

# Washington State's Housing Market: A Supply/Demand Assessment

## First Quarter 2008

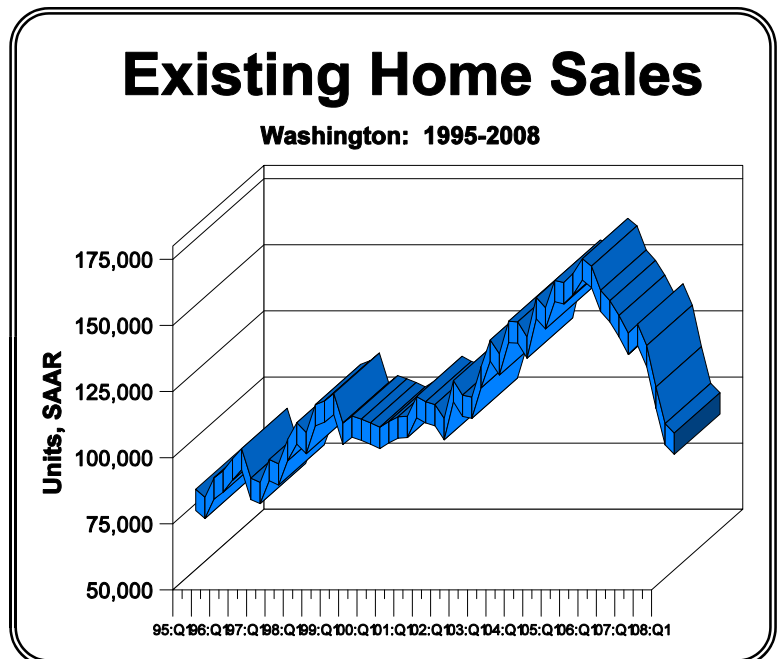
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Just as the national media focused on the housing boom and potential housing bubble a couple of years ago, stories about the collapse of the housing market, the freefall of housing prices, and an abundance of foreclosed homes lining every street dominate both the broadcast and print media in early 2008. What is missing in these stories is a understanding that housing markets are always local. To be sure, some markets are reeling – Las Vegas, Stockton, Phoenix, Miami and Detroit are prime examples. Up until now the State of Washington has been identified as one of the bright spots on the national scene, but at the same time the state is not immune to national trends. Home sales have declined; home building has slowed; and median prices are often a bit lower than a year ago. The housing market has always been cyclical, and most analysts have long contended that the strong market of the first half of the decade could not (and should not) be sustained. It will now take several months to establish a new equilibrium from which a recovery can commence.

### Home Resales

Statewide existing home sales (excluding new construction) declined by 3.6 percent from the fourth quarter of 2007 to a seasonally adjusted annual rate of 97,630 units during the first quarter of 2008. This was a sales rate 29.7 percent lower than observed during the same time in 2007. Note, a seasonally adjusted annual rate (SAAR) means that if the same relative pace of home sales were to continue for an entire year there we be this number of sales recorded. The use of SAAR data allows meaningful comparisons from quarter to quarter. Housing markets are seasonal in nature. Few families are willing to disrupt their children's education in the middle of a school year to move locally. Holidays and weather slow home sales through the winter months, yet especially in markets like the current one we really need to know of conditions are improving or deteriorating. Without seasonal adjustment, the only meaningful comparisons are to the same quarter in prior years. Most economic time series are released at seasonally adjusted annual rates, meaning these data are now on a par with national home sales and building permit data.

The accompanying graph clearly illustrates the sharp decline in home sales currently underway. The current sales rate is on a par with home sales from the late



Note: This report uses the definitions of metropolitan and micropolitan areas developed by the Office of Management and Budget. Briefly, metropolitan areas are larger communities with at least 50,000 people in the urban core. Micropolitan areas are smaller cities, with 10,000-50,000 people in the urban core. Currently, Washington has 17 metropolitan counties in 13 metropolitan areas and nine micropolitan areas.

1990s, a time when housing markets were perceived to be healthy and stable. Of course, Washington population has increased during the last 10 years, making the per capita sales rate a bit lower, but it is abundantly clear that the state's market has not ground to a halt as some of the national reports imply.

The local nature of markets is further demonstrated in these statistics. Twelve of Washington's 39 counties actually had higher sales rates during the first quarter

