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In Oakland, a Second Chance for a White Elephant

By MORRIS NEWMAN

OAKLAND, Calif. — When first conceived by its original developer, Oakland City Walk seemed a safe bet. The four-building condominium complex stands two blocks from the ornate tower of City Hall and directly across the street from the city's largest office buildings.

But when the flow of credit dried up in the summer of 2007, the high-profile City Walk turned into a white elephant for the developer, the Olson Company of Seal Beach, Calif., and an embarrassment for the city. "It was really annoying," said Patrick Lane, the city's redevelopment director.

This year, after months of studying the project at what he described as "a granular level," Frank Middleton, the western regional director for Wood Partners, an apartment developer in Atlanta, gave the go-ahead for his company to buy City Walk for \$5 million, a fraction of its projected cost. Shortly afterward, Wood Partners resumed work on the project, which is expected to cost a total of \$55 million to finish and is being partly financed by a loan from the City of Oakland.

When Mr. Middleton first toured City Walk last summer, the red-painted steel frame of the six-story complex remained as visible as it had in July 2007, when the general contractor filed for bankruptcy and construction halted. In the interim, rain had ruined much of the plasterboard and wooden cabinetry inside the roofless building. Part of the exterior, wrapped in plastic sheeting, resembled an installation by the artist Christo in poor repair.

The city's \$5 million loan to Wood Partners is part of Oakland's commitment to bring thousands of residents to downtown. Started 10 years ago by Jerry Brown, the mayor at the time, the 10K initiative had a goal of attracting 10,000 new residents to the area through the construction of at least 6,000 housing units.

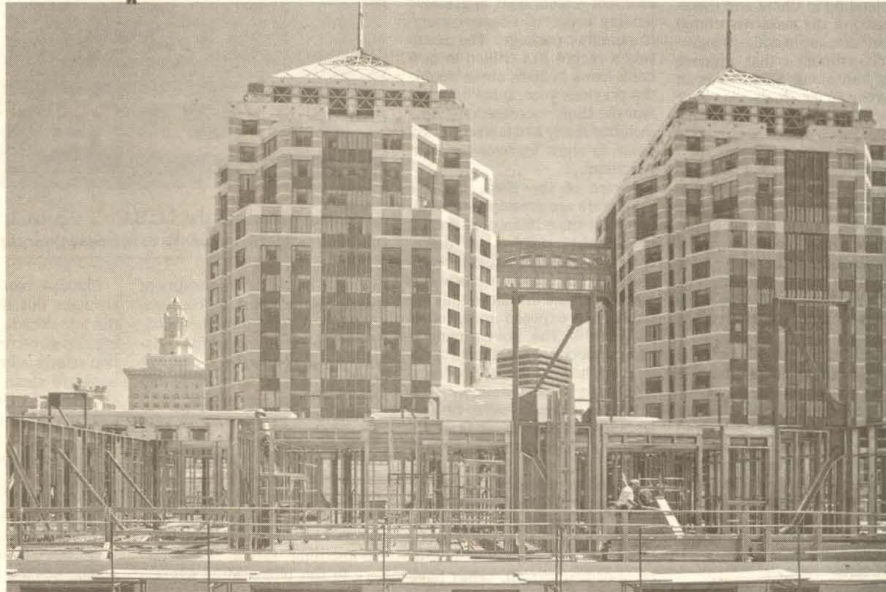
The program has exceeded its original goal in terms of construction. To date, about 4,200 condominiums and rental apartments have been completed, an additional 510 are under construction and permits have been granted for roughly 4,000 other units.

The goal of the 10K program was to create a 24-hour downtown area, through the creation of new housing and commercial development, particularly restaurants and retailers, Mr. Lane said. The city assisted the initiative by assembling and selling city-owned sites to developers.

