

## Boston Industrial, Q2 2020

# New Era for Logistics Space as Industrial Demand Surges



Availability  
8.4%



Vacancy  
5.3%



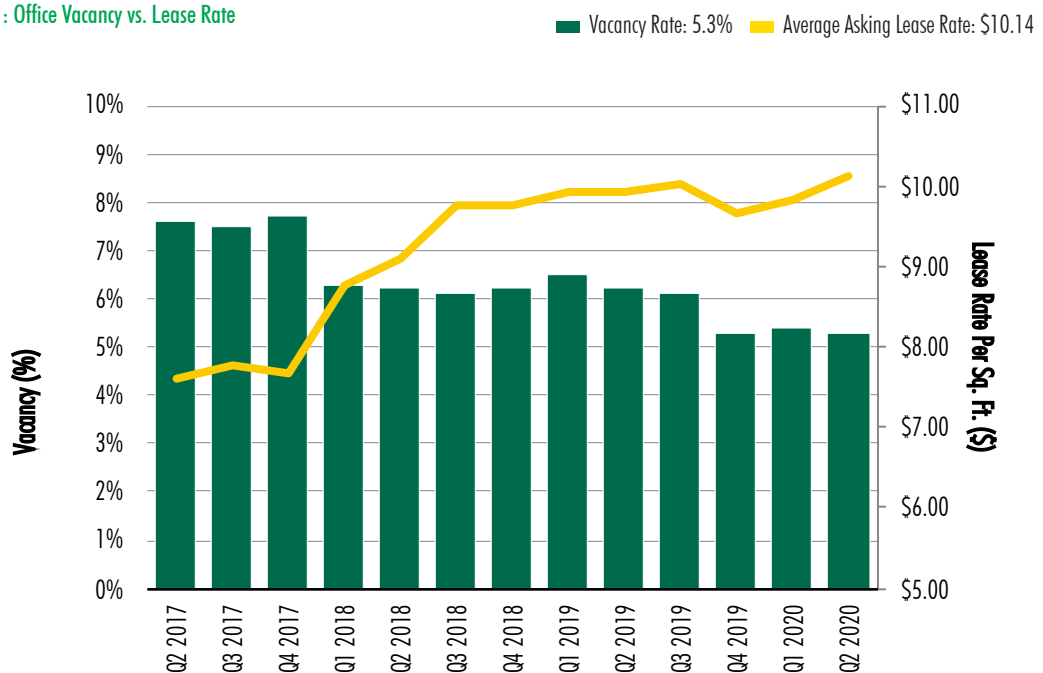
Occupied SF  
253.8 MSF



Under Construction  
3.5 MSF

\* Arrows indicate change from previous quarter

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q2 2020.

The Greater Boston industrial market had an extremely strong Q2 2020, recording 1,218,683 sq. ft. of positive absorption. The urban market as well as two of the three suburban markets experienced positive growth, demonstrating high demand for industrial space throughout all markets. The overall availability rate decreased by 30 basis points (bps) quarter-over-quarter to 8.4%, while the vacancy rate decreased by 10 bps quarter-over-quarter to a historic low of 5.3%. The lack of quality supply continues to put upward pressure on asking rents, with the overall Greater Boston industrial market finishing the quarter at \$10.14 per sq. ft. triple-net

(NNN), the highest rent recorded since CBRE started tracking the Greater Boston industrial market in 2003.

There has been clear and consistent growth in demand for industrial space in recent months. This has been largely due to a recent shift to increased inventory requirements for stockpiling and the continued rise of e-commerce, especially as physical shopping has been all but eliminated in recent months. The e-commerce sector continues to drive the need for buildings with high ceilings, loading docks, ample parking, and quick access to

major highway and transit systems. As this demand outpaces the existing supply, the construction pipeline remains robust and developers are looking to provide relief in a tight market. The market has 3.5 million sq. ft. currently under construction, 1.9 million sq. ft. of which is speculative, providing opportunity for tenants in the market in 2020 and beyond. Further demonstrating the market strength of the quarter, the Greater Boston industrial market saw virtually no sublease space come to market since the beginning of March.

