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REAL ESTATE

Five Questions With: Kenneth Dill

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November 18, 2011

A co-founder of Cadre Technologies and former president and CEO of Syscorp International, Brown University graduate Kenneth Dill was tapped to head CresaPartners' Providence branch last year. Cresa is the largest corporate real estate advisory firm in New England that specializes in representing tenants.

In Cresa's third-quarter tenants guide to the Providence commercial real estate market, Dill predicts the recent stagnation in the market for office space to continue in the near future.

"IT CONTINUES to be a tenant's market, where users of space have many alternatives to consider, and landlords are eager to make deals," said Kenneth Dill, CresaPartners senior vice president.

PBN: In your third quarter report, you show a drop in office space vacancy and rise in absorption. Could this mean the Providence market is heating up a little?

DILL: While we would like to be optimistic, we see no evidence of meaningful market acceleration at this point. There was positive absorption in the third quarter of this year, but it was equal to the negative absorption in the second quarter, yielding a flat market over the last six months. Also, the absorption rates of less than 50,000 square feet in either direction over the last year are very small compared to the overall 6 million-square-foot office market in Providence. We would need to see positive absorption over several quarters before asserting that the market is heating up.

Even as activity increases, it will likely take two years or more before there is a full market recovery. This is due to the significant amount of inventory that has to be filled and the significant number of jobs that need to be added before we reach prerecession levels. Meanwhile, the silver lining is that it's an excellent time for tenants to use their leverage in negotiations with landlords.

PBN: You have noted that many Providence-based firms are considering locating in Warwick or Cranston instead of in the city. Why do you think that is?

DILL: There are a number of factors that seem to be common themes. They include free and abundant parking, lower rates for generally newer product, easier access to some amenities, better highway access, less traffic, and proximity to T.F. Green Airport. The fact that those benefits can be enjoyed at lower rental rates can make a compelling argument for relocating.

At the same time, Providence remains the preferred location for many companies due to its central location, the revitalized downtown area, proximity to College Hill and the East Side, and the many excellent amenities.

PBN: There is a lot of hype surrounding the future of Providence's Jewelry District. How attractive do you see this proposed Knowledge District becoming in the near future?

DILL: We believe that this area has the potential to become a truly great "jewel" in the Providence real estate market, especially for young, growing entrepreneurial companies. It is close to downtown, the waterfront, and College Hill, and there are numerous, classic older buildings ready to be transformed into hip new workspaces. Plus, the investment that Brown University has made in locating the Alpert Medical School there, along with the leadership that the Rhode Island Center for Innovation & Entrepreneurship is providing, are great catalysts for establishing the Knowledge District as "the place to be" for Rhode Island companies that want to attract and retain young talent.

PBN: Class C office space in the area seems to be suffering relative to newer properties. Why is that?

DILL: It continues to be a tenant's market, where users of space have many alternatives to consider, and landlords are eager to make deals. Rents are driven by underlying, fixed costs (mortgage expense, taxes, utilities, insurance, maintenance expense, etc.), target profits, and market conditions. Today, Class B rents are depressed and creating pressure on Class C rents, but the fixed costs of the Class C landlords do not allow them to maintain their price differential relative to Class B buildings. Therefore, tenants that may have focused on Class C buildings in the past can now afford Class B buildings, which tend to be newer, have more up-to-date building systems and amenities, and are in more attractive locations. We refer to this as a "flight to quality."

PBN: Given the favorable rents and strong incentives from landlords, why do you think leasing activity remains so slow?

DILL: Even though velocity is relatively weak, conditions are greatly improved relative to 18 – 24 months ago, when every organization was hunkered down and reluctant to make any commitments. We are seeing many companies making aggressive moves but only on a small scale at this point. However, we are not seeing firms taking on significant risk in their real estate decisions, which is what we see in "boom" markets. Job growth continues to be sluggish, and being conservative continues to be the general mindset as economic uncertainty prevails on the national and global level. Yet we are beginning to see successful, credit-worthy companies lock into favorable terms (such as low rents, or expansion space, etc.) because they recognize that we are likely at or near a trough and want to secure their positions. For the same reason, we are negotiating early extensions/renewals for many clients, often two-to-three years ahead of their lease expiration. These early renewals help both the tenant and the landlord. The benefit to tenants is that this allows them to lock in today's favorable rates for the long term. The benefit to landlords is the security of knowing they have a solid tenant for the next seven to 10 years. Still, these renewals do not create a reduction in vacancy or increase in absorption.