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Rhode Island industrial update - Market showing signs of improvement in the 2nd half of the year

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The Rhode Island industrial market in 2013 has been sluggish at best. The market seems to be showing signs of slight improvement in the 2nd half of the year, but there is nothing dramatic forcing this. The number of space requirements has increased since the first half in the 10,000 s/f to 50,000 s/f range with a greater number of requirements in the lower size range overall. But with a mad dash to close transactions in late 2012, early 2013 seemed like activity went on vacation after a strong 2012 fourth quarter push from sellers and buyers. A result of the late 2012 surge (based on the pending tax changes), was a real depletion of the available inventory of modern buildings.

The only notable transactions in the first half of 2013 were the sales 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 in January, and coincidentally, one of the other sales occurred across the street from 55 Colorado Ave., at 50 Colorado Ave., a 35,000 s/f building that sold for \$850,000 in June. While not much has occurred in the first half of 2013, the number of offers and lease negotiations seem to be building up, which we expect will take a fair amount of the existing supply off the market in the 10,000 s/f to 50,000 s/f range.

Additionally, there were a few of the larger industrial facilities in Rhode Island that changed hands (or under contract), but won't have any real impact on supply or demand. 140,000 s/f, 158 Graham Dr. in the North Smithfield Industrial Park sold for approximately \$4.8 million in January as a sale lease back. Leviton Manufacturing on Jefferson Boulevard in Warwick is under contract to be sold to a group that will split the site up into approximately 650,000 s/f of warehousing space and spin off 60-70 acres for office development. Much of the better space in this complex is already occupied. 275 West Natick, a 107,000 s/f industrial facility with a high percentage of office space was sold in July for \$2.6 million to a user for the office space, still leaving the industrial portion in the same state it has been in.

Some of the older industrial facilities continue to be absorbed and converted to alternate uses. 2 Fox Place in Providence, an 80,000 s/f, multi-story manufacturing building at Exit 23 on Rte. 95 was sold in February and is going through a conversion to office space. 32 Mechanic St. (under contract) in Woonsocket, a 185,000 s/f multi-story building will be converted to a self-storage facility.

While requirements are increasing and the supply of smaller buildings is 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 / fabrication facilities. The 71,000 s/f former Denman & Davis facility in North Smithfield is vacant. The 50,000 s/f Samuel Co. building located in Cumberland is vacant. The 32,000 s/f 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.

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 interest rates, business acquisition and consolidation, and companies re-investing in 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.

Mike Giuttari, SIOR, is president of MG Commercial Real Estate, Providence, RI.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540