

Suburban Boston Industrial MarketView

Q1 2014

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter.

GREATER BOSTON INDUSTRIAL MARKET CONTINUES TO TIGHTEN, DEMAND STILL STRONG

Quick Stats

Q1 2014	Current	Y-o-Y	Q-o-Q
Vacancy	15.0%	↓	↑
Lease Rate (NNN)	\$6.82	↑	↑
Net Absorption	492,246 sq. ft.	↑	↓

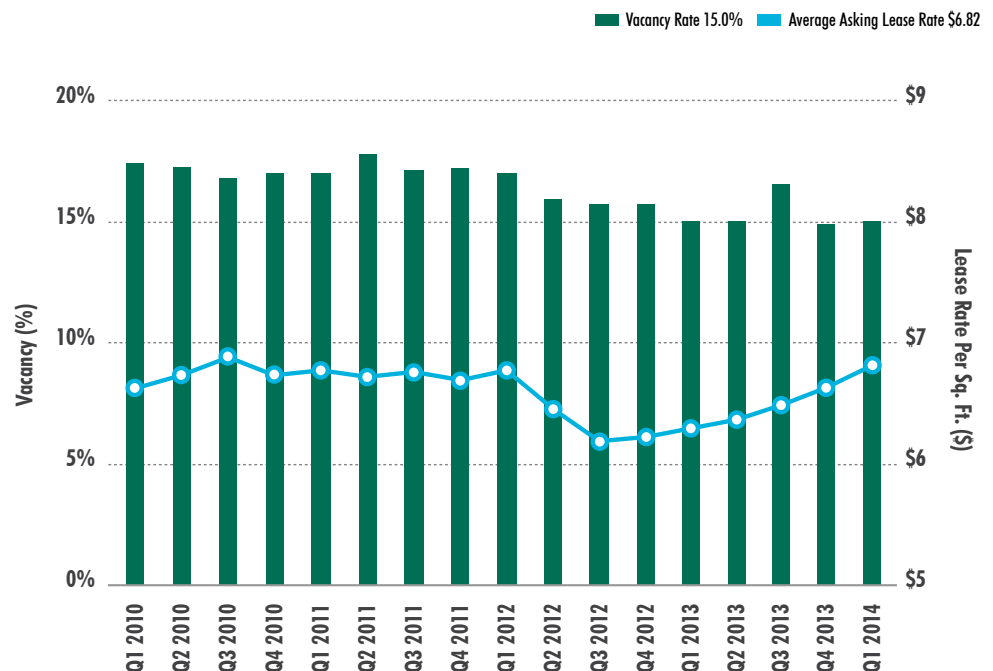
Hot Topics

- Fourteen consecutive quarters of positive traction in the Greater Boston Industrial market
- Pre-recession rent levels achieved
- Affordable Interior Systems executed the largest lease of the quarter, taking all 589,000 sq. ft. at 25 Tucker Drive in Leominster

Demand for industrial space in Greater Boston remains strong in the New Year, as completed deals led to 492,000 sq. ft. of positive net absorption in the first quarter of 2014, the fourteenth consecutive quarter of positive traction. This continued to add to the downward trend in vacancy and availability, down 10 and 190 basis points (bps) year-over-year, respectively. This pushed overall asking rents up \$0.17 per sq. ft. quarter-over-quarter and \$0.56 year-over-year to \$6.82 NNN, the highest point seen in five years.

Leading the way this quarter was the Metro West, which posted over 600,000 sq. ft. of positive net absorption, pushing vacancy and availability rates down 200 bps each quarter-over-quarter to pre-recession levels. This was primarily a result of Affordable Interior Systems leasing the entirety of 25 Tucker Drive, Leominster in the Route 495 – Route 2 West submarket, which resulted in 589,000 sq. ft. of positive net absorption.

Figure 1: Industrial Vacancy vs. Lease Rate



Source: CBRE Research, Q1 2014.

