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## INFRASTRUCTURE VENTURES

Gaining traction



# Texas

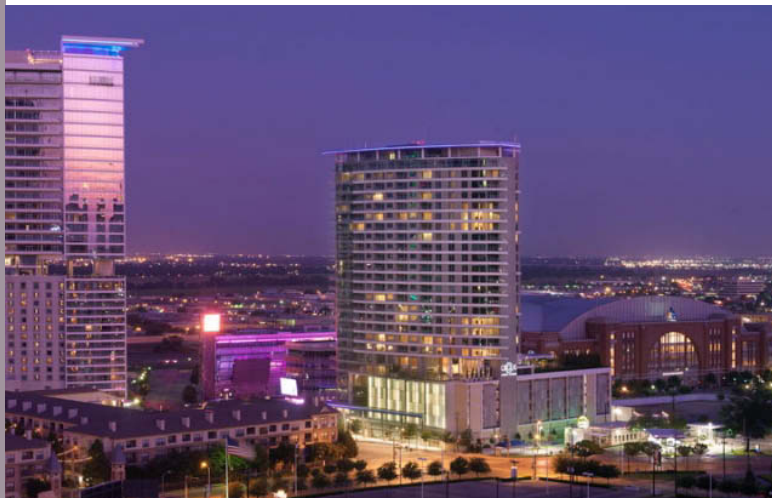
BY MIKE SHERIDAN

Hess Tower, a 29-story, 844,000-square-foot (78,400-sq-m) project in downtown Houston, is a development of Trammell Crow Company and Principal Real Estate Investors.

Real estate development in the Lone Star State remains steady thanks to a diversified economy, uninterrupted job creation, and continued relocation by companies to the state.

“Texas actually added jobs in 2008, while most of the rest of the country saw job losses,” says Mike Berry, president of Hillwood Properties, which is developing the 17,000-acre (6,900-ha) AllianceTexas project in north Texas. “Texas remains attractive for corporate relocations mainly due to the low costs of living and doing business here, as well as a skilled workforce. Also, home prices here never got out of control like in other areas of the country. The state’s economy is more diverse now, so it’s not as dependent on one industry as it was in the past, when energy was such a large factor.”

GENSLER



**The 28-story Cirque residential tower, developed by Hanover and designed by Gromatzky Dupree & Associates, is located in the Victory district of Dallas.**

The Texas real estate market has held up better than most, agrees Larry Heard, president of Transwestern, a real estate firm based in Houston. "Energy prices are declining, but most energy companies are reasonably well positioned to withstand it," he explains. "And Houston's economy also includes the Texas Medical Center, which has remained reasonably robust in its growth and expansion."

Markets such as San Antonio and Austin have fared better than most other areas of the country but can't entirely escape the effects of the downward economy, says Michael M. Fulton II, vice president, development, of San Antonio's Embrey Partners Ltd., an Alamo City-based real estate development firm. "San Antonio is seeing slightly higher vacancies among all real estate types," Fulton explains. "That said, Texas in general is in much better shape than the rest of the country, with job growth far outpacing [that of] any other state in 2008. San Antonio has historically been much less sensitive to economic swings than its peers. Helping further dampen the effects of the downturn are the 10,000-plus new jobs that the Base Realignment and Closure Act [BRAC] will bring to San Antonio over the next couple of years, which has spurred development in areas around Fort Sam Houston and others."

**Alliance Town Center—a development of Hillwood and Trademark Property Company—is destined to be the center of activity for the growing north Fort Worth area.**



Across the state, real estate development is occurring, just at a somewhat slower pace than it has in years past. Some new projects are having some difficulty getting off the ground because financing has become a concern, even for well-designed developments that fill a niche. "There is little to no financing available for new development," says Bill Boyar, chairman of Boyar & Miller, a Houston-based business law firm focusing on corporate, real estate, and litigation.

A lack of debt financing that coincides with principal maturities and the inability to refinance existing loans is trapping development equity and straining the system, Boyar says. "Even the most experienced and successful developers did not anticipate the current state."

The lack of liquidity in the financial markets is definitely affecting development, adds Mark Cover, executive vice president and chief executive officer of Houston-based Hines' Southwest region. "Projects that had financing in place before the freezing of the capital markets are generally going forward, although there have been a few cancellations," he says. "Caution among both landlords and tenants is prevalent—with credit and staying power cited by both as primary concerns. Office space availability differs significantly between Houston, Dallas, and Austin based on very different vacancy rates in submarkets. Some markets are holding up while others are very competitive. But we have not seen the type of free fall that we are seeing in some other cities with more substantial layoffs."

