REAL ESTATE LICENSEE UPDATE

WASHINGTON STATE DEPARTMENT OF LICENSING

JAY INSLEE, GOVERNOR
VOLUME VIII, ISSUE 1

PAT KOHLER, DIRECTOR
WINTER 2015

In This Issue

Virtual Currency 1

Professionalism 2

Real Estate Market Roundup 3

Dear Apartment Owners: I'm Technology, and I'm here to help! 5

Disciplinary Actions 8

We are committed to providing equal access to our services. If you need special accommodation, please call (360) 664-6526 or TTY (360) 644-0116.

Virtual Currency

This article was adapted with permission from Idaho's July 2014 "The Real Estatement" newsletter. Authored by Craig Boyack, Idaho Chief Investigator.

Virtual currency is an internet form of money, and it's gaining a foothold in our society. They come with names like Peercoin, Litecoin, and the big player, Bitcoin. Virtual currency has been called everything from the next evolution in commerce to the newest Ponzi scheme. The fact is there are risks to using virtual currencies.

These currencies do not exist physically. They are not backed by any government, and are not insured by the FDIC or any other entity. There have been many hacking type thefts, and one large provider has gone bankrupt.

Virtual currencies are extremely volatile. Five hundred "coin" might be worth $500 on the day they are acquired. They may be worth $5000 or nothing a week later.

From a real estate standpoint, they would certainly qualify as goodwill. This means they can be used as consideration in a contract. The Internal Revenue Service recently decided they are personal property. Personal property can also be used as consideration on a contract. While virtual currencies do not qualify as earnest money, they may be used as another form of consideration.

The License law does not allow for any kind of account that would qualify as a broker's trust account for virtual currencies. This means brokers cannot handle virtual currencies for their clientele. When using an attorney or escrow holder, brokers must address the possibility of a change in value. What happens when the "coins drop in value prior to closing, what if they increase in value? All terms and conditions must be included in the Purchase and Sale Agreement.

Consumers are allowed to make bad decisions. It's the licensee's job to make sure they make an informed decision. Virtual currencies come with genuine risk. It is the licensee's responsibility to discuss these risks with the consumers. Prudent licensees will put the discussions in writing.

Don't put your consumer in the position of arguing who gets the increase in value when the "coins" go up. Put it in writing before this happens. Don't be the licensee who allowed a client to sell her house for 300,000 virtual coins only to learn they're worth $500 after the property closes.

The Department of Licensing does not recommend the use of virtual currency in any real estate transaction.

Professionalism

Adapted from an article with permission from California's Real Estate Bulletin (Fall 2014), by the California Real Estate Commissioner Wayne S. Bell

The Washington Real Estate Program recently conducted a survey asking licensees what content real estate licensees wanted in the three-hour CORE course. As with most surveys, the interesting information came from the comments section. We had a number of comments that articulated the need for professionalism and broker cooperation within the industry.

This brought to mind a recent article I had read in the California "Real Estate Bulletin" by the California Real Estate Commissioner Wayne S. Bell, where he discussed what makes a real estate practitioner a professional. Although California Real Estate Licensing Law differs from Washington Law, I would like to share his discussion while adapting the differences to convey Washington Law.

What Makes a Real Estate Licensee a Professional, and What Adds Up to Professionalism?

1. A combination of appearance and attitude (or presenting oneself "professionally"), and excellent client service.
2. Understanding and following the important statutory duties imposed on real estate licensees to their customers and clients. See RCW 18.85.361 and RCW 18.86.030.
3. Being organized, disciplined, prepared, trustworthy, honest, credible, and reliable.
4. Being civil, kind, ethical, and responsive (including communicating with clients, cooperating brokers and parties on the other side) in business dealings.
5. Delivering consistently first-rate work and results.
6. Following the lawful instructions of clients.
7. Having the education, knowledge, and experience necessary to achieve the results a client wants.

A real estate licensee's education does not end with the passing of the real estate license examination. Real estate examinations demonstrate minimum or "minimum-plus" basic competencies to enable a person to practice. Professionalism requires far more in terms of education, training, actual practice, learning from other "professionals," and germane experience, and the "more" can only be provided by those who have practiced, done the work, understand the work, and/or can educate others about the work. The "more" also includes staying current on the laws and regulations and rules.

