

SACRAMENTO BUSINESS JOURNAL

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BETTING BIG ON NATOMAS

After 20 years, David Bugatto is seeing it pay off

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"It's all about the Benjamins."

- Puff Daddy,

Multi-aliased Entrepreneur

"Diddy, that's what I'm talking about."

- Steve Fleming, CEO River City Bank

River City Bank

rivercitybank.com/letstalk

SEPTEMBER 28, 1995

An aerial view of Northern Natomas. The center building, Sleep Train Arena, is surrounded by hundreds of acres of undeveloped land.



COURTESY ALLEGHANY PROPERTIES

DECEMBER 7, 2018

Over 23 years later, Sleep Train Arena has been decommissioned, but the area surrounding it is bustling with retail and housing, with more on the way.



COURTESY DIGITAL SKY AERIAL IMAGING

A 20-YEAR JOURNEY

David Bugatto has been a critical force behind the scenes to attract Centene to the area, spurring a flood of development

SCOTT RODD
srodd@bizjournals.com

Hanging on the wall in David Bugatto's office is an aerial shot of North Natomas from more than two decades ago, showing Sleep Train Arena surrounded by sprawling acres of barren land, crisscrossed with empty roads—some of which are only half-built. ¶ The image is the inverse of North Natomas today. Sleep Train Arena is now decommissioned, but much of the surrounding area is bustling. Retail centers, like Park Place 2 on Natomas Boulevard and The Promenade off of Truxel Road, are filled with restaurants, department stores and clothing retailers. Apartment complexes have cropped up. Several hotels are clustered near the Interstate 5 ramp on Del Paso Road. Swaths of single-family homes stretch to the north and south of the arena. ¶ The development in North Natomas shows no signs of slowing down, in large part catalyzed by health insurer Centene Corp.'s planned 70-acre campus, which promises to bring up to 5,000 jobs to the area. In the coming years, a half-dozen proposed apartment complexes promise to bring upwards of 1,200 units to North Natomas and the city is reviewing nine hotel proposals in the area. ¶ The photo on Bugatto's wall, he told the Business Journal, "is a good benchmark to remind myself of where we started, where we are now and where we're going."

IN NORTH NATOMAS

As president of Alleghany Properties, Bugatto has been central to North Natomas becoming what it is today, and what it promises to be in the future. Twenty years ago, Alleghany made a big bet on North Natomas, acquiring about 1,000 acres of largely undeveloped land, much of which needed basic infrastructure improvements. The company also had exposure to roughly another 900 acres in the area in the form of loans.

Bugatto spent nearly a decade preparing and selling hundreds of acres in and around North Natomas, which precipitated an initial wave of development. Coming out of the Great Recession and flood moratorium in Natomas—which halted development for eight years and reportedly torpedoed multimillion-dollar deals in the works—Bugatto played a key role in landing Centene's massive corporate campus and has sold dozens of acres of land in North Natomas to developers.

Alleghany has another 125 acres on the books to sell, and Bugatto has indicated that the land won't remain on the shelf for very long.

"He's one of those quiet guys in the background that people don't realize how much he's changed the landscape of Sacramento," said City Councilmember Angelique Ashby, whose district includes North Natomas. She added that Centene's campus, and much of North Natomas, "really is the vision of Dave Bugatto."

BIG BET ON NATOMAS

Bugatto is a third-generation Sacramentan. He graduated from Sacramento State University in 1986 and has spent almost his entire professional career in the capital city.

After a college internship in the city's planning department, Bugatto began

"HE'S ONE OF THOSE QUIET GUYS IN THE BACKGROUND THAT PEOPLE DON'T REALIZE HOW MUCH HE'S CHANGED THE LANDSCAPE OF SACRAMENTO."

ANGELIQUE ASHBY,
Sacramento city councilwoman whose district includes North Natomas

working at Sacramento Savings Bank, where he rose to become a senior vice president overseeing the bank's real estate portfolio. At the time, Sacramento Savings was financing projects for area developers like Angelo Tsakopoulos and Joe Benvenuti.

