

THE CAPSTONE REPORT

Rhode Island's Real Estate Survey For 2015

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by Neil Amper, SIOR

Market Overview

MED, EDS, 195 LAND, HOTELS AND COMMERCE RI

The one missing element in the recovery of the Rhode Island commercial real estate market is the proverbial "cranes in the sky," or new construction activity. Boston's red hot property market and overall economy has been fueled by new construction – of apartments, offices, hotels, and high-end mixed use developments. All of this activity, coupled with the significant inflow of investment capital locally and from overseas, has shrunk investment yields in Greater Boston and pushed investors looking for higher yields to secondary and tertiary markets like Rhode Island and Providence in particular.

Rhode Island's slow, but on-going recovery has been centered on the commercial owner-occupant. There are a number of institutional and medical-oriented projects planned, including Wexford's much anticipated and welcomed 500,000 SF life sciences project on 5 acres of the Route 195 land. Larger assets are selling and sales volume has increased 37% in 2015. Providence's central business district continues to see transaction activity as evidenced by the \$3.3 million sale of the *Providence Journal* building to Nordblom Company of Burlington, MA and Cornish Associates. Lastly, the state has developed and implemented a program of financing incentives and tax credits to spur development and business growth.

SALES AND INVESTMENT ACTIVITY

The average transaction size increased 28.5% over 2014, but on a relative basis transactions in the state remain on the small side and are heavily influenced by the more numerous non-institutional

SALES ACTIVITY, OVERALL	2015	2014	CHANGE	
# OF TRANSACTIONS	266	249	17	6.8%
TOTAL SALES VALUE (\$M)	\$379.0	\$276.0	\$103.0	37.3%
AVG. TRANSACTION SIZE (\$M)	\$1.4	\$1.1	\$0.3	28.5%

buyer activities. Investment activity has expanded somewhat across the retail, office and apartment sectors. As previously discussed, lower yields and declining cap rates in primary markets are inducing investors to search for compelling investments in markets such as Rhode Island, leading to an uptick in sales activity.

Some of the more notable transactions include:

- 1500 Bald Hill Road in Warwick
\$1.5M, or \$206 PSF (Retail)
- 1400 Bald Hill Road in Warwick
\$4.4M, or \$179 PSF (Retail)
- 727 East Avenue in Pawtucket
\$9.1M, or \$239 PSF (Retail)
- 72 Pine Street in Providence
\$3.3M, or \$105 PSF (Office)

The apartment sector continued its strong showing in 2015, with mill conversion activity leading the way. Brady Sullivan out of New Hampshire acquired 411 Valley Street (195,913 SF, \$14 PSF) and 25 Eagle Street (32,632 SF, \$15.32 PSF) in Providence while another apartment group purchased the 130,000 SF former manufacturing facility at 184 Woonasquatucket Avenue in North Providence.

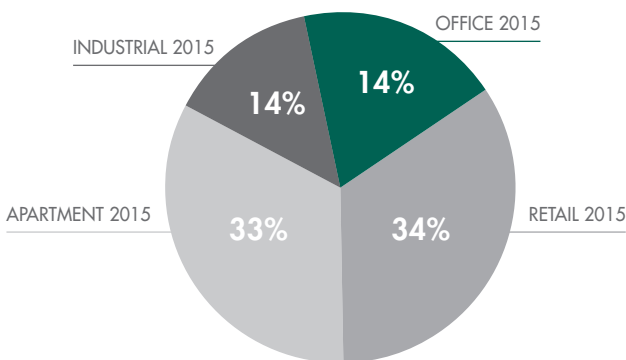
Apartment sales value increased to \$126 million in 2015 from \$94 million in 2014 while the number of units remained essentially flat at

just over 1,100 and pushing the price per unit (a key indicator for residential investors) from \$82,000 to \$110,000. Expectations of strong rental growth continue to attract investment activity in this sector.

