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Downward pressure on asking rents and increased demands from tenants for landlord concessions

October 29, 2008 - Spotlights

Downtown

Downtown Providence enjoyed positive absorption and a slight increase in rents in the initial two quarters of the year.

The Capital Center, Financial, Empire and Westminster submarkets all have single digit vacancy rates. Promenade, which currently has a 32% vacancy rate, has seen significant tenant activity and the recent announcement of a 50,000 s/f corporate headquarters relocating to the American Locomotive (ALCO) Complex.

Rental rates have increased in the majority of the downtown Providence submarkets. Two submarkets, Empire and Randall Sq., have remained stable since the end of 2007. Leading this increase in rents was South Main, which increased \$0.85 per s/f and Promenade, which increased \$0.49 per s/ft.

Quarters 3 & 4 Outlook

Class A properties should continue with moderate absorption and stable rents. Class B properties should see some pressure on rents but also a continuation of moderate absorption. Tenant activity points toward continued moderate absorption across all property classes but expectation is that there will be some consolidation in troubled industries, which will likely offset new tenant absorption. The recently announced corporate headquarters of United Natural Foods, Inc, (UNFI), a \$3 billion company, will help the occupancy rate considerably in the Promenade District. UNFI is expected to occupy in the 2nd quarter of 2009. While rents should remain stable, concessions from landlords to secure deals will grow.

Suburbs

The suburban RI market took some hits in the first half of 2008. Overall in the first and second quarters there was 180,000 s/f of negative absorption.

Throughout the submarket, vacancy changed to 16.98%, which although slightly lower than at the end of 2007, was due in large part to the removal of 1400 Division Rd. in East Greenwich, a 238,000 s/f building, which was purchased by an institutional user.

There was downward pressure on asking rents and increased demands from tenants for landlord concessions, particularly large work letters.

Through CB Richard Ellis internal tracking, there are currently 550,000 s/f of tenant requirements in the Rhode Island suburbs with 1.2 million s/f of available space.

Quarter 3 & 4 Outlook

With a significant portion of the requirements being churn, rather than tenants new to the market, this dynamic makes it likely that suburban landlords will remain under more pressure to consider greater concessions and rent compression to close deals.

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