



nerej

Election fosters wait and see approach, but market offers opportunities for tenants and brave investors

October 25, 2012 - Spotlights

In comparing Rhode Island's general outlook from this year to last, you could say that last year was *d'Ã©j'Ã* vu and this year is wait and see. As both the country and the region wait for the outcome of the Presidential election, some are making decisions in anticipation of the election results, but most are waiting to see who wins. The two candidates' starkly different points of view could potentially have an impact on the market, but we really feel that based upon the ongoing conditions in Washington, who is elected will not make a lot of difference in the short term. The most likely beneficiary of a growing economy will be the person elected in 2016.

Locally, we are still facing the same issues: high taxes, poor business climate, and under-educated work force. But according to University of Rhode Island professor Leonard Lardaro in his Current Conditions Index, "the state's economy is gaining strength along with the U.S. economy." This is reflected in a slight increase in activity as well as deals actually being completed. The fallout from the 38 Studios failure still hangs over the market but most brokers are experiencing an increase in activity, if not actual transactions. Rhode Island remains a need-based market with little new business moving into the state, but there is some activity and growth.

Office: The biggest news was the departure of 38 Studios from downtown, leaving in excess of 100,000 s/f available. The small bright side is that the space they vacated is newly built out and will be ready for occupancy once the bankruptcy process is completed. In other developments: ADP occupied its new 25,000 s/f space on Jefferson Blvd. and the R.I. Convention and Visitor's Bureau moved into a new 6,000 s/f space overlooking Waterplace Park in the GTech Center. The GTech Center itself was sold by an affiliate of USAA to a regional investor. Most of the activity still is based on tenants looking at relocation primarily to help in renegotiating with their existing landlord. There are a few growing companies who are looking at numerous options across the market and while landlords are not having to give as many rent concessions, it is still a tenant's market. We don't anticipate any significant upward pressure on rents or sale prices.

Industrial: The industrial market continues to maintain with rents and vacancies remaining stable. There remains a perception that tenant deals can be made at aggressive rates, but the reality is that the pricing on good quality space is holding up and there are even slight signs that upward pressure could begin to be realized due to lack of good quality space and/or property. Sales such as 50 Sharpe Dr. and 30 Kenney Dr. in Cranston were purchased by owner-users who had need requirements. In addition, the trend of converting former industrial uses to medical office uses in the ManuCenter area of Providence continues.

Retail: The retail market continues to face challenges both on the main and secondary corridors. It would appear that the former PetCo space on Bald Hill Rd. in Warwick will finally be repositioned with a new tenant after a number of years of vacancy and unsuccessful reuses. The planned and

ongoing expansion of Garden City, and the announced new tenancies of Ann Taylor and LA Fitness in the former Borders space in the center, illustrate Garden City's durability and desirability. The ongoing move from big box buildings to smaller stores continues.

On the sale side, most retail has been and will continue to be of either nationally single and multi-tenanted facilities or single user type properties. Pricing is typically being impacted by the purchaser's needs, primarily 1031 exchanges or use-specific. This will not change for the foreseeable future.

Finally, the I-195 Commission continues its work in bringing the newly available land to market. While the process is not moving as fast as some would hope, it is a process that will result in the property being ready for development with procedures in place.

In summary, while not bursting at the seams the market is holding its own. Over the past year I've opined that the current market reminds me of the market around 1993. It was a market that was not only impacted by the national recession but by the R.I. credit union crisis. At that time a number of investors and owners purchased properties at what some people thought were very aggressive prices based upon the economic conditions. Five years later, other clients would ask me why they couldn't pay the same price that those people had for the property they were interested in. My response was that those people had the forethought and initiative to take the chance and invest in a down market and benefited from it. I believe that opportunity exists today in this market, as long as the investment is based on solid fundamentals.

Thomas Sweeney, SIOR, is president of Sweeney Real Estate & Appraisal, Providence, RI.

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