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Layoffs, rollups, shakedowns, gummies... and commercial real estate - by David Skinner

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David Skinner

Writing these articles for the New England Real Estate Journal is fun because it keeps me focused on what is happening not only in Boston but also around New England. I have been working transactions around the northeast over the last couple years and I've been seeing some commonalities across the greater New England economic landscape that I would like to share with you in the following order:

1. Layoffs
2. Rollups
3. Shakedowns
4. Gummies

Regarding layoffs, the Amazon story has been a significant one over the last few years. I've probably written over 10 articles here that have specifically referenced the Amazon expansion pandemonium as the reason for increases in sales prices, warehouse leases, and parking lot/contractor yard rates. This expansion ran somewhere from 2018-2022 and tapered off when interest rates started becoming unfriendly. Following the last half of 2022 with the rumors of Amazon's allegedly looking for buyouts and subleasing a significant amount of parking/distribution space, there have been unconfirmed rumors of layoffs in certain related businesses that may support the larger business. This kind of a rumor has impacted the asking rents around the suburban Boston market and especially parking rates closer to the city. No longer can a real estate agent approach an owner sharing historically high parking and storage rates with any honesty and be able to fulfill those high lease rates today.

Regarding rollups, they are continuing to occur. Large holding companies and conglomerates that make a business of looking for (relatively) smaller companies to purchase and add to the portfolio are continuing to do so. For example, United Rentals Inc. closed on a purchase of Ahern Equipment in December 2022, for \$2 billion in cash, sources say. Now I have heard investors use the phrase, "keeping my dry powder" more in the last year than I've ever in my entire life, but this URI/Ahern cash deal should be an encouragement that not every investor is sitting on the sidelines. Rollups like this also create real estate opportunities because the real estate assets that exist within the purchased company may or may not be strategic for the purchaser, necessitating a divestiture or other repositioning.

Regarding shakedowns, the question I have heard from buyers and sellers alike is, "When will the sale prices come down from the stratosphere? We want some deals!" Unfortunately for these buyers but fortunately for sellers, industrial sale prices do not seem to be coming down any time soon. To put it another way, we aren't seeing a whole lot of shakedowns, at least not for a while. Many prognosticators will wax eloquent about how many variable interest rate deals are going to make these recent purchases untenable, but more have this discussion with real buyers who bought the deals that look like they traded for too high a price, the economic case and the debt product used on the investment will not leave them needing to fire sale the asset in 2-5 years. The market fundamentals are too strong to let industrial sale and lease rates fall, such as 1) disappearing industrial real estate, and 2) high barrier to entry to replace industrial buildings inside 128.

Regarding gummies, another topic that was so popular to discuss over the last few years is marijuana, more friendly (yes that is a new word) known as cannabis. Massachusetts experienced the cannabis revolution in 2018 and the following couple years. Other New England states, like Maine, went through a similar industrial trend, where many municipalities outlawed the use which drove all the users to particular areas, for example, the Auburn-Lewiston submarket. While the Boston area pricing “shakedown” will likely be relatively light, tertiary markets like Auburn-Lewiston will likely experience more of a shakedown as many of these cannabis producers and distributors are in the middle of a price race to the bottom and subsequently go out of business. For investors looking for a deal, there may be some opportunities coming in the “gummy” sectors of secondary and tertiary markets. Keep a close eye on them if you dare.

I’d like to end this article by thanking the New England Real Estate Journal for faithfully giving me a space to share my thoughts here as the Massachusetts industrial expert. I have been, and will continue to be grateful for the opportunity, and to many of you who have reached out to me about articles now and again. As a note, I recently transitioned from The Stubblebine Company and started my own firm, Prescott Advisory. I am very grateful for my time with The Stubblebine Company, and I learned many valuable lessons there. I am excited to begin my new journey with Prescott Advisory as we continue to grow and serve industrial owners and users in urban Boston and outward. I would love to hear from you, so please send me an email at david@prescottadvisory.com.

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