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Rhode Island industrial market report - by Julie Freshman, George Paskalis, and Mike Giuttari

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Julie Freshman

George Paskalis

Mike Giuttari

The Rhode Island industrial market continues to follow the national trend, with low vacancy rents, strong demand and rising rates. Vacancy rates for industrial space in Rhode Island are very low and in the 1% to 2% range for “modern” single-story industrial buildings, which are the lowest rates we have seen.

Demand for industrial space in Rhode Island is being driven by a number of factors, including the growth of e-commerce, the need for more warehouse space, and the expansion of manufacturing. Due to the growth of e-commerce, retailers need more space to store inventory, and as companies

move their operations closer to their customers, the need for warehouse space has grown. The expansion of manufacturing activity in Rhode Island has created a need for more space for factories and distribution centers. We are still seeing demand for industrial properties from self storage companies; however, while cities and towns in Rhode Island have typically allowed self storage facilities without many roadblocks, that is starting to change as more and more facilities are being constructed. An ordinance in Providence was recently proposed that would ban future self storage unit developments within the city. It is reported that the newly proposed ban would change the zoning laws, effectively removing self storage as a “by-right” use from heavy commercial (C-3) zones, thereby allowing these zones to be reserved for housing developments. The ban would also add a special-use permit requirement for light industrial (M-1) zones, the only other zone in which self storage development is allowed. Demand remains steady from investors looking for fully-leased industrial buildings. However, the high interest rates are causing investors to reassess and tighten up their underwriting; as well as reducing buyers purchasing power.

Lease rates for industrial space in Rhode Island have increased over the past couple of years (with a 2% to 3% increase from the same period last year) and 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. Flex space is a type of industrial space that can be used for a variety of purposes, including manufacturing, warehousing, and office space. The demand for flex space is increasing as businesses look for more versatile space that can be adapted to their changing needs.

There are some challenges that will continue to impact the industrial real estate market in Rhode Island in the second half of 2023. One challenge is the high cost of construction. The cost of building new industrial space continues to rise which will make it more difficult for developers to build new projects. The lease rates needed to justify new construction generally range from over \$10 per s/f to the teens per s/f, NNN. Another challenge is the rising interest rates, which make it more expensive for businesses to borrow money and may lead to a slowdown in demand for industrial space.

Despite the increased construction costs and interest rates, there are some speculative warehouse developments and/or build-to-suit leasing projects proposed or underway throughout Rhode Island, as noted in our article this past Spring. Smithfield, Pawtucket, Warwick and Cranston all have developments ranging in size from 165,000 s/f to one million s/f at various stages of completion. As was the case at the beginning of 2023, 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 asking lease rates for these speculative developments and build-to-suit leasing opportunities are typically in the low teens per square foot, triple net (NNN), which ends up pricing out the local companies that need space for growth. Owners/developers will be forced to wait for national tenants capable of paying these rates.

Recent transactions include a 16,650 s/f industrial building at 20 Avery Rd. in Cranston that was leased to a company that makes software, electronics and machines for moving scenery in the entertainment industry; a 40,205 s/f industrial building situated on 1.25 acres with a 0.42 acre parking lot at 482 Pawtucket Ave. that sold to a local investor/developer; and a 7,686 s/f industrial

building situated on 0.59 acres at 44 Newman Ave. in Johnston that sold for \$1 million to an HVAC contractor for their sheet metal division.

The outlook for the industrial real estate market in Rhode Island in the second half of 2023 is positive. Demand for industrial space is expected to remain steady, and vacancy rates are expected to remain low. However, rents could moderate if more supply comes online.

Julie Freshman is a vice president, George Paskalis, SIOR, is an executive vice president and Mike Giuttari, SIOR is president of MG Commercial Real Estate, Providence, R.I.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540