

THE CAPSTONE

MIDYEAR 2013
REPORT

Rhode Island's Real Estate Survey

www.capstone-properties.com

by Neil Amper, SIOR

Market Overview

In the first half of 2013 there were 85 transactions, compared to 76 in 2012 and 69 in the first half of 2011. The increase was spread among all categories with several high profile investment properties transacting. The combination of low interest rates, improving business conditions and more confidence in the marketplace fueled a general improvement in inquiries throughout the region.

The traditional slowdown in the second quarter that has been the benchmark of the last several years continued, but values in many areas have increased and there is room to be optimistic that 2013 will continue the improvement that we experienced in 2012. There were 63 transactions in the first quarter of the year.

A key announcement was the collaboration of Brown University, University of Rhode Island and Rhode Island College committing to Commonwealth Ventures to occupy the Dynamo House in the Davol Square area. The \$206 million project will include 120,000 SF for Brown's Engineering School and a large portion for URI and Rhode College's nursing school. It is also proposed to have 20,000 SF of incubator space, 15,000 SF for retail, a new 296 unit apartment complex to be located in the Davol parking lot for Brown University Graduate Students, and a 600 space parking lot to be financed by the City of Providence.

The state's historic tax credit program for commercial redevelopment projects is reopening on a limited basis after being closed to new applicants since 2008. The new program would be able to distribute about \$34.5 million in credits, which represents the amount unclaimed under the previous program. The new program will limit each project to no more than \$5 million in credits.

OFFICE SPACE

The statewide vacancy rate is currently at 8.2 percent versus 9.2 percent last year, however the improvement is tempered by Bank of America moving out of 111 Westminster Street in Providence with the owner contemplating a conversion to apartments. There is still a vacancy of 12 percent in Class A space throughout the region. Some tenants who have been leasing are now considering acquisitions of property, but the availability of product has continued to be a limiting factor.

Tunstall Healthcare moved into 100 Freight Street, Pawtucket, occupying 85,000 SF of call center space.

An 117,981 SF office building located at 15 Park Row West in downtown Providence was sold for \$13.2 million, or \$111 a square foot with the land being leased.

The volume of inquiries has been steady, but unspectacular with more interest in buying than leasing. Tenants in expiring leases explore competitive buildings and their rates before renewing and that has given the market a false sense of activity.

RETAIL SPACE

This category has been overlooked in the past few years with many national & regional companies focusing in sub-markets in and around Boston. That has begun to change with Hobby Lobby opening in the former CompUSA space at 945 Bald Hill Road, Warwick. LA Fitness has begun construction in Cranston in the Garden City Center and has plans to open up on Bald Hill Road in Warwick, North Main Street, Providence and an unnamed site in Johnston. The Corner Bakery Café has begun its expansion into Rhode Island with its first store in The Garden City Center and another planned location on Bald Hill Road, Warwick. Garden City Center continues its dramatic transformation with possible new announcements coming from Sephora, Crate & Barrel and J Crew. Costco has been seeking a location in the state, but no site has been disclosed. Gordon Food Service, a Michigan food distribution company, purchased Perkins Food Service located in Taunton, MA and is planning to open up retail locations throughout New England. A 6,792 SF building located at 21 Universal Boulevard, Warwick was sold at auction for \$191/SF. The retail project located at 1450 Hartford Avenue in Johnston has secured Price Rite Supermarket as its anchor tenant along with a BankRI branch. The site had been vacant for over 20 years. Two properties on Thayer Street at 249 Thayer & 213-221 Thayer Street sold for \$820/SF & \$760/SF respectively, based largely on the longer term development value of the sites.

We anticipate that some of the prime locations that have lingered in the marketplace will begin to be absorbed as some properties are sold and repositioned and lease rates become more competitive.

INDUSTRIAL

The industrial market has maintained a slow and steady rate of improvement that was evident in 2012. Larger buildings that have lingered are beginning to go into contract and lease rates continued to stabilize throughout the region. The expectation is that it will be a steady and consistent year, but with little to no increase in sales or lease rates.

The Historic Tax Credit program may generate a few sales that might not otherwise have happened, but it is too soon to speculate on its impact.

