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## The New Housing Boom Former industrial areas draw developers to San Francisco

Jeannie Matteucci

Once, the most common sound in San Francisco was the clanging of cable cars. Nowadays, the city's atmosphere is more likely to be punctuated by the rat-a-tat-tat of jackhammers and the buzz of power drills.

There's no doubt about it: The city of San Francisco is in the middle of a building boom -- of new homes, not office buildings.

New housing has been scarce in San Francisco, where little vacant land remains and construction costs are high. And, while new detached houses still are rare, lofts, townhouses and condos are going up in parts of the city that traditionally haven't been considered residential -- especially South of Market, Potrero Hill and the newly developed South Beach area.

One catalyst for the residential building boom was construction of the 601 Fourth Street Lofts project in 1990: an old warehouse that was converted into 85 lofts. When they sold immediately, developers smelled opportunity.

The upbeat economy also has played a large part in the housing boom.

"At the end of the '80s, it was difficult for people to get funding for anything," explains Gerald Green, director of planning for the city of San Francisco. "But in the beginning of the '90s, there was a loosening of the financial belt."

At the same time, Bay Area rents began to climb, making expensive housing construction worth pursuing. Because lots in established residential areas are practically nonexistent, developers began to focus on remodeling old buildings in industrial areas.

From 1987 to October of 1997, 1,100 new units were created by converting older buildings, Green says. Another 1,900 new units came about as a result of new construction -- on space created by teardowns.

Currently, several residential housing projects are under way. One of the largest is the Marquee Lofts at 1000 Van Ness Ave., formerly the site of an automobile dealership, which will have 53 one- and two-level residential loft condominiums. This development will share a building with a fitness center, a movie theater complex, a

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restaurant and a gourmet market. The project is scheduled for completion in late spring or early summer.

Like the Marquee project, most other construction in San Francisco involves large projects converting industrial space to multiunit residential developments, Green says.

“In this town, in order to build these days,” he says, “it’s very unlikely you’re going to build on vacant land.”

## FRIENDLY CITY HALL

Developers credit part of the new construction to the new development-friendly administration at City Hall, headed by Mayor Willie Brown.

“Mayor Brown has tried to streamline city government in regard particularly to the planning department,” says P. J. Johnston, a spokesman for the mayor’s office. “I’m not surprised in the least that developers are at least finding it to be a quicker and more efficient process.”

Green, a 13-year veteran of the planning department, agrees. “Under Mayor Brown,” he says, “we have had more cooperation between the departments so that helps speed the process along.”

While the economy has helped developers get funding for housing, it also has heated up the city’s rental market. The higher rents have increased the demand for housing to purchase. Why spend so much money on rent, many residents reason, when a monthly mortgage payment is not much more?

## REVERSE COMMUTERS

And finally, San Francisco is experiencing somewhat of a reverse commute trend. Many buyers in Silicon Valley, where housing prices have soared 15 to 20 percent in the past year, are checking out houses in the city.

“I think two things came together: the growth of the multimedia industry and the job growth of Silicon Valley,” says Rick Holliday, a developer and president of Holliday Development in San Francisco, which has been behind many of the high-end loft projects in San Francisco such as the Clocktower Lofts and the 355 Bryant Street Lofts.

This theory also rings true for developer Cindi Brooks, partner of Thompson-Brooks Inc. of San Francisco, a construction and development company.

“I really think it’s Silicon Valley and the economy,” says Brooks. “People have more money to spend.”

Brooks was the developer for the Cape Horn Lofts, a residential development carved out of a historic warehouse on Delancey Street. The project, completed last summer, features 16 loft-type condominiums with maple hardwood floors, exposed brick, and wood interiors

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with stainless steel sinks and fixtures.

The project hit the market running. All 16 units sold within two weeks -- from the low \$200,000s to the mid \$500,000s.

"We went on the market on a Saturday and Sunday in August," recalls Brooks, "and we had offers on every unit by Tuesday." Their South Beach location makes these lofts ideal for people who work in the nearby Financial District.

"South Beach can pretty much be considered a neighborhood at this point," says Barbara Amato, acting project manager for the Rincon Point-South Beach redevelopment project that plans 2,500 to 3,000 new mixed-income housing units. About 2,000 units are already built, she says; the rest should be done by 2006.

This up-and-coming area has attracted six new cafes and restaurants during the past few years. And next door, Amato adds, in the area north of Mission Bay (around King and Fourth streets), an additional 3,000 housing units are planned for completion by 2007.

## THE PROBLEMS

Building new homes in San Francisco does pose challenges to developers and builders.

"The biggest thing is finding new land," says Holliday. Some parts of the city, such as the Richmond and Sunset districts, are already filled with homes.

Even if you find the land, you have to get a permit to build -- and there are always neighbors worried about congestion who are ready to fight any new housing. Also, the city's busy planning and building departments can be difficult to deal with.

