

# Bay Area executives see rebound

But leaders differ on how big, how soon

**BY MARK CALVEY**

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An economic recovery is gathering momentum in the Bay Area, even as unemployment remains high.

Signs of better days ahead remain purely anecdotal. But dealmakers say transactions are finally coming togeth-

er, while home sales are rising and new mortgage products are returning to the market — with more stringent underwriting, of course. An increasing number of economists say the region's economy has turned the corner, but that it will feel like a downturn for a good while longer.

**SEE REBOUND, 50**



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**— John Conover**



**'Buyers and sellers are finally coming together.'**

**— Brodie Cobb**

# REBOUND: Bay Area executives see signs of recovery, but expect hiring to lag

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"The reality is we're in that transition period where the economy has turned, but not conditions in the labor market," said Dana Johnson, chief economist for Comerica Bank. The bank recently created a Comerica California Economic Activity Index to track the state's economic outlook. The bank's index on the state's economy — representing 13 percent of the national economy — has been steadily improving since March. So has the stock market.

But unemployment, traditionally a lagging indicator, has been moving higher. California's unemployment stood at 11.9 percent in July, and Beacon Economics predicts it will peak at 12 percent at the end of the year as job losses continue. In the Bay Area, unemployment is running at 10.4 percent, and Beacon Economics forecasts it will peak in the fourth quarter at 10.8 percent.

From a national perspective, most Federal Reserve districts reported this month that business conditions in their regions were improving. This week, Fed Chairman Ben Bernanke made his strongest statement yet that the recession has ended.

Any talk of an economic rebound may come as a surprise given the depths of the Great Recession — the worst downturn most Americans have ever experienced. And the recovery is likely to be rocky.

"We have a fair amount of pain and suffering to come," said John Conover, president and CEO of Borel Private Bank &

Trust Co. He's concerned with the economic impact of interest rates eventually moving higher, as well as the difficulty owners of commercial real estate will have in refinancing at lower property valuations in the next few years.

But it's not all bad news for Conover, a self-described optimist. His San Mateo bank expanded its payroll 6 percent, or by 11 people, this year to handle growth in loans and deposits.

## M&A on the rise

Merger activity also shows signs of picking up.

"In the past 30 days, buyers and sellers are finally coming together on price," said Brodie Cobb, CEO of San Francisco-based Presidio Financial Partners, which advises middle-market companies selling for \$300 million or less. In that arena, Cobb said credit availability has been less of a hindrance than the more difficult challenge of getting parties on opposite sides of the table to agree on what a business is worth.

Another Bay Area M&A adviser working primarily with companies generating annual sales of \$10 million to \$50 million, also has seen signals of a pickup since late July.

"We gauge the temperature of the economy, or the propensity to take risks, by the number of calls my firm receives from private equity groups. We received a call a day two or three years ago. Then six to 12 months ago, it was a call a month. Since late July, early August, we're getting three to four calls a week," said John Simpson,

a managing director at investment bank Onyx Associates.

He also notes that these private equity groups are hiring MBA graduates and ponying up more equity capital to pursue deals.

"These private equity groups are gearing up for an economic recovery," Simpson said. "But their due diligence is way up and their negotiating pencils are very sharp."

Those observations suggest that the M&A activity grabbing the national headlines, such as Adobe Systems buying web analytics company Omniture for \$1.8 billion or Kraft Foods' \$16.7 billion bid for Cadbury, is also occurring at the lower levels of corporate America.

## Housing market finds pulse

A modest improvement in the housing market is another sign of a turnaround underway in the Bay Area. The latest findings by the S&P/Case-Shiller Home Price Index found that the Bay Area had one of the biggest monthly gains in June, up 3.8 percent from May but still down 22 percent from June 2008.

Pioneering mortgage products squeezed out of the market amid the turmoil are clawing their way back. San Ramon-based CMG Mortgage — once one of the Bay Area's fastest-growing private companies, based on Business Times research — this month brought back its Home Ownership Accelerator loan program, which combines a mortgage and household checking account in an effort to build equity faster by temporarily reducing the mortgage bal-

ance by money flowing through the checking account. But the maximum loan-to-value on most HOA loans is now 75 percent, down from as much as 90 percent during the days of easy credit. CMG says it's confident that the HOA mortgage, popular with sales professionals and others earning good, but volatile paychecks will eventually move to 80 percent loan to value as the housing market stabilizes.

CMG offered the mortgage program from 2005 to 2008, when the financial crisis shut off funding for the mortgages. It's a sign of credit markets improving slightly that CMG found a lender, Ameriprise Financial, willing to purchase and service the loans. Of course, with the federal government backing more than 90 percent of the nation's mortgages, key sectors of the national economy remain on life support.

To be sure, there's still plenty to worry about. High unemployment and tight-fisted consumers are likely to continue as drags on economic growth.

