

The Foster Report

Industrial Market Survey

**Leominster & Fitchburg, Massachusetts
January 2023**

Overview

Escalating uncertainties in many areas of business and society caused near-unprecedented turbulence in 2021 that continued through 2022.

National Trends

By year-end 2022, new and continuing trends were visible for which no credible estimate could be made as to effect, scope, or longevity. Some of these are listed below and we continue to monitor their effect on the industrial market. As in all periods of uncertainty, some of these trends could work together synergistically creating 2nd and 3rd order effects that are impossible to predict even at the end of 2022. Time will tell how much or how little effect any of these trends have on the economy or specifically industrial real estate. The following are some of the trends we continue to track and analyze:

- Continuing global supply chain disruptions causing shortages;
- On-going war between Russia and Ukraine threatens to escalate to regional or world war;
- Inflation with scale, duration, and reach as a global and national trend;
- Effects of sudden interest rate increases in 2022 on commercial lending;
- Fed ongoing interest rate changes in 2023;
- Developing weakness in the US and European banking systems;
- On-going labor force shortages;
- The rise of artificial intelligence; and
- On-going demand in the form of medical device manufacturing, life science, and last-mile distribution.

Financial Trends

Year-end 2021 saw the Federal Funds Rate continuing at near-zero rates, with the target range between 0% and 0.25%; that rate exploded to 4.33% by year-end 2022. Fed rate hikes in 2022 caused 30-year home mortgage rates to spike from 4.0% at year-end 2021 to 6.8% at year-end 2022. Commercial financing rates followed this trend rising from 4.5% to 6.5% through 2022. Capitalization rates remained at historic lows for industrial property, demonstrating the continued drive to invest capital in this secure real estate asset class with low single-digit vacancy and strong demand. At year-end, the annualized rate of residential home sales decreased by 35.4% nationally at 4.1 million units over the preceding 12 months. Median prices rose 3.5% in the same period. Locally, sales velocity for 2022 decreased 30.3% over 2021 largely due to spiking interest rates and rising prices. North Central Massachusetts continues to offer relative affordability despite a 5.3% median price increase state-wide in 2022, although half the rate of the 2021 increase.

Industrial Trends

The red-hot industrial market across Eastern Massachusetts and many areas of the nation was a consistent trend beginning in 2021, and continuing unabated through 2022. Contributing factors include intense demand for distribution space; redevelopment to other uses such as multi-family housing, cannabis cultivation, and life-science lab space; and lack of new supply.

The super-charged industrial market is a recent trend. The primary initial trigger was increased e-commerce during the COVID-19 pandemic. The suddenness and intensity initially caught many in the industrial market by surprise, but market participants have accepted this trend. Vacancy in the Metro Boston area is cited at

or near 1%. Pricing in Eastern Massachusetts has skyrocketed for all things industrial: land, rents, and finished product.

The Leominster-Fitchburg industrial market is the northwestern periphery of the Boston market. Historically, the local market lags but follows the trends of Eastern Massachusetts. Effects of increasing trends are muted in the local market and decreasing trends are more pronounced. For reference, industrial rents were unchanged in the local market from 1988 to 2018, despite fluctuations around short trends of growth and recession. Buyers, tenants, developers, and brokers seeking affordable locations have forced demand to move west. Rents in the Leominster-Fitchburg market area have increased over the last year as a result.

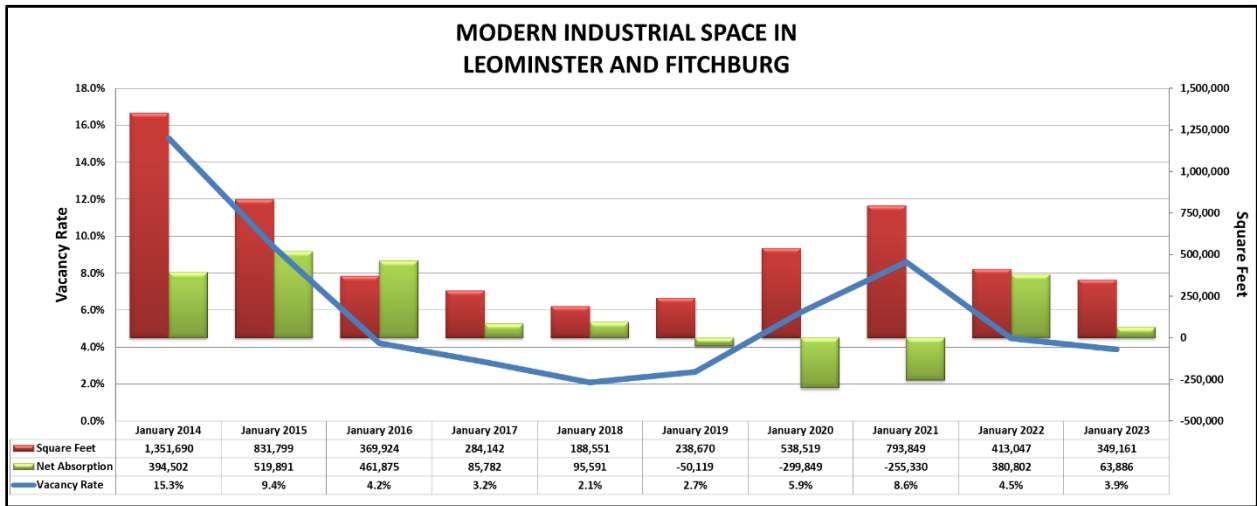
Industrial sites locally that sat dormant for many years are now being offered for build-to-suit opportunities. A number of land parcels that could support 3.6± million potential square feet of buildable space are being offered in Leominster, Fitchburg and surrounding towns. Many sites have permitting or other development constraints, but demand for new distribution facilities is bringing these sites to a higher state of readiness. Asking lease rates for new build-to-suit property are reported to exceed \$10 per square foot NNN. Other than 475 Leominster Shirley Road (a 372,000 SF industrial warehouse), none of the activity is for speculative construction in the local market.

