



Office Q4 2021

	YoY Chg	12-Mo. Forecast
11.1% RI Vacancy Rate	▼	▲
10.2% Providence CBD Vacancy	▼	▲
\$20.26 RI Direct Asking Rent, PSF*	▼	▲

(Overall, All Property Classes)
*Rental rates reflect gross asking \$psf/year

ECONOMIC INDICATORS Q4 2021

	YoY Chg	12-Mo. Forecast
709.6k Providence Employment	▲	▲
5.6% Providence Unemployment Rate	▼	▲
4.2% U.S. Unemployment Rate	▼	▼

Source: BLS

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ECONOMY:

The coronavirus pandemic has had a varying impact on different commercial real estate sectors throughout the country, which has been true for Rhode Island (RI) as well. Several areas have had strong market performance over the past year, which we expect to continue. Investors still have confidence in medical, multi-family, industrial and pandemic safe retail. Any retail with a drive through, or essential retail with easy pickup options have thrived. Medical buildings with long-term leases in place have continued to garner significant interest, highlighted by Evergreen and Bain's purchase of 15 medical office buildings totaling 573,000 square feet (sf) for more than \$150M.

SUPPLY AND DEMAND:

Supply of the Rhode Island office market actually decreased by about 170k as users have purchased some existing buildings for their own use and removed them from the active leasing market. Multi-family demand in RI also continues to show strength which suggests further redevelopment of older Central Business District (CBD) office buildings which should serve to further constrain supply in the market. Since there has been no office development to increase supply in 2021, this repurposing of existing office buildings has been the driver of a decrease in vacancy rather than absorption from office leasing.

Most office tenants have been focused on short term renewals in place, as they have been uncertain of their long-term size and layout needs. Rather than downsizing or closing their offices, most people have been seeking short term extensions. Tenants have been kicking the can down the road, hoping to have a better understanding of their long-term needs in the near future. Landlords are willing to provide the short-term lease flexibility to keep cash flow in place, especially considering there are not many backfill options. This stagnant situation has thus far not increased the amount of space on the market. This is expected to change as more tenants understand their long-term needs and become more comfortable with planning around their employees working from home and having flex time in the future. However, tenant layouts are also becoming less dense, which will mitigate the impact of expected corporate downsizing.

PRICING:

A bit of good news amidst the gloomy back drop of COVID-19 is that Class A rents in the CBD market remain at a high-water mark with transactions being completed at 10 Memorial Boulevard in the mid \$40's per square foot (psf). Another bright spot is that Wexford and Ventas continue to invest in the CBD and have recently completed their \$14M renovation at Davol Square. Additionally, they are working to plan Phase II construction of a Life Sciences Innovation Center on their I-195 land abutting 225 Dyer Street.

Direct rents overall in the CBD have remained flat, while the suburban markets have increased slightly. Overall Rhode Island market rents increased from \$19.96 psf at the end of Q1 to \$20.26 psf currently.

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