But that's just the beginning of the headaches for developers who want to build in space-challenged San Francisco.

"You're always dealing with tight property, and your construction costs are higher," says Holliday. Since builders aren't working with vast amounts of land, he adds, "usually you have to build a development that is vertical."

These constrictions mean that developers are not able to build in phases, constructing a few homes and selling them before completing the rest of the development. Building in phases makes getting financing easier; lenders see a quicker return on their investment and developers can manage the inventory better.

"Getting financed in Fresno is a lot easier than here," Holliday says, citing lower construction costs.

And then there is the NIMBY aspect. Current residents

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are often concerned when loft projects are planned for their neighborhood, says Gail Andersen, co-owner of Lofts Unlimited of San Francisco, a real estate agency that specializes in lofts.

“There are residents who worry their rents will go up,” she explains. And some industrial business owners are concerned that their new neighbors will start to complain about the noise of their businesses.

Even with these drawbacks, developers continue to search for new parts of the city to develop.

What will be the next hot area?

Michael Murphy, a real estate agent with Zephyr Realty of San Francisco, would put his money on the Inner Mission.

“There’s a lot of artists who live there,” says Murphy, “and a lot of warehouses.”

In fact, he believes construction will go on if the economy holds.

“I think that the new building will continue as long as the demand is there,” says Murphy. “The housing shortage is so bad in San Francisco, they’re basically selling them as fast as they can build them.”

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## **HOME BUYING TAKES OFF IN S.F.**

A good apartment has become increasingly difficult to find in San Francisco. If you do find one, you will pay dearly for it. It’s not uncommon to spend \$1,000 for a small studio or \$1,200 for a one-bedroom apartment.

The high rents, combined with low interest rates and a strong economy, make buying a home in San Francisco more realistic for a growing number of buyers.

“It’s a very good time to buy a house,” confirms Ken Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at UC Berkeley. Interest rates are low, he says, and job growth has helped keep the economy moving.

“There are a lot of young people who can buy now,” adds Rosen. “The ratio of total housing cost to their income is the best it’s been in a long time.”

Many of these younger buyers are just the type who would consider buying a loft or condo in the city rather than a tract home in the suburbs.

Also, buying a brand-new home that doesn’t require remodeling appeals to many busy, career-minded young homebuyers who want to spend their weekends hiking and dining out, not replastering a wall.

Most homebuyers look for three basic amenities when choosing a new house, says Michael Murphy, a real estate agent with Zephyr Real Estate in San Francisco: "They look at the location, the scale of the property and the light. The new developments that have been successful have tried to incorporate these three things into their plan."

While many of the new loft and condominium projects in San Francisco may not have large square footage, they do offer open floor plans and large master suites -- amenities that appeal to young buyers who often telecommute and spend more time at home.

## **MORE SPACE**

For example, consider Michael Frink, a single, 37-year-old real estate consultant who just bought a new two-level, one-bedroom loft in the Cape Horn Lofts.

"I lived in Pacific Heights and while it's a lovely neighborhood, unless you're Ann Getty with a 15,000-square-foot home, it's not comfortable over there," explains Frink. "I wanted more space." Frink, who has lived in his new 1,000-square-foot loft for almost two months, feels he's made the right decision.

"I really like it here," says Frink, who works out of his home. "I like the neighbors." He also likes the fact that they're closer to his age than his previous neighbors.

Plus, Frink says, his condo is a good investment. "I don't think \$400,000 would buy anything in Pacific Heights," he says. Another plus: "It's very quiet down here on the weekends," says Frink. "It's nice to be able to walk on the Embarcadero."

David McKay, 38, a director of product marketing for Aurum Software in Santa Clara, was one of the first residents to move into the 65-unit Potrero Heights loft project built in 1995 at the intersection of Arkansas and 18th streets in San Francisco.

Although McKay has previously owned detached homes, the loft was his first purchase in California. His three-level home features high ceilings, a walk-out garden area and inviting city views.

## **LIFE IN THE BIG CITY**

"When I first moved here, I lived in an apartment in Foster City," recalls McKay. He always intended to go to the city for dinner or various events, but it never seemed worth the drive. "I would make all these plans and always end up bailing. So I decided I needed to immerse myself in the city."

His loft-condominium compares favorably with properties he's seen in other parts of the Bay Area. Condos in the project run from \$210,000 to \$300,000.

"I found by moving into a complex like this, it was cheaper than buying some \$400,000 or \$500,000 house."

But city living may not be for everyone. Families, for example, don't seem to be attracted to the development. "I think there was only one family who moved in who had children," recalls Holliday.

"This is a dense urban environment," says McKay. "You have people on each side of the wall." But, he adds, "There's a lot to be said for this type of environment. We have beautiful interior courtyards, and there are views of the city and of the bridges."

