

# ROOM FOR ONE MORE?

 JANIS MARA

SOARING RENTS, a hot technology sector and eager investors continue to spur Bay Area multifamily construction, with up to 18,000 new units estimated to come online by 2014. About 1,300 apartments were completed in Oakland, San Francisco and San Jose last year, according to Marcus & Millichap Research Services. Another 8,000 units to 10,000 units are to be delivered this year and next, plus 8,000 more in 2014.

The numbers may be dizzying but not necessarily surprising to anyone who notes the scores of cranes, bulldozers, scaffolds and other construction hallmarks proliferating in the Bay Area over the last year. Though office and for-sale housing development are showing nascent signs of renewal, multifamily is hot, with major apartment projects underway and more in the pipeline.

"The delivery and ramp-up of apartments for rent will be the most active 24-month period we've had since the late 1990s. Most major investors would name the Bay Area as the No. 1 market in the country," said Palo Alto-based Stan Jones, executive vice president investments for Institutional Property Advisors, a division of Marcus & Millichap Real Estate Investment Services. "This is the epicenter of multifamily development in the country. It is Fantasy Island."

## Bay Area apartment construction continues strong, but no one sees overbuilding yet

Already, concentrated new supply is coming online in select neighborhoods including Mid-Market Street and Mission Bay in San Francisco and North San Jose in Silicon Valley, where the city of San Jose issued building permits for not quite 2,500 apartments in the fiscal year ended June 30. In the next two years, about 3,500 units are due to be delivered near the new Twitter Inc. headquarters on Mid-Market in the vicinity of 10th, 8th and Market streets, said Chris Foley, a consultant to some of the state's largest developers and a principal of Polaris Group. "Everybody in the marketplace wants to be in San Francisco."

In Mission Bay, Nibbi Brothers General Contractors offers another window on the boom. In the emerging biotech-life science community, Nibbi has completed five projects and has two under development. The company performed structural concrete work on four additional projects and has five more complexes in pre-construction, said President Robert L. Nibbi.

The company is working with San Francisco's BRE Properties Inc. to develop two Mission Bay sites where BRE plans 360 apartments. The contractor also is helping Marcus & Millichap Co. subsidiary Urban Housing Group build 147 units for \$46 million at a Mission Bay project dubbed Venue, to be complete in September 2013. At the same time, at 185 Channel St. in Mission Bay, Nibbi is constructing 315 apartments for \$91 million for UDR Inc., a Colorado company that specializes in multifamily properties. Those apartments are expected to be complete by the end of this year.

UDR also is not done. Acting through a joint venture, the company earlier this year bought another San Francisco site for development, paying \$40.3 million, according to filings with the Securities and Exchange Commission.

"Typically, half to two-thirds of our work is apartment-related compared with other sectors," Nibbi said. "For 2012 it will be about 71 percent, so it's definitely up."

Elsewhere in San Francisco, Avalon Bay Communities Inc. is investing \$61.1 million to build 173 apartments at 1150 Ocean Ave., which it expects to complete late this year. San Francisco-based Martin Building Co. is developing Potrero Launch, an \$80.4 million 196-unit project on 3rd Street. The project is also slated to be finished this year. Average rental rates in Northern California increased 10.7 percent in the first quarter year-over-year to \$2,069, and economic occupancy decreased 0.4 percent to 96 percent, Avalon said in its first quarter filings with the SEC.

"Strong job growth in San Francisco and San Jose, driven by hiring in the technology sector, supported the improved operating results in all of our markets in this region at a faster pace than our other markets," the company said. "We expect this region will continue its strong performance for the balance of 2012, supported by the combination of job growth and limited new apartment construction."

