Golden opportunities

By David Gelles
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The property markets in San Francisco and nearby areas such as Sonoma, above, are beginning to regain momentum after coming to a "screeching halt"

Back in October, Sotheby's real estate agent Betty Brachman was finalizing the sale of a $2.5m luxury condominium overlooking San Francisco Bay. The two-bedroom, two-bathroom flat, which enjoys view of the Golden Gate Bridge, is in one of the city's best buildings, with a full-service doorman. And the buyers were planning to pay cash for what would have been their third home.

But, as the financial sector struggled to cope with the collapse of Lehman Brothers and other companies, the US stock market plummeted. Brachman's buyers saw their wealth collapse and so pulled out, sacrificing their deposit. "Their financial picture changed so quickly," she says. "It made the most sense for them to walk away."

Seven months later the condo is still for sale – at a 20 per cent discount to its original price.

The San Francisco property market, one of the most expensive on the US west coast, reached its nadir early this year, according to Brachman, who has been an estate agent for 28 years. "January and February were the darkest months of my career," she says. "The phone just wasn't ringing. It would have been a great time to be on vacation in Hawaii."

The city was not as hard hit as some other areas of California, where defaulting sub-prime buyers have devastated the local economy, but, unlike in previous downturns, even the state's most luxurious locales were not spared. "High-end property was more vulnerable this time," says Cynthia Kroll, an economist at the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley's Haas School of Business.

Yet brokers have not lost faith in San Francisco, where discretionary buyers keep vacation homes and well-heeled technologists put down roots. They say the city's unique combination of culture, commerce and geography – it is on a peninsula with no room to expand – make it resilient even in the face of a global downturn, with business picking back up over the past few months. "Because we're landlocked and we have the proximity to the biotech and internet industries, there's always going to be money here," Brachman says. "We've got great wealth, great industries and it's beautiful. You don't have to sell anyone on San Francisco."

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In a city where the median single-family home price is $930,000, nearly every neighbourhood can seem exclusive. Three of the city's "seven hills" – Telegraph Hill, Nob Hill and Russian Hill – attract much of the old money, while Pacific Heights, with its view of the Golden Gate Bridge, also tends to accommodate wealthy families. Sea Cliff, tucked away by the ocean, is home to the city's largest mansions and, in recent years, new glass towers have gone up in the South of Market (Soma) area, attracting younger, dot-com money.

Although the market has become more active recently, habits have changed. Gone are the days when clients were willing to buy a house in need of some work for a slightly lower price. "Buyers are looking for something that's completely done," Brachman says. "There is no more market for fixers."

Reduced prices are also making it possible for San Francisco's merely rich to trade up. "I've got clients who are looking at this as an opportunity," says Michael Fanelli, a broker at Pacific Union Real Estate who specialises in homes and condominiums in San Francisco and Marin County. "[Previous] price points they couldn't have gotten to – but now maybe they can get it."

He points to one buyer who secured a large, waterside, single-family home in Belvedere, an exclusive community in Marin County, for about $3m from a distressed seller; it had once been listed at $5.5m.

As for sellers, those who aren't desperate to offload their properties are instead marketing them discreetly, eschewing the Multiple Listing System – which realtors around the city have access to – in favour of "pocket listings", exclusive to one broker. This keeps the house or apartment from accruing an undesirably large number of "days on market," too many of which can encourage prospective buyers to seek deep discounts. It also "offers a bit of panache", Fanelli says. "It makes it seem more exclusive."

Forty miles north of San Francisco, in the picturesque wine country of Sonoma and Napa, where many Bay-area residents keep second homes, the story has been much the same, only accelerated. "We were ahead of the curve," says Carol Sebastiani, a partner in Sonoma-based Martin and Sebastiani Properties. "We've been experiencing a challenging market for longer than San Francisco."

According to real estate website Trulia.com, the median sales price for homes sold in Sonoma this spring was $360,000, down 31 per cent from the same period in 2008, while in Napa the decline was almost 32 per cent to $290,000. Sebastiani says that sales of wine country estates, with large homes and vineyards, began slowing in late 2007 and continued to soften through to the beginning of 2008. Then "things really came to a screeching halt after Black Monday," on September 29, when the Dow Jones Industrial Average dropped 777 points, or almost 9 per cent.

Several months of inactivity followed. But now "prices have decreased to a point where buyers are willing to come off the sidelines," Sebastiani says. "There's pent-up demand. Some people need to move."

She recently sold a 2-acre plot with a French-chateau-style house and detached guest quarters adjoined by another acre of Merlot vineyards with a temperature-controlled winery building that has storage space for 500 bottles. Originally posted to the Multiple Listing System with a price of $5m, it was pulled when no buyers emerged. But Sebastiani took it as a "pocket listing" and secured nearly $3.3m for the property.

Trulia reports that sales volumes are up 17 per cent year-on-year in Sonoma, though they are still down 5 per cent in Napa. And Pat Avila of Pacific Union GMAC Real Estate in Sonoma agrees that the wine country market is “still a fairly strong” one. “I just had one [sale] close last weekend. The people came in and paid all cash, full price, so that’s a good story,” she says.

“Most of us who have been doing this for quite some time understand that there are natural ebbs and flows to the market,” Sebastiani adds. “While none of us expected this to be as traumatic as it has been, we’re very bullish on the area and the properties here retain their values.”

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