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With new governor focused on economic expansion, R.I. economy will continue to recover and grow

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The Rhode Island office market tightened again in 2014 and is forecasted to continue its trend of modest improvement for 2015 as additional absorption combines with very little increases in inventory.

In Providence, the vacancy rate at the end of first quarter 2014 was 14.4% and finished the fourth quarter at 13.5%. Concessions by landlords continue to shrink, especially in the Class A market where vacancy rates are hovering just below 10% and large blocks of space are increasingly difficult to find.

The most significant project in Providence, and Rhode Island overall, is the South St. Power Station development, formerly known as "Dynamo House". Commonwealth Ventures Properties has partnered with Brown University, the University of Rhode Island (URI) and Rhode Island College (RIC) to renovate the former Narragansett Electric facility into a 130,000 s/f shared nursing education center for URI and RIC, and 135,000 s/f for Brown University to house administrative office functions. In addition, they are planning a large student housing development along with a 600+ car parking garage on adjacent parcels. This development will not add any significant space to the market.

There were few large scale capital markets transactions in 2014; however we anticipate an active 2015 with several properties currently on the market.

For future office development in the "Knowledge District" (formerly referred to as the Jewelry District), the Victory Place site is 5.3 acres which is located at Rte. 95 and the new Rte. 195, between the Hospital District, Brown University's Medical School and Johnson & Wales University. It is being marketed to "Meds & Eds" users, residential developers, hotel groups and retailers.

The former Rte.195 land opened up 40 acres of land, of which approximately 19 acres is usable. The Rte. 195 Development District Commission is calling the developable land "The Link". There are currently two parcels under contract to sell to residential developers.

In the suburbs, the West Bay remained relatively unchanged with vacancy rates decreasing from 17% in the first quarter of 2014 to 16.8% at the end of the fourth quarter. Michael Integlia & Co. is currently planning two projects that will have a significant impact on the West Bay market with a total potential of over 500,000 s/f. One City Center, located directly across the street from the Interlink train station with direct connection to T.F. Green Airport, is planned for up to 400,000 s/f of mixed-use development. Additionally, One Metro Center is planned for a 100,000 s/f Class A office development.

At the new Northwoods campus in Johnston just off Rtes. 295 and 6, and 5 minutes from downtown Providence, construction has finished on the 340,000 s/f, \$65 million development. In addition to Dassault Systemes taking 90,000+ s/f, NY Life has signed a long-term lease for 25,000 s/f and

plans to move in this spring. With nearly 200,000 s/f of space still remaining, this development is the largest block of contiguous Class A space available in the Rhode Island market.

The East Bay suburban market has seen vacancy rates increase slightly from 8.9% to 9.2% with little overall activity. University Medicine has signed a lease on a new build-to-suit medical development on Wampanoag Trail for approximately 70,000 s/f. Construction has begun on this new project with occupancy anticipated in 2016. This project will likely add less than 10,000 s/f to the market inventory.

With the new governor being focused on the economic expansion, we are optimistic that the Rhode Island economy will continue to recover and grow in 2015.

Peter Hayes is a partner with Hayes & Sherry, a Cushman & Wakefield Alliance Member; Matt Fair is a broker with Hayes & Sherry, a Cushman & Wakefield Alliance Member, Providence, R.I. National retailers have helped mature the R.I. retail landscape; new construction will help maintain it. Rhode Island's retail leasing market continues to see activity from local and regional retailers and a few select big box users. That being said, 2014 will be a difficult year to repeat as we experienced strong absorption from big box users as well as a wide variety of retailers. To maintain the momentum, the catalysts for 2015 will need to be similar types of retailers to continue to help strengthen the Rhode Island economy and compete with neighboring states. These include full service national and local restaurants, fast food establishments, health and fitness centers and an array of other retailers. In addition, one way to outpace last year's retail resurgence is more activity in shopping center development. For example, Dowling Village in North Smithfield has been hugely successful in attracting tenants and is close to being 100% leased with a healthy mix of tenants.

In Warwick along Rte. 2, we continue to see relatively good activity and lower vacancy rates with regard to class "A" retail centers. For example, at 1000 Bald Hill Rd. with Trader Joe's, Panera Bread and Eastern Mountain Sports and 300 Quaker Lane with Stop & Shop and Christmas Tree Shops they are able to attract national tenants and maintain close to 100% leased centers. However, we also see vacancy spiking up a bit in the rest of the retail market. We see approximately 6,000 s/f of vacancy at 824 Bald Hill Rd. in the Men's Warehouse space and about 8,000 s/f of vacancy at 1020 Bald Hill Rd. Also, at 1276 Bald Hill Rd. there is vacancy at Summit Sq. Further south at 325 and 555 Quaker Lane there is 4,000 to 6,000 s/f of vacancy as well.

The good news is that LA Fitness is under construction at the former Shaw's Supermarket, Chick Filet is now open and doing very strong numbers at the former Boston Market and CarMax is underway with their construction at the former Building 19 Location in Warwick. Also rumored at the Rhode Island Mall is a transformation into an outlet mall. The developer is in pre-leasing phase and whose goal is to lease up 100,000 s/f before construction commences for a delivery in 2016.

Rhode Island continues to capitalize on its reputation of being a strong local restaurant market. Its high propensity for Rhode Islanders to eat out attracts both local and national restaurants and fast food chains. This sector has continued its strong growth in the Ocean State and restaurants have continued to open at a high rate. This is beneficial for landlords because they are able to pay higher lease rates and attract more shoppers to the trade area. For example, restaurants on the growth path are Sonic Burger looking on Rte. 44 in Smithfield; Moe's Southwest Grill, Not Your Average Joe's, Dairy Queen, IHOP, Buffalo Wild Wings, Chipotle Mexican Grill, Piezoni's and Starbucks are out looking again.

In addition, one type of retailer that continues to grow is Dollar Tree which is under construction on Dexter Rd. in Pawtucket and will open 2nd quarter 2015. O'Reilly's Auto Parts is also scouring

Rhode Island for 6,000 - 7,000 s/f locations in busy areas with high traffic counts. We continue to see seeing pawn shops, auto-part stores, beauty salons and cellular phones stores looking to expand in the market. While they may not be the most glamorous tenants, they do show evidence of being financially stable and capable of further growth.

Rhode Island's retail market has grown over the last several years and will need to continue to attract national tenants to keep up with other neighboring states and also rely on its local retail businesses to help fill the vacancy. Its ability to develop new shopping centers and attract class "A" retailers will be important to sustain its momentum it created over the last year. National retailers have helped mature the Rhode Island retail landscape and new construction will certainly help maintain it.

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