

# REAL ESTATE LICENSEE UPDATE



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## To LEED or not to LEED

*Cole Kopca, Runstad Center for Real Estate Studies, University of Washington*

The real estate industry has made considerable strides in the integration of green building decisions over the last decade. Strategic questions of whether investors should consider sustainability issues in their property decisions have largely been asked and answered. This past June, the Wall Street Journal published an article titled, "Sustainability Reports Gain Traction." The article stated that the percent of S&P 500 companies that produce reports on their sustainability efforts has risen from 20 percent in 2011 to just over 72 percent in 2013. Companies claim there is significant peer pressure to show efforts to curtail greenhouse gas emissions, reduce waste and improve performance. But the majority of asset managers and corporate real estate directors continue to struggle assessing the performance of their properties, identifying opportunities for improvement, and making necessary changes to address new sustainability priorities.

One of those opportunities has been green building, or sustainable property certification. Currently there are dozens of national and international certification programs that evaluate everything from energy use to occupant experience. One such program, the Leadership in Energy and Environmental Design, or LEED, provides a strong benchmark for certification program discussion because of its extensive popularity and use. More typically, the subject of LEED arises in the discussion of new building and development. Administered by the United States Green Building Council (USGBC), LEED is described as "a green building certification program that recognizes best-in-class building strategies and practices. To receive LEED certification, building projects satisfy prerequisites and earn points to achieve different levels of certification. Prerequisites and credits differ for each rating system, and teams choose the best fit for their project."

In Seattle, for example, there has been a near-complete market incorporation of LEED green design aspects across all commercial building types. This is due in large part to the very narrow difference that exists between the base-building code in Seattle and the national standards to achieve base-level LEED certification. As a result, the financial decision among developers and investors to build to the initial level of certification, and beyond, becomes much more incremental in Seattle than in any other city in the state. So what makes Seattle so different? The answer is twofold.

First, the Washington State Energy Code, which applies to every jurisdiction in the state, is one of the most progressive in the nation. When paired with the requirements of the Seattle's building code, the combination produces a standard that satisfies the LEED certification threshold. Second, the most recent version of LEED (v4) expands the scoring system beyond the traditional parameters of design and construction to now include a variety of locational and environmental aspects of a project. These include but are not limited to sensitive land protection, access to mass transit, surrounding density, and diversity of adjacent land uses. In the city of Seattle, many if not all of these attributes can be identified and incorporated to earn valuable points in the LEED scoring system. While the same holds true in cities such as Bellevue or Spokane, building sites with proximity to these criteria may be more limited. Thus to achieve the same level of certification, projects in other cities would need to find additional points elsewhere in the code.

As a consequence, particularly in cities like Seattle, project differentiation is becoming harder to achieve through the use of certifications like LEED. From the market's perspective, this appears to be a non-event, as the incorporation of higher building and energy standards is no longer considered a luxury to be contemplated but the new standard in the industry.

# Why should we care about the S&P/ Case-Shiller Home Price Index?

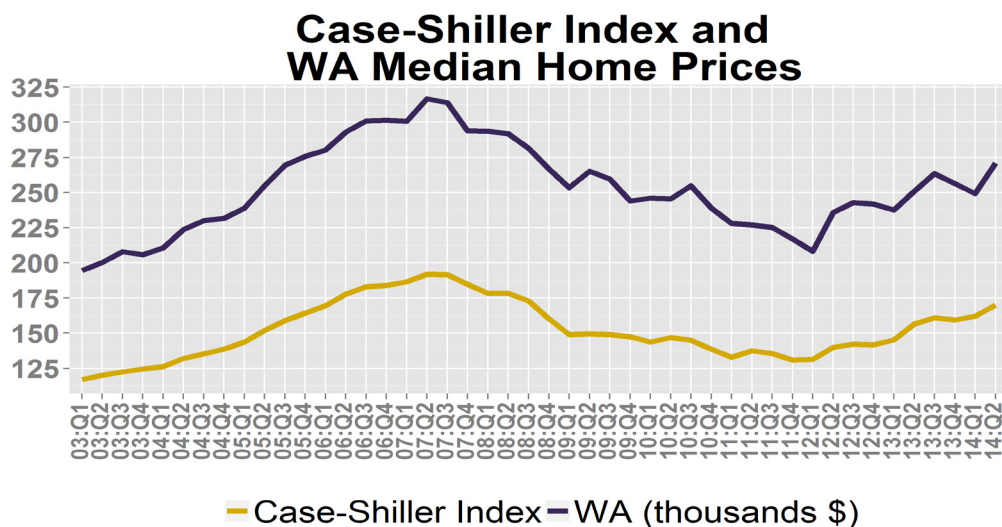
The popular media and news outlets constantly refer to the Case-Shiller Index. You've likely seen it or heard something about the index on news reports. But, what is the index? How does it work? Why should we care?

