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## **Industrial markets and COVID-19: Current trends - by Bill Pastuszek**

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The COVID-19 environment is nearing the six-month mark, depending on when you start counting. Massachusetts declared a state of emergency March 10; the NHL “paused” on March 12.

Real estate has been a relative bright spot. Over the short term, great doom and gloom was forecasted in the early stages of the lockdown, much of it due to uncertainty of forecasts based on emotional, anecdotal (and often apocryphal) data and analyses. The industrial market has been a particularly positive sector.

In surveying the Boston industrial market in February, CBRE’s 2020 Market Overview noted that “the U.S. industrial market will see some dramatic shifts in 2020. Absorption gains will be difficult to achieve where in some markets there are extremely low vacancy rates and limited space options.” The study forecasts supply would outpace demand, creating a slight overhang of space. Vacancy is likely to increase, but only slightly. This was pre-COVID-19. What is being said six months later?

The Boston industrial market benefits from limited development capacity and affordably priced land. Boston’s market is small when compared to other national (and regional) markets. Conditions in Boston’s markets remain tight and are projected to continue to remain so.

While not a national distribution hub, Boston’s surging local economy has created strong demand for final-mile logistics space. As a further positive that sharpens demand, there is continued pressure on general industrial properties for redevelopment, especially on properties close to Boston, and that demand has pushed up prices and rents. As of earlier in 2020, Boston has lost net supply: it is reported that millions of square feet of industrial space has been demolished or converted since 2010. Multifamily and office developments have moved into former industrial sites: this trend is apparent through the metro area and elsewhere. New construction is relatively anemic, so negative supply conditions are likely to continue.

According to the June 2020 CBRE U.S. Industrial Marketflash report, annual net industrial

absorption is “projected to total more than 333 million s/f by 2022, leading to an annual rent growth of 5.7%. This is more than triple the previously forecast demand based on new metrics using e-commerce data. In the COVID-19 era, e-commerce is fueling industrial demand more than ever.” Census Bureau data illustrates e-commerce’s dominance during the pandemic. E-commerce’s share is projected to remain in the post pandemic economy.

A recent CoStar report states: “The Boston industrial market entered the coronavirus pandemic with sound fundamentals. The market was experiencing some of the lowest vacancies in history, coupled with steady demand and rent growth. Leasing velocity has slightly declined in the first half of 2020, but several demand drivers have yet to soften and continue to take space.”

Amazon continues to lease at “a historic pace” in Boston and across the country. This report also notes that Boston is an extremely strong online sales market.

Boston’s industrial market has also benefitted from the “heightened growth of the life sciences industry.” Boston area life sciences need good quality space for design work, manufacturing, and distribution and that sector has shown a suburban migratory trend to escape the high costs of the city.

Further, there is plenty of owner-user demand. An interesting addition to the demand side is from the cannabis industry, which continues to thrive and represents a demand generator in most of Massachusetts.

Boston’s demand on drivers will soon be tested, as the market has nearly 2.2 million s/f of product underway, 62% of which remains available for lease. However, Boston has notably diminished its industrial inventory over the past decade as many buildings have either been demolished or converted for multifamily use so there is a counterbalancing effect.

In early 2020, overall industrial vacancy was 5.2% with an average asking market rent of \$11.75 per s/f. Current vacancy, according to CoStar is 4.7%, trending downward, with rents stable at \$11.75 per s/f. Per s/f prices are trending upward, while an average market wide cap rate is trending downward at 6.7%, which is in line with the national index. Net absorption is positive. Sales volumes have appreciably slowed, as compared to office and retail sectors.

The Manchester, N.H. market is much smaller and shows a higher average surveyed cap rate of 8%. Vacancy of 6.4%, and market rent of \$8.21 per s/f, is noted.

Industrial has been the top performing asset class for several years running—and COVID-19 hasn’t done much to change that perception. Prospects for the Boston industrial sector in general show a largely positive trend.

Elements of uncertainty over the near and mid-term include U.S. political uncertainty, concerns with global economic (and political) uncertainty, and practical, workable, and real solutions to the pandemic. As always, these are times to watch markets carefully, keeping short term gyrations and

hysterias in perspective, and to watch carefully for threats and opportunities in the industrial markets. The principle of change is with us, today, more than ever.

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