The existing stock of modern industrial space continues to have low vacancy, under 5%. Some of the remaining vacancy is inferior space with low utility, which indicates a lower effective vacancy rate. We are seeing significant increases in sale prices and completed lease transactions above historical norms for the traditional stock of industrial space. This spillover effect is being felt in the Leominster-Fitchburg market. For 2023, we expect this short-trend to be limited by a lack of relocation space, increased interest rates, and persistent inflation.

Vacancy Conclusion

As of January 2023, the vacancy rate for modern industrial space in the Leominster - Fitchburg market decreased to 3.9% from the January 2022 vacancy rate of 4.5%. Average vacancy for mill space in the Leominster - Fitchburg market is 15.1% as of January 2023; down slightly from 15.8% as of January 2022. These count among the lowest vacancy rates we have seen over the 34 years that we have produced this report. There are a limited number of transactions within Leominster and Fitchburg in any one year, whether for land, building sales, or leases.

As noted in last year's report, the limited transaction velocity means that patterns of change in value are often challenging to pinpoint and these patterns evolve over a number of years. As of year-end 2022, higher sale prices and lease rates are examples that have translated into a clear increase in actual market rents and sale prices achieved. But given the low transaction volume and long-established historical trends, it remains difficult to reliably project if these increases will continue as a long-term trend.



TOTAL LEOMINSTER/FITCHBURG INDUSTRIAL

Type	Gross Bldg. Area	SF Avail. & Vacant	Percent Vacant
Modern Total	9,010,886	349,161	3.9%
Mill Total	4,500,705	679,828	15.1%
Combined Total	13,511,591	1,028,989	7.6%

Breakdown

LEOMINSTER MODERN INDUSTRIAL SPACE

Locations	Gross Bldg. Area	SF Avail. & Vacant	Percent Vacant
Jytek Park	865,467	0	0.0%
Pioneer Park	729,302	0	0.0%
Southgate Park	67,168	0	0.0%
Leom. Bus. Park	33,660	0	0.0%
Tanzio Park	986,456	21,040	2.1%
FBC (Mohawk)	678,719	0	0.0%
Misc. Locations	3,072,044	251,044	8.2%
Total	6,432,816	272,084	4.2%

FITCHBURG MODERN INDUSTRIAL SPACE

Locations	Gross Bldg. Area	SF Avail. & Vacant	Percent Vacant
Montachusett Park	688,202	58,400	8.5%
231 Industrial Park	636,879	0	0.0%
Misc. Locations	1,252,989	18,677	1.5%
Total	2,578,070	77,077	3.0%

MILL TYPE SPACE

	Gross Bldg. Area	SF Avail. & Vacant	Percent Vacant
Leominster	826,147	15,810	1.9%
Fitchburg	3,674,558	664,018	18.1%
Total	4,500,705	679,828	15.1%

Unemployment, Wage, and CPI Rates

According to the MA Department of Unemployment Assistance, the national unemployment rate as of December 2022 showed at 3.3%, a decrease over 2021 being fueled by on-going recovery after COVID-19. In-state unemployment in the same period reported at 3.8%, and locally at 4.4%. The table to the right shows trends in these rates over the last several years.

On the national level, average private sector non-farm hourly earnings rose 5.1% over the January 2022 rate, to \$32.82 as of November 2022. The CPI through December 2022 rose 7.12%, slightly higher than 2021 and significantly above 2.0% average annual increases targeted by the Federal Reserve. It should be noted that wage growth did not keep pace with inflation and consumers experienced a negative real annual wage growth rate of -2.02% through 2022.

The Conference Board expects US growth to slow in 2023 to an annual rate of GDP growth estimated at 0%. The Board expects a mild recession to commence in Q1 2023 with negative GDP growth for three quarters before a recovery begins. "While easing supply-side constraints and a more hawkish monetary policy are cooling inflation, rising interest rates will tip the US economy into a broad-based recession. This contraction will impact extremely tight labor markets and drive the unemployment rate higher. Still, we anticipate the jobless rate may peak at 4.5%, which by historical standards is quite low. This expectation reflects severe labor shortages that may continue despite the downturn." (*The Conference Board, accessed 1/4/2023, at <https://www.conference-board.org/research/us-forecast>.*)

	Leom/Fitch	MA	US
2003	7.0%	5.8%	6.0%
2004	6.5%	5.2%	5.5%
2005	6.4%	4.8%	5.1%
2006	6.1%	4.9%	4.6%
2007	5.7%	4.6%	4.6%
2008	6.6%	5.5%	5.8%
2009	12.4%	8.1%	9.3%
2010	10.5%	8.3%	9.6%
2011	8.5%	7.3%	8.9%
2012	8.2%	6.7%	8.1%
2013	9.4%	6.7%	7.4%
2014	6.7%	5.7%	6.2%
2015	5.4%	4.8%	5.3%
2016	4.8%	3.9%	4.9%
2017	4.4%	3.7%	4.4%
2018	4.0%	3.4%	3.9%
2019	3.6%	3.1%	3.7%
2020	10.4%	9.4%	8.1%
2021	6.6%	5.7%	3.7%
2022	4.4%	3.8%	3.3%

