

Bay Area economy looking bright for 2013

By Andrew S. Ross
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Construction on an 11-story micro-apartment complex at Ninth and Mission streets is expected to begin as soon as the spring. Photo: -, Courtesy: Panoramic Interests / SF

If the Bay Area economy were considered a stock, analysts would definitely rate it a "strong buy" for 2013.

"You folks will continue to outperform the U.S. economy and all of California," predicts Wells Fargo's chief economist, John Silvia.

Of course, prognosticators can be wrong. Many had predicted the state's unemployment rate, for example, would continue in double digits through 2013. In fact, unemployment dipped below 10 percent last month for the first time in four years and continued to fall even further in the Bay Area. And job growth numbers were led by industries such as transportation, construction and leisure and hospitality, rather than high tech, which has almost single-handedly powered the local economy.

Stephen Levy, director of the Center for Continuing Study of the California Economy, said: "2013 will be the year the recovery becomes real to many more people, not just for those in the tech sector. I don't see that abating."

Neither does Jon Haveman, chief economist at the business-oriented Bay Area Council. "It's a dynamic time. There's an intense march to occupy vacant space in San Francisco. Silicon Valley and the mid-Peninsula are very hot, and there's a real uptick in the East Bay."

Cascade of construction

The evidence is not hard to find. A phalanx of construction cranes from Rincon Hill to upper Market Street. At Mission and Fremont streets, Los Angeles' Kilroy Realty Trust is building a 27-story tower for [Salesforce.com](#). Kilroy is building 560,000 square feet of space in Sunnyvale for [LinkedIn](#), one of a slew of new projects in Silicon Valley. In the East Bay, work begins in 2013 on the \$1 billion transformation of the old [Oakland Army Base](#) into a regional shipping and logistics center.

Much of the development and its economic effects continue to be driven by the tech sector, of course. According to a recent Bay Area Council analysis, every new tech job creates four jobs in other areas. "Tech has terrific spillovers," Haveman said.

It's also transforming the skyline of San Francisco. By December 2013, New York's Tishman Speyer Properties will have completed construction of a 10-story, 286,000-square-foot office building on what was a vacant parking lot at Howard and First streets. The first new office building in San Francisco since 2007, the Foundry Square development is designed to meet "tech tenant demands and needs perfectly," the managing director of Tishman Speyer's San Francisco office e-mailed real estate brokers this year.

Along with a partner, JPMorgan Chase Asset Management, Tishman Speyer is looking to break ground next year on a 26-story, 450,000-square-foot office building one block away at 222 Second St. A block south, construction begins early in the new year on two condo complex towers, of 38 and 43 stories, at 201 Folsom St.

"The market is very strong," said Jeffrey Heller, president of Heller Manus Architects, which did design work on 201 Folsom. Another Heller Manus project, a 54-story office and residential tower at 181 Fremont St., in the [Transbay Transit Center](#) development area, got the go-ahead from the Planning Commission last month.

"It's going to be a pretty heady year," said Alan Mark, whose San Francisco firm specializes in condominium research and consultancy. "Multiple offers will be even more intense as the economy continues to recover," he said, referring to the comparative scarcity in the residential real estate market.

Micro-apartments coming

Apart from the 4,200 new, mostly rental units coming on the San Francisco market beginning in 2013, the first batch of 220-square-foot micro-apartments could begin construction as early as the spring, said Patrick Kennedy, whose company, Panoramic Interests in Berkeley, is building the 11-story, 160-unit complex at Ninth and Mission streets, half a block from Twitter's Market Street headquarters.

"I'd like to build 10,000 of these in San Francisco," said Kennedy, who recently completed work on a four-story, 23-unit building of rentals occupying 285 square feet, slightly larger than micro-apartments, in an alley off gritty Sixth Street. They start leasing in January.

"They're ideal for single creatives, and they help the wider economy. A small, cheaper apartment encourages them to spend more time and money outside," he said.

Revitalizing Mid-Market

These and other real estate developments, primarily in the South of Market and Mid-Market areas of San Francisco, "are laying the groundwork for the retail trend that will take center stage in San Francisco over the next couple of years - the revitalization of the long-blighted area of Market Street between 6th and 9th streets," according to a 2013 forecast to be released next month by Cassidy Turley, a commercial real estate consultancy.

The report notes that San Francisco already has the lowest shopping center vacancy rate (4 percent) in the country, and it is likely to fall further in 2013. With the number of new retail openings in the East Bay - for example, the [Paragon Outlet center](#) in Livermore last month, and Target's plans to open a 140,000-square-foot store in Alameda in October - the area also ranks "within the top 10 U.S. markets for retail development," the report says.

"Many retailers who typically look first to Manhattan for flagship locations are increasingly skipping the Big Apple and looking to the West Coast instead," the report stated.

Lots of tourists and business travelers will also be looking to these environs. Apart from a "few small holes," the refurbished [Moscone Center](#) is fully booked for 2013, and if 2012 was a record for visitors to the Bay Area, 2013 is shaping up even better, said Joe D'Alessandro, president of San Francisco Travel.

Then there are specific attractions, from the lights on the new Bay Bridge to the opening of the redesigned Exploratorium at Pier 15, the World Baseball Classic at AT&T Park and, of course, the America's Cup. Expect more visitors from Europe and Asia with new nonstops from Shanghai, Paris, Copenhagen and Taipei, Taiwan, to [San Francisco International Airport](#), bringing 2,000 more passengers in daily.

"San Francisco is going to be a place to be in 2013," D'Alessandro said. "So long as the economy holds."

Yes, there is the "fiscal cliff," which, as of the weekend, the country seemed more likely to topple over. A Bay Area Council survey last week found the majority of 400 senior executives and economic development officials thought that investment and hiring was already slowing because of fears of tax increases and spending cuts.

Looking to Washington

More immediately, 400,000 Californians will lose unemployment benefits next month if a deal isn't reached by Dec. 31, according to the state Employment Development Department.

"It's not like all of a sudden the economy will plunge into recession. And Washington has time to fix things before it gets serious," Haveman said. "All the same, Armageddon is a possibility."

"The Bay Area, with all its economic energy, won't be hit as bad as the rest of the nation, but growth will slow dramatically."

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