

# THE CAPSTONE REPORT

Rhode Island's Real Estate Survey For 2014

www.capstone-properties.com

by Neil Amper, SIOR

## Market Overview

Rhode Island's commercial real estate market saw an improvement in the office and industrial sectors. While some sectors have shown price stability, the areas that showed an increase in sales value were the larger – and in some cases institutional – properties in the office and industrial sectors, which we have not experienced in the past few years. Providence's zoning ordinances were recently updated – the first time in almost 63 years – to set the tone for future development in and around the city. Specific areas of the city have been targeted for new economic and development opportunities, including I-195, downtown and the waterfront. Increased density and less onerous parking requirements are two major aspects of the new zoning ordinance expected to drive further development.

### SALES & INVESTMENT ACTIVITY

In 2014, there were 249 sales across all property types with a sales volume of \$276 million, as compared to 2013's 239 sales with a volume of \$479 million. There were 120 sales (or 48 percent) recorded in Cranston, East Providence, Providence, and Warwick, with 45 or 37 percent in Providence. The significant drop in sales volume can be attributed to a contraction in apartment and retail sales. There were gains in the office sale sector with some significant purchases by Paolino Properties, most notably: 100 Westminster and 275 Westminster Street in downtown Providence; and 200 Narragansett Park Drive in East Providence. In addition, there were five other office buildings that sold in downtown Providence indicating there is still some optimism in the potential of the Providence market.

There has been some activity on the I-195 land. Churchill and Banks secured a smaller parcel abutting a building they own on Pike Street as well as a parcel of land where student apartments are being considered.

The number of transactions in the retail market decreased in 2014, after hitting a high in 2013. New tenants continue to enter the marketplace:

- O'Reilly Auto Parts, a national after-market auto parts company, bought a building located at 355 Atwood Avenue in Cranston and is seeking more stores.

- CarMax, a national used car retailer, purchased an older retail plaza in Cranston and razed the building to build a used car lot.

There were two significant investment sales in the suburban market. The 320,000 SF Pontiac Mill, located on Knight Street in Warwick within walking distance of the Warwick Mall, was sold for \$1 million to a developer from Baltimore who lives in Newport, Rhode Island. He plans on developing a mixed use facility with retail and residential. The 163-room Nylo Hotel immediately adjacent to the mill was sold for \$12.8 million to an investment group from New York and Connecticut. The 208-room Hotel Viking in Newport was sold to Lone Star Global, a private equity firm from Dallas, for \$77 million. The east side of the Providence market continues to outperform other locations. Two sales demonstrate that values are super-heated. A 4,675 SF mixed use building was sold at 184 Angell Street for \$1.9 million or \$406 PSF, and a 3,762 SF mixed use building was sold at 108 Waterman Street for \$2 million or \$531 PSF. The Boston market has been overheated for the past two years and investors have begun to look at secondary markets such as Rhode Island for investment opportunities, which could further drive market appreciation.

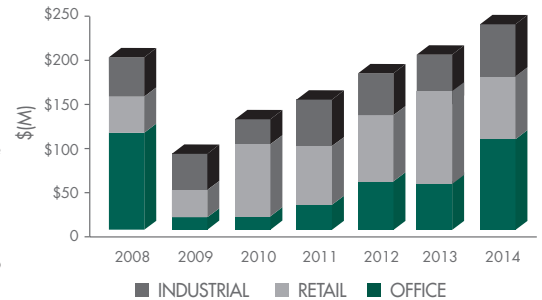
The industrial market's 60,000 SF and above category had one of the largest increases of sales volume and square foot sales that we have seen in almost 10 years. While some portions of the sector have been flat from the previous year, the totals of all categories have increased from 2013.

In the office market, sales and square foot volumes doubled from 2013 to 2014, mainly as a result of two acquisitions by Paolino Properties.

Omni Properties converted a four-story industrial building and has leased space to three different tenants. Vanasse Hangen Bruslin has leased 12,000 SF; United Retirement Plan Consultants has leased 5,000 SF; and Donoghue Barrett and Singal has leased 6,800 SF of the 50,000 SF building.

United Healthcare renewed their lease for a 47,000 SF building located at 70 Royal Little Drive, Providence.

