HUNNEMAN

METRO BOSTON INDUSTRIAL
MARKET REPORT

FOURTH QUARTER | 2020

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BOSTON MARKET INDUSTRIAL OVERVIEW

As 2020 comes to an end, the Greater Boston industrial market continues to be unabated by the COVID-19 pandemic, having one of its best quarterly performances seen in the last decade.

National industrial trends that were already benefitting the market prior to the pandemic, such as the rise of e-commerce, on-shoring manufacturing efforts and large-scale warehousing, have only been amplified through country-wide measures to social distance and become less reliant on foreign production. From a local standpoint, the industrial market has benefited immensely from a thriving life science industry, which has created strong demand for flex/R&D, while a shortage of biomanufacturing facilities across the metro has resulted in a growing pipeline of manufacturing space through new construction and building conversions.

Approximately 1.5 million square feet of industrial space was absorbed on a net basis in the fourth quarter, with vacancy decreasing to 5.6% and asking rents remained relatively static since last quarter. While Amazon was the star of the show for most of the year, driving a significant portion of absorption and leasing just over 50% of the new construction that was delivered in 2020. The fourth quarter proved to be a balancing act between a variety of users in terms of deliveries. Just over 1.4 million square feet delivered across nine buildings in the market, 87% of which was already preleased, making for one of the largest quarterly supply injections in recent history.

With news of a vaccine becoming available to the public later in 2021, the prospect of a panacea is not expected to influence the industrial market nearly as much as other product types such as office, hospitality and retail. While some trends directly associated with combatting the virus may diminish, such as the need to store and distribute vaccines or keep large reserves of medical supplies, this will have a minimal effect on the industrial market as a whole. Rather, the indirect lifestyles changes brought on by COVID-19 will have a much larger effect. For example, the largest single lease that took place throughout Greater Boston in 2020 was not Amazon, it was Home Depot. The pandemic has led to people relying less on the infrastructure and amenities within their communities, resulting in more products being bought to invest in their lifestyle at home.

Looking ahead at market fundamentals, 2021 is expected to be a big year for manufacturing. Demand for warehouse space will remain strong but is not expected to exceed 2020 levels, largely due to Amazon not contributing towards leasing velocity as much as they did this year. On the other hand, manufacturing space is expected to benefit from a large pipeline of drugs and vaccines, that are not exclusive to COVID-19. Instead, many of these remedies emerging from the research and development process are a product of the mass amount of funding injected into Greater Boston's life science pipeline over the last several years, which has created unprecedented demand for biomanufacturing space.

5.6%

TOTAL VACANCY RATE

1,476

Q4 NET ABSORPTION
(SF)

$10.97

ASKING RENT
($/SF)

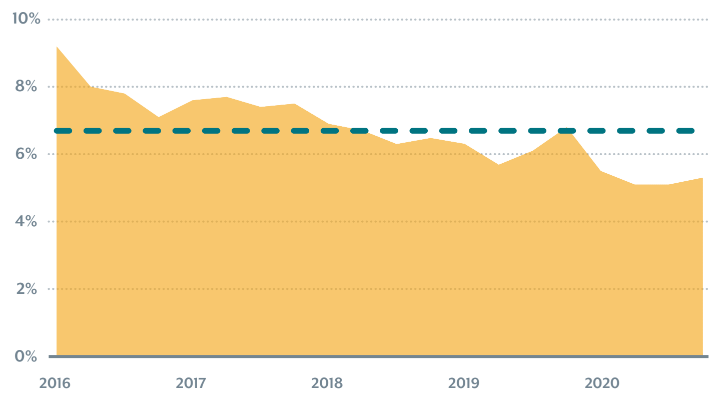
1,841

UNDER CONSTRUCTION
(SF)

