

2008 The Rodman Report



Market Overview

The 2008 Rhode Island real estate market began to deteriorate after midyear and although there were sales in all categories the prices began to drop. Inquiries were fewer and with very site-specific needs. We saw a drop in the amount of transactions and the dollar volume in all sectors. The office market sector continued to be active, and the sales volume was higher with fewer buildings sold. The West Bay continued to hold on to value and in some cases increased.

There are large blocks of office space available in all categories throughout the state. Sellers and owners who are looking to lease are beginning to accept lower pricing. The former ON Semiconductor building that was converted to office space and is located on South County Trail in East Greenwich still has 140,000± square feet of vacancy. The redevelopment of A.T. Cross secured Zebra Technology for 39,700 square feet. The building located at 300 Jefferson Boulevard has secured a 2,000± square foot tenant, but the remainder of the 75,000 square foot building is vacant. There remains an abundance of office space in all parts of the state.

The industrial market has for the most part been stable throughout the year and there are not many buildings overhanging the market, but there is resistance to higher prices as buyers are unwilling to commit. The overall market will decline again this year as the industrial base continues to erode.

We look at 2009 as a correction year that will see prices fall and foreclosures rise. It will be a survival year for many building owners as tenants will negotiate hard to reduce costs and square footage occupied. It usually takes six months for the differential between demand and pricing to intersect and the market to begin to facilitate lease and sale transactions.



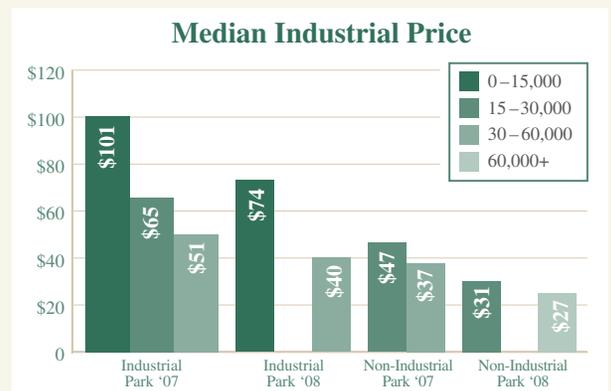
72 Pine Street
Providence, RI 02903
401-273-2270
401-273-2273 fax

www.rodmanrealestate.com

Median Industrial Sales Analysis

The industrial market decreased again in 2008. There were 35 sales in 2008 versus 40 in 2007, a 12 ½% decrease.

The total square footage volume in 2008 was 1,321,692. The total sales were \$44,227,035 in 2008 versus \$56,033,020 in 2007, an



continued inside



2008

The Rodman Report

Industrial Vacancy Analysis

Northern Region: The northern market has 14,000,000± square feet of property and it traditionally has been able to absorb what became available. There is a 20,000± square foot warehouse building being constructed in Smithfield with an asking price of \$8.50 NNN. A building located at 35 Industrial Road in Cumberland is 100% occupied within one year of its purchase. The vacancy has hovered around 4% for a number of years and although some new listings are coming onto the market, it appears that they will be absorbed.

Providence/Metro: The Providence market has been somewhat of an enigma. It is a desired address for some companies, but the tax structure has kept some companies from locating there. A recent sale of a 53,000± square foot building in the Huntington Industrial Park was sold for \$34 per square foot, which is low when compared to the recent sales recorded in other parts of the state. The vacancy has reduced slightly to 8.5%.

Central/West Bay: This section of the state has always maintained a low vacancy rate because of its access to the highway and its newer product. There was some moving of companies to different locations within the region and all the vacancy was absorbed. The available space is scattered throughout the area with a new block of 48,000± square feet becoming available at 289 Kilvert Street in Warwick. The vacancy has always maintained a percentage between 3%-6% with the current rate being around 6%.

East Bay/Aquidneck Island: The area has only five million square feet of space in the marketplace so any large vacancies tend to make the number higher than in some of the other regions. There was not a lot of activity, but the recession is starting to affect the marine industry that occupies a significant amount of space there.

