

Final Project: Assessment of The Bautista

RED 407
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Executive Summary

The Bautista Apartments in Tucson, Arizona is a real estate development that uses public private partnerships. It is a mixed-use development, at just under 500,000 square feet, that will consist of 256 residential rental units and 16,000 square feet of ground-level retail and restaurant space. It will include underground parking, interior courtyards, a resort-inspired pool and spa, and public walkways.

The idea for this development emerged in 2019 as a site looking for an idea, capitalizing on a government program for economically disadvantaged areas. The Gadsden Company, experienced in the area, led the project. Planning involved feasibility studies and adjustments to the number of units and commercial space. A joint venture and public-private partnership formed between PEG Companies and The City of Tucson/Rio Nuevo respectively. Construction began in March 2023 with completion expected in late 2024 or mid 2025. While commercial tenants are unknown, marketing has begun in attempts to fill the commercial space with residential marketing likely starting as completion nears. The long-term management strategy remains unclear due to the joint venture and Rio Nuevo's involvement. As a first-of-its-kind project in the Rio Nuevo District it will be interesting to see which future management approach prevails.

Along the triple-bottom-line, this development revitalizes a neglected area, increases housing supply, and fosters community interaction to fulfill the people component. However, it lacks affordable housing options. Environmental efforts are unclear, with potential for river restoration but disregard for sustainable practices. Lastly, the project excels in profit optimization through a joint venture, public partnership, and developer experience. The construction delay could be seen as a weakness, but it might have even strengthened the profit component.

My recommendation for this development would be to prioritize the planet component more because it seems to lack focus on sustainability. While minimizing environmental impact might be happening, it's not well-communicated. Prioritizing and publicizing sustainable practices would enhance the project's value and appeal.

Project Overview

The Bautista is a mixed-use development spanning a 5.5-acre lot in the Mercado District of Tucson, Arizona. The Mercado District is one mile west of downtown Tucson and just west of Interstate 10. It is a historic neighborhood that was torn down during the urban renewal. In recent years, it has become the focus of revitalization efforts. Completed projects include Mercado San Agustín Public Market, an open-air courtyard lined with locally owned and operated retail shops, restaurants, and services; the MSA Annex, an expansion of the Mercado San Agustín with more locally owned shops, eateries, bars and services; and The Monier, a residential and commercial addition to the Mercado District offering a colonnade of more locally owned shops, services, and restaurants. The Bautista project is currently under construction. At just under 500,000 square feet, it will consist of 256 residential rental units and 16,000 square feet of ground-level retail and restaurant space. It includes underground parking, interior courtyards, a resort-inspired pool and spa, and public walkways connecting the rest of the Mercado District to the Santa Cruz River. The value creation thesis of this project was to create a transit-oriented mixed-use development that acknowledges and maintains the historic flair of the area, spurs economic growth, and lays the framework for future growth in Tucson.

Looking at this project in regard to the eight-stage development model, you start with idea inception. Idea inception for this development likely began sometime in 2019 because it was first presented in late 2019 by Adam Weinstein, the president and CEO of The Gadsden Company, who had completed previous developments in the Mercado District in the preceding years. These developments included the previously mentioned Mercado San Agustin, MSA Annex, and Monier Apartments. It was surely a site looking for an idea due to the fact that it is located in a Qualified Opportunity Zone. A Qualified Opportunity Zone is an area designated by the federal government as economically distressed. The government creates these zones with the goals of spurring economic development and creating jobs. Adam Weinstein with The Gadsden Company was in prime position to take advantage of this opportunity given that he had completed several nearby developments and had built a vision for the future of the area.

Moving on, idea refinement, feasibility, and contract negotiation occurred simultaneously and was ongoing until construction began. This process included numerous feasibility studies, such as a traffic impact analysis, individual parking plan, and sunshade study. Likely as a result of the numerous feasibility studies, this stage also resulted in fluctuating building specifications. Throughout the process, the proposed number of units being constructed fluctuated back and forth between 253 and 256 units, and the proposed amount of commercial space fluctuated between 14,500 and 16,000 square feet.

