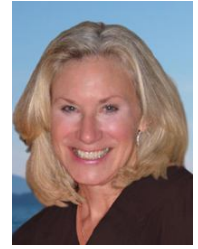




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## Merri Ann Simonson

# SAN JUAN ISLAND REAL ESTATE MARKET SUMMARY

In reviewing the year-to-date volume for 2013, the real estate market volume on San Juan Island reflects an increase of 9% for the period of January through September as compared to the same period in 2012. Most of the gain was actually in the third quarter where the volume was 59% greater than the third quarter of 2012; this is a great improvement considering we were down 23% at the half way mark on June 30th. As for the number of transactions, the gain over the 2012 January through September was 9% as well.

### TRANSACTION RECAP REPORT

Third Quarter	2013	80	\$37,585,543
Third Quarter	2012	65	\$23,623,520
Third Quarter	2011	37	\$10,725,695
Jan-Sept	2013	162	\$66,478,791
Jan-Sept	2012	148	\$61,054,261
Jan-Sept	2011	120	\$ 45,014,647
TOTAL	2012	227	\$101,523,517
TOTAL	2011	156	\$ 60,116,241

Coldwell Banker San Juan Islands Inc. is running equal to the total market with a 9% volume gain for the same period as compared to 2012.

Per the NWMLS as of October 10th, San Juan Island has a total of 404 listings for all property types, which includes the 29 properties under contract or 7% in escrow. The inventory has remained steady over the last year. At the same time last year we had a total of 414 listings, of which 36 were under contract. The

inventory level will have to reduce before we will see prices start to increase. For a larger perspective, in December of 2006 and 2005, both very good years, the number of listings was 161 and 157, respectively. Those low levels caused a dramatic increase in prices.

Similar second home markets such as Chelan County have recovered more strongly than we have at this point. They currently have 507 listings which includes 71 under contract or 14% in escrow. The Port Ludlow's escrow percentage is at 15%.

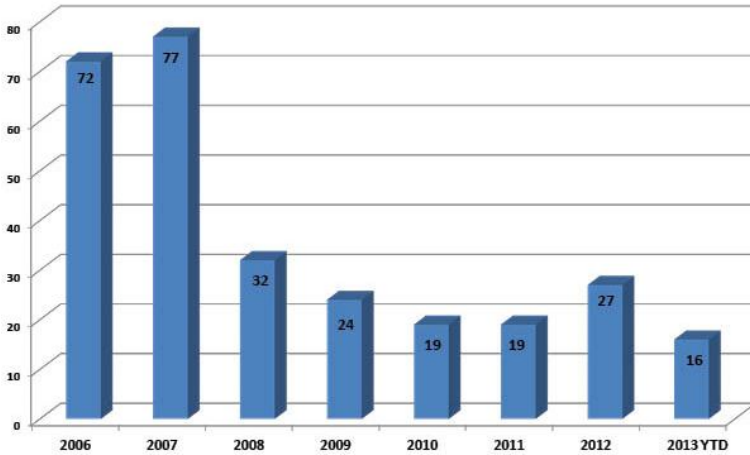
Sellers are continuing to enter or return to our market as they are they are flooded with national and regional real estate economic reports reflecting increasing prices, multiple offers and full recovery; overall a good time to sell. I believe they assume that is the case in our market, which is not accurate. We have reached the bottom of our housing market for pricing, but we lack any upward pressure on our pricing, in part due to the high level of inventory. A "buyers market" is defined as more than 6 months of inventory and a "seller's market" is define as less than 6 months. In most categories, we are far from a "seller's market".

Based on the absorption that we have had in the last 12 months and current inventory levels for homes priced in the of range of 0-\$400,000, we have an 9 month supply of inventory. Unfortunately, the calculation for homes priced higher have much longer supply of inventory. Absorption calculations are a "snap shot" in time and assume status quo for market trends, the amount of closings, new originations and total inventory. Absorption calculations in a small market such as San Juan are very volatile and can improve or deteriorate quickly. Inventory levels will not be reduced until the amount of buyers returning to our market increases which is dependent upon full recovery in the nearby metropolitan markets and a stable confidence level with purchasing real estate for a second home or investment.

