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## **Demand is high and supply remains low - by Julie Freshman, George Paskalis and Mike Giuttari**

January 27, 2023 - Spotlights



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In 2023, we expect that the supply of industrial buildings and spaces in the Rhode Island market will remain low, with vacancy rates that remain in the 1% to 2% range for “modern” industrial buildings.

The demand for industrial space continues to come from the logistics, medical supply, public storage and direct to consumer sectors, as well as from companies looking for more space to have greater control over inventory and supply chain challenges. Demand for industrial space is also continuing to increase from manufacturers, contractors and engineering firms within the energy and environmental sectors (i.e. wind, water, etc.).

Persistent low vacancy rates continue to lead towards fewer empty buildings coming available for owners/users, as well as a very limited supply of spaces available for lease for companies looking to relocate and/or expand. For owners of fully leased buildings looking to sell, demand remains steady from industrial investors. However, inflation and interest rates are causing investors to reassess their underwriting and are also reducing buyer's purchasing power and forcing some potential end users to lease vs. purchase.

There are still a historically high number of speculative warehouse development and/or build-to-suit leasing projects proposed or underway throughout the state in Smithfield, Pawtucket, Warwick and Cranston ranging in size from 165,000 s/f to 1 million s/f. It is still not clear if these spaces will lease up to tenants with larger footprints (100,000 s/f+) or if owners will need to consider subdividing them into smaller spaces. The lease rates for these speculative development and build-to-suit leasing opportunities are typically in the teens per s/f, triple net (NNN) which ends up pricing the local companies out that need space for growth. Owners/developers will be forced to wait for national tenants capable of paying these rates.

Recent lease transactions include 11,800 s/f of space that was leased to a pharmaceutical company at 27 Wellington in Lincoln; 33,000 s/f of industrial space at 275 West Natick Rd. in Warwick that was leased to an HVAC supply and distribution company; and 12,000 s/f of industrial space leased at 305 Lincoln Ave. in Warwick to a local company looking for excess/overflow storage space. We expect demand to remain steady with a number of companies that will be looking to expand this year with a need for additional and overflow warehouse and manufacturing space.

On the sale side, a 32,000 s/f LEED certified industrial facility at 81 Ocean State Dr. in Quonset is under contract for over \$100 per s/f with a closing anticipated for February and two 30-plus acre parcels of industrial land along Wampanoag Trail and Pawtucket Ave. in East Providence are under contract with closings anticipated for this year. The demand on the sale side remains steady, but higher interest rates are reducing buyer's purchasing power compared with last year.

Lease rates and sale prices remain the same as earlier this year. Lease rates are in the \$5.00-\$6.00 per s/f range, NNN for bulk warehouse space, in the \$6.50-\$7.50 per s/f range for general purpose industrial space, and around \$10 per s/f for flex space. Sale prices for 20,000 s/f to 50,000 s/f have continued to remain as high as \$75 to \$85 per s/f.

The "Rhode Island Ready" program which was announced in January of last year and aims to create an inventory of pre-permitted properties ready for industrial development throughout the state, recently approved two new sites for enrollment, bringing the total number to 13. Eligible sites must be zoned for industrial or offshore wind support uses. Sites must allow for upgraded or improved infrastructure in support of an industrial use. They also must allow an existing industrial use or facility to expand significantly or be 10 acres or more in size or be capable of supporting at least 100,000 s/f of building area and be located within one mile of a designated state highway. The 13 enrolled sites include 649 Waterfront Dr., East Providence; 275 Ferris Ave., East Providence; 20 Goddard Rd., Cranston; 9 Dexter Rd., East Providence; 195 Francis Ave., Cranston; 1347 Roger

Williams Way, North Kingstown; 1 Moshassuck St., Pawtucket; 1307 Hartford Ave. in Johnston; 0 Comstock Pkwy. in Cranston; 40 Keyes Way in West Warwick; 550 Romano Vineyard Way at the Quonset Business Park in North Kingstown; 461 Water St. in Warren; and 961 Douglas Pk. in Smithfield.

The speculative warehouse development and build-to-suit projects, coupled with the RI Ready Program creating additional pad-ready industrial development sites, are expected to eventually generate more supply in the Rhode Island industrial market. However, for 2023 and the foreseeable future, historically low supply and steady demand will continue as the trend.

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