Function & Dysfunction In Seattle & King County's Housing Markets

September, 2013

Greetings to friends old and new, and East or West Coast. For those who don't already know the personal trivia, I've spent much of the last four years on the East Coast, managing residential real estate developments and various other responsibilities tied to this work.

Four years is a long stretch and this is a good time for sharing some research and commentary on the Pacific Northwest's housing market. We will see from the data below that long term economic benefit still applies to ownership in residential real estate.

We've come through the most challenging housing economy since the Great Depression and I would suggest that this was not a housing crisis, but a banking crisis and more specifically, a mortgage banking crisis.

Avoiding the partisan conversation, suffice it to say that legislative responsibilities at the Federal level were sorely neglected. However, we are fortunate in that the misguided (based upon results) policies are correctable, assuming the political stamina exists, rational thinking prevails and our legislative and regulatory priorities make better long-term sense than those of the past. The sooner the issues are resolved, the sooner the US will see significant growth in economic well-being across the entire spectrum of wealth in the country. But, in my opinion, and certainly based upon market data, we're not there, yet.

Articles have been published recently that tout optimistic figures for growth in housing prices, including those for the Greater Seattle market. However, to be clear, we are reading about the rate of increase from severely contracted market conditions.

This would be a good place to stop and mention that we don't have "a" housing market in Seattle. Consider that the housing market is comprised of new, versus resale houses….urban versus suburban…….single family vs. condos vs. townhomes, various price ranges, neighborhoods, etc. There are actually hundreds of markets that comprise the whole, with each market segment playing out its own dynamic.

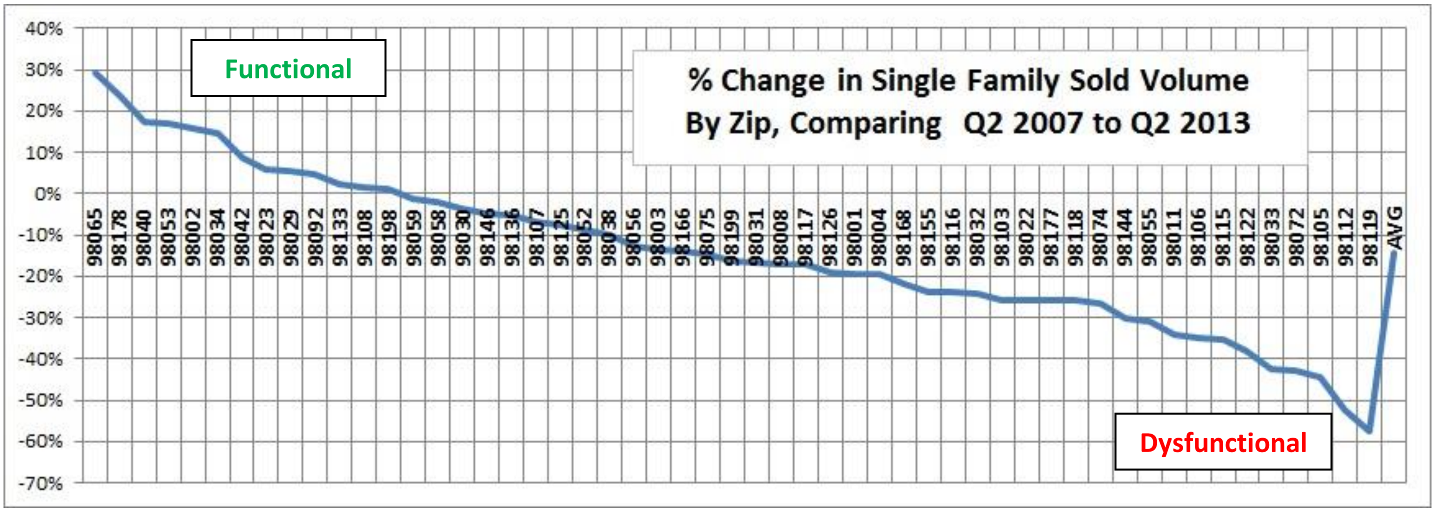
The research below addresses market activity for single family houses from two perspectives. First, a look at home sales from 53 King County zip codes, comparing second quarter 2007, the peak in the housing market, to second quarter of this year. Then, we'll examine data from some of Seattle's close in, North end neighborhoods, from January, 2000 through to September of this year.

SINGLE FAMILY SOLD DATA FROM 53 KING COUNTY ZIP CODES: The table below details the changes in sale volume and median sold price for single family houses in 53 King County zip codes. These are the zips with the highest sale volume recorded in Q2-2007 and represent some 60% of the 10,300 sales in 2007 and nearly 9,000 closed sales recorded in Q2-2013. The table is sorted by zip code in ascending order.

