SAN FRANCISCO APARTMENT ASSOCIATION

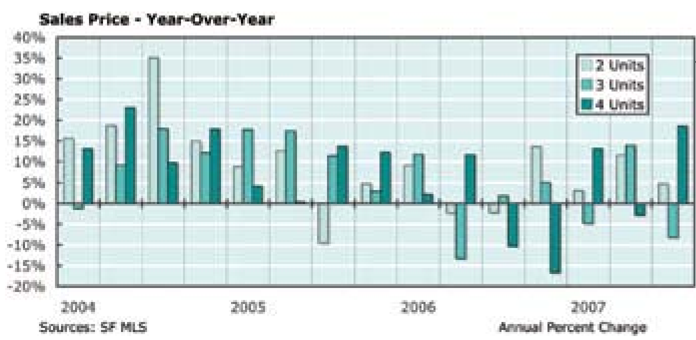
THE 2-4 WORLD

Down, But Not Out

By Erika Burke

In the third quarter of 2007, 128 2-4-unit properties transferred, 15% less than the previous quarter. The average sales price of $1,398,498 dropped by 5.6%, though the average days on market (DOM) was 51, 4 days less than last quarter. The total dollar volume of $179,007,790 is down 32.1% from the last quarter.

This quarter, 47% fewer transfers occurred than the 240 transfers of 2005 and 27% fewer than the 176 transfers of 2006. The sale vs. list price has dropped less than 1%, from 102.97% in the last quarter to 101.88%. The third quarter of 2007 and 2006 are virtually identical in sale vs. list pricing, though it is 5% less than 2005’s height of 106.49%. In previous years, we have not seen a downturn of this nature from the second to third quarters.



TRI-Coldwell Banker and Zephyr Real Estate maintained their top performance spots as multiunit listing and selling agencies. Coldwell Banker transferred 49 properties with a dollar volume of $68,137,000, for a 19% market share. Zephyr Real Estate transferred 33 properties with a dollar volume of $42,192,050, for an 11.8% market share. They were followed by Pacific Union/GMAC, Hill & Co., McGuire Real Estate and Prudential, in that order. John Kirkpatrick of Coldwell Banker produced the highest sales volume of $6,734,000, for a 1.88% market share.

It appears the media reports of real- estate slowing may actually be coming to fruition in San Francisco. Previously, the data had shown that we were almost immune, though now it appears the market is slowing. Does this mean rental stock could rise as a result of sluggish multiunit sales?

Notable Sales

Laurie Nierenberg of Coldwell Banker sold a 2-unit at 208 Francisco St. on Telegraph Hill. The building is known as the Glickman House and was designed by award-winning architect Howard Backen. This showpiece modern building was sold for $2,300,000.

August 24, 2007, was the auspicious day when 2538 Sacramento St. closed escrow at 152.12% over asking for $1,900,000. Sara Khan of Prudential represented the buyer and stated that at the end of the first listing day there were seven offers. By the next morning, 10 offers were on the table. She stated that the final price was still slightly below comparable sales prices in the area, and that the large 4,000-square-foot lot, plus an extra level in one of the units, made this a tremendous value. The low initial list price may be attributed to the fact that the listing agents were not from this area.

Andrew DeVries of Prudential California Realty listed 1538-1540 Shafter Ave. in Bayview for $549,000 and it sold for $590,000—the lowest dollar amount for a 2-unit in San Francisco this quarter.

Boris Oplanic of Coldwell Banker listed 5420-22 Fulton Ave. for just under a year. Perhaps new information in February that the three-bedroom flats would be delivered vacant contributed to the early July closing.

Two Units

In 2-unit building sales, there were 81 transfers during the third quarter of 2007, 17% less than the 112 during the same quarter in 2006 and 22 less than the previous quarter. The dollar volume was $109,887,200. The average price per sq. ft. was $492, and these properties stayed on the market for an average of 46 days, 8 days less than last quarter. The average sales price was $1,356,632, 15% less than the second quarter. The average price per unit was $678,316. Of all 2-4-unit sales, 67.25% were in the 2-unit sector.

