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## **Southeastern Connecticut commercial RE market is in good shape with cautious optimism toward 2008**

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A look back at 2007 finds the SE CT commercial real estate market in good shape. A cautious eye towards 2008 finds optimism despite some news to the contrary.

We find the Class A office market rebounded to the lower \$20s per s/f gross, with slightly eroded gains due to higher utility costs. (Property charges are hovering around \$7 - \$7.50 per s/f.) Occupancy rates are a tepid 75%, but opportunity still presents itself to tenants to find good quality space at affordable prices compared to other areas in Conn. And there are definitely companies exploring the opportunities. A landmark deal for the New London Class A office market was the recent lease to the Coast Guard R&D Center of 46,000+ s/f of space at One Chelsea St. The remaining 40,000+ s/f can be subdivided to accommodate all kinds of tenants, but the real point is the opportunity that exists for larger companies to lease quality space at reasonable prices. In a marketplace of 800,000 +/- s/f of A&B office space it doesn't take much for the gaps to be filled. Overall, while the 2007 occupancy rate was not as high as hoped for, 2008 looks good to fill these vacancies... more to follow.

The industrial sector saw the smaller spaces of 800 s/f to 2,500 s/f experience vacancies as contractors tightened their belts after the residential boom finally took a breath and began its long awaited correction, which set in with a vengeance in the summer of 2007 following the sub-prime lending fiasco. However, Airport Business Park in Groton is full. And in East Lyme off Liberty Way, the D'Amato Bros. will be breaking ground in 2008 to build yet another building for smaller tenants. Industrial land prices are in the \$100,000 range per usable acre. These prices tend to be found in the developed parks where roads and utilities have been installed. Where city water and sewer are available prices can be higher. Prices for the smaller existing spaces can approach \$12 per s/f plus utilities, while the larger spaces 5,000 s/f and up, range from \$4.50-\$6 per s/f triple net (nnn), with blended rates between \$8 & \$10 per s/f nnn.

Along the I-395 corridor, the recent spike in activity in distribution sites and facilities has slowed down. But this appears to be just a lull; prices are still very attractive and the corridor offers excellent transportation access.

Manufacturing is making a turn. Over the past few years there is a trend in some sectors back to the USA. Before you laugh, my conversations with manufacturers have indicated that accuracy and speed still count and are beginning to count more. Those companies that are automated and producing a high quality product in less time and "on demand" are winning contracts. Yahoo! In the meantime warehousing and distribution reign king.

The SE CT retail marketplace has been brisk, to say the least. On the Crystal Mall Corridor in Waterford, Waterford Commons has contributed in excess of 500,000 s/f of new retail space, adding Dick's, Borders and Best Buy to name a few of the larger stores. A Circuit City and others is

also proposed just down the road. Again in Waterford at exit 81 off I-95, Lowe's has recently opened.

Moving farther east to Groton, in the Long Hill Rd. area, "the golden mile" as it was known in the '60s, a comeback has occurred to where now many vacant stores have been renovated or their sites redeveloped. The area now has a new look and a new life. Even farther to the east in the town of Stonington a new Stop & Shop is being constructed on Rte. 2 at exit 92 off I-95, while across the street the recently approved Liberty Crossing, a 500,000+ s/f center with Lowe's and others is getting under way. Farther north in Norwich the Rte. 82 corridor off I-395 at exit 80 continues its dominance as that area's hottest spot. Expect to see more redevelopment there in the future.

The most notable proposal is in East Lyme at exit 74 off I-95 where a retail/office/residential development is proposed for the "Gateway" land. If approved, this development will firmly place East Lyme as the gateway to SE CT.

In addition to the larger developments the smaller suburban strip centers have seen a re-positioning, with corners changing appearances to the new, and more "eye friendly" buildings that local zoning officials promote.

Prices for land for the larger developments are averaging around \$200,000 per acre, with adjustments up or down depending on the costs of site work. Prices per s/f for suburban retail space range from \$15 per s/f nnn to, in areas of higher density, the lower \$20s per s/f nnn. The larger stores are negotiating prices in the \$12-\$15 range nnn.

Overall the engines that drive the SE CT marketplace are running on all cylinders: Pfizer has consolidated and brought many of its Ann Arbor MI workforces to the area. Electric Boat division of General Dynamics has won contracts to build 2 submarines per year. There will be some down time before the contracts start but the future is secure. Likewise, after having survived the base closure list, the US Subbase is open and "steady as she goes". The two largest casinos in the world are, well... still the two largest casinos in the world.

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