While the downtown area experienced a glut of rental units shortly after the credit crisis, when several large condominium projects were converted to rental, the occupancy rate at the end of June was 91.6 percent, while the average rent was \$1,361, according to a report by Red Capital Group of Columbus, Ohio.

Throughout a spottily developed downtown, new four- and five-story condominium and apartment complexes have risen in the last decade like Modernist mushrooms amid the aging one- and two-story storefronts, some dating back more than a century.

At least two earlier attempts to sell City Walk fell apart, Mr. Middleton said. Consultants' reports had described downtown Oakland as a saturated housing market, and some prospective buyers had contemplated buying the com-



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Work has resumed at City Walk, above, after three years. Frank Middleton, left, and Brian Pianca of Wood Partners, which is finishing the project.

plex and waiting until a rebound in the housing market to complete it, or even demolishing it and selling the construction materials.

Mr. Middleton said he was skeptical of some conclusions drawn by financial experts. "They're just looking at numbers," he said of the consultants. "They don't know the area."

In June 2009, Mr. Middleton sent his wife and children on vacation, while choosing to spend six weeks exploring downtown Oakland, hanging out in bars and observing pedestrian traffic.

"I waited until the last train left at 2 a.m. to see what would happen to the street life," he said.

Although sections of Oakland remain plagued by crime, downtown seemed safe and hospitable, Mr. Middleton said, who reported seeing sidewalks full of pedestrians well past midnight. Many of those people were young, single professionals who had chosen to live in Oakland, which is less expensive than neighboring San Francisco, and connected to the larger city by the BART rail system and the Bay Bridge.

Oakland, with its relatively lower commercial rents, was also attracting start-up businesses. "The real estate market was supposed to be at an all-time low, and here are all these new res-

taurants opening up," said Brian Pianca, the Bay Area director for Wood Partners.

Mr. Middleton then reread what he described as a "roomful of reports, sitting in boxes," from consultants about the market. One assumption he challenged was that downtown Oakland was overbuilt. The number of completed units, he said, was far less than the total number of units that had been approved for construction. And despite the recession, the demand for housing in the Bay Area remained moderately high.

The developers decided to "reposition" City Walk from a condo complex to a rental complex, focusing on young professionals who worked in San Francisco and elsewhere in the Bay Area, but who wanted the comparatively lower rents available in Oakland.

Wood Partners, following an industry practice, would not disclose the intended rental rates, saying it would wait until the completion of construction to set the rates competitively. Completion is set for mid-2011.

To appeal to its target audience of renters, Wood Partners added new amenities to the 256-unit complex, including a business center with computers and other office equipment.

On the top floor, where the original

developer had intended high-price penthouses with enormous balconies, Wood Partners converted the private balconies into common areas suitable for open-air barbecues, with views of the bay and the San Francisco skyline, including the Bay Bridge and the Golden Gate Bridge on opposite ends of the city.

"You can see San Francisco better from here than from the city itself," Mr. Pianca said.

If the executives at Wood Partners were sold on Oakland, convincing lenders to finance construction was difficult. The partners said they were turned down by 80 lenders before receiving most of the financing from Berkshire Property Advisors.

The loan package was \$5 million short of the plan drawn up by the developers. After considerable public debate, the Oakland City Council in April approved a market-rate loan for that amount, and developers quickly completed the purchase and started construction, retaining the original architect, MVE & Partners of Irvine, Calif., to prepare new construction documents.

Although the project needed to be redesigned in part, Ernesto Vasquez, a principal of MVE, said he was not put off by the complexity of resuming work on a project that was 60 percent finished. "I've lived through at least four recessions as an architect," he said, "so we've had several experiences in working on buildings that have been left unfinished."

And to give the project a new image, the developers have renamed it Domain at Alta. "We thought the City Walk brand had been tarnished," Mr. Middleton said.

Mr. Lane, the Oakland city official, said he was pleased to see the project finally turn back into an asset after lying dormant for three years. "Now I can check off the box that says 'complete,'" he said.