
2Q23

Boston Industrial Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market proved resilient amid shifting macroeconomic conditions. May’s 2.1% unemployment rate neared a historic low and employment growth for most industrial-using sectors was positive.
- Year-over-year, job gains have been most pronounced in the construction industry. While this sector is usually affected by high interest rates, construction activity has remained elevated since the pandemic and a shortage of experienced workers has prolonged some project timelines.
- Despite strong labor market performance, signs of weakness are starting to appear in other parts of the economy as inflationary pressures continue to drive up costs and businesses shift their needs accordingly.

Major Transactions

- Healthcare manufacturer and distributor Cardinal Healthcare expanded its footprint in the Greater Boston area by leasing 316,694 square feet at 80 Pine Hill Dr. in Boylston.
- Clean energy company Electric Hydrogen announced it has leased 187,000 square feet at a newly constructed GMP facility located at 33 Jackson Rd. in Devens.
- Headquartered in Lawrence, MA, branded products supplier The GEM Group signed a 91,000-square-foot lease to occupy the entire warehouse/distribution facility at 91 Glenn St.

Leasing Market Fundamentals

- Net absorption in the second quarter of 2023 totaled negative 142,965 square feet. These occupancy losses were in part due to some major tenants, including SimpliSafe and Medtronic, giving back large blocks of space.
- Of the 6.7 million square feet in construction pipeline, nearly 5.9 million square feet is expected to deliver during the remainder of 2023.
- Vacancy grew to 4.8% but still sits well below the long-term historic average. As new premium quality industrial space is delivered over the next few quarters, vacancy and rents are expected to experience some further upward pressure in the near term.

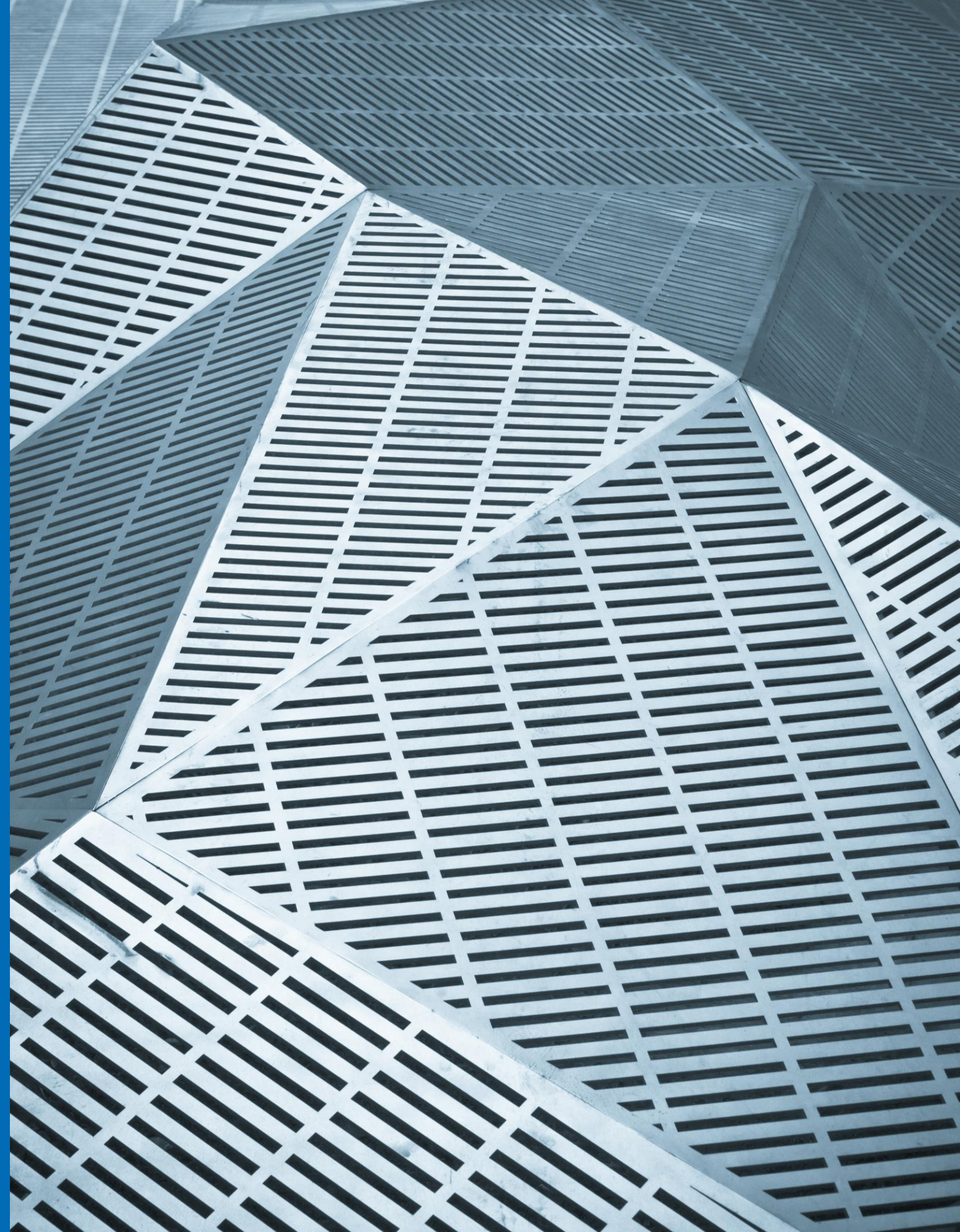
Outlook

- Good tenant demand and the overall tightness of the region’s industrial market should help bolster fundamentals.
- Advanced manufacturing remains a key area of interest and will continue to attract investment, particularly in the regions to the north and west of Boston.
- Though conditions have started to normalize, the industrial asset type continues to outperform many others in the Boston metro.

1. Economy
2. Leasing Market Fundamentals

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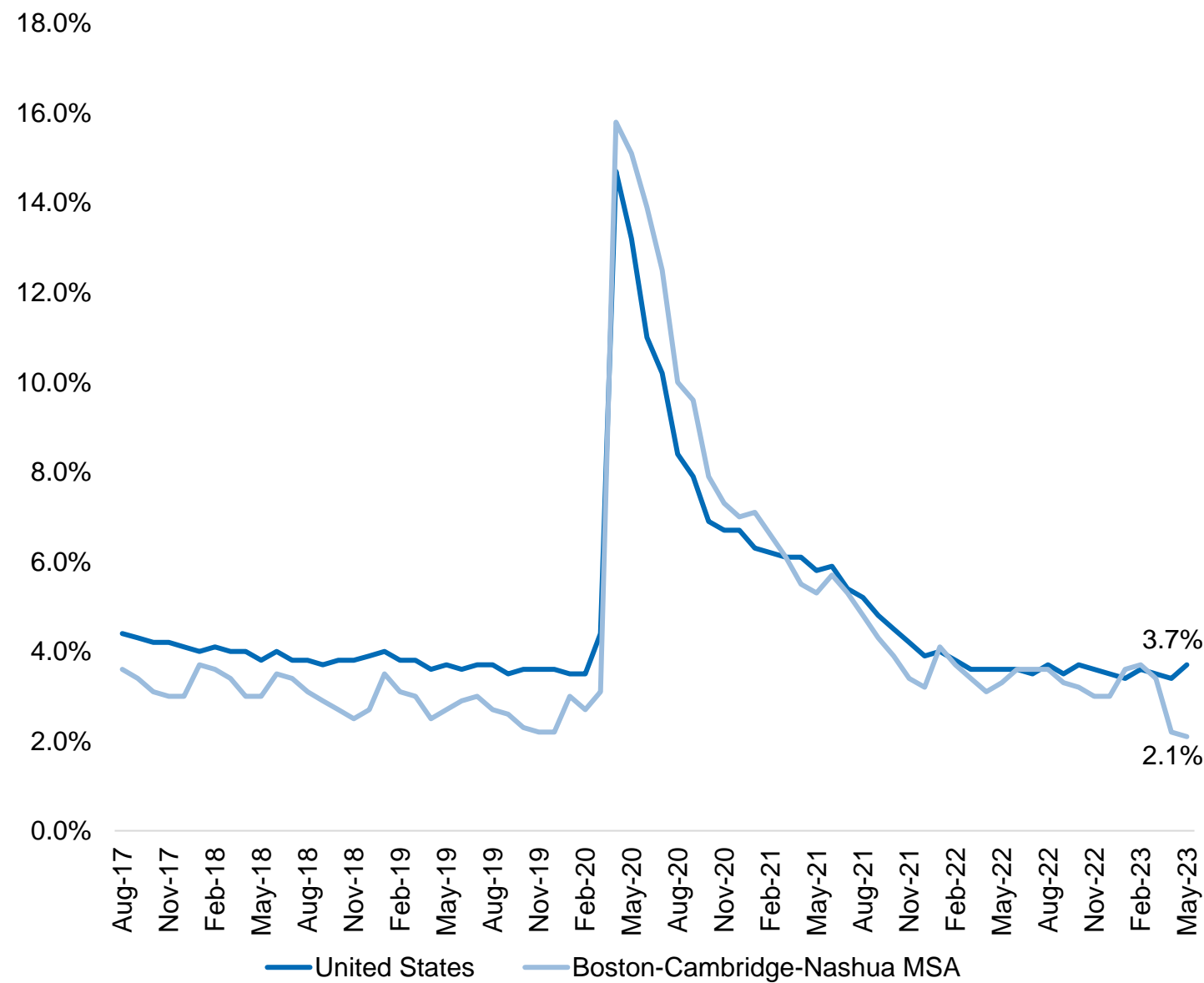
Economy



