

CONNECTING REAL ESTATE IN THE NORTHEAST

NORTHEAST REAL ESTATE BUSINESS®

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RHODE ISLAND OFFICE MARKET

Overall, the Rhode Island office market has seen an increase in available space from this time one year ago. In Providence, this primarily can be attributed to the recent move of Blue Cross/Blue Shield into their newly constructed office building. The new building has 20,000 square feet available and Blue Cross/Blue Shield vacated more than 301,000 square feet of Class B office space. This additional space increased the vacancy rate in Providence by more than 4 percent to 21.5 percent.

GTECH Center and 100 Westminster still have ample true Class A space available, along with the new Blue Cross tower, while other A-/B buildings (56 Exchange Terrace and Turks Head) gained a few smaller tenants. GTECH and 100 Westminster have recently gained tenants reducing their vacancy. 121 South Main Street (Hemenway's) looks like it will lose its last office tenant when Brown Rudnick leaves to make way for additional Brown University expansion in the CBD. Most landlords are very aggressive right out of the box with free rent, moving expenses and substantial tenant improvement allowances, making it difficult for tenants not to consider a move.

The West Bay suburban office market realized some compression in the vacancy rate from 25 percent a year ago to 19 percent today with rents averaging in the mid to high teens for Class B space and low twenties for Class A space. A few factors contributed to this compression. First, the state purchased a 68,412-square-foot office building in Warwick for its own use. Secondly, a planned redevelopment of an industrial building, slated for an office conversion, was abandoned removing more than 140,000 square feet from the office market. Finally, the recent spring floods spurred some temporary and permanent relocation of area office tenants within the West Bay market.

The Northern Rhode Island suburban office market continues to be the softest submarket in the state with a vacancy rate that exceeds 30 percent. This was the first market to feel the effects of the economic downturn in the state. Most of the office leasing that has taken place in this submarket has been influenced by the proximity of CVS's world headquarters, located in Woonsocket, Rhode Island.

With office vacancy on the rise, current prospects in the market are seeing very favorable lease terms with some rents down as much as 20 per-

cent. Even with good pricing, economic uncertainty is making many tenants hesitant to sign long-term deals. This scenario could prove to be advantageous to landlords once the economy strengthens. In addition, most of the moves have been lateral on the basis of quality of space.

New development is almost at a standstill, statewide. With high vacancy rates and a poor business climate, banks are not financing speculative development as they did in the past.

It is unlikely that we will see any further compression on pricing and vacancy in the market. Pricing should remain at current levels at least through the first quarter of 2011, providing tenants further opportunity to enjoy advantageous lease rates and concessions. The good news is that companies who have weathered the storm up to this point should find themselves still in business once this downturn has passed. To get to this point, Rhode Island will have to help itself by dramatically improving its business environment, largely through small business tax relief.

— Leeds Mitchell IV, vice president of Providence, Rhode Island-based MG Commercial Real Estate