

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

4th Quarter 2008

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Prepared by:

Washington Center for Real Estate Research
College of Business and Economics
Washington State University
P.O. Box 644844
Pullman, Washington 99164-4844
1-800-835-9683

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

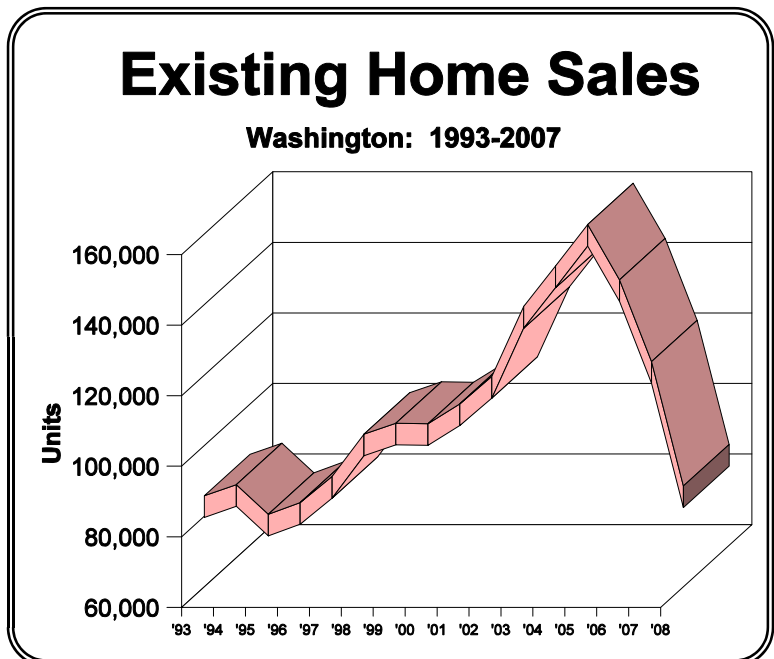
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Housing markets through the nation have been reeling from an assault by a combination of factors since the peak of the housing boom in 2005. The collapse of the subprime mortgage market and the resulting expansion of the financial market problems to mortgage-backed securities and defaults of mortgage loans made to more qualified buyers in markets which have experienced significant value reductions, coupled with the recession we now know began in 2007 delivered a severe body blow to the entire housing market and the general economy. Washington, which resisted both the explosion of housing market activity and the subsequent decline, entering both phases after most other areas, has now emerged as one of the weakest housing markets in the country. While the data presented in this report indicates a housing market a bit more robust than portrayed by the National Association of Realtors®, the weakness is significant and widespread. The national statistics indicated the West began to show some strength at the end of 2008, but Washington continued to decline through year-end. Sharply lower levels of home sales resulted in a buyers' market with lower prevailing prices and an opportunity for those few buyers to negotiate significant discounts from the asking prices of both newly completed and resale homes. A total of 85,540 resale home transactions took place throughout the state last year, the lowest level of sales since the mid-1990s. A 10-year climb in sales was wiped out in only three years. Consistent with this reduction in activity, the median price of homes sold throughout 2008 was lower than in 2007 by 8.1 percent, falling to \$284,400. This marked the first annual price decline since WCRER began monitoring the housing market in 1994.

Home Resales

Statistics collected from multiple listing services and from organizations which monitor deed recordings in areas where multiple listing coverage is less complete, indicate that sales of single-family homes (excluding most new construction) declined 15.8 percent from the third quarter at seasonally adjusted annual rates, recording a pace of 71,730 units sold during the October-December quarter. Unfortunately, this represents the slowest sales pace recorded in the 15



years WCRER has been tracking Washington housing markets.

Only four of Washington's 39 Washington counties (Clallam, San Juan, Skamania and Walla Walla) reported a higher sales rate during the fourth quarter than the prior quarter, and one (Wahkiakum) reported a higher sales rate than a year ago. The sharpest declines in home sales were recorded in Kittitas and Okanogan counties where the sales rate was at least 40 percent below either prior period. Among the metropolitan counties the range of sales declines compared to the third quarter ranged from 2.7 percent in Kitsap County to 33.0 percent in Spokane County. In the micropolitan markets the range was from a 22.2 percent jump in sales in Walla Walla County to a 43.5 percent decline in Kittitas County.

Note: This report uses the definitions of metropolitan and micropolitan areas 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 (or divisions) and nine micropolitan areas.

