



## California Market Watch, June 30, 2010

# Newcomers Make Strong Showing in the Bay Area

As mixed housing and job indicators continue to cast doubt in the consumer conscience, recently opened new home communities continue to perform better than the general market. Not surprising, since new products are designed for current market conditions and short selling periods tend to inflate weekly sales rates. However, some of the top performing new home communities we examined have been open for nearly one year, more than enough time to negate the impact of the initial sales spike. In all, there were 63 new attached and detached community openings in the twelve county greater Bay Area region (Alameda, Contra Costa, Marin, Monterey, Napa, San Benito, San Francisco, San Mateo, Santa Clara, Santa Cruz, Sonoma and Solano Counties) from June 2009 through April 2010. The average sales rate within this new group is 3.6 units per month, significantly better than existing products, which tend to have sales rates under 1.0 unit per month.

- **A trend we see throughout the state is the success of “affordable” (\$400,000 to \$600,000) modern mid-rise communities in urban environments.** In the Bay Area, San Francisco is ground zero for these communities. Younger renters either shutout of the housing market during the last up-cycle or those just entering the homebuying life stage are eagerly purchasing in these communities. Looking to capitalize on homebuyer tax credits, low interest rates and affordable prices, urban demand has catapulted several attached communities to the top of the sales charts. Union South and it’s sister community, Union North are both top sellers in the region. Located at the border of the Mission and Potrero Districts, these two buildings were built more than a century apart and merge historic and modern design. Like we have seen in the Los Angeles area, many of these high-style buildings are being pioneered by firms with links to the hospitality industry and are bringing the luxury and emotion of a boutique hotel to the residential market. To further enhance the mystic, we are also witnessing a trend toward utilizing name brand designers often seen on television (e.g. Kenneth Brown for Union North/South) to add yet another level of interest for target buyers.
- **While more than half of the top selling attached communities are located in San Francisco, there are other successful attached communities in surrounding areas.** 1001 Laurel (San Carlos) and 555 YVR (Walnut Creek) are both mid-rise buildings that appeal to a broader cross-section of buyer types. While these communities appeal to younger buyers and move-down buyers, they approached their target markets differently. 1001 Laurel is a more traditional building, while 555 YVR puts a modern spin on the suburban market. The Preserve by KB Home offers three story townhomes in the heart of the Peninsula (Redwood Shores). Prices in the \$600,000 to \$800,000’s are relatively affordable for the high-technology workers in the area who appreciate the centrally located community with good schools, abundant shopping and numerous entertainment opportunities.
- **Geographically, the top selling detached new communities are more widely dispersed than their attached counterparts.** However, top-selling projects do tend to be near established employment nodes. As the market contracts, buyer are less likely to accept long commute times. A prime example is Positano community in Dublin, which had three builders claiming top spots, largely due to location and price. DR Horton, KB Home and Braddock & Logan all offered homes with prices typically in the \$600,000 to \$800,000’s. The combination of value and a desirable crossroad location (allows for split commutes) made Positano the top on the homebuying list for many families.
- **The outlying areas are driven by the other real estate mantra, price, price, price.** Meritage Homes, Shea Homes and Seeno Homes all had success offering homes in the North and East Bay Areas for nearly half the price of those in Positano (Dublin). With prices typically in the \$200,000’s to \$400,000’s, these builders tapped the strongest part of the buyer pool. With interest rates hovering around 5%, a mortgage in the \$1,000 to \$2,000 range makes more sense than renting for most families.

## About Meyers Builder Advisors

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wide range of services including site specific analysis, strategic workouts, due diligence, and forensic analysis. The group has advised on a wide range of residential product types throughout the United States and has successfully assisted a long list of builders, developers, and financial institutions.

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