Good Bloomberg article about **higher-end, unicorn-corral & H.A.M. housing markets** on which I have taken a particular interest beginning last year, as "another" puncture hole in Housing Bubble 2.0 that will impact the housing market "nationwide".

These types of articles are becoming far more common as Realtors and brokers get closer to summer and experience what I have been seeing in the data for months. In fact, earlier this week we learned that "***tech layoffs more than doubled in the first four months of this year compared to the same period last year***".

<u>**But most mainstream stories like this continue to be mostly anecdotal and sorely understate the speed at which the supply/demand dislocation appeared last year and how volatile and divergent these conditions have become**</u>. In the data reports I have put out over the past several months covering the entire Bay Area, supply up more than 50% yy and sales down more than 25% yy in top Bay Area housing markets is "common". In fact, <u>**in San Francisco County in April the mid-to-high end condo market saw an 80%+ yy increase in supply while demand plunged 20%+yy**</u>. And this doesn't count the thousands of units in development, under construction or for sale by the developer and not listed on the MLS. This is how South Beach looked a year ago, before the 30% price haircuts on new-developments began to show up.

Conditions didn't even downshift this hard from 2007-2010. Back then it was more of a rolling top that picked up speed on the backside of the hill.

And it's **not just the "mansion" market** – the focus of this story -- that took a hard downshift sometime last year. **Nor, is it only "Silicon Valley" per se'**. Rather, many markets within a Prevost, wifi-enabled, luxury bus commute of hundreds or thousands of "Bay Area" start-up to established tech firms that for years have exported tech funding bubble capital to housing markets 100 miles away from the "campuses".

<u>**Bottom line**</u>: The ripple effects are getting larger, especially STEM-centric

regions where a disproportionate share of wealth has been driven such as the Bay Area, Orange County, Portland, Seattle, Phoenix, Salt Lake, Denver, Austin, Nashville the Carolina's etc etc. Basically, many/most of the same regions that led Bubble 1.0 now lead Bubble 2.0 of which four or five are solely responsible for holding up the national house price indices.

In closing, to a mid-to-higher level techie who suddenly **doesn't have** millions in phantom net worth and a $15bb valuation or IPO on deck, buying or continuing to own a $1mm to 4mm "starter house" -- or renting a trophy high-rise apartment in the heart of the "cool" district -- is not an "option" any longer. Downstream, sector-wide lay-offs, or fear of such, will have a chilling effect on the entire tech ecosystem of interconnected economic relationships, which means everything from hot sauce to rental apartments, in-office massages, fine breakfast through dinner dining, Vespa's, electric cars, insurance, and hoody's. This, in part, is why I continue to believe that a cyclical implosion of key, STEM-centric regions will be much larger and far more destructive to the housing and the macro economy nationally than anybody has modeled.

And don't be quick to discount reports of severe housing supply and demand dislocations because accompanying, contemporary house prices are not nosing-down in kind. They will, as **house prices are merely a "sorely lagging symptom" of supply and demand dynamics**. And the present supply/demand downshift in formerly hot Bay Area zip codes was so sudden and violent that a house-price air-pocket of rare and unusual size could show up any month, especially as volume picks up into the summer.

Mark

Silicon Valley Mansions Linger on Market in Real Estate Slowdown

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A custom-built home in the heart of California's Silicon Valley had its price cut by $500,000 last week after sitting on the market since the end of March -- a move that would've been almost unfathomable a year ago and a signal that frenzied demand has peaked.

The six-bedroom, five-bath house in Palo Alto -- located blocks from Stanford University and the homes of Google co-founder Larry Page and Steve Jobs's widow, Laurene Powell Jobs -- is now listed for $7.5 million. It joins a growing inventory of high-end homes in the area that are taking longer to sell.

"We've recently noticed a slowdown," Jack Woodson, who works at Alain Pinel Realtors in nearby Menlo Park, said on a tour of the house in the Old Palo Alto neighborhood. "Buyers are taking more time to decide about making offers."

Silicon Valley, the most-expensive U.S. housing market, is seeing a pullback by the wealthiest homebuyers after a four-year real estate boom marked by bidding wars and multimillion-dollar prices. Stock-market turmoil, a drop in foreign investors and concerns of a technology-industry slowdown are cooling demand at the high end, even as interest remains robust for more moderately priced properties.

In Palo Alto, an ultra-wealthy city that's home to many Google and Facebook Inc. executives, homes costing more than $5 million were on the market for a median of 16 days in April, compared with 11 in the same month in 2015 and 10 in 2014, according to data from Irvine, California-based John Burns Real Estate Consulting. The 11 active listings in that price range as of May 14 have been on the market a median of 30 days.

While that's quick by most standards -- across the U.S., the median time on the market is 67 days -- it's a departure from recent years, when newly minted millionaires from tech initial public offerings raced against buyers from China to scoop up anemic inventory.

"The seemingly inexhaustible well of very high-end buyers has proven exhaustible after all," said Dean Wehrli, a senior vice president at John Burns. "The peak is behind us, and that's becoming clearer and clearer to builders and buyers."

Pricey Properties

The San Jose metropolitan area, encompassing Silicon Valley, is the most expensive U.S. housing market, with a median single-family home price of $970,000, according to the National Association of Realtors. In Palo Alto, the median home price was $2.5 million in the first quarter, data from Zillow show. That's higher than San Francisco, at $1.1 million, and New York, at $616,100.

