

Q4 - 2023

THE KLEIN REPORT

Market Overview

By: Harrison Klein, FVP Investments

2023 ended the way it began, with low transactional velocity. While larger transactions over \$10 million were rare, the market for transactions under \$3 million continued. Total leasing velocity of 11.84 million SF was essentially in line with 2022 and over 90% of the record velocity seen in 2021. The market has shifted away from “mega” distribution deals in the 200,000+ SF range, with more deals getting done in the sub-100K SF space. This is impacting our clients as owners of 50K SF product may find themselves competing with new construction buildings which are now willing to subdivide. Despite the numbers, anecdotal evidence points to a normalizing leasing market, a departure from the extremely landlord-friendly start to this decade.

High interest rates continue to plague both private and institutional investors. During the latter half of the quarter, rates fell significantly as the ten-year treasury dropped below the 400 level after hitting 5% earlier in the year. Despite this decline, borrowing costs remain near the 7% range. Lenders are not eager to make new loans today. Many are demanding substantial deposits as a material inducement to grant a new loan. Traditional banks are looking for durable cash flow. This is causing some value-add borrowers to seek out private lending solutions for transactions that would have historically been funded by local banks. As time continues to separate us from the March bank failures, we hope that lending constraints will ease, strengthening the market.

Going forward, we are waiting to see whether fatigue, refinancing pressures, and lifestyle cycles begin pushing more sellers to the market. In the first weeks of 2024, we have completed a record number of building valuations. This is a key indicator that owners are again contemplating sales. In the industrial world, many owners still have massive gains, especially anyone who purchased before 2020. Office buildings with stabilized rent rolls will need to decide whether to sell or hold out through an additional lease rollover. Syndicators and other sponsors are making bets on whether values will increase enough over the next 12-36 months to justify delaying the sale of a successful value-add project. Even if values increase 15%, many of these deals will experience falling internal rates of return. In the private client space, 8 cap industrial deals are available if you look closely. With cap rates off approximately 50-100 basis points from peak pricing, now may be the time to buy.

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



Southern New Hampshire - Submarket Overview

By: Luigi Lessa, Senior Associate - North Region Specialist

Despite interest rates rising above 7%, the Southern New Hampshire industrial market has remained strong. Due to a scarcity of available inventory, buyer enthusiasm for modern industrial buildings has not swayed. 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, the hub was one of just 31 selected from 370 nationwide applicants. With such strong market fundamentals and a new reputation as a center for innovation, we anticipate that pricing in the region will remain high for the foreseeable future.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
12 Innovation Way	Londonderry, NH	Industrial	\$39,700,000	240,000	\$165.42
30 Harvey Road	Bedford, NH	Flex	\$2,275,000	21,043	\$108.11
237 Daniel Webster Hwy	Merrimack, NH	Industrial	\$7,000,000	92,450	\$75.72
5 Executive Drive	Hudson, NH	Industrial	\$4,250,000	35,200	\$120.74
15 Delta Drive	Londonderry, NH	Industrial	\$2,164,000	18,621	\$116.21

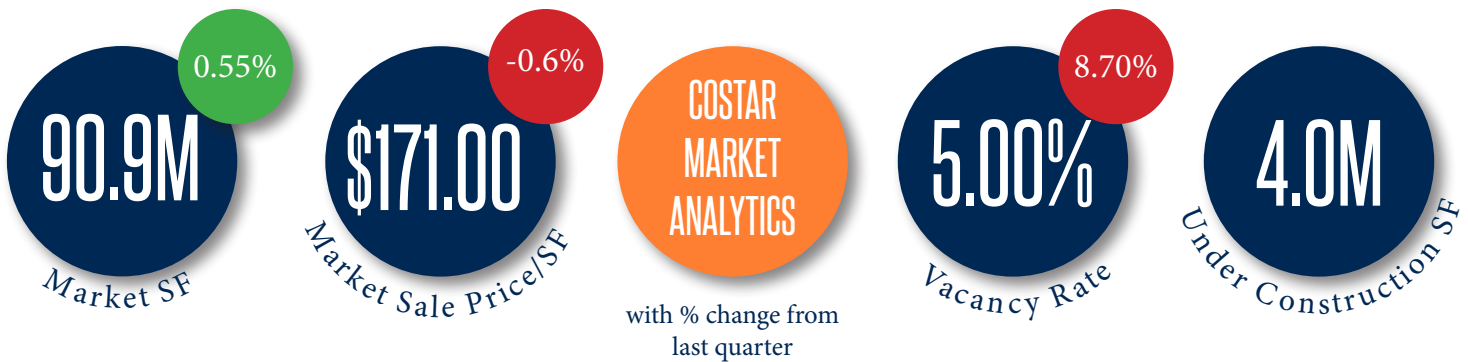
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
201 Allard Drive	Manchester, NH	Industrial	35,462	\$12.95	NNN
170 West Road	Portsmouth, NH	Flex	9,791	\$10.00	NNN
1 Wall Street	Hudson, NH	Flex	13,545	\$14.95	NNN
25 Harvey Road	Bedford, NH	Industrial	7,500	\$13.00	NNN