The table is followed by two graphs depicting the rate of change in sale volume and price between 2007 and 2013 as listed in the table. The graphs are sorted not by zip code but by rate of change.

King County Single Family Sales By Zip Code Q2-2007 Vs Q2-2013

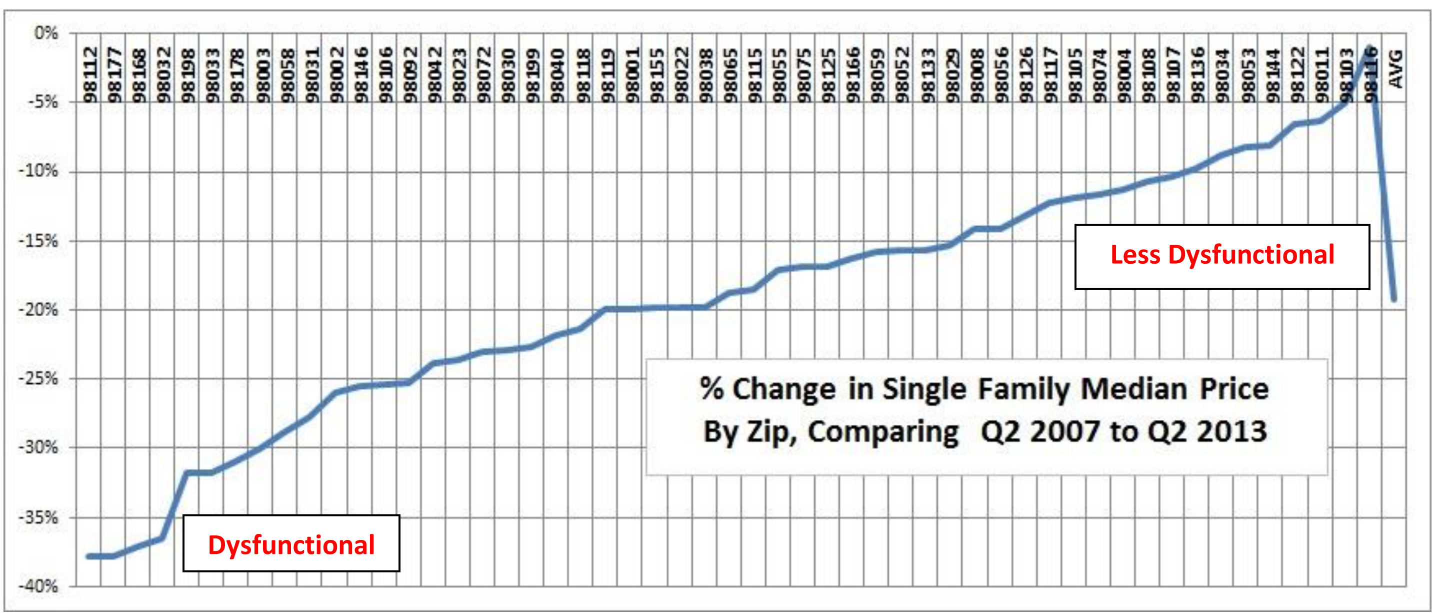
	Sale Volume				Median Sold Price		
	Zip Code	Q2-2007	Q2 2013	Change	Q2-2007	Q2 2013	Change
1	98001	149	120	-19%	$ 324,800	$ 260,000	-20%
2	98002	69	80	16%	$ 270,000	$ 200,000	-26%
3	98003	88	76	-14%	$ 314,000	$ 219,950	-30%
4	98004	102	82	-20%	$ 1,282,500	$ 1,137,000	-11%
5	98008	93	77	-17%	$ 565,000	$ 485,000	-14%
6	98011	82	54	-34%	$ 431,975	$ 404,500	-6%
7	98022	82	61	-26%	$ 336,725	$ 270,000	-20%
8	98023	157	166	6%	$ 335,000	$ 256,000	-24%
9	98029	126	133	6%	$ 620,000	$ 525,000	-15%
10	98030	109	105	-4%	$ 350,000	$ 269,995	-23%
11	98031	133	111	-17%	$ 360,000	$ 259,950	-28%
12	98032	66	50	-24%	$ 331,225	$ 210,225	-37%
13	98033	179	103	-42%	$ 755,000	$ 515,000	-32%
14	98034	129	148	15%	$ 467,500	$ 426,500	-9%
15	98038	199	179	-10%	$ 389,000	$ 312,000	-20%
16	98040	86	101	17%	$ 1,157,750	$ 905,000	-22%
17	98042	189	205	8%	$ 355,000	$ 270,195	-24%
18	98052	173	158	-9%	$ 630,000	$ 531,250	-16%
19	98053	88	103	17%	$ 614,750	$ 564,303	-8%
20	98055	84	58	-31%	$ 381,000	$ 316,000	-17%
21	98056	117	102	-13%	$ 424,950	$ 365,000	-14%
22	98058	140	137	-2%	$ 393,500	$ 280,000	-29%
23	98059	173	171	-1%	$ 499,000	$ 420,000	-16%
24	98065	72	93	29%	$ 578,000	$ 469,900	-19%
25	98072	96	55	-43%	$ 584,975	$ 450,000	-23%
26	98074	136	100	-26%	$ 633,975	$ 560,500	-12%
27	98075	101	86	-15%	$ 727,500	$ 605,000	-17%
28	98092	128	134	5%	$ 363,900	$ 272,000	-25%
29	98103	211	157	-26%	$ 485,000	$ 460,500	-5%
30	98105	106	59	-44%	$ 603,000	$ 531,000	-12%
31	98106	129	84	-35%	$ 334,950	$ 250,000	-25%
32	98107	90	84	-7%	$ 492,000	$ 441,000	-10%
33	98108	74	75	1%	$ 335,000	$ 299,000	-11%
34	98112	84	40	-52%	$ 965,000	$ 599,975	-38%
35	98115	184	119	-35%	$ 575,925	$ 469,000	-19%
36	98116	114	87	-24%	$ 545,500	$ 540,000	-1%
37	98117	180	149	-17%	$ 489,950	$ 430,000	-12%
38	98118	175	130	-26%	$ 393,950	$ 309,950	-21%
39	98119	61	26	-57%	$ 674,950	$ 540,000	-20%
40	98122	100	62	-38%	$ 548,000	$ 512,000	-7%
41	98125	131	121	-8%	$ 410,000	$ 341,000	-17%
42	98126	132	107	-19%	$ 414,950	$ 360,000	-13%
43	98133	134	137	2%	$ 385,250	$ 325,000	-16%
44	98136	79	75	-5%	$ 525,000	$ 474,000	-10%
45	98144	116	81	-30%	$ 420,000	$ 386,000	-8%
46	98146	102	97	-5%	$ 362,500	$ 270,000	-26%
47	98155	144	110	-24%	$ 429,975	$ 344,750	-20%
48	98166	86	74	-14%	$ 452,000	$ 378,500	-16%
49	98168	119	93	-22%	$ 318,000	$ 200,000	-37%
50	98177	82	61	-26%	$ 627,000	$ 390,000	-38%
51	98178	88	109	24%	$ 365,000	$ 252,000	-31%
52	98198	97	98	1%	$ 337,000	$ 229,700	-32%
53	98199	86	72	-16%	$ 649,500	$ 502,375	-23%
		6,250	5,355				
		Sample Total					



