

Market Focus

A monthly analysis of the San Francisco real estate market

January 2011

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With prices discounted from previous highs and mortgage rates at less than 5%, opportunities abound for homebuyers in the market. In 2010, completed home sales during the year surpassed total home sales in 2009, while for-sale inventory levels declined significantly and months of supply inventory continued to fall from cyclical highs seen in recent years. The rise in pending sales activity in recent months, combined with a rebound in job growth and a modest level of newly constructed homes coming to market, indicate that the worst is behind us. Though the lack of credit for qualified homebuyers and lackluster improvements in job growth remain causes for concern, we believe that the overall economy is improving and that we will have a robust recovery through 2011.

Closed and Pending Single-Family Home Sales Trend Upwards

Following five consecutive months of year-over-year declines in single-family home sales, sales activity rose by 4.4% in December 2010, with the closing of 213 single-family homes sales. Of the single-family homes sold in December 2010, approximately 48% were homes priced at \$700,000 or less in comparison to the distribution of single-family homes sales in December 2009, when this segment of the market accounted for close to 41% of total sales. While sales trended upwards, the median sales price contracted by 4.1% year-over-year to \$725,000. Despite the pullback in the median price, median sales price volatility was subdued through much of 2010. Pending sales activity continued to rise at a brisk pace, jumping by 24% in December 2010, with 160 single-family homes under contract (Figure 1).

For the year, the total number of single-family homes sales narrowly surpassed total home sales completed in the previous year, increasing to 2,295 sales in 2010 from 2,184 sales in 2009. Sales activity through 2010 was, for the most part, evenly distributed between the first and the second halves of the year with a noticeable concentration of home sales completed during the months leading to the expiration of the federal tax credit (Figure 2).

For-sale inventory levels declined to 461 homes on the market in December 2010 from more than 700 active homes at the end of the previous month, but a 7.0% increase in comparison to December 2009 (Figure 3). Despite the slight uptick in the number of active single-family homes on the market, robust pending sales



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pushed the single-family months' supply of inventory to 2.9 from 3.3 months in December 2009. By price segment, the supply inventory of single-family homes at the current contract sales rate declined across all price segments. For single-family homes priced at less than \$700,000, the supply contracted to 2.4 months from 2.9 during the previous year (Figure 4). For homes within the mid-priced segment of the market, between \$700,000 and \$1.2 million, the inventory fell to 3.5 months from 3.8 months the previous year, and from 6.1 months in December 2007. Homes priced at more than \$1.2 million had a 4.3-month supply, down from 4.4 months in December 2009 and from 7.1 months two years prior - an indication that the worst is behind us, which provides optimism for the upcoming year (Figure 5).

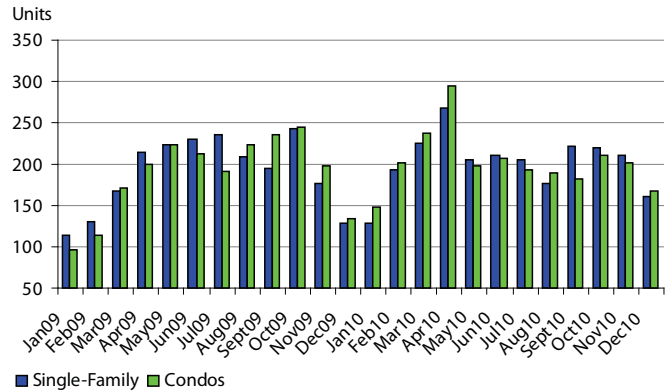
Pending Condominium Sales Increased by 25% Year-Over-Year

While single-family home sales in December 2010 edged upwards from December 2009, condominium sales during this time continued to contract at a double-digit rate, falling by 20.4% to 191 sales. During this time, the median sales price declined by 2.9% year-over-year to \$630,000 in December 2010 (Figure 6). Though the condominium market recovery fizzled through the second half of the year in reaction to the expiration of the home buyer tax credit and the growing uncertainty among buyers, the continued rise in pending sales activity through December 2010 validates our expectations for a rebound in sales in 2011. Pending sales increased by 24.6% year-over-year in December 2010 to 167.

In 2010, the total number of condominium sales rose to 2,314, surpassing the previous year's total of 2,146. As expected, the total number of condo sales during the first half of 2010 was greater than the second half's total but by a smaller-than-expected margin, unlike 2009 when sales were heavily concentrated in the last half of the year. Despite the added incentive of the federal and state home buyer tax credit, condominium sales in 2010 remained well below the 3,000-plus condominium sales annually during years prior to the onset of the recession.

