Seattle Housing Market Overview, December 2018

A review of recent trends and thoughts about the future of the Seattle housing market

Bill King
President, Chief Valuation Officer
Real Info, Inc.

Real Info™

Seattle Real Estate Market Overview - December 2018

Housing prices in the United States have risen steadily in almost all parts of the country since 2013. Seattle has been at the top of nearly every list of robust housing markets during that time. The median house price in Seattle more than doubled from January 2013 ($399,500) to April of 2018 ($830,000). It seemed that nearly all news stories about rising home prices either led with or included Seattle.

Key questions now are whether the Seattle market is in the beginning of a sustained price decline, and whether Seattle is a leading indicator of national trends. After real estate markets had bottomed out in 2012, Seattle led the country in the housing price recovery. Fueled by robust job creation at existing Seattle companies like Amazon, Microsoft and Boeing, together with establishment of substantial offices for Facebook and Google and a big assist from a lack of housing inventory or places to put new housing inventory, Seattle's median house price rose almost every month for five straight years.

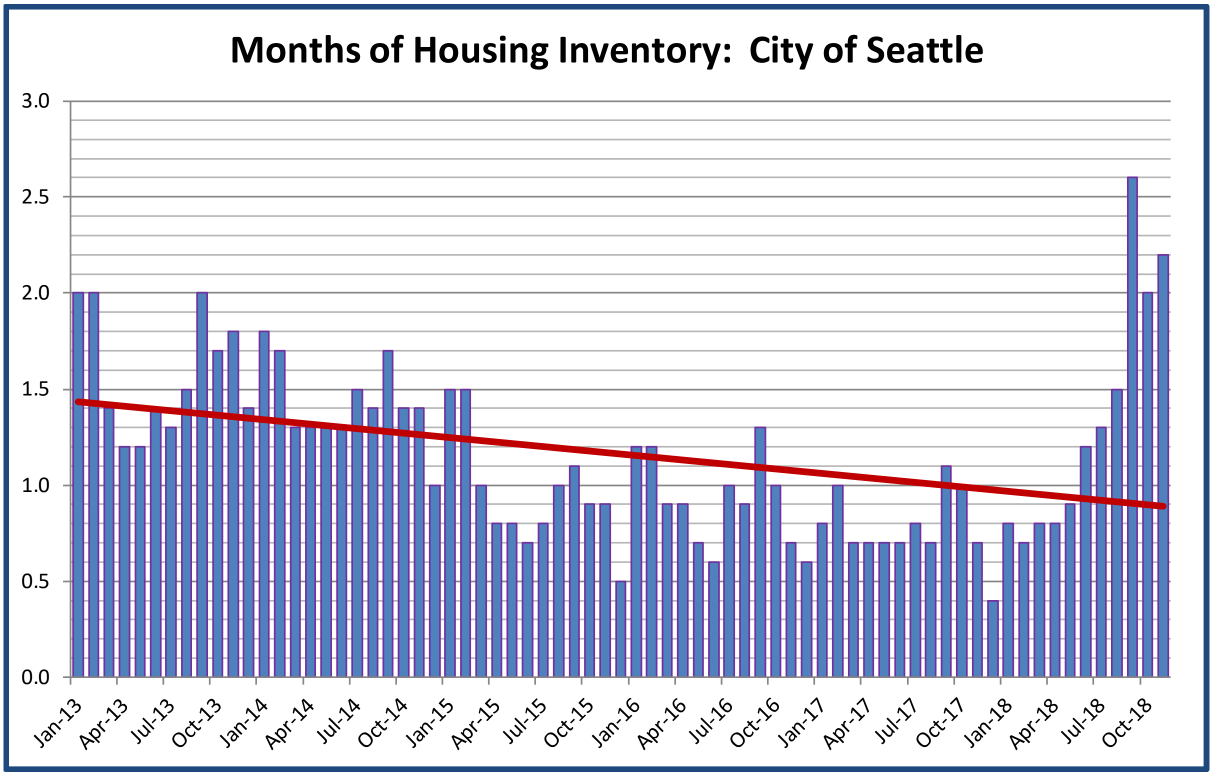
Since April 2018, median prices in Seattle have pulled back, dropping 9.64% from April 2018 to August 2018, once again putting Seattle on the front page of housing news stories. Prices have been stable since August, but other leading indicators suggest that prices will remain softer for the foreseeable future. Seattle remains at the top of real estate news feeds, this time for leading the way down.

