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## **Looking ahead this fall, the industrial market will continue to be challenged by low inventory - by George Paskalis and Julie Freshman**

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During 2019, the Rhode Island industrial market has remained consistent with the last couple of years – high demand, low supply, little to no new construction, and heavily influenced by the growth of the Boston economy. Vacancy rates remain at historic lows, hovering around 3% in Rhode

Island's 50 million s/f industrial market.

High construction costs continue to keep significant spec and user based industrial construction to a minimum. Rhode Island's proximity to the Boston market allows construction companies and subcontractors to migrate between the markets, resulting in Boston costs being used to bid and estimate Rhode Island projects.

The demand for industrial space has been coming from a couple of different sectors including logistics, public storage and general growth of businesses in the industrial sector. The Providence metro area provides an ideal location for logistics companies due to the market's proximity to Boston as well as other New England metro markets such as Worcester and Hartford. Within the logistics sector, there has been an increasing demand for last mile warehouse and logistics facilities due to consumer demands and expectations for one and same-day delivery of products.

The growth of the public storage sector goes hand-in-hand with the growth and development focused on downtown Providence by colleges, hospitals and residential developers. Another 1,000 residential units of new and redeveloped housing are proposed over the next 18 to 24 months in downtown Providence. The footprints of colleges and universities such as Brown, Rhode Island School of Design (RISD), Johnson & Wales (JWU) and the University of Rhode Island (URI) continue to grow and expand. This development along with a growing space demand by consumers has resulted in the growth of the public storage sector. Industrial buildings are ideal for these types of facilities with their large gross square footage, high ceiling heights, good access and proper zoning.

Looking ahead this fall, the industrial market will continue to be challenged by low inventory. Prices which have historically been rising have plateaued with prices per s/f for 20,000 s/f to 50,000 s/f buildings ranging from approximately \$40 to \$70 per s/f. Lease rates remain consistent with the normal market range and generally range from \$3 per s/f, NNN on the low end (bulk warehouse uses) to \$6.50 per s/f, NNN on the high end (general purpose industrial uses).

Some recently completely and noteworthy deals in 2019 include the following:

- On the sale side, in Providence, a 77,000 s/f industrial building at 111 Dupont Dr. sold for \$3.6 million for use as a last mile delivery center.
- Also in Providence, a 55,000 s/f industrial building at 204 Hartford Ave. sold for \$1.05 million for development and use as a public storage facility.
- In northern R.I. a fully leased 30,000 s/f industrial building at 30 Industrial Rd. sold for \$1.2 million to an investor.
- In Lincoln a 41,000 s/f industrial building located at 676 George Washington Hwy. sold for \$1.8 million to a user who has since secured a tenant for a portion of the building.

- On the leasing side, there have been many smaller transactions; however, several larger spaces are available and are getting activity including 25,000 s/f at 100 Dupont Dr. in Providence which has a tenant close to signing, several 100,000 s/f spaces in East Providence, 57,000 s/f in Lincoln, and 32,400 s/f in Providence. These larger spaces generally attract more potential buyers than tenants.
- In northern Rhode Island, a tenant looking for 20,000 s/f with ceiling heights nearing 20 ft. would not find many options, as compared to south and east of Providence where the same tenant would be likely to find several alternatives.

Overall, looking ahead, demand should remain steady and supply is expected to remain tight. The lack of purchase options will continue to fuel the leasing market for the time being. Buyers will likely continue to opt for short term leasing scenarios over building new, and this isn't expected to change until and if construction costs decrease or until lease rates increase to or above the rates necessary for new construction.

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