In downtown Houston, Hines is proceeding with the construction of MainPlace, a 46-story, 1 million-square-foot (92,900-sq-m) office structure with accounting firm KPMG LLP as a major tenant. And in Dallas, Hines partnered with Hillwood to complete One Victory Park, a 20-story, Class A office tower in the Victory district featuring 446,000 square feet (41,400 sq m) of office space, including 14,000 square feet (1,300 sq m) of street-level retail space. The tower, which opened last year, was designed by the Dallas-based architecture firm of BOKA Powell LLC.

One Victory Park is about 80 percent leased, according to Hillwood officials. Developed by Hanover and designed by Gromatzky Dupree & Associates, the 28-story Cirque residential tower—which also recently opened in the Victory district—is about 50 percent leased. Just wrapping up construction nearby is the House—a 28-story for-sale luxury residential product designed by Philippe Starck and YOO, UK Ltd., and developed by Hillwood. Through Phase III, the Victory development will have \$1.5 billion in investment, some 600,000 square feet (55,700 sq m) of office space, more than 760 residential units, and 262,000 square feet (24,341 sq m) of retail not including the arena.

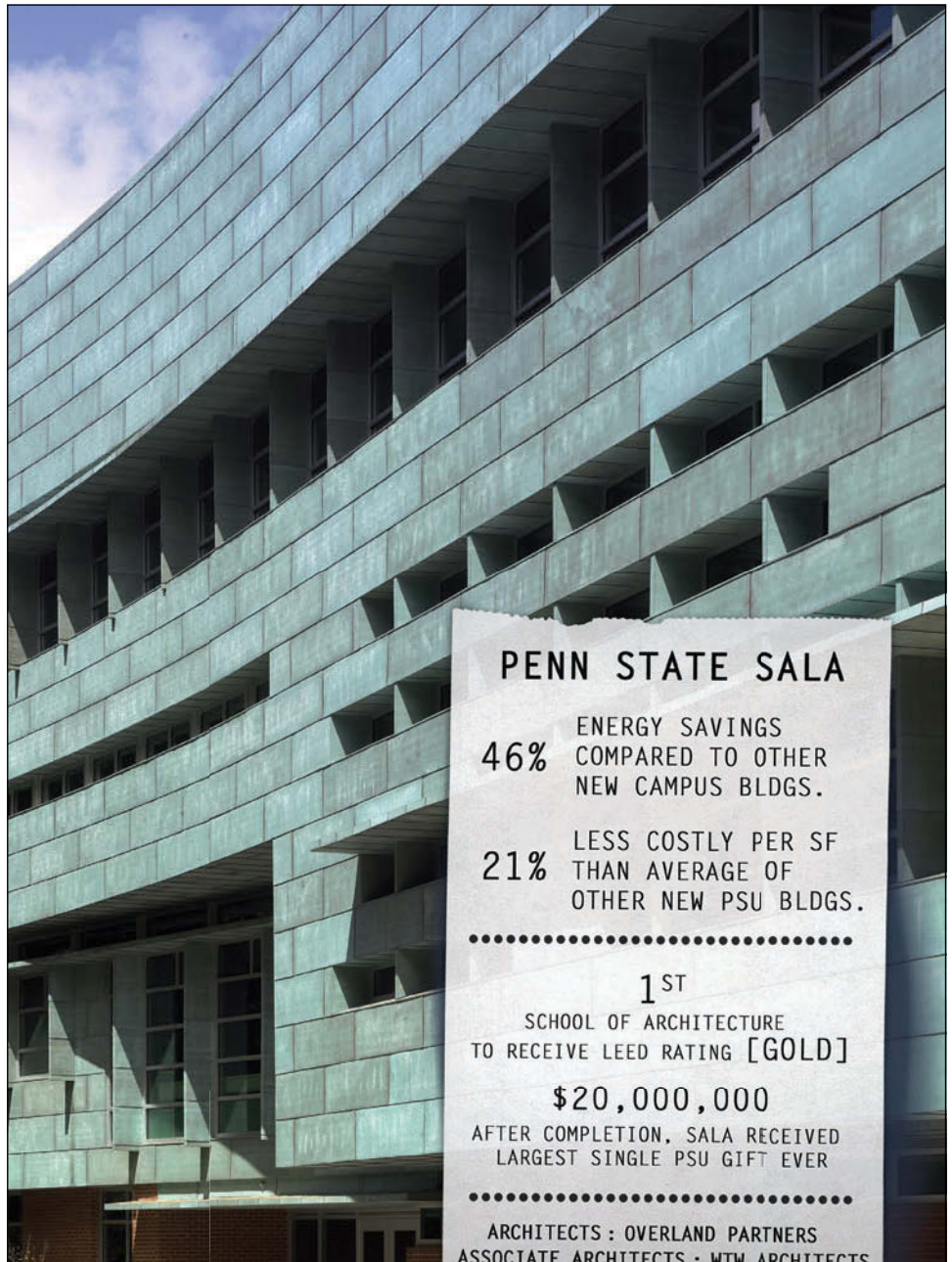
At AllianceTexas, close to 200 acres (81 ha) were sold last year for development, making it one of the best years for land sales of this decade, says Berry. "There also has been a lot of construction in the

