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For delivery, transportation, and warehousing the future couldn't be better - by David Skinner

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Here's a question for you: are we in the middle of a boom cycle, or a bust cycle? I guess it depends on who you are talking to. For retail, office, and recreation spaces, the future is uncertain. For delivery, transportation, and warehousing, the future couldn't be better.

We are also seeing institutional funds and private equity groups spend record dollars on well-located real estate, buying vacant buildings at a cap rate, valuing the site as if it were fully leased on a long-term basis. The tenant demand is good enough to actually warrant deals like this and still make money, because in many cases (great building in a great area) the sites don't actually stay vacant for very long at all.

This would justify seemingly rock-bottom cap rates on well-located, institutional real estate, so a real estate agent's job should simply be to find any owner with an inkling to sell a warehouse anywhere and then everybody wins, right?

Well, not so fast. While well-located buildings with large tracts of land can be sold vacant and then quickly leased, like 53 Millbrook St., Worcester, Mass. (123,548 s/f building on 4.72 acres) or 12 Industrial Dr., Sterling, Mass. (45,000 s/f building on 4.41 acres), there are many sites that are further off the highway, have small pieces of land, some other negative feature that detracts from value may still take a little while to lease, that when they do eventually sell, they sell for higher cap rates, resulting in lower sale prices. Not every industrial building is created equal.

Shameless Plug: And yes, 53 Millbrook St. and 12 Industrial Dr. were recent transactions where The Stubblebine Co. very quickly leased these distribution buildings to credit tenants. I may as well let you know, right?

There is a misnomer flying around where investors say that there are no good opportunities to buy, but this is not true, it is in fact quite false. Especially as interest rates start to climb, I am finding that

there are deals available for anyone who will spend time looking for them.

As a seller, most investors are looking for a 7+ year term on the initial lease with an at or below market rent. If you own a suburban industrial facility that has proximity to a major highway, has ample loading, proportionate parking, and 20'+ ceilings, you can expect a cap rate in the ballpark of 5.5% to 6.5%. In some more rare cases with an even longer term lease with a more unique building and publicly traded tenant, you may be able to demand a higher price. The math does seem to change somewhat significantly around the 128 / 95 beltway and closer to downtown Boston. Without giving a specific formula, you can take my description above and then bank on a buyer willing to spend a little more, depending on proximity to the city.

I would give you landmarks based on exit numbers, but oh wait, they're changing all of those, and I would love to tell you why our tax dollars are being spent thusly. But I don't know. But that is another conversation, perhaps for another time.

Back to business. If you are a buyer looking for a 1031 exchange property and you want to find something with a double-digit return, you will be able to find it, but under one of these parameters or a combination thereof: poor credit tenant, short term lease, above-market rental rate, or some blemish(es) with the facility. Most good double-digit returns are created when a buyer purchases a vacancy and then finds a tenant. By that I mean that a buyer takes a risk and then succeeds, or when a seller needs to sell due to some factor that causes the seller to need the sale proceeds.

A blanket statement about this matter would lead me to say that the vast majority of industrial cap rate sales happen between 5.5% - 8.5%, based upon the parameters described in this article. As always, there are unique factors that would adjust values below the bottom or above the top, and each case should be evaluated accordingly.

If you have a property that you would like to sell for a cap rate or you need to find an investment sale due to a 1031 exchange that you have expiring, please email me and I would be thrilled to discuss the options with you!

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