

THE CAPSTONE REPORT

Rhode Island's Real Estate Survey For 2012

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by Neil Amper, SIOR

Market Overview

2012 was a year of contrasts between large and small transactions across all property types. There were nine large transactions in excess of \$5.0 million, and 55 transactions with prices below \$500,000. The year also saw the reemergence of investor appetite for all property types including hotels, office buildings, industrial properties, apartments and land.

Sales were up: there were 216 sales in 2012 across all property types as compared to 190 in 2011. While some sectors were flat – such as retail and portions of the industrial market – there were enough encouraging signs to declare that the year marked a continuing recovery. Three Providence hotels were sold: The Westin, The Biltmore and the Renaissance, and the Biltmore announced major renovations. The I-95 Redevelopment District Commission is pushing forward with land divestitures and has begun the process of identifying potential buyers. Vacancy has begun to inch down and the retail sector, which has been flat, has had some significant sales and leases, offering optimism there will be more recovery in 2013.

The number of transactions in the **industrial market** again showed marked improvement from the previous year, the second consecutive year of an increase. While two categories showed little change, there were significant increases in the sales of smaller buildings. Buildings under 15,000 SF showed the largest one year increase we have seen in 15 years, with property sales volume rising from \$5.0 million to \$12.0 million. Properties between 15,000 – 30,000 SF recorded 100 percent increases from the previous year. Until now, the smaller user has largely been non-existent in the marketplace, so this level of activity is an encouraging sign of local economic improvement.

Sales in the **office market** recorded some of the largest transactions we have seen since the beginning of the recession. Most notable are 475 Kilvert Street, Warwick and 15 LaSalle Square in Providence. Sales volume and square footage increased dramatically, fueled by these

two sales. The vacancy rate for the state has begun to decline and some buildings that have experienced long term vacancies have begun to lease. For example, 300 Jefferson Boulevard is now 100% leased.

Lease rates have not improved, but concessions are less prevalent than in the previous year. A 57,000 SF building located at 95 Chestnut Street in Providence was purchased from a bank for \$2.1 million, or \$36.84 PSF; and Hasbro moved into 15 LaSalle Square which was then sold for \$220 PSF, an indication of the variation in value. Blackstone Management has begun construction of a 50,000 SF office building on South County Trail in East Greenwich, with Lifespan taking the entire building.

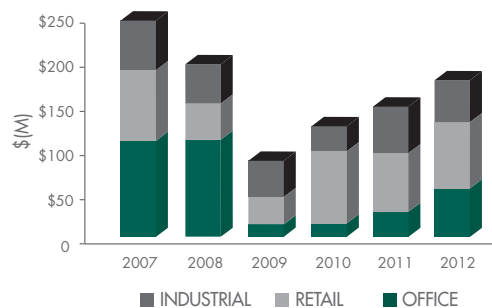
Partridge, Snow & Hahn, LLP, a law firm, has relocated to the financial district from South Main Street and occupied 30,000 square feet in the Textron Building. A trend in cities across the world has come to Providence – micro style living. The Arcade in downtown Providence is being renovated into 48, 350 SF micro lofts and 17 street level retail spaces. The asking rate for the micro lofts is \$1,000/month. The project is scheduled for completion in May 2013 and is almost fully leased.

The **retail market** is finally showing an uptick in activity:

- Hobby Lobby leased 56,000 SF at the former CompUSA space on Bald Hill Road in Warwick that was vacant for a number of years; and
- Men's Warehouse has combined two smaller locations into a 10,000 SF building at 850 Bald Hill Road.

The statewide vacancy has not changed and remains around 7 percent with average quoted rental rates in the \$15 NNN range. The Garden City Center in Cranston continues its retrofit and is constructing new buildings for Pottery Barn and LA Fitness. Smaller tenants are still a staple in this market and 2012 was the year of the yogurt store – Orange Leaf, Pinkberry, and Yomix have all secured locations and are looking for more.

