

**From the San Francisco Business Times:**

**<http://www.bizjournals.com/sanfrancisco/print-edition/2011/12/30/bay-area-rental-bloom-spawns-apartment.html>**

## **Residential Real Estate Preview 2012**

# **Bay Area rental bloom spawns apartment boom**

**Condo market to improve, but probably not by much**

**Premium content from San Francisco Business Times by Blanca Torres, Reporter**

Date: Friday, December 30, 2011, 3:00am PST

**Related:**

[Commercial Real Estate](#), [Residential Real Estate](#)



Blanca Torres

Reporter - *San Francisco Business Times*

[Email](#) | [Twitter](#)

On both sides of the Bay, apartment developers are in full swing building new market-rate rentals. In the last year developers figured out that while buying a home has lost its appeal, people still need places to live.

"Apartment development is fueled by really remarkable rent growth — close to 20 percent over the last 18 months in San Francisco," said [Oz Erickson](#), principal of the **Emerald Fund**. "There will definitely be lots of apartments coming online next

year. Is that too many? I think not.”

The Bay Area as a region has the lowest apartment vacancy since the dot-com boom a decade ago, according to a report from **CB Richard Ellis**. The report states that a variety of factors pushed vacancy down to 3.7 percent in the nine-county Bay Area during the third quarter: lack of new supply coming online in the last three years and steady population growth. The region added about 367,000 people between 2000 and 2010.

In San Francisco, major projects under construction include Emerald Fund’s 308-unit project at 333 Harrison St., AvalonBay’s 173-unit project at 1150 Ocean Ave., Trinity Properties’ 417-unit Trinity Plaza phase two at 1169 Market St., and Crescent Heights’ 750 apartments at 10th and Market streets.

Across the Bay, there are fewer projects coming out of the ground, but developers are planning hundreds of units that could start next year in cities like Walnut Creek, Lafayette and Dublin. Walnut Creek alone has more than 1,300 apartments in its pipeline.

A similar apartment boom has also taken hold on the Peninsula, where **Sares Regis Group** started construction on the 307-unit plaza apartments in Foster City and is looking to break ground on 132 units at 333 Main St. in Redwood City. Developers such as **Standard Pacific Homes**, Coastal Rim Properties and UDR, a real estate investment trust, are looking to build several large projects. Apartment inventory on the Peninsula also includes more than 450 units that were formerly on the market as condos.

As Erickson pointed out, rent growth is a major factor in apartment projects making financial sense and attracting investors.

Condos, on the other hand, remain in a slump. Most of the available inventory consists of projects that have been on the market for several years such as the Ellington, a 134-unit luxury highrise in Oakland’s Jack London Square. Emerald Fund was hired by a lender to reposition the project after a foreclosure.

This year, more than 27 units have sold compared with 19 in 2010 — not great, Erickson said, but at least the trend is going in the right direction.

### **Neighborhood to watch: Mid-market, San Francisco**

With Twitter fashioning a new headquarters, the dicey area is already the subject of a major makeover. Besides tech workers, a flood of new residents also looms on the horizon. As mentioned, Trinity Properties and Crescent Heights have started huge

projects, but other developers are looking at pumping up the pipeline with hundreds of multi-family units making for a future case study in urban renewal.

### **Company to watch: KB Home**

The term “new home starts” may seem so four years ago, but builder **KB Home** has beaten the odds and kept busy launching 10 new home developments in 2011. [Chris Apostolopoulos](#), Northern California president for KB Home, said the firm’s approach has been to grab infill sites in hot markets like Walnut Creek and Redwood Shores and to mix up its product types with detached and townhome-style units. Moving forward, the firm has several new sites under contract on the Peninsula and East Bay.

### **Key 2011 events**

- 1.** Miami-based Crescent Heights starts work on a 749-unit, \$200 million apartment building at 10th and Market streets that along with Trinity Properties’ 417-unit rental project at Eighth and Mission streets will bring 1,167 units to the Mid-Market neighborhood in San Francisco.
- 2.** The two largest condo projects — but still not large — to hit the market in San Francisco this past year were the 21-unit 788 Minna St. and the 26-unit 1840 Washington St. Next year’s class of new condo buildings will be bigger with **Bosa Development’s** 329-unit Madrone in Mission Bay and **Holliday Development’s** 198-unit Candlestick Heights scheduled to wrap up.
- 3.** Uptown Place emerges as the only new condo project to hit the market in Oakland in 2011 with prices starting at \$229,000 for a one-bedroom. The building’s address in the city’s trendy Uptown neighborhood could help attract buyers.
- 4. Wood Partners** started leasing Domain by Alta, a 264-unit apartment building at 1307 Jefferson St. in Oakland, in July as the only new apartments to hit the market in Oakland, helping invigorate a sleepy patch of downtown.
- 5. BRE Properties Inc.** paid \$48.75 million or \$325,000 per unit for the 150-unit Lafayette Highlands apartment building in Lafayette, illustrating that major investors are now looking outside of core urban markets for deals. The small city has a pipeline of more than 700 proposed apartment units.

Blanca Torres covers East Bay real estate for the San Francisco Business Times.