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Housing market downturn “inevitable” with higher rates, but brokers find bright spots

KIRKLAND, Washington (August 7, 2023) –A downturn in the housing market was inevitable given higher mortgage rates, acknowledged broker Dick Beeson, but he and others who commented on the latest report from Northwest Multiple Listing Service noted some positives for both buyers and sellers.

The Northwest MLS statistics summarizing July activity for 26 counties in the report showed declines in listings, pending sales, closed sales and prices when compared to 12 months ago. The same metrics, which include single family homes and condominiums, were also down from June, with the exception of total active listings and months of inventory. Both showed slight month-over-month improvement.

Buyers could choose from 10,982 active listings at the end of July, a gain of 375 properties compared to June's total. Last month's inventory dropped 28.6% from the year-ago selection of 15,381 properties. Of the selection, 8,205 listings were added system-wide during July.

“The number of existing homes for sale has dropped precipitously year-over-year in Western Washington,” Beeson observed, adding, “Right now, new construction can't meet demand.”

Windermere Chief Economist Matthew Gardner noted listings in the tri-county area were lower last month (at 5,509 total active listings in King, Pierce and Snohomish counties) than any July on record with the exception of 2021 during the pandemic when there were 4,690 listings.

A slower pace of sales contributed to a modest uptick in months of supply, rising from 1.55 months in June to 1.76 months in July; a year ago there was 2.01 months of supply. Still, with the industry using 4-to-6 months as the indicator of a balanced market, 20 of the 26 counties fell below that mark. The six counties that had at least four months of supply were outside the Puget Sound urban areas.

“The overall market velocity is slow in all categories as competition for the few homes listed is high,” said John Deely, executive vice president of operations at Coldwell Banker Bain. “Sellers continue to sit on the sidelines, and demand from buyers has cooled due mostly to rising interest rates,” he added.

Last week's rate on a 30-year fixed rate mortgage was 6.9%, according to Freddie Mac. A year ago, it was 4.99% and two years ago it was 2.77%.

The jump in mortgage rates combined with a lack of choices for buyers has put a drag on sales, Deely remarked. “Adding to buyers' hesitancy is the record-breaking price growth in 2021 and 2022. Cost pressures are impacting affordability, and it is unlikely to significantly improve in the near future.”

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JoAnna Harrison (Holland), managing broker at CB Cascade in Wenatchee and a member of the Northwest MLS board of directors, also lamented rising prices and interest rates.

“The real estate market in Chelan and Douglas counties has led to a situation where entry-level home prices have risen beyond the means of many potential buyers,” Harrison stated. “Adding to the challenge are rising interest rates, which have made it difficult for first-time buyers and relocation buyers to qualify for a median-priced home,” she added.

There is a silver lining, Harrison suggested, pointing to year-over-year drops in median prices. In Chelan County the median sales price declined 9.68% from a year ago, from \$614,500 to \$555,000. System-wide, the median price dropped 1.6% from a year ago, from \$625,000 to \$615,000. Similarly, the overall price was down \$10,000 from June.

Douglas County was one of eight counties in the MLS report where prices rose from a year ago.

Harrison said Okanogan and Grant counties are “witnessing sustained demand for their lower-priced properties. Some buyers who were initially looking in Chelan and Douglas counties have expanded their search area to find more affordable homes in these regions. This shift in buyer behavior is creating opportunities in the lower-priced property segment, contributing to the evolving real estate landscape in these areas.” She also noted a significant portion of home sales in Chelan, Kittitas, and Okanogan counties can be attributed to second home purchases.

Gardner said it appears sellers may have found a price ceiling, with last month’s median list price in King County falling 2.7% compared to June, while the asking price remained flat in Snohomish County and rose slightly (up 0.3%) in Pierce County. “Buyers may have taken advantage of these conditions as month-over-month sales prices fell in the tri-county market.”

Sellers of 7,570 properties accepted offers during July. That volume of pending sales was down about 13.7% from the year ago total of 8,775 and dropped 2.4% from June’s figure (7,759).

Dean Rebhuhn, owner at Village Homes and Properties in Woodinville, said despite low inventory and rising rates, sales are “very active in select areas” with prices and lifestyle choices continuing to drive the market.

Within King County, pending sales surpassed last year’s numbers in several sub-markets including Southeast Seattle, SODO/Beacon Hill, Ballard/Green Lake, and North Seattle. On the Eastside, three areas had more pending sales than a year ago: the area south of I-90, Bellevue – West of I-405, and Kirkland. Median sales prices in these areas exceeded \$1.4 million.