Lease Rate Trends

Closed leases for modern space have exceeded historical ranges. For 2022, we observed rates ranging from \$4.95 - \$7.50 per square foot on a triple net basis, with the higher end of the range comprising newer buildings, smaller spaces, or renewals. In the neighboring community of Westminster, asking rents for vacancies at 95 Aubuchon Drive were slightly above these levels on a triple net basis. Lease offerings in 2022 generally continued to demonstrate some of the upward pressure on asking rents caused by low vacancy during the past several years. While leasing activity was strong for industrial spaces of all sizes during 2022, it remains unclear if tenants are willing to continue paying increased rents as part of a long trend.

Given all the economic uncertainty forecast for 2023, we expect modern industrial lease rates to stabilize. Existing demand drivers should bolster landlord confidence and asking rents are expected to continue the short-term trend of increasing rates with decreasing concessions. Despite likely continued increases in asking rents, we expect executed lease rents to stabilize at current levels. Some upward pressure may be relieved as build-to-suit or spec projects are delivered to the market. However, as of January 2023, there is no conclusive evidence that tenants will continue to pay higher actual rents for either type of space as a long-term trend.

Sale Rate Trends

Modern industrial building sales and offering trends (50,000+ SF) historically ranged from the low \$20s to \$40s per square foot for good quality space, with small buildings (<25k SF) at offering prices up to the mid-\$50s per square foot. Sales of modern space in 2021 were slightly above the historical ranges with the median of the 12 sales being \$60 per square foot. For 2022, the median was \$96, a 60% increase which reflects a growing spread between sales of net-leased assets and those sold to owner-users or value-add investors. The pace of sales for both 2021 and 2022 was significantly higher than levels seen in the past five years. Increased interest rates may have slowed sale velocity as most of the 2022 sales occurred in Q1-Q3 with only one sale occurring in Q4. It is not clear if these overall trends will be sustained as a long-term trend and what effect elevated interest rates and availability of financing may have on prices and sale volume.

New Construction

The 1st section of the following table lists all new industrial construction since 2018 in Leominster and Fitchburg. The 2nd section of the table lists proposed last mile delivery facilities that are either under construction or are reasonably expected to be delivered in 2023. For this analysis, we consider speculative construction to be any construction that was commenced prior to securing a tenant. Owner-occupied construction is not considered to be speculative.

New Industrial Construction Since 2018							
Address	Town	Park	Year	SF	Add/New?	Developer	Type
40 Pioneer Park	Lunenburg	Pioneer Park	2018	67,907	Addition	Owner	Light Manufacturing
100 Game On	Fitchburg	Montachusett	2019	119,090	New	Owner	Indoor Recreation
29 Francis	Leominster	Tanzio	2019	7,200	New	Owner	Butler type; Machine shop
200 Tanzio Road	Leominster	Leom. Bus. Park	2020	33,660	New	Owner	Transfer Station
800 Research	Leominster	Southgate	2020	67,168	New	Owner	Light Manufacturing
135 Intervale	Fitchburg	City	2022	98,000	New	GFI (BTS)	Last Mile
31 Industrial	Fitchburg	Montachusett	2022	4,000	New	Owner	Showroom;Trade
1771 Lock	Leominster	FBC-Mohawk	2021	25,600	New	Owner	Butler type; Automotive uses
1775 Lock	Leominster	FBC-Mohawk	2021	5,040	New	Owner	Cannabis Growing
125 Lawrence St.	Leominster	City	2022	<u>6,600</u>	New	Owner	Automotive
			Total:	434,265			
791 Research	Leominster	Southgate	2023	15,000	Under Const.	Owner	Industrial
561 Research	Leominster	Southgate	2023	12,000	Under Const.	Owner	Manufacturing
475 Leom-Shirley	Lunenburg	None	2023	372,000	Under Const.	Corcoran (BTS)	Last Mile
Lot 10A Research	Leominster	Southgate	2023	<u>30,000</u>	Proposed	Owner	Warehouse
			Total:	429,000			

In connection with the Amazon lease at 135 Intervale Road, Fitchburg, the new improvements were delivered in 2022, but the tenant does not intend to immediately occupy the site.

Slightly outside of Pioneer Park (475 Leominster-Shirley Road, Lunenburg), a 35-acre parcel has been developed as a 372,000 square foot distribution center. Construction is nearly complete with delivery likely in early-to-mid-2023. We understand that the site has not been leased prior to any construction and remains vacant. This site is considered to be speculative construction. No other speculative construction is known of within the market at this time, and with limited build-to-suit construction, owner occupants continue to be the dominant influence.

Discussion has persisted for years regarding re-development of the 82,000± square foot Iver Johnson site. We understand that plans have been approved for multifamily conversion, but construction has not commenced despite announcements over the past few years.

Two sites in Leominster continue to offer pre-leasing on proposed distribution space: A site in Leominster Business Park shows 150,000 square feet, and a site in Orchard Hill Park shows 250,000 proposed square feet. No permit applications have been submitted for either. Likelihood of construction is deemed to be low.

