

# **The Foster Report**

## **Industrial Market Survey**

**Leominster & Fitchburg, Massachusetts**

**January 2024**

## Overview

Continuing uncertainties in areas of business and society prolonged turbulence through 2023.

### National Trends

By year-end 2023, 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 2<sup>nd</sup> and 3<sup>rd</sup> order effects that are impossible to predict even at the end of 2023. 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 continuing trends we track and analyze:

- On-going war between Russia and Ukraine threatens to escalate to regional or world war;
- The October 7<sup>th</sup> attack on Israel and Israel's subsequent military response;
- Inflation with scale, duration, and reach as a global and national trend;
- Effects of interest rates on commercial lending;
- Newly found stability in the Fed's Funds Rate beginning in March 2023;
- Sudden collapse of Silicon Valley Bank due to mis-management of interest rate risk;
- On-going labor force shortages;
- The now uncertain rise of artificial intelligence; and
- Apparently peaked space demand for cannabis, life science, and last-mile distribution.

### Financial Trends

Year-end 2022 saw the Federal Funds Rate at 4.33% rising to 5.33% in March 2023 and remaining at that level through year-end. Market-driven 30-year home mortgage printed 6.8% at year-end 2022 and fluctuated wildly through 2023. Rates rose to a peak of 7.8% in October, the highest rate since November 2000. The year finished significantly lower at 6.7%, a slight year-over-year decrease. Commercial financing rates were generally stable in 2023 showing 6.2% at year-end, a decrease from the 6.5% print at year-end 2022. Rates were still 200-300 basis points above the 2019 rate, causing significant turmoil in the re-finance market. Capitalization rates remained at historic lows for industrial property, demonstrating the continued drive to invest capital into this secure real estate asset class with low single-digit vacancy and strong demand. At year-end, the annualized rate of residential home sales nationally decreased by 3.3% to 4.4 million units over the preceding 12 months. Median prices rose 5.7% in the same period. Locally, sales velocity for 2023 decreased 21.0% over 2022 largely due to spiking interest rates, decreased inventory, and rising prices. North Central Massachusetts continues to offer relative affordability despite a 4.9% median price increase state-wide in 2023, slightly below the rate of the 2022 increase.

### Industrial Trends

The red-hot industrial market across Eastern Massachusetts and many areas of the nation was a consistent trend that began in 2021, and continued through 2022 before appearing to peak in 2023. Contributing factors included intense demand for distribution space; redevelopment to other uses such as multi-family housing; cannabis cultivation; 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. Through 2022, vacancy in the Metro Boston area was cited at or near 1%. Pricing in Eastern Massachusetts has skyrocketed for all things industrial: land, rents, and finished product. However, that trend has begun to cool slightly.

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. Asking and effective rents in the Leominster-Fitchburg market area have increased over the last few years as a result.

