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We expect to see continued strong leasing activity, low vacancy rates, and spec development projects - by Julie Freshman and George Paskalis

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In 2022, we expect the industrial market in Rhode Island to continue to exhibit historically low vacancy rates, i.e. in the 1-2% range for “modern” industrial buildings. Similar to 2020 and 2021, demand for industrial space will continue to come from logistics, medical supply, manufacturing, public storage and direct to consumer sectors. Supply chain challenges continue to force companies to search for and secure warehouse space in closer proximity to consumers, thereby minimizing delays and disruptions to service.

On the leasing side, 14,000 s/f of warehouse space at 400 Frenchtown Rd. in East Greenwich was leased in December 2021 to a company that develops and manufactures packaging for the chilled food industry. At the end of 2021, flex (office/warehouse) tenants at 40-44 Albion Rd. in Lincoln, renewed leases and 7,000 s/f of warehouse and office space was leased to a specialty distribution company serving the electronic assembly, aerospace and defense, medical, and other industrial markets. A number of companies are and will be looking to expand this year with a need for additional and overflow warehouse space.

Tenants seeking industrial space anywhere in Rhode Island are hampered by a lack of options due to overwhelming demand for industrial space over the last two years. The lack of supply has driven lease rates upwards from \$4 per s/f NNN to \$5 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 (20,000-50,000 s/f), modern, air-conditioned industrial spaces. Similarly, low supply and high

demand has also increased lease rates for flex space, consisting of a combination of office and warehouse space, from \$6.50 per s/f, NNN to \$7.50 per s/f, NNN on the low end and from \$9 per s/f, NNN to \$10 per s/f, NNN on the high end.

Recent sale transactions include a fully leased industrial investment/ redevelopment waterfront property containing 334,000 s/f of building area on 12.6 acres in East Providence. Multiple offers were received, and the property sold in just four months to an out-of-state investor just before the new year for \$8.3 million. A 108,000 s/f vacant industrial building located at 25 Fairmount Ave. in East Providence also sold at the end of the year for \$5.8 million to investors with plans to lease the building. Another multi-tenant industrial building consisting of 80,000 s/f in West Warwick is under contract and due to close in the first quarter of 2022. This demonstrates the tremendous activity that has been seen in the Rhode Island market from investors seeking industrial real estate assets.

There is an even greater shortage of industrial buildings for sale due to investors seeking industrial real estate assets, the continued historically low interest rates and a desire from end users preferring to own instead of lease. As a result, sale prices are being pushed upwards. A 25,000 s/f modern industrial building in East Providence that received multiple offers before hitting the market was under contract within a couple of weeks and sold at the end of last year to a design/ build manufacturer of process water recycling and metal finishing systems for \$2.155 million (\$86.20 per s/f).

As predicted in the fall 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 increased purchase prices. Prices for 20,000-50,000 s/f buildings have also risen from the \$35-\$45 per s/f range to as high as \$75-\$85 per s/f.

Due to the supply issues with industrial real estate in Rhode Island, there has been an unprecedented increase in proposed speculative warehouse development projects, despite the increase in construction costs since 2020 and the effect of supply chain issues on construction timelines. This demand from developers has created a surge in industrial land sales, thereby continuing to drive land values upward. At the end of 2021, a 200+ acre parcel at I-295 and Rte. 6 in Johnston, sold for \$13 million for a four million s/f proposed warehouse facility.

The build-to-suit leasing market is also experiencing increased activity due to the lack of available space for lease. However, due to the cost of construction, lease rates on these build-to-suit opportunities are typically in the teens per s/f, NNN. For example, a build-to-suit development for industrial tenants ranging from 10,000-40,000 s/f on Lacroix Dr. in the West Warwick Industrial Park receives 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.

The end of 2021 was an active industrial real estate market with some of the largest deals the market has seen. In 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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