NOTABLE APARTMENT TRANSACTIONS

- **Royal Mills**
West Warwick
\$31.7 million, 250 units
\$126,800 per unit
- **Charlesgate Apartments**
Affordable, Providence
\$8.3 million, 100 units
\$83,000 per unit
- **17,21 Planet Street**
East Side, Providence
\$926,400, 5 units
\$185,280 per unit
- **Shorewood Apartments**
North Providence
\$18.8 million, 180 units
\$104,444 per unit

SALES VALUE AND PERCENTAGE BY CATEGORY



Industrial Sale/Lease Analysis

Rhode Island's industrial market has historically been driven by owner-occupiers in the 15,000 to 40,000 SF range. Key requirements for industrial users (and tenants) include loading docks and minimum ceiling height, and buildings with these characteristics are in short supply. However, with lease rates remaining depressed, speculative construction is non-existent in the market and therefore making it difficult to attract companies from outside the state. As a point of comparison, lease rates in Rhode Island are \$5 – 6 PSF

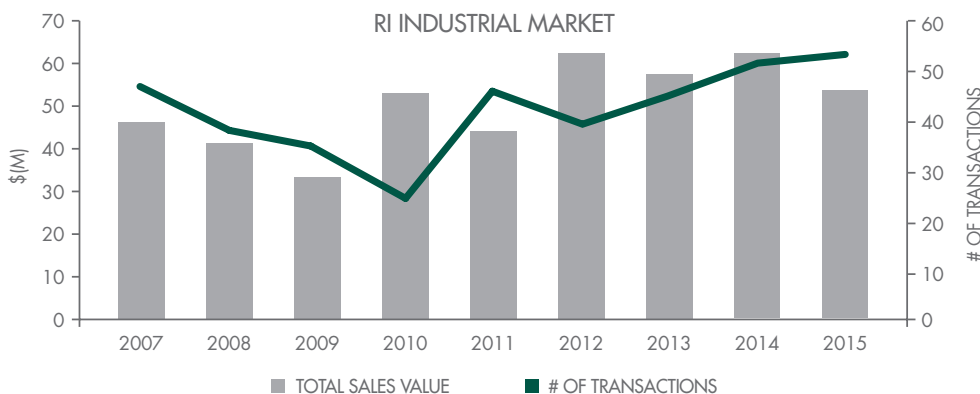
versus \$8 – 12 PSF on an NNN basis. While sales activity has been down, companies with immediate space needs are making do with the existing inventory and leasing at least on an interim basis: Ava Anderson Corp. leased 121,000 SF at 99 Main Street in Warren, the former American Tourister plant under renovation by Brady Sullivan; Alex & Ani expanded its lease at the Bostich Staple plant in East Greenwich; Toray Plastics America leased space at the Bostich plant.

As noted in the table to the left, the average price PSF fell as buyers acquired existing buildings saddled with deferred maintenance and health and safety code upgrade requirements, indicating that the all-in cost of purchase price plus capital improvements was still less than new construction. The industrial market has been a good barometer of the relative strength of local companies who have prospered and figured out how to survive in today's economy.

NOTABLE SALES

- Cranston Print Works, Cranston
127,813 SF, \$3 million or \$10.88 PSF
- 50 Chase Hill Road, Hopkinton
172,792 SF, \$1.2 million or \$6.93 PSF
- 24 Commerce, Pawtucket
126,313 SF, \$1.3 million or \$10.29 PSF
Conversion to a Brewery
- 19 Industrial Drive, Johnston
76,750 SF, \$2.5 million or \$32.57 PSF
By Grieco Family Holdings
- 15 Wellington Road, Lincoln
142,000 SF, \$4.3 million or \$30.28 PSF

SALES ACTIVITY, INDUSTRIAL	2015	2014	CHANGE
# OF TRANSACTIONS	46	53	(7) -13.2%
SF (000S)	2,300	1,500	800 53.3%
TOTAL SALES VALUE (\$M)	\$53.0	\$60.0	-\$7 -11.7%



INDUSTRIAL SYNOPSIS

of Transactions: 46
Total Sales Value: \$53 million

Transaction value decreased \$7 million from 2014 to 2015.

