

# Who Needs A Downtown Address?

**Not the scores of office and industrial tenants that are finding incentive packages, cheaper rents and a strong workforce in secondary and suburban markets.**

**WITH VACANCY RATES** shrinking and rents going through the roof in the nation's larger cities, secondary and suburban markets have become more attractive than ever to tenants. Most of these locations have the resources at their disposal to establish themselves as corporate destinations, in the form of financial incentives and the land to build on. Other crucial factors are collaboration between the private and public sectors, an educated workforce, high quality of life and plain, old-fashioned community boosterism.

According to a recent report by Cushman & Wakefield, US suburban office markets will gather steam throughout 2007 as available space in many CBDs continues to decline. As of midyear, the national vacancy rate for urban markets was 11.9% versus 15.5% in the suburbs. Major cities' office markets in general are approaching equilibrium, and suburban markets are likely to hit that point in 2008.

"Secondary cities and suburban markets are becoming primary options now," declares Kenneth J. McCarthy, managing director of New York-area research for C&W. "That's partly due to simple economics, but also because these markets have what many corporations need: ample populations and an educated workforce. Look at a city like Portland, OR, where you have both the workforce and an attractive lifestyle choice as well as restrictions on development that make it an appealing market for investment. Memphis is another example. It's a transportation hub that's gaining strength as the country's imports continue to increase."

Most markets offer similar menus of tax

abatements and other incentives, so the choice of one location over another often hinges on cultural activities, a low crime rate and housing and schooling options for families.

"Everyone gives incentives: an ad valorem program, payments in lieu of taxes and so on," confirms Steve Rogers, president and CEO of Jackson, MS-based office REIT Parkway Properties. "There's nothing new out there. The cities that attract tenants are those that are zealous, where the mayor is willing to pick up the phone and the business leaders and politicians work together. It's all about collaboration and persistence, not just throwing money at people. Cities like Nashville, Memphis, Jackson and Jacksonville, FL are doing very well with corporate relocations, because those CBDs are having a renaissance."

Take Nashville. The city is experiencing a spate of new development including a proposed \$350-million convention center, a minor-league baseball stadium, the recently opened \$120-million Schermerhorn Symphony Center and the \$275-million Signature Tower, a mixed-use project of Giarratana Development, which at 65 stories will be the tallest structure in the city, reports the local Chamber of Commerce.

Greater Nashville is also the new home of Nissan North America. The automaker will move 1,200 employees from Los Angeles to a new headquarters facility in Franklin, TN by 2008. In the interim, it has taken space in the BellSouth Building Downtown.

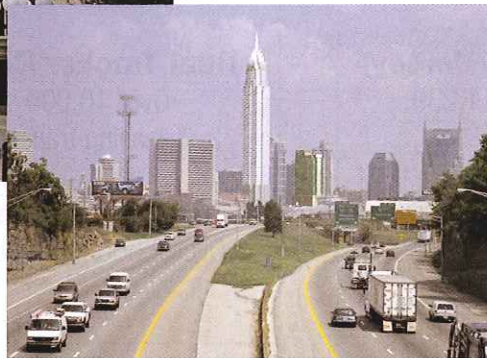
A public-private economic development initiative for the Nashville region,

currently known as Partnership 2010, noted that in the last year 34 companies have either relocated to or established new facilities in the area, accounting for 3,755 new jobs and a capital investment of \$220 million.

In Jackson, MS, the Gulf Opportunity Zone Act of 2005 (GO Zone), passed in the wake of Hurricane Katrina, has aided in Downtown's redevelopment efforts, notes Andrew P. Lechter, Atlanta-based EVP and branch manager of Studley.



Cities such as Nashville that offer a vibrant downtown are seeing increasing interest from corporations. Adding to the cultural mix in the Music City is the recently completed Schermerhorn Symphony Center (above), which takes up a full block in the emerging SoBro (south of Broadway) District. Signature Tower (right), a 65-story mixed-use project of Giarratana Development, will bring 390 luxury condominium units, a boutique hotel and street-level retail to Church Street.



"The GO Zone legislation is making Downtown Jackson a more viable option," he notes. "Construction costs are a fraction of what you'd pay in a primary market like New York City and rents are cheap. With the GO Zone, you're knocking maybe \$4 per sf off your rent, which results in a huge savings on a long-term lease."

