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These industrial rents are pretty high - by David Skinner

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As I have written numerous times here in the New England Real Estate Journal, the private equity race in industrial real estate has found the Greater Boston market in the same way that it has found the other top tier markets, like New York and Los Angeles. Boston is seeing sale leasebacks on large industrial properties, for either short term or long term, which is great for buyers and for many sellers who can cash out at the top of the market. When this space comes to the market, the rental rates keep getting pushed higher and higher. In hot areas, like the inner suburbs of Everett, Chelsea or East Boston, these rates are largely sustained; even the 128 suburbs like Woburn, Waltham, and Braintree have been able to absorb significant rent increases.

However, there are also many cases where local businesses, especially those with commodity products who own their own buildings, have run their companies without accounting for market rental rates. Therefore, when these companies sell their real estate because of the alluring high sale prices, they have not built in the margins to sustain 50% rent increases within just a couple years. One such example is Waldo Bros, a masonry supply company that closed its Boston location after selling their real estate because of the rapid rental increase after they sold. Waldo Bros was a thriving business and would have otherwise not closed that location, but after selling their real estate right before the rental hikes, there was no alternative space in the geography they needed that would have worked for the business at the rate that worked for them.

I bring this up as cautionary tale to sellers and landlords, especially as it is easy to create pro forma rents that create compelling cases for acquisitions; but there will be a time when the rents will outpace the performance of the businesses that need to rent space.

As a real estate agent who is incentivized by commissions to create transactions, I see the allure to these pro forma rents. The argument that industrial isn’t getting worse, so paying high purchase prices is worth the high price is an argument I have made many times here in the New England Real Estate Journal. However, I believe that wisdom would survey the impact that the rising sale and lease rates are having on local business and consider how long the upward trajectory can continue.

I’ll leave you with one more thought to consider: it is that as debt gets more expensive, owner-occupants who have a trove of cash become more competitive buyers in the marketplace.

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