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ALLEGHANY PROPERTIES' LAND SALES – A TIMELINE

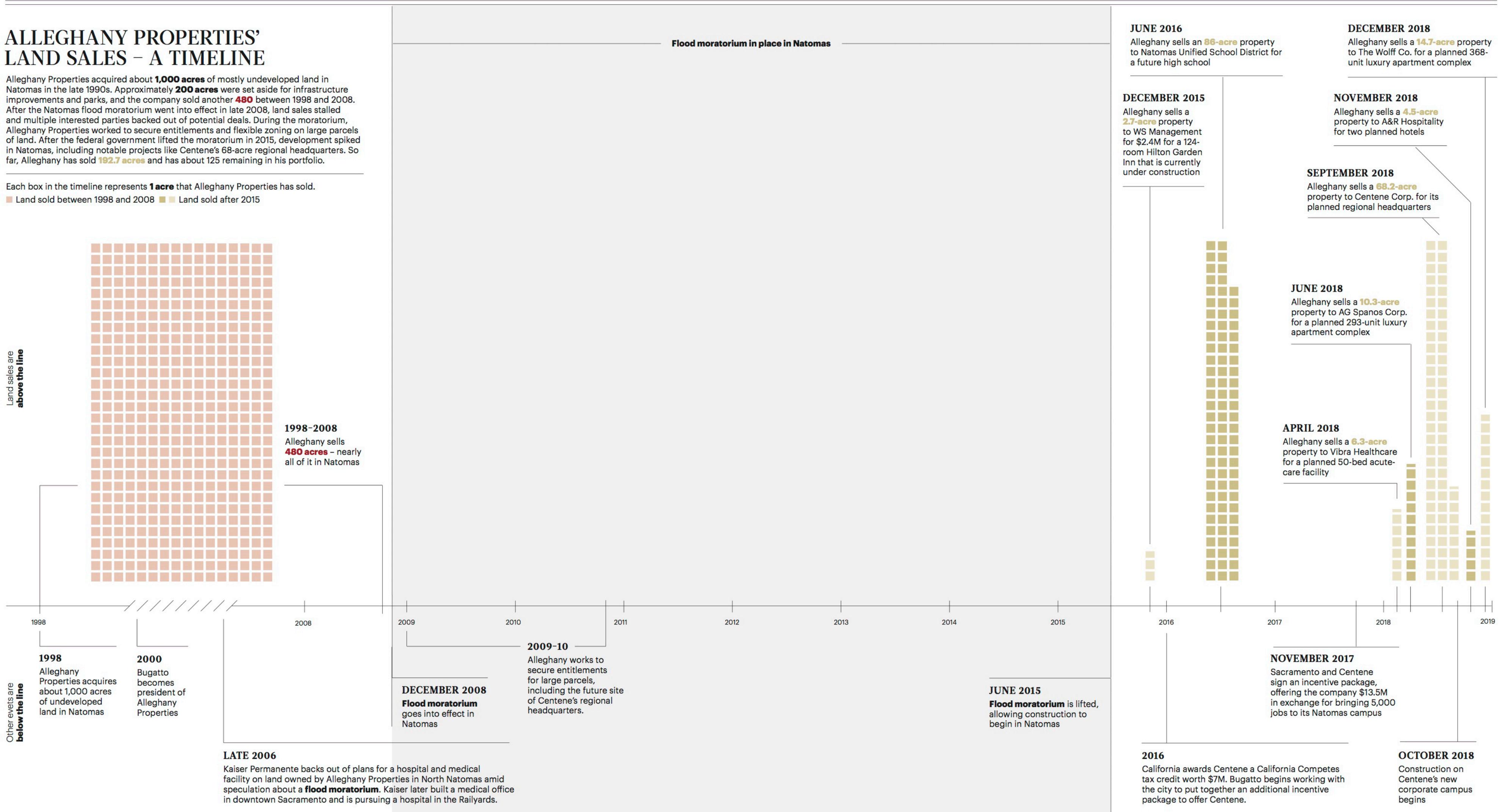
Alleghany Properties acquired about **1,000 acres** of mostly undeveloped land in Natomas in the late 1990s. Approximately **200 acres** were set aside for infrastructure improvements and parks, and the company sold another **480** between 1998 and 2008. After the Natomas flood moratorium went into effect in late 2008, land sales stalled and multiple interested parties backed out of potential deals. During the moratorium, Alleghany Properties worked to secure entitlements and flexible zoning on large parcels of land. After the federal government lifted the moratorium in 2015, development spiked in Natomas, including notable projects like Centene's 68-acre regional headquarters. So far, Alleghany has sold **192.7 acres** and has about 125 remaining in its portfolio.

Each box in the timeline represents **1 acre** that Alleghany Properties has sold.

■ Land sold between 1998 and 2008 ■ Land sold after 2015

Land sales are above the line

Other events are below the line



CONTINUED FROM PAGE 15

In 1989, the publicly traded investment holding company Alleghany Corp. purchased Sacramento Savings Bank. The acquisition turned out to be a bust: The bank soon found itself against the ropes amid the roiling savings and loan crisis.

