

Suburban Boston Industrial MarketView

Q3 2014

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter.

ACTIVITY CONTINUES TO BE STRONG AS THE GREATER BOSTON INDUSTRIAL MARKET TIGHTENS, WITH 16 CONSECUTIVE QUARTERS OF POSITIVE TRACTION

Quick Stats

Q3 2014	Current	Y-o-Y	Q-o-Q
Vacancy	14.6%	↓	↑
Lease Rate (NNN)	\$6.83	—	—
Net Absorption	(171,401) sq. ft.	↓	↑

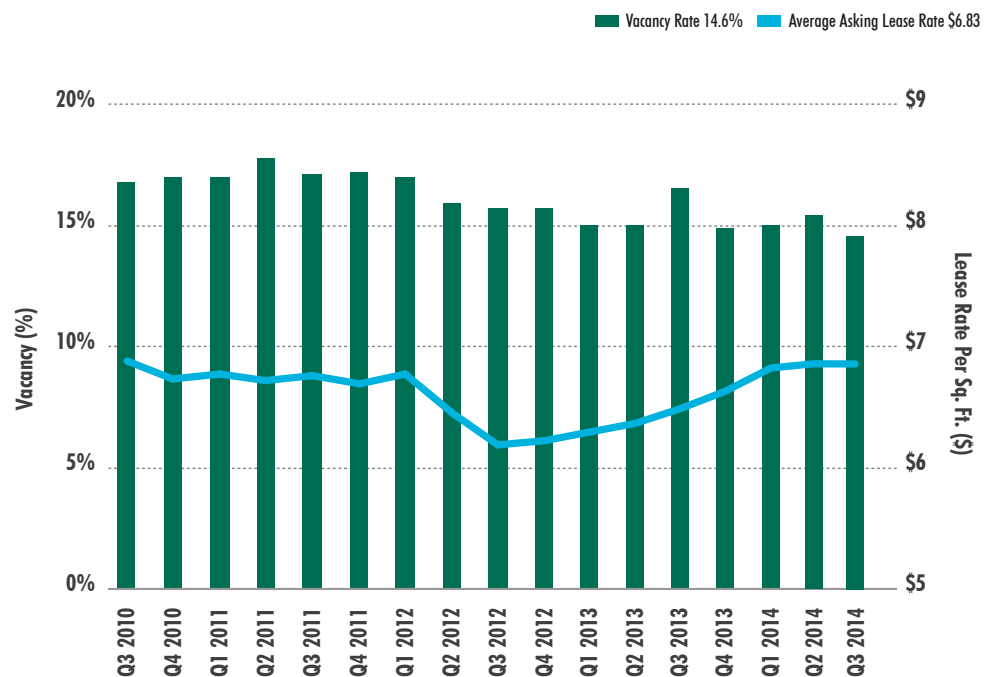
Hot Topics

- Construction on a new 200,000 sq. ft. build-to-suit warehouse for Sullivan Tire is underway by the Maggiore Companies in Taunton
- Activity picks up in the Metro South Industrial market
- Four years of consecutive positive traction

The Greater Boston Industrial market saw 751,000 sq. ft. of positive absorption in the third quarter of 2014, its sixteenth consecutive quarter of positive traction. This pushed vacancy down 90 basis points quarter-over-quarter to 14.6%, its lowest point since the fourth quarter of 2007. Likewise, average asking rents increased slightly to \$6.83 NNN per sq. ft.

The positive traction in the Industrial market was led by the Metro South market, which posted 557,000 sq. ft. of positive absorption. The Metro West market trailed only slightly, experiencing 201,000 sq. ft. of positive traction. The Metro North market was flat in the third quarter, recording just 18,000 sq. ft. of positive absorption. Vacancy declined across all three markets.

Figure 1: Industrial Vacancy vs. Lease Rate



Source: CBRE Research, Q3 2014.

