

# Mike's Real Estate Forecast 2017



Bottom line: Enjoy 2017 — it will be a fun and exciting year.

## Abstract

A record low number of houses for sale in December indicates that 2017 will continue to be a very competitive market for buyers. The good news: those who decide to take the plunge and list their home can count on getting a premium price for their property. Brokers reported that about three-fourths of the homes sold in

December involved bidding wars. That leaves an ever-rising population to compete over the same stock of houses, driving prices even higher.

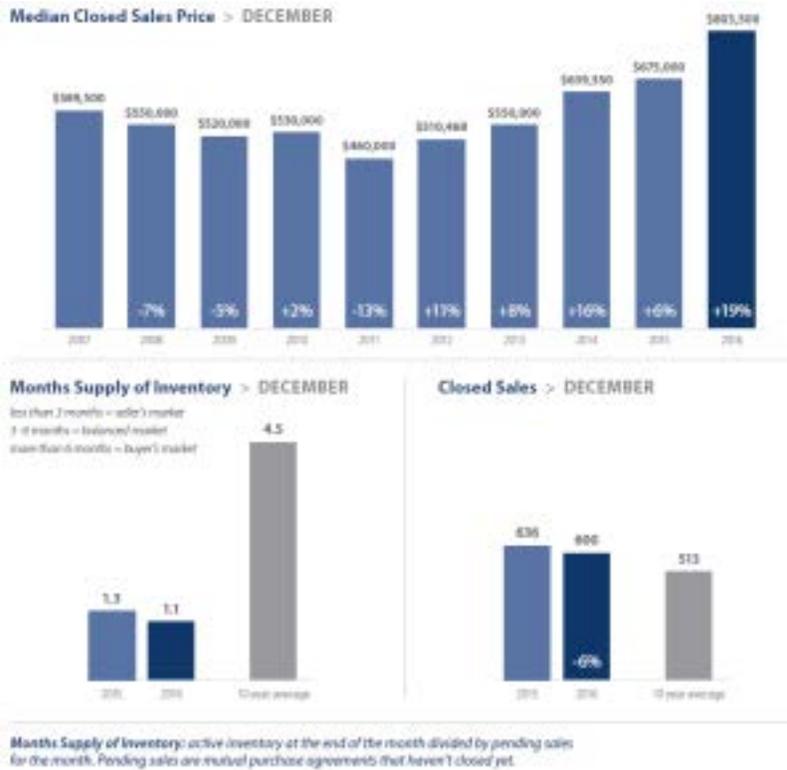
Condo values have finally reached and surpassed the 2007 peak so getting your “dream price” may be here.

Buyers spooked by a spike in mortgage interest rates gave rise to the busiest November for homes sales in over a decade. Prices rose accordingly. Case-Schiller ranked the area as the housing market with the fastest rising prices in the country.

Sellers can expect to get a premium for their homes as we move into 2017, BUT they need to consider how an expected further increase in interest rates may impact the market later in the year.

## The Eastside

Strong demand driven by a booming tech economy and great schools continue to strain the already low inventory on the Eastside (East of Lake WA). It’s not unusual for a well-priced new listing to receive dozens of offers and to sell for well over asking price. With supply failing to meet demand, the median price for homes sold in December soared 19 percent to a new record high of \$803,500. *The charts below show the median sold price in December dating back to 2007.*



## King County

King County had only about 1,600 single-family homes on the market in December, an all-time low. With the healthy regional economy, demand remains very strong. Prices, however, appear to be moderating somewhat. The median price for a single-family home sold in December was \$550,000, up 8 percent over a year ago, but unchanged from October and November. A traditional uptick in inventory this spring may help keep price increases more modest this year compared to the double-digit increases seen in 2016.

