



CELEBRATING
55 YEARS

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2012 looks like it will follow the trend of previous years slow positive growth, which is not bad

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A few years ago, in an article I wrote for this publication, I talked about a five year turnaround for our business, and when the commercial real estate world crashed after a very strong 2007, it felt like we would not see a turnaround for at least the next five years. As we now enter the 5th year of this down commercial real estate market, enough time has passed that we are operating at a level, that although lower than pre-2008, has "temporarily" become the new standard. During the bottom of our market, deal volume was down 25%-30% from pre-2008 levels. The volume of deals (space) transacted has returned to pre-2008 levels, but the sale prices and the lease rates are lower, companies are more cautious about making new deals, therefore deals are taking longer to complete. When the data comes in for 2011, it should show that 2011 was at least as good as 2010, which was significantly better than 2008 and 2009. The trend is slow positive growth, which is not bad. 2012 looks to be following that model, with slow, continual improvement across all market segments.

In the downtown Providence office market during 2011, there was significant absorption outside of the financial district, helping the near 20% office vacancy rate drop back into the mid-teens where it had been since the beginning of the downturn. When Blue Cross left the Empire District three years ago for Capital Center and its new headquarters, there wasn't much doubt that it would be years until that space was absorbed. By the end of 2011, the Empire District was essentially full. 38 Studios took approximately 1/3 of the available space in 2010, and then Hasbro and the City of Providence followed, making deals during 2011, and absorbing the balance of the 200,000 s/f of empty Blue Cross space. During 2010, 10 Memorial Blvd. (GTECH) had arguably the best return on their tenant investment, essentially filling up the available space with four or five new tenants. These successes lead to the property being placed on the market for sale by USAA Insurance. During 2011, there seems to have been some modest interest in the \$50 million range. One noteworthy item on the watch list for this coming year will be what Bank of America does with their 360,000 s/f of space in January 19, 2012

111 Westminster St. (The Superman Building) as the lease expires in a little more than a year. A lot of the space is already physically empty, or unused.

In the suburban office market, northern Rhode Island remained flat during 2011, and will be continue to be so during 2012. Vacancy rates have remained over 20% since the downturn and look to continue that trend during this year. A goal for the landlords is to be very proactive with their existing tenants. Do not let them slip away, as landlords with vacancy have also been very aggressive with new tenants.

The R.I. industrial market in 2011 seemed to mirror 2010, as both years started off strong and as the years went on, demand dropped off. Each year created anticipation of a good year to come, with a

drop off thereafter. 2012 looks to be similar to the last two years, although there are some recent, better than average, availabilities that may prompt some users that have been sitting on the sidelines to get in the game. Vacancy still remains above 10% across the market.

Industrial leasing remained flat during 2011 and still looks to remain flat, to slightly increasing during 2012, with rental rates following the same trend. Any increase in leasing volume would be due to some of the new availabilities, such as 99 James P. Murphy Highway in West Warwick (80,000 s/f, 26' clear, 16 docks) and 2 Carol Dr. in Lincoln (40,000 s/f, 100% A/C), both in industrial park settings.

The retail market struggles to find a direction. The national chains stay in the background in the R.I. market, with vacancies at many retail centers coming and going, new restaurant models trying empty locations, landlords putting facelifts on what they have in order to stand out from the pack, and many times only the best locations surviving. The new P.F. Chang's China Bistro at the Providence Place Mall has shown excellent demand with many nights being fully booked and reservations hard to come by in the evening. The smaller regional players with three to eight existing stores are active and taking advantage of the reduced rental rates and improvement allowances being offered by struggling landlords. National chain retailers remain very quiet, including those from the full service restaurant sector. Although, they will be looking for opportunities during 2012, in January 19, 2012 R.I., it will only be the absolute best locations that will attract any attention from them.

Although it has been a mix of optimism and pessimism, looking forward through 2012, the consensus is that most trends are pointing in the positive direction in R.I. A bright spot in the up and down retail world are the new Jordan's Furniture and Nordstrom Rack locations adding 150,000 s/f of space at the Warwick Mall during 2012.

The optimism about new deals is also based on the establishment of a new base for rental rates and deal terms. From a low point in 2009, 2010 was better than 2009 and 2011 better than 2010. Landlords and sellers just have to come to the realization that rental rates and sale prices have bottomed out, but are still low and that concessions are necessary to keep existing tenants and acquire new tenants.

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