Retail Sale/Lease Analysis

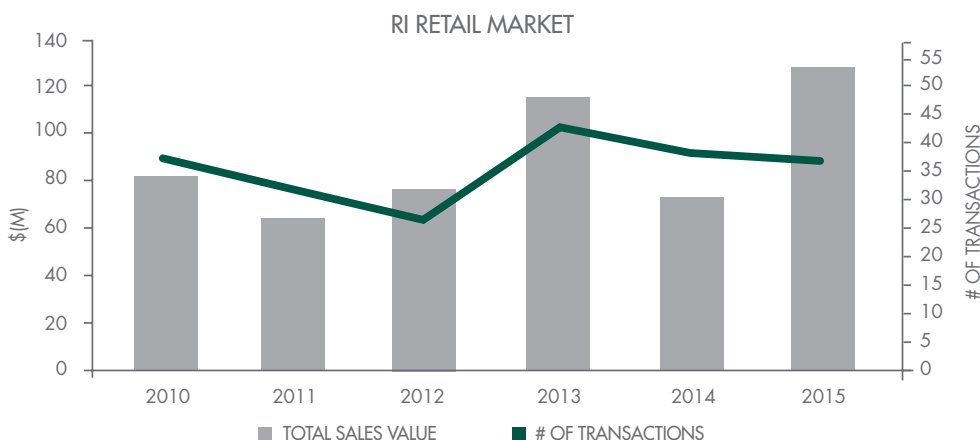
Retail sales recovered somewhat in 2015 as both local and outside investors acquired small strip centers and traditional indoor mall properties. Wampanoag Plaza in East Providence, the 226,000 SF Stop & Shop anchored shopping center was acquired by a Florida-based private equity real estate firm for \$25M, or \$110.66 PSF. Belltower Plaza in Bristol was acquired by a

MA-based investor for \$3.2M, or \$63.60 PSF. MCB Real Estate of Maryland purchased the 450,000 Rhode Island Mall for \$9.5M with a planned demolition/renovation in order to transform the enclosed mall into a big-box retailer-centric project. And finally, RK Associates of MA paid \$16.7M, or \$168.56 PSF for the 99,369 SF Middletown Square.

As noted in the table to the left, sales value increased 80%, helped by some of these larger transactions. Capitalization rates have hit 5% for certain high quality retail assets.

Leasing activity remained fairly neutral even as new construction lagged and absorption remained steady; the average retail rental rate in the market hovered around \$15.70 PSF from last year. Two of the larger lease deals involved discount retailers – Ocean State Job Lot's 41,500 SF at 5957 Post Road in North Kingstown and Grossman's Bargain Outlet leased 41,000 SF at 82 Newport Avenue in East Providence.

SALES ACTIVITY, RETAIL	2015	2014	CHANGE
# OF TRANSACTIONS	37	39	(2) -5.1%
SF (000S)	1,088	952	136 14.3%
TOTAL SALES VALUE (\$M)	\$128.0	\$71.0	\$57.0 80.3%



NOTABLE TRANSACTIONS IN 2015

- 1925 Pawtucket Avenue, East Providence
A Stop and Shop anchored plaza
225,908 SF purchased for \$25 million
or \$110 PSF by an out of state investor
- 1313 West Main Road, Middletown
99,369 SF was purchased for \$16.7
million or \$168.56 PSF by RK Associates
a Massachusetts
- Rhode Island Mall, Warwick
223,900 SF Purchased by MCB Real Estate
from Baltimore for \$9.5 million or \$42.42 PSF

RETAIL SYNOPSIS

of Transactions: 37
Total Sales: \$128 million

2015 transaction value increased \$57 million from 2014.

