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The Greater Boston industrial marketplace is geared towards smaller, local businesses - by David Skinner

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David Skinner

Once upon a time, industrial tenants were pariahs. They were outcasts. They were the bane of every industrial broker's existence. LoopNet calls were never-ending, and bidding wars on class C space were a weekly occurrence. In that day, Amazon, marijuana, and self-storage conversions were dominating the press releases. Companies with 50+ years of profitable history and strong balance sheets were unable to find any industrial space for lease or for sale.

But the times, they have a-changed. Transaction velocity has slowed, vacancy has risen, and deals are harder to put together. Why is this, you may ask? Some tenants cite the economy; other tenants cite the election; and other tenants still, though they may state their general comfort with the performance of their company, find small reasons to drop transactions and kick the proverbial can down the road. Part of the reason this happens is the perception that there will be better deals down the road, and nobody wants to be perceived as the idiot who signed a lease or purchased a building when there was more ground to gain by waiting.

Here is some industrial data to help you as you consider the state of the 128/495 marketplace. As of mid-September 2024 and according to CoStar, approximately 300 industrial properties are being advertised for lease between 128 and 495. Here is the breakdown of the relative vacancy: 40% of vacancy is between 1 and 20,000 s/f; 24% is between 20,000 and 50,000 s/f; 15% is between 50,000 and 100,000 s/f; 15% is between 100,000 and 250,000 s/f; and 6% of the vacant properties are over 250,000 s/f.

This tells me a few things: first, the majority of properties on the market are geared toward smaller, local businesses. The Greater Boston market is geared towards these tenants – not as much toward major distribution groups as may be true for other parts of the country. Secondly, pricing power may be slipping for landlords of smaller properties. Tenants looking for space below 20,000 s/f in the 128/495 marketplace are likely to have more choices than the last time they looked for space in the previous 2-5 years. This should serve as a portent for landlords in this size range to be careful not to believe they have leverage they may not have. When push comes to shove, there are more landlords who may be willing to grant larger incentives to get a lease signed with a tenant. Lastly, property owners in the 20,000 – 100,000 s/f vacancy size range may have the most pricing power relative to the size of other asset vacancies. There are fewest vacancies in this size range, which means that landlords may be able to hold firm to their pricing due to lack of competition. On the other hand, believing too strongly in one's own leverage can lead to poor decision making and a loss of deals. As my grandmother would say: "Pigs get fat, hogs get slaughtered." It is crucial as a landlord to understand the competitive landscape for property, even when the competition is more scarce.

In general, when Prescott has acted as a tenant representative in the marketplace, we see a number of properties being advertised for historically high lease rates, which seems initially disconcerting. However, after going on a tour with a qualified tenant, brokers and owners will often call us and quietly mention that there is "room" or that the landlord is "motivated to make a deal." This tells me that while pricing has not publicly come down in the leasing market, the rules of supply

and demand rule the day. Landlords need to be aware of what true leverage they have, and tenants should be diligent and methodical in knowing the market and analyzing every possible option before making a final leasing decision.

In the meantime, 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 five of the New England states – and we are here to resource you if you have any IOS questions at all!

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