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Finding opportunity - by David Skinner

July 25, 2025 - Spotlights



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How do you make industrial real estate decisions when everything seems to change whenever you turn on the radio? In 2022, interest rates began going up, and up, and up, with no end in sight, and we first heard that buyers were “pencils down” on underwriting their deals because of the uncertainty all around. Add in a few scoops of regional wars, a dash of domestic unrest, and two tablespoons of tariffs, and voila, you have a pensive, stagnant commercial real estate market. I intend to address the question, “How do I find the opportunity?” for 1) investors, 2) tenants, and 3) owner-operator buyers of industrial real estate.

1. For Investors: Bet on the Ugly Ducklings

The cash-flowing, low-risk properties of yesterday have lost their sparkle. Why? Because the cost of capital isn't what it used to be. When interest rates were low, stabilized industrial properties with 4-5% cap rates made sense. However, those same cap rates don't pencil when your cost of debt is 6.5% or more.

But for the creative real estate investor, there are always silver linings in these cases. While vacant properties may have been the unpopular nerds at your junior high dance, they may be your best friends today. These are the sites where tired owners, spooked by the prospect of a long lease-up or cost to stabilize, are increasingly open to creative solutions. A couple we have seen recently that would have been unheard-of during the COVID explosion would be seller financing at a slight discount from a bank's interest rate to take the sting off, or a price break for an all-cash deal. If you're an investor in this climate, your best shot is to target vacancy, not stability. Stability isn't worth what it was, but upside is. And in a market where pencils are down, anyone still actively looking is already ahead of the pack.

2. For Tenants: Now's the Time to Play the Long Game

If you're a tenant — especially one with a solid balance sheet and a long-term vision — this is your moment. The market has shifted. Vacancy has crept up across Greater Boston and the 128/495 corridors, and that means leverage has started to shift from landlords to tenants. The headlines may still reflect sky-high asking rents, but we're seeing behind-the-scenes incentives popping up like mushrooms after a rainstorm.

Tenants willing to sign longer terms or put real skin in the game with improvements are getting significant lease rate reductions. Brokers are whispering “there's room” in asking rents. General contractors are softening their margins just to keep crews working. Even landlords who held firm during the frothy days are finally blinking.

The opportunity here is twofold:

Negotiate hard. Don't let big asking rents fool you.

Plan bigger. Because if you need to make a significant move, there's room to be aggressive.

In fact, if you're a multi-location operator looking to expand or consolidate, now is a particularly opportune moment to structure something creative. Many landlords are more interested in occupancy than squeezing out top dollar — especially in smaller or oddly-sized properties that have sat vacant longer than expected.

3. For Owner-Operators: The Crown Jewel of Opportunity

Let's not bury the lede: of the three categories, owner-operators have the most compelling path forward right now — especially those who are open to ground-up development. Remember that glut of industrial-zoned land that was priced at nosebleed levels in 2019-2021? Much of that has been sitting quietly ever since, collecting dust and disappointing brokers. Interest rates killed the froth. But now, those same parcels — many of them in core or near-core locations — are ripe for the picking at significantly more reasonable price-per-buildable-foot metrics.

If you're an owner-operator considering a relocation or expansion, now is your moment, and unlike the traditional investor, you're not constrained by cap rate math, you're focused on usability, cost control, and long-term operational value. And for those with the resources to build? Labor and materials pricing are still high but negotiable. More importantly, municipalities are a bit more desperate for economic development wins and often more receptive to shovel-ready projects than they've been in years.

Our firm, Prescott IOS, focuses on serving tenants, buyers, and property owners of Industrial Outdoor Storage-zoned land. We have collectively executed over 50 of these transactions throughout the Northeast. If you have an Industrial Outdoor Storage-zoned property and you need to find out what it is worth, we can help! Send me an email at david@prescottios.com.

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