

Local Intel: Sound Fundamentals

A magnet for people, jobs, and housing, Seattle seems to be avoiding the big downturn—at least for now.

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By Judi Hasson

There's a lot more to Seattle than Starbucks, Microsoft, and the McDreamy doctors of the hit TV show, Grey's Anatomy. A healthy housing market, significant job growth, and no excess inventory to burn off, the region appears to have everything going for it, everything that is except for available land.

With mountains to the east and water just about everywhere else, the lack of land has been a blessing in disguise: the Puget Sound region is one place that has not felt the catastrophic lows of the housing market.

But that isn't to say that Seattle is free from the effects of the downturn, it's just experiencing them to a far lesser degree than many other markets. Sales dropped about 30 percent in the first nine months of 2006, but other factors such as demand for housing and new permits remain high.

Not only that, Jim Wilson of San Francisco-based JMP Securities, says the job outlook is healthy. Boeing is a huge and critical employer in the region. Microsoft continues to grow in nearby Redmond, Wash., and expects to add 2,000 jobs this year. Commerce at Seattle's port has grown, too, as the city becomes a gateway for imports from China and other parts of Asia.

Seattle is one of the 10 top housing markets to be in over the next couple of years, according to Wilson. The housing market in Puget Sound has been red hot for a couple of years, according to Grubb & Ellis, a real estate marketing company. "The current downturn in the housing market does not appear to be affecting the Pacific Northwest as significantly as other parts of the country," the company says in a recent report. "Home prices will likely still increase though at a much lower and historically comparable rate of growth."

"The future is extremely bright," says Matthew Gardner, principle at Gardner Johnson, a land use advisory company in Seattle. "If there is any problem, it is affordability. The first home is unaffordable, and buyers are borrowing money from mom and dad and grandma to pay for it." Gardner expects to see a small downturn, but nothing like the housing morass that swept other parts of the country. And experts say other economic factors remain strong. The median household income is expected



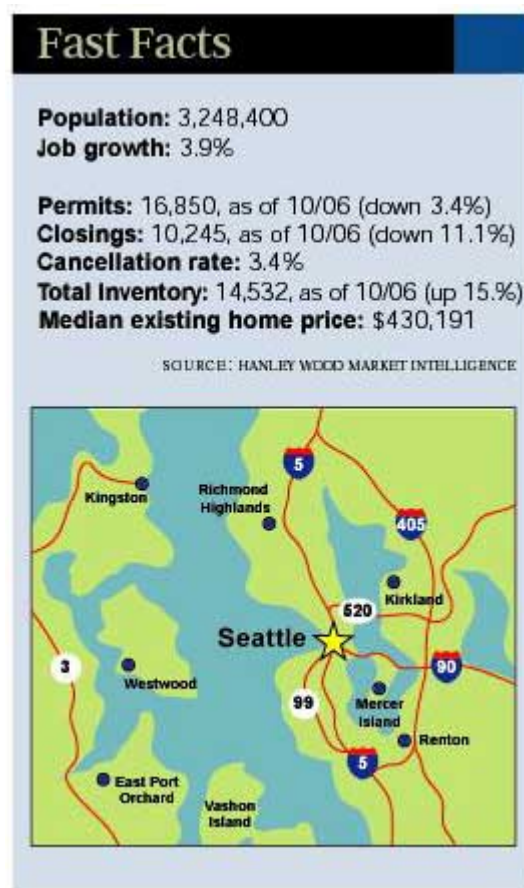
Photo: Courtesy Seattle Convention and Visitors Bureau/Tim Thompson

BLUE SKIES AHEAD: Despite the shortage of land, larger national builders are finding more affordable opportunities in Seattle's outlying counties.

to grow 10 percent to \$61,310 by the end of 2010.

"Our problem in the greater Seattle area is a lack of inventory and a lack of buildable property because of growth management. If you are a contractor or builder [and] if you have the land, you are successful," says Bill Riss, CEO of Coldwell Banker Bain, based in Bellevue, Wash.

Not Totally Immune



Nevertheless, Peter Orser says it is still a cautious time for the Emerald City and the entire Puget Sound region.

"We had a very difficult November and December. I am still reserving judgment as to whether that's continuing trend. The question is whether we have some resistance in the market that will pay out," explains Orser, president of Quadrant, the largest builder in the state of Washington and a subsidiary of the Weyerhaeuser Real Estate Co.

But signs are not all that bad, he acknowledges. In the first week of January, he sold 38 houses, and he has two projects that are "properly priced." One has a waiting list of 350 potential home buyers; the other has a list of 700.

"We have less inventory, but we have some. We have less land available. It is the equivalent to San Diego and Washington, D.C. We have appreciated less than some markets, but we have good job growth and the state has a budget surplus," Orser says.