Metro North

- The Metro North Industrial market was relatively flat in the first quarter of 2014, posting negative net absorption of 155,000 sq. ft. Positive deal activity this quarter in the Metro North was offset by negative net absorption in the Route 128 – North submarket, a result of US Foods returning a large block of space to the market. Overall asking rents in the Metro North continue to trend positively as well, up \$0.22 quarter-over-quarter and \$0.53 year-over-year to \$7.88 per sq. ft., the highest point since the first quarter of 2012.
- Restaurant Depot completed the purchase of 146 Dascomb Road in Andover last quarter, a 274,000 sq. ft. asset that sold for \$10.5 million (\$38 per sq. ft.). Restaurant Depot announced this quarter that they would retain 86,000 sq. ft. for their own use and put the additional 188,000 sq. ft. on the market for sale as industrial office condos.
- Other transactions of note include Winstanley Enterprise's sale of 1001 Pawtucket Boulevard, Lowell to Farley White Management Company for \$15.5 million (\$19 per sq. ft.), with Rapid Micro Biosystems' then leasing 40,000 sq. ft. within the building. Additionally, RCG purchased the 383,000 sq. ft. R&D/flex facility at 1 High Street in North Andover for \$15.0 million (\$39 per sq. ft), and Asahi/America completed its acquisition of the 197,000 sq. ft. warehouse and office facility at 655 Andover Street in Lawrence for \$11.5 million (\$58 per sq. ft.).
- Despite the lack of large lease transactions in the first quarter, investment sale activity in the Metro North remains strong and overall asking rents continue to trend positively. As is to be expected, a number of large deals closed in the fourth quarter of 2013 as tenants sought to have their new leases squared away before the year end. Activity in the Metro North Industrial market is expected to pick up in the coming months, with a number of pending deals teed up to close during the second quarter.

Metro West

- The Metro West led all industrial markets in the Greater Boston area in the first quarter of 2014, posting 614,000 sq. ft. of positive net absorption, the seventh consecutive quarter of positive traction. This pushed vacancy and availability down 200 bps quarter-over-quarter to 15.4% and 18.1%, respectively. This represents the eleventh consecutive quarter that overall vacancy

has declined in the Metro West, and the tightest the market has been since the third quarter of 2003. Both vacancy and availability are at pre-recession lows.

- Driving the positive net absorption was Affordable Interior Systems' 589,000 sq. ft. lease of 25 Tucker Drive in the Route 495 – Route 2 West submarket, which posted 649,000 sq. ft. of positive net absorption in the first quarter of 2014, the largest positive swing since the second quarter of 2005. This pushed vacancy and availability down by 780 and 860 bps to 22.4% and 25.3%, respectively, quarter-over quarter. This represents the tightest the Route 495 – Route 2 West submarket has been since the fourth quarter of 2006. Additionally, asking rents were pushed up \$0.33 quarter-over-quarter to \$5.26 per sq. ft., the highest point since the third quarter of 2011.

Metro South

- The Metro South Industrial market posted 139,000 sq. ft. of positive net absorption in the first quarter of 2014, its fifth consecutive quarter of positive traction. This pushed overall asking rents up slightly by \$0.05 quarter-over-quarter to \$5.58 per sq. ft. Availability rates continue to trend downward in the long term, down 230 bps year-over-year.
- The Route 495 – South submarket led the Metro South in the first quarter with 276,000 sq. ft. of positive net absorption, its fifth consecutive quarter of positive traction. This pushed vacancy down 380 bps year-over-year to just 10.6%, its lowest point in over a decade. Asking rents in the Route 495 – South submarket continued to trend positively, increasing \$0.67 per sq. ft. year-over-year to \$5.95 NNN, their highest point since the fourth quarter of 2008. With the end of the first quarter of 2014, the Route 495 – South submarket has returned to pre-recession levels.
- The largest transaction taking place this quarter in the Metro South Industrial market was Ajax Investment Partners' purchase of the 618,000 sq. ft. high-bay facility at 35 United Drive in West Bridgewater for \$13.8 million in February. This was followed by The Grossman Companies' and Calare Properties' purchase of the 165,000 sq. ft. industrial facility at 210 Grove Street in Franklin in March. Both properties are located in the Route 495 – South submarket.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Affordable Interior Systems	25 Tucker Drive, Leominster	589,000	Route 495 – Route 2 West	Lease
Equity Industrial	66 Atlas Street, Worcester	174,000	Worcester	Sale
Barrett Warehouse & Transportation	31 Plymouth Street, Mansfield	112,000	Route 495 – South	Renewal/Expansion
Caesarstone U.S.A.	675 Canton Street, Norwood	90,000	Route 128 – South	Lease
Saks Incorporated	20 Seyon Street, Waltham	50,000	Route 128 – West	Lease
Viking Group	60 Maple Street, Mansfield	41,000	Route 495 – South	Lease

Source: CBRE Research, Q1 2014.

