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High-density, mixed-use trend takes root in Houston

By **Nancy Sarnoff and David Kaplan** Published 6:30 am, Sunday, March 4, 2007



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The construction of mixed-use developments like CityCentre, at Interstate 10 and Beltway 8, puts Houston in line with a national real estate trend.

In a city known for suburban sprawl, competing developers are testing a different concept: master-planned, high-density projects combining residential, retail, offices and hotels.

While these trendy developments, where people can walk from their homes to shops, restaurants and even their workplaces, have taken root in other parts of the country, they've been slow to show up here.

That's about to change. In the Houston area, at least nine of these projects are planned or under construction. Most of the sites are in the heart of town. Land

is just now being cleared for some of them, while others in the suburbs are further along.

The trend is driven by affluent young professionals and empty nesters tired of long commutes. Rising land costs also factor in by requiring developers to build more on smaller spaces.

One project will feature Houston's only flagship Whole Foods Market, while another will span 37 acres and include a movie theater and upscale fitness center.

Another factor fueling this development shift is the explosion of wealth in the U.S., said **Howard Davidowitz**, chairman of Davidowitz & Associates, a national retail consulting and investment banking firm in New York.

Luxury retail, hotel and residential markets are "on fire," and those sectors are perfect fits for mixed use, he said.

But some observers wonder if all these projects, three of which are just a few miles from each other, will end up as they're envisioned or be turned into something less ambitious. They question whether there are enough high-end tenants to go around and if they can turn a profit on projects that can cost a half-billion dollars.

Developers and architects say these projects are expensive to build because they often include pricey underground parking garages and have high upfront construction costs.

Taking risks

The impending wave of mixed-use construction reflects the willingness of developers to take risks based on the city's current prosperity and projections that the Houston area's population will grow by 3.5 million in less than 30 years, said **Kent Dussair**, president of **CDS Market Research**, a Houston-based consulting firm.

Cities such as Dallas, Atlanta, Phoenix and Austin are already in various

stages of building urban-style projects, while Houston, "with the strongest economy of the bunch," is playing catch-up, he noted.

These projects foster a sense of community, noted **David Crossley**, president of the **Gulf Coast Institute**, a nonprofit Houston group advocating quality of life issues.

"For half a century, we've been building spaces with separate uses: a mall here, houses there and offices somewhere else," he said, while the mixed-use movement is "an attempt to put all those uses back together again."

Most commercial developments in Houston are more accommodating to the car than those in older, transit-dependent cities.

Development "will happen in a Houston way," said urban historian **Joel Kotkin**, who recently heard about the new mixed-use project at the old Town & Country Mall site, which he noted is located at the intersection of two major freeways far from downtown.

Good neighbors?

The large scale of these multi-use projects raises the question of what kind of neighbors they'll be when they're built in established neighborhoods inside the Loop.

A potential downside to a surrounding neighborhood will be increased traffic, Crossley said. While these projects will likely raise nearby land values, that typically means higher taxes.

Whether surrounding property owners will embrace the mixed-use model, allowing it to spread, is an open question because Houston has so few regulations, Crossley said: It's strictly up to the surrounding property owners.

Overall, he believes the projects will benefit a neighborhood.

"It gives you all these places to go," he said, and the developers "work hard to make their private streets seem public. It's hard to see how it wouldn't be

anything but a good neighbor."

Bill Pribyl, a resident of Morningside Place, said he and some of his neighbors have concerns about a mixed-use project called Sonoma planned for the nearby Rice Village area.

Pribyl said an attempt by the developers to close a portion of a street to build the project could aggravate traffic congestion and parking problems.

"Like a lot of older neighborhoods with single-family residential, there's a general fear of developers that are coming in without any sensitivity to the architecture and the sensibilities of the neighborhood and the needs of families that are living there," Pribyl said.

Julie Tysor, a vice president at **Lamesa Properties**, the developer of Sonoma, said her company has done extensive traffic studies.

"We'll have an over-abundance of parking," including parking underground, she said.

Sonoma, which Tysor said is less dense than other developments in the area, will be a pleasant place for neighboring residents to gather and will replace an "unsightly" retail center.

Cost issues

Building multi-use projects can prove so costly that some won't take the risk. Trammell Crow Co. and Morgan Group changed their plans to build an integrated mixed-use project on 24 acres near the corner of Richmond and Wesleyan because they didn't think it would work.

"The numbers just got too big, the cost too high and the yield too low," said **Michael Morgan**, CEO and co-chairman of the Houston-based Morgan Group.

After touring the country studying other mixed-use projects, "we discovered the ones that were economically successful were the ones that had

government help," Morgan said. The group has instead opted to build an apartment complex next to what will likely be a big-box retailer.

Houston Pavilions, a downtown project that was once designed with a residential component, is now being built with just retail and office space. The developers said the additional parking requirement would have been too costly.

A Boston developer, planning to replace the **Allen House** apartment complex with an expansive project of shops, restaurants, a hotel and residential units, has owned the land for about 20 years. The company plans to own the project well into the future because it believes the value of the development will appreciate over time.

It is possible that the other proposed projects will be built, and that it's purely a local supply-and-demand function, according to **Michael Beyard**, senior retail fellow at the **Urban Land Institute**.

However, there is a danger of overbuilding in Houston, because it's so easy to enter the market, he said: "You don't know who your competition is going to be, whereas in older cities, it's a long, drawn-out process to get a building permit."

Most mixed-use projects are driven by the residential component, Beyard said. Appealing retailers are used to lure potential residents, with specialty grocers and high-profile restaurants being among the biggest draws.

A mixed-use project with exceptionally strong retail tenants can increase the sales price of a residential unit 10 to 20 percent, Beyard said.

Davidowitz believes there is enough luxury retail to fill all the proposed Houston projects.

"Neiman Marcus is talking about coming up with a new concept that could fit in a smaller, mixed-use space," he said, and Barney's already has. "So many

new jewelry stores are coming to the U.S. from around the world.”

Mixed-use projects will make “street retailers” – specialty stores and restaurants that typically avoid malls and strip centers – more interested in coming to Houston, said Monte Large, an urban broker with Wulfe & Co.

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