

# San Francisco Market Update: Q2 2009

In Q2 2009, old news for 10+ units was that Citiapartment buildings came back on the market at lower prices. News to watch is their closing prices in the next two, maybe four to six quarters.

Prices continue to drop for the 2-4 unit market. Q2 2009 median prices for two, three and four unit buildings with parking in Districts 1-8 were \$1,036,500, \$1,240,000 and \$1,150,000 respectively. Compare these with Q2 2008 prices: \$1,260,000, \$1,520,000 and \$1,425,000 respectively.

Two interesting submarkets to note are the 5-6 and 7-8 unit groups as their median prices are leaning towards those of 3-4 units.

The buyer pool for these properties can be diverse, including owner occupiers, income investors, TIC developers and a handful of homeowners who were able to convert chopped up Edwardian or Victorian buildings back into higher priced houses.

Based on Q2 2009 median price (\$1,369,5000) and \$/sq ft. (\$288), 5-6 unit buildings in Districts 1-9 with parking are at about Q2 2004 prices. 7-8 unit buildings are closer to Q2 2003 prices, with two Q2 '09 sales averaging \$1,287,5000 or \$192/sq ft.

Multiples for both property types have so far drifted down to Q3 2003 levels, perhaps with more investors looking at these buildings from a cash flow/income perspective and a tougher loan environment.

The best buy of the year so far? The six units at 2060 Ellis St. Listed at \$1,550,000, it sold for \$1,300,000 in Q2 2009.

*Pros:* professionally managed building with strong leases, very good tenant profile, good rental location, and very good income: \$133,000 per year or 9.73Xgross. Some of the units' rents may be considered high in this market, but two units had below market rents. So there was a balance.

*Cons:* some brick foundation and two buildings on one lot, meaning potentially higher capital improvement costs.

More buildings should sell at 10X gross or less, but it is the price range that made Ellis Street unique in the last quarter. The \$3M+ group have fewer buyers who may be able to dictate price better. In contrast, there are many buyers who can afford properties for less than \$1.5M. Competition usually keeps prices higher. Even the two 7-8 unit sales averaged 12.52 X gross. Ellis Street was a sleeper, taking 6+ months to sell.

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Where will prices go? Was it TIC developers who inflated the prices? Looking at the sales and then TIC re-sales of some of these properties, there are interesting TIC stories to tell. Developers who bought earlier exited quickly and profited nicely. Their decision to pay a premium paid off. Some who bought in 2006/2007 are still trying to sell their units.

However, these developers were not the only factor on prices for 5-8 units. Going back almost ten years and 38 quarters to Q1 2000, multiples stayed well above 10, with more focus on \$/sq ft and location.

