

Business Report The Chronicle with Bloomberg Oakland weighs Civic Walk housing project loan

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A downtown Oakland housing development, once a highlight for former Mayor Jerry Brown's building campaign, has sat half-finished for nearly three years, symbolizing the housing collapse and related credit crunch.

But the City Walk project may gain new life on Tuesday when the Oakland City Council is scheduled to decide whether to lend \$5 million to the developers who bought the property last year.

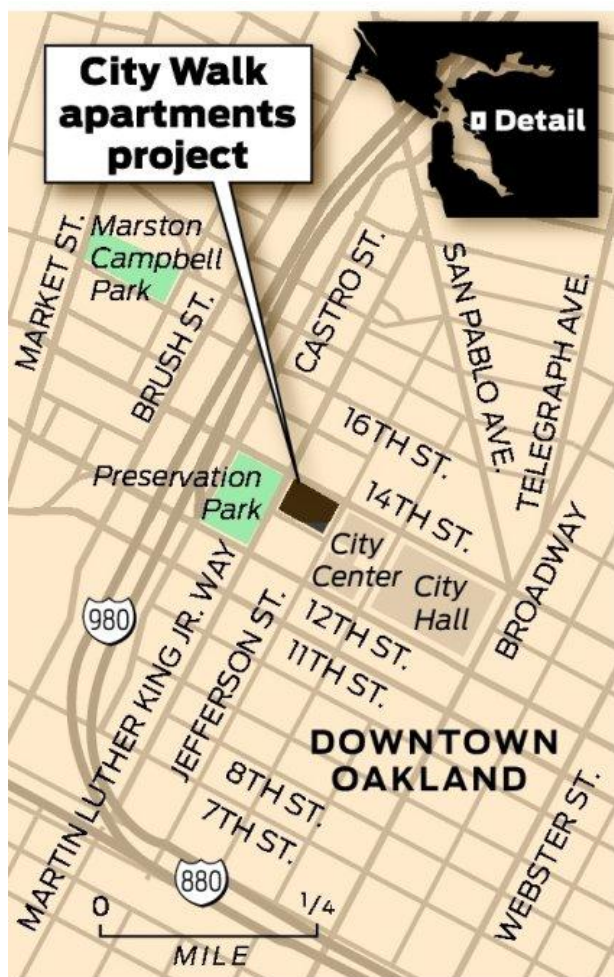
The project sits vacant near Jefferson and 14th streets, on the city's western entrance to downtown and just blocks from City Hall, creating blight that concerns nearby residents and merchants.

Although Wood Partners got a good deal when it purchased the 252-unit project from the original builder - paying \$5 million for a partially built complex - a city estimate places the cost to finish the job at about \$54 million.

The developer has struggled to obtain financing from traditional sources, such as banks, who are skittish about construction lending, and after seven months of pursuing more than 80 potential lenders, still

needs money. The \$5 million loan from the city would help it attract investors and reach an expected rate of return.

"Before we came on board six months ago as the developer, City Walk suffered a number of setbacks. But now we are very close to the finish line," said Frank Middleton, a director with Wood Partners.



John Blanchard / The Chronicle

The Oakland Redevelopment Agency, which would issue the loan, has recommended the funds' approval. In a March report, the agency said the money would help fix an eyesore in the short term and deliver tax dollars in the future. The report says the city would gain more than \$465,000 in annual property and business taxes.

"The City Walk site ... is currently one of the most visible distressed properties in Downtown Oakland," the report states. "Completing the project will eliminate blight and dramatically improve the neighborhood."

The recommendation does not guarantee the funds, however.

City Councilwoman Nancy Nadel, whose district includes Jefferson and 14th streets, said she was scheduled to meet with developers Monday to discuss the project. She did not say whether she had reached a conclusion.

"I do want to see it happen, and the loan is probably the best thing we can do to get it moving," Nadel said. "The site is not pleasant to look at, and I get a lot of complaints from officegoers and nearby residents."

The development broke ground in 2005 with high hopes and an endorsement from Brown, who promoted it as part of his plan to lure 10,000 new residents downtown.

"This is a big deal," Brown said at the City Walk groundbreaking. "For three decades, this site was abandoned. It was parking lots and blight. Now Oakland is being renewed."

But by July 2007, the original builder, Olson Co., which had planned condominiums for the site, filed for bankruptcy and stopped work. The housing market imploded, which included a significant decrease in condo prices.

A little more than a year ago, the Redevelopment Agency permitted the 252-unit project to be developed as rentals instead of condos. In November 2009, Olson and Wood Partners completed the sale.

A recent real estate industry report showed that Oakland and Emeryville condo prices had fallen to 2002 levels in the three-month period ending in February. The median price for a condo in the two cities combined dropped \$42,500 to \$272,500 compared with the same three-month period last year.

The rental market has fared better, but also continues to decline. According to Marcus & Millichap Research Services, Oakland rents are expected to drop 4.3 percent in 2010 to \$1,145 per month.

