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BG Group Place

JOE AKER

With extensive green and energy-efficient features, BG Group Place is a 960,000-square-foot office building that has helped revitalize a blighted part of downtown Houston.

PROJECT SUMMARY

BG Group Place is a 960,000-square-foot, 46-story office building on a 1.26-acre redevelopment site in the center of downtown Houston. The building has been certified Leadership in Energy and Environmental Design (LEED) Platinum by the U.S. Green Building Council (USGBC) and incorporates numerous green features, including sunshades on the facade to reduce heat loads in summer. The building of BG Group Place involved the redevelopment of a blighted block, located at the intersection of Houston's two new light-rail lines, and has had a regenerative effect on the immediate neighborhood and the central part of downtown Houston. The building is known for its striking architecture and the sky garden near the top, which gives the structure a unique profile on the Houston skyline. Construction began in March 2008 and the building was completed in January 2011. As of February 2015, the building is 98 percent leased.

QUICK FACTS

Location
Houston, Texas

Project type
Office building

Site size
1.26 acres

Land uses
Office, retail

Keywords/special features
Green building, sustainable development, high-rise building, glass curtain wall, sky garden, LEED Platinum certified, transit-oriented development, green roof, redevelopment

Websites
www.bggroupplace.com
www.mainplacehouston.com

Project address
811 Main Street
Houston, Texas 77002

Developer
Hines
811 Main Street
Suite 4100
Houston, Texas 77002
www.hines.com

Development investor/owner
Hines CalPERS Green Development Fund

Current investor/owner
Invesco (BG Holdco LLC)
Dallas, Texas
www.invesco.com

Design architect
Pickard Chilton
New Haven, Connecticut
www.pickardchilton.com

Architect of record
Kendall Heaton
Houston, Texas
www.kendallheaton.com

Hines is known for developing iconic buildings in Houston—notably One Shell Plaza, Pennzoil Place, and the Houston Galleria—and around the world. But when the company first proposed developing a new office building on a blighted block in downtown Houston, many in the Houston real estate community scratched their heads. The block was a problem location for the city and lay at the center of a good deal of criminal and unsavory behavior; many commercial real estate brokers said "don't go there."

But the very negative image of the block and the immediate area was part of what compelled Hines executives to focus on the site. Notes Mark Cover, chief executive officer (CEO) of Hines Southwest region, "I felt that if this block could be rejuvenated in a really substantial way, that it would have a tremendous ripple effect on downtown." He and his colleagues at Hines believed that it would be in the best interest of downtown Houston to remove the blight on this block; and that if they were successful, they could create value not only for Hines and its investment partner, but also for surrounding areas and the city as well.

Despite the problems the site presented, it did offer several attractive features, the most compelling of which was a strategic location. The site lies very near the center of downtown Houston, on Main Street, and offers direct access to a new light-rail line and stop along this street.

Doubters aside, Hines proceeded with the development plans. With a focus on architecture and building quality, Hines not only developed a great new office building, but also stimulated a good deal of redevelopment and positive change in the surrounding blocks.

The Site and the Idea

Prior to its redevelopment, the site was considered to be one of the worst blocks in downtown Houston, and featured a derelict hotel that attracted unsavory characters and behavior, including drug use, prostitution, and other criminal activities. Some of the buildings were boarded up and in bad shape. In 2007, the *Houston Chronicle* referred to the block as "the most blighted block in all of downtown." One structure that was a particular problem was the old Cotton Hotel, a building with an interesting history that had devolved into a room-by-the-hour type of establishment.

Hines began seriously considering the site and planning for the project in December 2006.

Centrally located in downtown, the site lies adjacent to both the north–south and east–west lines of the Houston light-rail system.

The block on which the building sits was owned by six separate local and national owners, many of whom had held parcels for some time. Hines was able to acquire five of the parcels and left one. The latter was a mid-rise building, on a quarter of the block, with historic qualities that had been partially renovated and was being planned for a new use. This building was considered for acquisition but ultimately was not acquired because 1) it was not actually needed to make the project work, 2) it had historic qualities and was worth preserving, and 3) it would have been considerably more expensive to acquire than the other parcels.

Control of the 1.26-acre site was obtained by Hines in August 2007. The site acquisition involved both long-term ground leases for two of the parcels (with the ability to get to the fee ownership if needed) and fee-simple purchases for three parcels. Hines worked closely with one of the owners, who knew the other owners well, to negotiate a deal that was acceptable to all. Site acquisition costs generally fell in the $350- to $400-per-square-foot range. Cover comments, "It was an expensive purchase at the time." Hines actually had the option to develop on another site two blocks away, and was prepared to move forward on either. This was an important factor in the negotiation with the landowners. In fact, as of winter 2015 Hines is under construction on a new building on that second site, called 609 Main.

The site lies on a block bounded by Main Street on the west, Rusk Street on the north, Fannin Street on the east, and Walker Street on the south. Main Street has traditionally been one of most important streets in Houston, and the north–south light-rail line now runs along this street with a stop—Central Station—directly adjacent to the building. The alignment of the second light-rail line, the east–west line, was not yet in place when the site was acquired, but today this line is in place along Rusk Street, directly in front of the building, and will begin operating in the near future. As a result, the corner of Main and Rusk is now the most important location in the emerging light-rail transit system in Houston, which means it will be one of the most central locations in the city's future.

The original site was one of the most blighted blocks in downtown Houston.

Sited on three-quarters of a block, BG Group Place shares the block with an existing building with historic qualities (on the right) that is being planned for reuse as a hotel by another developer.