There is understandably a lot of interest in home prices, both for themselves and as a leading indicator of the broader economy. The Runstad Center reports on median home prices by county for Washington State on a quarterly basis. From this information it is useful to follow trends from quarter-to-quarter and year-to-year. However, most comparisons of median sales value do not account for inflation or consider the repeat sales of a specific property. How can you tell if prices are really rising? How much of the price increase (or decrease) is related to the value of the dollar rather than the housing market?

Enter the Case-Shiller Index, or, more appropriately, the suite of indices that is referred to as the Case-Shiller Index, which include a national, 10-city, and 20-city index. The most relevant one for us in Washington State is the 20-city index that includes the Seattle Metropolitan Area (King, Pierce and Snohomish Counties). While the Case-Shiller Index does not look at every county in Washington State, it is an important source of additional information about the overall state housing market.

The main strength of the index is that it considers repeat sales of single family homes—when one owner sells to another. Homes sold at a discount (for example given from one family member to another) or new construction is not included in the index. The index uses 2000 as a base year and then accounts for inflation when assigning values to both past and present sale transactions. In this way, one can track the relative value of the housing market over time.

Data for the Case-Shiller Index is publically available from the S&P website and is used here to illustrate the similarity between median home prices for WA State as compared to the Case-Shiller Index for the greater Seattle area. Note that the sales and index follow a very similar pattern, with the index flattening out some of the transitions seen by just looking at the state housing price information. It is also worth noting that state sales values seem to slightly lag behind the index values, allowing the index to serve as a leading indicator. Together, home values and the index help to paint a robust picture of the Washington State housing market.





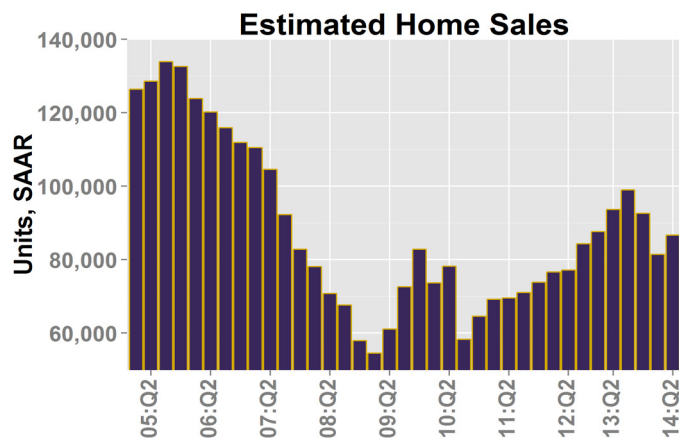
# Real Estate Market Roundup

Stephen H. O'Connor, Ph.D, Director, Runstad Center for Real Estate Studies, University of Washington

By the end of the first half of 2014, the Washington housing market was a classic study of contrasts. For the good news, foreclosures and delinquent mortgages continued to decline; housing prices continued to rise and multi-family housing permits kept soaring. Meanwhile, the number of single-family permits issued remained low, while overall affordability continued to decline. Although the outlook is generally positive, the relationship between supply and demand will continue to exert upward pressure on housing prices, which will continue to adversely affect affordability. Given this continued imbalance, particularly throughout the Puget Sound region, whispers about a potential bubble are starting to become a little louder and a little more frequent.

