

Boston Industrial Market

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All of the property sectors in the Boston area are thriving, thanks to one of the strongest economies in the nation. As of April this year, the unemployment rate in Massachusetts was 4.7 percent while in Boston, it was 3.7 percent, according to the U.S. Bureau of Labor Statistics. Economists generally consider employment to be essentially “full” when unemployment rates dip below 5 percent. By comparison, the unemployment rates in neighboring states were 6.3 percent for Connecticut, 3.8 percent for New Hampshire and 6.1 percent for Rhode Island. The U.S. unemployment rate in April was 5.4 percent.

The overall industrial vacancy rate at the close of the second quarter was 8.1 percent, according to CoStar and includes warehouse/distribution space, flex space and R&D facilities. It was the fourth consecutive quarter that the vacancy rate has remained in the low 8 percentile range.

When we last contributed to this publication in November of 2011, the vacancy rate in the third quarter of that year stood at 11.2 percent and we predicted that it would compress further and get into single digits within a year. It did, and has stayed within a range of 150 basis points since the beginning of 2013.

Overall net absorption was negative in the second quarter (82,364) square feet, and it was also negative (41,089) square feet in the first quarter this year, compared with positive net absorption of more than 3.1 million square feet in the third and fourth quarters of 2014. However, we believe that the first half of this year is a bit of an anomaly in terms of net absorption figures and it was caused by a combination of a handful of tenants vacating space and a temporary slowing of leasing velocity.

The West submarket is faring better than the other submarkets, posting a second quarter, blended vacancy of approximately 7 percent. Marlborough and the other Boroughs have picked up some R&D/flex tech tenants in the last year and those occupiers have driven the vacancy rate down.

However, a year ago we anticipated that industrial demand in the greater Boston marketplace would continue to strengthen and as it did, end users would have fewer affordable options closest to the city’s core. As such, the trend has been for occupiers to travel to areas where land and buildings are more plentiful. Specifically, the market has been driving companies out of Boston to I-495 south such as Taunton and Mansfield, MA.

Average asking rents (overall) for available space finished the second quarter at \$6.45 per square foot while the Flex sector was \$9.61 a foot at the end of the quarter, CoStar reports.

The demand driving industrial activity is varied yet some of the largest leases signed in the recent 18 months have been by medical devices companies, third party logistics firms, plastic injection molding and recycling companies.

Some of the largest leases signed in the second quarter included the 417,000-square-foot long-term lease with Axcelis at 108 Cherry Hill, Danvers, MA, a building owned ASA Partners, which acquired the property in January of 2015 for \$49 million (\$117.51/SF). Also in Danvers, Abiomed expanded into the entire 160,000-square-foot building at 20 Cherry Hill Drive. Meanwhile GE, renewed its lease for the entire building at 1100 Technology Park Drive in Billerica (240,000 square feet). The biggest sale in the quarter was the Boston Globe's purchase of a 330,000-square-foot distribution facility located at 300 Constitution Drive at the Myles Standish Industrial Park in Taunton, reportedly for more than \$20 million.

Even though the industrial market has stabilized, demand is relatively tepid for new industrial product. There was a little more than 1 million square feet of industrial space under construction at the close of the second quarter. The largest project underway is at 450,000-square-foot build-to-suit development in the Littleton Distribution Center for Potpourri Group, which broke ground in June. When completed next year, it will add about 450,000 square feet to the West industrial market. Currently, the largest proposed project is for more than 600,000 square feet of office and industrial space for Martignetti Liquors at 150 Charles Colton Drive in Taunton. That project is scheduled to start in the second quarter of 2016.

Furthermore, retail supply chain demand has increased recently. Amazon is on the cusp of finalizing their purchase of approximately 300 acres of land in the SouthCoast Life Science & Technology Park at Fall River, MA. They have received approvals to build a \$50 million state-of-the-art distribution center with approximately 1 million square feet of space. The company plans to employ 500 full-time and an additional 200 part time for peak shipping times.

Taken together, the expansion and growth is an excellent harbinger for the greater New England industrial marketplace and economy in general. A great deal of our economic activity involves construction and growing workforces in healthcare, professional services and research. Looking ahead, and as long as these trends continue, we expect the Boston industrial market to remain stable and for more infill redevelopment projects to start on a selective basis next year. With the boom in eCommerce there is greater demand for distribution facilities closer to the city core and as of this writing, there is not much product available for occupiers.