

Q3 - 2023

THE KLEIN REPORT

Market Overview

By: Harrison Klein, FVP Investments

In the third quarter, we learned that inflation has slowed with CPI finding a new normal in the 3.5% range, about 1.5% above the “target” rate. “Higher for longer” is becoming an almost universally agreed-upon axiom. What does this mean for office and industrial owners? Most likely, cap rates are not going back to the extremely seller-favorable levels seen in 2021 for at least 18 months. Today, 5 five-year fixed rate debt costs roughly 7%. We expect rates to hold in that range for the immediate future. This actually creates an opportunity for buyers who can source deals in today’s scarce market. Anyone buying today will most likely have an opportunity to refinance in the next 3-5 years at a rate no higher than 5%. On a seven-cap acquisition, that refinance will represent a 76% increase in cash flow (assuming a 5% refinance and unchanged NOI). Inflation that is already slowing indicates that we are likely not to see an event with astronomically high rates like that occurred in the 1980s.

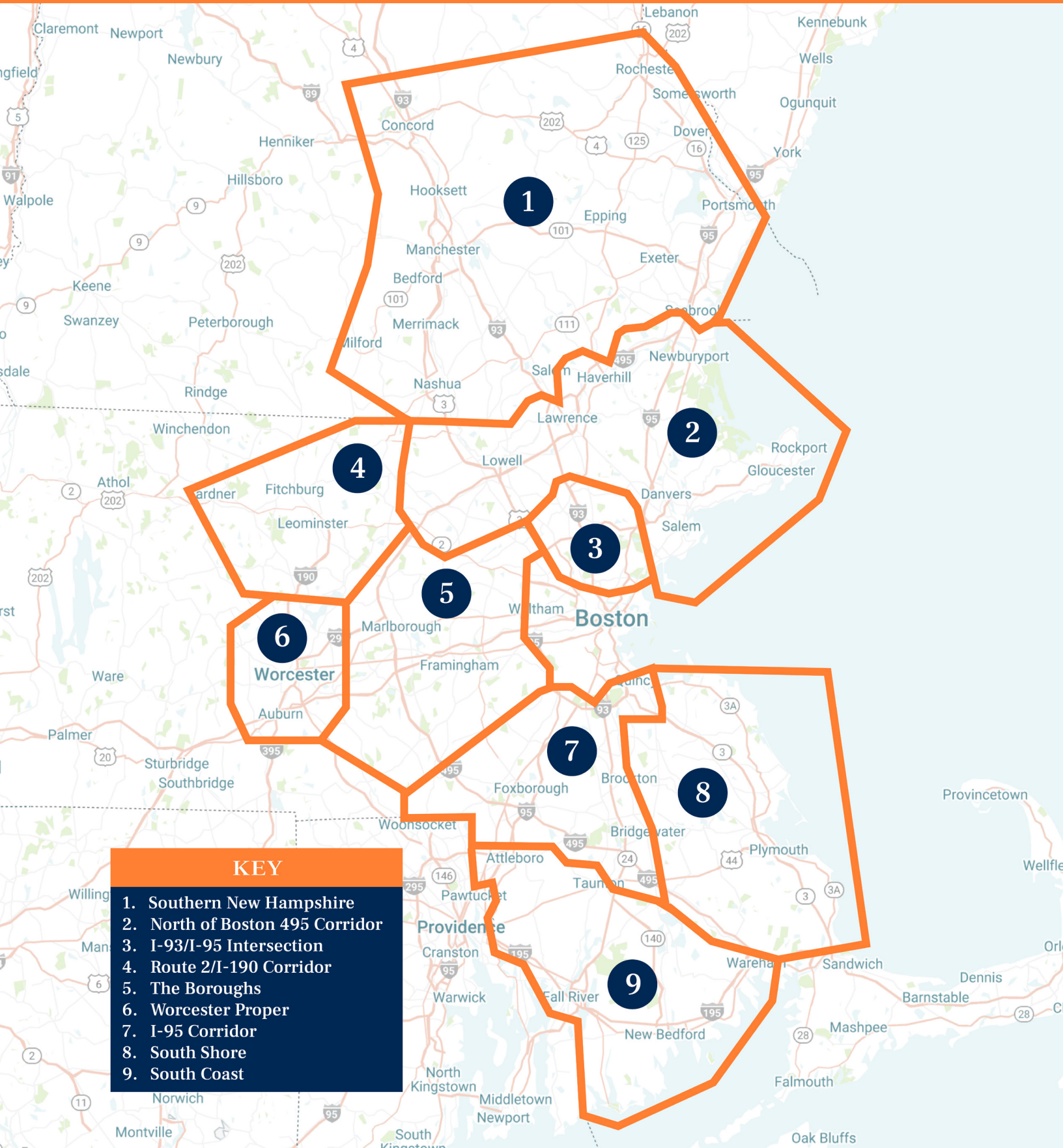
Industrial tenant demand continues to outpace supply, especially for spaces under 75,000 SF. We have put three properties under contract with owner-occupants at price records in the past two months. High-quality space located near transit corridors is starting to shine compared to C/D class properties in lower-quality locations. Small Bay, defined at units under 10,000 SF, is a particular high point. The space is starting to become more institutionalized. The \$50+ million sale on Fimmel Drive in Weymouth is indicative of this institutionalization of the product. We remain very bullish on this product.