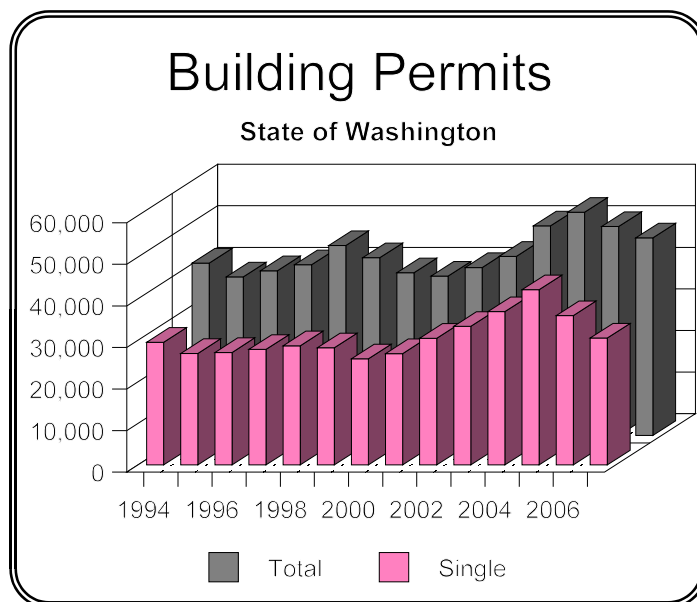
than the quarter before, with an apparent boom underway in tiny Wahkiakum County. Year-to-year data was more consistent, ranging from an improvement of 130.0 percent in Wahkiakum County to a drop of 48.0 percent in Adams county, both of which are rural communities. Among the mid-size micropolitan areas, existing home sales activity declined for the first quarter a year ago in all areas, ranging from a 4.5 percent drop in Whitman County (Pullman) to a 47.6 percent slide in Grays Harbor County (Aberdeen). Among the large population centers the range was from an increase of 14.3 percent in Skamania County (the most distant part of the Portland-Vancouver metropolitan area) to a decline of 41.2 percent in Douglas County (East Wenatchee). The 5-county greater Seattle market accounted for 52.7 percent of all homes sold in the state during the first quarter.

### Housing Construction

Construction activity, as measured by building permits, fell by 46.7 percent compared to early 2007, producing a statewide total of 6,125 permits issued in those jurisdictions which report monthly data to the Census Bureau. Surprisingly, there was very little difference between the decline of single-family construction and permits for multifamily units. Building permit activity increased compared to a year ago in three of the 28 counties tracked by the Census Bureau. New units authorized during the quarter exceed 1,000 only in King County, where a total of 2,740 permits were issued.

This report also includes the complete information on building permits and housing inventory for 2007. Total building permits for residential construction slipped by 5.4 percent last year, recording a total of 47,297 units permitted. Despite two consecutive years of declining residential construction, 2007 recorded the fourth-highest level of building permit activity on record, a fact which should not be ignored in an effort to illustrate the market decline. Single-family permits declined by 14.9 percent during 2007, totaling 30,511 units. Single family construction in 2007 stood 27.6 percent below its peak in 2005.

Among the metropolitan counties the steepest percentage decline in single-family permits was 27.3 percent in Whatcom County. At the other extreme, single-family permits increased by 67.4 percent in Yakima County, again demonstrating the local nature of housing markets. In the smaller urban areas, Island County had the biggest decline last year in single-family permits (27.0 percent) while Whitman County recorded the largest increase (27.6 percent). Statewide, the total inventory of housing units has increased 13.1 percent this decade, ranging from a surge of 41.9 percent in Franklin County (Pasco) to a modest 2.7 percent in Garfield County, which also has the fewest housing units of any county in the state (1,324).



## Home Prices

The median selling price for a resale home in the State of Washington during the first quarter of 2008 declined 2.4 percent from the first quarter of 2007, to \$293,600. This is virtually identical to the change in median price recorded during the fourth quarter of 2007. It should be noted that this is the first period of declining median prices since WCRER began monitoring housing markets in Washington in 1994.

