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

3rd Quarter 2008

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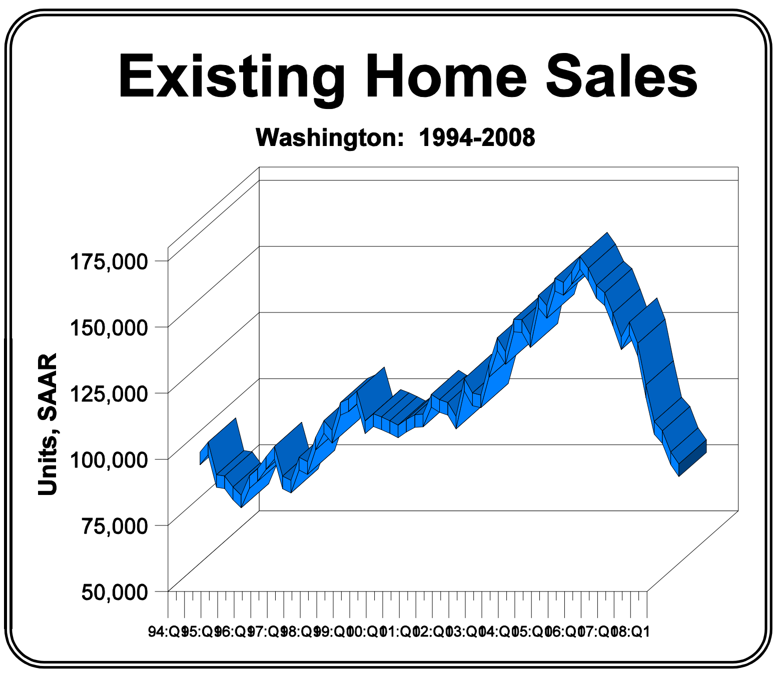
The third quarter of 2008 continued the pattern of slowing housing markets both nationally and in the state of Washington. Nationally, some of the markets which began to decline earlier, and which have seen the largest reductions in prices, began to show some signs of life as bargain hunters entered the began to make some offers. Restrictive credit markets and the dramatic declines in the stock market have caused many would-be buyers to remain on the sidelines, especially as news reports highlight continued price reductions and increases in foreclosures. The housing construction market remains depressed as well.

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 third quarter were to continue for an entire year, there would be 85,180 resale homes sold throughout the state. This represents a decline of 5.1 percent from the sales pace during the second quarter, and 26.0 percent below the pace of a year ago. Putting this data into perspective, the national resale market increased 2.6 percent from the second quarter and stood 7.7percent below a year ago. While Washington's housing market during the third quarter declined more rapidly than nationally, it shows some encouraging signs as both the quarter-to-quarter and year-to-year declines were below those in the second quarter.



Looking to the local detail, King County, of course, had the highest sales rate, 20,240 units, a decline of 5.2 percent from the second quarter and 30.7 percent from the third 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 sales rate was

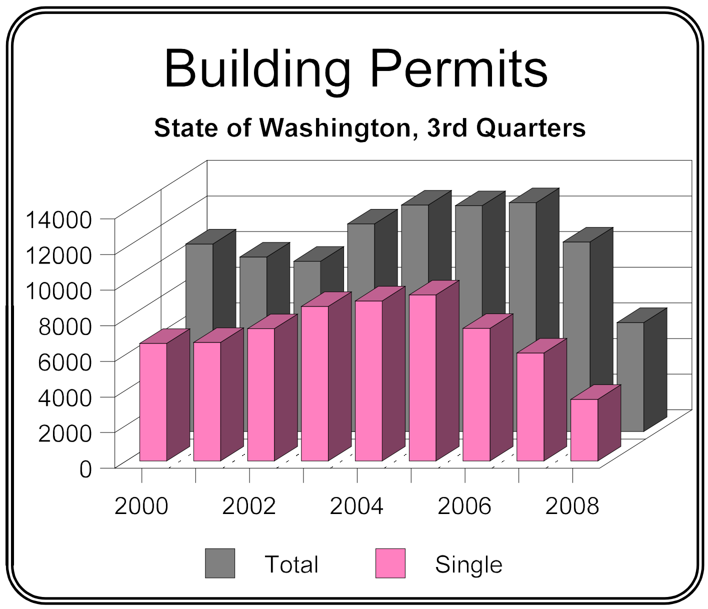
Note: This report uses the definitions of metropolitan and micropolitan areas by the Office of Management and Budget. Briefly, metropolitan areas are larger communities with at least 50,000 people in the urban core. Micropolitan areas are smaller cities, with 10,000-50,000 people in the urban core. Currently,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

