REAL ESTATE

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The Real Estate and Home Guide sections in the Sunday editions are produced by Sentinel Media Services, a content provider, specifically for The Chronicle.

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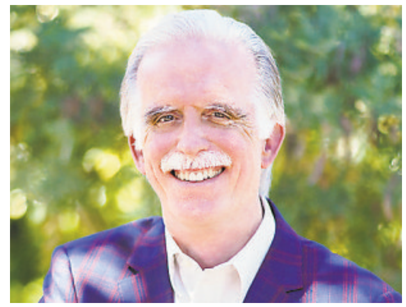
INSIDE

SOUND OFF

How prevalent are investment firms in the Bay Area housing market?



A: Most people know Zillow — and Trulia — as a place to browse for homes and find out how much other houses are worth.

Zillow has taken a hit this past year as investors have struggled to digest the pivot from a low-cost ad business to an expensive home-flipping operation. Zillow's goal is to turn the home in 90 days.

BlackRock Inc. seems to be getting attention, some of it being controversial, in how it buys houses and rents them out or sells them. One way to think about their business strategy is to consider the value of the properties the firm is buying relative to the rents they charge.

These companies, and others that break the mold to operate differently or to be considered "disruptive" in the real estate industry, gain attention in our markets — but how much they affect Bay Area real estate is anyone's guess. The industry always has room for something new to be seen or tried out, but a strong market can absorb this and still be dominated by more traditional business models.

The high prices of Bay Area real estate don't make sense to some of the other business models for turning a profit. In more mainstream markets across the country, their influence could be quite a factor with big money backers and huge expansion potential.

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A: Are investment firms like BlackRock and Zillow — with their Zillow Offers program — buying up thousands of homes here in the Bay Area? The short answer is, not really.

Institutional investors do have some presence here, but the surge in home prices in the Bay Area is not being driven by them. It is being driven in large part by an imbalance between supply and demand (we just aren't building enough homes in the Bay Area); good job creation in the high tech, biotech, and health care sectors of our economy; and the historically low 30-year fixed rate mortgage, which is currently under 3%.

According to a California real estate consulting group, the John Burns Real Estate Consulting Group — which looks at the percentage of homes where the property taxes ZIP code differs from the ZIP code of the home address as a good gauge of whether the home was purchased by an investor — in 2020, the percentage of homes in the Bay Area bought by investors was 15%. As of the end of the first quarter of 2021, that had only increased by 1% to 16%. That is substantially lower than the U.S. as whole, which was at 24% as of early 2021.

Institutional investors are going to where homes are less expensive, and they can rent them out more profitably.

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A: BlackRock, with a hedge fund background, decided to buy houses en masse in various targeted neighborhoods, then rent their newly acquired inventory, thereby resulting in a further reduction of the housing stock available for would-be buyers.

They had a larger presence in our local market during the recession, but have not factored prominently in our East Bay market for quite some time.

Zillow, which began as a third-party aggregator, initially represented that they had no interest in conducting the actual business of real estate.

They flew low on the radar screen, eventually becoming the go-to site for defining real estate values.

However, the algorithm Zillow uses to estimate property value fails to take into account material facts such as structural issues and remodeling status, often resulting in an inaccurate valuation of the subject property.

Zillow is now a licensed broker in all 50 states in the U.S., solidifying its position as a bona fide participant in all real estate markets. It appears that it will be around for the foreseeable future.

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Average mortgage rates flat to lower; 30-year at 2.77%

ASSOCIATED PRESS

WASHINGTON — Mortgage rates were flat to lower this week, with the average for the key 30-year home loan below 3% for the sixth straight week.

Uncertainty over the surging delta coronavirus variant and its potential effect on the U.S. economic recovery remained as a backdrop suppressing mortgage rates.

Mortgage buyer Freddie Mac reported Thursday that the average for the 30-year mortgage fell to 2.77% from 2.80% last week. The benchmark rate, which reached a peak this year of 3.18% in April, stood at 2.88% a year ago.

The rate for a 15-year loan, a popular option among homeowners refinancing their mortgages, remained at a historically low 2.10%.

Concerns have been mounting in global financial markets around the delta variant's spread in the U.S., Europe and Asia, and especially in China, which is on high alert as it confronts hundreds of fresh cases.

China has sealed off residential communities, suspended flights and trains, and ordered mass coronavirus testing in Wuhan, the city where the disease was first detected in late 2019. Although China's numbers are small compared with outbreaks elsewhere, its containment strategies and the subsequent impact on its large economy are being closely watched.

In the latest evidence of a briskly rebounding U.S. economy and job market, the government reported Thursday that the number of Americans applying for unemployment benefits fell last week by 14,000, to 385,000.