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Who done it? - by David Skinner

September 29, 2023 - Spotlights



David Skinner

Telling people that you're "in real estate" is a great party trick, especially if you love talking about how to flip a duplex. However, the conversation ends pretty quickly when you clarify that being "in real estate" means that you sell and lease warehouses and contractor yards. Especially in today's odd economic climate, people love to feel like they are in the know about what is going on in the supposedly glam-world of real estate.

Some of my favorite things to say when talking about real estate in company mixed with people who do and do not know what I do for a living, are statements like: "You met a real estate agent recently? Watch out! You can't trust anything they have to say, brokers will tell you whatever you want to hear just to make a quick, dirty buck." The friends who know me and how fastidious I am about doing the right business in the right way get a kick out of this schtick, especially when they know that I am messing around with the people who don't know any better. Then the others realize that I am not being serious and nervously chuckle because they don't know what to do, especially because they just totally agreed with me.

But the fact does remain that people still want to know what is going on in the world, particularly in a profession like ours where information is not commoditized. Having knowledge of off-market sale comps and leasing information sets you apart as a specialist in today's world. I was at an SIOR event in Washington DC a couple weeks ago and one of the instructors exhorted the class to have a quantifiable, meaningful answer to the question, "How's the market?" Less thoughtful brokers will come up with some lazy answer like, "good," or "slow" when that gives absolutely no insight into any real market conditions. In the spirit of this question, I am going to answer the question, "Who Done It" from the standpoint of industrial commercial real estate: "Who is doing the deals now?"

There has been a clear shift from investors, fund managers, and developers doing the majority of transactions to tenants and users stepping up to the plate in many industrial transactions over the last year.

User / Investor Motivations: The distinction between differing user and investor motivations is of critical importance when considering market forces, as one kind of buyer is more motivated by economics and price, and the other is more motivated by location, function, and long-term value of ownership.

How Users Are Motivated: In today's world, users have a relatively low regard for financial metrics, cap rates, ROI, income to equity ratios, compared to investors. Many users in Boston's urban core have been operating for generations; they are mostly concerned with real estate ownership, as they consider their real estate and businesses to be generational family heirlooms. This is why a Boston user is willing to "overpay" for an asset if they have the means and opportunity to acquire it.

Investors Motivation: Investors, on the other hand, are driven by returns, and therefore have a high regard for financial metrics. These investors are especially driven by leveraged returns, which is why such companies have justified some of the recent high prices, much of which was driven by

record-low interest rates. Considering the volatility of the current interest rate environment, many investors will be reticent to push the upper ends of purchase pricing as they create returns for themselves and their shareholders by using leverage.

Why does this matter? If you or someone you love is a seller or prospective seller of commercial property, it would benefit you to consider this distinction, particularly in the marketing approach of the asset in question. Exposing the property to the maximum number of local users will in many cases today, drive the most interest and the most competitive pricing, particularly because many users around Boston are renters by force, not choice. This is because it is so difficult to find industrial assets that become available for sale in this urban area. Yes, institutional investors will play a role in this process of buying and selling assets; however, the owner/user and tenant community is of newly-found importance.

Who done it? Well, the users are doing it. But don't listen to me, I'm just a real estate agent.

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