## Sales and Construction Activity

Home sales activity in Washington during the second quarter of 2014 increased 6.4 percent from the first quarter to a seasonally adjusted annual sales rate (SAAR) of 86,690 homes. While a marked improvement from the first quarter, the SAAR currently stands below total home sales activity for all of 2013 and to a level comparable to the fourth quarter of 2012.



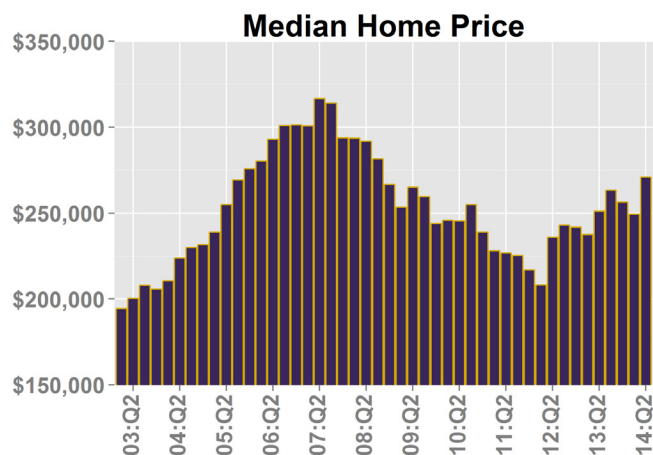
Despite the strong statewide performance during the second quarter of 2014, a total of 16 counties saw their seasonally adjusted annual rate of sales decline when compared to the first quarter of 2014. Moreover, roughly half (19) of the counties recorded a decline in SAAR sales when compared to the second quarter of 2013. Meanwhile, the quarter-to-quarter sales rates declined in seven metropolitan areas, with the largest drop recorded in Pend Oreille. While nine of the remaining counties also saw declines, the most pronounced was found in Wahkiakum. By contrast, sales increased from the first quarter by more than 10 percent in 14 counties, with Skamania County recording the largest metropolitan county increase, while the increase in Adams County led

all non-metropolitan counties in the state.

Construction activity, which is measured by the number of single and multi-family building permits issued by cities and counties throughout the state, is reported to and published monthly by the US Census Bureau. While the accuracy of all public information relies on the efficiencies of the reporting jurisdiction, a total of 8,820 building permits were issued statewide during the second quarter of 2014. This represents a 20.2 percent increase over the total number of building permits issued in the second quarter of 2013. While healthy by any measure, the gain was dominated by the multifamily sector, which registered a year-over-year increase of 83.5 percent. Conversely, the number of single-family permits issued in the second quarter declined 11 percent from the same time last year. Not surprisingly, the dollar value of single-family permits decreased by 8.8 percent compared to a year ago, dropping to \$1.2 billion statewide. Meanwhile, the value of multi-family permits climbed to \$558 million; a 94 percent increase over the same period last year. Each of these totals is exclusive of land values.

## Home Prices

Compared to a year earlier, the relative increase in the median resale price of a single-family home in Washington was 7.9 percent. In absolute terms, the increase was \$19,800. At \$270,900, the median home price during the second quarter of 2014 has reached a value not seen since the third quarter of 2008.



More locally, median house values ranged from a high of \$454,100 in King County to a low of \$128,300 in Columbia County. Thirteen counties reported a lower median price than a year ago, and six of those were in a metropolitan area. However, the lower prices in the metropolitan areas represent only small decreases with the largest drop (\$10,700 or 6.8%) in Skamania County. Double-digit increases in medians were reported in 16 counties, which is unchanged from the second quarter of 2013.

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Real Estate Market Roundup, continued from page 3

Several groups, especially S&P Case-Shiller and the Federal Housing Finance Agency (FHFA), utilize repeat-sales measures to calculate the rate of home price appreciation. This process requires the documentation where at least two independent and arms-length sales transactions have occurred at the same property and over time. Once these sales are “paired” together, adjustments to the sales prices are made to account for changes in quality (e.g. substantial rehabilitation or additions) and the rate (time) of inflation. Once calculated, the results are not reported as a difference in price, but rather as a change relative to a benchmark index over time.

