

THE CAPSTONE *Report*

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BY NEIL AMPER, SIOR

Market Overview

Rhode Island has just endured dramatic increases in unemployment as the Global Recession plods on and hopefully bottoms out. Floods of historical proportions have displaced residents, office users, industrial companies and retailers alike. When we view the events of the last few years and analyze the effects on the local commercial real estate market, we see the classic blueprint of a downward market correction. We saw prices fall and buildings in all categories endure historical levels of high vacancy.

That said, there is a new, growing sense of optimism within Rhode Island in 2011. The optimism comes from the remarkably few foreclosures of commercial property that occurred in 2010. Those that did occur were generally smaller, more marketable properties that resold relatively quickly. For example, the 48,000 SF building located at 66 Stamp Farm Road, Cranston, was forced into foreclosure, taken back by the lender and resold within eight months for \$1.32 million (\$27.50 PSF).

Noteworthy Transactions were few in 2010. The seminal transaction of the year was the leasing of 80,000 SF of office space in downtown Providence to 38 Studios, an entertainment and IP creation company, which is expected to employ 400 people and hopefully drive a new industry in Providence.

Another large transaction was the sale of Patriot Commons, a bank-owned, 140,000 SF building at 2000 South County Trail, East Greenwich (the former manufacturing facility for On Semi Conductor). It sold for \$5.2 million (\$37.14 PSF) to Yardney Technical Products, a specialized battery manufacturer from Connecticut with plans to move 150 jobs to the state. The manufacturing

building was previously purchased in 2006 for \$3.3 million (\$23.57 PSF), then converted to office space, only to be lost at a mortgagee's foreclosure sale in 2009.

While absorption has been increasing, there have been buildings on the market in excess of two years. Aggressive pricing of good real estate has been the key to successfully leasing or selling. It would also appear that local ownership in all segments of the market were less leveraged and more prepared to weather a downturn than they were in the early 1990s. Lenders have been more hesitant to foreclose than was typical in the early 1990 recession.

The Knowledge District, where Brown University is converting buildings for their medical school, will continue to be a hub of activity. The I-Way has been completed and the former I-195 corridor is being razed, which will make 19 acres of land available for development. A new equity partner has been brought in to assist with the redevelopment of The Dynamo House, Narragansett Electric's former generation plant. A developer has been approved by the bankruptcy court to purchase the former Victory Plating site that encompasses 3.5 acres for over \$7.5 million.

The industrial market has shown more activity, but both the total dollar volume and square footage sales rates fell from the previous year. The user with expansion needs can negotiate very attractive terms in both rental rates and sale prices. Surprisingly, the drop in prices has been less severe than in previous years. Spaces under 15,000 SF have generally stabilized. Vacancies over 15,000 SF are depressed with long lag times between tenants.

Tenants with leases expiring are testing the market downturn with the intent of renegotiating lease terms with their landlord or relocating.

The office market continues to struggle with spotty demand. Long vacancies continue to keep lease rates depressed. The Class A market still has historically high vacancies hovering at 15 percent and one million SF of empty space. Class B space is only marginally better at 12 percent and 1.6 million SF of empty space. Total vacancy statewide is down slightly from 2009 at 3.7 million SF. Our expectation is that the improving economy will allow companies to expand and lock in attractive lease rates.

The retail market has overcapacity in all locations. There are 20 vacant spaces on the Route 2 Bald Hill corridor. Bed Bath & Beyond has relocated to 41,000 SF at 1500 Bald Hill Road, and reportedly was given a very generous build-out allowance and paid \$8.00 NNN. Asking rents on Bald Hill Road range from a low of \$9.00 to \$25.00 PSF. Concessions are the theme for the marketplace, but the level of activity has been stubbornly slow. There are inquiries from companies who perceive it as a chance to lower their base rent, but most retailers are not expanding. Ultimate Electronics, who just signed a lease in Seekonk, Mass., recently filed for bankruptcy protection for the second time in five years.

There has been more activity in the beginning of 2011 than we have seen in several years. Buyers are beginning to emerge again and the leasing market has begun to see some improvement. We are optimistic for 2011 and feel that the marketplace and the business climate will improve.



Real Estate Services for Today's World

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Office Sale/Lease Analysis

There were 23 sales in 2009, which accounted for 151,239 SF and \$14,173,375. We tracked 26 sales in 2010, totaling 181,504 SF with a combined value of \$15,484,900.

