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

Second Quarter 2008

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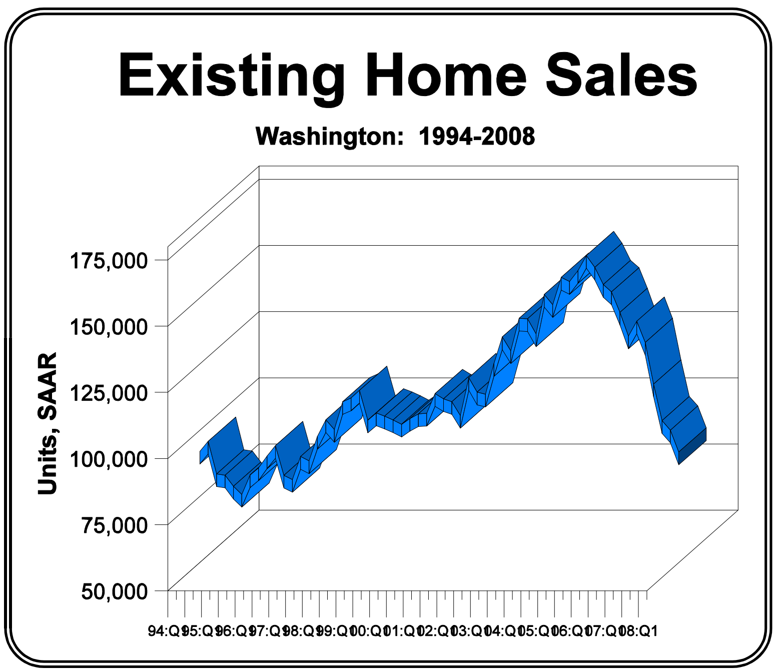
Bleak news about the housing market continued unabated during the second quarter of 2008, although some markets began to exhibit signs of stabilization. In Washington, which had resisted national patterns of declining prices, the current statistics suggest more discomfort ahead as foreclosure rates in the state are increasing and price declines are larger than last quarter. Potential home buyers have been convinced that all markets and all homes are declining in value, and are therefore reluctant to purchase a home today which may be less valuable in a few months. They are not considering the psychological values of owning one's home, and not recognizing the potential increases in mortgage interest rates in the months ahead which may result in higher payments for homes which might be purchased for somewhat less than buying today. Housing construction, especially for single-family homes is also depressed throughout Washington.

Home Resales

Since the beginning of 2007, **Washington State's Housing Market** has been reporting statistics at seasonally adjusted annual rates, consistent with most economic statistics on housing market activity. If the relative sales pace which prevailed during the second quarter were to continue for an entire year, there would be 89,380 resale homes sold throughout the state. This represents a decline of 8.5 percent from the sales pace during the first quarter, and 31.7 percent below the pace of a year ago. Putting this data into perspective, the national resale market declined 0.8 percent from the first quarter (16.3 percent from last year) and the sales in the West region (everything from the Rockies west) declined 9.4 percent during the quarter and 11.6 percent from a year ago. While Washington's housing market during the second quarter declined more rapidly than nationally, It remains closer to its peak than markets generating most of the headlines. This is true even though sales in California, Nevada, Arizona and Florida (the markets with the largest sales declines) have been rising since the end of 2007.



Looking to the local detail, King County, of course, had the highest sales rate, 21,340 units, a decline of 12.2 percent from the first quarter and 36.4 percent from the second quarter of last year. At the opposite extreme, a sales rate of only 40 homes was reported in Garfield County, Washington's smallest county in terms of population. This