The median home price for homes on less than 5 acres for the period of September 30, 2012 to September 30, 2013 is \$320,800 which is less than year-ending 2012 when the median price was \$339,500. The median lot price for the same period is \$105,000 which slightly above year ending 2012 when it was \$100,000.

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Real Estate Closed Transactions in Excess of \$1,000,000  
Real Market Data Source 9/30/13



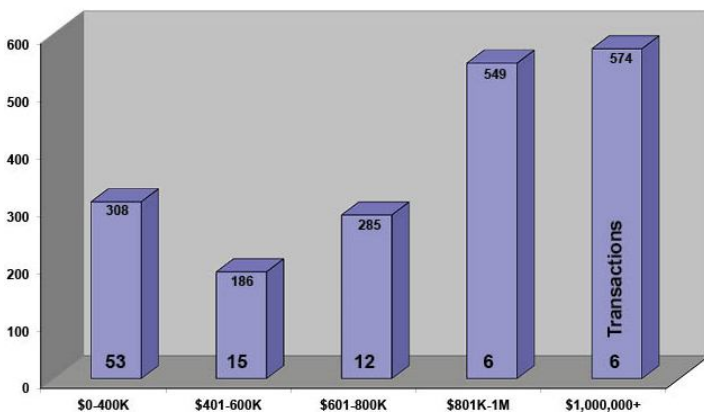
In pre-recession years, transactions in excess of \$1,000,000 each were regular on all ferry serviced islands. For the entire County, in 2006 and 2007 we closed 72 and 77 transactions in the category, respectively. Per the NWMLS, for San Juan County, we currently have 117 property listings with a list price in excess of \$1,000,000 and only 4 are under contract and in escrow. Per the Real Market Data LLC report, the County has had 16 transactions close year-to-date 2013.

Having high-end sales in our market is necessary to regain the balance we had pre-recession. High-end sales provide upward movement in our median home and land price indexes. Upward or downward movement in the median prices allows us to calculate average appreciation or depreciation for our market which aids in analyzing market trends. High-end sales help create confidence in our market which aids in the stabilization as well.

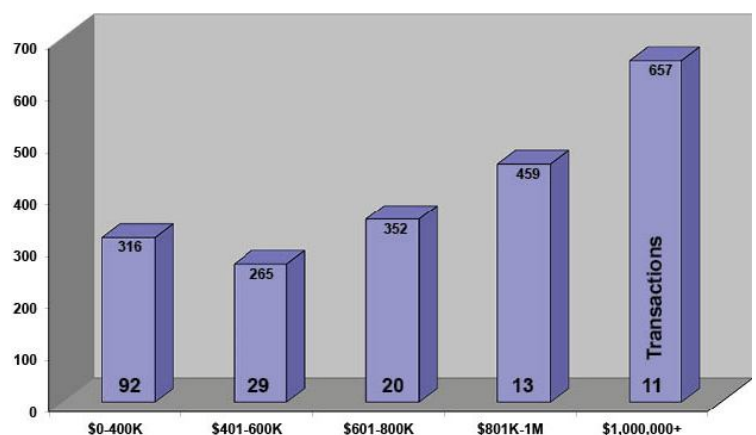
The sellers of the homes that sold in excess of \$1,000,000 negotiated on average 14% off their list price at the time of sale for the entire County. Sellers on San Juan Island only negotiated on average 10% off their list price at the time of sale. Some of the best values are in those properties that are in the high-end category as they have been well maintained and are often priced below their current replacement costs.

