

SHOPPING CENTERS TODAY

Albuquerque fast-tracks \$250M redevelopment

It took more than 50 years of planning, but it will be only five years in the making. After 31 failed efforts to revitalize its downtown core, Albuquerque is in the midst of a \$250 million urban redevelopment effort that will create a sector where people will live, shop and play — in world-record time.

Redeveloped around Central Avenue, better known as historic Route 66, the 12-block district will sport a Century Theatres 14-screen multiplex, restaurants, a combination of chain and unique retail, and residences that should finally bring long-awaited life to Albuquerque. But in contrast to such projects as Genesis LA, which will take up to 10 years to redevelop blighted urban areas, Albuquerque's Historic District Improvement Corp. (HDIC) plan is on a much faster track.

"The first phase will be completed in mid-2002. At that point, my goal is that downtown Albuquerque will be a viable real estate market," said Christopher Leinberger, partner in Santa Fe, N.M.-based Arcadia Land Co., a major owner of the privately held HDIC. The overall 500,000-square-foot public/private project will be completed in 2005.

The city's central core had deteriorated for decades following World War II, and over the years the city and developers had put together 31 previous plans to redevelop the area, abandoned at night by just about everyone but the homeless. After HDIC acquired the 12-block tract bounded by 1st Street, Lead Street, Copper Avenue and 7th Street in spring 1999, it immediately began developing a design that typifies new urbanism and reverses everything that had taken place in Albuquerque.

"New urbanism focuses the development of cities along value-generating lines. It completely rejects homogenous tracts in favor of neighborhoods. It puts cars in their place," said project designer Stefanos Poulizoides, partner at Los Angeles-based design firm Moule & Poulizoides, and a major proponent of new urbanism.

That, in fact, was key to the rebuilders of downtown Albuquerque. More than 14,000 cars will be accommodated in city-built structures fronted by stores on the ground level and live/work space above.

"What we know about great urban places is that people only want to walk about 1,500 feet. But it has to be safe, have a lot of things of interest and have a lot of people. So within that 1,500 square feet from 4th Street and Central Avenue, we have to have a lot of stuff take place," Leinberger said.

Dominating the project will be the Century Theatres block, which will hold a 14-screen, 2,200-seat cinema, as well as 20,000 square feet of retail around the front of the box, and more than 25,000 square feet of office space on the second and third floors. Completion is set for this fall.

"When a black box like a theater is actually lined with real buildings to give you something really commercial, you're seeing something not done in two or three generations," Poulizoides noted.

Getting San Rafael, Calif.-based Century to commit to the project was the linchpin for all that followed, according to Leinberger. The theater chain already has a 24-screen megaplex in a more suburban part of town.

"We don't see this as a cannibalization; we see it as an additional market that is not being served," said Victor Castillo, senior vice president of corporate development for the chain.

Construction began in February 2000. The first building to be completed, the American Warehouse Buildings on Central and 6th Street, consists of office lofts on the second and third floors, and Banana Joe's, a restaurant/club that will be a prototype for the other dining spots to come. Also among the new eateries will be Tucano's, a Brazilian-themed full-service restaurant created by International Restaurant Concepts, Lakewood, Colo. At press time, the chain was finalizing a deal to occupy a 7,100-square-foot space in the project.

"Downtown Albuquerque gets us close to a good, steady daytime operation, people who eat out on a regular basis," said Steve Oldham, president of International Restaurant Concepts. The synergy with the theater also was a major factor.

Also in the first phase are the Crossroads Buildings at 4th Street (El Camino Real) and Central, which offer 53,000 square feet of restaurant, retail and office space. The Gold Buildings, located across from the theater, will have specialty, destination and service retail on the ground level, with lofts for living or working above.

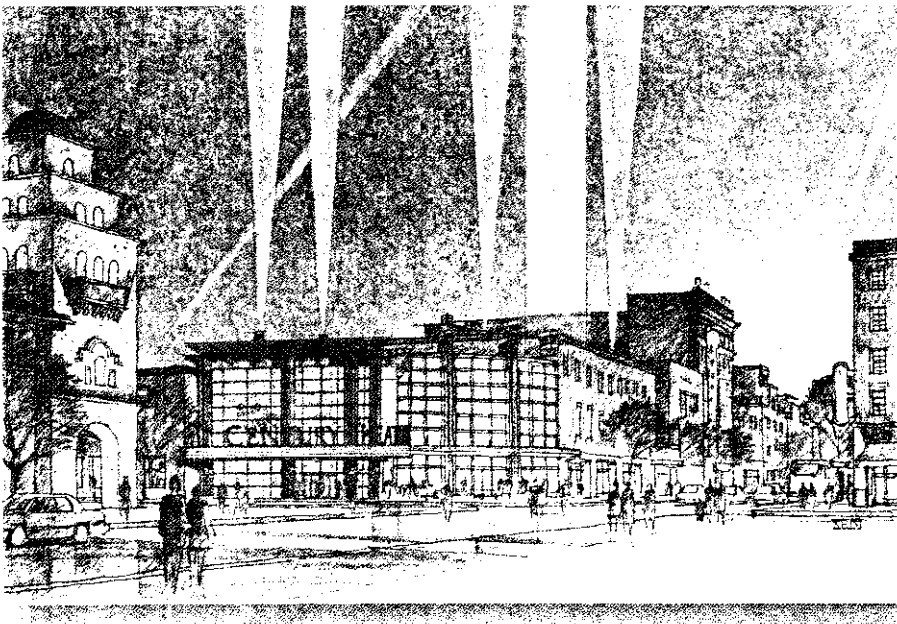
To tenant these buildings, Leinberger is seeking unique merchants, rather than relying on the entry of big-box chains — with one possible exception.