Across the street at the corner of Main and Rusk stands the historic 1929 Gulf Building, now known as the JPMorgan Chase Building. Pennzoil Place, one of the early signature modern buildings designed by Philip Johnson and developed by Hines in 1976, is located approximately two blocks north and west of the site. The main corridor where much of the energy industry has been traditionally headquartered in downtown —Louisiana Street—lies three blocks to the northwest, and the new Discovery Green, next to the George R. Brown Convention Center, is six blocks to the southeast. The redeveloped site has served to build a bridge between the west side, where many of the energy companies are located, and the emerging east side, where the new convention center and Discovery Green are located.

Development Team and Background

Hines is a privately owned real estate firm involved in real estate investment, development, and property management worldwide. The firm's historical and current portfolio—of projects that are underway, completed, acquired, and managed for third parties—includes 1,126 properties representing more than 459 million square feet of office, residential, mixed-use, industrial, hotel, medical, and sports facilities, as well as large, master-planned communities and land developments. With offices in 106 cities in 17 countries, and controlled assets valued at approximately $23.7 billion, Hines is one of the largest real estate organizations in the world.

When they started planning the project in 2006, notes John Mooz, senior managing director with Hines, "there probably were 75 blocks in downtown that someone could put a million-square-foot building on, but in reality there were about four or five blocks that were appropriate to put a million-square-foot building on. It needed to check many boxes." A central location and direct proximity to transit were two of these boxes. Even in car-centric Houston, access to mass transit is very important for large tenants. Upon surveying potential tenants, Hines found that some of them had as much as 70 percent of their employees using mass transit of some sort, especially the city park-and-ride system. Observes Philip Croker, managing director at Hines, "We felt it was important to be adjacent to the light-rail system and the park-and-ride bus stops." A good connection to the pedestrian tunnel system was also essential. Being centrally located also was a major consideration.

The city was supportive of the redevelopment, as the block had been a problem for some time. No zoning or other major approval issues needed to be addressed.

In March 2008, the time construction began, the vacancy rate in downtown Houston was very low, but the U.S. economy was already in recession and the Bear Stearns collapse and sale to J.P. Morgan, also in March 2008, the first major event in the financial crisis, was happening almost simultaneously. Notes Cover, in early 2009 "we had some conversations with our partner about stopping, but at that point we were so far in that we would have taken a very significant loss, so we kept going." In addition, notes Croker, "We believed that the market would have a quick recovery and that we were well positioned to take advantage of that."

The building was planned as a spec building and there was no requirement at the time for significant preleasing. When construction began, the building had one lease in place with KPMG, which represented approximately 10 percent of the space. The building was completed in January 2011.

Development Finance

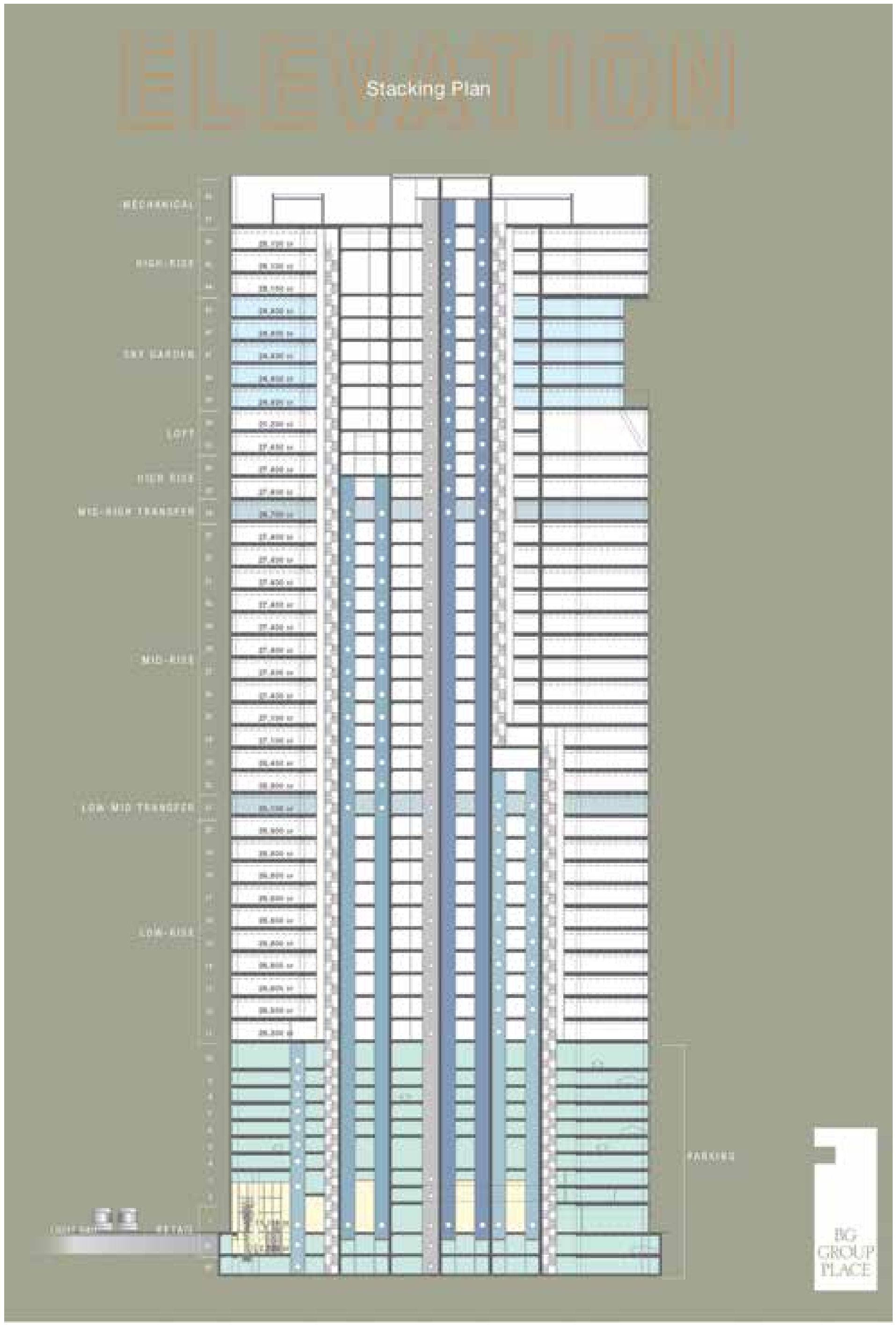
The equity for the development was provided by the HC Green Development Fund Limited Partnership, a partnership of Hines and the California Public Employees' Retirement System (CalPERS). The fund was established in August 2006, and BG Group Place is the second investment that the fund has made. The HC Green fund focuses exclusively on developing sustainable office buildings throughout the United States certifiable through the U.S. Green Building Council (USGBC) Leadership in Energy and Environmental Design Core & Shell (LEED-CS) program. Hines serves as the general partner and CalPERS is the limited partner. CalPERS is the nation's largest public pension fund with assets totaling $218.5 billion, of which $15.4 billion is invested in real estate.

