



CELEBRATING
55 YEARS

nerej

“Retail to industrial” represents opportunity for industrial and salvation for some retail - by Bill Pastuszek

March 05, 2021 - Northern New England

Bill Pastuszek
Shepherd
Associates LLC

As we all pretty well know, industrial markets – by that, including warehousing, logistics, etc. – have been the darling property sector during COVID. 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 and some overhand of inventory is likely.”

The December 2020 Greater Boston industrial market had another “incredible” quarter in Q4 2020, recording over 1.3 million s/f of positive absorption. The report notes that this growth “caps one of the best years in history for the market.” The report goes on to say that “the lack of quality supply, coupled with insatiable demand for industrial space, continues to put pressure on asking rents.” The overall Greater Boston industrial market finished the quarter at over \$10 per s/f triple net (NNN).

CoStar reports vacancy of slightly less than 5% with rental growth of nearly 45% during 2020 and notes that the Boston industrial market entered COVID with “sound fundamentals” and some of the lowest vacancies in history, together with steady demand and rent growth. While the pace of leasing velocity slowed slightly during 2020 as compared to other recent years, several major industrial users have continued to take space (Amazon, anyone?)

The good news is that the New England industrial market is doing quite well, thank you very much. While not a major market in terms of size or scale it nonetheless has a strong (and growing) presence. Despite steep negative absorption in the third quarter of 2019 by the larger industrial market, conditions in Boston’s market remain tight, historically.

The Northern New England industrial market has fared well during this time as well. A Boulos Company report notes: “We are currently experiencing a vacancy rate that is approximately 2.5%. With nearly 20 million s/f of inventory, this translates to 500,000± s/f.” Demand is strong for existing product and for new product. E-commerce has driven industrial logistics and warehouse demand.

Colliers notes that the “mass appeal of quick delivery options and a vast selection of merchandise directly correlates to the development boom for fulfillment centers as other sectors of the commercial retail real estate industry suffered store closures, plummeting demand and rising vacancy.”

Observers report that lots and existing product are readily absorbed. An example, is Scarborough at the Innovation District at the Downs. Many end-users are looking beyond existing inventory towards new construction as existing buildings carry a hefty price tag and many do not meet modern expectations.

The Boulos Company report states that “tenants are seeking higher quality assets—newer product, greater clear height, more efficient column spacing, better trailer access (docks, overhead doors, parking, turnaround, etc.), and location. And they’re willing to pay a premium for these specifications.”

Looking ahead, vacancy rates across the Northern New England market will stay below 5%, consumer e-commerce demand as the effects of COVID continue to guide behavior. Consistent with national trends, the Greater Portland market will continue to experience low inventory, which should continue to propel new construction and to imaginative adaptations of existing buildings. A trend of “retail to industrial” represents opportunity for industrial and salvation for some retail (think retail big/medium boxes becoming warehouses under the right circumstances).

The Boulos Company states that the Greater Portland’s industrial sector will continue to be attractive to local and regional investors as it has seen little negative effect from COVID. With strong market fundamentals, capitalization rates are moving closer to those of urban core markets such as Boston and New York, but without the high barriers to entry.

Cushman & Wakefield notes that strong investor appetite with tight supply, strong tenant demand, and NOI growth has continued to keep cap rates at or near record lows. Cap rate declines have been broad-based across industrial market classes. Industrial in most national and regional markets has been the top performing asset class for several years running—and there are no indications of a slowdown. Since 2010, total annualized industrial returns have averaged well over 10%, outpacing non-industrial product types.

It is always the right time to watch markets carefully and to look over the fence of the short term and look at the longer, across the pasture, view. Even assuming worst cases, and with all things being reasonably equal, the prospects for the Boston industrial sector in general track largely positive.

William Pastuszek, Jr., MAI, ASA, MRA heads up Shepherd Associates LLC, Newton, Mass.

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