

THE CAPSTONE REPORT

RHODE ISLAND'S REAL ESTATE SURVEY FOR 2011

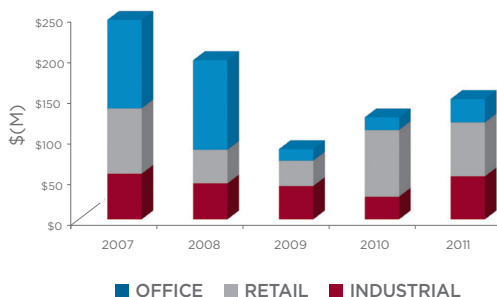
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by Neil Amper, SIOR

Market Overview

Recessions end quietly, just as they begin. While it is still too early to predict a recovery, there are encouraging signs of growth and development in the commercial real estate sector. There were 190 total sales across all categories in the state with industrial and office markets showing significant increases over 2010 transaction levels. On the flip side, the retail market continued to suffer with little visibility of improving fundamentals as evidenced by transaction activity: both the aggregate square footage sold and aggregate sales value fell from 2010 levels, 29 percent and 19 percent, respectively.

SALES VALUE BY CATEGORY



- Rhode Island's Legislature created a board to oversee the sale and development of the 19 acres that became available after the I-195 relocation. They have hired an engineering firm and initiated the process of identifying appropriate industries that can best utilize the land and bring benefits to the city.
- A private group has bought a parcel located on Tockwotten Street on the edge of Wickenden Street and the Knowledge District for redevelopment as a retail use.
- Gilbane has proposed a four-story graduate dorm building with 85 underground parking spaces at Thayer St. and Euclid St. The building is expected to house 200 - 275 people.

While foreclosures are still a part of the landscape, it appears that they have slowed and those that do become available sell more quickly than in past years.

NOTEWORTHY TRANSACTIONS

National Grid's former headquarters and parking garage located at 100 Weybosset Street in downtown Providence was sold to a developer for \$2.7 million. He has begun the conversion to fifty-three apartments. The addition of residential units in the city are a key element in helping downtown thrive.

Brown University purchased real estate located at 198 Dyer and converted the 40,700 SF building to classrooms for their continuing education classes. They will also maintain the 217 space parking lot for monthly rentals. LF Industries, a Chinese company that makes jewelry, leased 105,000 SF of warehouse space at 1600 Division Street, West Warwick. Hasbro has leased 136,908 SF of office space at 15 LaSalle Square in downtown Providence for 12 years, which will bring approximately 250 people into the downtown workforce. In addition, Jordan's Furniture and Nordstrom Rack have decided to locate at the Warwick Mall.

The number of transactions in the **industrial market** increased dramatically from 2010 to 2011. Sale and lease pricing have stabilized and demand for smaller spaces has begun to improve. Lease rates, while still lower than in previous years, have begun to show some improvement as users have begun to feel more confident in the economy. Buildings larger than 15,000 SF have begun to sell and lease with substantial increases over 2010 levels in aggregate square footage and dollar volumes. There has been some pent up demand to acquire good buildings in strong locations as demonstrated by three offers received in the first two weeks of listing a 50,000 SF building in the Howard Industrial Park in Cranston. While there is still a substantial vacancy in the state, the signs of improvement have been encouraging.

Sales in the **office market** nearly doubled from the previous year, primarily driven by users/owners. As a result, there has been some reduction in the vacancy rate within the state. This reduction in vacancy has been mostly accomplished by companies shifting to larger space for less money. However, office leasing has been soft with some vacant spaces remaining available for over two years. Price is not the problem; there is just not much tenant-driven demand. Companies who have confidence in their business model have been locking in longer term deals. Landlords are willing to offer incentives to their existing tenants as well as compete aggressively for credit companies.

The **retail leasing market** has not recovered as well as the industrial and office markets. The lack of demand from regional and national retailers has left the Bald Hill Corridor with 15 vacancies and an excess of 300,000 SF available. The market is plagued with over-capacity and limited demand, but there are some encouraging signs giving landlords some optimism.

Chapel View in Cranston has become a more vital project with new additions of office, retail and restaurant users. Alex and Ani opened a store and their corporate headquarters at that location in June. First Comp Insurance has located in a 27,295 SF space there, and the Chapel Grill restaurant has opened in the renovated Chapel. Garden City Center has announced a remodel of the property with new construction and a focus on retrofitting existing spaces to attract new tenants.

The former Shaw's market in Johnston was purchased by Ocean State Job Lot, which has grown to over 100 stores in New England. Sales of existing retail neighborhood plazas have increased and the price per square foot has increased to levels that we have not seen for a number of years. If both the national and the New England economy continue to improve, the vacancies that have become a part of the landscape will be absorbed, but at lower prices.

