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New product types for industrial real estate developers - by David Skinner

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Investors who specialize in industrial real estate in 2019 face three challenges.

The first challenge is that it is nearly impossible to find “good deals” to buy because New England companies (users) are growing at unprecedented rates and looking to purchase property for their own use and can usually afford to spend more than an investor.

Second, the most reliable type of industrial real estate is high-bay distribution; and until Amazon is satisfied, this trend will likely continue for awhile. However, it has become increasingly difficult to find tracts of land large enough in locations good enough to accommodate what most high-bay distribution centers need. Manufacturing in the United States and especially in New England is trending downward, so most manufacturing buildings are being repurposed for makeshift distribution or other uses altogether.

Third, construction costs are so high that even if a tract of land is available, the cost basis makes profitable rent difficult to achieve.

These are real challenges, but the solution is in finding the next trend in industrial real estate that is not affected by 1) users reducing the available purchase opportunities, 2) lack of available land, or 3) high construction costs.

Here is the solution: Find small pieces of industrial-zoned land and build 10,000 s/f to 30,000 s/f industrial buildings that have one or more of the following characteristics: 1) units that can be sold as industrial condos, 2) able to be used by landscaping, contracting, or automotive, and 3) friendly for startups. Here is why.

Industrial Condos: Small businesses are thriving in New England. They can get financing, they have good track records, but there is nothing to buy. It is nearly impossible to find buildings for sale

between 2,000 and 10,000 s/f because it is nearly impossible to make any sense of creating such a small building relative to the exorbitantly high cost of construction. However, these small businesses do not necessarily need a freestanding 5,000 s/f building. Most are plenty content to own rather than rent in an industrial condo association. The lack of small, functional industrial buildings for sale in turn drives up the value per s/f. Not only that, these small businesses are able to borrow significantly more money on an existing structure through a loan given through the Small Business Association (SBA) which enables a mere 10% down payment, where construction loans demand upwards of a 50% down payment. Numerous projects between Boston and Worcester are in construction right now with this very idea and the developers are slated to double and triple their investments in less than five years because of these buy, build, condo, and sell opportunities.

Automotive or Contractor Use: The funny thing about automotive and contractor companies is that there isn't one city that wants them in town but there isn't one city that doesn't want to use their services. It can be a frustrating existence for these poor companies. But they actually aren't poor, their businesses are thriving, they just need a place to call home. Their challenges in many of these cities are impossible zoning changes, limited availability of rental space which continually drives the rent higher and higher, and the places that do exist are full, poorly run, and often neglected. Industrial developers can take advantage of these trends by doing the work to find land that can be utilized for these automotive or contractor uses and then building sites that the auto body, engine repair, or landscapers can use to house their equipment and keep thriving.

Startup Friendly: Companies coming from the biotech capital of the world of Boston need more space once their concept is proven, but they don't need that much more space. This is your dream if you are a developer – well-funded tenants with no place to go. The problem is that nobody has space. These companies have millions of dollars in funding. These are the ideal specifications companies like this are looking for: Dock-height loading option, grade-level loading option, column-free processing area, city water/sewer, and 20 ft. clear height, and 2,000 to 10,000 s/f units. Creating the opportunities to build industrial units to these specifications will pay dividends because the tenants are lined up waiting for the space.

Developers who win, will recognize these new trends in industrial real estate and keep their eyes open for sites that may have seemed too small to make economic sense from the standpoint of traditional manufacturing or distribution.

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