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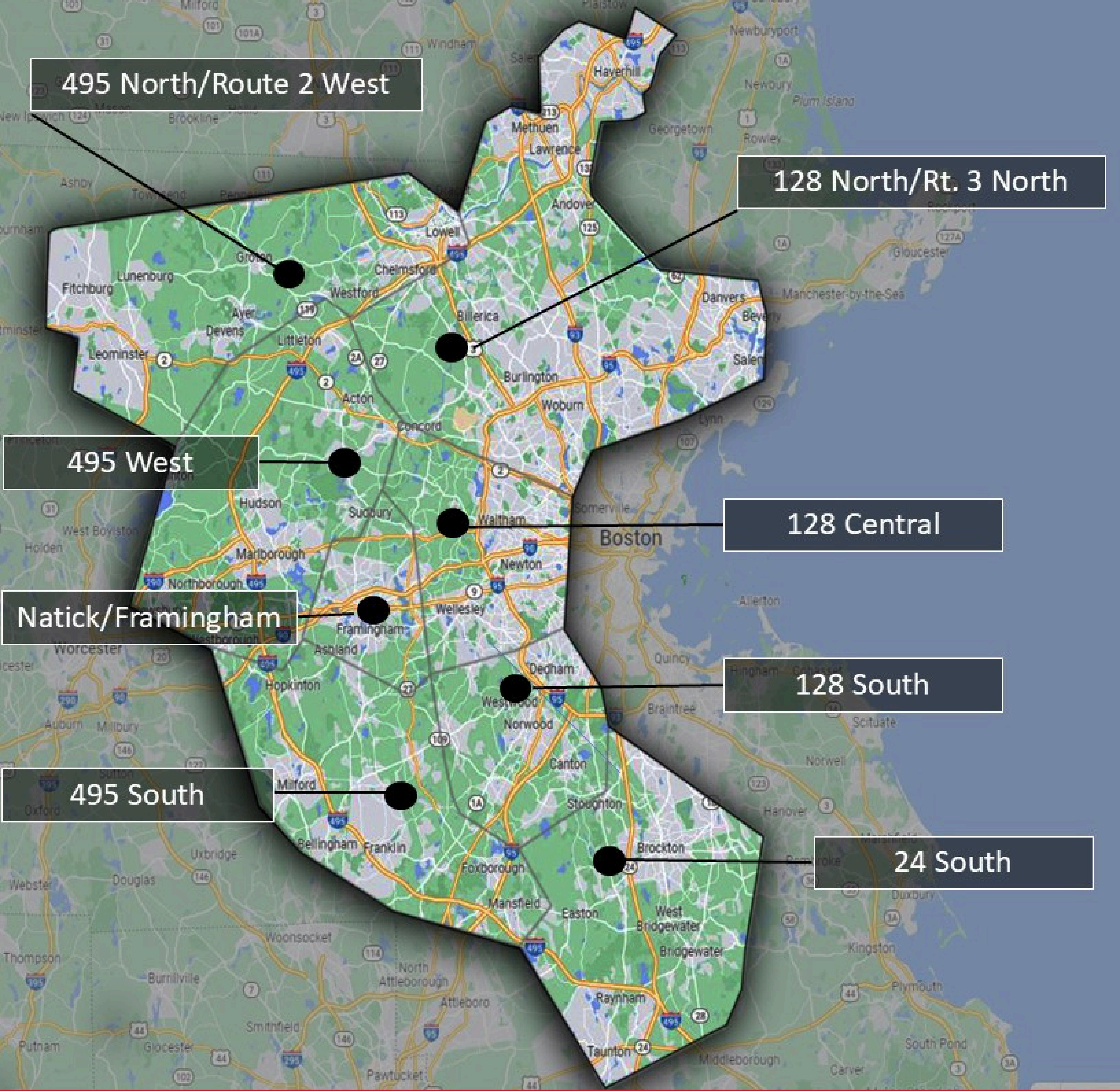
Q3 2024 REPORT