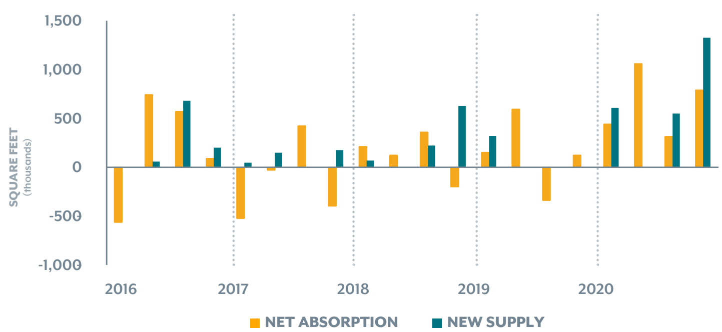
**numbers in the thousands*

INDUSTRIAL WAREHOUSE

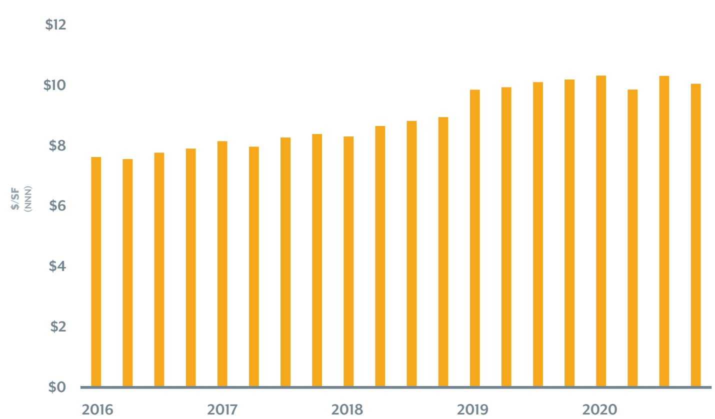
TOTAL VACANCY



NET ABSORPTION & SUPPLY



ASKING RENT



- Warehouse space accounted for the most amount of net absorption this quarter and on the year. In the fourth quarter alone, 788,000 square feet was absorbed on a net basis, bringing the annual total to 2.6 million square feet. From a quarterly standpoint, absorption was primarily driven by the delivery of new construction to the market, most of which was leased as Class A warehouse space. However, over the last twelve months, absorption was fairly balanced between Class A and Class B, with most of the Class B absorption taking place in the beginning of the year, prior to major Class A supply deliveries in the second half of 2020.

- Despite strong absorption from the warehouse sector, the total vacancy rate hardly budged due to some deliveries hitting the market vacant. Asking rents also remained relatively unchanged due to the influence of the Class B market. While strong rents for Class A space continue to be achieved by developers and landlords, the Class B market, which makes up the brunt of warehouse inventory throughout Greater Boston, had rents remain flat from last quarter, which kept the overall rent the same.

- Expanding on its initial lease at Crossroad Industrial Park in Northborough last quarter, Amazon completed another major deal in the building next door, at 350 Bartlett Road for 300,000 Square Feet, which recently delivered in the Route 495 West submarket. However, in a rare quarterly performance, leasing activity in the warehouse market was not dominated by Amazon. Home Depot accounted for the largest deal of the quarter and the year, at 495 Woburn Street in Tewksbury for 700,000 square feet. Another notable deal was Christianbook.com, signing a lease for 370,000 square feet in Route 128 North, at 140 Summit Drive in Peabody.

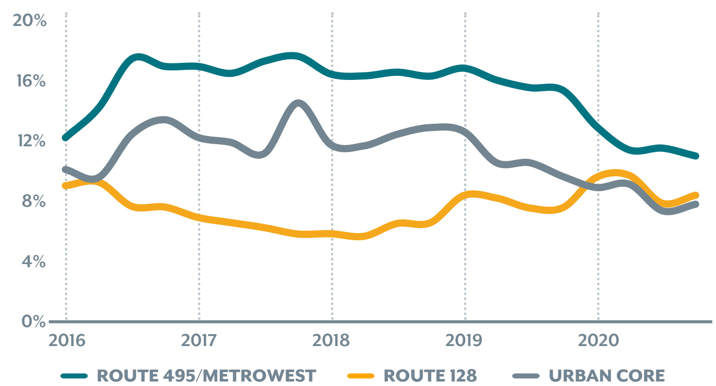
- Demand for warehouse space remains strong. However, a greater variety of users are expected to contribute more to leasing velocity in 2021 as more companies put an emphasis on improving the capacity of supply chain operations to adapt to shifting trends. Heightened demand from food storage and processing companies is gaining momentum with the increase of online grocery shopping and more restaurants closing their doors each month due to the pandemic. Companies like FedEx, DHL, and UPS continue to compete and explore the market for similar space that tends to be more dock heavy for higher truck capacity, to keep up the rising adoption of e-commerce. Companies that sell home-goods products, such as Wayfair, The Home Depot and Lowes are expected to ramp up operations with homeowners spending less time heading out to places like the office, their neighborhood amenity base and entertainment options, all of which are all being hindered by the pandemic with recovery times lasting beyond 2021.

