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With low interest rates, and stabilized building values demand to purchase industrial space is strong

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The perception of the Rhode Island industrial real estate market is that there is an unlimited supply of buildings available and therefore it should be very easy to find a suitable building. Yet, for most companies the building search process becomes surprisingly frustrating. For example, a typical industrial building requirement is 20,000 s/f with 20' ceilings, 2 loading docks, and 2,000 s/f of office space. The typical price range for this type of building is between $40-$55 per s/f on the sale side and $4.00-$5.50 per s/f NNN on the lease side depending on location, quality, age, etc. Several clients have been looking for this type of building for more than 2 years. While in a recent lease search, the client took 8 months to choose less space than it needed for future growth. Despite the perception let's not forget the fact that the vacancy rate for buildings less than 100,000 s/f is below 7% and if you add in buildings above 100,000 s/f, it is slightly above 8%. The amount of space available is about twice the vacancy rate, which sounds high, but the availability rate does not paint a clear picture. Not all of the available space can be delivered within tenant's or buyer's timeframes. In this case whereby the owners want to contract within their own building, the cost to sub-divide can wind up being too high, leaving owner's demoralized and having to re-think there strategy to offset real estate costs. But landlord's are in fierce competition with the growth in demand on the buy side. With historically low interest rates, the SBA 504 program, and stabilized building values, demand to purchase real estate is decisively stronger than demand to lease space and landlord's must be more aggressive than ever.

A textile manufacturer from Cumberland is vacating its mill space it has been leasing for over 10 years to purchase a 50,000 s/f modern manufacturing facility in the North Central Business Park in Lincoln. In addition to a space upgrade, this manufacturer can now take advantage of ownership due to the reduction in real estate values, low interest rates, and advantageous lending programs, like the SBA 504 program only requiring 10% down. Under the terms of the transaction, the mortgage will equate to less than $2.00 per s/f. The comparable lease rate for this facility is above $3.00 per s/f, triple net (NNN) Another beneficiary of the SBA 504 program was Donnelly's School Uniform, which purchased a 56,500 s/f first class, modern manufacturing facility in the Howard Industrial Park in Cranston at 50 Sharpe Dr. for $2.33 million from John Crane, Inc. in July. The mortgage under a 504 loan equates to less than $3.00 per s/f. The lease market for this same facility is arguably over $4.00 per s/f NNN. A 36,000 square foot manufacturing building is under agreement off Jefferson Blvd. in Warwick. Again a 504 loan is being pursued. The mortgage will calculate out to less than $2.50 per s/f. The market lease rate for this space is arguably $3.50 to $4.00 per s/f NNN. Lastly, a 28,000 s/f modern high quality industrial facility is under agreement where the mortgage computes out to less than $3.70 per s/f. The former tenant was paying above $8.00 per s/f NNN for the same high quality space. In all four examples, the buying companies are leaving behind lower quality and far less functional space, while lowering their monthly real estate expenses. The attractiveness to purchase has never been greater and companies are beginning to compete for the same buildings unlike any time since 2009.

The dwindling supply of modern, high quality buildings typically increases demand to build. In 2012 several projects are worth noting. Dejana Trucking which purchased 54 acres last year recently completed its new 40,000 s/f service/assembly facility. Sims Metal purchased over 10 acres in Johnston and are about to break ground on their new facility. A new indoor sports complex is under construction on approximately 10 acres of industrial land in the Quonset industrial Park. And while these several projects are all positive economic boosters for the local economies, the cost to build still far exceeds the cost to purchase so companies have chosen to hunt for existing buildings. However, with demand to purchase strong and a decreasing supply of well maintained and well located buildings available for purchase, it could lead to more leasing and possibly an increase in new construction. The state of Rhode Island does not have an abundance of industrial land available to accommodate a major increase in demand to build. Northern Rhode Island is positioned for growth with the lowest vacancy rates in the state, but does not have a "Quonset" type park to bolster growth. A new major industrial park in this part of the state would fuel future economic growth and help further modernize the industrial sector.

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