Next, formal commitment resulted in a joint venture between The Gadsden Company and PEG Companies, a vertically integrated commercial real estate investment firm out of Provo, Utah, in partnership with Rio Nuevo, a Tax Increment Finance District (TIF) funded by a share of state sales tax dollars and held accountable to the Arizona State Legislature for use of the funds, to create a public private partnership. It is unclear when exactly formal commitment occurred, but the total project costs were estimated at \$110 million, with \$2.8 million invested by Rio Nuevo, \$20 million invested by The Gadsden Company, and the rest coming from PEG Companies. Rio Nuevo bought the land that the project will sit on valued at \$7.2 million, and The Gadsden Company invested an additional \$4.5 million, the equivalent of 25 years rent, to qualify for the

Opportunity Zone Fund, which provides tax benefits to investors. The land is leased to the Gadsden-PEG joint venture using a Government Property Lease Excise Tax that allows property owners to avoid paying property taxes for an allotted amount of time and instead pay an excise tax. It is a true public private partnership.

Construction ultimately began on March 1st, 2023 with EMJ Construction leading the job, and Completion and Formal Opening of the development is slated for late 2024 to mid 2025. With the development still about a year away from completion, the prospective tenants for the commercial space have not yet been confirmed. The apartments units will also likely begin pre-leasing closer to completion. The development is currently being advertised on the official Mercado District webpage to commercial tenants with advertising towards residential tenants likely starting soon.

Property, Asset, and Portfolio Management will ensue upon completion and formal opening in late 2024 to mid 2025. As a joint venture between The Gadsden Company and PEG Companies, it is not clear what the strategy will be. The Gadsden Company is presumed to want to remain invested as they have with their previous developments in the Mercado District, but it is not known what PEG Companies' strategy will be. They specialize in property management, so they could provide a strategic advantage in maximizing property value once it gets to that point. The partnership with Rio Nuevo presents further complications to any possible predictions of potential Property, Asset, and Portfolio Management strategies. As a first of its kind investment in the Rio Nuevo District, it will be interesting to see what strategy ends up prevailing.

3P Assessment

With an overview of the development through the lens of the eight-stage development model, the development can now be assessed along the triple-bottom-line. The triple-bottom-line consists of three components: People, Planet, and Profit. The component of people focuses on the factors that shape a community's social fabric. These include education levels, fairness in access to resources, health outcomes, overall quality of life, and the strength of social connections within the community. The component of planet assesses environmental health, natural resources, and threats to sustainability. These metrics encompass air and water quality, energy use, resource availability, waste management, and land use patterns. Lastly, the profit component looks at business decisions that impact profitability. These factors can include income, spending, taxes, the overall business environment, employment levels, and the diversity of a company's offerings.

Looking at each component of the triple-bottom-line as they relate specifically to this development, we start with the component of people. This development performed well in the people component in that it is helping revitalize an area that had been neglected, providing much needed housing supply, and facilitating public interaction in the community. I would argue that it could have performed better in the people component by providing affordable housing options along with the current upscale offerings. Next, the planet component was largely neglected by this development based on my research. There was little to no mention of any efforts to reduce the environmental effects of this development. That is not to say that they do not exist, but they definitely were not adequately highlighted if they do exist. I would say one strength would be that it is aiding in the restoration of the Santa Cruz River, but the weaknesses are numerous. They include the disregard of any sustainable practice. Finally, the profit component was well

optimized in this development. The strengths include the formation of a joint venture, partnership with the public sector, and previous experience developing in the area. One potential weakness in this component would be the substantial delay in construction that was faced, but this was likely to enhance this component and probably does not need to be seen as a weakness.

Recommendations

To provide my feedback, one item that I would recommend improving if I were a member of the project team is the environmental impact of the building. As it stands, it does not appear that there was significant effort, if any, put into minimizing the environmental impact of the development through a focus on energy efficiency, renewable energy use, water conservation, or any other sustainable practice. As sustainable real estate development is becoming more important for our planet and the overall longevity of an asset, I would definitely propose improving this item. If there happened to be significant effort put into minimizing the environmental impact of the project, it was not made clear through the readily available information online, so at the very least I would propose highlighting the effort put into minimizing the environmental impact of the property because that is something that I believe the public and immediate community would value as important. As it stands, it does not appear that it was a priority.

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