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More high-end properties sitting on the market

James Temple, Chronicle Staff Writer
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After 14 months on the market and about a $1.2 million price cut, a large, newly built home in the Oakland hills is on the verge of selling, assuming the bank allows it to trade for less than what's due on the loan.

The approximately $950,000 "short sale" is a prominent example of something brokers don't like to talk about, at least not brokers who represent owners: High-end properties are increasingly coming under the sort of pressure once reserved for moderate homes. In fact, as slowing price declines fuel hope that the real estate bottom is near, other signs suggest the worst is on its way for the region's upscale market.

"The high end, they're hurting more, actually, and you can bargain more," said Pinky Sohal, a Realtor with Legacy Real Estate & Associates, who is representing the purchaser of 1055 Amito Drive in Oakland, a hedge fund manager whom she declined to name. "They're begging for buyers to come in."

The seller's agent didn't respond to inquires.

So far, prices for top-end properties aren't declining more or faster than the market as a whole, based on ZIP code information provided by San Diego research firm MDA DataQuick. But strains are becoming evident on that end of the price spectrum.

In the Bay Area, the months of unsold inventory of existing single-family homes priced above $1 million reached 14 months in March, more than double where it stood a year ago, according to the California Association of Realtors. The statistic estimates the time it would take to sell all the homes on the market based on the current rate of transactions.

In contrast, inventory of homes priced below $500,000 fell to just 2.6 months, a nearly 80 percent decline. The same general trends were seen on the state level as well.

Delinquencies up

In addition, notices of default sent to delinquent borrowers in the Bay Area in the first quarter of this year were up 65 percent from a year earlier in ZIP codes where the median price was $800,000 or more, according to DataQuick data analyzed by The Chronicle. That compares with just 17.6 percent for the region as a whole.

Several factors are at work, industry experts say.

The housing industry downturn began as rising interest rates on subprime home loans left more and more moderate-income owners unable to meet their monthly payments. But by the late summer of last year, the mortgage virus had spread throughout the economy, seizing up credit markets, pummeling stocks and toppling corporate giants.

In the last few months, the well-to-do have watched their businesses unravel, jobs disappear and net worth shrink, said Andrew Jeffery, principal with Cirios Real Estate, a brokerage and research firm in San Francisco.

They're "working through their cushions and you're seeing more distress in the higher-end market, and you're starting to see the beginnings of price deterioration," he said.

These trends are pushing more expensive homes onto the market precisely at a time when there is little appetite for them, said Esmael Adibi, director of the Anderson Center for Economic Research at Chapman University in Orange. Many would-be buyers at another point in the market cycle are grappling with the same issues. Likewise, the type of person who might have been looking to buy a more expensive house in the past today often doesn't have the necessary equity appreciation to consider a million-dollar home.

Even when someone is interested and qualified, they may not be able to secure or afford a jumbo loan, the lofty mortgages that Fannie Mae and Freddie Mac refuse to buy or back. Many banks either no longer offer the loans or charge much higher rates for them than in recent years.

"When you look and see supply has increased, you ask, 'Who are the potential buyers?' " Adibi said. "That's where the problem kicks in."

Adjustable-rate mortgages that let borrowers choose how much to pay each month could exacerbate high-end troubles in the months to come as the minimum payments go up, Jeffery said. The loans were originally marketed to the wealthy and, on average, were used to buy more expensive homes than those purchased with subprime mortgages.

Option ARMs initially allow borrowers to pay a minimum that doesn't even cover interest, but once they owe a certain amount above the principal, the monthly obligation is increased - often to a sharply higher level that can lead to defaults and foreclosures. Borrowers are likely to reach those levels in rapidly rising numbers next summer, before climbing to a peak amount of more than $1 trillion in monthly payment adjustments around the end of that year, according to an analysis by Credit Suisse Securities LLC.

"The effect of huge negative equity and unemployment will continue to weigh down on the performance of this sector," said Chandrajit

Bhattacharya, mortgage strategist at the Zurich bank.

Deals are out there

All of these trends do, however, mean rare opportunities for those in a position to take advantage of deals in the upscale market.

Sohal said she is representing another person who is a week or two from closing on a short sale in the Oakland hills. She's also been taking a handful of all-cash buyers on tours of expensive new properties in San Francisco, including the Infinity and One Rincon Hill condominiums, and has every intention of playing the developers against each other to secure the best deals.

"In this market, the buyer's broker rules," she said.

On the block

The months of unsold inventory for existing single-family homes - an estimate of the amount of time it would take to sell all the properties on the market based on the current rate of transactions - are rising rapidly for high-end homes in the Bay Area and California, even as the figures decline for moderate and low-priced homes.

California	March '08	March '09
$1 million and higher	12.1	18.7
$500,000 to $1 million	10.6	6.4

Less than $500,000	12.3	3.0
Bay Area	March '08	March '09
$1 million and higher	6.0	14.0
$500,000 to $1 million	7.8	5.6
Less than $500,000	12.1	2.6

Source: California Association of Realtors

E-mail James Temple at jtemple@sfchronicle.com.

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