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The challenges and secrets to purchasing industrial outdoor storage (IOS) property - by David Skinner

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In these industrial market update columns, I have been opining of the merits and challenges of the recently formed product type of real estate that has been labeled, "IOS" – or for those of us who are not interested in learning more about our cell phones, "Industrial Outdoor Storage." As of late, institutions such as commercial banks, pension funds, and large family offices have taken a fond liking to the IOS sector of real estate for a few reasons: 1) the rarity in zoning will increase lease rates over time, 2) national tenants with strong credit are actively purchasing smaller competitors and signing significant leases, and 3) there are more opportunities for yield compared to traditional industrial product. These are good reasons to invest in this new IOS asset class.

Notwithstanding the foregoing, we at Prescott receive calls regularly from industrial developers and institutional investors regularly looking for deals like this, who seem to be having the hardest time finding property that fits the bill to actually get out and purchase. There are four main reasons for these difficulties that I will outline and share a few ways to consider overcoming those challenges, two of which I will discuss in this article and two others I will discuss next month.

The first point of agita (as my colleague Vin would say) in the IOS buying process is that institutional investors are interested in the lowest risk areas to purchase – namely, as close to Boston as possible, or what we now call "infill" locations. The trouble is, there are very few infill IOS sites in Boston at all that have not been purchased by an owner operator, permitted for multifamily, or are a part of a larger master plan that includes traditional industrial distribution, high tech manufacturing, or a future biotech application. This means that the companies who need access to the inner parts of Boston are forced to operate their companies outside what might be considered a traditional "infill" location. Corridors like I-95/Rte. 128 and even I-495 have become the areas from which larger IOS tenants have happily resorted to operate because of the availability. The solution: if you are looking to break into the IOS market, you will need to grow more comfortable with areas that are not in Boston proper or even adjacent because there is still great value to be had.

The second point of agita that makes Boston an atypical IOS market is that typical IOS product does not work as well in this market: there are fewer truck terminals that work, and trailer parking is not a regular use in Boston, much less greater New England because it is a destination. Many trucking and distribution-adjacent companies that may rent this kind of space in other markets like New York, New Jersey, Maryland, Texas, Georgia, to name a few, do not have the same business drivers in Boston because Boston is typically the last stop in the supply chain. This means that trucking companies are accomplishing their New England purposes with fewer terminals and virtually no parking lots. This means that buyers of these assets in the Boston market may have a harder time monetizing here than in another part of the country.

One idea for those who want to purchase IOS assets in Boston is to get to know the local leasing agents in the area who are executing the leases. These leasing agents will have the likely best path into willing sellers who just created value for their property with a good tenant and may have a greater willingness to sell.

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

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