

FALL 2022 MARKET UPDATE

ECONOMIC OVERVIEW

What a wild ride it's been in the real estate market over the past few years! We have seen skyrocketing home prices like never before and then, in the last several months, we've started to see home prices drop for the first time in over a decade.



As is always the case, the factors involved are many and complex. The obvious factors

are rising interest rates that are limiting buyers' purchasing power and greater economic uncertainty causing buyers to be more cautious.

The national housing inventory shortage tempers these factors and, even though it feels like bigger market changes are happening, homes in Western Washington have appreciated in value between 6% and 12% over the last 12 months.



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HOME PRICES

- Average yearly appreciation in a healthy market should be somewhere between 4-6%, but in the last several years we have seen double-digit appreciation in some markets— as high as 24% in 12 months.
- The average home sold for 99.4% of list price in August while the average, 6 months ago, was 102.9% of list price. Neither is a bad average, but this trajectory may continue to adjust as interest rates increase.
- As a bit of perspective on this scenario, in the run-up to and aftermath of the last great recession in 2008, real estate prices peaked in December of 2006, and they fell 26% nationally by February of 2012. It took over six years for this reduction to happen. From February 2012 to June 2022, the real estate market increased by 77% nationally.



STAY INFORMED AS YOU CONSIDER BUYING OR SELLING

Here is what we know

We still have a **housing shortage** with buyer demand diminishing.

Home foreclosures are low as many homeowners have increased equity in their homes due to higher than normal appreciation over the past several years. **Regulations** against predatory lending, put into place after the last recession, have kept bad loans in check. As a result, buyers today may find it more difficult to get financing, but it also means they are less likely to default on their loans.



Rents continue to increase in the NW but this trend should plateau in mid-2023. Low rental inventory and high rents is always a catalyst for home ownership.

The great migration has come to a close. Most interstate relocations occurred over the past two years and ended the 2nd quarter of 2022.

The FED will continue to raise **interest rates** as a check on inflation. As interest rates have increased, buyers' ability to finance homes at higher interest rates has become more difficult.

Key to being a successful buyer or seller is being well-informed about the challenges in today's market.

SHOULD YOU PAY OFF YOUR MORTGAGE?

Excerpted from an article by Rob Williams of Charles Schwab

Whether it makes financial sense to pay off your mortgage depends on your individual situation. Here are some things to consider.

If you're like most people, paying off your mortgage and entering retirement debt-free sounds pretty appealing. It's a significant accomplishment and the end of a major monthly expense.

You might want to pay off your mortgage early if

- **You're trying to reduce your baseline expenses:** If your monthly mortgage payment represents a substantial chunk of your expenses, you'll be able to live on a lot less once the payment goes away. This can be particularly helpful if you have a limited income
- **You want to save on interest payments:** While it's true you may lose the tax deduction on mortgage interest, you'll have to reckon with a decreasing deduction anyway as more of each monthly payment applies to the principal, should you decide to keep your mortgage.
- **Your mortgage rate is higher than the rate of risk-free returns:** Paying off a debt that charges interest can be like *earning* a risk-free return equivalent to that interest rate. Compare your mortgage rate to the after-tax rate of return on a low-risk investment with a similar term—such as a high-quality, tax-free municipal bond issued by your home state. If your mortgage rate is higher than the interest rate on an investment asset, you'd be better off paying down the mortgage.

- **You prioritize peace of mind:** Paying off a mortgage can create one less worry and increase flexibility in retirement.

You might *not* want to pay off your mortgage early if

- **You need to catch up on retirement savings:** If you completed a retirement plan and find you aren't contributing enough to your 401(k), IRA, or other retirement accounts, increasing those contributions should probably be your top priority. Savings in these accounts grow tax-deferred until you withdraw them.
- **Your cash reserves are low:** "You don't want to end up house rich and cash poor by paying off your home loan at the expense of your reserves," says Rob. He recommends keeping a cash reserve of three to six months' worth of living expenses in case of emergency.
- **You carry higher-interest debt:** Before you pay off your mortgage, first close out any higher-interest loans—especially noneductible debt like that from credit cards.
- **You might miss out on investment returns:** If your mortgage rate is lower

than what you'd earn on a low-risk investment with a similar term, you might consider keeping the mortgage and investing what extra you can.

