REAL ESTATE LICENSEE UPDATE

WASHINGTON STATE DEPARTMENT OF LICENSING

JAY INSLEE, GOVERNOR
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PAT KOHLER, DIRECTOR
SUMMER 2015

In This Issue

A Follow-up to LEED

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

In the Summer 2014 edition of this newsletter, the opening article began a discussion of several prevalent issues pertaining to green building certification programs such as LEED. These were some early observations made during what has now been an 18-month research project conducted by the Runstad Center for Real Estate Studies for the Washington State Department of Licensing. The project was intended to explore the conversation surrounding green building and certification within commercial real estate. Ultimately this research developed a methodology for analyzing the monetary value of certifications like LEED.

Because green building and certification are relatively new trends in efforts related to the built environment, the extent of opportunities and challenges have still not been fully realized. Initial research demonstrated that there is room for significant advancements in gathering available data, research, and understanding of the value and valuation of green building. During this exercise the Center utilized its many relationships to conduct interviews with industry leaders from the following fields: developers, building owners, investors, commercial tenants, brokers, architects, contractors, and financiers.

These conversations generated an interesting supposition. A significant contingent of industry leaders asserted that, because green building certifications have so quickly taken hold, and in certain cities such as Seattle, there is essentially full market uptake of the principles behind the certification, these programs are less of a market differentiator than they may have been years ago. Thus, exploration of this subject has revealed that the story may have "moved on." More specifically it seems that there are more important and pertinent facets regarding the valuation of commercial real estate. This contingent suggested that, while certifications like LEED once ranked second or third on their lists of important building characteristics, they do not even make their top 10 lists today.

This contingent suggested that the aspects they are now most interested in are what kinds of amenities the building has to offer. By amenities they refer to components that are "sexy," or visible, such as weight rooms, bicycle facilities, and innovative common spaces. It should be acknowledged that while many of these amenities are accounted for in LEED's certification programs (such as bicycle facilities), some are not (such as weight rooms). In thinking about other aspects of sustainable building components: aspects pertaining to environment and ecology remain prevalent because they have been proven to save building owners and operators money on energy, emissions, and water use. These aspects, however, are becoming more and more obligatory with evolving building and energy codes, which makes it more difficult for them to be differentiators. Site characteristics likewise remain prevalent but are out of the control of the developer of a single property (a developer cannot increase public transit services near their parcel to earn the LEED "Access to Quality Transit" points). It is the amenities, which many believe, have the ability to add significantly to a building's economics.

For the full report visit the Runstad Center for Real Estate Studies website at:

http://realestate.washington.edu/research/wcrer/reports/

Auditing Property Management: Advice from an auditor

Melicent Kiser, Audit Supervisor

In this brief overview of property management I hope to give the reader some insight to what you as a property manager can expect when the Real Estate Unit Auditors come unannounced knocking on your door.

First, what is the definition of Property Management in the world of Real Estate firms in Washington State? It is the marketing; leasing; renting; the physical, administrative, or financial maintenance of real property; or the supervision of such actions.

As a property manager you legally bind yourself by agreement to an owner. In return the owner agrees to pay a fee or fees for your services.

Once all parties have signed the contract and agreed to the terms, your work has now begun. This article will concentrate on what is expected by the department.

What does the Real Estate Auditor look for when we audit your firm? Here are just some of the items that the auditor will look for:

Are records maintained for the appropriate time frame? Property management records are to be maintained for a minimum of 3 years after the close or discontinuance of the management of a property.

Records should be accurate, accessible, and up to date at all times. The auditor will reconcile to the date that they are at your firm. During the audit the auditors will ask for: (a) past reconciliations and trial balances (b) latest bank statement, (c) checking account records (credits/debits), and (d) summary ledgers for both your owners and tenants. Ledgers are on account of entries which show the funds in and out of an individual's account.

Bank accounts should be in the name of the firm as licensed and designated "trust" in the title of the account.

Auditors will look at canceled checks to see that both back and front of the checks, confirmation of wire transfers, deposit slips, voided checks (defaced), and samples of management and tenant lease agreements to verify that each agreement meets the compliance standards.

Management agreements with owners are signed by the owner and designated broker or their written delegated managing broker.

Have summary statements been provided to the owners per the management agreement with balances carried forward from previous summary statement. If the firm provides services in addition to brokerage services to the owners, the firm must provide full disclosure to the owners in writing of the broker's relationship with any and all persons providing such services. In the disclosure they must also include the fees they charge and owner must grant permission.

The above items are just a few of the responsibilities that a firm and licensee take on when deciding to provide property management services. As an auditor I have seen many firms fail because they were not aware of the overwhelming responsibility of managing both large and small third party funds.