	TOTAL INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE	Q4 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT ($/SF)
Total	**98,346**	**5,212**	**5.3%**	**788**	**2,590**	**$10.01**

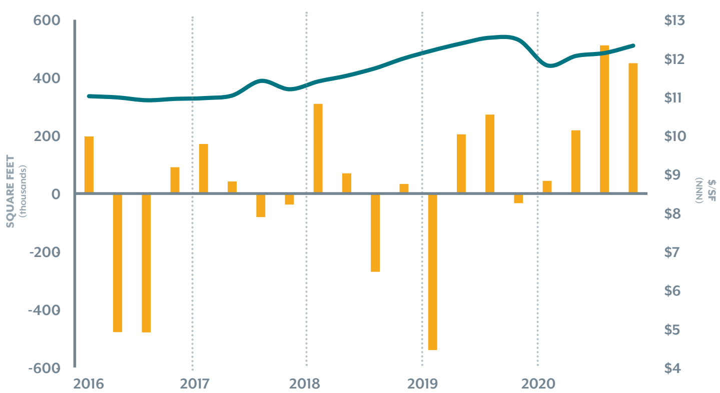
**numbers in the thousands*

INDUSTRIAL FLEX/R&D

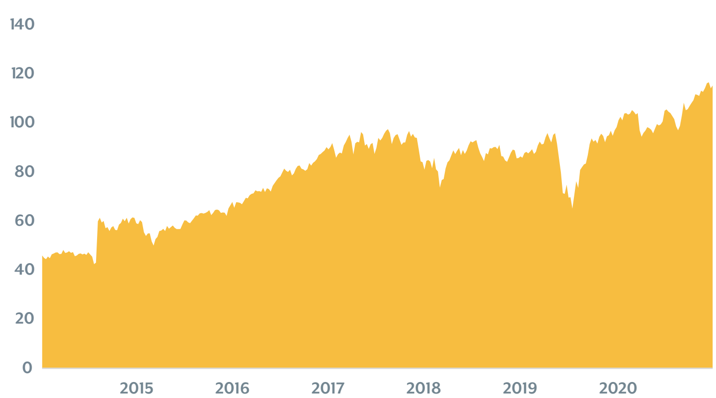
VACANCY BY SUBMARKET



NET ABSORPTION & ASKING RENT



BLOOMBERG MASSACHUSETTS HIGH TECH INDEX



- Demand for flex/R&D space is picking up. In the fourth quarter, flex/R&D space accounted for 450,000 square feet of net absorption bringing the annual total to 1.2 million square feet. The increase in demand has driven the total vacancy rate from 10.1% at the beginning of the year, down to 7.6% as 2020 concluded. Now, overall asking rents are back to pre-pandemic levels, registering at $12.33 per square foot on a triple-net basis.

- Similar to the office space sector, flex/R&D space is being influenced by the lab market through building conversions. Most flex/R&D buildings comprise of large floor plates and are typically limited to one to two stories, allowing lab infrastructure such as lab rooms and filtration systems (also known as "stacks") to be built internally and equipped externally, respectively. This allowance has led to a plethora of lab conversions taking place over the last few years, primarily in route 128 West and Northwest, which has eaten away at a large chunk of what would be flex/R&D vacancy.

- No new supply was added to the construction pipeline this quarter. Currently, 517,000 square feet is underway across three projects. Most notably, Siemens expansion at 333 Coney Street in Walpole will be the largest project this year, topping out at 300,000 square feet. 25 Rundlett Way is also a project to keep an eye on, as one of Middleton's first major flex/R&D projects. Currently, the town is expected to deliver a 174,000 square foot building later this year, but so far only 33% has been leased. Finally, Turner Brothers General Contractors will deliver a smaller 43,000 square foot building in Taunton early in 2021.