SALES VALUE BY CATEGORY



Land sales have not been much of a factor in recent years for a few reasons – local conditions did not warrant speculative building and banks were unwilling to lend until there was evidence of lease up demand and significant equity. However, there have been a few notable transactions that could be a precursor to new construction. Highland Manor purchased 135 acres on Souza Road in Tiverton and Najas Realty purchased 11 acres in Seekonk, MA to build single family residential units. Driscoll Development, an apartment developer which owns Briarwood Apartments, a 552 unit complex in Warwick, purchased 56 acres at 1279 Wampanoag Trail in East Providence at \$61,000 an acre. The land is permitted for 300 condominium units, but the plan is to construct apartments. Improving local conditions could generate more opportunities for more land sales.

Similar to other markets nationally, apartments continued to be the hot segment of the real estate market given the perceived stability in occupancy rates and cash flow. A total of 751 apartment units were sold in the state in 2012.

Price per unit varied widely – \$41,000 on the low end to \$125,000 at the top end. East Side properties have retained their value, with most selling in excess of \$100,000 per unit. The 106-unit Huntington Towers Apartments, in Providence, sold for \$44,339 per unit while a 23-unit building in North Providence sold for \$113,000 per unit. Not surprisingly, apartment capitalization rates will continue to fall as investors chase cash flow and occupancy stability and the anticipation of increasing rental rates.

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Office Sale/Lease Analysis

Several large transactions contributed to the dramatic increase in value and volume (in terms of SF) over last year although the number of actual transactions remained flat at 26 – 562,174 SF traded for \$54.0 million in 2012, up from 355,144 SF traded for only \$2.6 million. 2012 saw the following notable deals:

Acquisition of 15 LaSalle Square in Providence, a 135,000 SF building for \$29.0 million (\$220 PSF) by Inland Diversified Real Estate Trust, Inc. Hasbro's 12-year lease here offered the credit necessary to close the transaction.

Sale of a 57,000 SF building located at 95 Chestnut Street, Providence acquired by an investor from Massachusetts for \$2.1 million, or \$36.84 PSF, a favorable value which will allow a measured approach to leasing up the building.

A multi-tenanted 150,000 SF office complex located at 475 Kilvert Street in Warwick was sold to a MA-based investment group for \$13.6 million, a PSF value of \$90.

Atrion bought and occupied a new 45,000 SF building at 125 Metro Boulevard, Warwick for \$5.9 million, or \$130 PSF.

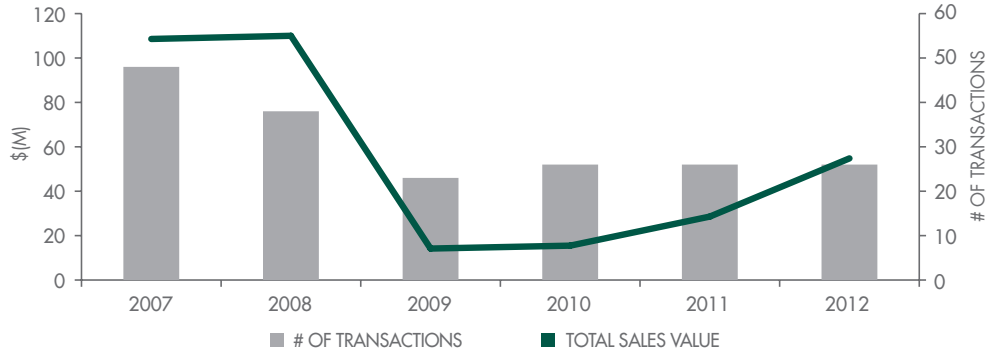
Partridge, Snow & Hahn, LLP has relocated to the financial district from South Main Street and occupied 30,000 SF in the Textron Building.

Blackstone Management, which owns several buildings in East Greenwich and has additional land, is constructing a new 50,000 SF building on South County Trail in East Greenwich that will be 100 percent leased to Lifespan.

Retail Solutions has relocated from Cranston to 220 West Exchange Street in Providence and leased 18,000 SF. Owned by Omni Properties, the facility is 100 percent leased.

Average statewide rental asking rates are at \$17 PSF with Class A at \$20, Class B at \$17 and Class C at \$15. The expectation is that as the market continues to absorb space,

RI OFFICE MARKET



2012 total transaction value more than doubled to \$54.8M from \$28.6M in 2011 principally driven by increases in average rent/SF (19.8% higher) and volume (60% increase in square footage sold).