Proposed distribution facilities continue to offer pre-leasing at two sites in Lancaster: A 702,000 square foot proposed building in the Capital Commerce Center, and two buildings on Fort Pond Road totaling 894,000 square feet. Neither of these sites are expected to be developed in the near future. It appears any construction will depend on securing a lease with a prospective tenant. Likelihood of construction is deemed to be low.

In 2022, a site in Fitchburg on Airport Road was offered for pre-leasing. The proposed improvements are offered as 367,000 square feet. We understand ownership is working with the City Redevelopment Authority, but no approvals have been granted. The City currently uses this site for aggregate extraction. Likelihood of construction is deemed to be low.

Similarly, two sites in Westminster are offering pre-leasing for proposed distribution facilities in Westminster Business Park, and a third on Simplex Drive. Together, these sites total 1,185,000 square feet of proposed distribution space. The larger of the Westminster Business Park sites has obtained approval for a 600,000-square foot warehouse, but the Town does not expect construction to commence in the near term. The Simplex site has been approved for a 325,000 square foot distribution building, but the start of construction is not known to the Town. An additional Westminster warehouse site, 95 Aubuchon Drive, is offering pre-leasing on an 80,000 square foot addition; construction is understood to commence subsequent to lease execution.

There is a total of 3,593,000 square feet of distribution space proposed for Leominster and the surrounding towns, increasing the total existing industrial supply in the region by 39.9%. The proposed space listed above appears to be offered on a build-to-suit basis rather than as speculative construction. There is no known speculative construction in the market area, other than 475 Leominster-Shirley Road. It is not possible to credibly estimate how much of this proposed distribution space will actually be built, but it likely presents many years of future supply of land for such construction, based on past observed trends. It is unlikely that all of these proposed sites will be constructed.

Sale prices of local properties continue to be well below replacement cost. Therefore, demand for new construction over many years has been limited to specialized and build-to-suit facilities or additions to existing operations too costly to relocate. The price gap between existing and new construction appears to be getting closer, particularly for smaller buildings. However, there is little existing speculative construction in the area and industrial land prices appear to be rising, which results in an increase for all-in replacement cost.

Over the past year, local industrial real estate activity showed continued positive signs, being stable, while showing a decrease in modern space vacancy and nominal change in vacant mill space. If national economic conditions and employment stabilize, the local economy should benefit, especially with limited new construction and upward price pressure both on lease rates and sale prices.

Industrial Land

Pioneer Park, Leominster

Orchard Hills is a successfully developed retail site; the developer owns seven parcels (81± acres) on both sides of Orchard Hill Park Drive and Pioneer Drive north of the developed retail portion. The property is located off the Harvard Street exit of Route 2 in Leominster. The remaining developable land (81± acres) is located in Leominster. The property has been offered informally for industrial use as a land lease or build-to-suit space to be constructed and leased by the park owner to end users. Up to 277,500 square feet within five buildings has been proposed over many years. No new commercial or industrial development took place in 2022, although sites are available.

A speculative site is offered for 250,000 square feet of distribution space, but development has not commenced. A 25-acre parcel of undeveloped land is available on the north end of the park. The property lies in Lunenburg, and its southerly boundary abuts the Leominster city line. The listing is represented by a local broker. This park benefits from Pioneer Drive, which provides direct access to Route 2 in Leominster through Orchard Hill Park Drive.

Slightly outside of the Park, a 264-acre parcel is under contract that extends south to Fort Pond Road from its Leominster-Shirley Road frontage. A 35-acre parcel sold in January 2022 for development as a 372,000 square foot distribution center. The proposed improvements are discussed in 'New Construction' above.

Southgate Business Park, Leominster

Infrastructure improvements are complete within the 59-acre site, which was aided by state grants. Developers and local officials continue to propose development to technology-based industry. This site offers future job creation potential and tax revenue to the community. Four remaining lots are listed for sale with a local broker at a median list price of \$225,000 per acre. A fifth lot is available at \$241,750 per acre; this lot was purchased for development in 2020. The sale of Lot 16 (561 Research) was a 1.41-acre site for \$246,750 (\$175,000 per acre). The sale of Lot 10A was a 7.99-acre site for \$1,347,500 (\$168,648 per acre).

Jungle Road, Leominster

The city's Economic Development office has several active listings of development land, offered as smaller parcels. We understand that there are 114 acres of vacant industrial land available on Jungle Road, of which 5.5± acres are marketed by the city. CoStar reports this site to be under contract at a list price of \$200,000 per acre.

Industrial Land – Conclusion

There have been a limited number of industrial land sales over the last several years. The low number of sales is due in the largest part to the value of completed modern buildings being lower than replacement cost plus land cost. From the few industrial land sales that have occurred in recent years, it appears that land values have stabilized near \$175,000 per acre for finished lots. The apparent stabilization may be because the all-in replacement cost for modern industrial space continues to outpace the value upon completion.

Modern Industrial Space

Overview

For the purposes of this survey, we have defined typical modern industrial space as single-story masonry/steel buildings. These buildings include open warehouse and manufacturing facilities that generally include 5%-10% office space with ceiling heights of at least 14 feet. Newer buildings often have higher clearance closer to 20 feet which is important for greater versatility, a higher proportion of office space, and some with climate-controlled manufacturing areas, all of which reflect market expectations. It should also be noted that due to topography, a few modern industrial buildings have been constructed over the years as two-story. These are included in our survey.

