

# After economy stalls it, development again revs up at the Domain

By **Shonda Novak**

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After being stalled during the economy's downturn, Endeavor Real Estate Group's ambitious mixed-use Domain project in North Austin is again moving forward.

Construction is under way on a 55,000-square-foot Whole Foods Market and on 315 apartments — the first phase of 543 planned rental units at the project off North MoPac Boulevard (Loop 1) and Burnet Road. The apartments are being developed in a joint venture composed of Dallas-based Columbus Residential, Austin-based Endeavor and RREEF, Endeavor's capital partner in the Domain.

In January, construction will begin on the other 228 apartments, along with a 9-acre park.

A 140-room Aloft hotel, a Starwood brand, opened in 2009. The three office buildings on the 176-acre site are fully leased with tenants, including OneWest Bank, Convio, Electronic Arts and the Texas Culinary Institute. In addition, Endeavor recently wrapped up work on another mile of roads and utilities to serve future development.

Endeavor is in the process of deciding what it will put on the ground next at the Domain: more office space, hotel rooms, residential units or some combination of those, said Ben Bufkin, a development associate with Austin-based Endeavor. Endeavor is talking to prospective users to gauge demand for the components, and the market will dictate what gets built next, he said.

The new activity is significant because it represents renewed progress at a high-profile project that is central to furthering the city's vision for the North Burnet Road corridor — a 2,300-acre swath in all — as the next major dense node, a "second downtown," in Mayor Lee Leffingwell's words.

"The wheels are turning again," Bufkin said. "We have a bunch of momentum. Our sense is that it's time to be getting ready to market the next pieces of the vision."

"We're out there as we are always, doing market analysis and research, talking to the capital markets and potential users and keeping our pulse on the market," he said.

The Whole Foods is slated for a 2013 opening. The first phase of apartments will open next year, and the second phase in 2013.

For the past three years, the national economic downturn, coupled with a lackluster retail climate and lack of financing for projects, derailed Endeavor's schedule for the project. It was three years ago this month that Endeavor said it would delay for a year the retail portion of the project, which was to include a Nordstrom and a Saks Fifth Avenue, along with Whole Foods.

In October 2009, Endeavor announced the project would be delayed even longer.

But now, construction crews are busy at the site, in large part because financing is loosening up.

"The capital markets are back in a significant way, and that's allowed a lot of projects to move forward," Bufkin said. "Capital is flowing to preferred or strategic markets, and we're lucky that all major Texas markets fit in that category, and Austin sits near the top of the list for a majority of institutions."

Endeavor's original vision for the project — a dense, mixed-use development — has not changed, Bufkin said, although Endeavor has had to adapt to a changing market.

A Saks official declined to comment on whether the company would still be interested in opening a store at the Domain. Nordstrom has no current plans to open a store there, a company spokesman said.

Over time, Endeavor intends to develop 8.5 million square feet of housing, hotel rooms, offices and restaurants at the Domain, which will be linked by roads to the first phase of the Domain — the adjacent mixed-use project anchored by Austin's first full-line Neiman Marcus and Macy's.

Endeavor was the original developer of that phase, where it brought on Simon Property Group as a partner in late 2003. Endeavor later sold its interest in the project to Simon.

### **A vision takes shape**

In February 2003, Endeavor unveiled plans for an untested retail concept for Austin: an outdoor, pedestrian-oriented regional shopping center with upscale retailers, plazas, outdoor cafes, entertainment venues, office space and hundreds of apartments atop the stores and speciality shops.

In May that year, the Austin City Council approved \$37 million in sales and property tax rebates over 20 years for the first phase of the Domain. It was the first time the city had granted tax breaks to a retail project. Travis County leaders voted to rebate as much as \$9.3 million in property taxes over the same period.

Austin officials said the Domain would help generate jobs and sales tax revenue for the city, which at the time faced a \$77 million budget gap and was losing sales tax income to the growing suburban areas. The center was planned for 57 acres that were part of a larger tract where dot-com offices once were planned, the genesis of the Domain name.

Endeavor's vision for the mall unfolded over the next few years, with a crowning moment on March 9, 2007, when the destination lifestyle center opened, elevating Austin into a new shopping realm marked by an unprecedented level of luxury for local shoppers.

Charles Heimsath, a real estate expert and consultant on the project in its early stages, said the Domain has been a success, having taken shape as envisioned.

"I think they've done an excellent job of executing the original concept, which was to create a walkable, mixed-use environment that included retail, office and multifamily," Heimsath said.

It was a concept "completely foreign to Austin at the time," though one that was emerging throughout the country, Heimsath said.

"As I look back over what was intended and what has come about, the Domain is exactly what it was promised to be, and it is a very exciting mixed-use project," Heimsath said.

City officials say the project "has turned an industrial area into a model mixed-use development" that provides events for families — and sales and property tax revenue for the city, said Rodney Gonzales, deputy director of the city's Economic Growth and Redevelopment Services Office.

Since opening, the project has generated \$11.2 million in sales and property tax revenue.

After rebating \$5.7 million of that under the incentive agreement, the city has netted \$5.5 million.

Heimsath said Endeavor's Domain will continue to thrive, especially with financing having become more available for new apartment construction. And he said the retail component "will gain momentum over the next few years."

Will the apartments now under construction fill up once built? "Absolutely," Heimsath said.

"In the short run, the strongest demand at that location, and across the city, is for apartments," Heimsath said. He predicts that Austin's apartment occupancy rate will hit 97 percent by year end.

### **Demand for Domain**

Diana Holford, senior vice president in Austin with Jones Lang LaSalle, a global real estate firm, has represented tenants who have leased space in the Domain.

"The thing that is so great about the Domain is that employees love working there," Holford said. "So employers looking to attract top talent see the Domain as a prime spot to locate. That's why the office space is full. It's all about talent — attracting the best and brightest."

Hanger Orthopedic Group, which designs and manufactures prosthetics and orthotics, moved its headquarters last year from Bethesda, Md., to Austin, settling into office space in the second phase of Simon's Domain, which is anchored by Dillard's and Dick's Sporting Goods.

Mike Kennedy, president of Commercial Texas, an Austin commercial real estate firm, said the Domain is "ground zero as the corporate location," with its mix of amenities and location in a key growth and transportation node.

"It's in the bull's-eye across the board, and is only going to get better in time," he said.

Kennedy said Endeavor would be smart to have another office building "planned and ready to go," because the Domain will be high on the list of preferred sites for the next large corporate tenant that comes along.

Convio, which develops software for nonprofit groups, is a tenant in the Domain.

Angie McDermott, vice president of human resources, said its employees "love being able to walk to restaurants and the amenities of the Domain."

Convio likes the Domain so much that it has expanded and extended its lease through 2023, she said.

"I'm bullish on it," Holford said. I think that's the next great place to be."

snovak@statesman.com; 445-3856