

AUSTIN BUSINESS JOURNAL

COMING SOON A TOWER FIT FOR CENTER STAGE

COVER STORY

Presenting the tale of a city torn between progress and preservation, and a development deal that balanced both so the old and the new can coexist on historic Congress Avenue.

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TECHFLASH

JACK MCDONALD
WOOS WALL ST. 10

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BEHIND THE DEAL

BALANCING PRESERVATION, PROGRESS IN A RAPIDLY CHANGING CITY

FOR DECADES, THE NORTHEAST CORNER OF EIGHTH STREET AND CONGRESS AVENUE SAT VACANT. THEN ALONG CAME JIM RITTS AND BRAD NELSEN WITH AN AMBITIOUS PLAN TO PRESERVE THE HISTORIC STATE AND PARAMOUNT THEATERS WHILE CARVING OUT A NEW MONEY-MAKING OPPORTUNITY FOR A GLOBAL HOTEL BRAND.

BY ERIN EDGEMON | EEDGEMON@BIZJOURNALS.COM



AUSTIN THEATRE ALLIANCE



NELSEN PARTNERS



Far left: The corner of Congress Avenue and Eighth Street in the early 1930s. Left: A rendering shows the dramatic difference between the old and the new that will soon be seen at the same corner.

Its 42 feet wide. That's smaller than the width of an NCAA basketball court. The square footage is only 7,000. In residential terms, that wouldn't even be a mansion.

The former Reynolds-Penland menswear store at 721 Congress Ave., at the northeast corner of Eighth Street, is a challenge to develop, to say the least. It was an equation that no one seemed able to solve for nearly two decades.

Building big on the tiny lot comes with definite structural challenges, not to mention the cooperation of the Austin Theatre Alliance, which controls the State and Paramount theaters next door. In fact, 721 Congress and the State share a basement, giving the alliance a say in whatever happens at the corner.

Except for a few popup shops over the years, the complexities have kept the building largely empty for nearly two decades.

It was a problem Austin Theatre Alliance Chairman Duff Stewart long tried to resolve and that Jim Ritts took on after becoming CEO of the organization in May 2011. Ritts enlisted the help of fellow board member and architect Brad Nelsen and, over the course of eight years, they acquired the next-door property and came up with a plan that would replace the empty corner building with a high-rise hotel while ensuring the long-term preservation of the historic State Theatre and Paramount Theatre.

The result: a modern Hyatt Centric hotel dubbed The Avenue, in honor of Austin's first hotel that once sat on the same spot and burned down in the 1920s. Hyatt purchased the site with entitlements for an undisclosed amount in February and is expected to break ground in September. The hotel is slated to open in 2022, according to Hyatt.

A general contractor will be announced this month and utility work will commence soon after.

It wasn't easy, but most things worth doing aren't, the wry Nelsen said about the property that he decided to develop himself after no other proposals would work for the theater alliance.

Those involved say The Avenue will solidify this stretch of Congress as a mini-arts district, a touchstone in a city proud of its cultural heritage but quickly transforming with the influx of new people and new money.

"It makes a nice block and makes a real statement about Austin," Stewart said. "There are so many Austin institutions that have left over the years, the Armadillo (World Headquarters), places like that, where the Paramount and the State are still longtime live performance theaters that are alive and well on Congress Avenue. I think that makes a statement about the community and trying to make a difference here in Austin."

The deal is emblematic of the forces facing downtown developers, especially on the iconic Congress Avenue where more care has to be taken to preserve the city's past. It could also set precedents for going tall on miniature lots and building dense without parking.

An empty feeling downtown

"How can you find a parcel (in downtown Austin) that's been vacant since 2000?" said Ritts, a former television executive who is from Texas but spent most of his adult life in New York City. "On the surface, it makes no sense."

Ritts — who co-founded Channel One, a television news program marketed to schools, and even served a stint as commissioner of the Ladies Professional Golf Association — was hired to accelerate growth at the theaters.

Bringing on a serial entrepreneur to head the Theatre Alliance was a bit of an experiment, Ritts admitted. He's not averse to risk — a good trait in an entrepreneur but one that could very easily go wrong at a nonprofit with a limited budget.

