

Heller, other developers talk strategies as funding challenges reshape project timelines



Image: Sacramento Business Journal

With many developers taking a pause amid high construction costs, Mike Heller of Heller Pacific at a Bisnow event Tuesday in Sacramento said he was underway on construction for adaptive reuse project The Diggs in Downtown Sacramento.

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By [Ben van der Meer](#) – Senior Reporter, Sacramento Business Journal
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Story Highlights

- Sacramento multifamily developers face funding challenges amid flat rents.
- California Environmental Quality Act reforms reduced litigation delays significantly.
- Some assert that luxury properties have been overbuilt and renters cannot afford to lease.

Challenges in costs, and particularly putting together a funding package, have many multifamily developers thinking long term, members on two panel discussions at an event in Sacramento said Tuesday.

Not all of them, though. Mike Heller of Heller Pacific told the audience his [adaptive reuse project](#) of a Downtown Sacramento office building, called the Diggs, should be completed in about a year.

"I want to create a building that's experiential, that you can't get through your phone," Heller said at the panel hosted by business news and events company Bisnow. He was discussing the plan for 1800 Third St. that'll turn it into 140 lofts as

well as retail and self-storage space. Formal work began within the last month, he said.

Other developers from companies such as St. Anton Communities, Jamboree Housing Corp. and Gateway Development Company discussed their view of the market, focusing on broader trends instead of specific projects.

Ardie Zahedani, a partner at St. Anton, said he's optimistic that after a couple years where flat rents and higher equity requirements made projects more difficult, there's reason to believe the tide is turning.

He said the situation is better partly because of recent reforms of the California Environmental Quality Act that limit the chances for opponents to sue. The difference is nine years spent [on a project](#) in Roseville, about half spent fending off litigation, versus about three months on a similar project in Folsom.

"The issue now is special districts on their own little island and not being held to the same accountability," he said, of agencies specializing in fire protection or sewer infrastructure, for example.

Many developers also said they have sharpened their pencils to bring down costs at the front end, such as negotiating for lower land prices while overall development is slow, or bringing in capital partners sooner to fully understand a budget.

"We've also done construction interest loan rate caps," said Katherine McFadden, vice president of Northern California for affordable housing developer Jamboree Housing. Doing so saved the company millions when projects ran over costs.

Affordable housing developer Eden Housing has looked into modular housing and concluded it works at scale, but not for one project, said Charles Liuzzo, an associate director with the firm. Sacramento as a city, and especially as a county, could also benefit from a local source of funding for affordable housing to match state and federal sources, he said.

Some of the current slowness in the market is also attributable to developers themselves. Jeff Condon, a vice president with multifamily development and investment company Sares Regis Group, said Sacramento built too many luxury-style properties in recent years that don't fit with the renter market.

The result, he said, is about one-third of all current applications to properties are denied because they don't meet necessary income and debt levels, two to three times the normal rate. "They're trying to rent a property type they can't afford."

To make construction more viable, he said, developers need to consider whether they're building for the market that exists, even if it means fewer amenities or lower rent ranges.

Heller said with Diggs, he's emphasizing something unique. Many units are long and narrow, and not all the areas where people might put a bed are near a window, he said. The internal systems of the building, which is a century old, are also going to be left exposed.

"I think the key to doing a project like this is to be fearless about not following preconceived notions," he said.

person

Mike Heller

Ardie Zahedani

Katherine McFadden