



Local markets have been in transition for sometime in regards to REO inventory. However, it was a surprise to us on just how quickly the San Francisco East Bay market has changed in the last 30 days. Are we seeing the first signs of a market stabilizing? Are we hitting bottom in the San Francisco East Bay Housing Market? Some highlights on the attached “numbers” spreadsheet;

- 1) We’ve already addressed the influence that government and bank programs delaying the foreclosure process have had on new REO inventory coming onto the market. 2/3 of the sales since the beginning of the year have been REOs. Only 18% of Actives are now REOs. It’s obvious that this inventory is being depleted without replenishment.
- 2) **So what surprise has happened in the last 30 days?** I’ve been tracking 38 cities in the East Bay over the past 4 years. I primarily look at two indicators, Months Supply and Pending Over Active ratios.
 - a. **Pending Over Active ratio** relates to buyers and sellers. Basic Econ 101, Supply and demand. Actives (represents sellers), or properties that are still available, versus Pending (represents buyers), or properties leaving the market. That relationship often indicates whether we’re in a “sellers or buyers” market. A ratio of 1 (an equal number of Actives and Pending) is considered a normal market or in a state of equilibrium. Anything under (high inventory, few buyers), prices are flat or dropping. Anything above (low inventory, many buyers) is considered a seller’s market.
 - b. The low point for the East Bay was October 2007, at .13 for the areas I track. A year ago we were at .39. We’re now at .98, near normal. The last time I saw a number this high was August, 2005.
 - c. What’s really remarkable is the increase from .64 to .98 in just one month! I’ve never seen a jump even close to this in just one month.
 - d. **What is months supply?** Basically, months supply is the ratio of inventory to sales. And what it tells us is how many months the stock of homes for sale would last, if sales continued at their current rate.
 - e. A year ago we had a 9 months supply in this area. We’re now at 3 months. 6 months is considered normal or equilibrium.
 - f. There are more multiple offers in areas. Offers are beginning to come in, on average, above asking in select areas.
 - g. Markets are still very localized. Cities along Highway 4, were the ones that were hit first by REO inventories, showing the largest price reductions, and seem to be the first ones to be recovering. Antioch’s numbers even suggest a seller’s market.
 - h. More affluent markets followed behind and are now appearing to have increased inventory pressure, kind of a second wave.
 - i. One factor that may be skewing the numbers is that there are longer escrows now due to REOs and increased government loans.
- 3) **So, what does this all mean?**
 - a. With depleting inventory a lot more buyers have jumped into the market over the past 30 days. Investors are seeing opportunities, buyers are finding homes more affordable, interest rates are low.
 - b. Is this market stabilizing? Maybe. Is this temporary with more REOs about to come onto the market? This will depend on what actions the government and lending institutions take in the coming months with foreclosures.