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Profiles in the Evolution of Suburban Office Parks

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NAIOP RESEARCH FOUNDATION

About NAIOP

NAIOP, the Commercial Real Estate Development Association, is the leading organization for developers, owners and related professionals in office, industrial, retail and mixed-use real estate. NAIOP comprises some 20,000 members in North America. NAIOP advances responsible commercial real estate development and advocates for effective public policy. For more information, visit naiop.org.

The NAIOP Research Foundation was established in 2000 as a 501(c)(3) organization to support the work of individuals and organizations engaged in real estate development, investment and operations. The Foundation's core purpose is to provide information about how real properties, especially office, industrial and mixed-use properties, impact and benefit communities throughout North America. The initial funding for the Research Foundation was underwritten by NAIOP and its Founding Governors with an endowment established to support future research. For more information, visit naiop.org/research.

About the Author

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Disclaimer

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Executive Summary

Many suburban office parks in North America are now functionally obsolete due to their location, layout or limited amenities. The NAIOP Research Foundation commissioned this report to identify ways that firms are revitalizing suburban office parks through redevelopment, rehabilitation and adaptive reuse. The author interviewed five developers who have recently updated suburban office parks in the United States and Canada to learn how they made these properties relevant for today's market.

Once desired destinations for corporations during the 1980s and 1990s, suburban office parks subsequently lost favor to office development in urban cores. Developers followed shifting demand as skilled workers and their employers demonstrated a preference for the networks and amenities that cities provide. By comparison, many older suburban office parks lack convenient access to public transit and offer few or outdated amenities. However, rising commercial and residential rental rates in urban core areas and growth in the number of millennial workers interested in working near affordable housing and good public schools, has renewed interest in the suburbs. Developers are now recognizing the many opportunities to transform older office parks into competitive properties by offering the right mix of uses and amenities.

This report provides a window into suburban office park redevelopment by examining how developers are modernizing them with mixed uses and contemporary amenities to attract new tenants and boost profitability. Individual profiles reveal how developers have successfully transformed obsolete parks into vibrant properties that attract quality tenants. Each case study considers how developers added value at different stages of the process, from the initial evaluation of each property's risks and opportunities through site planning, obtaining entitlements, building rehabilitation, demolition, construction and leasing.

As with any commercial real estate development project, each office park presented developers with unique challenges and opportunities. Nonetheless, several common themes emerge from the profiles that allow the author to draw broader conclusions about suburban office park redevelopment:

- **Redeveloped office parks must fit the preferences of the local workforce and the needs of local employers**. Inadequate amenities and obsolete design are often the primary reasons that suburban office parks struggle to attract tenants. Redeveloped parks should attract workers and tenants with a tailored mix of property uses and amenities. Market research can help identify what features are most in demand.
- **Developers should seek to understand local officials' priorities**. Office park redevelopment often requires obtaining new entitlements. Developers need to understand local leaders' priorities and preferences to determine whether their plans are feasible. They should be prepared to demonstrate that a struggling property needs significant rehabilitation and that these changes will benefit the local community.

- **Developers should build flexibility into their plans and partner with creditors who understand that they may need to adapt to unforeseen circumstances**. Sound redevelopment plans that incorporate uses, design elements and amenities well-suited to local market conditions can minimize the risks of delays, costly design changes or difficulties locating new tenants. However, developers should be prepared for the possibility that they may need to adjust their initial plans to secure a large tenant or adapt to changing market conditions. Flexible loan terms can prove instrumental when a project's success requires that a developer pivot from their original plans.
- **Developers can maximize the value of their improvements by leveraging design, technology and amenities to develop a property's identity and build community**. A unique mix of design elements and amenities can help an office park stand out from other local properties. Developers can use design, technology and shared amenities to tie the different buildings on a property together and build a sense of community, increasing the collective value of an office park's individual components.
- **Rebranding is often a critical component of a successful redevelopment strategy**. Prospective tenants and brokers may hold a negative perception of an older office park based on its earlier uses and its condition before redevelopment. Changing these perceptions generally requires a developer to devote time and resources to building a new brand identity for the property that reflects its new uses, design elements and amenities.

The growing interest in suburban office park redevelopment likely reflects recent market conditions and the current phase of the real estate cycle. Nonetheless, the substantial supply of aging office parks and growing millennial migration to the suburbs suggest that office park redevelopment will remain an effective strategy for the foreseeable future.

Introduction

Functionally obsolete office parks are located in suburban communities throughout North America.[1] Many were built during the suburban office development boom of the 1980s and early 1990s as pastoral alternatives to central business districts. However, a majority of office parks now show their age: they tend to be geographically isolated, lack modern amenities and fail to satisfy the demands of credit tenants who are increasingly concerned about providing their employees with a desirable work environment. These conditions lead to three interrelated questions of great interest to commercial real estate practitioners:

- Can suburban office parks with notable deficiencies be successfully revitalized?
- What steps are involved in the process?
- Do the financial rewards justify taking on the associated risks?

This report, commissioned by the NAIOP Research Foundation, seeks to answer each of these questions through comprehensive case study analysis. The author conducted in-depth interviews with individuals participating in the rehabilitation, repositioning and repurposing of five suburban corporate campuses near Toronto, Minneapolis-St. Paul, Philadelphia, Boston and San Francisco. NAIOP members recommended the projects as informative examples of the ways that suburban office parks can be transformed to satisfy tenant needs and preferences.

In the aggregate, the case studies suggest that intriguing opportunities exist in this segment of the market. Real estate developers and their partners are finding success by acquiring suburban office parks situated on attractive parcels of land, improving them in ways that appeal to highly skilled workers and rebranding them to accentuate their strengths and downplay their weaknesses. They are revitalizing properties in municipalities where public officials support their efforts, while relying on debt providers willing to negotiate flexible loan terms. Four of the five featured projects were originally used by single large corporate tenants. Most had not previously undergone significant redevelopment in more than a decade. To improve these properties, developers added new uses, increased building densities, improved amenities and enhanced access to transit options. These findings, among others discussed in the sections that follow, highlight the complexity of suburban office park revitalization and best practices that can increase the probability of a project's success. They should be of interest to real estate developers, investors, lenders, brokers and policymakers who wish to collaborate on these projects.

1004 Middlegate

1004 Middlegate is a 262,000-square-foot office building in Mississauga, Ontario. Located 12 miles from Toronto's central business district, the property was formerly the headquarters of AstraZeneca Canada. Crown Realty Partners repositioned and repurposed the property, transforming it from a single-tenant complex into a unique combination of office and flex space.

Mississagua, Ontario, is located approximately 12 miles from Toronto's central business district.

The Opportunity

Crown acquired 1004 Middlegate in 2013 on behalf of its value-add fund, which targets office properties with upside potential. Originally built in 1992, the 530,000-square-foot complex was comprised of a Class A office building, a conference/training center and three other buildings used for research, manufacturing and storage. AstraZeneca wanted to sell these structures, along with 26 acres of adjoining land, following a decision to offshore manufacturing that reduced staffing from 1,500 employees to only 300 sales and marketing personnel. Crown emerged as the preferred buyer because AstraZeneca wanted to work with an owner-operator who would give the pharmaceutical company some say in operational decisions and help it adjust to sharing common areas and amenities with other tenants.

As a value-add investment opportunity, the property had several attractive features. AstraZeneca was willing to enter into a long-term lease for approximately half of the 200,000-square-foot Class A office building, which was designed by a prominent architecture firm and built to AstraZeneca's discerning standards. The rest of the space could be leased to a tenant who wanted a location close to Toronto Pearson International Airport and several major highways. Furthermore, the property included smaller buildings and excess land available for lease, redevelopment or sale.

1004 Middlegate was orginally constructed as the headquarters for AstraZeneca Canada, including a combination of office, manufacturing, research and storage space.

Photo Credit: Crown Realty Partners

However, the investment was not without risks. The office and manufacturing buildings no longer interacted with each other synergistically and the property lacked vibrancy due to the small number of people working there. The property was also located in an industrial area with limited access to public transit and few retail amenities nearby. Crown realized it would need to find new tenants and improve the property's amenities.

Fortunately for Crown, its lender shared its enthusiasm for the property. Bank of America agreed to provide acquisition and redevelopment financing at an initial loan-to-value ratio of 60 percent, with more funds available over time as Crown's plan progressed. The loan was subsequently sold to Wells Fargo, which provided Crown the same flexibility. Despite the large amount of uncertainty in the deal, several factors made this type of financing possible, including the quality of the land, the presence of a Class A office building partially leased to a credit tenant and the backing of a well-endowed institutional investor.

Deriving Value from the Component Parts

After selling off the training and conference center in 2017 to an investor that wanted to repurpose it into a multitenant medical office building, Crown repositioned the Class A office building and 62,000 square feet of attached manufacturing space. Only modest adjustments were needed to make the office building suitable for multiple tenants, but AstraZeneca required that Crown build a fitness center and cafeteria to its specifications. Crown transformed a multistory atrium into a zone for tenant interaction and collaboration by adding comfortable seating, public Wi-Fi and a coffee kiosk.