As evidenced by the Days on Market charts below, homes listed in excess of \$1,000,000 had an average days on market of 657 for San Juan Island and 574 for the County for the period of January-September 2013. The Days on Market for both the County and San Juan Island are very similar for homes priced in the category of under \$400,000 with 308 and 316 days, respectively. The high level of Days on Market may be indicative of overpricing which contributes to the high inventory levels. It is all about pricing in this market and listings that are priced properly sell in a timely manner. Sellers should price their property to sell based on the level of recovery in our market, not the level in nearby metropolitan markets.

San Juan County Homes, Condos & Manufactured Homes  
Average Days on Market for Closings from 01/01/13 - 09/30/13



San Juan Island Homes, Condos & Manufactured Homes  
Average Days on Market for Closings from 01/01/13 - 09/30/13

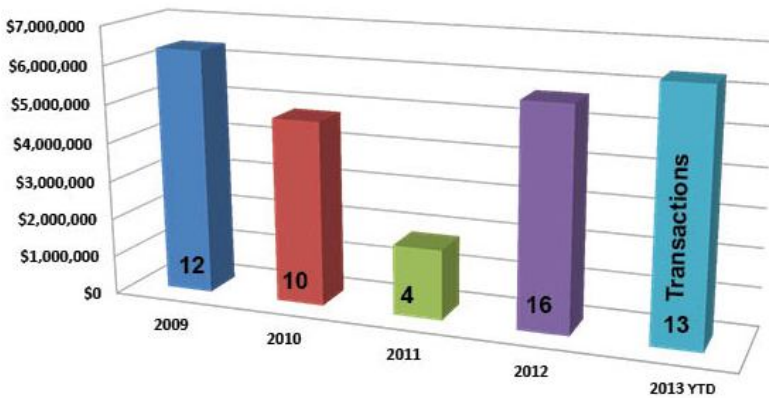


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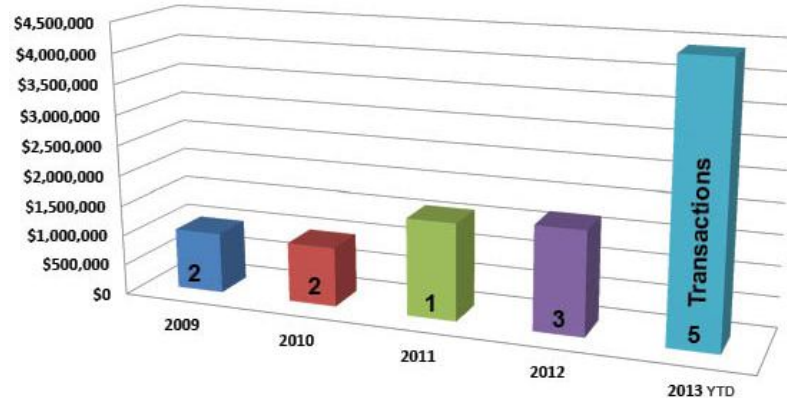
As per the charts below, waterfront lot sales have been and continue to be sluggish. A total of 13 sales for the County year-to-date is a farcry from the 59 we had in 2006. Waterfront lots were once the coveted *purchase of choice* by investors and future retirees. San Juan Island has fewer lot sales than the other ferry serviced islands as we have fewer large acreage parcels on the waterfront that would be considered “Critical Area Proof” due to their size. The Critical Areas Ordinance (“CAO”) update was approved by our Council and it is scheduled to be in effect March 2014. The new ordinance categorized all waterfront property in the County as a Critical Area. Further, the Fish and Wildlife Section set a buffer of 110 feet from all Critical Areas. The use of any “buffer area” under the regulation will be highly restrictive. A vegetative buffer is not a setback as defined in the current regulations. Technically, the Shoreline Manage Act that is currently being updated, will establish the Shoreline buffers, but one should assume that the CAO has set the precedence at no less than 110 feet.

