



SAN JUAN ISLANDS, INC.

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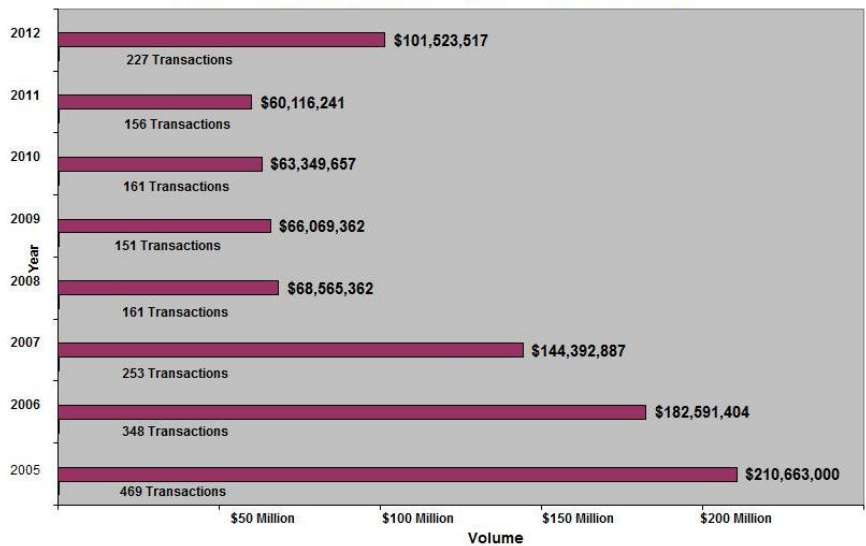
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SAN JUAN ISLAND REAL ESTATE MARKET SUMMARY

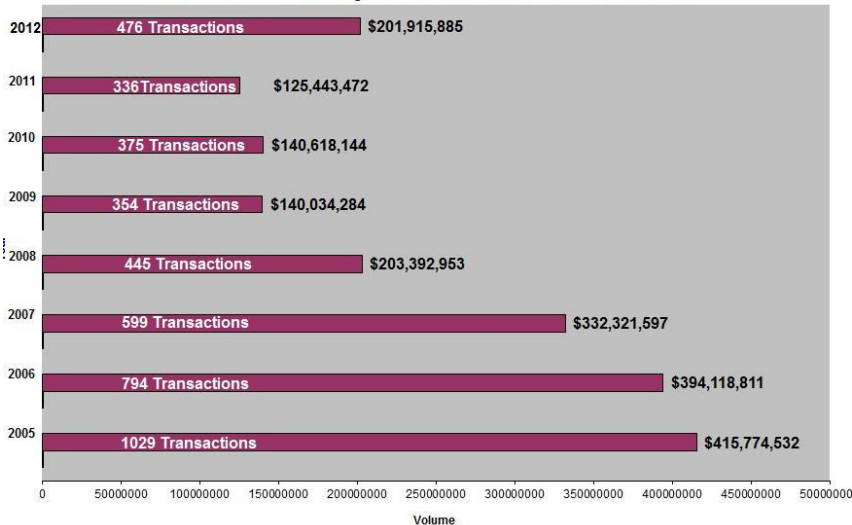
In reviewing the year-end results, the sales dollar volume for the real estate market on San Juan Island was \$101,523,517, which is a WHOPPING 69% increase over the volume of \$60,116,241 in 2011. The volume in 2010 was \$63,349,657. Most would consider 2012 our **Breakout Year** for real estate and we are all very encouraged. On San Juan Island we closed an average of 19 transactions per month which is an increase over the 13 per month in 2011.

Total county volume in 2012 was \$201,915,885 as compared to the \$125,443,472 in 2011. Overall the county's volume increased by 61% which is very healthy.

San Juan Island Real Estate Dollar Volume



San Juan County Real Estate Dollar Volume



To recap, San Juan's volume was up 69%, Orcas was up 73%, Lopez was up 21% and the outer islands including Shaw were up 45%. All of the islands had an increase in the number of transactions over 2011 with the exception of Lopez which was close to even in the transaction number.

Each island is unique and the impact to prices on each can be noticed by reviewing the median home and lot prices for the year-end as shown below:

MEDIAN HOME PRICE COMPARISON

Island	2008	2009	2010	2011	2012
San Juan	\$452,500	\$400,000	\$385,000	\$366,000	\$339,500
Orcas	\$465,000	\$415,000	\$380,000	\$281,250	\$289,250
Lopez	\$390,000	\$305,042	\$278,500	\$345,000	\$275,000
Non Ferry Served & Shaw	\$275,000	\$241,254	\$400,000	\$327,000	\$289,950
San Juan County	\$432,000	\$393,100	\$375,000	\$316,000	\$317,000

The median home price calculated above is for previously owned homes on less than 5 acres. Although several islands had a decrease in median home price, the overall county's price remained stable. Even though many economic forecasters are predicting modest price appreciation in the nation for the next several years, it may take San Juan County more time to recover as we are primarily a second home market and have always lagged behind the metropolitan Seattle/Bellevue markets. Our non-ferry-serviced islands will lag further due to lack of financing. It will all come down to supply and demand.

MEDIAN LOT PRICE COMPARISON

Island	2008	2009	2010	2011	2012
San Juan	\$150,000	\$145,000	\$137,300	\$105,000	\$100,000
Orcas	\$225,000	\$130,000	\$135,000	\$122,500	\$122,500
Lopez	\$182,000	\$116,250	\$132,000	\$ 90,000	\$322,000
Non Ferry Served & Shaw	\$137,500	\$ 60,000	\$100,000	\$ 67,500	\$140,000
San Juan County	\$177,500	\$130,000	\$121,000	\$105,000	\$110,000

The median lot prices vary wildly for each island and this is attributed to the few number of land sales. On Lopez, only 3 platted lot sales occurred and one was in the higher price category so the median calculation is skewed. Overall the San Juan County median platted lot price is up 5% over 2011. The total land sales volume for the county was approximately \$32.7 million as compared to the \$22.3 million in 2011. This equates to a 46% increase in volume for land sales.