The attached manufacturing space was transformed into loft-style flex office on a speculative basis, with Crown up-fitting the interior at its own cost to convey its vision. Exposed beams, high ceilings and impressive glass lines differentiated it from other product in the submarket. The quality of the finishes ensured that the space complemented the more traditional adjacent office building.

62,000 square feet of manufacturing space was converted into loft-style flex office space with modern features and an abundance of natural light.
Photo Credit: Crown Realty Partners

Crown handled leasing internally and took several steps to increase awareness of the property among the brokerage community. Crown organized food truck rallies, property tours and other events to get people on-site and to shed the location's industrial reputation.

A breakthrough came when EllisDon, a global construction contractor, agreed to lease the balance of the building occupied by AstraZeneca. Then, Auto Capital and Drias leased all of the converted manufacturing space. This left Crown to determine how best to use the remainder of the site.

As the optimal tenant mix started to come into focus, it became clear that there was little value in leaving non-office space on-site. Crown demolished two manufacturing buildings totaling more than 200,000 square feet of space to make room for additional surface parking and to generate transferable development credits that could offset municipal service fees assessed on future new construction. Crown was then able to sell eight acres of surplus land with development credits in 2017 to an investor who planned to construct a multitenant flex space industrial building.

Outcomes and Lessons Learned

Crown's value-add fund sold its outstanding interest in 1004 Middlegate in 2018, generating a more than 20 percent internal rate of return without the benefit of any public subsidies. Crown's ability to repackage a disjointed amalgamation of buildings and land in a way that unlocked their value was the key to the project's success. Crown considered several redevelopment scenarios before identifying the best combination of uses.

Designed by renowned Architecture firm WZMH, the original Class A office space at 1004 Middlegate was of very high quality and included features uncommon in the suburbs of Toronto such as an impressive five-story atrium. *Photo Credit: Crown Realty Partners*

Crown also benefited from a favorable regulatory environment and good community relations. Existing entitlements supported the transformation and the project required no significant infrastructural improvements. The city of Mississauga supported the project from beginning to end. No major sources of opposition emerged and municipal planning staff worked with Crown to revitalize the site. This cooperation accelerated the development timeline and allowed Crown considerable flexibility in deciding how best to use the site.

Crown's willingness to have candid conversations with its lenders was also an essential factor in providing the development team with the flexibility it needed. Rather than claiming to have an airtight strategy in place from the beginning, Crown acknowledged the fluidity of the deal and the need to adapt its plans as new information became available. Working with its lenders, Crown was able to structure a loan package with partial recourse, a starting basis reasonable to each party and loan-to-value-based performance metrics that balanced each party's interests.

Crown was not discouraged by surprises over the life cycle of its investment. It went into the deal expecting to reposition and repurpose all of the existing buildings without demolishing any, only to change course in response to evolving market conditions. The firm found that adaptability was a key to the success of its acquisition of a suburban office park in an area not known for its supply of Class A office space.

Project Data Summary

Location	Mississauga, Ontario	
Property Name	Before: AstraZeneca Corporate Campus	After: Middlegate Complex
Development Type	New Development, Rehabilitation, Adaptive Reuse, Mixed-use, Transit Oriented	
Year Original Development Completed	1992	

Site Dimensions	Before	After
Total Acreage	25.23	25.23
Total Buildings	6	3
Total Square Feet	529,178	315,608
Uses		
Office (SF)	292,845	262,028
Other (SF)	236,333	53,580
Transportation Modes	Auto, Bicycle, Van/Minibus, Municipal Bus, Light Rail, Train	Auto, Bicycle, Van/Minibus, Municipal Bus, Light Rail, Train
Surface Parking Spaces	930	1,024

Financing	Purpose
Debt Capital Sources: Wells Fargo	Acquisition
Equity Capital Sources: Pension Funds/Partners	Acquisition, Repositioning Costs, Leasing and Disposition
Total Office Development Costs	~$10M

Product Types and Tenants	
Office	
Office Net Rentable Area	262,028
Percent Leased	100%
Number of Tenants	7
Annual Rents (Approximate Rates PSF/Year, FS)	$16
Lease Lengths (Approximate)	5 to 10 Years
Major Office Tenants	**SF Occupied**
Astra Zeneca	97,731
Ellis Don	96,725
Auto Capital	22,275
Drias	19,470
Major Retail/Restaurant Tenants	**SF Occupied**
CBS Retailer	20,000

Development Timeline	
Milestone	**Year**
Land/Building Acquired	2013
Began Planning	2013
Financial Partner(s) Secured	2013
Zoning Approved	2017
Began Construction	2016
Completed Construction	2016
Significantly (75%) Leased	2017

Arborcrest

Arborcrest is the product of a two-stage repositioning and repurposing initiative in Blue Bell, Pennsylvania. Corporate Office Properties Trust completed the first stage of the project and Spear Street Capital completed the redevelopment. Through their independent efforts, the companies were able to convert a 137-acre corporate campus containing approximately 1 million square feet of commercial space across five buildings into a multitenant office park with 2,500 people working on-site.

Blue Bell, Pennsylvania is a census-designated place in Whitpain Township located approximately 15 miles from Philadelphia.

The Opportunity

Corporate Office Properties Trust, a publicly-traded REIT, purchased Unisys's global corporate headquarters in 1997 as part of a sale-leaseback transaction. Originally built in 1970, the property was not acquired with repositioning or repurposing in mind, but plans changed as the tenant's space needs in suburban Philadelphia declined from 960,000 square feet to less than 150,000 square feet over the ensuing decade. By 2010, Corporate Office Properties Trust had developed a strategy to preserve the asset's value by transforming it from a manufacturing center into an office park in one of Philadelphia's appealing bedroom communities.

The first phase of the strategy included consolidating Unisys's operations in an existing office building after bringing it up to Class A standards and converting a massive manufacturing facility into three separate multitenant office buildings of similar quality. These modifications, along with common-area and amenity improvements, were projected to cost more than $100 million.[2] In the second phase of the strategy, Corporate Office Properties Trust obtained entitlements to convert another manufacturing facility into a fifth multitenant building. To meet potential future demand, the firm also obtained entitlements for the development of up to 395,000 square feet of new office space with structured parking across 27 acres of land.

The first phase of the Arborcrest project delivered four multitenant office buildings totaling 652,000 square feet to the market between 2010 and 2015. Occupancy reached 100 percent following JLL's implementation of an effective leasing and management program. Abington Health Center and BCI/Health joined Unisys as key tenants. Soon after achieving stabilization, Corporate Office Properties Trust unexpectedly decided to sell the property rather than move forward with the second phase of redevelopment. This decision created an opportunity for a value-add investor to take over the next phase.

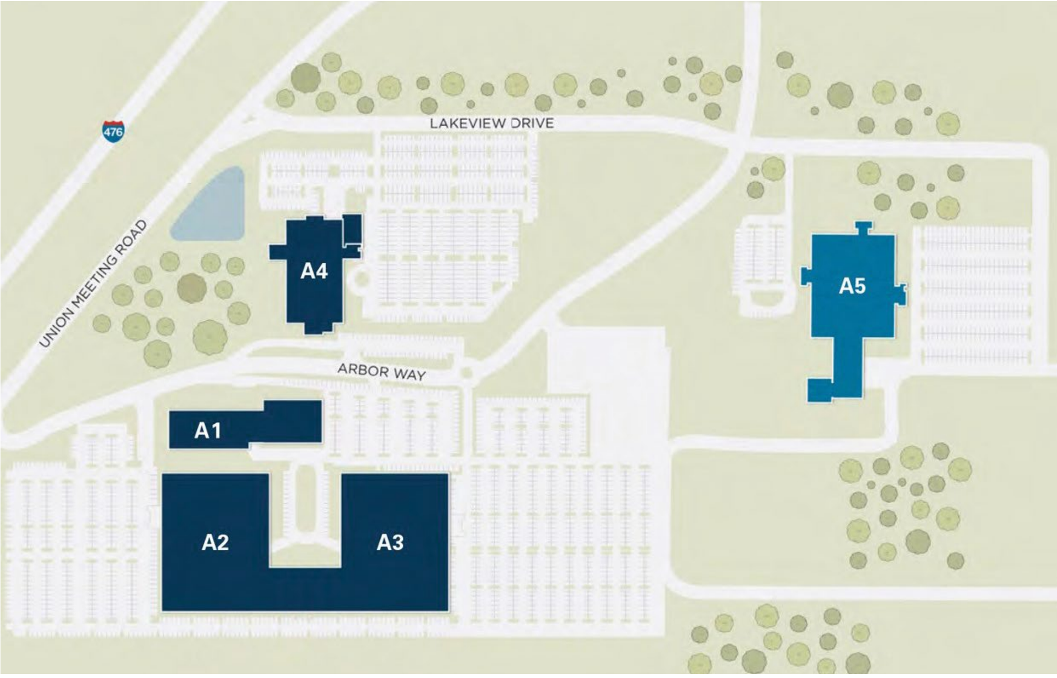
Corporate Office Properties Trust converted a large manufacturing building into four Class A office buildings.
Photo Credit: Spear Street Capitol

Building on Past Success

In August 2016, Spear Street acquired all of Arborcrest's existing buildings, land and development rights for $143 million on behalf of an affiliated value-add fund.[3] It was attracted to the project because four remodeled office buildings were already generating a stable stream of cash flow and entitlements were in place to deliver a fifth by converting the last of the manufacturing facilities on-site. An existing tenant, Cotiviti, Inc., was interested in leasing more than 86,000 square feet in the latter building once it was completed. These advantages outweighed Spear Street's concerns about the project's location in a remote submarket that lacked commuter rail access and was primarily comprised of Class B and C office space.