unchanged from last quarter and a year ago. Ten of Washington's 39 counties reported a higher sales rate in the third quarter than in the second, led by a 59.3 percent jump in Klickitat County. Four 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 55.9 percent in Okanogan County. Home sales declined more consistently when compared to a year earlier, with only Grant County reporting more sales (0.5 percent).

In metropolitan areas, the strongest market measured in terms of change from a year ago was Asotin County (Lewiston, ID-WA) which declined 12.2 percent. The weakest metropolitan market was Skamania County (part of the Portland-Vancouver, OR-WA metro area), where sales were 41.7 percent below the third quarter of last year. The extremes in the second-tier micropolitan markets were the increase of 0.5 percent in Grant (Moses Lake) on the strong end and a decline of 45.6 percent in Whitman County (Pullman). 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 properties have been returned to the lender or 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 third quarter fell 42.4 percent compared to a year earlier, with only 3,457 units authorized statewide in the jurisdictions which report building permit activity to the Census Bureau. 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 decreased a bit more than single-family, registering a 42.7 percent decline. Since the weakness in single-family sales typically means that would-be homebuyers are remaining in apartments, the weakness in multifamily construction must be attributed to the inability of developers to secure financing for their properties, keeping them on the drawing board rather than moving toward construction.

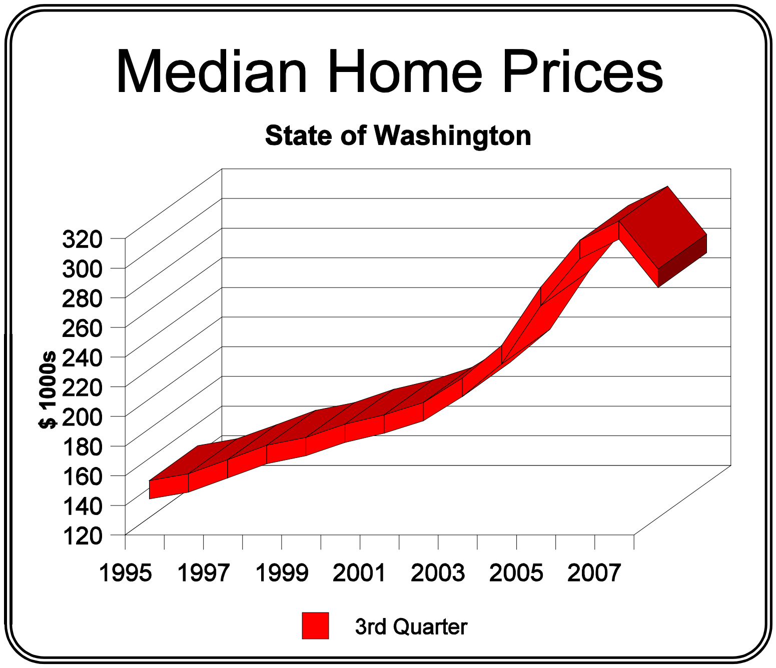


Among the 30 counties which report building permits to the Census Bureau, only San Juan County reported more new residential permits this year than a year ago. Most counties reported reductions in residential construction of 30 to 50 percent, consistent with the home resale statistics.

Home Prices

The median selling price for a resale home in the State of Washington during the third quarter of 2008 declined 10.4 percent from the third quarter of 2007, to $281,500. This marks the fourth consecutive quarter where the median price was below same quarter in the prior year, with the current decline more striking that the previous three.

