

# 2011 YEAR IN REVIEW

January 2012

LOOKING FOR NEW PROMISE IN THE NEW YEAR



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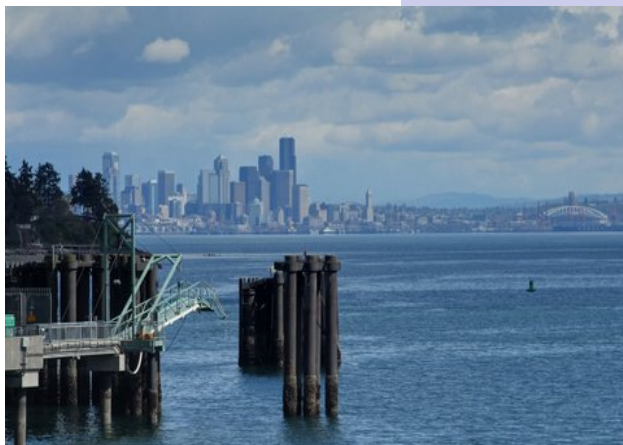
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## GOODBYE 2011!

With a few exceptions, most in this office were happy to see 2011 in their rearview mirror. We entered the year full of optimism, but we realized by the second quarter there were not going to be any major positive shifts in our real estate market. We rebounded a bit in the third quarter and the fourth was slightly better than the same period in 2010. In the end, the market mirrored its actions of the past few years, going up and down without ever really establishing consistency. The number of homes sold has increased each year since the 2008 trough (which is good news!), but we are not seeing numbers anywhere close to where we were a decade ago.

## THE MARKET'S SWEET SPOT

Last fall, we talked about our bifurcated market. The fourth quarter continued this trend. Of the 19 homes sold in December, 14 of those (or 74% of sales) were less than \$600,000. We had a 61% increase for the year below the \$600K mark and a 33% decrease for higher-priced listings. We had a late-year surge in homes between \$1M and \$1.5M and sold as many homes in this price range during the fourth quarter than in the previous three quarters. One has to keep in mind, however, using a broad definition of average prices, a home that would have sold for \$770,000 in 2008 would have sold for \$600,000 in 2011. With the more affordable homes experiencing stronger sales than the middle and higher areas, the average price changes (in this case, decreases) likely get more dramatic the farther you get from \$600K. With a total market drop of 9.2%, one would have to assume that homes less than \$600K dropped less than 9.2% and homes above more. The last wrinkle in this discussion is how to interpret total market numbers. It's important to remember that the value of any one home is a function of the home itself, its condition and its location – not the total market. Its value change may be completely different (better or worse) than the general market numbers.



## SINGLE FAMILY HOMES SOLD 2011

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Change % (10-11)</u>
<b>Average Prices:</b>	\$820,569	\$749,970	\$662,668	\$640,701	\$581,855	-9.20%
<b>Median Prices:</b>	\$680,000	\$589,500	\$546,000	\$541,000	\$493,000	-8.9%
<b>Number of Sales:</b>						
\$0-\$400,000	14	23	45	52	84	61.50%
\$400,000-\$600,000	106	75	76	94	101	7.40%
\$600,000-\$800,000	94	37	39	59	37	-37.30%
\$800,000-\$1M	53	20	23	23	12	-48%
Greater than \$1M	<u>65</u>	<u>33</u>	<u>29</u>	<u>26</u>	<u>23</u>	<u>-12%</u>
<b>Total Sales:</b>	<b>332</b>	<b>188</b>	<b>212</b>	<b>254</b>	<b>257</b>	1.20%
<b>Inventory*</b>	207	203	186	193	200	
<b>Under Contract</b>	18	24	31	38	25	
<b>"Available Inventory"</b>	189	179	155	155	175	

\* Homes for sale on January 2, 2012

## THE ROLE OF DISTRESSED PROPERTIES

One positive trend relates to distressed properties (bank-owned and short sales). Our inventory of these properties has remained very stable for the past couple of years, representing about 25% of our listings and a slightly higher percentage of our pendings. The greater pendings is somewhat misleading because short sales take two to three times as long to close. They do affect prices, but 25% is quite different from the 50-75% many markets face.

## CONDOS AND LAND

The trend towards more affordable properties dominated the condominium and land markets. Condo sales improved 26% from 2010, but 57 of the 67 condominiums sold for less than \$400,000. There were no sales over \$1M. There have only been two sales over \$1M since March 2008. The condominium median price dropped from \$313K in 2010 to \$301K in 2011, a modest 3.8%. So one might conclude that the condominium market was actually stronger than the home market, as long as the condo was priced less than \$400K. Land sales were actually softer in 2011 than in 2010. There were 16.7% fewer sales (20 vs. 24) and the median price was down 12.3% (\$133,750 vs. \$152,500). 80% of the lots sold were priced less than \$400,000. Most lots were "in-town." Contractors in particular are not encouraged by these numbers. But enough about numbers.

## RESHAPING OUR COMMUNITY

Even though the number of homes sold has not changed much, there are a number of profound shifts taking place in our market. We are seeing more investors and families returning to our marketplace. The drop in our prices, while painful to sellers, has made our community more affordable to buyers. We are also seeing buyers with different "agendas" than before. Real estate is not the short-term money machine it was in the past. People are buying because they want the non-financial benefits that homeownership offers. They're buying because they want to live in particular homes and build lives there. The amazing congruence of low prices and incredibly low interest rates is allowing people to recognize they can buy more than they could have in the past. They feel confident their purchases will make sense in the long run. They do not have the inflated financial expectations we had in the past. They are realistic about the costs, but prefer buying over the risks of renting.



## PEEKING AROUND THE MARKET CORNER

We do not expect any substantial changes in our real estate market in 2012. But there is an underlying optimism. There are buyers. They're patient, savvy and tough but they do act when they find what they want. Many sellers have become more realistic and have come to embrace the current conditions, painful as they may be. Our regional economy is strong. If we can keep ferry prices from getting to a point where commuting costs are unacceptable, there is no reason to believe we will not fare as well as any premium Puget Sound community. And all the while we get to live in the best community in the region!

