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The three sectors contributing to Providence's recovery

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In the smallest state in the Union, you won't hear much about new development. Likewise, you likely won't hear concerns about the overbuilding that can disrupt other markets, because Rhode Island's modest population keeps projects in check.

With slightly more than a million residents, Rhode Island has a unique set of real estate challenges, and developers, investors, and commercial real estate brokers in Providence face hurdles that their peers in Boston and Hartford, Connecticut do not. But a development area in Providence could become the center of new opportunities in the state. And good commercial opportunities exist in Rhode Island's capital, with three sectors - industrial, office, and retail - expected to be the most active in Providence commercial real estate this year.

A steady recovery

Providence's industrial sector remains the city's most active commercial segment and a major economic driver, as industrial vacancy rates continue to fall. At the same time, the growth is steady and measured. We expect the sector's estimated class A market rent to remain the same this year as in 2014, while the U.S. average should increase 2.53%. Local companies have taken advantage of low prices and attractive financing. There is also greater demand for smaller spaces and continued absorption is anticipated.

Providence's office sector is experiencing a decrease in vacancy rates and low but sustainable levels of new construction, indicating the last stage of post-Great Recession recovery. As a secondary market to Boston, Providence is increasingly providing office space to companies squeezed out of or relocating from Boston. Class A and B vacancy rates in the suburban market subsection remain higher than the national average, standing at 16% compared to just 14% nationally.

Retail, while still active, lags behind the industrial and office sectors, and continues to be outpaced by the national trends. We estimate the city's community and neighborhood retail will balance over three years, longer than the national averages of 1.2 and 1.6 years, respectively, because of Providence's population of about 180,000 residents. Simply put, the city and Rhode Island in general (1.05 million residents) lack the total population to absorb retail quickly.

Providence's riverfront area ripe for new opportunities

When construction finally concluded on the I-195 relocation along the Providence River in 2013, the city gained areas ripe for new development. Colloquially known as Iway, this riverfront zone has been carved up, and two developers have already bought plots; one of the developments is likely to add new student housing to the area.

The Iway zone is one of the last developable areas in Providence, and city officials continue working with developers in hopes of selling the parcels piece by piece. Currently, Providence has very few notable projects under construction, but Iway is the future.

In the market's future

Boston's loss is Providence's gain; spillover from Beantown often lands in Providence and the rest of Northern Rhode Island. Currently, CBS is the area's largest employer, and Providence's handful of higher education institutions - Brown University, Johnson and Wales University, Rhode Island School of Design, Rhode Island College, and Providence College - are causing a flood of new student housing that developers are filling throughout the city.

Overall, Providence's commercial real estate market is small compared to other Northeast cities, and this creates a unique challenge for local investors and developers. But steady and recovering segments, like industrial and office, are creating opportunities for growth and expansion.

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