SALE VOLUME: The graph above details the rate of change in closed sale volume for the 53 sampled zip codes shown on the table from the previous page. The average rate of change calculates to a 14% drop in sale volume comparing 2nd quarter this year to the same period in 2007. However, 13 (25%) of the 53 sampled zip codes experienced increases in sale volume, ranging from 1% to 29%. These 13 zips can be described as relatively functional market segments.

Accordingly, 75% of the zips codes show a drop in sale volume from the peak, of which 10 (20%) show a contraction in sale volume of 30% to nearly 60%. I would view these zips as experiencing market dysfunction, i.e. contraction in sale volume or a decline in value.

MEDIAN SOLD PRICE: As much improvement as we have seen in the Pacific Northwest's housing economy over the past several years, not one of the 53 zip codes sampled was able to achieve an increase in the median price over the Q2–2007 peak. The average change in median price in the 53 zip study comparing the present to the 2007 peak was calculated at -19%.



URBAN SEATTLE - Northeast/Northwest Seattle - 2000 to 2013: Next, let's examine long term market activity for North Seattle's MLS Areas #705 and #710, the neighborhoods located between the Lake Washington Ship Canal and the 145th Street City limits, and between Lake Washington and Puget Sound, from January of 2000 to September 2013. The data sample includes six months of closed sale activity, from January to June, for each year. MLS Areas #705 and 710 have been among the most resilient of the regional housing market for many years, enjoying relatively high demand and low supply characteristics.