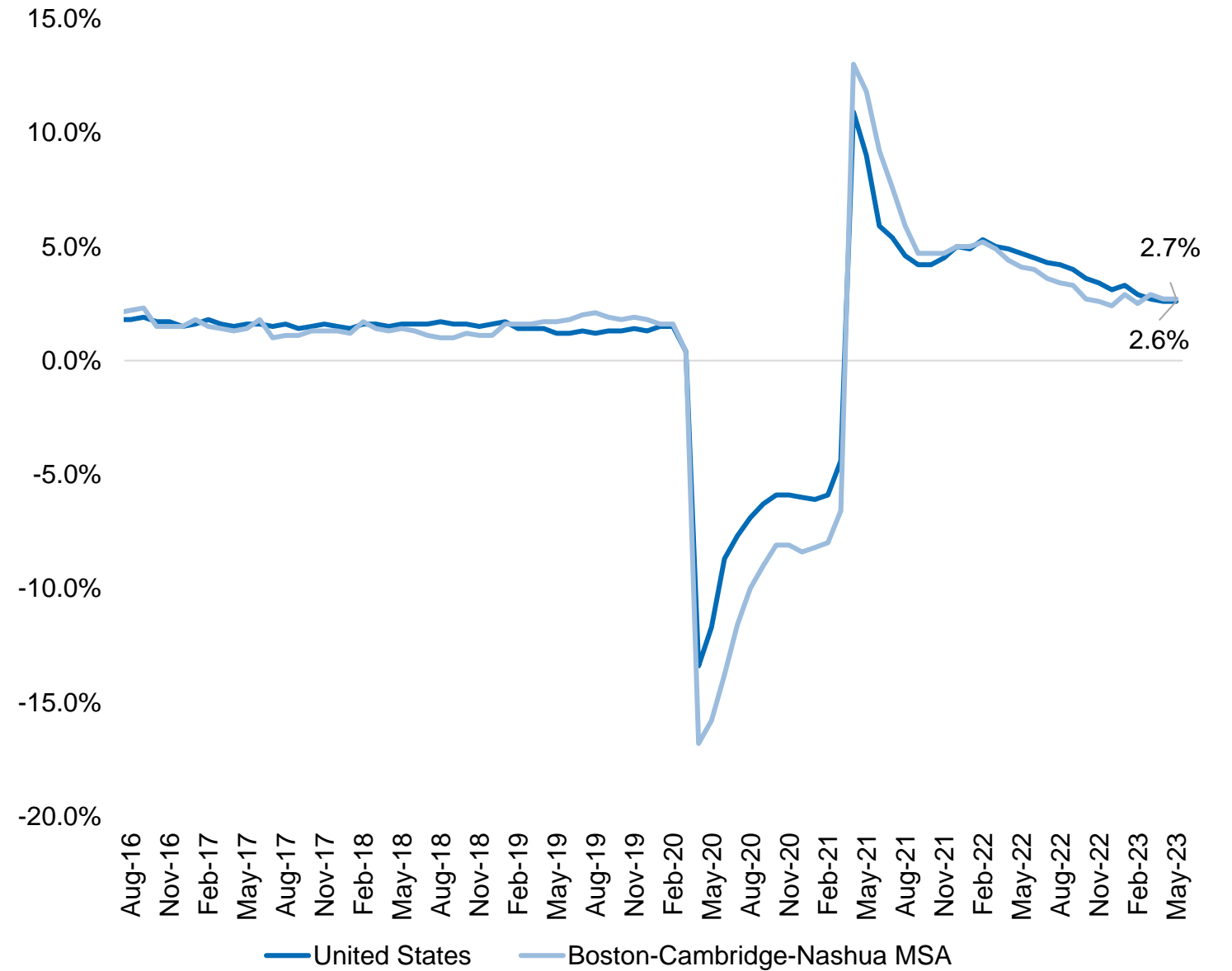
Metro Employment Trends Signal a Slowing Economy

While the region's labor market remains on relatively solid footing and the annual job growth rate has exceeded the national average, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment in Boston remains below the national average, but the tech and biotech sectors are experiencing sustained layoffs.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

