

THE CAPSTONE REPORT

Rhode Island's Real Estate Survey For 2013

www.capstone-properties.com

by Neil Amper, SIOR

Market Overview

Rhode Island's commercial real estate market saw continued improvement across all sectors during 2013, but was mainly driven by increases in the apartment and retail sectors. On the apartment and retail front, investors focused on high quality properties in strong locations where real estate fundamentals overshadowed the state's economic and political uncertainty.

Sales were up: There were 239 sales in 2013 across all property types with a sales volume of \$479 million, as compared to 216 in 2012 with a sales volume of \$363 million. While some sectors showed modest declines as compared to the recession years, there were gains in the office and retail categories. Winstanley Enterprises (*who acquired the Rhode Island Mall in 2012 for \$38 million*) sold the 136,000 SF Wal-Mart property for \$20 million and the 90,000 SF Kohl's property for \$13 million to investor groups. In addition, the I-95 Redevelopment Commission has chosen an executive director and a real estate brokerage firm to begin marketing the land. The collaboration of Brown University, University of Rhode Island (URI), and Rhode Island College have committed to the redevelopment of the Dynamo House which needs legislative approvals to finalize the project startup.

The number of transactions in the **retail market** increased in 2013, an important result since the sector has now experienced increasing sales volume over the last three years. While there are still some significant vacancies, there have been several bright spots:

- Opening of Corner Café at Garden City Center and Bald Hill Rd;
- New Staples under construction at Chapel View; and
- The Container Store and Sephora under construction at Garden City Center.

Unfortunately, the statewide vacancy rate has not materially improved from the previous year and remains at 6.5 percent with quoted rates stuck at \$14 NNN.

The **industrial market's** 15,000 SF and under segment has now experienced three consecutive years of sales value growth which was 20 percent in 2013. This trend is significant and one of the key drivers of the market's overall improvement, since the smaller user is the dominant base in the local economy.

While sales volume in the **office market** remained flat from 2012, there were several major transactions which reflect continued investor confidence in multi-tenanted, well-located properties, including:

- The Foundry Group's acquisition of the American Locomotive Co. (ALCo) property, a ~200,000 SF office park for \$19 million, or \$95 PSF; and
- United Way's acquisition of the 23,877 SF property at 531 Valley Street in Olneyville for \$3.3 million, or \$138 PSF, which they had been leasing since June of 2008.

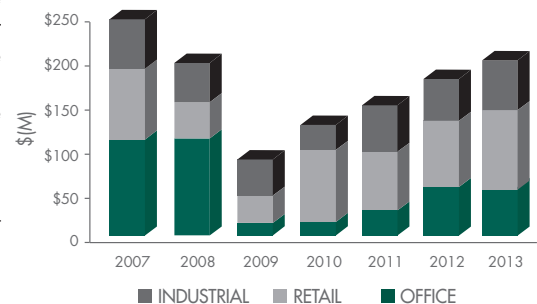
The state's office vacancy has remained high and there is one million SF of vacant space in downtown Providence, not including 111 Westminster Street, the Superman Building.

Office lease rates are still flat with no significant increases and vacancy statewide is still high by historical standards. Recent lease transactions include:

- 85,000 SF lease at 100 Freight Street in Pawtucket by telehealthcare systems provider Tunstall;
- Group benefits provider NEBCO's relocation from Warwick to 27,000 SF at 50 Whitecap Drive in North Kingstown; and
- Navatek, a Hawaii-based energy technology company is taking 20,000 SF at the Palisades mill complex at 1080 Kingstown Road in South Kingstown, establishing its east coast regional office.

50 Whitecap, which was built on spec, had been vacant for approximately six years. Navatek's lease is notable since the company identified Rhode Island for its oceanographic and energy research as well as its access to URI.

