What to do with inflation plus lack of industrial properties - by David Skinner

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I was listening to an economist recently who has family in Russia, and as he watched the impending conflict with Ukraine become a reality, his advice to his family who live in Russia was to get their money out of the banks, and out from under their mattresses, and invest into products that would have lasting value. For example, if you have the choice between holding onto your physical money or buying a toaster, buy the toaster. The toaster may cost 30 units of payment today, but tomorrow it could be worth 100 units. If you had kept your 30 units under your mattress, they wouldn't be good for much more than kindling at that point. However, the toaster has a useful function, and therefore its value will have longevity. At this point, I'm sure you are thinking, "Thank you for the basic lesson on inflation, David, but how does this relate to industrial real estate?" That is precisely what I aim to provide some insight on for you as we move forward.

Industrial real estate has been circulating more prominently in office "water-cooler talk" since 2017; however, it has since graduated from "water-cooler talk" to boardroom talk at some of the largest REIT's in the country. Those same conversations have contributed to the creation of private equity funds in a space that formerly hosted only hotels and multifamily players. Naturally, as industrial real estate became more a topic of conversation, demand continued to rise, and today, demand for industrial space remains unmet in the Boston market. As Bostonians, it would be prudent for us to take a closer look at other city markets to see how they are responding to the broader market fundamentals, and then prepare for how those trends are likely to affect the Boston market going forward.

One example to dissect is the "North Jersey" market explosion. This expansion is the natural consequence of the transition to the e-commerce industry serving Greater Manhattan and the Boroughs markets. I have been doing some client work in these areas, and we have seen that this push from the Boroughs of New York City has impacted the real estate all throughout South Jersey, into Philadelphia, and even Eastern Pennsylvania markets.

I recently spoke with one of the more prominent private developers about this expanding New York City market and they said that in the last 15 years, they have not had an extended period of time where they did not have a speculative distribution project underway until now, due to the serious land constraints. Not only that, but this particular developer manages over 10 million s/f in that market and is 100% leased. How does this relate to Boston? The Boston marketplace is unique in that the number of industrial properties that are owned and managed by private individuals out-weighs the number owned and managed by private equity, or other developer entities. However, that ratio is rapidly swinging in the opposite direction. As this trend continues, just like Manhattan, Brooklyn, and Queens markets have encroached into North Jersey and Eastern Penn., and they are now considered suburbs of "The City" (as Manhattan is so affectionately referenced), areas outside of I-495 will be described as suburbs of Boston and the values will continue to rise.

Now how are the escalating values of industrial real estate impacting, or impacted by industrial real estate? Here's one answer: with industrial values rising, investors have already sought to put more money into industrial properties. Because many of these investors are able to read the signs of these inflationary times, they also recognize that they would rather overpay in the short term, so that not only will they capture the natural rent, but also the value growth in the industrial market. These two elements indicate that we should all expect rent values to increase at a more aggressive rate than previously seen.

So how do you win? My answer: look at other markets. Now, which markets are those? I couldn’t tell you; as the dynamics of each geographic area grow and shift, so too does the market… you’ll have to do some digging for yourself and assess which markets will most accurately predict change and growth in your area.

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