"We do want a bookstore in Phase 2. We'd prefer a Page 1 [a local bookstore chain], but we'd certainly go to a Borders or Barnes & Noble," Leinberger said. Rents are in the mid-\$20s per square foot, he added.

The mix of locals with the occasional big chain should suit the community.

"The incomes in our downtown area are not that strong. So if people are going to drive past two shopping centers to go downtown, it has to have something different," cautioned John Sedberry, president of locally based brokerage Sedberry & Associates.


The population of the five-county Albuquerque/Santa Fe metro area totals just over 825,000 people, with an average household income of \$60,219, according to HDIC. But the downtown itself is less affluent. And waiting for the downtown to catch up is not an option. Unlike many redevelopments that proceed in phases over decades, HDIC is working on several buildings simultane-



The redevelopment of downtown Albuquerque will be dominated by a block featuring a Century Theatres cinema and 20,000 square feet of retail.

ously in order to complete the revitalization by 2025.

To speed the process, the Downtown Action Team, a group of civic

Leinberger said. "There's always something new. There's always something saying, 'Here's life.' It's just lovely to see." 

Albuquerque takes new approach to financing

While most urban redevelopments begin with the city offering tax abatements or selling bonds—in effect financing through debt—Albuquerque's is being done somewhat differently: the city actually has a long-term equity interest in its project.

Long-term is the key term. Most commercial real estate is financial and, therefore, built for the short-term, argued Christopher Leinberger, partner at Santa Fe, N.M.-based Arcadia Land Co., a partner in the redevelopment.

"Conventional real estate tends to peak in performance around year seven, unless there is a massive reinvestment," Leinberger noted.

The exception is property with a substantial pedestrian orientation, such as Manhattan or downtown Chicago, which captures more consumer dollars by keeping shoppers in one place, he added. These developments are more expensive to build and, therefore, less productive in their early years. The profit comes in later.

"The way conventional real estate works to get projects completed quickly is to build cheap. If in fact we're going to build real estate as a 40-year asset class, we can't do that," Leinberger said.

While the benefits of some suburban-level projects can be \$35 per square foot a year, the mix of old or Albuquerque's local projects is \$72 per square foot, which construction projects typically recover.

But the focus is on urban, central-city and inner-suburban developments.

"There are 20 types of development, roughly, and of the 10 or so that are the most profitable and will be the most profitable, we're focusing on

Getting progressive developments such as downtown Albuquerque's revitalization financed is a bit more challenging. In late 1998, Arcadia and the Pittsburgh-based McCune Charitable Foundation formed the Historic District Improvement Corp. (HDIC), in a joint venture. Arcadia owns 75% of the HDIC, McCune owns 20%, and the Downtown Action Team (local businesses) holds the remainder. McCune put up the bulk of the capital for HDIC, committing \$6 million (4% of its asset base). In return, it will receive 32% of the cash flow from the project; the returns are projected to cover more than 20% of the inflation-adjusted spending it must do to remain tax-exempt status.

As a result, the equity investment in downtown Albuquerque has been structured in three time-oriented tranches: short, medium and long-term. The first tranche consists of typical short-term real estate investors, Leinberger said.

"We told them we would give you 100% of the cash flow until expectations are met and the investment is returned," he said. Projections call for about a 15% to 18% internal rate of return.

Among those investors is former Urege Foundation chairman Bob Linton, a partner in the Santa Fe-based firm with significant investments in real estate around the United States.

"About a year or so ago," inside a breakfast in Santa Fe, Urege Foundation president and chairman, described the project to Linton, said. "I remember, I asked Chris when things would. He told me what was going on and said he'd like to know more."

The long-term attractiveness of Albuquerque and Linton's consensus in watching downtown conversions


and business officials committed to improving the district, created the 2010 Plan, which streamlined zoning and permitting, reducing 75 regulations to 21. Among the new, simpler standards: Front doors have to face the sidewalk.

"Not only did we reduce standards down to a third of their original level, if you make the development pedestrian-friendly, things that take six months to a year here can be done in weeks," said Pat Bryan, a local attorney who has served as president of the Downtown Action Team and is now a vice president of the organization.

The project's second and final phase will include additional retail/office/loft buildings and the Silver Avenue rental townhouses.

"The part I like the best is people living downtown, maybe not going into their cars for days at a time," said Albuquerque's mayor, Jim Baca, the major force behind the redevelopment.

That will bring true vitality back to the city, all believe.

"I love to watch cities come to life," Leinberger said. "There's always something new. There's always something saying, 'Here's life.' It's just lovely to see." 

work, led him to sign on with Leinberger for his first investments in new development and in the retail arena.

"I've never invested in a shopping center situation, but Century Theatres is well run, and the nightclub [Banana Joe's] sounds interesting," Linton said. He declined to give the amount of his investment.

HDIC is involved in the second tranche, the interim investors.

"We're putting \$3 million in cash into a \$25 million project. That \$3 million will not get returns for three to four years. In years four and five we'll get 100% of the cash flows from the project, returns that are much healthier at that point," Leinberger said.

In year six, HDIC will start sharing revenues with the third tranche, the long-term investor, the city of Albuquerque, which has invested \$6 million just in the theater project alone in construction of a parking structure, additional infrastructure and tax abatements.

"They will get returns based on the success of the project. Between years six and 12, they're getting 25% of the cash flow. Between years 13 and 20, they're getting 50%," Leinberger said.

The city's total support comes to \$25 million. Its initial investment of \$14 million in land, parking, infrastructure and tax abatement will be repaid over time, with additional net tax revenues projected to result in a gain of \$30 million over the next 22 years.

Other investments not directly related to the Century project also have been significant.

"The private sector also takes itself to keep the downtown clean and make it safer," Leinberger noted. 