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Outlook for second half of 2024 is positive - by Julie Freshman and George Paskalis

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The Rhode Island industrial market continues to exhibit low supply and steady demand. Vacancy rates for industrial space in Rhode Island remain low and in the 3-4% range for “modern” single-story industrial buildings, which is an increase in the recent 1-2% vacancy rates. Persistently low vacancy rates continue to lead towards fewer buildings coming available for owners/users, and inflation and interest rates are reducing buyer’s purchasing power, forcing some potential end users to lease vs. purchase. We have seen some softening in the leasing market but there is still enough demand with landlords becoming a bit more competitive to attract tenants, and spaces are expected to continue to lease up. Much of the demand has come from the logistics/distribution sector, as well as from self-storage groups, manufacturers, contractors and the medical supply and device industries.

For owners of fully leased buildings looking to sell, demand remains steady from industrial investors. However, inflation and interest rates continue to cause investors to reassess their underwriting. Nevertheless, investors are out there looking for opportunistic deals or safe bets.

Recent lease transactions include 132,000 s/f of industrial space that was leased at 10 Briggs Dr. in East Greenwich; 70,521 s/f of industrial space that was leased to a sailboat manufacturer at 1159-1193 Broad St. in Central Falls; and 93,000 s/f and 127,000 s/f of distribution space that was leased at 145 Commerce Dr. in Warwick (NorthPoint’s development) to two national tenants. Notable spaces available for lease include a 150,000 s/f distribution building for lease at 100 Maple

Ridge Dr. in Cumberland; 100,000 s/f of warehouse space at 500 Callahan Rd. in North Kingstown/Quonset; 50,000-100,000 s/f of warehouse space at 815 Jefferson Blvd. in Warwick; 30,636 s/f of industrial space at 1600 Division Rd. in West Warwick; and 270,000 s/f at 145 Commerce Dr. in Warwick.

On the sale side, 1 Kenney Dr. in Cranston, totaling 145,975 s/f, sold to a self-storage developer for \$8.8 million in April 2024; a 2.65-acre industrial property containing a 7,728 s/f office/garage building and multiple covered canopy areas sold for \$2.55 million in May 2024 to a construction company; and a 27,066 s/f industrial building at 833 Dyer Ave. in Cranston sold for \$1.95 million in June 2024. The demand on the sale side remains steady, but higher interest rates continue to reduce buyers' purchasing power compared with last year.

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. 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.

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 two national tenants have been secured for 220,000 s/f of the 491,496 s/f high bay warehouse building. Additionally, new industrial/flex buildings have been constructed on Quonset Development Corp.'s (QDC'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 begun 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. On July 15, 2024, federal, state and local leaders joined the QDC and Seaview Railroad for a ribbon cutting and train ride to celebrate recent upgrades to Quonset's rail infrastructure including the Seaview Engine house, Mill Creek Railyard and the new Davisville Main Connector Line. Seaview Railroad hauls freight for Quonset businesses and shipments to and from the Port of Davisville.

Regarding new industrial developments, one notable project is the Comstock Industrial Center, located immediately off of I-295 in western Cranston, which is a fully approved, two building, industrial center in RI's Western Cranston Industrial Park. Being developed in two phases, phase I will conclude with the delivery of a 70,000 s/f high bay warehouse building in Q1 2025, with phase II commencing as a 200,000 s/f build-to-suit high bay warehouse building. The lease rates for these speculative developments and build-to-suit leasing opportunities will be determined based on tenant needs.

The outlook for the industrial real estate market in Rhode Island in the second half of 2024 is positive. Demand for industrial space is expected to remain steady, and vacancy rates are expected

to remain low. Rents have moderated a bit as more supply has come online, but the leasing market remains strong. The low supply and steady demand has continued to keep the sale market strong for empty buildings, sometimes leading to multiple offer scenarios.

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