Due to the sophisticated statistical modeling involved, the data are often released with considerable delays (especially Case-Shiller). Further, no data on non-urban markets are available from either source. Further, the Case-Shiller report is limited to 20 major metropolitan markets while the FHFA reports all metropolitan areas and statewide measures. Most recently, the FHFA reported that the appreciation in Washington home prices was the eleventh highest among the states in the second quarter of 2014 at 6.97 percent. Most of the states with more rapid rates of appreciation were also ones that were hit hardest during the Great Recession. Despite these recent gains, the FHFA indicates that prices remain 11.6 percent below their seasonally adjusted high in the third quarter of 2007.

### Affordability

The Runstad Center produces two measures of housing affordability, following the model developed in 1982 at the National Association of Realtors®. The All-Buyer Housing Affordability Index (HAI) compares the mortgage payments on a median price home to median FAMILY income (2 or more persons, related by blood, marriage or adoption) assuming a 20 percent downpayment and allocating 25 percent of gross income to principal and interest payments. Adjusted for the size of the family, an index of 100 means median family income is sufficient to afford the median price home. The higher the index value the higher the degree of affordability. The statewide HAI in the second quarter was 144.2, meaning the typical family has 44.2 percent MORE income than the minimum required to qualify for a mortgage on the median price home. Only San Juan County reported an index level below 100. While the overall level of affordability is high by historic standards, the index declined by 22.4 points from a year ago, and by 9.4 points from the first to the second quarter in 2014. While such a rapid reduction in affordability is troubling, among urban markets the affordability indices ranged from a low of 105.9 in King County to a high of 267.9 in Skamania County (Portland-Vancouver-Hillsboro, OR-WA).

In general, renter households confront greater challenges on the path towards potential home ownership. To reflect that reality, the Runstad Center's First Time Buyer Affordability Index (FTBHAI) assumes a less costly home (85 percent of area median), a lower down payment (10 percent) and a lower qualifying income (70 percent of median HOUSEHOLD income). The substitution of



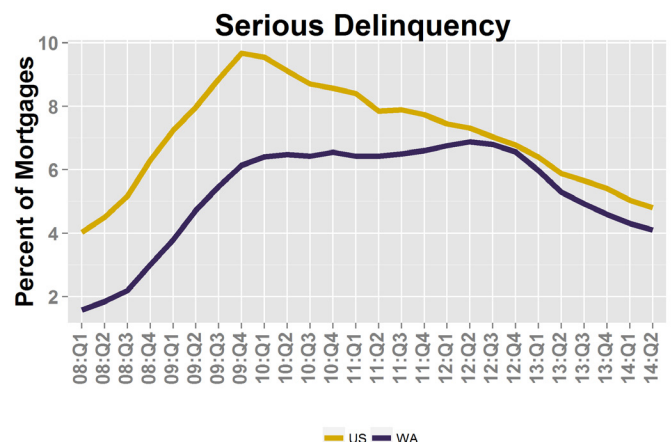
household for family income is done to capture a percentage of the single-person household; which by historical standards is a population on the lower end of the income distribution. In the second quarter of 2014, the statewide FTBHAI stood at 81, down from 86.1 in the first quarter. That's a 5.1 percent reduction in affordability in only three months. First-time buyer affordability indexes ranged from a low of 47.8 in San Juan County to a high of 142.8 in rural Lincoln County. In metropolitan counties the index had a range from 59.2 in King County to 139 in Columbia County. As a point of reference, the Runstad Center has established a

FTBHAI of 80 to represent a reasonable opportunity for a well-qualified first-time homebuyer to find an acceptable home they can afford.

### Foreclosure Update

Foreclosure statistics in the first half of 2014 seem to be improving. RealtyTrac reports that during the first six months of 2014 a total of 4,150 Washington homes completed the foreclosure process and were returned to the lender. This represents a 54 percent decline from the same time last year. One potential reason for the decline is that after the Foreclosure Fairness Act passed by the state legislature, which mandated that properties in jeopardy of foreclosure go through a period of mediation where the borrower and lender attempted to negotiate equitable repayment terms that would allow the family to remain in their home, many of those loans were too far underwater to benefit, and the foreclosures ultimately resumed. Perhaps we have now witnessed the peak. Indeed, for the first half of a year, we now see the lowest number of foreclosures since the middle of 2007.