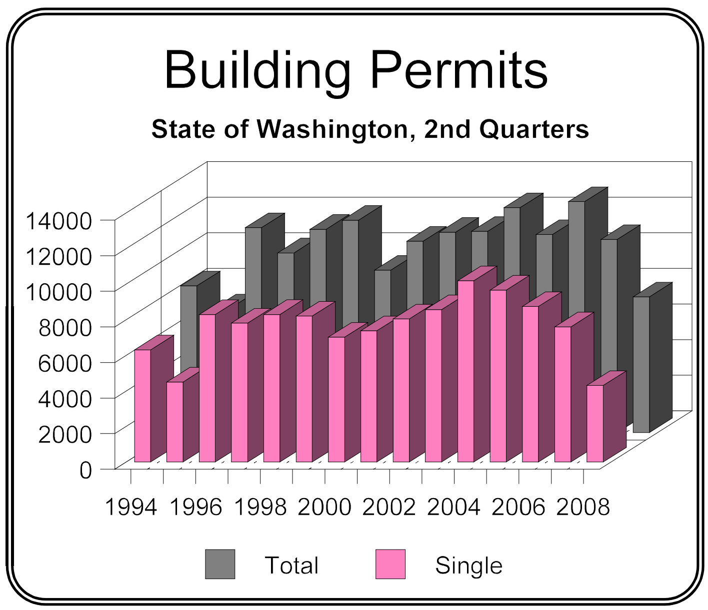
Note: This report uses the definitions of metropolitan and micropolitan areas by the Office of Management and Budget. Briefly, metropolitan areas are larger communities with at least 50,000 people in the urban core. Micropolitan areas are smaller cities, with 10,000-50,000 people in the urban core. Currently,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

sales rate was unchanged from last quarter, but 20.0 percent below a year ago. Seven of Washington's 39 counties reported a higher sales rate in the second quarter than in the first, led by a 160 percent jump in Okanogan County. Three counties reported no change in home sales activity, while the remainder had a slower sales rate than earlier in the year. The biggest decline in sales activity was 69.6 percent in another small county, Wahkiakum. Home sales declined more consistently when compared to a year earlier, with only Okanagan County reporting more sales (72.3 percent).

In metropolitan areas, the strongest market measured in terms of change from a year ago was Asotin County (Lewiston, ID-WA) which declined 13.3 percent. The weakest metropolitan market was Skamania County (part of the Portland-Vancouver, OR-WA metro area), where sales were 64.3 percent below the second quarter of last year. The extremes in the second-tier micropolitan markets were declines of 17.9 percent in Clallam (Port Angeles/Sequim) on the high end and 45.8 percent in Kittitas County (Ellensburg). While these mid-size, often agricultural, communities typically exhibit more stability than their larger or smaller counterparts, the breadth of the current malaise is clearly widespread, and not limited to high-profile suburban markets.

Housing Construction

Nationally much of the weakness in housing is exhibited in new, or nearly new, construction. Builders eager to cash in on the strong market two years ago continued to start homes in the belief that even if the market cooled somewhat, there would still be significant demand for newly-built homes. Now those builders are faced with cancellation of prior sales, competition from relatively new units where the purchasers are facing foreclosure, as well as units which were already under construction and are now completed or nearly so. With little reason to start additional units, building permits for single-family homes during the second quarter fell 43.4 percent compare to a year earlier to only 4,295 units permitted statewide. This is the lowest rate of single-family construction since WCRER began monitoring the data in 1994. Meanwhile, construction of multifamily units (2+ units) actually increased 2.2 percent compared to the second quarter of 2007, but that was not enough to prevent total building permits from declining.



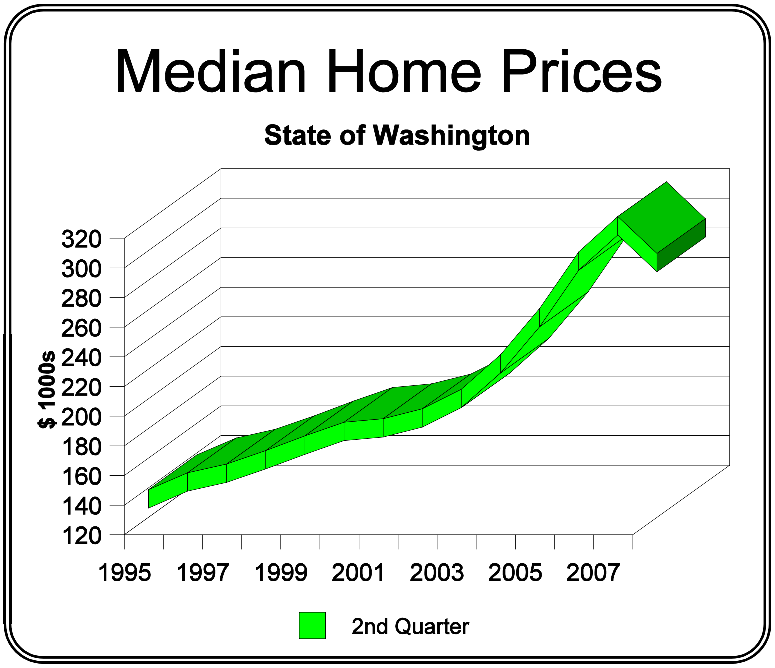
Among the 30 counties which report building permits to the Census Bureau, only San Juan County reported more new residential permits this year than a year ago. Most counties reported reductions in residential construction of 30 to 50 percent, consistent with the resales statistics.

