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Recently approved industrial facilities infrastructure bond measure will hopefully lead to increase in construction of new industrial buildings - by Julie Freshman & George Paskalis

March 26, 2021 - Spotlights



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The demand for industrial space seems to have increased, with supply even more limited than at the end of 2020. Vacancy rates in Rhode Island's market are at historic lows in the 1% - 2% range for "modern" industrial space.

Demand for industrial space continues to come from the logistics, medical supply and direct to consumer sectors, and we don't see this changing any time soon. There is also continued demand for industrial space from the public storage sector.

On the sale side, in late 2020, a 34,000 s/f industrial building at 655 Waterman Ave. in East Providence sold for \$915,000 to an in-state investor/developer. In early 2021, a 20,000 s/f modern industrial building in Warwick near the airport went under contract for close to the asking price, with a closing anticipated in the next month.

On the leasing side, in late 2020, 46,400 s/f of warehouse space at 60 Delta Dr. in Pawtucket was leased to the United States Postal Service. In early 2021, 83,500 s/f of warehouse space at 100 Higginson Ave. in Lincoln was leased to the R.I. Department of Administration for the storage of COVID-19 response related supplies and inventory. Also in early 2021, land on Dupont Dr. near a 77,000 s/f last-mile delivery center in Providence was leased for the training of delivery van drivers.

Tenants looking for 20,000+ s/f with ceiling heights nearing 20+ feet are not finding many options right now in the Rhode Island market, and buyers looking for the same are presented with even fewer options. The leasing market continues to be fueled by the lack of purchase options. Construction costs have increased since 2020 as a result of COVID-related factors including increased material costs and increased required health and safety protocols. Therefore, buyers that can't find a building are opting to lease instead of building new, which is consistent with historic trends.

Interest rates remain historically low which continues to fuel the preference to purchase by industrial prospects. Obtaining financing remains more challenging than it was in 2019 - banks are still lending but underwriting has generally been more conservative, requiring more than 25% down and lower loan-to-value ratios. Some banks are still very consumed by SBA PPP Loan administration, although less so than during the first round of PPP, forcing commercial real estate lending to take a back seat.

Due to the decreased stability of retail and office investment assets, there has been an overwhelming demand for industrial assets by investors. Industrial demand is only expected to increase and the industrial real estate sector has demonstrated over the past year to have endured the COVID-related economic decline better than other sectors; therefore, investors previously not interested in industrial assets are adding to the demand. We have seen an increase in interest and inquiries from investors in both on and off-market industrial properties including a net lease flex (office/ warehouse) building for sale in Woonsocket, and a 100% fully leased off-market multi-tenant 240,000 s/f industrial building in Cumberland.

Despite the increased activity, lease rates 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). Prices for 20,000 s/f to 50,000 s/f buildings have remained consistent with the past several years and generally range from approximately \$40 to \$70 per s/f; however, the increased demand coupled with decreased supply is likely to nudge the prices upward.

In March 2021, an "Improvements to Industrial Facilities Infrastructure Bond Measure" was approved by Rhode Island voters in a special election. The bond measure authorized the State to issue bonds in an amount not to exceed \$60 million for the following projects according to the respective amounts: \$40 million for industrial site development and \$20 million for Quonset's Port of Davisville infrastructure.

Increased demand for industrial buildings, along with a potential future re-stabilization and leveling out of construction costs, and the recently approved industrial infrastructure bond measure, will hopefully lead to an increase in the construction of new industrial buildings in Rhode Island.

Looking ahead through the remainder of 2021, we expect to see a steady and strong demand for industrial space as well as a continued surge in interest from investors interested in leased industrial

assets.

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