SALES VALUE BY CATEGORY



The apartment market has continued to outperform the other sectors with 1,891 units sold with a total sales volume of \$170 million, as compared to 751 units sold in 2012 and \$71 million in sales volume. The price per unit again had wide fluctuations from a high of \$126,000 to a low of \$37,500 for an older 20 unit multi-family in Pawtucket. Apartments remain a safe investment in the eyes of investors compared to industrial or office, as reflected in the large increase in both units sold and sales volume.

SOME NOTABLE SALES:

- Garden City Apartments
Cranston
94 Units for \$6.8 million
or \$72,340 per unit
- Winchester Woods
East Providence
478 Units for \$55 million
or \$115,000 per unit
- Residences at Slatersville
North Smithfield
224 Units for \$28 million
or \$125,000 per unit

Office Sale/Lease Analysis

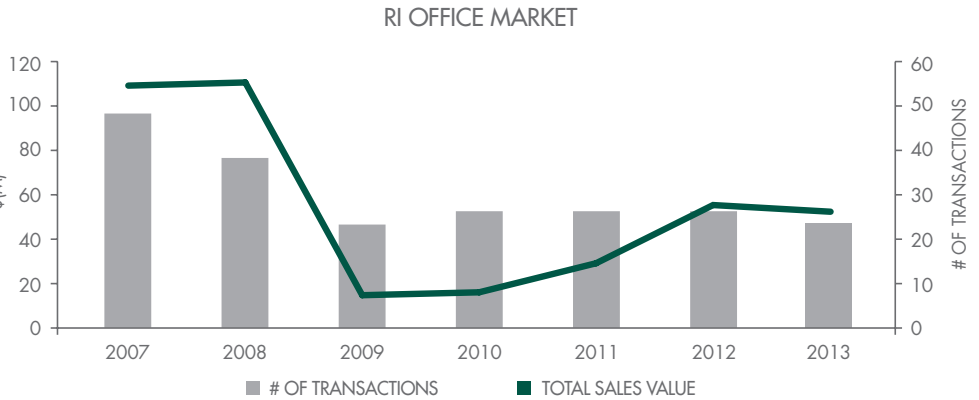
Several large transactions again contributed to the continued stability of existing office building sales. The number of transactions decreased from 26 in 2012 to 23 in 2013. 568,490 SF traded for \$53 million, as compared to 562,174 SF for \$54 million in 2012. While not dramatic, it is indicative of a positive trend in sales value. The median purchase price per foot of \$96.50 is essentially unchanged from 2012. **One of the recession's lingering effects is companies signing shorter term leases. Previously, a five year lease was typical, but companies are now choosing two to three year leases with options to renew.**

The following notable deals occurred in 2013.

Acquisition of 15 Park Row West in Providence, a 117,981 SF building for \$13 million or \$111 PSF by Albany Road Real Estate Partners, a Boston real estate investment firm. Andera, a software company, and Admirals Bank are among the tenants.

The 14,965 SF Audrain Building at 220 – 232 Bellevue Avenue in Newport sold to a private investor for \$5.5 million, or about \$368 PSF. The nearly 15,000 SF office/retail property was designed in 1903 by architect Bruce Price, and has been a dominant presence next to the famous Newport Casino and International Tennis Hall of Fame on the upper portion of architecturally renowned Bellevue Avenue.

The Omni Group purchased an 80,000 SF mill building located at 2 Fox Place near downtown Providence without tax credits or tenants and



2013 total transaction value was \$54M with SF at 568,490 SF.

reduced the footprint to 50,000 SF. They are converting it to office space as they continue to invest and believe in the viability of the West Exchange Street neighborhood. The purchase price was \$1,615,000 or \$18.67 PSF. The property is within walking distance to downtown.

The Foundry Associates bought The American Locomotive Works for \$19.05 million. The 11.8-acre, five-building office park is along the Woonasquatucket River. The historic complex, which also borders Valley Street, includes 200,000 SF of office space and is partially rented. Among the tenants are the state Economic Development Corporation and United National Foods Inc.

