

STRENGTH OF SUBURBAN REAL ESTATE

SUCCESS STORIES

Many U.S. suburbs are benefitting from past and future economic, real estate and demographic trends, creating a favorable environment for the suburban office market. Nationally, we are trending away from suburban corporate campuses, as these sites get reimagined and diversified with alternative uses and added amenities. Looking ahead, we expect existing suburban office stock to undergo renovation to compete with new development downtown, especially as buildings change ownership and new design features and enhanced amenities are funded.

Also, as construction costs climb, improvement on existing suburban buildings in lieu of new construction could become a trend for the suburban office landscape nationwide. As these examples demonstrate, with a potential economic downturn on the horizon, suburban markets that are well located with a variety of amenities and supported by public transportation may see an uptick in tenant activity as companies seek real estate savings.

ATLANTA



Photo: Avalon in North Fulton
Source: CoStar

SUBURBAN OFFICE INDICATORS

Vacancy Rate Decline Since Peak Following Recession	2019 Vacancy Rate	2019 Asking Rent	Annual Change in Asking Rent Since Peak in Vacancy	Rent Premium for Downtown vs. Suburban Space
420 basis points	17.5%	\$23.86	3.5%	41%

The rise of urbanized environments, like Avalon in North Fulton and The Battery in the Northwest, has created heavily amenitized mixed-use “town centers” in suburban Atlanta. This has prompted several companies across multiple industries, including coworking, payment processing, tech and insurance firms, to either renew or relocate to the suburbs. In addition to the draw of amenities, these companies want to be closer to their desired workforce and keep real estate costs in check, as the premium is 41% for in-town space. Other major suburban improvements, specifically in the Cumberland/Galleria,

Central Perimeter and North Fulton submarkets, have focused on reconfiguring city government centers and town squares, as well as improving traffic flow through new arteries or widening of streetscapes.

CHICAGO



Photo: 2000 W AT&T Center Drive
Source: CoStar

SUBURBAN OFFICE INDICATORS				
Vacancy Rate Decline Since Peak Following Recession	2Q19 Vacancy Rate	2Q19 Asking Rent	Annual Change in Asking Rent Since Peak in Vacancy	Rent Premium for Downtown vs. Suburban Space
220 basis points	19.9%	\$23.58	2.1%	51.9%

AT&T relocated 3,000 employees from the northwest submarket of Schaumburg to downtown Chicago, leaving 1.4 million SF largely vacant. Somerset Development purchased the campus in March 2019 and plans to convert the space, now coined “metroburbs,” into a mix of housing, office and entertainment venues. Another tenant, Zurich North America, built a 783,800 SF Class A office building in 2016 in Schaumburg. At the height of the suburban-to-urban migration trend, Zurich decided to double its footprint in downtown Chicago but kept its HQ in the suburbs.

DALLAS-FORT WORTH



Photo: Dallas Cowboys HQ
Source: CoStar

SUBURBAN OFFICE INDICATORS

Vacancy Rate Decline Since Peak Following Recession	2019 Vacancy Rate	2019 Asking Rent	Annual Change in Asking Rent Since Peak in Vacancy	Rent Premium for Downtown vs. Suburban Space
280 basis points	16.1%	\$25.34	3.5%	12%

Dallas-Fort Worth is a car-centric market with tenants interested in the suburbs due to a higher parking ratio of 3.9 per 1,000 SF compared to the downtown ratio of 2.1. Corporate relocations and consolidations have been targeting the Upper Tollway/Legacy and Frisco/The Colony submarkets, driven in part by one of the highest parking ratios at 4.4, greater walkability, and access to highly rated schools. Notably, Microsoft is targeting a new building in the suburban market, while Tenet Healthcare is relocating 300,000 SF out of downtown to the Quorum/Bent Tree submarket in the

suburbs. Other improvements have come from the Dallas Cowboys moving its HQ and practice facilities to Frisco, and the PGA moving its HQ just north of the Cowboys and building two new golf courses. Dr Pepper has embarked on a 350,000 SF build-to-suit in Frisco, as the upgraded technology and additional space for collaboration will aid in talent attraction.

