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Industrial demand demonstrating resilience in evolving market; many opportunities coming

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In the second quarter, the Greater Boston industrial market rebounded from a lackluster first quarter to record a modest gain in tenancy. The market was buoyed by activity in the warehouse sector and the R&D/flex sector properties in the north submarket. As in four out of the past five quarters, the industrial market posted positive growth, but failed to generate the magnitude of market expansion that would demonstrate the emergence of a clear growth pattern. Gains in the quarter totaled just over 400,000 s/f of net absorption. Asking rents remained flat overall at $7.67 per s/f triple net, but increased in the central warehouse/distribution sector and also in the north general industrial sector.

The industrial news coming out of the Boston market in the second quarter represented a mixed bag of results. Several traditional manufacturing and distribution firms announced plans to close up shop in Massachusetts and take hundreds of jobs out of state. These included Belcher Corp., a foundry in Easton, Reebok's distribution facilities in Stoughton and Norwood and Evergreen Packaging Inc., a paper manufacturer in Framingham. On the other hand, technology-based manufacturing operations, such as alternative energy infrastructure and drug manufacturing, made a strong push. Evergreen Solar Inc. announced plans to build a $150 million solar-panel factory in Westborough, and the Massachusetts Partnership received federal funding to open a wind turbine testing facility in Charlestown by 2009. On the drug manufacturing side, Genzyme announced plans to add up to 285,000 s/f to its existing drug-making complex in Allston. This comes on the heels of last quarter's announcement by Bristol Meyers Squibb to open a drug manufacturing facility in the Mass Development site in the former Fort Devens AAF.

The second quarter activity in Boston centered on the South Boston waterfront. The 875,000 s/f Bronstein Center at 21-25 Drydock Ave., also known as the Marine Industrial Park, was traded in an investment deal worth $34 million as Cargo Ventures and Millennium Partners acquired the asset from K.C. Donnelly & Company. New inventory was added on the waterfront with the opening of the 300,000 s/f Cargo Center of New England warehouse facility on the South Boston waterfront. Warehouse space at the Marine Industrial Park and elsewhere near the harbor and airport is leasing in the $13-$17 per s/f range, representing a significant premium over average warehouse rents in Greater Boston.

North of Boston, a number of tenants were observed taking large blocks of space in the second quarter, including Anika Therapeutics moving from Woburn into 134,000 s/f at 32 Wiggins Ave. in Bedford. In addition, Nuvera Fuel Cells moved into 110,000 s/f of GE sublease space at 129 Concord Rd. in Billerica, and Ris Paper Company signed a 132,000 s/f lease at 205 Wildwood Ave. in Woburn.

South of the city, Armstrong Pharmaceuticals made headlines with the purchase of the 252,000 s/f 25 John Rd. facility in Canton. The biotechnology firm is expected to renovate the property over the next several years and begin occupancy of the entire building in 2011. Millennium Graphics boosted absorption by 113,000 s/f by moving from Norwood into 165,000 s/f at 26 Dartmouth St. in Westwood. Perkin Paper contributed to the submarket's expansion by occupying 164,000 s/f at 305 Myles Standish Blvd. in Taunton.

The west recorded its highest level of activity at 1 Holmes Way in Milford. This property recorded 325,000 s/f of absorption as IKON Office Solutions and Victory Packaging commenced occupation of the warehouse facility.

As the industrial market remains mired in a low-growth holding pattern, a superficial assessment might lead to the conclusion that little has changed over the past several quarters. Asking rents are growing just fast enough to keep up with inflation, and existing tenants are expanding at the same pace that others are leaving the market. No signs emerged in the second quarter that would lead to the conclusion that this trend will change in the near future.

A deeper view reveals, however, that the market does appear to be slowly transforming itself at the edges. Jobs in the traditional manufacturing sectors are leaving the area due to relatively high costs of production and stringent regulation. At the same time, the market's slow growth is being pushed by a new class of high-tech manufacturing, consisting of drug production, alternative energy-based manufacturing, and other such knowledge-based activities. With a highly-educated workforce and a significant academic community in Boston, the region has the opportunity to become a market leader in cutting edge and experimental manufacturing and testing operations. The Boston area is by some measures the largest drug research and discovery cluster in the world and the region retains tremendous potential for growth in drug production.

The following are four opportunities and challenges for the Greater Boston industrial market over the coming few quarters:

* Governor Deval Patrick's plan to inject $1 billion into the state's biotech economy over the next 10 years could encourage pharmaceutical companies to consider locating drug manufacturing operations in Greater Boston.

* As traditional manufacturing operations are slowly leaving the market, landlords must find a way to attract interest from prospective tenants through redevelopment or repositioning of industrial assets.

* Recent investment in South Boston's waterfront should stimulate activity in properties that can house logistics and support functions in this underutilized area.

* Though interest in R&D/flex space in recent quarters has bumped up asking rents, there remains a large inventory of vacant space for this property type that can suit a variety of purposes, especially in the North submarket.

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