Before attempting to take on property management know what will be expected of you and your firm. Educate yourself with the financial and physical responsibly. Don't just depend on someone else to watch your financials. Just as you hire qualified licensed subs to perform duties at the properties, your oversight of the monetary portion also needs qualified staff.

For more information please visit the website:
http://www.dol.wa.gov/business/realestate/index.html

Sources: RCW/WAC under laws and rules.

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Washington Center Real Estate Research

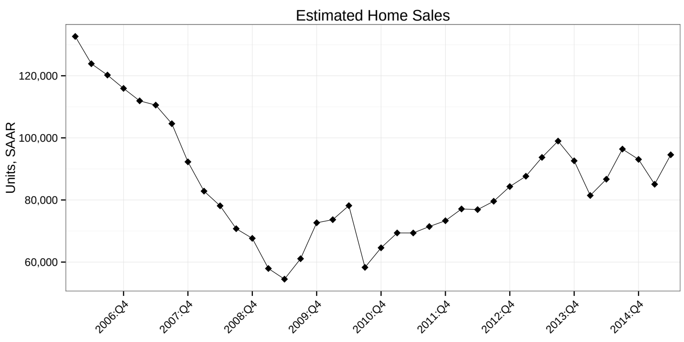
Real Estate Market Roundup

Peter Orser, Director, Runstad Center for Real Estate Studies, University of Washington

By the middle of 2015, the housing market had heated up somewhat from fourth quarter of last year. Foreclosures and seriously delinquent mortgages continued their decline. Housing prices, which had decreased in the fourth quarter, were back on the rise by Q2, 2015. Rising home prices were similarly met with a decrease in housing affordability for all buyers as well as first time buyers.

Sales and Construction Activity

Home sales activity in Washington had dipped slightly in the first quarter of 2015, only to bounce back to levels seen at the end of 2014. Compared to a year ago, the seasonally adjusted annual sales rate (SAAR) increased 8.9 percent to a level of 94,550 homes.

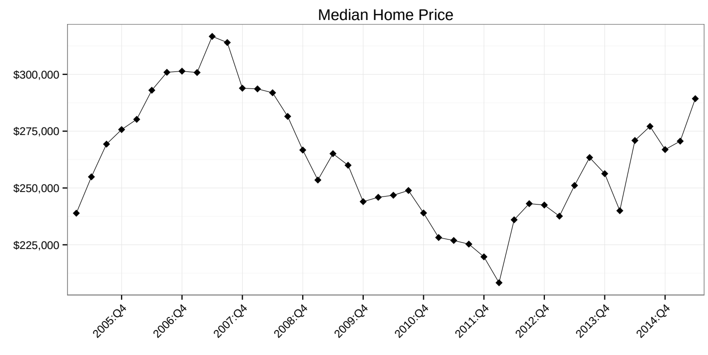


Despite the strong statewide sales during the second quarter of 2015, a total of 10 counties saw their seasonally adjusted annual rate of sales decline when compared to the first quarter of 2015. Similarly, 10 of the counties recorded a decline in SAAR sales when compared to the second quarter of 2014. Despite seeing a drop in sales activity in the first quarter of this year, in the second quarter we have seen numbers of sales comparable to those reported in our previous newsletter roundup.

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 7,755 building permits were issued statewide during the second quarter of 2015. This represents a 3.8 percent increase over the total number of building permits issued in the second quarter of 2014.

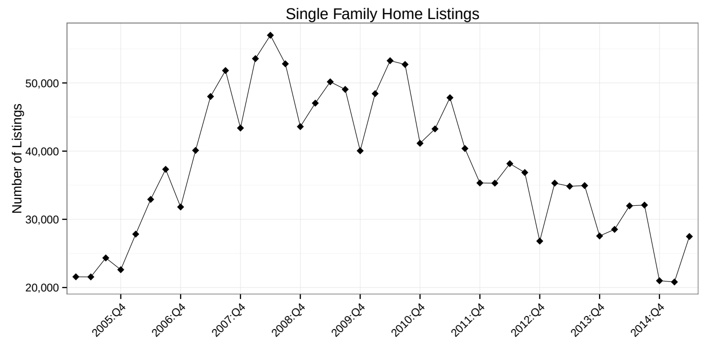
Home Prices

Compared to a year earlier, the relative increase in the median resale price of a single-family home in Washington was 9.5 percent. In absolute terms, the increase was $18,400. At $289,300, the median home price during the second quarter of 2015 is up substantially from the previous two quarters, and similar to the second quarter of 2008. More locally, median house values ranged from a high of $495,500 in King County to a low of $85,000 in Lincoln County. Only two counties, Ferry and Lincoln counties, reported a lower median price than a year



ago. Double-digit increases in medians were reported in eighteen counties.

