

Luxury condos in Oakland sell at a discount

James Temple, Chronicle Staff Writer

Tuesday, April 1, 2008

The coordinators of Sunday's auction of 41 units at the new Eight Orchids condominium midrise in Oakland billed the event as a means of finding the actual market value for such homes. If true, the results may be bad news for developers and great for buyers.

Among the dozen transactions recorded by The Chronicle, sales prices ranged between 25.3 and 34 percent off the original asking price. That's well below the 16.9 annual percent drop in median resale condo values or the 21.2 percent decline for all new homes in Alameda County, according to a February report from DataQuick Information Systems.

"The market has definitely humbled us," said Stuart Gruendl, chief executive officer of project developer BayRock Residential of Oakland. "But at the same time, our heads are above water and the property is succeeding."

He said the total sales amount was within 5 percent of what he expected to receive for all of the properties, adding that they moved at least a year's worth of inventory in a few hours.

BayRock has been taking reservations for Eight Orchids, a 157-unit complex at Seventh Street and Broadway on the edge of Chinatown, since February 2007. As of early last month, it had sold 20 units - fewer than two per month.

Gruendl said previously that he decided to hold the auction, which the company began marketing in early March, to create a sense of urgency among potential buyers. Around 2,200 people toured the property during the past three weeks, and nearly 200 registered to participate.

They, family members, friends and interested observers packed the Jewett Ballroom at the Marriott Oakland City Center on Sunday. Bidders had to be precertified by a lender and bring a \$10,000 check to get in the door.

The basic specs of each condo, along with the original asking price and starting bid, flashed on a large screen in the front of the room. Bidders threw up red, yellow or green file folders featuring their buyer numbers in bold print. The auctioneer, Ken Cullum of Accelerated Marketing Partners, called out rising figures as men in dark suits and red ties ran to, pointed out and egged on bidders, hoping to increase the price.

Winners were immediately asked to sign bid confirmation sheets and, unless they planned to bid on another unit, were quickly ushered to an upstairs "document signing area."

One of the early single-bedroom condos sold for \$316,000, up from a starting bid of \$245,000 but well below the original \$435,888 asking price. The auction for a three-bedroom, three-bathroom town home started at \$475,000, stalled around \$528,000 and then quickly ran up to \$534,000.

"Third and final call at 534," Cullum said. "Sold."

That was nearly 34 percent off the list price of \$805,888. Nevertheless, a member of the bidding family, when asked how he felt, replied: "I'm kind of nauseous."

Tears of joy

On the other hand, one winning woman walked out of the auction room crying tears of obvious joy, with her family members smiling and offering congratulatory hugs.

"Nobody offered me a consoling hug," Gruendl later joked.

Most bidders and buyers declined to be interviewed or provide their names. One who did was Ben Tang of San Ramon, who bought a two-bedroom, one-bathroom condo for his parents. The bidding stopped at exactly the maximum amount he was allowing himself to offer: \$374,000, more than 30 percent below the asking price.

"The way the auction process works, you feel like you come away with something," he said.

All 41 of the homes put up for auction received bids above the minimum. Escrow is scheduled to close in five to 35 days. Winning bidders were contractually obligated to complete the purchase, but if they find a means of backing out, other participants may be contacted.

Ken Stevens, chief executive officer of the West Coast division of Accelerated Marketing, said the auction would be used to establish the price for remaining homes at Eight Orchids.

The bigger picture

More difficult to evaluate is what the auction will mean for the broader Oakland or East Bay market, experts say. People evaluating the market will certainly note the comparables - or sales prices of recently traded nearby properties - and buyers or their brokers could use them when making offers, providing additional negotiating leverage.

"All those auctions will end up in some appraiser's book," said Christopher Thornberg, an economist with Beacon Economics of Los Angeles.

No drastic markdowns

Still, developers and sellers aren't likely to drastically mark down their units based on one afternoon auction for a single building. The perception - or at least explanation - could be that Eight Orchids might have set its prices too high to begin with or that it may have limited appeal because it is near Interstate 880 and the Alameda County and Oakland city jails.

"That kind of discount could be attributed to their location, as much as to the overall market and credit situation," said Patrick Duffy, principal with MetroIntelligence Real Estate Advisors in Los Angeles.

The particular challenge for Oakland developers is that several large condo developments have opened or begun selling the past year. They include AF Evans Development Inc.'s 86-unit Market Square II, Molasky Pacific's 134-unit Ellington and Signature Properties' 132-unit first phase of Broadway Grand.

These builders are selling only a few units per month on average, according to San Francisco research firm Mark Co.

The Eight Orchids discounts could be unwanted news for those who have bought downtown Oakland condos during the past few months - especially if they settled on a unit in the Chinatown building itself. Gruendl acknowledged there is a gap between what early buyers paid and the amounts agreed to at the auction.

"But not enough that existing homeowners should lose sleep," he said.

E-mail James Temple at jtemple@sfchronicle.com.