McKay is representative of the "multimedia, Silicon Valley type of person" that made up a third to one-half of the buyers of this development, says Rick Holliday, president of Holliday Development in San Francisco. "We also had some empty nesters who moved in and traded down. People who know the city know Potrero is an interesting place, and it's great because it's so close to (Highway) 280."

Life in the big city is a big draw for buyers in the suburbs, says Karen Duggan, a real estate agent with McGuire Real Estate in San Francisco who sold lofts in the Cape Horn Lofts in South Beach.

"They wanted to be in the city for cultural events," explains Duggan. "They had been living in Marin and on the Peninsula."

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## **BUILDERS FLOCKING TO EMERYVILLE**

Emeryville, an area that hasn't had a lot of residential housing, also is experiencing a building boom.

"That's the new frontier for value," says Rick Holliday, president of Holliday Development in San Francisco, who expects to finish a new 140-unit project in Emeryville in about eight months. Called the Emeryville Warehouse Lofts, the units will be similar in style to the Clocktower Lofts that Holliday developed in San Francisco.

"We'll have a product for \$100,000 less than the same product here in the city," he says. The Park Avenue area of Emeryville where the project is going up is "as dead as a doornail today," he says, but several new developments are planned for the neighborhood.

The Emeryville Warehouse Lofts are the kind of project the city needs to revitalize its downtown, says Claudia Cappio, director of planning and building for the city of Emeryville. "His project is one example of the kind of project we want to come into the area. It's in the historic center of Emeryville, and there are some beautiful brick buildings that are being redone."

There are two other large residential projects in the works in Emeryville: the Avalon, which will include 70 units of senior housing on San Pablo Avenue; and Bridge Court, which will provide 220 new rental units in four buildings on 40th Street.

Like San Francisco, Emeryville is very open to the idea of building new residential units in parts of town that haven't been traditionally residential.

"Emeryville is willing to mix around land use patterns," confirms Cappio. While she admits that housing in an industrial area can cause conflicts (such as residents complaining about noise and trucks), she believes the advantages outweigh the disadvantages.

Emeryville only has 7,000 residents, but 20,000 workers commute Emeryville for jobs, so there is a definite demand for new housing. Emeryville's proximity to San Francisco also makes it attractive to workers who commute there.

Developers are attracted to Emeryville because of its land availability.

"The amount of acreage to be redeveloped is not split up into little pieces," explains Cappio. "You can't say that about many communities in the Bay Area."

In addition to new residential housing, the city has approved plans for two new hotels and a large office building by the Amtrak station.

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## **LOFT DEVELOPMENTS UNDER CONSTRUCTION**

New housing in San Francisco is selling as fast as it is being built. Here are a few developments planned for completion this year. Others are in initial phases, so details are unavailable. -- 2080 Third Street Lofts, 2080 Third St., San Francisco

Developers: Redmond Lyons and Michael Spaer of RAM Development Inc.

Planned: Ten two-story artist live/ work lofts, from 700 to 1,625 square feet. Located near the Potrero Hill shopping district, these units feature a loft bedroom, 1 1/2 or two bathrooms and a deeded garage space.

Prices: from \$250,000 to \$385,000

Completion date: scheduled for March 1998 -- The Marquee Lofts, 1000 Van Ness Ave. (at O'Farrell Street), San Francisco

Developer: Rick Holliday of Holliday Development

Planned: 53 one- and two-bedroom residential loft condominiums, ranging from 634 to 2,033 square feet. Located on the busy Van Ness corridor, these residential lofts will share a building with a fitness center, movie theaters, a restaurant and a gourmet market.

Prices: not available

Completion date: late spring -- The Stagehouse Lofts, 465 10th St. (near Harrison Street), San Francisco  
Developer: George Hauser, Hauser Architects

Planned: 18 two-level live/work lofts in a renovated historic building with downtown city views. These one-bedroom/one-bath and two- bedroom/two-bath units will have private patios.

Prices: from \$300,000 to \$675,000

Completion date: end of March -- The Emeryville Warehouse Lofts, 1500 Park Ave., Emeryville  
Developer: Rick Holliday, Holliday Development

Planned: 140 two-level lofts ranging from 600 to 1,800 square feet.

Prices: not available

Completion date: scheduled for September

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## TIPS ON BUYING A NEW HOME

Many homebuyers believe that buying a newly built house will result in fewer headaches than buying an older, "used" home.

That's not always true.

The courts in California are full of suits lodged by owners of brand- new homes, with complaints ranging from construction defects to drainage problems. Sometimes, the very newness of a home can disguise potential problems.

There are warning signs that potential buyers can look for.

"People should look at finishes," says Rick Holliday, a developer and president of Holliday Development in San Francisco, including cabinetry and flooring. Good, quality finishes, he says, show good workmanship.

