

THE CAPSTONE

MIDYEAR 2014
REPORT

Rhode Island's Real Estate Survey

www.capstone-properties.com

by Neil Amper, SIOR

Market Overview

In the first half of 2014 there were 97 sale transactions compared to 85 in 2013, with 50 sales closing in the first three months of the year. The marketplace is on pace to have a better year than 2013, which had consistent sales across all sectors. Low interest rates and banks eager to lend have allowed more of the smaller owner/occupied users to purchase.

Values have remained stable, with buyers taking advantage of specific situations to secure properties in strategic locations, and in some cases paying a premium to secure entry into the market. While the office sector is still stagnant, the industrial and retail sectors have shown some renewed life.

The legislature has approved the leasing of the Dynamo House and while it restored the historic tax credits, it did not approve a tax credit for the Bank of America Building (aka the Superman Building). It remains empty with no current plans to convert it into apartments. However, the former American Tourister factory in Warren, purchased by Brady-Sullivan of New Hampshire, will receive a \$5 million tax credit to convert the property. There are 27 Rhode Island projects that have received a tax credit – this will create activity in the construction industry which has just begun to recover from the recession.

A very significant and welcome sale of Class A office property was the purchase of the 385,000 SF building at 100 Westminster Street in Providence by Paolino Properties for \$155 PSF.

The Proccianti Group announced their intention to build another hotel in Providence on a site they own across from the Rhode Island Convention Center. It is planned to be 170 rooms with a restaurant and retail space. They currently own three other hotels in Providence.

Cornish Associates continues to invest in downtown properties with their recent purchase of 290 Westminster Street, a 60,555 SF building for \$2.7 million or \$44 PSF.

OFFICE SPACE

The statewide vacancy rate was 8.7 percent, down from 9.0 percent at the end of last year. Class A vacancy is still at 15 percent with average quoted rates at \$24 PSF and Class B average rates at \$17 PSF. Lease rates have been stagnant for a number of years and with very few new tenants it is logical to assume that will not change in the near future.

Pet Experts, a distributor of pet products, purchased a 55,863 SF office building located at 175 Main Street in Pawtucket for \$39 PSF from the Pawtucket Redevelopment Agency.

Ralph Branca has begun construction of a 35,000 SF office building located at 640 George Washington Highway in Lincoln. There has been active interest from three potential tenants who would either lease the majority of the facility or a significant portion of the project. Branca began construction without any tenants, which is rarely done.

The volume of inquiries, while steady, is not significant enough to begin the absorption of the current vacancies which would then allow rents to improve.

APARTMENTS

The apartment market continues to see strong investment activity given the low interest rate environment coupled with pricing below replacement cost, drawing investors from outside the state.

Apartment Complexes Currently For Sale and Expected Pricing

- Village at South County Commons: South Kingstown, 234 units, \$50 million, \$180,000 per unit
- Shorewood Apartments: North Providence, 180 units, \$19 million, \$105,555 per unit
- Windsor at Brentwood: North Providence, 240 units, \$30 million, \$125,000 per unit
- Hillside Apartments, North Providence, 94 units, \$7 million, \$74,468 per unit

The conversion of the former Cranston Johnston Catholic Regional School in Garden City has begun. There will be a total of 52 units in the renovated building along with new construction, a sign of optimism in the apartment market.

The remainder of 2014 should be a continuation of 2013 where apartments are the preferred real estate investment.

RETAIL SPACE

Because of the lack of new construction the retail market has not had a large vacancy factor, even during the recession. The vacancy rate in the first half of the year fell from 6.5 percent to 6.1 percent. Chapel View and Garden City Center, both in Cranston, have expanded and added tenants. Staples has moved to Chapel View along with an anticipated relocation of Panera Bread from Reservoir Avenue.

Carmax Superstores, a used car retailer, purchased a 108,494 SF building on 5.6 acres of land at 153 Bald Hill Road in Cranston. They have razed the building to construct a new facility, which translates into the land being worth \$1,214,285 per acre or \$27 PSF.

North Main Street in Providence is starting to see some revitalization. LA Fitness has received zoning approval and Deals, a division of Dollar Tree, has opened a 16,000 SF store. We expect more announcements of other retailers by the end of the year.

O'Reilly Auto Parts, a public company based in Missouri with 4,216 stores nationwide, has begun to expand into New England and the company has several locations under agreement in Rhode Island.

Chick-fil-A, a fast food company with 1,700 stores,

has begun construction on its first Rhode Island location on Bald Hill Road in Warwick.

A 52,000 SF retail/warehouse building located at 33 Lambert Lind Highway in Warwick was sold at auction for \$74 PSF.

Smaller and midsized retail chains are still in the market to acquire new locations, but entry has been more difficult with very little new construction. But, with low vacancy the low rents should begin to improve.

McDonalds and Family Dollar were both recently approved for a site in Olneyville that has been vacant for a number of years.

INDUSTRIAL

The industrial market has maintained its value and we have seen consistent inquiries and resulting sales. There has not been any substantive building in many years so it has been more difficult to fill buyers' current need with available product. There were 14 sales in the first half of the year, half of them were under 25,000 square feet. A local contractor bought a 53,794 SF building located at 200 Corliss Street for \$34 PSF, a 50,000 SF property was sold at 76 Commercial Way, East Providence for \$58 PSF, and a 29,000 SF building located at 91 Broadcommon Road in Bristol was sold for \$44 PSF. Okonite has purchased a 248,000 SF building located at 5 Industrial Road in Cumberland for \$10.7 million or \$44 PSF and plans to expand the building. The lease market has shown some resiliency with stabilization of lease rates and inquiries being more active. The lack of product has been a severe limitation for a number of years and it will be a continuing factor in this sector of the market.

NOTABLE SALE TRANSACTIONS

- Industrial Sale, 1 Powder Hill Road Lincoln, 104,560 SF, \$8.2 million
- Industrial Sale, 380 Jefferson Boulevard Warwick, 79,066 SF, \$3.25 million
- Industrial Sale, 5 Industrial Road Cumberland, 248,000 SF, \$10.7 million
- Retail Land Sale, 153 Bald Hill Road Warwick, 5.6 acres, \$6.8 million
- Office Sale, 100 Westminster Street Providence, 385,000 SF, \$60 million

CONCLUSION

A lowering of the vacancy in most sectors of the market will make it difficult for companies to relocate out of lease space to purchase a property. While transactions have been consistent for the past three years, the local economy continues to struggle to create jobs and attract new companies to the state.

The median sales rate for all sectors has increased and financing is available for most projects. We feel that 2014 will be a mirror image of 2013, which is more optimism and more companies looking to secure new facilities.

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



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



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



For Lease: Neil Amper, ext. 322
7 Jefferson Boulevard, Warwick, RI
9,332 SF, Route 95 Visibility,
At 95 South Ramp



For Lease: Chris Greenman, ext. 324
Bellevue Avenue, Newport, RI
4,800 SF in Newport's dominant neighborhood
center anchored by Stop & Shop



For Sublease: Chris Greenman, ext. 324
Route 138 at I-95, Richmond, RI
Former Walgreens, stand-alone building available
for long term sublet



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.



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
Wayland Square Office Space
179 Wayland Avenue, Providence, RI
865 – 4,000 SF on Providence's east side



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



PRICE REDUCTION
For Sale: Chris Greenman, ext. 324
Post Road, Warwick, RI
5,382 SF stand-alone building with ample parking



For Lease: Neil Amper, ext. 322
333 Centerville Road, Warwick, RI
5,000 SF
At Rt. 95 ramp



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



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