

AN AUSTIN BUSINESS JOURNAL SPECIAL REPORT



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Businesses are choosing older downtown buildings because of the availability and cost, and because of the historic feel like that of this meeting room at Group Two Architecture in the Scarborough building.

# Downtown reborn

## Economics and image are persuading some new tenants to choose old buildings

by Matt Hudgins, Austin Business Journal Staff

**P**erhaps it's the sensation of reliving a bygone era, or maybe the simple economic pressures of an office market with too little supply and too much demand.

Whatever the motivation, many Austin companies are preparing to enter the 21st Century in buildings built in the 19th, or soon thereafter, with a few high-tech touches slipped in under the hardwood floors.

Murphy Reed, owner of Xerox-authorized sales agent Reed Office Systems, says renovated historic buildings offer small businesses an environment with character that may be lacking in newer space.

"It's just different than the cold environment of a corporate office," Reed says.

Reed recently moved his company into the 102-year-old Phillips Building at 105 E. Fifth St., once the home of Austin's first Studebaker dealership.

Investors Al Ranney of Investors Commercial Realty Advisors, David Wolters, and Steve Hudson bought the building in May and are renovating the 14,000-square-foot space for multiple tenants.

"It's good for recruiting, people show up to work and feel good about their environment," Reed says. "The old building, the old hardwood,

it's the way the building feels."

Reed says his office will have the modern necessities for a communications business, including an ISDN line and network cabling. The new quarters required a little rewiring, he says, but not a lot.

"It really was a piece of cake [to rig cables and wiring]," he says. "You could get up inside the ceiling in this one and walk around, if it would support you, there's so much room."

Extra room in the walls and ceilings that is characteristic of many older buildings is another reason the renovated structures can work well for high-tech tenants.

Tom Stacy, president of T. Stacy and Associates and an owner of several historic buildings downtown, says buildings like his Scarborough and Littlefield have considerably larger chases for pipes and wiring than their more modern neighbors. That can make retrofitting the structures with fiber optics or enhanced power a simpler task than in a newer building.

As Stacy points out, most of Austin's downtown buildings were built before the advent of fiber optic cables for business communications, so even the newer high rises must be retrofitted in order to serve tenants with high-volume communications needs.

In that sense, he says, "a lot of the older buildings are on the same footing" in trying to attract high-tech tenants.

"So you get the charm of an older building, and in some cases a historic building, but you don't give up the high-tech features," Stacy says.

Andy Macfarlane of TexasNet, an Internet services provider, says companies planning to add cabling or other connections to an older building should investigate potentially complicating and costly conditions, such as the presence of asbestos insulation, which could drastically increase installation costs. If boring through stone or concrete is required, the cost of rigging will be significantly higher.

"The general rule of thumb is it costs about \$200 a drop," Macfarlane says, referring to each Internet connection point in an office. "In my opinion there's not a huge difference between bringing data services into a new building or old, all things being equal."

Rejuvenated downtown buildings are ideal for software companies, Stacy says.

"They're looking for buildings that have character, a sense of place," he says. "Downtown Austin is one of the few areas in our community where one gets a sense of community."

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## DOWNTOWN: New tenant market develops in historic downtown buildings

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### Class A at a premium

But it was price, not old Texas charm, that first put Stacy in the historic restoration business. Older properties were more readily available for purchase, he says.

With the entry since 1990 of a large number of real estate investment trusts into Austin, the demand for large Class A buildings has driven prices even higher. Availability has decreased as well, because institutional investors tend to keep property as a long-term investment rather than improving the property for a relatively quick resale.

Regardless of the reason he started acquiring older buildings, Stacy says he is pleased with the contributions he and his partner, Highgate Holdings, have been

able to make to the Central Business District by way of restoring and preserving the Scarbrough, Littlefield, and the former Stephen F. Austin Hotel.

"It's probably a little more fulfilling to bring back a historic building," he says, "because you are contributing to the preservation of Austin's history, which in turn is contributing to the preservation of the capitol of Texas."

Stacy says that while one of his recent acquisitions, The Perry Brooks Building at 720 Brazos St., is not yet historic, the owners plan to restore the building as if it had reached the 50-year criteria that will make it so.

"In just five years it will be historic," he says.

Not all of the new Scarbrough tenants were looking for the character and history that drew their neighbors to the building.

Stacy says Systems and Processes Engineering Corp. is a good example of a company that didn't fit the profile of a typical historic-building tenant. He says the company was looking for a Class A office building to project the prestige that would appeal to its target clients.

After considering its options, however, SPEC signed a lease for 32,000 square feet in the Scarbrough, an art deco office building at 522 Congress Ave.

Company President Randy Noster says the downtown location will simplify visits by out-of-town clients, who can walk from the office to hotels, restaurants, nightclubs and other amenities without needing to rent a car.

And for a company requiring a prestigious address, Stacy says, the intersection of Congress Avenue and Sixth Street enjoys strong recognition throughout the state.

### More affordable, higher profile

A high tech firm anxious to capitalize on the visibility Sixth Street offers is Studio Solutions, which is moving into a two-story limestone building built in 1899 at the northeast corner of Sixth and Red River.

Clay Goodwin, Studio Solutions' sales and marketing director for Austin-San Antonio, says the company plans to put a studio for its 3-D animation work on the ground floor.

"People coming up and down Sixth Street on a nightly basis will be able to see us," Goodwin says. "There are a lot of companies who perhaps don't know who we are that might see us once we are in the facility because of the exposure of being there right on Sixth Street."

Studio Solutions is leasing most of the building at 701 E. Sixth St. and is working with property owner Will Wynn of Civitas Investments on the interior finish.

Civitas heads the partnership that bought the building earlier this year, and heads a similar partnership that has acquired and begun renovations on a historic building at 600 E. Sixth. The latter building's 10,200 square feet of space are being finished out for occupancy this summer.

Goodwin says rigging cables and wiring for the building at 701 E. Sixth St. is easy under floors and in interior walls, although the stone exterior walls have presented some challenges.

"We are renovating the building from the ground up, so we have the ability to put in fiber [optic] connections from the desktop throughout the building," Goodwin says.

Goodwin says the stone walls and wood floors at the renovated building will be a creative inspiration for the firm. He says Downtown Austin appeals to creative companies and individuals.

"The creative community cherishes the downtown," he says. "The downtown, urban atmosphere, which is very lively, creative, is a big plus."

"Most of the artists that work downtown spend a lot of time and a lot of money down in the business district and the restaurant districts," Goodwin says. "We like to be able to network and socialize with a lot of those people, and having them close by gives us the ability to help them on training and in being able to shoot over to their offices as quickly as possible if the need arises."

Downtown real estate players say older properties often represent a more affordable and readily available alternative to modern office buildings, for both buyers and tenants. Just as Stacy began buying older buildings due to availability more than for historical preservation, tenants taking space in renovated space may find less expensive rent with the location benefits enjoyed by high-rise tenants.

Noster says Systems and Processes Engineering Corp. is looking forward to the convenience of working in a compact Central Business District from its new offices in the Scarbrough.

Goodwin says Studio Solutions, which conducts frequent trainings in 3-D animation for out-of-town clients, is excited by the opportunities offered by a slightly different environment only a few blocks east of the Scarbrough.

"It's close to the hotels, close to the restaurant and entertainment areas, and our clients," Goodwin says. "People can be booked into the hotel and not even need a rental car if they want to come down for a week of intensive training. There's plenty of hotels and restaurants nearby they can walk to."