Home Prices

The median selling price for a resale home in the State of Washington during the second quarter of 2008 declined 7.8 percent from the second quarter of 2007, to $291,900. This marks the third consecutive quarter where the median price was below the prior year, with the current decline more striking that the first two.

Local area median prices ranged from a low of $111,000 in Adams County to a high of $570,000 in San Juan

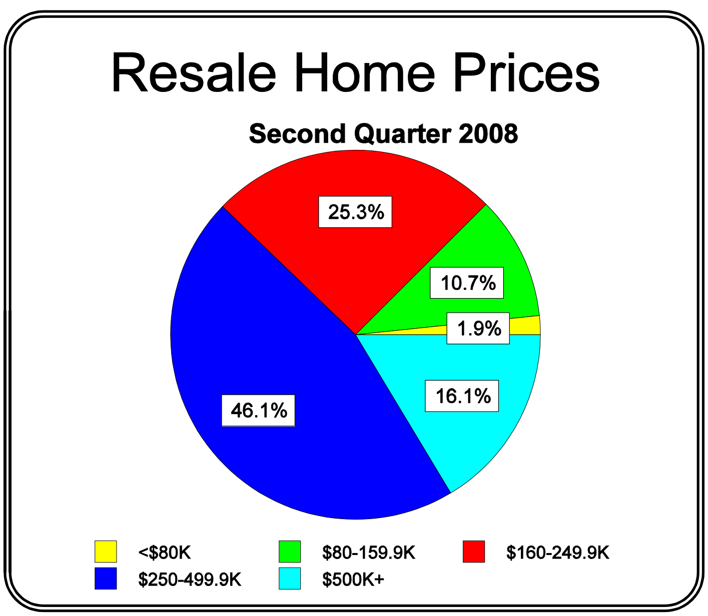
County. King County remained the highest cost metropolitan market with a median of $450,000, 4.3 percent below a year ago.



Despite a significant statewide decline in the median sales price, many parts of the state continued to report higher prices. The median price in 14 counties was higher than during the second quarter of 2007, with four small county medians still at least 10 percent above a year earlier. The biggest price jump was 32.9 percent in tiny Columbia County. Skamania, Pacific and Whitman counties also reported significant price gains.

Changes in median prices in the metropolitan counties ranged from a 22.2 percent increase in Skamania County to a 8.9 percent decline in Kitsap County. The lowest median price in a metropolitan county was $153,100 in Yakima County. Among the micropolitan counties the range of price changes was from a 13.0 percent increase in Whitman County to a 8.2 percent decline in Island County. The highest median in that group was $280,000 in Whitman County, while the lowest was $155,000 in Grays Harbor County (Aberdeen/Hoquiam). Rural markets ranged in value from the previously cited extremes of $111,000 in Adams County to $570,000 in San Juan County, while changes in value ranged from an increase of 32.9 percent in the last year in Columbia County to a decline of 10.4 percent in Wahkiakum County. Those two counties changed positions from the last report, indicating the volatile nature of price trends in small markets.

The median is a statistical measure where half the homes sold a higher prices, and half lower. It should be emphasized that changes in median prices are not appreciation (or depreciation) rates. In fact, during periods of declining medians, the prices of individual homes are likely declining more rapidly as buyers negotiate better deals on more expensive homes, making them more affordable. The median does not match the characteristics of the homes which sold. Typically in periods of declining sales activity and increasing inventories available for sale purchasers find that their home purchase dollar will go a bit further than they expected. The result is the purchase of homes which have more amenities than prevailed in an earlier period. The homes may be larger or on larger lots. The buyers stretch their budgets to take advantage of the "bargains," resulting in an increasing median price at a time when the prices of individual homes is actually declining, or declines which underestimate individual home value declines. WCRER is currently exploring the development of new statistics designed to measure prices of "kinds" of homes, based on the number of bedrooms in the property.

