They helped create California's unattainable housing market. Now they can't afford to buy.

NBC News, by Olivia Solon and April Glaser, Friday, July 16, 2021, 2:59 AM

Dennis Mo, a 34-year-old engineer, paid $200,000 over the list price for his four-bedroom, two-bathroom, single-story 1960s ranch house in West San Jose in Silicon Valley at the end of September. For three months, he and his wife, Christine, who also works in tech, viewed 81 properties, often eight to 10 in a single weekend, and made five unsuccessful offers.

"I was relieved," he said of winning his sixth bidding war with a $2 million offer. "But part of me was worrying whether we overpaid."

Mo, who grew up in the Bay Area and developed a savings plan in his early 20s, has continued to track real estate prices in his new neighborhood and was reassured to see that some nearby homes have recently sold for more than $500,000 over list price.

"It's outrageous," he said. "But it was a relief to know that even if I moved away now, I might even make a profit." Mo is aware that he's in a fortunate position, financially.

"Without our tech salaries it would be fairly impossible to buy a home. I look at some of my friends who grew up locally with parents who ran small businesses and could make it out here," he said. "Unfortunately that's not possible out here anymore."

The San Francisco Bay Area has long been one of the most expensive property markets in the United States, with single family homes selling for about three times the national average. That's thanks to zoning laws that restrict construction combined with the expanding population of highly paid workers in Silicon Valley's burgeoning technology industry. As a result, the region has one of the nation's lowest rates of home ownership, according to census data, and purchasing any property at all has become a challenge even for the moneyed elite.

Even though some tech workers have been fleeing the Bay Area during the pandemic, those who reaped the benefits of their companies' record profits in that time helped drive up the prices of homes, particularly in the suburbs, to a record high. Median prices for single family homes across nine counties rose to $1.34 million in May, up from $965,0000 in May 2020 — a 38.9 percent increase year over year — according to data released by the California Association of Realtors. The median sale price of a home in the United States was $347,000 in the first three months of 2021, according to data from the U.S. Department of Housing and Urban Development.

Properties, particularly single family homes in the suburbs around San Francisco, Oakland and San Jose, are selling for hundreds of thousands of dollars over list price in super-competitive bidding wars, with all-cash offers and some buyers waiving contingencies.

"It's a myth that millions of people are moving away and that overall demand is plummeting," said Jeff Tucker, chief economist at the property marketplace Zillow. "It's more of a rearrangement of demand in the region that is reflective of broader forces affecting the U.S. housing market."

Bigger problems

Throughout the pandemic, workers across the United States have been moving out of major downtown employment centers in favor of more space in suburban neighborhoods, and the Bay Area is a microcosm of that trend, he said.

"Bay Area employers have been disproportionately likely, compared to other major cities, to send everyone to work from home until now and potentially well out to the future," Tucker said. "So proximity to the office goes from being a very valuable characteristic for a home to being virtually useless, while the utility of a spare bedroom to be used as an office has become much more valuable."

Among the hottest markets in the region was Contra Costa county in the East Bay, which includes cities such as Orinda, Walnut Creek and El Cerrito. Median house prices there rose by 47.1 percent. Prices in Alameda County, which includes Oakland, Berkeley and San Leandro, rose by 37.4 percent.

These rising prices have contributed to rising homelessness and a desperate shortage of affordable housing. According to a report published by the National Low Income Housing Coalition in March, the Bay Area needs more than 160,000 additional homes to house its poorest residents. For every 100 extremely low-income households, there are only 35 affordable units in the combined area of San Francisco, Contra Costa, Alameda, San Mateo and Marin counties, according to the report.

Todd David, executive director of the Housing Action Coalition, a nonprofit that advocates for affordable housing in the Bay Area, said that the current market reminds him of the dot-com boom of the late 1990s and the market just before the global financial crisis.

"We have a critical housing shortage in the Bay Area at all levels of affordability," he said. "What you are seeing is the result of people competing for a limited commodity."

Boxed in

The lack of supply is, he added, partly due to zoning laws, which limit the construction of multifamily housing such as apartments and condos, but also the lack of political will to change those laws.

"In a lot of the Bay Area, the only type of residential structure that is permitted is a detached, single family household," said Nicholas Marantz, a professor of urban planning at the University of California, Irvine. Those types of residences don't provide as much housing stock as taller, denser apartment buildings.

With so few houses available, the ones that do end up for sale are often flooded with bids.

"The pandemic shone a light on existing inequities of the housing market," David said.

That lack of supply combined with the uptick in competition for properties has pushed middle-income families, which David defines as those households earning $85,000-$150,000, out of the neighborhoods they grew up in or, in some cases, into homelessness, he said.

"These are teachers, firefighters, EMTs and nurses," he said. "For them we need zoning reform, streamlining the approval process on new housing construction and political will."

"Unfortunately our elected leaders choose policies that the wealthy single-family homeowners want, to keep their neighborhoods as restrictive enclaves," he added.