Greater Boston Market Report

By: R.W. Holmes Commercial Real Estate



Q3 2024

SUBMARKET DATA

GREATER BOSTON SUBMARKETS

128 CENTRAL | Office

MARKET RECAP

- **Increased Market Activity Since September:** While the summer saw few major blockbuster deals, activity has noticeably picked up since September. We've observed more tour activity and a heightened sense of urgency with the start of Fall. There appears to be a slightly renewed sense of confidence in the market, with even larger office users (25,000 SF and above) becoming more active. This was highlighted by several leases that have been ongoing for the better part of 2024, including Commonwealth Financial leasing 151,000 SF at 275 Wyman, Vanguard Renewable transitioning from sublease to direct lease of 45,000 SF at 133 Boston Post Road, and Evolv Technologies' renewal/expansion at 500 Totten Pond.

- **Owner-Occupants Leading the Central 128 Acquisition Market:** Owner-occupants have become the major player in the Central 128 acquisitions market. We are seeing office properties under agreement with owner-occupants ranging from 5,000 SF to 70,000 SF. While owner-occupants were previously more prevalent in the flex/industrial acquisitions, there has been a steady increase in office acquisitions by owner-occupants who are looking to buy at favorable prices and secure below-market rents compared to leasing similar spaces.

- **Shift in Large Developments:** Many large developments in Central 128 are shifting their designs and plans, reducing office space and incorporating more multi-family and retail components. Northland's Newton project, for example, has proposed changes that would remove approximately 172,000 SF of office space to be converted into residential units. Similarly, Mark Development's revised Riverside plan includes solely residential in Phase 1, with Phase 2 being reconsidered from 150,000 SF of office/lab to all residential.

WHAT WE WILL BE WATCHING

- **High-Vacancy Office Properties Quietly Entering the Market:** Several high-vacancy office properties are being quietly brought to market or are under agreement in off-market transactions. While other submarkets have a few data points on high-vacancy office sales, these will be among the first in the Central 128 market. We are closely monitoring the pricing for these properties, as it will set expectations for other owners who are waiting on the sidelines to sell.

- **Leasing Activity Centered on Smaller Spaces:** Leasing activity continues to concentrate on smaller spaces under 5,000 SF. We are watching to see whether more landlords will "bite the bullet" and subdivide larger blocks or explore other creative solutions to convert excess office space. Some owners have shifted to medical offices or R&D uses where possible. For example, the sale of 63 Kendrick will refocus the property away from traditional office use to R&D under new ownership. Other landlords with larger parcels are considering multi-family conversions, though many are constrained by local restrictions and construction costs, making a quick pivot challenging. We are curious to see how owners will find creative solutions to reduce excess office space, as we do not anticipate demand for traditional office space to fully rebound in 2025.

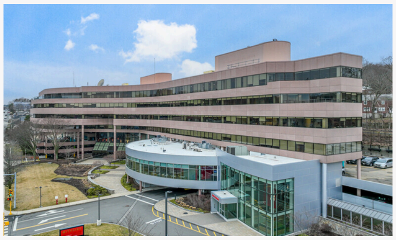
RECAP OF MARKET HEALTH

30,839,472 TOTAL SQUARE FEET	20.5% VACANCY RATE	$39.00/SF AVERAGE RATE (GROSS) CLASS A & B SPACE	583,000 SQUARE FEET UNDER CONSTRUCTION

NOTEWORTHY TRANSACTIONS

SALE
23 Elm Street, Watertown
$55,700,000 ($746/SF)
Shannon Life Sciences

SALE
63 Kendrick Street, Needham
$13,500,000 ($128/SF)
Edgewater Properties



LEASE
1075 Main Street, Waltham
22,342 SF
Next Insurance

128 NORTH/RT. 3 NORTH | Office

SUBMARKET NEWS

MARKET RECAP

- **Q3 Leasing Activity Remains Limited**: Q3 was quiet for leasing activity, with only a handful of deals to note above 10,000 SF. 3Step Sports taking 24,000 SF at 500 Unicorn Park in Woburn via sublease and Spear Bio expanding in the Cummings portfolio at 100 TradeCenter in Woburn were major highlights.

