Users and investors will be under pressure to find available properties in Rhode Island industrial market - Mike Giuttari

August 26, 2022 - Spotlights

Mike Giuttari

For Rhode Island, 2022 industrial market has big shoes to fill from what 2021 left it. 2021 ended with a bang, especially within the industrial sector.

2021 brought us some of the largest deals this 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 Amazon facility, which is well under way and most of the steel in place, to the sale of the 340,000 s/f, 100% occupied Phillipsdale Landing industrial industrial portfolio on the East Providence waterfront, the second half of 2021 was an active industrial commercial real estate market. 2022 looked to continue this trend, but the lack of any inventory has slowed the pace considerably.

The Rhode Island 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 RI are hampered by a lack of options due to the overwhelming demand coupled with the lack of any new construction. Similarly, there is an even greater shortage of industrial buildings available for sale due to a desire from end users preferring to own, together with a growing demand from investors seeking industrial real estate assets. This lack of supply has pushed both lease rates and sale prices upward. Certainly 2022 has been a continuation of industrial investors seeking off market properties / owners for sale leaseback opportunities.

Due to the supply issues with industrial real estate in Rhode Island, 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, because of the cost of construction, lease rates are typically in the low teens per s/f, NNN.

There continues to be the push for the development of some big box space in Rhode Island, and just over the borders in Massachusetts and Connecticut, going through permitting and under construction currently. NorthPoint Development took the lead earlier this year as they broke ground on their 500,000 s/f Gateway I-95 development in Warwick at the Airport. This will come online in the first half of 2023. Wharton has a 1.1 million s/f project going through permitting in Smithfield that should break ground in early 2023. There are a few local developers putting their foot in the water in Attleboro, Mass. and Killingly, Conn. with 500,000 s/f developments currently going through permitting. The absorption (and the rate of absorption) will tell a lot about how tenants will stomach net rental rates in the low to mid-teens per s/f. In some cases, this translates to a $10 per s/f increase above what has been thought of to be “good” industrial space in the Rhode Island market. The question is, do these landlords catch some lateral local movement in the market where the tenant does go for the $5-$10 of additional rent, or do we get some new blood in this market from out of state that does not have sticker shock about the new lease rates. Only time will tell.

Some of the local developers have been working hard to find a way around the $150-$200 per s/f cost of a new building. One of our clients has put together a 27,000 s/f project with loading, grade level, sprinklers, 22’ clear, etc. for under $100 per s/f. If nothing else, it tells you that it is possible to reel in the cost of a new building. Something like this could take away the sticker shock to tenants and open the flood gates for deals. We are taking this approach to an expansion of an existing building where a tenant needs a 22,000 s/f addition to their existing building, but has hesitated moving forward because of the cost of construction.

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.

One last comment, the big box retail spaces that have not been absorbed will certainly be looked at as industrial conversions for warehousing options, given the typical docks and good clear ceiling heights, along with some “market” rental rates.

Mike Giuttari, SIOR, is president of MG Commercial Real Estate, Providence, R.I.