

Hold on! The spring market is going to be a very wild ride

Low inventory, high demand pushes some Mid-peninsula home sales \$1M over asking price

BY DAVID GOLL | APRIL 19, 2022



As the world lurches from one unpredictable crisis to another, one thing is certain: The Midpeninsula housing market continues to remain above the fray with the spring season looking more robust than ever.

Local real estate professionals say since the tumultuous, two-year COVID-19 pandemic, spacious properties in more semirural communities have remained in high demand. And despite a modest interest rate increase and even worldwide security fears generated by the Russian invasion of Ukraine, buyers are now making multiple offers on smaller homes, townhouses and condos in more centrally located neighborhoods that had fallen out of favor during the pandemic.

“We have a very robust market this year,” said Denise Welsh, Los Altos-based broker associate for Compass Real Estate, noting healthy price increases in desirable neighborhoods across the price spectrum. “I don’t see a half-percent interest rate increase having any significant impact on the market this spring.”

New and recently remodeled older homes that are move-in ready are especially in demand, said Welsh and other local agents.

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Welsh — former president of the Silicon Valley Association of Realtors who serves on the boards of directors for the California Association of Realtors and National Association of Realtors — said she even foresees a small improvement in local inventory levels in late spring, traditionally the most active buying season of the year.

And buyers are not just looking at Midpeninsula properties, Welsh was quick to add. Second homes in resort such as Santa Cruz, Napa Valley, Santa Barbara, Lake Tahoe, the Sierra foothills and northern Rockies are hot commodities in 2022 among Midpeninsula residents.

Recent growth in the second-home market has been spurred by the pandemic and the widespread embrace of working remotely in some segments of the workforce, according to Elyse Barca, Menlo Park-based Realtor with Compass Real Estate.

While some in the second-home market are deciding to move away from the Midpeninsula, many others are retaining their primary local residences, Barca said.

Sprawling homes on spacious lots in Woodside, Portola Valley and Los Altos Hills are still in demand, and as employees head back to the office, so are properties in commuter-convenient neighborhoods. Condominiums along the U.S. Highway 101 and El Camino Real corridors are drawing renewed interest after a comparatively slow 2020 and 2021, said Brian Chancellor,

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real estate agent for Sereno, based in Palo Alto.

“As COVID eases, companies are coming back, and people are returning to offices,” Chancellor said. “That is a big factor

having an impact on the lower-priced market.”

Of course, along the Midpeninsula, many define “lower priced” as any housing unit below \$2 million.

Michael Dreyfus, Realtor for Palo Alto-based Sotheby’s International Realty, summed up his view of the spring market succinctly: “Hoping for increased inventory.” Over the past three months, Dreyfus said inventory levels have dropped by 30% in Palo Alto, and by even steeper percentages in Menlo Park and Los Altos. Between January 2021 and January 2022, the number of available homes decreased from 128 to 88 in Palo Alto, from 105 to 58 in Menlo Park, and from 78 to 28 in Los Altos. Low inventory and soaring demand are contributing to the “big spike” in home prices this spring, Dreyfus said. He projects increases ranging from 15% to 20%. Those increases would be similar to last year, when there was an 18% increase in home prices in both San Mateo and Santa Clara counties, according to the NorCal MLS Alliance. The median home price in San Mateo County now exceeds \$2 million and \$1.6 million in Santa Clara County.

Dreyfus disagrees with colleagues who contend that condos and smaller homes in older neighborhoods are substantially bouncing back. Big homes on spacious lots in Portola Valley and Woodside remain “hugely popular,” he said.

Smaller homes and lots are still not being sought out nearly as often by prospective buyers, but “big houses in Palo Alto are very popular,” Dreyfus said.

They are most often being snapped up by Bay Area buyers these days.

“It has become an incredibly local market,” Dreyfus said. “A few buyers from outside the area, but the international market has largely disappeared.”

Many of these buyers are willing to compete with other buyers and pay a lot over the asking price, he added.

Dreyfus described a recent local sale in Woodside where a house listed for \$7 million drew four offers and ended up being sold for \$8.2 million.

Other local Realtors said they still see some international buyers in the market, though in smaller numbers than five or six years ago, when many, especially from China, were interested in purchasing Midpeninsula real estate for investment purposes.

“The international buyers I see now have green cards and plan to live and work here,” Barca said.

“The Midpeninsula has been, and remains, a global market for housing,” said Chancellor, referring to its proximity to Silicon Valley, Stanford University, San Francisco and other world-famous draws.

Barca said right now isn’t only a great time to sell, but it’s a great time to buy.

She agreed with colleagues that modest interest rate increases will have little or no impact on prospective Midpeninsula home buyers. Current interest rates hovering between 3% and 4% remain low from a historical perspective, which is “very appealing” to buyers, she said.

She warned, however, that competition is fierce due to lack of inventory in all price categories. Barca said there was barely more than one month’s worth of residential inventory available when interviewed in mid-March, based on data from the California Association of Realtors. In years past, the area typically saw about five to six months’ worth of inventory, she said. It’s not just existing residences being sought, Barca said. In recent months, she has been receiving between five to eight requests a week for older homes that could be torn down or buildable lots on the Midpeninsula.

Whether building or buying, life for local buyers, sellers and real estate professionals should slowly return to some degree of normalcy this spring. Welsh said one big step in that direction has been the recent return to degree of normalcy this spring. Welsh said one big step in that direction has been the recent return of in-person market tours for agents.

“It was kind of like a reunion for many of us,” she said. “A lot of us hadn’t seen each other for about two years.”

And like her colleagues, Barca maintains a mostly optimistic outlook for spring and the rest of 2022.

“COVID remains a wild card,” she said, referring to several virus variants that have led to renewed restrictions at times over the past two years. “But we should have a very active spring.”

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