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Rhode Island office market stabilizing: Has experienced an increase over last twelve months

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The Rhode Island office market has experienced an increase in activity over the last twelve months and as a result, vacancy rates are beginning to decline.

The Central Business District in Providence increased absorption as vacancy rates decreased from 19.5% a year ago to 14.1% in the First Quarter of 2012. Several significant transactions have taken place Downtown including:

* Hasbro leased 134,000 s/f at LaSalle Square.

* The City of Providence leased 66,000 s/f at 444 Westminster St. and 30,000 s/f at 40 Westminster St.

Although vacancy rates are declining, the Downtown market is still a tenant's market. Landlords continue to offer lower rents, high improvement allowances, free rent and other incentives to keep and attract interested tenants. But those incentives clearly are not as aggressive as they were twelve months ago.

In the Northern suburban market, very little space is available. Class A & B office vacancy rates declined from 12.8% to 9.1%. Most of the office space available in the Highland Park has been absorbed with one new building under construction. Rental rates average \$17 per s/f, a slight increase from rates a year ago.

In the West Bay market, vacancy rates remain at roughly 23%. A few large transactions including USI, Atrion, the GSA and 47,000 s/f at Quonset Point were able to offset several large vacancies. Rental rates continued to decline in the West Bay among class A & B buildings. Those rates moved from \$18.80 a year ago to \$17.99 in the First Quarter of 2012.

In the East Bay suburban market, class B space, which dominates the market, had an 8.9% vacancy which also includes one significant sublease. That rate declined from a 10.2% vacancy last year. Rental rates declined once again to \$15.95, but we do not expect that trend to continue as activity has increased significantly in the First Quarter of 2012.

As a whole, the entire Rhode Island office market declined to roughly 15.9%. Since a significant amount of vacant space was absorbed, particularly in the Providence market, we are forecasting rates to stabilize in 2012. Vacancy rates should continue to decline and rental rates should increase with landlord incentives beginning to decline. Since there has been very little new construction for tenanted office buildings in 2011 (126,000 s/f) and we expect the same trend for 2012, vacancy will continue to slowly be absorbed in existing buildings. Tenant activity continues to increase in the First Quarter of 2012 and we expect that trend to continue throughout 2012.

The Universities and higher education institutions continue to lead the market in growth, and as a result, space absorption.

Brown University, Johnson & Wales University, Lifespan, Care New England and Rhode Island

School of Design continue to grow and expand in the Rhode Island market and that leads us to believe the office market will continue to grow as well.

Karl Sherry, Jr., SIOR is a partner at Hayes & Sherry, a Cushman & Wakefield Alliance Member, Providence, R.I.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540