

A Tale of Two Markets

As summer draws to a close and we look toward fall, many people are wondering what the real estate market will do. Depending on who you ask, you might hear stories about multiple offers and bidding wars, and predictions of sunny skies ahead. Or you might hear about constant price reductions, market stagnation, and a bottom that doesn't seem to be in sight. And they're all talking about Seattle! What's the story?

I believe that we have two very distinct markets right now: the market under \$600,000, and the market above \$600,000. And I think the lending restrictions that have a tight hold on the "jumbo" loan market are responsible for the dichotomy.

Why \$600,000?

Right now, Fannie Mae and Freddie Mac (to whom most mortgages are eventually sold on the secondary market) have a limit on the size of the mortgages they can purchase. The limit varies geographically throughout the country, but in King County (considered a "high-cost" area), the conforming loan limit is \$567,500. Anything larger is considered a "jumbo" loan. Because these jumbo loans cannot be resold to Fannie Mae or Freddie Mac, the loan stays with the bank, as does the risk of borrower default. With banks and investors skittish about that risk, the availability of these larger loans has been drastically reduced, while qualification requirements have been significantly increased. At minimum, a borrower interested in a jumbo loan is going to need a 20% down payment, great credit, and enough cash reserves after the purchase to make the bank comfortable.

Translating these numbers into home prices, this means that a qualified buyer in Seattle wanting to purchase a \$710,000 house would need a down payment of \$142,000, or 20%, in order to finance the remaining balance of \$568,000 with a jumbo mortgage. If the buyer has any less money to put down, they need to stay under the jumbo threshold, and look for a less expensive home.

In a market where move-up buyers have seen the equity in their first homes evaporate, and where first-time buyers can be hard pressed to find a six-figure down payment, this leaves a lot of

people looking for loans with smaller down-payment requirements. Through FHA, buyers can put down as little as 3.5%. The home price scenario here means that a qualified FHA buyer could spend up to about \$588,000 on a house (just over \$20,000 down, and a mortgage that stays under \$567,500) without crossing the jumbo threshold. Other conventional loans carry down payment requirements of 10%. Qualified buyers using these loans could spend up to about \$630,000 (\$63,000 down and a mortgage under \$567,500) without crossing the jumbo threshold. It is these down payment requirements that are keeping many shoppers searching in the 600s and below.

The following sales numbers from the NWMLS illustrate the reality of this divide:

- In July of this year, there were 643 closed sales of single family homes in Seattle. 539 of them, almost 84%, were under \$600,000.
- In August of this year, there were 517 closed sales of single family homes in Seattle. 424 of them, or 82%, were under \$600,000.

The Market Under \$600,000

So what is the sub-\$600k real estate market like? And what does it mean to be a buyer or seller in this range?

Buyers should be ready to pounce when they see a good home in this price category. Being familiar with the housing stock will help spot the values when they



arise. Touring with an agent and visiting open houses are both great ways of getting a feel for what's available in a specific area or price range. Active shoppers must also have their financing in order. This means getting pre-approved with a lender and having earnest money ready to go. Bidding wars are far from ubiquitous, but this is the market where multiple offers are starting to happen again. The prepared buyer, able to spot a great value quickly and make a strong clean offer, is the one who will prevail.

Sellers in this category may be experiencing some long overdue relief. As mentioned, however, bidding wars are still the exception, and sellers cannot count on a pool of buyers willing to line up and write offers. The keys to success for sellers are still great pricing and great presentation — making sure the home is the best thing on the market at the price, and in-line with recent sales in the area.

The Market Over \$600,000

On the other side of the line, more expensive real estate remains a buyers' market. In this category, sellers have to try harder than ever to make their value proposition clear to prospective buyers. Whether it's a fixer or a magazine-quality home, it must be priced appropriately and shown to its best advantage. Hiring a listing agent skilled at positioning the home on its key strengths and creating a strategic pricing recommendation is more important than ever.

Buyers in this range will find that there are deals to be had, and that many sellers are willing to negotiate. But that doesn't mean an automatic 10%-20% off the list price. It's critical to work with an agent who can help evaluate properties and advise on pricing and value. Long market times in this price category are not necessarily an indicator of over-pricing. A savvy buyer's agent can also try to uncover the back story and get a feel for a particular seller's motivation and likelihood to negotiate. As in the lower price category, buyer preparation can make all the difference. Price negotiations may be more successful if all other terms of an offer are clean and the buyer has financial arrangements well prepared.

There are some signs of life in the upper price range. Homes in the \$700,000s and \$800,000s are selling at an increased pace, and stories of multiple offers have started to surface. The trickle-up effect will happen, and improvements in the broader financial market will continue to help. Within the last 10 days of writing this newsletter, in the neighborhoods that surround my office (Madison Park, Washington Park, Denny Blaine and Broadmoor), two homes have gone under contract (one with three offers), and two more have closed. All were in the \$1-\$4 million range. There are currently 10 homes under contract in these neighborhoods, with an average price of \$2.13 million.

Looking Ahead

As you look toward the fall (or even 2010), do not be alarmed if you continue to hear mixed messages about the real estate market. There's a lot of variability, but things are improving on all fronts and in all markets. As always, if you're curious about specific trends in your neighborhood or price range, don't hesitate to drop me an e-mail or give me a call.

Hot-and-Cold Summer Dinner

Since many of you tried and liked the pasta recipe in my "Comfort Food" newsletter, I thought I'd include another one here. Following the theme of our hot-and-cold real estate market (and even our crazy summer temperatures!), this is a recipe for a delicious grilled pork tenderloin salad, inspired by a recipe from Williams Sonoma's *Complete Grilling Cookbook*.

Cut a pork tenderloin into ~1-inch cubes. Place in a large bowl with several slices of bacon, also cut into 1-inch strips, and a loaf of hearty bread (ciabatta works well), cut into crouton-like cubes. The bread should be just a bit smaller than the pieces of pork. Toss everything with a couple tablespoons of olive oil, chopped fresh sage, some paprika or chili powder, salt, and pepper (you can adjust the herbs and seasonings to your taste). Thread the ingredients onto skewers (pork, bacon, bread, repeat) and grill. Serve hot over a cool herb salad (I like to toss the salad very lightly with lemon-infused olive oil and kosher salt), with lemon quarters on the side. As you squeeze the lemon over the hot skewers, the juice creates a delicious dressing for the salad, picking up the flavors from the pork and bacon. Enjoy with a nice glass of white wine, and forget about the price of real estate for an evening.

Cheers!
Jonathan