CalPERS preferred to be conservative on the debt financing, so the debt was kept at a relatively low level, with a roughly 50/50 debt/equity split in the financing plan. The partnership had the right to borrow more, but chose not to. The construction loan was finalized in August 2008, after construction had begun and right before the financial crisis really took hold. Two weeks later, Lehman Brothers went down. The loan was one of the last major construction loans done prior to the financial crisis.

Debt capital for the development was provided by a consortium of six banks led by J.P. Morgan and Wachovia (which later became Wells Fargo); others included Bank of America, BBVA Compass, Whitney Bank, and Oklahoma Fidelity. Two of the banks in the consortium were merged into or purchased by other banks by the time the building was complete. The total development cost was in the range of $325 million to $350 million.

Hines seriously considered halting the project in early 2009, a time when, as Mooz notes, "people had no idea where the bottom of their business was." At that time, members of the development team asked themselves, "How bad can it get, and how bad does it need to get before we stop the project?" They decided that it had to get much worse than it was at that time, and so they continued. Notes Mooz, Hines and its partners agreed that "it makes no sense to shut down." That decision was made when the foundation was already in place and the building was several stories out of the ground. With the site acquisition costs and all the predevelopment costs, they were already financially deep into the project. They considered making it smaller and less expensive, but eventually stayed the course with the original plan. Mooz comments, "We stayed committed to our vision, and that proved to be the correct approach."

The plan for the project had been from the start to build it, lease it, and then sell it, as the strategy was to maximize return on capital rather than holding it long term. In spite of the financial crisis, the developers were able to execute this plan. The partnership retained Eastdil Secured to explore the sale of the building. They made a strong pitch to major pension



The stacking plan for the building.

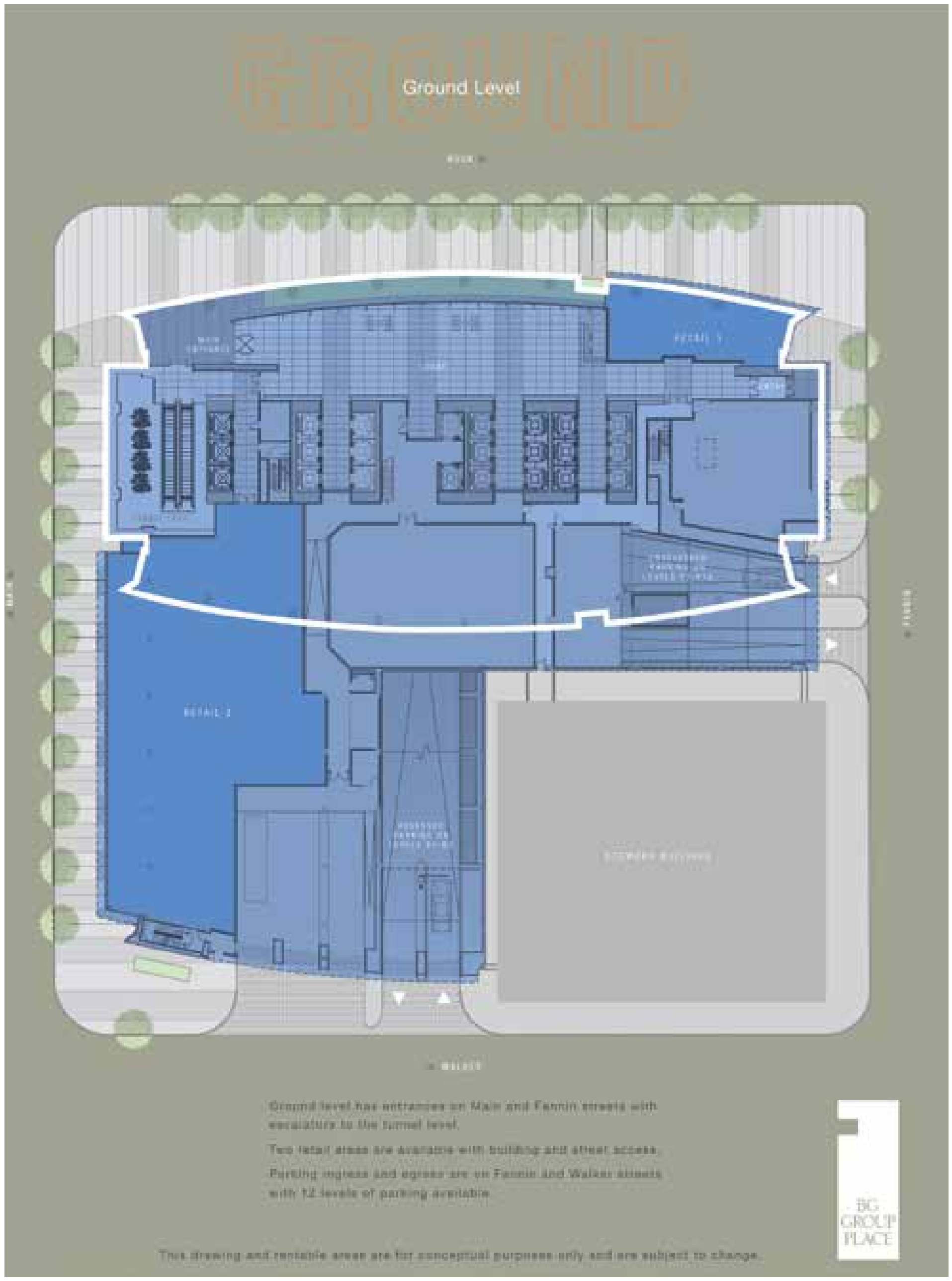
funds and international investors alike. Following substantial lease-up, which was largely achieved by January 2013, the building was sold in May 2013 to Invesco Real Estate, representing a foreign investor, for an undisclosed amount. The sale price was roughly what Hines had projected, though the hold period was longer than the original pro forma estimate. The sale price has been widely reported in the press to be in the neighborhood of $480 million, and the buyer has been rumored to be a South Korean pension fund; neither the seller nor the buyer has officially disclosed the sales price or the name of the foreign investor.