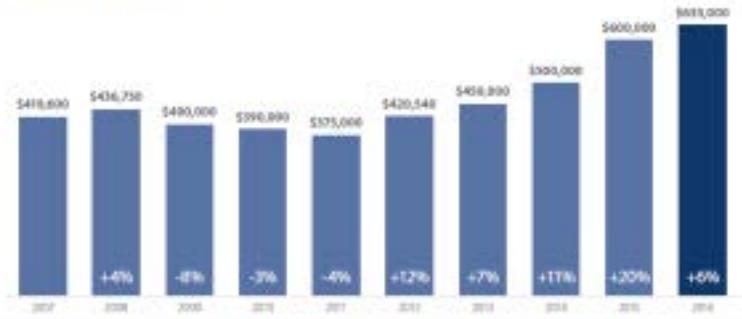


## Seattle

Last year was the priciest year ever for Seattle-area real estate, although home-price gains have started to slow slightly and most experts think the biggest increases might be behind us.

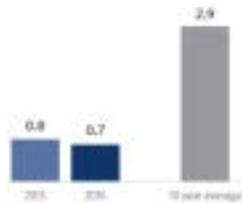
According to the Case-Schiller home price index, home prices are rising faster in the Seattle metro area than in any other major region in the country. One issue is space. The city's existing density means that virtually no new single-family homes are being built in Seattle. As new residents flood in, more people are competing for the already tight inventory. As a result, home prices are up. The median cost of a single-family home rose 6 percent from a year ago to \$635,000.

**Median Closed Sales Price > DECEMBER**

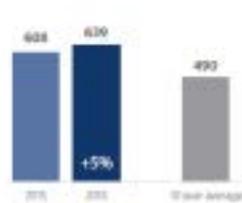


**Months Supply of Inventory > DECEMBER**

less than 3 months – seller's market  
 3-6 months – balanced market  
 more than 6 months – buyer's market



**Closed Sales > DECEMBER**

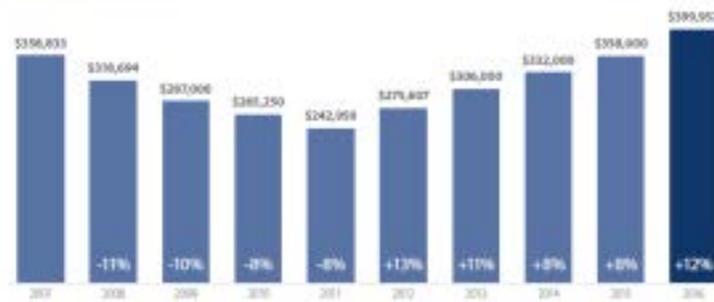


Months Supply of Inventory: active inventory at the end of the month divided by pending sales for the month. Pending sales are mutual purchase agreements that haven't closed yet.

## Snohomish County

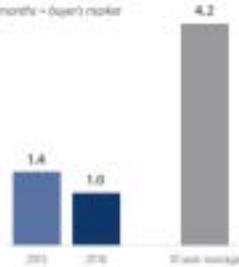
While home prices in Snohomish County are well below those of King County, the gap is closing as prices here are increasing at a faster pace than neighboring counties. The median price of a single-family home in Snohomish County rose 12 percent as compared to a year ago to \$400,000. Like King County, inventory is very slim, indicating a market heavily favoring sellers. *(Chart shows median price for December yearly since 2007).*

Median Closed Sales Price > DECEMBER

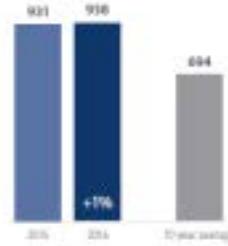


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## Leavenworth and the upper Wenatchee Valley