Office Sale/Lease Analysis

There were 26 sales in 2010, totaling 181,504 SF with a combined value of \$15.5M. There were 26 sales in 2011, but the numbers increased dramatically. A total of 355,144 SF sold for \$28.6M which translated into a 95 percent increase in square footage and an 84 percent increase in dollar value.

Some of the highlights include the sale of a 40,700 SF building on 2.19 acres of land at 198 Dyer Street in Providence to Brown for \$6.0M. This sale shows the corrections taking place in our market, as the previous sale price was \$9.7M in 2005 and the assessed value for the property is currently at \$8.5M for land and building.

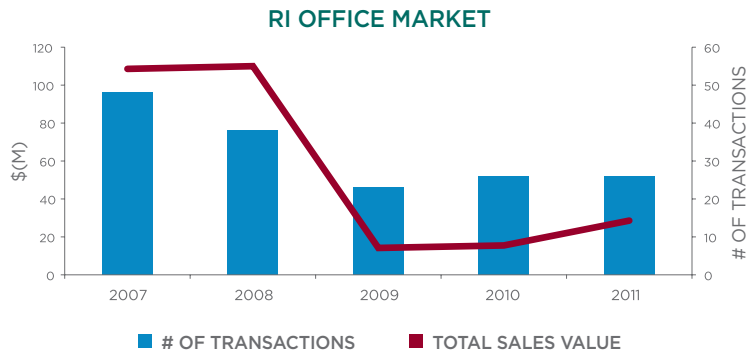
The former National Grid headquarters building located at 100 Weybosset Street in Providence, an 84,696 SF building, was sold for \$2.7M or \$31.80 PSF to a New York developer for conversion to apartments. The current assessment for land and building is \$4.5M.

A 9,296 SF office condominium located at 1 Park Row in downtown Providence sold for \$501,984 or \$54 PSF, the same price as one that sold in 2010. The current assessment is \$709,600.

A 60,720 SF office building was auctioned at 301 Metro Center, Warwick and sold for \$3.6M or \$59.28 PSF. The assessment of land and building is \$4.4M.

Bank of America has announced they will not renew their lease at 111 Westminster Street in downtown Providence, leaving a 26-floor, 350,000 SF building currently vacant.

We are seeing a familiar pattern around the state where buildings are selling substantially below assessed values. We anticipate that these new owners will use this fresh sales data to successfully appeal assessments, which will put additional operating pressures on municipalities. One could expect a resultant rise in tax rates.



2011 total transaction value increased \$13M, or 85% over 2010, driven mainly by the sale of larger office properties that reflected a slight reduction in median sales price/SF from \$110 in 2010 to \$105 in 2011.

We have begun to see a recovery, but it is still a long way from the high marks set in 2007 and 2008. Values of existing properties are expected to increase, but the decision buyers who are users will have to evaluate is the value to purchase versus leasing at attractive lease rates. It is still an owner-occupied market that struggles to find enough value to make the investment in real estate attractive.

The office lease market continues to have an oversupply in all areas. There was in

excess of 400,000 SF of new leases in the state in 2011 with 46 percent of them in Providence. There are some bright spots in the marketplace: in Providence's Empire District, 38 Studios occupied its space and Hasbro agreed to a 12-year lease for 136,908 SF at 15 LaSalle Square. The City of Providence Planning and Development

Board consolidated into 60,121 SF of space located at 444 Westminster Street, which opened up vacancies in their previous location. First Comp, a national workers compensation insurance company, has occupied 27,295 SF at 200 Chapel View in Cranston. And as mentioned

in the overview, Alex and Ani has located their corporate headquarters at the same facility.

The vacancy statewide has dropped from 10 percent to 9.1 percent, but the lease rates have not recovered and certain suburban markets have significant vacancy issues. Class A vacancy statewide is at 14.5 percent with Class B at 9.2 percent and Class C at 7 percent. We are at the beginning of national recovery and these should all improve throughout the year.

Retail Sale/Lease Analysis

In 2011 there were 33 sales of retail property that totaled \$66.3M and consisted of 514,309 SF with a median sales value of \$159 PSF. In 2010 there were 38 sales with 725,000 SF sold and a value of \$81.8M. While this market sector has clearly retained value, the activity level has not kept pace with the recovery we have seen in the office and industrial areas.

An investor acquired a 35,200 SF neighborhood retail plaza located at 1458 - 1492 Park Avenue in Cranston for \$3.3M (\$93.32 PSF), reflecting a 6 percent cap rate, while another neighborhood plaza located at 1235 Wampanoag Trail, East Providence, containing 19,232 SF, sold for \$2.4M (\$124 PSF).

The former Shaw's located at 1493 Hartford Avenue in Johnston was purchased by Ocean State Job Lot. The building contained 58,613 SF of space and the purchase price was \$5.4M (\$92.12 PSF). They are occupying approximately 40,000 SF and leasing the remainder to Planet Fitness.