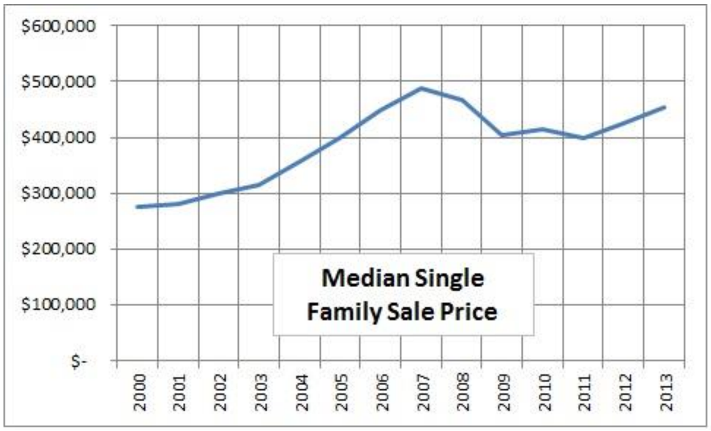
The table below details market changes for these neighborhoods, year by year.

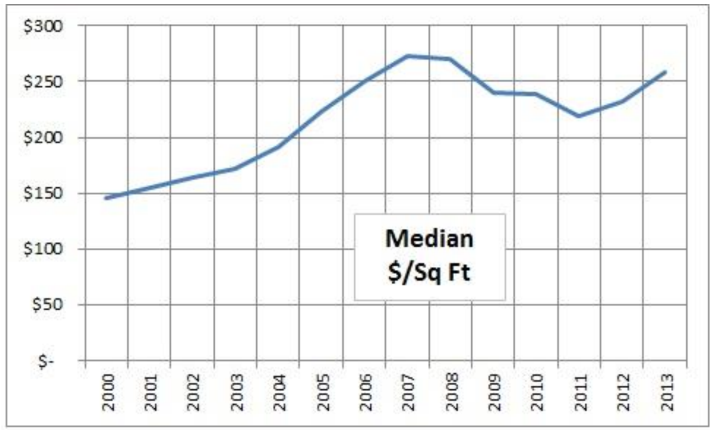
Year	Jan-June 6 Month Sale Volume	Yr to Yr SaleVol %Change	Median SalePrice	MedPrice %Change	Sold to List Price Ratio S/L Rat	Median SqFt	Median $/SqFt	Median DOM
2000	1,285		$276,100		100%	2,020	$ 146	na
2001	1,498	17%	$280,000	1.4%	100%	1,990	$ 155	na
2002	1,641	10%	$300,000	7.1%	100%	2,000	$ 164	20
2003	1,741	6%	$315,000	5.0%	100%	2,030	$ 172	29
2004	1,907	10%	$358,000	13.7%	100%	2,020	$ 192	19
2005	1,777	-7%	$399,950	11.7%	100%	1,940	$ 224	14
2006	1,776	0%	$449,925	12.5%	100%	1,920	$ 250	18
2007	1,739	-2%	$486,950	8.2%	100%	1,880	$ 273	25
2008	1,343	-23%	$466,000	-4%	98%	1,845	$ 270	47
2009	1,120	-17%	$405,000	-13%	96%	1,780	$ 240	50
2010	1,286	15%	$415,975	2.7%	98%	1,840	$ 239	25
2011	1,159	-10%	$400,000	-4%	97%	1,900	$ 219	35
2012	1,279	10%	$425,000	6.3%	99%	1,910	$ 232	14
2013	1,483	16%	$454,000	6.8%	100%	1,870	$ 259	7
				4.2% average				

One item to note is that even though sale prices peaked in 2007, the largest volume of sales occurred in 2004, three years earlier.

Something else I find interesting is what happens to the figures for Median Days On Market (DOM), the last column on the right. 2008, 2009 and 2011 represent the slowest markets for the years examined and 2013, this year, at just 7 days as the median marketing time for sold listings during the first six months of the year, reflects a very hot market. Even though 6.8% jump in prices over last year is respectable appreciation, it's possible we will see a bigger jump in prices during the second half of 2013 if marketing times remain this low.