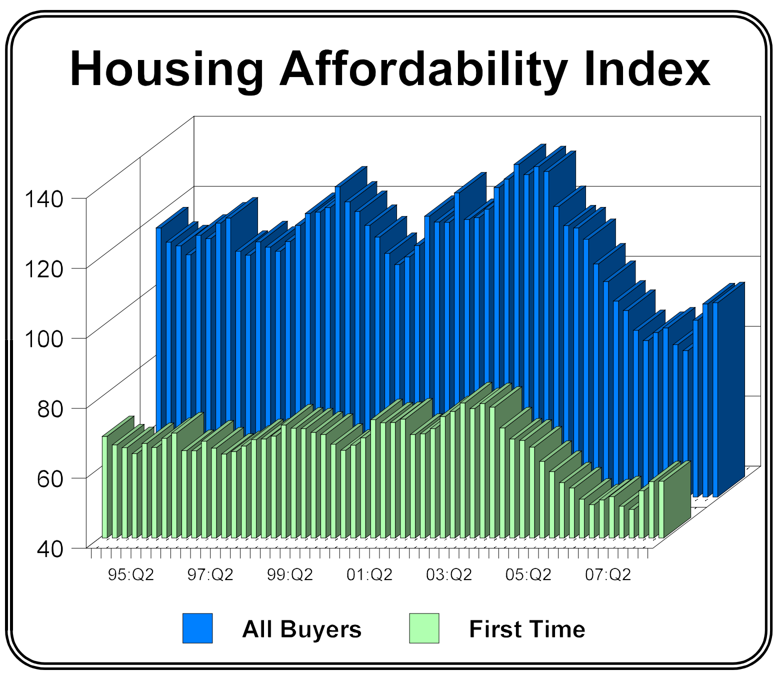


Measures of central tendency, like median prices (half the homes sold were more expensive, half less) which use a single number to represent a distribution of home prices, tend to confuse some consumers into believing there is nothing less expensive than the median in the marketplace. While there were 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, some lower cost housing is available, especially if the buyer is willing to invest some hard physical labor improving the home. In fact, while "only" 1.9 percent of the single-family homes sold during the second quarter were priced no higher than $80,000, this represents annual sales of about 1,700 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 many more homes sold during the second quarter at prices in excess of $500,000 than sold for prices below $160,000. It should also be noted that the proportion of homes sold at prices above $500,000 during the current quarter was sharply lower than in recent periods, reflecting the abundant supply of expensive homes. This leads naturally to a discussion of the continuing challenge of affordability.

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 (6.14 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 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 second quarter stood at 95.5. This value indicates that a median income family had 95.5 percent of the income to marginally qualify for a mortgage on the median price home. This was the eleventh consecutive quarter where the median income family could not afford the typical home under the assumed conditions, but the third consecutive improvement in affordability. The current measure is actually somewhat above the long-term average for the all-buyer index in a national historical context. The median price home was significantly more affordable in the second quarter than it was a year ago (an improvement of 12 index points). This reflects both the lower median price and the lower prevailing interest rate than a year ago, along with modest increases in family income. Affordability prospects in the next few quarters are murky. A slowing economy will likely eliminate income gains. Rising inflation and a weak lending sector will lead



to increased interest rates. Those two affordability concerns may well offset any potential improvements in affordability tied to potentially lower median prices.

All-buyer affordability varied widely across the 38 counties for which data is available. The most affordable county in the state was rural Adams County where the second quarter index was 165.7, indicating the typical family could afford to purchase a home priced nearly 70 percent above the local median. At the other extreme, another rural area, San Juan County, continued to exhibit the least affordable housing, recording an index value of only 43.6, meaning that the typical family in the area had significantly less than half the income to afford the typical home. Among metropolitan communities, the most affordable housing was in Benton County (Kennewick/Richland) with an index of 171.7 while the least affordable was King County at 74.3. For the micropolitan areas the most affordable was Grays Harbor County with an index of 133.5 while the least affordable was Island County where the index was only 80.6. Overall, 26 of the 38 counties reported had an all- buyer index of at least 100 during the second quarter, compared to 22 counties a year ago.

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 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 second quarter of 56.2. This is marginally higher than the first quarter and seven points above the level a year earlier. However, the typical first-time buyer still has only a little more than half the income required to qualify to purchase the typical starter home throughout the state.

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 50 in five counties. The first-time buyer index was only 25.8 in San Juan County, and 41.4 in King County. First-time buyer affordability levels were generally higher in Eastern Washington.

