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Rhode Island market: Many new components have enabled Providence to broaden its base of activity

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The Providence office market, much like the national office market, experienced significant increases in vacancy rates over the last year. Couple that with a few projects coming on-line with significant blocks of space, and landlords in Providence will find it challenging to fill the vacant space within a reasonable timeframe.

This past year alone has seen The Gateway Building (117,000 s/f), The Sharpe Building at The Foundry (180,000 s/f), and 100 Weybosset St. (50,000 s/f) all become available for lease with LaSalle Plaza (139,000 s/f), Empire Plaza (96,000 s/f), Dynamo House (120,000 s/f), and 444 Westminster St. (66,000 s/f) all becoming available next year. The good news; Opportunities will abound for tenants in the market along with some attractive investment opportunities. And the city of Providence has positioned itself well over the last ten years, very well, with a new 1.3 million s/f mall, a new convention center, a renovated civic center, adding a residential component to the downtown market, and the new opportunities which will exist with the relocation of the new highway system. All of these components have enabled the city to broaden its base of activity.

This year, Brown University will begin retrofitting several buildings in the Jewelry District to house its medical school. A venture which will surely add a new level of activity in the city and provide opportunities for ancillary businesses including demand for surrounding real estate. We are watching our hospitals and universities expand at a steady rate adding more stability to the market in the long run.

We have included a summary below of the current state of the office market in Providence according to the 2008 Hayes & Sherry Providence Office Market Survey.

Class A vacancy rates have increased from 9.23% to 12.72% at the end of 2008. The Class B vacancy rates have increased from 7.48% to 17.31% at the end of 2008. In the Class C market, vacancy rates increased to 14.01% for a total market increase from 8.67% to 15.12%.

The Rhode Island suburban market consists of approximately three market sectors; the East Bay, Northern Rhode Island, and the West Bay.

The East Bay market consists of 1.6 million s/f of Class A & Class B office space. The vacancy rate for 2008 was 13.8%; however, in the last 6 months several companies have given up space, including some large mortgage related companies, creating an additional vacancy of 75,000 s/f pushing the vacancy rate from 13.8% up to 16.7%. Net absorption was roughly 35,000 s/f in 2007 and -115,000 s/f in 2008.

In Northern Rhode Island, very limited development has taken place with the exception of a few build-to-suit developments. The market consists of approximately 1.2 million square feet of Class A & Class B office space. In 2008, the A.T. Cross property was redeveloped producing approximately 140,000 s/f of available space. Currently there is a 9.6% vacancy and net absorption in 2008 was

-18,000 s/f.

In the West Bay, the market consists of 2.4 million s/f. In 2007, Carpionato Properties built The Crossings, a 120,000 s/f development as a build-to-suit for Bard Corp., along with another 60,000 s/f speculative building. 300 Jefferson Blvd., a new 75,000 s/f building was built on speculation and completed in early 2008. The buildings remain vacant. In Metro Center, Michael Integlia built a new 48,000 s/f building for DiSanto Priest leaving a vacancy at 301 Metro Center Blvd. in 2008 of 36,000 s/f. Other available properties for lease in the West Bay include 100,000 s/f on Plan Way, 96,000 s/f at Amgen, 75,000 s/f at 501 Jefferson Blvd., and 140,000 s/f at 2000 South County Trail, among others. In 2008 net absorption was -86,000 s/f. Vacancy rates rose to 17.2% midway through 2008 and are currently approaching 23%.

The retail segment of Rhode Island remains fairly stable. Many "Big Box" retailers have slowed growth to a halt, but the activity among small to medium size retailers remains active. Several national companies such as Panera Bread, TD Banknorth, Aldi's, Irving Gas, Webster Bank, and CVS remain active. We look for those companies and others to continue to try and out-position their competitors in this market over the next few years.

The Rhode Island industrial market ended the first quarter of 2009 with a vacancy rate of 8.9% with net absorption totaling 77,515 s/f. Rental rates were $5.03 per s/f, a decrease of $0.10 per s/f over the previous quarter.

Lease deals include Petro Oil leasing 9,000 s/f at 50 Houghton St. in Providence, The Paradies Shops leased 6,500 s/f at 33 Plan Way in Warwick, and Summer Infant Products leased 52,000 s/f at 1275 Park East Dr. in northern Rhode Island.

The vacancy rate of 8.9% was up from the third quarter of 2008 at 8.7% and 8% in the second quarter.

All things considered, in 2009 with a struggling economy both locally and nationally, the Rhode Island real estate market always seems to recover faster than most markets. Let's hope that happens sooner rather than later.

Peter Hayes, SIOR and Karl Sherry, SIOR are the founders of Hayes & Sherry Real Estate Services, Providence.