DENVER



Photo: Lobby at Fifty50 in Denver Tech Center
Source: CoStar

SUBURBAN OFFICE INDICATORS				
Vacancy Rate Decline Since Peak Following Recession	2019 Vacancy Rate	2019 Asking Rent	Annual Change in Asking Rent Since Peak in Vacancy	Rent Premium for Downtown vs. Suburban Space
310 basis points	12.7%	\$25.46	1.4%	44%

The suburban Denver office market, primarily focused in the southeastern region, has seen an influx of investment in renovations and modernization of space. Most buildings in the southeast were built in the 1980s and the concentration has now shifted to modernizing assets that have been tagged as outdated and consequently have underperformed. The Denver Tech Center has seen the most aggressive activity among office assets and recently has experienced an influx of corporate investment. Among the biggest renovation trends in the Tech Center is the creation of outdoor living environments that include activities to keep tenants active. DPC Companies recently acquired Denver Corporate Center II and III, built in 1978, and demolished the entire interior of one of the 11-story buildings. The development company expanded

hallways, renovated the lobby with natural light, and designed the space as mid-century. An updated workout facility, locker room, café and game room were also added. Corporex recently updated the amenities at 188 Inverness Drive in Englewood to include a fresh lobby, workout space, lightened conference room with advanced technology, and outdoor space that features fire pits, comfortable seating and games. Generally, most companies moving to suburban Denver have an older employee base and cater to the mid-30s demographic. This subset of the workforce currently lives 30 minutes outside of Denver due to housing affordability, a trend that is expected to grow.



Photo: One Datan Center
Source: CoStar

SUBURBAN OFFICE INDICATORS				
Vacancy Rate Decline Since Peak Following Recession	2Q19 Vacancy Rate	2Q19 Asking Rent	Annual Change in Asking Rent Since Peak in Vacancy	Rent Premium for Downtown vs. Suburban Space
770 basis points	10.6%	\$35.43	2.6%	31%

Finance and insurance firms are targeting suburban Miami, with Miami Airport, Kendall, Coral Gables and Aventura submarkets driving suburban success due to proximity to major highways and easy access to public transportation. The submarkets located in the south Miami suburbs have been successful because of competitive asking rents and faster commuting times due from congestion. In the suburbs north of Miami, Virgin Trains USA, the only high-speed passenger rail line in the U.S., connects West Palm Beach to downtown Miami in minutes, with one stop in Fort Lauderdale. Expansion plans include connecting Orlando to Miami by 2021. This greatly impacts the attractiveness of office space, as it will expand the labor market: For example, an employee can attain a lower cost of living in an area such as Orlando, yet work in suburban Miami, earning a higher salary.

LOS ANGELES



Photo: Culver Studios
Source: theculverstudios.com

SUBURBAN OFFICE INDICATORS

Vacancy Rate Decline Since Peak Following Recession	2019 Vacancy Rate	2019 Asking Rent	Annual Change in Asking Rent Since Peak in Vacancy	Rent Premium for Downtown vs. Suburban Space
380 basis points	10.3%	\$37.68	3.9%	8%

Suburban Los Angeles submarkets of El Segundo and Burbank have seen office demand surge over the past few years as entertainment/media, technology and coworking operators have expanded due to spillover from West LA's Silicon Beach and Hollywood. The suburban vacancy rate has also been pushed downward as a result of select office buildings converting to healthcare properties and data centers – or demolished completely to be redeveloped as multifamily. In the past few years, local owner Jamison Services has converted three aging office towers in the Mid-Wilshire submarket to multifamily. Aiding in suburban success is the billion-dollar investment in mass transit, specifically the Expo Line extension between downtown and Santa Monica. This has kicked off hundreds of millions of dollars

in commercial real estate investment and development along the east-west corridor. More recently, the West Adams submarket, around the Jefferson/Crenshaw Metro station, has seen tenant interest due to spillover effects from space-constrained Culver City, which is now anchored by Apple, Amazon and, eventually, HBO. In just the past year, high-profile creative office leases from companies such as sneakers app GOAT, online luxury consignment website The RealReal, and a new corporate HQ for fast-growing national salad chain Sweetgreen have all increased developer and investor interest in the immediate area.