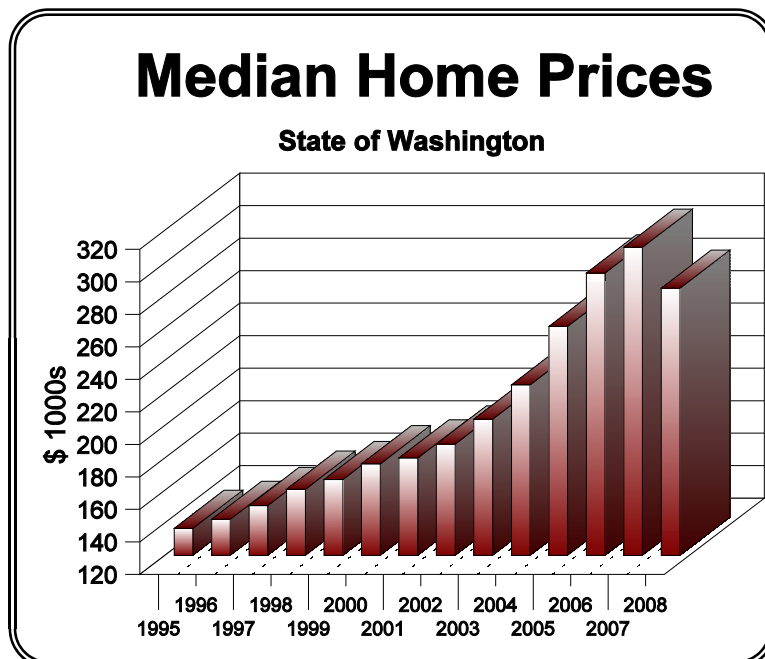
Housing Construction

Construction activity, as measured by total building permits, declined 53.4 percent compared to the fourth quarter of 2007. Single-family permits slid by 48.6 percent while authorizations for multifamily construction slid by 58.4 percent. This represents, in part, limited availability of funding for any construction project coupled with a perception that a significant number of vacant single-family homes will be entering the rental market. A total of 3,550 housing units were authorized for construction during the quarter, less than half as many as in the previous three-month period. Far more complete data on 2008 building permits will be included in the next issue of **Washington State's Housing Market**, since the Census Bureau typically releases final annual permit numbers (including data for areas which only report once a year) in April.

At the local level, total housing construction increased compared to late 2007 in only four counties where the Census Bureau releases monthly statistics. Single-family permit activity in the fourth quarter was higher than that reported a year ago only in Clallam County. Among counties in metropolitan areas the largest gain in construction activity compared to a year ago was 26.3 percent in Yakima County, while the greatest decline was 62.5 percent in Kitsap County. Other Central Puget Sound communities saw similar drops.

Home Prices

The median selling price for a resale home in the state of Washington during the fourth quarter of 2008 was \$266,700. This is \$27,200 (9.3%) lower than the fourth quarter median in 2007. To put the Washington price experience into perspective, the national median declined by 12.4 percent compared to late 2007 and the West region (dominated by California)

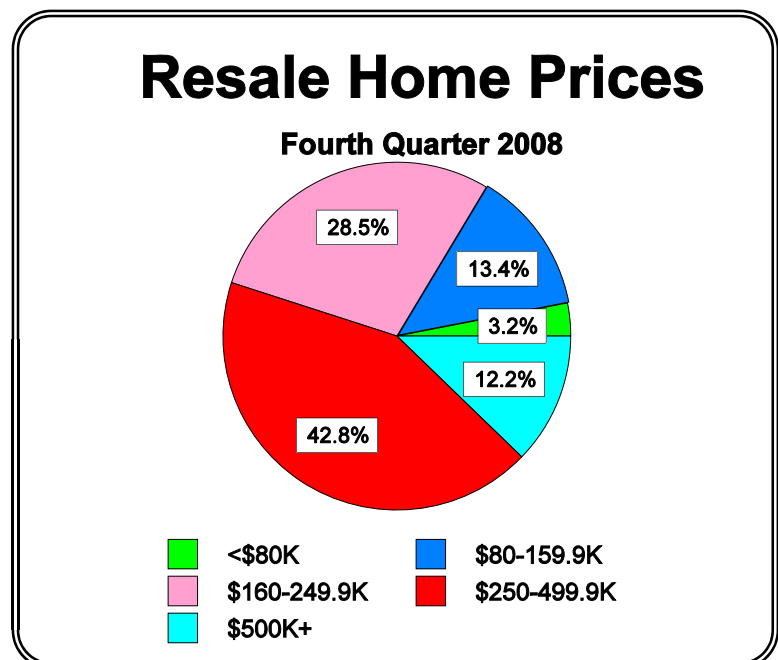


experienced a 25.1 percent decline over the same period. While the Washington market exhibited price weakness in 2008, it remained stronger than either the national or regional markets.

