Gloom and Boom

City Officials Lament Budget Woes as Business Sector Enjoys Return to Dot.com Days of Wine and Roses

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Putting the pieces together on a new luxury hotel going up at Fifth and Howard.

Judging by the recent spate of news articles bemoaning the city's budget woes, you may get the impression San Francisco is starting to look like a General Motors town, with Main Street all boarded up after the factory has pulled up stakes.

Last fall, the members of the Board of Supervisors said they were considering billboards on or near the Golden Gate Bridge to make up for millions of dollars in homeland security shortfalls.

A ballot measure last November to increase the city tax on parking garages failed.

And the Municipal Transportation Authority has recently floated proposals to up the cost of parking tickets by $5 and recruit at least 50 new officers to more aggressively pursue San Francisco's most plaguing criminals – all those quarter-challenged motorists and late-sleeping residents who forget when it's street cleaning day.

But if local government is facing a monetary crunch, the business sector sure isn't feeling it. San Francisco hotel rates have returned to dot.com levels and are expected to see a $15 jump in room rates this year alone. The current average nightly rate is about $160 and occupancy rate is way up.

On the commercial real estate front, the *S.F. Business Times* recently reported several major construction projects going up, including the new speculative high-rise at 555 Mission and the 275,000 square foot addition to China Basin Landing in Mission Bay.

By all accounts, China Basin and South Beach are doing a land office business right now, as the average asking price for available space downtown has climbed $40 per square foot in just the last couple years.

Analysts attribute that spike to a recent stampede of high-brow corporations like Google and Microsoft who are dropping anchor here.

Hi-tech firms are credited with downtown's 14 straight quarters of growth. Over a million square feet of office space were absorbed in 2006, while twice that amount was picked up in 2005.

In all, commercial rents have jumped about 15 percent, writes *Business Times* reporter J.K. Dineen.

In late September, the new Westfield Mall opened to wild sensation, with a forecast of annual retail revenues at $600 million. Between the sales and property taxes of this one location alone, an estimated $17 million in new revenue should be added to local government coffers soon.

That's in addition to the city's share of the parking proceeds from surrounding garages, which are routinely filled to capacity now on the weekends.

In its year-end issue, the *S.F. Business Times* also reported new commercial development along the 900 block of Market Street between 5th and 6th streets.

The deal for a $175 million, 10-story retail and housing complex has been sealed, and that developer has plans to lease to several large retailers. It's plausible that San Francisco will be seeing a Walmart or Target store there in

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the next few years.

With so much new commerce flowing into the city, the employment picture here is expected to remain brisk for the foreseeable future. The building trades continue to recruit workers, while professionals in the job market should have plenty of places to send their resumes once the incoming firms start hanging out their shingles.

On a less rosy note, residential apartments may soon see an upsurge in rental rates. According to the same publication, “CitiApartments, San Francisco’s largest landlord, gobbled up 10 buildings that came up for sale in November. The $35 million spending spree underscored City Attorney Dennis Herrera’s claim that the company is guilty of unfair business practices.

It seems CitiApartments purchased every building of ten units or more available that month, and since 2005 has acquired a staggering 70 new properties. One rival broker told the newspaper that the company is paying 5 to 10 percent above the fair market rate.

City Attorney Herrera filed a lawsuit against the company last summer, alleging that CitiApartments and its associated Skyline Realty had violated rent control laws, neglected repairs on units and used armed security guards in a concerted campaign to force evictions of long-term tenants. “As a result of their predatory practices, they have artificially inflated the cost of apartment buildings here in San Francisco,” Herrera told Dineen.

The company disputes the allegations.

City residents in search of new housing might consider purchasing a condominium, as an estimated 3000 – 4,000 units are expected to flood the market in 2007.