NEW JERSEY



Photo: 300 Kimball
Source: Transwestern

SUBURBAN OFFICE INDICATORS				
Vacancy Rate Decline Since Peak Following Recession	2019 Vacancy Rate	2019 Asking Rent	Annual Change in Asking Rent Since Peak in Vacancy	Rent Premium for Downtown vs. Suburban Space
400 basis points	12.7%	\$26.71	1.8%	18%

Over the past 5-6 years, investors reaped the benefits of seizing value-add opportunities, making capital improvements and attracting new tenants. 300 Kimball Drive in Parsippany set the tone for the trend of revitalizing aging suburban office product. The 400,147 SF property underwent numerous renovations, including a multi-million-dollar modernization of the first-floor lobby, a redesign of the café and fitness center, the addition of a modern conference center, and additional upgrades to boost sustainability. As a result of excellence in building management, operational efficiency, tenant retention, emergency planning and community impact, the New Jersey chapter of the Building Owners and Managers Association awarded 300 Kimball Drive The Outstanding Building of the Year.

One of the new concepts for suburban office campuses is an amenity center, which Vision Real Estate Partners and Rubenstein Partners

opened at Warren Corporate Center, an 820,000 SF, five-building park in Warren Township. The 20,000 SF building includes a fitness center, gourmet food service, conference space, outdoor spaces for collaboration, an outdoor amphitheater and walking paths. During the summer of 2019, Everest Reinsurance signed a lease for 315,000 SF, taking two of the buildings off the market. Morristown is another prime example of suburban growth. After decades of decline, the historic town is now one of the most popular communities in New Jersey among millennials and empty nesters, with an excellent mix of retail, dining, entertainment and housing.

SAN ANTONIO



Photo: Fountainhead Tower
Source: CoStar

SUBURBAN OFFICE INDICATORS

Vacancy Rate Decline Since Peak Following Recession	2019 Vacancy Rate	2019 Asking Rent	Annual Change in Asking Rent Since Peak in Vacancy	Rent Premium for Downtown vs. Suburban Space
270 basis points	13.4%	\$25.43	5.8%	8%

New office development downtown has pushed select tenants that historically chose a downtown location to relocate to the San Antonio suburbs during the past six to 12 months. These tenants include law firms, design/creative agencies and architectural firms. This trend will continue as the downtown office market tightens and new construction drives up asking rents. Although the asking rent downtown for all classes of space is \$27.51 PSF, full service, new construction is almost double at \$53.60 PSF. To compete with downtown, suburban San Antonio landlords are renovating vintage Class A product. KBS' Fountainhead Tower at 8200 W Interstate 10 in the Northwest submarket has activated the lobby with new furniture, and upgraded outdoor common areas with dining spaces, Wi-Fi, landscaping, and a putting green. A building conference room opened in early 2016, and a new workout facility will debut in fall 2019.

