

Cautious Optimism

The media reports continue to offer good news for the economy as well as the real estate market. There was even an article in the October 11th *Seattle Times* in which a realtor group predicted increasing prices in the California market during 2010. This is all great, but what about here on Bainbridge? It gives us great pleasure to report that there are definite signs our market is “improving,” but there are a number of definitions and clarifications that help us better understand this gradual upward trend.

Defining “improvement.” The overall number of real estate transactions (volume) is no longer declining and has stabilized. In fact, it is showing a slight upward tick. As we have stated in these newsletters before, volume will lead us out of the declining market we have experienced for more than two years. So when a volume decline flattens and stabilizes, it is indeed good news. Better yet, it is the necessary precursor for any price improvement.

What about prices? Although volume is showing signs of recovery, prices are still dropping. As time has gone on, sellers have adjusted their expectations and have continued to lower their prices to a point where sales can occur. The losses, whether literal or figurative, have been substantial. But the market has been an unyielding force, demanding continued price reductions in order for sales to close. This downward pressure has been more extreme for some property types than for others.

<u>Single Family Bainbridge Island Q1-Q3 Market Statistics (January - September)</u>					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Change % (08-09)</u>
Average Price:	\$735,022	\$820,482	\$823,898	\$689,129	-14.3%
Median Price:	\$661,000	\$680,000	\$610,000	\$579,500	-5%
Number of Sales:					
\$0-\$400,000	23	14	14	29	+107%
\$400,000-\$600,000	95	90	55	49	-11%
\$600,000-\$800,000	62	79	29	30	+3.4%
\$800,000-\$1M	55	45	17	23	+35.3%
Greater than \$1M	39	59	30	19	-36.7%
Total Sales:	274	287	145	150	+3.4%
Inventory*	235	230	285	289	+1.4%
Under Contract	56	23	31	47	+51.6%
“Available” Inventory	179	207	254	242	-4.7%

*Homes for sale as of approximately 9/30

A look at the numbers. Since the peak in 2007, our overall median prices have declined 15%. This seems moderate compared to the 38% drop in California, but median doesn’t reflect the pricing realities of individual properties. There are many sections in our market that have experienced 30+% declines. Newer, more expensive non-view homes have been especially hard hit. Homes over \$1 million have had to make substantial price drops and are still not guaranteed success. (Volume for the first nine months is off 67.8% from the first three quarters of 2007.) Unfortunately, it is difficult to say how long or how deep this downward pressure will continue.

The role of short sales. One of the reasons our market as a whole has experienced smaller overall price declines is the comparatively small number of “short sales” (where the selling price is lower than the amount owed and bank approval is required to close) and foreclosure sales. On September 30th, there were 23 listed short sales and nine bank-owned properties. Collectively, they represent less than 11% of the island’s listings. Although statistically significant, and truly awful for the individuals involved, the percentage is not large enough to create the havoc some markets have experienced.

What does our crystal ball show? We are optimistic. We are concerned with the idea of the “first time homebuyer’s tax credit” coming to an end, as this incentive spurs the sale of more affordable homes and, in turn, contributes to the “trickle up” phenomenon. If the tax credit is not extended, we will probably see a dip in volume. But as long as the economy continues to improve, that dip should only be temporary. Sellers (and future sellers keeping a close eye on the market) should know that we do not expect to see prices recovering any time soon. In fact, we will probably see continued decreases, but we hope that the pace of decrease will slow.