

2009 The Rodman Report



Market Overview

There are many phrases that can be used to describe 2009, but none of them are good. The local and regional economy suffered through the year with falling real estate values and tight money supply. At midyear we believed there would be more foreclosures and opportunities, and our prediction was right. A 140,000 square foot vacant office building on South County Trail in East Greenwich was foreclosed on and is now on the market. The Gateway building in downtown Providence, a 106,000 square foot vacant building, was taken back by the bank at auction for the amount of the mortgage. Precision Park on Frenchtown Road in North Kingstown, a 500,000 square foot industrial building, was also foreclosed on and will be put on the market. The values of these properties have fallen by about 50 percent from their previous highs and their values will be determined by the rent rolls and a prospective buyers' view of the potential and future value. In addition, three downtown office buildings were foreclosed on and sold at auction to local investors.

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Median Office Leasing Analysis

The office leasing sector also exhibited major contractions, but the lease rates — although reduced — did not exhibit the drastic reductions we saw in other parts of the marketplace. The median lease rate for all transactions was \$15.65 per square foot, but asking lease rates are beginning to fall.

The vacancy in the marketplace is still around 11 percent but certain sectors are still struggling, namely the Class A market. The vacancy was 13 percent in 2008 and it now is around 15 percent. The Central/West Bay Class A vacancy is 34 percent and the Providence Metro vacancy is around 16 percent. The average asking lease rate is \$22 per square foot, but that is beginning to fall as landlords are forced to make deals to retain tenants or attract new ones.

The Class B market vacancy stands at 12 percent statewide with all areas having significant blocks of space. Central/West Bay, which historically has had the lowest vacancy rate, is now at 16 percent with East Bay at 14 percent, Northern at 8 percent, Providence Metro at 11 percent and the southern sector at 11 percent. The quoted rates and the actual negotiated rates have remained fairly stable throughout the year.

There is currently approximately 3,800,000 square feet available statewide in all Class categories. We expect that the marketplace will begin to absorb some of the vacant space as prices reduce and the economy begins to improve.

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Market Overview

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The market did not absorb the square footage available in 2009 and much of the space that was available in 2008 is still on the market. Office and industrial lease rates have begun to fall as lessees are negotiating hard and receiving concessions and lower rates.

Areas that should see some positive activity in Providence are the Jewelry/Knowledge District and the ManuCenter area along Allens Avenue. Brown University's Alpert School of Medicine and the land being made available by the relocation of I-195 are the driving forces in the Jewelry/Knowledge District. The rehabilitation of 222 Richmond Street for the medical school should commence in the 2nd quarter of 2010. In the same area, the city and the state are in the process of developing an overall plan for the land under the former I-195 which will present new development potential. In the ManuCenter, Belvoir Properties continues its repositioning of former industrial buildings into office space, similar to the approach they took in the 1980s in the Jewelry District. This space is supporting a variety of tenants, many associated with the Rhode Island and Women and Infants Hospitals.

In the industrial market, we see a continued decline in older manufacturing facilities with fewer conversions, either to residential or office space due to lack of incentives (i.e. historical tax credits) and overall economic conditions. Newer, well-located and high bay facilities will maintain value due to the lack of options. New construction will still be limited to a need-based, owner/occupied or tenant-specific use.

The Quonset Point/Davisville Commerce Park will be home to a major facility supporting the proposed wind farm in Block Island Sound. Similar green industries are becoming more prevalent in the market and LEED certification continues to be a significant element in all new development. We should see continued growth in this sector.

The retail market continues to reflect the overall economy with increasing vacancies and decreasing rents. Vacant space is lagging on the market with increases in areas that typically have had very low vacancy rates. The prime corridors, Route 2 in Warwick and Route 6 in Seekonk/East Providence are experiencing unprecedented vacancies which are negatively impacting rents. However, again opportunity is present as the lower rents will allow more national, regional and local retailers the opportunity and ability to locate along these prime corridors.

The beginning of 2010 has the marketplace feeling that the worst is over and the new year will bring more transactions.



Median Office Sales Analysis

The office sector paralleled the industrial market and most other areas of the commercial real estate market in Rhode Island. The last three years have seen some large sales as well as unprecedented volume in both square footage and dollar sales.