The alliance had strong financial footing, though, so they took a chance on a man they thought could yield change and make it quickly.

Ritts was tasked with shepherding the creation of the Moontower Comedy Festival. He also made investments in hardware and software, and he created a data analytics department to help target new audiences.

Today, Ritts is developing plans to fully restore the Paramount for the first time since the 1970s, with the ultimate goal to obtain national historic landmark status.

"This block blossoming again gives us a chance to have our capital campaign to bring the Paramount back to its glory days," Stewart said, adding that the State will also receive some upgrades. A mezzanine level will be added to the former movie house. Retractable seats will be added to increase capacity from 300 seats to 400.

Ritts and Stewart declined to speak more at this point about specific plans and timeline for the restoration.

A basement causes conflict, hope

After about two months working at the alliance and walking Congress Avenue every day, Ritts realized his job was about more than just running two venues; it was about sparking change on the block.

"You looked at that corner (of Congress and Eighth) and you just knew if you had any hopes of revitalizing the block and optimizing the real economic driving power of the theaters you couldn't have an empty building sitting on the corner," Ritts said of 721 Congress. "It's no more complicated than that."

Eight years ago, though, Congress Avenue was a little different than it is today. It was still recovering from the recession and there wasn't as much nightlife.

Half of the letters in the State Theatre sign were burned out. Paramount's iconic sign was gone, having been taken down for repairs around 1963 and lost.

Congress Avenue was a little seedy, Ritts recalled: The InterContinental Stephen F. Austin Hotel was in operation, but the Aloft/Element hybrid hotel hadn't been built yet. The 800 Con-

CONTINUED ON PAGE 6

ON CONGRESS, REDEVELOPMENT SHIFTS NORTH

As downtown Austin continues to grow, more redevelopment will happen on the north end of Congress Avenue, according to real estate experts who said rising office rental costs and the demand for newer space will push developers closer to the Texas Capitol.

The northern portion of Congress Avenue is already a mix of private residences, offices, retail and restaurants, but with several boarded-up or out-of-date buildings the thoroughfare is ripe for redevelopment.

For many years, the 700 block of Congress was the boundary for activity on the iconic street, said Doug Rauls, executive vice president at Colliers International. But that's changing.

"In the last five years, you certainly could point to more than a few examples of buildings that have been renovated north of Seventh," he said. "And, they are very good-looking projects, so I think that trend is going to continue and it's going to go all of the way to the Capitol. Those buildings will keep getting turned over and keep getting renovated."

Mike Kennedy, formerly of Avison Young Inc. and chairman of the Downtown Austin Alliance, said the northern end of Congress has traditionally been dominated by lobbyists, news agencies and others who need to be near the Capitol.

"So, while the proximity to the Capitol seems to be the driver now for uses it likely will become more diverse with additional office, retail, hospitality and housing," he said.

Congress Avenue — considered by many to be the main street of Texas — only has 11 downtown blocks.

"It's an important address so I'm anticipating value based on scarcity," Kennedy said, adding that lease rates north of the 700 block are more reasonable than the rest of the street. He said there will be some opportunities for multiple sites to be assembled and redeveloped.

Rauls expects to see more technology companies locate on north Congress.

Cielo Property Group co-founder Rob Gandy said a more diverse mix of tenants is coming to the corridor. He said he would like to see more multifamily built there to bring more nightlife and retail.

"We are also seeing more and more demand from retail tenants in the north Congress corridor as vacant space south of Sixth Street is limited," he added. "With the addition of new retailers there is more energy on the street. You'll see people sitting outside at restaurants and nightlife that wasn't there five years ago."

Over the last five years, Cielo rehabilitated six buildings on Congress and South Congress Avenue, including the Prosperity Bank building in the 900 block and the office tower at 823 Congress. Another major redevelopment is now planned for 823 Congress.



