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New England industrial outdoor storage user demand is poised to increase and vacancy to decrease in 2025 - by Devon Wagner

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Since the end of 2022 industrial vacancy rates have been increasing. However, a segment of the industrial real estate market that has fared well and even gained traction is the subsection of industrial asset class called industrial outdoor storage (IOS). In 2024 a few notable things happened in the world of IOS. New England IOS user demand is poised to increase and vacancy to decrease in 2025.

In 2024 the real estate community's attention toward IOS grew. There are examples of this nationally a few of which are as follows: 1) The National Association of Industrial Outdoor Storage (NAIOS) held their first IOS summit, 2) Zenith formed another \$700 million joint venture with JP Morgan, and 3) Peakstone Realty Trust acquired an IOS portfolio for nearly \$420 million. In Greater Boston, investors like Realterm, Alterra, and Oliver Street Capital all acquired off market IOS sites and other investors are close behind. Not only was there high demand from investors in 2024 but quite a few users were in the market in 2024.

User demand in New England for IOS in 2024 included a wide array of companies. Of these companies, some are national, others are regional. According to NAIOS, IOS sites are used "to store equipment, vehicles, bulk materials, or finished goods and is usually secured with fencing and site lighting." We have spoken with operators in every New England state, and all are expressing difficulty in finding a location.

Supply in Greater Boston is particularly limited. Multifamily developments are displacing local IOS tenants from their sites around Boston and even out to I-495. Attempting to buy or lease IOS within 30 minutes of Boston is like looking for a needle in a haystack – any tenant looking for this kind of property will need a metal detector! This will remain the trend as towns resist IOS users who require special permits or rezoning, and redevelopment diminishes supply. Economic shifts will also influence market dynamics.

As the Federal Reserve had some success limiting inflation and approach their 2% goal, interest rate cuts are expected. According to Forbes senior contributor, Simon Moore, interest rates likely will not be cut from where they sit at 4.25%-\$4.5% until March at the earliest. Lower borrowing costs will contribute to job growth and consumer spending. These changes will not likely happen overnight but they will trickle down to IOS users and create greater demand than already exists. Furthermore, President Trump has made promises that, if kept, will greatly benefit IOS users.

In his inauguration speech, President Trump repeated what we have heard him say before, "Drill baby drill." He expressed a goal to lower fuel costs and to do so quickly. As this takes effect in conjunction with lower borrowing costs, construction companies will feel greater relief and developers will have increased incentive to build. In 2023, John Fish, president and CEO of Suffolk Construction told the Boston Globe that commercial and residential construction economics would be difficult to make work over the coming year-and-a half to two years. We are reaching that 18–24-month mark in 2025. By the end of 2025 the construction industry in New England is poised to recover, we also expect freight and transportation to similarly benefit.

It is evident that high fuel costs can create challenges for companies dealing in freight and transportation. According to ASM Group: “Under the impact of rising fuel costs, trucking companies try to save their capital by closing their services in areas where their profit margin is less.” And where their services remain in operation, they become more expensive. Lowering fuel costs will create healthier trucking companies across New England. So, what will the effect be on the IOS market if inflation reaches the Federal Reserve’s goal, interest rates go down, and Trump keeps his promises?

In short, everyone wins. Tenant and buyer demand will increase for industrial outdoor storage real estate. Many transactions are likely to happen off market and more sites will be brought to market than in 2024. Low available supply, relative to demand in New England, may prompt users who would like to buy IOS to lease instead. These buyers may also consider buying further from their ideal geography. Vacancy rates will stay low, rents and sale prices will likely climb as '25 progresses.

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