A middle ground

Depending on prevailing mortgage interest rates, it may make sense to **simply re-finance** into a shorter term loan if your goal is to pay off your mortgage quicker—or into a loan with a lower interest rate if you want to decrease your monthly payment to free up funds for your savings.

Or, if your mortgage has no prepayment penalty, an alternative to paying it off entirely is to **chip away at the principal**. You can do this by making an extra principal payment each month or by sending in a partial lump sum. This tactic can save a significant amount of interest and shorten the life of the loan while maintaining diversification and liquidity.



MARKET SNAPSHOT


PIERCE COUNTY

Residential	September			Year to Date		
Key Metrics	2021	2022	% Change	Thru 9-2021	Thru 9-2022	% Change
New Listings	1,620	1,299	- 19.8%	13,896	13,396	- 3.6%
Pending Sales	1,447	1,059	- 26.8%	12,599	10,484	- 16.8%
Closed Sales	1,626	1,111	- 31.7%	12,141	10,294	- 15.2%
Days on Market Until Sale	13	27	+ 107.7%	12	15	+ 25.0%
Median Sales Price*	\$507,000	\$537,000	+ 5.9%	\$500,000	\$560,000	+ 12.0%
Average Sales Price*	\$562,525	\$599,719	+ 6.6%	\$552,158	\$621,644	+ 12.6%
Percent of List Price Received*	102.6%	99.3%	- 3.2%	104.7%	102.8%	- 1.8%
Inventory of Homes for Sale	1,200	2,102	+ 75.2%	—	—	—
Months Supply of Inventory	0.9	1.8	+ 100.0%	—	—	—

KITSAP COUNTY

Residential	September			Year to Date		
Key Metrics	2021	2022	% Change	Thru 9-2021	Thru 9-2022	% Change
New Listings	498	401	- 19.5%	4,041	4,236	+ 4.8%
Pending Sales	446	336	- 24.7%	3,686	3,382	- 8.2%
Closed Sales	492	400	- 18.7%	3,551	3,393	- 4.4%
Days on Market Until Sale	15	27	+ 80.0%	14	16	+ 14.3%
Median Sales Price*	\$499,500	\$539,210	+ 7.9%	\$489,000	\$550,000	+ 12.5%
Average Sales Price*	\$615,189	\$658,987	+ 7.1%	\$604,604	\$659,233	+ 9.0%
Percent of List Price Received*	103.4%	99.6%	- 3.7%	105.4%	103.1%	- 2.2%
Inventory of Homes for Sale	417	668	+ 60.2%	—	—	—
Months Supply of Inventory	1.1	1.8	+ 63.6%	—	—	—

Did you know?

- **Average sale price** of a Western Washington home is presently **\$748,569**
 - **The average interest rate** today is **6.78%** and fluctuates between 6.75% and 7.15%.
 - **Interest rates** should be in the high 6% and low 7% range until the **end of 2023**
 - **Cash buyers** make up 1/3 of all property sales.
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- The average days on market for a property in Western Washington in October is 24 days.
 - Kitsap and King County have the tightest markets, with homes taking an average of 19 days to sell
 - Seattle's median apartment rent rises 3% year over year with median rent in Sept at \$2972.
 - A greater percentage of WA residents are falling behind on rent compared to previous 2 years

NEWS FOR BUYERS

Remember to speak with a lender prior to considering the purchase of a home.


Be sure to discuss loan programs, including **2-1 buydowns**, which can help with 1st and 2nd year mortgage payments; **interest rates**; and **strategies for increasing FICO scores** so as to ultimately save you money by giving you a better interest rate.



WHAT SHOULD YOU DO IN THIS MARKET?

Whether you are a **Seller, a Buyer or an Investor**, I’m always available to consult with you to help you assess and achieve your real estate goals.

NEWS FOR SELLERS



Understand that the market is in transition, so **pricing of your home** is everything. Consider **only very recent comparable home sales** in your area when pricing your home and work closely with your broker prior to listing.

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