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55 YEARS

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What will happen next? Here are three mini trends that we should revisit - by David Skinner

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David Skinner

We are in a brave new world, and the question I've been asked lately is, "Dave, what is going to happen?" With interest rates growing more quickly than a pack of rabbits on a commune, buyers keep asking when the deals are going to fall from the sky and sellers think that these rate hikes aren't that big of a deal, for now. Something has to give. So what is going to give? There are a few mini trends that we should revisit. First, let's talk about how the pool of buyers and sellers will get on the same page. Second, let's talk about how private equity characters will take care of rental rates if these rental rates don't come back. Third, we will comment on how the life of the life science will be stunted if not addressed.

First, let's talk about price. Right now, the world is not on the same page about price. Buyers think that real estate should be discounted, while sellers don't believe that they need to change their prices. What will bridge the gap such that buyers and sellers start aligning with pricing that both will pay? The market will achieve unity of mind when sellers who need to sell will finally accept a price which is lower than they want. This may take time, and it will systematically work to remove the sellers from the playing field who are, as one of my clients says, "on a fishing expedition," looking for prices that don't really exist in reality. On the other side, there are many buyers who were able to step up to previously unrealistic pricing because of a capital partner or the hope of appreciation year after year, but these kinds of buyers have been falling out of the market over the last month or so because money has been acting much different lately. However, there are users who still need to expand and have a mindset of buying. These companies are in the trades or construction-related industries. They will start to see pricing loosen up a little bit and they will stretch a little bit out of their comfort zone because they do need to buy. These kinds of transactions will be the deals that keep the market moving forward.

Our second topic is about private equity. What will happen when the leasing activity does not match the pro forma rental rates that were used to underwrite some of these industrial portfolios? As an agent who focuses on the industrial sector and works on sales and leases, my daily work consists of representing tenants and leasing industrial spaces. We are still seeing a lack of leasing inventory for good industrial space with drive-in and tailboard loading options, because of this the rental market will remain strong. In the event that the pro forma rents do not reach their desired zenith, some investors may be in for lower returns than anticipated, or even perhaps some losses. There will be some of this kind of product on the market for sale in the next few years, assuming that the rents do not get to where the need to be.

Our third topic is life science. The lab boom has been driving much of the industrial purchases and conversions over the last 5-10 years, but as lab development slows down and gets delivered to market and the supply meets demand, the "higher and better use" theory of tearing down warehouses will run out of steam and sale prices will stop escalating, which means that the supply will stop decreasing, which means that there should be a balance in the supply and demand of industrial real estate over the next few years.

I have heard that we are not in a recession yet because of the technicalities of the statistics, but our

clients are seeing large scale development, especially speculative development dry up which will send ripple effects elsewhere. There will always be buildings and properties for sale, and for buyers who want to buy, don't give up the search.

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