It remains to been seen if Seattle is a bellwether for the nation. However, the fact that the Seattle market is changing rapidly is clear and the change appears to be more than the typical seasonal slowdown that occurs during the winter months. We can still see seasonal patterns in the data, but we also see velocity of change that is eye-popping. Let's look at several key market indicators.

Months of Housing Supply

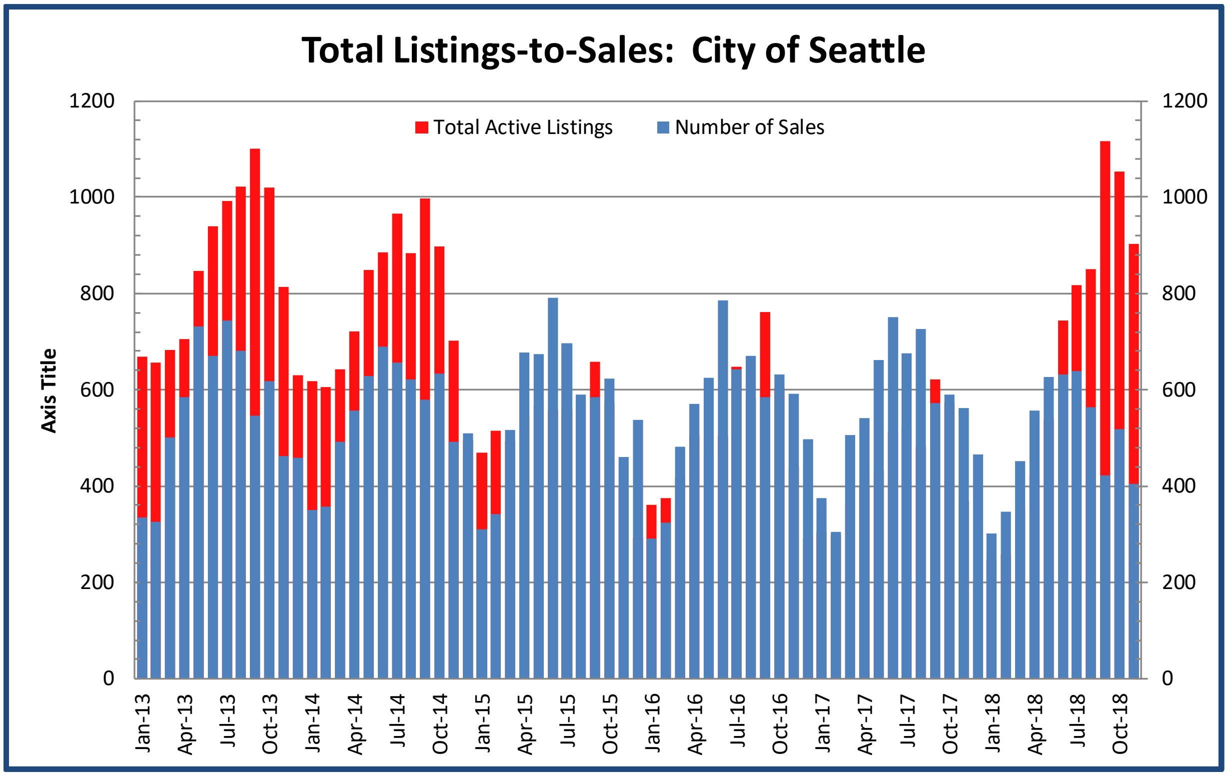
Most real estate analysts consider the market "balanced" at a six-month supply, less is a seller's market, more is a buyer's market. The last time months of inventory in Seattle was greater than two months was September 2012 when it reached 2.6 months, the same level as March 2012 which was a new post-crisis low at the time. The last time inventory was over three months was February 2012. In February 2011 supply was at 6.5 months; Seattle has been in a seller's market ever since. While the overall level remains low, the velocity of change since April 2018 is unusual and may be the canary in the coal mine.

