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The amount of available industrial space for lease has tightened, but there remain viable options - by George Paskalis

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The Rhode Island industrial market in the first half of 2017 was active and demand came from the traditional industrial sector as well as the marijuana cultivation market. At one point there was a healthy amount of space for lease in the 10,000 s/f - 20,000 s/f range. But since the influx of a vast number of cultivators seeking to find a suitable location, much of the space in this size range has now been absorbed, leaving the traditional industrial users without many similar sized space options. A few larger leases were consummated further lowering the amount of available space. The availability of modern, functional buildings for sale has also triggered a steady absorption leaving a limited supply of these types of buildings. In a 50 million s/f industrial market with a relatively low vacancy rate to begin with, a surge of activity can have a significant impact on the market.

Rhode Island's industrial market is generally segmented somewhat into four geographical areas, northern, East Bay, central, and southern. Most of the activity in southern Rhode Island takes place in Quonset Business Park, but the vacancy rate is very low making it difficult to identify suitable choices. Northern Rhode Island has recently experienced a surge in buying activity in this first half of 2017, leaving the number of buildings for sale virtually non-existent. Central Rhode Island continues to lack a healthy supply of functional space and the East Bay has been relatively dormant, with exception to a few deals in Bristol which have tightened that market there.

Some of the most notable deals completed in the first half of 2017, include:

On the leasing front, Pure Haven Essentials signed a long term lease for 65,000 s/f in Johnston as a result of their warehouse being demolished for a major re-development project on the waterfront in Warren. A local Pawtucket packaging company leased 52,000 s/f at 275 Ferris Ave. in East Providence (a 303,000 s/f facility). Up in Highland Corporate Park in Woonsocket, Colonial Hardware signed a lease at the former Autocrat/Finlay's facility, which is 34,875 s/f, modern warehouse facility.

On the sale side, the former GTECH facility in Coventry old. The facility, comprised of 142,000 s/f was purchased for medical and bio inspection and product development in a collaborative environment. Currently there is 70,000 s/f available for lease. Rhode Island Textile purchased a 235,000 s/f facility in Cumberland as a part of their consolidation efforts into one building. This was also an expansion. All of their remaining buildings in Pawtucket, totaling 140,000 s/f were sold for a combined price of over \$2.6 million. A 119,100 s/f facility located at 55 Broadcommon Rd. in Bristol recently traded for \$6 million.

With significant absorption of space occurring thus far in 2017, companies looking for vacant buildings to purchase are finding it more challenging due to a decrease in the supply of modern, well maintained, and well located space. With interest rates still favorable and a low supply, asking prices have risen on average. Some buildings continue to sit on the market, but with few options, these remaining properties will be gone soon. The amount of available space for lease has tightened, but there remain viable options in each local market sector.

Industrial zoned land is relatively scarce overall, especially “pad ready” sites with exception to 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 any spec industrial buildings in our market to change because lease rates are still much lower than the necessary rates for new construction. However, users have found a way to make new construction an option due to a lack of qualified existing space. On the new construction front, we are seeing some activity, including a half million square foot addition to the Ocean State Job Lot warehouse facility located in Quonset Business Park. Finlays, a tea extract producer, is constructing a new facility in Quonset, as well. 6.5 acres were purchased in the West Warwick Business Park and is being prepared for a new facility. Overall, these examples do not demonstrate velocity in the new development arena, but it is par for the course in this market.

Looking ahead, with exception to certain industries, overall demand should remain steady with the supply of buildings for sale tightening and the supply of space for lease realizing healthy absorption due to the lack of purchase options. In a small market a few new buildings on the market could bring the market back to some equilibrium. But so long as the market continues to track as it has, buyer’s will continue to find it difficult to find buildings for sale, which may ultimately lead them to lease short term and or explore the possibilities of new construction.

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