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## **The flow of deals during the 1st half of 2009 has increased dramatically over the 2nd half of 2008**

May 28, 2009 - Spotlights

The Rhode Island commercial market is characterized by stability, limited availability of product, very reasonable vacancy rates and modest increases in rental rates and prices. As bad as the 4th quarter of 2008 was for the commercial real estate business, the first half of 2009 is recovering quickly. The 4th quarter took us through a value adjustment and a reality check for landlords. We have noticed an estimated 15% decrease in property values and sale prices and a corresponding increase in landlord concessions for tenants. Once the reality of the market set in, the flow of deals during the 1st half of 2009 has increased dramatically over the 2nd half of 2008.

In 2009, the Providence office market continued to have some stability, increased vacancy and slight rent reductions over the entire central business district. Much of the vacancy increase and movement has been due to the Blue Cross changes. They have vacated space, their new tower is nearing completion (with 20,000 s/f available), a large division has moved out of the CBD (30,000 s/f) and another one of their buildings is now empty (90,000 s/f). The Providence Journal Headquarters will be shifting around leaving their existing building primed for some type of mixed-use conversion. The GTECH Corp.'s building and 50 Kennedy Plaza still have ample class A space available, while other A buildings (56 Exchange Terrace and Turks Head) gain tenants.

The Rhode Island suburban office market experienced significant growth coming into 2008, expanding over 20% to about 7.5 million s/f. Most of the growth was centered in the West Bay submarket which has expanded by about 1.1 million s/f, causing an increase in vacancy from 5% to currently over 30%. This development has occurred along I-95, on Jefferson Blvd., in Metro Center, The Crossings and on South County Trail in East Greenwich. The excess supply in the West Bay will take several years to absorb and rent concessions should be available. The other suburban submarkets remained somewhat unchanged year to year. Current lease proposals are seeing the initial offerings in the 15% - 20% lower range from the pre-crash rents and not getting back to the pre-crash rates until the end of five year leases.

The industrial market lacks any speculative development or build-to-suit construction due to the high cost of construction, lack of land ready to develop and the extremely soft lease market. With rental rates generally holding between \$2.00 - \$5.00 per s/f, triple net, spec construction is not viable. The overall vacancy rate remains around 10% for non-mill type property in this market, which totals about 50 million s/f. Most of the larger transactions that occur in this market remain sales. Although there was a limited supply of larger, single story availabilities over the past few years, properties such as 35 Martin St. in Cumberland (235,000 s/f), 373 Market St. in Warren (240,000 s/f) and 100 Higginson Ave. in Lincoln (136,000 s/f) are emerging, offering large amounts of first floor space with docks and drive-ins.

As mid-2008 arrived, the Rhode Island retail market left. Since mid-2008 and certainly continuing

through mid-2009, the retail market has been essentially nonexistent.

With the closing of many large retailers such as Circuit City and Bed Bath & Beyond and the reduction of others such as Starbuck's, others are sitting on the sidelines and watching what happens.

On a positive note, over the past 18-24 months, in Providence and Cranston at Chapel View, we continue to see upscale and contemporary style national chain restaurants penetrating the R.I. market. In Providence, Ruth's Chris Steak House opened at the GTECH Corp.'s building and Shula's 347 opened its doors at the Providence Hilton. Also, Chapel View in Cranston has been successful in landing Ted's Montana Grille and Pei Wei Asian Grille which is an off-shoot of P.F. Chang's China Bistro concept.

These contemporary style restaurants have avoided the small R.I. market in the past, but with the addition of upscale hotels and new office and residential developments, the Ocean State has finally attracted these types of restaurants. In addition, R.I. is experiencing the rapid expansion of other upscale concepts including Panera Bread, Trader Joe's and Whole Foods Grocery.

What these concepts have in common is that they offer the customer a better dining and shopping experience and as a result improve the retail landscape in the Ocean State.

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