

Construction paused on mega Riverwalk project in Mission Valley

By Jennifer Van Grove

The cacophony of construction activity at the sprawling Riverwalk project site that follows Friars Road just west of Fashion Valley mall has been replaced with nothingness as the promise of nearly a thousand homes is suspended until market conditions improve.

After completing \$90 million worth of infrastructure improvements, including a new bike lane along Friars Road and all of the on-site utility and foundation work, Houston-based real estate investment manager Hines has hit the pause button on its \$4 billion mega project.

Clark Construction, the project's initial general contractor, has removed all of its equipment from the site, leaving audibly silent — and visibly flat — a construction site that should already be populated with partially completed residential buildings.

With the ground work done, Hines hit a natural demarcation line in the building process and is waiting for more favorable financial conditions before erecting its first structures, the developer said. The developer cited the cost of debt as a result of high interest rates as the main reason for the setback, but said that high construction and supply costs are also to blame.

“When we started this project, we knew that we would face economic cycles, and the partnership was set up for that. And so we find ourselves in a moment where there's some volatility in the markets, but that's really a blip on the radar screen,” Hines Managing Director Eric Hepfer told the Union-Tribune. “We've got everything lined up. And so when the conditions are right, we will move forward on the vertical side of this.”

The deliberate pause means the project's first batch of apartments — 937 market-rate units were initially promised for early next year — are still at least two years away from being completed. The developer said that it has also decided to pare back the initial phase to 721 apartments. An additional 216 units will be built shortly after that, the developer said, and the project's total unit count remains unchanged.

The 195-acre, mixed-use Riverwalk project hails from Hines and longtime land owner the Levi-Cushman family. It will eventually replace the entirety of the Riverwalk Golf Club at 1150 Fashion Valley Road. The partners teamed up on the current plan in 2017. San Diego City Council members signed off on the project in 2020.

At build-out in 2035, Riverwalk will include 4,300 apartments and condos, 152,000 square feet of retail stores, 1 million square feet of office space and a new trolley stop. The project, which is bisected by the trolley line, will feature a downtown-style main street. And the development plan calls for 97 acres of parks, open space, and trails with bikeways and pedestrian walkways that follow the San Diego River Pathway.

In September 2022, Hines started construction on the initial phase of work on the golf course's shuttered northern, nine-hole course opposite Friars Road. The first phase of work, which includes half of the project's retail footprint, is now budgeted at \$600 million.

To date, the developer has made good on its promise to improve circulation for cars, bikes and people traveling on Friars Road. Specific off-site improvements include a new traffic signal, landscaped medians, a buffered bike lane and a two-way cycle track on the south side of Friars Road.

And although less visible, new stormwater infrastructure is said to have greatly improved how the site functions.

"We installed all of the stormwater infrastructure early on. And so what that does is it takes all the rainwater off Friars Road that used to flood onto the golf course and diverts it into stormwater basins, which treat that water before it discharges into the river," said Pete Shearer, who is a director with Hines. "So the issues that other neighborhoods have experienced recently with flooding, we put in that infrastructure to handle that specifically at Riverwalk. We're handling all of the regional water that's hitting the roads."

The developer also raised the former golf course's elevation to create the project's roads and building pads, meaning the entire site is now at grade with Friars Road, he said.

But the project's many homes, heralded by Mayor Todd Gloria and other local dignitaries as key to combating what they often characterize as a housing crisis, will have to wait.

"We have an investor as well as a lender who can proceed on this," Hepfer said. "It's really a function of evaluating the market conditions and the right time to move forward."

Real estate investment firm Affinius Capital (formerly USAA Real Estate) is the equity partner on the project. Hines declined to provide the name of its lender.

The developer's election to wait is a byproduct of a real estate financing market frozen by high interest rates, said Nathan Moeder, real estate analyst with London Moeder Advisors.

"Right now we're in a high construction cost environment and a high interest rate environment," he said. "That's why a lot of these residential projects are being put on hold. They're not being developed because I think (developers) are waiting for the Federal Reserve to really signal that they are decreasing rates and that rates are going to be coming down."

When building financial models for their projects, real estate developers take the income anticipated from the project and divide it by the project's total costs, and are typically looking for a one-year return on costs, after the project is built and leased, of 6 percent or 6.5 percent, Moeder said. But because interest rates today are 6.5 percent, the annual return would only service the debt, he said.

“The margin is so thin,” Moeder said. “That’s why they’re waiting. There’s too much risk in the market.”

And the problem is not unique to Riverwalk.

“The Fed is trying to slow down the economy and get inflation under control. So that’s why Treasuries are high and interest rates are high and everything is high,” Moeder said. “This could be a long-term problem. If we have longer-term high interest rates, it’s going to be difficult to build because costs are not coming down. And so something will have to be figured out. Otherwise, we’re not going to see a ton of housing.”

Hepfer characterized Riverwalk’s construction hiatus as a “momentary pause.” The developer acknowledged that it could be anywhere from a few months to a year or longer before the developer resumes work.

“We are long-term investors, long-term holders with the partnership with the Cushman-Levi family, and with our capital partner Affinius,” Shearer said. “We hope it’s a short-term blip. ... It could be very soon or it could be longer. It really is dependent on what happens in the larger macro-economic environment.”

The developer is, however, still moving forward with Riverwalk’s first affordable housing project, which will set aside 188 units for low-income families and is on a path independent from the market-rate units. The initial subsidized project is being built in partnership with Wakeland Housing and Development Corporation. The project last year was awarded a \$41.1 million grant from a state program and is currently being designed. Construction is expected to start in mid-2025.

Hines is required, as a condition of its agreement with the city, to set aside a total of 430 units for people making 65 percent or less of the area median income.