Spear Street closed in cash and subsequently obtained financing for the stabilized buildings and the building slated for redevelopment. It then set about maximizing the property's value through a carefully crafted asset-management plan. After retaining JLL's leasing and property management services, Spear Street negotiated a seven-year lease extension with Unisys to mitigate a significant source of risk in the rent roll. Spear Street then hired a marketing firm to determine how to competitively position the project, which led to the development firm to keep the Arborcrest name. The new marketing strategy focused on associating the Arborcrest brand with convenience, practicality, quality of life and value-for-money in an amenity-rich suburban setting.

Spear Street took advantage of existing entitlements to quickly move forward with the redevelopment of the building that Cotiviti, Inc. intended to occupy. It only needed to make agreed-upon sewer improvements and obtain public-sector approval for the construction of a small amount of additional parking that was needed to satisfy the terms of Cotiviti's lease. A 203,000-square-foot building called Arborcrest 5 was completed in 2018. It included amenities such as a two-story lobby, a fitness center and a full-service café.[4]



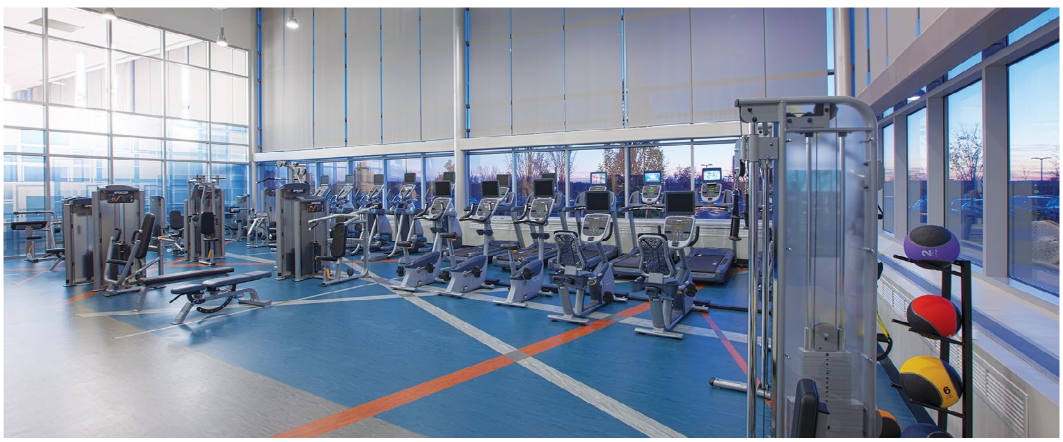
A site map reveals the location of Arborcrest 5 (A5 in the map) within the Arborcrest office park.
Image Credit: Spear Street Capitol

A Creative Approach to Amenities

With major construction complete, Spear Street moved beyond Corporate Office Properties Trust's plans by making the five buildings in Arborcrest function as pieces of a coherent whole. Spear Street renamed the four older buildings Arborcrest 1-4 for brand continuity, incorporated consistent architectural elements into building lobbies and common areas and improved outdoor spaces with fixed furniture and fire pits. Within the newly remodeled building, the firm made a conscious effort to diversify the offerings of the café and fitness center from the dining offerings located in an older building to encourage individuals working in different buildings to move about the site.

Zoning restrictions prevented Spear Street from incorporating other permanent retail amenities directly into Arborcrest's buildings, but the firm developed a creative approach to expanding the property's on-site amenities. Spear Street signed an agreement with Fooda to operate the permanently installed cafés and bring in local vendors to periodically provide pop-up food service at different locations across the office park. The firm also retained Facts Fitness Management and Consulting to program the fitness centers with a wide array of classes at a subsidized rate. Both contractors systematically collected data from their customers to refine their offerings.

Spear Street invested in amenities and design that would appeal to tenants and brokers.
Photo Credit: Spear Street Capitol



Improved common areas encouraged tenants to fully use the site.
Photo Credit: Spear Street Capitol

Finally, Spear Street retained Equiem, to operate a so-called “tenant engagement platform.”[5] The social networking tool served as a single source of information for all activities and services available at Arborcrest, as well as for promotions and discounts offered by nearby hotels, restaurants and retailers. The tool effectively consolidated information to provide some of the conveniences workers might typically find in a mixed-use property.

Outcomes and Lessons Learned

Consistent with the company’s past experiences, Spear Street found that national credit tenants were willing to pay a premium for office space that satisfied their employees’ needs. Spear Street accomplished this at Arborcrest by creating a sense of community and a work environment people could take pride in.

Unisys's global headquarters, comprised of a combination of office and manufacturing space, was converted into a multitenant office park with 855,000 square feet of space spread across five buildings.

Photo Credit: Spear Street Capitol

Market research led Spear Street Capital to conclude that many stakeholders in Blue Bell, Pennsylvania, were not looking for an urban environment in a suburban location, but instead preferred an aesthetically pleasing and functional place to work that was near housing and good public schools. A "practical and proud" theme informed a repositioning program that delivered a modern suburban office park designed to meet worker needs.

Spear Street Capital devoted considerable attention to linking buildings and amenities together in a coherent manner. The firm used walkways, signage and other design features to provide an appropriate amount of connective tissue between buildings. These features contributed to a "new office park" synergy between the park's buildings, making the property more appealing to brokers and tenants.

Project Data Summary

Location	**Blue Bell, Pennsylvania**	
Property Name	Before: Woodlands	After: Arborcrest 5
Development Type	Rehabilitation and Adaptive Reuse	
Year Original Development Completed	1970	

Development Team	
Developer	Spear Street Capital
Investors/Owners	Spear Street Capital
Landscape Architect	Bohler Engineering
Project and Interiors Architect	D2 Group
Structural Engineer	Environetics
MEP Engineer	Kupper Engineering
General Contractor	IMC Construction
Leasing Brokers	JLL
Finance Brokers	Wells Fargo

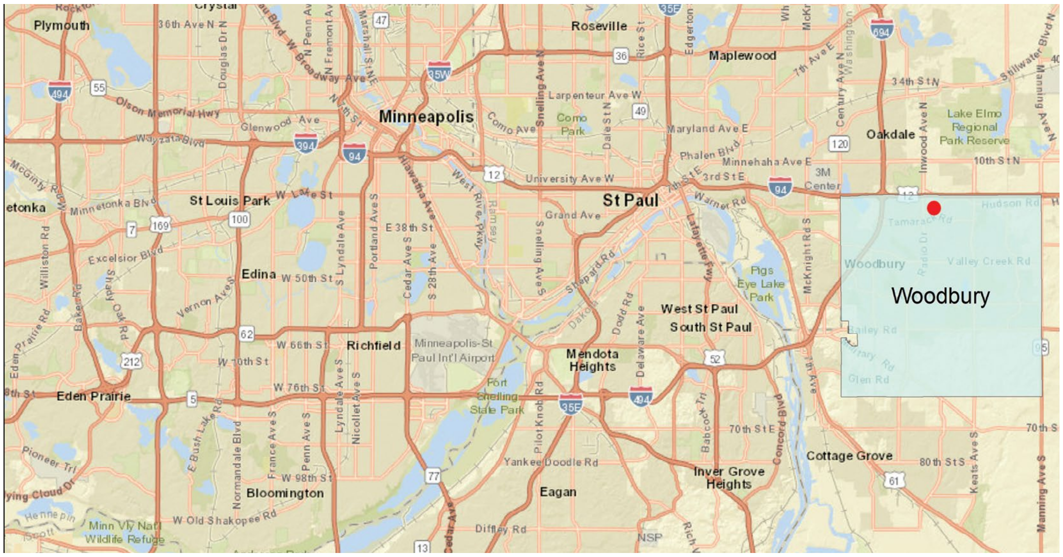
Site Dimensions	Before	After
Total Acreage	27	27
Total Buildings	1	1
Total Square Feet	193,000	202,962
Uses		
Office (SF)	193,000	202,962
Transportation Modes	Auto, Bicycle, Van/Minibus, Municipal Bus	Auto, Bicycle, Van/Minibus, Municipal Bus
Surface Parking Spaces	1,000	1,053

Product Types and Tenants	
Office	
Office Net Rentable Area	202,962
Percent Leased	43%
Number of Tenants	1
Annual Rents (Approximate Rates PSF/Year, FS)	$28
Lease Lengths (Approximate)	10 Years
Major Office Tenants	**SF Occupied**
Cotiviti, Inc.	86,621

Financing	Purpose	
Debt Capital Sources: Wells Fargo	Construction Financing	
Equity Capital Sources: Spear Street Capital	All Purposes	
Development Costs	**Hard Costs (PSF)**	**Total Development Costs (PSF)**
Land/Building Acquisition	$25	
Office		$240

CityPlace

CityPlace is a mixed-use development project in Woodbury, Minnesota. It includes hotel, medical office and retail space in a walkable environment. The project represents a successful collaboration between Elion Partners and Kraus-Anderson, who joined forces to repurpose an obsolete suburban office campus that had been originally built in 1996.