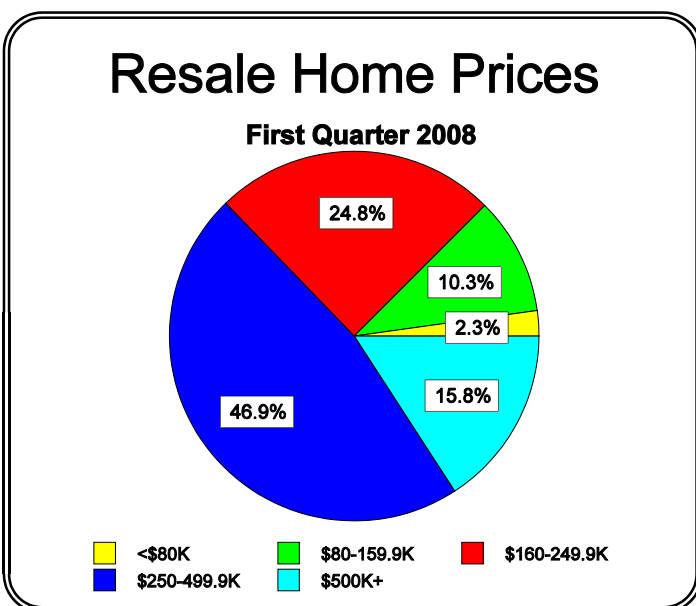
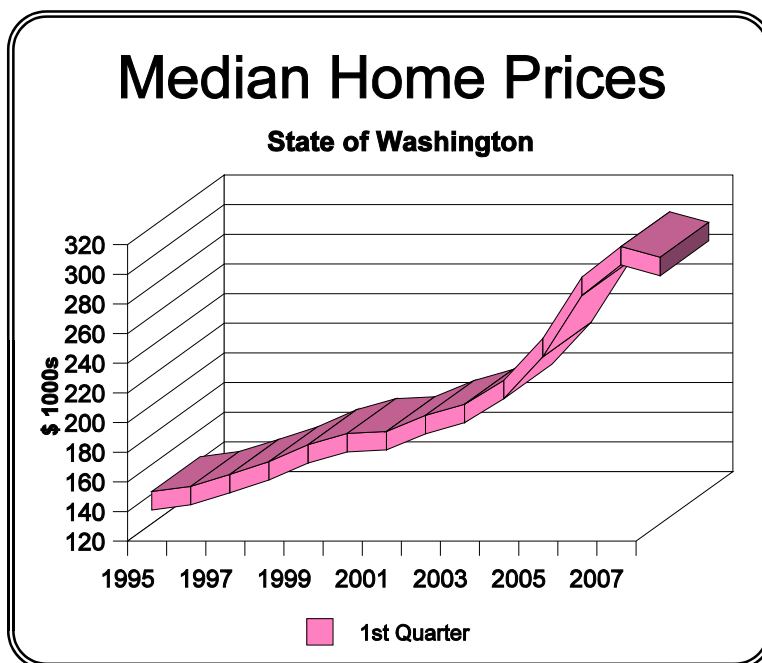
Local area median prices ranged from a low of \$106,000 in Adams County to a high of \$478,000 in San Juan County. King County remained the highest cost metropolitan market with a median of \$435,000, 1.1 percent lower than a year ago. The lowest median price among metropolitan counties was \$148,200 in Yakima County. Among the micropolitan counties the lowest reported median price was \$150,000 in Grays Harbor County (Aberdeen) and the highest was \$289,500 in Island (Oak Harbor).

Reported prices in 18 of the 38 counties included in this analysis were below the medians reported a year ago. Columbia County showed a 20.6 percent decline, but that must be tempered by the small size of the county. Small markets often exhibit wide swings in median prices, and year-to-year price comparisons which many not be meaningful, although they are accurate. By contrast, another small market, Wahkiakum

County had the largest price increase, 55.8 percent to a \$250,000 median. Among the micropolitan areas the range in price changes was from a slip of 3.2 percent in Grays Harbor County to an increase of 25.0 percent in Grant County (Moses Lake). Among the metropolitan areas, the range was from a 7.0 reduction in the Kitsap

County median to an increase of 11.8 percent in the Chelan County price measure. It is noteworthy that Chelan County has also been leading the list of appreciating markets identified by the Office of Federal Housing Enterprise Oversight (OFHEO) in their statistics which measure the price changes of individual homes as opposed to the market medians reported here.

Measures of central tendency, like median prices (half the homes sold were more expensive, half less) which use a single number to represent a distribution of home prices, tend to confuse some consumers into believing there is nothing less expensive than the median in the marketplace. While there were significant numbers of homes which sold for prices well below the statewide median, the largest concentration of less costly housing is outside a reasonable commuting distance from major population centers. However, even in urban areas,



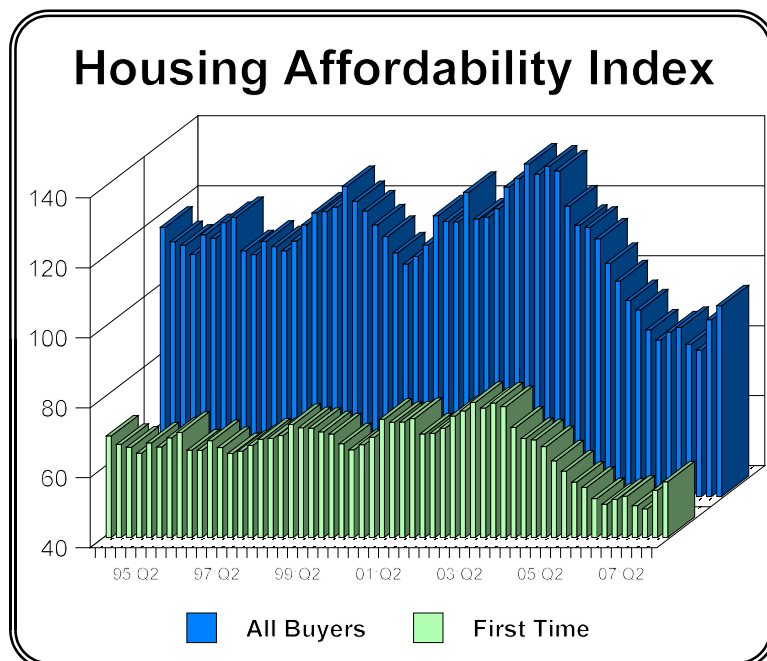
lower cost housing is often available, especially if the buyer is willing to invest some hard physical labor improving the home. In fact, while “only” 2.3 percent of the single-family homes sold during the first quarter were priced no higher than \$80,000, this represents annual sales of about 2,250 homes. Clearly, affordable ownership housing is available and being purchased throughout Washington state. It should be stressed that these statistics represent only resale, single-family homes. Condominium apartments and manufactured homes represent other affordable ownership housing options. It is worth noting that significantly more homes sold during the first quarter at prices in excess of \$500,000 than sold for prices below \$160,000. It is also noteworthy that the proportion of homes sold in the three lowest price ranges increased from a year ago, while the proportion in the price ranges above \$160,000 declined, if only modestly.

