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Demand for industrial space in Rhode Island should remain steady with continued limited supply - by George Paskalis and Julie Freshman

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George Paskalis
MG Commercial

Julie Freshman
MG Commercial

Prior to the start of the ongoing COVID-19 pandemic, the demand for industrial space in Rhode Island was strong, consistent with the last few years, with historically low vacancy rates - hovering around 3% in Rhode Island's industrial market. On the sale side, in early 2020, a fully leased 30,500 s/f industrial building at 97 Dexter Rd. in East Providence, R.I. sold for \$1.3 million to an out-of-state investor. Also in early 2020, on the leasing side, an international-based developer and manufacturer of high-tech medical sensors leased 10,600 s/f of industrial space at 40 Albion Rd. in Lincoln, RI.

Once COVID-19 hit and the economy shut down in March 2020, Rhode Island's industrial real estate market was a mixed bag of deals that powered through and were completed, deals that slowed down but were eventually resurrected, and those that collapsed and could not be brought back to life. A 116,000 s/f industrial building at 25 Almeida Ave. in East Providence, R.I. was under contract when COVID hit. The buyer, a manufacturer of polyurethane foam products, paused the process, but eventually resurrected the deal and closed over the summer. In April 2020, 30,788 s/f of manufacturing /warehouse space at 1275 Park East Dr. was leased to a local industrial textile engineering/manufacturing company in need of additional space within close proximity to their headquarters. In May of this year, 43,600 s/f of warehouse space at 100 Higginson Ave. in Lincoln, was leased to a local pharmaceutical company, also in need of additional space within the vicinity of their headquarters. The lack of purchase options has continued to fuel the leasing market for the

time being. Buyers are continuing to opt for leasing options over building new due to construction costs which remain high.

Once some of the initial COVID restrictions were lifted and everyone got used to operating under the “new normal,” industrial demand (unlike retail and office) picked back up and remained strong right through the 3rd quarter of 2020, particularly on the buy side due to historically low interest rates and a preference to purchase by industrial prospects. As a result, supply has plummeted even lower with RI industrial vacancy numbers in the 1% - 2% range for “modern” space. Despite low interest rates, obtaining financing has been more challenging – banks are still lending but underwriting has generally been more conservative, requiring more than 25% down and lower loan to value ratios. Some banks have been and are still very consumed by SBA PPP Loan administration, forcing commercial real estate lending to take a back seat.

More recently, in August a 6.6-acre campus with three fully leased flex/industrial and office buildings totaling 54,000 s/f on Albion Rd. in Lincoln, R.I. sold for \$5.39 million to an out-of-state investor. The Albion Rd. property went under contract at the end of May with financing provided by BankRI. Several medium to large-sized industrial buildings with deferred maintenance costs in Warwick, Providence, East Providence and Pawtucket sold to cash buyers between July and October of this year. Various larger spaces ranging from 20,000 s/f to 100,000 s/f, which generally attract more buyers than tenants, are available for lease and seeing activity from Providence to the East Bay to northern R.I.

The current demand for industrial space has been coming from a couple of different sectors including logistics, medical supply and the direct to consumer business. The direct to consumer business is huge and growing during this unprecedented time, pushing the need for modern warehousing.

Prices for 20,000 s/f to 50,000 s/f buildings remain consistent with the past several years and generally range from approximately \$40 to \$70 per s/f. Lease rates also remain consistent with the normal market conditions and generally range from \$3 per s/f, NNN on the low end (bulk warehouse uses) to \$7 per s/f, NNN on the high end (modern, air-conditioned industrial space).

Looking ahead through the 4th quarter of 2020 and the 1st quarter of 2021, demand for industrial space should remain steady with continued limited supply. With fewer borrowing options, deals will be harder to ink, but low interest rates will continue to fuel the demand on the purchase side of the R.I. industrial real estate market.

George Paskalis, SIOR, is an executive vice president and Julie Freshman is a vice president of MG Commercial Real Estate, Providence, R.I.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540