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Rhode Island CRE market maintains steady momentum with limited new supply - by Pete Hayes, Steve Flachbart and Matt Fair

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The overall economy in Rhode Island showed consistency in 2019. The state gained 1,700 jobs from January 2019 to January 2020 and the unemployment rate decreased from 4% to 3.4%. The stable economy combined with limited new speculative office developments in either downtown Providence or the suburbs has continued to tighten the local office market and put upward pressure on rental rates, especially in the Class A market where rents increased more than 5.2%. The overall office vacancy rate, which is provided in our Cushman & Wakefield | Hayes & Sherry Market Beat report for Q4 2019 was 11.3% vs 11.4% a year ago. Even though office leasing activity was strong, the vacancy rates faced head winds with a few large blocks of space coming online in Providence at the Providence Place Mall and 225 Dyer St. There are currently no new speculative office buildings planned to be built in the market which will likely allow for continued tightening in 2020.

The I-195 Redevelopment District continues to have positive momentum regarding new development from multiple sectors. In particular, office tenants are increasingly interested in relocating to the Jewelry District. The Wexford Innovation Center, a 7-story 191,000 s/f office building at 225 Dyer St. delivered in the summer of 2019 adding more than 60,000 s/f of available space to the market. Wexford also recently completed a dramatic renovation at 3 Davol Sq., the iconic property which anchors the Jewelry District to the South along Eddy and Point St. Wexford completely transformed the common areas of the building with a new common atrium that features an all-new glass enclosure and skylight system along with full overhaul of systems and infrastructure. 3 Davol Sq. has a significant amount of space for the market and is offering fully renovated office and retail spaces housed in its newly upgraded facility.

The suburban office market has very few large blocks of availability and a lack of multi-tenant building development. In Warwick, Michael Integlia & Co. has two sites available and ready for future development. The first is a shovel-ready site at ONEMetro Centre 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 across the state with the delivery of several new MOB's in 2019 including the 57,000 s/f Lifespan ambulatory care building located at 180 Corliss St. in Providence. Additionally, Ortho RI's new ASC and headquarter facility located at 300 Crossing Blvd. in Warwick is under construction with a planned completion date of December 2020. Michael Integlia & Co. continued adding to its medical portfolio with the acquisition and reposition of 1598 South County Trail in the "Medical Mile" section of East Greenwich which is anchored by University Orthopedics and Coastal Medical. This property was enhanced with a new parking deck that added

over 160 parking spaces to the property and now offers the largest parking field of any Class A MOB in the market. Integlia has 17,000 s/f remaining but anticipates this to absorb quickly based on the high demand levels in the market.

Residential and Hotel development continues across the market at a robust pace. In Providence there are over 2,000 residential units either under construction or in the permitting phase with expectation to break ground in the next 12 months. Exeter Property Group is planning to break ground in June on a 245-unit apartment project on Parcel 28 in the I-195 development area which will include roughly 20,000 s/f of ground floor retail. Demand for CBD rental housing appears to have an insatiable appetite from multiple demographic sets including Millennials and Boomers. Hotels are also poised for continued development with the recent groundbreaking of the new 175-room Aloft hotel being built adjacent the I-195 Redevelopment District. More hotel development is anticipated in the suburbs especially in the area surrounding TF Green Airport.

At 428 feet, the dark cloud of the “Superman Building” remains on the minds of politicians but has no easy solution absent significant taxpayer subsidy. The art-deco 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 six years mainly due to the redevelopment challenges to retro-fit an obsolete building to meet current market standards and requirements. Multiple uses have been proposed with a mix of office, retail, residential and hotel space, but the building’s fate is still unknown.

After a record setting 2018 the investment sale market for larger institutionally owned assets was relatively quiet in 2019 except for a few smaller transactions including the \$6 million purchase of the fully leased medical office building located at 120 Centerville Rd. by a Nashville based medical REIT. We do expect a significant uptick in 2020 with several large properties in Providence currently being on the market and expected to trade this year.

The biggest challenge facing the markets in 2020 will be related to the Coronavirus crisis which we are in the early innings of but has the potential to cause significant damage to local, regional and world economies which will most certainly impact the commercial real estate markets going forward.

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