

PULSE ^{OF} _{THE} MARKET ©



Malcolm E.A. Kaufman
Top Producer
McGuire Partner™

(415) 351-4637

mkaufman@mcguire.com

www.SFpulseofthemarket.com

Who's Going to Buy All Those Units?

Pulse 49

New York Times, Metropolitan Diary* - February 21, 2007

“While getting my Midwestern kicks browsing on Madison Avenue somewhere between 65th and 68th, I wandered into a ‘wearable art’ shop. Van Gogh would have loved to sell his paintings for the same price as the coats.

At the elegant desk that served as the place to pay for the gorgeous items, I heard the clerk ask the svelte, chic customer (should I say client?): “To what address should the sweater be sent?”

Dumbstruck, said shopper wailed, ‘I don’t know; I have five of them.’

As I slipped behind the luxe scarves, the better to listen to the discussion, I heard her finally settle on the one on Martha’s Vineyard after nixing Naples, Santa Barbara, London and Houston.

It was then I realized I was not at Wal-Mart any longer.”

- Judith

There is a lot of money floating around

Last week I met with a client who heads up the San Francisco wealth management business for one of the country’s major banks. As we were exchanging pleasantries, he commented that his shop was currently being inundated with unprecedented amounts of money. This comment gave me a greater appreciation for the many articles that I have been reading over the last several months about the large number of private equity, hedge fund, corporate take-over deals, and stock buy-backs that have been taking place. While a lot of money is going into wealth management accounts, some is also going into residential real estate, some into trust accounts for the kiddies, etc.

*Each Monday *The New York Times* publishes Metropolitan Diary that contains vignettes of New York living



Guess Who Has It?

A boomer is an American born between 1946 and 1964.

- 1960 – 1964 22,855,827
- 1955 – 1959 21,833,393
- 1950 – 1954 18,933,261
- 1946 – 1949 13,284,683

Total Boomers: 76,957,164 (about 26.7% of the total US population)

The first baby boomers turned 60 in 2005. The life expectancy of the older boomers is 77.3, but many are expected to live longer.

Of course not all boomers are wealthy, but my guess is that at least the top 1% (769,000+) mostly likely are. And of course, they are spread around the country. With California representing more than 10% of the nation's population, I figure that there are probably 7 million+ boomers and 75,000+ really high-end boomers living with you, Arnold, and me here in California. Add to that number the Googlers and others who have made millions long before seeing their boomer years commence, not to mention the overseas wealthy who are attracted to the economic engine and political stability of the United States, and we get to a pretty large number supporting the demand side for San Francisco residential real estate.

In other words, the woman who walked into the New York wearable art shop has a fair amount of company. Unfortunately, she also has a terrible, unforeseen problem on her hands. She is going to be in Houston, needing the right thing to wear, and the damn sweater is going to be sitting in Martha's Vineyard!

According to a recent Capgemini report, not all boomers are one homogeneous group. There are the old boomers (born between 1946 and 1955) and the new boomers (born between 1956 and 1964). When it comes to housing, the old boomers tend to buy vacation homes, migrate to other locales and downsize. Newer boomers focus on primary homes, kitchen upgrades and time-shares.

Re-urbanization

When the boomers retire and the nest empties, my question is what happens next. Will they move to sunnier climates as their parents have done before them, or will they choose to be in an urban area where they are able to access dining, entertainment and, of course, shopping - and forget about commuting (see below)? Your concern and mine is what does this mean for San Francisco real estate.

I think a good number of them are and will be moving into the city, and while they may initially keep their primary residence in the South Bay, East Bay or Marin, eventually they will probably make San Francisco their primary home. Some will join our wearable art friend with additional places in other urban locations and key resorts around the world. By the way, I am told that some 80% of the condominium residences at the Ritz-Carlton on Market St. were bought by people whose primary residence is within 200 miles of San Francisco.

Some of you may recall this timely anecdote that I would like to share. About 10 years ago when I was still living in Los Angeles, I was in my car and listening to a report from the head of the transportation authority for Orange County. He said, "However bad your commute was today, it is the best that it is going to be for the rest of your life." Wow! That statement has stayed prominently in my consciousness ever since. It came back to me when I received a call from a woman last week whom I had met three years ago. Back then she was ready to move, but her husband was hesitant, primarily because he wanted to be near their golf course in Marin. Well, it's a new year, as she said last week, and his commuting five days a week and playing golf on the weekends doesn't add up any more. They are now in active search mode because the time in traffic is wearing him down. This is just one aspect of boomer quality of life issues that are increasingly becoming a priority, and one that is pushing more and more people to the urban city life, not only here in San Francisco, but across the nation.