Real Info™



Total Listings-to-Sales

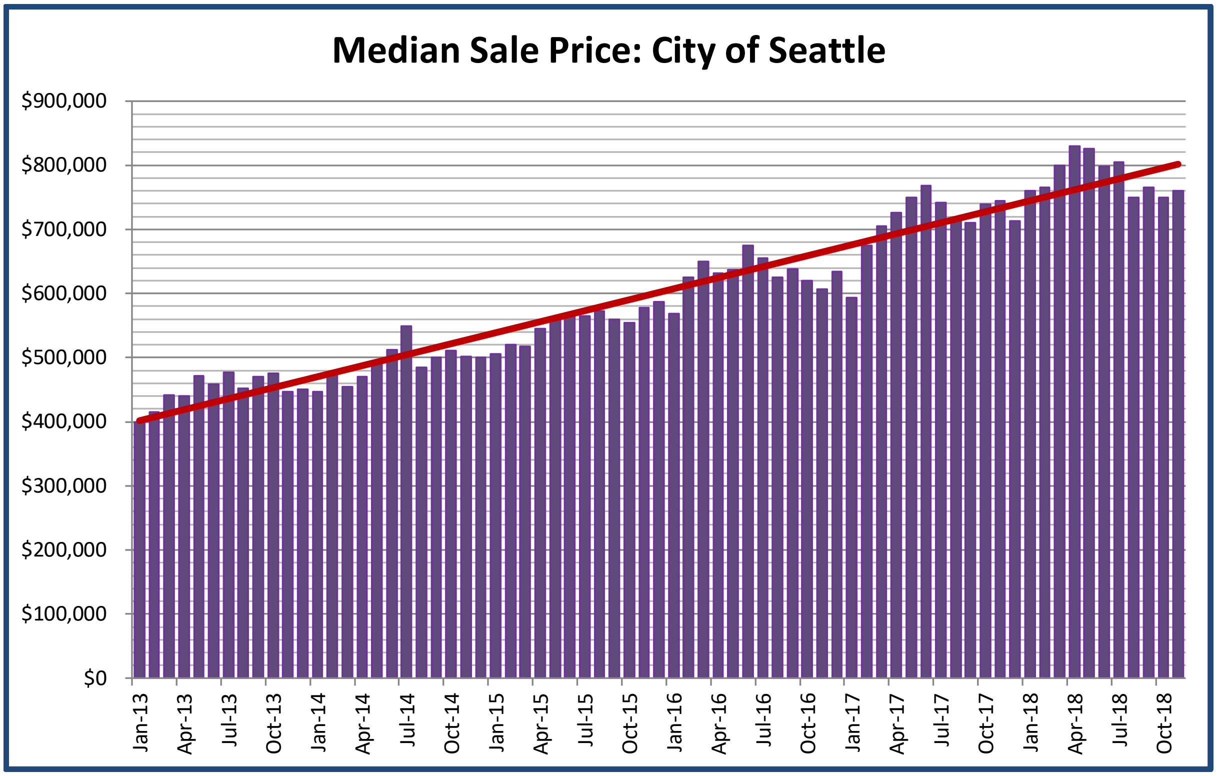
Similar to Months of Inventory, the raw number of listings is not alarming in the long view. However, the velocity of change is noteworthy. When viewed against the additional headwinds of rising interest rates, typical seasonal slowdown in winter and rumblings of a coming recession, prices are softening. From a mortgage lending viewpoint, relative collateral risk may be increasing.



Median Sale Price

From January 2013 to October 2018, the median house price in Seattle increased by 87.73%. As noted in the introduction, between January 2013 and March 2018 (just over five years) the median house price doubled from $399,500 to $800,000. Clearly, a doubling of house prices every five years is unsustainable. Prices have stabilized since July but in light of other indicators, prices may slide further through the winter.

