

PULSE OF THE MARKET ©



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Lessons From New York

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Introduction

I am just back from a trip to New York City. The main purpose was to join in the celebration of the 90th birthday of a dear cousin. My older daughter accompanied me, and we enjoyed some unforgettable ballet and theatre and some forgettable dinners. So what does a San Francisco Realtor® do during the day: museums, shopping, and sightseeing? Not a chance. How about visiting 10 new residential developments to add to one's perspective of the San Francisco real estate scene? Of course.

While I admit being struck by some of the differences in real estate between the two cities, some basic similarities and the level of competition (there is a lot of new unit inventory on the market) had me reflect and wonder whether some of the trends I saw in New York will occur in San Francisco. The following comments relate only to high-rise units in both cities.

New York Parking

In San Francisco it is common to ask whether parking is deeded or leased. In New York one need not ask. Deeded parking does not exist. Owners are lucky if there even is parking on site. More often, it is around the corner or down the block. In any event, the parking is typically owned and operated by an outside concessionaire, and generally costs \$500/\$600+ per month versus a leased parking cost of \$250/\$300 per month in San Francisco.

As a data point, I value a deeded space in San Francisco at \$50,000 to \$75,000 so a space in New York would probably be valued at \$100,000 to \$150,000+.

Concierges, Finishes, Views, and Other Amenities

I think every development I visited plans to have a concierge. What struck me was that some concierges are being touted as better than other concierges. It is not enough these days to have a concierge, it is competitively better to have a *name* concierge and one who is on site 24/7, rather than just a phone call away. Selling feature - my concierge is better than your concierge, and mine is famous!

Most buildings are also promoting their *name* architect and/or interior designer. While waiting for the sales person at 485 Fifth Avenue, I was treated to a multi-TV screen presentation of Peter Som's 2004 and 2005 fashion collection. Since the runway models were quite beautiful, and there were lots of them, I was enjoying my wait. It was not until I toured the condominium model units (not the runway models) that I realized that Peter Som had been engaged to bring his special design to each of the condominium units. "Peter Som now fuses architecture and couture as never before," so the Web site states.

Instead of the Golden Gate Bridge, Alcatraz, Oakland Bay Bridge, and city views, New York has the Empire State Building, the Chrysler Building, a few bridges of its own, and the beautiful expanse of Central Park. With the exception of buildings on Central Park South and West and particularly those units facing the Park, views at other buildings are generally more pedestrian. However, they are jealously guarded. In more than one instance I was told that the developer had purchased "air rights" of adjoining buildings to ensure that there would be no future construction that might affect the existing views and light.

To the best of my knowledge this has not been an issue in San Francisco, but as new high-rise buildings multiply south of Market, it could very well be an issue. Though air rights acquisitions have yet to be considered as necessary in San Francisco, views at some of the existing buildings are sure to be impacted by newer buildings. This may be a future selling point for developers thinking ahead.

Money issues

When a property is sold in San Francisco, the seller is subject to a transfer tax of \$7.50 per \$1,000 of value transferred. It goes into the coffers of the city. That is \$7,500 per million dollars. In New York the transfer tax is 1.8+%, and there is an additional "mansion tax" of 1.0% for properties over \$1 million. This works out to a cost of \$28,000 on each \$1 million. Though San Franciscans grumble about the transfer tax, we could consider ourselves lucky.

Another money difference is the amount of deposit required to hold a new unit. If you want to reserve a unit at the new One Rincon Hill or Infinity buildings, you will make a non-refundable deposit of 3% to 5% at the time you go into contract. The balance is due upon delivery of the unit – ready for occupancy. In New York you are required to come up with 10% upon contract signing, and an additional 10% to 15% some 4 to 8 months in the future. You have more of a disincentive should you think of walking away from the transaction. It will be interesting to see whether San Francisco developers institute this staggered, increased deposit scenario.

Buyer Motivations

Like those in San Francisco, New York buyers of the new properties are empty-nesters, second-home buyers who want a place in the city (Realtors refer to such a property as a pied a terre), foreign investors, as well as people who are trading up or down in size and value. A couple comments on motivations caught my attention. The first has to do with people who live in classic pre-war buildings; generally ones that were built in the 1920s/30s.