I would suggest that not many patients would go to a surgeon who only passed the medical boards (the minimum standards required for licensure), and who had no practical experience or mentoring. Rather, I would posit that patients go to a surgeon because of that doctor's experience, skills, abilities, results, and reputation.

The same analysis is surely applicable to what makes a real estate licensee a professional. It is a combination of education, training, practice, experience, mentoring, and ethical and lawful practice that helps to create a real estate professional in terms of customer care, positive outcomes, and qualitatively high client service.

continued on page 5

Real Estate Licensee Update
Volume VIII, No. 1 Winter 2015

The *Real Estate Licensee Update* is produced semi-annually. The information in this update is being made available to you as an educational service by the Washington Real Estate Commission and does not constitute legal or professional advice. The commission, nor any agency, officer, or employee of the state of Washington, warrants the accuracy, reliability, or timeliness of any information in this publication. Any opinions expressed in the articles are those of each author. It is the responsibility of each licensee to know, and comply with the laws relating to real estate.

Real Estate Commission Contact Information:
2000 W 4th Ave • PO Box 9021
Olympia, WA 98507 • (360) 664-6526

Real Estate Commission Chair:
Kathleen Drew, asst. director, DOL

Real Estate Commission Members:
David Azose, Bellevue
Cate Moyé, Spokane
George Pilant, Tacoma
Jess Salazar, Federal Way
Jeff Thompson, Kennewick
Kyoko Matsumoto Wright, Mountlake Terrace

Real Estate Unit Staff
Jerry McDonald, administrator
Terry Rodgers, asst. administrator
Art Abrahamson, investigation and audit manager
Dee Sharp, appraiser manager
Dolores Casitas, education manager
John Guthrie, timeshare and camp resort manager
Karen Jarvis, home inspector and regulatory and enforcement manager
Debbie Wright, licensing manager

Production and Circulation Staff:
Jerry McDonald, administrator
Terry Rodgers, asst. administrator
Dolores Casitas, editor
Karen Jarvis, editor
Runstad Center for Real Estate Studies staff at the University of Washington, copy/design

Washington Center Real Estate Research

Real Estate Market Roundup

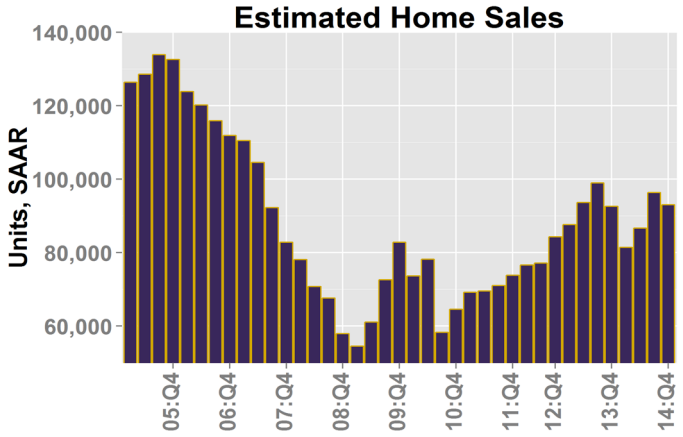
Stephen H. O'Connor, Ph.D, Director, Runstad Center for Real Estate Studies, University of Washington

By the end of 2014, the fevered pitch of the Washington housing market slowed a bit. For the good news, foreclosures and delinquent mortgages continued to decline; housing prices fell slightly and multi-family housing permits kept soaring. Meanwhile, the number of single-family permits issued remained low, while overall affordability marginally improved, it continued to decline in urban areas. 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.

Sales and Construction Activity

Home sales activity in Washington during the fourth quarter of 2014 decreased 3.4 percent from the third quarter to a seasonally adjusted annual sales rate (SAAR) of 93,070 homes. While a small decrease from the third quarter, the SAAR currently stands 0.5% above total home sales activity from a year ago and to a level comparable to the second quarter of 2013.

