



Office Q3 2023

	YoY Chg	12-Mo. Forecast
12.4% RI Vacancy Rate	▲	▲

	YoY Chg	12-Mo. Forecast
18.6% Providence CBD Vacancy	▲	▲

	YoY Chg	12-Mo. Forecast
\$20.52 RI Direct Asking Rent, PSF*	▲	▼

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

ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
728.3 Providence Employment	▼	▲

	YoY Chg	12-Mo. Forecast
2.9% Providence Unemployment Rate	▼	▲

	YoY Chg	12-Mo. Forecast
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS

Matt Fair
Partner
+1 401 273 2053
mfair@hayessherry.com

Steve Flachbart
Senior Vice President
+1 401 273 2067
sflachbart@hayessherry.com

ECONOMY:

With inflation now on a downward trend all eyes are on the central bankers and capital markets for signs of future interest rate relief which is not expected to materialize meaningfully over the next 12 months. Sales volume and valuations continue to weaken across most asset classes, with Multifamily, Industrial, and Medical Office fairing the best as underlying economic and demographic fundamentals favor these asset classes.

SUPPLY AND DEMAND:

The Rhode Island (RI) office market supply remains static with limited new speculative development on the horizon. One notable exception is the groundbreaking of a new life sciences building in the Jewelry District which will add approximately 100,000 sf of lab and office space to the market. The lack of new traditional office inventory and continued trend of adaptive re-use among the older historic office buildings along with user acquisition mainly from the healthcare and academic institutions have provided for structural market stability. The Central Business District (CBD) is slowly regaining daytime population as employers try to bring their people back to the office with varying degrees of success. In the Class A/CBD buildings we are seeing office utilization rates continue to range between 45-50%.

Many large corporate tenants are starting to make long term decisions around their footprint needs, often resulting in square foot reductions of around fifty-percent. We expect more sublease space to hit the market in the near future. Companies are likely to focus on higher-quality buildings with amenities that will help them attract workers back to the office. The calculus of this “flight to quality” allows tenants to maintain cost parity given their reduced footprint needs even while paying up for top quality offerings. The properties receiving the most activity right now are those offering on-site dining, fitness, meeting areas and have been built or renovated in the recent past. A prime example of this is at 3 Davol Square, Providence, where Wexford/Ventas recently completed a \$15M gut-renovation to an historic brick-and-beam building located in the heart of the Innovation District next to many of the area’s top medical and academic institutions.

PRICING:

Rental rates remain flat with some signs of weakening for lower quality assets. Concessions are on the rise due to the higher cost of construction impacting build-out costs. Overall RI market rents increased by about \$.02 per square feet (psf) from \$20.50 psf at the end of Q2 2023 to \$20.52 psf currently. Construction costs continue to increase which have provided upward pressure on rental rates and make relocations more challenging.

There continues to be a focus at the state economic development level on attracting life science companies to the market. The RI Department of Health has awarded an 80K square foot (sf) state lab facility and construction has commenced. The developer is building an additional 100,000 sf of lab and office space for the market. This will be a significant development for Providence and one that could be catalytic for growth given the proximity to Boston and the strong talent pool surrounding Brown University’s Medical School and the local healthcare institutions.