



CELEBRATING  
55 YEARS

# nerej

## **March 2025: What's in a fund? - by David Skinner**

March 28, 2025 - Spotlights



David Skinner

One of the best ways to gauge what is happening in the real estate market is to listen to the people reaching out to you with their ideas and challenges. Because of Prescott's focus on Industrial Outdoor Storage (IOS), we often receive calls from investors both domestic and foreign looking to buy IOS properties in New England. These conversations provide valuable insights into how deals are getting put together in a generally stagnant environment. Today, I want to share some of those insights, specifically around how investment funds operate in IOS, which ones are easiest to raise, and where the best opportunities lie in New England.

To understand how IOS deals come together, it is important to first understand the three primary types of real estate investment funds: value-add, core-plus, and core. Each type represents a different level of risk and return and appeals to different kinds of investors.

Core funds are the most conservative. These funds focus on stabilized properties in prime locations, leased to strong-credit tenants on long-term agreements. Core assets require little to no improvement and because they are low-risk, they generate lower returns. A brand-new industrial warehouse fully leased to a Fortune 500 logistics company for 20 years is a core fund deal. It is safe, stable, and low-yield.

Core-plus funds offer a balance between risk and reward. These properties have strong fundamentals but might require light improvements or better management to maximize returns. Maybe the lease term is shorter, or the tenant has solid but not perfect credit. An IOS yard leased to a regional construction materials supplier on a seven-year lease is a core-plus deal. It is stable but with some upside potential.

Value-add funds are the high-risk, high-reward segment of real estate investing. These funds target properties that require repositioning, whether it is a lease expiring soon, a site that needs infrastructure upgrades, or an opportunity to rezone for a higher-value use. The potential for returns is much higher, but so is the uncertainty.

When it comes to raising capital, core funds are the hardest to raise. Returns on these investments are low, and the only buyers are large institutions such as pension funds, insurance companies, and ultra-conservative family offices. These funds are heavily regulated, and investor demand is often limited because there is not much upside beyond long-term stability.

Core-plus funds are easier to raise. Investors like the mix of stability and growth potential. A well-located IOS property with a short-term lease that can be extended or a slight repositioning opportunity is attractive to investors looking for solid but not sky-high returns.

Value-add funds are by far the easiest to raise. Every investor wants outsized returns. A 5% annual cash flow from a core fund is not nearly as exciting as the idea of buying a property at a discount, increasing rents by 40%, and flipping it in three years. This is why there is always money waiting to be deployed in value-add investments.

If value-add funds are the easiest to raise, why don't they dominate the New England market? The answer lies in land pricing and competition.

Value-add investors want to buy properties at a low basis. They need to acquire assets below market value so they can make improvements, increase rents, and exit with a large profit. In New England, and particularly in Boston, that rarely happens. The biggest reason is competition from multifamily and residential developers who see a higher and better use for industrial-zoned land.

IOS land in Boston is scarce. Unlike in the South or Midwest where industrial land is abundant, New England is densely built out. If a piece of industrial-zoned land becomes available, a multifamily developer will likely outbid an IOS investor, driving up the price.

Higher and better uses win out. If you are a developer and you can build an apartment building instead of an industrial yard, you go where the highest return is. That means value-add IOS deals are few and far between in New England.

Pricing compression makes it tough. Value-add deals require buying low, but IOS land in New England does not trade at a discount. Between competition from multifamily, biotech, and traditional industrial users, the odds of finding an undervalued site are slim.

So what does this mean for investors looking to break into the New England IOS market? If you are searching for a value-add play, you might struggle to find the right opportunity. Core-plus deals are more feasible, but ultimately, New England's industrial land market is defined by scarcity, competition, and the reality that higher and better uses will often win out.

Our firm, Prescott, focuses on serving tenants, buyers, and property owners of Industrial Outdoor Storage-zoned land. We have collectively executed over 40 of these transactions in five of the six New England states and New York. We exist to resource you for answers to your IOS questions, IOS property searches, or any real estate leasing or sales data you may need.

David Skinner is an advisor and founding partner of Prescott, Lincoln, Mass.

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