

Five Questions With: Andrew Deluski

By
Marc Larocque

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Andrew Deluski is senior vice president for commercial real estate at Bank Rhode Island, which provides financing for the construction, refinancing, or purchasing of investment real estate projects.



Recently, BankRI provided \$6.5 million in financing to Washington Street Holdco LLC for the construction of an apartment complex at 473 Washington St. in Providence. The apartment complex project, which broke ground for construction in late spring, is now expected to be completed by the end of 2023. The building will be four stories tall, according to BankRI, and it will house 27 market-rate residential apartments, including 24 one-

bedroom units and three two-bedroom units. The project's architecture and design were created by the Providence-based ZDS Architecture & Interior Design.

PBN: What is the latest with the Washington Street Apartments project?

DELUSKI: The Washington Street Apartments project is one we have been particularly excited about, and it remains on track for completion during the first quarter of 2024. It broke ground late this past spring, and as is often the case with new construction projects of this scope, there are many moving parts from beginning to end.

Once finished, Washington Street Apartments will be a four-story apartment complex consisting of 27 market-rate residential units. Of those, 24 will be one-bedroom units and three will be two-bedroom. All of the units will feature a modern floor plan and high-end appliances and amenities.

There continues to be a strong market for these types of apartments, particularly in Providence, and our client anticipates immediate traction among interested renters.

PBN: What do you feel is the significance of the project for downtown Providence and this neighborhood?

DELUSKI: Anytime you have a new build in our state's largest market, I think it should be viewed as a positive, especially if it creates housing. With this particular project, the previous property was in disrepair and was unappealing. So, this new structure will not only add significant visual appeal to the neighborhood, but it will also increase residential inventory that is already in high demand.

There are also long-term benefits to the project. This build follows other projects in the immediate surrounding area that are close to completion, and that level of development activity represents meaningful and tangible investments to enhance the livability of a diverse section of our capital city. It demonstrates the area as one where other, additional projects can take shape.

PBN: On the lending side, what is the current demand like for apartment units in Providence?

DELUSKI: First and foremost, we can never have enough housing in Rhode Island – demand for residential is so much greater than the available inventory. Our state is an attractive place to live for a number of reasons, such as proximity to larger-market cities, access to the ocean, diverse arts and cuisine, and reputable institutions of higher education. You will always have people who want to live in a city, in the middle of it all. I have lived in Providence since 1999 and I love it.

That said, with interest rates having gone up and home values rising significantly in recent years, many people have been priced out of the single-family market. As a result, apartments are seen as more attainable and of interest to younger people, and I think that's a trend we will continue to see, and which will keep driving the current demand.

PBN: What is the current outlook with market-rate apartments in the city in terms of data and the amount of rent they should cost? How has the market rate trended lately?

DELUSKI: Even with rental rates increasing across all residential asset classes, market-rate apartments remain one of the hottest tickets in town. If you price competitively for the area, you're going to get the interest in your units, and that is evidenced by vacancy rates being at near-historic lows, including below 2.5% in Providence.

According to some of the data we've seen recently, the average median market-rate apartment in the city has topped \$1,700 per month, which is a nearly 6% increase over the previous quarter. It's expected that the market rate will continue to trend upward as inventory remains low.

[The] change in market rate can also be attributed to rising demand in specific neighborhoods, as has been seen in areas of the city such as the North End and Smith Hill. This is also an indicator that people are drawn to the many communities within Providence, which can make those markets attractive for developers and lenders.

PBN: How do you see the current economy impacting commercial real estate in Rhode Island?

DELUSKI: We appear to be at the start of another economic cycle and analysts are predicting challenges in certain asset classes, mainly office and retail. Liquidity within the market has been restricted, as some government spending programs cease and ongoing inflation eats away at consumers' purchasing power.

In relation to commercial real estate, a sizable number of loans are set to have their interest rate reset, moving from a rate in the 4s to the new reality of 7 or higher. Some owners and landlords may pass this increased cost on to their tenants, but others might not be able to take that approach and that could create challenges for some banks.

The market conditions today are quite different than a year ago, and those factors are impacting the viability of projects and leading developers to demonstrate patience.

Marc Larocque is a PBN contributing writer. Contact him at Larocque@PBN.com. You may also follow him on Twitter @LaRockObama.