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Tight R.I. office market offers tenants few large block opportunities - by Pete Hayes, Steve Flachbart and Matt Fair

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The overall economy in Rhode Island has maintained its steady improvement. The state has over 2,000 more jobs than it did a year ago and the unemployment rate has decreased to 4%, which is half a percent lower than in 2018. The stable economy combined with limited new speculative office developments in either downtown Providence or the suburbs has continued to tighten the commercial real estate market and put upward pressure on rental rates, especially in the Class A market. The overall office vacancy rate, which is provided in our Cushman & Wakefield | Hayes & Sherry Market Beat report for Q4 2018 was 11.4% vs 12% a year ago. Without new office development in Providence and the suburbs, tenants looking for larger blocks of space will have few options.

This economic success is pushing the expansion of the hospitality industry. Hotel occupancies averaged above 70% in 2018; above the national average. Three new hotels are opening their doors, while several other developments are in the planning stages. The WoodSpring Suites Hotel opened for business last year. Two new extended stay hotels, the Homewood Suites and Residence Inn by Marriott are the first of their kind in downtown Providence and will be completed in 2019. The extended stay hotels show developers' confidence in the market and especially the tech industry's recent growth. Companies such as GE Digital, Virgin Pulse, Cambridge Innovation Center and Infosys made significant long-term lease commitments.

The I-195 Redevelopment District continues to have positive momentum regarding new development and tenants relocating to the Jewelry District. The Wexford Innovation Center, a seven-story 191,000 s/f office building at 225 Dyer St., will be fully constructed with tenants occupying the premises in the summer of 2019. Wexford has also committed to a complete renovation of 3 Davol Sq. which will be finished later this year in the 4th quarter. The East Side and the Jewelry District will be connected via the new pedestrian bridge being built using the existing piers from the former I-195 location. City parks on both sides of the bridge will further increase the overall appeal of the area. CV Properties recently received approval on tax incentives to build a new 169-room Aloft hotel adjacent to the Wexford Innovation Center. Additional developments continue to be discussed for the remaining I-195 parcels.

At 428 feet the "Superman Building" is the tallest building in Providence. Located at 111 Westminster St., it is 26-stories, 365,000 s/f and has been vacant for over five years. Multiple uses have been proposed with a mix of office, retail, residential and hotel space, but the building's fate is still unknown.

Providence experienced a record year in the capital markets sector with three major downtown Class A office buildings trading in 2018. The IGT Center at 10 Memorial Blvd. was sold at the end of 2018 for \$71 million or approximately \$352 per s/f, which set a new value record in the city. The buyer was Tritower Financial Group out of Boston. The property boasts a stabilized, strong credit rent roll that is 97% leased. One Financial Plaza, purchased by JFR Global Investments out of Brooklyn, traded for over \$160 per s/f in August of last year. Radix Equity purchased the note on the 230,000 s/f One Citizens Plaza via auction in November of 2018. Both buildings are around 90% occupied.

The suburbs have few large blocks and a lack of multi-tenant development. In Warwick, Michael Integlia & Co. has two sites available and ready for future development. The first is a shovel-ready site at One Metro Center Blvd. for a three-story, 75,000 s/f Class A office building. The property has a façade signage opportunity facing the Airport Connector, and the building would be visible to I-95 as well. The second site, One City Center, will be a mixed-use facility at 745 Jefferson Blvd. and is directly across the street from the Warwick Intermodal Transit Center and T.F. Green Airport sky bridge.

Medical office demand has also been strong with the 90,000 s/f headquarters for University Orthopedics being completed in East Providence and the 100,000 s/f headquarters for Ortho RI being announced in Warwick. Both Lifespan and Care New England, the two largest hospital groups in R.I., were active across the state especially in the “medical mile” corridor of East Greenwich. Additionally, the trend continued for smaller private practices merging with larger conglomerates like Coastal Medical and others.

The suburban markets of East Bay, West Bay, Northern and Southern Rhode Island have a similar lack of supply as the Providence CBD. Overall availability in these markets is under 10%, and suburban tenants looking for large blocks have limited opportunities.

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