Ask some questions as you walk around the interior and exterior of the property, advises Thomas Anderson, a construction consultant and president of Thomas Anderson & Co. of Sonoma.

“Do the joints in the trim fit together?” asks Anderson. This is a telltale sign of the craftsmanship of the home. Also, check the quality of the appliances offered.

If you lack construction expertise, Anderson advises hiring a building inspector to check out the house.

It's also a good idea to look at older subdivisions the developer was involved in.

If you are considering buying a home in a future development, know what you're getting into before you sign that contract.

“Be careful when you're dealing with construction that has not yet occurred,” warns Cathleen Curl, an attorney with Manos & Curl in Millbrae who specializes in construction law.

“Look for inclusions and exclusions. The construction contract should be as specific as possible for what is to be included and what is not included,” she says.

“Before you sign a contract, have an attorney review it,” adds Curl, who says this usually costs around \$200 to \$500. “Homeowners have to be careful of how to get out of the contract if they don't like how things look or how it is built.”

In the state of California, there is a 10-year statute of limitations that covers latent (i.e., hidden) defects in the home. But sometimes, when problems arise, homeowners find themselves caught between the developer and the contractors (and sometimes even a homeowner's association or property management group) on the project.

“Developers have some liability when you buy a house in a subdivision, but they try to push the liability to the general contractor,” warns Curl.

If you find a problem with your home, pursue the issue promptly -- and keep records.

“It pays to give notice in writing of the problem,” advises Curl, who suggests also keeping notes of all calls made regarding the matter. Get a confirming letter of anything that needs to be corrected.

Be sure to check whether the problem is common in other homes in the development.

“It pays to get to know your neighborhood,” says Curl. “You'll probably find some of the things you're complaining about are going on for them, too.”

It is usually easier to get things fixed when a group of homeowners all have the same problem. Plus, you have more proof if the situation goes to litigation.

Drainage problems are particularly common.

“There isn't enough land to build, so (developers) are going to areas they used to not build on,” explains Curl.

“The land tends to be farther into the hills and steeper,” Anderson adds. “A prudent developer will do extensive soil investigation before building.”

If you are concerned about the soil, ask for the geotechnical reports, which are available from the developer or from the local building department.

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## WHAT IS A LOFT?

The term “loft” may conjure an image of a large condominium with high ceilings and a mezzanine. But lofts can take a variety of forms.

Some lofts are residential units fashioned from converted warehouses; others are designated live/ work spaces. They can be one level or even two or three. All lofts feature open floor plans and few walls or partitions.

Because many lofts do have a past life, they often have more character than standard new condominiums, such as old beam and exposed brick from the original buildings.

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## WHY LIVE/WORK UNITS HAVE BECOME A BIT CONTROVERSIAL

In San Francisco, lofts are hot properties. Why?

“I think, in general, it's the openness of the space,” says Dwight Long of Pfau Architecture in San Francisco. Many of these loft projects were originally designed for artists, but now more and more loft projects are being built that are upscale residential units, much to the dismay of many people in the art community who feel priced out of the market. “It was the artists and the people who supported the artists who really got the trend going,” explains Ray Kaliski, co-owner of Lofts Unlimited in San Francisco.

The topic of live/work lofts is a bit controversial. Many San Francisco lofts are located in areas zoned for artists to live and work in their homes. The first point of contention is the requirement that “artists” buy the lofts, a well-intentioned effort by the city to support the arts. Artists aren't the only ones interested in buying lofts anymore. There are many people in the multimedia and computer industries who want to work out of their homes.

San Francisco's Planning Department is still trying to define what constitutes a live/work space and how many units there should be in the city.

Another problem is that current residents in neighborhoods zoned for live/work lofts are often leery of such projects and worry that rents will go up.

Meanwhile, real estate agencies simply try to warn potential buyers about the drawbacks of buying in mixed-use areas.

"We tell our clients they are guests in a transitional neighborhood, and they have to learn to live together with industry," says Kalisky.

But the high demand makes more loft construction likely.

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## RESOURCES

-- Lofts Unlimited, 461 Second St. (at Bryant Street), Loft 129, San Francisco; (415) 546-3100 -- Manos & Curl, 700 El Camino Real (at Silva Street), Millbrae; (650) 871-5955 -- McGuire Real Estate, 2001 Lombard St. (at Fillmore Street), San Francisco; (415) 929-1515 -- Peninsula Builder's Exchange, 735 Industrial Road (at Holly Street), San Carlos; (650) 591-4486 -- Pfau Architecture, 630 Third St. (at Brannan Street), San Francisco; (415) 908-6408 -- Thomas Anderson & Co., 584 First St. E. (at Patten Street), Sonoma; (707) 938-2146 -- Zephyr Real Estate, 4200 17th St. (at Douglas Street), San Francisco; (415) 552-9500

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