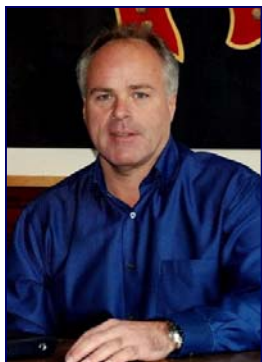


2011 1ST HALF IN REVIEW

Summer 2011

Trying to See the Bright Side of Trying Real Estate Times



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As we close out the first half of 2011, we can all agree that the market continues to test our patience and our nerves. Here are the highlights:

Tax Incentive Hangover Last year's Federal Home Purchase Tax Incentive, which expired on April 30, 2010, did manage to breathe some life into a flat market. Unfortunately, the resuscitation was only temporary. Sales spiked through June 2010 as the last of the program's escrows closed, then the market quieted back down in the third quarter of 2010. Although there were not many homes on Bainbridge that directly benefited from the incentive, the program sent ripples through all regions, including Bainbridge. We had hoped that the strength of our first quarter 2011 would continue and we could match or exceed last year's second quarter spike, but unfortunately that was not to be.

2011 vs. 2010 Sales Comparing this year's first-half numbers to last year's, we see that sales have fallen in most categories. Overall unit sales were higher in the first quarter of 2011 than they were in Q1 2010, but first-half sales (January to June) are 16% lower than last year's.

Price Performance Buyers continue to concentrate on homes priced less than \$600,000, which means that average and median prices also fell. Median prices on sales through June 30 have dropped 23.3% since the price peak in 2007 (\$671,250). In the five price categories we track here, the only category that saw improvement in unit sales was 0-\$400,000, which was up almost 19%. Homes over \$800,000 face tremendous competition. As of July 15, there were 103 listings in the high end of the market, of which only four were under contract. If you take the average number of monthly sales for the first six months (2.5 per month), it translates to more than 41 months of inventory.



Condominium and Land Sales This is one area of good news, as this category fared better than most. Condo unit sales were up 9.4% (32 to 35) and their median price rose 9.4% (\$297,000 to \$325,000). As of July 15, their percentage of pendings to listings was greater than that of single family homes (14% vs. 12%). Land sales were up 71% from last year (12 vs. 7) and the median price rose from \$155,000 to \$185,000 (+19%). Although these condo and land numbers are encouraging, they fall far short of the numbers we saw prior to 2008.

Neighboring Markets There is good news coming from across the water in Seattle and Mercer Island. Both markets are a bit behind last year for the same reasons we are, but the homes under contract ("pending") are considerably stronger with Seattle up 36.7% and Mercer Island up 71.4% over June of 2010. The Bainbridge market has a tendency to follow Seattle's trends, so this is encouraging news.

The Search for Buyers Our clients frequently ask us, "Are there any buyers out there?" The answer is and will continue to be, "Yes." The real question is, "When will they buy?" Our agents are showing homes to many interested buyers and open houses are always busy. But there are not many incentives for buyers to act right away. Interest rates are low and not likely to rise soon. With prices expected to drop a bit farther, buyers without time constraints are waiting it out, sometimes choosing to rent for a while longer. When we see action, it is usually when buyers really connect with a particular house once it is priced aggressively enough to create competition. In this market, when the house and the price combine to create a compelling value, that's when things happen.

Federal Loan Programs We are keeping a close eye on the impending drop in FHA, Freddie Mac and Fannie Mae loan limits. On October 1, 2011, FHA loan limits are set to drop from \$475,000 to \$307,500 in Kitsap County. Since Bainbridge home prices tend to be higher, this change might restrict options for banks because to make loans they will have to keep them in their portfolios (and not sell them on the secondary market with the FHA guarantee). We'll have to wait and watch the actual impact of this initiative, but those buyers whose loans fall into the drop range will probably end up with fewer loan choices. And anything that affects buyers tends to affect sellers in turn.

Looking at the Market as Half-Full It's very important to remember that we are in much better shape than we were in 2008 and 2009. But we're still working very hard to seek the normalcy we do not yet know how to define. As the expression goes, there are miles to go before we sleep. Our challenges are shared by many in our country but we still consider ourselves very fortunate being on this island and a part of this community. Puget Sound is still one of the strongest real estate regions in the country, and Bainbridge Island is still its jewel.



Bainbridge Island Single Family Homes Sold January 1 through June 30

	2011	2010	2009	2008	Change (%) (10-11)
Average Prices:	\$606,755	\$669,361	\$769,409	\$886,707	-8.4%
Median Prices:	\$515,000	\$549,250	\$617,000	\$645,000	-6.2%
Number of Sales:					
\$0-\$400,000	38	32	16	8	+18.8%
\$400,000-\$600,000	44	46	25	29	-4.3%
\$600,000-\$800,000	24	33	13	15	-27.3%
\$800,000-\$1,000,000	5	16	10	12	-68.7%
Over \$1,000,000	10	17	19	21	-41.2%
Total Sales:	121	144	83	85	-16%
Inventory (7/8/11):	309	297	300	335	+4%
Under Contract:	44	41	39	44	+7.3%
"Available" Inventory:	265	256	261	291	+3.5%

Community Corner

by Jim Laws

Bainbridge just concluded its 51st Rotary Auction, and I just concluded my tenth year as a participant. With the auction, Rotary has established a true community event. There are four components of the auction that benefit Bainbridge Island:

The first is the community of volunteers. Each year 1,000 people gather to "create" the auction. People work shoulder to shoulder with folks they only see once a year but with whom they share an important bond. They share a common goal, which they see to fruition through effort, stress, exhaustion and ultimately victory when auction results are posted.

Second are ancillary groups like the BHS lacrosse, wrestling and football teams as well as the Marines, all of whom make invaluable contributions to the effort. Rotary in turn makes donations to their organizations.

Third is the incredible recycling that occurs. The vast majority of items that come into the Rotary Auction come from Bainbridge residents and much of it would end up in a landfill without the auction alternative. Donors' "stuff" has multiple opportunities to be used or properly disposed of via Rotary. At the curb, a decision is made regarding the "salability" of each item. The things that will likely sell are sent to the appropriate department and become part of the Auction inventory. Only the items that really should be rejected are rejected. But even those items are properly disposed of: if metal, recycled; if electronics, recycled; if plastic or paper, recycled. After the auction, the site is opened up to Goodwill, the ARC and any other 501C3 to take whatever they can use. This year, I helped bag all the remaining bulk clothes and linens (blankets, sheets, towels, etc.) for Goodwill and the ARC. If these organizations cannot sell the clothes, they sell them as rags. Bainbridge residents can feel comfortable knowing their stuff has been sold, donated or properly disposed of.



The fourth element is the funds raised – nearly \$366,000 in this year's gross receipts. Five-sixths of all funds raised are used to improve our community. The last sixth is used on international projects such as clean water in Uganda, polio programs and schools in Central America.