The total amount of space was calculated from the various industrial parks and miscellaneous locations in the two cities. As new buildings or significant additions to existing buildings are delivered, we update our records with the new completed space. Any space on the market for lease or sale, and any unoccupied space as of the date of this survey, was considered vacant. If a company is operating in the building and has made the building available for sale or lease, it is considered vacant for purposes of this report. A fully-leased building made available for sale to an investor has not been considered vacant. An indicated vacancy rate is established for each of the industrial parks, the miscellaneous locations, Fitchburg, Leominster, and the overall market.

The building areas given in square feet were calculated primarily from the records of the municipal assessors' offices. We have measured many of the buildings ourselves. Information was gathered from lease documents, local brokers, developers, property managers, owners, and building occupants to determine the amount of vacancy at the time of the report. Best efforts are used on an ongoing basis to provide the most accurate reported amounts of space possible.

Demand Trends

Historically, demand and market value have not been strong enough to make new construction financially feasible. Medical marijuana growers began entering the market as buyers and tenants starting in 2015. The pace of that entry increased, particularly in Fitchburg in 2018 and 2019. 2022 saw no change over 2021. Conversely, Leominster adopted revised ordinances regulating both medical and adult-use marijuana that modestly increased but ultimately limited the total number of facilities to three locations, according to city officials. There has been moderate impact in Leominster from all types of commercial marijuana market participants. We do not expect cannabis to be a significant demand driver in 2023.

Larger buildings over 50,000 square feet have historically been sensitive to pricing and faced multi-year marketing periods. Owners of large buildings with persistent vacancies subdivide, when possible, for smaller tenant use. Historically, the local market has demonstrated stronger demand for smaller spaces of under 50,000 square feet. As discussed earlier, some buildings in this size range have been bought for cultivation use. Additionally, on the edge of the Fitchburg/Leominster market, it is becoming clear that a new industrial use is appearing: last-mile delivery. The conversion of 135 Intervale Road to a last-mile facility is complete, and 475 Leominster Shirley Road is expected to be delivered in early 2023. As stated above, more sites are being planned, but we cannot estimate with confidence how many of these will be built and leased.

Summary of Modern Industrial Activity

As of January 2023, there was a total of 349,161 square feet available in Fitchburg and Leominster, or 3.9% of the total existing modern industrial base. This is a significant decrease over January 2022 (4.5%) that is caused principally by continued overall strong demand. There is commonly some level of fluctuation in vacancy, but overall, the rate still remains below historic levels. Landlords are using the strong demand climate to lease under-utilized space and raise rents for new leases and for renewals. 2022 was a strong year for leasing and selling modern industrial spaces of all sizes. Rents for new leases appear to have increased above historical ranges as have sale prices. Details of leading individual market transactions and current offerings follow.

Leominster Activity – Modern Space

Available for Lease

Leominster has a total supply of slightly more than 6.4 million square feet. This represents about 70% of the Leominster-Fitchburg market. There are 272,084 square feet of modern industrial space available for lease in Leominster as of January 2023.

- 45 Francis Street is a single-tenant industrial property in Tanzio Park. The property was sold in 2022 and is currently offered for lease or sale.
- 214 Nashua Street is offered for lease. The site is cramped and lacks adequate parking and circulation. Ceiling heights are generally 16 feet.
- 471 Lancaster Street is a 24,000 square foot single-tenant building with two tailboard height docks and one drive-in door; 16 feet of clear height and is a clear span, with no columns.

Available Buildings for Sale

- 45 Francis Street is a single-tenant industrial property in Tanzio Park. The space is also offered for lease.
- 46 Industrial Road has been offered for sale periodically since 2018 and is understood to be partially vacant. There is no active listing currently.

Leases During 2022

Good quality buildings/spaces under 20,000 square feet, and particularly 5,000 to 10,000 square feet, continue to experience strong sale/purchase interest in the market. Demand appears to have increased in 2022 for larger spaces.

- 50 Jytek Drive has a new lease of the entire building to a single tenant. It is an older building in Jytek Park with cramped circulation.
- 175 Pioneer Drive is an older manufacturing property in Pioneer Park. It is understood to be a lease renewal in connection with the 2022 sale.
- 115 Willard Street has a new lease to a single tenant for this newer 11,533 square foot building in Tanzio Park. The space has good circulation and clear heights.
- 233 Florence Street is a 10,000 square foot new lease in a 40,000 square foot older industrial building. The site is somewhat cramped and has 18' clear heights.

Address	Bldg. Area
50 Jytek Drive	25,400
175 Pioneer Drive	238,385
115 Willard Street	11,533
233 Florence Street	10,000

Sales During 2022

2022 saw a slightly lower sales volume compared to 2021, but 2022 was still busier than historical patterns.

- 100-110 Jytek Drive: two abutting buildings occupied by single credit tenant; net-leased asset in Jytek Park.
- 175 Pioneer Drive: net-leased asset bought by a regional investment group; lease renewal with sale.
- 45 Francis Street: small manufacturing building in Tanzio Park; currently for lease.
- 25 Tucker Drive: net-leased asset in Tanzio Park bought by a regional investment group (same group as 175 Pioneer).
- 241 Willard Street: industrial property with 2nd non-abutting parcel in Tanzio Park; older building with cramped circulation bought by owner-user.

