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**The world has shifted and what that means to sellers, investors, etc. - by David Skinner**

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David Skinner

I am tempted, as a real estate soothsayer, to jump for joy when I look at prognostications in years past that I have posted right here in the New England Real Estate Journal regarding the future of the industrial real estate market. You may ask, "David, why do you jump for joy? There's not much to be joyful about right now." From the standpoint of buyers and sellers of commercial real estate, you are correct. Life is harder, work is more arduous, and deals are falling apart left and right. Equity partners have "put their pencils down" as a client of mine is wont to describe. I only would jump for joy because, like a weatherman who rejoices in the rainy day because he is right, so also I rejoice because my prophecies have proven true. The world, in the last two months, has shifted. The frenetic buying, flipping, and asking absurd prices and then achieving them has come to an end.

I will address four topics of conversation in this article as I share my perspective on 1) what has happened in this "world shift", 2) what that means, 3) and who is most affected, and 4) what the solution is.

First, what happened? This year, Russia and Ukraine engaged in a conflict that nobody truly can explain why or what the solution is. In addition, the Federal Reserve raised interest rates twice, intimating another possible two more by the end of the year. This was done, allegedly, to combat inflation. On top of all this, Amazon's announcement as reported by CoStar that they are looking to shed 10 million - 30 million s/f in some markets has heightened the concern that the industrial bubble has popped. This announcement alone, and the consequent development sites that fell out of contract because they are no longer needed has put millions of square feet of developable property on the market. This world that we observed a mere nine months ago that was the host of bidding war upon bidding war is now in our past, and we live today in a marketplace of skeptical buyers and sellers who will consider a sale or purchase only because they need to.

Second, what does this mean? This means that buyers, sellers, brokers, tenants, investors, and landlords alike are not able to appropriately assess the ground upon which we all stand. The main reason for this insecurity is not simply that interest rates have gone up and buying power has been thereby proportionately diminished, the "pencils down" stance taken by many underwriters has happened because we do not know when this will end.

Third, who is most affected by these changes? This hyper-inflationary period in which we find ourselves affects any broker who was counting on speculative purchases to add to his or her annual commission. As my little niece says, it's "too bad, so sad" for those people. The other most affected group, and probably the most significantly affected is the collection of sellers in the Boston marketplace who were holding out for a big pay day and then missed the boat. The people who sold at the end of 2021 or the infant months of 2022 probably saw the highest sales prices they will have seen, at least for the next few years. The other category of person this new world has impacted are developers who rely on equity partners to write checks for developments that rely on investment theses. The rising interest rates have not simply changed the calculus for what an equity partner is interested in, but because the future is so uncertain with more interest rate hikes seeming to come still this year, raising capital has become much more difficult.

Fourthly, what is the solution? If you have cash and you are looking to buy something, you will need to wait for prospective sellers who actually want to sell to realize that real estate is not what it once was. There will be a correction back towards a more buyer friendly market. It just may take awhile.

David Skinner is an associate broker with The Stubblebine Company/CORFAC International, Lexington, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540