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Supply chains, inflation, & resignation, oh my! - by Thomas Sweeney

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Thomas Sweeney

A pandemic will make you reevaluate how and where you spend your time. Folks want to work from home, work for themselves, or changed what they do for work.

“What happens to the labor force and unemployment rate are of particular interest, since there has been a great deal of self-employment, which raises the resident employment and distorts the existing data,” said economist Leonard Lardaro in his latest economic analysis of RI.

We have heard all about the supply chain issues, inflation of products, interest rates climbing and the labor crisis. It all seems pretty grim. The last two years have been stressful and continue to be depending on your position and privilege, but it has also turned out the biggest new business numbers that we’ve seen since 2004. “Businesses are problem solvers,” said Thomas Sullivan, vice president of small business policy at the U.S. Chamber of Commerce. “There haven’t been more problems to solve than right now.” Many are calling this time the Great Resignation. I believe this is tied to the trend of new business ID applications, it directly correlates with the number of new businesses entering the market.

For the last decade and a half we have seen a steady decline in the number of new business IDs being registered with the IRS. The pandemic has slowed and potentially reversed that trend with 5.4 million business ID applications in 2021. The highest jumps being in retail. Larado mentioned “At any rate, I remain confident that Rhode Island’s economy will continue to move forward, unevenly, powered far too much by the sugar high of massive federal funds.” From October 2020 to March 2021 there was \$67.8 million in R.I. SBA financing. It could be concluded that the stimulus programs kept us from tail spinning and laid the foundation for growth.

Many investors are turning to real estate assets to diversify and balance portfolios from the fluctuating stock market. The multifamily markets have brought on so much attention that investment is spilling into single-family residential, driving up the existing seller driven residential market. The recent sale of a West Side of Providence portfolio and the apartment component of the Rising Sun complex at high per unit values, reflects the continued interest in this segment and reflects the money chasing the deal mode the market is in. Most of the development in the I-195 District is mixed-use with residential apartments as the dominant use.

Despite the inflation we are seeing spending. Companies continue to invest in better infrastructure like phone systems, cyber security and their changing real estate needs. With the continuing growth in hybrid and at home work models, companies are looking to downsize to more efficient space as their demand for in-person/on site space is diminishing. While there will be an increase in in-person work from the depths of the pandemic, it would appear that office square footage demand will not grow anywhere near the pace of pre-pandemic times.

Inflation has been a big factor in new construction, renovations and quite frankly to everyone and everything. That paired with the ongoing supply chain issues and labor shortages, hurdles are high for folks to build. “If we were to continue to build at the rate we are building now, it would take five

years to satisfy the demand for this year,” said Robert Nahigian, SIOR in his recent presentation of “National Economic Commercial Trends & the Commercial Real Estate Professional.”

Retail has taken the biggest hit with a number of locations that previously would have been considered for retail development, now being developed with industrial warehouse uses. The Amazon site in Johnston, R.I. and the Silver City Galleria site in Taunton, Mass. being prime examples of this. The demand for industrial space is one of the biggest, if not the biggest, drivers in the market.

Rhode Island industrial has trended upward. Inventory in the sector is dwindling. It would appear that we are finally getting to a point where the lack of inventory, will push developers to start considering construction of new industrial facilities. There are four developments, in West Warwick, Cranston, Johnston, and Warwick that are utilizing Commerce RI’s Rhode Island Ready industrial site readiness program. The program is being administered by the Quonset Development Corp. According to Chelsea Siefert “The program will eliminate uncertainty and red tape from the development process so as to keep the focus on moving business forward and creating jobs.”

One of the areas in the market that has demand but little or no inventory is laboratory space. In other markets lab science is still the favorite use for conversions of underutilized buildings. The state has announced the development of the new R.I. Center for Excellence for Laboratory, which will not only meet the needs of the R.I. Department of Health but will bring new lab space to the market.

Interest rates climb, federal grants dry up and inflation lingers. Not to mention a heavy eye on international relations. We continue to adapt in this heavily influenced market sector. Inflation is not as temporary as it is being played out to be. It is great for real estate sales which means higher trading numbers for transactions. The issue is the inflation is happening so quickly that wages are not keeping up. This isn’t a new trend but the rate in which the gap is growing is unique, again making folks reevaluate the how and where they spend their time.

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