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## **RI's mid-year update: Retail and suburban office grow, Prov. office stable, ind'l. lacking spec dev.**

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Since 2002, the Rhode Island commercial market has been characterized by stability, limited availability of product, very reasonable vacancy rates and modest increases in rates and prices. This condition continued for the first half of 2008, but there were some note-worthy changes in the second half 2007 which shall affect the market through 2008. New development has added new product to some office markets and demand has decreased in the industrial sector.

In 2007, the Providence office market continued to have stability, limited vacancies and slight rent increases for the entire central business district. National and regional investors continued to be interested in the market as evidence by the sale of 50 Kennedy Plaza and 170 Westminster. This tight market environment should continue through 2008. The western submarket of Providence has experienced noticeable growth with American Locomotive and the Foundry adding over 300,000 s/f of new space to the market. This new product will have only a slight affect on the total Providence office market.

The Rhode Island suburban office experienced significant growth coming in to 2008, expanding over 20% to about 7.5 million s/f. Most of the growth was centered in the west bay submarket which has expanded by about 1.1 million s/f, causing an increase in vacancy from 5% to over 30%. This development has occurred along I-95, on Jefferson Blvd., in Metro Center, The Crossings and on South County Trail in East Greenwich. The excess supply in the West Bay will take several years to absorb and rent concessions should be available. The other suburban submarkets remained somewhat unchanged year to year, except for northern Rhode Island where there has been a noticeable weakness in demand.

The industrial market, with a few exceptions, is still lacking any speculative development or build-to-suit construction due to the relative high cost of construction, lack of land ready to develop and a soft lease market. With rental rates generally holding between \$2- \$5 per s/f, NNN, spec construction is not viable. The overall vacancy rate remains well below 10% for non-mill type property in this market, which totals about 50 million s/f. Most of the larger transactions that occur in this market remain sales, and there is a limited supply of available properties. The decline of manufacturing is being offset by the conversion of properties to sales-service and back office uses, along with mill type properties going to residential in many cases. Demand for ownership remains stronger than demand for leased space. The displaced tenants from the mill conversions to residential have been plugging the holes in many of the industrial vacancies.

The Rhode Island retail market continues to grow with the ongoing development and redevelopment of the primary retail corridor in Rhode Island, which is Rte. 2 through Cranston and Warwick and along Routes 295 and 6 in the Johnston area. Also, along Rte. 6 in Seekonk and Rte.1 in the Attleboro's, we continue to have fill-in development activities with limited vacancies. Development

and the redevelopment of the big box retailers are dominating activities and new investors have acquired several existing centers.

In Providence and in Cranston at Chapel View, we are seeing for the first time, upscale and contemporary style national chain restaurants penetrating the RI market. In Providence, Ruth's Chris Steakhouse recently opened at the G-Tech Building and Shula's 347 recently opened its doors at the Providence Hilton. Also, Chapel View in Cranston has been successful in landing Ted's Montana Grille and Pei Wei Asian Grille which is an off-shoot of P.F. Chang's China Bistro Concept.

These contemporary style restaurants have avoided the small RI market in the past, but with the addition of upscale hotels and new office and residential developments, the Ocean State has finally attracted these types of restaurants. In addition, RI is experiencing the rapid expansion of other upscale concepts including Starbucks, Panera Bread, Trader Joe's and Whole Foods Grocery.

What these concepts have in common is that they offer the customer a better dining and shopping experience and as a result improve the retail landscape in the Ocean State.

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