

BRIEF | Intelligent Investment

# The Great Industrial Supply-Demand Imbalance in Boston

By Suzanne Duca, Connor Channell, and Evan Carlson

The Greater Boston industrial market has quickly become one of the strongest markets in the country, driven by seemingly insatiable, diverse demand, and a unique lack of existing supply and developable land. For the first time in history, the Greater Boston industrial market hit sub-2.0% vacancy at the close of Q3. Vacancy is on pace to compress even further into 2022, heading quickly towards sub-1.0%, as tenant demand has surged to more than double the current and under-construction stock for the next 18 to 24 months.

- Diversification of demand drivers, such as life science related industrial uses, e-commerce and technology, is driving record leasing activity
- Supply/demand imbalance is tightening the market to record low vacancy

**FIGURE 1: Industrial Vacancy vs. Lease Rate**



Source: CBRE Research, Q3 2021

Q3 Avg Asking Rent (NNN)

**\$11.58**

YTD Absorption (Q3)

**5.94 MSF**

Industrial Vacancy (Q3)

**1.9%**

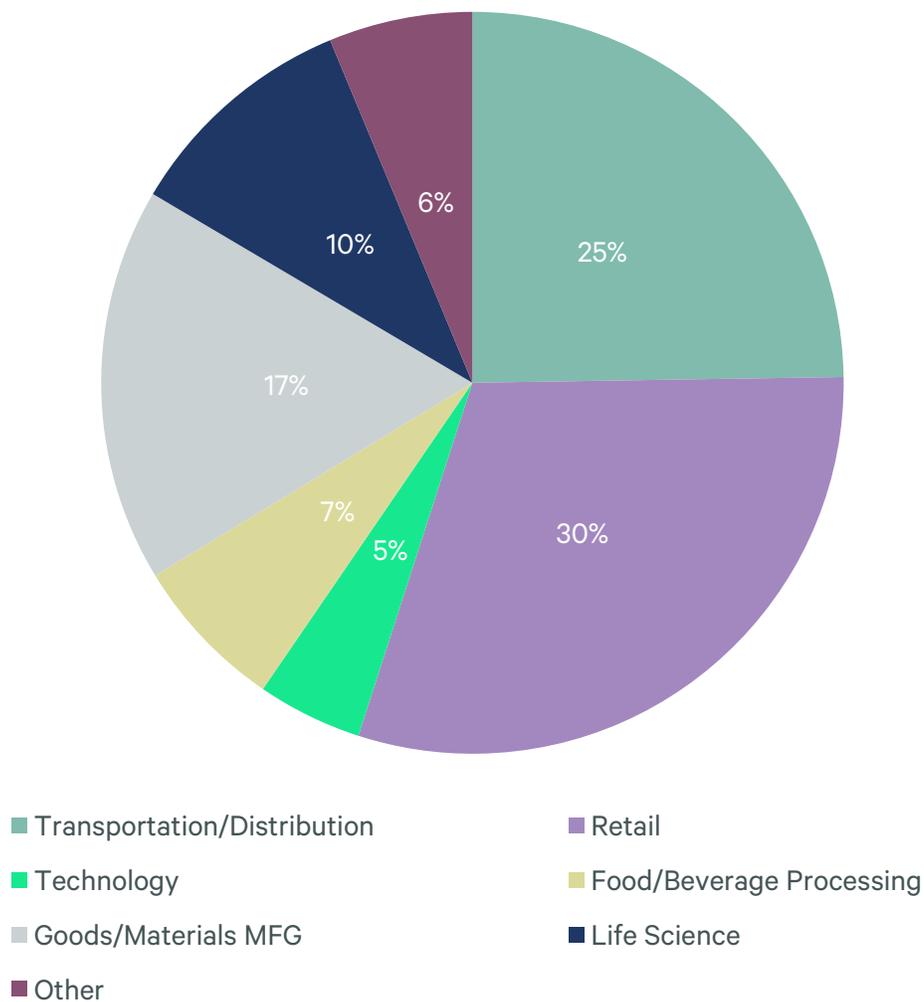
Under Construction (Spec, Current)

**2.35 MSF**

## What is Driving this Demand?

In the Greater Boston industrial market, demand is more diverse than any other market in the country. This new wave of demand coming from the diversity of tenants entering the market has left traditionally large industrial occupiers competing for space with growing tenants from emerging industrial using sectors such as technology and life science distribution. Wholesalers and third-party logistics operators (3PLs) are driving additional demand as more companies are outsourcing distribution to third parties to avoid both the higher costs associated with distribution and the competition resulting from the low warehouse supply in many markets.

Figure 2: Percent of Total Demand by Tenant Industry



Source: CBRE Research, Q3 2021

## Accelerated Demand Drives Rent Growth to New Levels

The Greater Boston industrial market has experienced an unprecedented year-over-year (Y-O-Y) asking rent growth of 15.5% as of Q3. This increase highlights that the rapidly growing delta between supply and demand in the Greater Boston market is putting upward pressure on asking rents as tenants compete for stock. While this is a significant increase, transportation costs represent a much larger percentage of a company’s logistical spend. The cost drivers associated with transportation include distance, weight, fuel, and surcharges, and represent 45 to 70% of a company’s logistical spend, compared to 3 to 6% on fixed facility costs. The need to hold more inventory in facilities close to large and growing population centers is crucial in mitigating these costs and keeping up with competitor logistics models.

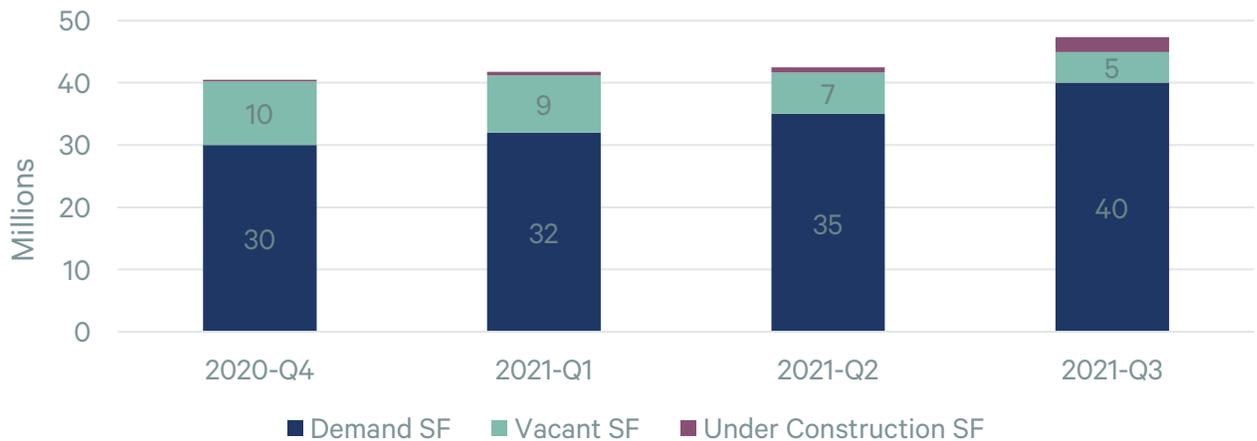
Average Transportation Costs  
as of Total Logistics Spend

45-70%

Average Fixed Facility Costs  
as of Total Logistics Spend

3-6%

FIGURE 3: Demand vs. Current and Inbound Supply



Source: CBRE Research, Q3 2021

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