

Market Focus

A monthly analysis of the San Francisco real estate market

July 2010

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

www.rosenconsulting.com

Confident that the housing market is in the early stages of recovery, we expect a sustainable and modest rise in San Francisco home prices from this half-way point in 2010. Rising affordability levels, aided by already reduced housing prices, low mortgage rates, and tax credit incentives gave rise to a growing demand for housing units, particularly, at the low and middle ends of the market. This led to a gradual tightening in market conditions during the previous 12-month period. While prices have stabilized for more moderately priced homes, pricing volatility in the higher-end of the market remains. As sales in the luxury segment of the market gain traction and home sales become more evenly distributed across price segments, the median sales price continues to trend upward.

At the national level, while the first quarter showed improving job creation, the second quarter showed a somewhat slower bounce back in private sector net job growth. Since January, 593,000 private sector jobs were created. While this seems small relative to the 8.4 million jobs lost in this “great recession,” it is far better than the jobless recovery most economists had been predicting last fall. The deep job cuts in 2008 and 2009 will likely give way to a bounce back in 2010 that would add more than one million jobs. The economy is expected to create an average of 100,000 jobs per month for the rest of the year, leading us to believe that the real estate market will continue to show good and steady progress.

We anticipate a similar trend in job growth at the local level. Rebounding from the loss of more than 75,000 jobs in this recession, the San Francisco metropolitan area is expected to create approximately 4,000 jobs in 2010. Private sector employment growth is the key to economic growth and the residential market recovery. The anticipated improvement to near-term job growth will support continued home sales despite the on-coming hurdles facing the market from expiring tax credits and heightened lending standards.

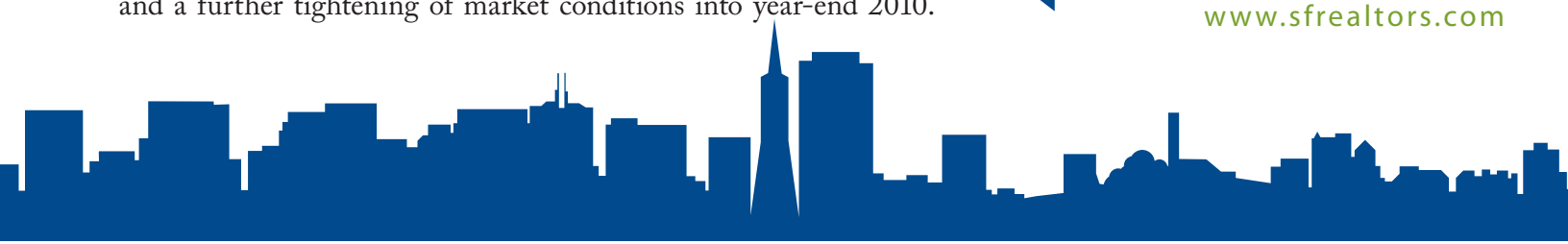
Into the second half of 2010, we expect a noticeable retraction in the pace of homes sales activity. Despite the moderate effects of the tax credit on home sales in the high-priced San Francisco housing market in comparison to other parts of the country, we expect to see some pull-forward effects of expiring tax credits on home sales during the coming period. While the market wades through the fragile economic recovery, the overall underlying trend should remain positive, resulting in price appreciation and a further tightening of market conditions into year-end 2010.



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301 Grove Street, San Francisco, CA 94102

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Single-Family Housing Market Stabilizes