A Stop & Shop anchored building located at 22 Kingstown Road in Richmond sold in July for \$12.1M (\$195.16 PSF), while a 6,600 SF plaza located at 17 Airport Road in Warwick anchored by a Starbucks sold for \$3.1M (\$469 PSF) to an institutional investor from New York. These sales are indicative of equity desperately looking for top quality assets anchored by credit retail tenants.

Recent closings include Lowe's 113,000 SF store in North Kingstown in Quonset Park. Their stay here was short lived.

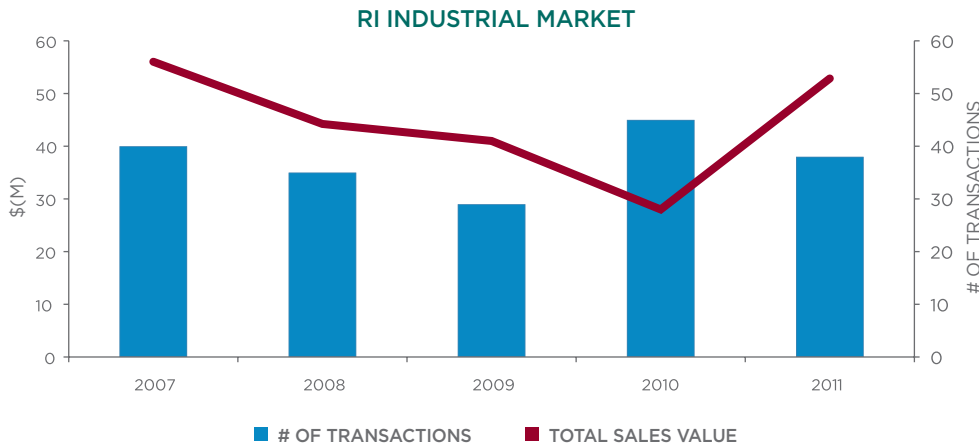
Retail leasing continues to be sluggish. Indicative of the retail market overall, Bald Hill Road represents one of the few institutional sub-markets within the state. Our analysis included 88 properties within the Bald Hill corridor with a total square footage of approximately 3 million SF (846,527 SF, or 42 percent, of this is in the Rhode Island and Warwick malls). There appears to be approximately 375,000 SF of vacant space, equating to a 12.5 percent vacancy factor.

Notable lease transactions during the year included Jordan's Furniture and Nordstrom Rack for 100,000 SF and 37,360 SF, respectively.

Industrial Sale/Lease Analysis

The industrial market recorded 38 sales in 2011 versus 45 sales in 2010; the good news was that both square footage and total sales dollars increased substantially. Square footage went from 931,844 SF to 2,026,203 SF and transaction value increased from \$28.0M to \$52.9M. Improving economic conditions, pent up demand and attractive sales prices all contributed to the positive trend.

sold again to a user for \$3.8M (\$36.34 PSF), a 27 percent increase. A 85,560 SF building located at 45 Sharpe Drive sold in December for \$3.7 M, or \$43.24 PSF to a user who was also an abutter. The property never went to market and its sale price demonstrates that users drive the industrial market with very few investor purchases.



Transaction value increased \$25 million, or 89% between 2010 and 2011, as a result of a significant increase in the average transaction size from \$0.6M to \$1.4M over the same period.

Buildings of less than 15,000 SF recorded a median rate of \$54 PSF. Buildings totaling 62,490 SF sold and the transaction value shrank in 2011 to \$4.0M, dropping the median rate from \$57 to \$54 PSF. This sector has seen a lack of product for a number of years and therefore stable pricing is the result.

In the 15,000 SF and 30,000 SF building category, a total of 118,733 SF was sold with \$6.8M in transaction value. The median rate for the entire category was \$50 PSF, a 62 percent increase from the previous year. This is a core sector for the marketplace and it is encouraging to see the significant improvement of the sales numbers. We predicted an increase in this sector last year and it proved to be correct.

Buildings between 30,000 SF and 60,000 SF recorded 487,678 SF sold and \$18.6M in aggregate sales value. The numbers for 2010 were 166,000 SF sold and \$4.7M in total transaction value.

In buildings larger than 60,000 SF, the recorded square footage volume was 256,082 SF with \$10M in total transaction value. One Powder Hill Road, a 104,560 SF building in Lincoln, sold in 2010 for \$3M (\$28.69 PSF) to an investor and recently

LEASES

The industrial market in Rhode Island is around 78 million SF and the vacancy rate has been stagnant for the last few years, hovering around 8 to 10 percent. The current vacancy is around 7-7.5 percent, but there have been some positive absorption signs.

