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3 Trends to watch out for - by David Skinner

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The world is changing quickly, industrial and otherwise. There are 3 trends I am going to very quickly discuss with you and my opinion about how it impacts industrial real estate. However, one thing you should know about a broker, is that when a broker uses the phrase, “very quickly”, especially when on the phone and they are cold calling, that phrase rarely means what they think it means.

1) Debt reset

2) Occupier Power

3) Suburban Build-To-Suits

First, debt. Debt is interesting. There is a directly relationship between debt and sales prices, of course. I talk to landlords and investors who say that every broker tells them that prices are going to drop dramatically because there are so many mortgages that are going to reset in 5 years, and then nobody will be able to afford mortgages, so buildings will come back on the market at much lower prices because the income will not support the debt. This is true, and it is untrue. It is true because in theory, this is possible. It is untrue because the only way that this mass exodus will occur is if a buyer got as much of this cheap debt and minimized all equity in the deal. When I first heard this theory, it sounded like doomsday part 2. However, the more buyers I spoke with, the more I realized that they are not idiots and most of them didn’t “lever up” maximally with these very low rates. In reality, I expect this trend is not going to be as ubiquitous as the brokers say. It can happen, and I’m sure it will happen, but the bottom will not fall out of the market in 2025 because of that.

Second, occupiers. Occupiers are going to drive the market. All of the owner-users who were disciplined and stockpiled cash over the last 4 years of market insanity who were bidding against the 6-month-old office that places capital for PE firms paying record-breaking prices are no longer bidding against these buyers, because the rising rates are a boon to low-leverage buyers.

Thirdly, build-to-suits. If you want to lease 50,000 – 200,000 SF in the suburbs, you will likely be able rent third-rate warehouse that you might not like for one reason or another, or you could do a built-to-suit. Most (greater than 50%) of the buildings advertised as “available” actually don’t exist. This phenomenon will continue for the next few months, likely the next couple years, because landlords are reticent to build on spec.

It is like the Golden Rule, but the step-child: “Whoever has the gold makes the rules!”

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