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Need for new space driven by tenants turning towards real estate ownership due to low interest rates

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The Rhode Island industrial market in the first quarter of 2013 has been sluggish at best. The market seems to be showing signs of an up tick in demand in the final month of the first quarter. The number of space requirements has increased noticeably since the first two months in the 10,000 s/f to 50,000 s/f ranges with a greater number of requirements in the lower size range overall. But with a mad dash to close a number of transactions in late 2012, early 2013 seemed like activity went on vacation after a strong late fourth quarter push from sellers and buyers.

Several notable sale transactions we completed in late 2012, including 20 Thurber Blvd. in Smithfield, a 28,000 s/f building, which closed at a sale price of \$1.55 million; 385 John Dietsch Blvd. in North Attleboro, Mass., a 21,000 s/f building, which closed at a sale price of \$1.15 million. Also, 9 Powder Hill Rd. in Lincoln, a 50,000 s/f building, closed in late November at the sale price of \$1.275 million.

The only notable transaction in the first quarter of 2013 is the sale of a 48,000 s/f facility located at 55 Colorado Ave. in Warwick, which was purchased by the State of Rhode Island for \$2.35 million. Coincidentally, this closing carried over from the fourth quarter of 2012. While not much has occurred on the books in this first quarter, the number of offers and lease negotiations seem to be piling up, which we expect to take a fair amount of supply off the market in the 10,000 s/f to 50,000 s/f range.

While requirements are increasing and the supply of smaller buildings are anticipated to come down, the overall supply is trending upward due to some larger blocks of space coming on line. Most notably is 100 Higginson Ave. in Lincoln. This facility is currently occupied by a single tenant with plans to vacate 400,000 s/f by year end. While another single tenant is ideal, it is more likely the building will be sub-divided into units ranging from 50,000 s/f to 150,000 s/f. 275 Ferris Ave., East Providence, is a 303,000 s/f former manufacturing facility, now a multi-tenant industrial property with just over 115,000 s/f of contiguous space available, is for sale with an asking price of \$4.5 million. Adding to the supply of industrial space available or vacant are five steel distribution and fabrication facilities. The former Denman & Davis facility in North Smithfield is vacant. The Samuel building located in Cumberland is vacant. The former Nightingale Metals building in Lincoln is vacant. Several former steel fabrication spaces have been vacated including the 30,000 s/f section at the former Phillipsdale Landing site in East Providence and 150,000 s/f at the CAPCO Steel site in Providence. The steel industry has suffered greatly during the last four to five years with a continual decline in revenues due to the decline in projects and a rise in cost to operate. These buildings, however, were built and geared towards steel fabrication and distribution centers. Many have drive-in/drive out access and overhead rolling cranes are standard. The cost to re-adapt the buildings for alternative, albeit more traditional industrial uses is high. So unless another like-kind

business comes along and needs a building between 30,000 s/f and 150,000 s/f, more traditional users will have to offset the market value with the cost of improvements necessary to re-adapt the building. Otherwise these properties could languish on the market for quite some time.

There is very little speculative building or new construction on the horizon. Branch River Commerce Park in North Smithfield, a new 60 acre industrial/commercial business park, has interest in 5 acres for the construction of a new 40,000 s/f facility, but there is otherwise very little activity on the building side statewide.

Despite uncertainty with economic recovery, we do expect the number of new requirements to increase. The need for new space has been driven by tenants turning towards real estate ownership due to the favorable historic low interest rates, business acquisition and consolidation, and companies re-investing into new equipment causing the need for more modern space. Expansion is also part of the equation whether contract based or as a result of sustained growth. This should result in an increase in recorded second quarter transaction volume.

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