

2011 1ST QUARTER IN REVIEW


Windermere
REAL ESTATE

WindermereBainbridge.com

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A Sunnier Sales Outlook



Warming Trends

As we say hello to spring and watch the mercury slowly rise, there are subtle signs that the real estate market may be taking a cue from the weather. Things feel slightly less chilly and dark, which is always a welcome change this time of year but is especially exciting after such a long, wet spell. Statistically speaking, the first quarter of 2011 was, well, let's just call it interesting. In fact, to find the good news in these numbers takes a bit of analysis. (You might even use this as a test to determine whether you're the kind of person who would look at this market as half-full or half-empty!) At Windermere Bainbridge Island, we are both realistic and encouraged – things are not quite where we want them to be but we seem to be heading in the proper direction. This update explores how sales figures, pricing trends and inventory all play a part in the health of the island's market. As always, we welcome your questions about real estate in general or your property in particular. Because whatever the ups and downs of the market, Bainbridge Island will always be an extremely desirable place to call home and Windermere's commitment to this wonderful community will remain stable.

Mid-Range Prices Lead the Market

Island-wide, the total number of homes sold during the first quarter of the year was up 14% from last year at this time. This is spectacular news. Early last year, the federal home purchase tax incentive helped to bump up sales. So when the numbers went even higher this year without the same incentives, it was a litmus test proving the true market strength. We would have been happy with comparable sales, but are simply thrilled to surpass last year's level with double-digit growth.

However if you look solely at the price reports, you may think it's time to panic. Think again. Yes, the average and median prices for the quarter are down 19% and 16.5% respectively. But these numbers say less about plummeting prices and more about the segment of the market where buyers have been making offers. Forty of the 56 homes sold so far this year – 71% of all closed transactions – were sold for less than \$600,000. There wasn't a single first-quarter sale in the \$800,000 to \$1,000,000 range. In addition, the absorption rate is based on the number of active listings relative to the average number of sales per month. We currently have six months of inventory for homes priced under \$600,000 and 16 months of inventory for higher-priced homes. Before concluding that more expensive homes need to come down drastically in price, one must consider that there just were not many buyers in that range. Sales activity centered on the price range that draws younger families and first-time buyers. So the silver lining of this challenging market is that it is making home ownership on Bainbridge more affordable to a larger pool of people.



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High-End Segment Still Soft

Historically, more expensive homes have always been a bit more challenging to sell. But they are particularly difficult to close right now. Last year, there were 23 sales above the \$600K mark. This year, we've sold only 16 homes above that price. Trying to determine whether this is an anomaly or a paradigm shift is tough to do based on one quarter's data. In 2010, the sales in this range were essentially the same as in 2009, although homes that were priced lower experienced significant gains in both of those years. We often look at our neighbor to the east (Seattle) for a glimpse of our future. Right now, we find their pendings up 39% from January to February in the \$600K to \$1M range and an additional 41% from February to March. We are also hearing first-hand reports of numerous multiple-offer transactions in the \$600K-\$800K price range. This growth emanated from a January that was down 24.3% from the previous year. Since we normally lag Seattle, this is encouraging news.



The Role of Inventory

True real estate detectives are always interested in inventory. Compare our active inventory with last year's and you'll see it's down 30%. Sometimes that's due to a large number of sellers choosing to wait to list when told the prospective market value of their homes. If a seller's horizon to sell is relatively long, this is a fine strategy. However, we caution sellers about assuming they'll only need to wait a few months – or even just a year – before the market will accommodate their desired price. We expect that prices will continue to soften throughout this year and possibly even into early 2012, doing more drifting than dropping. That means

that if prices were to stabilize for a year then start to increase, it might be two to three years before we get back to where we are today! Prices in the Pacific Northwest are predicted to bounce back as strongly and quickly as any region in the nation (according to such reliable sources as the PMI insurers who insure mortgage loans), but we aren't there yet. The good news is our number of sales is increasing, which has to happen before prices have any chance of recovery. The shrinking inventory has two potential effects, each benefiting one half of the real estate equation: 1) it can strengthen prices because of lack of supply, and 2) it can dampen sales as patient buyers opt to wait for the right house among fewer options. We'll have to wait and see.

Bainbridge Island Single Family Homes Sold
January 1 through March 31

	2008	2009	2010	2011	Change (%) (*'10-'11)
Average Prices:	\$934,918	\$841,497	\$737,704	\$599,107	-18.8%
Median Prices:	\$675,000	\$559,000	\$560,800	\$468,000	-16.5%
Number of Sales:					
\$0-\$400,000	2	6	5	17	+340%
\$400,000-\$600,000	10	13	20	23	+15%
\$600,000-\$800,000	8	4	7	11	+57%
\$800,000-\$1,000,000	6	5	6	0	Tilt!
Over \$1,000,000	8	9	11	5	-54.5%
Total Sales:	34	37	49	56	+14.3%
Inventory (4/4/11):	258	248	276	200	-26.5%
Under Contract:	27	33	40	40	0%
"Available" Inventory:	231	215	231	160	-30.7%

Condo and Land Sales Remain Strong

If only everything looked as rosy as the condo market! In this segment, there has been a whopping 90% increase in sales in the first quarter compared to last year. This is the second highest number of condos sold in any quarter within the past six years (19 this quarter, 33 in 2007). The low was in early 2009, when only seven condos sold. The fact that buyers have come back to this portion of the market is phenomenal but it's interesting to see where the activity is focused: 74% of the units sold closed for less than \$400,000. Land also experienced growth, up 60% from the first quarter of 2010. Although all land sales signify a positive future, with only eight lots total sold, it does not signal a building boom. Of those sold lots, 63% closed for less than \$400,000.