

MARKET TALK WITH PAUL ISENBURG

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I hope you are looking forward to another wonderful football season. The Hawks, Dawgs & Cougs all have high hopes. We'll hope they all come true.

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Table Talk Info:

Eastside Inventory is up 43% from '06

Year to Date Sales down 9% vs. '06

Sales in general Seattle area off 5% vs. '06

Condo sales down only 1.5% from '06

Condo inventory is up 55% from '06

Eastside home sales above \$1.5M up 42% vs. '06

Eastside Home sales \$1-1.5M up 13% vs. '06

Eastside median price up 10.8%

General area average price up 14%

Eastside condo prices up 12.7%

Interest Rates at a glance

**30 Yr. Fixed
6.375%**

**15 Yr. Fixed
5.875%**

**Jumbo Fixed
6.5%**

**5 Yr Fixed ARM
6%**

What's Happening In The Market?

The real estate market continues to lead many neighborhood and social gathering conversations. The difference is, this year people are wondering if their values are dropping, their interest rates are rising and how many foreclosures will show up in their neighborhood. The good news is, most people's values are stable, not dropping, and while many people did buy in the past few years on adjustable rate mortgages, most won't be adjusting too dramatically. Interest rates are pretty close to last year's rates. While they



may bounce from the ups & downs, most won't be as affected as the media and commercials to refi your loan would lead you to believe. This takes us to the credit markets, sub-prime lending and foreclosures. While a historically large number of people did buy on adjustable rate loans in the past 3-5 years, most of our local market buyers are not and were not sub-prime buyers. The margins, indexes

and rates we have are not as high as we hear about nationally. With our strong local employment, currently in the 95+% range, and better wages, we aren't seeing the need for the sub-prime loans used in other areas. Stable jobs and wages are also helping reduce the impact of foreclosures. While any foreclosure is bad for someone, in our local area we've seen foreclosures raise from .65% to 1% in the King & Snohomish county areas and from just under 1% to 1.4% in Pierce County. As a percentage, yes the rate is rising, but in the big picture this isn't affecting our market to the degree the media is talking it up to be. Foreclosures occur for a variety of reasons, but rising interest rates

What changed our market conditions this year?

In a word, inventory. After record low levels of homes for sale in our area, this year has seen the steepest increase in our homes for sale inventory in over 5 years. While our inventory levels have gone back to "normal" for our area, we've seen our pending sales drop off 10-15% from the peak levels of 2005 and 2006. Combined this makes our "absorption", the number of home sales relative to number of homes for sale, the lowest in 4 years. This doesn't sound good, but a closer look at the

details tells a little better story. So, our sales are off from the peaks, but then you can't have peaks if you don't have smaller amounts before and after them. The reality is our sales are above all levels until 2003; so it's only the run up to and the recent decline from the peak that makes our sales look low. With 800-900 home, not condo, sales on the eastside per month, it's hard to say the market isn't active. The slow perception is due to the increase of inventory from our stagnant 2,000 homes for

sale level from '05 & '06 to over 3,000 this year. Now, instead of selling 1,000 of our 2,000 homes per month, we're selling 840 of 3,000+ homes. This has led to the label of a buyer's market. While these conditions exist in much of the market, it must be noted that the effect of these conditions varies by price range and geography. We also need to recognize that selling homes in hours or days instead of weeks or months is the unusual trend. Most of the country operates with a 12-15% absorption rate

What changed our market this year? Cont.

for their normal. We've been at a 45-65% absorption rate and are now in the 22-30% range for this year. A little sense of perspective. Still the inventory is growing. The question still remains, what happened to cause the slow down. The answer has several factors. Home prices rose to a level that naturally limited the number of people who qualify to buy some of our homes. Many of the incoming people to our area are coming from lesser expensive regions. As well, lenders started to be more cautious about buyers, loan to value ratios and zero down borrowing. Wages haven't risen as rapidly as home prices, so when we used to see families buy "move-up" homes, something a step above their current homes, this

step was usually 20-40% higher than the value of their present home. Over the last few years this step has now become 60-100% higher than their present homes. Again, salaries haven't balanced this rise. We've also seen many of the investor buyers pull out of residential real estate and go back into the stock market. Since the stock market declines in 2000 & '01 we saw a tremendous number of investors buying rental, retiree and second homes. While some of this is still going on, it isn't to the degree it has been the past few years. The stock market rebound is also tempting people back into stocks, especially when you hear all the media hype about crashing real estate values around the country. We've

also seen a very robust new construction market with new home inventory being added to our market as rapidly as possible to accommodate our steady population growth. The sky isn't falling, nor is our market crashing. It's just taking a breath after a 4 year sprint upwards. We're still seeing positive inward migration, job growth with good paying jobs and a stable local economy. Buyers can finally choose between homes that fit their needs and wants instead of fighting each other for the only choice that fits their needs. Sellers are still getting their homes sold but we're having to be more realistic about the prices and conditions we put them on the market for and the amount of time it may take to find

the right buyer. Still, buyers are out there and as most of them will attest, they have to be proactive to get the right and best choice or it will be taken by someone else who's ready to buy it. We have seen prices come down 4-6% in many areas this year, but again this is from a peak where most of us were amazed at the values we were getting. You can succeed in this current market, as a buyer, seller or both, but an experienced partner to help you get in focus with the conditions you're facing is always essential. Give me a call if you or someone you care about is ready to buy or sell a home. I'm happy to discuss the conditions and help formulate a plan for succeeding in a changing market. I can help you succeed too.

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I sell the most important homes in the area YOURS!!

Hey Paul, with my ability to search for my new home without you, what do you really provide me of value?

Great question! Yes, you can search for homes on line, but I offer: 20 yrs. of negotiation expertise; market trend knowledge; neighborhood expertise; contract term expertise so your interests are protected; options for coordinating the process; counsel on issues you aren't aware of; the ability to save you time, effort & money + a myriad of other details you don't see where I help you.

What's really up in our real estate market?

Cont.

and a small decline in house values are very small factors in foreclosures. The vast majority are due to medical issues, divorce and job loss combined with other issues. Yes, some people have been speculating on purchases and found the market shift problematic but these are more common on very high-end price ranges of homes, not our normal family homes.

Are there people like you that should be careful about their adjustable rate loans and house payments rising? Certainly, but don't let fear move you to act without cause. If you'd like to discuss your current loan program, house value and life plans for the next few

years, give me a call. I'd be happy to review the wisdom behind refinancing or standing still to see what path makes the most sense for you. If you need to change loan programs, I can recommend a good lender to help you determine which loan program is most advantageous for you and your needs. Adjustable rate loans are not something to be feared or ignored, just understood so you are confident in what is best for you. We're being inundated with radio and TV ads to refinance our home loans yet many of these lenders are laying people off in large numbers as the public stands still. These folks are just looking for business

and promoting your fear of the unknown. I'll help you understand what options you may want to explore and who can help you take action if that is what is best for you.

We aren't going to see foreclosures skyrocket in our climate; rates aren't much different than last year and our inward migration, job growth and wages are stable to rising. This means the continuing of a strong, stable housing market, even if we don't see the strong home value appreciation we've enjoyed over the past 4-5 years. In reality most of us still own an appreciating asset in the most desired region of the country, with the strongest local economy in the country. *Paul*