Also encouraging was further progress in terms of seriously delinquent mortgages. While several sources of this type data exist, the Runstad Center uses information compiled by the Mortgage Bankers Association of America. They report the number of outstanding mortgages and the share of those mortgages that are at least 90-days past due or at some stage of the foreclosure process (but not yet REO). As of the end of June, there were still 46,891 mortgages in the state which were seriously delinquent. As bad as that number is, it is 13,000 less than a year ago.



# Saying “Goodbye” is Hard

*Glenn E. Crellin, Associate Director for Research, Runstad Center for Real Estate Studies, University of Washington*

In October, 1994 I stepped foot in the State of Washington for the first time for my interview as the Director of the Washington Center for Real Estate Research at Washington State University. When I accepted the position I promised my wife we would stay in Pullman long enough for our daughter to graduate from high school. She was nearing the end of her freshman year at the time, so this was essentially a three-year commitment. Unlike most WSU students who leave with their degrees five years or so after they enroll, it took me 18 years to leave Pullman and make the trek most of them make to the Seattle area, merging the Washington Center for Real Estate Research into the Runstad Center for Real Estate Studies at the University of Washington in January 2012.

Twenty-one years after we began this journey together (the partnership between the universities and the Department of Licensing), I believe real estate research in Washington has come of age. The media depends on the statistics produced by the university for unbiased understanding of real estate market conditions: home sales and prices, housing affordability, apartment rental markets, and increasingly the commercial real estate market. Clearly these have been exciting times to be an analyst of real estate markets. Unsustainable highs in the first years of the 21st century followed by the most devastating collapse of the real estate market since the Great Depression. Throughout that period I often referred to my crystal ball as cloudy, because the market was on a roller coaster with steeper hills and sharper curves than I ever expected. I guess it is fitting for me to describe the last two decades as a whale of a ride.

The decision to retire was not an easy one. I have been a servant and analyst of real estate markets nationally and in Washington since 1977. I describe myself as an accidental real estate economist. Even before I completed my graduate studies I had a student position with the Bureau of Economic Analysis in Washington, DC, where I was charged with developing a new statistical model of housing starts. From there I went to a consulting position where I was tasked to a couple of assignments on housing for the Department of Housing and Urban Development. Next came a series of positions with the National Association of Realtors research department, and the rest as they say is history. I guess my claim to fame (or perhaps infamy) during my NAR years was creating the Housing Affordability Index. Hurriedly developed in 1982 as a way to illustrate how the Federal government policy of high interest rates at the time was pricing American families out of homeownership, I never felt it was adequately vetted before its initial release, but the Chief Economist couldn't resist the temptation to tell the Washington Post about our new measure. Surprisingly, it has endured nationally and came with me to the State of Washington where I prepared the measure for each of the state's 39 counties.

In addition to the basic statistics, WCRER and the Runstad Center have an obligation to inform public policy discussions. We have studied how effectively the Growth Management Act has promoted affordable housing. Several studies have addressed how the real estate industry generally and the low-income housing industry in particular have contributed to the economy of the state. Research has advised the Washington housing commission on ways to allocate low-income housing tax credits to those areas with the greatest need while at the same time ensuring that small population areas have access to funds to address the housing challenges they face. I was also honored to be asked by the Attorney General to serve on the blue-ribbon committee which was established to help guide the allocation of funds received by the state under the foreclosure settlement with large mortgage lenders.

The last year has brought several flattering recognitions that are deeply appreciated, beginning with statements by the current real estate commissioners about how the research has helped them understand the industry they administer (and within which they work each day). This was followed by a resolution by the Washington House of Representatives recognizing my service to the state. The Washington Realtors recognized me at their Spring Business Conference. Finally, as part of their Leadership Dinner in October the Runstad Center for Real Estate Studies created a research scholarship in my name. Nothing could be a more fitting tribute, and I am humbled by these recognitions.

Leaving this career of service to the industry is bittersweet. I will enjoy the opportunities to travel beyond the boundaries of this state and to spend precious time with my family, especially the grandchildren who haven't had ample opportunities to know Grandpa, but I will miss my everyday contact with the real estate licensees of the State. I wish all of you well!