Despite the strong statewide performance during the fourth quarter of 2014, a total of 21 counties saw their seasonally adjusted annual rate of sales decline when compared to the third quarter of 2014. However, only 13 of the counties recorded a decline in SAAR sales when compared to the fourth quarter of 2013. Meanwhile, the quarter-to-quarter sales rates declined in 10 of the 17 metropolitan areas, with the largest drop recorded in Clark. While nine of the remaining counties also saw declines, the most pronounced was found in Columbia. By contrast, sales increased from the third quarter by more than 10 percent in seven counties, with Spokane County recording the largest metropolitan county increase, while the increase in Okanogan County led all non-metropolitan counties in the state.

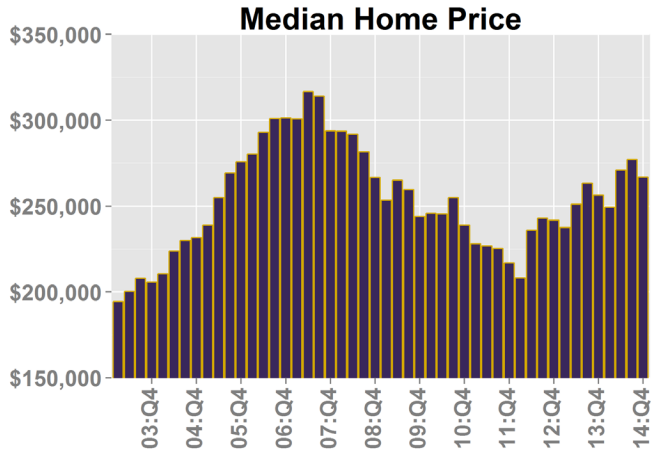


Construction activity, which is measured by the number of single and multi-family building permits issued by cities and counties throughout the state, is reported to and published monthly by the US Census Bureau. While the accuracy of all public information relies on the efficiencies of the reporting jurisdiction, a total of 7,453 building permits were issued statewide during the fourth quarter of 2014. This represents a 7.1 percent increase over the total number of building permits issued in the fourth quarter of 2013. While healthy by any measure, the gain was led by the multifamily sector, which registered a year-over-year increase of 11.2 percent. Conversely, the number of single-family permits issued in the fourth quarter grew much slower, 2.9 percent higher from the same time last year. Not surprisingly, the dollar value of single-family permits increased by 8.1 percent compared to a year ago, climbing to $985 million statewide. Meanwhile, the value of multi-family permits climbed to $539 million; a 14.8 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 4.1 percent. In absolute terms, the increase was $10,600. At $266,900, the median home price during the fourth quarter of 2014 is down slightly from the previous two quarters, and similar to the second quarter of 2009.

More locally, median house values ranged from a high of $449,310 in King County to a low of $60,000 in Ferry County. Nine counties reported a lower median price than a year ago, and only one of those was in a metropolitan area, Walla Walla County, with a 3.8 percent decline. Double-digit increases in medians were reported in seven counties.



continued on page 4

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. 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 again the eleventh highest among the states in the fourth quarter at 7.3 percent, though still below the seasonally adjusted high in the third quarter of 2007.

Affordability

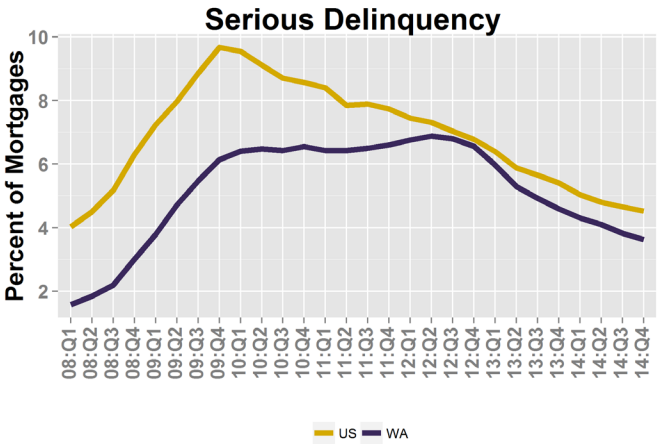
The Runstad Center produces two measures of housing affordability, following the model developed in 1982 at the National Association of Realtors®. The All-Buyer Housing Affordability Index (HAI) compares the mortgage payments on a median price home to median FAMILY income (2 or more persons, related 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 fourth quarter was 148.9, meaning the typical family has 48.9 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 0.4 points from a year ago, but increased by 4.2 points from the third to the fourth quarter in 2014. Among the urban markets the affordability indices ranged from a low of 108.9 in King County to a high of 195.2 in Asotin County (Lewiston ID Metro area).