Woodbury, Minnesota, is a suburban community in the East Metro area of the Twin Cities.

The Opportunity

In 2006, State Farm decided to relocate a regional headquarters from Woodbury, Minnesota, to Lincoln, Nebraska.[6] This created 450,000 square feet of redundant office space in the Minneapolis-St. Paul-Bloomington market and eliminated more than 1,500 jobs. One of Elion Partners' principals had a business relationship with State Farm and was familiar with the property. The building itself was well-maintained, but the 100 acres of land upon which it sat, one stoplight from I-94 in a growing suburb, was the property's more attractive feature.

At first glance, adjacencies suggested that retail would be the highest and best use for the property. Other investors had put the property under contract with this type of development in mind. However, these investors had relinquished control after the city of Woodbury would not support any rezoning that did not bring back office employment. As a result, State Farm still owned the property in 2013.

Elion Partners and Kraus-Anderson demolished a functionally obsolete suburban office building on an abundance of land to create a market-responsive mixed-use development project.
Photo Credit: Elion Partners

Elion Partners took a different tack, entering into a purchase and sale agreement with State Farm that was contingent on receiving entitlements for a well-thought-out mixed-use project. Partnering with Minneapolis-based developer Kraus-Anderson, Elion Partners went to the city with plans to boost demand for on-site office space through the development of market-ready retail and hospitality space. By bringing in Whole Foods, along with fast-casual dining and prominent hotels, the developers planned to attract both professional service firms and medical office tenants.

Collaborating with the Public Sector

Few community stakeholders were opposed to rezoning the property for retail development as it was surrounded by retail space. However, the city had invested heavily in attracting State Farm only to lose the company as a major employer less than a decade after the regional headquarters opened. State Farm's withdrawal not only dismayed policymakers, it also spurred the community's interest in bringing back jobs. As a result, Elion Partners and Kraus-Anderson needed to demonstrate that their plans for the site had the potential to generate white-collar employment growth. The developers did so while working within the confines of the existing zoning ordinance.

An existing zoning category known as "Gateway District" let the city of Woodbury collaborate with the development team on the design of a well-integrated project. More specifically, the zoning allowed all non-retail land uses, including hotels and bank branches, to count as office space for satisfying mixed-use floor area ratio requirements. Furthermore, the zoning let the city craft site-specific regulations and it gave the developer the flexibility to delay finalizing on-site locations for allocated uses until it was ready to seek final site plan approval. Elion Partners and Kraus-Anderson closed on the property in 2014 with this zoning in place. The developers committed to leaving the former State Farm building intact because the city hoped it would help attract an employer.

Throughout the rezoning process, the city worked with the developers to advance mutually beneficial goals. It used its regulatory powers to expand the tax base and promote job growth without direct subsidies to private-sector real estate developers.

CityPlace Takes Shape

The project, branded as CityPlace, came together soon after securing regulatory entitlements. Obtaining financing from Wells Fargo for horizontal site improvements was relatively easy; the development team had already invested more than $7 million in the acquisition of the property and came to the table with a signed Whole Foods lease in hand. Furthermore, proceeds from the sale of pad sites to third-party developers for the construction of two hotels, a credit union, a 75,000-square-foot orthopedic medical center and a 50,000-square-foot multitenant medical office building provided additional security.

Thanks to healthy preleasing activity, Elion Partners found it relatively easy to procure traditional construction financing for its planned retail development from Wells Fargo. The firm constructed and leased more than 150,000 square feet of retail space over the next two years to big-box retailers such as LaZBoy, Nordstrom and Sierra Trading Post, as well as to smaller tenants such as Caribou Coffee, Potbelly Sandwich, Qdoba and Verizon Wireless. Elion Partners made significant investments in architectural design, using stone, brick and steel in creative ways to enhance the property's aesthetics.

A site plan for City Place identifies new tenants following redevelopment.
Image Credit: Elion Partners

It was initially unclear if these expensive design elements would pay for themselves in the suburbs, but members of the development team were confident that quality construction would make the project more marketable. The speed at which Elion Partners was able to sell pad sites and lease retail space offered evidence that they were correct. Peers noticed and the Minnesota Shopping Center Association recognized the project for its excellence.

Development of a Whole Foods-anchored shopping center at CityPlace proved to be a catalyst for supportive on-site hotel and medical office development.
Photo Credit: Elion Partners

Lucky Timing

A series of fortuitous events aided Elion Partners and Kraus-Anderson's strategy. The election of a new mayor in the city of Woodbury yielded strong support for the development of a Whole Foods and proved helpful for procuring new entitlements.

The city of Woodbury also reconsidered its position on the former State Farm building, built in 1996, soon after the retail space at CityPlace came out of the ground. The development team had marketed the building and explored the possibility of reconfiguring it for multiple 10,000- to 20,000-square-foot tenants. These efforts bore little fruit due to functional obsolescence and by late 2015, the city agreed to the building's demolition.[7] The building's removal changed the character of the site and cleared the way for the potential future development of more than 400,000 square feet of new office space.

Demand for the project exceeded expectations. Targeted retail and medical office tenants were drawn to the site due to its accessibility, visibility and high surface parking ratios, while hotel developers sought to exploit a shortage of nearby competition. As a result, space absorbed quickly and early cash infusions from the sale of pad sites generated a strong return on investment.

Plans to maintain the office building previously occupied by State Farm changed after little demand for the functionally obsolete space materialized. It was subsequently demolished.
Photo Credit: Elion Partners

Outcomes and Lessons Learned

Elion Partners sold the retail portion of CityPlace to an entity affiliated with the Inland Real Estate Group for just under $78 million in 2018. Along with the sale of 13 acres at the back of the property for the construction of 253 apartments, this sale put Elion Partners and Kraus-Anderson on track to exceed the equity multiple they had anticipated during underwriting. Preleasing activities also began for another 54,000 square feet of medical office space.[8]

Rather than rejecting the city of Woodbury's vision for the site, Elion Partners and Kraus-Anderson succeeded by seeking out ways to achieve shared goals. They accomplished this by first identifying the highest and best use of the property under prevailing market conditions and then determining how those conditions could be leveraged to satisfy as many public-sector interests as possible. The development team was able to use this approach to convince public officials that a project comprised of market-ready retail and hospitality space had the potential to stimulate future office demand. Kraus-Anderson's 100-year operating history in the market and strong track record working with the city undoubtedly helped the team's case.

State Farm's corporate real estate department was also an important ally. Its representatives showed an extraordinary amount of patience during the 18-month rezoning process, which helped bring the deal to fruition. Members of the development team noted that their open communication and transparency encouraged the insurance company to behave as an accommodating seller.

