

Big Mixed-Use Developments and the Remaking of Houston

Where Finance and Form Meet

You want higher-quality architecture? You want buildings with ground-floor retail oriented to pedestrians? You want the feeling of connection that comes with urban life? You want affordable housing built along light rail and high-frequency bus lines? You want a city that grows while retaining neighborhood identity, scale, and history? Mixed-use developments promise this and more.

MORE AND MORE MIXED-USE DEVELOPMENTS ARE BEING built in Houston, sprinkled around our massively flat conurbation, offering moments of needed concentration, like raisins in a big, doughy loaf.

Each development takes a different form. Some contribute more to the city than others. Why is this? Let us temporarily suspend our preconceived judgments of developers and see the world from their eyes as we consider three projects: Greenway Commons, CITYCENTRE, and Village at Palm Center.

First, though, a little history. The Rice Hotel is at the heart of Houston's mixed-use past and future. Developed by Jesse Jones in 1913 with a U-plan, cast-iron canopy, and space for ground-floor retail, the hotel was, for decades, where the brokers of political and economic power in the city — our oligarchy — had a physical base in Downtown Houston. The relatively quiet desegregation of local lunch counters is credited to meetings between business and civil rights leaders that Jones convened on the 17th floor of the hotel. African-American leaders arriving for these conferences had to enter through the back door of the hotel and take the freight elevator. The result of such meetings would ironically help lead to the demise of both the hotel and the mixed-use Downtown it anchored.

In the 1960s and '70s, the flight to ever more outlying areas by middle-class Houstonians, both Anglo and African American, set the city on a course of separation — of classes, ethnicities, and land uses. Downtown became an office park by day and a dystopian playground for skaters — the legendary Urban Animals — at night. Rice Hotel closed in 1977, indoor malls expanded, and public life all but disappeared.

In the late 1990s, through a partnership of the Houston Housing Finance Corporation and developer Randall Davis, the Rice Hotel was converted into lofts, which sparked the (halting) rehabilitation of the Main Street and Market Square Historic District. Houston's first mixed-use district, however, returned largely as a "lifestyle" center. You can now walk from office to wine bar to condo with ease, but buying a hammer is still a challenge.

Lifestyle centers also took root in the "lands" — Sugar Land, The Woodlands, Pearland. The "town center" trend eventually began to work its way inside Beltway 8 as Susan Rogers noted in a 2007 *Cite* article, "Instant Urbanism: Mixed-Use Lifestyle Centers, Coming Soon to an Intersection Near You." With some notable exceptions, "coming soon" turned out to mean "on hold" after the financial meltdown in 2008.

Which brings us to risk and those taking it.

Greenway Commons: Trammell Crow Company and The Morgan Group



HOW DOES A MAJOR MIXED-USE DEVELOPMENT begin — with a property, a loan, a design concept, a market analysis, a tenant, a hunch, a dream?

From offices on the 23rd floor of the Williams Tower, Jim Casey, Senior Managing Director at Trammell Crow Company, and Stan Levy, Chief Operating Officer of The Morgan Group, point out Greenway Commons/3333 Wesleyan, a 24-acre development anchored by Costco. Trammell Crow Company and The Morgan Group built the project with an insurance/investment company as a major equity partner. Seen from so high up, the massive development looks like only one small part of an incomprehensible puzzle.

The two developers first acquired the site, at the northeast corner of Richmond and Wesleyan, at auction from the Houston Independent School District (HISD) in 2004. The original Hattie Mae White building (1969), nicknamed the Taj Mahal for its Brutalist façade and its cost to taxpayers, was sold and demolished in 2006 after HISD moved to a new building.

Trammell Crow Company was aware that Costco was looking for a location in the city. The large HISD site offered an unparalleled opportunity to attract an "investment grade" retailer to anchor the project. Costco always pays its rent, which lowered the overall investment risk of the development and in turn lowered the interest rates on the needed loans. That Costco is itself a destination able to attract other retail tenants boosted values for the projected return on investment (ROI), net operating income (NOI), and other key measures in the "pro forma" — the spreadsheet that helps developers, investors, and lenders determine whether the risk is worth taking.

More than big enough for a large retail project, the HISD site, in fact, was too big. By working with The Morgan Group to add multifamily residential development to the mix, Trammell Crow Company could share the cost of the land purchase and create a retail/residential synergy that would attract tenants to both components. With the basic concept and projected development costs in place, the insurance/investment company came on as an equity partner.

