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Brian Spiers at 1998 Market St., the 114-unit condo project he's building with Canyon Johnson Capital. A sales office will open in July.

Record condo prices embolden builders

New wave of residential focused on for-sale units

BY J.K. DINEEN
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The tower cranes on the San Francisco skyline may be all about rental apartments, but San Francisco's housing pendulum is slowly swinging back to condominiums.

Nearly 2,000 apartment units are going to be delivered in San Francisco this year, followed by 2,200 in 2014 and 3,500 in 2015. Compared to that, the condo pipeline is a bit sad — especially if you are in the market for a new home in the city. San Francisco will see the delivery of about 100 units this year, and about 500 a year in 2014 and 2015.

But the numbers say more about the capital markets in the post-recession years of 2010 and 2011 than about the current environment. With the handful of condo projects on the market smashing prices of \$1,000 a square foot, investors and developers are hot to entitle and build new for-sale projects, although most of the new condos won't be ready until 2016 and 2017. Bosa Development has started to drive test piles on its next development, 267 units in Mission Bay. And Tishman Speyer broke ground this month on 671 condos at 201 Folsom St., the first of which will be delivered in 2016. Oyster Development, which is already constructing 98 units on Van Ness Avenue, has closed a construction loan to build 114 units at 2558 Mission St.

Trumark Urban has no fewer than seven condo projects — six in varying stages of entitlement and one, 1501 Lombard St. in the Marina District, ready to build.

Chris Foley, a partner with the condo marketing firm Polaris Pacific, said land deals and entitlement plays will be mostly condos moving forward.

"I think the multifamily (apartments) you see will be few and far between," said Foley. "With rates going up, the hot money is going to be exiting that space. It will



1998 Market St. will have a glass curtain wall facade.

definitely be turning toward condos."

Foley said he thinks 2016 will be a strong year for condos, but still less than 1,200 units. The next year could see a few more.

"We could get to 2,000 units (in 2017)," he said. "It would be difficult to finance the delivery of 3,000 units a year because lenders would look at that number and it would give them pause."

Units at the two large projects on the market — Pocket Development's 61-unit 300 Ivy and Oyster's 98-unit Marlow at 1800 Van Ness — are quickly selling out upon release. (300 Ivy opens this year; Marlow opens in early 2014.)

In July, Brian Spiers and Canyon Johnson Capital will open a sales trailer at 1998 Market St., a 114-unit project called Linea that injects a shot of glass curtain wall modernism into the traditional pastel stucco and wood aesthetic of the upper Market neighborhood. Spiers said the market is unlike anything he has witnessed.

"It's a different dynamic — instead of looking for buyers, buyers are looking for us," he said. "I am getting calls from a lot of buyers' brokers. They are out there in the market and they cannot get their client a deal because of the competition."

The arrival of Linea on the market comes as the

city has seven new condo developments on the market, totalling 555 units, according to Polaris Pacific. Approximately 72.6 percent of these new condos have sold, leaving a standing inventory of 152 homes to sell.

Of the 36 Marlow units released so far, 35 units are under contract, about 42 percent of the inventory. "We are well above our absorption schedule and things have been consistent," said Dean Givas, who heads Oyster Development.

About 80 percent of the buyers have been from Nob Hill, Pacific Heights and Russian Hill.

"We are definitely seeing buyers and brokers who have been outbid on a couple of houses," Givas said.

The first seven homes released at 300 Ivy were gone in a few hours, according to Alan Mark, president of the Mark Co., which is marketing 300 Ivy.

"We went down the list and didn't have to go down very far to sell all seven," said Mark. "There is a dire need for housing in San Francisco. The buyers are out there. For a lot of people new construction is the only way you are going to get a home."

The current demand will likely drive developers to start writing contracts well before construction is complete. Tishman Speyer could open its sales office next spring, and Crescent Heights, which is looking at going condo at 45 Lansing St., is likely to do the same.

"Your inventory is going to shift toward buildings that are not yet delivered," Mark said.

The question over the next two years is how many apartment buildings will convert to condos. Most of the rentals are being built by real estate investment trusts — BRE, Essex Property Trust, AvalonBay and Equity Residential — that cannot legally sell units. Other developers have capital from pension funds targeting rental housing. Foley estimates that about 10 percent of the rentals in the pipeline will be converted to condo.

In addition, Spiers, who is partnering with equity partner Canyon Johnson, said financing condos is still difficult. The loan-to-cost ratio at which most banks are willing to lend has dropped 20 percent since the last cycle. "There is an equity hole to fill," he said.



Givas