Local area prices in the fourth quarter ranged from a low of \$75,300 in Columbia County to a high of \$452,500 in San Juan County. Ironically, those same two counties had the most significant percentage declines in median over the last 12 months – 44.6 and 34.8 percent, respectively. Among the urban counties, the range in medians was from a low of \$140,800 in Yakima County to a high of \$397,000 in King County. The last time the King County median was this low was in the fourth quarter of 2005.

National news stories imply that home values are falling sharply everywhere. While most urban communities are experiencing lower prices than a year ago, the median price home sold during the closing quarter of 2008 was actually higher than a year earlier in eight of the 38 counties where WCRER monitors prices. Half of those communities were rural, two were in micropolitan areas, and two were smaller metropolitan counties. The largest increase over the last year was 13.2 percent in Klickitat County, while the largest decline was 44.6 percent in Columbia County, both rural places. In the metropolitan counties, the Douglas County portion of the Wenatchee area recorded a 4.3 percent increase in the median price, while at the other extreme Pierce County recorded a 11.6 percent drop in the median. Among the smaller urbanized areas (micropolitan) Whitman County reported a 9.6 percent jump in the median sales price while Kittitas County saw the median decline by 21.0 percent. It is somewhat surprising that these two college towns would show such different patterns.

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 population centers. In urban areas, some lower cost housing may be available if the buyer is willing to invest some hard physical labor improving the home. In fact, while “only” 3.2 percent of the single-family homes sold during the fourth quarter were priced no higher than \$80,000, this represents about 550 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.



Housing Affordability

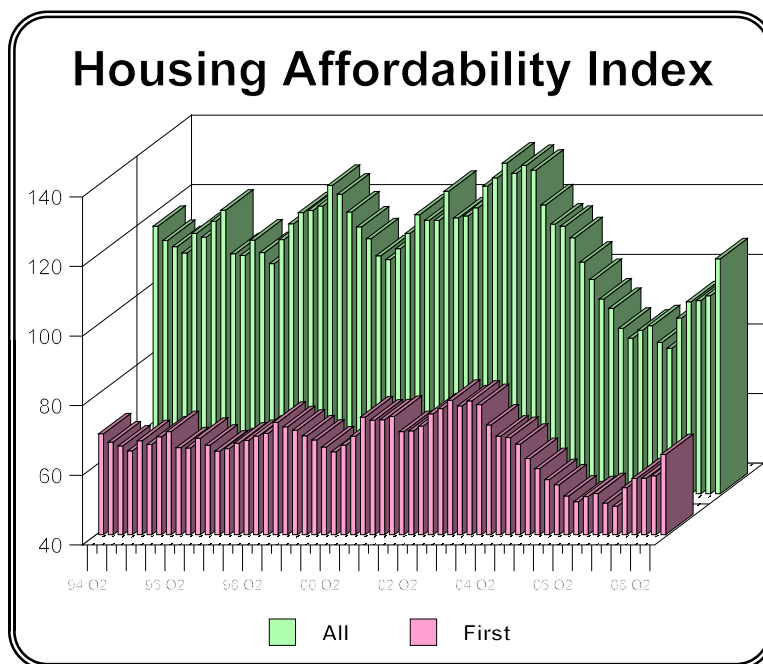
A central feature of these reports is always the statistics on housing affordability. Following the model developed in 1982 by the National Association of REALTORS®, the Washington Center for Real Estate Research calculates a housing affordability index for all buyers and for first-time buyers for each county in the state where price data is available. These affordability calculations depend on statistics from a variety of sources. The effective mortgage rate on loans closed during the quarter (national average, 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. Accordingly, that percentage has been consistently used in the calculation of the all-buyer index, even when lenders were offering much more generous terms to many buyers. 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 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 families. Household income includes all families as well as persons living alone or unrelated individuals sharing a housing unit (roommates). 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 fourth quarter of 2008 stood at 107.5, meaning that a median income family had 7.5 percent MORE income than the bare minimum required to qualify for a mortgage on the median price home. This represents the first time the All-Buyer index has indicated statewide affordability above 100 since the third quarter of 2005. Eight of the 38 counties reported had affordability measures below 100. Affordability increased in the fourth quarter

