



A BUYER'S MARKET TODAY, BUT FOR HOW LONG?

New data suggests that Seattle's in-city housing market may actually favor sellers by 2010, if not sooner for preferred properties.

REALOGICS MARKET SNAPSHOT
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Given the commercial credit crunch and sky-high construction costs faced by developers today, many new condo projects in downtown Seattle have been deferred or outright cancelled. Meanwhile, demand for in-city condominiums is expected to rise in 2009 as sidelined buyers recognize that the local market fundamentals will not allow the same measure of home value declines, if any, made pervasive by a national media spectacle.

The law of supply and demand suggests that the in-city condo market will likely balance in 2009 and may actually favor sellers in 2010, (if not sooner) for preferred properties with unique features and few comparable alternatives. Not all condominiums are created equal and neither are their market values, regardless of market conditions. Notwithstanding the individual product variances, the downtown Seattle condo market is a real estate microclimate that is behaving much differently than the surrounding region.

No new condo project has broken ground in downtown Seattle since the rise of the credit crunch, which began with the sub prime loan crisis in the third quarter of 2007. And considering that new listings have been in steady decline since the first quarter of 2008 – there are now fewer new and resale condominiums for sale in the city center than a year prior. What we see may be all we get, for a while.

In fact, the current inventory available today likely represents the greatest supply for the next three years or possibly longer, depending on the stabilization of the credit markets and the construction schedules of new projects in the pipeline. Unlike other cities where inventory has skyrocketed while values have dropped significantly, no glut of unexpected inventory is likely in downtown Seattle for several reasons. There are few, if any, foreclosures downtown and sellers are not competing with bank-owned liquidations (median prices have held). And only a small percentage of the estimated six hundred presold condos scheduled to close by late 2009 are likely to rescind. Most pre-sale buyers secured introductory prices and have built-in equity (not to mention exposure to non-refundable earnest money and upgrade deposits). Lastly, investors are enjoying rising rents and appear to be positioning for a more optimistic resale market to develop ahead.

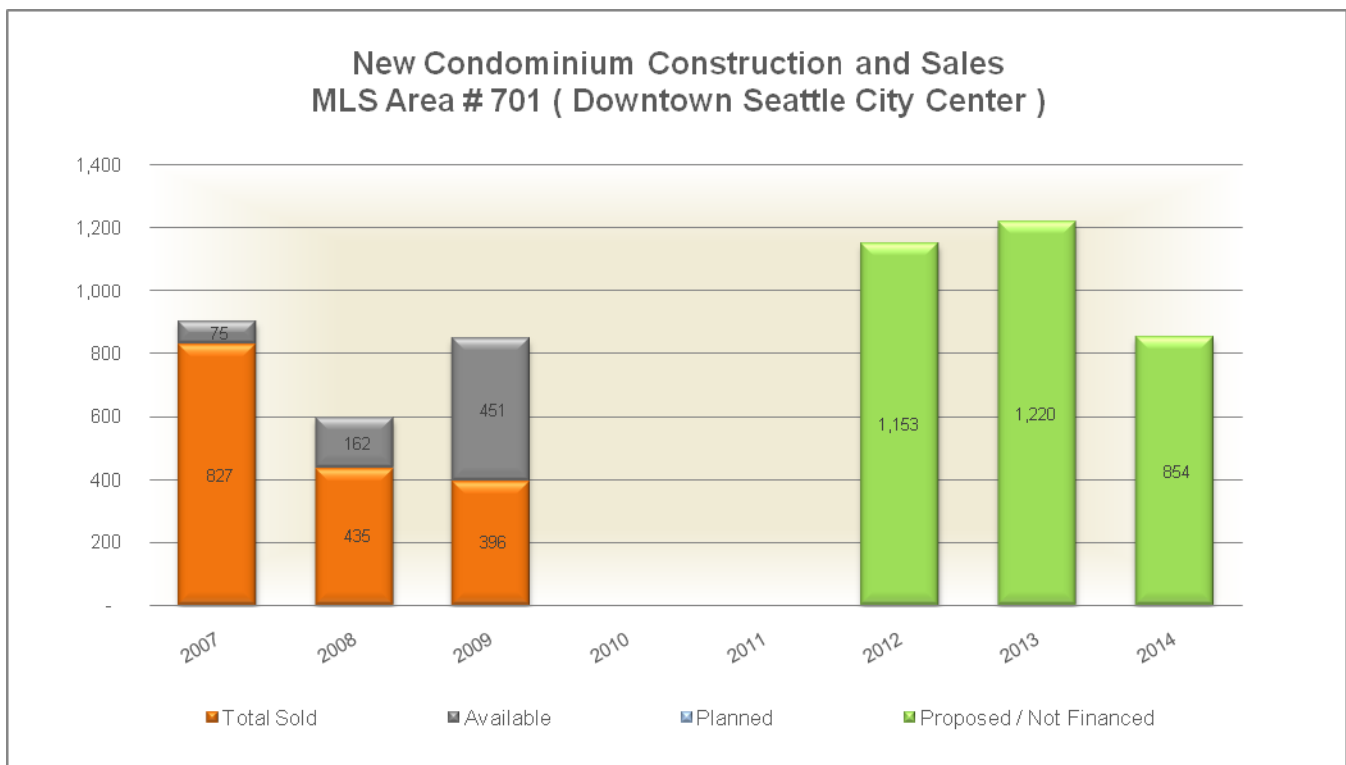
A more resilient housing market isn't all that surprising, really. Downtown Seattle arrived late to the housing boom and simply wasn't overbuilt. The level of speculation that occurred in boom-bust markets like San Diego or Las Vegas was deliberately tempered in Seattle. Stringent pre-qualification for homebuyers, limitations on investor sales and resale restrictions within the first year of ownership were applied to nearly all of the new units sold since 2006. After seeing what happened to irrationally exuberant markets like Miami several years ago, developers instituted policies to avoid the same demise locally.

