

Market Focus

A monthly analysis of the San Francisco real estate market

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Moderate improvements to employment levels across Bay Area cities through year-end 2010 and into early-2011 have contributed to the stability of the San Francisco housing market in recent periods. Through February 2011, for-sale inventory levels contracted in comparison to February 2010, while the healthy rise in pending home sales points to a more robust rebound in home sales in the coming months. Tougher lending standards and the expiration of federal and state tax credit programs have contributed to the increase in all-cash buyers in the market and the contraction in the concentration of first-time homebuyers in comparison to earlier periods in the cycle. Though stringent mortgage lending standards continue to keep potential homebuyers out of the market, mortgage rates have reverted to the sub-5% range in recent weeks, supporting high affordability levels.

While distressed property sales have contracted in many markets, including San Francisco, through early-2011, they continue to place downward pressure on pricing and remain a prominent driver of home sales activity in many oversupplied, surrounding Bay Area markets. Short sale transactions, which now account for roughly 18.0% of existing home sales statewide, have played an increasingly large role in the housing recovery. The California Association of Realtors (CAR) has asked the Treasury and Federal Housing Finance Agency to mandate faster responses and increase monetary incentives for banks to encourage the completion of short sales. According to CAR, despite the guidelines set forth in the Home Affordable Foreclosure Alternatives' short sale program, banks regularly exceed 60 days when responding to short sale offers, which often results in a failed transaction. A more streamlined short sale process would reduce foreclosure sales and aid in the recovery of the housing market and larger economy. We are fortunate in San Francisco that a much smaller proportion of our sales are foreclosures and short sales.

Pending Single-family Sales Rise by 8.9% Year-Over-Year in February 2011

In February 2011, the median sales price declined by 7.2% year-over-year to \$645,000. Closed sales also contracted by 7.2% during this time to 116 sales, as slowdown in sales activity across price segments through the second half of 2010 continued into the early part of the year. With 548 single family homes on the market in February, the for-sale inventory level remained relatively unchanged from February 2010. However, there is a glimmer of hope as pending sales activity increased 8.9% during the month



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which should result in stronger homes sales in the coming months. At the current pending sales rate, this equates to a 2.6 months of supply inventory. The single-family months of supply inventory declined across price segments, with the months of supply inventory for homes priced greater than \$1.2 million showing the greatest improvement, declining to 2.2 months from 2.9 months in February 2010 (Figure 1).

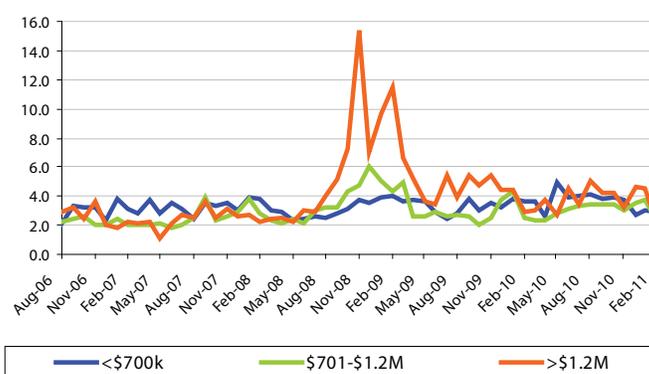
Pending Condominium Sales Increased by 34.2% Year-Over-Year

Condominium sales increased by 10.3% year-over-year in February 2011 to 161 sales. The rise in sales activity combined with a reduction in new units coming to market reduced the for-sale inventory level to 794 units – an 8.6% drop. The median price during this time declined 12.3% to \$565,000. This increase in sales activity is expected to continue into the coming months as indicated by recent trends in pending sales activity, which rose to 271 sales - a 34.2% jump from February 2010. As a result, the months of supply inventory contracted to 2.9 from 4.3 months in February 2010. Across price segments, the months of supply inventory for condominiums declined sharply with the inventory of condominiums priced greater than \$900,000 showing the largest decline, falling to 3.2 from 5.7 months in February 2010. During this time, the inventory for condominiums units in the \$500,000 to \$900,000 segments contracted to 2.7 from 3.4 months, while the inventory for condominiums priced less than \$500,000 declined to 2.9 from 3.6 months in February 2010 (Figure 2).

The current rebound in employment growth is expected to gain momentum through the coming year, which, when combined with elevated affordability rates and limited new construction, should result in a more robust housing market recovery in the coming quarters. Driven largely by increased hiring across the tech industry, payroll levels in Bay Area metropolitan areas have rebounded in comparison to the same time last year. In January 2011, on a seasonally-adjusted basis, total employment levels in the San Jose and San Francisco metropolitan areas increased by 1.8% and 0.3% year-over-year, respectively. During this period, the contraction in East Bay employment levels flattened to a 0.4% year-over-year decline in jobs (Figure 3). Combined, job growth within these three Bay Area metropolitan areas during this period resulted in the addition of approximately 13,600 jobs. As the real estate market is driven largely by job creation, this trend bodes well for housing demand in the months to come!

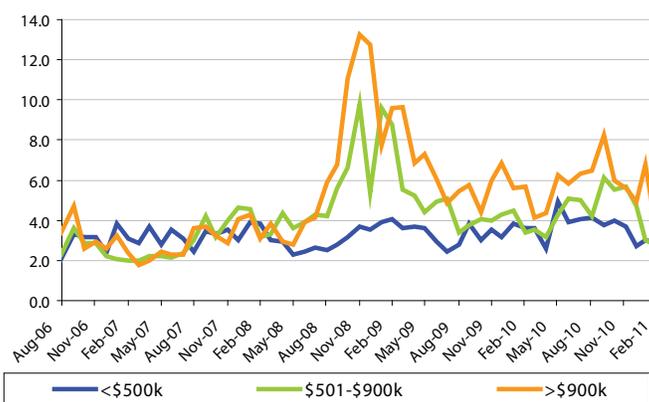
Data is as of the 10th of the month.

Figure 1. Single-Family - Months of Supply Inventory



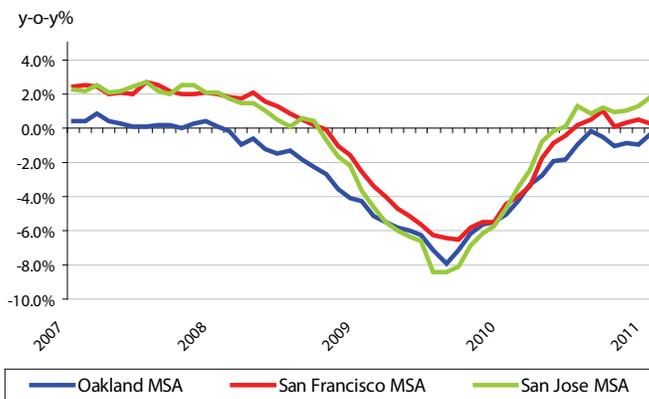
Source: Terradatum

Figure 2. Condominium - Months of Supply Inventory



Source: Terradatum

Figure 3. Employment Growth



As of January 2011

Source: BLS