

Foreclosure likely for Natomas shopping center

Borders once occupied this now-vacant space in Natomas' Park Place II shopping center.

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Investors who bought a Kohl's-anchored shopping center in North Natomas with an unusual interest-only loan during the market peak will likely lose it to foreclosure, according to real estate data and professionals.

Park Place II, one of two adjacent centers on the northeast corner of Del Paso Road and Natomas Boulevard, has suffered since the Borders bookstore chain closed.

Shopping center giant Donahue Schriber sold the center for \$69 million in 2005 to a partnership of investors brought together by SCI Real Estate Investments LLC of Los Angeles. SCI is now in Chapter 11 bankruptcy and the 10-year interest-only loan it obtained from Wachovia for the property is in default.

Park Place II is one of 150 commercial properties collectively once valued at more than \$2 billion that SCI acquired along with fractional investors over 15 years prior to the Great Recession.

Wells Fargo Bank, which inherited the loan, is negotiating to restructure the debt while also taking steps toward a possible receivership or foreclosure, reported Trepp LLC, which tracks distressed properties. SCI owes \$44.7 million on the property.

"It's a good property," said Jon Gianulias, a Core Commercial broker who handled the 2005 sale. Kohl's is a strong draw and an adjacent Raley's store, which is in the neighboring center Park Place I, also does very well, he said.

Occupancy at the center is 67 percent, down from 89 percent in 2005. When Borders went out of business and Bed Bath & Beyond left last year before its lease expired, other tenants — based on clauses in their leases — were able to pay less in rent or end their leases early, Gianulias said.

As a result, "The amount of debt on it is higher than the value of the property," Gianulias said. It is, he said, "highly likely it will be foreclosed on and taken back" by the lender.

The long-term prospects for Park Place II, which measures 250,000 square feet, are brighter. There's hope that the federal construction moratorium in Natomas related to flood concerns will be lifted, Gianulias said, raising the possibility of new homes in the area.

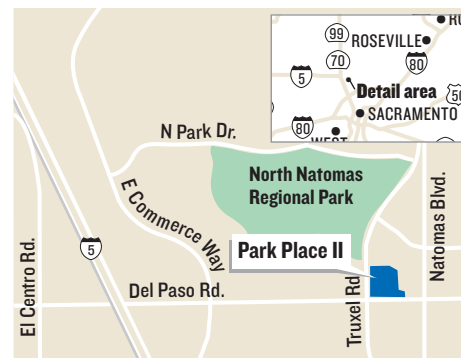
And this year Park Place II was able to renew leases for several tenants and attracted a new Indian restaurant, said Rick Martinez, part of the CBRE team handling leasing for the center.

Given that most of the region's once-empty big-box spaces have now been filled and that the retail real estate market is improving, Martinez said the shopping center is in a good position to lease the former Borders and Bed Bath & Beyond spaces in 2013.



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