

After a breather, Dallas' Uptown is ready to boom again



David Woo/Staff Photographer

Uptown, seen from the Azure high-rise, is well-positioned to pick up quickly on construction. Office projects are in the works, and residential and retail development is promising.

By STEVE BROWN

With the building downturn, the construction cranes have flown the coop from Dallas' Uptown district.

But don't expect them to stay away for long.

Developers are already working on a handful of projects, and more are in the wings.

"I think the market in Uptown is going to bounce back a lot quicker than many people think," said John Zogg, managing director of leasing with Crescent Real Estate. "We've caught our breath for a bit.

"And we have a lot more velocity than Las Colinas or, say, Richardson," Zogg said. "Uptown has fared better in the downturn."

Before the recession hit, the Uptown area was the fastest-growing Dallas real estate market. Developers put up billions of dollars in offices, residential high-rises, retail and hotel space.

Because the Uptown area didn't get dramatically overbuilt — particularly for office space — commercial builders are betting the area will come roaring back over the next couple of years.

Crescent Real Estate — which owns the Crescent complex on Cedar Springs Road — is working on an office tower on vacant land it owns at McKinney Avenue and Olive Street.

"We think it's the best building site in Uptown," Zogg said. "This area is where all the energy is."

Crescent's proposed office project is one of three percolating in the same area.

The company's three-building Crescent office complex — which celebrates its 25th birthday this year — is more than 90 percent leased.

Investment firm Highland Capital Management just inked a 45,000-square-foot lease to move its Dallas headquarters from the Galleria complex to the Crescent.

The Crescent's owners are spending \$6 million to upgrade the elevators and have invested more than \$2 million in the buildings' power systems.

"It still requires a lot of capital so we can keep the Crescent in the condition our clients demand," Zogg said.

Just across the street from Crescent's proposed office building, investor Spyglass Equities Co. has begun leasing a four-story office project that would be constructed on top of an existing parking garage at Olive and Cedar Springs.

Called Harwood Court, the 100,000-square-foot building could be ready in as little as 14 months.

Strong market

"Uptown is clearly the strongest office market in Dallas," said real estate broker Jon Altschuler, who's rounding up tenants for the deal. "Rents are increasing and space is tight.

"It's the area where the big services firms and financial companies want to be," he said.

Three of Dallas' largest commercial real estate firms — CB Richard Ellis , Colliers International and Cushman & Wakefield — recently moved their regional offices to Uptown buildings.

Of the five office towers built in the area during the recent boom, only one still has significant vacant space.

"We're just under 40 percent leased," said **Greg Fuller**, chief operating officer of **Granite Properties**, which opened its 19-story 17Seventeen McKinney office tower last summer. "We've been able to lease about 25,000 square feet a quarter, which is about what we planned."

With space in the area tightening up, Fuller said, quoted office rents are up by as much as 15 percent from a year ago.

"Rents are still off of their highs by as much as 10 percent, but that is a whole lot better than most markets," he said. "There has definitely been an increase in momentum in the market."

Joel Pustmueller of Peloton Commercial Real Estate agrees that Uptown is poised for a comeback.

"The Uptown is almost back to where it was two years ago, price-wise," Pustmueller said. "Nearly all the new buildings constructed over there are full.

"We expect another building to be kicked off down there in the coming months."

Harwood International's new 26-story Saint Ann Court office tower at Olive Street and Harry Hines Boulevard is 75 percent leased. The 314,000-square-foot building has lead tenants including Amegy Bank, Boston Consulting Group and law firm McGuire, Craddock & Strother.

Developer Gabriel Barbier-Mueller is already working on his next Uptown office tower — this one near the entrance to the Dallas North Tollway.

“Hopefully, we’ll start construction this year,” Barbier-Mueller said. “If we get a signed tenant who is creditworthy, the money is available to start a project.

“Sometime between now and 2016, I think you’ll see at least two or three towers in the Uptown district, based on the demand we see,” he said. “I think by 2012 and 2013, you’ll start seeing the cranes here again.”

Along with the office tower, Harwood International’s proposed project near McKinnon and Wolf streets will contain retail space and an apartment tower.

“Our planned Harwood Village will have at least seven restaurants and a grocery store that will serve takeout food,” Barbier-Mueller said. “All of those buildings will have direct access to the Katy Trail, so if you want to bike to work, you can.”

With construction of the Woodall Rodgers Park connecting Uptown to the downtown Arts District, the central business district will be more closely linked.

“This area has really taken on an active life, and I think it’s becoming a real city,” Barbier-Mueller said.

Residential and retail

Residential and retail activity in Uptown is also rebounding.

Developer Gables Residential has broken ground on just under 300 units in its apartment project near the Katy Trail between Fairmount and Routh streets. Gables is already a major rental landlord in Uptown.

And in Cityplace on Blackburn Street, developer JLB Partners is about to begin construction on a 194-unit apartment project that will cost more than \$30 million.

Inland American Communities is about 90 percent leased at its new 227-unit Cityville Katy Trail apartments on Lemmon Avenue and Cole Avenue.

“Overall, the apartment market down in Uptown is doing very well — even better than the downtown stuff,” said Greg Willett, vice president with apartment analyst MPF Research. “We are pretty optimistic about the urban core in the next few years.”

With occupancy over 95 percent, landlords are ratcheting up rents, Willett said.

“The big story for the Uptown market is the rent growth — up 9.5 percent in the first quarter from a year earlier,” he said.

And with fewer apartment deals in the development pipeline, there won’t be many units coming on the market this year.

“It is looking pretty sparse in terms of new product deliveries,” Willett said.

Of course, developers are working on that.

Cityplace Co. president Neal Sleeper said he’s already getting a lot of tire kickers for the building sites left in the area.

“I think the prospects are very good that we’ll get construction under way on another building in the next year,” Sleeper said. “It’s quite likely that the freeway building sites we have at Blackburn and Lemmon and North Central Expressway will end up being office projects.”

Cityplace space

Sleeper said retail space in Cityplace — including the popular West Village complex — is staying full.

“And for every space we empty, we have three deals working on it,” he said.

Cityplace is talking to a range of tenants from restaurants to offices about taking over the former Borders Books space at McKinney and Lemmon, he said.

“The only big hole in the West Village area is that Borders store,” said broker Jack Gosnell of UCR Urban. “Prices are holding up in the area, and the sales volumes are very steady.

“The market seems to be bouncing back real strong.”

UCR estimates almost 20,000 people live in Uptown and have an average income of more than \$82,000.

Restaurant space in Uptown is doing particularly well, Gosnell said.

“Where we are really weak is for neighborhood services,” he said. “We need another strong grocery component in Uptown.”

The only large retail vacancies are in the Victory Park project, which has suffered retrenchment over the last few years. The future of the big mixed-use project on Uptown’s western edge is still up in the air.

Earlier this year, Cousins Properties took over management of Victory Park, and it is still working on repositioning the development.