Opposite: Detail from Greenway Commons.



“After you get the equity partner, then you get bank construction financing,” explains Casey. A project that utilizes a significant amount of debt lets developers/investors increase their financial returns without tying up funds in one place. If tenancy or rent levels fall short of targets because market conditions change, though, meeting debt payments gets dicey.

“This deal was 50/50 debt and equity, for all-in costs,” says Levy. In other words, only half of the total costs were funded by debt. With a healthy economy in Houston, a strong anchor tenant, growing multifamily demand, and a prime site, landing a strong equity partner and favorable loan terms was not a major challenge.

The next question becomes: To what extent does the anchor tenant, the dynamics of the site, and the financing determine the form of a development? When do architects come in?

“In order to get the big institutional partner and loans from banks, [we present] the design, the cost, and what the returns look like,” Levy says. Architects are brought on board to create schematic designs—basic approaches, with a site plan and a few renderings—at the earliest stages of the search for anchor tenants and financing. The design then evolves as each major potential retail tenant is sought and as all the components of the development are thought through in detail. At the same time, market conditions pointing to rates of job growth or leasing, likely competition, and construction costs are monitored and can further reshape initial plans. From this give-and-take process emerged Greenway Commons/3333 Wesleyan, which opened in 2008 and has reached stabilized occupancy.

The retail side, the larger of the two uses, takes up 14.6 acres. Designed by CDA Architects, a Houston-based firm, Greenway Commons is more complex than it first appears. A surface parking lot, smaller than typical for Costco, is complemented by a three-story parking garage. Smoothie King, Buffalo Wild Wings, a Memorial Hermann clinic, Bullritos, and other stores are arranged along Wesleyan Street with their own direct access to the garage. LA Fitness is stacked on top of Costco, served by its own “speed ramp” to the garage rooftop so their clients can drive up and walk straight to the weights and indoor swimming pool.

The north side of the site is home to The Morgan Group’s 3333 Wesleyan, a 526-unit multifamily complex that wraps around yet another parking garage, allowing its residents to walk directly onto their desired floor. The intricacy of this parking arrangement is an innovation that architecture firm Wallace Garcia Wilson has exported across the country. Interior courtyards—two pools and two other common

areas—provide access to natural light for units on the inside of the double-loaded corridors. As of November 2015, the rents range from \$1,300 for a one-bedroom unit to \$2,500 for a two-bedroom, two-bath apartment.

Not far away is the River Oaks District, designed by Gensler for a Main Street-like experience. Valets whisk away cars to the garages on the periphery of the site, while shoppers walk along wide sidewalks to Hermes, Cartier, Dolce & Gabbana, and other high-end retailers. In contrast, the drive that runs down the middle of Greenway Commons/3333 Wesleyan is a reciprocal easement designed to provide access to the parking garages as well as the required emergency access for fire trucks. The latter is a sub/urban hybrid, to use Judith DeJong’s term, and the former is a simulated Main Street. Why did these developments take such different forms?

For an answer, again looking down from his Williams Tower offices, Casey points out all the competition they faced—the stronghold that Highland Village and The Galleria already had on mid- to high-end retail, plus other retail projects being contemplated at the time, like BLVD Place and River Oaks District, which were targeting ultra-high-end stores. What niche would Trammell Crow Company and The Morgan Group fill?

“You have to analyze how you stack up against the competition,” Casey says. “You need to develop a project where the retail tenants will flourish, for your property investment to be successful.” So, they looked at population density, spending levels, household income levels, visibility, traffic counts, and the price of houses relative to rent. The data “proved up” their intuitions.

“Our typical resident profile is the Millennial, between 24- and 34-years-old,” says Levy about 3333 Wesleyan.

These same people would be attracted to the wholesale prices on everyday goods at Costco. And the immediate neighbors are also taken into consideration.

“We are sensitive to the community,” Casey says. “For example, leaving the oak trees meant giving up parking and visibility.”

Trammell Crow Company and its partners have since sold the Greenway Commons retail portion. The Morgan Group continues to operate the apartments on behalf of itself and the original institutional investor.