- **Rising Rents Despite Limited Tenant Activity and Higher Vacancies:** Average rents continue to climb quarter over quarter north of Boston. Despite a limited, active tenant pool and climbing vacancy rates, the market has become difficult for tenants to identify value on a rent basis. Looking at recent deals in the North market, the new deals we have seen revolve largely around strong existing conditions that have required minimal buildout costs. 3Step's move to 500 Unicorn is a recent example as a sublease.

- **Q3 Office Sales Volume Reaches $46 Million:** Sales volume for office buildings in Q3 was about $46,000,000, the bulk of which can be attributed to 601W's acquisition of 1 Radcliff in Tewksbury. The 140,000 SF two-story property is 100% leased to Leidos, a government contractor focused on AI. Multi-tenant office continues to have limited appeal to investors, even for stabilized, cash flowing product in the suburbs. Looking at average sales volume over the past two years, quarterly office sales volume resembles the period following the '08-'09 recession, where the cost per SF rose (from $127/SF to $162/SF) with limited volume over about two years.

WHAT WE WILL BE WATCHING

- **Increased Leasing Activity Expected in Q4:** With limited leasing activity in Q3, we expect activity to pick up as we move into the Fall. We are tracking active requirements and inquiries on space which are up by 30% from July-August to September-October. As such, we are optimistic we will see market absorption continue to trend upward towards the end of the year.

- **Growing Sales Volume and User Acquisition Interest:** We are also optimistic that sales volume will continue to climb. Several users are touring in the market to acquire vacant office product for their use. We also see increased interest from non-institutional investors chasing opportunities below replacement cost. Average sale cost per SF continues to drop since Q1 2021, down from an average of $262/SF to about $240/SF today.

RECAP OF MARKET HEALTH

50,000,000	17.75%	$28.75/SF	0
TOTAL SQUARE FEET	VACANCY RATE	AVERAGE RATE (GROSS) CLASS A & B SPACE	SQUARE FEET UNDER CONSTRUCTION

NOTEWORTHY TRANSACTIONS

SUBLEASE
500 Unicorn Park Drive, Woburn
24,000 SF
3Step Sports

SALE
1 Radcliff Road, Tewksbury
$35,000,000 ($250/SF)
The 601W Companies

RENEWAL
600 W. Cummings Park, Woburn
180,000 SF
Systems Technology & Research

NATICK/FRAMINGHAM | Office

SUBMARKET NEWS

MARKET RECAP

- **Positive Net Absorption in the Natick and Framingham Office Market:** For the first time in a long time, the Natick and Framingham office market posted a positive net absorption of nearly 60,000 SF. A major factor contributing to this improvement was the addition of only 5,000 SF of new (direct) vacancy throughout the entire quarter. This is a welcome change for a market that has consistently experienced negative or flat absorption for nearly five years. However, the highest concentration of leases remains in the 2,000-4,000 SF range, while larger blocks of space continue to pose a challenge.

- **ABI-LABS Begins Marketing New Lab Space at 3 Dean Road, Natick:** ABI-LABS has started formally marketing the first floor of their soon-to-be-complete incubator lab facility, totaling approximately 34,500 SF. After successfully pre-leasing the second floor to groups expanding from other sites in the Natick Business Park, the entire first floor—totaling 17,250 SF—is now available for lease—the turnkey spec lab units' range in size from 1,200 SF up to 13,000 SF.

- **KalVista Pharmaceuticals Moving Corporate Headquarters to Framingham:** Positive news for the beleaguered life sciences market, as KalVista Pharmaceuticals Inc. plans to relocate its corporate headquarters from Cambridge to 200 Crossing Boulevard in Framingham. The 10-year-old biotech company has signed a lease with Jadian Capital for 32,110 SF—more than triple the size of their previous space in Cambridge. KalVista specializes in cutting-edge research and drug development for rare genetic diseases.

WHAT WE WILL BE WATCHING

- **Potential Redevelopment of 500 Old Connecticut Path, Framingham:** Carruth Capital is considering the potential redevelopment of its 364,800 SF office campus at 500 Old Connecticut Path in Framingham. The four-building office park, which overlooks the Mass Pike, was previously home to companies like TJX Companies and, more recently, biotech firm BPG Bio, who plan to move to 300 Third Ave. in Waltham mid-2025. Although retaining the buildings as office space is not entirely off the table, Carruth is exploring other options, with big-box retail being one of the primary considerations at the moment.

