

REAL ESTATE – MARKET ANALYSIS

From: Debbie and Rusty

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URGENT

FOR REVIEW

PLEASE REPLY

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Friends and clients have called to ask about the value of a home, or when to list, or when to buy, or how soon will the real estate market be back to normal or when will the real estate market hit bottom.

**Rebound?** First, our real estate market isn't going to bounce back to 2007 prices right away. We don't believe that sellers should hang on to the hope that they can wait it out for a few months and then sell at a much higher price. We think our market could drop further during the rest of the year which means that if you are going to sell your home, we advise you not to wait too long.

We do think that recovery here on Orcas Island will be sooner and stronger than elsewhere in the country. We don't have to deal with large numbers of sub-prime mortgages and the resulting foreclosures. We live in a very special place and people from all over still long for the day when they too can call Orcas their home. And as a result, we do have qualified buyers looking over our inventory.

**The Gap:** There is a growing gap between buyers and sellers as a result of which, there are fewer deals being made and fewer still that actually close.

Sellers tend to hang on to the notion that they'll get more for their home this summer and more still in the fall. Sellers don't want to hear realtors tell them their asking price is too high even though the time on market for listings has soared with 10 of the 26 waterfront homes on the market for over 600 days and 17 of 36 view homes on the market for over 500 days.

Buyers, on the other hand, are holding back, waiting for the bottom to fall out of the market. They realize that around the country desperate sellers and banks with foreclosures will sell at almost any price.

With a drastic drop in the number of deals, lower prices on each sale, pressure to reduce commission rates, some Realtors are anxious. When asked to represent a seller and give an opinion on a listing price, what do Realtors say, especially if the seller dreams of what they could have gotten for their home a year ago. And if a Realtor doesn't agree to a seller's suggested overly-high listing price, they may see that seller walk down the street to the next real estate office and add their home to the list of overpriced houses.

**Liquidity:** While stock and commodity markets can be evaluated on an hourly basis, clients cannot check the value of their real estate holdings based on a ticker tape or blue book somewhere. Most everyone knows that the Dow Jones dropped from 13,000 just a few months ago to the 6,000 level earlier this year. And no one cares what you paid for your stock, how long you have held it, or whether your grandmother gave it to you. You can tell on the Internet exactly what your stock is worth. Same with commodities. Oil was around \$140 a barrel last year and now it's about \$40 with enormous repercussions.

But, real estate is different. There is no one correct answer to what your home is worth. The pricing of real estate is subjective. Ask 10 Realtors the value of your home and you are likely to get 10 different answers. And the assessor's evaluation is really just another opinion. So is that of an appraiser. No one knows the value for sure until the house sells.

Not able to verify the value of a home, there is no way for the parties to tell whether a price is too high or too low, but it does create an attitude leading to a line in the sand.

**Hypothetical:** Everyone agrees that pricing a home is subjective. How good is the view, the setting, the grounds, the quality, the privacy, the amount of sunlight, the location. Those factors clearly influence the value of a home but we like to start by finding out what comparable houses have sold and at what price. Then we look at the current listings to see what the competition might be. And then we adjust based on the factors listed above.

Hypothetically, assume we are discussing a waterfront home that was bought for \$1,000,000 and later had \$300,000 of improvements added.

Since January 1, 2008, 5 waterfront homes have sold in the price range between \$750,000 and \$2,000,000. We look for houses that sold after January 2008 as sales before then were in a market when prices were still rising. We compare waterfront homes with other homes in that category.

Our search revealed the following:

<b>Sales of Waterfront Homes - January 1, 2008 to March 5, 2009</b>					
<b>Price range - \$750,000 to \$2,000,000</b>					
	M...e	P...n	W...r	M...o	C...k
Sale Price	\$957,000	\$1,006,000	\$1,450,000	\$1,492,000	\$1,625,000
Listing price	\$995,000	\$1,150,000	\$1,550,000	\$1,950,000	\$1,750,000
Original listing price	\$1,100,000	\$1,800,000	\$1,795,000	\$1,950,000	\$1,750,000
Percent reduction	13.00%	44.11%	19.22%	23.49%	7.14%
Days on market	258	595	674	906	71
Area	Grindstone	Bartel	Spring Point	Deer Point	Spring Point
Bed/bath	bed 2 bath 1.5	bed 2 bath 2	bed 2 bath 1.75	bed 2 bath 2	Bed 2 Bath 2
Acres	0.77	1.40	0.53	11.88	0.77
Date of sale	11/7/2008	2/15/2008	9/29/2008	5/2/2008	3/19/2008
	craftsman near ferry	No bank wft.	Guest house 2 cove beaches	11 acres deep water dock	Lundgren & Delgarno

Notes:

- 1) There are 3 prices for each sale: the sale price; the listing price at the time of sale; the original listing price.
- 2) Interesting to note that 3 of the 5 sales took over 575 days on market before a buyer was found.
- 3) The second and fourth sales are not really comps as in both cases, the value of the property was largely in the land.
- 4) Since our real estate market didn't turn down until last summer, agreements negotiated before then were in an up market.
- 5) None of the houses had more than 2 bedrooms.

Listings aren't as helpful in determining the value of a house or the appropriate asking price but they are the competition. Currently, there are 15 waterfront homes in the price range selected and for each one we have included the latest "Days on market" data - a strong indicator that a price needs to be reduced.

Owner	Current asking price	Original asking price	% reduction	DOM days on market
R....d	\$750,000	\$895,000	16%	460
S....l	\$799,000	\$1,150,000	39%	683
G....e	\$835,000	\$925,000	8%	258
H....s	\$869,000	\$1,100,000	21%	760
W....n	\$895,000	\$895,000	0%	618
S....y	\$895,000	\$945,000	5%	1322
S....d	\$995,000	\$1,100,000	10%	314
W....m	\$1,150,000	\$1,150,000	0%	299
A....s	\$1,245,000	\$1,245,000	0%	180
M....z	\$1,250,000	\$1,250,000	0%	9
H....t	\$1,250,000	\$1,250,000	0%	247
T....r	\$1,300,000	\$1,300,000	0%	4
R....h	\$1,650,000	\$1,650,000	0%	244
W....h	\$1,795,000	\$2,900,000	38%	907
T....r	\$1,800,000	\$1,800,000	0%	65

**Summary:** While buyers tend to look forward and anticipate the downward trend of today's real estate market, sellers prefer to look back at the prices of just a few months ago. Understanding what is influencing the market and doing the research on whatever comparables are available will help buyers and sellers negotiate mutually acceptable agreements.

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