### Housing Affordability

A central feature of **Washington State's Housing Market** is the data on housing affordability. Following the model developed in 1982 by the National Association of REALTORS®, the Washington Center for Real Estate Research calculates a housing affordability index for all buyers and for first-time buyers. These affordability calculations depend on statistics from a variety of sources. The effective mortgage rate on loans closed during the quarter (6.03 percent) is used in this calculation. While the average downpayment on home purchases is 25 percent, the most frequently encountered downpayment is 20 percent. (It is worth noting that this statistic actually did not change during the lax underwriting standards during the real estate boom.) Accordingly, 20 percent downpayment is used in the calculation of the all-buyer index. A 30-year term is assumed for paying off the loan. Income is the other key component of affordability analysis. WCRER obtains county-level data on family and household incomes from a consulting firm. In economic statistics, a family is defined as two or more people related by blood, marriage or adoption who share a housing unit. Single adults with children or other dependent relatives (e.g. an aging aunt) are, therefore, families. Household income includes all families as well as persons living alone or unrelated adults sharing a housing unit (roommates, etc.). Since the vast majority of home purchases (approximately 85%) are made by families, family income is used in the calculation of the all-buyer affordability index.

The Housing Affordability Index for Washington State in the first quarter stood at 94.5. This value indicates that a median income family had nearly 95 percent of the income to marginally qualify for a mortgage on the median price home. While this was the tenth consecutive quarter where the median income family could not afford the typical home under the assumed conditions, the last six months have produced significant affordability improvements. The current index represents a fairly typical value for the all-buyer index in a national historical context. If a value of 100 determines counties which are affordable, the HAI indicates that housing is less than affordable in 14 of the 39 counties in the state, including most of the urban areas in the I-5 corridor. The most affordable urban area was Benton County (Kennewick/Richland) with an index of 176.3 while the least affordable metropolitan county was King at 76.6. San Juan and Jefferson counties continued to have the least affordable housing overall.

While statistically representative of the total housing market, the all-buyer index does not adequately describe the difficulty households have purchasing their first home and beginning the process of developing



equity. Most first-time buyers are younger, less established in their careers and without the financial means for a large downpayment. Accordingly, a separate index which adjusts the assumptions was developed, again patterned on the national methodology. It assumes a 10 percent down payment, even though some lower down payment programs are still available. Less expensive homes are purchased by first time buyers, typically at prices 85 percent of the area median price. Because the assumed downpayment is less than 20 percent of the purchase price, mortgage insurance must be carried, effectively increasing the mortgage rate by one-quarter point. Since most higher-income households have already purchased homes, the income measures for renters are lower. Household rather than family incomes are used because many more first-time buyers live alone. To account for the departure of the higher income group from the pool, the first-time buyer income is estimated to be 70 percent of the median household income in the area. Using these assumptions produces a statewide index for the first quarter of 55.9. Again, this is only a little below long-term standards, but represents highest level of affordability for first-time buyers since the third quarter of 2005.

The first-time buyer index exceeded 100 (meaning the typical first-time buyer could realistically be able to afford the typical starter home in that community) in only two counties (Adams and Benton). At the other extreme, first-time buyer indexes were below 60 in 15 counties. The first time buyer index was only 29.5 in San Juan County, and 42.7 in both Jefferson and King counties. First-time buyer affordability levels were generally higher in Eastern Washington.

### **Affordable Housing Availability**

The range of choices for several communities around the state is described for four household categories. In all cases it is assumed a household is willing to spend 25% of gross income on principal and interest payments and that overall debt levels are average. Household category groups are defined by their income and their ability to make a downpayment. The groups studied are:

- \$ 25,000 income, 5% downpayment
- \$ 50,000 income, 10% downpayment
- \$ 75,000 income, 20% downpayment
- \$125,000 income, 35% downpayment

It is assumed that these buyers would have been able to find mortgages for their purchases at an interest rate of 6.0% (approximately the same as prevailing rates during the quarter).

### **Affordable Home Purchase Prices for Selected Income/Asset Groups**

Income	Affordable Housing Expense (P&I)	Mortgage Amount	Downpayment	Home Purchase Price
\$ 25,000	\$ 521	\$ 86,898	\$ 4,574	\$ 91,472
\$ 50,000	\$ 1,042	\$173,797	\$ 19,311	\$ 193,108
\$ 75,000	\$ 1,563	\$260,695	\$ 65,174	\$ 325,869
\$125,000	\$ 2,604	\$434,325	\$ 233,868	\$ 668,193

This table clearly illustrates how income growth coupled with ownership of homes with increasing values can move a household up the ladder of homeownership (providing they have avoided the lure of home equity loans). When reviewing these statistics it is important to remember that the median family income in the state during the quarter was \$64,056, and ranged from a low of \$40,803 in Ferry County to \$76,959 in King County. Household incomes were predictably lower, ranging from \$33,678 in Whitman County (with its large student

population) to \$60,142 in King County. The statewide median household income was \$53,165. This illustrates that the lower two price ranges remain most relevant for most residents of Washington state.

