

US property | The price of condominiums in San Francisco is soaring and developers are responding to demand with 25,000 new units in the pipeline. By Kevin Brass

After living in San Francisco for 25 years, interior designer Jay Jeffers has witnessed several boom-and-bust cycles in the local real estate market. But this time it is different. "I've never seen the market quite this crazy," he says.

Prices for condominiums have soared more than 30 per cent in the past two years in the so-called City by the Bay, with the median sale price for a condo reaching \$1.1m in 2015, according to Paragon Real Estate Group, a consultancy. Developers are racing to meet the demand, creating a new skyline of glass-and-steel towers on the city's South of Market (Soma) neighbourhood, an area once known for its rundown industrial buildings. Now it is very difficult to find a condo in Soma for less than \$1m.

Jeffers and his husband were paying \$4,500 a month to rent an 800 sq ft apartment in the centre of the city, when they decided last year to shop for a condo. They found a couple of homes they liked, but the sellers already had multiple offers above the asking price.

"We weren't desperate," says Jeffers, who eventually bought a one-bedroom condo that was under construction. "We weren't going to get into a bidding war."

For some real estate experts, the scene in San Francisco looks eerily



Yerba Buena Center for the Arts in the South of Market (Soma) neighbourhood — Wikimedia/Barney

Rise of the condos

familiar — home prices far beyond the affordability of most buyers, a frenzy of new construction and a shaky global economy. Concerns are mounting that the market is a bubble ready to burst.

Fears grew after condo sales slowed towards the end of last year, in the wake

of a slide in global stock markets. More than a third of national real estate experts believe San Francisco is already in bubble territory, according to a poll released in December by Zillow, the real estate website.

Yet developers are undeterred. More than 25,000 condos are in the pipeline, primarily targeting the top end of the market, says Patrick Carlisle, chief market analyst for Paragon, which tracks the market. "So far the onrush of new supply has not altered the balance [of supply and demand]," he says. "But there is certainly concern there is so much in the pipeline that it could saturate the market."

Last year buyers started moving in to Lumina, a complex in Soma being developed by Tishman Speyer featuring a mix of one-bedroom and three-bedroom condos. More than 400 units have already sold in the 656-apartment

development, where units start at \$1m.

While the skylines of Hong Kong and New York have been transformed by residential towers, San Francisco was slow to join the race. It is a compact city of less than 50 sq miles of steep hills, surrounded on three sides by water, which meant new development has, historically, been limited.

"San Francisco has been chronically under supplied [with condos] for a while," says Carl Shannon, senior managing director for Tishman Speyer.

The market received an inadvertent boost in 1989, when an earthquake destroyed portions of the double-deck Embarcadero freeway. The road was demolished, opening up areas for new development. The city also changed the zoning laws in Soma at the turn of the millennium, paving the way for taller buildings and higher densities.

Today a dozen towers like the Lumina soar over neighbourhoods that were once dominated by squat, four- to six-storey buildings. Streets are lined with coffee shops, upmarket restaurants and fashionable boutiques.

The majority of condo buyers are in



A branch of Sightglass Coffee in Soma — Michael O'Neil



Ritz-Carlton Residences, where a two-bed condo is priced \$1.98m



Aerial view of the city and the San Francisco-Oakland Bay Bridge — *©iStock*



target the top end of the market. Millennium Partners, which developed the Four Seasons and the 419-unit Millennium Tower, is expected to break ground this year on 706 Mission, a 45-storey tower with 148 condos that will average at a whopping 2,800 sq ft in size.

"We feel it meets an untapped market need," says Richard Baumert, partner in Millennium Partners.

Buyer interest remains strong, says Alan Mark, president of The Mark Company, a local real estate consultancy. There is still "very little inventory right now," he says. His company's parent, Pacific Union International, is marketing a two-bedroom condo in the Ritz-Carlton Residences for \$1.98m.

While the pipeline is jammed with projects, not all the developments will enter the market at the same time and some will probably never be built, due to shifts in the economy and corporate

BUYING GUIDE

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Annual property taxes are typically 1.38 per cent of the value. The annual tax on a \$1.2m condo is about \$16,000 a year

The average annual household income in San Francisco is almost \$105,000

San Francisco's annual violent crime rate is eight incidents per 1,000 residents, more than twice the US average, but lower than cities such as Chicago and Houston

Agents' fees typically add up to 5 per cent of the purchase price, split between the buyer's agent and the seller's agent. The commissions are usually paid by the seller

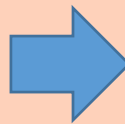
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\$1m A one-bedroom flat on a lower floor

\$5m A three-bedroom condominium

\$20m A two-storey penthouse with unobstructed bay views

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CGI of the living area in a condo at the Lumina, where units are priced from \$1m

their twenties or thirties and largely work in the local tech industries so can afford San Francisco's home prices. Overall, international buyers account for only about 5 per cent of sales in San Francisco, but they are playing a much larger role in the high-end condo market, agents say.

Gregg Lynn, an agent with Sotheby's International Realty, estimates 20 to 50 per cent of his customers are from overseas, including a growing number from Europe and South America.

The highest priced condo sold in San Francisco to date was a two-storey, 20,000 sq ft penthouse purchased in 2011 for \$28m by a resident of Hong Kong, says Lynn, who was the agent involved in the deal.

Yet there have been signs of cracks in the market. Affordable housing is a hot political topic, with many long-term residents complaining that they can

no longer afford to rent or buy in their own neighbourhoods.

In 400 Grove, a 54-unit project under construction in Hayes Valley, a 428 sq ft, one-bedroom flat is priced at more than \$500,000, not including parking (An off-site parking spot could cost between \$500 and \$700 a month). The developers are also offering a two-bedroom apartment with a large patio for \$2.09m.

Some buyers are put off by skyrocketing residents' fees charged to pay for swanky concierge services, fitness clubs and spas, says Jeffrey Marples, managing broker at Spinnaker Real Estate. The monthly charge for a one-bedroom apartment in the Four Seasons, priced at \$1.59m, is more than \$1,800 a month.

"A lot of people don't want the extra service," says Marples. "It doesn't make sense."

However, developers continue to



The SoMa StrEat Food Park in Soma — *©Soma Union Food Park*

fortunes, says Mark. Added to that, San Francisco remains a city where planning permission can be hard to come by.

Mark believes prices will continue to rise, as more millennials move to the city and seek to join the property market. "It's harder to find a place to live in San Francisco than it is to find a job," he says.