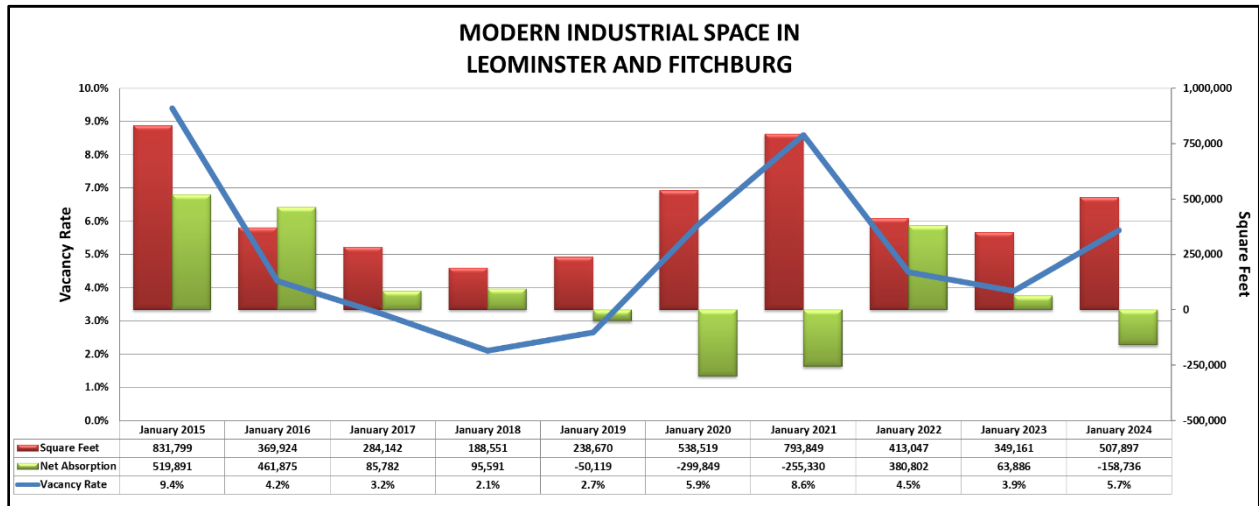
Industrial sites locally that sat dormant for many years are now being offered for build-to-suit opportunities. A number of land parcels that could support 3.6± million potential square feet of buildable space are being offered in Leominster, Fitchburg, and surrounding towns. Many sites have permitting 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. However, demand for this space appears to be less robust than in 2021 or 2022.

The existing stock of modern industrial space continues to have low vacancy, under 6%. Some of the remaining vacancy is inferior space with low utility, which indicates a lower effective vacancy rate. We continue to see 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 2024, 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 2024, the vacancy rate for modern industrial space in the Leominster-Fitchburg market increased to 5.7% from the January 2023 vacancy rate of 3.9%. Average vacancy for mill space in the Leominster-Fitchburg market is 21.1% as of January 2024; up significantly from 15.1% as of January 2023. These count among the lowest vacancy rates we have seen over the 35 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 2023, 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	8,874,634	507,897	5.7%
Mill Total	4,532,809	956,221	21.1%
<b>Combined Total</b>	<b>13,407,443</b>	<b>1,464,118</b>	<b>10.9%</b>

#### Breakdown

#### LEOMINSTER MODERN INDUSTRIAL SPACE

Locations	Gross Bldg. Area	SF Avail. & Vacant	Percent Vacant
Jytek Park	865,467	40,400	4.7%
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	54,040	5.5%
FBC (Mohawk)	678,719	39,413	5.8%
Misc. Locations	3,072,044	251,044	8.2%
<b>Total</b>	<b>6,432,816</b>	<b>384,897</b>	<b>6.0%</b>

#### FITCHBURG MODERN INDUSTRIAL SPACE

Locations	Gross Bldg. Area	SF Avail. & Vacant	Percent Vacant
Montachusett Park	688,202	0	0.0%
231 Industrial Park	636,879	0	0.0%
Misc. Locations	1,116,737	123,000	11.0%
<b>Total</b>	<b>2,441,818</b>	<b>123,000</b>	<b>5.0%</b>

#### MILL TYPE SPACE

	Gross Bldg. Area	SF Avail. & Vacant	Percent Vacant
Leominster	826,147	68,236	8.3%
Fitchburg	3,706,662	887,985	24.0%
<b>Total</b>	<b>4,532,809</b>	<b>956,221</b>	<b>21.1%</b>

## Unemployment, Wage, and CPI Rates

According to the MA Department of Unemployment Assistance, the national unemployment rate as of December 2023 showed at 3.5%, an increase over 2022. In-state unemployment in the same period reported at 3.4%, and locally at 3.7%. 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 5.2% over the January 2023 rate, to \$34.52 as of January 2024. The CPI through February 2024 rose 3.2%, significantly lower than 2022 although above the 2.0% average annual increases targeted by the Federal Reserve. It should be noted that wage growth kept pace with inflation and consumers experienced a positive real annual wage growth rate of 2.0% through 2023.