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 fourth quarter of 2014, the statewide FTBHAI stood at 83.8, up from 80.4 in the third quarter. That's a 4.1 percent improvement in affordability in only three months. First-time buyer affordability indexes ranged from a low of 43.5 in San Juan County to a high of 255.2 in rural Lincoln County. In metropolitan counties the index had a range from 61.1 in King County to 120.7 in Benton 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 second six months of 2014 a total of 3,156 Washington homes completed the foreclosure process and were returned to the lender. This represents a 24 percent decline from the first half of the 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 December, there were still 40,926 mortgages in the state which were seriously delinquent. As bad as that number is, it is 10,839 less than a year ago.



Professionalism

continued from page 2

These vital components of professionalism can be developed by and are found in:

1. Experiential learning (learning from one's own experiences and the mistakes of others) and practice in the real world.
2. Careful and competent supervision of brokers by experienced and "professional" real estate managing brokers.
3. Quality real estate education and study (including the study of applicable statutory duties and ethical standards and canons), and "professional development" programs.
4. Mentoring, where a more experienced or seasoned real estate professional shares his or her time, skills, knowledge, and wisdom with a newer or less-experienced licensee in need of upbuilding and such mentoring.
5. Practical training programs on the "nuts-and-bolts" and the "how- tos" of the real estate practice, and on managing a real estate business.
6. Being an active participant in industry associations, commission and sub-committee meetings.

It is also important to note that real estate licensees— no matter their practice area—should always endeavor to recognize their own limitations as far as practice competencies, and refer clients where necessary, associate with practitioners with the requisite experience and abilities, or acquire the education and skills that are needed before performing real estate work.

The impartation and development of relevant and practical real estate knowledge and skills, together with ethical and high-quality practice in full compliance with the fiduciary duties imposed by law, are the core foundations of professionalism.

Making the Washington real estate industry more professional, putting the focus on a "professional consciousness," and uplifting the standards of practice in this State, are objectives the Real Estate Commission and the Department of Licensing share with you.

Dear Apartment Owners:

I'm Technology, and I'm here to help!

Dylan Simon, Colliers International

As commercial real estate investors, often time we are hesitant to adopt new technologies. Yet, use of technology can greatly assist us in everyday tasks that can both make us better at what we do and faster. So please stick with me, allow me to offer something in return for your trust in the author – the possibility of returning your time, possibly in spades.

Technology is often not about something new or undiscovered, as many of us realize there is precious little new under the sun, and it is seldom that we discover true novelty. Instead, I submit that what we often have to gain in adopting the use of new technologies is that which we have the least of – time.

The following is a survey of a few modern technologies that I consider important. Useful. Ones that many of us can use to help us go about our daily business lives to increase our efficiency and leave us time to perform new tasks.