Project Data Summary

Location	Woodbury, Minnesota	
Property Name	Before: State Farm Corporate Campus	After: CityPlace
Development Type	New Development, Redevelopment, Mixed-use	
Land/Building Acquired	Rehabilitation and Adaptive Reuse	
Year Original Development Completed	1996	

Development Team	
Developer	Kraus-Anderson
Investors/Owners	Elion Partners
Master Planners	Westwood
Landscape Architect	Westwood
Project Architect	RSP Architects
Structural Engineer	Reigstad
General Contractor	KA Construction

Site Dimensions	Before	After
Total Acreage	60	99.6
Total Buildings	1	13
Total Square Feet	450,000	395,841
Uses		
Residential		250 Units (Planned)
Office (SF)	420,000	54,000
Retail/Restaurant (SF)		179,368
Hotel (SF)		162,473
Transportation Modes	Auto	Auto, Municipal Bus
Surface Parking Spaces	1,500	1,854

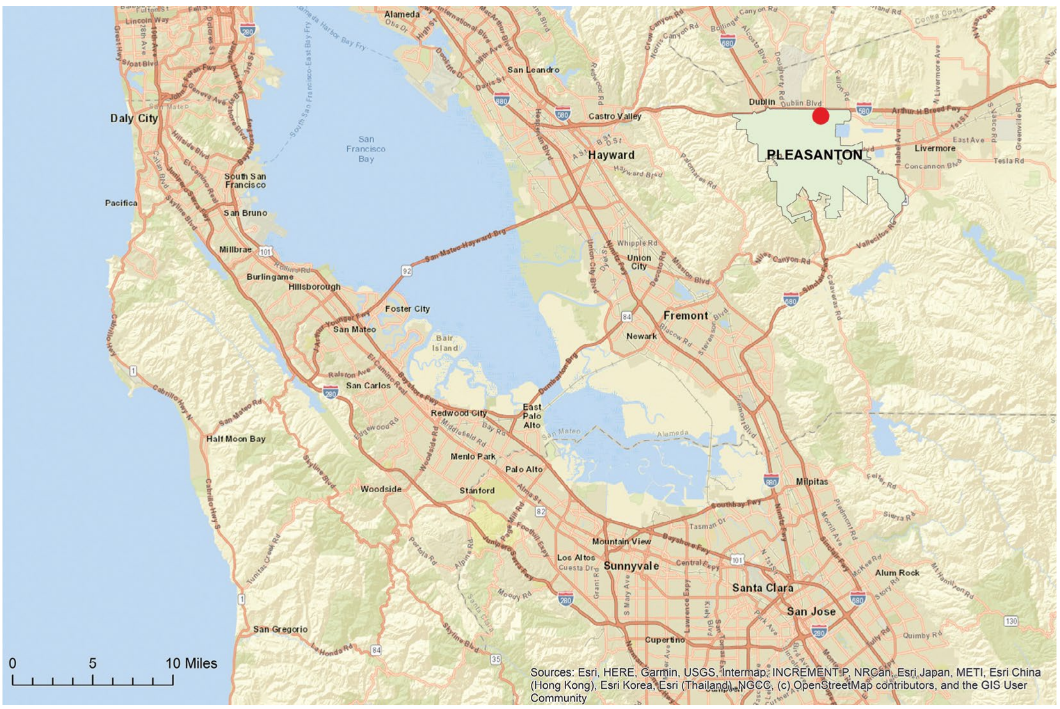
Development Costs	
Land Cost	$ 13,939,213
Soft Cost Allocation	$ 6,762,591
Site Improvements	$ 17,599,473
Hard Costs	$ 26,045,148
Total Development Costs	**$ 64,346,425**

Financing	
Debt Capital Sources	Wells Fargo
Equity Capital Sources	HNW Investors in Fund III

Product Types and Tenants	
Residential	**Planned**
Number of Units	250
Typical Unit Size	983
Office/Medical	**TRIA and New Davis Medical Building**
Office Net Rentable Area (SF)	125,000
Percent Leased	80%
Major Office Tenants	**SF Occupied**
Tria	75,000
Spire	4,300
Retail and Restaurants	**CP1-6 & CP7**
Retail/Restaurant GLA (SF)	190,693
Percent Leased	99.25%
Number of Tenants	21
Typical Annual Rent (Average or Range of Rates PSF)	$40 Average
Lease lengths (Average or Range)	10 Year Average
Major Retail/Restaurant Tenants	**SF Occupied**
Verizon Wireless	5,112
Mattress Firm	3,614
Potbelly Sandwich	2,270
Qdoba	3,274
Bank of America	13,757
Caribou Coffee	2,755
Whole Foods Market	44,986
Nordstrom Inc.	25,569
LZB Retail (LaZBoy)	15,000
Sierra Trading Post	20,814
Hotels	**Residence Inn and Courtyard**
Range of Room Sizes	Studio – 2 Bedroom
Average Daily Room Rate	$150
Conference Space (SF)	460

Rosewood Commons

Rosewood Commons is an office complex comprised of six buildings and more than a million square feet of space in Pleasanton, California. Once a single-tenant campus, the property is now home to companies operating in diverse industries that range from apparel to financial services and pharmaceuticals. Swift Real Estate Partners led the property's transformation, which serves as an informative example of amenity-oriented rehabilitation and repositioning.



Pleasanton, California, is located in the East Bay submarket approximately 40 miles from downtown San Francisco.
Photo Credit: Swift Real Estate Partners

The Opportunity

Now known as Rosewood Commons, the property originally branded as the California Center was built in 1988 as a regional headquarters for AT&T. It served that purpose well for several years, but utilization waned over time. A series of tenants who leased backfill space came and went, leaving the property 90 percent vacant in 2014. At that point, the owner, Deutsche Asset & Wealth Management, decided to sell and found a willing buyer in Swift, which purchased the property for approximately $160 million on behalf of an affiliated value-add fund.[9]

Swift's founder was familiar with the asset because one of his previous employers owned it in the mid-2000s. It gave him the confidence to act decisively when the property was offered for sale. It also left him with little doubt that the property needed to be rehabilitated and repositioned to give it a clear identity — an identity lost to a degree by a series of ownership changes, recapitalizations and shifts in the tenant mix.

Two features of the property made it an excellent candidate for rehabilitation and repositioning. First, it was located on 61 acres in the Hacienda Business Park. The park was well-known and contained more than 11 million square feet of office space in a mixed-use environment made possible by a series of past rezonings. The park also had an established reputation of offering amenities to attract tenants, including one of the nation's first on-site daycare facilities, which was built in 1986 and remains in operation today. Second, the surrounding East Bay submarket offered a high quality of life and more affordable housing options than in many other parts of the metropolitan area. Swift had confidence that it could attract national credit tenants to the suburbs by making Class A office space available in an area where a large number of their employees could afford to live.

Physical characteristics of the former AT&T campus also supported Swift's strategy. The property represented one of the few places in the region where companies could procure large blocks of contiguous space near the Bay Area Rapid Transit system while avoiding the high rents of San Francisco, Silicon Valley and other desirable locales. The buildings were generally in good condition, needing only investments in roofs, energy management systems, lobby remodels and signage to bring them up to modern standards. Furthermore, the low density of development on-site meant land was available for the construction of amenities such as athletic courts and recreational areas.

Financing and Repositioning

Financing the acquisition of an almost entirely vacant office complex was not easy, but Swift obtained a $152 million loan package from Starwood Property Trust in 2014 with the help of JLL's capital markets group.[10] The five-year variable-rate debt included $106.5 million to buy the property, along with $45.5 million for planned capital improvements. As soon as the deal closed, rehabilitation and repositioning began.

Swift's strategy was informed by extensive market research, including heat maps that showed where the region's millennial workforce lived and how that was changing over time. This research suggested that a growing number of young and highly-educated professionals were starting to move out of high-priced central-city locations to more affordable suburbs where they could buy houses and start families. This trend boded well for the property because it was in one of these suburbs.

Significant investments in outdoor amenities differentiate Rosewood Commons from its competitors.
Photo Credit: Swift Real Estate Partners

After rebranding the property Rosewood Commons, Swift began removing gates and fences that separated the site from its surroundings. Swift then built amenities such as a full-sized basketball court, volleyball court, bocce ball court, putting green, fountains and seating areas. Swift expected that these features would increase the property's attractiveness to companies interested in providing their employees with collaborative work environments.

Swift also leveraged two features dating back to the days of the single-tenant corporate campus to good effect. The firm remodeled a pre-existing conference facility with an auditorium and conference rooms and made them available on a rental basis to tenants, eliminating the need for dedicated meeting space in their suites. Swift also refurbished a former cafeteria and reprogrammed it with a café and coffee kiosk to provide additional places for informal engagement.

A conference center and cafeteria dating back to Rosewood Commons' days as a single-tenant corporate campus were remodeled to provide those working on-site with additional places to meet.
Photo Credit: Swift Real Estate Partners

Consistent with market demand, Swift invested in electric car-charging stations and a rideshare program to help people travel to work in an environmentally friendly manner. The firm also built curated paths, attractive landscaping and a bike share facility to encourage workers to move around the site and Hacienda Business Park.

While Swift enhanced lobbies, elevator cabs and signage to bring the office buildings up to Class A standards, other significant improvements were unobservable to passersby. Swift subdivided the property into 10 parcels and reworked the sewer system to accommodate the sale of individual buildings. This reconfiguration required collaboration with both the city of Pleasanton and Hacienda Business Park over several months. Thanks to the new subdivision, Swift was able to sell a 181,400-square-foot building to GAP, Inc., for $40 million in 2015.

