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Rodman Real Estate's 2007 Rhode Island survey

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Market Overview

The 2007 Rhode Island real estate market once again reflected the state's ongoing transition from a manufacturing-based economy to a service-based economy. The year saw a continued conversion of many former industrial facilities to alternative uses including office and residential. The negative trend in residential real estate has not filtered into the commercial/industrial market with median prices maintaining, and in some cases increasing, over 2006. The office market saw an increase in activity, the industrial market saw a decrease in both number of transactions and dollar volume. This is generally attributed to both lack of expansion in the manufacturing sector and the lack of quality product in the overall industrial sector. The larger lease transactions within the industrial sector have primarily been a result of relocation and/or consolidation. The larger sales have been primarily to investors, who are already active in the market and are familiar with the types and sizes of tenant requirements in the market.

Rhode Island at the end of 2007 is reflective of the adage "we don't go boom but we don't go bust." While the state benefited from the good economic conditions that were present over the last five years, we did not see dramatic increases in either office or industrial building over this time period. While there was speculative building, predominantly in the Warwick office market, it did not rise to a level, where considering the current economic conditions, it dramatically impacted the market. Most of the new construction within the market was directly attributable to owner/users or tenant-specific developments. As a result, the market is not overbuilt and vacancy rates remain stable as we enter a time of economic uncertainty.

The Rhode Island market, and the downtown Providence market in particular, remain very appealing to investors, primarily from outside the state. There have been a number of transactions involving out of state investors in some of the more prominent buildings in downtown Providence including: the Bank of America buildings, the Union Trust building, and the pending sale of the Turks Head building. Investors are looking at the dynamics of the city, including the colleges and proximity to both Boston and New York, and seeing future growth and appreciation. Many see the city and environs as on their way to reaching their potential with a very bright future.

As we look into 2008, we realize that there are a number of challenges facing the nation, the state and the Rhode Island commercial real estate market. But we also have faith in the resiliency of all three. The market will still be primarily driven by need-based owner occupants, but we see some movement toward leasing due to a continued lack of product and tightening in lending standards. Values and rents should maintain their present levels, but there could be some downward pressure in every phase of the market based upon economic conditions. We see stability overall for the next year, but caution among market participants.

Vacancy Analysis

Northern Region: There were some significant large industrial sales in 2007. The absorption of available space was primarily in properties of more than 40,000 s/f. Smaller properties remained vacant for the most part. The northern part of the state has remained unchanged for several years and the building activity that occurred over the last five years has abated.

Providence/Metro: 122,000 s/f of space in the Huntington Industrial Park comprised the majority of the vacancy in the Providence market. Vacancy has steadily dropped over the last two years and the conversion of the American Locomotive Complex displaced smaller tenants to other communities, most notably Urban Smart Growth's building, The Hope Artiste Village, located at 1005 Main St. in Pawtucket.

Central/West Bay: has virtually no vacancy in industrial properties. Penske Truck Leasing and Kamco Distributing bought land in Western Cranston and A. Duie Pyle Trucking and FedEx bought land in Johnston and constructed new facilities. The only other construction was in small units that averaged 1,500 s/f.

East Bay/Aquidneck Island: experienced the same lack of activity seen in other parts of the state. There is virtually no new construction, with the exception of the Goetz facility, and no change from the previous year.

Southern Region: has two large blocks of space. Ocean State Job Lot in Quonset Point has 450,000 s/f. Precision Park has 150,000 s/f available at an asking rate of \$4.50-\$5.50 NNN. It would appear that we would need a major distributor from outside the state to absorb this space.

State: The vacancy factor in the state has remained in the 7% range for a few years, but most of the availability is centered in a few buildings. If we remove the larger spaces the actual vacancy is around 4%

Median Retail Sales Analysis

We tracked 25 sales in 2007, which represented 1,251,388 s/f of space which translated into \$80.355 million in sales.

The median s/f rate was \$108 per square foot and the properties' average size was 52,142 s/f.

The majority of the sales were in the West Bay area where most of the major retail areas exist.

Target has contracted to lease space at the former Filenes store at the Warwick Mall and construction has begun.

Raymour and Flanigan, the former Alpert's Furniture Store, has purchased the former 40,000 s/f HomeLife Store on Bald Hill Road in Warwick. They purchased it for \$8.6 million (\$215 per s/f).

A medical practice purchased a retail store located at 55 Lambert Lind Highway in Warwick for \$112 per s/f that will be converted to medical offices.

Median Office Sales Analysis

We tracked 48 transactions in 2007, which accounted for 1.515 million s/f of space and a monetary value of \$108.574 million. This represents a 43% increase from 2006 and the dollar volume was \$76 million higher.

The median value in 2006 was \$139 per s/f and in 2007 it decreased to \$128 per s/f.

There were 30 sales of buildings between 1,000-15,000 s/f. The average size was 4,450 s/f and the median value was \$140 per s/f.

Buildings between 15,000- 60,000 s/f had a median value of \$98 per s/f and the average size was 32,482 s/f.

In 2007, the median value of buildings sold in Providence was \$164 per s/f and the average size was 5,804 s/f. The median rate for buildings in the West Bay was \$117 per s/f, with an average size

of 4,960 s/f.

Currently there is 1.57 million s/f of office space for sale and 1.87 million s/f of space for lease, a total of 3.44 million s/f. The majority of the space is in the smaller than 15,000 s/f category, but there are significant blocks of larger space that are available for companies to expand.

The leasing market has been a challenge with lease rates for existing space remaining stagnant because of the market desire to purchase rather than lease. We do not foresee this situation improving in 2008.

Median Mill Building Sales Analysis

There were five mill building sales in 2007, in Central Falls, Lincoln, Pawtucket, Providence and Tiverton. The total square footage was 1.112 million s/f while the sales value was \$7.35 million.

The pace of conversion has slowed and the buildings that were sold for conversion averaged \$15 per s/f. Buildings that were sold as industrial properties averaged about \$4 per s/f.

The conversion of existing properties in Providence, Pawtucket and West Warwick has been absorbing tenants and businesses. It is reported that The Royal Mill in West Warwick is at 80% occupancy. Hope Artiste Village in Pawtucket has begun to attract a mixed group of light manufacturing, office, and destination retail. The mill conversion market has reached its saturation, making it difficult to acquire conversion financing from the banks.

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