Some of the highlights include the State of Rhode Island's purchase of 50 Service Avenue in Warwick, a 68,000 SF Class B office building which had been Brooks Headquarters, for \$4.5 million (\$66 PSF). The State is creating a new computer data center and moving some State agencies into the building as their various leases expire. This transaction is symptomatic of our commercial real estate market; rather than available space being absorbed by new companies, users within the market move, buy or lease and leave a vacancy in their wake that may take years to fill.

A 9,296 SF office condominium located at 1 Park Row in downtown Providence sold for \$54 PSF. Two stand-alone buildings on

South County Trail in East Greenwich sold: one was an 8,000 SF building located at 2850 which sold in August for \$137 PSF, the other was a 6,200 SF building located at 2358 which sold for \$161 PSF.

Generally, the volume of transactions has increased with spaces under 10,000 square feet maintaining value. Occasionally, one will see values increasing in medical or newer structures. The median sale/SF rate for all office categories and areas was \$110 PSF, a 22 percent increase from the previous year. There are approximately 200 properties for sale in the Rhode Island marketplace totaling approximately 1.4 million SF.

The majority of office tenants in Rhode Island are in the 2,500 to 10,000 SF range. There is very little available in the desirable areas in these core sizes. The market for lease space has had more phone activity and leases than we have seen in the past

few years. The beginning phases of any recovery involve companies who shop their lease rate to gauge whether it is practical to relocate. The end of any recession has companies needing to expand, but plans get put on hold until the true economic climate is understood. It is reasonable to assume that this market will maintain, if not increase, in value as we saw from 2009 to 2010.

300 Jefferson Boulevard in Warwick, which was completed in 2008, has begun to lease space. Four companies have occupied 21,161 SF and rents are in the \$20 PSF range. General Services and Administration has leased a 20,560 SF building at 1541 Atwood Avenue in Johnston. The lease rate begins at \$30.80 PSF with a 15 year term. The median lease rate for the suburban market in 2009 was \$15.65 and it has increased 18 percent to \$18.50 PSF. It is unlikely this can be maintained throughout 2011.

Retail Sale/Lease Analysis

In 2010 there were 38 sales of retail property that totaled \$81.8 million and consisted of 725,000 SF with a median sales value of \$113 PSF. Clearly this sector of the commercial real estate market has done a better job of retaining value than office or industrial sectors.

There were seven pharmacies sold for between \$124 and \$465 PSF. The capitalization rates are typically in the seven percent range with occasional lower returns for the best locations.

On Bald Hill Road, Bernie and Phil's Furniture purchased the former Bernie's Appliance Store, a 21,532 SF building, for \$190 PSF. While in Cranston, a 113,000 SF retail plaza anchored by Price Rite at 1401 Elmwood Avenue was sold for \$28 PSF to Ocean State Job Lot, who has opened their 101st store.

Emmes & Company purchased The Wampanoag Mall in 2006 for \$11.8 million and then redeveloped the center by adding Stop & Shop and Wine & Spirits Depot, among others. They then sold the 209,000 SF retail plaza located at 1925 Pawtucket Avenue in East Providence for \$20 million in 2010, which translates to \$99 PSF.

In Providence's Capital Center, Jacky's Asian Restaurant has purchased a space

at the Waterplace Condominiums in Providence for \$1.7 million. Panera and PF Chang have both signed leases at the Providence Place Mall.

Retail leasing has been very spotty. There are 20 vacant spaces on Bald Hill Road that represent 196,000 SF, and the asking lease rates range from \$9.00 NNN to \$18.00 NNN. There are parts of this market that have been vacant for over two years. Bed Bath & Beyond moved from one end of Bald Hill Road to the other. They were enticed to move by reportedly receiving a \$1 million fit-out allowance and a rate of \$8 PSF NNN for ten years. Trader Joe's is a great new addition to the street. Unfortunately, no more stores are currently planned for Rhode Island. Chapel View in Cranston has considerable vacancies while the former Circuit City and Linens and Things spaces in the Garden City Shopping Center are also still vacant.

The recession has certainly taken its toll on retailers whether they are local "Mom and Pop," regional or national credit retailers such as Shaw's, Circuit City, Boater's World, Hollywood Video or Linens and Things. Virtually all retail categories have taken a hit and we have seen little retail expansion within the marketplace. TD Bank, Family Dollar and Advance Auto Parts have been exceptions to the rule.

