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The 128/495 market is entering a New Frontier - by David Skinner

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David Skinner

I spent the last few days looking through transactions over the last few years, and as I was reliving some of those transactions. I realize how the marketing process for a building from Rte. 128 to I-495 would have been much different. Back then, user sales for vacant buildings were far more common, private equity was less aggressive in making purchase offers especially on vacant buildings, and bidding wars on lease assignments happened far more infrequently.

There is a trend growing around the 128/495 beltways that will likely never be reversed. Let me explain.

In the last few months I've also had a few assignments that have taken me to New Jersey and parts of the five boroughs of New York. These assignments have led to my making cold calls to scores of property owners whose buildings are not being actively marketed, and what I have found has been astounding. The New York/New Jersey markets have matured far beyond the Greater Boston market because of the sheer volume of product that has been built over the last few years. Not only that, the extremely dense population of the New York Metro attracts international tenants of all kinds. This gives reason for developers and investors of all kinds to pour money into any building that could be improved and rented out, even if the returns look slim.

This is what the Greater Boston market is facing right now. Tenants are being pushed out of the city because of the multi-family and lab development which are both driving the lease rates up. This is making the market for institutional investors much more attractive.

What we have seen for the last couple years and we will continue to see over the next couple years will mirror the trend of the New York/New Jersey market. Users who are looking to purchase property in the area will not be able to do it because there will be nothing available. The difference between the history of industrial real estate and the new frontier of industrial real estate is that in the past, users and investors would cyclically exchange property, depending on how the market was trending and how the economy worked. The new frontier of developers/investors/private equity gobbling up all the real estate presents a material change, and that is what these kinds of buyers are not inclined to sell for any price.

This presents a whole new world, especially for users. It is not just a matter of time before the market corrects itself and prices start to move back in a direction that is more favorable to a buyer. Markets adjust and pricing changes based upon supply and demand. The supply is down and demand is up across the entirety of the Greater Boston area, and the sector of companies that are buying all the real estate are not the kinds of companies who are interested in selling.

Here is how you avoid getting overtaken by this trend.

My recommendation to any owner occupant is to review your real estate requirements and if you have any desire to purchase real estate within the next three years, make a push now to clearly define what you need and the geography in which you are looking, and then start getting aggressive about purchasing what you need.

There will be a point in our lifetimes where finding institutional real estate to buy will become almost impossible, as it has become almost impossible in the New York/New Jersey market. This is happening around 128/495 that nothing short of an economic collapse would be able to undo, so if you would like to jump out in front of it, buy land and distribution space while it is still available!

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