RECAP OF MARKET HEALTH

8,450,000	10.25%	$25.75/SF	0
TOTAL SQUARE FEET	VACANCY RATE	AVERAGE RATE (GROSS) CLASS A & B SPACE	SQUARE FEET UNDER CONSTRUCTION

NOTEWORTHY TRANSACTIONS

LEASE
200 Crossing Boulevard, Framingham
32,000 SF
KalVista Pharmaceuticals, Inc

SALE
83 Speen Street, Natick
$2,700,000 ($321/SF)
Speen Street, LLC

LEASE
190 North Main Street, Natick
4,514 SF
McCourt Construction

495 WEST | Office

SUBMARKET NEWS

MARKET RECAP

- **Creative Repositioning of 118 Turnpike Road, Southborough:** With limited activity in the office market, ownership at 118 Turnpike Road in Southborough is taking an innovative approach. Ferris Development, the property owner, recently repainted the exterior and is repositioning the first floor for retail/mixed-use purposes. One tenant has already opened on October 1, generating significant activity. While not all properties will be able to adapt in this manner, thinking outside the box will get attention and deal flow.
- **Tenants Reducing Space Requirements:** Tenants coming to the market are still adjusting their square footage needs—and not in ways that landlords want to hear. A prime example is Liberty Mutual's Westborough location: while they currently occupy 15,000 SF, they are looking to reduce that space by nearly 50%.
- **Ample Availability for Larger Space Requirements:** Looking for over 10,000 SF? As of this writing, there are 23 buildings that can accommodate such requirements, with over 40 available spaces to consider. While large companies like Amazon and Dell have instituted new policies requiring some workers to be in the office five days a week, it will still take years before we see a significant reduction in vacancy rates.

WHAT WE WILL BE WATCHING

- **Increased Interest from Medical Tenants:** There are many medical uses in the market that are looking to take advantage of the higher vacancies. Landlords were reticent to look at users such as behavioral health care, adult day care, and other similar uses as they were concerned about the effect that it could have on other existing Tenants (Epiphany Wellness who recently opened their Southboro location, and ABI New England who currently have five locations and are looking to expand along 495). As time goes by, Landlords are increasingly open to these types of uses as long it does not negatively impact the building.
- **Rising Lab Space Vacancies in the Boros:** Lab opportunities in the Boros continue to pile up. Recently, Indo Labs, a marijuana testing facility, announced it would be closing its doors, adding just over 10,000 SF of additional lab space to the market. This brings the total available lab space in the Boros to approximately 295,000 SF. Unfortunately, it doesn't appear that this number will be decreasing anytime soon, which has led some landlords to remove older, dated lab infrastructure and market as flex/industrial.

RECAP OF MARKET HEALTH

12,016,400 TOTAL SQUARE FEET	23.75% VACANCY RATE	$21.50/SF AVERAGE RATE (GROSS) CLASS A & B SPACE	0 SQUARE FEET UNDER CONSTRUCTION

NOTEWORTHY TRANSACTIONS

LEASE
One Technology Drive, Westborough
20,000 SF
UMASS

LEASE
134 Turnpike Road, Southborough
13,698 SF
Code Red

LEASE
1 Research Drive, Westborough
16,000 SF
Machimpex

128 NORTH/RT. 3 NORTH | Industrial

SUBMARKET NEWS

MARKET RECAP

- **Industrial Vacancy Continues to Increase for the Third Straight Quarter:** For the third straight quarter, industrial vacancy continues to increase and now stands at 7%. This is a full 2-point swing from 5% this same time in 2023. It is important to note the context of this, while we have not seen a 7% vacancy rate since 2014, we also historically have not seen the influx of over 5,500,000 SF of new supply into the market.
- **Leasing Activity Focused on Smaller Infill Deals:** Leasing activity in Q3 was largely limited to smaller infill deals under 40,000 SF. Notable transactions include InfraServices Group taking 36,000 SF at 33 Glen Ave in Chelmsford, Boston Dynamics leasing 33,000 SF at 44 Dunham Road in Billerica, and UTZ Brands securing 30,000 SF at 38 Upton Drive in Wilmington.
- **Strong Sales Activity Among Users and Investors:** Sale activity continues to be strong both to users and investors. Oliver Street Capital's portfolio sale to Stag Industrial of 91-101 Glenn in Lawrence (90,000 SF), 180 New Boston in Woburn (66,000 SF), 7 Connector in Andover (60,000 SF), 353 Middlesex in Wilmington (43,000 SF) and 41 Atlantic (30,000 SF) is a sign that shallow bay, older generation industrial product is still highly sought after.