development in the past two years," he continues. "Leasing activity picked up in the early part of this year and we finalized leases totaling slightly more than 1 million square feet [92,900 sq m] in the first two months of 2009. We are also in the middle of some significant infrastructure improvements, which will allow Alliance to handle even more growth once the economy does rebound."

Outside Arlington, Dallas-based Huffines Communities is proceeding with plans for its 2,300-acre (931-ha) Viridian community, which it describes as the "greenest" development in the state to date. One of the largest infill undertakings in the United States, Viridian is valued at \$1.4 billion at buildout, with 5,000 residential units. Says Donald Huffines, co-owner of Huffines Communities, "Its new urbanist design will enable one to walk to the workplace, shop, or enjoy the town square. Viridian will have 400,000 square feet [37,160 sq m] of retail shops, 500,000 square feet [46,400 sq m] of office space, and hotels and restaurants."

According to Jon Cross, director of leasing and marketing at the 6,000-acre (2,430-ha) Dallas Logistics Hub (DLH), the multimodal logistics park 12 miles (19 km) south of downtown Dallas is not feeling the effects of a slowdown. "With the Dallas Logistics Hub having the powerful network of highway, rail, intermodal, and air infrastructure, along with lower land and real estate costs and abundance of labor in south Dallas County, companies are starting to find locations where they can buy in at lower real estate costs, but save millions annually in transportation costs for years to come," he says.

Since ground breaking in 2007, DLH—a development of The Allen Group (TAG)—has sold over 623 acres (252 ha) for various development and build-to-suit projects and secured over \$100 million from the federal, state, and local governments for major infrastructure improvements. TAG has completed the first two speculative industrial structures totaling over 800,000 square feet



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**Burlington Northern Santa Fe Corp. is expanding its intermodal hub at Fort Worth's AllianceTexas development. The expansion is expected to help attract more distribution centers to the area, which now include JCPenney Co. and Michaels.**

(74,300 sq m), which are expected to become the first two LEED-certified industrial buildings in north Texas. Burlington Northern Santa Fe Corp. has officially closed on 198 acres (80 ha) of land, with 164 acres (66 ha) under option for a second intermodal facility within the DFW Metroplex at the site. "This would make the Dallas Logistics Hub the first and only logistics park in North America with two Class 1 intermodal facilities," Cross adds.

Others in the area are seeing new markets opening up. BOKA Powell is reporting increased work in the medical field. "There is pent-up demand for medical service facilities," says Donald R. Powell, Jr., principal of the architecture firm. "We're seeing it all over the United States, particularly with the new administration and its focus on providing health



**Dallas-based Trammell Crow Co. and Des Moines, Iowa-based Principal Real Estate Investors have received LEED Silver certification for Energy Center I, a 332,000-square-foot (30,840-sq-m) office building located in Houston and fully occupied by Foster Wheeler USA.**

DAVID SHRUTTS PHOTOGRAPHY

care access to all." BOKA Powell is also the architect of record for the 1,000-key Dallas Convention Center Hotel, which will be operated by Omni, adds Andrew Bennett, principal.

Sustainable development continues to be a strong development trend in Texas. Adam Saphier, principal of development and investment in the Houston office of Trammell Crow Company, notes, "Most developers in Houston are seeing the environmental, economic, and occupant health and productivity benefits of green buildings, so they are deploying a variety of sustainable strategies to conserve resources and improve the indoor environment." Recent examples include Trammell Crow's Energy Center II, a 12-story, 305,600-square-foot (28,400-sq-m) tower in the city's Energy Corridor submarket as well as the 29-story, 844,000-square-foot (78,400-sq-m) Hess Tower office building in downtown Houston.