In 1994, after selling off the banking division of Sacramento Savings Bank, Alleghany Corp. created Alleghany Properties out of the bank's real estate and loan portfolio—with properties from Red-

ding to Los Angeles, including some in Sacramento.

Bugatto transitioned to Alleghany Properties and proved to be a skilled real estate negotiator with a deep understanding of Sacramento, and especially Natomas. By 1998, he had sold the entire real estate portfolio Alleghany Properties assigned to him—about \$100 million worth of commercial, retail, residential and undeveloped assets.

That left Alleghany Properties at a crossroads. The company could either explore

real estate opportunities elsewhere or re-up its commitment to Sacramento.

Alleghany chose to place a big bet on Natomas: The company acquired about 1,000 acres along the I-5 corridor north of I-80. Alleghany also had exposure on another 900 acres through loans.

"If you're going to be successful as a master developer, your first step is on paper," Bugatto said, "getting entitlements and the right zoning."

The next step, Bugatto said, was grading and substantial infrastructure work,

including building roads, water lines and sewer lines. About 200 acres of Alleghany Properties' original 1,000 acres in Natomas went to infrastructure improvements and parks.

"We never built higher than the curb—and if we did, we did it with a partner," he said.

Over the next nine years, Alleghany sold about 480 acres of land—nearly all of it in Natomas, according to Securities and Exchange Commission filings. In 2000, Alleghany named Bugatto president

of the company. But the good times wouldn't last.

'OVER THE CLIFF'

As early as 2005, according to Bugatto, there were whispers of the Federal Emergency Management Agency imposing a so-called flood moratorium in Natomas, which would halt building and development.

In 2008, the moratorium went into effect.

"That's when the stagecoach went over the cliff," Bugatto told the Business Journal.

The moratorium torpedoed several pending deals that would have reshaped the I-5 corridor and sent high-profile businesses that might have located in Natomas searching for property elsewhere. Plans for a 25-acre retail center anchored by a Lowes Home Improvement, were abandoned, along with a proposed Hyatt Place hotel.

Most notably, Kaiser Permanente

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DENNIS MCCOY | SBJ

Construction continues at Centene's corporate campus location set on 68.2 acres in North Natomas. Construction began in early October and the company has already begun recruiting.

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scrapped plans for a 600,000-square-foot hospital and a 600,000-square-foot medical facility east of I-5 and south of Arena Boulevard. The Oakland-based health system was developing site plans, but pulled out when the moratorium went into effect. Kaiser searched the area for other potential sites. It now plans a medical center in the Railyards development, north of downtown Sacramento.

"The Sacramento Railyards got that deal because of the flood moratorium," Bugatto said. "Kaiser walked when the moratorium went into effect because they didn't know how long it was going to last."

Neither did Alleghany. The company anticipated the moratorium would be lifted in two years, according to SEC filings.

Bugatto said that federal legislation appropriating funds for flood protection work and levee improvements fell off of Congress's radar following the midterm election in 2010.

With flood insurance rates high and a building moratorium in place—on top of a deep recession—no buyers were willing to touch the 315 acres Bugatto had in Natomas.

Ironically, during those moratorium years, Alleghany Properties' holdings in Natomas became the company's primary focus, according to Bugatto. If they couldn't put shovels in the ground, he said, they would work on developing the land on paper. Bugatto secured entitlements and flexible zoning on the 68-acre parcel between the freeway and East Commerce Way, which would eventually be sold to Centene, and the 85-acre parcel south of Arena Boulevard, where Kaiser had planned its hospital.

Those efforts, according to Jason Goff, senior vice president with CBRE Group and the broker on the Centene deal, were crucial for the development that would come later.

"During the flood moratorium and recession, Dave and Alleghany Properties weren't just sitting on their hands," Goff told the Business Journal. "They were being very proactive about how they were going to take advantage of the recovery."

Alleghany Properties did branch out somewhat during the moratorium and recession. The company invested in tax credits for low-income housing and renewable energy.

Bugatto said he was tempted to also invest in Bay Area real estate when prices dropped, but he reminded himself of his existing commitment.

"I was still chained to North Natomas," he told the Business Journal.

LANDING CENTENE

When the federal government lifted the Natomas flood moratorium in 2015, Bugatto came out swinging.

In December of that year, he sold a 2.7-acre site for about \$2.4 million. The property was the proposed site of the Hyatt Place hotel that fell through during the moratorium. A 124-room Hilton Garden Inn is now under construction there and nearing completion.

