

THE RODMAN REPORT

2006

RHODE ISLAND REAL ESTATE SURVEY

Preface

We are pleased to present our 11th *annual* Rodman Real Estate Report. There have been many changes and transitions throughout the last decade. During the early nineties it was suggested that the Rhode Island business community could not survive the combination of DEPCO and the loss of major employers especially in the manufacturing sector. There was significant Business Consternation, but a slow and steady progressive turn around took place that yielded growth in the economy. There is no blueprint for the next decade, but we remain optimistic in the future of Rhode Island.

Sheldon Rodman, SIOR, President
srodman@rodmanrealestate.com

Neil Amper, SIOR, Vice-President
namper@rodmanrealestate.com

Thomas Sweeney, SIOR, Vice-President
tsweeney@rodmanrealestate.com

David Widmann, Sales Associate
dwidmann@rodmanrealestate.com

Constance Jaquith, Broker Associate
cjaquith@rodmanrealestate.com

Alex Kaufman, Broker Associate

72 Pine Street
Providence, Rhode Island 02903
401 273-2270
401 273-2273 fax

Introduction

Rodman Real Estate, Inc. has conducted a statewide survey of the Rhode Island industrial real estate market. The purpose of this Survey is to track several variables which will assist in determining the strength and vitality of this market and any developing trends.

Data for this Survey was drawn from research on **45** established Industrial Parks and Industrial Areas encompassing **25,690,894** square feet of space. We included data from buildings of **10,000** square feet or more, however, Industrial Parks with a high concentration of buildings fewer than **10,000** square feet were also included. Mill buildings were excluded from this study.

The variables we have researched include selling price per square foot, lease price per square foot on a Net of Utilities basis and vacancy rates. For analysis purpose, the Survey has been broken down into the following categories:

GEOGRAPHIC AREAS

Northern
Providence Metro
Central West Bay
East Bay
Southern

SQUARE FOOTAGE

00,000 - 15,000
15,001 - 30,000
30,001 - 60,000
60,001 +

**A Business perspective of Rhode Island
1975-2007**

**By
Neil Amper, SIOR
Vice-President**

When I came to Rhode Island in 1975 as a stockholder in a public scrap-recycling firm there was a robust manufacturing economy. That economy was generating upwards of 600,000 tons of scrap each year. As vice-president of Metals Processing Inc., I was responsible for working with manufacturers throughout the region to recycle their scrap, which we would sell to steel mills throughout the world. I probably visited more than a 1,000 manufactures and watched them grow, decline and move.

During the past 10 years the Rhode Island economy has shifted dramatically away from a manufacturing base environment. We have experienced a great loss of manufacturing jobs and the service and supply businesses that have supported manufacturing have diminished or have simply closed. At the same time we have seen an increase in the service sector of the economy and an increase in the non-profit sector. This transition has had a profound effect on our communities. Taxing manufacturer's equipment and inventory has supported many cities and towns in Rhode Island. As these buildings have been vacated cities and towns have been forced to increase other taxes to make up for this shortfall. At the same time the loss of manufacturing jobs, which traditionally pay higher wages than service industry jobs, has hurt the state as wages per worker have fallen. We also know that manufacturers have traditionally provided greater benefits including health care, which has left another burden on the citizens and the government.

Rodman Real Estate, Inc. has seen first hand the effect of a diminished manufacturing sector and we are working hard to lead the service, distribution and housing sectors to use properties previously occupied by manufacturing companies. Many of these buildings offer advantages over traditional office space. They offer parking, high ceiling, highway access and most important lower dollar per square foot cost. While build out is costly, it generally ends up affordable in comparison to new construction for prime office space.

The market is still vibrant and we continue to see change. The recent announcement of Blue Cross committing to new construction near Waterplace Park and their vacating currently owned buildings properties offers an opportunity to other service providers to be located in Providence. The retrofit at the American Locomotive property points to a continuing need for quality space and the strong sense of a growing need for office space. Brown University acquired 8 commercial properties, which may require the relocation of as many as 40 businesses in the jewelry district of Providence.

