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How do you see the real estate market now and in the near future? Rhode Island is riding the wave of success - by Tom Sweeney

May 31, 2019 - Spotlights

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Sometimes in our lives the personal side and the business sides intersect in ways that we never would have dreamed of. When I am out in a business setting recently there are two questions that people who know me ask. The first is where is your daughter now? The second is how do you see the real estate market now and in the near future? Surprisingly my answer to both is very similar. My daughter is currently working for a women's surf retreat company all over the world and the Rhode Island real estate market is riding a wave of success. The issue for both is when will the ride end? Now in reference to my daughter, I think she will be able to continue as long as she wants, as long as she follows the three "wishes" I had for her when she graduated from college; be happy, be safe and tell me I'm not paying for it. The Rhode Island real estate market and what is going to happen to it in the future is a lot more difficult to predict.

First let us look at the underlying economic data. The state's unemployment rate continues to decline and is presently at 3.7%. The state added 4,200 new jobs in the month of April, the first month that was positive in 2019. Construction continues in downtown Providence and across the state. Real estate values are increasing across all segments of the market. There are indications of rental growth across all segments and vacancy is down.

2018 was a record year for the Providence market for the sale of industrial space with over \$300 million worth of transactions occurring. There was just shy of two million s/f of industrial spaces added to the Providence market since 2017 and the vacancy rate is one of the lowest in the region. With the driving demand for logistical support to the Boston economy, Rhode Island provides opportunity through its development on more affordable land.

The retail sector of Rhode Island has curated a prime market for investors. The Providence market contains the second largest retail inventory in New England, trailing only Boston, and vacancies are at an all-time low. However the rent growth has not responded accordingly, with average rental rates

being in the bottom half of the region. Investors have an opportunity to obtain fully occupied properties, make improvements and increase rates slowly to yield a higher return.

The office sector continues to remain stable with vacancies remaining low and with some upward pressure on rental rates. There remains limited new construction, but there is some including the recently announced OrthoRhodelsland facility to be developed by Carpionato Properties at the Offices at the Crossing complex. This \$30 million complex will house, as the president of OrthoRI called it, a “bio-tech hub” for the group. This type of new construction bodes well for the state.

One of the strengths that Rhode Island holds is its highly educated population, with top tier universities like Brown, Rhode Island School of Design, Roger Williams, Johnson and Wales and Bryant. Students flood the market from August to May, but the issue lies after graduation. New graduates have dreams of careers in the larger nearby cities, such as New York and Boston. The growing residential rental rates and limited public transportation contribute to this ongoing issue of brain drain. There have been strong strides to reverse this occurrence through more residential development, investment in public transport and local government intervention. The biggest, and most challenging factor to this occurrence, is the perception of the state. Rhode Island is an amazing place to live and work, and while everyone may have their eyes set to the bigger cities, Rhode Island holds its own with some of the highest ranked restaurants, historic architecture, creative public art and naturally beautiful beaches. If we are able to retain more of our existing talent for longer than their education, we would incentivize more companies to move, stay and grow here.

While all of this information shows that we are riding the wave and it's a good ride, there are those, including me, who look forward and ask when will the ride end? While the underlying conditions appear to support continued growth, there are some things that raise some level of concern. The biggest problem is the fact that while there is job growth, there is also a decline in population, so that while the unemployment figures look good, some of it is related to the fact that there are less people looking for jobs. The current upward momentum the state and the region have been on since the Great Recession is great, but we have to keep our eyes open to the fact that things don't go up forever. University of Rhode Island economist Len Lardaro has stated in an email to GoLocal, an online news organization, “I continue to remain unable to reject the possibility that Rhode Island has entered the earliest stages of a recession.” My take on all of this is that eventually there will be a slowdown. It will not be a 2008 event, but more like the one that happened at the end of the 1990s with a bit of retrenchment, but no significant declines in the market.

As I stated in the beginning, one's personal and business lives sometimes intersect in the most unusual ways. My hope for my daughter and the Rhode Island real estate market is that they both continue to ride the wave, while always making sure to look out for the crest, as it is better to be prepared for the end of the ride, then to crash.

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