

# Albuquerque's downtown sees rapid turnaround

*As rental rates begin to climb, developer jump-starts a nonprofit organization to build and maintain affordable housing and space for arts groups.*

Three years ago, Albuquerque's downtown was almost devoid of housing, the office vacancy rate was the highest in the metropolitan area, and no private sector building permit had been issued for 15 years. Today, \$300 million worth of public and private construction is underway, and, adjacent to downtown, the abandoned Albuquerque High School is being renovated as a mixed-use complex, providing the beginning of a revitalized link between historic neighborhoods and downtown.

At the center of the rejuvenation is an 11-block area — master planned by Moule & Polyzoides Architects of Pasadena — under redevelopment by the Historic District Improvement Company (HDIC) in partnership with the City.

HDIC is a partnership of the Arcadia Land Company and the charitable McCune Foundation. The first part of the redevelopment — the Century Theater Block with entertainment and retail facilities — is scheduled to be completed by Thanksgiving 2001. In addition, the City has financed and built a parking garage, launched a circulator trolley line, and converted one-way streets to two-way. A new Social Security building and 200 housing units are under construction.

## KEEPING DOWNTOWN AFFORDABLE

This remarkable turnaround, however, has begun to drive up rental rates in downtown. "Around the theater block, the leases we are signing are two-and-a-half times higher than anything that has been achieved downtown," says Christopher Leinberger, president of HDIC. "Four leases do not a trend make, necessarily, but it demonstrates the power of what this turnaround implies, and we want to be ahead of the curve."

To that end, HDIC has partnered with the Enterprise Foundation, the nation's largest financier of affordable

housing, to create a yet-to-be-named nonprofit organization that will build affordable housing and secure reasonable rents for the arts organizations that have begun to make downtown their home. Over the next 18 months, Enterprise will study the housing market, work with arts groups to solidify their financial standing, and develop strategies for keeping rents down.

Possible strategies include buying buildings, then leasing them to arts groups, or having local Community

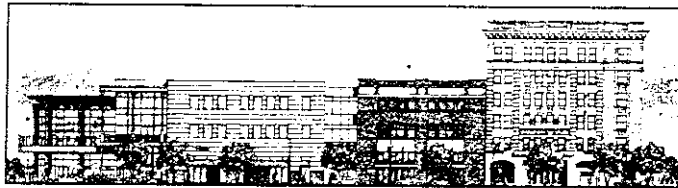
their investment within the first three to five years. Once these investors have been satisfied, HDIC and the City of Albuquerque will divide the cash flow after the sixth year. With an investment of \$12 million in the form of land, parking structures, and infrastructure, the City assumes the third time tranche — receiving 25 percent of the cash flow in years 6 through 11, and 50 percent thereafter until 125 percent of the investment is returned.

Since HDIC has to amortize only 55 percent of the project in the first three to five years, the developer does not have to reach into its pockets to subsidize the project in the early stages, Leinberger says.

Once the movie theater and retail complex is complete, HDIC will begin work on a

live/work building lining one side of downtown's first new parking structure. The garage is pushed back 45 feet from the sidewalk, leaving room for a multistory brick structure with 50 for-sale units and 12,000 square feet of retail space. A grocery store topped with apartments is planned for another side of the parking structure.

Redevelopment is spreading beyond downtown into the Huning Highlands Historic District, where Austin, Texas, developer Rob Dickson has begun the renovation of Albuquerque High School in partnership with Albuquerque Development Services. The first phase of the project will convert two classroom buildings into 69 rental lofts and provide a parking structure, to be wrapped with mixed-use buildings at a later date. Future phases include the renovation of three other buildings on the campus and construction of new buildings containing residential, live/work, office, and hotel uses. The construction cost of the entire project is estimated at \$35 million. Dickson's Paradigm & Company has hired Dekker Perich Sabatini as project architect. ♦



The Century Theater block.

Development Corporations (CDCs) buy a percentage of new for-sale units as shells, Leinberger says. The CDCs can then finish the shells and lease them at favorable rates. HDIC is also working with Magnifico, a community group that supports the arts city-wide, to make sure rising real estate values do not force out the pioneering arts groups.

HDIC has initially raised \$120,000 to launch the above-mentioned nonprofit organization, but Leinberger expects that "we can raise literally millions of dollars upfront, based upon future cash flow sources. In essence, this nonprofit will demonstrate that gentrification can pay for an affordable housing program."

## PATIENT FINANCING

Leinberger bases his prediction on the strength of Downtown Albuquerque's unique financing structure. Instead of requiring massive public subsidies, HDIC uses the so-called "time tranche" approach, which divides the project into three tiers of investment return. The first tranche is assumed by banks and private real estate investors who expect a return of