Looking ahead to the 4th quarter and 2024, we expect to continue to see a market with depressed velocity. This is primarily caused by high current interest rates standing in sharp contrast to the rates many owners secured in 2020-2022. We are already having conversations with owners needing to refinance in late 2024-2026. The owners we are talking to are not in distressed situations. Many however face situations with massively lower cash flow projections upon refinancing at higher rates. This cashflow compression will most likely move some potential sellers off the sidelines, creating inventory. We recommend all owners run refinance projections for any properties with debt maturing before 2027. Our team is happy to help with this analysis.

In the third quarter, The Klein Group listed seven warehouses and two office buildings for sale, closed five transactions, and placed four properties under contract. Zero of these transactions are distressed or sellers that “needed” to sell.

Feel free to reach out to me to discuss the market, refinancing scenarios, or the value of your property.

THE KLEIN REPORT



KEY

- 1. Southern New Hampshire
- 2. North of Boston 495 Corridor
- 3. I-93/I-95 Intersection
- 4. Route 2/I-190 Corridor
- 5. The Boroughs
- 6. Worcester Proper
- 7. I-95 Corridor
- 8. South Shore
- 9. South Coast

Southern New Hampshire - Submarket Overview

By: Luigi Lessa, Senior Associate - North Region Specialist

In Q3, despite interest rates rising above 7%, the Southern New Hampshire industrial market has remained strong, with buyer enthusiasm for modern industrial buildings undeterred due to a scarcity of available inventory. This high demand has allowed us to set multiple pricing records this year. Adding further momentum is the recent national recognition of 'ReGen Valley' in Southern New Hampshire as an emerging technology hub. Led by local biotech company Advanced Regenerative Manufacturing Institute and situated in Nashua and Manchester, the hub was one of just 31 selected from 370 nationwide applicants. With such strong market fundamentals and a rising profile as a center for innovation, we anticipate that pricing in the region will remain high for the foreseeable future, signaling an optimistic outlook for 2023 and beyond.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
234 Abby Road	Manchester, NH	Industrial	\$1,792,000	22,422	\$79.92
81 Priscilla Lane	Auburn, NH	Industrial	\$1,100,000	9,250	\$118.92
24 Commercial Drive	Brentwood, NH	Industrial	\$886,000	7,200	\$123.06

NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
180 Zachary Road	Manchester, NH	Industrial	2,400	\$13.50	NNN
1 Wall Street	Hudson, NH	Flex	8,823	\$14.95	NNN
1050 Perimeter Road	Manchester, NH	Flex	8,000	\$13.75	NNN
51 Faltin Drive	Manchester, NH	Industrial	11,189	\$10.72	NNN

