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2004 was "a dream market" for real-estate buyers and sellers

By Elizabeth Rhodes

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Last December, real-estate experts predicted that mortgage rates would rise, pushing the number of home sales down in 2004. If their prediction had proved true, it would have meant that stories like the one real-estate executive Dan Givens tells would be tales of the past.

Givens' tale concerned the sale of a neglected, nearly century-old North Seattle house. Its foundation sagged; its siding was bad. And that was just the start of its problems. Anyone brave enough to buy this money pit was probably looking at spending "a couple of hundred thousand dollars" to bring it up to shape, said Givens, a Windermere manager.

As the home went on the market, agents speculated that it might fetch about \$400,000. Nineteen offers later, the sad old house sold for \$509,000.

That sale, which occurred a few months ago, is indicative of this year's super-hot housing market, Givens says. He puts Seattle's sales numbers and sales prices up about 11 percent over last year (final year-end numbers aren't in). Even more telling: "Half the homes sold in less than nine days," Givens said.

2004 has been "the dream market for residential real estate — for buyers, sellers and homeowners who refinanced," said J. Lennox Scott, chairman and CEO of John L. Scott Real Estate.

It's been a dream market for sellers because housing demand far outstripped supply, spawning bidding wars and driving up prices.

It's been a dream market for buyers (and refinancers) because last December's prediction of rising mortgage rates proved wrong.

Rates stayed below 6 percent for a full eight months this year, compared with six months last year, according to mortgage-information provider HSH. As a result, the average rate for a 30-year fixed-rate loan in the past two years is 5.8 percent, mortgage backer Freddie Mac reports.

"We had two indicators of a strong real-estate market in premium position: low interest rates and an improving economy creating job growth," Scott said. "Those are the two top drivers of the residential real-estate market."

What will 2005 bring? With some adjustments, another good year, predicts Matthew Gardner, a principal in the Seattle-based land-use economics firm Gardner Johnson.

Gardner expects the Seattle metro area, which supports 1,337,500 jobs, will add 32,000 more next year. To put that into perspective, every 1.7 new jobs creates the need for another housing unit, says Stuart Tyrie, a Wells Fargo Home Mortgage vice president.

Meanwhile, Gardner predicts that the interest rate for 30-year fixed mortgages will climb above 7 percent.

Jack Haynes, executive vice-president of Countrywide Home Loans' national builders division, predicts that rates could hit 8 percent.

Given the double-digit rates of a decade ago, 8 percent "isn't unreasonable," Haynes said.

"But when it's coming off rates as low as they've been this year, it's an eye-opener," Haynes said. "There will be some people who will be priced out, and some markets are just going to slow down."

Gardner says Seattle's market may be one of them, at least as far as price increases go. He expects housing appreciation to be in the 4- to 6-percent range next year — roughly half of this year.

"That's a good thing because it keeps the market from getting overheated, which it's done in other areas," Gardner said.

In the past three years, the Seattle metro area's home prices have climbed 19.5 percent, Gardner said. In the same time frame, Las Vegas, Los Angeles and Sacramento, Calif., have seen prices shoot up 78 percent or more.

Rather than considering our appreciation rate to be lagging, Gardner views it as sustainable.

"People often ask me if we have a housing bubble," Gardner said. "I'm quite confident there isn't one here."

There are a couple of significant reasons for that, he says: Unlike Las Vegas, which he considers bubble prone, the Seattle area doesn't have a glut of speculative new homes. Perhaps even more important, Gardner says our positive income growth — he anticipates 4 percent next year — means people can afford to buy.

But given rising interest rates, he says people should buy with caution. Otherwise, "We will start seeing a huge volume of foreclosures in the next few years," he said.

Some will occur because of predatory lenders saddling unsuspecting borrowers with higher-than-necessary debt. Some will occur when buyers who hold adjustable-rate mortgages — so-called ARMs — get squeezed by rising rates.

"It won't take much before it's, 'Do I eat or make the house payment?'" Gardner said.

Because of pent-up demand and concern over rising interest rates, Scott predicts that in 2005, we'll see "déjà vu all over again — a quick-action market, particularly in the first quarter of the year."

"That means buyers need to get pre-approved for a loan," Scott said. "If they have an existing home, they need to get a market evaluation so they know what their equity is because if they find a home, they need to sell a home in short order."

Scott says homes priced below the median for their area will be especially strong sellers. (Median means half sell for more, half for less.)

"Prices below the median are only going to go up in the short term — and in the long term because we have this echo baby boom on the horizon," Scott said. "The oldest echo boomer is now 22 years old. By 2010, we just won't have enough housing."

Steve Smiley, a principal with Hanley Wood Market Intelligence, said he expects increased competition for local housing sooner.

It will come from Californians, who he says have been shell-shocked by rising prices in much of their state. In Orange County, for example, the median price of a new home was \$600,000 three years ago. Now it's \$1 million.

"Some areas, like Southern California, have so few lots and so many growth restrictions that they're barely building anything," Smiley said. In the Seattle area, new homes have constituted about 17 percent of recent home sales.

"This is a much healthier market because you can probably buy a new house and move into it within a reasonable amount of time," Smiley said.

That combination of availability and lower prices, he predicts, will draw increasing numbers of Californians to compete with hometown folks for this region's homes.

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