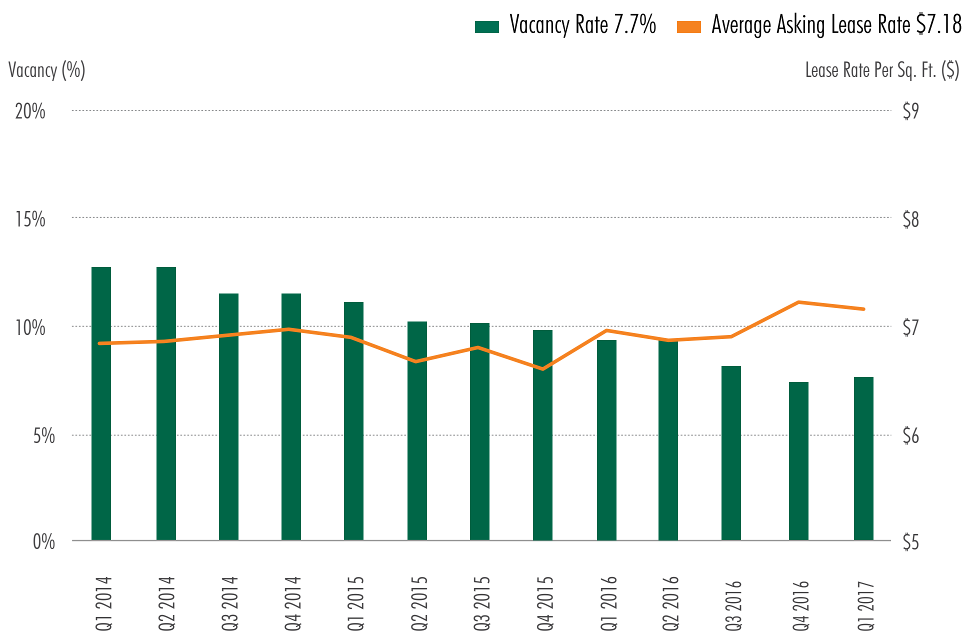
Boston Industrial, Q1 2017

Another solid quarter for the industrial market as its reputation grows

Vacancy	Availability	Occupied Sq. Ft.	Under Construction
▲ 7.7%	▼ 10.7%	▼ 148.5 MSF	▼ 300K SF

* Arrows indicate change from previous quarter

Figure 1: Industrial Vacancy vs. Lease Rate



Source: CBRE Research, Q1 2017.

After ending 2016 with record-breaking absorption of over 3.4 million sq. ft., the Greater Boston Industrial market set its bar high. While it would have been difficult to replicate that sort of showing two quarters in a row, Q1 2017 was still a solid three months, with positive absorption in all three markets for a cumulative 425,000 sq. ft. Vacancy remained low, with single-digit numbers across the board, and asking rents stayed elevated year-over-year.

Two distinct themes shaped and bolstered the market in the first quarter, the first being organic growth by local companies. Occupiers that expanded in Q1 2017 included HTI Medical, which moved from a 14,000 sq. ft.

space in Walpole to a 45,000 sq. ft. space in North Attleboro; Daltile, which took 36,000 sq. ft. on University Avenue in Westwood; and Boston Mutual, which added 24,000 sq. ft. of warehouse space, also on University Avenue. Additionally, sportswear retailer '47 Brand purchased 140 Laurel Street in East Bridgewater, a 470,000 sq. ft. warehouse property, which will allow the homegrown company to continue expanding.

New entrants to the Greater Boston market have also been making waves and are indicative of the area's increasing visibility and appeal on the national stage. Brooklyn-based European Granite & Marble Group opened its first Massachusetts location, taking 40,000 sq. ft. in Norwood, and New Jersey-based Hirsch Glass leased 24,000 sq. ft. in Westwood. Out-of-state companies that already have a Massachusetts presence have also been expanding. California-based electronics and medical device manufacturer Neo Tech purchased 125 Fisher Street in Westborough—the 198,000 sq. ft. property will be the company's third location in the state.