Neighborhood sales showed Noe Valley with 11 transfers, Sunset/Parkside with 10 and the Inner Mission with 7. Forty-four transferred for over the asking price, 23 transferred under the asking price and 14 transferred at asking. Eight properties transferred in less than a week, 36 properties sold in under 30 days and 22 languished for over 50 days. Only nine of these properties were marketed with a GRM and therefore promoted as income property; with numbers as high as 142.9 GRM, 2-unit buildings may not be the income property owner's best investment. List price vs. sales price has remained steady for an average of 102.62%

Of all sold properties, 37 showed one or more vacancies in their marketing remarks, with 5 marketed as "fixers" and 9 mentioning one or more protected tenants. These issues were most likely mentioned because buyers have been asking specific questions so they might determine the best use of the building. Always ask a knowledgeable realtor what to look for, and make a list of hard questions pertaining to rent control, city ordinances, development issues and current legislation when you are considering any sale or purchase.

3 Units

During the third quarter, 29 3-unit properties transferred, 11 less than last quarter and 50% less than the same quarter in 2006. The average sales price of $1,414,920 declined by 10.5% from the previous quarter and by 7.5% from the same quarter in 2006. The sales period average was 45 DOM, 5 days less than the previous quarter. The average cost per unit was $471,640, which is 30.5% less than the cost per unit in a 2-unit building.

The total dollar volume for this quarter was $41,032,690, only $6.4 million less than the previous quarter. List vs. sales price at 100.99 is slightly above asking, showing appropriate pricing for 3-unit buildings.

Five sales were in the Inner Mission, followed by three each in Central Richmond and Bernal Heights. The bulk of the transfers—75%—were for buildings with sales prices between $950,000 and $2 million. Three-unit sales represent 18.75% of all 2-4-unit sales.

Three-units in today's market tend to be an assortment of mixed-use, tenant occupied, remodeled, TICs, a few fixers and a couple sold with renovation plans. This appears to be an even mixture across the board. This may be an indication of the next hot market commodity in terms of speculation as this type of multiunit can still provide a return on investment.

Around 3,000 new construction units will be coming to the market in the next year or so, which may mean that—for the buyer that looks for the kind of neighborhood lifestyle the smaller multiunit offers—the 2-4-unit building will hold an even greater value than just it's monetary worth.

4 Units

In the 2-4-unit market, 14% of all buildings sold in the third quarter were 4-unit properties. There were 18 transfers for a total dollar volume of $28,087,900. The price per unit was $390,109—still the best per-unit value. DOM was 62, down 2 days from the prior quarter. The average sales price of $1,560,439 showed a gain of 2.5% from the last quarter. Four-unit properties are transferring for their asking prices, with an average of 100.99% of the original asking.

Central Richmond and Noe Valley each transferred three properties. The average cost per sq. ft. in a 4-unit is $426.42, while the total building average square footage is 3,628. There were six overbids, five at asking and seven below asking. Based upon 9 of the 18 sold properties, the average GRM was 20.65, with a low of 14.61 and a high of 35.56. The 4-unit sector is the only one marketed and sold mostly as an income property.

The Big Picture

What is contributing to the real-estate slowing that may have finally arrived for this market? Could it be local legislation, the fluctuating mortgage market, subprime defaults or the media-induced panic? Most SFAA members are investment property owners concerned with their present and future income. Does San Francisco really have dwindling rental stock due to the multiunit TIC and condo conversions?

When divesting, position your building to sell based upon its income and expense. The average cap rate in the city is between 4.2% and 5.2%. The prospective buyer will be required to put a hefty down payment at these caps, which narrows the pool of prospective investment buyers.

Want to affect change in the market? Lower the asking prices to raise cap rates to 7%-9%, which makes more sense for the investor. What is to keep the current investor exodus from San Francisco for other markets like commercial TICs, triple-net leases or, oh my, the stock market? It’s time to sell when you’ve reached the useful life of the building’s depreciation and recapture taxes.

If you believe that selling your 2-4-unit property for its income benefit is making you lose the dollars you deserve, do the latest “new” real-estate conversion math. Upgrading units for individual sale means new electrical and plumbing systems, foundation work, roofing, cosmetic repairs, plus interior and exterior paint, fixtures, appliances, counters (kitchens and baths) and probable staging for the sale. In the last two years, the cost of construction supplies have doubled, hence contracting fees have risen accordingly. By the time you have paid for these upgrades, the cost of the sale, the cost of vacating units (if necessary), the possible taxes to be paid (if not using a 1031 exchange), and your time, you may find that you should have sold your building as an income property and contributed to what this city has so voraciously defended: its rental stock.