

Market Focus

A monthly analysis of the San Francisco real estate market

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Home sales activity, particularly in the lower end of the market, has shown improvement in the most recent month as the single-family median sales price rose 3.3% between May 2009 and June 2009. **In fact, through the first half of 2009, the single-family median sales price rose 28.6% in June 2009 from January 2009.** Desirable properties are garnering multiple offers; however, stringent lending requirements, expectations for further price reductions, and weakening in the job market are hampering overall sales activity. The relatively stable nature of the San Francisco single-family housing market overall has protected sellers from the sharp decline in sale prices seen in other Bay Area cities. With for-sale inventory still at elevated levels and expectations for a continued rise in the unemployment rate through the end of this year, buyers will still have good purchasing opportunities.

The recent rise in home prices and sales activity lead us to believe that the worst part of the correction in home prices is behind us and that housing market conditions are showing signs of improvement. Improvements to housing affordability in conjunction with federal tax credits and federal mortgage market intervention will help stabilize housing market conditions. Overall, RCG believes that the rate of decline of the U.S. economy has slowed. The many fiscal and monetary stimulus policies have begun to have a positive effect, and that effect will strengthen as the year goes on.

Median Sales Price Rises, Albeit Lower than One Year Ago

The San Francisco single-family median sales price rose 3.3% between May 2009 and June 2009, the **third consecutive month of median home price appreciation** (Figure 1). However, prices were 6.8% lower from one year ago. Additionally, pending sales showed improvement from recent months, rising to 255 single-family units under contract in June 2009 from a cyclical low of 104 units in December 2008.

As sellers slowly adjusted their asking prices and expectations, the number of active single-family units on the market fell from a high of 847 units in October 2008 to 710 units in June 2009 (Figure 2). Nearly one-quarter of all active single-family units and closed sales are located in the Southeast District, an area of the city with a high concentration of distressed properties, which encompasses the neighborhoods of Bayview, Hunter's Point, and Outer Mission. The heightened concentration of sales at this end of the market, combined with fewer home sales in more expensive parts of the city



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has weighed-down the single-family median home price. Although a large proportion of single-family home sales activity is concentrated in the Southeast District, the jump in the number of closed sales in two of the city's more higher-priced areas during June 2009 resulted in the significant rise in the median sales price from earlier in the year. The Central District, which encompasses the neighborhoods of Noe Valley, Mission Dolores, and Haight-Ashbury, and the North District, which includes the neighborhoods of Pacific Heights, Cow Hallow, and Marina, accounted for 50 single-family home sales in June 2009 or nearly one-quarter of all single-family homes sales in the city.

Condo Sales Improve but High Inventory Levels Keep Prices Under Pressure

While the rate of decline in the single-family home price has eased, the median condominium sales price continues to decline, ticking down 0.9% between May 2009 and June 2009 and falling by 15.2% between June 2009 and June 2008. Active condominium units for-sale continue to mount through mid-year 2009, with 1,048 condo units for-sale at the end of June 2009. It is no surprise to see that active condominium units in the Central East District, which includes the neighborhoods of South Beach, SOMA, and Mission Bay, comprise more than 33% of all active condominium units in the city during this time. The large amount of construction and speculative activity of high-end, luxury condominiums in this part of the city during the real estate boom resulted in the current flood of units back to the market at considerable discounts. On the positive side, pending condominium sales increased in June 2009 to 248 units under contract from a low of 100 units in January 2009.

According to the figures reported by the Bureau of Labor Statistics, the San Francisco metropolitan area lost 50,500 jobs between June 2008 and June 2009, a 5.0% decline (Figure 3). The bulk of the job losses, in percentage terms, were in the construction and trade sectors. During this time, the educational and health services sector was the only industry to show an increase in payroll levels. Our short-term outlook for job growth is weak given the depth of the national recession; however, we expect job growth will resume in 2010 and then accelerate thereafter.

Through the remainder of 2009, we expect home prices to be soft but continue to improve through the year, as affordability levels rise and distressed properties are eliminated from the market.

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

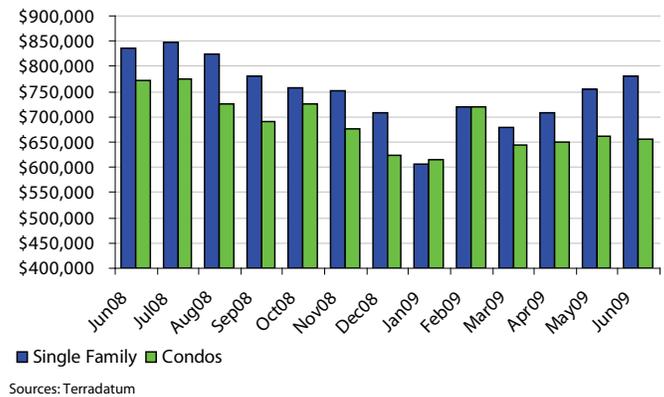


Figure 2. Active Single Family and Condo Inventory

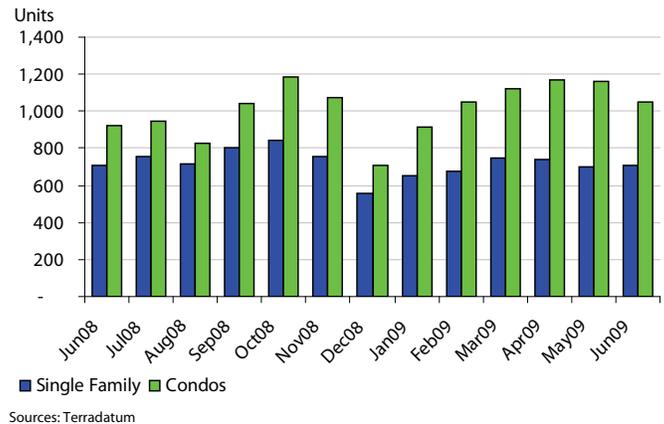


Figure 3. San Francisco MSA Employment Annual Job Growth

