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Peninsula Structures

Peninsula housing: If you build it, they will rent

Developers rush to break ground on rental projects

Premium content from San Francisco Business Times - by J.K. Dineen

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A multifamily housing boom is taking shape on the Peninsula as developers rush to break ground and investors circle like vultures over struggling condo deals.

On the south side of Highway 92 in Foster City, **Sares Regis Group** has started construction on the \$60 million, 307-unit Plaza apartment development, the first phase of the 20-acre Pilgrim-Triton project. Six miles down Highway 101 in Redwood City, the same developer is hoping to break ground by December on 333 Main St., a \$20 million, 132-unit project. Meanwhile, at 1080 South Amphlett Blvd. in San Mateo, **Standard Pacific Homes** is moving ahead with 74 units at the former San Mateo County Times property; Coastal Rim Properties is looking to construct 197 rental units at 220 West 20th Ave.; and the real estate investment trust **UDR** is in early planning stages on 228 apartments at 3204 Case de Campo, a 4-acre site which currently has 127 units.

The capital markets — real estate investment trusts, pension funds, life insurance companies, and banks — have become increasingly eager to invest in rental housing construction in one of the few regions of the country that is seeing positive job growth. That is quite a contrast to 2009 and the first half of 2010, when construction financing was nearly impossible to obtain for any sort of housing.

"It has been a crescendo over the last 18 months," said **Drew Hudacek**, chief investment officer for development at Sares Regis. "The capital markets have warmed up from ice cold

18 months ago to white-hot today. That is what has turned the spigot back on.”

Hudacek is quick to point out that investors are only targeting a few markets — the usual gateway regions of the Bay Area, New York, Boston, Seattle, and Washington D.C. — and that makes it even more competitive for those looking to plow money into rental housing in those places. In the second quarter rents in San Mateo County were up 9.3 percent over a year ago to a monthly average of \$1,800, according to Novato-based **RealFacts**. Many investors are expecting rents to jump 5 percent annually over the next five years.

“There are just a few markets with job-growth projection and rent-growth projection and the Bay Area is at the top of everybody’s list,” he said. “Capital is crawling all over themselves to get into deals in the Bay Area.”

The condo conversion question

The apartment REITs and other investors are also targeting condo projects for conversion to apartments.

In July, the luxury apartment developer **Archstone** swept in and bought Grand Luxe Peninsula in San Bruno for \$80 million. Archstone will convert the 187-unit condo project to apartments and rename it the Luxury Collection at Archstone San Bruno. Meanwhile San Diego-based Pacifica Cos. paid \$16.3 million for Pacific Place, a 72-unit broken condo deal at 2665 Geneva Ave. in Daly City. Pacifica considered condos but ended up renting the property, which is across the street from Cow Palace.

Another Daly City development may be going to the condo-to-apartment route. At 88 Hillside in Daly City, developer **OliverMcMillan** is just wrapping up a renovation and ramping up sales offices on a 95-unit development that it bought out of foreclosure. While OliverMcMillan would not comment on its plans, sources at the company confirmed that they have received heavy interest from apartment REITs and other multifamily investors.

“You are looking at 450 units on the Peninsula that just went rental that were supposed to be for sale,” said **Chris Foley** of the **Polaris Group**, which does marketing and sale of new housing. “That’s the story: everything is going rental.”

The plethora of apartment buildings in the works is partly driven by the severe lack of rental housing built on the Peninsula during the last eight years. Most of the newest apartment complexes in the region were built between 1998 and 2000. There was Archstone San Mateo, Marlin Cover in Foster City, and two projects by **Prometheus Real Estate Group**: the Miramar apartments in Foster City and the Metropolitan in downtown San Mateo. Since then, the multi-phased Crossing development in San Bruno has been the only major rental development to spring up.

“Ten years is an eternity in this business,” said Hudacek. “Tastes have changed, amenities have changed. By the time we open our new projects in 2013, tastes will be noticeably

different. And people tend to pay a premium for new projects.”

Keeping the home-ownership dream alive

But the few brave developers who are selling new homes in San Mateo County insist that the market is not as bad as some make it out to be.

Over the past year in Redwood Shores, **KB Homes** has sold all but 24 units in the 156 townhouse development the Preserve. The project, at 202 Whidbey Lane, covers about 12 acres and offers housing from \$600,000 to \$800,000. **Chris Apostolopoulos**, president of KB Home’s Northern California division, called the Preserve “the best-selling project in Northern California.”

“Sales are strong and demand is high,” said Apostolopoulos. “We have been raising prices on that project pretty steadily throughout the development.”

And KB Homes has no plans to stop building on the Peninsula. Apostolopoulos said the company has five pieces of land under contract between Daly City and San Jose, but declined to identify them because none of the transactions have closed.

He said the type of land KB Homes covets — suitable for townhouses or detached single-family — rarely put his company in direct competition with the multifamily builders. And he said the rapid speed with which a wood-frame builder like KB Homes can erect housing put them at a competitive advantage. The typical podium, mid-rise apartment building takes two years to construct; a KB Homes or Lennar or **Toll Brothers** can put up townhouses in less than six months.

“We are nearly three times faster in delivering product to the consumer than the apartment guys,” said Apostolopoulos. “That gives us a more accurate window into the consumer and the market. In two years, the time it takes to bring an apartment building to market, the economy will be in a very different place.”

Paul Powers, president of the Pauls Corp., is another builder who believes the for-sale market works assuming location and pricing are competitive. The Pauls Corp. has started construction on the first 14 homes at One Marina, a 231-unit project at Redwood Shores. The sales office will open in October.

“I think in Southern San Mateo County and northern Santa Clara County there is reasonably robust demand,” he said. “There is actually job growth.”

Prices at One Marina will range from the \$400,000s to the \$700,000s.

“Have prices reset? Absolutely,” he said. “But we think there is good demand at those prices.”

But Hudacek of Seres Regis, which does both for-sale and apartment development, stressed

that multifamily has the definite upper hand at the moment.

“The way financing markets are right now, if I see a housing site that is low- or medium-density, it could be condo. If it’s high density, it’s a given that it’s an apartment deal,” he said.