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Demand continues upward, supply remains low, signs of upward trend in pricing on the horizon

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The Rhode Island industrial market is off to a robust start this first quarter of 2015. While 2014 resulted in strengthening demand and dwindling supply, this trend has continued, except activity levels are steadily elevating pushing supply of modern industrial buildings downward even further. This is causing a problem in our marketplace as it becomes harder and harder for growing companies to find suitable space. And while many companies are entertaining new construction, in most cases, the cost to build new causes them to re-visit the marketplace for existing product as pricing is still significantly lower. Interestingly enough, pricing has not caught up with the marketplace demand yet, but there are signs that an upward trend in pricing may be on the horizon. Below are some of the latest transactions which support this changing market.

The biggest news in 2014 was the sale of 5 Industrial Dr. in Cumberland to The Okonite Company. Their purchase of this 245,000 s/f manufacturing facility was the largest user transaction in the state. This transaction was very important in our market because it established a new benchmark in value (> \$30 per s/f) for buildings in this size range and setting the stage for 2015.

And now in the first quarter of 2015, a 300,000 s/f manufacturing plant, which lingered on the market, will be closing this month, bringing significant employment numbers to the city of East Providence. Similarly, a 175,000 s/f facility in southern Rhode Island has sat vacant for two years and recently went under agreement. A 144,000 s/f facility in Lincoln is under contract and scheduled to close in April. This building on the other hand, remained on the market for less than a month before a deal was consummated. On the leasing side, a 100,000 s/f distribution warehouse facility in East Providence has now been leased after being on the market approximately 5-6 months. These deals are strong signals that the market has changed from steady demand/steady supply to strong demand with diminishing supply.

Smaller modern buildings for sale are virtually non-existent. A 28,000 s/f building in Cumberland was put on the market by the owner and went under agreement before the property could even be marketed. 15,500 s/f of space for lease in Lincoln was leased because the owner forced itself to relocate as a result of selling its own property to another manufacturer. 2 Commerce Dr. in Warwick is a 20,000 s/f modern building, which had multiple offers and eventually leased. All these transactions are indicative of a changing market.

The former Collyer Wire facility, located in Lincoln went from a single tenant, 470,000 s/f warehouse to a thriving multi-tenant scenario with well over half the space leased up and one more 70,000 s/f tenant beginning its improvements for occupancy. Here tenants are inking deals for high quality, fully sub-divided space at exceptional lease rates. The outlook for prospects is good and this spring may result in a quick lease up of the balance of space.

With all this demand, it is odd that there are still very few new buildings being constructed. There is

evidence of larger users building on leased land in Quonset Business Park. Industrial zoned land is relatively scarce overall, especially "pad ready" sites, but the cost of land acquisition and construction makes it virtually impossible to build a spec building because lease rates are still much lower than the necessary rates for new construction.

As mentioned, pricing has not caught up with the demand, but we anticipate it will. The seller market is getting educated and pricing will begin its upward trend. The "cream puff" deals of the past have become very hard to find and real estate acquisition will need to be underwritten differently. So as demand for industrial space continues on its upward path and the supply of space remains low, there will continue to be frustration in the market place. The rise in pricing and the possibility of more new construction projects is inevitable. Unless there is a dramatic increase in interest rates, the forces of supply will remain much stronger and therefore pricing will begin to rise overall.

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