

From the **San Francisco Business Times**

:<http://www.bizjournals.com/sanfrancisco/print-edition/2012/04/27/condos-make-a-comeback.html>

Condos make a comeback

Signs of a recovery in long-dormant condo construction in San Francisco

Premium content from **San Francisco Business Times** by **J.K. Dineen**, Reporter

Date: Friday, April 27, 2012, 3:00am PDT

Related:

[Banking & Financial Services](#), [Commercial Real Estate](#), [Residential Real Estate](#)



[J.K. Dineen](#)

Reporter- San Francisco Business Times

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

Developers are laying the ground work for the next wave of condominium projects in San Francisco.

After three years in which rental apartments have dominated the housing landscape, developers — and more importantly lenders — are looking increasingly favorably at for-sale condos. In mid April, Wells Fargo completed a construction loan to developer [Brian Spiers](#) and Canyon Johnson Advisors to build a \$33.5 million, 115 unit project at 1998 Market St.

At 1800 Van Ness Ave., Oyster Development has picked a lender for a \$30 million, 98-unit development, according to Oyster Development President [Dean Givas](#), who declined to identify the lender because the loan isn't due to close for several months. And Principle Global Investors has acquired a site entitled for 299-unit phase two of the One Rincon Hill development for \$29.75 million, a sale that should finally revive construction of the long-delayed second tower at the entrance to the Bay Bridge.

While the three projects totaling about 500 units are a drop in the bucket compared with the 3,000 rental apartments under construction, it does suggest that condominiums are no longer the forbidden fruit they were following the real estate collapse of 2008 to 2011.

"Twelve months ago if you had said 'condo loan' to a bank they would have laughed at you," said [Chris Foley](#) of the Polaris Group, a San Francisco-based condo sales and marketing group.

"Nobody believed there was a condo exit."

The revived interest in condo construction comes as the current inventory of new San Francisco units is rapidly dwindling. The two largest projects on the market have a combined 105 units available. The 165-unit One Hawthorne is now 80 percent sold, with about 30 units remaining. The first phase of Bosa Development's Madrone in Mission Bay is now 65 percent sold, with 130 units in contract out of 205. "It shocks me how well it is going — we are selling 5 to 7 a week on average (at Madrone)," said [Alan Mark](#) of the Mark Co., which is marketing both Madrone and One Hawthorne.

The largest project completed in 2011 — the 26-unit project at 1840 Washington — sold 22 units in two months at an average of more than \$1,000 a square foot, according to [Callum Hutchins](#) of Sotheby's International Realty, who is handling sales for developer [Tony Chan](#). Hutchins said the brisk sales at 1840 Washington has become Exhibit A for developers sitting on entitled sites. Developers who have toured the building even brought along perspective construction lenders to demonstrate how strong the market is for well-located condos. "The interest in that property from other developers has been incredible," said Hutchins.

The migration to condo construction may be partly driven by the fact that rents in San Francisco are going through the roof, creating an environment where buying may be cheaper than renting in some cases. During the first three months of this year, the average asking price for San Francisco rentals was \$2,663 a month, a 15.8 percent jump from \$2,299 in the first quarter of 2011, according to RealFacts, a Novato market-data firm. "With rents going up, we see people whose rents are increasing and want to buy," said Mark. "People feel prices are still great, interest rates are low, and it's very hard to find a rental."

Oyster Development President [Dean Givas](#) said the lending market remains tough for condo construction.

"Lenders are looking at condo deals, but on a selective basis — it's highly specific to the project, location and sponsor," said Givas. "It's premature to say lenders are jumping back into the condo market. It's still no walk in the park."

While debt is still hard to come by lenders are willing to take a chance on projects like 1998 Market St. and 1800 Van Ness — infill construction in established San Francisco neighborhoods where land is hard to come by, said [John Manning](#), managing director of Jones Lang LaSalle's real estate investment banking group. And once those projects are under construction, he expects other lenders to be looking for a piece of the action.

"The deals seem to have a lot of merit, and the first guys coming out of the ground are going to beat the market and they are going to make a killing," said Manning. "Looking forward, we anticipate that the market is going to be materially more liquid in the next three to six months."

In 2014, Foley anticipates that there will be fewer than 200 new condos on the market in a market that typically absorbs 800 to 1,000 new units each year. The Spiers/Canyon Johnson Market Street project is slated for completion in October of 2013, 1800 Van Ness a few months into 2014, and the second Rincon phase in fall of 2014. While the real estate investment trusts will hold on to their development sites, Foley thinks some smaller apartment developers will end up selling to condo builders.

Oz Erickson of the Emerald Fund, who is building a 326-unit apartment building at 333 Harrison St., said that lenders are still not ready to bankroll a development that doesn't also work as rentals if necessary. "I have not heard of any major lender making a loan for a project that doesn't pencil as an apartment project — it has to have coverage," he said. "They are still doing loans which must be supported by income from apartments, but they are definitely contemplating a condo sales program."

He added: "The big problem still remains the amount of recourse that anybody has to put up in order to get a construction loan — I have not heard of any non-recourse construction loans."

J.K. Dineen covers real estate for the San Francisco Business Times.