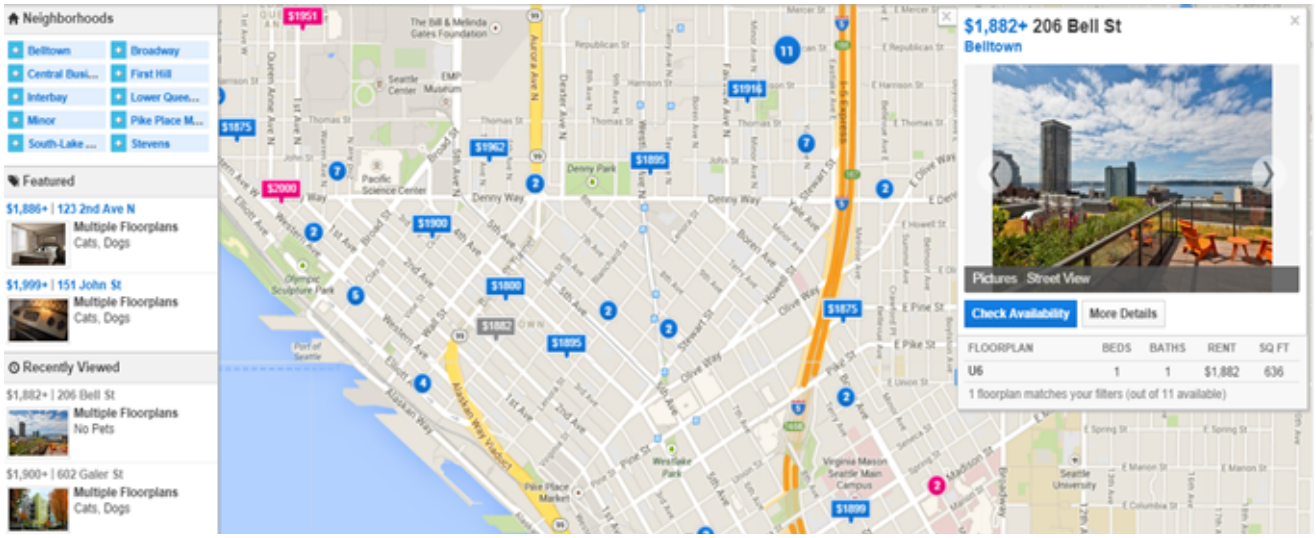
Tracking Market Rents – Zumper

Whether you are attempting to track market rents in a known market or parachuting into a new market, doing so can be challenging. Beyond tracking new developments hitting the market, you must consider new floor plans, finishes, amenities and other rent altering variables that are constantly in flux. Zumper is here to help. This technology allows you to quickly analyze any submarket and get a sense for rent levels and available product.

continued on page 6

Dear Apartment Owners

continued from page 5

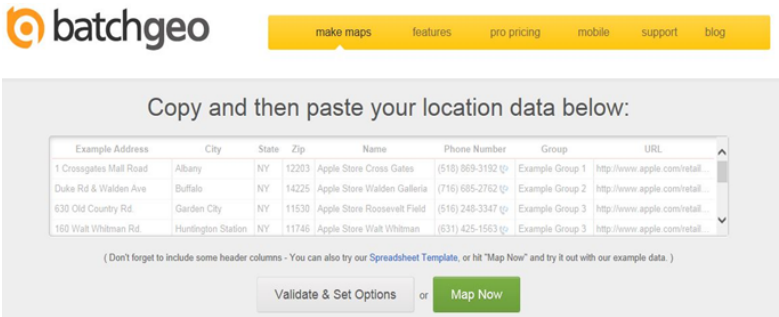


Also check out: Lovely, Apartment List and a relative newcomer, Zillow – yes, they now cover rentals and are on a tear. Goodbye Craigslist.

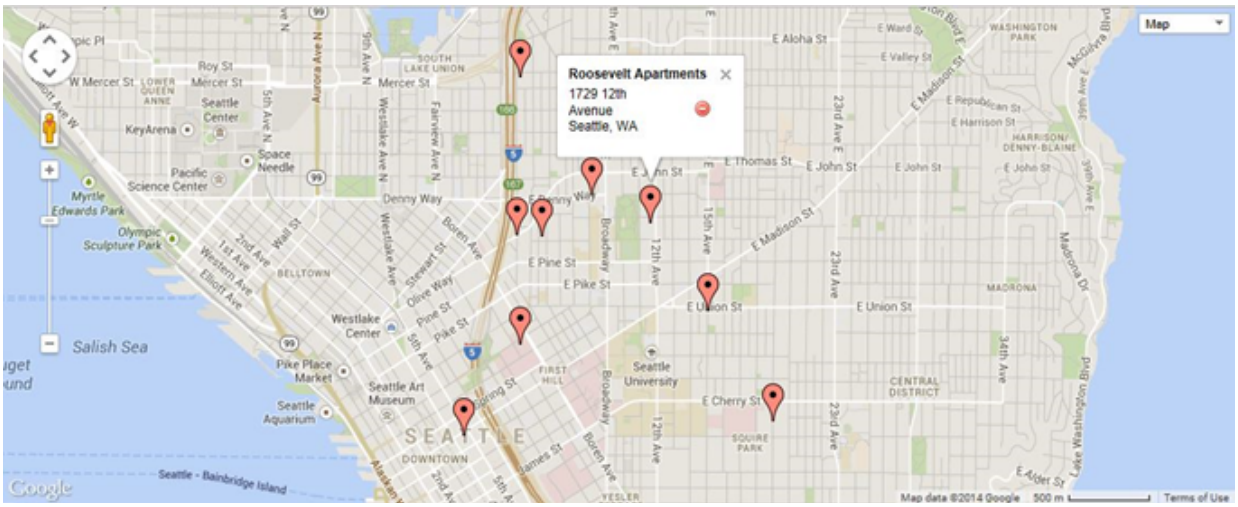
Mapping – BatchGeo

As you well know, and see in practice above with Zumper, placing data on a map makes a world of difference. Introducing BatchGeo. Based on uploading just about any spreadsheet, and easy to use, BatchGeo greatly simplifies visualizing and comparing different locations.

