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## **Warehouse space in the I-495 market: Growth seems to have no end in sight - by Nate Nickerson**

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Nate Nickerson

The industrial warehouse market has seen incredible rent growth during the COVID-19 pandemic. Rent growth for the I-495 market is up 8% from Q2 2020. Market rent was averaging \$8.63 per s/f NNN in Q1 2020 and is now averaging \$9.32 per s/f NNN towards the end of Q2 2021. The market has seen a net absorption nearing 1.3 million s/f of high bay warehouse space. Vacancy rates are hovering around 3.22% pushing demand further west.

We are seeing such a strong demand for warehouse space that tenants are rapidly filling vacancies in tertiary markets with difficult highway access such as Tighe Logistics leasing 84,000 s/f in Clinton. Just a year and a half ago most logistics companies would have never considered this location. Some say the low vacancy rate is in “crisis mode”. This is a direct result from the increase of e-commerce sales due to the pandemic. Warehouse REIT, Prologis estimates that for every \$1 billion of e-commerce sales, 1.2 million s/f of warehouse space is needed. CNBC writes that the United States may need an additional 1 billion s/f of warehouse space by 2025 to keep up with the demand of the e-commerce boom. (Thomas, Repko CNBC).

The industrial warehouse market has also seen a steep increase in sale prices since the beginning of the pandemic. In the I-495 market, sale prices are averaging \$116 per s/f in mid Q2 2021 as compared to an average of \$104 per s/f a year ago. This represents an 11.5% average sale price growth rate in the past year. Cap rates have further compressed to an average of 6.38% from 6.56% in Q2 2020. The I-495 market's 12-month sales volume is at a staggering \$445 million compared to last year's \$297 million.

One notable transaction in the I-495 market this quarter has been Oliver Street Capital's acquisition of 15 Liberty Way in Franklin, a 92,420 s/f metal warehouse building leased to KWL Inc. a logistics company with local credit. The property sold for \$11 million (\$119 per s/f) and closed in mid April of this year.

Zoom out to the national market and we see that larger players, specializing in other asset classes

are beginning to step into the industrial game. Greystar, one of the largest multifamily developers in the country, recently purchased Thackeray Partners based in Dallas, TX. Thackeray Partners, which also has a large multifamily arm, owns roughly 72 million s/f of industrial real estate. Greystar has announced that they will be applying their fundamental real estate approach into their new focus on industrial (Smith-Tenta, CoStar).

The warehouse asset class was aggressively trending upward before COVID-19. The pandemic seems to have only expedited the process, and the growth seems to have no end in sight.

Nate Nickerson is a vice president with O'Brien Commercial Properties, Inc., Concord, Mass.

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