

R&R plans spec office project in Urbandale

With no tenants in hand, West Des Moines firm ventures where few follow

BY KENT DARR, Senior Staff Writer
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R&R Realty Group is planning a speculative office project that the city of Urbandale hopes will trigger additional investment in an area of the city it recently branded the Urban Loop.

The office project calls for two two-story office buildings of 45,000 square feet each with a connector that could feature a rooftop patio between the buildings. A food truck court also is being discussed. The \$9 million project would be located on 6 acres of land near the southwest corner of 121st Street and Meredith Road. It will be called Paradigm.



The Urban Loop is a four-mile-square area located mostly in the north-central section of the city on either side of Interstate 35/80 where the city estimates that 700 acres are available for development.

The city has negotiated a development package with R&R that is tied to the development of a Class A office project and is a hybrid of its 10-year, 90 percent tax rebate for office projects. Because the R&R development is being built without tenants in hand, the Urbandale incentives will be tied to employment levels.

"We want to see the development of Class A office, plus the creation of jobs," City Manager A.J. Johnson said.

The city's architectural review board examined plans for Paragon Office Park and determined the buildings met standards for Class A offices.

The Urbandale City Council will have a public hearing on the development agreement during its Nov. 21 meeting.

Mark Rupprecht, president of R&R Realty Group, said his firm had considered adding to its inventory of office buildings for some time. "We continue to see demand for Class A office space," he said. Much of that demand is coming from businesses currently located in Greater Des Moines that are occupying older space or want the contemporary office flourishes that are necessary to retain and attract workers.

"They want to enhance their work experience, whether through their culture or their experience," Rupprecht said.

Such enhancements include collaboration areas, wireless internet that is available throughout a building, and its exterior plazas, rooftop gardens, food truck courts, all the elements that R&R is providing in its new construction.

Businesses needing smaller spaces can find it in larger buildings and still have access to amenities that are available for tenants large and small.

"It's really demand driven," Rupprecht said. "We listen to what our customers want and look for; it is driven by their workforce. Millennials drive a lot of it, but technology and how we do our work has, too."

The formula is working. The Newport office building that opened last year along Jordan Creek Parkway is nearly 100 percent occupied. R&R will move its operations to the Westfield complex when it is completed in next fall and there has been high interest but no leases signed yet for remain spaces. The Paradigm building should be completed in July.

With the exception of the R&R projects, the Greater Des Moines office market has been dominated in recent years by client-driven projects such as Merchant Bonding Co.'s new headquarters in West Des Moines, the



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Holmes Murphy & Associates campus that is under construction in Waukee, or by expansions of existing space, whether for existing tenants or as an attraction for a new renter.

A report last month by real estate analytics firm Xceligent Inc. determined that office vacancies increased during the third quarter, driven primarily by Principal Financial Group Inc.'s move to renovated space on its downtown Des Moines campus. Minus that, occupancies would have increased.

"The market continues to strengthen and improve," the report concluded.

Justin Lossner, an office specialist for JLL in Des Moines and a member of the Xceligent panel that tracks office activity in the metro, said, "The office market remains steady, however several major blocks of pending vacancy will create some challenges in 2018."

Those large blocks are driven by companies moving to new or renovated spaces, he said. For example, ARAG North America recently moved into completely transformed office space at what has been known as the Keck City Center at 500 Grand Ave. and is now named the ARAG Building. IMT Group is building a new headquarters in West Des Moines and shuffle of users will occur.

"R&R's Westfield will add another large block of spec Class A space in the western suburbs — the largest the market has seen in several years," Lossner said. "Downtown has seen nice absorption over the last 24 months — both driven by new leasing activity and the continued conversion of buildings to multifamily, but the (Central Business District) will also host several large blocks of space next year. We are cautiously optimistic that 2018 will be a steady year for office activity however the peak may not be too far off. New spec space could come at a tricky time with a sizable amount of imminent vacancy on the horizon."

"We are seeing interest in new office space in downtown and specifically the East Village," said Jake Christensen, who is part of the development team that recently completed a new parking ramp in the East Village under an agreement with the city of Des Moines that also calls for two floors of office space in buildings that will flank the ramp. That space could be included in one building or split among the two, with no more than 50 percent being speculative space.

CBRE|Hubbell Commercial office specialist Bill Wright echoed Ruppert's remarks about the type of space office users are seeking. Tenants are looking for quality spaces that offer rooftop patios, wireless internet, food trucks that are available a few days or every day of the workweek and proximity to trails; a shower stall would be a nice touch, too.

"You can just tell if you look at Class A inventory, the more creative spaces in the East Village, downtown and out west, there is not a lot of vacancy, so there is a request for quality office space," Wright said.

Some of that space could go under construction next year in the Gray's Landing development south of Martin Luther King Jr. Parkway, where Sherman Associates has tried to find tenants for an office building it has promised as part of a development agreement with the city of Des Moines.

CBRE|Hubbell Commercial is looking for tenants for that building, Wright said, in an effort to lease a portion of the structure before it goes under construction.

Part of the delay in construction, which had been anticipated for this year, has been the difficulty in securing a lease with a larger tenant, he said.

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