We are predicting a slower decline of manufacturers who will require 50,000 square feet or more, but we are expecting the service and distribution industries to continue to grow in the Capitol City and in all communities of Rhode Island and Southeastern Massachusetts. We further believe that we will see mill conversions to affordable housing as well as new construction for seniors.

We know that the entrepreneurial spirit of our community and our strong universities will continue to provide growth to Rhode Island.

Median Sales Analysis

There were some interesting contrasts in the marketplace in 2006. There were **94 sales in 2006**, which is a **44% increase from 2005**.

The total square footage volume on 2006 was **1,661,563** which was a decrease of **53%** from 2005. The dollar sales were **\$66,747,000** in 2006 versus **\$80,335,000** in 2005, which was a **17% decrease**.

Buildings below **15,000** square feet recorded significant increases in both industrial and non-parks. The total aggregate sample increased by **22%**, the industrial park sector increased by **27%**, and the **non-park sector increased 49%**. There were **46** sales in this category and the average size of buildings sold was **5,000 square feet**.

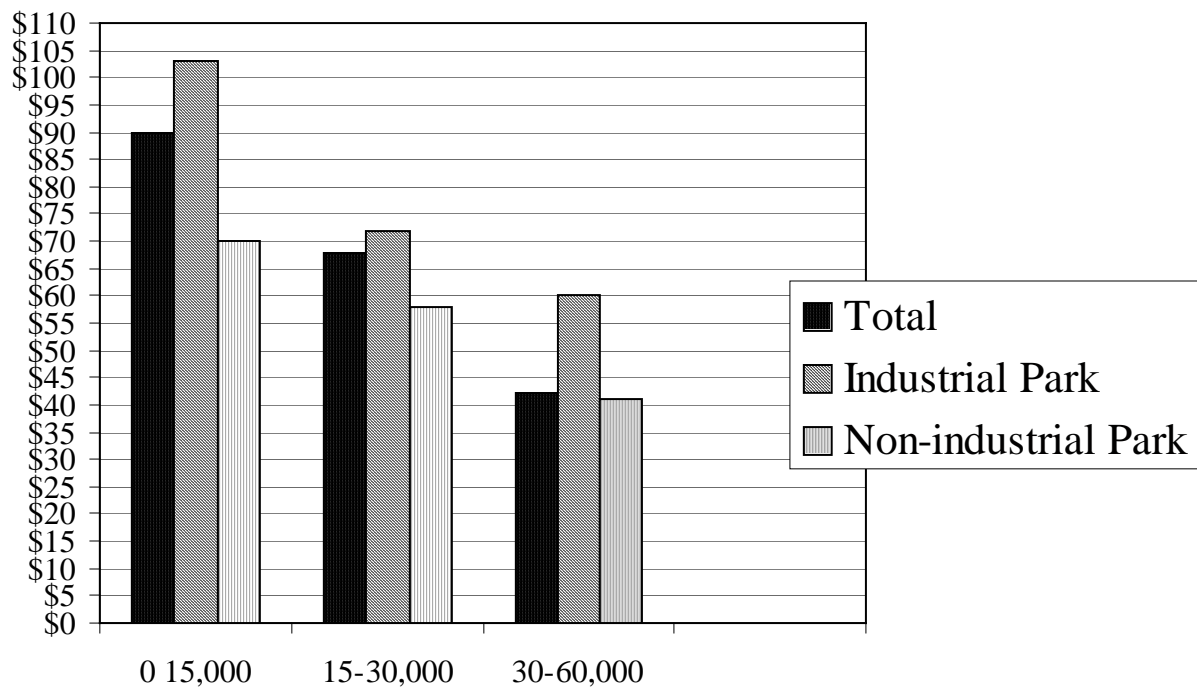
Buildings between **15,000 and 30,000** square feet recorded an **increase of 67%** in the total aggregate sample. The **industrial park sector showed a 20% increase** in the sales analysis and in the **non-park sector the increase was 93%**. The dollar volume was **\$16,500,000** and the **average size of building sold was 20,000 square feet**.