Although Trammell Crow Company did not build Greenway Commons with an eye to being a long-term owner, Casey says that developers are still incentivized to build a high-quality project. They know that buyers of these types of projects are sophisticated and look carefully at the specifications of the construction, sustainability, and performance.

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the financing determine the form?
When do the architects come in?

With a big box as its anchor, Greenway Commons/3333 Wesleyan may not be perceived as an urban, mixed-use development. However, the bustling polyglot aisles of Costco and the fully-leased smaller spaces are a testament to the development's appeal to a wide swath of Houston.

CITYCENTRE: The Midway Companies



WE LOOK FOR GENERATIONAL REAL ESTATE — real estate that will be great for the next 150 years,” says Jonathan Brinsden, CEO of Midway Companies, from his offices in CITYCENTRE, the mixed-use development that Midway developed and

opened in October 2009.

Though nowhere near Downtown, CITYCENTRE may well be at the exact demographic center of the well-heeled I-10 corridor. It sits between two business centers and adjacent to Houston's wealthiest zip code. Formerly home to Town and Country, a mall that died in the early 2000s, the site was acquired “off market” by Midway in 2004 with 30 days for due diligence and 30 days to close.

“We had to go to sources where we had relationships,” such as Amegy Bank, Brinsden says. Drawing on its network and institutional capital, including a “mezzanine loan” from another group, Midway came up with the money fast, though it had no specific plan for the property.

“You don't have to be a real estate genius to know something will work,” says Brinsden of the location.

Once the site was acquired, the market research began in earnest. What was the current demand for offices, retail, residential, and hotels? The numbers for all four types of uses came out exceptionally positive, which meant no one use would have to subsidize another. (Ground-floor retail is often built with the understanding that it will be a “loss leader.”) The demand was pent up. The last major hotel to open in the area was a Hyatt in 1984. The last multifamily residential complex was a 1970s garden apartment.

The Houston offices of Gensler were brought on as master planners. At the time, Shon Link was at Gensler. Brinsden, Link, and others visited approximately 30 mixed-use projects across the United States.

“We mostly learned about what not to do,” says Link, who is now Executive Vice President for Development at

Midway. One positive example was Country Club Plaza, a mixed-use development in Kansas City built over 100 years ago. “It ebbed and flowed. It survived. Sticking to a simple urban grid accommodated new uses,” says Link.

The CITYCENTRE master plan is also a simple grid that separates residential, retail, offices, and hotels on different plots of land, allowing for investors to go in on the types of projects that play to their expertise. As Brinsden puts it, there is “a different capital partner for every different food group here.” An owners' association provides landscaping, utilities, trash, security, and parking management. In addition, Midway develops each project and serves as the “common thread” so the parts add up to a unified whole.

The parking came ready-made with the site. When the old Town and Country mall was demolished, its parking garages were left standing and so could be reused by CITYCENTRE. “Because of the existing parking, no public incentive was needed,” Brinsden says. Houston's otherwise onerous parking code is progressive regarding mixed-use projects: it allows spots for daytime uses (offices) to be double-counted for nighttime uses (bars). Midway takes full advantage of using each spot multiple times and phases new sub-developments around the shared parking. (This type of cohesive parking management is what the Kinder Institute recently recommended in their study of Rice Village.)

The wide sidewalks of CITYCENTRE are packed with people both during the day and at night. The mixed-use magic worked. The grass for the small plaza had to be replaced with artificial turf because it is so popular.

“We are starved for experience,” Link says in explaining how quickly residents of surrounding neighborhoods flocked to CITYCENTRE and adopted the private development as a space akin to a public commons. Some 200 to 300 events are held in the plaza each year. It is an oasis of activity in a vast sea of cul-de-sacs and frontage roads. Indeed, Link adds, “With our mobility problem, creating these nodes so that people don't have to drive to Downtown to have this experience is incredibly important.”

The design process, the Midway executives say, was iterative, not linear. The program, financial models, and architecture developed in cycles as they tested options.

Whereas Gerald Hines mitigated risk by hiring the world's leading designers to create icons, Brinsden and Link see the creation of a singular experience as Midway's ideal method of reducing risk. By lasting through all the boom and bust cycles of Houston, Hines has shown that “if you have the best building, chances are you will be full even if you are not getting the rents you wanted,” says Brinsden. “We are achieving the same thing with community.” He

Opposite: CITYCENTRE.



readily acknowledges, “On an individual level, the buildings will not win architectural prizes,” but goes on to identify the critical design decisions in his view: sidewalks, plazas, air flows, shade. “You have to deliver the experience in Phase One.”