compared to the third quarter as the median price and mortgage rates both declined while incomes continued to advance. Locally, housing affordability indexes ranged from a low of 57.6 in San Juan County to a high of 285.6 in Columbia County. Among metropolitan areas, affordability indices ranged from a high of 169.8 in Benton County to a low of 87.0 in King County. Among the smaller urban areas the range was from a low of 86.8 in Island County to a high of 150.3 in Grays Harbor County.

While statistically sound, the all-buyer index does not adequately describe the continuing 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 has been developed, again patterned on the national methodology. It assumes a 10 percent down payment, even though many lower down payment programs are still often 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 current renters (potential buyers) 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 first-time buyers index for the fourth quarter of 63.0. Again, this reflects an improvement in affordability compared both last quarter and last year.

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 three counties. Three additional counties had an index above 90, indicating a small increase in the down payment or purchasing a home slightly below the assumed price could result in an affordable purchase. At the other extreme, first-time buyer indexes were below 60 in ten counties (five fewer than a year ago), indicating the affordability crisis is still severe. In King County the would-be first time homebuyer had about 49 percent of the income required to purchase the typical "starter" home, and in San Juan County the value improved to 34. If households cannot afford to purchase their first home, the homeownership rate, which has already begun to decline through foreclosure and fear, will continue to slip. Since high levels of homeownership have been demonstrated to be consistent with many desirable features of communities, the affordability crisis is truly a community problem.

Affordable Housing Availability

The range of housing 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:

- \$ 30,000 income, 5% downpayment
- \$ 60,000 income, 10% downpayment
- \$ 90,000 income, 20% downpayment
- \$150,000 income, 35% downpayment

It will be assumed that these buyers will be 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
\$ 30,000	\$ 625	\$104,245	\$ 5,486	\$ 109,731
\$ 60,000	\$ 1,250	\$208,490	\$ 23,165	\$ 231,655

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Income	Affordable Housing Expense (P&I)	Mortgage Amount	Downpayment	Home Purchase Price
\$ 90,000	\$ 1,875	\$312,734	\$ 78,184	\$ 390,918
\$150,000	\$ 3,125	\$521,234	\$ 280,649	\$ 801,883

This table clearly illustrates how income growth coupled with ownership of homes with increasing values can move a household up the ownership housing ladder. When reviewing these statistics it is important to remember that the median family income in the state during the quarter was \$66,215, and ranged from a low of \$42,244 in Ferry County to a high of \$79,818 in King County. Household incomes were predictably lower, ranging from \$34,797 in Whitman County, with its large student population, to \$62,398 in King County. The statewide median household income was \$54,453. This means the lower two price ranges are the most relevant for residents of the state.

The next question is how much opportunity there will be in Washington to find an available 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.

One additional note is needed. The homes used in this calculation are those available for sale as of the end of December, when inventories are typically at their seasonal low (fewer people attempt to sell their homes over the holidays, even in a slow market). 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, actual housing choices may differ somewhat from these estimates. Since these are offering prices, actual sales may occur below or above these prices, depending on local market conditions, and motivations of the buyers and sellers. Nevertheless, they are reflective of housing market access in these communities.

Percentage of Homes on Market Below Specified Price – December, 2008

County	Home Price Maximum			
	\$80,000	\$160,000	\$250,000	\$500,000
Asotin	6.0%	42.8%	71.9%	96.7%
Benton/Franklin	7.2%	37.1%	64.9%	90.1%
Chelan	1.8%	10.7%	37.7%	80.4%
Clallam	3.6%	11.6%	34.4%	82.4%
Clark	0.7%	5.5%	42.8%	85.7%
Cowlitz	3.4%	30.5%	72.5%	94.0%
Douglas	1.4%	7.6%	46.2%	87.6%
Ferry/Pend Oreille/Stevens	6.5%	32.6%	57.8%	89.2%
Grant	2.1%	31.1%	62.5%	93.2%

