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Not optimism, or pessimism, or realism, but opportunity! - by David Skinner

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David Skinner

This week we had a company-wide sales meeting where we review trends, listings, requirements, caution signs, economic signs, and, most importantly, the opportunities afforded those who use their minds. Those who use their minds to discern the signs of the times and then consider the implications on our practice at The Stubblebine Co., will be the ones who move forward. Our practice is industrial sales and leasing in New England with a special focus within 60 miles of Boston.

My takeaway from our meeting this week was that there is always opportunity for commercial real estate brokers and commercial real estate principals who work hard and do not make excuses for losing a deal or not exactly having the pulse on what is going on in the marketplace. I don't typically give shout outs to our principals, but that is one thing I have learned from them - they have an approach that is relentlessly opportunity -focused, rather than obstacle-focused. Before I get into talking about the trends, I think the most important point during the times that we are in is staying completely focused on the next step and the opportunity rather than the souring approach of the newscasters, red and blue alike, they are all so depressing. But it does not need to be that way!

It is critical to have not an optimistic approach that sees the world through rose colored glasses, but rather an opportunity approach. For example, in the last couple years, the best way to make a phone call to a prospective client was to let them know that there were record-setting prices down the street on a monthly, if not weekly basis, and they are missing out on the white-hot market that was emblazoned around them. That was the opportunity then, but that is no longer the opportunity today. So the question I ask the reader here is, what is the opportunity today?

We have read all the articles about Amazon's retraction, escalating interest rates with no end in sight, diminishing consumer demand across the board, and an anticipated real estate pricing correction. Those are all trends that exist. But again, I need to ask you, who cares?

If you are an advisor or consultant, you are like me. I do not make money when sharing all the bad news with people and have no answer. When I have no path forward, nobody makes money. This is also a leadership principle from which I shall refrain from opining on this forum. We consultants make money when we are able to survey the landscape, identify the opportunities, and then lead our clients to realize that opportunity for their profit, and then of course ours.

Here is my best guess at surveying the current landscape and recognizing the opportunities: 1) stagnant overpriced listings, 2) strong and weak tenant demand, and 3) industrial supply.

1) There are stagnant overpriced listings. In the last two years, there have been property owners who got excited about the sky-high prices and have then put their buildings on the market at rates that could not be justified with what I call either the 1) science, 2) the art of real estate valuation. The science is the comparable sale data, and many listings in the last two years are listed at numbers far in excess of what the data tells us. These listings also cannot be justified with the artfulness of the valuation process, namely taking into consideration our place and time in the progression of real

estate history and how those trends impact the science and data. Sometimes the trends would justify a higher or lower price than the data would suggest, but in many of these cases the overpriced listings can be neither justified with the science or the art. There are still a number of land and industrial listings that are still living as way over-market and they stagnate there from a previous age. Not all listings are like this today, but there is enough of these out there where any seller who wants to sell needs to have a reality check and ask the question, can my pricing be substantiated in any meaningful way such that I will actually receive this price in the form of a bona fide offer?

The opportunity here is to keep checking in on sellers, because if they truly want or need to sell they will eventually lower their prices to the price that trades in the market today. They may change brokers a couple times, but that is why brokerage is not for the faint of heart!

2) While there is strong tenant demand, there is also weak tenant demand. Some tenants with businesses who have weathered a couple or more recessions will always need space to operate. These tenants will become far more valuable to landlords than the rest. There are also startup companies or companies who are moving spaces simply to save money, and those kinds of businesses have real risk associated, and they very realistically may go under in cycles like this.

The opportunity is for those who have exceptional P&L's and balance sheets. They will receive priority treatment from landlords, and even be able to negotiate tenant-friendly leases.

3) Industrial supply is up, and it is also down. There is a significant development pipeline in the greater Boston marketplace for large distribution boxes. There is not a significant development pipeline for +50,000 s/f spaces because the economies of scale that come with these larger developments. This means that any landlord who owns a flex/industrial space in the 15,000-50,000 s/f size range will have real negotiating power, especially with extra parking or industrial yard space.

The opportunity here is for tenants who need 100,000 s/f in the I-495 beltway to begin getting to more reasonable rents, and the opposite is true for landlords who have 20,000-50,000 s/f, as they will have real leverage to use for higher lease rates on a price per s/f basis.

Don't be a pessimist, don't be an optimist, don't be a realist, but rather see the opportunity with eyes that the rest of the world does not have and you will be amazed at what you see out there. Wow that was a good article I should start charging for my advice!

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