



FINDING NEW PURPOSE

Conversions are resuscitating the office market

BY KEN SMITH

A slow but steady trend of returning to the office is helping define the future of many of the region's smaller office buildings — and whether they have a future at all.

"The return-to-office movement is gaining a lot of momentum, but people don't want to return to Class C or B product regardless of the cost savings compared to Class A," says Tony Whittaker, senior vice president at CBRE. "Employers are willing to pay more to get their workforce excited about coming back to the office four to five days per week."

Whittaker says that Class C buildings need to be demolished or repurposed to help balance supply and demand in the local office market. Most commonly, they are being leveled to build mixed-use residential projects. Some, however, are being converted to medical or educational use without being razed, while others will have a new future as housing or hotels.

"Onyx Investment Group recently purchased six buildings around the region with plans to convert to housing," Whittaker says. "Roger Hume purchased 700 J Street — a 90,000-square-foot, mostly vacant office property — and is planning on converting this into another hotel. Sutter Capital Group purchased a former UC Davis office building across from Aggie Square and is ready to start on this conversion to residential."

One of the more intriguing conversion projects is Heller Pacific's The Diggs at 3rd and R streets. The 4-story building dates back to 1912, when it was the headquarters for the Thomson-Diggs Company Hardware.

"The Diggs is a special building I have admired for the past 20 years," says

Michael J. Heller, president of Heller Pacific, which plans to convert 205,000 square feet of concrete building into 132 residential lofts and retail space. "The history gives it soul and character that is very difficult to duplicate with new construction."

The Diggs will cater to Sacramento's creative class with features such as a podcast recording studio, music and art creation areas, and an East Coast vibe. The building met Heller's key standards for making it a candidate for new life in the 21st century: great bones, redeeming architectural qualities and challenges that can be overcome with creative interior design.

"I have always believed in creating spaces that don't yet exist in the marketplace," Heller says. "Where can you find an authentic New York loft that one would see in a movie set in Manhattan or Chicago? They really don't exist in Sacramento, so we have a sense of confidence going forward knowing what we are delivering is unique and authentic."

Conversions such as The Diggs are challenging and suitable buildings are rare, Heller says. He plans to complete the project without public subsidies and hopes others can do the same, but acknowledges it's likely public funding will be needed to make similar projects happen.

"These conversions are extremely challenging and all the right pieces of the puzzle need to come together to make the numbers work," Heller says. "I wish it was easier, as this is such an important and noble goal, but the reality is, it's super difficult. So I don't think you will see an abundance of these happening in the marketplace unless there is a subsidy involved."

The Diggs is more than just a much-needed supply of new housing, Heller

says. He believes the impact of empty, or "dead," office buildings on small businesses is one of the biggest issues in the city's core.

"Small mom-and-pop restaurants and galleries are going out of business," Heller says. "It's heartbreaking. The goal of converting 'dead' to 'new life' is fundamentally critical to the city's future."

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ASK AN EXPERT

A Q&A with industry leaders
Interviews by Jessica Laskey

Commercial real estate is a complex sector with dozens of stakeholders all working together toward a common goal. From procuring financing to enticing tenants, industry experts have to stay informed and connected to meet the market's fluctuating demands.

Comstock's spoke to members of ACRE and BOMA about essential building maintenance, smart lending, the state of the sector and more.

Editor's Note: Answers have been edited for length and clarity.

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