Affordable Housing Availability

The range of housing choices for 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 is assumed that these buyers would have been able to find mortgages for their purchases at an interest rate of 6.25% (marginally above prevailing rates during the quarter). It must also be recognized that the lending standards which prevail at the present time are more restrictive than previous standards. Higher credit scores and larger downpayment, along with limited access to "teaser" rates, interest-only loans and other innovative mortgage products are making it more difficult for many would-be homebuyers to secure affordable mortgages.

Affordable Home Purchase Prices for Selected Income/Asset Groups

Income	Affordable Housing Expense (P&I)	Mortgage Amount	Downpayment	Home Purchase Price
$ 30,000	$ 625	$101,508	$ 5,342	$ 106,850
$ 60,000	$ 1,250	$203,015	$ 22,558	$ 225,573
$ 90,000	$ 1,875	$304,523	$ 76,131	$ 380,654
$150,000	$ 3,125	$507,538	$ 273,290	$ 780,828

This table clearly illustrates how income growth coupled with ownership of homes with increasing values can move a household up the ladder of homeownership. When reviewing these statistics it is important to remember that the median family income in the state during the quarter was $65,123, and ranged from a low of $41,371 in Ferry County to $78,155 in King County. Household incomes were predictably lower, ranging from $34,176 in Whitman County (artificially low due to the student population at Washington State University) to $61,117 in King County. The statewide median household income was $53,734. 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 these 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 June, when both sales and inventories are typically near their peak for the year. 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. 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, the estimates are reflective of housing market access in these communities.

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

	Home Price Maximum			
County	**$80,000**	**$160,000**	**$250,000**	**$500,000**
Asotin	3.5%	36.2%	71.5%	97.0%
Benton/Franklin	5.6%	39.8%	67.7%	94.6%
Chelan	1.5%	7.6%	31.8%	75.8%
Clallam	3.0%	10.5%	33.2%	87.2%
Clark	0.6%	2.7%	32.0%	81.6%
Cowlitz	2.6%	26.9%	69.3%	92.0%
Douglas	0.7%	7.0%	41.1%	89.5%
Ferry/Pend Oreille/Stevens	3.9%	26.8%	54.0%	87.8%

	Home Price Maximum			
County	**$80,000**	**$160,000**	**$250,000**	**$500,000**
Grant	2.9%	28.0%	51.1%	87.3%
Grays Harbor	4.6%	30.8%	62.9%	93.6%
Island	0.1%	1.1%	16.1%	64.8%
Jefferson	0.2%	4.4%	20.0%	66.9%
King	0.0%	0.2%	3.6%	49.4%
Kitsap	0.3%	2.9%	25.7%	72.4%
Kittitas	0.4%	4.9%	33.1%	73.8%
Klickitat	3.3%	17.5%	41.1%	82.1%
Lewis	2.0%	19.6%	56.3%	93.5%
Mason	1.2%	15.2%	46.8%	86.3%
Okanogan	3.3%	23.1%	44.8%	82.5%
Pacific	3.0%	23.7%	56.6%	87.7%
Pierce	0.1%	4.0%	28.8%	78.2%
San Juan	0.0%	0.0%	2.1%	29.5%
Skagit	0.3%	3.6%	26.5%	75.3%
Skamania	0.0%	15.5%	48.3%	84.5%
Spokane	0.5%	18.7%	51.5%	87.6%
Snohomish	0.1%	0.7%	7.2%	72.4%
Thurston	0.1%	2.5%	31.1%	83.6%
Walla Walla	7.2%	26.1%	58.4%	89.7%
Whatcom	1.3%	4.1%	23.7%	74.7%
Whitman	3.9%	17.6%	56.4%	95.1%
Yakima	8.1%	42.0%	71.5%	95.3%
Statewide	**1.0%**	**8.3%**	**28.0%**	**73.8%**

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, reinforcing the understanding that modest-income households have a very difficult time becoming homeowners in greater Seattle. Meanwhile at least a third have an asking price in excess of $500,000. Significantly, fewer than one in 100 homes in 14 counties carry asking prices less than $80,000, meaning access to affordable housing remains an issue well beyond the metropolitan Seattle boundaries.

The income used to calculate the statewide first-time buyer affordability index is midway 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 8.3 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, even in the current environment with low sales rates. Higher priced homes currently have even more competition in the marketplace, and will be expected to have longer marketing times unless they have been priced very aggressively (low). There are more units available and relatively few qualified buyers for the more expensive homes, especially as lenders are enforcing more restrictive qualification standards. All communities in Eastern Washington offer far greater choices of lower-cost homes.