SALES VALUE BY CATEGORY



The apartment sector contracted in 2014 after a record year in 2013. Total sales fell from \$170 million to \$94 million, and units sold fell from 1,891 to 1,143. The price per unit again had wide fluctuations from a high of \$108,000 for Northgate in Middletown to a low of \$67,000 for a 25 unit complex in Pawtucket. The per unit price has increased and the capitalization rates have fallen in larger complexes in recent years as investors still view apartments as a stable real estate investment. Shorewood Apartments in North Providence was put under agreement at the end of the year, 180 units for \$18.8 million or \$104,444 per unit.

### NOTABLE TRANSACTIONS

- **The Landings and East Shore Apartments**  
1355 Wampanoag Trail, East Providence  
194 Units sold for \$15.795 million  
or \$81,418 per unit  
7.15 percent cap rate, January '14
- **Northgate Apartments**  
2 Admiralty Drive, Middletown  
179 Units sold for \$19.5 million  
or \$108,939 per unit  
6.40 percent cap rate, July '14
- **Windsor at Brentwood**  
630 Smithfield Road, North Providence  
240 Units sold for \$25.8 million  
or \$107,500 per unit  
6.62 percent cap rate, November '14
- **Brightview Commons/Senior Living**  
57 Grandville Court, South Kingstown  
174 Units sold for \$18 million  
or \$104,022 per unit

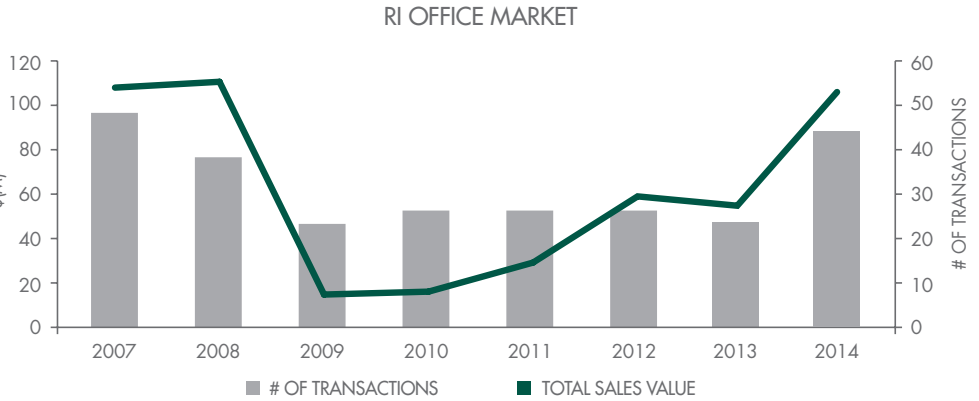
# Office Sale/Lease Analysis

Several large transactions again contributed to the continued stability of existing office building sales.

The number of transactions increased from 23 in 2013 to 43 in 2014. 920,943 SF traded for \$104,643,000 compared to 568,490 SF for \$53 million in 2013. The doubling of the square footage and sales volume contributed to levels that we have not seen since 2007 and 2008. The median purchase price of \$92 is down from \$96.50. There were 35 sales of office space under 15,000 SF with a range of square foot rates between \$43 PSF and \$318 PSF, and this contributed to the decrease of the median rate. The state's office vacancy rate was 9.7 percent last year, it is currently 8.7 percent and the United States average is 8.2 percent. Office lease rates have not appreciably changed from the previous year: the statewide average is \$17.67 PSF which continues to impede the speculative building that has occurred in the Boston area.

## NOTABLE DEALS IN 2014

- Acquisition of 100 Westminster Street  
A 385,000 SF Class A Building in  
Downtown Providence  
Purchased by Paolino Properties  
For \$60 million or \$155 PSF
- Acquisition of 200 Narragansett  
Park Drive, East Providence  
A 117,316 SF building leased to Hasbro  
Purchased by Paolino Properties  
For \$10.5 million or \$89.50 PSF



2014 total transaction value and total sales doubled from 2013.

- Sale of 143 Westminster Street in  
Downtown Providence  
A 15,000 SF mixed use building  
For \$1.2 million or \$80 PSF  
The building previously sold on  
12/23/11 for \$900,000 or 60 PSF,  
an increase of 33 percent.
- Sale of 32 Custom House Street,  
Downtown Providence  
A 13,905 SF office building  
Purchased by the developers  
of the Dean Hotel  
For \$800,000 or \$57.53 PSF  
It was auctioned and sold on  
9/4/2009 for \$650,000 or \$46.74 PSF,  
an increase of 23 percent.