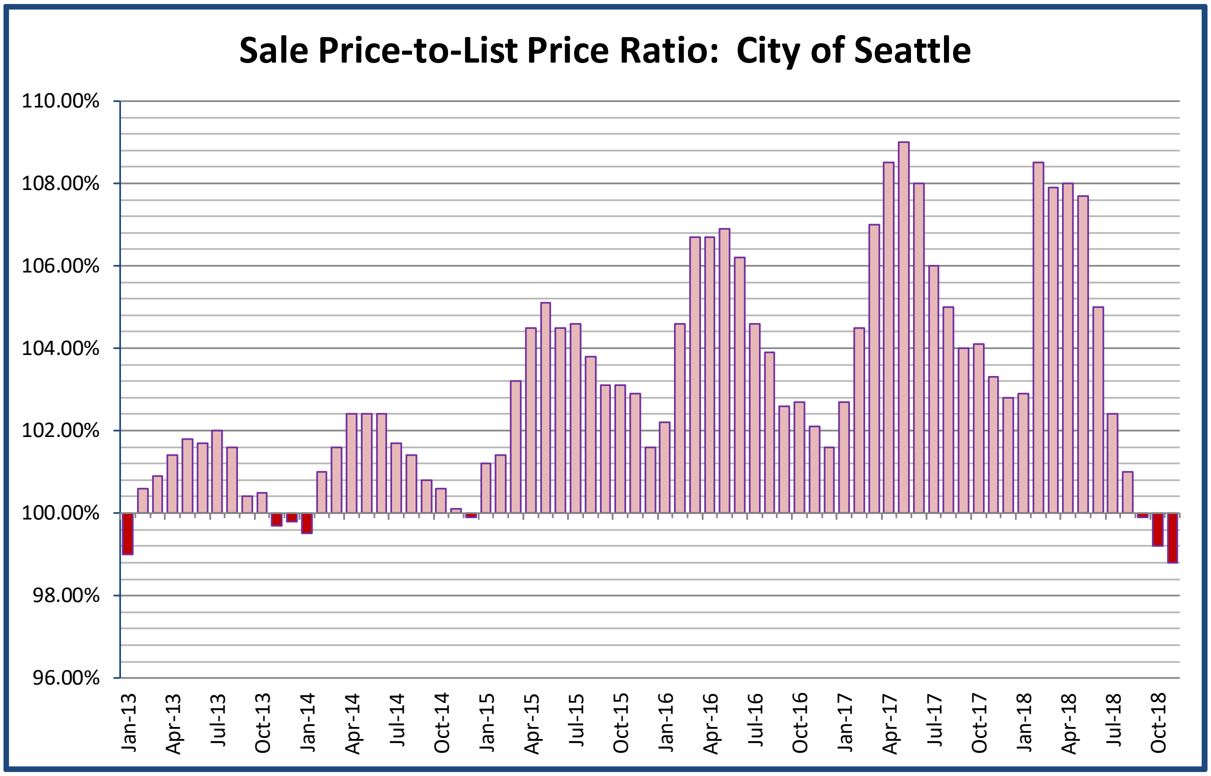
Combined with the increase in inventory, this is good news for some potential buyers who have been sidelined by high prices and few housing choices.



Sale Price-to-List Price Ratio

Since January of 2015, the sale price-to-list price ratio exceeded 100% until August of 2018. We can clearly see the seasonal shift each fall and winter, but the drop is steeper this year and takes us below 100% for three consecutive months heading into December, the month showing the lowest ratio every year since 2015.

