Even with low vacancy and lack of supply we do not anticipate industrial spec building in our market - by George Paskalis

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The Rhode Island industrial market has enjoyed robust activity and demand in 2017. Initially, most of the demand for industrial space came from the marijuana cultivation sector. Activity from this sector of the market has waned. Much of the industrial space between 10,000 s/f and 20,000 s/f was absorbed, thereby diminishing the supply of space available for the traditional industrial sector, i.e. manufacturers, distributors, etc. Demand from this sector has been steady with an uptick this spring and continuing into the fall market. But with a diminishing supply of industrial space, finding a suitable building to buy or lease has become a continual challenge. The remaining inventory poses some functional issues like ceiling heights or column spacing, etc. In a 50 million s/f industrial market with a relatively low vacancy rate to begin with, the surge of activity can has had significant impact on the market. And now, the Rhode Island industrial market is hampered by a lack of supply.

Looking ahead, the fall market will continue to be challenged by a low inventory of industrial product. Prices have risen, but we expect that they have already plateaued since there is some resistance from buyers to further inflating the market. Generally, for buildings 20,000 s/f to 50,000 s/f the price per square foot has ranged from approximately $40 per s/f to $70 per s/f in the last couple of years. Lease rates on the other hand have not drifted far from the normal market range, if at all. Lease rates still range generally between $3 per s/f nnn to $5 per s/f nnn depending on the size and type of space. Tenants remain vigilant in understanding the market lease values to hedge against any inflating lease rates. Since the Rhode Island market does not fluctuate from the highs and lows like larger markets can, any change in lease values upward remain in check.

A lack of supply would also theoretically lead to a surge in new construction. And while industrial zoned land is relatively scarce overall, especially “pad ready” sites with exception to Quonset, but even Quonset is faced with looming scarcity issues. Although the fundamentals demonstrate the need for more available industrial space, we do not anticipate the construction of any spec industrial buildings in our market to change because lease rates are still much lower than the necessary rates for new construction. On the new construction front, we are seeing some activity, including a 500,000 s/f addition to the Ocean State Job Lot warehouse facility located in Quonset Business

Park. Finlay’s, a tea extract producer, is constructing a new facility in Quonset, as well. 6.5 acres were purchased in the West Warwick Business Park and is being prepared for a new facility. Overall, these examples do not demonstrate velocity in the new development arena, but it is par for the course in this market with one to two industrial projects per year.

Some of the recent deals completed worth noting in the third quarter of 2017 include:

On the leasing front, there has been far less excitement and larger transactions worth noting since the first half of the year, but much of the functional space less than 50,000 s/f is getting activity and close to being leased. 34 Avery Rd. in Cranston, which is one of the more functional buildings less than 20,000 s/f on the market has a taker. 195 Dupont Dr., located in Providence has a taker for 35,000 s/f. What is left of the larger blocks of space, including 70,000 s/f in Coventry, 70,000 s/f in Lincoln, and 94,000 s/f in Warwick, all attract more potential buyers than possible tenants.

The buy side has been clearly more attractive to companies in our market. However, transactions are diminishing due to a lack of supply. On the sale side in northern Rhode Island, the former LSI facility in Highland Corporate Park totaling 34,000 s/f sold for $1.7 million and 3 Crownmark Dr. in Lincoln, sold for $1.5 million. All of northern Rhode Island is tight. And Central Rhode, East Bay, and Sothern Rhode Island are equally limited with viable options.

Looking ahead, with exception to certain industries, overall demand should remain steady with the supply of buildings for sale tightening and the supply of space for lease realizing healthy absorption due to the lack of purchase options. In a small market a few new buildings on the market could bring the market back to some equilibrium. But so long as the market continues to track as it has, buyer’s will continue to find it difficult to find buildings for sale, which may ultimately lead them to lease short term and or explore the possibilities of new construction.

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