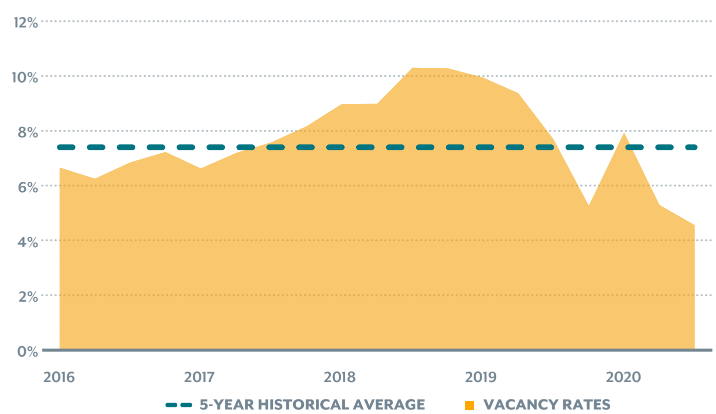
- Several industries have been making an impact on flex/R&D space. 3D printing, medical device and robotic companies have been leasing space, thanks to strong funding from VC companies and private investors. Unlike office operations, many of the employees required for these operations are unable to work from home, due to the hands-on activities associated work procedures, which has kept leasing activity unhindered during the pandemic. As these industries continue to grow and become a more important part of the economic production, combined with our strong healthcare sector, we can expect to see more leasing activity from these companies, which is expected to put more pressure on growing the flex construction pipeline.

	TOTAL INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE	Q4 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT ($/SF)
Total	**49,338**	**3,750**	**7.6%**	**450**	**1,223**	**$12.33**

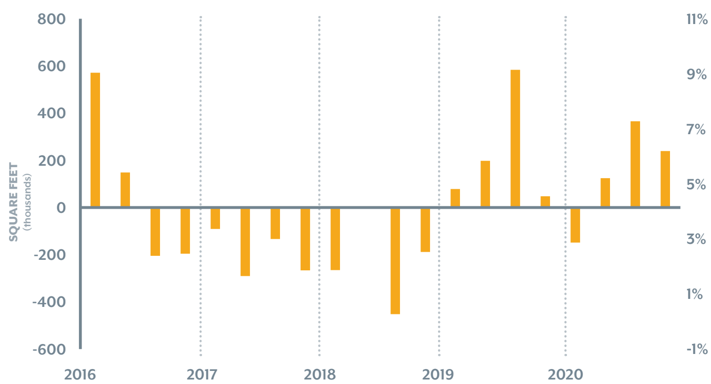
**numbers in the thousands*

INDUSTRIAL MANUFACTURING

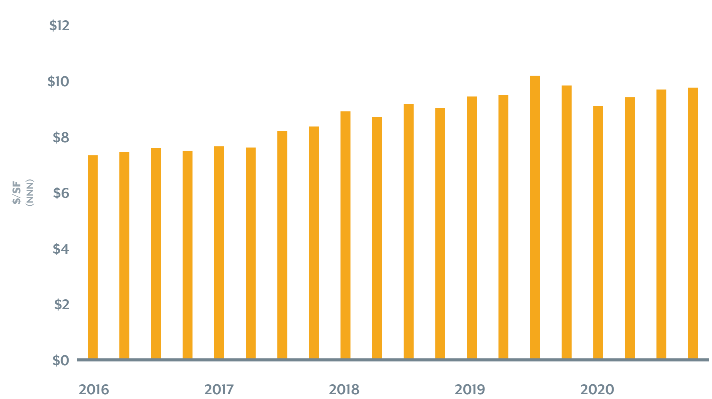
VACANCY



NET ABSORPTION



ASKING RENT



- Approximately 239,000 square feet of net absorption took place in the manufacturing sector in the fourth quarter, bringing the vacancy rate down to 3.8% from what was already a fifteen-year record low last quarter at 4.6%. While a 20% preleased construction pipeline is expected to bring some supply relief to the market over the next several quarters, there is only about 200,000 square feet of space available, which could very well be leased prior to delivery. This is expected to put pressure on asking rents in 2021 and unlike warehouse construction, which has shorter building times, manufacturing supply that will kickoff in 2021 will likely not deliver for upwards of twelve months, straining supply further.

- Biomanufacturing, Good Manufacturing Practice (GMP) space in particular, is currently the hottest space type in the market right now and is expected to heat up further in 2021. Since these facilities are heavy in fixtures and require a substantial amount of internal infrastructure, ground-up construction can take up to 18-24 months to complete. The expected result of the increase in demand is the building repositioning of the flex/R&D market, that are well suited to transition to purely manufacturing use. Typically equipped with docks and large floor plates, biomanufacturing operations can open in these assets fairly quickly through interior renovations.