An 18,000 SF building located at 275 Commerce Drive in Warwick has secured two tenants: John Crane Corporation and a call center for a medical group. The building had been vacant for two years.

The anticipated vacating of 111 Westminster Street by Bank of America has occurred and the owners are looking at various alternative uses including a mixed use residential office concept.

We continue to see a broad-based recovery, but the market is still burdened by excess inventory.

concessions will disappear and lease rates will rise.

The median purchase rate of \$96 PSF is unchanged from 2011, but the vacancy statewide has dropped from 9.1 percent to 8.1 percent. Class A office space vacancy is still high at 12.0 percent, but a reduction from the previous year of 14.0 percent is a very optimistic indication. Class B office space was 9.2 percent and now is at 7.7 percent. Class C space is unchanged from the previous year at 7 percent.

Retail Sale/Lease Analysis

In 2012 there were 27 sales of retail property that totaled \$75.3 million and 896,719 SF with a median sales value of \$101 PSF. In 2011 there were 33 sales that totaled \$66.3 million and 514,309 SF with a median sales value of \$159 PSF.

There were two significant sales in the market – Winstanley Enterprises acquired the 450,000 SF Rhode Island Mall that had been largely empty since 2011 for \$38 million (\$86 PSF) and plans to re-tenant it with larger anchors. An investor from Missouri purchased a 219,489 SF plaza located at 1776 Plainfield Pike, Cranston for \$11.1 million (\$50.57 PSF). A large portion of that property has been vacant for a number of years.

There has been some more lease activity with Hobby Lobby occupying 56,000 SF on Bald Hill Road and Men's Warehouse occupying 10,000 SF at 850 Bald Hill Road in Warwick, but there is still a significant vacancy on the corridor. There are 88 properties on Bald Hill Road aggregating

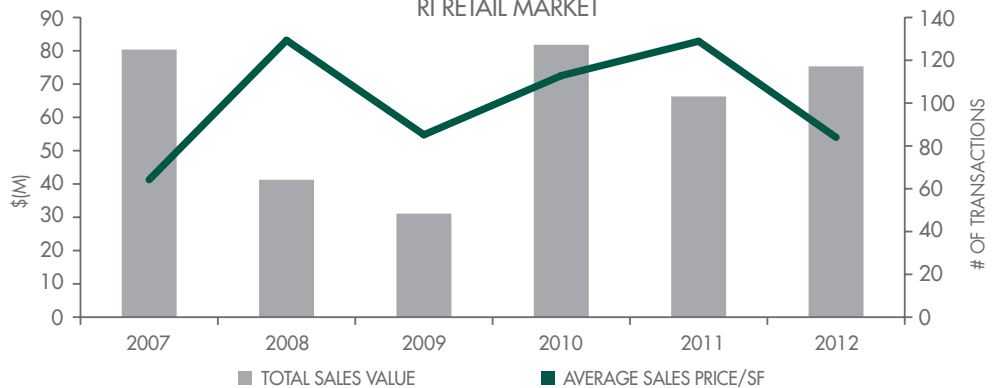
3 million SF (847,527 SF, or 42 percent, of this is in the Rhode Island and Warwick Malls). The vacancy increased from 375,000 SF to 458,521 SF, a 22 percent increase.

LA Fitness and the Pottery Barn are locating in The Garden City Center in new buildings.

Price Rite has signed a lease for 39,000 SF at 1450 Hartford Avenue, Johnston in a plaza that has been vacant for 20 years.

The overall market vacancy rate is at 6.6 percent and quoted average lease rates stand at \$14 PSF.

RI RETAIL MARKET



Transaction volume, in terms of SF was up almost 75% from a year ago, but the softness in the retailing business pushed pricing down, with average sales price/SF declining to \$84 from \$129.