WHAT WE WILL BE WATCHING

- **Potential Rate Adjustments Amid High Vacancy Rates:** As the market emerges into a high single digit vacancy rate, we are optimistic that rates will soften for users yet remain sustainable for landlords that may have entered the market via a higher cost basis in the most recent cycle. Some recent lease comps indicate that trend, as deals that may have once been inked in the low $20s are now starting in the upper teens NNN.
- **Resilience of Older-Generation Properties:** Older generation products remain a stalwart due to infill opportunities and softer pricing for users. Options for users under 30,000 SF continue to remain limited. As such, some of the newer product will consider subdivision as evidenced in Davis' decision to subdivide 110,000 SF down to 30,000 SF suites at 38 Upton Drive in Wilmington. We expect to see more of these subdivisions in some of the large, high bay, new generation builds that have delivered in the last year.

RECAP OF MARKET HEALTH

105,000,000
TOTAL SQUARE FEET

7.0%
VACANCY RATE

$18.00/SF NNN
AVERAGE RATE

312,000 SF
SQUARE FEET
UNDER CONSTRUCTION

NOTEWORTHY TRANSACTIONS

LEASE
33 Glen Avenue, Chelmsford
36,000 SF
InfraServices Group

SALE
180 New Boston Street, Woburn
$19,500,000 ($293/SF)
STAG Industrial

SALE
210 New Boston Street, Woburn
$6,900,000 ($287/SF)
Milton CAT

128 SOUTH | Industrial

SUBMARKET NEWS

MARKET RECAP

- **128 South: A Hotspot for Investor Activity:** The 128 South market remains one of the most active regions for investor acquisitions. Q3 saw a flurry of transactions, dispelling concerns about how investors would handle their 5-year holds in the current environment. Seyon and Wheelock demonstrated the ability to turn a profit with fully occupied, high-quality properties. Notably, 2 Kay Way in Stoughton (a 100,000 SF, fully leased industrial building) and 20 Dan Road (a 100,000 SF, fully leased flex/R&D building) both traded for over $240/SF.

- **Patience from Owners of Larger Spaces:** Owners with spaces exceeding 40,000 SF available for lease continue to exercise patience, given the current market conditions. Since the beginning of 2024, only 7 new industrial leases over 30,000 SF have been signed in the submarket. While larger, big-box owners have already begun considering subdivision options, these discussions are now happening with owners who have mid-sized buildings in the 40,000–75,000 SF range as well.

- **Incentives to Attract Larger Tenants:** Rental rate discounts are being offered to attract larger tenants to the market. Although asking rates have not formally dropped, owners are quietly offering discounts—typically in the range of $2-4/SF—if a tenant commits to a longer-term lease with minimal tenant improvement allowances. However, for tenants seeking spaces under 20,000 SF, rents have remained stable, consistent with the pricing levels of the past three years, with limited room for negotiation.

WHAT WE WILL BE WATCHING

- **Increased Off-Market Sale Opportunities:** More off-market sale opportunities are quietly emerging in the 128 South market, particularly with high-vacancy industrial properties. While owners are not yet offering significant discounts, their willingness to review unsolicited offers at 10-20% below peak pricing has increased significantly in late 2024.

- **Growing Tenant Interest from Outside the 128 South Market:** Tenant activity from outside the 128 South market has been rising. While tenants from pricier areas, such as Central 128, have traditionally looked south for rent relief (a major driver of market activity), we are now seeing growing interest from tenants in Rt 24 and 495 West considering the 128 South submarket. This trend is partly due to the slight softening of rental rates. We are keen to see if any of these larger tenants from outside submarkets commit to relocating to 128 South.

