

# Dallas Condo Project: Exception to the Slump

*Groundbreaking on \$200 Million Development Gets Backing by Local Pension; 'Timing Is Perfect ... to Pull the Trigger'*

By NICK TIMIRAOS And KRIS HUDSON

Developers have secured financing and will start construction later this month on a long-planned luxury high-rise condominium in Dallas, an unusual example of new development for a sector that was particularly battered by the housing bust.

But the rise of the 42-story Museum Tower underscores why new condo construction is likely to prove the exception and not the rule: The \$200 million project, located in a prime parcel in an up-and-coming arts district, is being financed entirely by the Dallas Police & Fire Pension System.

As part of the deal to move forward, the \$3 billion pension fund will take 100% ownership of the project. Co-developers Brook Partners Inc. and Turtle Creek Holdings Inc. will remain involved in the project, but they are giving up their equity stake.

Moreover, the groundbreaking is moving forward precisely because Dallas largely sat out the overbuilding and the accompanying housing crash. Home prices are down just 9% from their August 2007 peak, according to the Standard & Poor's/Case-Shiller index, while unemployment in Dallas stood at 8.2% in April, more than a full percentage point below the U.S. average.

Still, the financial crisis in 2008 forced developers to delay their ambitious plans for what would become the city's second-largest residential tower. Conceived as a 20-story, \$100 million building, the project grew after the Dallas pension fund urged developers to supersize the glass tower and raised its initial stake to \$32 million to accommodate its vision for a city landmark.

Brook Partners and Turtle Creek struggled for months to find conventional financing before turning again to the pension fund, which is now financing the entire \$200 million project. "We talked to every lender imaginable," says John Sughrue, Brook Partners' chief executive.

Asking prices for the units will start at \$1.1 million, among the highest in Dallas. The pension system says it expects a double-digit rate of return on a project that it believes has the best location of any new development in the city. Given low interest rates and low construction costs, "the timing is perfect ... to pull the trigger," said Richard Tettamant, the pension fund's administrator in an interview Tuesday.

While much of the rest of the country is dealing with a real-estate hangover, Mr. Tettamant says that the city's economy should make the investment a sound one. "Dallas is unique. It's got this can-do attitude about it," he said.

Dallas has been among the cities that have seen a downtown residential renaissance over the past decade. Some 737 condo units have been developed in its core downtown area in that span, according to Residential Strategies, a real-estate consulting firm. An additional 654 units have sprouted in the adjacent Uptown district and 375 have been added in nearby Victory Park, a mixed-use project.

The Museum Tower trumpets its setting as the chief selling point. The 1.5-acre parcel, currently a parking lot, sits squarely in the middle of the \$2 billion Dallas Arts District that city officials tout as the largest of its kind in the country.

The district is the "focal point of the revitalization going on downtown now," says John Crawford, chief executive of Downtown Dallas Inc.

The tower site is bounded to the east by the \$350 million AT&T Performing Arts Center, which opened last October, the Morton H. Meyerson Symphony Center, and the Dee and Charles Wyly Theatre; to the west, by the Nasher Sculpture Center and the Dallas Museum of Art. Along the northern boundary runs a below-grade freeway that is slated to be covered by a four-block city park.

Close proximity to those amenities, however, doesn't guarantee rapid sales. Crescent Real Estate Equities LP in 2007 sold out the 70 condos in the first tower of its Ritz-Carlton Residences just two blocks from Museum Tower's site. However, the Ritz's 95-unit second tower, which saw greater interest among investors looking to flip units, has 45 condos still available, and distressed sales have put pressure on values. "The appraisals have gone south," says Michael Puls, of consultancy Foley & Puls.

Sales have slowed in Victory Park, a development west of the Arts District that is geared toward a younger crowd. While the W Dallas has sold most of its 143 condos, sales in the 133-unit House have been slower than expected, and Mandarin Oriental Hotel Group canceled its plans for a hotel-and-condo project.

At the Museum Tower, just 13 units in the 123-unit building were under contract in March, though the sales team hasn't been actively pursuing contracts, according to a report from Residential Strategies. Construction could be completed by the end of 2012.

The absorption of luxury condos depends on the recovery of the high-end housing market. The Museum Tower's developers believe they can fetch top dollar by pitching retiring baby boomers and so-called empty-nesters on downsizing their sprawling suburban homes. Mr. Sughrue says their project offers buyers a "lifestyle trade" that can "monetize the equity that's been tied up in their house"