With a new administration taking office, indications that Wall Street may be testing bottom and near-historic low mortgage rates, qualified buyers are beginning to jump off the fence. According to the Northwest Multiple Listing Service (NWMLS), sales volumes and median home prices within the city have begun to rise from what appears to be a low that formed during the third quarter of 2008. Meanwhile, a significant number of presold condominiums that were never listed on the NWMLS have also begun to close. When these units are added to the resale inventory, the total sales volume and the real median home value in downtown Seattle is greater than what is reported by the media.

Business Week, Forbes and MSN.com all rank Seattle a top market to ride out the recession and the most likely market to rebound. Forbes recently called Seattle, "America's best long term real estate bet". After interviewing 600 industry experts, the Urban Land Institute's Emerging Trends in Real Estate 2009 cites Seattle as the number one market for investment in the U.S. And according to the PMI Mortgage Insurance Company, the region has less than a 3% likelihood of having lower median home values in 2010.

Perhaps that's why developers of the city's most premier properties are resistant to price reductions and some forecast price escalation. Properties that are clearly differentiated just don't compete with the more typical inventory, which remains subject to more competition and greater pressures on pricing.

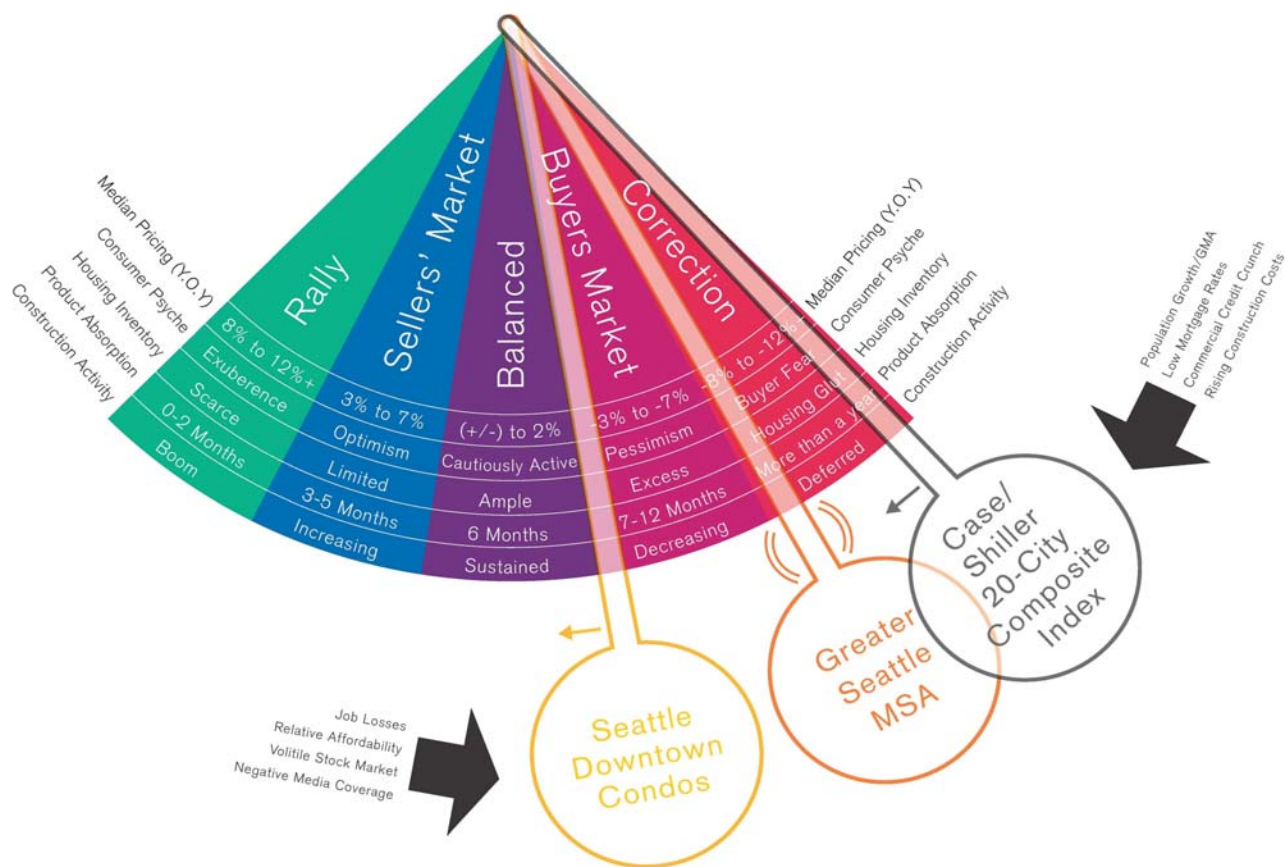
Supply is finite but demand will depend heavily on local economic conditions, in-city employment trends and consumer confidence. Still no new inventory will deliver in 2010 or 2011 (or possibly beyond). While there are numerous developments proposed in the pipeline, history suggests that less than half will be