The office vacancy rate is high across the state and is expected to worsen after Bank of America's

relocation. What continues to burden the market is the lack of large blocks of contiguous floor plates to attract larger tenants. Statewide vacancy is currently 9.7 percent, up from 9.1 percent in 2012. Class B and Class C space have seen some modest reductions at 8 percent and 7 percent respectively. The average lease rate is essentially unchanged from 2012 at \$17 PSF.

OFFICE SYNOPSIS

of Transactions: 23
 Median Sales Rate: \$96 PSF
 Total Sales Value: \$54 million

Retail Sale/Lease Analysis

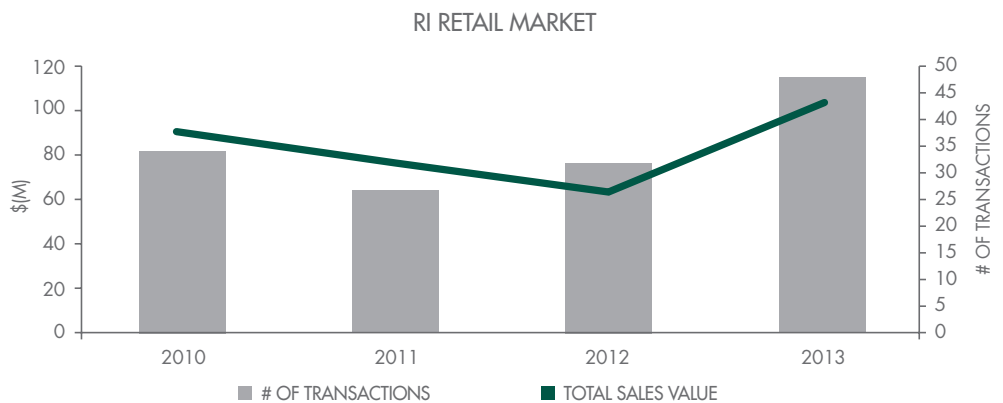
In 2013 there were 43 sales of retail property that totaled \$113 million and 749,181 SF with a median sales value of \$115 PSF; as compared to 2012's 27 sales that totaled \$75.3 million and 896,719 SF with a median sales value of \$101 PSF. The sale by Winstanley Properties of the Wal-Mart and Kohl's Stores in Warwick, while keeping the main mall property, demonstrates that investors continue to seek quality, well-located properties. These include:

- A 6,792 SF property located on Bald Hill Road in Warwick was sold at foreclosure for \$1.3 million or \$191 PSF and retrofitted to The Corner Café.
- Not Your Average Joe's, a casual restaurant based in Massachusetts with 18 locations, opened at the Warwick Mall.
- Ocean State Job Lot purchased an 80,950 SF plaza off North Main Street in Providence at foreclosure for \$8.8 million or \$108 PSF.

The overall market vacancy rate is still around 6-7 percent with some larger spaces beginning to absorb, such as the former Shaw's on Bald Hill Road in Warwick to LA Fitness. The average quoted rates are still between \$13 – \$14 PSF NNN.

RETAIL SYNOPSIS

of Transactions: 43
 Median Sales Rate: \$115 PSF
 Total Sales Value: \$113 million



Transaction volume, in terms of SF was up 50% from a year ago. Total sales increased 59% and median value increased 14%.

Industrial Sale/Lease Analysis

The industrial market recorded 49 sales transactions in 2013, as compared to 53 sales in 2012. While the number of sales and the total square feet were reduced, the total sales value increased from \$47 million to \$53 million and the square footage was 1,311,021 SF as compared to 1,642,762 SF in 2012.

Buildings of less than 15,000 SF recorded a median rate of \$62.50 PSF compared to \$53 PSF in 2012. In addition, a total of 149,023 SF sold as compared to 224,948 SF in the previous year and the transaction value was \$10 million versus \$13 million in 2012. The important aspect of this segment of the industrial market is the increase in median values. There were fewer properties available thus the prices have increased. A 2,300 SF industrial condo located at 81 Western Industrial Drive in Cranston sold for \$86 PSF.