The office vacancy rate is 8.7 percent, down from 9.7 percent in 2013. The Class A office vacancy rate is 14.9 percent, Class B is 8 percent and Class C is 7.1 percent. The statewide average lease rate is \$17.67, up slightly from 2013, but the Class A rate is only \$19.73, which has been a contributing factor in the lack of new office construction.

### OFFICE SYNOPSIS

# of Transactions: 43  
Median Sales Rate: \$91.96 PSF  
Sales Value: \$104.6 million

# Retail Sale/Lease Analysis

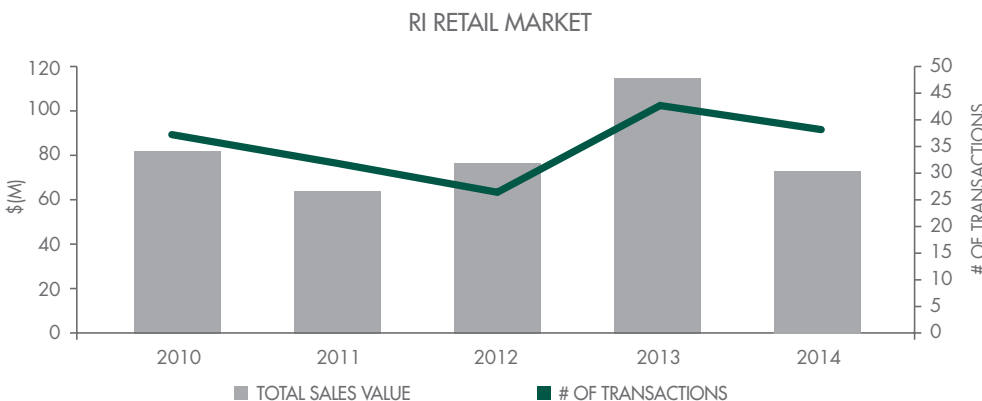
In 2014 there were 39 sales of retail property that totaled \$71 million and 951,626 SF with a median sales value of \$131 PSF; as compared to 2013's 43 sales that totaled \$113 million and 749,181 SF with a median sales value of \$115 PSF. O'Reilly Auto Parts purchased a former restaurant located at 355 Atwood Avenue in

Cranston for \$900,000. Chick-Fil-A, a fast food restaurant, purchased 33,253 SF of land at 1500 Bald Hill Road, Warwick for \$1.8 million, while CarMax, a national used car retailer, purchased a 108,494 SF empty retail plaza located at 153 Bald Hill Road, Cranston on 8 acres of land for \$6.8 million. The retrofitting

of out-of-date retail buildings has given way to retailers buying well-located, high visibility locations and building new. The statewide retail vacancy is down slightly to 6.3 percent from 6.5 percent and quoted rates have fallen from \$14.0 NNN to \$13.50 NNN.

## NOTABLE TRANSACTIONS IN 2014

- Two 8,700 SF strip plazas located in the Centre of New England  
Sold at auction for \$252 PSF
- 25 Village Plaza, Scituate  
A 50,445 SF Neighborhood Retail Plaza  
Sold for \$3.8 million or \$75.32 PSF
- 2010 Diamond Hill Road, Woonsocket  
A former Lowe's Store  
134,534 SF for \$3.5 million or \$26.15 PSF



2014 transaction volume dropped \$42 million from 2013.

### RETAIL SYNOPSIS

# of Transactions: 39  
Median Sales Rate: \$131 PSF  
Total Sales: \$71 million

## Industrial Sale/Lease Analysis

The industrial market recorded 53 sales transactions in 2014, as compared to 49 transactions in 2013. The number of sales, square footage and sales volume all increased. The square footage total was 1,518,493 SF in 2014 as compared to 1,311,021 SF in 2013. The sales value in 2014 was \$60 million as compared to \$53 million in 2013.

Buildings of less than 15,000 SF recorded a median rate of \$56.25 PSF compared to \$62.50 PSF in 2013.