The Conference Board expects US growth to slow in 2024 to an annual rate of GDP growth estimated at less than 1%. The Board no longer expects a recession in 2024. The forecast is not without concern as “headwinds including rising consumer debt and elevated interest rates will weigh on economic growth.” The Board further forecasts “that overall consumer spending growth will gradually slow to a standstill in Q3 2024 as households struggle to find a new equilibrium between income, debt, savings, and spending.” (*The Conference Board, accessed 3/25/2024, at <https://www.conference-board.org>*)

	Leom/Fitch	MA	US
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%
2023	3.7%	3.4%	3.5%

## Lease Rate Trends

Closed leases for modern space have exceeded historical ranges. For 2023, leasing activity was significantly slower than in 2022. In total, we are aware of only four notable leases of modern space at a high of \$7.50 per square foot on a triple net basis. The lower end of the range included a less desirable property leased at \$5.68 per square foot on a modified gross lease basis. However, the recently delivered speculative building at 475 Leominster-Shirley Road remains vacant a year after delivery. A significant number of lease offerings continued to demonstrate some of the upward pressure on asking rents caused by low vacancy during the past several years. Given the amount of lease space currently offered to the market, it remains unclear if tenants are willing to continue paying increased rents as part of a long trend.

Last mile delivery faces similar headwinds in Massachusetts generally. Amazon’s pace began to slow in mid-2022, but has grown as Amazon seeks equilibrium. Amazon is sub-leasing six sites totaling 990,000± square feet to include 135 Intervale, Fitchburg. Sub-leases equate to 6.8% of Amazon’s existing space in Massachusetts. We expect a continued slowing in the pace of last mile delivery leasing through 2024.

The life science market that drove so much of the industrial market in eastern Massachusetts since 2020 has begun to noticeably slow. As the Fitchburg/Leominster market area functions on the far western periphery, slowdowns in the east have out-sized effects. The most notable example is 642 River Street in Fitchburg, which was reported to have secured a long-term lease from a life science firm in 2Q 2023. To date, that lease has not materialized and the entire site is offered for lease. It is difficult to see how the market area could solve the workforce problems needed to attract life science as demand cools in the east.

Further complicating this picture is the slowing of the cannabis cultivation market. Two approved sites in Fitchburg re-positioned in 2023 away from proposed cultivation. We expect more sites in 2024 to cease cultivation or to not commence cultivation following permit approval. As this segment slows, it is possible that more mill space and lower quality modern space will return to the market for lease.

Given all the economic uncertainty forecast for 2024, we expect modern industrial lease rates to stabilize. It is unlikely landlords will allow rents to return to long-term historical levels. We expect landlords to offer free rent and significant tenant improvement concessions to fill space without reducing face rents. However, as of January 2024, 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. 2023 saw a decrease in the median price paid to \$69 per square foot with a decrease in the pace of sales over 2022. Increased interest rates appear to have slowed sale velocity over 2022 together with the factors noted in the earlier Lease Rate Trends analysis. It is not clear if the recent pricing trend 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 first section of the following table lists all new industrial construction since 2018 in Leominster and Fitchburg. The second section of the table lists proposed construction under construction or reasonably expected to be delivered in 2024. 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	Leominster Bus. Park	2020	33,660	New	Owner	Transfer Station
800 Research	Leominster	Southgate	2020	67,168	New	Owner	Light Manufacturing
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
135 Intervale	Fitchburg	City	2022	98,000	New	GFI (BTS)	Last Mile
31 Industrial	Fitchburg	Montachusett	2022	4,000	New	Owner	Showroom;Trade
125 Lawrence St.	Leominster	City	2022	6,600	New	Owner	Automotive
670 Central St.	Leominster	City	2023	5,000	New	Owner	Automotive
691 Research	Leominster	Southgate	2023	23,200	New	Owner	Industrial
791 Research	Leominster	Southgate	2023	15,000	New	Owner	Industrial
561 Research	Leominster	Southgate	2023	12,000	New	Owner	Manufacturing
475 Leom-Shirley	Lunenburg	None	2023	<u>372,000</u>	New	Corcoran (BTS)	Last Mile
			Total:	861,465			
Lot 10A Research	Leominster	Southgate	2023	<u>30,000</u>	Proposed	Owner	Warehouse
			Total:	891,465			

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 and has offered the site for sub-lease.

