

Bayou Place

Houston, Texas

Project Type:
Commercial/Industrial

Case No:
C031001

Year:
2001



SUMMARY

A rehabilitation of an obsolete convention center into a 160,000-square-foot entertainment complex in the heart of Houston's theater district. Responding to an international request for proposals (RFP), the developer persevered through development difficulties to create a pioneering, multiuse, pure entertainment destination that has been one of the catalysts for the revitalization of Houston's entire downtown.

FEATURES

- Rehabilitation of a "white elephant"
 - Cornerstone of a downtown-wide renaissance that has reintroduced nighttime and weekend activity
 - Maximized leasable floor area to accommodate financial pro forma requirements
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SPECIAL FEATURES

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- Cornerstone of a downtown-wide renaissance that has reintroduced nighttime and weekend activity
- Maximized leasable floor area to accommodate financial pro forma requirements

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GENERAL DESCRIPTION

Bayou Place occupies the shell of the former Albert Thomas Convention Center in downtown Houston's theater district. In 1987, when the 127,000-square-foot convention center was abandoned in favor of the newly opened, state-of-the-art George R. Brown Convention Center, it became a functionally obsolete structure—a quintessential white elephant. The Albert Thomas center remained vacant and neglected for almost ten years, while the surrounding neighborhood became increasingly workday oriented.

When the Albert Thomas center first opened in 1967, its location in the theater district supported the fine and the popular arts, as well as nightlife. As modern forms of entertainment brought new needs, outlets, and audiences, the city's cultural critical mass shifted to new suburban venues. The adjacent financial and civic districts filled the vacuum, little by little, until downtown became a grid of tinted-glass high rises—busy by day, but devoid of life at night. Downtown Houston, at least its north end, became known as NoDo, as in "Do Not Go."

By the late 1980s, during the administration of Mayor Kathy Whitmire, the city had realized that only municipal action could stem further decay of the central business district. Houston was determined to maintain the vitality of its symphony, ballet, opera, and theater companies, and to bring back nightlife and weekend activity. In early 1988, the mayor's civic center task force recommended that the Albert Thomas center be converted to a "festival market" along the lines of San Francisco's Fisherman's Wharf, Boston's Faneuil Hall, and Dallas's West End Marketplace.

In April 1988, the city sent out a request for proposals (RFP) calling for a developer to enter into a public/private partnership to rehabilitate the old convention center and transform it into an entertainment destination. In return, Houston would grant the developer a long-term lease of the building and partially subsidize its redevelopment.

The winning proposal was an ambitious, \$60 million joint venture between George Lucas's Skywalker Development Company and the local Century Development Company. When this partnership failed to meet deadlines, Houston invited the runner-up among the RFP respondents, The Cordish Company of Baltimore, Maryland, to resubmit its proposal. The city agreed to a 25 percent share of the profits, a 60-year lease, and an \$8.1 million contribution to the cost of rehabilitation, and promised to provide additional infrastructure.

The \$23 million first phase of the project involved gutting 80,000 square feet of the 127,000-square-foot structure, subdividing it, and building it out to meet current codes and to accommodate the physical requirements of the seven entertainment tenants that the project had attracted. Because it had been designed as a convention center, the building was turned in on itself, offering nothing to its surroundings but exposed aggregate-concrete walls. For its new life as a multitenant, multiuse entertainment center, the building had to be turned "inside-out," with individual tenant entrances created along the perimeter. Once the exterior concrete panels were removed, a structural frame was revealed that made possible a light-permeable exterior, which would allow inside activity to be visible from the street. The columned portico could be used as a promenade and for outdoor dining and entertainment. Inside the building, second levels and mezzanines were constructed to create spaces for public entertainment.

Bayou Place opened on New Year's Eve, 1997, with a full roster of tenants: a combination café and eight-screen multiplex, a performing-arts theater, and five restaurants. Three of the tenants were publicly held companies with a national presence, and the remaining four were local concerns with multiple venues. Today, the half-dozen blocks surrounding Bayou Place are newly revitalized with the kind of day, night, and weekend bustle that the city of Houston desired. Loft-style apartments in the older buildings have become popular, and condominium projects have contributed to a growing residential base. Enron Field, a new downtown ballpark for the Houston Astros, a major-league baseball team, opened for the 2000 season. With the entire downtown swept up in the rediscovery of urban amenities, the revitalizing effects of the convention center project reach far beyond the theater district.