Metro North

- The Metro North Industrial market saw just 18,000 sq. ft. of positive traction in the third quarter of 2014. Despite this relatively flat absorption, vacancy and availability both declined to 15.9% and 19.2%, respectively. Sacks Exhibits, designer of three-dimensional trade show exhibits, completed the largest new lease and will occupy 90,000 sq. ft. at 44 Lowell Junction Road in Andover. Average asking rents were flat in the third quarter, ending the quarter at \$7.90 per sq. ft.
- All submarkets in the Metro North were relatively flat in the third quarter; the Route 3 – North submarket led the way with 76,000 sq. ft. of positive absorption. Eastern Bag & Paper Company completed the largest transaction in the North, renewing 153,000 sq. ft. at 65 Sunnyslope Avenue in Tewksbury. Evoqua Water Technologies will open a new location at 558 Clark Road in Tewksbury, occupying 66,000 sq. ft. Quarter-over-quarter availability is down 60 basis points to 21.1% and average asking rents are up slightly (\$0.03 per sq. ft.) to \$8.51 NNN per sq. ft., the highest point since the first quarter of 2012.
- Despite OSRAM SYLVANIA vacating 157,000 sq. ft. at 100 Endicott Street in Danvers, activity in the Route 128 North market was steady, as a number of mid- to large-size deals were finalized. U-Haul purchased the 148,000 sq. ft. facility at 31 Olympia Avenue in Woburn for \$11.5 million (approximately \$77 per sq. ft.). Iron Mountain leased 36,000 sq. ft. at 21 Terry Avenue in Burlington and F3 expanded by 28,000 sq. ft. at 46 Jonspin Road in Wilmington.

Metro West

- The Metro West Industrial market saw 201,000 sq. ft. of positive absorption in 3Q 2014, the ninth consecutive quarter of positive traction, mainly driven by small- to mid-size requirements. As a result, availability and vacancy decreased by 100 and 70 basis points quarter-over-quarter to 16.9% and 15.1%, respectively.
- The Route 495 – Route 2 West submarket led all submarkets in the Metro West, posting 268,000 sq. ft. of positive absorption. This pushed availability and vacancy down by 360 basis points each quarter-over-quarter to 23.6% and 21.3%, respectively. This is a result of a few mid-size deals, with the largest transaction being Curriculum Associates' lease of 80,000 sq.

ft. at 1 Littleton Distribution Center in Littleton. Curriculum Associates will relocate from 52,000 sq. ft. in Billerica.

- Other notable transactions in the West in 3Q 2014 included Launch Trampoline Park's lease at 20 Seyon Street in Waltham. The trampoline park and family entertainment center will occupy 37,000 sq. ft. of the facility. Partners Pharmacy of Massachusetts leased an additional 18,000 sq. ft. at 165-181 Cedar Hill Street and will now occupy a total of 26,000 sq. ft.

Metro South

- The Metro South Industrial market led all other markets in Q3 2014, posting 558,000 sq. ft. of positive absorption, its seventh consecutive quarter of positive traction. Vacancy declined 150 basis points quarter-over-quarter to just 12.0%, the lowest point in over a decade. The tightening fundamentals are a result of numerous mid- to large-size deals being finalized and demand continuing to strengthen in 3Q 2014. Restoration Hardware inked the largest transaction in the South, with a deal to lease 118,000 sq. ft. at 480 Sprague Street in Dedham.
- The Route 128 – South submarket led the way in the Metro South with 308,000 sq. ft. of positive traction in the third quarter. Leading the activity was Uni-Select USA, a distributor of automotive parts, leasing 104,000 sq. ft. at 57 Littlefield Street in Avon. Equal Exchange, a for-profit cooperative for small-scale farmers, will relocate from West Bridgewater and lease 80,000 sq. ft. at 15 Campanelli Circle in Canton. This activity pushed availability down 140 basis points quarter-over-quarter to 15.7%, its lowest point since the third quarter of 2007. Average asking rents were up \$0.19 per sq. ft. to \$5.52 NNN per sq. ft.
- The Route 495 – South submarket saw 250,000 sq. ft. of positive absorption in the third quarter. Boston International completed the largest transaction, leasing 110,000 sq. ft. at 210 Grove Street in Franklin. Vacancy declined 190 basis points quarter-over-quarter to 10.6%, the lowest point in over a decade.
- The first new industrial construction in years is underway as The Maggiore Companies builds a 200,000 sq. ft. warehouse on a 15-acre parcel at Myles Standish Industrial Park in Taunton. Sullivan Tire will house its call center, office and warehouse operations at the property, while employing about 100 people in the building.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Lagasse Inc.	33 Suffolk Road	159,000	Route 495 – South	Renewal
Eastern Bag & Paper Company	65 Sunnyslope Avenue	153,000	Route 3 – North	Renewal
Restoration Hardware	480 Sprague Street	119,000	Route 128 – South	New
Uni-Select USA	57 Littlefield Street	104,000	Route 128 – South	New
Sacks Exhibits	44 Lowell Junction Road	90,000	Route 495 – Northeast	New
Kuehne & Nagel	12 Forge Park Road	83,000	Route 495 – South	Renewal
Curriculum Associates, Inc.	1 Littleton Distribution Center	80,000	Route 495/Route 2 – West	New