Southern Region: This area still has two large blocks of space in Quonset and on Frenchtown Road that account for 600,000± square feet and the majority of the 18% vacancy in the region. A division of Caterpillar has leased 15,000± square feet in Davisville at \$8.50 NNN. The former 40,000 square foot Sears Warehouse located on Circuit Drive in Davisville is vacant. The Post Road side of Quonset is now being developed for retail with a Lowe's and a Kohl's recently opened.

State: The vacancy in the state has edged up to the 8% range and that could increase dramatically with the recent receivership of Colibri, which occupied buildings in Providence and East Providence, and the general contraction of the New England economy and in particular Rhode Island.

Median Industrial Sales Analysis

continued from front cover

\$11,805,985 decrease which is an 8% drop in total dollars.

Buildings of less than 15,000 square feet recorded a decrease in the median rate of 22% to \$74 per square foot. The dollar volume was \$4,255,000, which was higher than 2007, but this was a result of more sales. The average size of buildings sold was 6,000± square feet.

Buildings between 15,000 and 30,000 square feet recorded a decrease of 43% in the total aggregate sample. The majority of the sales were not located in industrial parks which accounted for some of the decrease to a median rate of \$31 per square foot. The dollar volume was \$5,105,000 versus \$9,005,000 in 2007, a 43% decrease. The average size of building sold was 23,000± square feet, while the total square footage sold was 191,552± square feet, a 24% reduction from the previous year.

There was a major reduction in the number and value of transactions in the 30,000 to 60,000 square foot category. There were fewer sales and the price per square foot dropped. The sales volume was \$13,429,035 and the square footage sold was 275,891± square feet. The last sale recorded was a 53,000± square foot building that sold for \$34 per square foot. The median price was \$40 per square foot, a drop of \$11 per square foot from 2007.

There were five sales in the 60,000+ square foot category, which represented 542,000± square feet and \$16,700,000 in sales. The rate per square foot ranged between \$20 and \$57.

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.

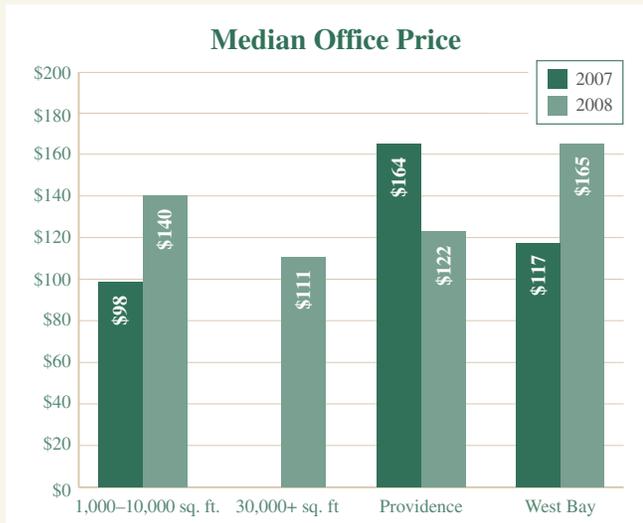
Median Office Sales Analysis

We tracked 38 transactions in 2008, which accounted for 1,057,000± square of space and a monetary value of \$110,000,000. The total square footage dropped 500,000± square feet from 2007 but the total dollar volume increased by close to \$2 million.

Buildings of less than 10,000 square feet recorded a median price of \$140 per square foot. The median rate of properties above 30,000 square feet recorded a median value

of \$111 per square foot. The market was active throughout the year and although it slowed considerably by the fourth quarter, the prices remained consistent.

West Bay accounted for 34% of the total sales and the median rate was \$165 per square foot. The Providence market



was considerably less active than in 2007, and the median rate was \$122 per square foot.

The major transaction of the year was the purchase by New England Tech of the Brooks Pharmacy headquarters building that was never occupied. The plan is to consolidate their trade school from their current locations on Post Road in Warwick. The sale price was \$30,000,000 for the 285,000± square foot building and that translates to \$105 per square foot.

CVS purchased three buildings that totaled 87,792± square feet near their headquarters in Woonsocket, and there continues to be some residual leasing effect from companies that do business with them.