NORTH

- The Metro North saw the highest absorption of all the industrial markets, with almost 320,000 sq. ft. of space taken. The bulk of this came from the Urban and Route 128 North submarkets, which saw approximately 128,000 sq. ft. of positive absorption each.

- Within Metro North, the Route 128 North submarket was responsible for most of the largest deals, including two of the top five for the quarter. The largest new deal in the Route 128 North submarket was CNE Direct's lease of 66,000 sq. ft. at 1 Technology Drive in Peabody.

- The Urban submarket was home to the largest new industrial deal of the quarter, where produce wholesaler Katsiroubas Bros. leased 84,000 sq. ft. at 100 Meadow Road in Hyde Park.

- The North market boasts the highest asking rents of all three markets. After steady growth beginning in early 2016, rents topped $8.13 per sq. ft. NNN in Q1 2017. Vacancy remained healthy at 8.5%.

SOUTH

- Although the Metro South market has lower asking rents than the other two industrial markets, in recent years those rents have seen slow but consistent growth. At the close of Q1 2017, rents had reached $5.93 per sq. ft. NNN.

- Many tenants in the South market have elected to stay in place and take advantage of the comparatively affordable rents and, as such, the South saw two of the three largest renewals of the quarter—both in the Route 495 South submarket. Dorel Juvenile Group will remain in their 53,000 sq. ft. space at 25 Forbes Boulevard in Foxboro and, in neighboring Walpole, Mohawk Industries renewed for 34,000 sq. ft. at 15 Walpole Park South.

- The South market boasts the lowest vacancy rate of all three submarkets, with just 5.6% of space empty. The availability rate is correspondingly the lowest at 9.7%.

- Although major deals in Q4 2016 gave the Metro South its highest absorption number ever, with over 2.4 million sq. ft. taken, this quarter the market saw the lowest absorption of the three markets at just 7,000 sq. ft.

WEST

- After growing steadily throughout 2016, and faster than any of the other markets, asking rents in the Metro West market took a dip in Q1 2017. Ending the quarter at $7.30 per sq. ft. NNN, they fell 4.6% since Q4 2016, and are slightly down year-over-year, but are still following a general trajectory of upward growth that began in 2012.

- The Metro West market saw just under 100,000 sq. ft. of positive absorption in Q1 2017, which was fairly evenly spread among all its submarkets except Route 495 – Route 2 West, which was modestly negative.

- The West market claimed the fewest of the major deals this quarter, with the largest transaction being RMP's 32,000 sq. ft. renewal at 444 Whitney Street in Northborough. The auto parts company has had a location in Northborough for over a decade.

Figure 2: Market Statistics

Total Industrial	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent $ (NNN)
Urban	107	8,823,360	13.0	12.0	1.2	128,930	128,930	8.84
Close-In Suburbs North	209	17,232,269	3.5	3.3	0.2	14,500	14,500	9.86
Route 128 - North	271	22,649,666	8.7	7.3	0.6	127,496	127,496	9.49
Route 495 - Northeast	87	11,493,603	20.9	11.1	2.0	(16,650)	(16,650)	6.21
Route 3 - North	108	10,637,214	18.2	14.1	2.7	65,068	65,068	7.86
Metro North	782	70,836,112	11.4	8.5	1.1	319,344	319,344	8.13
Route 128 - South	303	28,491,859	10.0	6.3	1.1	(76,894)	(76,894)	5.57
Route 495 - South	255	32,347,217	9.4	5.0	1.4	83,464	83,464	6.24
Metro South	558	60,839,076	9.7	5.6	1.3	6,570	6,570	5.93
Route 128 - West	28	2,129,597	3.0	2.2	0.0	29,410	29,410	9.89
Framingham - Natick	37	3,391,242	10.4	8.5	0.0	42,071	42,071	6.75
Route 495 - Route 2 West	60	8,612,502	10.7	7.3	1.4	(36,413)	(36,413)	7.35
Route 495 - Mass Pike West	158	15,045,365	13.2	12.7	0.3	63,599	63,599	7.39
Metro West	283	29,178,706	11.4	9.9	0.6	98,667	98,667	7.30
Overall Total Industrial	1,623	160,853,894	10.7	7.7	1.1	424,581	424,581	7.18