North of Boston 495 Corridor - Submarket Overview

By: Luigi Lessa, Senior Associate - North Region Specialist

As 2023 wrapped up, North of Boston's economy notably outperformed national averages with an unemployment rate of 2.6%. Industrial sectors experienced robust growth, with mining, logging, and construction leading with a 6.3% year-over-year increase. The area saw substantial warehouse/distribution leasing activity, totaling 4.4 million SF for the year, nearly mirroring 2022's figures. Despite an active construction pipeline delivering nearly 4 million SF of new space, a large portion remains vacant, raising the average asking rent to approximately \$15 PSF NNN.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
26 Bixby Avenue	Middleton, MA	Industrial	\$1,900,000	8,500	\$223.53
347 Middlesex Road	Tyngsboro, MA	Industrial	\$6,500,000	40,000	\$162.50
13 Corwin Street	Peabody, MA	Industrial	\$8,400,000	84,182	\$99.78

NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
34 Sullivan Road	Billerica, MA	Industrial	1,367	\$12.00	NNN
14 Birch Road	Middleton, MA	Industrial	8,526	\$11.00	NNN
7 Stuart Road	Chelmsford, MA	Industrial	3,500	\$14.00	NNN
47 Clinton	Amesbury, MA	Industrial	36,400	\$9.50	NNN

I93/I-95 Intersection - Submarket Overview

By: **Mattias Edenkrans, Associate - North Region Specialist**

Q4 North of Boston showed a lot of similar trends to what we observed during the previous quarters of 2023. Higher interest rates made it more difficult for investors to justify leverages and buying buildings at compressed cap rates with a high price per foot basis no longer made sense. Owner-users paid up for buildings that they needed for their business, and large institutions saw opportunities in strong markets like Wilmington, Woburn, and Burlington to buy at 7.5 caps where previous pricing was near 5 caps. Lack of new supply has been very beneficial for this market, causing rents to hold stable, or increase in most parks and sub-markets. With rates starting to cool at the end of Q4, down significantly from the start of the quarter, we expect to see the spread between buyers and sellers narrowing, and more 'dry powder' on the sidelines start to be deployed in Q1 of 2024.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
326 Ballardvale Street (1)	Wilmington, MA	Industrial	\$32,591,973	130,000	\$250.71
326 Ballardvale Street (2)	Wilmington, MA	Industrial	\$16,908,027	57,589	\$293.60
5-7 Ray Avenue	Burlington, MA	Flex	1,845,000	5,500	\$335.45

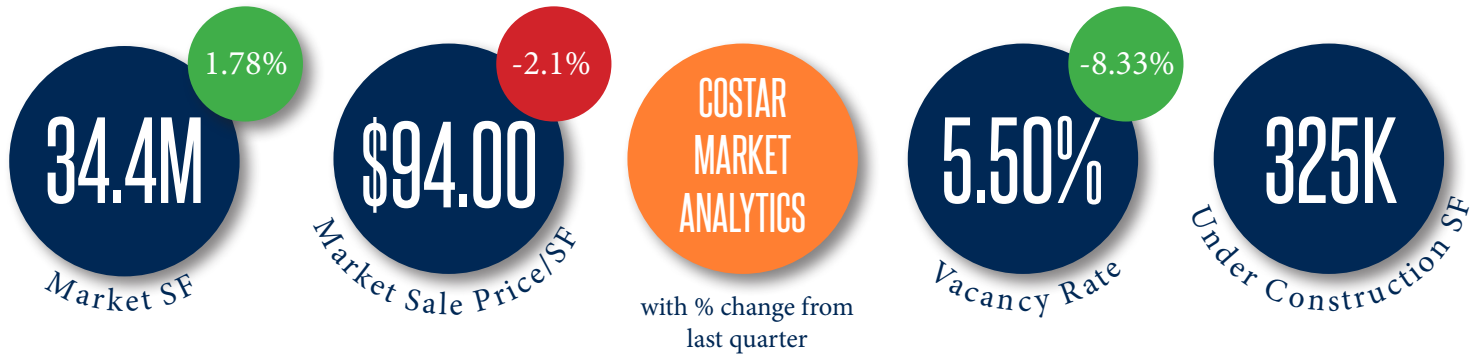
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
65 Industrial Way	Wilmington, MA	Industrial	5,188	\$11.81	NNN
180 New Boston Street	Woburn, MA	Industrial	66,219	\$20.00	NNN