After the September 11 terrorist attacks and the dot-com bust in 2001, jobs in Seattle became scarce and buyers even scarcer. But today, the economy is booming with no signs of a downturn on the horizon. Job growth is expected to be well above the national average. Seattle-area employment is expected to grow 2.5 percent

in 2007, twice the national average, according to the Puget Sound Economic Forecast.

Light Rail Wanted

But that does not mean that everything is cool in Seattle. The region's transportation system needs some serious attention. Its traffic is often ranked among the country's worst. The problem is not being addressed as quickly as it should be, according to Craig Hill, senior vice president and managing director for the Northwest for Grubb & Ellis. "Nothing has been done to the roads in 30 to 40 years. I-5 needs to be resurfaced. It used to be a fast trip from Vancouver, B.C., to Seattle. Now it's jammed with delays," Hill says.

Light rail is under construction in Seattle, but "this is a state that has not embraced public transportation, except for the ferries," says Glenn Crellin, director of the Washington State University Center for Real Estate Research in Pullman, Wash.

Traffic and bad roads are hardly stopping people from moving into the region. "While other western major metro markets are in the midst of a housing bust, the Seattle region appears to be isolated from any major housing concerns," according to Hanley Wood Market Intelligence (HWMI) report on the market.

Home-Grown Builders

"Seattle has a lot of great local [building] companies," says Alison Jeffries, senior marketing manager for Vulcan Real Estate Co. "Seattle, on a national basis, is seen as more of a smaller market. The larger national developers and builders focus on larger markets." Today, Shea Homes, Centex Corp., and D.R. Horton are tentatively testing the waters in the region—moving slowly even as Seattle continues to be a market on the move.



Courtesy Quadrant Homes
LOCALLY BREWED:
Bellevue, Wash.-based
Quadrant Homes has been
building popular homes in
the region since 1969.

Mike Simonsen, chief executive of Altos Research, a California-based market research company, says the prices are holding up well, but he expects weaknesses to start showing up. One recent sign is the rise in the average weeks to sell an existing home in Seattle—it now averages 10 weeks—despite low interest rates and plenty of demand.

"My hunch is that this spring, we'll see year-over-year prices decline in a few areas," Simonsen says. Not only that, "there are some significant zoning and legal restrictions that come into play. It's very much a West Coast sort of phenomenon to aggressively limit growth."



Courtesy Centex Homes
HEAD EAST YOUNG HOME
BUYERS: Houses in Centex Homes' East Pointe community in Kent, Wash., range in size from 1,513 to 2,801 square feet with base pricing from \$349,000 to \$439,000.

Aaron Ostrom, executive director of Futurewise, an anti-growth public interest organization in Washington, says the group's mandate is to make sure there is plenty of growth in cities and little in rural areas. "We do our best to keep housing out of rural areas and keep it in the cities,"

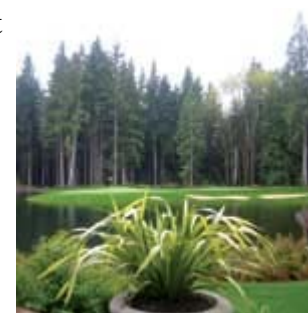
Ostrom says. "We want to make cities great places to live and keep rural areas from development."

That may be a lofty goal too hard to meet. Builders, though, are increasingly converting apartments to condos to make homeownership more affordable for young buyers, HWMi says. The best market opportunities continue to be for affordable housing and infill because land is so precious and expensive.

And that is one reason that the big publics have skirted around Seattle as they have looked for new business opportunities. Big builders in the region are forging ahead to develop areas outside of Seattle where land is cheaper and the city far removed.

D.R. Horton, which declined to be interviewed for this story, has a series of developments east of Seattle along two major highways—I-405 and I-90. In Redmond, where Microsoft is headquartered, Horton is building an active adult community starting in the low \$200s. Centex is also building 10 communities east of Seattle, starting at \$325,000.

Shea has one active adult community of 1,500 single-family homes called Trilogy at Redmond Ridge, which range in price from the \$300s to \$1 million. The golf course community offers partial views of a towering Mt. Rainier.



"The overall market is driven a lot by the success of Microsoft and Boeing," says Richard Obernesser, Shea's Washington vice president. But Shea has no immediate plans to expand in Washington or Seattle right now, according to Obernesser. "I think that in the next year there is some hesitancy about how well this market is

going to perform," he says. "I think some buyers have hesitancy, and we expect the rate of appreciation to be almost stagnant,"

Courtesy Shea Homes
FOREST GREENS: Active adult residents at Shea Home's Trilogy at Redmond Ridge in Redmond, Wash., have access to the Gary Panks-designed golf course.

Obernesser adds that the market is not very inviting, at least right now. "It is very hard to scale in this market. The availability of land is very tough."