TD Bank's expansion into Rhode Island is the most noteworthy especially now that CVS, Walgreens and other banks have slowed their expansion plans. TD plans on opening upwards of 20 branches in the Ocean State led by their new flagship 10,000 SF store on 180 Westminster Street at the corner of Dorrance and Westminster Streets in downtown Providence. In Barrington, East Providence and Johnston, new branches are already up and running. Family Dollar and Advance Auto Parts are examples of well-run discounters who are seeking to expand their retail reach by taking advantage of the current discounted leasing market.

Tim Horton's decision to close all of its stores in New England has generated a buzz of activity from competitors, fast food retailers and developers as all these units are offered for sale or sublet.

Shaw's has announced that they are leaving CT altogether and are closing their Bald Hill Road store in Warwick and their Hartford Avenue store in Johnston. Previously, they already vacated North Main Street and Eagle Square, both in Providence. These steps generate speculation as to their long term plans in Rhode Island and perhaps could open the door for an additional grocer to enter the market.

Industrial Sale/Lease Analysis

The industrial market recorded 45 sales in 2010 versus 29 in 2009, a 55 percent increase. The downside was that total dollar sales dropped by \$13 million, from \$41 million in 2009 to \$28 million in 2010. The square footage transacted dropped 26 percent or 325,883 SF, from 1,257,727 in 2009 to 931,844 in 2010.

Buildings of less than 15,000 SF recorded a median rate of \$57 PSF. The volume was 86,566 SF and the total dollar volume was \$5,129,000, a drop of \$1.375 million from 2009 levels. While there was more activity in this category there was a shortage of product, which will dictate a stabilization of sales prices.

Buildings between 15,000 and 30,000 SF recorded 186,177 SF sold and \$6,933,000 in dollar volume. The median sales rate for the entire category was \$31 PSF, a 16 percent reduction from previous years. Of late, inquiries and offers have steadily increased from 2009 depressed levels and there is more confidence in the marketplace for stabilization and eventually, expansion.

Buildings between 30,000 and 60,000 SF did not have enough activity in 2010 for meaningful analysis. The sales recorded 166,000 SF and \$4,690,500 dollar volume. The lowest price PSF was \$20, and the highest was \$51. The expectation for 2011 is an increase in activity in this category as buyers and sellers begin to have more realistic expectations.

In buildings larger than 60,000 SF, the product type varies from older mill buildings to one story newer facilities. One Powder Hill Road in Lincoln, a 104,700 SF building built in 1964, sold for \$28 PSF. Three older mill buildings were sold as a result of foreclosures: 500 Wood Street in Bristol, a 195,527 SF building, sold for \$2.55 PSF; a 112,267 SF building located at 1187 High Street, Central Falls sold for \$8.80 PSF; and a 100,000 SF building located at 176 Greenwood Avenue in East Providence sold for \$28 PSF.

Mill buildings have always been plagued by the general inability of the local market to either successfully subdivide and lease out space or occupy the entire space. Market value has always been difficult to quantify

because of the relative small number of companies that could purchase them.

While the industrial market continues to fall, the sales level begins to rise as pricing becomes more in line with the ability of local businesses to finance. Historically, when our prices become cheaper in comparison to Massachusetts, Connecticut and New York, we begin to attract companies.

The lease market for larger space in 2010 was stagnant. There was very little activity in new leases, but renewals were negotiated at lower rates. We tracked ten leases that ranged from 5,400 to 63,000 SF. The lease rates for spaces under 15,000 SF have maintained a semblance of stability. The lease rates range from a low of \$2.98 NNN for 13,360 SF to a high of \$8 NNN for 5,400 SF. There have been landlord concessions of free rent and reasonably generous tenant improvement allowances. The median rate was \$5.70 PSF and this is slightly lower than previous years.

Two transactions of note: Bradley Press leased 63,000 SF in Lincoln and paid in the \$3.25 range NNN. Blue Cross/Blue Shield relocated within the Huntington Industrial Park to 22,936 SF and paid \$5.50 NNN.

Many building owners who have a desire to sell will also consider leasing and their lease rates tend to be lower than buildings owned for investment. Although there are large blocks of space in all areas, there is a short supply of small flex and warehouse spaces under 10,000 SF. The expectation for 2011 is that an improving economy will absorb some of the space that has been overhanging the marketplace. Regionally, industrial vacancy rates vary.

Vacancy Analysis

NORTHERN REGION

Buildings in this area generally stay leased, but at times larger spaces tend to linger for longer periods. TMI closed down their plant on Wellington Road in Lincoln and The Bradley Press occupied the 63,000 SF facility. Liz Claiborne closed and sold their 104,000 SF facility and it is currently vacant. The vacancy rate was four percent in 2008, seven percent in 2009 and is currently around six percent.

