nerej
19 63 CELEBRATING 55 YEARS

10 industrial real estate trends to follow in 2020 - by David Skinner

January 31, 2020 - Spotlights

David Skinner
The Stubblebine Co./CORFAC Int'l.

Predictions - we could talk about the economy, we could talk about being 10 years into an expansion and how nobody sees anything that really tells us otherwise. But everybody has been saying it for years. So instead, let’s talk about the 10 trends in industrial real estate to watch out for in 2020. There are many more factors driving the industrial sector than the boom and bust cycles.

Trend 1: The emergence of an industrial sale market in urban Boston. Right now, the remaining industrial areas of Boston proper are seeing unprecedented sale prices and proposed offers for both industrial and also adaptive reuse purposes. Sellers and buyers alike are looking for a general pattern in comparable sales in order to establish general market guidance, but there are no patterns that clearly exist. There are a few larger sites in these areas that have very recently closed or are under agreement, likely to close this year. These transactions will give a sense of where to see the market.

Trend 2: The current excitement in the Everett / Chelsea submarket will be shown to be overhyped. While there are notable adaptive reuse projects underway in Everett and Chelsea and the recent sale of the Boston Market Terminal to Davis Companies, many owners and agents in that area are valuing industrial sites far above what the comparable sales data support.

Trend 3: The former Market Forge site on Revere Beach Parkway is now looking to be one of the larger industrial conversions to residential within a few miles. This and other similar sites in the vicinity that were purchased with the intent of converting from industrial may or may not pass the rigorous zoning and approval requirements set forth by each respective city.

Trend 4: Similar to Trend 3, numerous sites that had been slated for cannabis use and secured by would-be cannaprenuers have come back to the market for sale or lease because the hopeful grow facilities or dispensaries were not able to acquire licensure or pass city approvals. This will continue to happen all over Massachusetts which will provide an influx of product available for sale or lease.

Trend 5: Significant institutional industrial spec building in the suburbs. The 495 corridor will see the delivery of a few hundred thousand square feet of spec industrial developments as far south as Rte. 24, up to the north shore, and out as far as Worcester County. Many tenants are looking for more space, but the question will soon be raised, when will there be enough replacement product?

Trend 6: Numerous tenant requirements actively in the market with needs that are unmet. The spec development discussed in Trend 5 will certainly help to satisfy the demand of a few tenants with requirements between 100,000 and 300,000 s/f. However, the developments may or may not be in the appropriate locations for the tenants. Some of the tenants are moving outside of Boston due to lab / residential redevelopment.

Trend 7: Baby-Boomer retirement sales are happening at a higher frequency. There is a general lack of availability with industrial product available for sale, but we have seen many Boomers who are looking to retire and cash out on the equity of their highly-appreciated real estate. Sites that have been held in families for over thirty years are now being offered for sale or sold on an off-market basis. This will continue for the next few years and will likely happen quickly.

Trend 8: Industrial manufacturing is moving away from New England. The dearth of employees available for manufacturing labor is causing once-thriving businesses to shrink because they do not have the manpower to fulfill orders that are still coming in. The general cost of living in Northeast is becoming prohibitive for employees in manufacturing to earn a livable wage. If employers raised wages to a competitive level, it would price their products out of the market. For this reason, many formerly successful manufacturers are either moving out of state or closing up shop.

Trend 9: Private equity fund managers are justifying all-time low cap rates on institutional-grade, vacant industrial buildings in order to deploy capital. Due to the lack of inventory and the aforementioned number of tenants available in the market, many of these fund managers are taking the risk that the tenants will come if the building built well enough. Capital is still freely flowing and industrial is still the unsung hero of the real estate investment community.

Trend 10: An economic correction is likely to happen. As politics go, interest rates will likely stay low until the election. Considering the economy is ten years into an expansion, we may or may not see the current up-and-to-the-right trajectory from our GDP and general economic growth. In the event interest rates go up, investors may begin holding onto capital before distributing it as freely as has been the practice over the last few years. Cap rates then may begin to crawl upwards, creating more value for more investors who have been more conservative over the last few years.

Honorable Mention Trend 1: The Amazon effect is continuing to absorb literally millions of square feet of both existing and ground-up warehouse and distribution.

Honorable Mention Trend 2: Larger regional or national companies are acquiring smaller “mom and pop” shops across business segments because the cost of capital is low and it is easy to do it, creating a greater need for larger sites to accommodate these acquisitions, and a lesser need for smaller sites.

A seismic shift is underway in Greater Boston, and we will likely continue to see new ideas, buyer interest, and unpredictable sale prices for the next few years.

David Skinner is an associate with The Stubblebine Co./CORFAC International, Lexington, Mass.