Centex has discovered a "solid market" in the Puget Sound region, according to Doug Barnes, the executive vice president of the Northwest region. Nevertheless, he says the market has started to slow, and for 2007, he expects the market will stay flat in the Seattle region.

"Sales are expected to be down slightly from prior years, about 5 percent to 8 percent drop for the overall market. Centex does not expect substantial growth. We are diversifying into some town home products, but we are not involved in [Seattle's] downtown development," he says.

Barnes adds that the Seattle region is still a really good market for single-family homes. Centex has been building about 400 homes in the region with the average price at \$480,000.

So for now, many of the big boys are basically absent from the Seattle market and show few signs of coming to town. Even so, there is plenty of opportunity for those already in town. "We like organic growth in Seattle. And we are still relatively cheap for the West Coast," says Gardner.

The future for Seattle is likely to be similar to many other markets. Despite new developments downtown, people will continue to move farther away from the city center unless there is affordable housing available. "It is a good question whether there will be enough houses for people," Crellin says. "Housing is available further and further from suburban job centers. And folks are looking to purchase in outlying counties because of the shortage of affordable housing."

<i>-Judi Hasson</i>

Local Heroes

Ada Healey, vice president of real estate, Vulcan

Brief Bio: Healey directs real estate strategies for Vulcan and has been instrumental in developing integrated transportation systems as well as a series of mixed-use projects in downtown Seattle. She oversees nearly \$1.1 billion in real estate assets, including 600,000 square feet currently under construction that measures success according to three criteria: environmental, community and financial accountability.

Glenn Crellin, director of the Washington Center for Real Estate Research at Washington State University

Brief Bio: Crellin is responsible for identifying and charting trends in the Washington real estate market and providing helpful information in practical language to those in the industry. Founded in 1989, the center is responsible for keeping local governments and consumers informed about relevant real estate issues.

Aaron Ostrom, executive director of Futurewise

Brief Bio: Futurewise is a no-growth organization that promotes keeping housing out of rural areas and encourages limiting growth. It supports expanding infill and downtown regions to prevent excessive growth in rural parts of Washington. It opposes extending new development to the outer suburbs.

Downtown Heats Up

In the not too distant past, downtown Seattle was the place to get away from. Not anymore. As the city undergoes a renaissance and becomes an area synonymous with a good place to live, housing remains one big issue for many newcomers. And that's where Vulcan Real Estate Co. comes into play.

The company's new condo complex, known as 2200 at South Lake Union, almost completely sold out its 261 condos in pre-sale two years ago: prices ranged from the \$300s to more than \$2 million.

Vulcan is also rolling in a variety of mixed-use components including a Whole Foods supermarket, a streetcar line directly in front of the project, and a luxury Pan Pacific Seattle Hotel. Condo owners will have access to the hotels amenities, including room service and dry cleaning. And all of this works with vertical development on a site that once was home to warehouses and parking lots.

"The goal for that neighborhood is a triple bottom line—provide an economic return for the company, have a positive impact on the community, and support the parks," says Alison Jeffries, Vulcan's senior marketing manager.

Vulcan's development at 2200 has attracted a wide range of home buyers, from boomers downsizing to newly wedded professionals and from families with young children to gay couples. All want to take advantage of the development that is part of a new and growing neighborhood.

"More and more people who don't have children, don't need that yard. They would rather have a pedestrian friendly environment in an urban core," says Patrick Callahan, founder and president of the Urban Renaissance Group, a real estate company that promotes high-rise living.

It is not a moment too soon for any of these new housing options. "Seattle is growing. People are moving here, there is no question about that," Jeffries says. "We haven't even considered buying land outside the city. We are an urban developer. There is a national trend of people looking to live downtown where there are theaters and restaurants."

<i>—Judi Hasson</i>



Courtesy Vulcan Real Estate
From top to bottom: Veer Lofts Project, Alley 24 Project, Alcyone Apartments Project, Westlake Project, Pan Pacific Project

Snapshot: Seattle

Top 10 Employers

- The Boeing Co.**
- Microsoft Corp.**
- University of Washington**
- The Kroger Co.**
- Starbucks Corp.**
- Group Health Cooperative**
- Washington Mutual**
- The Home Depot**
- Weyerhaeuser Co.**
- Costco Wholesale**

SOURCE: HANLEY WOOD MARKET INTELLIGENCE

Top 10 Builders

	Market Share
Quadrant Homes	6.5%
D.R. Horton	6.3%
Polygon Northwest Co.	4.5%
Soundbuilt Homes	3.6%
Equity Residential	2.6%
Pagentry Communities	2.6%
Mastro Properties	2.3%
Centex Corp.	2.3%
Wysong Group	2.2%
Murray Franklyn	2.1%

SOURCE: HANLEY WOOD MARKET INTELLIGENCE



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