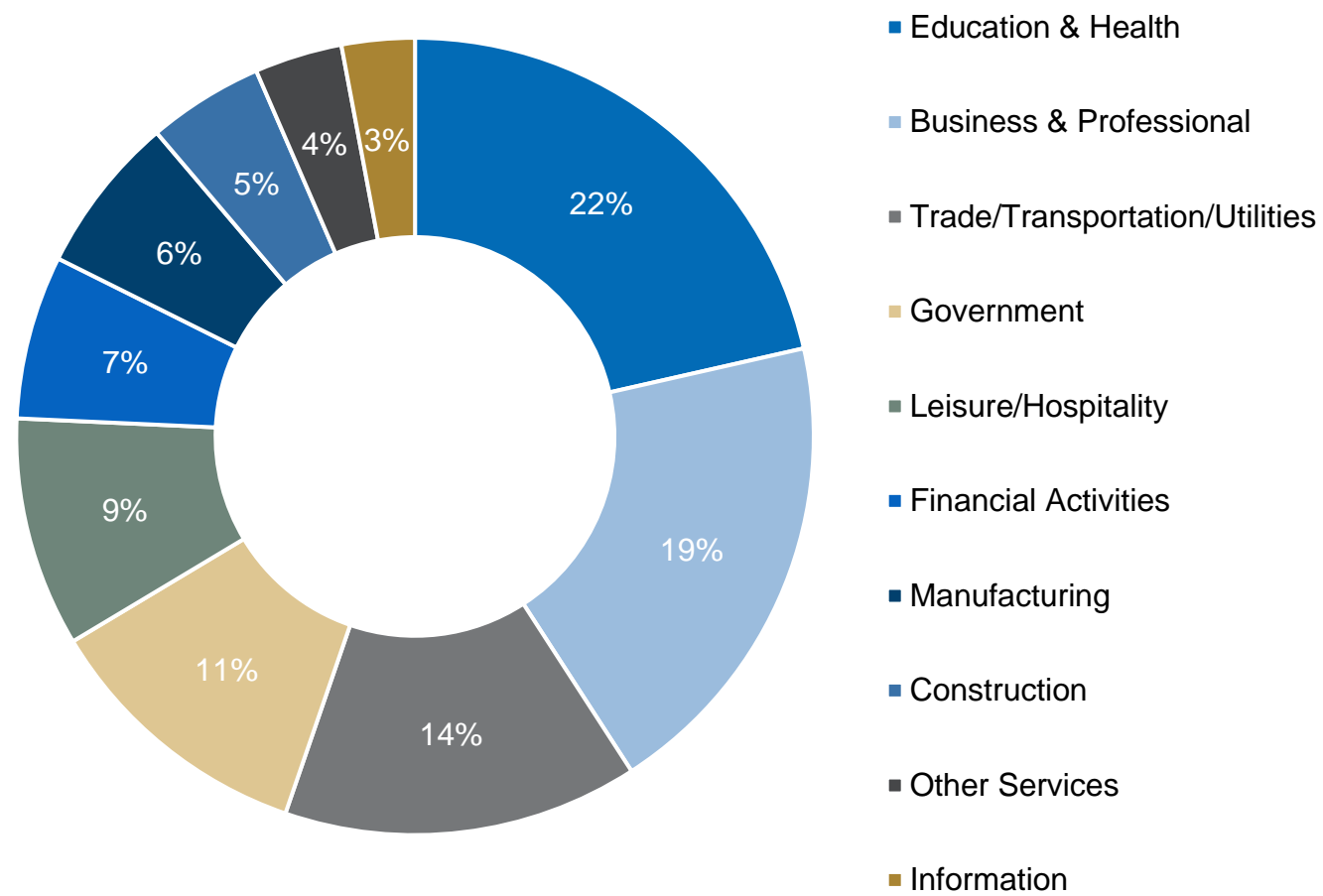


Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

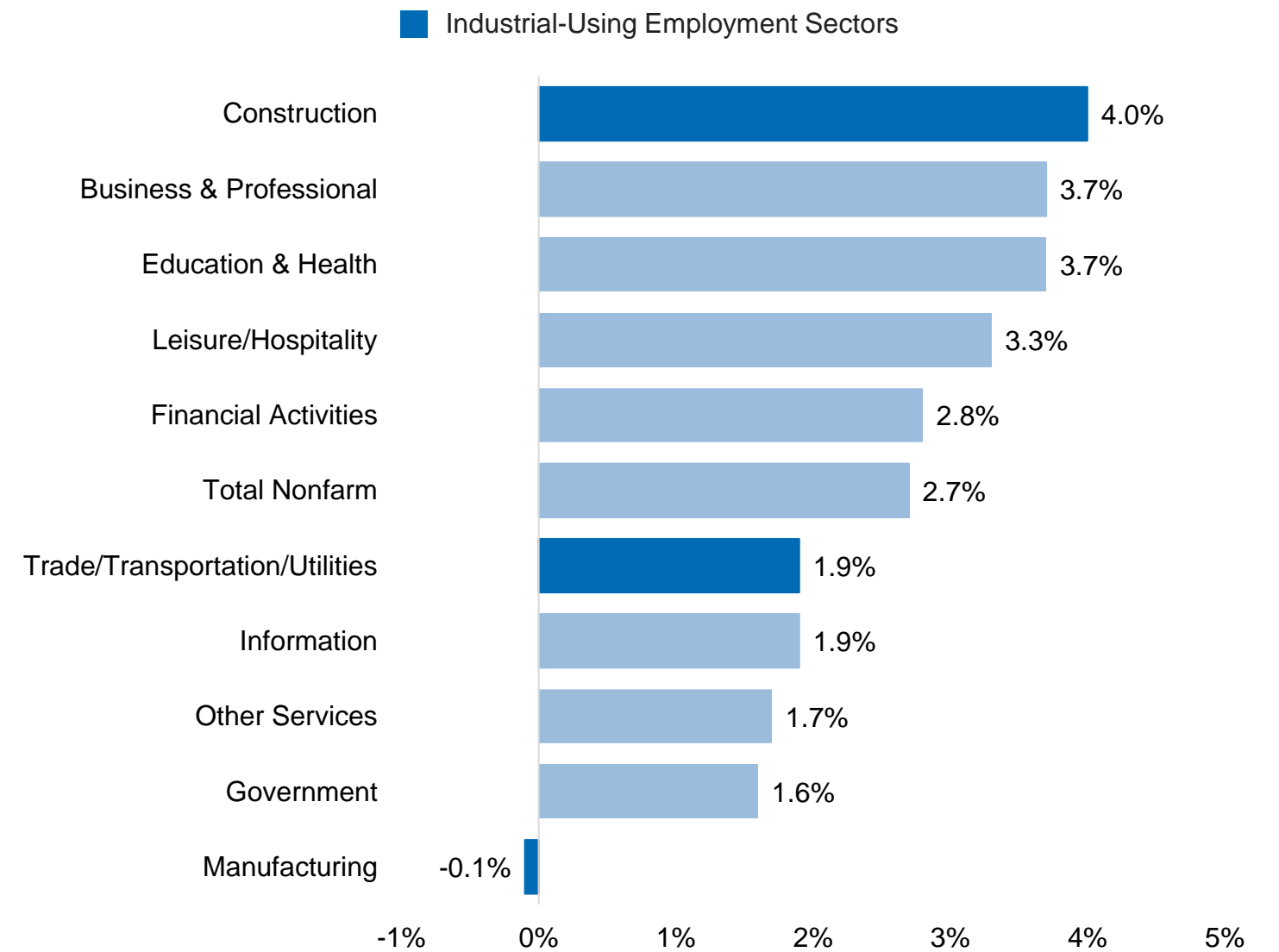
Job Growth Led by Construction as Industrial Fundamentals Hold Tight

The construction sector led all industries in regional annual job growth, underlining strength in the region's development pipeline. These job gains were realized despite persistently high inflation and interest rates, which typically have a negative impact on construction employment. Job growth in the manufacturing sector has slowed following a rapid increase during the pandemic; however, emerging interest in advanced manufacturing could lead to a shift in demand for these highly skilled workers.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