North of Boston 495 Corridor - Submarket Overview

By: Luigi Lessa, Senior Associate - North Region Specialist

The N495 Corridor industrial sector witnessed a notable resurgence in its leasing activities this quarter. Renewed commitments coupled with significant new transactions led to a positive net absorption of 26,500 SF for the period. Consequently, the year-to-date absorption showcased a reduction to a deficit of 240,000 SF. The quarter concluded with the average listing prices in the N495 Corridor standing at \$19.60/SF NNN, marking a quarterly increment of \$0.08/SF NNN. Rental rates saw steady growth, with both supply and vacancy rates demonstrating consistency, registering at 6.2% and 3.8% respectively. This marginal decline in vacancy is attributed to the recent lease of a 70,000 SF facility at Third Avenue in Peabody by Abiomed, Inc. Furthermore, Gemline secured a fresh lease for 90,000 SF on 92 Glenn Street in Lawrence, propelling the total leasing volume to nearly 860,000 SF in the I95 Corridor. Renewals added another 275,000 SF with Synventive Molding Solutions renewing its 85,000 SF at 11 Centennial Drive in Peabody as a highlight. Rhino Capital marked a significant milestone with the commencement of 87,000 SF of speculative industrial construction at 41 Commerce Way in Tewksbury. These recent developments push the cumulative speculative construction for the broader Greater Boston area to approximately 3.85 million SF.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
6 Henry Graf Road	Newburyport, MA	Flex	\$11,361,266	76,479	\$148.55
45 Research Drive	Haverhill, MA	Industrial	\$4,000,000	30,360	\$131.75
31 Webster Street	Andover, MA	Flex	\$3,900,000	24,250	\$160.82

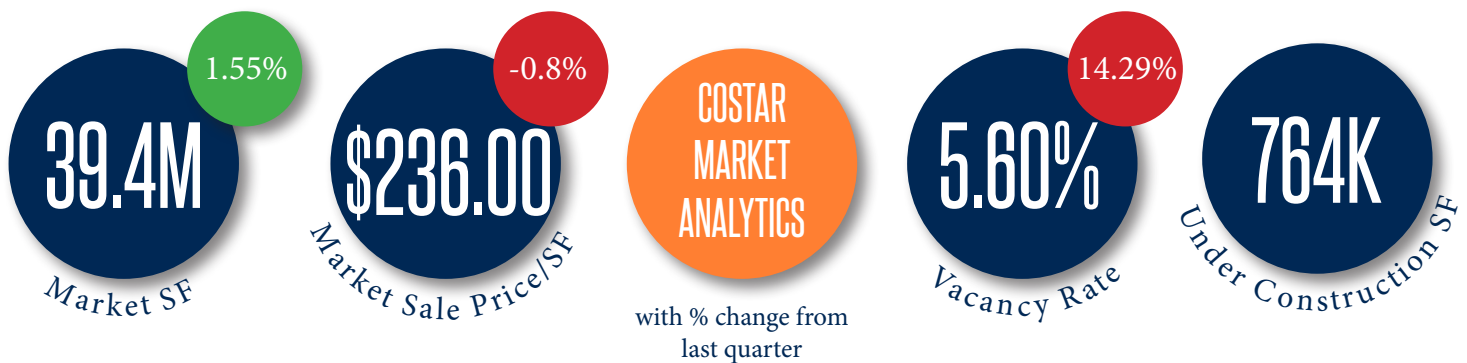
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
108 Middlesex Street	Chelmsford, MA	Industrial	3,000	\$14.00	NNN
208 S Main Street	Middleton, MA	Industrial	8,750	\$12.00	NNN
126 Park Street	Beverly, MA	Industrial	1,200	\$19.00	Modified Gross

I93/I-95 Intersection - Submarket Overview

By: Luigi Lessa, Senior Associate - North Region Specialist

In the I95 Corridor, specifically within Woburn and Wilmington, the industrial sector experienced significant leasing activities. Key transactions involved Locus Robotics and Eversource securing new spaces in Wilmington. Together, they account for over 300,000 SF, located at 100 Fordham Rd and 250 Ballardvale St. Despite these leases, the corridor witnessed an uptick in vacancy rates, rising to 5.9% from last year's 3.3%. This surge can be attributed to the delivery of an unprecedented 5.9 million SF this year, with a notable portion still vacant. However, the market's resilience is evident as asking rents remained consistent at \$14.39/SF, mirroring last year's figures. Moreover, the market dynamics underscored the dominance of smaller tenants. About 80% of active market participants are in pursuit of spaces less than 150,000 SF.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
760 Main Street	Wilmington, MA	Flex	\$4,150,000	24,498	\$169.40
62 & 72 Foundry Street	Wakefield, MA	Industrial	\$5,630,000	28,492	\$197.60
363 Middlesex Avenue	Wilmington, MA	Industrial	\$1,600,000	9,544	\$167.64