NELSEN PARTNERS



AUSTIN THEATRE ALLIANCE

1 Notice how the windows of the planned hotel tower resemble stage curtains? That's not a coincidence.

2 Here's a rare glimpse at what pre-dated the State Theatre — Austin Laundry & Dry Cleaning Co. during the 1930s.

3 Architect Brad Nelsen (left), Austin Theatre Alliance CEO Jim Ritts (center) and Duff Stewart, CEO of ad agency GSD&M, are some of the key players in the deal. Stewart is chairman of the Austin Theatre Alliance's board of directors — where Nelsen has a seat too.



NATALIE SEEBOTH

NUMBERS TO KNOW ABOUT THE HOTEL

31
Number of floors

246
Number of guest rooms

5,180
square footage meeting space

130K
square footage of guest space

2
Number of restaurants/bars

CONTINUED FROM PAGE 5

gress Event Center wasn't in existence. The Contemporary Austin art museum hadn't been renovated and the State Theatre has only just reopened after being closed for five years due to flooding and a lawsuit.

After walking past the empty building for weeks, Ritts knew he needed to take action.

"I literally, the second week of June after I'd been here five weeks, I sat down with the then-owner of the building next door," he said.

The building at 721 Congress Ave. was on the market in that there was a for-sale sign stuck in the front glass of the building, Ritts recalled. The owner, though, didn't appear too motivated to sell.

That owner, Austin-based architect Sinclair Black, had his own plans for the building that he acquired sometime in the early 2000s. He couldn't recall the exact date.

Prior to Ritts' tenure at the theater alliance, Black said he designed a 14-story condominium building with a restaurant on the ground floor.

"For it to really work I had to have the air rights over the (State) Theatre, which I offered to buy for \$2 million in cash and added-value," he said.

This is the catch with the property: the State Theatre and the former Reyn-

olds-Penland building share a basement, so the theater alliance has an easement under the building next door.

"That's how the theater got into a position of control in whatever transaction was going to go on there," Nelsen said.

The current property owner or any new owner would have to come to an agreement with the theater alliance before they did pretty much anything.

"This is where the friction with the different developers came in," Nelsen recalled.

Black said the alliance wouldn't sell the rights to build over the theater. He said he needed to build a courtyard on the front of the State and condos around back to make the project financially feasible.

Over the course of several years, Ritts and Nelsen met with several developers and hoteliers who wanted to buy the property.

"You just couldn't get the right set of players, the right vision and the right price," Ritts said. "You couldn't get the economics right for whatever series of reasons. It's literally that simple."

When discussions hit a roadblock, about five years after they started, Nelsen decided he could put a team together to buy the property and develop a building that would work for both sides.

Around that same time, the owner-

ship of 721 Congress shifted to a company controlled by Black's ex-wife Susan Morehead.

Ritts said Morehead, a patron of the arts, agreed to sell the property to the Austin Theatre Alliance in 2015 for around \$5 million. The alliance then simultaneously sold the property to the Nelsen-controlled entity Congress Development Partners.

"When I bought the site was when we got into the real detail," Nelsen said.

The Avenue

"What I didn't want was the growth of the town to lead to the destruction of those theaters," Nelsen said.

Congress Development Partners entered into a unified development agreement with the Austin Theatre Alliance that tied the two theater lots with 721 Congress Ave. This agreement allowed Nelsen to design a 31-story building on the corner that maxes out the floor-to-area ratio of the three combined parcels.

Paramount Theatre had some protections in place already. It's on the National Register of Historic Places. It's a historic landmark, according to the city of Austin, which protects it from demolition.

But this agreement goes further to protect both theaters from the dangers posed in a city experiencing phenomenal growth. It also allows for the con-

A HAVEN OF HISTORY...

1930 Before condo, office and hotel towers ruled Congress Avenue, it was a hotspot for entertainment. The Queen theater is long gone but the Paramount and State theaters remain almost as they did back then.



AUSTIN THEATRE ALLIANCE

The Paramount Theatre has been the place to debut movies in Austin for generations. Here's a shot of "The Fabulous Texan" world premiere. Today, many of the hottest premieres happen when they literally roll out the red carpet for South by Southwest every March.

The photo below from 2015 shows crews installing the new "blade" sign atop the Paramount. One just like it was in place until the 1960s until it was taken down for repairs then lost.