Swift took other steps to plan for the future. Land was available on-site for additional future office development, so Swift worked with the public sector and the business park association to obtain entitlements that supported future densification. Swift also engaged both parties to refine design requirements in overlay zoning that the property's previous owner had obtained. These entitlements already allowed for the construction of 305 apartments and a small amount of retail on an 8.4-acre parcel. Hacienda Business Park's mixed-use character made it easier for Swift to obtain local support for these zoning changes.

Management and Leasing

Swift decided to manage the property itself to stay close to its customers, but outsourced leasing to JLL. A marketing campaign designed to instill confidence that the office park would be radically transformed was immediately effective and the property went from 10 percent occupancy to 65 percent occupancy in a single year, even while rehabilitation and repositioning was underway.[11] Early movers received significant rent discounts, which sped up leasing activity. The quality of the rent roll accommodated short-term refinancing with a domestic bank on very favorable terms.[12]

Astex Pharmaceutical, Ellie Mae, ServiceMax and SmartZip were among the first tenants to complete deals in Rosewood Commons, all leasing between 30,000 and 180,000 square feet. Others included Allergan, Cisco, Farmers Insurance and Hendrick Automotive Group. Some of these tenants invested four to five times the tenant improvement package that Swift offered because their rent was so affordable and they wanted to use the buildout to attract talent. By 2018, the property had reached 95 percent occupancy and commanded higher rents than nearby competitors.

The speed at which Rosewood Commons achieved stabilized occupancy validated two of Swift's predictions. First, employers of highly skilled workers would move to the suburbs if the right real estate product was available at the right price. Second, while a number of the Bay Area's trendy urban settings were attractive to start-ups, the suburbs still appealed to desirable national credit tenants.

Outcomes and Lessons Learned

By all conventional measures, the rehabilitation and repositioning of Rosewood Commons was a success. Swift continues to own the property and exceeded its targeted internal rate of return after obtaining $263.5 million in permanent debt proceeds in 2018.[13] The city of Pleasanton simultaneously benefited from job growth and an expanded property tax base without the use of public subsidies. Other owners of office space in the East Bay submarket took notice and sought to replicate this amenity-oriented repositioning strategy.

Strong market conditions undoubtedly contributed to these outcomes, but so did having sympathetic investors. Swift's capital providers recognized that construction costs could escalate quickly in rapidly-growing areas, but they also understood that half measures rarely produce desired results when updating a suburban office park. Their financing package provided Swift the funds and flexibility the firm needed to realize its vision for Rosewood Commons.

Since construction was still underway when marketing efforts began, the leasing team also had to convince prospective tenants that the planned amenities and building improvements would meet their standards. Swift's reputation went far to assuage tenant concerns, but they were real and had to be addressed. Ongoing communication with the brokerage community helped address these concerns, as did transforming the site in a manner consistent with marketing materials.

Project Data Summary

Location	Pleasanton, California	
Property Name	Before: California Center	After: Rosewood Commons
Development Type	Rehabilitation, Adaptive Reuse, Transit Oriented	
Year Original Development Completed	1988	

Development Team	Before	After
Developer	Prudential (Original Developer)	
Investors/Owners	RREEF	Swift Real Estate Partners
Master Planners	Hacienda Business Park - Joe Callahan	
Landscape Architect	Gates & Associates	RHAA
Project Architect	Hellmuth, Obata & Kassabaum Inc.	
Interiors Architect		Form4 Architects, Gensler
Structural engineer	Martin, Middlebrook & Nishkian	
General Contractor	Bissell & Karn Inc.	
Leasing Brokers		JLL
Finance Brokers		HFF

Site Dimensions	Before	After
Total Acreage	64	64
Total Buildings	8	8
Total Square Feet	1,030,000	1,030,000
Uses		
Office (SF)	944,000	944,000
Conference, Café, Storage (SF)	86,000	86,000
Transportation Modes	Auto, Municipal Bus, Metro	Auto, Bicycle, Municipal Bus, Metro
Surface Parking Spaces	4,000	4,000

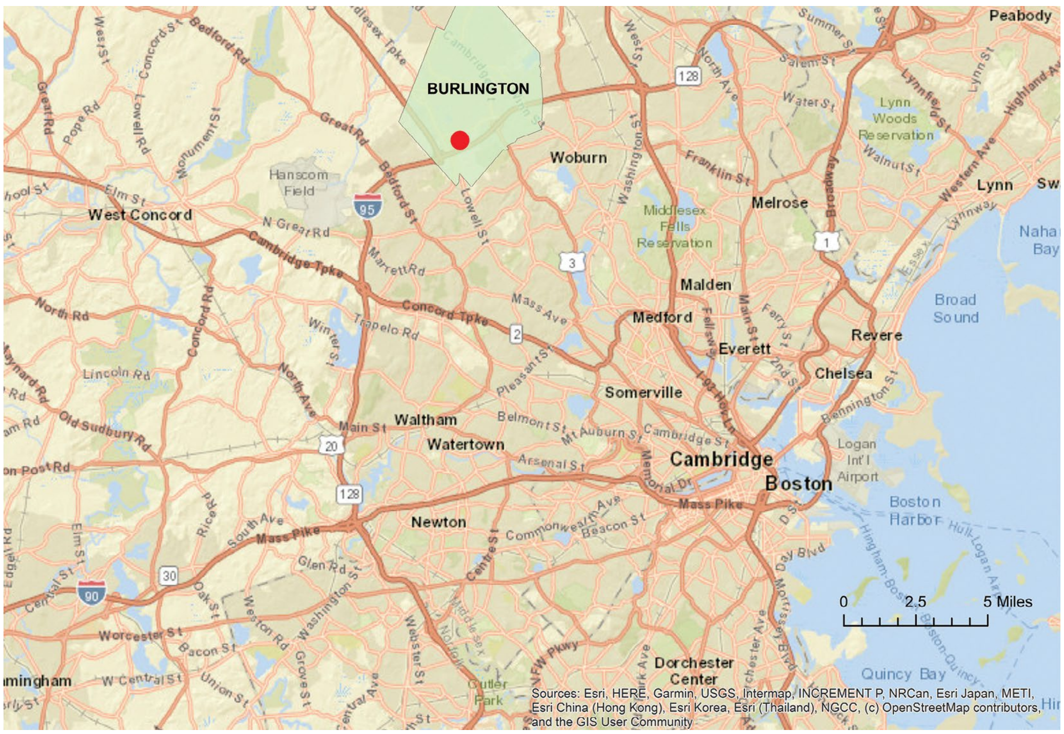
Development Costs	
Land Cost	$ 13,939,213
Soft Cost Allocation	$ 6,762,591
Site Improvements	$ 17,599,473
Hard Costs	$ 26,045,148
Total Development Costs	**$ 64,346,425**

Product Types and Tenants	
Office	
Office Net Rentable Area (SF)	980,000
Percent Leased	93%
Number of Tenants	14 Tenants
Annual Rents (Approximate Rates PSF/Year, FS)	$40
Lease Lengths (Approximate)	5 Years
Major Office Tenants	**SF Occupied**
Ellie Mae	281,000
GAP	182,000
Zeltiq Aesthetics (Allergan)	109,791
ServiceMax	62,559
Phillips Electronics	45,448

Development Timeline	
Milestone	**Year**
Land/Building Acquired	2014
Financial Partner(s) Secured	2014
Significantly (75%) Leased	2017

The District

The District is a 1.3-million-square-foot suburban office park in Burlington, Massachusetts. National Development sought to rehabilitate the office park, which had been originally completed in 1979, to capture some of the excess demand for office space in the Route 128 corridor surrounding Boston. The firm achieved this goal by updating 10 office buildings, improving common areas and bringing in retailers and a hotel.



Burlington, Massachusetts, is located in the Route 128 corridor surrounding Boston.

The Opportunity

Demand for office space in Cambridge, Massachusetts, consistently exceeds supply due to the location of many research institutions. While the tight market can be problematic for technology firms interested in calling the city home, it creates opportunities for owners of nearby suburban office parks. National Development took advantage of one such opportunity when the New England Executive Park in the town of Burlington was offered for sale in 2013.

Despite its outdated appearance and lack of modern amenities, several features of the property made it an attractive acquisition. Among them was its location on more than 60 acres adjacent to one of the largest shopping malls in the region. The property also benefited from high visibility, convenient access to the interstate and an abundance of free parking. Nonetheless, the property's functional obsolescence affected its rent roll and it needed improvements to realize its full potential.

Backed by Charles River Realty Investors and AEW Capital Management, National Development set out to create an environment that would be attractive to firms operating in the technology sector and those in other sectors that are reliant on highly skilled workers. The developer accomplished this goal by transforming the physical characteristics of the property and implementing a creative marketing plan.

Vision and Value

With more than 500,000 square feet of space that was either vacant or occupied by tenants with leases nearing expiration, National Development had to take immediate steps to make its newly acquired asset more competitive. One of its first was to rebrand the property as The District to signify a sophisticated place with an urban feel. Signage and marketing materials reflected these themes, drawing on examples from distinctive office buildings in central business districts across the country.

