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World events and industrial real estate - by David Skinner

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David Skinner

I have been given an opportunity to write for the New England Real Estate Journal regarding industrial market updates. It is my aim to do that, and I will do that here in this article. Before I get to the real estate specific topics, I need to however share from the heart. Bear with me, it will all connect at the end.

Here in Greater Boston, more broadly in New England, but really throughout the northeast sector of the U.S. we live a life of safety, affluence, and relative ease, especially on the world scene. Of course we all have difficulties, and as a friend of mine says, "First world problems are still problems". However, it behooves us all to take a step back and consider our position in the world in light of the atrocities that have been perpetrated in Israel over the last couple weeks. I am not going to take time here to opine on the particulars here, but what is of foremost concern for me, and I think should be of concern for my fellow industrial real estate professionals is that those who have been blessed have a duty to not shy away from what is right and wrong, true and false.

I encourage everyone reading here to consider the events in the news, and to not shy away from calling evil "evil" and calling good "good." When those who have a voice and an opportunity to speak true words forfeit their opportunity, someone will fill the void. Now who will it be?

You may be asking yourself, "I don't want a lecture on morality and current geo-political matters, when are you going to get to how this relates to real estate?" If that is in fact you, I thought you would never ask.

The last couple years of current world events have given us plenty to worry about, such as Afghanistan, Ukraine, and now the violence against Israel. So the million dollar question is, how does this impact us in the real world today? This is the question every investor asks, whether investing in a business or in real estate. How should the events happening in the world change my decisions? How will wars or rumors of wars change cap rates, rental rates, or vacancy?

The answer for these questions is much more future-oriented. Investors of all asset classes need to jump over the mental hurdle of being fixated on the imminent, and stretch to imagine the years in the future, because global economic trends rarely change metrics like cap rates immediately. It takes months, even years for all these factors to come to full effect. One example of this is that many housing fixtures have historically been exported by Ukraine and Eastern Europe, and it took a little while for the constraints due to the volatility in that area to be felt by American developers. Another news item impacting real estate and construction in America is the wildfires in Canada. They are not getting much news coverage in New England anymore, but any developer building with Canadian wood products is feeling a real squeeze in supply and also in pricing.

It is difficult for industrial real estate companies to run a pro forma, because nobody knows when interest rates aren't simply going to pause, but when they will actually come down. This is the challenge of development or construction in the industrial world, and I would assume in the broader investment world as well.

So what is the moral of the story? It is two-fold:

1) Be courageous to speak up about what is right and wrong in the world. We need more men and women who are not afraid to make a distinction between good and evil; and

2) Don't be a headline real estate investor, because there are more things going on than what shows up on the news, and we don't know if or how what is happening today will be meaningful in the future.

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