



nerej

R.I. industrial mid-year review: Looking ahead, we anticipate demand to remain steady, supply low

July 24, 2014 - Spotlights

The Rhode Island industrial market in the first half of 2014 was robust compared to the second half of 2013. In December of 2013 we saw a greater number of companies having space requirements. Those requirements compounded throughout the first quarter of 2014 leading to some sizeable deals for the Rhode Island market. Little changed during the second quarter, as a swift absorption of space unfolded and in a 50 million s/f industrial market with a relatively low vacancy rate, a million square feet of absorption can have a significant impact on the market.

Some of the most notable deals completed in the first half of 2014, include:

V.P.I. signing a long term lease for 112,000 s/f at 100 Higginson Ave. in Lincoln, also known as the Collyer Wire facility. With over 400,000 s/f to have been vacated, V.P.I. decided that Collyer Wire offered the most functional space at its price point and committed itself as the first major new tenant in this facility. Since V.P.I. executed their lease, another 120,000 s/f of warehouse space has been leased up to two other tenants.

Another major transaction was completed in northern Rhode Island. Hope Valley Industries, of Exeter, a manufacturer and distributor of all-weather automotive accessories, leased 120,000 s/f at 13 Powder Hill Rd. in Lincoln, as part of their continued growth. This is in addition to the 40,000 s/f they lease in West Davisville and their 40,000 s/f headquarters in Exeter.

Another northern Rhode Island, first half of 2014 transaction took close to a quarter million square feet off the market when Okonite Companies purchased 5 Industrial Rd. in Cumberland, a 248,000 s/f manufacturing facility. They began an extensive search to keep their employees in Rhode Island for the modernization of their operation. They needed approximately 300,000 s/f and considered new construction, but the time to complete a new facility did not meet their deadline.

The northern Rhode Island supply of industrial space has indeed dwindled with only smaller pockets of space (less than 30,000 s/f) available. Many of the options remaining have lower ceilings and not suitable for most of the prospect pool. With approximately 6 acres near "pad ready" at the Branch River Commerce Park in North Smithfield, along with 25 contiguous usable acres, any company seeking 50,000 s/f or more will need to give serious consideration to new construction if they need to be in this region of the state.

In central Rhode Island, within the Howard Industrial Park, two industrial properties were available for sale for over a year. 30 Kenney Dr., a 53,500 s/f multi-tenant facility, recently closed to a user, which will occupy approximately 20,000 s/f of the building. 33 Sharpe Dr., a 38,000 s/f warehouse facility has recently gone under agreement, leaving only small pockets of space available in the Park. The former Leviton property, a 700,000 s/f warehouse facility, located on Jefferson Blvd. and near TF Green Airport has been leased up to near capacity.

With significant absorption of space occurring thus far in 2014, companies looking for vacant

buildings to purchase or lease are finding it more challenging due to a decrease in the supply of modern, well maintained, and well located space. Edesia, a manufacturer of nutritional bars for mal-nutritioned children could not find a suitable building and as the supply of buildings dwindled during their search process, they opted for new construction.

All in all, despite the lack of modern single story industrial buildings above 15,000 s/f, we have not seen a noticeable shift in building values as the prices per square foot remain varied from \$10 per s/f +/- to \$60 per s/f +/- depending on the age and size. Low interest rates have continued to contribute to the buy option for many Rhode Island companies. On the leasing side, larger tenants have been able to take advantage of lower lease rates and with this absorption, favorable space options have dwindled. Smaller modern space options between 10,000 s/f and 40,000 s/f, either for multi-tenant or free standing buildings have also contracted, but Rhode Island has always had a supply shortage of functional, modern space primarily due to the smaller size of our market, the lack of spec construction, and the overall stability of the industrial sector.

Likewise, industrial zoned land is relatively scarce, especially "pad ready" sites with exception of the North Smithfield Industrial Park and 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 spec buildings in our market to change because lease rates are still much lower than the necessary rates for new construction. Looking ahead, we anticipate demand to remain steady and the supply of space to be low creating some frustration in the search process for tenants and buyers. Some of these companies may have no alternative but to look at new construction.

George Paskalis, SIOR is a senior vice president with MG Commercial Real Estate, Providence, R.I.