The biggest risk for developers occurs when they are forced to open a project at the beginning of a bust, which is exactly what happened to CITYCENTRE. “The world was ending,” quips Brinsden. Only about 60 percent of the project was “leveraged” or financed through debt, though, which is relatively low and so allowed Midway to take additional time to land tenants. “We performed well during a difficult time,” Brinsden says. “It proved up that if you have something unique, it is better for financial performance.”

ITEX Group: The Village at Palm Center



IN 2013, THE FIRST RENDERINGS THAT ITEX Group shared at community meetings in Southeast Houston showed 16,000 square-feet of retail space and over 200 housing units, including apartments reserved for those with affordable-housing vouchers.

The feedback came back loud and clear. But not the kind of anger we expect from neighborhoods opposing developers. The community did not tell the developers to go away or to eliminate the affordable housing.

Give us a more urban development, they said. Put the parking in the back and bring the retail up to the sidewalk.

Advocates like Minister Robert Muhammad, who has a doctorate in urban planning from Texas Southern University, and Cedric Douglas, a graduate of the Gerald D. Hines College of Architecture, helped others in the community to articulate a vision for a walkable and inclusive neighborhood in formal terms.

And the developers listened. Working with Humphreys & Partners, an architecture firm with offices in Dallas, they revised the plan.

“When you see the neighborhood leadership coalesce like it has in the Third Ward, it is amazing what you can accomplish,” says Clark Colvin, Executive Vice President at ITEX Group. “They know exactly what they want. They all have the same goals.”

That coalescing of leadership has to do with decades of

organizing by many individuals and a veritable alphabet soup of organizations. Preston Roe and Paulette Wagner of Super Neighborhood 68 are among them. In 2011, a \$100,000 grant from National Endowment for the Arts (NEA) to Carroll Parrott Blue and the University of Houston funded community-based planning for the area around The Palm Center (a 1955 outdoor shopping mall now used by nonprofits). The Southeast Houston Transformation Alliance (SEHTA) has carried forward the work begun under the NEA grant. Funding from Houston LISC to the Neighborhood Recovery CDC established the OST/South Union GO Neighborhood, which is a community-driven approach to comprehensive community development.

And that’s not all.

Colvin also notes the substantial investment in this predominantly African-American area by the city through its acquisition of The Palm Center, the expansion of light rail into the neighborhood by METRO, the building of a new library and park, and the infrastructure improvements achieved via a tax increment reinvestment zone (TIRZ).

Now under construction, the Village at Palm Center is, in some respects, a test case for how the city might move forward with its new General Plan with concerted efforts to layer public investments. The impetus was the availability of Ike Disaster Funds. An open Request for Proposals (RFP) was put out by the city for developments in five neighborhoods, including Southeast Houston/OST.

To finance The Village at Palm Center, the ITEX Group leveraged the 4 percent Low Income Housing Tax Credit, or LIHTC (pronounced li-tech), vouchers for housing veterans close to the nearby Veterans Administration Hospital, \$15.3 million from the Hurricane Ike Disaster Recovery Housing Program funds, and an undisclosed mix of loans and equity.

Confused yet?



Colvin stresses that navigating the complex world of building workforce and affordable housing requires the special expertise that the ITEX Group has acquired over years under the leadership of the late Ike Akbari. However, Colvin also stresses that it was the years of preparation by community groups working in the neighborhood that made the project possible.

"We wanted to make sure the people who lived in the neighborhood could remain," says Gwen Fredrick, the Go Neighborhoods Community Coordinator.

The Village at Palm Center will be the first transit-oriented, mixed-use development with a mix of market-rate and affordable housing in Houston. The comprehensive approach to the entire Palm Center area points to a future in which Houston can leverage a mix of tools and funding streams to transform neighborhoods without displacing longtime residents. The acronyms are dizzying but the goals are common sense.

"Why not a coffee shop across from the library?" says Colvin. When he points out that 40,000 UH students are less than two miles away, the vision of a thriving retail center does not sound far-fetched.

