

Market Focus

A monthly analysis of the San Francisco real estate market

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Rosen Consulting Group
1995 University Ave Ste 550
Berkeley, CA, 94704
510 549 4510

www.rosenconsulting.com

Lackluster employment growth and threats of another dip in home prices pushed many potential buyers to postpone home purchases, resulting in a slowdown in completed home sales in comparison to the same period last year and an increase in inventory levels in recent months. While the pace at which market conditions are tightening has subsided, particularly in comparison to the first half of 2010, stabilized pricing across most home price segments, healthy pending sales activity, and rising confidence among sellers in the market signals the continuation of a positive, though slow, shift in market conditions. Despite this positive outlook, headwinds from slow job growth and lingering, troubled mortgages will likely continue to delay gains, causing blips in the data on the way to recovery. Overall, higher housing affordability and the low-interest rate environment still make it an ideal time for financially-stable households, with a long-term perspective on the market, to purchase a home.

Despite the Decline in Closings, Pending Sales Remain Stable

As anticipated, the elimination of government incentives and weak job growth continue to test the strength of the market's recovery through the second half of 2010. As of October 2010, the market has shown that it is capable of sustaining the gains made through the first half of the year. Despite the market's continued progress, less than favorable data will continue to drive questioning of the stability and duration of the on-going recovery. The single family median sales price declined by 3.0% year-over-year to \$735,000 in October 2010, while completed single-family home sales fell 18.8% during the during this time, totaling 190 sales (Figure 1). Approximately 44% of all completed sales in October 2010 were for single family homes priced less than \$700,000; in October 2007, homes in this price segment represented approximately 23% of all completed sales. Despite the drop in completions, pending sales activity remained relatively stable, with a total of 238 pending sales in October 2010 - just a 2.1% drop from October 2009. At the same time, inventory levels continue to rise, jumping 26.7% in October 2010 to 807 active homes on the market at the end of the month. The decline in completed sales and the continued rise in new homes coming to market are placing upward pressure on inventory levels. During the month 321 new homes were listed on the market - an increase of 13.8% from October 2009.

The months of supply inventory at the current monthly contract sales rate stood at 3.4 months of supply, an increase from 2.6 months of



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supply in October 2009 but a decline in comparison to recent months. By price segment, the months of supply inventory for single-family homes priced less than \$1.2 million stood at 3.3 months, while homes priced greater than \$1.2 million improved to 3.9 months from 4.8 months in October 2009 (Figure 2).

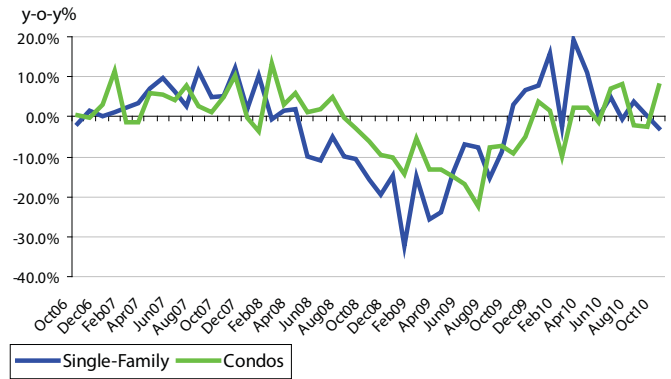
The Median Condominium Sales Price Rises by 7.8%

Although inventory levels have risen in recent months, the condominium market continues to make headway - slowly absorbing the over-supply of condominium units added to the market during the real estate construction boom. In October, the median condominium sales price rose by 7.8% from October 2009 to \$690,000. However, year-over-year completed home sales declined for a fourth consecutive month, totaling 185 sales - an 18.1% drop from October 2009. Driven by the slowdown in closed sales, the number of active condominium units on the market rose 10.6% from the same period last year to 1,164 units. The rapid pace of sales activity in the market during the first half of the year, fueled by the expired tax credit, which pulled forward condominium sales, is a contributing factor to the lull in sales activity during recent periods. Despite the pullback in completed sales, pending sales activity remained stable, slowing by just 2.0% year-over-year, with 240 condominium contract sales in October 2010. The stability in pending sales activity during this period points to stronger closed sales activity in the coming months relative to the months immediately following the expiration of the tax credit.

At the current contract sales rate, the months of supply inventory reached 4.9 months, up from 4.3 months in October 2010. While the months of supply of condominiums priced less than \$500,000 remained steady at 2.8 months, units priced between \$500,000 and \$900,000 rose to 4.9 months from 4.1 months, and for luxury units priced more than \$900,000, the months of supply inventory rose to 5.1 months from 4.4 months in October 2009 (Figure 3).

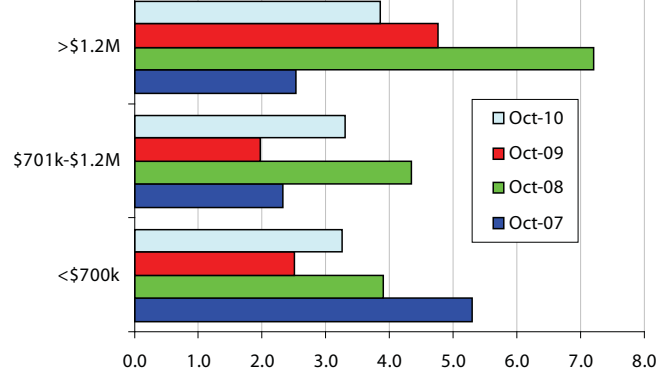
Despite fluctuations in the data, the housing market's recovery is well underway. The market's supply-constrained environment, diverse economic base, and concentration of companies in emerging technology sectors, which continue to lead job growth in the market, place the San Francisco housing market in a position to recover from the residential real estate correction at an accelerated pace in comparison to the other major housing markets across the country.

Figure 1. Median Sales Price Growth for Single-Family Homes and Condos



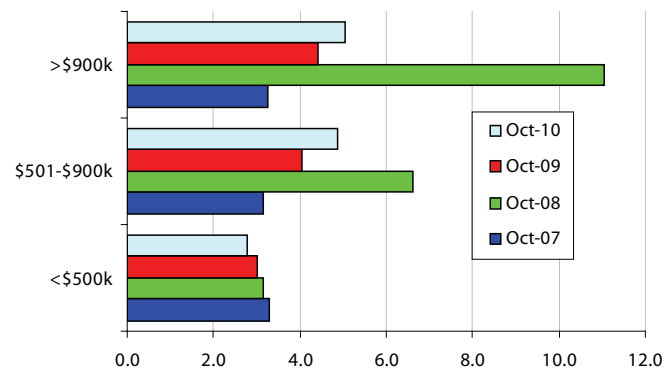
Source: Terradatum

Figure 2. Single-Family - Months of Supply Inventory



Source: Terradatum

Figure 3. Condominium - Months of Supply Inventory



Source: Terradatum

Data is as of the 10th of the month.

