

2009 in Review: A Challenging Year, An Optimistic Outlook

In 2009, it may have felt as if we were only plumbing the depths of Bainbridge Island real estate. But it's possible that we actually found the bottom in the process. In the first six months of 2007, there were 282 real estate transactions (all types of properties) on Bainbridge (with an average price of \$713,500). By contrast, we had 112 in the first six months of 2009 (averaging \$686,000). But then in the second half of the year, the transactions began to pick up and we finished with 166 transactions between July and December (compared with 213 in the second half of '07 and 120 during that period in '08).

While transactions may have hit bottom, house prices are still dropping. This, as we know, is the natural cycle and is a necessary step prior to the market returning to positive figures. For the year, home prices are down 12% on the average and 6.4% median from '08. From '07, the average for the year dropped over 20% and the median 19.7%. December's prices were still lower yet. While these lower prices have definitely fueled the transaction rebound, we must wait for prices to stabilize before we declare the market "healthy" again.

The condominium and land markets have also had a tough time this past year. Condo sales rebounded from 42 in 2008 to 53 in 2009, but are still far behind 2007's 133 sales. The median price was down 15.2% from 2008 (\$330,000 vs. \$391,750) and 29% from 2007's \$464,070. Land transactions did not see an increase in 2009 (11 in '09, 15 in '08 and 30 in '07), but most (55%) of the land transactions took place in the second half of the year. I really do not want to talk about prices because the "sample" is so small that it does not have statistical relevance. (But they are lower...)

Here is a look at the numbers:

Single Family Homes Sold 2009					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Change % (08-09)</u>
Average Prices:	\$751,346	\$820,569	\$749,970	\$662,668	-12%
Median Prices:	\$661,000	\$680,000	\$589,500	\$546,000	-6.4%
Number of Sales:					
\$0-\$400,000	26	14	23	45	+96%
\$400,000-\$600,000	119	106	75	76	+1%
\$600,000-\$800,000	85	94	37	39	+5.4%
\$800,000-\$1M	63	53	20	23	+15%
Greater than \$1M	<u>56</u>	<u>65</u>	<u>33</u>	<u>29</u>	-12.1%
Total Sales:	349	332	188	212	+12.8%
Inventory*	190	207	203	186	
Under Contract	31	18	24	31	
"Available Inventory"	159	189	179	155	

* Homes for sale on January 4, 2010

So what's the good news? The growth in transactions is not just good news; it's great news. We cannot have any sort of recovery until people start to buy and continue doing so. We had been in a "transaction freefall" beginning in the third quarter of 2007 and continuing until the second half of 2009. Now, inventory is down and "pendings" (properties under contract) are up. This signals continued strength in transactions. It is ironic that right now one of our concerns is lack of inventory for the buyers that are out there. Sellers are reluctant to list because of the prices. But without enough choices, buyers often choose to delay purchasing or rent while they wait for new inventory.

What do we see in our crystal ball? We are optimistic. Buyers are buying when sellers "bite the bullet" and bring their prices to the buyers' levels. The financing market has stabilized, although lending requirements are more stringent than in the 2005 to 2007 period. We do not see any "price recovery" in the near future. It is still a buyers' market and the homes that have sold resulted from most sellers accepting less than they had wanted. Although they only represent 5% of our market, bank-owned properties are usually aggressively priced and have a tendency to exert a downward pressure on their competitors (similar type houses). It is our belief that bank-owned properties will continue to be a factor throughout this year. They also impact the appraisal process and financing for similar properties. If interest rates go up, which we believe will happen over the course of the year, it will have a negative impact on prices.

What's the upside? The pain of the lower prices has created openings for buyers to afford our great area. We are seeing new families and friends looking at the opportunity of moving to the island and buying. It has been a torturous year, but we have fared far better than most markets. This correction has been painful to many, and an opportunity to many. When the dust settles, we will be in a stronger place. Until then, let's remember how lucky we are to be part of the Bainbridge Island community. At Windermere Bainbridge Island, we work hard never to take that for granted.