- Greater Boston is also benefitting through biomanufacturing based on the new technology involved in creating these new therapies. In the past, the manufacturing of drugs approved by the FDA was capable of being done in a variety of locations, and companies typically deployed these operations where land and labor was the cheapest. Now, the biomanufacturing process has become much more complicated, particularly through processes related to using messenger RNA. The complication of the biomanufacturing process has resulted in manufacturing operations having a need to be in closer proximity to where research and development labs are located and has caused a niche manufacturing practice to unfold in the back yard of Greater Boston's unmatched lab market.

- Leasing activity for manufacturing space remained strong in the fourth quarter with several notable leases taking place throughout the metro area. Signature Breads, a food processing and baking company, leased space in the Central Industrial submarket at 100 Justin Road in Chelsea. Vibalogics, a biomanufacturing company committed to 118,000 square feet at 1414 Massachusetts Avenue in Boxborough. Trillium Flow Technologies, a utilities services company, leased 107,000 square feet north of Boston at 29 Old Right Road in Ipswich.

	TOTAL INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE	Q2 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT ($/SF)
Total	**35,348**	**1,343**	**3.8%**	**239**	**604**	**$9.76**

**numbers in the thousands*

NOTABLE TRANSACTIONS

495 WOBURN STREET
TEWKSBURY

Company Home Depot
Size 700,000 SF
Submarket Route 495 North

140 SUMMIT STREET
PEABODY

Company Christianbook.com
Size 370,000 SF
Submarket Route 128 North

250 BARTLETT STREET
NORTHBOROUGH

Company Amazon
Size 300,000 SF
Submarket Route 495 West

100 JUSTIN DRIVE
CHELSEA

Company Signature Breads
Size 230,000 SF
Submarket Central Industrial

1414 MASSACHUSETTS AVENUE
BOXBOROUGH

Company Vibalogics
Size 118,000 SF