#### COVID-19 IMPACT

The COVID-19 pandemic forced a nationwide shutdown of most economic activity in March, with the largest centers facing the strictest lockdowns. The economic fallout proved severe, pushing unemployment to over 15% and causing the economy to contract by more than 30% per annum in the second quarter.

Despite this, industrial and logistics is the best-positioned asset class to withstand the effects of COVID-19. Demand for stockpiling inventory (9-12 months of inventory versus the 2-3 months of years past), at-home grocery delivery, and e-commerce have rapidly increased which will drive up the need for warehouse and cold storage space in the near- and long-term. Additionally, FEMA and other government contractors' demand for space to store hospital and emergency supplies will likely turn into a long-term need moving forward.

Manufacturing has also been impacted, particularly within medical manufacturing (pharmaceuticals, medical supplies, medical devices), as many companies look to shift operations out of China and back to the United States. This shift comes after manufacturers moved to Asia about 20 years ago largely because of labor savings. As manufacturing technology has developed along with the rise in automation, these initial labor savings are no longer as significant. Additionally, transporting

goods far distances from manufacturer to end user, as well as the supply chain risk that poses, is becoming a larger challenge for companies. These factors are attracting manufacturers back to the U.S. and those who choose to shift their operations to Massachusetts in particular are drawn to the skilled labor and high level of quality control offered in the market.

#### CAPITAL MARKETS

Towards the end of Q1 2020, the headwinds of COVID-19 truly took hold of the capital markets. With the public markets crashing, debt and equity real estate markets followed suit. Numerous listings were pulled; even when buyers had interest in pursuing offerings, the debt markets were more conservative and terms were uncertain.

As several weeks passed, certain parts of the debt markets began to recover. Many life insurance companies along with local and regional banks reemerged with significant liquidity albeit with more conservative terms. Several larger banks have not yet fully returned to lending and as a result, the majority of larger commercial transactions (over \$50 million) were unable to transact without discounts. Since sellers were not under duress, they generally did not accept many discounts. Smaller and middle market transactions, particularly industrial, moved forward, including 51 Alder Street in Medway. The fully leased, 163,000 sq. ft. flex property traded for \$18.6 million in May 2020.

Looking forward to Q3, smaller and middle market transactions that have a stable rent roll will be listed and re-listed. As the economy continues to open up from the pandemic shutdown, time and the presence of market activity will allow buyers and sellers to firm up market value.

**URBAN**

- After a quieter Q1 2020, demand in the urban industrial market picked up in Q2. The submarket finished the quarter with 68,098 sq. ft. of positive absorption while vacancy remained flat at 5.9% and availability increased slightly to 10.3%. Rents decreased to \$18.47 per sq. ft. NNN.
- At 4 Alger Street in Boston, Amazon signed a new lease for 95,600 sq. ft. – taking the entire warehouse. This lease also included about 10 acres of land for parking.
- Demand for well-located properties has become increasingly important as access to major populations and delivery speed are key factors for many logistics and e-commerce companies. Since location is a top priority, class has lost relevancy for most urban properties and as vacancy rates continue to sit near record lows, tenants are forced to be creative in their search for urban product.

**NORTH**

- The Metro North industrial market had a quieter Q2 2020, finishing the quarter with 93,952 sq. ft. of negative absorption. Availability increased to 8.3% while vacancy remained flat at 5.5%. Average asking rates in the Metro North market, driven mostly by the inner core, increased to \$11.01 per sq. ft. NNN in Q2 and remain the highest in the suburban industrial market.
- Despite limited leasing activity in Q2, the North market remains as tight as ever with limited availability and vacancy. Constricted supply continues to put upward pressure on rents and although there is demand in the market, few deals are able to close due to lack of quality product.

