



Industrial market - by William Pastuszek

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William Pastuszek,
Shepherd Assocs.

Boston's industrial market, while small compared to other industrial markets in other parts of the country, is judged to be healthy. While nowhere near as exciting as multi-family, office, and/or retail, its trends and direction, give an important measure of the New England economy. So it flies somewhat beneath the radar of many market participants.

The market in the Boston core is strong but under pressure with redevelopment continuing to pressure the building stock. Within the core, new product tends to be user- and site-specific. One source reports that within the Greater Boston Industrial, about 1.3 million s/f are being created upon from about 900,000 s/f in 3Q17.

Vacancy is expected to decrease and is currently between 5-7%, depending on the source. The intown market is tighter, reported at 3.5-4% by one source. Vacancy decline has been occurring since 2010.

Average asking rents have trended up significantly in most markets. Much rent growth is attributable to high- and bio-tech demand. The Cambridge office/lab market, in particular, is seeing lowest vacancy and highest rent trends.

Cap rate trends show reasonable stability. In the Boston core, rates of 5-6% are reported. In the suburbs, reported rates are closer to 7%.

All markets are showing price growth, evident over the past five years. Absorption is positive in most markets. New product is readily taken up by tenants, particularly in core locations.

Low availability of industrial land within a reasonable distance from major centers results in high pricing. Competition from multi-family development in many areas has driven prices. Nonetheless, demand for space has spurred limited construction activity.

The effect of higher interest rates and the promise of further rates hikes has been largely absorbed by markets; lenders and borrowers both rely on continued rental and value growth to offset higher money costs. Down the road, rates will inevitably affect cash flow and pricing.

Observers are looking over their shoulders. The current mature market may be headed for some sort of - and, as yet, undefined - correction. Uncertainty abounds at the macro level and concerns surface even in Boston's strong market. The pundits are saying begin to prepare for uncertainty.

While neither a "mega" industrial sector, or, "hub" distribution sector, the fundamentals of Boston markets continue to point to positive trending, barring any major destabilizing events. Consensus – as much as that is possible these days - abounds in that Boston's industrial markets are expected to experience moderate growth.