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Urban Satellites Rising

In the orbit of major cities, these areas are growing in population and construction.

by Stewart Rubin, CCIM, CMB, MAI
The country’s most desirable cities have a shortage of housing that is walkable, transit-friendly, relatively affordable, and work-proximate. Americans, especially millennials, are attracted to larger, vibrant cities because they have dense professional networks and the best, highest-paying professional, technology, and creative jobs.

The top core urban areas are centers of major productivity and jobs that are ignited by the presence of highly educated professionals. People also are drawn to amenities like museums, art galleries, restaurants, theaters, and nightlife. As city dwelling becomes more and more popular, affordability levels continue to decline as supply has not kept up with demand, sometimes due to desirable urban areas having caps on development. As these center cities become more in demand and expensive, urban satellites have surged in popularity.

Urban satellites have experienced substantial working-age population growth and new apartment construction over the past six years. The upward trajectory of urban satellites indicates that many Americans are choosing to stay in the orbit of large, successful cities such as New York, Washington, D.C., and San Francisco.

Profile of Urban Satellites
An urban satellite is an urban area within a combined statistical area that is not the core metropolitan. Urban satellites are not simply suburbs and not edge cities and not necessarily even independent incorporated areas, but rather urban settings that exist in the orbit of the core urban area and serve as a smaller, less expensive alternative for housing or office solutions.

While lacking the scale of economic engines and cultural amenities of the core metro area, urban satellites still benefit from high-quality restaurants and bars, high-ranking schools, and comparably lower crime rates. Other advantages include lower rents or home prices than the urban core and proximity to the city and the less-expensive, non-urban suburban locations. The urban satellite has high walk scores and either good rail transportation linkages or excellent roadway access to the core city. It is essentially a compromise between the high-cost city and the low-density suburb.

But not all the demand is spawned by lower costs. Some want a quieter, smaller downtown with many of the amenities of the big city, even while on a much smaller scale.

Urban satellites take different forms in different parts of the country. In the Northeast, this includes cities with rail and bus links to the urban core. Many satellites in the Northeast once functioned with more economic independence than today. As the core city expanded and became dominant, the satellites became more subsumed into the economy of the greater metropolitan area, and many morphed into suburbs as transportation linkages brought commuters into the urban core. Urban satellites can serve as alternative multifamily or office markets. In fact, transit-oriented urban satellite office space generally outperforms suburban office park locations, according to JLL.

Urban satellites are becoming increasingly important for several reasons: a shortage of successful American cities; the high cost of housing in successful urban cores; parents preferring to work closer to home; the increasing number of singles, who often rent apartments; and the growth of the 65-plus demographic group — typically empty nesters who don’t want to move to the city for typically urban amenities. In addition, millennials have a greater desire for shorter commutes.
Types of Urban Satellites

Urban satellites can take several forms, including the renaissance suburban city, the urbanized suburb, the urbanized former industrial zone, and the urban satellite island.

**Renaissance suburban city.** This type traditionally functions as an independent metro area in the megalopolis nearby. It has excellent transportation linkages to the core metro through rail, bus, and car. This contrasts with the converted suburban city, which historically functions as a suburb that recently has been urbanized.

Examples include Jersey City and Hoboken, N.J.; downtown Brooklyn, N.Y.; White Plains, N.Y.; and Stamford, Conn. Many of these areas are allowing developers to build a significant amount of housing units near train stations with good connections to job-rich urban cores.

**The urbanized suburb.** Most U.S. suburbs were built around the needs of the automobile. Suburban office buildings, malls, and residential areas, although proximate to each other, typically can be accessed only by car. As a result, some suburbs are being urbanized. For example, Tysons, Va., is transforming as its office buildings, retail centers, and apartment buildings are being knit together by internal roads and walkways, in addition to four new Silver Line Metro stops.

**The urbanized former industrial zone.** Some urban satellites are former urban industrial zones that were converted for residential and office use. Examples include Long Island City in Queens, N.Y., and the Dumbo neighborhood in Brooklyn, N.Y.

**Urban satellite islands.** With no rail transit linkage to urban cores, this type of urban satellite relies on highway access. However, within these areas, the streetscape is walkable, has a quasi-urban vibe, and includes office, retail, multifamily, and hotel facilities. Examples of urban satellite islands include Playa Vista near Los Angeles and Legacy Town Center near Dallas. Additionally, aging and obsolete malls and suburban office parks are converted to mixed-use urban satellite islands. Examples include the 34-acre environment set to replace the Promenade Mall in Woodland Hills, Calif.; The Villa Italia Mall streetscape conversion in Lakewood, Colo., outside Denver; and the former Bell Labs suburban office complex in Holmdel, N.J.

