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Industrial real estate meets COVID-19, 495, and 128 - by David Skinner

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David Skinner

Current status of the market? COVID-19 has really put a damper on leasing activity for both residential and commercial real estate. House prices have skyrocketed outside of Boston because many who were at one time in apartments or condos in the city are now looking to be in an area that is less crowded. This has hurt office and retail around Boston but has in fact bolstered the industrial sector. Industrial real estate is doing better than ever, due to the flourishing of warehousing and distribution companies and the retail migration from the in-person shopping experience to online ordering.

What is doing well? E-Commerce fulfillment centers are taking more space and there is a certain online retailer who has taken over 4 million s/f in the last three years in the Boston market alone. This means that landlords who built warehouse space on spec have no shortage of tenants, and we're continuing to see bidding wars for lease opportunities on 100,000+ s/f space in suburban distribution spaces as far out from Boston as Worcester and Southern New Hampshire.

Who is moving to 128? Inner urban development deals are still closing despite Coronavirus concerns, so industrial owners and tenants alike who have been displaced due to industrial sites developed for adaptive reuse are moving to the Woburn, Peabody, Waltham, Billerica, Braintree, and Stoughton areas around 128. This movement of businesses from formerly heavy industrial areas like West Cambridge, Chelsea, Everett, Somerville, and the like drives up sale and rental rates around 128 to the point that buildings around 128 that were purchased for \$120 per s/f in 2017 can be flipped for \$170 per s/f not even three years later.

What's available around 128? The industrial space that tenants will be able to find are flex opportunities priced in the mid to high teens per s/f. There are some institutional distribution facilities available for lease, but few remain. We are seeing users and developers alike buying off-market, vacant warehouses space valued as if there were income and then affixing a cap rate to the income, but there is no actual income.

Who is moving to 495? Due to ICC stipulations, truck drivers cannot drive for more than eight consecutive hours before having to pull over at a truckstop and wait for time to elapse. This means that companies based in New York or New Jersey are able to make a round trip delivery from the New York City area to Worcester / 495 and make it back to their home base without needing to make more than one trip. This makes the Central Mass and 495 corridors attractive to out-of-state businesses that are looking for distribution into Boston. It is also attractive to large urban users who are forced to move because of redevelopment and need 50,000+ s/f but cannot replicate their space anywhere closer to the city than 495 or beyond.

If it's so hard to find existing buildings, why not just buy land? The logic used by many business operators who are not able to find the building they want is that they could "just find land and build a building." The problem with this logic is that industrial land within 495, if you can find it, is selling for historic rates. This makes replacement cost still exceed the price of existing buildings. Industrial sites of any scale can be found in Southern New Hampshire and Route 2 past the Leominster area,

but it is becoming exceedingly difficult to do these deals around and inside 495.

How does Coronavirus affect the future of industrial real estate? While Coronavirus is not a completely political issue, each candidate in the 2020 election has very different plans on how to address the nation's response. One approach will have a more positive effect on retail, travel, and consumer engagement, while another approach may have a more negative effect on the same. Industrial real estate values have been net positively effected over the last few months, so our practice at The Stubblebine Company will continue to approach the industrial marketplace with the same vigor as we have in the past, with the vision that things will continue in an upward trajectory.

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