Across the country, luxury-home sales are cooling as turmoil in the global economy and the prospect of higher interest rates roils financial markets. Silicon Valley has the added pressures of being closely correlated to the tech industry and a top target for foreign buyers.

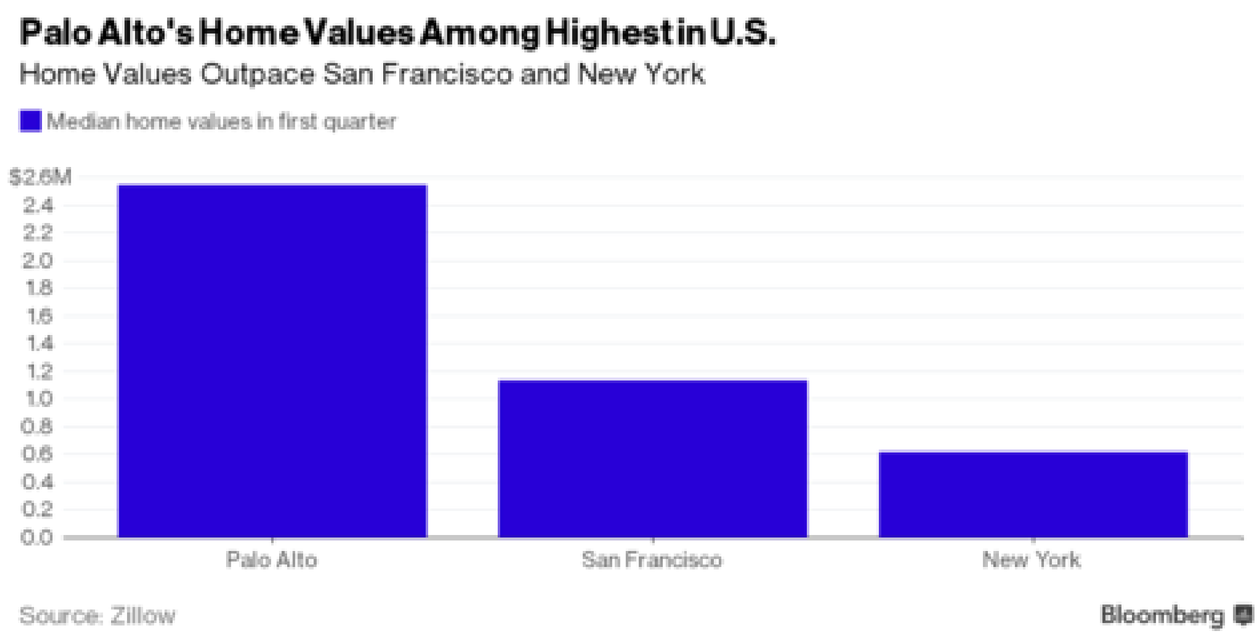
Venture-capital investments in Silicon Valley fell almost 20 percent in the first quarter from a year earlier to $4.9 billion, according to an April report from PricewaterhouseCoopers LLP. Chinese buyers -- hit by a slowing economy and government restrictions on how much money can leave the country -- have slowed purchases after they had "really been driving the market," said Woodson of Alain Pinel.

"We're probably moving toward normalization," said Katharine Carroll, vice president at Pacific Union Real Estate in Palo Alto. "Buyers see that they have a few more options. They don't feel the urgency that they have to decide on something right away and put an offer in. They can kick the tires a little bit more."

Statewide Slower

The sale of luxury real estate is slowing statewide, with homes costing more than $3 million sitting on the market 52.5 days in the first quarter, compared with 40 days the year before, said Jordan Levine, an economist at the California Association of Realtors in Los Angeles.

In Santa Clara County, home to Palo Alto, there were 13 sales of homes costing more than $5 million in the first quarter, down from 20 a year earlier, he said. In nearby Los Altos, there were six active listings of homes costing more than $5 million on the market for a median of 25.5 days as of May 14, while the 25 listings in Atherton were on the market a median of 100 days, according to John Burns.



"Given that a larger proportion of the $3 million-plus category is purchased with cash, or folks use some of their other assets to make those kinds of purchases, I think they're more susceptible to stock-market volatility than your entry-level buyer would be," Levine said. "That's one of the big drivers of the current slowdown."

Mid-Range Demand

There's no let-up in the demand for homes in the $2 million to $3 million range. Realtors say those properties are still generating multiple offers and selling above asking prices because they are still affordable to software engineers. Aggressive hiring at Facebook and Google is propping up the middle segment of the housing market in Silicon Valley, said Ken DeLeon, founder of DeLeon Realty in Palo Alto.

"Palo Alto is at a crossroads, where some homes are doing very well, and some homes are lingering that last year would have sold with multiple offers," DeLeon said. "When they do sell, it's when the seller cuts the price below what they would have gotten last year."

High-end buyers are pickier and are more likely to let a property go, instead of competing with multiple offers and an auction dynamic that led to homes selling well above asking price until very recently, he said. "I'm having buyers who are much more open to waiting, to taking a risk that the home might sell," he said. "There's just not that motivation."

http://www.bloomberg.com/news/articles/2016-05-17/silicon-valley-mansions-linger-on-market-in-real-estate-slowdown

Thank you,

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