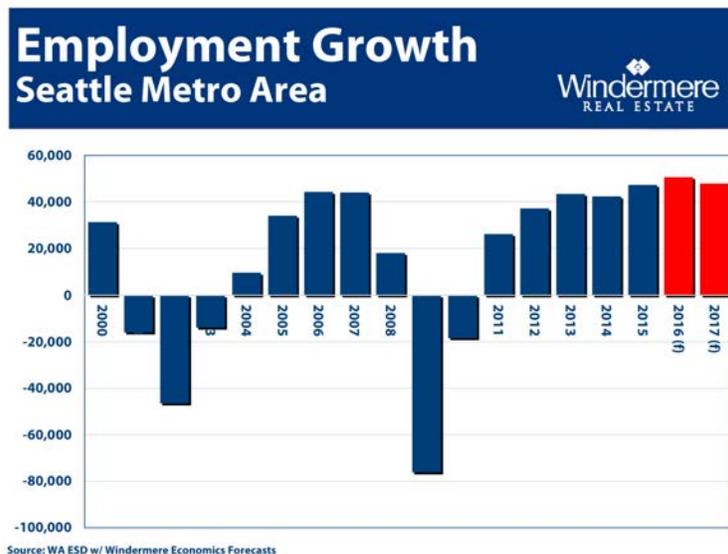
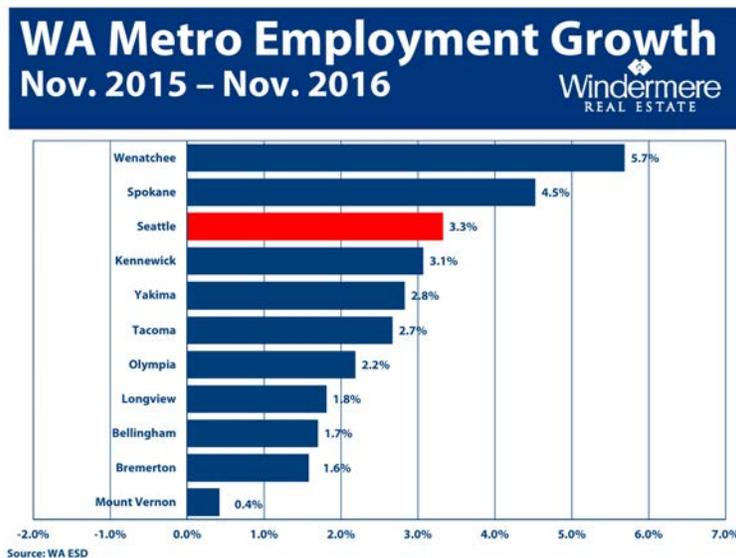
The statistics would suggest Leavenworth region sales have slowed 1% from 2015 and that median price has only increased 3%. Being on the ground tells a different story. Most residents are staying put so although second home buyer demand is very high, available supply of “suitable” properties is still low. The majority of buyers qualify financially by staying below \$400,000, whereas a smaller number of sales represent the upper income or retiree who is buying the upper price range to

LEAVENWORTH MARKET													
	3rd Quarter 2015			3rd Quarter 2016			Percentage Change	YTD 2015			YTD 2016		Percentage Change
Closed Sales	61			56			-8%	141			140		-1%
Median Sales Price	\$330,000			\$341,000			3%	\$329,000			\$319,450		-3%
Number Listed	73			67			-8%	282			244		-13%
Average Days on Market	138			123			-11%						
Leavenworth Market - Single Family Homes / Condominiums													
Price Range (thousands)	\$0-150	\$151-200	\$201-250	\$251-300	\$301-350	\$351-400	\$401-450	\$451-500	\$501-550	\$551-600	\$601-650	\$651-700	\$701+
Number sold this quarter	2	2	8	12	7	5	1	4	5	4	0	2	4
Pendings (current)	32												
Active Listings (current)	100												

be on the river or building a custom home on lot. Pear orchards are selling for a record price per acre but few are listed.

For the second buyer and locals alike, new construction of more modern four seasons housing is clearly an unmet need in the upper Wenatchee Valley.

## Washington State economy— ahead of the US and employment is growing in key sectors.



## **Here's what four economists had to say about whether 2017 is leaning toward buyers or sellers.**

2017 is going to continue to be a strong market for sellers — for now.