Source: CBRE Research, Q3 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	4,937,292	26.8%	26.5%	1.9%	(25,980)	\$10.22
Close-In Suburbs North	7,593,437	13.7%	13.4%	2.8%	22,349	\$8.23
Route 128 – North	22,451,599	16.1%	13.8%	0.9%	(845)	\$9.19
Route 495 – Northeast	11,283,469	27.3%	17.9%	0.2%	(78,981)	\$5.67
Route 3 – North	11,415,588	21.1%	19.9%	1.5%	75,858	\$8.51
Metro North	57,681,385	19.9%	16.8%	1.2%	(7,599)	\$8.36
Route 128 – South	28,892,814	15.7%	13.5%	1.1%	308,238	\$5.52
Route 495 – South	28,441,826	14.3%	10.6%	0.6%	249,526	\$5.70
Metro South	57,334,640	15.0%	12.0%	0.8%	557,764	\$5.61
Route 128 – West	2,863,724	9.6%	9.1%	0.0%	51,791	\$13.13
Framingham – Natick	3,327,169	15.8%	11.7%	0.0%	(5,789)	\$7.17
Route 495 – Route 2 West	7,495,059	23.6%	21.3%	1.0%	268,479	\$5.08
Route 495 – Mass Pike West	14,489,111	15.2%	13.8%	3.2%	(113,221)	\$6.94
Metro West	28,175,063	16.9%	15.1%	1.9%	201,260	\$6.41
Overall Total Industrial	143,191,088	17.3%	14.6%	1.2%	751,425	\$6.83

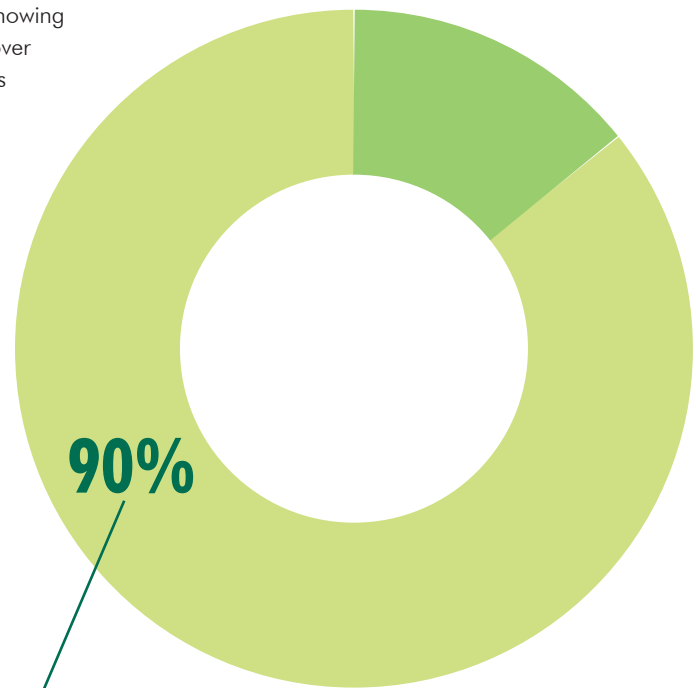
Source: CBRE Research, Q3 2014.

Figure 4: Economic Trends – Massachusetts Merchandise Exports

The United States Department of Commerce released new data for 2013 showing exports in the Greater Boston MSA totaled \$22.2 billion, a 4.6% increase over 2012. This \$978 million growth in exports from 2012 makes Massachusetts the fourteenth largest export market in the U.S. These merchandise exports in Massachusetts were supported by more than 118,000 jobs. The largest export sectors from Greater Boston in 2013 were computer and electronic products (\$7.6 billion); miscellaneous manufactured commodities (\$2.7 billion); machinery, except electrical (\$2.5 billion); chemicals (\$2.2 billion); and transportation equipment (\$952 million). As more than 95% of the world’s customer base is located outside of the U.S., companies of all sizes continue to explore the benefits of exporting world-class products made by American businesses.

