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1st-time buyers losing to investors

Many outbid by absentee owners in a rapidly rising market

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Paul Chinn, The Chronicle

Nyree Bekarian (left) and Hunter Mack play with their son Emmett in their rental duplex in Oakland. The family has been frustrated shopping for a home by multiple bids and cash buyers.

By Carolyn Said

May 14, 2013

Hunter Mack and Nyree Bekarian are eager to buy a home for their growing family. They started looking when their son Emmett was a year old. Now he's 2 1/2, and they have a second child due any day. And they're still looking.

After seven years of marriage, Carlos and Robin Mariona felt the time was right to buy their own place and looked forward to leveraging his past Navy service with a Veterans Affairs loan. But their search stretched on for months, despite the loan guarantee. While their price ranges and target areas varied, these Bay Area families confronted the same reality once they started house hunting. They were consistently outbid, often by investors who paid all cash. Sometimes, even if they had the highest bid - especially in the case of the Mariona family and their VA loan - they were still rejected in favor of an all-cash offer.

"We're people who want to commit to a place where we can live and grow together, but it hasn't been possible," said Mack, who teaches mechanical engineering at UC Berkeley. "We're two mid-30s professionals who want to spend over half a million dollars on a home, but we can't find anything, which is ridiculous. We've probably made 10 offers. At this point, with many homes, we're not making offers anymore because we know we'll be slaughtered."

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Eager to get their piece of the American dream while interest rates are low, many first-time home buyers instead are finding that they're priced out of a rapidly rising market where they must compete with deep-pocketed investors.

Absentee home buyers now account for about 27 percent of Bay Area home sales, according to real estate research firm DataQuick. All-cash buyers (who overlap with

absentee buyers) represent almost a third of sales. Historically, cash buyers were about 13 percent of sales.

First-time home buyers bought 36 percent of California homes sold in 2012, according to the California Association of Realtors. In 2009 and 2010 they represented 47 percent and 44 percent of the market, respectively. Over the past eight years, first-time buyers averaged 39 percent of the market.

Government-backed Federal Housing Administration loans, which are popular with first-time buyers because they allow for smaller down payments, accounted for 12.3 percent of Bay Area home purchases in March, according to research firm DataQuick. That was down from 20.9 percent in March 2012.

"In recent months the FHA level (in the Bay Area) has been the lowest since summer 2008, reflecting both tougher qualifying standards and the difficulties first-time buyers have competing with investors and other cash buyers," DataQuick said in a statement.

Neighborhood impact

The strong investor presence brings up questions about the long-term impact on neighborhoods.



Michael Short, Special To The Chronicle

Wakeelah and Andre Davis pose for a portrait with their son Dre'onn, 13, in the backyard of their home in Richmond, CA Tuesday May 7th, 2013. The Davis family recently bought their home with the help of the nonprofit Self Help, which buys and fixes up foreclosures for sale to low-income owners.

"I think it's a shame that all these properties are going to investors and not to people who actually want to live there and be part of the community," said Rachel Beth Egenhoefer, who along with Kyle Jennings set out to find a new home before their baby was born. She's now 5 months old, and they're still looking. "It's easy for sellers to take the cash and run, but what about having people who actually care about the neighborhood and want to be there and invest in it?"

Maria Benjamin, executive director of the Community Housing Development Corp. of North Richmond, had similar thoughts. The preponderance of investor buyers, most of whom rent out homes, "creates a lot of absentee landlords and a high turnover in neighborhoods," she said. "All that causes neighborhood instability."

Then there's the impact on the families that spend months looking for a home to buy while staying put - in sometimes less than ideal conditions.

Many prospective buyers "are being forced to just stay where they are renting and make do," said Jennifer Ames, an agent with Red Oak Realty. "Most of my buyers are young families who have outgrown their spaces. They're all just hanging in, trying to do the

best they can with their circumstances."

People seeking starter homes do have some things working in their favor. Besides the historically low interest rates, home prices in many areas are still far from their peaks. The Bay Area March median of \$436,000, for instance, is about a third lower than the region's \$665,000 peak in summer 2007, DataQuick said.

Still, that window of affordability seems to be closing. The California Association of Realtors on Friday said the state's "affordability index" (the percentage of home buyers who could afford to purchase a median-priced existing single family home in the state) dropped to 44 percent in the first quarter, down from 56 percent a year earlier.

"Higher home prices put a dent in California's housing affordability," the Realtors association said in a statement.

Location counts

The three couples seeking homes all have solid employment and can afford to spend from about \$350,000 to \$550,000 - typical prices for starter homes in this region. All are looking in the East Bay, which is more affordable than San Francisco and the Peninsula. Alameda County's current median is \$416,000; Contra Costa County's is \$346,000.

Still, prices continue to rise rapidly in most of the region, making the search more difficult. "The bottom line in the decent neighborhoods keeps getting raised," said Patrick Leaper, an agent with Red Oak Realty. "Entry-level buyers are looking at prices going up 2 or 3 percent a month sometimes. That's critical for somebody whose finances are (tight). They end up being priced out of the market or forced to go to areas or neighborhoods that they weren't interested in before."

Looking around

Sometimes expanding the geographic search is what it takes to land a house. That was the case for the Marionas, who started off looking around Albany, where Robin

Mariona works for the Department of Parks and Recreation.

"For the amount of money we could spend, in Albany or North Berkeley we would have gotten a smaller place than our rental," said Carlos Mariona, an IT director for a catering company. "We were at the cusp where everyone was moving a little more north as they got priced out - El Cerrito, then San Pablo, Richmond, El Sobrante. It seemed you had more bang for the buck there."

After more than six months of house hunting and countless rejected offers, they found a house in the Richmond View area near Wildcat Canyon Park listed at \$324,000. They offered \$350,000, and Leaper, their agent, negotiated with the seller to accommodate their VA loan's tight requirements of completing all termite work before the sale closed.

"We're very happy," Carlos Mariona said.

More-affordable areas

Despite rapidly rising prices, more-affordable pockets remain scattered around the Bay Area. For each county, here's the town with the lowest median price in the first quarter of this year - and how much it's changed since the same time last year.

County	City	Median price Q1 2013	YOY change
Alameda	Oakland	\$310,000	48%
Contra Costa	Bay Point	\$153,000	4%
Marin	Novato	\$565,000	39%
Napa	American Canyon	\$360,000	19%
San Francisco	Ingleside Heights (S.F.)	\$410,250	58%
San Mateo	East Palo Alto	\$356,000	27%
Santa Clara	East Valley (San Jose)	\$377,500	28%
Solano	Vallejo	\$175,500	28%
Sonoma	Forestville	\$261,450	-3%

Source: ZipRealty

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