# Using MLS Data to See Sales Trends

Ryan G. Miller, MUP

Since 2012, the Runstad Center for Real Estate Studies at the University of Washington has been partnering with the Commercial Brokers Association (CBA) in an effort to better understand commercial sales trends within Washington's urban real estate markets. As a member-owned cooperative that includes over 3,500 participating real estate agents, CBA maintains a comprehensive commercial multiple listing service for the entire Pacific Northwest region. By sharing their commercial sales data, CBA has enabled Runstad researchers to examine variations in commercial property value across the dual dimensions of locations and time.

## Sales Trends by Submarket

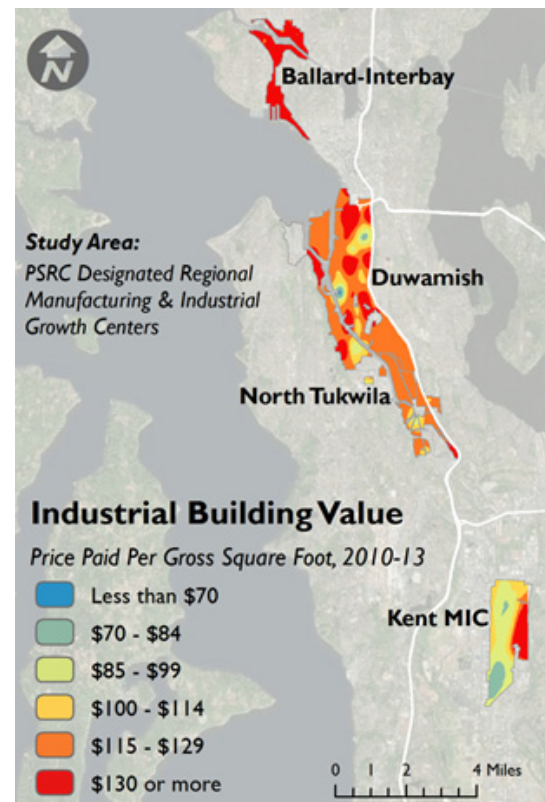
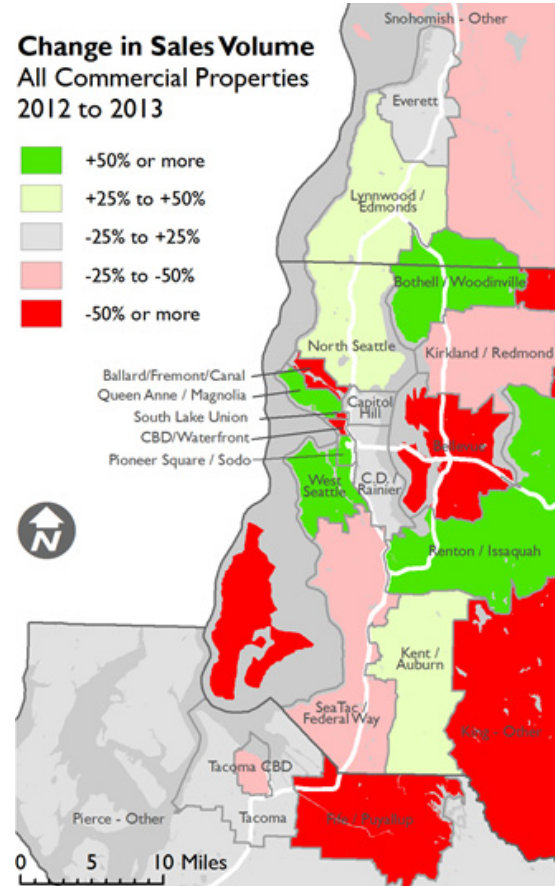
Over the past year, student researchers at the Runstad Center developed potential products using the CBA data. One early effort was to group sales into custom-tailored submarkets covering the Puget Sound region. The map on the right shows how 2013 compares to 2012 in terms of total commercial sales volume for 23 submarkets developed in consultation with the real estate industry. Top locational movers in 2013 were Pioneer Square/Sodo, where sales volume jumped by over \$400 million, boosted by large office sales such as the 505 First Avenue Building, and in Bothell/Woodinville, where numerous office and high tech sales in the Canyon Park neighborhood helped to more than double the sales volume in 2013 compared to 2012. Sales volume decreased the most in a number of submarkets, including the Seattle central business district, which had experienced an exceptionally strong 2012 with the sale of both 1202 Third Avenue (\$548 million) and Russell Investments Center (\$480 million).