This leads to the question of how much opportunity there will be in Washington to find a home which can be afforded under the assumptions. Using data reported by multiple listing systems around the state, the proportion of homes available for sale at the end of the quarter with prices at or below each threshold price indicates the degree of choice available to each group, and how difficult it will be to find suitable ownership housing.

The calculations were based on those homes available for sale as of the end of March, when inventories and demand both typically begin to increase. Since these MLS systems typically handle only about 80 percent of the market, and some areas were not able to report details about their listing inventory in the format WCRER uses, housing choices may differ somewhat from these estimates. Because these are offering prices, actual sales may occur below or above these prices, depending on local market conditions, and the motivations of buyers and sellers. Nevertheless, they are reflective of housing market access in these communities.

### **Percentage of Homes on Market Below Specified Price – March, 2008**

<b>County</b>	<b>Home Price Maximum</b>			
	<b>\$80,000</b>	<b>\$160,000</b>	<b>\$250,000</b>	<b>\$500,000</b>
Asotin	4.7%	33.1%	66.7%	96.4%
Benton/Franklin	5.0%	39.7%	68.2%	94.4%
Chelan	0.8%	5.5%	31.1%	80.5%
Clallam	3.1%	10.2%	32.9%	83.9%
Clark	0.7%	2.3%	27.7%	80.0%
Cowlitz	2.3%	26.4%	66.8%	90.5%
Douglas	0.4%	5.3%	34.9%	89.0%
Ferry/Pend Oreille/Stevens	4.1%	27.9%	55.0%	87.7%
Grant	3.3%	26.6%	50.0%	89.5%
Grays Harbor	4.9%	28.6%	61.2%	92.8%
Island	0.3%	0.8%	14.2%	67.4%
Jefferson	0.7%	4.2%	19.9%	67.9%
King	0.0%	0.1%	3.2%	47.4%
Kitsap	0.2%	2.7%	24.4%	71.1%
Kittitas	0.0%	4.4%	36.6%	74.6%
Klickitat	1.2%	15.7%	26.7%	68.6%
Lewis	1.4%	19.7%	55.1%	92.7%
Mason	1.8%	14.2%	48.8%	88.6%
Okanogan	3.3%	26.9%	49.1%	84.7%

County	Home Price Maximum			
	\$80,000	\$160,000	\$250,000	\$500,000
Pacific	3.6%	22.6%	54.2%	58.1%
Pierce	0.0%	3.3%	27.2%	78.8%
San Juan	0.0%	0.0%	1.1%	26.5%
Skagit	0.7%	4.2%	26.9%	77.5%
Skamania	0.0%	17.4%	46.7%	87.0%
Spokane	0.6%	17.7%	51.1%	87.6%
Snohomish	0.1%	0.5%	6.1%	71.0%
Thurston	0.1%	2.9%	31.1%	82.7%
Walla Walla	3.7%	22.4%	57.9%	90.9%
Whatcom	1.0%	4.0%	22.8%	75.4%
Whitman	4.4%	15.9%	52.7%	97.8%
Yakima	8.7%	45.3%	74.8%	96.1%
<b>Statewide</b>	<b>1.0%</b>	<b>7.9%</b>	<b>26.8%</b>	<b>73.3%</b>

These statistics demonstrate that in most parts of the state first-time home buyers still face extremely limited choices in the housing market, whereas the trade-up buyers have a wide assortment of homes from which to choose. There were effectively no homes in the 5-county Central Puget Sound region with asking prices below \$80,000 while at least a third have an asking price in excess of \$500,000. Significantly, no more than one in 100 homes in 15 counties carry asking prices less than \$80,000.

The income used to calculate the statewide first-time buyer affordability index is halfway between the assumptions for the two lower categories. This means that if those households were actively searching for a home to purchase, they would be competing for the lowest-priced nine percent of the available statewide inventory. These lower-cost homes, if they are in reasonably good condition in stable neighborhoods, would be expected to sell quickly, while higher priced homes may wait awhile for the right buyer. There are more units available and relatively few qualified buyers for the more expensive homes. All communities in Eastern Washington offer far greater choices of lower-cost homes.

