

By Gerry Surprenant and Leeds Mitchell - R.I. office rates should remain steady in 2012, but businesses are looking for market stability

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Generally the office market in Rhode Island is seeing some signs of improvement as vacancies decrease slightly and rents firm up a bit, but overall demand continues to be very thin.

In the downtown Providence office market, there has not been the large volume of deals, but the deals that have happened, or are in the pipeline, are significant, ranging anywhere from 10,000 s/f - 150,000 s/f in size. During the past year and a half, 10 Memorial Blvd. (GTECH) had arguably the best return on their tenant investment, essentially filling up the available space over four or five tenants. This will help the other available "A" space during 2011 and into 2012, such as 500 Exchange St. which was successful in leasing approximately half of its available space (approx 10,000 s/f), 15 LaSalle Sq. which landed Hasbro, and 100 Westminster Street. As a result, this has pushed rental rates for class "A" space consistently back over the \$30 per s/f number on new deals. Schillings 38 Studios has moved into their new 100,000 s/f headquarters and a few landlords still have their fingers crossed in the hopes of landing the big one during 2011, Hasbro, for 150,000 s/f. While the traditional office leasing has waned, the biotechnology and internet technology sectors have been able to weather the financial crisis. In 2011, NabSys, a biotechnology company, expanded into a 10,000 s/f office/lab facility in 60 Clifford St., located at the foot of the Jewelry District, and recently expanded into an additional 3,000 s/f of office space. Internet start-up company, Swipely expanded into over 7,200 s/f at 39 Pike St. and Andera leased 15,400 s/f at 15 Park Row West.

The big question remains, what happens with the development of the 41 acres of "Rte. 195" land that has become available as the highway was removed? A development commission has been put in place to oversee what occurs on the available land. Will the larger medical and educational institutions (Lifespan, Brown University, Johnson & Wales) pressure the state into allowing them to use

the land for their expansion, or will the private and institutional developers and investors have their shot at a piece of the pie? Shortly, it will be up to the Rte. 195 Redevelopment Commission to make some decisions that will change the face of the downtown Providence office landscape. However, standing in the way of property development, particularly for the private sector, will be the high cost of new construction and the resulting need for rents easily exceeding the highest rents presently in the market.

In the suburban office market, northern Rhode Island has remained flat during 2011 due to a lack of demand, coupled with the low availability of available office space. A few smaller deals have been completed such as Colgate Palmolive securing 3,000 s/f at 42 Albion Rd. in Lincoln, continuing the trend of companies wanting proximity and immediate access to pharmacy giant CVS.

South and west of Providence, there are larger pockets of office space available for sub-division, offering ample opportunities for larger tenants to secure space at the currently low market rents. A few of these are the New England Tech facilities in Warwick (up to 170,000 s/f), a number of buildings in Metro Center, including One Home Loan Plaza (15,000 s/f), 125 Metro Center Blvd. (15,000 s/f), 301 Metro Center Boulevard (27,000 s/f), and then going all the way up to 300,000 s/f at the former FM Global headquarters at 1301 Hartford Ave. in Johnston.

While office leasing in the West Bay office market has been soft for most of 2011, Atrion, Inc. recently completed a lease at Metro East, 125 Metro Center Blvd. Once construction is completed in spring of 2012, they will occupy the first 2 floors, about 32,000 s/f of the 46,000 s/f building. The East Bay office market continues to suffer from very limited demand.

The medical office sub-market is also suffering from very weak demand as the number of small to medium size medical practices diminishes due to consolidations and absorption into the large organizations such as Lifespan.

As we look forward to early 2012, there is not much indication of significant market improvement. That said, lease rates should remain fairly steady, as should vacancy rates. Small and medium size businesses are still looking for market stability, and until found, we will not see much movement in this sector.

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