Brady Sullivan Properties of New Hampshire has been active in the adaptive reuse of mill buildings in the state in the last few years and now owns four completed projects. They have recently received Coventry Town Council approval for the conversion of the Harris Mill located at 618 Main Street, Coventry. They have also purchased the former American Insulated Wire property located at 413 Central Avenue in Pawtucket and the former American Tourister building in Warren. The Pawtucket property is expected to be converted into a mixed use property with 139 rental units.

The State of Rhode Island has purchased a 47,890 SF industrial building located at 55 Colorado Avenue in Warwick. We expect that some of the properties that have gone under contract will close before year end and provide this sector with another good year of sales and lease activity.

MARKET SALE/LEASE TRANSACTIONS

- Renaissance Hotel, 3 Avenue of the Arts Providence, 264 rooms, \$28 million
- Winchester Wood Apartments, East Providence 478 Units, \$115,000 per unit, \$55 Million
- Riverstone Apartments, 475 School Street Pawtucket, 81 units/affordable \$64,197 per unit, \$5.2 million
- 110 Graham Drive, North Smithfield, 140,000 SF \$4.8 million, \$34.28 SF, Sale/Lease Back

CONCLUSION

Sale and lease activity increased from the previous year, continuing a recent trend. We noted more investment sales in the first six months of this year than all of the previous few years. Apartments again were a preferred investment with properties being sold ranging from as small as five units to communities with 478 units.

The smaller user is still in the market, but the lack of product has limited their impact. Banks are still looking to finance projects whether they are owner occupied or investment. The slow and steady absorption of space in all segments has begun to incrementally push up lease and sale rates and we expect the end of the year numbers will show an improvement over 2012.

The addition of new retail tenants in the market as well as more confidence in the economy have all contributed to the improvement of the office, retail and industrial market. The challenge has always been the sustainability of any recovery.

Available Properties



Retail For Sale: Neil Amper, ext. 322

769 Hope Street, Providence, RI
4,099 SF
Parking in rear of building with access to store



Retail For Sale/Lease: Neil Amper, ext. 322

1246 Pawtucket Avenue, East Providence, RI
4,350 SF plus 2,100 SF basement
Parking/Vacant



For Lease: Chris Greenman, ext. 324

Wakefield, South Kingstown, RI
Former Boater's World next to CVS & Benny's in thriving retail area. Great visibility & parking



Medical Office: Chris Greenman, ext. 324

Lambert Lind Highway, Warwick, RI
Medical office space in state-of-the-art surgical center.



For Lease: Ken Brennan, ext. 320

2253 Pawtucket Avenue, East Providence, RI
4,032 SF subdividable
Great access to I-195, ample parking



DEVELOPMENT OPPORTUNITY, ext. 320

249 Thayer Street, Providence, RI
Best location, up to 10,000 SF of retail space
Join Starbucks, Urban Outfitters, CVS, City Sports



For Sale: Neil Amper, ext. 322

210 West Exchange Street, Providence, RI
50,000 SF, 2 Floors
Walking distance to Downtown



For Lease: Chris Greenman, ext. 324

Quaker Lane (Rt. 2), Warwick, RI
Stand-alone bank branch at a signalized intersection next to Lowe's & Metropolitan Life Bldg.



For Lease: Ken Brennan, ext. 320

Myles Standish Park, Taunton, MA
5,000 – 25,000 SF of flex space
Great exposure – front of business park



For Lease: Neil Amper, ext. 322

333 Centerville Road, Warwick, RI
5,000 SF
At Rt. 95 ramp



Office For Sale/Lease: Neil Amper, ext. 322

1239 Hartford Avenue, Johnston, RI
8,000 SF
Near Rt. 295



For Lease: Chris Greenman, ext. 324

Bellevue Avenue, Newport, RI
2,000 or 4,800 SF in Newport's dominant neighborhood center anchored by Stop & Shop



Medical Office: Chris Greenman, ext. 324

Hemingway Drive, East Providence, RI
2,400 – 10,000 SF with great accessibility and lots of free parking



For Lease Office Space: Ken Brennan, ext. 320

Downtown Providence
180 Westminster Street, Providence, RI
Up to 10,000 SF, Join TD Bank



For Lease: Ken Brennan, ext. 320

Wayland Square Restaurant
Minimized startup costs
4,607 SF, seats 125



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