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Downtown property shift under way

CADA must dispose of property the state is shedding

Premium content from Sacramento Business Journal by Sanford Nax, Staff Writer

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CADA is at a crossroads. The Capital Area Development Authority is a city-state joint-powers authority formed in 1978 to help transform the then-blighted area south of the Capitol into a thriving mixed-use neighborhood. Now it is re-evaluating its mission.

The authority has helped develop more than 800 housing units in downtown Sacramento on land leased from the state, and has been a catalyst for change. But the state wants to reduce its real estate holdings and generate funds.

Gov. [Jerry Brown](#)'s May 2011 budget revision proposed selling non-essential property now leased to CADA — a prospect that representatives of the authority and others are now reviewing.

"CADA's role will change ... but that's not necessarily a negative," said [Jacqueline Whitelam](#), the authority's interim executive director. "CADA has to look at its core functions and operative effectively."

CADA could end up buying many of the properties, or they could end up in the hands of businesses that now sub-lease them from CADA.

Many of the apartments that CADA runs are old, but outside investment interest in some would be strong if they were put on the open market, said [Marc Ross](#), an apartment specialist at CBRE in Sacramento. "Some are extraordinary pieces of real estate," he said.

Downtown is the most insulated real estate market in the area, with stable rents and occupancy levels. "It's easy to keep the small ones downtown full," he said. "CADA-type properties are golden."

But others worry that selling CADA properties to private owners would hurt downtown.

"If these properties are sold to the highest bidders they will be saddled with mortgages," city of Sacramento staff members wrote in a January report that recommends the city work with CADA and the state on a long-term plan. "The resulting mortgages will reduce available revenue for reinvestment in the properties."

Goal: Fighting blight

CADA was born in Brown's first administration to implement the State Capital Area Plan, which was a forerunner of the smart-growth movement. It was designed to fix 44 blocks that the state had bought for an office campus it never built. The area was filled with burned and vacant buildings, and in 1975 was designated the most blighted region in Sacramento.

Since 1978, the state has leased about 33 acres to CADA at no charge. Of that, 19 acres have been either returned to the state for office development or have been sold by the state for CADA-related mixed-use development. The remaining 14 acres is under discussion.

The state wants to dispose of the remaining leased property over 12 years, said Department of General Services spokesman [Michael Liang](#). "The state's goal is to sell those properties, and CADA has been tasked to come up with a plan to deal with this," he said.

Meetings and workshops have been held, and a long-term plan should be in place by the end of February. That plan should include which parcels are to be sold and when, said Whitelam. Some sales would require legislation.

A draft proposal called for first selling the land for six properties that CADA subleases. They total 1.76 acres, and most likely would be sold to the sub-lessors. The proposal calls for then selling or finishing any remaining development sites.

One of the sub-lessors is [Phil Schott](#), who developed a three-story building that contains seven apartments on a 5,000-square-foot parcel at 1510 14th St. "I'm inclined to buy it," he said. "The land would be priced as if the building was not there. I have no idea what it would go for."

Schott has a 59-year lease; he'll be 103 years old when it expires.

"If I don't buy it, would anyone else want to for lease value? They could sell the land, but I would still hold the lease," he said.

Authority's role will change

That first phase also includes transferring ownership to CADA of state-owned land under Biele Place and Somerset Parkside on 15th and Q streets, respectively. This is because they were developed through the Rental Housing Construction program of the State Department of Housing and Community Development, and provide housing for very low-income families. CADA has proposed buying the land underneath at discounted prices to ensure the preservation of affordable housing.

At a workshop earlier this year, it was proposed that CADA purchase the apartment complexes and neighborhood commercial space it leases from the state, totaling about 780 units in 40 buildings of various sizes. The financing mechanism is under consideration, and those apartments not transferred to CADA could be sold to investors.

How many and which ones would be sold remains to be seen. Some of CADA's properties are older and more expensive to maintain, and may not appeal to investors. Others may not be sold because they are crucial to CADA's mission of providing affordable housing or could be retained to generate funds for CADA, which gets most of its revenue from rents.

Whatever happens, CADA's role will change. The authority employs 40 people, mostly in property management, but also manages housing for about 2,000 people, many of them low income. Whitlam expects CADA will focus less on development and more on preserving affordable housing and creating a better streetscape in the neighborhood from L to S and 7th to 17th streets.

CADA isn't likely to go away. The joint powers authority was created by legislation and is effective until 2042, and no one has suggested eliminating it. Representatives of the city want to be sure the plan doesn't cause the neighborhood to backslide. City officials supported the sale of the ground lease sites, but expressed concerns in a staff report earlier this year about going beyond that.

"The impact of any wholesale disposition of these assets could well create a destabilization and potential deterioration of the area around the Capitol," the January city staff report said.

In an interview, assistant city manager [John Dangberg](#) said the state has the right to request the disposition plan, but noted that CADA's mission isn't done. "There is still work remaining on the R Street corridor and up to Capital Park, and CADA is the right entity to carry that forward," he said.

Sanford Nax covers real estate, planning, development, construction and economic issues for the Sacramento Business Journal.