### **Available Inventory**

Two years ago the industry was concerned that there were not enough homes on the market to prevent bidding wars and rapid price increases. Now the concern has become one of excess supply leading to significant price discounting. Certainly the increased inventory has allowed buyers to be more selective, choosing homes that actually match their needs rather than settling for the first home in their price range. It also means that in addition to pricing homes competitively, sellers must ensure their properties are in tip-top shape. While in the hot market requesting a home inspection might have been a reason to reject an offer, now it is a tool buyers use to ensure they are not making an offer on a "money pit". The real question, however, is just how big is the current inventory? Data provided by multiple listing systems throughout the state indicate that inventories are at record levels in many (but not all) parts of the state. Shaded cells in the following table indicate periods when the local inventory available for sale exceeded the current listing inventory. The number of shaded cells is less in this table than in any previous table of listings produced by WCRER.

**Listings Available for Sale – End of March**

County	2001	2002	2003	2004	2005	2006	2007	2008	%Ch 2007-08
Asotin	550	517	455	349	336	315	387	507	31.0%
Benton/Franklin	857	706	1,221	1,439	1,436	1,641	1,436	1,555	8.3%
Chelan/Douglas	609	571	462	442	371	212	377	680	80.4%
Clark	1,658	1,197	2,160	1,600	1,318	2,532	3,719	4,518	21.5%
Cowlitz	519	478	531	454	330	318	533	750	40.7%
Ferry/Pend Oreille/Stevens	371	441	371	323	261	224	283	269	-4.9%
Grant	423	419	373	355	357	337	292	612	109.6%
Grays Harbor	543	615	541	449	336	523	572	801	40.0%
Island	498	713	649	573	427	573	790	1,085	37.3%
Jefferson	170	171	203	175	200	243	361	448	24.1%
King	6,085	6,782	5,769	5,582	4,063	4,255	6,179	11,012	78.2%
Kitsap	1,304	1,174	1,198	844	733	975	1,672	2,312	38.3%
Kittitas	n/a	n/a	212	n/a	223	226	370	587	58.6%
Lewis	554	509	403	359	322	303	616	731	18.7%
Mason	691	616	481	380	337	407	640	840	31.3%
Okanogan	n/a	n/a	n/a	n/a	n/a	170	235	334	42.1%
Pierce	3,672	3,844	3,601	2,647	2,300	3,302	5,474	6,988	27.7%
San Juan	152	192	196	221	186	266	218	362	66.1%
Skagit	777	721	665	611	429	558	830	1,147	38.2%
Snohomish	2,946	3,165	3,286	2,712	1,981	2,253	3,749	5,470	45.9%
Spokane	3,676	3,664	1,939	1,512	1,526	1,751	2,617	3,257	24.5%
Thurston	1,112	865	824	719	576	1,083	1,714	1,954	14.0%
Walla Walla	n/a	396	n/a	n/a	370	583	438	518	18.3%
Whatcom	1,746	1,623	972	622	n/a	1,244	1,544	1,580	2.3%
Whitman	243	252	214	178	199	196	175	182	4.0%
Yakima	1,117	905	873	845	894	877	1,306	1,380	5.7%
<b>Statewide</b>	<b>30,273</b>	<b>30,536</b>	<b>29,399</b>	<b>23,622</b>	<b>19,511</b>	<b>25,307</b>	<b>37,504</b>	<b>51,887</b>	<b>38.4%</b>

The absolute level of inventory only tells part of the story. The other component of the discussion is how long



those units could sustain the market at current sales rates. Again, the conversion to seasonally adjusted annual rate data played a role in these calculations. Rather than minimizing supply by using data from the last four quarters when sales may have been above anticipated levels for this year, seasonally adjusted annual rate data for the current quarter was used to estimate month's supply.

A 5-7 month inventory is considered normal or balanced. Accordingly, the overall state market can be characterized as a buyers market with an inventory capable of sustaining the market for 9.5 months, compared with a 4.4 month inventory in early 2007 and a 2.7 months inventory in 2006. In a normal inventory situation, neither rapid price increases nor significant price declines should be expected in the short term. However, current inventories suggest prices will continue to decline unless a significant number of buyers are convinced that affordability now allows them to purchase or sellers decide that they are unwilling to reduce prices and withdraw the listings. Of course, some listings are not discretionary. Sellers leaving the area or homes that are being foreclosed on ensure that the listing inventory will not be reduced significantly in the near future. The current months supply ranged from a low of 5.9 months in Whitman County (balanced market) to a high of 26.9 months in San Juan County (extreme oversupply). All counties have an increased months supply compared to a year ago – often double or more.

