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New habits for industrial tenants - by David Skinner

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David Skinner

Sales prices are going bananas. Warehouse listings are seeing bidding wars. Publicly traded companies willing to sign long-term leases at one time were able to use their credit and clout to run the tables when negotiating with landlords, but this is no longer the case. I was joking with a tenant representative broker friend of mine the other day as we were reminiscing about how we used to run surveys for our clients, we would then set up a tour, issue requests for proposals, and then pit all of the options against each other and look like heroes to the client. My oh my, what a thing of the past.

One new habit I have observed with industrial users in the market has been that companies who have been staples of the Greater Boston marketplace who have occupied the same square footage for upwards of 100 years are now expanding for the first time in decades. This shows vitality in the economic marketplace, especially that there are companies who have weathered 5+ economic recessions, and expansions are still bullish enough on this market to sign leases on new space for the next 3, to 5, to 10 years, when many pundits and business people are hesitant to get out too far ahead of themselves.

As I have written previously here in the New England Real Estate Journal, we continue to observe the market fundamentals in order to predict what is on the horizon. There will eventually come a point when the rising prices for rent and purchase inevitably do outpace the value of the products and services being sold from these locations. When this does happen, the divide between those who paid attention and prepared, and those who didn't will be evident.

My word of advice to landlords and property owners is to work hard to lock up long-term leases now, even if you feel that you could get a higher rental rate for a shorter term deal with some other company. With interest rates rising and the increasing pressure of an election, there is going to be a need for politicians to do whatever they can to keep inflation under control, but that may have a negative impact on business cycles. This kind of move would leave the tenants looking for space in a position to pay less than they may be able to pay now.

My word of advice to buyers is to hold out and to wait for the right opportunities. With interest rates going up as we have begun to see, we will likely see more industrial product hanging around longer with fewer competitors in the purchasing pool. I also recommend holding on to cash, because the value of having money in the bank will likely outpace the devaluing effect that inflation will have on that cash because of the purchasing power that the cash represents.

My word of advice to tenants is to work hard to have extension options in your lease term that reset the rent at a market rate. Right now it is very difficult to find space to lease which is why the rental rates are so high. We will not always be in this environment. The rules of gravity apply in the economic climate as well: what goes up must come down. What I am emphatically NOT saying is to wait to get space for when the prices get lower. If you have a business that makes money from selling a product, your company is losing market share, revenue, and name recognition while you are waiting for the perfect price. However, signing leases with no ability to correct for the inevitable market correction would be a big mistake, and you could be paying for it after your customers have ceased desiring to pay high prices.

My word of advice to my fellow brokers is make hay while the sun is shining. Stick it out with the clients you have, even on very tough assignments, because when times get easier you will have earned your right for the “easier” deals as there are more properties available at more affordable rates. Don’t give up although it may feel nearly impossible at times.

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