

S.F. feels the pain of real estate meltdown

Marni Leff Kottle, Special to The Chronicle

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San Francisco's real estate industry might be happier to bid farewell to this year if next year offered the hope of anything better. It doesn't.

Instead, executives at the helms of the city's biggest brokerages say they're preparing for an unpleasant and unprofitable 2009, although it may turn out to be the best year that buyers have seen in more than a decade.

"When we get to the end of 2009, I'll have a smile on my face," said Bill Drypolcher, owner and founder of San Francisco's Zephyr Real Estate. "I don't know if I'll have any money in my pocket, but I'll have a smile on my face."

The downturn that slammed other parts of the Bay Area and the rest of the country didn't really begin inflicting serious pain on San Francisco until the second half of this year, real estate experts said. And while no one expects San Francisco to see the kind of foreclosures and bank sales that have become common in the East Bay, the city's real estate market is clearly suffering.

"San Francisco had managed to fool itself through most of 2008 into thinking that it wasn't going to suffer the same sort of issues that have hurt other places in the state," said Christopher Thornberg, an economist with the consulting firm Beacon Economics. "The last four or five months of the year, San Francisco has seen price declines that have been quite prominent. You can't have prices fall as much as they have across the bay without some impact on San Francisco itself."

The median price of a single-family home in San Francisco fell 16.6 percent to \$702,000 in October, the most recent month for which data are available, according to the real estate information service MDA DataQuick. The October drop compares with \$842,000 in October 2007. The median price is now 22 percent below its peak of \$900,000 in May 2007.

Top executives at Zephyr, McGuire Real Estate and Pacific Union GMAC Real Estate, three of the city's biggest brokerages, say sales are slower this December than last. Sales volume is down 28 percent at McGuire, according to Charles Moore, the company's chief executive officer.

Lethal combination

The meltdown in the stock market has eroded wealth and instilled fear in buyers, while tighter lending

An advertisement for Columbia School of General Studies. It features a blue pencil with the text "THE PERFECT FOUNDATION" written on it. The background shows architectural drawings of columns and a pencil sharpener. The text reads: "Information Session San Francisco, California February 26, 2009, 7-9pm" with a "click here" link. At the bottom, it says "COLUMBIA | SCHOOL OF GENERAL STUDIES".

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standards have made it much more difficult to get loans. Add concerns about the economic recession, and it's a lethal combination, Moore said.

One of his top agents approached him recently after listing a home that she was convinced would sell quickly.

"She thought it was a run-don't-walk situation that would go over asking (price) with multiple offers," Moore said. "Two weeks later, she showed it to a buyer who offered less than the asking price and got it. There's a new, lower benchmark."

Even as the real estate executives say they've encouraged their agents to lower expectations, they are finding increasingly that the prices still aren't low enough.

When Zephyr agents presented their new listings at last week's sales meeting, Drypolcher said, the inventory was relatively light, not abnormal for this time of year. But the number of homes with price cuts and deals that collapsed in escrow was way above average.

"It was disheartening," he said. "It's very unusual in San Francisco to have to go through rounds and rounds of price cuts. It means that either we missed the market, or we were too high in the first place." After a 14-year rise in home prices, a period in which it seemed that values moved only in one direction, Moore said it's difficult to persuade sellers to price low.

Whereas in the past, a below-market price might have been a ploy to attract multiple offers, Moore said, he's now encouraging his agents to tell their clients to price low and be willing to accept an even lower offer.

"It is good counsel today to tell your seller to list the property under the competition," he said. "A high-water mark is no longer appropriate when the tide is ebbing. Prices are still coming down, and good sellers have to chase the prices down."

As a group, Moore said, sellers are going to have to acknowledge that is no longer their turn.

"For the past 14 years, all of our buyers have acted under a sense of urgency," he said. "Sellers need to embrace that it is what it is. They have to start acting differently with more of a sense of urgency."

While that may not be what sellers want to hear, Moore and others said 2009 will present buyers with golden opportunities.

In an recent blog post, Pacific Union CEO Avram Goldman encouraged those wary of buying a home only to find its value lower in six months to put in an offer anyway - at the price they think the home will drop to.

"You never know what a seller is going to take," he said. "Nobody knows. Sellers have all kinds of different situations."

Although he doesn't expect the market to come thundering back, Goldman said buyers have a lot to gain by acting now.

He gave the example of a San Francisco home that was purchased in 2005 for \$910,000 and recently went back on the market. The owners spent about \$100,000 remodeling the house and listed it for just over \$1 million.

The home is now in contract in the mid-\$800,000s, Goldman said.

"As more buyers are willing to write offers, sellers become less willing to negotiate."

All three executives said they believe there are a lot of people waiting for the perfect moment to make an offer.

"There is so much financial uncertainty," Goldman said. "People read so much negative economic news every day. There are a lot of people who would like to buy, but they are on pause. They are looking for a sign. Everyone is looking for a sign." But those clues can be subtle, making the art of timing the market nearly impossible.

"They want to hit on the day, the minute, the hour of the bottom," Drypolcher said. "And I can tell you, I've never been able to do it in real estate, and I've never been able to do it in stocks and bonds."

Market comeback

When asked to pull out the crystal ball, Drypolcher was the most optimistic.

He said he expects the market to begin to come back by the third quarter of next year.

"I think we will begin to see the market start to stabilize at the end of spring or beginning of summer," he said.

He predicted growth at or slightly above the rate of inflation over the next several years. His competitors were slightly less sanguine.

While the low end of the market remains active, fewer homes over \$1 million are selling, Goldman said. He anticipates that will drag prices down further in 2009.

Goldman said homes at and below San Francisco's median price are selling in part because it is so much easier for those buyers to get loans. The credit market needs to loosen up for buyers seeking jumbo loans before the housing market can really recover, he said.

"It got so that if you could breathe, you could get a loan, and now the momentum has gone totally the other way - you have to put 30 percent down," he said. "It's got to move more toward the middle again." Still, he said, he thinks the market is nearing its bottom.

Thornberg, the economist, said hitting bottom is the best thing that could happen to San Francisco's real

estate market next year.

"There's an economic recession going on right now, and it's a pretty nasty one," he said. "The best that we can hope for in 2009 is to find the bottom."

Moore said he's taking stock and preparing for the long haul.

"I don't think we've even seen the beginning of this yet," he said.

He said he is running his business under the assumption that the down market will continue for at least two more years. His top piece of advice to his agents? Don't take overpriced listings.

"I'm thinking about surviving these turbulent times," Moore said. "I'm not thinking about thriving any more. It's a new mind-set."

And it's a glum outlook from a leader in an industry usually known for its relentless optimism. The goal isn't to be depressing, just realistic, Moore said.

"If you are the sole counselor to your client, you had better talk credibly, and you had better tell the real story," he said. "It may be a depressing story, but it's your job to tell it."

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