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Update on the industrial market in Boston - by Bill Pastuszek

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As we all pretty well know, industrial markets – by that, including warehousing, logistics, etc – have been the darling property sector during COVID-19. The Boston industrial market has fared well during this time.

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 good news is that the Boston industrial market is doing quite well, thank you very much. While not a major market in terms of size or scale it but 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 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. Further, Costar notes that the Boston industrial market entered the coronavirus pandemic with “sound fundamentals” with 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?)

A Colliers survey reports: “The rapid growth of e-commerce established the industrial sector as the darling of commercial real estate, creating robust demand for big-box buildings in core and secondary industrial markets, and expanding into new markets to reach their customer base sooner.

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.”

Boston is not a huge warehousing/logistics market but represents an attractive retail and delivery market, given a sophisticated well heeled, and concentration of millennial types. Life sciences in the Boston market continue to expand demand into the 128 suburbs and beyond and users require good quality space for design work, manufacturing, and distribution. There is plenty of owner-user demand. The cannabis industry has created a legitimate demand generator.

In terms of supply, Boston has lost net supply during this cycle: a huge amount of industrial space has been demolished or converted since 2010, much of it for multifamily development. Additions to the building stock are not strong. The supply-demand imbalance continues to push on prices and rents.

Cushman and 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 market classes, segments and “product subtypes.”

Industrial 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.

Rental rates and vacancy data quoted here are for “investment grade” properties. But the lower ends of the market show great vitality. Small user space continues to be at a premium with strong interest in outlying areas due to the lack of supply and affordability in Boston. CBRE reports strong market-wide absorption, land prices are at record highs, and the stock, particularly near the core city, is under stress by residential developers.

It’s always a good 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.

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