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For owners of fully-leased buildings looking to sell, demand remains steady for industrial investors - by Julie Freshman, George Paskalis and Mike Giuttari

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Julie Freshman

George Paskalis

Mike Giuttari

In 2024, 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 manufacturers, contractors and engineering firms within the energy and environmental sectors (i.e. wind, water, solar, etc.).

Persistently low vacancy rates continue to lead towards fewer buildings coming available for

owners/users, as well as a limited supply of spaces available for lease for companies looking to relocate and/or expand. On the leasing side, there will be slightly more options available and longer time on the market than last year, but landlords will become more competitive to attract tenants and spaces will lease up. For owners of fully-leased buildings looking to sell, demand remains steady from industrial investors. However, inflation and interest rates are still causing investors to reassess their underwriting and are also reducing buyer's purchasing power and forcing some potential end users to lease vs. purchase. Investors are expected to slowly resurface looking for opportunistic deals or safe bets.

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 one 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 range, but are generally in the teens per s/f, NNN (triple net) 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 2.1 acres of land that was leased to a logistics company at 19 Hopkins Hill Rd. in West Greenwich, R.I.; 25,000 s/f of industrial space that was leased to a construction company at 165 Mill St. in Cranston, R.I.; and 30,760 s/f of industrial space that was leased to an online retailer at 1 Privilege St. in Woonsocket, R.I. 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. Notable spaces available for lease include 83,500 s/f of industrial space at 100 Higginson Ave. in Lincoln, R.I. and 91,025 s/f of industrial space at 262 Swansea Mall Dr. in Swansea, Mass.

On the sale side, recent notable transactions include a 32,000 s/f industrial building on 3.99 acres that sold for \$3.4 million to Clean Water Ventures, Inc.; a 14,062 s/f industrial building at 60 Glen Rd. in Cranston, R.I. that sold to an owner/user for \$1.035 million; a 38,100 s/f industrial building at 3350 Pawtucket Ave. in East Providence that sold to an investor for \$2.3 million; 39 acres of industrial land owned by Exxon that sold to a local business owner for \$1.8 million; a 43,168 s/f industrial building at 222 Exeter Rd. in North Kingstown that sold to an investor for \$2.2 million; and 8 acres of land at 22 Austin Rd. in North Kingstown, R.I. that sold to a landscaping company for \$1.1 million. The demand on the sale side remains steady, but higher interest rates are reducing buyer's purchasing power compared with recent years.

Lease rates and sale prices are likely to remain the same as they were in the second half of 2023. Lease rates are in the \$6-\$7 per s/f range, NNN for bulk warehouse space, in the \$7-\$8 per s/f range for general purpose industrial space, and in the \$8-\$10 per s/f range for flex space. Sale prices for 20,000 s/f to 50,000 s/f have continued to range from \$65 to as high as \$100 per s/f.

The "Rhode Island Ready" program, which was announced in January of 2023 and aims to create an inventory of pre-permitted properties ready for industrial development throughout the state, has

approved 16 sites for enrollment, thus far. 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 16 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; 961 Douglas Pike in Smithfield; 92 Bruce Boyer St. in North Kingstown; and the Burrillville Commerce Park and 0 Broncos wy. in Burrillville.

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 R.I. industrial market. However, for 2024 and the foreseeable future, historically low supply and steady demand will continue as the trend, with some softening in the leasing market but with enough demand that spaces will continue to lease up.

Julie Freshman, George Paskalis, SIOR, and Mike Giuttari, SIOR, MG Commercial Real Estate, Providence, R.I.

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