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County	Home Price Maximum			
	\$80,000	\$160,000	\$250,000	\$500,000
Grays Harbor	6.8%	35.0%	69.2%	95.1%
Island	0.0%	2.7%	22.5%	71.6%
Jefferson	0.2%	6.3%	21.4%	70.8%
King	0.1%	0.8%	7.8%	53.2%
Kitsap	0.3%	5.5%	30.0%	75.7%
Kittitas	0.2%	5.3%	42.5%	78.5%
Klickitat	2.5%	20.4%	43.8%	81.5%
Lewis	2.5%	24.3%	61.5%	93.1%
Mason	3.1%	23.5%	53.4%	89.2%
Okanogan	3.6%	22.9%	50.0%	86.6%
Pacific	5.0%	27.1%	61.5%	91.0%
Pierce	0.4%	7.6%	37.8%	80.9%
San Juan	0.0%	0.0%	3.2%	33.9%
Skagit	0.7%	5.3%	33.7%	79.3%
Skamania	0.0%	16.7%	48.0%	81.4%
Snohomish	0.0%	1.3%	14.3%	76.6%
Spokane	1.3%	23.3%	56.7%	88.5%
Thurston	0.3%	5.5%	42.6%	88.1%
Walla Walla	9.1%	30.9%	62.5%	86.0%
Whatcom	1.6%	6.0%	26.3%	76.6%
Whitman	7.9%	26.0%	65.4%	96.9%
Yakima	10.8%	41.2%	70.3%	95.0%
Statewide	1.5%	10.7%	34.3%	76.8%

These statistics make it clear that in most parts of the state first-time home buyers still face extremely limited choices in the housing market, while trade-up buyers have a wide assortment of homes from which to choose in all communities. Significantly, virtually no homes in King County have asking prices below \$160,000, while nearly half have an asking price in excess of \$500,000. Virtually no lower cost housing (less than 1 percent of listings) is available in 12 of the 34 counties identified above, clear evidence of a continuing affordability problem for first-time buyers.

It should be pointed out that the \$30,000 income level is somewhat below the income used to calculate the statewide first-time buyer affordability index. This means if those households were

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actively in the home purchase market, they would be competing for the lowest-priced 1.5% of the available statewide inventory. These lower-cost homes, if they are in reasonably good condition in stable neighborhoods, should sell quickly, while higher priced homes may wait awhile for the right buyer, since there are many units available and relatively few qualified buyers for those homes. Communities in Eastern Washington generally offer far greater choices of lower-cost homes, but it must be remembered that incomes in those areas are also typically lower.

Available Inventory

The departure of buyers from the market coupled with an increasing number of distressed properties available for sale has resulted in a surge in inventory. Some sellers, however, have become discouraged, and have taken their homes off the market, resulting in some communities reporting lower available inventories, while others report record high levels of homes available for sale. The 43,595 homes available for sale through the multiple listing services at year-end was the highest inventory on record for any December, but did represent a decline from the 56,993 homes for sale six months earlier. Eleven markets recorded fewer homes on the market than at this time last year, some evidence of a stabilizing market. All of the markets recording a lower inventory than a year ago had recorded their record year-end inventory last year.

As illustrated in the table which follows, the number of listings available for sale at the end of the fourth quarter was at the highest year-end level this decade (and probably ever) in 15 of the 30 counties or county groups for which WCRER has consistent listings data for most of the years. All fourth quarters with higher inventory levels than those at the end of 2008 are shaded in the table. Peak inventories are shown in bold type.

Listings Available for Sale – Year-end

County	2002	2003	2004	2005	2006	2007	2008	%ch 2007-08
Asotin	406	349	308	268	350	416	430	3.4%
Benton/Franklin	1,071	1,254	1,412	1,435	1,436	1,436	1,421	-1.0%
Chelan/Douglas	446	417	315	243	336	590	704	19.3%
Clallam					551	657	636	-3.2%
Clark	2,071	1,657	1,502	2,090	3,064	3,917	4,020	2.6%
Cowlitz	580	467	337	346	505	691	597	-13.6%
Ferry/Pend Oreille/Stevens	328	299	238	221	223	258	325	26.0%
Grant	382	311	324	317	290	473	515	8.9%
Grays Harbor	577	473	334	443	504	702	734	4.6%
Island	597	513	426	498	661	876	876	0.0%
Jefferson	n/a	n/a	192	204	279	368	411	11.7%
King	6,820	5,742	4,405	4,101	5,137	8,589	9,180	6.9%

