Slowdown in Bay Area home sales little threat to most, experts advise

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THE "FOR SALE" SIGN on the house next door has been up three months. Home sales have clearly declined and home price appreciation has slowed. Should Bay Area homeowners be worried?

Experts say no. Compared to the early 1990s, when sales slowed dramatically and prices dropped about 12 percent statewide, today's slump is relatively mild. Though it's taking longer to sell homes and prices aren't going up nearly as fast — and in some cases are decreasing — real estate market watchers say homes here remain a good investment.

Barring a blip in the economy, the current slowdown should remain mild, experts say. You're only in a bad spot if you have to sell or can't afford your mortgage payment.

Statewide, 2006 was a tough year for real estate. Foreclosure activity rose. About 447,300 existing single-family homes changed hands, a 23.6 percent decline from 2005, according to the California Association of Realtors. The Bay Area's median price for an existing single-family house was $725,900 in December, 1.8 percent more than a year ago — a small increase compared with those of recent years.

When factoring in new and resale single-family houses and condos, the Bay Area's median

price rose by only 0.5 percent in December, with price declines of 0.2 percent in Contra Costa County, 1.2 percent in San Mateo County and 6.3 percent in Sonoma County, DataQuick Information Services said.

But industry mavens say not to worry.

"If the economy holds up and we keep creating new jobs, then we should weather this (slowdown) fine," said Delores Conway, director of the Casden Real Estate Economics Forecast at the Lusk Center

SLUMPIBusiness 2

An economic report warns that an extended slowdown could hold back the Bay Area's

performance.Business 2at the University of Southern California. Most homeowners should just sit tight, Conway said.

"Even in a worst-case scenario, which would be a recession, prices might fall at most 2 or 3 percent per year" over the next five years, said Christopher Thornberg, an economist with Beacon Economics, a firm with offices in San Rafael and Los Angeles. Thornberg predicted that California home prices will remain flat for five years.

But that's not so bad if you take a longer-term perspective. People in the Bay Area were spoiled by a nearly 10-year runup in prices that began in the mid-'90s and led to unprecedented appreciation before petering out in late 2005. Most real estate cycles last around seven years; a number of factors, including lower interest rates, extended the recent boom.

Long-term viewpoint

Bay Area homeowners voiced sentiments similar to those expressed by Conway and Thornberg.

"People like me and my friends, whose property figures into their retirement plans and net worth, don't care if there is seven months of inventory on the real estate market. We say, 'Is the value of my property going down?' And I don't see that it is," said Berkeley homeowner Robert Marsh.

"Even if it goes down for several years, it will go up in the long term," Marsh said.

Janet Fouts bought her house two years ago "and gained enough in the house not to be too worried about the changing market," the San Jose resident said. "I think it's just an overall adjustment, not a downhill trend. This is the Bay Area. It will always be a place where people want to live."

Valerie Crowell of Concord predicted the Bay Area won't see the double-digit price drops of the early 1990s, just "a mild adjustment." Crowell sold her Concord home for more than the asking price in December and currently rents, though she said she will probably buy again soon.

But renter Rachel Luxemburg of San Mateo said the slowdown hasn't tempted her to buy.

"When you can find something on the Peninsula that isn't a crack house for under $500,000, then I'll consider buying. But not now," Luxemburg said. "We're coming off a period when housing appreciated as much as 20 percent annually. An approximately five percent drop off the top of the market is no great deal, especially in the already-overpriced Bay Area."

Conway said, "You can't get a 20 percent return forever." She noted that some Bay Area cities saw prices jump 15 or 20 percent a year during the boom.

From January 2000 to January 2005, the median price for all homes in the nine Bay Area counties — resale, new, detached and attached — saw a 64 percent jump, from $326,000 to $534,000, according to DataQuick.

"We have had pretty steep price appreciation in the last five years, so to give up 5 to 10 percent is a small amount for the gains we have achieved," Conway said. Prices could stop appreciating altogether or fall up to 10 percent in the next year or so, Conway said, though she was uncomfortable giving a specific time frame.

Nowadays, negotiations between buyers and sellers are becoming more balanced in the the Bay Area, said Lyman Menger, a broker at Realty World Neighbors in Hayward who has been in the business since 1973.

"It goes in cycles. We've had many years of it being a sellers' market — they could ask whatever they wanted and buyers had to go along," Menger said. "We're back to a much fairer situation."

The current price slowdown is minor compared with the one 15 years ago, experts said.