Parkway Properties' recently announced office project, the 175,000-sf Pinnacle at Jackson Place, qualifies for various incentives under the GO Zone program, according to the firm. Located in the CBD and adjacent to Parkway's headquarters, the building, which has an estimated cost of \$39 million, is already 75% preleased. Completion is expected by fall 2008.

States and cities that haven't benefited from GO Zone legislation have been launching independent initiatives. In Pennsylvania, Governor Edward Rendell, who was elected in 2002 on a promise of economic development, has enacted a

\$2.8-billion package focusing on community revitalization. Infrastructure and site preparation are the key elements of the plan, according to Kevin Ortiz, spokesman for Pennsylvania's Department of Community and Economic Development.

"When Gov. Rendell took office, Pennsylvania ranked 47th in growth, due to a recession that started in 1999," Ortiz recalls. "As a result of government investments and business tax cuts, we've

economic development and site selection professionals, provides a single point of contact for businesses that want to expand within the Commonwealth. "The Governor is hands-on in terms of talking to companies and putting together grants and loans to encourage corporate relocations and job growth," he notes. "Moreover, that \$2.8-billion package has leveraged another \$2.5 billion in private investment, attracting new business and more residents to towns like Harrisburg, Allentown, Reading, Altoona, Scranton and Wilkes-Barre."

The Rendell Administration estimates that since 2003, some 715 GAT projects have created 73,300 new jobs and retained 185,000 existing positions. Among its recent success stories are Lutron Electronics Co.'s 270,000-sf expansion of its Upper Saucon Township campus that will create 500 new positions, and bedding manufacturer Sealy's move to a 210,000-sf

latex manufacturing facility, its first in the US, to Luzerne County. Sealy is expected to hire 107 new employees over the next three years.

At the other end of the country, the Greater Phoenix Economic Council is getting high marks from virtually all observers

for bringing new business to the area. Council president Barry Broome explains that he builds business by working closely with site selection consultants and real estate service firms.

"We provide a constant flow of information regarding availability to brokers and to CEOs of businesses that might be looking for a regional headquarters and we also meet with national developers," he says. "We focus on companies from California and Texas, but we have quite a few New York- and Boston-based firms evaluating facilities here. Our Community Building Consortium works with us to put more inventory on the market. We understand the importance of delivery on the back end, so we work to ensure that permitting can be handled within 90 days, that contractors will be available and that communities can do what they need to do in order to bring a new company here in nine months or less."

Greater Phoenix's biggest asset, says Broome, is a young and educated work-

been cited by various corporations and publications as one of the top states for manufacturing and for economic achievement, generally."

The most relevant of Pennsylvania's initiatives, according to Ortiz, is Business In Our Sites, a funding pool of \$300 million applied to the redevelopment of shovel-ready or pad-ready sites, mostly old brownfields. The money, which has already been distributed, could be used for remediation, demolition and infrastructure. "It caused a job spike, and its full impact will be seen in a few years," says Ortiz. "Meanwhile we have the Infrastructure and Facilities Improvement Program, funded at \$50 million, to help with payment of debt service tied to economic development projects." Another program is Building PA, which provides \$150 million in gap financing for the development of new assets or to revitalize existing ones.

According to Ortiz, the Governor's Action Team (GAT), comprised of eco-

force. More than half of the local workers have a community college degree or better. "You have to convince corporations that you can deliver not just the project but the personnel," he relates. "Our workforce initiatives are geared to helping companies find the right people. That way, you present your workers as assets."

Recently, Mortgage Lenders Network USA Inc. announced that it was bringing 650 jobs to the area over the next three years. The financial services company is expected to take occupancy of an 180,000-sf facility in the Alter Group's Corridors-

Phoenix office park next fall. Meanwhile, PayPal, an eBay company, has leased 92,562 sf in Scottsdale and plans to hire "hundreds of local technical professionals in the coming year," according to the firm.

Scottsdale, known for its upscale demographics, is doing especially well, as are Tempe, home of Arizona State



A young, educated workforce has been an asset for the Greater Phoenix marketplace. The area's main office hub, Camelback Corridor, continues to grow. A joint venture of Hines and Morgan Stanley Real Estate is set to build a second building at 24th at Camelback containing 300,000 sf.

