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Rhode Island - 2015 mid-year industrial update: Upward trend in pricing may be on the horizon

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The Rhode Island industrial market, although lacking in new construction, seems to find a way to stay active and make deals. The momentum that picked up in 2014, continues through 2015. 2014 resulted in strengthening demand and dwindling supply (no new construction), and this trend continues, except activity levels are steadily rising, pushing the supply of modern industrial buildings downward even further. This is a continuing problem in our marketplace as it becomes more difficult 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 looking for existing product as existing pricing is still significantly lower than new construction cost. In early 2015, pricing had not caught up with the marketplace demand, 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.

In terms of single story industrial volume, there have been some significant sales and leases during 2015. These include a 303,000 s/f manufacturing plant at 275 Ferris Ave., bringing significant employment numbers to the city of East Providence. This was purchased by a company from East Hartford, Conn. Similarly, a 175,000 s/f facility in Southern Rhode Island that sat vacant for two years has now been leased in total during the first half of the year. Subsequently, this building at 50 Chase Hill Rd. in Hopkinton was sold to investors last month. A 144,000 s/f facility at 15 Wellington Rd. in Lincoln was sold in May to a fast growing food related industry use from Warwick. This building, on the other hand, remained on the market for less than a month before a deal was consummated. In the West Warwick Business Park, there looks to be a deal coming together for the sale of 111 Energy Way, a 65,000 s/f, 24' clear distribution facility. The larger, available properties that are single story facilities, are where the activity lies.

Smaller, modern buildings for sale are virtually non-existent. For this segment of the market, we need to create availabilities. 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. This property at 20 Industrial Rd. in the Cumberland Industrial Park, closed three weeks ago. Even properties that have sat vacant for one reason or another are being absorbed this year. As an example, 101 Cadillac Dr. in Providence, which has been heavily marketed for two years, closed in May. All these transactions are indicative of a changing market. These deals are strong signals that the market has changed from steady demand/steady supply to strong demand with diminishing supply.

On the leasing side, we maintain a slow / steady pace. The overall absorption is minimal. There are a few significant deals in our market, but overall, fairly lackluster. 2 Commerce Dr. in Warwick is a modern, 20,000 s/f building, which had multiple offers and recently leased. Ava Anderson Non Toxic just moved into 121,000 s/f of high-bay distribution space in Warren, which will be the big lease of the year.

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 now only about 115,000 s/f left to lease, and multiple interested parties in that space. Here, tenants are inking deals for high quality, fully sub-divided space at exceptional lease rates. The outlook for these prospects is very good and this 2nd quarter may result in a quick lease up of the balance of space.

With all of this demand, our market remains void of new buildings being constructed. There is evidence of larger users building on leased land in Quonset Business Park. Industrially 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.

Pricing has not caught up with the demand, and it has not for the last 20 - 30 years. The "seller market" is getting educated and pricing will begin a slow upward trend, which we are seeing right now. Some of the current smaller (10,000 s/f - 30,000 s/f) industrial deals are going under contract at per sf numbers ($60 - $90) that haven't been seen in a long time, if ever. Given this market, the rise in pricing and the possibility of new/spec construction projects is inevitable.

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