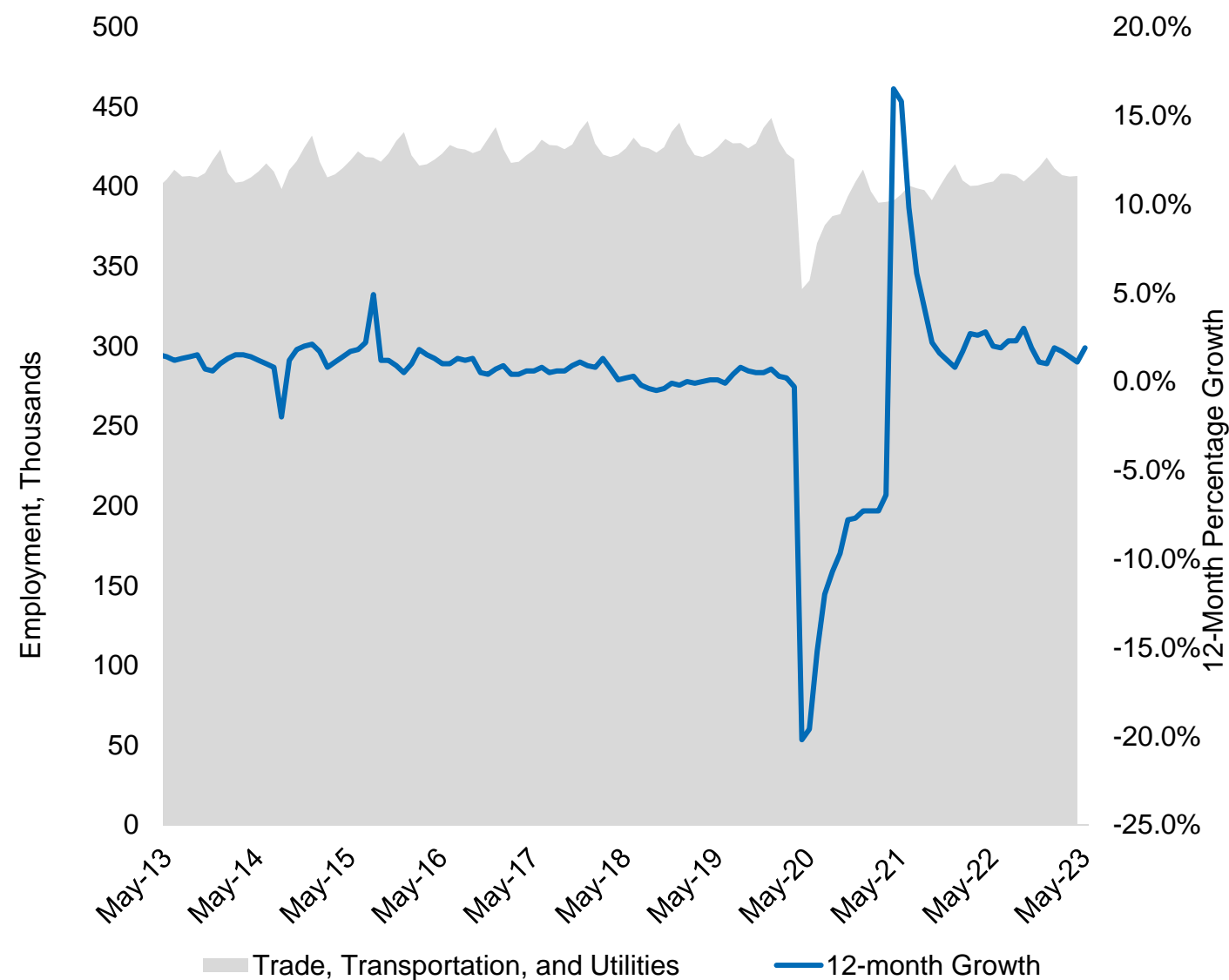


Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

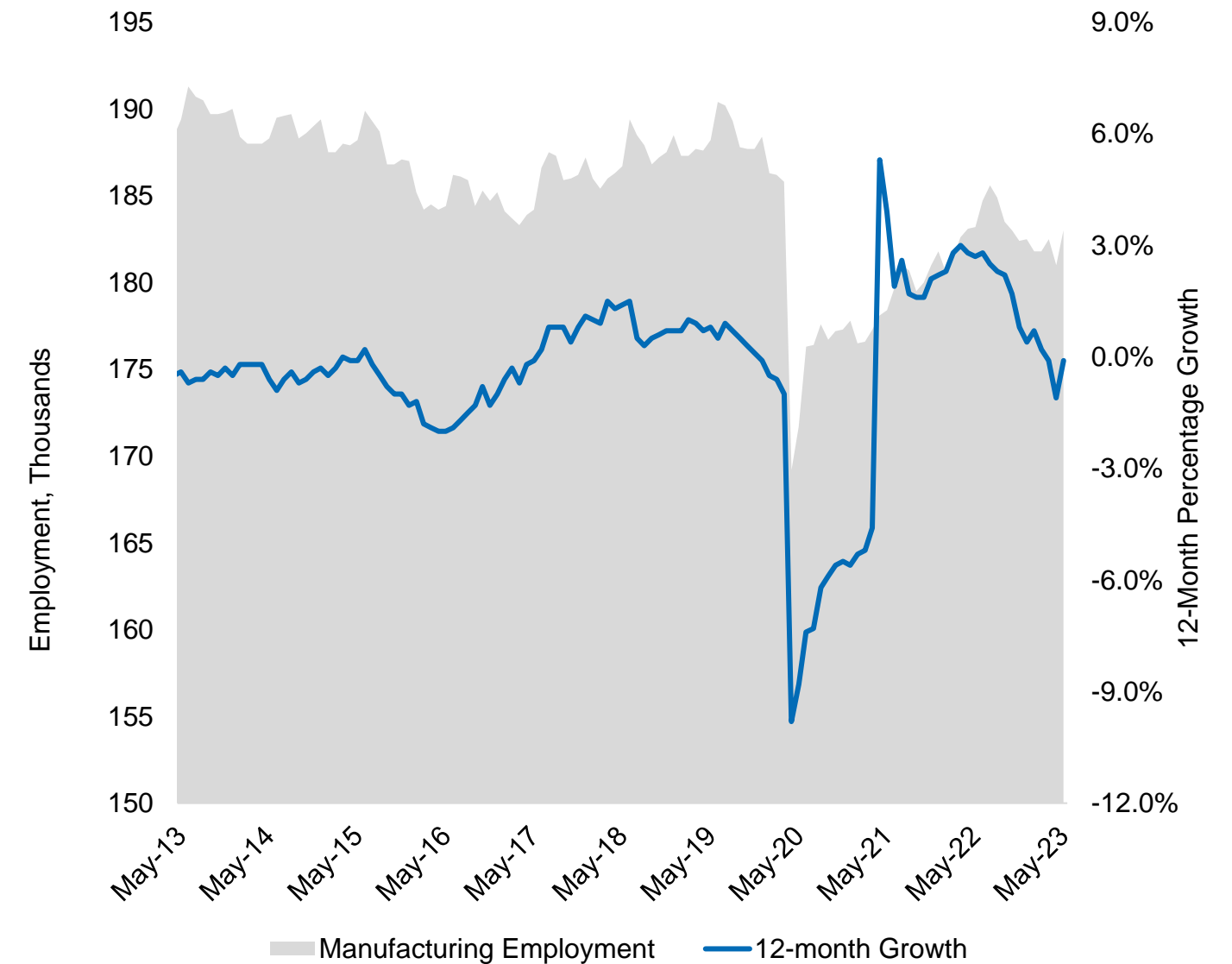
Industrial Employment Levels Out from Rapid Post-Pandemic Growth

The trade/transportation/utilities and manufacturing sectors have yet to regain all the jobs lost during the pandemic. Firms in these industries are recalibrating their workforce needs as the industrial market cools down. Although the manufacturing industry in the region has contracted over the last three quarters, the passage of three major national infrastructure bills in recent years will benefit domestic production, as well as manufacturing employment in the long term.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



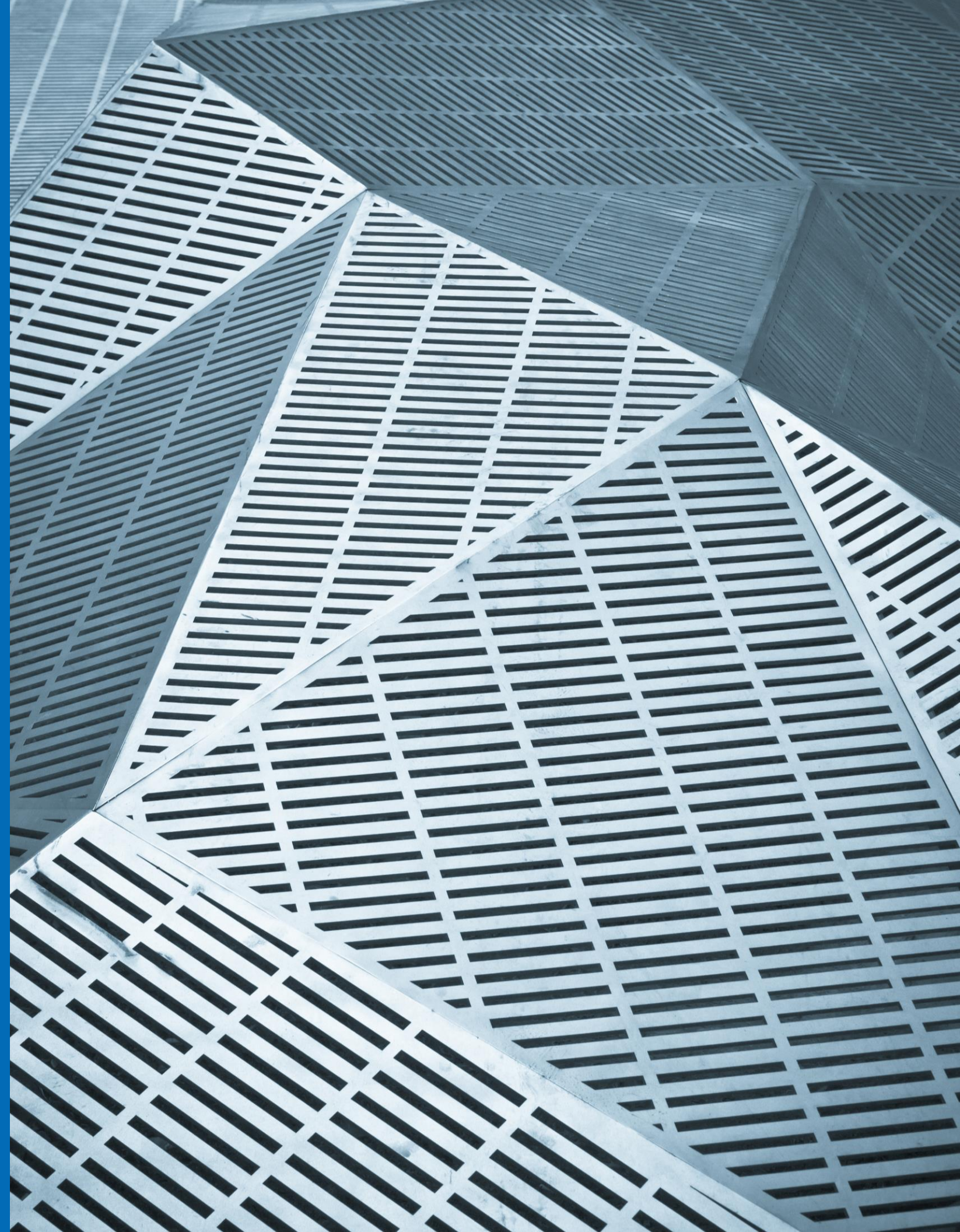
Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

