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Outlook for industrial market in Rhode island for remainder of 2024 and into 2025 is positive - by Julie Freshman and George Paskalis

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As 2024 winds down, with no new construction in sight, we expect that the supply of industrial buildings and spaces in the Rhode Island market will remain low, with vacancy rates in the 3-4% range for “modern” industrial buildings.

Much of the demand for industrial space has come from the logistics/distribution sector, as well as from self-storage groups, manufacturers, contractors and the medical supply and device industries. Persistently low vacancy rates continue to lead towards fewer buildings coming available for owners/users, and higher 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.

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. For example, a modern 20,000 s/f warehouse building leased to two tenants in southern Rhode Island recently hit the market and received overwhelming investor interest and multiple offers.

For the most part there is little new construction of industrial buildings due to lease rates that have not increased to 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. In October 2024, federal, state and local leaders joined the QDC for a ribbon cutting ceremony for the Port of Davisville's Pier 1 South reopening after 19 months of construction. Part of the port's Master Plan (a \$234 million development program to replace infrastructure originally building in the 1940s and 1950s by the U.S. Navy), the reconstruction of and upgrades to the pier will support the creation of over 1,000 projected new port jobs and extend the service life of the pier by 50 years.

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.

Recent lease transactions include 20,434 s/f of industrial space that was leased to a utility contractor at 2110 Plainfield Pike in Cranston; 21,502 s/f of industrial space that was leased to a high-grade precious metals refiner at 150 Niantic Ave. in Providence; 27,000 s/f of industrial space that was leased at 50 Sharpe Dr. in Cranston; 26,672 s/f of industrial space that was leased to a cabinet company at 1950 South County Trail in East Greenwich; 30,323 s/f of office and manufacturing space that was leased to a manufacturer of metal cutting tools at 14 Blackstone Valley Pl. in Lincoln.

40,000 s/f of industrial space that was leased to a liquidation company and 50,000 s/f of industrial space that was leased to a design, engineering and manufacturing company for retail display fixtures and furniture at 340 Waterman Ave. in Smithfield.

On the sale side, 538 Main St. in Coventry, totaling 96,323 s/f on 16.7 acres, sold to a self-storage developer for \$4 million in August 2024; a portfolio of leased industrial properties at 241-243 Narragansett Park Dr. and 261 Narragansett Park Dr. totaling 57,241 s/f sold for \$4,118,675 in September 2024; a 15,803 s/f warehouse facility and 1,500 s/f garage repair facility situated on 3.4 acres at 45 Stamp Farm Rd. in Cranston sold in September 2024 for \$2.15 million; and a 39,202 s/f industrial building at 1 Crosswind Rd. in Westerly sold for \$2.5 million in October 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-\$7per 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.

The outlook for the industrial real estate market in Rhode Island for the rest of 2024 and beginning of 2025 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 have continued to keep the sale market strong for empty buildings as well as fully-leased industrial investment opportunities, sometimes leading to multiple offer scenarios.

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