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Rhode Island industrial market: Those choosing to stay on sidelines may miss good opportunities

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The Rhode Island industrial market is alive and active! Leases are getting signed and buildings are being purchased. However, minutia continues to slow down the deal making process, much to do with indecisiveness and reluctance on the tenant and buyer side. As a result of landlords and sellers adjusting with the market over the course of the last two years and showing as much flexibility as possible within reason, deals continue to get consummated. The demand for industrial space has been driven by low rates and opportunistic sale prices during this down-cycle period, which has kept activity levels steady. However, now we are seeing increasing activity and the industrial sector in Rhode Island seems to continue to lead in what we hope is the beginning of a recovery period as compared to the retail or office sector.

Activity levels are increasing, but tenants and buyers are seizing the opportunity to secure high quality space while the older, functionally obsolete and impaired buildings are of no interest. While in most cases buyers can name their price for these orphans, the cost to make capital improvements, bring up to code, etc. brings the "all in" cost up to levels that no longer make the property a bargain purchase.

Similarly, there continues to be very little to no speculative building because the cost of construction is still too high to keep lease rates competitive. With a sufficient supply of good space available at lower than normal lease rates, tenants seem to be capitalizing. The industrial sector as a whole has spent the last few years streamlining operations, from consolidation of multiple properties, to the thinning out of operations to business acquisition and cannibalization, to expanding as a result of carving out successful niche products or services. With favorable lease rates and sale prices it has been a good time for tenants and buyers to take care of their real estate needs.

Already in 2011 we've completed a number of transactions, including the sale of 1 Campbell St. in Pawtucket, a 46,000 s/f building, which sold for \$950,000 to Imperial Packaging Corp., the sale of 40 Albion Rd. in Lincoln, a 20,000 s/f building which sold for \$905,000 to an investor, the leasing of 23,000 s/f of warehouse space to Blue Cross Blue Shield at 100 Dupont Dr. in Providence, and the leasing of 12,000 s/f of warehouse space to Bio-Detek, Inc. at 515 Narragansett Park Dr. in Pawtucket. 9 Powder Hill, a 50,000 s/f facility located in Lincoln is under agreement. Also under agreement are 23 acres of industrial land at 13 Business Park Dr. in Smithfield, one of the few land sale deals of late.

There are three industrial market segments: industrial users occupying less than 5,000 s/f (industrial condo type users), the 10,000 to 100,000 s/f users (mid-market), and the large user market (those using more than 100,000 s/f). Most of the volume of transactions and most of the demand is in this mid-market range, as evidenced by the list of transactions above. The small user market has been dormant for the last few years and its success is more reliant on the day to day state of the

economy. Some larger blocks of space have also been absorbed, but the transaction rates are as low as landlords can go and under flexible terms that make it a "no brainer" for warehouse operations to take advantage of this phenomenon.

As the first quarter of 2011 comes to an end, we are pleased to have seen steady activity levels despite this winter's wrath. The Rhode Island industrial real estate market right now can best be described as a tempting market for tenants and buyers, but it will not be forever. With lease rates bottomed out and sale prices normalized (and a few deals always to be uncovered) and an industrial sector always looking to reduce costs and become more efficient, highly functional, well maintained, more modern available facilities will continue to be absorbed. Companies choosing to put their real estate needs on the shelf could miss the opportunity to secure nice space at very reasonable lease rates and sales prices for large warehouse space and particularly buildings in the mid market size range, Rhode Island's primary market.

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