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RI 2010 mid-year update: office vacancy increase, small and value-added retail tenants are active

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Into 2010, the Providence office market continued to have increasing vacancy and effective rent reductions over the entire central business district. Much of the vacancy increase has been due to moves that Blue Cross has made. They have vacated space, their new office tower came online (with 20,000 s/f available), a large division has moved out of the central business district (CBD) (30,000 s/f) in total and three of their class B buildings are now vacant (305,000 s/f), creating an overall vacancy rate in the CBD of 21-22%. GTECH Center and 100 Westminster still have ample true class A space available, along with the new Blue Cross tower. While other class A-/B buildings (56 Exchange Terrace and Turks Head) gained a few smaller tenants GTECH and 100 Westminster have recently gained tenants reducing their vacancy. 121 South Main St. (Hemenway's) looks like it will lose its last office tenant when Brown Rudnick leaves to make way for additional Brown University expansion in the CBD. Most landlords are very aggressive right out of the box with free rent, moving expenses and substantial TI allowances, making it difficult for tenants not to consider a move.

Most of the suburban office 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. (exit 15), in Metro Center (exits 12-13), The Crossings (exit 12) and on South County Trail in East Greenwich (exit 8-9). The excess supply in the West Bay will take several years to absorb and rent concessions are available. 300 Jefferson Blvd. in Warwick has gained tenant activity (GSA and DeWolfe Engineering) through very aggressive rent structures well below \$20 per s/f. The other suburban submarkets have remained somewhat unchanged year to year. Current overall vacancy in the suburban office market stands at about 20% with rents in the mid-high teens. New industrial space is non-existent. With rental rates for the larger users (30,000 s/f) generally holding between \$2.00 and \$5.00 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 million s/f. Many of the transactions that occur remain sales. Over the last six months, there have been a few significant new long-term leases that absorbed a good amount of single story industrial space. These include Bradley Press for 66,000 s/f at 32 Wellington Rd. in Lincoln, Portola Tech and RI Textile at 35 Martin St., Cumberland for a total of 230,000 s/f.

Since mid-2008 and continuing through the 2nd quarter of 2010, the retail market has been a difficult place to make a living. Rhode Island, however, has had pockets of some real growth.

In addition to value driven concepts like Dollar Tree and Family Dollar, smaller sized restaurants have development teams in place throughout the country with expansion plans in the northeast, including Rhode Island. In addition, several regional mid-sized casual dining restaurants in the 5,000 - 6,000 s/f range have their eyes open for new sites in Rhode Island. Furthermore, although most

banking institutions have come to a halt with their growth, there are still a few out there looking for new sites (TD Bank, Pawtucket Credit and Webster). Convenience stores with gas stations and automotive type retailers, such as Advance Auto Parts, have their people on the ground searching for new opportunities.

We are currently seeing a revitalization of smaller sized tenants (1,000 - 3,000 s/f), both local and national, looking for locations. Among others, Scottrade is about to expand into Carpionato's Greenwood Shops in Warwick, Little Caesars is opening up to ten new locations in Rhode Island, and Check 'N Go is looking aggressively to open new stores in Rhode Island. In terms of larger tenants, Aldi's Supermarkets has been successful with their expansion locally.

As 2010 moves on, the retail market in Rhode Island remains on average, flat, but with specific tenants active in this trade area, which creates optimism about the business, that hopefully will attract other new retailers to get into this market.

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