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We are seeing a turnaround: The last 3 months of 2009 will certainly be the best of the year

October 27, 2009 - Spotlights

The Rhode Island commercial market, through good times and bad, is always characterized by stability, limited availability of good product, reasonable vacancy rates and modest increases, if any, in rental rates and prices. As bad as the 4th quarter of 2008 was for the commercial real estate business, the first quarter of 2009 showed a flicker of recovery. Through the spring and summer, that flicker turned dark. The last six months have been as quiet as any in the last 20 years. As the 4th quarter of 2009 moves on, we are seeing what looks to be a true turnaround in the brokerage business. The last three months of 2009 will certainly be the best quarter of the last year.

During 2009, the Providence office market continued to have some stability, increased vacancy and slight rent reductions over the entire central business district. Much of the vacancy increase and movement has been due to the Blue Cross changes. They have vacated space, their new tower is complete (with 20,000 s/f available), a large division has moved out of the central business district (30,000 s/f) and another one of their buildings is now empty (90,000 s/f). The Providence Journal headquarters will be in a transition mode leaving their existing building primed for some type of mixed use conversion. The G-Tech building and 50 Kennedy Plaza still have ample class A space available, while other A- buildings (56 Exchange Terrace and Turks Head) gained tenants.

The Rhode Island suburban office market experienced significant growth coming into 2008, expanding over 20% to about 7.5 million s/f. Most of the growth was centered in the West Bay submarket which has expanded by about 1.1 million s/f over the last few years. This development has occurred along I-95, on Jefferson Blvd., in Metro Center, The Crossings and on South County Trail in East Greenwich. The excess supply in the West Bay will take several years to absorb and rent concessions are available. The other suburban submarkets remained somewhat unchanged year to year. Current lease proposals are seeing the initial offerings 15% - 20% lower than the pre-crash rents and not getting back to the pre-crash rates until the end of five year leases. Current overall vacancy in the suburban office market stands at about 20%.

The industrial market lacks any speculative development due to the high cost of construction, lack of land ready to develop and the extremely soft lease market. With rental rates for the larger users (30,000 s/f) generally holding between \$2-\$5.00 per s/f on a net basis, spec construction is not viable. The overall vacancy rate remains around 10% for non-mill type property in this market, which totals about 50,000,000 s/f. Most of the larger transactions that occur in this market remain sales. Over the last quarter, there have been some significant leases that absorbed a good amount of modern industrial space. These include Portola Tech and RI Textile at 35 Martin St., Cumberland for a total of 230,000 s/f and Summer Infant Products at 100 Higginson Ave., Lincoln taking 130,000 s/f.

Since mid-2008 and certainly continuing into the 4th quarter of 2009, the retail market has been essentially non-existent. With the closing of many large retailers such as Circuit City and Bed Bath & Beyond and the reduction of others such as Starbuck's, the rest are sitting on the sidelines and watching what happens.

There is an endless supply of new, smaller restaurants that continue to crack the RI market while others disappear. On the plus side, you have some new local and regional players such as Ardeo Mediterranean Tavern and Luxe Burger Bar making a go of it in Providence. On the negative side of the equation, Macaroni Grille and Pei Wei Asian Grille in Cranston/Warwick have closed. In this market, it is a zero sum game for the retailers.

These contemporary style restaurants have avoided the small RI market in the past, but with the addition of upscale hotels and new office and residential developments, the Ocean State has finally attracted some of these restaurants, that at some point will be successful. In addition, RI is experiencing the rapid expansion of other upscale food concepts including Panera Bread, Trader Joe's and Whole Foods Grocery.

What these concepts have in common is that they offer the customer a better dining and shopping experience and as a result improve the retail landscape in the Ocean State.

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