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The Rhode Island industrial market continues to exhibit low vacancy rates - by Mike Giuttari

May 26, 2023 - Spotlights



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As Rhode Island heads into the 2nd half of 2023, we see: 1) A definite slowdown in the office sector, whether CBD space or suburban space; 2) An increase in sub-lease office space; 3) Continuing demand for industrial space with a complete lack of any useful inventory for this market; and 4) Proposed industrial is all large (250,000+ s/f space) for this market.

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 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, asking lease rates are typically in the low teens per s/f.

The R.I. industrial market is generally made up of 20,000 - 40,000 s/f buyers or tenants, of which there is nothing available to buy. The interest in this size range to lease seems to have disappeared. Properties such as 678 George Washington Hwy., 150 Niantic Ave., and 165 Mill St. (all 35,000-40,000 s/f) have interest, but in the size range below 10,000 s/f. There is new construction in Warwick by Northpoint of a 500,000 s/f, 40' clear box that seems to have a few interested parties, but out of state lookers. The in-state users are still deterred by the \$10-\$12 per s/f pricing.

Construction pricing remains high, delivery times, while not as far out or as inconsistent as they were a year or two ago, are still long and unsure.

As mentioned at the beginning, the availability of office sublease space is growing. While before we used to see only the large national/international groups dumping large spaces, 10,000' to hundreds of thousands of s/f, we are now seeing, in addition to that type, smaller spaces coming up for sub-lease more often, such as 2,800 s/f in Warwick, which really didn't happen in the past. More employees are working from home to the extent that entire offices are being shut down. The larger companies in downtown Providence are trying to bring employees partially back to the office using a “hybrid” work model, but there is a growing resistance to this. Initially, 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. But as stated earlier, we are now seeing even smaller occupied spaces being put up for sublease as the entire office is

working remotely. Just this week, we leased a 1,430 s/f office space in Warwick to a group coming out of a 25,000 s/f building, with the difference being permanent remote working. Remote working is here to stay.

Even so, the tour lists for companies wanting to locate north of Providence are very short, whether they are looking for A or B office space. In the areas south of Providence there are pockets of availability, mostly because it is a larger office market to begin with, more buildings, more movement, and again, increasing amounts of sublease space. If a company wants to venture into downtown, there are numerous options for B+/A direct or sub-lease office space available, but again, remote working comes into play.

In terms of absorption, the hope is that some of the biotech/lab space from the Boston market will filter down to Providence. The question is, has Boston construction caught up with demand themselves? It may be a “build it and let’s see if they come” approach for the Providence market. Most any B+/A office building available for sale is under contract or closed. 1 Capital Way and 95 Jefferson Blvd. are a few examples, but these do not represent “absorption”, just trading of space with downsizing, remote working and the new buyer moving.

During 2023, users and investors will be under continuing pressure to find available properties. Any B+/A industrial with cash flow has 10-20 groups looking at it. The pricing is still very favorable relative to the Boston market so as a property becomes available, the Boston and New York groups swarm to the availability.

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