David Hightower, executive vice president at the Wolff Companies, a Houston-based, privately held real estate investment and development firm, says its developments—such as Westway along the Sam Houston Tollway, which features one of the largest concentrations of LEED-eligible buildings in a single office park—are doing well. "Several buildings are being finished and a new three-story one totaling 100,000 square feet [9,290 sq m] is under construction by Opus West," says Hightower. "In Houston there is a positive feeling, although an air of cautiousness prevails," he emphasizes. "If there is a slowdown [in Houston], it's because we've slowed down from going 70 miles per hour to 50 mph."

Saphier, however, gives voice to that caution: "The economy in Houston continues to outperform the rest of the country, but there will likely be no new speculative office development due to the turbulence in the capital markets and even preleased projects will have a difficult time getting financed."

Lettie H. Harrell, senior project manager at Houston's EDI Architecture—a global architecture, planning, and interior design firm—agrees. She says that, while the economic climate appears to be better in Texas than in many other areas, some projects are being put on hold. "In many instances, the developers have land, they have a viable pro forma, but yet can't find a lender willing to [lend] them the capital necessary to move forward," Harrell explains.

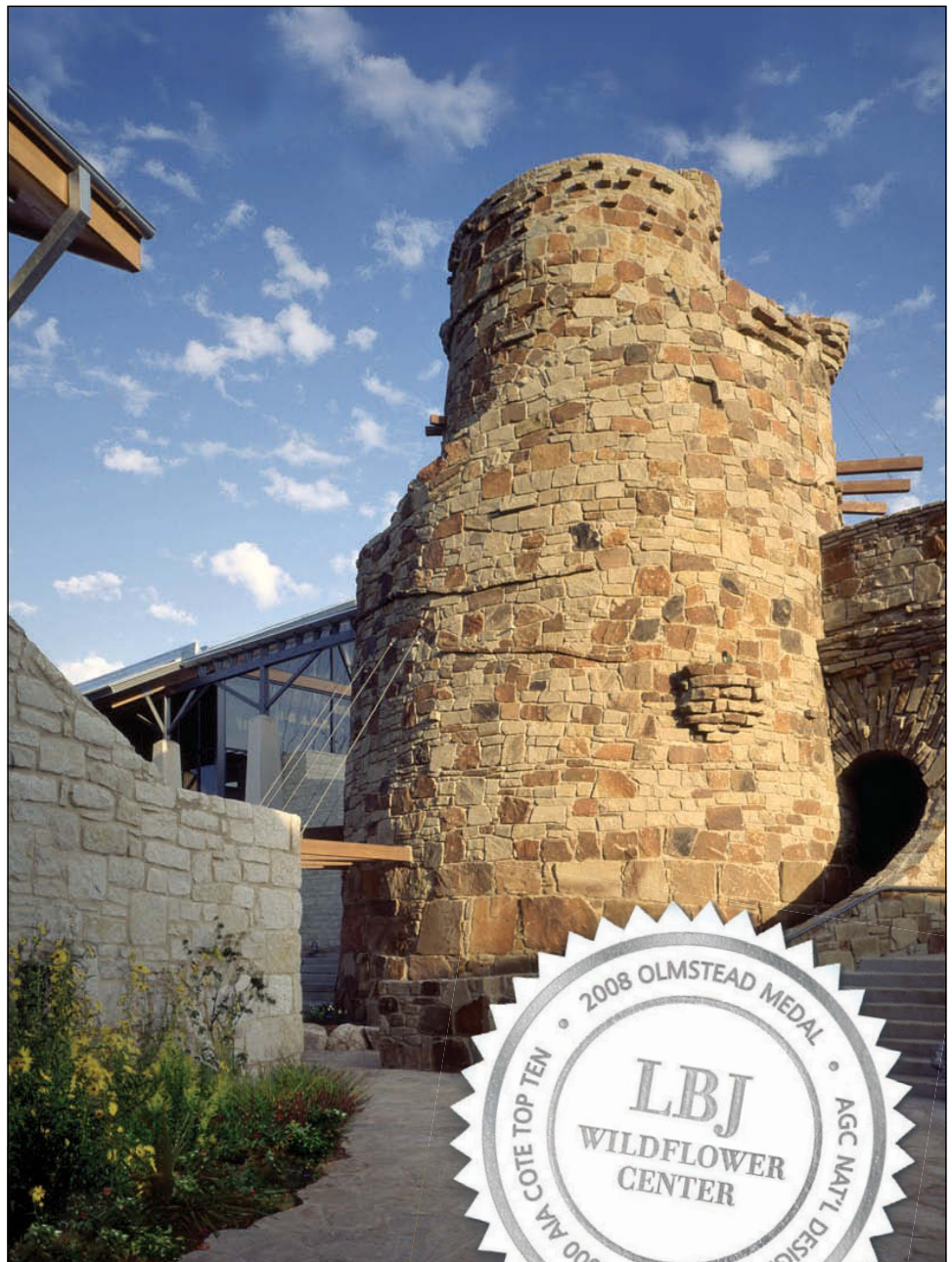
Even so, niche markets are developing. EDI, for example, is currently working with a developer in Waco on an off-campus high-rise student housing project, which Harrell sees as a development trend in the state. "College enrollment in Texas is expected to increase over the next few years, and with that we will see an increase in the demand for student housing," she says. "Limited availability of on-campus real estate, as well as the high cost of construction, has kept many universities from staying ahead of the demand for housing. They are looking to private developers for help."