Developers also have congregated in North San Jose, a 5,000-acre region the city wants to remake from a low-density industrial enclave to a higher-density office, retail and living cluster with more than 30,000 new homes and 27 million square feet of new workspace. The Irvine Co., which developed the 2,760-unit North Park Apartment Village in North San Jose in the last decade, now is developing the Crescent Village. It will have 1,750 units, 200 of which are finished and the remainder of which will come online in phases next year. Also in North San Jose, in the first quarter, Palo Alto-based Essex Property Trust Inc. began construction on the second, \$93 million phase of Epic, where it will deliver 569 units beginning next year.

Elsewhere in Silicon Valley, BRE has two Sunnyvale communities under construction. It expects to complete 336 units at the beginning of next year and 280 units at the beginning of 2014. In San Jose, on upscale Santana Row, 212 rental homes are under construction with plans to be complete in the summer or early fall of 2013, a spokeswoman for developer Federal Realty Investment Trust said.

Other regional projects include The Plaza at Triton Park in Foster City, a 307-unit, \$75 million project at 1168 Triton Drive being developed by Sares Regis Group of Northern California LLC and planned for an October completion. In Redwood City, Township, a \$20 million, 132-unit development at 333 Main St., also from Sares Regis, has an estimated July 2013 delivery. Then, in 2014 Urban

*continued on page 34*



ABOVE:

*Current apartment construction on the corner of Market and 10th, San Francisco.*

📷 CHAD ZIEMENDORF

# BAY AREA APARTMENT DEVELOPMENT ACTIVITY

**SAN FRANCISCO**  
 1190 MISSION ST.  
 TRINITY PROPERTIES, 1,400 UNITS  
 10TH & MARKET STREETS  
 EMERALD FUND INC., 900 UNITS  
 10TH & MARKET STREETS  
 CRESCENT HEIGHTS, 750 UNITS  
 900 FOLSOM ST./260 5TH ST.  
 ESSEX PROPERTY TRUST, 463 UNITS, UNDER CONSTRUCTION/2014  
 MISSION BAY  
 BRE PROPERTIES, 360 UNITS, LAND HELD FOR DEVELOPMENT  
 333 HARRISON ST.  
 EMERALD FUND INC., 326 UNITS, 2012  
 185 CHANNEL ST.  
 UDR, INC., 315 UNITS, DECEMBER 2012  
 9TH & MARKET STREETS  
 AVALON BAY, 273 UNITS  
 1880 MISSION ST.  
 AVANT HOUSING, 202 UNITS, APRIL 2013  
 POTRERO LAUNCH  
 MARTIN BUILDING CO., 196 UNITS, DECEMBER 2012  
 1150 OCEAN AVE.  
 AVALON BAY COMMUNITIES, 173 UNITS, DECEMBER 2012  
 VENUE  
 URBAN HOUSING GROUP, 147 UNITS, SEPTEMBER 2013

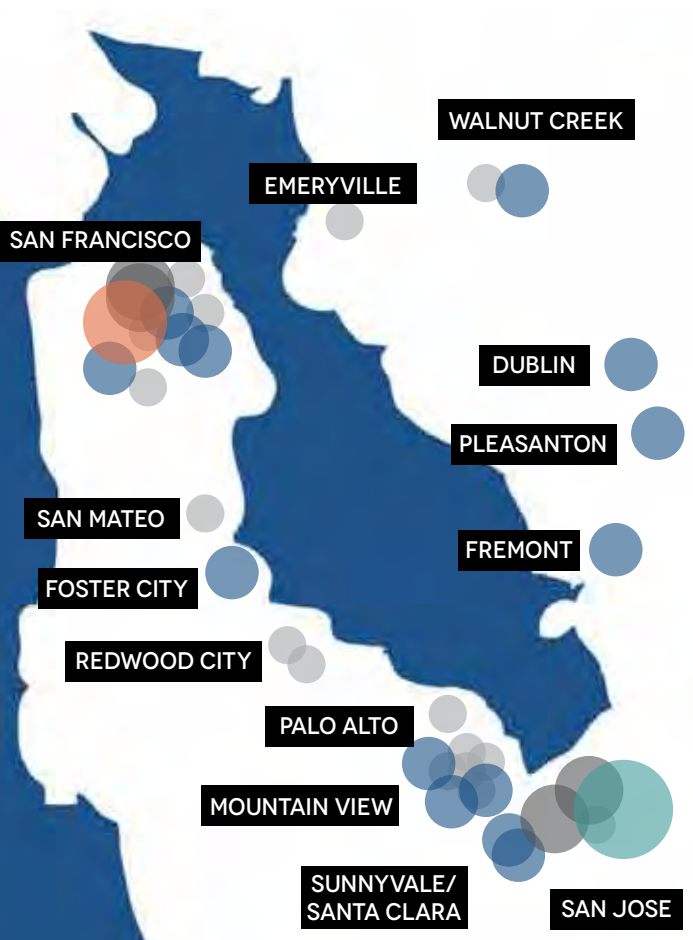
**SAN MATEO**  
 888 N. SAN MATEO AVE.  
 AFL-CIO BUILDING INVESTMENT TRUST, 155 UNITS