“While I expect inventory levels to rise in 2017, it will likely remain a seller’s market,” said Matthew Gardner, chief economist at Windermere. New construction will pick up steam in 2017, but not to levels that will provide sufficient support to a stretched housing market. Sellers will likely find that it will take a little longer to sell, but demand will still outstrip supply on the back of a job market that continues to tighten.”

### **Will we see a shift?**

Svenja Gudell, Zillow’s chief economist said that Zillow just asked a panel of experts — more than 100 economists — “what they thought was going to happen to the tradeoff between buyers versus sellers.”

She said that among the economists surveyed, the most popular belief was that in 2018 or 2019, the bulk of markets will begin to shift from seller’s markets to buyer’s markets.

“In some markets, it’ll start to turn already in 2017, where demand isn’t quite so high and you get a little more inventory in and you have buyers better able to negotiate,” Gudell added.

### *Mike's thoughts on the urban markets*

The key hubs around Seattle and Bellevue will continue to see a fairly strong “sellers” market in 2017. So many want to live here and and raise a family because of great jobs, schools and lifestyle. They want the space and a fenced yard and have the ability to pay these prices. Home inventory will continue to be at record lows as most sellers stay put or convert property to a rental. Outlying areas are NOT appreciating as fast and the commute is getting worse. Condos are a more complicated story. Condos below \$600,000 represent a great lower cost option to live close in but above \$600,000 and the math of HOA dues, the majority of buyers opt for a home with a yard. More on this later....

### What does the future buyer look like?

Mark Fleming, chief economist at First American, said that, “assuming an environment with modestly and predictably rising mortgage rates, it becomes a first time home buyer purchase-oriented marketplace.

“The homeownership rate will grow, and they’ll be less white and a little younger,” said Gudell.

“Unfortunately, I think all of us will be spending more time in the car as more people have to look for more housing outside the city center as homes become much more expensive in the urban area,” she added. “During the recovery, it’s really picked up and the urban centers have appreciated much faster than the outerlying areas.”

“Highly qualified pent-up demand has been driving the market — now, it’s more organic activity at a time when interest rates are on the move-up,” he added. “The potential is there for an even bigger year than we’re forecasting, but it comes

with challenges and that's why we're expecting only moderate growth instead of huge growth.

**Mike's latest note**—Chinese buyers have represented over 30% of the sales in the Bellevue area. Chinese buyers are becoming more attracted to the area largely because they feel comfortable putting their money into a hot market that's still somewhat affordable to them. They also love the schools.

