

Market Focus

A monthly analysis of the San Francisco real estate market

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San Francisco's residential market has fared better relative to many other cities during this difficult year for residential real estate; however, the area's housing market still experienced a fall from previous highs. The market's inherent high barriers to entry matched with limited exposure to the exotic mortgage market abuse during the most recent cycle helped protect the market from the initial wave of home price corrections. In recent months, the San Francisco housing market has shown increasing price stability, particularly at the low-end of the market, while for-sale inventory levels have declined significantly and at a much faster rate in comparison to other parts of the country. Amid the improvements to job growth and economic activity, the housing market is expected to improve during the coming twelve-month period. By year-end 2010, Rosen Consulting Group (RCG) expects the San Francisco median home price to increase by 2.5% with a more substantial jump in the

median price the following year. As job growth accelerates into 2011, the jump in demand for residential units combined with the minimal construction completions during the next two year period should result in a spike in home prices, bringing the median home price back to 2004 levels.

Outlook on the San Francisco housing market is positive

A number of positive trends point to improving market conditions into the near term. Rising consumer sentiment and job market stabilization will drive an increase in consumer spending, stimulating job growth across industries. As home prices stabilize and the stock market rises from recent lows, rising household net worth will also encourage spending. In addition, the recently announced TARP extension should promote increasing liquidity in the market, assuring that credit will be readily available to fuel the recovery.

In 2010, RCG expects total employment to increase by 0.6% in the San Francisco metropolitan area, equating to a net increase of approximately 6,000 jobs during the twelve-month period. Though on-going job cuts in the construction industry and office employment sectors are expected to persist into the coming year, RCG believes that the massive job cutting witnessed beginning in late-2008 and through 2009 has come to an end, and companies will begin rehiring in response to improved economic conditions. Despite the anticipated improvements in 2010, flat job growth and on-going credit market concerns increase the likelihood of a slow and steady economic recovery from the current down cycle.



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During the last quarter of 2009, housing market conditions have tightened. Inventory levels continue to decline from recent highs, while rising home sales across a broader spectrum of prices and a decline in distressed sales activity helped the median home price increase from the same month the previous year for a second consecutive month. The median single family sales price rose to \$820,000 in November 2009, a 9.8% rise from November 2008 and a 7.5% increase from the previous month.

Encouraged by the confluence of government-backed incentives for moderate-income buyers, low interest rates, and rising affordability, an increasing proportion of buyers in the current market consists of first-time homebuyers. Specifically, RCG believes that the extension and expansion of the first-time and repeat homebuyer tax-credit should make the program marginally more valuable to buyers in San Francisco. Closed single family home sales totaled 187 units in November 2009, a 28% increase from November 2008, while pending sales activity also rose by nearly 50% to 193 units during this twelve-month period. Consequently, this rise in contract sales combined with the sharp drop in for-sale inventory levels brought the months of supply inventory to 3.0 from 5.8 in November 2008.

Condominium sales nearly doubled from the same time last year

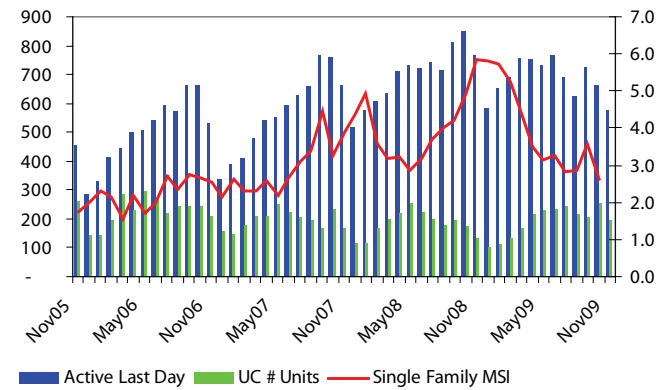
In recent months, condominium sales have risen considerably. Closed condominium sales nearly doubled in November 2009 from November 2008, reaching 212 units, and similar trend in pending sales activity, which increased to 230 condominium units under contract, points to a continuation of this trend. Occupancy rates at many luxury condominium projects erected in recent years have surpassed the 80% mark, as asking prices were slashed and the use of FHA-insured loans increased. As the correction in the condominium market lags behind the single family housing market, the median condominium sales price declined to \$639,000 in November 2009, a 5.3% decline from November 2008 and 0.2% drop from last month.

While the outlook for 2010 remains positive, there are a couple of risks still out there including the continued trend of distressed properties being brought on to the market.

Data is as of the 10th of the month.

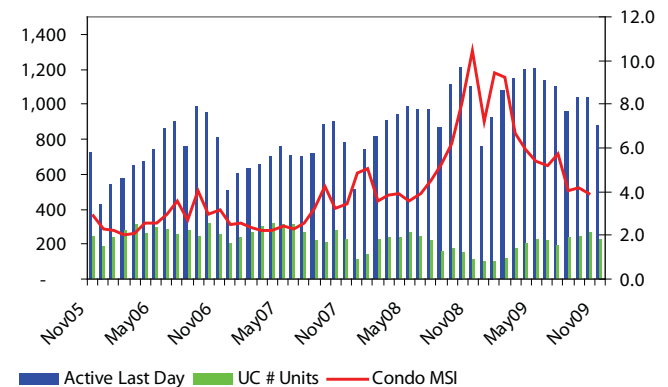
Also, as the federal government attempts to reduce its influence on the housing market, the expiration of federally-sponsored home buying programs, which are fueling much of the current demand for housing, will likely test the market in the second half of 2010.

Figure 1. Active Single Family Inventory



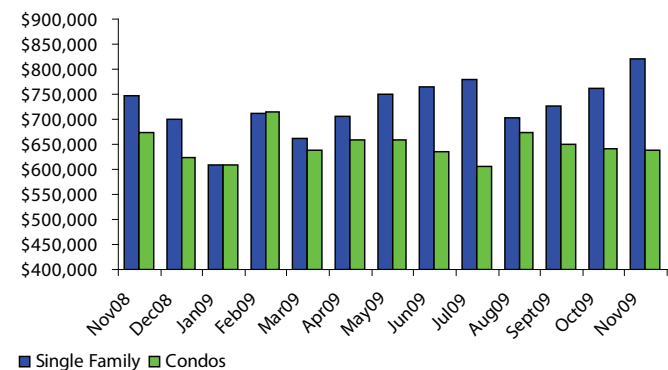
Sources: Terradatum

Figure 2. Active Condominium Inventory



Sources: Terradatum

Figure 3. Median Sales Price for Single Family Homes and Condos



Sources: Terradatum