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 complete and the property was delivered in 1Q 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 of 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.

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. Another 140-acre parcel is offered on Fort Pond Road in Lancaster. Both are under contract and both are offered for last-mile delivery space.

### Southgate Business Park, Leominster

Infrastructure improvements are complete within the 59-acre site, which was aided by state grants. We understand that all developer lots have been sold. 351-401 Research, a 1.1-acre site approved to build a 7,800± SF industrial building, has been listed as a \$9,500/month 25-year ground lease.

### Jungle Road, Leominster

The City of Leominster'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. This sale closed in March 2024 at \$200,000 per acre. The property is also offered for lease as a prospective 67,500± multi-tenant industrial development; the proposed improvements are not counted as vacant space.

### Jytek Park, Leominster

Within Jytek Industrial Park, a 2.5± acre parcel was offered for sale in June 2023 on Patriot Circle for \$500,000 or \$200,000 per acre. The property is under contract for sale after 41 days on the market. A 1.9± acre parcel on Willard Street recently came to market with an undisclosed offering price.

### 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 large 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 this 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. No new space has been absorbed since 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 2024.

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. Since 2015, some buildings in this size range have been bought for cultivation use. On the edge of the Fitchburg/Leominster market, it is becoming clear since 2021 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 was delivered in early 2023. As stated above, more sites are being planned in Fitchburg, Leominster, Lunenburg, Lancaster, and Westminster, but we cannot estimate with confidence how many of these will be built and leased.

**Summary of Modern Industrial Activity**

As of January 2024, there was a total of 507,897 square feet available in Fitchburg and Leominster, or 5.7% of the total existing modern industrial base. This is a slight increase over January 2023 (3.9%), caused principally by slackening demand in cannabis cultivation and last mile delivery. However, the market continued to experience overall strong demand. There is commonly some level of fluctuation in vacancy, but overall, the rate still remains below historic levels from 1984 through 2019. Landlords are using the strong demand climate to lease under-utilized space and raise rents for new leases and for renewals. 2023 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 from 1984 through 2019 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 72% of the Leominster-Fitchburg market. There are 384,897 square feet of modern industrial space available for lease in Leominster as of January 2024.

- 100 Jytek Drive is a modern light industrial building in Jytek Park that was built to suit for a manufacturing business that also occupied the abutting property at 110 Jytek Drive.
- 25 Mohawk Drive is an older multi-tenant light manufacturing building in the FBC-Mohawk Park. The leased space offered is a sub-lease. The site has good access to I-190 and MA Route 2.
- 22 Tucker Drive was formerly the home of JAM Plastics and is now being leased vacant. A Massachusetts-based investment group bought this single-tenant building in 2022.
- 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.
- 45 Francis Street is being offered vacant for single- or multi-tenant occupancy. This modern light manufacturing building is located in Tanzio Park and has good highway access.

Address	Bldg. Area
100 Jytek Drive	40,400
25 Mohawk Drive	39,413
22 Tucker Drive	33,000
463-477 Lancaster Street	24,000
45 Francis Street	21,040

**Available Buildings for Sale**

- 45 Francis Street is a modern industrial building built for single-tenant occupancy in Tanzio Park. The property was sold in 2022 and a portion of the property was leased in 2023. The property is currently vacant.
- 62 Lakeview Street is an older single-tenant building located off of Viscoloid Avenue. The property has been used for light manufacturing and storage. Clear heights vary due to the building being built in sections.

**Leases During 2023**

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 slackened in 2023 for larger spaces.

Address	Bldg. Area
101-107 Scott Drive	33,200
45 Francis Street	10,000
233 Florence Street	10,000

- 101-107 Scott Drive is an older manufacturing property located in FBC-Mohawk Park. The property was owner-occupied until early 2023 when the owner retired. The tenant, Aaron Industries, is located in the same park and needed flex space for operations.
- 45 Francis Street is a modern industrial building built for single-tenant occupancy in Tanzio Park. The property was sold in 2022 and a portion of the property was leased in 2023.
- 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.