PROVIDENCE/METRO

This area sees major changes from year to year. The vacancy was 11 percent last year and is currently around eight percent. The buildings are generally older than in some of the other regions and companies either move to the city to take advantage of lower prices or they move to locate to a more modern facility. Quoted rates on leasing can be fifty cents to a dollar PSF lower to compensate for higher taxes. In addition, sale prices will oftentimes be lower to compensate for the cost to retrofit to current fire and building codes.

CENTRAL WEST BAY

This area has always maintained an attraction for regional and national companies who are looking for newer buildings with convenience to highways. The vacancy has historically been six percent or below and is still currently around six percent. Colony Ford recently closed its operations and 30,000 SF are available at the Jefferson Boulevard off ramp.

EAST BAY

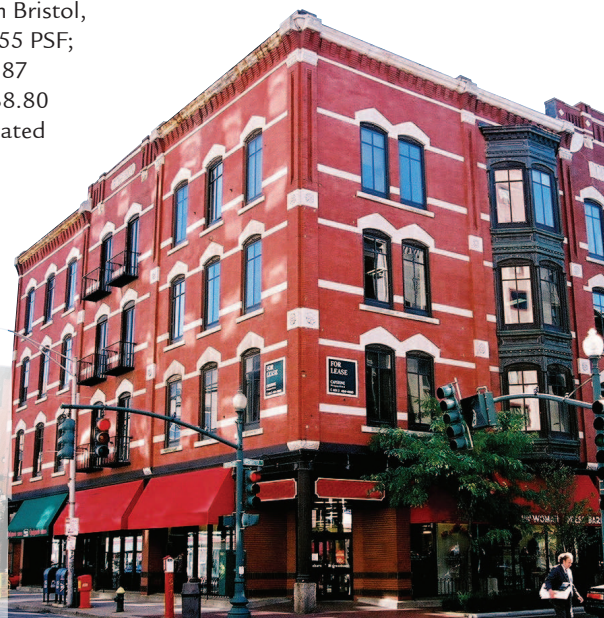
There has been a lack of any significant changes in this area. The vacancy rate has been around nine percent for the last few years. There has not been any significant building or vacancies for several years.

SOUTHERN REGION

This market sees very little year to year change, and the vacancy rate is usually centered on a few large blocks of space in the Quonset/North Kingstown area. The vacancy rate has always hovered in the double digit range. It was 18 percent in 2009 and is now 14 percent. The port area in Quonset can be an attraction for companies and North Kingstown has a lower tax rate than other areas. One move of note was Cool Polymers to 51 Circuit Drive in North Kingstown from Warwick.

STATEWIDE

The vacancy rate has been in the eight to ten percent range for a number of years. It is currently around eight percent. This number could fall in 2011, but our expectation is that the market will remain relatively flat for the first half of the year.



Recent Transactions



50 Service Road
Warwick, Rhode Island
68,420 SF Building Sold to the State of Rhode Island



180 Westminster Street
Providence, Rhode Island
10,000 SF Lease to TD Bank



1155 Putnam Pike
Chepachet, Rhode Island
Family Dollar Retail Lease



143 Granite Street
Westerly, Rhode Island
Napa Retail Lease



Bellevue Avenue at Memorial Boulevard
Newport, Rhode Island
Redevelopment Sale
2,242 SF

Available Properties



For Sale/Lease Retail/Office
500 Greenwich Avenue, Warwick, Rhode Island
19,536 SF on 1.09 acres



For Sale/Lease/Mfg./Warehouse
200 Corliss Street, Providence, Rhode Island
34,626 SF



For Sale/Lease Redevelopment
11 Comstock Parkway, Cranston, Rhode Island
26,720 SF on 1.78 acres



Industrial For Sale
60 King Street, Providence, Rhode Island
119,322 SF on 9.9 acres
190' cell tower, double sided billboard



Office For Sale/Lease
1239 Hartford Avenue, Johnston, Rhode Island
8,000 SF



For Sale/Retail/Automotive
3 Chalet Drive, Middleboro, Massachusetts
18,240 SF on 3 acres



Office For Lease - Downtown
180 Westminster Street, Providence, Rhode Island
1,832 - 10,000 SF



Retail For Lease
1919 Mineral Spring Avenue
North Providence, Rhode Island
2,800 SF or 8,600 SF



Retail For Lease
Johnston Towne Center, Johnston, Rhode Island
Up to 115,000 SF



Office For Lease
Jefferson Place - 100 Jefferson Boulevard
Warwick, Rhode Island
2,410 SF

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