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Rhode Island real estate survey: Location, location, location, financing, financing, financing

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Real Estate 101 is Location, Location, Location. Real Estate 2009 is Financing, Financing, Financing. The banks by and large were reluctant lenders for six months, or if they were lending, it was to owner/occupants with narrow parameters. The end of the first quarter saw some stabilization in the market with lending institutions beginning to encourage borrowing. This will begin to inspire companies to consider buying again.

The commercial market began to degrade in the fourth quarter of 2008 and continued to do so throughout the second quarter of 2009. By late April and early May, we had begun to see some signs of renewed interest in leasing and buying. This translated into some transactions, but for the most part banks and buyers alike took a wait and see attitude, though certain needs were met.

Office Space

The office market did not exhibit the severe price drop that most anticipated, but there was very little activity and most vacant spaces at the end of 2008 were still vacant at the end of the second quarter. The pricing in the suburban market has not seen an appreciable drop or much absorption, but landlords are giving concessions. The cost of moving is expensive and unless the lessee can realize at least a \$5 per square foot drop in rent, it does not pay to relocate. The hardest hit in the current recession is the downtown market. That will probably not abate for the balance of the year, if not into next year as companies continue to vacate downtown in favor of the suburbs. This will present opportunities for those companies who choose to remain downtown.

There were some lease and sale transactions in the first quarter. After a two-year search process, ADP renewed two leases in East Providence (21,000 square feet) and Coventry (10,000 square feet). A 24,000 square foot office building was sold in Cranston for \$2,000,000. Brown University decided to renovate the office buildings they purchased in the jewelry district for their medical school rather than build anew. This displaced some tenants who are actively looking for space. There have also been some foreclosures in B office buildings in the downtown market. Inquiries are increasing, but have not yet developed into any significant transactions. The market is trying to find its level and it may take the rest of the year for companies to feel comfortable entering into transactions.

Industrial

There were some sales that demonstrated that well-located buildings were holding value. Three buildings were sold in Cranston: a 12,600 square foot building was sold for a mini-storage location at \$100 per square foot; a 7,900 square foot facility was sold for \$81 per square foot; and a 42,280 square foot building sold for \$80 per square foot. Summer Infant Products sold their 50,572 square foot building in Woonsocket for \$81 per square foot and leased it back. A 70,592 square foot building in Coventry was sold for \$34 per square foot. Vacancies have begun to increase and the usual result is the decrease in both rents and sale prices. However, buildings in well-financed hands

usually hold their value.

Conclusion

We expect the remainder of 2009 to be a marketplace with opportunities in all sectors, and buyers with financing will be able to buy foreclosures and existing properties for prices we have not seen since the late 1980s and early 1990s. Financing will be the key and we have listed the commercial bankers in this marketplace.

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