Its simple...enter data here:



And output a map with data here:

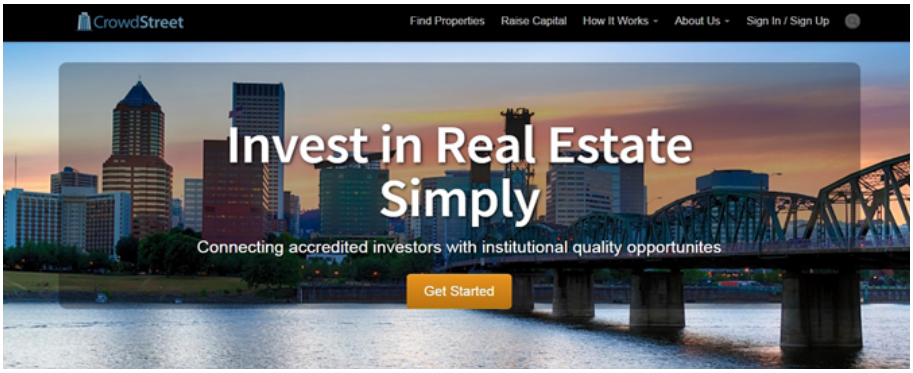


BatchGeo has competitors as well, although I find it one of the simplest to use. If you want other options, try: eSpatial or Google Engine.

Raising Capital –CrowdStreet

When I wrote the blog post CRE Joins the Crowd earlier this year, it was more of a controversial topic. However, several months and tens of millions of dollars crowdfunded later, some of the controversy has subsided and crowdfunding has become a bit more mainstream.

CrowdStreet is one such platform achieving great success lately. The concept is relatively simple – technology is leveraged to introduce real estate investors, both on the capital side and the sponsor side, to one another. Developer/buyer – meet investor/equity source. Voila!