Local area median prices ranged from a low of $110,000 in Adams County to a high of $559,000 in San Juan

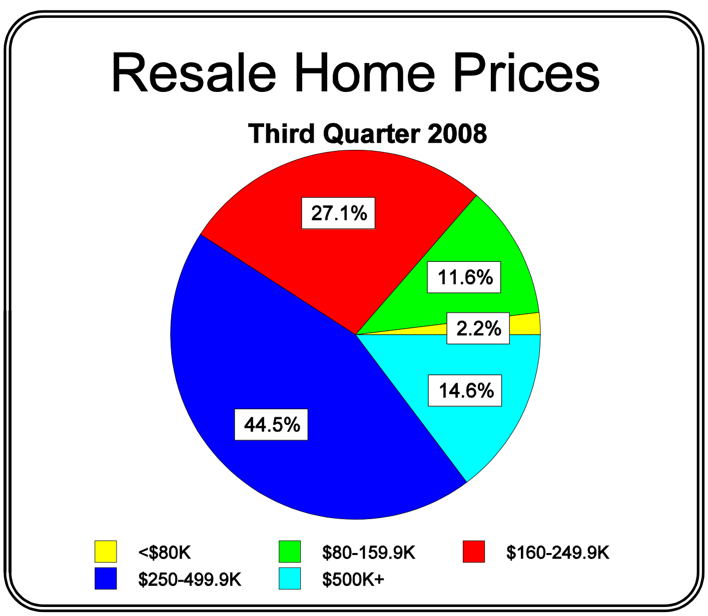


County. King County remained the highest cost metropolitan market with a median of $427,000, 9.5 percent below a year ago.

Despite a significant statewide decline in the median sales price, many parts of the state continued to report higher prices. The median price in 8 counties was higher than during the third quarter of 2007. However, this represents a reduction of six counties in the plus category compared to last quarter. The biggest price jump was 14.9 percent in Klickitat County.

Changes in median prices in the metropolitan counties ranged from a 3.1 percent increase in Asotin County to a 12.7 percent decline in Clark County. The lowest median price in a metropolitan county was $156,400 in Yakima County. Among the micropolitan counties the range of price changes was from a 2.0 percent increase in Grant County to a 17.2 percent decline in Kittitas County (Ellensburg). The highest median in that group was $282,500 in Island County (Oak Harbor), while the lowest was $155,000 in Grays Harbor County (Aberdeen/Hoquiam). Rural markets ranged in value from the previously cited extremes of $110,000 in Adams County to $559,000 in San Juan County, while changes in value ranged from an increase of 14.9 percent in the last year in Klickitat County to a decline of 18.5 percent in Wahkiakum County. Significantly, local markets with few sales are subject to large changes in median prices which really do not reflect strong or weak underlying market conditions.

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. 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 developing new statistics designed to measure prices of "kinds" of homes, based on the number of bedrooms in the property. Those statistics will be introduced when 2009 data becomes available.

