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Multifamily housing market heats up

Bay Area investors seek refuge inland

MICHAEL SHAW | STAFF WRITER

Wary of the superheated Bay Area market, multifamily housing market investors are flocking to Sacramento.

Low prices, the move away from owner-occupied housing and intense competition elsewhere are among the factors driving up interest.

"We like the fundamentals in



Governor's Village at 8th and E Street was a recent conventional sale — as opposed to numerous distressed sales in the region.

DENNIS McCOY
SACRAMENTO BUSINESS JOURNAL

Sacramento," said Mark Johnson, whose Menlo Park company

owns multifamily housing in Rancho Cordova. "Obviously there's

the foreclosure problems and government layoffs. But long-term, we think Sacramento is going to be picking up with job growth in the next 12 months."

One investor who likes the market is Graham Chernoff, whose Cumberland Holdings LLC closed escrow two weeks ago on a 103-unit downtown complex called Governor's Village. He paid \$8.45 million, or about \$82,000 per unit.

"It's a steep discount, compared to three or four years ago," said Chernoff, a real estate investor from San

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INJURED WORKERS CAUGHT IN THE MIDDLE

Employers balk at bill that would extend temporary disability payments

KELLY JOHNSON | STAFF WRITER

Richard Chance of Elk Grove was working for a road construction company when, while standing on the side of a road in December 2006, an uninsured motorcyclist plowed into him.

Thrown 35 feet underneath the trailer of a truck, Chance, now 48, suffered brain damage, many broken bones and internal bleeding.

Some surgeries and treatments began right away. Others followed as earlier fixes failed and as doctors authorized additional care. But California's no-fault system for workers injured on the job caps temporary disability payments after two years. Chance's temporary disability payments ended, but his costly care didn't. Now Chance's family approaches bankruptcy.

A controversial bill that would extend the cap — created by a 2004 overhaul of the workers' compensation system — is making its way through the state Legislature. If passed, Assembly Bill 947 could take a first step toward correcting what some see as a legislative overreaction.

But critics say Assemblyman



Richard Chance, badly hurt on the job in 2006, ran out of temporary disability benefits before his treatment was finished.

DENNIS McCOY
SACRAMENTO BUSINESS JOURNAL

Jose Solorio's bill, by extending the cap to nearly five years, could increase employer costs when recession-battered companies can least afford it.

Employers and insurance companies say the bill is overly broad, would allow some people to "game" the system, would extend the time injured employees are out of work, and would

reintroduce some subjectivity into the system.

"At this point, it's too ambiguous and it's too broadly cast, and it threatens to blow open an extremely important reform enacted by the Legislature," said Jerry Azevedo, a spokesman for Workers' Compensation Action

DISABILITY | PAGE 21

Pride lands janitorial work at new terminal

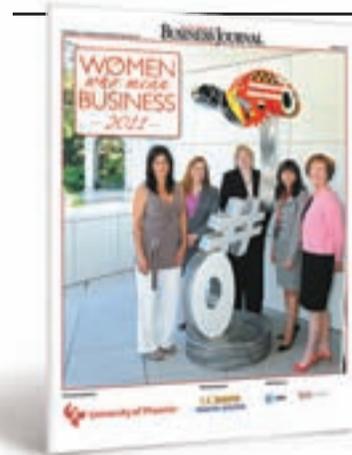
KELLY JOHNSON | STAFF WRITER

Add some Pride to the Big Build. Pride Industries Inc. has landed a high-profile custodial contract for the new terminal at Sacramento International Airport.

Airport has elaborate plans for big move | Page 6

In a competitive bid, the huge Roseville nonprofit — which creates jobs for people with disabilities — earned the five-year, \$9.4 million contract to clean the airport's new Terminal B, set to open in the fall. The contract provides an extra \$1 million to increase staff levels if needed to handle rising passenger loads.

PRIDE | PAGE 22



WOMEN WHO MEAN BUSINESS
Business Journal salutes influential achievers in Sacramento area | Special section

PRIDE | Company can do janitorial work for \$14M less than county over five years

FROM PAGE 1

Pride can do the work for \$14 million less over the five years than Sacramento County workers could because of different salary and benefit packages. The existing Terminal B is cleaned by a mix of service providers, including the airlines, the county and HMS Host, which also is the concessionaire and cleaner of the food court in Terminal A.

Pride, with revenue of \$191 million for the current fiscal year, employs more than 4,200 people, including more than 2,400 with disabilities. It maintains more than 30 million square feet nationwide, including more than 11 million square feet in Northern California.

The new contract would allow the non-profit to put 62 additional people to work. Pride also gets a highly visible venue where visitors can be greeted by disabled people who most employers don't know how to employ, said Mike Ziegler, Pride's president and chief executive officer.

"Of all the things I've been involved in, this is about the most exciting thing I can think of for Pride, for the county and for the community at large," Ziegler said.