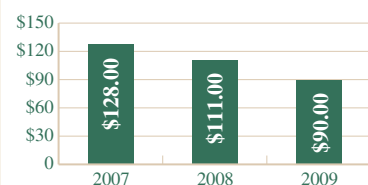
The sales data for 2007 was 48 sales, 1,515,000 square feet, \$108,574,000 sales volume and a median price of \$128.

The sales data for 2008 was 38 sales, 1,057,000 square feet, \$110,000,000 sales volume, and a median price of buildings above 30,000 of \$111.

The sales data for 2009 was 23 sales, 151,239 square feet, \$14,173,375 sales volume, and a median price of \$90.

There were three Class B office foreclosures in downtown, which represented 42,320 square feet and they were sold for an average of \$53 per square foot.

Median Office Price
(Per Square Foot)



A lack of product accounted for the drop-off in sales, but the real cause was the deteriorating local economy. Buyers were unwilling to purchase new construction because of the cost in both sales price and tax obligations. There will be opportunities to purchase more affordable properties as foreclosures rise and sellers begin to adjust to reduced prices. The intersection of the buyers' needs and the sellers' expectations are beginning to converge. There were two large green projects completed in 2009: Blue Cross and Blue Shield moved into their 325,000 square foot building in downtown and FM Global moved into their 340,000 square foot building in Johnston.

Median Industrial Sales Analysis

The industrial market decreased again in 2009. There were 29 sales in 2009 versus 35 in 2008, a 17 percent decrease.

The total square footage volume in 2009 was 1,257,727. The total sales were \$41,829,000 in 2009 versus \$44,227,000 in 2008, a \$2,944,000 decrease, which is a 6½ percent drop in total dollars.

Buildings of less than 15,000 square feet recorded a decrease in the median rate to \$62 per square foot. The dollar volume was \$6,504,000 which was higher than 2008. The average size of buildings sold was 6,800 square feet.

Buildings of between 15,000-30,000 did not have enough data to give a meaningful analysis. The sales that were recorded ranged from \$16 per square foot to \$59 per square foot. The well-located and functional facilities held their value and this trend has been the case for the last five years.

Buildings between 30,000 and 60,000 square feet recorded major increases in both square foot volume and sales volume. The sales volume in 2009 was \$26,925,000 versus \$13,429,000 in 2008. The square footage volume was 578,139 in 2009 versus 275,891 for 2008.

In buildings larger than 60,000 square feet there were five sales and the price per square foot dropped significantly. Martin Street in Cumberland, a 233,000 square foot building, sold for \$9 per square foot. A 148,000 square foot building located at 500 Narragansett Park Drive in Pawtucket was sold for \$16 per square foot. Three investment sales were recorded. In the Lakeside Industrial Park in Johnston, FedEx's 144,000 square foot building sold for \$104 per square foot. AMB, a Real Estate Investment Trust, sold a building located at 505 Collins Avenue in Attleboro for \$61 per square foot. In 2009, 597,335 square feet sold versus 542,000 square feet in 2008. The sales volume in 2009 was \$8,400,000 versus \$16,700,000 in 2008.

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 with fewer than 10,000 square feet were also included.

Industrial Lease Analysis

The lease market absorbed some vacant space and the larger transactions recorded reduced rates. There were significant leases in the marketplace. Portola leased 60,000 square feet at Martin Street in Cumberland and paid \$3 NNN. There was a renewal of a 48,000 square foot building in East Providence at \$3.90 per square foot net of utilities. A 73,000 square foot building was leased at \$3.00 per square foot. Electric Boat leased 113,000 square feet in Quonset Point and paid \$3.40 NNN. Thompson Pistocco relocated from East Providence to 25,000 square feet at 100 Dupont Drive in Providence, and J. Polep Distribution Services signed a 38,000 square foot lease at 300 Niantic Avenue in Providence.

Oracle Lens vacated 50,581 square feet at 30 Jefferson Park Road in Warwick. The Colibri Group went into bankruptcy and vacated 85,234 square feet at 100 Niantic Avenue in Providence, and Sardelli International moved out of 49,470 square feet at 195 Dupont Drive in Providence.

Flex space continued to hold value as most leases were between \$6.00 and \$8.00 per square foot. This is reflective of the relative short supply in the marketplace, but with very little activity this may cause some downward pressure on pricing.