Real Info™

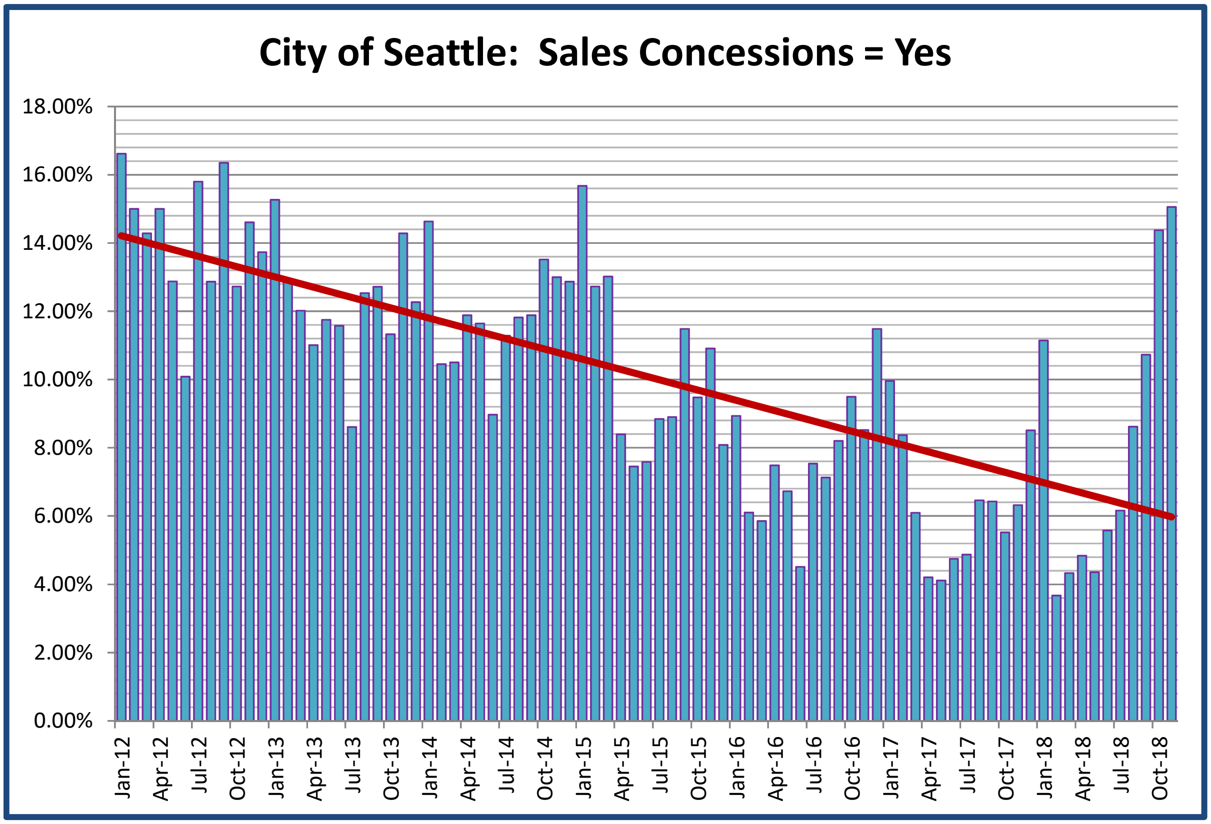


Seller Paid Concessions

There is also a recent, hockey-stick shaped uptick in seller paid concessions. This appears to be another signal of the end of the current boom. Sales concessions give the appearance of lower prices for buyers, however there is considerable evidence that nearly all incentives presented as incentives for buyers end up being capitalized into higher prices; the concession gets added to the price otherwise acceptable to the seller. Thus, the increase in seller paid concessions more likely serves to slow the rate of price decline, especially for houses at or below the area median.

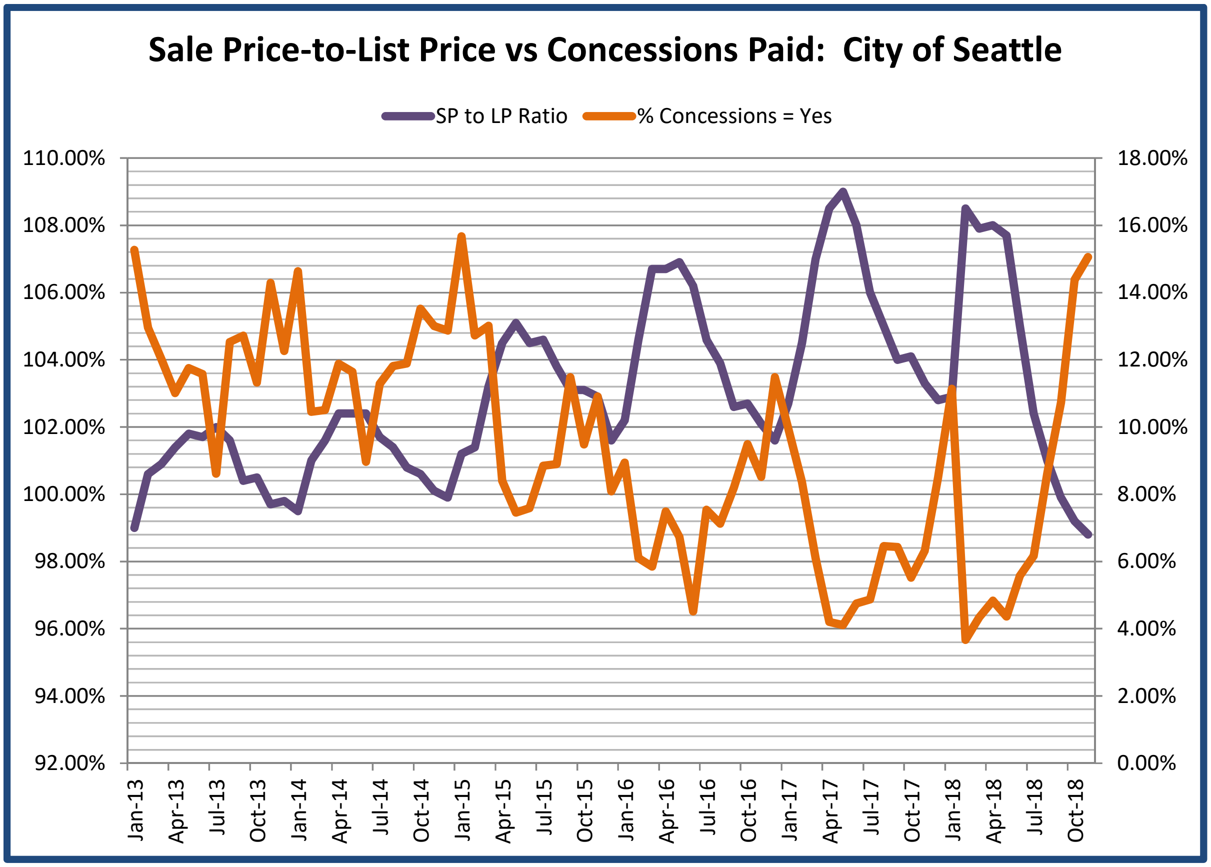
Previous national research into reporting of sales concessions has shown that only about half of seller paid concessions are reported by real estate agents. This research also showed that in real estate appraisals for purchase transactions, sellers paid a concession to the buyer 43% of the time, but only 24% of properties used as comparable sales had a reported concession. Since comparable sales were presumable subject properties in the very recent past, the difference appears to be in some part due to underreporting of concessions actually paid.

