

City Comes to the Suburbs in New Developments

Demand for office space rises in suburban areas, sparking development



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A rendering of a suburban Indianapolis development being built by PK Partners and the Gene B. Glick Co. An office building and a luxury apartment will rise next to an existing shopping center. *ILLUSTRATION: CSO ARCHITECTS*

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Demand for office space in American suburbs, which for years has lagged behind their urban cores, is showing signs of a rebound.

That's prompting developers to start building. This year, they're expected to expand the supply of new suburban office space at the fastest pace in six years, or by 1%—about 46.7 million square feet—according to real estate data firm CoStar Group.

With office space in downtowns becoming increasingly harder to find—and more expensive—suburbs are starting to capture the attention of businesses looking to save on rent or expand. Nationwide, offices in high-end suburbs are capturing a disproportionate share of growth in office tenant expansion compared with downtowns, according to CoStar.

Even though office vacancies remain higher in many suburban locations when compared to cities, the climate is improving and developers “are going where vacancies have tightened up,” says Suzanne Mulvee, a CoStar research director who points to especially strong suburban demand in parts of Dallas, Phoenix, Atlanta and Boston.

But the next generation of suburban developments might bear less resemblance to the last, borrowing instead from cities, where employment growth during this recovery has helped keep vacancies lower and rents higher.

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Consider a \$65-million project hatched by Indianapolis-based developer PK Partners and the Gene B. Glick Co., a privately held real estate management firm. The project is under way in Keystone, Ind., an upper-middle class suburb north of the city.

The development, called River North at Keystone, will add an office building and a 198-unit luxury apartment building next to an existing shopping center owned by PK Partners. The development is across the street from Fashion Mall at Keystone, an upscale retail property owned by Simon Property Group, the largest shopping mall owner in the U.S.

Beyond investing in upgrades to connect all of these properties to each other with wider sidewalks and spruced-up landscaping, Glick and PK Partners are building a one-mile-long trail that will loop around an adjacent lake. They have plans to eventually add a hotel to the site.

“We’re really trying to bring the perks of downtown to a suburban context,” says Wes Podell, a senior vice president at PK Partners. “Everyone seems to be embracing a denser world. Communities are more open to denser development and are encouraging a mix of uses in way that hasn’t happened.”

In recent years, business in the state, such as insurance companies Baldwin & Lyons and Safeco have either relocated or expanded outside Indianapolis’ downtown and into its surrounding suburbs, sparking development to follow.

In addition to the PK Partners-Glick project in Keystone, its suburban neighbors outside of Indianapolis also are working to incubate a town-center feel. The Nickel Plate redevelopment in the city of Fishers and the city of Westfield’s Grand Junction Park and Plaza are both attempts to increase density—building apartments and retail alongside new office space and providing better options for pedestrians and bicyclists.

Beyond River North at Keystone and similar projects in Indiana, many new suburban developments nationwide are trying to incorporate the attributes and amenities of successful cities, according to Geoffrey Booth, a professor of urban planning at Texas A&M University who has written about suburban development for the Urban Land Institute. But Mr. Booth notes that transforming a single-purpose suburban office or shopping center into a bustling citylike work, play and live hub isn’t as simple as just building things.

“You can’t manufacture a need,” says Mr. Booth, who compares the process to cooking. “Just as when you’re cooking dinner, you don’t just put in all the ingredients at the same time. You add in pieces at different times.”

The other challenge for these developers: Amenity-rich projects cost more to build and require developers find tenants willing to pay higher rents, says Costar's Ms. Mulveen.

For the River North at Keystone development, the challenge of finding tenants will go to John Vandembark, a broker at CBRE who is optimistic about the project's prospects. He says rents at PK-Glick's newest office space are in the mid \$20-per square foot range, about 10% to 12% higher than nearby suburban office parks that were built in the 1980s. And he says interest from financial-services firms has been robust.

"The feedback we're getting on pricing so far is that I think we're going to achieve (those higher rents)," he says. "Now, call me back in a year."