



AGGREGATE absorption was negative, though a positive trend in industrial continued as warehouse experience heavy consolidation.

INDUSTRIAL vacancy of 6.8 percent is the lowest level seen in more than 15 years; vacancy has averaged 10.1 percent over the last ten years.

WAREHOUSE consolidation was heavily concentrated as just three properties combined for 683,000 sf of negative absorption.

RENT levels are generally flat, though are selectively increasing for new and the highest quality properties.

MORE THAN HALF the market's warehouse vacancy is at just twelve properties.

JUST 535,000 sf is under development at four sites, despite historically low vacancy ranges.

A LONG WIND-DOWN of operations at the 290,000 sf Veryfine facility in Littleton was completed; owner Sunny Delight divested the facility in 2011.

CHOICES are becoming limited for users larger than 100,000 sf, with choices falling from seven to three since year-end 2015.

INDUSTRIAL properties seeing a 10,000 sf increase in occupancy outnumbered those seeing that size decrease, eleven to two.

QUICK



Absorption
-403,000 sf
 Absorption was bifurcated between the two asset types



Vacancy
7.7% +0.3%
 Vacancy rebounded from 12-year low



Rents
\$6.89
 Rents stable with selective upward trends



Where The Tall Warehouses Are

The preference for warehouse space with high ceilings has driven development in recent decades; here's a look at development historically, and a map of where the higher & lower product is ...
OTB, page 2



Sophisticated warehouse racking and retrieval systems makes use of higher warehouses, leading to a growth in their development since the 1970s. Today, the largest and highest paying customers of warehouse space are using these systems exclusively, presenting developers with a dilemma. However, height remains scattered throughout the market, and not all new warehouses are high.



Flashback to Q3'2016 ...

Absorption was positive across both property types as distribution consolidation drove large positive numbers for warehouse. Martignetti Liquors moved into its newly constructed 640,000 sf facility in Taunton, consolidating from other regional locations. Massport announced it will begin an expansion of Boston's Conley Terminal in a response to the Panama Canal expansion. Boston Flower Exchange announced it move into a facility in Chelsea in 2017, as their Boston site is slated for redevelopment. Gramercy Property Trust acquired the 450,000 sf Littleton Distribution Center in the largest purchase since 2014.



this quarter

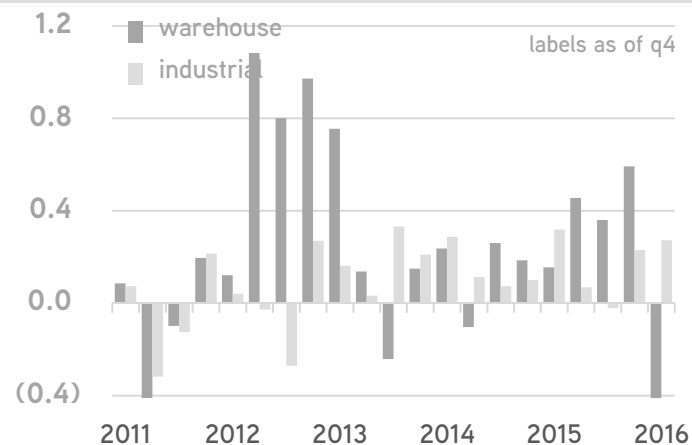
warehouse ...

- ◊ Vacancy increased to 8.3 percent from 7.5 percent as large isolated consolidations resulted in 675,000 sf of negative absorption.
- ◊ Veryfine consolidated out of a 290,000 sf facility in Littleton as Central Garden & Pet Company and General Cable each consolidated to out-of-state locations, vacated 239,000 sf and 154,000 sf, in Taunton and Franklin, respectively; Gannett Offset closed its 53,000 sf Norwood facility, consolidating at an existing facility in Taunton.
- ◊ Dipping inventory turnover ratios, likely to persist, could increase warehouse demand in coming quarters.
- ◊ With high-ceiling space 5.9 percent vacant, many of the market's most preferred product types have been heavily depleted through 2016; high-ceiling choices larger than 100,000 have dropped from seven to three since year-end 2015.
- ◊ While average rents may have plateaued, new product rents likely to approach or exceed \$8 per sf could impact the high end of the existing high bay market.
- ◊ The 3.5 million sf Devens market is 3.1 percent vacant, compared with 12.4 percent vacant a year ago.
- ◊ Two facilities in Norton, of 100,000 sf and 60,000 sf, respectively, are the market's only buildings presently under construction, though fundamentals could support additional near-term groundbreakings.
- ◊ A Novaya Real Estate Ventures-controlled four-building, 897,000 sf portfolio spread across in Avon, Franklin, Peabody and Wilmington was recapitalized in a transaction valuing the assets at \$63 per sf.