7,231 COMPANIES EXPORTED FROM BOSTON MSA IN 2011 (LATEST AVAILABLE)

THE SMALL-MEDIUM BUSINESS SHARE OF BOSTON MSA EXPORTERS IN 2011 (<500 EMPLOYEES)



Source: U.S. Department of Commerce

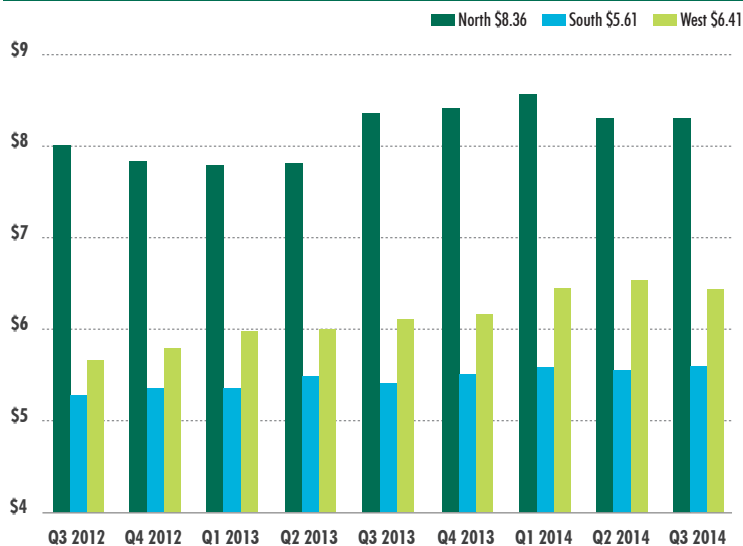
Average Asking Rents

Average asking rents in the Greater Boston Industrial market were relatively flat in the third quarter of 2014, up \$0.02 quarter-over-quarter to \$6.83 NNN per sq. ft. This represents a \$0.28 per sq. ft. increase year-over-year and the highest point achieved since 2009. Leading all other markets, the Metro South saw average asking rents increase \$0.05 per sq. ft. to \$5.61 NNN per sq. ft. in the third quarter. The Metro North and West saw average asking rents decline by \$0.01 per sq. ft. and \$0.11 per sq. ft. to \$7.90 and \$6.41 NNN per sq. ft., respectively.

Net Absorption

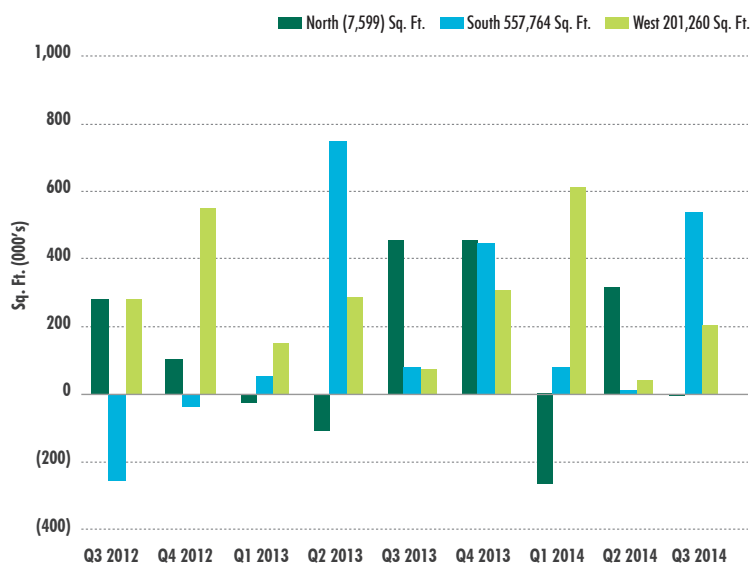
The Greater Boston Industrial market posted 751,000 sq. ft. of positive absorption in the third quarter, the sixteenth consecutive quarter of positive traction. This was led by the Metro South market posting 558,000 sq. ft. of positive absorption. Within the Metro South market, both the Route 128 – South and Route 495 – South submarkets experienced strong positive traction of 308,000 sq. ft. and 250,000 sq. ft., respectively. The Metro West saw 201,000 sq. ft. of positive absorption, its ninth consecutive quarter of positive traction. The Metro North market was relatively flat in the third quarter, posting just 18,000 sq. ft. of positive absorption.

Figure 5: Average Asking Lease Rates



Source: CBRE Research, Q3 2014.

Figure 6: Net Absorption



Source: CBRE Research, Q3 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.



