

Sacramento seeks new K Street developer

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Published Friday, Dec. 11, 2009

After spending \$40 million in a tortured, four-year effort to gain control of two crucial blocks on K Street, the city of Sacramento finds itself launching a fresh search for someone to redevelop the woebegone site.

The new quest comes after a developer this week withdrew a proposal for a 25-story hotel tower that was supposed to anchor K Street's 800 block. The developer, Robert Leach, appeared to be having trouble nailing down his financing, said Leslie Fritzsche, the city's downtown development manager.

The search marks another twist in the city's protracted attempt to revive the two blocks – an effort that has been delayed by bankruptcy, a sour economy and a lengthy eminent domain fight with a major property owner.

Still, Fritzsche dismissed suggestions that the city must start from scratch. Though it took four years, the city now owns the properties, which makes their redevelopment more feasible than before, she said.

"What the process has allowed us to do is to assemble the properties under one ownership," she said. "That's a very marketable attribute."

Developers are already showing interest, although the search doesn't begin until the city releases its formal invitation today, she said. "We've heard from several people."

The city hopes to attract retail to the 700 block and offices or housing to the 800 block, she said.

Among those interested is Southern California retailer Joe Zeiden, who was supposed to redevelop the 700 block but got derailed by a bankruptcy proceeding involving his Z Gallerie furniture chain.

Fritzsche spoke with Zeiden on Thursday and he's interested "in taking another look at the 700 block," she said. Z Gallerie has emerged from Chapter 11 with the chain largely intact, including the store at nearby Downtown Plaza.

Dan Hilley, a spokesman for Zeiden, said he had no information on Zeiden's plans for K Street.

Zeiden's original plan was to move his store from Downtown Plaza to K Street to anchor an upscale shopping district. Letters of intent poured in from such trendy retailers as Urban Outfitters and Sur La Table.

But the entire K Street redevelopment lingered on the drawing board while the city spent four years trying to dislodge K Street property owner Moe Mohanna, eventually filing a court case to exercise eminent domain. A little over a year ago, the city settled the case by purchasing Mohanna's properties for \$18.6 million.

In all, the city spent about \$40 million buying property on the two blocks and relocating businesses.

Meanwhile, though, the hotel planned for the 800 block stalled as Leach scrambled to find financing for his 25-story tower.

Mohanna, who had relinquished title to the properties, initially remained as a partner in the Leach proposal, but on Thursday said he pulled out months ago.

Under his agreement with the city, Leach was supposed to have financing lined up in October 2008, according to Fritzsche. While he struggled, the City Council kept extending his deadline, he said.

At one point this summer, Leach told The Bee that he had found a South Korean firm, Consus Asset Management, willing to invest \$91 million into the hotel and adjacent parking garage.

Ultimately, though, city officials concluded that Leach "did not have all of the details pulled together to move forward," Fritzsche said. Leach withdrew the proposal this week.

Leach, who developed the upscale Le Rivage hotel on the Sacramento River, couldn't be reached for comment Thursday.

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