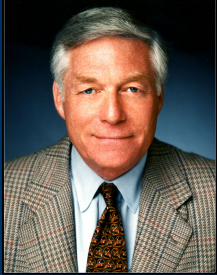


PULSE OF THE MARKET[©]



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Waiting for Godot

Pulse 65

It is amazing how many would-be buyers are waiting around to buy a property. They are waiting for either the market to bottom out or for more clarity about whether the stock/bond/real estate market will totally go to hell.

With all this waiting going on, I started thinking back to my freshman college days and a play that I never really understood; Samuel Beckett's *Waiting for Godot*. My lack of recall forced me to visit Wikipedia, where I found the following; "*Waiting for Godot* follows two consecutive days in the lives of a pair of men who divert themselves while waiting expectantly and unsuccessfully for someone named Godot to arrive. They claim him an acquaintance but in fact hardly know him, admitting that they would not recognize him were they to see him."

I like the last part about not recognizing him were they to see him. I haven't found anyone who says, with any confidence, that they will recognize the bottom of the market when it comes, and yet they continue to wait for it. Interesting. Reality imitating fiction or fiction imitating reality?

A developer friend said it well: "It is very tough out there – nobody wants to do anything. Sellers do not want to cut prices and buyers want a 'deal' to get motivated."

But, will either recognize what they are waiting for when it arrives? Everyone seems to be waiting for Godot, the real estate version.



PULSEFACTORS[™]

Facts and Numbers

While most everyone is aware of the general slowdown in real estate, I was curious about the facts and decided to look at actual numbers in the MLS to gain some clarity and perspective. I chose single-family homes in two areas of the city, Districts 7 and 5* and looked at the 4th quarter from October 1 through December 31, a period of the year when transactions are traditionally slow relative to spring and fall. The numbers below compare Q 4 for 2007 and 2008.

	<u>2007</u>	<u>2008</u>		<u>2007</u>	<u>2008</u>
<u>District 7</u>			<u>District 5</u>		
Number of Sales	29	11	Number of Sales	80	44
Withdrawn	12	27	Withdrawn	35	72
Median price	\$3,300,000	\$3,000,000	Median price	\$1,392,500	\$1,362,500
Average price	\$4,836,354	\$3,112,273	Average price	\$1,500,899	\$1,542,538

The far fewer Q 4 2008 transactions are probably the result of buyer fear of the economic unknowns, financing difficulties, and of course prices. The above numbers suggest that there is a disconnect between buyers and sellers on pricing. When many more properties are being pulled off the market than are actually being sold, as was the case in Q 4 2008, it suggests that buyers and sellers are not coming to an agreement on price. While the median price of sales in District 7 in 2008 dropped 9% from \$3.3 million to \$3.0 million, on the surface the average sale price plunged 36% from \$4.8 million to \$3.1 million. But take this comparison with a large grain of salt. First, there were very few transactions in 2008. Second the highest priced sale in Q 4 2008 was only \$4.2 million, while in Q 4 2007, there were 7 sales between \$5.0 million and \$16.0 million. Raw numbers can be deceiving.

In District 7 there were a whopping 62% fewer sales in the 4th quarter of 2008 versus 2007! In District 5 there was a 45% decline in sales! In Q 4 2008, more than twice as many homes were pulled off the market than sold in District 7; same in District 5. I infer from this that had the unsolds sold, they would have sold at (significantly) lower than their last listed price.

The S & P 500 Index ended 2008 at 903 - a decline of 42% from its high of 1,565 in October of 2007. The Dow dropped 38%. Crude oil ended 2008 at \$45.63, a decline of 69% from its high of \$147.27 per barrel in July 2008. Virtually every commodity has been "re-priced" downward in the last 12 months.

Home prices outside of San Francisco, in Solano, Contra Costa, and Sonoma counties, have suffered reported declines of 40% or more. According to the MLS, there are parts of San Francisco in the southern neighborhoods such as Visitacion Valley, Excelsior, Bayview, and Hunters Point, where average prices have declined some 20% from 2007. Here again, many homes were pulled from the market, probably masking an even more substantial price softness.

Note:

District 7: Presidio Heights, Pacific Heights, Cow Hollow, the Marina

District 5: Noe Valley, Glen Park, Twin Peaks, Clarendon Heights, Parnassus/Ashbury Heights, Mission Dolores, Eureka Valley, Corona Heights, Duboce Triangle, Haight Ashbury

Godot, the real estate version, has probably already arrived. We just can't see it clearly, and maybe never will, because we are part of it. The MLS depicts a 27% average sale price decline for single-family homes **citywide**, Q 4 2008 versus Q 4 2007. **Buyers and sellers create market value through their actions. When they choose not to act, they are simply waiting for themselves to change their minds.** "I have seen the enemy, and he is me."

Stop Waiting?

While the MLS depicts a 27% decline in single-family average prices for the City, it probably understates the actual year-over-year price softness in certain sectors of the market, given all the unsolds. Sellers at the upper end can withstand the financial strains of not selling much more easily than those at the lower end. Since there are few potential buyers for a \$4 million+ property, if they really want to transact, these sellers would be wise to dial back to 2004/2005 prices and take a healthy discount from what they perceive to be their home's current market value. Sellers toward the lower end (for example, those in the southern neighborhoods mentioned above with a \$528,000 average Q 4 2008 sale price) are less able to weather the financial storm and are being forced to re-price closer to what a buyer will pay.

If a buyer is planning to live in a home for the next 5 to 10 years, this is a perfect time to purchase given all the waiting and hesitancy in the market. These buyers will have less competition when making an offer and can probably pressure sellers on price due to the current economic circumstances. With the trillions of dollars being thrown around by the U.S. government (and isn't it interesting how quickly the T-word has started to become an everyday word, easily supplanting the B for billions) inflation is coming; we just don't know how soon. When it does eventually arrive, real estate ownership will return to the fore as a good hedge against that inflation.

For those buyers unsure of their circumstances over the next one to three years, renting may be the most reasonable option. Speculation is out. Prudence is in.

Happy New Year!

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