The 5 waterfront lot sales on San Juan Island included three acreage parcels which due to size allow ample

**San Juan County  
Waterfront Lot Sales**

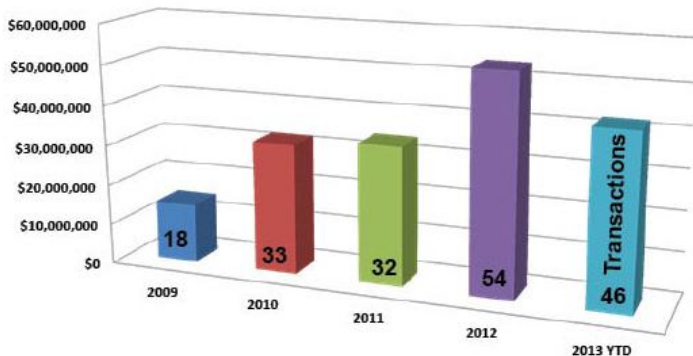


**San Juan Island  
Waterfront Lot Sales**

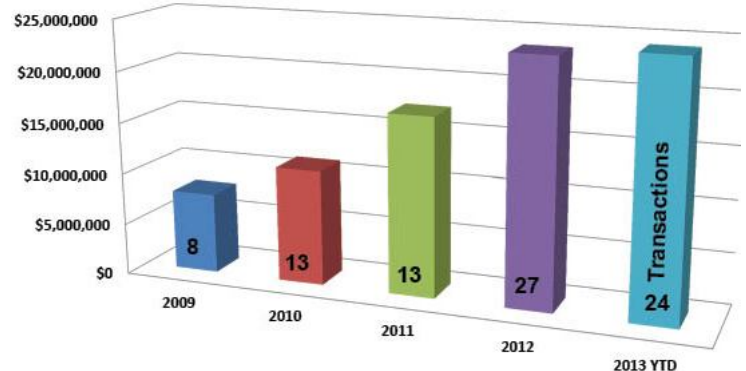


room to be 110 feet or more back from the shoreline.

**San Juan County  
Waterfront Home Sales**



**San Juan Island  
Waterfront Home Sales**

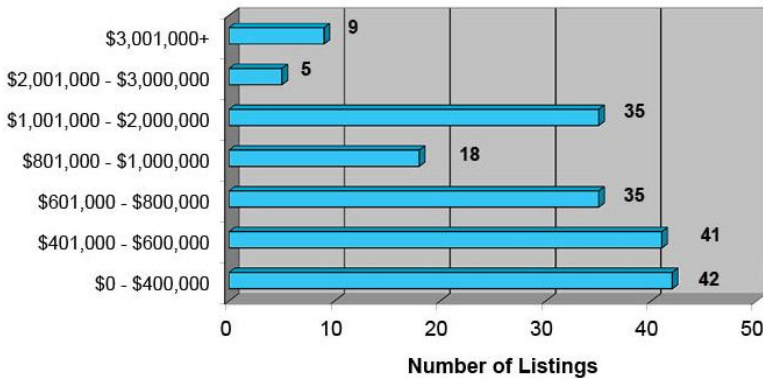


Waterfront home sales, represent a large percentage of our over all market. Year-to-date for 2013, the County has had 46 waterfront home sales totaling \$42,377,776 in volume with the average sale being \$921,250. In 2012 the total volume in the NWMLS was \$53,606,880 or 26.5% of our total market volume. As we are a group of islands this makes total sense. When appreciation returns to our market, waterfront homes that are fully developed will appreciate at the highest rate. Those with docks and a guest house will become even more desirable due to inability to reproduce those amenities on a vacant lot. Due to future regulations around development, waterfront lots and small cabins will not likely appreciate at as high of a rate.