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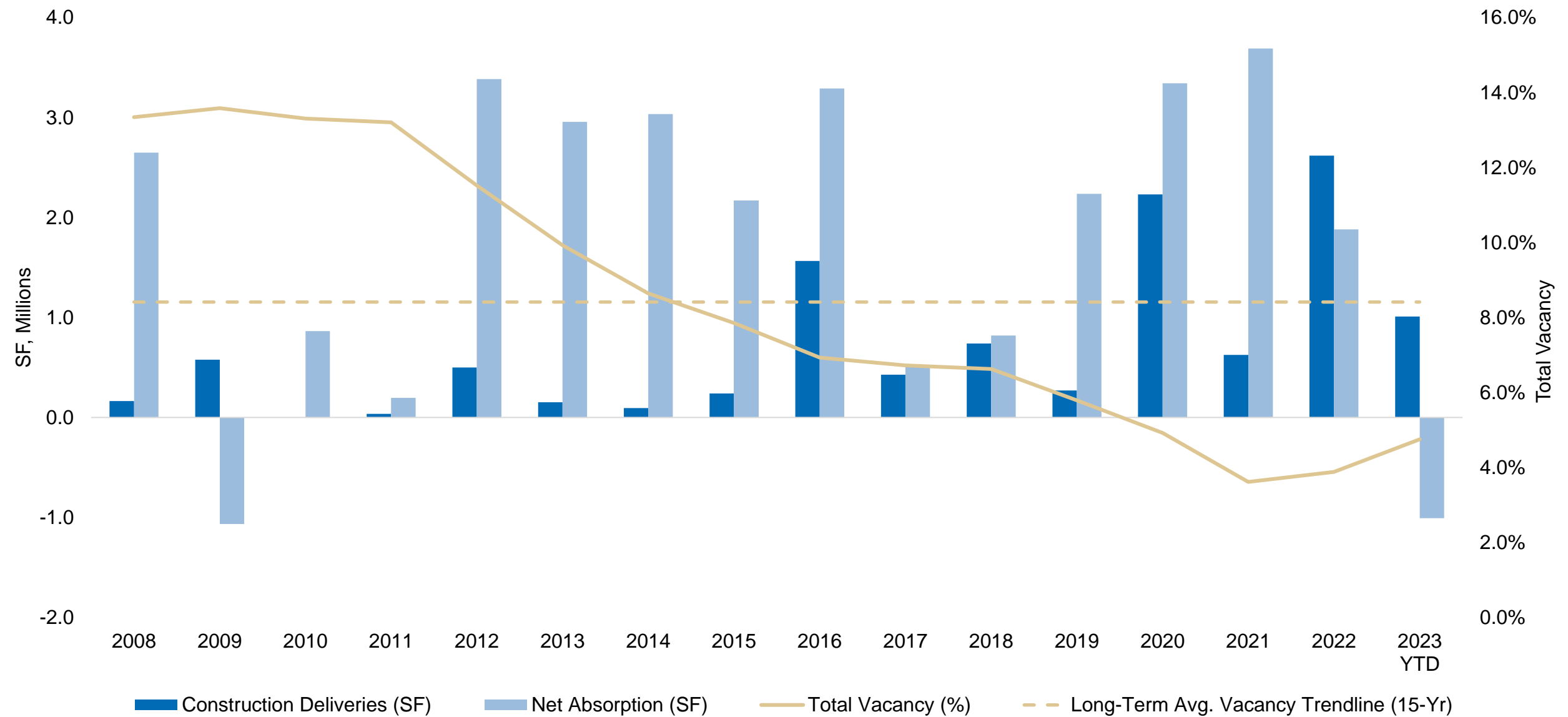
Leasing Market Fundamentals



Industrial Vacancies Tick Up as Market Growth Normalizes

Combined with the decrease in total net absorption and steady rents, growth within the Greater Boston industrial market is starting to slow. Speculative construction has outpaced current demand, leading to four consecutive quarters of rising vacancy. That said, fundamentals remain positive with vacancies well below historic norms.

