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Industrial Outdoor Storage: The saga begins - by David Skinner

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Over the last 10 years, the industrial sector of real estate has undergone growing pains that have elevated its status to that of the other investment classes of real estate such as multifamily and CBD office. I have written nauseatingly often about the particular drivers here at the New England Real Estate Journal since 2018, an writing opportunity for which I am very grateful.

The drivers have been things like the explosion of Amazon and online businesses that need to deliver their products; the marijuana “revolution” that removed approximately 1% of all industrial product from regional inventory, particularly Massachusetts; and the constant expansion of startup companies in Boston, Somerville, and Cambridge that then spin out into the suburbs. These drivers, particularly the ecommerce explosion of the 2010s, have created related industries, and even various submarkets of properties. The focus of today’s discussion: Industrial Outdoor Storage (hereinafter referred to as, “IOS”).

I first heard the term “IOS” in 2021 when a few developers had begun accumulating small portfolios of property known as being “low coverage industrial.” In the world of IOS owners and users, property that would be considered “low coverage” is any industrial land with a building that occupies around 25% or less of the usable industrial land. These kinds of properties have become exponentially more valuable, especially since the whole COVID experience back in the days of 2020. This happened because transportation companies and 3PL companies went ballistic and needed more place to put their vehicles and equipment. Another unintended consequence of the dirt-low interest rates was the ease with which forms of leveraged buyouts of smaller “mom and pop” equipment companies, supply houses, and auto dealerships. This fueled the likes of United Rentals, Sunbelt Rentals, and even smaller concerns who had a growing need for newer, institutional real estate. The kicker: they all need IOS.

In the last few years of my brokerage career, I have seen this development from its inception to what it is today. Having transacted with companies like United Rentals, Turner Construction, Suffolk Construction, Amazon Logistics, FW Webb Company, Granite City Electric, local crane dealers, local scaffolding contractors, and the like, I have seen both the sale and lease rates move exponentially up, up, and up, particularly for the property with the usable industrial land. As we say in IOS: “It’s all about the land.”

One topic about which my prognosticating friends and I are known to regularly prognosticate is the future of the IOS market in Greater Boston. Is it coming? Is it here? Will it stay? Some of the unique drivers of Greater Boston and even New England keep the general market from being a hotspot for IOS development. Those drivers would be some of the following:

- 1) New England is not a distribution center. Trucks and trailers do not keep moving on once they hit Boston. Occasionally they will move on to Southern New Hampshire or Portland, Maine, but the drop lots and trailer yards do not have the same utility that they do in major port cities, or logistics centers like Atlanta, Lehigh Valley, or other parts of the Midwest.

2) Land designated as some form of heavy industrial is competing with uses like large-scale multifamily development, due to the dearth of housing in New England; and biotech, while dormant for the last couple years, still maintains its place as a key driver in Greater Boston and New England real estate into which industrial-zoned land often turns.

3) The land is limited, someone stopped making it years ago, especially around here. If you are in some other areas in the country with much less population density, it is easier to expand any given Metropolitan Statistical Area to 1-2 hours from its own downtown. Not so in Boston, or much of New England for that matter.

These are a small sampling of some of the challenges faced with developing IOS or purchasing IOS in the Greater Boston market. However, for developers who can break in, there are very real benefits and solid upside. Tune in next time to hear about those who benefit from IOS and a few ways to get a foothold in the space, if you can manage to do it!

In the mean time, our firm, Prescott, focuses on serving tenants, buyers, and owners of Industrial Outdoor Storage-zoned land. We have collectively executed over 40 of these transactions in 5 of the 6 New England states and New York - and we here to resource you if you have any IOS questions at all!

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