**SOUTH**

- The Metro South industrial market finished the quarter with the most leasing activity of any of the three suburban industrial markets, posting 1,047,859 sq. ft. of positive absorption for Q2 2020. As a result, vacancy decreased to 4.7% while availability decreased to 8.2%. Rents increased for the tenth consecutive quarter, finishing Q2 at \$7.95 per sq. ft. NNN.
- The largest industrial deal of the quarter was signed in the 495 South submarket with Amazon signing a 350,326 sq. ft. lease at 800 John Quincy Adams Road in Taunton. The building is a high bay property in Myles Standish Industrial Park, adjacent to Interstate 495. Amazon also signed a lease for 132,298 sq. ft. at 30 Commerce Boulevard in Middleborough, a former distribution center next to Interstate 495 and Route 44 that will be converted to dry warehouse space. At 275 John Hancock Road in Taunton, SimpliSafe signed a 92,093 sq. ft. sublease.
- Thermo Fisher/Brammer Bio's purchase of a brand-new speculative warehouse at 5 Commerce Boulevard in Plainville was a highlight for the Greater Boston industrial market in Q2. The building is a 288,600 sq. ft. under-construction, class A property and Thermo Fisher/Brammer Bio will invest \$180 million to convert it to a viral vector facility. This purchase doubles the company's manufacturing capacity for viral vectors. Gene therapy and vaccines continue to be fast-growing sectors and biotechnology companies are working to keep up with increased demand for development and biomanufacturing. This trend will have a significant impact on both life science and industrial markets and, as manufacturing companies look to shift operations back to the US, the demand for space will outpace the current supply.

- Leasing activity in the 128 South submarket was driven by larger deals. Amazon signed a new lease for 192,476 sq. ft. at 100 Industrial Park Road in Hingham. A confidential tenant signed a lease for 132,560 sq. ft. at 300 Dan Road in Canton.
- Demand for industrial properties in the Metro South market is strong. The highway system in this market provides excellent access to major city and suburban populations. Within a day's drive, all of New England as well as much of the northeastern US and parts of southern Canada can be reached from the Metro South market. As a result, the construction pipeline remains a major headline in the Metro South market.
- Of the 2.5 million sq. ft. of product currently under construction in the Metro South market, 36% is preleased. Bluestar Business Park in Norton has two speculative buildings slated for completion in December 2020 totaling 345,000 sq. ft. The first building is a 220,000 sq. ft. warehouse which is 50% leased and the second is a 125,000 sq. ft. building which is 100% available. Buildings with high ceilings, ample dock doors and plentiful trailer parking have been leased by logistics companies at a rapid pace and investors have seen strong pre-leasing activity in most of the active construction projects. With little land available for industrial development in the Route 128 and urban areas, the 495 South market provides options for tenants looking to commit to a facility built to satisfy their needs.

**WEST**

- The Metro West market had an active second quarter of 2020, finishing Q2 with 196,678 sq. ft. of positive absorption. The availability and vacancy rates decreased to 8.5% and 5.8%, respectively. Consistently low vacancy rates in the market continue to put upward pressure on the average asking rent, which finished Q2 at \$9.04 per sq. ft. NNN, the highest to date.
- Renewals played a significant role in the Q2 leasing activity for Metro West. At 27 Otis Street in Westborough, Columbia Tech renewed for 107,211 sq. ft. Lineage Logistics also renewed for 106,964 sq. ft. at 25 Otis Street in Westborough.
- With a near record low vacancy rate, especially in high bay product, TA Realty is currently constructing two additional speculative buildings totaling 600,000 sq. ft. along I-495 West. These buildings are slated to deliver in late Q3 2020.

**Figure 2: Market Statistics**

Total Industrial	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent (\$/NNN)
Urban	227	15,086,837	10.3	5.9	0.4	68,098	41,074	18.47
Close-In Suburbs North	243	18,462,818	6.4	5.4	0.2	(34,576)	(49,821)	16.61
Route 128 — North	448	32,403,768	7.6	4.3	0.5	39,403	(52,298)	11.93
Route 495 — Northeast	204	20,390,952	8.4	5.5	0.2	(120,279)	(108,328)	9.81
Route 3 — North	232	17,763,992	11.4	8.0	2.1	21,500	117,630	8.32
Metro North	1,127	89,021,530	8.3	5.5	0.7	(93,952)	(92,817)	11.01
Route 128 — South	701	44,802,416	8.5	5.4	0.7	(137,092)	93,736	9.18
Route 495 — South	794	63,985,838	8.0	4.3	0.6	1,184,951	1,197,105	7.15
Metro South	1,495	108,788,254	8.2	4.7	0.6	1,047,859	1,290,841	7.95
Route 128 — West	156	6,855,515	11.5	9.6	1.8	15,906	1,026	16.22
Framingham — Natick	85	4,691,376	8.4	7.2	0.0	(28,034)	(22,156)	9.82
Route 495 — Route 2 West	222	20,419,690	8.9	5.7	0.1	(20,520)	56,639	7.88
Route 495 — Mass Pike West	341	23,040,996	7.4	4.4	0.2	229,326	262,210	9.23
Metro West	804	55,007,577	8.5	5.8	0.4	196,678	297,719	9.04
<b>Overall Total Industrial</b>	<b>3,653</b>	<b>267,904,198</b>	<b>8.4</b>	<b>5.3</b>	<b>0.6</b>	<b>1,218,683</b>	<b>1,536,817</b>	<b>10.14</b>