In the 15,000 SF to 30,000 SF building category, a total of 231,533 SF was sold with \$10 million in transaction value. The median value was \$43 PSF, down slightly from 2012 but still a consistent indicator of the viability of the industrial market. A 15,196 SF warehouse/office property located at 7 Starline Way in Cranston was sold by a bank to DSD Enterprises for \$700,000 or \$46 PSF, a significant price for a foreclosed property.

Buildings between 30,000 SF and 60,000 SF recorded 229,765 SF sold and \$8.0 million in aggregate sales value versus 316,000 SF and \$7.6 million in transaction value in 2012. A 40,575 SF building located at 500 High Street in Central Falls sold for \$1.2 million or \$30 PSF to a manufacturer. The significance of this sale was the lack of an adequate alternative for the buyer to expand his business.

Transaction value and volume (in terms of SF) in buildings greater than 60,000 SF reversed their decline from 2012. The total square footage sold fell from 881,188 SF to 700,000 SF, but the total value of sales volume increased from \$8.0

million to \$12.8 million. One of the more significant transactions was a 265,064 SF building located at 60 Delta Drive in Pawtucket for \$4.3 million or \$16 PSF. The former Elizabeth Mill that housed Leviton Manufacturing was sold to Dean Warehouse and Michael Integlia for \$6.2 million with no tax credits and has 535,000 SF of space on 35 acres. A portion of the buildings will be converted to office space by Integlia Co. and the balance will remain warehouse space occupied by Dean Warehouse, a user in need of more space. Interestingly, some developers like Integlia and Omni continue to invest significant sums in the redevelopment of office product, reflecting their bullish outlook.

LEASES

The average asking rental rates are unchanged from 2012 at \$4.50 PSF and around \$6.00 for flex space. There are pockets of vacancy throughout the state, but the lack of high bay warehouse properties will continue to limit the ability to attract larger companies to locate in Rhode Island.

FA Distributors leased 15,175 SF at 111 Kilvert Street in Warwick; D3 Logic leased 23,040 SF at 85 Commercial Way in East Providence; and DAO Chemical leased 30,000 SF at 99 James P. Murphy Highway in West Warwick. Hertz leased 4,148 SF at 167 Putnam Pike in Johnston for 2 years. Delta Mechanical leased 11,448 SF at 56 Dewey Avenue in Warwick for three years at a rate above normal lease rates in the market.

INDUSTRIAL SYNOPSIS
 # Transactions: 49
 Total Sales Value: \$53 million

Vacancy Analysis

NORTHERN REGION

The vacancy rate decreased from 7.6 percent to 6.8 percent. This area has had a consistently low vacancy rate. The Collyer Business Center located in Lincoln has 474,004 SF available and a former steel distribution warehouse located at 20 Providence Pike in North Smithfield has 70,634 SF available.

PROVIDENCE METRO

In 2012 the vacancy rate was 7.7 percent and it is currently 6.8 percent. There has not been any new construction in many years so the existing buildings continue to be absorbed and the lease rates stabilize. There are not any large blocks of space available above 25,000 SF.