In addition, a total of 97,811 SF sold in 2014 as compared to 149,023 SF in the previous year; and the transaction value was \$6 million versus \$10 million in 2013.

In the 15,000 SF to 30,000 SF building category, a total of 131,011 SF was sold with \$6 million in transaction value. The median was \$49.53 PSF, up from \$43 PSF in 2013.

Buildings between 30,000 SF and 60,000 SF recorded 244,694 SF sold and \$10 million in aggregate sale value versus 229,765 SF and \$8 million in transaction value in 2013. The median value was \$42.97 PSF in 2014 and \$43 PSF in 2013. Tasca Automotive purchased a 38,400 SF warehouse located at 33 Sharpe Drive in Cranston for \$2 million or \$52 PSF.

Transaction value and volume in buildings greater than 60,000 SF increased from 700,000 SF and \$12.8 million in 2013 to 1,029,703 SF and \$45.6 million in sales. One of the most significant transactions was the purchase by Okonite Corporation. Founded in 1878, Okonite was one of the original insulators of electrical wire and cable in the United States. They purchased a 248,000 SF building located at 5 Industrial Road, Cumberland for \$10.7

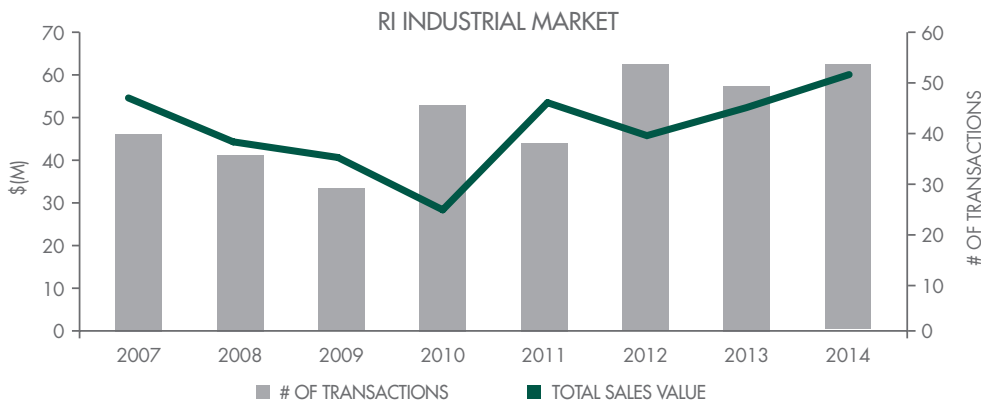
million or \$43 PSF. A Boston investment firm purchased a 330,000 SF fully leased building located at 10 New Road, East Providence for \$12.4 million or \$37 PSF. An investment company from Cambridge, Massachusetts purchased a 104,560 SF building located at One Powder Hill Road, Lincoln for \$8.2 million or \$78 PSF in a sale lease-back for a capitalization rate of 7.76 percent. *The Providence Journal* was sold and the new owner, New Media, purchased the 177,133 SF distribution facility for \$8 million or \$45 PSF. The level of activity in both the user and investment category is a very positive development for the local economy since we have not seen this level of investment for many years.

### LEASES

There is a shortage of industrial buildings for lease in all size categories. It is not practical to construct space for lease with the level of rents that are currently being offered in the state. While there is lease space available in all sizes, there is a lack of space with a minimum of 16' ceilings and a loading dock. The lease rate ranges from \$4 to \$6 base rent and this level makes it impossible to construct new facilities to lease. VPI Packing leased 120,000 SF at 13 Powder Hill Road in Lincoln; Nova leased 36,800 SF at 100 Higginson Avenue in Lincoln; and Eastern Connection leased 30,000 SF at 70 Industrial Drive in Cumberland.

### INDUSTRIAL SYNOPSIS

# of Transactions: 53  
Total Sales Value: \$60 million



Transaction value increased \$7 million or 9 percent from 2013 to 2014.

## Vacancy Analysis

### NORTHERN REGION

The vacancy rate was 6.8 percent in 2013 and is currently 7.2 percent. There has been some absorption and some new product on the market. Collyer Business Park has had some new leases and the quoted lease rates in the area are between \$4 and \$8 PSF.

