



nerej

During 2022, users and investors will be under pressure to find available properties - by Mike Giuttari

May 27, 2022 - Spotlights



Mike Giuttari

For Rhode Island, 2022 has big shoes to fill from what 2021 left it. 2021 ended with a bang, especially within the industrial sector. Some of the education segments such as the Charter Schools, have also been absorbing space at a fast pace. CBD office space is still lagging all other commercial real estate (CRE) sub-types, but most suburban office locations have come back to a pre-pandemic level and have very low vacancy. Retail locations, especially restaurants, seem to have weathered the storm, and most food locations that have survived, seem to be very busy.

2021 brought some of the largest deals the market has seen. With the 200+ acre sale of a site at I-295 and Rte. 6 in Johnston for the 4 million s/f facility to the closing of the 340,000 s/f, 100% occupied industrial investment on the East Providence waterfront, the second half of 2021 was an active CRE market. 2022 looks to continue this trend.

The larger companies in downtown Providence are bringing employees partially back to the office using a “hybrid” work model. The suburban market came back to the office very quickly with little to no vacancy in many areas. The rental rates in the active suburbs never took a dip, they remained consistent over the past two years.

The tour lists for companies wanting to locate north of Providence are very short, whether they are looking for A or B space, with new construction contemplated given the lack of space. In the areas south of Providence there are pockets of availability, mostly because it is a larger market to begin with, more buildings, more movement. There are larger complexes with top quality space such as Northwoods in Johnston that supports what would be the market north of Providence, and The Gardens in Warwick at Exit 8 on 95, south of Providence. If a company wants to venture to downtown Providence, there are numerous options for B+/A office space available.

In terms of absorption, the large user of space continues to be the Charter Schools, especially in the Providence market. Some of these schools are taking down 50,000 s/f, 60,000 s/f, 75,000 s/f at a time. This is expansion space, not replacement space. There continues to be additional absorption in the pipeline during 2022 with multiple 50,000 s/f buildings under contract.

The R.I. industrial market has continued to exhibit historically low vacancy rates in the 1% to 2% range for “modern” industrial buildings. 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.

Tenants in the market seeking industrial space anywhere in R.I. are hampered by a lack of options due to the overwhelming demand. Similarly, there is an even greater shortage of industrial buildings available for sale due to a desire from end users preferring to own, coupled with a growing demand from investors seeking industrial real estate assets. This lack of supply has pushed both lease rates and sale prices upward.

Due to the supply issues with industrial real estate in R.I., we are seeing an increase in proposed speculative warehouse development projects. This demand from developers has created a surge in industrial land sales, thereby continuing to drive land values upward. 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 are typically in the low teens per s/f, NNN.

The R.I. retail market started to see a comeback in the 4th quarter 2021 with a reemergence of activity in local and regional restaurants and entertainment themed concepts. Retail entrepreneurs have begun to absorb some of the vacancies throughout the State that were caused by the recent pandemic.

There is activity in the main retail corridors of Rte. 2 and Rte.6 with the addition of Market Basket, Salad Works, BJ Wholesale Club, Popeyes, Tavern In The Square, Chase Bank & Orange Theory.

Garden City (R.I.'s premier shopping center) has seen strong activity including Old Navy, Ulta, Asia Grille, Chaska and others. In addition, Thayer Street Providence has been active with new tenants including Warby Parker, Bank of America, Shaking Crab and Chase Bank. Secondary markets like Mineral Spring Ave. and Reservoir Ave. have seen a steady increase of activity as well.

In addition, mixed use and apartment complexes have been extremely attractive to a variety of different buyers and remains to be a hot sector with low cap rates realized and multiple offer situations.

Retail lease rates have remained steady with slight increases. Landlords have been able to attract strong tenants, but they have needed to be more aggressive with their tenant improvement allowances.

We seem to have recovered quite nicely with good activity and deals in the pipeline. The overall retail sector is improving quickly and a far cry from 2020. Typically, RI's retail lease rates do not change much year-over-year.

During 2022, users and investors will be under pressure to find available properties. The vacancy rates will remain extremely low through the year, a lot of which will be due to continuing high construction costs and the remains of the backed-up supply lines. Retail space and CBD office space are the two areas that could offer some vacancy to companies looking to expand or move. The one caveat on the retail space would be restaurants with drive-thru options being very limited. The big box spaces that have not been absorbed will certainly be looked at as industrial conversions for warehousing options, given the docks and good clear ceiling heights.

The Convention Center and the Dunk have now reopened in Providence, bringing many more people back downtown which will create a resurgence for the smaller restaurants in the CBD during 2022.

Mike Giuttari, SIOR, is 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