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2010 Rhode Island 3rd quarter office/industrial update: A healthy level going into year-end

October 27, 2010 - Spotlights

The Providence office market, and the commercial market in general in R.I., have seen a somewhat healthy level of activity in the 3rd quarter, going into year end. The general feeling is one of optimism and that the signs of the bottom of the market are in the past.

The construction of the new 75,000 s/f Brown University School of Medicine at 222 Richmond St. in the Jewelry District is well under way, which spurred a number of office relocations around Providence out of this property during the year. These included the move of the Big East Conference into approximately 33,000 s/f at Gateway Center on the other side of the Central Business District. Another win for Providence in the second half of the year has been the signing of Curt Shillings 38 Studios to a major portion (approximately 80,000 s/f) of one of the vacated Blue Cross buildings in the Empire District of Providence. It also looks like other related companies could follow if 38 Studios takes off.

Additionally, the long vacant 9th and 10th floors (approximately 60,000 s/f) of the Gtech headquarters at 10 Memorial Blvd. have seen a significant amount of attention from tenants recently beginning with the signing of The Virtus Group to 4,100 s/f on the 9th floor. There are three or four other firms rumored to be considering the balance of the two floors, bringing 10 Memorial to near 100% occupancy. The landlord and tenants seem to have found equilibrium between the market demand and the true pricing/incentives/TI that these tenants are willing to pay at 10 Memorial. Being the premier office building in the market, it was only a matter of time before the signature tenants that were out looking made the move.

The suburban office market has also seen some noteworthy activity and absorption during the 2nd half of the year. After years of waiting for tenants, 300 Jefferson Blvd.in Warwick has finally turned the corner and gained tenants through very aggressive rent structures well below $20 per s/f. It also looks like they have secured ADP for the top floor of the 75,000 s/f, three-story building, stabilizing the property. Northern Rhode Island remains relatively quiet with higher than average vacancy and minor tenant activity. It looks like Johnson Controls will finally land in a northern Rhode Island home after a 2-3 year search around the area.

The industrial market in Rhode Island remains as stable as ever, static rental rates, sale prices that have dipped a little over the past few years into the $40s per s/f for the better product, vacancy rates still hovering just below 10%. Overall, it is a relatively "boring" market. Industrial property sales have remained active through the 3rd quarter, given the low cost of funds and the continued availability of funds for good credit buyers. A lack of product has held the pace of sales at its current rate. The current demand could stand a little more supply. At this point in the market, a buyer can get an excellent 20,000 s/f building with 15% office space, loading docks, drive-in door, adequate power and in an industrial park setting for $40 per s/f.

A noticeable shift in the industrial market that we are seeing is the increase in quality leasing activity in the 15,000 - 50,000 s/f size range. This business has been almost non-existent over the past few years. There have been a number of industrial leases signed since mid-year and even more in the pipeline. Most of this activity has been in the metro Providence area and to the north, but as we stated earlier, the rental rates remain the same. For very good quality warehousing space with sufficient loading, the rental rates are in the $2.50 - $3.50 range on a net basis.

In summary, as dreadful as the last two years have been in most sectors of commercial real estate, there seems to be a light at the end of the tunnel. In Rhode Island, one thing that does not happen is the construction and over supply of speculative product. On one hand, we may not win the trophy tenants or developers many times, but on the other, we don't have the mental anguish of living with large swings in rental rates or values, foreclosure activity and huge vacancy rates that last for years.

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