The price at the time of sale, if accurate, would be the highest ever paid for a downtown Houston office building, and one of the two or three highest prices on a per-square-foot basis for Houston. The estimated cap rate for the sale, according to a Colliers second-quarter office market report, was 5.8 percent—a figure that has not been confirmed by either buyer or seller. In August 2013, Invesco and its partners arranged a $235 million loan from MetLife to finance the asset.

Planning and Design

As with most Hines downtown office buildings, the objective of the design was to build a high-quality building with world-class architecture. At the time the building was being designed, however, considerable concern existed about creating a building that was practical and cost-effective as well. Jon Pickard, co–founding principal of Pickard Chilton, says, "The building needed to be really efficient to be successful in the market. We started with the notion of going beyond the box, but we couldn't go too far beyond the box because tenants are looking for efficiencies [in their space]." Pickard formerly worked for Cesar Pelli and has designed numerous buildings for Hines, including 1180 Peachtree in Atlanta and 300 North LaSalle in Chicago. Kendall Heaton was the production architect and the architect of record for the project.

BG Group Place includes 46 stories and approximately 1,565,000 square feet of gross building area, including 1 million square feet of office space, 15,000 square feet of first-level restaurant and bank retail space, and 550,000 square feet of parking space, including 1,120 parking spaces. The building includes 960,000 square feet of net rentable area. Floor sizes in the building range from 26,100 square feet to 28,100 square feet.



The ground floor plan. The main entrance is at the top left corner and a second entrance is at the top right corner. A deli and a bank occupy ground-level retail space.

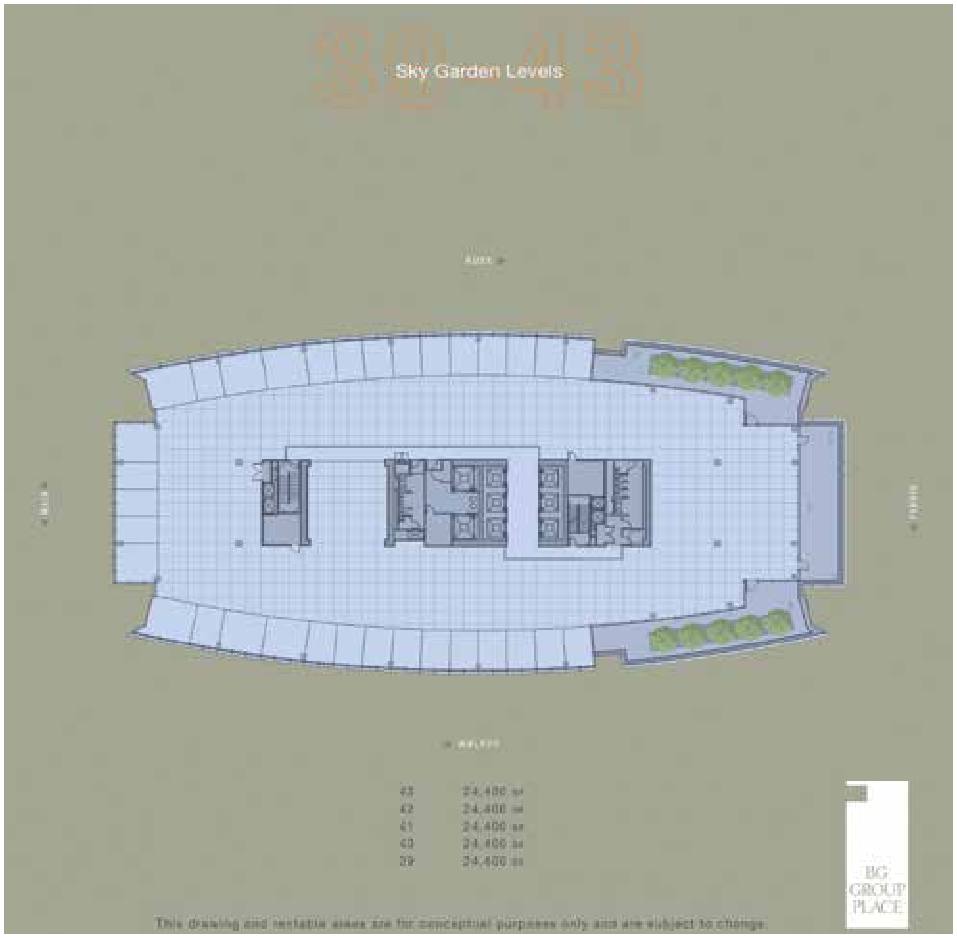
Site plan and building configuration. Several factors that shaped the design included the L-shaped site, the proximity and linkage to the Chase Building across Main Street (one of the classic downtown office buildings from an earlier era), the surrounding traffic patterns and one-way streets, and the fact that they could not use Main Street for vehicle entrances or exits because of the light rail on that street. Pickard remarks, "What we wanted to do was protect the vital faces," which essentially meant the frontages along Main and Rusk streets. The building was also configured to minimize sun loading, with the heavy sun loading on the narrow side of the building.