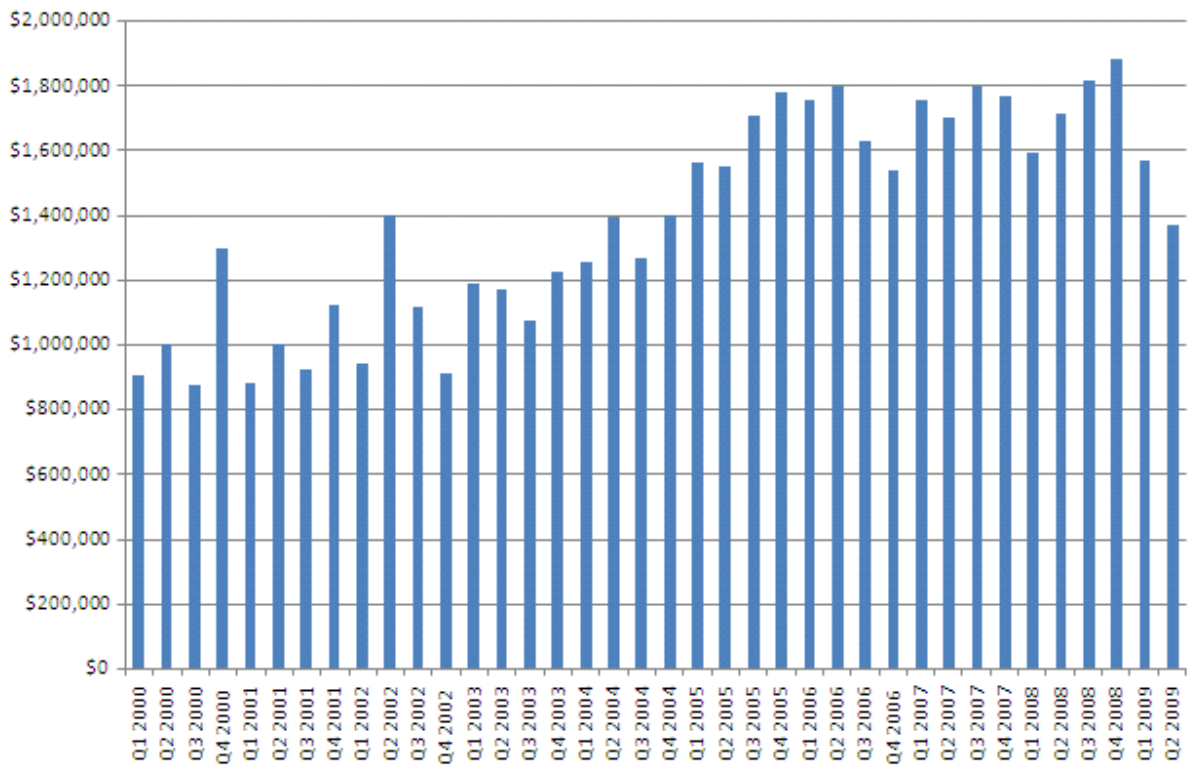
In Q4 2001 an 8 unit building on Lombard in the Marina sold for \$1.8M with a multiple of 15.15. That is high, but \$220/sq ft was and still is attractive in District 7. Similarly, a 7 unit building sold in Q1 2002 in Outer Richmond on 33<sup>rd</sup> Avenue for \$980,000 or \$151/sq ft. Attractive price, yet the multiple was 15.71.

Many investors benefitted on an eventual upside in rent despite buying at higher multiples. Some did not if their rents continued to remain below market.

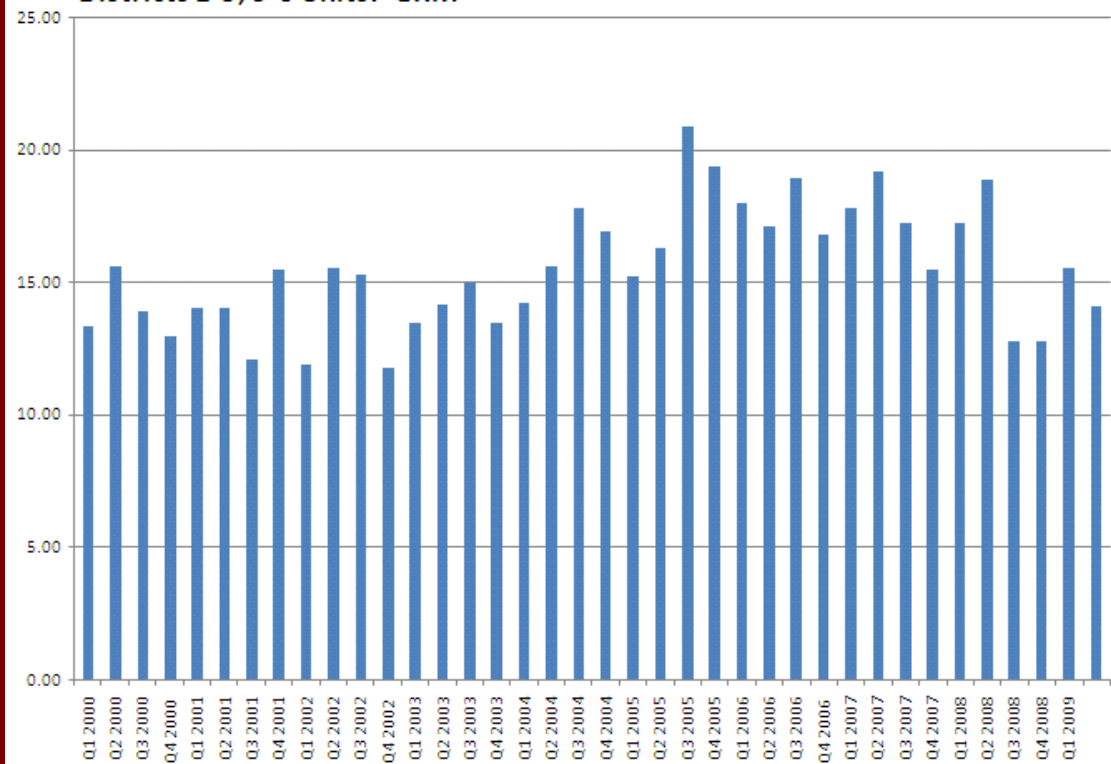
Even if prices dip to 11 or 10 X gross, current debt service ratios will disappoint those hoping to put less money down. *Assuming 6.5% rates and DSR's optimistically at 1.2*, investors still need 40%-50% cash to qualify.