Available Inventory

Most communities in Washington, like their counterparts in the rest of the nation are seeing "For Sale" signs pop up like mushrooms after the rain. At the end of June there were 56,993 single-family homes for sale through the multiple listing services which contribute information for this report. That represents an increase of 18.7 percent compared to a year ago – roughly **9,000 more** homes on the market. Three years ago real estate licensees complained they had insufficient inventory to meet demand. Current listing inventory is 164.4 percent HIGHER than in 2005, and significantly fewer sales are taking place, making the declining prices easier to understand from a basic supply/demand standpoint. Moreover, the vast majority of current listings are resale homes. Similarly, home builders have a much larger unsold inventory than they want, the result of fewer potential buyers in their model homes and a sharp rise in canceled orders for new homes. Unfortunately, the latter cannot be reported specifically for Washington State.

Listings Available for Sale – End of June

County	2001	2002	2003	2004	2005	2006	2007	2008	%Ch 2007-08
Asotin	605	663	432	379	342	357	443	536	21.0%
Benton/Franklin	902	907	1,255	1,694	1,436	1,648	1,436	1,632	13.6%
Chelan/Douglas	748	640	513	464	396	306	542	823	51.8%
Clark	1,588	1,197	1,966	1,676	1,414	3,414	4,206	5,053	20.1%
Cowlitz	590	555	483	469	326	432	671	810	20.7%
Ferry/Pend Oreille/Stevens	435	514	390	375	298	295	325	411	26.5%
Grant	438	437	367	407	372	316	441	654	48.3%
Grays Harbor	571	641	569	465	417	623	774	929	20.0%
Island	525	752	669	654	423	787	1,006	1,224	21.7%
Jefferson	n/a	n/a	217	286	221	340	452	541	19.7%
King	7,201	7,763	7,615	6,144	4,351	5,745	8,569	12,305	43.6%
Kitsap	1,416	1,335	1,243	1,008	820	1,388	2,199	2,520	14.6%
Kittitas	n/a	n/a	258	285	200	290	459	713	55.3%
Lewis	563	512	453	411	367	443	722	840	16.3%

County	2001	2002	2003	2004	2005	2006	2007	2008	%Ch 2007-08
Mason	774	702	512	465	385	521	796	972	22.1%
Okanogan	n/a	n/a	n/a	n/a	n/a	218	254	424	66.9%
Pierce	3,892	4,090	3,616	2,987	2,575	4,420	6,971	7,275	4.4%
San Juan	n/a	223	240	221	191	228	325	431	32.6%
Skagit	807	828	720	575	447	916	1,048	1,251	19.4%
Snohomish	3,333	3,450	3,436	2,936	2,133	2,944	4,906	5,966	21.6%
Spokane	4,181	4,168	1,811	1,676	1,644	2,401	3,236	3,958	22.3%
Thurston	1,157	929	810	755	690	1,524	2,122	2,148	1.2%
Walla Walla	n/a	n/a	n/a	n/a	372	425	512	844	64.8%
Whatcom	1,925	1,739	n/a	668	625	1,599	1,771	1,846	4.2%
Whitman	235	296	214	157	169	186	189	204	7.9%
Yakima	1,104	1,019	941	984	940	1,155	1,387	1,548	11.6%
Statewide	**32,990**	**33,360**	**28,780**	**26,141**	**21,554**	**32,921**	**48,012**	**56,993**	**18.7%**

