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Sweeney sums up summer in Rhode Island's 2022 commercial real estate market - by Tom Sweeney

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Tom Sweeney

Well here we are. Many businesses are trying to determine how to navigate the current economic situation. "Economic outlook has dropped to historic lows, down 75% from a year ago as prices have increased about 8.6%" according to 2022 JPMorgan Chase & Co. Business Leaders Outlook Pulse survey. Businesses are facing challenges of all magnitudes, with the biggest costs being associated with inflation and labor issues. Despite these challenges there are still many entering new markets and expanding service or product lines, however this may be slowed by the interest rate hikes.

Traditional lending, mostly SBA lending is starting to see impacts of the rate increases. Previously if someone obtained a \$600,000 mortgage at the lower rate, now with rates increasing and due to increase again, for that same monthly payment those companies can now only qualify for a \$475,000 mortgage, which obviously is limiting when real estate prices are hitting record highs. We have seen this in a few of the transactions we have been involved in as banks are becoming more conservative in their future outlooks. Refinancing no longer makes sense for most owners, it is affecting cap rates which is damping the investment market.

Rhode Island's overall economic outlook is best represented by the University of Rhode Island's Leonard Lardaro's Current Condition Index. "While we have been inching beyond the effects of the pandemic for [14] months now based on the regular CCI, I believe that it is reasonable to conclude that Rhode Island's true overall recovery has indeed begun." Lardaro said. "That's the good news. The bad news is that both the U.S. and Rhode Island economies are beginning to slow as the effects of monetary tightening begin to take hold." Only two of the five leading indicators improved in May, total manufacturing hours, which rose 4.9% and new unemployment claims, which improved dramatically with a 94% decrease.

Industrial continues to competitively climb. Rhode Island runs into the issue of more demand over inventory. Due to inflation, construction cost still outweigh relocation, however with the limited inventory this leaves many owners with little or no alternatives for their needs. According to conversations with developers in the market, there is a feeling that the cost of some of the construction components is beginning to level off and this will help in the future but supply chains still are having an impact.

In the office market across the board landlords have adapted more flexible term lengths. The last two years has incredibly impacted how business owners view the future. The scope has changed from a 12-month to 6-month timeline. We are seeing delayed or short term (1-2 year) commitments from office users in suburban and urban markets. Owners while being flexible on term are trying to hold on rents, but there has been some flexibility if it means retaining a tenant. There is some movement to the submarkets but not the flood that many were predicting post pandemic.

One of the things that will impact the market this year is the real estate revaluation for tax assessment purposes. As values have continued to increase many Rhode Island communities are experiencing a significant change in real estate assessments this year. 18 of Rhode Island's municipalities went through either an assessment update or revaluation in 2021. Tax rates adjusted

but many owners will experience an increase in taxes, with all properties seeing increased values. With these changes we expected to see a busy appeal season. We feel that many commercial property owners will have strong cases to make to tax assessors and/or boards of appeal. Those landlords that haven't increased rental rates significantly have the strongest case for appeal.

Recently, I have been asked what my outlook is going forward and I reply that due to all of the elements of uncertainty, I know what I'm doing for the next six months, but I am not sure of what is going to happen in the six months that follow. The upcoming midterms and the increasing interest rate environment, make people wary of making predictions. I tend to use surf metaphors in my analysis, Rhode Island is the Ocean State after all. The big surf has come through and done its damage, and while we are no longer being tussled in the water as the wave is ebbing we need to be sure we were not pulled into a rip current. I believe that smart participants in the market, will take advantage of these conditions, while always being aware of the danger of not staying alert.

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