DEVELOPMENT

According to its initial agreement with Cordish, the city would remove asbestos under its own contracts; pledge a minimum of \$900,000 per year in parking revenues from the two nearby underground parking facilities (provided that the project was 65 percent leased); pledge an annual maximum of \$1.2 million in management fees for 55 years; and pledge a six-year property tax abatement—worth an estimated \$1.2 million a year—to the project, now officially known as Bayou Place. Cordish's obligations were to pay the city an annual rent of \$50,000 plus 25 percent of the profits, and to complete Bayou Place by August 1996. The agreement set no performance standards for the developer; it guaranteed no revenue beyond rent; and the developer retained all authority to approve tenants.

The agreement was signed during mayor Whitmire's administration, but the administration of the succeeding mayor, Bob Lanier, was critical of the agreement. Though cooperative, the new administration chafed at the terms. When the original deadline for completion became impossible, partially because of the city's failure to complete the asbestos abatement on time, the lease was amended to extend the deadline to year-end 1996. The renegotiated lease reduced the maximum amount of Cordish's annual management fee to \$1.02 million for 13 years; reduced the guaranteed number of parking spaces from 1,200 to 300 complimentary and 200 leased; reduced the city's revenue from profits to 22 percent; and included a promise from the city to help the developer obtain an \$8 million loan or to grant the developer that amount and eliminate all future management fees. The effect of the reduced management fees was the release of the developer's liens against an annual \$7.3 million of the city's hotel occupancy tax and parking

revenue.

Another potential delay was averted when the city of Houston and Harris County negotiated to exchange land in order to satisfy an earlier agreement that provided for the Albert Thomas grounds to revert to the county if the center was ever used for a nongovernmental purpose. This ownership issue had been clouding the developer's attempts at securing financing for the project.

In the end, the deadline for project completion was extended to year-end 1997. Bayou Place opened to a New Year's Eve opening party attended by 20,000 paying guests. (Unlike most grand openings, which are considered loss leaders, this one yielded a profit, which the developer retained.) Bayou Place was fully leased at opening and has remained so; cash flow has been positive since the first day.

DESIGN

Bayou Place is located on prime downtown real estate. Its long axis is in an east-west direction, and it backs up to a north-south section of Interstate 45, where Memorial Drive crosses Buffalo Bayou and enters downtown Houston. Designed by CRS of Houston (since absorbed as the Houston office of HOK), the center faces Jones Plaza, the heart of the theater district. Also fronting Jones Plaza, directly opposite the convention center, is the 3,000-seat Jesse Jones Hall, home of the Houston Symphony. The 1,094-seat Alley Theater, also facing the plaza, lies to the north. Also to the north of the convention center is Fish Plaza, and facing Fish Plaza is the Wortham Center, home to the Houston Ballet and the Houston Opera Company, both renowned cultural institutions with international reputations.

Also facing Jones Plaza is the 56-story Bank of America building; behind Jesse Jones Hall, to the east, is the 75-story Chase Tower; and diagonally across from Jones Plaza are the twin 36-story towers of the Pennzoil building. These three buildings form the northern edge of the financial and civic district, which occupies a twelve-by-four-block area between Houston's city hall, at the western end, and the new George R. Brown Convention Center on the eastern end.

The westernmost end of the original Albert Thomas Convention Center crosses Bagby, a north-south thoroughway. That portion of the center is connected to the main building and conveyed with the lease agreement, but had been left largely undeveloped until 2001, when the developer initiated Phase II, which will include an additional 150,000 square feet of restaurant space, entertainment-related retail space, offices, and possibly a hotel.

TENANTS

The Skywalker-Century development team had a ready-made anchor tenant—Lucasfilms. The Cordish team, on the other hand, had pledged its own money if financing was not forthcoming, but first had to secure tenants. Both the Skywalker-Century and the Cordish proposals envisioned a complex with futuristic theaters, restaurants, nightclubs, sports bars, and other entertainment venues. Expectations were for large-format theaters, movies in which the viewer helps to change the plot, movies with encircling screens, and movies with gyrating theater seats. Cordish started negotiating with anchor tenants Graham Brothers Entertainment, Iwerks Entertainment, and Showcase Film, and eventually reached agreement with Pace Entertainment. Pace, based in Houston, promised to absorb 50,000 square feet with its Aerial Performing Arts Theater, seating 2,800, and to fill the venue with big-name live musical and comedic entertainment.