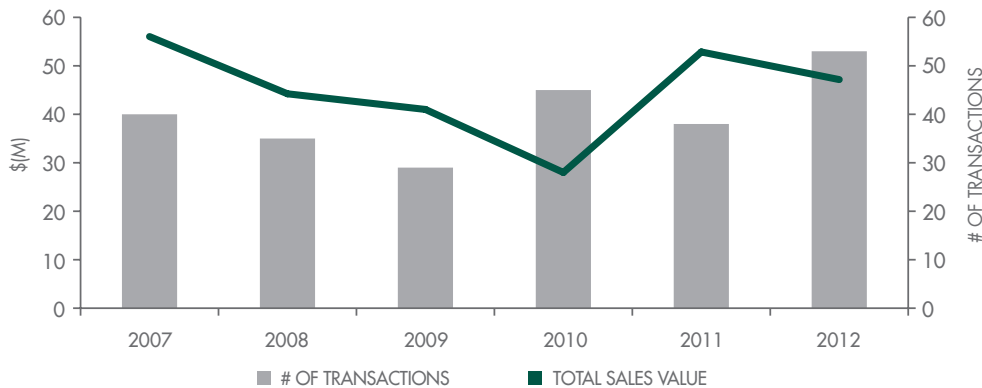
Industrial Sale/Lease Analysis

The industrial market recorded 53 sales transactions in 2012, compared to 38 sales in 2011. While square footage and sales volume were down from the previous year, the distribution within this category and the increased number of sales was encouraging. The 38 sales in 2011 generated \$52.9 million in transaction value and represented 2,026,203 SF, while in 2012, the 53 sales generated \$47.2 million across 1,642,762 SF.

bought a 28,375 SF building located at 240 Bald Hill Road, Warwick for \$1.6 million (\$56 PSF). History has shown the sub-30,000 SF industrial segment to be prime indicators of the strength of the local economy and a predictor of future values.

Buildings between 30,000 SF and 60,000 SF recorded 316,000 SF sold and \$7.6 million in

RI INDUSTRIAL MARKET



Transaction value decreased \$5.7M, or 10.8% from 2011 to 2012, although both the number of deals and average price were up.

Buildings of less than 15,000 SF recorded a median rate of \$53 PSF. A total of 224,948 SF sold compared to only 62,490 SF in 2011, and the transaction value increased to approximately \$13.0 million from \$4.0 million. This dramatic increase in the category bodes well for the local market recovery as the smaller user has been almost non-existent in recent years. A 14,000 SF building on three acres of land on Jefferson Boulevard that was in foreclosure sold to an investor for \$1.4 million, or \$98.36 PSF and leased to Airgas.

In the 15,000 SF to 30,000 SF building category, a total of 249,844 SF was sold with \$12.5 million in transaction value, a dramatic increase from 2011's 118,733 SF and \$6.8 million. The median rate for the entire category was \$44 PSF as opposed to \$50 PSF in the previous year. A company that distributes textiles

aggregate sales value versus 487,678 SF sold and \$18.6 million in transaction value in 2011. There was a limited supply in this category which accounted for the drop in sales. A notable user transaction was Donnelly's, a uniform supply company which bought a 56,597 SF building located at 50 Sharpe Drive, Cranston for \$2.3 million (\$41.16 PSF).

Transaction value and volume (in terms of SF) in buildings greater than 60,000 SF trended in opposite directions year over year, as transaction value declined from \$10.0 million to \$8.8 million while square footage transacted increased from 256,082 SF to 881,188 SF. One of 2012's more significant deals included the sale of a 173,000 SF single story warehouse building at 50 Chase Hill Road in Hopkinton; the property was acquired by a NY-based distributor for \$900,000, or \$5.19 PSF.

Market Overview *(continued from cover)*

NOTEWORTHY TRANSACTIONS

- At 1279 Wampanoag Trail, East Providence, 56.68 acres sold for \$3.4 million, or \$61,096 per acre for an apartment development.
- Rhode Island Mall, a 450,000 SF enclosed mall sold to Winstanley Development of Massachusetts for \$38.0 million, or \$84.44/SF.
- The Biltmore Hotel sold for \$15.0 million.
- Eaton Corporation relocated to a 150,000 SF building at 10 New Road, East Providence.
- Two mill buildings sold in Woonsocket: 84 Fairmont Street, 197,140 SF for \$2.53 PSF and 116 Singleton Street, 132,026 SF for \$9.84 PSF.
- 15 LaSalle Square, Providence, was leased to Hasbro and sold to Inland a Real Estate Investment Trust.

