

Downtown and suburban office market is stable and showing signs of improvement



Gerald Surprenant, MG Commercial Real Estate

The Rhode Island economy continues to have problems more severe than the national market. The state's unemployment rate is still one the highest in the country and several cities are facing serious budget issues. Despite this environment, the general office market is stable and showing some signs of improvement. The lack of new construction is helping reduce vacancy rates. The absorption of premium Class A space is firming up rental rates in both the downtown and suburban market segments.

In downtown Providence, the news is mixed. Vacancy in Class A space has improved, decreasing from about 15% to 12% in the last nine months. Rents for the A space have definitely firmed up, now averaging about \$30 per s/f and lease concessions are more difficult to negotiate. Several Class A buildings have experience reasonable absorption. 10 Memorial Blvd. (GTECH), which is one of Providence's newest office buildings, is essentially full at rents exceeding \$30 per s/f. Citizens Plaza has only minor vacancy despite having gone through a foreclosure. 40 Westminster (Textron) is entertaining several significant lease proposals. Further strengthening the Class A market was the announcement that Bank of America has leased 85,000 s/f at One Financial Plaza. Also announced was the long term releasing of 74,000 s/f by the Edwards Wildman Palmer law firm also at One Financial Plaza.

However, vacancy for Class B office increased slightly to about 15%. More important to the Class B market in Providence is the probability that about 450,000 s/f will go vacant next year. 111 Westminster is being vacated by Bank of America and the owner has not indicated how this 320,000 s/f property will be repositioned in 2013. The future status of the so called "Superman Building" shall have a significant impact on the downtown financial district. Also, the 110,000 s/f 1 Empire building should be declared vacant by 2013 as a result of the financial collapse 38 Studio. The Class C downtown market continues to struggle with a vacancy rate approaching 30%, at rates less than \$18.00 per s/f

and very little demand.

Future development in Providence will be centered around the 41 acres of prime river front land which were reclaimed when Rte. 195 was relocated. A Rte.195 Redevelopment Commission has been formed to oversee the future development which will include several parks and a pedestrian bridge over the Providence River. Johnson & Wales University is already slated to acquire two parcels which abut their campus. J&W has just acquired an 18,000 s/f industrial building abutting the Rte. 195 land which will be redeveloped to house its new Physician Assistants program. Last year Brown University acquired 200 Dyer St., which is in the center of the redevelopment land, and has rebuilt this 36,000 s/f office building for their Center of Continuing Education. However, standing in the way of the development of this prime land, particularly for the private sector, will be the high cost of new construction and the resulting need for rents exceeding the highest rents presently in the market.

The suburban office market in Rhode Island is experiencing only a slight improvement in vacancy, still at about 22%. The West Bay market leads Rhode Island with positive absorption. Notable deals in the West Bay are: Atrion's 30,000 s/f lease at 125 Metro Center; ADP's 25,000 s/f lease at 300 Jefferson Blvd.; AJ Oster's lease of 10,000 s/f at 301 Metro; and Salve Regina's 12,000 s/f lease at 144 Metro Center. West Bay vacancy rate will also be improved by the removal of 90,000 s/f at New England Tech's 2480 Post Rd. as NEIT has decided to continue to use this building as classroom space. West Bay's Class A market segment is experiencing the strongest demand and rent stability of any of the suburban markets.

The remainder of the suburban market is rather stagnant. East Bay and suburban Providence have seen a notable lack of demand with the possible exception being West Exchange Center in suburban Providence. Demand in the Northern Market has been extremely quiet, but there are recent signs of new tenant activity.

The medical office submarket is still suffering from very weak demand as the number of small to medium size medical practices diminish due to the consolidation and absorption into large hospital sponsored organizations.

The overall Rhode Island market should see little change over the next two quarters. Demand should be spotty and prices stable. Job growth will be needed to create true market strengthening. Small and medium size businesses are still looking for market stability, and until found, we will not see much movement in this sector.

Gerald Surprenant, SIOR, is executive vice president of MG Commercial Real Estate, Providence.