

Block 21 construction to start Monday

\$295 million project in downtown Austin to have W hotel, 165 condos, 'Austin City Limits' venue.

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With financing in place, construction is finally ready to begin Monday on a high-profile downtown development with a 36-story W hotel, condominiums and a new "Austin City Limits" venue.

Joint-venture partner Stratus Properties Inc. closed Friday on financing for its Block 21 project, which will cost \$295 million, up from an earlier estimate of \$260 million.

The higher costs are related to 70,000 square feet being added to the original project and a "modest increase" in building costs, Stratus chairman and CEO Beau Armstrong said.

The financing paves the way for crews to arrive Monday to start excavation work for three levels of underground parking, Armstrong said. The entire project is expected to be completed in three years.

The project officially kicked off seven months ago with much fanfare and an appearance by NBA superstar-turned-businessman Earvin "Magic" Johnson.

Johnson's private equity fund, Canyon-Johnson Urban Funds LLC, is Stratus' joint venture partner in the project, planned for the block just north of City Hall.

Canyon-Johnson will contribute \$74 million in equity for the development, with Stratus putting in \$49 million. Los Angeles-based Canyon-Johnson, which just raised another \$1 billion in capital, focuses on major urban redevelopment and revitalization projects in growing areas, such as Central Texas, as well as in ethnically diverse neighborhoods in densely populated metro areas.

In addition to the Canyon-Johnson financing, Stratus also closed Friday on a \$170 million construction loan with the publicly traded Corus Bank in Chicago, Armstrong said.

In May 2007, Stratus expected to start construction on Block 21 the following September.

But Armstrong said the "sheer magnitude of the project" and a highly challenging lending market altered the timetable. The city had the right to repurchase the property if Stratus didn't start construction by April 15 but gave Stratus an extension, he said.

"It's a tough time to borrow money now, no matter who you are," Armstrong said. And though, typically, construction loans aren't the hardest part of a deal to land, "because of the turmoil in the credit markets, it became a more difficult proposition," he said.

Armstrong said that it also took time to get the necessary building and other permits from the city but that those are now in hand.

Bobby Turner, managing partner of the Canyon-Johnson Urban Fund, said Armstrong's ability to obtain financing "in probably the worst financing market in the history of this country" is a testament to the quality of the project and "really reflects on the merits of Austin."

Canyon-Johnson also is teaming with Stratus to bid on the proposed redevelopment of the nearby Green Water Treatment Plan.

The Block 21 project will be on land bounded by Second, Third, Lavaca and Guadalupe streets that Stratus bought from the city for \$15 million. Plans call for a W hotel with 250 rooms, 165 condominiums and a 2,480-capacity venue for KLRU's "Austin City Limits."

Armstrong said it will take 30 months to build the hotel, for an expected fall 2010 completion, and 36 months for the last condominium to be finished, by about May 2011.

The original plan for 196 condos has changed because some buyers are combining units. Armstrong said 85 of the current 165 units are under contract with nonrefundable deposits of 10 percent of the purchase price.

The average price of the units under contract is \$1.1 million, he said. Prices range from the high \$400,000s to more than \$3 million.

Redevelopment of the block is expected to create more than 1,000 jobs over the length of the project, according to the general contractor, Austin Commercial, plus hundreds of permanent jobs when the project opens.

Stratus estimates that the development will generate, for the city alone, \$18.9 million in hotel occupancy taxes, \$12.3 million in property taxes and more than \$3 million in retail sales taxes.

Courtesy of JB Goodwin



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