Market Focus

A monthly analysis of the San Francisco real estate market

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The San Francisco housing market continued to show substantial improvement in September 2009. Driven by price adjustments and attractive incentives, **condominium sales activity gained further traction during the month, with improvements to both closed and pending sales indicating tightening market conditions.** Closed condominium sales improved to 212 units in September 2009 from 165 closed condominium sales compared to September 2008, with 29% of all sales taking place in District 9 (South Beach/ Potrero Hill/ Bernal Heights/ Mission Bay). We expect this upward trend to continue as pending sales follow a similar trajectory, rising to 271 units under contract from 165 units in September 2008.

During this time, the improvement in unit absorption helped to bring the for-sale inventory to 980 units from more than 1,100 units on the market, bringing the months supply inventory to 3.6 from 10.4 in November 2008, its lowest point in the current cycle. As the condominium market tightens, the decline in sales prices has moderated from earlier in the year, with the median sales price declining by 7.1% to $650,000 in September 2009 from September 2008 (Figure 1).

Single-Family Home Inventory Remains Tight

Multiple bids on the city's most desirable properties and the rise in the sale of homes in higher priced areas drove recent improvements to the single-family median home price, which increased 6.0% to $747,500 in September 2009 from August 2009 but still represents a decline of 4.4% from September 2008. In September, a total of 176 single family home sales were completed, with close to a third of all sales taking place in District 10 (Bayview-Hunters Point, Visitation Valley, Portola, Excelsior, Crocker-Amazon).

Pending sales activity remained robust with 218 single family units under contract, an increase from 193 units in September 2008 (Figure 2). Higher pending sales activity points to favorable closed sales activity in the coming months, though greater scrutiny in obtaining a mortgage is expected to extend the time between signed contracts and closings. Inventory levels, though relatively high in comparison with the longer-term market average, are significantly lower in comparison to September of 2008. With 691 single family units on the market at the end of September, the months supply of inventory equaled a low 3.2 months at the current contract sales rate (Figure 3).

Consumer Sentiment Improves

A number of positive economic trends have helped to drive improvements to the market. Although consumers remain apprehensive,

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they have become less pessimistic in their views towards the economy and the housing market. In September 2009, consumer confidence reached 53.1, and although a slight decline from the previous month, this is a substantial improvement from a historic low of 25.3 in February 2009. This rise in consumer sentiment is accompanied by improvements to the credit market.

The Federal Reserve is supporting lower mortgage rates through an easy monetary policy and purchasing Treasuries and mortgage-backed securities. For the most part, the U.S. and other Central Banks have successfully calmed the credit markets. From a low 4.81% 30-year fixed mortgage rate in April of 2009, rates peaked at 5.42% in June before dropping back to 4.87% as of October 8, 2009.

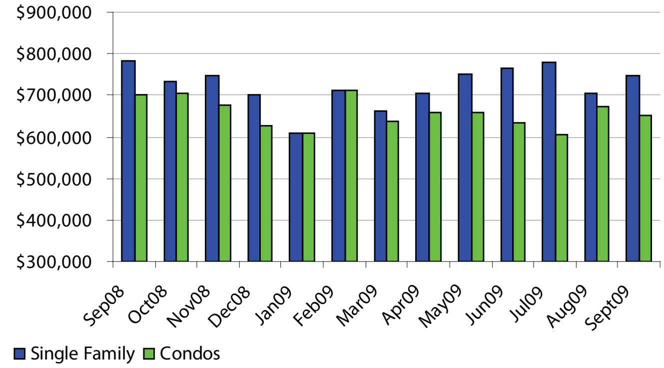
Early signs of stability, particularly in the low-end of the housing market, have been facilitated by distressed property sales, price reductions, low interest rates and federal government intervention. With mortgage rates at sub-5% levels and the foreclosure process effectively weighing down on home prices and improving affordability levels, the current environment is an ideal time to buy, particularly for long-term buyers on solid financial footing. At present, the result of the current sales trend is a bifurcated housing market, with stronger performance at the low end rather than the high end.

Market Risks

Despite these positive trends, a number of issues still loom, adding risk to the market going forward. In August, the San Francisco County unemployment rate reached 10.1%, the highest level in decades. The emerging slow jobs recovery will continue to hamper home buying activity, while pushing delinquent borrowers into foreclosure.

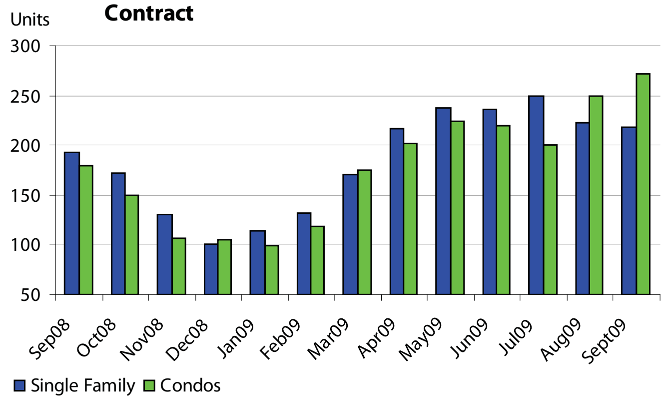
In addition, as federal tax credit and programs supporting the mortgage-backed securities market are gradually phased out, the elimination of these incentives and the effects on home buying activity and home prices could have a negative effect on homebuying activity. The number of homes that received a notice of default in August 2009 increase considerably from the same time last year, indicating that the market still faces a pipeline of potential foreclosures and an increase in for-sale inventory through the near-term. Should these units return to market, this will restrain increases to the median home price, prolonging the market's return to equilibrium.

Figure 1. Median Sales Price for Single Family and Condo Units Sold



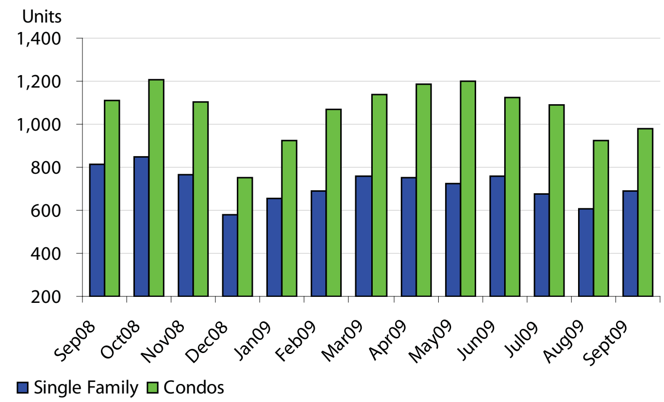
Sources: Terradatum

Figure 2. Single Family and Condo Units Under Contract



Sources: Terradatum

Figure 3. Active Single Family and Condo Inventory



Sources: Terradatum

Data is as of the 10th of the month.