Office Sale/Lease Review

The office market maintained the level of square footage sold, but prices retreated as some properties sold for reduced numbers. The square footage sold increased from 920,943 SF in 2014 to 979,391 SF in 2015, while total sales fell from \$104 million in 2014 to \$72 million in 2015, which is explained by some large buildings such as the *Providence Journal* building selling for \$23.62 PSF. Providence Capital Holdings purchased 185 Westminster Street located in downtown for \$54.54 PSF. They also purchased 170 Westminster Street, 73,816 SF office building for \$4,441,500 or \$60 PSF and it is currently undergoing renovation to apartments. The building was previously sold in 2007 for \$6,650,000. The Providence Water Supply Board acquired a 180,713 SF building located at 125 Dupont Drive in Providence for \$10,400,000 or \$57.54 PSF for their new headquarters. The owner-occupied market maintained its value based on location and condition of the property, but the investment market as is always the case was challenged by vacancy, capitalization rates and costs to either convert or correct deferred maintenance. The median purchase price was \$95 which increased from \$92 in 2014. The old *Journal* building next to City Hall is under agreement with a Boston developer after being mostly vacant for a decade. Paolino Properties is in the early stages of converting his former headquarters on Dorrance Street, Providence to apartments. Rental rates have begun to improve in Central Financial District as well as in the suburbs. The statewide vacancy is at 8.6 percent virtually unchanged from 2014.

The office leasing market saw some absorption, and price stability, but still very little activity from outside the state. There were fewer concessions offered and 111 Westmister Street, which has 365,000 SF in downtown Providence is still a lingering issue for a more sustained recovery in Providence. The suburban market continues to stabilize with rents staying at the \$15 – 17 PSF.

NOTABLE ACQUISITION ACTIVITY

- 125 Dupont Drive, Providence
A 180,713 SF call center
Formally occupied by Bank of America
purchased by Providence Water
for \$10.4 million or \$57.54 PSF
- *Providence Journal* building
75 Fountain Street, Downtown Providence
A 139,696 SF purchased by Nordblom,
a Boston investor, and Cornish Associates.
– *Providence Journal* leased back 30,000 SF
Retail on the first floor/offices in the
remainder for \$33 million or \$23.62 PSF
- 72 Pine Street, Providence
A 33,000 SF building purchased by an out-
of-state investor for \$3.5 million or \$105 PSF
It was purchased in 1998 for \$1.1 million
- 4 Richmond Square, Providence
A 30,000 SF building purchased
by a California investment firm
for \$3 million or \$100.64 PSF
- 185 Westminster Street
Downtown Providence
A 55,000 SF building purchased by
developer of Providence Gas Building
for \$3 million or \$54.42 PSF
- 170 Westminster Street
Downtown Providence
A 73,816 SF building purchased
by Capital 111 LLC Providence
for \$4,441,500 or \$60 PSF

OFFICE SYNOPSIS

of Transactions: 40
Sales Value: \$72 million

2015 transaction value declined
30.8% from 2014.

Construction Projects

➤ TOLLGATE HILL FARM

54,000 SF
112 Beds
Assisted Living

Developed by:

