

Q4 2010 highlights: Smaller two to four unit buildings sold faster last quarter. Sales volume and prices went up for duplexes, reaching 2004 pricing. With Q4 condo sale prices in premier buildings such as 999 Green and 1170 Sacramento averaging less than \$900/sq. ft., two duplex sales north of California Street in Q4 were remarkably high. 2727-2729 Pacific Ave. sold for \$846/sq. ft. (\$5.5M) and 2615 Larkin St. sold for \$1,056/sq. ft. (\$3.55M), despite being large buildings at 6,496 sq. ft. and 3,360 sq. ft. respectively.

Sales volume remained low for 3-8 unit buildings. For the 5-8 unit buildings, the cap rate remained at 5% or less. Dollar/sq. ft. remained below \$300 for the third straight quarter, although the price trend is up.

Most noteworthy in the 10+ unit group were sales in Downtown (District 8A). **Downtown sales were around an attractive 7% cap rate.** Being a less sketchy neighborhood and with potentially better tenant profiles than its southern neighbor, the Tenderloin, Downtown apartment prices could be attractive in 2011. North of Downtown, the average sale price north of California St. was closer to a 5.5% cap rate or lower.

Perhaps San Francisco's real estate market in 2010 is best described with an analysis of the Mission District. ***This neighborhood seems to be a microcosm of what is happening throughout the city: fragmentation. In 2010, there were signs of strength, stability, consistency and deterioration in the Mission.***

Strength: In other parts of the city, construction stalled at One Rincon and Mission Bay; and developers at BLU, SOMA Grand, and the Millennium struggled to close out sales. In contrast, the two new Mission District buildings at 555 Bartlett (58 units) and the Union (76 units) saw healthy activity. In just over a year after their releases, the Union sold out in 2010 and 555 Bartlett only has two unsold units left. What helped sales were fewer units to be sold and lower price points. This suggests that (a) with the right supply/demand balance, sales can be healthy; and (b) buyers are active if they can afford to buy.

Consistency: Consistent with the rest of the city, there was very little activity for 3-8 unit buildings. Also, similar to duplex sales overall, prices of vacant duplexes went up in the Mission. Sales activity could even be described as strong, with multiple offers on several properties and sale prices over asking.

Given the strength in the two bedroom condo category in the Mission, vacant duplexes may be an attractive investment for owner occupiers looking to condo convert. However, the price gap between vacant duplexes and those with one tenant occupied unit may not be sufficiently large to justify buying a partially occupied building at a slightly lower price. Buyers have to price in the cost and risk of vacating the building for owner occupiers.

Stability: Lofts prices in the Mission fared better than in SOMA and sold at about 2004/2005 prices. Two bedroom condos in smaller 2-6 unit complexes did even better, selling at about 2006 prices. The price gap between this type of condo in the Mission and Noe Valley decreased in 2010. Sale prices of Noe Valley two bedroom condos were between 2004 and 2005 prices. Noe condos are about 14.5% below their peak; Mission condos are just 7.5% below.

Deterioration: The bleakest property type in the Mission was a fully occupied duplex. Some have significant deferred maintenance, partially due to a combination of low rents and multiple tenants. There was a distinct and rising gap between the prices of vacant and fully occupied duplexes.

Downward price trends could generally be seen for 2-4 units in the Mission. In 2011, an investor may find an attractive 3-4 unit property, if the tenant profile and property condition are good.

Prices for some Mission District buildings, regardless of whether it were a tenant occupied duplex or a 5+ unit building, dropped below \$200/sq. ft. It will be interesting to see if \$/sq. ft. plays a larger factor in determining market value in 2011.

These different market trends can be seen in various parts of San Francisco. Location and occupancy continue to impact strongly on values. That is why a 2,500 sq ft duplex can sell for \$865,000 where prices are soft in the Avenues (Sunset), or \$500,000 in a distressed bank owned sale (Lower Pacific Heights), or \$1,410,000 in a premier location (Pacific Heights).

Q4 Notable Sales

- **1244 Treat** is a Mission District duplex originally bought in November 2004 for \$510K. Tax records show two one bedroom units, totaling 1,468 sq. ft. With multiple protected tenants, the units rent for \$515 and \$316 respectively. This became a bank owned sale in Q4 2010, selling for \$205K, or just \$139/sq. ft.
- **959-961 Union St.** is a vacant fourplex in Russian Hill that was a risky, but successful flip. The seller bought it in June 2010 for \$1,125,000. He re-listed it for \$1,349,000 and sold it for \$1,237,000 in October, 2010.
- Lone Mountain and Jordan/Park/Laurel Heights had two noteworthy sales. It will be interesting to see how **340-346 Euclid** gets transformed. Tax records show four large one bedrooms totaling 5,200 sq. ft. It was sold vacant for \$1,772,500. **174-176 Stanyan** is a huge duplex with tax records showing over 5,400 sq. ft. Sold for \$1,365,000, or \$115K over asking, could this transform into \$1.25M+ condos?
- **2223 Lake St.** is a six unit building with two car parking. Actual annual rents are \$131,000, with some upside. Sold at \$1.6M, this is a 12.2 multiple, or almost a 5% cap rate. Given the solid location, this is an attractive purchase especially for a first time investor.
- **625 Taylor St.** is a 21 unit building in Downtown, in good condition. One block up is 723 Taylor, a brand new condo complex with 12 units. Recently released, almost 50% of the units are apparently in contract. Sale prices may surpass the high \$700's/sq. ft. On the same block is 901 Bush, which has 38 very small, newer construction condos that mostly sold for well over \$800/sq. ft. in 2009 and 2010. Given the surrounding demographics, 625 Taylor is attractive, selling at \$2.7M, with \$310,000 in actual annual rents. This is an 8.7 multiple, and close to a 7% cap rate.

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