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County	2002	2003	2004	2005	2006	2007	2008	%ch 2007-08
Kitsap	1,138	868	681	845	1,352	1,969	1,832	-7.0%
Kittitas	195	206	204	180	294	464	475	2.4%
Klickitat	n/a	n/a	n/a	n/a	n/a	167	162	-3.0%
Lewis	404	344	349	308	551	617	707	14.6%
Mason	460	370	304	361	530	671	678	1.0%
Okanogan	n/a	n/a	n/a	168	231	253	306	20.9%
Pacific	n/a	n/a	n/a	n/a	214	286	299	4.5%
Pierce	3,701	2,843	2,521	3,010	4,597	6,246	5,641	-9.7%
San Juan	161	182	162	149	164	256	345	34.8%
Skagit	673	594	437	488	705	937	963	2.8%
Skamania	n/a	n/a	n/a	n/a	n/a	55	102	85.5%
Snohomish	3,370	2,957	2,330	2,289	3,044	4,708	4,480	-4.8%
Spokane	3,683	1,486	1,553	1,573	2,350	2,652	2,849	7.4%
Thurston	759	731	631	938	1,441	1,712	1,544	-9.8%
Walla Walla	n/a	n/a	n/a	278	333	764	693	-9.3%
Whatcom	994	n/a	569	988	1,289	1,292	1,289	-0.2%
Whitman	197	104	112	98	124	108	127	17.6%
Yakima	878	749	829	774	1,253	1,255	1,254	-0.1%
State	29,891	22,916	20,475	22,613	31,808	43,385	43,595	0.5%

Listings alone, however, only tell part of the story. They need to be linked to prevailing sales rates to determine how the current availability might influence aggregate housing markets. Accordingly, WCRER also computes estimates of the months' supply of housing by price range. A month's supply statistic measures how long it would take to sell all the homes currently available for sale if no new listings were added. The seasonally adjusted annual rate of sales for the quarter is compared to the end-of-quarter listing inventory to determine the months supply. This prevents higher sales rates in previous quarters from producing unrealistically optimistic estimates of market activity. As expected, the months' supply statistics are increasing in most markets, with a statewide inventory of 9.8 months currently available. This is significantly above the 7.2 months recorded a year ago, and more than double the 4.0 months inventory which prevailed in December 2006.

A 5-7 month inventory is considered normal or balanced. Accordingly, the overall state market can be characterized as being oversupplied. In a balanced inventory situation, neither rapid price increases nor significant price declines should be expected in the short term. Accordingly, it is likely that median prices will continue to decline in the months ahead until demand returns to the market.

Even when the overall market shows excess inventory, there may be price ranges where the

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inventory is still very restricted, and rapid price increases may be observed for a subset of the overall market. Many markets in the following table seem to be conducive to price inflation in the lowest price ranges, yet may be subject to considerable price negotiation for the most expensive properties.

Over the course of the last several months a number of markets in Washington have joined the ranks of places nationally with an oversupply of homes available for sale, with months' supply statistics greater than 10 months. Those markets should anticipate some price instability in the near term, unless the current owners of properties who do not have an immediate need to sell allow listings to expire, allowing the market to return to a stable equilibrium. The success of government efforts to preclude foreclosures on properties on the brink through revised loan terms may be critical in determining the real ability of the Washington housing market to recover.

