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Demand continues from tenants and investors - by Julie Freshman, George Paskalis and Mike Giuttari

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Julie Freshman



George Paskalis



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The Rhode Island industrial market has been challenged by a lack of supply with vacancy rates in the 1% to 2% range for “modern” single-story industrial buildings, with little new construction of industrial buildings due to lease rates that have not increased to or above the rates necessary to justify the high cost associated with new construction. Industrial lease rates in Rhode Island have increased over the past couple of years and are now in the \$5-\$6 per s/f range, NNN for bulk warehouse space, in the \$6.50-\$7.50 per s/f range for general purpose industrial space, and around \$10 per s/f for flex space; however, lease rates needed to justify new construction generally range from over \$10 per s/f to the teens per s/f, NNN. The low supply, high demand and limited new construction will continue to create a conundrum for tenants and buyers looking for industrial space and buildings. Whether a tenant or buyer is looking for 10,000 s/f or 100,000 s/f in Rhode Island, they are faced with very few options.

We continue to see demand for manufacturing and warehouse space, as well as demand from self-storage companies. Demand also remains steady from investors looking for fully-leased industrial buildings. However, the high interest rates are causing investors to reassess their underwriting and are also reducing buyer's purchasing power and forcing some potential end users to lease rather than purchase.

Despite the increased construction costs and interest rates, there are some speculative warehouse developments and/or build-to-suit leasing projects proposed or underway throughout the state. Smithfield, Pawtucket, Warwick and Cranston all have developments ranging in size from 165,000 s/f to one million s/f at various states of completion. It is still not clear if these spaces will lease up to tenants with larger footprints (+100,000 s/f) or if owners will need to consider subdividing them into smaller spaces. The asking lease rates for these speculative development and build-to-suit leasing opportunities are typically in the low teens per s/f, triple net (NNN) which ends up pricing the local companies out that need space for growth. Owners/developers will be forced to wait for national tenants capable of paying these rates.

Recent lease transactions include a lease renewal for 16,400 s/f in the Pettaconsett Industrial Park in Cranston by a construction supply company; and a lease renewal for 80,000 s/f in the Huntington Industrial Park in Providence by a medical device manufacturing company, with an option for future expansion into a proposed addition to the building. We expect demand to remain steady with a number of companies that will be looking to expand this year with a need for additional and overflow manufacturing & warehouse space.

On the sale side, a 32,000 s/f LEED certified industrial facility at 81 Ocean State Dr. in Quonset is under contract for over \$100 per s/f with a closing anticipated for April; a single tenant, net leased a 12,600 s/f building on 7.26 acres, which offers expansion or redevelopment potential, 263 Jenckes Hill Rd. in Lincoln was sold to an out-of-state investor for \$2 million; and a 40,205 s/f building in Pawtucket is under contract and anticipated to close this month. The demand on the sale side remains steady, but higher interest rates are reducing buyer's purchasing power compared with last year.

The "Rhode Island Ready" program which was announced in January of last year and aims to create an inventory of pre-permitted properties ready for industrial development throughout the state, recently approved two new sites for enrollment, bringing the total number to 13. Eligible sites must be zoned for industrial or offshore wind supported uses. Sites must allow for upgraded or improved infrastructure in support of an industrial use. They also must allow an existing industrial use or facility to expand significantly or be 10 acres or more in size or be capable of supporting at least 100,000 s/f of building area and be located within one mile of a designated state highway. The 13 enrolled sites include 649 Waterfront Dr., East Providence; 275 Ferris Ave., East Providence; 20 Goddard Rd., Cranston; 9 Dexter Rd., East Providence; 195 Francis Ave., Cranston; 1347 Roger Williams Way, North Kingstown; 1 Moshassuck St., Pawtucket; 1307 Hartford Ave., Johnston; 0 Comstock Pkwy., Cranston; 40 Keyes Way, West Warwick; 550 Romano Vineyard Way at the Quonset Business Park, North Kingstown; 461 Water St., Warren; and 961 Douglas Pike, Smithfield.

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 Rhode Island industrial market. However, for 2023 and the foreseeable future, historically low supply and steady demand will continue as the trend.

Julie Freshman is a vice president, George Paskalis, SIOR, is an executive vice president and Mike Giuttari, SIOR is president of MG Commercial (<https://nerej.com/directory/mg-commercial>) Real Estate, Providence, R.I.

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