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Low supply and high demand will continue as the trend - by Julie Freshman and George Paskalis

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Vacancy rates in R.I.'s industrial market remain at historic lows (1-2% range), which we expect to continue through 2022.

Similar to other markets throughout the country, tenants in the market seeking industrial space in Rhode Island are hindered by a lack of options due to the overwhelming demand over the last two years. Similarly, there is an even greater shortage of industrial buildings available for sale due to continued historically low interest rates, a desire from end users preferring to own, and a growing demand from investors seeking industrial real estate assets.

As was the case in 2020 and 2021, demand for industrial space in Rhode Island continues to come from the logistics, medical supply, public storage and direct to consumer sectors, as well as continued supply chain challenges. The lack of supply has pushed both lease rates and sale prices upward. Lease rates have increased to the \$5-\$6 per s/f range, NNN for bulk warehouse space, to the \$6.50-\$7.50 per s/f range for general purpose industrial space, and to \$10 per s/f for flex space. Sale prices have increased from the \$35-\$45 per s/f range to as high as \$75-\$85 per s/f.

Due to the supply issues with industrial real estate in Rhode Island, there has been an unprecedented increase in proposed speculative warehouse development projects. This is occurring despite the increase in construction costs since 2020 and the effect of supply chain issues on construction timelines. The demand from developers has created a surge in industrial land sales, thereby continuing to drive land values upward. The build-to-suit leasing market is also experiencing increased activity due to the lack of available space for lease. However, due to the cost of construction, lease rates are typically in the teens per square foot, NNN in the build-to-suit leasing market.

On the sale side, a fully-leased 51,120 s/f flex building at 1275 Park East Dr. in Woonsocket is currently under contract with an out-of-state investor. A 90-acre parcel in Smithfield is currently under contract with a developer that has plans to construct a one million s/f warehouse facility along with a separate 100,000 s/f warehouse facility. A 283,537 s/f corporate headquarters building containing office, manufacturing and warehouse space in West Kingston is currently under contract. A 4-acre parcel of commercial/industrial zoned land in West Warwick is under contract. Multiple offers were received on this parcel which ultimately went under contract above the asking price. A 270,000 s/f industrial building on 17+ acres in Cranston is under contract and will close this month for future use as a self-storage facility.

On the leasing side, 25,914 s/f of warehouse space, including 3,680 s/f of office space, at 1 Angell Rd. in Cumberland was leased in early March 2022. Also in March, 94,333 s/f of industrial space at 262 Swansea Mall Dr. was leased to UN1F1ED2 Global Packaging Group. Industrial/flex tenants at 40-44 Albion Rd. in Lincoln renewed and/or signed new leases at the end of 2021: ThyssenKrupp Elevator renewed their lease and Hisco, Inc., a distribution, manufacturing, and supply chain solutions company for the manufacturing sector moved into 7,000 s/f of flex space at 40 Albion Rd.

We are seeing a historically high number of speculative warehouse development and/or build-to-suit leasing projects proposed and/or underway throughout the state. Examples include a 165,000 s/f distribution center at 1 Moshassuck St. in Pawtucket, a 490,000 s/f distribution center on Airport Rd. in Warwick, a 250,000 s/f distribution center at 20 Goddard Rd. in Cranston, and the previously noted one million s/f warehouse facility in Smithfield. A 40,000 s/f build-to-suit proposed warehouse/ distribution building on Lacroix Dr. in West Warwick is currently on the market with multiple interested parties. A ground lease or build-to-suit logistics/warehouse opportunity of up to 80,000 s/f is available on nine acres on Houghton St. in Providence.

A new state program called "Rhode Island Ready" was announced in January of this year and aims to create an inventory of pre-permitted properties ready for industrial development throughout the state. This program is a result of an "Improvements to Industrial Facilities Infrastructure Bond

Measure” that was approved by RI voters in a special election in March 2021 and is based on Quonset Business Park’s successful “Site Readiness” program. Managed by the Quonset Development Corp. (QDC), under the RI Ready program, owners of eligible properties with support from their host city or town will work with state agencies and regulators to become ready for development (pad-ready). Eligible sites must be zoned for industrial or off-shore wind support uses. Sites must allow for upgraded or improved infrastructure in support of an industrial use, allow an existing industrial use or facility to expand significantly, or be 10 acres in size or be capable of supporting an approximately 100,000 s/f building and be located within one mile of a designated state highway. Applications have been submitted so far for seven properties located in Pawtucket, Johnston, Providence, Cranston, Warwick, West Warwick and North Kingstown.

The speculative warehouse development and build-to-suit projects, coupled with the RI Ready Program creating additional pad-ready industrial development sites, are expected to eventually generate more supply in the R.I. industrial market. However, for the short-term and the foreseeable future, historically low supply and high demand will continue as the trend.

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