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

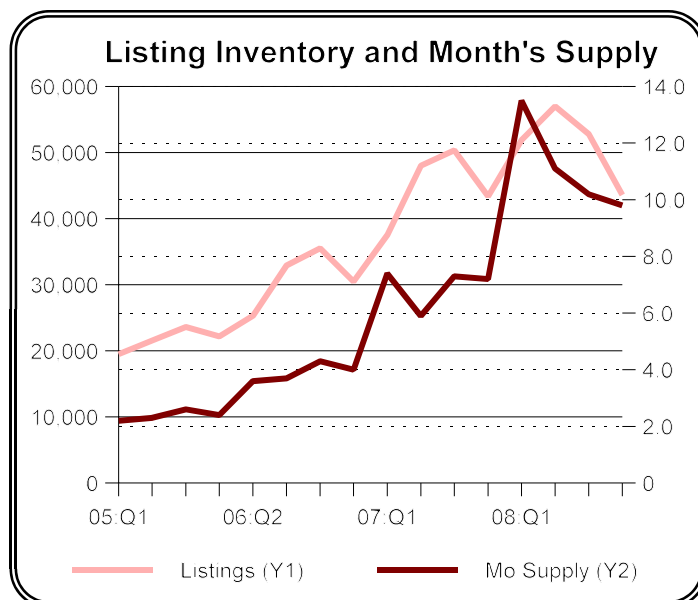
County	Under \$80,000	\$80,000 - \$159,999	\$160,000 - \$249,999	\$250,000 - \$499,999	\$500,000 and above	Total Market	Total Market 2007	Total Market 2006
Asotin	6.8	8.2	10.8	17.4	18.2	10.3	7.5	5.7
Benton/Franklin	4.6	6.3	6.0	10.3	56.6	7.4	5.6	5.9
Chelan/Douglas	5.3	6.8	11.8	16.2	23.7	13.5	6.4	4.3
Clallam	6.1	4.5	9.5	16.4	46.4	12.4	n/a	n/a
Clark	5.1	8.3	9.5	14.3	40.3	12.5	10.9	6.1
Cowlitz	3.7	5.7	10.4	26.7	51.9	11.1	9.0	5.2
Ferry/Pend Oreille/Stevens	5.0	8.4	12.6	34.8	107.5	13.5	7.8	5.4
Grant	3.0	6.1	10.0	33.5	n/a	10.5	7.2	3.9
Grays Harbor	4.3	10.3	17.5	35.6	36.0	14.0	10.5	6.0
Island	0.0	33.5	8.5	15.4	33.1	15.4	12.9	5.9
Jefferson	3.0	19.0	10.5	28.1	40.6	23.2	15.3	6.4
King	8.5	6.6	6.2	6.5	12.1	8.3	5.5	2.4
Kitsap	2.8	5.6	6.1	10.2	31.8	9.7	8.6	4.6
Kittitas	0.6	11.3	25.0	23.0	57.6	23.5	12.7	6.2
Klickitat	3.8	16.5	9.0	19.2	21.3	13.9	9.4	N/a
Lewis	7.3	10.7	19.7	24.4	69.8	17.7	10.4	7.5
Mason	7.0	11.1	17.3	27.9	72.6	18.4	10.9	6.0
Okanogan	4.1	10.3	24.6	55.2	40.4	20.6	9.6	n/a
Pacific	15.5	12.8	24.6	30.3	83.8	22.1	13.5	n/a

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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	Total Market 2007	Total Market 2006
Pierce	3.3	6.1	7.8	11.0	32.6	10.3	8.7	4.2
San Juan	n/a	n/a	28.3	13.7	39.2	24.7	20.3	10.0
Skagit	9.9	7.8	11.5	13.3	35.1	14.0	7.5	5.3
Skamania	n/a	15.8	22.3	31.5	52.9	25.8	11.2	n/a
Snohomish	1.8	9.4	9.1	9.7	29.4	11.4	7.0	2.9
Spokane	3.0	6.2	7.4	13.1	31.7	8.8	5.5	3.3
Thurston	2.2	5.4	6.0	6.5	20.5	6.7	6.1	3.9
Walla Walla	22.5	13.5	14.9	17.2	n/a	18.2	10.8	5.1
Whatcom	6.2	6.8	5.8	8.9	32.1	9.3	5.9	5.6
Whitman	19.4	8.9	12.1	13.0	3.9	11.2	4.3	3.9
Yakima	6.2	7.0	9.4	18.5	73.0	9.5	8.4	6.3
Statewide	4.7	6.7	8.1	9.7	18.7	9.8	7.2	4.0

Occasionally a situation arises where a market has very few listings or sales in a low price range, creating a perception of a significant inventory. This statistical anomaly resulted in the estimated 22.5 months supply for homes under \$80,000 in Walla Walla County. Such is the nature of statistics where the number of observations are small.

The statewide market now shows a months' supply which increases linearly across price ranges, with the least expensive homes showing the greatest potential to avoid declines. This is consistent with the affordability challenges described earlier.



