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Smart businesses are learning quickly how to trim fat, adapt and best position themselves for the future - Tom Sweeney

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The commercial real estate industry is constantly influenced by change. It is those owners and users that are able to quickly adapt to the changes that will survive the inevitable lull. Adapting to new business models, the use of technology in businesses and managing expectations for tenants and investors are all on the laundry list of influential changes.

Market rents in Providence were above the national average in 2018 and are continuing to expand at a record rate, very atypical for a market our size. The reason for the rapid growth is because we were hit particularly hard during the crash, it wasn't until about 2016 that rents had recovered. While other markets recovered a lot faster, we are now reaping the benefits. Vacancy is declining placing upward pressure on rents. We are slowly counteracting this situation, the cost of new construction limits the market's ability to react. Market rent will continue to increase but should slow a bit, so we stay competitive with our neighboring cities.

Providence is still viewed as a place to invest, though the process still presents challenges. There have been two new multifamily projects proposed, one in the former I-195 land and the other in the Jewelry District. The Cambridge Innovation Center opened its doors in September. The Fane Tower continues to go forward but it is at a stop and go level. The developer was recently faced with a "line in the sand" edict from the I-195 commission to meet a milestone. Hopefully they do and the process continues. While there are other issues, any signs of moving forward are considered good for the market.

The expectations of investors have also changed. In the start of 2017, if the property was priced correctly, even with no tenancy, it held an interest with the hopes that renovation would attract long term tenancy. Now, buildings are trading at higher cap rates than we have seen in years. Well maintained properties that have partial tenancy are being overlooked by investors. We are still selling well below the national average price per s/f but we have had many entries of new investors in our market. While the Providence market is seen as having an upside, investors are learning that it will take some extra efforts to maintain tenancies and realize those upsides.

It is important to note that we are more than double the national average for our own/uses sales. While we do feed off our Boston and New York neighbors, many of our 2019 transactions have been Rhode Island companies transitioning to better suited locations. The way that business has been influenced by technology, trade and competition has altered the way that businesses are able to serve their consumers. Smart businesses are learning quickly how to trim fat, adapt and best position themselves for our constantly changing future. In the last 40 years our employment base has grown over 44%. Considering that plus the fact that the current unemployment rate is under 4% – we will continue to say as we have in the past, everything is going great. But we must realize and address the fact that we do have declining population and with that a declining total workforce. While the unemployment rate is relative and encouraging, the fact that we may be losing workers shows that we have to take this information with a grain of salt.

But what happens when that turn does happen, as we all know, it is inevitable. Economist Claudia Sahm predicts that there is a 10% chance the economic downturn will occur next year. This prediction based off of the fluxing unemployment rate. It was just reported that many of the major banks, which were talking glowingly about the economy over the last two years, are starting to worry about a coming recession and are beginning to prepare for it. It will be happening sooner than later. As I mentioned before, those that adapt will thrive, those that don’t may still survive but will take the brunt of the hit. We have hopefully learned from our mistakes and have more checks in place to avoid going back to where we were 11 years ago so we shouldn’t see the drop that we had but with every market there are ups and downs.

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