Route 2/I-190 Corridor - Submarket Overview

By: Harrison Klein, FVP Investments

This market remains strong with minimal vacancy in the 4th quarter. Rents have grown to over \$8 PSF for class A space with selling prices consistently above \$100 PSF. We continue to see a significant differential in pricing as you head west along Route 2 from Devens to Leominster to Fitchburg.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
76 Walker Road	Shirley, MA	Industrial	\$2,550,000	41,037	\$62.14
77 Industrial Rowe	Gardner, MA	Industrial	\$9,600,000	113,000	\$84.96

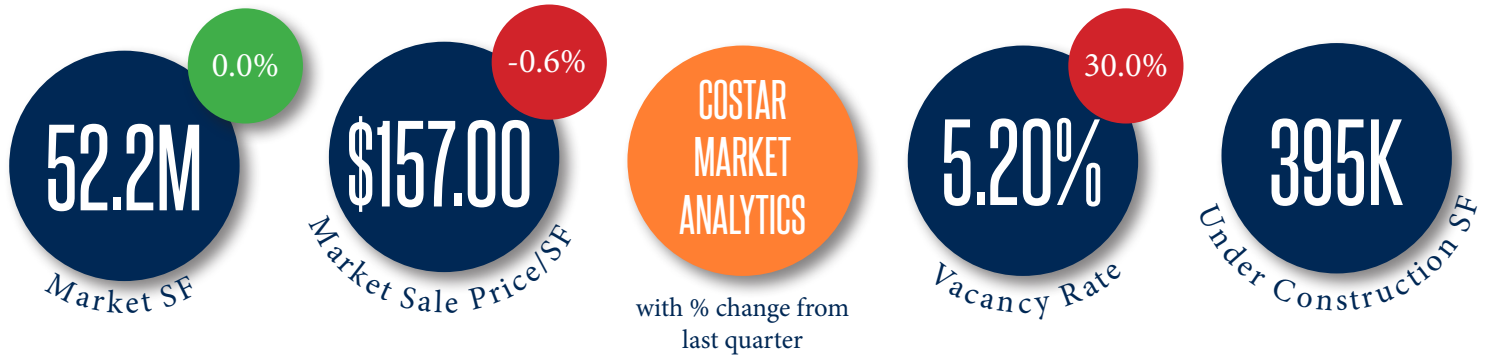
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
11 Willow Road	Ayer, MA	Industrial	13,626	\$10.50	NNN

The Boroughs - Submarket Overview

By: Harrison Klein, FVP Investments

Rents jumped during the second half of the year coming in line with the I-495 south market. In Holliston, one Class A space was leased for \$14 PSF NNN while a Class B space in Hudson was leased for \$12 PSF NNN. Thirty leases were signed in the 4th quarter alone, a strong sign of the strength of this market.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
75 Reed Road	Hudson, MA	Flex	\$30,000,000	352,000	\$85.23
697 Hartford Turnpike	Shrewsbury, MA	Flex	\$4,300,000	36,180	\$118.85
45 West Street	Medford, MA	Industrial	\$2,100,000	14,000	\$150.00
180 Turnpike Street	Westborough, MA	Showroom	\$6,000,000	34,500	\$173.91
33 Talbot Road	Northborough, MA	Industrial	\$1,180,000	5,648	\$208.92

NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
577 Main Street	Hudson, MA	Industrial	11,000	\$12.00	NNN

Worcester Proper - Submarket Overview

By: Harrison Klein, FVP Investments

Leasing activity was consistent in Q4 for this market, with the lease of 303 Washington Street in Auburn serving as a bright point. With rents currently in the \$8-\$10 range, Worcester continues to offer tremendous value for tenants being pushed out by rising rents on the I-495 corridor.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
12 St. Mark Street	Auburn, MA	Industrial	\$3,610,000	45,610	\$79.15
12 John Road	Sutton, MA	Industrial	\$3,100,000	32,960	\$94.05

NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
303-313 Washington Street	Auburn, MA	Industrial	46,000	\$9.00	NNN

I-95 Corridor - Submarket Overview

By: James Manning, Associate - South Region Specialist

Rents for industrial buildings have consistently held within the range of \$10 to \$12 PSF NNN, showcasing the region's stability and appeal to businesses. Concurrently, the vacancy rates have remained steadfast, highlighting a harmonious alignment between supply and demand. This enduring balance not only underscores the reliability of the market but also positions the South Coast as a resilient hub for industrial activities.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
470 Constitution Drive	Taunton, MA	Industrial	\$7,500,000	36,385	\$206.13
75 Campanelli Parkway	Stoughton, MA	Industrial	\$11,650,000	73,943	\$157.55
16-18 Renmar Avenue	Walpole, MA	Industrial	\$7,750,000	43,000	\$180.23

