

PULSE ^{OF} THE MARKET ©



Malcolm E.A. Kaufman
Top Producer
McGuire Partner™

(415) 351-4637

mkaufman@mcguire.com

www.SFpulseofthemarket.com



Sale Price/Sq. Ft. No Love

Part 40

Introduction

The other day I found myself like the proverbial deer in the automobile's head lights when asked about the average sale price per square foot for condominium units in the South of Market/South Beach neighborhoods. I never know how to answer the question because I know that the asker is looking for a simple, straightforward answer, and my mind is so full of facts and figures that I am unable to give them what they want.

Though I am convinced that there is no simple answer, it's clear to me that many others still seek the square foot Holy Grail. So that my readers don't enter into this crusade blindly, I've decided to devote this *Pulse* to a brief discussion of the subject. My intent is to provide some answers so that buyers and sellers have a better sense of this persistent price per square foot issue.

While condominium developers use the square foot metric extensively for both cost and sales calculations, I submit that it is of little consequence to individual buyers. As I note in my summary, buyers fall in love with all sorts of things, but they do not fall in love with dollars per square foot ("sq. ft."). Love has everything to do with decisions close to our hearts. And even the savviest calculating investor doesn't spend this kind of money without emotion.

Averages are Misleading

Averages are misleading, and that's our problem. If I tell you that the units at xyz condominium project average \$700.00 per sq. ft, does it really mean anything of value? Take a look at the range of dollars per sq. ft. of the following five large condominium projects in South Beach and SOMA, all of which were completed and sold out in approximately the last 18 months.

Malcolm E.A. Kaufman

<u>Project</u>	<u># of Units</u>	<u>Average SF Size</u>	<u>Average Sale Price</u>	<u>\$/SF</u>	<u>Range \$/SF</u>
200 Brannan	159	1,530	\$861,697	\$559	\$971/\$390
255 Berry	87	1,349	\$850,978	\$636	\$965/\$422
88 Townsend	75	755	\$566,559	\$755	\$930/\$594
Metropolitan	296	943	\$719,499	\$757	\$1206/\$480
199 New Montgomery	130	778	\$584,628	<u>\$778</u>	\$1160/\$413
Weighted Average:				\$704	
The Landmark	39	716	\$536,571	\$742	\$980/\$466

So would the weighted average of \$704.00 (\$/SF) of the above five developments be a good answer? If people didn't know about the range in the numbers, maybe the number of \$704.00 would be satisfactory, but if they knew the spread, then it is unlikely that they would find any comfort with the averages.

One of the things I find interesting in the above table is how wide the range actually is between high and low sales price per sq. ft; in the same building! The building and its location and attendant package of amenities contributes a certain (major) portion of a unit's ultimate sale price. The other portion of the unit price is a combination of the configuration and amenities of the specific unit itself; size, number of bedrooms/baths, layout, outdoor space, condition, deeded parking, corner versus interior unit, number of units on the floor, height in the building, and of course, views.

Views, whether of the Bay or the City play a significant role in the value of San Francisco real estate, as you are well aware. Consequently, I choose to place little reliance at all on average sq. ft. calculations. Such calculations are at best a questionable benchmark. Location and a great view can have a significant impact on the numbers. For example, take a 1,000 sq. ft. unit that might ordinarily fetch \$700,000, but with a knock out view of the Bay, it could sell for \$900,000. In this case the view could be worth \$200,000, and the square calculation would be \$900/SF rather than \$700/SF. Throw in a superior location, some outdoor space, and a remodeled kitchen with some pizzazz, and we might end up with \$1,100,000 and \$1100/SF. Since all the above units in each building were constructed at the same time and with generally the same amenity package, the height in the building and views are probably the major reasons for the large spread in the above Hi/Low numbers.

Note that the average price per sq. ft. is lowest at the 255 Berry and 200 Brannan developments, and the buildings average unit size are the largest. The smallest units will generally sell at a higher price per sq. ft. than the largest units; all other things being equal.

In addition to views, the quality of finishes can have a big impact on the ultimate sales price. For example, at the bottom of the list is the 39-unit project known as The Landmark at 333 Grant St. in the Financial District, which sold last year at approximately \$742.00 per sq. ft. There were essentially no views in any of the units and no deeded parking (leased parking is available at \$275.00 per month nearby). The units sold out in seven months.

While the location is excellent, being one block from Union Square, the high grade, quality finishes caught the eye of the market. Had deeded parking been included, using an average size of 716 sq. ft., and a \$50,000 value for a parking space (my estimate), the average sale price per sq. ft. would have been incremented about \$70/SF, for a new figure of \$812.00/SF price

Summing Up

Appraisers generally use the sq. ft. metric as a baseline to compare properties and then add/subtract for variations of location, condition, views, etc. Developers use the metric extensively to evaluate the overall viability of a project. Take for example a 200,000 sq ft. project. The developer estimates that it will cost \$500 per sq. ft. to build, and let's say they need an overall, average sale price of \$900 per sq. ft. (for all units) to attain their profit target and make the necessary return for investors. Of course, they need to price each individual unit for the marketplace, but their primary concern is to hit an overall price per sq. ft. mark for the project.

It is different for the individual buyer. I don't have any clients who turn to me and say, "Malcolm I love this place because of the dollar price per sq. ft." In my experience people fall in love with lots of things – some that make sense and some that are too idiosyncratic to imagine. The usual suspects are the location, the view, the layout, the outdoor space, amenities, etc. But they don't fall in love with the price per sq. ft. My most picky clients, those whose day job is in the financial services area, are the most dogged about my justifying the price on a sq. ft. basis. But even they buy for reasons other than sq. ft. price, and then justify the price on some other basis. After all, it's love that makes the world go round!

The most recent *Pulses*, which can be found on my Web site at <http://www.SFpulseofthemarket.com> are:

Pulse 39 – Wrapping 2005

Pulse 38 – The Soufflé Has Arrived

Pulse 37 - SOMA in 2015

Malcolm E.A. Kaufman
Top Producer – *McGuire Partner*TM
(415) 351 - 4637
mkaufman@mcguire.com
[SFpulseofthemarket.com](http://www.SFpulseofthemarket.com)

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