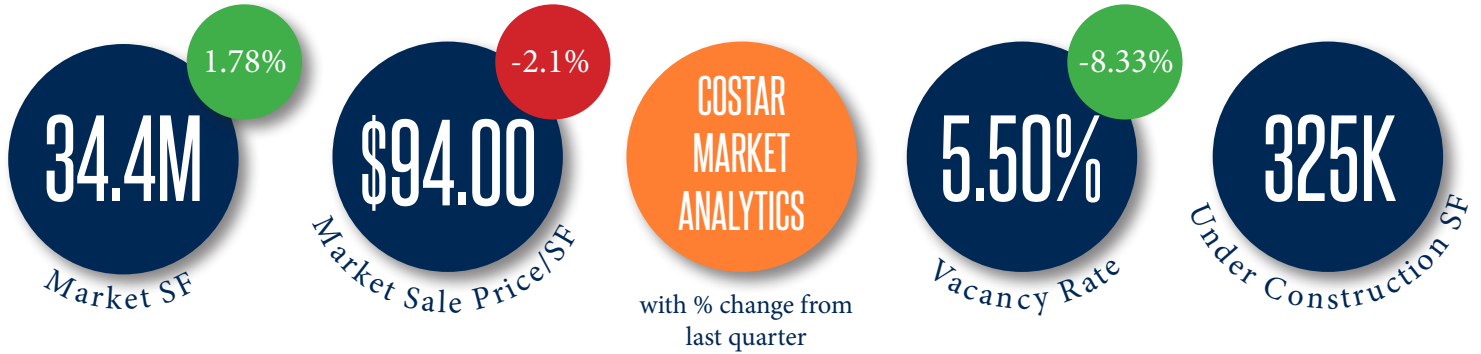
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
420 Pearl Street	Malden, MA	Industrial	23,055	\$16.00	NNN
730 East Street	Malden, MA	Industrial	2,076	\$12.00	+Utilities

Route 2/I-190 Corridor - Submarket Overview

By: Harrison Klein, FVP Investments

Rumors of buildings under contract in the \$125/SF range indicate a massive growth in this market over the past two years. Leominster in particular has seen 30% + year over year rent increases on A/B buildings. Serving as a blow off valve for users pushed from higher rent areas, Leominster is in the midst of a transformation into higher tech manufacturing and distribution.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
43 Nashua Road	Pepperell, MA	Industrial	\$11,000,000	21,600	\$69.44
25 Jytek Road	Leominster, MA	Industrial	\$12,400,000	14,590	\$109.66
164 Fredette Street	Gardner, MA	Industrial	\$5,400,000	73,352	\$73.62

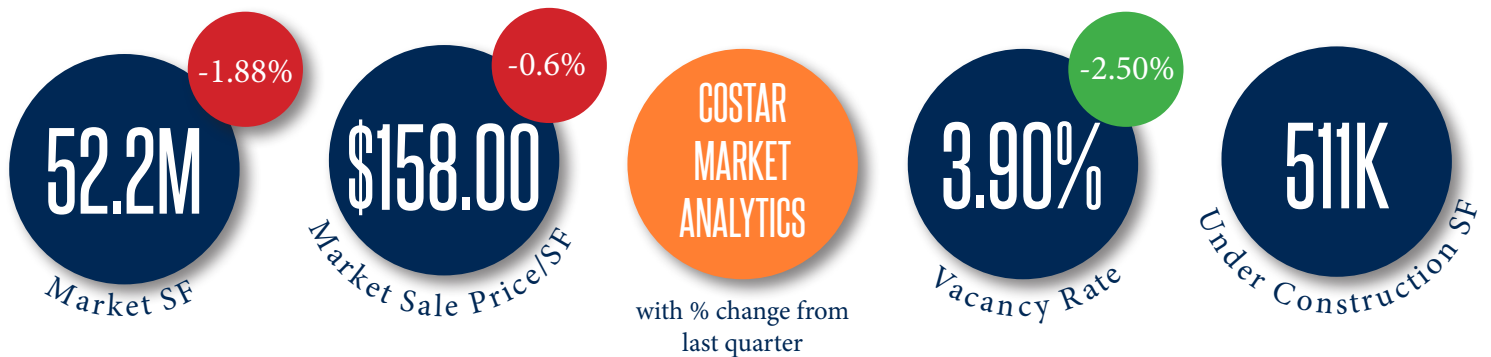
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
4 MacArthur Avenue	Devens, MA	Industrial	55,500	\$10.95	NNN
2 Peter Drive	Sterling, MA	Industrial	4,680	\$12.82	NNN

