Market Focus

A monthly analysis of the San Francisco real estate market

RCG

Rosen Consulting Group
1995 University Ave Ste 550
Berkeley, CA, 94704
510 549 4510
www.rosenconsulting.com

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Sales activity has rebounded in the last six months, resulting in a significantly tighter housing market from one year ago. Competition for housing units, particularly at the lower-end of the market, heightened as buyers rushed to take advantage of expiring government-sponsored incentives and low mortgage rates. The median sales price for single family homes rose by a double-digit percentage in March 2010 from the same month last year, while the median condominium sales price also trended upward. Yet, while the increased competition allowed desirable properties to sell for more than the asking price, the sale prices for many of these homes are still less than the previous sale price highs during the boom. Nonetheless, because of this renewed confidence in the market, closed and pending sales for both single family homes and condominiums increased significantly from the same month the previous year.

While the market still faces some headwinds in the form of rising mortgage rates, the potential for on-coming distressed property sales, and a prolonged period of slow job growth, the lack of supply-side pressure in the market combined with strong demand for affordably-priced homes, and the aggressive actions taken by the public sector to shore up the residential real estate market should maintain home buying activity into 2010.

Single-Family Home Market Healthy

Demand for homes at the low and middle-ends of the market, aided by programs aimed at first-time homebuyers and income-qualifying households helped to absorb the overhang of moderately-priced single-family units. And, while the market for lower-priced homes stabilized, luxury property sales also gained traction in recent months as the sentiment among high-end buyers has become more positive. With prices for moderately-priced homes stabilizing and luxury home sales rising, the median single family home sales price increased by 19.4% from March 2009 to $791,000 in March 2010. Completed home sales during the month totaled 212 sales, a 58% increase from the same month the previous year, while pending sales activity saw a similar rise, increasing to 246 contract sales from 170 contracted sales the previous year. Though a signal that the market has turned a corner, these current figures are in comparison to an extremely low base and what should be considered the trough of the current housing market cycle.

San Francisco Association of REALTORS®
301 Grove Street, San Francisco, CA 94102
www.sfrealtors.com

The robust home sales activity through the second half of 2009 and into early-2010 absorbed much of the excess inventory in the market as the number of homes for sale at the end of March 2010 fell to 676 units from 762 units in March 2009. At the current monthly contract sales rate, the single family months supply inventory dropped to 2.7 months in March 2010, falling to less than the five-year average of 3.0 months. By price segment, contracted sales activity for single family homes priced at or less than $700,000 closely matched sales activity from the previous year. For homes priced between $700,000 and $1.2 million, pending home sales doubled in March 2010 from the previous year to 96 sales. And, pending sales for homes priced greater than $1.2 million rose to 50 sales during this time, a 67% increase from the same month last year. Consequently, the months supply of inventory for homes in higher price segments declined at a considerably faster rate during the 12-month period (Figure 1). Overall, these signs point to a rebounding housing market.

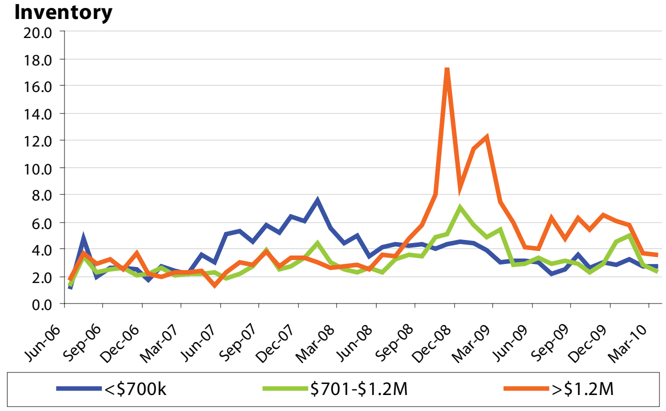
Condo Market Continues to Perform Well

The condominium market also gained ground during the last month of the quarter as the median sales price rose to $670,000, a 4.9% increase from the March 2009. Stimulated by the availability of FHA financing, tax-credits, and attractive pricing/concessions in comparison to recent periods, completed condominium sales reached 206 units in March 2010, a 76% increased from the previous year. We expect this trend to continue into the coming months as contracted sales followed a similar trajectory, rising by 63% to 280 units during this time. The robust sales activity witnessed in recent months absorbed the market's overhang of condominiums, bringing the active number of units at the end of March to 969 units from nearly 1,200 units on the market in March 2009. Consequently, the resurgence in sales activity pushed the months of supply inventory to 3.5 months from a high of 10.4 months in late-2008. The oversupply of luxury units during recent years resulted in the rapid expansion of the months supply inventory for condominiums priced $900,000 and greater, which peaked in November 2008 at 13.7 months but has now slipped to 4.1 months in March 2010 (Figure 2).

Short-Term Outook Positive

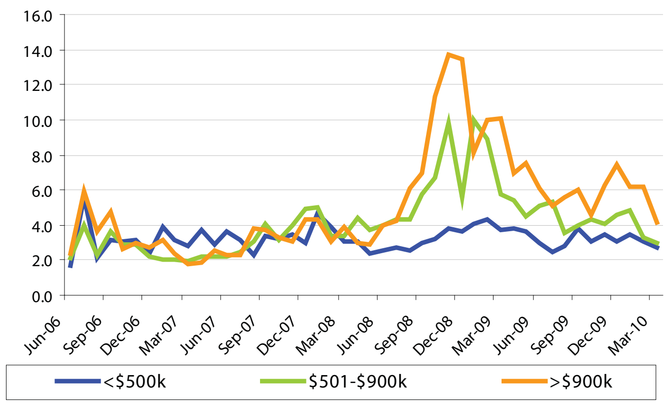
Looking forward, with foreclosure sales activity subsiding, the market's return to supply and demand fundamentals will drive home price growth. California's $200 million home buying tax-credit program should continue to incentivize home buying, supplanting the expiring federal tax-credit. While mortgage rates are expected to increase into the coming year, with the end of the Federal mortgage-backed security purchase program, rising interest from private investors should help offset the resulting rise in mortgage rates.

Figure 1. Single Family - Months of Supply Inventory



Source: Terradatum

Figure 2. Condominium - Months of Supply Inventory



Source: Terradatum

Data is as of the 10th of the month.