Kaplan Development
Jericho, NY
Steve Soscia,
Mutual Properties, RI

➤ WEXFORD

CV Partners
500,000 SF
5 acres, 195 Land

➤ MARSHALL PROPERTIES

Wampanoag Trail
East Providence
80,00 SF
Medical Building

➤ KETTLE POINT EP

88,000 SF
University Orthopedics, Integria

➤ THE PROCACCIANTI GROUP

170 Room, Long Stay Hotel
Downtown Providence

➤ FIRST BRISTOL

120 Suite Hotel
Downtown Providence

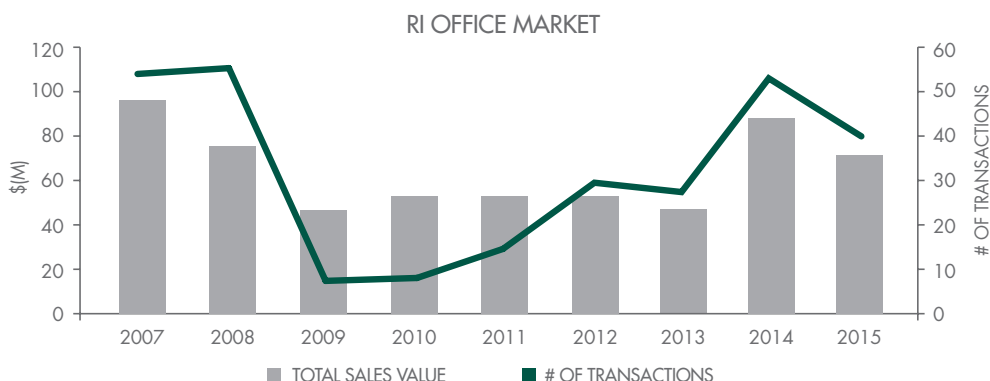
➤ BROWN ENGINEERING

80,000 SF
Brook Street
East Side, Providence

➤ JOHNSON AND WALES ENGINEERING AND DESIGN

60,000 SF
Pine and Friendship Streets
Downtown

SALES ACTIVITY, OFFICE	2015	2014	CHANGE	
SF (000S)	979	921	58	6.3%
TOTAL SALES VALUE (\$M)	\$72.0	\$104.0	-\$32.0	-30.8%



Available Properties



Office Building For Sale: Neil Amper, ext. 322
Downtown Providence
91 Friendship Street, Providence RI
11,800 SF



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



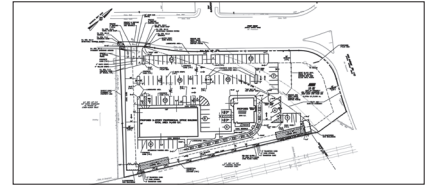
Retail Space For Lease: Greg Bohenko, ext. 234
502 Broadway Street, Pawtucket, RI
3,400 SF, ample parking at a traffic lit corner



Office For Lease: Chris Greenman, ext. 324
469 Angell Street/East Side, Providence, RI
400 - 2,784 SF



For 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



Retail Space For Lease: Greg Bohenko, ext. 234
Brown University/Thayer Street, Providence, RI
288 Thayer Street, Providence, RI
686 SF, perfect for retailer or unique food user



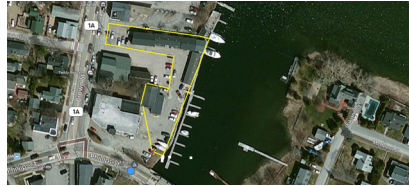
For Lease: Greg Bohenko, ext. 234
Large restaurant space in Wayland Square,
Providence, RI; Minimized startup costs
4,607 SF, seats 125



Medical Office: Chris Greenman, ext. 324
Hemingway Drive, East Providence, RI
2,400 – 10,000 SF with great accessibility
and lots of free parking



Office/Retail For Lease: Greg Bohenko, ext. 234
Aldi, Family Dollar Center, Providence, RI
539 Smith Street ; 1,850 SF, Ample Parking, space
is in move-in condition with updated bathroom



For Sale: Neil Amper, ext. 322
Waterfront Investment, Wickford, RI
11,786 SF Buildings, 25 Boat Slips



For Lease Office Space: Chris Greenman, ext. 324
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: Greg Bohenko, ext. 234
1128 North Main Street, Providence, RI
At traffic light, near Miriam Hospital
and Walgreens, 20,000 CPD



For Sale: Chris Greenman, ext. 324
Downtown Providence, 6th floor available,
3,000 SF – 6,600 SF available
Sale prices have been slashed



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