Historical Construction Deliveries, Net Absorption, and Vacancy

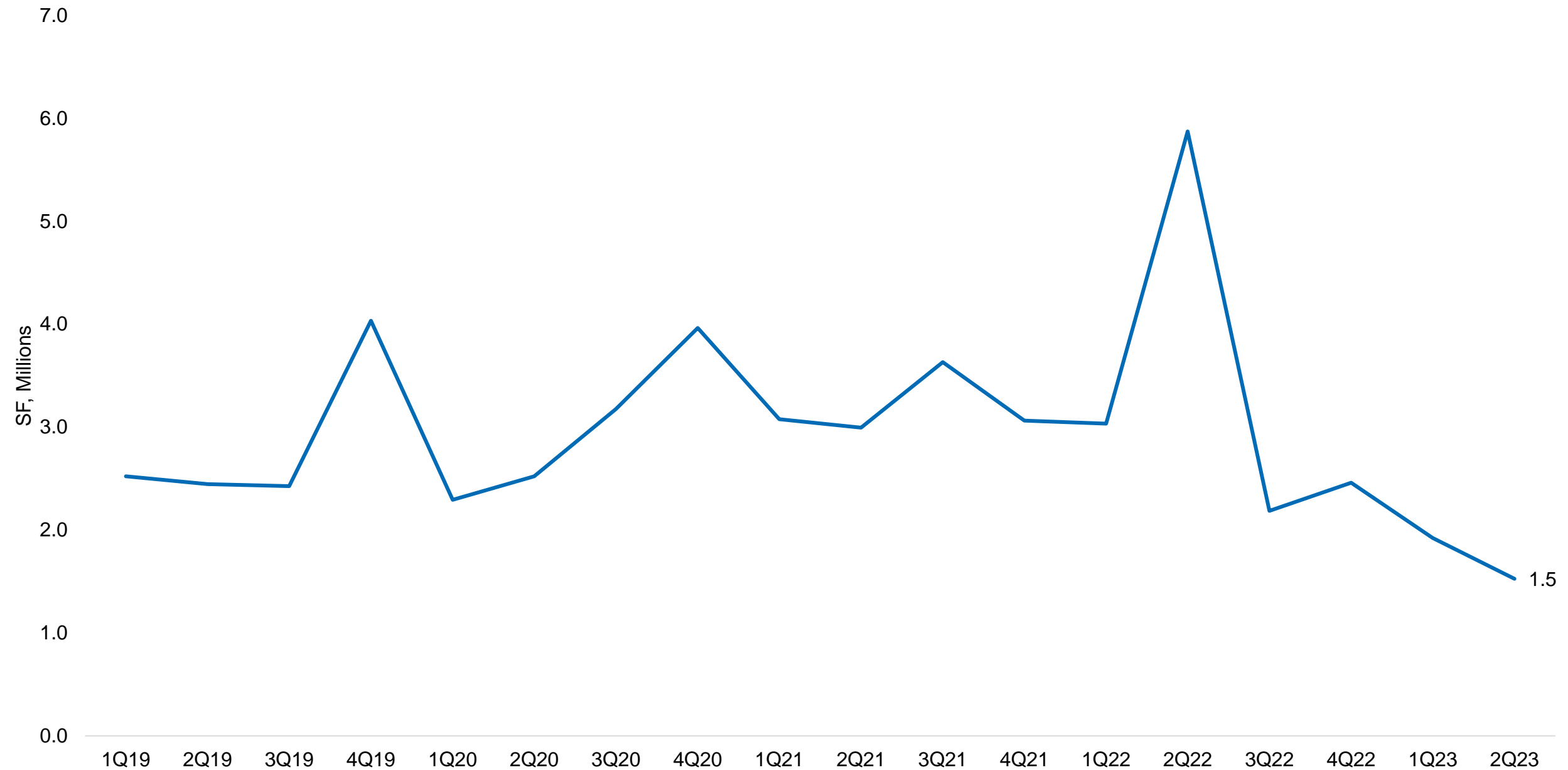


Source: Newmark Research

Industrial Leasing Activity Continues to Normalize to Pre-Pandemic Levels

After a surge in demand in 2022, some large tenant requirements went on hold leading to decelerated demand for industrial space during the second quarter of 2023. Given the uncertain macroeconomic environment and increasing available options, some tenants are slow to make long-term decisions.

Total Leasing Activity (SF)

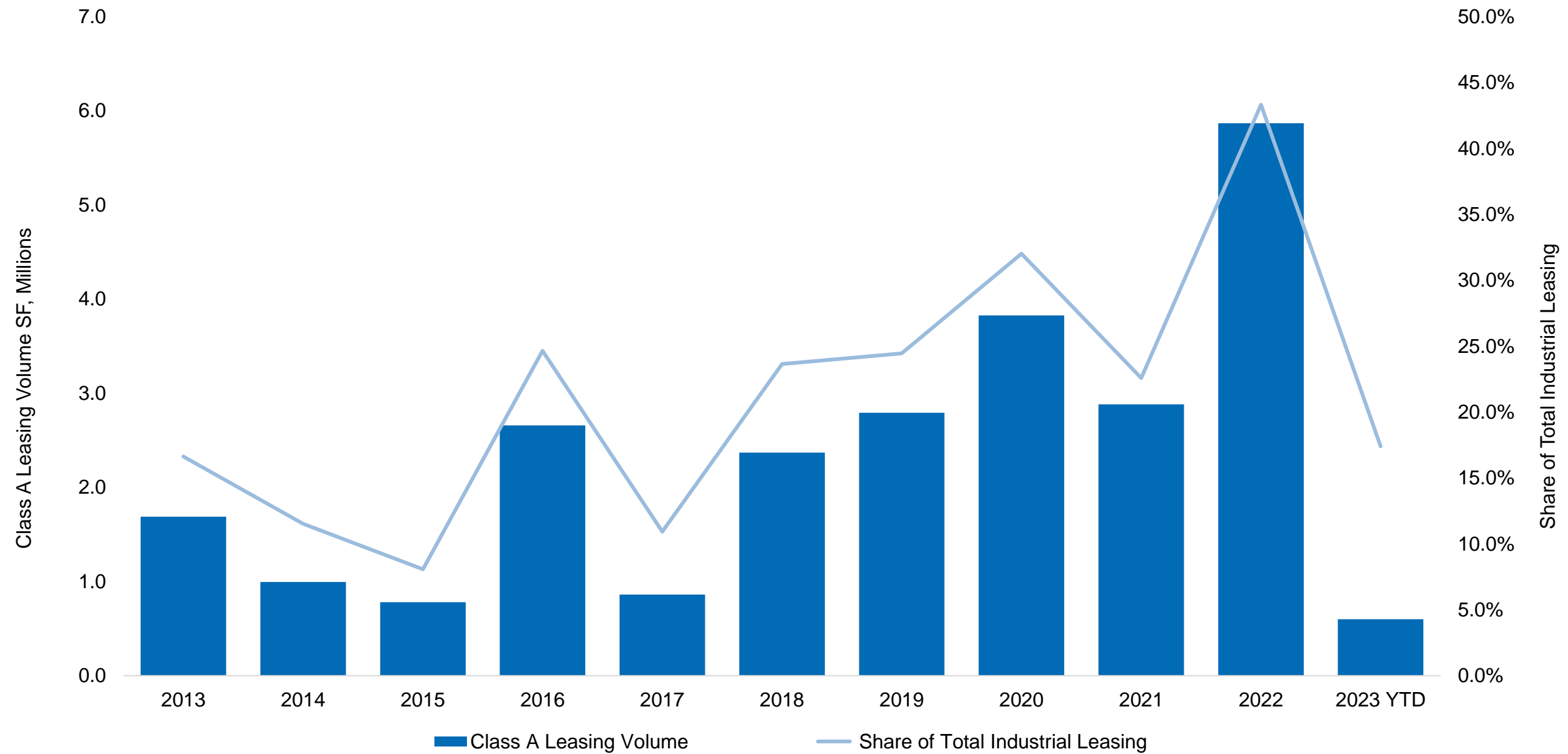


Source: Newmark Research, CoStar

Class A Warehouse Leasing Falls Back to Long-Term Average

Demand for high-quality Class A warehouse and distribution space has leveled off following a post-pandemic peak reached last year. This spike in leasing volume was largely attributed to Amazon signing a deal for a new 3.3-million-square-foot Class A warehouse facility in North Andover, accounting for nearly 60% of all Class A warehouse leasing activity in 2022. Class A warehouse leasing represented 17.4% of overall activity in the second quarter of 2023, down from a historic high of 43.3% but still in line with the pre-pandemic average.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