Vacancy Analysis

NORTHERN REGION

The vacancy increased to 7.6 percent from 5.0 percent, an unexpected development, driven by newer vacancies in larger properties hitting the market. This area has always had activity so it is unlikely to remain at that level by year's end. During 2012, a 20,000 SF flex building was constructed in Highland Industrial Park, offering a mix of office, industrial and flex uses. FGX International leased 11,000 SF at 29 Powder Hill Road in Lincoln.

PROVIDENCE/METRO

This region continues to absorb space with the vacancy dropping from 8.0 percent to 7.7 percent. The lease up of smaller spaces and corporate users expanding within existing facilities has helped drive down the vacancy rate here.

CENTRAL WEST BAY

Vacancy increased from 5.0 percent to 6.6 percent, partly due to the continuing effects of the 2010 flood which resulted in the permanent abandonment of several buildings. As an example, Eaton Corporation relocated from their building in the Warwick Industrial Park to a building in East Providence. It is anticipated that the improving market conditions will lower the vacancy rate by the end of the year.

SOUTHERN/NEWPORT

The vacancy in this area is 12.0 percent, or 2.0 percent lower than last year, but as in previous years it is concentrated in a few buildings. Anticipated future growth will come from Quonset Point and potential new developments along the Route 95 corridor.

STATEWIDE

The vacancy rate has been consistently around 8.0 percent for the last few years, but inching up to 8.2 percent this year. Evidence of local companies expanding and occupying previously vacant buildings offer signs of optimism for future economic growth.

LEASES

The average quoted rate for industrial leases is around \$4.50 PSF and around \$6.50 PSF for flex space. East Greenwich Winair expanded from 8,000 SF to 16,000 SF at 289 Kilvert Street, Warwick. Quick Fit set up a manufacturing facility in 50,000 SF at 50 Plan Way in Warwick, and Spectra Systems expanded into 20,000 SF at 296 Wampanoag Trail in East Providence. Airgas has expanded to a new facility at 522 Jefferson in Warwick. While there has been some shifting to take advantage of market conditions, the majority of leases are expansions.

Available Properties



For Sale/Lease: Neil Amper, ext. 322
101 Hallene Road, Warwick, RI
18,900 SF, 2.65 acres, 19 doors
Near T.F. Green Airport



For Lease: Lori Marchetti, ext. 323
Conley's Wharf, 200 Allens Avenue, Providence, RI
Located along Providence's water front
Several loft and studio units in converted mill



For Lease: Chris Greenman, ext. 324
Wayland Square
Great retail, bank or restaurant possibilities
3,000 SF across from Starbucks on Angell Street



For Lease: Chris Greenman, ext. 324
Central Warwick location
Adjacent to a brand new surgical center
2,700 SF



Retail For Sale: Neil Amper, ext. 322
769 Hope Street, Providence, RI
4,099 SF building
Off street parking



Office For Sale/Lease: Neil Amper, ext. 322
1239 Hartford Avenue, Johnston, RI
8,073 SF
High Visibility



For Lease: Ken Brennan, ext. 320
Wayland Square Restaurant
Minimized startup costs
4,607 SF, seats 125



Turnkey Restaurant For Sale: Lori Marchetti, ext. 323
Carrige Inn Restaurant & Lounge
1065 Tower Hill Road, North Kingstown, RI
8,898 SF facility



For Lease: Neil Amper, ext. 322
111 Kilvert Street, Warwick, RI
15,175 SF, 1.32 acres
Near Interlink and Airport



For Lease: Chris Greenman, ext. 324
East Providence
Aggressive rates
2,400 – 10,000 SF



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: Ken Brennan, ext. 320
1128 North Main Street, Providence, RI
Perfect corner site for a bank or fast food restaurant



For Lease: Ken Brennan, ext. 320
2253 Pawtucket Avenue, East Providence, RI
4,032 SF subdividable
Great access to I-195, ample parking



For Lease: Chris Greenman, ext. 324
Quaker Lane (Rt 2) Warwick
Stand alone former bank with drive up windows
60,000 SF lot at a signalized intersection



For Lease Office Space: Ken Brennan, ext. 320
Downtown Providence
180 Westminster Street, Providence, RI
Up to 10,000 SF, Join TD Bank



180 Westminster Street
Providence, RI 02903

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