

Spike in condo sales may signal comeback

BY J.K. DINEEN
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San Francisco condo developers are seeing a sharp increase in sales as buyers rush in to take advantage of low interest rates and recession-friendly bargains that in many cases are 30 percent below original pricing.

At the 665-unit Infinity, developer Tishman Speyer has written 90 contracts in 90 days and is reportedly selling units for \$600,000 that were originally priced well above \$800,000. A few blocks east at the 114-unit Blu, Lennar and Malcolm Properties went from zero sales to eight units a month since slashing prices in February on two bedrooms from \$800,000 to \$600,000. Homes on Esprit Park and SoMa Grand are seeing more traffic and buyers than they have in over a year. Even TopVision's Candlestick Point, on the city's wind-swept southern outskirts, has sold nine units in the past four weeks — the same number as in all of 2008.

90
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 last 90 days
 at the Infinity.

"We wrote 10 contracts last week and will

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CONDOS: Buyers swoop in for bargain prices; resale market continues slumber

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probably do 10 contracts this week," said Tishman Speyer Managing Director Carl Shannon.

The 246-unit SoMa Grand on Mission Street is on pace to sell 12 units this month, according to Adam Chall, a partner with TMG Partners, which developed the tower with AGI Capital. The project is 75 percent sold out. Chall said they have cut prices some, but less than 20 percent because the SoMa Grand always positioned itself as a cheaper alternative to the downtown highrises.

"We are basically back to the pace where we were a year and a half ago before things slowed down," said Chall.

Leading the way

The spike in sales is both sweet and bitter for housing developers. On the bright side, it's gratifying to see that, even in a recession, demand still exists for high-end condos in San Francisco, something that is not the case in over-saturated markets like Miami, Phoenix and Las Vegas. But on the downside, that demand has been created by brutal price cuts. Prices at buildings like the Infinity, One Rincon Hill and Blu — under \$700 a square foot for some units — are well below development costs.



Shannon

"You are buying at values well below what justifies building new product," said Shannon.

Tishman Speyer started to cut prices in late 2008 and became even more aggressive in the first quarter of 2009 as the economy continued to weaken and the stock market swooned. The cuts set the tone for other projects like Blu, SoMa Grand and One Rincon Hill.

"I think they definitely led the market, especially the luxury market," said Adam Koval, editor of Socketsite, an online publication that reports on the San Francisco housing market. "People are walking into other sales offices and literally saying, 'This is what the Infinity is going to give me. What are you going to give me?'"

Chris Foley, principal of Polaris Group, which is doing sales for Homes On Esprit Park and Blu, said, "Tishman is the one who made the first move."

"Everyone else had to follow suit," he said. "They are the big dog."

The increase in new development sales comes at a time when the resale market is still weakening. Home prices across the San Francisco metropolitan region, which includes hard-hit areas of the East Bay, fell 31 percent from February 2008 to February 2009, the third-largest decline among areas tracked in the Case-Shiller Home Price Index, behind Phoenix and Las Vegas. In San Francisco proper, the median resale price declined by \$100,000, or 13 percent, since mid-2008, according to Polaris Group.

A shift in sentiment

Chall of TMG said he has seen a shift in attitude among buyers who were on the sidelines in late 2008 when SoMa Grand had months where no units sold.

"Before they said, 'Everybody is telling me I'd be crazy to buy now,'" said Chall. "You talk to the same people and they are saying, 'Everybody is telling me now is the time to buy.'"

Keith Tao, a manager in the medical device industry who raised his children in Danville but wanted a place in the city, said he walked into the Infinity in March "when the stock market was absolutely at its worst."

"The market was down 700 points that day — I knew it was a good time to look at condos," he said.

Tao, who grew up in San Francisco, had started looking at downtown condos beginning in 2006. Over several years, as condo markets crashed in many cities, and the subprime crisis started becoming more pronounced, he found San Francisco condo developers stubbornly clinging to peak prices.

"The agents were essentially obnoxious, particularly at some of the high-end places. They were arrogant. I walked away and said, 'This is something I can't afford and I'm not sure I want.'"

By March of this year he felt the attitudes would be different and he had become convinced that the Infinity offered the best location and highest quality con-

struction for the money. The day he went to the Infinity sales office, Tao brought his checkbook and his tax returns. He started negotiations "with a very low number."

"I thought they were going to turn around and laugh at me," said Tao. "The agent looked at the number, did a calculation and said, 'I think we might be able to make this work.'"

After some negotiation, the two parties agreed on a price that was less than \$550,000 for a one bedroom on the fourth floor of tower two overlooking the courtyard.

"I am very pleased," he said.

The first move-ins to Infinity's 300-unit second tower took place on April 18, and Shannon suggested that the market already may be starting to rebound. He said improvement in the capital markets and stock market gains since its March lows are together creating more optimism.

"We are seeing great traffic and we are not negotiating as hard as we were a couple of weeks ago," said Shannon.

Koval said the new pricing represents a "rational approach" for developers who have construction loans to pay off and are paying heavy HOA fees and taxes on hundreds of unsold units.

"The \$64,000 question is whether the market clearing price in 2009 is going to be below or above the market clearing price in 2010," he said.