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## New England Chapters of NAIOP & SIOR hold End of Year Forecast

January 12, 2012 - Front Section

The New England Chapters of SIOR and NAIOP held their annual joint event on the End of the Year Commercial Real Estate Forecast. The event attracted over 300 commercial real estate professionals this year. The breakfast event was held at the Westin Hotel at 10 Huntington Ave. The keynote speaker was Doug Poutasse of strategy and research firm Bentall Kennedy.

This signature attended event provided up-to-the-minute market information, starting with an economic overview of the economy and its impact on the local real estate market. Following Poutasse's presentation were some of Greater Boston's most senior real estate professionals who gave in-depth analysis of the Massachusetts office, retail, industrial and capital markets. Panelists explored the drivers and market fundamentals behind 2011 statistics, including emerging trends in specific markets, new growth areas, and a general outlook for the future. The speakers included:

### Economic Overview

Douglas Poutasse, executive vice president and head of strategy and research, Bentall Kennedy

### Market Experts

Suburban: Alexander Dauria, Jones Lang LaSalle

Cambridge: Matthew George, Equity Office Properties

Boston: Charles O'Connor, Cassidy Turley FHO

Capital Markets: Robert Griffin, Cushman & Wakefield of Massachusetts, Inc.

Industrial: Gregory Klemmer, SIOR, Klemmer Associates

Moderator: David Begelfer, NAIOP Massachusetts

Greg Klemmer, SIOR gave the Industrial Market Overview and here is a summary of his presentation.

Klemmer started the presentation showing pictures of the inside of industrial buildings. He stated that the Industrial Market Overview used to be an every year occurrence of the NAIOP/SIOR Market Review. Now it's only included every other year. People think that not much is going on in the industrial real estate world and therefore not as relevant. But this was not the case.

Klemmer showed a slide titled "The Industrial Market: The Redhead Stepchild." The general thinking is that the inside of an industrial building is the same picture as 20 or 30 years ago. But that could not be further from the truth. Industrial buildings have been evolving as industrial companies have become more hi-tech. Brooks Brothers manufactures its garments in Haverhill and the industrial buildings in Haverhill have evolved to accommodate a retail company. He showed a slide picture of 20 Computer Dr., Haverhill of a very automated Brooks Brothers factory. The building contains drop ceilings, recessed lighting, clean space and work benches. Aeronautics Manufacturing is also located at 20 Computer Dr. and it also has drop ceilings, well lit recessed lighting, clean floors, etc.

Nuclear Valves is located at 29 Old Right Rd. in Ipswich with a hi-end quality glass entry, overhead

cranes in a polished floor environment. Campanelli Co. built a state-of-the-art warehouse building for Preferred Freezers and the building processes inventory with no employees. It's all robotic. Klemmer showed a slide of Preferred Freezers with 30' ceilings, hi racking systems, robotic tracks, etc. Klemmer showed a 15 second video clip of robotics inside a warehouse building and how robots conduct the job of people. Quiet Logistics in Devens has robotics and he showed the clip of how these robots work in a clean environment. The buildings have had to change to accommodate the evolution of hi-tech of the industrial processing.

Klemmer has seen functionally obsolete buildings evolve and he suggested that if they do not evolve then they are no longer the highest and best use. Therefore, these obsolete industrial buildings should be demolished with more economically affordable state-of-the-art industrial buildings. The rents cannot be increased today due to a competitive low margin industry. These buildings still need strong electrical power, humidity control devices, ample HVAC and high ceilings. If the current obsolete buildings cannot be retrofitted for today's industrial processing then they should be demolished.

The last 10 years of industrial processing and hi-tech has dramatically impacted the needs inside an industrial building. The older industrial buildings do not function for today's user. That is a compelling story for relevancy in the industrial real estate world.

Klemmer told the audience that if we solely look at the industrial statistics then we were not seeing the full impact of the evolution of Boston area industrial buildings. If Boston statistics are compared to Chicago or other large industrial markets, Boston looks terrible. Klemmer then summarized the Boston area industrial statistics.

The industrial vacancy is currently 11%, down 1%. Availability is 19%, down 2%; leasing activity is at 1.3 million s/f in the 3rd Quarter and 3.8 million s/f year to date. Absorption is 203,000 s/f year to date and rents are in the \$3.50-7.50 per s/f range.

For flex space, vacancy is currently 15%, down 1%; availability is 23%, down 2%; leasing activity is 333,000 s/f in the 3rd Quarter or 1.2 million s/f year to date; absorption is 346,000 s/f year to date and rents are ranging from \$5.25-10 per s/f.

The industrial statistics alone do not tell the full story of what is happening with the industrial product. Klemmer stated that we have a bifurcated market. He then defined bifurcate as: "to cause to divide into two branches or parts." If you were looking for a single-story, 1980 15-30,000 s/f flex property then you had two choices on the North Shore, 20 choices at Rte. 3/93; 9 choices on Rte. 128 South and 7 choices on Rte. 495 South. Some of the industrial inventory is not adequate and aged while some of the industrial inventory is primed for the 21st Century. The statistics do not reveal the tale of two stories.

A 100,000 s/f user searching on the South Shore and needing 20' clear ceilings would have three choices on Rte. 128 North in 2010 and only two today. There were six choices in 2010 on Rte. 2 West and only four today; 10 choices on Rte. 128 South and only four today and 16 choices on Rte. 495 South and only two today. To find that product, you might have to expand the search out to Ayer and expand your geography. Or you would need to downgrade your requirements to 18' ceilings to increase your choices.

There is also the tale of three types of industrial buildings in terms of value. A recent investment sale of 275 Wildwood Rd., Woburn, next to Rte. 128, comprising of 164,500 s/f, sold for \$97.87 per s/f. But the user sale of 36 Cabot Rd. in Woburn of 232,994 s/f sold for less at \$30.04 per s/f. While 30 Industrial Way, Wilmington, a 177,350 s/f industrial building to be demolished, sold for \$25.37 per

s/f.

In terms of 2011 lease transactions, Horizon Beverage leased 600,000 s/f at 45 Commerce Way, Norton; Quiet Logistics leased 200,000 s/f at 66 Saratoga Blvd., Ayer; Summit Tire Northeast leased 134,648 s/f at 1 Crossroads Center, Taunton; Thermo Scientific leased 156,191 s/f at 2 Radcliff Rd., Tewksbury; Trader Joe's leased 132,298 s/f at 30 Commerce Blvd., Middleboro; and pending is Exel for 181,980 s/f at 530 John Hancock Rd., Taunton.

Klemmer wrapped up his presentation with his 2012 Forecast as follows:

- \* The industrial market will be thin and spotty. If you are a landlord and see any sign of love from a prospective tenant, marry them.
- \* Medical device, new technology design and R&D growth will help the Rte. 128/3 market.
- \* Klemmer sees 3PLs. e-commerce, specialty manufacturing growth along Rte. 495.
- \* Functionally obsolete buildings will be demolished or rehabbed for more sophisticated uses or they will sit.
- \* Prices will rise based on quality but will fall for commodity space.
- \* There will be minimal build-to-suit construction; probably more relevant in remote areas as exemplified by Sysco in Plympton.
- \* There will be a drive to incorporate alternative energy: solar, wind, geo.
- \* But Klemmer's big disclaimer was the unknown affect of the Super Committee's failure to reach an agreement on the U.S. budget and budget cuts.

We would like to thank the sponsors for this program including Equity Office, First Niagara and Cassidy Turley Martin/FHO.

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