SAN FRANCISCO



Photo: 1955 Broadway
Source: CoStar

SUBURBAN OFFICE INDICATORS				
Vacancy Rate Decline Since Peak Following Recession	2019 Vacancy Rate	2019 Asking Rent	Annual Change in Asking Rent Since Peak in Vacancy	Rent Premium for Downtown vs. Suburban Space
470 basis points	13.8%	\$43.08	7.7%	88%

Several large tech firms prefer suburban San Francisco for its proximity to talent in the region. Square Inc., which is currently headquartered downtown, recently signed a 300,000 SF lease at 1955 Broadway in Oakland to accommodate growth and will sublease its downtown office through lease expiration. The new office in Oakland is a former Sears Department store that is under renovation for creative office space. Directly adjacent to the 19th Street BART station, the building will feature a retail component and roof terrace. CIM Group currently has 1955 Broadway on the market and is expected to close around \$400 million, a record price for Oakland. This move is likely in response to the increased

occupancy costs in downtown San Francisco, at an 88% premium, which includes new tax measures, such as Proposition C, that make it challenging to justify officing downtown. On the flip side, the revitalization along Broadway and Grand Avenue, including the Lake Merritt region in Uptown Oakland, could be a draw. A recently completed infrastructure project around the western side of Lake Merritt has brought improved walking and biking areas and taken auto traffic away from the side of the lake. In addition, there are several new multifamily assets recently completed and under construction along what was formerly known as “auto row.”

WASHINGTON, D.C.



Photo: Penn Place – Amazon HQ2
Source: JBG SMITH

SUBURBAN OFFICE INDICATORS

Vacancy Rate Decline Since Peak Following Recession	2019 Vacancy Rate	2019 Asking Rent	Annual Change in Asking Rent Since Peak in Vacancy	Rent Premium for Downtown vs. Suburban Space
140 basis points	14.7%	\$30.47	1.6%	73%

Amazon's HQ2 in National Landing, a newly coined submarket just south of downtown in Northern Virginia, will transform this area of suburban Washington over the next several years. Although the site has existing office, housing and recreational space, three metro rail stations, and quick access to Reagan National Airport, the arrival of 25,000-plus Amazon employees will generate new development and increased amenities. Government funds for accessible forms of transportation for both commuters and drivers, including improved and expanded Metro stations, have already been allocated.

Demolition and renovation of older office product in this area will also help lower the vacancy rate. Conversion of outdated stock has also trended in select submarkets. North of downtown in North Bethesda, a 775,000 SF Class C office building at 10400 Fernwood Road owned and occupied by hotel chain Marriott International will be converted from an office park to a senior living facility. Marriott will vacate the space to relocate to the Bethesda/Chevy Chase submarket, remaining in suburban Washington.

CASE STUDY: THE WOODLANDS, HOUSTON

An Iconic Example of Suburban Success



Photo: Anadarko/Occidental Woodlands Towers HQ
Source: Philip G Coman

Houston's office market is undergoing a long-form transformation as the development of more than 30 million SF in just under 10 years – combined with the energy prices crash in late 2014 – has led to availability of approximately 25% for Class A space. This shift is being felt widely across the market, with mid-year vacancy of 15.4%. Despite headwinds, The Woodlands, a dynamic 13.2 million SF suburban submarket just north of Houston, continues to thrive with strong tenant demand, low vacancy and rising rental rates.

Houston's suburban population has grown notably over the years, due to lower land prices and high-quality school districts. This led to core suburban markets where master-planned communities allowed for high-density development of mixed commercial uses (retail, multifamily, office) to support the growing population. The Woodlands, the crowning jewel of this model, has reaped the rewards, as office vacancy is the lowest in the core submarkets driven by relocation growth from mega companies such as Exxon, HP, ABS and Southwestern Energy.

By far, the largest single move to the suburbs occurred in 2015 as Exxon occupied its new 3 million SF HQ in The Woodlands, a state-of-the-art campus with high-end amenities such as on-site daycare, tunnel connectivity for buildings, multiple food vendors, various conference facilities, a fitness center and activated outdoor areas. More recently, HP moved two requirements nearby totaling just under 1 million SF. As companies take down space in The Woodlands, coworking has grown notably. WeWork recently leased a location in Hughes Landing and is currently in negotiations for a multi floor lease in Springwoods Village. LifeTime is also getting into the act with a mixed-use development coming to The Woodlands that will consist of a 400-unit multifamily development, a gym and LifeTime's signature coworking brand.