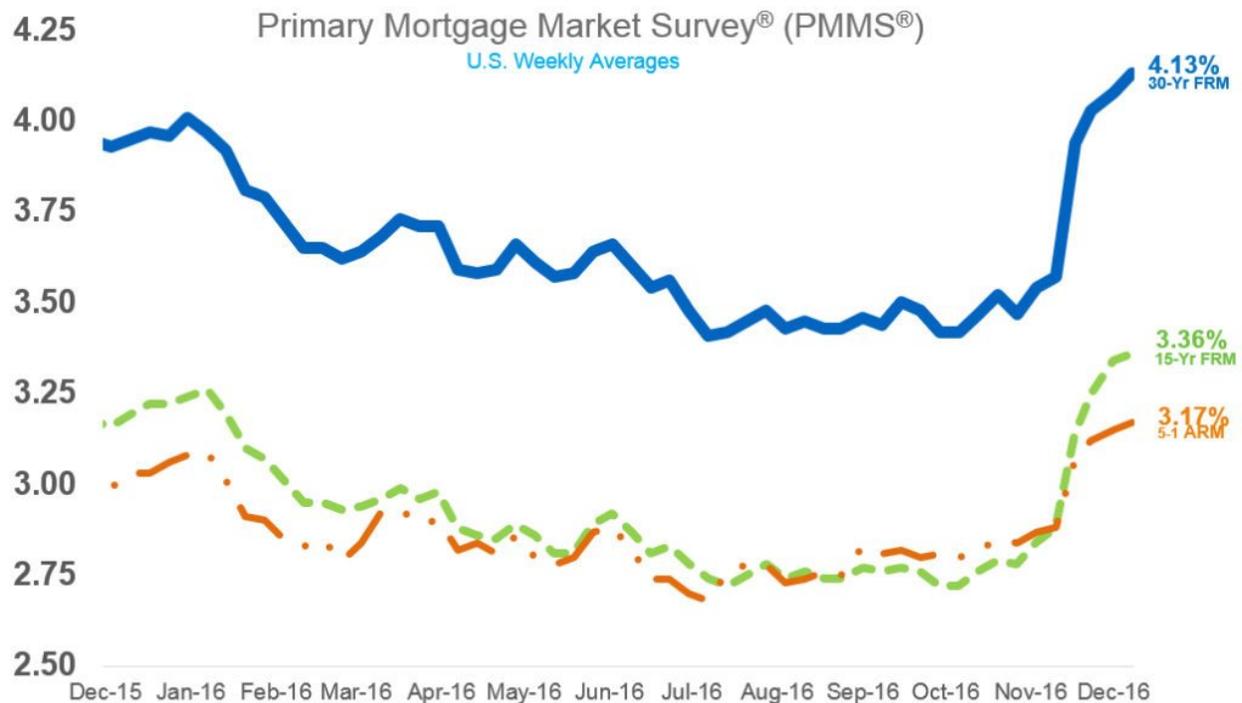
It has now become clear that China is so worried about its falling currency that it is hoping to monitor the purpose of every individual Chinese citizen who is looking to transfer money overseas.

Is it feasible the Chinese government policy could slow Chinese real estate investment transfer to our area in the future. We will know in the next few months if Chinese buyers can continue to get around the government controls and invest here.

## **Interest Rates Are Moving**

Throughout 2015 and 2016, buyers enjoyed historically low mortgage rates for many months — which finally began to increase in mid-November.

With such an unusual end to this year, what should we be expecting in 2017?



As of December 8, 2016



Freddie Mac's Primary Mortgage Market Survey: Dec. 8, 2016

## Will we see rates go back down?

Inman Press interviewed seven housing and economy experts to dig into their thoughts about mortgage rates next year; here's what they said.

Short answer: Not likely.

“The day has finally come that people have been talking about for two years,” said Steve Cook, editor of Real Estate Economy Watch, “when you start seeing a steady rise in interest rates.

“The kind of rates we were getting earlier this year, down to 3.5 percent — those days are over,” he added.

“I’m thoroughly confident that historic lows will not be reached again anytime soon,” confirmed Ralph McLaughlin, Trulia’s chief economist.

“I don’t believe we’ll see any pullback until after the inauguration, but even the



best-case scenario suggests that the historically low rates that have been in place for the last few years are firmly in the rear-view mirror, and that the trend will be toward increasing rates through 2017,” said Matthew Gardner, Windermere’s chief economist.

## How high could they get?

The consensus was that the 30-year fixed rate in 2017 will likely stay in the 4-percent range — 4.5 percent to even 5 percent by year’s end.

Mark Fleming, the chief economist at First American, said that his new estimate of next year’s rate movement “shows mortgage rates getting much closer to 5 percent at the end of next year.

We’ll see more Fed hikes in 2017, and with that I wouldn’t be surprised if the 30-year fixed mortgage rate hits 4.75 percent,” said Svenja Gudell, Zillow’s chief economist.

“My forecast is for the 30-year fixed rate to rise above 4.5 percent by year’s end, and worst-case scenario, knock on the door of 5 percent,” said Gardner.

## What will buyers do?

As rates start moving up, buyers might feel pressure to act — up to a point when their homeownership dream becomes out-of-reach. But we aren’t there yet.

