

Simmons Vedder discovers a GLO that's sweet on apartments

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When the future occupants move into three high-end apartment complexes under construction in Houston, it's unlikely they'll appreciate the unusual nature of the developments.

That's because the complexes being developed by Simmons Vedder & Co. on three tracts near the Texas Medical Center and in the Energy Corridor are being built on land owned by the Texas General Land Office.

What's unusual about it is that the GLO rarely buys real estate where the lease

payments are supported by apartment complexes, says Scott Carter, director of portfolio management for the state agency. And a change in the GLO's real estate strategy means such deals are likely to be still rarer in the future.

The Houston land now owned by the GLO was not state property when the deals were formulated. Simmons Vedder found the three tracts and brought the deals to the GLO.

In each case, Simmons Vedder simultaneously bought the site, transferred ownership to the GLO, and signed an agreement to lease back the tract for 50 years.

"I don't think anybody else knew the GLO was doing it," says G. Craig LaFollette, an apartment broker with CB Richard Ellis Inc. "There wasn't anybody that knew about it but Simmons Vedder."

The only other time the GLO has been involved in a deal like this was in a mixed-use project under development in Austin called The Triangle -- where Simmons Vedder is the apartment developer.



Brett Buchanan

The Triangle in Central Austin was the first to take advantage of the GLO's new attitude in regard to accepting multifamily projects.

Rick Craig, a Simmons Vedder partner in Houston, says that after working with the developer in Austin, agency officials said they wanted to buy more income-producing properties. Simmons Vedder approached the agency in early 2006 with the three Houston deals, and the GLO bought all three.

"They've been a good partner," Craig says.

The final land acquisition was completed four months ago, while two of the land deals closed last year. All of the apartment projects will have 2007 start dates: one began construction in February, one in May and one is set to begin this month.

Medical center boom

The complexes being developed by Simmons Vedder, which has corporate offices in Houston and Austin, are its first local apartments since finishing its award-winning, high-rise residential tower at 3333 Allen Parkway in 2002.

The developer intends to start construction this month near the Texas Medical Center on an as yet unnamed project being developed in conjunction with Alan Hassenflu of Houston-based Fidelis Realty Partners. The 5.6-acre tract is near the intersection of Kirby, Old Spanish Trail and Main. The project cost for the 293-unit complex will be about \$40 million, Craig says.

The developer broke ground in the first quarter of 2007 on Equinox, an 8.4-acre, upscale apartment complex at Old Spanish Trail at Almeda, also near the medical center. The project's 304-unit first phase will be ready by mid-year 2008. Phase 2, with about 300 units, will likely start in summer 2008.

The total development cost for Equinox is about \$74 million, Craig says.

Simmons Vedder wanted to build near the Texas Medical Center because the considerable amount of commercial construction under way in the area is expected to generate a substantial number of additional jobs.

"It's just a huge amount of activity; just massive," Craig says. "We think we'll have a lot of people associated with the medical profession who will want to live there to be close to work."

The third multifamily project is in another hot employment area -- the Energy Corridor in West Houston.

Simmons Vedder began construction in May on Eclipse, a 19.5-acre project near the southeast corner of Briar Forest and Eldridge. Phase 1 will have 330 units, while Phase 2, scheduled to start next summer, will have about 300 units.

The complex will cost in the neighborhood of \$54 million to develop.

Strategy change

Craig says Simmons Vedder has plenty of other capital partners it could have turned to for the deals, but it decided to strike while the GLO iron was hot -- which apparently was not for long.

The GLO's Carter says the agency will stop doing as many direct deals -- like the ones it completed with Simmons Vedder -- as part of a change in its evolving real estate strategy.

The agency wants to diversify its investments by using external fund managers to invest money into income-producing properties. That's because there's less risk in investing a little money among a variety of real estate projects compared with investing a lot of money in one project, Carter says.

The GLO, which in part provides the Permanent School Fund with revenue to buy textbooks for schoolchildren, did the direct deals with Simmons Vedder while waiting for full authority to invest in co-mingled, externally managed funds, Carter says.

Other direct GLO investments include a partnership with Cherokee Investments to redevelop the old Imperial Sugar site in Sugar Land into a residential community with some office and light-industrial buildings.

The GLO also completed an acquisition/leaseback transaction on the 4 million-square-foot distribution complex in Baytown occupied by Wal-Mart Stores Inc.