### PROVIDENCE METRO

In 2013 the vacancy rate was 6.8 percent and is currently 6.3 percent – a slight reduction but a positive step in the local recovery process. It is a familiar refrain, but there is a shortage of high bay buildings as well as smaller facilities that startups can lease that have loading docks.

### CENTRAL WEST BAY

The vacancy rate increased from 5.6 percent to 6.8 percent as some properties continued to linger on the market, such as 77,500 SF at LaCroix Boulevard in West Warwick and 45,000 SF at 333 Strawberry Field Road in Warwick. A building located at 36 Belair off of Post Road in Warwick has 73,400 SF available. A new listing at 155 Brookside Avenue, West Warwick has 75,720 SF with ceiling heights of 24' to 36'. This area has always had a low vacancy factor and improving conditions in the state should absorb some of this vacant space.

### SOUTHERN/NEWPORT

The vacancy in this area dropped to 13.0 percent from 14.3 percent in 2013. Quonset set a hiring record of 10,000 employees and it is anticipated that absorption will continue. Ocean State Job Lot has a planned addition to their building. Toray has leased space at 1 Briggs, East Greenwich in the former Stanley Bostich facility, along with Alex and Ani who recently leased 100,000 SF for a new distribution center.

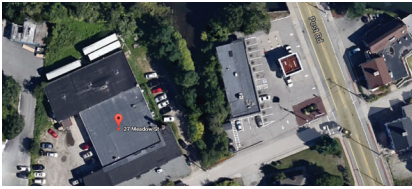
### STATEWIDE

The vacancy rate increased to 8.1 from 7.6 percent in 2013. The overall local recovery has been uneven, but has shown year over year improvement across certain property types.





# Available Properties



**Industrial For Sale/Lease: Neil Amper, ext. 322**  
27 Meadow Street, Warwick, RI  
19,084 SF air conditioned



**Warehouse For Lease: Neil Amper, ext. 322**  
155 Brookside, West Warwick, RI  
High bay warehouse, 24' – 26' ceiling height  
8 loading docks



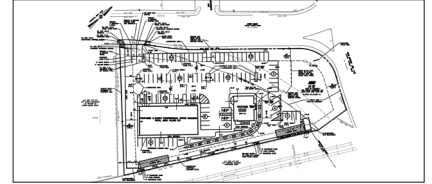
**For Sale: Neil Amper, ext. 322**  
535 Metacom Avenue, Bristol, RI  
5.77 acres  
Traffic count: 22,654 CPD



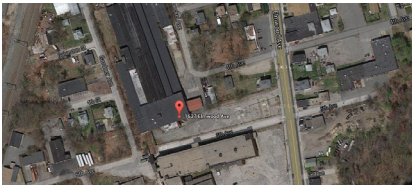
**Office For Lease: Chris Greenman, ext. 324**  
469 Angell Street/East Side, Providence, RI  
1,545 SF, 4 private offices



**For Sale/Lease: Chris Greenman, ext. 324**  
Former Walgreens, 1279 Oaklawn Avenue  
Cranston, RI 14,820 SF  
78 car parking, 2 drive up windows



**For Sale: Chris Greenman, ext. 324**  
2700 Post Road (at Main), Warwick RI  
2.09 acres



**Industrial For Sale/Lease: Neil Amper, ext. 322**  
1637 Elmwood Avenue, Cranston, RI  
Scott Brass building, 157,913 SF, 4.6 acres  
9 loading docks



**For Lease: Dean Martineau, ext. 320**  
Wayland Square Restaurant  
Minimized startup costs  
4,607 SF, seats 125



**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: 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: Neil Amper, ext. 322**  
Myles Standish Park, Taunton, MA  
5,000 – 25,000 SF of flex space  
Great exposure – front of business park



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



**In-Line and Pad Leasing: Sergio Magno, ext. 228**  
Chariho Plaza, Richmond, RI  
Excellent highway retail location



**For Lease: Dean Martineau, ext. 320**  
1128 North Main Street, Providence, RI  
At traffic light, near Miriam Hospital  
and Walgreens, 20,000 CPD



**For Sale or Lease: Chris Greenman, ext. 324**  
Downtown Providence, Penthouse and 6th floor  
available, 1,450 SF – 10,200 SF available  
Sale prices have been slashed



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