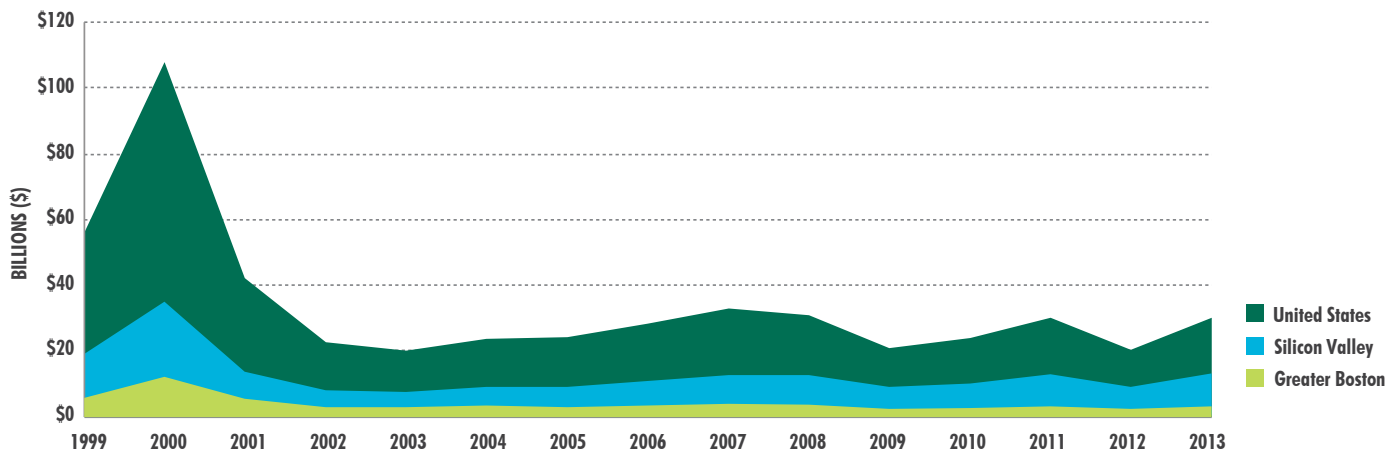
Figure 3: Market Statistics

Market	Rentable Area (sq. ft.)	Availability Rate %	Vacancy Rate %	Sublease Rate %	Quarterly Net Absorption (sq. ft.)	Avg. Asking Rent (\$/sq. ft./yr)
Urban	5,402,981	32.9%	32.3%	0.8%	(105,385)	\$11.00
Close-In Suburbs North	7,593,437	14.8%	13.1%	2.8%	(4,851)	\$7.61
Route 128 – North	22,451,599	15.8%	13.6%	0.9%	(388,834)	\$8.87
Route 495 – Northeast	11,286,869	27.2%	16.0%	2.4%	341,149	\$6.49
Route 3 – North	11,052,727	23.7%	21.9%	2.4%	(102,581)	\$7.23
Metro North	57,787,613	21.0%	17.3%	1.7%	(260,502)	\$8.61
Route 128 – South	28,911,069	17.6%	14.2%	1.5%	(137,171)	\$5.32
Route 495 – South	28,257,114	14.3%	10.6%	0.4%	275,732	\$5.95
Metro South	57,168,183	16.0%	12.4%	1.0%	138,561	\$5.58
Route 128 – West	2,863,724	13.4%	9.1%	0.0%	(8,000)	\$10.91
Framingham – Natick	3,327,169	14.1%	12.5%	0.0%	(3,878)	\$7.07
Route 495 – Route 2 West	7,483,482	25.3%	22.4%	1.0%	648,850	\$5.26
Route 495 – Mass Pike West	14,489,111	16.2%	13.7%	2.3%	(22,785)	\$6.85
Metro West	28,163,486	18.1%	15.4%	1.5%	614,187	\$6.42
Overall Total Industrial	143,119,282	18.4%	15.0%	1.4%	492,246	\$6.82

Source: CBRE Research, Q1 2014.

Figure 4: Economic Conditions – Venture Capital Funding

- In the first quarter of 2014 Massachusetts companies raised \$899 million in venture capital funding—an increase of nearly 50% compared to the same period last year. While health care has consistently dominated Massachusetts’ share of VC funding, the Internet sector topped health care for the first time in five quarters as reported by CB Insights.
- Greater Boston is second only to Silicon Valley in receiving VC funds in the United States. Boston and Silicon Valley attract the most VC funding of any region in the U.S., accounting for 52% of the nation’s investments.
- In 2013, companies in Greater Boston received \$3.3 billion in VC funding. This is \$92 million more than all the companies in the NY Metro area combined.
- Software and biotechnology continue to be the largest sectors for dollars invested in the U.S. in 2013.

