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Santana Row condo prices encourage downtown

Almost 2,700 units have been proposed for city's core

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[Federal Realty Investment Trust](#), the developer of San Jose's [Santana Row](#), is reaping record prices for 219 condominiums it put on the market earlier this year.

The Maryland company has achieved \$750 a square foot for its smallest 700-foot lofts. It has closed on both of the most luxurious spreads, with 3,800 square feet, for \$2.5 million each, and 19 smaller villas of 2,200 square feet each are selling for up to \$1.45 million a pop. Fewer than 60 of the original units remain.

Jeff Berkes, Federal Realty's chief investment officer, says the company is now evaluating how it will develop the remaining 17 acres at Winchester Road and Stevens Creek Boulevard. Federal has the right to build 690 more condos, another hotel and 125,000 square feet of shops.

Besides bringing a smile to the faces of Federal Realty's executives, Santana's striking condo prices also may be a good omen for downtown San Jose, where high-rise condos are being promoted as the latest must-have for urban renewal. Nearly 2,700 units are being proposed for downtown in more than a dozen high-rise towers. [Barry Swenson Builders](#) of San Jose and [CIM](#) of Hollywood have turned dirt on projects that will produce the first 530 homes, which come to market after June of next year.

"I don't know how Santana Row prices will translate to downtown," Mr. Berkes says, "but it has proven out that people want to live in a community where they don't have to get in their cars all of the time."

Strong high-rise condo sales could be significant for downtown, pushing it closer to the "24-hour" vision that San Jose leaders have embraced but that has been slow in coming. Over several decades, the San Jose redevelopment agency has invested in excess of \$1 billion to revitalize the city's traditional core, building many of the major public amenities and subsidizing such things as the [Adobe](#) campus, the new [Dr. Martin Luther King Jr. library](#) and the 225 W. Santa Clara Class A office building. One of the two high-rise condo projects now under development -- the \$275.6 million Central Place at Third and San Fernando streets -- includes a \$28.1 million contribution from the city.

The San Jose RDA fought Santana Row's development when it was proposed, saying it would undermine the city's efforts downtown. The worries have proven justified. In the months after Santana Row opened, downtown restaurateurs complained that it hurt their businesses, particularly at a time when the valley's economy was still sputtering.

Not everyone believes the Santana Row experience will translate to downtown, either. Santana's detractors, and some supporters, liken it to [Disneyland](#) because of its "pre-fab" feel and incubated status. Its more than 555,000 square-feet of glitzy shop and restaurant space is full of upscale merchandise and trendy, sophisticated restaurants. Downtown, while seeking both, has relatively little of either. Indeed, the downtown experience overall is much grittier than Santana Row, with downtown struggling to attract even basic amenities like a full-service grocery store.

Still, downtown has attributes Federal Realty can't even attempt to duplicate at Santana Row such as a major art

museum, the [Tech Museum](#), two large city parks and the [HP Pavilion](#). Downtown and Santana Row each has its own winter skating rinks, though downtown's came first.

Santana Row and downtown both face macroeconomic trends that could affect their sales: rising interest rates and the increasingly expensive cost of construction. The two forces squeeze developers profits, with higher interest rates pushing down prices for the condos even as it costs more to put them up.

In other U.S. markets where high-rise condo development has been robust -- such as Miami, Manhattan and Las Vegas -- lenders are already pulling back, says Scott Thompson, acting manager for the western region for [Fremont Investment & Loan](#). Fremont provided construction financing to Barry Swenson for his City Heights condos.

San Jose remains an attractive place to do business, Mr. Thompson says, and Fremont Investment & Loan is looking at other lending opportunities for more downtown high-rises, though he won't be specific. Santana Row sales were definitely a good sign, he says.

But, while underwriting standards haven't changed -- Fremont is still proposing to fund 75 percent to 80 percent of construction costs of downtown San Jose high-rises, the same as it was a year ago -- there is clearly a whiff of greater conservatism in the air.

"We are forecasting longer sell-outs. We are looking at the prices of the ultimate product a little harder," he says.

In addition, a nearly two-year-old city incentive to build downtown high-rise condos is set to expire June 30. John Weis, the RDA's deputy executive director, says the council has given no indication that it will extend that lure. It allows developers on certain downtown sites to sell all units at market rates rather than having to set aside 20 percent of them to sell at lower prices to moderate and low-income families.

Valley Realtor Phil Billiet is so sold on Santana Row that he bought one of the smallest units himself for \$455,000 in addition to helping two clients to buy. He intends to let his college-aged daughter live in his place for the present and to keep it for himself for when he retires.

Mr. Billiet jumped after he spoke to an existing Santana Row owner. "I've never been exposed to that type of response to a living situation. The younger generation isn't looking for a house on a 7,000-square-foot lot where they garden on the weekends. This is what they're after today, and this is what I believe will be the new home demanded in the future."

Santana has no comparison to downtown, he adds. Its halo doesn't even bless condos within less than a mile of the development, his company research shows. Excluding the Santana Row units themselves, the average condo price per square foot in the Santana Row ZIP code has been \$441 a square foot this year. That's up from the \$361 a square-foot average of last year, but clearly nowhere near the prices Federal is getting, he notes.

The buyer demographic at Santana does overlap what is anticipated for downtown. Gina Ord, who is masterminding sales at Santana Row, says buyers there skew young and rich and the development has an overall milieu that reminds her of college days though the overall age of residents -- 28 to 40 years old -- is clearly greater than most college students.

"It was shocking to me how intermixed everyone is. They've all dated each other, know each other and are friends with each other," Ms. Ord says. "I've also really noticed how upscale the buyers are. They are wealthy and affluent, successful and very bright and educated. We also have a lot of professional athletes."

"I've never seen so many Ferraris in my life," she adds.

For his part, developer Michael Kriozere says he remains fully committed to downtown San Jose and would start tomorrow on his huge development if the city would let him. Mr. Kriozere still intends to pay a record-setting \$28.6 million for 1.48 acres in downtown San Jose that he is buying from the city. He intends to put up two towers with 418 units total on the site next to the downtown Fairmont Hotel.

"I'm going to get really rich" from this development, says Mr. Kriozere, who said he is aware of sales at Santana Row but not at all surprised by them. Mr. Kriozere has developed high-rise condos in San Francisco, San Diego and Chicago.

"Market demand for this kind of product greatly exceeds supply," in San Jose, he says. "I'm not worried at all about missing any development window."

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