REwired

Is San Francisco housing headed for a crash?

Home prices edge down, but still hover well above $500K

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In San Francisco, there should be a saying: Buy a home at the right time, sell at the right time.

Do so, and you're set for life.

Yes, it’s a crowded, highly desired metro with myriad issues keeping home buying on the high-end. Yet, the hottest neighborhood in the nation is in San Fran.

But fluctuations in prices from the peak of the 2000s housing bubble to today show the area always charting a volatile course when it comes to price appreciation and depreciation.

DataQuick released a report Wednesday showing the median price paid for a “Bay Area” home in December hit $548,500. That is a slight decline from November, but still up 23.9% from $442,750 a year earlier, the research firm said.

The median price rose year-over-year for the past 21 consecutive months. Yet, local sales figures for December reached their slowest benchmark in six years.

DataQuick says 6,714 new and resale homes sold in the nine-county Bay Area last month. That’s the “lowest for any December since 2007, when 5,065 homes sold,” the company added. Still, December sales edged up a slight 0.8% from 6,659 in November.

But it’s the course charted over the past decade that paints a picture of a market with wide, inconsistent price swings. Those selling at the right time make out big time, while the rest suffer. During the peak of the housing bubble, the median Bay Area price reached $665,000 in June and July 2007. By March 2009, the recession had plunged local values, kicking the median San Fran price down to $290,000, according to DataQuick. That same figure is back to more than a half a million dollars today.

"If current trends hold, including year-over-year price appreciation of 20-plus percent, the typical home would be selling for $50,000 to $60,000 more by spring," said John Walsh, president of DataQuick. "Perhaps twice that at the upper end of the market. That could loosen up quite a bit of inventory. The question then is, how much of the pent-up demand that accumulated during the down years is still there? An additional issue is the fussy mortgage market, although things are moving in the right direction there, slowly."

One thing that could slow down escalating prices is the future mortgage market, which remains subjected to regulatory headwinds.

In December, jumbo loans well above the conforming loan limit of $417,000 made up 49.2% of the purchase lending market – down from a revised 49.8% in November. Government-insured FHA home purchase loans accounted for 11.3% of all Bay Area home purchase mortgages in December – up from 10.4% in November and down from 13.8% a year ago.

But the ability to access government loans is diminishing somewhat.

"In recent months the FHA share has been the lowest since early 2008, mainly because of tighter FHA qualifying standards and the difficulties first-time buyers have competing with investors and cash buyers," DataQuick said.

Mark Calabria, director of financial regulation studies at the **Cato Institute**, addressed California home affordability issues more than a year ago, blaming some of it on real estate regulations.

"It's really a supply constraint," Calabria said. "They should look at trying to deregulate their land markets. In a relatively competitive market, you could build affordable housing without massive subsidies," he explained at the time.