

Patrick Kennedy aims for big splash with small units

BY BLANCA TORRES

San Francisco Business Times

Small is coming to SoMa — apartments, that is. East Bay student housing developer Patrick Kennedy is close to installing his first San Francisco project, which will feature units measuring a compact 300 square feet.

The project's 23 units are currently moving along the assembly line at Zeta Communities' factory in Sacramento and will be ready for occupancy in October.

"This kind of living is appealing to people who like living in cities and all the stimuli and attractions that are available," said Kennedy, who heads the development firm Panoramic Investments. "Our residents will make a trade-off of proximity and convenience for space."

The project, on a 3,750-square-foot lot at 38 Harriet St., merges two new trends in multi-family development: super high density and sustainably designed, prefabricated homes.

Kennedy, who made his name building privately owned student housing in Berkeley, turned his focus to micro-units several years ago as a way to develop housing on small, in-fill sites.

He then connected with Zeta Communities, a San Francisco company that builds energy-efficient homes, school buildings and public facilities. The firm operates a 97,000-square-foot factory in

300-square-foot units will appeal to people who like living in cities, says Patrick Kennedy.

SEE MICRO-UNITS, 29

SPENCER BROWN / SFBT FILE 2010

Accelerating success.



Break away

We know your competition is fierce. And you can't afford to sit back in the pack. Teaming with Colliers International allows you to focus your energy on your expertise. We focus on ours—maximizing your real estate position—to accelerate your success.

www.colliers.com

Bay Area Offices

Fairfield | Gilroy | Oakland | Pleasanton | Redwood City | San Jose | Stockton | Walnut Creek | San Francisco

MICRO-UNITS, CONTINUED FROM PAGE 28

Sacramento that employs 60 workers.

"These units are very well designed so that you use every inch," said Naomi Porat, president and co-founder of Zeta. "It's an extremely efficient design."

The building will be four stories with five or six units per floor and will include an elevator, a lobby and a 1,000-square-foot backyard. The design team for the project included Trachtenberg Architects, Lowney Architecture and Taeko Takagi of Zeta Communities.

"There's no way you can tell the unit was built in the factory," Kennedy said. "Zeta uses the same conventional material."

The units, measuring a 12 by 29 gross square feet, include washers and dryers, a full kitchen, bay windows, and what both Kennedy and Porat called ample storage — enough for a bike. The units also come with pre-installed furniture that folds down into a bed and folds up into a dining table.

To avoid residents feeling claustrophobic, the long, narrow units have 9-foot ceilings and 7-foot tall windows.

Another factor is lifestyle, Kennedy said.

His target demographic for the units are young, single professionals who will see the city as their "living room."

The project is just a few blocks from Mid-Market, a neighborhood being transformed now that Twitter moved its headquarters and hundreds of workers to the area.

Kennedy estimates he'll charge rents of \$1,500 per month. Five of the units will be set aside for low-income residents starting at \$910 per month.

Apartment rents in San Francisco have soared in the past two years as technology workers have flooded the city. An apartment construction boom going on in San Francisco will add about 1,440 rental units this year, according to data from Marcus & Millichap. Meanwhile, vacancy is down to about 3 percent this year — the lowest level since 2001 — and average rents are expected to climb by 7.2 percent to \$1,928 per month.

"This kind of living is appealing to people who like living in cities and all the stimuli and attractions that are available," Kennedy said.

The building will not include parking and instead will have bicycle storage and one shared car dedicated to the residents.

Materials and paint used to construct the units are designed to ensure high air quality, have comfortable ambient temperature and save energy, Porat said.

"These units are very energy efficient and located in an area with a high walkability score," she said. "The tenants are not using a car to get to work."

A micro-project like Kennedy's will work well in a dense, urban city like San Francisco or Berkeley, where Kennedy has another entitled site at 2711 Shattuck Ave., said Todd Vitzthum, a broker with Cushman & Wakefield who specializes in multifamily properties.

But, he said, the model could be difficult to replicate in other parts of the Bay Area, especially in places where the cost of land is less than in San Francisco.

Still, "it's an appropriate product that will be well-received in a market like San Francisco," Vitzthum said.

The use of prefabricated units is also gaining traction as developers look for ways to speed up the development process and reduce costs.

Developing an apartment building can



Zeta's units use space very efficiently, says company President Naomi Porat, at a site unrelated to the Kennedy project.