## Regional Growth Centers: How 'Hot' is the Market?

Researchers at the Runstad Center have recently begun to leverage the precise geographic information included with the CBA data to generate a series of 'interpolated surfaces' – or heat maps – of property value for selected study areas throughout the Puget Sound region. In order to create these maps, unknown values are estimated based on nearby known values using mathematical methods aimed at minimizing error. Such geo-statistical techniques have traditionally been used in the environmental and physical sciences, but have been gaining wider use in urban economics and real estate research.

The map at right estimates the value of industrial real estate holdings within four "Manufacturing and Industrial Centers" as defined by the Puget Sound Regional Council. For each center, the value 'heat map' was created using nearby sales over a four year period from 2010 to 2013, converted to 2013 dollars and shown on a dollar per gross square foot basis. While the color scale clearly illustrates how the industrial properties in Interbay and Ballard have a higher per square foot value than those located in the Duwamish Valley, exactly what accounts for the differential would require a more refined level of analysis. Nevertheless, it is reasonable to assume that given the environmental issues in the Duwamish, proximity to the Port in combination with a well-defined transportation infrastructure appears to drive the highest locational values in this market. Likewise, properties close to the east side of the Green River Valley in Kent, perhaps as a function of better freeway access than those in the middle of the valley, may account for obvious value differential.

While the maps presented here represent only a preliminary illustration of an ability to estimate value over both space and time, the Runstad Center looks to continue this research by exploring new methodologies and refining existing techniques. Through focused research and a continued partnership with the CBA, the Runstad Center is committed to the continued development of value-added products that will better inform and serve the entire Puget Sound real estate community.



# Disciplinary Actions

## December 2013

### Steven P. Davenport — Yakima

Finding: Failed to resubmit another fingerprint card after an original card was rejected by the Washington State Patrol.

Action: Real estate broker license suspended until a new fingerprint card is received.

### Kelly L. Bauer — Enumclaw

Finding: Unprofessional conduct —

- o Brokered lease agreements without going through brokerage.
- o Deposited money into personal account instead of brokerage firm's trust account.

Action: Real estate broker license revoked for 10 years.

### Kenneth F. Enslow — Tacoma

Finding: Failed to deposit earnest money.

Action: Fined \$500.

### Tracie Rebar — Bonney Lake

Finding: Unprofessional conduct —

- o Falsified information on multiple listings and purchase sales agreements.
- o Failed to deposit earnest money.
- o Gave false information to sellers.
- o Allegedly forged a signature resulting in release of earnest money.
- o Failed to show up for multiple interviews with us.
- o Failed to provide requested documents to us.

Action: Real estate broker license revoked for 10 years.

## January 2014

### Ronald Gilles-Sequim

Finding: Failed to exercise reasonable skill and care.

Action: Fined \$250.

### Vicki Smith — Vancouver

Finding: Unprofessional conduct — Failed to report conviction.

Action:

- o Real estate broker license suspended 1 year, stayed (not imposed) for 3 years.
- o Fined \$2,500.

## February 2014

### Maureen Moore — Marysville

Finding: Failed to ensure information presented to parties was accurate.

Action: Real Estate Broker License revoked for 7 years.

## March 2014

### Daniel Curtin — Seattle

Finding: Unprofessional Conduct — Failed to disclose easement.

Action:

- o Real Estate Broker License suspended 1 year, all stayed (not imposed) for 3 years.
- o Required to complete a 30 hour Real Estate Practices course within 9 months.

### Janine Duncan — Seattle

Finding: Failed to exercise reasonable skill and care and failed to disclose easement.

Action: Real Estate Managing Broker License suspended 1 year, all stay (not imposed) for 3 years.