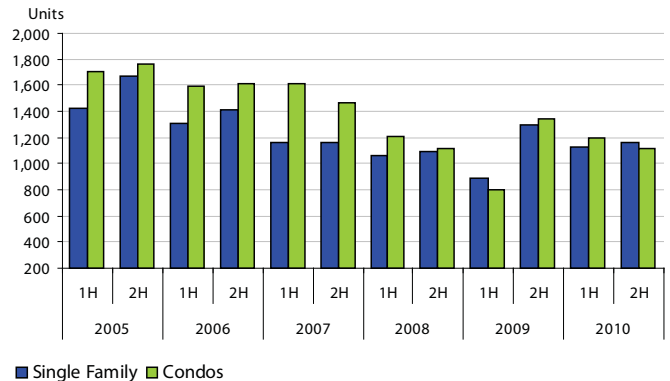
As for-sale inventory levels declined by 0.8% to 658 units from the same period last year and pending sales activity continued at an impressive rate, the months of supply inventory dropped to 3.9 from 4.9 months in December 2009. By price segment, the months' supply inventory of condominiums priced at less than \$500,000 tightened to 2.2 months

Figure 1. Pending Single-Family and Condo Sales



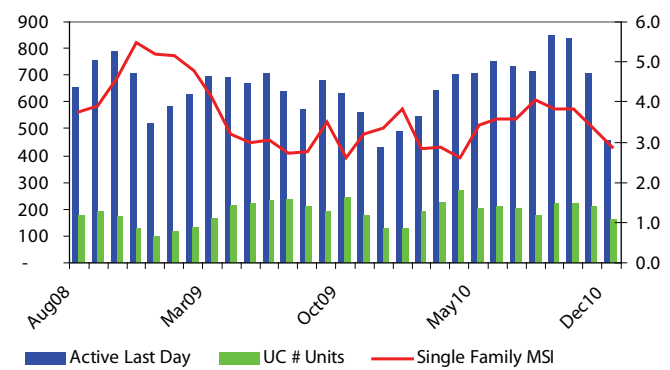
Source: Terradatum

Figure 2. Single-Family and Condo Completed Sales



Source: Terradatum

Figure 3. Active Single-Family Inventory



Source: Terradatum



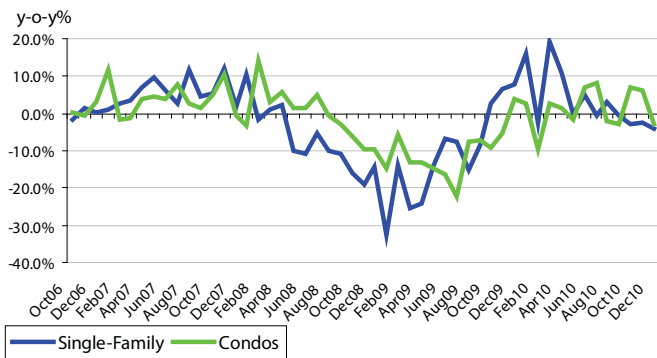
from 3.2 in December 2009, while inventory of condominiums priced greater than \$500,000 but less than \$900,000 fell to 3.9 months from 4.3 months during this time (Figure 7). In the luxury condominium market, condos priced at greater than \$900,000, the months' supply slipped to 5.2 from 6.9 months in December 2009 (Figure 8). Reflecting the slowdown in the condominium market's recovery through the second half of the year, the number of new listings placed on the market contracted by 6.1% year-over-year, as 123 new condominium units were put on the market in December 2010.

Going Forward

While distressed property sales will continue to affect pricing into 2011, the area's level of distressed homeowners is low relative to other metropolitan areas across the country and the state (Table 1). The number of borrowers holding underwater mortgages in the San Francisco metropolitan area declined to 9.5% in the third quarter of 2010 from 10.5% in the third quarter of 2009, signaling that a slower rate of newly troubled mortgages are occurring in the market, according to Core Logic.

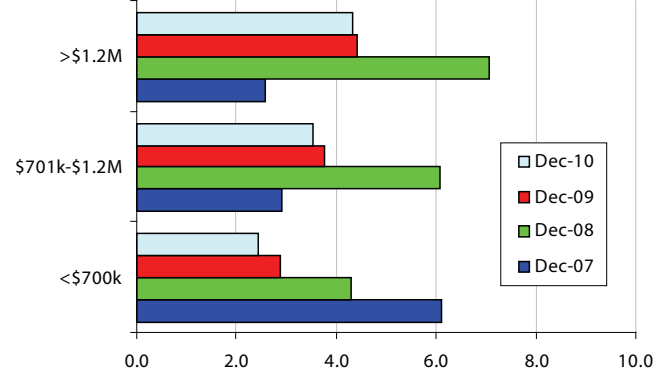
While decade-high affordability levels and low mortgage rates incent home buying, stringent mortgage financing requirements combined with precarious household finances keep many home buyers out of the market. With limited supply-side pressure in the market, and as employment levels rebound at an accelerated pace through the coming year and demand from both first-time and move-up buyers returns, our forecast is that the housing market will improve at an impressive pace.

