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## **2021 will be a year for everyone to watch, learn, and observe things that we have never seen before - by David Skinner**

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If you want to know what is going to happen to industrial real estate in 2021, read this article.

Just kidding. There have been a number of financial topics that would greatly impact the commercial real estate market surrounding the election, but nobody knows for sure what is going to happen. Well, I'm sure someone does somewhere. We don't know what will happen with taxes on capital gains, the 1031 exchange, small business loans, inflation, and interest rates, to name a few. There are however, clear trends that have been on the rise regardless of what has been happening with COVID and politics and other forms of social unrest. Here is what is going on.

Who is growing?

1) The companies growing in this ever-increasingly contactless society are companies in the distribution business, those who are in charge of distributing products directly to people. If your company is in charge of making sure that people get their stuff, especially without having to leave home, chances are your company is doing well. Warehouse spaces are continuing to sell for record numbers, as is evidenced that many brokers who are industrial specialists saw an increase in deal volume in 2020, many reported a record year. Thousands of residential units are still being permitting inside 128 and many of those industrial conversions are taking away warehouse, manufacturing, and parking spaces from industrial users and owners, driving demand up, and up, and up.

2) State and Federal governments are increasingly passing on subsidies to companies who are environmentally friendly and work to decrease the carbon footprint on the earth. These companies will likely continue to flourish with the new administration in the White House, as the means for their work will cost less for the consumer, making their job volume go up.

3) Owners selling real estate to capitalize on the 1031 exchange opportunities that may disappear

will continue throughout this year. We are nearing the tail end of the Baby Boomer generation of property owners who are selling their real estate and retiring to ride off into the sunset. This will likely be accelerated due to the fear that the 1031 exchange will be legislated out as President Biden has intimated while on the campaign trail.

Who is slowing?

While high tech manufacturing, and lab manufacturing is growing in the outer suburbs, manufacturing as a whole is slowing down with constant increases in labor cost and rental rates. This is causing companies to move out of New England or to outsource significant operational pieces.

Brewing companies, coffee roasters, and many other local quasi-industrial users are also struggling due to restrictions on the means of gathering customers in one place. Even historically successful companies are pressing pause or cancel on new locations and/or expansion opportunities because of the general lack of certainty in these trying times.

Who will be insulated from a downturn in the economy?

As in all recessions and periods of economic uncertainty, conservative borrowers and buyers who limit debt exposure will be more insulated from the storm of delinquent payments and errant tenants. Those who were staunch in vetting tenants and did not sign seemingly favorable leases with companies who paid high rents but had questionable business plans are quite happy that they exercised discipline. The laws against evictions has created an onerous environment for removing a tenant for non-payment of rent. In fact, it may become even more onerous to remove a tenant for any reason at all. If a property owner was aggressive in debt repayment and owns property in cash or close to it, the property tax bill and the heating bill are the only two concerns that need worrying about.

What trends will continue?

1) Fund managers deploying record-breaking sale numbers will continue sourcing industrial deals, especially inside 128. Many funds are focused on buying Class A+ real estate but are paying prices based on a cap rate sale of a non-existent, pro-forma rent. This is driving sale prices up which drives lease rates up which drives the tenants to the suburbs, which in turn creates an inflationary effect.

2) The 1-2 year permitting period on which so many cannabis companies embarked in 2018 and 2019 is coming to an end, and many landlords who were once infatuated with high rent numbers are far less interested in going through the permitting period again for a startup cannabis manufacturer or distributor. New companies are entering the market to take their place, but the requirements are much more stiff, and so is the rent.

All in all, good businesses who are conservatively run will continue to operate, and speculative businesses who ran themselves thin will struggle. The year 2021 will be a year for everyone to watch, learn, and observe things that we have likely never seen before.

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