

Position Brief | 10th and K Entertainment Project

Position: DSP supports the proposed K Street Entertainment Project. The proposal would create three unique, high-quality entertainment venues along a blighted stretch of K Street that has been vacant for more than 8 years.

This project is consistent with the DSP's long-term vision to develop the Downtown entertainment district. It is also in line with DSP's policies to support development that encourages local tourism/convention growth, establishes downtown as an attractive regional destination, and serves as a catalyst for additional hotel, residential, office and retail development downtown.

After hearing comments and concerns from community stakeholders, the DSP feels that any adverse impacts are purely speculative and that this project represents an opportunity to expand the customer base downtown and act as a catalyst to additional economic development.

Project Overview: David Taylor Interests (DSTI) and the CIM Group (CIM) have proposed the following K Street Entertainment Project:

- **1016 K Street:** This 3,000 sq ft parcel will feature *Dive Bar*, a trendy play on a vintage dive bar. Dive Bar will feature an iPod jukebox with a selection of many musical genres.
- **1020 K Street:** This 5,600 sq ft parcel will highlight *Pizza Rock*, a high-end pizza restaurant. The restaurant will feature pizza acrobatics and trained pizza artisans.
- **1022 K Street:** This 4,300 sq ft parcel will feature *Frisky Rhythm*, an upscale nightclub targeted to an audience ages 30 and up.
- **1012 K Street:** This 12,000 sq ft parcel will undergo building shell and core renovations. No tenant has been identified yet.

DST/CIM have partnered with Inner Circle Entertainment, an award-winning operator of several San Francisco entertainment venues, to operate three of the four retail concepts – Dive Bar, Pizza Rock and Frisky Rhythm.

Financing: The total budget for this project is \$11.8 million including tenant and developer investment as well as proposed City investment.

	Private	Public*
1016-1022 K Street tenant investment	\$1.70 mill	
Developer investment	\$3.60 mill	
- 1016-1022 K Street		\$2.03 mill
- 1022 K streets		\$1.36 mill
- 1012 K Street tenant improvements (unidentified)	\$1.10 mill	
- 1012 K Street (<i>pending City approval of tenant</i>)		\$2.00 mill
TOTAL PROJECT BUDGET	\$6.4 mill	\$5.4 mill.

* The City's investment is derived from proceeds of the Sheraton sale in 2008. Under the sale terms, half of the transaction proceeds would be available for DSTI/CIM projects in the JKL Corridor with City approval.

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Issues: **K Street is the barometer by which all of downtown is measured.** This is especially true for the tourism professionals courting large conventions, real estate agents leasing office and retail space, and downtown visitors, employees and residents. K Street is the spine of downtown. With a 45% ground floor vacancy rate, K Street's health is currently struggling. During these difficult economic times, it is important, now more than ever, that we invest in the area's image so that we continue to grow local tourism, maintain a strong office market and promote economic development to increase the City's overall tax base. This project represents a tremendous opportunity to revitalize K Street during a weak economy.

K Street currently experiences significant blight, long-term vacancies and structures in need of major upgrades to make them market ready. The use of subsidies is and always has been to level the playing field in order to make projects feasible in areas where they would not otherwise. The simple fact is this space has been vacant more than eight years and has had several projects, all proposed with subsidies, come and go is testament to the need for public support. Subsidies are necessary for this site to level the playing field due to the need for major upgrades to make the parcels market ready. Hazardous waste issues, seismic retrofit and utility upgrades, and antiquated infrastructure are just a few of the significant costs present in most K Street projects. Additionally, the tenants will be paying market rate rent and thus not undercutting existing businesses by offering subsidized mortgage rates.

DSP is very concerned about the potential impacts the economic downturn will have on downtown businesses, however, doing nothing will not improve the downtown economy. Competition will always exist in downtown and additional restaurants and nightclubs will create the vibrant downtown we seek. Expanding the customer base is key to downtown's success and by creating attractions and venues that appeal to the over 2 million residents in the region is essential. This investment creates a long-term partnership with a proven developer that will add value to K Street properties, increase property and sales tax revenue, provide additional tax increment proceeds and protect existing investments in the downtown core.

Status: The Sacramento City Council approved the project unanimously on March 10, 2009. Tentative target delivery date is late 2009.