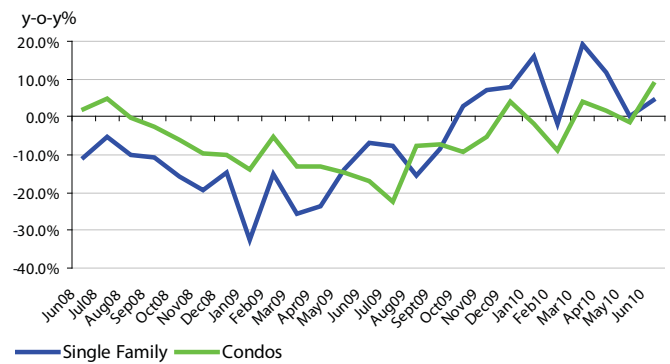
The median single-family home sales price rose 4.6% year-over-year and 6.7% from the previous month in June 2010 to \$800,000 (Figure 1). Closed single family sales activity slipped 1.8% with 219 homes sold during the month. Completed single family home sales through the first half of 2010 totaled 1,106 sales, a 24% increase from the first half of 2009 but a 14% decline in comparison to the last six months of 2009 (Figure 2). Pending single family home sales followed a similar trend, easing by 2.6% with 225 homes signed into contract in June 2010, a 24% increase from the first half of 2009 but a 14% decline in comparison to the last six months of 2009 (Figure 2). Of the 219 completed single family homes sales in June 2010, approximately 35% were homes priced at \$700,000 or less in comparison to the distribution of single family homes sales in June 2009, when home sales at this segment of the market accounted for close to 40% of total sales and in January 2009 when this proportion reached more than 65% of all sales.

Following several months of steady reductions to year-over-year inventory levels, the number of homes on the market in comparison to the same time last year remained unchanged. For-sale inventory levels stood at 707 homes on the market in June, matching the number of single-family homes for sale in June 2009. Coinciding with the steady level of for-sale inventory, at the current monthly contract sales rate, the single family months supply of inventory remained at 3.1 months, also unchanged from June 2009 (Figure 3). By price segment, the months of supply inventory of single-family homes at the current contract sales rate remained relatively unchanged for homes priced less than \$1.2 million; however, the months of supply inventory for luxury single-family homes increased to 4.7 months in June 2010 from 3.5 months in June 2009 (Figure 4).

Demand for Condominiums Strengthens

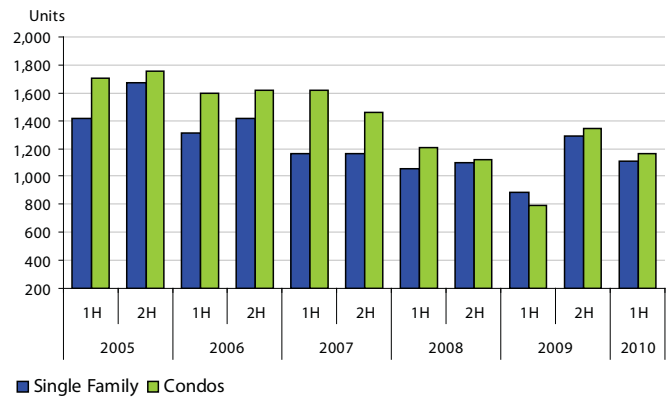
In June 2010, the median condominium sales price increased 8.7% from June 2009 to \$690,000. Completed sales totaled 230 units, an increase of more than 20% during this time. Through the first half of 2010, condominium sales totaled 1,164 units, a 48% increase from total condominium sales during the same period in 2009. Despite the jump in sales activity in comparison to the trough of the market in the first half of 2009, condominium sales slipped 13% in comparison to total sales during the last six months of the year. The year-over-year change in pending sales mirrored the upward trend in closed sales, rising by 16% to 246 units. Driven by rising housing affordability resulting from attractive pricing, low mortgage

