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RETAIL

More of Everything Planned for Sacramento Retail

Downtown and suburbs targeted for expansion and renovation

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Sacramento's prospects for retail growth in 2007 are linked in large part to whether Australian-based Westfield Group "rocks up" as they say down under and completes long-awaited expansions downtown and in Roseville.

Westfield approached the city in February with new ideas for its aging Downtown Plaza after two other proposals — including one that incorporated a Wal-Mart and one that asked for a \$30 million subsidy — were turned away. Preliminary drawings for the new plan added a Target, an unnamed grocery store and an expanded theater to the Macy's and Hard Rock anchors currently in place.

Assistant City Manager John Dangberg was not ready to predict how soon concrete changes would be seen at the site but was eager to see what the retailer brings back.

"Right now, we don't know what they will want in terms of public participation and what we would get for different levels of support," Dangberg said.

He described the meeting of city staff, elected officials and Westfield representatives that took place at the beginning of February as "brainstorming," with each side making suggestions about how to be cost-effective in the push to bring more people to K Street Mall.

The city would like to see more activation of J and L streets, Dangberg said, which he defined that as more lights, windows, people and activity on those corridors.

Dangberg also identified an opportunity to create a gateway to downtown on J Street with some kind of an arch.

The city is eager to see the area revitalized as it is spending \$40 million to acquire and facilitate development on eight properties in the 700 and 800 blocks of K Street. Plans include extensive landscaping and subsidies for retail and housing planned by retailer Joe Zeiden.

Revitalizing Downtown Plaza is not the only impediment to the redevelopment of this troubled block. In early February the city sued property owners on the 800 block for material breach of an agreement to swap property and allow work to go forward.

Farther down the street, the city sealed the deal in January on a partnership with local developer David S. Taylor Interests and Los Angeles-based CIM Group to create a cabaret restaurant at a long-vacant Woolworth's building on 10th Street.

"Everything is interconnected," Dangberg said. "The 700 block can't move forward independently of the Downtown Plaza. We have to do all these things to be successful."

Midtown Heats Up

In midtown, Mark Friedman, president of Fulcrum Properties, has big plans for another key corridor, R Street. He purchased the former Crystal Ice building, which encompasses two half-blocks south of the R Street walkway, and has \$100 million plans to create a mix of alternative lifestyle shops in a U.S. Green Building Council-certified complex that includes residential and restaurant space. The project will fill the underdeveloped space next to Petrovich Development Co.'s R Street Marketplace that was redeveloped in 2006 with a Safeway and Peet's Coffee.

Down the street, Regis Homes has rough plans for an eight-story, mixed-use development called R Street Station Towers that would straddle the light-rail station.



An expanded food court could move over the Hard Rock Café to make room for larger theaters and a new Target and grocery store at Westfield's Downtown Plaza.

Matthew Holmes, principal at San Francisco-based Retail West Inc., which is a partner in the development, said the entire area is ripe for a major overhaul.

"I love Sacramento and see it has a great retail opportunity," Holmes said.

It has been easier for people to love eating in Sacramento as more than 27 new restaurants have opened since 2005, including the upscale 55°, 58° and Holding Wine bar, Bistro 33, Buddha Bar, Cilantro's Mexican Restaurant, Kasbah Lounge, Kru, Ma Jong's Asian Diner, Mason's, Mulvaney Building & Loan Restaurant, Paesano's Fronto, R15, Sofia, Sparato Restaurant and Bar, Wolfgang Puck Express and Zen Sushi. And six more are on the way, including Buckhorn Café, Ella's, Grand Cru Wine Bar, McCormick & Schmick's and Three Monkeys.

Many of these restaurants are part of larger redevelopment projects.

"The overall trend is an influx of mixed-use infill projects in existing neighborhoods," said Jill Scofield, program specialist for the city of Sacramento Development Services Department.

Projects approved or already under development with anticipated completion in the next year include University Village, a six-story mixed-use building with 3,876 square feet of retail space and 30 condominium units and Bacchus Wine Bar on S Street, which will convert an existing warehouse into a wine shop and bar. MARRS (Midtown Arts, Retail and Restaurant Scene) at J and K at 20th will convert a 50,200-square-foot warehouse into restaurants and retail on the ground floor with offices on the second floor.

Placer Front

Two years ago, Westfield announced a \$220 million, 487,806-square-foot expansion that would include Tiffany & Co. and an Apple Store along with two parking garages and more restaurants. Current tenants, JC Penney, Sears and Macy's, would expand by 40,000 square feet and an additional 26,000 square feet of inline space would be added. In all, the expansion would make room for as many as 100 new retailers.