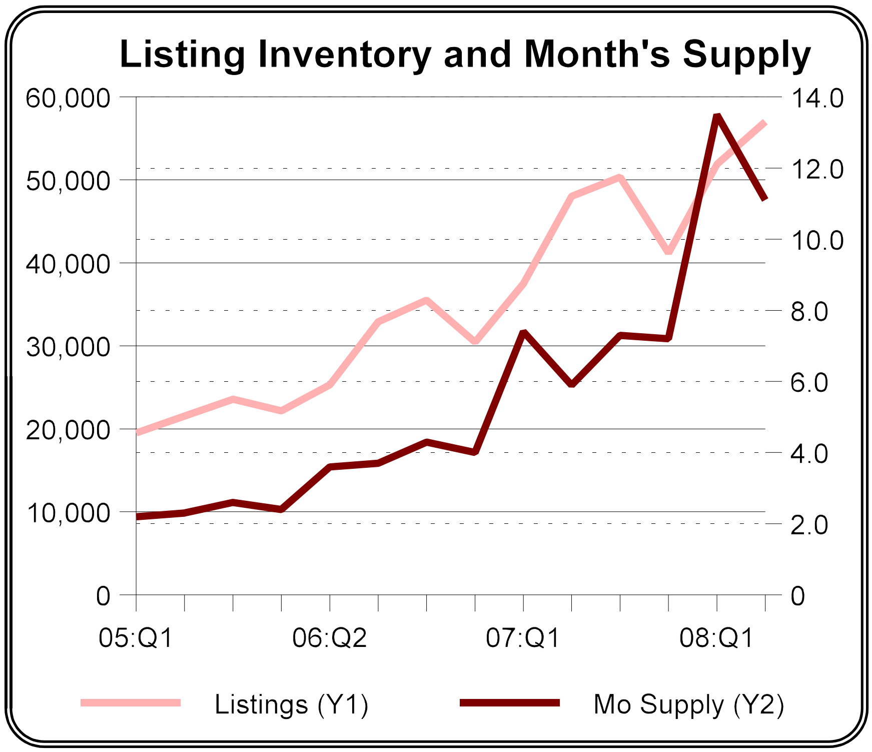
The table above highlights those years where the inventory of homes available for sale at the end of June of any year exceeded the inventory available this June. While in the aggregate it would be fair to say the inventory available statewide is a record, it is clear that there have been other years in some parts of the state where buyers have had more choices in the market. However, only six of the 26 markets identified in the table have had more homes on the market in a previous June than they had this year. Moreover, 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 generally considered normal or balanced. Accordingly, the overall state market can be characterized as "oversupplied" with an inventory capable of sustaining the market for approximately 11 months, compared with a balanced 5.9 months inventory a year ago. Until either sales rates increase or some discretionary listings are withdrawn it is likely that sales prices will continue to adjust. The month's supply of homes on the market increased in all communities, with no county remaining in the shortage or balanced category. Listing inventories would currently be able to sustain the local market for at least 18 months in eight counties, suggesting a prolonged market recovery in those areas.

Month's Supply of Housing by Price Range
June, 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	4.7	7.1	11.7	14.8	27.7	9.8	6.9	4.6
Benton/Franklin	5.8	6.0	6.2	11.1	19.3	7.2	5.4	6.5
Chelan/Douglas	7.1	7.8	8.5	13.1	32.9	12.6	4.7	2.5
Clallam	4.1	9.0	7.2	12.6	32.6	10.7	n/a	n/a
Clark	5.1	11.1	10.2	15.7	45.4	14.8	8.4	5.8
Cowlitz	4.5	6.7	12.6	23.4	219.1	13.5	8.0	3.7
Ferry/Pend Oreille/Stevens	4.7	11.2	11.6	28.0	80.4	15.2	9.1	6.0
Grant	7.2	6.7	7.7	29.9	141.5	11.9	5.4	3.5
Grays Harbor	4.6	10.2	17.0	25.4	63.0	14.8	8.7	6.8
Island	3.3	5.0	8.2	15.5	46.0	16.8	9.8	6.4
Jefferson	1.6	7.5	19.5	16.9	83.1	21.5	9.0	8.1
King	n/a	3.4	7.6	7.5	11.0	8.9	3.9	2.4
Kitsap	11.8	6.1	8.2	12.1	32.1	12.6	7.6	3.9
Kittitas	n/a	15.2	16.3	21.9	155.0	24.6	8.4	4.8
Klickitat	13.1	12.8	23.8	33.1	48.1	25.2	n/a	n/a
Lewis	8.8	10.9	13.8	45.9	34.0	18.1	9.6	4.6
Mason	4.7	10.2	11.0	24.8	70.0	15.9	8.9	4.8
Okanogan	8.0	13.8	11.3	36.7	84.8	20.0	8.4	8.8
Pacific	5.8	12.7	24.7	35.0	166.2	22.5	n/a	n/a
Pierce	5.3	7.3	7.6	10.3	31.3	7.8	6.9	3.5
San Juan	n/a	n/a	17.0	34.4	60.6	48.0	16.2	9.0
Skagit	4.5	7.3	7.2	12.9	28.1	11.9	6.6	6.0
Skamania	n/a	n/a	31.9	35.3	60.5	43.3	n/a	n/a
Snohomish	6.7	13.8	6.9	9.9	20.5	11.2	5.0	2.5
Spokane	1.8	5.2	6.6	11.5	26.6	8.1	4.6	3.4
Thurston	2.2	5.4	5.9	8.8	28.2	8.4	6.0	3.6