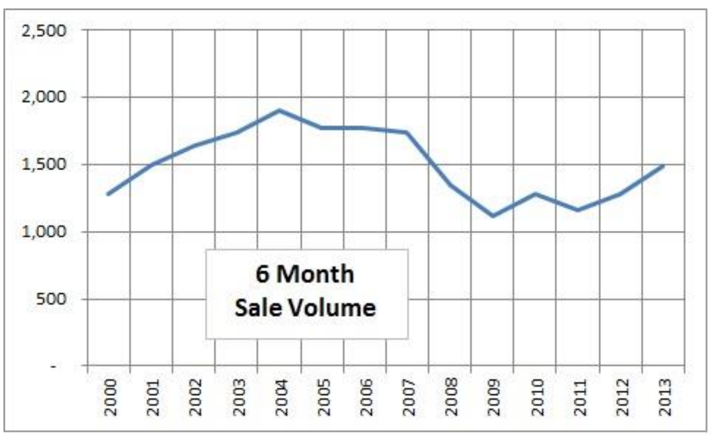
However, this pressure on prices could be mitigated by an increase in mortgage rates, implementation of more stringent underwriting guidelines for home mortgages, or more likely, an increase in available inventory from sellers who have been holding back from listing their houses until more favorable conditions were perceived.

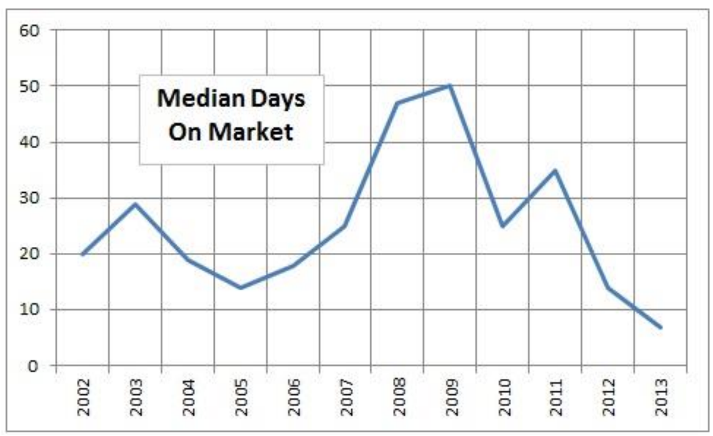




Please also note that, as shown in the January to June data samples (2000-2013) the drop in closed sale activity announced the economic downturn and began in 2005. Prices responded with a decline, two years later, an indication that for housing markets, prices are lagging indicators.

The fifth column from the left on the table from the preceding page details the percentage change in median sale price over the previous year. The average for the 13 years covered in the table was calculated at a 4.2% gain per year. Positive price gain occurs for purchases from 2007, or prior.





LOOKING AHEAD: So what can be expected from the housing economy in Seattle/King County as we move forward? Based upon market behavior from previous decades, it would be reasonable to predict both the pace of selling and pricing to be somewhat docile for another two years, at which point things would begin to heat up, with a market peak at or near the end of the decade.

However, since the 2007 collapse, we are in new and uncharted straits and it's my perspective that there is reasonable chance that market dynamics will be more volatile than in the past.

The table below details the relationship between changes in the Consumer Price Index (CPI) and changes in median sale prices for Seattle's close in, North end neighborhoods (MLS Areas #705 & #710) over a period of 13 years.

These figures demonstrate the resilience of the North end neighborhoods in that, even after the difficult contraction in our economy, over the long term (2000 to 2013), housing still offers some economic shelter, not just a roof.

Year	Housing Mkt Median SalePrice	Yr to Yr Price %Change	CPI	CPI X Yr2k Median Price	Housing Mkt Performance Compared To CPI
2000	$ 276,100		3.6%	$ 276,100	
2001	$ 280,000	1.4%	3.2%	$ 284,935	98%
2002	$ 300,000	7.1%	3.0%	$ 293,426	102%
2003	$ 315,000	5.0%	2.7%	$ 301,349	105%
2004	$ 358,000	13.7%	2.4%	$ 308,491	116%
2005	$ 399,950	11.7%	2.0%	$ 314,537	127%
2006	$ 449,925	12.5%	1.6%	$ 319,538	141%
2007	$ 486,950	8.2%	1.3%	$ 323,596	150%
2008	$ 466,000	-4%	8.5%	$ 351,102	133%
2009	$ 405,000	-13%	8.9%	$ 382,350	106%
2010	$ 415,975	2.7%	7.1%	$ 409,497	102%
2011	$ 400,000	-4%	3.8%	$ 425,058	94%
2012	$ 425,000	6.3%	1.7%	$ 432,284	98%
==> 2013	$ 454,000	6.8%	0.0%	$ 432,284	105% <==

When volatility occurs within the national or a local economy, housing markets typically feel the impact. Managing residential real estate assets effectively requires new perspectives, better data and more strategic wisdom than in the past.

If you have comments regarding this research or questions about undertaking other housing or mortgage risk research, please feel free to contact me.

Kind regards,

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