The Class A market has experienced the most deterioration, with the vacancy standing at around 13%. The overall vacancy in the state is almost 11% and our expectation is that this may increase gradually over the year as companies contract or go out of business.

The lease rates were stagnant as was the experience in 2007. A significant number of calls were by companies checking to see if their current lease was competitive with the market. Those companies looking for space were able to secure attractive terms and build-out concessions. The suburban market has been in the \$15 per square foot range, although asking rates are around \$18 per square foot. Class A buildings in the suburban market are in the \$20 per square foot range and some landlords have been unable to secure a tenant for more than a year. The downtown market has seen very little activity with Boston Sports Club being one of the only outside companies to locate in the city. They are occupying 18,952± square feet at 10 Dorrance Street.

Our expectation of sales and prices for 2009 will be as the rest of the market: caution and offers considerably less than the asking price. If the office building is multi-tenanted the lease expiration dates will be a major determination of the ultimate worth. The vacancy factor as well as what lenders view as an appropriate capitalization rate will also play a major role in influencing the value.

Median Retail Sales Analysis

We tracked 35 sales in 2008 which represented 319,066± square feet of space, resulting in \$41,267,000 in sales.

The median square foot rate was \$138 per square foot and the average property size was 9,116± square feet.

The retail real estate market in the state and the region is also experiencing some decline due to economic conditions. Vacancy increased to 7.5% from 7% in the previous quarter. Net absorption was a negative 195,080± square feet and quoted rental rates decreased to \$17.37 per square foot per year. There were five retail buildings delivered with a total of 56,312± square feet and there is approximately 921,508± square feet of space under construction at the end of the quarter.

The fast-food retail market remains somewhat stable due to the barriers to entrance into the market. Most of the premier locations are already developed and new entrants are looking at secondary locations or redeveloping existing sites. The focus is on location and not necessarily on the improvements. There has been pullback in this phase of the market due to economic conditions with many users reducing, putting on hold or eliminating expansion plans. While “main and main” locations will always be in demand, secondary locations are being impacted by the current economic conditions.

There were eight Rite-Aid pharmacies sold, which were owned by Brooks. The rate per square foot ranged from \$137 to \$370 per square foot. The cap rates have slowly crept up and they now are in the 8.5%-9.5% range.

There were no big-box or retail plazas sold as the consolidation of the retail industry has made buyers more cautious of their purchases. The lending institutions have also been more cognizant of the problems facing the marketplace and have been more cautious regarding vacancy factors as well as equity infusion.

The Quonset Point retail project has opened with Kohl's, Lowe's and Dave's Marketplace, and that project appears to be one of the last on the horizon.

Significant Transactions



100 Jefferson Boulevard
Warwick, RI
4,820 square foot office building
Leased to iSarali, Inc.



2080 Plainfield Pike
Cranston, RI
43,280 square foot industrial building
Sold to Cadence Science, Inc.



640 George Washington Highway
Lincoln, RI
10,589 square foot office space
Leased to Northern RI Collaborative



631 Main Street
East Greenwich, RI
7,127 square foot office building
Sold to E.G. Office Associates



175 Dupont Drive
Providence, RI
52,671 square foot industrial building
Sold to Dupont Realty Associates



101 Circuit Drive
North Kingstown, RI
15,000 square foot industrial space
Leased to Ring Power



139 Jefferson Boulevard
Warwick, RI
16,400 square foot retail building
Leased to RI Kitchen & Baths



780 Washington Street
Coventry, RI
16,000 square foot retail building
Leased to Planet Fitness

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

Fred Petrarca
Sales Associate

fpetrarca@rodmanrealestate.com

Alex Kaufman
Broker Associate

RODMAN
REAL ESTATE INC.

72 Pine Street

Providence, RI 02903

401-273-2270

401-273-2273 fax

www.rodmanrealestate.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 Rodman Real Estate, Inc. Commentary, analysis, observations and opinions expressed in this report are those solely of Rodman Real Estate, Inc., except where noted. This report is copyrighted and may not be reproduced in part, or in its entirety, without the permission of Rodman Real Estate, Inc. Data from this report may be cited with proper acknowledgement given.