Because the developer owned only about 75 percent of the block (1.26 acres), the building design and plan had to work with an L-shaped site and work around an existing building. A vacant, older ten-story building—the Stowers Building—occupies the southeast corner of the block and will reportedly be redeveloped and converted into a new Aloft Hotel in the near future. The office tower itself is situated on half of the block that fronts onto Rusk Street, and is generally in a rectangular shape but with a gently curving facade on the long side of both the front and back of the building.

The two primary entrances to the building are located at the corners off Rusk Street, one on the Main Street side and the other on the Fannin Street side. The entrances themselves are low-key corner entrances, allowing for an uninterrupted soaring glass facade to be featured along the entire front along Rusk Street, providing a strong visual window into the 30-foot lobby of the building.

A parking structure sits on the southwest corner of the block. The parking for the building is located within the main tower as well as in the adjacent parking structure, and includes two levels of underground parking and nine levels of above-ground parking. The office floors for the tower start on level 11. A 20,000-square-foot roof garden is located on the top level of the parking garage, and is available for use by the 11th-floor tenant.

The building is a cast-in-place, reinforced concrete structure with shear walls and outrigger haunched beams. According to Vertika Structural Engineers, "The super-efficient composite structural design saved over 1,000 tons of steel when compared to comparably sized structures." According to Harvey Cleary, the general contractor, the construction timeline involved four months of demolition followed by 33 months of construction.



The floor plan for sky garden floors.

The atrium glass along the front, together with landscaping, creates an attractive pedestrian experience along Rusk Street.

Architecture and facade. The elegant glass-and-steel exterior is defined by several key features, including both vertical and horizontal sunshades attached to the exterior, cutaway corners, a vertical cutout the runs from the top to the bottom, and a dramatic cutaway "notch" and tenant balcony/sky garden recessed into the building's form on the 39th floor. This latter feature has come to define the building and has proved to be a desirable feature in marketing the building. Observes Cover, "We felt that the premium nature of some of those floors [around the notch] would be a benefit to the building, and ultimately that has been true." The notch was originally designed to be even deeper, but, notes Cover, "The deeper the notch, the more expensive it was to do the structure," so they eventually reduced the size of the notch.

The facade also includes cutaway corners in all four corners, creating eight corner offices per floor. Getting the columns out of the corner also improved the usability of this space. People naturally gravitate to the corners of buildings. A vertical cutout that aligns with the notch and runs

The sky garden, which spans floors 39 to 43.

downward to the street level on the Rusk side and to the parking garage on the back side also creates a distinctive visual feature for the building.

Horizontal sunshades of glass and aluminum wrap around the building's curved north and south facades. In addition, vertical glass fins shade the west facade from the low evening sunlight. These sunshades are both functional, reducing energy needs, and aesthetic in nature.

The facade also covers the parking levels in the same fashion as the office levels, and thus the parking is generally not noticeable. Because the parking is enclosed, the space had to be vented and sprinklers installed, which added some costs, but the overall effect is much more appealing for the building and the city.

At night, the building includes special lighting that highlights the crown of the building, the notch, and the vertical cutout that runs down the sides of the facade; the two-story lobby is also well lit at night.

Sustainable features. The building was precertified at the Silver level under the USGBC's LEED for Core & Shell rating system; ultimately, it was certified at the Platinum level in October 2011.

Sustainable features and programs include the following: a fully vegetated green roof above the parking garage; a landscaped "sky garden" terrace; highly efficient heating and ventilation systems; facade sunshades that result in up to 40 percent of the building facade being protected from solar heat gain without losing daylight; light-emitting diode (LED) lights in common areas; a condensate recovery system; electronic air cleaners; dedicated filtered water drinking fountain systems; energy-efficient harmonic cancellation transformers; bicycle parking at no charge; a comprehensive recycling program; reserved parking for energy-efficient vehicles; and premier access to various modes of regional transportation systems, including light rail. In addition, notes Croker, "The parking garage lighting is operated by occupancy sensors, so the lights don't stay on all day and night like most garages. It's a huge energy saver."

Hines global sustainability officer Gary Holtzer observes, "High-quality, sustainable office space is becoming an increasingly important consideration for tenants and employees. The business case for sustainability is plainly visible in areas like recruiting and retention, which [are] the beginning of the value chain for our tenants."

The facade includes horizontal sunshades—two shades per floor—of glass and aluminum that wrap around the north and south facades. The building has been certified LEED Platinum by the U.S. Green Building Council.

For a lot of tenants, green features "are important to their corporate mission," says Croker.

The project was also designated by the U.S. Environmental Protection Agency as an Energy Star building, acknowledging the structure's superior design intent. With a design rating of 96, if the building performs as designed, it will be 53 percent more energy efficient than the national average office building.

