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Greater Springfield industrial market 2023: Continued demand and limited inventory - by John and Jack Reed

January 27, 2023 - Spotlights



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Since the start of 2021, the Greater Springfield industrial market has experienced consistent growth in recent quarters, though future growth is limited by the lack of quality inventory. Rents were steadily increasing through Q4 2022, with a range between \$4.33 and \$5.95 per s/f triple net (NNN) as availability has continued to decrease. The current vacancy rate is at 3.9%. This is the lowest rate the market has seen in years.

The following bullet points outline the condition of the market in 2022:

- Continued demand;
- Slowed market velocity due to limited quality industrial product;
- Pent up demand in the 10,000-50,000 s/f sector;
- 4% vacancy in industrial product, less in class A;
- Increase in rental rates and sale prices;
- Demand for developable industrial land;

- Transportation and distribution drive the market;
- Infrastructure investment;
- Limited slowdown into first quarter 2023.

Demand continues in the Greater Springfield market in the 10,000-50,000 s/f range with this sector having the least availability of industrial product. Buyers and tenants are active in the market. The lack of alternatives is suppressing growth in this sector, resulting in the possibility of new construction. However, there remains the increasing price differential between existing product and the cost of construction, even more so now with rising raw material costs and equipment costs. Due to e-commerce related growth, larger requirements, 100,000-500,000 s/f and larger, have also been active.

As new construction becomes a possibility, the Greater Springfield industrial market has desirable shovel-ready sites that are partially or fully entitled ready for development. Regional industrial land prices are between \$75,000-\$150,000 per acre, equaling \$5.00-\$10.00 per s/f FAR. Regionally these FAR values are increasing. We expect to see some escalations in land prices follow suit. Chicopee, Enfield, Ludlow and Westfield have the greatest inventory of available acreage with necessary infrastructure and good highway accessibility.

As the inventory tightens, the market is experiencing an increase in lease rates and sale prices. This sale price and lease rate improvement is timely as operating expenses and construction costs continue to increase.

Greater Springfield, due to its attractive labor pool and excellent highway accessibility has ongoing interest from regional distribution operations, e-commerce and food distribution companies.

Western Massachusetts saw several industrial transactions in 2022, some of which were at unprecedented prices. For example, 320 Bowles Rd. in Agawam sold for \$12.5 million, or \$97.28 per s/f. This building was previously sold in 2019 for \$5.03 million, showing the drastic change in the market and demand.

Other notable sales included the sale of the longtime Leoni Wire plant at 301 Griffith Rd. in Chicopee. This building sold, vacant, to a developer for \$8.5 million, or \$55.78 per s/f. In Hatfield the 359,938 s/f warehouse at 142 Elm St. traded for \$15 million, or \$43.06 per s/f, vacant. This warehouse has been backfilled by Yankee Candle.

Over the state line in nearby Enfield, Conn. a new warehouse development was completed at 500,000 s/f. This warehouse has been 100% leased to two distribution tenants and will provide hundreds of jobs to the area and continue to promote Western Massachusetts as a desirable region for corporate and e-commerce facilities. Another development in Enfield is a partially entitled 181-acre site that will ultimately support 817,000 s/f. Ownership has discussed breaking ground as early as spring 2023.

In downtown Springfield, Mass. DOT has acquired 7.8 acres on Liberty St. This property, with its proximity to Union Station, will serve as a rail maintenance facility to support further rail service through Western Mass.

With 2022 ending, the summary on the year was one of high demand, low availability, and record pricing. It's believed that 2023 will hold many of those same characteristics.

Beginning in 2020 and into 2021 and 2022, the Greater Springfield industrial market saw reasonable sales and leasing activity. There is continued demand in the smaller and mid-size industrial sector and interest from larger distribution companies. Absorption continues resulting in limited existing quality product. Permitted land is in increasing demand as new construction becomes a greater possibility. Although limited availability remains constant through the beginning of 2023, it is believed that the strength and momentum of 2022 will carry through to 2023.

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