"The Bay Area slipped into recession in 1990. Mortgage interest rates were around 10 percent and unemployment was high," said Geoffrey Craighead, president of the San Mateo County Association of Realtors. And, he noted, people were fleeing the area in the wake of the 1989 Loma Prieta earthquake.

The median home price in California was $200,660 in 1991 and it dropped about 12 percent to $177,270 by 1996, after which prices began rising again, according to the California Association of Realtors.

The Bay Area was not hit as hard, DataQuick numbers show. Median home prices dropped 5 percent, from $238,000 in 1990 to $225,000 in 1993.

Southern California was harder hit during this period, with steeper price declines, Conway noted. "What hurt us so much in 1990 was that unemployment went to 8 or 9 percent. The Berlin Wall went down, defense contracts were canceled and it really hurt Southern California," she said.

The 1990 slump was worse than the one before it in the early 1980s, said Anne Biddell of Realty World Neighbors. "In the 1980s, it was more inventory than prices. Prices dropped slightly, but not much," she said.

Prices drop when there is an oversupply of homes on the market or because of job losses, Conway said. Also, higher interest rates discourage home buying, since they mean higher monthly mortgage payments.

The Bay Area suffers from no such problems now, Realtors said.

"Interest rates are still at historic lows," said Colleen Badagliacco, president of the California Association of Realtors. Rates are hovering in the vicinity of 61/2 percent for a 30-year fixed-rate mortgage. And unemployment in California is 41/2 percent, compared with 8 to 9 percent in 1990, Conway said.

Economy on track

Strong job growth in the East Bay and a hiring rebound in the South Bay should keep the area's economy on track for the next two years, the Association of Bay Area Governments reported in January.

Mary Tunnell owns a home in San Francisco. "I've owned it less than two years; and, of course, I'd like to know my house will remain valuable," she said. "But I also feel that housing in the Bay Area will stay somewhat strong just due to limited supply. Also, with the tech sector seeming to pick up jobs, it may start to get even stronger."

Homeowners who don't have to sell can just sit back for a few years and wait until housing prices start going up again, Badagliacco said. And buyers who get in on the market now can enjoy being homeowners and look forward to long-term price appreciation.

The losers are homeowners who are forced to sell — perhaps for a job relocation or other factors — and folks who can't afford their mortgage payments.

The latter group is in the worst position. When the market was red hot, a number of people bought homes with "creative" mortgages, which made it possible to buy with no down payment or pay extremely low interest for a couple of years, among other options.

The expectation was that prices would continue to rise and the homeowners could sell the homes and make a profit. But then the market slowed, the payments went up and these individuals can't afford their mortgage payments, Craighead said. "That's why we're seeing so many foreclosures now."

If you're in this position, get rid of your house right now, Thornberg advises.

"Get it on the market now, before prices soften even more," he said.

At the same time, however, anyone who wants to sell a house in today's market has to name a realistic asking price and spend a little on basic improvements. Such enhancements can help fetch a higher price.

"You're in a competitive market right now. You have to have the best product out there," said Chuck Edell, president of the Bay East Association of Realtors. "You must have a house that's kept up nicely. Spend a couple thousand dollars for new carpet. The little you spend will bring back every cent on your investment."

Badagliacco said, "If you need to sell, it doesn't mean you'll necessarily take a bath, but you need to have your house in nice condition and make repairs just like you did for 25 of the last 30 years."

Upbeat news

And take heart: There are signs the slowdown may be abating, Conway said. One good thing, she said, is that builders have sharply reduced the number of new homes on the market — a reality anyone who has seen people jiggling those huge signs on street corners can confirm.

"They went to great lengths to sell off excess inventory by offering extras like granite countertops and doing lots of aggressive marketing," Conway said. Another good sign: While Bay Area sales dipped in December, the slip wasn't as bad as that of the previous month.

"By springtime, monthly sales volumes could match those of a year ago," predicted Scott Kucirek, general manager of Pleasanton-based Prudential California Realty. "The market has settled into more equilibrium."

He added, however, that it is still too early to draw any definite conclusions, and Thornberg and others say the down market is far from over.

One thing the experts agreed on: Eventually, things will look up. It's a truism that real estate goes in cycles. As Badagliacco, also a San Jose Realtor, said, "We will see a gradual improvement as the years go on. Houses will start appreciating at some point."

Thornberg advises homeowners to look at the bright side and just wait it out.

"Hunker down," he said. "If you can afford your mortgage and you're in a neighborhood you like, live in your home and recognize that you got 10 years of appreciation in about four years — and be happy."

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