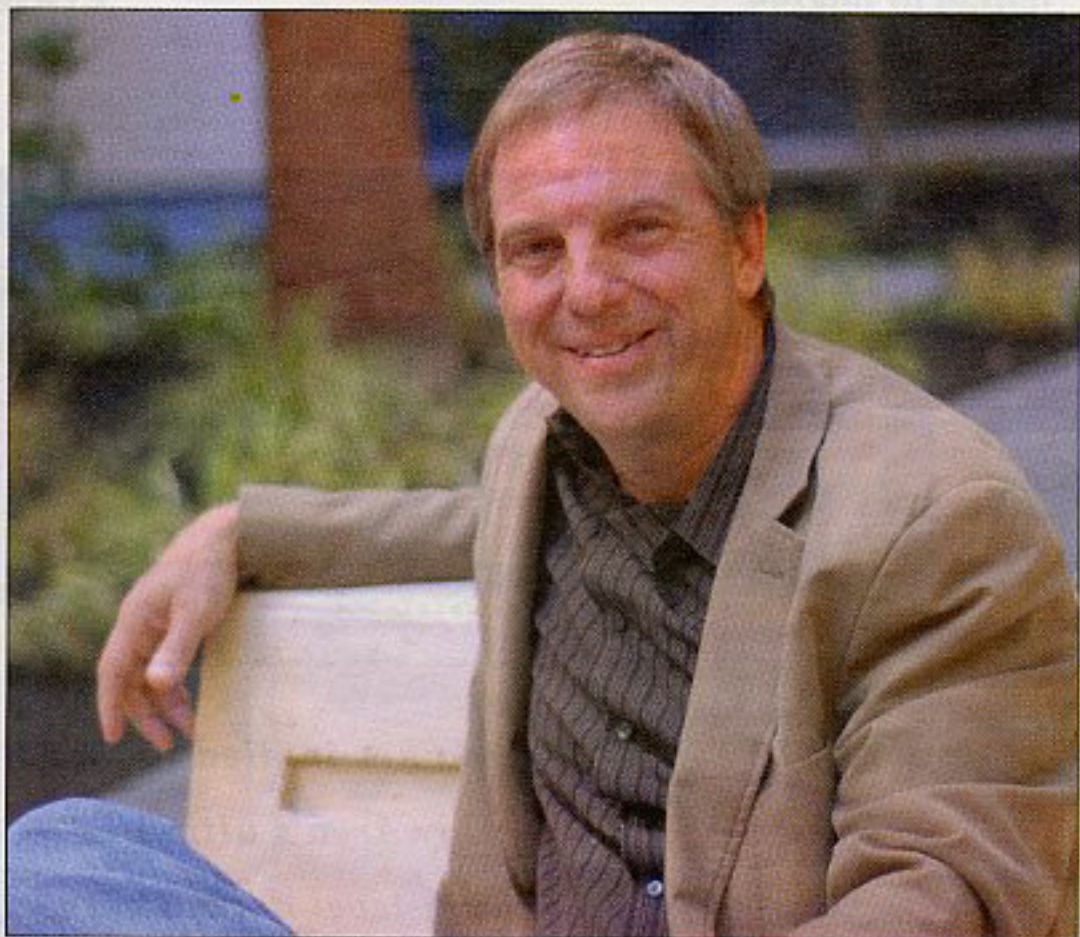


"You have to create a compelling reason for people to buy now," says developer Holliday.



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RESIDENTIAL REAL ESTATE

There's plenty of supply, but buyers aren't getting loans

BY BLANCA TORRES
San Francisco Business Times

One way to look at the future of residential real estate is in terms of the classic supply and demand dynamic, except that those two factors are unlike anything industry veterans have ever seen.

On the supply side, developers in both San Francisco and Oakland brought hundreds of condos to market and watched as buyers decided to pass. Developers of luxury units thought their potential buyers would be isolated from the economic downturn. As for demand, even with developers slashing prices, many potential buyers either can't secure a loan or are waiting until they're sure the market has truly hit bottom.

So what's a residential developer to do? Many have slashed prices or tried to soften the financial blow by converting units to rentals — a trend that will probably accelerate in the new year unless home sales pick up again. Area developments going rental include Anka Property Group's 17-story Argenta tower and portions of Signature Properties' 288 Third St. and Broadway Grand in Oakland, and Meritage Metropolitan Living's Jade. Some developers see leasing condos as a way to soften their losses. They can leave a building vacant or mostly vacant on the for-sale market or they can lease units and recoup some revenue, even if it doesn't cover their holding costs.

Prices for new homes have fallen at the same time as hundreds of foreclosed homes hit the market. Jon Haveman of Beacon Economics predicts housing prices in the East Bay will continue to drop for the next three years — by about 40 percent. Prices in San Francisco, which have held steady despite the downturn, have softened about 16 percent in 2008 and will likely continue to fall in 2009.

The Mark Co., a real estate research and marketing firm, estimates that Oakland and Emeryville have about 1,300 to 1,400 market-rate condos available with more than 500 units on the way. More developments are expected to come online early next year including the

134-unit Ellington, a luxury high-rise near Jack London Square in Oakland, and BayRock Residential's Oak Walk 62-unit mixed-use development in Emeryville.

A report from Polaris Group, a real estate research and marketing firm, estimates that San Francisco has about 1,000 condos available and at least another 600 under construction, but the market has shown a steep decline in the past three months. The condo resale rate in San Francisco is down by about 35 percent and the number of listings has more than doubled compared with a year ago.

Prices for condo resales are down by about \$100,000 to about \$680,000 compared with the market peak in July, according to Polaris. The similar drop is also happening in Oakland, where average condo resale prices have fell 31 percent in three months to \$361,480 in September from \$520,500 in July, according to Mark Co.

Residential developers are also concerned about commercial properties becoming distressed. One developer, John Protopappas of Madison Park Financial Corp., has begun raising a fund to take over properties that go under water. Some say the carnage in the commercial sector won't mirror what happened with single-family homes if lenders and borrowers can work out deals since many banks are not equipped or interested in taking over commercial properties.

The main question many housing developers are asking, however, is how and when are vacant units, both condos and foreclosures, going to be absorbed into the market?

Developer Rick Holliday continues to look for buyers for his Pacific Cannery Lofts, a 163-unit rehabilitation of a former cannery in West Oakland that he put on the market last September. His hope is the federal government creates a program to stimulate mortgage lending to homebuyers or some other factor pushes lenders to free up credit for mortgages.

"The way the housing market stabilizes best is for existing inventory to move," Holliday said. "You have to create a compelling reason for people to buy now."