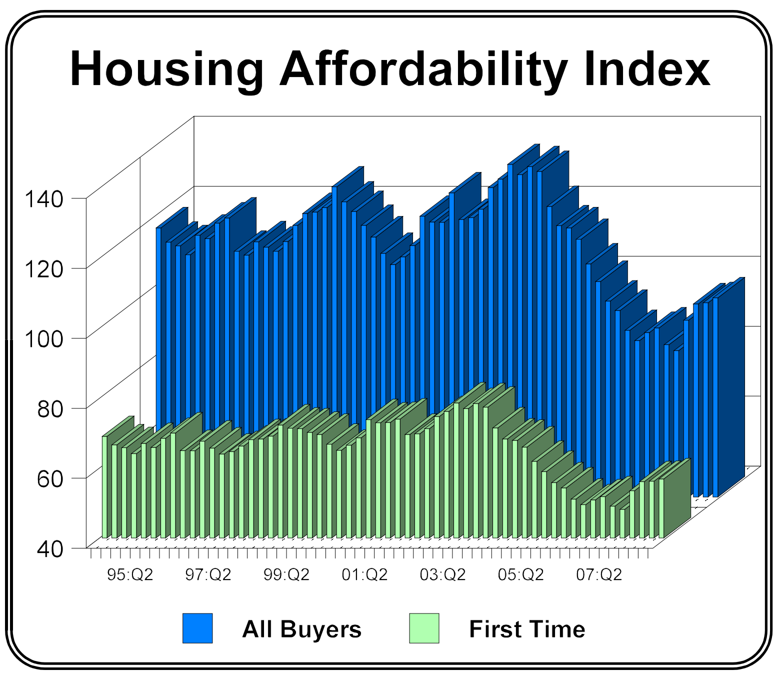


Measures of central tendency, like median prices (half the homes sold were more expensive, half less) which use a single number to represent a distribution of home prices, tend to confuse some consumers into believing there is nothing less expensive than the median in the marketplace. While there were significant numbers of homes which sold for prices well below the statewide median, they do no really benefit most consumers since 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" 2.2 percent of the single-family homes sold during the third quarter were priced no higher than $80,000, this represents annual sales of about 1,900 homes. Significantly, this suggests an increase of 200 low-priced homes since the second quarter report. 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 more homes still sold during the third 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 with discounting of sales prices resulting in sales below the half-million dollar cutoff. 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 third quarter stood at 96.9. This value indicates that a median income family had 96.9 percent of the income to marginally qualify for a mortgage on the median price home. This was the twelfth consecutive quarter where the median income family could not afford the typical home under the assumed conditions, but the fourth 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 15.1 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 with surging unemployment will likely eliminate income gains. Federal Reserve actions have dropped Federal Funds rate, but the precarious state of many lenders have limited their ability to offer lower mortgage rates. Those two affordability concerns may well offset any potential improvements in affordability tied to potentially lower median prices. Comparing affordability values between the second and third quarters illustrates the fact that although the third quarter median price was $10,000 below the second quarter, the all-buyer affordability index only increased marginally because higher mortgage interest rates ate up most of the price savings.

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 third quarter index was 164.8, 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, expensive San Juan County, continued to exhibit the least affordable housing, recording an index value of only 44.0, meaning that the typical family in the area had significantly less than half the income to afford the typical local home. Among metropolitan communities, the most affordable housing was in Benton County (Kennewick/Richland) with an index of 158.7 while the least affordable was King County at 76.9. For the micropolitan areas the most affordable was Grays Harbor County with an index of 131.1 while the least affordable was Island County where the index was only 87.3. Overall, 28 of the 38 counties reported had an all- buyer index of at least 100 during the third 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 downpayment, even though some lower downpayment 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 Columbia). At the other extreme, first-time buyer indexes were below 50 in three counties, and below 60 in nine others. The first-time buyer index was only 26.0 in San Juan County, 42.9 in King County and 47.0 in Whitman 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 6.2% (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 downpayments, 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	$ 98,882	$ 5,205	$ 104,087
$ 60,000	$ 1,250	$197,764	$ 21,974	$ 219,738
$ 90,000	$ 1,875	$296,645	$ 74,161	$ 370,806
$150,000	$ 3,125	$494,409	$ 266,220	$ 760,629

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 $65,669, and ranged from a low of $41,817 in Ferry County to $78,987 in King County. Household incomes were predictably lower, ranging from $34,486 in Whitman County (artificially low due to the student population at Washington State University) to $61,758 in King County. The statewide median household income was $54,094. 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 September. 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 – September, 2008

	Home Price Maximum			
County	**$80,000**	**$160,000**	**$250,000**	**$500,000**
Asotin	5.5%	40.4%	71.9%	96.8%
Benton/Franklin	6.3%	38.4%	67.7%	94.6%
Chelan	2.6%	8.5%	33.7%	76.9%
Clallam	3.4%	10.2%	30.9%	81.9%
Clark	0.7%	3.3%	35.6%	83.5%

	Home Price Maximum			
County	**$80,000**	**$160,000**	**$250,000**	**$500,000**
Cowlitz	2.1%	26.6%	70.0%	92.1%
Douglas	1.0%	6.7%	37.8%	88.6%
Ferry/Pend Oreille/Stevens	5.1%	30.6%	54.9%	89.6%
Grant	2.7%	28.9%	56.6%	90.6%
Grays Harbor	7.9%	32.0%	64.4%	93.7%
Island	0.0%	1.4%	18.6%	67.0%
Jefferson	0.2%	3.6%	19.4%	68.6%
King	0.0%	0.3%	5.1%	50.1%
Kitsap	0.3%	4.5%	28.4%	73.3%
Kittitas	0.5%	4.0%	34.1%	75.0%
Klickitat	3.0%	12.2%	35.0%	76.4%
Lewis	2.1%	22.0%	58.8%	93.2%
Mason	1.7%	16.0%	49.2%	87.9%
Okanogan	5.2%	23.7%	49.1%	86.7%
Pacific	4.1%	26.6%	62.0%	90.2%
Pierce	0.3%	5.8%	32.5%	79.6%
San Juan	0.0%	0.0%	2.2%	28.9%
Skagit	0.4%	4.0%	27.7%	77.0%
Skamania	0.0%	15.8%	52.6%	84.2%
Spokane	0.7%	20.8%	53.8%	87.9%
Snohomish	0.1%	1.0%	10.0%	73.8%
Thurston	0.2%	3.6%	35.3%	86.5%
Walla Walla	4.4%	23.8%	58.9%	88.3%
Whatcom	1.9%	5.4%	24.4%	74.3%
Whitman	6.9%	22.2%	61.1%	96.6%
Yakima	8.6%	41.5%	68.4%	95.0%
Statewide	**1.2%**	**9.1%**	**30.2%**	**74.8%**