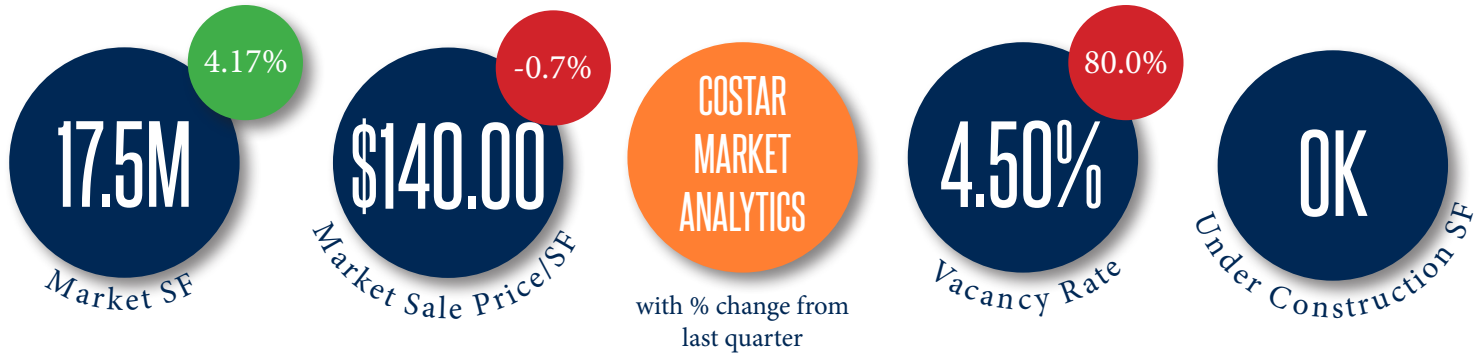
NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
40 Kenwood Circle	Franklin, MA	Industrial	15,000	\$12.00	NNN
353 Howard Street	Brockton, MA	Industrial	40,485	\$10.45	NNN
19 National Drive	Franklin, MA	Industrial	56,725	\$12.00	NNN

South Shore - Submarket Overview

By: James Manning, Associate - South Region Specialist

Rents for industrial buildings have experienced a gradual uptick, reaching a new high at \$15 PSF NNN, indicative of sustained demand and the area's attractiveness to businesses. Meanwhile, sale prices have remained consistent, reflecting stability and confidence in the market. It's noteworthy that vacancy rates had a slight uptick, suggesting a shift in the balance of supply and demand.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
427 Colombia Road	Hanover, MA	Flex	\$1,350,000	9,600	\$140.63

NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
104 Longwater Drive	Norwell, MA	Flex	3,200	\$15.00	NNN

South Coast - Submarket Overview

By: James Manning, Associate - South Region Specialist

Rents for industrial properties have demonstrated resilience, maintaining a consistent range between \$10 and \$14 PSF, solidifying the area's appeal to a diverse range of businesses. Notably, a recent benchmark was achieved with a record-high sale price, reaching an impressive \$206 PSF. This milestone underscores the heightened demand and prime positioning of this strategic location.



NOTABLE SALES

Subject Property	City & State	Property Type	Sale Price	SF	\$/SF
589&599 Commerce Drive	Fall River, MA	Industrial	\$7,160,000	51,300	\$139.57
3 Tow Road	Wareham, MA	Industrial	\$1,650,000	6,000	\$275.00
39 Cape Road	New Bedford, MA	Industrial	\$1,330,000	9,463	\$140.55

NOTABLE LEASES

Subject Property	City & State	Property Type	Rentable SF	Rent/SF	Lease Type
640 State Road	Dartmouth, MA	Industrial	15,872	\$10.00	NNN
72 Minot Avenue	Wareham, MA	Industrial	2,500	\$12.00	NNN

Marcus & Millichap

THE KLEIN GROUP

OFFICE AND INDUSTRIAL SPECIALISTS

Harrison Klein

First Vice President Investments

(617) 896-7237

Harrison.Klein@MarcusMillichap.com

Ben Scherman

Associate

(617) 896-7287

Ben.Scherman@MarcusMillichap.com

Will Thompson

Financial Analyst

(617) 896-7291

William.Thompson@MarcusMillichap.com

Luigi Lessa

Senior Associate

(617) 896-7216

Luigi.Lessa@MarcusMillichap.com

Mattias Edenkrans

Associate

(617) 896-7218

Mattias.Edenkrans@MarcusMillichap.com

Morgan O'Brien

Marketing Coordinator

(617) 896-7286

Morgan.O'Brien@MarcusMillichap.com

James Manning

Associate

(617) 896-7281

James.Manning@MarcusMillichap.com

Michael Grant

Associate

(617) 896-7280

Michael.Grant@MarcusMillichap.com