Some cities in the Bay Area have taken steps to reform their zoning laws, David said. In March, Berkeley — the birthplace of single family zoning in the United States — voted to allow for the construction of more affordable housing such as apartments and condos in places where previously only houses were allowed. City Council members who unanimously voted for the zoning change said it would help address issues of racial exclusion.

The cities of San Jose and Oakland have proposed similar zoning changes.

"The needle has been moving very slowly," David said.

Bidding wars

The Bay Area also has a long history of underpricing homes to fuel interest and competition among buyers, experts say. "Sellers don't know what their home is going to sell for. So they price conservatively and let a bidding war happen to drive up the price," said Daryl Fairweather, chief economist at the real estate brokerage Redfin. "It used to be something we would only see in the Bay Area, Seattle or L.A., but now it's happening across the county."

According to numbers compiled by Zillow, almost two-thirds (62 percent) of homes for sale in the Bay Area sold for above the list price during the first quarter of 2021, up from 47 percent over the same period in 2020.

Bidding wars were particularly competitive in Alameda County, which includes the cities of Oakland and Berkeley. There, 71 percent of homes sold above list price in March, the latest month of data from Zillow available, and 14 percent of homes sold for more than 25 percent over asking price. Three percent of houses sold for $500,000 more than the asking price.

At the end of May, one three-bedroom home in Berkeley sold for $2.3 million — a full $1 million over the asking price — after receiving 29 offers in just 11 days.

Even San Francisco, where house sales remained relatively flat or fell during the pandemic, has started to see a reversal of that trend, with prices in May rising month over month by almost 6 percent.

In San Mateo county, which sits below San Francisco and is home to tech companies including Facebook and affluent neighborhoods such as Atherton and Saratoga, median house prices rose 25.8 percent over the year to more than $2 million.

"The income and wealth generated in the tech industry is a very unique factor in the Bay Area's home prices," Tucker said. "It's undeniable that the extra compensation that goes to employees enables prices to rise as much as they have, to levels that seem unsustainable or impossible to observers from anywhere else in the country."

He noted that technology companies thrived over the course of the pandemic, which supported their continued hiring, strong compensation and lack of layoffs for the existing workforce relative to other sectors.

Extra costs

Peter Yang, a 37-year-old product lead at Reddit, described the Bay Area housing market as "crazy."

He and his wife were looking for a three- or four-bedroom home near a high performing public school in San Mateo county, initially focusing on houses listed for about $2.5-$2.8 million.

After months of house-hunting and getting outbid on two properties, they bought a house in Burlingame in June with a bid that was "$400-500,000" over their initial budget.

"My agent told me that an entry-level house in this area is $3 million," he said, with an incredulous chuckle. "You can find a teardown or condo for less. But if you want a family home near high-performing schools, entry level is $3 million."

He also is likely to incur an even greater cost because he and his wife both had to sell "a bunch" of tech stocks they were hoping to hold onto in order to pay for the house and as a result will have a "huge tax bill" next year.

The process was more intense and stressful than when he last bought a home five years ago, he said.

"You don't have a lot of time to think through stuff. It felt like a land grab, with five buyers for every house and you have to make a decision within a week, so you just have to go for it," he said.

In one case, the seller's agent held a contest inviting potential buyers to guess the price that the house, listed at $2.5 million, would sell for. The prize? A $250 Amazon gift card.

Yang correctly guessed it would go for about $2.8 million. He won the gift card but lost out on the house to an all-cash offer.

Priced out

The current market also inevitably prices out many of the essential workers that cities like San Francisco need most. Jason Harrison, a 42-year-old emergency room nurse at UCSF Health, a hospital in San Francisco, had been renting in Oakland for five years before deciding to buy. When he started properly looking with his wife, Shawn, a user-experience product designer, in March, he was shocked by how much homes were selling for.

The first house he liked was listed at $800,000. He and his wife offered $1.025 million. But the house sold for $1.25 million — $450,000 more than the owners had initially asked for.

"We soon learned that the list price was completely meaningless," he said.

Harrison eventually saw 25 to 30 houses and made two failed offers before finally having his offer accepted on a three-bedroom, two-bathroom house on a large lot in East Oakland in early June.

"I dropped my phone and hugged my co-worker when I got the call from our realtor," he said. "Partly because the process was over and partly because we were starting to lose hope hearing about how much over list price homes were going for. I thought this was the beginning of the end for the mid-range American home buyer."

Expanding prices

While the pandemic did not seem to lower prices in the Bay Area, it did let high prices trickle into other markets. While much of the movement in the Bay Area has been people leaving cities for more space in the suburbs, a significant chunk of people traveled farther afield, taking their generous tech salaries with them. Although this migration did little to cool the Bay Area's housing market, it does seem to be driving up house prices in the destination cities, according to Fairweather.

House prices in Austin, Texas, one of the top destination cities for tech workers leaving San Francisco, have increased by 40 percent since last year, according to Redfin data.

"People from outside of Austin, particularly San Francisco, have budgets that are 30 percent higher than the people who are local to Austin," Fairweather said. "So it makes a much bigger impact."