2020 Multifamily Market Report: Providence is outperforming its peers - by Derek Brazeau

October 30, 2020 - Spotlights

Derek Brazeau
Hayes & Sherry

The Providence multifamily sector remains strong amidst the pandemic. In a time of “doom & gloom” the Providence market is continuing to stay afloat, even outperforming its peers in larger, more dense, urban markets. With no loss in velocity or demand, the Providence market is confident and remains on solid ground. Discussion with local investors and apartment owners remains optimistic as they have not seen much of a decline in rent collections, even seeing rent growth of up to 2%, compared to Boston, who is experiencing higher vacancies and slowing growth. The answer could be the potential overflow from the Boston market. Some tenants are leaving the dense, high priced market, for more reasonable rents and more space in Providence, but still within a short commute to their Boston office.

Nationally, the market has shifted. The allure of living in large cities and being in the central business districts and the amenities that came with it, has recently changed for young professionals and others who enjoyed urban living. As COVID-19 became more of a threat, some tenants had reluctancy to continue to live in major “hot spot” cities, where they had to share common areas. Coffee shops, restaurants, bars, and other retailers began shutting their doors; working from home became the “norm” and the commute became irrelevant. This idea made some tenants realize that the premium for living in a major city was just not there, leaving apartment owners in major markets negatively impacted. Apartment units became empty, vacancy increased, something that had not been seen in over 15 years.

Even in the R.I. market, demand in the “suburbs” grew, for both tenants and multifamily investors. However, this has not impacted the downtown district which saw little effect in our quaint market as 30,000 students from Brown University, Rhode Island School of Design (RISD), Johnston & Wales University and Providence College began the fall session. The schools and students are important to the makeup of the city, dubbed “meds & eds” for a reason, they play a large role for the recent developments in the downtown district. Developments like Edge College Hill (2019), that offers 202 residential units, was constructed for students attending Brown, RISD and Johnston & Wales. In an effort to de-densify campus’s and spread students out, Brown has signed one year lease agreements in four of the newer residential apartment buildings in the city, including 257 Thayer (2018), River House (174 units/92% occupied), 95 Lofts (59 units/95% occupied) and Chestnut Commons (92 units/63% occupied). These developments are all withing walking distance to shuttle services and even campuses. The leases range in 30-70 beds per building, covering 220 beds in total. Waldorf Capital Management, a private real estate developer based in Providence, completed both the 95 Lofts and Chestnut Commons, is confident that they will continue to fill vacancies by January.

Another local real estate development company in Providence, Cornish Associates have completed the Nightingale apartment building, located at 100 Washington St. This is the newest development in the downtown district, spanning over one full city block offering 143 residential units and with ground level retail. Like others, Cornish Associates continues to revitalize the city landscape working with the city to restore and bring new energy to the historic buildings. With redevelopment of almost 300 residential units in the Westminster Lofts, this project gave a rejuvenation of seven buildings downtown.

Developers have been busy over the last four years delivering over 4,500 units and vacancies have fallen. Providence will continue adding mixed-use buildings with a residential focus, as the city approves additional sites incorporated in I-195 redevelopments. Developments such as Parcel 6, purchased by D+P Real Estate, is a 1.5 acre site located on the East Side. This site has been approved for 62 units, with 50% of the units being offered at below market rates. The project will be anchored by a national grocery store, a parking garage, and a mixed-use residential/retail building.

This idea isn't new as D+P redeveloped a site on the West End that included a combination of 30 residential units, with a mix of low-income (20%) and work force housing in addition to a 8,000 s/f community start up grocery store. Parcel 28 is another project included in the I-195 redevelopment district; THE EXETER Property Group has broken ground and is projected to spend $90 million on a mixed-use building that will incorporate 248 residential units and 22,000 s/f of ground floor retail.

The Providence multifamily market is proving to hold out better than the other sectors during these times. Sales volume has continued to out-perform itself consecutively for the past six years. Prior to that, investors felt reluctant to buy real estate in Providence, where high taxes and a rebounding economy kept them away. Now, with vacancy rates less than 3.3% since 2012 and average rent growth of 3.3%, exceeding the national average, the Providence multifamily market is thriving. Investors from Boston, New York and other major markets have realized that their resources go further and with better returns. While not dealing with the worst of the economic stress this virus has caused among all industries, the Providence multifamily market may not come out untouched. Like most, we're unsure what the future will bring. However, the multifamily sector continues to be undoubtedly popular among investors…especially in the long haul. As we did realize some concerns in this sector, multifamily has remained to be one of the best assets to survive a downturn, especially in Providence.

Derek Brazeau is a broker with Hayes & Sherry Real Estate Services, Providence, RI.