Submarket Route 495 North

29 OLD RIGHT ROAD
IPSWICH

Company Trillium Flow Technologies
Size 107,000 SF
Submarket Route 128 North

241 FRANCIS AVENUE
MANSFIELD

Company Advanced Warehousing, Inc
Size 216,000 SF
Submarket Route 495 South

94-104 GLENN STREET
LAWRENCE

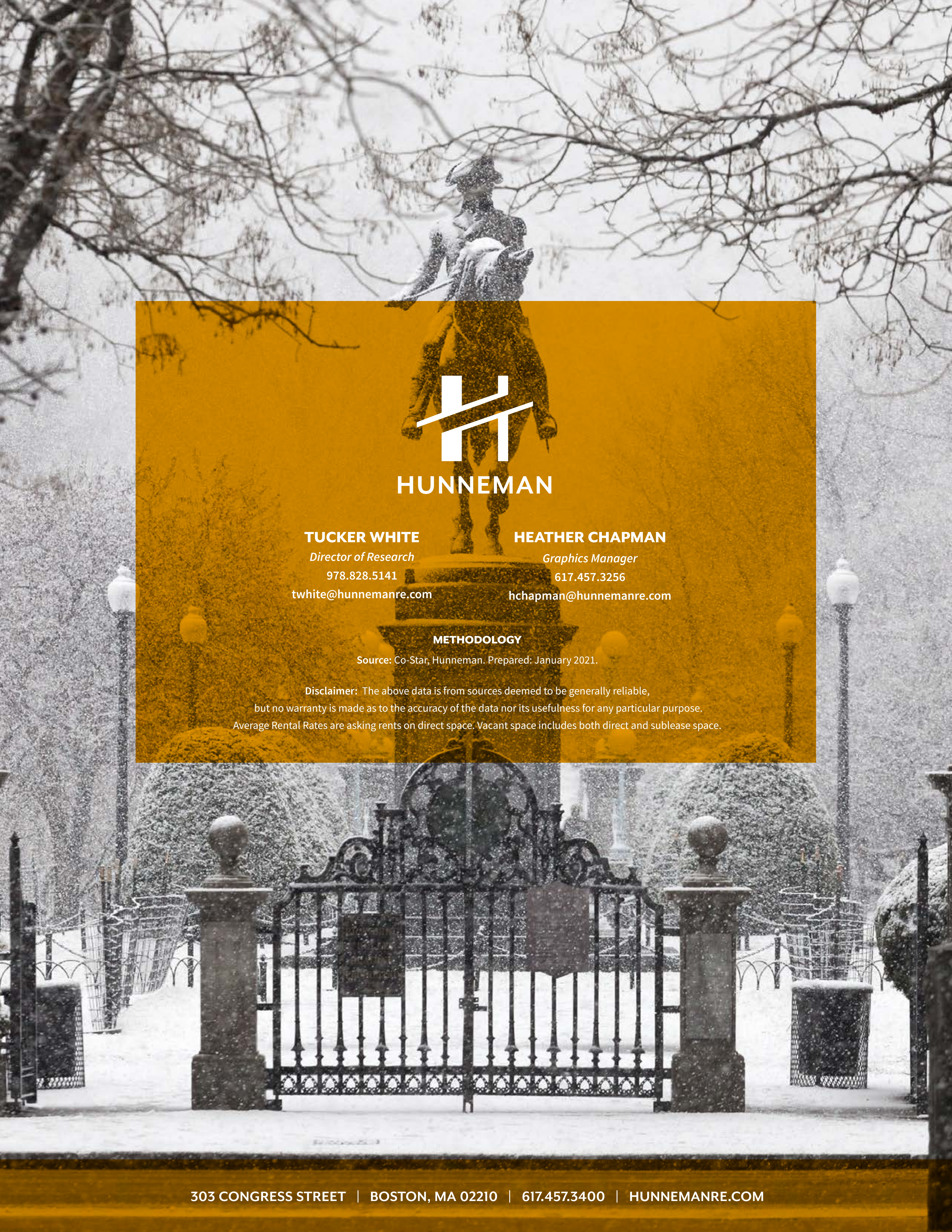
Company Casa Systems
Size 17,000 SF
Submarket Route 495 North

INDUSTRIAL RECAP

WAREHOUSE, MANUFACTURING, FLEX/R&D

	TOTAL INVENTORY SF	UNDER CONSTRUCTION	TOTAL VACANCY	CLASS A VACANCY	CLASS B VACANCY	Q4 NET ABSORPTION	YEAR TO DATE NET ABSORPTION	12-MONTH NET ABSORPTION	AVERAGE ASKING RENT
Total Market	**183,032**	**1,841**	**5.6%**	**7.4%**	**5.5%**	**1,476**	**4,391**	**5,004**	**$10.97**
Central Industrial	**18,198**	**145**	**6.7%**	**29.2%**	**6.2%**	**(77)**	**594**	**594**	**$19.41**
Route 128	**80,177**	**630**	**7.0%**	**13.4%**	**6.5%**	**(604)**	**(281)**	**(185)**	**$10.96**
Route 128 North	29,957	224	5.8%	6.5%	5.8%	(74)	(396)	(406)	$11.08
Route 128 Northwest	3,544	0	9.9%	100.0%	4.3%	(84)	(65)	(65)	$12.88
Framingham-Natick	3,691	0	2.7%	8.4%	2.2%	77	11	12	$12.89
Route 128 West	4,037	0	7.6%	0.0%	8.0%	6	47	61	$17.06
Route 128 South	38,949	580	8.0%	11.5%	7.6%	(529)	123	213	$9.96
Route 495	**84,656**	**891**	**4.1%**	**3.2%**	**4.2%**	**2,158**	**4,077**	**4,594**	**$9.27**
Route 495 Northeast	12,682	30	1.5%	0.0%	1.5%	(3)	849	868	$8.47
Route 495 North	21,324	160	4.7%	0.0%	5.2%	643	1,430	1,465	$10.80
Route 495 West	16,099	0	5.0%	3.7%	5.1%	592	419	914	$9.38
Route 495 South	34,552	701	4.3%	4.6%	4.3%	925	1,378	1,347	$8.25

**numbers in the thousands*



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METHODOLOGY

Source: Co-Star, Hunneman. Prepared: January 2021.

Disclaimer: The above data is from sources deemed to be generally reliable, but no warranty is made as to the accuracy of the data nor its usefulness for any particular purpose. Average Rental Rates are asking rents on direct space. Vacant space includes both direct and sublease space.