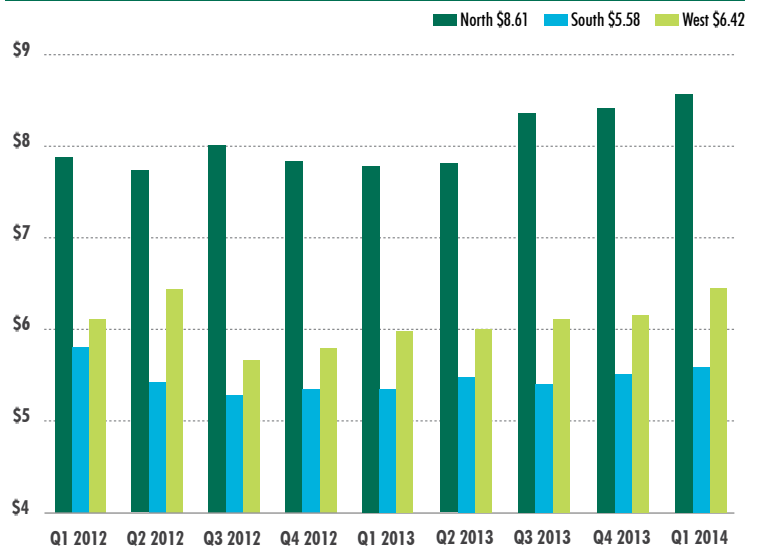


Source: PWC MoneyTree and CB Insights.

Average Asking Rents

- The Greater Boston Industrial market saw continued upward pressure on rents across all submarkets in the first quarter of 2014, rising \$0.17 quarter-over-quarter to \$6.82, its highest point since the first quarter of 2009. This was a result of heightened demand from industrial users purchasing property combined with tightening supply. Consistent with first quarter absorption, rent growth was primarily driven by the Metro West submarket. The Metro West posted 614,000 sq. ft. of positive net absorption in the first quarter, pushing rents up \$0.28 quarter-over-quarter to \$6.42. The Metro North and South submarkets saw rents increase by \$0.17 and \$0.05 overall, to \$8.61 and \$5.58, respectively.

Figure 5: Average Asking Lease Rates

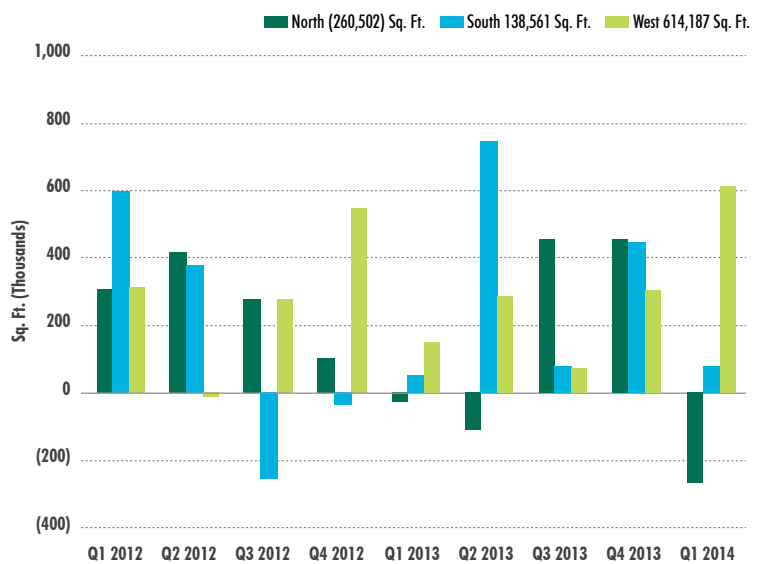


Source: CBRE Research, Q1 2014.

Net Absorption

- Overall absorption in the Greater Boston Industrial market was down from the fourth quarter of 2013, but still maintained a healthy 492,000 sq. ft. of positive net absorption in the first quarter of 2014, the fourteenth consecutive quarter of positive traction. The Metro West led all industrial markets with 614,000 sq. ft. of positive net absorption in the first quarter. This was driven by the Route 495 – Route 2 West submarket, posting 649,000 sq. ft. of positive net absorption. The main contributor to this strong positive net absorption was Affordable Interior Systems’ lease of the 589,000 sq. ft. high-bay facility at 25 Tucker Drive in Leominster. The Metro South and North Industrial markets posted positive 139,000 and negative 261,000 sq. ft. of net absorption in the first quarter, respectively.