University, and Chandler, with its technology corridor. The American Automobile Association recently brought 1,700 jobs to Glendale, and USAA (the military-focused financial services firm) is working on a 300,000-sf facility in the West Valley and will employ 1,600.

"The office play here is often condo," says Broome. "The emerging communities do well in the 20,000-sf to 40,000-sf range and Phoenix gets most of the 100,000-plus-sf business. Our main office area, the Camelback Corridor, offers terrific amenities and proximity to freeways, the airport and golf. We can still do a real good job delivering a lot of space in the \$20 to \$26 range, which rises to about \$31 per sf for class A space in the Corridor. We have ample labor, so construction costs are in line with the commodity prices of steel and concrete."

Robert J. Roe, Cleveland-based president of the Great Lakes region corporate services division for Staubach Co., agrees that Phoenix is "going gangbusters," but "it's starting to sprawl a little," he asserts. To his mind, Phoenix is just the latest in a number of cities that are gaining favor with corporate America because they offer a pleasant lifestyle and strong employment base.

"The coasts are getting expensive," he says, "so expensive that they're losing their workforce. New York has had a terrific rebound since 9/11 and rents are rising. But a lot of corporations are wondering, 'Do we really need critical mass in that market?'"

"One of the principles of Real Estate 101 is to ask yourself, 'Where does the decision maker live?'" he continues. "Decision makers are finding that the quality of life is pretty high in cities like Cleveland or Columbus, OH or Ann Arbor, MI, so why not be a big fish

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8:20-8:25 a.m.	Opening Remarks
8:25-8:45 a.m.	Opening Address: The Price Of Doing Business In South Florida
8:45-9:35 a.m.	State of the Market Town Hall Meeting
9:35-9:55 a.m.	Coffee Break
9:55-10:45 a.m.	Concurrent Sessions

A-1 Who's Buying, Who's Selling and Why in South Florida  
A-2 Landlord vs. Tenant: Who Has the Upper Hand in the Office Market?

10:45-10:55 a.m. Refreshment Break

10:55-11:45 a.m. Concurrent Sessions

B-1 Multifamily Mania: Dealing With Closings, Conversions and Changing Demographics

B-2 How Are Deals Getting Priced in Today's Debt & Equity Capital Markets?

11:45 a.m. RealShare SOUTH FLORIDA concludes

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Pinnacle at Jackson Place, a 175,000-sf office project set to rise in Downtown Jackson, MS, qualifies for incentives under the Gulf Opportunity Zone Act, which is fostering the city's redevelopment efforts. A development of Parkway Properties, the building is 75% preleased to office REIT EastGroup Properties Inc. and several law firms. Completion is slated for fall 2008.

there? Why not give your employees the chance to own their homes? Corporations have not yet scratched the surface when it comes to relocating to these secondary markets that are just packed with intellectual capital."

Roe advises corporate users to look for locations that are connected with universities, such as Columbus or Ann Arbor, or markets with a large military component, like Colorado Springs or San Antonio. Probably one of the most significant corporate relocations in the US recently, Roe adds, was Toyota's move to a 1.5-million-sf plant in San Antonio. According to the automaker, some 4,100 employees and on-site suppliers will be housed at the site.

"What a lot of communities might not appreciate," the executive advises, "is that if they can attract a significant player like that, a lot of third-party suppliers will follow. In the short term, of course, you create jobs in construction and in the production of construction materials."

Another trend that Roe notices is a migration out of some second-tier cities to the suburbs. "If you're in a city that doesn't have a predominant downtown living environment, a lot of your employees will drive to work," he points out. "A suburban location, with easy access and parking, will

sometimes be more attractive than a CBD."

Even an out-migration can sometimes help a market in the long run, he observes. He recently represented OfficeMax in its relocation from Shaker Heights, a Cleveland suburb, to Itasca, IL, just outside of Chicago, and found a way to turn that move to Cleveland's advantage.

"University of Chicago Hospitals is going to expand its medical campus into that Shaker Heights facility," he explains. "Metropolitan Cleveland will lose some jobs at first, but it'll make it up three times over when the hospitals add medical jobs, probably at higher pay, which means more tax revenue." ♦

## We would like to thank...

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For more information, please contact  
Lisa Clark at 609-409-2120  
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