Janet Yellen, president and CEO of the San Francisco Federal Reserve Bank, warned this week that the recovery might prove "tepid." Although Bank of America CEO Ken Lewis, speaking in Tokyo Sept. 15, said the economy might recover at a faster clip than many anticipate.

Comerica's Johnson falls closer to Yellen's outlook, but doesn't count himself among the more pessimistic forecasters.

"The economic outlook isn't as pathetic as some people fear," he said.

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# MID-MARKET: November ballot measure seen as pivotal to area's improvement

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a pot store. Now we have a national art supply — that is a big step in the right direction," said Addington.

Addington hopes the leases reflect Mid-Market momentum that will help build support for Proposition D, an initiative on the November ballot that would create a special sign district for 52 buildings along two blocks of Market Street between Fifth and Seventh streets.

A former retail developer in Georgia, Addington moved to San Francisco in 2003 to attend law school. He soon was drawn to the seedy edge of the Tenderloin, where he saw potential in the bones of the rundown theaters that had thrived there until the 1970s. In 2005, he bought the Warfield Theater and office building for \$12 million and also snapped up 1028 Market St. for an undisclosed price. The property is assessed at \$6.8 million, according to city records.

The new Warfield restaurant, in which Addington is a partner, will also be a big investment. Addington, who is financing the build-out of the space, said it would include a basement level speakeasy-style bar, which will be connected to the Warfield Theater, as well as outdoor seating atop a steel-plated canopy 18 feet above the street.

The restaurant and other businesses would potentially get a boost if Prop. D passes. The initiative would amend a 2002 ballot measure that banned new general advertising in the city and allow property owners to create a network of digital signs that could generate money to restore Mid-Market's historic theaters, create a ticket booth at the Powell Street turnaround and fund arts education in the Tenderloin. The measure has the support of six supervisors, including Board President David Chiu, but is opposed by advocacy group SF Beautiful.

Both the Warfield Theater and the Golden Gate Theater opened in 1922 and San Franciscans flocked to movie palaces like Market Street Cinema and the Lesser Nickelodeon, both of which now operate as strip clubs. The street started to decline in the 1960s when a beautification law forced building owners to remove signage and suffered even more during the long construction of BART in the 1970s. Addington said recent focus on the neighborhood from City Hall and the police department is helping.

"The police are here in a big way, the city is in here in a big way, and Prop. D is a game changer," said Addington. "Prop. D will change this neighborhood back to what it was in 18 or 24 months, and people from all over the world will be drawn here because you won't see anything we do here anywhere else in the world."

If enough tourists are drawn west down Market Street, eventually there will be enough visitors to justify converting adult business like the Market Street Cinema back to a regular theater.

"The biggest difficulty in talking to tenants is how do I get people at Bloomingdale's and Nordstrom and the cable car turnaround to know I'm here and walk a few blocks," said Addington. "The truth of the matter is for most retailers you can't do it today."

Market Street Association President Carolyn Diamond, who is a sponsor of Prop. D, called the proposition, along with the Addington's restaurants, "a first step." But she cautioned that this is not the first time she has been optimistic about the neighborhood before having her hopes dashed.

"It takes somebody to lead that parade, and you hope the rest of the band will follow," said Diamond. "People have had great ideas over the years, and were not able to make them reality."

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## How Show Dogs moved into spotlight

A cold beer and a quick bite: Theater-goers find Show Dogs fetching.

When South Pacific opens at the Golden Gate Theater Sept. 18, developer David Addington will be across the street wearing an apron.

Addington will be hustling behind the counter at Show Dogs, a gourmet sausage and beer joint at 1020-1028 Market St., one of three buildings that he owns on the rough-and-tumble corner of Market and Taylor streets.

Addington said he opened Show Dogs with partners from restaurant Foreign Cinema as a way to help bring positive energy to the corner. And he is counting on hungry theatergoers from the 2,500-seat Golden Gate Theater, which features touring Broadway Shows, across the street at 1 Taylor St.

"You have 2,500 people who arrive looking for a quick bite or a place to get a beer before the show starts," said Addington.

It was while in negotiations with the Foreign Cinema owners about opening a more formal restaurant in the Warfield building that he decided to

gauge their interest in collaborating on the hot dog and sausage venture.

"I said before we do that and spend a whole ton of dough, let's do this and prove that we can generate business selling a nice product at Sixth and Market, and, frankly, we have proven it. It works," said Addington.

Show Dogs serves organic meats with toppings like arugula, remoulade, and apple and horseradish sauces for \$5.50-\$7.65. Addington said they have had lunch business that has topped 90 meals in an hour. He credited the Foreign Cinema team with adding the culinary touch that has generated buzz on web sites like Chowhound and Yelp.

"My idea was to do hot dogs, and I met with (Foreign Cinema partners Bruce MacDonald, Gayle Pirie and John Clark), and they took it up a level to a Show Dog. The truth of the matter is that in my home town of Valdosta, Ga., you didn't eat a lot of dogs with arugula," said Addington.

—J.K. Dineen ■