"It wasn't a huge transaction, but my goal was to get a deal done in 2015 to show the board at Alleghany that there was buyer confidence," Bugatto said.

Ashby was also eager to see Bugatto make progress in Natomas now that development could happen for the first time since she was first elected to the City Council in 2009. Ashby went to Bugatto and pushed him to seek out a major company to bring to the area.

Bugatto was on the same page. He enlisted Goff, then with commercial real estate brokerage JLL, to help attract a large company to North Natomas.

They targeted large health care companies, land developers and tech firms, but kept losing out to larger cities, according to Bugatto. Oracle Corp., for example, passed on Sacramento in favor of building a new campus in Austin, Texas.

Bugatto said Goff heard rumors that Centene, based in St. Louis, was looking to establish a West Coast regional headquarters.

Goff declined to comment on Centene, citing a non-disclosure agreement. But he said Bugatto was dogged in his search for a large company to set up shop in Natomas—and in his strategizing with Goff.

"During the three years we worked together on this, I talked to Dave probably more than I talked to my wife—whom I have a wonderful and loving relationship with," Goff said.

Centene, according to Bugatto, showed interest in Sacramento as early as 2016. The company completed its acquisition of Health Net the same year and wanted to expand its presence in California, he said. Health Net already had a data center in Rancho Cordova, so the Sacramento region seemed like a logical choice for Centene.

According to Bugatto, Centene representatives wanted to know if Alleghany had a large piece of land with flexible zoning and entitlements to accommodate a corporate campus.

They also expected an economic incentive package.

In 2016, the state awarded Centene a California Competes tax credit worth \$7 million.

But the city of Sacramento was also going to have to chip in if it wanted to win over Centene.

Bugatto brought the potential deal to the city. Officials drew up an incentive package worth a couple million dollars.

"It was totally inadequate," Bugatto said. He told city officials, after reviewing the initial proposal, "we need to be serious."

ADDITIONAL PROJECTS IN NORTH NATOMAS



COURTESY VIBRA HEALTHCARE LLC



COURTESY HINES



COURTESY THE SPANOS CORPORATION



COURTESY ACE DESIGN LLC

Bugatto had gathered some intelligence on the incentive packages being offered by Austin and Phoenix—the other cities vying for Centene. Their incentive deals dwarfed Sacramento's initial package.

About 10 months after Centene signed the incentive deal, the company purchased a 68-acre site from Alleghany for \$28.2 million. Houston-based Hines, the developer on the project, began construction on the site in October, and Centene appears to have started recruiting for the new corporate campus in recent weeks.

"There certainly was a learning curve for Sacramento," when developing the incentive package, Dangberg told the Business Journal. "I do credit David with getting us to think outside of the box ... and develop a new policy paradigm" on incentives.

The incentive agreement would award Centene \$2.7 million for every 1,000 jobs the company brought to the corporate campus in Natomas, up to 5,000 jobs. To capture the entire incentive, 1,500 of those positions would have to be "net new jobs"—that is, ones not relocated from other parts of the region.

Bugatto also served as a key consultant for the city as it courted Centene.

"David's depth of understanding of Natomas—the agreements, the financing plans—

is pretty amazing," Dangberg said. "I don't know if anyone has a better depth of understanding of Natomas from a planning and development perspective."

Top left:

A rendering of the Vibra Healthcare facility, which will be built on 6.3 acres.

Top right:

An aerial rendering of the AG Spanos Cos. apartment project on 10.3 acres in North Natomas.

The complex will have 293 luxury units.

Bottom left:

A rendering of Centene's corporate campus that's being built on 68.2 acres.

Bottom right:

A rendering of the Aloft by Marriott, one of two hotels planned for a 4.5-acre property that Allegany Properties sold to A&R

Hospitality Management last month.

Since late 2015, Alleghany Properties has sold 193 acres in North Natomas. Bugatto said the company is actively working on deals for the roughly 125 acres remaining in its portfolio.

"We're already in conversations with (all) kinds of users for portions of our property," he said. "There's an increased interest in retail property across the street from Centene. I think you'll also see an entertainment type of use, too."

Bugatto said he is in talks with one developer or company that is looking to build something "in the 15- to 30-acre range," but declined to specify who it is.

Ashby said she's enthusiastic about what the future holds for development in North Natomas—and Bugatto's role in it.

"It doesn't end with Centene," said Ashby. "He's working on land deals right now that are raising the bar on what we bring to this area."

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JOHN DANGBERG,
special adviser on economic
development for Sacramento