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EXCLUSIVE

Suburban Office Market Alive and Well

By Natalie Dolce | National

Amid all the reports of companies abandoning the suburbs and moving to downtown locations, we should not miss out on the significant performance of, and outlook for, the suburban office market in 2014, says de Monet.

LOS ANGELES—"The economic recovery is diversifying, and sectors that once lagged behind the high-tech industry that favors urban environments are now growing as well." So says **Joaquin de Monet**, the founder and managing principal of Los Angeles-based **Palisades Capital Realty Advisors**. With a track record of executing large equity and debt transactions in the US and Latin America and for building, operating and managing multi-billion dollar real estate businesses and portfolios, de Monet is an expert in hard-to-manage suburban office assets. GlobeSt.com recently chatted with Monet on the significant performance of, and outlook for, the suburban office market in 2014, among other things.

GlobeSt.com: Is today's trend toward urban relocation draining the suburbs of tenants?

Joaquin de Monet: Amid all the reports of companies abandoning the suburbs and moving to downtown locations, we should not miss out on the significant performance of, and outlook for, the suburban office market in 2014. The economic recovery is diversifying, and sectors that once lagged behind the high-tech industry that favors urban environments are now growing as well. Despite the cultural and social excitement of the city core, many suburban markets today are successfully competing by offering desirable locations with a low cost of living and significantly lower rents, where tenants enjoy higher quality buildings and free parking. After all, most Americans live in the suburbs, and, perhaps surprisingly, a majority of us also work in the suburbs.

Even **secondary urban markets** are seeing growth in suburbs as well as in the CBD, according to a statistical report by JLL, while markets that offer suburban living close to an urban core offer "the best of both worlds." In Denver, for example, leasing activity is trending upward; the southeast suburban market is one of the most active, if not the most active, in the entire metro area. Office vacancies in all Denver suburban areas fell by nearly five percent in Q2 2014, and asking rents rose by 4.8% in that market during the past 12 months. Let's not forget that most Americans live in suburbs, and a majority

GlobeSt.com:How well is urban relocation working for the companies that have moved to CBDs?

Monet: It depends on the demands of the tenant's industry. A lot of companies that might contemplate urban relocation can't get past the sticker shock of a costly migration from suburb to CBD. The vast majority of companies that have moved or are moving to urban centers are in young, vibrant industries like technology and media. In order to succeed, these businesses and start-ups have to attract and retain a specific employee base of talented, highly educated Generation Y and Millennials, who gravitate to the diversity and amenities of the urban core. These companies are the first to relocate to CBDs, and generally compensate for the higher rents with more efficient use of smaller spaces.

In a 2013 CoreNet survey of urban relocation conducted by DTZ, an impressive 80% of respondents reported improved productivity and efficiency in their urban locations. The strategy worked: employees are more highly motivated in these open, shared workplaces with space planned to encourage collaboration, leading to increased team interactions and greater knowledge sharing. And the fear of being uncool is a driver for these young companies. In the Los Angeles metro area, legal, finance and engineering firms accounted for most of the leasing in L.A.'s CBD, while the entertainment, new media and advertising industries with their younger, tech-savvy employee base, are driving growth in the suburban Westside and South Bay, for example, in the new creative developments of Playa Vista.

GlobeSt.com: How do suburban rents compare with rents for CBD office space?

Monet: From the perspective of the past six or seven years, almost every market is seeing increasing rents, accompanied by reduced TI allowances and rental abatement as the market recovers. Based on the Moody's/RCA Commercial Property Price Index (CPPI), Colliers reported, pricing for major metro CBD properties in the second quarter of 2014 is now 16.6% above the pre-recession peak. Portland, for example, saw 3.6 percent quarterly increases in asking rents. The Portland-area suburban markets are getting tighter as there are currently no existing options in the CBD for class A tenants needing more than 75,000 square feet. Vacancy rates in the suburban Sunset Corridor have fallen to 10.9%, getting closer to single-digit vacancy.

Growth was strongest for non-major metro suburban assets, at 11.2%, but rents for suburban properties are still 24 percent lower than at the pre-crash peak. Asking rates for suburban Class A office space averaged $27.33 per square foot at the end of the second quarter of 2014, according to Colliers, a figure that represented a .8% increased from the first quarter average of $27.17. Growth was strongest for non-major metro suburban properties, at 11.2%, reflecting investor interest broadening to include more geographies as well as suburban assets. Jones Lang LaSalle forecasts all rents to grow by another 10% to 25% in the next two and a half years, depending on the market.