“Depending on how buyers see it, it’s going to act as an incentive to a lot of buyers to get out there before it gets even worse — but it’s also going to make it more expensive, and people who are continuing to rent and see what happens might not take the step to buying,”

“People that do buy will have to adjust their bidding process. It’s not that they won’t buy; it’s that they will buy into a lower price range.

So if rates jump above 5 percent, it might be time for concern —

### **Mike's opinion on buyer rate sentiment**

Buyers I have been working with recently, especially tech workers who have moved to this area, have not seen rates above 5% for several years, if ever at all. Even though historically these are still very low rates I believe rates approaching 5% would upset the majority of current buyers using conventional financing in the markets surveyed. That \$670,000 house in Bellevue at 3.85% is \$2512 monthly pi, at 5.0% that payment is \$370 more per month.

## What about sellers in 2017?

The last sellers market peak was August of 2007. Anyone thinking of selling and making good equity from the sale may very well find the first half of 2017 prime time. Clearly, buyer demand well outpaces homes and condos for sale.

Because local economic growth is expected to slow somewhat next year, home-price increases might not be as steep as last year.

Most local market watchers expect home prices to rise about 7 to 8 percent this year, instead of last year's 10 to 12 percent. Those estimates, made late last year, generally depend on the number of homes for sale rebounding from current historic lows, however.

To add the the woes of not enough homes for sale, Ralph McLaughlin from Trulia confirmed: "If there are homeowners who bought their homes in the last three to five years and they were able to get a rate of 3 to 3.5 percent, buying a new home means a new mortgage at a higher mortgage rate, so many may decide to stay put and renovate their existing home, which is what many of them have been doing anyways."

So those that DO list to sell in the next few months should see top dollar offers for now as many home owners are staying put.

Still, the rise in home prices has slowed since the explosive gains seen last spring.

In December, King County home costs rose 8.3 percent compared with a year prior, the slowest annual growth of any month in 2016, the new data shows. The \$550,000 median home price was unchanged from the prior two months.

**For condos**, the cost escalation continues to outpace that of single-family homes, as buyers search for more-affordable options. King County condos cost \$314,000, or 12.2 percent more than a year ago, the 12th straight month of double-digit price increases. For many buyers the condo is increasingly becoming the best and in some cases the only option to purchase in the urban market. For my condo sellers we have a two tiered buyer need. Many buyers want to stay under \$350,000 and the second group wants to stay under \$600,000 if possible. Virtually everything under \$350k sells quickly. The higher end condos still sell but take a little longer than the house with a yard. In all cases however, condo appreciation has now caught up with and surpassed the 2007 peak!!!!

## How hot markets will fare

Although most buyers probably won't be overly affected by rising mortgage rates — which are still, relatively speaking, very low — the hotter markets in the country will definitely see a more immediate effect from rate bumps.

“Even a relatively small change from 3.5 up to 4 — even that is already going to start influencing the more expensive markets,” posited Gudell. “So if you're located in San Francisco, Los Angeles, Seattle, New York, Miami, that might very well have an impact on you because you're already stretching your budget as it is to get into a home that you can barely afford at historically low mortgage rates.

“In these places where affordability is already an issue, seeing these small bumps will already have a slight dampening effect, and we'll see that affect not on all buyers but specifically first-time homebuyers or lower income folks. People who are repeat buyers or buying higher-end homes won't feel it so much,” she added.

