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Industrial market remains strong, and demand does not appear to be ebbing - by Julie Freshman and George Paskalis

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As we head into the end of 2021, the industrial market in Rhode Island remains strong with overwhelming activity on both the leasing and sale sides. On the sale side, there is tremendous activity from both owners/users and investors/ developers. The Rhode Island market continues to exhibit historically low vacancy rates in the 1-2% range for “modern” industrial buildings.

As was the case earlier this year, demand for industrial space continues to come from the logistics,

medical supply, public storage and direct to consumer sectors, and now continued supply chain challenges are creating an even greater demand for warehouse space. Companies are looking to secure warehouse space closer to consumers so that delays can be minimized, and uninterrupted service can be better ensured.

Recent sale transactions include a 60,000 s/f industrial building at 1280 Jefferson Blvd. in Warwick that sold for \$3.1 million in September 2021 to an out-of-state investor/developer who will convert the building to a public self-storage facility. In August 2021, a 17,260 s/f industrial building at 260 Narragansett Park Dr. in East Providence sold to a pump manufacturing company for \$1.175 million. In July 2021, a 43,667 s/f industrial building at 20 Rhode Island Ave. in Pawtucket sold for \$705,000 to a local insulation company.

A recent example of the type of demand we are seeing for industrial buildings in Rhode Island is a 25,000 s/f modern industrial building in East Providence that received multiple offers before hitting the market and was under contract within a couple of weeks. This property is currently under contract and scheduled to close within the next month. Likewise, one of the only free-standing single-story, 108,000 s/f manufacturing facilities available in the state and located in East Providence has received overwhelming activity due to historically low supply in the Rhode Island market.

There is also tremendous activity in the industrial investment market from groups with liquidity to deploy. Multiple offers were recently received, soon after it hit the market, on a 95% leased industrial investment/redevelopment property containing 334,000 s/f of building area on 12.6 acres. This property also went from 80% to 90% to 95% leased within the last month due to a lack of supply of industrial spaces. Another multi-tenant industrial building consisting of 80,000 s/f in West Warwick is under contract and due to close this year.

On the leasing side, 16,480 s/f of industrial space at 310 Bourne Ave. in East Providence was leased to a sailboat manufacturing company in October 2021, and 25,000 s/f of warehouse space at 100 Dupont Dr. in Providence was leased to a distribution company. A number of companies expanded with a need for overflow warehouse space, with a door manufacturer absorbing 45,000 s/f of space for storage in Cumberland and a high-tech manufacturer in-filling 46,400 s/f in Pawtucket.

The low vacancy rates and supply coupled with strong demand for space has driven lease rates and sale prices upward. Lease rates have trended upwards from \$3 per s/f NNN to \$4.50 per s/f, NNN on the low end (bulk warehouse uses), and from \$5 per s/f NNN to as high as \$7.50 per s/f, NNN on the high end for mid-sized (20,000 s/f to 50,000 s/f), modern, air-conditioned industrial spaces.

Prices for 20,000 s/f to 50,000 s/f buildings have also risen from the \$35-\$45 per s/f range to as high as \$65-\$75 per s/f. As predicted in the spring of 2021, the increased demand coupled with a declining supply has pushed prices upward. Interest rates are still low which continues to fuel the preference to purchase by industrial prospects and has also enabled increased purchase prices.

Despite the increase in construction costs since 2020 and the effect of supply chain issues on

construction timelines, we have seen an unprecedented increase in proposed spec development projects. Some examples include projects near Rhode Island T.F. Green International Airport in Warwick and in the Howard Industrial Park in Cranston; both are great centrally located sites in the state. Developers and lenders are gaining greater confidence in the industrial sector's performance, especially with spec industrial projects leasing up prior to completion.

The build-to-suit leasing market is also experiencing increased activity. For example, a build-to-suit development for industrial tenants ranging from 10,000 s/f to 40,000 s/f on Lacroix Dr. in the West Warwick Industrial Park has been receiving multiple inquiries per week with companies looking for high bay warehouse/distribution space that is just not available in the already built industrial market in Rhode Island. Many land sites are also realizing overwhelming activity from developers and users looking to secure land for industrial development.

Looking ahead through the 4th quarter of 2021 and the 1st quarter of 2022, we expect to see continued strong leasing activity, a heavy demand on the purchase side, additional proposed spec development projects, and plans for the construction of new industrial buildings in Rhode Island.

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