



CELEBRATING  
55 YEARS

# nerej

## **Boston industrial in 2024 - by Bill Pastuszek**

May 24, 2024 - Spotlights



Bill Pastuszek

Commercial real estate (CRE) continues to evolve and change, adjusting to a longer, higher interest rate climate, a looming national election, and widespread global uncertainty. National and local market conditions are not terrible, yet there is a good deal of consumer discomfort as inflation and expectations are still widely present.

While stock and bond markets attract investor interest, commercial real estate continues to interest investment capital. Lenders, investors, and appraisers have adjusted to lower demand, less rent growth, higher cap rates, and fewer transactions. Some buyers that came into the market during its COVID highs are understanding with some reluctance, but with growing acceptance, that real estate requires management and in a lower-demand market, caring for existing tenants and providing attractive spaces and terms for potential tenants, are key concepts not to be overlooked.

Data integrity is always important, but particularly so when markets are in flux. Thus, several different market surveys (five, to be exact) of Boston's industrial market were examined to see their variations and commonalities with respect to the criteria considered below.

In analyzing the surveys, it was noted vacancy and availability were sometimes blended together. Market size measurements showed some variation. These factors could impact results.

Nationally, industrial vacancy is reported at 6.5%. The surveys consulted showed a range of 5.8%–9.33% with 6.5% being a central tendency. Availability tended to be higher with a range of +/-8%–9%. Locally, vacancy is higher but still well below pre-COVID levels.

Absorption was reported as being generally positive. One survey reported negative absorption. Absorption rates have slowed. Construction has also slowed due to lower demand (some big players have pulled back) and higher interest rates.

Average asking NNN rents range from \$11.41 – \$15.96 per s/f. Nationally, industrial rents are +/- \$12 per s/f. Some, not all, surveys split out vacancy among classes within the industrial sectors. Rent growth has slowed. Sales indicate flattening of price growth, with some observers noting a negative trend in some sectors.

Cap rates have been affected by higher interest rates and slowing demand. Surveys that reported cap rates showed a range of 6.5%–7+%. One survey noted that while cap rates are linked to the cost of money, some investors see the longer-term prospects for Boston to remain positive, which would have a tempering effect on cap rates.

Market Perspectives. One survey noted that the U.S. industrial market will “recalibrate” and “expand” in 2024. After two years of “white-hot demand” for industrial space, supply and demand fell out of balance during 2023. Absorption was significantly lower than in 2022, but “in line” with pre-pandemic levels of demand.

Another notes, “Boston’s industrial market continues to soften near the mid-point of 2024 amidst the tail end of a wave of new supply. The vacancy rate, now at 6.3%, has climbed more than 200 basis points since its most recent trough in early 2022. Net absorption has trended in negative territory for the past few quarters, as the market witnesses its heaviest delivery schedule in 25 years.” The survey further notes that rising vacancy has compressed rent growth, which is a trend likely to persist in 2024. Rent growth is forecasted to decrease to +/-6.5%, reflecting national trends.

A couple further observations. Institutional assets operate in a different sphere and that data should be used with care when dealing with non-institutional assets.

Conclusions. It’s easy to put industrial markets into one asset and then generalize. The industrial sector is highly diversified, ranging from the “Amazons” to “Main Street” industrial. The Boston market has experienced growth and very dramatic price and rent increases. Logistics seems to be a dominant property type.

One would not expect the surveys to produce identical results. Variations would be expected due to data collection procedures and how data is defined and interpreted. No dramatic, unexplainable differences were noted. Historical change rates within the surveys is another useful way to use survey results. Different analysts and practitioners tend to rely more on one survey than another due to experience and preference. Looking at numerous surveys avoids the appearance of relying too heavily on single data points, rather than a range.

While these surveys are useful for context or to establish benchmarks, surveys can’t be a replacement for understanding and analyzing specific asset sectors and submarkets. It seems important to look at specific market sectors when looking at metrics.

Bill Pastuszek, MAI, ASA, MRA heads Shepherd Associates LLC, Needham Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540