New York > San Francisco

There was an article in the *Wall Street Journal* about 10 days ago entitled "Nobody's Home." The article's focus was about high-end condominiums being purchased by absentee owners who spend little time in their Manhattan digs. While owning a pied a terre in Manhattan has been common for a long time, it seems to have accelerated in the last few years, fueled by new construction, low interest rates, and a lot of money floating around as noted on the first page. The thrust of the article was basically twofold: first there are some positives (fewer neighbors taking up space in the fitness center) and drawbacks (fewer tips for the doormen at Christmas time) to living in a complex where most of the owners are not present; and second, wealthy people find New York an attractive place to park (invest) some of their assets.

Which brings me to San Francisco and the title of this *Pulse*. *Who's Going to Buy All Those Units?* refers to the new condominiums that are either under construction or planned for the south of Market neighborhoods, South Beach, Rincon Hill, Transbay, and Mission Bay. Who are the buyers and how many of them are there? It may be worth looking to New York for some of the answers. While San Francisco is an expensive housing market, it is not nearly as expensive as New York. It is many times smaller in population and not the economic behemoth of New York. Some might see that as a San Francisco advantage without the negative. And without question, New York real estate has been drawing the wealthy from the major population centers of Europe and the Middle East for a long time, and these people compete with the locals who actually work in the city and just want a place to live.

San Francisco has a smaller population of about 5 million people when we include the greater Bay Area, and the attraction to the city is equally strong. Some of them are empty-nesters, ready to downsize, and ready to enjoy the dining and entertainment benefits of the city without the commute.

Some of them are younger and are living/working in Silicon Valley and also want to enjoy the vibrancy of San Francisco living (been to Mountain View or Santa Clara at night lately?). By the way, Valley residences are not at all cheap in comparison, and while you may be giving up a larger space by moving to San Francisco, you are trading it for an enhanced quality of life. Yes, some things are worth a reverse commute.

While New York has Europe and the Middle East, we have Asia. According to the Capgemini/Merrill Lynch Asia-Pacific Report for 2006, there were 2.4 million Asia-Pacific HNWI's (High Net Worth Individuals), those who hold more than \$1 million in financial assets. This wealth totals \$7.6 trillion, with China and Japan accounting for more than 65% of regional HNWI wealth. The 2.4 million individuals represent 27.1% of the 8.7 million HNWI's worldwide, and as with New York, some of them are competing against the locals for residential real estate.

Summing Up

Soaring construction costs notwithstanding, I bet that most of the planned condominiums get built in the neighborhoods south of Market. And while demand now and then ebbs as psychology changes in response to an every changing assortment of reasons, there are nonetheless a multiple number of demand drivers to support the construction boom over the next 10+ years.

We have the basic demand increases from typical sources: population growth, company expansions, and new family formations. But we also have the big boomer wave, empty-nesting, the rise of commute-aphobia, and enormous pools of money looking for a stable home (investment) in a worthy location.

If I were a developer, I should be feeling pretty good. But while the future looks bright, being savvy is still an advantage, if not a requirement, to ride the crest of the wave to profitability success. I still have to manage the construction costs and make sure that I predict the right unit configuration that will be in sync with the future market demand, including the right amenity and finish package, not to mention that I need to be attractively priced vis a vis the competition. While the demand is there, I need to capitalize on it. I have my work cut out for me, my investors and lenders.

Some recent issues of *Pulse of the Market*:

Pulse 48 - 2006 and Beyond

Pulse 47 - Changing the World

Pulse 46 - Art of Selling - Revisited

Pulse 45 - Being Big Has Its Issues

Malcolm E.A. Kaufman
Top Producer – *McGuire Partner*™
(415) 351 - 4637

mkaufman@mcguire.com

[SFpulseofthemarket.com](http://www.SFpulseofthemarket.com)

I am looking for clients who appreciate an agent who cares deeply about their needs and provides impeccable information, expert negotiation, and thorough execution. I refer you to my web site, www.SFpulseofthemarket.com, where you can see recent issues of *Pulse of the Market*© and learn more about me. I invite your comments, suggestions, and questions. I also invite your business.