in this report is the result of a compilation of information on industrial properties located in the Boston metropolitan area. This report includes single-tenant, multi-tenant industrial properties 20,000 SF and larger, excluding industrial warehouse, flex, and manufacturing properties owned and occupied by a user or government agency.

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