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Landlords and tenants in 2023 - by David Skinner

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There are so many topics that effect industrial real estate in April 2023. My article today will consist of two parts. Part 1 will exhibit my general theory of landlord vs. tenant relationships and how they drive the commercial real estate marketplace. Part 2 will share my understanding of what this means for us in today's world.

The commercial real estate market can be influenced by various factors such as changes in interest rates, supply and demand, and overall economic conditions, and these factors influence landlord and tenant behavior. Understanding landlord and tenant behavior is the key to understanding the state of the commercial real estate market as a whole, and the industrial sector more specifically.

During a recession, qualified tenants have the upper hand commercial real estate marketplace if the supply of commercial properties exceeds the demand. This situation will enable tenants to acquire much more favorable lease terms and rental rates for themselves. However, if the demand for space outpaces, tenants lose their leverage to negotiate and need to deal with the whims of landlords.

In the Greater Boston industrial landscape, the broader economics in the last few years have significantly favored landlords and sellers alike. The last few months has slowed down the economy, but it has halted a significant amount of tenant expansion just because of the uncertainty of what is coming next in interest rates, banking situations, politics, etc. This means that a tenant who was a "6 out of 10" with decent-looking credit looks a lot more like an "8.5 out of 10" in today's world.

Anecdotally, I am working on a couple larger tenant requirements right now with credit tenants who need a significant amount of IOS on the premises, and it is still hard to find these kinds of sites. However, rather than being in a line of three or four competing tenants, there may be only one other, and we are able to compete when having these conversations. If the next six months is like the last six months, the nature of the market may shift to a more obviously tenant-driven situation where there may be numerous qualified landlords competing for the tenants.

In conclusion, I believe we were previously in a strongly landlord-favored market, now we are at an equilibrium, and moving forward we may be entering an epoch marked by tenant-favoritism.

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