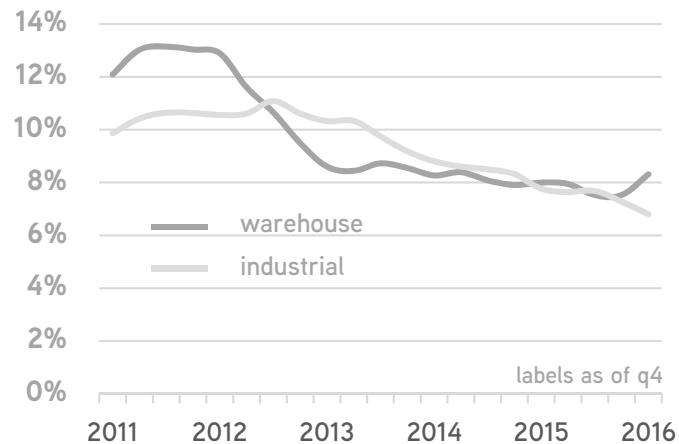
industrial ...

- ◊ Absorption has been positive 13 of the last 14 quarters as 272,000 sf of demand this quarter dipped vacancy from 7.3 percent to 6.8 percent.
- ◊ Vacancy is at the lowest level observed in more than 15 years as demand for sophisticated manufacturing and redevelopment both work to deplete supply; vacancy reached a recent high level in the second quarter of 2013 at 11.1 percent.
- ◊ Properties experiencing at least 10,000 sf of positive absorption outnumbered those losing that much tenancy 11 to two.
- ◊ Scheidt & Bachmann relocated from Burlington into 72,000 sf in Lowell as Rypos moved into 24,000 sf in Franklin, Steel Canvas Basket expanded by 21,000 sf in Chelsea and Lytron moved into 21,000 sf in Woburn as Gianz Industries moved into 20,000 sf in Raynham and Autopart moved into 18,000 sf in Marlborough.
- ◊ STAG Industrial Holdings acquired 35 Otis Street in Westborough (\$7.9 million, 122,000 sf, \$65 per sf) as Jennings Real Estate bought 6 October Hill Road in Holliston (\$4.3 million, 80,000 sf, \$54 per sf).

absorption (sf in millions)



vacancy %



rents \$ class a/b blend, per sf nnn





warehouse <i>sf in thousands</i>			absorption		construction**			rent***
	rba	vac%	q4'16	ltm	uc	lease%	ltm	hillo blend
total market	85,519	8.3%	(675)	732	160	38%	1,090	\$6.27
streetcar belt	6,145	5.4%	7	49	0		0	\$8.10
128 belt	18,985	12.1%	(55)	(540)	0		0	\$6.42
north shore	7,442	4.5%	3	(50)	0		0	\$6.72
128 prime	453	0.0%	0	0	0		0	
9 west	408	87.6%	0	0	0		0	
blue hills	6,708	8.0%	(39)	(52)	0		0	\$6.26
south shore	3,974	27.1%	(19)	(438)	0		0	\$6.14
495 belt	60,389	7.4%	(626)	1,223	160	38%	1,090	\$6.01
merrimack valley	7,222	7.2%	(5)	(40)	0		0	\$5.93
3 north	3,776	9.3%	(8)	(15)	0		0	\$6.80
2 west	2,120	19.0%	(317)	133	0		450	\$6.50
devens	3,483	3.1%	0	325	0		0	\$5.95
the boroughs	7,160	1.6%	144	274	0		0	\$6.63
framingham natick	1,233	10.3%	0	4	0		0	\$5.80
patriots	13,693	8.1%	(167)	145	0		0	\$6.33
24 corridor	21,702	8.0%	(273)	397	160	38%	640	\$5.43

industrial <i>sf in thousands</i>			absorption		construction**			rent***
	rba	vac%	q4'16	ltm	uc	lease%	ltm	a b blend
total market	56,897	6.8%	272	548	375	100%	0	\$7.51
streetcar belt	3,036	6.4%	21	79	0		0	\$8.84
128 belt	16,252	8.1%	60	267	0		0	\$7.96
north shore	7,653	6.8%	53	45	0		0	\$8.13
128 prime	1,247	21.5%	0	3	0		0	\$8.50
9 west	478	9.5%	0	4	0		0	
blue hills	4,113	7.0%	6	146	0		0	\$8.17
south shore	2,761	6.9%	0	69	0		0	\$7.11
495 belt	37,609	6.3%	191	201	375	100%	0	\$7.27
merrimack valley	8,536	8.7%	3	2	175	100%	0	\$8.13
3 north	7,415	9.3%	70	25	0		0	\$6.98
2 west	1,419	0.8%	0	(2)	0		0	
devens	1,665	0.0%	0	0	0		0	
the boroughs	7,355	7.4%	41	100	0		0	\$7.67
framingham natick	729	4.1%	0	30	0		0	
patriots	6,675	3.9%	35	(10)	0		0	\$6.64
24 corridor	3,814	2.1%	44	57	200	100%	0	\$6.10

rba = rentable building area ltm = last twelve months ** preleased % & last twelve months completions ***rent = \$ per sf per year nnn

Encompass strives for complete accuracy in all aspects of its information and analysis, though no guarantee to that effect is made. Sources include Bureau of Economic Analysis, Bureau of Labor Statistics, Encompass Real Estate Strategy, Esri, Federal Reserve Bank, Google Analytics.



- blue** <> macro level office | quarterly
- steel** <> macro level industrial | quarterly
- green** <> macro level laboratory | quarterly
- slate** <> submarket level office series | quarterly
- node** <> transit-accessible office & lab | twice-yearly
- white** <> special interest | twice-yearly or so

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