Land sales in our county will be the last category of property to recover. Lack of sales can be attributed to the nationwide real estate market in general, unavailability of financing, unwillingness of investors to purchase due to lack of appreciation, high risk of speculative and custom construction, and the low number of waterfront lot sales due to potential new set back regulations being proposed by the county. Waterfront lots were traditionally the highest priced unimproved parcels in the county.

From the all time high in 2007 when the county's median home price was \$490,000, the median price has decreased 35% to \$317,000 for year 2012. The median home price calculation includes all types of homes; cabins, homes in town and waterfront homes. Median is defined as a typical market price where half of the homes or lots sold for more and half sold for less.

It is clear based on the volume last year that our real estate market is gaining strength. With positive national and regional forecast reports and low prevailing mortgage interest rates, our market should continue to recover.

Per the NWMLS on January 15th, we currently have 668 property listings in the county of which 303 are located on San Juan Island. Last year at this time the county had 707 listings. These lower inventory totals could be attributed to several events; the fact that many sellers decided to remove their properties from active marketing until the Spring or Summer of 2013 and the good level of absorption that we enjoyed in 2012.

Further explanation to the low inventory may be that the banks have held back on processing foreclosures and I would estimate that we still have a high level of property owners that are unable to list and sell as they have negative equity. Those sellers have the "Short Sale" option path but some may be hoping to preserve their credit.

In San Juan County there were 52 Notices of Trustee Sales recorded but only 28 resulted in a Trust Deed and actual foreclosure. As compared to the 34 Trust Deeds recorded in 2011, the foreclosure activity has decreased 18%. There were a total of 13 Deeds in Lieu of Foreclosure in 2012 as compared to 9 in 2011.

It appears that the banks worked through their San Juan County inventory in 2012 which lowered overall inventory levels and removed the downward pressure on the home prices in the \$300,000 and less segment of our market. We currently have 9 bank owned properties and 13 short sales listed included in the total inventory of 668 for the county. The distressed properties equate to 3.3% of the total inventory which is down from last year at this time and well below the state percentage. Most of our distressed properties are in the low end of our market and priced below our median prices.

The median home and land prices will probably not increase until the amount of high-end property sales increase. The typical newcomer to the island is often interested in waterfront or water view properties, which tend to be higher priced. Our market is primarily a second home market and prospective buyers must have confidence in the economy; nationally where they live and locally where they hope to purchase.

During 2012, per the Real Market Data for San Juan County, we had a total of 27 transactions that closed in excess of \$1,000,000 each as compared to the 19 in 2011. Definitely a far cry from equaling the number of transactions in years 2005, 2006 and 2007 when the number of transactions totaled 62, 72 and 78, respectively. In 2008 the number of transactions in this segment of our market dropped off sharply to 32 countywide which was a 59% reduction.

Some of these transactions were for estate and financial planning purposes, public transfers such as the Peace Health Hospital purchase, Conservation Fund for parks and Preservation Trust. Due to possible tax law changes in the future, many property owners are transferring assets as part of their overall financial planning. But the majority were "arms-length" transactions which impact the **trickle down** process to the construction industry, retailers and other related service providers.

Critical Areas Ordinance Update

As everyone knows by now, our County Council approved the update to the Critical Areas Ordinance (CAO) with an effective date of March 2013. (May 2013?) Work has begun on the update to the Shoreline Master Program which should be approved in 2013 as precedence was set in the CAO.

The CAO regulations are restrictive and continue to create uncertainty in our market as REALTORS and buyers are not sure how to interpret the new regulations and only time and experience will bring relief.

The properties that are fully developed such as larger waterfront homes perhaps with a guest house and even a dock will most likely go up in value as you will no longer be able to replicate that development in the future. The value of waterfront lots and under improved waterfront properties such as a cabin will be driven by their appeal. The desirability of a waterfront lot where you are not able to remove any trees or shrubs to enhance the view from the building site and create usability of the yard will be low. The non-conforming home or cabin that you can only increase the size based on a formula which equates to around 25% of the current footprint will also be less desirable. In past years, waterfront parcels were one of the most sought after investments due to appreciation, ability to build your dream home and location.

No matter how many times we islanders say "we don't want to be a Nantucket or a Martha's Vineyard", we continue to pass regulations that are pointing us in the same direction.

If you are concerned about the value of your property, where you can build on your property, what you can build, losing the view you thought you would have or the ability to remodel or add to your existing home, it is imperative that you vote wisely in this years local council election and make your concerns known.

On a Better Note

Coldwell Banker San Juan Islands Inc. had a strong 2012 with volume 87% over 2011 and showing activity during the winter has been very good. We think 2013 is going to be at least equal in volume to 2012.

Per the Northwest Multiple Listing Service (NWMLS) on January 15th, there are 48 sales pending in the County and 14 on San Juan Island. These sales represent all types of property and include all of the brokerage firms in the county.

For clarification purposes, Coldwell Banker San Juan Islands relies on statistical information from Real Market Data LLC which compiles the reports directly from the county recorder's office. For data regarding Days on Market and other LISTED property statistics we rely on the reports from the NWMLS. Real Market Data LLC represents 100% of the closed properties and NWMLS only has statistical information on about 60% as calculated on the volume. This percentage has been constant for the last 10 years; 40% of the volume generated from the transactions are not listed in the NWMLS. As mentioned prior, 100% includes estate and financial planning, county sales, Preservation Trust and Conservation Fund sales.