There was more than 550,000 SF of space on new leases in the state. LF Industries, a Chinese company that makes jewelry, leased 105,000 SF at 1600 Division Street in West Warwick. Maley Laser has leased 60,624 SF at 1280 Jefferson Boulevard, Warwick; Triumvirate Environmental leased 50,000 SF at 9 Powder Hill Road, Lincoln; Northeast Rubber leased 27,000 SF at 17 Powder Hill Road, Lincoln; and Summer Infant sold their 52,000 SF building and leased it back from the buyer.

The market for smaller lease space has become more active and more leases have been facilitated in Providence Metro and West Bay area than we have seen in a number of years. The lease rates have begun to recover and the lease rates average \$4.70 NNN. Smaller users are one of the important drivers of the local economy and as we see some local economic improvement, spaces that have lingered vacant for years are being absorbed.

Vacancy Analysis

NORTHERN REGION

Buildings in this area are always in demand because of their convenient location to the interstates and Massachusetts. Two companies recently leased space that took 77,000 SF off the market, but there is not much available and the vacancy rate is only 5 percent, a full 1 percent reduction from 2010.

PROVIDENCE/METRO

There have been some positive signs in the area as some long term vacancies have begun to be filled. Brewers Supply leased 32,000 SF at 250 Niantic Avenue, Providence and Blue Cross relocated to 175 Dupont Drive, Providence. There are still some older buildings that have remained vacant for more than two years, but the vacancy has fallen from 11 percent to around 8 percent.

CENTRAL WEST BAY

The vacancy in this area has not changed much in the last three years and although the spring 2010 floods displaced some industrial users, the vacancy is only around 5 percent. S and L Distributors has leased 28,000 SF at 1200 Jefferson Boulevard, Warwick for seven years. Phalanx Engineering leased 6,400 SF of flex space at 110 Byfield Street, Warwick, and Cox Communications leased 8,000 SF at 115 Walnut Street, Warwick. The smaller, newer spaces that have lingered are now being absorbed as companies are beginning to trade up in quality.

SOUTHERN/NEWPORT COUNTY

The vacancy rate is still around 14 percent with some large blocks of space being vacant for a number of years. In addition, the Quonset Point district has always been an area of potential growth with Electric Boat and numerous niche industry companies located in the park.

STATEWIDE

The vacancy rate has fallen to between 7 and 8 percent. There has been some expansion within the market, but one of Rhode Island's problems continues; there are very few new companies moving here from outside the state. We predict more absorption and increasing lease rates as the local economy slowly improves.

Available Properties



For Lease/Office Space, ext. 324
Audubon Society, Smithfield, RI
1,150 SF/3,000 SF/6,850 SF



For Lease, ext. 323
Myles Standish Park, Taunton, MA
25,000 Industrial Building
Clean Rooms



Industrial/Sale/Lease, ext. 322
200 Corliss Street
Providence, RI
53,400 SF



Bank Owned, ext. 324, ext. 323
Turnkey Restaurant For Sale
425 Washington Street, Coventry, RI
7,848 SF 1.25 Acres/90 car parking



Office Condo/Sale/Lease, ext. 324
Downtown Providence
128 Dorrance Street, Providence, RI
1,448 SF/3,066 SF/5,074 SF



For Sale/Lease, ext. 325
400 Reservoir Avenue, Cranston, RI
2,112 SF Office Condo in Calart Towers
SBA 504 Financing Available!



For Lease, ext. 323
Conley's Wharf
Allens Avenue, Providence, RI
225 SF - 2,800 SF



Office Space for Lease, ext. 325
31 James Murphy Highway
West Warwick, RI
8,427 SF



For Lease/Office Space, ext. 322
333 Centerville Road
Warwick, RI
5,076 SF



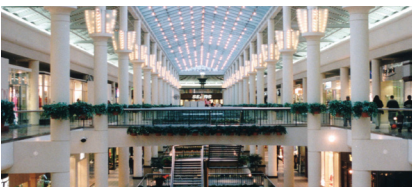
Development Opportunity, ext. 322
67 Mechanic Street, Attleboro, MA
130,560 SF/13.25 Acres



For Sale/Bank Owned, ext. 324
Former Auto Dealership
38 Broadway, Raynham, MA/4.9 acres



For Sale, ext. 325
Office Building, 1060 Park Avenue
Cranston, RI
14,800 SF



For Lease, ext. 324
Emerald Square Mall, North Attleboro, MA
Up to 30,000 SF, parking at the door
Schools/Yoga/Medical etc.



Sale/Lease, ext. 322
Office Complex
100 Jefferson Blvd., Warwick, RI
24,100 SF - 2,410 SF/4,820 SF available



For Lease Office Space, ext. 325
Downtown Providence
180 Westminster Street, Providence, RI
Up to 10,000 SF, Join TD Bank



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