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. Despite the slowing market and lower prevailing prices, there still 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 13 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 9.1 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 relatively 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 September there were 52,804 single-family homes for sale through the multiple listing services which contribute information for this report. That represents an increase of 5.5 percent compared to a year ago, but 7.4 percent fewer homes on the market than three months ago. The shortage of homes on the market has clearly been transformed to an oversupply. This ample supply of homes on the market, combined with the declining sales rate makes the declining sales prices easy to understand from a basic supply/demand standpoint.

Statewide the current listing inventory is a record for a September, but individual local markets exhibit different sales and listing patterns, as has been demonstrated earlier in this report. In fact, the September inventory available for sale has been higher that the current level in earlier years in 11 of the 26 counties (or county groups) shown in the following table. For all listed counties, the highest September listing total is shown in bold type, while all years with higher listing totals than September 2008 are shaded.

Listings Available for Sale – End of September

County	2001	2002	2003	2004	2005	2006	2007	2008	%Ch 2007-08
Asotin	**703**	483	403	341	337	381	450	470	4.4%
Benton/Franklin	889	1,091	1,371	**1,755**	1,575	1,436	1,436	1,582	10.2%
Chelan/Douglas	675	558	541	393	376	348	710	**842**	18.6%
Clark	1,282	n/a	1,750	1,729	1,916	3,789	4,421	**4,737**	7.1%
Cowlitz	558	546	488	405	336	536	**742**	711	-4.2%
Ferry/Pend Oreille/Stevens	411	**458**	366	332	260	288	320	432	35.0%
Grant	437	379	364	379	301	348	537	**620**	15.5%
Grays Harbor	559	625	561	404	424	601	770	**845**	9.7%
Island	668	684	590	583	468	809	1,070	**1,127**	5.3%