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
Walla Walla	13.0	12.7	16.7	23.2	33.1	17.7	8.6	6.7
Whatcom	12.0	8.3	7.7	10.7	30.2	11.7	7.6	6.6
Whitman	18.0	8.4	7.9	11.5	15.0	9.6	5.8	5.4
Yakima	8.6	9.0	9.4	16.8	40.8	10.6	6.8	5.8
Statewide	**6.1**	**7.5**	**8.6**	**11.0**	**18.1**	**11.1**	**5.9**	**3.7**



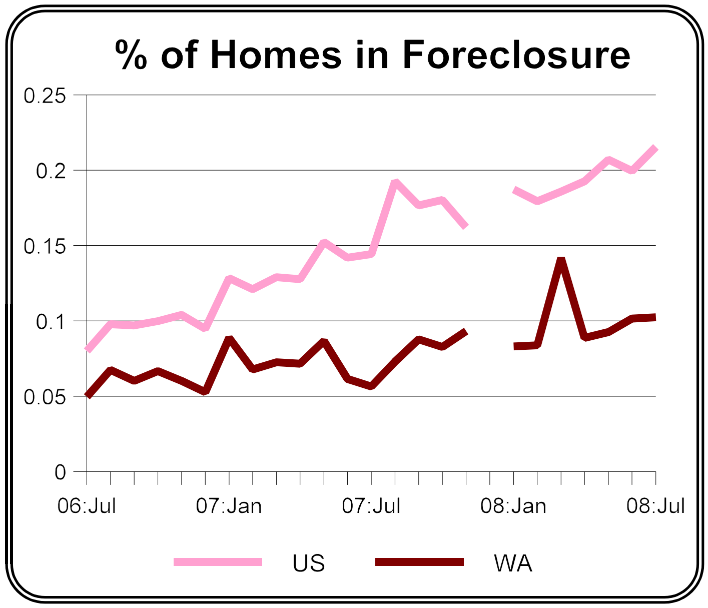
The adjacent graph illustrates how the inventory available for sale and the month's supply represented by that inventory has changed since the beginning of 2005. While both lines are trending upward, and generally illustrate modest variations, it is also apparent that increases in listings do not necessarily mean that the month's supply is moving upward. The current quarter is a clear case in point. While the total listing inventory is higher then ever, the ability of that inventory to supply the needs of the marketplace actually declined relative to the first quarter. It is too early to determine whether this represents the beginning of a trend toward stabilization in the market, but at a minimum it is an encouraging sign.

One additional comment about month's supply is necessary. The lowest two price ranges across the state remained balanced to very slightly oversupplied, with the inventory of homes in the market priced above $500,000 is sufficient to supply that market segment for a year and a half. This implies that the prices of lower cost homes may continue to increase with the highly-touted price declines are concentrated in the more expensive homes. Sellers who have seen the values of their homes increase over the years, then begin to decline may want to take the long-term appreciation into consideration as they price their homes for a quicker sale.

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).



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 mid-year 2008 one in every 501 households nationwide was at some stage of the foreclosure process, represented in the graph as 0.1997 percent. Washington's foreclosure rate, while increasing, remains well below the national level with one in every 984 homes at some stage of the process in June, a rate of 0.1016 percent, roughly half the national level. Foreclosure rates ranged from a high of one in every 122 homes in Nevada to a low of one in every 27,982 homes in North Dakota. Washington was 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 first quarter (with second quarter data not expected until September). 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 March 31, only 1.58 percent of the mortgages outstanding in Washington were in deep trouble, compared to 4.03 percent nationwide. Delinquency was highest in Florida, with 6.71 percent of the mortgages seriously delinquent. Only four states had a lower overall delinquency problem than Washington (Montana, North Dakota, Wyoming and Alaska), all much smaller in terms of population. Obviously, these statistics do not mean the state has dodged the foreclosure bullet, but the overall health of the housing market should allow Washington to weather the storm a bit better than other parts of the country.