CENTRAL WEST BAY

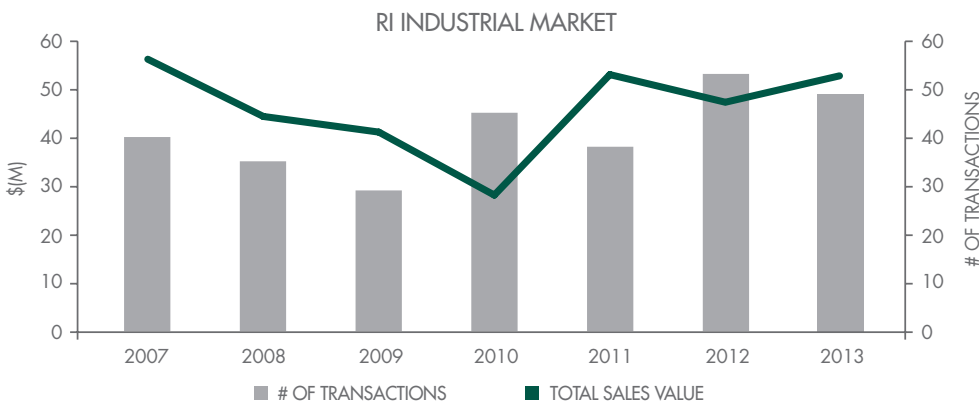
The vacancy rate decreased from 6.6 percent to 5.6 percent as larger blocks of space were leased or sold. There have not been many new listings for sale or lease in the last 12 months. The largest block of space in this region is 223,000 SF of refrigerated warehouse space located at 2700 Plainfield in Cranston.

SOUTHERN/NEWPORT

The vacancy rate in this area is 14.3 percent versus 12.0 percent in 2012. The anticipated growth in the Quonset area did not materialize in 2012, but new initiatives by the state should allow this region to begin to absorb some of the new vacancies.

STATEWIDE

The vacancy rate dropped from 8.0 percent to 7.4 percent as the state economy has shown some incremental improvement in all phases of the industrial real estate market. Optimism leads to companies investing in bricks and mortar and expanding their lease space. There has been a movement by some international companies to reshore or bring back some manufacturing to the United States, which has created some added business for local companies that are now beginning to look to expand and potentially add some space.



Transaction value increased \$6M, or 12.7% from 2012 to 2013.

Available Properties



For Sale/Lease: Neil Amper, ext. 322
625 Narragansett Park Drive, Pawtucket, RI
Former Building 19
111,821 SF, 18.8 acres, 3 loading docks



Office Building For Sale: Neil Amper, ext. 322
28 Cedar Swamp Road, Smithfield, RI
4,978 SF, 1.05 acres



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



For Lease: Chris Greenman, ext. 324
Wayland Square Office Space
179 Wayland Avenue, Providence, RI
865 – 4,000 RSF on Providence's east side



For Lease: Chris Greenman, ext. 324
Bellevue Avenue, Newport, RI
3,150 SF retail or office space in historic setting
Adjacent to International Tennis Hall of Fame



Office Space For Lease: Neil Amper, ext. 322
120 Lambert Lind Highway, Warwick, RI
Up to 8,000 SF, elevator, very reasonable



Retail For Sale/Lease: Neil Amper, ext. 322
1246 Pawtucket Avenue, East Providence, RI
4,350 SF plus 2,100 SF basement



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



Industrial For Sale/Lease: Neil Amper, ext. 322
100 Pulaski Street, West Warwick, RI
78,120 SF, 2.30 acres, 6 loading docks



For Lease: Chris Greenman, ext. 324
Bellevue Avenue, Newport, RI
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 Sale or Lease: Chris Greenman, ext. 324
Penthouse and 6th floor available
1,450 SF – 10,200 SF available
Sale prices have been slashed



180 Westminster Street
Providence, RI 02903

www.capstone-properties.com
401-454-4660
401-272-5378 fax

Paul Griesinger, President
pgriesinger@capstone-properties.com

Chris Greenman, Senior Vice President
cgreenman@capstone-properties.com

Neil Amper, SIOR, Vice President
namper@capstone-properties.com

Ken Brennan, Director of Asset Management
kbrennan@capstone-properties.com

Sergio Magno, Business Development
smagno@capstone-properties.com

The information provided for this survey was obtained from several sources, including CoStar Group and Loopnet online services. It is intended for informational purposes only and should not be relied on by any party without further independent verification. Although deemed reliable, the information for this report is not warranted by Capstone Properties. Commentary, analysis, observations and opinions expressed in this report are those solely of Capstone Properties except where noted. This report is copyrighted and may not be reproduced in part, or in its entirety, without the permission of Capstone Properties. Data from this report may be cited with proper acknowledgement given.