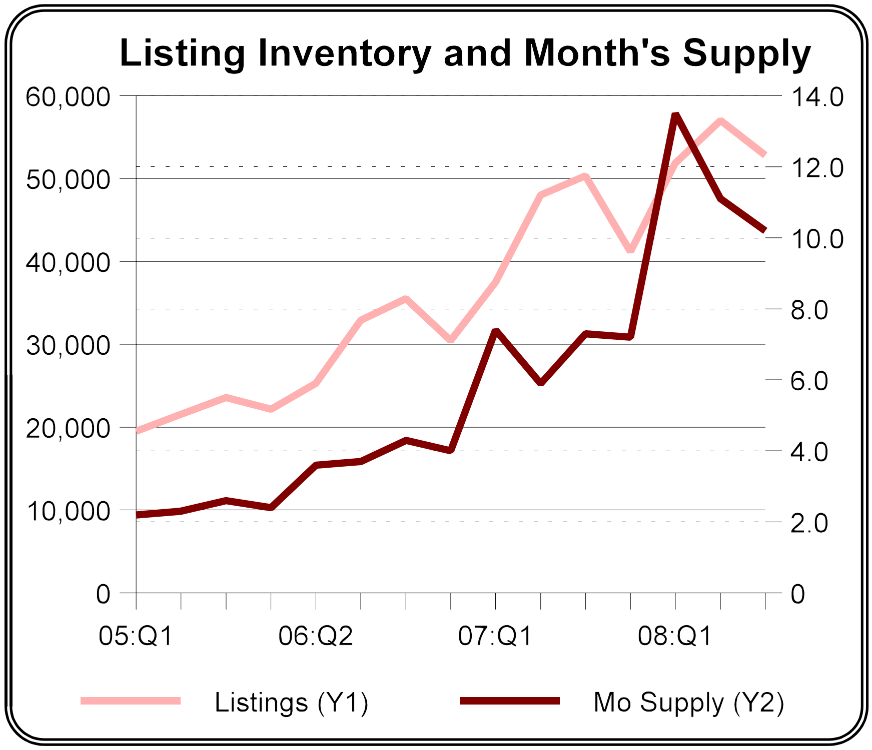
County	2001	2002	2003	2004	2005	2006	2007	2008	%Ch 2007-08
Jefferson	n/a	n/a	n/a	323	289	401	490	**500**	2.0%
King	7,602	9,274	7,163	5,924	5,135	7,136	10,555	**11,418**	8.2%
Kitsap	1,350	1,234	1,105	930	964	1,649	**2,269**	2,229	-1.8%
Kittitas	n/a	236	242	263	245	343	558	**645**	15.6%
Lewis	570	n/a	309	379	351	567	768	**814**	6.0%
Mason	656	532	431	373	395	560	834	**858**	2.9%
Okanogan	n/a	n/a	n/a	n/a	n/a	225	**313**	173	-44.7%
Pierce	4,054	3,758	3,278	3,050	2,975	5,259	**7,582**	6,733	-11.2%
San Juan	178	188	212	189	195	210	308	**405**	31.5%
Skagit	756	748	707	487	480	800	1,066	**1,150**	7.9%
Snohomish	3,386	3,651	3,239	2,842	2,582	3,565	**5,570**	5,528	-0.8%
Spokane	3,784	**3,913**	1,875	1,835	1,942	2,942	3,607	3,842	6.5%
Thurston	1,091	833	785	748	799	1,774	**2,075**	1,980	-4.6%
Walla Walla	n/a	n/a	n/a	n/a	364	347	534	**562**	5.2%
Whatcom	1,726	1,165	n/a	618	1,009	1,630	**1,736**	1,612	-7.1%
Whitman	144	189	115	132	140	162	180	**203**	12.8%
Yakima	888	847	738	718	742	1,045	1,161	**1,538**	32.5%
Statewide	31,664	30,909	26,230	24,791	24,263	36,770	50,062	**52,804**	**5.5%**

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 10.2 months, compared with a more balanced 7.3 months inventory a year ago. Until either sales rates increase or some more 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 except Okanogan County, which was also the only county which could be characterized as having a balanced inventory. Listing inventories would currently be able to sustain the local market for at least 15 months in 10 counties, suggesting a prolonged market recovery in those areas. The greatest month's supply was recorded in Skamania County where it would take nearly four years (45 months) to sell all the listings at current sales rates.

Month's Supply of Housing by Price Range
September, 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	7.1	7.4	8.9	15.9	26.5	9.3	7.7	5.0
Benton/Franklin	7.4	6.1	6.3	9.5	24.1	7.2	5.3	5.5
Chelan/Douglas	8.4	5.6	9.8	14.0	38.1	13.1	7.4	2.9
Clallam	9.9	7.9	8.2	20.0	60.3	15.2	n/a	n/a
Clark	4.7	7.5	9.1	16.3	34.6	13.4	10.5	6.4
Cowlitz	2.8	8.0	11.9	16.2	93.3	12.3	9.6	4.5
Ferry/Pend Oreille/Stevens	7.3	11.8	11.6	32.2	164.0	16.4	9.7	6.0
Grant	4.4	6.9	9.3	15.4	38.9	10.1	8.5	4.1
Grays Harbor	6.8	8.3	12.8	24.6	89.4	12.8	10.4	6.1
Island	n/a	8.5	9.5	16.4	35.7	17.1	10.9	6.3
Jefferson	1.2	12.0	12.2	24.2	42.8	22.1	13.2	8.4
King	10.3	4.7	8.1	6.8	11.7	8.7	5.6	2.9
Kitsap	7.1	8.7	7.8	11.1	26.6	11.6	8.9	4.8
Kittitas	11.6	4.2	10.0	32.9	47.8	17.7	10.4	6.0
Klickitat	5.9	5.0	8.0	20.7	63.2	13.2	n/a	n/a
Lewis	4.6	11.9	17.9	38.0	64.7	19.3	9.9	6.4
Mason	8.0	7.1	12.7	26.9	35.3	15.1	12.2	5.0
Okanogan	2.4	3.8	5.2	11.7	15.8	6.3	9.6	6.6
Pacific	14.0	10.1	25.2	54.3	n/a	22.5	n/a	n/a
Pierce	8.7	8.4	7.2	11.1	33.2	10.8	9.3	4.0
San Juan	n/a	n/a	n/a	16.7	37.8	28.7	22.5	9.9
Skagit	2.5	8.0	7.6	14.6	34.3	12.8	7.8	5.1
Skamania	0.0	35.5	33.2	142.1	71.0	45.0	n/a	n/a
Snohomish	5.2	9.6	8.4	9.8	21.9	11.1	6.9	3.0
Spokane	2.7	5.3	6.4	11.7	31.1	8.0	6.0	4.1
Thurston	2.8	5.9	6.0	9.0	22.5	8.2	6.5	4.5

