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## **Rhode Island real estate market remains strong, due to the fact that inventory remains tight - by Thomas Sweeney**

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Thomas Sweeney

Imagine the economy as a heartbeat, it needs go through rises and lulls, it's alive. Stagnate activity is cause for concern. We may see a recession but we are in no way able to determine how deep it will be, if it's not already here.

The overall impression of the future is we are headed for a recession. Leading economic indicators are trending that way, but the remaining indicators continue to tend positive in Rhode Island. Economists who previously thought the recession would be here by March are now forecasting a later date of Q2 or Q3. The good news is that consumer perspective has remained positive with retail sales and restaurant spending in December rose 9.2% and then again in January by 3%. The bad news is the Fed's have never managed to reduce inflation from levels it has seen recently without causing a recession.

The Fed recently announced an increase in rates by a quarter point, which seems to reflect concerns with the ongoing turmoil in the banking systems. This may be a signal of the end of aggressive rate hikes, as the central bank also seems to be concerned with increasing rates on the economy in general.

The biggest questions seem to surround the office and multifamily markets. Multifamily is the market most impacted by interests rates, with rates of return on multifamily around 8% if borrow rates get too close to return rates we will see a huge impact on market activity. Office leasing while remaining consistent in activity, has seen changes in useable square footage, location to labor and ease of access all playing large roles in motivation for moving. This has increased activity in submarkets such as Lincoln and Warwick. Term length while increasing has not returned to the confidence of term in pre-pandemic times. Downtown office and mill space are seeing investment from the multifamily market for conversion.

We are seeing post pandemic effects. Highest and best use determination now plays a major roll in the office and industrial markets as well as the appraisal valuation results. Steve Kirby of Kirby Properties at the Rhode Island Commercial and Appraisal Board of Realtors State of Commercial Real Estate Event presented the example of an office building in Newport that was converted into luxury car vault condos. Units are selling for \$318 to \$444 per s/f and they are completely sold out for phase one and phase two. The push on industrial mills for conversions has doubled now with the consideration for alternative office conversions. The appraisal process for determining highest and best use has not changed but the results of what is determined has, and we can see that through the creativity of people. I predict that this is a trend that will persist for years to come.

The industrial market continues to be in highest demand on both the leasing and sales sides, with rates of investment return in the high teens to low twenties. While Amazon has pulled back on their development of new locations and recently announced they are laying off another 9,000 workers, there are multiple slightly smaller tenants, who continue to be in the market. There is only one major warehouse available in the market with another one scheduled to come online in the Q1 of 2024. Demand still is outpacing inventory in the typical Rhode Island industrial market, with properties

being put on the market and going under agreement in a relatively short period of time, even if there is aggressive pricing.

Online retail will always be present but the shift to more of a mix is occurring. As mentioned earlier retail is returning, but it's specific retail. If you look at many restaurants and cafés, patrons have returned to the market bringing stabilization for owners and tenants. Retail continues to persist in the metro areas as well as the submarkets. Hope and Main, an incubator for food and beverage businesses, opened a retail presence at 100 Westminster St. in downtown Providence. Service type retail is making a comeback, but traditional brick and mortar will continue to lag due to online providers.

The real estate market in Rhode Island remains strong, but this is primarily due to the fact that inventory remains tight. With rates projected to continue to rise, even slightly, there might be some increase in inventory, but not to the extent that it will significantly negatively impact the market. All phases of the market appear stable and should continue to do so. While the question is, "Are we going into or are we already in a recession?" remains prevalent, but it would appear that the real estate market continues to have a strong foundation.

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