

S.F.'s diverse real estate frenzy expected to last

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How much hotter is the San Francisco [real estate](#) market getting? Let us count the ways.

-- **Office buildings:** The 33-story tower at **555 Mission St.** is in escrow. Reported price: \$450 million. That's about \$800 per square foot - the highest figure since 2007, when **Morgan Stanley** bought **One Market Plaza** for \$925 per square foot. The buyer: a German mutual fund called **Union Investment**.

The seller is New York's **Tishman Speyer**, which as we noted last month paid \$41 million in cash for a parking lot at Howard and First streets on which a 10-story, 286,000-square-foot office building is going up.

Over the road at Second and Howard, another Tishman-owned development is under way: a 27-story, 452,000-square-foot high-rise, which like its neighbor is aimed at tech tenants, whose appetite for office space in San Francisco seems bottomless.

Both developments are "spec," meaning built from the ground up with no signed tenants, and both are partly funded by **JPMorgan Chase Asset Management**, which bought a majority stake in **China Basin Landing** in January for \$415 million.

"This market feels like it's going to last for a very long time," said **Daniel Cressman**, executive managing director of **Newmark Knight Frank Cornish & Carey Commercial** in San Francisco. Though primarily tech driven, "this one has more depth than previous ones, like we had with the dot-com bubble. The companies taking and looking for space have much more diversity."

-- **Apartment buildings:** This month, **Grosvenor Suites**, a 19-story, 205-unit high-rise atop Nob Hill, was bought by San Francisco's **Friedkin Realty Group** and **Bridge Capital Partners** of Larkspur for \$81.5 million. Apart from Parkmerced, a brokered deal involving an apartment building of that size hasn't been seen since 1996, said **Stephen Pugh**, managing director of **Alain Pinel Realtors** investment group in San Francisco, which represented the seller.

"The offering attracted private-equity and institutional investors from around the country, and the bidding was competitive," noted **GlobeSt.com**, an industry website.

With the change in ownership comes a change in Grosvenor Suites' function - from daily and short-term

corporate **rentals** (it was previously marketed as a hotel) to long-term, multifamily rentals, complete with a multimillion-dollar renovation. Projected rent for a one-bedroom, I was told by another real estate source: \$3,300.

"It's the exuberance of the rental market," Pugh said. "We're getting ready to take to market a 126-unit building near Golden Gate Park, and I'm sure many of the same private-equity groups and institutional investors will be competing."

Such exuberance is playing out elsewhere. In February, **Prado Group**, a San Francisco real estate development and asset management company, acquired the **University of the Pacific's Arthur A. Dugoni School of Dentistry** building on Post Street and is converting it to market-rate apartments.

"Supply and demand is totally out of whack. Any multifamily building coming on the market is attracting up to 20 offers," said **Lawrence Garvin** of San Francisco's **Paragon Real Estate Group**, who represented Grosvenor Suites' buyers.

-- **Condominiums:** In January, the median price of condominiums sold in San Francisco was a little above \$600,000. In April, the median price had grown to \$680,000, according to figures from the **Pacific Marketing Associates**, a real estate consultancy and management company.

Down in the Bayview, sales of condominiums in the **5800 Third St.** complex are soaring. Three-quarters of the 137 units, priced from \$300,000 to \$500,000, have been sold, 28 of them in the past seven weeks.

Not only are prices of existing condominiums recovering to prerecession heights, new complexes are springing up, like **299 Valencia**, a 36-unit building in the Mission District that is already 60 percent sold, despite the fact it hasn't completed construction yet, according to **SocketSite. MillwheelsSF**, a 32-unit complex under construction in the Dogpatch neighborhood, is pricing its three-bedroom, two-bath units from \$719,000 to \$825,000. I'm told ground will be broken "very soon" on a second, 299-unit condominium tower at **One Rincon Hill**.

"We've seen tremendous improvement since the beginning of the year," said **Paul Zeger**, CEO of **Pacific Marketing Associates**. "Interest rates are low, and consumer confidence is up. And you could literally own a condo on Third Street cheaper than renting one in most of the city."

For less tony neighborhoods, like the Bayview, with the Third Street light rail providing easy access to downtown, the complex symbolizes a rebirth of sorts.

"You can start to feel it gaining traction, with middle-class buyers moving into a community that had been hollowed out," said **Rick Holliday**, president of Oakland's **Holliday Development**, which built 5800 Third St. It's great to watch it come back."

-- **Mixed use:** On Friday, San Francisco's **Strada Investment Group** announced plans to build a \$20 million project at Mission Bay, featuring residential and retail units, a park and, last but not least, a hotel.

Details of the deal were not disclosed, except that **BlackRock**, the world's largest money manager, is Strada's chief partner in the development. The 3-acre area was zoned for a hotel by the city several years ago. But it won't just be a hotel for Mission Bay, said **Michael Cohen**, a principal of the Strada group, "it will be a hotel for South of Market." More reason for tech companies and others to set up in the area.

Couple this with the green light the City Planning Department gave last week to as many as six new, mixed-use high-rises adjacent to the new Transbay Terminal, and we would appear to have a burgeoning commercial real estate market - barring some future economic catastrophe.

"I think all these developments reflect a maturing, a greater financial diversity in the makeup of San Francisco," Cressman said, "which is very good for the market."

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