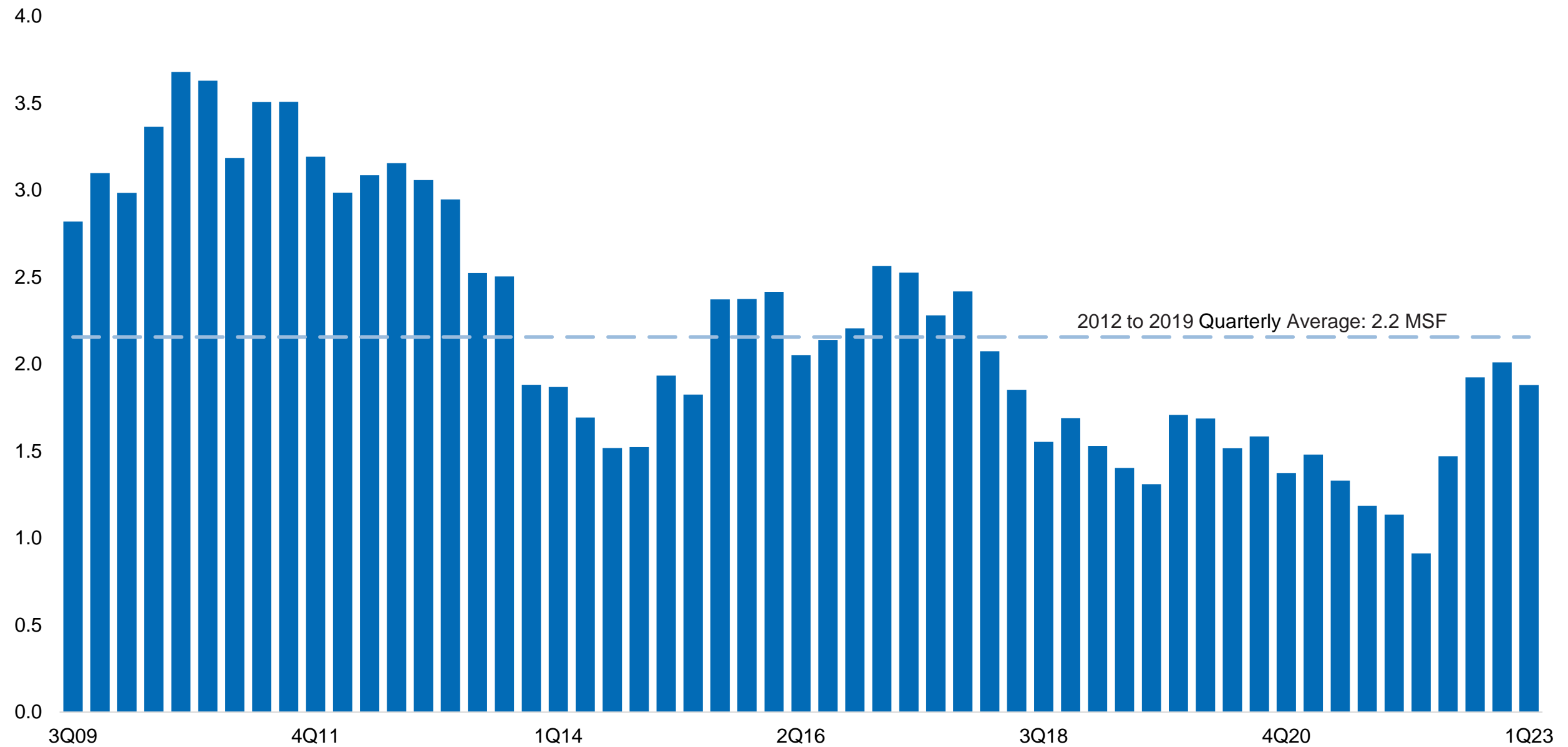


Source: Newmark Research, CoStar

Industrial Sublease Availability Remains Below Historical Average

Though sublease availabilities have picked up from levels charted during the height of the pandemic, they remain below the long-term historical average. Amazon accounts for a large portion of space currently available in the marketplace as the company has made significant pullbacks after rapidly expanding during the pandemic. This recent uptick in availability is reflective of a national trend with many companies reevaluating their space needs due to broader macroeconomic headwinds.

Available Industrial Sublease Volume (msf)

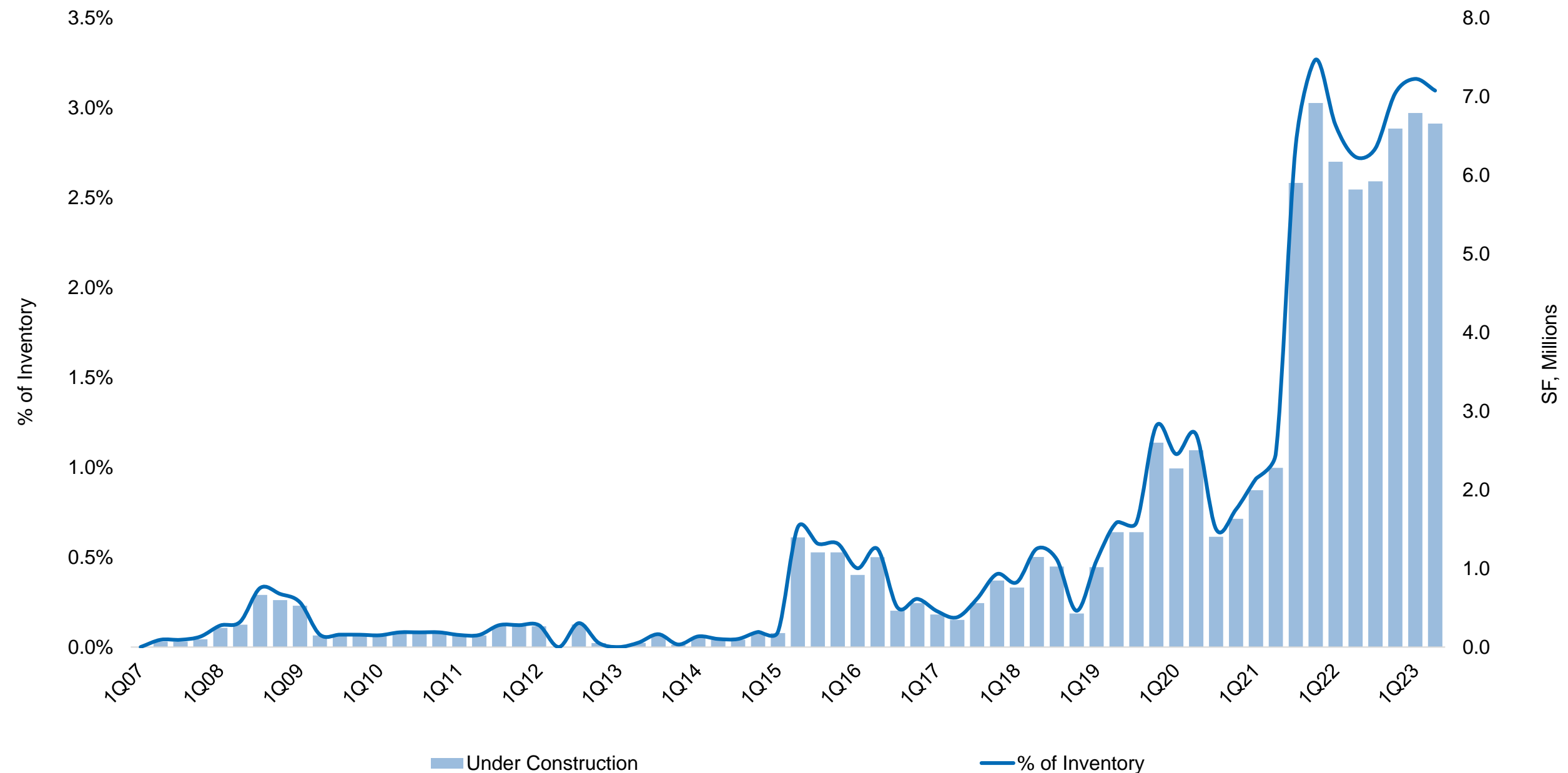


Source: Newmark Research, CoStar

Industrial Supply Pipeline Remains Near an All-Time High

The construction pipeline hovered near a historic high of just under 7.0 million square feet during the second quarter of 2023. The delivery of a 3.3-million-square-foot Amazon warehouse facility later this year will significantly impact the region's new construction inventory. Due to inflationary pressures, developers are faced with higher construction costs in an environment where receiving financing for speculative new builds has already proved challenging. As more construction starts are reevaluated or delayed, some recent deliveries are expected to be absorbed by strong tenant demand.