The Boroughs - Submarket Overview

By: Harrison Klein, FVP Investments

Demand remains high for space across the size and quality spectrum. A divide is growing between true distribution space and more generic “flex” space with limited loading. High office vacancy is likely to cause some sites to become available for industrial redevelopment in the coming year. The expected wave of GMP and lab projects in the metro-west area may not materialize this cycle as growth has slowed in that industry.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
45 West Street	Medfield, MA	Industrial	\$2,100,000	14,000	\$150.00
24 Williams Way	Bellingham, MA	Flex	\$5,200,000	34,000	\$152.94
90 Cherry Street	Hudson, MA	Industrial	\$2,100,000	15,548	\$135.07
220-230 Fortune Blvd	Milford, MA	Flex	\$10,250,000	91,095	\$112.52
*301 Barlett Street	Northborough, MA	Industrial	\$47,500,000	220,106	\$215.81
*150 Hayes Memorial Dr	Northborough, MA	Industrial	\$31,350,000	167,438	\$187.23

*Portfolio

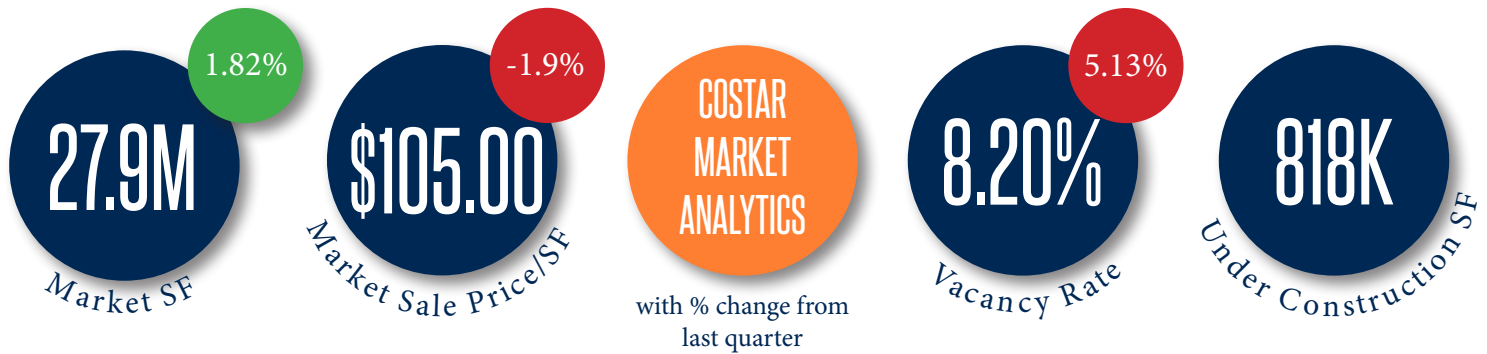
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
763 Waverly Street	Framingham, MA	Industrial	1,000	\$12.00	Gross
401 Elm Street	Marlborough, MA	Flex	39,600	\$6.00	NNN
30 Southville Road	Southborough, MA	Industrial	10,000	\$15.50	NNN
10 Charlesview Road	Hopedale, MA	Industrial	1,600	\$15.00	NNN

Worcester Proper - Submarket Overview

By: Harrison Klein, FVP Investments

New construction buildings are mostly leased up with rents of \$11-\$13/SF NNN. Sites originally envisioned as speculative builds are now waiting for a tenant before breaking ground. We've had multiple conversations with owners planning to build smaller buildings in the 8,000-20,000 SF range, this is being impacted by falling building costs. High quality space in Worcester remains nearly impossible to find, pushing rents ever higher.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
233-237 Old Webster Road	Oxford, MA	Industrial	\$1,245,132	34,080	\$36.54
*250 Washington Street	Auburn, MA	Industrial	\$3,800,000	15,500	-
*21 Technology Drive	Auburn, MA	Land	^	4.7 Acres	-
*23 Technology Drive	Auburn, MA	Land	^	2.3 Acres	-
130-130R Blackstone River Road	Worcester, MA	Ind & Flex	\$1,425,000	20,000	\$71.25