Rebhuhn noted a recent condo sale in the Bellevue School District, saying it sold in the low six hundred thousand range in 20 days with FHA financing.

“FHA and VA financing are good options for first-time homebuyers with zero down VA and 3.5% down payment with FHA,” Rebhuhn stated, adding “some sellers are providing 2-1 mortgage rate buydown to purchasers.” (Such agreements provide for a 2% reduction in the interest rate for the loan’s first year, and then a 1% reduction the second year.)

Northwest MLS board member Frank Leach said another option is USDA financing.

“One bright spot is that almost 60% of Kitsap County qualifies for USDA financing at 4.125% (using USDA 502 direct program) and as low as 1%,” Leach remarked. “Affordability is being challenged but is not lost. More and more buyers are reaching out to use many of these underutilized programs,” added Leach, the broker/owner at RE/MAX Platinum Services in Silverdale. He also mentioned down payment assistance programs as another option that enables borrowers to leverage their buying power.

Continuing his remarks, Leach described the Kitsap County market as “staying vibrant and competitive. We are seeing homes being snapped up as they debut on the market, and we continue to see multiple offers with an average sales price versus list price over 100%.”

Another broker in Kitsap County, Frank Wilson, also commented on the tight market there. “Many potential sellers are holding back because they don’t see a way forward in buying another home given the limited supply. We’re still seeing multiple offers and in the case of buyers who need to sell first, their offers are being overlooked for transactions that are not contingent on the sale of a home.”

Condo Activity

Brokers added 1,084 condominiums to the NWMLS inventory last month and reported 949 pending sales (down about 11.5% from a year ago.) Of the overall selection (10,982 active listings), 1,426 (about 13%) are condos. MLS members completed sales on 799 condos last month. The median sales price on those closings was \$480,000, up 3.23% from a year ago.

Looking Ahead

Looking ahead, J. Lennox Scott, executive officer at John L. Scott Real Estate, said with lower mortgage interest rates forecasted “we anticipate more buyers searching to purchase a home.” He estimates 70% of buyers have a home to sell, which could provide additional inventory, but with demand in the more affordable and mid-price ranges exceeding the number of new listings, Scott believes prices will climb.

“Separately, the luxury market and lifestyle/destination markets are positioned with great selection and great pricing. We anticipate more buyer activity over the year ahead,” Scott stated.

Wilson said with Kitsap’s inventory down 26% as the end of year market cycle approaches “we are really going to be short come January. The new year will start out with a severe shortage of homes. A buyer who hopes to buy a home in Kitsap County really needs to review the market with their real estate broker as it is different than other parts of the U.S. and even some other counties in Washington state,” he suggested.

Leach agreed. “It is more imperative now than ever for buyers to be fully vetted and qualified when submitting an offer in today’s competitive market.”

Economist Gardner said, “With mortgage rates unlikely to move tangibly lower during the balance of the summer, I don’t expect the market to move much over the coming months, both in terms of sales and prices.” However, he added, “If the economy starts to soften this fall, rates could start to fall and this could revitalize the market.”

Beeson also expressed some optimism for the near term. “There are high expectations for 2024-2025 from many industry leaders. Things are improving slowly.”

Beeson named Lawrence Yun, (chief economist at the National Association of Realtors), and Brian Buffini, (author and founder/chairman of the largest training and coaching company in the country) as experts who expect better markets ahead. "They anticipate inventory loosening up with more resale and new construction homes becoming available. They also predict lower interest rates, but neither sees lower prices," Beeson remarked.

Redfin CEO Glenn Kelman also voiced some optimism, saying most economists "once viewed a recession as unavoidable, and now see it as unlikely. When rates come down, the housing market will be poised to grow again."

In an earnings call with analysts, Zillow Group CEO Rich Barton stated, "The housing market outlook continues to be frustratingly foggy, and we can only plan for it to take time to normalize."

The Federal Reserve recently predicted the economy will largely avoid a recession in 2024. That sentiment has brought renewed optimism for a housing market rebound.

About Northwest Multiple Listing Service

As the leading resource for the region's residential real estate industry, NWMLS provides valuable products and services, superior member support, and the most trusted, current listing data and industry information for real estate professionals. NWMLS is a member-owned, not-for-profit organization with more than 2,500 member offices and 32,000 real estate brokers throughout Washington state. With extensive knowledge of the region, NWMLS operates 20 service centers and serves 26 counties, providing dedicated support to its members and fostering a robust, cooperative brokerage environment. nwmls.com.

