

# **For the Bay Area real estate industry, 2007 went from boom to tizzy**

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As 2007 comes to a close, most people in the Bay Area real estate industry are happy to bid it farewell. And don't let the door hit you on the way out.

It became clear this year that the real estate boom of the first part of the decade had officially gone bust as lenders tightened standards, sending sales volume skidding and squelching price appreciation. The number of homes sold fell 23 percent through November in the Bay Area's nine counties compared with the same period in 2006, according to DataQuick Information Systems.

Although prices have yet to post the same kind of dramatic declines, appreciation has ground to a halt in most parts of the region. Last month, the median price for a home or condo in the Bay Area was \$629,000, an increase of just 1.5 percent from November 2006.

"It was the beginning of the end of the great real estate boom of the (two thousand) zeros," said Christopher Thornberg, a founding partner of the consulting firm Beacon Economics. "What you're looking at is a meltdown in the housing market that is completely unprecedented, but completely understandable when you look at the abuses in the market in the last few years."

Still, real estate executives were quick to point out that the Bay Area is faring better than other parts of the country. And, even within the Bay Area, the market is uneven with some areas suffering considerably and others holding steady.

"When you look at the rest of the state and even the rest of the country, the Bay Area has held up quite well," said Larry Klapow, president of Coldwell Banker's San Francisco Bay Area region. "The market has shown incredible resiliency." But Klapow and others said that the median numbers don't necessarily tell the whole story. The region's housing market is uneven, showing strength in core markets such as San Francisco, Marin County and Silicon Valley and weakness in outlying parts of Contra Costa and Solano counties, where new construction flourished during the boom.

"There are still a lot of affluent people in the Bay Area who know where they want to live and are willing to pay over asking to live there," said Scott Kucirek, general manager of Prudential California Realty, which has 39 offices in the Bay Area's nine counties. "At the same time, look at how hard Solano County got punished."

Here, we'll take a look back at the good, the bad and the ugly of 2007.

## **The good**

Real estate agents point to San Francisco, Silicon Valley and certain parts of the East Bay, with short commute times and good public schools, as sweet spots in the market. A scarcity of single-family homes in San Francisco and the strength of Google and other technology companies are propping up the markets in those locations, agents said.

"The economy is still strong, and in San Francisco and Silicon Valley the vast majority of housing has done well," said Ken Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at UC Berkeley.

The median price of an existing single-family home jumped 9.5 percent to \$799,000 last month in Santa Clara County and rose 6.9 percent to \$855,500 in San Francisco, according to DataQuick.

And while Contra Costa, Alameda and Solano counties all saw a decline in median home prices last month, there are pockets within the East Bay that are thriving, according to agents at Prudential and Coldwell Banker.

"Real estate is all about supply and demand," said Coldwell Banker's Klapow. "In Orinda and Moraga, we can't get enough to sell. We're getting multiple offers."

High-tech job growth is fueling the high end of the housing market across a broad swath of the Bay Area, experts said. "The tech sector is very strong again, and office space has filled up in Emeryville, Berkeley and San Francisco," said Brad Inman, an industry pundit who founded the real estate news service that bears his name. "Where there's a shortage of supply, we continue to see demand."

The Santa Clara market in particular, experts say, is thriving. Greg Paquin, who runs a consulting company that advises home builders, said his projects in Silicon Valley sold rapidly as Google employees snapped up homes in Mountain View and Sunnyvale.

"We had one project where literally 50 to 70 percent of the buyers were Google employees," Paquin said. "They were buying two to four homes a week. It's slowed a little bit and we're now just above one a week, but that's way above anything else we're seeing any where else in the Bay Area and in all of California for that matter."

## **The bad**

But move away from the region's urban cores, agents say, and the picture is dramatically different.

The first half of the year was relatively uneventful, but just as it seemed the market was on solid ground, the subprime loan crisis began to unfold.

"When you think back to the middle of 2007, in April, May and June, it seemed as though the housing market had stabilized," said Mark Zandi, chief economist at Moody's Economy.com. "Then it was totally upended when the subprime shock hit in July, August and into September."

Areas, particularly in the outer reaches of the East Bay in cities such as Pleasanton and Antioch, have suffered as

lenders tightened standards and pushed would-be buyers out of the market.

Business is down significantly at Prudential's Pleasanton office, said Frank Cannella, who manages the branch there and characterized 2007 as the "shakeout year." "I don't think anyone believed that it would be as dramatic as it turned out to be," he said. "The subprime mess has really surprised a lot of people."

The median home price skidded 2.8 percent to \$565,000 in November in Alameda County last month, according to DataQuick. Solano County suffered more than any other in the Bay Area last month as the median price tumbled nearly 15 percent to \$375,550 for a home or condo.

"It's the far-flung areas with the toughest commutes and the lowest-cost housing and the most construction that are the markets that are being hardest hit," said Inman. Those areas also have seen the greatest number of foreclosures. As sellers go to price their homes, foreclosure activity is dragging down prices even for buyers who aren't in financial distress, said Prudential's Kucirek.

"We're resetting the values right, wrong or indifferent," he said.

## **The ugly**

Yet experts say that nowhere has the shift from boom to bust been more dramatic than in the new-home market.

Developers who were dangling upgrades like free hardwood floors and fancier appliances changed their tune and instead began slashing prices by as much as \$150,000 in parts of the Bay Area in 2007.

Markets such as Brentwood, Oakley, Antioch and Pittsburg are particularly suffering, according to the Gregory Group's Paquin. "There is an abundance of product available and prices were unsustainable and continue to be," Paquin said. "The credit situation has made it more of a challenge."

Economists say it will take awhile to work through the supply of new homes.

"Builders got carried away and put up way too many homes - they were caught up in frenzy and hype of the boom market," said Economy.com's Zandi. "Many of the markets in the East Bay are just overwhelmed with new homes, and that's a very significant weight on the new-home market."

While new-home developers pointed to statistics about the state's perpetual shortage of housing as they built, the homes that went up don't necessarily meet the region's needs, said Beacon's Thornberg.

"Don't confuse apples and oranges," he said. "We heard lots about the housing shortage during the boom and that had little to do with high-cost new houses and everything to do with low-rent apartments for immigrants."

But across the board - good bad or ugly - as real estate agents prepare for next year, they say they are happy to be done with 2007.

"We lived - we are all here," said Coldwell Banker's Klapow. "It was a year of major change. I would say first half of the year felt normal and then of course the credit crunch kind of threw everything into a tizzy."

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