National Development also constructed a 7,000-square-foot marketing center on the seventh floor of a prominent building in the park. The center included interactive features designed to give both existing and prospective office tenants a sense of how the property would feel and function after the planned improvements were complete. The center displayed custom videos to communicate the development team's vision and a series of vignettes were built out depicting settings that would soon be on-site such as a cocktail bar, hotel lobby and new fitness center.

National Development created a 7,000 square foot marketing center, replete with vignettes depicting settings that would exist on-site post-rehabilitation, to appeal to existing and prospective office tenants.
Photo Credit: Greg Premru

Although The District is in a suburban location, the development team made conscious efforts to frame it as an exciting place to work.[14] Making the property more engaging was crucial, as National Development hoped to attract knowledge-driven companies whose success is far more dependent on the happiness and productivity of their employees than it is on minimizing real estate expenditures.

Delivering on the Brand Promise

National Development's strategy centered on the assumption that companies who value employee satisfaction want to locate in walkable areas with high-quality amenities like those found in urban environments. With this in mind, the development team embarked on diversifying the tenant mix.

The property's previous owner, Equity Office, had obtained overlay zoning accommodating retail and hospitality development to convert ground-floor office space into two restaurants — Tavern on the Square and Tuscan Kitchen. National Development moved forward with these plans while starting construction on three small retail buildings totaling 30,000 square feet of space. The firm also sold a pad site once occupied by an outdated office building to a hotel developer. These decisions activated the site by bringing in a 170-room Marriott Residence Inn, as well as Black & Blue Steak and Crab, Island Creek Oyster Company and Pressed Café, among other retailers.[15]

The design and positioning of the new buildings was just as important as the tenants occupying them. The development team conspicuously placed hospitality and retail space on the main traffic artery at the front of the property. They also used modern construction materials and minimized setbacks to give the streetscape a more defined edge. To improve access to public transit, the firm established a shuttle service linking the property to the Alewife subway station in Cambridge.

Four stories of an 11-story office building were remodeled and expanded to create floorplates that are more appealing to large tenants.

Photo Credit: Robert Benson

Blending Old and New

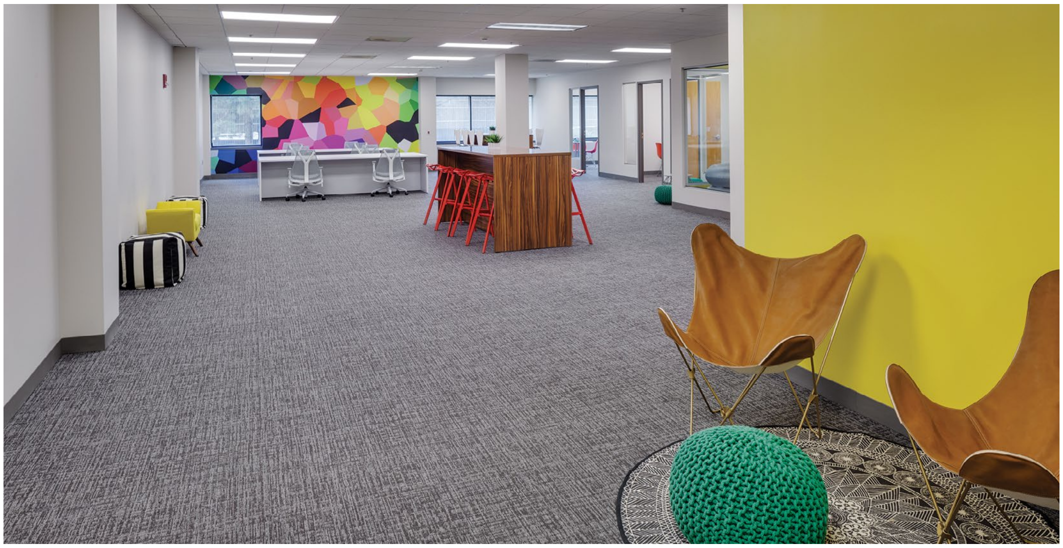
Other capital expenditures on infrastructure were designed to appease the town of Burlington. The project modernized a traffic signal, built a turning lane and added crosswalks. These offsite infrastructure improvements complemented on-site investments to remove hardscape, provide green space and enhance utility lines.

All of the existing office buildings were renovated to update their appearance. New canopies and lighting freshened up entryways and exteriors. Gold fixtures, dark millwork and dull paint colors were replaced in lobbies and conference rooms. These improvements gave the park an architectural congruency it had previously lacked.

The most significant office space improvement came in the form of an 80,000-square-foot renovation and expansion of the tallest office building in the park, an 11-story tower with visibility from Route 128. The expansion required broadening the floor plates in part of the building from 10,000 square feet to 24,000 square feet to accommodate larger tenants. Unique features included floor-to-ceiling glass and a rooftop terrace.

The Right Space, Right Now

As the park's physical transformation neared completion, National Development retained Cushman and Wakefield as the leasing agent. The firm settled on a segmented pricing strategy, recognizing that space can vary dramatically in quality within the confines of an older office park comprised of 10 buildings. Lower-quality space was strategically priced and marketed to cost-conscious tenants, just as higher-quality space was strategically priced and marketed to image-conscious tenants.

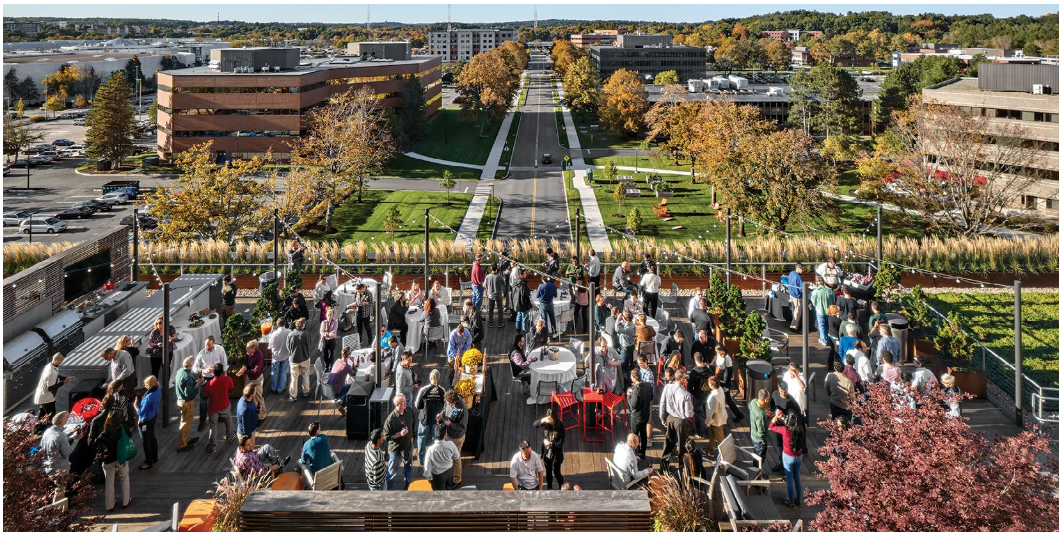


Several office suites that proved challenging to rent were built-out to appeal to small firms in need of ready space.
Photo Credit: Greg Premru

Interestingly, the leasing team discovered that many tenants needed space quickly and were willing to pay for the convenience of move-in-ready accommodations. National Development planned to build out several office suites with workstations and configurations that meet the typical demands of tenants in the 1,500- to 3,000 square foot size range. Rather than playing it down the middle with neutral colors and traditional office furnishings, the in-house property management team worked with online retailers and its vendors to enliven the space with bold graphics and finishes described as “fun and unexpected.” Several challenging suites were leased this way, often on three- to five-year terms that appeal to growing companies.

Fitness, Fun and Philanthropy

To build community, National Development’s property management team used funds set aside for tenant engagement to program common areas with three themes: fitness, fun and philanthropy. The team doubled the size of the fitness center and retained a third-party contractor to teach a variety of fitness classes. They also added a yoga and meditation center in another part of the park to complement running trails and green spaces where group fitness classes already met. National Development committed to hosting several social gatherings at The District each year to promote a fun environment. Reoccurring happy hours and holiday parties were mainstays, but the mix also included one-off events. Well-attended events included a bourbon tasting, a custom shirt-fitting and a fly-fishing demonstration.



Social gatherings at The District attracted over 1,000 attendees interested in enjoying a sense of community at their workplace.
Photo Credit: Robert Benson

The development team engaged Building Impact to promote philanthropy. This organization partnered with local nonprofits to host on-site blood drives, clothing and toy collections, as well as more interactive service activities. National Development saw this programming as a way to appeal to millennials, who have demonstrated an interest in giving back to their communities.