**FOSTER CITY**  
 THE PLAZA @ TRITON PARK  
 SARES REGIS GROUP, 307 UNITS, OCTOBER 2012

**REDWOOD CITY**  
 25EIGHTY ON THE BLVD.  
 URBAN HOUSING GROUP, 141 UNITS, JULY 2014  
 TOWNSHIP  
 SARES REGIS GROUP, 132 UNITS, JULY 2013

**PALO ALTO**  
 PARK BOULEVARD  
 ESSEX PROPERTY TRUST, 50 UNITS, LAND HELD FOR DEVELOPMENT

**MOUNTAIN VIEW**  
 870 E. EL CAMINO REAL  
 ARCHSTONE, 333 UNITS, UNDER CITY REVIEW  
 455 SAN ANTONIO ROAD  
 MERLONE GEIER PARTNERS, 330 UNITS, UNDER CONSTRUCTION  
 2580/2590 CALIFORNIA ST.  
 PROMETHEUS, 300 UNITS, UNDER CITY REVIEW  
 425-455 W. EVELYN AVE.  
 PROMETHEUS, 203 UNITS, PLANNED DELIVERY YEAR END 2012  
 2650/2656 W. EL CAMINO REAL  
 URBAN HOUSING GROUP, 194 UNITS, UNDER CITY REVIEW  
 100 MOFFETT BLVD.  
 PROMETHEUS, 187 UNITS, UNDER CITY REVIEW  
 1720/1730 W. EL CAMINO REAL  
 PROMETHEUS, 173 UNITS, UNDER CITY REVIEW  
 111 N. RENGSTORFF AVE.  
 PROMETHEUS, 84 UNITS



**EMERYVILLE**  
 ESSEX 2  
 ESSEX PROPERTY TRUST, 190 UNITS  
 UNDER CONSTRUCTION

**WALNUT CREEK**  
 141 N. CIVIC DRIVE  
 URBAN HOUSING GROUP, 300 UNITS  
 AUGUST 2012 GROUNDBREAKING  
 MAIN STREET  
 ESSEX PROPERTY TRUST, 48 UNITS  
 LAND HELD FOR DEVELOPMENT

**DUBLIN**  
 WEST DUBLIN  
 ESSEX PROPERTY TRUST, 309 UNITS  
 JUNE 2013

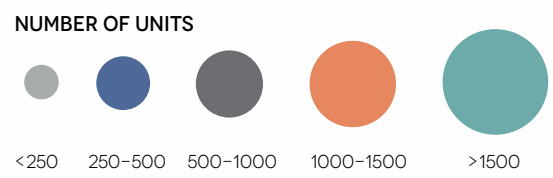
**PLEASANTON**  
 PLEASANTON  
 BRE PROPERTIES, 254 UNITS  
 LAND HELD FOR DEVELOPMENT