Address	Bldg. Area
100-110 Jytek Drive	116,156
175 Pioneer Drive	238,385
45 Francis Street	21,040
25 Tucker Drive	588,858
241 Willard Street	62,500

Marijuana – Medical and Adult Use

As outlined above, Leominster adopted an ordinance in 2016 allowing only one dispensary and one growing facility. In 2018, the city adopted a revised ordinance following a prior approval of recreational use facilities. The new ordinance, according to city officials, capped to three the permitted maximum number of sites for medical or recreational use, whether for cultivation or retail. The approval process is completed through the city issuing special permits. Two of these permits have been issued: 1775 Lock Drive and 25 Mohawk Drive. The City is understood to have executed a host agreement for a proposed cultivation facility in Southgate Business Park and the operator is awaiting state approval; the site is understood to be Lots 15 and 16 of Southgate and construction has not commenced. A retail site has been approved for 130 Pioneer Drive and the building has been constructed.

Leominster Modern Industrial Conclusion

Leominster’s vacancy rate decreased over the past year from 4.9% to 4.2%. This decrease occurred in a variety of buildings across the city. Increased leasing activity resulted in positive absorption for the market. The market is acting confidently with a number of large vacant spaces being leased, with lease rates operating above historic ranges. It is unclear if this trend will continue.

Fitchburg Activity – Modern Space

Fitchburg has a total supply of about 2.6 million square feet of modern industrial space. This represents about 30% of the Leominster-Fitchburg market.

Available for Lease

149 Industrial Road: After the 2022 sale, the whole 38,400 square foot building was offered for lease. This Montachusett Industrial Park property was approved for cannabis cultivation, but the uses appear to be industrial.

Available Buildings for Sale

We are not aware of any modern industrial buildings available for sale at the close of 2022. It should be noted that 100 Game On Way, a 119,000 square foot recreational facility in Montachusett Industrial Park, is offered in CoStar for sale, but we understand that the purpose of the sale listing is to find an equity partner to finish development of the site. This listing is not a vacancy.

Leases During 2022

- 135 Intervale Road was sold in 2020 to a regional investment group. Amazon negotiated a lease in September 2021, and the re-developed site was delivered in 2022. We understand that Amazon is delaying occupancy of the 136,252 square foot last mile delivery facility.
- 145 Authority Drive in 231 Industrial Park saw a single-tenant lease executed in April 2022. The improvements total 45,500 square feet and were built in 1985.
- 46 Development Road in 231 Industrial Park sold in 2020 to a regional investment group; A 16,000 square foot lease was executed in November 2022. The building is 83,400 square feet.
- 270 Westminster Street is leased by Monty Tech school as a single-tenant. Monty Tech has leased this space, formerly used for warehouse, as overflow space for its educational shops.

Sales During 2022

As in Leominster, Fitchburg experienced a strong year of continued demand for space by investors and owner-users.

- 50 Crawford Street: single-tenant automotive industrial building near Fitchburg Airport.
- 260 Authority Drive: smaller industrial building in 231 Industrial Park.
- 149 Industrial Road: single-tenant industrial property in Montachusett Industrial Park. This property was approved for cannabis cultivation.
- 830 Westminster Street: smaller industrial building in the Montachusett Industrial Park.

Address	Bldg. Area
50 Crawford Street	28,900
260 Authority Drive	20,250
149 Industrial Road	38,400
830 Westminster Road	9,600

Marijuana – Medical and Adult Use

The City has approved 11 locations for medical and adult-use marijuana growing operations through the end of 2022, which is no change from the prior year. Rules adopted by the city do not limit the number of cultivation sites. We understand that the City has approved all allowed retail sites. Demand for space for cultivation appears to have cooled, as expected.

Fitchburg Modern Industrial Conclusion

The market for modern industrial space in Fitchburg experienced positive net absorption in 2022, moving from a vacancy rate of 3.6% at the start of the year to 3.0% at the close. The change was largely due to the leases of 145 Industrial Drive, 135 Intervale Road, and 46 Development Drive.

The remaining available properties include generic spaces suited for a broad range of industrial uses.

We do not expect City approval of any marijuana cultivation sites in 2023. We expect investor and user demand to slow in 2023 as the impact of recent interest rate increases is felt by the market. Overall, and assuming no downturn in the economy, we expect vacancy rates to remain near historic lows for modern industrial space in Fitchburg.

Other Locations Influencing the Market

Three large blocks of existing space outside the Twin Cities are newsworthy regarding their influence on the modern industrial market in Leominster and Fitchburg. These buildings are not directly counted in our Leominster Fitchburg survey, but are noted due to their influence on the market area.

Simplex Drive, Westminster

After being on the market for some time, this 685,000 square foot modern industrial/office building was fully leased in 2018. In a brokered sale, the Boston-based firm GFI Partners bought the property. Four new leases were executed at this property in 2021 totaling 379,872 square feet. These leases include a 203,000 square foot sub-lease offered following renovation in 2018. A 66,976± square foot space is available for lease. Since 2018, leased spaces decreased in size as the building is more fully converted to multi-tenant use.

95 Aubuchon Drive, Westminster

This modern industrial building was a build-to-suit for its owner-occupant, Aubuchon Hardware. The property had significant new leases executed in 2019 and 2021 totaling 275,000± square feet. The property sold in 2021 to a Boston-based investment group and was almost fully leased at sale. Two lease spaces are currently available totaling 109,000± square feet. One of these spaces is for a proposed 80,000± square foot expansion.

580 Fort Pond Road, Lancaster

This 275,000± square foot modern industrial building was built in 2004 and renovated in connection with a sale in 2010. The property sold in 2022 to a regional investment group based in Boston. The property was occupied by a single tenant, Rand-Whitney, and was considered to be the sale of a net-leased asset.

