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Rhode Island's industrial market: A mid-year review and forecast for the remainder of the year

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For the first half of 2007 the activity in the R.I. industrial market has picked up steadily with users and tenants showing more urgency in their demand for space. Industrial demand had started to dip at the end of 2006 with few active requirements and deals getting closed, but that trend reversed in early 2007 and has continued through the summer months. The overall industrial vacancy rate is tracking at 8% off a high of 8.4% at the end of 2006. The lack of existing product for sale and continued resistance by companies to commit to new construction has kept upward pressure on pricing for existing building sales and increased leasing activity.

The R.I. industrial market consists of approximately 49 million s/f of owner/tenant occupied space, which is up slightly from last year. This increase is due to a combination of new construction and the addition of existing buildings into our database, which we had previously not tracked. The majority of the industrial market consists of free standing owner occupied buildings ranging in size from 10,000-70,000 s/f. The low end manufacturing has continued to decline based on increased global competition and has been backfilled by new high-tech manufacturing users and an increase in warehouse and distribution needs.

Over the years, R.I. has lacked the typical high-bay warehouse space that is desired by national tenants when they look to relocate a distribution operation. This has caused the state to miss out on substantial leasing opportunities. These types of users look for buildings with 30 ft.+ ceiling heights, adequate loading facilities and convenient access to the Interstate highways. The existing inventory of buildings have an average ceiling height of 16 ft. clear and it really becomes challenging to find space with 18 ft.+. Job Lot has recently put their warehouse space at 360 Callahan Rd. in North Kingstown on the market as they transition into their new facility next door. This will make available 450,000 s/f of high-bay (30-40 ft.) warehouse space, which is only one of two building on the market that can offer this type of ceiling height.

Prior to 2007, leasing activity had been slow with users focused on owning due to the market culture and still historically low interest rates. We have finally started to see a change in this mind set driven by users' desire for more efficient, higher quality space and there being a lack of same in the market. Lease rates for larger blocks of space (30,000+ s/f), which had remained constant over the last few years, will start to increase as space is removed from the market. Lease rates for buildings in the 10,000-30,000 s/f range are now averaging $6.50-$8.50 per s/f, NNN; buildings in the 30,000-50,000 s/f range are now averaging $4.00-$5.50 per s/f NNN, and 50,000+ s/f buildings are now achieving $3.50-$5.00 per s/f, NNN.

Existing building sales have remained in line with 2006 with buildings smaller than 30,000 s/f trading in the $60-$80 per s/f range; 30,000-50,000 s/f buildings trading in the $40- $60 per s/f range, and 50,000+ s/f buildings trading in the $30 - $50 per s/f range. The major factors driving pricing are quality, functionality and location.

The demand for industrial land continues to attract attention with limited existing buildings on the market. This is evidenced by two recent sales at the Lakeside Commerce Center in Johnston, a newly established industrial park consisting of 150 acres. Fedex is under construction for a new 150,000 s/f distribution center and A. Duie Pyle is under construction for a 50,000 s/f trucking terminal. Western Cranston, the Smithfield Business Park and Quonset also continue to see activity with construction on-going. Industrial land pricing is now averaging between $3.50 - $6.50 per s/f with proper zoning and utilities infrastructure in place.

The forecast for the remainder of the year looks positive with close to 1 million s/f of active requirements and pending deals in the market. The increasing demand for high-bay warehouse/distribution space will eliminate some of the larger blocks of space that had previously been a drag on vacancy rates. Existing building sales will continue to get done, but with fewer and fewer "quality" buildings available companies will start to take a harder look at leasing. As leasing picks up we should start to see upward pressure on lease rates heading in to 2008. At this pace I expect the vacancy rate to finish the year in the 7 - 7.5% range.

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