

To: Ben Carlson  
From: Scott A. Gibbs  
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The City of Warwick is in the process of formulating a development vision and strategy (master plan) for what is called the Warwick Station Redevelopment District (WSRD). The WSRD encompasses approximately 95 acres. The master plan will primarily focus on the 20-acre heart of the district called the Intermodal Core Area.

The Intermodal Core Area is contiguous to the Bruce Sundlun Terminal at T.F. Green Airport and support parking facilities. The Intermodal Core Area also includes the new rental car and commuter parking facility; people mover that connects this facility to the airport terminal; and proposed commuter rail terminal. It is the opinion of the City of Warwick and its consultants that the market strategy for the WSRD be based on a differentiation strategy, leveraging the unique attributes of the transportation orientation of the district. The master plan proposes two alternative development strategies that are projected to result in 500,000 to 1,100,000 square feet of mixed-use development. The mix of uses is envisioned to be office/hotel (40-45%); residential (40-45%); and retail entertainment (10-20%).

The following summarizes our opinions regarding the market parameters for the Warwick Station Redevelopment District. As outlined in the scope of services, these opinions are not based on the collection and analysis of primary data. Rather, these opinions are based on (1) a completed survey of commercial real estate brokers familiar with the Rhode Island market, and (2) our 50 years of experience in Rhode Island's office and industrial real estate market.

As a preamble to this assessment, it is important to point out the tenuous nature of Rhode Island's commercial, office and residential markets. Rhode Island is currently experiencing an acute economic recession. Although the United States economy is also experiencing an economic recession, Rhode Island's recession began earlier, and is much deeper. Rhode Island's unemployment rate has consistently ranked as one of the nation's highest, and its business climate ranks as the nation's worst (Forbes, 2009). Although a hoped-for national economic recovery promises some rebound in the Rhode Island economy, there is a fear that Rhode Island's economic woes are more long-term and systemic in nature.

This market assessment by no means attempts to predict the future economic health of Rhode Island, particularly in a global economy that is morphing on a weekly basis. Research indicates that the average life cycle of a U.S. company is less than 5 years (Stubbart & Knight, 2006). The emergence of transnational companies and flexible manufacturing and service networks promises continued volatility and the demand for state, regional and national economies to invest in business location resources (tangible and intangible) that nurture the opportunities resulting from this volatility. The health of Rhode Island's real estate sector will depend on the efficacy of Rhode Island's leaders to foster the state's transformation to compete in a global economy.

## Summary of Survey Results

A semi-structured, on-line survey was administered with the leading commercial real estate brokers servicing the Rhode Island market. Specifically, an invitation to participate in the on-line survey, along with a link to the survey was e-mailed to 15 brokers working for the five leading commercial real estate brokerage firms serving the Rhode Island market. Eleven brokers participated in the survey. The purpose of the survey was to collect market knowledge from the development and brokerage sectors regarding the type of development that could be encouraged in the WSRD. The survey was structured to collect information regarding the proposed land uses of office/hospitality, retail/entertainment, and multi-family residential. In various instances, questions were asked to assess the synergy between the three proposed land uses.

### *Office Market*

*Although the WSRD land use plan as envisioned as flexible, the master plan anticipates between 200,000 and 495,000 square feet of office/hospitality space. Included in the projected office build-out are proposed landmark buildings to be developed at the Coronado Road and Jefferson Boulevard intersection and at the Post Road and Coronado Road and Fullerton Road intersections*

- Of the brokers responding to the survey, 73% agreed that the presence of T.F. Green International Airport and the commuter rail station would enhance demand for office space in the WSRD. Respondents identified professional services as the largest source for office demand. In descending order of importance, corporate offices (45%), institutional (35%), financial services (27.3%), and back-office (27%) uses were selected as sources for office demand. Only 8% of respondents identified call centers as a viable source for office demand.
- The geographical origins for office demand were primarily local and regional. Specifically, the greater Warwick, statewide and southern New England markets were identified as the most likely sources for office demand. This conclusion is consistent with business location/relocation patterns in Rhode Island, reflecting negligible external sources for business growth and job creation.
- In terms of typical office space requirements, respondents indicated that almost all of office demand will be for uses less than 20,000 square feet, with the largest demand coming from users less than 10,000 square feet. Again, these projections confirm an office market that is driven by existing businesses in the regional market. These projections also affirm expectations that office uses in the WSRD will be primarily servicing the local and regional markets.
- Respondents were evenly divided over the value of proposed residential uses in the WSRD as attractors for office demand. Nevertheless, 90% of the respondents concurred with the importance of a pedestrian-friendly retail and restaurant environment to attracting office users in the District. In terms of public transit services, 72% agreed that flexible, frequent street-based connections between the WSRD and downtown Providence is important to generating demand for office space.
- Some survey respondents referenced the importance of tax credits that can be passed-on to the office tenants. Specifically, tax stabilization and reduction of tangible property

taxes were recognized as possible tax strategies to enhance the marketability of the WSRD for office use. One survey respondent identified the Warwick market as a tertiary office market with no institutional comparables to drive demand. This issue is not viewed as a significant barrier, given the office market is identified as primarily local and regional. The lack of institutional comparables will reduce the attractiveness of the WSRD to large, outside office users.