Mill Type Industrial Space

Overview

As defined in this report, mill type space is older, being built from the mid-nineteenth to the early twentieth centuries. Mills were originally built for single-occupant businesses such as textile, paper, and plastics manufacturing. Significantly, mill buildings were built for a local workforce that typically walked to work. Mill buildings were generally built along riverways in city centers. Because of this, these buildings are often attractive candidates for re-development as office or multi-family. They are primarily brick, multi-story buildings, with little parking, that are often in fair to poor condition.

Measurements for many of these buildings have been made by owners and appraisers. Some measurements were obtained from the assessors' offices. No determination of accuracy for these figures is made for this report. Accurate figures for mill type industrial space are difficult to obtain. Usable square footage is subjective due to layout and condition.

The mill property industrial survey is included to help understand this market. There is a large inventory of mill space, but vacancy rates are approximately 1100 basis points higher than modern industrial space. This vacancy rate has historically tracked between 500 and 1000 basis points above the modern industrial vacancy rate. This suggests current demand is seeking better quality modern space. Available lease space is offered at low rents and may meet the needs of short-term and some start-up users requiring lower budget space. Additionally, there has been strong demand in recent years for marijuana cultivation. Almost 80% of the mill space is in Fitchburg. In comparison, approximately 70% of the modern industrial space is in Leominster.

Factors Impacting Sales

If the available supply of modern space continues to be at a historically low level, industrial demand for mill space may improve making mill space cost effective.

Environmental contamination issues with mill space are common. Floors may have chemical saturation, and older in-ground oil or chemical tanks not in use are sometimes found that have not been properly monitored or have leaked over the years into the soil and potentially the groundwater. Careful investigation of environmental conditions is warranted with mill properties.

Remediation alternatives have become more common under applicable Massachusetts law, and apply to both modern and mill space, but are more commonly encountered with mill properties. Options such as an Activity and Usage Limitation (AUL) are possible under some conditions. An AUL makes a lower level of remediation possible through a deed restriction prohibiting uses more sensitive to contamination such as residential occupancy. This may allow for continued industrial uses with less extensive clean up. These types of considerations should be fully investigated prior to purchase.

Availability of financing for mill property acquisitions can be more difficult than modern space. Properties that have an acceptable environmental status may be financed, but may require greater equity participation on the part of the buyer and sometimes higher mortgage rates than modern industrial buildings. Lenders are reluctant or not willing to provide financing for property tainted by environmental problems.

Generally, mill buildings offer lower efficiency than modern facilities due to multiple floor levels, restricted upper floor load capacity, less desirable clear height, tighter column spacing, and odd configurations. These physical limitations negatively impact the overall desirability of mill property when compared to modern buildings.

Tenant demand for mill space tends to be from budget-conscious businesses that can operate elsewhere than modern space, and businesses requiring overflow temporary warehouse space. Historically, the attractiveness of mill space, with greater inefficiencies due to the design and location of the buildings, diminished as modern industrial property was developed. Fitchburg mill space has seen uncharacteristically strong demand since 2017 as properties are bought or leased for marijuana cultivation.

However, recently the availability of modern space has been diminishing and rates are likely to increase. The majority of the more desirable/suitable mills have been converted to residential and commercial use. Some property conversions have been supported by government grants. As mill type space continues to be converted to residential, commercial uses, or marijuana cultivation, vacant mill properties have been and will likely continue to be gradually absorbed.

Overall mill vacancy in Leominster and Fitchburg at year-end 2022 was 15.1% or 679,828 square feet. This is a slight decrease over 2021's vacancy rate of 15.8%. The principal cause of the decrease is considered to be the recent leases at 435 Lancaster Street, Leominster and 12 Baltic Lane, Fitchburg.

Leominster Activity – Mill Space

Some properties change tenants without experiencing a reported vacancy. The same holds for sales of off-market properties.

2022 Transfers and Sales

There were no reported sales of mill buildings in Leominster in 2022.

Current Sale and Lease Offerings

We note no mill space sale or lease offerings at year-end. 21 Central Court is offered for sale, but is fully leased and does not count in our vacancy estimate.

Offerings at these addresses are difficult to track because of their small size and because the tenancies tend to be very short, often 1-year leases or tenants-at-will. These properties historically have chronic vacancies as listed below, although they are not often listed with brokers.

- 123 First Street: largely improved and utilized as self-storage space. Additional space is still available for larger storage and or light manufacturing/assembly type uses.
- 98 Adams Street: two small spaces totaling 4,810 square feet and suited for warehousing, service, or light manufacturing.
- 444 Central Street: the space has potential for service, warehouse, or manufacturing businesses.

Address	Bldg. Area
123-125 First Street	4,000
98 Adams Street	4,810
444 Central Street	7,000

There are a few smaller scattered available spaces currently available as leases turn over and/or tenants relocate.

New Leases

We note no mill space sale or lease offerings at year-end 2022.

Leominster Mill Space Conclusion

Mill space that is not owner-occupied has historically filled the need gap for seasonal/interim and economical space for storage and start-up businesses desiring short-term leases to limit financial obligations. Local business start-ups have been low for several years. With short-term leases comes high turnover and vacancy periods between each tenant turnover.

Mill buildings experience significant amounts of shadow space. These spaces are not being fully utilized, but also may not be actively marketed. Many mills were constructed for single-business occupancy. Multiple floor levels, low clear height, lots of columns, shared loading docks, and limited or low capacity elevators result in inefficiency and non-functional space by current standards. It is common to have vacant space that is simply inaccessible for lease.