The changes for buildings in the **30,000-60,000** category were more moderate. The total sample **increased by 13%**. The industrial park sector **increased by 39%** and the non-park sector **increased by 66%**. The average size building sold was **42,800 square feet**.

There was not enough data compiled in buildings above **60,000 square feet** to analyze. There were **7** mill-building sales in 2006 and the **median was \$13.00 a square foot, which is virtually unchanged for the last three years**.

There was an increase in most categories but a drop in sales volume and square footage volume. All areas showed double digit increases in price per square foot and this demonstrated the continued lack of product in the marketplace.

2006 MEDIAN PRICE PER SQUARE FOOT



Industrial Leases

There were some large transactions for the Rhode Island market in 2006. The transactions were between **30,000'-75, 000'** and they ranged from a low of **\$3.24 a square foot to \$6.49 a square foot**. The average size of building leased was **24,000 square feet**.

The displacement of tenants from mill buildings seems to have slowed and some tenants were able to replace their spaces and others are still looking.

The shortage of high bay warehouse continues to be an issue in the state and although there are spaces available above **50,000 square feet**, the **5,000-25,000'** segment still is not readily available.

The smaller spaces have asking rents between **\$5.50'-\$8.50'** and those have rented with no landlord concessions and almost no allowance for tenant improvements.

We believe that the lease market will remain firm, but will not increase much in value because of the equity between product available and lessee's looking.

Vacancy Analysis

Northern: The vacancy in this region remained statically unchanged from 2005. Last year the vacancy factor was 2% and, although there were some lease facilitates, they were smaller and did not impact the data. There were no new announcements of new construction, but anecdotally there are projects on the drawing board. The former Durastone Plant on George Washington Highway will be the new facility for Colonial Toyota. The land had been vacant for many years. A.T. Cross was sold and they will lease back a portion of the property.

Providence Metro: There was a positive absorption in 2006, which saw the vacancy factor drop to **6.5%** from **12%** in 2005. The lack of inventory in surrounding communities was the main reason for this occurrence, although the tax rate is still an issue for some companies.

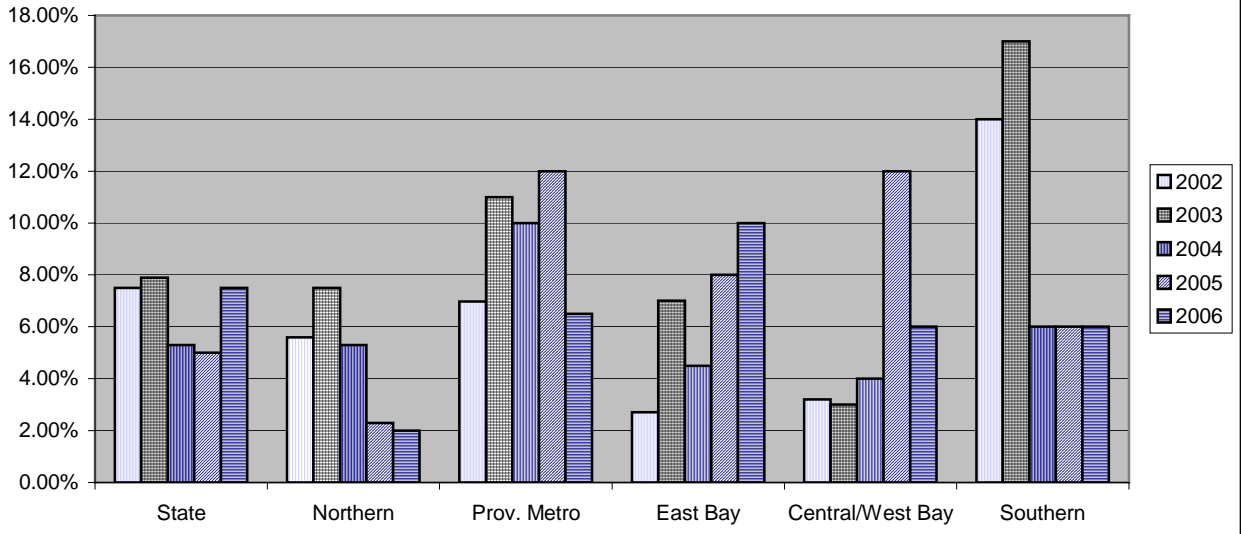
Central West Bay: The market in this region, which always has a lot of activity, continued in 2006. The vacancy dropped to **6%** and some buildings were sold within 30 days of the listing and some lease properties that were vacant for a couple of years have been leased.

