

2010 REAL ESTATE FORECAST - BULL OR BEAR?



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We decided to wait a little longer to issue our forecast because we wanted to review the economic data points prior to weighing in. But, before we say " BEAR or Bull " we thought it might be worthwhile to see how accurate our previous forecasts have been. Past accurate calls do not guarantee future results but it does add to our credibility!

[2008 and 2009 forecasts](#) where as accurate as any in the industry. We called the peak in late 2006 and have been able to continue to properly advise our clients as to what moves they should make next.

So what will 2010 hold for the industry at large? Unfortunately more of the same. We see a two tiered market. The lower tier prices under \$ 350,000 should be flat, to down 3% for the year. Homes in the higher tier over \$ 350,000 will experience the most price softness. We anticipate a 3% to 5% down year for homes in this price range. Of course homes located closer to Seattle will suffer the least while homes further away from the core will suffer the most.

The reasons for the continued soft market:

Jobs: the biggest determiner of housing activity. When jobs are plentiful and wages are going up house prices trend upwards. Unfortunately we are caught in the reverse scenario hence housing values have remained soft. The chart below is from the Bureau of Labor Statistics.

 **BUREAU OF LABOR STATISTICS** [CLICK TO GO TO BLS SITE](#)

Table A-12. Alternative measures of labor underutilization

HOUSEHOLD DATA		HOUSEHOLD DATA								
Table A-12. Alternative measures of labor underutilization										
(Percent)										
Measure	Not seasonally adjusted					Seasonally adjusted				
	Dec. 2008	Nov. 2009	Dec. 2009	Dec. 2008	Aug. 2009	Sept. 2009	Oct. 2009	Nov. 2009	Dec. 2009	
	U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force.....	2.8	5.6	5.6	3.0	5.1	5.5	5.7	5.8	5.9
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force....	4.5	5.9	6.4	4.4	6.4	6.6	6.7	6.5	6.3	
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate).....	7.1	9.4	9.7	7.4	9.7	9.8	10.1	10.0	10.0	
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers.....	7.5	9.9	10.2	7.8	10.1	10.3	10.6	10.5	10.5	
U-5 Total unemployed, plus discouraged workers, plus all other marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers.....	8.3	10.7	11.1	8.5	11.0	11.1	11.5	11.3	11.4	
U-6 Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers..	13.5	16.4	17.1	13.7	16.8	17.0	17.4	17.2	17.3	

What you hear in the mainstream news.

What the real unemployment rate is.

Our State is a tad better than the national average but our unemployment is running at 9.5% and this would infer U-6 of approximately 17%. The biggest concern we have going forward is that the [worst is not yet over](#).



Shadow inventory: the next big reason for weakness in the housing market. Thousands of homes that have not been foreclosed on are coming through the pipeline. This will add more supply throughout the year. Another batch of interest resets are also taking place this year and combined with the employment situation will exacerbate the already high default rate. An integral part of the price equation is supply and demand. Supply will continue to exceed demand as these properties stream onto the market. This will put downward prices on housing. For articles on shadow inventory for those inclined [click here](#).

The percentage of homes that are currently categorized as a short sale, in distress or bank owned is running about 30% in many South King County areas. This is absolutely stunning and a huge reason why prices will struggle.

Higher interest rates and government mistakes could also contribute to a tough 2010 but the verdict is out on both of these issues. Rates could jump not because of a better economy, but because the artificial support by the Federal Reserve will end. Continued support will bankrupt our country so we doubt this support will continue. Thus there is a reasonable chance rates will rise. We believe funding our massive debt will become problematic.

Only the best priced houses will have success in selling. So, if you are a seller we are moderately bearish. If you are a buyer we are moderately bullish. We are seeing good deals and are encouraging buyers to be active and telling sellers to be aggressive in

their pricing.

The worst is over but market imbalances will probably continue for the next two to three years.