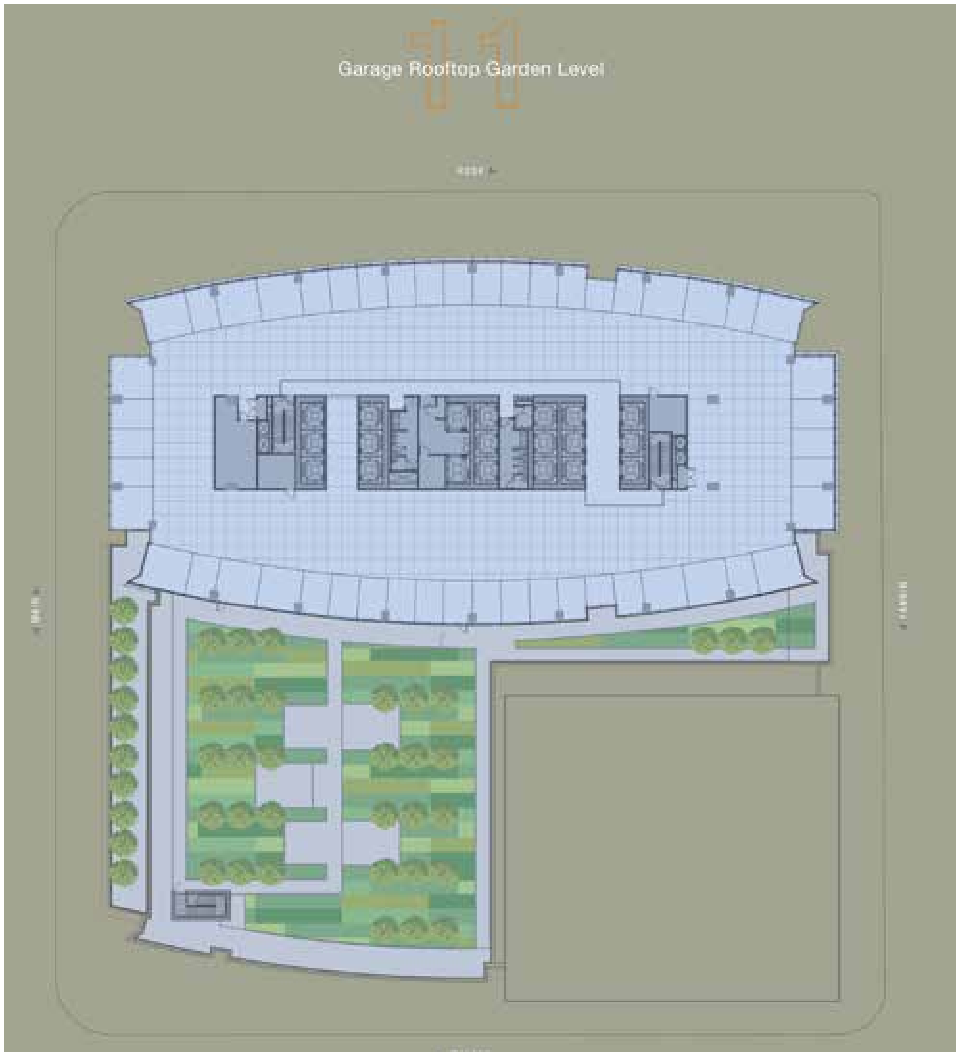
Rooftop garden and sky garden. The building includes both a rooftop garden and a sky garden. The roof garden idea was a key sustainability feature, but also grew out of the need to create amenities and value for lower-floor tenants. During the design process, Pickard proposed, "Let's create an urban garden so tenants will want to be on the lower floors." The result was the creation of a 20,000-square-foot rooftop garden above the parking garage, accessible only by the tenant located on the 11th floor.

While the garden is accessible only from the 11th floor, it serves as a visual amenity for the office floors above, and it also serves as a green roof, which contributes to the green nature of the building that benefits all the tenants. As a result, all tenants pay for the maintenance of the garden, even though they do not have direct access to the space. The Office of James Burnett was the landscape architect for the roof garden above the parking structure, as well as the streetscape elements.

The sky garden idea emerged from this original roof garden concept. The sky garden is located on level 39, and is also accessible only from the tenant space on that floor. The garden is located at the bottom of a five-floor cutout "notch" that extends from floors 39 to 43. This sky garden forms a signature element in the tower's design, and is dramatically lit at night. It provides an important outdoor amenity for the tenant on the 39th floor, and a visual amenity for the four floors above. To make this space work, the building columns had be arranged around the sky garden and were transferred in, down, and then back out, which created additional structural costs.

Lobby and amenities. The 30-foot-high lobby features floor-to-ceiling glass along the entire front of the building, and also includes floor-to-ceiling white-backlit panels along the interior wall, creating a soaring and very bright space. Sycamore wood is used on the walls, alternating

The garage rooftop garden is a visual amenity for tenants above the 11th floor and an attractive outdoor space for the 11th-floor tenant.



The 11th-floor building plan.

The 30-foot-high lobby features floor-to-ceiling glass along the street wall and floor-to-ceiling white-backlit panels along the interior wall, creating a soaring and very bright space.

light and dark stone is used on the floor, and furniture is arranged along the front glass to allow for a comfortable waiting/informal meeting area. Notes Croker, “We were really trying to create an area for people to collaborate and congregate outside of their office. We want people down here interacting, meeting their friends, meeting their neighbors.”

As noted earlier, the entrances to the lobby are at the corners. Observes Pickard, “What we wanted to do was capture people at the corners where they crossed, and yet give back to the street, so it was critical to us that the lobby be a special space and very transparent so that the activity in the lobby engages the street. The lobby should be open and friendly and inviting so that people will want to come in off the street.”

The lobby entrance near Main also provides escalator access to the underground tunnel system, as well as a fitness center, located on the lower level.

Elevators and HVAC systems. The building includes 21 high-speed ThyssenKrupp elevators, including separate elevator banks for low-rise, mid-rise, and high-rise floors as well as for the garage. Two service elevators are also provided.

The HVAC system units are set on large rubber grommets, greatly reducing vibration and noise in the building. According to MLN, the mechanical contractor, “3,500 tons of HVAC, including 91 air-handling units and more than 900 fan-powered terminal units” were installed in the building.

