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Everywhere is somewhere to someone: Industrial trends on I-495 and Rte. 128 - by David Skinner

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As my grandmother used to say, “Everywhere is somewhere to someone.” One location may be the destination of a lifetime for one and anathema to another. The Greater Boston industrial real estate market is undergoing a transformation at a frenetic pace. Real estate values that could force one type of industrial use to go out of business could be a value and savings for another. A location that is impractical and too far from all other competition for one company may be ideal for another because it is not hampered by indefatigable Boston traffic along 128 during rush hour, which we know is most of the day at this point.

The types of companies looking for industrial space within and around 128 are typically one of three common types: one is a startup with a new process or a patented product from Harvard or MIT that has received funding for expansion and sees the inner suburbs as an opportunity to save rent dollars compared with staying in Somerville or Cambridge. Another use not uncommon to the area is a local, family-owned and operated company that has owned real estate in the city and recently sold to a developer and is now looking to relocate its operation that is not necessarily dependent on proximity to Boston or public transportation. The third group is one with a product or presence that has grown significantly in the suburbs and the potential for growth nearer to the city is able to sustain a significant amount of rent in exchange for exposure.

Companies moving to 495 have a similar set of motivating factors although they are moving from a different geography. The company that has made its living around 128 but does not need the proximity to the inner suburbs or a main artery into the city may distribute or manufacture a product that can make decent profit margins at a $6.00 triple-net rent, which is a market rate around many parts of 495. However, at some locations around 128 the rent can be double or even triple its 495 counterpart and force a company out of profitability. Another company profile is the group from New Jersey, New York, or the southern part of New England that is making inroads to distribute in the Greater Boston market. This company may arrange its logistics on making deliveries from an approximately four-hour one-way trip from Boston which can pose a challenge due to the tightening of regulation on the Class A and Class B driver’s licenses which strictly prohibits a driver from making a delivery with a round trip total of over eight hours. This forces the New Jersey, New York, and southern New England-based companies to place their distribution hubs in central Massachusetts, oftentimes around 495 so the drivers can make a two-way delivery in one day while remaining in their legally allotted hours. Perhaps the most obvious example of a prototypical 495-based company is a distribution company looking for close proximity to each major roadway for access into any part of New England without the traffic of 128. Places like Taunton, Marlborough, and North Andover have some of the best examples of institutional-quality distribution centers in the Boston market for that reason.

A couple case studies that show the strength of the 495 distribution market are: 1) The recently announced plans for an Amazon fulfillment center at the former Osgood Landing site in North Andover, where Amazon will build a 3.6 million s/f distribution site servicing New England, and 2) The 200,000 s/f sale at 150 Charles Colton Rd. in Taunton. The site was 70% leased to Williams Sonoma and was still sold for $128.50 per s/f, which by all accounts is a high price to pay for a site with existing 30% vacancy. Institutional investors are flocking to this type of deal because of the international distribution brands that are aggressively looking for a presence in Boston.

These factors all contribute to demand for housing to continue to rise because of the need for more employees, which will continue the upward drive of demand for development which will in turn increase the amount of money developers will be willing to pay industrial owners to redevelop industrial property, which will in turn decrease the supply of industrial property in Greater Boston and keep sale prices and rental rates on the rise.

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