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Risk and opportunity - by David Skinner

July 28, 2023 - Spotlights

David Skinner

It’s the summer time in something that feels like a recession. But let’s not be alarmist, so we’ll just say that it feels like a recession. What is the point of sharing anything with the New England Real Estate Journal community if we don’t help explicate some of the opportunities and risk factors for each perspective on real estate? Here is a word of consideration for those who wear different hats in the industrial real estate community.

To the landlords: Work to keep your tenants. There have been times in the last few years that even finding a property to lease at all was a tenant’s worst nightmare. While that is still true to an extent especially when looking for well-located well-maintained property, the velocity is slowing down on the leasing front. The list of tenants in the market is certainly shorter than it has been in the past. Especially in the case of a specialty property that can demand high rents for the ideal tenant, the time to thread the needle for the perfect tenant is likely to take even longer now. Tenants with strong-credit businesses typically do not want to move as the financial future is uncertain. This means that the tenants in the market either have a higher likelihood for weaker credit or lack the capacity to pay what would be considered “full rent.” For these reasons, we encourage landlords to take their tenant relationships very seriously and work hard to maintain relationships with their current tenants.

To the sellers: I have two hands, on the one hand, the commercial real estate world is experiencing some difficulty which impacts pricing in a way that is uncomfortable for sellers. In less politically correct terms, sale prices are going down. However, as I mentioned before, I have two hands. On the other hand, there remains a dearth of industrial property of any real quality, especially in strong locations. For this reason, well-located industrial property has still maintained strong sale prices, especially because the rental rates for this product has not fallen off by much of a factor at all. Interest rates that have doubled in the last year or so is certainly a reason for concern, but it is not keeping good product in a good locations from remaining in high demand.

To the buyers - investors: Keep an eye out for deals. There are sellers who need to sell and who will do so leaving some meat on the bone for a buyer go get some yield. Land pricing is seeing more correction than others as development costs which would include financing and materials have not lowered but rather have remained high and are going up.

To the buyers - users: Don’t be discouraged. You are not competing with private equity in the same way that you have since the end of 2019. As aforementioned, quality product in strong locations will be be competitive, but it will be possible to find what you are looking for.

To the tenants: Strong, well-funded companies interested in executing a long-term lease are growing in negotiating power by the day. Established industrial areas are not seeing tenants move very frequently, which means that there is not an abundance of available space. However, where there are vacancies, landlords are prioritizing tenants with strong credit. This means that if you play your cards right, you will be able to get rent concessions and often an attractive tenant improvement allowance. The risk in negotiating from a tenant perspective is running into a landlord who still feels that the property is not suffering from any slowdown in leasing viability, in which case overplaying your hand could leave you, as Dapper Dan would say in “O Brother Where Art Thou”, “in a tight spot.”

In conclusion, the risk to watch out for in industrial real estate is for landlords in playing too fast and loose with good tenant opportunities, and for buyers or tenants in thinking they may have more leverage than they in fact actually have.

David Skinner is an advisor, partner at Prescott Advisory, Newton Highlands, Mass.