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Why This Year Could Be A Turning Point For Suburban Office

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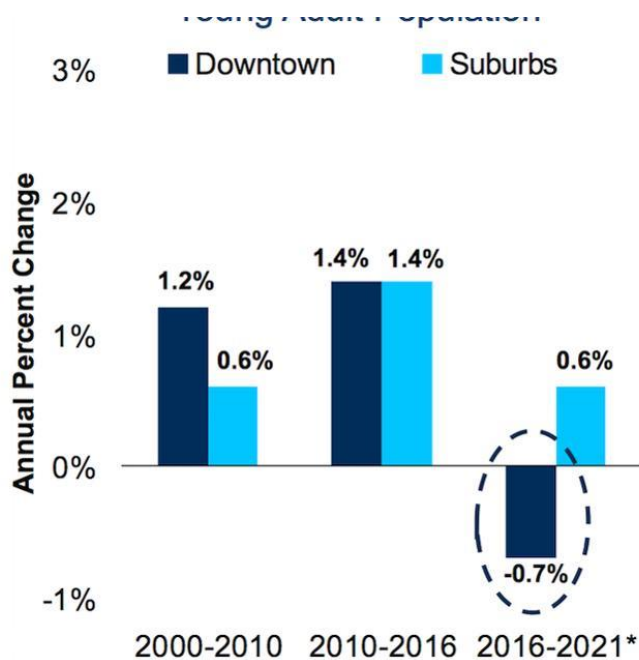
Following the [Great Recession](#), U.S. companies flocked to downtown areas to take advantage of lower rents and young employees in the urban core. But with rents now rising in urban centers and millennials growing up and moving to the suburbs, market experts are beginning to see that trend reverse course.

Toyota's new North American HQ in the Dallas suburb of Plano, Texas

"We're at the beginning of what we perceive to be a turning point for suburban office," [Marcus & Millichap](#) First Vice President of Research Services [John Chang](#) said.

Chang, who will discuss suburban office trends at [NAIOP's Office Evolution](#) event on Nov. 9 in Brooklyn, said downtown vacancy rates in U.S. cities dropped from 16% to below 14% between 2010 and 2015. As markets tightened, the discounted post-recession rents that had drawn companies to the urban core began to disappear, and he said downtown rental rates have recently surpassed their pre-recession levels.

Companies might be willing to swallow the rent hikes if their talent base required they maintain a downtown office, but Chang said the demographics have also begun to shift.



A graph showing the expected migration of young adults, defined as 20-34 years old, away from downtown areas

The millennial generation has grown up to a median age in the mid- to late 20s, and the average age people are getting married is around 29, Chang said. As young people are getting married, they are moving to more suburban environments, a trend Chang expects to continue.

"Over the next five years, the majority of millennials will start to move into that age where they're getting married and starting families and that will be a key driver," Chang said. "When they do that, these suburban locations with amenities are going to be favored."

These changing trends, which Chang said researchers only [began to notice](#) over the [last year](#), have created a boon for some [suburban office markets](#). It has been strongest around big cities where downtown rents have risen the most, Chang said, identifying Dallas and Washington, D.C., as two primary examples.

[Toyota](#) earlier this year [opened](#) its new billion-dollar North American HQ in the Dallas suburb of [Plano, Texas](#). Other companies, such as Alliance Data and Frito Lay, have [also opened HQs there](#).

The key to the success of the Plano market, Chang said, has been the residential and retail offerings that have turned it into a mixed-use destination. Having large office buildings and surface parking lots is no longer enough for a successful suburban office market, and he said landlords must focus on creating amenity-rich environments.

"You can't do it with just an office building, you have to have other amenities associated with it," Chang said. "You have to create a walkability that is comparable to what you would see downtown where there are restaurants nearby you can walk to."

In addition to food and beverage offerings, landlords are also adding more amenities to the office buildings themselves such as fitness centers and open social spaces with games and activities.

Marcus & Millichap First Vice President of Research Services John Chang

Investors have also started to see this trend back toward suburban offices, Chang said. He has seen a rise in capital flowing into suburban office parks, with investors repositioning assets to create the amenities tenants desire.

"For investors who want to get ahead of this curve, they can generate a bit higher yield and see additional rewards as we go through this transition with more people focusing on a suburban lifestyle," Chang said.

Another key to creating successful suburban office markets is access to transit. In D.C.'s Northern Virginia suburbs, a 23-mile addition to the region's Metro system, the [Silver Line](#), has [boosted the area's office market](#). Earlier this year, [Amazon Web Services](#) signed a [400K SF full-building lease](#) at a property along the Silver Line corridor. Creating new transit lines not only makes it easier for office tenants to get downtown, Chang said, but it fosters the creation of mixed-use environments in the suburbs.

"As a transit line comes out and they create a transit center, it gives access to urban amenities and urban employment opportunities that are naturally conducive to growing residential and retail in that area," Chang said. "Transit nodes can be very supportive of creating the suburban office environment that has the walkability and amenities people are looking for."

But even suburban office parks not situated near public transit have found new ways to improve access for tenants. A large owner of suburban D.C. offices, [PS Business Parks](#), recently [launched a](#)

partnership with Uber to provide its tenants with free rides to the Metro and to nearby retail centers. Some suburban landlords have also created their own shuttle services to give employees access to transit and amenities, Chang said.

"Office investors are demonstrating creativity in how they're trying to enhance the value of properties," Chang said. "Even when they're not right on top of a transit hub, they're finding other ways to create the same kind of value proposition as you would get in one of those locations."

Chang said 2017 only marks the beginning of this trend, and he expects the move toward suburban office to accelerate over the next decade.

"As you look forward five years and 10 years, you see there is a significant demographic shift to the suburbs," Chang said. "We're anticipating that will support the demand for suburban office."