**Sales During 2023**

2023 saw a slightly lower sales volume compared to 2022, but 2023 was still busier than historical patterns.

- 24 Jytek Drive: This is the portfolio sale of a single-tenant; net-leased asset in Jytek Park. Buyer and seller were national and global investment firms.
- 25 Jytek Drive: Single-tenant light manufacturing building in Jytek Park was sold to a manufacturer that owned another building in the park.
- 154 Pioneer Drive: Monson Chemical was the single-tenant owner/occupant who transferred certain chemical storage permits with the sale.
- 101-107 Scott Drive is an older manufacturing property in FBC-Mohawk Park. The property was owner-occupied until early 2023 when the owner retired.
- 27 Nashua Street is an older industrial property built in sections with varying floor levels and ceiling heights. The property sold from an owner-user to an owner-user.

Address	Bldg. Area
24 Jytek Drive	116,156
25 Jytek Drive	238,385
154 Pioneer Drive	21,040
101-107 Scott Drive	588,858
27 Nashua 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 yet commenced. A retail site has opened at 130 Pioneer Drive and the building has been constructed.

***Leominster Modern Industrial Conclusion***

Leominster's vacancy rate increased over the past year from 4.2% to 6.0%. This increase occurred in a variety of buildings across the city. Slightly decreased leasing activity resulted in negative absorption for the market. However, the market continues to act confidently with a number of large vacant spaces being offered for lease, 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 2.4 million square feet of modern industrial space. This represents about 28% of the Leominster-Fitchburg market.

#### Available for Lease

- 640 Crawford Street: The leased space is in a multi-tenant light manufacturing building built in 1968. The site is cramped but has good highway access.
- 135 Intervale Road: This lease offering is a sub-lease at the recently delivered Amazon last-mile delivery building on the site of the former Simonds Saw facility. Amazon decided not to occupy the building and is currently seeking a sub-tenant, which is a trend spreading across Massachusetts. This sub-lease is considered to be vacant space.

Address	Bldg. Area
640 Crawford Street	25,000
135 Intervale Road	98,000

#### Available Buildings for Sale

We are not aware of any modern industrial buildings available for sale at the close of 2023.

#### Leases During 2023

There were no notable industrial leases in Fitchburg in 2023.

#### Sales During 2023

A limited number of sales occurred in Fitchburg with the majority being less than 10,000± square feet. The only notable sale was 133 Benson Street. This property was built in 2001 and was 39,433± square feet. Circulation was good and the location offered good highway access. The sale was part of a portfolio sale of leased assets from a global investment group.

#### Marijuana – Medical and Adult Use

The City approved 11 locations for medical and adult-use marijuana growing operations through the end of 2023, which is unchanged since 2021. 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. Both 25 Newport Street and 431 Westminster Street were permitted as cultivation facilities, but neither are going to be used for cultivation. This is a decrease of 102,075± square feet (13%) in cannabis cultivation space.

#### Fitchburg Modern Industrial Conclusion

The market for modern industrial space in Fitchburg experienced positive net absorption in 2023, moving from a vacancy rate of 3.0% at the start of the year to 5.0% at the close. The change was largely due to the lease offerings of 135 Intervale Road and 640 Crawford Street.

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 2024. We expect investor and user demand to decrease in 2024 as the market finds supply and demand equilibrium. 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. The property appears to be fully leased with only a 101,178± square foot space is available for sublease.

#### *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. A lower-level 29,300± square foot lease space is currently available. The north end of the building is offered for lease in connection with 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. The north end of the building is offered for lease in connection with a proposed 211,200± square foot expansion.

## 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 unused in-ground oil or chemical tanks are sometimes found that have not been properly monitored or to have leaked 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. These alternatives 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, which prohibits 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 other 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 of these 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 will likely continue to be gradually absorbed.

