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

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The Rhode Island industrial market remains challenged by a lack of supply with vacancy rates in the 1-2% range for “modern” single-story industrial buildings. Industrial lease rates in Rhode Island have increased over the past couple of years and are now 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 around \$10 per s/f for flex space.

For the most part there is little new construction of industrial buildings due to lease rates that have not increased to or above the rates necessary to justify the high cost associated with new

construction, with the exception of NorthPoint Development's I-95 Gateway Building 1 at 145 Commerce Dr. in Warwick near the airport. The construction of this building was completed last year, and a national tenant was recently secured for 93,000 s/f of the 491,496 s/f high bay warehouse building. Additionally, new industrial/flex buildings have been constructed on Quonset's Flex Industrial Campus. The buildings include move-in-ready, modern industrial spaces that include high-bay manufacturing, warehouse and office space. In 2023, construction was completed on Buildings 6 and 7 and began on Buildings 8 and 9. The campus will eventually have 10 buildings and over 300,000 s/f of space. All completed buildings are fully leased. Lease rates needed to justify new construction generally range from over \$10 per s/f to the teens per s/f, NNN.

There are still a historically high number of speculative warehouse developments and/or build-to-suit leasing projects proposed or underway throughout the state in Smithfield, Pawtucket 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 developments and build-to-suit leasing opportunities range, but are generally in the teens per square foot, NNN (triple net) which ends up pricing out most local companies that need space for growth. Owners/developers will be forced to wait for national tenants capable of paying these rates.

The low supply, high demand and limited new construction will continue to create a dilemma for tenants and buyers looking for industrial space and buildings. Whether a tenant or buyer is looking for 10,000 s/f or 100,000 s/f and up in Rhode Island, they are faced with few options.

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.).

Recent lease transactions include 25,660 s/f of warehouse space that was leased to an event rental company in the West Warwick Business Park, and 83,500 s/f of industrial space that was leased to a food distribution company in Lincoln. Additionally, a non-profit food pantry and warehousing group has a pending lease for 52,000 s/f of multi-level industrial space in Cranston. 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 manufacturing and warehouse space. Notable spaces available for lease include 36,000 s/f of industrial space at 150 Niantic Ave. in Providence and 91,025 s/f of warehouse/flex space at 262 Swansea Mall Dr. in Swansea, Mass.

On the sale side, a 64,928 s/f multi-tenant flex/industrial building at 610-710 Narragansett Park Dr. in Pawtucket sold to an investor for \$8.9 million; a 15,051 s/f industrial building at 21 Business Park Dr. in Smithfield was purchased by the tenant, Verizon New England for \$2.37 million; and a property located at 14 Cargill St. and 257 Dean St. in Providence, which is just under 0.5 acres with a 4,400 s/f industrial building, sold for \$1.335 million to a state public health organization with plans to redevelop the property. The demand on the sale side remains steady, but higher interest rates are reducing buyer's purchasing power compared with last year.

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 Pk. in Smithfield; 92 Bruce Boyer St. in North Kingstown; and the Burrillville Commerce Park and 0 Broncos Hwy. 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 RI 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.

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