The Promenade Mall site plan conforms to an urban blueprint for a highly dense working, shopping, and living downtown adjacent to the Metro Orange Line busway. It includes creative office studios, upscale apartments, a traditional office tower, and two hotels interwoven by leafy boulevards and alleys lined with shops, restaurants, and art galleries. The Villa Italia Mall in Lakewood outside Denver was almost completely demolished to make way for a new street grid lined with offices, arts facilities, parks, and residences, as well as new stores. The former 2-million-square-foot Bell Labs headquarters is slated for a mix of new office space, stores, restaurants, 40 single-family homes, and 185 townhouses.

**Office Buildings in Urban Satellite Transit Hubs**

Submarkets with public transportation access have significantly stronger office fundamentals compared to those without transit, according to a 2017 JLL report.
by Stephen Jenco titled “Transit-served submarkets are outperforming the broader office market and poised for long-term success.” Transit-accessible submarkets represent roughly 37.3 percent of the national office market; if New York is excluded, the percentage drops markedly to 29.5. Vacancy in transit-accessible submarkets is 370 basis points lower than in non-accessible markets, while rents are 79.5 percent higher. The same report noted that transit-accessible submarkets had a 12.2 percent vacancy rate compared to 15.9 percent elsewhere. And more than 47 percent of new construction is taking place in transit-accessible submarkets.

This bias toward transit hubs is not limited to the urban core; urban satellites that have access to good public transportation outperform suburban areas that do not. Office properties in suburban areas show a rent bias toward those that are within transit hubs. For example, New Jersey’s transit-proximate office hubs exhibited superior performance compared with typical suburban office, according to another JLL report.

**Apartment Population Growth Follows Urban Satellites**

Because New York, Washington, D.C., and the San Francisco Bay Area have experienced outsized population (see table), rent, and value increases, the urban satellites in their orbit are particularly significant.

**New York’s urban satellites.** New York has reached an unsurpassed population level and is still growing. Large, diversified, walkable urban areas such as Manhattan have heightened interest and commensurate price increases for all types of assets. However, New York has a safety valve, as its suburbs originally were urban areas, as well. In the New York area, suburbs include urban areas such as Jersey City, N.J.; Stamford, Conn.; and White Plains, N.Y. Even within the city border itself are areas that were once independent municipalities, such as Brooklyn, and former industrial zones, such as Long Island City, that have functioned as lower cost Manhattan alternatives and attracted working-age residents and new construction.

The New York urban satellites of Jersey City, Brooklyn, Long Island City, New Rochelle, White Plains, Stamford, and Norwalk have experienced substantial working-age population growth and residential construction.

Long Island City exceeds every neighborhood in the U.S. in terms of gross units added between 2010 and 2017. That number is sure to increase with Amazon awarding it one of its HQ2 sites.

Since 2010, Stamford has been the fastest-growing city in Connecticut — and may soon surpass New Haven to become the second largest (after Bridgeport). Stamford’s 5.4 percent growth from 2010 through 2016 outpaced the country (4.8 percent), and even outperformed New York City (4.7 percent). Since the last recession, much of the growth was spawned by young professionals looking for affordable pedestrian- and transit-friendly living. The Harbor Point development, located in Stamford’s South End, has attracted nearly half of Stamford’s recent apartment construction and accounts for most units under construction.

**Washington’s urban satellites.** The population of Washington, D.C., rose 12.8 percent from 2010 to 2016, while the working-age population rose 14.8 percent during the same time period. The population and working-age population of urban satellites in Washington, D.C.’s orbit increased significantly. Tysons increased 34.7 percent and 29.7 percent; Rockville 11.8 percent and 10.9 percent; and Silver Spring 11.0 percent and 10.1 percent. This is another area that will see strong increases as Amazon’s second HQ2 site selection.

**San Francisco’s urban satellites.** San Francisco’s population rose 7.7 percent from 2010 to 2016, while the working-age population rose 7.9 percent during the same time period. The working-age population of urban satellites in San Francisco’s orbit increased even more substantially. Most of the development is in the Uptown submarket of the Oakland central business district.

**Looking Ahead**

Urban satellites are growing in importance in the shadow of the shortage of successful American cities. As center cities become more desirable and expensive, suburban cities have surged in popularity. Urban satellites have experienced substantial working-age population growth and new apartment construction over the past six years. Amazon’s selection of Long Island City and northern Virginia for its HQ2 sites reflects the desirability of these types of locations and portends well for the future.

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**Editor’s note:** This article is adapted with permission from a March 2018 white paper, “Urban Satellites Rising in the Orbit of Major Cities.” The full version is available online at https://www.newyorklife.com/realestateinvestors.