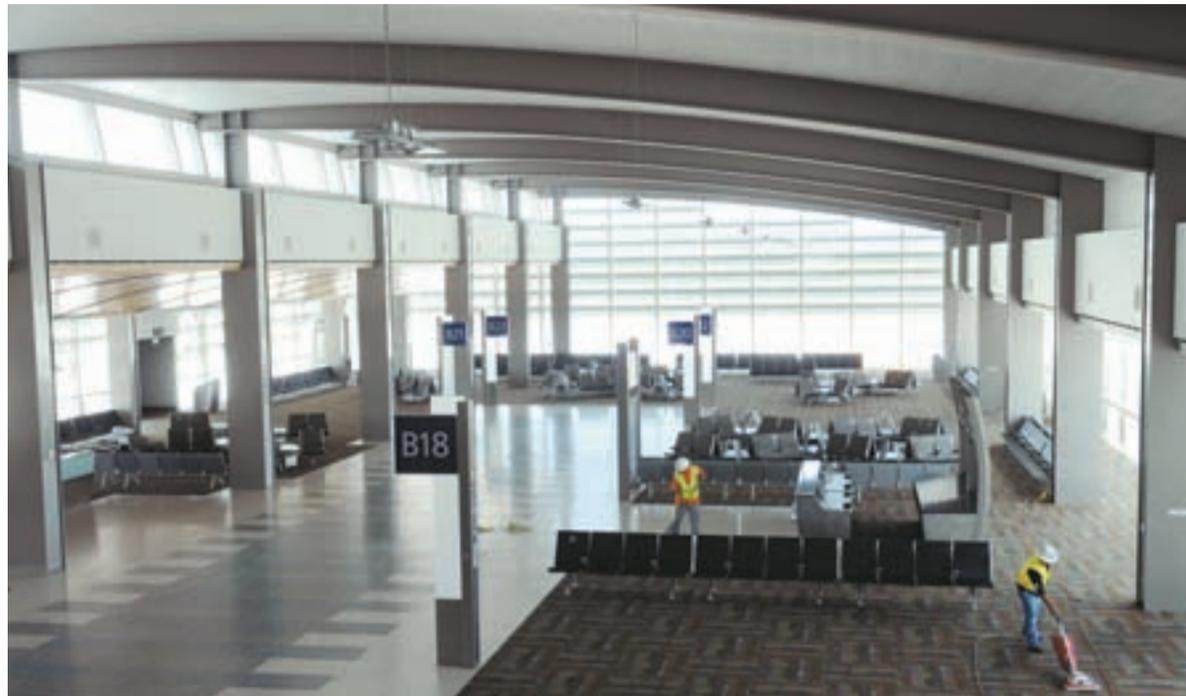
The airport deal is one of Pride's larger contracts within the Sacramento region. The contract is mid-size for public sector custodial contracts.

NONPROFIT IS GROWING

Pride has been on a roll this past fiscal year, boosting revenue by 20 percent over the previous fiscal year. A lot of the non-profit's growth of late has come from contracts for custodial work at military bases, Ziegler said.

Despite the anemic economy, Pride's custodial work has continued to grow at double-digit rates for the past two years, Pride spokeswoman Audrey Farrington said. During the last two years, Pride has added 10 new public-sector custodial contracts, she said.

Pride already does some work with Sacramento County. It has had a contract with the county Department of Human Assistance since 2009, Farrington said.



Workers are cleaning the gate areas at the new Central Terminal B concourse. Workers from Pride Industries will later take on the cleaning duties.

DENNIS MCCOY
SACRAMENTO BUSINESS JOURNAL

As for the airport system's choice of Pride, "the cost, of course, was the overriding consideration," said Hardy Acree, director of the Sacramento County Airport System.

Pride's social mission was a bonus, not a criterion for selection, he said.

Pride beat out nine other proposals, including from national companies that specialize in airports, in a competitive bid process. Pride didn't have the airport experience of some bidders, but it was the only one with a 100 percent customer satisfaction rate, according to a county staff report.

Pride's workers won't displace county workers, Acree stressed. County custodial employees will still work elsewhere within the airport system.

COUNTY WORKERS COST MORE

In anticipation of outsourcing to a single custodial-services provider, the county for the last few years hasn't been backfilling custodial workers as they retire or

resign, he said.

The airport expects to save \$3 million a year, or \$14 million over the five years, assuming a 2 percent increase in salary and benefits costs, by having Pride do the job at the new Terminal B.

If county workers did the job, the county would pay \$23.4 million over five years, a staff report said.

That's largely due to more costly salaries and benefits, such as vacation, holidays and sick leave, afforded to county workers based on labor agreements and benefits packages.

The deal allows the airport system to extend the contract for two additional five-year terms. The agreement also allows the county to give Pride work at other facilities not maintained by county custodial employees, and allows Pride to help out elsewhere during operational emergencies or job actions.

