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Steady through the highs and the lows - by Thomas Sweeney and Christina Rouse

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The Rhode Island commercial real estate market has remained steady, maintaining consistent activity despite fluctuations at the national level. While economic conditions have shifted, the state's market continues to demonstrate resilience. The office sector remains stable but stagnant, industrial properties are constrained by rising costs, and retail has experienced steady growth alongside strategic investment. While we expect the market to remain stable, the ever-changing landscape of national regulatory policies makes future predictions challenging.

The lack of new speculative traditional office developments makes it difficult to highlight low or stable vacancy rates. The recent cancellation of the \$70 million development project for Parcels 8 and 8A in Fox Point underscores this trend. The project was slated to include a mix of apartments, retail, and parking, anchored by the headquarters of Bank Rhode Island. According to the developer, the decision to cancel was driven by a dramatic 50% increase in projected costs compared to initial estimates with rising interest rates and construction costs being significant factors.

The suburban shift for office space has slowed, and the trend of converting office buildings into residential units has also begun to cool. While demand for residential properties remains high, most financially viable office buildings have already been converted, leaving few opportunities for further office-to-residential transitions. As a result, the office market remains stable yet stagnant. Downtown activity persists, but much of it involves relocating tenants within the area rather than growth.

Rhode Island's industrial sector remains one of the tightest in the region, with persistent demand and limited supply. While a few projects are shovel-ready, high construction costs present major hurdles. One of the primary obstacles in industrial development is securing financing. Developers and landlords often require committed tenants before breaking ground, but many tenants cannot wait the 12-to-18-month construction timeline. Additionally, landlords need to secure large tenants to justify the high costs of new construction, yet many prospective tenants seek spaces in the 20,000 s/f range — which due to the higher construction costs make the tenant too small to make new development financially viable. These challenges have significantly impacted rental rates for newer industrial buildings, which have surged to \$13 to \$17 per s/f — up sharply from the \$7 to \$9 per s/f rates in older properties. Compounding the issue, much of the older inventory, with its lower ceilings and limited loading capabilities, cannot be customized to meet the needs of modern industrial users.

Speculative industrial buildings hold a distinct advantage in this market. Move-in-ready spaces are far more attractive to tenants than projects facing uncertain construction timelines. Without a shift in development financing strategies or a change in tenant demand, the industrial sector will continue to grapple with these constraints.

Rhode Island's retail sector has been on a steady upward trajectory, driven by strategic acquisitions and evolving consumer preferences. Notable transactions, such as Kempner Properties' \$30.75 million portfolio purchase — including the Town Fair Tire in Warwick — reflect continued investor confidence in the region.

Traditional big-box retailers have been downsizing, creating opportunities for smaller boutique and specialty stores to expand. Additionally, many former big-box spaces are being repurposed for alternative uses, such as medical, fitness, and entertainment facilities. This trend mirrors a broader national shift toward experiential retail, where consumers seek interactive, service-based experiences rather than purely transactional shopping. Sectors like boutique fitness studios, axe-throwing venues, and escape rooms are expected to see continued growth as consumers increasingly value in-person experiences that cannot be replicated online.

Retail lease rates in Rhode Island vary significantly by location. Providence and Newport command the highest rental rates due to strong tourism appeal and high foot traffic, attracting premium tenants willing to pay for prime visibility. Meanwhile, strip malls and suburban retail centers offer more competitive pricing, particularly those without grocery store anchors, appealing to tenants seeking affordability and access to localized customer bases.

Looking ahead, Rhode Island's commercial real estate market is expected to remain steady. While uncertainties persist, the state's careful balance of supply and demand — combined with a conservative approach to speculative development — suggests stability without major disruptions. The waters ahead may be unpredictable, but unlike larger markets that experience dramatic swings, Rhode Island is like a tugboat — small, steady in rough seas, and always moving forward. We will continue to push through challenges to ensure that the market remains reliable, even amid shifting economic currents.

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