East Bay/Aquidneck Island: The vacancy increased to **10%** and this is primarily due to a few buildings in the Bristol area. The small square footage in this area tends to distort the survey. The market has not seen any significant increase in square footage in quite a few years and any absorption tends to be longer than other areas.

Southern: Ocean State Job Lot has relocated to their new facility and a portion of their former warehouse is now available. The former Brown and Sharpe facility has about 150,000 square feet available as well as the former ICON International building in Quonset Point.

Statewide: The vacancy statewide increased to **7.5% in 2006**. There continued to be some larger tracts of space and more space became available through out the year. There is a consistent flow of tenants looking for space, but not enough to absorb the amount of space available.

VACANCY ANALYSIS



Median Office Sales

We tracked **51** transactions in 2006 and that accounted for **1,059,581 square feet of sales** with a dollar amount of **\$32,450,000**. This was a significant drop in dollar volume. **The median increased to \$139 a square foot from \$110 a square foot an increase of 26%.**

There were three major transactions One Financial Plaza, 50 Technology Way in West Greenwich. and 15 American Express Plaza.

Brown University bought major square footage in the Jewelry district in a continued expansion from the East Side.

The smaller square footage buildings in the **1,000-15,000** square feet range were not as readily available, but the median sale price was **\$163 a square foot.**

The median rate for office buildings sold in the **West Bay** was **\$156 a square foot** and the median for buildings sold in **Providence** was **\$139 a square foot.**

There are a number of projects being started or in various stages of completion in Warwick and Coventry.

Kent Center	30,000'
Metro Center Boulevard	125,000'
300 Jefferson Blvd	40,000'
1 International Way	30,000'
Alteri Way	40,000'
Offices at the Crossroads	60,000'

Universal Properties, Centre of New England
2400'-200,000 square foot
Medical Office/General Office

Median Office Leases

There were **58 lease transactions in 2006** with **40%** of them being in **Providence**. The range of rents is between **\$17** in the Jewelry District and **\$20** for space in Davol Square. Lease rates in Downtown range between **\$25 and \$32 a square foot**. The taxes in Providence have made the NNN expenses more expensive and it will ultimately hold down lease rates.

The **median size** of lease space in the sample was about **4,500** square feet and this number has held steady for a number of years.

The median lease rate was at **\$15.00 square foot** and this also has been a very consistent number for the last two years.

The marketplace would rather purchase a condo or office building rather than lease. Construction costs are at or around **\$200 square foot** but businesses have determined that the costs are close enough to their lease costs to make the commitment.

We see very little appreciation in the lease market and, with the office projects that are currently in the planning and construction phase, it could continue for the next couple of years.

Summary Analysis

The pace of sales in all phases of the commercial market has proven to be resilient and prices have increased in virtually every year in the past five years. The contraction of the manufacturing sector has been replaced by smaller more focused companies that provide a wide variety of services to companies outside of New England. We think that our region still has quite a bit of entrepreneurships and, coupled with the high quality of colleges and universities, this has helped New England and in particular Rhode Island.

We tend to think of Rhode Island as weak economic sister to Massachusetts and Connecticut, but somehow we have survived and prospered as is evidenced by the development in downtown and the high level of commitment from developers from outside the state.

We believe that although we have a smaller economy than our neighboring states, it has proven that it has to potential to grow and absorb new construction and prosper.