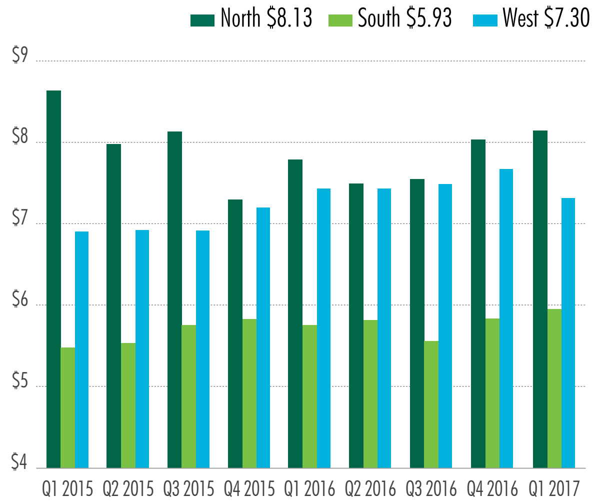
Source: CBRE Research, Q1 2017.

Figure 3: Industrial Market Transactions of Note

Tenant	Sub-Market	Address	Size	Type
Katsiroubas Bros.	Dorchester/South Boston	100 Meadow Road, Hyde Park	84,000	New
CNE Direct	Route 128 North	1 Technology Drive, Peabody	66,000	New
Dorel Juvenile Group	Route 495 South	25 Forbes Boulevard, Foxboro	53,000	Renewal
Nippon Express	Route 128 North	1 Technology Drive, Peabody	43,000	New
Mohawk Industries	Route 495 South	15 Walpole Park South, Walpole	34,000	Renewal
RMP	Route 495/Mass Pike West	444 Whitney Street, Northborough	32,000	Renewal

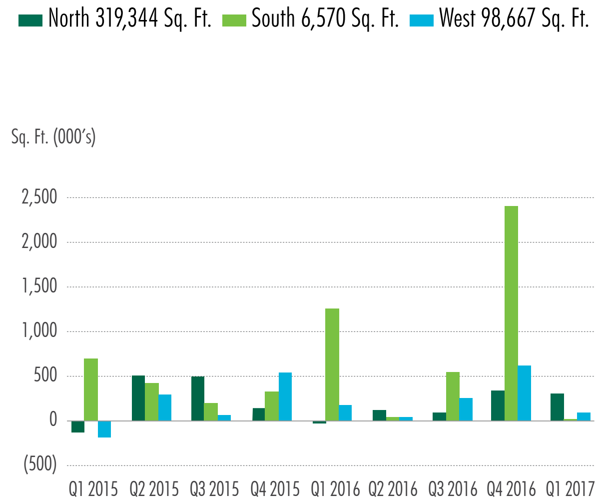
Source: CBRE Research, Q1 2017.

Figure 4: Average Asking Lease Rates



Source: CBRE Research, Q1 2017.

Figure 5: Net Absorption



Source: CBRE Research, Q1 2017.

AVERAGE ASKING RENTS

Average asking rents in the Greater Boston Industrial market remained stable in the first quarter, finishing at $7.18 per sq. ft. NNN. Metro North and Metro South both saw rental growth, reaching $8.13 per sq. ft. and $5.93 per sq. ft. NNN, respectively. By contrast, rents in the West dipped after trending upwards for the last six quarters.

NET ABSORPTION

While not matching last quarter's chart-topping absorption numbers, absorption was positive across the board in Q1 2017. The North market saw the bulk of it, with almost 320,000 sq. ft., while the Metro South was considerably lower but still in the black. Historically, the North market has seen the most consistency on the absorption front, while the South has had the widest fluctuation, particularly from last quarter's banner showing of 2.4 million sq. ft. to this quarter's 7,000 sq. ft.

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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