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Pflugerville pulls in retail despite recession

Suburb hot as rest of region left in cold

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Stone Hill Town Center has Austin retail experts calling Pflugerville the little city that could — an example showing that where there's demand, supply can succeed even in a bad economy.

The suburban town northeast of Austin has bucked the national trends. About 500,000 square feet of retail — more than half the size of Lakeline or Barton Creek Square malls — is being built at Stone Hill amid the recession.

To put that into perspective, less than 1.5 million square feet of shopping center space is expected to come online locally this year, said Ian Pierce, a spokesman for **The Weitzman Group**.

While most projects are stalled due to lending issues, Pflugerville's newest shopping center along the new State Highway 130 has consistently added major retailers during a period when many have lost them, giving Pflugerville residents more opportunity to buy locally and keep their sales tax dollars in town. First came **Home Depot** in 2008, then Target and **Best Buy** in 2009, and now **24 Hour Fitness** and Cinemark Theatres, the first place with an indoor pool and first movie theater in Pflugerville, respectively.

Developed and financed by Houston-based **NewQuest** Properties, Stone Hill will be valued at \$125 million to \$175 million when completed. With a million-square-foot master plan covering 196 acres, Stone Hill's retail portion is about halfway done. Restaurants, medical office and clinic space, and perhaps an apartment complex are on the to-do list in the next few years, said David Meyers, NewQuest's director of leasing and a development partner.

How'd they do that?

NewQuest was able to secure financing before construction and before the credit crisis that continues to make financing unattainable for much retail development. Heavy-handed regulators have forced banks to cut back on real estate lending since September 2008. But by the time NewQuest needed to renew its loan in late 2009, much of the project was built and making money, encouraging the lender to renew its deal with the developer, Meyers said.

"It's well known that Central Texas — and Texas in general — was a strong market for development even through the recession, but Pflugerville had this pent-up demand. Many people here already had homes and still had jobs, so they had that disposable income to keep the project going," said Meyers, a 22-year veteran in retail leasing in Texas. The problem was that they were "going elsewhere to spend, so we just captured that."

And there appears to be plenty left to capture. Pflugerville officials have estimated the city's sales tax leakage — from Pflugerville residents shopping in nearby cities — is high. For every dollar residents spend on retail, 85 cents goes to businesses outside the town because of a lack of stores and restaurants.

Besides adding 700 jobs, the new retail development in Pflugerville is expected to help lower residents' tax burden as the city grows.

At just under 12 square miles, Pflugerville has the highest property tax rates in Travis County, according to data published by the county tax office. Officials say that's because the city's past isolation from major roads has caused fewer businesses to locate in town. But now major streets have been widened and the spaghetti-bowl-like intersection of SH 130 and State Highway 45 casts a shadow on Stone Hill.

Pflugerville's retail growth is a 180-degree turnaround, said Charles Simon, executive director of the **Pflugerville Community Development Corp.**, the city's economic development arm.

"When I first came in, people just didn't want to have the city developed and felt it was more convenient and less disruptive to the community to drive outside of the city to go shopping," Simon said. "But over time, the city grew and so did traffic surrounding the whole area. So now we have the support of residents who would rather keep those dollars in their own city."

During his 14 years working for the city, which includes jobs as assistant city manager and planning director, Simon has watched the city's population grow from about 10,000 to more than 50,000 today.

During Simon's tenure, the city launched its first economic development program and welcomed the first large-scale industrial project, the **Verde Springbrook Corporate Center**, in 2006. Before the Stone Hill and nearby Pflugerville Crossing development, which includes a **Wal-Mart Supercenter**, opened their first stores in 2007, the city's two largest retailers were an Albertsons grocery store near **Pflugerville High School**, which operated from 1996 to 2006, and an H-E-B store operating since 2000 east of downtown.

Although Stone Hill's progress "during the recession was a shining example of how Austin was strong for retailers despite the perception elsewhere," it doesn't necessarily mean retail is coming back strong everywhere, said Ben Kogut, a retail broker in the Austin office of **Grubb & Ellis Co.**

"There are definitely always going to be pockets of opportunity moving forward for new retail," Kogut said. "But I don't think we'll see 500,000 square feet spring up like that again for a couple of years."

Meanwhile, Simon is hoping to move on to his next goal: building more office space and trying to get more businesses to put their headquarters or major operations in Pflugerville. The city's largest employer, Austin Foam Plastics, a recycled foam manufacturer that supplies nearby **Dell Inc.** in Round Rock, has 200 employees.

Competing against its neighbors in Round Rock and Austin, as well as cities nationwide, for more business won't be easy, but Simon said, "If Stone Hill is any indication, we're becoming a bit more of a contender."

Courtesy of JB Goodwin