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Because we are humans, history repeats itself, so keep an eye out, and don't get over-leveraged - by David Skinner

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History is far more interesting than fiction. That's because history will happen again. The prophets of every generation read history because the actions of history ere done by humans, and humans have not really changed. Sure, we have access to more information, but the information we consume is of a far worse quality than what our parents and their parents consumed. Before sharing my prediction, I encourage you to read some history. Perhaps we will all become wiser.

Remember back to the 1990s for a minute. The modern day mall had been first designed in 1954 in Edina, Minnesota. Over the next 40 years or so, big box retail and indoor shopping malls started popping up all over America as the need to spend its newly minted wealth. This led to a boom and the practice of land banking because the values were appreciating at never before seen levels. An attitude prevalent in that time period was that land "could not spoil", and retail land owners were nearly invincible.

Now fast forward to 2008, and major retailers like Walmart, Home Depot, Lowes, and others, almost completely halted all development due to the financial crisis but also because their ideal trade areas had been nearly fully saturated. Owners of land in these once desirable areas were now sitting on parcels that had almost no demand whatsoever.

What does this mean for industrial? This means that at some point, the insatiable demand for industrial property will stop. The Stubblebine Company's proprietary database is tracking over 7 million s/f of speculative industrial developments in the Greater Boston market. Tenants looking for large blocks of industrial space are having a hard time right now, but the development activity over the next couple years will prove to satiate much of this "pent up" demand.

However, the market fundamentals that I have been writing about for the New England Real Estate Journal for years have remained to consistently impact the Boston industrial market.

1. Decreased inventory: Industrial buildings are being taken off the industrial market and being converted to R&D, lab, or mixed-use, especially in high traffic areas.

2. The online effect: America's desire to buy hasn't disappeared with the disappearance of malls, it has just moved online, which means that demand is being placed on fulfillment centers.

3. The COVID effect:The trend that moved purchasing online was accelerated with the last couple years of social distancing and restrictions on in-person experiences.

These factors will continue to drive industrial values up from the basic principle of supply and demand. The trend that started in 2019 and has continued in a significant way is the emergence of private equity gobbling up any sizable industrial site. Right now as a broker, finding any industrial seller who will agree to sell their facility is a significant accomplishment, and even if the price seems high, the values will undoubtedly continue to rise. And as it relates to industrial buyers, whether users, investors, or developers, finding ways to jump on opportunities to buy is rare and highly coveted.

As in 2008, 2001, 1991, and in other recessions, the people who made money when times were good may or may not still succeed when less liquidity is running through the market. The losers in recessions are the people who over-leverage themselves and then have rent reductions or total non-payment. Savvy building owners who are profitable and cash flowing when times are good are being careful not to over-leverage their positions.

The cautionary tale that we can learn from the history of the retail landscape is that there is always an objective demand for square footage in every industry. Right now, the industrial marketplace is underserved. But keep an eye out, don’t get over-leveraged, and pick up some more history books.

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