Outcomes and Lessons Learned

In 2017, the development team secured seven-year fixed-rate financing from a life insurance company to replace construction financing, signaling that The District had moved into the next phase of its life cycle. The value-add fund that participated in its rehabilitation continues to own the property and generates rents higher than those projected at acquisition. As anticipated, the tenant mix includes both technology firms and other knowledge-driven companies.

National Development and its partners acknowledged that strong demand for office space near Cambridge contributed to the project's success. An axis road running down the center of the property and mixed-use zoning that jointly accommodated new hospitality and retail space also supported their rehabilitation strategy to urbanize a suburban site. National Development said it gained a greater appreciation for the importance of branding and the need to make large and visible investments early in the rehabilitation of a suburban office park to signal that change is underway. Over the course of the project, the development team became more familiar with the significant challenges involved in managing construction on-sites where several thousand people continue to come to work each day.

Project Data Summary

Location	Burlington, Massachusetts	
Property Name	Before: New England Executive Park	After: The District Burlington
Development Type	New Development, Rehabilitation, Mixed-use	
Year Original Development Completed	1979	

Development Team	
Developer	National Development
Investors/Owners	AEW, Charles River Realty Investors
Master Planners	Elkus Manfredi
Landscape Architect	CRJA
Project Architect	Elkus Manfredi
Interiors Architect	Sierra/Elkus
Structural Engineer	Mcnamara Salvia
MEP Engineer	RDK/WSP
General Contractor	Cranshaw Construction
Leasing Brokers	Cushman and Wakefield
Finance Brokers	HFF

Site Dimensions	Before	After
Total Acreage	46	46
Total Buildings	9	12
Total Square Feet	931,786	1,018,786
Uses		
Office (SF)	950,000	1,000,000
Retail/Restaurant (SF)	2000	32,000
Hotel (SF)		160,000
Fitness Center (SF)		7,000
Transportation Modes	Auto, Bicycle, Municipal Bus, Minibus	Auto, Bicycle, Municipal Bus, Minibus
Structured Parking Spaces	763	1,133

Surface Parking Spaces	3,352	2,313

Product Types and Tenants	
Office	
Office Net Rentable Area (SF)	1,000,000
Percent Leased	90
Number of Tenants	75
Annual Rents (Approximate Rates PSF/Year, FS)	37
Lease Lengths (Approximate)	5-7 Years
Major Office Tenants	**SF Occupied**
BAE Systems	131,156
Charles River Systems	111,421
Black Duck	68,269
Regus	42,913
GSA	91,848
Retail and Restaurants	
Retail/Restaurant GLA (SF)	32,000
Percent Leased	100
Number of Tenants	8
Typical Annual Rent (Average or Range of Rates PSF)	$45 NNN
Retail Average or Range of Annual Sales	
Restaurant Average or Range of Annual Sales	$28M
Lease lengths (Average or Range)	10 Years
Major Retail/Restaurant Tenants	**SF Occupied**
Tuscan Kitchen	14,000
Island Creek Oyster Bar	8,500
Pressed	4,400
Tavern in the Square	10,000
TD Bank	2,000
Feng Shue	6,000
Main & Mani	1,600
Hotel	
Number of Rooms	170

Financing	Purpose
Debt Capital Sources	
AIG	Permanent Financing
Bank of America	Construction Financing
Equity Capital Sources	
AEW/Charles River Realty Investors	All Purposes
Development Costs	**Total Development Costs (PSF)**
Land/Building Acquisition	$216
Hard Costs	$75

Soft Costs	$10

Development Timeline	
Milestone	**Year**
Land/Building Acquired	2013
Began Planning	2013
Financial Partner(s) Secured	2013
Plans Submitted to Zoning for Approval	2014
Zoning Approved	2015
Began Construction	2015
Completed Construction	2017
Significantly (75%) Leased	2017

Conclusion and Best Practices

Although the popular press has largely written off the suburban office park as dead or dying over the past decade, this narrative is changing in response to evolving market conditions and shifting demographics.[16] High rental rates in many central business districts, coupled with a growing interest among older millennials to live and work near affordable housing and good public schools, is forcing employers to take another look at locations they shunned just a few years ago. The trend bodes well for real estate developers and owners who can offer office space in environments that combine suburban quality of life with the conveniences of mixed-use settings.[17] The five case studies presented in this report reveal that the most successful rehabilitation, repositioning and repurposing strategies do the following:

- **Help companies attract and retain talent.** Many suburban office parks declined because they failed to satisfy the demands of the modern workforce. They can resolve this problem by providing robust amenity packages, remodeling buildings to suit modern tastes, programming common areas and hosting social events and by improving access to housing, public transportation and retailers. Market research must inform how scarce resources are deployed in each of these areas to ensure that a property meets the wants and needs of targeted user groups and so that it is sufficiently differentiated from competitors. When done well, suburban office parks can become recruiting tools that employers use to attract and retain talent.
- **Use design, amenities and technology to build community and a sense of place.** Improving a suburban office park is one thing. Maximizing the value of improvements is another. Real estate developers who are committed to the latter ensure that architectural features and design elements speak to each other in ways that create a sense of place. They also build community by strategically positioning food and beverage services, recreational facilities and meeting areas to promote interactions among those working on-site, while leveraging technology to increase awareness of amenities, programs and events. Growing companies rely on their employees and providing these features satisfies their workers' physical and psychological needs.
- **Change perceptions, as well as real estate.** Changing the character of a suburban office park is often necessary to address functional obsolescence. However, it may be insufficient on its own to change the perceptions of prospective tenants and the real estate brokers who represent them. Properties that need rehabilitation, repositioning or repurposing are frequently stigmatized, if they have any market identity at all. Real estate developers and their partners must respond to these perceptions by devoting considerable resources to branding. The most successful branding efforts not only communicate a property's value proposition; they also instill pride in the property

among the people it serves.

- **Avoid the temptation to go halfway.** Strike a balance when attempting to breathe new life into suburban office parks. Improvements must be sufficient in scale and scope to achieve top-of-submarket rents, yet modest enough to ensure that space can be profitably offered at rates lower than those found in more centrally located areas with better access to complimentary land uses. This is by no means an easy task, as competing interests may encourage real estate developers and their partners to go halfway instead of fully committing to a strategy that can enhance a property's market position. Avoiding this temptation is crucial to create durable competitive advantage. Capital should flow to improvements that are difficult to replicate, are narrowly tailored to the preferences of a well-defined and well-understood target market and are grounded in defensible underwriting.
- **Have a plan for land.** Since suburban office parks are frequently comprised of dispersed low and midrise buildings with surface parking, opportunities exist to use land more efficiently. Thus, it's crucial to have a plan for any surplus land. Whether plans involve densifying a site, constructing additional parking or subdividing parcels for sale, they must be context-specific, considerate of existing land use regulations and supportive of an overarching investment strategy.
- **Partner with proven debt providers**. Debt financing is available for distressed suburban office parks with a story. Banks, mortgage REITs and insurance companies, among other institutional lenders, step into this segment of the market when established value-add developers communicate their vision for a property and clearly explain how it satisfies unmet demand. The greater challenge lies in identifying debt providers that have a strong understanding of the uncertainties involved in these transactions and willing to negotiate loan terms that allow enough flexibility to adapt to unforeseen circumstances and changing market conditions. Partnering with such lenders has clear advantages that must not be overlooked.
- **Understand public officials' goals and willingness to compromise**. Revitalizing functionally obsolete suburban office parks is difficult when public officials are supportive of projects and nearly impossible when they are not. Real estate developers and their partners must determine whether the public sector is open to market-responsive development or wed to an economically unrealistic vision for a property. Projects have the highest probability of success when policymakers understand the highest and best use of a site and work with the private sector to achieve as many public-sector goals as possible with that underlying use in mind.
- **Evolve over time**. Successful efforts to revitalize suburban office parks are guided by carefully crafted plans. However, those plans must be dynamic, not stagnant. They must evolve as new information becomes available and new opportunities arise.

Endnotes

[1] For a thorough discussion of emerging technologies, evolving market preferences, global economic trends and urban planning interventions that have influenced demand for suburban office space throughout the world, please see the following articles: Hendrik Jansen, "Suburban Infill to Redevelop Suburbia – Retrofitting Post-Suburban Business Locations in the Zürich Metropolitan Area as a Component of Growth Management," *Urban Planning* 2, no. 4 (2017): 10-24; Hendrik Jansen and Brent D. Ryan, "Retrofitting Business Suburbia: Competition, Transformation and Challenges in Metropolitan Boston's Suburban Office Parks," *Journal of Urbanism: International Research on Placemaking and Urban Sustainability* 12, no. 2 (2019): 203-229; Emil Malizia and Yan Song, "Does Downtown Office Property Perform Better in Live-Work-Play Centers?" *Journal of Urbanism: International Research on Placemaking and Urban Sustainability* 9, no. 4 (2016): 372-387.

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