- Over 90% of the survey respondents agreed with the value of the WSRD as a driver for expanded hospitality and conference facilities. There were concerns expressed regarding the possible predatory effects of hospitality/conference facilities on downtown Providence based hospitality/conference resources. 72% of respondents agreed with possible synergy between Providence and WSRD based hospitality and conference facilities. The combined resources of Providence and WSRD could position Rhode Island as a destination for major demand generators such as large conference events. The ability to leverage such synergy will require a strategic public transportation plan and investment in transit resources to link the WSRD and downtown Providence with convenient, flexible transit resources.

#### *Multi-family Residential Market*

*The WSRD master plan envisions between 200,000 - 495,000 SF of multi-family residential development. The master plan views residential uses as a key component to the goal of establishing a vibrant urban environment. Multi-family residential uses are envisioned in the vicinity of the Jefferson Boulevard and Coronado Road gateway to the WSRD; as well as off of Alhambra Road and Post Road, contiguous to the Hillsgrove North neighborhood. The intent is to create a residential environment that is unique in Rhode Island and that supports planned retail/entertainment development and office uses.*

- 70% of survey respondents agreed that WSRD offers opportunities for multi-family residential development, although the timing would depend upon larger macro-economic drivers. No respondents disagreed with the potential for residential development in the District. Specific markets for residential demand included "Mature Professional" and "Young Professional". "Affordable Family", "Age Restricted", and "Live-Work Space" offered little or no market potential, according to respondents.
- 90% of the survey respondents agreed with the value of the airport and commuter rail station as drivers for demand of residential space in the WSRD. A majority (60%) disagreed with the potential of the commuter rail for attracting Boston professionals to reside in the WSRD. 60% of respondents agreed that the availability of flexible and dependable public transit connections between downtown Providence and WSRD would enhance the marketability of residential uses in the District. Although 20% of the respondents had no opinion regarding this question, no respondent disagreed with the value of transit connections to Providence as a driver for residential uses in the WSRD.
- Specific amenities for attracting residential demand in the WSRD include (1) pub-type establishment, (2) Starbucks or equivalent coffee shop, (3) professional friendly eating establishment such as Panera Bread, (4) gym, and (5) grocery store such as Trader Joe's

or Dave's Market. Also, convenient parking and miscellaneous retail establishments were viewed as important amenities. This author would also suggest free wi-fi throughout the District. This last suggestion further adds to a product differentiation strategy that reinforces the residential market segments identified by the survey respondents.

### *Retail and Entertainment Market*

*The Warwick Station Redevelopment District Master Plan forecasts the development of 50,000 to 165,000 square feet of retail and entertainment space. These uses are proposed for a walkable area in the vicinity of the Fullerton Road and Imera Ave intersection.*

- Respondents were somewhat divided on the value of T.F. Green and the pedestrian skywalk to supporting the retail and entertainment markets in the WSRD. 55% of the respondents confirmed a positive relationship between the skywalk and the retail and entertainment markets, while 45% either had no opinion or disagreed with the hypothesized market synergy.
- 90% of survey respondents agreed that the presence of retail and entertainment uses in the WSRD is important to supporting the residential market in the District.
- 90% of survey respondents agreed that retail and entertainment uses in the WSRD are important supports for the hospitality and office markets.

### **Market Indicators**

The term "market indicators" is used to reflect the difficulty in forecasting future real estate market trends. The use of the past to forecast the future is tenuous at best, given the volatility in national and global markets. Current market indicators raise serious questions regarding the future health of the office and residential markets in Rhode Island. Kevin Hively of Ninigret Partners states that absorption trends for office space is not positive given that Rhode Island is a zero growth market. Hively states that Rhode Island's annual population growth rate is less than 1%. Hively also estimates that in 2008, there were approximately 6,000 residential condos on the market, representing approximately 4.5 years of supply based on historical absorption rates. In terms of the office market, in the first quarter of 2010, there was 8 million square feet of office and light industrial convertible space on the market (Hively, 2010). Based on an historical net office absorption rate of 150,000 square feet per year, Hively opines that this inventory represents between 2 to 5 decades of inventory. Hively forecasts the I-195 relocation could result in the potential for up to an additional 3 million square feet of office space, further aggravating the health of the office market. This forecast is consistent with the *2010 Mid-Year Office MarketView* for downtown Providence and suburban Rhode Island, as published by CB Richard Ellis. Specifically, downtown Providence experienced an increase in office vacancy from 17.21% to 21.53% from 2009 to 2010 for a net absorption of -260,000 square feet (MarketView, 2010). Increases in office vacancy are forcing rent rates downward by 17.59% for Class A (MarketView, 2010). The suburban office market in Rhode Island experienced a drop in vacancy from 25.51% to 22.57% (MarketView, 2010).