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Single Fam. Homes + Condos	New Listings	Total Active Listings	# Pending Sales	# Closed Sales	Avg. Closed Price	Median Closed Price	This mo. Inventory	Same mo., yr ago
King	2,849	3,184	2,391	2,123	\$1,030,911	\$805,000	1.50	1.86
Snohomish	1,080	941	1,072	879	\$806,028	\$717,691	1.07	1.88
Pierce	1,186	1,384	1,155	975	\$601,598	\$530,000	1.42	1.86
Kitsap	383	524	407	321	\$666,124	\$535,225	1.63	1.82
Mason	147	231	160	98	\$486,633	\$391,000	2.36	2.47
Skagit	181	252	154	133	\$602,929	\$539,000	1.89	2.26
Grays	187	408	154	116	\$366,066	\$351,450	3.52	3.70
Lewis	99	223	109	85	\$463,521	\$407,000	2.62	3.78
Cowlitz	133	195	126	91	\$440,790	\$410,000	2.14	1.80
Grant	126	275	93	80	\$413,047	\$351,000	3.44	2.13
Thurston	385	443	414	364	\$555,989	\$505,000	1.22	1.50
San Juan	39	146	35	22	\$1,111,364	\$862,500	6.64	5.08
Island	171	245	177	123	\$700,824	\$639,000	1.99	2.19
Kittitas	100	315	73	54	\$627,905	\$462,250	5.83	2.58
Jefferson	64	126	68	41	\$725,143	\$650,000	3.07	1.71
Okanogan	64	190	52	46	\$390,161	\$380,000	4.13	3.72
Whatcom	420	640	354	265	\$620,395	\$539,000	2.42	2.56
Clark	92	148	93	70	\$589,180	\$546,000	2.11	1.77
Pacific	74	201	56	41	\$338,161	\$315,000	4.90	3.81
Ferry	6	26	4	5	\$558,800	\$550,000	5.20	3.10
Clallam	101	159	109	89	\$500,485	\$454,000	1.79	2.14
Chelan	114	283	110	83	\$698,455	\$555,000	3.41	2.55
Douglas	42	78	50	33	\$548,320	\$470,000	2.36	2.11
Adams	12	35	17	15	\$316,460	\$305,000	2.33	2.28
Walla Walla	58	115	58	49	\$473,296	\$400,000	2.35	1.76
Columbia	7	20	5	3	\$238,333	\$215,000	6.67	8.00
Others	85	195	74	43	\$382,080	\$360,000	4.53	4.04
Total	8,205	10,982	7,570	6,247	\$762,449	\$615,000	1.76	2.01

4-county Puget Sound Region Pending Sales (SFH + Condo combined)

(totals include King, Snohomish, Pierce & Kitsap counties)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004	4521	6284	8073	7910	7888	8186	7583	7464	6984	6761	6228	5195
2005	5426	6833	8801	8420	8610	8896	8207	8784	7561	7157	6188	4837
2006	5275	6032	8174	7651	8411	8094	7121	7692	6216	6403	5292	4346
2007	4869	6239	7192	6974	7311	6876	6371	5580	4153	4447	3896	2975
2008	3291	4167	4520	4624	4526	4765	4580	4584	4445	3346	2841	2432
2009	3250	3407	4262	5372	5498	5963	5551	5764	5825	5702	3829	3440
2010	4381	5211	6821	7368	4058	4239	4306	4520	4350	4376	3938	3474
2011	4272	4767	6049	5732	5963	5868	5657	5944	5299	5384	4814	4197
2012	4921	6069	7386	7015	7295	6733	6489	6341	5871	6453	5188	4181
2013	5548	6095	7400	7462	7743	7374	7264	6916	5951	6222	5083	3957
2014	5406	5587	7099	7325	8055	7546	7169	6959	6661	6469	5220	4410
2015	5791	6541	8648	8671	8620	8608	8248	7792	7179	6977	5703	4475
2016	5420	6703	8130	8332	9153	8869	8545	8628	7729	7487	6115	4727
2017	5710	6024	7592	7621	9188	9042	8514	8637	7441	7740	6094	4460
2018	5484	5725	7373	7565	8742	8052	7612	6893	6235	6367	5328	4037
2019	5472	4910	7588	8090	8597	8231	7773	7345	6896	6797	5788	4183
2020	5352	6078	6477	5066	7297	8335	8817	9179	8606	7934	6122	4851
2021	5216	5600	8002	7716	8674	8824	8049	8586	7880	7405	6022	3943
2022	4405	5560	7312	6908	7482	6031	5934	6581	5208	4410	3521	2778
2023	4111	4402	4951	4966	5578	5298	5025					

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