"This is a huge project and they are very concerned about not impacting more holiday seasons than absolutely necessary," said Roseville Project Planner Mike Isom.

Work on the first parking garage started in January and the entire project could be finished by fall 2008.

Westfield did not return phone calls for this story.

A project that has shivered in the shadow of the international retailer is Inter-Cal Real Estate Corp.'s Fountains at Roseville, across the street from the Galleria. It was scheduled to start construction a year ago but ran into problems securing tenants. Holmes, who is representing the developer on this project as well, called it a David-and-Goliath battle with the big neighbor.

"It was very challenging because they didn't want us to move forward; they courted our prospective tenants with deals we couldn't possibly match as a little guy," Holmes said.

In the end, Holmes was very happy with the tenant mix for the 350,000-square-foot lifestyle center that could break ground in the spring. Confirmed retailers include Whole Foods Market, Coldwater Creek, Chico's Z Gallerie and Sur La Table. One of the new stores, Boudin, a San Francisco bakery expansion, was being promoted by Paul Bollinger at Loehmann's Plaza, where a sister eatery will be located, as a "third place" where people spend their time when they aren't at home or work. Future phases also include offices and a boutique hotel.

Isom called the Galleria expansion and possible future development next to it the last big retail spots in the city.

MSA View

A CB Richard Ellis report showed retail vacancy at 5.9 percent. While that number is slightly above last year's levels, brokers were quick to point out that they included the impact of nine Ralphs Markets and four Albertsons that closed due to corporate restructuring.

"The outlook for these empty Ralphs stores is promising as Nugget Grocery store is predicted to fill some of this space," according to a third-quarter CB Richard Ellis report.

An announcement in December that Modesto-based Save Mart would purchase 132 Northern California and Nevada Albertsons stores from New York-based Cerberus Capital Management also met with cheers from landlords who were afraid of more shuttering.

"This will be a good consolidation," said Phil Voorhees, a CB Richard Ellis senior vice president. "The consensus is there won't be a lot of closures and it could keep some stores open that would otherwise have shut their doors."

Despite the vacancies, Roseville continued to turn dirt for new retail space. Of the 3 million square feet under construction regionwide, more than 1 million square feet is in the Placer County suburb.

Natomas was no slacker in 2006. Opus West delivered its Promenade at Sacramento Gateway project. The 1.3 million-square-foot development includes large-format retail centers such as Barnes & Noble, Best Buy, Old Navy, Target and Linens 'n Things. Next door, the Village features restaurants such as Beach Hut Deli and former King's player Chris Webber's Center Court alongside boutique stores like Ground Zero Clothing & Board.

The developer then turned around and sold a big chunk of the project for \$120.5 million to New York-based ING Clarion Partners. The money manager intimated that its shopping trip in the area might not be finished.

"We will be looking at additional retail and multifamily opportunities in and around Sacramento," said Stephen Latimer, ING managing director, when the deal was announced in December.

The suburbs also drew the attention of retail specialist Jack Jakosky, who, as managing partner of JACTUC Folsom, purchased the 42,000-square-foot Folsom Town Center for \$12.5 million.

Another Sacramento hot spot is Elk Grove where three retail projects are in the works. Chicago-based General Growth Properties submitted plans for a 1.2 million-square-foot center, including a Target, JC Penney, Macy's and a theater. M&H Real Estate has approached the city about developing 150 acres it owns near the mall site into a pair of lifestyle centers. None of the projects are scheduled to be completed before 2008.

Still, CB Richard Ellis Associate Scott Carruth predicted that vacancy rates would slightly increase in 2007 as the region struggles to absorb all the space being delivered.

"The market will continue to shift from a landlord's market to a neutral market as vacancy increases," Carruth said.

He predicted that capitalization rates would remain stable.

Too Much?

The long run of retail building in Sacramento and the state has some wondering whether the market is overbuilt. Ricardo Capretta, managing partner of Los Angeles-based Westtrust Ventures LLC, which is building the Nut Tree in Solano County, said that is the wrong question.

"There is good retail and bad retail and there is always room for new, high-quality projects," Capretta said.

He sees mixed-use urban retail as an emerging trend in Sacramento that will depend in great part on what happens with some of the high-profile residential projects that have been proposed.

Open-air lifestyle centers have been all the rage in the last few years and Roseville Galleria is a cross between the two with its Promenade area. Asked what is next, Capretta pointed to the move by traditional retailers to online sales.

"We will probably continue to see a hybrid business model that combines the brick-and-mortar aspect with the virtual," Capretta said.

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