AUSTIN THEATRE ALLIANCE



FILE PHOTO



NELSEN PARTNERS

2020 In about a year, this is expected to be the new look of Congress Avenue. Planners made sure the new hotel did not block views of the historic-looking theater signs.

struction of a high-rise hotel that will be an economic driver for the block, the parties involved said.

"Whatever happens in the next 100 years, if someone were to buy those theaters they couldn't knock them down because they have no rights to go vertical," Nelsen said. "It's a theory that was really born out of a historic preservation move called transfer of development rights. You simply move it away so there are no development rights there in the future."

Nelsen then set out to design a very contemporary tower with floor-to-ceiling windows on the Capitol facing side. "It's going to be unique on the skyline," he said.

From the ground floor the building will be setback from the sidewalk to allow the State and Paramount theaters to be the focal point of the streetscape, Nelsen said. The facade of the first three floors of the tower will be made from glass printed with vertical stripes, resembling the curtains of a performing arts stage.

The printed glass is also practical: It serves as a way to block the heat from the western sun.

Nelsen worked on the design and drawing of the tower while seeking entitlements from the city of Austin. It took about nine months to get the site development permit and another nine months to get the building permit.

Preservation Austin Programs Director Lindsey Derrington said 721 Congress is currently an unremarkable, non-historic building that didn't need to be preserved. She said Nelsen's design is a "nice nod" to the historic architecture.

"It sounds like that will help ensure the financial future of the Austin Theatre Alliance and these incredible buildings and the incredible work they do," Derrington said.

In February, Hyatt purchased the property along with the entitlements for a 246-room hotel and ground-floor restaurant. Nelsen said the interior design concept for the hotel hasn't been decided yet and that they are talking to possible restaurant tenants for the ground floor.

The Avenue will have nearly 130,000 square feet of guest room space, including a presidential suite, said Stephen Kallaher, vice president of corporate development at Hyatt. There will be 5,180 square feet of meeting space across three rooms, plus a restaurant at street level and on the second floor. A bar/social lounge is set for the eighth floor, featuring views of the Texas State Capitol and the rest of the skyline.

"The hotel will offer social spaces for guests to connect with others in the lobby, and we expect the bar/lounge and restaurant to become local hot spots where great conversations, local-

ly inspired food and signature cocktails will be enjoyed," Kallaher said in a statement.

A peculiar situation

"When you walk off stage right (at State Theatre), you are under 721 Congress," Ritts said, speaking of the basement that the two buildings share.

The State Theatre's dressing and green rooms as well as production and construction functions of the theaters are housed in the basement.

"It's hard to develop a project of any height when the theater owns the easement," Ritts said.

Under the development agreement, the theater alliance will move out of the basement before construction starts. They will get it back when the hotel is complete. An added bonus: the theatre alliance was given a 99-year lease at \$1 a year for use of the fourth floor of the Hyatt Centric for its offices.

Last year, 721 and 719 Congress, where State Theatre is located, were separated, Nelsen said. Before that happened, the State Theatre received its water, sewer and electricity from 721.

721 and 719 Congress were built in 1928 as a single structure for a department store that never came to fruition. The Interstate Theater Company built State Theater in 1935 as a movie house.

Nearly a century later, sophisticated building techniques will allow for a

436-foot-tall tower on a 42-foot-wide lot, although Nelsen admitted, "I think most developers in this town will tell you that I am crazy, this site is too small, and you can't do that."

The slender tower will have a big concrete core for structural support. It will also be the only way for builders to move materials up and down the tower.

Building on a lot that small takes careful coordination and planning. Builders also have to be very careful not to damage historic structures next door. Any closures of Congress Avenue or Eighth Street have to be planned weeks in advance. In other words, there's no room for error or waste on the site.

"It's such a tight spot that all of the underground utility work has to be completed before we mobilize on the site," Nelsen said.

There's no room for a parking garage either. Nelsen contends that the days of needing a car to live and play downtown are behind Austin.

George Blume, a design director for Gensler's Austin office, said removing the parking was a brave maneuver.

"If we want to see less parking in future developments, that's something we all have to start consciously working toward," he said. "It's going to take collaboration between the city government, the developers, and the community to make downtown Austin less dependent on cars." ■