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	12.3	9.6	11.5	13.8	113.2	13.0	8.8	4.9
Whatcom	5.7	6.4	6.5	9.2	22.4	9.6	7.6	6.6
Whitman	8.1	15.7	12.3	15.4	n/a	13.7	6.8	5.1
Yakima	6.5	9.6	9.3	19.2	56.5	11.0	8.5	7.2
Statewide	**5.7**	**6.9**	**7.9**	**10.2**	**17.6**	**10.2**	**7.3**	**4.3**



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. The third quarter data illustrates a couple of encouraging trends. Not only has the absolute number of homes available for sale declined for the statewide peak of three months ago, but the month's supply has declined for two straight quarters, indicating that the market is moving toward balance. In these uncertain economic times, however, changes in direction and magnitude of have clearly proven to be abrupt, but even a temporary improvement is better than continuing increases of both absolute and relative listing volumes.

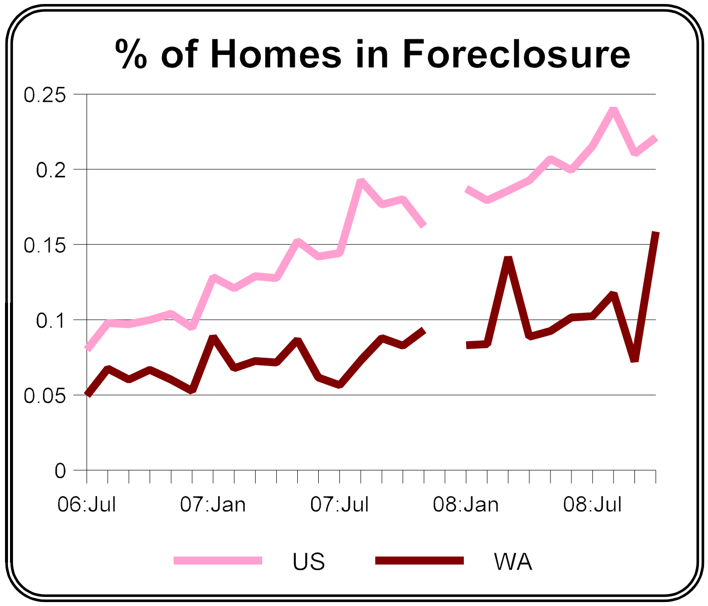
One additional comment about month's supply is necessary. The lowest two price ranges across the state remained balanced to very slightly oversupplied, with the inventory of homes in the market priced above $500,000 is sufficient to supply that market segment for nearly a year and a half. This implies 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 October, one in every 452 households nationwide was at some stage of the foreclosure process, represented in the graph as 0.2212 percent. Washington's foreclosure rate, while reporting a large increase in October, remains below the national level with one in every 631 homes at some stage of the process in October, a rate of 0.1585 percent. Foreclosure rates ranged from a high of one in every 74 homes in Nevada to a low of one in every 23,812 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 second quarter (with third quarter data not expected until December). 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 June 30, only 1.84 percent of the mortgages outstanding in Washington were in deep trouble, compared to 4.50 percent nationwide. The Washington serious delinquency rate increased from 1.58 percent in the opening quarter of the year, but remained the fourth LOWEST in the county (the states with lower rates were all low population, rural states). Delinquency was highest in Florida, with 8.43 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 Fannie Mae and Freddie Mac to have their servicers modify the terms of existing mortgages to avoid foreclosure (and hopefully keep those homes out of the pool of listings available for sale), may allow Washington's housing market to stabilize more quickly.