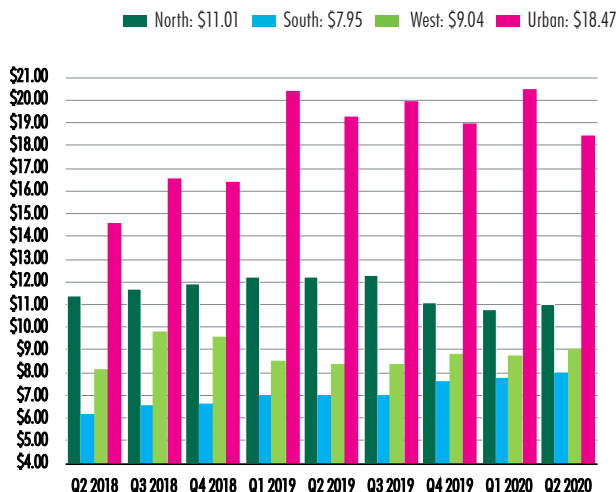
Source: CBRE Research, Q2 2020.

**Figure 3: Transactions of Note**

Tenant/Investor	Submarket	Address	Size	Type
Amazon.com	Route 495 - South	800 John Quincy Adams Road	350,326	New
Brammer Bio/Thermo Fisher	Route 495 - South	5 Commerce Boulevard	288,600	New
Amazon.com	Route 128 - South	100 Industrial Park Road	192,476	New
Confidential	Route 128 - South	300 Dan Road	132,560	New
Amazon.com	Route 495 - South	30 Commerce Boulevard	132,298	New
Columbia Tech	Route 495 - Mass Pike West	27 Otis Street	107,211	Renewal
Lineage Logistics	Route 495 - Mass Pike West	25 Otis Street	106,964	Renewal
Amazon.com	Urban	4 Alger Street	95,600	New
SimpliSafe	Route 495 - South	275 John Hancock Road	92,093	Sublease

Source: CBRE Research, Q2 2020.

Figure 4: Average Asking Lease Rates

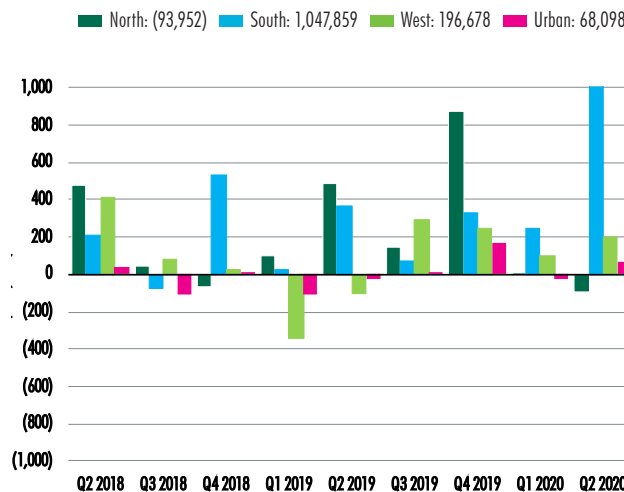


Source: CBRE Research, Q2 2020.

#### AVERAGE ASKING RENTS

The average asking rent in the Greater Boston industrial market finished Q2 2020 at \$10.14 per sq. ft. NNN.

Figure 5: Net Absorption



Source: CBRE Research, Q2 2020.