I was told that some of these owners may be considering renovating their existing apartments. Then they can suffer the accompanying pain, disruption, and cost of work. Instead, they are thinking about purchasing a unit in a brand new building, in a prime location, enjoy the amenities of new construction including those mentioned above as well as the latest in plumbing, electrical, and heating systems. Savvy developers are incorporating many of the attractive features of pre-war buildings.

Though the new buildings generally do not have the charm of ones built in the 1920s/30s, many do have spacious rooms, generous closet space, and good flow. They have updated systems and appliances and probably less ongoing maintenance. I wonder whether some owners in classic Pacific Heights, Nob Hill, and Russian Hill buildings will opt for new homes in south of market towers. Some have already done this with purchases at The Four Seasons, St. Regis, and Ritz-Carlton properties. I bet more do.

The other comment that caught my attention was about two-income families (and both work in Manhattan) who previously fled to Westchester County because of the New York crime and lousy public school system. Many are now returning to New York, particularly to the TriBeCa neighborhood. The allures of the suburbs left one lingering problem for these younger buyers with children - in an emergency they can't get to their children quickly; it's not a cab ride across town. Rather it would more likely be an hour or more. So what has happened? Parents have banded together to make better schools in the TriBeCa neighborhood. Both Mayors Giuliani and Bloomberg have made the city safer. Parents took care of the schools.

Mayor Newsom has gone on record that there are more dogs in San Francisco than children under 18 years old. The lack of good schools is a quality of life issue. I see the resultant flight to Marin, South Bay and East Bay by young couples with school-age children. Can the TriBeCa phenomenon take place here in San Francisco? If parents band together in Rincon Hill and South Beach can they make better schools? Why not? With all the new development in the works, perhaps it would be wise to better our quality of life by taking lessons learned. It seems like a sound investment that only increases the base that supports our city's vitality.

San Francisco Update

Since my last *Pulse*, both One Rincon Hill (425 First Street) and The Infinity (300 Spear Street) have opened their sales offices. As a testament to very good salesmanship and attractive pricing, One Rincon is 95% reserved, - in a week! Since buyers are not yet in hard contracts (read – non-refundable deposits) and occupancy is not until Q 1 2008, no doubt some of the reservations will evaporate. Notwithstanding that, some \$300 million+ was committed to this project by buyers. This represents more than 10% of the total value of all condominiums bought and sold throughout the city in 2005. This for one building!

The Infinity will start taking deposits this coming week, and unlike One Rincon, they are using a more deliberate sales approach and releasing a limited number of units in stages.

The availability of these new projects (with more on the way) has to impact the re-sale of condos in the more traditional neighborhoods throughout the city as well as the other new projects that came on the market during 2005 and have not yet sold out. Two years ago there were six new-project sales offices open south of market: today there are 13! Buyers have a number of choices, and it is very important that they comparison shop.

Summing Up

I found my New York trip fascinating since it gave me an opportunity to visit and compare 10 new projects within a 24-hour period. Boy, did I see some beautiful kitchen finishes from some of the best designers in the world! Like San Francisco, it comes down to location, views, amenities, and of course, price. When the going gets tough, high quality is always a distinguishing factor. The game is the same.

The cycle in New York is similar to that in San Francisco. In both cities, there is a lot of new inventory slated to come to market in the 2007 to 2010 time period. The good news is there are many different buyer types.

It is absolutely imperative, whether it be New York, San Francisco or some other city, to gain more than a passing understanding of what the local landscape will be five to seven years out – a time when today's buyer just might be thinking of selling. I am passionate about this concept, as you can tell. I see many buyers committing to buildings where they have no idea of what is going to take place next door, down the block, and/or across town. In my mind, each city is one big competitive landscape, and what sells at One Rincon/The Infinity has an impact on classic buildings like 2090 Pacific/1990 Green, and vice versa. While it does take a lot of work to understand the intricate inter-relationships that create the competitive landscape, it is well worth acquiring such expert knowledge.

Buying a residence is a lot like playing golf and investing in the stock market. The fewer mistakes you make, the better score you will have.

So get a good guide (read – competent and knowledgeable Realtor®): not one who just knows a specific neighborhood but one who appreciates the broader residential landscape – call it the local shopping emporium, where comparative shopping is essential.

My contact information is below.

Some recent issues of *Pulse of the Market*:

Pulse 43 – Diamonds & Champagne

Pulse 42 – Buyer Motivations

Pulse 41 - Ritz-Carlton, Fractional Ownership

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