**FREMONT**  
 CALIFORNIA & BEACON STREET  
 URBAN HOUSING GROUP, 301 UNITS  
 2013

**SAN JOSE**  
 CRESCENT VILLAGE  
 THE IRVINE CO., 1,750 UNITS  
 DECEMBER 2013  
 EPIC (PHASES I & II)  
 ESSEX PROPERTY TRUST, 569 UNITS  
 MAY 2013  
 SANTANA ROW  
 FEDERAL REALTY INVESTMENT TRUST, 212 UNITS,  
 OCTOBER 2013

**SUNNYVALE**  
 LAWRENCE STATION  
 BRE PROPERTIES, 336 UNITS  
 1Q 2013  
 SOLTICE  
 BRE PROPERTIES, 280 UNITS  
 1Q 2014

**SANTA CLARA**  
 900 KIELY BLVD./GALLERY AT CENTRAL PARK  
 PROJECT  
 PROMETHEUS, 552 UNITS  
 APPROVED FOR DEVELOPMENT



Sources: Companies' SEC filings, City of Mountain View, Polaris Group



Mission Bay Block 13  
San Francisco



Seawall Lot 337 & Pier 48  
San Francisco



The Exploratorium @ Pier 15  
San Francisco



899 West Evelyn  
Mountain View



Mission Bay Block 2  
San Francisco

## ***The Right Goals • The Right Team • The Right Approach***

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*The white-hot tech sector is “the epicenter of growth, and there could be an overbuild if these people (tech firms) back off and job growth in the sector slows down.”*

■ STAN JONES, EXECUTIVE VICE PRESIDENT, INVESTMENTS, INSTITUTIONAL PROPERTY ADVISORS,  
A DIVISION OF MARCUS & MILLICHAP REAL ESTATE INVESTMENT SERVICES

Housing Group is slated to complete 25Eighty on the Blvd., 141 apartments at 2580 El Camino Real, also in Redwood City. Meantime, Essex is developing 309 units in Dublin and another 190 in Emeryville. It also bought two San Francisco sites from Avant Housing in June where it is building 463 apartments.

Despite the fast and furious pace, Jones said he sees no immediate danger of overbuilding, thanks to the enormous demand and still-limited supply. Bay Area vacancy rates hit 3.3 percent at the end of 2011 and are expected to fall further, to 2.8 percent, by the end of this year, according to New York-based research firm Reis Inc.

Jones' only concern? The white-hot tech sector is “the epicenter of growth, and there could be an overbuild if these (tech firms) back off and job growth in the sector slows down.” But he doesn't think that is likely to happen soon. “Right now the rental market is extremely tight. San Francisco, for example, has had a 3.1 percent vacancy rate for the last 12 months. Google, Apple, LinkedIn, Facebook and all those folks are still hiring,” Jones said.

Not surprisingly, as competition for rentals has increased, rents have gone up. The rise in average asking rents in the region's four largest counties accelerated from the beginning of 2011 through

the beginning of 2012; that was after rising substantially in the 12 months before, according to Novato-based multifamily researcher RealFacts. San Francisco asking rents rose nearly 16 percent from the first quarter of 2011 through the first quarter of this year on top of a nearly 4 percent rise the year before, RealFacts says. Asking rents in Santa Clara County hopped up 12.5 percent year-over-year in the first three months of this year, after having jumped 9 percent the year before. Increases in San Mateo County were nearly the same, and even Alameda County has seen rents rise 12 percent in the last two years.

Dean Wehrli of John Burns Real Estate Consulting, agreed with Jones. “These things take some time to build, so there's always the danger of too much supply,” the senior manager said. But, “it's so clearly on the side of the landlord, it can go a ways before it turns.”

On the other hand, he said, “These double-digit [rent] appreciation rates are unsupportable.

“You will start to see appreciation rates in the really hot markets slow down. It can't maintain really huge appreciation rates indefinitely; you are going to start squeezing too many people out of the renter pool,” Wehrli said. Q



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