#### NET ABSORPTION

Overall absorption was positive in Q2 2020 with 1,218,683 sq. ft. of growth. Metro West posted 196,678 sq. ft. of positive absorption, while the Urban Market accounted for 68,098 sq. ft. of positive absorption. Metro South experienced the largest amount of growth during the quarter, finishing with 1,047,859 sq. ft. of positive absorption. The Metro North market had a slower quarter, ending with 93,952 sq. ft. of negative absorption.

## 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.

**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.

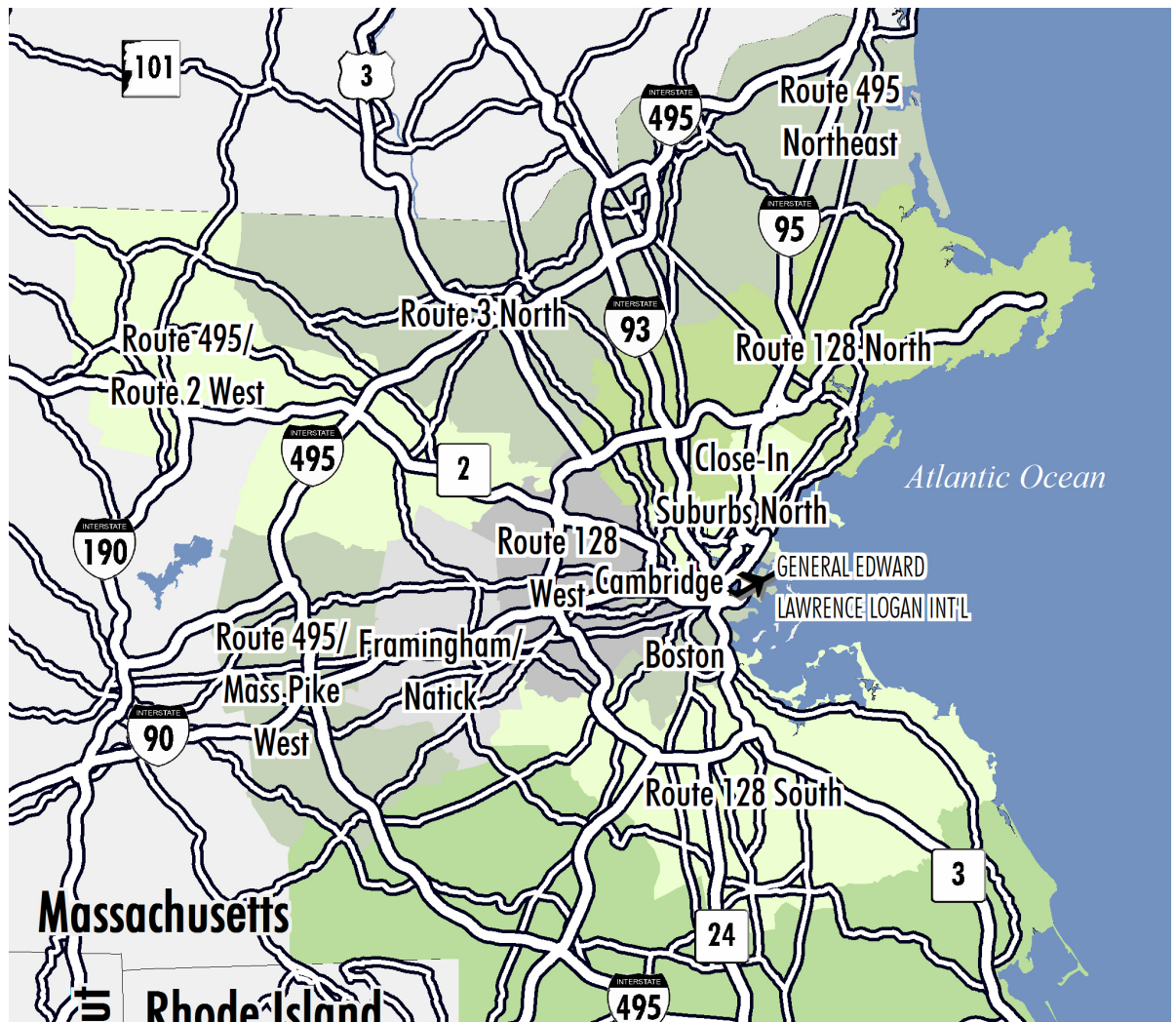
**VACANCY RATE**

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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