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Oakland condos don't add up for developers

San Francisco Business Times - by [Blanca Torres](#)

Condo developers in Oakland are doing plenty of number crunching these days to figure out if projects they had planned can make money, but in many cases the numbers say "no way."

Residential markets across the country have been hit by the mortgage and credit crises, but the East Bay has been especially susceptible. The other part of the equation is construction costs, which haven't slid as significantly as home prices.

Average home prices in Alameda County fell 29 percent last year to \$440,000 in August, compared with \$619,000 the previous year, according to DataQuick, a Southern California real estate information service.

"The numbers absolutely don't work in places like Oakland and the East Bay," said Alan Mark, president of [Mark Co.](#), a San Francisco real estate research firm. "There's no way a developer could build a condo building and break even today."

Construction costs depend on several factors including the price of land, materials, government fees, labor, marketing and loan interest, said Joseph Perkins of the [Home Builders Association of Northern California](#). Another major issue is securing a loan in today's tight credit market.

The East Bay's real estate meltdown follows a surge of building sparked by former Oakland Mayor Jerry Brown's 10K initiative. Oakland and Emeryville have about 1,600 to 1,700 available condos on the market in major developments and more than 500 are under construction with another 8,000 that have been approved by the City of Oakland, said a recent Mark Co. report.

"You are going to see the brakes put on a lot of projects that originally had some rosy prospects," said Raphael Bostick, associate director of the Lusk Center for Real Estate. "Some developers will resort to deep discounting to clear the market as quickly as possible and other developers will hold out hope to get as close as they can to being profitable."

Yet some developers still want to build. One is Carlos Plazola, chair of the [Oakland Builders Alliance](#) and president of [Terra Linda Development](#) in Oakland, who continues to seek a way to build a 14-unit project on Oakland's waterfront. He thinks he could build the units as rentals and later convert them to condos. Producing rentals is also risky, because the rates often barely cover construction costs or a developer decides to sustain a loss over time.

"Eventually, the question becomes can we do it in two years or 10 years?" Plazola said. "How long will it take for the market to recover?"

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