**Month's Supply of Housing by Price Range**  
**March, 2008**  
**Selected Washington Counties**

County	Under \$80,000	\$80,000 - \$159,999	\$160,000 - \$249,999	\$250,000 - \$499,999	\$500,000 and above	Total Market	Year ago	Two years ago
Asotin	4.8	5.3	10.7	20.1	21.6	9.0	5.5	4.1
Benton/Franklin	5.0	6.6	6.4	13.4	31.3	7.8	5.3	7.2
Chelan/Douglas	0.7	5.9	5.7	9.7	15.3	7.8	3.5	2.7
Clallam	6.5	5.9	6.1	15.1	24.2	10.6	n/a	n/a
Clark	4.7	5.2	7.5	15.4	32.5	12.7	7.1	4.0
Cowlitz	2.9	7.6	9.0	25.1	57.0	12.5	5.7	2.6
Ferry/Pend Oreille/Stevens	2.1	4.9	10.8	20.2	n/a	9.1	7.6	5.8
Grant	6.5	7.0	8.5	23.8	72.4	11.9	3.6	4.6
Grays Harbor	6.3	6.7	15.5	36.1	140.8	13.6	6.6	6.1
Island	n/a	4.3	5.2	14.7	21.6	12.8	6.0	4.3
Jefferson	n/a	8.7	8.9	13.7	22.2	14.0	9.4	5.3
King	n/a	2.9	4.3	5.5	10.1	7.1	2.7	1.8
Kitsap	1.8	3.4	6.2	10.0	24.1	9.8	5.0	2.8
Kittitas	n/a	6.5	9.9	11.1	42.3	12.5	7.5	3.5
Lewis	2.3	11.3	12.9	19.9	44.7	14.2	8.1	3.3
Mason	4.5	6.7	10.4	27.1	33.8	13.5	7.4	3.6

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County	Under \$80,000	\$80,000 - \$159,999	\$160,000 - \$249,999	\$250,000 - \$499,999	\$500,000 and above	Total Market	Year ago	Two years ago
Okanogan	11.9	9.5	12.3	25.8	110.6	16.5	8.0	6.2
Pierce	1.2	6.2	6.8	10.2	30.2	10.2	4.9	2.4
San Juan	n/a	n/a	n/a	12.7	42.5	26.9	13.8	9.8
Skagit	9.2	8.4	7.9	10.0	24.9	10.7	4.9	3.3
Snohomish	14.6	9.7	5.4	7.9	14.8	8.8	3.8	1.8
Spokane	1.3	3.7	5.9	11.5	32.4	7.0	3.8	2.4
Thurston	0.8	3.8	4.8	7.3	21.1	6.9	4.6	2.7
Walla Walla	4.0	5.9	7.3	17.0	35.9	8.9	7.6	6.3
Whatcom	5.9	5.8	4.8	7.1	20.1	7.5	6.4	4.4
Whitman	6.0	3.9	5.0	7.7	n/a	5.9	5.5	4.8
Yakima	4.4	8.2	9.4	11.0	106.6	8.6	6.3	5.0
<b>Statewide</b>	<b>4.2</b>	<b>6.3</b>	<b>7.3</b>	<b>9.4</b>	<b>16.0</b>	<b>9.5</b>	<b>4.4</b>	<b>2.7</b>

The market remains tightest for homes selling for lower prices. Statewide there was an increasing month's supply moving across the price spectrum, with the increases in supply most pronounced at the higher price levels. This is consistent with expectations. Homes priced above \$500,000 are in excess supply in all areas. Only King County has less than a year's supply of expensive homes (10.1 months). In many places there are enough half-million dollar homes currently on the market to sustain sales in that price range for years. Something must happen to restore equilibrium to that segment of the housing market.

### **Confusion Reigns**

WCRER does not generally include data from other sources in this report, but extraordinary times call for unusual measures. This section is an effort to clarify some confusion resulting from a multitude of data sources being reported in trying to understand what is happening in the housing market and how it is impacting the broader economy – both nationally and in Washington.

National news stories paint a picture of a housing market in a shambles, with prices in freefall and virtually no homes selling. Real estate salespeople put on faces of optimism, even though most of them have never experienced a really soft housing market. At the same time, data is more available than ever before, each claiming to be the best and most complete indicator of what's going on. Stories about foreclosures abound, and again different data sources present differing viewpoints. The next few paragraphs will endeavor to provide a sketch of data which underlies the confusion picture in an effort to help improve understanding of the true state of the market.

There is no better place to begin than the price data reported here. The statistics produced by the Washington Center for Real Estate Research have relied on the median price home sold. This measure identifies the mid-point in the distribution of home sales prices – half sold for more, half for less. It is a good representation of how much home buyers are actually spending, but it ignores what they are getting for their money. In a "hot" market it could be argued that the median is understating price movements because purchasers are being forced to make compromises so the homes fit within their budgets – they are spending more, but getting less. However, it is only on the downside that people complain the data is misleading.

WCRER frequently makes a point that changes in median prices should not be interpreted as appreciation rates (or measures of price declines of individual homes). This raises the question: What should be used as a measure of home price changes?

There are two primary data series reported in the media which are characterized as “repeat sales” measures. This means they are tracking the sales prices of the same home over time. At least it is mostly the same home. These measures often miss remodeling or other physical changes to the same home, but they are better measures of appreciation. The broadest coverage measure of this type is produced by the Office of Federal Housing Enterprise Oversight (OFHEO), and is released quarterly. The most recent data covers year-end 2007, and indicates an annual appreciation in metropolitan areas around the country. In Washington all reported communities showed appreciation, ranging from a high of 13.67 percent in Wenatchee (Chelan/Douglas counties) to a low of 2.69 percent in the Kennewick-Pasco-Richland metropolitan area (Benton/Franklin counties). Wenatchee topped the national list while the Tri-cities ranked 112 out of 291 areas ranked.