RECAP OF MARKET HEALTH

17,368,000 TOTAL SQUARE FEET	6.0% VACANCY RATE	$14.00 NNN AVERAGE RATE	0 SQUARE FEET UNDER CONSTRUCTION

NOTEWORTHY TRANSACTIONS

LEASE
800 Technology Center Drive, Stoughton
32,000 SF
Channel Fish Processing

LEASE
135 Will Drive, Canton
102,000 SF
Gold Star Foods

RENEWAL
60 Glacier Drive, Westwood
60,000 SF
Group 1 Auto

495 NORTH/WEST RT.2 | Industrial

SUBMARKET NEWS

MARKET RECAP

- **Route 2 / 495 North Industrial Market Vacancy Rises:** The Route 2 / 495 North Industrial market vacancy rate increased again, rising from 7.2% last quarter to 7.6%. Transaction volume remained relatively unchanged, with approximately 8 sales and 10 leases recorded in the past 90 days. This marks a continued suppressed level of activity compared to previous years. Nearly 20 separate build-to-suit logistics and manufacturing buildings are currently being marketed but will not move forward with construction until a tenant is in place.

- **Hiper Global Signs 72,500 SF Lease at 550 King Street, Littleton:** Hiper Global has signed a 72,500 SF lease at 550 King Street in Littleton for its new U.S. headquarters. The property is part of the mixed-use planned development known as King Street Crossing. The developer, Lupoli Companies, plans to include approximately 1,000 residential units, a hotel, and 115,000 SF of retail space, in addition to the existing 600,000 SF of office space.

- **Equity Industrial Partners Acquires Land in Westminster for $16.9M**: Equity Industrial Partners purchased 50.75 acres of land in Westminster for $16.9 million. Home Depot has signed a lease for the property, allowing for the construction of a 600,000 SF build-to-suit distribution building.

WHAT WE WILL BE WATCHING

- **Impact of Rising Vacancy Rates and Changing Market Dynamics:** While some new developments remain vacant—such as the 100,000 SF at 135 Intervale Road in Fitchburg and the 290,000 SF at 475 Leominster Shirley Road in Lunenburg—speculative development is not the main driver of the rising vacancy rates. Over the past 18 months, spaces over 50,000 SF have been taking longer to lease, while spaces under 50,000 SF were in high demand and leasing quickly. This trend, however, is starting to shift. Buildings with available space between 20,000 and 50,000 SF are now taking an average of 11 months to lease. This extended time on the market suggests that demand for smaller spaces may be weakening, and it will be critical to monitor how these shifts affect overall market absorption in the coming quarters.

RECAP OF MARKET HEALTH

56,100,000
TOTAL SQUARE FEET

7.6%
VACANCY RATE

$13.50/SF NNN
AVERAGE RATE

103,000
SQUARE FEET
UNDER CONSTRUCTION

NOTEWORTHY TRANSACTIONS

SALE
488 Main Street, Leominster
$1,800,000 ($77/SF)
Black Bear Coatings

LEASE
471 Lancaster Street, Leominster
24,837 SF
Picolet Pickleball

LEASE
550 King Street, Littleton
72,500 SF
Hiper Global

495 SOUTH | Industrial

SUBMARKET NEWS

MARKET RECAP

- **Increased Availability in the South Industrial Market:** The South Industrial Market in Q3 continues a modest trend towards greater availability as vacancy rates increased from 7.4% in Q2 2024 to 7.8%, along with a slightly lower new construction rate, down to 212,000 SF from 238,000 SF last quarter.
- **Steady but Slower Leasing Activity:** Leasing activity remained at a consistent summer pace, albeit significantly less than a year ago, with rates still rising from the previous quarter of $13.75/SF NNN to an average of just over $14.00/SF NNN. Most impacted are the larger size requirements from 100,000 SF plus, which were very quiet. However, Oliver Street Capital scored an impressive lease on 92,000 SF with Champagne Logistics at 15 Liberty Way, Franklin.
- **Franklin's Market Strength Continues:** Despite newer alternatives in the Bellingham, Wrentham, and Plainville areas, Franklin has consistently outperformed other markets as a major target area for investors and industrial users. The dual 495 Interchanges have allowed for immediate access without pedestrian traffic despite the rapid residential and commercial growth of the town.