### Thomas Hopper — Anacortes

Finding: Unprofessional Conduct —

- o Failed to disclose 2010 conviction for Theft 3rd Degree.
- o License to practice as a registered nursing assistant was revoked for 5 years by the Washington State Department of Health.

Action: Real Estate Managing Broker License suspended 3 years, all stayed (not imposed) for a period of 5 years.

### Sue Kim — Bellevue

Finding: Failed to deposit earnest money.

Action: Fined \$1,500.

### Gabriel Graumann — Everett

Finding: Performed unlicensed activity.

Action: Real Estate Designated Broker License suspended 1 year, all stayed (not imposed) for a period of 3 years.

### Duane Hodges — Lynnwood

Finding: Aiding and abetting unlicensed activity.

Action: Real Estate Designated Broker License suspended 1 year, all stayed (not imposed) for a period of 3 years.

## April 2014

### Paula G. Anderson — Bellevue

Finding: Failed to deposit earnest money in accordance with the Purchase and Sale Agreement.

Action: Real Estate Broker License suspended 60 days, all stayed (not imposed) for 1 year; Assessed a fine of \$1,000.

# Disciplinary Actions

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## **James C. McClung — Mukilteo**

Finding: Unprofessional conduct — Convicted of Attempted Theft in the Second Degree.

Action: Real Estate Broker License revoked for 10 years.

## **Valerie J Claypool — Edmonds**

Finding: Unprofessional conduct — Judgment for sums and property fraudulently converted for personal gain and/or not accounted for during appointment as an Attorney-In-Fact for elderly and vulnerable person.

Action: Real Estate Broker License revoked for 10 years from November 16, 2010.

## **Kristen D. Carlson — Bellevue**

Finding: Failed to keep adequate records or accounts for lease deposits, lease payments and the lease to own contracts.

Action: Real Estate Broker License suspended 60 days, all stayed (not imposed) for 1 year; Assessed a fine of \$1,000.

## **May 2014**

### **Terry Suzuki — Federal Way**

Finding: Failed to disclose real estate or business related judgments

Action: Real Estate Broker License suspended 2 years

### **Frederick Nogales — Kennewick**

Finding: Failed to supply fingerprint card.

Action: Real Estate Managing Broker License suspended until we receive fingerprint card.

### **Debra White — Wenatchee**

Finding: Failed to formally present a written offer in a timely manner.

Action: Real Estate Designated Broker License suspended 1 year, all stayed (not imposed) for a period of 3 years; Assessed a fine of \$2,500.

### **Anne W Curry — Tacoma**

Finding: Failed to deposit earnest money in accordance with the Purchase and Sale Agreement.

Action: Real Estate Broker License suspended 1 year, all stayed (not imposed) for a period of 3 years; Assessed a fine of \$2,500.

### **Roger S Weaver — Ellensburg**

Finding: Failed to have a signed property management agreement, or signed lease agreement.

Action: Assessed a fine of \$2,500, complete a course in property management.

## **June 2014**

### **Ray W Davis — Sumner**

Finding: Unprofessional conduct — Convicted of 2 accounts of Theft in the Third Degree.

Action: Real Estate Broker License revoked for 5 years from January 31, 2014.

### **Nicholas Southard — Bellevue**

Finding: Unprofessional conduct - False advertising.

Action: Real Estate Designated Broker License suspended 2 years, all stayed (not imposed) for a period of 5 years; and Complete a course in Ethics.

### **Kert A Zavar — Des Moines**

Finding: Misrepresentation.

Action: Real Estate Broker License suspended for 6 months, all stayed for a period of 6 months; Assessed a fine of \$1,000.

## **July 2014**

### **Paula Fortier — Bellevue**

Finding: Failed to supervise broker

Action: Assessed a fine of \$1,000

## **August 2014**

### **Tracy Tyler — Olympia**

Finding: Failed to return property management funds

Action: Real Estate Managing Broker License revoked 10 years

### **Khai Nguyen — Lynnwood**

Finding: Failed to disclose convictions - three counts First Degree Theft and one count Second Degree Theft

Action: A Real Estate Broker License suspended 1 year, all stayed (not imposed) for a period of 3 years; Assessed a fine of \$2,500