Before awarding the contract, the county conferred with the labor union representing the county's custodial workers — the

International Union of Operating Engineers, Stationary Engineers, Local 39.

The union, which Acree said had concerns, did not respond to Business Journal requests for an interview.

Pride employees will be responsible for all areas of the new terminal except for those that are exclusively leased, such as airline private offices and concession storage areas.

Being disabled doesn't mean Pride's workers are less qualified for the job, and may, in fact, be more qualified for certain tasks.

"People with disabilities are a diverse group of people who generally possess heightened problem-solving skills, loyalty and enthusiasm and eagerness to succeed in the workplace," Farrington said. Pride matches its workers' individual abilities with employers' needs, she added, and provides extensive training and oversight.

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APARTMENTS | Bay Area investors looking for bargains, driving up Sacramento prices

FROM PAGE 1

Francisco whose company is looking for deals from Seattle to San Diego.

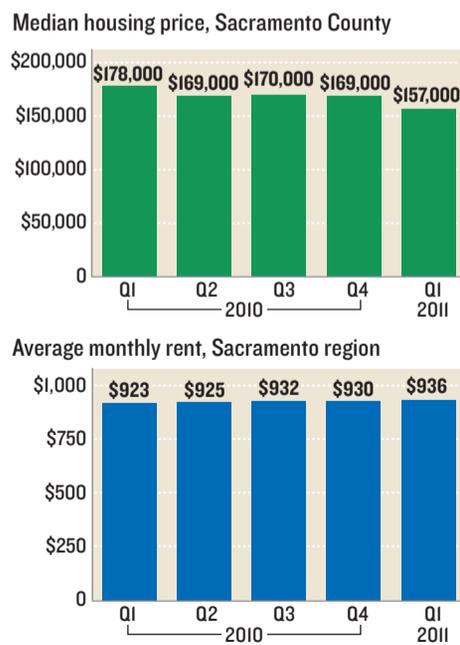
The Bay Area is one of the most sought-after markets in the country, said Marc Ross, multifamily specialist at CB Richard Ellis, whose team represented the seller in Chernoff's transaction, another Bay Area investor. In San Francisco, investors can spend a month on due diligence, only to face more than 30 other bidders for a single property. In the Sacramento region, that number is closer to 10 or 12 bidders, providing better odds at success, he said.

But a growing interest by Bay Area investors in the Sacramento area is pushing up purchase and rental prices for multifamily housing here.

According to LoopNet, a commercial property information company, Sacramento's average asking price for apartment buildings in the metro area in April was \$74,938 per unit. That's up 2.3 percent from the previous three months. Rents also are on the rise, up from an average of \$923 a year ago to \$936 in the first quarter of the year, according to CB Richard Ellis.

Investors are leaping on distressed properties, with plans to rebrand and fix up poorly maintained buildings now

Own vs. rent



Sources: MDA DataQuick; CB Richard Ellis SBJ GRAPHIC

owned by banks.

Developer Acclaim Homes of Menlo Park plans an August grand opening for Lido

Terrace in Rancho Cordova, which the company purchased for less than \$30,000 a unit from Chase Bank. That's about half what the property sold for in 2003, but there were a mountain of problems to overcome at the 93-unit complex. It was about 50 percent vacant when purchased late last year.

"It had enough code violations to wallpaper a bathroom," said Johnson, Acclaim's president.

To ease the sale, Chase paid to resolve code violations. Acclaim, using stimulus funds, is in the middle of a complete overhaul to make the 1960s-era buildings energy efficient with new insulation and windows.

Even some homebuilders have turned to multifamily housing to pay the bills.

An affiliate of DeNova Homes of Concord is having a grand opening today for Rancho Terrace. The renovated and rebranded apartment community is one of five multifamily properties it bought from JP Morgan Chase late last year. The others are in various states of rehabilitation, said Reed Oñate, vice president of the affiliated company, NUCP LLC.

Oñate said Sacramento's new home market is still depressed but there's opportunity in multifamily. The builder can easily shift crews from new-home construction to

apartment renovations.

As the apartment market grows stronger, the number of distressed sales is likely to drop and conventional sales will look more attractive to buyers, Ross predicted. The biggest conventional sale this year took place last month, when Prime Residential of San Francisco sold Slate Creek at Johnson Ranch, a 612-unit property in Roseville, for \$76.5 million. That's after buying the property for \$54 million a year earlier.

Chernoff's Governor's Village property, located at 8th and E streets in Sacramento's Alkali Flat neighborhood, was also a conventional transaction.

Buyer Chernoff said there's plenty of competition already in Sacramento for these properties; His bid topped about 10 others.

Chernoff's Cumberland includes investment funds from Chernoff and other high-net-worth individuals. The company's strategy is to invest in 75- to 150-unit communities that are close to transportation and near where residents work and play, he said.

The property will be renamed City Park Apartments after new landscaping, and upgrades to both the interior and exterior.

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