

Pavilions: Half full or half empty?

Retail analysts say the huge project is off to a good start

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Melissa Phillip Chronicle

Guadalajara del Centro is one of the tenants already drawing crowds at the mixed-use Houston Pavilions in downtown Houston.

Depending on where people view it, they could make a case that the 9-month-old downtown Houston Pavilions is either succeeding or hurting.

Stand on the corner of Dallas and Caroline, and you'll see a lively scene at the House of Blues.

But on the second level, between Fannin and San Jacinto, there are vacant retail sites.

Sixty-two percent of the massive Pavilions is leased, and about 50 percent of it is occupied. Although it's still half-empty, the project is off to a very good start, retail analysts say, when you factor in the economic downturn and gloomy state of retail.

But if the project were to fail, it would be a major blow to the downtown area near the George R. Brown Convention Center. The three-block-long Pavilions was designed to be that district's entertainment hub and make downtown Houston more of a nighttime and weekend destination.

The \$170 million Pavilions is a mixed-used development combining retail, entertainment and office space.

City and county planners envisioned the Pavilions as a place that would make downtown more than just a major business district. One city official is liking what he sees so far.

“All in all, they are putting in place what the city hoped it would be — an entertainment-oriented complex close to the convention center,” said Andy Icken, public works deputy director for the city.

Icken gave a presentation to the Houston City Council in support of the proposed Pavilions project, and many of the permitting issues relating to the development went through his office.

Project ‘slowly evolving’

Bob Eury, executive director of the Houston Downtown Management District, believes the Pavilions has the potential to be “transformative,” but “we really haven’t fully seen the impact it’s going to have on downtown, because it’s been a slowly evolving project.”

The Pavilions has some coveted tenants. Along with House of Blues, there is Forever 21, a two-story Books-A-Million, McCormick & Schmick’s, Guadalajara del Centro and Pete’s Dueling Piano Bar, which opened Friday.

More tenants, including the bowling/cafe/bar concept Lucky Strike Lanes, will make their debuts in a few months.

And Pavilions Tower, the project’s adjoining 11-story office building, recently went from mostly empty to completely leased after NRG Texas and Reliant agreed to take 10 floors.

Given the recession, “it sounds like they’re doing terrifically if they are 62 percent leased” for retail, said Anita Kramer, senior director for retail and mixed use development at the Urban Land Institute in Washington.

“Having tenants like House of Blues, Lucky Strike and Forever 21 is a real coup,” and they should attract other quality operators when the economy picks up, Kramer said.

For the past nine months or so, retailers across the country have been “kind of frozen,” she noted.

The area close to the George R. Brown Convention Center has been getting a dramatic upgrade.

Along with the Pavilions, other relatively new nearby projects include Discovery Green park, the Grove restaurant and the One Park Place apartment high-rise. Under construction are the Embassy Suites hotel and Hess Tower office high-rise.

Retail results mixed

But the Pavilions “is a huge anchor for that piece of downtown,” Eury said. The three blocks on which it stands were formerly empty lots, he noted.

Already, he said, the House of Blues is a strong tenant, as Lucky Strike will be when it opens.

The NRG/Reliant lease “ties down a major chunk of income, which helps make it work financially,” Eury said.

Early results from hard and soft retail goods in the Pavilions “seems mixed,” Eury said.

“We're really fortunate that the Pavilions was at the front of the pack” among the mixed-use developments planned for Houston, said Eury, who noted that a number of those projects, victims of the economic downturn, have not gotten off the ground.

Focus on entertainment

While the Pavilions does house a 25,000-square-foot Forever 21 young women's apparel store, a BCBGMAXAZRIA boutique, and an expansive Books-A-Million, most of the signed tenants at the project are entertainment venues, restaurants and clubs.

Such a tenant focus makes sense, said Jeff Green, president of Jeff Green Partners, a retail feasibility consultants based in Mill Valley, Calif.

“In downtown Houston, you've got tons of overnight hotel guests and a huge number of office workers,” Green said. Given the great demand for entertainment, clubs and eateries in that part of downtown, where there is a convention center, sports venues, hotels and a residential high-rise, “there hasn't been enough supply,” he said.

Other Pavilions tenants include the restaurants McCormick & Schmick's and Guadalajara del Centro, as well as Unity National Bank.

Set to open this fall are 111 Forks steakhouse, Yao Restaurant & Bar, Mia Bella Italian restaurant and Andalusia Tapas & Tavern Spanish restaurant, Polk St. Pub, Cork Wine Bar and the Board Room.

Exceeding expectations

Two tenants say they are pleased with the Pavilions.

Brian Distefano, marketing manager of the 43,000- square-foot House of Blues, which opened in October, said the Pavilions location has had the most financially successful launch in the 13-unit company's history.

And at McCormick & Schmick's, which opened in November, lunch business is solid, while the dinner business is more dependent on convention traffic and hotel occupancy, said the chain's regional chef John Baker. Business has “far exceeded our expectations,” he said.

Youssef Nafaa, owner of Mia Bella and Andalusia Tapas & Tavern, originally expected to be open in the Pavilions by now, but said he's encountered obstacles.

The biggest challenge was getting financing during the credit crunch, he said, but “now

we are back on track.”

Officials from Books-A-Million and Forever 21, which have been opened since October, could not be reached for comment.

Bill Denton, co-developer of the Pavilions, said that he'd originally expected to have more tenants operating by now, but he hadn't anticipated the economic downturn.

Big question remains

Fortunately, he said, “Houston's economy remains strong, our tenants are doing well and the tenants we wanted to open last fall will be opening this fall.”

Combining retail and office space, the Pavilions is now 82 percent leased, co-developer Geoff Jones noted.

The city and county participated in the development of the Pavilions with \$15 million in cash and tax incentives through funding from an area tax increment reinvestment zone.

David Crossley, president of the nonprofit quality of life group Houston Tomorrow, said he is disappointed that the Pavilions doesn't “relate to the street more,” noting that much of its pedestrian traffic is designed to flow along a walkway that cuts through the middle of the development, away from surrounding streets.

“But the big question is: Does it bring people downtown and help that part of downtown grow?” Crossley said. “If it does that, it's a good thing.”

Resources

PAVILIONS TIMELINE

Notable dates in the life of the downtown mixed-use development:

Jan. 25, 2006	Houston Pavilions project is announced.
Feb. 14, 2007	Groundbreaking.
Oct. 11, 2008	House of Blues opens.
Oct. 16, 2008	Grand opening, which includes Books-A-Million and Forever 21.
June 30, 2009	NRG/Reliant takes 10 floors of Pavilions Tower.
Fall 2009	Lucky Strike, Ill Forks and other restaurants and clubs scheduled to open.

Source: Houston Pavilions