The ITEX Group came to SEHTA as a result of federal government and City of Houston requirements that developers engage community residents. "An added bonus," say Blue, "is that the ITEX Group will make money off this project." That point is, perhaps, what is so promising about The Village at Palm Center. If community groups have a meaningful voice, if comprehensive planning identifies the best sites, if all the various pots of public money are used in a comprehensive manner, and if developers profit while contributing to the city, then we can expect a bright future for this city. And those are conditions in which architects can do great work.

Global Finance, Local Gain



AS HE STANDS AT THE 23RD-FLOOR WINDOW of his office, Jim Casey of Trammell Crow Company surveys the great arc of buildings stretching from Uptown to Greenway to the Medical Center to Downtown. Most Houstonians would name a few landmarks like the Southwest Freeway. Readers of *Cite* may be able to name the designers of several buildings: Gensler, César Pelli, Johnson/Burgee. Casey names off the major institutional

investors who backed the buildings: "Prudential, MetLife, JP Morgan, Brookfield, Invesco, Principal, TIAA-CREF ... "

The developer sees the world with different eyes.

And the eyes of the developer today have to take in a global picture. When Trammell Crow the man began his career building warehouses in 1950s Dallas, he borrowed from banks based in Dallas. By 2009 when he died at the age of 94, capital moved in profoundly different ways.

Hard as it is to imagine for the average person paying monthly bills, huge piles of money are out there, often managed by real estate investment advisors, in need of safe places to invest. These big pools of equity include municipal pension funds, university endowments, life insurance companies, private equity funds, foreign governments or sovereign funds, and real estate investment trusts (REITs).

A few thousand dollars of my own retirement is invested in TIAA-CREF. As I learn from Casey, this means I have a fractional stake in Four Oaks Place, which includes a new office tower, currently under construction in Uptown. We are all implicated in this vast flow of money even as it seems beyond our grasp.

Grasp that complex world we must if we are to achieve the local goals set out in Houston's General Plan and espoused by Mayor Sylvester Turner. How can we tilt the equations in the developer's pro forma in favor of affordability and urbanism?

The Holy Grail in mixed-use development would be a marriage of equity, urbanism, and innovation. The twentieth-century version of that dream — the Modernist union of aesthetics and social aims — is said to have died with the failure of housing blocks like Pruitt-Igoe in St. Louis. While it's unlikely that mixed-use centers and inclusionary housing will push the boundaries of design, we need to remember that before Gerald Hines built Pennzoil Place, no one thought a developer-built office tower could do that either.

In her 1976 review of Pennzoil Place, Ada Louise Huxtable writes, "If Houston has found the formula for turning prosperity and growth into beauty and elegance, it is indeed the city of the future."

Here's to rediscovering the formula. ●

A View of Emerging Mixed-Use Centers

On the twenty-third floor of the Williams Tower, located in Houston's biggest mixed-use center, Jim Casey, Senior Managing Director at Trammell Crow Company, sees a developer-enabled environment in which the lack of zoning allows the private sector to respond to the demand for more dense, close-in, mixed-use districts. Each has its own rhythm and vibe driven more by existing circumstances and market forces than a strong governmental hand.



RIVER OAKS SHOPPING CENTER (River Oaks Corporation, 1937, now owned by Weingarten), Regents Square (GID Development), and surrounding areas of Montrose have densified incrementally.

DOWNTOWN was mostly offices, sports complexes, theaters, hotels, and courts until recent and ongoing construction of 3,000 residential units.

RIVER OAKS DISTRICT (Oliver McMillan, 2015) and MILLENNIUM HIGH STREET (The Dinerstein Companies, 2013) bring more high-end retail and residential to Westheimer.

HIGHLAND VILLAGE (S. N. Adams, 1949, now Haidar Barbouti) has seen retail redevelopment and densification.

UPPER KIRBY DISTRICT has densified with new retail, restaurant, and residential, such as West Ave (Gables 2009) and soon, offices at The Kirby Collection (Thor Equity) and Kirby Grove (Midway).

The view from Trammell Crow Company's office.

MIDTOWN has evolved over many years and is becoming home to a thriving scene of bars, retail, and residential, including Camden McGowen Station.

GREENWAY PLAZA (Century Development Corporation, 1973), a stronghold for offices with more condos and apartments nearby.

GREENWAY COMMONS/
3333 WESLAYAN (Trammell Crow Company and The Morgan Group, 2009) added retail (Costco) and multifamily residential.