***More details and charts at [www.quinnsolutions.com](http://www.quinnsolutions.com)***

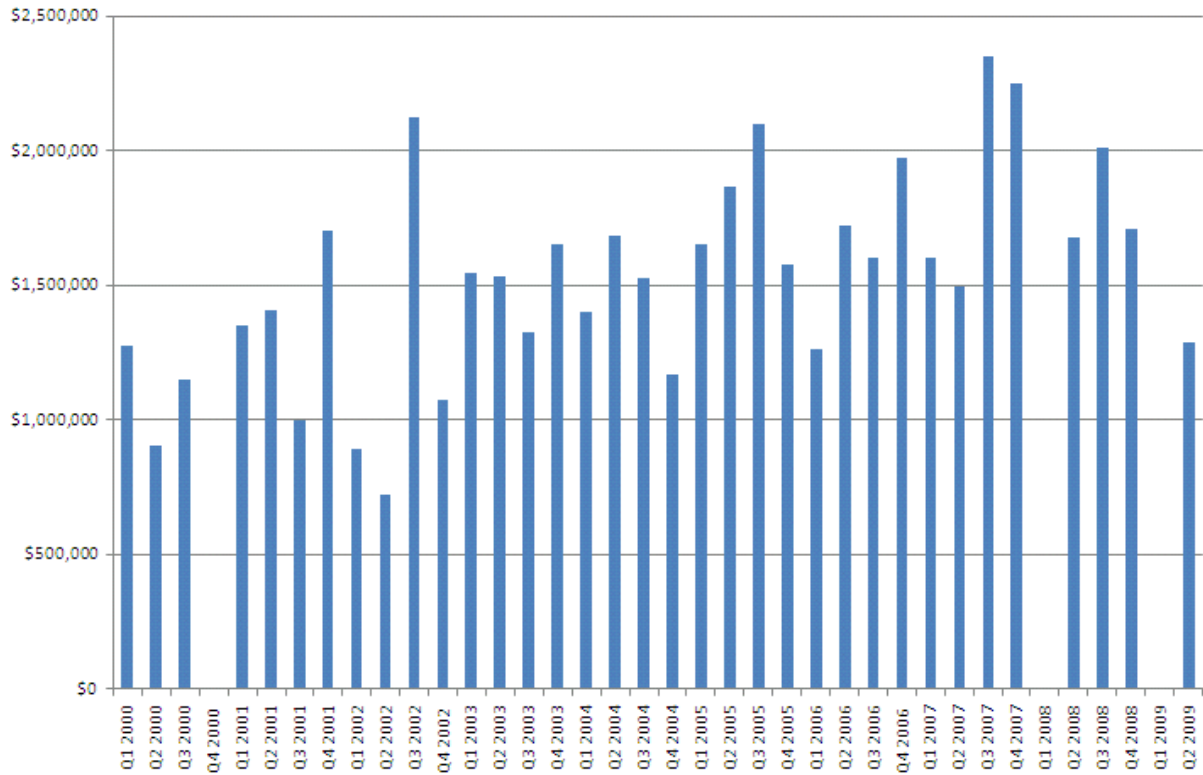
**Districts 1-9, 5-6 Units: Median Price**



**Districts 1-9, 5-6 Units: GRM**



### Districts 1-9, 7-8 Units: Median Price



### Districts 1-9, 7-8 Units: GRM

