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2013 Economic Preview

Residential Real Estate: Balance tipping back to condos

Strato-rents push San Francisco renters to buy

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San Francisco Business Times

Apartments remain the darling for Bay Area housing development, but condo conversions and new construction are poised to make a comeback.

Sticker-shock-inducing rental rates — such as \$4,000 for a one-bedroom — in San Francisco have made outlying areas such as the Peninsula and the Interstate 680 corridor more attractive for renters and developers.

About 2,500 apartments are expected to hit the San Francisco market in 2013 with hundreds more under construction in cities such as Redwood City, Foster City, Dublin, Emeryville and Berkeley.

Next year, developers in Walnut Creek plan to break ground on numerous apartment projects such as Mill Creek Residential's 126 units at 1960 North Main St. and Laconia Development's 141 units at 1500 N. California Blvd.

"In Walnut Creek, we haven't seen the big rent increases that we've seen in other areas," said [David Fiore](#) of Mill Creek. "There's some room for growth."

Mill Creek recently broke ground on the 105-unit Mission Piers in San Francisco's Dogpatch neighborhood, which will probably start leasing in the first half of 2014, and Walnut Creek will finish in late 2014. Like many developers, Mill Creek projects rents to keep growing or at least remain steady by the time units hit the market, Fiore said.

Soaring apartment rents are also making buying a more palatable alternative. New for-sale housing, whether condo or single-family, is finally on the upswing. Homebuilders with units ready and on the market have seen brisk sales at their developments, and many say they can't

find enough development sites in the core Bay Area. It's a function not so much of a booming economy but the result of a lack of inventory across the board.

One of the main Bay Area beneficiaries of both the apartment and single-family resurgence has been the East Bay city of Dublin with more than 600 apartments under construction near its two BART stations and several hundred new for-sale houses available.

Many condo projects converted to apartments when the market cratered. Now, as rents rocket, developers are thinking about condos again.

It may seem counterintuitive, but while interest in condos in San Francisco is high, buyers have few options to choose from and many developers prefer building apartments hands down to condos.

A major impediment in the past few years has been lenders' aversion to financing condo projects, while looking more favorably on apartments, but that looks to be changing, according to [Paul Zeger](#) of Pacific Marketing Associates.

So far that's more true in San Francisco than elsewhere in the region.

The good thing about San Francisco is that there's a number of apartment properties being built that could be converted to for sale," Zeger said. "There's also a lot of people who converted for sale units to rental during the bust, so they are motivated to sell those units as prices go back up."

Key events in 2012

1: Bosa Development begins sales of Madrone, a 329-unit condo project in San Francisco's Mission Bay. It was the only major new condo project to hit the market in 2012. The project sold out in less than a year, making it, by some accounts, the fastest-selling San Francisco project ever. Success at Madrone has reignited the condo development engine in San Francisco and given confidence to developers such as Oyster Development and Brian Spiers, which broke ground on new condo projects this year.

2: Developers Brooks Street and **Shapell Industries** launched sales of luxury single-family homes at the Wilder development in Orinda — the first new home development to come to the market in the East Bay city in decades.

3: San Francisco welcomed the first wave of new apartments with Avalon Bay's 173-unit Ocean Avenue project, CityView's 196-unit Potrero Launch, and **Martin Building Co.'s** 96-unit ArcLight.

4: Condo projects such as the Pacific Cannery Lofts in West Oakland and a 110-unit phase of Bridgewater in Emeryville sold out their units. Both were projects that were completed just as the real estate crash was taking hold and hit some speed bumps along their selling paths.

5: [John Protopappas](#) of Madison Park Financial jumped into the pool as the only developer building a major apartment project in Oakland with 79 units at Bakery Lofts Three. He doesn't see much risk, just strong market fundamentals. Time will tell if he laughs all the way to the bank next year.

Person to watch: Seth Hamalian

Spearheaded infrastructure development in Mission Bay and handled real estate investing for **Farallon Capital Management**, made his first gamble on Oakland by buying a development parcel at 17th Street and Broadway in the heart of the city's thriving Uptown neighborhood. Hamalian is considering a six-story or 28-story apartment building. If he goes with the taller option, the project would be the first residential tower built in Oakland since the Ellington, which came on the market in 2009. A tower in Uptown would also solidify the neighborhood's pull for major investment.

Neighborhood to watch: Downtown Berkeley

The economic recession put a damper on development activity in downtown Berkeley, but the fog appears to be lifting. Last year, CityView, a [Henry Cisneros](#)-led firm, revived a dormant 143-unit former condo project as apartments. Thanks to a zoning change, new investors are looking at building in downtown, including Hill Street Realty LLC, which recently paid \$20 million for a 92,000-square-foot retail and office complex that could eventually be revamped for multi-family housing.

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