Allow us to reintroduce ourselves.

Edward F. Del Beccaro
Managing Director

Scott Ellis
Senior Vice President

Bob Maderious
Senior Vice President

John Sechser
Senior Vice President

Tom Caple
Vice President

Trigger Reital
Vice President

Sonny O'Drobinak
Vice President

Terry Vani
Vice President

Matt Hurd
Senior Associate

David Ford
Senior Vice President

Dennis Henry
Senior Portfolio Manager

Colby Mikulich
Associate

You may already be familiar with us. It's likely a member of the team above, which has East Bay commercial real estate experience that extends into decades, has already added value to your commercial real estate.

We are proud to announce they've joined Transwestern, a privately held, debt-free, national firm that has provided a full range of commercial real estate services for over 30 years.

To get better acquainted with Transwestern, contact Ed Del Beccaro at 925.357.2019.



The Performance Advantage in Real Estate

www.transwestern.net

SEE MICRO-UNITS, 30



"There's no way you can tell the unit was built in the factory," says Patrick Kennedy.



RANDY ALLEN/SACRAMENTO BUSINESS JOURNAL PHOTOS

San Francisco-based Zeta Communities builds its units in Sacramento-area factory.

MICRO-UNITS: Pre-fab units increase quality and speed of project construction

CONTINUED FROM PAGE 29

take four to five years to entitle a site and another two to three years to build, Vitzthum said.

Zeta Communities can produce units in a matter of months with less risk than traditional construction. For example, while Kennedy's units are in production at Zeta's factory, Pankow Builders is laying the foundation at the site. In a few months, Zeta will send the units on trucks to San Francisco, where they will be stacked and assembled using a crane.

"We're building the units simultaneously as the foundation is being poured and as soon as that's done, the units ship,"

Porat said. "Units can go from the factory to the site in three months.... Once they are shipped, the units are erected in four days."

Pre-fabricated units carry a negative connotation, Vitzthum said, but more developers may be willing to consider that type of construction for the sake of controlling quality, costs and time.

"Building under factory conditions results in a better quality," Kennedy said. "You don't have to worry about water damage or weather conditions. You don't have to test materials in the field. We thought this furnished an opportunity to build a higher quality unit in a faster amount of time."

The total cost of developing 38 Harriet will come to \$4.5 million to \$5 million or about \$200,000 per unit including the land, Kennedy said.

He would like to find more small sites to build similar projects, depending on how his first attempt plays out.

His timing may be just right, Vitzthum said, with so much demand and other projects in the pipeline still years from completion.

"If you can entitle faster and build faster, you're meeting the demand this market has in a much shorter timeline," he said.

If this project goes well, Kennedy could once again spur a development trend just

as he did when building student housing in Berkeley in the 1980s at a time when no developers were catering to that demographic. He later sold his portfolio of 13 properties in Berkeley to Equity Residential in 2007.

Other pre-fabricated or micro-unit developments have gone up on the East Coast, but it's a new model for the West.

"We believe pre-fabrication is the future of the construction industry — it's the most efficient and it's the most sustainable," Porat said. "We're excited that Zeta is bringing this type of construction to the West Coast."

btorres@bizjournals.com / 415-288-4960 ■

INVESTMENT OPPORTUNITY

The Land at 1700 California Street

SAN FRANCISCO - VAN NESS CORRIDOR

- .54 acre parcel NWC of California Street & Van Ness Avenue
- Ground lease through 12/31/2035 or 23 more years
- Not been offered since 1968
- Leasehold improvements are 10-story 143,000 SF rentable office, medical, retail, residential apartment & parking garage building constructed in 1987.

To be sold at auction on **August 24, 2012** pursuant to an Order of the Superior Court arising from a partition action among the owners of the property.

www.1700CaliforniaStreet.com

Cornish & Carey Commercial

Newmark Knight Frank

Russ Sherman

Senior Vice President

415.445.5104

rsherman@ccareynkf.com

RE #00390678

One Bush Street, Suite 400

San Francisco, CA 94104

www.ccareynkf.com

Recipient of the Merit Award of Interior Architecture for the AIA San Francisco Design Awards

Providing Value to our Customers for 75 Years!

"Thanks to Rossi Builders for their commitment to the details necessary to make this project sing." — Sarah Willmer

Studio Sarah Willmer, ARCHITECTURE

San Francisco, CA | rossibuilders.com | 415-982-6292