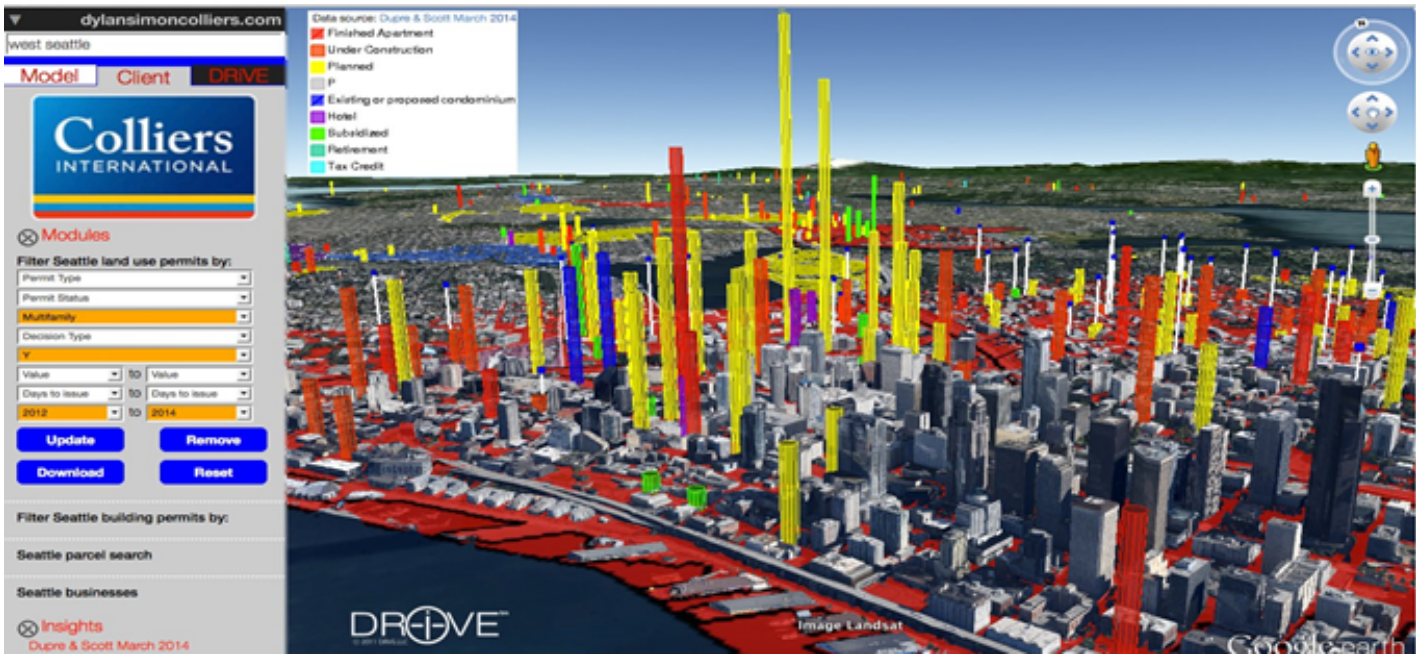


Crowdfunding is here to stay (if you don't think so, ask Forbes) and CrowdStreet is not the only player in the game. Also, check out Realty Mogul, FundRise and RealtyShares.

What do I use?

I use a lot of technology in my brokerage practice. I get most excited about opportunities to glean greater insights by layering data and using mapping software to visualize the data.

For instance, when I open my customized Google Earth application to understand what is happening in Seattle, this is an example of what I see:



If you want to learn about the technology I use, just ask. And if you don't think technology is soon going to play a major role in our industry, take a look at Google's latest investment.

As always, I'd enjoy discussing my thoughts on the application of technology in commercial real estate with you. You can find more of my writing or reach me directly at www.dylansimon.com.

Disciplinary Actions

September 2014

Sheri Hilton — Bend, OR
Finding: Unprofessional conduct – Deceptively facilitated the purchase of multiple homes for personal gain.
Action: Real Estate Broker License suspended for 2 years, all stayed for a period of 5 years; assessed a fine of $2,500; and shall complete a course in Real Estate Finances.

John Velezmoro — Kirkland
Finding: Unprofessional conduct – Failed to notify the Department of pending charges.
Action: Real Estate Broker License revoked for 10 years.

Ann Hwang — Kent
Finding: Unprofessional conduct – Pled guilty to 4 counts of Theft in the First Degree.
Action: Complete Real Estate Practices and Fundamentals courses, and pass real estate exam.

Aaron Johnson — Bellevue
Finding: Unprofessional conduct – Entered listed home under false pretenses.
Action: Real Estate Broker License suspended 1 year, all stayed for a period of 3 years.

Randall Berg — Seattle
Finding: Unprofessional conduct – Failed to adhere to Property Management Agreements. Failed to keep adequate records. Conducted unlicensed activity.
Action: Real Estate Designated Broker License revoked for 10 years, all stayed for a period of 18 months; must provide monthly reconciliation statements for 18 months; and assessed a fine of $2,500.

Greg Hanson — Lynnwood
Finding: Unprofessional conduct – Unlicensed activity.
Action: Real Estate Designated Broker License suspended 1 year, all stayed for a period of 3 years; and assessed a fine of $500.

October 2014

Mark Rau — Cle Elum
Finding: Unprofessional conduct – Pled guilty to Tampering with Public Records.
Action: Real Estate Broker License suspended 1 year, all stayed (not imposed) for a period of 3 years; and heightened supervision for 3 years.

November 2014

Rachael Seelye — Forks
Finding: Unprofessional conduct – Failed to notify Department of Criminal Information on Theft in the first degree charge. Failed to respond to DOL's request for information.
Action: Real Estate Broker License suspended 1 year, or until she responds to our requests for information, whichever is longer.

Jaesuk Cavner — Bellevue
Finding: Unprofessional conduct – Failed to deposit earnest money in a timely manner. Failed to submit transaction documents to her brokerage within 2 days of mutual acceptance.
Action: Real Estate Broker License suspended for 1 year, all stayed for a period of 3 years; and shall complete a 30 hour course in Real Estate Practices within 9 months.