

## **Nugget seals deal to buy two old Ralphs markets**

By Jim Wasserman and Jon Ortiz -- Bee Staff Writers

In a deal symbolizing the growing prowess of independent, upscale grocery chains, Woodland-based Nugget Markets Inc. said Monday it will open a new store in Elk Grove and another in either Roseville or El Dorado Hills at locations closed earlier this year by Ralphs.

Nugget is working with a Bay Area development firm to jointly buy or assume the leases for eight of the nine Ralphs stores left vacant in the region.

Under the terms, Nugget will buy two former Ralphs sites, at 7101 Elk Grove Blvd. in Elk Grove and 4051 Woodcreek Oaks Blvd. in Roseville, and assume a lease at 4500 Post St. in El Dorado Hills. The 80-year-old family-owned grocery chain will open new stores in the spring at two of those locations.

The site not chosen will be assumed by Nugget's partner, the Alamo Group, for conversion to another retail use, said Eric Stille, Nugget's president and chief executive officer. He declined to disclose a sales price.

"All three are great sites in great locations," Stille said of the newest options.

"In Elk Grove we had previously picked a site within a half-mile of Ralphs. Of the three locations, Elk Grove is pretty much a shoo-in." Nugget already is building a store at Fairway Drive and Pleasant Grove Boulevard in Roseville that will open in February.

Nugget's stores are known for such amenities as vast wine selections staffed by a wine steward and upscale displays carrying products not typically found in traditional grocery stores. The firm owns six stores and this year was ranked 33rd on Fortune magazine's "100 Best Companies To Work For."

Stille said the Alamo Group, a specialist in redeveloping existing buildings for new uses, will buy two stores closed by Ralphs, at 3615 Bradshaw Road in Sacramento and 25000 Blue Ravine Road in Folsom.

Alamo also will assume three Ralphs leases: 5025 Marconi Ave., Carmichael; 9522 Greenback Lane in Folsom; and 615 Elmira Road in Vacaville.

The firms' deal with Cincinnati-based Kroger Co. -- Ralphs' parent firm -- does not include the store Ralphs closed in Auburn.

Alamo has experience throughout California, Nevada, Oregon and Washington in buying vacant properties and redeveloping them. The company bought 41 Safeway stores in 1991 and has since redeveloped dozens more stores closed by retailers from Home Express to Fedco to Liquor Barn. In 2004, Alamo bought and redeveloped the Watt Towne Center at Watt Avenue and Elkhorn Boulevard.

Alamo officials could not be reached for comment.

The announcement of the deal comes five months after Ralphs said it would close eight Sacramento-area stores and leave a region where it had twice failed to establish a lasting presence. It also comes two months after Boise-based Albertson's LLC announced the closure of stores in Sacramento, Citrus Heights, Rocklin and Woodland.

Analysts said Nugget's expansion offers a strong counterpoint to store closures and sell-offs in the nation's mainstream grocery business.

Many grocery chains are feeling pressure from discounter Wal-Mart's new stature as the nation's leading grocer.

"Everyone's writing about Wal-Mart, but this is part of the underlying story," said New York retail analyst Burt P. Flickinger III. "There's really going to be a retail renaissance of independent grocers."

George Whalin, president and CEO of San Marcos-based Retail Management Consultants, said upscale retailers "are the ones doing the best business these days."

"That consumer is a little less price sensitive. They're not only looking for bargains, but are looking for the best-quality foods and the better shopping experience," he said.

Whalin said Safeway has remodeled some of its stores to a more upscale style and "is doing well with those."

Nugget Markets, with its self-described "European-style marketplaces," attracts customers with a shopping atmosphere beyond that of the typical grocery store. The company's West Sacramento store, for instance, has window views in its produce section and sells wine and cheeses from dark wooden display cases. It also sells products such as milk, bread and other staples at competitive prices.

These touches connect with shoppers who don't mind paying a little more for ambience, retail analysts say.

The alternative, said Whalin, is to try and compete with Wal-Mart on price -- "you can't win that battle."

Stille said the new properties, which at 54,000 square feet are 2,000 square feet bigger than the chain's other stores, need to be remodeled "inside and out."

"The upside is that the store is already built, so you're saving on construction costs," Stille said. "But the downside is that there's a tremendous amount of work that has to be done in remodeling. You wind up spending almost as much getting the store where you want it to be."

But Flickinger called it "a real discount, particularly compared to building a new store that can run anywhere from \$7 million to \$10 million."

Nugget opened its first store in 1926 in Woodland and has added two in Davis and others in Sacramento, West Sacramento and Vacaville in the last 20 years. The chain will count 10 stores after opening three next year and one in Vallejo in 2008.

The firm has 1,100 employees and expects to do \$250 million in sales in 2006.

It also owns Food 4 Less stores in Woodland, Cameron Park and Vallejo.