Overall mill vacancy in Leominster and Fitchburg at year-end 2023 was 21.1% or 956,221 square feet. This is a slight increase over 2022's vacancy rate of 15.0%. The principal cause of the increase is considered to be the recent lease offerings in Fitchburg at 291 Westminster Street and 12 Baltic Lane.

**Leominster Activity – Mill Space**

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

**2023 Transfers and Sales**

The sale of 218 Willard Street was the only reported mill building sale in Leominster for 2023. Half of the building space was converted to a church. The remainder is used by a kitchen renovation tenant as warehouse and showroom space.

**Current Sale and Lease Offerings**

21 Central Court is offered for sale, but is fully leased and does not count in our vacancy estimate.

435 Lancaster Street is offering 20,000 square feet of warehouse space at the Gateway Business Center.

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 tenant-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**

No new notable leases of mill space occurred in Leominster for 2023.

**Leominster Mill Space Conclusion**

Mill space that is not owner-occupied has historically filled the need gap for seasonal/interim use, economical space for storage, and for start-up businesses desiring short-term leases to limit financial obligations. Local business start-ups have been low for several years. Short-term leases often equate to 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, rows of closely-spaced 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 2023, there was 887,985 square feet of vacant mill space in Fitchburg. This represents a significant increase over 2022 totals.

**2023 Transfers and Sales**

The December 2023 sale of 25 Newport Street was exposed to the market by brokers. The property had been approved for cannabis cultivation, but the buyer is understood to have bought the property for use with an existing appliance business. The sale price equated to \$46.55 per square foot, which is significantly above historical norms for mill space, which typically ranged 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 under contract.
- 35 Daniels Street is vacant and under contract through a broker. The site is cramped and lacks parking.
- 1146 Main Street sold in 2022 and is being offered for sale as of early 2024.
- 549 Westminster Street is offered for sale or lease together with the abutting property, 555 Westminister Street, which shares a party wall and is operated under common ownership.

Address	Bldg. Area
320 River Street	33,120
35 Daniels Street	220,186
1146 Main Street	28,356
549-555 Westminister Street	123,028

**Available Mill Space - Lease**

Some of these properties include a mix of owner and tenant industrial businesses.

- 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 as a life science campus. Two leased spaces are offered totaling 207,500± square feet. We have updated the building size in our records from 175,396± square feet.
- 12 Baltic Lane is offering two lease spaces totaling 63,000± square feet. This building has had chronic vacancy since 2018.
- 44 Old Princeton Road has offered small spaces periodically but has not experienced chronic vacancy. The site has good access to MA Route 2. According to CoStar, 25,000± square feet is offered by the building owner.
- 291 Westminister Street is fully vacant and offered for lease. No brokers are involved. The site is accessed by an on-site bridge over the Nashua River.

Address	Bldg. Area
549-555 Westminister Street	123,028
642 River Street	207,500
12 Baltic Lane	63,000
44 Old Princeton Road	25,000
291 Westminister Street	103,863

**2023 Leases**

We are aware of no leases for Fitchburg mill space in 2023.

***Conversions***

There were no conversions in 2023, and we know of none that are proposed. 87, 89, and 91 River Street have each 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 2023.

***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 887,985 square feet at year-end 2023. This represented negative absorption of 223,967 square feet over year-end 2022. The overall vacancy rate for mill space in Fitchburg is 24.0% as of January 2024, which remains within historic patterns.

Cannabis cultivation appears to be entering a period of contraction. Based on the exhibited demand for mill space for multi-family conversions, start-up businesses, and seasonal storage requirements needing lower cost space, we expect mill vacancy to remain within the historic range, but increased slightly over the past few years' historic low rates.

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Bruel Kjaer Instrument	Radiant Technologies, Inc.
CSX Corporation	Renovator's Supply
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Heywood Hospital	The Skating Club of Boston
John M. Corcoran & Company	Spectrum Health Systems
J.M. Forbes & Company	State Street Development Company of Boston.
Lincoln Foundation	Storage USA
Louis Berger Group	Tetra Tech
Massachusetts Housing Partnership	Toyota Financial Services
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North Shore Bank  
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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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