The base of existing mill space has declined as properties are gradually converted to higher value residential/commercial uses, demolished, or abandoned as they are no longer considered economically feasible to restore.

Fitchburg Activity – Mill Space

At year-end 2022, there was 664,018 square feet of vacant mill space in Fitchburg. This represents a slight increase over 2021 totals due to the addition of 555 Westminster Street.

2022 Transfers and Sales

The August 2022 sale of 1146 Main Street was reported in CoStar, but no brokers appear to have been involved. The building is used as self-storage and vehicle-storage. It is not known if business or enterprise value was included with the sale. The sale price equated to \$26.86 per square foot, which is significantly above historical norms for mill space, historically ranging from \$2 to \$15 per square foot.

Available Mill Space – Sale

Fitchburg mill space available for sale is highlighted in the following table.

- 320 River Street is currently used for document storage and is being actively marketed for sale having previously been under contract.
- 35 Daniels Street is available for sale through a broker; the site is cramped and lacks parking.
- 642 River Street represents a substantial portion of the current vacancy. The property was last used as a specialized paper plant in 2009 and is partially leased. This property is being actively marketed.
- 549 Westminster Street is offered for sale or lease together with the abutting property, 555 Westminster Street, which shares a party wall and is operated under common ownership. We have updated building area for this report to include both properties.

Address	Bldg. Area
320 River Street	33,120
35 Daniels Street	220,186
642 River Street	175,396
549-555 Westminster Street	123,028

Available Mill Space - Lease

Some of these properties include a mix of owner and tenant industrial businesses. Additional mill properties offered for lease are arrayed in the table below.

Address	Bldg. Area
642 River Street	175,396
549-555 Westminster Street	123,028

2022 Leases

The remaining vacant space at 12 Baltic Lane has been leased according to the listing broker. This building has had chronic vacancy since 2018. We are aware of no other leases for Fitchburg mill space in 2022.

Conversions

There were no conversions in 2022, and we know of none that are proposed. 87, 89, and 91 River Street have experienced chronic vacancy and may be future candidates for conversion, but are not currently exposed to the market. As noted earlier, approvals are being sought for conversion to multi-family. However, they are counted towards mill space vacancy.

Marijuana in Mill Space

The City did not approve any additional cultivation locations in mill space in 2022.

Putnam Place

The space remaining at 166 Boulder Drive consists of approximately 2,500 square feet of raw space available for lease. It is rumored that an indoor vegetable grower is considering the available 34,000 square feet at 200 Boulder Drive.

Fitchburg Mill Space Conclusion

Vacant mill space represented an increase to 664,018 square feet at year-end 2022. This represented negative absorption of 51,268 square feet over year-end 2021. The overall vacancy rate for mill space in Fitchburg is 18.1% as of January 2023, which remains within historic patterns.

Based on the exhibited demand for mill space for multi-family conversions, marijuana growing operations, start-up businesses, and seasonal storage requirements needing lower cost space, we expect a gradual continued tightening of supply for Fitchburg mill space.

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Duncan Galvanizing Corporation	Republic Services Inc. (AKA Allied Waste)
Exxon Corporation	Schnitzer Steel Industries
Georgia Pacific Paper Company	Shell Oil Company
Meditech	Sprague Energy
Mobil Oil Corporation	SPS New England
National Grid	Unisorb Corporation
Oldcastle Inc.	Unitil
Osram Sylvania Inc.	

GENERAL

AECOM Technology Corporation	Nordblom Company
Assumption College	On-Site Insight
Core Investments	Orchard Hills Athletic Club
Economics Research Association	Professional Loss Adjusters
Gutierrez Company	Roman Catholic Diocese
Heywood Hospital	The Skating Club of Boston
John M. Corcoran & Company	Spectrum Health Systems
J.M. Forbes & Company	State Street Development Company of Boston.
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Louis Berger Group	Tetra Tech
Massachusetts Housing Partnership	Toyota Financial Services
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Milford Regional Medical Center	University of Massachusetts
Montachusett Regional Transit Authority	Whittier Rehabilitation Hospital
National Development	Winn Development LLC

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Massachusetts Audubon Society	The Trustees of Reservations
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New England Forestry Foundation	
Numerous State and Municipal Conservation Entities	

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FEDERAL

Federal Aviation Administration	Small Business Administration
Federal Deposit Insurance Corporation	US Army Corps of Engineers
General Services Administration	US Dept. of Housing & Urban Development
National Park Service	US Postal Service

MASSACHUSETTS

CEDAC	Massachusetts Development Finance Agency
Department of Conservation & Recreation	Massachusetts Housing Finance Agency
Department of Fisheries & Wildlife	Massachusetts Housing Investment Corporation
Department of Food & Agriculture	Massachusetts Port Authority
Department of Housing & Community Development	Massachusetts Water Resources Authority
Department of Transportation	Office of the Attorney General
Massachusetts Bay Transportation Authority	

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Berlin	Devens	Lexington	Newton	Waltham
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Bolton	Everett	Lowell	Pepperell	Westminster
Boston	Fall River	Lunenburg	Pittsfield	Westport
Boxborough	Falmouth	Malden	Quincy	Westwood
Boxford	Fitchburg	Marlborough	Somerset	Worcester
Bridgewater	Gardner	Marshfield	Springfield	