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## Sacramento's K Street redevelopment faces new hurdle

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Joe Zeiden: Savior of K Street.

Maybe, maybe not.

The path is finally clear for the Southern California furniture retailer to transform the bedraggled 700 block of downtown Sacramento's K Street into a spiffy row of upscale stores. It's not clear, though, that Zeiden still intends to do so – at least not without more money from the city's treasury.

Zeiden had been blocked for at least four years by the property's longtime owner Moe Mohanna, who had refused to sell. Last month, the city and Mohanna reached a settlement, avoiding an eminent domain trial. The Sacramento Housing and Redevelopment Agency took ownership of Mohanna's nine properties on the 700 and 800 blocks, the bleakest stretch of K Street.

But Zeiden was noticeably absent from a celebratory meeting in which Sacramento's City Council approved the deal with Mohanna.

Since then, Zeiden has not responded to The Bee's attempts to contact him at the Gardena headquarters of his family's Z Gallerie furniture chain.

City officials say the severe downturn in the retail economy has prompted Zeiden to rethink his K Street proposal. He likely will ask the city to kick in more money before he moves forward, said Leslie Fritzsche, Sacramento's downtown development manager.

Fritzsche said her office has been "in somewhat regular communication with Zeiden."

"I think it's important to note that he's still interested in moving forward," Fritzsche said. "We expect to get a proposal from him in pretty short order. We're actually expecting it in the next week or so.

"To be candid," she added, "I anticipate the (subsidy) request he might have would be a little bit larger than before."

Fritzsche said city officials have begun exploring other options for the property, just in case. This could include putting tenants back in the mostly vacant buildings in the 700 block, so the block wouldn't be completely dead while the city waits for the market to improve.

"It is our desire to have a couple of different options working at any given time," Fritzsche said. "We don't know what Zeiden will come back with, so we definitely want to think about what other

interim uses we can put the property to, and what other options exist. We need to make sure we can redevelop the properties the way people expect us to."

If Zeiden pulls out, SHRA could find itself holding vacant buildings and empty lots along K Street for years. That's what happened with the former Woolworth's store at 10th and K streets, bought by the city in 2000.

The site reopened in September as a new cabaret theater, restaurant and nightclub complex. But other buildings acquired by the city nearby remain empty.

Fritzsche said she doubts it would take that long to rebuild the 700 and 800 blocks of K. She noted that an arts cinema proposal for 10th and K was far along before it was shelved because of opposition from people worried about it competing with Tower Theater.

Michael Ault, executive director of the Downtown Sacramento Partnership, said the city's extensive holdings on K Street now give it an opportunity to contemplate a grander redevelopment project encompassing both blocks.

"The priority at this point is clearly waiting to hear from Zeiden, but I think we need to look at that entire stretch of K Street," Ault said.

Zeiden has been working since 2004 on his plan to revamp the historic buildings on the south side of K Street's 700 block. He intends to move his Z Gallerie store out of Downtown Plaza and use it as an anchor for a row of retail tenants.

He's done similar developments in cities such as San Diego and Pasadena.

In 2005, Zeiden's team said it had letters of intent from such retailers as Urban Outfitters and Sur La Table – firsts for Sacramento. But as the years passed, Urban Outfitters opened a store near Arden Fair mall and Sur La Table went into the new Fountains at Roseville, which also includes a Z Gallerie.

The city already has spent more than \$40 million in redevelopment funds gaining control of K Street, with more than half to directly benefit Zeiden's effort.

Among the expenditures: about \$20 million to acquire properties that the city originally planned to swap with Mohanna for parcels Zeiden needed.

That swap fell through, and the city eventually reached agreement with Mohanna to buy his nine properties on the 700 and 800 blocks of K Street for another \$18.6 million.

The transactions leave the city in control of the entire south side of the 700 block and much of the 800 block. Zeiden's project doesn't include the properties in the 800 block. The city is negotiating with another partnership that includes Mohanna, which eventually may buy them back for a hotel and housing project.

Zeiden also bought three properties in the 700 block but eventually complained that they had become too expensive for him to hold while waiting for a resolution with Mohanna.

The city bought those three properties in August and also reimbursed Zeiden for his carrying costs. Total price tag: \$2.1 million.

In addition to all of these expenditures to acquire pieces of K Street, the city previously agreed to subsidize Zeiden's project with another \$4 million in redevelopment funds.

Fritzsche said Zeiden no longer thinks that sum will be enough.

In a June 2008 letter to the city, Zeiden complained about the long wait. He said his company would pull out of the K Street project if the city didn't take the properties off his hands.

"During the past six years we have spent significant money as well as countless hours for which

we have seen little or no progress toward reaching our common goal," he wrote.

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