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



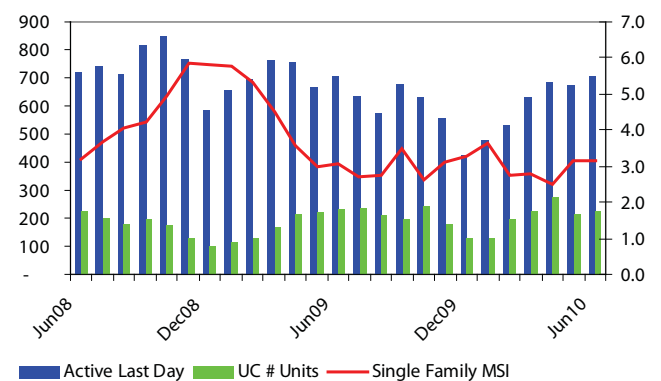
Source: Terradatum

Figure 2. Single Family and Condo Completed Sales



Source: Terradatum

Figure 3. Active Single Family Inventory



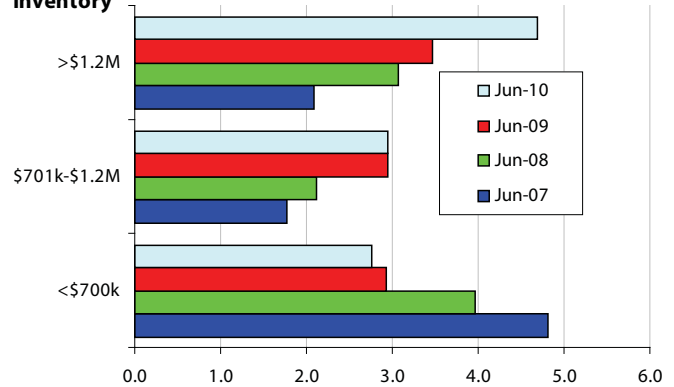
Source: Terradatum

rates and government incentives, the demand for condo units has strengthened, particularly among first-time homebuyers.

Despite the relative steadiness in inventory levels in comparison to the same time last year, robust contract sales activity led to improvements in the months of supply inventory. Although for-sale inventory levels remained relatively unchanged at 1,107 units, closely matching the total for-sale inventory in June 2009, the months of supply inventory dropped to 4.5 months from 5.2 months in June 2009 (Figure 5). By price segment, the months of supply inventory for condominiums priced less than \$500,000 tightened to 2.9 months from 3.0 months in June 2009, while the months of supply inventory for condominiums priced greater than \$500,000 but less than \$900,000 fell to 4.3 months from 5.0 months during this time. Luxury condominium sales, condos priced greater than \$900,000, increased to 6.1 months from 6.0 months in June 2009 (Figure 6). The rebound in condominium sales prompted a number of condominium developments to re-commence sales activities following a brief stint on the rental market. Sellers have also recognized the shift in market conditions, as the number of new condominium listings on the market in June 2010 increased by more than 36% to 446 units from June 2009.

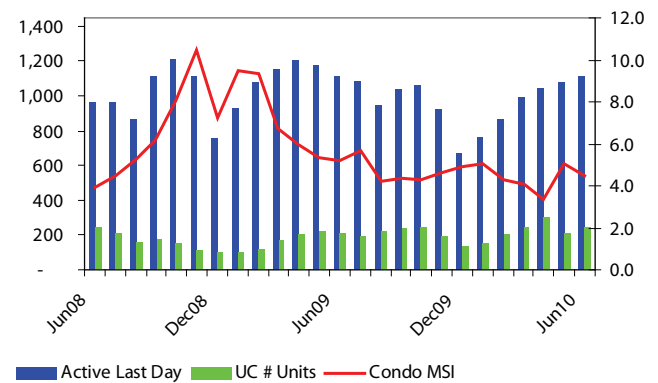
On the heels of the completion of One Hawthorne, supply-side pressure is minimal with no new condominium projects coming online during the near term forecast horizon. Fewer than 40 residential permits were issued through May 2010, which will likely result in permit activity for all of 2010 falling well short of the 300 permitted housing units in 2009 (Figure 7). The lack of new supply during the coming 12-month period, combined with the on-going rebound in condo sales should result in a continued thinning of condominium inventory levels through the second half of this year.

