

INVESTMENT FORECAST

INDUSTRIAL
Boston Metro Area

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2019

Drop-Off in Construction Activity Heightens Competition Among Renters and Investors

Logistics providers lease more space amid few completions, bolstering rents. A growing consumer base that expects rapid delivery of goods has increased the demand for distribution services, driving a greater need for industrial space. This trend has helped drop the market's vacancy to half its recession-era rate, and as availability declined, development expanded. Over the past four years, almost 10 million square feet of industrial space was added in the metro, five times the additions in the preceding four years. In 2019, the pace of construction slows considerably, with fewer than a million square feet to be completed. Most of those deliveries are concentrated south of Boston near I-495. The city of Norton alone will welcome 500,000 square feet as part of the mixed-use Bluestar Business Park. A lack of supply additions in other parts of the metro supports a retraction in vacancy this year, while the demand for last-mile delivery lifts asking rents in Suffolk County and surrounding areas.

Property fundamentals maintain investor interest. Consistent price appreciation along with reduced vacancy and continued rent growth pave the way for another year of elevated transaction velocity. Buyers have shown more interest in recent months for assets located north and south of Boston and along the I-495 corridor. Sales prices are lower here while transit options remain robust due to its interstate access. Some investors are willing to incur greater entry costs for improved proximity to the urban core. These properties attract high-quality tenants, including the last-mile delivery operations of nationally recognized distributors, contributing to cap rates in the 5 percent range. More remote facilities that require modification to meet the needs of logistic firms can trade with initial yields as high as the mid-7 to mid-8 percent zone.

2019 Market Forecast

- Employment up 1.2%

The pace of hiring will ease this year as 35,000 positions are added. In 2018 employment growth reached 1.8 percent.
- Construction 890,000 sq. ft.

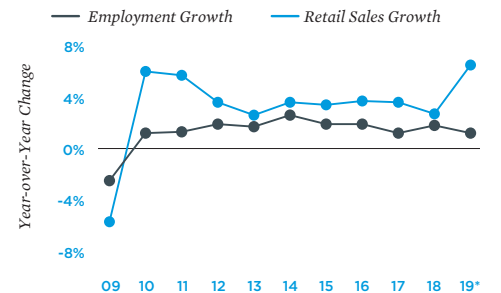
The development pipeline will contract by roughly two-thirds as less space is added to the metro in 2019 than in any year since 2014 when 370,000 square feet was completed.
- Vacancy down 40 bps

A notably reduced completions schedule falls well below the anticipated level of absorptions, supporting a drop in the vacancy rate to 5.1 percent after the metric remained flat in 2018.
- Rent up 6.5%

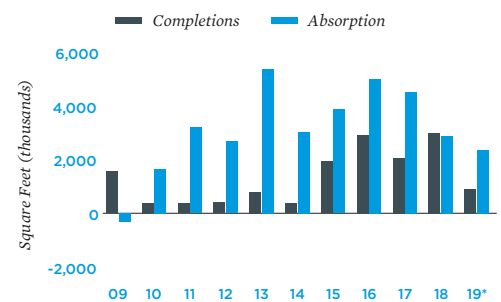
Rent growth will moderate from 2018's pace of 7.9 percent, but it remains well above the trailing five-year annual average as the average asking rate advances to \$8.48 per square foot.
- Investment

Private capital is pursuing low-entry-cost opportunities with pre-1990, Class C warehouse and manufacturing space close to the New Hampshire boarder as well as some post-2000-built options in Norfolk, Franklin, and Middleborough.

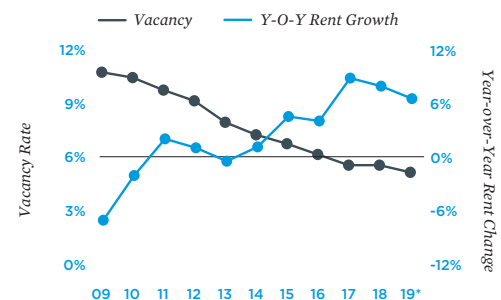
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast;
Sources: CoStar Group, Inc.; Real Capital Analytics

Alan Pontius

Senior Vice President | National Director
National Office and Industrial Properties
(415) 963-3000
apontius@ipausa.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2018. Asking rent is based on the full-service marketed rental rate. 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. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.