# Markets to Watch in 2017

## Looking for markets to keep an eye on in 2017?

Look to the Sunshine State. Five of the 10 markets we think are poised for growth are there, with the rest in the Midwest, South, or Southwest. These markets exhibit strength in five key metrics: strong job growth over the past year, low vacancy rates, high affordability, more inbound home searches than outbound, and, because of the surprise election outcome, a large share of Republicans. They are:

- 1 Jacksonville, FL
  - 2 Cape Coral – Fort Myers, FL
  - 3 Daytona Beach-Ormond Beach, FL
  - 4 Grand Rapids, MI
  - 5 Tampa-St. Petersburg, FL
  - 6 Colorado Springs, CO
  - 7 Charleston, SC
  - 8 San Antonio, TX
  - 9 Phoenix, AZ
  - 10 North Port-Sarasota-Bradenton, FL
- See more at: <https://www.trulia.com/blog/trends/>

## The West will lead the way in appreciation

We're expecting metro markets in the West will see a price increase of 5.8% and sales increase of 4.7%, much higher than the U.S. overall. These markets also dominate the ranking of the realtor.com 2017 top housing markets, making up five of the top 10 markets on the list: LA, Sacramento, and Riverside in California; Tucson, AZ; and Portland, OR with Seattle right behind.

## What will the Fed do?

“The Fed pushing short-term rates up doesn't necessarily automatically translate to higher mortgage rates, but it does put upward pressure on them,” explained

Fleming. At last year's December meeting, the Federal Reserve raised short-term rates for the first time in years — and it's meeting again next week, so it's anyone's guess what will happen to rates afterward.

“The stars are now truly aligned to see what the Fed anticipated happening a year or so ago,” said Cook. “It's a combination of the continual, gradual improvement of the economy, the cooling down of the international financial problems that were causing delays, and the election, too.”

“We had a surprise post-election, not only by the results of the election but the response of bond markets and consequently mortgages,” said Fleming. “What I like to say is that [President-elect Donald] Trump in this case ‘Trumped’ Yellen — Janet Yellen and the Fed finally did do a Fed funds rate increase in December, which may or may not have had a relatively large effect on mortgage rates.”

“We'll see rates drift down a little bit through the inauguration,” predicted Smoke. “The Fed having their meeting and making a policy change would be a reason for the market to back off, assuming they aren't raising short-term rates aggressively into early next year.”

## Other possible disruptive factors

“If Trump goes ahead with his infrastructure plans, which is probably a smart thing to do and a no-brainer as far as Congress is concerned, it will stimulate the economy and probably increase pressure on rates,” said Cook.

“We will likely still see volatility in mortgage rates over the next 2, 3, 4 months as Trump unveils cabinet members and specific policies he wants,” said McLaughlin.

### **Mike's latest findings**

Trump may incentivize the financial markets for business and this could keep rates lower than expected but don't count on it. On the geopolitical front, once Trump takes office what he does with North Korea, China and Russia may have disruptive

impacts on purchasing behavior over and above what our economy is doing. So this leaves an unpredictable element of surprise in the forecast.

## **What Would You Like To Do in 2017?**

If you want to buy in 2017 we need to strategize and start planning NOW. As rates rise and inventory remains short it will be competitive and we need to get you “above” the competitors so you can win. Many other buyers will want the same house as you. It may be another couple years before rates stabilize and housing prices stabilize.

If you want to sell in 2017 and you bought more than 5 years ago this would be a great year for you then. This report indicates a strong season in 2017 and the ability get top dollar. IF the economy changes and rates continue to go up then your home may get too expensive for the buyer next year. I can show you the steps I have been taking with other sellers to receive well above the market expectation. In many cases the sold price has been 10-15% more. Perhaps my more important key finding from the last three years: *Those that have sold in the first half of the year have realized as much as 10% BETTER sold price.*

If you have a condo to sell, we have surpassed the 2007 peak so your “dream price” may finally be here. Is your condo ready?

## **Mars will be subdivided**

A first step in creating a new civilized world on Mars will be a plan to subdivide the far-off planet. It could pay for space

exploration. That is how we pay for infrastructure on planet earth.

Some of the smartest minds in the real estate industry will get involved. But don't be bamboozled into investing in Mars property — yet.

Mikes research sources for this article include-

Windermere Real Estate

Northwest MLS

Zillow Group

Pacific Appraisals

Seattle Times business department

Inman press

Fannie Mae

Michael J. Link research department 2016-2017