Industrial Vacancy Analysis

Northern Region: The northern market has always maintained a low vacancy factor. The region had a 4 percent vacancy in 2008, but has moved up to around 7 percent, which is reflective of the overall market. TMI closed their business on Wellington Road in Lincoln, which brought 63,000 square feet of space onto the market.

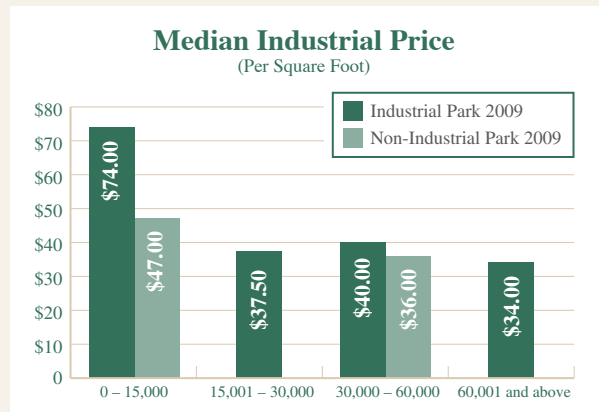
Providence/Metro: The Providence market has a total of 22,000,000 square feet of space and the vacancy moved up to 11 percent from 8.5 percent in 2008. There has been very little new construction and buyers and tenants have looked to buy newer, more efficient buildings in other areas.

Central/West Bay: The vacancy is around the same 6 percent that it has been for last few years. Companies have renewed and some vacant space has been filled on the Jefferson Boulevard corridor. Enterprise Rent-a-Car leased 8,400 square feet at 99 Jefferson Boulevard and Graphic Innovations relocated from Providence to 8,500 square feet at 380 Jefferson Boulevard.

East Bay/Aquidneck Island: There continued to be very little activity in this area and the vacancy stands at around 9 percent. The marine business reflects the overall economy which has contracted and will probably continue to do so throughout 2010.

Southern Region: The marketplace has around 7,500,000 square feet and the same blocks of space are available as in 2008. The vacancy is still around 18 percent. Large blocks of space still exist in Quonset Point in some of the state-owned buildings as well as in the privately-owned ones.

State: The vacancy in 2008 was 8 percent and it is now 9 percent. The expectation is that this number may increase, but falling lease and sale prices may attract some companies from bordering states.



Significant Transactions



48 Molter Street, Cranston, RI
24,000' Building
Ahlborg Family, LLC to Molter St, LLC



1015 Newman Avenue, Seekonk, MA
72,720' Warehouse
S&K Realty to Little Kids, Inc.



99 Jefferson Boulevard, Warwick, RI
8,300' Warehouse
Mountindale Realty, LLC
to Enterprise Rent a Car



182 Swan Street, Providence, RI
8,400' Warehouse
Apple Zulu to Eastern Connection, LLC



148 West River Street, Providence, RI
3,900' Office Space
West River Center to McLaughlin & Quinn

Available Properties



Office Building – For Sale/Leaseback
1 Crosswinds Road, Westerly, RI
Available Space: 39,261' Land Area: 3.1 Acres



Office Building – For Lease
2736 Post Road, Warwick, RI
Available Space: 8,847' Land Area: 1.31 Acres



Warehouse – For Lease
289 Kilvert Street, Warwick, RI
Available Space: 48,088' Land Area: 87,120'



Industrial Building – For Sale
500 High Street, Central Falls, RI
Available Space: 44,000' Land Area: 140,000'



Industrial Warehouse – For Sale or Lease
111 Energy Way, West Warwick, RI
Available Space: 62,700' Land Area: 6 Acres
(can be subdivided)



Retail Space – For Sale or Lease
1400 Bald Hill Road, Warwick, RI
Available Space: 20,160' – Available 09/10



For Sale or Lease
569 Main Street, Warren, RI
Available Space: 47,884' + 23,942'
Land Area: 37,291'



Industrial Building – For Lease
10 Reservoir Road, Smithfield, RI
Available Space: 20,500' (can be subdivided
10,250) Land Area: 1.8 Acres



Office Building – For Lease
100 Jefferson Boulevard, Warwick, RI
Available Space: 2,410' – 1st Floor



Warehouse – For Sale or Lease
40 Western Industrial Drive, Cranston, RI
Building Area: 15,261' Land Area: 2.85 acres

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