



Office Q4 2022

| | YoY Chg | 12-Mo. Forecast |
|---|---------|-----------------|
| 12.7% RI Vacancy Rate | ▼ | ▲ |
| 14.3% Providence CBD Vacancy | ▲ | ▲ |
| \$19.96 RI Direct Asking Rent, PSF* | ▲ | ▲ |

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

ECONOMIC INDICATORS Q4 2022

| | YoY Chg | 12-Mo. Forecast |
|---|---------|-----------------|
| 737.5 Providence Employment | ▲ | ▲ |
| 3.8% Providence Unemployment Rate | ▼ | ▲ |
| 3.7% U.S. Unemployment Rate | ▼ | ▲ |

Source: BLS

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ECONOMY:

Inflation and rapidly increasing interest rates continue to rule the economic headlines which has led to a weakened outlook for many in the business community. Multi-Family, Industrial and Medical Office continue to be the dominant sectors in the investment market as underlying economic dynamics favor these asset classes.

SUPPLY AND DEMAND:

The Rhode Island office market supply remains static with no new speculative development on the horizon. The lack of new 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 buffered the sector against price deterioration and spiking vacancy. 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 hovering between 40-45%, which is roughly in line with the national average.

We are beginning to see tenants make long term decisions around their footprint needs, often resulting in a size reduction due to adopting a flexible workspace strategy. They are also focusing 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 though they are 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:

Rates have largely remained flat with some signs of strength for top-quality assets, especially in the suburbs. Concessions are on the rise due to the higher cost of construction impacting build-out costs. Overall Rhode Island (RI) market rents increased by only \$.01 per square feet (psf) from \$19.95 psf at the end of Q3 2022 to \$19.96 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 issued a request for a proposal for a new 80K square foot (sf) state lab facility to be built in the Innovation District. Many developers are competing to win this award and are planning to build additional lab space for the market to absorb. This would 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.