Several groups, especially S&P CaseShiller 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.



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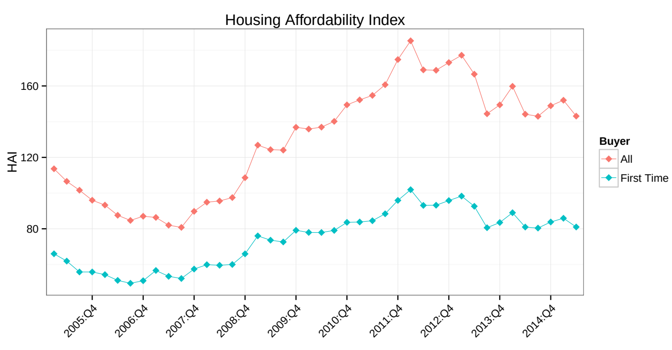
Real Estate Market Roundup, continued from page 3

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. The CaseShiller report is limited to 20 major metropolitan markets while the FHFA reports all metropolitan areas and statewide measures. In June, the FHFA reported in their U.S. House Price Index Report that the one-year appreciation in Washington home prices was the fifth highest among the states in the second quarter at 8.76 percent.

Affordability

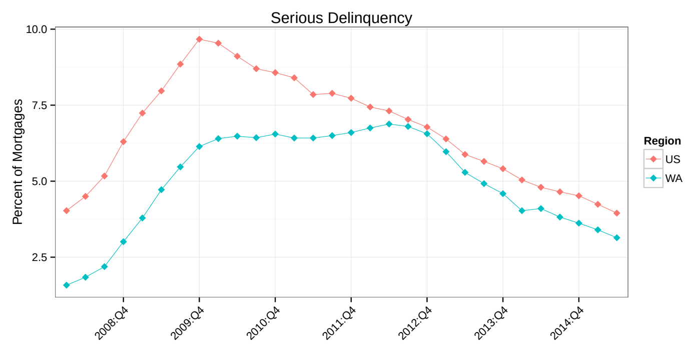
The Runstad Center produces two measures of housing affordability, following the model developed in 1982 at the National Association of Realtors®. The All-Buyer Housing Affordability Index (HAI) compares the mortgage payments on a median price home to median FAMILY income (2 or more persons, related 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 143.1, meaning the typical family has 43.1 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 1.1 points from a year ago.



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 2015, the statewide FTBHAI stood at 81.0, the same as this time last year, but a decrease from 85.9 in the first quarter of 2015. Firsttime buyer affordability indexes ranged from a low of 47.3 in San Juan County to a high of 260.1 in rural Lincoln 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.

Foreclosures and Delinquent Mortgages

In the second half of 2015, Washington State mirrored the national trend of decreasing percentages 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 the second quarter, the percentage of seriously delinquent mortgages stood at 3.14 percent in Washington and 3.95 percent nationwide. That number represents a 0.48 point reduction as compared to a year ago.



Parking: What the Research Says

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

In recent decades, the Puget Sound Region, and the City of Seattle have chosen to accommodate growth in both jobs and housing in consolidated areas called Centers and Villages. Along with these land use tools and policies, they have elected to invest substantially in expanding both region and citywide transit networks. This is in part to accommodate the movement of so many people in such densely developed places and also because space is finite and Seattle has run out of room to add more roads.

Another aspect of discussions of land use and transportation, which have often historically been neglected, are considerations of parking. Parking influences not only how people travel, but also how a city uses its land. Accordingly, the impacts of parking on urban form and travel behavior are compounded. When there is an oversupply of cheap parking, residents and employees are effectively incentivized to use single occupancy vehicle. This in turn, along with population and employment growth, suggests a need for more parking, which consumes more finite lands and the cycle continues.

Over the last 18 months the Runstad Center for Real Estate Studies has been conducting research for the Washington State Department of Licensing on parking, in and around new mixed-use developments, in designated growth areas, with frequent and reliable transit. The intent of this research was to explore whether the off-street parking provided by these mixed-use developments was reasonable and responsible. Further, because Seattle Municipal Codes have recently begun offering several opportunities for parking reductions, this study was interested in whether or not developers of these new buildings were taking advantage. This research also analyzed on-street parking conditions in two study areas, Ballard and West Seattle, to identify: cost and regulations, price disparity compared to off-street parking, and general use. Ultimately, the combination of off- and on-street parking situations offered insight into whether spillover was occurring in the study areas.

