



Condo market springs to life High tech, low rates boost sales

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San Francisco's rapidly dwindling new condo market is seeing the highest sales volume since before the great crash of 2008, as technology job growth and continued low interest rates pump life into the long-moribund market.

In 2011, the Millennium Tower at Mission and First streets sold 105 units for a total of \$160 million, a 32 percent increase over the \$109 million seen the previous year. And 2012 is shaping up to be even stronger: Already in the first six weeks of 2012, **Millennium Partners** logged \$30 million on 23 sales. The average price per square foot is about \$1,075, according to Managing Partner [Richard Baumert](#).

"The amount of time it takes to make a sale has diminished lately," said Baumert. "People are coming in and making a much quicker decision. We are seeing people come in and get into contract within a week."

At One Hawthorne St., on the other side of the south financial district, Jackson Pacific also had its strongest month — in January — since opening in early 2010. After averaging about \$4 million in sales a month over the second half of 2011, the project completed \$7.5 million in transactions. Since November 2011, 22 units have sold.

And the only new large, condo development currently under construction, Bosa Development's Madrone in Mission Bay, is also selling faster than expected. In the 211-unit Phase One of Madrone, Bosa has 90 units in contract and another 47 reserved. Bemí Jauhal of the Mark Co., who handles sales for Madrone, said they are averaging between 80 and 100 tours a week. "It's quite busy — I think all of us are a little shocked at how busy it is," she said.

About 65 to 70 percent of reservations have been converting to non-refundable contracts, according to [Dennis Serraglio](#), Bosa's vice president of development. Madrone, scheduled to open in July, is averaging 10 new contracts a week. Last month Bosa raised prices about 5 percent. "We were hoping to be 75 percent sold by the opening, but we are way ahead of that schedule," said Serraglio.

A dearth of new condos

The sharp increase in sales comes when San Francisco is seeing an unprecedented wave of rental housing construction, with more than 3,000 rental units under construction. But only a handful of small condo projects are going up.

“Apartments used to be the back-up strategy. Now every deal is an apartment deal, and the exit strategy is condos,” said [Paul Zeger](#) of Pacific Marketing Associates.

In the Mission district, JS Sullivan is building 32 units at 299 Valencia St. In the Dogpatch, R Group Development is nearing completion of the first 32 units of Millwheel, a planned 71-unit complex at 1275-1301 Indiana St., according to [Chris Foley](#) of **Polaris Group**, which is marketing both 299 Valencia and the Millwheel. And Oyster Development Corp. is expected to begin construction this spring on 1800 Van Ness, a 98-unit development planned for the northeast corner of Van Ness Avenue and Clay Street.

Meanwhile, the supply of new condos is evaporating quickly. One Hawthorne is 70 percent sold, with 55 units remaining, 35 of which are on the top five floors of the building and have not been released yet. Millennium is also about 70 percent sold, with 130 remaining out of a total of 419. One penthouse remains, a \$9.8 million unit on the 59th floor.

“We are really seeing the market pick up. I think buyers have realized San Francisco has seen the bottom and is on the upswing,” said [Leslie Bauer](#) of Paragon Real Estate and highrises.com. “I have taken clients out to show them a property one day and literally the following day two out of the five condos we see will be in contract. Buyers are definitely still demanding, but they are not able to get what they used to get.”

Outside of downtown, Pacific Marketing Associates is selling units at Esprit Park and 5800 Third St. in the Bayview. Esprit Park has 67 units selling for between \$700 and \$800 a square foot, 22 of which have sold over the last three months. The first phase of 5800 Third St. — 90 units — has seen 56 sales, although traffic has picked up since **Fresh & Easy** opened its grocery store in the complex and the Peruvian restaurant Limon opened.

While the typical buyer at Madrone and Millennium is a San Francisco resident between 40 and 60 years old who has bought more than one house, the Bayview project is attracting first-time homebuyers who face a difficult time obtaining a mortgage, according to [Paul Zeger](#), the president of Pacific Marketing.

“The challenge today is still financing,” said Zeger. “For every four deals you write, you can only close three of them. The banks work hard to find a reason not to lend to people.”

New towers still don't pencil

It's likely that the first wave of Condo 2.0 will be not be 30- or 40-story skyscrapers but low and mid-rise buildings like 1800 Van Ness, which are 30 percent cheaper to build. That is because the price point highrise condos are selling for these days is still not strong enough to justify new construction, according to developers. One Hawthorne, for example, is averaging about \$800 a square foot in sales, approximately 8 to 10 percent less than the all-in construction cost. Average prices need to rise about 20 percent before lenders will be comfortable financing new highrise condo buildings, according to a downtown developer who asked not to be named because he is currently negotiating a loan.

“You have to be able sell at 25 percent margin or nobody is going to finance it,” said the developer. “Prices would have to grow 8 percent a year over the next three years. If that happens for 18 months or two years, banks might buy the argument that it will continue.”

In Mission Bay, Bosa Development is able to keep building because it has a lower land cost basis than other developers and because the parking is not being built below-grade, which saves \$50,000 to \$60,000 a unit. Bosa plans to start site work in the fall on its next Mission Bay project, the 285-unit Lot 12. "It helps to be the only game in town," said Bosa's Serraglio.

Zeger said for now he doesn't see prices rising much because plenty of re-sale units in projects like One Rincon and the Infinity are coming on the market.

"The biggest source of inventory is the shadow inventory from all the people who bought in '04, '05, '06 and '07. That will keep prices from going crazy for the next year, but in the long run a couple of hundred units in Mission Bay is not going to meet demand in San Francisco when we have all this tech growth going on," Zeger said.

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