Industrial Under Construction and % of Inventory

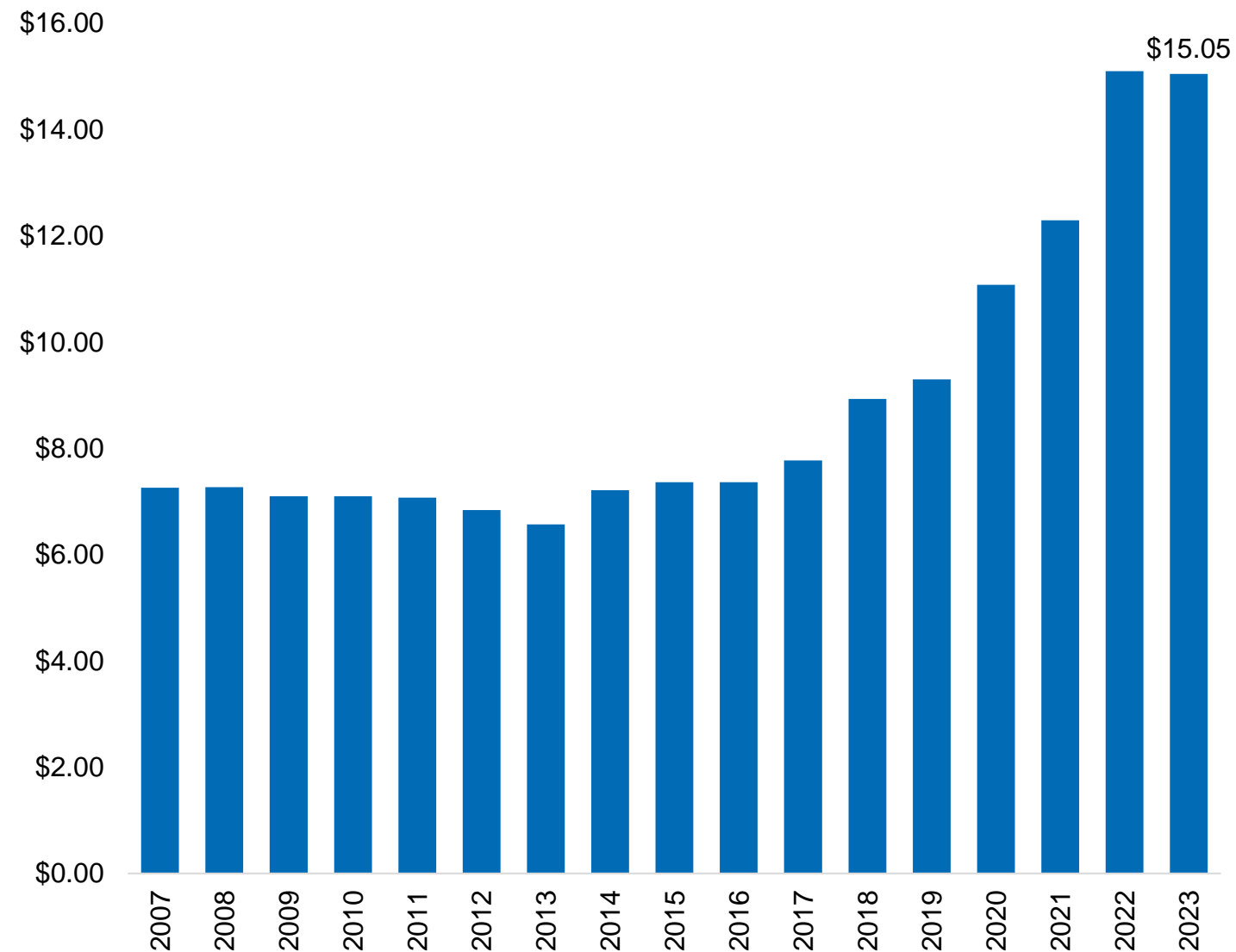


Source: Newmark Research, CoStar

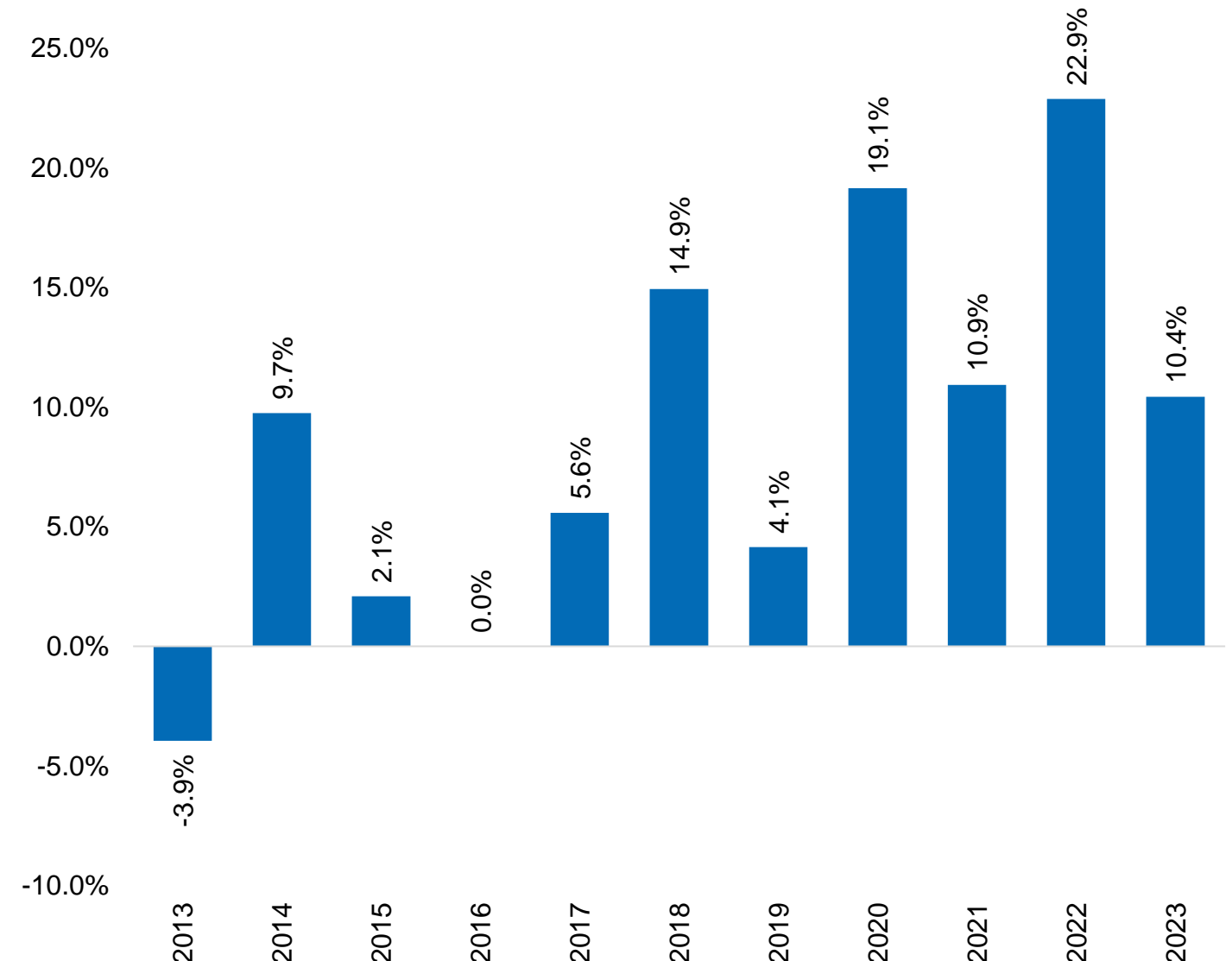
Have Industrial Asking Rents Peaked?

Industrial average asking rents grew by a record 22.9% over 2022 measures and have continued to hold throughout the first half of 2023. Rents in the Urban submarket experienced the greatest year-over-year increase and now top \$22.00/SF. Overall average asking rents are expected to experience some pressure for the remainder of the year as several new developments near completion.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Select Lease Transactions

Leasing activity moved at a slower pace than usual during the first half of 2023 after some large requirements were put on hold. Due to geographic constraints in the core Greater Boston submarkets, some tenants with larger space needs are being pushed beyond the traditional metro area. Though leases under 100,000 square feet have dominated activity this quarter, there were still some considerable deals that were executed throughout the metro.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Cardinal Health <i>In the largest lease registered in the region this quarter, the healthcare manufacturer and distributor expanded its area footprint.</i>	80 Pine Hill Drive, Boylston	Worcester County	Direct New	316,694
Electric Hydrogen Co. <i>The clean energy startup leased the entire newly constructed manufacturing facility.</i>	33 Jackson Road, Devens	West	Direct New	187,236
The GEM Group <i>The branded products supplier signed a new lease to occupy the entire warehouse/distribution facility.</i>	91 Glenn Street, Lawrence	North	Direct New	91,333
Compass Packaging Solutions <i>The packaging company renewed the lease on its existing premises at the warehouse facility and expanded to occupy a total of 62,874 square feet.</i>	159 Rangeway Road, Billerica	North	Lease Renewal/Expansion	62,874
Daltile Distribution <i>The stone and tile company has extended its lease and will continue occupying the entire industrial facility.</i>	345 University Ave, Westwood	South	Lease Extension	36,000

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