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Positive news in the Rhode Island market brings hope to the community, but challenges still remain

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As we move into the second quarter of 2012, the question on everyone's mind seems to be, "are we finally there?" Has the market finally reached a point where both investors and users can confidently begin to make real estate decisions without the fear of that decision coming back to haunt them in the next few years? We believe that the answer is yes, but a very tempered yes. As we look across Rhode Island's real estate landscape there are many positive signs of stabilization and underlying economics are strengthening. The issue that is still in the forefront: ongoing budget challenges that are facing most of urban Rhode Island.

The most recent information from the Rhode Island Association of Realtors indicates more residential sales and less of a decline in sale price. There were fewer foreclosures statewide and a number of active seekers in the commercial market. All of this gives market participants reasons to be somewhat optimistic. Looking across market segments, there are primarily good signs.

In the office market, the signs are very good. Hasbro has signed a lease for 15 LaSalle Sq. in Providence, and is in the process of renovating the building in anticipation of a fall 2012 occupancy. Atrion moved into 32,000 s/f on Metro Center Blvd., Warwick; and after a long process ADP has committed to 23,000 s/f on Jefferson Blvd., Warwick. Most of the relocation was need-based but while landlords continue to be aggressive in terms of rents, tenant improvement allowances, and concessions, they are not as aggressive as they were in past years. Most of the activity in the market continues to be tenants whose leases are coming up for renewal and who are using the favorable conditions to either relocate into superior space at similar rates to what they are currently paying, or using the current conditions to get their landlord to reduce their rate.

In the industrial sector, the market continues to be led by need requirements. Dennison Pharmaceutical's purchase of One Powder Hill Rd., Lincoln is a prime example. After contemplating an addition to their existing facility, management made the decision to purchase One Powder Hill as the cost of acquisition and the overall functionality of the new building made it a much better investment than the addition. The issue still facing the industrial sector is the fact that much of the building inventory is older, "short ceiling" manufacturing buildings that are not conducive to modern industrial use. While this continues to be an issue, the market for modern "high bay" buildings remains strong.

In the retail market, the most telling sign of improvement is the increase in activity along the major corridors. On Bald Hill Rd. over the last three years there has been limited activity, most of it driven by discounters. Now, over the last three months, there are a number of both tenants and investors looking at the corridor. Rents still are significantly less than the heights we saw in 2007, but there is not as much downward pressure. Many of the larger spaces that have remained vacant are being shown with many either close to or in lease negotiations.

The final sector to be looked at is the former I-195 corridor land in downtown Providence. The Governor has appointed the committee that will address the redevelopment of this area, led by Colin Kane. The committee is comprised of a cross section of the community and first must address significant infrastructure issues before the focus is turned to redevelopment. It would appear that any development will have to be coordinated between the all of the constituencies and stakeholders including public, private and institutional interests.

The ongoing state and municipality budget crisis is the gorilla in the room, particularly in the urban areas, which continues to have a negative impact on the Rhode Island economy. Leonard Ladaro of the University of Rhode Island, who tracks the Rhode Island economy, has stated that without some significant changes the state potentially faces a "double dip" recession. Rhode Island leaders including governor Chafee, general treasurer Raimondo, Providence mayor Taveras and other mayors and municipal leaders are attempting to address the issues. Only time will tell if they will succeed. This issue will continue to hang over the economy and the real estate market.

Lastly, the final issue is jobs creation which is obviously a significant driver in the real estate market. Rhode Island continues to lag behind the region in job creation and is not expected to replace the jobs lost in the recession until 2021 or later. There must be a concerted effort to improve job creation, which in turn will upwardly affect the real estate market.

Although the market's upward movement may appear to be moving at unhurried rate, it is in fact moving and has been moving in the right direction for some time now. Perhaps we all need to look back at the childhood fable, The Tortoise and the Hare. Slow and steady does win the race. As long as we continue to assist the economy and the job market we will be successful.

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