

Natomas offices aim to beat deadline

Moratorium spurs rush of permits

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With just two weeks left to obtain building permits before a construction moratorium takes effect in the Natomas basin, two developers say they'll beat the deadline and build large speculative office projects while competitors are sidelined.

The Wong family, the founders of **Bel Air Markets** who sold the grocery chain years ago to **Raley's Inc.**, and other partners are proceeding with two 65,000-square-foot office buildings in the Gateway Oaks Corporate Center west of Interstate 5.

And **Opus West Corp.**, which is finishing up construction on a second building at Gateway Corporate Center near Truxel Road, says it will start on a third 120,000-square-foot building.

Both have until Dec. 8 to pay fees and pull building permits before the lengthy moratorium goes into effect.

The developers expect to attract tenants while competing office projects along Interstate 5 are shelved. The projects might not have moved on an aggressive schedule without such a deadline, the developers said.

"They're an established landlord and they have the capacity to do this," said Tom Aguer, president of **Aguer Havelock Associates Inc.**, speaking of Gary Wong, his family and its partners in the venture. Aguer Havelock is the leasing agent for the Gateway Oaks buildings, which are planned as environmentally friendly offices in a development that's already brimming with tenants.

"Not everybody is in that position," Aguer said. "We're very positive on the South Natomas market because it hasn't been hit as hard as others."

The office ventures are among 25 construction projects — from home additions and a new gas station to small retail buildings and child care facilities — still seeking permits that the city of Sacramento is tracking in advance of the deadline.

The **Federal Emergency Management Agency** designation for the Natomas basin has changed so that all construction with a permit issued after Dec. 8 must be built above flood levels.

Bill Thomas, who heads the city's Development Services Department, said that restriction makes construction unfeasible until the designation changes back. The FEMA moratorium will be in effect as levees protecting the Natomas basin are repaired over the next few years.

The city will accept requests for building permits until midnight Dec. 8, Thomas said. Developers must make substantial progress on their projects to keep those permits active.

The timetable is less clear, however, as to when the moratorium will be lifted. Thomas said the city can apply to have the designation reconsidered once levee repairs are 50 percent complete. But that might not occur until eight months from the time of completion, estimated as sometime in 2011.

So if demand picks up during that time, as some real estate experts believe, landlords with new buildings could be in a unique position to capitalize.

Aguer said the Natomas market is attractive partly because it's "an extension of downtown with free parking." The office market in South Natomas — defined as the area between Interstate 80 and the American River — is the strongest market outside of the downtown Class A buildings, with a 12.6 percent vacancy rate, according to brokerage **Cornish & Carey Commercial**. In North Natomas, the vacancy rate is 20.3 percent, but still better than many outlying areas.

"The longer I'm in this business, the more respect I have for these guys," said John Frisch, managing partner of Cornish & Carey's Sacramento office, the brokerage that represents Opus in its leasing activities at Gateway Corporate Center. "This is a risky business. It takes a lot of guts to build in the face of this."

Don Little, senior vice president at Opus, said permits for its building will cost the company about \$2 million.

"The decision is completely the result of the FEMA moratorium," Little said. "We made the decision to go ahead and build the third building. It's a strategic decision to anticipate the shutdown of all construction."

Opus recently received approval to increase the overall amount of office space at its Natomas campus by 60,000 square feet, and plans to eventually have five office buildings there totaling about 650,000 square feet. Construction on the second 120,000-square-foot building will be completed in three to four weeks, and the first building is about 70 percent leased, Little said. The current asking rents on the existing Gateway Corporate Center buildings are between \$2.25 and \$2.35 per square foot.

Aguer said the Gateway Oaks project is aiming for silver certification from the U.S. Green Building Council's Leadership in Energy and

Environmental Design program by employing water-saving features and high indoor air-quality standards. The Wongs have already started grading the site, which is in the middle of the business park and surrounded by a hotel and four other office buildings that are about 95 percent leased to a mix of state and private tenants, Aguer said. Lease rates are in the “mid-\$2 range,” he said.

Another developer, **Kobra Properties**, is developing the Coral Business Park at Truxel Road and Gateway Park Boulevard, near Opus’ site. Kobra president Abe Alizadeh is not certain whether the project will be able to meet the deadline and pay the \$3 million in permits.

First Tennessee Bank of Memphis sued Kobra in August, seeking foreclosure of the Natomas property, but Alizadeh is proceeding with efforts for an 85,000-square-foot, three-story office building.

“I’m not confident,” Alizadeh said. “The more I think about it, we’re going to have a tough time.”

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