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Mass. industrial market is on fire, in the best possible way, and we do not see an end to it - by David Skinner

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It's not a surprise to anybody – pricing for industrial real estate has reached historic highs, even peaking the previously historic highs in 2007 by over 15%.

Two major developments change the landscape of industrial product types in Massachusetts: 1) Major construction projects close to Boston are pulling urban companies to the suburbs, and 2) the legalization of marijuana has taken significant industrial inventory off the market. Two such construction projects are the Encore Boston Harbor (formerly named Wynn Casino) scheduled to open in June 2019, and the Union Sq. redevelopment project which will be completed just in time for the new Green Line extension in 2021. Both of these projects and a handful of similar ones are taking place in industrial parts of both cities.

For example, the Encore Boston Harbor site is a mile from the nationally known New England Produce Center – taking home the title of the largest privately owned terminal market in the country. These condo units are owned by produce distributors who are now benefiting from the new casino construction, because the properties in and around this industrial park and the nearby Chelsea and East Boston ecosystems have seen significant increases in sale values. Massive amounts of commercial and consumer traffic that the Encore Boston Harbor will generate is responsible for growth, and every investor wants a piece of the action.

You may hate it, you may love it – marijuana is here to stay. The attorney general of Massachusetts has stated that in the event of federal action against a company or landlord for marijuana-related federal infractions, the State of Massachusetts will defend the company and landowner in federal court. This statement has emboldened a plethora of entrepreneurs from all over the country to make the journey to Massachusetts and try their collective hand at applying for and attaining the proper permits. Some have called it the gold rush of the 2018. Many of these entrepreneurs will not accomplish their intended goal, but the few that do are making the proposition financially attractive for any landlord who wants to take a chance on the industry. In numerous cases, we are seeing lease rates over 20% the realistic market pricing – and because the FDIC cannot back a mortgage with a federally impermissible use, buyers in the marijuana industry are paying premium,

above-market rates and signing all-cash deals in order to get the job done.

This will continue to inflate pricing within the direct vicinity and also in surrounding cities, because these industrial businesses will be moving en masse to neighboring cities or out to the suburbs altogether. No doubt that both sale prices and lease rates will continue to climb indefinitely, proving to be a boon for land and property owners in the area.

Both of these developments are juicing the market with a very real influx of demand and capital, and I would argue that it is not an economic “bubble” as we have seen so many times over the last century or so.

Every property owner looking to sell, especially in these areas, is asking the question, “How long will this blistering pace continue?” There is tension with these two competing desires: 1) maximize the sale price of the property, but 2) not wait so long as to miss the best possible offer.

The way to address both of these points is to survey the market and understand where the property is located in the context of major metro areas. If the property in question is in a more remote space, the best course of action is to look at historical comps over the last 10-15 years and calculate a consistent average sale price. If the current market is significantly higher than those comps, the prudent decision is to sell now before the market adjusts itself back to that consistent average trajectory.

On the other hand, the closer the property is to an urban center like Boston, the less likely pricing is going to fluctuate. If an owner is looking to sell property in this area, the decision to sell should be determined by when the owner would like to cash out, rather than trying to strategically navigate a dip or spike in the market.

Massachusetts is on fire in the best possible way, and with companies immigrating from around the country and around the world, we do not see an end to it in the near future.

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