Developers take more than a passing interest in tollway real estate

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When the Westin Galleria opened in 1981, its location on the Dallas North Tollway was considered far north.

"Now we are centrally located for a large market area," said John Everett, general manager of the hotel, which just completed a multimillion-dollar renovation.

"All the public space – all 21 stories – were taken down to the concrete, redesigned and refinished," Everett said.

The just-completed $60 million Westin redo is one of a string of new projects along the Dallas North Tollway – a real estate market that has matured over the last decade.

Since the late 1970s, the stretch of the tollway between LBJ Freeway and Plano has been one of the region's hottest real estate markets.

"It's amazing what the toll road has meant for Dallas' north expansion," said Greg Biggs, executive director of real estate service firm Cushman & Wakefield of Texas.

"And it's hard to beat having your sign along the tollway if you are a corporation."

While new business districts in Frisco and the Telecom Corridor have been major competitors for tenants looking farther north, a tollway address is still a big draw for developers and investors.

Everett said the Westin renovation is already paying off.

"We couldn't have timed it better because as we came out of the renovation this year we've seen huge surges in our market share," he said.

Developer SNK Realty has also had a positive response to its apartment complex that's about to open on the tollway and Addison Circle Drive. The Allegro rental community is one of the most high-profile new projects along the tollway.

"Traffic and leasing activity have been good," said developer Hal Watson. "We've leased 21 units so far, and we expect our first residents to move in on June 1st."

Apartments in the four-story, 272-unit project will rent from $995 to $2,240 a month.
The $28 million Allegro is one of two new apartment communities facing the tollway south of State Highway 121.

Developer Billingsley Co. is also building a 550-unit complex at the southeast corner of the tollway and State Highway 190 that will open in late August. The Gramercy apartments are across from a park.

"There's not a lot of new product in the area, and we have never built anything so super-visible," said developer Lucy Billingsley. "The rest of the product in that area is a totally different generation.

"This is going to be very much an urban project."

Greg Willett, an apartment market analyst with M/PF YieldStar Inc., said occupancy levels along the tollway south of Highway 190 are a little better than the area average. But rents haven't fared as well.

"While that area doesn't have the new supply challenges seen elsewhere, move-outs have been significant," he said.

Office projects

Developers have just finished two office projects along the tollway.

Heady Investments' 196,000-square-foot Park Centre V building in Plano just opened.

"We feel fortunate because we have 50,000 square feet of leases signed and have leases out for another 20,000 square feet," said leasing manager Mark Lewis. "I think we will be 30 percent before we open the building."

Accountants Montgomery Coscia Greilich LLP just took 34,000 square feet in the project.

"Deal flow has definitely dropped off, but we are seeing quality deals," Lewis said. "The most positive thing is there is a real restriction of supply.

"Even if demand for office space along the tollway does significantly drop off, there are not 15 cranes in the air like there were in the '80s."

The only new office building along the tollway south of Highway 190 is just opening. Opus West Corp.'s six-story Two Addison Circle has 198,000 square feet of office space and cost more than $23 million. It's just north of Arapaho Road and faces the west side of the tollway.

"To be candid, activity is pretty sluggish compared to earlier in the year," said Opus West's Texas development director Geoff Meyer. "We've had a good number of inquiries, but those haven't translated to tours yet.

"We're working on a couple of decent-sized deals, but nothing I would categorize as imminent."

Some vacancies

During the first quarter, the area that includes the tollway lost about 200,000 square feet of office tenants, according to statistics from Cushman & Wakefield.

At the same time, business districts farther north in Frisco and West Plano saw their net leasing grow by about 100,000 square feet.

"Things could be better along the tollway, but it's not a flashback to the 1980s," Biggs said. "Most of the
buildings are still very well leased."

In 2008, the tollway lost office tenants for the first time in more than a decade, Biggs said.

And several large office blocks – including space now leased to Tenet Healthcare – are coming on the market.

Biggs predicts that office vacancy along the tollway will continue to rise this year – in part due to tenants moving farther north.

"Plano and Frisco are always going to be on tenants' radar because of the incentives those cities offer," he said.

Not everybody is moving.

Energy service firm Dresser Inc. just renewed the lease for its 44,000-square-foot headquarters in the Millennium Tower at the tollway and Arapaho in Addison. The landlord is KBS Realty Advisors.

Scott Collier and Kevin Morrison of Jones Lang LaSalle, who represented Dresser, looked at multiple locations before signing up for renewal.

"There are plenty of options in the area for tenants of 50,000 square feet and up," Collier said.

Periods of free rent and extra money for tenant space improvements are being offered to lure creditworthy companies.

"If you have a lease expiring, you have a great opportunity," Collier said.

KBS, a California real estate investor just bought another office building along the tollway at Spring Valley Road in Farmers Branch.

The 12-story Providence Towers was built in 1986 and has about a half-million square feet of space.

"It's an iconic building and very high quality," said KBS senior vice president Walter Foster. "We like the tollway, and when that building was put on the market, we were instantly attracted to it.

"This is one of the few institutional-quality buildings we've seen come on the market in Dallas."