*Portfolio

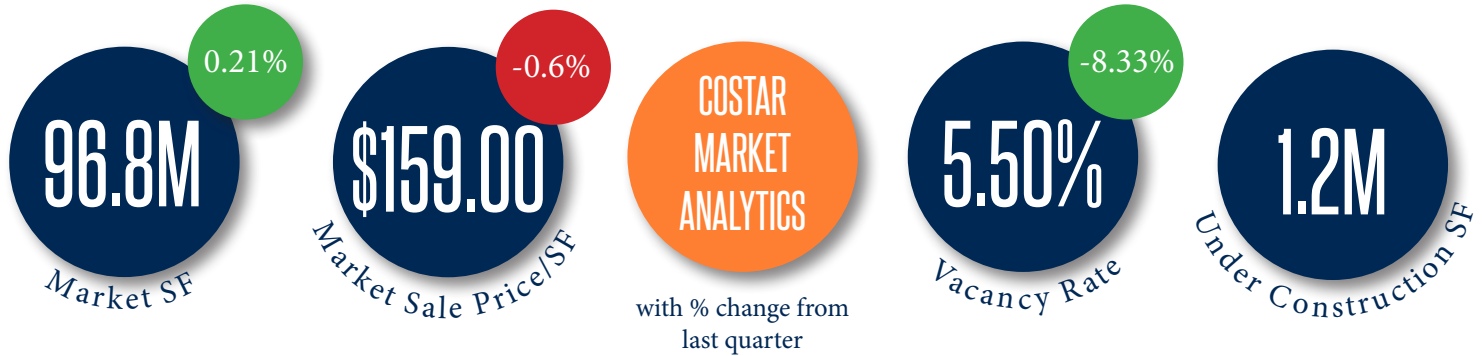
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
50 Howe Avenue	Millbury, MA	Industrial	15,080	\$9.25	NNN
28 Millbury Street	Auburn, MA	industrial	210,001	\$5.50	NNN

I-95 Corridor - Submarket Overview

By: James Manning, Associate - South Region Specialist

A significant lease was recently inked at 215 Plain St in North Attleboro, with an attractive rate of \$15/SF NNN, reflecting the ongoing demand for industrial space in the area. Meanwhile, sales values have remained relatively stable, indicating the resilience of the market. Also, a new industrial development site in Randolph has received the town's seal of approval.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
1 Pequot Way	Canton, MA	Industrial	\$5,633,000	36,032	\$156.33
37 Shuman Avenue	Stoughton, MA	Flex	\$3,000,000	25,800	\$116.28
108 Bodwell Street	Avon, MA	Industrial	\$11,250,000	49,090	\$229.17
20 Forbes Boulevard	Mansfield, MA	Flex	\$3,650,000	23,232	\$157.11

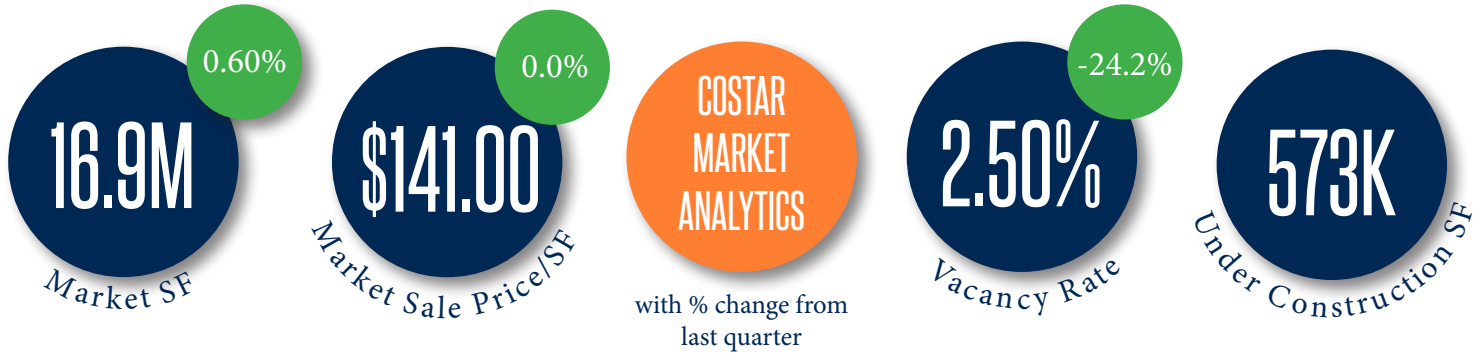
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
215 Plain Street	North Attleboro, MA	Industrial	3,000	\$15.00	NNN
132 Washington Street	Foxboro, MA	Industrial/Retail	1,884	\$16.95	MG
46 Eastman Street	Easton, MA	Flex	3,496	\$12.95	NNN