Parking, access, and connections. The parking includes nine floors of above-ground parking and two levels of below-grade parking. Two parking entrances are provided: an unreserved-parking entrance is located off Fannin Street, and a reserved-parking entrance is located on Walker Street, directly adjacent to the loading docks. The loading area includes three bays, each with a clearance of 14 feet 11 inches.

As noted, the building is connected to Houston’s underground tunnel system, an essential connection for any downtown Houston building. The connection to the tunnel includes a specially engineered flood door, similar to doors found on submarines, to prevent floodwaters from entering the building if and when the tunnel floods during torrential rains, which it has in the past. The tunnel connection also includes a piece of

The parking garage is completely enclosed behind a glass curtain wall.

the facade of the Cotton Hotel building that was originally on the site. The building is also directly adjacent to both light-rail lines in Houston that run along both Main and Rusk streets.

Marketing, Leasing, and Management

The marketing for the building has featured the phrase "Where sustainable design meets world-class architecture," two hallmarks of Hines buildings. The marketing and leasing program involved the development of two videos that visually highlighted the key elements of the building. These were used especially during the early marketing and leasing, when the building was not yet out of the ground. Once the building was topped out with a facade, Hines built out three sample office environments, including low-rise, mid-rise, and high-rise samples, with small conference rooms and offices on the corners.

The building was originally named Main-Place, and was renamed BG Group Place in 2010 after the BG Group lease was signed.

Office leasing. Hines used an in-house leasing team to lease the building, who drew on very strong decades-long relationships with the tenant reps in the market. The first tenant to sign on was KPMG, which signed a lease in 2008 and now occupies just under 102,000 square feet on the top four floors of the building. The financial crisis followed this initial signing, and leasing became much more challenging thereafter as the project proceeded through construction, even as Houston was generally faring better than most other cities in the country.

In fact, no new leases were signed for two years. In 2010, however, the market began to improve, and a breakthrough occurred in October of that year when Hines signed a major lease with a subsidiary of BG Group plc, for 164,000 square feet, to house the international natural gas company's U.S.-based headquarters. Under the terms of the lease, BG Group had the right to expansion capacity in the building. BG Group has subsequently leased additional space and now occupies slightly under 354,400 square feet.

Headquartered in the United Kingdom and active in more than 25 countries, BG Group plc is a world leader in natural gas. The firm relocated its existing office from the Houston Galleria area, and also expanded. BG Group's space now essentially includes all floors served by the mid-level elevator bank, providing an added level of security.

Cushman & Wakefield and Vinson & Elkins represented BG Group in the transaction, while Hines was represented by internal Hines staff and the law firm Baker Botts. The rental rate has not been disclosed, but Hines recognized the importance of this critical lead tenant lease and negotiated a deal that was very attractive for BG Group. Given the leasing climate at the time and the size of the lease, Mooz observes that "BG's lease, as anyone might predict, was not done at our pro forma rate." This lease in effect broke the leasing logjam for the building, and several key leases fell into place subsequently; much of the leasing was completed over the next ten months.

Leasing was especially strong just before and after the building opened. Notes Mooz, "No matter what you have to market, people really like to see, touch, feel, and experience it. [Tenants] want to see and touch their space." Other major tenants that subsequently signed on include law firms Latham & Watkins, BakerHostetler, and Reed Smith; financial firms Citigroup and Kayne Anderson; and Castleton Commodities, an energy company. Numerous other smaller tenants also are energy-focused companies.

DESIGNERS, CONTRACTORS, AND CONSULTANTS

Landscape architect
Office of James Burnett
www.ojb.com

General contractor
Harvey Builders
www.harvey-cleary.com

Structural engineer
Ingenium (now part of HOK)
www.hok.com

Mechanical, electrical, and plumbing engineer
Wylie & Associates
www.wylieassociates.com

Civil engineer
Walter P. Moore
www.walterpmoore.com

OTHER RESOURCES

Videos
www.youtube.com/user/ULITV
mainplacehouston.com/Videos.html
vimeopro.com/user4869809/2014-awards-of-distinction

Interviewees
Mark Cover, CEO, Southwest region, Hines
John Mooz, senior managing director, Hines
Philip Croker, managing director, Hines
Jon Pickard, co–founding principal, Pickard Chilton

ZACH ROLEN

The space on floors 37 and 38, just beneath the sky-garden level, includes a two-level loft space that highlights the angled columns that shift inward to accommodate the sky garden above.

One of the last major leases was signed with BakerHostetler in January 2013, for just over 80,000 square feet. This lease brought the building up to 92 percent leased, and three months after this lease was signed the building was sold, in April 2013.

As of February 2015, the building was 98 percent leased to 23 tenants. Tenants typically occupy one to three floors, or 35,000 to 75,000 square feet. Annual rents range from $30 per square foot net to $50 per square foot gross. Typical leases run ten to 15 years, with an average of around 12 years.

Retail leasing. The immediate neighborhood is not currently a strong retail location, so a minimal amount of space is allocated to retail. At present, two retail tenants occupy ground-floor space. Frost Bank occupies 11,000 square feet along Main Street, and Which Wich, a sandwich shop, occupies 3,000 square feet in the eastern corner of the lobby area near the Fannin Street entrance. Annual retail rents range from $28 per square foot net to $45 per square foot gross, and are typically ten-year leases.

Management. The building has been and continues to be managed by Hines Property Management. Considerable attention has been given to building security and to the safety of tenants, including escorts to vehicles parked in the garage.

Observations and Lessons Learned

The building received the ULI Houston Development of Distinction Award in 2013, and the Award cited the building for a development effort that has "radiated out and impacted the surrounding neighborhood, which includes several historic, important Houston assets now undergoing renovation." Office towers do not always have such positive effects, but BG Group Place has been transformative, removing blight from the area while adding high-quality architecture and premium office tenants and users to the neighborhood, reestablishing the importance of a strategically located site at the center of downtown Houston.

