

Advalurem snaps up suburban office

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Advalurem Group, an asset management firm focusing on middle-market properties, has expanded its suburban office holdings with the purchase of a 108,000-square-foot, Class A, multi-tenant office building in Bucks County, Pa.

The acquisition comes as biotech tenants in the Philadelphia suburb have increased demand for office properties. “The decision to invest in Bucks County is strategic,” said **Gabriel Pozo**, principal. “Bucks County has seen growth in the healthcare, pharmaceutical, and life science industries. Companies like Teva Pharmaceuticals, AmerisourceBergen, and Johnson & Johnson are located [in the area], and we expect more demand for office space as these industries and their ancillary businesses continue to expand.”

The firm sees suburban office properties, especially in a market like Bucks County, as offering a compelling value when compared to CBD office. “Central business districts are becoming increasingly unaffordable and burdened by higher taxes and overall cost of doing business,” said **Julie Tran**, director. “We see the yield spread between CBD and suburban office widening beyond [its] historical average.”

As CBD prices climb higher, both employers and employees are seeing the financial upside of putting down roots out in the suburbs. Solid employment gains and population growth have increased demand across all markets, but those effects have been felt most significantly in secondary and tertiary markets. “I think New



York and San Francisco are no longer 'enough' for people seeking opportunities across the country," said Pozo. "Think of Minneapolis-St. Paul, Tampa-St. Petersburg, or Raleigh-Durham. There are so many vibrant, economically viable metropolitan areas that fly under the radar of institutional investors."

The suburban office sector is also facing supply constraints – experts agree that the U.S. economy has recovered from the recession, but developers have largely steered clear of constructing new suburban office properties in favor of CBD office and other property types, which has led to a supply/demand imbalance.

That has made investment in the property type more compelling for investors like Advalurem, who are searching for opportunities to add value to unconventional properties. "Essentially, we seek out markets and properties that may be overlooked. These are opportunities that are too small for institutional investors and too large for private investors or smaller real estate companies," said Pozo. "Suburban office is a prime example of a currently overlooked investment opportunity. It's only just beginning to be accepted as an asset class."

Advalurem's recently-acquired office property at 1150 Northbrook Corporate Center is the second purchase it has made in the Bucks County submarket. The company is anticipating that the region, which sits between New York City and Philadelphia, will benefit from strong demand as firms grapple with CBD office pricing pressure. "We are seeing an increase in absorption as [the area's] economy continues to improve," Pozo added. "Part of the reason is that no new office product has been built, which has limited an expanding tenant's choices, especially for large blocks of space and in the highest-quality suburban office buildings."

The company purchased the Northbrook property for about 50% of its replacement cost and plans to invest about \$1m for renovations, including the addition of a fitness center, shared conference rooms, and wi-fi enabled collaboration space. The property is 85.2% leased to five tenants and represents the last asset in a fund that had reached its ten-year expiration.

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