Angelika Film Center & Café, an offshoot of its namesake in lower Manhattan, anchors the southeast corner of Bayou Place, and features eight screens showing primarily art films and high-end commercial titles. There are four additional food vendors: Sake Lounge, at the northeast corner, with its high-tech decor and Japanese-inspired fare; Mingalone's Italian Bar & Grill, on the northern side, facing Fish Plaza; Harlon's Bayou Blues, serving blues with its barbecue; and Slick Willie's Family Pool Hall, one of six Slick Willie's in the Houston area. In 2000, in an addition on the Fish Plaza side, Bayou Place added a 20,000-square-foot Hard Rock Café.

EXPERIENCE GAINED

Developers can manage the risks of RFP-based development by proposing only schemes that make economic sense to them. In other words, the point of the RFP process is for the public agency and the developers to jointly and transparently find the best fit between the public agency's needs and the developer's ability to meet those needs. The point is not necessarily to be the chosen developer. Thus, even after losing a bid, it is important for a developer to continue to monitor the situation to take advantage of changing political, financial, and economic conditions that may place the bid in a more favorable light—for example, if the winning bidder is unable to reach agreement with the agency.

In the case of Bayou Place, Skywalker-Century was awarded the bid on the basis of a concept that appeared to meet the city's desire to catalyze urban development in the faltering theater district: a high-tech multimedia extravaganza that had not yet been attempted anywhere. Cordish's proposal, in contrast, while extending the firm's capabilities, was based on expertise well within the firm's range of experience. When Skywalker Development could not obtain financing within the agreed-upon time frame, Cordish was in place to propose an alternative scheme that had already been accepted as meeting the city's criteria.

When working with prospective local tenants, developers should encourage them to offer unique venues that expand

on the themes that have made them successful, but at the same time retain the flavor of the original schemes for the sake of local patrons. Both Mingalone's Italian Bar & Grill and Harlon's Bayou Blues are offshoots and extensions of successful local dining establishments with good reputations.

Despite the anticipated success of the project, the developer underestimated the need for parking. At the time the lease was negotiated, the surrounding district had a surplus of parking, and even a thorough analysis failed to project the amount of parking that would be necessary to support the entertainment venues that Bayou Place eventually attracted. The problem was only compounded in 1996, when the developer and the city renegotiated the lease agreement and guaranteed parking was reduced from 1,200 to 500 spaces (the guaranteed number included 200 spaces procurable by a lease option). Ultimately, the lack of guaranteed parking resulted in tenant configurations that have failed to maximize the value of the property.

PROJECT DATA		
LAND USE INFORMATION		
Site area: 2 acres Gross building area: 160,000 square feet Theater and cinemas: 123,000 square feet Restaurants: 37,000 square feet Gross leasable area (GLA): 130,000 square feet Parking: 500 spaces (off site) Floor/area ratio: 1.84		
LAND USE PLAN		
Use	Area (acres)	Percentage of Site
Buildings	1.8	92
Landscaping, open spaces	0.2	8
Total	2.0	100
TENANT INFORMATION		
Classification	Number of Stores	GLA (square feet)
Live-performance theater	1	50,000
Cinema	1	50,000
Restaurants	4	30,000
Annual rents: \$22 per square foot Average annual sales: \$3.6 million (restaurants only) Average length of lease: Ten years		
DEVELOPMENT COST INFORMATION		
Site acquisition cost: \$0 Site improvement cost: \$0 Construction costs: \$23 million Soft costs: \$7 million Total development cost: \$30 million		
DEVELOPMENT SCHEDULE		
Site leased: August 1991 Planning started: August 1991 Sales/leasing started: January 1993 Construction started: November 1994 Phase I completed: December 1997 Phase II completed: March 2002 (projected)		

DIRECTIONS

From George Bush Intercontinental Airport: Exit the airport on J.F.K. Boulevard, and take Sam Houston Parkway east to Route 59 (Eastex Freeway). Go south on Route 59, passing Interstate 610 and 10 interchanges. Immediately after passing Enron Field, which is visible to the west (right), exit west into downtown at Capitol Street. Drive west on Capitol approximately ten blocks. Bayou Place is on the north side of Capitol, just after passing the open-air Jones Plaza. (Note: Most streets in downtown Houston are one-way.)

