

### Bay Area Apartment Market Primed for Improvement

By Brian K. Miller of GlobeSt.com

*Tuesday, February 21, 2006* - SAN FRANCISCO-The Bay Area apartment market is primed for improvement in 2006, according to a recent forecast report by Marcus & Millichap. Continued job growth and low housing affordability will drive down vacancy in 2006, enabling owners to raise rents and reduce concessions this year.

A 30 basis point decline in vacancy to 5.6% is expected by year's end, according to the report. Concurrently, the average asking rent is forecast to rise 1.1% to \$1,609 per month this year. The greatest improvement is expected in the southern San Mateo County submarkets of Redwood City and Menlo Park, where vacancy is expected to fall 50 basis points to 4.2%.

The decreasing vacancy is expected because of job growth and very little new construction. Job growth is estimated at 1.8% in 2006, or about 17,000 jobs, up from 9,000 jobs (1% growth) in 2005. On the construction front, developers will deliver just 500 units in 2006, down from 600 units in 2005. The pipeline of planned projects is expanding, though, according to the report, especially in the Mission Bay area where developers are set to break ground on a number of properties.

On the investment front, apartment REITs have been active in the area. Publicly held Avalon Bay Communities of Virginia earlier this month disposed of a South Bay property in Cupertino and added a property in San Francisco's South of Market neighborhood.

The SoMa property, Aurora Yerba Buena, is a 260-unit complex with 32,000 sf of retail leased to Whole Foods Market. Avalon Bay Value Added Fund LP acquired it for \$66 million. Avalon Cupertino is a 311-unit apartment complex that Avalon Bay developed for \$49 million and sold for \$88 million. The buyer was Colorado-based apartment REIT Archstone-Smith.

In December, Archstone-Smith paid \$101.2 million for the 300-unit Meridian Luxury Apartments, which opened in late 2004 as the first phase of the Crossing at San Bruno. The seller was the developer, a joint venture of Regis Homes, TMG Partners and MacFarlane Partners.

The Crossing is being developed on 20 acres of former US Navy property located at

900-1000 Commodore Dr., across the street from Shops at Tanforan, a 1.1-million-sf retail center. When complete, the Crossing will have about 1,000 residential units (including 300 units for seniors), 300 hotel rooms and a fine dining restaurant.

The second phase of development, the 185-unit Paragon apartment complex, got started in July and should open next summer. In addition SNK Realty Group has purchased two parcels at the Crossing for a 350-unit development.

Set to start in the spring, the SNK project will include two five-story buildings containing 187 condominium units and 163 apartment units and subterranean parking lots. The entire community is expected to be complete within four years, according to the source.

Regis Homes of San Mateo and TMG Partners of San Francisco bought the development site for the Crossing at auction from the US General Services Administration in October 2000. Regis, TMG and San Francisco-based MacFarlane Partners began construction of Meridian in late 2002. MacFarlane invested in Meridian on behalf of its venture with the California Public Employees' Retirement System, which invests in urban-infill properties in major metropolitan areas nationwide.