Figure 6: Net Absorption



Source: CBRE Research, Q1 2014.

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.

Net 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.

Market Coverage

Includes all competitive buildings in CBRE's survey set.

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.



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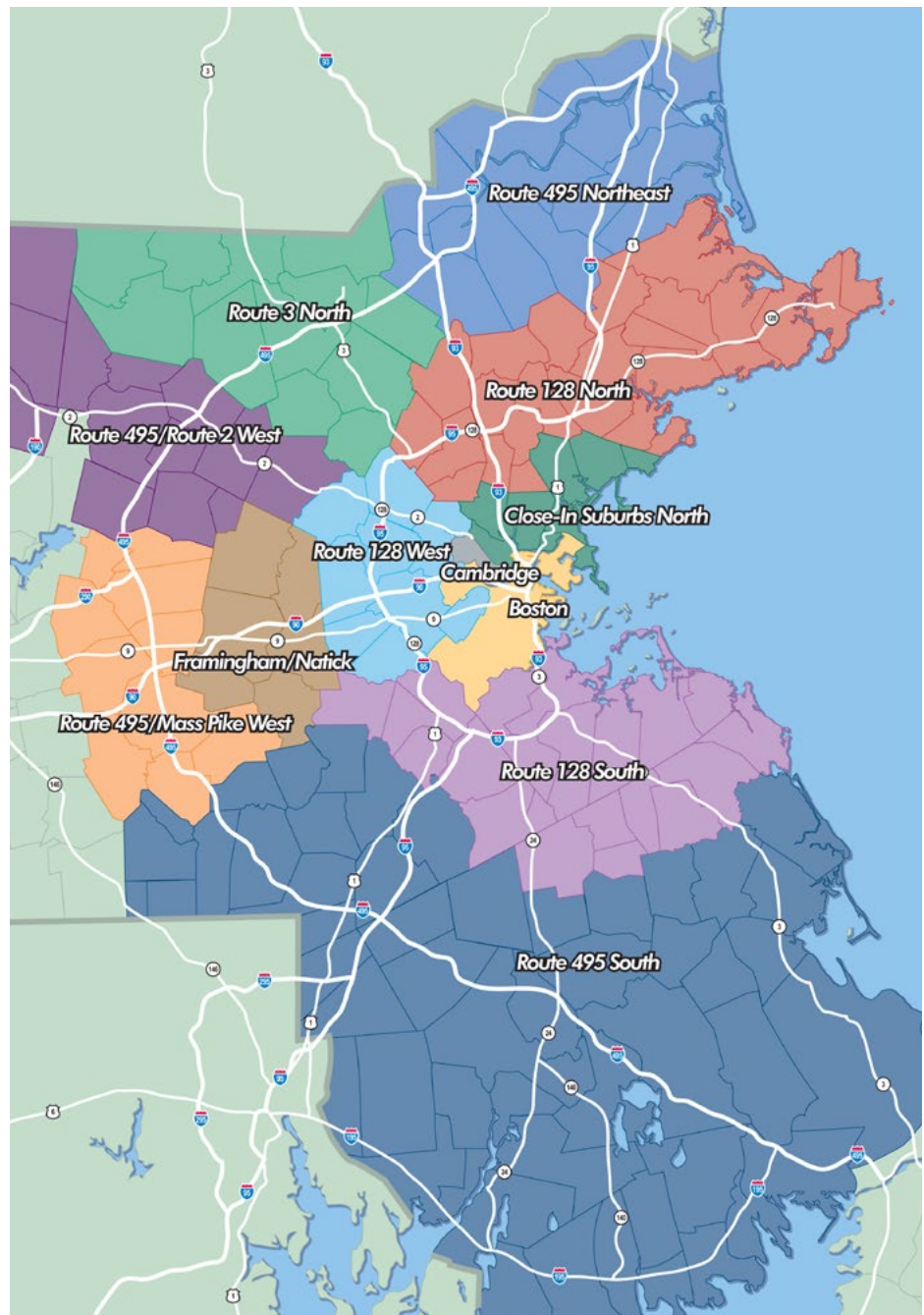
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GREATER BOSTON SUBMARKETS



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