One of the state's largest educational systems, the University of Texas (UT) in the state capital of Austin, is helping that city's real estate market, says Transwestern's Heard. "Austin's significant government infrastructure and UT will make the city a very attractive investment market over the next decade," he continues. "In my opinion, the long-term view of Austin is very positive. Companies are still moving to Austin and people want to live there."

Matt Whelan, senior vice president for Denver-based Catellus Development Group—ProLogis's mixed-use business unit—agrees that the Austin market has fared better during the downturn than many other major U.S. metropolitan areas. "We expect to maintain growth during 2009, albeit at a slower pace than 2008," he says, noting that Catellus serves as master developer for Mueller, a 700-acre (280-ha) mixed-use development on the site of the city's former airport.

"Overall, demand for retail, residential, and commercial space has remained steady at Mueller," says Whelan. "The project is performing well in the market compared to other mixed-use projects. The master plan is a model for smart growth, incorporating a number of new urbanist and green building principles. Mueller will soon be home to seven LEED-certified buildings—two of which are Platinum level."

Brad J. Nelsen, president of the Austin-based architecture firm Nelsen Partners, which master planned and designed the 175-acre (71-ha) Domain development in north Austin, and similar projects throughout the United States, says many of his clients have very long-term outlooks. "We are focused on large mixed-use/sustainable developments that will be built out over ten to 12 years," he adds. "Most of our clients are spending this year positioning for the future, and not worried about getting shovels in the ground in 2009. We are also seeing our clients reevaluate their existing plans based on the changing market conditions, tenant demand, and



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alternative building uses being considered. This is a great year of planning for those developers [who] have a long-term outlook: there are many opportunities to create great projects, and these markets will be back.”

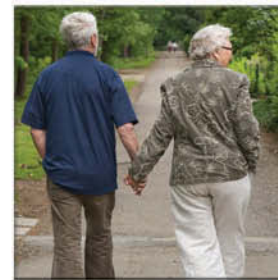
With more than 45 million square feet (4.18 million sq m) of industrial space in Austin, Dallas/Fort Worth, El Paso, Houston, and San Antonio, ProLogis says its long-term view remains positive, “knowing that the most attractive attributes about these markets stay intact, regardless of the current economic climate,” says Eric Brown, senior vice president for ProLogis, who is based in San Antonio. “Specific to Texas, ProLogis’s portfolio is, on average, more than 93 percent leased. Although we are not currently under construction on any properties in Texas, we are focused on managing costs, minimizing risk, and rightsizing ProLogis for the current environment.”

Texas remains committed to urban design and neotraditional planning, says Larry Good, chief executive officer and president of Good Fulton & Farrell Architects in Dallas. “For so long, Texas was the land of low-density lifestyle preferences—the land of open spaces,” he continues. “Now, we’re seeing people at both ends of the demographic spectrum gravitating toward a walkable urban-density lifestyle like moths to a flame.”

In Fort Worth, Good continues, the West 7th development by Cypress Equities and the shops, lofts, and offices of SoSeven by Hughes/Mast Development are located in the cultural district and are adjacent to the Trinity River Hike and Bike Trail. “The combination of world-class museum facilities with restaurants and retail makes these developments attractive to young professionals and baby boomers who yearn for walkable urbanism.”

Development in Texas is slowing compared to the heated pace of only a few years ago, and the real estate sector is expected to change over the next 12 months. “Future real estate development in Texas will be more driven by public/private entities,” says Hines’s Cover. “The public entities will receive and spend stimulus money and the private sector will tend to work for fees for a while,” he continues. “Until the capital markets thaw and fundamentals improve significantly, private development will be scarce.”

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