South Shore - Submarket Overview

By: James Manning, Associate - South Region Specialist

We've observed a recent trend where rents and sale prices have remained relatively stable, quarter over quarter. This provides a level of predictability for businesses looking to secure industrial space. The South Shore has secured funding for the establishment of a state-of-the-art training and research center focused on sustainable manufacturing practices. This significant development is expected to foster innovation and attract forward-thinking industrial businesses, further cementing the South Shore's reputation as a hub for cutting-edge industrial initiatives.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
53 Airport Park Drive	Rockland, MA	Industrial	\$5,100,000	36,480	\$139.80

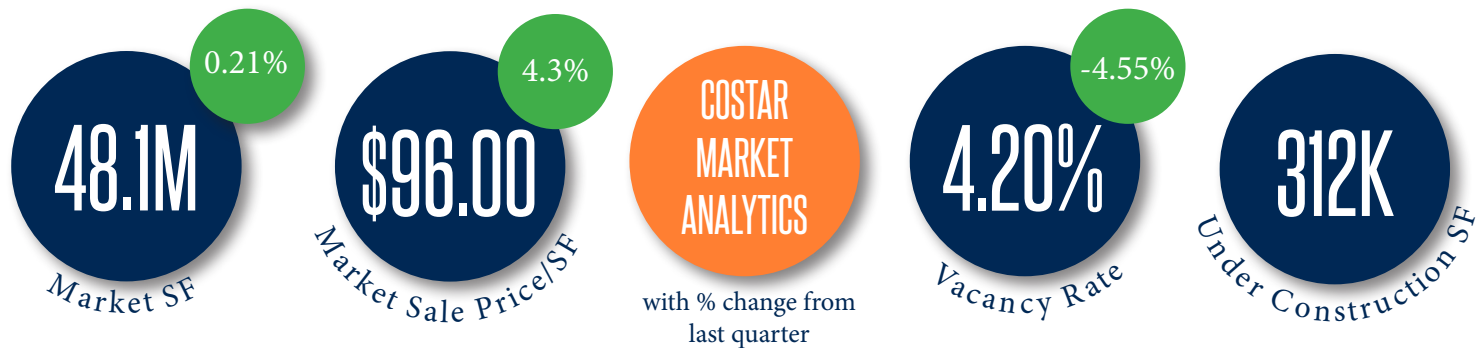
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
10 Keith Way	Hingham, MA	Flex	3,000	\$13.00	NNN
64 B Street	Hanover, MA	Industrial	1,800	\$16.67	NNN
1A Spring	Carver, MA	Industrial	6,000	\$15.00	NNN

South Coast - Submarket Overview

By: James Manning, Associate - South Region Specialist

The region has been witnessing a significant uptick in activity and investor interest. Notably, a vacant industrial building in Mattapoisett recently made headlines by setting a new record in pricing, selling for nearly \$10,000,000. Furthermore, rents for high-quality industrial buildings have continued their upward trajectory, reaching as high as \$16/SF. This growing trend is expected to further boost the industrial real estate sector, making South Coast Massachusetts an attractive investment destination.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
5 Industrial Drive	Mattapoisett, MA	Industrial	\$9,922,500	142,000	\$69.88
25 Gurney Road	East Freetown, MA	Flex	\$1,200,100	9,999	\$120.02

NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
401 County Street	New Bedford, MA	Office	860	\$16.74	+Elec
594 Airport Road	Fall River, MA	Industrial	43,000	\$10.00	NNN

Marcus & Millichap

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