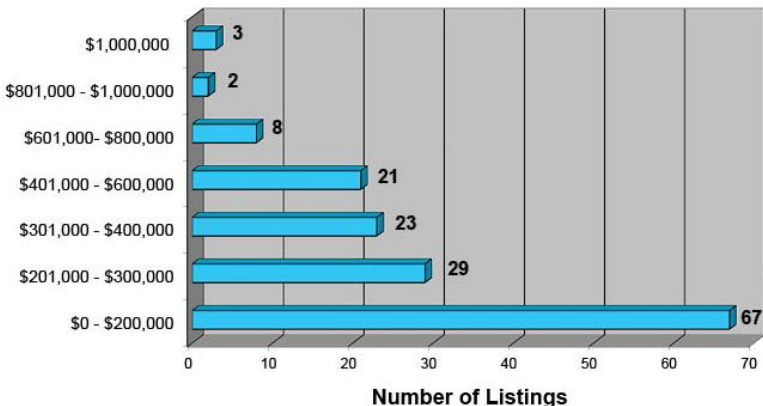
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Similar to the last several years, home sales under \$400,000 have been our most active category. As further evidenced by the chart below, we have plenty of inventory for buyers to select from. For homes, sellers have been negotiating on average 7% of their list price at the time of sale for all price categories for San Juan Island and San Juan County.

**San Juan Island Residential and Manufactured Home Inventory as of 10/10/13**

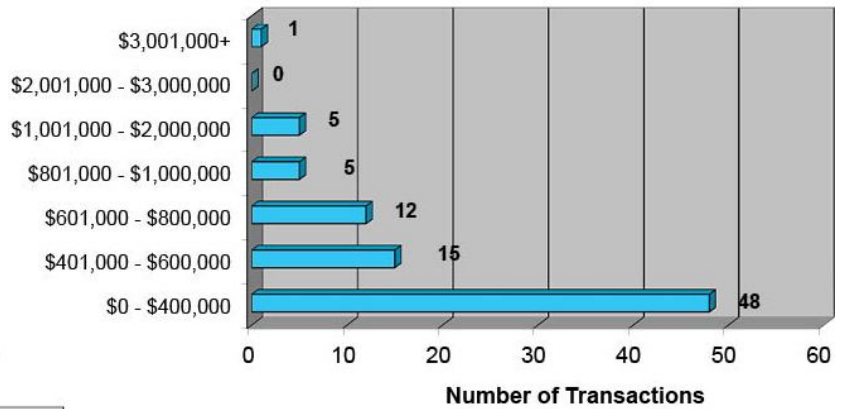


**San Juan Island Vacant Land Inventory as of 10/10/13**

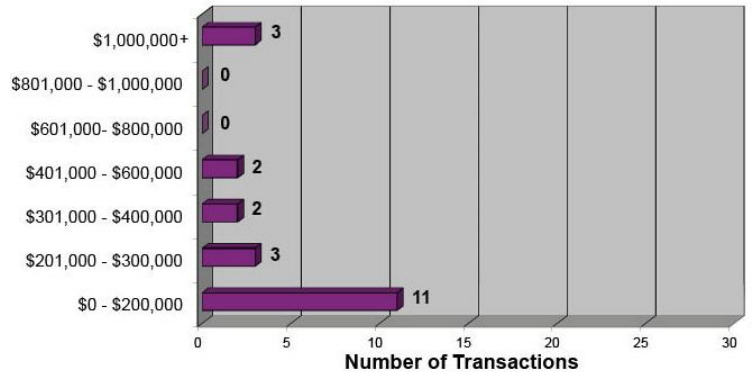


Please welcome Michael Martz to the Coldwell Banker San Juan Islands Inc. Obviously, we are happy that his skills include creating charts.

**San Juan Island Residential and Manufactured Home Closings as of 10/10/13**



**San Juan Island Vacant Land Closings from 1/1/13 thru 10/10/13**



Land sales have yet to show much recovery. This is mostly due to lack of financing and appreciation. Many potential custom home buyers will not purchase land until the selection of existing homes no longer offers what they desire as it relates to location, price and home style.

We are looking forward to a good finish for year-end with volume equal to or slightly above 2012.