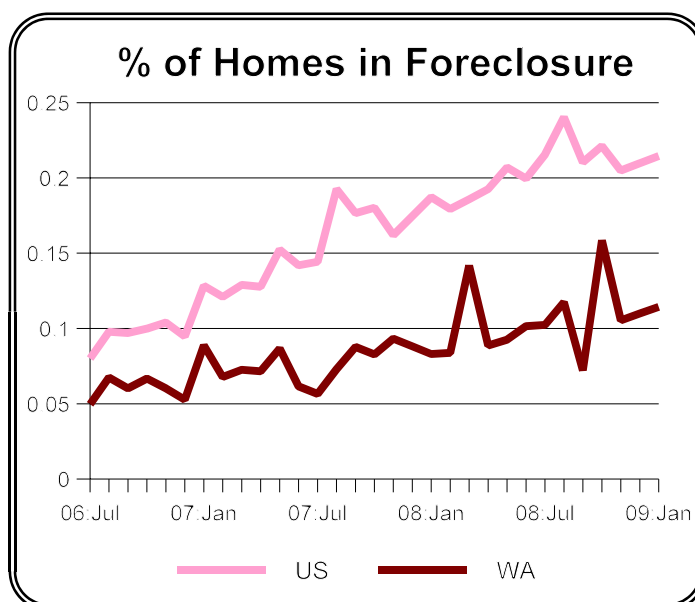
In summary, while responding to the national slowing of the housing market and continued disruption of mortgage markets, especially more restrictive lending standards, the Washington housing market remains one of the brighter spots in the country. The lower levels of inventory since mid-year have resulted in a reduced months' supply despite the sharp decline in homes sold. Risks to the market remain significant, however, both from job losses as the recession deepens and potential increases in mortgage delinquencies and foreclosure, especially in Western Washington. The wild card remains the consumer. Affordability improvement suggests that the combination of lower prices and low mortgage rates should entice buyers to return to the market, especially with the

new \$8,000 tax credit for first-time buyers. However, those prospective buyers have become convinced that prices will fall much further, and that mortgage lenders will not approve loans. Certainly the lending standards are more restrictive than a year or two ago, but households with good credit and cash for a down payment may find that this is really a good time to purchase that first home.

Role of Foreclosures

One of the most pronounced factors contributing to the sharp declines in housing values in other parts of the country began with the collapse of the subprime mortgage market and continued with persistent high levels of default and foreclosure. To date, Washington has avoided the worst of the foreclosure mess, in part because values (and sales) held up longer than in other regions. Understanding the likely future course of the housing decline requires an evaluation of the current state of foreclosures.

Data on foreclosures in Washington is fragmented at best. Much as we might like to be able to call a government office to obtain the statistics, in general they have not been compiled and monitored routinely (Spokane County is an exception). Other primary sources are data from RealtyTrac, a private company founded to help potential buyers locate properties in or approaching foreclosure and the Mortgage Bankers Association of America which has conducted a delinquency and foreclosure survey of its members for many years. While the MBA data is well respected by industry analysts, it is only produced on a quarterly basis and released with a significant lag. Meanwhile, the RealtyTrac data is reported in a timely fashion, but its reliability for statistical purposes has not been demonstrated since it has only been compiled in its current form for two years (reported monthly).



Source: RealtyTrac

The accompanying graph compares the proportion of homes at some point in the foreclosure process nationally and for the state of Washington using data from RealtyTrac. As of January, one in every 466 households nationwide was at some stage of the foreclosure process, represented in the graph as 0.2145 percent. Washington's foreclosure rate remains below the national level with one in every 874 homes at some stage of the process in January, a rate of 0.1144 percent. Foreclosure rates ranged from a high of one in every 76 homes in Nevada to a low of one in every 51,906 homes in Vermont. Washington was still in the middle of the distribution.

The Mortgage Bankers Association provides a more meaningful statistic in the proportion of mortgages which are seriously delinquent (payments more than 90 days past due). This reflects where the foreclosure problems will likely be more severe in the months ahead. The most recent data is for the third quarter (with fourth quarter data not expected until March). Their data also identifies the types of loans, helping to explain where the problems lie. For all categories of loans the proportion

in Washington identified as seriously delinquent was about half the national rate, even for sub-prime, adjustable rate mortgages. As of September 30, only 2.19 percent of the mortgages outstanding in Washington were in deep trouble, compared to 5.17 percent nationwide. The Washington serious delinquency rate increased from 1.84 percent in the opening quarter of the year, but remained the fifth LOWEST in the country (the states with lower rates were all low population, rural states). Delinquency was highest in Florida, with 10.44 percent of the mortgages seriously delinquent. Obviously, these statistics do not mean the state has dodged the foreclosure bullet, but the comparatively low current foreclosure rate, coupled with pressure from President Obama's Homeowner Affordability and Stability Plan to refinance or modify loans on the brink of default or foreclosure may allow Washington's housing market to stabilize more quickly.