

Discount Downtowns

Today's question for the class: Which office building usually commands higher rents for comparable space, a downtown high-rise or one out in the suburbs? Most people would guess the downtown building, and in most cases they'd be right. But not always. In some places the bargain office space is downtown. Assignment for tomorrow: Write a three-page essay on why this is so.

OK, just joking about the essay. But it is true that in some cities, you can find on average cheaper class A space in the central business district than in the suburbs. Examples of cities with "downtown discounts," according to a recent study by Richards Barry Joyce & Partners, a Boston real estate firm: **St. Louis**, where rents are 19 percent cheaper downtown than in the 'burbs; **Oklahoma City**, 16 percent cheaper; **Phoenix**, 12 percent; **Kansas City, Mo.**, 11 percent; and **Detroit, Nashville** and **Philadelphia**, 6 percent each.

This is not the case everywhere, of course. If you want an office in **New York's** Midtown Manhattan office district, expect to pay 135 percent more than in the suburbs. Other cities with premium downtowns: **Boston**, 80 percent higher; **Toronto**, 74 percent; **Washington, D.C.**, 55 percent; **Montreal**, 39 percent; and **San Francisco**, 33 percent. Even **Los Angeles'** undersize downtown commands a 15 percent premium over rents in the suburbs.

What's the difference between the discount downtowns and those where landlords get a premium? Discount downtowns appear to have some combination of slow regional growth, high downtown taxes, inadequate transit, bleak streetscapes or just bad buzz. That's not a perfect answer (Phoenix and Nashville are fast-growing regions, and Philadelphia has a fully developed transit system and a well-maintained downtown), but each of the ailing center cities does appear to have two or more of these factors.

And the "premium" downtowns? Good buzz, nice public spaces and convenient transit play major roles, an executive at Richards Barry Joyce told the *Wall Street Journal*. "These are all areas that evoke prestige and provide superior high-quality public transit, are generally considered safe and all seem to contain inviting pedestrian-friendly public spaces," he added.

Hey, wait a minute. What about supply and demand? Maybe the premium downtowns just have lower vacancy rates, and it's scarcity that's pushing up rents. Umm, no. That doesn't seem to explain it. As the *Journal* pointed out, Chicago's downtown vacancy rate is 16 percent, but buildings in the Loop command big premiums over suburban locations. Meanwhile, the vacancy rate in downtown **Charlotte, N.C.**, is 5 percent, but rents there are about the same as out by the interstate.

Footnote: Philadelphia notwithstanding, transit seems to be a key factor in bolstering downtown office markets. Stands to reason: If the only way of getting to and from work — or around town during the day — is by car, why drive all the way downtown? Interstate locations are more convenient, and parking is usually free.