WHAT WE WILL BE WATCHING

- **Market Activity and Interest Rate Impact:** The expectations for the balance of 2024 are for more of the same levels of lighter activity for both sale and leasing transactions. However, we expect the reduction in interest rates going forward will compel more buyers to chase both investment and owner-occupied sales as buying power increases. Geographically, companies will also continue to venture away from traditional market comfort zones to chase available buying opportunities, and we expect this to continue as the growth and success of the Massachusetts industrial sector expands into Greater New England, New Hampshire, and Maine.

RECAP OF MARKET HEALTH

53,000,000 TOTAL SQUARE FEET	7.8% VACANCY RATE	$14.00/SF NNN AVERAGE RATE	212,000 SQUARE FEET UNDER CONSTRUCTION

NOTEWORTHY TRANSACTIONS

SALE
259 Cottage Street, Franklin
$4,500,000 ($138/SF)
Potter Industries

LEASE RENEWAL
400 Main Street, Ashland
220,000 SF
Kidde Fenwal

LEASE
15 Liberty Way, Franklin
92,000 SF
Champagne Logistics

RT. 24 | Industrial

SUBMARKET NEWS

MARKET RECAP

- **Large Supply of New Construction Projects:** Approximately 1,000,000 SF is currently under construction, with an additional 4,450,000 SF proposed. However, the pace of new projects breaking ground has nearly come to a standstill as the market is flooded with new inventory of large high-bay warehouses.
- **Rents Stabilizing and Tenant Concessions Increasing:** Asking rents appear to have peaked and, in some cases, have slightly decreased compared to previous levels. Tenant concessions are on the rise. Some submarkets, such as Easton and Randolph/Braintree, have limited available product, while other areas like Taunton and Bridgewater have an abundant supply of properties across all sizes.
- **Limited Sales Activity in 2024**: On the sale side, very few purchase opportunities exist throughout 2024, with most owners reluctant to place properties on the market while holding out for the likely tenants willing to relocate to newer, more efficient, or accessible locations. EQT Exeter, however, was able to pry a two-asset portfolio away from Berkley in Taunton at 385 Myles Standish and 295 Constitution, with prices ranging from $162/SF to $215/SF, respectively.
- **New Development in Fall River**: In Fall River, site work has begun for a 200,000 SF building as part of a planned four-building development, dubbed The Campus at Innovation Way. Although more space is coming available, high existing lease rates are still holding steady, particularly for spaces under 20,000 SF.

WHAT WE WILL BE WATCHING

- **Increased Inventory Outpacing Absorption:** The continued addition of new industrial product is contributing to an oversupply that the market is struggling to absorb, a trend that has persisted for several quarters now.
- **High Levels of Industrial Sublease Space:** This is the highest volume of industrial subleases on the market in years, with available sizes ranging from 3,000 SF to 100,000 SF. It remains to be seen how this influx of sublease space will impact the existing inventory and overall market dynamics. We have seen in other submarkets major subleases leading to property sales due to tenant distress.

RECAP OF MARKET HEALTH

46,800,000	9.5%	$12.50/SF	1,000,000
TOTAL SQUARE FEET	VACANCY RATE	AVERAGE RATE	SQUARE FEET UNDER CONSTRUCTION

NOTEWORTHY TRANSACTIONS

SALE
295 Constitution Drive, Taunton
$6,890,000 ($162/SF)
EQT Exeter

SALE
385 Myles Standish Blvd, Taunton
$30,460,000 ($215/SF)
EQT Exeter

SALE
40 Strafello Drive, Avon
$17,300,000 ($186/SF)
The Seyon Group

Thank you to our clients for your partnership over the past 48 years.

R.W. Holmes continues our unrelenting efforts to provide our clients with the most data-driven, creative, and hands-on service in the Greater Boston Market.

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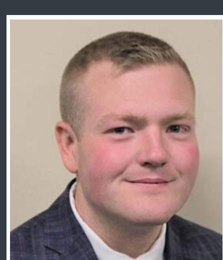

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