### Office of Federal Housing Enterprise Oversight Home Price Index – Year-end 2007

Area	County	% change (appreciation)	Rank of 291 metro areas
United States		0.84	
Pacific Division (Alaska, California, Hawaii, Oregon, Washington)		-2.67	
Washington		5.44	
Bellingham	Whatcom	4.55	55
Bremerton-Silverdale	Kitsap	3.57	77
Kennewick-Pasco-Richland	Benton/Franklin	2.69	112
Lewiston, ID-WA	Asotin	10.05	Unranked
Longview	Cowlitz	7.32	16
Mount Vernon-Anacortes	Skagit	5.09	39
Olympia	Thurston	3.41	82
Portland-Vancouver-Beaverton, OR-WA	Clark/Skamania	4.24	61
Seattle-Bellevue-Everett	King/Snohomish	5.87	26
Spokane	Spokane	7.12	19
Tacoma	Pierce	4.21	62
Wenatchee	Chelan/Douglas	13.67	1
Yakima	Yakima	6.77	21

Standard & Poors/Case-Shiller (S&P/C-S) is the other major repeat sales measure, but on a national basis their data is far more limited because they only include 20 markets rather than the 291 markets included in the OFHEO data. One advantage of the S&P/C-S data is the fact it is released monthly, with the most recent data covering sales in January 2008. It indicates that prices in January in the Seattle area were 3.3 percent below a year earlier for the same home. No wonder consumers are confused!

Yet another source of housing price data reflects the analysis of Global Insight, a major economic forecasting firm and National City, a major mortgage lender. The major feature of their data is an assessment of whether

housing in any market is undervalued, fairly-valued or overvalued. They have concluded that many communities in Washington are significantly "overvalued" (see table). However, this should not be interpreted to mean that price declines of that magnitude should be expected. The methodology employed by Global Insight is designed to take many factors into account, one of which is increased density of housing as a measure of overvaluation. However, the methodology does not account for public policy initiatives (like Washington's Growth Management Act) which encourage more compact urban forms and increased density.

**Global Insight/National City House Prices in America**  
**4<sup>th</sup> Quarter 2007**  
**Washington Metropolitan Areas**

<b>Metro Area</b>	<b>Counties</b>	<b>% "Overvalued"</b>
Bellingham	Whatcom	44.1
Bremerton	Kitsap	27.8
Kennewick	Benton/Franklin	13.7
Longview	Cowlitz	44.2
Mount Vernon	Skagit	39.8
Olympia	Thurston	32.2
Portland, OR-WA	Clark/Skamania	41.4
Seattle	King/Snohomish	30.7
Spokane	Spokane	26.8
Tacoma	Pierce	33.6
Wenatchee	Chelan/Douglas	42.2
Yakima	Yakima	16.5

Finally, WCRER considers data compiled by the PMI Group which assesses market risk. Their approach determines the likelihood that prices in a given market will be lower in two years than they are today. The following table illustrates their assessments of risks of long-term price declines, and it is apparent that they perceive the risk in most Washington communities as low, and generally declining. To put these values into perspective, many California, Florida and Nevada communities risk likelihood greater than 85 percent.

**PMI Market Risk Index**  
**Likelihood Prices will be Lower in Two Years**  
**Washington Metropolitan Areas**

Area	County	3 <sup>rd</sup> Quarter 2007	4 <sup>th</sup> Quarter 2007
Bellingham	Whatcom	3.1%	2.5%
Bremerton-Silverdale	Kitsap	5.8%	3.2%
Kennewick-Pasco-Richland	Benton/Franklin	<1.0%	<1.0%
Lewiston, ID-WA	Asotin	1.4%	1.8%
Longview	Cowlitz	2.3%	2.6%
Mount Vernon-Anacortes	Skagit	4.1%	2.7%
Olympia	Thurston	4.1%	3.1%
Portland-Vancouver-Beaverton, OR-WA	Clark/Skamania	10.0%	8.7%
Seattle-Bellevue-Everett	King/Snohomish	7.1%	3.8%
Spokane	Spokane	1.3%	<1.0%
Tacoma	Pierce	4.7%	3.4%
Wenatchee	Chelan/Douglas	2.7%	2.8%
Yakima	Yakima	<1.0%	<1.0%

Housing markets will continue to be challenged through the remainder of 2008 as lenders continue their policies of more rigid underwriting standards (after a period of approving almost any loan). Consumers must adjust their behavior toward making downpayments again. A significant number of adjustable rate mortgages, especially loans which began as interest only mortgages with teaser rates will adjust to market rates including amortization, resulting in much higher payments for the borrowers, and the need for forbearance or the potential for default and foreclosure. Declining values will increase the likelihood that the default/foreclosure rate, which has remained low in Washington, will increase somewhat before the end of the year. When coupled with record high energy and food costs and the widespread belief that a recession is underway, housing markets in Washington will likely remain in turmoil at least through the prime selling season of 2008.