Driving time: Twenty-five minutes in nonpeak traffic.

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This Development Case Study is intended as a resource for subscribers in improving the quality of future projects. Data contained herein were made available by the project's development team and constitute a report on, not an endorsement of, the project by ULI-the Urban Land Institute.

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Bayou place occupies an abandoned convention center in the heart of Houston's historic theater district, which is adjacent to the city's financial district. This view, taken from the northwest, shows the twin towers of the Bank of America plaza at the financial district's edge.



When the exterior concrete cladding of the old structure was removed, it became possible to create a light-permeable exterior, which would allow inside activity to be visible from the street.



The eight-screen Angelika Film Center, an artplex that primarily shows independent and foreign films, includes an informal café that has become a popular gathering spot.



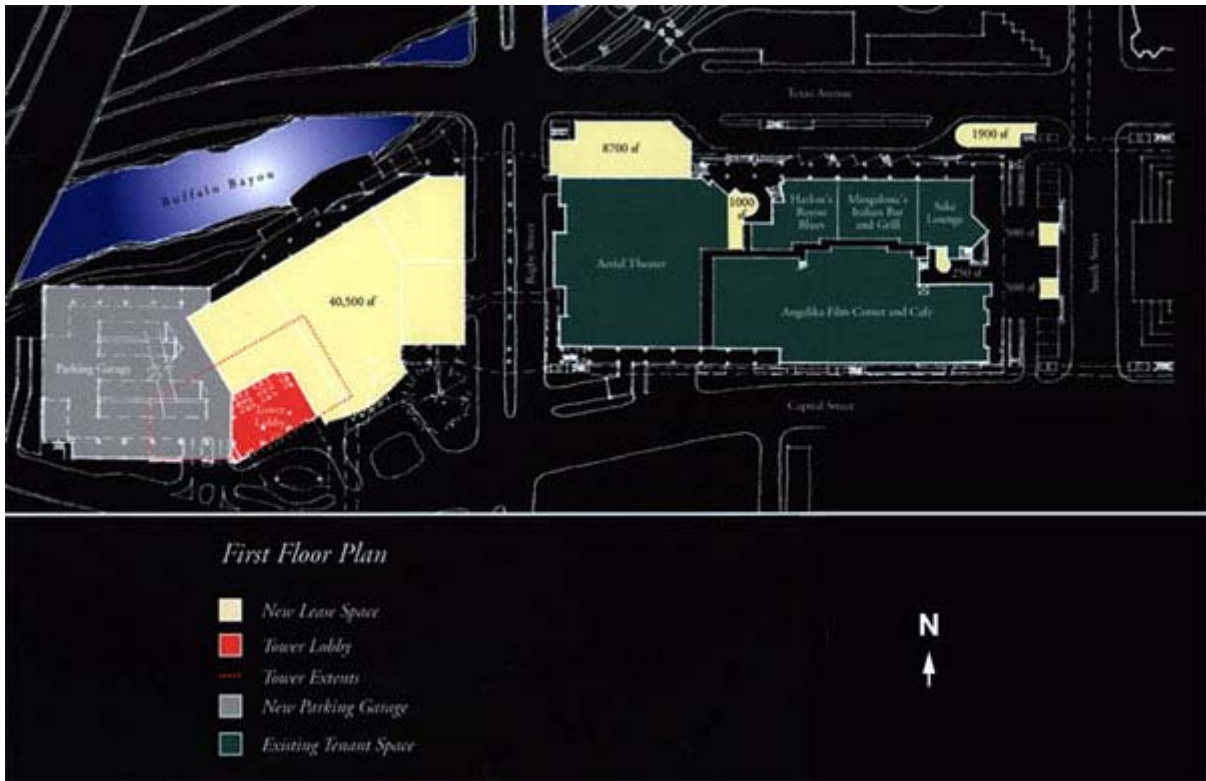
Customers are channeled from the street past the columned portico directly into the restaurants and entertainment venues.



pace Entertainment's Aerial performing Arts Theater provides live performances by big-name acts in a 50,000-square-foot space.



An offshoot of its namesake in lower Manhattan, the Angelika Film Center features a sophisticated lobby adorned with hardwood floors, a chandelier, art, and fresh flowers.



First-Floor plan