In a smaller, regional sample from the greater Seattle area, only about half of properties known to have sold with a seller paid concession were accurately reported in MLS data. It is more common for the concessions field to be left blank, but there are many instances of the sale being definitively reported as having no concessions when the transaction documents show that concessions were paid and the specific amount is known.



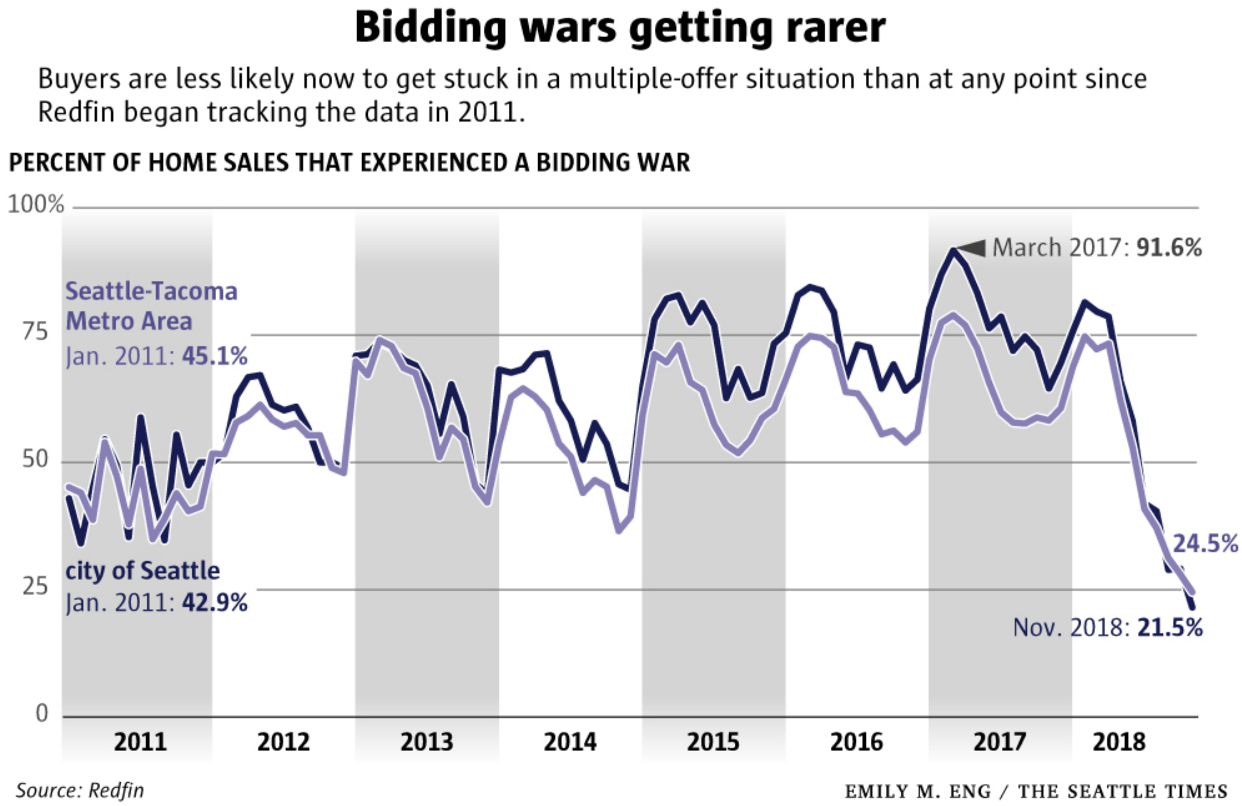
Seller Concessions and Sale Price-to-List Price Ratio Compared