In both study areas, mixed-use developments were providing parking supplies characteristic of an older, more auto-centric mentality despite the parking reduction opportunities. This generous supply was, however, seemingly justified as it was generally found that this parking was being appropriately utilized. In each study area, the on-street parking was generally found to be free, under regulated, and readily available. While overnight parking did not seem to be an issue, it is likely that weekend parking around the commercial centers of these study areas are culprit of many on-street parking issues reported on by the popular press. It was discovered that some spillover was occurring from mixed-use developments into the adjacent neighborhood's on-street parking, but not nearly to the extent that single- and multi-family uses were spilling over.

Finally, because most developers continue to provide traditional parking supplies despite reduction options, very few opportunities exist to investigate on-street parking trends of residents in buildings that significantly under-provide parking. Fortunately, this can be achieved by analysis of the micro housing developments that exist in the study areas. Micro housing is a new Seattle trend where, because the of the way municipal code is written, developers can put eight non-related "bedrooms" around a common kitchen and living space and call it 1 dwelling unit. These developments both sneakily skirt the design review process and also do not require parking. Because these buildings have no parking requirements and, by-and-large, do not provide it, they make a strong case for revealing auto and parking trends in undersupplied buildings.

As of last year there were two operating micro housing developments in Ballard, which consisted of 12 "dwelling units" or 98 separate sleeping rooms. In West Seattle there were similarly two micro housing developments, which consisted of 12 "dwelling units" or 91 separate sleeping rooms. Between the two study areas, a total of only 3 vehicles registered to these addresses were found to have been spilling over onto on-street parking.

For the full report visit the Runstad Center for Real Estate Studies website at: http://realestate.washington.edu/research/wcrer/reports/

DOL Quick FAQs

The Real Estate Program is often asked:

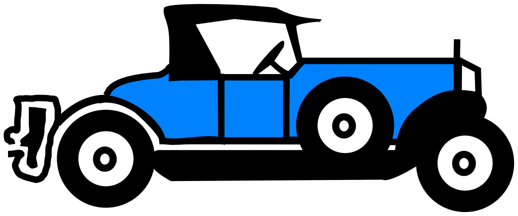
"Can a real estate licensee conduct property management outside the authority or supervision of their employing real estate firm if the person is only conducting activities identified in the exemptions found in the statutes?"

The simple answer would be no. Once a person becomes licensed, the exemptions no longer apply. Incorporated into the exemption statute are activities where someone would be exempt from obtaining a broker or firm license.

An unlicensed individual who is conducting property management activities may not advertise their services to the public. The statute identifies the specific limited property management duties an individual may perform without obtaining an active real estate broker's license.

Real Estate Brokerage Services is defined as offering to list, sell, option, rent, lease of real property, or negotiating the sale, listing, rentals, or leases of real property. If you are actively licensed all property management activities are done on behalf of the firm and under the supervision of the managing broker.

RCW 18.85.151(12)
RCW 18.85.011(16)



Disciplinary Actions

January 2015

Jess Stansberry — Bothell
Finding: Unprofessional conduct – Failed to respond to Department's request for information.
Action: Real Estate Designated Broker License suspended for one year or until he cooperates with the Department's investigation.

Clifford Butler — Federal Way
Finding: Unprofessional conduct – Failed to return tenant's security deposit. Failed to respond to Department's request for information.
Action: Real Estate Designated Broker License revoked for 10 years.

February 2015

Thomas Biehl — Sunnyside
Finding: Unprofessional conduct – Misrepresentation and conversion in connection with monies intended to fund numerous real estate transactions.
Action: Real Estate Managing Broker License revoked for 10 years.

Bryce Sheldon — Puyallup
Finding: Unprofessional conduct – Commission of an act of dishonesty.
Action: Real Estate Broker License revoked for 5 years.

March 2015

Joseph Eadie — Bellevue
Finding: Unprofessional conduct – Commingling of client funds. Operated an unlicensed property management company.
Action: Real Estate Broker License revoked for 3 years.

April 2015

Timothy Moyer — Spokane
Finding: Unprofessional conduct – Selling securities without a license.
Action: Shall not apply for any real estate license for a period of 5 years.

Dennis Gorin — Tacoma
Finding: Unprofessional conduct – Theft of government funds.
Action: Real Estate Designated Broker License revoked for 10 years.

May 2015

Trong Dang — Kent
Finding: Unprofessional conduct – Providing false document.
Action: Real Estate Designated Broker License suspended 1 year, all stayed (not imposed) for a period of 4 years; and assessed a fine of $500.

John Elliott — Tacoma
Finding: Unprofessional conduct – Multiple real estate related judgments.
Action: Real Estate Managing Broker License revoked for 1 year, all stayed (not imposed) for a period of 5 years; and assessed a fine of $5900.