



nerej

Questions and Answers regarding industrial real estate during COVID-19 - David Skinner

August 28, 2020 - Spotlights

David Skinner

Question. What you would expect to happen during COVID-19?

Answer. You should expect that in a global shutdown, the economy would come to a screeching halt. You should expect that people aren't working, so people aren't buying, so office, retail, and industrial are all suffering. You should expect that late rent checks and struggling tenants would put landlords out of business. You should expect real estate to be selling for Great Recession pricing.

Question. What is actually happening during COVID-19?

Answer: Whenever I meet a non- real estate person who finds out I'm a commercial real estate agent, they always say, "Oh wow, this must be a difficult time for you." I can happily exclaim that as an industrial specialist, I've been busier than ever.

However, why is it that I am on the phone all day with buyers of all kinds asking for great deals and low sale prices and I have to tell them that they are, unfortunately for them, in the hottest industrial real estate market in recent history? Why are institutional equity funds who manage billions of dollars making record-breaking offers for land and industrial sites all over the Greater Boston market?

Question. Is anyone going out of business?

Answer. This is the profile of companies who are going out of business:

1) The companies who are failing are running poor businesses. Businesses that are over-leveraged are not going to be able to take a few months of depleted cash reserves. There is a big difference between the companies whose cash goes towards things like quarterly bonuses and those whose cash goes to pay debts. The ones with too much debt are going to fold.

2) The companies who are failing have landlords who don't need the money. If your landlord doesn't need the rent, there is a greater chance that they will terminate an agreement with a tenant and look for one that is not tainted with the stain of coronavirus.

3) The companies who are failing depend on very specific segments of business, like dine-in

restaurants, or highly elective medical procedures. There are a swath of tenants who are “non-essential” who are doing incredibly well during COVID-19 regulations.

Question. Who is buying?

Answer. The same people who were buying before. Industrial has not seen any slowdown at all, in fact, it has become more vibrant even than before. Operators who benefited from the last 10 years of economic expansion and wisely planned their finances have cash to deploy, and many are still on a growth plan. Because of all the high sale prices in the last year, we have seen an abnormally high amount of 1031 exchange money in the buyer pool which has propped up some of these high asking prices.

Question. Who is selling?

Answer. The same people who were selling before. There has not been a big shift in the seller pool in the last five months since the shutdown started in March 2020. If an owner needed to expand their business or perhaps wanted to retire, they will still want to sell. The Baby Boomer generation is at retirement age, and for those who do not have anyone to whom they would pass the business or real estate, they will sell and oftentimes are simply looking to sell for a market number.

Question. Who is leasing?

Answer. National tenants who are looking to get into the Boston marketplace are looking to lease on a shorter term basis. There are some long-term deals happening, but many groups are looking for a proof of concept location without too much exposure in the event it does not work. Many companies who are waiting to see what the next few years bring (not to mention the election) and are hedging their bets with shorter term leases rather than purchases in the event something goes terribly wrong and they would be saddled with real estate and no business to pay the mortgage.

Question. Why is this happening?

Answer. Amazon and other online retailers are taking millions of square feet out of circulation in the urban and suburban industrial market for distribution and fulfillment. In addition to this, owner/users who have sold well-located sites but still want to run their businesses, are searching the marketplace. Interest rates are very low, and while some banks are tighter on lending standards, owner/users with good financials are able to get the financing they need.

Summary. If you want to get into industrial real estate as an investor, you will have a difficult time right now. There are buildings for sale, but it is tricky finding sites that have not been incredibly picked over. If you own industrial real estate, I could not be more happy for you.

David Skinner is an associate at The Stubblebine Company, Lexington, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540