As expected, the increase in seller paid concessions runs opposite to the decline is sale price-to-list price ratio:



Multiple Offers and Bidding

Real estate brokers report that bidding wars and multiple, simultaneous offers have slowed dramatically. In a [recent report from Redfin](), a real estate brokerage, at one point last year 92% of houses sold in the City of Seattle had multiple offers; just 21% of houses sold in November 2018 had multiple offers, the lowest rate since Redfin began tracking in 2011.



Mortgage Interest Rates

From June through December of 2017, the prevailing rate for a 30-year fixed rate mortgage remained relatively stable at just under 4%, climbing to 4.03% the week of July 13, 2018, but otherwise remaining below 4% for the second half of the year. By the end of April 2018 rates were above 4.5%. The Freddie Mac rate is at 4.75% as of this writing. The Mortgage Bankers Association and Freddie Mac are forecasting a 30-year fixed rate mortgage will be at or just above 5% throughout 2019; however neither forecast exceeds 5.1% for the year, which in practical terms means rates are likely to remain stable for the foreseeable future.

Mortgage rates have a direct effect on housing affordability. For example, the monthly payment on a $540,000 loan at 5.0% with a 30-year amortization is $2,898.84 compared to $2,736.10 at 4.5%, a difference of $162.74 per month in housing cost. The half point rise from 4.5% to 5.0% takes away approximately $32,000 in buying power at this price point to keep the payment at $2,736.10 per month. Assuming a 10% down payment, affordability at 4.5% is $600,000, but only $568,000 at a 5.0% mortgage rate.

Conclusion

Housing prices should stabilize or increase moderately during 2019, provided there are not sudden unexpected jolts to the economy. Inventory has jumped in percentage terms but remains well below levels typically seen as representing a balanced market or buyer's market. Together with the decline in median price and sale price-to-list price ratio, buyers have more choices. Higher interest rates may be offset by lower prices and increasing seller concessions. Stabilized prices may also reduce investor and foreign cash purchases which could allow inventory to climb further, putting more downward pressure on prices.

If the Seattle market is indeed turning the corner, as noted in a recent article by Lynn Fisher and Ed Pinto of the American Enterprise Institute, those buyers that are "last in" with the most leverage will be the most vulnerable. For lenders, collateral risk is especially great for this cohort when other risk markets such as higher debt-to-income and lower credit scores are also present.

For metadata behind these analyses, or detailed, customized analysis of sub-markets, such as high-rise condos or specific Pacific Northwest neighborhoods, or to receive periodic updates to this analysis, please contact Bill King at bill.king@real-info.com.

About Real Info, Inc.

Real Info was founded in Buffalo, New York in 1995 to serve lenders, insurance agents and real estate professionals. Clients include mortgage originators, servicers, securities issuers, rating agencies and the legal community. Leveraging our national parcel database of assessment, ownership and sales data on over 110 million properties we have developed analytic products that include home price indices, proprietary Automated Valuation Models (AVMs) and a variety of custom neighborhood & sales analytics.

About the Author

William (Bill) King joined Real Info in January 2016 as President and Chief Valuation Officer. Mr. King brings more than 35 years of real estate and valuation experience to the company and has held leadership positions in real estate technology firms since 2009. Bill is based in Tacoma, WA where he and his family have lived since 1979.

William King
President, Chief Valuation Officer
Real Info, Inc.
bill.king@real-info.com
(716) 608-4370, ext. 105
(206) 409-5017 cell/text