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As we look ahead, we anticipate a continued competitive sale market amongst end users - by George Paskalis, Mike Giuttari and Julie Freshman

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As 2023 marches to its end, the Rhode Island industrial market supply remains historically tight overall, but particularly on the sale side. While there is some loosening of industrial space available for lease, there are only a handful of quality options in each region of the state. While demand has waned on the leasing side compared to 2022, there continue to be multiple offer scenarios on most industrial sale options.

From a statistical point of view, our market consists of approximately 54 million s/f of modern single-story space. The current vacancy rate for industrial buildings for sale is arguably as low as

1%. On the leasing side, we estimate the vacancy rate to have ticked up since the beginning of 2023 and to be higher to around 3%. In the Northern Rhode Island region, there are only five options for lease above 20,000 s/f with only one of these available for sale and one of these being a life science facility (only one of its kind in our market). There is one warehouse facility totaling up to 325,000 s/f in Central Falls. In the second half of 2023 there has not been one industrial building sale of note above 20,000 s/f in northern Rhode Island. On the leasing side, the most recent transaction was 678 George Washington Hwy., where 35,000 s/f was leased in early September.

Within the East Bay region, there are also limited options with only two or three available above 20,000 s/f, one of which is for sale and would be a 200,000 s/f conversion from an operations center to light manufacturing/warehouse. There have been no notable sales in 2023 in the East Bay. On the leasing side, there have been very few transactions with a lack of available inventory.

In Central Rhode Island where there is the most critical mass of industrial real estate, there are two options for lease above 100,000 s/f, including the new 475,000 s/f high bay distribution center in Warwick at Commerce Dr. This speculative development by Northpoint Development was one of the first of its kind in Rhode Island, except for the Quonset Development Corp.'s new flex buildings they continue to construct and have success with. Thus far, these roughly 40,000 s/f new spec buildings have more tenants than available space and, in some cases, multiple tenants pursuing the same space. All other new construction projects over the last two decades have been for end users. Outside of Quonset Industrial Park there are four or five options of modern industrial buildings greater than 20,000 s/f for lease and only two or three options on the sale side. A 25,000 s/f block building located in the Hillsgrove Industrial Park received two full price offers the first week it went to market. A 145,000 s/f former jewelry headquarters in the Howard Industrial Park is under agreement and a 96,000 s/f industrial facility in Coventry is also under agreement.

In South County, there is one industrial facility totaling 40,000 s/f and under agreement. There is otherwise less than 10,000 s/f of industrial space available. One of the year's larger industrial sales was 132 Fairgrounds Ave. in South Kingstown. This former Schneider Electric facility totaled 282,000 s/f and sold for \$7.5 million to a manufacturing company from New Jersey.

Clearly, the volume of sales has decreased as compared to 2022, making sale deals even more competitive. We are still seeing multiple offers on end user smaller buildings. But the significant difference between 2022 and 2023 is that investors were extremely active in the industrial sector in 2022 and most are now sitting on the sidelines due to the high interest rates and inability to cash-flow deals unless pricing adjusts accordingly. Sellers have chosen to maintain their pricing, creating in many instances a disconnect between what was a robust investment market to what is now a relatively quieter investor market. Some sellers have even removed assets from the market, further depleting viable investment sale options. Leasing activity has remained steady and lease rates have not declined with the tight market. Many of the build-to-suit development projects which totaled over two million s/f, have been stalled without any tenants to pre-lease these new buildings. We anticipate these projects to linger until new tenants are back in our market to pre-lease on a build-to-suit basis. Certainly, there is no compelling need for new spec buildings until the spec building at Commerce Dr. in Warwick is leased and stabilized.

As we look ahead into 2024, we anticipate a continued competitive sale market amongst end users, with investors slowly re-surfacing looking for opportunistic deals or safe bets. We expect the leasing side to have more options available and longer on the market time, but nothing to be alarmed about as space will lease up as landlords become more competitive to attract tenants.

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