realized and the challenges for new construction are far more onerous than before. So buyers seeking to live in a new condominium within the next several years will have to choose from one of those under construction today. The following graph illustrates the pressures on the supply pipeline.



Source: Realogics

The numerous dynamics that affect the market pendulum will likely swing it towards a balanced market in 2009 and it may potentially sway into a seller's market in 2010. In any event, it's clear that the in-city condo market is significantly better positioned than the greater region or the 20-city composite index measured by S&P/Case-Shiller. This is illustrated in the following graphic:

Seattle Housing Market Pendulum



Source: Realogics

With turbulence in the U.S. economy and unrelenting media attention eroding consumer confidence, it's understandable that many buyers are watching the market from the sidelines to see how Seattle measures up. But those trying to time a market correction may discover that one never materializes for well positioned properties in downtown Seattle. Waiting too long to buy could result in less choice and the potential for even higher prices, especially for the most preferred product. In many cases the benefits of preferred selection and historic low interest rates outweigh the prospects for further price correction.

Ultimately, the right time to buy is a very personal decision that has as much to do with lifestyle and preference as it does with investment and finance. If a qualified buyer identifies an attractive opportunity and can afford to purchase it today, there may not be enough reason not to.

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> To request a full copy of the white paper on the state of the in-city condo market in Seattle and Bellevue, please e-mail info@realogics.com