Figure 6. Median Sales Price Growth for Single-Family Homes and Condos



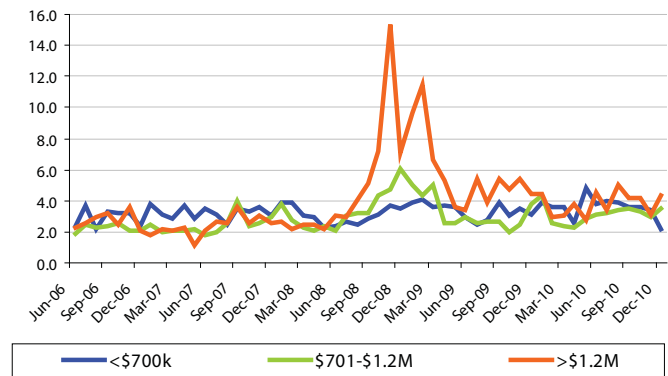
Source: Terradatum

Figure 4. Single-Family - Months of Supply Inventory



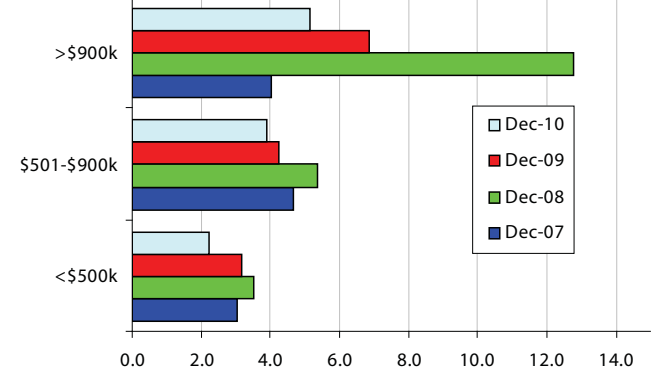
Source: Terradatum

Figure 5. Single-Family - Months of Supply Inventory



Source: Terradatum

Figure 7. Condominium - Months of Supply Inventory



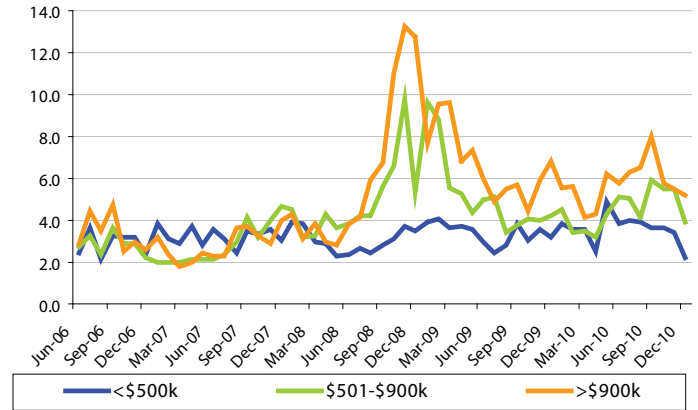
Source: Terradatum

Table 1. Q3 2010 Lowest Negative Equity Share by MSA

Metropolitan Statistical Area	Negative Equity Share
1 Nassau-Suffolk NY	5.7%
2 Pittsburgh PA	6.0%
3 Philadelphia PA	7.3%
4 San Francisco-San Mateo-Redwood City CA	9.5%
5 Austin-Round Rock-San Marcos TX	9.5%
6 San Antonio-New Braunfels TX	10.1%
7 Cambridge-Newton-Framingham MA	10.6%
8 New York-White Plains-Wayne NY-NJ	10.8%
9 Nashville-Davidson--Murfreesboro--Franklin TN	11.4%
10 Edison-New Brunswick NJ	12.0%
11 Houston-Sugar Land-Baytown TX	12.0%
12 Fort Worth-Arlington TX	13.3%
13 Seattle-Bellevue-Everett WA	13.8%
14 Dallas-Plano-Irving TX	13.9%
15 Charlotte-Gastonia-Rock Hill NC-SC	14.0%

Source: Core Logic

Figure 8. Condominium - Months of Supply Inventory



Source: Terradatum

Table 2. Single-Family Housing Market - December 2010

District	Median Sale Price	Homes Sold	Days on Market (Homes Sold)	Pending Sales	Months of Supply
Northwest (Richmond/ Presidio Heights)	\$965,000	16	85	7	5.6
Central West (Sunset/Inner Sunset/Parkside)	\$661,000	32	52	29	2.3
Southwest (Oceanview/Ingleside/Lake Merced/Balboa Terrace /Forrest Hill)	\$460,768	10	78	15	3.4
Twin Peaks West (Twin Peaks/Sunnyside/Diamond Heights)	\$900,000	27	79	15	3.1
Central (Mission/Noe Valley/Castro/Glen Park/Upper Market)	\$1,484,000	34	61	16	2.4
Central North (Western Addition/Hayes Valley/Haight-Ashbury)	\$1,100,000	5	94	2	3.0
North (Marina/ Cow Hollow/ Pacific Heights)	\$3,275,000	12	77	5	3.8
Northeast (Downtown/ Nob Hill/Russian Hill/Financial District/ North Beach/ Chinatown)	\$995,000	1	42	0	n/a
Central East (South Beach/ Potrero Hill/ Bernal Heights/ Mission Bay)	\$756,500	22	68	14	1.9
Southeast (Bayview-Hunter's Point/ Visitation Valley/Portola/ Excelsior/Crocker-Amazon)	\$498,944	54	55	58	2.8

Data is as of the 10th of the month.