Figure 4. Single Family - Months of Supply Inventory



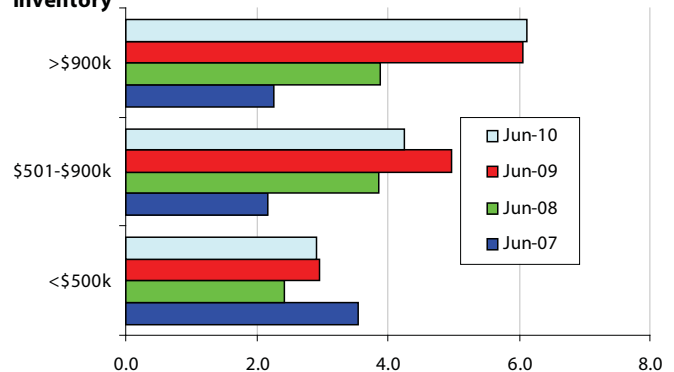
Source: Terradatum

Figure 5. Active Condominium Inventory



Source: Terradatum

Figure 6. Condominium - Months of Supply Inventory



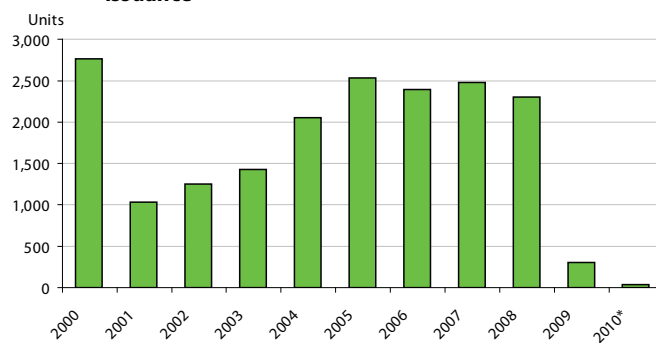
Source: Terradatum

On the Horizon

As the year progresses, distressed properties will likely add to the for-sale inventory, restraining price appreciation through the remainder of the year. While the city's level of distressed housing inventory is less concerning particularly in comparison to other parts of the country, we expect distressed sales to continue to weigh on homes prices. The total number of homes at some stage of the foreclosure process rose to 458 in May 2010 from 415 in May 2009, according to RealtyTrac. The increase in mortgage delinquency rates among prime borrowers observed in recent months should continue to restrain improvements in the market.

The market's eventual full recovery is dependent on improvements to the job market. And while the elimination of government incentives, as well as stricter availability of credit will test the market during the second half of this year, the anticipated rebound in job creation into the end of this year and the resulting rise in demand combined with the pent-up demand for affordable, for-sale units in the market should counterbalance these two trends and result in an overall positive year for the San Francisco housing market.

Figure 7. San Francisco County Residential Permit Issuance



*Through May 2010

Source: Census

Table 1. Single-Family Housing Market - June 2010

District	Median Sale Price	Homes Sold	Days on Market (Homes Sold)	Pending Sales	Months of Supply
Northwest (Richmond/ Presidio Heights)	\$1,481,250	22	34	16	4.9
Central West (Sunset/Inner Sunset/Parkside)	\$732,000	41	33	41	2.4
Southwest (Oceanview/Ingleside/Lake Merced/Balboa Terrace /Forrest Hill)	\$602,600	19	27	10	6.4
Twin Peaks West (Twin Peaks/Sunnyside/Diamond Heights)	\$979,500	32	62	26	2.7
Central (Mission/Noe Valley/Castro/Glen Park/Upper Market)	\$1,135,000	28	41	24	3.2
Central North (Western Addition/Hayes Valley/Haight-Ashbury)	\$1,885,000	6	86	3	5.3
North (Marina/ Cow Hollow/ Pacific Heights)	\$2,550,000	11	48	15	2.3
Northeast (Downtown/ Nob Hill/Russian Hill/Financial District/ North Beach/ Chinatown)	\$2,875,000	1	21	2	7.0
Central East (South Beach/ Potrero Hill/ Bernal Heights/ Mission Bay)	\$755,000	24	67	23	2.2
Southeast (Bayview-Hunter's Point/ Visitation Valley/Portola/ Excelsior/Crocker-Amazon)	\$488,000	35	48	65	3.1

Data is as of the 10th of the month.