In summary, Rhode Island's office and residential market indicators are currently very weak, with a significant imbalance between product supply and user demand. This imbalance is forcing down rent rates, property values, and complicating commercial real estate financing. There have been some recent, large office transactions in downtown Providence, possibly signaling an emerging office recovery in the capital city. Specifically, 38 Studios has leased 90,000 square feet at the former Blue Cross building, and Admiral Bank has leased approximately 25,000 square feet in the former American Express building. The 38 Studios' lease receives an asterisk because it was supported with a \$75 million State financing incentive. There is also anecdotal evidence that there are additional office requirements in the downtown Providence market in the 100,000 square foot range. Although a national economic recovery will occur at some point, the depth and nature of the recovery cannot be defined given changes in the global competitive market. Nevertheless, a national economic recovery will result in improvements in the office and residential markets in Rhode Island. A strong argument can be made that an economic recovery will be far short of what will be necessary to appreciably change the health of Rhode Island's office and residential markets in the near to mid-term (5 years) future. Therefore, these market dynamics present challenges to the market and economic viability of the Warwick Station Redevelopment District.

### **Product Differentiation, Market Segmentation, and Economic Development**

Although market indicators raise questions regarding the market and economic viability of the Warwick Station Redevelopment District, the fact remains that the WSRD is an economic development initiative. By definition, the purpose of the WSRD is to effectively challenge market expectations and to facilitate the redevelopment of the site to achieve community goals and vision. Even in very challenging market conditions, opportunities exist. The key is to define the sub-market opportunities and to devise strategies to capitalize on these opportunities. This is the essence of a product differentiation and market segmentation strategy.

As previously stated, the presence of T.F. Green, the people mover, parking garage, and proposed commuter rail station create an opportunity to develop a transit-oriented, mixed-use district that is unique in the northeast region. A committed long-term effort to effectuate this vision will enable Warwick to brand the WSRD as an ideal investment and location opportunity. As affirmed in the surveys, the whole is greater than the sum of its parts. Specifically, the synergy of the various proposed land-uses demands close attention to ensure that the synergy is nurtured, not eroded by short-term, transaction driven interests.

Success in advancing the differentiation/segmentation strategy for WSRD depends on refining two strategies. First, this market assessment argues that a comprehensive, flexible transit plan between WSRD and downtown Providence is necessary to fully realize the market potentials afforded by the District. Furthermore, the argued transportation plan will also offer economic benefits to downtown Providence and its hospitality infrastructure. Second, the long-term nature of the WSRD project demands a project management structure that preferably should be privatized. This market assessment argues that a management plan needs to be developed that responds to the issues of: (1) building organizational capacity to manage, brand, and market the District; (2) creating a land-use regulatory and design review process that is managed outside Warwick's institutionalized subdivision and zoning process; and (3) establishing a district management program, preferably empowered to the new organization and charged with the funding and coordination of landscaping; snow removal; maintenance of public areas including sidewalks, lighting, signage; and (4) trash removal.

As a final point, project proponents and the public need to accept the long-term horizon of the WSRD. Therefore, organizational and political leadership is required to remain focused and committed to the WSRD vision as a prerequisite for the vision to become a reality. Of particular importance is the need to quickly establish the land-use and design controls to protect against near future developments that are inconsistent with the WSRD vision. Also of importance is the task of creating the organizational capacity to manage the project. The issue of organizational capacity is foundation to a project's success.

Stubbart, C., & Knight, M. (2006). The case of the disappearing firms: empirical evidence and implications. *Journal of Organizational Behavior*, 27(1), 79-100. doi:10.1002/job.361

Forbes: R.I. 'the worst state for business' - PBN.com – Providence, Sep 25, 2009, Rhode Island has come in dead last on Forbes magazine's annual list of the best **business** climates in the country, [www.pbn.com/detail/45092.html](http://www.pbn.com/detail/45092.html). Retrieved October 5, 2009.