

# INVESTMENT FORECAST

Industrial  
Boston

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## User Demand Outpaces Record Construction; Biotech Firms Find New Uses for Older Space

**Life science companies and logistics providers expand footprints.** As Boston recoups pandemic job losses, swift recovery in well-compensated employment sectors has resulted in elevated consumer activity from much of the metro's population. Increased appetites for online goods has lifted leasing velocity, highlighted by e-commerce giants bolstering their last-mile operations. Enhanced distribution needs have contributed to robust rent growth, with market rates climbing nearly 32 percent from the onset of the pandemic to the end of 2022. Conversion activity is also having a significant impact on market conditions. Developers catering to Boston's thriving biotechnology sector are actively repositioning a sizable number of older industrial properties into lab and flex space. As these mid-20th century buildings are removed from inventory and a historic influx of warehouse and distribution facilities is finalized this year, significant gains in market rents should be recorded in the near term.

**Suburban investment surges, as buyers target last-mile assets.** Investor confidence sprang back last year as health conditions ameliorated. Deal flow in Greater Boston surged to record highs, driven by bidding activity in the metro's suburbs. As major conglomerates push to store goods close to consumers, intense buyer demand for exurban distribution facilities has reduced cap rates on larger warehouses to the 3 percent to 4 percent band, though sales in this category have been recorded with returns as low as 2 percent. Trading velocity is still recovering in Suffolk County, where the majority of properties exchanged in 2021 were part of larger portfolio deals. Despite this, investment volume should improve in urban Boston moving forward, as local governments lift extant COVID-19 restrictions, bringing the area closer to pre-pandemic norms.

## 2022 Market Forecast

### Employment

up 2.6%



Following a 7 percent surge in 2021, hiring velocity remains above the national average with 70,000 new jobs this year.

### Construction

5.9 million sq. ft.



This year's square footage represents the fastest expansion to existing inventory since 1999; high conversion and demolition activity, however, could temper these numbers.

### Vacancy

down 20 bps



A rapid construction schedule, in concert with enthusiastic leasing appetites, generates a multidecade record for absorption. Vacancy ends the year at 4.1 percent.

### Rent

up 6.9%



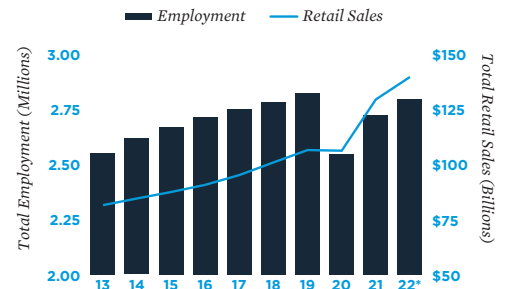
Decelerating from a 15 percent increase last year, metro rent growth remains solidly above the national average, as market rates hit an average of \$11.40 per square foot this year.

### Investment

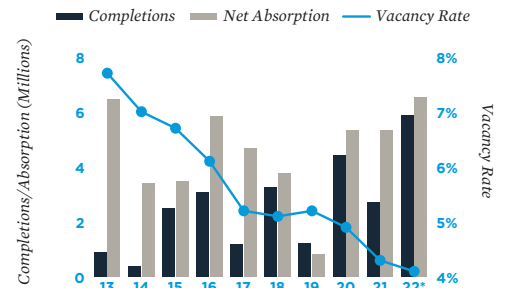


Middlesex County has become increasingly popular with buyers in search of flex space. Here, investors in the sub-\$10 million tranche target properties with a mix of office and industrial space in the 30,000- to 60,000-square-foot range.

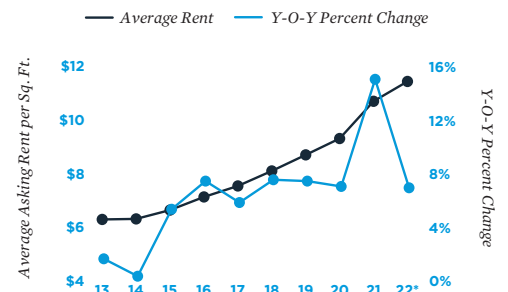
## Economic Trends



## Supply and Demand



## Rent Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.