New development that has emerged nearby following the completion of BG Group Place includes a new JW Marriott hotel across Main Street in a renovated historic building, the conversion of a historic office building into residential uses at the corner of Fannin and Rusk, and another new high-rise office structure by Hines that is underway two blocks to the north.

The timing for the development of BG Group Place turned out to be fortuitous, though it did not seem so in 2009. This good timing may not have occurred, however, if not for a sound financial foundation put in place from the start. Remarks Cover, "It is important to have a capital structure that allows you to weather some cycle risk. Having a lot of equity and a partner who could stay the course [was critical]." The high level of equity in the project also allowed the lenders to remain comfortable with the deal throughout the process, knowing that if they took the building back they would have a considerable loan-to-value cushion, offering a very safe position for them.

Creating better virtual experiences in the marketing materials is something that Hines is focusing on for the 609 office building that is under construction as of winter 2015. Leases often are not signed until buildings are finished, because tenants often do not want to commit until they have a real sense of the structure and the tenant space and what they will offer. Virtual experiences can help get the tenant comfortable with the offering before it is completed. A video was done for the original MainPlace, but with advances in media technology, the quality of the video being done for the new project is much better and is expected to be even more effective.

Tenant demands for space have changed dramatically in the last ten years, and tenants are now looking for more and different amenities within their buildings. The employee experience is the critical factor in creating and leasing office space today. As a result of this changing landscape, Hines is adding features such as underfloor air, a larger second-level fitness facility, more restaurant/retail space, and a shared conference space to the 609 building to enhance the tenant and employee experience in that building. These features were not necessary to lease BG Group Place, but they are necessary in the current market.

Finally, "location, location, location" is the real estate mantra that is often heard. But a big difference often exists between what a location has to offer today and what it could offer tomorrow. Transformative development can often unearth qualities not previously seen in a location. In hindsight, the corner of Main and Rusk streets seems like a jewel, now that the new building is in place, the blight has been removed, a new second light-rail line has been added, and new development is springing up nearby. But when the project was started, this transformation was not certain. Notes Cover, "BG Group Place resets the whole center of downtown." That took both vision and an appetite for risk that has paid dividends to both the city and the investors.

PROJECT INFORMATION

Development timeline

Planning started	December 2006
Site purchased	August 2007
Sales/leasing started	February 2008
Construction started	March 2008
KPMG leased signed	May 2008
Construction loan finalized	August 2008
BG Group lease signed	October 2010
Project completed	January 2011
BakerHostetler lease signed	December 2012
Building sold to Invesco	May 2013

Gross building area

Use	
Office	1,000,000 sq ft
Retail	15,000 sq ft
Parking	550,000 sq ft
Total GBA	1,565,000 sq ft
Parking spaces	1,120 spaces

Land use plan

Use	**Site area**	**Percentage of site**
Buildings	1.26 acres (55,000 sq ft)	100
Rooftop garden	20,000 sq ft	

Office information

Office net rentable area	960,000 sq ft
Floor size range	26,100–28,100 sq ft
NRA occupied	98%
Number of tenants	23
Typical tenant size	1–3 floors (35,000–75,000 sq ft)
Annual rents (per sq ft)	low $30s net/$50 gross
Average length of lease	12 years
Major office tenants	**NRA (sq ft)**
BG Group	354,397
KPMG	101,938
BakerHostetler	80,046
Latham & Watkins	63,337
Citigroup	56,205
Reed Smith	53,714
Castleton Commodities	40,941
Kayne Anderson	35,341

Retail information

Retail GLA occupied		100%
Annual rents (per sq ft)		$28 net/$45 gross
Average length of lease		10 years
Key retail tenants	**Retail type**	**GLA (sq ft)**
Frost Bank	Bank	11,000
Which Wich	Deli	3,000

Development cost information

Site acquisition cost*	**$350–$400 per sq ft**
Hard costs	**$175 million–$200 million**
Soft costs	
Architecture and engineering	$11 million
Financing	$20 million
Commissions	$20 million
Other	$70 million
Total	$121 million
Total development cost	**$325 million–$350 million**

*Involved both ground leases and fee-simple purchases.

Financing sources

Construction financing	**50%**
JPMorgan Chase	
Wells Fargo	
Bank of America	
BBVA Compass	
Whitney Bank	
Oklahoma Fidelity	
Approximate total debt	$162 million–$175 million
Development equity	**50%**
Hines CalPERS Green Development Fund	
Approximate total equity	$162 million–$175 million
Approximate total debt and equity	**$325 million–$350 million**

About the Urban Land Institute

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

Established in 1936, the Institute today has more than 34,000 members, representing the entire spectrum of land use and development disciplines. Professionals represented include developers, builders, property owners, investors, architects, planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, academics, and students.

ULI is committed to

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both the built and natural environment;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Patrick L. Phillips, Global Chief Executive Officer

The development of this case study was generously underwritten in part by the law firm Allen Matkins.

About Allen Matkins

Allen Matkins is a California-based law firm specializing in serving the real estate industry. The firm has more than 200 attorneys in four major metropolitan areas of California: Los Angeles, Orange County, San Diego, and San Francisco. Its core specialties include real estate, real estate and commercial finance, bankruptcy and creditors' rights, construction, land use, natural resources, environmental, corporate and securities, intellectual property, joint ventures, taxation, employment and labor law, and dispute resolution and litigation in all these matters.

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ULI CASE STUDIES

The ULI Case Studies program highlights and showcases innovative approaches and best practices in real estate and urban development. Each case study provides detailed information regarding the ideas, plans, process, performance, and lessons learned for the development project. Each also includes project facts, timelines, financial data, site plans, photos, location maps, and online videos. For more information, visit the ULI Case Studies website at **www.uli.org/casestudies**.

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