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This is the year to sell because numerous buyers have cash “burning a hole in their pockets” - by David Skinner

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David Skinner

We are on our way out of the COVID-19 pandemic, and business is rolling. Buyers are still looking to buy and industrial real estate is, as my colleague David Stubblebine is wont to say, “white, white hot, hot as a pistol.” Multifamily development in the Greater Boston market has not slowed down, and well-located, vacant industrial sites are still being gathered together and purchased, valued by putting a cap rate on the pro forma rents. Adaptive reuse has also not slowed down as these industrial sites are transformed to residential, lab, and GMP space, to name a few.

Not only that, but recent transactions are bringing new money into the market. One such example is the former Silver City Galleria, previously owned by Thibeault Development, who purchased the property for \$7.5 million, recently sold for \$75 million to Atlanta-based Portman Industrial. This is creating a more competitive buying scenario because of all the new money generated by entrepreneurially-minded developers like Thibeault Development.

In addition, the pending changes in the tax law, and the looming question about whether or not the 1031 exchange will still be a viable option in the future are fueling buyers and sellers both to buy and sell respectively while the tax benefits still remain for sellers. As an industrial broker, the discussions I have with my clients and the discussions we have collectively as a firm are that the owners over the age of 60 have become increasingly interested in selling, feeling pushed over the edge in that decision-making process.

This is due to the uncertainty of the future of the 1031 exchange as well as the knee-jerk instinct to sell now because it feels like there is a bubble and it would make sense to strike while the iron is hot. While this thought process has not led to a host of new industrial listings of sites for sale, two things in particular have happened: firstly, the velocity of sites that do come on the market go under agreement and close in competitive situations faster than at any point in my career. Secondly, the off-market sale transactions have picked up drastically. Not only that, but landlords in many cases do not even need to put their properties on the market because the brokers who work those specific areas are able to fill them with tenants before they become available.

For example, I was representing a national tenant in the Metro West area and we could not find a place for them to rent for over a year. It was not the case that we couldn't find anything at the right price, our problem was that we could not find anything available, at all, period. This is a national credit tenant with near-bond level credit, and they could not find a place to go. So, I resorted to going door-to-door and cold calling landlords in hopes that the high rental rate provided by the tenant could entice the landlords to get creative with whomever was occupying the building. I ended up finding the perfect building in the perfect location, but the landlord was running their thriving business out of that facility and would have needed to find a new place from which their business could operate. We came to terms on such a high rental rate that the landlord agreed to take the risk that they would find a new place to go, but they had to meet a tight timeline. So, I again began cold calling building owners to see if they would sell, and indeed found an off-market opportunity that worked out which allowed the original landlord to leave their facility with a couple weeks' time to spare.

This process is how deals are getting done, and this is why any landlord with the inkling to sell would do well to consider selling now. The demand to buy is unmet, and we field calls numerous times a week from people of all different businesses looking to purchase real estate because they have cash "burning a hole in their pockets."

The recent stimulus plans have only increased the demand for people to get money out of their bank accounts, which is in turn, again, driving prices up.

Who wins? The winners are the buyers and brokers who already have relationships with owners who might at some point consider selling their facility, because the brokers and buyers who are new to the game are having a tough time competing to purchase unless they come up with some sort of over-the-top pricing.

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